



**Single Electricity Market
(SEM)**

SEM-24-022

SEMOpX Revised Regulatory Revenue Recovery Framework

Consultation Paper

19 March 2024

EXECUTIVE SUMMARY

This consultation paper outlines SEM Committee's proposal for a new Regulatory Revenue Recovery Framework for SEMOpx from 2024/2025 onwards.

On 18 December 2023, SEMOpx submitted a proposal to the RAs for a more streamlined Regulatory Revenue Recovery Framework. This proposal was presented to the RAs with the aim of stepping away from the multiannual price control process for SEMOpx while continuing to ensure RA oversight on the SEMOpx revenue provision.

The RAs agree that, rather than conducting a full price control review every three years, a more enhanced annual submission process should be implemented. The benefits of implementing this approach include:

1. It would mitigate the time intensive process of a full price control, for both EirGrid and SONI as NEMOs and the RAs, every three years while continuing to ensure RA oversight of the SEMOpx revenue provision.
2. It would provide surety to SEMOpx on revenue provision while allowing SEMOpx, with the approval of the RAs, to incur additional revenues if required.
3. It would enable SEMOpx to seek capital funding for a project where the need arises at any point in the year, thus enabling projects to advance in a timely manner, subject to RA approval, with costs incurred and/or forecast captured in the next annual revenue setting process. This is important to the RAs in order to ensure projects that drive significant market changes can be progressed in a timely fashion.
4. It would reflect the designations of EirGrid and SONI as NEMOs by CRU and UR respectively on an enduring basis, rather than the previously fixed three-year terms.

The proposed streamlined approach also takes into account, and reflects the nature of, the SEMOpx business and the scale of the allowances, in particular the limited scale of SEMOpx's controllable cost elements.

SEM committee's proposal is to broadly follow SEMOpx's new proposed streamlined approach, whereby an enhanced annual submission process will be implemented rather than conducting a

full detailed price control for SEMOpx every three years. The limited scale of SEMOpx in terms of its regulated revenue requirement and in particular the controllable costs elements is recognised by all parties, and in the RAs view it is proportionate to introduce this new streamlined Regulatory Revenue Recovery Framework.

One point of difference is that SEMOpx is proposing under this framework that capital expenditure would be added to SEMOpx's Regulatory Asset Base (RAB) as incurred, while the SEM Committee is minded to allow the addition of capital expenditure to SEMOpx's RAB only when a project / asset is commissioned.

SEMOpx is of the view that adding capital expenditure to their RAB as incurred would support SEMOpx cashflows and mitigate a sawtooth profile in the RAB, which would lead to more stable SEMOpx tariffs. SEMOpx believes that this approach would take into account the scale and multi annual nature of some projects.

On the other hand, the SEM Committee is of the view that the approach of adding capital expenditure to SEMOpx's RAB only when an asset is commissioned would give an incentive to SEMOpx to get projects / assets commissioned at a quick pace, and would ensure that a project / asset is only added to the RAB at the point when it begins delivering benefits.

It should be noted here that with regards to the SEMO price control approach, capital expenditure is currently added to SEMO's RAB only when a project / asset is commissioned. However, the RAs and SEMO are currently engaging on this issue, among others, as part of the next SEMO price control.

In terms of scale the annual revenue requirement of SEMOpx totals c. €5.03m (excluding CapEx), of which €2.325m is non-controllable and thus subject to passthrough arrangements¹. Furthermore, the operational requirements of SEMOpx in terms of structure and FTE resources are relatively stable and are not envisaged to change significantly.

The risk environment considered as part of the 2019-2022 Price Control (PC) (SEM-20-007²) remains. While no significant changes are currently envisaged for OpEx, there are a

¹ SEMOpx Revenue Requirement for 2023/24 (Figures based on 2023/24 Approved Revenue based on March 2023 prices)

² SEM Committee Price Control Decision Paper SEM-20-007

number of CapEx projects which may influence the potential SEMOpx RAB, in particular regarding reintegration into European markets.

