



Energy for
generations



Regulatory Accounting Separation Manual

Year Ended 31 December 2024

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Introduction

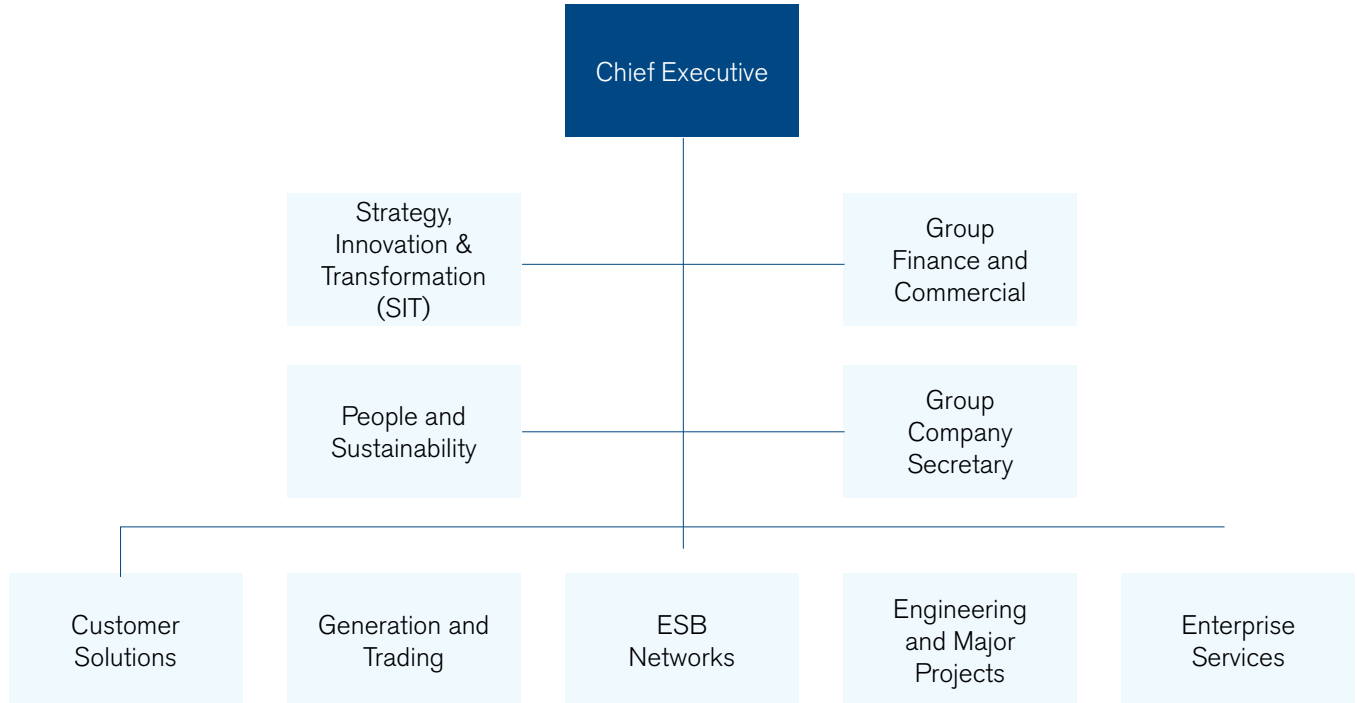
The Commission for Regulated Utilities in Ireland (CRU) requires Utility companies to publish Annual Regulatory Accounts (REG's). The objective of the REG's is to provide clear information regarding the financial performance for the regulated entities. In December 2022, the CRU published updated Regulatory Accounting Guidelines (RAG's), where the publication of an accounting separation manual is required. The production of an accounting separation manual will meet the requirements of Regulation 27(5) which requires that the rules for the allocation of assets and liabilities and expenditure and income to be specified in preparing and producing the REG's.

This separation manual provides an overview of the processes, systems, and assurance that ESB uses to ensure the data in REG's are robust and meets all of CRU's requirements. This document includes details of the methods of allocation of shared costs between business units. The contents of this document are intended to help stakeholders understand the robustness and method of producing the REG's.

