SEMO Price Control: Draft Determination Consultation Response

6 May 2025

Executive Summary

The Single Electricity Market Operator (SEMO) welcomes the opportunity to respond the SEMO 2024-2029 Price Control consultation paper (SEM-25-002) (the 'Draft Determination or DD'), published by the SEM Committee on 28th February 2025. It is a joint response provided on behalf of EirGrid plc and SONI Ltd., as licenced market operators in Ireland and Northern Ireland respectively.

As was emphasised in our SEMO PC Submission, it is SEMO's view that we are moving from a period following the establishment and consolidation of the Integrated Single Electricity Market (I-SEM) arrangements into a period of renewed change. This period will be characterised by constant pressure, from governments, industry, regulatory and EU requirements, to evolve the market further and faster in the pursuit of a cost-effective, decarbonised electricity system. This will place significant demands on SEMO not only in terms of the functionality offered by the market systems but also in ensuring that the technology remains up-to-date and can support this growth whilst remaining robust and resilient. The increases sought by SEMO are necessary to enable SEMO to efficiently operate the SEM through a substantial period of transition and to the service levels expected by market participants.

By way of example, the SEM will be directly connected to the European energy markets via the Celtic Interconnector from 2027. In addition, we expect to see closer coupling with Great Britain, consistent with post-Brexit arrangements. Furthermore, there is the aspiration to enable a range of new asset types to access the markets, such as battery storage, hybrids etc. All of these will be influenced by a succession of legislative and regulatory requirements emanating from the European Union, National Governments and Regulators, many of which require significant change programmes for implementation.

The technology infrastructure upon which the market is built is aging, with the core market systems having been introduced in 2018. This necessitates replacement and upgradation of aspects of the systems to ensure that they not only remain resilient but also to give us access to enhanced capabilities that are offered by more up-to-date technologies. Moreover, new opportunities have opened which would enable process automation and provide new functions to the market participants through exploiting new capabilities in areas such as Data and Analytics and collaboration tools. It is this context of evolution combined with some significant and radical changes which has framed the plan which we presented to the RAs in March 2024.

We are very pleased that the SEM Committee has embraced our view of the period ahead and reflected this in many of their proposals. However, a number of the Regulatory Authorities (RAs) proposals diminish or undermine the core regulatory framework that has supported the operation of the SEMO business. Therefore, if changes proposed to the framework within the DD, are carried over to the Final Determination, they will significantly undermine SEMO's financeability.

Framework

Financeability is a key tenet of a price control, yet several decisions have been made, that when considered collectively, in our view bring the overall financeability of SEMO into serious question and place SEMO at risk of being unable to fulfil its licence obligations. Indeed, the proposals set out in the DD appear to reflect a position that SEMO has no entitlement to fair remuneration and compensation for the range of activities and risks that it undertakes and should in effect provide its services on a complimentary basis. This position is reflected in:

- The intent not to update the Weighted Average Cost of Capital (WACC) until year 3 of the control, ignoring current macroeconomic conditions.
- The proposed removal of the collection agent margin, the inference that SEMO should be expected to take on both this activity and the risk associated with it 'for free'.
- The proposed restriction on potential rewards for good performance.
- The cumulative downside risks which are faced by SEMO through the proposed regulatory and incentive framework.
- The apparent unequal treatment faced by EirGrid plc and SONI ltd as shareholders in the joint venture which is SEMO.

Many of these issues are similar to issues decided by the UK Competition and Markets Authority final determination in the case of SONI's 2015-20 TSO price control, so it is disappointing that precedent from this case appears not to have been applied in the DD.

Furthermore, the proposals give rise to concerns as to understanding of the division of activities and basis of remuneration between the market and system operators, going so far as to suggest that remuneration of the system operator means that the market operator does not need to be remunerated. In our view, this implies a cross-subsidy between the system operator and market operator licensees, which respecting the licence requirements simply cannot be the case.

The RAs have an obligation to ensure the financeability of licensees, however it is not clear from the DD that a full and proper assessment of this, including formal stress testing of possible scenarios resulting from their proposals has been conducted.

Fortunately, this can be achieved through some straightforward changes to the proposed arrangements. Within this response we have put forward amendments and alternative proposals that should ensure the financeabilty of SEMO. We would urge the RAs to consider these carefully, to recognise the risk which SEMO faces in operating critical national infrastructure underpinning the settlement of the SEM and to take on board the principle that SEMO is entitled to be remunerated fairly for the role which it performs.

Incentives

Secondly, the RAs are proposing major reforms to the incentive arrangements, also known as KPIs. This includes introduction of a penalty element to the scheme and tightening of the targets, as well as breaking the link to the total OpEx cost so limiting the potential for reward.

In our view, this changes the nature of this framework from one which has been effective in promoting and delivering demonstrably the high performance of key customer-facing business processes to one which will offer little scope for upside and simply act as a penalty if our processes ever fail. Had the RAs wanted to lock-in existing performance levels then the introduction of a symmetric penalty/reward framework might be a rationale for this. However, by tightening the targets simultaneously, SEMO will be put in a position where a reward requires close to perfection, and we are penalised for minor process failures. Furthermore, given that we are entering a period of significant changes to market processes and systems, there will, almost by definition, be an increase in the number of queries or system downtime – tightening of targets in such a context is not reasonable.

If the RAs persist with the current proposals, the positive incentive properties will largely be removed and our response will become centred on avoiding penalties. If the RAs expectation is that SEMO should hit 100% performance across key processes, such as query resolution or system availability, then SEMO would need to be funded consistent with having the resources, capability and redundancy to meeting such expectations, which it currently is not.

Changes Required

While SEMO still believes that its original OpEx and CapEx requests as set out in the SEMO PC Submission represent what is required to deliver for the Market and believe that the additional information provided in this response further supports same, reconsideration of core elements of the underpinning framework by the RAs is essential prior to reaching a Final Determination. We consider that there are four changes that need to be made to ensure a financeable price control and provide SEMO with the level of financial resilience its customers expect and consistent with the secure operation of critical national infrastructure:

1. The proposed allowances for OpEx and CapEx need to be reviewed and increased so as to avoid the potential for an inevitable under-recovery that would leave the business unable to withstand any adverse events.
2. A margin should be reinstated in the allowed revenues to provide appropriate recompense for undertaking collection agent activities. It is proposed that at least a 25bps margin is included.
3. The allowed return needs to be calculated on a correct blended basis including the EirGrid TSO operational gearing margin (18.75 bps on collected revenues taking into consideration the ROI portion only). In addition, the updated allowed return values need to apply from year 2 of the control, irrespective of when decisions are made by the respective RAs on the TSO WACCs. For the SONI portion this will require an update for movement in market values to be made with potential ex post reconciliation when an updated WACC from SRP27 is available.
4. There needs to be recompense for the asymmetric risks. We have used 3% margin in line with the rate used in SONI TSO.

Conclusion

SEMO wishes to acknowledge the constructive and open engagement with the representatives of the Utility Regulator for Northern Ireland (UR) and the Commission for Regulation of Utilities (CRU) in considering our business plan.

There is much to welcome in the RAs proposals and we are pleased that the RAs have supported our vision together with our detailed plan for achieving these objectives. It is particularly important to the delivery of the Governments' policy objectives for the period to 2030, that the RAs, SEMO and Market participants are aligned in their vision of the future and wholly embrace the changes that will be required to realise these.

Considering this, it is critical that the RAs address the fundamental issues which SEMO has highlighted in the proposals for the regulatory and financial framework, such that SEMO can move ahead with delivering its commitments with confidence, playing its critical role in the decarbonisation of the electricity system, whilst being remunerated fairly for its contribution.

SEMO remains available to engage with the RAs as they move towards the Final Determination.

Contents

1. Introduction

In composing this response, SEMO has followed the structure of the Draft Determination and provided detailed observations while working through the individual chapters as presented by the RAs.

For clarity, we have largely avoided commenting on elements which we broadly agree with such as additional headcount, operational and project expenditure. The focus is primarily on areas of disallowance or disagreement, where we believe further discussion is required or additional information can be provided in support of our business plan. This submission is supported by accompanying documents as referred to therein.

Where disallowances have been made, we have sought to provide additional evidence to support our requests in Section 3 (Operational Expenditure) and Section 4 (Projects). We would ask that the RAs take additional information into consideration as they move to Final Determination.

Similarly, our concerns in relation to SEMO's financeability and the proposed changes to the regulatory framework and Incentives, are addressed in detail with supporting analysis in Section 5 (Incentive) and Section 6 (Financeability & the Regulatory Framework).

Moreover, whilst we welcome some of the proposed regulatory changes, such as introduction of an OpEx cost sharing mechanism and recognition of delta OpEx, there remains a secondary concern that the annual reporting and tariff setting process may become more complicated for both the RAs and SEMO. This has been outlined in Section 7 (Practical Operation of the framework). We believe that it would be prudent for us to discuss how such processes can remain streamlined to minimise the administrative burden associated with operating this price control.

Furthermore, the RAs have made a number of additional requests of SEMO, specifically requiring us to update our FY24 forecast to reflect the actual out-turn which is now available and both to reconfirm our expenditure forecast for FY25, and provide an update on progress in this year to date. We refer to Annex A in this regard.

It should be noted that, had the Price Control process run to schedule, neither of these additional requests could have been made, as such we will be disappointed if the RAs were to make any substantive changes to their proposals based on this additional information.

2. Context

In SEMO Price Control submission for the 5 year period FY25-29, dated 28 March 2024, (the 'SEMO PC Submission'), SEMO laid out its vision and expectations for the period through to September 2029. We are moving out of a period of consolidation into a period of uncertain but extensive change.

There are already major change programmes underway, such as Scheduling and Dispatch, and re-integration with EU markets on the horizon once the Celtic Interconnector goes live. Taken together, these will have a profound impact on the operations of the markets. However, there is also a pipeline of further change, driven by legislative/regulatory requirements as well as demand from the market participants to further expand the scope and capabilities of the markets.

SEMO will need to cope with this conveyor belt of change, with a focus on prompt and reliable delivery, whilst keeping the existing markets operating and reinforcing/upgrading the underlying infrastructure.

This twin-track of delivering change into the operation of the markets whilst strengthening the systems and processes which underpin this was at the heart of our plan, and we welcome that the RAs have endorsed this vision and approach in their assessment of our business plan.

3. Operational Expenditure

3.1 Labour costs

SEMO is generally satisfied by the proposals made by the RAs. We are appreciative of the recognition that the increasing scale and complexity of the market which we expect to witness will result in a greater workload for SEMO and that this needs to be reflected in SEMO's allowed headcount.

In terms of the average salary, which is critical to calculating the allowance for direct labour costs, we are pleased that the RAs have accepted our recommendation which we believe to be fair to our staff but also to the market participants who fund SEMO.

Whilst the RAs have only proposed a small reduction in our proposed headcount at the end of the period, when compared to the SEMO PC Submission, we would wish to emphasise the importance of appropriate resourcing being available for our Market Operations and Settlement functions:

3.1.1 Headcount in Market Operations

With the introduction of the Celtic Interconnector and additional European coupled auctions there will be increased trading operator requirements for SEMO. The trading desk operational activities will change from 4 auctions and 1 local continuous market (total 5 markets[1]) to 6 auctions and a coupled continuous market (total 7 markets[2]). In addition, the hours of operation of the desk will change from 7am-7pm to 7am-11pm (both 7 days a week), resulting in:

- A 40% growth in the workload, given the 2 additional auctions.
- A 33% increase in the length of the trading day

Extended hours will inevitably mean an increase in the rota needs for the trading desk. The rota will require 3 new SEMO resources to cover the shift patterns and to meet the additional market surveillance and balancing oversight requirements of the additional markets.

