



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

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Commission for Regulation of Utilities

Price Review Six (PR6)

Offshore Revenue for 2026 - 2030

Draft Determination Paper

Reference: CRU202589	Date Published: 03/07/2025	Closing Date: 11/09/2025
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CRU Strategic Plan 2025-27

Vision, Purpose, and Values



OUR VISION:

Resilient, efficient, sustainable, and safe energy and water services for Ireland.



OUR PURPOSE:

We actively serve the public interest by regulating the provision of energy and water to Irish homes and businesses, while supporting the transformation to net zero.



OUR VALUES:

• Integrity • Professionalism • Openness • Accountability

Executive Summary

Purpose of this Document

The Commission for Regulation of Utilities (CRU) is responsible for the economic regulation of the electricity network companies in Ireland. To do this, the CRU sets Price Reviews which limit the revenues that the relevant licensees can recover from electricity customers. Price Reviews are set every 5 years and the upcoming Price Review Six (PR6) will cover the period, 1st January 2026 to 31st December 2030.

This document sets out the CRU's Draft Determination on the allowed expenditure and the associated allowed revenues for EirGrid, licensed by the CRU as the Transmission System Operator (TSO) and offshore TSO.

The CRU is seeking stakeholder views on all aspects of the CRU's Draft Determination (see Appendix 1). Responses will be considered prior to the publication of the CRU's Final Determination.

Background to PR6

In 2021, the Government designated EirGrid as Ireland's offshore system operator and asset owner. This designation means that EirGrid has assumed a pivotal new role in the development of Ireland's offshore electricity grid, marking a transformative step in the country's clean energy transition. As Ireland's TSO, EirGrid will now lead the delivery of offshore grid infrastructure ensuring it is designed, developed and connected in a way that is secure, efficient and future ready.

Offshore wind is central to Ireland's energy and climate ambitions. With a target of 5GW of offshore wind by 2030 and significantly more in the years to follow, offshore energy is essential to achieving national and EU climate commitments, enhancing energy security, and reducing dependence on imported fossil fuels. The scale and complexity of the offshore programme will require strong coordination and proactive transmission planning on the part of EirGrid. This Draft Determination Paper summarises EirGrid's offshore business plan proposals and sets out the CRU's view of the allowances and regulatory framework for the PR6 period (2026-2030). The CRU is proposing to approve a baseline total of €819.3m allowed expenditure (2024 prices), €402.7m allocated to operational expenditure (opex) and €416.6m allocated to capital expenditure (capex) (this excludes any Phase 1 Asset Transfer Value (ATV) payments), with the expectation that additional revenues will be provided under the offshore revenue controls' specific Agile Investment and Monitoring Framework (AIMF).

Since the publication of the Government's 'Policy Statement on the Framework for Ireland's Offshore Electricity Transmission System'¹, the CRU has proactively been developing a new offshore regulatory policy framework. This has included the publication of *inter alia*:

- Phase 1 Offshore Grid Connection Assessment – Decision Paper
- Phase 2 Offshore Wind Grid Connection Charging Policy – Decision Paper
- Grid Connection Pathway for Phase 2 Offshore Wind – Decision Paper
- Offshore Revenue Model for EirGrid – Decision Paper

These publications collectively contribute to a comprehensive regulatory framework supporting the development of offshore wind energy in Ireland.

¹ See [here](#).

What PR6 is Expected to Deliver for Customers

For PR6, the CRU's 'Strategy Paper'² set out the strategic approach, objectives and outcomes for PR6. The CRU's objectives for PR6 (see Section 1 for more detail) aim to deliver a secure and sustainable system in a cost-effective manner that supports the delivery of our 2030 targets. To reflect the Government's approval of the Offshore Electricity Transmission System Policy in April 2021, which designated EirGrid as offshore system operator and asset owner, the CRU's Strategy Paper set the following objective for EirGrid for PR6:

- Successfully establish its Offshore Asset Owner ("OAO") functions and operations.

EirGrid's offshore programme consists of a series of phases. Phase 1 will see the development and successful transfer of the Offshore Renewable Electricity Support Scheme (ORESS) 1 and Merchant projects from developers to EirGrid. EirGrid has organised its business plan around a series of possible scenarios for when Phase 1 ATVs for these projects may or may not happen. For the reasons discussed in Section 3.2.1, the CRU has approached setting the price review based on what EirGrid refer to as Scenario 3, which involves one ATV during the PR6 period. If additional Phase 1 ATVs occur during PR6, EirGrid will be able to request a variation to its allowed revenues under the proposed revenue control formula and opex reopener mechanism for the offshore revenue control.

Phase 2 will see EirGrid designing, consenting and building offshore transmission assets under the South Coast Programme (the Tonn Nua project) following the ORESS2.1 auction that is expected to take place later this year. EirGrid's Phase 2 activities during PR6 will be in preconstruction, with Tonn Nua expected to begin construction in PR7.

Review of Historic and Forecast Expenditure

The CRU has applied a rigorous cost assessment process that ensures only well-justified and efficient expenditure is included within the allowed revenues. This includes both an *ex-post*, or historic review, into the actual outturn expenditure incurred in PR5, and the associated outputs, and an *ex-ante* review into forecast expenditure for PR6. The steps taken and elements considered in the cost assessment are set out in Sections 3 and 4 below.

The following sub sections set out a brief summary of the CRU's historic (2021 – 2025) and future (2026 – 2030) review of offshore costs. Also summarised is the proposed offshore weighted average cost of capital (WACC) for PR6.

² See [here](#).

The CRU expects EirGrid to rely on their internal governance processes to assess and justify their cost requests, providing additional information that sufficiently supports their cost requests in response to this Draft Determination. Once received, and if the additional information is deemed satisfactory, the CRU will include the additional expenditure allowance, and associated revenues, in the Final Determination. Therefore, the allowances approved in the Final Determination may be higher than the allowances set out in the baseline recommendation in this paper.

Unless otherwise stated, all prices stated within this document are expressed as real prices at 2024 price levels, based on the Harmonised Index of Consumer Prices (HICP). Also note that for PR5 expenditure this is often referred to as outturn expenditure, although it includes a mix of actual outturn costs for 2021 - 2023, and a mix of some outturn and budgeted or forecast costs for 2024 - 2025.

PR5 Historic Review (2021 – 2025)

As EirGrid was appointed to the position of offshore system operator and asset owner in April 2021, the price review at that time had already begun, i.e., PR5 (2021 to 2025). Therefore, no specific *ex-ante* allowance was set for offshore capex or opex. To enable EirGrid to deliver against its new obligations and directions under the Climate Action Plan it has sought a provision for additional revenue associated with offshore in 2023, 2024 and 2025 through interim determination during PR5.

These costs were included in the TSO's allowed revenues on a placeholder basis as part of the annual revenue decisions. The CRU noted that a full review of the efficiency, appropriateness, and allocation of these costs would be considered in the context of the regulatory framework and cost recovery for the offshore system. Table 1 below summarises the total TSO offshore opex outturn/forecast of €56.3m (2024) and the CRU's Draft Determination assessment. The CRU proposes to allow EirGrid to recover its outturn/forecast costs in PR5 in full.

Table 1: TSO Historic Offshore Opex Executive Summary (2021 – 2025)

PR5 TSO <i>Ex-post</i> Offshore Opex (in 2024 prices)	PR5 Outturn/Forecast (€m)	Draft Determination (€m)
Total TSO Offshore Opex	56.3	56.3

The PR5 outturn/forecast reveals a total offshore capex spend of €65.0m (2024 prices). Offshore network capex total spend was €64.6m, whereas offshore non-network capex total spend was €0.4m over the period. Table 2 below summarises this alongside the CRU's Draft Determination assessment. Consistent with historic offshore opex, the CRU proposes to allow in full the offshore expenditure incurred by the TSO over the PR5 period.

Table 2: TSO Historic Offshore Capex Executive Summary (2021 – 2025)

PR5 TSO <i>Ex-post</i> Offshore Capex Allowance (in 2024 prices)	PR5 Outturn/Forecast (€m)	Draft Determination (€m)
TSO Total Offshore Network Capex	64.6	64.6
TSO Total Offshore Non-Network Capex	0.4	0.4
Total	65.0	65.0

PR6 Forecast Review (2026 – 2030)

This is EirGrid's first offshore price review, therefore a material amount of opex and capex costs have been requested through the offshore business plan questionnaires (BPQ).

As EirGrid has only started to establish its new offshore functions and activities in PR5, there are no offshore baseline costs or trends to compare against the requests made by EirGrid in their offshore PR6 BPQ submission. Only step changes exist, i.e., additional costs relating to structural changes or new projects or programmes. These increases reflect the CRU's commitment to ensure that EirGrid's offshore function has the resources and capability to deliver for consumers and on the PR6 strategic objectives which support the transition to a low carbon future. In particular, EirGrid's readiness to operate and maintain an offshore grid.

EirGrid's approach to managing its transition to being Ireland's offshore network asset owner has been to structure its offshore investment programme into four categories:

- **Category 1 (Connect Offshore Projects):** consists of connecting onshore connections to offshore renewable generation.
- **Category 2 (Develop Offshore Assets):** costs associated with EirGrid's development and construction of offshore assets (currently the Tonn Nua project).
- **Category 3 (Transfer Offshore Assets):** costs associated with the transfer of Phase 1 developer Transmission Assets to EirGrid.
- **Category 4 (Offshore Asset Readiness Programme, Pre-operations, Enduring Operations):** these are costs needed to allow EirGrid to carry out its offshore operations, such as engineering and asset management, health and safety, IT cloud infrastructure, finance, procurement, supply chain.

Category 1 costs are considered as part of the CRU's onshore Transmission Draft Determination 'Price Review Six Transmission Paper' (see CRU202588) and so this paper addresses only Categories 2 – 4.

As discussed above and below, the CRU has approached its PR6 assessment and forecasting of offshore allowed revenue on the basis that EirGrid will make one Phase 1 ATV payment during PR6 under Category 3. The CRU, however, proposes to exclude the forecast ATV payment (and the associated stamp duty) for the Phase 1 project from the calculation of the baseline allowed revenue that will be used to set network charges from the start of PR6 given that the size and quantum of the ATV payment remains uncertain.³

EirGrid has broken down its operational costs into a series of programmes, including the Offshore Asset Readiness Programme, Buildings and Facilities, Pre-Operations, Offshore Central Functions and Enduring Operations and Maintenance, elements of which may vary depending on the number of Phase 1 projects that transfer to EirGrid during PR6.

Having reviewed the business plan information provided by EirGrid, an adjustment of circa 5% has been applied to elements of its forecast offshore opex and capex proposals (excluding Real Price Effects (RPEs) and Ongoing Efficiency (OE)) respectively. This is on the basis that the information provided by EirGrid did not fully meet some or all of the cost assessment gateways of need, additionality or cost confidence / efficiency. More detail is set out in Sections 3.2 and 4.2.

EirGrid's request and CRU's PR6 opex and capex Draft Determination proposals are summarised in Table 3. These allowed expenditures have been calculated by firstly, excluding RPEs and OE from opex, and secondly by including both in the allowed costs. Please see Appendix 2 and 3 for a full breakdown of the scenarios. Section 3 of this Draft Determination sets out the CRU's proposals on RPEs and OE.

Table 3: Forecast Offshore Opex and Capex Executive Summary (2026 - 2030)

PR6 Opex (€m 2024 prices)	Request (€m)	Draft Determination (€m)	Variance (€m)
Opex Categories	Scenario 3	Scenario 3	Scenario 3
IT Systems	90.6	86.0	-4.6
Offshore Asset Readiness Programme	184.2	175.0	-9.2
Buildings & Facilities	2.7	2.7	0.0
Pre-Operations	40.6	38.6	-2.0
Offshore Central Functions	61.9	58.8	-3.1
Enduring Operations and Maintenance	28.6	27.0	-1.6
Total Opex	408.5	388.1	-20.4
Total (Excl. RPEs and OE)	408.5	388.1	-20.4
Total (Incl. RPEs and OE)	408.5	402.7	-5.8

³ The ATVs presenting in this paper are current forecast estimates of the potential transfer payments.

PR6 Capex (€m 2024 prices)	Request (€m)	Draft Determination (€m)	Variance (€m)
Network Capex Categories (Cat. 2 & 3)	Scenario 3	Scenario 3	Scenario 3
Phase 1 Asset Transfer Values ⁴	335.0	335.0	0.0
Stamp Duty at 7.5% on ATV	25.1	25.1	0.0
Phase 2 Tonn Nua Programme	347.9	347.9	0.0
Total Network Capex	708.1	708.1	0.0
Total Network Capex (Excl. ATV Capex)	347.9	347.9	0.0
Non-Network Capex Categories (Cat. 4)			
IT & Telecoms	20.2	19.2	-1.0
Facilities	12.1	11.5	-0.6
Capital Spares	38.0	38.0	0.0
Total Non-Network Capex	70.3	68.7	-1.6
Total Capex (Incl. ATV Capex)	778.4	776.7	-1.6
Total Capex (Excl. ATV Capex)	418.2	416.6	-1.6
Total (Incl. ATV Capex & Incl. RPEs and OE)	1,186.9	1,179.4	-7.5
Total (Excl. ATV Capex & Incl. RPEs & OE)	826.7	819.3	-7.5

The adjustment (variance to EirGrid request) in both opex and capex indicates the potential for change in revenues between Draft Determination and Final Determination. Information submitted by EirGrid will be considered during and after the consultation period, together with other responses to this consultation.

As discussed above, the CRU has approached its PR6 assessment and forecasting of offshore allowed revenue on the basis that EirGrid will make one Phase 1 ATV payment during PR6. The allowed opex reflects the pre-operations and enduring operations and maintenance opex consistent with this scenario. The allowed capex the CRU proposes to include in EirGrid's approved revenues and tariffs from the start of PR6 in contrast excludes the forecast ATV payment (and the associated stamp duty) for the Phase 1 project. The total proposed baseline capex allowance is, therefore, €416.6m.

The CRU proposes to exclude the ATV payment on the basis the quantum and timing of this payment is still uncertain. ATV payments made by EirGrid will be assessed by the CRU as part of the process set out in the CRU decision 'Offshore Grid Connection Asset Treatment' (CRU202309) and the associated supplementary decision. The Phase 1 project ATV payments

⁴ As discussed below, this reflects a scenario of one expected ATV payment. For the avoidance of doubt this is not an approved capex allowance, which will be determined under a separate CRU process to set Phase 1 ATV payments but reflects an indication of the potential cost of a single Phase 1 project transferring to EirGrid during the period of PR6 for revenue and tariff forecasting purposes.

(and the associated stamp duty) will be approved by the CRU and added to the offshore Regulatory Asset Base (RAB) within period, with variation to EirGrid's offshore allowed revenue and RAB approved on a forecast year ahead basis based on the annual allowed revenue processes and formula that are proposed for consultation in this draft decision paper.

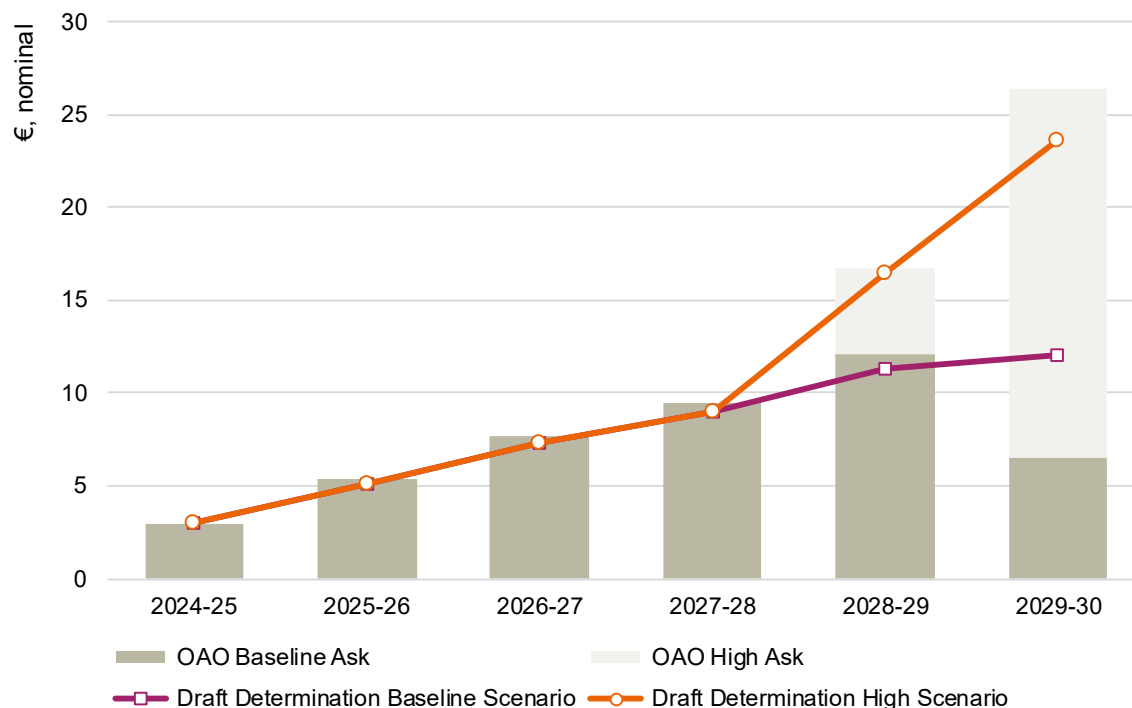
Consumer Impact Summary

Offshore-related domestic network costs are expected to increase (in nominal terms), when comparing relevant estimated charges for 2029/30 with 2024/25. The CRU's assessment included two different consumer impact scenarios relating to the Draft Determination: a baseline and a high scenario. Figure 1 below shows the potential consumer impacts of the Draft Determination proposals on the offshore network charges which relate to an archetypical domestic customer, as well as the impact of the baseline and high company asks.

The baseline scenarios represent the case where a single Phase 1 asset transfer takes place in PR6 whereas the high scenarios represent the case where there are six Phase 1 asset transfers during PR6, based on the current forecast ATV payment value.

The difference in the estimated bill impact between the baseline scenarios reflect relatively small differences in allowed opex and non-network capex in the allowed revenue between the scenarios, and assumptions of the timing of the ATV transfers and how this flows through into allowed RAB returns. The CRU's modelling calculates average RAB - and hence allowed RAB returns - using a simple average of opening and closing RAB for each year, while the CRU understands EirGrid excluded the ATV transfer from the closing RAB for the purposes of calculating the average RAB. How the average RAB, and allowed RAB returns, will be calculated is to be confirmed at Final Determination.

Figure 1: Offshore-Related Network Charges: Draft Determination Domestic Customer Impacts (Nominal Values)



It is important to note that PR6 will be a starting period for the development of the offshore grid in Ireland. The full cost and bill impact of the offshore programme will increase going into PR7 as the Tonn Nua project is expected to start construction and further Phase 1 projects are expected to transfer to EirGrid and reflected in offshore-related network charges. This can already be observed from the high case scenario illustrated in Figure 1 above.

See Section 7.8 for further discussion of consumer impacts.

Regulatory Framework and Delivering for Consumers

An overall regulatory framework has been provided for the electricity network companies in the consultation paper ‘Price Review Six Regulatory Framework Paper’ (CRU202590), the proposed building blocks of which will be referred to as the AIMF. For further information on the proposed regulatory framework for the electricity network companies during PR6, please refer to CRU202590.

EirGrid’s offshore role will, however, be subject to a specific regulatory framework which includes an investment gateway process (particularly in relation to Phase 2 Tonn Nua), performance incentives, *ex-ante* setting of allowances, *ex-post* review at the end of the PR6 period, an enhanced reporting and monitoring framework and an opex reopener mechanism. This opex reopener mechanism will form part of annual reopener window established for the PR6 AIMF.

The offshore regulatory framework also includes mechanisms to support EirGrid with financing its offshore grid investment programme (see Section 5). These mechanisms – and the options that the CRU has considered in reaching a proposed decision on the financial regulatory framework for offshore – are outlined in detail in this paper. The CRU intends that these aspects of the regulatory framework will be time limited and are required only during the establishment and initial financing of the offshore investment programme in PR6 and PR7 while the offshore RAB grows from a low starting point and the business is in its early establishment stage. The mechanisms will not set precedent for the financial and regulatory frameworks of future price controls.

Consistent with any regulatory framework, the CRU expects to evolve its approach over time as new challenges and investment opportunities arise, and as EirGrid becomes a more mature offshore asset ownership business. For information regarding EirGrid's new offshore role, please see Section 5 and Section 6.

Finance and Weighted Average Cost of Capital

This is the first price review where there will be a separate offshore RAB and allowed offshore cost of capital. This is to provide a clear and predictable regulatory allowance for financing costs.

The CRU proposes that EirGrid's offshore allowed revenues will be set on a real returns basis for equity and a nominal returns basis for debt – i.e., a hybrid basis. This means a nominal rate of return will be applied to the debt component of the offshore RAB (at the allowed notional level of gearing – see Section 6) and a real rate of return to the equity component of the offshore RAB. The debt component of the RAB will not be subject to inflation indexation, while the equity component will be subject to indexation.

The CRU proposes that EirGrid's offshore revenue control will include a Liquidity Building Block and a Cost of Debt True-up Mechanism that are intended to recompense actual debt costs for debt up to the notional gearing level, including the costs of EirGrid prefunding to the level that would be required by the notional company. These will act to mitigate EirGrid's interest rate risk during the **early stage** investment period in the offshore grid and will help manage the unique financing and liquidity challenges the offshore grid programme creates for EirGrid.

The offshore revenue control will be set applying an:

- Allowed Notional Gearing level – CRU minded to 60%
- Nominal Allowed Debt Rate of Return – CRU minded to 4.20%
- Real Allowed Equity Rate of Return – CRU minded to 7.51%

These allowed rates of return, stated on a weighted average cost of capital (real pre-tax) basis for PR6, are set out in Table 4⁵ with further details set out in CEPA's accompanying report 'Offshore Cost of Capital' and in Section 6.3 of this draft decision paper.

Table 4: Offshore Weighted Average Cost of Capital Executive Summary

	EirGrid Proposal		CRU Determination
Category	Phase 1 Assets	Phase 2 Assets	Overall
Weighted Average Cost of Capital (real, pre-tax)	4.69%	5.49%	4.58%

This proposed allowed offshore cost of capital includes **a transitional, time-limited, uplift in the Allowed Equity Rate of Return** to reflect the risks associated with the execution and establishment of the Phase 1 offshore grid and EirGrid's expected development and construction of Phase 2 offshore grid programmes during PR6 and PR7.

The CRU expects this to be **a time-limited uplift** which would only be expected to apply in PR6 and PR7 whilst Phase 1 and Tonn Nua offshore grid assets are established. When EirGrid's offshore asset owner business in terms of RAB, investment characteristics and risks etc. is expected to be closer to the onshore Transmission Asset Owner (TAO) (and potentially lower risk) the CRU would expect to remove this time-limited uplift.

⁵ This weighted average cost of capital is indicative as it applies an inflation adjustment that in practice is not applied within the Nominal Allowed Debt Rate of Return for the reasons set out in Section 6.3.

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 and 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 TSO in Ireland. As the licensed TSO, EirGrid's role to date has been focused on system balancing, market operation, and network planning and development activities. Going forward, EirGrid will have responsibility for constructing part of the offshore transmission grid. EirGrid will also take ownership of offshore transmission assets that have been constructed by offshore developers and will be required to operate and maintain the offshore grid once established. 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 offshore asset owner remit and achieve the benefits from development of offshore wind in Ireland.

EirGrid's offshore revenue model and regulatory framework will be central to facilitating the ambitious offshore wind targets set by Government. PR6 will be the first period when CRU will set a separate offshore price control for EirGrid's offshore asset ownership function. This Draft Determination set out the CRU's proposals for the revenues EirGrid will be allowed to recover in PR6 to establish and develop its offshore transmission ownership business and to support the Government's offshore wind targets. It will support EirGrid with raising the significant capital it requires to finance its offshore investment programme over the coming decade.

The CRU allows EirGrid to recover costs related to the construction, safe operation and maintenance of the electricity system. These charges are passed onto suppliers, which are then typically reflected in customers' electricity bills.

The impact of these Draft Determination proposals on electricity consumers has been analysed in detail in the accompanying Information Paper on the topic 'Price Review Six Impact Analysis Note' (CRU202591). Overall, offshore-related network charges for the archetypical domestic customer are expected in PR6 to increase (in nominal terms) by €9 in the Draft Determination baseline scenario and by €21 in the high scenario, when comparing relevant forecast charges for 2029/30 with 2024/25.

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Glossary of Terms and Abbreviations

Abbreviation or Term	Definition or Meaning
AICR	Adjusted Interest Coverage Ratio
AIMF	Agile Investment and Monitoring Framework
ATV	Asset Transfer Value
BAU	Business as Usual
BPQ	Business Plan Questionnaire
Capex	Capital Expenditure
CAPM	Capital Asset Pricing Model
CDT	Cost of Debt True-Up
CEPA	Cambridge Economic Policy Associates
CRU	Commission for Regulation of Utilities
DAO	Distribution Asset Owner
DCEE	Department of Climate, Energy and Environment
DD	Draft Determination
DECC	Department of Environment, Climate and Communications
Depn	Depreciation
Devex	Development Capex
DIWE	Demonstrably Inefficient or Wasteful Expenditure
DMAP	Designated Maritime Area Plan
DSO	Distribution System Operator
D-TUoS	Demand Transmission Use of System
EE	Exceptional Event
EMRP	Equity Market Risk Premium
EPC	Engineering, Procurement and Construction
FD	Final Determination
FEED	Front-End Engineering Design

FFO	Funds from Operations
FID	Final Investment Decision
GEMA	Gas and Electricity Markets Authority
GHD	Gutteridge, Haskins and Davy
GOA	Guarantee of Availability
GW	Gigawatt
HICP	Harmonised Index of Consumer Prices
IAE	Income Adjusting Events
IEA	Inflation Expectations Adjustment
LBB	Liquidity Building Block
MAP	Maritime Area Planning
MARA	Maritime Area Regulatory Authority
NETSO	National Electricity Transmission System Operator
NPV	Net Present Value
OAo	Offshore Asset Owner
OARP	Offshore Asset Readiness Programme
O&M	Operations and Maintenance
ODI	Outcome Delivery Incentives
ODT	Offshore Delivery Team
OE	Ongoing Efficiency
OFTO	Offshore Transmission Owners
OJEU	Official Journal of the European Union
Opex	Operational Expenditure
ORESS	Offshore Renewable Electricity Support Scheme
OG-TUoS	Offshore Generator Transmission Use of System
PCR	Post Construction Review
PR5	Price Review 5
PR6	Price Review 6
PT	Pass-Through
RAB	Regulatory Asset Base
RfR	Risk Free Rate
RoC	Return on Capital

RoRE	Return on Regulated Equity
RPE	Real Price Effect
STC	System Operator Transmission Code
TAO	Transmission Asset Owner
TSO	Transmission System Operator
TUoS	Transmission Use of System
TMR	Total Market Return
TVM	Time Value of Money
WACC	Weighted Average Cost of Capital

1. Background

The CRU is responsible for the economic regulation of the system operators and asset owners for electricity transmission and distribution systems in Ireland. To do this, the CRU carries out reviews of the allowed revenue for the transmission and distribution businesses through price reviews. Price reviews set the revenue that the relevant network company can recover from electricity consumers and are set every five years.

The transmission business consists of EirGrid, licensed by the CRU as the TSO and ESB, acting through its ESB Networks business unit, is the licensed TAO. ESB Networks DAC is licensed by CRU as Distribution System Operator (DSO), and ESB, acting through its ESB Networks business unit, is the licensed Distribution Assets Owner (DAO). As part of EirGrid's role as TSO, it has also been appointed as the offshore TSO and asset owner (OAO). The CRU, for the purpose of its price control regulation, is choosing to regulate the OAO activities separately, however the overall licensed business or appointee is the TSO.

In December 2020, the CRU set its price reviews for the Price Review 5 (PR5) period for EirGrid as TSO, and for ESB Networks as TAO and DSO/DAO. PR5 comes to an end in 2025, therefore, the CRU has initiated the review of the allowed revenue for the transmission and distribution businesses for the next price review period (PR6). PR6 will cover the five-year period from 2026 to 2030. This Draft Determination outlines the proposed revenue that the network companies are allowed recover and access (as part of the Agile Investment and Monitoring Framework) during a the PR6 period.

In recent years, there have been major policy developments at national and European level that have and will continue to drive significant change in the energy sector. European policies have set EU-wide targets to achieve carbon neutrality (net-zero emissions) by 2050. To facilitate this, national policies recognise the need to promote the large-scale deployment of renewables which will be critical to decarbonising the power sector as well as enabling the electrification of other technologies. The major policy developments that impact the strategic context of PR6 are described in detail in Section 2 of the PR6 Strategy Paper.

In 2021, DECC (now DCEE)⁶ designated EirGrid as Ireland's offshore system operator and asset owner. The Maritime Area Planning Act 2021⁷ (the "MAP Act") provides that EirGrid's licence to

⁶ The department has been renamed to 'Department of Climate, Energy and Environment' (DCEE).

⁷ Maritime Area Planning (MAP) Act 2021 – Available [here](#).

discharge the functions of the transmission operator shall provide for EirGrids ownership of transmission assets for certain specified purposes e.g., offshore activities.

In September 2024, the CRU published the Offshore Revenue Model for EirGrid Decision Paper (CRU202499)⁸, which set out the financial building blocks for EirGrid's offshore revenue control. The financial building blocks are to create a revenue model that will build on existing CRU regulatory practices along while accounting for challenges in delivering the offshore programme.

Offshore targets, as set by the government⁹, will cause the cost of electricity network tariffs to increase, with these costs ultimately being passed on to the consumer via electricity bills. As a result of this, new regulatory regime challenges will be needed, in the areas of ongoing monitoring, incentivisation and transparency of EirGrid in its role as offshore owner. EirGrid must deliver on its objective of successfully establishing its offshore functions and operations while also protecting the interests of consumers.

This is the first Price Review where EirGrid is enacting its role as offshore TSO and asset owner and has set forth all forecasted expenditure requests for the PR6 period into an offshore BPQ that will be used to set a separate offshore price control. PR6 will be a critical five years for EirGrid in establishing its offshore role. It will require transformational change for EirGrid in terms of investment in infrastructure and capabilities.

This Draft Determination puts forward the CRU's proposed decisions on the offshore revenues for the 2026 to 2030 (PR6) period and examines the offshore costs incurred by the TSO over the previous five years (2021 to 2025). It is important to note that it is expected that this revenue may need to change over the course of PR6 depending on the quantum and timing of Phase 1 ATV payments and the costs that EirGrid will need to incur to facilitate this.

We are seeking comments from members of the public, the industry, customers and all interested parties on proposals put forward in this paper. These include the proposed operational expenditure allowance, and capital expenditure allowance over the PR6 period. The CRU is also seeking stakeholders' views on the adjustments applied to the revenue request and the proposed regulatory framework (CRU202590). Responses will assist and inform the CRU in reaching its final decision on EirGrid's offshore revenue allowance for the PR6 period.

⁸ CRU Offshore Revenue Model for EirGrid Consultation Paper – Available [here](#).

⁹ By 2030: 5GW target of grid-connected offshore wind plus an additional 2GW of non-grid connected offshore wind. By 2040: 20GW of offshore renewable energy. By 2050: 37GW of offshore renewable energy – See [here](#).

The CRU has acquired the services of economic and engineering experts to assist in the review of the offshore historic and forecast costs as well as their respective performances in PR6. Cambridge Economic Policy Associates (CEPA) with the support of Gutteridge, Haskins and Davy (GHD) were procured to provide advice on the economic, policy and technical aspects of the review. Specifically, GHD reviewed and provided advice on EirGrid's offshore capex costs while CEPA reviewed and provided advice on EirGrid's proposed offshore opex costs and the Cost of Capital.

The advice put forward by the CRU's consultancy support has informed the proposals outlined in this Determination. In addition, the reports put forward by both GHD and CEPA are published alongside this paper. To avoid repetition, this paper does not repeat the analysis carried out by GHD and CEPA but focuses on the conclusions. Accordingly, this Draft Determination should be read in conjunction with the CEPA and GHD reports in order to gain a full understanding of all aspects of the review of offshore TSO business. Please refer to Section 1.6 for a comprehensive list of all relevant documents.

1.1 The CRU's Legislative Remit

Under Section 35 of the Electricity Regulation Act, 1999 ('the Act'), the CRU approves charges for the use of the electricity transmission system in Ireland. An extract from Section 35 is below.

35 – (1) Subject to *subsection (2)*, within such time as the Commission may direct, the Board shall prepare a statement for the approval of the Commission setting out the basis upon which charges are imposed —

(a) for use of the transmission or distribution system of the Board, and

(b) for connection to the transmission or distribution system of the Board.

(2) The Commission may give directions to the Board from time to time in respect of the basis for charges for use of and connection to the transmission system or distribution system of the Board.

[...]

(4) A charge for connection to or for the use of the transmission or distribution system of the Board shall be calculated in accordance with directions given by the Commission under this section so as to enable the Board to recover— (a) the appropriate proportion of the costs directly or indirectly incurred in carrying out any necessary works, and (b) a reasonable rate of return on the capital represented by such costs.

(5) The Commission, solely, will determine what constitutes an “appropriate proportion” referred to in subsection (4)(a) and a “reasonable rate of return” referred to in subsection (4)(b).

[...]

(7) The Commission shall publish the statement referred to in subsection (1).

(8) With a view to increasing transparency in the market and providing all interested parties with all necessary information and decisions or proposals for decisions concerning transmission and distribution tariffs, as referred in Article 60(3) of the 2019 Internal Electricity Market Directive, the Commission shall make publicly available the detailed methodology and underlying costs used for the calculation of the relevant network tariffs, while preserving the confidentiality of commercially sensitive information.

In accordance with Section 35 of the Act, this document outlines the CRU's proposals on the revenue that the ESB in its capacity as the licensed Transmission Asset Owner (“TAO”) and EirGrid, as the licensed Transmission System Operator (“TSO”) will be allowed to recover from TUoS customers during the period from 2026 to 2030. In accordance with Section 35(4), these charges are to be calculated to enable recovery of:

- the appropriate proportion of the costs directly or indirectly incurred in carrying out any necessary works; and
- a reasonable rate of return on the capital represented by such costs.

Section 36 of the Act requires the statement of charges, prepared in accordance with Section 35, be submitted to the CRU for approval. The statement of charges will not take effect until approved by the CRU.

In accordance with Section 35(7) of the Act, the TSO's approved statement of charges for each year of PR6 will be published annually by the CRU in August for the upcoming 1st October to 30th September tariff period.

In accordance with Section 35 of the Act, this document outlines the CRU's proposals on the revenue that EirGrid in its capacity as the licensed offshore TSO and asset owner will be allowed to recover from TUoS customers during the period from 2026 to 2030.

By way of background, EirGrid is licensed to be the Transmission System Operator for Ireland under Section 14 of the Electricity Regulation Act 1999 ("the Act of 1999"). In 2021, the Department for Environment, Climate and Communications' "Policy Statement on the Framework for Ireland's Offshore Electricity Transmission" designated EirGrid as the Transmission System Operator, as the system operator and asset owner of Ireland's offshore electricity transmission system. This designation is enacted through Section 189 of the Maritime Area Planning Act 2021 which inserts Section 14 (2AA) of the Act of 1999.

1.2 PR6 Strategy

On 24 April 2024, the CRU published the PR6 Strategy Paper.¹⁰ This paper set out the CRU's objectives and vision for PR6 and requested a commitment from EirGrid to deliver on these.

In recent years, there have been major policy developments at national and European level that have and will continue to drive significant change in the energy sector. The publication of the Climate Action Plan 2024 was the third annual update to the Climate Action Plan 2019 and reaffirmed the challenge ahead for the electricity sector in Ireland. These developments are set out in greater detail in the PR6 Strategy Paper.

¹⁰ Available [here](#).

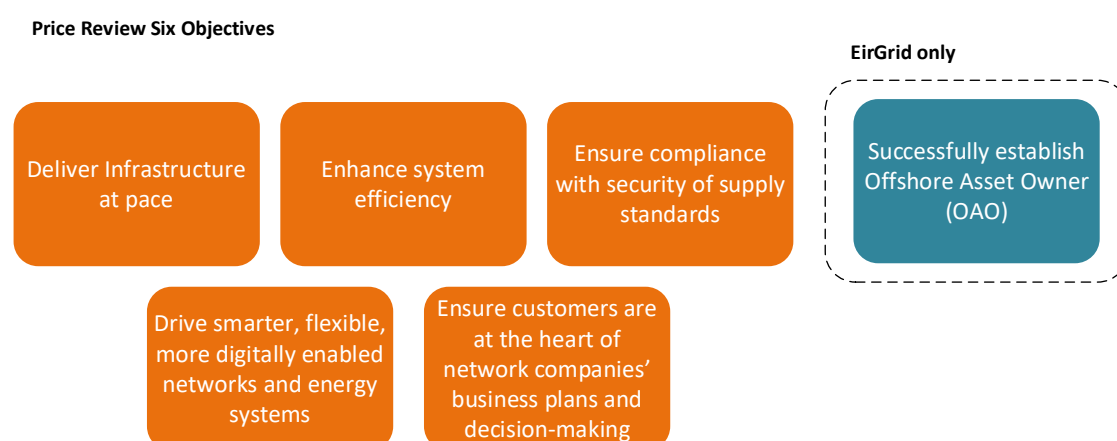
PR6 will be a critical price review for network companies to fulfil their role in the delivery of Ireland's decarbonisation and renewable electricity ambitions. It is also important that throughout PR6, network companies continue to provide resilient energy networks and supplies while also ensuring high-quality and secure services to customers and networks users. To achieve this, CRU has set three outcomes that it expects network companies to deliver. Transforming Ireland's electricity networks as part of the energy system transition, presents a significant challenge that requires emphasis on shaping PR6 to be a more outcomes focused price control.