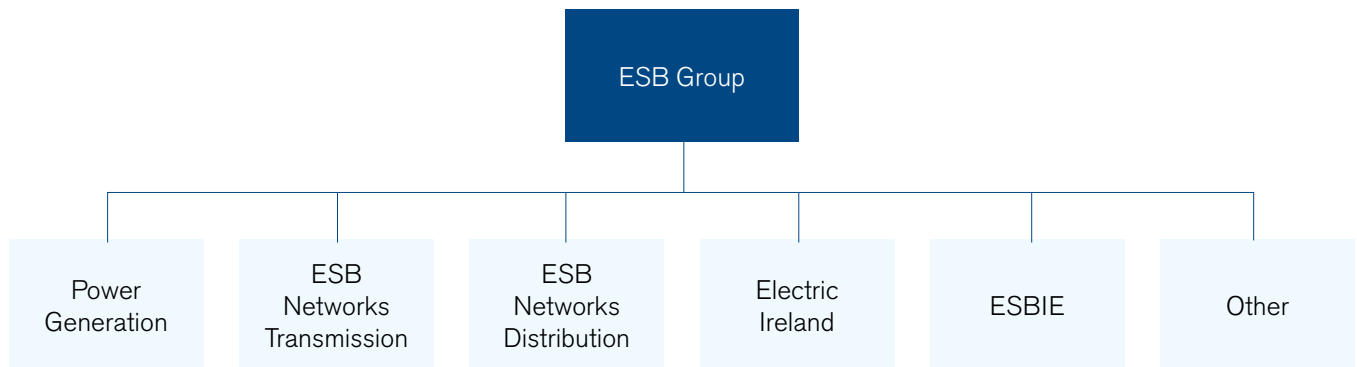
A (i) Company Overview

ESB was established in 1927 as a statutory body under the Electricity (Supply) Act, 1927. ESB is majority owned by the Irish Government, with the remaining minority held by the trustees of an Employee Share Ownership Plan. As a diversified utility, ESB operates across the electricity market, from generation through transmission and distribution, to supply of customers.

A (ii) Company Structure



A (iii) Regulatory Structure



B (i) Business Units

The Regulatory Financial Statements format requires that four regulated entities within the ESB Parent entity, namely Power Generation, ESB Networks Transmission, ESB Networks (DAO) and Electric Ireland, and two subsidiaries, ESB Independent Energy Limited (ESBIE) and ESB Networks DAC (DSO), to be separately detailed. "Other" consists of the remaining non-regulated business areas in the Group along with group accounting consolidation adjustments and cancellation of internal transactions.

Power Generation: Power Generation is an ESB Parent reporting unit, and its main activities relate to the development, operation and trading of power generation assets in the Republic of Ireland.

ESB Networks: ESB Networks mainly recognises revenue from Use of System that comprises of Distribution Use of System (DUoS) revenue and Transmission Use of System (TUoS) revenue. ESB Networks operates in the Republic of Ireland and is a regulated business, earning its revenue primarily from an allowed return on its Regulated Asset Base (RAB) and recovery of its operating costs.

- **ESB Networks Distribution:** The distribution system delivers electricity from the transmission system to customers in Ireland, operating at 110kV in the Dublin area, and at 38kV, 20kV, 10kV and low voltage (LV) nationwide. ESB Networks Distribution is split between ESB Networks Distribution Asset Owner (DAO) and ESB Networks DAC which is the Distribution System Operator (DSO). ESB Networks (DAO) earns Distribution Use of System (DUoS) revenue through charges to suppliers for the use of the ESB Networks distribution system. Revenue is also earned from operations and maintenance annual charges for generators connected to the distribution system. These are based on a standard amount per km line or cable and are recognised over time as the performance obligation is satisfied. ESB Networks DAC (DSO) performs tariff collection and other services in relation to the electricity distribution network.
- **ESB Networks Transmission:** The nationwide electricity transmission system carries large volumes of electricity at high voltages (400kV, 220kV and 110kV) from generation stations to bulk supply points near the main towns and cities. From these, it connects with the distribution system, as well as to transmission systems in Northern Ireland and Britain. Transmission Use of System (TUoS) revenue is earned by maintaining the transmission assets to facilitate the effective operation by EirGrid.

