

SEM-21-069 - SYSTEM SERVICES FUTURE ARRANGEMENTS HIGH LEVEL DESIGN CONSULTATION

SSE Response

INTRODUCTION

SSE welcomes the opportunity to comment on SEM-21-069 - System Services Future Arrangements High Level Design consultation paper. For the avoidance of doubt, this is a non-confidential response.

We have actively engaged in the two stakeholder workshops and opportunities for bilateral discussions as members of industry bodies, as well as on an individual market participant basis. We would request stakeholder engagement to continue on a consistent basis given the significant and novel task being undertaken by the RAs. Furthermore, it is our opinion that the High-Level Design has not provided sufficient detail to allow us to progress to Detailed Design, given that there are interacting workstreams that don't appear to be considered, there is no clarity on types of services, service providers and volumes provided to give an early signal of the size, shape and intended outcomes of this market. We provide further comment in this respect throughout our response.

We would also like to note that we have actively contributed to the WEI and EAI industry responses to this consultation, and therefore, many of our views below are reiterated in those separate submissions.

WHO WE ARE

At SSE we're proud to make a difference. From small beginnings we've grown to become one of Ireland's largest energy providers, supplying green electricity and natural gas to over 700,000 homes and businesses on the island. We are driven by our purpose: to provide energy needed today while building a better world of energy for tomorrow.

Since entering the Irish energy market in 2008 we have invested significantly to grow our business here, with a total economic contribution of €3.8bn to Ireland's economy over the past five years. We own and operate 890MW of onshore wind capacity across the island (including Northern Ireland's largest, Slieve Kirk Wind Park), offsetting over 700,000 tonnes in carbon emissions annually. Our portfolio includes Ireland's largest onshore wind farm, the 174MW Galway Wind Park, which was jointly developed with Coillte. We also own and operate the Great Island Power Station, Ireland's newest gas station and a strategic asset for Ireland's security of electricity supply.

As a leading developer of offshore wind energy in Great Britain, we believe offshore wind has the potential to transform Ireland's response to climate change. SSE is currently progressing the development of a consented offshore windfarm off the coast of Co. Wicklow - Arklow Bank Wind Park Phase 2. We also have plans to progress projects at Braymore Point and in the Celtic Sea.

SSE are proud to be a Principal Partner for COP26 – the 26th United Nations Climate Change Conference of the Parties – where world leaders will be seeking a more ambitious climate change agreement. We look forward to continuing to work with the UK government and other stakeholders to support the delivery of a successful and impactful COP in Glasgow next November.

SSE RESPONSE

We have provided responses to each of the consultation questions, below. Prior to this, we have provided some higher-level comments, specifically where we consider there are significant ambiguities that have hampered our ability to provide definitive comments on any of the proposals outlined in the Consultation.

- **Delivery goals of the new regime**

The biggest area of ambiguity in the paper is that it does not clearly specify the goal in the development of the new System Services regime (i.e. support renewables targets, the increased penetration of renewables and to meet the reliance on other services to help manage the intermittency this will bring). With this lack of detail, it can be seen in the paper that there does not seem to be complete buy-in to a full market-based model, and an intention to retain implicit and explicit factors from the old regime, i.e. System Services proposals seem to assume that this activity remains ancillary to the energy market which does not provide signals for dedicated System Service providers, and scalars, commitment obligations and penalties are proposed to persist even in a market-based arrangement. It is our view that were the goal better articulated and realised, it would be clearer to industry the intended direction of travel.

Furthermore, this clarity of purpose would also need to include detail of the expected types of System Services participating in the regime, expected degree of competition needed for a market-based model, the volumes needed, potential key locations for services, the types of market participants expected to engage and enter the market. Without this detail, it hampers any full appreciation of investment signals, market design and market outcomes.

Finally, in consideration of all these factors missing from the High-Level Design, we would also point to the need for interaction with other key workstreams that have impacted how we can reflect and respond to the proposals in this paper. Namely, interpretation of how the new market-based model for System Services applies under Electricity Balancing Guidelines requirements, how non-priority units and compensation for firm access (Clean Energy Package Art 12 and 13) will have an impact on the intended penalties and scalars proposed, how firm access policy due for consultation shortly, will affect generators that provide System Services, versus dedicated System Services Providers.

