



An Coimisiún
um Rialáil Fóntais
**Commission for
Regulation of Utilities**

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Commission for Regulation of Utilities

Offshore Revenue Model – EirGrid

Decision Paper

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CRU Strategic Plan 2022-24

Our Mission <ul style="list-style-type: none">• Protecting the public interest in water, energy, and energy safety.	Our Strategic Priorities <ul style="list-style-type: none">• Ensure Security of Supply• Drive a Low Carbon Future• Empower and Protect Customers• Enable our People and Organisational Capacity
Our Vision <ul style="list-style-type: none">• Safe, secure, and sustainable supplies of energy and water, for the benefit of customer now and in the future	

Executive Summary

This paper sets out the Commission for Regulation of Utilities (CRU) decision on the Offshore Revenue model to be applied to EirGrid in its new role as an Offshore Asset Owner (OAO). The term OAO in this paper is used for the purpose of defining the offshore revenue model only. The term OAO includes all offshore activities of the Transmission System Operator (TSO), i.e., EirGrid.

The key aim of this decision is to provide a robust and stable regulatory model that protects electricity consumer interests, enables EirGrid to raise the capital that it needs to finance its investment in the offshore network, and ensures transparency and effective performance from EirGrid in the delivery of its offshore activities.

This decision outlines the financial building blocks that underpin the offshore revenue model. It also sets out the requirements for greater transparency on how EirGrid allocates costs related to offshore matters. The decision further sets out the need for enhanced reporting in order to monitor EirGrid's overall delivery of the offshore targets. The CRU considers these decisions vitally important to protect consumer interests, the independent functions of the TSO and delivery of Ireland's offshore ambitions.

The decisions on the offshore revenue model are taken now to ensure EirGrid can progress the delivery of its offshore programme and to provide confidence to the offshore supply chain, financiers, etc., who will collectively support EirGrid in its delivery of the Governments offshore ambitions.

As reflected upon in the Offshore Revenue Model consultation (CRU202411) and the Call for Evidence papers (CRU2023105), the CRU considers that EirGrid requires significant levels of equity investment to support the delivery of the major offshore investment programme necessitated by Government targets for offshore energy. The CRU understands that engagement on equity funding from a range of sources (including EirGrid's Shareholder, the Irish State, European grant funding, etc.) is still ongoing and given the anticipated timeline for offshore development, considers it is critical that this issue is addressed as soon as is reasonably practicable.

This decision on EirGrid's offshore revenue model covers the following areas:

- **Financial Building Blocks** (e.g. separate offshore revenue cap, separate offshore regulatory financial accounts, etc.)
- **Offshore programme monitoring** (monitor EirGrid's readiness and preparedness for role as asset owner, etc.)

- **Capital expenditure (& Operations & Maintenance) and investment gateway framework** (i.e. to manage evolution of offshore programme costs and schedule)
- **Incentives** (reputational, availability, cost, timely delivery of assets, etc.)

This decision marks an important milestone in the development of the regulatory framework for Ireland's offshore ambitions. It provides the platform for facilitating the required investment in the offshore grid needed to deliver Ireland's Net Zero ambitions and ensuring that this is achieved efficiently and in alignment with the interests of electricity consumers.

This paper also outlines CRU's direction of travel on a number of areas of the OAO revenue control which will be decided as part of the upcoming Price Review Six ("PR6") revenue control. These decisions will be informed by EirGrid's business plan submission for PR6, which is due in October.

Separate to this decision and further to the proposals on the degree of separation between *EirGrid's Transmission System Operator (TSO) and Offshore Asset Owner (OAO) functions* outlined in the recent CRU consultation ([CRU202411](#)), the CRU considers that regulatory best practice requires a fundamental change in how EirGrid manages its new offshore responsibilities. Greater oversight of EirGrid by the CRU and its Shareholder is required on behalf of the Irish customer, who will ultimately pay for the cost of the offshore programme.

This paper sets out the CRU recommendations to the Minister for the Department for Environment, Climate and Communications (DECC) on the leadership, governance and operations for EirGrid's offshore activities. This is in the CRU's view necessary to achieve an enduring and fit for purpose governance and operational model for EirGrid's offshore activities. In addition to this, the CRU is taking decisions on governance matters in this paper that it considers are vital to protect consumers interests, the independent functions of the TSO and Ireland's wider offshore ambition.

The sections below outline at a high level the core decisions that are taken in this paper. It also sets out the next steps for the further development of the offshore regulatory regime and how the CRU will take forward these activities. Full details on the CRU decisions and supporting rationale are contained in sections 4-6 of this paper.

Background

Ireland has set an ambitious target to install at least 5GW capacity of offshore wind generation by 2030. Ireland has further committed to a target of 20GW by 2040 and 37GW by 2050. These ambitious Government targets will require the development of a new offshore electricity grid, which will be delivered over several phases and at a significant cost to the Irish electricity consumer.

In 2021, DECC's "Policy Statement on the Framework for Ireland's Offshore Electricity System"¹ designated EirGrid as the TSO and offshore asset owner for Ireland's offshore transmission grid. The Maritime Area Planning Act 2021 (the "**MAP Act**") provides that EirGrid's licence to discharge the functions of the transmission operator shall provide for EirGrid's ownership of transmission assets for certain specified purposes e.g., offshore activities. In response to the Government's Policy Statement, and related legislative changes, the CRU has been developing and consulting with stakeholders on the establishment of a new offshore regulatory framework and offshore revenue model for EirGrid.

In August 2023, the CRU published a Call for Evidence paper², which identified a series of challenges (*consumer interest, conflicts of interest, capability and capacity, monitoring and incentives, financing and sources of equity*) for the regulatory regime in ensuring that EirGrid delivers effectively on its new and expanded role as TSO and OAO.

Following that, in February this year the CRU published a consultation paper (CRU202411)³, which set out the CRU's proposals for the offshore revenue model and separately, the introduction of specific functional and cost accounting separation requirements for EirGrid's new offshore asset owner activities. The CRU considers these proposals vitally important to protect consumers interests, the independent functions of the TSO and delivery of Ireland's offshore ambitions. Respondents to both CRU's Call for Evidence paper and Offshore revenue recovery model consultation paper generally shared this view.

Offshore ambitions set by Government will increase the costs of electricity networks tariffs and subsequently some of these costs will be passed on to electricity consumers through their electricity bills over time. This also has the potential to raise new regulatory regime challenges, in terms of ongoing monitoring, incentivisation and transparency of EirGrid in its role as offshore asset owner. The offshore revenue model applied to EirGrid's offshore functions therefore will need to appropriately recognise the new offshore activities and its scale, while driving discipline and desired behaviours, ensuring delivery, and best value for Irish consumers. Having carefully considered all responses to the consultations, the CRU sets out below the high level aims and objectives of the Offshore Revenue Model decision.

Aims and Objectives of the Offshore Revenue Model

The key aim of this decision is to provide a robust and stable regulatory model that protects

¹ DECC (2021): 'Policy Statement on the Framework for Ireland's Offshore Electricity Transmission System', <https://www.gov.ie/en/publication/5ec24-policy-statement-on-the-framework-for-irelands-offshore-electricity-transmission-system/>

² CRU (2023): 'Offshore revenue recovery model – EirGrid, Call for Evidence, CRU2023105, [available here](#).

³ CRU (2024): 'Offshore revenue recovery model – EirGrid, Consultation paper', CRU202411, [available here](#). Hereafter referred to as "the consultation paper" for the remainder of the paper

electricity consumers interests, enables EirGrid to raise the capital that it needs to finance its investment in the offshore network, and ensures transparency and effective performance from EirGrid in the delivery of its new offshore activities. This will help support Ireland's ambitious targets and timing schedules for the development of the offshore wind sector. This decision is also an important step in demonstrating to Phase 1 projects that EirGrid will be in a position to finance and pay to Phase 1 project developers an economic and efficient Asset Transfer Value (ATV), as required by CRU decisions [CRU2023/09](#) and [CRU2024/66](#), for transmission assets being developed by Phase 1 offshore projects.

The CRU recognises the importance of effective arrangements for the financial reporting, governance and functional operations of EirGrid's new designated roles being put in place. This is especially important given the critical role that EirGrid performs in Ireland's electricity sector and the time, resource and financial pressures that the offshore programme will inevitably place on EirGrid as an organisation.

EirGrid's critical role in the planning and operation of the electricity system (onshore and offshore) means that it is paramount that it remains an agnostic and neutral party in the performance of its TSO activities. This will be especially true in the coming decades with the level of planned investment required in Ireland's offshore and onshore electricity networks, interconnection with neighbouring markets and role of different sources of electricity generation and storage in the Single Electricity Market (SEM).

The decisions that the CRU has taken are aligned with the high level aims and objectives of the offshore revenue model. These are:

- **Protecting consumers interests.**
 - The CRU will put in place a separate offshore asset owner (OAO) price control from the start of 2026 tariff year to provide full transparency of EirGrid's offshore related costs and revenues.
 - The CRU will introduce enhanced monitoring and new investment cost gateway processes to ensure that EirGrid's delivery of new offshore network infrastructure meets required time schedules and is delivered at an efficient cost for Irish consumers. This will also provide flexibility for the costs of the offshore programme to vary over time to meet changing requirements.
 - EirGrid's OAO price control will also include financial incentives for timely delivery, construction cost management, and asset availability to ensure EirGrid's incentives and objectives are aligned with those of consumers and other stakeholders across the offshore programme.

- **Facilitating efficient financing.**

- The CRU's OAO price controls will be set using an internationally established 'Regulatory Asset Base (RAB) x Weighted Average Cost of Capital (WACC) based revenue model that can facilitate EirGrid achieving an investment grade credit rating with low credit risk as it goes through a period of unprecedented offshore RAB growth.
- The CRU will set a separate allowed WACC for EirGrid's OAO price controls *(to provide transparency and predictability of the recovery of EirGrid's offshore financing costs)* and will provide scope for EirGrid to receive additional revenue building blocks under its allowed revenue cap to support the liquidity of the business and predictability of recovery of its financing costs.⁴
- During the initial period of high offshore network RAB growth, the CRU will constrain EirGrid's exposure to financial risks given its current physical asset light status⁵ compared to many other regulated network utilities. The CRU's investment cost gateway processes will limit EirGrid's risk exposure to the uncertainty of the evolution of the costs of the offshore grid programme, providing transparency of the CRU's regulatory decision processes and predictability for cost recovery as the offshore programme's costs evolve.
- The CRU will define overall tramlines on the level of financial risk (maximum upside and downside revenue potential) that EirGrid will be exposed to⁶ under its price controls and will protect EirGrid from offshore generator non-payment / default risk, provided EirGrid establish appropriate mechanisms to manage this risk.

- **Transparency of EirGrid's performance and delivery.**

- Given the revenue protections required to facilitate EirGrid's financing of its offshore programme, the CRU considers that a high degree of monitoring is necessary and essential to meeting its consumer protection duties in light of the support consumers will provide EirGrid. In anticipation of setting its first

⁴ As discussed below, EirGrid will be able to request additional liquidity and cost of carry building blocks within its OAO allowed revenue cap during the initial period of high offshore RAB growth.

⁵ Currently, the value of EirGrid's TSO RAB is forecast to be less than €40m (2019 prices) by the end of the current PR5 price review in 2025. In contrast, ahead of 2030, EirGrid will likely need to finance a regulated asset base in excess of €5 billion based on current estimates.

⁶ EirGrid will be expected to ensure that it places appropriate contracts and risk transfer with its supply chain and suitable insurances and ongoing warranties in place to protect consumer interests.

OAo price control as part of Price Review 6 (PR6)⁷, the CRU will implement an ‘offshore readiness’ monitoring regime to commence in October this year.

- EirGrid will be required to produce a detailed offshore programme plan and schedule and will subsequently need to publish quarterly update reports on its delivery against this plan. Alongside this offshore readiness reporting, the CRU will also commence implementation of its investment gateway process⁸, which will monitor and manage evolution of offshore costs and schedule at a programme level. EirGrid will be required to update the CRU monthly on developments and progress as part of this process.

Regulation of Offshore - separation of EirGrid's TSO and OAo roles

The CRU remains of the view that a high degree of separation of EirGrid’s new offshore asset owner responsibilities and related offshore activities from its existing licenced functions is a key component of a robust and stable regulatory model that protects Irish energy consumers. It is also vital to protect against actual/perceived Conflicts of Interest (Col) within EirGrid’s many roles in the Irish electricity system. The CRU notes that respondents to the CRU consultations shared this view. In its response to the consultation, EirGrid made a series of strong representations to the contrary and the CRU is in the process of considering those in conjunction with DECC.

The CRU considers that separation between the TSO and OAo activities is a necessity and something that EirGrid should begin to work towards immediately. To embed the necessary transparency required to enable the CRU to carry out its duties, the CRU has decided that EirGrid is required to develop and maintain a separate set of regulatory accounts for its offshore and other business activities, to be prepared according to a set of accounting / cost allocation principles and methodologies approved by the CRU.

The CRU has decided that accounting separation is necessary to ensure transparency of EirGrid’s revenues, costs and decision making - to minimise the risk of potential and/or perceived conflicts of interest across EirGrid’s new and expanding roles, and to promote effective business resourcing, governance and management. This requirement to implement accounting separation for EirGrid will seek to ensure that fair, objective and transparent criteria are followed in the allocation of revenue, costs and other accounting information between EirGrid’s offshore and other business activities. Further details on the CRU decision on account separation can be found in section 4.

⁷ PR6 is the price review process to establish the allowed revenues that the electricity network licensees will be permitted to recover from consumers from 2026-2030.

⁸ Full process detailed in Annex 1

EirGrid should begin to develop its approach now. Both the approach and format of the accounts should be agreed with the CRU in sufficiently good time so as to allow for EirGrid's first set of audited accounts to be delivered to the CRU by 1st April 2026.

The CRU expects that debt will be raised at EirGrid Group (not EirGrid divisional) level, however the CRU requires EirGrid to account for use of debt and equity by business unit (i.e. Offshore). The CRU requires EirGrid to provide a high degree of transparency on its offshore financing programme and the terms of this financing.

Leadership and governance arrangements of EirGrid as OAO

In the context that the Government decision of 2021 and the introduction of the MAP Act, the CRU considers that best practice would be the introduction of full functional separation of EirGrid's offshore asset owner and related activities, i.e. the creation of a separate legal entity for offshore within the EirGrid Group. However, the CRU is cognisant that this is a decision for the Minister and that there is currently no express legal provision to separate the new offshore activities from the TSO role. The CRU also recognises that this would place an additional resource burden on EirGrid at a time that may negatively impact the progress of activities required to enable the development of Ireland's offshore energy sector in meeting the 2030 government targets. It may also impact EirGrid's certification as TSO under EU law.

In the consultation paper, the CRU proposed that a high degree of operational and management separation between EirGrid's current TSO and new offshore roles, through the establishment of a new offshore division is necessary and should be introduced. The CRU also proposed EirGrid should establish a new offshore board committee that has sufficient and relevant expertise to support the EirGrid board and oversee the offshore programme. The CRU also proposed additional expertise and strengthened leadership dedicated to the offshore business unit including at Board level through the introduction of a suitably experienced offshore programme lead.

Following further consideration, the CRU recognises that some of the consultation proposals on leadership, Board structure and governance matters proposed in February are matters for the Minister to decide e.g., Board structure.

However, the CRU considers that, having regard to the scope and importance of the offshore programme, and in accordance with its duties under section 9 (1)(e) of the ERA⁹, it should advise the Minister on what the CRU considers are important matters on EirGrid's leadership

⁹ Section 9(1)(e): "to advise the Minister on the development of the electricity and gas industries and on the exercise of the functions of the Minister under this Act."

and governance structure, given it is the CRU who are responsible for reviewing and approving revenues sought by EirGrid.

The CRU is engaging with DECC on these matters and advising the Minister to consider the following recommendations.

Given the above, the CRU is:

- i. Recommending to the Minister that EirGrid be required to establish a separate offshore business unit which is managerially and operationally separate from the onshore TSO unit¹⁰, while ultimately governed under the aegis of the EirGrid plc Board.
- ii. Recommending to the Minister that they consider requiring EirGrid to develop and introduce other changes to the company's governance, including a requirement for EirGrid's new separate offshore business unit to be led by an experienced offshore programme lead, reporting to EirGrid's CEO and a new EirGrid Board sub-committee responsible for oversight of the offshore asset owner business unit and offshore programme within EirGrid.

The CRU considers that these requirements are vital to protect consumers interests, the independent functions of the TSO and Ireland's wider offshore ambition. This has been backed by a consensus from the majority of respondents to the CRU's consultations.

The CRU will take forward its recommendations on leadership, board structure and governance with DECC outside of EirGrid's current price control review process (PR6). Therefore, this decision paper will focus on providing further detail in respect of the CRU's key decisions and requirements for EirGrid's offshore revenue model, financial building blocks and reporting and monitoring requirements.

In order to support this decision and meet the challenges facing the delivery of the Government's offshore ambition, the CRU requires additional resources. The expansion and upskilling of CRU capabilities is key to ensuring that this revenue model decision is fully implementable. The CRU will require subject matter experts across the offshore sector as well as the establishment of new teams with relevant commercial, economic and technical expertise. The CRU is currently engaging with DECC on the additional CRU resources required from a regulatory perspective to support Government's ambitious offshore targets.

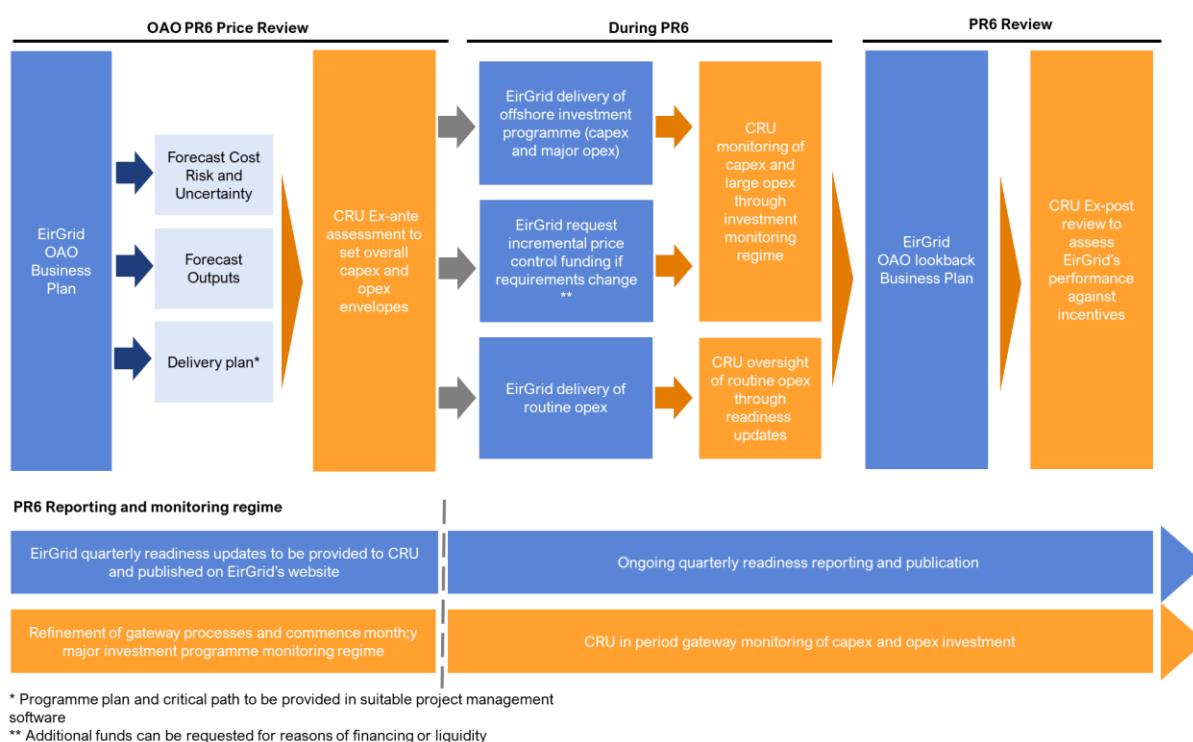
¹⁰ With a supporting policy for management of Conflicts of Interest (COI), including the principles EirGrid will apply to maintaining separation and processes to be followed in the event of a potential or actual conflict of interest.

Summary of CRU Decisions

High level approach to the Offshore Revenue Model

In the February consultation paper, the CRU presented a diagram as a summary of the revenue model it was considering for EirGrid's offshore asset owner activities. Following consideration of all consultation responses, the CRU has decided to adopt this structure with some refinement. The diagram is presented below as Figure 1.

Figure 1 Steps in the ex-ante / ex-post offshore cost assessment regime



The sections below outline at a high level the core decisions that are taken in this paper. It also sets out the next steps for the further development of the offshore regulatory regime and how the CRU will take forward these activities. Full details on the CRU decisions and supporting rationale are contained in sections 4-6 of this paper.

At a high level, EirGrid's offshore activities will be subject to an OAO Allowed Revenue Cap comprised of several building blocks similar to those used to determine allowed revenue caps for the electricity TSO, TAO and DSO. These building blocks will be designed to ensure EirGrid can recover its efficient costs and deliver on its expanded role as OAO, recognising the challenges it faces as it transitions into this role. The OAO price control will be informed by EirGrid's upcoming Price Review Six ("PR6") business plan submission due in October. The upcoming PR6 will cover the period 2026-2030 and will reflect on the major policy

developments that have occurred nationally and at European level. It is critical that throughout PR6, both EirGrid and ESB Networks provide resilient electricity networks and supplies while supporting high-quality, secure and cost-effective services to customers and networks users.

The OAO revenue cap will initially be set ex-ante and comprise the sum of its efficient operating expenses, an estimate of depreciation, and a return on capital. There will be in-period mechanisms to ensure that the revenue cap can be altered (if appropriate) to accommodate change, e.g. the resolution of uncertainty in early cost estimates for projects set ex-ante.

All offshore asset investment, i.e. investment in the offshore network infrastructure that is owned by EirGrid, will be reflected in a separate OAO RAB indexed to Irish HICP inflation (where appropriate) and used to set a separate OAO price control together with a separate allowed rate of return (allowed WACC) on the OAO RAB. Where well justified by EirGrid in its price review business plan submissions, the CRU will consider further adaptations to the framework e.g. a true-up of cost of debt allowances or additional liquidity and cost of carry allowances. EirGrid will be subject to a set of incentives designed to drive effective management of its supply chain and the programme of work that it will undertake. However, its overall risk exposure in PR6 will be limited to reflect its current physical asset-light structure.

EirGrid will also be subject to enhanced monitoring and reporting. EirGrid will be required to provide high quality, consistent and comprehensive information that provides the CRU and other stakeholders with a high degree of transparency and openness in relation to costs and programme schedule. The regulatory adaptations put in place to ensure that EirGrid can raise the finance for its large offshore investment programme will require EirGrid to work effectively with the CRU to implement the new information and monitoring processes. The CRU expects these will also be important for facilitating the significant equity injection that EirGrid requires to be able to finance its operations, given its current asset light status.¹¹

PR6 Offshore revenue model building blocks

Treatment of Phase 1 – i.e., developer led - capex

The PR6 control will allow for developer-built transmission assets associated with Phase 1 projects to be transferred, i.e. it will anticipate the capex required for EirGrid to take ownership of these new transmission assets.

¹¹ The CRU understands that engagement on equity funding from a range of sources (including EirGrid's Shareholder, the Irish State, European grant funding, etc.) is still ongoing.

The CRU's previous decisions¹² outlined the basis and process for asset transfer including guidance on the ex-post cost assessment, or Post Construction Review (PCR), used to determine the final Asset Transfer Value (ATV) for the Phase 1 projects. Those processes are unchanged by this decision.

The financing plan and financial model submitted by EirGrid as part of PR6 for their investment in Phase 1 operational projects should provide details of expected transfer dates and anticipated ATV payments. EirGrid's financial model will need to be updated and shared with the CRU at regular intervals and should ultimately reflect agreed transfer values and timing consistent with the PCR process used to establish the Phase 1 ATV payments.

Treatment of Phase 2 and Future Phases – i.e. State planned- EirGrid build - capex

As outlined in DECC's second Policy Statement and most recently in its Future Framework paper, EirGrid will oversee the development of all offshore cabling, grid connections, and enabling infrastructure such as substations or converters as part of the state-led centrally planned approach to offshore wind. The PR6 cost assessment process therefore will set ex-ante an overall capex envelope for the development of transmission assets associated with Phase 2¹³. It is expected that the components that comprise Phase 2 (e.g. offshore substations, undersea and underground cables and onshore substation etc.) may still be at a relatively early stage of development during the CRU's PR6 price review process and at the start of the price control period in 2026; costs and schedules are likely to be uncertain. The ex-ante envelope will therefore account for uncertainty in addition to covering known/likely project and portfolio risks.

Although capex allowances will be established and built up on a component basis, the overall capex envelope for Phase 2 will be fungible across the programme. Consistent with best practice for large infrastructure programmes, to establish this capex envelope, the CRU expects to work with EirGrid to establish provisions for risk (specific to the individual components of the Phase 2 programme and to the portfolio of Phase 2 as a whole – e.g. inflation risks) and provisions for 'uncertainty'¹⁴ that will form part of this envelope. The CRU will retain control of portfolio risk and all uncertainty funding under the capex envelope. EirGrid's access to capex allowances will require compelling submissions. It is important

¹² See CRU (2023): 'Offshore Grid Connection Asset Treatment', CRU202309 and its supplementary decision, [available here](#). The CRU has decided to also apply the same process for the transfer of assets related to Phase 1 merchant projects as set out in CRU2024/66, CRU (2024): 'Asset treatment for Merchant Phase 1 Offshore Wind Projects', [available here](#).

¹³ The CRU notes that EirGrid splits Phase 2 into a number of component parts. The CRU intends each of these components to be governed via the gateways.

¹⁴ For example, funds to address events that could occur in the delivery of the Phase 2 capital programme but are not known at the time of initial business plan preparation.

therefore that EirGrid develops sufficient dedicated resources to manage project progression.

Phase 2 progression will be monitored by the CRU through Investment Gateways (for capex and large value opex projects see Figure 2 Investment Gateways), the timing of which will be component project specific and recognise that in some circumstances EirGrid will be competing for services e.g. cable manufacture. The CRU's current expectation is that most of the components of the Phase 2 capex programme will reach gateway 2 by the start of the PR6 period (2026) and all will be complete by the end of 2030. EirGrid's business plan should provide the information required for a gateway one assessment.

The investment gateway protocol is an important part of the enhanced monitoring and governance process for managing changing requirements and cost variation of EirGrid's offshore programme.

Figure 2 Investment Gateways



Each gateway will represent a go/no go decision point at which revenues may be approved by the CRU to permit EirGrid progress to the subsequent gate.

The investment gateway process is intended to create transparency of costs and project schedule at critical stages and enable engagement between EirGrid and the CRU to ensure timely delivery and value for customers. The process is also intended to enforce rigour on EirGrid, to follow industry best practice and submit high quality information into the gateway process to facilitate the timely decision making that is essential to achieving 2030 deadlines.

Guidance on requirements for each gateway is provided in an investment gateway protocol (see Annex 1) being issued as part of this decision. The table below provides a summary description of CRU's expectations at each gateway milestone. Although the CRU intends that the gateway reviews are by component project (e.g. offshore substations), the CRU will also closely monitor overall cost and schedule across the programme throughout PR6 and beyond.

Table 1 Investment monitoring gateway process

Stage Gate	Description
1. Detailed design and costing	A range of options (usually 3) will be assessed with a third-party technical advisor expected to provide confirmation on the viability and likely cost range of each option.
2. Single option selection	A single option will be selected by EirGrid using a cost-benefit analysis approach agreed with the CRU. ¹⁵ The cost range provided for the option at this stage should include a min, max and most likely estimate. EirGrid's submissions should be supported by external assurance.
3. Procurement	EirGrid will provide a final detailed description of the option, details of its procurement and commercial strategy, and a copy of its ITT, and its bid evaluation framework.
4. Final Investment decision	<p>EirGrid will provide a full and detailed internal bid evaluation report including an analysis of price offered against other bids.</p> <p>EirGrid will not be permitted to enter a material contract prior to the CRU's sign-off and approval to proceed from gate 4.</p> <p>The gateway 4 submission should include a quality assurance (QA) and assurance report from an independent third-party including a clear status in relation to land and marine consenting obligations to support entry into contract. It should also discuss how it will manage any residual uncertainties in relation to price and schedule.</p>
5. Implementation	The CRU expects monthly reports for each project in construction against baseline costs and schedule using earned value statistics and identification of any deviations with supporting explanatory narrative. Within this EirGrid should discuss any implications for the portfolio including for portfolio risk provisions.
6. Project completion	This will be an end-of project completion ex-post review which will assess overall efficiency against baseline budgets and schedules and will be used to determine the payments (penalties) from the financial incentives on EirGrid for delivery of the Phase 2 programme.

¹⁵ The CRU envisages that this would be consistent with the requirements of Irish Public Spending Code procedures, [available here](#).

Stage Gate	Description
	<p>As outlined below, financial incentives will be in place for EirGrid's management of cost within the capex envelope once a clear, stable, reference cost for the components of the Phase 2 capital programme (e.g. post design, consenting and procurement) have been established.</p> <p>EirGrid will also be subject to a timely delivery incentive against an agreed schedule for the capex programme.</p>

In period cost adjustment of capex

As discussed above, the overall capex envelope set as part of the PR6 price control will be set at a level which accounts for appropriate levels of risk and uncertainty. However, the CRU recognises that given the level of uncertainty at the start of the PR6 period, EirGrid may experience a significant degree of change, such as required asset technical specifications, supply chain pricing of components, timing schedule and inflation.

Whilst the CRU expects EirGrid to use its best endeavours (and demonstrate that it has done so) to stay within the envelope set ex-ante, it will allow EirGrid to make the case to access portfolio risk, uncertainty and/or other additional funding outside of the envelope, where its liquidity is under threat and cannot be managed within approved allowances.

End of period capex adjustments

At the end of the period there will be an ex-post review. This process is a typical feature of CRU price controls. The ex-post review will not be used to re-evaluate gateway decisions made in period, but it will be used to assess how effectively EirGrid has actively managed costs across the entire programme, i.e. not just for a particular component of the programme passing through the gateways. In addition, the CRU will assess whether EirGrid managed costs (including those of its supply chain) in a way that was economic and efficient in the round.

The output of the ex-post review process will be a set of conclusions on how well EirGrid has managed the capex programme, and this will drive incentive payments/deductions under the proposed OAO price control.

Treatment of opex

As is standard practice in the CRU's price control regulation of network utilities, allowed opex will form a revenue building block of EirGrid's OAO Allowed Revenue Cap. The CRU will set an ex-ante allowance for OAO opex at the time of the price review and will review EirGrid's

outturn opex as part of the price control period's ex-post review process.

The ex-post review will provide scope for EirGrid to justify additional opex that it may have incurred during the period of the price control that exceeds the ex-ante allowance. The CRU also considers it prudent to establish a similar investment gateway for large new categories of opex expenditure, e.g. O&M and Insurance and other substantial new areas of opex, as is proposed for Phase 2 capex. This investment gateway system will provide flexibility to vary the opex allowances to reflect changing requirements and prices within the period of the OAO price control.

