



Proposed Regulatory Revenue Recovery Framework

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1. Context

In response to the SEMC Consultation Paper SEM-22-037, *Regulatory Framework for NEMO From October 2022*, and as noted in the SEMC Decision paper [SEM-22-070](#) on same, EirGrid plc, as Designated NEMO for Ireland, and SONI Ltd, as Designated NEMO for Northern Ireland, (together '**SEMOpX**'), stated its interest in engaging with the Commission for the Regulation of Utilities (**CRU**) and the Utility Regulator Northern Ireland (**UR**), (together the 'Regulatory Authorities', '**RAs**'), regarding the future revenue recovery approach, to "*explore the potential to introduce regulated revenue control arrangements reflective of the proportionate scale of SEMOpX*", with a view to having in place "*arrangements that provided the RAs with sufficient clarity and oversight of NEMO charges, where SEMOpX is the only provider of NEMO services in the SEM, while limiting any unnecessary burden on either SEMOpX or the RAs*".

Further to subsequent engagement with the RAs in this regard, SEMOpX has set out below a proposed more streamlined Regulatory Revenue Recovery Framework for SEMOpX. This proposed approach moves away from a multiannual price control process while continuing to ensure RA oversight of the SEMOpX revenue provision.

The limited scale of SEMOpX in terms of its regulated revenue requirement and in particular the controllable cost elements is recognised by all parties. 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.

Further it is noted that the operational requirements of SEMOpX in terms of structure and FTE resources is stable and not envisaged to notably change.

The risk environment considered as part of the SEMOpX Price Control 2019-2022 (SEM-20-007, the '**2019-2022 PC**') 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 the reintegration to European markets.

The key principles of the revenue framework reflected in the 2019-2022 PC remain.

As the considerations and environment underpinning the 2019-2022 PC broadly remain extant, SEMOpX believe that the Key Principles underpinning the 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.

As such SEMOpX proposes that these key principles provide the central elements of the proposed framework going forward, adjusted only where necessary to account for changes to the designation arrangements and move away from multiannual price controls.

¹ Figures based on 2023/24 Approved Revenue based on March 2023 prices.

2. Key Principles underpinning proposed framework

Description	2019-2022 PC (SEM-20-007)	Proposed Regulatory Framework (2023 Onwards)
Notice Period	-	In the event of introduction 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 . 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	<i>This price control is provided on a combined basis between EirGrid and SONI on a 75% to 25% basis respectively.</i>	No Change
Exchange Rates	<i>Exchange rate effects will be treated on a cost pass-through Basis</i>	No Change
Indexation	<i>Indexation will be applied consistent with the SEMO Price Control.</i>	No Change
Regulatory Asset Base, Applicable WACC and Depreciation	<p><i>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.</i></p> <p><i>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.</i></p>	<p>No Change to Depreciation & Applicable WACC</p> <p>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.</p> <p>However, in line with the prevailing regulatory arrangements for EirGrid TSO and SONI TSO respectively, SEMOpx is requesting that under this framework capital expenditure would be added to the RAB as incurred. This approach is warranted taking into account not only the scale but the multi annual nature of some projects. The ability for SEMOpx to carry such costs until project delivery is limited <i>vis a vis</i> the size of SEMOpx. Such an approach would support SEMOpx cashflows and mitigate a sawtooth profile in the RAB which in turn should support more stable tariffing.</p> <p>No change in terms of approach should a multi-NEMO environment materialise – That is the recovery of the balance of any RAB in the event of introduction of a multi-NEMO environment where price regulation is no longer applicable, will be decided by the RAs based on market conditions at the end the Notice Period.</p>

