



**Single Electricity Market  
(SEM)**

**SEMOpX Revised Regulatory Revenue Recovery  
Framework**

**Decision Paper  
SEM-24-043**

**10 June 2024**

## EXECUTIVE SUMMARY

On 18<sup>th</sup> December 2023, SEMOpx submitted a proposal to the RAs for a more streamlined Regulatory Revenue Recovery Framework. This proposal was presented to the RAs with the aim of stepping away from the multiannual price control process for SEMOpx while continuing to ensure RA oversight on SEMOpx revenue provision.

The RAs agree that, rather than conducting a full price control review every three years, a more enhanced annual submission process should be implemented. The limited scale of SEMOpx in terms of its regulated revenue requirement and in particular the controllable costs element is recognised by all parties, and in the RAs' view it is proportionate to introduce a new streamlined Regulatory Revenue Recovery Framework.

On 19<sup>th</sup> March 2024, the SEM Committee published a consultation paper (SEM-24-022<sup>1</sup>) seeking views on SEMOpx's proposed framework. Interested stakeholders were invited to submit their opinions to the SEM Committee by 17<sup>th</sup> April 2024.

Within the consultation paper the major point of difference between SEMOpx's proposed framework and SEM Committee's minded to position related to the timing of when capital expenditure (CapEx) would be added to SEMOpx's Regulatory Asset base (RAB). SEMOpx proposed that CapEx would be added to its RAB as incurred, while SEM Committee's minded to position was that CapEx should be added to SEMOpx's RAB only when the relevant project / asset is commissioned. The SEM Committee contended that the approach of adding CapEx to SEMOpx's RAB only when an asset is commissioned would give an incentive to SEMOpx to get projects / assets commissioned at a quick pace and would ensure that a project / asset is only added to the RAB at the point when it begins delivering benefits.

One response was received to the consultation, and this came from SEMOpx. This response is published alongside this decision paper. In their response SEMOpx maintained the position that CapEx should be added to its RAB as costs are incurred. SEMOpx argued that adding CapEx to its RAB only as commissioned has several weaknesses, which are summarised below:

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<sup>1</sup> [SEMOpx Revised Regulatory Revenue Recovery Framework Consultation Paper SEM-24-022](#)

- Increased expenditure needs over the coming tariff years and the anticipated extended delivery for IT projects will lead to significant shortfalls in revenue for SEMOpx. It may also result in the need for SEMOpx to postpone future investment activity until the completion of ongoing projects, impacting on improvements for customers and market participants.
- With a RAB 'on-completion' approach the multi-annual nature of projects, together with the low asset base and accelerated 5-year IT asset depreciation would lead to a 'saw-tooth' RAB profile where RAB shows significant variability over short periods. Such 'saw-tooth' RAB profiles in turn would lead to volatility in SEMOpx charges.
- Adding CapEx to RAB as commissioned is not in keeping with wider industry. Utilities including EirGrid TSO, SONI TSO, GNI, Irish Water, BGTL and GNI UK operate under the RAB 'as-incurred' model. Inconsistencies between SEMOpx and these utilities will be exacerbated during the delivery of all-island projects being advanced by EirGrid and SONI in their respective roles, which would see multiple licensees contributing to delivery while only the TSOs will RAB their allocation of costs as incurred, leaving SEMOpx to carry a debt for a number of years, until the projects are commissioned.
- A number of projects, particularly those at scale, are not solely within the control of SEMOpx. Rather the costs to be borne by SEMOpx are subject to allocation arrangements.
- The proposal to maintain a RAB 'on-completion' approach may create a perverse incentive on SEMOpx to implement projects quickly regardless of whether the solution is best for the market and consumers.

After carefully considering SEMOpx's proposal and response to the consultation, the SEM Committee has decided that CapEx should be added to SEMOpx's RAB as incurred.

It should be noted here that with regards to the SEMO price control approach, CapEx is currently added to SEMO's RAB only when a project / asset is commissioned.

However, the RAs and SEMO are currently engaging on this issue, amongst others, as part of the next SEMO price control.

Other key elements of the proposed framework include the broad retention of the key principles of the revenue recovery framework reflected in the 2019-2022 price control (PC). As the considerations and environment underpinning the 2019-2022 PC remain extant, the RAs consider that the key principles underpinning that 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 Nominated Electricity Market Operator (NEMO) arrangements in Ireland and Northern Ireland respectively.

