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23 November 2021

Ref: SEM-21-089

Re: System Services Tariff Rate Review

Dear Alan, Mark,

I am writing to you in response to the TSOs' recommendation of 9 August 2021 to adjust the System Services tariff rates based on a public consultation that was held in relation to same and the subsequent response to the Regulatory Authorities' queries on this recommendation. Given the EirGrid and SONI analysis that there is a material risk of a breach of the System Services expenditure cap of €235m, the SEM Committee approves a 10% reduction to five services¹ as proposed by the TSOs, effective from 1 December 2021.

However, the SEM Committee considers that the recommendation was overly narrow in focus, and though sufficient to establish that there was a clear risk to the expenditure cap, it did not comprehensively demonstrate that the TSOs are actively monitoring the effectiveness of the System Services expenditure across all areas required by the SEM Committee. System Services represents a significant annual investment in our energy transition, the cost of which is borne by customers. It is therefore necessary that system requirements are met in a cost-effective manner. In addition, greater transparency around the functioning of System Services and the volume requirements are essential to investor confidence in the market.

¹ Fast Frequency Response (FFR), Primary Operating Reserve (POR), Secondary Operating reserve (SOR), Tertiary Operating Reserve 1 (TOR 1) and Tertiary Operating Reserve 2 (TOR2)

The SEM Committee Decision paper DS3 System Services Tariffs and Scalars (SEM-17-080) sets out a non-exhaustive list of four conditions that would initiate a tariff review:

- the TSO expects the expenditure cap being breached;
- the quantity of service which is procured exceeds that which the TSO requires to operate the system at 75% SNSP;
- the TSO has not procured the level of service necessary to maintain stability of the system at 75% SNSP; or,
- unintended consequences of tariff design emerging post go-live of contracts.

Accordingly, the SEM Committee requests that the TSOs submit proposals on how these non-exhaustive conditions will be actively monitored by the TSOs. It is noted that the TSOs monitor and report on actual and forecast expenditure, however, it is also important that the other conditions are monitored.

This proposal should at a minimum include the following:

1. Regular and routine publication of volume requirements for each system service under prevailing system conditions.
2. Regular and routine publication of volumes procured (i.e. receiving payment) in the ex-ante market and as a result of TSO dispatch decisions for all trading periods. This information should include a breakdown of procured volumes by technology.
3. System Services requirements associated with locational operational constraints.
4. Analysis identifying trends in service availability relative to system needs and the insight this yields as to the appropriateness of current tariff levels.
5. Forecasts of System Services volume requirements.
6. A comparative analysis of EirGrid's and SONI's provision of volume information compared to the other TSOs in Europe and compared to the requirements of the EU Network Codes.

In the SEM Committee's view, active monitoring of the effectiveness of System Services expenditure is essential to the good functioning of the Regulated Arrangements, the long-term development of the market and the interests of consumers. Therefore, the SEM Committee requests that the TSOs submit their proposal no later than Friday 10th December 2021.

Item 5 above (Forecasts of System Services volume requirements) is particularly important, and the SEM Committee requests that, as a matter of urgency, the TSOs' provide an estimate of future volume requirements for system services to industry. This should be broken down by location if necessary.



Notwithstanding the concerns highlighted above the SEM Committee acknowledges the considerable success of the Regulated Arrangements in significantly improving the capability of the system and enabling world-leading levels of renewable integration.

Yours sincerely,

Sent by email and accordingly bears no signature

Bill Emery,
Chairperson
SEM Committee