Description	2019-2022 PC (SEM-20-007)	Proposed Regulatory Framework (2023 Onwards)
Revenue Recovery	<p><i>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.</i></p> <p><i>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.</i></p>	No Change
Provision for Cost Escalation	<p><i>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.</i></p>	<p>No Change to principle</p> <p>Where costs escalate due to any changes in legislation or regulation, major or exceptional market changes SEMOpx would submit for approval of such costs to the SEM Committee as part of the Annual Revenue Approval Process.</p>
Framework underwrites efficient costs of providing a NEMO service	<p><i>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.</i></p>	<p>No Change to principle</p> <p>Framework underwrites 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	<p><i>Any incremental costs imposed on SEMOpx that can be directly attributable to a Participant will be treated as a pass-through cost.</i></p>	No Change
Volume Based Fees	<p><i>Volume based fees, 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.</i></p>	No Change
Margin	3.5% of OpEx	No Change

Description	2019-2022 PC (SEM-20-007)	Proposed Regulatory Framework (2023 Onwards)
Potential KPI Incentive Entitlement	<i>Potential KPI entitlement set to 2% of internal OpEx</i>	No Change SEMOpX and RAs to review the KPI criteria on a periodic basis (ref. Section 4)
OpEx		Please see OpEx Section 2.1
CapEx		Please see CapEx Section 2.2

Table 1 - Key Principles of underpinning proposed framework

2.1 Operational Expenditure (OpEx)

In terms of OpEx, the operational requirements of SEMOpX in terms of structure and FTE resources is stable and not envisaged to notably change. As such, it is proposed that the revenues provided for in the 2019-2022 Price Control are rolled forward, subject to inflation. The only change relates to a proposed periodic review of the average FTE Rate employed (further details in Section 4).

For completeness all OpEx cost (excluding the Finance Costs – Margin, Return, KPI) ultimately provided for and included *ex ante* as part of the forward revenue setting and/or *ex post* as part of the K-factor are included in the table below.

Description	2019-2022 Price Control (SEM-20-007)	Proposed Regulatory Framework (2023 Onwards)
Payroll / Labour Costs	Average Cost per FTE for SEMOpX was €84,000 (March 2019 monies), plus indexation.	No Change - Remains a fixed <i>ex ante</i> provision with the costs plus indexation provided for in revenue – reviewed on c.5 yearly basis (ref. Section 4).
FTE Requirement	12.25 FTEs	No Change - 12.25 baseline to remain. Should the need for additional FTEs arise, SEMOpX will submit a business case justification for approval to the RAs. Where approved such additional FTE(s) will be included in the revenue requirement on the basis of the FTE rate.
Facilities Costs & Overheads ²	Facilities and Insurance, Recruitment, HR & Admin and Corporate Costs	No Change - Remains a fixed <i>ex ante</i> provision fixed; 2021/22 rate as per SEM-20-007, plus indexation. SEMO to request additional costs as required via the revenue recovery process.
	Total	

² SEMO notes that the outworking of the UR decision on SONI Governance and the resultant requirements under the SONI TSO Licence Condition 42 are yet to be finalised. Any cost impacts to SEMO that arise from same will be captured under the framework as set out through the annual revenue process submissions.

³ In March 2019 monies – per table 10 SEM-20-007

IT & Telecommunications ⁴	IT & Telecoms	SEMOPx PC Decision 21/22	No Change - Remains a fixed <i>ex ante</i> provision; 2021/22 rate as per SEM-20-007, plus indexation. SEMO to request additional costs as required via the revenue recovery process.
	IT Application Support Costs	130,000	
	Third Party Contractor Costs	166,000	
	Total	296,000 ⁵	
Finance & Regulation	Finance & Regulation	SEMOPx PC Decision 21/22	No Change - Remains a fixed <i>ex ante</i> provision; 2021/22 rate as per SEM-20-007, plus indexation. SEMO to request additional costs as required via the revenue recovery process.
	Statutory audit	30,000	
	Internal audit	11,250	
	Legal professional fees	15,000	
	Banking fees	1,000	
	Total	57,250 ⁶	
Contract Services and Market Coupling	<p>Provision was included for Contract Services and Market coupling (EPEX and ECC) of €4,712,000 for the 3 year period, with €1,588,000 allocated in FY21/22.</p> <p>Per SEM-20-007, the SEM Committee <i>"confirms 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."</i></p>		No Change - Pass through of efficiently incurred contracted service costs (e.g. EPEX) and EU Market Coupling costs.
FX Settlement Costs	<i>Exchange rate effects will be treated on a cost pass-through Basis.</i>		No Change - Pass through
FX (Profit)/Loss			
FX Adjustment			
Market Bank Interest (Income)/expense	<i>Market Bank Interest will be treated on a cost pass-through Basis</i>		No Change - Pass through