While the proposed 2.5 additional FTEs are a helpful addition to cover the new requirements, not having the full 3 SEMO resources will make it difficult to cover the necessary rota numbers adequately each day. It may also lead to a risk of issues with imbalance pricing not being identified or resolved as quickly as required, where issues with the auctions occurs at the same time and adequate resource are not available.

In light of this, we would ask that the RAs allow the full 3 resources requested for this team.

3.1.2 Headcount in Settlement

As set out in the SEMO PC Submission we have identified the need for an additional resource in Settlement during the period of the price control. The expertise on Settlement processes and billing resides in the Settlement team and we need to ensure we are fully resourced to support the range of strategic programmes underway. Having less than the required resources poses a risk that the inputs are not appropriately managed, and the solutions developed are not informed by the Settlement inputs.

The team will also need to continue to manage queries coming in during the period of the price control and ensure high quality service is provided. The volume of queries during the first quarter of ISEM was almost double the number during the remaining periods (over 800 instead of the usual 400-500).

[1] DAM, SEM-GB IDA 1,2,3 + local IDC

[2] SDAC, SEM-GB IDA 1,2, EU IDA 1,2,3 and coupled IDC

Responding to these queries is of high importance to the market participants and we need to secure the resources to be able to provide high quality responses.

As such we would ask the RAs to review their proposal to disallow 0.5 of the FTE sought to support the settlement functions.

3.2 Other OpEx cost disallowances

There are a small number of OpEx cost categories where the RAs have not accepted our proposals – these are discussed below:

3.2.1 IT Hardware and Software support

This cost category forms part of the allowance for IT and Telecommunications costs.

The RAs have proposed to disallow c.29% of our request due to a lack of justification for the increase in such costs we anticipate in the period to 2030.

The cost forecasts reflect our best estimate of the increase we expect to face over the five years of the Price Control. These costs are heavily influenced by our contracts with Microsoft and Oracle, both of which are due for renegotiation shortly. In our view, the increase in the size of the organisation, the strategic move to the Cloud and the large investments in the underlying infrastructure, including the purchase of new, more up-to-date software applications will all contribute to a step-change in the associated support costs. However, we acknowledge that deriving a precise estimate at this time is difficult.

We would ask that the RAs review their decision. The aforementioned contracts are central to many of the systems required by the market and insufficient provision would have notable impacts on SEMO's operation and other programmes. Should the RAs maintain their proposals and the costs outturn in the range of the SEMO estimate. The newly proposed OpEx cost share arrangement will by its nature mitigate windfall to SEMO should costs outturn significantly below forecast however, will conversely ack to penalise SEMO, not for overspend against an RA view of efficient cost but simply as of a difference of view on the potential scale of need at the outset. SEMO is happy to share updates with the RAs on contracts referred to above one know and should the RAs not believe a review their position is warranted we would welcome discussion on how any gap could be managed.

3.2.2 Business Resilience

In our business plan, we proposed to undertake a Business Resilience strategy study which is intended to inform our approach to ensuring business resilience, over the medium term, whether in terms of organisation, facilities, process and/or systems/technology. This would be likely to take the form of an OpEx study, using an expert third-party and hence was included within our forecast for Professional Fees.

We accept that the RAs did not feel that we had provided adequate justification for the expenditure associated with such a study. Given the extent of change, which is anticipated in the operation of the markets, and impending legislative requirements, such as the Critical Entities Resilience Directive, we will keep the requirement for this study under review. If we conclude that taking it forward becomes necessary, we will engage with the RAs on appropriate funding both for the study and then the implementation of any recommendations.

3.2.3 High-level Analysis and Design (HLAD)

SEMO notes the RAs proposal in relation to funding of HLAD and, whilst we welcome that the RAs have accepted the principle of SEMO being funded for pre-project analysis, planning and preparatory activity, we also appreciate the difficulty in deciding on the appropriate level of funding due to the uncertainty over what exactly might be required of SEMO.

Given the potential for legislative, regulatory and/or market change, which is anticipated over the period to 2029, as set out in in the SEMO PC Submission and subsequent discussion, and will largely be outside of SEMO's control, our primary concern is that the proposed ex-ante allowance proves insufficient and SEMO is left with a requirement to spend on such activity but without the funding to draw upon.

As a way forward, we can make the €4m allowance proposed in the DD work, but we request that the RAs make a mechanism available to SEMO whereby we can request additional HLAD OpEx funding should the original ex-ante allowance be exhausted. As any request for additional funding would only be driven by a need outside of SEMO's control, we would expect the funding not to be subject to the OpEx cost sharing mechanism.

3.2.4 IT impact assessments

Given the way in which technology is integral to SEMO's operations, any early-stage (pre-project) investigation of potential market developments is usually mirrored by an analysis of candidate high level solutions. Typically, this will include the development of comparative solution pathways, strengths and weaknesses of approaches, assessment of any necessary underlying technology enablers, prototyping, where appropriate, and indicative IT "Rough Order of Magnitude" cost analysis to assist in the selection of the most appropriate option. This analysis may be concerned directly with the impact of a proposed market change, but often will also need to consider the knock-on effect on other systems or processes.

This early-stage assessment is distinct from the formal impact assessment which is completed once projects have been commenced and activity is further advanced with the solution approach agreed and requirements well understood. Indeed this type of analysis is being increasingly requested by the RAs to support their assessment and consideration of funding requests.

For this reason, it is important that the IT function has access to funding to enable it to undertake appropriate assessments, as an OpEx activity, prior to the approval to initiate and take forward an agreed project. Given the unpredictable nature of when such assessments will be required, in most cases, they will be undertaken for SEMO by external service providers.

To enable such activities, an allowance of €300k/annum was requested for the four years from FY26 to FY29 to cover the associated costs. The RAs have proposed to disallow this funding in the DD.

We would ask the RAs to reconsider their proposed decision to disallow this cost in its entirety, as failing to fund this activity will have a serious impact on our ability to plan projects effectively, provide the RAs with the analysis of options increasing sought and will inevitably result in the risk of sub-optimal choices of solution being made leading to increased costs later in the delivery lifecycle of projects and the potential need for rework.

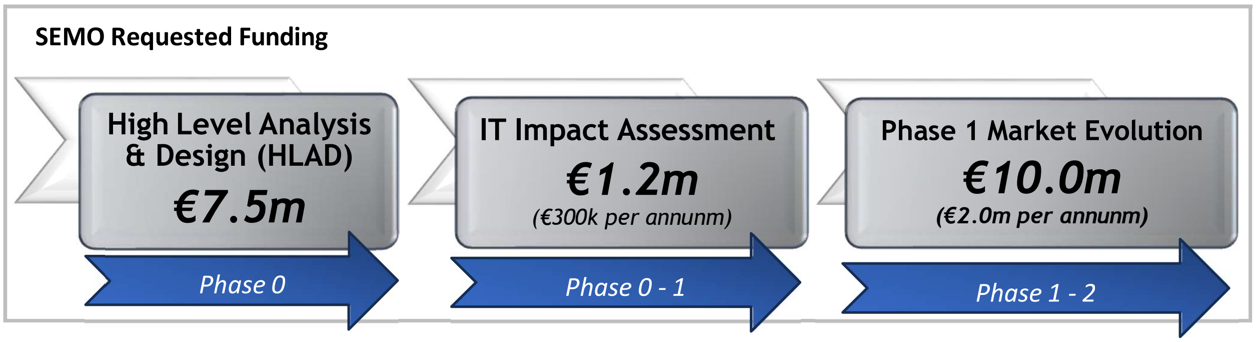
SEMO are happy to engage further as required.

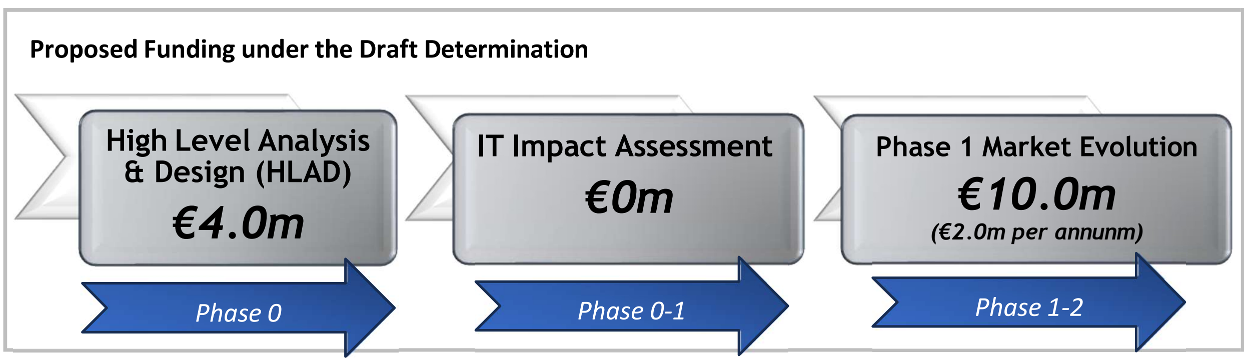
3.2.5 Attribution of Costs

SEMO would query if the proposed disallowance may be arising due to a misunderstanding of the attribution of the provisions requested to support the different phases of Project Development. In particular between HLAD and IT Impact Assessment requirements, which fall under OpEx, and the Market Evolution Provisions captured under Unpredictable CapEx.

The Project Phases followed by SEMO have been shared with the RAs and industry on a number of occasions and are set out again in Annex B.

We have summarised below the allowances sought by SEMO and the SEM Committee's proposed allowances as set out in the DD against the phases. As is evident below a key step in the process is proposed to be unsupported in the DD. This is outlined further in section 3.2.4 above. This is of notable concern to SEMO and we would ask the SEM Committee to reconsider their proposals in this regard.





4. Projects

Overall, SEMO is content with the RAs proposals on our planned programmes of Capital Investment and Cloud projects. We review the different categories of project below and provide any relevant comments:

4.1 Market Systems Releases

In terms of the Market Systems, we welcome that the RAs have proposed to fund these in full. We acknowledge that there is a desire amongst market participants for greater transparency over the change process and engagement in the delivery of new/amended functionality through the market systems releases. We understand this request and would be very happy to discuss with market participants, the RAs and other interested parties, how best to facilitate this, as we can see benefit for all concerned.

4.2 Predictable projects

Likewise, we were pleased by the endorsement of our plan for Predictable projects - the only exception being the disallowance of the majority of the year 1 costs associated with our Data Centre transformation project.

4.2.1 Data Centre Transformation

Having reviewed the business case, which was submitted, we acknowledge that it does not explain the year 1 costs as well as it might have done. We understand how the RAs have interpreted the year 1 costs as being primarily associated with tendering for the second co-located data centre, whereas the reality is that the majority of the cost will be associated with the purchase of hardware, comms links and other infrastructure for both new data centres.

As such, we have revised the business case to better explain the activities planned in year 1, and to show the phasing of activities for the two co-located data centres. The revised business case is provided to the RAs alongside this consultation response and, given the critical importance of this project, we would ask the RAs to reassess our proposal.

4.2.2 SEMO ERP solution

In addition, there is one other item which we would like to bring to the attention of the RAs.