- **Decarbonised electricity:** Network companies must facilitate realisation of Ireland's decarbonisation ambitions, enabling high levels of renewable electricity integration, driving an environmentally sustainable, low carbon energy system.
- **Secure and resilient networks and supplies:** Network companies must ensure safe, secure, resilient electricity networks and supplies which customers can rely on.
- **Empower customers:** Network companies must deliver high quality and reliable services to customers, ensuring their voice is heard and reflected in the work they do, and that the cost of the transition is minimised.

To reflect the Government's approval of the Offshore Electricity Transmission System Policy in April 2021, which designated EirGrid as offshore system operator and asset owner, the CRU has set an EirGrid only objective for PR6:

- Successfully establish its Offshore Asset Owner (OAO) functions and operations.

Figure 2: The CRU's PR6 Objectives



Successfully establish Offshore Asset Owner (OAO): In 2021, DECC's "Policy Statement on the Framework for Ireland's Offshore Electricity System", designated EirGrid as the TSO and

asset owner for Ireland's offshore transmission grid, which was then given effect via the MAP Act 2021.

A key objective for EirGrid in preparation for PR6 and throughout PR6 will be to successfully complete the transition to an OAO. This will encompass EirGrid achieving a range of objectives and deliverables, notably:

- Progress towards obtaining a credit rating in order to ensure that EirGrid can raise debt finance for the offshore grid investment programme;
- Support the delivery of Phase 1 offshore projects. Develop readiness to take ownership of Phase 1 projects and take over operation and maintenance (O&M) of the assets;
- Support with the timely and on budget delivery of each Phase 1 project and progress towards critical milestones for the Phase 2 project;
- Development of plans and capabilities to assume O&M responsibility for Phase 1 projects; and
- Implementing the CRU's decision on EirGrid's offshore revenue recovery model from CRU202499.

1.3 PR5 Outturn Figures

Within this paper, the figures provided by EirGrid on their offshore expenditure during the PR5 period have been labelled as actual or outturn values. However, in some cases, the 2024 and 2025 values are EirGrid's best estimate of the expenditure they will incur in both years. The final values for 2024 and 2025 will be reviewed when these are available in 2026 and if necessary, any under or over-recovery from the D-TUoS customer will be corrected at that time to reflect the actual outturn values through the annual tariffing process.

1.4 Responding to this Paper

Responses to this paper should be returned by email by 17:00 on 11 September 2025 and marked with the reference CRU202589.

Responses by e-mail should be sent to CRU at pricereview6@cru.ie.

Please note the CRU intends to publish all submissions received. Unless marked confidential, all responses may be published on the CRU's website. Respondents may request that their response is kept confidential. The CRU shall respect this request, subject to any

obligations to disclose information. Respondents who wish to have their responses remain confidential should clearly mark the document to that effect and include the reasons for confidentiality. Responses from identifiable individuals will be anonymised prior to publication on the CRU website unless the respondent explicitly requests their personal details to be published. Our privacy notice sets out how we protect the privacy rights of individuals and can be found [here](#).

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

1.5 How to Navigate This Paper

A high-level summary of the approach the CRU has adopted to determine the proposed revenue that EirGrid can recover from D-TUoS customers during the period 2026 to 2030 is set out below. The CRU recognises that this is a large paper and covers a range of proposals. To assist the readers, the below summarises the key sections of the paper.

Section 3: Proposed Operational Expenditure

- **Section 3.1: Review of Historic Operational Expenditure**

The operational expenditure incurred by the network company over the period 2021 to 2025 and a summary of key conclusions provided.

- **Section 3.2: Review of Forecast Operational Expenditure**

The operational expenditure program proposed for the PR6 period, as forecasted by the network company was examined, with particular focus on ensuring value for money and the CRU's PR6 objectives as set out in Section 1.2.

- **Section 3.3: Conclusion and Draft Determination Questions**

The conclusions from Sections 3.1 and 3.2 are presented here, along with Draft Determination questions that interested parties reviewing this document should consider.

Section 4: Proposed Capital Expenditure

- **Section 4.1 Review of Historical Capital Expenditure**

The capital expenditure incurred by the network company over the period 2021 to 2025 and a summary of key conclusions provided.

- **Section 4.2 Review of Forecast Capital Expenditure**

The capital expenditure program proposed for the PR6 period, as forecasted by the network company was examined, with particular focus on ensuring value for money and the CRU's PR6 objectives as set out in Section 1.2.

- **Section 4.3: Conclusions and Draft Determination Questions**

The conclusions from Sections 4.1 and 4.2 are presented here, along with Draft Determination questions that interested parties reviewing this document should consider.

Section 5: Investment Gateways and Incentives

Following the decisions made under CRU202499, an investment gateway process will be applied to monitor the progress of one of the capital expenditure projects across PR6 and PR7 (Phase 2 Tonn Nua). The purpose of the gateway process is to provide both a framework for monitoring and regulatory commitment as the project develops. See Section 5.3 for more information.

The CRU will implement cost and schedule incentives for the development and delivery phases of the Tonn Nua projects. See Section 5.4 for more information.

Section 6: Financial Issues and Allowed WACC

The financial issues faced by EirGrid through developing their offshore capabilities during PR6 are addressed in Section 6 of this paper, along with the CRU's proposed financial framework for the period. An offshore cost of capital is also proposed. Key proposals are summarised, and a number of Draft Determination questions are set out.

Section 7: Allowed Revenues and Financeability

A summary of the allowed revenues and financeability assessment are provided, along with potential scenarios and outcomes in Section 7.

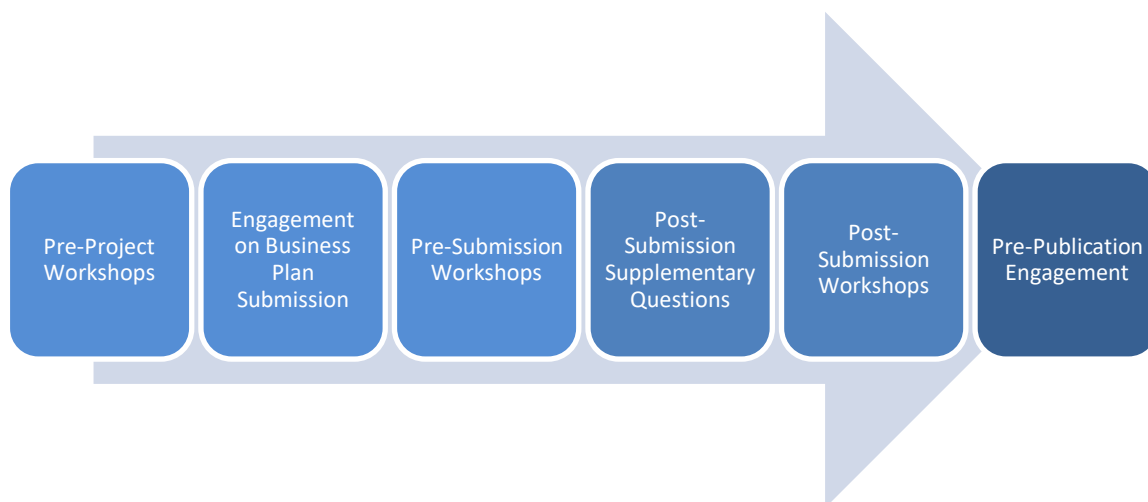
1.5.1. Conduct of the Review

To facilitate this review, the CRU procured expert consultancy support for the provision of technical and financial advice over the course of the project. Detail on this is provided in Section 1.

To ensure that the CRU and its advisors attained an adequate understanding of EirGrids offshore business, the CRU engaged with EirGrid to ensure that the relevant data was provided in a

useable format. Figure 3 sets out the CRU's PR6 engagement with network company prior to the publication of this Draft Determination Paper.

Figure 3: Engagement with Licensee Prior to Draft Determination



Engagement for PR6 had some notable changes to PR5. In particular, the CRU began using dedicated supplementary questions to obtain more detailed information on specific queries and set realistic response times for the network companies. There has also been a significant increase in the level of engagement with EirGrid, including (but not limited to):

- 5 Workshops on the Business Plan Submissions prior to issuance to EirGrid by CRU;
- 6 Information Sessions prior to Business Plan Submissions by EirGrid;
- 6 Workshops post-Business Plan Submissions;
- 5 Workshops on Investment Gateways, Incentives, Financial Issues, Allowed Revenue and Financeability
- Circa 200 supplementary questions issued.

The aim of this engagement was to clarify significant points related to each network companies' submissions, and to allow CRU to seek clarifications to better understand the network companies' justifications.

The engagement allowed the CRU, with the assistance of its advisors, to complete a comprehensive review of the TSO's historic submissions, the forecast and additional information submissions and ultimately lead to the development of the decisions outlined in this paper.

The CRU has updated the licensees on the progress of the Draft Determination and held adhoc meetings to discuss various topics of concern to each licensee. This included an in-person

workshop where the CRU's proposals for the Draft Determination were shared. Prior to the publication of the consultation, both parties were provided with an opportunity to review the documentation for factual accuracy.

Following publication of the Draft Determination, the CRU will establish a structured process for post-Draft Determination engagement.

1.6 Related Documents

Further background relevant to this decision document can be found in the following documents:

CRU	Price Review Six Summary Paper	CRU202586
CRU	Price Review Six Distribution Paper	CRU202587
CRU	Price Review Six Transmission Paper	CRU202588
CRU	Price Review Six Regulatory Framework Paper	CRU202590
CRU	Price Review Six Impact Analysis Note	CRU202591
CRU	Price Review Six Infographic	CRU202592
CRU	Price Review Six Inflation Trends and Ongoing Efficiency	CRU202593
CEPA	Price Review Six Offshore Cost of Capital	CRU202595
CEPA	Price Review Six Financeability Assessment	CRU202596
GHD	Network Needs Assessment	CRU202597
CEPA	Review of the Financial Regulatory Framework of the TSO for PR6	CRU202598
CEPA/GHD	PR5 and PR6 Offshore Cost Assessment	CRU202599f
CRU	Offshore Connection Policy - Phase 1 Projects Decision	CRU2022968
CRU	Grid Connection Pathway for Phase 1 Offshore Wind (Merchant projects) Decision	CRU2023156
CRU	Phase 2 Offshore Wind – Grid Connection Charging Policy Decision	CRU2024125
CRU	Phase 2 Offshore Wind - Grid Connection Pathway Decision	CRU2024124
CRU	Offshore Grid Connection Asset Treatment Decision	CRU202309
CRU	Offshore Revenue Model for EirGrid Decision	CRU202499

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

2. Offshore Regulatory Framework and Revenue Control

This section summarises the decisions outlined in the CRU's Offshore Revenue Model Decision Paper (CRU202499) and describes the proposed overall form of the offshore revenue control. As well as summarising the form of the offshore revenue control, it also restates the CRU's broader regulatory requirements and expectations related to the transparency and separation of EirGrid's system operator and new offshore asset ownership functions and activities. As this is the first offshore price review, it is important to clarify these points upfront.

Protecting Consumers

- A separate OAO revenue control will begin at the start of the PR6 price control;
- Enhanced monitoring and a new investment gateway process will be introduced to ensure EirGrid's delivery of the offshore network infrastructure in a timely and cost-efficient manner; and,
- The OAO price control will include financial incentives to aid timely delivery, construction cost management and asset availability.

Facilitating Efficient Financing

- The OAO revenue control will be set using an established 'RAB x WACC' based revenue model with a separate allowed WACC for the offshore revenue control;
- The CRU will restrict EirGrid's exposure to financial risks during the initial period of high offshore network RAB growth due to its current physical asset light status; and
- The CRU will define overall tramlines on the level of financial risk that EirGrid will be exposed to under the price controls. The CRU will also ensure that EirGrid is protected from non-payment or default risk of offshore generators, but EirGrid must establish appropriate mechanisms to manage this risk.

Transparency of EirGrid's Performance and Delivery

- A high degree of monitoring is essential to meet consumer protection responsibilities given the support consumers will provide EirGrid. The CRU has been working with EirGrid to implement an 'offshore readiness' monitoring regime over Q1 2025.

- EirGrid are required to produce a detailed offshore programme plan and schedule and will need to publish quarterly update reports on its delivery against this plan. The CRU will start the investment gateway process. EirGrid is required to provide the CRU with monthly updates.
- The CRU remains of the view that a high degree of separation of EirGrid's offshore asset owner responsibilities and related offshore activities from its existing TSO functions is a key component of a robust and stable regulatory model that will protect the interests of Irish energy consumers. The CRU considers separation between the TSO and offshore asset ownership activities is a necessity and something that EirGrid should begin to work towards immediately going into PR6.
- As stated in CRU202499, the CRU has required EirGrid 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 will seek an update from EirGrid on its progress with this requirement during this PR6 consultation period.

During the PR6 period, it is intended that yearly updates would be completed as detailed below.

2.1 Structure of Revenue Control

The PR6 offshore revenue model will be based on the following principles:

- The offshore revenue control will be based on a Revenue Cap framework consisting of a series of building blocks to the allowed revenue.
- The primary component of allowed revenue will be the base allowed revenue for the revenue control period.
- The CRU proposes that the allowed revenue will also include specific:
 - Incentives Building Block – related to the Phase 2 delivery incentives (timely delivery and cost management) and availability incentive.
 - Liquidity Building Block – based on the proposed approach and principles set out in Section 6.3.5.
 - Cost of Debt True-up Building Block - based on the proposed approach and principles set out in Section 6.3.5.

- Exceptional Event Building Block – related to exceptional events that increase EirGrid’s incurred costs that are approved as recoverable.
- Pass Through Building Block – to permit EirGrid to recover costs that the CRU has determined will be treated as pass-through under the revenue control.
- K-Factor – the correction factor related to updating allowances based on outturn information.

An outline of the Allowed Revenue formula that the CRU proposes to apply for the offshore revenue control is set out in Section 7.3. The subsections below provide a brief summary of each of the revenue building blocks which subsequent sections of this determination paper set out in further detail.

2.2 Base Revenues

As described above, the base allowed revenue will comprise the primary component of the offshore allowed revenues for EirGrid.

- This will commence with an opening RAB value which for PR6 will start from a minimal value for the offshore revenue control.
- Allowed capex will be added and depreciation subtracted from the RAB for each successive year of the price control period.
- Allowed operating costs will be added to the base revenue to reflect EirGrid’s allowed opex for the price control period.
- Allowed returns will be calculated based on allowed rates of return on the offshore RAB consistent with the proposed approach set out in section 6.3.3.

This base revenue that will form the Revenue Cap will comprise these building blocks of operating costs, depreciation, allowed returns and pass-through costs.

2.3 Indexation

As discussed in Section 6.3.3, the CRU proposes to set the offshore revenue control on a hybrid nominal-real returns basis. Under this proposal, the notional debt component of the RAB (at the notional level of gearing) and the allowed debt return will be set on a nominal basis and the notional equity component of the RAB and the allowed equity return will be set on a real basis.

The depreciation and allowed debt return components of base revenues will not be subject to inflation indexation as they will be set on a nominal basis. The other components of base revenues will be indexed to a measure of consumer price inflation.

For other network utility price controls, the CRU uses the Harmonised Index of Consumer Prices (HICP) as the index to inflate revenue. Consistent with these other revenue controls, the CRU intends to use HICP to index base allowed revenues.

2.4 Incentives

Section 5.4 sets out the CRU's proposals for incentives that will apply to EirGrid under its offshore revenue control. The current proposals are that this will consist of two components:

- A Phase 2 Development Period component; and
- An Availability Incentive component.

The Phase 2 incentive is intended to incentivise EirGrid to deliver the Phase 2 Tonn Nua project on schedule and to a defined cost envelope. The availability incentive is intended to incentivise EirGrid to maximise the availability of the offshore grid connections under its ownership and management so that low-carbon electricity generation can be exported to the main integrated transmission system.

The CRU has developed proposals for both incentives as set out in Section 5.4 and has carefully considered the value of the incentives to align EirGrid's interests with those of consumers and the need to consider the impacts on financeability.

2.5 Liquidity Building Block

As discussed in Section 6, EirGrid faces several relatively unique challenges in financing the offshore grid during PR6 and PR7. In particular, EirGrid could face a mismatch between the incurrence 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.

The CRU proposes to include a Liquidity Building Block in the offshore revenue control that will provide a pre-funding amount to cover the anticipated "cost of carry" of any debt raised in advance of need, together with allowance for credit facilities. The detailed proposals for this mechanism and revenue building block are set out in Section 6.3.5.

2.6 Cost of Debt True-up Building Block

The CRU's decision on the offshore revenue model (CRU202499) set out that the CRU considered that there was a need to include a form of allowed cost of debt adjustment / true-up mechanism in the offshore revenue control to reflect the uncertainty of the timing and size of debt issuance and the terms that EirGrid can obtain competitively in the market in financing its offshore grid investment programme.

As part of its submissions into the PR6 process, EirGrid has set out how it would propose a cost of debt true-up mechanism would operate for the offshore revenue control. The CRU has assessed this approach and considered alternative options. The proposed true-up mechanism and the CRU's rationale for this decision is set out in Section 6.3.5.

This mechanism will operate through the Cost of Debt True-up Building Block of the offshore revenue control formula.

2.7 Exceptional Events Building Block

The Exceptional Event Building Block will apply within the revenue control based on the proposed process set out in Section 6.3.6 which builds on regulatory precedent of exceptional / income adjusting event mechanisms in other offshore contexts including regulatory frameworks applied by the CRU for interconnectors.

This will allow for an adjustment to EirGrid's offshore Allowed Revenue if the CRU has determined that there was an exceptional event and that costs that EirGrid has incurred to manage such an event – e.g., to repair or replace an asset – are considered by the CRU to be eligible for the Exceptional Event Building Block.

2.8 Pass-Through Costs

The Pass-Through Building Block will consist of allowances that EirGrid is entitled to recover on a pass-through basis related to costs that have been incurred, or are to be incurred, in connection with its role as offshore asset owner. This may include, inter alia, costs such as CRU license fees, Local Authority Rates and offshore licensing costs and permitting.

2.9 K-Factor

The K-factor for Tariff Year t will relate to updating allowances based on outturn information for the Tariff Year t-2. The k-factor takes into account any replacement of forecast, provisional or estimated values with actual outturn values that are not accounted for in other building blocks of the allowed revenue formula (e.g., the Cost of Debt True-up Building Block).

For further information on the k-factor, please see Section 7.3.

2.10 Key Principles

Ensuring that EirGrid has sufficient revenues throughout the period to establish and maintain effective offshore operations is core to the price review. Specifically, EirGrid as offshore system operator and asset owner should be able to finance its planned investment, operating costs, financing costs and taxation liabilities. The CRU has therefore used a financial model to ensure the compatibility of the price review with these objectives. The findings of the CRU's 'financeability' assessment are set out in Section 7.6.

The CRU also has the objective of improving the transmission utilities efficiency and performance over time so that it more closely matches the performance of a business at the efficiency frontier. For this reason, the CRU proposes to include a set of incentives linked to key performance indicators (availability) and development of Phase 2 within the price review formula to encourage specific desirable behaviours. The penalties associated with these incentives will be capped at a level that does not endanger EirGrid's ability to secure continued operation.

2.11 Separation of Offshore Activities

This Draft Determination is based on the CRU's assessment of EirGrid's forecast costs for offshore during PR6, and the assumptions of the functions, programmes and business structures which underpin these forecasts in EirGrid's submitted PR6 business plan. This reflects EirGrid's current proposals and intent for how it will structure and operate its new offshore activities alongside its existing system operator function as a single licensed TSO business.

As the CRU set out in its CRU202499 decision paper, the CRU remains strongly of the view that a higher degree of separation of EirGrid's offshore asset owner responsibilities (and related offshore activities) from its existing licenced system operator functions is a necessary and key component of a robust and stable regulatory model that will protect the interests of Irish energy consumers in the longer term.

Within the context that the Government decision of 2021 has provided for EirGrid to perform the offshore TSO and offshore asset owner role, the CRU considers that best practice would be the introduction of full functional separation i.e. the creation of a separate legal entity for offshore within the EirGrid Group, i.e. a certified TSO for onshore and a certified TSO for offshore.

The CRU is cognisant that a re-structure of this type is a matter for the Minister and there is currently no express legal provision to separate the new offshore role from the TSO. The CRU also recognises that giving effect to such an arrangement would place an additional governance burden on EirGrid which, in the short term, may negatively impact the progress of activities required to enable the development of Ireland's offshore energy sector in meeting the 2030 Government targets.

The CRU's approval of EirGrid's forecast operating and capital costs for the purpose of this Draft Determination does not reflect CRU endorsement of the operating model for offshore which EirGrid has proposed and assumed in preparing its PR6 business plan. In the absence of any Ministerial direction for EirGrid to restructure its offshore and TSO functions, the CRU has assessed EirGrid's business plan as submitted.

Nevertheless, from the start of PR6, the CRU considers that full transparency of information for the purposes of the regulation of EirGrid's offshore activities will be vital. To achieve this, the CRU has required EirGrid to develop and maintain a separate set of regulatory accounts for its offshore and other business activities (see Section 4 of the CRU202499 decision paper). The CRU has also required EirGrid to provide a high degree of transparency in respect of its offshore financing programme and the terms of this financing and expects EirGrid to 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.

The CRU will require an update from EirGrid on its progress with these issues and items during this PR6 consultation period.

3. Proposed Operational Expenditure

This part of the paper sets out the outturn of offshore costs and the forecast revenues for PR6 (2026 - 2030). The following sections will summarise the:

- Review of Historical Offshore Operational Expenditure; and
- Review of Forecast Offshore Operational Expenditure.

3.1 Review of Historical Opex

This section examines the historical offshore opex undertaken by EirGrid over the PR5 period 2021 – 2025.

As EirGrid was appointed as offshore system operator and asset owner in April 2021, the PR5 period had already begun, and an ex-ante allowance was not set for offshore related costs. Instead, offshore costs were included in the annual revenue review on a placeholder basis. The CRU noted that a full review of the efficiency, appropriateness, and allocation of these costs would be considered in the context of the regulatory framework and cost recovery for the offshore system as part of the PR6 process.

The outturn expenditure has been assessed, looking at the output in terms of delivery and efficiency. A more detailed description and breakdown is provided in an accompanying Report 'PR5 and PR6 Offshore Cost Assessment' (CRU202599f). Table 5 summarises the outcome of the historic offshore opex review for TSO. In summary, the CRU proposes to allow EirGrid's forecast PR5 outturn in full.

Table 5: Summary of Historical Offshore Opex (2021 - 2025) Review

	PR5 Outturn (€m)	Draft Determination (€m)
TSO Offshore Opex	56.3	56.3

3.1.1. TSO Offshore Opex

As noted above, offshore costs were not planned for in the PR5 Final Determination, therefore no *ex-ante* offshore opex allowance was provided for the period. However, the TSO identified areas where offshore opex costs were necessary. The TSO's offshore opex outturn for PR5 is set out in Table 6. Overall, the TSO's expected offshore opex outturn for PR5 is circa €56.3m.

Table 6: TSO PR5 Offshore Operational Expenditure

Category		2021 (€m)	2022 (€m)	2023 (€m)	2024 (€m)	2025 (€m)	Actual/Outturn (€m)
Staff and Staff Related Costs	Internal Payroll and Pension	0.1	0.4	1.6	3.3	6.6	12.0

	External Contract and Agency	0.1	2.6	3.4	6.5	8.4	21.0
Professional Services	Legislative and Advisory Consultants	0.1	0.9	2.8	6.7	4.9	15.4
	Audit Costs	0.0	0.0	0.0	0.02	0.0	0.02
IT Opex	IT Opex	0.0	0.0	0.1	1.2	6.6	7.9
Total Opex Outturn		0.3	3.9	7.8	17.7	26.5	56.3

Although no *ex-ante* allowances were approved for the PR5 period, total allowances of €61.7m over the PR5 period, were approved as part of the in-period adjustments for 2023, 2024, and 2025.¹¹ Compared to the actual/ outturn cost of offshore opex for the period of €56.3m, this has resulted in an underspend of the allowance by circa 9%.

Staff and Staff Related Costs

This includes internal staff and external contracting and agency related functions being established to carry out the offshore TSO and asset owner role. In 2021, EirGrid began to establish an Offshore Delivery Team (ODT) and began to develop an Offshore Regulatory Framework with the CRU. Detailed grid integration analysis was conducted with costs increasing as a result in 2022.¹² Costs continued to increase year on year in PR5.

Professional Services

This includes legislative and advisory consultant services being sought, along with external audit costs.

IT Opex

Delays in Phase 1 developer timelines caused cost reprofiling into 2025 and PR6. The procurement process for the Offshore Information Management System was completed in 2024. IT expenditure was less than expected in PR5 due to reprofiling of costs from 2024 and 2025 into PR6.

In 2023, expenditure was allocated to the Official Journal of the European Union (OJEU) Offshore frameworks ENQEIR823 and ENQEIR816, and to an Interim Document Management System used with Phase 1 developers. Opex for that year was 39% lower than expected due to

¹¹ These values were obtained from the Electricity Transmission Network Allowed Revenues for [2023](#), [2024](#), and [2025](#).

¹² From EirGrid's Business Plan Submission, Annex 1.19 'TSO Lookback'.

delays in Phase 1 developer timelines. Less engineering and operational staff were hired, and costs were reprofiled into 2024 and 2025.

The underspend carried over into 2024, driven by delays in recruitment targets and the Offshore Technical Services Framework (ENQEIR816).

Please see ‘PR5 and PR6 Offshore Cost Assessment Annex’ (CRU202599f) for further detail.

3.1.2. Conclusion

The total outturn value for TSO offshore capex for PR5 is set out in Table 7 below. As noted above, the CRU proposes to allow this outturn expenditure in full.

Table 7: Total PR5 Outturn for Offshore Opex

TSO Offshore Opex	PR5 Outturn (€m)
TSO Offshore Opex	56.3

3.2 Review of Forecast Opex

This section provides an overview of the CRU’s Draft Determination in relation to allowable opex for PR6. The EirGrid presented the CRU with three scenarios for its offshore opex in their submission, with Table 8 summarising the different scenarios in regard to the total opex requests. The CRU proposes to set its PR6 opex allowance on the basis of Scenario 3 but has applied an adjustment (variance) to EirGrid’s request following the findings of its draft cost assessment.

The annual breakdown on allowances is also set out in Appendix 4.

Table 8: Summary of Forecast Opex (2026 - 2030) Review

	Request (€m)	Draft Determination (€m)	Variance (€m)
Scenario 1	€453.4	€388.1	-20.4
Scenario 2	€453.4		
Scenario 3	€408.5		

The variance indicates the potential for change in revenues between Draft Determination and Final Determination. Information submitted by EirGrid will be considered during and after the consultation period prior to the CRU reach a final decision.

A more detailed assessment and breakdown of each network company’s proposals is set out in the accompanying Report (CRU202599f) and the annual breakdown on allowances is also set out in Appendix 4. Please note that all costs set out in the review of forecast opex are in 2024 prices. The subsections below summarise the findings of the CRU’s draft cost assessment in further detail including the basis of the adjustments.

3.2.1. Introduction

As part of EirGrid's submission, it put forward its assessment of the opex needs for PR6. The offshore investment programme has been divided into four categories:

- **Category 1** (Connect Offshore Projects): consists of connecting onshore connections to offshore renewable generation.
- **Category 2** (Develop Offshore Assets): costs associated with the development and construction of the EirGrid offshore assets.
- **Category 3** (Transfer Offshore Assets): costs associated with the transfer of Phase 1 Transmission Assets to EirGrid.
- **Category 4** (Offshore Asset Readiness Programme, Pre-operations, Enduring Operations): these are costs needed to allow EirGrid to carry out its offshore operations, such as engineering and asset management, health and safety, IT cloud infrastructure, finance, procurement, supply chain.

While these four categories of costs primarily relate to capex (discussed in Section 4) they have interactions with the EirGrid's forecast offshore opex in PR6. In particular, aspects of the OAO's opex depend on the timing and the quantum of Category 3 costs (Phase 1 ATV payments).

The offshore BPQ submission included three possible scenarios in terms of Phase 1 projects being transferred from developer to EirGrid during the PR6 period. Each scenario covers a high, mid and low range of assets being transferred; these potential costs are covered under Category 4.

Each scenario is briefly summarised below, and the total opex associated with each scenario is set out in Table 9.

- **Scenario 1:** This is six asset transfers during PR6¹³.
- **Scenario 2:** This is four asset transfers during PR6 period.
- **Scenario 3:** This is one asset transfer during PR6.

¹³ As of 28 April 2025, one of the planned projects, 'Sceirde Rocks' is no longer proceeding, however, because Scenario 3 consists of only one asset transfer this will not have a material impact on the price control review. [Statement on Sceirde Rocks Windfarm - Sceirde Rocks Windfarm](#)

The CRU has carefully analysed the above scenarios and their requests.

Given the possibility of delays to developer timelines, where the transfer of ownership to EirGrid may be delayed until after the PR6 period, the CRU has decided to allow costs under the assumption that Scenario 3 will take place. However, if more than one asset is transferred during the PR6 period, EirGrid will be able to access the additional allowances necessary for operating these assets through a proposed opex reopener mechanism (discussed below). By choosing the conservative scenario this enables EirGrid to develop operational capacities that can be scaled as further transfers take place. Allowing for costs associated with asset transfers that do not occur would ultimately be against the interests of Irish consumers.

The CRU's review of EirGrid's opex proposals are set out below.

3.2.2. Opex

This section summarises the proposals for opex during PR6. The total opex requested for the PR6 period is summarised in Table 9 below.

Table 9: PR6 Three Scenarios Opex Requests

Total Opex	Scenario 1 (€m)	Scenario 2 (€m)	Scenario 3 (€m)
IT Systems	90.6	90.6	90.6
Offshore Asset Readiness Programme	184.2	184.2	184.2
Buildings and Facilities	2.7	2.7	2.7
Pre-Operations	68.9	68.9	40.6
Offshore Central Functions	61.9	61.9	61.9
Enduring Operations and Maintenance	45.2	45.2	28.6
Total PR6 Total Opex Request	453.4	453.4	408.5

As shown, Scenario 3 has a lower opex cost than scenarios 1 and 2. IT Systems, Offshore Asset Readiness Programme (OARP), Buildings and Facilities, and Offshore Central Functions costs remain the same across all three scenarios. Pre-Operations and Enduring Operations and Maintenance costs are lower for Scenario 3 compared to scenarios 1 and 2.

Activities under Pre-Operations will build on capabilities developed through the OARP ahead of each asset transfer. With fewer asset transfers there will be less required activities for the Pre-Operations team. Enduring Operations and Maintenance will begin once asset transfers have occurred. With these costs being associated with the number of assets in operation, Scenario 3 will have lower Enduring O&M costs with just one asset transfer assumed for the period. EirGrid has requested a total of circa €409m in opex (excluding RPEs) for PR6 under Scenario 3. The

conclusion and summary of the CRU's PR6 Draft Determination on this basis is set out in the subsection below.

3.2.3. Opex Baseline and Trend

PR6 is EirGrid's first price review enacting as offshore TSO, therefore there are no 'Business as Usual' (BAU) baseline costs or stable cost trend / run-rate analysis to review. There are only step changes to consider due to this offshore BPQ being the first of its kind.

The cost assessment methodology used in this price review is the base-trend-step approach.

The approach consists of three main steps:

- Determine an efficient opex base level
- Estimate a forward cost trend based on cost drivers and other assumptions
- Identify any step changes that would result in changes to costs additional to the trend.

Determining an efficient opex base cost is in principle the starting point for the PR6 opex allowance. After establishing a baseline, a forward cost trend is in principle also estimated on how efficient costs may evolve over the period – e.g., related to an increase in an external cost driver such as customer connections or the demand on the network. The nature of the offshore TSO means that its growth is inherently tied to new business functions and structural business change. On this basis, growth in EirGrid's opex cannot be viewed as a gradual trend but rather as a step-change and has been assessed on this basis.

3.2.4. Opex Step Change

As PR6 is EirGrid's first price review enacting as offshore TSO, all costs submitted in the offshore BPQ are considered as 'step change' costs, i.e., new initiatives and/ or requirements faced by the network company during the PR6 period. EirGrid being assigned as the offshore TSO and asset owner is a substantially new initiative and requirement faced by EirGrid despite it starting this role in PR5. Therefore, the baseline and cost trend have been excluded from this analysis.

EirGrid has proposed 16 cost items in its PR6 submission for which step-changes in the opex allowance are identified.

The following opex categories are step changes:

- IT Systems
- Offshore Asset Readiness Programme (OARP)

- Buildings and Facilities
- Pre-Operations
- Offshore Central Functions
- Enduring Operations and Maintenance

The costs which EirGrid has set out in its business plan have been evaluated against the following criteria and gateways:

- **Need:** is there clear evidence of an expected change in the activities or costs incurred? Have the aims and objectives of the step-change been set out? Are the aims and objectives aligned with the PR6 strategic objectives? A pass / fail criterion is applied to this gateway.
- **Mapping to the BPQ submission:** has the step-change been mapped out in the BPQ? A pass / fail criterion is applied to this gateway.
- **Additionality:** is there supported evidence that the costs accompanying the proposed step-change are additional relative to the base level of opex? Have existing resources been exhausted and additional resources are needed to execute the proposed step-change? An adjustment of up to 25 percent is applied if additionality hasn't been sufficiently evidenced in the submission.
- **Cost confidence / customer value / efficiency:** is there supported evidence that the costs accompanying the proposed step-change are reasonably efficient? Have costs been market-tested or benchmarked? Is there a clear evidence of customer value accompanying the outcomes of the step-change? Is there evidence of a clear cost build-up in the company submission? An adjustment of up to 25 percent is applied if cost efficiency and customer value have not been proven.

For more information on the criteria and gateways used please see CRU202599f. The subsections below summarise the CRU's assessment of the step change costs in EirGrid's BPQ.

As discussed in Section 2, it is important to note the CRU's approval of EirGrid's forecast operating costs for the purpose of this Draft Determination should not be viewed as CRU endorsing the proposed operating and governance model for offshore that EirGrid has assumed in preparing its PR6 business plan.

IT Costs

- The need for offshore IT costs was defined, a pass criterion was applied.
- The additionality of the step-change was evidenced, a 0% adjustment was applied.
- A 5% adjustment was applied to the cost efficiency gateway, as this is the first time these IT costs will be incurred for offshore functions, and further assurance is required to demonstrate that a range of options and specifications for the forecast costs were considered, and the proposed solution is best.

Offshore Asset Readiness Programme

- The need for the OARP was defined, this programme will allow EirGrid to develop new capabilities and ensure operational readiness for owning, operating, and maintaining offshore assets, a pass criterion was applied.
- The additionality of the step-change was evidenced, a 0% adjustment was applied.
- A 5% adjustment was applied to the cost efficiency gateway across the cost categories (internal FTE, external FTE, professional fees). The CRU may revisit this conclusion if further information is provided prior to Final Determination that strengthens confidence in the OARP cost estimate.

Buildings & Facilities

- The need for buildings and facilities was defined, a pass criterion was applied.
- The additionality of the step-change was evidenced, a 0% adjustment was applied.
- A 0% adjustment was also applied. Warehousing costs were benchmarked against a European comparator, while office-related costs are based on EirGrid's existing office expenses.

Pre-Operations

- The need for pre-operations was defined, this will build on the OARP by applying learned capabilities as Phase 1 projects approach commissioning. The OARP team will gradually transfer over to pre-operations, transferring knowledge on procedures, processes, and materials. A pass criterion was applied.
- The additionality of the step-change was evidenced, a 0% adjustment was applied.

- A 5% adjustment is applied to cost efficiency due to limited benchmarking and alternative options provided by EirGrid. There is also some risk in overlap of existing business resources.

Offshore Central Functions

- The need for offshore central functions was defined, the programme will oversee areas such as finance, regulation, offshore future planning, and offshore transmission system operations. A pass criterion was applied.
- Additionality was shown; a 0% adjustment was applied.
- A 5% adjustment is applied to the cost efficiency due to it being EirGrids first time incurring these costs, and further assurance is required in the cost build up and optioneering of the costs proposed.

Enduring Operations and Maintenance

- The need for enduring O&M was defined, this will oversee asset management centre support, maintenance and inspection of the offshore assets, and contingency requirements. A pass criterion was applied.
- Additionality was shown; a 0% adjustment was applied.
- A 5% adjustment is applied to internal and external FTE's and O&M activities, while a 10% adjustment was applied to insurance for the cost efficiency gateway given EirGrid itself noted the uncertainty of this cost category.

3.2.5. Frontier Shift

The CRU proposes to apply an ex-ante adjustment to allowances to account for ongoing efficiency and RPEs in PR6, collectively referred to as 'Frontier Shift'.