⁴ As per footnote 2

⁵ In March 2019 monies – per table 13 SEM-20-007

⁶ In March 2019 monies – per table 16 SEM-20-007

Intraday Backup Co-ordinator (IDA BCO) ⁷	<i>IDA BCO costs will be treated on a cost pass-through Basis</i>	No Change - Pass through
IT Cloud Projects	<i>Not applicable at time of the 2019-2022 PC.</i>	New – Owing to a mandated change in accountancy standards (see Section 2.1.1 below) there is a requirement to enable costs associated with such projects to be included for recovery under OpEx. In line with the accountancy requirements once it is determined that a project is cloud based all expenditure related to same must be captured as incurred.

Table 2 – Proposed OpEx parameters

2.1.1 IT Cloud Projects

It is anticipated that increasing numbers of IT solutions related to SEMOpX will be sourced and serviced via Cloud based solutions, rather than physical IT assets.

A recent change in accounting treatment impacts the mechanism through which certain IT costs must be recorded and recovered, specifically costs associated with IT solutions provided via the Cloud. The International Financial Reporting Standards (IFRS) Interpretations Committee 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, these do not result in an intangible asset and should be recorded as an expense as incurred.

These IFRS interpretations lead to the following categorisations of IT solution implementations.

The main indicator that Cloud related spend should be expensed is where the entity does not have control of the software (i.e., where the software cannot be run without the vendors hosting services by the entity or by another third party unrelated to the software vendor). Where there is an indication that the entity ‘controls’ the software being configured or customised and those configuration or customisation activities create a resource controlled by the entity that is separate from the cloud software, it should be possible to capitalise the cost as it will meet the intangible asset criteria under International Accounting Standards (IAS) (IAS38).

Where there are configuration and customisation activities undertaken during implementation which would result in the Company controlling the intellectual property (IP) of the underlying software code, it should be possible to capitalise the cost as it will meet intangible asset criteria under IAS38. Where there is no control of the underlying code, costs must be expensed 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

⁷ The RAs confirmed in correspondence in May 2021 (Ref. F/15/196), confirmed “[I] that the intended BCO arrangements are now warranted and that the necessary agreements should be put in place. The RAs can also confirm that the additional OpEx costs associated with the BCO functions can be recovered on a pass-through basis as part of the SEMOpX revenues, with any adjustments for actual outturn costs to be included as part of the annual k-factor process.”

delivery of such projects. As a result, there is a requirement for a mechanism to be in place to enable SEMOpX to identify and report on such projects and to include their costs for recovery under the OpEx provisions of the framework.

2.2 Capital Expenditure (CapEx)

The underlying principles pertaining to the recovery of CapEx is set out in Section 2. In terms of the Capital Expenditure (CapEx) provision under the SEMOpX Revenues, it is proposed that on an annual basis SEMOpX set out the latest best available forecast requirement for the forthcoming financial period (Y). This provision would comprise the forecast costs for any predictable (known) projects at that time and a provision for unpredictable projects (Known Unknowns).

Consistent with the current arrangements, forecast depreciation and return will 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).

In the event a large scale project materialises that would notably exceed the unpredictable capex provision or the cost estimate of a project already included in the Predictable Capex if forecast to outturn notably in excess of forecast, SEMOpX will inform the RAs of the project as soon as practicable and seek approval of the additional expenditure (**Exceptional CapEx**).