The key principles of the revenue recovery framework reflected in the 2019-2022 PC will be retained. As the considerations and environment underpinning the 2019-2022 PC remain extant, the RAs consider that the key principles underpinning that price control remain appropriate. Moreover, as set out in the respective redesignation application from EirGrid and SONI, the retention of these key principles was, and remains, a central tenet of the current NEMO arrangements in Ireland and Northern Ireland respectively.

In terms of OpEx, the operational requirements of SEMOpx in terms of structure and FTE resources is stable and not envisaged to change significantly. As such, it is proposed that the revenues provided for in the 2019-2022 PC are rolled forward, subject to inflation. The only proposed change relates to a proposed periodic review of the average FTE Rate employed which is proposed to be reviewed on a circa 5-year period basis.

In terms of Capital Expenditure (CapEx), it is proposed that a forecast predictable CapEx allowance, and unpredictable CapEx is included on an annual basis. For larger scale projects, should an event occur that drives costs outside of the forecast and beyond the unpredictable CapEx provision, SEMOpx will seek approval for such exceptional CapEx expenditure as the project(s) arise. Consistent with the current arrangements, forecast depreciation and return will be included in the ex-ante forecast revenues, where feasible, based on the best available forecasts of predictable, unpredictable, and exceptional Capex projects known at that time. Actual depreciation and return will be adjusted based on actual outturn spend on predictable, unpredictable, or specific exceptional projects via the K-Factor process, including any projects that may have been approved during the preceding period.

Interested stakeholder's views on the streamlined SEMOpx Regulatory Revenue Recovery Framework proposed in this consultation paper, and views on when capital expenditure should be added to SEMOpx's RAB, are invited until 17th April 2024 and should be submitted to, kgoslin@cru.ie and akshant.nagar@uregni.gov.uk.

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1. Introduction

1.1 Background

On 18 December 2023, SEMOpX submitted a proposal to the RAs for a more streamlined Regulatory Revenue Recovery Framework. This proposal was presented to the RAs with the aim of stepping away from the multiannual price control process for SEMOpX while continuing to ensure RA oversight on the SEMOpX revenue provision.

SEM committee's proposal is to follow the new streamlined approach, proposed by SEMOpX, whereby an enhanced annual submission process will be implemented rather than conducting a full detailed price control for SEMOpX every three years. The limited scale of SEMOpX in terms of its regulated revenue requirement and in particular the controllable costs elements is recognised by all parties, and in the RAs view it is proportionate to introduce this new streamlined Regulatory Revenue Recovery Framework.

In terms of scale the annual revenue requirement of SEMOpX totals c. €5.03m (excluding CapEx), of which €2.325m is non-controllable and thus subject to passthrough arrangements³. Furthermore, the operational requirements of SEMOpX in terms of structure and FTE resources are relatively stable and are not envisaged to change significantly.

The risk environment considered as part of the 2019-2022 Price Control (PC) (SEM-20-007⁴) remains. While no significant changes are currently envisaged for core OpEx, there are a number of IT Projects which may influence the potential SEMOpX RAB and IT Cloud OpEx requirements, in particular regarding reintegration into European markets.

The key principles of the revenue recovery framework reflected in the 2019-2022 PC will be retained. As the considerations and environment underpinning the 2019-2022 PC remain extant, the RAs consider that the key principles underpinning that price control remain appropriate. Moreover, as set out in the respective redesignation application from EirGrid and SONI, the retention of these key principles was, and remains, a central tenet of the current NEMO arrangements in Ireland and Northern Ireland respectively.

³ SEMOpX Revenue Requirement for 2023/24 (Figures based on 2023/24 Approved Revenue based on March 2023 prices.)

⁴ SEM Committee Price Control Decision Paper SEM-20-007

In terms of OpEx, the operational requirements of SEMOpx in terms of structure and FTE resources is stable and not envisaged to change significantly. As such, it is proposed that the revenues provided for in the 2019-2022 PC are rolled forward, subject to inflation. The only proposed change relates to a proposed periodic review of the average FTE Rate employed which is proposed to be reviewed on a circa 5-year period basis.