During the 2021-24 price control, a project was commenced to replace the locally hosted Microsoft Dynamics based ERP solution with the new cloud-based version of Dynamics. This programme was structured such that the corporate implementation would proceed first, with a separate SEMO instance following afterwards.

It was anticipated that the SEMO instance would largely be completed in FY24 with only a small allowance being required in the first year of the new price control to cover concluding activities, and this was the basis upon which the forecast was submitted.

Subsequently, due to this project being one of our first major initiatives using Cloud technology, the corporate instance took longer to deliver and test than originally planned. The learning gained from this experience resulted in us modifying the approach for the SEMO implementation. As a result, this project has not progressed as rapidly as expected and additional effort will be required to conclude it. Having said that, the SEMO instance is now in user acceptance testing and we are confident it will be concluded this financial year.

The delay whilst waiting for the corporate instance to be deployed and the subsequent replanning of the SEMO instance has resulted in the need to reprofile expenditure with actual expenditure in FY24 being lower than forecast, at the time of the SEMO PC Submission, and greater expenditure being required in FY25. This change in the timing of costs is summarised below and has been reflected in the updated BPQ which is being submitted alongside this response:

SEMO ERP	Costs FY24 (€m)	Forecast costs FY25 (€m)
Original submission (Mar 2024)	2.000 (forecast)	0.861
Consultation response (May 2025)	0.925 (actual)	2.634

4.3 Unpredictable projects

The RAs proposals to allow SEMO's submission in relation to Unpredictable projects is very welcome. We believe that provision of the Market Evolution allowance of €10m (€2m per annum) will deliver real value to participants through SEMO's ability to be more agile and to move projects forward with confidence. As requested, we are providing additional information to the RAs on the governance and management of such project expenditure which can be found at Annex B. We hope that this is sufficient to enable the confirmation of the minded-to position.

4.4 Capex – Cloud OpEx exchange

Finally, SEMO would like to acknowledge the RAs decision to introduce a Cloud-Capex exchange mechanism, although we would appreciate confirmation that this will work in both directions, i.e. that an ex-ante Cloud OpEx allowance can be exchanged for the equivalent value of CapEx as has been set out for ex -ante CapEx to Cloud OpEx.

We believe that this is an important innovation in the regulatory framework which will mitigate the potential for bias towards either CapEx or Cloud OpEx solutions when new projects are conceived and designed. This flexibility will enable SEMO focus on arriving at the right technical solution consistent with delivering value for money to market participants and maintaining a coherent technical infrastructure.

5. Incentivisation

Key Performance Indicators (KPIs) have been an integral part of the regulation of SEMO since the introduction of I-SEM in 2018. Historically, the focus has been on delivery of key business processes, such as resolution of queries, timely issue of invoices etc, and it is clear from the improvements in performance, particularly during the 2021-24 period, that these have been effective.

We recognise that there is a desire amongst market participants to move beyond the current set of 'process metrics' to encourage SEMO to modify its behaviour and/or to provide greater value-add to participants. However, identifying suitable alternative metrics which meet the necessary criteria of being within SEMO's control, well-defined, readily measurable etc. has proved difficult.

We remain willing to engage with any proposed alternatives, but we would also suggest that process metrics should not be abandoned completely, as effective and efficient processes are fundamental to the operation of the markets.

5.1 Structure of Incentive framework

Given the difficulty in identifying new metrics, the RAs have proposed changing the structure of the existing KPI regime as follows:

- Introduction of symmetric penalties/rewards
- Breaking the link between the size of Operating Expenditure and the monies available by way of reward.
- Further tightening of targets

Whilst we do not object to these proposed changes in principle, they do need to be considered in relation to the overall financeability of SEMO – we cover this in more detail later in this response.

In addition, we would make the following observations in relation to the design of the framework

Firstly, a shift to a symmetric penalty/reward scheme is a fundamental change in the operation of the incentive framework. If this was intended to lock in the level of performance being achieved currently, then there would be a logic to this, but the RAs have also sought to tighten the targets limiting the scope for reward and heightening the risk of penalty.

Targets need to be stretching but also need to be achievable if they are to have meaningful incentive properties. The RAs have recognised that SEMO is entering a period where the market can expect to face significant change. Given this, SEMO will experience a significant increase in the number of queries it receives together with pressure on system availability due to the requirements for downtime to enable system enhancements. As such we are of the view that the RAs should either consider reverting to the Upper and Lower Bound targets proposed by SEMO associated with General Queries, Resettlement Queries and System Availability or alternatively provide a mechanism through which these can be re-baselined mid-period, if required.

Secondly, the effect of the proposed changes is to make the rewards more challenging for SEMO to obtain, and so it would be reasonable for SEMO to expect this to be reflected in the potential reward that is available. Instead, the RAs are proposing to break the link with OpEx and fix the value of the maximum reward arbitrarily at +/-€500K. It is vital that this value be further considered as it will be particularly important should following the consultation process the RAs propose to implement any additional incentives on SEMO. The limited upside may be further diluted if additional measures are added under a fixed limit, this would reduce the power of the incentive mechanism. Particularly where investment is required to improve performance, the incentive needs to be designed such that there is a reasonable prospect that investment in new tools or in changing processes will be returned in the form of incentive payments in order to be effective.

The RAs need to be mindful that, in reforming this framework, the impact of the KPI incentives does not change from one of driving improvement and sustaining high-levels of performance, to one of unrealistic expectations which punishes any small failure and where overachievement is not rewarded in a manner consistent with the economic value provided by a successfully operating market.

5.2 5.2 Incentive Design and Definition

The SEM Committee set out their incentive proposal in Table 6.4c of the DD. The RAs also presented their proposals against the SEMO proposal in a presentation to the SEMO Working Group on the 10th April 2025 (extracted below from Slide 20 of that presentation deck).

SEMO's Proposal vs RAs DD - KPIs 2025/26-2028/29					
Metric	**Weighting**	**Upper Bound**	**Lower Bound**	**Negative Floor**	**KPI Reward / Penalty per annum**
Invoicing	20% 25%	95% 100%	90% 98%	 96%	€200,000 +/- €125,000
General Queries (resolved within 15 business days) (resolved within 5 business days)	20% 25%	99% 99%	95% 95%	 91%	200,000 +/- €125,000
System Availability	20% 25%	99.9% 100%	99% 99.5%	 99%	€200,000 +/- €125,000
Resettlement Queries (upheld per Quarter)	20% 25%	<5 <3	<15 <10	 >10 <17	€200,000 +/- €125,000
Credit Cover Increase	20% Not supported	95% Not supported	90% Not supported		€200,000 Not supported
Maximum Available Reward Per Year	100% 100%				~ €1,000,000* +/- €500,000

While the DD has focused on the weightings and bounds of the respective metrics it is essential that the definitions and basis as to how the incentives are calculated are clear and accepted. SEMO set out the definitions and assumptions underpinning the respective proposals in Section 7.5 of the SEMO PC Submission. We understand that the SEM Committee is not proposing any changes to the Definitions and Assumptions underpinning for those KPIs proposed to be applied rather any changes pertain to the proposed Bounds, Weighting and Reward/Penalty appliable only.

We would welcome that in the Final Determination of the FY25-29 control, as was included in the Final Determination of the FY21-24 control that all aspects of the KPI are clearly set out that is the Metric, Definition, Assumptions Underpinning, Bounds, Weighting and Reward/Penalty. SEMO would welcome engagement with the RAs on this section of the Final Determination to ensure that there is commonality of understanding prior to finalisation.

Over and above our concerns with respect to the framework, SEMO would wish to make the following comments about the specific design and definition of two of the KPIs:

5.2.1 General Queries

This KPI is currently calculated based on the percentage of occurrences where a General Query is not resolved within 15 business days. Within the 2021-2024 Price Control, the business days in which General Query is not resolved was reduced in stages from 20 days in year 1, 17 days in year 2 and 15 days in year 3. The RAs have proposed to reduce the number of days in which a General Query is resolved from 15 days to 5 days.

With the introduction of the Celtic Interconnector and associated significant market changes, we anticipate a rise in the volume of queries and an increase in the complexity of the queries.

To provide some context for this, currently, in steady-state operation, we average approx. 400-500 queries per quarter and, typically, approximately 10 of these queries will fall outside the 15 days resolution window. In contrast, when ISEM went live, we had around 900 queries in the quarter, with 245 of these falling outside the 15-day window for resolution. It is reasonable to assume that, given the level of change we anticipate through the period, whether related to SDP, the Celtic Interconnector, the introduction of new asset types etc, we will routinely see such spikes in the number of queries. It will inevitably take time for SEMO to bring these numbers down to a sustainable level, reflecting a growth in understanding within the market.

In addition, the data used to set the target for the KPI needs to be consistent with how the KPI is assessed. In the DD, the RAs refer to the average resolution time for General Queries. Reviewing SEMO's performance in addressing General Queries on the basis of average time to resolve is not appropriate when the KPI is assessed on a per query basis, as while the average falls within the target, a significant volume of individual queries will fall outside of this target.

Given this context, we believe that the current KPIs for 15 days resolution should remain in place. We always endeavour to ensure queries are managed in an appropriate timeframe and would seek to resolve these queries under 15 days where possible.

5.2.2 System Availability

As is the case with General Queries, a period of change is likely to have an impact on SEMO's ability to ensure system availability. Whilst we will always endeavour to minimise any downtime, there is a reasonable probability that some will be required, either to introduce new functionality into the market systems or as part of our extensive work to replace and/or upgrade much of the underlying hardware and software infrastructure.

For clarity the Definition and Underpinning Assumptions for this Metric are included below. These remain unchanged form that in place under the SEMO PC FY21-24.

Definition - Availability of central market systems which the Market Operator has responsibility for according to their required availability. This is the ratio of the time systems are said to be in a functioning condition to the total time they are required to be available and covers the following;

1. Balancing Market systems on a 24-hour basis Monday to Sunday.
2. Settlement and Credit Clearing system between 9am - 5pm Monday to Friday.
3. Market Participant Interface on a 24-hour basis Monday to Sunday.
4. Registration system between 9am-5pm Monday to Friday.
5. Website availability between 8am-6pm Monday to Friday.

The system availability assumptions to be applied are:

i. Planned outages, planned releases and ad hoc releases that have an impact on measurement of this KPI are excluded.
ii. System Operator events beyond the control of the Market Operator are excluded from the metric.
iii. The overall calculation of system availability is based on the average of the measured availability of systems 1-5 in the KPI, however when reporting on this KPI the system availability should be provided for each of the 5 systems.

Against the above the definition and assumption the proposed parameters are summarised in the table below

System Availability	Weighting	Upper Bound	Lower Bound	Negative Floor	KPI Reward / Penalty per annum
SEMO's Proposal	20%	99.9%	95%		€200,000
DD proposal	25%	100%	99.5%	99%	+/- €125,000

In terms of the SEM Committees proposal SEMO acknowledges the proposed changed lower bound and introduction of the negative floor, however we do not agree with the proposed change to the Upper Bound. An Upper Bound of 100% is not appropriate. No Vendor would stand over or warrant 100% availability of a system and such a target would not be the norm for IT services. As such we would ask the SEM Committee to review their proposal for the Upper Bound and set this at 99.9%.

5.2.3 Invoicing and Resettlement Queries

SEMO notes the RAs proposals for Invoicing and Resettlement Queries.

