

Single Electricity Market

DS3 System Services

Pöyry Paper on Procurement Options

SEM Committee Cover Note

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SEM-14-007

1 Introduction

The DS3 System Services work stream aims to put in place the system services required to ensure the continued safety, security and reliability of the all-island electricity system operating at an SNSP (System Non-Synchronous Penetration) of up to 75% of demand by 2020. Further information about the DS3 project, including System Services, can be found [here](#).

The TSOs formally commenced the DS3 project (of which System Services is one work stream) in September 2011 and following extensive industry consultation submitted their [Recommendations](#) for DS3 System Services to the SEM Committee on 15th May 2013. Following a review of these recommendations the SEM Committee was minded to approve the technical definitions of the proposed System Services and, following consultation ([SEM-13-060](#)) in September 2013, published its Decision ([SEM-13-098](#)) to approve the proposed System Services in December 2013. SEM-13-060 also set out the SEM Committee's intention to carry out further economic analysis on the commercial aspects of the TSOs' Recommendations. The Regulatory Authorities set out their proposed approach at an [industry workshop](#) on 14th October 2013. Following receipt of comments from industry the SEM Committee finalised its approach to its economic analysis.

2 Economic Analysis

The SEM Committee's economic analysis consists of three main work streams:

- The demand side analysis to determine the value of the system services and the volumes likely to be required;
- The supply side analysis to determine the size and structure of revenues required to realize the necessary investment in system services; and
- The analysis on the options for procurement mechanisms.

The SEM Committee is now publishing for information, a report prepared by Pöry Consulting on the procurement options for system services. The SEM Committee considered this paper at its meeting on 19 December 2013 and has decided that the paper should be published in order to ensure that industry and interested parties remain up to date with the matters which are under consideration by the Committee. The SEM Committee has not taken any formal view on this paper as of yet and the paper will serve as an input to further work on the economic analysis which the Regulatory Authorities are undertaking.

These work streams on the economic analysis will progress through Q1 2014 and following a review of the outputs by the Regulatory Authorities, they will input into a SEM Committee Consultation Paper due to be published in early May 2014. The TSOs are currently undertaking modelling for the demand side analysis; this is due to be submitted to the Regulatory Authorities in early March 2014. The Regulatory Authorities have issued a request for tender to conduct the supply side analysis; it is envisaged that this analysis will be carried out in February and March, using the results of the demand side analysis to inform this work. The Pöry paper on Procurement Mechanisms published with this note forms the initial step of the Regulatory Authorities analysis of the options for procurement mechanisms and is an input into that work.

The Regulatory Authorities will continue this analysis in Q1 and will conclude their analysis on the procurement mechanisms when the results from the supply and demand analyses are available.

3 Next Steps

The SEM Committee intends to publish a Consultation paper in early May 2014. A consultation period of six to eight weeks concluding in late June is envisaged. Following a review of comments received the SEM Committee aims to publish a Decision Paper in early September 2013.

The SEM Committee considers DS3 System Services to be an important work stream for the industry and intends to conclude it in a timely manner. The ambitious timeline set out above reflects this intention. However, it should be noted that this work involves a complex set of issues and there is a high degree of interdependency between the work streams being undertaken in Q1 of this year which creates risk of delays to the May deadline for the publication of the Consultation Paper. Notwithstanding the risk of delay, a Decision is expected before the end of 2014.

4 Comments on this Paper

Comments on this paper are welcome should parties wish to submit them to the Regulatory Authorities. However, Pöyry's paper is being published for information and accordingly the SEM Committee will not respond formally to any submissions. For the avoidance of doubt the contents of Pöyry's paper represents advice to the SEM Committee and does not necessarily reflect the SEM Committee's thinking nor will the options set out necessarily form the basis of the proposals to be included in the SEM Committee's Consultation Paper. Pöyry's paper is an input into the Regulatory Authorities considerations in conducting the procurement options work stream.

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