



**Single Electricity Market
(SEM)**

**SEMO Revenue Requirement for
2021/22**

Information Paper

**SEM-21-074
10 September 2021**

EXECUTIVE SUMMARY

The latest SEMO price control decision (SEM-21-073) was published by the SEM Committee on 10 September 2021 for the three year period commencing 1 October 2021. The first year of this decision is captured within this SEMO Revenue Requirement Information Paper.

In addition, on 14 May 2021 SEMO submitted the 2019/20 K-Factors for both the legacy SEM and the current SEM. This totalled €2.728m of an under recovery (in March 2021 prices).

The RAs have reviewed SEMO's submission and calculations. Following engagement with SEMO, approval is provided¹ for the revenue requirement as set out in Table 1 below for the period from 1 October 2021 to 30 September 2022. As an overview, the following elements are included in the total revenue requirement;

1. The 2021/22 SEM Revenue includes the revenue requirement for year 2021/22 as set out in the recent SEM Committee decision (SEM-21-073) on the SEMO Price Control for the three year period 1 October 2021 to 30 September 2024. This is detailed in Section 2.1.
2. The 2019/20 Legacy SEM K-Factor represents the final months of the legacy SEM resettlement period and the decommissioning period and is detailed in Section 2.2.
3. The 2019/20 Current SEM K-Factor is based on an under-recovery of the revenue requirement for this year, which includes depreciation and WACC return of SEMO's Capex allowance which was approved separately to the price control allowance for 2018 to 2021. This is outlined further in Section 2.3.

Category	€m (March 2021 prices)
2021/22 SEM Revenue (as per SEM-21-073)	18.064
2019/20 Legacy SEM K-Factor (under-recovery)	0.849
2019/20 Current SEM K-Factor (under-recovery)	1.830
Total Revenue Required for 2021/22 Tariffs	20.743

Table 1

¹ RAs' approval was provided to SEMO on 3 September 2021. Any changes to the elements which make up the revenues since that date will be captured in the K-factor.

SEMO requested €2.728m in total across both the legacy and current SEM K-Factors for 2019/20. The RAs are content to approve €2.679m after removing an exchange rate adjustment which was not considered appropriate for the legacy SEM given that the 2019/20 allowance was provided on a cost pass-through basis. The SEMO tariffs will be calculated using the above approved revenue requirement and published by SEMO.

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1. Introduction

1.1 Background

The SEMO revenue requirement outlined in this information paper covers the period from 1 October 2021 until 30 September 2022. This includes the 2019/20 K-Factor (for both legacy SEM and current SEM) and forecasted 2021/22 revenue allowance for the current SEM.

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 movement in the I-SEM project 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. SEM-16-043 also allowed for SEMO's operational expenses (opex) within the SEM resettlement and decommissioning periods to be treated on a cost pass-through basis.

The 2019/20 K-Factor within this revenue requirement information paper represents the final months of the legacy SEM resettlement period and the decommissioning period. SEMO advised that the dispute period closed in May 2020 and the legacy SEM was fully decommissioned and wound up by September 2020.

The final K-Factor to close out the legacy SEM is outlined in this information paper.

Current SEM

The current SEM commenced on 1 October 2018. The SEMO Price Control Decision Paper (SEM-18-003) set out the revenues for the operation of the new market through to September 2021. This therefore included year 2019/20 which is captured within the K-Factor associated with tariffs for 2021/22 and reflected within the Revenue Requirement outlined in this information paper.

Within SEM-18-003 no predictable business capital expenditure (capex) was included due to the level of uncertainty at the time of making the decision in advance of SEM Go-Live. However, 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. In recognition of this uncertainty, the SEM Committee outlined principles to apply to any SEMO capex during the 2018 – 2021 period within its price control decision paper (SEM-18-003). These principles included the expenditure during this period being subject to a final outturn review and efficiency review.

The review of SEMO's capex for the three year period 2018 to 2021 was consulted upon during late 2020 (SEM-20-086) with a SEM Committee decision made in February 2021 (SEM-21-006). The decision provided SEMO with a total capex of €16.66m for the three year period, with €4.183m relating to year 2019/20. As mentioned above, no capex was reflected within tariffs in the early years of the current SEM. Therefore, a key adjustment in this 2019/20 K-Factor is the inclusion of a depreciation charge and Weighted Average Cost of Capital (WACC) return associated with the actual capex for year 2019/20 of €4.183m.

In addition to the 2019/20 K-Factor for the current SEM is the inclusion of the revenue requirement for year 2021/22 as set out in the recent SEM Committee decision (SEM-21-073) on the SEMO Price Control for the three year period 1 October 2021 to 30 September 2024.

2. SEMO 2021/2022 Revenue Requirement

2.1 SEM-21-073 Revenue Requirement

Based upon the recent SEM Committee SEMO Price Control Decision (SEM-21-073) for the period 2021 to 2024, the revenue requirement is €18.064m for the period from October 2021 to September 2022. This includes an adjustment to March 2021 prices.

This is based on total opex costs of €12.301m and total finance costs of €0.955m².

This also includes a forecast depreciation of €4.244m and WACC return of €0.564m based on SEMO's forecast capex spend up to 30 September 2022. The values in Table 2 have taken into consideration indexation from March 2020 to March 2021 and the RPI-X efficiency factor of -0.3% as set out in the SEM-21-073 price control.

