Single Electricity Market

(SEM)

Capacity Market Code

Terms of Reference for the Year 8 Market Audit - Consultation Paper

SEM-26-35

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2. BACKGROUND

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

The Year 7 Audit Report was published on 11 September 2026[1] and paragraph B.11.2.3 indicates Parties shall be consulted on the Terms of Reference (ToR) for the next audit following its publication. Paragraph B.11.2.4 requires the Regulatory Authorities (RAs) to specify the precise ToR for the audit following a consultation process.

The purpose of this paper is to set out the RAs' proposed approach to the scope of the Year 8 audit together with the associated reporting arrangements.

The RAs revisited the original ToR[2] set out in Appendix A alongside the Year 7 ToR Decision Paper to consider whether the scope for the Year 8 Audit Report should be amended. This consultation seeks views on whether the scope should be amended for the Year 8 audit.

3. PROPOSED YEAR 8 AUDIT SCOPE

The SEM Committee proposes that the Year 8 audit will cover the 12-month period of 1 October 2025 – 30 September 2026. The audit would incorporate the following Capacity Auctions:

- T-4 2029/2030 Capacity Auction - which took place on 26 March 2026
- T-1 2026/2027 Capacity Auction - which took place on 23 July 2026

The SEM Committee also recommends that the audit continues to be conducted in accordance with the International Standard on Assurance Engagements (ISAE 3000). The Year 8 Audit Report will use the ToR consistent with those applied to Year 7 and originally established in SEM-17-023 with the exception of the revised materiality thresholds outlined below.

[1] Year 7 Auditor Report
[2] Original Terms of Reference SEM-17-023

The proposed ToR for the Year 8 Audit includes the following as set out in section 5.6.4 of the original ToR:

- 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.

As an amendment to the original ToR and following the methodology agreed for the Year 7 ToR, materiality levels will be calculated based on the average capacity requirement across all Capacity Auctions within the audit period.

For example, the Year 8 audit will review the following capacity auctions:

▪ T-4 2029/2030 Capacity Auction – which took place on 26 March 2026 with a capacity requirement of 7,112MW[3].
▪ T-1 2026/2027 Capacity Auction - which took place on 23 July 2026 with a capacity requirement of 6,523MW[4].

The **market-level materiality** for the Year 8 audit period is calculated as follows: ((7112+6523)/2)*0.5%=**34.088 MW** (Rounding to three decimal places as per CMC).

Participant-level materiality is calculated as ((7112+6523)/2)*0.05%=**3.409MW**

[3] Final Auction Information Pack for the 2029_2030 T-4 Capacity Auction.pdf
[4] FAIP for the 2026_2027 T-1 Capacity Auction v 1.0.pdf

4. CONSULTATION AND NEXT STEPS

In presenting this paper for consultation, the SEM Committee seeks views on the proposed scope of the Year 8 Capacity Market Audit.

Responses to this Consultation Paper should be sent to **CRMsubmissions@uregni.gov.uk** **and** **CRMsubmissions@cru.ie** by 17.00 on **14 October 2026.**

Please note that the RAs intend to publish all responses unless marked confidential. While respondents may wish to identify some aspects of their response as confidential, they are requested to provide a non-confidential version or include confidential material in a separate annex.

Both RAs are subject to Freedom of Information legislation.

Following consideration of the responses received, the RAs will publish a Decision Paper confirming the ToR for the Year 8 Capacity Market Audit.

5. APPENDIX A: TERMS OF REFERENCE FOR CAPACITY MARKET AUDITOR[5]

5.1.1 The purpose of the Capacity Market Audit is to provide independent assurance to the market and the Regulatory Authorities on the operation of the I-SEM Capacity Market as set out in the Capacity Market Code. Settlement of the I-SEM Capacity Market will be audited under the Trading and Settlement Code and is outside of the scope of the Capacity Market Auditor.

CONTRACTUAL AND GOVERNANCE ARRANGEMENTS

5.2.1 In accordance with paragraph B.11.2.4 of the Capacity Market Code (CMC)[6], the RAs hereby specify the terms of reference for the Capacity Market Audit.