In terms of Capital Expenditure (CapEx), it is proposed that a forecasted predictable CapEx allowance, and Unpredictable Capex allowance, is included on an annual basis however, for larger scale projects, where expenditure arises outside of the Predictable and Unpredictable CapEx allowance, SEMOpx will seek approval for such exceptional CapEx expenditure as and when the situation arises.

Key Principles underpinning the proposed framework

Description	2019-2022 Price Control (SEM-20-007)	Proposed Regulatory Framework (2024 Onwards)
Notice Period	N/A	In the event of introduction of multi-NEMO environment where price regulation is no longer applicable, the framework will apply to SEMOpx until the end of the Notice Period. Such Notice Period being sufficient to enable SEMOpx to develop commercial tariffs or confirm an orderly exit from the market (period to be agreed with the RAs).
Allocation	This price control is provided on a combined basis between EirGrid and SONI on a 75% to 25% basis respectively.	No Change

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Exchange Rates	Exchange rate effects will be treated on a cost pass-through Basis	No Change
Indexation	Indexation will be applied consistent with the SEMO Price Control.	No Change
Regulatory Asset Base, Applicable WACC and Depreciation	<p>Any capital expenditure will be depreciated over 5 years as part of a Regulatory Asset Base (RAB), with a return provided against a blended WACC set by reference to the prevailing regulatory approved EirGrid TSO and SONI TSO WACC rates.</p> <p>The recovery of the balance of any RAB at the end of the designation period will be decided by the RAs based on market conditions at the end of the designated period.</p>	<p>No Change to Deprecation & Return principles</p> <p>Forward revenues (depreciation and return) are set on the basis of forecast RAB with adjustments based on actual incurred cost as added to the RAB captured in the K Factor process.</p> <p>SEMOpX is proposing under the new streamlined framework that capital expenditure would be added to the RAB as incurred. SEMOpX believe that this approach will consider not only the scale but the multi annual nature of some projects. They further add that this approach would support SEMOpX cashflows and mitigate a sawtooth profile in the RAB which in turn should support more stable tariffing.</p> <p>However, the SEM committee is minded to allow the addition of capital expenditure to SEMOpX's RAB only when a project / asset is commissioned. This approach provides an incentive to SEMOpX to get projects/ assets commissioned at a quick pace. Another reason to follow this approach is to ensure that SEMOpX only adds an item to the RAB at the point when it starts delivering benefits.</p>

Revenue Recovery	<p>Where revenue recovered in any given tariff period is in excess of or less than the regulatory approved revenues for that period, any over or under recovery will be managed via a K-Factor in the future tariff periods.</p> <p>The recovery of the balance of any over or under recovery at the end of the designation period, including any settlement required with regard to the outturn of the Capex Incentive and KPI arrangements, will be decided by the RAs based on market conditions at the end of the designation period.</p>	No Change
Provision for Cost Escalation	Where costs escalate either over the period of the price control above a material threshold of €0.250m due to any changes in legislation or regulation, major or exceptional market changes, a reopener to the price control may be carried out by the SEM Committee.	<p>No Change to principle</p> <p>Where costs escalate due to any changes in legislation or regulation, or major or exceptional market changes, SEMOpx would submit such costs to the SEM Committee for approval as part of the Annual Revenue Approval Process.</p>
Framework underwrite efficient costs of providing a NEMO service	This price control underwrites the continuing efficient costs of providing a NEMO service for the designation period, irrespective of SEMOpx's market share or additional costs associated with price floors for minimum volumes in each of the day ahead and intraday auctions. As set out in SEM-19-019, the Price Control will apply to SEMOpx for a period of three years regardless of whether competition arises in the market during this time.	<p>No Change to principle</p> <p>The Framework would underwrite the continuing efficient costs of providing a NEMO service while SEMOpx remains price regulated, irrespective of SEMOpx's market share or additional costs associated with price floors for minimum volumes in each of the day ahead and intraday auctions.</p> <p>In the event of a multi-NEMO environment, where price regulation is no longer applicable, the framework will apply to SEMOpx until the end of the Notice Period regardless of whether competition arises in the market during this time.</p>