The CRU expects this opex investment gateway process to build on the principles and approach set out for the capex investment gateway process. The CRU will develop an opex gateway process in consultation with EirGrid as it prepares its PR6 business plan submission later this year. The CRU expects to take a decision on the final requirements of the opex gateway process, so that it is sufficiently tailored to EirGrid's opex, as part of its OAO price control determination in 2025.

A key challenge facing EirGrid is its ability to acquire the capability and skills that it requires to meet the needs of its new role. As discussed in the CRU's consultation, the CRU considers that this is best achieved via EirGrid's establishment of an offshore business unit with dedicated resources. The CRU is strongly of the view that this approach will enable wider market participants to see progress and develop confidence in EirGrid's delivery capacity.

The CRU will require EirGrid to demonstrate, via its offshore opex submission, how it is developing the resources and capabilities necessary to direct and manage the offshore grid programme. Following the justification from EirGrid in its PR6 business plan, PR6 allowances will make efficient provision for the acquisition and development of a team/resources in EirGrid that has the required skills and expertise to deliver this programme. EirGrid's PR6 business plan submission should pay close attention to overall readiness and the CRU's Business Plan Questionnaire (BPQ) (issued in June this year) that requires EirGrid to set out separately the opex costs associated with its offshore activities, including its approach to splitting any shared costs. Ongoing quarterly readiness reporting will pay particular attention to the capability and expertise that EirGrid is acquiring.

As a guiding principle, the CRU expects to prioritise the predictability of EirGrid's recovery of its incurred offshore opex providing it effectively:

- Demonstrates how it is achieving best value for money for consumers in its opex decision making processes¹⁶; and
- Complies with CRU's monitoring requirements and the schedule of operational capability development required of its new and expanding offshore activities.

Financial building blocks

Objectives

The overarching principle for the design of the financial building blocks of the OAO revenue control is to create a stable and predictable revenue model that builds on existing CRU regulatory practices but recognises the unique challenges that EirGrid faces in the delivery of its offshore programme. The revenue model described in this decision paper is intended to facilitate EirGrid achieving an investment grade credit rating with low credit risk as it goes through a period of unprecedented offshore RAB growth.

The CRU's intention is that the risks of the offshore programme will be shared proportionately and transparently between EirGrid, its supply chain and consumers, not least to align interests and incentives. However, the CRU also recognises that there are limits to the financial risk EirGrid can bear in the next price control cycle (PR6) whilst remaining financeable, given the scale of its offshore programme and its current limited financial flexibility and headroom as a relatively asset light business. By seeking to mitigate EirGrid's financial risk, the offshore revenue model seeks to enable financeability (investment grade rating) and allow CRU to contend that its OAO price controls should reflect a low cost of capital to be passed through to consumers in the form of lower bills.

The subsections below set out the key financial design principles and decisions the CRU has taken and the elements of the offshore revenue model that will be developed for the first OAO price control determination in 2025 as part of the CRU's PR6 process.

Key Financial Design Principles

Key financial features of the offshore revenue model are summarised in Box 1 below.

Further discussion of the rationale and basis for these decisions is provided in the main decision paper together with CRU's proposals for how they will be implemented for the first OAO price control the CRU will set as part of the PR6 process.

Box 1: Revenue model financial features

- The OAO price control will be set according to an Allowed Revenue cap regime whereby there is a cap on the total revenues EirGrid can earn during a defined (5-year) regulatory

¹⁶ Particularly in terms of its procurement and in-source vs. out-source decisions.

period, updated to reflect outcomes of gateway processes, ex-post cost review etc.

- The allowed revenue cap will be equal to the sum of the allowed operating expenses of the OAO, a depreciation allowance, and return on capital allowances – a ‘RAB x WACC’ framework - and any financial incentive payments.
- To reflect the very different financing requirements and risk profile of EirGrid’s offshore activities compared to its existing TSO business activities, all offshore investment will be reflected in a separate OAO RAB indexed to Ireland’s Harmonised Index of Consumer Prices (HICP) (where appropriate) and a separate allowed rate of return (WACC) on the OAO RAB, i.e., CRU will set a separate OAO Allowed WACC.
- Informed and justified by EirGrid business plan submissions, the CRU will consider adaptations to a typical ‘RAB x WACC’ framework in order to manage EirGrid’s recovery of its financing costs. These adaptations include:
 - i. An allowed cost of debt adjustment (true-up) mechanism to reflect the terms EirGrid can obtain competitively in the market.
 - ii. Scope for EirGrid to justify additional liquidity and cost of carry revenue building blocks to reflect its unique finance raising challenges and pressures.
- EirGrid will be expected to include proposals for these mechanisms as part of its PR6 submission. A decision on the detailed design will then follow in the CRU’s first OAO price review determination, which will be made as part of the ongoing PR6 process. This decision paper sets out the principles that the CRU expects to apply in forming a decision on these adaptations.
- Ex-ante allowances will be set for the OAO at the time of the price review to provide clarity on the funding it will receive for its offshore activities and to provide a clear baseline for cost gateway processes and Ex-Post Review.
- There will be a true-up process to update the ex-ante allowances to reflect the CRU’s assessment of any interim determinations (see description of investment gateway processes outlined above) and ex-post review of costs.¹⁷
- Phase 1 assets transferred to EirGrid will be depreciated from the point of commissioning. This will align the start of depreciation for these RAB additions with the timing of ATV payments to developers.
- The CRU’s current direction of travel for Phase 2 and future phases is for offshore RAB additions to start to be depreciated from the point of commissioning. This will align:

¹⁷ The expected procedures for this process for capex are set out in the investment gateway protocol which forms part of this decision paper.

- i. Phase 2 depreciation policy with Phase 1 investments; and
 - ii. the start of depreciation of the Phase 2 RAB additions with the use of the offshore transmission assets by the offshore generator.
- The CRU will make a final decision on when Phase 2 grid assets will start to be depreciated as part of its first OAO price control determination once it has assessed EirGrid's PR6 business plan submission, the business' expected cashflow requirements and final decisions have been made by the CRU on the charging policy for Phase 2 grid assets¹⁸ and other revenue building blocks (e.g., liquidity and cost of carry allowances) of the OAO price control.
 - EirGrid will, however, be permitted to earn its Allowed WACC during construction for EirGrid led (i.e. Phase 2) offshore RAB additions. This will provide an element of prefunding – i.e. revenue during construction – to support EirGrid's liquidity and financing strength, independent of the final decision that is made on this element of Phase 2 grid depreciation policy.
 - A final decision on the period of depreciation for Phase 1 and 2 grid assets will also be made at the OAO price control determination, but the CRU's current direction of travel is to apply a single weighted average asset life assumption of ~ 30-years.
 - As a guiding principle, CRU intends to align the period of depreciation with an assumption of the economic asset life of offshore grid assets.
 - In forming the current direction of travel view that ~ 30-years broadly aligns with this principle, the CRU has been guided by the expected length of offshore generation connection agreements, the international precedent of the expected timing of offshore wind farm refurbishment and/or repowering decisions and the precedent of offshore grid depreciation periods in transmission network owner price controls in other markets.¹⁹
 - The CRU will keep its depreciation policy for future phases of development of the offshore grid (i.e., subsequent to Phase 2) under review.
 - The CRU will give primary regard to financeability of its OAO price controls under a notional capital structure. During a (time limited) transitional period, CRU will also review and cross check the financeability of its revenue caps under the expected actual financing structure and financing costs of EirGrid's offshore business.
 - To facilitate this, EirGrid must develop and share a detailed financing strategy and financial model for its offshore investment programme and be in a position to demonstrate that it

¹⁸ The CRU recently consulted on options for the Phase 2 offshore grid charging policy and expects to make a decision on this policy later this year. See CRU (2024): 'Phase 2 Offshore – Grid Charging Policy' (CRU/2024/12), [available here](#).

¹⁹ For example, Belgium and the Netherlands.

obtained the best debt terms available to it in the market.

- EirGrid's current financing strategy and financial model must be provided to the CRU as part of its PR6 business plan submission.

Incentives and risk exposure

The CRU has decided there will be a range of financial incentives as part of the OAO price control to align EirGrid's interests with consumers and wind farm developers:

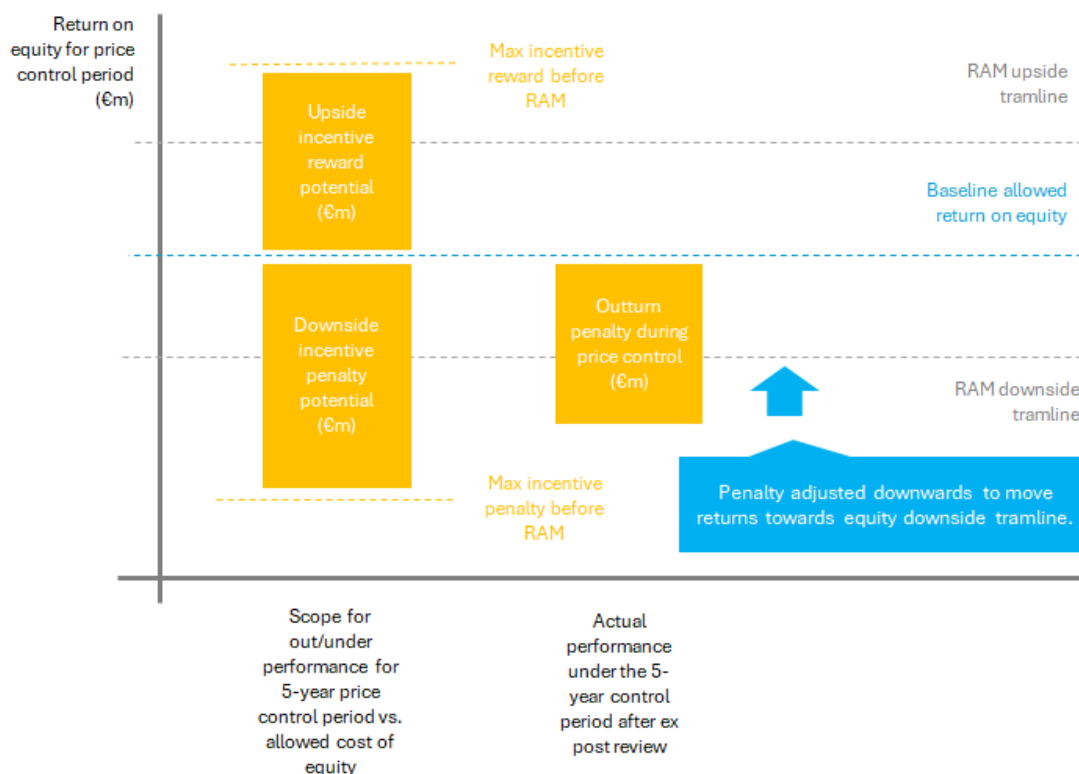
- The CRU will place financial incentives on availability, construction costs and timely construction delivery (schedule) within EirGrid's offshore revenue control.²⁰
- The CRU expects the financial incentive package will be largely symmetrical with both upside and downside risk.
- Similar to liquidity and cost of debt true up revenue building blocks, the detailed design of the incentive package will be taken forward ahead of a decision for the first OAO price review determination (part of the PR6 process).

Given EirGrid's current asset-light status, the CRU will define overall tramlines on the level of financial risk (maximum upside and downside revenue potential) the business will be exposed to.

Figure 3 **Illustration of equity return tramlines and RAM** below provides an illustration of how the financial risk tramlines will be applied, via an equity Return Adjustment Mechanism (RAM).

²⁰ The CRU will expect EirGrid to mirror these incentives in its supply chain contracts wherever it is appropriate to do so.

Figure 3 Illustration of equity return tramlines and RAM



As with the design of the incentive package, a decision on the financial risk tramlines that EirGrid can reasonably be exposed to during the initial OAO price control period will be established as part of the OAO price review decision under the PR6 process.

Risk sharing arrangements

As EirGrid's capacity to bear financial risk will be limited during the early stages of growth of its regulated asset base, the financial risk of delivery of the offshore programme will largely need to sit with the consumer or EirGrid's underlying supply chain. In both cases, this creates a need for close monitoring by the CRU to protect consumer interests and ensure that value for money is achieved.

The CRU considers that risks will be shared as follows and subject to the tramlines approach discussed above: (See Section 5, Table 5.2 for further details)

- **Development risks**, including in relation to securing planning consent and land rights and the technical specification changing will be managed via the gateway process.

- EirGrid will be exposed to some risk where it fails to maintain momentum in progressing projects through their development cycle. This will extend to failing to have sufficient experienced personnel to manage the planning process. It should also appropriately incentivise suppliers who support the development process.
- **Construction risks**, such as timely delivery, site conditions, changes in scope, cost and commissioning, will be shared between EirGrid, its supply chain and the consumer via the financial incentive package and gateway processes. EirGrid's exposure will be to the quality of management or development of processes or contracts and will extend to failing to secure sufficient resources to effectively manage construction. EirGrid will also be expected to pass appropriate levels of risk to its supply chain.
- **Operational risks**, include cost risk on O&M and internal opex, operational performance and demand risk. Risk for outsourced O&M and operational performance are expected to be shared between EirGrid, its O&M contractor and the consumer.
- EirGrid will be expected to manage O&M issues e.g. cable problems and failure events, commercially (i.e. through warranties, insurance etc.) in the first instance rather than seeking additional funding from the consumer. EirGrid will be able to request a change to its Allowed Revenue Cap to address major failure events and/or exemptions from penalties under its financial incentive package (e.g. in the scenario of an extended unplanned maintenance event), but the CRU will expect EirGrid to demonstrate that it:
 - i. took all necessary measures to address and mitigate the issue via a commercial solution;
 - ii. took all reasonable actions, in line with best industry practices, to mitigate the failure event occurring and to mitigate the costs of the event once it did occur; and
 - iii. in the case of exclusions from penalties under the financial incentive framework, that the event was due to factors outside of EirGrid's control (force majeure).
- **Financing risks** include the payment risk EirGrid faces in respect of Phase 1 project Offshore Generator Transmission Use of System (OG-TUoS) charges and the risk of financing costs being higher than anticipated and allowed under EirGrid's price controls.
- Financing cost risk borne by the EirGrid business will depend on the detailed design of the proposed cost of debt true-up and liquidity and cost of carry building

block mechanisms. As a guiding principle, the CRU expects to set its OAO price controls to enable EirGrid's recovery of its financing costs.

- EirGrid is expected to recover a sizeable proportion of its future OAO allowed revenues via Phase 1 project specific OG-TUoS charges. The CRU's decision (CRU2023/09 and CRU2023/13²¹) on the OG-TUoS charge for ORESS1 projects has already indicated that in the event of payment default by an offshore wind farm developer, EirGrid would be entitled to recover its allowed revenues from consumers via D-TUoS charges.
- This is necessary to mitigate EirGrid's counterparty payment risk and to help satisfy lenders and credit rating agencies of EirGrid's low credit risk, which will help facilitate a low cost of capital. The CRU expects EirGrid to put in place strong payment protection measures and processes to mitigate against such a payment default event occurring.²²

Reporting and monitoring arrangements

EirGrid's current asset-light status means that it has limited financial flexibility and headroom to manage its offshore investment programme and as a result, its downside risk capacity is limited. As a consequence, significant risk will sit with consumers in the forthcoming OAO price control cycle(s) as indicated above.

In these circumstances, progress monitoring will take on a new focus and a higher level of priority in forthcoming price control periods. EirGrid will be required to work openly and transparently with the CRU e.g. on progression through the investment gateways. The information, level of detail and frequency of reporting will intentionally be more onerous than prior price controls. The CRU considers this to be necessary to meet its consumer protection duty and in any event is a fundamental part of a new level of discipline required from EirGrid not just for the CRU, but also for EirGrid's lenders and offshore wind developers.

EirGrid must develop a reputation for timely and cost-effective delivery. EirGrid should ensure that it rapidly and efficiently develops sufficient capability and capacity to deliver offshore and work effectively within the regulatory framework for offshore.

To monitor progress and deliver against its duty to protect consumers, the CRU will establish

²¹ CRU (2023): 'Offshore Grid Connection Asset Treatment – Decision', [available here](#).

²² In particular, via the connection agreement, to manage its counterparty exposure to wind farm developers. The CRU will also consider proposals from EirGrid for how to maintain EirGrid's liquidity in the event a developer were to default on its expected OG-TUoS payments, e.g., by recovering the shortfall in allowed revenue from D-TUoS charges which would be repaid if and when the OG-TUoS payments are recovered from the applicable offshore generation company.

two requirements of EirGrid for ongoing offshore reporting and monitoring:

- i. Offshore readiness reporting (quarterly).
- ii. Capex and major offshore opex and investment programme reporting (monthly).

A summary of the CRU expectations of each of these two components are set out below. Further details of the CRU's expectations and requirements for reporting and monitoring are set out in the main part of the decision paper.

Offshore readiness monitoring

The CRU is aware that EirGrid is already developing its offshore readiness programme. Given the timeline for the offshore programme, the CRU considers it essential that substantial progress is made on this ahead of the first OAO price control period commencing at the start of 2026 following completion of the CRU's PR6 process.

The CRU will therefore build on current readiness discussions to establish an offshore readiness reporting and monitoring regime alongside business plan development. This will be designed to embed transparency and information sharing and drive the development of a high quality, detailed offshore business plan for the period 2026 - 2030. This reporting and monitoring regime will have two key objectives:

- **Assessment of readiness:** the development of a comprehensive programme plan that will form the scheduling baseline for 2026-2030 OAO price control period.
- **Establishing new requirements for transparency:** in terms of level of detail and quality of costs baseline information and over early decision making e.g. on supply chain.

EirGrid's first offshore readiness report (first baseline) should reflect the proposals set out in its PR6 offshore business plan, which it will submit in October this year as part of the CRU's ongoing PR6 review. The readiness report should set out:

- A detailed programme plan and schedule for offshore readiness out to at least 2030.
- Proposed cost baselines (by component) for capex and opex 'projects'.²³
- A high-level financing strategy supported by a detailed submitted financial model.²⁴
- EirGrid's progress with developing its internal capability and resource capacity.²⁵

²³ For the first report, these are expected to be consistent with EirGrid's PR6 offshore business plan.

²⁴ The financial model should bring cost and schedule together to provide information on both the quantum and timing of financing.

²⁵ In particular, its ability to act as an informed client of the offshore programme.

- Forthcoming external supply chain and wider procurement decisions.

Following submission of the first offshore readiness report, EirGrid will be required to provide quarterly updates to the CRU with commentary on:

- Its progress in achieving the schedule and activities in the readiness plan; and
- How offshore programme costs have changed since the previous report.

The CRU will use these quarterly readiness reports to inform a quarterly meeting with EirGrid to monitor progress of its readiness activities and to discuss the need for any remedial steps or interventions where tasks and activities are behind scheduled targets. The CRU will provide feedback to EirGrid as necessary as this reporting information is developed.

As well as a confidential report for the CRU, EirGrid will also be required to develop an appropriate public version of the report and to agree the structure/content of such reporting with the CRU. This is to provide confidence and transparency to other stakeholders – e.g. offshore wind developers, supply chain, etc. – of EirGrid's progress with its offshore readiness programme leading into and during the 2026-2030 delivery period.

The CRU's intention in establishing this reporting and monitoring regime is to ensure that the critical path for offshore readiness is maintained and that there is early sight of key forthcoming decisions and issues that EirGrid needs to manage.

Major offshore opex and investment programme reporting

As outlined above, the ongoing PR6 process will be used by the CRU to establish initial baseline allowances for both EirGrid's offshore opex and capex. The CRU will require EirGrid to provide regular reports on its progress, including updates on expenditure requirements for key areas of offshore opex and capex. The CRU's monitoring of costs will centre on the investment gateway process, which is expected to include large scale opex decisions alongside gateway monitoring of capex projects.

Key to success of investment monitoring will be the development of good and timely gateway submissions to the CRU that are consistent and transparent. EirGrid will be expected to ensure that it has in place sufficient resources and systems to deliver high quality consistent and clear documentation. Additionally, the CRU will ensure that its resources are sufficient to be able to review and respond to related submissions in a timely manner in order to facilitate a timely decision-making process for both capex and, where applicable, opex gateways.

The CRU expect to be consulted on key capex and opex commercial decisions e.g. relating

to selection of supply chain and wider procurement etc., even if there will be no expenditure incurred during the current price control period (PR5). The CRU will set expectations on key terms that EirGrid should include in major contracts e.g. re termination and novation, liability and risk sharing, and EirGrid should report on forthcoming decisions on these issues with sufficient time for the CRU to assess EirGrid's proposals and feed in its expectations.

The CRU expects reporting under this framework to begin following publication of this decision, and the process of reporting will then continue over the 2026-2030 price control period consistent with the gateway process set out above. The CRU will agree specific targets with EirGrid following submission of its offshore business plan later this year, but the CRU's current expectation is that:

- EirGrid should seek to take all components of the Phase 2 capex programme through gateway one of the capex governance process prior to 2026;
- By the start of 2026, ensured that all components of Phase 2 capex have reached at least gateway 2 of the capex governance process; and
- EirGrid should identify and agree with CRU those opex 'investment projects' which will be subject to gateway monitoring.

Next steps

A range of implementation matters regarding the OAO revenue model will be progressed following publication of this decision. Amongst several areas, this includes the following but are not limited to:

Pre-PR6

- EirGrid readiness reporting (commences October).
- Commencement of investment gateway process.

Workstreams to be progressed as part of the PR6 process

- Design of the OAO cost of debt recovery / true-up mechanism.
- Design of the OAO liquidity / cost of carry mechanism.
- Design of the equity tramlines / Return Adjustment Mechanism for the OAO.
- Design of the performance incentives (availability, construction cost, grid delivery date) for the OAO.
- Issuance of a draft and final OAO price control determination (expected to be

published in March and August 2025 respectively) for the revenue period 2026-2030.

Separate to PR6 process

- A review of the existing EirGrid TSO licence with a view to the licence being amended to reflect EirGrid's offshore requirements.
- Development of an offshore network tariff model.

Public / Customer Impact Statement

The Government has an objective to connect at least 5GW of offshore wind by 2030. The Government has also committed to further offshore development targets (20GW by 2040 & 37GW by 2050) to support the transition to Net Zero. For comparison purposes, 1GW of offshore wind equates to the quantity of electricity consumed by approximately 1 million homes. These offshore development targets will require significant changes to the electricity network in Ireland, including the development of new offshore infrastructure which will be required to connect the offshore wind farms to the electricity grid.

The Government has designated EirGrid as the owner of Ireland's offshore transmission assets. EirGrid is the Transmission System Operator (TSO) in Ireland. As the licensed TSO, EirGrid's role to date has been focused on system balancing, market operation, and network planning activities. The revenue model applied at present is based on the requirements and objectives of this system operator role. The CRU is responsible for the economic regulation of EirGrid.

EirGrid will have responsibility for constructing part of these offshore transmission assets. Ultimately, EirGrid will take ownership of offshore transmission assets, whether constructed by EirGrid or by developers. EirGrid will also be required to operate and maintain the offshore transmission assets. As a result, EirGrid will need to rapidly transform its business over the next decade, to acquire the resources and expertise to deliver on its OAO remit. This will need to be undertaken alongside the existing system operator role, which is critical in facilitating Ireland's energy system transformation and reducing whole system costs.

This will generate a large financing requirement for EirGrid, who will need to raise the capital to finance its offshore investment programme. It is expected that EirGrid will need to raise finance in excess of €5 billion to deliver on 2030 Government targets, based on current estimates. The CRU is of the view that an equity injection of State funding will be required for EirGrid to deliver on this programme. This consultation paper considers the regulation of offshore, with particular focus on the offshore regulatory model to be applied to EirGrid.

Given the challenges of its new role and the significant Irish consumer funding that will need to underpin the delivery of the offshore programme, the CRU considers it vital that EirGrid puts strong internal leadership and governance controls in place that provide accountability for delivery of Ireland's ambitious offshore energy programme and a high degree of transparency. The CRU has decided the following:

- A requirement for cost allocation rules between EirGrid's TSO and offshore asset owner activities.

- Enhanced progress monitoring by the CRU, as well as transparent (i.e., public) reporting on progress against milestones and budget.
- Introduction of a new OAO revenue control and a series of financial performance incentives on EirGrid to incentivise the effective and efficient delivery of its offshore programme during both construction and operation.

The CRU has also proposed a series of governance changes that are discussed within this decision, alongside the CRU's decisions on form and financial building blocks of EirGrid's offshore revenue model.

In coming to this decision, the CRU has carefully considered how to balance its duties to protect the interests of final customers, to secure that EirGrid can finance its regulated activities, including its offshore programme and enable the delivery of the Government's offshore ambitions.

The CRU will continue to progress work on the wider elements of the offshore regulatory framework. This work will be progressed in parallel with Price Review Six. The CRU has published a strategy paper for Price Review Six which will inform and seek comments from customers, network users and relevant stakeholders on the approach to deciding on the funding for the electricity network for the 2026-2030 period. A link to the strategy can be found here [Price Review 6 Strategy](#).

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Glossary of Terms and Abbreviations

Abbreviation or Term	Definition or meaning
ATV	Asset Transfer Value
CAPEX	Capital Expenditure
CRM	Capacity Renumeration Mechanism
CRU	Commission for Regulation of Utilities
DECC	Department of the Environment, Climate and Communications
EWIC	East West Interconnector
GW	Gigawatt
I-SEM	Integrated Single Electricity Market
MO	Market Operator
MW	Megawatt
O&M	Operations and Maintenance
OAO	Offshore Asset Owner - (includes all offshore related activities)
OPEX	Operating Expenditure
ORESS	Offshore Renewable Electricity Support Scheme
PR5	Price Review 5 (2021-2025)
PR6	Price Review 6 (2026-2030)
RAB	Regulated Asset Base
RESS	Renewable Electricity Support Scheme
SEMO	Single Electricity Market Operator
SO	System Operator
SONI	System Operator for Northern Ireland
TAO	Transmission Asset Owner (ESB Networks, onshore)
TSO	Transmission System Operator (EirGrid)

1. Introduction

This section provides relevant context and background to the Commission for Regulation of Utilities' (CRU) decision-making process on the offshore revenue model to be applied to EirGrid in its new role as Offshore Asset Owner (OAO).

This section sets also out the relevant context and background to this decision paper, in particular, the Government's policy framework for Ireland's offshore electricity system and the requirements that this creates for the offshore revenue model.

It sets out how the scale of assets EirGrid manages will grow substantially over the next decade and beyond as a result of DECC's stated Policy Framework for Offshore Wind²⁶, generating a large financing requirement and need to develop new capabilities.

A robust and stable offshore revenue model is needed, therefore, that:

- Appropriately recognises EirGrid's new role and the scale of growth in its operations and capabilities;
- Can facilitate EirGrid raising the necessary finance to meet its business requirements while minimising the cost to the consumer; and
- Creates the right incentives for EirGrid to drive desired behaviours, so that the best outcomes are achieved for electricity consumers.

This decision paper sets out the CRU's policy decisions for the scope and design of EirGrid's OAO revenue model.

This paper also sets out the CRU's recommendations to DECC on EirGrid's leadership and governance arrangements for offshore, which will continue to be developed in collaboration with DECC and EirGrid. and will be the subject of a separate paper. The CRU will separately seek to progress work on the other elements of the wider offshore regulatory framework, including a review of EirGrid's existing TSO licence to account for its new offshore activities.

1.1. Commission for Regulation of Utilities

The CRU is Ireland's independent energy and water regulator. The CRU was originally established in 1999. The CRU's mission is to protect the public interest in Water, Energy, and Energy Safety. The work of the CRU impacts every Irish home and business. The sectors the

²⁶ DECC (2021): 'Policy Statement on the Framework for Ireland's Offshore Electricity Transmission System', <https://www.gov.ie/en/publication/5ec24-policy-statement-on-the-framework-for-irelands-offshore-electricity-transmission-system/>

CRU regulates underpin Irish economic competitiveness, investment, and growth, while also contributing to our international obligations to address climate change.

The CRU is committed to playing its role to help deliver a secure, low carbon future at the least possible cost, while ensuring energy is supplied safely, with empowered and protected customers paying reasonable prices and the delivery of a sustainable, reliable, and efficient future for energy and water.

The CRU is guided by four strategic priorities that sit alongside the core activities the CRU undertakes to deliver on the public interest. These are:

- Ensure Security of Supply
- Drive a Low Carbon Future
- Empower and Protect Customers
- Enable our People and Organisational Capacity

Further information on the CRU's role and relevant legislation can be found on the CRU's website at www.cru.ie.

1.2. Legal context

The CRU is responsible for the economic regulation of energy network companies in Ireland. It designs and administers price controls, which set the revenues that licensees may recover from electricity customers. It is in this context that the CRU is considering whether and how its current approach to price controls should be altered to recognise EirGrid's changing role and the requirements that the new OAO activities place on the company.

Section 35 of the Electricity Regulation Act 1999 (the ERA) sets out the charging powers applicable to connection to and use of the transmission system and distribution system and gives the CRU a discretionary power to give directions in respect of the basis of such charges. Section 36 sets out the CRU's power to approve statements of charges prepared under section 35. Additionally, under sections 14(3), 14(6)(a) and 19 of the ERA the CRU has the powers to modify or amend EirGrid's TSO licence.

In considering the appropriate regulatory framework, the CRU will act in accordance with its functions and duties. The CRU's functions and duties are set out principally in section 9 of the ERA. Section 9(1)(e) states the CRU will *advise the Minister on the development of the electricity and gas industries and on the exercise of the functions of the Minister under this Act*. Under section 9(3) of the ERA, the CRU must carry out its statutory functions and exercise its powers under the ERA in a manner which does not discriminate unfairly between, *inter alia*, licence or authorisation holders and the Board. Additionally, when carrying out its statutory

functions, the CRU must also have regard, among other things, to the need to:

- Ensure that there is a high standard of protection for all final customers,
- Ensure transmission system owners and operators comply with transparency obligations,
- Secure that licence holders are capable of financing the activities which they are licensed to undertake, and
- Promote the use of renewable, sustainable or alternative forms of energy.

1.3. Background

In 2021, DECC's "Policy Statement on the Framework for Ireland's Offshore Electricity System ([Policy Statement on the Framework for Ireland's Offshore Electricity Transmission System](#))" designated EirGrid as the TSO and OAO for Ireland's offshore transmission grid.²⁷ This designation was enacted into law by the [Maritime Area Planning Act 2021, which amended the ERA](#).

DECC's first [Policy Statement](#), published in May 2021, outlined a three-phased pathway from the existing developer-led model towards a fully plan-led model:

- **Phase 1 – Decentralised development:** Offshore wind developers develop and construct the offshore transmission assets and then transfer ownership to EirGrid.
- **Phase 2 – Transitional Development:** Developers may continue to build and transfer transmission assets to EirGrid as per Phase 1. Alternatively, Developers may select EirGrid to build the offshore transmission assets.
- **Phase 3 – Centralised development (plan led):** EirGrid plan and build out all offshore transmission infrastructure.

DECC's second [Policy Statement](#), published in March 2023, accelerated the move to a "plan led" model in order to meet the 2030 target to deliver at least 5 GW of offshore wind capacity by 2030. It also stated that EirGrid will proactively develop offshore grid transmission infrastructure for ORESS 2.