This approach seeks to ensure that SEMOpX has sufficient provisions in its forward revenues to support the ongoing funding of the capital programme and management of cash flows while also ensuring that ultimately through the K factor process SEMOpX only recovers depreciation and return on actual expenditure.

Further information on the current forecast project spend is provided in Annex 1. SEMOpX notes however that the ultimate solution in a number of instances is yet to be determined and may outturn to be a capital (system) solution or a OpEx (Cloud) solution. In terms of the latter in accordance with standard accountancy rules such cost would have to be treated as OpEx and recovered under the pass through OpEx arrangements subject to the standard regulatory ex post review. (Ref note on IT Cloud Projects in Section 2.1).

Description	2019-2022 Price Control (SEM-20-007)	Proposed Regulatory Framework (2023 Onwards)
Predictable and Unpredictable CapEx	Ex-Ante provision of €1.9m over 2019-2022 PC for set value of projects. Efficiently incurred actual project costs will be recoverable.	<p>No Change in principle, provide CapEx allowance for known project (predictable CapEx) and a provision for known unknown projects (unpredictable CapEx) accepting that such provisions may need to be commuted to IT Cloud OpEx pending the outturn solution.</p> <p>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 €0.216. 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.</p>
Exceptional CapEx	<i>Not applicable at time of the 2019-2022 PC</i>	<p>In the event that a large scale project</p> <ul style="list-style-type: none"> materialises that would notably exceed the unpredictable capex provision SEMOpX, or the cost estimate of a project already included in the Predictable Capex if

Description	2019-2022 Price Control (SEM-20-007)	Proposed Regulatory Framework (2023 Onwards)
		<p>forecast to outturn notably in excess of forecast,</p> <p>SEMOpX will submit a 'Project Cost Exceptional CapEx Submission' to the RAs as soon as practicable requesting approval of the additional expenditure.</p> <p>This would include approval for multiannual forecast project costs as applicable and provide that all efficiently incurred costs will be recoverable through the RAB as incurred. As above accepting that such provisions may need to be commuted to IT Cloud OpEx pending the outturn solution.</p>
CapEx Incentivisation	Incentive applied to outturn Predictable CapEx against the base line	<p>Removed - SEMOpX never reached the threshold of the required CapEx spend to which the reward / penalty scheme applied under the 2019-2022 PC.</p> <p>No incentive in this regard was implemented in the periods post the end of the PC period.</p> <p>SEMOpX do not foresee the CapEx incentive mechanism being applicable or supporting the principle of introducing a level of oversight relevant to the spend to the proposed reduced approach.</p>

Table 3 - Proposed CapEx parameters

3. Submitting Revenues for Approval

SEMOpX proposes that an enhanced annual submission process is implemented. Akin to the annual revenue process in place today, SEMOpX would submit its forecast revenue requirements for the next financial period, largely reflecting that previously provided for, save for where additional requirements have arisen. Where such additional requirements are identified for inclusion SEMOpX would set out the necessary justification for same.

SEMOpX would subsequently set its tariffs based on the approved revenue amount. Consistent with the arrangements today, any over or under recovery of the passthrough elements would be adjusted for *ex post* via the K-Factor arrangements.

In terms of CapEx, consistent with the current arrangements, forecast depreciation and return will be included in the *ex-ante* forecast revenues, where feasible, and actual depreciation and return will be adjusted for based on actual outturn spend of both Basic CapEx Allowance or specific projects under Exceptional CapEx via the K-Factor process.

To allow for the fact that SEMOpX may seek approval of additional revenue from time to time, SEMOpX will provide its annual submission in May of each year to provide the RAs with time to consider any new cost items and approve the revenues by June thus allowing the tariff process to remain the same in July.

SEMOpX has included an outline draft of the proposed annual submission paper Annex 2.

