



**Single Electricity Market  
(SEM)**

**Capacity Market Code**

**Terms of Reference for the Year 7 Market Audit -  
Decision Paper**

**SEM-25-055**

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## 1. BACKGROUND

Paragraph B.11.2.1 of the Capacity Market Code (CMC), requires the Market Auditor to conduct an audit of the CMC, its operation and implementation of the arrangements, procedures and processes under the CMC at least once a year.

Paragraph B.11.2.3 of the Code requires the Regulatory Authorities (RAs) to consult with Parties on the Terms of Reference (TOR) for the audit. The last Audit Report was published on the 04 March 2025 and paragraph B.11.2.3 indicates Parties shall be consulted on the terms of reference for the next audit following the publication of the Audit Report. Paragraph B.11.2.4 requires the RAs to annually specify the precise Terms of Reference for the audit following a consultation process.

The purpose of this paper is to set out the SEM Committee decision for the scope of the Year 7 audit together with the reporting arrangements.

The first Capacity Market audit for Year 1 was conducted in 2019/20. The second Capacity Market audit for Year 2 was conducted in 2020/21. The RAs are cognisant of the delay to the Year 3 Capacity Market audit with both Year 3 and Year 4 audit reports published on 6<sup>th</sup> March 2024. The Year 5 Capacity Market Audit Report was published on 04 March 2025<sup>1</sup>.

The RAs revisited the original TOR set out in SEM-17-023<sup>2</sup> alongside the Year 6 TOR Decision Paper and considered whether the scope for the Year 7 Audit report should be changed.

## 2. PROPOSED YEAR 7 AUDIT SCOPE

The SEM Committee proposed that the Year 7 audit will cover the seventeen-month period of 1 May 2024 – 30 September 2025. The audit would incorporate the following Capacity Auctions:

- T-4 2028/2029 Capacity Auction – which took place on 05 December 2024
- T-1 2025/2026 Capacity Auction - which took place on 22 May 2025

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<sup>1</sup> [Capacity Market Auditor Report Year 5.pdf](#)

<sup>2</sup> [SEM-17-023](#)

The proposed five-month extension to the 12-month audit period (as per Years 5 & 6 audit reports) will align the reporting period to the Capacity Market Year for future audits.

The SEM Committee also recommend that the Auditor's Opinion will continue to be conducted under the International Standard on Assurance Engagements (ISAE 3000) and that the Year 7 audit report will utilise a similar Terms of Reference as set for Year 6.

The proposed TOR for the Year 7 includes:

- Accession and Registration.
- Default, Suspension and Termination.
- Qualification.
- Operation of the auction and award of capacity.
- Secondary trading.
- Implementation agreements.
- SO and other Charges.
- Invoicing and Payment.
- Credit Cover management.
- Disputes.
- Modifications.
- Design Authority / Code development and Systems Upgrade.

### 3. SUMMARY OF RESPONSES

On 08 August 2025, the RAs published the Consultation Paper on the proposed Terms of reference for the Year 7 Capacity Market Audit (SEM-25-041<sup>3</sup>). The consultation closed for responses on 05 September 2025 with two responses received by the RAs:

1. Eirgrid/ SONI (SOs)
2. Bord Gáis Energy (BGE)

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<sup>3</sup> [Terms of Reference - Year 7 Market Audit Consultation Paper.pdf](#)

1. The SOs have proposed an amendment to the current market-level materiality threshold from 0.25% to 0.5%.

The proposed amendment would bring the Capacity Market materiality threshold in line with the TOR for the Trading Settlement Code (TSC) which has increased to 0.5% in recent months. The SOs denote the 0.25% threshold was originally set in SEM-17-023<sup>4</sup> and was aligned with the TSC at the time. In addition, the SOs also suggest the retiring of the set fixed levels of materiality of 20MW at market level and 2MW at participant level which were initially set in the original terms of reference in 2017.

The SOs suggest these proposals reflect shifts in capacity requirements since 2017 and aims to ensure consistency across both market audits.

2. BGE noted the proposed scope was largely consistent with previous years aside from the change to the audit period as per the consultation paper.

BGE welcomed the continued inclusion of secondary trading within the audit scope and acknowledged detailed findings in the Year 6 Audit Report which reflects recurring issues around timeliness, data accuracy and process compliance.

In addition, BGE have proposed assessments/ examinations of the following to be included within the TOR:

1. Market Liquidity - examination of whether poor liquidity in secondary trading is being driven by design or operational limitations, such as overly restrictive rules or barriers to participation.
2. Impact of Level 1 Constraints – An assessment of whether constraints within and across Level 1 Constraint Areas are unnecessarily limiting the pool of potential counterparties and undermining the effectiveness of secondary trading. BGE are concerned that restricting secondary trades only to Level 1 areas — without allowing RA discretion to approve trades outside these areas — may impact market efficiency and liquidity.
3. Distribution of Market Benefit – BGE propose that the audit assesses whether secondary trading is delivering benefits across the SEM participant

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<sup>4</sup> [SEM-17-023 Original TOR](#)



base, or whether advantages are disproportionately accruing to participants with larger asset portfolios.