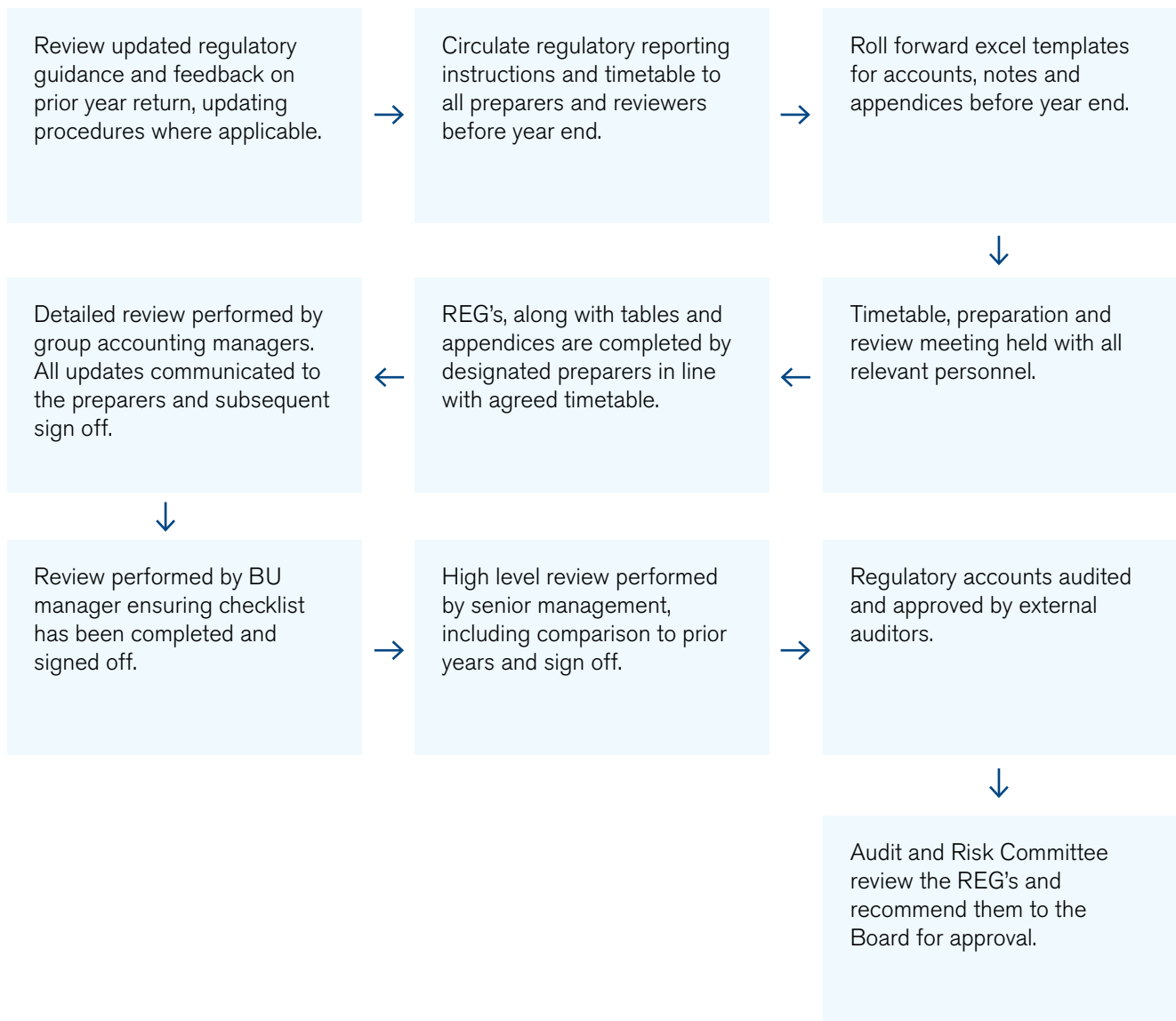
Electric Ireland: It is the Irish supply division of ESB. Electric Ireland derives revenues primarily from sales to electricity and gas customers. This revenue is earned from both residential and business customers in the Republic of Ireland (ROI). Residential credit terms and debtor days in respect of retail electricity receivables are 14 days. Credit terms for business customers vary by contract.

ESB Independent Energy Limited (ESBIE): ESBIE's principal activity is the sale of electricity and gas to business customers in the Republic of Ireland. ESBIE earns a fixed fee from ESB Generation and Trading, a division of ESB, to act as the supplier of electricity and gas to large industrial and commercial customers in the Republic of Ireland. This fixed fee was agreed to cover supply operating costs and provide an appropriate net margin. Market price, energy cost and volume risk are managed by ESB Generation and Trading, and they bear the underlying trading risk. ESBIE bears the credit risk for customers and is responsible for all operating costs. ESBIE also supplies electricity and gas to customers outside of the arrangement with ESB Generation and Trading, including some fee-based arrangements where the ESBIE is responsible for managing the price and energy cost risk on behalf of the customer for these contracts in addition to bearing the credit risk.

