

Calculation of Imperfections K-Factor for inclusion in 2025/26 Tariff

The calculation of the Imperfections k-factor for inclusion in the 2025/26 tariff is made up of two elements:
(1) Actual outturn for 2023/24
(2) An estimated outturn for 2024/25

(1) Actual Outturn for 2023/24		
Market Imbalances	Notes	2023/24 Over/(Under) Recovery
Energy Imbalance	a	0
Imperfections excl OSC	b	(24,502,715)
Other System Charges	c	4,966,699
Capacity	d	0
Market Interest	e	0
Foreign Exchange	f	0
Cash deficit arising during year (market imbalance)		(19,536,016)
The tariff for 2024/25 was decreased by a €91.17m k-factor, therefore this must be added here in order to arrive at the actual over/under recovery for 2023/24	g	91,170,503
Actual outturn over/(under) recovery for 2023/24 (true k-factor arising in year)		71,634,487
An estimated over recovery of €88m was included in calculating the tariff for 2023/24, this must be taken into account to arrive at what is left to be accounted for in setting the k factor for 23/24 to be included in the 25/26 tariff	h	(88,000,000)
Adjustment needed to correct estimate to actual		(16,365,513)
2023/24 k-Factor to be included in 2025/26 tariff	€'m	(16.37)

(2) Estimate of over/(under) recovery for 2024/25		
Estimate for Imperfections k-factor for 2024/25 (no change to charge factor)	€m	(167.06)

Total Forecast K Factor to be applied in 2025/26		
Total Forecast K Factor to be applied in 2025/26 [over/(under) recovery](no change to charge factor)	€m	(183.43)

Imperfections Outturn for 2023/24
was a cash under recovery of €19.54m in 2023/24 which included a previous over recovery forecast position of €91.17m (Ref. SEM-23-067) k factor as built into the tariffs. Adding this k-factor previous years gives an actual k-factor over recovery of €71.63m arising for the 2023/24 year. However, in calculating the 2024/25 tariff, there was an estimated €88m over-recovery for 2023/24 led (ref. SEM-24-064). Taking this figure into account results in an outturn **under recovery of €16.37m** for tariff year 2023/24. This under recovery will be added to the Imperfections forecast ue.

Estimated Outturn 2024/25
Estimated within year (Y) k-factor (2024/2025) is a forecast of the financial position, as reflected in the accounts, as at the end of September 2025. The estimated K therefore takes into consideration the actual imperfections costs against the forecast and forecast trend to year end. Any resettlement costs from previous periods (M+13 etc.) that fall within the period

Imperfections Costs
are two main factors influencing the within year forecast K factor for 2024/2025 - that is the estimated outturn expenditure against forecast and the estimated outturn revenue against forecast.

has been significant variance seen between our Imperfections forecast and actual costs on the system for the first 7.5 months of the 2025 Financial Year with an overspend against forecasted imperfections of €130 million. The primary contributory factor to this is the challenges encountered in satisfying the Northern Ireland (NI) Security of Supply dynamic stability requirements in a cost-effective manner most notably satisfying the Minimum NI units Transmission Constraint Group (MINNIU) and the main factors driving this are not within the TSOs' control.

TSOs have estimated that if the influence of this unforeseen driver was removed then the underlying Imperfections forecast is performing quite well with an estimated €22.8m underspend.

Estimated Outturn Expenditure - €647.2m [Original - Expected Outturn Spend, €475.62m - €647.2m = €171.58m under recovery]
Estimated Outturn Revenue - €571.73m [Original + 24/25 k factor - Expected Outturn Revenue, €633.62m - €66.41m - €571.73m = €4.52m over recovery]

dering the above 2 factors, we estimate a potential under recovery in 2024/2025 of **€167.06m** (€171.58m - €4.52m).

reason for the difference in "Within Year K factor 24/25" to that estimated in March for the 24/25 Mid-Year Report (-€226.48m - €231.00 + €4.52m) is we have experienced considerably improved system conditions that has minimised Imperfections Costs. This allowed us to temporarily reduce the Northern Ireland system security requirement from a 3-set to a 2-set must run requirement from 9th of March until the 11th of April, minimising the requirement to run alternative units that were available at the time (but which would have driven high Imperfections Costs). Further, the return of Conventional units in Northern Ireland that had been forced off since storm Daragh damage on the 7th of December 2024 ahead of the dates anticipated at the time of the mid-year report also contributed to improved system conditions i.e. -€59.42m (-€226.48m - (-€167.06m)).

Settlement
Settlement team has advised finance that no notable resettlement of imperfections costs are anticipated over the remainder of this tariff year.

ated Outturn 2023/25 = (-€16.37m - €167.06m) = -€183.43m under recovery

Forecast K Factor to be applied in 2025/26
Total forecast K is an **under recovery of €183.43m** which will be added to the Imperfections forecast revenues.

Note the signage used in the SEM-23-067 paper is backward in the section on the K - the K was an over recovery and thus should be shown as a positive - however is applied correctly in the calculation of the revenue and is subtracted from the requirement

Table 3 shows the TSOs submitted actual K-factor for Tariff Year 2021/22 and their within-year recast for 2022/23.

Item	€ million
Actual under-recovery 2021/22	28.83
Estimated over-recovery 2022/23	(100.00)
Total K-factor to be applied 2023/24	(91.17) (g)

Table 3: TSOs' K-factor calculation for 2023/24

Note the signage used in the SEM-24-064 paper is correct in the section on the K - the K was an over recovery and thus should be shown as a positive - however is applied correctly in the calculation of the revenue and is subtracted from the requirement

Table 3 shows the TSOs submitted actual K-factor for Tariff Year 2022/23 and their within-year forecast for 2023/24.

¹¹ See SEMC MoU, 02_23 DSU, Energy Payments 22 February 2023

¹² SEM 22-090

Item	€ million
Actual under-recovery in 2022/23 (P+130)	29
Estimated over-recovery 2023/24	88
Total K-factor to be applied in 2024/25	66.41 (h)

Table 3: TSOs' K-factor calculation for 2024/25