5.2.4 Incentive on delivery of the programme of IT projects

SEMO is mindful of the desire of market participants to see the scope of KPIs expanded from a focus on BAU processes and the RAs have recognised that we have had a number of discussions about potential options, such as the timely delivery of market system change requests.

We are actively exploring internally whether we could define some form of incentive around the delivery of our programme of 'predictable projects' which has largely been allowed by the RAs in the DD. We look forward to discussing this further with the RAs and exploring its suitability for inclusion in the SEMO Incentive framework, noting above the need to balance any additional incentive in consideration of the overall scale of the potential KPI pot.

6. Financeability & the Regulatory Framework

In the SEMO PC Submission, SEMO made a series of proposals to modernise the regulatory framework to make it consistent with good regulatory practice and more appropriate to the increasing size and complexity of SEMO's operations.

We are pleased that the RAs have considered our proposals with respect to the regulatory framework and shown themselves to be receptive to change. Our understanding of the RAs' position is as follows:

Those accepted by the RAs:

- Capitalisation moved from 'as completed' to 'as incurred' – this is a sensible decision which brings consistency with the TSO price controls and will ensure more predictable cashflows to SEMO and reduce the requirement to carry the full costs of projects through to their completion.
- Cloud OpEx – Capex exchangeability – this is a prudent response to the change in accounting practise for Cloud projects. Importantly, it will also ensure that SEMO is not subject to any financial incentive to prefer Capex or Cloud when developing its IT solutions and hence the focus can be on identifying the best value for money solution.
- Retention of the remuneration of SONI Parent Company Guarantee – We are pleased that the RAs have confirmed this reflecting that this is a requirement under the SONI MO licence.
- OpEx cost sharing mechanism – This reflects modern regulatory practise and provides an important mechanism to manage risk in a time of uncertainty.
- Delta OpEx – We are pleased that RAs have accepted the principle that delivery of our investment programme will inevitably have an impact on the ongoing operating expenditure of SEMO.

Those proposed not to be endorsed:

- Refusal to cap ex-post disallowances or introduce a *Demonstrably Wasteful or Inefficient Expenditure* (DIWE) type mechanism – This is disappointing given that the use of DIWE is a well-understood approach to ensure fairness in ex-post assessment and has been accepted elsewhere in regulation, such as in the SONI TSO framework, where it was introduced during SONI's appeal to the CMA on the outturn of its 2015-20 price control, and was referenced as "appropriate" in the CMA determination[3]. Given the scale of our proposed CapEx programme, the proposed refusal to cap potential ex-post disallowances results in the risk of material disallowances after the event, which could lead to financial distress. This creates risk around the financeability of SEMO.

  We are surprised that the RAs seek to justify this on the basis that SEMO is not anticipating any cost disallowances – projects are rarely conceived on the basis of them exceeding their budget. If this is the RAs stance then going forward, it brings into question whether SEMO should in future apply a higher level of contingency when costing its investment projects.
- Update to WACC – We are puzzled that the RAs have not fully accepted SEMO's legitimate proposals that the existing WACC in years 1 and 2 should be updated to reflect known changes to factors, such as corporation tax rates, risk free rate, cost of debt etc. The RAs appear to oppose this as it may lock in higher interest rates for the remainder of the period, however perversely it is apparently acceptable for SEMO to remain subject to a WACC set when interest rates were significantly lower than current market conditions

[3] SONI Limited v Northern Ireland Authority for Utility Regulation, CMA Final Determination, November 2017, paragraph 2.66

It is wholly unreasonable for SEMO to continue to be remunerated using variables which are many years out of date and given the delays to the SONI TSO price control, we are concerned that the new SONI TSO WACC may not be confirmed in time for year 3 tariff setting, meaning that the majority of the Price Control could be operating under a WACC set in 2021.
As a matter of principle, SEMO has a legitimate expectation that the blended WACC should be updated from the point at which new TSO values are available, which may be at different points within the period, and with a true-up applied to reflect its application throughout the whole period.

- Margin – the RAs proposal to remove the payment of a margin betrays a fundamental misunderstanding of the role of margin in the SEMO business. It cannot be reasonable that SEMO is expected to undertake the role of collection agent without any recognition of the risks associated and appropriate remuneration to compensate.

Our concerns in relation to the treatment of the Cost of Capital and the wider question of SEMO's remuneration and financeability are elaborated upon in the following sections.

6.1 Remuneration of SEMO and Cost of Capital

In the DD the SEM Committee proposes the following key features for the remuneration of the SEMO business:

- Maintaining the use of a blended cost of capital from the SONI and EirGrid TSO price controls to set the allowed return, although these are only intended to be updated when new determinations are made.
- Maintaining remuneration for the PCG provided by EirGrid plc to SONI Market Operator at 2.5%.
- Removing all margins for the management and operation of cashflow variation and risks and provides no remuneration for the management of cashflow activities; and
- Providing no remuneration for the asymmetric risk which the regulatory framework proposes.

In our view, the proposals are wholly inadequate and fail to consider properly both the layers of capital employed in the business and the operational risk associated with the business's operation including delivery of its core functions as settlement body of the SEM.

In addition, from our discussions with the RAs, it appears that only a limited financeability assessment has been carried out to support the position set out by the SEM Committee. In that regard, the SEM Committee has failed to properly have regard to the duties which underpin the DD. This needs to be rectified as a matter of urgency ahead of Final Determination.

Specifically:

- The SEM Committee must update the Cost of Capital for the SEMO business for the prevailing conditions across the control period. It is not acceptable to provide for a WACC set in differing macroeconomic circumstances and a lower interest rate environment when this simply does not reflect the reality of the circumstances today.
- It is proposed to treat the EirGrid and SONI licensees differently: SONI will be compensated for operational risk through a higher asset beta but without an equivalent measure for EirGrid. Similarly, SONI is compensated for the need to hold a level of equity buffer through the Parent Company Guarantee, but no such arrangement exists for EirGrid. Given that both licensees face similar risks, this is without basis.

- The SEM Committee must address the factual inaccuracies in relation to the support for collection agent revenue activities; specifically, the SEM Committee suggests the capital to support the collection agent activities is remunerated through the EirGrid TSO and SONI TSO controls. This is not correct, nor could it be correct as it could be interpreted as a cross subsidy between licensees . The implication of this position is that SEMO should effectively carry out these activities **on a gratis basis**; this would be unacceptable.
- The SEM Committee must address the inherent contradiction in the DD concerning the asymmetric downside risk which SEMO is subject to by virtue of the regulatory framework. The framework provides only that SEMO can recover that which it has spent but is at risk of a level of disallowance in relation to costs efficiently incurred. This same truncated distribution was explicitly recognised by the Competition Markets Authority (CMA) with a margin of 3% of costs, and the additional protection of DIWE, provided for.

In the following sections, SEMO will lay out where it believes flaws and inconsistencies are present within the SEM Committee's proposals:

6.1.1 The Failures in adopting a blended approach to the WACC without considering Operational Risk

The SEM Committee have failed to consider the differences between the way that the cost of capital for SONI TSO and EirGrid TSO are set.

For SONI TSO, the UR set a cost of capital to reflect the fact that SONI experiences high operational gearing, whereas, in setting a cost of capital for EirGrid TSO, the CRU adopts a different approach by providing for the high operational gearing through the establishment of an additional revenue stream set at 0.25% of transmission revenues. It should be noted that this is entirely separate to the margins applied for the risks associated with collection agent activity or working capital facilities.

As SEMO also has high operational gearing, it is essential to include all revenue streams associated with higher operational gearing. Without the inclusion of all such elements, SEM Committee has failed to provide SEMO with an appropriate cost of capital.

The SEM Committee has two options to rectify this omission:

- Include a weighted 0.25% margin uplift on SEMO's revenues
- Amend the cost of capital for EirGrid TSO, in its application in the SEMO PC, to reflect a higher asset beta reflecting the operational risk in the operation of the SEMO business.

As the latter is outside of the remit of the SEM Committee we consider that the simpler and more transparent approach would be to reflect the CRU approach in setting EirGrid TSO's cost of capital and include a margin of 18.75 bps on collected revenue (25bps* 75% weighting for the EirGrid portion).

6.1.2 The Failure resulting from the Proposed Delay in applying new cost of capital rates

As noted in the DD, macroeconomic conditions and interest rates have changed significantly since the two TSO price controls were last set. Hence, if the current blended cost of capital is retained for Years 1 and 2 of the price control, SEMO will not earn a return which reflects current conditions.

SEMO recognises that under the current approach the SEM Committee can only update the allowed return finally once the current TSO price controls conclude. However, the new blended WACC should then be applied over the entire SEMO price control period, including a true-up for Year 1 of the control. This would be consistent with good regulatory practise and precedent, for example, this is the approach typically applied following CMA appeals that do not conclude in time to affect Year 1 of a price control.

To compound matters, the SONI price control has now been delayed by two years. This will mean that the WACC employed in the SEMO price control will not be able to be updated in full (noting that the WACC is changed in part once the EirGrid TSO WACC is determined) until 2026-27 at the earliest, which would leave SEMO earning a lower cost of capital than it should for at least two years and possibly longer.

Assuming that the SEMO and SONI price controls then continue on distinct five year cycles, this will mean that they are misaligned in timing with SEMO facing regular, extended periods where its allowed cost of capital is inconsistent with market conditions, potentially meaning that SEMO either faces financeability challenges, or conversely is over-compensated by consumers in future. This is not a sustainable approach nor is it in the interests of SEM consumers.

To mitigate this issue, SEMO proposes that firstly, the SEMC in their Final Determination confirm that the new EirGrid TSO cost of capital will be incorporated within the blended SEMO WACC, as soon as it becomes available, as has been the practice in the past. Secondly, the SONI cost of capital should be updated ahead of year 2 tariff-setting, in line with known changes in market data, so as to better reflect existing market conditions.

In the SEMO PC Submission, SEMO presented its view of such an update and estimated a revised cost of capital for SONI. This number is itself likely to be out of date at this stage, however once a new number is available from the SONI price control SRP27, this number should be used and backdated accordingly.

When taken with the newly determined EirGrid TSO WACC, this would enable the SEM Committee to derive a new blended rate for application in 2025 with retrospective application to year 1. We would also recommend that the margin for high operational gearing be applied alongside this change.

6.1.3 Margins

The price controls of both EirGrid and SONI TSOs and similar asset light system operator businesses such as the GB NESO, include a return on the RAB, to reflect the risks of investment, together with additional layers of revenue to provide for a return on working capital balances and a return for undertaking the collection agent activity.

The importance and necessity for compensation for collection agent activity was highlighted by CMA in the SONI appeal case – *"In the case of the collection agent functions, including that relating to managing volatile TSO and constraint costs, we do not consider that an approach which only reimburses any direct costs that SONI incurs or has incurred on an ex-post basis, remunerates SONI for the risk it faces. This activity of acting as a payment intermediary would not be undertaken by a commercial operator without additional reward…"*.[4]

Under the current proposals, no remuneration is provided for undertaking collection agent activity, yet no evidence is presented which demonstrates how anyone would carry out such an activity which exposes them to cashflow management, timing risks, fiduciary and reputational exposure without fair compensation.

This leaves the SEMO price control inconsistent with the approach adopted by both UR and CRU for the SONI TSO and EirGrid TSO price controls. It is erroneous to use the blended WACC from these two

[4] SONI Limited v Northern Ireland Authority for Utility Regulation, CMA Final Determination, November 2017, paragraph 7.205.

controls, which are supported by additional layers of revenue, without also providing a similar set of additional layers of revenue for SEMO.