The CRU aims to ensure that customers only pay for the efficient costs of developing, maintaining and operating the electricity transmission and distribution systems. This is done by setting the network companies challenging but realistic and achievable targets and incentives. The CRU applies an ongoing efficiency / productivity challenge which is to encourage network companies, including EirGrid's offshore business, to implement new technologies and management practices, replicating the forces of competition to drive out cost efficiencies.

More detail can be found in the published CEPA report CRU202593.

EirGrid state that macroeconomic trends in the Irish economy and the degree of dynamic change taking place within the electricity sector during PR6 limit the scope for achieving ongoing efficiencies.

The assessment undertaken by the CRU's advisors CEPA has however noted that there is evidence to support positive productivity growth over the PR6 period. A number of sources to estimate ongoing productivity were used. The analysis in CRU202593 shows a wide range of productivity estimates. While no specific ongoing efficiency range has been proposed for EirGrid's offshore business activities, CEPA has instead proposed an overall range for EirGrid TSO which accounts for the challenges in PR6 and operating characteristics of EirGrid's business:

- 0.4% for the lower end; and,
- 0.6% for the upper end.

RPEs on the other hand are adjustments that reflect changes in the price of inputs net of HICP inflation adjustments that are already applied under the regulatory framework.

In recent price reviews, the CRU has tended to rely on an *ex-post* review of network companies' costs as the tool to manage real unit cost uncertainty and to facilitate that companies recover their efficiently incurred input costs over the price control period. If companies face substantial changes in their efficient costs due to input price pressures within the period, these will be reflected in allowed revenues as a true-up to cost allowances *ex-post*.

However, given the considerable scale of investment and risk of substantial cost forecast changes due to input cost volatility and supply chain constraints in PR6, there is a risk that delivery of the critical investment and transformation programmes required in PR6 could be hampered if *ex-ante* allowances do not include some upfront provision for RPEs and dedicated mechanisms are not in place to manage the risk of input costs increasing.

Therefore, the CRU are proposing to set cost allowances for opex for EirGrid's onshore TSO and OAO activities which include an explicit *ex-ante* allowance for RPEs. The RPE allowance would not reopen until the *ex-post* review, and therefore EirGrid would be expected to manage within this allowance within the price control period prior to the *ex-post* review. The CRU is not proposing to set *ex-ante* RPE allowances for capex, given the challenges in identifying appropriate indices in which to base the *ex-ante* allowance. Instead, the CRU is proposing to manage RPEs for capex solely through the PR6 *ex-post* assessment process, similar to how this was managed through PR5.

EirGrid proposed an annual labour cost RPE of 3.5 - 4.2% and an annual non-labour cost RPE of 3.17% for PR6 for its TSO business. It was unclear from its offshore BPQ what proposal it intended for RPEs for its offshore owner activities. The CRU require a more substantive justification from EirGrid that the sectors chosen are the most applicable to the TSO.

The assessment undertaken by CEPA estimated a weighted average RPE allowance on total opex of 1.3% - 1.5% per annum for the TSO. More details of this assessment can be found in the published CEPA report (CRU202593).

Overall, the CRU is proposing to apply a Frontier Shift adjustment to the EirGrid’s offshore opex of 0.9% per annum, which reflects the mid-point of the net ongoing efficiency and RPE range. The CRU considers that this includes an ongoing efficiency challenge which is stretching but achievable, satisfying one of the key PR6 objectives to increase efficiency and protect customers. By setting the ongoing productivity factor at (and not above) our advisor’s estimate, the CRU notes that the challenge is reasonable. The CRU also considers that this provides reasonable *ex-ante* provision for RPEs, which will enable EirGrid to manage the risk of input costs increasing. Noting that the ex-post assessment process will be retained and used to review whether network companies efficiently managed input price pressures within the period.

This approach is in-line with regulatory precedent and is informed by CEPA’s review of evidence of total factor productivity (TFP) and partial factor productivity growth rates in Ireland.

Table 10: Frontier Shift Draft Determination Range

Network Company	PR6 Factor
EirGrid (TSO) Frontier Shift (per annum)	0.9%

As the overall Frontier Shift adjustment is positive (i.e., an increase in allowed opex), this implies that for both network companies RPEs in opex may be greater than the scope for both network companies’ productivity improvements during PR6.

The CRU proposes that the Frontier Shift adjustment for EirGrid’s offshore activities is aligned with the overall proposal for EirGrid TSO. Over time, as EirGrid’s offshore asset base and activities become established, the CRU would expect this to change though, with the ongoing efficiency challenge for EirGrid’s OAO business activities aligning more with onshore electricity network licensees such as the TAO and DSO.

3.2.6. Opex Reopener

As discussed in the CEPA-GHD support document CRU202599f, elements of EirGrid’s offshore opex requirement remain highly uncertain for PR6. This includes the opex ultimately required in Pre-Operations and Enduring Operations and Maintenance activities depending on the number

of Phase 1 developer asset transfers that in practice occur during PR6. There are also several other categories of EirGrid's offshore opex that remain uncertain or are not captured in EirGrid's offshore BPQ for the PR6 period – e.g., operational insurance.

To manage the uncertainty of offshore opex, the CRU proposes to include a reopener mechanism for opex in the OAO price control for PR6. An outline proposal for discussion of how this reopener may operate is discussed in the CEPA-GHD support document CRU202599f and the CRU intends to work with EirGrid prior to Final Determination to develop the process and conditions for this reopener.

In summary, the CRU proposes that additional revenues will be accessible through the reopener if a greater number of projects transfer in PR6 than assumed in Scenario 3 or EirGrid expects there to be material changes in its opex during PR6. The reopener would be subject to a series of triggers / conditions being met by EirGrid in the reopener request and it would form part of the annual reopener window that the CRU proposes to put in place as part of the PR6 AIMF.

Consistent with the CRU's previous CRU202499 decision on the offshore regulatory framework and revenue model, the CRU will also provide EirGrid with the opportunity to take its major offshore opex programmes – e.g., placing of operational insurances and establishment of O&M contracts and frameworks – through a similar gateway process the CRU proposes to apply to the OAO's capital programme. The CRU welcomes EirGrid and other stakeholders' views on whether this is appropriate in PR6 and if so, which programmes of opex this should apply to.

3.2.7. Conclusion

The table below shows the proposed allowed PR6 opex for EirGrid's offshore (OAO) price control. The CRU has sought to ensure that EirGrid has the necessary revenues to meet PR6 targets and EirGrid's specific OAO objective. Table 11 summarises the PR6 Draft Determination.

Table 11: PR6 Allowed Opex

Opex (€m 2024 prices)	PR5 Outturn (€m)	PR6 Request (€m)	Draft Determination (€m)
Internal Payroll Pensions	12.0	-	-
External Contract Agency	21.0	-	-
Legislative and Advisory Consultants	15.4	-	-
Audit Costs	0.02	-	-
IT Costs	7.9	90.6	86.0
Offshore Asset Readiness Programme	-	184.2	175.0
Buildings & Facilities	-	2.7	2.7

Pre-Operations	-	40.6	38.6
Offshore Central Functions	-	61.9	58.8
Enduring Operations and Maintenance	-	28.6	27.0
Total Opex	56.3	408.5	388.1
PR6 (Excl. RPE* and Ongoing Efficiency)	56.3	408.5	388.1
PR6 (Incl. RPE* and Ongoing Efficiency)		-	402.7

- Scenario 3 has been selected as the most likely scenario given developer timelines.
- EirGrid had requested €408.5m of total opex.
- The CRU has provided an allowance of €388.1m (excluding RPEs and Ongoing Efficiency). This implies a difference of €20.4m, or circa 5% less overall.
- The need, additionality and cost efficiency criteria/ gateway methodology from Section 3.2.4 has been applied to determine the allowed PR6 offshore opex.
- For more information on the costs and the methodology applied to them please see CRU202599f.
- The breakdown of opex allowances is also set out in Appendix 4.

3.3 Conclusions and Draft Determination Questions

During PR5, opex outturn amounted to €56.3m, compared to an allowance of €61.7m, a circa 9% decrease.

This was largely due to:

- Delays in Phase 1 developer timelines causing cost reprofiling into 2025 and PR6.

For PR6, Scenario 3 cost estimates have been chosen, with a Draft Determination allowance of €388.1m in opex (excluding RPEs and OE). This is a circa 5% disallowance on the requested amount of €408.5m.

The main drivers in opex costs include:

1. OARP
2. IT Costs

3. Offshore Central Functions

Interested parties are requested to provide comments on the below questions:

Question(s):

What are your views on the following:

1. the PR5 operational expenditure outturn and the CRU's approved allowances.
2. the PR6 operational expenditure request and the CRU's Draft Determination.
3. the CRU's proposed RPEs and ongoing efficiency challenge.
4. the CRU's proposed opex reopener.
5. the proposed CRU adjustments.
6. the Draft Determination allowed revenues.
7. the likely trends that will happen during PR6.

4. Proposed Capital Expenditure

This part of the paper sets out the outturn of offshore costs and the forecast revenues for PR6 (2026 - 2030). The following sections will summarise the:

- Review of Historical Offshore Capital Expenditure; and
- Review of Forecast Offshore Capital Expenditure.

4.1 Review of Historical Offshore Capital Expenditure

This section examines the historical offshore capex outturn undertaken by the TSO over the PR5 period 2021 – 2025. As with offshore opex costs, no *ex-ante* offshore capex allowance was set for PR5. Instead, offshore costs were also included in the annual revenue review on a placeholder basis. The CRU noted that a full review of the efficiency, appropriateness, and allocation of these costs would be considered in the context of the regulatory framework and cost recovery for the offshore system as part of the PR6 process.

The outturn expenditure has been assessed by the CRU, looking at the output in terms of delivery and efficiency. A more detailed description and breakdown is provided in an accompanying Report (CRU202599f), which summarises the outcome of the historic offshore capex review for TSO offshore capex. The CRU’s proposed decision is to allow EirGrid to recover the forecast outturn expenditure in full.

Table 12: Summary of Historical Offshore Capex (2021 - 2025) Review

TSO Offshore Capex	PR5 Outturn (€m)	PR5 Draft Determination(€m)
TSO Offshore Capex	65.0	65.0

The subsections below briefly summarise the basis of these outturn costs and the conclusions from the CRU’s cost assessment.

Please note that all costs set out in the review of historic capital expenditure are in 2024 prices and some costs are rounded to the nearest €0.1m.¹⁴

¹⁴ For the exact amounts allowed in the PR6 Determination please refer to the PR6 Transmission model published alongside this paper.

4.1.1. TSO Offshore Capex

Offshore costs were not planned for in the PR5 Final Determination, therefore no *ex-ante* capex allowance was provided for the period. However, the TSO identified areas where offshore capex costs were necessary during PR6, and this has been reflected in interim determination during PR5. The final outturn for the total offshore capex for the PR5 period is estimated as €65.0m. The network and non-network offshore capex outturn amounts are set out in Table 13 below.

Table 13: TSO PR5 Offshore Capital Expenditure

Category	2021 (€m)	2022 (€m)	2023 (€m)	2024 (€m)	2025 (€m)	Actual/ Outturn (€m)
TSO Offshore Network Capex Outturn	-	0.2	4.9	10.6	48.8	64.6
TSO Offshore Non-Network Capex Outturn	-	-	-	0.4	-	0.4
Total Capex Outturn	-	0.2	4.9	11.1	48.8	65.0

Regarding network capex, the majority of the network capex proposed for 2024 and 2025 is associated with cost re-profiling of the Phase 2 (Tonn Nua) programme works. 2025 will include circa €35m for marine surveys and other planning works. These include:

- Front-End Engineering Designs (FEED) designs
- Engineering, Procurement and Construction (EPC) packages
- Landowner engagements
- Site investigations

2024 costs include some marine survey work valued at circa €2m, along with other work regarding DECC (now DCEE), Designated Maritime Area Plan (DMAP) and Maritime Area Regulatory Authority (MARA) engagement, marine survey tendering, and other ongoing consenting works.

In relation to non-network capex, some costs were incurred in 2024 of circa €0.4m. In the PR5 Lookback narrative document, EirGrid have detailed how a revised IT solution delivery of around €10m of opex has been deferred into PR6. However, this has now been accommodated by the €0.4m capex addition. Please see CRU202599f for further detail.

4.1.2. Conclusion

The total outturn value for TSO offshore capex for PR5 is set out in Table 14 below and the CRU's Draft Determination. The CRU's proposed decision is to allow EirGrid to recover the forecast outturn expenditure in full.

Table 14: Total PR5 Outturn for Offshore Capex

Category	PR5 Outturn (€m)	Draft Determination (€m)
TSO Offshore Network Capex	64.6	64.6
TSO Offshore Non-Network Capex	0.4	0.4
Total	65.0	65.0

4.2 Review of Forecast Capital Expenditure

This section sets out the CRU's determination in relation to the capex for PR6. EirGrid presented the CRU with three scenarios in their submission, Table 15 summarises the different scenarios regarding the total capex requests and the CRU's Draft Determination which includes an adjustment to EirGrid's request following the findings of its draft cost assessment.

Table 15: Summary of Forecast Capex (2026 - 2030) Review

	Request (€m) ¹⁵	CRU Proposal (Including Phase 1 ATV Capex) (€m)	CRU Proposal (Excluding Phase 1 ATV Capex) (€m)	Variance (€m)
Scenario 1	4,503.2	776.7	416.6	-1.6
Scenario 2	2,460.7			
Scenario 3	778.4			

The CRU has approached its PR6 assessment and forecast of EirGrid's offshore allowed revenue requirement on the basis that EirGrid will make one Phase 1 ATV payment during PR6 (EirGrid's Scenario 3). However, the allowed capex the CRU proposes to include in EirGrid's approved baseline revenues and tariffs for the start of PR6 excludes the ATV payment, and the associated stamp duty, for this single Phase 1 project. The ATV payment is excluded on the basis the quantum and the timing of when the ATV payment will be made is uncertain.

ATV payments made by EirGrid will be assessed by the CRU under the process set out in the CRU decision paper 'Offshore Grid Connection Asset Treatment' (CRU202309) and its associated supplementary decision. Phase 1 ATV payments (and the associated stamp duty) will be approved by the CRU and added to EirGrid's offshore RAB during PR6, with a variation to EirGrid's offshore allowed revenue approved within period following the processes that are set out in Section 6 and Section 7 for consultation in this Draft Determination paper. With one or

¹⁵ Requests reflect the updated values received by licensee as part of their Draft Determination responses.

more ATV payments made during the PR6 period, the total capex allowance will scale up as a result of this.

The adjustment indicates the potential for change in revenues between Draft Determination and Final Determination. Information submitted by EirGrid will be considered during and after the consultation period prior to the CRU reaching a final decision. A more detailed assessment and breakdown of each network company's proposal is set out in the accompanying Report (CRU202599f). A summary breakdown of allowances is provided Appendix 3. Please note that all costs set out in the review of forecast capex are in 2024 prices.

4.2.1. Introduction

As part of EirGrid's 2024 submission, it put forward its assessment of the network and non-network capex needs for PR6. The CRU's review of EirGrid's network and non-network capex proposals are set out in Section 4.2.3 and 4.2.4 respectively.

As discussed in Section 3, the offshore investment programme has been divided by EirGrid into four categories:

- **Category 1** (Connect Offshore Projects): consists of connecting onshore connections to offshore renewable generation.
- **Category 2** (Develop Offshore Assets): costs associated with the development and construction of the EirGrid offshore assets.
- **Category 3** (Transfer Offshore Assets): costs associated with the transfer of Phase 1 Transmission Assets to EirGrid.
- **Category 4** (Offshore Asset Readiness Programme, Pre-operations, Enduring Operations): these are costs needed to allow EirGrid to carry out its offshore operations, such as engineering and asset management, health and safety, IT cloud infrastructure, finance, procurement, supply chain.

Category 1 investment is not considered as part of this document as it forms part of the onshore capex assessment and allowances.

The network capex submission – which relates to Category 2 and Category 3 investment - included three cost scenarios for phase 1. Each scenario is briefly summarised below, and the total expenditure associated with each scenario is set out in Table 16.

- **Scenario 1:** This is six asset transfers during PR6.

- **Scenario 2:** This is four asset transfers during PR6.
- **Scenario 3:** This is one asset transfer during PR6.

For Phase 2, EirGrid have proposed €347.9m of spend in PR6 for the Tonn Nua programme. The CRU will set a capex envelope for the overall phase 2 project which will be developed over the PR6 and PR7 periods. The proposed amount of €347.9m will be included in the final allowed capex envelope, please see Section 5.2 for further details on this.

4.2.2. Capex

This section summarises EirGrids proposals, for network and non-network capex during PR6. The total capex requested for the PR6 period is summarised in Table 16 below.

Table 16: PR6 Three Scenarios Capex Requests

Total Capex	Scenario 1 (€m)	Scenario 2 (€m)	Scenario 3 (€m)
Asset Transfer Value	3,800.0	1,900.0	335.0
Stamp Duty at 7.5%	285.0	142.5	25.1
Phase 2 Tonn Nua Programme	347.9	347.9	347.9
Network Capital Expenditure Total	4,432.9	2,390.4	708.1
IT & Telecoms	20.2	20.2	20.2
Buildings & Facilities	12.1	12.1	12.1
Capital Spares	38.0	38.0	38.0
Non-Network Capital Expenditure Total	70.3	70.3	70.3
Total PR6 Total Capex Request	4,503.2	2,460.7	778.4

Section 4.2.3 and 4.2.4 below sets out the network and non-network capex reviews. Each subsection summarises the key points of the review and a concluding table setting out the Determination.

4.2.3. Network Capex

As set out in Section 4.2.1, EirGrid has proposed three scenarios each with varying total network capex. For the purposes of producing a plausible forecast scenario of allowed revenue and capex in PR6, the CRU's expectation is the number of ATV payments (and Stamp Duty at 7.5%) is most likely be aligned with EirGrid's Scenario 3 (i.e., one Phase 1 ATV payment).

For the purposes of approving an opex allowance, the CRU has assumed Scenario 3 for this Draft Determination. A capex allowance set on a consistent basis to this would involve approval of capex allowances that are consistent with Scenario 3.

Given that the quantum and timing of Phase 1 ATV payment is uncertain, and the ATV payments will be subject to a separate CRU assessment process (see CRU202309), the CRU does not propose to include the ATVs (and associated Stamp Duty) in its approved baseline allowed revenues from the start of PR6. As discussed in Section 6 and 7, the CRU proposes ATV payments will be included in the offshore RAB when the expected timing and the quantum of the payments are known with greater confidence ahead of the ATV payment being made, which will trigger CRU approving a variation to EirGrid's RAB and allowed revenue during PR6.

The CRU has assessed EirGrid's proposed development expenditure for the Phase 2 Tonn Nua project in PR6 and considers this a reasonable cost estimate for the purposes setting an *ex-ante* allowance. The CRU proposes to allow the requested €347.9m in full and this will form part of the overall capex envelope for the project (see Section 4.2.5). Use of the allowance will be overseen and governed by the investment gateway process set out in Section 5.

A brief summary of the CRU's assessment of each of the network capex items is provided in the subsections below.

As discussed in Section 2, it is important to note the CRU's approval of EirGrid's forecast operating costs for the purpose of this Draft Determination should not be viewed as CRU endorsing the proposed operating and governance model for offshore that EirGrid has assumed in preparing its PR6 business plan.

Phase 1 ATV and Stamp Duty

- As noted above, the Phase 1 ATV payment is a holding value that reflects an expectation that at least one Phase 1 project will transfer to EirGrid during PR6. The actual ATV payment and RAB addition will be assessed at a later date as part of the proposed Post Construction Review (PCR) process for Phase 1 ATV payments.¹⁶

Phase 2 Tonn Nua

- Need, additionality and cost efficiency were defined with detailed cost breakdowns provided, a pass criterion and 0% adjustment were applied.

¹⁶ See CRU202309 – [Offshore Grid Connection Asset Treatment](#) – for further details.

4.2.4. Non-Network Capex

The requested non-network capex is the same amount across all three scenarios, circa €70.3m. This represents approx. 9% of the total capex request for Scenario 3. The total non-network capex is summarised in Table 16.

A detailed breakdown of the non-network capex recommendations is set out in Appendix 3.

The OAO's proposed three main areas of expenditure for offshore non-network capex in its PR6 submissions includes:

- IT & Telecoms
- Buildings & Facilities
- Capital Spares

The CRU has considered the substantive supporting information put forward to justify the requested €70.3m non-network capex. Appendix 3 details the requests, allowances and key rationale. When evaluating the allowances, the CRU focused on EirGrids justification of the requests, particularly around the cost efficiency. The same need, additionality and cost efficiency methodology, as set out in Section 3.2.4, was applied to the capex requests.

In general, the CRU has concluded that EirGrid's offshore non-network capex has been justified but has applied a 5% adjustment on the basis that while the need and additionality of the spend was justified, more substantive information on the cost build up and costing process is required in order for the CRU to conclude the proposed cost is fully efficient and justified.

Where insufficient detail has been put forward for analysis to determine whether an allowance is appropriate, more detail can be provided by EirGrid during this consultation. This will in turn be considered by the CRU prior to Final Determination.

Changes in expenditure against these allowances will need to be explained and substantiated with evidence at the close of PR6 (i.e. as part of PR6 lookback).

The subsections below provide a brief summary of the basis of the CRU's assessment of these non-network capex items.

IT & Telecoms

IT: Technology

- Need and additionality were defined; a pass criterion and 0% adjustment were applied.

- A 5% adjustment was applied to the cost efficiency gateway for the proposed PR6 IT opex item, as this item relates to the associated capex for IT non-network systems, a similar 5% adjustment on the proposed capex costs is applied.

IT: People and Professional Fees

- Need and additionality were defined; a pass criterion and 0% adjustment were applied.
- A 5% adjustment was applied to the cost efficiency gateway due to the total capex request being associated with the larger opex request. The opex request also has a 5% adjustment applied to the cost efficiency gateway. Further detail would ideally have been provided to fully support proposed capex costs.

Buildings & Facilities

- Need and additionality were defined; a pass criterion and 0% adjustment were applied. Evidence has been provided on the office costs and fit out part of this capex request.
- However, a 5% adjustment has been applied to the cost efficiency due to not receiving a detailed cost build up for the proposed warehousing functions.

Capital Spares

- Need, additionality and cost efficiency were defined, a pass criterion and no cost adjustments were applied.
- This capex item will be adjusted at the end of PR6 based on the exact number of Phase 1 ATVs and specific costs of the capital spares items actually ordered.

4.2.5. Capex Envelope

In the PR6 BPQs, EirGrid submitted a current working range capital cost estimate of between €1.58bn- €2.21bn for Tonn Nua. The upper range of €2.21bn includes a 40% uncertainty provision. However, as part of the PR6 review process, the CRU requested further information from EirGrid to support the capex estimates provided in the initial PR6 submission.

The Tonn Nua project design concept is still in development as would be expected for a project of this scale being undertaken over this timeline, but EirGrid's business plan provided insufficient detail to facilitate assessment. EirGrid was therefore asked to provide further information to support the capex range estimates provided in this PR6 submission. Subsequently, EirGrid provided additional information to support their initial capex range estimation demonstrating alternative to support their capex cost estimate. Additionally, it may be noted that the figures

shared for the 275kV¹⁷ option at €1.5bn do not include contingency and uncertainty cost provisions.

Following the discussions undertaken between CRU, CRU's technical advisor (GHD) and EirGrid, and understanding the current status of the Tonn Nua project design concept, at this stage the CRU and its technical consultant consider that the outlined capital cost estimate (€1.58bn) is broadly reasonable for the Tonn Nua transmission connection as a project capex envelope, this being based on 2024 prices and allowing for required uncertainty cost provisions. This also supports the PR6 development capex value requested for PR6 (~€348m) as discussed in Section 4.2.5 above, which GHD also conclude appears reasonable in the context of an overall Tonn Nua project capex value of circa €1.58bn (in 2024 prices).

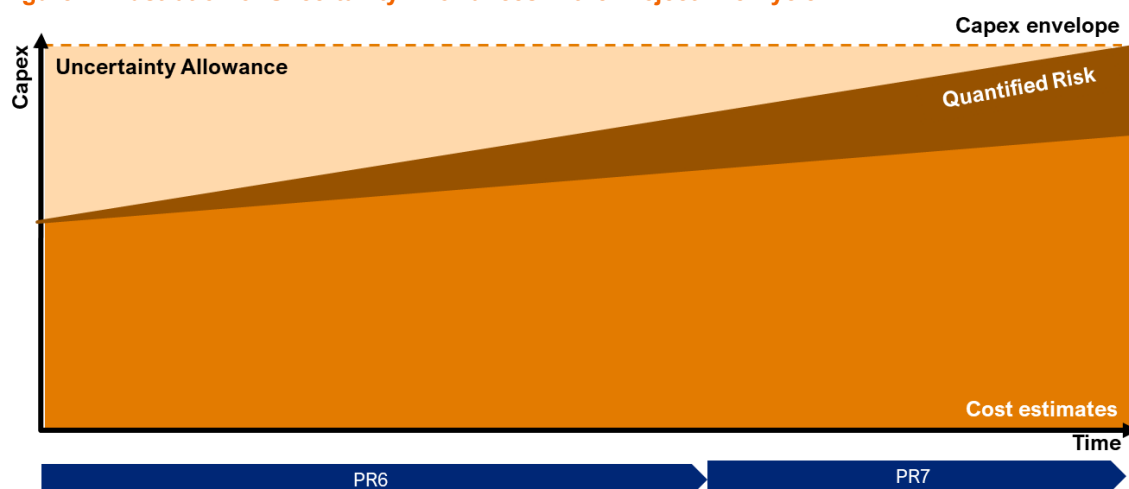
The additional uncertainty provision of 40% in 2024 monies resulting in a top-end estimate of €2.21bn is however considered less supportable in GHD's current assessment, based on the information that EirGrid has been able to provide on the Tonn Nua project to date. There is insufficient clarity about the scale of the provision and its intended use given that there is already significant allowance for uncertainty and contingency in the base cost estimate. It is GHD's current view that a total project cost at this range (in 2024 monies) is unlikely.

The CRU notes that while the technical assessment would indicate that a project cost of €2.21bn (in current prices) appears high based on current information on the project, EirGrid's higher end estimate of €2.21bn is in principle consistent with an uncertainty provision being added to the current early estimate of costs. Adding an uncertainty provision is aligned with the design objective of the CRU setting a capex envelope for Tonn Nua to cover PR6 and PR7 as part of the offshore price control (as discussed Section 5). This capex envelope is expected to be an early stage capex estimate given the current levels of uncertainty. For these reasons the CRU concludes that the envelope should include an **appropriate** provision for uncertainty.

Over time, as the project and level of technical definition and cost estimating matures, the uncertainty provision will reduce, as it is reassigned into known project costs or via a quantified risk assessment. This process is illustrated in the simple diagram below.

¹⁷ At the present time EirGrid has not decided on the full scope of the Tonn Nua transmission connection including but not limited to voltage and number of circuits.

Figure 4: Illustration of Uncertainty Allowances in the Project Life Cycle



The CRU understands from engagement with EirGrid that it has sized the uncertainty provision to derive its higher end capex estimate to align with international engineering guidance on an appropriate uncertainty provision given the stage of development and the maturity of the Tonn Nua project. Despite this and, in particular, given the cost estimate is stated in a current price base, GHD’s technical assessment still considers the estimate to be high.

Given the importance of the Tonn Nua project capex envelope to the regulatory governance of the capital programme under the CRU’s proposed capital investment gateway process (see discussion in Section 5), the CRU is consulting on a possible range for the Tonn Nua capex envelope of €1.58bn - €2.21bn with a final decision on a point estimate to be made at the PR6 Final Determination. On the basis that the envelope (in 2024 prices) which EirGrid has proposed was accepted for the project, this would be as follows:

- Development cost - €0.348bn
- Delivery cost - €1.232bn
- Uncertainty provision - €0.630bn

In responding to this consultation EirGrid should pay particular attention to the scope for overlap between base cost and the envelope and to its proposed treatment of inflation.

Please see the CEPA-GHD supporting document CRU202599f and Section 5 – Investment Gateways and Incentives for further information.

It is important to note that the investment gateway process as discussed in Section 5 is designed to align with best practice for monitoring large infrastructure capital projects and will be used by the CRU to approve expenditure on the Tonn Nua project on a forward-looking basis and to monitor expenditure on the project against the project capex envelope. The gateway process will

be an important regulatory tool in helping to manage the inherent risks of the capital programme and providing guardrail for protecting the Irish consumer from cost escalation.

4.2.6. Conclusion

The tables below show the proposed allowed PR6 Capex for EirGrid's offshore (OAO) price control. The CRU has sought to ensure that EirGrid has the necessary revenues to meet PR6 targets and EirGrid's specific OAO objective. Table 17 and Table 18 summarise the PR6 Draft Determination.

Table 17: PR6 Proposed Allowed Network Capex

Network Capital Expenditure	PR6 Request (€m)	CRU Proposal (Incl. ATV Capex) (€m)	CRU Proposal (Excl. ATV Capex) (€m)
Phase 1 ATV	335.0	335.0	-
Stamp Duty	25.1	25.1	-
Phase 2 Tonn Nua Programme	347.9	347.9	347.9
PR6 Total	708.1¹⁸	708.1	347.9

Table 18: PR6 Proposed Allowed Non-Network Capex

Non-Network Capital Expenditure	PR6 Request (€m)	Draft Determination (€m)
IT & Telecoms	20.2	19.2
Buildings & Facilities	12.1	11.5
Capital Spares	38.0	38.0
PR6 Total	70.3	68.7

- The CRU has allowed revenues where EirGrid has identified the scope and requirement for capex.
- EirGrid had requested €778.4m of total capex, with €708.1m in network capex, and €70.3m in non-network capex.
- For this Draft Determination, the CRU has established a capex adjustment of circa €1.6m.
- On the basis that ATV related capex (and the associated stamp duty) are excluded from the baseline allowed revenues for PR6, the CRU's decision on the network and non-network capex is €347.9m and €68.7m respectively. A total of €416.6m in capex has been allowed.

¹⁸ Final PR6 request for total capex is rounded to one decimal place.

- The allowed capex is expected to increase within PR6, in particular once the forecast quantum and timing of ATV payments are known by EirGrid, which will trigger a within period variation to the offshore RAB and allowed revenues.
- The need, additionality and cost efficiency criteria/ gateway methodology from Section 3.2.4 has been applied to determine the allowed PR6 offshore capex.
- For a further breakdown of capex project costs and the allowed revenues, please refer to Appendix 3.

4.3 Conclusions and Draft Determination Questions

During PR5, capex outturn amounted to €65m.

- The majority of network capex for 2024 and 2025 is associated with cost re-profiling of Phase 2 Tonn Nua programme works.
- For non-network capex, a revised IT solution delivery of around €10m of opex has been deferred into PR6. However, this has now been accommodated by the €0.4m capex addition in 2024.

For PR6 a Draft Determination cost of €416.6m in capex has been allowed (this excludes any Phase 1 related ATV payments), which reflects a €1.6m adjustment.

- For network capex, the biggest cost driver is Phase 2 Tonn Nua at €347.9m.
- For non-network capex, the biggest cost driver is capital spares at €38m.

Interested parties are requested to provide comments on the below questions:

Question(s):

What are your views on the following:

- the PR5 capital expenditure outturn and the CRU's approved allowances.
- the PR6 capital expenditure request and the CRU's Draft Determination.
- the CRU's proposed capex envelope approach.
- the appropriate value of capex envelope for the Tonn Nua project taking into account the risk of overlap and the treatment of inflation.
- the proposed CRU adjustments.
- the Draft Determination allowed revenues.
- the likely trends that will happen during PR6.

5. Investment Gateways and Incentives

This section summarises the CRU's earlier decisions in respect of capex governance and incentives. It discusses EirGrid feedback based on recent workshop engagements on this topic and sets out CRU minded to decisions on an investment gateway process. This section also discusses further work on the suite of incentives that will apply to offshore.

Summary of the CRU's Decisions and Minded to Positions on Gateways and Incentives

- As per CRU202499 a capex envelope will be set for the entire Tonn Nua Phase 2 project across PR6 and PR7.
- The capex envelope will allow for a current price estimate of total project costs based on benchmarking and market intelligence and a current estimate for uncertainty to cover costs yet unknown, emergent costs not yet identified and optimism bias.
- Within that overall envelope the CRU intends to determine an amount for project development costs in PR6 and an appropriate amount for uncertainty in that period. The envelope will be set as part of the PR6 price control process and documented as part of a "gateway zero" to the Investment Gateway process.
- The envelope will be extended if efficient and unavoidable costs cause it to be exceeded.
- In line with best practice, the CRU will employ an investment gateway process to monitor the progress of the Tonn Nua project. Expenditure will be approved on a forward-looking basis and once a commitment to that expenditure has been made via a gateway there will be a high bar for any disallowance.
- Each gateway review is expected to take 6-8 weeks from receipt of a fully compliant submission. Monthly meetings will be used to prepare for formal reviews.
- The CRU has set out how it anticipates its cost and timely delivery incentives will operate and their strength. The cost incentive will offer upside and downside against a target cost; timely delivery will focus on critical path milestones and provide upside for a modest amount of early delivery.

- The design principles for an availability incentive are provided along with an indication of overall strength. This incentive will be developed further as more information becomes available.

5.1 Summary of the CRU's Previous Decisions

The CRU202499 decision paper outlined the offshore revenue model for EirGrid. In it the CRU established much of the framework that it plans to implement for investment monitoring and in respect of offshore capex investment incentives. In CRU202499, the CRU concluded that:

- As part of its PR6 price control it would set a capex envelope for EirGrid's ORESS Phase 2 Project (Tonn Nua). This envelope would cover cost in both the PR6 and PR7 revenue controls and will make an appropriate allowance for uncertainty given that the project is in **early stage** development.
- The decision provided a means to extend the capex envelope if necessary following review by the CRU.
- Consistent with good practice, the CRU would implement close monitoring of this project using a capital investment gateway process, which will require high levels of transparency from EirGrid.
- The capital investment gateway process might be extended to aspects of opex e.g. placing of insurances and to EirGrid's plans for O&M of its offshore assets, the costs of which are also likely to develop as the offshore programme matures.
- It would also put in place a suite of incentives covering timely delivery of Tonn Nua and management of project costs and in due course availability of the offshore assets.

The decision was based on the following core principles:

- That the regulatory model should provide a high level of cost recovery certainty for EirGrid and its investors which will support financeability.
- That monitoring would principally be undertaken *ex-ante* – i.e. prior to cost being incurred, because recovering sums already expended (by *ex-post* review) would likely be impractical on a project of this scale.
- Although a more onerous process, in comparison to previous revenue control investment frameworks, there should be enhanced monitoring and greater transparency around the

project recognising that consumers — not EirGrid — ultimately bear most of the risk of the delivery of the offshore programme.

5.2 Engagement with EirGrid

The CRU has engaged with EirGrid to discuss its further development of the offshore regulatory model, in particular the setting of the capex envelope, operation of the investment gateway process and performance incentives. EirGrid's feedback from those discussions is summarised below. EirGrid's primary focus has been on the risks that the regulatory model poses and how they might impact financeability and on the practical operation of the gateways.

EirGrid raised concerns about committing to an estimate for Tonn Nua for PR6 and PR7 at the current **early stage** of project maturity. It argued that it would be adversely impacted both commercially and reputationally if the estimate were inaccurate, and that its ability to finance Tonn Nua would be in question if the envelope were exceeded without a means of addressing that circumstance.

EirGrid also raised concerns about the practical operation of gateways and the potential for the process to impact the momentum of the project given the importance of timely delivery alongside the associated windfarm which will hold guarantees of availability. It has also sought clarity on the risks it faces through the gateway process and the interaction of the process with wider incentives.

EirGrid asked for further details on how incentives will apply (it considers the arrangements in place for the Celtic interconnector to be a useful precedent) and on the strength of those incentives since its ability to bear significant downside risk is constrained in the medium term as the offshore RAB and allowed revenues build up over time. It has also argued that there may be a need to separately consider incentives in the project development period and once the project is under construction and that symmetry in the incentive regime is important to maintaining a 'fair bet' principle for delivery under its price controls.

5.3 CRU's Minded to Positions - Investment Gateways

Following careful consideration, the CRU has determined minded-to positions for the setting of the capex envelope, investment gateway monitoring, and the interaction with OAO performance incentives.

5.3.1. The Capex Envelope

Consistent with the decision set out in CRU202499, and having taken into account EirGrid's feedback, the CRU confirms that it considers it necessary to establish a full project cost estimate prior to committing consumers to fund development costs.

The cost estimate or 'envelope' set at PR6 will:

- Comprise an estimate of economic and efficient total project costs across PR6 and PR7 based on benchmarking and market intelligence. We understand that this is the basis of the estimate provided in EirGrid's business plan;
- Include an appropriate estimate for uncertainty to cover costs yet unknown, emergent costs not yet identified and optimism bias. EirGrid has submitted its view of the uncertainty component as part of its business plan; and
- Be clear on the treatment of inflation to address EirGrid's point that an estimate set in current prices should not be the measure of outturn costs.

The CRU expects the capex envelope to be sufficient to cover the current efficient outturn costs of the project in most circumstances. Setting a capex envelope as part of the PR6 process provides EirGrid with a basis on which to commit to both current and future expenditure for Tonn Nua. The gateway process will provide ongoing certainty, and this combined with the longevity of the estimate (i.e. that it covers both PR6 and PR7) will ensure that the PR7 control does not need to fundamentally revisit project costs, rather it will rely on outputs and decisions from the investment gateway process.