DECC's most recent [Policy Statement](#) "Future Framework for Offshore Renewable Energy", published in May 2024, outlines the long-term ambitions of 20GW by 2040 and 37GW by 2050, and lays down a roadmap of how they will be achieved. The Future Framework also confirms that as TSO, EirGrid will oversee the development of all offshore cabling, grid

connections, and enabling infrastructure such as substations or converters.

As the licensed TSO, the regulatory model applied to EirGrid at present is based on the requirements and objectives of its system operator role. However, as the newly designated OAO, EirGrid will ultimately take ownership of offshore transmission assets, whether constructed by developers or by itself. The transmission system assets to be owned by EirGrid will include the high voltage transmission circuits and associated onshore and offshore transmission infrastructure connecting offshore generation sites to the existing onshore transmission system, as well as any necessary offshore reinforcements to accommodate electricity flows.

As a consequence of DECC's stated Policy Framework for Offshore Wind in Ireland out to 2050, the scale of assets EirGrid manages will grow substantially over the next decade and beyond, generating a large financing requirement. In anticipation of taking ownership of Phase 1 offshore transmission assets and constructing Phase 2 and future phases of offshore transmission assets, EirGrid will need to develop new capabilities. This includes acquiring the skills to manage large offshore project procurement and supply chains, undertake operations and maintenance at scale, put in place appropriate governance and accounting rules, and expand its risk management expertise. This process requires significant enhancement of EirGrid's existing legal, commercial, procurement, IT, engineering, and health and safety capabilities. This must be undertaken alongside EirGrid's existing TSO role, which is critical in facilitating Ireland's energy system transformation and reducing whole system costs.

1.4. Purpose of Paper

The CRU is responsible for the economic regulation of electricity network companies in Ireland, which includes EirGrid as licensed TSO. To achieve this, the CRU undertakes Price Reviews, which limit the revenues that licensees can recover from electricity consumers. These typically result in 5-year revenue allowances, which are updated through annual reviews.

Prior to Price Review 6 (PR6), the electricity network price control period covering the period 2026 to 2030, EirGrid will need to have made substantial progress and be ramping up its new offshore activities. The regulatory model to be applied will also need to be detailed sufficiently well in advance of the start of the next price control for EirGrid to reflect its requirements in its price review business plan, expected to be submitted in October 2024.

The purpose of this decision paper is to set out the CRU's decision on the revenue model to be applied to EirGrid in its new role as OAO. The paper sets out the CRU's decisions on the following elements:

- the proposed OAO price control regime; and
- the financial buildings blocks this regime is to be comprised of to ensure EirGrid delivers on its expanded role as OAO.
- The reporting and monitoring requirements on EirGrid

The paper also summarises the CRU's proposals for how to take forward its decisions and recommendations to DECC on EirGrid's offshore activities that were consulted on earlier in the year and will be the subject of a separate paper following engagement with both DECC and EirGrid.

1.5. Related Documents

The following CRU publications relate to this consultation paper:

CRU202411	<i>Offshore Revenue Recovery Model – EirGrid</i>	Consultation
CRU2023105	<i>EirGrid Offshore Revenue Model</i>	Call for Evidence
CRU20152	<i>Price Review Five (PR5) - TSO and TAO Transmission Revenue for 2021 - 2025</i>	<i>Final Determination</i>
CRU20154	<i>PR5 Regulatory Framework, Incentives and Reporting</i>	<i>Decision</i>
CRU202427	<i>Price Review Six Strategy Paper</i>	<i>Discussion Paper</i>

1.6. Structure of Paper

This paper is structured as follows:

Section 1	Provides context and background to the offshore revenue model, as set out above.
Section 2	Provides an overview of the consultation proposals and summary of feedback to the consultation.
Section 3	Details the CRU's recommendation to DECC on EirGrid's leadership, and governance activities of the OAO.
Section 4	Outlines the cost reporting and accounting separation of EirGrid's OAO activities

Section 5	Outlines the offshore revenue model and its building blocks, including regulatory reporting and monitoring.
Section 6	Sets out the CRU's decision on financial issues and regulatory finance building blocks of the offshore revenue model.
Section 7	Provides the next steps following this decision.
Annex 1	Investment Gateway monitoring protocol

2. Consultation Proposals & Stakeholder Feedback

On 29 February 2024, the CRU published a consultation paper on an offshore revenue model for EirGrid. This section provides an overview of the proposals outlined in that paper, and a high-level summary of stakeholder responses to that consultation.

2.1. Overview of the Consultation Paper

The purpose of the consultation paper was to gather stakeholder feedback on the offshore regulatory revenue model to be applied to EirGrid in its new role as OAO.

In that paper, the CRU proposed that the interests of both consumers and the developing offshore market in Ireland would be best served by a **high degree of separation and transparency** between EirGrid's existing TSO role and its new offshore functions.

With that in mind, the CRU set out its proposals on the following three elements:

- The leadership, governance and reporting requirements for the OAO functions;
- The CRU's proposed degree of separation to be implemented between TSO and OAO functions; and
- The financial building blocks on which the offshore revenue model is to be comprised.

(A) Leadership, Governance & Reporting

The CRU's proposals included the following:

- Establishment of a separate OAO function/business unit, which is both managerially and operationally separate from the TSO business unit.
- Establishment of an additional EirGrid sub board committee to oversee the offshore programme and an offshore lead to sit at the offshore board committee level.
- Establishment of a Conflicts of Interest policy, including the principles that EirGrid will apply to maintaining separation and processes to be followed in the event of a potential or actual conflict of interest being identified.
- A requirement for formal cost allocation rules between TSO and OAO business units.
- At least one non-executive compliance director with specific responsibility to oversee compliance in relation to the separation of the OAO and TSO roles.

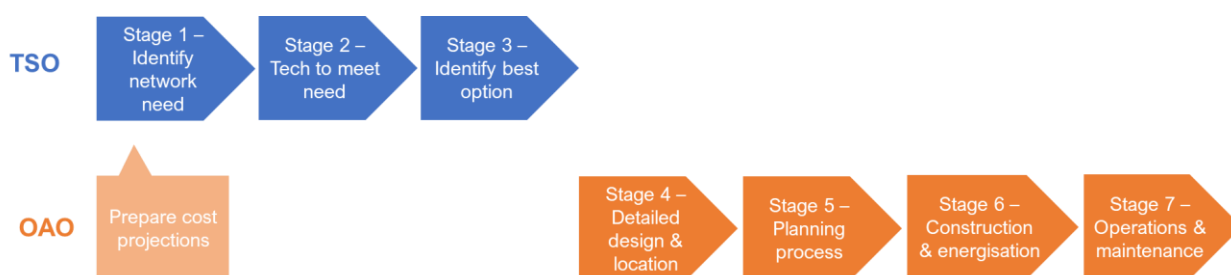
- Expectation that debt will be raised at EirGrid (not business unit) level but there will be a requirement on EirGrid to account for use of debt and equity across business units.

(B) Separation of System Operator and Offshore Asset Owner Functions

The CRU's proposals included the following:

- Earlier stages of onshore and offshore network grid development activities (i.e. need case identification, required technical standards, and identification of optimal solution) would be a TSO function, and will fall within the scope of the existing TSO revenue control (see Figure 2.1 below).

Figure 4 Proposed allocation of offshore grid development process – for illustration



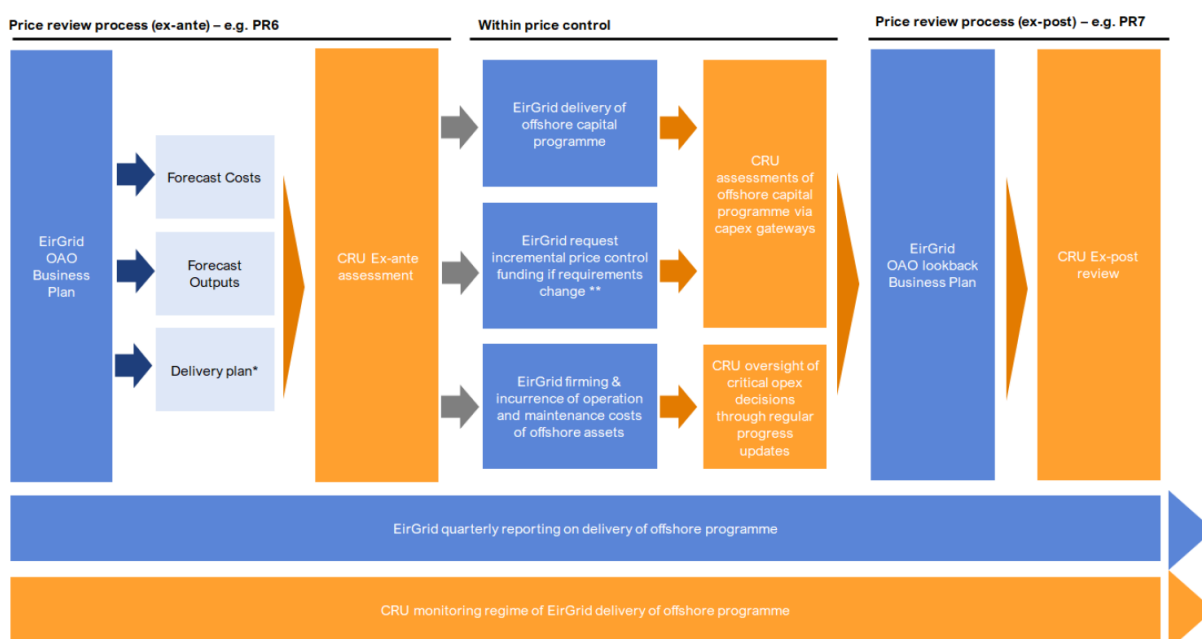
- Later stages of the offshore grid's development process (i.e. detailed design and location, planning process, construction, and energisation) are an OAO function, and will fall within the scope of the OAO revenue control, as will ongoing maintenance, operations and commercial management (e.g. procurement and insurance) of the offshore transmission system once the offshore assets are constructed (see Figure 2.1).
- EirGrid's activities to engage with and support the proving and handover process of the ORESS 1 developer-led transmission assets is an OAO function and will fall within the scope of the OAO revenue control.
- Remuneration of the ownership and financing of offshore grid investment – including developer-led projects once transferred (Phase 1) and EirGrid-led (Phase 2 and Future Framework) projects – will sit within the scope of the separate OAO revenue control and RAB.

(C) Revenue model building blocks

The CRU proposed that the OAO price control includes the following:

- A revenue cap regime (applied for a defined 5-year regulatory period, equal to the sum of the operating expenses of the OAO, an estimate of depreciation, and a return on capital).
- A separate RAB and allowed WACC for EirGrid's OAO business.
- A combination of ex ante and ex-post review of licensee expenditure.
- A cost assessment framework that is tailored to the challenges of the offshore network.
- Introduction of a new gateway process to monitor EirGrid's delivery of its offshore capital programme and firming of key operating and maintenance costs.
- Financial incentives (Delivery incentive, Availability incentive and Cost incentive).
- Principles for how depreciation of the OAO RAB could be approached.
- Options for how an allowance for EirGrid's debt financing obligations could be set at future price controls.
- Measures that could be used to facilitate the liquidity of the business.

Figure 5 Steps in the CRU's proposed ex-ante / ex-post cost assessment regime – for illustration



* Programme plan and critical path

** Due to output, cost, or timing changes

2.2. Stakeholder Responses and Feedback

The CRU hosted a public consultation which opened on 29 February and initially ran for 6 weeks. In response to requests for an extension to this timeline, the deadline was extended by 1 week. The aim of the consultation was to gather valuable stakeholder feedback and to help inform the CRU's decision on an offshore revenue model for EirGrid.

In total the CRU received 13 responses, 5 of which were marked confidential. The non-confidential responses are published on the CRU website alongside this decision paper. A list of parties who responded are as follows:

- EirGrid
- Bord Gáis Energy
- Electricity Association of Ireland
- EDF Renewables
- Wind Energy Ireland
- ESB Generation & Trading
- Orsted
- RWE Renewables Ireland Limited
- Codling Wind Park - Confidential
- SSE - Confidential
- Corio Generation and Fuinneamh Sceirde Teoranta - Confidential
- Statkraft and Copenhagen Infrastructure Partners – Confidential
- EP UK Investments – Confidential

At a high level, industry respondents strongly supported the introduction of functional and cost accounting separation and noted that full legal separation must not be ruled out at a future date. EirGrid expressed their concerns that there are significant risks created by full managerial and functional separation which would impact EirGrid's ability to deliver the offshore grid within the policy timescales. EirGrid also noted that, in their view, the separation measures proposed by the CRU would also not be compliant with Government policy, European law or domestic law.

There was general support from industry stakeholders for the financial building block principles, with emphasis being placed on the importance of EirGrid being adequately funded. EirGrid broadly welcomed the financial building block principles, including a separate RAB and WACC for offshore activities, liquidity management measures and financial performance

incentives.

The key themes that were raised by stakeholders in their written responses are summarised in the table below. More detailed responses are covered in the individual decision sections of the paper.

Table 2 Summary of stakeholder views on consultation paper proposals – key themes

Financing	<ul style="list-style-type: none"> • Respondents noted that it is critical that EirGrid are adequately funded. Some form of government equity would seem necessary. Wind farm projects seeking to reach FID (2026) require certainty on EirGrid's funding structure. EirGrid's financial standing must enable it to secure funding at a more favourable rate than the developers. • EirGrid broadly agreed with the financial building block principles, including a separate RAB and WACC for offshore activities.
Governance	<ul style="list-style-type: none"> • Industry strongly agreed with functional and cost accounting separation. Industry also noted that full legal separation should not be ruled out at a future date. The Offshore Revenue Model needs to cement the structural and governance changes required within EirGrid as a starting point. There is a need to ensure that if TSO & OAO act independently, this does not lead to delays/disruptions. • EirGrid accepted the proposal for a separate revenue model. However, they noted there are significant risks created by full managerial and function separation which impact EirGrid's ability to deliver the offshore grid within the policy timescales. Ireland is in the midst of radical changes and developments across the power system to deliver on the Government's 2030 targets.
Resourcing & Capability	<ul style="list-style-type: none"> • Industry noted investors will require evidence that EirGrid has the capability to lead the construction of the offshore connection works. Specific expertise related to the development and operation of offshore windfarm infrastructure will be required within the EirGrid offshore team and management.

	<ul style="list-style-type: none"> • Industry further noted that EirGrid must have sufficient qualified and experienced resources in each of its relevant functions, such that they can meet the needs of the relevant licence requirements. Sharing of resources could lead to potential conflicts between the onshore and offshore functions of the TSO. • EirGrid noted that a well-functioning team would freely share information and leverage skillsets as and where necessary. Separation of capabilities and teams may create inefficiencies and interface costs.
Leadership	<ul style="list-style-type: none"> • Industry is of the view that the new offshore business unit should be led by a manager at Managing Director level that is on the EirGrid Senior Executive Management Team and EirGrid Group Board. A new committee should be set up to oversee all offshore activity. Stakeholders agreed with the proposal to have a non-exec compliance director. • EirGrid stated that the structure and composition of the EirGrid board are the responsibility of the Minister under Section 53 of S.I. 445 of 2000.
Conflicts of Interest	<ul style="list-style-type: none"> • Industry noted that ongoing transparency and regulatory oversight is critical to ensure appropriate governance and reporting for offshore. Ireland's energy system users and market participants are dependent on critical, early and impartial decisions by EirGrid on planning and investment across the Irish grid and operational systems. • In EirGrid's view, there is not sufficient evidence to demonstrate that conflicts of interest exist to justify the proposed measures. EirGrid noted there are measures to address a perceived conflict of interest without involving legal or functional separation.

3. Leadership and Governance of OAO

Summary of CRU's recommendations to the Minister

- The CRU considers that a high degree of separation between EirGrid's onshore and offshore activities is necessary to manage potential/perceived conflicts and ensure that there is sufficient focus on offshore delivery.
- The CRU continues to consider separation of the sort consulted upon to be the minimum necessary, and it is therefore recommending to the Minister that the CRU proposals be implemented in full.

3.1. Consultation proposals

EirGrid faces a substantial challenge in developing the capability and capacity that is needed to fulfil its offshore activities. The CRU is acutely aware of the scale of transition that EirGrid must make in order to deliver its offshore responsibilities including the required step change in its capability and capacity to meet Government ambitions.

Cognisant of this challenge and reflecting the need to introduce clear regulatory rules, the CRU's consultation proposed the following:

- The establishment of an offshore business unit with staff dedicated to the offshore programme.
- Additional senior leadership reporting to the Chief Executive and operating at board level and a board sub-committee with a specific role to oversee offshore.
- The establishment of an offshore compliance function, with board-level leadership, to monitor the management of actual or perceived conflicts of interest within EirGrid.
- The production of separate regulatory information and new reporting requirements (e.g., separate accounts) for the offshore business unit.

For the avoidance of doubt, the CRU has not proposed formal legal separation of EirGrid's existing TSO duties and activities of those relating to its offshore activities. The CRU proposals were confined to creating specific offshore capacity and capability to support and ensure full transparency of information for the purposes of regulation and to address the potential for actual or perceived conflicts of interests.

3.2. Consultation responses

Industry responses

- Most respondents were supportive of the CRU's proposals. Some expressed a view that full legal separation would be preferable or should not be ruled out. Respondents noted in particular that strong and experienced senior leadership is required to oversee the offshore programme and, more generally, that EirGrid must rapidly develop the required expertise and capacity. Respondents also considered that there is a risk for conflict e.g. between EirGrid's offshore and onshore activities.

EirGrid response

- EirGrid strongly disagreed with the CRU's proposals. EirGrid did not agree that actual conflicts of interest may arise and considered that any such issues could be managed without the need for a high degree of separation. EirGrid foresaw inefficiency in separation (e.g. through the duplication of roles), and the potential for impacts on its unbundled status. EirGrid also argued that internal resourcing and governance is not a matter for the CRU. EirGrid did agree that information separation is practicable (i.e., that separate accounts etc., could be produced for its offshore activities).

3.3. The CRU's current position on separation of EirGrid's TSO and OAO activities

In the context of the Government decision of 2021 and the enactment of the MAP Act which provides that EirGrid's licence to discharge the functions of the transmission system operator shall provide for EirGrid's ownership of transmission assets for certain specified purposes, the CRU considers that best practice would be the introduction of full functional separation of EirGrid's offshore activities (i.e., the creation of a separate legal entity for offshore within the EirGrid Group). However, the CRU is cognisant that there is currently no express legal provision to separate the offshore activities from the onshore activities. The CRU also recognises that this would place an additional resource burden on EirGrid at a time that may negatively impact the progress of activities required to enable the development of Ireland's offshore energy sector in meeting the 2030 government targets. It may also impact EirGrid's certification as TSO under EU law.

In its February consultation paper, the CRU proposed that a high degree of operational and management separation between EirGrid's onshore TSO role and offshore TSO and owner

role, through the establishment of a new offshore division is necessary and should be introduced. The CRU also proposed that EirGrid should establish a new offshore board committee that has sufficient and relevant expertise to support the EirGrid board and oversee the offshore programme. The CRU also proposed additional expertise and strengthened leadership dedicated to the offshore business unit including at board level through the introduction of a suitably experienced offshore programme lead.

Following further consideration, the CRU recognises that some of the consultation proposals on leadership, board structure and governance matters proposed in February are a matter for the Minister for example board structure of EirGrid.

The CRU considers that, having regard to the scope and importance of the offshore programme, and in accordance with its duties under section 9 (1)(e) of the ERA²⁸ it should advise the Minister on what the CRU considers are important matters on EirGrid's leadership and governance structure given it is the CRU who are responsible for reviewing and approving revenues sought by EirGrid.

In this regard, the CRU is engaging with DECC and advising the Minister to consider the following recommendations.

Given the above, the CRU is:

- iii. Recommending to the Minister that EirGrid be required to establish a separate offshore business unit which is managerially and operationally separate from the onshore TSO unit²⁹, while ultimately governed under the aegis of the EirGrid plc Board.
- iv. Recommending to the Minister that they consider requiring EirGrid to develop and introduce other changes to the company's governance, including a requirement for EirGrid's new separate offshore business unit to be led by an experienced offshore programme lead, reporting to EirGrid's CEO and a new EirGrid Board sub-committee responsible for oversight of the offshore asset owner business unit and offshore programme within EirGrid.

In addition to this, the CRU is taking decisions on governance matters within its legal remit within this paper that it considers are vital to protect consumers interests, the independent functions of the TSO and Ireland's wider offshore ambition.

²⁸ Section 9(1)(e): "to advise the Minister on the development of the electricity and gas industries and on the exercise of the functions of the Minister under this Act,"

²⁹ With a supporting policy for management of conflicts of interest, including the principles EirGrid will apply to maintaining separation and processes to be followed in the event of a potential or actual conflict of interest.

The CRU will take forward its recommendations on leadership, board structure and governance matters which are not within CRUs legal remit with DECC separate to the decisions taken in this paper. Therefore, this decision paper will focus only on providing further detail in respect of the CRU's key decisions and requirements for EirGrid's offshore revenue model, financial building blocks and reporting and monitoring requirements.

4. Cost reporting and accounting separation of EirGrid's offshore activities

Summary of CRU Decision

- The CRU has decided that EirGrid will be required to develop and maintain a separate set of regulatory financial accounts for its offshore activities, using agreed principles for cost allocation. These are outlined below.
- The CRU considers that transparency of information for the purposes of the regulation of EirGrid's offshore activities is vital. To achieve this, the CRU is requiring EirGrid to develop and maintain a separate set of regulatory accounts for its offshore and other business activities.
- The requirement for transparency will extend to financing, although the CRU notes that finance raising will be undertaken at the EirGrid Group level.

The CRU has decided that accounting separation is necessary to ensure the transparency of EirGrid's offshore revenues and costs. Such transparency is necessary to minimise the risk of potential and/or perceived conflicts of interest across EirGrid's new and expanding roles, and to promote effective business resourcing, governance and management. This requirement to implement accounting separation for EirGrid will seek to ensure that fair, objective and transparent criteria are followed in the allocation of revenue, costs and other accounting information between EirGrid's offshore and other business activities in meeting these objectives.

The CRU therefore requires EirGrid to further develop their management accounting data provided as part of its business plan (i.e. in its BPQ tables) along with additional separated accounting templates into more formal regulatory accounting statements for its offshore business alongside its other business activities. These regulatory accounting statements should separately disclose EirGrid's offshore activities alongside EirGrid's other activities and follow the cost separation principles set out in Box 2 below supported by accounting documents including the attribution methodology, transfer charges and accounting policies used to derive these separated accounts. These regulatory accounting statements should reflect as closely as possible the performance of EirGrid's offshore and other business activities as if they had operated as separate businesses to meet the objectives set out above.

These accounting statements are to be audited with the cost separation principles and accounting documents used to prepare these accounts and are to be reconciled to the EirGrid Group's statutory accounts. The regulatory accounts prepared by Eir³⁰ for the Commission for Communications Regulation (ComReg) provide an example of the approach that the CRU will implement.

As is the case for Eir, and other regulated companies producing separated regulatory accounts such as An Post³¹, EirGrid will be required to procure that the auditor of its regulatory accounting statements has a duty of care to the CRU alongside its duties to EirGrid. The auditors reports for the regulatory accounts of Eir and An Post provide an example of this duty of care (see "Use of our report" in both companies auditors reports where the words "*on terms that have been agreed*" refers to a tripartite agreement between the Company and the Regulator).

EirGrid should begin to develop its approach now. Both the approach and format of the accounts should be agreed with the CRU in sufficiently good time to allow for EirGrid's first set of audited accounts to be delivered to the CRU by 1st April 2026.

Box 2 – Cost allocation principles

- **Completeness** – All reported regulatory information must encompass all revenues, costs, assets and liabilities, etc, as required by the CRU.
- **Transparency** – Clear identification of the attribution and allocation methodologies used to apportion revenues, costs, assets, and liabilities to the relevant regulated businesses and segments within those businesses as well as to any non-regulated parts of the business. These attribution and allocation methodologies and the underlying cost drivers should be clearly explained and evidenced to provide assurance with regard to compliance with this requirement and confidence in any regulatory decisions based on this information.
- **Accuracy** – All reported regulatory information must maintain an adequate degree of accuracy, such that it is free from material errors and double counting.

³⁰ [Eir Regulatory Accounts here](#)

³¹ [An Post Reports here](#)

- **Causality** – Revenues, costs, assets and liabilities are attributed or allocated in accordance with the activities which cause the revenues to be earned, costs to be incurred, assets to be acquired and liabilities to be incurred.
- **Objectivity** – The attribution or allocation methodologies used should be objective using relevant financial and operational data and assumptions supported by empirical data such that any part of the business does not benefit unfairly from the methodology used.
- **Non-discrimination** – No undue bias, preference or discrimination should be shown in relation to the provision of services by themselves or to other regulated entities. The attribution or allocation of revenues and costs and internal transfer charges should not favour any regulated or non-regulated parts of the business, and any transfer prices used should be consistent with prices charged to external third parties.
- **Consistency** – Revenues, costs, assets and liabilities should be attributed or allocated consistently from year to year to allow meaningful comparisons and monitoring over time. Any changes to the attribution and allocation methodology from year to year should be clearly justified and transparently explained.
- **Compliance with statutory accounting standards** – Regulatory reporting of EirGrid's onshore and offshore activities should comply with the accounting standards adopted by the EirGrid Group for its statutory accounts. Regulatory accounting information should be reconciled against EirGrid's statutory accounts.

The requirement for transparency and separated accounts of EirGrid's offshore and other business activities extends to any financing raised and used to support the EirGrid offshore business. The EirGrid separated accounts are therefore required to transparently show all forms of financing used for EirGrid's offshore business activities.

The CRU requires EirGrid to provide a high degree of transparency in respect of its offshore financing programme and the terms of this financing. EirGrid should report at an offshore level in these separated accounts for the allocation and use of its funds. Similarly, EirGrid will need to be able to account for the use of any equity injections for the offshore programme.

This transparency in the separated accounts of all financing raised and used to support the EirGrid offshore business should allow the CRU to assess the return being made by the EirGrid offshore business on its aggregated offshore revenue in these separated accounts. This should be at a sufficient level of detail to allow the CRU to agree an appropriate rate of return on the offshore financing and monitor this in subsequent regulatory financial accounts.

5. Revenue Model Building Blocks

Summary of CRU decisions

This section outlines how the OAO revenue control will operate and the principles that will form part of the PR6 and future electricity network price review processes:

- The CRU has decided to apply a revenue cap regime whereby the OAO has a cap on the total revenues it can earn during a defined regulatory period.
- This revenue cap will be comprised of several building blocks designed to ensure EirGrid delivers on its expanded role as OAO.
- All offshore asset investment – i.e., investment in offshore network infrastructure that is owned by EirGrid – will be reflected in a separate OAO RAB.
- The CRU expects to build upon its standard regulatory practices for setting network price controls, but it has decided to adopt a cost assessment framework that is tailored to the challenges of the offshore network. In particular, the approach recognises EirGrid's limited ability to bear risk given its current asset light status.
- To monitor progress and deliver against its duty to protect consumers, the CRU will establish two key reporting requirements for EirGrid; offshore readiness and major investment programme monitoring (capex and major opex monitoring).
- EirGrid will be expected to work within baseline capex and opex allowances set ex ante at PR6. However, EirGrid will be able to apply to the CRU for interim determinations to vary its revenue cap e.g. where changes outside of its control adversely impact its liquidity or financing.
- Both capex and large value opex investments will be monitored via a gateway process, which is important as it enables management of the offshore programme's inherent cost uncertainty and risk. The CRU will continue to engage with EirGrid, via its offshore readiness monitoring, for the remainder of the PR5 price control to ensure that the requirements of the PR6 control are refined and understood and that the business plan which EirGrid submits meets the CRU's requirements.

This section summarises the CRU's consultation proposals and relevant responses. It then sets out the CRU's decisions on revenue model building blocks.

5.1. Consultation Proposals

The consultation paper described the proposed building blocks of the offshore regulatory

regime and how the offshore revenue control would work as part of future electricity network price review processes.

In considering the design of the OAO price control the CRU set the following objectives:

- To provide EirGrid with flexibility and predictability of the regulatory treatment of costs in OAO allowed revenues where there is uncertainty of cost estimation at the time of the CRU's ex-ante 5-year price review; and
- To provide opportunities for the CRU to ensure that Irish consumers interests are protected, given the significant investment that EirGrid will undertake in the offshore programme underpinned by consumer funding.

At a high-level, the CRU proposed that a revenue cap regime should be applied comprising of building blocks designed to ensure that EirGrid delivers on its expanded role as OAO. The regime would cap the total revenues for the OAO during a defined regulatory period, equal to the sum of the operating expenses of the OAO, an estimate of depreciation, and a return on capital. Under this proposal, all offshore asset investment – i.e., investment in offshore network infrastructure that is owned by EirGrid – would be reflected in a separate offshore RAB.

The CRU's proposals built upon its standard regulatory practices for setting network price controls (a combination of ex ante and ex-post review of licensee expenditure). However, the CRU proposed to adopt a cost assessment framework tailored to the challenges of the offshore network i.e. which recognises inherent uncertainty and the level of risk that EirGrid can be exposed to in the short term given its asset light nature. The incentives set as part of the price control will recognise EirGrid's limited ability to absorb risk.

To manage uncertainty, the CRU proposed a gateway process to monitor development and delivery of EirGrid's offshore capital programme and ongoing monitoring of key operating and operating maintenance costs. The CRU indicated that these processes are expected to build on the monitoring regime that the CRU is establishing for offshore programme costs during the existing PR5 price control.

5.2. Consultation Responses

Industry response

- Industry respondents did not comment in detail on the overall form of the revenue control model, but were generally supportive of the CRU's proposals, particularly the requirement to have a separate price control for EirGrid's OAO activities and the principles underpinning the PR6 regime.

EirGrid response

- EirGrid was supportive of the proposal of a separate revenue model for certain offshore related activities stating that it is helpful to have separate revenue allowances and a separate RAB for offshore activities due to their different risk profiles and growth trends. EirGrid agreed with the broad split of TSO and OAO activities for the purposes of cost allocation and setting out boundaries for regulatory revenue.
- EirGrid's response indicated that the Company may not have sufficient resources to submit an offshore business plan with the level of detail and accuracy required by the CRU during the PR6 business plan submission window. It underlined its expectation that the programme will be uncertain at the start of PR6.
- EirGrid was broadly supportive of the CRU's proposed overall approach to cost assessment for PR6 recognising that the CRU has put forward pragmatic and flexible arrangements that reflect the challenges of EirGrid taking on the OAO role.

On the CRU's proposals for the treatment of capital expenditure, EirGrid noted the following:

- EirGrid noted that the capex gates and monitoring could represent a dynamic and flexible approach to reducing cost risk and managing cost drivers pragmatically. However, they emphasised the need for the CRU to clarify the extent of its involvement and the degree to which it will exert its regulatory discretion. EirGrid suggested that lessons from other sectors show there is a risk that excessive involvement of the regulator can lead to delay. EirGrid indicated that it would welcome further discussion and clarification with the CRU on how the capex gateways will work in practice.
- EirGrid suggested that the CRU should clearly define which regulatory decisions will be made in period and the consequences of those e.g. on EirGrid risk. EirGrid is of the view that it may be unable to manage cost fluctuation within an overall capex envelope set ex-ante.
- EirGrid indicated that cost overspend is a major risk and that this level of capex risk is new for EirGrid to manage. It considers that actual costs could differ substantially from

ex-ante estimates and point out that EirGrid has limited financial flexibility to manage cost overruns, given the scale of investment required.