- **Expenditure caps**

We note that at a recent stakeholder workshop, it was clarified that an expenditure cap was not expected for a market-based procurement model for System Services. However, we note that the Consultation paper has not definitively clarified this. Furthermore, when we discuss the proposed layered procurement model later in this response, we highlight the assumption that expenditure caps may still be retained for specific layers in that framework. This has not been definitively clarified in the Consultation, but we would have assumed this brings the expenditure cap back within scope of the High-Level Design. If an expenditure cap were anticipated as part of the layered procurement model, this significantly alters the nature of the expenditure cap that may be suitable. Especially, if as we assume, the layered procurement model is a transient one that helps System Services ultimately progress to a market-based model over time.

- **Grid Code & Licence Obligations**

We would like to highlight that the Consultation does not mention the interaction of these new regime with obligations under Grid Code and Licences, relating to specific System Services. At present neither of these consents take account of the value or cost of these services, and the TSO can always fall back on these services in comparison to contracted or procured services. To motivate competition in procurement, we would encourage the RAs to reflect on mechanisms to incentivise the TSO to procure as much as possible from the new System Services market. We would favour incentives that require the TSO to pay the clear value of these services, and for these to be included within the System Services market-based model. Since the TSO is the sole purchaser of these services, transparency and clarity of procurement behaviour should be clear to the market, including new entrants. This provides further reason to think carefully about incentivising the TSO to procure as much as possible (including services under the Grid Code), from the new market. Finally, we support the view from WEI and RNI, that this step is an important one when consider market barriers. Addressing the ability of the TSO to fall back on these obliged services, is likely to help mitigate potential barriers to new entrants.

- **Allocation of Risk**

We note the Consultation is silent on this aspect of the development of the new regime. It is our view, a view we share with WEI, RNI and the TSO, that risk that relates to reduction of constraints and curtailment, and development of the network, should be placed with the entity best able to manage it, i.e. the TSO. It is unacceptable that there is currently no strong incentive for the TSO to take on this risk and deliver infrastructure needs both for generation as well as future System Services. This is particularly concerning given the amount of current focus regarding lack of generation capacity into the future and an increasing need for new renewable generation (and System Services providers) to come on stream.

- **Incomplete detail in auction proposals**

SSE is in favour of a market-based approach to procurement of System Services. But at this stage, there is little appreciation that auction design needs to be informed by volumes and types of System Services needed along the near, medium and long-term time horizons. We note that the TSO in the recent stakeholder forum considered this detail could be easily found across various public documents that they produce. Whilst this may or may not be the case, having this information scattered around various documents, presents a disservice to potential new entrants who need an accessible, transparent expectation of why they might consider entering the new market. In addition, given the significant intention of this project to move to a market-based model, it is difficult to understand the shape, value and size of this market without clarity of what is expected to be procured, what types of providers are expected to participate. This lack of detail also hinders the RAs from appreciating what investment signals would be needed, and what barriers there may inherently be, in this new model. It is our preference that this market should be unambiguous, with sufficient investment signals to provide sufficient choice to the TSO, without the enduring crutch of fixed term contracts that could become a barrier to services becoming far more competitive over time.

- **Evolving value of System Services**

The Consultation is missing significant acknowledge of the great market and system changes expected in the next decade, which System Services can be actively used to support. It cannot be overstated that this step change is an important consideration when appreciating the endeavour of the RAs in establishing a new framework for System Services procurement. At the

stage of High-Level Design, we would expect an awareness of the societal and environmental goals needing to be delivered by this new regime, and that these should be apparent in design assumptions and goals. We would encourage the RAs and their consultants towards horizon scanning, with a bigger sea change for System Services in mind, given the significant need for these provisions and the benefits that these services can realise.

- **EU requirements**

We reference this repeatedly through our response, the fact that whilst we acknowledge that EU compliance is a driver for this workstream, it is incomplete. Both in terms of omissions regarding interaction with Electricity Balancing Guidelines, but also with reference to other workstreams relating to Clean Energy Package (priority dispatch and firmness treatment), as well as the expected work towards a Firm Access Policy which we would assume needs to be considered and referenced in the development of a System Services regime (both in terms of impact to existing providers, and where any of these may pose barriers or complexity to new types of service providers in future).

Q1: DO STAKEHOLDERS CONSIDER THAT THE COMMITMENT TO PUTTING THESE ARRANGEMENTS IN PLACE ON AN ENDURING BASIS, AT LEAST TO 2030, REPRESENTS SUFFICIENT CERTAINTY OF PROCESS?