The CRU understands EirGrid's concern about the potential for the envelope to prove insufficient and the issues that would raise for financeability. This point was addressed in CRU202499 which said that:

'EirGrid will 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.'

The CRU will agree to an extension of the envelope if EirGrid demonstrates that doing so is unavoidable in the efficient delivery of the project.

In summary, the CRU understands EirGrid's concern about using an **early stage** estimate and its reservations about how the estimate might be used if exceptional circumstances were to occur. However, the CRU considers that the benefit of having an appropriate 'target' cost for the project outweighs those concerns. It also considers that the risks identified by EirGrid can be managed by being clear from the outset on the basis and status of the estimate.

Within the overall envelope set at PR6, the CRU will determine an amount for project development costs in PR6 and an appropriate amount for uncertainty in that period. The remainder, the delivery amount, will be available for PR7. This approach is based on EirGrid's latest high-level programme which indicates that the Tonn Nua final investment decision (FID) will take place in 2030, at the end of PR6, marking the transition from the development to delivery (construction) phase.

This section provides the CRU's minded to proposal for the Tonn Nua capex envelope and investment gateway process. The previous section (Section 4.2.5), set out the CRU's analysis to date on what might be an appropriate value for this capex envelope. Based on the feedback received to this consultation, and further bilateral engagement with EirGrid on an appropriate capex envelope for Tonn Nua, the CRU intends to make a final decision on this envelope. It will record the basis on which this has been set by the final decision for the PR6 price control as part of a new 'Gateway 0' to the gateway process, as discussed below.

5.3.2. Flexibility in the Development Period

EirGrid has indicated that it will require flexibility in the development period as its plans for Tonn Nua are progressed. It requires scope to develop the project appropriately and it has indicated that there may be points in time when it is better to delay than risk an adverse outcome. An example of this might be spending more time, or incurring additional cost, on its planning application.

The CRU acknowledges that EirGrid will require some cost flexibility in the development stage (Gateways 1-4 – see discussion below). In respect of cost this is to be addressed via the allocation of an uncertainty provision in addition to the development cost estimate. In combination, the cost and uncertainty allowances will be set to provide sufficient 'funding' for the

majority of circumstances. Use of the uncertainty provision will require sign off from the CRU usually via a gateway process or in exceptional circumstances at an investment gateway monthly meeting (see further below).

In respect of the programme, the CRU is currently of the view that certain high level milestones must be met in the development phase in order to hold to the ultimate project delivery date. While the CRU understands that the programme is likely to evolve in the development phase, some limits are necessary to maintain confidence in the Tonn Nua assets being available to coincide operationally with associated windfarm assets.¹⁹ The CRU will use an appropriate set of high level/critical path milestones dates within EirGrid's programme and impose change control in respect of them.

Control of the cost and schedule baselines does not imply that they cannot change, rather that there must be a good reason to change and that any risks of change or knock on effects are understood and accounted for. The CRU will act reasonably in agreeing to a change. When considering a change, the CRU would have particular regard to impacts on the overall project delivery date and cost envelope and to the effective use of time and cost contingency within the programme.

5.3.3. Addition of Gateway 0

EirGrid's business plan assumes a later delivery date for the project than the CRU anticipated in CRU202499. At this stage the project is less developed than expected. In order to implement the capex gateway process, the CRU is intending to add a new gate to the process it set out in CRU202499. As discussed above, Gateway 0 will be used to record, in detail, the basis on which the capex envelope for the Phase 2 Tonn Nua project has been set by the PR6 price control. It will also document the approach to be applied to inflation. This change is necessary to implement the CRU's earlier decision to set an envelope or target cost for the project that EirGrid should seek to work within.

The Gateway 0 cost envelope will form the initial cost baseline for monitoring the project. EirGrid will also be expected to have in place an appropriate schedule and programme for Tonn Nua, which will be used to establish the programme baseline. As noted above these baselines will

¹⁹ The windfarm developer will hold a guarantee of availability which makes timely delivery of Tonn Nua essential. As described in the ORESS Tonn Nua Terms and Conditions, from the "Grid Delay Compensation Start Date" grid delay compensation will accrue to the generator in accordance with the project delivery agreement.

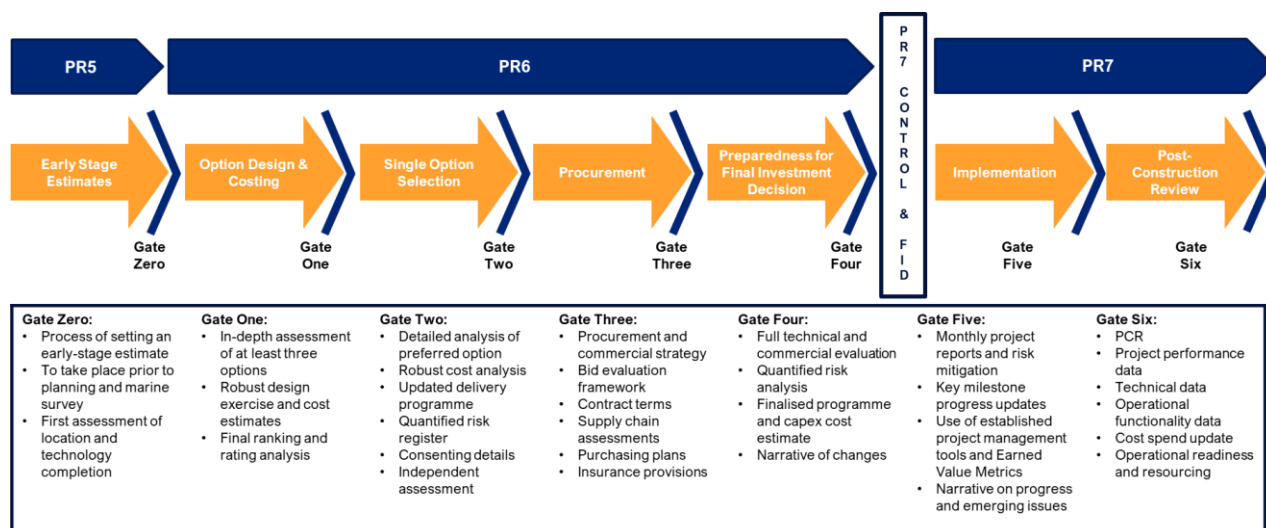
both be subject to change control via the investment gateway monitoring processes, at an appropriately aggregate level. As indicated in CRU202499, EirGrid will be expected to provide CRU with live but read-only access to EirGrid’s schedule and programme for Tonn Nua for the purposes of monitoring.

5.3.4. Further Development of the Gateway Process

As noted elsewhere in this consultation paper, the large-scale organisational transition of EirGrid in PR6 will require substantial support from the consumer. Given its role in protecting consumer interests, the CRU considers it appropriate to impose an enhanced level of monitoring and is aware that the processes it will use are more onerous than those that it has applied previously and that it will require a step change in transparency from EirGrid and necessitate EirGrid working at pace to routinely provide timely information. The CRU considers this appropriate in recognition of the level of support that consumers will provide to the Tonn Nua project.

In line with best practice, the CRU confirms it will employ an investment gateway process to monitor the progress of Tonn Nua as outlined in the CRU202499 decision paper and illustrated in Figure 5 below. The purpose of the gateway process is to provide both a framework for monitoring and regulatory commitment as the project develops.

Figure 5: Illustration of the Investment Gateway Process



Each gateway will have a set of objectives and requirements to guide the review process and EirGrid will need to pay close attention to these as it develops its submissions. EirGrid is encouraged to consider in its response how these processes can be aligned and / or streamlined to fit with its own internal governance procedures.

Progression through gateways 1 to 6 will be assessed on a both forward and backward-looking basis.

- The **forward looking** component will consider whether EirGrid's forward plans up to the next gateway are robust, plausible, economic and efficient. EirGrid will be expected to present high quality, detailed and compelling submissions that are appropriately assured and which are signed off by the EirGrid Board.
- The **backward looking** component (the approach to which CRU is considering - see box 1) will involve confirmation that the work done from the previous to the current gate is broadly as expected. The intent is not to reopen decisions taken at previous gateways which once made will be fixed, rather it is a check, with a high bar for disallowance, that the plans approved at the previous gateway have been implemented in a manner that is not wasteful or inefficient. The CRU is seeking feedback on a possible approach to this backward focused review.

Box 1: A Potential Backward Looking Review Standard

As part of this consultation, the CRU is seeking views on an appropriate cost review standard for the ex-post (backward looking) component of the gateway process.

As described above the ex-ante (forward looking) component will require EirGrid to routinely provide timely high quality, detailed and compelling submissions for each gateway. In order to achieve regulatory commitment and advance these forward plans to the next gateway, submissions will need to be robust, plausible, economic and efficient. The backward looking component is designed to confirm that the work done from the previous to the current gate is broadly as expected. The intention is not to reopen decisions taken at previous gateways which once made will be fixed, rather it is a check, with a high bar for disallowance. The determination of an appropriate cost review standard for the backward looking component of the gateway process is within this context.

One potential cost review standard is the Demonstrably Inefficient or Wasteful Expenditure (DIWE) standard. DIWE is used elsewhere in regulation (including in Great Britain and Northern Ireland) where there is a need to set a high bar for disallowance for financeability reasons. The DIWE concept requires the regulator to demonstrate inefficiency or wastefulness, creating a high bar for disallowance.

Other *ex-post* review standards for capex – such as the criteria applied by the Australian Energy Regulator – relate any reduction in the amount of incurred capital expenditure that can be rolled into a network company's RAB as relating to criteria of efficiency and prudence. This sets a somewhat lower bar for disallowance but creates greater risk for the company. For example, that costs incurred were efficient in achieving the capital expenditure's objectives and are costs that a prudent operator would require to achieve these objectives.

The CRU is considering the use of DIWE or an alternative standard for the backward looking component of its gateway process because it recognises that EirGrid must be able to invest confidently once CRU approves a gateway submission on a forward looking basis. EirGrid will have limited financial headroom through PR6 and early into PR7 during the establishment of its offshore asset base which will make any disallowance of cost incurred challenging to manage and could impact financeability in the transitional period whilst it remains asset light.

The CRU does not currently apply the DIWE concept to *ex-post* review and its use here would be limited to the gateway backward look for the Tonn Nua project in PR6 and PR7. This approach would not apply to other projects in PR6/7 or to future price controls or wider controls that CRU undertakes.

Should the CRU decide to adopt the DIWE standard for this purpose, it will do so in the expectation that EirGrid submissions for the forward looking element of each gate will meet the level of quality required and that EirGrid complies fully with the CRU's requirements for complete transparency over the offshore programme. EirGrid should therefore expect its gateway submissions to be rejected, or the CRU to reserve the right to apply an alternative cost review standard to all or parts of the lookback review, if EirGrid fails to meet the requirements set out by the CRU. The CRU would reserve the right to reassess use of the DIWE standard within the investment gateway framework if EirGrid's provision of information through the gates is poor and does not meet the CRU's requirements. It must also comply with the CRU's requirements for transparency in monthly meetings.

The CRU welcomes stakeholder feedback and comments on the backward-looking review standard that it should apply in its investment gateway process, including the potential use of DIWE or other *ex-post* cost review standards that could be applied in this context.

5.3.5. Formal Gateway Review Meetings

Reviews at gateways are expected to take 6-8 weeks and will be undertaken by a multidisciplinary team assembled by the CRU. Team composition will vary by gate, and Gate 5-6 is expected to be a process of monitoring undertaken over the course of the construction period. The review process at each gate, will commence with a compliance check against submission requirements and complete with the issue of a review report from the CRU.

5.3.6. Monthly Progress Meetings

The CRU will implement monthly monitoring. These meetings will be the means by which:

- Progress is shared and understanding developed;
- Change is managed e.g. to submissions requirements and to the baselines where a proposed change cannot wait for a gateway;
- Gateway reviews are planned and scheduled; and
- Any minor gateway restrictions/ further requirements are followed up.

In addition, these meetings can also be used by EirGrid to test its thinking and emerging conclusions ahead of making a formal gateway submission. The intention of monthly meetings is to settle positions as far as is practicable prior to a formal submission and/or to ensure that the CRU understands the choices that have to be made by EirGrid and on which it may seek a view from the CRU.

5.4 CRU's Minded to Positions – Incentives

As indicated in CRU202499, the CRU will implement cost and schedule incentives for the development and delivery phases of the Tonn Nua projects. This section sets out the CRU's minded to positions on these incentives in light of recent discussions with EirGrid.

In addition, as each of the Phase 1 and Tonn Nua assets become operational, the CRU will implement an availability incentive. The availability incentive is complex given that EirGrid will take ownership of numerous assets, each of which must maintain high levels of availability, and the transfer dates are not yet known. At this stage, the CRU sets out the principles that will underpin the availability incentives.

5.4.1. EirGrid Feedback

The CRU has discussed its emerging proposals with EirGrid in a series of workshops and has taken EirGrid's feedback into account in refining its proposals. EirGrid has stressed that incentives need to be practicable, set at a level that takes account of its limited financial headroom in the short term and timed so as not to adversely impact its financeability.

5.4.2. CRU's Minded to Position

The CRU's minded to positions on the form and strength of the cost and schedule incentives for Tonn Nua (Phase 2) are set out in Box 2 below:

Box 2: Approach to Tonn Nua (Phase 2) Incentives

The CRU is minded to apply the following incentive arrangements in the development period of the Tonn Nua project:

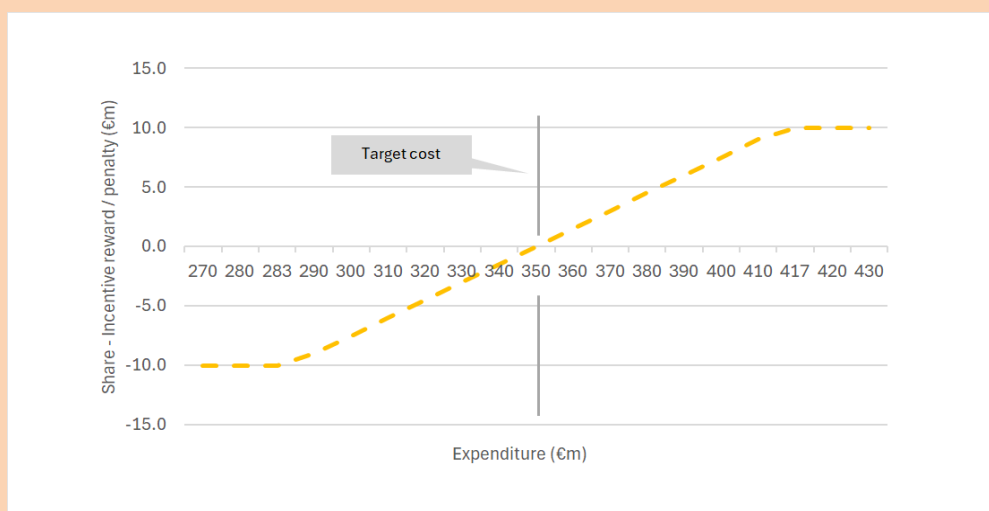
Timely Delivery (Schedule) Incentive

- This incentive will be milestone based.
- EirGrid should propose no less than 5 milestones ('monitored milestones') on Tonn Nua's critical path for the purposes of monitoring.
- One of these milestones must be the achievement of FID.
- The CRU will approve use of these milestones once it has been provided with live access to EirGrid's schedule and programme for Tonn Nua.
- Progress against the critical path including these milestones will be the subject of monthly 'live' monitoring by the CRU.
- EirGrid may not amend a monitored milestone date within its programme without the permission of the CRU. Such permission will not be unreasonably withheld but the CRU will focus on the impact of proposed changes on two things:
 - The likelihood of achieving the FID milestone.
 - The programme remaining robust and deliverable through to completion
- Missed milestones will incur a penalty notification issued by the CRU. For the avoidance of doubt, this will be a notice only without immediate financial consequence.
- Any missed monitored milestone will incur a penalty notice of €2m (on the assumption of 5 monitored milestones, the total incentive will be capped at €10m).
- Notices will be aggregated at the end of PR6 and written off if the FID milestone is met and the programme remains robust and deliverable through to completion.
- In the event that the notifications stand, their financial impact will be combined with any incurred in the construction period and applied as a one-off RAB adjustment at the start of PR8.
- Additionally, reflecting the importance of the project development work that EirGrid will undertake in PR6, missing the FID milestone will incur a one off and unrecoverable revenue adjustment of €5m applied over PR7 (i.e., €1m per annum). A further one off and unrecoverable revenue adjustment of €5m will be applied over PR7 (i.e. €1m per annum, for a total of €2m per annum), if FID is not achieved by 1 month following the FID milestone.
- EirGrid will be able to earn a one off €10m bonus payment (paid at the start of PR7 i.e. as a revenue adjustment) if it can demonstrate to the reasonable satisfaction of the CRU that it is ready to take FID up to 3 months prior to the target monitored milestone date.

Cost Incentive

- The CRU will set, via the PR6 revenue control, a total capex envelope for the Tonn Nua project to cover estimated costs and uncertainty.
- Within that it will allocate a component to the development period and the remainder to the construction period.
- Each of these allocations will include a share of the uncertainty provision.
- The cost incentive will be target cost based, aligned to the relevant allowance (including uncertainty) set in the PR6 price control.
- Performance will be assessed at the end of the PR6 period. Financial consequences (in the form of a RAB adjustment) will be applied in combination with construction period performance at the start of PR8.
- The incentive will be symmetric in that the scope for penalty/bonus will be aligned.
- The CRU proposes to utilise a sliding scale approach to the penalty or bonus such that the greater the underrun/overrun the bigger the impact on EirGrid. It is considering a 15% sharing rate capped in the development period at €10m. The chart below provides an illustration of the mechanics under consideration.

Figure: Illustration of the Cost Incentive Mechanics (Development)



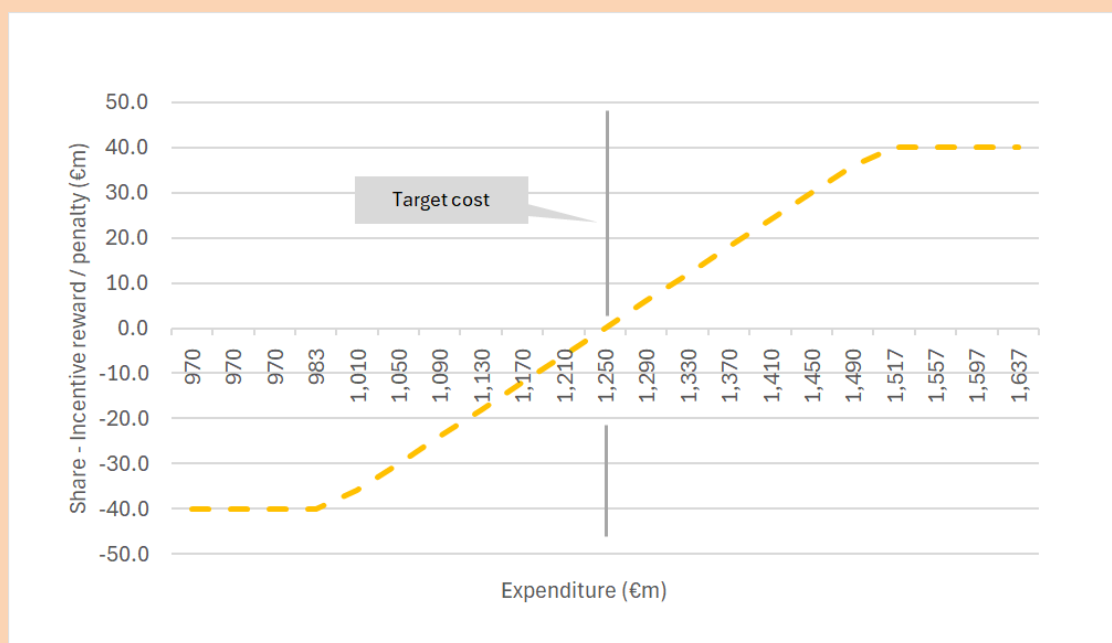
Construction (Delivery) Period Incentives

The CRU is minded to apply the following incentive arrangements in the construction period:

- The mechanics of the incentives will remain unchanged.
- As part of the gateway process, new schedule milestones will be agreed for the construction period prior to the end of PR6.

- The target cost for the construction period will be as determined when the envelope is set as part of the Gateway 0 milestone, but it will be updated to reflect any changes subsequently agreed via the gateways process.
- Reflecting the expected growth in EirGrid’s RAB, incentive strength will increase in the construction period.
- Assuming a similar number of monitored milestone for this period the individual milestone penalty will increase to €8m (with an overall maximum of €40m).
- Additionally, reflecting the importance of achieving project completion on time, missing the project completion milestone will incur a one off and unrecoverable revenue adjustment of €5m applied over PR8 (i.e., €1m per annum). A further one off and unrecoverable revenue adjustment of €5m will be applied over PR8 (i.e. €1m per annum, for a total of €2m per annum), if project completion is not achieved by 1 month following the project completion milestone. The trigger for project completion is still under consideration.
- EirGrid will be able to earn a one off €10m bonus payment (paid at the start of PR8 i.e. as a revenue adjustment) if it can achieve project completion on the target monitored milestone date.
- The cost incentive will similarly step up to €40m.
- For the cost incentive the sharing rate (15%) would remain unchanged, but the cap would increase as illustrated below.

Figure: Illustration of the Cost Incentive Mechanics (Construction)



- Bonus/penalties incurred will be aggregated with any development period penalties/bonuses at the end of PR7 and applied as a one-off adjustment to the value of the RAB at the start of PR8.

Table 19: Summary of OAO Incentive Package

	Development Phase	Delivery Phase
Timely Delivery (Schedule) Incentive	<p>Penalty: €10m RAB adjustment for c.5 milestones, €5m revenue adjustment for missing FID, and a further €5m revenue adjustment for missing FID by more than 1 month.</p> <p>Reward: €10m for being up to 3 months early.</p>	<p>Penalty: €40m RAB adjustment for c.5 milestones, €5m revenue adjustment for missing project completion, and a further €5m revenue adjustment for missing project completion by more than 1 month.</p> <p>Reward: €10m for being on time for project completion.</p>
Cost Incentive	<p>Reward and penalty: €10m RAB adjustment, 15% sharing rate.</p>	<p>Reward and penalty: €40m RAB adjustment, 15% sharing rate.</p>

5.4.3. The CRU's Rationale

The investment gateway process creates incentives for high quality submissions and to avoid wasteful or inefficient expenditure. However, while the investment gateway process provides information and transparency, it does not create financial incentives for EirGrid to remain within the cost envelope or deliver on time.

The CRU considers that appropriate incentives are a necessary component of its overall regulatory approach, noting that incentives cannot remove entirely the risk of breaches to the cost envelope and timelines, particularly during a period where the financial value of incentives are limited during the establishment period of the offshore business by EirGrid remaining a relatively asset light business. The investment gateway process and proposed incentives should be viewed as a package providing a guardrail for the consumer against the risk of project delay and cost escalation.

While the CRU recognises the constraint that financeability poses, it is of the view that rewards and penalties should be meaningful and sufficient to drive behaviour. The potential scale of incentive package is particularly limited by financeability concerns in PR6 and the early part of PR7, prior to EirGrid having taken ownership of Phase 1 assets. Thereafter its RAB reaches a

substantial size and so the scope for incentive impacts that reduce the overall value of the RAB, and therefore EirGrid's returns, is greater. In the main, the CRU is minded to apply incentives as RAB adjustments at the start of PR8.

In the development period, however, the CRU is minded to place additional emphasis on achieving FID and doing so in a manner that ensures that plans for Tonn Nua in PR7 are robust and deliverable. Although cost expended in the development period will be a lower proportion of total costs than construction, many of the decisions and choices that EirGrid make in this period will contribute towards delivering a successful project outcome. In addition to facing potential penalties if key milestones are missed, EirGrid will also receive a one-off revenue adjustment penalty if it fails to achieve FID by the agreed milestone date. Similarly, EirGrid will be able to claim a one-off revenue adjustment bonus for a modest period of early delivery.

The CRU indicated in its previous decision that it would aim to achieve symmetry in the incentive package i.e. to enable EirGrid to achieve upside benefits that balance the scope of potential penalties. For cost the arrangements that the CRU is minded to establish are entirely symmetric. Similarly, the incentive for achievement of FID is symmetric. The CRU's approach to the schedule milestone incentive is asymmetric but reflects the significant risk that consumers face if EirGrid fails to deliver on time. Given the scale of the risk that consumers bear for late delivery and the limits on downside risk that EirGrid is able to accommodate, the CRU's view is that asymmetry in the regime is largely in respect of consumers not EirGrid.

5.4.4. Principles of the Availability Incentive

As determined within the offshore revenue model decision paper, once operational, offshore transmission assets will be subject to a further incentive designed to encourage EirGrid to maintain high availability of the offshore transmission system. This is to balance the requirements and objectives of the Irish consumer, EirGrid (both as TSO and offshore TSO) and offshore wind developers, particularly in light of the Guarantee of Availability (GoA) regime in place on offshore connection assets after ownership of Phase 1 projects has been transferred to EirGrid²⁰ and construction is completed by EirGrid for Phase 2 assets.

Setting values for the availability incentive is challenging at this stage given that the financial value and returns of the offshore business remain uncertain, particularly for Phase 1 where the

²⁰ This applies to both ORESS and merchant projects within Phase 1, as determined in the Offshore Grid Connection Asset Treatment Decision Paper ([CRU202309](#)) and the decision on the Asset treatment for Merchant Phase 1 Offshore Wind Projects ([CRU202466](#)).

timing of asset transfers to EirGrid is unclear. However, CRU considers that design of the availability incentive should take account of the following:

- The availability incentive should be expressed and sized in annual Return on Regulated Equity (RoRE) terms, as opposed to being sized in relation to project (e.g., ATV or Phase 2 construction cost) value.
- The availability incentive will be untested and there will be a limited amount of data at the time that it is established with which to conclude that the targets set are balanced and reflect a stretching but achievable objective for the assets in question.
- The incentive value should be flexible to scenarios where less than the full number of Phase 1 projects are connected to the grid. It would be inappropriate to apply the same overall incentive value for 6 projects as for fewer.
- The sizing of the availability incentive – together with proposals to manage the commercial impacts of exceptional events – is likely to be a key area of focus for EirGrid's credit rating assessment and how the incentive impacts on core credit metrics during PR7.
- That there should be time to discuss drivers of performance prior to availability results impacting the finances.

Collectively these points suggest that the availability incentive value in any given year should:

- Be sized, and potentially capped (see below), at a plausible annual RoRE percentage consistent with how many of the UK regulators have recently thought about Outcome Delivery Incentives (ODIs). CRU's initial modelling suggests that 1-2% of RoRE at risk is an appropriate range to consider.
- Scale up or down the €m value at risk proportionally depending on the number of projects that are being operated by EirGrid.
- Be calibrated with reference to the impacts on the key financeability metrics – e.g., Funds from Operations (FFO)/net debt and Adjusted Interest Rate Coverage Ratio (AICR) – which the credit rating agencies focus on.
- Be lagged. CRU envisages that the payment of the incentive should be on a t+2 basis, to align with the annual cost of debt true-up that will apply on a t+2 basis.²¹ This would provide sufficient time for the CRU and EirGrid to discuss outturn performance against

²¹ See further discussion in Section 6.3.

the incentives and will also mean that availability incentive payments will only begin to impact EirGrid's cashflows materially in the second half of PR7.

- Be set, at least for the first two price control cycles (i.e., PR6 and PR7), on a somewhat conservative basis until data on operational performance is available.
- Permit EirGrid to submit that an unavailability event was due to an exceptional event that was outside of its control and, therefore, should be excluded from the calculation of the availability incentive penalties.

Taking these points into account, the CRU has developed the options shown in Table 20 below for the purposes of consultation.

The CRU's current minded to position is to develop an availability incentive aligned with the principles of Option 3. It welcomes stakeholders feedback and comments on an appropriate availability incentive design as part of this consultation and also expects to consult at a future date (during PR6) on a proposed design.

Alongside a process for excluding exceptional events from the availability incentive, the CRU also proposes to put in place a process for managing the recovery of costs that might be incurred by EirGrid in addressing an exceptional / major failure event. The CRU's proposals on this are set out in Section 6.

Table 20: Outline Options for the Availability Incentive

Incentive Design Parameter	Option 1	Option 2	Option 3
Overall annual cap on availability incentive value	Yes – RoRE based	Yes – RoRE based	Yes – RoRE based
Cap on incentive penalty/reward applied in any given year	1-2% RoRE	1-2% RoRE	1-2% RoRE
Smoothing - can incentive penalties / rewards carry over to next year if they exceed the annual cap?	Yes	No	No
What is the aggregate cap on the incentive value in any given year?	Capped at the allowed return on notional equity in the year	Aligned with the in-year incentive cap – i.e., 1-2% RoRE	Aligned with the in-year incentive cap – i.e., 1-2% RoRE

Incentive Design Parameter	Option 1	Option 2	Option 3
Calibration of revenue at risk across the portfolio of EirGrid projects	Revenue impact of deviations from project specific availability targets is calibrated so that if only a subset of projects experience an availability event, the incentive would cap out at the aggregate value cap.	Each project has an individual target and value at risk For example, the aggregate incentive reward / penalty at risk is allocated proportionally to set a maximum incentive value for each individual project.	Revenue impact of deviations from project specific availability targets is calibrated so that if only a subset of projects experience an availability event, the incentive would cap out at the aggregate value cap.
Discussion / implications	<p>This option is more aligned with the Offshore Transmission Operators (OFTO) availability incentive in Great Britain which has an aggregate cap on revenue at risk in a year (50% of revenues) and an annual collar on the lost revenue that will be applied in a single year.</p> <p>The ability to carry over / smooth the revenue impacts, and the calibration of the incentive to cap out if only a subset of projects experiences an availability event, mean this is the strongest incentive of the three options.</p>	<p>Approach aligned with how ODIs are applied in many network utility regimes where the value at risk is capped within a given year with no ability to carry over.</p> <p>This approach is likely to imply a relatively weaker incentive value for each individual project compared to Option 3 (see right) given that the aggregate cap on the incentive is used to define on a proportional basis the value of availability for each individual project.</p>	Similar to Option 2, but this approach implies a stronger incentive because the aggregate incentive value cap would be reached if only a subset (rather than all) projects were to experience an availability event.

The CRU's proposals for the design and value of availability and Phase 2 project delivery incentives reflect the **early stage** establishment period of EirGrid's offshore asset ownership function during PR6 and PR7. The CRU expects to evolve its approach to incentives overtime at each price review as new challenges and opportunities arise, and EirGrid becomes a more mature offshore asset ownership business.

The CRU welcomes stakeholder feedback on the proposed incentives as part of this consultation.

6. Financial Issues and Allowed WACC

This section sets out the CRU's proposals for the financial framework and building blocks of the OAO revenue control. The box below summarises the minded to positions set out in this section.

These positions form the basis of the CRU's calculation of Allowed Revenue and its preliminary financeability assessment of its offshore revenue control (2026-2030) as set out in Section 7.

Summary of the CRU's Minded to Position

Depreciation Policy

- Depreciation of Phase 1 ATVs (Category 3 capex) to begin from the point of asset transfer.
- Depreciation of Phase 2 (Category 2 capex) to begin from the point of FID. Development capex (devex) will be depreciated from FID and construction costs will be depreciated from when they are expensed.
- Assuming the Tonn Nua project reaches FID in the final year of PR6, this means depreciation of Tonn Nua investment will begin from the start of PR7.
- Depreciation of OARP and enduring operations capex (Category 4 capex) will be from when costs are expensed.
- The depreciation period for Phase 1 ATVs (Category 3) and Phase 2 (Category 2) investment will be on a 30-year asset life assumption. Category 4 investment will be depreciated using an individual asset life assumption by subcategory.
- The CRU will review its regulatory depreciation policy at future price reviews and will evolve its approach overtime as the offshore sector develops, and new information becomes available that is relevant to the assumptions used to set regulatory depreciation allowances for EirGrid's offshore price control.

Notional Capital Structure

- A notional level of gearing consistent with a benchmark notional entity – assumed to be 60% given the specific circumstances of the offshore investment programme.

Basis of Allowed Returns

- Offshore allowed revenues to be set on a real returns basis for equity and a nominal returns basis for debt – i.e., a hybrid basis.

Ex-ante Allowed Cost of Capital

- A real pre-tax Allowed Equity Rate of Return of 7.51% (including inflation adjustment).
- A nominal Allowed Debt Rate of Return of 4.20%.
- The Allowed Equity Return includes a transitional, time-limited, uplift which the CRU only expects to apply in PR6 and PR7 whilst Phase 1 and Tonn Nua offshore grid assets are established.

Liquidity Building Block

- An *ex-ante* liquidity building block that is consistent with the assumed capital structure of the notional company.
- This will be based on forecast values of prefunding requirements as provided by EirGrid and reconciled to outturn values as part of the proposed true-up mechanism for debt costs.

True-Up of Debt Costs

- A true-up mechanism for allowed debt returns that recompenses actual debt costs for debt up to the notional level, including the costs of prefunding to the level that would be required by the notional company.

Exceptional Events

- The CRU proposes to include an Exceptional Events mechanism as part of the offshore regulatory framework to allow EirGrid to request a change to its Allowed Revenue to recover costs of rectifying exceptional / major failure events.
- Following a request from EirGrid for a variation to its Allowed Revenue to recover costs it has incurred related to an exceptional event, the CRU will reach a decision within 6 months on this matter and any agreed variation will be reflected in the next annual update to EirGrid's Allowed Revenue.
- There will be no interruption to EirGrid's Allowed Revenue should there be an exceptional / major failure event where an offshore grid asset is not available for electricity transmission or has only partial availability.

6.1 Summary of the CRU's Previous Decisions

The CRU202499 decision paper described the CRU's proposals for the financial building blocks of the offshore revenue control for EirGrid. The overarching principle for the design of the financial building blocks of the OAO revenue control was to create a stable and predictable revenue model that built on existing CRU regulatory practices but recognised the challenges that EirGrid faces in the delivery and financing of its offshore programme. The revenue model was intended to facilitate EirGrid achieving an investment grade credit rating with low credit risk as it goes through a period of exceptional offshore RAB growth.

The CRU's decision on the key financial principles for setting the OAO revenue control were that:

- The CRU will apply a RAB x WACC framework for setting the financial building blocks of the OAO revenue control.
- There will be a separate RAB for offshore investments from EirGrid's onshore TSO activities and where appropriate, the offshore 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:
 - True-up the OAO price control cost of debt allowances to reflect the terms EirGrid can obtain competitively in the market; and
 - 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 (see discussion of these incentives in Section 5.4). The CRU stated it 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. The CRU expects to:

- At each price review (expected to be every 5-years), 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.
- During the initial period of growth in EirGrid's offshore asset base, constrain the level of downside financial risk EirGrid will be exposed to under its OAO price controls.
- The CRU will take an in the round assessment of the financeability of its price controls which targets the regulated company being broadly of comfortable investment grade credit quality rather than applying strict threshold levels to particular credit metrics that must be met in all circumstances. The CRU will assess financeability 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.

6.1.1. Depreciation and Asset Lives

The CRU stated that as a guiding principle, it intends to align the period of depreciation with an assumption of the economic asset life of offshore grid assets. The CRU stated that its current direction of travel view was that a 30-year depreciation period broadly aligns with this principle, 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 applied in transmission network owner price controls in other markets.²²

The CRU stated that:

- Phase 1 assets transferred to EirGrid from wind farm developers will be depreciated from the point of asset transfer. This will align the start of depreciation for these RAB additions with the timing of EirGrid's ATV payments to developers.

²² For example, Belgium and the Netherlands.

- A final decision on when Phase 2 assets constructed by EirGrid would start to be depreciated would be made when setting the first revenue control for the OAO. The CRU indicated that its starting point would be that depreciation should start from the timing of asset commissioning to align with the depreciation policy for Phase 1 and Phase 2 assets, but there were also other factors relevant to reaching this decision.²³

61.2. Liquidity & Short-Term Financing Cost Pressures

The CRU recognised that EirGrid could face a mismatch between the incurrence 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, the CRU 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 also decided to consider well justified proposals by EirGrid for additional liquidity and cost of carry allowances / building blocks as part of its assessment of EirGrid's PR6 business plan submission.

EirGrid were expected to demonstrate and fully justify the requirement for any additional financial building block by reference to the following principles:

- **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.

²³ Including the business' expected cashflow requirements and decisions still to be made by the CRU on the charging policy for Phase 2 grid assets and other revenue building blocks (e.g., liquidity and cost of carry allowances) of the OAO revenue control.

- **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.

6.1.3. Cost of Debt

The CRU set out a range of potential options for setting a cost of debt allowance for the offshore revenue model. The CRU considered that there was 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.

The CRU intended to make its decision on the detailed design of a cost of debt recovery mechanism when setting the first OAO revenue control as part of the PR6 process. To assist in this design, EirGrid were 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:

- **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.

6.1.4. Financeability

The CRU decided that in assessing the financeability of the price controls for the OAO, it would:

- 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 factors²⁴ 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.

6.2 EirGrid’s Proposals and Engagement

The CRU engaged with EirGrid to discuss its proposals for a revenue model that would facilitate EirGrid achieving an investment grade credit rating. In addition to its views on the WACC (see Section 6.2.4), this proposal has focused on:

- The alignment of target and notional capital structures;
- A nominal allowed return;
- Addressing interest cost uncertainty; and
- Addressing liquidity risks.