- In principle, EirGrid accepted the CRU's reserved right to "disallow capital expenditure from the RAB where EirGrid's expenditure is considered inefficient or wasteful". EirGrid requests further guidance on what would be considered inefficient or wasteful.

On the CRU's proposals for the treatment of operational expenditure, EirGrid noted the following:

- That overall, EirGrid agreed with the proposed approach to opex, but raised concerns about the level of detail CRU expects EirGrid to provide in its PR6 business plan submissions, noting that this will add further pressure to EirGrid during the business plan submission process which could negatively affect submission timing.
- That the ex-post assessment scope should be limited to information available to EirGrid at the point of investment decision making and CRU should seek to investigate the reasonableness of those decisions rather than their outcomes.
- That the overall regulatory reporting and monitoring approach that the CRU proposed in the consultation appears to be a significant departure from typical regulatory reporting and requires consideration as to the proportionality and effectiveness of supporting the delivery of the offshore regime.

5.3. CRU Decision

The CRU has decided that the regulatory objectives outlined in the consultation paper are appropriate, given they were widely supported by respondents.

The CRU considers that adaptations to the standard price control process are required to enable EirGrid to develop its offshore activities and deliver new assets into service during the period of PR6 (2026-2030). In particular, the CRU recognises the need to provide EirGrid with flexibility to manage change within the control period and limit the level of risk that EirGrid is exposed to, given its current asset light status. However, these adaptations necessitate a more involved price control regulatory regime since it is the Irish electricity consumers who will ultimately bear the risk that EirGrid cannot bear at present.

The CRU acknowledges EirGrid's concern that the proposed level of oversight could lead to delay relative to an approach with less regulatory oversight, particularly if the process is not carefully managed and if the requisite resources are not in place. It is in the interest of all parties to avoid delays to the offshore programme. The CRU expects EirGrid to be open and transparent and appropriately structured/resourced to ensure that it provides both high quality

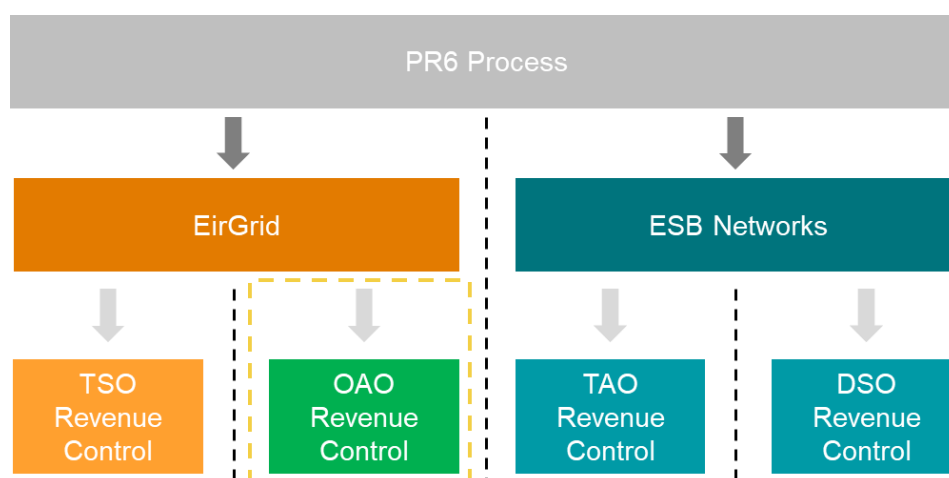
and sufficient information and engages in open dialogue to facilitate rapid decision making by the CRU. The CRU will engage with EirGrid to embed monitoring and reporting arrangements.

5.3.1. The regulatory regime for PR6

After careful consideration, the CRU has decided that the revenue model for offshore will be comprised of several building blocks similar to those used to determine the allowed revenue caps for the electricity TSO, TAO and DSO, but designed to ensure EirGrid can deliver on its expanded role as OAO and recognising the challenges it faces as it transitions into this role. The CRU will set a separate allowed OAO revenue cap, with the first price control determination forming part of the CRU PR6 process.

The figure below shows how the OAO revenue cap will sit alongside the other revenue caps as part of the PR6 process. It is expected that the consultation papers for PR6 determinations will be published in Q1/Q2 2025, and the decision papers will be published in Q3 2025, in advance of PR6 go-live in 2026. Tariff arrangements will need to be developed to align with these revenue caps and will be set out in a separate decisions.

Figure 6 Separate revenue caps to be included within PR6 price review.



The price review process will form the primary basis for the CRU establishing ex ante allowances for each of the building blocks of the OAO revenue control. As detailed below, there will be a series of mechanisms and processes in place to manage variations in expenditure requirements and cost uncertainty within the price control period.

As is standard in CRU's price controls, the OAO revenue allowances will be set by a combination of ex ante and ex-post review of expenditure and revenue requirements. The primary purpose of the PR6 ex-post review will be to determine how well EirGrid has managed the development and associated costs of its offshore programme in the relevant period and

how that impacts on the incentives set as part of the price control.

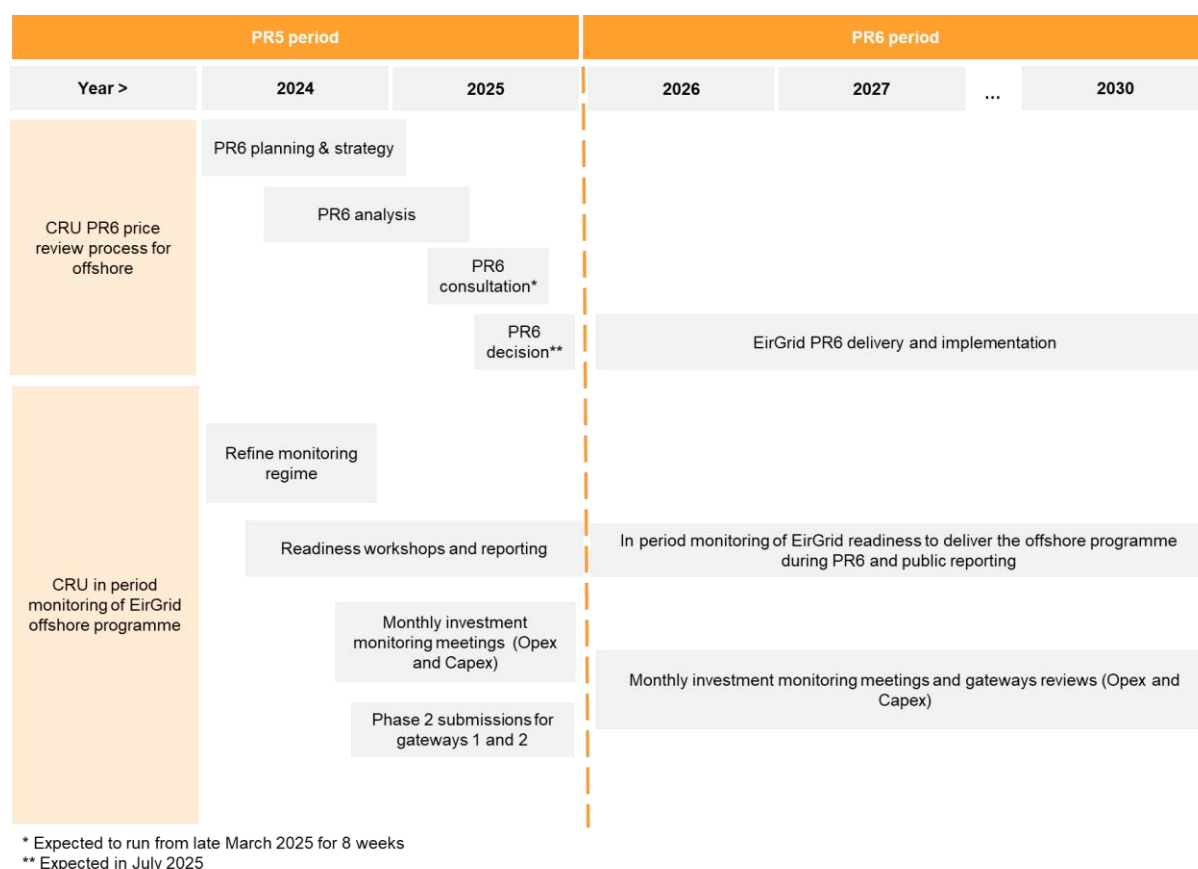
5.3.2. Planning for PR6

In the run up to PR6 commencing, EirGrid will continue the major business transition process it has been undertaking since the DECC policy statement was published in 2021.

EirGrid will be expected to ensure its business transition process enables it to be financeable and to effectively manage the offshore transmission assets it constructs, or which are transferred to it by Phase 1 offshore wind developers. The proposed offshore regulatory model as part of PR6 will, therefore, build on the work the CRU has requested EirGrid to deliver during PR5 in readiness for becoming an effective OAO.

A key aim of the PR6 offshore revenue model will be to further accelerate EirGrid's progress and maintain momentum, creating incentive structures that ensure transparency for consumers, the CRU and its shareholders, and encourages EirGrid to acquire the resources and skills it needs. As discussed in Section 5 below: **Financial Considerations**, the CRU will place a set of financial performance incentives on EirGrid so that there will be commercial impacts for the business if it fails to achieve the performance levels envisaged, e.g., in terms of a high level of asset availability and timeliness of delivery of Phase 2 projects.

Prior to the start of PR6, an offshore readiness reporting and investment monitoring programme will be implemented by the CRU i.e. over the remainder of 2024 and 2025 and continue in the following years, to enable the CRU to effectively monitor EirGrid's transition plans and offshore programme development alongside its existing PR5 monitoring. In this period, the CRU will also commence investment monitoring (see below) with the expectation that Phase 2 capex projects will reach at least gateway 2 prior to the start of PR6. The CRU will undertake similar monitoring of opex. The CRU's timeline for monitoring offshore progress is illustrated in the figure below.

Figure 7 Timeline for PR6 price review process for offshore and implementation of initial offshore monitoring programme - for illustration purposes only

5.3.3. Rationale for initial readiness monitoring (prior to PR6)

The CRU is aware that EirGrid is already working towards developing its offshore readiness. Given the challenging timeline for the offshore programme, the CRU considers it essential that substantial progress is made on this ahead of the first OAO price control commencing at the start of 2026. The CRU considers that a robust and transparent offshore readiness reporting and monitoring framework is essential for supporting the long-term needs of EirGrid's offshore programme, whilst also addressing the material risks to consumers and stakeholders associated with EirGrid's new OAO role.

The CRU will therefore establish an offshore readiness reporting and monitoring regime to formally commence following this decision, with an expectation that EirGrid deliver its first report in October 2024. This will be designed to embed transparency and information sharing and drive the development of a high quality and detailed offshore business plan for

the period 2026 – 2030. The CRU views the primary objectives of this framework as:

- **Assessment of readiness:** The development of a comprehensive programme plan that will form the scheduling baseline for 2026-2030 OAO price control period.
- **Creating new requirements for transparency:** in terms of the level of detail and quality or cost baseline information and over early decision making e.g. on supply chain. This will create transparency around the state of development and progress of EirGrid's offshore programme, enabling the CRU to ensure that the programme is proceeding as intended, and in line with its expectation of delivering good value for consumers.

The CRU will engage with EirGrid to align, where practicable, its information requirements to those that it expects EirGrid already has in place as part of its internal governance and management of its offshore programme.

The CRU's requirements and expected principles for the readiness monitoring and reporting framework are set out in the subsections below.

5.3.4. Principles of Offshore Readiness Monitoring and Reporting

The CRU will use three principles to assess EirGrid's progress in the period prior to PR6:

- **Value for Ireland's electricity consumers.** Are the decisions EirGrid is making around the offshore programme adequately addressing risks and delivering value for consumers.
- **Timeliness.** Are the decisions EirGrid will be making ensuring that milestones are achieved at the right time to facilitate efficient and effective delivery of the offshore programme.
- **Transparency.** Is EirGrid being clear and open in its communications on delivery timelines, costs incurred, and progress against the critical path established for the offshore programme.

The CRU expects EirGrid to demonstrate through its reporting and monitoring submissions that its programme is aligned with these principles. The CRU reserves the right to intervene and question EirGrid's process and/or proposed decisions if it considers one or more of these principles has not been met, or if a decision may drive a material increase in cost or risk or cause a delay that would not be in the interest of achieving Ireland's offshore energy targets.

5.3.5. Readiness reporting structure and information requirements

The CRU requires EirGrid to report quarterly on its progress against its cost and schedule baselines. The CRU is particularly interested in understanding the pace of the transformation during the remainder of PR5 (i.e. up until the end of 2025), any costs being incurred during the PR5 period, and importantly the formative decisions that EirGrid may wish to take during the PR5 period that will underpin approaches, cost, and schedule for PR6.

EirGrid's first offshore readiness report should form part of EirGrid's PR6 offshore business plan, which it will submit in October 2024 as part of the CRU's ongoing PR6 review. The readiness report should set out:

- A detailed programme plan and schedule for offshore readiness out to at least 2030. This fully developed version of the current programme should show the critical path, time-linked milestones, and highlight material decision points. The plan should be provided in appropriate form (such as Microsoft Project). The CRU expects to have full access to the plan i.e. to be able to review at sub-programme level not just the overall critical path or timeline.
- The associated risk register. This should use industry best practice to identify risks and uncertainties, assess their probability, consider mitigations and potential financial/schedule consequences post mitigation.
- Proposed cost baselines (by component) for capex and opex.
- A high-level financing strategy supported by a detailed submitted financial model.
- EirGrid's progress with developing its internal capability and resource capacity.
- Forthcoming external supply chain and wider procurement decisions.
- The narrative plan should include a 'RAG' (Red, Amber, and Green) assessment progress against baseline schedule and costs for each workstream in the offshore programme.³²

The readiness reporting should provide a detailed explanatory narrative for the plan. The purpose of this report is to allow the CRU to understand EirGrid's decision-making process and provide meaningful context as EirGrid delivers its offshore programme. This report should

³² Each project and workstream should be scored as the following: Green: if there is no delay to schedule or risk of cost overrun. Amber: if there is risk of delay to schedule and/or cost overrun, but no perceived impact to the critical path. Red: if there is a risk of delay to schedule and/or cost overrun which affects the critical path.

discuss in detail progress towards key milestones, flag upcoming decisions, and discuss emerging risk and planned mitigations. For any decisions which have a significant impact on cost or time (either in PR5 or PR6), the CRU expects that EirGrid will provide its own value for money analysis and discuss the range of relevant commercial factors.

Following submission of the first offshore readiness report (baseline report), EirGrid will be required to provide quarterly update reports to the CRU with commentary on:

- Its progress in achieving the schedule and activities in the readiness plan; and
- How offshore programme costs have changed since the previous report.

The CRU's intention in establishing this reporting and monitoring regime is to ensure that the critical path for offshore readiness is maintained and that there is early sight of important forthcoming decisions and issues that the programme needs to manage. EirGrid must ensure that the offshore readiness reports are sufficiently detailed for the CRU to identify the main tasks and activities of interest, and to assess progress against baseline targets in a straightforward manner, including against offshore programme critical path items. Quarterly reports must be consistent in format with earlier versions (i.e. they must share the same breakdown of activities and be referenced to the baseline included in the first quarterly report submission (i.e. baseline report to the CRU).

The table below summarises the CRU's high-level requirements for EirGrid's offshore readiness reporting.

Table 3 Summary of requirements readiness reporting and monitoring

Workstreams		Description
Offshore Readiness Updates	Financing	This category will contain updates on EirGrid's progress towards securing an adequate credit rating and new equity injection. This should include detail on its approach to and timeline for a shadow rating.
	O&M plans	This category will contain updates on EirGrid's development of the necessary capabilities to take over O&M for phase 1 and phase 2 projects including key milestones.
	Organisational development	This category will contain updates on the progress that EirGrid is making towards attaining the capability and capacity that is required to deliver on its OAO remit
	Procurement	This category will contain updates on EirGrid's progress on

		securing major contracts for its offshore activities.
Project Updates	Phase 1 – Developer led	This category will contain updates on EirGrid's timeframe and progress against milestones for phase 1 projects
	Phase 2 – Plan led	<p>This category will contain updates on EirGrid's progress against the capex gateway process. It will also include updates on EirGrid's plans and progress towards the letting of any major contracts.</p> <p>EirGrid should note that the CRU will expect to review its procurement strategy prior to key procurement decisions being taken even if there is no PR5 expenditure.</p>

It is the CRU's intention that wherever practicable EirGrid should develop reporting for the CRU that draws from its own internal reporting to reduce duplication of effort. EirGrid should provide the CRU with a complete draft report for review and discussion by the end of September and then a final report submitted alongside its PR6 offshore business plan due end of October. The CRU will provide feedback to EirGrid as necessary as this reporting information is developed.

The CRU will use the quarterly readiness report to inform a quarterly meeting with EirGrid to monitor progress of its readiness activities and to discuss the need for any remedial steps or interventions where tasks and activities are behind scheduled targets.

As well as a confidential report for the CRU, EirGrid is required to develop an appropriate public report and to agree the structure/content of such reporting with the CRU. This is to provide confidence and transparency to other stakeholders – e.g., offshore wind developers – of EirGrid's progress with its offshore readiness programme leading into and during the 2026-2030 delivery period. This report should be published on EirGrid's website within 4 weeks of providing a report to the CRU. EirGrid may redact certain items within the reports prior to publication in appropriate cases (e.g. due to commercial sensitivity). The published reports should clearly demonstrate to wider stakeholders EirGrid's overall readiness, delivery timeframes against the baseline plan and mitigation measures for any areas of the plan that may not be on track.

Where readiness reporting covers plans to procure large value contracts, the CRU expects EirGrid to confirm that it has included certain required terms in its contracts e.g. that it has secured termination/novation rights that would allow key contracts to end or change hands

should the need occur. EirGrid contracts will also be expected to contain clauses that permit it, and by extension the CRU, access to detailed supply chain cost and schedule information on an open-book basis. The CRU requires EirGrid to outline their liability under key contracts and terms that allow cost or schedule to be varied. This requirement will extend to contracts placed in PR5 that will not incur costs until PR6 as well as future contracts. EirGrid will also be expected to advise the CRU, via its reporting to it, that the required terms are included in all material invitations to tender.

The CRU will also commence investment gateway monitoring of capex and major opex following publication of this decision. This is discussed further in the sections below (5.3.12).

5.3.6. PR6 Business planning & requirements

As indicated above, the CRU expects the work undertaken as part of readiness monitoring to form the basis of EirGrid's offshore business plan submission for PR6.

The CRU's data requirements for the OAO revenue control are defined in a business plan questionnaire (BPQ), which was sent to EirGrid in June 2024. The CRU will expect the business plan response to clearly identify and separate the costs of EirGrid's offshore programme from its existing TSO functions/activities and the submission to justify the basis on which costs have been allocated. As part of its business plan submission, EirGrid should provide a regulatory accounting and cost allocation methodology statement reviewed and assured by an independent third party and consistent with the regulatory principles for cost allocation set out in section 4. This is expected to form the baseline for the preparation of separate regulatory accounts going forward, as per the CRU's decisions as set out in Section 4.

EirGrid's OAO business plan should provide the CRU with cost estimates of its proposed offshore construction/capex, O&M, and wider opex costs.³³ The business plan should detail all offshore activities and include a programme and critical path that the CRU can monitor progress against. The CRU will set ex ante capex and opex allowances for EirGrid's offshore programme. Noting that there will be significant cost uncertainty at the start of PR6 EirGrid's business plan, cost estimates should make appropriate provisions for uncertainty, and risk on a transparent basis.³⁴

³³ Wider opex costs refers to all of the costs to be incurred by EirGrid's relevant business units and be consistent with pre-agreed rules for cost allocation where shared costs are split between business units.

³⁴ See discussion below and in Annex 1 – Investment gateway monitoring protocol – for the requirement for EirGrid to transparently forecast provisions for risk and uncertainty.

Given the importance of the offshore programme and the tight timeline associated with it, the CRU considers that EirGrid's business plan must present a robust and credible programme for delivering its new responsibilities including identifying any areas of weakness, e.g., in terms of capacity or capability and plans to address these risks. In the case that EirGrid's plans do not meet this standard, the CRU would expect to engage with EirGrid and if necessary, reserves the right to take decisions to de-risk delivery. This may include using alternative forms of contracting that transfer delivery risk outside of EirGrid and/or transferring construction projects or key services such as O&M to appropriate third parties (e.g. wind farm developers).

5.3.7. PR6 Cost assessment

The PR6 price review process will set baseline cost allowances for both the TSO and the OAO opex and capex over the course of the revenue control. It will also establish a schedule baseline. These baselines will be used in both readiness and investment monitoring and will form the basis against which change is considered both in period and in the offshore ex-post review. For this reason, changes to the baseline need to be controlled. EirGrid will be expected to make a case for change should it consider that it is required.

5.3.8. Setting the capex baseline and capex monitoring

EirGrid has indicated that it plans multiple capital developments to the transmission system to facilitate state planned Tonn Nua site (part of South Coast DMAP area³⁵) and beyond.³⁶ These are:

- Offshore substation(s) – to be located within Maritime Area A (Tonn Nua) of the South Coast-DMAP;
- A connection between these substations and the onshore network including undersea and underground electricity cables; and
- New substations near to existing onshore substations.

Each of these investments is likely to be a substantial capital construction project in its own right ('construction component project').

³⁵ <https://www.gov.ie/en/consultation/72a5c-south-coast-designated-maritime-area-plan-for-offshore-renewable-energy/>

³⁶ EirGrid – Shaping our Offshore Energy Future <https://www.eirgrid.ie/community/projects-your-area/shaping-our-offshore-energy-future>

The price review cost assessment process will set ex-ante an overall capex envelope for these component projects. They will be at a relatively early stage of development at the start of PR6; cost and schedule are likely to be uncertain. The ex-ante envelope will therefore account for uncertainty in addition to covering known/likely risks. Although established on a component project basis the overall capex envelope will be fungible across the Phase 2 (South Coast DMAP area) programme and its components.

Consistent with best practice for large infrastructure programmes, to establish this overall capex envelope, the CRU expects to engage with EirGrid to establish provisions for risk specific to individual components of Phase 2 and to the Phase 2 portfolio as a whole – e.g., inflation risks as well as provisions for ‘uncertainty’³⁷ that will form part of this envelope. The CRU will retain control of portfolio risk and uncertainty funding. Access to that will require compelling submissions from EirGrid. It is important therefore that EirGrid develop sufficient dedicated resourcing to manage project progression.

Phase 2 component project progression will be monitored through a set of investment gateways, the timing of which will be component project specific and recognise that in some circumstances EirGrid will be competing for services e.g. cable manufacture. Each gateway will represent a go/no go decision point at which funds will be approved to permit progress to the subsequent gate. The CRU’s current expectation based on the latest publicly available information is that the Phase 2 projects will reach gateway 2 by the start of PR6 and all will be complete by the end of 2030.

The investment monitoring process is intended to create transparency at critical stages and enable engagement between EirGrid and the CRU to ensure timely delivery and value for customers. The CRU’s gateway process provides flexibility to adapt the programme as it develops and is intended to enforce rigor on EirGrid requiring it to follow industry best practice in its project development / delivery activities.

As part of its business plan submission for PR6, EirGrid will be expected to provide detail on each of the main capital projects / components that together comprise the Phase 2 capital programme. The CRU plans to establish a capital baseline for each of these component projects as part of the PR6 process. As noted above, the baseline will account for EirGrid’s best estimate of project specific risk. EirGrid should also provide an estimate of portfolio risk³⁸ for Phase 2 being potential risks that impact all projects within Phase 2 e.g. ‘super’

³⁷ For example, funds to address events that could occur in the delivery of the capital programme but are not known at the time of initial business plan preparation.

³⁸ It will be necessary for EirGrid to set out how risk has been considered e.g. as project, portfolio or uncertainty and how it has ensured that there is no double counting within the risk provisions it proposes.

inflation. In aggregate these baseline costs and risks will form part of the capex envelope that EirGrid will be expected to work within. EirGrid should also provide its views on uncertainty such that the capex envelope can be uplifted to allow for changes that will emerge as the individual components of the capital programme become more developed.

The CRU will review EirGrid's PR6 business plan submission in order to set an initial capex envelope for the Phase 2 projects. A similar process will be put in place for large opex costs such as insurance and O&M. The envelope will subsequently be updated to reflect the position at the start of the PR6 in Q4 2025.

5.3.9. Principles of investment monitoring

For each construction component project which forms part of phase 2, the capex gateway governance process will consider EirGrid's:

1. Approach and rationale for selecting a proposed technical solution.

The governance process will verify whether the solution selected by EirGrid is the most appropriate solution. The CRU will expect EirGrid to be able to demonstrate that the proposed solution is consistent with industry norms, takes account of current market conditions and industry best practices, and seeks to mitigate material increases to cost, delivery complexity and timeline with good justification.

2. Plausibility of the timeline proposed.

EirGrid must also demonstrate how it has assessed the plausibility of the timeline proposed given the delivery deadlines for the projects. The CRU will expect EirGrid to put forward plausible plans that take account of uncertainties such as planning consent and supply chain availability. It will also be expected to demonstrate that it has considered and mitigated timing risks to the best of its ability.

3. The rationale for EirGrid's proposed commercial and procurement strategy.

For EirGrid's commercial and procurement strategy, the gateway process will assess the development of EirGrid's contracting and procurement solution against the objectives of being likely to meet the long-term interests of delivering consumer value. This will include ensuring that it maximises the potential for competition, takes into account current market conditions, and places the appropriate requirement on bidders in terms of cost transparency and risk sharing.

4. The efficiency of EirGrid's proposed approach against the baseline for the component project and within the overall envelope.

As EirGrid projects progress, the CRU will also evaluate whether the projected costs/ cost incurred by EirGrid to deliver a project are economic and efficient, and within the overall capex allowance established. This will include reviewing whether the costs are consistent with prior expectations, and whether cost deviations were due to factors outside of EirGrid's control. EirGrid will be expected to use its best endeavours to maintain costs within the overall envelope (including the provisions for risk and uncertainty). Its contracts should place suitable incentives on the supply chain to support this objective.

5. EirGrid's proposed approach to managing the project such that the CRU can consider the efficacy of that approach in terms of maintaining cost and schedule including the effective management of risks.

Although in PR6 potential escalations beyond the ex-ante capex envelope (and supply chain pain/gain mechanisms or equivalents) will be a risk borne primarily by consumers, the CRU will use gateway review points to seek to mitigate delay or cost escalation risk. If, in the reasonable opinion of the CRU, cost escalation/delay outside of the envelope seems likely to occur the CRU will consider whether it is appropriate to approve the revenue/funds being requested by EirGrid for the project.

6. Once in construction, the CRU will expect EirGrid to produce, not less than monthly, earned value statistics against agreed cost and schedule baselines.

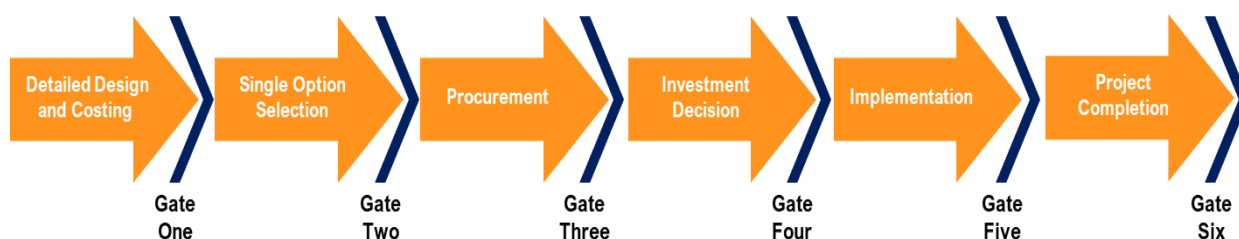
The requirement will be for the earned value statistics to be reported at programme level, separated out by project. These considerations will ultimately feed into an assessment of EirGrid's performance against its delivery incentives.

The CRU expect to apply a closely aligned set of principles to opex monitoring also.

5.3.10. Investment gateway monitoring

The gateway system, as depicted in figure 8 below, will be used to monitor Phase 2 and other relevant i.e. opex ‘projects’ against the baseline cost and schedule determined as part of the PR6 process. Full details on the investment gateway process are contained in Annex 1.

Figure 8 Investment gateways



The CRU expects that EirGrid’s PR6 offshore business plan submission should meet the requirements for a gateway one review of Phase 2 capex projects. By the start of PR6 Phase 2, capex projects (i.e. Tonn Nua assets) should then be in a position to meet the requirements of gateway two i.e. provide sufficient information to permit the CRU to set a capex baseline and overall capex envelope for all the main components of EirGrid’s capex plan.

Each gate in the system will be supported by a series of EirGrid’s milestones to allow overall monitoring of progress and this will form an integral part of the go/no go decision point which the CRU will take. The CRU will utilise checklists and gateway acceptance criteria to support go/no go decision making. This decision may facilitate approval of revenue (including risk and the shifting of uncertainty funding into risk) to permit EirGrid to progress to the subsequent gate. The table below provides a summary description of CRU’s expectations at each gateway milestone. A more detailed capex gateway protocol is provided as Annex 1 to this decision document.

Table 4 Investment gateway process

Stage	Gate	Description
1	Detailed design and costing	A range of options (usually 3) will be assessed with a third-party technical and cost estimating advisory service expected to provide confirmation on the viability and likely cost and timescale ranges of each option including appropriate risk and contingency provisions.

<p>2 Single option selection</p>	<p>A single option will be selected by EirGrid using a cost-benefit analysis approach agreed with the CRU.³⁹ The cost range provided for the option at this stage should include a min, max and most likely estimate. EirGrid's submissions should be supported by external assurance and be presented with a suitable level of cost breakdown and definition to allow CRU to carry out industry benchmarking as required.</p>
<p>3 Procurement</p>	<p>EirGrid will provide a final detailed description of the single option, details of its procurement and commercial strategy and cost savings, and a copy of its ITT, and its bid evaluation framework.</p>
<p>4 Final investment decision</p>	<p>EirGrid will provide a full and detailed internal bid evaluation report including an analysis of price offered against other bids.</p> <p>EirGrid will not be permitted to enter a material contract prior to the CRU's sign-off and approval to proceed from gate 4.</p> <p>The gateway 4 submission should include a QA and assurance report from an independent third-party including a clear status in relation to land and marine consenting obligations to support entry into contract. It should also discuss how it will manage any residual uncertainties in relation to price and schedule.</p>
<p>5 Implementation</p>	<p>The CRU will expect monthly progress reports for each project in construction against baseline costs and schedule using earned value statistics and identification of any deviations with supporting explanatory narrative. Within this, EirGrid should discuss any implications for the portfolio including for portfolio risk provisions, including any risks and/or impacts associated with the ongoing Network Delivery Portfolio Programme and wider transmission system reinforcement works..</p>

³⁹ The CRU envisages that this would be consistent with the requirements of Irish Public Spending Code procedures, available <https://www.gov.ie/en/publication/public-spending-code/?lang=en#:~:text=All%20Irish%20public%20bodies%20are,across%20the%20Irish%20public%20service>

**6 Project completion
and Benefits
Realisation**

This will be an end-of project completion review which will assess overall efficiency against baseline budgets and schedules and will be used to determine the payments (penalties) from the financial incentives on EirGrid for delivery of the Phase 2 programme.