4. Reporting Mechanisms

Under current arrangements SEMOpX provide a suite of reports and submissions to the RAs (listed below). SEMOpX propose to continue to provide these reports, as per current arrangements save where a change is proposed below.

- **Annual Financial Report**
 - No Change - This report is a requirement under Licence and would continue to be provided in line with the requirements under licence, as may be amended. Submitted End March.
 - The report is prepared by the designated NEMOs in fulfilment of the requirements placed on them via the respective MO licences;
 - EirGrid MO; Condition 13, Paragraph 7, and
 - SONI MO; Condition 2, Paragraph 8.
 - 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.
 - It has been the practice of 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.
 - Consistent with the custom and practice a single set of NEMO accounts is prepared (for the tariff year) as this is desired by the RAs and is that which is most useful for RAs' purposes.
- **Annual End of Year Project Report - Amended.**
 - SEMOpX currently submits an Annual End of Year Capital report to the RAs. Submitted End 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 directly reflecting and feeding to 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. Noting what was delivered and the key drivers of any notable delta.
 - 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 narrative.⁸

⁸ SEMOpX will include narrative in the project descriptions, however, should this process become the equivalent of a PC process it will need to be reviewed / addressed.

- References to any specific Regulatory Decisions / Directions that impact SEMOpX spend would be included.
- **Annual KPI Report**
 - No Change - 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. Submitted April/May
- **Annual Revenue Submission**
 - Enhanced annual report as set out in Section 3 and Annex 2. As noted in Section 3, proposed submission in May.
 - 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 - New**
 - NEW - As noted in Section 2.2 SEMOpX propose to seek RA approval for CapEx projects which result from significant market changes that would notably exceed the unpredictable capex provision.
 - This would include approval for multiannual forecast project costs as applicable and provide that all efficiently incurred costs will be recoverable through the RAB as incurred. Noting that such provisions may need to be commuted to IT Cloud OpEx pending the outturn solution.
 - SEMOpX will endeavour to provide information as early as feasible when applying for significant Exceptional CapEx Allowance. Should the Regulators issue a decision mid-year that requires SEMOpX to begin work on a specific CapEx project prior to such a project being explicitly provided for in the revenue setting process. It is hoped that the base provision of unpredictable capex would provide sufficient headroom for SEMOpX to progress this work until the following year's Revenue Process is completed.
 - It is noted that where such 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 submission 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 (that is under the proposed Agreed Governance Document for all island projects). Where 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**
 - No Change – Submission of information on all-island SEM ex-ante markets traded volumes forecast for use in the SEMOpX tariff process. Submitted Early June
- **Annual Tariff submission**
 - No Change – Sets out the SEMOpX tariffs for approval based on the forecasted traded volume and approved revenues. Submitted July/August, pending final approval by RAs of Revenues.

5. Review Process

SEMOpx propose that a review process is a core part of the proposed framework. 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.

SEMOpx propose that such a review process would take place every five (5) years shortly after conclusion of the SEMO Price Control Process. Noting that the first such review would take place in FY 24/25 following conclusion of the forthcoming SEMO PC process.

Whilst SEMOpx's Average Cost per FTE is unique 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 (5) year period would also provide sufficient outturn for analysis and support consideration of any KPI review.

As a further key protection for both SEMOpx and consumers it is proposed that SEMOpx or the RAs could call for a review earlier if there are significant concerns or challenges.

For the avoidance of doubt such a review process is separate to any process that would be initiated by the RAs in the event of introduction of multi-NEMO environment.

Appendices

- Annex 1 – Forecast Project Expenditure
 - Annex 2 – Draft SEMOpx Annual Revenue Submission
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Annex 1 – Forecast Project Expenditure

SEMOpX has provided a high-level overview of the projects expected in the coming years and rough orders of magnitude of potential project costs (this is subject to change) in Table 4. Actual projects progressed and their costs will be dependent on the direction that the markets takes in the coming years, noting fundamental changes are expected with EU Market Integration.