#### 4. SEM COMMITTEE RESPONSE

The SEM Committee welcomes the responses received in conjunction with consultation SEM-25-041.

1. In response to the SOs proposal the SEM Committee acknowledge the original TOR<sup>5</sup> stipulates, set fixed levels of materiality of 20MW at the market level and 2MW at the participant level were ‘initially’ assigned. It was also proposed, **“these values will be reviewed if there is a sustained, material shift in the level of the Capacity Requirement”**.

Furthermore, SEM-17-023 noted that other electricity markets placed greater importance on the reporting of significant issues as participants took comfort that issues not deemed to be material on overall market terms were identified and allowed them to assess the impact on their business.

The SEM Committee approve the retiring of the use of the initial fixed level of materiality set at 20MW market level and 2MW at participant level (for the reporting of significant issues) and moving to a materiality set based on the level of capacity requirement.

The SEM Committee agree with the SO proposal to align the Capacity Market audit with the TSC audit at a 0.5% materiality threshold, with the threshold for reporting significant issues set at 10% of materiality. The TSC change was approved by the SEM Committee in June 2023<sup>6</sup>.

A change to the level of materiality will not impact the reporting of issues, with the report continuing to include details of all findings identified by the Auditor. The RAs and market participants will continue to be provided with an audit opinion giving reasonable assurance that there are no undetected material errors or misstatements.

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<sup>5</sup> SEM-17-023 Original TOR

<sup>6</sup> [ToR for TSC Audit - decision paper - final.pdf](#)

This amendment will mean a varied level of quantitative materiality for each audit period which is dependent on the capacity requirement set within the Final Auction Information Pack (FAIP) and removes the requirement of the fixed level of materiality assigned in SEM-17-023. Future materiality levels will be set against an average of capacity requirements across all capacity auctions which have taken place within the agreed audit period. The auditor will continue to apply professional judgement in considering whether any issues are qualitatively material as part of the overall reporting process.

This change will provide consistency for the auditor as well as participants involved in the Capacity Market.

For example, the Year 7 audit will review the following capacity auctions:

- T-4 2028/2029 Capacity Auction – which took place on 05 December 2024 with a capacity requirement of 7,120MW<sup>7</sup>.
- T-1 2025/2026 Capacity Auction - which took place on 22 May 2025 with a capacity requirement of 6,133MW<sup>8</sup>.

The market-level materiality for the Year 7 audit period would be calculated as follows:  $((7120+6133)/2)*0.5\%=33.133\text{MW}$  (Rounding to three decimal places as per CMC).

2. BGE proposed three additions to the Year 7 TOR which included the examination / assessment of market liquidity, the impact of level 1 constraints and the distribution of market benefit. Section B.11.2.1 of the CMC states that the Capacity Market Auditor shall conduct an audit of the operation and implementation of the arrangements, procedures and processes under the CMC. The SEM Committee confirms the scope of the Auditor is limited to the activities set out in the CMC. It is assessed the proposals set out by BGE are market design issues and sit outside the scope of the Capacity Market Auditor. As such, the SEM Committee reject this proposal.

Additionally, BGE highlighted findings in the Year 6 Audit Report which reflected recurring issues around timeliness, data accuracy and process compliance. It should be noted the RAs have received a detailed action plan from the SOs which prioritises

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<sup>7</sup> FAIP2829T-4

<sup>8</sup> FAIP2526T-1

and outlines measures to be undertaken to rectify recurring issues identified by the Auditor.

## **5. SEM COMMITTEE DECISION**

The SEM Committee has decided to implement the following approach and TOR for the Year 7 Capacity Market Auditor Report:

### Timescale

The SEM Committee proposes a seventeen-month period between 1 May 2024 – 30 September 2025. The audit would incorporate the following Capacity Auctions:

- T-4 2028/2029 Capacity Auction – which took place on 05 December 2024
- T-1 2025/2026 Capacity Auction - which took place on 22 May 2025

### Reporting

The basis of the Auditor's Opinion for the previous six years Audit Reports were conducted under the International Standard on Assurance Engagements (ISAE 3000). Taking account of the fact that ISAE 3000 requires the Auditor to provide an assurance opinion, the SEM Committee have decided that in conducting the Year 7 Audit Report, the Auditor will continue to do so under ISAE 3000.

### Terms of Reference

It is the SEM Committee's view that the Year 7 Capacity Market Audit report will include:

- Accession and Registration;
- Default, Suspension and Termination;
- Qualification;
- Operation of the auction and award of capacity;
- Secondary Trading
- Implementation agreements;
- SO and other Charges;
- Invoicing and Payment;
- Credit Cover management;
- Disputes;
- Modifications; and



- Design Authority / Code development and Systems Upgrade
- Materiality threshold will be based on 0.5% of market level. Market level materiality for the Year 7 audit period is calculated as follows:  
 $((7120+6133)/2)*0.5\%=33.133\text{MW}$
- A threshold of 10% of materiality will be used for the reporting of significant issues.

## 6. NEXT STEPS

Following publication of this paper, the Capacity Market Auditor will complete the Year 7 audit.