Participant Driven Costs	Any incremental costs imposed on SEMOpX that can be directly attributable to a Participant will be treated as a pass-through cost.	No Change
Volume Based Fees	Volume based feeds, greater than forecast or that do not meet the fixed costs (i.e. lower than the floor in the respective contracts) which form part of the contracted services and market coupling costs will be treated on a pass-through basis.	No Change
Margin	3.5% of OpEx	No Change
Potential KPI Incentive Entitlement	Potential KPI entitlement set to 2% of internal OpEx	No Change SEMOpX and RAs to review the KPI criteria on a periodic basis (ref. Section 5)

1.2 Related Documents

Alongside this paper, the SEM Committee has also published:

- SEMOpX proposal for the revised Regulatory Revenue Recovery Framework

1.3 Structure of Paper

- Section 2 provides an overview of the OpEx requirements as submitted by SEMOpX and the RAs view on each OpEx item.
- Section 3 provides an overview of the CapEx requirements as submitted by SEMOpX and the RAs view on each CapEx item.
- Section 4 provides detail on the different reporting requirements under the new proposed framework.
- Section 5 provides an overview on the review process under the new proposed framework.
- Section 6 outlines the next steps in the consultation process.

2. SEMOpx Operational Expenditure (OpEx)

2.1 Overview

This section considers the operational requirements as submitted by SEMOpx and the RAs' views on each Opex item.

2.2 Payroll/ Labour costs

Under the last SEMOpx price control, the decision for the average cost per FTE for SEMOpx was €84,000 (in March 2019 monies), plus indexation.

Under the new proposed streamlined regulatory revenue framework, no change has been suggested in this category. SEMOpx propose that the Average cost per FTE is reviewed on a circa five-year basis to ensure it remains appropriate. The SEMOpx Average Cost per FTE is unique to the nature of FTEs required to operate SEMOpx. To enable such a review to be efficiently undertaken SEMOpx have proposed this review to be carried out in parallel with the SEMO price controls such that any market benchmarking exercises carried out as part same could be utilised, where appropriate, by SEMOpx and the RAs respectively.

Labour Costs (March 2019 Prices €)	PC Period 2019-2022			Proposal for the new streamlined regulatory framework
	2019/20	2020/2021	2021/2022	
SEMOpx Submission	1,029,000	1,029,000	1,029,000	No change proposed
RA Proposal	966,000	966,000	966,000	
SEM Committee Decision	1,029,000	1,029,000	1,029,000	

2.3 FTE Requirement

The FTE requirement granted to SEMOpx for the price control period 2019 to 2022 was 12.25 FTEs.

Under the new proposed streamlined regulatory revenue approach SEMOpx has proposed no change to this number and 12.25 will remain as the baseline. If, in SEMOpx’s view, there is a need for additional FTEs, SEMOpx will submit a business case justification for approval to the RAs. Once it is approved by the RAs, any such additional FTEs would be included in the revenue requirement on the basis of the FTE rate.

2.4 Facilities Costs and Overheads

The facilities and overheads include costs incurred in facilities, insurance, recruitment, HR, admin and corporate costs. The SEM committee decision regarding the allowance for these costs for the price control period 2021-2022 was € 407,040 in 2019 monies.

Under the new proposed streamlined regulatory revenue approach, no change has been proposed to these areas. SEMOpx have proposed the same allowance per annum, plus indexation. SEMOpx will request additional costs as required via the revenue recovery process.

(March 2019 Prices €)		PC Period 2019-2022			Proposal for the new streamlined regulatory framework
		2019/20	2020/2021	2021/2022	
SEMOpx Submission for Facilities and Insurance, Recruitment, HR & Admin and Corporate Costs		414,300	414,300	414,300	No change proposed
RA Proposal		391,971	391,971	391,971	
SEM Committee Decision		407,040	407,040	407,040	

2.5 IT and Telecommunications

The SEMOpx IT costs represent SEMOpx deemed share of total IT costs across the EirGrid Group, broken down into IT application support costs and third part contractor costs. The third-party contractor costs refer to two 24/7 FTEs which are allocated to

support Market Monitoring systems, Oracle Middleware, CRM/ Query management and accounting systems. SEM committee’s decision for the price control period 2019-2022 was to allocate €296,000 for each year.