In terms of Operational Expenditure (OpEx), the operational requirements of SEMOpx in terms of structure and FTE resources is stable and not envisaged to change significantly. As such, it is decided that the revenues provided for in the 2019-2022 PC are rolled forward, subject to inflation. The only OpEx change relates to a periodic review of the average FTE Rate employed which will be reviewed on a circa 5-year period basis. FX settlement costs and other pass-through costs will continue to be paid on a pass-through basis. I.T. cloud project costs, which were not applicable at the time of 2019-2022 Price Control, are being added.

In terms of CapEx, it is decided that a forecast predictable and unpredictable CapEx allowance is included on an annual basis. For larger scale projects, should an event occur that drives costs outside of the forecast and beyond the unpredictable CapEx provision, SEMOpx will seek approval, in a timely manner and with sufficient detail, for such exceptional CapEx expenditure as the project(s) arise. Consistent with the current arrangements, forecast depreciation and return will be included in the ex-ante forecast revenues, where feasible, based on the best available forecasts of predictable, unpredictable, and exceptional Capex projects known at that time. Actual depreciation and return will be adjusted based on actual outturn spend on predictable, unpredictable, or specific exceptional projects via the K-Factor process, including any projects that may have been approved during the preceding period.

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## Glossary of Terms and Abbreviations

Abbreviation or Term	Definition or Meaning
CapEx	Capital Expenditure
NEMO	Nominated Electricity Market Operator
OpEx	Operational Expenditure
PC	Price Control
RA	Regulatory Authority
RAB	Regulatory Asset Base
SMP	Strategic Markets Program
WACC	Weighted Average Cost of Capital

## 1. Introduction

### 1.1 Background

On 18 December 2023, SEMOpx submitted a proposal to the RAs for a more streamlined Regulatory Revenue Recovery Framework. This proposal was presented to the RAs with the aim of stepping away from the multiannual price control process for SEMOpx while continuing to ensure RA oversight on SEMOpx revenue provision.

On 19<sup>th</sup> March 2024, the SEM Committee published a consultation paper (SEM-24-022) seeking views on SEMOpx's proposed framework. Interested stakeholders were invited to submit their opinions to the SEM Committee by 17 April 2024.

One response was received to the consultation, and this came from SEMOpx. SEMOpx's response is published alongside this decision paper.

SEM committee's proposal, outlined in consultation SEM-24-022, was broadly to follow the new streamlined approach, proposed by SEMOpx, whereby an enhanced annual submission process will be implemented rather than conducting a full detailed price control for SEMOpx every three years. The limited scale of SEMOpx in terms of its regulated revenue requirement and in particular the controllable costs elements is recognised by all parties, and in the RAs view it is proportionate to introduce a new streamlined Regulatory Revenue Recovery Framework.

In terms of scale, the annual revenue requirement of SEMOpx totals c. €5.03m (excluding Capital Expenditure (CapEx)), of which €2.325m is non-controllable and thus subject to passthrough arrangements<sup>2</sup>. Furthermore, the operational requirements of SEMOpx in terms of structure and FTE resources are relatively stable and are not envisaged to change significantly.

The risk environment considered as part of the 2019-2022 Price Control (PC) (SEM-20-007<sup>3</sup>) remains. While no significant changes are currently envisaged for core Operational Expenditure (OpEx), there are a number of IT Projects which may

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<sup>2</sup> SEMOpx Revenue Requirement for 2023/24 (Figures based on 2023/24 Approved Revenue based on March 2023 prices.)

<sup>3</sup> SEM Committee Price Control Decision Paper SEM-20-007



influence the potential SEMOpX RAB and IT Cloud OpEx requirements, in particular regarding reintegration into European markets.

The key principles of the revenue recovery framework reflected in the 2019-2022 PC will be retained. As the considerations and environment underpinning the 2019-2022 PC remain extant, the RAs consider that the key principles underpinning that 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.

In terms of OpEx, the operational requirements of SEMOpX in terms of structure and FTE resources is stable and not envisaged to change significantly. As such, it was proposed that the revenues provided for in the 2019-2022 PC are rolled forward, subject to inflation. The only change relates to a periodic review of the average FTE Rate employed which is to be reviewed on a circa 5-year period basis.

In terms of CapEx, it was proposed that a forecasted predictable CapEx allowance, and Unpredictable Capex allowance, is included on an annual basis however, for larger scale projects, where expenditure arises outside of the Predictable and Unpredictable CapEx allowance, SEMOpX will seek approval for such exceptional CapEx expenditure as and when the situation arises. SEMOpX will ensure that such applications for approval are submitted to the RAs in a timely manner with sufficient detail for the RAs to adequately review and fully consider each application.

