



7 June 2022

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Our Ref: OSC-C-22-016

Re. System Services Future Arrangements High Level Design Decision

Dear Liam, Alan,

We are writing to you in relation to the recent publication of the System Services Future Arrangements High Level Design Decision Paper (SEM-22-012). Specifically, this letter sets out, at a high level, the next steps for the project and who is leading each aspect of the deliverables. The SEM Committee made a range of decisions in the High Level Design Decision Paper, some of which can begin to be implemented immediately and some that will require additional policy decisions from the SEM Committee.

Firstly taking the areas where the SEM Committee has made decisions in the SSFA HLD that are readily implementable at this time; the QTP (section 6.2), the Fixed Contract Framework (SEM-21-021), the Layered Procurement Framework (section 6.12), and the Product frameworks (section 6.12). We note that the TSOs are currently progressing the next QTP and procurement under the Fixed Contract Framework. The TSOs should now initiate the reviews required under sections 6.2 and 6.12 of the Decision Paper.

Early implementation of the SEM Committee's decisions in relation to Volumes (section 6.7) will be critical to informing the development of the auction design, ongoing procurement, and providing transparency to the market. While there has been ongoing engagement between the RAs and TSOs in this area, and steps have been taken in the right direction in terms of SS Volumes provision, the SEM Committee considers it vital that there is a robust framework for Volumes reporting in place for the Future Arrangements. The RAs and TSOs are engaging at a working level on getting this progressed.

In terms of governance, the SEM Committee considers that the implementation of this should be led by the TSOs, in terms of development of the System Services Code (section 6.3), ensuring systems capability to both put in place a rolling application process (section 6.1) and to implement a standalone System Services Charge (section 6.4). The RAs will lead on development of a Terms of Reference for the System Services Panel (section 6.3), and, as noted in the Decision, will give further consideration to

the establishment of an RA led stakeholder group for the detailed design and implementation phase of the project. The TSOs should also commence engagement with the distribution operators to develop a framework for the participation of distribution connected providers in line with the principles set out in the Decision (section 6.5).

The Decision Paper set out that we will move to a daily auction framework with ex ante market auctions, to be followed by an ex-post top-up auction (section 6.6). The auctions will also provide for locational procurement where there are locational requirements (section 6.13). The paper also highlighted the importance of working towards ensuring that system dispatch takes account of the ex ante market auction results, and to minimise the need for the ex post top up. The SEM Committee envisages that the auction design should work towards reducing Dispatch Balancing Costs through increasing alignment between energy market and System Service market outcomes and dispatch instructions.

The SEM Committee acknowledges that there remains a significant amount of work in terms of the auction design. This includes the exact timing of the ex-ante daily auctions, the commitment model, market power considerations and the application of scalars. This is an area of policy design and therefore will be led by the RAs. The RAs are currently resourcing a team to carry out this work and the SEM Committee understands that the TSOs have employed consultancy support for the System Services Future Arrangements project. Therefore, it would be helpful if the TSOs, and their consultants, could give consideration to how an ex ante daily System Services auction could operate, in line with the HLD Decisions and the objective and assessment criteria of the project. These considerations would be important inputs into the SEM Committee's thinking on the issues and the development of the SEM Committee's consultation paper.

The SEM Committee also considers it important that an implementation plan is developed for the transition phase and the implementation of the governance arrangements (section 6.13). While this plan will be developed by the SEM Committee the input of the TSOs will be of central importance, particularly in relation to the timelines associated with the TSO led work and indicative lead-times for the development of the auction platform and associated systems. The Regulatory Authorities would therefore welcome engagement with the TSOs in assessing timelines and the viability of a go-live date in April 2024.

The SEM Committee acknowledges that current timelines for delivery are exceptionally challenging, and so, it is vital that the RAs and TSOs work together in delivering a framework in line with the SEM Committee decisions in this regard.

Yours Sincerely,

[\(no signature required – sent by email\)](#)

John Melvin
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Security of Supply and Energy Markets
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