As outlined below, financial incentives will be in place for EirGrid's management of cost within the capex envelope once a clear, stable, reference cost for the components of the Phase 2 capital programme (e.g., post design, consenting and procurement) have been established.

EirGrid will also be subject to a timely delivery incentive against an agreed schedule for the capex programme.

The CRU has developed a proposed process for the investment gateway system initially focused on capex (as set out above and in Annex 1) but considers that its requirements should not be separate to the processes that EirGrid itself deploys e.g. in reporting to its board or funders. The CRU therefore expects to engage with EirGrid in advance of business plan submission to refine (where necessary) the details of investment monitoring to ensure that its requirements are practicable, well understood and applicable also to large value opex projects.

Whilst EirGrid's consultation response placed a significant focus on the potential adverse impacts of regulatory oversight, the CRU considers it important to acknowledge that large capex programmes are inherently time consuming to manage. The CRU considers that the gateway process will need to be timely and efficient. To this end it will ensure that it has sufficient qualified resources in place to assess gateway submissions and that they are fully familiar with the gate acceptance checklists and criteria to be fully satisfied. EirGrid will be expected to provide high quality documentation and robust supporting analysis for each gate in a timely and effective manner. EirGrid should ensure that its resources can deliver on the CRU requirements. The CRU also considers that transparency is essential if the gateway process is to operate smoothly. Accordingly, CRU expects to be provided with all information that it requests on an open book basis.

Post business plan submission, monthly investment monitoring meetings will be established by the CRU to monitor projects through the first and second gateways. EirGrid should

formally notify the CRU at least 3 months in advance of each gateway of an upcoming formal submission.

Once set as part of the PR6 decision, the capex baseline will be subject to change control governed by CRU via the investment gateway process. EirGrid will not be permitted to unilaterally update the cost or schedule baselines. As noted above the cost baseline will account for both risk and uncertainty. Until projects within the programme are firmly developed i.e. ready to be priced in the market, provisions for risk and uncertainty will be fungible across the programme. The CRU will retain control of portfolio risk and uncertainty funding until such time as a robust case is made to utilise these funds via a gateway submission. The CRU recognises that estimates within the envelope may change and that such change could be material. However, the CRU expects EirGrid to be able to demonstrate that it has worked diligently to manage changes effectively in order to remain within the envelope.

As components of the offshore programme reach sufficient maturity to be put into the market for the purposes of pricing, the CRU will expect to be engaged on EirGrid's proposed approach to procurement. Gateway 3 (as described in Annex 1 of this paper) sets out the CRU's requirements in this regard. In part this is to ensure that the CRU is appropriately informed of the basis of the prices being sought but it will also expect to be consulted on aspects of the commercial approach especially anything which may be considered to deviate from established or expected industry norms, or which may expose consumers to material cost risk or delay. EirGrid will be expected to minimise the liability it assumes as part of the contracts it plans to sign, advise the CRU of its proposed approach to managing risk given those liabilities, and notify its approach to variation, termination and novation provisions. It will be important that such information is provided early to facilitate discussion and refinement and to ensure that sharing of information and clarification discussions do not cause delay.

Once components of the offshore programme are priced and the basis of prices has been clearly outlined by EirGrid to CRU, that component of cost will be considered fixed and firm. The market price and schedule will then replace the initial baseline set at PR6. This new baseline will form the basis for a construction cost incentive where EirGrid could be rewarded or penalised for an underspend or overspend compared to the revised baseline target cost (see Section 6). The rewards / penalties at risk will be subject to a cap (as discussed below). The CRU notes that fixed prices may not always be available. Where this is the case an appropriate contingency allowance for risk/change will also be established as part of the target price. Access to this contingency funding will need to be approved by the CRU.

The CRU will consider cost overspend against contracted prices (plus contingency where relevant) at the ex-post review. The ex-post review will not be used to re-evaluate decisions made in-period, but it will be used to assess whether EirGrid has actively managed costs, timescales, risks and change control processes across the programme, i.e. not just for a particular project passing through the gateways, but in the round. The CRU will also pay particular attention to how effectively EirGrid has managed its supply chain.

Under the OAO price control's financial incentive package (see Section 6), EirGrid's management of the programme will be scrutinised. The ex-post review will be the mechanism utilised for this review. EirGrid's expected returns will set the limit on risk that can be borne across this and other elements of the price control's incentive package.⁴⁰ The ex-post review will also be used to claw back any unspent capex including any cost savings realised from the effectiveness of EirGrid's procurement strategy, and remaining risk and contingency provisions.

The risk that EirGrid will be expected to bear on its capex programme is summarised in the table below:

Table 5 Construction and development cost risk matrix

Risk	Allocation	Comments
Early cost estimate escalation prior to procurement – i.e., during preliminary development works	Primarily Consumer	<p>EirGrid is expected to work diligently to remain within the original cost envelope for the project and its allowance for risk / contingency.</p> <p>As part of the gateway processes, EirGrid will be expected to justify its design choices and technical specifications and demonstrate that these are in consumers interests and reflect market practice, industry norms and best practice.</p> <p>Note: Where EirGrid uses contractors to support project development it should ensure that they are appropriately incentivised, and costs are shared with CRU on a transparent basis.</p>

⁴⁰ Section 5.7 sets out the CRU's proposals on the construction cost incentive mechanism which will define the cap on the penalty (reward) that will apply if EirGrid incurs costs above (below) the target cost for construction, subject to the conclusions of the CRU's Ex-Post Review. Section 5.7 also sets out the CRU's proposals on timeliness of construction delivery incentive which will define the cap on the penalty (reward) that will apply if EirGrid fails (meets) an agreed set of milestones and target grid Commercial Operating Date (COD) for the offshore transmission asset.

Escalation in firm cost estimates post procurement	Shared	<p>EirGrid will be expected to use best practice to avoid cost overruns. For example, the CRU expects EirGrid to negotiate appropriate, best value for money, cost risk sharing arrangements with its supply chain as part of the procurement process.</p> <p>The cost and timely delivery incentives will be assessed to reflect EirGrid's performance. Where fixed prices cannot be obtained in the market, EirGrid will have access to appropriate levels of protection as determined by the CRU via a contingency risk and uncertainty sum.</p> <p>Subject to EirGrid demonstrating good practice in contract management, this sum will be utilised prior to EirGrid receiving a penalty under the construction cost incentive.</p>
Delay in timelines	Shared	<p>Delays that impact construction costs will fall under escalation in firm cost estimates post procurement.</p> <p>EirGrid will be subject to the financial penalties for missed construction milestones under the terms and parameters of the timeliness of construction delivery incentive.⁴¹</p> <p>As for costs, EirGrid will be expected to place appropriate incentives on its supply chain.</p>

EirGrid should note that the outlined position on construction costs, including procurement and proposed contract costs, and construction risk allocation is contingent on a high degree of cooperation and information sharing with the CRU in the operation of the investment gateway processes. Transparency of approach and efforts to manage cost within the overall capex envelope will be important in this respect as these are actions that EirGrid can control.

5.3.11. **Opex**

As is standard practice in network utility regulation, both in Ireland and European regimes, allowed opex will form a revenue building block of EirGrid's OAO Allowed Revenue Cap. The CRU will set an ex-ante allowance for OAO opex at the time of the price review and will review EirGrid's outturn opex as part of the price control period's ex-post review process.

⁴¹ See Section 5 for further discussion.

Opex of the OAO includes O&M for assets that are transferred to EirGrid and the assets that it develops, ongoing insurances as well as the costs of operating the OAO. The CRU expects EirGrid to set out in its PR6 business plan operating costs related to:

- **Establishing the Offshore business unit and ongoing operational costs** – predominantly EirGrid's own costs of operation.
- **Legal / commercial readiness** – activities required to connect, transfer and procure new assets or services.
- **Technical assurance and oversight** – activities applied throughout the developer build process for Phase 1 assets and during the proving of the assets.
- **Operational readiness** – activities required by EirGrid to assume its asset management remit, as EirGrid will own and operate the assets over their lifecycle.
- **Procurement and sourcing activities** – required to tender, contract and onboard supplier support which will underpin EirGrid's delivery.
- **Other new areas of expenditure** e.g. insurance etc.

As discussed in the CRU consultation paper, the current TSO regulatory model was not created with the anticipated development of the offshore wind industry in Ireland in mind, nor EirGrid's new role as OAO. Given the transitional step change faced by EirGrid, and the timeline for achieving that change, there are specific issues that the OAO revenue control will need to manage relating to operating expenditure.

The CRU's approach to cost assessment will provide EirGrid with flexibility to incorporate additional costs or new approaches that have not been a material feature of previous price controls for EirGrid's business, including:

- **Outsourcing.** This is likely to be a major cost category. Internal EirGrid staff are likely to be supplemented by resources on contract. For example, the CRU expects that the OAO may outsource O&M activities under reasonably long-term contracts that provide transparency over use of funds and changes to costs, and which contain appropriate incentives for availability. It is also anticipated that there may be cases where activities such as these might extend over more than one price review period. The CRU will expect EirGrid as OAO to have an effective performance regime in place for contracts such as this which will be monitored by the CRU on an ongoing basis. EirGrid will also need to consider, in particular, the change and termination provisions that it includes in such long-term contracts.

- **Other forms of contracting.** The CRU will retain a degree of oversight of supplier and developer contracts prior to contract acceptance. For example, as for capex the CRU is likely (as part of its opex monitoring processes) to set some principles around contract duration, management of variation/change, transparency of information and termination/novation with which it will expect EirGrid to comply or seek a specific derogation for non-compliance. Similarly, EirGrid will have to provide cost information to the CRU from its supply chain to facilitate CRU monitoring of value for money.
- **Additional staff costs.** EirGrid will need to develop and retain an appropriate level capacity and experience in-house. It is expected that this will include a greater need for senior level expertise in offshore projects to ensure the OAO can act as an informed client to its outsourced resources and retain accountability. As a result, operating expenditure will need to cover a suitably qualified and experienced team for offshore activities. EirGrid would also need to demonstrate a high degree of resource separation within its business plan such that there is no double counting of resources in the funding that is being requested under the TSO and OAO revenue caps at PR6 and future price reviews.
- **Insurance** is an example of a substantive new cost category to be assessed. It will encompass both construction and post-construction insurances for which EirGrid will need to ensure value for money. Insurance costs fluctuate and some aspects can be out of the control of those procuring insurance. EirGrid will be required to demonstrate that it is monitoring the market and actively planning its approach to deliver best value.
- **Operating expenses.** The CRU anticipates there to be operating expenses in relation to the activities of detailed design and planning that will sit with the OAO. This process will allow EirGrid as OAO to provide clear and unambiguous verification of the costs that can be added to the RAB (as development expenditure) or recovered as allowable operating expenditure.

Accordingly, the OAO business plan submission should appropriately categorise and report on total opex over the plan period. The CRU is particularly interested in understanding the split between external opex costs and those being incurred directly by EirGrid. The CRU considers that it is vital EirGrid develops sufficient internal capacity and capability to act as an informed client of its subcontractors (for both opex and capex) and expects EirGrid to explicitly address this requirement in its business plan.

The table below describes the steps for setting and amending opex allowances in PR6.

Table 6 The steps for setting and amending opex allowances

Opex Allowances		
Ex ante review	Interim determinations	Ex-Post Review
CRU will determine EirGrid's opex baseline for the price control period.	<p>CRU may make interim determinations to vary baseline allowances during the period of the price control.</p> <p>For major categories of opex e.g. O&M and insurance etc., the CRU expects to put in place an approach similar to that adopted for capex gateways.</p>	CRU will review EirGrid's outturn opex as part of the price control ex-post review– this will provide a further opportunity for EirGrid to claim additional opex requirements relative to the ex-ante baseline opex allowances. ⁴²

As for capex, in PR6 the CRU will oversee the OAO's opex performance against the cost baseline established at the start of the price review period facilitated by monthly investment progress updates and gateway reviews. The CRU will maintain an open dialogue as part of preparing for an ex-post review of EirGrid's costs, which will be conducted at the next price review (PR7 see below). For the avoidance of doubt, subject only to EirGrid being able to demonstrate with a high degree of certainty that any saving is the result of its efficiency, the CRU will claw back any unspent opex as part of the ex-post review.

Any material variation to the ex-ante baseline would need to be identified by EirGrid with justification and rationale provided. If a change to anticipated opex costs were to adversely impact EirGrid's liquidity or financing requirements, EirGrid will be able to request a review of opex allowances in PR6 which may be granted at the CRU's discretion. As for capex, decisions made in period will be binding on both parties, but the CRU would expect EirGrid to be able to demonstrate efficient use of funds in the round.

⁴² A key advantage of adopting a process similar to capex governance is that it provides a basis for capturing changes to the baseline for the purposes of the ex-post review.

The ex-post review of the OAO's delivery against EirGrid's business plan opex allowances will be undertaken as part of the next price review process e.g., the ex-post review of delivery in PR6 will form part of the PR7 review – e.g., it will fall in year 3 or 4 of PR6. The objective of this review is an in the round assessment of performance against EirGrid's baseline budget and programme that considers decisions made in PR6.

As with other price reviews, the ex-post review at the end of the control (e.g., following the completion of PR6) will assess whether opex has been efficiently incurred by EirGrid and whether the deliverables, in line with any agreed adjustments made to the EirGrid's business plan over the course of PR6 have been achieved. EirGrid's liability for opex cost overruns will be limited, as for capex, providing that it is able to demonstrate good practice in seeking to minimise cost overruns and escalation. Provided the costs that are incurred have been agreed in period or are justified ex-post, the CRU will true-up EirGrid's allowed revenue cap to permit EirGrid to recover its incurred costs.⁴³

As noted above, the CRU considers it is prudent to utilise a gateway process for large new categories of opex expenditure, e.g. O&M Insurance, as is proposed for Phase 2 capex. This gateway system will provide flexibility to vary the opex allowances to changing requirements and prices within the period of the OAO price control. The CRU will engage with EirGrid to refine the investment gateway process (should it be necessary) in advance of business plan submission for PR6 to ensure its suitability for opex decision making.

5.3.12. Major offshore investment programme reporting

As discussed above, the PR6 process will be used by the CRU to establish initial baseline allowances for both EirGrid's offshore opex and capex. The CRU expects investment gateway process monitoring to commence prior to the start of the 2026-2030 price control period, and the process of reporting will then continue during PR6 and beyond. Post EirGrid's business plan submission, the CRU will establish monthly investment monitoring meetings to assess how EirGrid is progressing and updating its expenditure requirements for key areas of offshore capex and opex.

The key to success of the gateway process will be the creation of transparency around the progress EirGrid is making and the development of high quality and timely gateway

⁴³ As noted above, EirGrid may be permitted to retain a proportion of any underspend compared to the ex-ante baseline allowances provided it can demonstrate as part of the ex-post review that the underspend was the result of initiatives led by EirGrid to drive efficiencies and are not the result of under delivery of factors that were outside of EirGrid's control.

submissions to the CRU that are consistent and transparent. EirGrid will be expected to ensure that it has in place sufficient resources and systems to deliver high quality consistent and clear documentation, and the CRU will ensure that its resources are sufficient to be able to review and respond to related submissions in a timely manner in order to facilitate a timely decision-making process.

CRU will set specific targets for EirGrid following submission of its offshore business plan later this year, but the CRU's current expectation is that:

- EirGrid should be in a position to take all components of the Phase 2 capex programme through gateway one of the capex governance process on the basis of the business plan submission; and
- By the start of 2026, ensure that all components of Phase 2 capex have reached at least gateway 2 of the capex governance process⁴⁴.
- EirGrid's OAO business plan should indicate which aspects of opex it considers are relevant to a gateway process and which will be monitored via readiness reporting so that appropriate monitoring can commence prior to the start of the PR6 period.

These steps will facilitate the setting of a realistic capex and opex envelope prior to the start of PR6.

5.3.13. Summary of cost assessment regime

Figure 5.4 below illustrates the steps and expenditure and performance monitoring milestones under the decisions set out above. The CRU considers the regime outlined above to be appropriate because it creates certainty for EirGrid and its investors on the process of recovery of its efficient costs associated with the development of the offshore grid, whilst also protecting consumers by providing a series of regulatory milestones for the CRU to review and assess EirGrid's expenditure proposals, and ensure they represent value for money.

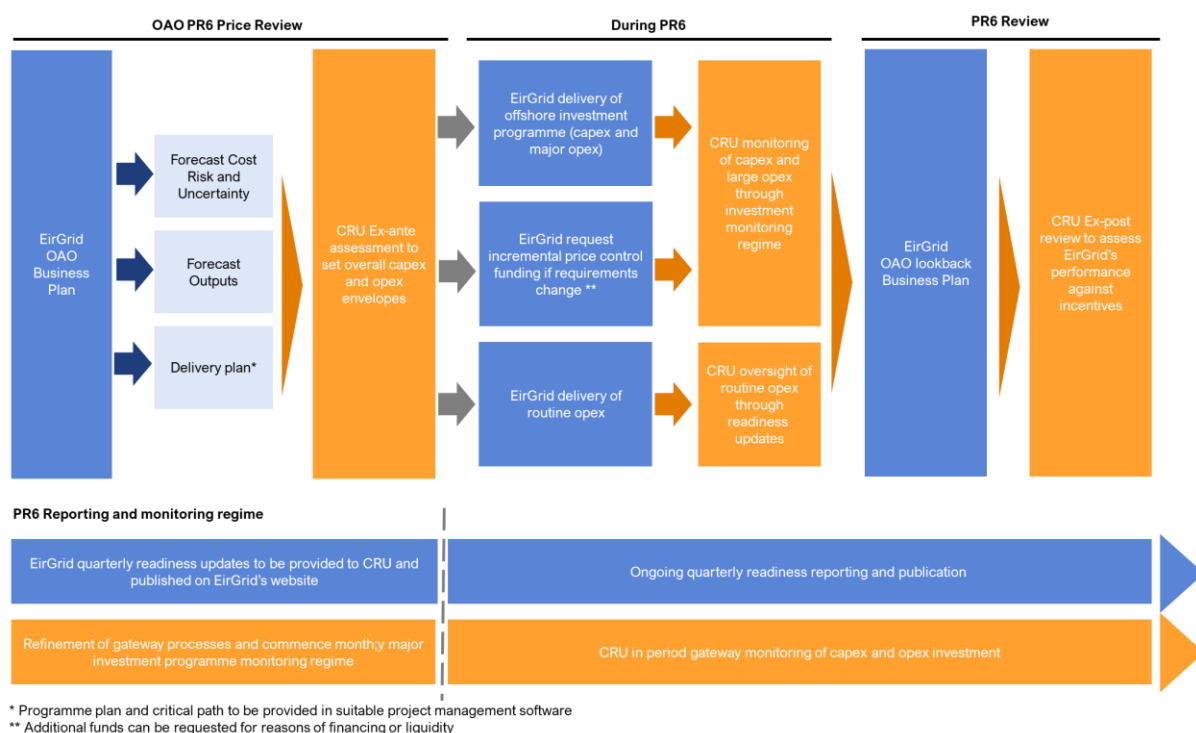
The extension of EirGrid's role to offshore, the scale of investment required, and uncertain supply chains, means it would not be appropriate to use the standard framework the CRU currently applies to set ex-ante allowances for the energy network revenue controls, as there are significant risks of outturn costs being materially different to the baseline in the case of EirGrid's OAO activities.

The CRU considers it is still appropriate to set ex-ante allowances for the OAO to clarify the

⁴⁴ Based on latest publicly available information

funding that the business will receive for its offshore development activities, and to provide a clear reference baseline for the ongoing monitoring and the ex-post review of EirGrid's OAO outturn costs. While the OAO is subject to a degree of ex-post review risk under this model, the CRU considers the regime provides an appropriate degree of risk sharing and protections for the company and ultimately consumers. EirGrid will also be incentivised to achieve cost efficiencies as part of the proposed financial incentives that are detailed in Section 6 below.

Figure 9 Steps in the CRU's ex-ante / ex-post cost assessment regime



6. Financial Considerations

Summary of CRU decisions

- EirGrid's offshore activities have very different financing requirements and risk profile compared to its existing TSO business activities. In order to reflect this, all offshore investment will be reflected in a separate OAO RAB indexed to HICP inflation (where appropriate) and a separate allowed rate of return (WACC) on the OAO RAB, i.e., CRU will set a separate OAO Allowed WACC.
- Informed and justified by EirGrid business plan submissions, the CRU will consider adaptations to a standard 'RAB x WACC' framework where necessary in order to provide for EirGrid's recovery of its financing costs. These adaptations include:
 - i. An allowed cost of debt adjustment (true-up) mechanism to reflect the terms EirGrid can obtain competitively in the market.
 - ii. Scope for EirGrid to justify additional liquidity and cost of carry revenue building blocks to reflect its unique finance raising challenges and pressures.
- The CRU has decided that offshore network RAB additions for Phase 1 will be depreciated from the point of commissioning. The CRU's current direction of travel is to adopt the same policy for Phase 2 RAB additions but will reach a final decision on this as part of its first OAO price control determination in PR6 in 2025.
- EirGrid will be permitted to earn its Allowed WACC during construction for EirGrid led (i.e., Phase 2) offshore RAB additions. This will provide an element of prefunding - a revenue during construction - to support EirGrid's liquidity and financing strength.
- A final decision on the period of depreciation for both Phase 1 and 2 grid assets will be made at the OAO price determination in PR6, the CRU's current direction of travel is to apply a single asset life of ~ 30-years.
- The CRU will put in place a package of financial incentives under the OAO price control, covering availability, timely delivery, and construction costs. The detailed form of these incentives will be developed and decided upon during the PR6 price control process.
- The CRU will give primary regard to financeability of its OAO price controls under a notional capital structure. During a (time limited) transitional period, CRU will also review and cross check the financeability of its revenue caps under the expected actual financing structure and financing costs of EirGrid's offshore business.

The CRU's consultation on the revenue model for EirGrid's offshore activities contained important proposals for the financial building blocks of this regulatory framework. This covered topics such as the principles the CRU might adopt for determining the financial building blocks of future price controls for offshore activities set by the CRU.

As detailed below, the CRU has decided that EirGrid's offshore revenue model will be based on a 'RAB x WACC' framework, as is applied to other regulated utilities. The OAO price control will form part of the overall economic regulatory framework that applies to EirGrid as licenced TSO. All investments in offshore network infrastructure owned by EirGrid will be reflected in a separate OAO RAB used to set a separate OAO price control.

This section sets out the CRU's decisions on the financial principles and building blocks of the OAO price control under the following headings:

- Key principles
- Depreciation and asset lives
- Liquidity and short-term financing cost pressures
- Cost of debt and equity
- Financeability
- Tax
- Performance Incentives
- Revenue model risk allocation.

In developing these decisions, the CRU has carefully considered how to balance its duties to protect the interests of final customers, and to ensure that EirGrid is capable of financing its regulated activities, including its offshore programme to meet the Governments 2030 targets.

6.1. Key financial design principles

6.1.1. Consultation Proposal

The CRU proposed the following high-level principles for the financial building blocks of the offshore regime to be applied to EirGrid's OAO role:

- A separate RAB for offshore investments that, where appropriate, will be indexed to Irish HICP inflation.
- Separate allowed WACC on the OAO RAB – i.e., an allowed rate of return that reflects the CRU's assessment of the expected financing arrangements risks of the offshore grid programme under the proposed building blocks and regulatory framework design.
- An element of prefunding – i.e., an allowed income stream prior to commissioning – for EirGrid's investment in offshore grid infrastructure in assets it is constructing.
- Calibrated value of financial performance incentives and risks EirGrid is exposed to under the OAO revenue control to ensure the level of financial risk under the incentive framework incentivises EirGrid but does not put debt financeability at risk.

6.1.2. Consultation Responses

A summary of the key points raised by consultees is provided in the text box below.

Responses on financial design principles

Industry responses

- Respondents were generally supportive of the key principles outlined in the consultation paper. Respondents generally considered a separate RAB and WACC to be an appropriate approach for setting the financial building blocks of the price control and supporting EirGrid's finances.
- Several responses noted that the principle of the ATV model is based on the premise that EirGrid can achieve lower cost of capital than wind farm developers. Respondents highlighted that the basic building blocks set out in the consultation paper, along with Shareholder equity investment, should help EirGrid achieve this.
- Several respondents felt that some form of government intervention would be necessary, as EirGrid does not have an appropriate credit rating, or a sufficient asset base, to secure financing for the purchase of the ORESS1 transmission assets.
- Several respondents – in particular wind farm developers – highlighted the importance of EirGrid being able to demonstrate its capacity to finance ATV payments for Phase 1 projects ahead of the projects reaching Final Investment Decision (FID). It was highlighted by one respondent that Phase 1 developers could start FID processes in early 2026, which may be too early for EirGrid to have established sufficient financial strength and so mitigations, such as Government underwriting or guarantee, must be found until EirGrid has debt and equity in place.
- Regarding financial performance incentives, one respondent queried the appropriateness of the proposal to calibrate the incentives in a way which incentivises EirGrid, but does not jeopardise financeability, as this would likely result in the CRU needing to put greater emphasis only on upwards (i.e. reward based) incentives.
- Another respondent did not consider it appropriate to impose financial performance incentives when, simultaneously, there are measures that may be needed to support the financing and liquidity of the EirGrid business. It was argued this would result in consumers bearing additional costs and risks related to EirGrid's financing, and either the financial performance incentives would act against these supportive measures (in the case of penalties) or EirGrid would benefit from upside performance incentives, whilst consumers are asked to bear the downside financial risks.

EirGrid response

- EirGrid's response broadly agreed with the financial design principles outlined in the

consultation paper, in particular welcoming the proposal for revenue during construction and CRU's recognition of its specific financing challenges.

- EirGrid noted that after Phase 2, it will be building a RAB like a 'typical regulated utility' and, therefore, considered it should be permitted to earn depreciation during construction as is the practice onshore. EirGrid highlighted some of the specific challenges that it faces in financing Phases 1 and 2 offshore grid investment, and the importance of these being reflected in the design and implementation of the offshore revenue model. For example, EirGrid indicated that it expects to need to raise tranches of debt against several projects, which will have separate commissioning times. EirGrid raised concerns that this may create a potential mismatch in its revenues and debt obligations, with lenders not profiling repayments in relation to the occurrence of commissioning.
- EirGrid agreed with the CRU proposal to reflect its actual risks when setting the allowed WACC, noting detailed risk-based analysis will need to be undertaken as part of the PR6 business plan process to quantify this risk.

6.1.3. CRU Decision

The CRU's decision on the key financial principles it will apply for setting the OAO price control are as follows:

- The CRU will apply a RAB x WACC framework for setting the financial building blocks of the OAO price control. There will be a separate RAB for offshore investments. The CRU proposes (that where appropriate) the RAB will be indexed to Irish HICP inflation.
- The CRU will set a separate allowed WACC on the OAO RAB – i.e., an allowed rate of return that reflects the CRU's assessment of the expected financing arrangements of the offshore grid investment programme and the risks the business will bear under the proposed building blocks and regulatory framework design.
- To help support EirGrid's liquidity and financing strength, the CRU will allow EirGrid an element of prefunding (i.e., a revenue stream during construction) for its investment in offshore grid infrastructure it has constructed.
- Where evidenced and fully justified by EirGrid in its business plan submissions, the

CRU will consider adaptations to the standard RAB x WACC framework in order to manage EirGrid's recovery of its financing costs, including measures to:

- i. true-up the OAO price control cost of debt allowances to reflect the terms EirGrid can obtain competitively in the market; and
 - ii. for EirGrid to justify additional liquidity / cost of carry revenue building blocks to reflect its unique finance raising challenges and pressures.
- The CRU will put in place a package of financial incentives as part of the OAO price controls to align EirGrid's interests with consumers and offshore wind farm developers. These will incentivise timely delivery, efficiency in operational and capital expenditure, and high availability of offshore grid assets once operational.
 - The CRU will set the package of financial incentives to achieve a balance between upside and downside risk, and a level of financial reward / penalty that does not put the debt financeability of the business at risk.
- iii. At each price review (expected to be every 5-years), the CRU will define overall tramlines of the level of financial risk (maximum upside and downside revenue potential) the business will be exposed to under its OAO price controls. These tramlines will be calibrated at each CRU price review.
 - iv. The CRU expects during the initial period of growth in EirGrid's offshore asset base, the level of downside financial risk EirGrid will be exposed to under its OAO price controls will need to be constrained.
- The CRU will assess the financeability of its price controls, in the round, and will assess financeability at a licensee (i.e., TSO) as well as price control level, and under notional and closer to actual capital structures and financing assumptions for an appropriate, time-limited, period. The CRU will give primary regard to financeability of its OAO price controls under a notional capital structure.

The rationale for each of these decisions, and the CRU's responses to the feedback provided by stakeholders on these topics in the responses to the CRU's offshore revenue model consultation paper, are summarised in the table below.

The CRU notes that the standard approach in economic regulation in Ireland, UK and many other European countries has been to set the allowed WACC using the Capital Asset Pricing Model (CAPM) (and in certain jurisdictions assess the financeability of price controls) with reference to a notional rather than actual capital structure for the regulated business in question. In principle this is intended to ensure that the risks of financing decisions by

companies', such as the level of gearing, timing of debt issuance, and the choice of debt instruments, ultimately sit with shareholders, and consumer prices are set to ensure that a notionally efficient business would be financeable under the price controls. It is also standard practice to calculate WACC values on a fully commercial basis even when there is State ownership.

Given the scale of RAB growth and financing challenges facing EirGrid, the CRU considers that it is appropriate to depart from regulatory precedent, where doing so can be clearly evidenced and fully justified by EirGrid and for an appropriate period of time only, i.e., not in perpetuity. For this reason, the CRU will give regard to EirGrid's specific financing structure and constraints in setting the OAO price controls, and as outlined above (and discussed further in subsections below) the CRU will consider additional measures, where evidenced and fully justified by EirGrid, alongside its standard WACC x RAB based regulatory framework to support the financial strength and liquidity of the EirGrid offshore business.

As signalled in the consultation paper, where it is Irish consumers that are required to predominantly bear the financial risks, which an asset light company with limited financial headroom (at least at this point in time) cannot bear, the CRU will introduce investment gateways monitoring and enhanced reporting of the delivery of the offshore programme to ensure that EirGrid is making the best possible decisions for consumers on an ongoing basis (see section 5 for further details). As a guiding principle, it will also seek alignment between risk and return under the OAO price control. This means where the financial risks of delivery of the offshore programme are predominantly borne by customers, this will be reflected in the level of equity returns that EirGrid can expect to receive under its OAO price controls.

The specific decisions on the level of allowed WACC and the calibration of the price control risk allocation, capital structure and level of allowed returns, will be addressed as part of CRU's future OAO revenue control determinations - i.e., PR6 and future price reviews. Therefore, EirGrid are expected to provide a clear, well justified, financing plan for its offshore investment programme and a proposal for its allowed WACC and revenue requirement in its PR6 business plan which balances the OAO funding and financing requirements and the interests of electricity consumers.