### **Key Principles underpinning the revised framework**

In the revised revenue framework the key principles of the revenue recovery framework reflected in the 2019-2022 PC will be broadly retained. The key principles underpinning the 2019-2022 PC, and differences in the revised revenue framework (2024 onwards) are summarised in the following table:

<b>Description</b>	<b>2019-2022 Price Control (SEM-20-007)</b>	<b>Revised Regulatory Framework (2024 Onwards)</b>
Notice Period	N/A	In the event 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 decided by the RAs after engagement with SEMOpx).
Allocation	This price control is provided on a combined basis between EirGrid and SONI on a 75% to 25% basis respectively.	No Change
Exchange Rates	Exchange rate effects will be treated on a cost pass-through basis	No Change
Indexation	Indexation will be applied consistent with the SEMO Price Control.	No Change
Regulatory Asset Base, Applicable WACC and Depreciation	<p>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.</p> <p>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.</p>	<p>No Change to Depreciation &amp; Return principles</p> <p>Forward revenues (depreciation and return) are set on the basis of forecast RAB with adjustments based on actual incurred cost as added to the RAB and captured in the K Factor process.</p> <p>Capital expenditure will be added to SEMOpx's RAB as incurred. This approach considers both the scale and the multi annual nature of some projects. This approach would support SEMOpx cashflows and mitigate a sawtooth profile in the RAB which in turn should support more stable tariffing.</p>

Description	2019-2022 Price Control (SEM-20-007)	Revised Regulatory Framework (2024 Onwards)
Revenue Recovery	<p>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.</p> <p>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.</p>	No Change
Provision for Cost Escalation	<p>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.</p>	<p>No Change to principle</p> <p>Where costs escalate due to any changes in legislation or regulation, or major or exceptional market changes, SEMOpx will submit such costs in a timely manner with sufficient detail to the SEM Committee for approval as part of the annual revenue approval process.</p>
Framework will allow recovery of efficient costs of providing a NEMO service	<p>This price control will allow the recovery of 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.</p>	<p>No Change to principle</p> <p>The Framework will allow the recovery of 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>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>

<b>Description</b>	<b>2019-2022 Price Control (SEM-20-007)</b>	<b>Revised Regulatory Framework (2024 Onwards)</b>
Participant Driven Costs	Any incremental costs imposed on SEMOpX that can be directly attributable to a Participant will be treated as a pass-through cost.	No Change
Volume Based Fees	Volume based feeds, 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.	No Change
Margin	3.5% of OpEx	No Change
Potential KPI Incentive Entitlement	Potential KPI entitlement set to 2% of internal OpEx	No Change SEMOpX and RAs to review the KPI criteria on a periodic basis (ref. Section 5)

## 1.2 Related Documents

- 2019-2022 SEMOpX Price Control 2019-2022 Decision (SEM-20-007)
- SEMOpX proposal for the revised Regulatory Revenue Recovery Framework
- SEMOpX Revised Regulatory Revenue Recovery Framework Consultation Paper (SEM-24-022)

## 1.3 Structure of Paper

- Section 2 provides an overview of the OpEx requirements as submitted by SEMOpX, a summary of responses to the consultation paper on this matter and the SEM Committee's response and decision.

- Section 3 provides an overview of the CapEx requirements as submitted by SEMOpx, a summary of responses to the consultation paper on this matter and the SEM Committee's response and decision.
- Section 4 provides detail on Addition of CapEx to SEMOpx's RAB, summary of responses to the consultation paper on this matter and the SEM Committee's response and decision.
- Section 5 provides an overview of the review process under the new proposed framework, a summary of responses to the consultation paper on this matter and the SEM Committee's response and decision.
- Section 6 outlines the reporting requirements under the new proposed framework, a summary of responses to the consultation paper on this matter and the SEM Committee's response and decision.

## 2. SEMOpx Operational Expenditure (OpEx)

### 2.1 Overview

This section considers the operational requirements as submitted by SEMOpx, a summary of responses received to the consultation paper on this matter and the SEM Committee's response and decision on each OpEx item.

### 2.2 Payroll/ Labour costs

#### 2.2.1 Proposed changes by SEMOpx

Under the last SEMOpx price control, the decision for the average cost per FTE for SEMOpx was €84,000 (in March 2019 monies), plus indexation.

Under the new proposed streamlined regulatory revenue framework, no change has been suggested in this category. SEMOpx propose that the Average cost per FTE is reviewed on a circa five-year basis to ensure it remains appropriate. The SEMOpx Average Cost per FTE is unique to the nature of FTEs required to operate SEMOpx. To enable such a review to be efficiently undertaken SEMOpx have proposed this review to be carried out in parallel with the SEMO price controls such that any market benchmarking exercises carried out as part of same could be utilised, where appropriate, by SEMOpx and the RAs respectively.