Other: “Other” is mostly made up of Northern Ireland Electricity Networks Ltd (NIE Networks), Enterprise Services, Engineering and Major Projects, Customer Solutions (excluding Electric Ireland, ESBIE), Generation and Trading (excluding Power Generation), Corporate Centre and SIT along with group accounting consolidation adjustments and cancellation of internal transactions.

C (i) Governance and Assurance

The Annual REG’s process involves input from numerous stakeholders within ESB to compile the required financial and regulatory information. ESB have a well-established, robust governance structure underpinning the production of the REG’s. An overview of the process is set out below:



C (ii) Roles and Responsibilities

Group Accounting

- Understand CRU guidance.
- Agree audit timetable and Board sign off dates.
- Obtain sign off that the shared costs have been calculated correctly, any changes to prior year methodology have been flagged and that appropriate cost drivers have been used.
- Co-ordinate the collation of the REG's and appendices.
- Consolidate the REG's and updating the separation manual, where applicable.
- Submit the REG's and appendices to the CRU.

Accounting and Reporting

- Understand CRU guidance and ensure procedures align with the requirements of the RAG's.
- Attendance at the regulatory accounting working group to ensure compliance with the latest regulatory accounting guidelines.
- Prepare the REG's for relevant BU's and appendices.

Managers and Senior Managers

- Review and confirm the REG's have been produced in a manner consistent with the latest RAGs.
- Review and confirm the REG's meet the relevant reporting requirements.
- Review and confirm the REG's have been sense checked by the respective BU managers.
- Understand and explain any significant changes or trends in the REG's.
- Regular manager meetings to ensure process and timetable adherence in the months prior to publication.

Audit & assurance

Once completed, the REG's are subject to an external financial audit.

Board review

Audit and Risk Committee review the final REG's and recommend them to the Board for approval. REG's are submitted to the Board for sign off before submission to the Regulator.

D (i) Cost Accounting Principles

Within the RAG's, the CRU have set out the following principles which should underpin the attribution and allocation of costs. These principles have been adhered to during the preparation of the REG's.

Principle	RAG Guidance	ESB Response
Causality	The allocation of costs should be based on the principle that items that are directly attributable to the business are assigned accordingly and items not directly attributable are assigned using an appropriate allocation as indicated below.	ESB costs are directly allocated, as far as practically possible, to activities that cause the costs to be incurred. Some costs (for example general and support costs) are more remote from the activities that cause the costs. The method applied to allocating such costs are described in section E(iii) of this separation manual.
Completeness	Costs allocated on a causation basis should be allocated across all cost centres that benefit from the good or service.	Costs allocated on a causation basis have been allocated to the cost centres that have benefited from the good or service.
Non-discrimination	Attributions, allocations and inter-business recharging of costs should be performed on an objective basis and not unduly benefiting the regulated company or any other company or subsidiary, affiliates or related undertakings or part of the organisation.	Objective cost allocations bases are utilised which meet the regulatory accounting principles.
No subsidies or cross-subsidisation	The attributions, allocations and inter-business recharging of costs shall not give any subsidy or cross-subsidy (direct or indirect) to any other separate businesses (regulated or unregulated) of the licensee and/or any affiliate or related undertaking of the licensee.	The Group has procedures in place, such as ESB Internal Trading Policy, Enterprise Services Code of Conduct and Networks Compliance Code of Conduct which ensure that transactions between business units are affected and recorded appropriately in compliance with the RAG's.
Transparency	In order to promote the concept of transparency, the value of transactions not directly attributed should be separately disclosed in the REG's, this should include the allocation bases and the amounts that have been allocated to the separate business. Where an item has not be directly allocated and a cost allocation basis cannot be determined, the item should be separately disclosed in the REG's giving the amount and the allocation to the separate businesses.	Transparency is provided by the production of this separation manual.

Principle	RAG Guidance	ESB Response
Consistency	All attributions, allocations and inter-business recharging policy of costs should be consistent from year to year. If there are any changes, these should be disclosed in the REG's setting out the reasons and impact of any change from the prior year to the separate businesses.	The Group keeps the methodology as consistent as possible from year to year with changes most likely to occur in order to comply with CRU guidance. Significant methodology changes from the prior year are explained on section F(i) of this document.