Certainty of regime

When we reflect on this question, we are confused as to what it is seeking to achieve. A proposed end date for a market-based regime for System Service is an incompatible concept. As outlined by industry in the recent System Services workshop (7th October), we would all expect to see the new regime remain in existence on an enduring basis. Given the intention is for a move to market-based procurement approach, an end date for such a regime is out of step with this intent. None of the other markets currently in place in the SEM, barring the Capacity Market, have been established with an expiry date. Certainty has not been created in these markets with the inclusion of an end date, or certainty of longevity. It is an accepted fact that an open and free Balancing Market will endure. The same assumption should be established for a new open, free System Services market-based procurement.

The heightened renewables targets, increased penetration of wind to the system, increased intermittency of generation and reducing degree of fossil fuel plant all necessitate clear, concrete, and decisive development of a robust and enduring System Services procurement regime. System Services will significantly support the transition. Therefore, suggesting that somehow certainty is created by stating an enduring basis of this new regime, but only until 2030, undermines the significant task ahead in relation to net zero and system evolution.

It is more important for certainty of process, given the move to brand new approach to procurement of System Services, that industry as a whole gets as much early sight of intended goal, purpose and outcomes of this new regime. We would not be in favour of an opaque process up until the TSO signals, a year or so in advance, the types of services and volumes that are required. This is putting the cart before the horse in terms of hampering a fuller consideration and transparent discussion about the best market design to achieve the aims that we believe should be the focus of this new market. This intention also demonstrates that the expected new regime will not be quite as novel a departure from the existing regime, and that it would primarily transition

only existing service providers into the new model, rather than providing clear and early investment signals for new entrants as well.

Transitional arrangements

With reference to transition and certainty, SSE would like to point to the lack of detail regarding transitional arrangements. By transitional arrangements we are referring to:

- the transition from existing tariff regime to new market-based model,
- the transition from the proposed formalised QTP process into the market-based model,
- as well as the transitions between layers that we expect under the proposed layered procurement model.

We take each of these in turn as they have a bearing on the overall certainty of this new market far more significantly than a commitment date for the regime.

We appreciate that it would be difficult for the RAs to be clear on how the regime will move from tariff-based to market-based. However, at this early stage we would suggest that even a series of options of how this might be considered, could have been outlined to industry for their thoughts. Any indication of thinking on this transition is imperative for market participants to have some indication of the likely direction of travel and investment possibilities.

Similarly, certainty regarding transition of new technologies into the market-based regime beyond the QTP is unclear. We can appreciate the value of QTP in sense-checking and strength testing novel technologies. It is also an explicit signal that the market is intended to be attractive to new technology. But beyond this initial assessment, it has not been made clear how these approved technologies will transition and operate in the market initially and on an enduring basis. It would not be our preference that all new technology solely is procured via fixed term procurement. Especially, if there is no process for these services to progress from fixed term to a clear competitive process under a market-based model.

Lastly, the layered procurement framework proposes different segments of services based on degrees of competitiveness. However, this model is lacking in clearer justification for its need, i.e. in providing examples of which services would be expected to operate within these different layers, why and for how long and under what terms. The degree of competitiveness, if this would be the test for transition from one layer to another, is also not quantified or justified, e.g. on the basis of number of participants, market share of participants, cost, inability of the service to be competitive at all. The specific services envisaged for these different segments and crucially how QTP eligible services would fit into this framework is also unclear and would benefit from clarity. We provide more comment below in Question 17.

Investor certainty

The provision of a commitment date/end date for a market-based regime is not a suitable proxy for clear and unambiguous investment and market signals towards entry into the System Services market. It is important that the SEMC and RAs acknowledge that the new market must provide sufficient signals to ensure that new and existing developers will invest. This is particularly important, when we consider the new type of providers likely seeking to provide these new services, e.g. wind and other renewables, and dedicated System Service providers.

Furthermore, this consultation does not address the issues that investors (both existing and prospective) face. The existing arrangements provide a cliff edge with diminishing reward. This

does not provide a firm basis for any new investment in advance of the future arrangements coming into place. Not all investments in system services will be active energy market participants and therefore the market has to be able to facilitate multiple types of investors. A Baringa report we are aware of, commissioned by a member of EAI, indicates DS3 revenue will diminish dramatically in the middle of this decade if the current price cap is not removed. Investment decisions are hanging on the outcome of this consultation. If System Services revenue does not provide investor confidence the necessary assets will not be procured.