Labour Costs (March 2019 Prices €)	PC Period 2019-2022			Proposal for the new streamlined regulatory framework
	2019/20	2020/2021	2021/2022	
SEM Committee Decision	1,029,000	1,029,000	1,029,000	<b>No change proposed</b>

#### 2.2.2 Summary of Responses

SEMOpx supported this proposal.

#### 2.2.3 SEM Committee Response and Decision

The SEM Committee agrees with the SEMOpx proposal.

## 2.3 FTE Requirement

### 2.3.1 Proposed changes by SEMOpx

The FTE requirement granted to SEMOpx for the price control period 2019 to 2022 was 12.25 FTEs.

Under the new proposed streamlined regulatory revenue approach SEMOpx has proposed no change to this number and 12.25 will remain as the baseline. If, in SEMOpx's view, there is a need for additional or fewer FTEs, SEMOpx will submit a business case justification for approval to the RAs. If it is approved by the RAs, any such change to FTEs would be included in the revenue requirement on the basis of the FTE rate.

### 2.3.2 Summary of Responses

SEMOpx supported this proposal.

### 2.3.3 SEM Committee Response and Decision

The SEM Committee agrees with the SEMOpx proposal.

## 2.4 Facilities Costs and Overheads

### 2.4.1 Proposed changes by SEMOpx

The facilities costs and overheads include costs incurred in facilities, insurance, recruitment, HR, admin and corporate costs. The SEM committee decision regarding the allowance for these costs for the price control period 2021-2022 was € 407,040 in 2019 monies.

Under the new proposed streamlined regulatory revenue approach, no change has been proposed to these areas. SEMOpx have proposed the same allowance per annum, plus indexation. SEMOpx will request additional or reduced costs as required via the revenue recovery process.

Facilities and Insurance, Recruitment, HR & Admin and Corporate Costs (March 2019 Prices €)	PC Period 2019-2022			Proposal for the new streamlined regulatory framework
	2019/20	2020/2021	2021/2022	
SEM Committee Decision	407,040	407,040	407,040	<b>No change proposed</b>

## 2.4.2 Summary of Responses

SEMOpX supported this proposal.

## 2.4.3 SEM Committee Response and Decision

The SEM Committee agrees with the SEMOpX proposal.

## 2.5 IT and Telecommunications

### 2.5.1 Proposed changes by SEMOpX

The SEMOpX IT costs represent SEMOpX's deemed share of total IT costs across the EirGrid Group, broken down into IT application support costs and third party contractor costs. The third-party contractor costs refer to two 24/7 FTEs which are allocated to support Market Monitoring systems, Oracle Middleware, CRM/ Query management and accounting systems. SEM committee's decision for the price control period 2019-2022 was to allocate €296,000 for each year.

Under the new proposed streamlined regulatory revenue approach, no change has been proposed to these areas. SEMOpX have proposed the same allowance per annum, plus indexation. SEMOpX will request additional or reduced costs as required via the revenue recovery process.



IT & Telecommunications (March 2019 Prices) €	Forecast for PC Period			Proposal for the new streamlined regulatory framework
	2019/20	2020/2021	2021/2022	
SEM Committee Decision	296,000	296,000	296,000	<b>No change proposed</b>

## 2.5.2 Summary of Responses

SEMOpX supported this proposal.

## 2.5.3 SEM Committee Response and Decision

The SEM Committee agrees with the SEMOpX proposal.

## 2.6 Contract Services and Market Coupling

### 2.6.1 Proposed changes by SEMOpX

These costs are associated with SEMOpX service providers and European Market costs based on SEMOpX's largely outsourced model of operation using an established Power Exchange (EPEX) and Central Counterparty (ECC). Under this model, market coupling and trading operations are delivered by an established Power Exchange rather than establishing this function internally.

Service provider costs are based on the number of participants in the market and have a fixed and variable element linked to the traded volumes in each market. Costs associated with participation in EU wide markets include NEMO committee costs, Single Day Ahead Coupling costs, Single Intraday Coupling costs and Price Coupling Region Operational Costs.

SEM committee's decision as part of the 2019-2022 SEMOpX Price Control allowed the full amount that was asked for in the price control submission which was a total of €4,712,000 for the three-year period with €1,588,000 allocated in FY21/22. SEM

committee in their decision confirmed 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.

Under the new proposed streamlined regulatory revenue framework, SEMOpx has proposed no change to the treatment of contract services costs and market coupling OpEx costs, i.e. efficiently incurred contract service costs and market coupling costs will still be recoverable on a pass-through basis.

