



**Single Electricity Market
(SEM)**

**SEMO Revenue Requirement for
2020/21**

Information Paper

**SEM-20-051
10 August 2020**

EXECUTIVE SUMMARY

The Market Operators submitted the SEMO Revenue Requirement for 2020/21 on 28 May 2020, totalling €16.477m (in March 2020 prices) including the 2018/2019 K-Factor.

The RAs have reviewed the Market Operator submission and calculations and following discussion are content with the proposed revenues for the period from 1 October 2020 to 30 September 2021.

The overall revenue requirement is approved until 30 September 2021 and tariffs will be published by SEMO based on Table 1 below.

| Category | €m (March 2020 prices) |
|---|------------------------|
| 2020/21 SEM Revenue (as per SEM-18-003) | 16.604 |
| 2018/19 SEM K-Factor (as per SEM-18-003) | 1.432 |
| 2020/21 Legacy SEM Revenue (as per SEM-16-043) | 0.00 |
| 2018/19 Legacy SEM K-Factor (as per SEM-16-043) | -1.559 |
| Total Revenue Required | 16.477 |

Table 1

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1. Introduction

1.1 Background

The SEMO revenue requirement outlined in this information paper covers the period from 1 October 2020 until 30 September 2021. This includes the 2018/19 K-Factor and forecast 2020/21 revenue allowance for the current and legacy SEM.

The SEMO Price Control Decision paper (SEM-16-043) published in August 2016 set out the revenues for operation and decommissioning of the legacy SEM based on an assumed Go-Live date for the new market of October 2017 and was designed to be flexible to take account of any movements in the I-SEM commencement date. This provided for SEMO's revenue allowance under this Price Control to be rolled forward (adjusted for inflation) on a proportionate basis in the event of any delay to the Go-Live date. The K-Factor associated with this is outlined in this information paper based on the revised market arrangements commencing in October 2018.

The SEMO Price Control Decision Paper (SEM-18-003) set out the revenues for the operation of the new market based on an assumed Go-Live date in May 2018 however the revised Go-Live date of October 2018 does not impact on the revenue provision for 2020/21. While no Capex allowance was included in this Price Control, it was acknowledged that a certain level of Predictable Business Capex would be required due to the uncertainty around the level of change in the new SEM following implementation and the number of outstanding actions following go-live of the new market arrangements. A process was put in place as part of the Decision to facilitate tariff setting during the period of this price control to allow SEMO to submit Capex proposals to the RAs. The principles outlined in SEM-18-003 for any additional Capex submissions as part of this price control were;

1. Submissions should be made in a timely manner, a least 4 months prior to annual tariff setting so as to allow the SEMC sufficient time to scrutinise, review and approve.
2. Submissions which may arise should be based on costed estimates, rather than forecast estimates.
3. Where such predictable Capex is accepted by the SEMC, it will be subject to final outturn review as part of the next Price Control.
4. This will include an efficiency review of the capital expenditure and any inefficiency (plus return) will be corrected where deemed inefficient.

As part of SEMO’s 2020/21 Revenue Submission, Depreciation and Return figures based on forecast expenditure associated with a number of Capex projects in the period have been submitted. Any of the costs accepted for inclusion on the SEMO RAB for the purpose of tariff setting will be subject to a detailed final outturn review as part of the next price control, in consultation with stakeholders.

2. SEMO 2020/2021 Revenue Requirement

2.1 SEM-16-043 Revenue Requirement and K-Factor

The 2016-2019 SEMO Price Control (SEM-16-043) was comprised of three distinct periods to account for the winding down of SEMO under the legacy SEM and new requirements under the I-SEM project. These were;

1. The ‘SEM’ Period, which includes the SEM trading period and associated final settlement of the SEM, to end on the last day of the calendar month following the SEM trading date.
2. The ‘SEM Resettlement period’, which encapsulates M+13 resettlement and the one month long formal query window at the end of this 13-month period.
3. The ‘SEM decommissioning period’ of 3 months.

The K-Factor in the Legacy SEM is based on an over recovery of €1.559m in March 2020 monies, the primary driver of which was an under-spend against the internal OPEX provision due to the continued wind down of the Legacy SEM.

Under the revised operational time periods for the legacy SEM the last Settlement Document was issued by in November 2019. The Settlement query window was 20 days thereafter (ending in December 2019), with decommissioning on 30 June 2020. On this basis there are no operational revenues required for the legacy SEM from October 2020.

| Category | €m (March 2020 prices) |
|---|------------------------|
| 2020/21 Legacy SEM Revenue (as per SEM-16-043) | 0.00 |
| 2018/19 Legacy SEM K-Factor (as per SEM-16-043) | -1.559 |

Table 2

2.2 SEM-18-003 Revenue Requirement

Under the 2018-2021 Price Control (SEM-18-003), SEMO has calculated its revenue requirement for the period from October 2020 to September 2021 of €16.604m, based on March 2020 prices.

This is based on total OPEX costs of €9.854m and total finance costs of €6.750m. Within finance costs there is a margin included of €0.920m based on a 0.25% margin on collection agent revenues from the Capacity Mechanism, Capacity Socialisation fund and Residual error.

This also includes a forecast Depreciation of €4.844m and Return of €0.686m based on SEMO's forecast capex spend up to 30 September 2021. As noted earlier in this paper, a process was put in place for review of any SEMO Capex submissions made during the 2018-2021 period being carried out as part of the next Price Control setting process, which will be consulted on with market participants. These forecasts are being included in the 2020/21 revenue calculation at this point in order to minimise the tariff impacts of the recovery of SEMO's final approved capex spend. Depending on the outcome of the Capex review, there may be a need to make amendments to future tariffs.

| SEM-18-003 Revenue Requirement (€m) | Tariff Year 20/21 |
|-------------------------------------|-------------------|
| Total OPEX | 9.854 |
| Total Finance | 6.750 |
| Total Revenue (2020 monies) | 16.604 |

Table 3

2.3 SEM-18-003 Correction Factor

An under recovery of €1.432m (in March 2020 prices) for the 2018/19 tariff year has been included in the 2020/21 revenue calculation primarily driven by the inclusion of Depreciation and Return on the actual Capex spend by SEMO in the period between October 2018 and October 2019. The total revenue requirement was €13.23m based on this addition while €11.80m was recovered through tariffs for the period.

As set out above, at the time of setting this price control no predictable capex was included due to uncertainty regarding the level of Capex that would be required between 2018 and 2021. As noted earlier, a process was put in place for the review of any SEMO Capex submissions made for the price control period of 2018 to 2021 to be carried out as part of the next Price Control setting process, which will be consulted on with market participants. The Capex value submitted by SEMO for 2018/19 is being included in this 2018/19 correction

factor at this point but will still be subject to the overall capex review. Depending on the outcome of the Capex review, there may be a need to make amendments to future tariffs.

| 2018/19 K-factor summary | €m (March 2020 prices) |
|------------------------------|------------------------|
| K factor (March 2020 prices) | 1.432 |

2.4 Total Revenue Requirement for 2020/21

| Category | €m (March 2020 prices) |
|---|------------------------|
| 2020/21 SEM Revenue (as per SEM-18-003) | 16.604 |
| 2018/19 SEM K-Factor (as per SEM-18-003) | 1.432 |
| 2020/21 Legacy SEM Revenue (as per SEM-16-043) | 0.00 |
| 2018/19 Legacy SEM K-Factor (as per SEM-16-043) | -1.559 |
| Total Revenue Required | 16.477 |