Under the new proposed streamlined regulatory revenue approach, no change has been proposed to these areas. SEMOpx have proposed the same allowance per annum, plus indexation. SEMOpx will request additional costs as required via the revenue recovery process.

IT & Telecommunications (March 2019 Prices) €	Forecast for PC Period			Proposal for the new streamlined regulatory framework
	2019/20	2020/2021	2021/2022	
SEMOpx Submission	296,000	296,000	296,000	No change proposed
RA Proposal	296,000	296,000	296,000	
SEM Committee Decision	296,000	296,000	296,000	

2.6 Contract Services and Market Coupling

These costs are associated with SEMOpx service providers and European Market costs based on SEMOpx’s largely outsourced model of operation using an established Power Exchange (EPEX) and Central Counterparty (ECC). Under this model, market coupling and trading operations are delivered by an established Power Exchange rather than establishing this function internally.

Service provider costs are based on the number of participants in the market and have a fixed and variable element linked to the traded volumes in each market. Costs associated with participation in EU wide markets include NEMO committee costs, Single Day Ahead Coupling costs, Single Intraday Coupling costs and Price Coupling Region Operational Costs.

SEM committee’s decision as part of the 2019-2022 SEMOpx Price Control allowed the full amount that was asked for in the price control submission which was a total of

€4,712,000 for the three year period with €1,588,000 allocated in FY21/22. SEM committee in their decision confirmed that volume-based fees associated with contracted services will be recoverable on a pass-through basis. If volumes are higher than estimated in the price control, then the additional volume related costs for the contracted services will be allowed as a direct pass-through and SEMOpx will be allowed to retain the necessary revenue from the additional volume fees to meet the volume based contracted service costs.

Under the new proposed streamlined regulatory revenue framework, SEMOpx has proposed no change to the treatment of contract services costs and market coupling opex costs, i.e. efficiently incurred contract service costs and market coupling costs will still be recoverable on a pass-through basis.

Contract Services & Market Coupling (March 2019 Prices €)	Forecast for PC Period			Proposal for the new streamlined regulatory framework
	2019/20	2020/2021	2021/2022	
SEMOpx Submission	1,556,000	1,568,000	1,588,000	No change proposed
RA Proposal	1,556,000	1,568,000	1,588,000	
SEM Committee Decision	1,556,000	1,568,000	1,588,000	

2.7 Finance and Regulation

Finance and Regulation costs relate to costs primarily required under legal and regulatory obligations and a number of costs estimated based on historical costs paid by SEMO. These included costs related to the SEMO market audit, Statutory Audit, Internal Audit, Legal Professional fees and Banking fees.

Under the new proposed streamlined regulatory revenue framework, SEMOpx has proposed no change to the fees above. SEMOpx will be able to request additional costs as required via the revenue recovery process.

Finance and Regulation (March 2019 Prices) €	Forecast for PC Period			Proposal for the new streamlined regulatory framework
	2019/20	2020/2021	2021/2022	
SEMOpX Submission	204,000	204,750	204,750	No change proposed
RA Proposal	64,750	64,750	57,250	
SEM Committee Decision	64,750	64,750	57,250	

2.8 FX Settlement and Other Pass-Through Costs

These are costs incurred by SEMOpX in facilitating banking transactions, currency exchanges and specific service provision previously agreed to be on a pass-through basis. These include FX Settlement, FX (profit)/loss, FX adjustments, market bank interest (income)/expenses, and Intraday Backup Co-ordinator costs.

2.9 IT Cloud Projects

These costs were not applicable at the time of 2019-2022 Price Control. This is a new cost that is being added under OpeEx as SEMOpX anticipates that the increasing number of IT solutions related to SEMOpX will be sourced and serviced via cloud-based solutions, rather than physical assets.

This change is being proposed due to the mandate change in the accountancy standards by the International Financial Reporting Standards (IFRS) Interpretations committee which published two agenda decisions clarifying how arrangements in respect of a specific part of cloud technology, Software-as-a-Service (SaaS), should be treated. The first decision around accounting for SaaS arrangements concluded that for many such arrangements the substance is that the entity has contracted to receive services rather than the acquisition (or lease) of software assets (expense rather than capitalise) and the second decision around customisation and configuration costs concluded, generally, that these do not result in an intangible asset and should be recorded as an expense as incurred.