Table 7 Key principles on OAO price control financial building blocks: rationale and response to stakeholder feedback

Decision	CRU rationale and response to stakeholder feedback
RAB x WACC framework	Provides an internationally established regulatory framework for setting allowances to remunerate EirGrid for its efficiently incurred financing costs building on CRU's approach in other network utility sectors. The decision for applying a RAB x WACC framework was supported by the majority of responses to the offshore revenue model consultation.
Separate offshore RAB	A separate offshore RAB will provide transparency of EirGrid's investment in the offshore grid and will allow the CRU to transparently tailor its regulatory approach over time to reflect the specific requirements and financing challenges of the offshore investment programme. This position was supported by several stakeholders, including EirGrid.
Separate offshore WACC	CRU can set a benchmarked, risk-adjusted, WACC that reflects the circumstances and risks of EirGrid's delivery of the offshore investment programme. The approach to setting an allowed WACC can be adapted to reflect the features of EirGrid's financing – for example, a bespoke mechanism can be provided for setting cost of debt allowances that reflects the timing and size of debt raises (see discussion in subsection 6.4 below).
Prefunding, liquidity & cost of carry allowances	Prefunding – i.e., provision of an allowed return on the RAB during construction – will help lower financing costs and support EirGrid's financial strength and liquidity by providing a revenue during construction. The scope for CRU to allow additional liquidity / cost of carry building block(s) in the OAO price control reflects the unique financing requirements EirGrid face with its offshore programme. The CRU notes the concerns that some responses raised with these proposals, with proposed mitigations discussed in subsection 6.3 below.
Package of financial incentives	Will help ensure EirGrid's interests are aligned with other stakeholders in delivery of the offshore grid programme. It will help to provide appropriate corporate financial disciplines on EirGrid's delivery of the offshore programme that align with the outcomes desired by consumers (timely and cost-effective delivery with high asset availability).

	<p>The CRU notes the trade-offs raised by several respondents in setting financial incentives. On balance, CRU considers it is important that alongside measures that support EirGrid's financing there are checks and balances within the regime that impose commercial disciplines on EirGrid's delivery of the programme. The CRU intends to place clearly defined tramlines on the level of financial risk from this incentive framework to mitigate the impact on cost of capital and, during the initial period of growth in EirGrid's offshore asset base, expects that the level of downside financial risk EirGrid will be exposed to under its OAO price controls will be constrained.</p> <p>The CRU notes that there can be circumstances where more upside weighted incentives are justified where this aligns company behaviour and outcomes with consumer interests and there are limits on the financial risk a regulated company can bear. The CRU will consider this further as part of PR6 determinations when it expects to make further decisions on the parameters of the OAO incentive framework.</p>
Financeability	<p>The approach and principles for approaching financial issues in the initial revenue control determinations (PR6) for OAO activities is considered to provide a pragmatic way forward that balances protection of consumer interests alongside facilitating the financing of the offshore grid programme by EirGrid. See Section 6.5 for further discussion.</p>

The CRU notes the comments made by several respondents on the need for certainty on EirGrid's capacity to finance the Phase 1 ATV payments ahead of the developers of these projects proceeding to FID in the next few years.

This decision paper is an important milestone in providing the economic regulatory framework that will support EirGrid with raising the finance required for Phase 1 ATV payments and its delivery of the offshore grid investment programme. The CRU understands that EirGrid expects to begin the process for obtaining a credit rating during 2025.

The CRU considers that EirGrid will require significant levels of equity investment to support the delivery of the major offshore investment programme necessitated by Government targets for offshore energy. The CRU understands that engagement on equity funding from a range of sources (including EirGrid's Shareholder, the Irish State, European grant funding, etc.) is still ongoing and given the anticipated timeline for offshore development, considers it is essential that this issue is addressed as soon as is reasonably practicable.

The subsections below set out the CRU's decisions on other areas of the financial building blocks that were consulted earlier this year. The concluding subsection, 'risk allocation', provides the CRU's overall assessment – bringing together decisions from this section and proceeding one – on the:

- Risks that EirGrid are expected to bear under the CRU's offshore revenue model (in developing, constructing, financing and operating the offshore grid; and
- The checks and balances within the regulatory framework intended to limit the financial risk EirGrid will be exposed to during the period of rapid RAB growth.

6.2. Depreciation and Asset Lives

6.2.1. Consultation Proposal

The CRU proposed to apply the following principles to determine the approach to depreciation of the RAB:

- The OAO RAB will only start to be depreciated once the offshore assets are in use.
 - i. For Phase 1 assets transferred to EirGrid, the OAO RAB additions would start to be depreciated once the assets have transferred to EirGrid.
 - ii. For Phase 2 and future OAO led investments, the OAO RAB additions would start to be depreciated once EirGrid has commissioned the relevant assets.
- For assets that EirGrid constructs, EirGrid would be allowed to earn a return on the OAO RAB when the capex is expensed, i.e., EirGrid will be prefunded for its investment in offshore grid infrastructure and provided with a return on the RAB during construction.
- The CRU would consider the expected technical and economic asset lives of EirGrid's offshore investments when setting the depreciation profile for offshore investment additions to the OAO RAB.

6.2.2. Consultation Responses

A summary of the key points raised by consultees is provided in the text box below.

Responses on depreciation and asset lives

Industry responses

- Respondents largely agreed with the proposed principles and approach to depreciation

of the RAB and supported the CRU's current direction of travel of depreciation on a straight-line basis over 30-years using a consistent asset life for all elements.

- One respondent suggested that the cost of each individual offshore grid component should be depreciated over the period of their expected asset lives, rather than a common period being used. Another respondent considered, whilst reasonable for depreciation to be based on a single asset life for ease of calculation, it should be aligned with the design life that EirGrid has specified for the offshore wind developers for Phase 1 assets (i.e., 40 years).
- The majority of respondents also considered it appropriate for depreciation to commence only once assets are fully operational and under EirGrid ownership, tying depreciation revenue to the use of the assets.
- Regarding the proposal of prefunding, one respondent proposed that the CRU consider additional controls on this approach to ensure value delivery is maintained and the approach is only applied to assets that will be energized and commissioned at the end of the construction phase (i.e., not dependent on later phases of development completing before they come into operation). The same respondent raised the risk of untested constructed offshore transmission assets being included in the return on RAB, with consumers paying for them whilst not in use.

EirGrid Response

- EirGrid considered a depreciation profile set to reflect the economic life of the assets to be sensible, although noted consideration needs to be given to the available debt tenor it is able to access. EirGrid also highlighted that, for Phase 1 assets, it will be incurring interest and principal repayments from the point at which debt finance is raised for the ATV payments and there is a risk that commencing depreciation following commissioning could lead to a mismatch in costs and revenues.
- EirGrid also commented that starting depreciation at asset commissioning, together with a separate asymmetric financial incentive on timely delivery, has the potential to create a double incentive/risk which needed careful consideration.

6.2.3. CRU Decision

The CRU's decision is as follows:

- For Phase 1 (developer led) offshore projects, additions to the offshore RAB will be depreciated once the offshore grid assets are commissioned⁴⁵, aligned with the timing of EirGrid's ATV payments to the offshore developer.
- The CRU's current direction of travel is to allow Phase 2 additions to the offshore RAB to be depreciated from the point of commissioning (to align with the policy for Phase 1 investments). The CRU will make a final decision on this issue as part of the PR6 OAO price control determination having assessed EirGrid's business plan, the business' expected cashflow requirements and final decisions have been made by the CRU on the charging policy for Phase 2 grid assets⁴⁶ and the other revenue building blocks (e.g., liquidity and cost of carry allowances) of the OAO price control. That is, the CRU will make a final decision on this issue once the impacts of several interrelated components of the wider offshore regulatory framework can be considered in the round.
- While the CRU's current direction of travel is to allow depreciation for Phase 2 projects from the point of commissioning, EirGrid will be permitted to earn its allowed WACC during construction for its RAB additions that relate to its Phase 2 offshore grid investments.
- Offshore RAB depreciation will be on a straight-line basis.
- As a guiding principle, the CRU intends to align the period of depreciation with the expected economic asset life of the offshore grid asset. In forming a decision on an appropriate economic asset life, the CRU will take into consideration factors such as the length of the offshore Connection Agreements, the technical asset lives of the offshore transmission systems and expected timings of refurbishment and/or repowering decisions of the offshore wind farms based on international practices and standards. A final decision on the period of depreciation will be made at the OAO price control determination (PR6) but at this time the CRU's direction of travel is to apply a single asset life of ~ 30-years. EirGrid should consider this as it develops its offshore business plan.
- Depreciation policy for future phases of the offshore grid (i.e. beyond Phase 2) will be determined at a future date given the potential for changes in the pattern of use

⁴⁵ Commissioned - meaning the asset(s) have been designed, constructed, tested, commissioned and trialled to meet the designated MEC export capacity and that they fully comply with the Grid and Metering Code requirements.

⁴⁶ The CRU recently consulted on options for the Phase 2 offshore grid charging policy and expects to make a decision on this policy later this year. See CRU (2024): 'Phase 2 Offshore – Grid Charging Policy' (CRU/2024/12), available here.

and the specification of the assets. As a guiding principle, the CRU would expect to adopt the same principles it has set for Phase 1 and Phase 2.

The decision to start depreciation of offshore investments from commissioning will align regulatory depreciation (cost recovery) with the expected use of the capital asset which will start in the case of radial connections once the windfarm is operational. It aims:

- Help achieve the principle of inter-generational fairness as recovery of investment in the offshore grid will be aligned in time with the expected beneficiaries of the grid infrastructure; and
- For Phase 1 projects, this decision will also align depreciation of offshore RAB additions with payment of the OG-TUoS charge by the Phase 1 wind farms.

Balancing this, permitting EirGrid to earn a return on OAO RAB during construction will help to maintain its financial strength and mitigate liquidity risk.

The CRU notes EirGrid's responses on potential risks of mismatches in revenues and financing costs. However, given the uncertainty of the size and the timing of final ATV payments for Phase 1 offshore wind projects and the general regulatory principle that the RAB reflects capital expenditure incurred, and when capital is employed, it is not clear how this issue can be transparently and effectively resolved via regulatory depreciation policy. The CRU will consider proposals from EirGrid as part of its PR6 business plan for how a demonstrated risk of financing costs and revenue mismatches should be resolved – for example, via an additional liquidity / cost of carry revenue building block allowance (see section 6.3 below).

While the CRU will finalise its decision as part of the PR6 revenue control determinations, the proposal to adopt a single depreciation rate / weighted average asset life of 30 years for Phase 1 and Phase 2 investments is:

- Consistent with regulatory precedent of the depreciation period that has recently been adopted by some other European regulators for offshore grid investments.⁴⁷
- Increasingly aligned with the project life period - prior to major refurbishment and/or repowering decisions – the CRU understands offshore wind developers adopt for business case planning purposes in other jurisdictions.
- Would align the period of depreciation with the TSO's 30-year offshore Connection

⁴⁷ For example, the CRU understands that ACM in the Netherlands has recently increased the depreciation period for offshore grid assets from 20 to 30-years. The CRU also understands that CREG in Belgium increased the depreciation period which applies to the Elia Modular Offshore Grid to 30 years.

Agreement and the duration of the OG-TUoS charge for Phase 1 offshore wind projects.

EirGrid should set out as part of its PR6 business plan submission its proposal for the period of depreciation of the OAO RAB by reference to:

- EirGrid's expectations of the technical / design life of its constructed and acquired offshore transmission assets;
- The expected use of the offshore transmission system; and
- Its expecting financing and cashflow requirements.

6.3. Liquidity & Short-Term Financing Cost Pressures

6.3.1. Consultation Proposal

As outlined in the consultation paper, as an asset light company EirGrid currently has relatively limited financial headroom and resources to manage liquidity pressures and the risk of potential mismatch between regulatory allowances and financing costs.

To manage these liquidity constraints and cost pressures, the CRU outlined the following options that could be considered to enable EirGrid manage liquidity issues:

- Setting allowed returns by reference to the forecast RAB for the following year,
- Additional allowances for 'cost of carry' in circumstances where EirGrid needs to draw down finance ahead of need, and
- Starting the depreciation of offshore RAB additions before assets are commissioned, where this was clearly justified as necessary by EirGrid.

The consultation asked respondents views on the need for additional building blocks and which of these options might be preferable.

6.3.2. Consultation Responses

A summary of the key points raised by consultees is provided in the text box below.

Responses on liquidity and short-term financing cost pressures

Industry Responses

- There was no consensus across the respondents regarding the options outlined in the consultation paper.
- One respondent considered the proposal of revenue earned during construction to be reasonable as it mitigates against liquidity risk. Another respondent argued that in addressing liquidity risk the CRU should not place an unrealistic cost burden on consumers.
- Regarding the suggested approach of setting allowed returns by reference to the forecast RAB for the following year, one respondent did not agree with its application as this would result in the OAO receiving consumer funding ahead of the commissioned assets offering value to consumers. Another respondent was unclear as to how setting allowed returns by reference to the forecast RAB for the following year during the period it is being constructed would alleviate liquidity constraints and financing challenges.
- In terms of additional allowances for cost of carry, one respondent felt that, where EirGrid need additional funding to meet the cost of carry requirements, it should be sought from the Government who, as the largest stakeholder, should offer lower cost funding.

EirGrid Response

- EirGrid welcomed the CRU's recognition of the cost of carry challenge that would be created from the proposal that regulatory depreciation would commence post-commissioning. EirGrid considered all three proposed options to be reasonable, however, noted that whilst returns for the following year and cost of carry allowances could resolve financeability issues, they could still leave residual mismatches between revenue and costs. EirGrid highlighted a need for robust modelling and testing, and consideration to be given to the aims the CRU are trying to achieve.

6.3.3. CRU Decision

The CRU recognises that the decision for depreciation of the RAB to commence once offshore grid assets are commissioned will place constraints on EirGrid's cashflows but is justified in the CRU's view for the reasons set out in section 6.2. The CRU also notes EirGrid's comments in its consultation responses that it could face a mismatch between the incurrance of financing costs and receipt of revenues where it is required to raise capital ahead of need and to finance a combination of Phase 1 project ATV payments.

To address these issues, as set out above, the CRU has decided to allow EirGrid to earn a return on capital during its construction of Phase 2 grid investments, providing a degree of prefunding ahead of asset commissioning. The CRU will also consider well justified proposals by EirGrid for additional liquidity⁴⁸ and cost of carry allowances / building blocks as part of its assessment of EirGrid's PR6 business plan.

EirGrid are expected to demonstrate and fully justify the requirement for any additional financial building block by reference to the framework / principles set out in the box 3 below.

Box 3 - Decision making framework for design and justification of additional liquidity and cost of carry building blocks.

The CRU will consider EirGrid's proposals for any additional revenue building blocks by reference to the following principles / criteria:

- **Need** – EirGrid should demonstrate the need for the additional building block allowance over and above the allowed return on the RAB.
- **Efficiency** – EirGrid should demonstrate the proposed approach provides a reasonably accurate level of compensation for the financing costs of drawing down funding early to meet capital expenditure or ATV payments. EirGrid should demonstrate the proposed approach will support the recovery of efficient costs and will not result in consumers paying twice for the same financing costs (e.g., via the allowed return on the RAB).
- **Financeability** – EirGrid should evidence how the proposed approach will help support short-term financeability and cost recovery.
- **Transparency** – EirGrid should demonstrate that the proposed approach is transparent and simple to operate within the regulatory framework.
- **Consumer protections** – EirGrid should set out consumer protections under the proposed design of the additional revenue building block and outline any potential risk to consumers.

The CRU notes one approach, which would be a relatively simple and transparent mechanism and has regulatory precedent in other contexts, would be to provide an additional OAO revenue building block based on the allowed price control WACC applied to the expected incremental RAB additions / spend that EirGrid expects to incur in the following tariff year.⁴⁹ This incremental spend would include:

⁴⁸ By reference to key financial metrics and requirements of its funder and/or lenders.

⁴⁹ This would in effect mean that EirGrid can earn a return on capital on its one year forward RAB.

- Expected forecast ATV payments for the following tariff year; and/or
- Expected forecast capex (Phase 2) for the following tariff year.

EirGrid would need to demonstrate that certain conditions have been met that justify its forecast expenditure in the next tariff year. For example:

- The Phase 1 projects associated with the expected ATV payments have reached defined gateways / milestones in their construction and commissioning programme.
- The level of forecast capital expenditure is consistent with its capital works programme and has been independently verified.

This mechanism has the advantage that it is relatively simple and transparent to implement, offers consumer protections and, provides compensation for circumstances where finance is required to be drawn down early. How this additional allowance should impact the level of allowed return on the RAB once assets are commissioned and capex incurred would also need to be considered, to ensure that the approach is net present value (NPV) neutral.

To give an example of this approach a similar type of building block is in force in the Thames Tideway Tunnel licence, as summarised in the box 4 below.

Box 4 - Thames Tideway Tunnel Liquidity Revenue Building Block

The liquidity building block is designed to recognise the fact that the Thames Tideway Tunnel Infrastructure Provider (IP) may need to draw down on funding for future spend as well as current spend because of the liquidity requirements it faces. It therefore provides a return on the following Charging Year's expected spend to compensate for the finance cost of drawing down funding early to meet the liquidity requirements.

The liquidity building block is calculated by reference to the 'BWACC' – the bid WACC that was determined as part of the competitive licence competition and is applied to calculate allowed returns during the construction period of the project – and the difference between the forecast average RCV for the Charging Year ahead and the average RCV in the Charging Year in question. Ofwat states that the liquidity building block effectively means that the IP earns a return on capital on its one year forward RCV.⁵⁰

EirGrid are expected to make a submission on its proposals for a liquidity and cost of carry mechanism as part of its offshore PR6 Business Plan. A decision on the detailed design will

⁵⁰ Ofwat (2015): 'Explanatory memorandum to the Project Licence issued to Bazalgette Tunnel Limited, available at https://www.ofwat.gov.uk/wp-content/uploads/2015/10/pap_pos20150824baztttllic.pdf

then follow in the CRU's first OAO price review determination as part of the PR6 process.

6.4. Cost of Debt

6.4.1. Consultation Proposals

The consultation paper outlined, and requested stakeholder feedback on, a number of options regarding setting a cost of debt allowance for the offshore revenue model given the uncertainty of the timing and size of debt issuance that could be required. These included:

- **A fixed ex-ante allowance for the cost of debt.** The CRU would ensure that it introduces a degree of headroom into the regulatory allowance to ensure that EirGrid has sufficient funding to meet its financial obligations.
- **Allowed new cost of debt indexed to a published index.** This could be an index such as iBoxx or Bloomberg. This could be on an unweighted basis to ensure that EirGrid receive the actual benchmark debt rate rather than an assumption at the time of the price review. Alternatively, the allowed new cost of debt could be indexed on a weighted basis in relation to when debt was raised or linked to RAB growth.
- CRU could set an ex-ante allowance, potentially indexed ex-post to a published index and use a sharing mechanism (e.g., 50:50) of any differences between EirGrid's actual interest expense and its benchmark allowed cost of debt under the price control.
- **Fixed ex-ante allowance with a deadband.** Set a fixed ex-ante allowance for the cost of debt and include triggers that would result in a change in the allowance if actual interest rates went outside a defined deadband.
- **Recovery of actual interest expense.** EirGrid could be entitled to recover its actual interest expense during the period of PR6 to ensure a close match between its capital payment obligations and allowed revenues under its price control.
- **Benchmark index for PR6 and pass-through in PR7.** A mechanism could be applied where the cost of new debt is incentivised relative to a benchmark index in PR6, but then it becomes pass-through at PR7 in effect by the CRU setting an embedded cost of debt allowance (i.e., for existing debt) by reference to the actual interest rate EirGrid incurred at the time of raising the capital.

The consultation paper requested respondent's views on which of these options might be preferable to help inform the future development of the approach setting debt cost allowances.

6.4.2. Consultation Responses

A summary of the key points raised by consultees is provided in the text box below.

Responses on approach to setting cost of debt allowances

Industry Responses

- A number of responses considered it to be for the CRU to, alongside finance and funding specialists, establish the appropriate finance structure and mechanisms for the OAO price control, and provided no further feedback. There were mixed views amongst those respondents who did comment on the options proposed.
- EirGrid's response outlined that, as its financing strategy is still evolving and is partly dependent on an equity injection, it is unable to provide a firm view on the appropriateness of different regulatory mechanisms at present.

EirGrid response

- EirGrid broadly agreed with the key concerns on debt financing identified by the CRU. EirGrid consider that recovery of actual interest expense should be allowed during Phases 1 and 2, with periodic assessment to ensure that the debt is raised efficiently at market rates.

6.4.3. CRU Decision

The CRU welcomes the respondents' views on the issues and options that were outlined in the consultation paper which help to highlight there are advantages and disadvantages with the different options outlined.

Given the issues identified in the consultation paper and in respondent feedback, the CRU considers there is a need to include a form of allowed cost of debt adjustment / true-up mechanism in OAO price controls to reflect the uncertainty of the timing and size of debt issuance and the terms that EirGrid can obtain competitively in the market.

Given that EirGrid's financing strategy is evolving, a decision on the detailed design of a cost of debt recovery mechanism will follow in the CRU's first OAO price review determination as part of the PR6 process. EirGrid are expected to provide as part of its PR6 business plan

submission what it would consider to be an appropriate and well justified mechanism by reference to the following principles and criteria.

Box 5 - Decision making framework for cost of debt allowance and true-up mechanism for the OAO price control.

The CRU will consider and approve proposals for the cost of debt allowance and true-up mechanism by reference to the following principles / criteria:

- **Accuracy** – EirGrid should demonstrate the proposed approach is expected to provide an accurate allowance for its expected efficient debt costs.
- **Efficiency incentives** – EirGrid should demonstrate how the proposed mechanism will incentivise EirGrid to raise debt efficiently over time.
- **Financeability** – EirGrid should evidence how the proposed approach will balance financeability and cost recovery of its debt costs.
- **Transparency** – EirGrid should demonstrate that the proposed approach is transparent and simple to operate within the regulatory framework.
- **Consumer protections** – EirGrid should set out consumer protections under the proposed design of the additional revenue building block and outline any potential risk to consumers.

The CRU's current expectation is the mechanism should give weight to EirGrid's recovery of its actual debt costs obtained competitively in the market during the period of initial high RAB growth. However, some form of sharing mechanism would also be required to incentivise EirGrid to raise the finance as efficiently as possible.

To facilitate this, EirGrid must develop and submit a detailed financing strategy and financial model for its offshore investment programme and be in a position to demonstrate it obtained the best debt terms available to it in the market as part of its PR6 business plan submission.

6.5. Financeability

6.5.1. Consultation Proposal

The consultation paper stated that the CRU will consider financeability constraints for EirGrid where identified during the OAO price review. This builds upon the approach that the CRU adopted to test electricity licensee financeability at PR5. The CRU set out a series of

principles that it proposed to apply to assess the financeability of its OAO price controls, building on its regulatory precedent of assessing financeability in other utility price reviews.

6.5.2. Consultation Responses

A summary of the key points raised by consultees is provided in the text box below.

Responses on financeability

Industry Responses

- Respondents were broadly supportive of the financeability approach and principles the CRU set out in the consultation paper. However, respondents consider it to be for the CRU to work with finance specialists to establish the appropriate finance structure and mechanisms for the OAO activities and price control.
- One respondent highlighted that EirGrid will likely benefit from a low-risk income stream, and are backed by Government, which should provide advantageous when raising third-party capital. Another respondent noted that an efficient company may not have sufficient income to pass the conventional ratios and would, therefore, propose to stay with a financeability approach that comprises of various qualitative metrics alongside financial ratios (quantitative metrics).

EirGrid Response

- EirGrid broadly agreed with the proposed principles outlined in the consultation paper. In its response, EirGrid highlighted that differences between its actual structure and the CRU's view of an efficient notional capital structure could create mismatches of costs and revenues. EirGrid consider an efficient notional capital structure to be challenging to determine over PR6, as there are no clear precedents for a TSO asset light business growing into an asset heavy business. EirGrid noted that how the CRU determines the balance between an actual and notional structure in practice will be critical to ensuring the financeability assessment is holistic, robust, and supports the successful delivery of offshore.
- For the alignment of risk and return, EirGrid propose both debt and equity financeability are tested, noting the 'investability' concept introduced in the RIIO-3 Sector Specific Methodology Consultation could be relevant to ensure long term funding of its offshore activities.
- Overall EirGrid were supportive of the CRU proposal to assess financeability in the round and consider specific allowances to maintain the liquidity of the business. However, further understanding of the level of justification expected to include an

additional liquidity allowance was requested.

6.5.3. CRU Decision

The CRU confirms the approach to financeability as set out in the consultation paper. In assessing the financeability of its price controls for the OAO, the CRU has decided it will:

- Give primary regard to financeability of its OAO price controls under an efficient notional capital structure.
- During a time limited transitional period of growth in EirGrid's OAO RAB, review and cross check the financeability of the price controls under the expected actual financing structure and costs of capital of EirGrid's offshore business.
- Consider a suite of financial ratios, including the average over the price review and any trend, consistent with the ratios that are adopted by credit rating agencies in their standard ratings assessments.
- Consider alongside the financial ratios, qualitative factors that are relevant to the financeability of the CRU's price controls.
- Carry out sensitivity testing to assess the resilience of the financial ratios under different outturn scenarios.

The expectation is that the financeability assessment will be a check on the financial package of the OAO price control, as opposed to a binding constraint on the level of returns that are allowed under the CRU's final price control. The CRU will assess the financeability of the price review in the round, rather than with reference to a single or a group of financial ratios.

As noted above, the CRU expects EirGrid to submit a defined and fully justified financing plan and strategy for its offshore grid programme in PR6 and beyond. The CRU will give reference to this in its assessment of the financeability of its proposed OAO revenue controls and recognises that the package of measures and decision that are made in relation to financing issues will need to be carefully evaluated in the round, such that they support delivery of the offshore programme in future OAO price controls.

The CRU notes respondents' comments on the need to consider qualitative as well as quantitative factors in the assessment of financeability. For the avoidance of doubt, the CRU does not expect to view qualitative factors as subsidiary to the modelling of prospective financial ratios in its financeability assessment. Given there are limited clear precedents of a regulated company facing the same issues that EirGrid face, the CRU expects that qualitative

factors⁵¹ are likely to be an important consideration in the CRU's in the round assessment of financeability.

6.6. Tax

6.6.1. Consultation Proposal

The OAO price control will need to provide EirGrid with sufficient revenue to meet their corporation tax liabilities. In the consultation paper, the CRU requested stakeholder feedback on the principles and approach that should be taken to tax in PR6, whilst it considers the options further in discussion with EirGrid.

The consultation paper noted that a simple approach to setting an allowance for tax in the OAO price review would be to continue with the CRU's regulatory precedent of setting a pre-tax allowed WACC. But given the complexities of EirGrid's offshore investment programme, it is possible that an approach that is more aligned with the methodology used by UK regulators, using a 'vanilla WACC' and managing likely corporation tax liabilities as an additional cash-flow allowance added to the building blocks of allowed revenues, could help to avoid EirGrid being under- or over-remunerated for their tax liabilities.

Consultation Responses

A summary of the key points raised by consultees is provided in the text box below.

Responses on tax

Industry responses

- The majority of respondents had no preference for either approach outlined in the consultation paper, considering it to be for the CRU to work with finance and tax specialists to establish the appropriate tax liability structure for OAO activities.
- One respondent noted that, until the scale of the offshore investment programme is better understood, a simple process should be implemented to aid in tracking actual tax liabilities.
- Another respondent proposed that the approach of setting a pre-tax cost of equity is

⁵¹ For example e.g. interest rate cover ratios, FFO / net debt etc. For information see attached Ofgem financeability assessment qualitative information.
https://www.ofgem.gov.uk/sites/default/files/docs/2019/03/financeability_assessment_for_rrio2_further_information_20190326.pdf

used to set ex-ante allowances to remunerate EirGrid for tax liabilities, with over-recovery compared to actual tax liabilities would be clawed back to fund lower network charges and under-recovery addressed through the application of an uncertainty mechanism.

EirGrid response

- EirGrid considered the approach applied in the UK to be more accurate for estimating tax liabilities, but also complicated and requiring notable regulatory resources, in comparison to the pre-tax allowed WACC approach.
- EirGrid highlighted that tax rules allow for accelerated depreciation of capital allowances, whereas regulatory depreciation is broadly stable in real terms over the asset life. The UK approach could, therefore, lead to a more front-loaded RAB depreciation which would aid in improving EirGrid's liquidity.
- Overall, EirGrid consider the most appropriate approach to tax is dependent on a number of factors and proposed to work with the CRU on the most appropriate approach.

6.6.2. CRU Decision

The CRU will decide, following engagement with EirGrid, on how to set allowances for tax liabilities as part of the OAO price control determination as part of the PR6 review.

Consistent with the precedent for its other network utility price controls, the CRU's current direction of travel is to apply a pre-tax WACC to set allowed returns given the transparency and simplicity of the approach. Whether this is an appropriate approach for the OAO price control will be considered as part of the CRU's assessment of EirGrid's PR6 business plan.

The CRU, therefore, expects EirGrid to set out in its PR6 business plan its assumptions of:

- The tax liabilities it will face with its offshore programme;
- What are the uncertainties EirGrid faces in its future tax liabilities; and
- If using a pre-tax WACC to set allowed revenues, why this provides an appropriate allowance for future tax liabilities.

6.7. Performance incentives

6.7.1. Consultation Proposal

The consultation paper stated that the CRU propose to create performance incentives as part of the OAO price control building on the monitoring regime established in the final period of the PR5 Price Control. The CRU proposed a mix of financial performance incentives and processes to create reputational incentives, e.g., via transparent reporting and monitoring processes.

The consultation paper proposed CRU would design proportionate financial incentives to ensure an appropriate amount of risk is placed on EirGrid and the supply chain. In creating the incentive package, the CRU noted it will holistically consider EirGrid's fixed debt obligations, the level of equity needed to absorb shocks and supply chain issues.

The CRU proposed that financial incentives would include, as a minimum:

- **Delivery incentive.** To incentivise capital works being delivered on time (e.g. Phase 2 project construction to schedule).
- **Availability incentive.** To encourage EirGrid to maintain high availability of the offshore grid infrastructure once operational.
- **Construction incentive.** To incentivise delivery of construction projects within the cost baselines determined at an appropriate point in the project cost development cycle.

The CRU noted it was also considering use of a Return Adjustment Mechanism (RAM) for EirGrid's OAO price controls. The purpose of the RAM would be to provide protection to both investors and consumers in the event that returns accruing to EirGrid through its role as OAO are significantly higher or lower than was anticipated at the time of price review decisions, e.g., as a result of price control incentive mechanisms. The CRU noted that the RAM could be symmetric (i.e., allow for adjustments for both under- and over-performance) or asymmetric (i.e., an adjustment only occurs when there is under-performance).

6.7.2. **Consultation Responses**

A summary of the key points raised by consultees is provided in the text box below.

Responses on performance incentives

Industry response

- The majority of respondents were supportive of the need to incentivise EirGrid to deliver strong performance in the delivery of the offshore grid programme.
- As well as the performance incentives referenced in the consultation, several

respondents requested that the CRU also introduce an industry engagement incentive that reflects stakeholder satisfaction with EirGrid's engagement on its offshore programme.