Contract Services & Market Coupling (March 2019 Prices €)	Forecast for PC Period			Proposal for the new streamlined regulatory framework
	2019/20	2020/2021	2021/2022	
SEM Committee Decision	1,556,000	1,568,000	1,588,000	<b>No change proposed</b>

## 2.6.2 Summary of Responses

SEMOpx supported this proposal.

## 2.6.3 SEM Committee Response and Decision

The SEM Committee agrees with the SEMOpx proposal.

## 2.7 Finance and Regulation

### 2.7.1 Proposed changes by SEMOpx

Finance and Regulation costs relate to costs primarily required under legal and regulatory obligations, and a number of costs are estimated based on historical costs paid by SEMO. These included costs related to the SEMO market audit, Statutory Audit, Internal Audit, Legal Professional fees and Banking fees.

Under the new proposed streamlined regulatory revenue framework, SEMOpx has proposed no change to the fees above. SEMOpx will be able to request additional or reduced costs as required via the revenue recovery process.

Finance and Regulation (March 2019 Prices) €	Forecast for PC Period			Proposal for the new streamlined regulatory framework
	2019/20	2020/2021	2021/2022	
SEM Committee Decision	64,750	64,750	57,250	<b>No change proposed</b>

## 2.7.2 Summary of Responses

SEMOpx supported this proposal.

## 2.7.3 SEM Committee Response and Decision

The SEM Committee agrees with the SEMOpx proposal.

## 2.8 FX Settlement and Other Pass-Through Costs

### 2.8.1 Proposed changes by SEMOpx

These are costs incurred by SEMOpx in facilitating banking transactions, currency exchanges and specific service provision previously agreed to be on a pass-through basis. These include FX Settlement, FX (profit)/loss, FX adjustments, market bank interest (income)/expenses, and Intraday Backup Co-ordinator costs.

These costs will continue to be paid on a pass-through basis.

### 2.8.2 Summary of Responses

SEMOpx supported this proposal.

### 2.8.3 SEM Committee Response and Decision

The SEM Committee agrees with the SEMOpX proposal.

## 2.9 IT Cloud Projects

### 2.9.1 Proposed changes by SEMOpX

These costs were not applicable at the time of 2019-2022 Price Control. This is a new cost that is being added under OpEx as SEMOpX anticipates that the increasing number of IT solutions related to SEMOpX will be sourced and serviced via cloud-based solutions, rather than physical assets.

This change is being proposed due to the mandate change in the accountancy standards by the International Financial Reporting Standards (IFRS) Interpretations committee which 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, that these do not result in an intangible asset and should be recorded as an expense 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 delivery of such projects. SEMOpX has hence proposed to introduce this mechanism under OpEx provisions of the framework to identify and report on such projects.

### 2.9.2 Summary of Responses

SEMOpX supported this proposal.

### 2.9.3 SEM Committee Response and Decision

The SEM Committee agrees with the SEMOpX proposal.

### 3. SEMOpx Capital Expenditure (CapEx)

#### 3.1 Overview

In terms of CapEx provision under SEMOpx revenues, SEMOpx have proposed that the best available forecast requirement for the forthcoming financial period (Y) will be set out on an annual basis. This report would include the forecast costs for any predictable projects (known) at that time and provision for unpredictable projects (known unknowns).

Similar to the price control period, forecast depreciation and return would be included in the ex-ante forecast revenues, based on the forecast CapEx (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).

However, for larger scale projects, if and when the need arises, SEMOpx would seek approval for exceptional CapEx as the project(s) materialise. This proposed approach seeks to ensure that SEMOpx has sufficient revenues in the forward-looking plan of the capital programme whilst ensuring that, ultimately through the K-factor process, SEMOpx only recovers depreciation and return on actual expenditure.

#### 3.2 Predictable and Unpredictable CapEx

##### 3.2.1 Proposed changes by SEMOpx

For the previous price control period, from 2019-2022, there was a provision for basic CapEx expenditure for ex-ante projects of €1.9m, although SEMOpx's actual outturn spend on CapEx over the period was considerably less than this. SEMOpx is requesting allowance for known (predictable) projects and provision for known unknown projects (unpredictable Capex) given that such provisions may need to be commuted to IT cloud OpEx pending the outturn solution.

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 €0.216m. 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” projects.

Within the proposed new streamlined approach, SEMOpX will provide a forecast of the predictable CapEx, any known projects being progressed under unpredictable CapEx and any exceptional CapEx projects based on the best available information at that time. The table below was provided by SEMOpX in December 2023, and is based on analysis of the cost of projects that are currently underway or are expected in the coming years.

