



**Single Electricity Market
(SEM)**

**SEMO Revenue Requirement for
2023/24**

Information Paper

**SEM-23-063
30 August 2023**

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 third year of this decision is captured within this SEMO Revenue Requirement Information Paper.

On 27 June 2023 SEMO submitted its 2023/24 revenue requirement of €24.868m and the 2021/22 K-Factor which represents the final adjustment to close out that year. The K-Factor submission was for €0.202m of an over-recovery (in March 2023 prices). Combining these two elements SEMO's revenue requirement submission totaled €24.666m

The RAs have reviewed SEMO's submission and calculations. Following engagement with SEMO, the final revenue requirement is set out in Table 1 below for the period from 1 October 2023 to 30 September 2024. As an overview, the following elements are included in the total revenue requirement;

1. The 2023/24 SEM Revenue includes the revenue requirement for year 2023/24 as set out in the 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 2021/22 SEM K-Factor is based on an over-recovery of the revenue requirement for that year, which includes depreciation and WACC return of SEMO's Capex allowance. This is outlined further in Section 2.2.

The RAs have reviewed SEMO's revenue submission for year 2023/24 of €24.666m and have reduced this to €24.547m following a review of their KPI award and capital expenditure. A breakdown of this is shown in Table 1.

Category	€m (March 2023 prices)
2023/24 SEM Revenue (as per SEM-21-073)	24.868
2021/22 SEM K-Factor (over-recovery)	(0.321)
Total Revenue Required for 2023/24 Tariffs	24.547

Table 1

SEMO submitted the 2021/22 SEM K-Factor over-recovery of €0.202m to be set off and therefore reduce the Total Revenue required for 2023/24 within tariffs. The RAs have

reviewed the submission and have amended the K-Factor over-recovery to €0.321m following a review of SEMO's capital expenditure and KPI award.

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 2023 until 30 September 2024. This includes the 2021/22 K-Factor and forecasted 2023/24 revenue allowance for the SEM.

The SEMO Price Control Decision Paper (SEM-21-073) set out the revenues for the operation of the new market through to September 2024. This therefore included year 2021/22 which is captured within the K-Factor associated with tariffs for 2023/24 and reflected within the Revenue Requirement outlined in this information paper.

2. SEMO 2023/2024 Revenue Requirement

2.1 SEM-21-073 Revenue Requirement

Based upon the current SEM Committee SEMO Price Control Decision (SEM-21-073) for the period 2021 to 2024, the revenue requirement is €24.547m for the period from October 2023 to September 2024. This includes an adjustment to March 2023 prices.

This is based on total Opex costs of €14.149m and total finance costs of €10.719m.

The total finance costs include forecast depreciation of €9.003m, WACC return of €0.996m based on SEMO's forecast capex spend up to 30 September 2024, and Margin and Parent Company Guarantee (PCG) costs of €0.720m. The values in Table 2 have taken into consideration indexation from March 2020 to March 2023 and the annual 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 23/24 €m
Total Opex	14.149
Total Finance (Depreciation, WACC return, Margin, Parent Company Guarantee)	10.719
Total Revenue (March 2023 monies) before K-factor	24.868

Table 2

2.2 SEM-21-073 2021/22 SEM K-Factor

The 2021-2024 SEMO Price Control (SEM-21-073) built upon the implementation of the new SEM arrangements which began under the previous price control (SEM-18-003). 2021/22 represents the fourth year of the current SEM.

The 2021/22 SEM K-Factor is detailed in Table 3 below and shows an over-recovery of €0.298m¹, against the actual 2021/22 SEM tariff revenue.

The total revenue requirement for 2021/22 was €20.771m while €21.069m was recovered through tariffs for the period.²

2021/22 SEM Revenue Requirement	Approved Revenues as per SEM-21-073 and adjusted under SEM-21- 074	Actual Revenue Requirement
	€'000's 2021 Monies	€'000's 2022 Monies
Internal OpEx Allowance	12,301	13,072
Depreciation	4,244	3,114
Margin	656	583
Parent Company Guarantee	300	300
Return on RAB	563	378
KPIs		147
Y-2 Legacy SEM K factor (under recovery)	849	906
Y-2 New SEMO K factor (under recovery)	1,830	1,952
FX (Profit)/Loss		272
Interest on Funding from Parent		-
Accession/Participation Fee Income		(234)
Market Bank Interest (Income)/expense		467
FX Adjustment		(185)
Total 2021/22 SEM Revenue Requirement	20,743	20,771
2021/22 Total Recovered on Tariffs	21,069	21,069
2021/22 K Factor Over/(Under) recovery		298

Table 3

¹ 2021/22 K-factor in March 2022 prices

² Both figures in March 2022 prices as per the table below.

The key drivers for the over-recovery are actual depreciation and WACC return being lower than forecast due to reduced actual capital expenditure than expected during the 2021/22 financial year.

The 2021/22 SEM K-Factor, shown in Table 4 below, is an over-recovery of costs which will be deducted from the revenue requirement for the 2023/24 tariffs. The value of the over-recovery in Table 4 (€0.298m in March 2022 prices) has been adjusted to March 2023 prices by the application of indexation and the annual RPI-X efficiency factor of -0.3% as set out in the SEM-21-073 price control.

Category	€m (March 2023 prices)
2021/22 SEM K factor (over-recovery)	0.321

Table 4

During the tariff process a number of difficulties were encountered in terms of validating capital expenditure submitted by SEMO. In order to meet the timeline to finalise tariffs, the RAs had to make decisions in relation to approval of capex spending. An “interim approach”, in relation to a portion of capex costs, has been used for the purposes of finalizing tariffs. Final validations will be conducted after the tariff process has concluded with any rectifications being put through next year’s k-factor.

For the purposes of learning and to improve the tariff process, we have asked SEMO to provide further information, by way of a written explanation, in relation to the difficulties they experienced in relation to their capex submissions. This should provide a valuable lessons learnt log which will ensure similar issues are not encountered next year. We are keen to explore this further with SEMO once we receive their submission.

We are also keen to agree a cut-off date for final reports, to be submitted by SEMO for the purposes of tariffs. With the final objective of ensuring that the reports provide clear and complete information to ensure that the RAs can validate expenditure incurred.

2.3 Total Revenue Requirement for 2023/24

Category	€m (March 2023 prices)
2023/24 SEM Revenue (as per SEM-21-073)	24.867
2021/22 SEM K-Factor (over-recovery)	(0.321)
Total Revenue Required for 2023/24 Tariffs	24.547

Table 5