In effect projects that formally would have been envisaged to fall within the scope of SEMOpx CapEx projects and be recovered over a 5-year period with return, will be required to be treated and recovered as OpEx if a cloud solution is advanced. This treatment extends not only to the recovery of the Cloud solution cost itself, but the resource and professional services costs associated with the advancement and delivery of such projects. SEMOpx has hence proposed to introduce this mechanism under OpEx provisions of the framework to identify and report on such projects.

3. SEMOpx Capital Expenditure (CapEx)

3.1 Overview

In terms of Capital Expenditure (CapEx), provision under the SEMOpx revenues, SEMOpx have proposed that the best available forecast requirement for the forthcoming financial period (Y) will be set out on an annual basis. This report would include the forecasts costs for any predictable projects (known) at that time and provision for unpredictable projects (known unknowns).

Similar to the price control period, forecast depreciation and return would be included in the ex-ante forecast revenues, based on the forecast Capital Expenditure (in Y) being added to the RAB, with actual depreciation and return adjusted for based on actual outturn spend via the K-Factor process (for Y-2).

However, for larger scale projects, if and when the need arises, SEMOpx would seek approval for exceptional CapEx expenditure as the project(s) materialise. This proposed approach seeks to ensure that SEMOpx has sufficient revenues in the forward-looking plan of the capital programme while ensuring that ultimately through the K-factor process SEMOpx only recovers depreciation and return on actual expenditure.

3.2 Predictable and Unpredictable CapEx

For the previous price control period, from 2019-2022, there was a provision for basic CapEx expenditure for ex-ante projects of €1.9m, although SEMOpx's actual outturn spend on CapEx over the period was considerably less than this. SEMOpx is requesting allowance for known (predictable) projects and provision for known unknown projects (unpredictable Capex) given that such provisions may need to be commuted to IT cloud OpEx pending the outturn solution.

In terms of unpredictable CapEx SEMOpx propose a base provision of €0.2m each year. This value broadly aligns with the historical maximum unpredictable CapEx expenditure of €0.216m. Cognisant of the scale of change the EU markets are facing, SEMOpx is of the view that a provision of this scale is warranted to manage known unknowns projects.

Within the proposed new streamlined approach, SEMOpx will provide a forecast of the predictable CapEx, any known projects being progressed under unpredictable CapEx and any exceptional CapEx projects based on the best available information at that time. The table below was provided by SEMOpx in December 2023, this is based on analysis of the cost of projects that are currently underway or are expected in the coming years.

€m (2023 monies)	FY				Total per Project	
	23/24	24/25	25/26	26/27		
Predictable (Known Knowns)						
Enduring Data Hub Phase 2	0.20				0.20	
Transfer of Units	0.10				0.10	
Greenlink Interconnector	0.85				0.85	
SMP - EU Integration	1.29	1.08	TBC	TBC	2.37	
30 min MTU		0.23			0.23	
Corporate Application - SharePoint online	0.03	0.09	0.05	0.04	0.20	Cloud
Unpredictable (Known Unknowns)	0.20	0.20	0.20	0.20	0.80	
Exceptional CapEx (Large Scale Unknowns)	-	-	-	-		
Estimate Total per Year	2.66	1.59	0.25	0.24	4.74	
CapEx / TBC	2.64	1.50	0.20	0.20	4.54	
Cloud	0.03	0.09	0.05	0.04	0.20	
* While the projects are Known Knowns - the scope and scale of some projects remains subject to regulatory decisions, detailed design etc. Of note in this regard are the costs associated with SMP - EU Integration.						

This is subject to change and the actual projects progressed will be dependent on the direction that the markets take in the coming years including the changes expected with EU market re-integration.

3.3 Exceptional CapEx

Under the proposed new streamlined regulatory framework, SEMOpx would seek regulatory approval for CapEx projects which drive significant market changes and cannot be accommodated under the unpredictable CapEx allowance. Approval for exceptional CapEx would be for the multiannual forecast project costs as applicable. Where approved, SEMOpx is proposing under the new streamlined framework that capital expenditure would be added to the RAB as incurred.