This approach will mean SEMO will receive significantly less return for providing broadly the same type of services, and the approach both fails to remunerate key layers of capital and operational risk associated with the business. This discrimination is further exacerbated through the different treatment of both EirGrid and SONI as Market Operators which is covered in more detail later.

In addition, the DD asserts that EirGrid and SONI are remunerated for carrying out the SEMO collection agent activities through the TSO control. This is factually incorrect.

The SEM Committee's position appears to be based on a misunderstanding of which costs are included and recovered through the EirGrid TSO control. The costs that are recovered in the EirGrid TSO control are for the provision of the revolving credit facilities associated with the management of TSO cashflow exposures. Critically this recovery is for the cost of the facilities and not remuneration for carrying out the collection agent activities.

It may be that the SEM Committee believes that the WACC provided to SEMO remunerates SEMO for carrying out these activities. There is no basis for this position given that the WACC for both TSOs are determined on the basis of separate remuneration by way of margin for collection agent activities. Compensation for collection agent activities are provided as shown below:

SONI	- 50 bps uplift on collection agent revenues
EirGrid TSO	- 25 bps uplift on revenues for income variation
EirGrid TSO	- 24% of the relevant costs * WACC to remunerate for cashflow mismatch
EirGrid TSO	- direct cost recovery associated with standby debt facilities associated with the management of EirGrid TSO cashflows

It is SEMO's view that the SEM Committee should include a margin at least comparable with that which is provided to EirGrid TSO through its price control, although a higher allowance is likely to be required given the specific nature of SEMO's significant collection agent role and relatively small asset base.

For completeness it is noted that SEMO's margin has been calculated by reference to its collection agent activities across the Capacity Charge, Residual Error Volume Charge and Difference Payment Socialisation Charge only.

6.1.4 Failure of the Draft Determination to Propose Means to Address Downside Risk

The SEM Committee approach to the allowed return (cost of capital and margins combined) also needs to be considered given the wider context of the DD in which it is proposed to expose SEMO to greater downside risk through downside incentives.

The SEM Committee has proposed to make use of CAPM in setting the cost of capital. However, CAPM is based upon its application to a P50 position and symmetry in terms of the risk exposure around that P50. Neither applies in the case of what has been proposed for SEMO.

The proposals in the DD have the effect of subjecting SEMO to a downside only truncated distribution, and therefore 100% asymmetric downside risk. This is akin to that which was recognised by the CMA in the case of SONI and for which the CMA provided for a 3% margin to SONI to help mitigate/ facilitate assessment under CAPM. **The SEM Committee should be mindful of this important precedent.**

Furthermore, the DD is confused in that in one place it suggests that SEMO is not exposed to asymmetric downside risk in relation to costs because this is counter-balanced with asymmetric upside incentives[5] – yet the proposal on KPI incentives is to move from an asymmetric upside-only framework to a symmetric framework with much tightened targets.

No explanation has been proffered as to why the asymmetric downside position enables it to proceed to seek to utilise CAPM. This is because none is available, and the position is based on the inherent factual contradiction based on the position on incentives within the Draft Determination.

6.2 Financeability Assessment

The assessment of financeability is a critical element of setting price controls. Undertaken correctly and fully, it ensures that the licensee is able to undertake its regulated activities and provide the service that customers expect, even in the event of adverse events.

We have several concerns with the approach to financeability as presented in the DD:

- A no longer used Moody's document from 2017 is quoted as a reference
- The margin thresholds highlighted in the base case of 3-10% are inadequate to provide for appropriate financeability
- Although we understand that various scenarios were considered, the DD does not appear to include any formal stress testing, an important element of a financeability assessment.

As highlighted in the response to the cost of capital proposals, there is inadequate reward provided for SEMO's activities and this contributes to the inadequate financeability revealed in our analysis.

6.2.1 Commentary on DD financeability assessment

It is asserted in the DD that there has been a robust assessment of SEMO's financeability. However, no evidence is provided to support this beyond the production of various average metrics over the period and no evidence of any downside stress testing of metrics.

The DD states that the debt metrics are consistent with a Baa rating. However, it references an out-of-date Moody's source document from 2017, even though SEMO included a reference to the updated version in the SEMO PC Submission. As a minimum, the RAs should reconsider their assessment making use of this most recent Moody's guidance.

The use of traditional debt metrics is not useful in considering asset light businesses such as SEMO with low interest costs. It is essential that they are subject to stress testing as interest cover ratios in such businesses can change very quickly with small cost movements.

As highlighted in our business plan submission, based on Moody's rating guidance, the important measure to assess the financeability of asset light business is EBIT with a margin of 8-12% being considered appropriate for a Baa rating.

6.2.1.1 Base case analysis

To assess the financeability of the DD, we have included the following assumptions for the base case:

- SEMO costs are as per its business plan submission
- DD allowances and WACC are used to drive allowed revenues
- Neutral KPI impact

This produces the profitability metrics shown in the table below

[5] SEMO Draft Determination Consultation Paper (SEM-25-002) section 7.4 Asymmetric Risk, page 113

Base case	2024/25	2025/26	2026/27	2027/28	2028/29	Threshold
EBITDA margin	29.2%	29.4%	33.9%	36.8%	39.3%	-
EBIT margin	4.4%	2.3%	3.3%	3.1%	3.2%	8-12%
RAB / EBITDA	2.69x	2.94x	2.66x	2.44x	2.20x	-

This demonstrates unsustainably low profitability metrics with EBIT between 2.3-3.3%, with the step-up in 2026-27 reflecting an assumed higher WACC from that point, though this may occur later given the uncertainty of timing of the SONI price control.

It is clear that EBIT is materially below the 8-12% threshold level for a Baa rating and there is no headroom for any adverse eventualities.

Furthermore, we have disaggregated the EBIT between the SONI TSO and EirGrid TSO elements below. We have done this by allocating all revenues and costs in the geographic portions of 25:75, except for:

a) the PCG revenue, which is allocated 100% to SONI TSO; and
b) the return on the RAB, which is allocated in proportion to WACC for each business used in the blended WACC calculation.

Base case – EBIT Margin (%)	2024/25	2025/26	2026/27	2027/28	2028/29	Threshold
SONI - element	7.19%	4.76%	6.86%	6.63%	6.59%	8-12%
EirGrid - element	3.46%	1.42%	2.03%	1.88%	1.97%	8-12%

This demonstrates a clear and significant difference between SONI and EirGrid which is inconsistent with the two companies operating in a joint venture, facing the same risk profile.

6.2.1.2 Stress Tests

The primary purpose of financeability assessment is to ensure that the business is able to withstand plausible downside scenarios. Hence, any rigorous assessment of financeability should consider a number of stress test scenarios, as conditions can change rapidly and unforeseen events can occur, as has been seen in very recent history.

As such, two stress tests have been applied to the above base case position.

- A + 10% cost underperformance (with no capex disallowance)
- A max KPI downside scenario

The tables below show the results of these stress tests

Base case + totex underperformance	2024/25	2025/26	2026/27	2027/28	2028/29	Target
EBITDA margin	26.4%	27.3%	32.2%	35.4%	38.2%	
EBIT margin	2.6%	0.7%	1.8%	1.8%	1.9%	8-12%
RAB / EBITDA	2.89x	3.15x	2.81x	2.56x	2.29x	

Base case + KPI max downside	2024/25	2025/26	2026/27	2027/28	2028/29	Target
EBITDA margin	28.03%	28.42%	33.08%	35.98%	38.50%	
EBIT margin	2.89%	0.92%	2.05%	1.90%	1.98%	8-12%
RAB / EBITDA	2.85x	3.08x	2.76x	2.52x	2.27x	

Both of these scenarios are perfectly plausible given that the DD has proposed total OpEx allowances c.12% lower than requested and KPI performance is likely to come under pressure as we enter a period of significant change to the market operations and systems.

Under either of these stress test conditions; SEMO would have an EBIT very close to zero. A worse outcome could be envisaged if both events occurred together.

Clearly the base case position based on the DD does not produce a sustainable position or provide for the degree of financial resilience required by customers. This is before we even consider the fact that SEMO is employing additional capital and is exposed to additional operational, fiduciary and reputational risk for the carrying out of Collection Agent activities for which it is proposed it receives no remuneration whatsoever.

6.2.2 Improvements required for financeability

The analysis has highlighted that the base case situation does not provide for a financeable position and hence is unacceptable.

We consider that there are four changes that need to be made to ensure a financeable price control and provide SEMO with the level of financial resilience its customers expect and consistent with the secure operation of critical national infrastructure:

1. The proposed allowances for OpEx and CapEx need to be reviewed and increased so as to avoid the potential for an inevitable under-recovery that would leave the business unable to withstand any adverse events.
2. A margin needs to be included in the allowed revenues to provide appropriate recompense for undertaking collection agent activities. It is proposed that at least a 25bps margin is included.
3. The allowed return needs to be calculated on a correct blended basis including the EirGrid TSO operational gearing margin (18.75 bps on collected revenues taking into consideration the ROI portion only). In addition, the updated allowed return values need to apply from year 2 of the control, irrespective of when decisions are made by the respective RAs on the TSO WACCs. For the SONI portion this will require an update for movement in market values to be made with potential ex post reconciliation when an updated WACC from SRP27 is available.
4. There needs to be recompense for the asymmetric risks. We have used 3% margin in line with the rate used in SONI TSO.

We have not included any additional revenue to address the inequitable nature of only providing a return for the equity buffer through the SONI TSO PCG.

The inclusion of these elements result in the revised metrics included in the table below.

Proposed case	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**Target**
EBITDA margin	35.2%	35.8%	39.4%	41.9%	44.0%	
EBIT margin	**12.6%**	**11.1%**	**11.3%**	**11.0%**	**10.7%**	8-12%
RAB / EBITDA	2.04x	2.19x	2.10x	1.96x	1.81x	

With the revised approach, the EBIT margin is in the range of 8-12% required for a Baa rating to provide appropriate financial resilience.

We have then applied the same stress tests to this proposed base case, as shown below.

Proposed + totex underperformance	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**Target**
EBITDA margin	32.4%	33.4%	37.5%	40.3%	42.7%	
EBIT margin	**10.5%**	**9.1%**	**9.5%**	**9.3%**	**9.0%**	8-12%
RAB / EBITDA	2.10x	2.26x	2.18x	2.07x	1.94x	
Proposed +KPI max downside						
EBITDA margin	34.3%	35.0%	38.7%	41.3%	43.4%	
EBIT margin	**11.3%**	**10.0%**	**10.3%**	**10.0%**	**9.73%**	8-12%
RAB / EBITDA	2.13x	2.27x	2.16x	2.02x	1.85x	

As can be seen, these reasonable amendments to the DD result in a more robust position for SEMO and ensure that it is able to withstand adverse cost and KPI performance shocks.

7. Practical Operation of the framework

Whilst we welcome many of the proposed changes to the regulatory framework, it is important to ensure that the various mechanisms are operable on an ongoing basis and that they do not create an administrative burden which brings their value into question.

We believe that the design of the year-end processes is worthy of further discussion and would welcome the opportunity to explore this in greater detail, ahead of the tariff setting for year 2 of the price control.