€m (2023 monies)	FY				Total per Project
	23/24	24/25	25/26	26/27	
<b>Predictable (Known knowns)</b>					
Enduring Data Hub Phase 2	0.20				<b>0.20</b>
Transfer of Units	0.10				<b>0.10</b>
Greenlink Interconnector	0.85				<b>0.85</b>
SMP - EU integration	1.29	1.08	TBC	TBC	<b>2.37</b>
30 min MTU		0.23			<b>0.23</b>
Corporate Application – Sharepoint online	0.03	0.09	0.05	0.04	<b>0.20</b>
<b>Unpredictable (Known Unknowns)</b>	0.20	0.20	0.20	0.20	<b>0.80</b>
<b>Exceptional CapEx (Large Scale Unknowns)</b>	-	-	-	-	
<b>Estimate Total per Year</b>	<b>2.66</b>	<b>1.59</b>	<b>0.25</b>	<b>0.24</b>	<b>4.74</b>
CapEx / TBC	2.64	1.50	0.20	0.20	<b>4.54</b>
Cloud	0.03	0.09	0.05	0.04	<b>0.20</b>

Cloud

This is subject to change and the actual projects progressed will be dependent on the direction that the markets take in the coming years, including the changes expected with EU market re-integration.

### 3.2.2 Summary of Responses

SEMOpX supported this proposal.

### 3.2.3 SEM Committee Response and Decision

The SEM Committee agrees with the SEMOpX proposal.

## 3.3 CapEx Incentivisation

### 3.3.1 Proposed changes by SEMOpX

This incentive was applied to outturn Predictable CapEx against the base line.

SEMOpX proposed to remove this incentive from the new SEMOpX regulatory revenue framework as SEMOpX never reached the threshold of the required CapEx spend to which the reward / penalty scheme applied under the 2019-2022 PC.

SEMOpX do not foresee the CapEx incentive mechanism being applicable or supporting the principle of introducing a level of oversight relevant to the SEMOpX spend within the proposed streamlined regulatory revenue approach.

### 3.3.2 Summary of Responses

SEMOpX supported this proposal.

### 3.3.3 SEM Committee Response and Decision

The SEM Committee agrees with the SEMOpX proposal.



## 4 Addition of CapEx to SEMOpx's RAB

### 4.1 Proposed changes by SEMOpx

Under the proposed new streamlined regulatory framework, SEMOpx would seek regulatory approval for CapEx projects which drive significant market changes and cannot be accommodated under the unpredictable CapEx allowance. Approval for exceptional CapEx would be for the multiannual forecast project costs as applicable. Where approved, SEMOpx is proposing under the new streamlined framework that CapEx would be added to the RAB as incurred.

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.

SEMOpx would submit a 'Project Cost Exceptional CapEx Submission'<sup>4</sup> to the RAs as soon as practicable and with sufficient detail requesting approval of the additional expenditure. This would include request for approval for multiannual forecast project costs as applicable and provide that all efficiently incurred costs will be recoverable through the RAB. As above, accepting that such provisions may need to be commuted to IT Cloud OpEx pending the outturn solution.

SEMOpx would provide information as early as feasible when applying for exceptional CapEx allowance. However, it will not always be possible for such information and decisions to align with the annual revenue process. Where the RAs approve exceptional CapEx within year, SEMOpx would capture same in future revenue submissions / K-factor as appropriate.

### 4.2 Summary of Responses

SEMOpx argued that CapEx should be added to its RAB as incurred.

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<sup>4</sup> The regulatory assumption is that this will generally be part of an 'All-Island Programme' submission and the requirements of such a submission should be met in order to enable regulatory review.

Within the consultation paper the SEM Committee stated that it's minded to position was to continue with the current approach of adding CapEx to SEMOpx's RAB only when an asset / project is commissioned. The SEM Committee was of the view that this approach would give an incentive to SEMOpx to get projects / assets commissioned at a quick pace and would ensure that a project / asset is only added to the RAB at the point when it begins delivering benefits.

In their response SEMOpx maintained the position that CapEx should be added to its RAB as costs are incurred. SEMOpx argued that adding CapEx to its RAB as commissioned is not in keeping with the streamlined nature of the overall proposal and has several weaknesses, which are expanded upon below.