6.2.1. Target and Notional Capital Structures

EirGrid argued that an appropriate leverage for the offshore assets is 70% of the RAB, based on its view of ratings agency guidance and precedent of some regulated utilities maintaining actual gearing at this level. EirGrid’s view was that this level of leverage would, in a steady state, support cash flow-based credit metrics consistent with its targeted credit rating.

²⁴ For example, the protections and mitigations that might need to be provided by the regulatory framework for the management of the risks associated with delivery of the offshore programme, together with other sector issues pertaining to OAO, such as the execution of the programme during its infancy.

EirGrid indicated in its PR6 submissions that it is targeting gearing of 70% of the RAB although the level of equity contribution to the programme was still under discussion with its Shareholder. EirGrid argued that if the CRU based the specification of the notional company on thicker equity layers than EirGrid is able to achieve, this would introduce additional risk.

EirGrid's proposals for liquidity and cost of debt true-ups were based on this view of 70% leverage for the notional company.

6.2.2. Nominal Allowed Returns

Most Irish regulatory frameworks operate on a fully real basis (i.e. HICP-indexed RAB and revenues). EirGrid argued that, given it expects to finance the growth in the offshore asset based entirely with nominal debt, a nominal debt allowance would reduce mismatches between revenues (and correspondingly equity “windfalls” or shortfalls) during periods of high or low inflation. It also stated that a nominal allowed return would increase allowed returns, and costs to consumers, in the earlier years of the offshore assets' life. Allowed revenues, and costs to consumers, would be lower later in the life of the assets²⁵.

EirGrid argued that this change to the profile of allowed revenues would improve liquidity and strengthen certain credit metrics as the RAB was increased and would reduce the potential for mismatches between nominal revenues and debt costs.

6.2.3. Interest Cost Uncertainty and Liquidity Risks

EirGrid's Proposal

As part of its PR6 submissions, EirGrid has proposed approaches to a liquidity block and a cost of debt true-up that were integrated such that:

- The liquidity building block provides a pre-funding amount to cover the anticipated “cost of carry” of any debt raised in advance of need, together with allowance for credit facilities. This liquidity might be required, for example, to finance a Phase 1 ATV payment. The liquidity building block would be reduced by the cash return on any pre-funding amount. The cost of debt, return on cash and cost of credit facilities would be set *ex-ante* by CRU in its PR6 Final Determination. The liquidity building block would be forecast prior to a given year t , with offshore allowed revenues increased for year t , and

²⁵ Though dependent on the assumptions of quantum and timing of expenditure and inflation, the cross-over in allowed revenues and costs to consumers would likely happen in the early 2040s. See further discussion below on this issue.

would provide pre-funding only for debt levels in excess of the forecast notional level (i.e. pre-funding would be provided only for debt levels in excess of those funded by the cost of debt included within the WACC returns).

- The cost of debt true-up would be calculated at the end of year t and would be recovered (or repaid) in year t+2²⁶. This would replicate the calculation of the liquidity building block but would:
 - Apply to costs of all debt, rather than just that in excess of the notional level;
 - Substitute actual levels of debt, interest and RAB for the forecast amounts utilised for the liquidity building block.
 - Remove any pre-funding amounts from the true-up (i.e. the true up would correct any pre-funding amounts to reflect the actual interest cost of that pre-funding amount).

EirGrid's proposal, therefore, utilised the liquidity building block to estimate *ex-ante* debt costs in excess of those allowed covered by RAB returns for year t, with the cost of debt true up replacing the *ex-ante* costs of debt (whether via RAB returns or the liquidity building block) with the actual cost of debt in year t+2.

This proposed combination of the liquidity building block and the cost of debt true up greatly reduce any impact of mismatches *ex-ante* and actual interest (or credit facility) costs: the liquidity building block provides forecast costs of any additional debt or facilities required, while the cost of debt true up mechanism removes the impact of actual interest payments or charges differing from the *ex-ante* estimates. The only remaining financing risk is that of the delay between the forecast debt costs and the recovery of actual costs via the cost of debt true-up.

While EirGrid's proposed liquidity and cost of debt mechanisms reflect the actual amount of debt in the company they retain a notional approach to equity returns throughout, with equity returns based on notional equity irrespective of the actual level of gearing.

One of the implications of EirGrid's proposed approach is that the allowed returns of the offshore revenue control and the RAB, will need to be updated and published on an annual basis to reflect the operation of the proposed mechanisms. This will help to strengthen the financeability of the price control, in contrast to if the adjustments to the RAB and allowed revenues only applied at

²⁶ Increased by the WACC as set by CRU in its Final Determination.

the conclusion of each 5-year revenue control. It will also increase the administration of the revenue control within period, although the updates to the allowed revenues should be mechanistic once the required financial models and processes are in place.

CRU's Assessment of EirGrid's Proposals

The CRU decided that any proposal in respect of additional funding for liquidity would be assessed based on the **need** for the funding, its **efficiency**, its impact on **financeability**, its **transparency** and the level of **consumer protections** that it provided.

EirGrid's proposal is assessed against this framework below:

Table 21: CRU Assessment of EirGrid Proposal on Liquidity Building Block

Liquidity Building Block Criterion	Assessment
Need	The necessity for EirGrid to raise finance ahead of ATV payments being made for Phase 1 projects, in particular, is clear and will incur a cost that will not be recompensed via the RAB x WACC regime as applied to other revenue controls. The cost is material given the offshore control's "asset light" position during PR6.
Efficiency	<p>The proposed approach should accurately estimate the quantum of pre-funding required and, together with the Final Determination cost of debt, this should provide a reasonably accurate level of compensation for the financing costs of drawing down funding early to meet capital expenditure.</p> <p>EirGrid's approach combines this liquidity building block with notional debt and equity returns based on the forecast average RAB.</p> <p>In practice, this results in (i) <i>ex-ante</i> notional return building blocks being based on the forecast average RAB for a given year for both debt and equity and (ii) additional compensation being provided for pre-funding debt costs in excess of the notional level. On average, the proposed approach therefore brings forward RAB returns by 6 months. The impact of this is largest in PR6, when the RAB increases rapidly under a scenario where a large number of ATV transfers take place.</p>

	This will increase allowed revenues for the offshore price control, where the RAB will be increasing rapidly, and provides additional revenue in addition to the liquidity building block.
Financeability	The proposed approach should materially improve financeability. Revenues are brought forward, increasing free cashflow, and any additional debt costs should be reasonably accurately estimated and compensated by the mechanism.
Transparency	The proposed approach is simple and mechanical and based primarily on forecast levels of the RAB and an assessment of the level of pre-funding required. The level of credit facilities required will be dependent on the variability of EirGrid's revenues and may be complicated by a potential lack of separation between EirGrid's offshore and onshore businesses. ²⁷
Consumer protections	The proposed approach has no limit on the level of gearing that can be financed. Forecast debt requirements are based on EirGrid's forecasts, and hence EirGrid's actual capital structure. For example, if capital expenditure were higher than anticipated but no additional equity were provided, more debt would be raised while consumers would pay equity returns. While the CRU is informed of the intended approach and forecast levels of debt there is no mechanism for consumers to be protected or costs of additional debt to be disallowed.

Source: CRU analysis

The CRU decided that any proposal in respect of a cost of debt true-up would be assessed based on the **accuracy** of the allowance, any **efficiency incentives** included within the mechanism, its impact on **financeability**, its **transparency** and the level of **consumer protections** that it provided.

²⁷ EirGrid maintain several revolving credit / working capital facilities to support financing of its various activities in the electricity sector, including acting as the cash collection agent for system balancing costs and Transmission Use of System (TUoS) charges. We understand from EirGrid that it expects to maintain separate credit facilities for its offshore programme and so the issue raised may in practice not be a significant one.

Table 22: CRU Assessment of EirGrid Proposal on Cost of Debt True-up

Cost of Debt Criterion	Assessment
Accuracy	The proposed approach utilises actual debt costs to provide accurate compensation for the offshore programme, via allowed revenues to compensate these costs with a time lag.
Efficiency incentives	There are no explicit incentives for EirGrid to raise debt efficiently. Actual debt costs are recompensed with no incentive for efficient debt raising. The CRU is informed of the levels of debt raised, but there is no ability for CRU to assess the quantum of debt raised or the process followed and/or to disallow any inefficient costs.
Financeability	Financeability should be materially improved since debt costs are accurately reflected irrespective of the level experienced, albeit with a time lag. Risk is limited to years t and t+1 where interest costs based on the Final Determination cost of debt, based on the forecast level of debt, is compensated.
Transparency	The proposed approach is simple and mechanical, based on actual debt costs in the year in question.
Consumer protections	There are no limits on the mechanism to protect consumers. All debt risks are borne by consumers and there are no protections as to the amount of debt that can be compensated in this way or the cost of this debt. While the CRU is informed of the intended approach and forecast levels of debt there is no mechanism for consumers to be protected or costs to be disallowed.

Source: CRU analysis

Overall, EirGrid’s proposed liquidity building block and debt true up mechanism together accurately recompense EirGrid for the actual costs of debt, with the liquidity building block providing pre-funding based on *ex-ante* debt costs and the true-up mechanism correcting any discrepancy between the actual and *ex-ante* cost of debt.

The proposed approaches are transparent, albeit that there may be some complications as a result of the lack of clear separation between the offshore price control and the remainder of

EirGrid. This should support a mechanistic and rapid approach that would credibly support financeability. Risks associated with the timing and cost of debt are therefore minimised and in the CRU's view this will materially improve the financeability of the OAO price control.

However, the mechanism suffers from poor incentives and lacks protections for consumers:

- **Equity returns are protected at the notional level irrespective of the actual level of equity in the company.** This would result in increased equity returns if, for example, capital expenditure costs (and hence the RAB) were to increase beyond those currently anticipated, even if all additional costs were addressed via raising more debt. These additional equity returns would be funded by consumers.
- **There are no limits on the level of gearing.** The CRU recognises that pre-funding of capital expenditure is necessary and that, especially for Phase 1 ATV payments, this may result in gearing exceeding target levels for a short period. However, the operation of the mechanisms as proposed contains no constraints on the level of gearing that would be recompensed via the liquidity or true-up mechanisms.

6.2.4. EirGrid's Proposed Cost of Capital

EirGrid is proposing a real adjusted WACC of 4.69% for its Phase 1 assets and 5.49% for the Phase 2 assets. In EirGrid's submitted financial model for PR6, it applies these proposed rates of return to separate Phase 1 and Phase 2 RABs, as opposed to a single allowed rate of return to a single RAB. The proposed rates of return represent the mid-point of the ranges that EirGrid has estimated for the offshore WACC, but in each they include a 0.5% uplift adjustment to the cost of equity which EirGrid state is to improve the investibility of its offshore business. EirGrid argue this adjustment to the cost of equity is needed to:

- Provide strong incentive signals given the significant increase in capital expenditure; and
- Returns that are competitive for investors, given the competition for funds across European utilities.

EirGrid assess the overall relative risk of its offshore business to be:

- For Phase 1 – comparable to EirGrid onshore / ESB Networks under PR5 at the lower end and National Grid in the UK under RIIO-T3²⁸

²⁸ The forthcoming electricity transmission price control in GB.

- For Phase 2 – higher compared to Phase 1 and ESB Networks and comparable to RIIO-T3 at the lower end and airports at the higher end.

EirGrid states in its submission on offshore financeability that it has been assumed in the lower end of the range of its WACC range that financing costs can be passed through and that further risk mitigation mechanisms are put in place for capex and opex.

Consistent with the discussion above on capital structure, EirGrid assume gearing level of 70% for the purposes of the WACC estimation. EirGrid has assumed the same cost of debt as it is proposed for its onshore activities, removing any small company premium, although as discussed above, it has also proposed a cost of debt true-up mechanism that would in practice mean that its allowed returns are based on its actual interest expense during the period of the price control. Other economy wide parameters of the WACC – such as the risk free rate and the equity risk premium – are consistent with EirGrid’s proposal for its onshore TSO price control.

The table below summarises EirGrid’s proposed offshore WACC range for PR6.

Table 23: EirGrid Estimated WACC Ranges

Component	Phase 1 Low	Phase 1 High	Phase 2 Low	Phase 2 High	Phase 1 and 2 Blended Low	Phase 1 and 2 Blended High
Cost of Debt (real)	2.38%	2.38%	2.38%	2.38%	2.38%	2.38%
Risk-Free Rate (real)	0.76%	1.19%	0.76%	1.19%	0.76%	1.19%
Total Market Return (real)	6.68%	6.72%	6.68%	6.72%	6.68%	6.72%
Equity Risk Premium	5.53%	5.93%	5.53%	5.93%	5.53%	5.93%
Asset beta	0.37	0.40	0.45	0.55	0.41	0.48
Equity beta	1.04	1.16	1.33	1.66	1.18	1.41
Cost of Equity (real, post-tax)	6.51%	8.07%	8.11%	11.03%	7.29%	9.55%
Tax	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Cost of Equity (real, pre-tax)	7.66%	9.49%	9.55%	12.98%	8.57%	11.24%
Aiming Up Adjustment	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Cost of Equity (real, pre-tax with aiming up)	8.16%	9.99%	10.05%	13.48%	9.07%	11.74%
Notional Gearing	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%
WACC (real, pre-tax)	4.11%	4.66%	4.68%	5.71%	4.39%	5.19%
Inflation Adjustment	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%
Adjusted WACC (real, pre-tax)	4.41%	4.96%	4.98%	6.01%	4.69%	5.49%

Source: EirGrid PR6 submission

6.3 CRU's Minded to Position

6.3.1. Depreciation and Asset Lives

The CRU has carefully considered the positions on depreciation policy it set out in its CRU202499 decision. Having completed its financial modelling of the first offshore price control for the period 2026-2030 and looking forward to PR7, the CRU proposes to:

- Depreciate Phase 1 (Category 3) capex from the year in which an ATV payment was made by EirGrid to the Phase 1 developer.
- Depreciate Phase 2 (Category 2) capex from when a Phase 2 project reaches FID. The CRU proposes the devex EirGrid incurs during the development period of Phase 2 projects will be treated as a capital expense and so reflected in the offshore RAB. The devex will start to be depreciated when the Phase 2 project reaches FID and the construction costs depreciated from when they are expensed.
- Depreciate Category 4 capex from when costs are expensed.
- Adopt a period of depreciation of 30-years for Phase 1 (Category 3) and Phase 2 (Category 2) capex, with Category 4 (OARP / pre-operations) capex depreciated using an individual asset life assumption by subcategory (see below).

Under current timelines for the Tonn Nua project, this proposal will mean that EirGrid will be permitted to earn a return on its development spend during PR6, but the return of this investment, via the depreciation building block in the revenue control, will begin from the start of PR7 as the project is expected to reach FID in the final year of PR6. The construction costs of the Tonn Nua project will start to be depreciated from the point of expense which, based on the project's current timelines, is expected to begin from the start of PR7.

The CRU proposes the same treatment will apply for future Phase 2 projects. This will mean:

- Phase 2 devex will be depreciated when a project reaches FID; and
- Phase 2 construction costs will be depreciated from when they are expensed.

The reasons for the CRU's minded to position on depreciation policy for Phase 1 offshore grid assets (Category 3) remain the same as were set out in the CRU202499 decision paper. The policy aligns with the process and timings of when ATV payments will be made by EirGrid to Phase 1 developers and, therefore, when financing costs²⁹ will start to be incurred by EirGrid. It

²⁹ Prior to any consideration of prefunding of the ATV payments.

will align the recovery of Phase 1 capital assets with the timing of the income that EirGrid will receive from Phase 1 offshore generators via offshore grid charge (OG-TUoS) charge payments.

The CRU proposes to apply a more accelerated depreciation profile for Phase 2 on the basis that:

- The timing of when depreciation of EirGrid constructed assets will start is more aligned with the depreciation policy principle for preconstruction and construction costs for the onshore electricity transmission network.³⁰
- Depreciation of Phase 2 construction costs from the point of expense will help to support EirGrid's cash position at a crucial period during PR7 when the Tonn Nua project is expected to begin construction, and several Phase 1 asset transfers are expected to take place.

This minded to proposal will result in EirGrid receiving revenues for the construction of the Tonn Nua project in advance of operation. It will mean EirGrid will start to receive a depreciation building block under its revenue control for Phase 2 projects prior to the start of OG-TUoS payments paid by the offshore generator.³¹ EirGrid's Phase 2 related allowed revenues during the development and construction period of the project will, therefore, need to be funded by the offshore demand charge (D-TUoS).

As discussed in CRU202499, the proposed 30-year depreciation period for Category 2 and Category 3 capex is consistent with the depreciation period adopted by other European regulators for offshore grid assets and the CRU understands is aligned with the project operational planning period for the current generation of offshore wind farms. The CRU's proposal to apply individual asset lives to the subcomponents of EirGrid's Category 4 capex is aligned with the depreciation policy it adopts in other network utility price controls which is to align the depreciation period with the expected technical life of the asset.

For clarity, Table 24 below summarises the depreciation (asset life) the CRU proposes to apply to each of the categories of offshore capex that EirGrid has reported in its business plan submission for PR6.

³⁰ Where depreciation of the asset begins from point of expense by the onshore TAO as projects transfer from EirGrid's onshore TSO side RAB into the TAO RAB.

³¹ The decision to apply an offshore grid charge for Phase 2 was recently confirmed in CRU2024125, CRU (2024): ['Phase 2 Offshore Wind - Grid Connection Charging Policy.pdf'](#)

Table 24: Proposed Asset Lives/Depreciation Period

Category of Capex	Proposed Depreciation Period / Asset Life
Category 2 – South Coast Construction	30-years
Category 3 – Phase 1 ATVs	30-years
Category 4 – Buildings & Facilities	20-years
Category 4 – Spares / Repair Readiness	10-years
Category 4 - IT	5-years

The CRU considers this minded to position on depreciation policy balances the interests of consumers and the need to support EirGrid’s financing of the offshore programme. The proposed policy is considered reasonable based on current information of the potential economic and technical asset lives of offshore wind farms and offshore transmission assets.

Consistent with any regulatory framework, the CRU will review its regulatory depreciation policy at future price reviews and will evolve its approach overtime as the offshore sector develops, and new information becomes available that is relevant to the assumptions used to set regulatory depreciation allowances for EirGrid’s offshore price control.

6.3.2. Target and Notional Capital Structures

As set out in CRU202499, the standard approach in economic regulation in Ireland, and most other jurisdictions, is to estimate the allowed WACC, and the calibration of the price control framework in general, 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.

As set out above (see Section 6.2), EirGrid has requested that its offshore WACC and regulatory framework be aligned with a level of gearing (70%) that it states is consistent with (i) ratings agency guidance, (ii) precedent of some regulated utilities maintaining actual gearing at this level and (iii) the gearing that may in practice be achievable by EirGrid depending on the level of equity contributions made available by its Shareholder to finance the offshore grid programme. EirGrids proposals for the liquidity building block and cost of debt true-up mechanisms are designed to align with this target gearing which is higher than the level the CRU has assumed as its standard practice in prior electricity network price control decisions (55%).

The CRU has considered EirGrid’s proposals for the gearing level that should be used in the calibration of its offshore price controls in the context of its duties: (i) to protect consumers

interests; and (ii) to secure that CRU's price controls will allow EirGrid to be capable of financing the obligations placed on it as a license holder. The CRU's minded to position is that the balance of these objectives continues to point towards the CRU adopting a level of notional gearing for its offshore price controls which reflects an optimal range for the offshore programme given the financing pressures and risks of the programme under the proposed regulatory framework.

In this light, the CRU considers gearing in the range 50-60% would be a more optimal level for managing the delivery Phase 1 and 2 of Ireland's offshore programme.

While higher levels of gearing may be consistent with rating agency guidance of an investment grade rating level for energy networks (and the actual gearing levels adopted by some European energy network utilities cited by EirGrid and infrastructure companies in a quasi-project finance / concession based regulatory context³²), the CRU considers an optimal range of notional gearing for EirGrid's offshore activities likely lies below the level which EirGrid has proposed.

The CRU considers its position consistent with:

- Evidence of the level of other European energy network and infrastructure gearing levels in a corporate finance context;
- The development, construction and investment risks (whilst significantly constrained by the regulatory framework) which EirGrid will need to manage during the development period of the offshore grid in Ireland; and
- The need to maintain adequate, but not excessive, debt headroom within the notional company's finances and price control.

The CRU also notes that CEPA – the CRU's external economic advisor for PR6 – has recommended that a range of 50-70% reflects an appropriate range for a level of notional gearing for estimating the Allowed WACC for the OAO in PR6.³³

The CRU is, however, mindful of the scale of RAB growth and the financing challenges which EirGrid face in relation to its offshore programme in forthcoming price control periods. The CRU's primary duty is to protect the interests of consumers and to ensure that its offshore price controls mean that EirGrid is capable of financing its offshore activities.

³² For example, OFTOs in Great Britain and the gearing levels adopted or under consideration for some project-based RAB delivery models.

³³ CEPA (2025): 'Offshore Cost of Capital', see further discussion below.

The CRU interprets this to mean that a strong and predictable regulatory framework is required during the growth period of EirGrid's offshore business to ensure it is capable of achieving an investment grade credit rating and a cost of borrowing from capital markets (and other sources of debt funding) that is efficient and limited to the extent possible.

The CRU believes its minded to position balances the CRU's relevant duties by:

- Adopting a stable and predictable RAB based framework for cost recovery over time that is well understood by rating agencies and international investors;
- Providing a strong and secure gateway framework for recovery of offshore operating and capital costs in PR6 and subsequent price control periods;
- Providing a constrained package of financial incentives and measures to mitigate any impact of this incentive framework on debt financeability (see Section 5.4); and
- Allowing for pre-funding and a debt true-up mechanism, which substantially remove EirGrid's debt cost recovery and credit risk.

Nevertheless, the CRU – as it set out in CRU202499 – is mindful of how EirGrid's offshore programme has substantial and fundamental differences to a standard regulated network utility with an existing RAB and a portfolio of investments to maintain and enhance the existing network asset base. The level of risk that the CRU assesses EirGrid to be exposed to under its offshore programme, in light of the proposed regulatory framework, is constrained and for this reason this might mean a higher level of notional gearing can be supported than would be possible in some other contexts. As CEPA discuss in their report, the offshore programme will require a large volume of capital to be deployed at pace from an asset light starting point and, therefore, the level of gearing might in an offshore context be expected to be higher.³⁴

The CRU also notes there is some experience and trends of comparators – typically more project-based network financings – adopting higher levels of gearing than has been the standard precedent of the level of notional gearing assumed in CRU utility price controls.

For the purposes of this consultation, **the CRU's minded to position**, is therefore to:

- Set a level of gearing considered appropriate for a **benchmark efficient notional entity** – as outlined above, the CRU considers this lies in the range of 50-60%; and

³⁴ See CEPA (2025): 'Offshore Cost of Capital', Section 4.

- To assume **a level of notional gearing of 60%** for the purposes of estimating the WACC and its calibration of the offshore price control.

This level of notional gearing is higher than other CRU network price controls – although not inconsistent with notional gearing levels some other regulators (e.g., Ofgem) have assumed previously in their energy network price controls³⁵ – and reflects the CRU:

- Giving some weight to the trends of higher levels of gearing adopted by large separable infrastructure programmes financed independently of an established RAB business;
- Considering rating agency guidance that a comfortable investment grade credit rating is achievable at higher levels of gearing than 55%;
- Bearing in mind the volume of capital that will need to be deployed at pace into the offshore grid programme in the next decade; and
- Having regard to the anticipated (target) capital structure of EirGrid’s offshore activities.

The CRU will review its assumption of notional gearing at future price controls and has developed other elements of the regulatory framework for offshore in PR6 to be consistent, on an *ex-ante* basis, with this notional level of gearing including estimation of the cost of capital.

As detailed below, and consistent with the principles that were set out in CRU202499, the CRU has given consideration to EirGrid’s specific financing structure and constraints by its minded to approach to managing interest cost uncertainty and liquidity risks and the approach to setting allowed returns and costs for offshore which it considers will substantially reduce the financing risk of the offshore programme. **The CRU welcomes stakeholder feedback on its proposals and how it has balanced the range of factors outlined above.**

6.3.3. Nominal Allowed Returns

As discussed in Section 6.2, in addition to its proposals on notional gearing and the treatment of its debt costs, EirGrid has also proposed that its offshore price control should be set on a nominal allowed returns basis. Most Irish regulatory frameworks operate on a ‘real WACC and inflation indexed RAB and revenues’ basis, and this was the approach that the CRU had indicated it would adopt for offshore in CRU202499. While EirGrid acknowledge that a real

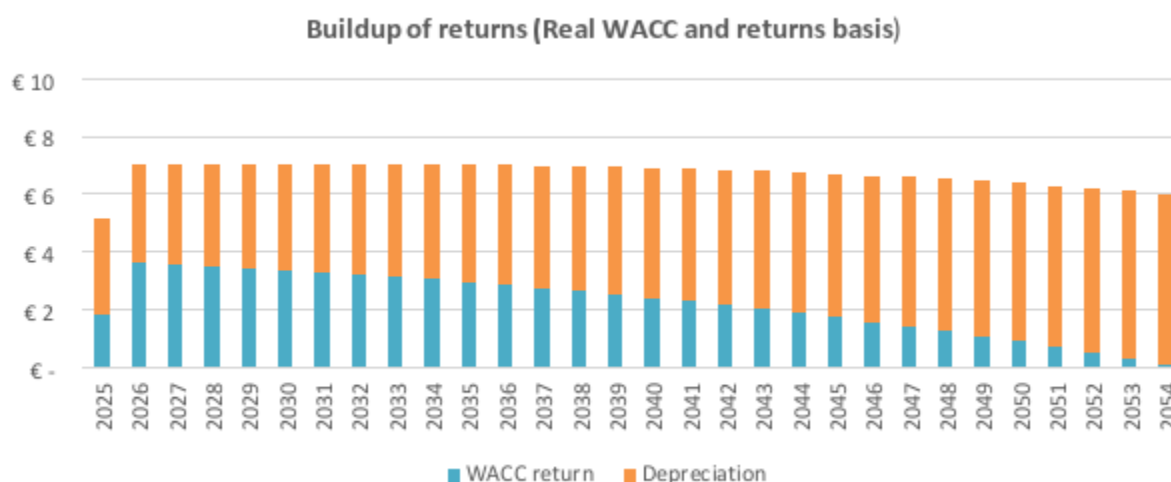
³⁵ E.g., National Grid’s electricity transmission price control RII0-T1 assumed notional gearing of 60%, as have several other price control determinations in the UK and other European countries.

returns basis is the standard approach in Ireland, it states that the creation of a new price control is an opportunity to reassess the costs and benefits of this approach in this case.

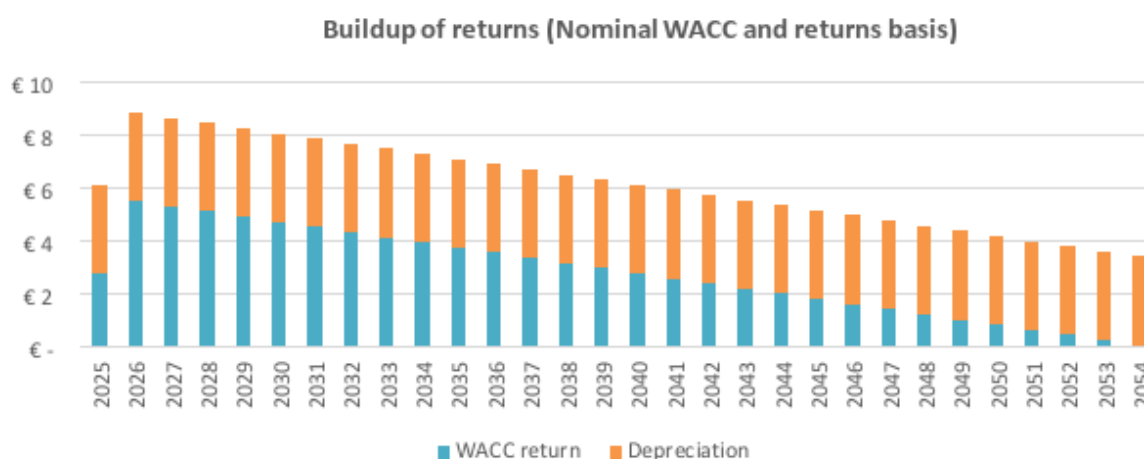
Under EirGrid’s proposal, the CRU would use a nominal allowed rate of return to set its offshore price control, and in contrast with the regulatory framework the CRU maintains for onshore energy network utilities, would then apply no indexation to the RAB over time.

Both of these approaches are³⁶ from a narrow economic viewpoint, ‘value neutral’ for the Irish consumer; that is, when the cashflows over the asset life are discounted at the applicable discount rate, will both result in a net present value (NPV) of investment equal to zero. However, as is illustrated using a simple (illustrative) example in the Figure 6 below, they result in very different profiles of allowed returns and depreciation over time. As Figure 6 illustrates, customers will pay more in the earlier years of the asset life under a nominal returns framework compared to if the price control was set on a real returns basis.

Figure 6: Comparison of Real vs. Nominal Returns Approach to Price Control Setting



³⁶ At least on an *ex-ante* basis.



As EirGrid has stated in its submissions, given it expects to finance the growth in the offshore asset based entirely with nominal debt, a nominal debt allowance would reduce potential mismatches between allowed returns and costs (and correspondingly equity “windfalls” or shortfalls) during periods of high or low inflation. It would also be a simpler basis for calculating allowed returns in the offshore price control where, in particular, a cost of debt true-up mechanism is in force.

To reflect that EirGrid expects to finance its offshore investment with nominal debt, a variant of this approach would be to set the price control on a hybrid basis, where debt returns are set on a nominal basis (with no indexation of the ‘debt RAB’) and equity returns are set on a real basis (with an indexed ‘equity RAB’). This is aligned with the approach Ofgem has proposed it will take for the RIIO-3 network price controls which are expected to be set in 2025.

A nominal allowed return, or hybrid approach, would increase allowed returns, and costs to consumers, in the earlier years of the offshore assets’ life. Allowed revenues, and costs to consumers, would then be lower later in the life of the assets³⁷. This change to the profile of allowed revenues would improve liquidity and strengthen certain credit metrics as the RAB was increased and would reduce the potential for mismatches between EirGrid’s nominal returns and debt costs. But it will also increase the pressures on energy bills in the late 2020s and early 2030s and may increase pressures on certain credit metrics in the future.

The CRU also notes that the OG-TUoS grid charge, which uses a nominal return for setting the grid charge, has a profile of cost recovery that is in principle closer to the profile allowed revenues over the life of the assets provided from the buildup of returns if the price control uses a

³⁷ Though dependent on the assumptions of quantum and timing of expenditure and inflation, the cross-over in allowed revenues and costs to consumers would likely happen in the early 2040s.

real return and indexed RAB.³⁸ As a result, setting returns on a real basis may provide less of a mismatch between the profile of EirGrid's allowed revenues and the profile of the grid connection charges that will be recovered from offshore generators.

The CRU has carefully considered the options, and it's minded to proposal is to set **offshore allowed revenues on a real returns basis for equity and a nominal returns basis for debt – i.e., on a hybrid basis**. This will mean that:

- The notional equity proportion of the RAB will be indexed to general inflation and will receive a real allowed (cash) return on notional equity.
- The notional debt proportion of the offshore RAB will not be indexed and allowed debt returns will be on a nominal basis.
- The allowed debt return will be subject to adjustment under the adopted Liquidity Building Block and Cost of Debt True-up Mechanism.

The CRU's reasons for proposing to set allowed debt returns on a nominal basis are:

- It will help reduce the risk of mismatches between EirGrid's debt costs and allowed revenues, supporting financeability.
- It will help to reduce risk of windfall gains / shortfalls from inflation higher or lower than expected where EirGrid's debt obligations remain fixed in nominal terms.
- It will improve the transparency and the simplicity of the calculations of the Liquidity Building Block and Cost of Debt True-Up mechanism (see Section 6.3.5).

Setting equity returns on a real basis will ensure that Shareholder returns are protected from outturn inflation movements and will help to provide a profile of allowed returns that balances the impact of the offshore grid programme on current and future bill payers.

As noted above, this proposed approach is similar to how Ofgem has indicated it proposes to set allowed debt, and equity returns in the ongoing RIIO-3 price reviews. There is also precedent of setting allowed returns on a nominal basis in the context of the Celtic interconnector, an infrastructure project also under development by EirGrid.

³⁸ Assuming that outturn inflation is broadly consistent with an expected rate of inflation, the profile of allowed revenues, as illustrated in the figure above will approximate a flat annuity payment, as will be the case for the OG-TUoS charge.

6.3.4. Allowed Cost of Capital

The WACC is a weighted average of the cost of debt and the cost of equity. It is the CRU's role to set a WACC that gives a fair deal to customers and regulated companies. If the CRU sets a rate of return that is too high, customers end up paying too much. If the CRU sets it too low, utilities cannot raise the finance to deliver the necessary level of network investment.

In contrast to EirGrid's proposal, the CRU proposes to set a single allowed offshore cost of capital for PR6. Setting a single offshore rate will provide for a clearer and more predictable regulatory allowance for financing costs and is consistent with financeability needing to consider all cashflows, not just a subset. Given the minded to proposal to set allowed returns on a hybrid basis, for the offshore price control will also be set using an:

- Allowed Notional Gearing level.
- Allowed Debt Rate of Return.
- Allowed Equity Rate of Return.

The CRU commissioned CEPA to prepare a report on the potential cost of capital for EirGrid's offshore activities which is published alongside this consultation paper.³⁹ Informed by the research and analysis in CEPA's report, the CRU proposes the following minded to positions on the components of the allowed cost of capital:

- An Allowed Notional Gearing of 60%.
- A nominal Allowed Debt Rate of Return of 4.2%.⁴⁰
- A real Allowed Equity Rate of Return⁴¹ of 7.51%.

The subsections below briefly summarise the CRU's reasoning for each of these minded to positions.

³⁹ CEPA (2025): 'Offshore Cost of Capital', published alongside this paper.

⁴⁰ Based on an assumed [x%] rate of inflation.

⁴¹ Real, pre-tax.

Allowed Notional Gearing

For the reasons set out above, the CRU proposes a notional gearing level of 60% for the OAO in PR6. Although below EirGrid's proposal of 70%, there are several reasons (see above) the CRU considers 60% an appropriate level of gearing for the OAO.

Allowed Debt Rate of Return

The proposed range for the OAO Allowed Debt Rate of Return is summarised in the table below. This is consistent with CEPA's recommended range, based on benchmark data on nominal market rates (yields) of European non-financial corporate debt (A/BBB). As the OAO will only raise new debt under its price control, the benchmark cost of debt is based on spot and 12m averages rates at the data cut date⁴², plus an allowance for fees and transaction costs.

Table 25: Range for the Allowed Debt Rate of Return

	Low	High
Benchmark Cost of Debt	3.67%	3.71%
New Issuer Premium	0%	0.50%
Fees and Transaction Costs	0.10%	0.20%
Cost of Debt	3.77%	4.41%

Within its estimate of the OAO cost of debt CEPA has included the potential for EirGrid to face a new issuer premium in its borrowing rate at the start of its offshore capital raising programme, if financed from the public bond market. CEPA expects this new issuer premium should reduce over time. In the event that the premium assumed was reduced when EirGrid launch its debt raising programme then, under the CRU's proposals for the Cost of Debt True-Up mechanism (see Section 6.3.5), the actual cost of debt would be reflected and so any new issuer premium would be removed. The new-issuer premium is therefore included in combination with the Cost of Debt True-Up mechanism, lessening the risk of there being any cost of debt windfall paid by consumers. The new issuer premium is only included given the unique financing context and challenges of the establishment of the offshore programme.

The **CRU's minded to proposal for the offshore Allowed Debt Rate of Return in PR6 is 4.20% (nominal)**. Consistent with its proposed approach elsewhere in PR6, this would reflect the 67th percentile of the above range and reflects uncertainty of the borrowing costs of the OAO.

⁴² 7th March 2025.

Allowed Equity Rate of Return

For the cost of equity, the risk-free rate and Total Market Return are economy-wide parameters that should not change between different networks for PR6. The proposals are therefore consistent with recommendations for both ESB Networks and EirGrid TSO at PR6.

CEPA highlight in their report the challenges in estimating an asset risk premium for the offshore business in PR6 and PR7 given the range of investment and operating activities EirGrid will be undertaking to establish the offshore grid in Ireland during this period. CEPA conclude that a range of market evidence, regulatory precedent and cross checks suggest the appropriate unlevered beta for the OAO business could lie in a reasonably wide range.

CEPA conclude that there are several reasons why an investor in the OAO business might expect a premium relative to the onshore network, e.g., to reflect the higher execution, operating leverage, “point in time” investment risks and the “newness” of the offshore regulatory framework during the establishment and initial financing of the offshore grid in PR6 and PR7. They also highlight that these are not typical Capital Asset Pricing Model (CAPM) beta – i.e., non-diversifiable – risks, and once the offshore business is established, there would be a strong case that the offshore cost of equity should be aligned with, if not lower than, the onshore network.