The various issues associated with this are discussed in more detail in the following sections:

7.1 Transparency for Market Participants

We expect that the annual reporting process, and the associated assessment by the RAs, is likely to grow as a consequence of the greater scale of activity and expenditure which is envisaged for the new price control period. However, we remain committed to being transparent on both of these topics.

As we have indicated, we would be open to discussion, particularly with market participants, as to how we might give greater insight to them as to SEMO's operations and progress with our programme of investment with an emphasis on how it could impact upon them and their systems.

7.1.1 Market Release Reports

On a related topic, the 2021-24 Price Control determination required us to submit Market System Release Reports in the same month as the release and in a specified format - see below extract:

> *" Reporting to the RAs in the same month as the release takes place, including, as a minimum, the following:*
>
> *a. finalized scope for that release;*
>
> *b. detailing each change and the assigned vendor hours;*
>
> *c. clear indication of those changes which are market operator driven and those which are system operator driven*
>
> *d. clearly set out the hours and costs applicable to the market operator, showing the adjustments as necessary for the system operator driven changes eg scheduling and dispatch processes within the SEM systems."*

Given that the release could happen at any stage in the month, including the final day, submitting the report "within the same month" can be a challenge. It has become standard practice, accepted by the RAs, to interpret this as sending the report within one month of the release, however this requires us to explain in each such release report why it was not submitted 'on time'.

In the forthcoming Final Determination, we request that the RAs consider allowing two months for submission of the report following a Market System Release to allow SEMO the time to process invoices from its vendors and validate the number of associated hours against each release. At the very least, we would appreciate the requirement being amended to 1 month after a release, so that we no longer have to explain why the release report has not been submitted in the same month as the release. For the avoidance of doubt, we do not intend to make any changes to the scope of the report (points a. to d. above).

7.1.2 Cost Reporting

Given the increased levels of expenditure forecast for the period, we have questions over the current granularity of reporting and whether it provides a meaningful picture. This is particularly the case for

IT and Telecoms costs where the sub-categories of cost are often tied to historic suppliers or specific technologies but these no longer align readily with our actual expenditure.

As we invest in our systems during this period, upgrading significant parts of underlying technology stack, new areas of cost may become material whilst past costs for a specific sub-category may no longer provide a guide to future expenditures. We would welcome the opportunity to discuss this further with the RAs, so as to establish a reporting regime which provides the insight that the RAs require but more closely aligns with how we account for our expenditure. This will contribute to a more efficient and responsive reporting process.

7.1.2 Tariff-setting and Annual Adjustments

We do have some concerns as to how some of the proposed regulatory mechanisms might be implemented, particularly where an annual adjustment is envisaged and the implications of this for other annual financial processes.

Our interpretation of the Draft Determination is that the RAs are considering the adjustment of revenues both in response to the OpEx cost sharing mechanism and the reprofiling of Delta OpEx allowances, <u>on an annual basis</u>.

Whilst in principle we would support both actual expenditure and accurate forecasts being reflected in the setting of tariffs, we can foresee some negative aspects to this, as follows:

- Financial management may become much more difficult for SEMO as any adjustment to OpEx-related revenues may only be arrived at after the annual budgeting and planning rounds would normally be concluded
- Projects don't tend to exist neatly within tariff years and SEMO needs to have the flexibility to respond to factors, ranging from external requirements, such as legislation, to resource constraints within SEMO or our partners. Financial management will be complicated to little benefit if any adjustments to revenues are made when all that has happened is that the timing of a project has changed.
- Similarly, given the length of the price control period, it is inevitable that our operating expenditure will vary from our forecasts made in 2023/24. It is questionable what the benefits would be of seeking to mirror any such variations on an annual basis, rather than applying one adjustment to reflect our overall expenditure at the end of the period

It is our concern that the tariff setting process itself will become more complex and time consuming with resource implications for both SEMO and the RAs, and the tariffs may become more volatile leading to uncertainty for market participants over charges and for SEMO in the revenues that it can expect to receive

In light of the above, whilst SEMO is content to apply the cost-sharing mechanism on an annual-basis, more predictability and stability of tariffs (and revenues) might be achieved through only applying any adjustments related to delta OpEx allowances as part of an NPV-neutral true-up at the end of the period. This will enable SEMO to proceed with delivery of its business plan, within the overall price control envelope, so avoiding an undue focus on the inevitable variations in actual expenditure, up and down or the precise timing of that expenditure. This should have the benefit of reducing the potential for volatility in tariffs from year to year which we believe would be of value to participants.

7.2 The PC Process

SEMO wishes to acknowledge the constructive and open engagement with the representatives of the Utility Regulator for Northern Ireland (UR) and the Commission for Regulation of Utilities (CRU) in considering our business plan

We would however note the significant delay in assessing the SEMO PC Submission which has resulted in the need to rollover arrangements from the previous price control period into year 1 of the new period which commenced on 1st October 2024.

We appreciate that the RAs have kept us informed of progress throughout the period since March 2024, when we submitted our business plan, and understand that this has been caused by resourcing issues within the RAs. It is worth highlighting however, that this has caused uncertainty within SEMO and additional burden on our staff due to the unanticipated overlap with other large-scale works, and on the supporting frameworks in place with our consultants. Given the central nature of price controls to enabling the activities of regulated entities, we believe that the RAs should consider measures to ensure that such occurrences are mitigated in the future.

Annex A – Progress in FY25

In the Draft Determination, the RAs have requested the following updated information, reflecting the fact that considerable time has passed since SEMO made the SEMO PC Submission:

- An update to our forecast for 2023/24 expenditure, replacing this with the actual out-turn for the year
- A revised forecast for 2024/25 expenditure
- A narrative describing progress in delivery of our year 1 objectives, given that we are now approaching halfway through the tariff year

Taking each in turn:

- An updated version of the BPQ has been provided alongside this consultation response. This includes the actual out-turn from FY24, together with revised estimates associated with delivery of the SEMO ERP project. Furthermore, to align with the proposals in the Draft Determination, this BPQ has been constructed on the basis of 'RAB as incurred' and hence any assets under construction being carried forward into year 1 of the period have been treated as if they are to be added to the RAB in year 1.
- In addition, whilst the costs of the Scheduling and Dispatch programme are outside the scope of the Price Control, we have reforecast the RAB additions associated with this programme based on the actual costs incurred in 2023-24, and revised forecasts for 2024-25 and 2025-26.
- Given that we are only halfway through the year, and in the absence of a Final Determination of this price control, SEMO has opted to reaffirm its forecast for FY25.
- The following table provides a summary of progress, c. end of March 2025, against our programme of predictable projects. Included below same is a copy of the information shared with the RAs and Industry at the 6th SEMO Focus Group held on the 10th April.

Programme/project	Current status
Market Releases	Release N will go live shortly and is largely devoted to functionality associated with Tranche 1 of SDP which is currently in test. 2 CRs will also be delivered. Release O will follow in the Autumn and largely consist of Tranche 2 of SDP. It is anticipated that other CRs will be delivered as capacity allows. In parallel with the market releases, various upgrades to operating/database software and refresh of hardware and environments are planned for this year.
SharePoint Document Management Tool	Awaiting implementation of SharePoint Online, as part of the Digital Workplace programme, which will then be followed by a gap analysis to assess the suitability of using it as a platform for development of the Document Management Tool
Audit and Compliance Tool	Awaiting the final determination before the commencement of this project will be scheduled

Data Centre Transformation	Following agreement of the necessary contracts, the first data centre is currently being fitted out with test equipment. The approach to selection of the second data centre is currently under discussion following a tender process. It is hoped that we will be able to move to contract on this data centre shortly. This will then be followed by ordering of the necessary equipment/software and comms links.
Market Technology Enablement	This programme is divided into a number of workstreams: The study of medium-term requirements for market environments will commence its analysis phase in this quarter. A CR has been drafted in relation to long-term needs for market data management and access. This is currently in final review ahead of submission to Hitachi Energy.
Advanced Cyber Maturity	[redacted]
Data, AI and Analytics	The EirGrid Data strategy is being refreshed and expanded to include new technologies that have emerged. As part of this initiative an AI policy is

	being developed for inclusion. Data Governance will be refreshed to align with these revisions and ensure compliance with relevant legislation and national guidelines. This revision is expected to be implemented by mid-summer. The Enterprise Data model has been updated to reflect the Use Cases that have been deployed to date. In addition, a roadmap of use cases is being developed which will inform future changes to the Data Model. Data Hub capability including development and test facilities and a sandbox for Proofs of Concept is being delivered to enable the industrialisation of use cases and the trialling of new and innovative technologies and techniques. The Quarterly FMD use case is in production and work is beginning on the Annual FMD use case.
Digital Workplace	This programme consists of a number of separate workstreams, as follows: Cloud foundations are in place with additional capability being developed to enable industrialisation of use cases via a development and test environments. In addition, a cloud based sandbox will also be provisioned which will facilitate the incubation of new technologies. The SharePoint online migration is running to schedule with directorates across the organisation being migrated on a phased basis to minimise operational impacts across the business. This project is on track to complete in September. Several solutions have been deployed using the MS Power Platform suite, the SharePoint migration project being the main driver of these as we migrate from SharePoint on-premises to SharePoint online. We are planning for further expansion of the Power Platform, particularly in relation to digitisation, automation and data sharing. Co-pilot has been deployed to a limited number of users for evaluation purposes. Alongside this, an Artificial Intelligence governance framework and usage policy are being designed which will provide guidance around the use and governance of AI systems and which will align with the EU AI Act. Note: the EU AI act stipulates that training must be provided to users who develop or deploy AI solutions. A project to deliver additional datapoints (e.g. solar actual and forecast) to the SmartGrid dashboard and its migration to a refreshed, cloud-based technology platform is underway and on schedule to complete in May. The upgrade to the SEMO website went live in March 2025.

Integration Modernisation	Upgrades to Oracle Middleware and GoAnywhere have been completed Data Abstraction Layer (aka Operation Data Hub) is established with other datastores in the process of being consolidated. Work is underway to increase the resilience of this platform An API Gateway has been deployed as a proof of concept (POC) and trialled using the GDX Migration. A project to take this POC forward and industrialise it will shortly be established. Procurement of the Strategic Platform (Event Platform and Hybrid Integration Platform) will commence this financial year.
IT Service Transformation	The core element of the Service Transformation business case is the delivery of a new Service Management platform. A competitive tender process for the procurement of this platform is currently nearing completion. This solution will be used to deliver the Asset Management (incl. Configuration Management Database) and IT Service Management Toolset Implementation as described in the Business Case with delivery to commence this year. Separately a Proof of Concept is under way assessing the expanded use within the organisation of Splunk for use in monitoring, alerting and event management, if successful the POC will be followed by implementation. The delivery of these components will be followed by delivery of the remaining business case components, “Capacity Management, Planning and Forecasting”, ”Process Automation Toolset” and “Enterprise Architecture Management”. This has been phased as there is potential that the Service Management Tool can be expanded to cover these additional needs in a single platform.
Market Infrastructure	A refresh of virtual production systems is currently underway, with a further phase covering non-production systems to follow later this year Also, equipment has been purchased to enable a refresh of the environments housed at the vendor (Hitachi Energy). This is in the process of being shipped to the vendor ready for installation.
SEMO ERP solution	The solution has completed development and is currently in user acceptance testing. The project will go live this year.