SEMOpX notes however that the ultimate solution in a number of instances is yet to be determined and may outturn to be a capital (system) solution or an OpEx (Cloud) solution. In terms of the latter in accordance with standard accountancy rules such cost would have to be treated as OpEx and recovered under the pass through OpEx arrangements subject to the standard regulatory ex post review.

The estimated costs below are per financial/tariff year and are based on when the project costs will be incurred, not by reference to when a project will be completed/go live date. This is in keeping with the proposal under the Key Principles section for the treatment of recovery of project costs both CapEx and in accordance with accounting requirements for IT Cloud solutions. It is noted that for large scale cross licensee projects, the forecast shown is based on SEMOpX's estimated allocation of the costs and is subject to both the RAs approval of the programmes and the proposed cost allocation under same.

€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.						

Table 4 – Forecast IT Project Expenditure

Figure 1 shows a comparison between the CapEx provision/forecast and actual spend to date. Note Years 19/20 – 22/23 inclusive reflect costs being added to the RAB on project completion whereas Years 23/24 – 26/27 inclusive reflect costs being added to the RAB / recovered via IT Cloud OpEx, as incurred. The spike in Year 23/24 is due to

1. the forecasted addition of the Greenlink Interconnector related costs to the RAB. Under the arrangements to date SEMOpx has been unable to RAB the costs as incurred, the project has been ongoing since 2022 and is due to be completed in September 2024 and as a result the entire project costs will appear in FY23/24.
2. the forecast costs to be incurred by SEMOpx under the proposed SMP – EU-Integration related works.

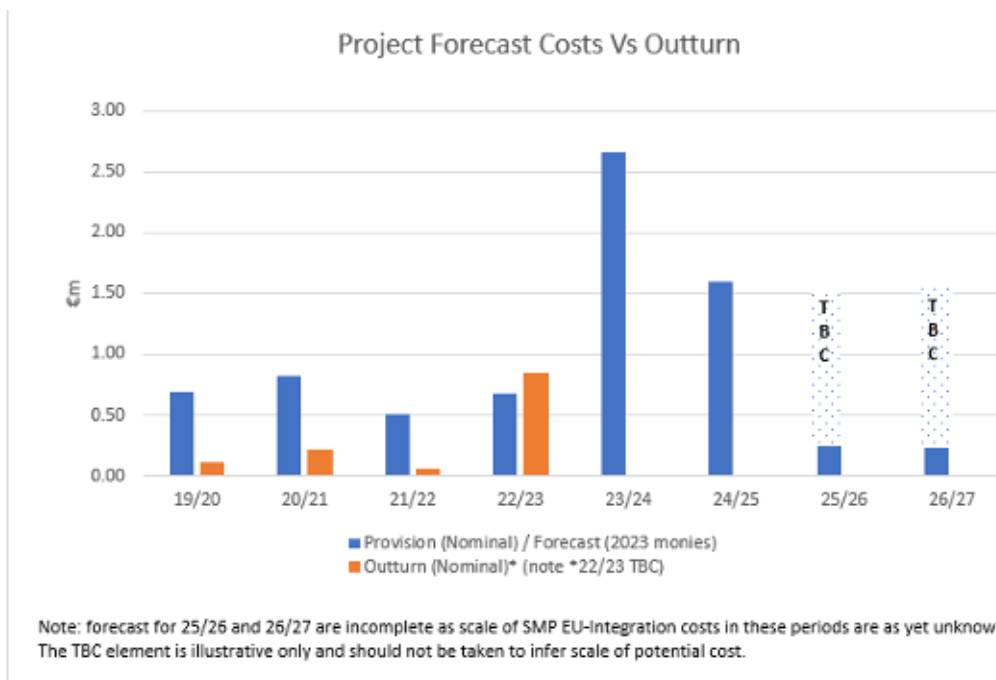


Figure 1 – Project Forecast Costs vs Outturn

A1.1 Project Summaries

Current Predictable Projects (Known Knowns)

- **Enduring Data Hub Phase 2**

Development of the existing SEMOpx market surveillance system to automate the identification of market activity that warrants investigation. This further enhances SEMOpx’s market surveillance capabilities as required under CACM and allows resources to focus on investigation rather than identification of potential market abuse.

