



**Single Electricity Market
(SEM)**

**SEMO Revenue Requirement for
2022/23**

Information Paper

**SEM-22-046
18 August 2022**

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

On 29 April 2022 SEMO submitted its 2022/23 revenue requirement of €21.422m and the 2020/21 K-Factor which represents the final adjustment to close out that year. The K-Factor submission was for €4.216m of an over recovery (in March 2022 prices). Combining these two elements SEMO's revenue requirement submission totalled €17.206m.

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 2022 to 30 September 2023. As an overview, the following elements are included in the total revenue requirement;

1. The 2022/23 SEM Revenue includes the revenue requirement for year 2022/23 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 2020/21 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 which was approved separately to the price control allowance for 2018 to 2021. This is outlined further in Section 2.2.

Category	€m (March 2022 prices)
2022/23 SEM Revenue (as per SEM-21-073)	21.298
2020/21 SEM K-Factor (over-recovery)	(4.320)
Total Revenue Required for 2022/23 Tariffs	16.978

Table 1

The RAs have reviewed SEMO's revenue submission for year 2022/23 of €21.422m and have reduced this to €21.298m following a review of the application of indexation and the efficiency factor of 0.3% per annum and also applying the correct margin percentage associated with year 2022/23 as set out in the SEMO price control decision (SEM-21-073).

SEMO submitted the 2020/21 SEM K-Factor over recovery of €4.216m to be set off and therefore reduce the Total Revenue required for 2022/23 within tariffs. The RAs have reviewed the submission and have amended the K-Factor over-recovery to €4.320m following a review of the application of indexation and the efficiency factor of 0.3% per annum. 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 2022 until 30 September 2023. This includes the 2020/21 K-Factor and forecasted 2022/23 revenue allowance for the SEM.

The revised 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 2020/21 which is captured within the K-Factor associated with tariffs for 2022/23 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 €16.659m for the three year period, with €8.064m relating to year 2020/21. This decision (SEM-21-006) had not been made at the time of setting the 2020/21 tariffs, however the RAs considered it prudent to include a forecast amount for depreciation of €4.844m and WACC return of €0.686m as set out in the SEM Committee Revenue Requirement Information Paper for tariff year 2020/21 (SEM-20-051). In closing out tariff year 2020/21 via the K-Factor process the estimated depreciation and WACC return values are now being adjusted to actual values as shown in Table 3 below.

In addition to the 2020/21 K-Factor for the SEM is the inclusion of the revenue requirement for year 2022/23 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.

2. SEMO 2022/2023 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 €21.298m for the period from October 2022 to September 2023. This includes an adjustment to March 2022 prices.

This is based on total opex costs of €12.928m and total finance¹ costs of €0.863m.

Also included is forecast depreciation of €6.704m and WACC return of €0.803m based on SEMO's forecast capex spend up to 30 September 2023. The values in Table 2 have taken into consideration indexation from March 2020 to March 2022 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 22/23 €m
Total Opex	12.928
Total Finance (Depreciation, WACC return, Margin, Parent Company Guarantee)	8.370
Total Revenue (March 2022 monies)	21.298

Table 2

2.2 SEM-18-003 2020/21 SEM K-Factor

The 2018-2021 SEMO Price Control (SEM-18-003) was the first price control associated with the revised SEM arrangements which commenced on 1 October 2018. 2020/2021 represents the third year of the current SEM.

¹ Margin and Parent Company Guarantee (PCG)

The 2020/21 SEM K-Factor is detailed in Table 3 below and shows an over-recovery of €4.320m, against the actual 2020/21 SEM tariff revenue.

The total revenue requirement was €13.354m while €17.378m was recovered through tariffs for the period.

2020/21 SEM Revenue Requirement	As per SEM-18-003 €m 2017 Monies	Actual Revenue Requirement €m 2021 Monies
Internal Opex Allowance	9,501	9,771
Depreciation	4,664	2,181
WACC Return on RAB	660	323
Margin	888	1,053
Parent Company Guarantee	300	300
2020/21 KPI Reward		153
FX (Profit)/Loss & FX adjustment		(611)
Market Bank Interest (Income)/expense		403
Accession/Participation Fee Income		(92)
2018/19 Legacy SEMK factor (over recovery)	(1,501)	(1,564)
2018/19 New SEMK factor (under recovery)	1,379	1,437
Total 2020/21 SEM Revenue Requirement	15,892	13,354
Total 2020/21 Tariff Revenue	17,378	17,378
2020/21 SEM K Factor over-recovery		(4,024)

Table 3

The key drivers for the under-recovery are actual depreciation and WACC return being much lower than forecast due to reduced actual capital expenditure than expected and also tariff revenues being higher than expected during 2020/21.

The 2020/21 SEM K-Factor, shown in Table 4 below, is an over-recovery of costs which will be deducted from the revenue requirement for the 2022/23 tariffs. The value in Table 4 has taken into consideration indexation from March 2021 to March 2022 and the RPI-X efficiency factor of -0.3% as set out in the SEM-18-003 price control.

Category	€m (March 2022 prices)
2020/21 SEM K factor (over-recovery)	4.320

Table 4

2.3 Total Revenue Requirement for 2022/23

Category	€m (March 2022 prices)
2022/23 SEM Revenue (as per SEM-21-073)	21.298
2020/21 SEM K-Factor (over-recovery)	(4.320)
Total Revenue Required for 2022/23 Tariffs	16.978

Table 5