The table and information below is a copy of that shared with the RAs and Industry on at the 6th SEMO Focus Group held on the 10th April – Slide 10. It set out the FY25 Project Spend Update to End Feb 2025. As noted on the slide the figures are PROVISIONAL and SUBJECT TO CHANGE

SEMO CapEx and Cloud Spend (indicative)	2024/25 CapEx Forecast FY25 Spend + Forecast AUC at end FY24 per PC submission (Indexed to Mar 2024 Monies)	2024/25 CapEx Actual Spend 01 Oct 24 – 28 Feb 25 + Actual AUC at end FY24 (2024 monies)	2024/25 Cloud Forecast Spend per PC submission (Indexed to Mar 2024 Monies)	2024/25 Cloud Actual spend 1 Oct 24 to 28 Feb 25 (2024 monies)
	AUC + 12 Months	AUC + 5 Months	12 Months	5 Months
Strategic All island Programmes (€'m)	**9.31**	**6.22**		
Strategic Markets Programme (TBC)	TBC	TBC		
Scheduling and Dispatch	9.31	6.22		
Total System Release Capital (€'m)	**1.65**	**2.97**		
Market System Releases	1.28	2.65		
Market System Release Support	0.37	0.32		
Total Predictable (€'m)	**9.07**	**1.05**	**4.11**	**1.42**
Data Centre Transformation	1.92	-		
Advance Cyber Maturity	0.33	0.13		
Data, AI and Analytics	0.59	0.10	1.54	-
Digital Workplace	0.14	0.22	0.65	0.08
Integration Modernisation	0.20	-	0.48	-
IT Service Transformation	0.01	-	0.07	-
Market Technology Enablement	0.98	0.19		
Markets Infrastructure	4.90	0.41		
SEMO Finance System / ERP			0.89	1.34
Audit and Compliance Tool			0.09	-
SharePoint Online Mods Documentation			0.38	-
Total Unpredictable (€'m)	**2.16**	**1.02**		
Unforeseen hardware and software upgrades	0.10	0.04		
Market Evolution (Known Unknowns - Legislative/Regulatory changes etc)	2.06	0.00		
Greenlink	0.00	0.98		
Total Capital and Cloud(€'m)	**22.19**	**11.26**	**4.11**	**1.42**

Notes:

- The forecast figures reflect SEMO's Submission indexed to 2024 monies. It does not reflect the Price Control Draft Determination. Future updates would reflect the Final Determination decision indexed as required.
- As the RAs have proposed to allow RAB as incurred – there will be a correction to capture all AUC at the end of FY24 onto the RAB in FY25. The Forecast CapEx thus reflects the forecast spend in FY25 at the time of submission of the PC and the forecast AUC at the end of FY24 at that time.
- Actual figures are indicative
  - For Cloud they reflect the spend in the first 5 months of FY25
  - For CapEx they reflect the actual AUC as at the end of FY24 and the spend in the first 5 months of FY25.
- The figures shown for the Market System Releases and Market Systems Release Support are the release costs that accrue to SEMO only.

Annex B – Project Governance and Management

As discussed, in the section on Unpredictable Projects costs, earlier in this document, SEMO is pleased that the RAs have recognised the validity of SEMO's case for a Market Evolution allowance to initiate and develop Capital projects prior to and during consideration of a funding request made to the RAs.

The RAs requested additional detail be provided of SEMO's project governance and management arrangements which is provided below. However, it should be noted that this only provides a sample of what is available. These materials are held on an internal SharePoint site where they are available to relevant staff and where version control can be maintained. The RAs would be welcome to examine this site if that would be of value:

Introduction

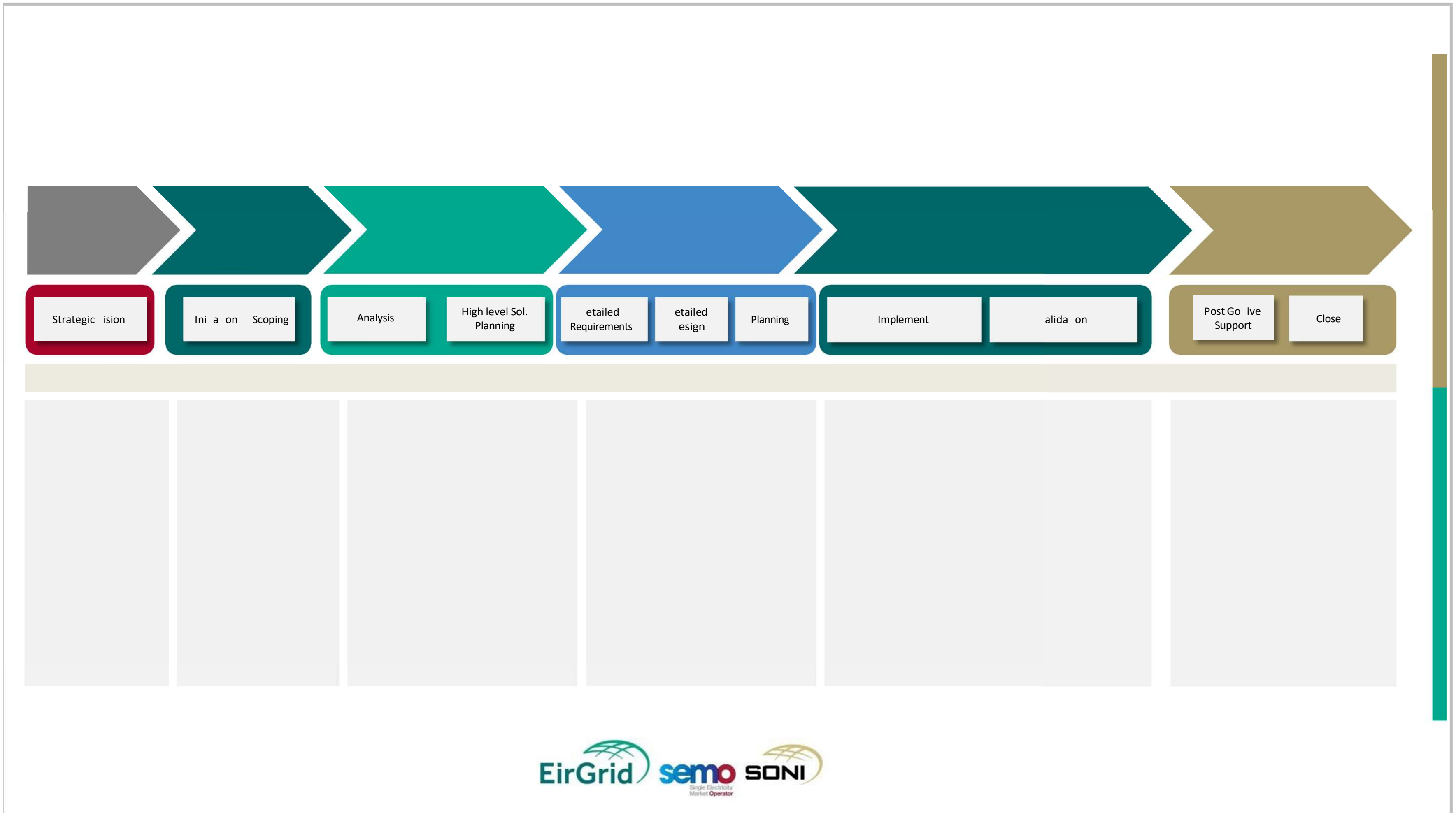
The period to 2029 will be one of major transformation for SEMO, with much of this change being driven by legislative and regulatory change. SEMO is obliged to facilitate such changes in a way that promotes an effective market.

Our key portfolios, programs, and projects typically have cross-functional and cross-directorate dependencies as well as having to integrate with the existing operating model. To support this, a standardised phasing framework was implemented to ensure consistency and accuracy and to ensure a common end-to-end (E2E) delivery approach.

Multiple programmes are currently moving in parallel with cross-directorate dependencies.

It is essential that the framework and approach to governance and funding are well understood to ensure that there is clarity and central oversight of all programmes, not only in terms of scope but also expenditure evolution, approval and cost monitoring, work to implement requirements, many of which are timebound in terms of delivery.

To maximise efficiencies and to ensure coordination across the workstreams and licenced entities all programmes will be delivered on a holistic basis, with outturn efficient costs allocated across the respective Licensees aligned to the phasing framework.


Strategic ision
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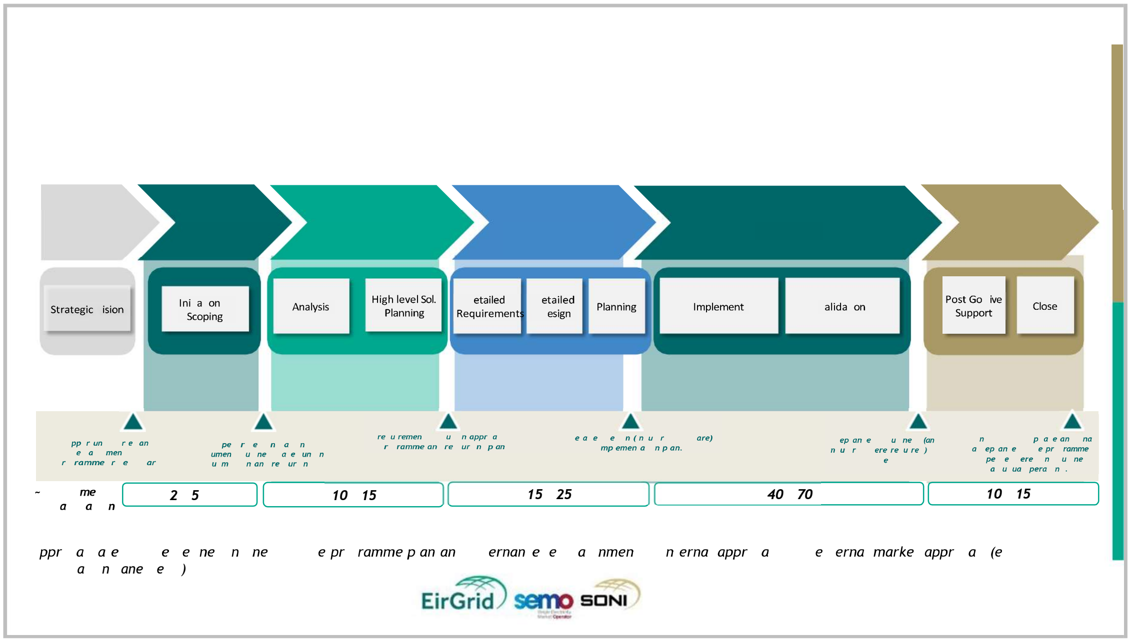
Project Governance

Robust governance and management structures are required to support and enable successful project delivery, including clear project roles and responsibilities relating to the Project Management activities.

Programme/Project governance is designed at project mobilisation during the Programme Initiation Stage (Phase 0). The governance structure is detailed in the Project Initiation Document (PID) which is drafted at this point.



For programmes or large projects, a Steering Committee and Programme/Project Board will be established to provide governance and oversight.

The **Steering Committee** is responsible for the successful outcomes of the project. It provides executive oversight, advocacy, support and decision-making to ensure the project remains on track and successful through the project lifecycle. It is also tasked with ensuring that effective governance is maintained.

The primary roles and responsibilities of the Steering Committee are typically to make project-related decisions, such as:

- Technical and Business Readiness Status (Go/No-Go Decisions)
- Baselining and re-baselining
- Significant change requests (scope, schedule, budget and benefits)
- Ratifying the project Business Case prior to escalation for approval, if appropriate
- Ratifying decisions and assumptions from other governance fora, if appropriate
- Ratifying the communications strategy

The **Programme/Project Board** is responsible for delivery of the agreed project scope, management of the allocated budget, and operating to agreed policies and procedures. All programmes/projects will have a programme/project board, or report into a parent programme/project board. In the absence of a formal programme/project board, the project should instead report into an appropriate governance forum.