5.2.2 Based on the terms of reference, the Capacity Market Auditor will prepare an Audit Plan setting out the detailed audit approach which will be presented to and agreed with the RAs. In preparing the Capacity Market Audit Plan, the Capacity Market Auditor may consult with the RAs, System Operators and other participants as required. An opinion is to be provided using the Agreed upon Procedures approach set out in the International Standards on Related Services 4400 (ISRS 4400) – Engagements to Perform Agreed-upon-Procedures Regarding Financial Information.

5.2.3 The Capacity Market Auditor will be expected to liaise with the Capacity Auction Monitor. It will also be expected to liaise with the Trading and Settlement Code (TSC) Market Auditor where issues in the TSC impact the CMC or vice versa.

5.2.4 The Capacity Market Auditor will have a duty of care to the System Operators and the Parties to the Capacity Market Code who will receive the Market Audit Report and may seek to rely on it.

5.2.5 A tri-partite engagement letter is to be in place between the RAs, System Operators and the Capacity Market Auditor acknowledging the terms of engagement of the Capacity Market Auditor and their respective responsibilities. The Capacity Market

[5] Original Terms of Reference SEM-17-023

[6] Specific references to the Capacity Market Code in this appendix refer to the draft version of the code published as SEM-17-004a. All references should be read as applying to the final version of the Capacity Market Code due to be published in June 2017.

Auditor will also enter into a letter of release with Parties to the Capacity Market Code who will receive a copy of its report.

PERIOD OF AUDIT REPORT

5.3.1 While the Capacity Market Audit will be appointed on a rolling three year basis, part of the scope of its audit will be defined in terms of specific Capacity Auctions expected to fall (wholly or largely) within each of the years being audited.

5.3.2 All other activities performed under the Capacity Market Code will be audited on the basis of a twelve month.

5.3.3 In general, it would be expected that two Capacity Auctions will fall within each year for which the Capacity Market Auditor is appointed. However, particularly during the initial period, additional Capacity Auctions may occur in an audit year.

5.3.4 The Capacity Market Auditor shall perform a limited scope review executing audit procedures on a "walkthrough" basis covering the first six months of the audit period. This would involve approximately 50% of the audit work that would be required for a full year. The Capacity Market Auditor will report the results to the RAs together with any issues identified from its audit procedures which it considers may have a material impact on the audit opinion for the year, although a formal Interim Review Report and Report of Significant Issues would not be required.

MATERIALITY

5.4.1 In accordance with the International Standard on Auditing (UK and Ireland) 320 (ISA 320) titled "Materiality in Planning and Performing an Audit" materiality will be measured on a volumetric basis, i.e. in MW of capacity. The following materiality levels will apply to these terms of reference:

The materiality for the capacity market audit shall be a fixed level set at 20 MW at the market level.

A lower threshold, representing participant level materiality, shall be a fixed level set at 2 MW.

5.4.2 This lower threshold will be adopted for the reporting of significant issues identified during the course of the Capacity Market Audit. The Capacity Market Auditor shall report on issues which come to its attention which exceed this significant issues threshold or which it believes to be significant for other reasons, including frequency of occurrence or potential financial impact.

REPORTING

5.5.1 In the preparation of the Capacity Market Audit Report, the Capacity Market Auditor will discuss individual draft issues with the System Operators and other Parties insofar as they relate to them in order to confirm factual accuracy of the issues and their estimated quantification, and that all pertinent information and clarifications have reasonably been included.

5.5.2 The Capacity Market Auditor will subsequently discuss a full draft of the Capacity Market Audit Report with the RAs who may, at their discretion, invite or include named participants in the discussion of the draft report. The RAs believe that it may be necessary for them to discuss with the System Operators and the Capacity Market Auditor any relevant Significant Issues included in the draft report.

5.5.3 The Report of Significant Issues will form part of the overall Capacity Market Audit Report and will include details of the cause, circumstances and incidence of the error, and provide an estimate of magnitude. A summary of the action to be taken by the relevant party and any other party to resolve this issue would also be included. An audit opinion will continue to be provided, however there will be no assurance as to the completeness of the significant issue items reported.

5.5.4 The final version of the Capacity Market Audit Report will be addressed to the RAs. The final version of the Market Audit Report will be provided to Parties to the Capacity Market Code in line with the provisions of the Capacity Market Code, and subject to any confidentiality provisions required by the Capacity Market Auditor.