However, the SEM Committee is minded to allow the addition of capital expenditure to SEMOpx's RAB only when a project / asset is commissioned.

SEMOpx is of the view that adding capital expenditure to their RAB as incurred would support SEMOpx cashflows and mitigate a sawtooth profile in the RAB,

which would lead to more stable SEMOpx tariffs. SEMOpx believes that this approach would take into account the scale and multi annual nature of some projects.

On the other hand, the SEM Committee is of the view that the approach of adding capital expenditure to SEMOpx's RAB only when an asset is commissioned would give an incentive to SEMOpx to get projects / assets commissioned at a quick pace, and would ensure that a project / asset is only added to the RAB at the point when it begins delivering benefits.

It should be noted here that with regards to the SEMO price control approach, capital expenditure is currently added to SEMO's RAB only when a project / asset is commissioned. However, the RAs and SEMO are currently engaging on this issue, among others, as part of the next SEMO price control.

Forward revenues (depreciation & return) are set on the basis of the forecast RAB with adjustments based on actual incurred costs as added to the RAB captured in the K-Factor process.

SEMOpx would submit a 'Project Cost Exceptional CapEx Submission'⁵ to the RAs as soon as practicable requesting approval of the additional expenditure. This would include request for approval for multiannual forecast project costs as applicable and provide that all efficiently incurred costs will be recoverable through the RAB. As above accepting that such provisions may need to be commuted to IT Cloud OpEx pending the outturn solution.

SEMOpx would provide information as early as feasible when applying for exceptional CapEx allowance. However, it will not always be possible for such information and decisions to align with the annual revenue process. Where the RAs approve exceptional CapEx within year, SEMOpx would capture same in future revenue submissions / K-factor as appropriate.

⁵ The regulatory assumption is that this will generally be part of an 'All-Island Programme' submission and the requirements of such a submission should be met in order to enable regulatory review.

3.4 CapEx Incentivisation

This incentive has been removed from the new proposed SEMOpx regulatory revenue framework as SEMOpx never reached the threshold of the required CapEx spend to which the reward / penalty scheme applied under the 2019-2022 PC.

4 Reporting Requirements

Currently, SEMOpx provides a number of reports and submissions to the RAs and with the new proposed framework, SEMOpx would provide the same set of submissions continuing on from the previous price control period, with some changes as outlined below.

Annual Financial Report

This report is prepared by the designated NEMOs in fulfilment of the requirements placed on them via the SONI and EirGrid licences. The licence requirements (Condition 2 of the SONI MO licence and Condition 13 of the EirGrid MO licence) as currently drafted could be interpreted to require separate statutory and regulatory accounts for SONI NEMO, EirGrid NEMO and the NEMO Business (this is 6 sets of accounts) in some instances relating to the tariff year and in others the calendar year. The CRU and Utility Regulator for Northern Ireland, each exercising their respective statutory and licence functions through SEM Committee, to regulate the SEMOpx as if it were a single business – notwithstanding the reality in law that it is two designated entities, operating under a Joint Venture.

No change has been proposed to this submission as this is a requirement under the MO licences.

Annual End of Year Project Report

SEMOpx currently submits an Annual End of Year Capital report to the RAs. This report is submitted at the end of March. Under the proposed framework SEMOpx propose that this report is changed to the Annual End of Year Project Report, timing of submission unchanged. This would enable SEMOpx to provide a single

consolidated view of all projects undertaken, ongoing, and forecast, and the associated expenditure covering both CapEx and OpEx (Cloud) solutions. The information provided in same would directly reflect and feed into the RAB or IT Cloud OpEx figures included in the K-Factor and forecast revenue requirements in the Annual Revenue Submission.

In the look back element of the report SEMOpX would set out any forecast costs of a predictable project previously provided to the RAs and/or included in the *ex-ante* revenue calculation for the report period in question and set out the actual incurred costs in the period against same. Where SEMOpX incurred costs under unpredictable CapEx, SEMOpX, as under current arrangements, would set out the individual projects advanced and outturn costs. Where Exceptional CapEx was approved in the reporting period this would be included in the report and expenditure incurred set out. SEMOpX would also include an updated forward predictable CapEx forecast of ongoing or new/forecast projects envisaged, with supporting narratives.