SEM-21-073 Revenue Requirement (€m)	Tariff Year 21/22 €m
Total Opex	12.301
Total Finance	5.763
Total Revenue (March 2021 monies)	18.064

Table 2

2.2 SEM-16-043 2019/20 Legacy SEM 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 RAs' approval was provided to SEMO on 3 September 2021. Any changes to the elements which make up the revenues since that date will be captured in the K-factor.

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 2019/20 Legacy SEM within this revenue requirement information paper represents the final months of the legacy SEM resettlement period and the decommissioning period.

The 2019/20 Legacy SEM K-Factor is detailed in Table 3 below and shows an under recovery of €0.849m, against the revenue requirement provided in the 2019/20 tariffs (SEM-19-037).

2019/20 Legacy SEM Closeout Costs	Total €m
Opex - IT warranty and support	0.913
Opex - Payroll & Other Expenses	0.348
Opex - Decommissioning Costs	0.313
Capex - Final Depreciation charge to close legacy RAB	0.156
Finance - Parent Company Guarantee & WACC Return	0.020
K Factor 2017/18 (included in 2019/20 tariff figure)	1.543
Foreign Exchange loss and Market Bank Interest	0.263
Total 2019/20 Actual Costs	3.556
Allowed within 2019/20 tariffs (SEM-19-037)	
2019/20 SEM-16-043 Price Control Revenue	1.164
2017/18 SEM K-Factor adjustment	1.543
Total allowed within 2019/20 tariffs	2.707
2019/20 Actual Costs less Total included in 2019/20 tariffs	0.849
Under-recovery re 2019/20 Legacy SEM to be included in 2021/22 tariffs	0.849

Table 3

The primary driver for the variance is higher opex costs than forecast. The price control decision (SEM-16-043) allowed for the resettlement and decommissioning period costs to be recovered on a pass-through basis. Furthermore, this decision was set in 2016 before the decisions to postpone SEM Go-Live were made. Opex costs were higher than expected in 2016 primarily due to increased IT warranty and support maintenance and the inclusion of decommissioning costs. However, the final depreciation charge and WACC return are much lower than the allowance provided by the price control and this has contributed to a reduction to the amount to apply to the 2021/22 tariffs to close out the Legacy SEM.

The 2019/20 Legacy SEM K-Factor, shown in Table 4 below, is an under-recovery of costs which will be added to the revenue requirement for the 2021/22 tariffs. The value in Table 4

has taken into consideration indexation from March 2020 to March 2021 and the RPI-X efficiency factor of -0.3% as set out in the SEM-16-043 price control.

Category	€m (March 2021 prices)
2019/20 Legacy SEM K-Factor (as per SEM-16-043)	0.849

Table 4

2.3 SEM-18-003 2019/20 Current SEM K-Factor

The 2018-2021 SEMO Price Control (SEM-18-003) was the first price control associated with the current SEM arrangements which commenced on 1 October 2018. 2019/20 represents the second year of the current SEM.

The 2019/20 Current SEM K-Factor is detailed in Table 5 below and shows an under-recovery of €1.830m, against the actual 2019/20 SEM tariff revenue received (after proportion is allocated to 2019/20 Legacy SEM K Factor).

The total revenue requirement was €13.358m while €11.528m was recovered through tariffs for the period (after proportion was allocated to the 2019/20 Legacy SEM K Factor).

2019/20 Current SEM Revenue Requirement	As per SEM-18-003 €m 2017 Monies	Actual Revenue Requirement €m 2020 Monies
Internal Opex Allowance	9.651	9.980
Depreciation	0	1.527
WACC Return on RAB	0	0.275
Margin	0.888	0.903
Parent Company Guarantee	0.300	0.300
2019/20 KPI Reward		0.119
FX (Profit)/Loss & FX adjustment		0.469
Market Bank Interest (Income)/expense		0.107
Accession/Participation Fee Income		-0.322
Total 2019/20 Current SEM Revenue Requirement	10.839	13.358
Recovered from 2019/20 SEM Tariffs	14.235	
Less: Allocated to 2019/20 Legacy SEM K Factor	-2.707	

Total 2019/20 Tariff Revenue allocated to Current SEM	11.528	11.528
2019/20 Current SEM K Factor under-recovery		1.830

Table 5

The primary driver for the under-recovery relates to actual depreciation and WACC return, equating to €1.802m, against a price control allowance of zero. As mentioned above, this was due to a high degree of uncertainty in setting a capex allowance (within SEM-18-003) in advance of the current SEM arrangements going live. Instead, an ex-post capex review was carried out in late 2020/early 2021 which culminated in the SEM Committee's capex decision (SEM-21-006) relating to the three year period 2018 to 2021. The depreciation and WACC return values reflect the capex decisions made in SEM-21-006.

The 2019/20 Current SEM K-Factor, shown in Table 6 below, is an under-recovery of costs which will be added to the revenue requirement for the 2021/22 tariffs. The value in Table 6 has taken into consideration indexation from March 2020 to March 2021 and the RPI-X efficiency factor of -0.3% as set out in the SEM-18-003 price control.

Category	€m (March 2021 prices)
2019/20 Current SEM K factor (as per SEM-18-003)	1.830

Table 6

2.4 Total Revenue Requirement for 2021/22

Category	€m (March 2021 prices)
2021/22 SEM Revenue (as per SEM-21-073)	18.064
2019/20 Legacy SEM K-Factor (under-recovery)	0.849
2019/20 Current SEM K-Factor (under-recovery)	1.830
Total Revenue Required for 2021/22 Tariffs	20.743

Table 7