E (i) Accounting Systems

ESB mainly use SAP accounting software to record transactions and produce the REGs. ESB have used SAP software since 1999 and have updated the software on a regular basis over the years. There are several SAP and non-SAP systems that impact on the values in the REG's. Detailed below is an overview of these systems.

ESB's main accounting system is SAP S/4HANA 1909 on premise version, which was introduced in 2021. ESB will be upgrading to S/4HANA 2023 in 2024. The S/4HANA system includes the following modules.

- General ledger
- Cost accounting
- Profit centre accounting
- Treasury (in house cash)
- Asset accounting
- Accounts payable and receivable
- Sales and distribution
- Materials /inventory management
- Warehouse management
- Procurement
- Plant maintenance
- Project systems
- Payroll
- Org management
- Time management

ESB Networks use plant maintenance for all their asset maintenance (maintenance plans and orders) and plant maintenance and project systems for all their capital work design, management and capitalisation.

Included in the same system is SAP S/4HANA Finance for Group Reporting 1909, used in ESB to consolidate ESB group accounts for both actual and plan values. Data flows from S/4HANA to group reporting at a summarised level. Intercompany eliminations and reclassifications of accounts and consolidated adjustments take place in group reporting.

Other systems that impact on the REG's are:

ESB Networks IS-U (SAP industry solution for Utilities)

All finance movements are interfaced daily on S/4HANA. Most of ESB Networks revenue comes from this system. DUOS billing, capital contributions, customer refunds etc.

Supply IS-U (SAP industry solution for Utilities)

Used to bill residential customers in Rol for electricity and gas. All finance movements are interfaced on a daily based on S/4HANA.

ESBIE IS-U (SAP industry solution for Utilities)

Used to bill commercial and large customers in both Rol and NI. The same as the other IS-U systems finance movements are interfaced daily to S/4HANA.

SAP Concur

Records employee expenses and interfaces to S/4HANA daily for payment.

Other SAP systems

SAP BPC (Business Planning & Consolidation) – ESB use BPC to record 5-year budget numbers and quarterly forecasts. The figures from BPC are interfaced to S/4HANA and then to group reporting for consolidation. ESB Networks also use BPC to calculate the budget overhead (surcharge) percentages.

Other non-SAP systems

Quantum – Treasury management system with daily interface to S/4HANA for loan and cash movements.

Align – Connects to the market operator systems for buying and selling of electricity. Weekly interface to S/4HANA with details of invoices to be paid or money owed from the market operator.

Ex Post –The system is connected to the market operator systems and has a weekly interface to S/4HANA.

CSS – Connected to the market operator systems for windfarms and has a weekly interface to S/4HANA.

Kofax – Used for invoice processing.

SFTP files – CPC and fuel cards, Altas (corporate travel management) and ESB Networks charter payments.

E (ii) Overview of cost structures in ESB

Costs are captured in SAP cost objects. These cost objects are in the main cost centres and projects/WBS elements.

- Cost centres are used for ongoing and overhead type costs.
- WBS elements are used to collect project costs.

In ESB Networks, as well as cost centres and WBS elements, they collect costs in internal orders, network activities, CU (compatible unit) orders operations, and maintenance orders.

Cost centres are used to collect the overhead and ongoing costs.

Projects/WBS similar to other companies are used for project costs.

Network activities sit under WBS elements in projects and collect project costs e.g., design costs, commissioning costs, civil works and telecoms costs.

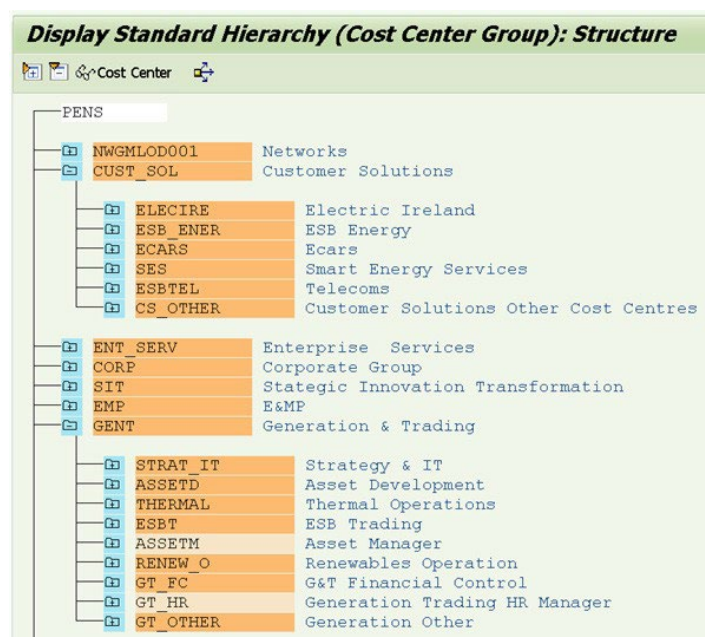
Maintenance orders are used to collect asset maintenance costs.