With CapEx being added to SEMOpx's RAB as commissioned there is a mismatch between when expenditure is incurred and when it is added to the RAB. This means that, in this case, SEMOpx has no revenue stream to support investment in critical IT systems and programmes until a project is completed, which in turn increases the financing requirement of SEMOpx. Without the ability to add projects to the RAB as costs are incurred, the expectation is that SEMOpx will carry the debt, without remuneration until a project is commissioned. SEMOpx did not believe this approach is appropriate given that, in increasing cases, there can be a number of years between project initiation and completion and this creates cashflow problems and funding challenges for SEMOpx. SEMOpx argued that it is vital that it is in a position to finance its activities.

SEMOpx argued that increased expenditure needs over the coming tariff years, and the anticipated extended delivery for IT projects, will lead to significant shortfalls in its revenue if CapEx is only added to its RAB as commissioned. It may also result in the need for SEMOpx to postpone future investment activity until the completion of ongoing projects, impacting on improvements for customers and market participants.

SEMOpx argued that a RAB 'on-completion' approach exhibits significant step changes as projects are commissioned and capitalised. The multi-annual nature of projects, together with the low asset base and accelerated 5-year IT asset depreciation leads to a 'saw-tooth' RAB profile where RAB shows significant variability over short periods. Such 'saw-tooth' RAB profiles in turn lead to volatility in SEMOpx charges. This RAB pattern can be mitigated if additions to the RAB are smoother over time,

which arises where expenditure is added as incurred, and which in turn can lead to smoother SEMOpx tariff profiles.

SEMOpx argued that adding CapExto RAB as commissioned is not in keeping with wider industry. Utilities including EirGrid TSO, SONI TSO, GNI, Irish Water, BGTL and GNI UK operate under the RAB 'as-incurred' model. Inconsistencies between SEMOpx and these utilities will be exacerbated during the delivery of all-island projects being advanced by EirGrid and SONI in their respective roles, which would see multiple licensees contributing to delivery while only the TSOs will RAB their allocation of costs as incurred, leaving SEMOpx to carry a debt for a number of years, until the projects are commissioned.

In response to the SEM Committee's view that adding CapExto SEMOpx's RAB as commissioned would give an incentive to get projects/assets commissioned at quick pace, SEMOpx highlighted that a number of projects, particularly those at scale, are not solely within the control of SEMOpx. Instead, the costs to be borne by SEMOpx are subject to allocation arrangements (some of which are to be finalised) of larger cross licensee costs, the scope of some such projects are yet to be fully determined and for which the timeframe for completion is driven not only by the licensee's implementation but by future decisions of the RAs and the timeframes associated with same. In addition, the proposal to maintain a RAB 'on-completion' approach may create a perverse incentive on SEMOpx to implement projects quickly regardless of whether the solution is best for the market and consumers. There should be no connection between appropriate remuneration of SEMOpx through RAB related funding and regulatory incentives on SEMOpx to deliver projects. Continuing to conflate the two into the framework for SEMOpx risks the financial security of SEMOpx.

SEMOpx argued that moving to a RAB 'as-incurred' model will allow funding, through the depreciation charge and the allowed return at WACC, during the construction phase of the project, thereby reducing cash-flow volatility for the licensee and leading to a smoother tariff profile than would otherwise be the case under the current RAB 'on-completion' approach. It will also ensure uniformity of approach across the licensees in EirGrid and SONI, and indeed across the wider utility environment on the island. SEMOpx stated that it believes that it is ultimately both in the best interest of

the customers, market participants and the financial stability of SEMOpx for the RAs to incorporate the proposal to change to a RAB 'as incurred' approach for their final decision on the SEMOpx regulatory framework.

### 4.3 SEM Committee Response and Decision

In consultation SEM-22-022 the SEM Committee stated it was of the view that CapEx should be added to SEMOpx's RAB when the relevant project / asset was commissioned. The SEM Committee considered that this approach would give an incentive to SEMOpx to get projects / assets commissioned at a quick pace and would ensure that a project / asset is only added to the RAB at the point when it begins delivering benefits.

However, having fully considered the response to the consultation, and the points raised therein, the SEM Committee has decided to proceed with SEMOpx's proposal to move to the approach whereby CapEx is added to SEMOpx's RAB as incurred. Whilst the SEM Committee is still of the view that it is very important that SEMOpx deliver projects in a timely manner, it recognises that the RAB 'as commissioned' approach would put pressure on SEMOpx's finances, would lead to more volatile SEMOpx tariffs, and may not expedite the overall delivery of projects in reality.

It should be noted here that with regards to the SEMO price control approach, CapEx is currently added to SEMO's RAB only when a project / asset is commissioned. However, the RAs and SEMO are currently engaging on this issue, among others, as part of the next SEMO price control.