- **Transfer of Units**

Enhancement of the ex-ante trading and clearing (together with the SEMO balancing market systems) to allow units to transfer between participants while maintaining the same unit id information. This will allow faster transfer of units between market participants, a significant reduction in effort to complete

each transfer and minimise the risk of errors and delays in the transfer process. This furthers the SEMOpx Rules Principles which includes promoting competition and provision of efficient and effective exchange services.

- ***Greenlink Interconnector***

Implementation of changes to SEMOpx systems and procedures to incorporate the Greenlink Interconnector into the existing cross-border auctions. This meets the requirements of EirGrid and SONI to facilitate the integration of interconnectors into the SEM.

- ***SMP - EU Integration***

The recoupling of the SEM with the Pan European Market in 2026 will require changes to the ex-ante markets to a facilitate market coupling with Europe. This includes the implementation of new, or refinement of existing, ex-ante market auctions and the continuous market. Separate funding request being prepared for submission to the SEM RAs for the Strategic Markets Programme that spans the TSOs, SEMO and SEMOpx. Figures above are high level estimates of SEMOpx's share of the costs in the initial phases, allocation of costs in later periods yet to be determined.

- ***30 min MTU***

Driven by the Clean Energy Package, this project is to ensure the ex-ante trading Market Time Units (MTU) for each region are aligned with the Imbalance Settlement Period for the same region (ISP). The majority of Europe is moving to 15 min MTU in Q1 2025, with SEM moving to 30 min MTU at the same time to align with the SEM ISP. This project is termed "15 min MTU" in EU circles.

- ***Corporate Application SharePoint Online***

The SharePoint Online project is concerned with the migration of SharePoint 2013 (which is out of support) to SharePoint Online. This is a cloud solution and expected to be classed as OpEx rather than Capex under accounting principles.

Unpredictable Project (Known Unknowns)

As under the 2019-2022 PC a fixed provision for Unpredictable Projects would be provided for. This is a discretionary fund to cover the aggregate of generally smaller scale but ongoing 'business as usual' Capex, and would enable SEMOpx to deal with unforeseen capital requirements which may/will arise between each annual revenue setting process. Projects that may fall under such a provision include, but are not limited to,:

- ***Corporate Applications***

Updates and enhancements to corporate systems required for efficient business functioning.

- ***Defect Fixes***

Costs related to the fix of defects identified in the SEMOpx systems.

- ***Modifications***

Ex-Ante market changes due to approved SEMOpx Rules or Trading and Settlement Modifications that result in system changes for SEMOpx.

- ***SEM Driven Changes – where not captured in a forecast predictable projects.***

These changes are unknown at present but do occur periodically. A recent example is the Transfer of Units project which is a change needed in SEMOpx systems to accommodate a SEM requirement to

allow the transfer of units without the need to change unit ids. This SEM driven change has become sufficiently clear in scope and large enough in size to be captured separately in terms of SEMOpX future projects (see above under the Predictable Projects section).

- *EU Market Changes - where not captured in the forecast predictable project.*

Ex-Ante market changes to market coupling made at a pan-European level. These changes are unknown at present but are a common occurrence. Recent examples include changes in maximum and minimum auction prices, changes in 2nd auction trigger prices, Price Matching Broker (PMB) Releases. 30 min MTU is also an example of an EU Driven Change which has become sufficiently clear in scope and large enough in size to be captured separately in terms of SEMOpX future projects (see above under the Predictable Projects section).