Internal orders are used to collect costs for an activity over time (e.g., site switching etc).

CU orders are connected to projects and collect capital costs for both large and small capital jobs in ESB Networks – electrical system construction costs.

Cost centre hierarchy

The cost centres are structured in a hierarchy as follows:



Each business unit and company code have their own cost centres. Costs flow into SAP from several different SAP and non-SAP systems as well as being generated in S/4HANA from journal postings, goods receipts, material goods issues, etc.

E (iii) Allocation of Shared Costs

The Power Generation, ESB Networks Transmission, ESB Networks (DAO), ESB Networks DAC (DSO), Electric Ireland and ESBIE businesses are charged or allocated corporate and other shared costs such as HR, Group Treasury and Legal costs. These costs are allocated to a single business unit of principal use and then recharged to the relevant business unit.

These allocations are calculated offline using an appropriate cost driver, such as headcount and are then recorded in SAP in each individual business unit. These recharges are billed monthly/ quarterly by the Order to Cash team.

The table below shows the shared costs and the cost drivers used for allocation to business units:

Shared costs	Basis of Allocation
Enterprise Services Costs:	
Finance Operations	Full time equivalent
FP&A	Full time equivalent
Procurement	Full time equivalent
HR Operations and Pensions	Head count
IT	Mix of allocations ¹
Services (Facilities, Legal)	Mix of allocations ¹
Insurance ³	Mix of allocations ¹
Other central overheads (Corporate, GT)	Head count
Corporate Centre Costs:	
Group Finance and Commercial	Basket of measures ²
Group HR	Head count
Chief Executive/Co. Sec.	Basket of measures ²
Group Treasury	Basket of measures ²
Group Safety	Full time equivalent
SIT Costs:	
Strategy, Transformation and Risk	Basket of measures ²
Group Internal Audit	Basket of measures ²
Legal ⁴	Basket of measures ²
Group Property Costs:	
Head Office	Work settings in head office
Property Operations	Full time equivalent
Archives	Head count
Security and Management	Full time equivalent & head count
Staff Electricity Discount:	
Electricity discount	Head count

1. IT is charged back using a range of volumetrics – MS Users, SAP users, % of IT and digital investment etc. Services is a mix of directly attributable costs and an allocation from the business line manager to the BU driving the costs and BU headcount. Insurance allocation is a mix of directly attributable costs, headcount and number of vehicles.

2. Calculated using a weighted average method of 25% each of turnover, total non-current assets, staff numbers & profit from prior year annual report. An average of this result is calculated for the previous 3/4 years.

3. In respect of insurance costs, these costs were predominantly directly recharged in 2024 versus all indirectly recharged in 2023.

4. In respect of legal costs in 2024 these costs are now being recharged through SIT Business Unit. In 2023 these costs were all recharged through the Enterprise Services Business Unit.

Cost drivers are applied on a consistent basis, however where there has been a change this is discussed with the relevant department to ensure that it is reasonable. Any changes from previous years are disclosed in the Separation Manual.

Reports are produced by the finance teams which are examined closely to highlight any cost variances and to identify any costs that should not be included in that area. Any costs that should not be included within a particular area will be transferred out.

E (iv) ESB Networks ABC Model

ESB Networks allocates overhead costs between operating and capital activities, and also between the Distribution and Transmission businesses. The Activity Based Cost (ABC) model is the methodology by which this is achieved. The objective of the ABC process is to attribute relevant costs to each project or activity to determine the full gross cost of that project or activity. ESB Networks has always attributed a share of its overhead costs to both operating and capital activities.