At the workshop there was reference to System Services being provided at no cost, with cost minimisation, the lesser of bid price and auction clearing price. Undivided focus on cost minimisation in System Services fails to realise the customer benefits of this new market in supporting the transition to net zero, supporting the system during the closure of thermal stations under IED, and supporting the TSO in increasing SNSP to close to 100% over the coming decade. None of these significant system and societal changes can be minimised simply based on cost. We would expect the RAs and their consultants to be able to monetise the intrinsic benefits of System Services beyond 2030 compared to costs and weigh the necessity of realising these benefits for the overall interests and benefits of the end customer.

In short, through a continued focus on short-term cost minimisation, there is a gap in considering the proposal for a new regime for procurement, as well as the evolving role and diversity of offerings that System Services could provide into the next decade. A failure to procure adequate System Services due to inadequate investment signals will likely result for instance, in wasted renewable power being dispatched down, failure to meet government RES-E targets, and potentially resulting in unnecessary additional cost on energy consumers as RES-E finance mechanisms seek to reflect increased uncertainty through their auctions.

Q2: WHAT ARE STAKEHOLDERS' VIEWS ON THE OPTIONS AND RECOMMENDATIONS PRESENTED FOR QUALIFICATION/REGISTRATION? ARE THERE FURTHER OPTIONS THAT MAY BE CONSIDERED?

We can see the benefit of a rolling application process, but again given the unknown quantity in terms of the types of services—we would be keen to know how this could be flexed to ensure that as new types of technology appear, that there is sufficient time and flexibility for them to be assessed and be able to participate.

Q3: WHAT ARE STAKEHOLDERS' VIEWS ON THE PROPOSED FORMALISATION OF THE QTP?

The QTP mechanism is intended to assess the technical feasibility of new technology to be able to provide particular services. This in principle should be seen as a step in the right direction in terms of acknowledgement that future System Services will need to likely spend time verifying and assessing new and novel offerings before having them participate in the market. We would argue that there is a significant need to ensure that there are no barriers to new entry and that there is clear and transparent demonstration where a specific technology is technically suitable to provide a specific service. However, we would still feel that the feed through of how these technologies will ultimately respond in the market is still lacking and must be carefully considered. Otherwise, like the capacity market mechanism, we could see speculative testing with little

delivery. The key, in SSE's opinion, are the signals that investment in these approved offerings will have their commercial expectations adequately met in the market designed to service this purpose.

With respect to the QTP process proposed directly, we share in WEI's view that whatever option is chosen, it should have adequate resourcing and that it should involve industry.

Q4: WHAT ARE STAKEHOLDERS' VIEWS IN TERMS OF THE INTRODUCTION OF A SINGLE SYSTEM SERVICES CODE?

Without knowing the specific market design, we cannot know the specifics of the type of Code that will govern it. But we can imagine that the Code will and should govern the operation of the market, the role of the TSO as sole purchaser and the settlements process for service providers. Given the role the TSO has in this market as the sole and unchallenged purchaser, it would be important to consider the role they will play in the drafting and governance of the System Services Code itself.

We would expect that any such Code will follow the successful format established under the Trading and Settlement Code. Since we assume that a System Services framework will be market-based to at least some extent, the TSC lends itself most neatly to the specific activities in System Services that will need to be codified. The same would be true of the governance and modification arrangement, that the best template would be the TSC Modifications Committee.

Q5: WHAT ARE STAKEHOLDERS' VIEWS ON THE OPTIONS IN TERMS OF GOVERNANCE OF RULES CHANGES?

As above, we would be in favour of governance seeking to emulate the approach taken under the Trading and Settlement Code.

Q6: DO STAKEHOLDERS HAVE VIEWS ON THE POTENTIAL TO AMALGAMATE DIFFERENT PANEL MEETINGS?

We note from the consultation that option 2 is suggesting the creation of a System Services Code Panel, on a transparent basis with specific participants. We would be in favour of the creation of such a panel.

However, we would not be in favour of amalgamating any System Services Code Panel into other existing Code Panels. All existing Code Panels perform important and individual functions as necessitated under each of the individual Codes. The existing panels all operate within different remits and therefore are structured differently. In short, we would not want to see these panels being amalgamated as it would reduce transparency of decision-making and could remove direct and elected involvement by industry.

