

SINGLE ELECTRICITY MARKET COMMITTEE

DS3 System Services Regulated Arrangements System Services Contractual Arrangements

Decision Paper

SEM-17-094

12 December 2017

1 INTRODUCTION

This Paper sets out the SEM Committee's Decision on the contractual principles to be reflected in the TSOs' System Services contracts in accordance with the SEM Committee's Decision on DS3 System Services Tariffs and Scalars (SEM-17-080).

SEM-17-080 decided that, as proposed by the TSOs, fixed term and fixed tariff contracts would be issued to providers qualifying as high availability technologies for a sub-set of services. For all other cases standard contracts would be issued that would be subject to tariff reviews, in the event that, inter alia, the TSO's expenditure cap may be at risk of being breached. The qualifying criteria for the Fixed Contract procurement will be consulted upon in January 2018. This paper sets out the principles to be reflected in the TSOs' Standard Contracts only. The Standard Contracts may also be terminated with 12 months' notice. It is noted that this may be required at some point over the next five years, including where new system services arrangements are introduced to implement competitive auctions and/or facilitate compliance with the EU Electricity Balancing Guideline.

Fixed Contracts will not be subject to tariff reviews and will have a fixed term of six years as well as availability commitments. The SEM Committee will separately issue a decision on the contractual principles to apply to these fixed contracts, following further consultation by the TSOs.

This Decision Paper should be read in conjunction with the TSOs' Paper, *DS3 System Services Contracts for Regulated Arrangements Decision Paper*.

2 PROCUREMENT OUTLINE

Contracting of DS3 System Service providers will begin in December 2017 with an OJEU tendering process for the Standard Contracts as outlined in SEM-17-080. These contracts will enable the TSOs to instigate tariff reviews (with Regulatory oversight and approval required to enact any tariff changes), including, but not limited to, where it has been identified that there is a risk of one of the following;

- 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.

The TSOs had previously indicated that the procurement process for the Standard Contracts would exclude high availability technologies (e.g. batteries and DSUs). However, the TSOs have now not recommended such an exclusion for high availability technologies. Therefore, all technologies can now enter into Standard Contracts (including batteries and DSUs). Those providers that qualify for the availability requirements of the Fixed Contracts may apply to that procurement process instead when it is opened. The SEM Committee welcomes this change in approach, as it addresses the industry concerns raised during the consultation process and at the recent DS3 System Services Industry Forum on 12th October 2017. Furthermore, this approach is consistent with the SEM Committee Decision (SEM-17-080).

The TSO will issue a consultation on the conditions that will apply to the Fixed Contracts in January, and the SEM Committee will issue a decision following the submission of the TSOs' Recommendations.

3 SEM COMMITTEE DECISION

The SEM Committee has decided that the principles set out below will apply to the System Services contractual arrangements for standard contracts.

1. The Contractual Arrangements should apply on a Providing Unit basis rather than on a Service Provider basis.
2. The Technical Definitions of the Services should be defined by the TSOs and be consistent with the SEM Committee Decision on the System Services Technical Definitions (SEM-13-098).
3. The TSOs should carry out performance monitoring of providers and continue to keep the process under review.
4. The Contractual Arrangements should ensure payment to Service Providers for DS3 System Services is contingent on compliance requirements being met.
5. Performance monitoring details and Performance Scalars should be detailed in the Protocol Document rather than in the Contractual Arrangements. The TSOs should propose amendments to the Protocol document in this regard as they gain further experience of unit performance across the System Services programme.
6. The governance of the Protocol document shall be such that the TSOs may propose changes, to the protocol document once in any three-month period. All proposed changes to the Protocol Document will be subject to SEM Committee approval.
7. The notice period for the termination of one or more system services should be twelve months for the Standard Contracts.
8. Contracted providing units should have a contractual responsibility to accurately declare their actual availability at all times through the relevant TSO systems (e.g. EDIL).
9. The contractual arrangements shall allow for a Scarcity Scalar review process to be initiated by the TSOs, including at the request of the Regulatory Authorities. Any revision to the Scalars will be subject to SEM Committee approval.
10. Performance Scalars, Scarcity Scalars and Product Scalars should be applied as approved in the SEM Committee Decision Paper SEMC-17-080, or subsequent decision papers as appropriate.
11. The definition of availability in relation to the basis of payment for system services should be defined by the TSOs so as to be consistent with SEM-14-108, with the detailed definition and

settlement rules contained in the Market Position Ruleset for System Services (to be published following consultation in 2018).

12. The governance of the Market Position Ruleset shall be such that the TSOs may propose changes to the Ruleset once in any three-month period. All proposed changes to the Ruleset will be subject to SEM Committee approval.
13. The contractual arrangements for Standard Contracts will be set at a maximum of five years from 1st May 2018, therefore having an end date of 30th April 2023. An extension to this period may be permissible subject to SEM Committee approval.
14. The TSOs should ensure that sufficient controls are in place to manage expenditure as outlined in the SEM Committee Decision Paper (SEM-17-080).
15. The contractual arrangements shall allow for a tariff review process to be initiated by the TSOs, including at the request of the Regulatory Authorities. Any revision to the tariffs will be subject to SEM Committee approval.
16. The Fixed Contracts will be consulted upon in 2018 and will cover a sub-set of services. Service Providers with a Standard Contract for the provision of this sub-set of services should not be allowed to enter the Fixed Contractual arrangements for the provision of this sub-set of services at the same time.

4 NEXT STEPS

The TSOs will now conclude the ongoing System Services procurement process and the Regulated Arrangements will go-live on 1st May 2018. The first step in this process will be the publication of the OJEU notice on 12th December 2017. The majority of services will go-live on 1st May 2018, with three following on the 1st September 2018 (see table below).

Regarding the Fixed Contracts, the TSOs will consult in January 2018, and a SEM Committee decision will be issued in advance of the OJEU notice for that process on 30th March 2018. Additionally, the TSOs will consult on the Market Position Ruleset in Q1 2018, and a SEM Committee decision will be issued in advance of 23rd May 2018.

Services to be provided from 1 st May 2018		
Synchronous Inertial Response	Tertiary Operating Reserve 2 (TOR2)	Ramping Margin 3
Primary Operating Reserve (POR)	Replacement reserve – Synchronised	Ramping Margin 8
Secondary Operating Reserve (SOR)	Replacement reserve- desynchronised	Steady State Reactive Power
Tertiary Operating Reserve 1 (TOR1)	Ramping Margin 1	
Services to be provided from 1 st September 2018		
Fast Frequency Response (FFR)	Fast post fault active power recovery (FPFAPR)	Dynamic Reactive response (DRR)