To reflect the above considerations, CEPA propose a baseline range for the cost of equity that aligns with their recommended CAPM parameters for the onshore network cost of equity, adjusting for the higher level of notional gearing offshore (60%) relative to onshore (55%). CEPA then recommend an uplift of 0.55% is added to this baseline offshore cost of equity range in PR6 to reflect the factors why they consider an investor might expect a premium within their required return compared to the onshore network. This is broadly equivalent to adding a 0.03 uplift to the unlevered beta compared to the recommended value onshore.

On this basis, the recommended range for the offshore Allowed Equity Rate of Return in PR6 is summarised in the table below.

Table 26: Range for the Allowed Equity Rate of Return (Real, Pre-Tax)

	Low	High
Gearing	60%	60%
Risk Free Rate (real)	0.50%	0.60%
Total Market Return (real)	6.40%	6.80%
Equity Risk Premium	5.90%	6.20%
Unlevered beta	0.31	0.35
Equity beta	0.78	0.88
Cost of Equity (post tax, real)	5.07%	6.03%

Tax	12.50%	15.00%
Cost of Equity (pre tax, real)	5.80%	7.09%
Inflation Adjustment	0.10%	0.40%
Offshore Uplift	0.55%	
Allowed Equity Rate of Return	6.45%	8.04%

The CRU's minded to position for the offshore Allowed Equity Rate of Return in PR6 is **7.51% (real, pre tax)**. Consistent with the approach to the cost of debt, this would reflect the 67th percentile of the range in the table above.

The CRU agrees with CEPA's conclusions that there is justification for applying an uplift in the offshore Allowed Equity Rate of Return to reflect the risks associated with the execution and establishment of the Phase 1 offshore grid and EirGrid's development and construction of Phase 2 offshore grid programmes in PR6 and PR7. However, the CRU proposes this should be a transitional, time-limited, uplift only which would only be expected to apply in PR6 and PR7 whilst Phase 1 and Tonn Nua offshore grid assets are established. **From PR8, when the OAO in terms of RAB, investment characteristics and risks etc. is expected to be closer to the onshore TAO (and arguably lower risk) the CRU would expect to remove this time-limited uplift.**

The CRU notes that its proposed approach of applying a targeted, time-limited, uplift to its allowed offshore cost of capital is consistent with how several other European regulators have sought to reflect the specific characteristics associated with the establishment and operation of the offshore network in their allowed cost of capital decisions.

See CEPA's report for further discussion on these issues.

Summary

To aid comparison with EirGrid's proposals, the weighted average cost of capital when stated on a real, pre-tax basis, consistent with the above proposed debt and equity rate of returns, is provided in Appendix 5. The allowed real pre-tax WACC stated on this basis would be 4.58% for the PR6 period based on the 67th percentile of the range in Table 26. The CRU seeks respondents' views on this proposal.

The CRU notes these minded to positions imply a real WACC in the upper half of the range and reflects a balance of the need to support investment into the offshore grid and the impact of CRU's allowed returns on energy consumer bills. The CRU will review and update its estimate of the allowed cost of capital prior to its final PR6 decision to reflect changes in the market evidence and feedback following this consultation.

6.3.5. Interest Cost Uncertainty and Liquidity Risks

The CRU has carefully considered the positions on interest cost uncertainty and liquidity risks that it set out in its previous offshore revenue model decision and has assessed EirGrid's proposals in this area against the criteria set out in that decision. The CRU has concluded that EirGrid's proposals would provide insufficient protections for consumers, who would bear interest cost uncertainty, and would not provide appropriate incentives for EirGrid to control capital expenditure or be financed by a sufficient level of equity in the medium term.

As was set out in CRU202499, the CRU is mindful of the scale of RAB growth and the financing challenges which EirGrid face in relation to its offshore programme. The CRU's primary duty is to protect the interests of consumers and to ensure that the price controls it sets mean that EirGrid is capable of financing its offshore activities.

EirGrid's has proposed four main areas associated with addressing interest cost uncertainty and liquidity risks:

- Increasing CRU's involvement in publication of the RAB
- Calculating RAB returns based on a forward-looking average RAB
- Including pre-funding costs via a liquidity building block; and
- Adopting an *ex-ante* true up of interest costs.

The CRU's proposals for each of these areas is set out in the subsections below.

CRU Publication of RAB

The CRU recognises that it has an important role in providing assurance to EirGrid, and the credit rating agencies, that it is raising debt that will be appropriately recompensed and how key financial components of the price control are changing overtime.

CRU is therefore minded to implement publication of key financial information on an annual basis, in particular the RAB, as part of the process of agreeing liquidity building blocks and undertaking *ex-ante* true ups as described below. This will be an annual publication process timed to fit in with EirGrid reporting (and the annual tariff-setting and allowed revenue process).

Forward-Looking RAB

The CRU agrees that EirGrid's RAB will be increasing rapidly and that this would lead to a mismatch between RAB increases and their compensation. CRU is minded to agree with EirGrid's proposed approach of applying a forward-looking average RAB to reflect the expected

investment for the forthcoming year t . This approach will help support EirGrid's cashflows during the growth phase of the offshore business. Under this approach, EirGrid's offshore RAB and allowed returns (return on and of capital) will be updated during PR6 to reflect EirGrid's forecast offshore RAB additions for the forthcoming price control year t . The CRU proposes that the timing of these updates will form part of the annual allowed revenue and tariff approval process that takes place currently in Q2/Q3 of each price control year.

Liquidity Building Block

EirGrid's proposed liquidity building block provides recompense for the "cost of carry" where debt is raised in advance of need, with the interest costs in this period being recompensed at the *ex-ante* cost of debt. EirGrid has demonstrated that these costs are material, but its proposed solution results in consumers paying notional equity returns while also funding prepayment of actual amounts of debt.

As per CRU202499, the CRU is minded to include a liquidity building block, but to provide for the pre-funding that would be necessary for the notional company. This is consistent with the position in the previous section to focus primarily on the financeability of the notional company, which would receive prefunding for all debt raised. An illustration of how the liquidity building block would be constructed and how this is combined with the notional equity and debt returns, is provided below⁴³. As part of the LBB, EirGrid will be able to recover the commitment fees on undrawn credit facilities dedicated to the offshore programme, provided the sizing and terms of these facilities are approved by the CRU.

RAB forecasts for year t , and subsequent years, would be provided by EirGrid based on the best information (for example ATV transfer dates and amounts) available at the time of the forecast to allow the sizing of the liquidity building block to best reflect current forecasts and to enable CRU to provide timely calculation of average RAB and notional prefunding amounts.

In addition to the liquidity building block, allowed revenues would include equity and debt returns based on the CRU's final allowed rates of return (see discussion above), the forecast average RAB for year t and notional levels of equity and debt.

⁴³ Gearing, cost of debt and cash returns implied by values in table are for illustrative purposes only.

Table 27: Example Calculation of Liquidity Building Block

Parameter	Value	
Cost of debt	4.0%	[A]
Cost of equity	9.5%	[B]
Return on cash	2.0%	[C]
Forecast Average RAB (year t)	€ 1,000	[D]
Forecast notional equity (year t)	€ 400	[E]
Forecast notional debt (year t)	€ 600	[F]
Forecast notional debt at time for prefunding	€ 1,100	[G]
Forecast prefunding required	€ 500	[H]
Average forecast undrawn credit facilities	€ -	[I]
Cost of debt on prefunding	€ 20	[J] = [A] x [H]
less FD return on cash from pre-funding	(€ 10)	[K] = [C] x [H]
Allowance for credit facilities	€ -	[L]
Total liquidity building block	€ 10	[M] = [J] + [K] + [L]
Return on notional equity	€ 38	[N] = [E] x [B]
Return on notional debt	€ 24	[O] = [F] x [A]
Liquidity building block	€ 10	[P] = [M]
Ex-Ante return building blocks	€ 72	[Q] = [N] + [O] + [P]

True Up of Debt Costs

EirGrid's proposed true-up fully recompenses any differential between the forecast and actual interest costs. This includes both the interest costs of prefunding amounts and the interest costs of notional levels of debt. This proposed solution eliminates the risks associated with the actual cost of debt differing from the *ex-ante* amounts but also provides revenues to pay interest costs for any level of debt. This is combined with notional equity returns, meaning that consumers would pay both interest costs and equity returns on a proportion of the RAB. The CRU has developed two alternative approaches that it believes better balance the financeability of the price control and the protection of consumers. These options are described below.

Option 1: Full Funding of Actual Interest Costs, Equity Returns Consistent with Actual Equity

This option recompenses actual debt costs in all situations, ensuring that interest is explicitly covered via an *ex-post* mechanism. This mechanism draws on EirGrid's proposed approach, with a year t+2 true up. At this point, actual interest costs, RAB and capital structure in year t will be known and the true-up mechanism will align actual returns with these values. The key difference from EirGrid's proposal is that both equity and debt costs are consistent with the actual capital structure: equity returns are based on the actual amount of equity in the company while debt costs are fully funded at the level experienced. This fully reimburses actual debt costs, from year t+2, irrespective of the actual capital structure.

However, if gearing were increased, then equity returns would be reduced relative to the notional level, irrespective of whether debt costs differed from *ex-ante* levels.

The t+2 true up would compare *forecast* allowed returns, comprising notional debt and equity returns and the forecast liquidity building block (as calculated alongside the liquidity building block, see above), with their *actual* equivalents in year t. Any difference in the allowed revenues would be paid or recovered in year t+2, with a value of time uplift (calculated as a two-year WACC increment) to any revenue adjustment.

The components of the true up, and the comparison to the *ex-ante* returns, are depicted below. Four example scenarios are provided ⁴⁴:

- 1) Average RAB, gearing and % debt costs in line with *ex-ante* notional levels.
- 2) Average RAB and % debt costs in line with *ex-ante*, but actual gearing higher than notional levels.
- 3) Average RAB in line with *ex-ante* levels, gearing and debt costs 2% higher than notional levels.
- 4) Prefunding required (e.g. ATV payment higher than forecast), gearing and % debt costs in line with *ex-ante* forecasts.

Table 28: Example Scenarios for Option 1 True Up

Parameter	Scenario 1 Ex-Ante	Scenario 2 High gearing	Scenario 3 Increased debt cost	Scenario 4 Increased pre- funding	
Cost of debt	4.0%	4.0%	4.0%	4.0%	[A]
Cost of equity	9.5%	9.5%	9.5%	9.5%	[B]
Return on cash	2.0%	2.0%	2.0%	2.0%	[C]
Actual average RAB for year t	€ 1,000	€ 1,000	€ 1,000	€ 1,000	[D]
Actual average equity	€ 400	€ 300	€ 300	€ 400	[E]
Actual average debt	€ 600	€ 700	€ 700	€ 600	[F]
Notional debt capacity above actual	€ -	€ -	€ -	€ -	[G]
Actual pre-funding	€ 500	€ 500	€ 500	€ 700	[H]
Return on actual equity	€ 38	€ 29	€ 29	€ 38	[I] = [E] x [B]
Actual interest expense	€ 44	€ 48	€ 72	€ 52	[J] = ([H] + [F]) x [A]
Return on debt capacity above actual	€ -	€ -	€ -	€ -	[K]
Less return on cash from pre-funding	(€ 10)	(€ 10)	(€ 10)	(€ 14)	[L] = [H] x [C]
Ex-Post return building blocks	€ 72	€ 67	€ 91	€ 76	[M] = [I] + [J] + [K] + [L]
Ex-Ante return building blocks	€ 72	€ 72	€ 72	€ 72	[N]
T+2 true-up before WACC uplift	€ -	(€ 6)	€ 19	€ 4	[O] = [M] - [N]

⁴⁴ Gearing, cost of debt and cash returns implied by values in table are for illustrative purposes only.

The impact of Option 1 is to:

- Reduce equity returns where gearing exceeds the notional level, since actual equity is lower than the notional amount but % returns on this equity remain at notional levels: a risk that would normally borne by equity is borne by customers instead of the Shareholder.
- Protect EirGrid, and its creditors, against adverse movements in the debt rates that it experiences, such that over time actual interest costs can be recovered.
- Provide additional equity returns for any equity injected into (or profits retained by) EirGrid up to the notional level of equity.

Option 2: Notional Equity Returns, Funding of Increased Interest Costs Capped at Notional Debt Levels

Option 2 recompenses actual debt costs for debt up to the notional level. Similarly to Option 1, this option includes a year t+2 true up. At this point actual interest costs, RAB and capital structure in year t will be known. The true up mechanism replicates the calculation undertaken for the liquidity building block but applies the actual cost of debt to the amount of debt (whether prefunding or within the RAB) that would have been raised by the notional company. This option would fully protect a company with a notional capital structure from increases in debt costs, but in cases where the actual gearing exceeds the notional level this protection is not complete. In contrast to Option 1, equity returns are paid at the notional level.

Similar to Option 1 the *ex-ante* and *ex-post* return building blocks are compared in year t+2. Any difference in the allowed revenues would be paid or recovered in year t+2, with a value of time uplift (calculated as a two-year WACC increment) to any revenue adjustment.

The components of the true up, and the comparison to the *ex-ante* returns, are depicted below. Four example scenarios are provided, as for Option 1.

The impact of Option 2 is to:

- Maintain equity returns at notional levels irrespective of the actual capital structure.
- Protect EirGrid, and its creditors, against adverse movements in the debt rates that it experiences. This protection is limited to the level of debt that would be raised by the notional company.
- Allow a potential mismatch between interest costs and allowances should actual gearing differ from that of a notional company.

- Limit transfer of risk from EirGrid to consumers to the level of debt that is consistent with the notional company.

Table 29: Example Scenarios for Option 2 True Up

Parameter	Scenario 1 Ex-Ante	Scenario 2 High gearing	Scenario 3 Increased debt cost	Scenario 4 Increased pre- funding	
Cost of debt	4.0%	4.0%	6.0%	4.0%	[A]
Cost of equity	9.5%	9.5%	9.5%	9.5%	[B]
Return on cash	2.0%	2.0%	2.0%	2.0%	[C]
Actual average RAB for year t	€ 1,000	€ 1,000	€ 1,000	€ 1,000	[D]
Notional average equity	€ 400	€ 400	€ 400	€ 400	[E]
Notional average Debt	€ 600	€ 600	€ 600	€ 600	[F]
Actual average debt	€ 600	€ 700	€ 700	€ 600	[G]
Notional debt capacity above actual	€ -	€ -	€ -	€ -	[H]
Notional pre-funding	€ 500	€ 500	€ 500	€ 700	[I]
Return on notional equity	€ 38	€ 38	€ 38	€ 38	[J] = [E] x [B]
Actual cost of notional debt	€ 24	€ 24	€ 36	€ 24	[K] = [F] x [A]
Return on debt capacity above actual	€ -	€ -	€ -	€ -	[L]
Actual liquidity building block	€ 10	€ 10	€ 10	€ 14	[L] = [I] x ([A] - [C])
Ex-Post return building blocks	€ 72	€ 72	€ 84	€ 76	[M] = [J] + [K] + [L]
Ex-Ante return building blocks	€ 72	€ 72	€ 72	€ 72	[N]
T+2 true-up before WACC uplift	€ -	€ -	€ 12	€ 4	[O] = [M] - [N]
Additional debt costs not covered by true-up	€ -	€ 4	€ 6	€ -	[P]

Minded to Proposal for True-Up Mechanism of Debt Costs

The two options have different strengths and weaknesses. In the CRU's view the arguments are finely balanced between the options in the short-term but considers **Option 2 is the preferable solution** as an enduring framework because it is based in a notional capital structure.

The CRU decided that any proposal in respect of a cost of debt true-up would be assessed based on the **accuracy** of the allowance, any **efficiency incentives** included within the mechanism, its impact on **financeability**, its **transparency** and the level of **consumer protections** that it provided.

Option 1 provides a more accurate allowance for debt costs, but incentives for debt to be raised efficiently over time are weaker. It will greatly reduce debt cost recovery risks to which the company is exposed, but the reduction of revenues due to actual equity being less than notional levels will weaken credit ratios somewhat. Option 1 is transparent and can be relatively easily implemented, and via the cap on equity returns it protects customers. The cap on returns both potentially recompenses consumers via reduced allowed revenues but also provides a clear incentive for the Shareholder to increase equity levels in the company.

Option 2 provides a less accurate allowance for debt costs but incentives for debt to be raised efficiently are stronger, since amounts in excess of the notional level do not receive the same regulatory protections on interest cost uncertainty. The approach allows a mismatch between actual debt costs and those recompensed due to debt costs being capped at the level

experienced by the notional company. The approach is transparent and can be easily implemented, though the counterfactual for the notional company requires a level of judgement that is not required for Option 1. Consumers are somewhat protected since the risk that is transferred to them is capped at notional levels of debt.

On balance, **CRU is minded to implement Option 2**. The approach is consistent with the notional approach to capital structure that the CRU intended in the CRU202499 decision.

While Option 2 leaves some risk of mismatch between the allowed returns and the regulated business' actual interest expense *within the period of the price control* the CRU considers the risk is manageable until the reset of the price control allowed returns which would take place at the next price review. In undertaking financial modelling to test the two options, the CRU also found that Option 1 was less supportive to key credit ratios than Option 2 given that Option 1 would reduce headroom within key credit metrics by reducing allowed equity returns if actual gearing is below notional gearing. For these reasons, and the consistency of the approach with the regulatory principles set out in CRU202499 and the offshore price control being set with reference to a notional capital structure, Option 2 is considered the preferred approach.

The proposed cost of true-up mechanism – and the associated Liquidity Building Block – is intended to support EirGrid during the initial establishment period of the offshore grid during PR6 and PR7. The CRU expects to review the requirement and/or design of these mechanisms once EirGrid has built up an offshore RAB and the **early stage** establishment period of the offshore business is completed.

6.3.6. Exceptional Events

Context

The CRU202499 decision paper stated that:

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:

- *took all necessary measures to address and mitigate the issue via a commercial solution;*
- *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*

- *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).*⁴⁵

This subsection sets out further details on the CRU's proposals for the treatment of exceptional events on which it is seeking stakeholder feedback.

EirGrid Views

EirGrid has stressed the importance of the timeliness and certainty of cost recovery from unanticipated / exceptional events. EirGrid anticipated that the unanticipated events would be specified via a non-exhaustive list, given that a definitive list would, by its nature, exclude certain unanticipated events.

UK OFTO Precedent

The UK's OFTO regime has required the development of a compensation mechanism for unanticipated events as is required in EirGrid's case. The most recent OFTO Licence includes an Income Adjusting Event Revenue Adjustment for Income Adjusting Events (IAEs).

In the OFTO licence, an IAE can arise from Force Majeure, an amendment to the System Operator - Transmission Owner Code (STC)⁴⁶ or another cause that, in the opinion of the Gas and Electricity Markets Authority (GEMA, supported by Ofgem, the gas and electricity regulator in Great Britain) is an IAE. Force Majeure in this context is defined as:

any Event or circumstance which is beyond the reasonable control of the licensee including act of God, strike, lockout or other industrial disturbance, act of the public enemy, war declared or undeclared, threat of war, terrorist act, blockade, revolution, riot, insurrection, civil commotion, public demonstration, sabotage, act of vandalism, lightning, fire, storm, flood, earthquake, accumulation of snow or ice, lack of water arising from weather or environmental problems, explosion, governmental restraint, Act of Parliament, other legislation, bye law and Directive (not being any order, regulation or direction under sections 32, 33, 34 and 35 of the Act) and provided, for the avoidance of doubt, that weather conditions which are reasonably to be expected at the location of the Event or

⁴⁵ CRU (2024): '[Offshore Revenue Model – EirGrid](#)', p. 22.

⁴⁶ The System Operator Transmission Code (STC) defines the high-level relationship between the National Electricity Transmission System Operator (NETSO), the three Transmission Owners, and the Offshore Transmission Owners (OFTOs).

*circumstance are also excluded as not being beyond the reasonable control of the licensee.*⁴⁷

The CRU understands that an IAE must have increased or decreased costs in a given year by more than a minimum amount that is dependent on the final transfer value of the transmission grid asset that is financed by the OFTO, for example the minimum impact on annual costs must be greater than £2m for a transfer value of above £500m.

If GEMA agrees that some or all of the costs are due to an IAE, a revenue adjustment is calculated to ensure that the financial position and performance of the OFTO licensee are, insofar as is reasonably practicable, the same as if that IAE had not taken place. If the IAE relates to an Uninsurable Event, then this amount is reduced by either £5m or a specified insurance deductible. Any revenue adjustment takes account of other routes of recourse that are available to the licensee, including commercial arrangements such as warranties.

The main issue associated with IAEs is for causes that are not either Force Majeure or a change in the STC. In these cases, Ofgem has stated that it considers four factors in deciding whether an event is an IAE:

- Whether the OFTO knew of the event or circumstance before it arose or ought to have known of it
- Whether the risk of damage of that type was reasonably foreseeable (even if the particular way in which the damage has occurred may not have been)
- Whether there are nevertheless exceptional factors in the relevant case that mean that the event or circumstance, or its consequences, could not have been reasonably foreseeable, and
- The ability of the OFTO to manage the risk or impact by putting in place and pursuing risk management arrangements such as insurance, commercial recourse against third parties and/or operating practices.

In a recent discussion of its IAE decisions, Ofgem has stated that:

“similar to any other transaction involving a purchase of assets, an OFTO licensee should enter into the transaction of acquiring OFTO assets with the awareness that it is assuming any risks arising from damage or defects that it has not been able to discover

⁴⁷ [Generic OFTO License TR11 V1](#)

*through its due diligence. The offshore regime was not designed to insulate OFTO licensees from all such risks. We consider that latent defects are foreseeable types of risk, and OFTO licensees should put in place appropriate commercial arrangements to manage or absorb these risks”.*⁴⁸

The CRU understands that GEMA/Ofgem has allowed certain OFTO costs arising from a latent defect (net of amounts recovered through commercial recourse and a sum equivalent to the insurance deductible) to be passed through on the grounds that the risk had, on the balance of probabilities, become effectively or practicably uninsurable. Recent OFTO Licenses include clarification on this concept of “Uninsurability”.

The CRU notes that the approach applied to OFTOs in the UK is consistent both with the principles set out in the CRU’s decision paper CRU202499 and with aspects of EirGrid’s proposal in its submissions. Under such an approach, EirGrid’s liability, assuming that it responded appropriately to any issue that was reasonably outside of its control, would be capped at the amount of its insurance deductible or, in the case that the event was Uninsurable, at a value that the CRU considers should be borne by the EirGrid business (if anything) equivalent to an insurance deductible.

CRU Minded to Position

The CRU’s proposal for the treatment of exceptional events is as follows:

- The CRU expects EirGrid to seek where possible warranty protections from Phase 1 offshore wind farm developers, such that EirGrid has appropriate commercial remedies available for exceptional events. The CRU would expect EirGrid to seek warranties, latent defect periods and guarantees for the offshore transmission assets as are consistent with best industry practice and require firm costs for extended warranties (that can be exercised by EirGrid) during the asset procurement stage, consistent with the expectations in CRU202309.
- It requires EirGrid to seek out and pay for insurance to include indemnity for the full cost of replacement or rectification of its offshore grid assets, including for latent defects.
- EirGrid will be able to make a claim to vary its allowed revenue cap to cover efficient costs incurred in the case of an exceptional event that is:

⁴⁸ [Open Letter Income Adjusting Events](#)

- Force Majeure or another cause that, in CRU's opinion, is considered to be an exceptional event; and
- Where the costs to rectify the issue cannot be (fully) recovered from commercial solutions such as insurance and warranty and indemnity protections that EirGrid has negotiated with Phase 1 developers (and their contractors) or its own contractors.

As per CRU202499, the CRU will expect EirGrid to demonstrate that it:

- Took all necessary measures to address and mitigate the issue via a commercial solution and, therefore, to mitigate the cost it wishes to recover via an Allowed Revenue adjustment from consumers; and
- Took all reasonable actions, in line with best industry practices, to mitigate the failure event occurring and to mitigate the costs and timelines to rectify the event once it did occur.

The CRU proposes to adopt the following definition of Force Majeure which aligns with the definition used in the Cap and Floor regime for the Greenlink interconnector:

“An event or circumstance which is beyond the reasonable control of the licensee, including act of God, act of the public enemy, strike, lockout and other industrial disturbance, war declared or undeclared, threat of war, terrorist act (or threat of), blockade, revolution, riot, insurrection, civil commotion, public demonstration, sabotage, act of vandalism, governmental restraint, provided that lack of funds of the licensee or performance or non-performance by an electricity transmission licensee or equivalent entity shall not be interpreted as a cause beyond the reasonable control of the licensee and provided that weather and ground conditions which are reasonably to be expected at the location of the event or circumstance are also excluded as not being beyond the reasonable control of the licensee.”

The CRU acknowledges the importance of timely regulatory decision making in relation to exceptional events. Following a request from EirGrid for a variation to be made to its Allowed Revenue to recover costs it has incurred related to an exceptional event, the CRU proposes to reach a decision within 6 months on this matter and any agreed variation will be reflected in the next annual update to EirGrid's Allowed Revenue. However, the CRU notes that this timetable for

completing a decision may, in certain circumstances, need to be extended should the CRU conclude it is required to consult on its minded to positions.⁴⁹

The proposed process is as follows:

- EirGrid will need to notify the CRU that it expects to make an exceptional events claim. Having done so, EirGrid will need to make a comprehensive submission to the CRU setting out the circumstances of the claim.
- The CRU would expect to take a period of time to assess the claim and its merits and would then publish either a draft or Final Determination by the end of this period. In the event of making a Draft Determination on the exceptional events claim, the CRU would consult on its minded to positions.
- In the event that the CRU chooses to consult on its decision, this would provide an opportunity for EirGrid and other stakeholders to comment on the CRU's Draft Determination on the exceptional events claim. In light of the consultation submissions, the CRU would make a Final Determination on the claim.

There will be no interruption to EirGrid's Allowed Revenue should there be an exceptional / major failure event where an offshore grid asset is not available for electricity transmission or has only partial availability. However, the CRU expects the time to rectify the asset failure will be of the essence and consistent with the requirements above, EirGrid will be expected to demonstrate that it took all reasonable actions, in line with best industry practices, to mitigate the failure event occurring and to mitigate the time required to rectify the issue in order for the exceptional event to be excluded from its offshore available. The CRU will expect EirGrid to make resolving exceptional / major failure events of its offshore grid infrastructure a priority issue and to dedicate the necessary resources when required.

The CRU notes that under Ofgem's exceptional / income adjusting event mechanism for OFTOs, it seeks to approximate the structure of an insurance contract by applying a deductible to the proportion of any IAE claim that can be recovered as an allowed revenue adjustment. The exceptional events mechanism proposed above for EirGrid could also make such a provision – for example, if the first €5m of the cost of the repair was borne by EirGrid – and this would aid

⁴⁹ The CRU assumes that EirGrid will maintain adequate liquidity to manage a major failure event and the potential need to carry the cost until a commercial funding claim and/or a revenue variation adjustment is concluded. As discussed above, EirGrid will be able to seek approval for commitment fees on undrawn credit facilities dedicated to its offshore programme to be included as part of its LBB.

with strengthening the incentive on the regulated business to seek to mitigate exceptional events, consistent with an insurance contract deductible.

The CRU welcomes stakeholder feedback on whether such a deductible in proxy should form part of EirGrid’s exceptional events mechanism, even if this was set at a relatively low absolute value at the initial establishment of the offshore business or an amount equivalent to the OFTO regime in the UK (c. €5m). This would align with standard commercial practice and regulatory practices observed in other markets such as OFTOs and will help to strengthen the incentive on the EirGrid business to manage the cost of exceptional events.

Finally, exceptional / income adjusting event mechanisms in some other regulatory contexts – such as the CRU’s regulatory framework for the Greenlink interconnector – require a de minimis threshold to be exceeded in order for a variation to revenue to be claimed. The CRU is considering whether a similar de minimis threshold should be applied in this context, for example that the cost claim should exceed a defined percentage of original (inflation adjusted) construction cost value of the offshore grid asset. This would not restrict EirGrid from seeking to recover the cost through its price control *ex-post* review process but would limit relatively small de minimis costs being recovered within period. **The CRU welcomes stakeholder feedback on whether a de minimis threshold should apply to the exceptional events mechanism.**

6.3.7. Balance of Risk and Reward – Equity Tramlines in PR6 and PR7

As discussed in Section 5.4, the CRU proposes to introduce a series of Phase 2 development and Phase 1 and 2 operational performance incentives (availability) that will apply as part of the offshore revenue control during PR6 and PR7. In CRU202499 the CRU also proposed that it intended to put in place overall tramlines on the level of financial risk (maximum upside and downside revenue potential) the offshore business will be exposed to.⁵⁰

For PR6, it is not expected that any incentive rewards / penalties will be applied to offshore Allowed Revenue during the development period of the Tonn Nua project. Based on current project timelines, any revenue penalties related to the development incentive (see Section 5.4) will only apply in PR7. The RAB adjustment components of the Phase 2 performance incentive will, based on current project timelines, only apply as an adjustment to the opening RAB at the start of PR8 and will have no impact on RoRE in PR6 and PR7.

As discussed in Section 5.4, initial modelling by the CRU suggests that placing 1-2% of RoRE at risk may be an appropriate range to consider for the availability incentive, once in operation.

⁵⁰ CRU (2024): [‘Offshore Revenue Model – EirGrid’](#), p. 112-113.

However, given that the expected timings of Phase 1 asset transfers are uncertain, the availability incentive is only likely – at its earliest – to be in operation by the end of PR6. With the rewards / penalties proposed to apply on a t+2 basis under the incentive design principles, the incentive would also not impact on Allowed Revenue until PR7.

As a result, the CRU does not consider that any further definition of an equity tramline or Return Adjustment Mechanism is required for PR6.

In PR7, the revenue at risk for EirGrid will be the maximum €10m revenue penalty (€2m p.a.) under the schedule / timely delivery component of the development period incentive and the revenue at risk under the availability incentive, which as noted above the CRU's proposal is to cap at 1-2% of RoRE. The other components of the Phase 2 development and construction incentive will be applied as a RAB adjustment (based on current project timelines, in PR8) and so will have no impact on revenues in PR7. The calibration of these incentives has also been developed with the objective of placing a proportion of notional equity at risk and as demonstrated in Section 6.3.5, the proposed Cost of Debt True-up mechanism provides significant mitigation for the offshore business against debt financing risk should interests change within the period of the revenue control.

The parameters of the incentives and risk mitigation mechanisms have, therefore, in PR7 also been designed with placing a constrained tramline on the equity returns that will be at risk under the proposed financial package. As a result, at this time the CRU is minded to conclude that no further tramline / Return Adjustment Mechanism may be needed.

The CRU welcomes stakeholder feedback on this issue, the proposed WACC figure of 4.58% and the CRU's financeability assessment as part of this consultation.

7. Allowed Revenues and Financeability

7.1 Allowed Revenues

This section sets out the CRU's *ex-ante* decision on the Allowed Revenues for the OAO revenue control for 2026-2030. The sections which follow set out:

- The basis on which the CRU proposes to set *ex-ante* Allowed Revenues.
- Outline of the proposed Allowed Revenues formula.
- The scenarios used to test Allowed Revenues and financeability.
- The proposed *ex-ante* Allowed Revenues for 2026-2030.
- The CRU's preliminary financeability assessment.

7.2 Ex-Ante Allowed Revenues Basis

There is considerable uncertainty of the timing when Phase 1 projects will transfer their offshore grid assets to EirGrid and EirGrid will be required to finance the associated ATV payments. During PR6, EirGrid will also need to progress the development of the Tonn Nua project and deliver the OARP programme.

Given the timing and number of Phase 1 projects that will transfer during PR6 (if any) is currently unknown, the CRU proposes to set its *ex-ante* baseline Allowed Revenues for EirGrid's offshore revenue control based on its Category 2 and Category 4 capex allowances (see Section 7.5) and its forecast opex allowances for PR6. The *ex-ante* Allowed Revenues will, as a result, be set on the basis that EirGrid's forecast offshore RAB during PR6 includes no Phase 1 ATV payments.

When the timing of Phase 1 ATV payments is known, these will be reflected in within period updates to the offshore Allowed Revenues, based on the Allowed Revenue formula and mechanics for determining the RAB, the allowed debt, equity and prefunding returns and depreciation building block described in Section 7.3 and in Section 7.5 below.

As discussed below, the CRU's current expectation is that at least one Phase 1 project will transfer to EirGrid during PR6 period and so at least one ATV payment will need to be financed in PR6. The formula and mechanics by which the CRU proposes to update EirGrid's Allowed Revenues within period is described in the subsection which follows.

7.3 Allowed Revenue Formula

Calculation of Allowed Revenue

The CRU proposes that Allowed Revenue payable under the offshore revenue control for any Revenue Control Year t will be calculated in accordance with the following formula:

$$\underline{AR_t = B_t + I_t + LBB_t + CDT_t + EE_t + PT_t + K_t}$$

Where:

Term	Description
B _t	means the Base Revenue for the relevant Revenue Control Year t
I _t	means the Incentive Building Block for the relevant Revenue Control Year t
LBB _t	means the Liquidity Building Block for the relevant Revenue Control Year t
CDT _t	means the Cost of Debt True-Up Building Block for the relevant Revenue Control Year t
EE _t	means the Exceptional Event Building Block for the relevant Revenue Control Year t
PT _t	means the Pass-Through Building Block for the relevant Revenue Control t
K _t	means the K-factor for the relevant Revenue Control Year t

Base Revenues

The Base Revenue (B_t) for any Revenue Control Year will be calculated in accordance with the following formula:

$$\underline{B_t = RoC_t + Depn_t + Opex_t}$$

Where:

Term	Description
RoC _t	means the Return on Capital Building Block for relevant Revenue Control t
Depn _t	means the Depreciation Building Block for the relevant Revenue Control t
Opex _t	means the Opex Building Block for the relevant Revenue Control t

The **Return on Capital Building Block** will consist of two components:

- A Return on Debt RAB component.
- A Return on Equity RAB component

The **Depreciation Building Block** will consist of two components:

- A Debt RAB component.
- An Equity RAB component

The CRU proposes that the Return on Capital Building Block and Depreciation Building Block for Revenue Control Year t will be based on EirGrid's forecast of the forward-looking average RAB for Revenue Control Year t as submitted by EirGrid prior to Revenue Control t. The Allowed Revenues for the Return on Capital and Depreciation building blocks will, therefore, be updated within period to reflect forecast and actual spend as reflected in the annual update to the RAB. This will naturally allow for forecast Phase 1 ATV payments to be included in the offshore RAB as agreed and approved by the CRU.

For the purposes of this Draft Determination, the CRU's financial modelling has calculated average RAB - and hence allowed RAB returns - using a simple average of opening and closing RAB for each year⁵¹. How the allowed average RAB, and allowed RAB returns, will be calculated is to be confirmed at Final Determination.

The difference between the Return on Capital Building Block and Depreciation Building Block on the actual RAB value for Revenue Control Year t compared to the equivalent values based on EirGrid's forecast of the forward-looking average RAB for Revenue Control Year t will then be captured in the Cost of Debt True-up and K-factor adjustments that will be applied on a t+2 basis (as discussed below).

The CRU will publish the offshore RAB on an annual basis as part of its annual publication of offshore Allowed Revenue for each Revenue Control Year t.

The **Opex Building Block** will consist of the CRU's allowed opex for the revenue control. It may be updated within the revenue control period following an interim determination by the CRU – for example, if a request for a variation is made as part of the annual PR6 reopener window. In the absence of any within period reopener of allowed opex, EirGrid's incurred opex will be reviewed

⁵¹ In contrast, the CRU understands EirGrid excluded the ATV transfer from the closing RAB for the purposes of calculating the average RAB.

at each revenue control's *ex-post* review and any updates to the allowances will be reflected in the K-factor adjustment for the first year of the next revenue control period.

Incentive Building Block (I_t)

The Incentive Building Block will consist of two components:

- A Phase 2 Development Period component; and
- An Availability Incentive component.

The CRU's proposals for each of these performance incentives is set out in Section 5.4.

The Phase 2 Development Period component will be accrued during the PR7 period. The CRU expects the Availability Incentive to be established by the end of PR6 and so does not expect to make Availability Incentive adjustments to Allowed Revenues during PR6.

The Phase 2 Development and Construction Incentives also have an adjustment to RAB component dependent on cost and schedule performance. As any adjustment is expected made to the opening RAB at the start of PR8 based on current project timelines, this component of the incentive is not reflected in the Incentive Building Block as an Allowed Revenue adjustment.

Liquidity Building Block (LBB_t)

The Liquidity Building Block will update within the revenue control period based on the proposals set out in Section 6. The Liquidity Building Block for Revenue Control Year t will be based on forecast values provided by EirGrid prior to Revenue Control Year t . The Liquidity Building Block will be updated to reflect actual prefunding values on a $t+2$ basis as part of the Cost of Debt True-up Building Block.

Cost of Debt True-up Building Block (CDT_t)

The Cost of Debt True-up Building Block will apply within the revenue control period based on the proposals and mechanics set out in Section 6. The Cost of Debt True-up Building Block will be calculated on outturn information with the allowance in Revenue Control Year t relating to the Revenue Control Year $t-2$.

The Cost of Debt True-up Building Block will include a Time Value of Money Adjustment (TVM) to reflect the time period between the allowance in Revenue Control Year t and the outturn information relating to the Revenue Control Year $t-2$ on which the adjustment is based.

The CRU proposes to set this TVM rate equal to a nominal WACC value that is consistent with the allowed debt and equity rates of return and Allowed Notional Gearing. The CRU is considering two options for setting this TVM adjustment for the PR6 Final Determination.