The ESB Networks Attribution Model uses activity-based costing principles which have been developed and updated since its introduction in 2002. The key drivers for the introduction of the attribution model were:

- Transparency of costs and regulatory reporting – since 2002 the ESB Networks business has encompassed the distribution and transmission regulated activities and has allocated overheads to either operating or capital activities in both businesses.
- Basis of regulatory pricing decisions – the attribution model supports full activity-based analysis in line with the activity orientated approach used in the price review determination process.

Allocable overheads

Allocable overheads are the necessary indirect costs associated with the prime delivery and operating activities. These costs are allocated to the appropriate prime delivery and operating activity according to ESB Network's ABC model.

Examples of allocable overheads are:

- Annual leave, sick leave and training of front-line staff.
- Payroll costs of clerical, management, technical & support staff.
- Fleet and transport, depot cost, protective clothing of front-line staff.
- Premises, Finance, Asset Management, HR and Sustainability.

Overhead Allocation Process

The overhead allocation process is per the flow chart below:



E (v) Internal Trading Agreements

Charging of intercompany services

Charging of intercompany services costs incurred (i.e. payroll, overheads, 3rd party costs etc.) by business units in relation to the provision of services to other business units in the ESB Group are to be assigned to the relevant company that receives the benefit of those services. The charging methodology should attribute the costs on a fair and reasonable basis amongst the users of the services (i.e., costs to be allocated based on time incurred or based on balance sheet value, MWs or some other basis that best allocates the costs on a fair and reasonable basis) and should be consistently applied unless the methodology is no longer attributing the costs on a fair and reasonable basis. As outlined in section E (iii) above, each of the regulated entities are allocated shared costs. These costs are then further allocated within each business unit as detailed below.

Power Generation

Power Generation forms part of the Generation and Trading business unit. Corporate Centre, SIT and Enterprise Services shared costs are calculated centrally and allocated to Generation and Trading. These costs are then reallocated within Generation and Trading using appropriate cost drivers.

ESB Networks

Corporate Centre, SIT and Enterprise Services shared costs are calculated centrally and allocated to ESB Networks (DAO). These costs are then allocated between operating and capital activities, and between ESB Networks (DAO) and ESB Networks Transmission. A further allocation between ESB Networks (DAO) and ESB Networks Transmission takes place after the ABC model is run, as described in section E(iv) above.

ESBIE & Electric Ireland

ESBIE and Electric Ireland form part of the Customer Solutions business unit. Corporate Centre, SIT and Enterprise Services shared costs are calculated centrally and allocated to Customer Solutions. These costs are then reallocated within Customer Solutions using appropriate cost drivers.

Other Shared Costs

Group Property

Power Generation, ESB Networks and Electric Ireland are allocated a cost for Group Property. This cost is made up of:

- Rent, rates and service charge which are allocated to the business based on the work settings requested at design stage of Project Fitzwilliam as a percentage of the overall work settings. This charge does not apply to ESB Networks.
- Property operations. This charge is allocated to the business based on budgeted staff effort for the coming year for mapping, planning and other property operations by business.
- Archive has a cost base including payroll and depreciation. This is allocated across the group on a percentage head count basis.
- Group security and management overhead is allocated on a mixture of percentage head count and budgeted staff effort for the coming year.

This cost is then allocated within each business unit using appropriate cost drivers such as headcount or using the ABC model in ESB Networks.

Staff Electricity Discount

Eligible staff within ESB group receive a staff discount on Electric Ireland Residential Electricity accounts as part of their standard terms and conditions. The cost of the discount is reallocated to the appropriate business unit within the Group from Electric Ireland based on employee headcount. This cost is then allocated within each business unit using appropriate cost drivers or using the ABC model in ESB Networks.

It may not be appropriate to recharge the cost of certain activities amongst the group depending on their nature. ESB do not recharge costs related to shareholder activities, such as Innovation R&D and Corporate Affairs. These types of activities would not justify a recharge to an associated company as the perceived recipient entity does not require the activity performed as part of its normal operations and would not look for those activities to be performed in-house or on an outsourced basis.

F (i) Changes from Prior Year

In 2024 there has been a change in the allocation methodology in respect of some shared costs in producing the REG's.

In respect of insurance costs, these costs were predominantly directly recharged in 2024 versus all indirectly recharged in 2023.

In respect of legal costs in 2024 these costs are now being recharged through SIT Business Unit. In 2023 these costs were all recharged through the Enterprise Services Business Unit.

G (i) Accounts Allocation Methodology

The extract below shows the allocation and apportionment methodology used to produce each line item reported in the REG's.