Annex 2 - Draft SEMOpx Annual Revenue Submission

1. Introduction

[Summary of Overall Revenue Requirement for the forthcoming financial Period (Y), including relevant K-Factor (Y-2) (e.g. The 2024/25 Revenue Requirement includes the 2022/23 K factor)]

2. K-Factor

[As per the current SEMOpx Revenue submission, this section would show the calculation of the k-factor for the Y-2. This section will set out Revenues Allowed in the SEM Committee’s Revenue and Tariff Decision for that period⁹ and the actual outturn figures reflecting their ex ante or pass through status basis as today).

As with the current submissions, narrative will be included to address any significant over / under of outturn to forecasts. Where additional costs have been approved by the RAs within a revenue period, e.g. for new OpEx costs relevant approvals received from the RAs would be noted. Depreciation and Return, and IT Cloud Project figures would cross refer to that set out in the proposed Annual End of Year Project Report. The information in the Submission Paper would, as today, be supported by the working backing calculation file.]

Annual K-Factor Calculation for xx/xx		
	As per Approval xxx	Actual Revenue Requirement
	€'000's	€'000's
	(Shown in xxx Monies)	(xxx Monies)
Entitlement		
Internal OpEx		
Depreciation		
Margin		
Return on RAB		
KPIs		
K factor from Previous year (over) under recovery		
FX (Profit)/Loss		
FX Settlement Costs		
IDA BCO		
Market Bank Interest (Income)/expense		
FX Adjustment		
IT Cloud Projects		
Total Entitlement		
Total Recovered on Tariffs		
K Factor Over/(Under) recovery		

⁹ Historically this would have been the allowance included in the SEMOpx Price Control as amended for the Annual SEM Committee’s Decision on Approved Revenues. Going forward the figures will reflect the annual SEMOpx revenue decision from the SEM Committee.

3. Revenue Requirement

[As per the current SEMOpx Revenue and Tariff submission, this section would show the calculation of the revenue requirement for forthcoming financial period (Y). For reference this section will set out Revenues Allowed in the SEM Committee’s Revenue and Tariff Decision for the extant year¹⁰ and forecast figures for Y.

SEMOpx’s forecast OpEx revenue requirement will primarily be based on the previous year’s costs (adjusted for inflation), the Margin will be updated to reflect the most recently available inputs, as per current arrangements, the IT Cloud costs and the Return on RAB and Depreciation will reflect the updated actual RAB additions and latest forecast RAB additions with cross reference to that set out in the proposed Annual End of Year Project Report. Narrative will be included to address any notable changes. The information in the Submission Paper would, as today, be supported by the working backing calculation file.]

Forecast Revenue Requirement		
€m	Approved Allowance for extant year (e.g.23/24)	Forecast Allowance for year (Y) (e.g.24/25)
Payroll IT & Telecoms Facilities, HR etc. Finance and Regulation Other activities (<i>Contract Services and Market Coupling</i>) FX Settlement Cost IDA BCO IT Cloud Projects		
Total OPEX		
Margin Return on RAB Depreciation		
Total Finance		
Total		

- **Changes to OpEx**

[Where there is a change to the forecast OpEx requirement or additional requirements are identified for inclusion, SEMOpx would set out the necessary justification for same. This would include any Projects that are determined to be delivered via IT Cloud Solutions by cross reference to that set out in the proposed Annual End of Year Project Report.]

- **Best Available Forecast CapEx**

¹⁰ Historically this table would have reflected the allowance included in the SEMOpx Price Control adjusted for inflation only. Going forward SEMOpx will include the current years approved revenues and the forecast allowance to assist the SEM Committee’s review of the ask year on year.

[SEMOpX would summaries same here, with cross reference to that set out in the proposed Annual End of Year Project Report, including an additional justification if required, the Best Available Forecast CapEx requirement underpinning the forecast Return and Deprecation figures.]

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