The primary roles and responsibilities of the Programme/Project Board will be to monitor the progress of the programme/project, making decisions or providing guidance to the project manager as required, including:

- Monitoring the project schedule to ensure achievement of key milestones and benefits delivery and realisation
- Monitoring project financials against approved budget
- Monitoring availability of resources
- Reviewing project risks to mitigate potential impacts
- Managing and approving changes to agreed scope

In each case, issues may be escalated to the Steering Committee if appropriate, either for decision/actions or for information.

For some smaller projects, there may be no steering committee, and the project may report ultimately into some other governance forum. In such circumstances, the programme/project board may take on many of the responsibilities of the steering committee, as follows

- Technical and Business Readiness Status (Go/No-Go Decisions)
- Baselining and re-baselining Significant change requests (scope, schedule, budget and benefits)
- Ratify the project Business Case prior to escalation for approval, if relevant
- Ratify decisions and assumptions from other governance fora, if relevant
- Communications strategy

In addition, projects may identify other bodies such as local business forums, design forums, management committees and/or governance forums which will form part of the Governance Structure.

Programme/Project Gateways

The Project Management Framework was created and implemented to provide the structure and guidelines to deliver successful projects consistently. The Framework outlines how projects will be delivered and defines the appropriate level of governance required for projects based on size, scale and complexity.

This framework is intended to be a practical guide for project managers and project resources.

Prior to any programme/project progressing from one phase of the programme/project to the next, specific strategic stage/phase objectives, requirements and documentation must be completed and reviewed by the respective Steering Committee/Programme Board. The various outputs for each phase are:

Phase 0 – Initiation

- Finalise the Project Brief
- Prepare a Project Concept Business Case using the detail from the Project Brief
- Outline the scope, objectives, delivery approach

- A rough order of magnitude (ROM) of costs
- Outline Benefits, Risks, Assumptions, Constraints
- Create Stage plan and a high-level overall project plan
- Gain approval from the Programme/Project Board to proceed
- Pre-Project Capital Approval funding request

Phase 1 – Analysis & Planning

This stage is where the fundamental planning and design activities are completed. The primary objectives are to assemble the project governance structure and team members, to engage with key stakeholders and to complete the outline analysis, design and planning. Typical activities will include:

- **Gap Analysis:** Comparing intended future state vs. current state of the system/process where appropriate to produce key business and technical requirements for the target future state.
- **Solution Design:** Identifying a solution which will deliver the future state business & technical requirements at an acceptable quality, cost and timescale.

Before exiting this stage, a High-level Requirements and Solution approach must have been defined together with a high-level Programme and Resourcing Plan and the required approval of either the Steering and/or Board obtained.

Please note: The project cannot commit to any expenditure or supplier agreements until Capital has been approved.

Phase 2 – Requirements & Design

This stage is where the detailed planning and design activities are undertaken. The primary activities are designed to identify the detailed requirements, the design and baseline, as follows:

- **Solution Design:** Is the process of taking on and developing the identified solution which will deliver the future state business & technical requirements at an acceptable quality, cost and timescale.
- **Project Planning**: Prepare and baseline the project plan (including costs, schedule, risk and quality strategies, assumptions and resources) which will deliver the designed solution and the target outcomes and benefits.

Detailed planning is the process of analysing the approved design and scope of work and breaking them down into key deliverables. These are then developed into a detailed project plan, which includes a schedule with milestones, proposed expenditure and resource requirements, risks, issues and target benefit.

Before exiting this stage, approval must be obtained by either the Steering and/or Board to proceed based on the detailed requirements, design, and baselined plan.

At the conclusion of this stage, the project should have a sound basis for preparing a Stage 3 business case and winning next stage funding (Pre/Full Project approval). Once approved by the Project Approval Board, the business case will include baselined benefits, budget, schedule and scope.

The project cannot commit to any expenditure or supplier agreements until a Stage 3 Capital case has been approved.

Phase 3 – Execution

This stage is where development and implementation occurs with a strong emphasis on managing and controlling the project's baselined deliverables, managing the daily work of the project team and the stakeholders' expectations. In addition, the project team will typically be communicating and reporting the project's progress against the plan and working together with the business to enable acceptance of the change is an important aspect of this stage.

The approved Business Case contains the baselined metrics, which is comprised of the project's Scope/Outputs, Schedule, Cost and Benefits. These are subject to change control, which requires the review and approval by the appropriate forum.

Certain projects may require multiple Business Cases during this stage, depending on project complexity and duration. Each subsequent business case will further baseline the project.

Phase 4 – Acceptance & Close

Project closure commences once all the project's deliverables are accepted by the business and the operational teams. When Price Control funded projects enter the closing phase they are required to follow a formal closing process.

The activities can commence once approved by the appropriate governance forum. The project will have specific activities and artefacts that they must complete and produce to enable them to successfully close the project. Where there are multiple projects within a programme, each must be separately closed.

There are three stages to project closure as follows:

- ***Preparing for project closure*** – This stage includes several financial closure steps including ensuring all timesheets are submitted, all outstanding invoices are received, POs are cleared and a reconciliation against capital approval is performed. If additional funding is required, the project must obtain approval from the Project Approval Board/Seek Capital Approval before submitting their Project Closing Report. There are a number of non-financials steps also in the preparing for project Acceptance and Close stage e.g. Lessons Learned, Project Archiving etc.
- ***Project closed (awaiting asset capitalisatio****n)* – This stage includes the submission of the Project Closure Notification Form by the Project Team, which initiates the asset capitalisation process.
- ***Project closed (asset capitalised)*** – The capitalisation of the asset is completed by Finance in this stage and the project status is officially moved to closed.

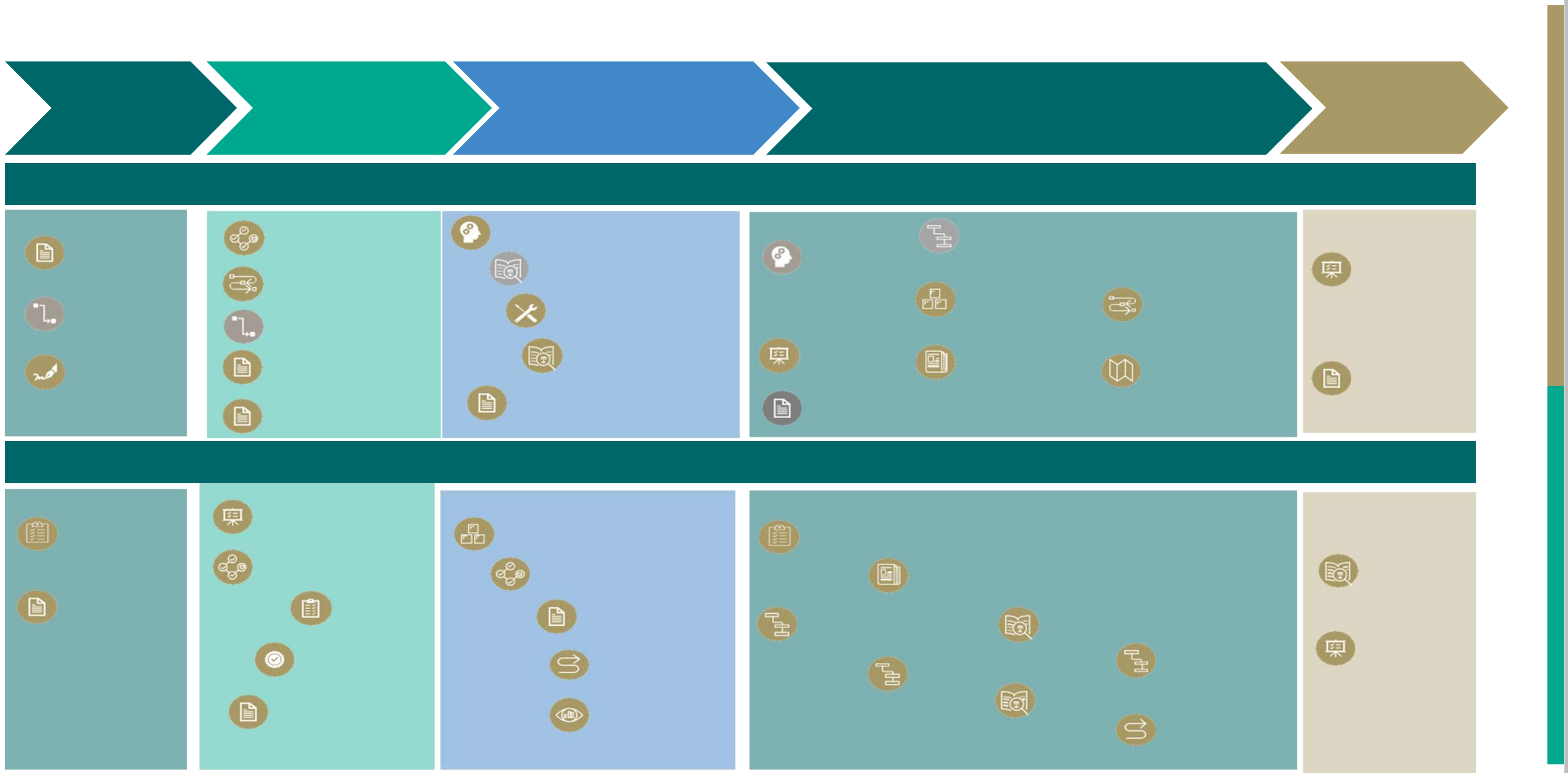
The closure process also requires that the project is reviewed against its original objectives, with the aim of providing useful feedback that will help manage the delivery of future projects. The lessons learned from projects enable us to identify opportunities for continuous improvement to our ways of working, providing the opportunity to review processes, methodologies and to develop new skills.

Maintaining a record of past project documentation serves as a source of reference material for members of the change community and the wider enterprise. At project closure the Project Manager is required to review all project documentation and identify what needs to be retained for record and audit purposes.

By closing projects successfully, the control environment is supported and ensures end-to-end governance.

Supporting Documentation

Below is a non-exhaustive representation of various supporting documents, which might expect to be drafted during the Project Management Lifecycle. These would all be saved for record and audit purposes:



Glossary

BPQ	Business Plan Questionnaire
CAPM	Capital Asset Pricing Model
CMA	Competition Markets Authority
CRs	Change Requests
CRU	Commission for Regulation of Utilities, Ireland
DAM	Day Ahead Market
DD	Draft Determination
E2E	End to End
FD	Final Determination
DIWE	Demonstrably Inefficient or Wasteful Expenditure
HLAD	High-level Analysis and Design
IDA	Intra-day Auction
IDC	Intra-day Coupling
I-SEM	Integrated Single Electricity Market
KPIs	Key Performance Indicators
MO	Market Operator
PCG	Parent Company Guarantee
RAB	Regulatory Asset Base
RAs	Regulatory Authorities
SDAC	Single Day-Ahead Coupling
SEM	Single Electricity Market
SEMO	Single Electricity Market Operator
SIEM	Security Information & Event Monitoring
UR	Utility Regulator, Northern Ireland
WACC	Weighted Average Cost of Capital