Whilst we acknowledge the rationale being related to cost and burden to industry, the creation of a new market-based procurement regime for System Services will require additional input and participation regardless. It is necessary that this new regime be governed by its own Code, and

that this is afforded the same transparency of decision-making and change, as other existing panels. We can on the other hand sympathise with the additional resource burden associated with an additional panel being created to govern the intended System Services Code. We would expect that the TSO can be adequately resourced to provide this service, in addition to fulfilling their functions on other Code panels.

On this matter, we concur with the view of WEI and EAI in their responses; that we do not agree with the proposal to amalgamate the different panels in any way and that we favour a separate set of governance arrangements and panel to administrate the requirements under this new Code.

Q7: WHAT ARE STAKEHOLDERS' VIEWS ON THE FUNDING ARRANGEMENT PROPOSALS?

We can see the benefit of an ex-post approach since it means it can be paid after delivery. However, we can see that this will increase the need for collateral for suppliers. We would consider this needs more discussion and detail—but initially we can see this being a suitable approach.

Q8: WHAT LEVEL OF INVOLVEMENT SHOULD THE DSO/DNO HAVE IN THE GOVERNANCE PROCESS?

The DSO/DNO should be represented at the proposed System Services Code Panel and can contribute to the discussion on any proposed changes etc. We do not believe the DSO/DNO should have outright authority in the governance process. We would agree with WEI that the new role for the TSO as future Offshore Transmission Asset Owner and System Operator needs to be reflected in the representation on this new panel.

Q9: HOW SHOULD THE INTERACTIONS WITH DISTRIBUTION CONNECTED PARTIES BE GOVERNED?

We favour Option 3 as this makes the most sense from a service provider point of view as the TSO is the ultimate buyer for all System Services. Ultimately the service provider is seeking to provide a volume of a given service to the TSO; they are not in a position to resolve any issues which arise for the DSO, these can only be resolved between TSO/DSO themselves. Options 1 & 2 place the prospective service provider in the middle which creates unnecessary burden on a service provider who has no visibility of any potential issues nor has any ability in resolving these issues.

Q10: ARE THERE ANY FURTHER CONSIDERATIONS FOR THE HIGH-LEVEL DESIGN OF THE GOVERNANCE ARRANGEMENTS?

We have provided content above and have nothing further to add.

Q11: WHAT ARE STAKEHOLDERS' VIEWS ON THE AUCTION DESIGN OPTIONS AND SEMC RECOMMENDATION?

We agree with the feedback from various industry groups at the recent System Services workshop as it relates to this part of the consultation. The options provided by the SEMC provide very little in the way of context, impacts, interactions with existing markets, timing of the options as well as dispatch and scheduling approach. Therefore, without worked examples for any of these options, it is difficult to favour any option particularly.

At this stage furthermore, we are still unclear what the TSO is intending to purchase and what will be required of System Services in the mix of IED closure of units, penetration of renewables, new offshore, increased demand. We note that in some studies, it has been posited that System Services can help with the capacity gap and security of supply situation whilst also assisting with the meeting of emissions targets. We believe this is a possibility, so long as the clarity and will is there. At this stage however, we feel that the position of the SEMC still is primarily brought down to cost only. Rather than future benefits and intangible contributions to higher level ambitions with respect to SNSP and climate targets. Neither of these aspirations are purely based on cost. Therefore, if System Services is part of this future, it must also be considered pragmatically on the basis of benefit, need and opportunity, as well as cost.

Whilst we cannot provide a definitive view on auction type at this time, we can indicate that whilst Option 3 may seem suitable in that it can address interactions with the Balancing Market more clearly, we would not be in favour of this approach. This approach seems far too much like the pre-SEM approach for system service procurement and we would have doubts that it would be compliant with both the obligations and spirit of EU requirements under EBGL and Clean Energy Package.

Q12: ARE THERE ANY FURTHER CONSIDERATIONS IN TERMS OF THE AUCTION DESIGN OPTIONS?

