



Energy for
generations

ESB GT response to the Trading and Settlement Code Terms of Reference for the Market Audit 2022 Consultation Paper (SEM-23-033)

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1. INTRODUCTION

ESB Generation and Trading (ESB GT) welcomes the opportunity to respond to the Trading and Settlement Code Terms of Reference for the Market Audit 2022 Consultation Paper (SEM-23-033)¹ which is consulting on the scope of the audit and the approach to be applied for the period from 1st of January 2022 to 31st of December 2022.

2. EXECUTIVE SUMMARY

This consultation paper asks for feedback on the potential to change the materiality level used by the market auditor. Two options are presented and ESB GT's preference is for Option 1 - to retain the current level (0.25%) based on the annual market values of electricity traded in the SEM, as governed by the TSC. We consider the retention of the current materiality level to be appropriate. We also recognise that the SEMO has geared and been funded up to this level and currently perform to this high standard. In relation to the scope of the 2002 Market Audit, ESB GT consider it good practice to continue to include the Market Operator and Imperfections Charges, as was the case in the 2021 Market Audit.

3. CONSULTATION PURPOSE

The consultation asks for the consideration of two options for the level of materiality to be used by the Market Auditor.

- **Option 1 - 0.25%** of the estimated annual market value of electricity traded in the Single Electricity Market (SEM), as governed by the TSC. A lower threshold of 10% of the materiality value (0.025%) of the estimated annual market value, is set for reporting significant issues. These percentages have been consistent with previous audits.
- **Option 2 - 0.5%** of the estimated annual market value of electricity traded in the SEM, as governed by the TSC. A lower threshold of 10% of the materiality value (0.05%) of the estimated annual market value, is set for reporting significant issues.

¹ [Trading and Settlement Code Terms of Reference for the Market Audit 2022 Consultation Paper_0.PDF](https://semcommittee.com)
(semcommittee.com)

4. RESPONSE TO CONSULTATION

4.1 Proposed Materiality Level Changes

ESB GT acknowledge that the annual market values of electricity traded in the SEM, as governed by the TSC have dropped by 45% from €4.4m in 2015 to €2.4m in 2021 and that this decrease in market values could provide justification for changing the materiality threshold. However, since this decrease in market value has been mainly driven by the differences between the Single Electricity Market (SEM) pre and post 1st October 2018, we do not consider that a change in the materiality threshold is necessary and may reflect a regime shift.

We also draw attention to the fact that the Materiality Level has remained at 0.25% since 2018. In the previous Market Audit (2021) two significant issues were reported using the 0.25% materiality level, which had an estimated impact of €310k and €900k. This shows that the 0.25% threshold continues to be effective as it captures important events which would otherwise have been omitted.

ESB GT preference is to remain with Option 1 – 0.25%

4.2 Extension to Scope of 2022 Market Audit

Market Operator and Imperfections Charges (Limited Expansion)

As part of the 2021 Market Auditors Final Report, it is stated that the 2021 scope would include “*Market Operator and Imperfections Charges*”. This additional topic is addressed in Section 1.2 of the Trading and Settlement Code Terms of Reference for the Market Audit 2021 Decision Paper² (SEM-21-082).

“Section 1.2. Limited Expansion

The SEM Committee has decided to include additional limited expansion to the core SEMO audit. The limited expansion will be into the calculation, application and reporting of the Market Operator charges (Fixed and Variable) and Imperfection charges within the TSC. This falls under Section G.7, Section F.12 and Section B.16.21 of the TSC Part B and will also include relevant Agreed Procedures such as Agreed Procedure 15 ‘Settlement & Billing’. The specifics of this expansion will be developed by the Auditors and SEMO and will be approved by the RAs.”

² [SEM-21-082 TSC TOR for Market Audit 2021.pdf \(semcommittee.com\)](#)

ESB GT draw attention to the fact that in the 2022 proposed Market Audit TOR it is unclear if the additional limited expansion will continue to apply going forward. We therefore seek clarity as to whether the intention is to include the calculation, application and reporting of the Market Operator charges (Fixed and Variable) and Imperfection charges within the TSC in 2022 and future audits.

ESB GT supports the inclusion of the “Market Operator and Imperfections Charges” in the 2022 Market Audit and future audits.