Option 1 is to use a TVM rate equal to the 67th percentile of the WACC range on a real-tax basis uplifted for an outturn inflation rate between year t and year t+2. Option 2 is to use a fixed TVM rate equal to the Allowed Debt Return and Allowed Equity Return (uplifted by an expected rate of Irish inflation) weighted by notional gearing. Assuming an expected rate of inflation of 1.7% in PR6, this second option would currently imply a TVM rate of 6.26% for PR6.

The CRU welcomes stakeholder feedback on the appropriate TVM rate but is minded to adopt Option 2 given its relative simplicity.

Exceptional Event Building Block (EE_t)

The Exceptional Event Building Block will apply within the revenue control based on the proposed process set out in Section 6. This will allow for an adjustment to Allowed Revenue if the CRU has determined that there was an exceptional event and that related costs that EirGrid has incurred are considered by the CRU to be eligible for the Exceptional Event Building Block.

Pass Through Building Block (PT_t)

The **Pass Through Building Block** will consist of allowances that EirGrid is entitled to recover on a pass-through basis related to costs that have been incurred, or are to be incurred, in connection with its role as offshore asset owner. This may include, *inter alia*, costs such as:

- CRU license fees; and
- Local Authority Rates; and
- Offshore licensing costs and permitting.

The CRU will expect EirGrid to provide evidence to support any costs it proposes to recover on a pass-through basis and the CRU retains the right to request an audit of those costs.

K-factor (K_t)

The K-factor for Revenue Control Year t will relate to updating allowances based on outturn information for the Revenue Control Year t-2. The objective is to take into account the replacement of forecast, provisional or estimated values with actual outturn values.

The CRU proposes to use Euribor + inflation as the TVM rate for adjustments under the K-factor consistent with the approach applied for the TSO revenue control.

Treatment of Inflation Within the Revenue Control

The outline of the proposed offshore Allowed Revenue formula above does not account for adjustments for inflation. Given the proposal that allowed returns and depreciation building blocks will be based on EirGrid's forecast of the forward-looking average RAB for Revenue Control Year t as submitted by EirGrid prior to Revenue Control Year t these values will update for inflation in each annual Allowed Revenue update.

The CRU will set its *ex-ante* opex Building Block allowances in a real (2024) price base, and this will be indexed to HICP inflation for Allowed Revenue purposes, consistent with the indexation policy that applies for onshore network revenue controls.

7.4 Revenue and Financeability Scenarios

For the reasons set out above, the CRU proposes to set its baseline offshore *ex-ante* Allowed Revenue for the 2026-2030 revenue control period on the basis that Phase 1 ATV payments are not included in the forecast RAB. Phase 1 project transfers that occur during PR6 will be reflected in the Allowed Revenue through the operation of the proposed Allowed Revenue formula as described above and the updates to the RAB within period.

For the purposes of providing an indication of the Allowed Revenue should EirGrid be required to make Phase 1 ATV payments during PR6, and to project Allowed Revenue looking forward into PR7 for financeability analysis, the CRU has modelled the following revenue scenarios:

- Base Allowed Revenue (PR6 only) – based on allowed opex, Category 4 capex and Phase 2 development costs (Category 2 capex).
- Base Allowed Revenue + one Phase 1 ATV transfer in PR6 (PR6 only).
- Six Phase 1 ATV transfers + Phase 2 Tonn Nua development and construction (PR6 & PR7) based on an assumed 2034 completion date.

For the avoidance of doubt, only the baseline offshore *ex-ante* Allowed Revenue is proposed to be included in network tariffs from the start of PR6.

The CRU has also undertaken the following stress tests sensitivities as part of its financeability assessment:

- Maximum Phase 2 Development Period revenue penalty applies in PR7.
- Interest rates increase by 2% (200bps).
- Inflation reduces by 1%.
- Availability Incentive Penalties of 1% and 2% of RORE in PR7.

The financeability assessment has been completed on the basis of notional capital structure at 60% notional gearing and as a cross check, where gearing of 70% (as an approximation of target actual company gearing) assumed. Under this second case, the Allowed Revenues continue to be modelled based on the proposed notional level of gearing of 60%.

7.5 Allowed Revenue Scenarios

Base *ex-ante* Offshore Allowed Revenues in PR6

The table below sets out the CRU's proposed base *ex-ante* offshore Allowed Revenue for the revenue control period 2026-2030 and its constituent components. The revenues are stated on a nominal basis based on an assumed rate of inflation of averaging 1.92%.

Table 30: Base *Ex-ante* Offshore Allowed Revenues (€m, nominal)

Component	2026	2027	2028	2029	2030
Base Revenue (B_t)					
RoC_t	1.1	3.9	6.7	12.4	20.7
$Depn_t$	0.1	1.0	2.7	4.7	6.4
$Opex_t$	59.9	78.7	93.9	104.5	98.2
Incentives (I_t)					
Liquidity Building Block (LBB_t)					10.5
Cost of Debt True-up (CDT_t)			(0.5)	(1.8)	(3.0)
Exceptional Event Building Block (EE_t)					
Pass-Through Building Block (PT_t)					
K-factor (K_t)					
Allowed Revenue (AR_t)	61.1	83.6	102.8	119.5	132.7
Allowed Revenue (AR_t) (Excl. LBB_t and CDT_t)	61.1	83.6	103.3	121.3	125.2

The key points to note from the table above are as follows:

- Base *ex-ante* Allowed Revenues on average are ~ €100m over PR6.
- Opex will comprise the majority of base offshore Allowed Revenue in PR6.
- The Depreciation Building Block reflects the Category 4 capex depreciation only because Phase 2 devex will only start to be depreciated from when the Phase 2 Tonn Nua project reaches FID.
- The Return on Capital Building Block reflects the allowed return on RAB related to Category 2 and Category 4 investment in PR6.
- The large forecast Liquidity Building Block adjustment in 2030 reflects the expected transfer of Phase 1 projects under this scenario at the start of PR7.

Given that the Liquidity Building Block and Cost of Debt True-up adjustments will apply within period based on forecast / outturn information at the time, the CRU's proposal is that for setting its PR6 Final Determination baseline allowed revenue, the CRU will exclude these two forecast components from the allowed revenues.

Base *ex-ante* Allowed Revenues + One Phase 1 ATV Transfer in PR6

The table below sets out the CRU's proposed base *ex-ante* offshore Allowed Revenue for the revenue control period 2026-2030 (and its constituent components) with the addition of one Phase 1 ATV payment (at the end of 2029) made by EirGrid.

Again, the projected allowed revenues are stated in nominal terms based on an assumed rate of inflation averaging 1.92% in PR6.

The Allowed Revenue in this scenario should be considered highly indicative as it reflects financial modelling assumptions of how the Phase 1 ATV payment is financed and the timing and size of the ATV payment – all of which are currently unknown. This scenario helps to indicate how offshore Allowed Revenue may vary within period if at least one Phase 1 project were to transfer to EirGrid during PR6 and how the Allowed Revenue will flow through individual components of the proposed Allowed Revenue formula.

Table 31: Offshore Allowed Revenues (€m, nominal) – Base Plus One Phase 1 ATV Payment in PR6

Component	2026	2027	2028	2029	2030
Base Revenue (B_t)					
RoC_t	1.1	3.9	6.7	23.1	42.3
$Depn_t$	0.1	1.0	2.7	4.7	19.7
$Opex_t$	59.9	78.7	93.9	104.5	98.2
Incentives (I_t)					
Liquidity Building Block (LBB_t)				3.9	9.2
Cost of Debt True-up (CDT_t)			(0.5)	(1.8)	(3.0)
Exceptional Event Building Block (EE_t)					
Pass-Through Building Block (PT_t)					
K-factor (K_t)					
Allowed Revenue (AR_t)	61.1	83.6	102.8	134.4	166.4

Six Phase 1 Project Transfers and Tonn Nua Completion in PR6 and PR7

This scenario provides a longer-term forecast of potential offshore Allowed Revenue in PR6 and PR7 assuming six Phase 1 project transfers and construction of the Tonn Nua (Phase 2) to current project timelines.

For the avoidance of doubt, this forecast of Allowed Revenue is indicative and provided to illustrate potential Allowed Revenues and allow long-term financeability analysis of the offshore programme. This should not be considered a minded to decision on Allowed Revenue in PR7, which will be determined by the CRU as part of the separate PR7 process.

The table overleaf summarises the Allowed Revenues and the individual components for this scenario. The projected allowed revenues are stated in nominal terms based on an assumed rate of inflation averaging 1.92% in PR6.

Please note that the offshore revenue model contains commercially sensitive information and therefore cannot be published.

Table 32: Offshore Allowed Revenues (€m, nominal) Over PR6 and PR7 Assuming Six Phase 1 ATV Payments in PR6 and PR7 and Completion of Tonn Nua

Component	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Base Revenue (B_t)										
RoC_t	1.1	3.9	6.7	74.0	206.7	280.7	297.0	313.1	319.4	313.8
$Depn_t$	0.1	1.0	2.7	4.7	81.6	179.3	195.0	211.1	221.7	225.5
$Opex_t$	59.9	78.7	93.9	121.6	128.2	132.4	135.0	137.7	140.5	143.3
Incentives (I_t)										
Liquidity Building Block (LBB_t)				15.4	26.4	9.4	6.2	14.9	14.2	16.9
Cost of Debt True-up (CDT_t)			(0.5)	(1.8)	(3.0)	14.3	17.0	(3.0)	(2.0)	9.8
Exceptional Event Building Block (EE_t)										
Pass-Through Building Block (PT_t)										
K-factor (K_t)										
Allowed Revenue (AR_t)	61.1	83.6	102.8	213.9	439.9	616.1	6450.2	673.8	693.7	709.3

Note: The Phase 1 project transfers reflect the timings and values of ATV payments assumed in EirGrid's PR6 Business Plan submission and remain highly indicative.

7.6 Preliminary Financeability Assessment

This section sets out the preliminary financeability assessment that the CRU has undertaken of its proposals for the offshore revenue control in PR6.

While this draft decision applies for the revenue control period 2026-2030 (i.e., PR6), several proposed positions have important implications for longer-term financeability of the offshore grid programme looking forward to PR7. As a result, the CRU's financeability analysis includes modelling of PR7 as well as PR6. The modelling uses CRU's Draft Determination allowances for PR6 and EirGrid's forecast costs in PR7 as reported in their submitted offshore financial model. As noted above, and for the avoidance of doubt, Allowed Revenues⁵² for the period 2031-2035 will be determined in the PR7 review and PR7 costs have not been assessed.⁵³

Consistent with the principles for the offshore financeability assessment in CRU202499, the CRU has focused on the notional company for assessing the revenue control parameters and financeability. It has also reviewed and cross-checked the financeability of the revenue control under EirGrid's target financing structure and forecast financing costs. The CRU does not target any particular credit rating or credit ratio for a notional company. The CRU has tested for financeability on the basis that EirGrid would, on a standalone basis, ideally be able to maintain an investment grade credit rating under plausible downside stress test scenarios.

The CRU also notes that the credit rating agencies can apply thresholds for certain quantified credit ratios in their rating assessments. While the CRU has considered these thresholds in its financeability analysis, it has not based its assessment on a single metric, or a particular threshold that the credit rating agencies themselves may apply. The CRU's approach is to take an in-the-round assessment of financeability of its revenue controls to avoid the risk that variations in individual credit metrics lead to modelled credit ratings, and conclusions on financeability, becoming highly sensitive to small variations in an individual metric.

In the case of offshore, as the financial analysis below demonstrates, several individual credit ratios will be variable during PR6 and PR7 while the offshore grid is established. As a result, credit metric thresholds may not be met in all circumstances during this establishment period. This means adopting an overly mechanistic and short-term approach to the financeability

⁵² And revenue control parameters, such as the allowed rates of return.

⁵³ This also applies to the Phase 1 ATV payments assumed in the modelling.

analysis is unlikely to form a clear basis and picture for whether the proposals in this consultation can be considered as being capable of being financed.

For its financeability analysis, the CRU has, therefore:

- Taken an in-the-round assessment of offshore financeability.
- Considered a suite of financial ratios, including averages and longer-term trends looking over PR6 and PR7, consistent with the ratios adopted by credit rating agencies in their standard ratings assessments.
- Considered alongside the financial ratios, qualitative factors that are relevant to the financeability of the CRU's offshore revenue controls.
- Carried out sensitivity testing to assess the resilience of the financial ratios under different outturn scenarios.

The focus of the analysis is therefore whether the proposed financial package for the offshore price control will over time, as the offshore business becomes established, allow the notional efficient operator sufficient headroom to service its debt, and raise finance based on the protections and mitigations provided by the offshore regulatory framework.

Financeability Analysis – Notional Company

Figure 7 illustrates the build-up of allowed revenues over PR6 and PR7 under the scenario where by six ATV payments are made by EirGrid to Phase 1 developers and the construction of the Tonn Nua project will be completed by the end of PR7.

Figure 7: Offshore Allowed Revenues, €m Nominal, 6 ATV Payments and Tonn Nua Completion

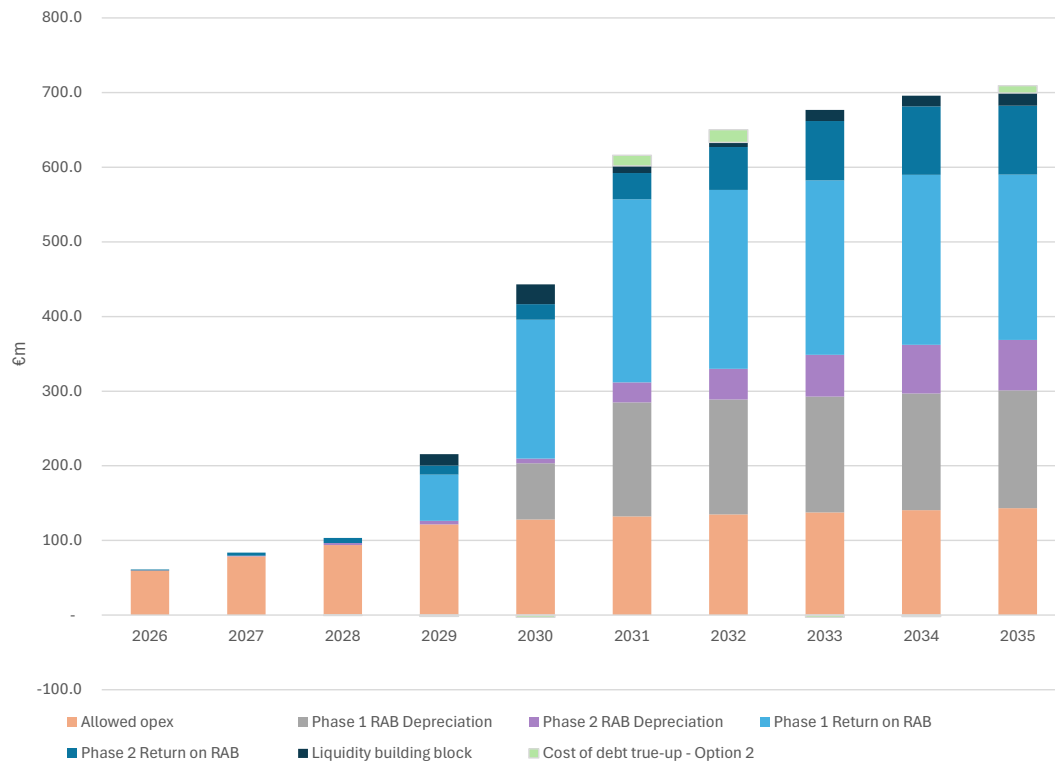


Figure 8: Expected Evolution of the FFO / Net Debt Ratio – Notional Capital Structure

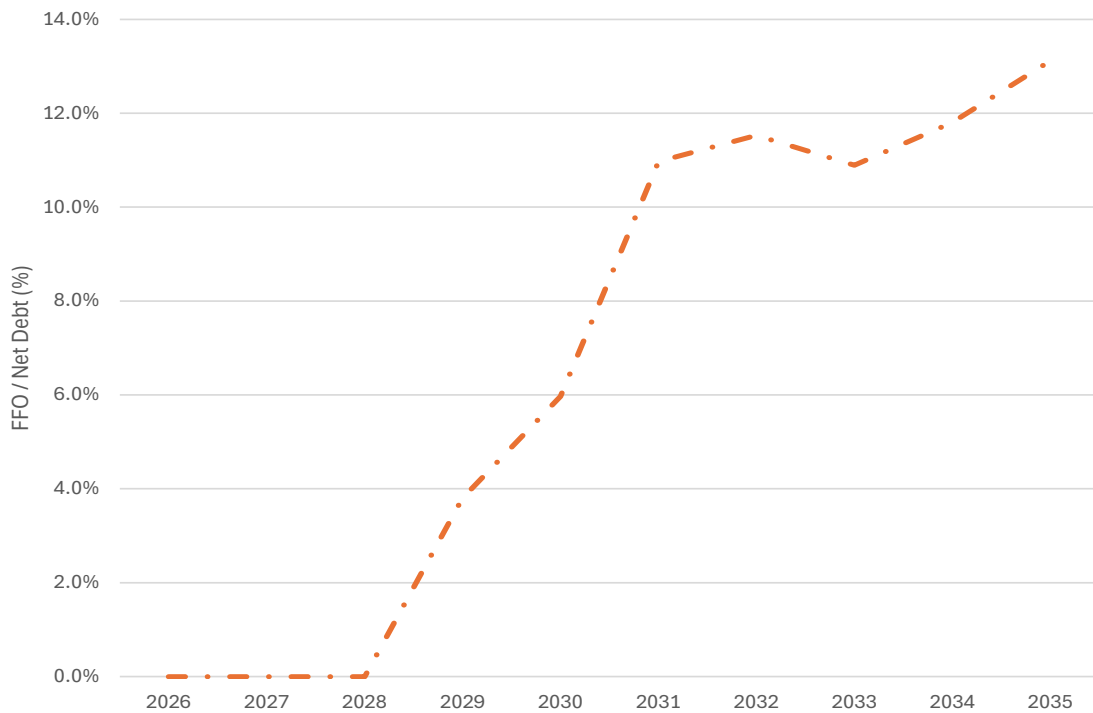
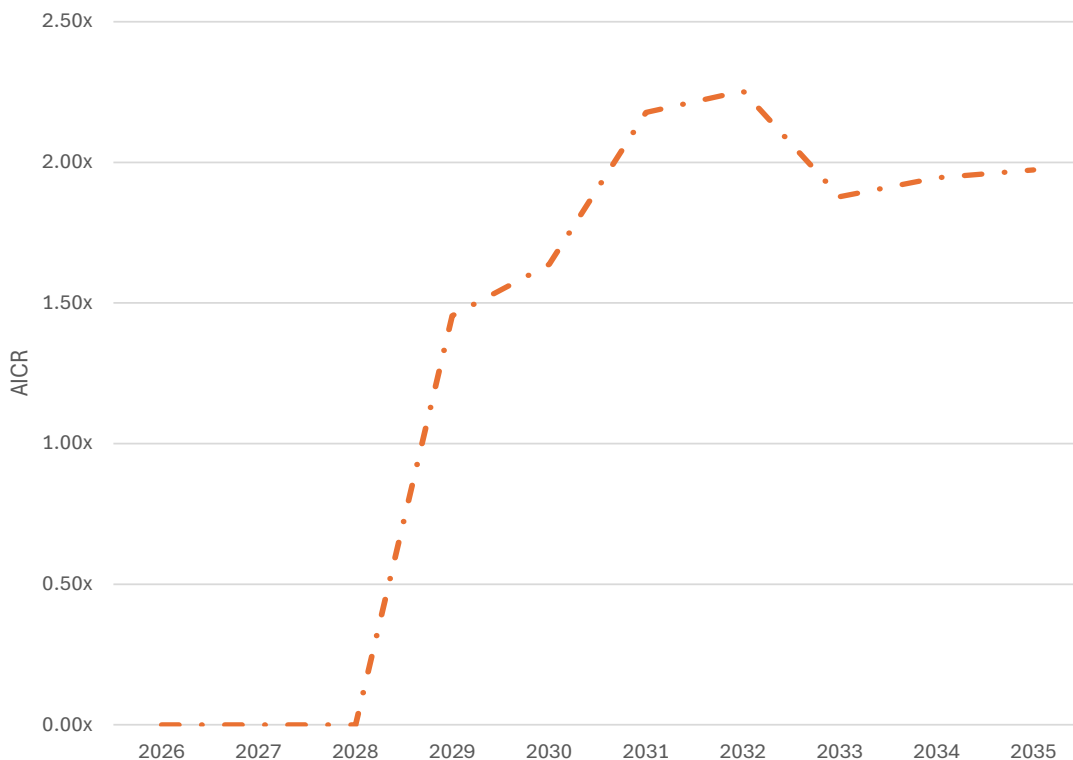


Figure 8 shows that the FFO / Net Debt ratio starts from a relatively weak position as the offshore business is established in PR6, and then under the proposed financial package, there is an upward trend in the ratio over time as Phase 1 ATV payments are reflected in Allowed Revenue and there is a greater degree of operating cashflow and headroom in the offshore business. Going into PR7, the FFO / Net Debt ratio rises above 10% supported by the profile of allowed debt returns and the start of depreciation of Tonn Nua construction costs.

Figure 9 below shows the trend in the AICR under the forecast Allowed Revenue for PR6 and PR7.

As with the FFO / Net Debt ratio, the AICR starts from a relatively weak position in PR6 but shows a strong upward trend going into PR7. Given it would be expected that the AICR would show some weakness as the offshore business is established and goes through a period of high-upfront investment, the long-term trend indicates that the financial package proposed will generate sufficient headroom for the notional company to be financeable. Looking forward to PR7, for both the FFO / Net Debt ratio and the AICR, the ratios are at a level that the CRU understands to be consistent with investment grade.

Figure 9: Expected Evolution of the AICR Over PR6 and PR7 - Notional Capital Structure



Financeability Analysis – Actual Company

Consistent with the approach that it stated it would take in CRU202499, the CRU has also tested the financeability of the revenue control under the capital structure that EirGrid has stated it is currently targeting for financing its offshore grid programme ('actual capital structure'). The CRU understands EirGrid's current proposal is to target a RAB gearing level of c. 70%. Figure 10 and Figure 11 below compare the FFO / Net Debt and AICR vary over PR6 and PR7 under EirGrid's target capital structure compared to the notional company at 60% notional gearing.

Figure 10: Expected Evolution of the FFO / Net Debt Ratio Under Target / Actual Capital Structure

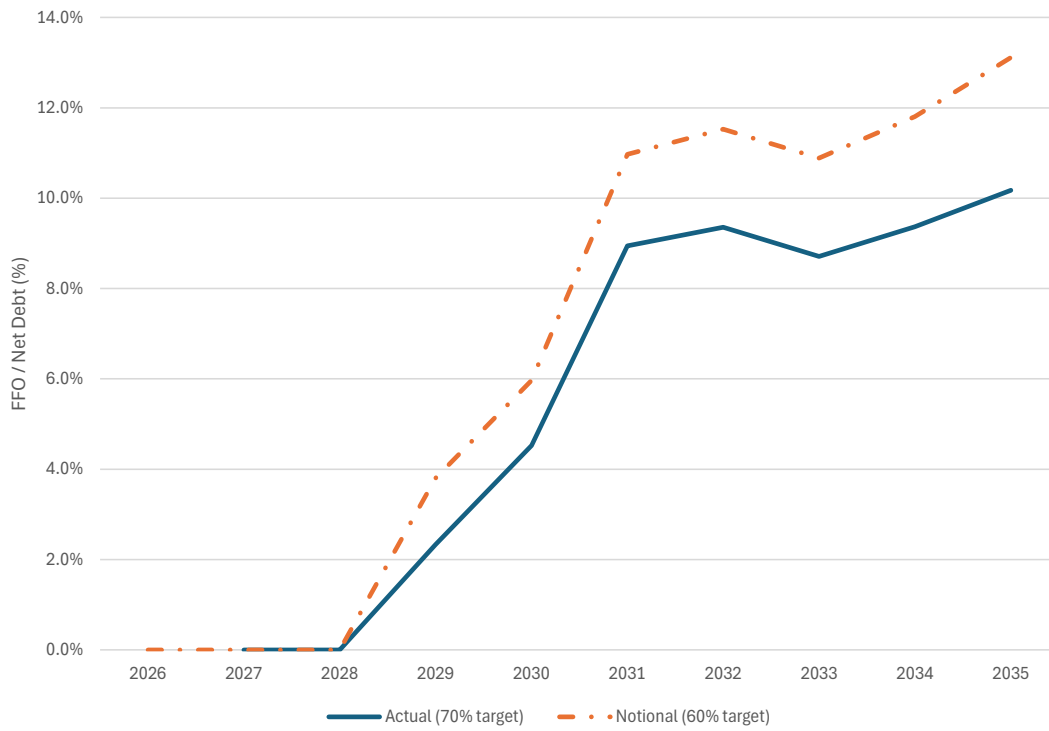
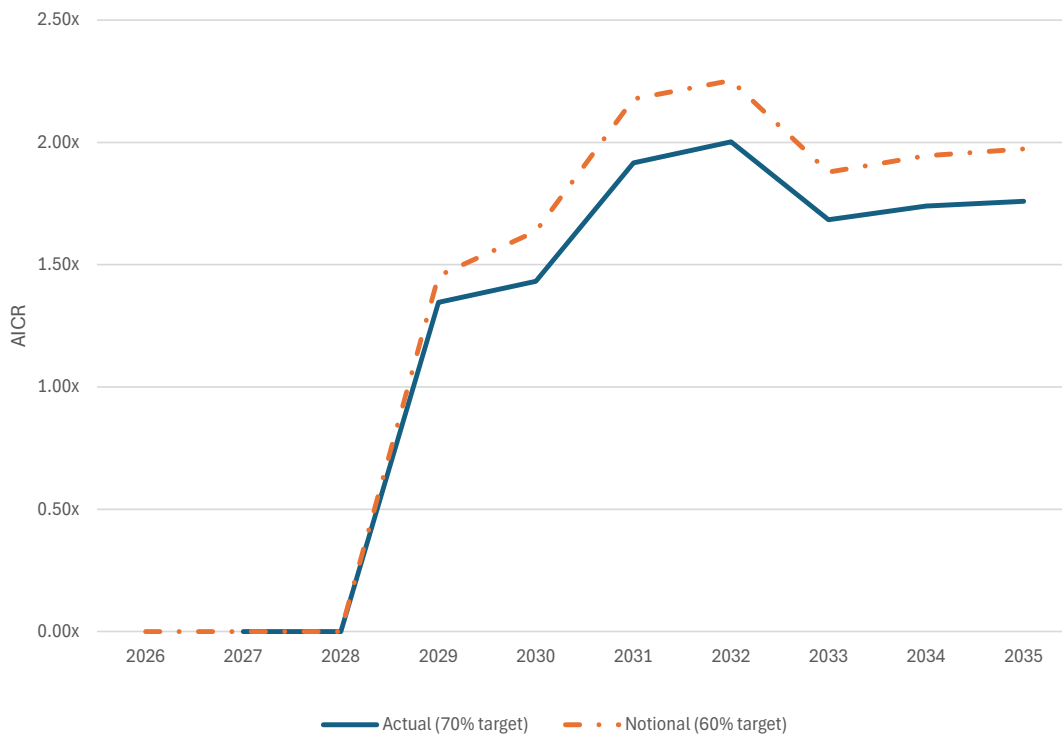


Figure 11: Expected Evolution of the AICR Ratio Under Target / Actual Capital Structure



While there is less headroom under the target actual capital structure because there are higher debt servicing costs at a higher level of gearing, the ratios looking forward to PR7 continue to be at a level the CRU understands to be consistent with investment grade.

Sensitivity Analysis

This section summarises the findings from the sensitivity analysis that the CRU has undertaken to further stress test its analysis of financeability. In all cases, the sensitivities that have been modelled are based on the actual / target capital structure and as such are more challenging for financeability given that the level of gearing is 70% rather than the notional company's 60%.

7.6.1. 200bps Increase in Cost of Debt Above Allowed Debt Rate of Return

Differences in the gearing level of the notional company and the actual company may result in mismatches between allowed debt returns and EirGrid's actual debt costs despite the Cost of Debt True-up Building Block of the revenue control. The CRU has considered the impact of this under the base assumptions in its financial modelling and under a sensitivity where interest rates increase by 200bps above the assumed cost of debt in the Allowed Debt Rate of Return, which the CRU notes to be a relatively extreme scenario.

Figure 12 and Figure 13 below show the FFO / Net Debt and AICR vary over PR6 and PR7 under EirGrid's target capital structure under this scenario. The same parameters are also included for the base case level of interest rates (i.e. where interest rates are at the anticipated level) and for a sensitivity where a Cost of Debt True Up Building Block is not included.

Figure 12: Expected Evolution of the FFO / Net Debt Ratio Under +200bps Increase in Interest Costs

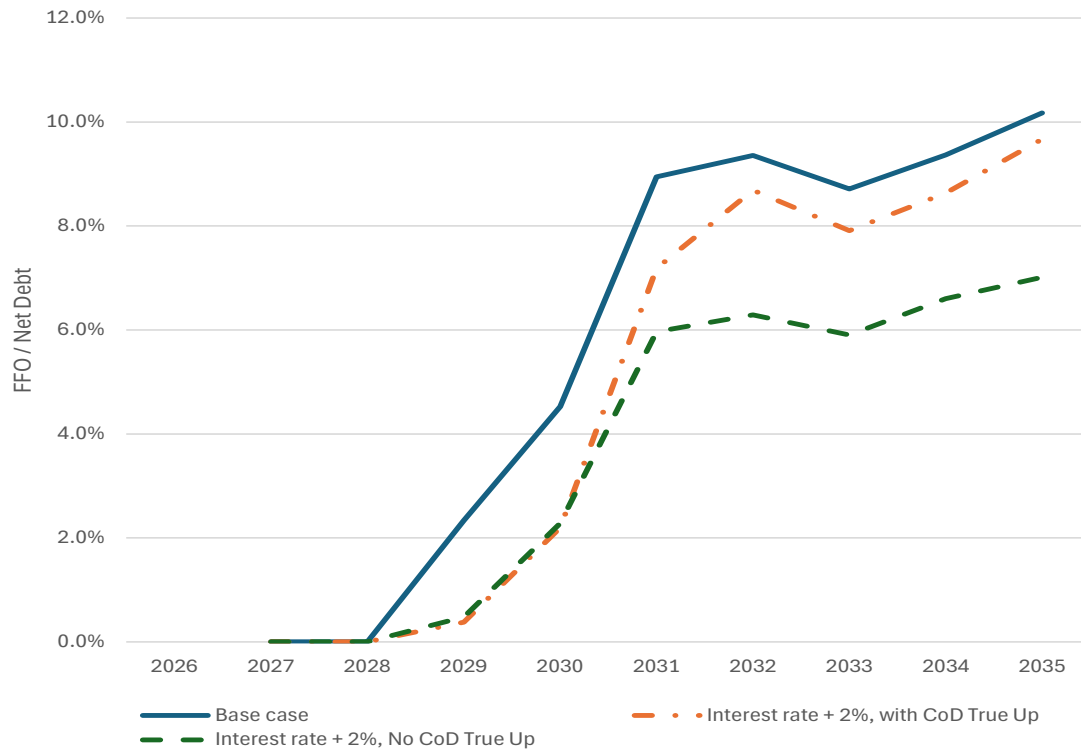
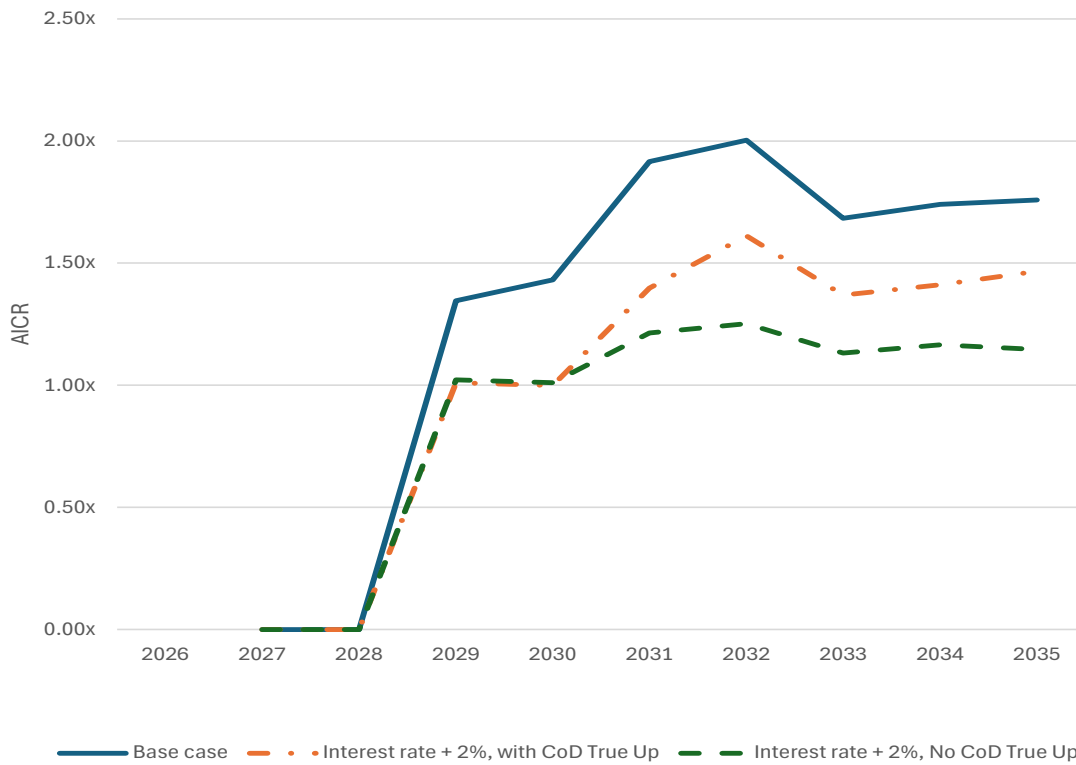


Figure 13: Expected Evolution of the AICR Under +200bps Increase in Interest Costs



This analysis shows that under a relatively extreme scenario in which all EirGrid’s debt costs are at 200bps above the interest rate assumed in the Allowed Debt Rate of Return, the FFO / Net Debt ratio and AICR retain significant headroom, albeit reduced relative to the assumptions in base modelling. This helps to illustrate the significant benefit and support for financeability that the proposed Cost of Debt True-up mechanism provides.

Overall, the CRU considers that the risk of mismatch, until allowed rates of returns are reset by the CRU at the next price review, is sufficiently constrained that it does not cut across the financeability of the offshore programme. The proposed Cost of Debt True-up mechanism provides significant protection against the risk of interest rate volatility.

7.6.2. Phase 2 Development Penalty

Figure 14 and Figure 15 below show the impact on the FFO / Net Debt ratio and AICR in a scenario that EirGrid miss the milestone FID date under the proposed Phase 2 Development Period revenue incentive and the full penalty applies. These figures show that the revenue penalty under this incentive has a limited impact on the headroom in the offshore business’ finances.