We wanted to specifically highlight in summary, the issues which need clarification before SSE could provide a definitive view on auction design:

- What the market is really intending to deliver, bearing in mind the role System Services will play in meeting net zero ambitions, managing intermittency and supporting increased SNSP
- Dispatch and scheduling of these services within any of the auction types proposed
- The interactions with EBGL and CEP (non-priority unit participation where there is currently no provision for these parties to provide FPNs, treatment of firmness broadly, treatment of System Services as balancing energy and approach to standard products)
- Persistence of an expenditure cap and/or scalars and other performance measures
- Interaction of single providers where they have traded positions for generation, and also have System Services, prioritisation is unclear
- Whether the new System Services market is intended to remain ancillary to the energy market, or not
- Balancing market interactions and right to imbalance price for a generator that provides System Services, rather than energy
- Types of services expected to be provided, interaction with Grid Code default obligations, volumes and potential locations

Q13: WHAT INFORMATION IS REQUIRED TO GET A FULL VIEW OF THE VOLUMES REQUIREMENTS FOR SYSTEM SERVICES?

Most significantly, we believe that this paper is wholly unclear on matters regarding volume requirements. There is a lack of clarity surrounding volumes to date, volumes required and what System Services the TSO actually requires. There is also a distinct lack of clarity around which System Services would be intended for auction versus those that may continue to need long term fixed contracts.

It would be our preference for a clear and established approach for all System Services being procured in a transparent manner that takes account of value and cost and produces clear investment signals. We appreciate that the TSO considers that volumes for System Services can be found across various public documents. We would not agree that this is sufficient for the purposes of signalling the expectation outcomes of this new regime. We also do not agree that this would be sufficient to confirm how these System Service needs will directly meet all the needs of the changing system up to and beyond 2030. For new entrants, having volumes scattered across various documents does not provide a single, transparent, and accessible location to outline what is required from the System Services market. Furthermore, a single location would encourage greater certainty, accuracy and focus from the TSO as to what is required at any given moment and would also potentially ensure that they take account of the changing nature of the system overall, as it directly relates to System Services. We would agree with other responses that such is the importance of this clarity that it needs to be signalled early and should be tied to incentives under the TSO's price control.

Q14: WHAT ARE STAKEHOLDERS' VIEWS ON THE DEVELOPMENT OF SECONDARY TRADING OF SYSTEM SERVICES?

Secondary trading is the ability to manage risk, and without clarity on what is being procured and commitment levels—we cannot be clear on the degree of risk and therefore cannot understand the shape of a secondary market without clarity on what is the content of the primary market. A market-based model (which we would favour) would need a functioning secondary trading facility to ensure that risk is managed adequately.

Frankly, the provision of secondary trading within the SEM to date has been disappointing. We would ask that lessons are learnt and that the poor uptake of the facility to date in the SEM would illicit reflection and improvement when it comes time to develop a similar provision for System Services. We would also ask for clarity if there are clear timeframes and intentions for the delivery of secondary trading for this new regime.

Q15: WHAT ARE STAKEHOLDERS' VIEWS ON THE PROPOSALS REGARDING COMMITMENT OBLIGATIONS AND SCALARS?

It is our view that retaining scalars alongside a market-based solution for System Services procurement would be out of step with the intention of a market-based approach. We would agree that the commitment obligations are very complex in a new market-based system. Timing of a new auction would also be critical to ensure that service providers are clear with commitment

obligations. Again however, we have our reservations as to whether any of these mechanisms would be suitable in a market-based model.

In addition, it is our view that like the expected legacy of scalars that the inclusion of commitment obligations would be more suitable for the old-style procurement methods which necessitates these structural features. Where the System Services regime is moving to a market-based model, none of these features would be relevant, given that markets have both upside and downside effects for participants. For instance, where Commitment Obligations remain and are solely based on cost, this gives an incomplete signal to future investors as to what the TSO and RAs expect and need from this new framework and new entrants.

We would also not agree with the intent of retaining such structural aspects when non-priority dispatch, firm access and balancing services have not been clarified as they relate to how units will be able to participate in this new market. If a party that is non-priority dispatch and non-firm were hit with scalars due to non-delivery, through no fault of their own, this could be an effective barrier to participation in this market. We would urge lessons to be learnt from similar experiences in the energy market regarding RO exposure.

Q16: DO STAKEHOLDERS HAVE VIEWS ON THE INTRODUCTION OF THE CONCEPT OF FIRM ACCESS TO THE SYSTEM SERVICES MARKET?