## 5 Reporting Requirements

### 5.1 Proposed changes by SEMOpx

Currently, SEMOpx provides a number of reports and submissions to the RAs and with the new proposed framework, SEMOpx would provide the same set of submissions continuing on from the previous price control period, with some changes as outlined below.

#### **Annual Financial Report**

This report is prepared by the designated NEMOs in fulfilment of the requirements placed on them via the SONI and EirGrid licences. 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 this custom and practice, a single set of NEMO accounts is prepared (for the tariff year) as this is most useful for RAs' purposes.

No change has been proposed to this submission as this is a requirement under the MO licences.

#### **Annual End of Year Project Report**

SEMOpx currently submits an Annual End of Year Capital report to the RAs. This report is submitted at the end of March. Under the proposed framework SEMOpx propose that this report is changed to the Annual End of Year Project Report, with the timing of the 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 would directly reflect and feed into 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 difference. 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 narratives. References to any specific Regulatory Decisions / Directions that impact SEMOpx spend would be included.

### **Annual KPI Report**

This document is submitted in April or May and 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. No change is proposed to the contents of this report.

### **Annual Revenue Submission**

This is an enhanced annual report which would be submitted by SEMOpx around May every year. 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.

A draft SEMOpx Annual Revenue Submission is provided in the Appendix.

### **Project Cost Exceptional CapEx Submission**

This would be a new report. As noted above, SEMOpx would seek RA approval for CapEx projects which result from significant market changes that would notably exceed the unpredictable capex provision. This report would include approval for multiannual forecast projects as applicable and provide that all efficiently incurred costs will be recoverable through the RAB. Noting that such provisions may need to be commuted to IT Cloud OpEx pending the outturn solution.

SEMOpx are required to provide this information in timely manner with sufficient detail when applying for Exceptional Capex allowance. Should the RAs 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 anticipated 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. SEMOpx has also proposed that where 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<sup>5</sup> 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. If and when 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.

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<sup>5</sup> The submission should align with the requirements of an 'All-Island Programme' submission.

## **Annual Submission of Traded Volumes – Ex-Ante Markets Forecast**

This submission includes information on all-island SEM ex-ante markets traded volumes forecast for use in the SEMOpx tariff process. This report is submitted by SEMOpx in early June. There would be no change to this report.

## **Annual Tariff submission**

This report sets out the SEMOpx tariffs for approval based on the forecasted traded volume and approved revenues. The report is submitted in July/ August. There would be no change to this report.

### 5.2 Summary of Responses

SEMOpx supported these proposals.

### 5.3 SEM Committee Response and Decision

The SEM Committee agrees with the SEMOpx proposals.

## 6 Review process

### 6.1 Proposed changes by SEMOpx

A review process for the streamlined regulatory revenue framework would be essential and forms a core part of the entire framework. As proposed by SEMOpx, the review process would take place every five years. The primary focus of such a review would be a review of the SEMOpx 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 years shortly after conclusion of the SEMO Price Control Process. The first review would take place following conclusion of the forthcoming SEMO Price Control process.



Whilst SEMOpx's Average Cost per FTE is unique due 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-year period would also provide sufficient outturn for analysis and support consideration of any KPI review. Additionally, SEMOpx or the RAs could call for review earlier if there are significant concerns or challenges.

## 6.2 Summary of Responses

SEMOpx supported this proposal.

## 6.3 SEM Committee Response and Decision

The SEM Committee agrees with the SEMOpx proposal.

## 7 Appendix

### 7.1 Draft SEMOpX Annual Revenue Submission

#### 7.1.1 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)]

#### 7.1.2 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 period<sup>6</sup> 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.]

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<sup>6</sup> 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.

Annual K-Factor Calculation for xx/xx		
	As per Approval xxx €'000's	Actual Revenue Requirement €'000's
	(Shown in xxx Monies)	(xxx Monies)
<b>Entitlement</b>		
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		
<b>Total Entitlement</b>		
<b>Total Recovered on Tariffs</b>		
<b>K Factor Over/(Under) recovery</b>		

### 7.1.3 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 year<sup>7</sup> 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

<sup>7</sup> 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.

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.]

<b>Forecast Revenue Requirement</b>		
<b>€m</b>	<b>Approved Allowance for extant year (e.g.23/24)</b>	<b>Forecast Allowance for year (Y) (e.g.24/25)</b>
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		
<b>Total OPEX</b>		
Margin Return on RAB Depreciation		
<b>Total Finance</b>		
<b>Total</b>		

- **Changes to OpEx**

[Where there is a change to the forecast OpEx requirement or additional requirements are identified for inclusion, SEMOpEx 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**

[SEMOpEx would summarise 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.]