5.5.5 In addition to the main Audit Report, the Capacity Market Auditor will be expected to produce a brief report covering each Capacity Auction following the completion of the Auction Process. Where possible, this report should be produced before the beginning of the Auction Process for the next Capacity Auction.

BOUNDARY OF AUDIT

5.6.1 The Capacity Market Code paragraph B.11.2.1 sets out that "the Capacity Market Auditor shall conduct an audit of the operation and implementation of the arrangements, procedures and processes under this Code at least once a Year, in accordance with the terms of reference determined by the Regulatory Authorities." The remit of this scope for the capacity market audit period has been set on the basis of this, and the RAs consider that the systems, activities and processes under the System Operators fulfil the requirements of the Capacity Market Audit provisions in the Code.

5.6.2 The scope of the Capacity Market Audit will focus on the activities of the System Operators under the Capacity Market Code and associated Agreed Procedures and cover the systems and processes within the control of the System Operators.

5.6.3 This contained scope excludes activities undertaken by the TSOs, Market Operator and other participants as set out in the CMC and Agreed Procedures which explicitly excludes Capacity Market Settlement which is captured under the TSC market audit.

Systems/Process Under the Control of the System Operators

5.6.4 The scope of the Capacity Market Auditor's assurance activities shall relate to the System Operators' activities under the Code, to the extent covered by specific requirements in the CMC, Appendices and Agreed Procedures, will include:

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

- Design Authority / Code development and Systems Upgrade.

5.6.5 The audit focused on the System Operators should address compliance with the System Operators' systems and associated processes with the Code, including its Agreed Procedures. It will cover, inter alia, the processes of acquisition of input data, application of algorithms and calculations, provision of output data and maintenance of standing data.

Scope relating to Capacity Auctions

5.6.6 The following sections of the CMC form part of the Capacity Auctions process:

- Chapters C, D, E and F;
- Sections G.1 and G.2 of Chapter G;
- Chapter K, in so far as it relates to the determination of the exchange rates used in the Auction Information Pack and Auction Final Parameters;
- Chapter L, in so far as it relates to communications between Participants and the System Operator required as part of the qualification or auction process;
- Section L.4 of Chapter L, in so far as it relates to any communication and system failure which affects the qualification or auction process being audited;
- Section L.5 of Chapter L, in so far as it relates to publication of data relating to the qualification or auction process being audited;
- Appendices C, D, E and F; and
- Any Agreed Procedures relating to the qualification or auction process being
- audited, specifically including AP3 "Qualification and Auction Process".

5.6.7 For the first appointment and throughout the Interim Period, some of the enduring sections of the Code will be replaced as set out in Chapter M (Interim Arrangements) and will be considered to form part of the Capacity Auction process. In particular:

- Section M.2 sets out the period covered by the first Capacity Year;
- Section M.3 sets out the Transitional Period and changes to the timing and
- conduct of auctions during this period;
- Section M.4 sets out the requirement to determine Local Capacity Constraints;
- Section M.5 sets out the auction process to be followed; and

- Section M.8 covers any parameters etc that are determined before the Code goes live.

Limitations and Exclusions from scope

5.6.8 The Capacity Market Auditor will be checking the application of the Code, however validation of the Code itself is a technical area which is outside the Capacity Market Auditor's area of competence. Although, the Capacity Market Auditor shall report any inconsistency or error coming to their attention during the course of the audit work, they will not be specifically charged with confirming the validity of the Code.

5.6.9 The Market Auditor's role shall be restricted to confirming that the process for development has operated in accordance with the requirements of the Code.

5.6.10 The determination of the Local Capacity Constraints and their underlying methodology (set out in section F.4 of the Code) is a technical area which will lie outside the Capacity Market Auditor's area of expertise. As a result, the Auditor's scope shall be limited to the compliance by the System Operators with the methodology for determining Local Capacity Constraints, including following of any relevant procedures and provisions of appropriate process documentation.

Transitional Arrangements

5.6.11 It should be noted that the first Transitional Auction will cover the partial Capacity Year 2017/18 and the full Capacity Year 2018/19 as set out in section 2 of the CRM Parameters Decision Paper (SEM-17-022).

Other

5.6.12 In relation to the Agreed Upon Procedures, the Capacity Market Auditor will endeavour to minimise the intrusion into activities outside (but feeding into) the Capacity Market Code while achieving the required assurance in line with section 11.2 of the Code.