ESB Group

Regulatory Income Statement

	Direct costs or allocation of shared costs	Allocation Basis	BU shared cost applicable to
Revenue before exceptional items	Direct	N/A	N/A
Exceptional Revenue (if applicable)	Direct	N/A	N/A
Other operating income (net) before exceptional items	Direct	N/A	N/A
Exceptional other operating income (net) (if applicable)	Direct	N/A	N/A
Net impairment losses on financial assets	Direct	N/A	N/A
Operating costs (net) before exceptional items	Direct and shared costs	See E (iii)*	Power Generation, Electric Ireland, ESBIE, Networks DIST & TRAN
Exceptional operating costs (net) (if applicable)	Direct	N/A	N/A
Operating profit before exceptional items			
Operating profit / (loss) after exceptional item			

	Direct costs or allocation of shared costs	Allocation Basis	BU shared cost applicable to
Net finance cost	Direct	N/A	N/A
Exceptional impairment of equity accounted investees (if applicable)	Direct	N/A	N/A
Share of equity accounted investees (loss) / profit, net of tax	Direct	N/A	N/A
Profit / (Loss) before taxation			
Income tax expense	Direct	N/A	N/A
Profit / (Loss) after taxation			
Attributable to:			
Equity holders of the Parent	N/A	N/A	N/A
Non-controlling interest	N/A	N/A	N/A
Profit / (Loss) for the financial year			

***Allocation basis**

All allocations per E(iii) are included in this figure

ESB Group Regulatory Balance Sheet

	Direct costs or allocation of shared costs	Allocation Basis	BU shared cost applicable to
ASSETS			
Non-current assets			
Property, plant and equipment	Direct and shared costs	See E (iii)*	Networks DIST & TRAN**
Intangible assets	Direct and shared costs	See E (iii)*	Networks DIST & TRAN**
Right-of-use assets	Direct	N/A	N/A
Goodwill	Direct	N/A	N/A
Investments in equity accounted investees	Direct	N/A	N/A
Financial asset investments at fair value through profit or loss	Direct	N/A	N/A
Trade and other receivables	Direct	N/A	N/A
Derivative financial instruments	Direct	N/A	N/A
Deferred tax assets	Direct	N/A	N/A
Asset – NIE Networks pension scheme	Direct	N/A	N/A
Total non-current assets			
Current assets			
Inventories	Direct	N/A	N/A
Intangible assets	Direct	N/A	N/A
Derivative financial instruments	Direct	N/A	N/A
Current tax asset	Direct	N/A	N/A
Trade and other receivables	Direct	N/A	N/A
Cash and cash equivalents	Direct	N/A	N/A
Total current assets			
Total assets			
EQUITY			
Capital stock	Direct	N/A	N/A
Capital redemption reserve	Direct	N/A	N/A
Translation reserve	Direct	N/A	N/A
Other reserves	Direct	N/A	N/A
Cash flow hedging reserve	Direct	N/A	N/A
Retained earnings	Direct	N/A	N/A
Equity attributable to equity holders of the Parent			
Non-controlling interest	Direct	N/A	N/A
Total equity			

	Direct costs or allocation of shared costs	Allocation Basis	BU shared cost applicable to
LIABILITIES			
Non-current liabilities			
Borrowings and other debt	Direct	N/A	N/A
Lease liabilities	Direct	N/A	N/A
Liability – ESB pension scheme	Direct	N/A	N/A
Liability – NIE Networks pension scheme	Direct	N/A	N/A
Employee related liabilities	Direct	N/A	N/A
Trade and other payables	Direct	N/A	N/A
Deferred income	Direct	N/A	N/A
Provisions	Direct	N/A	N/A
Deferred tax liabilities	Direct	N/A	N/A
Derivative financial instruments	Direct	N/A	N/A
Total non-current liabilities			
Current liabilities			
Borrowings and other debt	Direct	N/A	N/A
Lease liabilities	Direct	N/A	N/A
Liability – ESB pension scheme	Direct	N/A	N/A
Employee related liabilities	Direct	N/A	N/A
Trade and other payables	Direct	N/A	N/A
Deferred income	Direct	N/A	N/A
Provisions	Direct	N/A	N/A
Derivative financial instruments	Direct	N/A	N/A
Total current liabilities			

***Allocation basis**

All allocations per E(iii) are included in this figure

**Networks ABC model capitalises some shared costs to property, plant and equipment and intangible assets