Figure 14: Expected Evolution of FFO / Net Debt Ratio Under Max Phase 2 Development Period Penalty

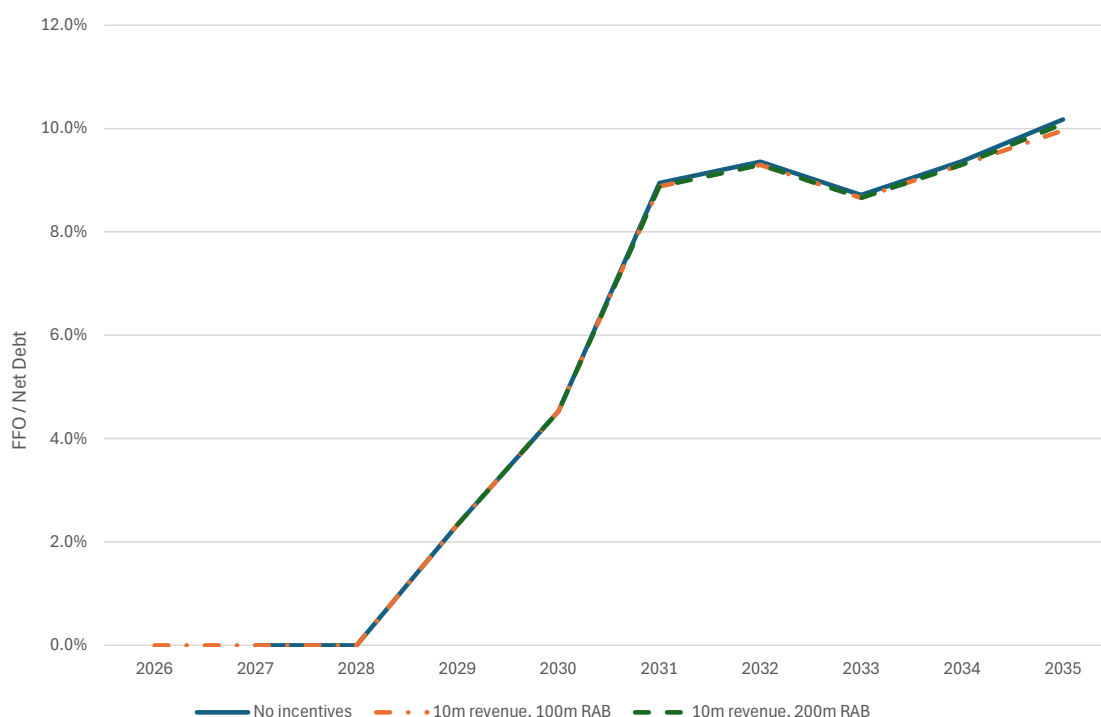
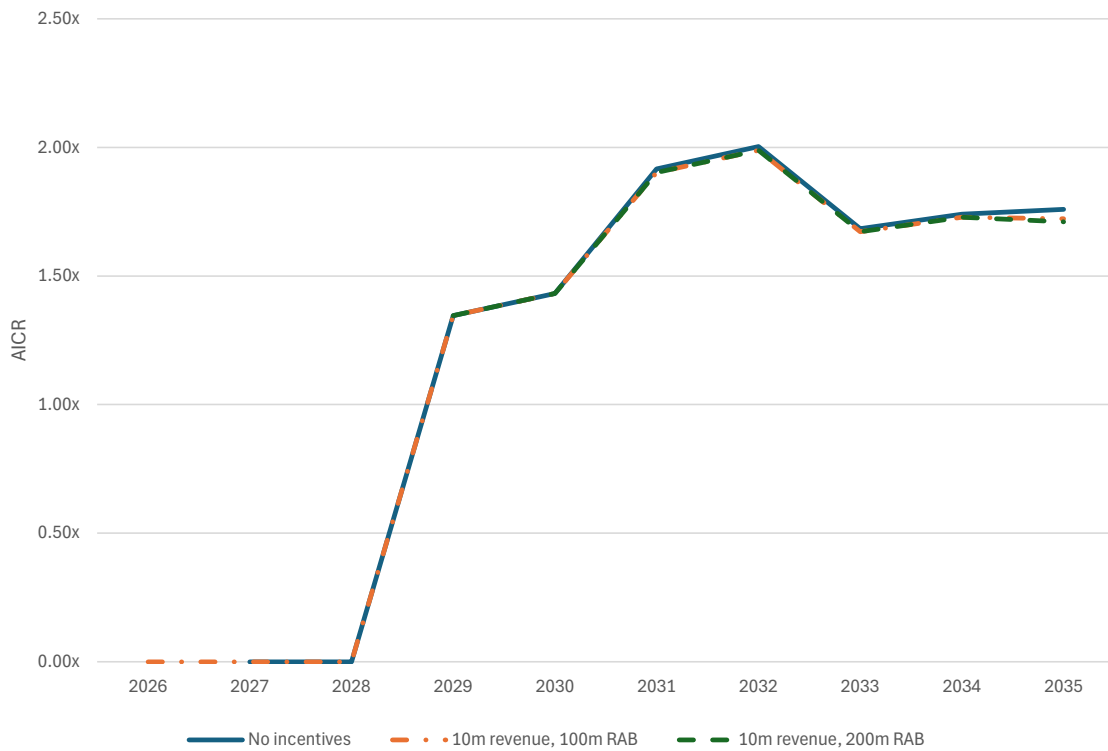


Figure 15: Expected Evolution of the AICR Ratio Under Max Phase 2 Development Period Penalty



7.6.3. Reduction in Inflation of 1%

Figure 16 and Figure 17 below show the trend in the FFO / Net Debt ratio and the AICR under a 1% reduction in inflation compared to the base modelling. This analysis shows that a reduction in inflation has an impact on the financial headroom of the offshore business, but the scenario modelled does not result in a significant deterioration in the financial position of the offshore business.

Figure 16: Expected Evolution of the FFO / Net Debt Ratio Under 1% Reduction in Inflation

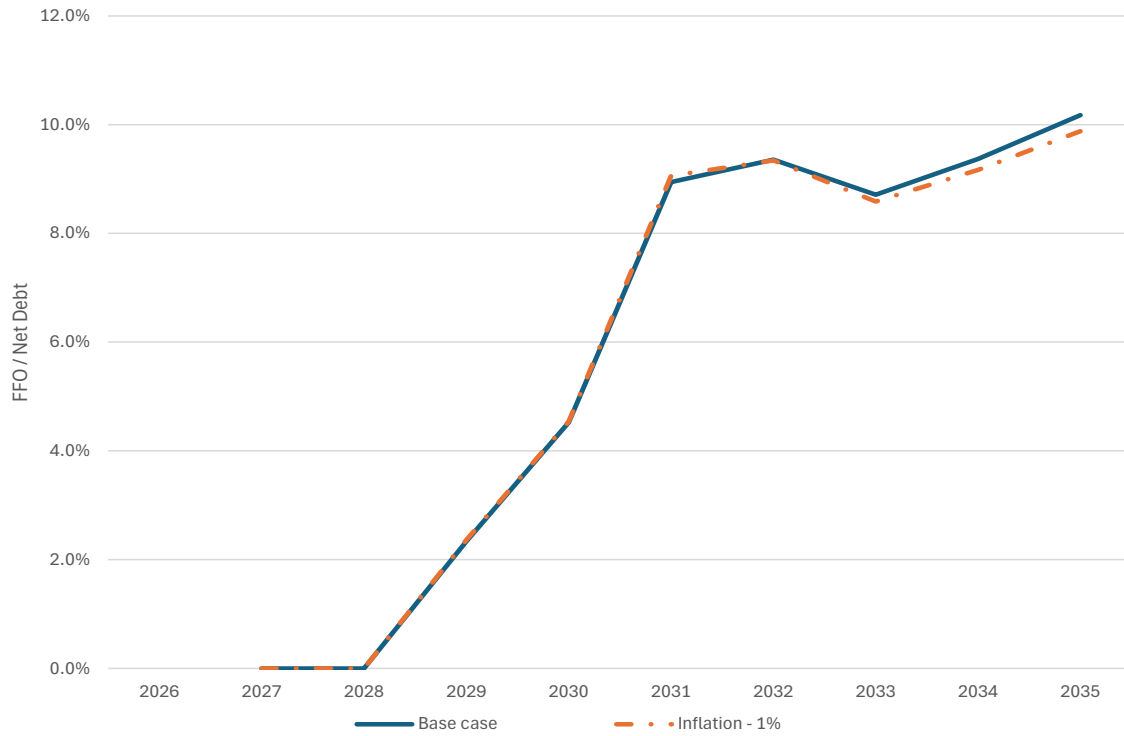
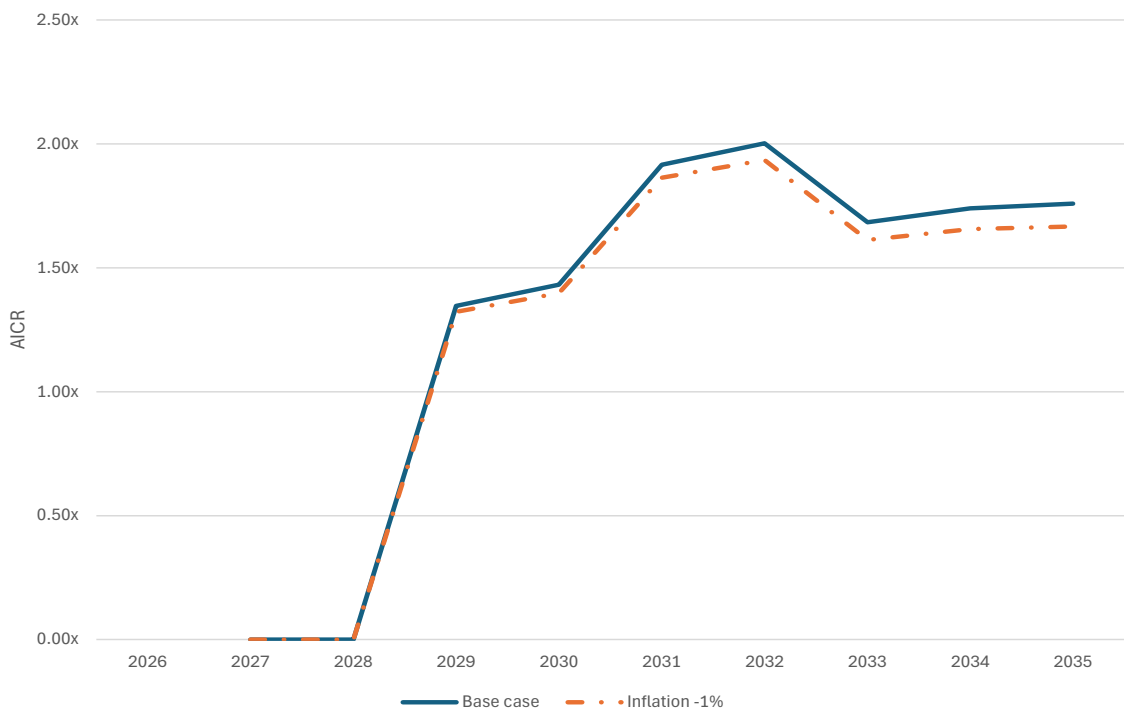


Figure 17: Expected Evolution of the AICR Under 1% Reduction in Inflation



7.6.4. Availability Incentive Penalties of 1% and 2% RoRE in PR7

Figure 18 and Figure 19 illustrate the impact on the FFO / Net Debt ratio and AICR in PR7 in a scenario where there is a 1% or 2% penalty to RoRE related to the availability incentive.

Figure 18: Expected Evolution of FFO / Net Debt Ratio Under 1-2% of Phase 1 RoRE Availability Incentive

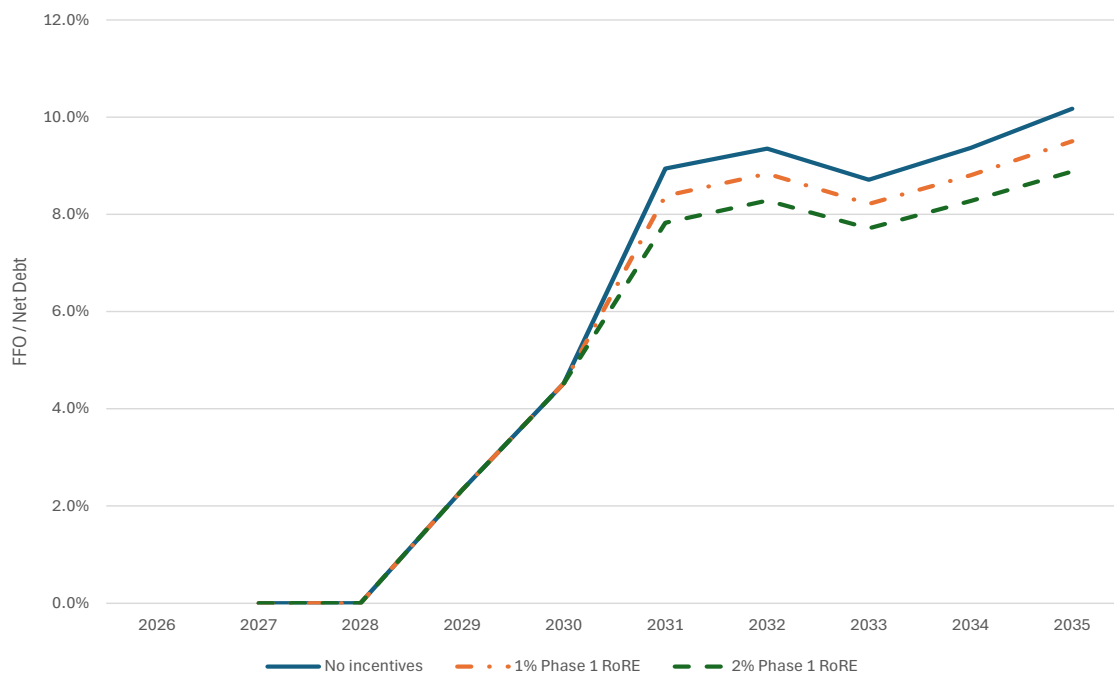
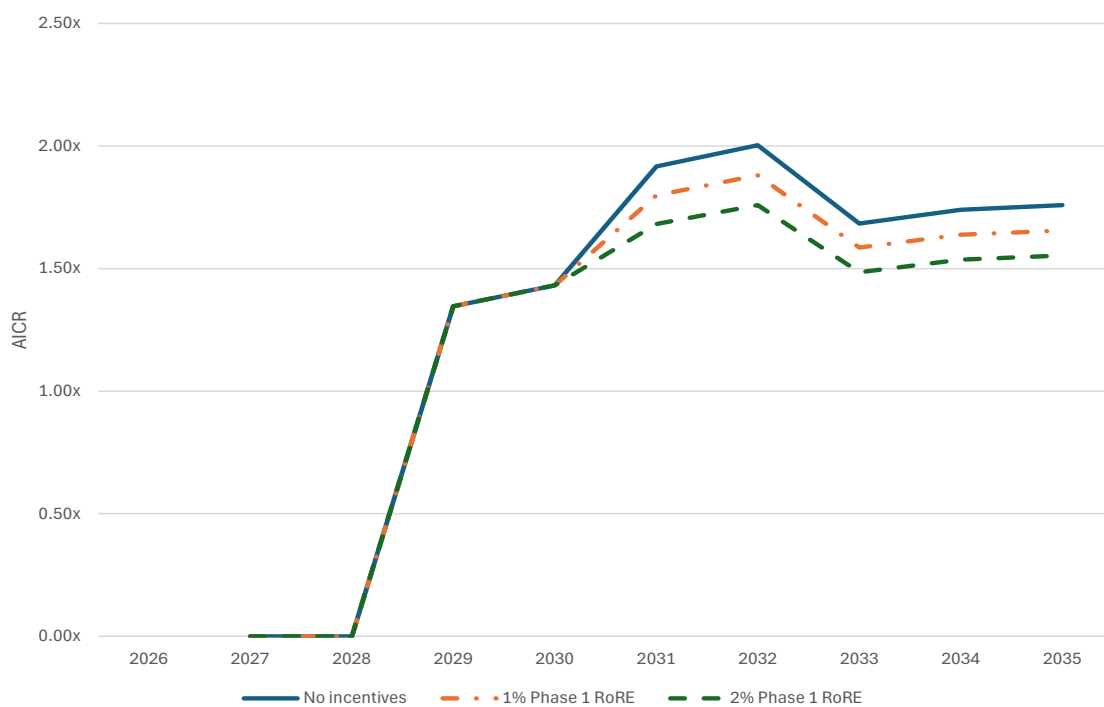


Figure 19: Expected Evolution of the AICR Under 1%-2% of Phase 1 RoRE Availability Incentive



This analysis shows that an availability incentive structured to place 1-2% of RoRE in aggregate at risk under the incentive will reduce FFO / Net Debt ratio and the AICR. However, in both sensitivities, which are intended to reflect scenarios where there are significant unavailability events across several or all of EirGrid's offshore grid assets (and these were considered to be a result of events that were within EirGrid's control to mitigate and manage) the ratios still reflect headroom within the company's finances. In the case of a stronger (2% RoRE) penalty under an availability incentive, the FFO / Net Debt falls below 8% but the AICR remains above 1.50x.

7.6.5. Delayed Phase 1 ATV Transfers

Figure 20 and Figure 21 illustrate the impact on the FFO / Net Debt ratio and AICR in PR6 and PR7 in a scenario where there are delays to Phase 1 ATV transfers. Examples of six, one or zero transfers in PR6 are presented. In cases where Phase 1 projects are delayed, the delay has been set to 18 months and adjustments have been made to the profile of equity injected into the company and the timing of debt raised. Assumptions of equity and debt timing materially affect ratios and so these plots are purely illustrative of likely trends.

As would be expected, delay of the Phase 1 transfers delays the transition to a more steady state asset owner, with moves to a sustainable long-term position delayed.

Figure 20: Expected Evolution of FFO / Net Debt Under Six, One or Zero Phase 1 ATV Transfers in PR6

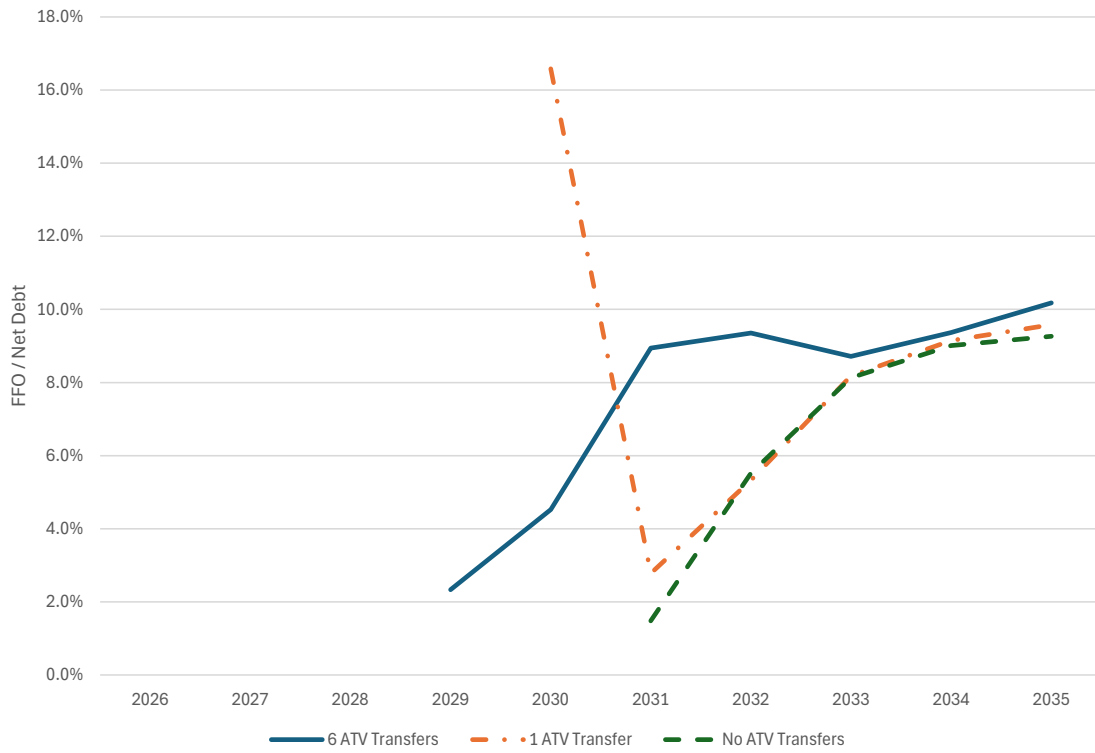
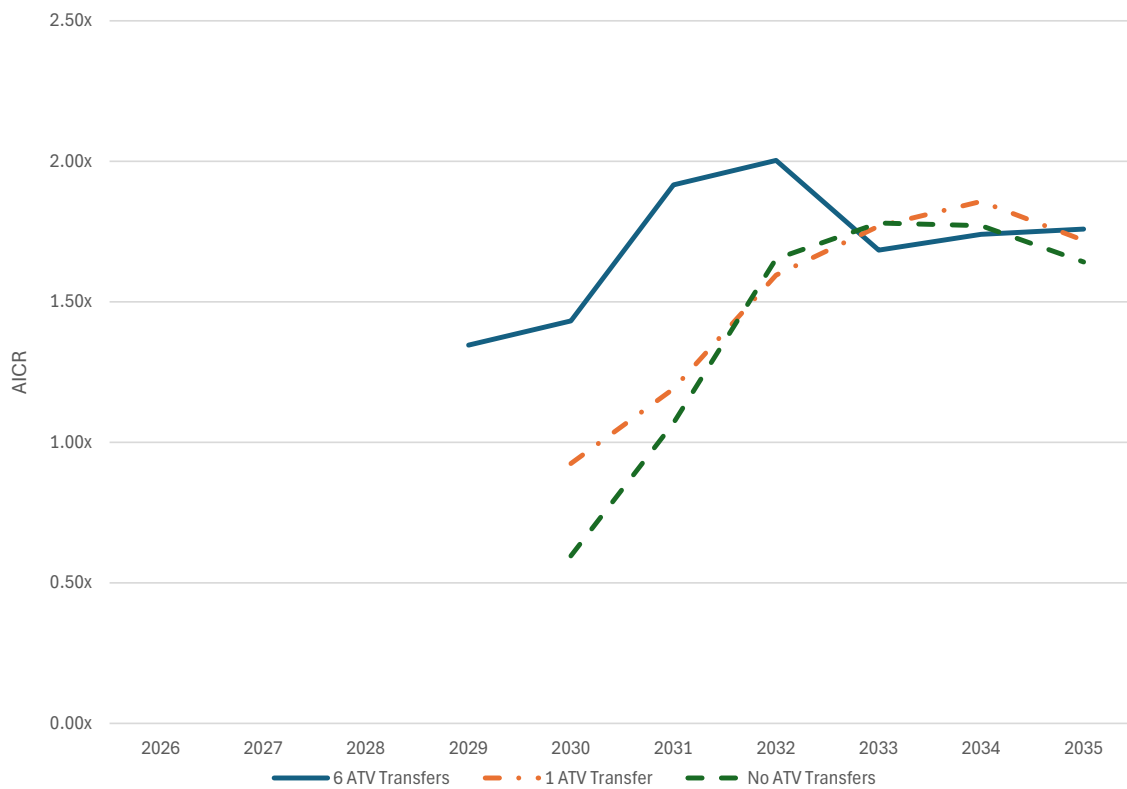


Figure 21: Expected Evolution of the AICR Under Six, One or Zero Phase 1 ATV Transfers in PR6



Overall Conclusions on Financeability

The analysis above shows that the OAO remains financially resilient and able to maintain a level of headroom under both the notional and target/actual capital structure. While the ratios considered start from a relatively weak position in PR6, they show a strong upward trend going into PR7. Given it would be expected that the FFO / Net Debt ratio and AICR would show some weakness as the offshore business is established and goes through a period of high-upfront investment, the CRU considers the long-term trend indicates that the financial package proposed will generate sufficient headroom for the notional and actual company to be financeable.

The CRU welcomes stakeholder feedback on its preliminary financeability assessment.

7.7 D-TUoS Tariff Treatment

The Offshore Grid Connection Asset Treatment Decision CRU202309 outlined the main tariffing decisions made in respect of EirGrid's offshore programme. That decision paper outlined that there will be a new offshore Demand Transmission Use of System tariff (D-TUoS), which will be paid for by the consumer.

A charging methodology is needed for EirGrid as the OAO, as this will lead to a change in the tariff structure for D-TUoS.

The offshore D-TUoS charge will cover EirGrid's:

- Operational & maintenance costs (including decommissioning & re-instatement costs).
- Costs for its connection assets.
- Compensation for outages of transmission connection assets owned by EirGrid.
- The remainder of EirGrid's annual offshore revenue requirement that is not covered by OG-TUoS goes into demand tariffs.

Developing a new offshore tariff may require up to two years to be completed, hence, in the interim the current recovery approach will continue to apply i.e. through System Service charges.

The CRU welcomes stakeholder feedback on its proposed tariff structure.

7.8 Customer Impact Summary

The impact of the PR6 offshore Draft Determination proposal, in terms of current estimates⁵⁴ of network charges are discussed in this section. The charges which would be expected to be relevant for an archetypical domestic electricity customer in the last tariff year entirely in PR6 (2029/30) are considered, along with the movement from the charges in the last tariff year entirely in PR5 (2024/25). Values are presented for two scenarios, both related to the Draft Determination proposals for offshore. The first is the baseline scenario and the second is a high scenario which includes the AIMF. For further details on this topic, including background, definitions, assumptions, other scenarios, non-domestic examples and further figures please refer to the Price Review Six Impact Analysis Note (CRU202591).

Offshore costs relating to demand customers which have been forecast in this analysis include all the OAO opex (which includes the OARP and the operation and maintenance costs of Phase 1 and Phase 2 assets) and the return on Tonn Nua from the point at which spend is incurred until Tonn Nua becomes live (at which point it starts being recovered from OG-TUoS charges). For this analysis it has been assumed that Phase 1 project costs are based on known forecast ATV values for each project (no cost overrun) and that one (base scenario) or six (high scenario) Phase 1 asset transfers will take place during the period of PR6.

Table 33: Domestic Customer Offshore Impact (Nominal Values)

Scenario	2024-25 (€)	2029-30 (€)	Change (€)
Baseline	3.01	12.07	+9.06
High		23.60	+20.59

In 2029/30 an archetypical domestic customer's electricity supplier is expected to be charged €12 (base scenario) or €24 (high scenario) in charges relating to the offshore network for that customer⁵⁵. This will be via the offshore D-TUoS charges, which collect revenues for the OAO. This is an increase of €9 (baseline scenario) or an increase of €21 (high scenario) from the comparable charge in 2024/25.

⁵⁴ The CRU will continue to refine and assess the consumer impact modelling for the Final Determination.

⁵⁵ Suppliers determine what level of these charges to either absorb or to pass on to their customers through their billing.

It is important to note that PR6 will be the starting period for the development of Ireland's offshore transmission grid. Offshore grid investment is expected to expand in future price control periods which will increase the offshore network component of the electricity bill.

Based on current (indicative) cost forecasts, the CRU estimates that the offshore network component of the domestic bill may increase to €26 (baseline) to €30 (high) on average during PR7. The increase to the customer bill is constrained because EirGrid will start to receive income from the offshore wind generators' OG-TUoS payments which will also contribute to EirGrid's offshore allowed revenue. The CRU notes that estimates of the impact on customer bills beyond PR6 are highly indicative as future business plans and costs remain uncertain.

The CRU welcomes stakeholder feedback on its customer impact assessment.

8. Conclusion and Next Steps

This paper, together with the supporting documents published alongside, outlines the CRU's Draft Determination on the offshore revenue base provided on the set of assumptions as outlined in this document.

The CRU currently proposes to allow baseline expenditure of circa €819m for the five-year period. The detailed proposals behind these expenditure allowances are detailed in the sections above. However, this number has the potential to change, given the uncertainty around items such as the timings of Phase 1 asset transfers to EirGrid.

Interested parties are requested to provide comments on the above proposals as detailed in this paper by email by 17:00 on 11 September 2025 and marked with the reference CRU202589.

Responses by e-mail should be sent to CRU at pricereview6@cru.ie.

We are seeking comments from members of the public, the industry, customers and all interested parties on proposals put forward in this paper. These include the proposed operational expenditure allowance, and capital expenditure allowance over the PR6 period. The CRU is also seeking stakeholders' views on the areas requiring further information as applied to the revenues request and the proposed regulatory framework (CRU202590). Responses will assist and inform the CRU in reaching its final decision on the offshore revenue allowance for the PR6 period. Consultation questions are listed in Appendix 1 below.

Following consideration of all responses received, the CRU intends to publish a decision on this matter before the beginning of the PR6 period.

Appendix 1 – List of Draft Determination Consultation Questions

Questions:

1. What are your views on the offshore PR5 Operating Expenditure allowed revenue and the CRU Draft Determination Outturn allowance?
2. What are your views on the OAO's PR6 Operating Expenditure request and the CRU's Draft Determination allowance?
3. What are your views on the offshore PR5 Capital Expenditure allowed revenue and the CRU Draft Determination Outturn allowance?
4. What are your views on the OAO's PR6 Capital Expenditure request and the CRU Draft Determination allowance?
5. What are your views on the CRU's proposed capex envelope approach and/or the appropriate value of capex envelope for the Tonn Nua project?
6. Do you have any comments or views on any of the proposed incentives?
7. Do you have any comments or views on any of the proposals and how the outlined range of factors have been balanced in Section 6.3?
8. What are your views on the proposed methodology for estimating the OAO costs of capital?
9. Do you have any comments or views on the proposed estimates for the OAO WACC parameters?
10. Do you have any comments or views on any of the proposals set out on EirGrid's exceptional events mechanism in Section 6.3?
11. Do you have any comments or views on the preliminary financeability assessment?
12. Do you have any comments or views on the proposed tariff structure?
13. Do you have any comments or views on the proposed customer impact assessment?

Appendix 2 - Summary of Responses to PR6 Strategy Paper

On 24 April 2024, the CRU published a Strategy Paper to inform and seek comments from consumers and relevant stakeholders on the approach proposed for PR6.

The CRU received a total of sixteen responses, all of which were non-confidential. These responses have been published in full on the CRU website and a summary of the key points are set out in the Table below.

Table 34: Response Summary for PR6 Strategy Paper

Area		Response Overview
1	Objective	<p>There was broad agreement among respondents on the CRU's proposed objective for PR6.</p> <p>One respondent recommended that EirGrid develop its new role as OAO with long term success in mind, <i>"beyond that of Phase 1 and ORESS 2.1 projects"</i>.</p> <p>One respondent recommended that governance and additional resources be prioritized, along with the implementation of best practices from other TSO's that oversaw the design, construction and maintenance of offshore transmission assets. This respondent stressed the need for benchmarking against industry standards.</p> <p>One respondent sought clarity on the CRU's position on functional and governance separation for the OAO, while another respondent supported the clear separation of EirGrids organization into distinct departments/entities.</p>
2	Approach to Delivery	<p>One respondent recommended that the CRU encourages EirGrid to develop its future strategy and business plan to support the work of the OAO.</p> <p>One respondent stressed the importance of CRU ensuring that there are <i>"distinct financial arrangements between the various divisions of EirGrid including the new OAO."</i> This respondent also stressed the successful management of a <i>"significantly greater RAB"</i> that will be associated with the offshore assets.</p>

		<p>One respondent stated that EirGrids new responsibility as OAO will require a radical transformation of its business and an unprecedented level of investment.</p> <p>On respondent emphasized that thoughtful consideration should go into the offshore allowances and the <i>ex-post</i> assessment of costs.</p> <p>One respondent recommended that EirGrid be flexible in its role as OAO as issues arise, and to “<i>learn by doing</i>” when these obstacles occur. The respondent stressed that a correct balance between incentives and affording that degree of flexibility be achieved.</p>
3	Regulatory Framework	One respondent stated the delivery of large-scale assets, particularly the ORESS 2.1 substations, should be factored into regulatory framework.
4	Incentives & Monitoring	One respondent expressed concern that focus may be lost on the actual delivery of OAO assets due to incentives being “ <i>overly focused on attempting to reduce the headline figure of €5bn in OAO assets to be delivered</i> ”.

Appendix 3 - PR6 Capex

Capex Draft Determination

Table 35: Capex ⁵⁶

Categories	Scenario 1 Request (€m)	Scenario 2 Request (€m)	Scenario 3 Request (€m)	Draft Determination (€m)
Network Capital Expenditure				
Phase 1 Asset Transfers	3,800.0	1,900.0	335.0	335.0
Phase 1 Asset Transfers - Stamp Duty	285.0	142.5	25.1	25.1
Phase 2 Tonn Nua Programme	347.9	347.9	347.9	347.9
Network Capital Expenditure Total	4,432.9	2,390.4	708.1	708.1
Non-Network Capital Expenditure				
IT and Telecoms				
IT Non-Network Capex Technology	1.9	1.9	1.9	1.8
IT Non-Network Capex People and Professional Fees	18.3	18.3	18.3	17.4
Buildings and Facilities				
Buildings and Facilities	12.1	12.1	12.1	11.5
Capital Spares				
Capital Spares	38.0	38.0	38.0	38.0
Non-Network Capital Expenditure Total	70.3	70.3	70.3	68.7
Overall PR6 Total Capital Expenditure	4,503.2	2,460.7	778.4	776.7
Overall PR6 Total Capital Expenditure (Excl. Phase 1 ATV)	418.2	418.2	418.2	416.6

⁵⁶ Note that as discussed in Section 4, the CRU is not approving Phase 1 Asset Transfer Network Capital Expenditure, as the ATV payments will be reviewed and approved under a separate process as set out CRU202309 – ‘[Offshore Grid Connection Asset Treatment](#)’.

Table 36: Non-Network Step Changes Commentary

Category	Commentary	Recommendation	Status
Phase 1 Asset Transfers	Due to developer timeline uncertainties, it is recommended that the proposed Phase 1 ATV is excluded from the baseline total of allowed expenditure until an ATV takes place within the PR6 period.	€0m	Costs excluded until an ATV is scheduled to take place. Any proposed costs will be subject to a separate regulatory assessment as set out in CRU202309 – ‘Offshore Grid Connection Asset Treatment’.
Phase 1 Asset Transfers - Stamp Duty	The associated stamp duty attached to the Phase 1 ATV is excluded from the baseline total of allowed expenditure until an ATV takes place.	€0m	As per Phase 1 Asset Transfers.
Phase 2 Tonn Nua Programme	The need, additionality and cost efficiency of this capex request has been defined.	€347.9m	Costs included in full.
IT and Telecoms	The need and additionality of all proposed costs is defined. An adjustment to the cost efficiency gateway of 5% has been applied to the requested IT figure. This is due to a 5% adjustment also being applied to the IT opex request, which is	€19.2m	Adjustment.

	closely aligned with the IT systems non-network capex.		
Buildings and Facilities	A 5% reduction has been applied to the request due to not receiving a detailed cost build regarding the warehousing costs associated under this capex item.	€11.5m	Adjustment.
Capital Spares	The need and additionality of this capex item is defined. This item will be adjusted at the end of PR6 based on the exact number of Phase 1 ATVs and specific costs of the capital spares items actually ordered.	€38.0m	Costs included in full.

Appendix 4 - PR6 Opex

Table 37: Opex

Categories	Scenario 1 Request (€m)	Scenario 2 Request (€m)	Scenario 3 Request (€m)	Draft Determination (€m)
IT Systems Total	90.6	90.6	90.6	86.0
IT Software Licenses	90.6	90.6	90.6	86.0
OARP Total	184.2	184.2	184.2	175.0
Internal FTE	20.4	20.4	20.4	19.4
External FTE	55.3	55.3	55.3	52.5
Professional Fees	108.5	108.5	108.5	103.1
Buildings and Facilities Total	2.7	2.7	2.7	2.7
Warehouse Leasing	1.3	1.3	1.3	1.3
Office Space and Disaster Recovery Site Rental	1.4	1.4	1.4	1.4
Pre-Operations Total	68.9	68.9	40.6	38.6
Internal FTE	12.5	12.5	7.6	7.3
External FTE	39.9	39.9	23.4	22.1
Professional Fees	16.5	16.5	9.7	9.2
Offshore Central Functions Total	61.9	61.9	61.9	58.8
Internal FTE	30.1	30.1	30.1	28.6
External FTE	22.8	22.8	22.8	21.7
Professional Fees	9.0	9.0	9.0	8.5
Enduring Operations and Maintenance Total	45.2	45.2	28.6	27.0
Internal FTE	4.7	4.7	3.9	3.8
External FTE	14.6	14.6	12.2	11.6
Insurance	4.6	4.6	1.5	1.4
Operations and Maintenance Activities	21.4	21.4	10.8	10.2
Total Opex (Incl. RPEs and Ongoing Productivity)	-	-	-	402.7
Total Opex (Excl. RPEs and Ongoing Productivity)	453.4	453.4	408.5	388.1

Table 38: Step Change Opex - Commentary

Category	Commentary	Recommendation	Status
IT Systems	A 5% adjustment was applied to the cost efficiency gateway, as this is the first time these IT costs will be incurred for offshore functions, and further assurance is required to demonstrate that a range of options and specifications for the forecast costs were considered, and the proposed solution is best.	€86.0m	Adjustment.
OARP	A 5% adjustment was applied to the cost efficiency gateway across the cost categories (internal FTE, external FTE, professional fees). The CRU may revisit this conclusion if further information is provided prior to Final Determination that strengthens confidence in the OARP cost estimate.	€175.0m	Adjustment.
Buildings and Facilities	Need, additionality and cost efficiency are understood.	€2.7m	Costs included in full.

Pre-Operations	A 5% adjustment is applied to cost efficiency due to limited benchmarking and alternative options provided by EirGrid. There is also some risk in overlap of existing business resources.	€38.6m	Adjustment.
Offshore Central Functions	A 5% adjustment is applied to the cost efficiency due to it being EirGrids first time incurring these costs, and further assurance is required in the cost build up and optioneering of the costs proposed.	€58.8m	Adjustment.
Enduring Operations and Maintenance	A 5% adjustment is applied to internal and external FTE's and O&M activities, while a 10% adjustment was applied to insurance for the cost efficiency gateway given EirGrid itself noted the uncertainty of this cost category.	€27.0m	Adjustment.

Appendix 5 – Offshore WACC

Table 39: Offshore Cost of Capital Ranges

Real, Pre-Tax WACC	Offshore Cost of Capital	
	Low	High
Benchmark Cost of Debt	1.74%	1.86%
Uplift for OAO (New Issuer)	0.00%	0.50%
Issuance Costs	0.10%	0.20%
Cost of Debt	1.84%	2.56%
RfR	0.50%	0.60%
TMR	6.40%	6.80%
EMRP	5.90%	6.20%
Asset beta	0.31	0.35
Equity beta	0.78	0.88
Cost of Equity (Post-Tax)	5.07%	6.03%
Tax	12.50%	15.00%
Cost of Equity (Pre-Tax)	5.80%	7.09%
Cost of Equity (Pre-Tax) Uplift	0.55%	0.55%
Cost of Equity (Pre-Tax)	6.35%	7.64%
Notional Gearing	60%	60%
WACC (Pre-Tax)	3.64%	4.59%
Inflation Expectations Adjustment (IEA) ⁵⁷	0.10%	0.40%
WACC (Pre-Tax) After IEA	3.74%	4.99%
67th Percentile of WACC Range	4.58%	

⁵⁷ Note that in calculating the Allowed Debt Rate of Return this adjustment is not required as a nominal cost of debt is estimated directly from the benchmark data.