EirGrid response

- EirGrid highlighted the risk of monitoring and reporting to the CRU being overly burdensome and intrusive. It noted the importance of understanding the extent to which the CRU will be involved with developing and implementing delivery plans, as a risk of differing approaches and opinions between the CRU and EirGrid could risk resulting in governance delays.
- EirGrid stated that incentivisation is important and agreed that the CRU has identified key areas on financial incentives that customers and developers will value. EirGrid also noted the importance of properly calibrating and benchmarking all incentives that will be included in the framework.
- EirGrid also welcomed the proposed use of a RAM as a solution to support the bankability of agreements, noting that how the RAM works in practice and is calibrated with the other financeability mechanisms, such as financial incentives, debt allowances and other liquidity measures, will be critical.

6.7.3. CRU Decision

6.7.3.1. Reputational reporting incentives

The CRU confirms that EirGrid will be required to publish an update on all activities on the critical path. The CRU's decisions for reporting and monitoring are set out in detail in Section 5 and further in supporting Annex 1.

6.7.3.2. Financial performance incentives

The CRU has decided to introduce a range of financial incentives as part of the OAO price control to align EirGrid's interests with consumers and offshore wind farm developers:

- The CRU will place financial incentives on availability, construction costs and timely delivery (schedule) within EirGrid's offshore revenue control.⁵²
- The CRU expects the financial incentive package will be largely symmetrical with both upside and downside risk.

⁵² The CRU will expect EirGrid to mirror these incentives in its supply chain contracts wherever it is appropriate to do so.

- Similar to liquidity and cost of debt true up revenue building blocks, the detailed design of the incentive package will be taken forward ahead of a decision at the OAO draft price review determination (see discussion below).

Given EirGrid's current asset light status, the CRU will also define overall tramlines on the level of financial risk (maximum upside and downside revenue potential) the business will be exposed to via a RAM.

Proposals for each of the financial performance incentives and the RAM are discussed in further detail in the subsections below.

At the present time the CRU's direction of travel is to not take forward development of an industry engagement incentive given the challenges of defining a transparent, neutral and fair approach of measuring performance given EirGrid's role in the offshore programme and, in particular, its required commercial engagement with wind farm developers. It will keep this position under review as it progresses with the OAO price control.

6.7.3.3. Availability Incentive

Following consideration of stakeholder feedback, the CRU has decided to take forward its consultation proposal to introduce an incentive on EirGrid to maintain high availability of the offshore transmission system once the offshore transmission assets are operational.

For Phase 1 offshore wind projects, a Guarantee of Availability (GoA) regime is in place on offshore connection assets after ownership has been transferred to EirGrid.⁵³ Therefore, it is important there is an availability incentive on EirGrid that helps to balance the requirements and objectives of Irish consumer, EirGrid (both as TSO and OAO) and offshore wind developers. It will help to ensure that EirGrid maximises system availability of the offshore grid and encourages rapid repair of outages and need for unplanned maintenance.

The availability incentive will reward or penalise EirGrid based on its availability performance. The design of the availability incentive will be developed and decided on as part of the first OAO price control determination under PR6. The CRU expects the availability incentive design

⁵³ In the CRU's Offshore Grid Connection Asset Treatment Decision paper (CRU2023109), the CRU considered that GoA for EirGrid connection assets sits outside the developer's control post the point of asset transfer. Therefore, the CRU decided to place the risk of asset unavailability with EirGrid, who are best placed to manage it. The CRU notes that this decision was consistent with the regulatory objectives for Phase 1 offshore connection assets, in particular the objective to "provide Developers with certainty for ORESS bidding". The CRU sought to provide a high-level of certainty for offshore Developers to reduce risk premia in ORESS bid prices. The CRU has decided to also apply the existing Phase 1 policy approach on Guarantee of Availability to Phase 1 merchant projects as set out in CRU2024/66, CRU (2024): 'Asset treatment for Merchant Phase 1 Offshore Wind Projects, available here.

to be guided by the high-level design framework and principles set out in the box below and expects to develop the design of the incentive mechanism in consultation with EirGrid following submission of its PR6 business plan.

Box 6 - Assessment framework / design principles for availability incentive

The CRU will consider the following design principles for the availability incentive:

- Alignment of incentives – whether the incentive design encourages EirGrid to undertake maintenance during the life of the asset to avoid unplanned maintenance and effective stewardship of the offshore system. It is expected that the incentive should encourage rapid maintenance of unplanned failures and appropriate planned maintenance that minimises the amount of lost electricity transmission.⁵⁴ The CRU will also consider whether the incentive design aligns with consumers interests given the Guarantee of Availability compensation regime in place for offshore generators.
- **Balance of risk and reward and financeability** – whether the incentive design provides an appropriate degree of risk transfer and a fair balance of risk and reward when viewed within the wider context of the OAO revenue control.
- **Clarity and practicality** – the incentive design should not be unnecessarily complex or result in a lack of transparency or unintended consequences. The proposed approach should be practical for the CRU to implement and easy for EirGrid and other stakeholders to understand and monitor.

Important considerations for the availability incentive design will include *inter alia*:

- the expected target for availability, how this is determined and whether it should be a common target across all EirGrid offshore assets, or a specific target by project;
- how the incentive should be designed given that EirGrid will be operating a portfolio of offshore connection assets rather than a single project;⁵⁵
- the revenue that should be at risk for EirGrid to achieve an appropriate balance of risk and reward.

The CRU will consider relevant precedent of similar incentives in other contexts, such as the availability incentive included within the CRU's cap and floor regulatory framework for the Greenlink Interconnector, the availability incentive mechanism faced by OFTOs in GB and the

⁵⁴ For example, by encouraging planned maintenance to occur at times of expected low generation and to minimise the time period of capacity outages.

⁵⁵ For example, should performance regime under the incentive be defined by EirGrid's availability performance across the whole portfolio, or by reference to each individual project?

availability incentive that has been proposed as part of the GB Electricity System Operator early onshore transmission competition plan.⁵⁶

6.7.3.4. Timely delivery of construction incentive

Having carefully considered stakeholders feedback, the CRU has decided on the following:

- To incentivise EirGrid's capital works being delivered on time (Phase 2 and future offshore grid infrastructure), the CRU will implement a timely delivery incentive.
- The timely delivery incentive will apply only to Phase 2 (and future phases) EirGrid led construction projects⁵⁷, where the construction programme is within EirGrid's control to manage (i.e., the incentive will not apply to Phase 1 developer led projects).
- The incentive will penalise EirGrid for late delivery by reference to an agreed set of development and construction milestones and a final target grid Commercial Operating Date (COD) / longstop date for the project. The CRU will consider whether the incentive will also provide a small reward if EirGrid achieves the agreed interim milestones and COD for the project.
- The incentive rewards and penalties will be applied on a gateway basis and EirGrid will be penalised for not meeting gateway milestones in the development of capital works.

This incentive aims to ensure that EirGrid, offshore wind generators and consumers interests are aligned. Late delivery by EirGrid of offshore transmission infrastructure may impose costs on consumers and limit the volume of low carbon electricity in the electricity system. It is, therefore, important that EirGrid are incentivised to manage its capital works programme effectively to the expected COD envisaged at the time of final investment decision.

In contrast to the consultation proposal, the CRU will consider if the incentive should also provide the scope for a reward for EirGrid should it achieve interim milestones and agreed COD. This would balance the impacts of the package of financial incentives. The CRU notes that it may be appropriate to have a more penalty weighted regime because this aligns with the costs that consumers and windfarms may bear if EirGrid is delayed in the delivery of its

⁵⁶ See <https://www.nationalgrideso.com/future-energy/projects/early-competition>

⁵⁷ This incentive may also extend to new opex activities such as insurance and O&M that are managed via the gateway process.

transmission asset. However, it will consider this issue in further detail as part of the detailed incentive design in PR6.

The CRU notes EirGrid's comments that if depreciation of Phase 2 projects only starts on commissioning this will create an inherent financial incentive for timely delivery. While CRU recognises that starting depreciation of Phase 2 projects on commissioning provides an incentive for EirGrid to achieve the target asset commissioning dates, the CRU has also introduced several measures that will provide EirGrid with revenues during construction, including an allowed return on the RAB and potentially scope for additional liquidity / cost of carry building block(s) (see sections 6.2 and 6.3 above). These decisions aim to reduce the financial impact for EirGrid if there is a delay in construction schedule.

For this reason, the CRU consider it is important that there are clearly defined performance milestones for delivery of capital projects that can be monitored and will have commercial impacts for EirGrid if in cases where projects are not delivered on time. The CRU, however, recognises the revenue that can be placed at risk under the performance incentive will be limited given EirGrid's current limited financial headroom and resources.⁵⁸

Similar to the availability incentive, the detailed form of the timely delivery of construction incentive will be developed as part of the PR6 process. The box below sets out the assessment framework and design principles the CRU expects to take into consideration as part of the detailed design of the timely construction delivery incentive.

Box 7 - Assessment framework / design principles for timely delivery of construction incentive

The CRU will consider the following design principles for the timely delivery of construction incentive:

- **Alignment of incentives** – encourage EirGrid to achieve key construction milestones on a timely basis and work towards the overall target COD for the transmission asset as required by the associated wind farm and consumers. The CRU considers an advantage of having an agreed set of time milestones under the performance incentive, rather than a single target commissioning date (COD), is that the incentive will highlight if critical milestones in the project plan are missed and will provide early warning signals of project schedule delay.

⁵⁸ It is also important to note that EirGrid may be able to pass a degree of delay risk to its supply chain, via for example, contract liquidity damages, where available and appropriate.

- **Balance of risk and reward** – whether the incentive design provides an appropriate degree of risk transfer to EirGrid, and a fair balance of risk and reward when viewed within the wider context of the OAO revenue control.
- **Clarity and practicality** – the incentive design should not be unnecessarily complex or result in a lack of transparency or unintended consequences. The proposed approach should be practical for the CRU to implement and easy for EirGrid and other stakeholders to understand and monitor.

Important considerations for the timely construction delivery incentive design include *inter alia*:

- how the timely delivery incentive is defined – for example, how it is defined in relation to an expected COD and appropriate interim milestone dates and the weight placed on achieving / missing these milestones within the incentive;
- the size of reward and penalty for the incentive in aggregate, and how this is determined and measured across EirGrid's portfolio of construction projects;
- ensuring the design of the incentive aligns the interests of EirGrid, offshore windfarm developers and consumers;
- under what circumstances rewards or penalties would not be applied if EirGrid was delayed (for example, factors outside of EirGrid's control such as Force Majeure events); and
- the extent to which the incentive will provide EirGrid with the ability to earn back penalties or lost rewards if it catches up on delayed project timelines, or whether once one milestone is missed this leads to any recalibration of future milestone dates i.e. missing one milestone will not automatically result in the next being missed.

Relevant precedent will be considered by the CRU, such as the timely delivery incentive included within Ofgem's ASTI framework.⁵⁹

6.7.3.5. Construction Cost Incentive

Having carefully considered stakeholders feedback, the CRU has decided on the following:

- To incentivise capital works being delivered within budget (Phase 2 and future offshore grid asset construction) CRU will implement a construction cost incentive.
- EirGrid will develop a business plan including a programme of capex and a forecast of future spend, and the determined capital baseline will be based on this.

⁵⁹ See Ofgem (2022): 'Accelerating onshore electricity transmission investment – decision' available at <https://www.ofgem.gov.uk/decision/decision-accelerating-onshore-electricity-transmission-investment>

As discussed in Section 5, the CRU expects that this cost baseline / envelope will evolve during the preliminary works / development period of a project.

- Once project procurement is complete and a firm cost estimate is available, the CRU will use this to establish a construction target cost (including contingency) for the project.
- When projects are in construction, the purpose of the incentive will be to incentivise EirGrid to deliver at or below the procured / expected price.
- The incentive will be symmetric with scope to reward (penalise) for spend below (additional to) the cost baseline determined ex-ante. Where projects are:
 - i. Delivered in full and under budget, this would be considered as an efficient saving and part of the saving may be retained by EirGrid. The ex-post review for the price control, will be used to establish that the underspend is a result of efficiency rather than under delivery.
 - ii. Where projects are delivered above target cost, the CRU will use the ex-post review to establish if the additional incurred spend is economic and efficient. If the CRU concludes that is the case, the additional cost may be funded in full. Where the CRU concludes that outturn costs are above the target, and all or part of the additional cost was not fully justified by EirGrid as efficient and reasonably incurred, the CRU will apply a penalty so that EirGrid is required to bear a proportion of the cost overrun.

The detailed design of the construction cost incentive scheme will be taken forward as part of the PR6 process. The box below sets out the framework and key principles that the CRU expects to consider in finalising incentive design.

Box 8 - Assessment framework / design principles for construction cost incentive scheme

The CRU expects to apply similar design principles for the construction cost incentive as the other performance incentive schemes discussed above, namely alignment of incentives with key stakeholders, balance of risk and reward and clarity and practicality.

Important considerations / issues for the construction cost incentive design include *inter alia*:

- what project costs are included / excluded from the target cost for the construction incentive scheme (if any).

- the size of reward and penalty for the cost incentive in aggregate, and how this is determined and measured across EirGrid's portfolio of construction projects and proportionate in the overall context of the OAO price control;
- interactions of the incentive with EirGrid's supply chain and agreed/available contract terms;
- treatment of circumstances where EirGrid is not able to achieve a firm price from the supply chain (e.g., cost plus or time and materials contracts);⁶⁰ and
- any interaction between the cost incentive and timely delivery incentive.

Relevant precedent will be considered by the CRU, such as the capex incentives used by the CRU in PR5 and PC5 and frameworks used by Ofgem and other economic regulators.

6.7.3.6. Return Adjustment Mechanisms (RAMs)

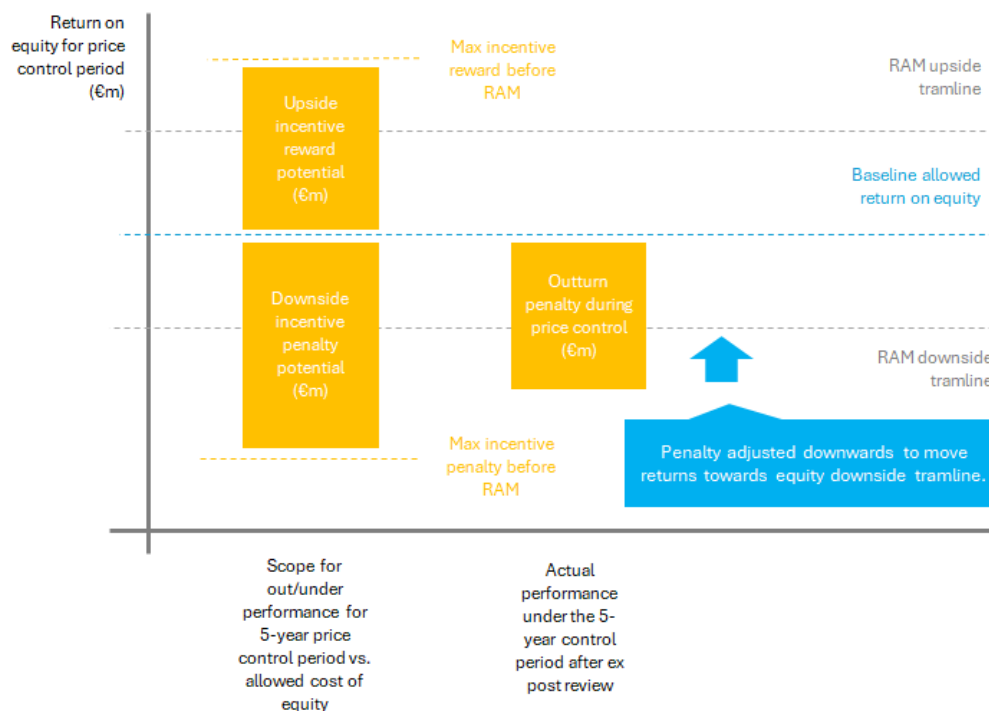
Having carefully considered stakeholders feedback, the CRU has decided on the following:

- The CRU will define overall tramlines of the level of financial risk (maximum upside and downside revenue potential) EirGrid will be exposed to under its OAO price control. These tramlines will be calibrated at each price review.
- Where outturn returns under the price control fall outside of these tramlines, the CRU will increase / decrease allowed revenues to move outturn returns on regulated equity for the price control period towards the ex-ante tramlines (a RAM).

The figure below provides an illustration of how the financial risk tramlines will be applied, via an equity RAM. As noted above, the CRU recognises that during the initial period of investment in the offshore grid, EirGrid's capacity to bear downside financial risk under its price controls will be limited, and placing a high degree of risk on the licensee is unlikely to be in customers' interest. The CRU therefore will consider if the tramlines on financial risk need to be asymmetric, with more downside protection than upside cap, to help ensure EirGrid is able to secure low-cost debt financing. For this reason, the CRU has decided to introduce a robust monitoring regime of EirGrid's offshore programme, given the consumer impacts of performance and execution risk of EirGrid's delivery of the offshore programme.

⁶⁰ See discussion in previous section on the potential inclusion of a contingency pot within the target cost baseline for management of such an event.

Figure 10 Illustration of equity return tramlines and RAM



The detailed form of the equity tramlines / RAM will be further developed during the PR6 review process. Important considerations for the design include *inter alia*:

- The appropriate threshold for the RAM either side of equity returns for the price control;
- Whether the upside and downside each have a single threshold level or multiple thresholds; and
- The adjustment rate at which EirGrid's returns are adjusted upwards or downwards in the event that the threshold / tramline is breached.
- The treatment of any underspending e.g. on routine opex, that is not demonstrably an efficiency.

The CRU considers that the RAM would apply on an aggregate price control basis – i.e., CRU will assess EirGrid's performance on an aggregate basis over the 5-year price control period.

Any reward / penalty from performance under the financial incentive package - adjusted in the event the RAM is breached - will be applied either in the first year of the next price control period or spread over several years of the next price control period. In undertaking this ex-post assessment, the CRU will take into consideration EirGrid's performance under the following incentives and building blocks of the OAO price control:

- Construction cost incentive.
- Availability incentive (where applicable).
- Timely delivery of construction incentive.
- Expenditure performance (following conclusions and updates to allowances after the price control's Ex-Post Review) in opex compared to the price control allowances.

6.8. Summary of risk allocation

The proceeding subsections (and Section 5) have set out CRU's detailed decisions for the different elements and building blocks of the OAO price control framework. While aspects of these arrangements will need to be developed in further detail as part of PR6 and other offshore programme workstreams progressed, to aid with clarity of the CRU's expectations of the allocation of risks under this framework, the table below provides a summary risk allocation matrix of the proposed offshore revenue model.

EirGrid's offshore activities at a high-level will comprise:

- Project development (preliminary works) and construction.
- Operations, responsible for the oversight and management of ongoing operating and capital expenditure needed to maintain the offshore asset base.
- Ongoing financing and recovery of investments either made by developers (Phase 1) or EirGrid (Phase 2 and future phases).

EirGrid will in its new role as OAO be responsible for a portfolio of activities and projects as opposed to being a single project delivery company. The table below, however, seeks to summarise the expected risk allocation according to the four key common stages of the project life of a large infrastructure project, namely:

- Development
- Construction
- Financing
- Operations

Table 8 Expected risk allocation during the life cycle of Phase 2 and future phase projects⁶¹

Risk element	Risk description	Risk allocation	Comments
Development of Phase 2 and future phase projects			
Planning	Planning consent is not forthcoming, or conditions require changes to the scope of the project or impose new requirements.	Primarily consumer	This event would be managed via the investment gateway process. EirGrid can be expected to be funded for any additional activities and the new requirements reflected in the project design and scope of requirements provided it maintains momentum in progressing projects through their development cycle. As a result, this risk sits primarily with the consumer.
Land	Unable to secure appropriate land rights to deliver project, requiring change to the scope.	Primarily consumer	As per planning
Other consents	Other consents are not forthcoming, or conditions require change to the scope of the project or impose new requirements.	Primarily consumer	As per planning.

⁶¹ Where risks are primarily allocated to parties other than EirGrid, such an allocation relies on EirGrid demonstrating that it has taken all reasonable steps to avoid any additional cost, delay or subsequent change to an element of the project.

Risk element	Risk description	Risk allocation	Comments
Tech. specification	The technical specification of the asset requires changes after the initial design / specification is agreed.	Primarily consumer	EirGrid would need to demonstrate as part of the investment gateway process that the specification change is necessary and economic and efficient prior to procurement. The CRU would expect EirGrid to seek to contain such cost escalations within the original project cost envelope, but provided the CRU agrees with the justification for the change, then the cost could be recoverable under the price control.
Cost escalation	Input prices and costs of completing development and preliminary works activities increase compared to original expectations.	Shared	EirGrid will be able to recover its additional costs, subject to the price control ex-post review and gateway assessment process that the additional costs are demonstrated as being efficient and reasonably incurred.
Construction			
Timely delivery	The capital project cannot be completed to the agreed milestones and timelines	Shared	EirGrid will face a penalty for late delivery under the proposed timely delivery incentive. The risk is shared because EirGrid will still be permitted to earn a return on the RAB during the delay period and the delay (performance incentive) risk will be capped both at the incentive level (€+/- to be determined) and at an aggregate equity return level from the proposed equity tramlines / RAM. The CRU expects EirGrid to put in place appropriate commercial protections and measures in its

Risk element	Risk description	Risk allocation	Comments
			supply chain contracts to mitigate and incentivise delivery of capital works to target schedule dates.
Cost overrun	The capital project cannot be completed to the agreed budget.	Shared	<p>Where projects are delivered above target cost, but the cost overrun is considered economic and efficient following the ex-post review, the additional cost to EirGrid will be fully funded.</p> <p>EirGrid will face a penalty for outturn costs above the target which are not sufficiently justified as having been economically or efficiently incurred, and reasonably controlled or mitigated. As a result, EirGrid will be required to bear a proportion of the cost overrun, defined by the parameters of the construction cost incentive mechanism.</p> <p>This risk is shared because the cost overrun risk will be capped both at the incentive level (€+/- to be determined) and at an aggregate equity return level from the proposed equity tramlines / RAM.</p>

Risk element	Risk description	Risk allocation	Comments
			The CRU expects EirGrid to put in place appropriate commercial protections and measures in all its contracts to mitigate and incentivise delivery of capital works to target costs and protect consumers interests against underlying cost escalation.
Site conditions	The conditions of site are different from the information available during the project development phase.	Shared	If results in additional costs, see cost overrun, and/or delays, see timely delivery
Third parties	Stakeholder and customer management during delivery of works.	Shared	If results in additional costs, see cost overrun, and/or delays, see timely delivery
Changes in scope	Changes to the project requirements during construction.	Shared	Provided the justification for the change is agreed, then the cost is recoverable. EirGrid would be expected to evidence and justify the change at the ex-post review.
Interfaces	Mismanagement and/or poor definition of interfaces results in additional work and/or delays.	Shared	Interface risk to be managed by EirGrid. Financial impacts subject to the construction cost and timely delivery incentives.
Commissioning	The constructed works are not fit for purpose and/or do not meet the project requirements.	Shared	If results in additional costs, see cost overrun, and/or delays, see timely delivery.
Financing			

Risk element	Risk description	Risk allocation	Comments
Financing costs	Financing costs are higher than expected and allowed in the regulatory allowance.	Shared	EirGrid are expected to operate within the allowed WACC for the price control period. An allowed cost of debt adjustment / true-up mechanism in EirGrid's OAO price control is expected to be included to enable recovery of EirGrid's debt costs.
Payment risk	Risk of payment of tariffs used by the TSO to recover the allowed revenues of the OAO price control including the OG-TUoS charge paid by generators. Risk of generators defaulting on payments.	Consumer	EirGrid will be permitted to recover its allowed revenue in the event of payment default or delay, including OG-TUoS. ⁶²
Operations			
Outsourced O&M	Cost of operating and/or maintaining the asset to the required standard exceeds the costs tendered.	Shared between EirGrid O&M Contractor, and Consumers	Dependent upon the commercial principles of procurement. Expectation is additional costs are initially borne by O&M provider up to an appropriate cap and then additional allowed spend to be justified under EirGrid's price control.

⁶² EirGrid should however put in place appropriate strong payment protection mechanisms, via the connection agreement, to manage its counterparty exposure to wind farm developers. The CRU will also consider proposals from EirGrid for how to maintain EirGrid's liquidity in the event a developer was to default on its expected OG-TUoS payments, e.g., by recovering the shortfall in allowed revenue from D-TUoS charges which would be repaid if and when the OG-TUoS payments are recovered from the applicable generation company.

Risk element	Risk description	Risk allocation	Comments
Internal opex	Operating costs exceed the allowance in the regulatory determination.	Shared	EirGrid's exposure to opex cost overruns will be limited, providing that it is able to demonstrate good practice in seeking to minimise cost overruns.
Operational performance	Inability to operate the asset to meet the required performance standards.	Shared between EirGrid O&M Contractor, and Consumers	<p>The availability performance incentive, to be further developed during the PR6 process, and will reward or penalise EirGrid based on its availability performance.</p> <p>The Guarantee of Availability (GoA) regime compensates offshore generators for asset unavailability beyond a pre-determined threshold.</p> <p>The design of the availability incentive will determine the level of risk sharing between consumers and EirGrid with regards to the GoA compensation.</p> <p>The CRU will also expect EirGrid to have an effective performance regime in place for contracts, including outsourced O&M.</p>
Cable break or defects during operations	Defects appear, or a major failure occurs, during operations, resulting in interruptions to asset availability and requiring remedial work.	Shared (post warranties & indemnities & insurance) between EirGrid and Consumers	<p>Expectation EirGrid will seek to draw on commercial solutions (warranties, indemnities and insurance) prior to seeking additional funding under its price control.</p> <p>EirGrid is expected to procure insurance for its operational assets, which limit the exposure of consumers to the</p>

Risk element	Risk description	Risk allocation	Comments
			<p>financial impacts of events, such cable breaks or other events, during operation.</p> <p>Before seeking to claim for additional costs under its price control, EirGrid will be expected to demonstrate and fully justify why the costs could not be recovered from commercial solutions, including warranties and indemnities agreed at the time of the asset transfer and its package of insurance policies.</p>
Demand risk	Actual demand for use of the asset is lower/higher than expected.	Developer	For Phase 1 projects, EirGrid will recharge the ATV payment amount back to the Developer via the OG-TUoS charge, which is recoverable independent of the wind farm's use of the asset (i.e., cost recovery not linked to demand). Sizing of the capacity of the transmission assets takes the generation assets into account.
Change in scope or regulations	The assets are required to be operated differently and/or investment is required to meet new requirements.	Consumers	Provided the justification for the change is agreed with the CRU under the OAO price control ⁶³ , the cost will be recoverable and so this risk sits with the consumer.

⁶³ For example, following a change in law or regulations or a requirement for incremental capacity.

7. Next Steps

A range of implementation matters regarding the OAO revenue model will be progressed following this decision. Amongst several areas, this includes the following but not limited to:

Pre-PR6

- EirGrid readiness reporting (commences October)
- Commencement of investment gateway process.

Workstreams to be progressed as part of the PR6 process

- Design of the OAO cost of debt recovery / true-up mechanism
- Design of the OAO liquidity / cost of carry mechanism
- Design of the equity tramlines / Return Adjustment Mechanism for the OAO
- Design of the performance incentives (availability, construction cost, grid delivery date) for the OAO.
- Issuance of a draft and final OAO price control determination (expected to be published in 2025) for the revenue period 2025-2030.

Separate to PR6 process

- A review of the existing EirGrid TSO licence with a view to the licence being amended to reflect EirGrid's offshore requirements.
- Development of an offshore network tariff model.

Annex 1: Investment Gateway Monitoring Protocol

A1.1 Introduction, rationale and objectives

Delivery of Ireland's ambitious offshore programme is challenging. EirGrid is a relatively immature large project developer in offshore and the CRU considers there to be significant value in it demonstrating the quality of the analysis that it is undertaking as the phase 2 component projects progress from inception to implementation and operation. EirGrid also requires significant consumer underpinning because it is currently an asset light business with limited capacity to bear the risks associated with a capital programme of this scale.

In the main part of this decision paper, the CRU established its expectation that the PR6 process will set ex-ante 'capex and opex⁶⁴ envelopes' or baselines within which EirGrid will be expected to deliver. The decision paper also noted that progress and variation against the baselines will be closely monitored via a gateway process and governance protocol (investment gateway monitoring). The investment gateway monitoring protocol is an important part of the enhanced monitoring and governance process for managing changing requirements and cost variation of the offshore programme. It is fundamental to the CRU meeting its duty to protect consumers.

To date the CRU has focused on capex monitoring. It expects to engage with EirGrid over the next few months on those aspects of opex, which involve large cost expenditure to be covered by the gateway monitoring framework.

In summary the capex gateway process will operate as follows:

Box A1.1 – Summary of investment monitoring process for capex

- The price review (i.e., PR6) cost assessment process will set ex-ante an overall capex envelope for EirGrid's Phase 2 projects. These projects will be at a relatively early stage of development at the start of PR6; scope, cost, schedule and risk are likely to be uncertain. The ex-ante envelope will therefore account for uncertainty in addition to covering known/likely risks.
- Phase 2 project progression will be monitored through a series of project milestones defined by the EirGrid programme plan and a set of capex gateways, the timing of

⁶⁴ For large new opex activities such as O&M and Insurance.

which will be project specific and included within the approved project programme.

Each gateway will represent a go/no go decision point at which the CRU may approve or reject EirGrid's request for a revenue allowance. CRU approval will enable EirGrid to progress to the subsequent gate.

- The investment monitoring process is intended to create transparency at critical projects stages and enable engagement between EirGrid and the CRU to ensure timely delivery and value for customers. The CRU's gateway process is intended to enforce rigour on EirGrid requiring it to follow industry best practice in its Phase 2 development / delivery activities.

Alongside delivering necessary transparency over its activities and building progressive confidence in its ability and capability to deliver the offshore programme, the gateway process:

- Provides EirGrid with the necessary flexibility to manage the programme given that scope, land and marine consenting costs and aspects of timeline will be uncertain at the time they are set as part of the PR6 determination.
- Gives predictability and certainty of regulatory treatment of costs as they change through the price control mechanism and ahead of the Ex-Post Review.
- Allows the opex and capex envelopes to change in defined circumstances to maintain EirGrid's financeability requirements.

A2.2 Investment Gateway Assessment Principles

EirGrid has currently defined the following capex projects as components of its Phase 2 EirGrid led capital programme: (See [Shaping Our Offshore Energy Future](#))

- Offshore substation(s) – to be located within Maritime Area A (Tonn Nua) of the SC-DMAP;
- A connection between these substations and the onshore network including undersea and underground electricity cables; and
- New substations near to existing onshore substations.

For each component project, the gateway process will consider EirGrid's:

- Approach to securing land and marine consents and compliance to environmental requirements and conditions.
- Approach and rationale for selecting the proposed optimum technical solution

- supported by value engineering analysis;
- Plausibility of the timeline proposed including market conditions and supply chain delivery appraisals;
- Rationale for EirGrid's proposed commercial and procurement strategy and demonstration of cost efficiency, cost savings and certainty on outcome;
- Efficiency of EirGrid's capability and delivery against the baseline for the component project and within the overall envelope;
- EirGrid's proposed approach to managing the project such that the CRU can consider the efficacy of that approach in terms of maintaining scope, cost, schedule and risk management/mitigation; and
- Once in construction, the CRU will expect EirGrid to produce, not less than monthly, earned value metrics and statistics against agreed cost and schedule baselines for review, including the effective management of change and process reports associated with risk management and contingency drawdown as appropriate.