Annual KPI Report

This document reports the results of SEMOpX performance against the specified KPI criteria applicable in each financial period. The same framework as set out in the 2019-2022 PC continues to apply, recognising that the performance criteria themselves may change periodically. No change is proposed to the contents of this report.

Annual Revenue Submission

This is an enhanced annual report which would be submitted by SEMOpX around May every year. The actual and forecast project expenditure as set out in the proposed Annual End of Year Project Report would be reflected in the calculation of the depreciation and return in the K factor and *ex-ante* revenues as applicable.

Project Cost Exceptional CapEx Submission

As noted in the section above, SEMOpx would seek RA approval for CapEx projects which result from significant market changes and have tendency to exceed the unpredictable capex provision. This report would include approval for multiannual forecast projects as applicable and provide that all efficiently incurred costs will be recoverable through the RAB. Noting that such provisions may need to be commuted to IT Cloud OpEx pending the outturn solution.

SEMOpx aims to provide this information as early as possible when applying for Exceptional Capex allowance. SEMOpx has also proposed that where projects are large scale cross licensee projects (e.g. EU Integration impacting SEMO, SEMOpx and the TSOs) and SEMOpx is bearing an allocation of costs, a singular submission⁶ may be made to the RAs in respect of the total project requirements and approval may be sought for the project centrally from the RAs. If and when such projects arise and are approved, no separate SEMOpx submission would be required, however SEMOpx would capture same in its Annual End of Year Project Report and Annual Revenue Submissions as applicable.

Annual Submission of Traded Volumes – Ex-Ante Markets Forecast

This submission includes information on all-island SEM ex-ante markets traded volumes forecast for use in the SEMOpx tariff process. This report is submitted by SEMOpx in early June.

Annual Tariff submission

This report sets out the SEMOpx tariffs for approval based on the forecasted traded volume and approved revenues. The report is submitted during the summer months in July/ August. There would be no change to this reporting mechanism.

⁶ The submission should align with the requirements of an 'All-Island Programme' submission.

5 Review process

A review process for the streamlined regulatory revenue framework would be essential and forms a core part of the entire framework. As proposed by SEMOpx, the review process would take place every five years. The primary focus of such a review would be a review of the SEMO Average FTE rate to ensure it remains appropriate and, if warranted, a review of the KPIs. The first review would take place in FY24/25 following conclusion of the forthcoming SEMO Price Control process.

Whilst SEMOpx's Average Cost per FTE is unique due to the nature of FTEs required to operate SEMOpx, carrying out such a review following the SEMO Price Control Determination should enable it to be efficiently undertaken as any market benchmarking exercises carried out as part of the SEMO PC could be utilised, where appropriate, by SEMOpx and the RAs respectively. A five-year period would also provide sufficient outturn for analysis and support consideration of any KPI review. Additionally, SEMOpx or the RAs could call for review earlier if there are significant concerns or challenges.

6 Next Steps

The RAs are broadly satisfied with the OpEx and CapEx costs as set out in the SEMOpx's proposed submission. The RAs believe that an enhanced annual submission going forward would mitigate the time intensive process of a full price control for both NEMOs and the RAs. This approach would also be helpful for SEMOpx to seek capital funding as and when required which would enable projects to advance in a timely manner.

As discussed above, SEMOpx is proposing under this framework that capital expenditure would be added to the RAB as incurred. However, the SEM Committee is minded to allow the addition of capital expenditure to the RAB only when a project / asset is commissioned. The RAs are inviting responses from interested stakeholders in relation to this matter.

More generally, interested stakeholders' views on each of the sections in this consultation paper are invited until 17th April 2024 and should be submitted to kgoslin@cru.ie and akshant.nagar@uregni.gov.uk.

A final decision on the SEMOpx Regulatory Revenue Recovery Framework will be published in Q2 2024. All responses received may be published unless the respondent clearly indicates that the relevant response is confidential.