We appreciate discussion regarding firm access appears to be where the SEMC wishes to solve the issue of local constraints. We do not consider that conflating the issue regarding firm access gets to the root of the issues regarding lack of infrastructure, lack of active reduction of constraints and unfair advantage in certain areas. Where System Services may be location for a good reason, we can appreciate that a consideration of firm access may feel like it would address a possible advantage. However, in practice, firmness is not the only factor governing dispatch and scheduling decisions, and in areas where there is significant locational need, this proposal may be ineffective. Furthermore, there is then left no incentive for the TSO to actively reduce constraints, if System Services were all considered non-firm. Reduction of constraints is a key requirement under Clean Energy Package, and therefore should be the focus, rather than baking the issue into a System Services market-model.

We would like to see some clarity as to how locational aspects will be treated, as otherwise the proposals in this paper are incomplete. We would not want these to be solved by setting all System Services as non-firm.

Lastly, firm access treatment is tied up with whatever firm access policy the TSO develops through consultation with industry. In principle, the treatment of firm access for System Services should align with the treatment of firm access for generators. We note that a Firm Access Policy is currently under development by the TSO and will look to engagement directly on this workstream. We would expect some consideration of System Services within that policy proposal, or else development of that proposal further within this System Services model.

We can appreciate that separately, there may be an argument for treatment of dedicated providers of System Services in a different manner. However as above, given that constraints are not being reduced at any scale and that participants cannot trust constraint reduction forecasts

for their connection offers, hard-coded this inefficient management of constraints into the market, is not addressing the underlying issue.

Q17: DO STAKEHOLDERS HAVE VIEWS ON LAYERED PROCUREMENT OF SYSTEM SERVICES? WHAT APPROACH COULD BE TAKEN TO SUPPORT THIS?

We assume that the proposed layered procurement is a method to segment services until such time as there is sufficient removal of barriers and establishment of competition, so that these services can move to being procured in the market. We assume therefore, that this approach should have within it, a mechanism for services to transition from one segment to another, to ultimately realise the intention of as many services as possible, being procured from the market. On this basis of what layered procurement is intended to be, we have the following comments.

Firstly, whilst this is a useful mechanism, how novel technologies will transition into this framework following the QTP process, is currently unclear in the paper. Similarly, the transition of services from one layer to another, would also benefit from dedicated clarity at this High-Level Design stage. This would also have an impact on whether for instance, an expenditure cap is deemed necessary for the “fixed term” layer, and under what conditions and timeframes given the ultimate goal of progression of these services through the upper layers of procurement, to a market-based model.

Secondly, to be able to provide any helpful comment on the suitability of layered procurement, it would be useful if it was clear what System Services are expected to be eligible within each of the specified layers. For instance, what services are deemed competitive and why, versus others which could be less competitive (maybe by virtue of novelty, local need, local constraint etc). In addition, what justification there is that there are in fact specific services that do require this layered approach (rather than all services purely procured in the market). Without this detail, it is unclear how useful this is, and therefore how supportive SSE should be with this proposal.

Another consideration for layered procurement is the needs of the different jurisdictions and how this will marry with an all-island approach if different services are suitable for different layers of procurement based on jurisdiction. The locational challenges around System Services are completely lacking from the consultation. We appreciate feedback that the intention is for an all-island market, but even more reason to have some detail on how this intention will be met within a layered framework that includes different segments under different methods of procurement.

In addition, as mentioned, the interaction with requirements under Electricity Balancing Guidelines (EBGL), are significant when considering the future framework for System Services. We were clear in our response to EBGL that we favoured an acceptance by the TSO that standard products are the key intention of these requirements, in order to make markets attractive across borders. Where we move more towards standardisation in our pursuit of EU compliance, it is not clear what the justification is for a specific and stagnant 14 System Services, or layered procurement.

Lastly, one important aspect that appears overlooked is the impact of Celtic when it is live. This infrastructure is agnostic as to what flows across it, whether it be generation or System Service. Once live, this will represent a market impact for the System Services market in the same way as

it will for other markets in the SEM. It needs to be decided much more broadly, what the position and strategy for the SEM will be going forward, in time for and beyond Celtic.

Q18: ARE THERE ANY FURTHER CONSIDERATIONS IN TERMS OF MARKET DESIGN?

We have provided further comments in the preamble to our response to the consultation questions posed. A final comment is that the High-Level Design at this stage is lacking significant detail which has provided industry with a difficult task of trying to provide an informed position on the proposals set out in this consultation. It is our view that further work is needed to provide clarity to industry, as was elucidated on the second System Services workshop, before the next stage of this workstream. We would encourage the SEMC to reflect carefully on the specific industry feedback provided at that workshop.