In respect of the technical solution, the gateway process will consider whether the solution selected by EirGrid is the most economically viable solution. The CRU will expect EirGrid to be able to demonstrate and fully justify that the proposed solution is consistent with industry norms, takes account of current market conditions and industry best practice, and ensures that the solution seeks to mitigate material increases to cost, is valid and appropriate to delivery and manage the complexities to the project timeline with good and sound justification.

EirGrid must also demonstrate how it has assessed schedule plausibility given the complexity and delivery deadlines for the projects, including any schedule and cost benefits arising from synergies between phase 2 and potentially phase 1 activities. The CRU will expect EirGrid to put forward plausible plans that take account of uncertainties such as land and marine planning consents, project resourcing and supply chain availability. EirGrid will also be expected to demonstrate that it has considered and mitigated timing risks to the best of its ability through the effective use of appropriate programming and timescale risk analysis tools.

For EirGrid's commercial strategy, the gateway process will assess the development of EirGrid's contracting and procurement solutions against the objectives of being likely to meet the long-term interests of delivering consumer value for both the construction, operational and decommissioning lifecycle. This will include ensuring that it maximises the potential for competition, takes into account current market conditions, considers economies of scale and technology innovations, and places the appropriate requirement on bidders in terms of cost

transparency, value engineering and risk sharing.

The CRU will also evaluate whether the costs incurred by EirGrid to deliver a project are appropriate, allowable, economic and efficient, and within the overall capex allowance approved. This will include reviewing whether the costs are consistent with the baseline and prior expectations, compare to industry benchmarks and whether cost deviations were due to factors outside of EirGrid's control. EirGrid will be expected to use its best endeavours to maintain or reduce costs within the overall envelope (including the provisions for risk and uncertainty). EirGrid's contracts should place suitable incentives and/or penalties on the supply chain to support this objective without compromising safety and technical requirements.

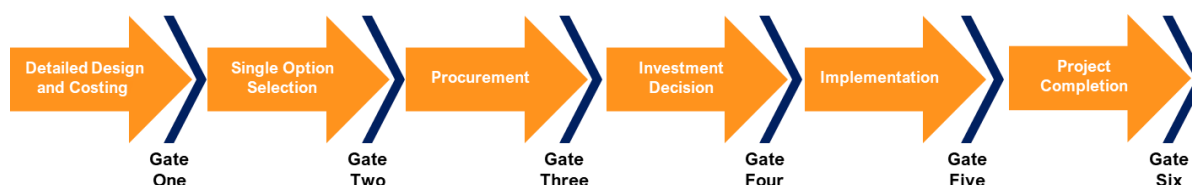
Although escalation beyond the envelope (and any supply chain pain/gain mechanisms) may ultimately become a risk borne by Irish consumers, the CRU will use gateway review points to seek to mitigate delay or cost escalation risk at the earliest opportunity. If, in the reasonable opinion of the CRU, cost escalation/delay outside of the envelope seems likely to occur the CRU will consider whether it is appropriate to let EirGrid continue with the project, following detailed forecast analysis, whether there are alternative delivery options and/or whether it will require EirGrid to take on additional support/expertise or corrective action in order to complete the works efficiently and on time.

These considerations will ultimately feed into an assessment of EirGrid's performance against its delivery incentives (see Section 6 above).

A2.3 Investment gateway requirements

The investment gateway process will include six gateways (see figure below) each with specific requirements as discussed in the box below.

Figure A.1 Investment Gateways



Box A2.2: Summary Gateway Requirements

- **Gate 1: Detailed design and initial costing:** At this Gateway EirGrid should provide evidence that a number of suitable options (usually 3) have been assessed and evaluated. EirGrid should demonstrate that an independent technical and cost estimating

advisory service has been engaged to confirm the viability and cost of each option. A relevant consideration will be the impact of each option on schedule and the risk and uncertainty associated with each option under consideration.

- **Gate 2: Single option selection:** EirGrid should explain and fully justify how it selected a single option. It should provide a cost-benefit analysis of its selected option with external assurance being provided by an independent technical adviser to ensure and verify that the design option fully complies with the relevant offshore general and functional specification requirements. EirGrid should ensure that the adviser opines on the plausibility of schedule, accuracy of costs, technical assurance and the risk provision associated with the project.
- **Gate 3: Procurement:** EirGrid should provide a final detailed description of its procurement and commercial strategy, including a copy of the ITT and bid evaluation framework. It should demonstrate and provide assurance that it has considered and mitigated where practicable foreseeable risks to its approach. In particular EirGrid should pay attention to ensuring that the bidding pool is likely to be sufficient to generate an appropriate level of competition. The CRU will look closely and critically at procurements for material contracts that involve less than three independent bidders.
- **Gate 4: Final Investment Decision:** EirGrid should provide a full and detailed internal bid evaluation report including an analysis of the price of the selected bidder against other bids and industry benchmarks. EirGrid may not enter a material contract prior to sign off at this gate. The gateway 4 submission should include a QA and assurance report from an independent third-party including a clear status in relation to land and marine consenting obligations to support entry into contract. It should also discuss how EirGrid will manage any residual uncertainties in relation to price, schedule, project risk and cost escalation.
- **Gate 5: Implementation:** The CRU will expect monthly progress reports and monthly progress meetings to be held between formal gateway reviews. These meetings will consider progress at the PR6 portfolio and project specific level including progress against baseline costs, project schedule and EirGrid's milestones including change, risk and mitigation status, using earned value statistics and identification of any deviations with supporting explanatory narrative. Within this EirGrid should discuss any implications for the portfolio including for portfolio risk provisions which will also consider the ongoing NDP Programme, and any wider transmission reinforcement works.
- **Gate 6: Project Completion & Benefits Realisation:** This will be an end-of project completion review which will assess overall efficiency against baseline budgets and

schedules and will be used to determine the payments (penalties) from the financial incentives on EirGrid for delivery of the Phase 2 programme. As outlined in Section 5, financial incentives will be in place for EirGrid's management of cost within the capex envelope once a clear, stable, reference cost for the components of the Phase 2 capital programme (e.g., post design, consenting and procurement) have been established which may also be extended for opex where significant costs are involved. EirGrid will also be subject to a timely delivery incentive against an agreed schedule for the capex programme.

Although the requirements are not insubstantial, the CRU considers that they should align well with work that EirGrid must already undertake within its own governance arrangements.

The first three phases, detailed design and costing, single option selection, and procurement, will all occur before the Final Investment Decision (FID). During the first three gateways the CRU expects that there will be limited investment spend. The CRU's primary focus pre-FID will be assessing the viability of consenting and technical solution proposed, accuracy of costs estimates and risk/contingency provisions and whether the commercial strategy for the project will enable timely delivery and ensures value for Irish customers.

The CRU will expect EirGrid to progress Phase 2 component projects to at least Gateway 2 prior to the start of PR6 i.e. use of the investment gateway protocol will commence as part of initial PR5 monitoring not at the start of PR6. The investment envelope will be updated to reflect the latest position in the CRU's final OAO determination in 2025.

A2.4 Managing changes and refining the protocol

Where EirGrid concludes that the detailed gateway requirements are inconsistent with its own internal processes, it should immediately identify issues and discuss with the CRU how better alignment might be achieved. A more systematic review will be undertaken as the first capex and opex projects progress through each gateway. As part of the gateway review there will also be an engagement process with EirGrid which will seek to:

- Refine the information and technical requirements of submissions which EirGrid will need to submit CRU to allow EirGrid to progress the project through the gateways.
- Allow the CRU to approve draft templates that EirGrid will be required to submit ahead of time, and to ensure that submissions are suitable and appropriate.
- Ensure that the third party/Independent technical and costs estimating advisory

reports align with the expectation of CRU.

Since the phase 2 capex projects are expected to be captured within the PR6 capex envelope, there is a close connection to the PR6 process. EirGrid is expected to submit its PR6 investment business plan in October 2024, this should capture its phase 2 offshore projects and their anticipated or forecast capex and opex spend including risk and uncertainty (see further guidance below). The data provided in the OAO business plan should be consistent with a gateway 1 submission. Following the business plan submission draft determinations are expected to be published in Q1/Q2 2025, with final determinations due in Q3 2025.

A2.5 Gateway submissions

Detailed requirements by gate are set out below. As noted above, the current focus is on capex submissions. Opex 'projects' should be agreed with CRU prior to OAO business plan submission and detailed opex submission requirements (consistent with the summary requirements set out in A2.2) are to be agreed in a similar timeframe⁶⁵.

Each gateway submission should be accompanied by an overarching summary report that identifies key issues and considerations and an independent assurance report that, on the basis of analysis undertaken, confirms completeness of the submission and makes a recommendation to the CRU regarding progression to the next gateway.

EirGrid should note that each gateway submission must clearly tie back to initial estimates of cost and schedule provided in PR5 (via the OAO business plan or routine reporting) and to the latest agreed baseline in PR6; the CRU considers that creating a clear audit trail to be fundamental to the success of the investment process.

Gateway 1: Detailed Design and Costing

At this gateway, the CRU expects EirGrid to be able to demonstrate that they have carried out an in-depth assessment of no fewer than three options. The CRU expects EirGrid to have carried out a robust design exercise and cost estimates for each of the proposed options and produce a Final Ranking and Rating Analysis document which includes each of the proposed options at a suitable level of cost breakdown, detail and definition to support CRU review, analysis and evaluation.

⁶⁵ Opex that is not amenable to gateway monitoring will form a separate part of the overall opex envelope and be monitored via routine readiness reporting.

The CRU expect that EirGrid will include in this Final Ranking and Rating Analysis a full consideration of the relative cost of each option with an appropriate allowance for optimism bias, the merits and benefits realisation of each proposed option, and the technical viability of each proposed option duly aligned to the cost envelope. The CRU expect EirGrid to make clear if there are any risks associated with the proposed options which may materially impact on delivery timelines or costs.

The CRU also expect EirGrid to contract an appropriate third-party technical and cost estimating advisory service to independently assess each option under consideration, and to provide assurance that each of the options conform to the following criteria:

- Each option complies with the land and marine consenting requirements, including any environmental constraints and pre-approval conditions.
- Each option must be technically viable under the required standards, including general and functional specifications as set by the TSO and must meet the operational requirements of respective TAO's.
- That each option is deliverable within the proposed timeframe at the estimated cost with a high level of certainty.
- That the capex cost estimate provided by EirGrid is appropriate for the stage of development and includes sufficient allowance for risk and optimism bias.
- That any potential risks associated with the ongoing NDP Programme and wider transmission reinforcement works has been fully considered and evaluated.

Table A2.1 Detailed Design and Costing Submissions

Submission Categories	Expected Submissions
Technical and Environmental	<ul style="list-style-type: none"> • Preliminary Project Designs/Concepts & MEC/Export Optioneering Report and Value Engineering Report • Network and Grid Capacity Analysis • Confirmation of compliance with TSO general and functional specifications and associated standards • NDP/ Outage and Transmission Reinforcement Dependency Analysis • Onshore and offshore Substation Analysis, Onshore Compensation Compound (OCC), Physical Location Plans and Export Cable Route Studies • Identification of long-lead items (LLI)

	<ul style="list-style-type: none"> • Land and Marine Access and Ownership Reviews and Recommendations • Third party Independent technical and cost estimating advisory reports
Commercial and Project	<ul style="list-style-type: none"> • Provisional Procurement Strategy demonstrating economies of scale, and cost benefits as derived from value engineering exercise • Provisional Project Programme • Risk Identification and Risk Mitigation Plan or Report
Stakeholder Engagement	<ul style="list-style-type: none"> • Stakeholder Impact Analysis and Recommendations
Economic Efficiency	<ul style="list-style-type: none"> • Provisional capex costing estimate +/- 15% • Provisional Financing and Insurance Feasibility Assessment Report • Value Engineering Analysis
Integrated Reports	<ul style="list-style-type: none"> • Final Ranking and Rating Analysis of Assessed Options including preferred solution recommendation and alignment to the programme and project cost envelope.

Gateway 2: Single Option Selection

At this gateway, the CRU expects EirGrid will provide a more detailed analysis of the preferred option selected in the Detailed Design and Costing gateway. This will include:

- Providing a robust Cost Benefit Analysis (CBA) and revised capex cost estimates complete with a robust and updated delivery programme and risk register and cost/time quantified risk register and mitigation action plan.
- Providing early sight on EirGrid's procurement and commercial strategy for the selected option encompassing the benefits identified from the value engineering and market appraisal exercises.
- Providing further technical, land and marine consenting and environmental details for the selected option and action plan to meet all requirements.

The CRU expects that EirGrid will use a common CBA framework to analyse the preferred option. The CRU's view is that this would be Department of Public Expenditure, NDP Delivery and Reform's (DEPENDR) [public spending code](#), which sets out the rules and procedures for spending by public bodies, and guidelines for major public investment projects. This will also include revised capex cost estimates in-line with the more detailed analysis carried out by the project.

- The CRU also expects that EirGrid will contract an appropriate third-party advisor to carry out an independent assessment of the CBA carried out by EirGrid and provide a detailed assurance report to the CRU for review and assessment.
- EirGrid will be expected to provide further detail on the technical, land and marine consenting and environmental aspects of the project in-question. This will include but is not limited to the Environmental Impact Assessment, Generational and Functional Specifications, Capex cost estimate, appropriate consents for the selected option, and a quantified project risk register and mitigation action plan.

The purpose of these submissions is to ensure that the appropriate economic, technical, consenting and environmental considerations are completed prior to progressing to FID.

The CRU also expects that EirGrid will provide early sight on their procurement and commercial strategy for the selected option, including the identification of long-lead items following feedback from the market and proposals to deal with price escalation. This will include but is not limited to their Strategic Procurement Plan, identification of primary equipment, major contracts, and supply chain requirements including insurance costs and provisions. This will enable EirGrid to get early feedback on their thinking prior to gateway three, to minimise any delay.

Table A2.2 Single Option Selection

Submission Categories	Expected Submissions
Technical and Environmental	<ul style="list-style-type: none"> • Risk Management Plan & Project Risk Register (Quantified) and Mitigation Action Plan • Grid Connection Agreements & Export Cable Routings • Environmental Impact Assessments (EIA) • Project Detailed Design & Configuration Report (including compliance to General and Functional

	<p>Specifications), Value Engineering Report & Identification of Advanced Works Packages</p> <ul style="list-style-type: none"> • Completion of Land & Marine Surveys & Negotiations. • Design Hazard Identification & Risk Assessment (HIRA) • Grid Connection Point (GCP), Substations, OCC locations and land and marine export Cable Route (Finalised) • All Land & Marine Consents & Pre-Condition Requirements Assessed/actioned/planned/Agreed • Third party technical and cost estimating advisory reports
Commercial and Project	<ul style="list-style-type: none"> • Strategic Procurement Plan – Major Contracts, Primary Equipment and Long-Lead Items, including Insurance (LLI) • Project Execution Plan and Delivery Organisation • Detailed Project Programme & Resource Plan including supply chain requirements and key milestones • Identification of Primary Equipment & Long-Lead Items for Advanced Procurement
Stakeholder Engagement	<ul style="list-style-type: none"> • Stakeholder & Community Engagement Plan
Economic Efficiency	<ul style="list-style-type: none"> • Cost Benefit Analysis (CBA) report Revised and Reviewed by a third party/Independent Advisor • Capex Cost Estimate including Risk & Contingency Allowance +/- 15% • Value Engineering Report
Integrated Reports	<ul style="list-style-type: none"> • Internal Stage Gate Review & Board Committee Approval Report • Preferred Solution Scope, Costing, Timescale and Benefits Realisation Report as Reviewed by 3rd Party/Independent Advisors

Gateway 3: Procurement and Commercial Management

At this gateway, the CRU expects that EirGrid will provide a final and robust description of their procurement and commercial strategy for the project. Early feedback on EirGrid's procurement and commercial strategy will have been provided at the Single Option Selection gateway.

The CRU is primarily interested in receiving sight of EirGrid's Invitation to Tender (ITT), bid evaluation framework, and the contract terms and conditions being proposed by EirGrid to ensure that PR6 incentives and cost efficiencies have been fully encapsulated. EirGrid will be expected to also provide relevant additional submissions related to their commercial and procurement strategy. These will include but are not limited to:

- Main Contractors Pre-Contract Technical Reviews
- Supply Chain Capability Assessments and Supply Chain Market Engagement Plan
- Purchasing plans for Long-Lead Items and Factory Capacity Reservations
- Main Contractors Pre-Contract Financial Due Diligence Review
- Insurance provisions for main contracts and supply chain partners as appropriate

In contracts with suppliers, EirGrid must include terms and conditions to ensure EirGrid's procurement and commercial strategy delivers value for customers and that they include appropriate incentivisation and penalties associated with project performance and delivery. This will include but may not be limited to clauses which permit EirGrid and by extension the CRU (as appropriate) to access detailed supply chain costs and schedule information to support benchmarking assessments, termination and novation provisions, liability and contract variation provisions.

At this stage, it is also expected that EirGrid will clearly document how the procurement and commercial strategy for the project interfaces with other projects in the portfolio. The purpose of this is to highlight any interdependencies or risks between the commercial and procurement strategy across projects and to identify potential synergies that could lead to cost savings through economies of scale and collaborative working.

Using the additional data gathered during this gateway, EirGrid will also be expected to provide an update to the capex costing estimated, including a review of risk and contingency

allowances, which will also extend to EirGrid's controls associated with cost escalation and global trends.

Table A2.3 Procurement and Commercial Management Submissions

Submission Categories	Expected Submissions
Technical and Environmental	<ul style="list-style-type: none"> • Main Contractors Pre-Contract Technical Review • Identification of Long-Lead Items (LLI) • Third Party/Independent Technical Advisors Report of Supply Chain Equipment Items & Proposed Solutions
Commercial and Project	<ul style="list-style-type: none"> • Project Contract & Commercial Plan – Main Contract Awards & Evaluation Criteria • Strategic Procurement Plan – Updated RFP & ITT Dates (All Categories & Commodities) including Economies of Scale and Cost Savings • Supply Chain Capability Assessment/Due Diligence • Purchase Order approach placed for Long Lead Items (LLI) & Factory Capacity Reservations • Purchase Order approach for Heavy Lift Vessel Capacity & Availability • EPC Contracts – Parent Company Guarantees (PCG) & Performance Bond Requirements Defined • Contractor All Risk Insurance Assessment • Investment & Financing Appraisals • Methodology for Dealing with Cost Escalation
Stakeholder Engagement	<ul style="list-style-type: none"> • Supply Chain Market Engagement Plan
Economic Efficiency	<ul style="list-style-type: none"> • Major Contractors Pre-Contract Financial Due Diligence Review • Global Economy & Inflation Impact Analysis • Revised Capex Cost Estimate including Risk & Contingency Allowance +/- 10%

Integrated Reports	<ul style="list-style-type: none"> Internal Stage Gate Review & Board/Committee Approval Report
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Gateway 4: Investment Decision

At this gateway, EirGrid is expected to provide all the information required to come to a timely Final Investment Decision (FID).

This gateway is the final step before moving forward to proceed with the construction and implementation of the project. Prior to completing this gateway, EirGrid should not sign a material contract or work order without the agreement of the CRU.

The CRU expects that EirGrid will provide an unredacted copy of its internal bid evaluation report. This report will include:

- A full technical and commercial evaluation supporting the selection of contractors, and a detailed analysis of the prices offered against other bids including industry benchmark comparisons.
- A quantified analysis of risks which may have a material impact on the project costs or timelines.
- A finalised project programme which will be used as the contract, commercial and performance baseline for CRU monitoring and assessment purposes.
- A finalised and fully underpinned capex cost estimate with appropriate risk and contingency allowances aligned to the % parameters.
- Clear narrative supporting any changes to contracts that have previously been agreed upon. Any changes in mandated terms will require CRU agreement.

This evaluation report should be accompanied by an independent QA and assurance report from a qualified third party. This report will be expected to cover the technical due diligence of the preferred project detailed design solution, and a technical and commercial due-diligence audit of the major contractors and suppliers under consideration.

EirGrid will also be expected to provide details on any other relevant topic which will be required to move onto the implementation phase of the project. These will include but may not be limited to:

- Land and Marine Consenting – Access and Utilisation Rights & Requirements
- Grants and project financing arrangements

- Contractor All Risk (CAR) Insurance
- Grid connection agreements
- Documented agreements with ESB Networks
- Confirmation of NDP Programme & Outages to Support Project Completion
- Foreign currency and hedging agreements
- CRU Approvals

The table below sets out the submission requirements of this gate.

Table A2.4 Investment Decision Submissions

Submission Categories	Expected Submissions
Technical and Environmental	<ul style="list-style-type: none"> • 3rd Party Technical Due-Diligence of Project Detailed Design Solution • 3rd Party Technical & Commercial Due-Diligence Audit of Major Contracts & Suppliers • Land & Marine - Access & Utilisation Legal Rights Secured
Commercial and Project	<ul style="list-style-type: none"> • Grants & Project Financing Arrangements – Negotiated with Banks/Investors • Foreign Currency & Hedging Arrangements • Contractor All Risk (CAR) Insurance • Grid Connection Agreement including Agreements with ESB Networks • Temporary Transmission License & Amendments • CRU License to Construct, including Sections 48 & 49 • Detailed Project Execution Plan (PEP) complete with Project Delivery Organisation, CV's for Senior Management Personnel and Project Resource Plan
Stakeholder Engagement	<ul style="list-style-type: none"> • Stakeholder & Community Engagement Plan
Economic Efficiency	<ul style="list-style-type: none"> • Finalised Capex Cost Estimate & Project Contingency Allowance +/- 10%

Integrated Reports	<ul style="list-style-type: none"> • Third party Independent QA and Assurance Report • Final Comparative Bid Price Analysis Report & Supporting Information • Internal Stage Gate Review & Board/Committee Approval Report

Gateway 5: Implementation

At this gateway, the major consenting, investment, commercial, procurement, and design characteristics of the project will have already been decided. The CRU requires monthly project reports and key milestone progress updates to be delivered by EirGrid on the physical progress of the project against the estimated cost and time/performance baseline including risk mitigation status.

Once construction commences, the CRU will also expect ongoing monthly progress updates to be provided at both the portfolio and project level against baseline costs and schedules. The CRU expects that EirGrid will use established project management tools and earned value metrics such as the Cost Performance Index (CPI) and Schedule Performance Index (SPI) in these reports, including project milestone progress, detailed variance analysis and risk mitigation progress.

These reports should also provide a narrative update on progress and any emerging issues. For any contract changes which materially impact scope, costs or schedule, the change will need to be reviewed and agreed with the CRU. EirGrid's technical adviser will be required to provide assurance for these reports and that the results are accurate, and any proposed remedies are appropriate and achievable within the stated timeframes.

During this gateway, EirGrid should use routine reporting to highlight any impacts to or issues with the capex envelope overall. As per this decision paper the CRU may decide to extend the envelope subject to EirGrid providing compelling evidence and justification of the need as presented and explained within the correspondence.

Table A2.5 Implementation Submissions

Submission Categories	Expected Submissions
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Technical and Environmental	<ul style="list-style-type: none"> • Consenting Requirements – Fully Discharged • Advanced and/or Enabling Works Complete including Public Utility Diversions as appropriate • Environmental Protection Measures • Project Design Fixed to Support Execution Strategy • Main Contractor & Supplier Mobilisations • Grid Connection Points – Design, Build & Progress Reporting Requirement • Final Project Execution Plan (PEP) complete with Detailed Organisation Chart & Resourcing Plan against Timescale
Commercial and Project	<ul style="list-style-type: none"> • Project Mobilisation & Systems/Procedures/Processes • State of Readiness to Perform to support accurate reporting • Detailed Project Programme - % Planned vs % Actual Physical Progress Measurement, Critical Path Analysis & Milestones Fully Defined • Resource Histogram by Discipline/Trade, Cost/Time Variance Analysis & Remedies • Change Control Reporting and Justification Analysis
Stakeholder Engagement	<ul style="list-style-type: none"> • Project Stakeholder Satisfaction & Reporting • Community Liaison Plan & Regular Communication
Economic Efficiency	<ul style="list-style-type: none"> • Detailed Cost Reports including Budget (BAC), Cost Variance Analysis/Remedies & Forecast/Estimate at Completion (EAC) • Project Risk & Mitigation Plan including Cost/Timescale Risk Analysis (C&TRA) • Project Risk & Contingency Draw Down Reports • Project Milestone Completion Report

Integrated Reports	<ul style="list-style-type: none"> • Major Projects Steering Board – Monthly Progress Reviews • CRU Periodic Audit & Reviews
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Gateway 6: Ex-Post Review

At this final gateway, the CRU expects that EirGrid will provide all relevant data on project performance, technical and operational functionality, and cost spend so that the CRU can carry out an ex-post review to assess the project's delivery timescale and costs against the initial baseline, and to verify the project benefits and realisation against the original aims and objectives.

The CRU may consider discretionary changes to EirGrid's capex allowance where EirGrid has demonstrated that:

- Material changes in cost that could not be managed within the existing capex allowance due to unforeseen or exceptional circumstances or events.
- Where EirGrid can provide compelling evidence of need for a capex adjustment.
- Where EirGrid can demonstrate that cost deviations are strictly outside of EirGrid's control.
- Where cost deviations are likely to impact liquidity or adversely impact EirGrid's financing requirements.

At this gateway, the CRU will expect to see that the project meets all the technical, operational, grid network, land and marine consenting and environmental requirements that were initially identified, and that the appropriate commercial arrangements have been made to ensure that post-project operations and maintenance activities can be carried out on an economic basis in line with market rates and prices. This will include:

- Providing information on asset handover to EirGrid in relation to As-Built data and models, baseline readings, O&M manuals and procedures, operator training, asset operational and insurance spares and supplier warranties.
- Detailed reports on asset performance trials/results and grid and metering code compliance.
- Confirmation of land and maritime consenting, compliance and discharging of all

conditions and obligations has been satisfactorily completed.

- Rectification of any design and/or equipment defects including completion of any outstanding and/or snagging works.
- Any Other outstanding items that have not yet been defined or completed.

Table A2.6 Ex-Post Review Submissions

Submission Categories	Expected Submissions
Technical and Environmental	<ul style="list-style-type: none"> • Grid & Metering Code Compliance & Grid Capacity Testing Report • Asset Equipment/ Systems Commissioning & Performance Trials Report • Equipment/Devices Calibration & Baseline Records • Land & Marine Consents – Post Project/Contract Close Out/Approvals • Land Area Reinstatement, Landscaping & Planting • Works Completion & Defect Rectification Report
Commercial and Project	<ul style="list-style-type: none"> • Operational & Insurance Spares Available • Provision of OEM O&M Technical Support • Contracts & Commercial – Dispute Resolutions Closed & Final Accounts Complete • Asset Benefits Realisation Report • As-Built Drawings/O&M Data & Electronic Media Handover to EirGrid and/or ESB Networks where relevant • Lessons Learnt & Improvement Report
Stakeholder Engagement	<ul style="list-style-type: none"> • Final end of project efficiency assessment against initial baseline and schedules • Community Liaison and Feedback
Economic Efficiency	<ul style="list-style-type: none"> • Final Asset Cost, Cost Efficiency & Benefits Realisation Report

Integrated Reports	<ul style="list-style-type: none"> • Major Projects Steering Board – Lessons Learnt & Improvement Report • CRU PCR Report
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A.2.6 CRU review and approval procedures

EirGrid is required to develop both quarterly readiness and monthly investment gateway reports. Post PR6 OAO Business Plan submission, routine reporting for offshore will be in place and will continue through the remainder of the PR5 period and through PR6 and beyond. Both sets of reporting should provide the CRU with a good in the round understanding of progress and decision making. Investment reporting should focus on capex and opex projects and be more detailed than overarching readiness reporting. In all cases the CRU will require costs breakdown to be presented at a level where definition and detail is easy to understand and assess.

The CRU and its advisers will review and comment on EirGrid investment reports in a short monthly update meeting. Part of the monthly process will be to assess the investment envelope in the round taking account of the impact of gateway submissions on the split of cost, project risk, portfolio risk and uncertainty.

These meetings will also provide a forum for EirGrid to flag upcoming gateway review submissions for which the CRU will expect reasonable notice, ideally no less than three months. This will enable the timely allocation of resources to review the submission and the setting of a review meeting date and where necessary a Commission meeting for a decision. A Commission meeting may for example be necessary at the investment decision gate.

Gateway submissions must be provided at least two full working weeks ahead of the review meeting to permit detailed review by the CRU and its' advisers. Provided the EirGrid submission is complete and of sufficient quality, the CRU will usually provide relevant approvals within the meeting. EirGrid should note that material change to cost, or schedule will require approval via a full Commission meeting.

Gateway meetings (or where necessary) subsequent Commission meetings will provide EirGrid with authority to move forward to the next gate and will release approval of revenues associated with that gateway. They will also consider allocation of risk/contingency and reallocation of uncertainty funding. The impacts of this on the cost and schedule baselines will be captured as part of the reporting for the monthly update meeting which follows the decision.

A.2.7 Treatment of Risk and Uncertainty with the Investment envelope

As noted in this decision paper and consistent with best practice for large infrastructure programmes, in order to establish the capex and opex envelopes, the CRU expects to work with EirGrid to establish provisions for risk (e.g. for capex, risk specific to individual components of Phase 2 and to the portfolio of Phase 2 such as inflation risks) and provisions for ‘uncertainty’¹² that will form part of this envelope.

Within PR5, EirGrid should rapidly develop its approach to cost estimation adopting best practice principles for construction projects. OAO business plan cost estimates should separate individual project costs, project risks, portfolio risks and uncertainty such that PR6 capex and opex envelopes can be set on this basis. Business plan estimates for each of these categories of cost/risk will form the first baselines.

Gateway reviews will lead to updates of cost categorisation within the overall envelope. It is likely therefore that initial OAO business plan baselines will need to be updated during the PR6 process e.g. post PR6 draft determination.

Although funding within the capex envelope is fungible between projects, EirGrid will need to seek specific access to portfolio risk and uncertainty funding which will require CRU approval. Requests for access to these funding ‘pots’ should be made alongside relevant gateway submissions.

A.2.8 Requests for funding outside of the investment envelope

The capex envelope will be set to allow for both risk and uncertainty. EirGrid will then be expected to work diligently to remain within the envelope. In circumstances where EirGrid is able to demonstrate that it cannot do so without adverse impacts on liquidity or financing EirGrid may seek to extend the envelope. Any submission for an extension to the envelope should be accompanied by an analysis (based on the then current financial model) which demonstrates the financial impacts of remaining within the allowance and a report which sets out the reasons for additional expenditure and which identifies any opportunities to reduce costs such that the original capex envelope remains sufficient.

Requests for funding outside of the envelope will require review and approval by the CRU. EirGrid should therefore note that at least 3 months will be required from the making of a request to a decision. EirGrid must therefore maintain an up-to-date financial model which provides an early indication of impending financial issues. Any such issues must be reported to the monthly update meeting as soon as they appear likely to occur.

