



**Integrated Single Electricity Market
(I-SEM)**

**Capacity Remuneration Mechanism
Terms of Reference for the Capacity Market Auditor
and Monitor**

Consultation Paper

SEM-17-007

25 January 2017

EXECUTIVE SUMMARY

Introduction

CRM Decision 3 (SEM-16-039) sets out the requirement and roles for an independent auction monitor and auditor to provide assurance on the operation of the Capacity Market as set out in the Capacity Market Code (“the Code”). Settlement of the Capacity Market occurs under the Trading and Settlement Code (TSC) and assurance on these processes is covered by the Market Auditor defined under that code.

The requirements and roles set out in CRM Decision 3 have been drafted into the Code in sections B.10 and B.11. The decision and the Code require the Regulatory Authorities to consult on the Terms of Reference of both the auditor and monitor. This paper sets out the details of that consultation.

As under the current TSC, it is clear that a single, overarching opinion from one auditor (or monitor) has a number of significant advantages over a suite of opinions from different auditors (or monitors).

The Regulatory Authorities will appoint the monitor and auditor and specify their terms of reference, the System Operators will pay the fees and costs of the monitor and auditor, and they will report to the Regulatory Authorities. In line with the current contracting for the TSC Market Auditor, it is assumed that the monitor and auditor will be engaged via a tri-partite agreement which includes the System Operators in respect of their obligation to pay for the monitor and auditor.

The Capacity Market Auditor

The Capacity Market Auditor (“the Auditor”) will provide independent assurance to the market and the Regulatory Authorities on the operation of the I-SEM Capacity Market as set out in the Code.

There are several possible bases on which the Auditor could give an opinion. This paper proposes use of an ISRS4400 opinion, in line with the nature of the opinion given by the Market Auditor under the current Trading and Settlement Code (TSC).

In line with the approach used for the current TSC Market Auditor, it is assumed that the Auditor will be appointed for a three year period but with their Terms of Reference consulted on annually, if required.

Unlike a traditional audit, or the current TSC Market Audit, assurance activities for the Capacity Market, as set out under the Code, do not fall neatly into fixed 12 month periods. Audit of many activities under the Code, e.g. registration, termination and secondary trading, can be performed on the basis of a fixed 12 month period. However, it is important that processes associated with a Capacity Auction, including associated Qualification, are subject to a single assurance process.

In consequence, the Terms of Reference for the Auditor should specify which Capacity Auctions are to be included within the scope of their assurance activities. In general, this will cover one T-1 Capacity Auction and one T-4 Capacity Auction. However, during the transitional period following I-SEM go-live a single Capacity Market Audit may cover three Capacity Auctions.

The assurance role will also cover processes not directly associated with the Capacity Auctions for the 12 month period to which the audit applies.

Given that the primary function of the Code is to contract for capacity, the materiality of any error or issue should be related to the volume of capacity affected. For issues with Qualification, there is no clear basis on which to determine the financial materiality of any error. As a result, this paper proposes the use of a volumetric measure of materiality rather than a financial one. Materiality, in respect of a Capacity Year, will be measured against the Capacity Requirement defined for that year. The paper proposes that the audit opinion should identify any issues with a materiality greater than 0.25%. The audit report should also identify significant issues where the materiality is greater than 10% of that which would qualify the audit opinion.

The scope of the Auditor's assurance activities should relate to the System Operators' activities under the Code which 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.

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

In the interim period, this scope will be modified in line with the Interim Arrangements set out in Chapter M of the Code.

The paper assumes that development of the Code was robust and subject to appropriate technical challenge. The Auditor's role will be restricted to confirming that the process for development has operated in accordance with the requirements of the Code. However, it is assumed that 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 would lie outside the Auditor's area of expertise and this would be excluded from the scope of the audit. However, the Auditor would still be expected to ensure that any relevant processes or procedures have been followed correctly.

The Capacity Auction Monitor

The Capacity Auction Monitor ("the Monitor") will be responsible for assuring the processes associated directly with Capacity Auctions, including the associated Qualification processes.

There are several possible bases on which the Monitor could give an opinion. This paper proposes use of an ISAE3000 opinion, in line with the nature of the opinion given by the auction monitor which assures the auction in the GB capacity market.

In line with the approach used for the current TSC Market Auditor, it is assumed that the Monitor will be appointed for a three year period but with their Terms of Reference consulted on annually, if required.

Unlike a traditional audit, or the TSC Market Audit, assurance activities for the Capacity Market, as set out under the Code, do not fall neatly into fixed 12 month periods. It is important that processes associated with a Capacity Auction, including the associated Qualification Process, are subject to a single assurance process.

In consequence, the Terms of Reference for the Monitor should specify which Capacity Auctions are to be included within the scope of their assurance activities. In general, this will cover one T-1 Capacity Auction and one T-4 Capacity Auction. However, during the transitional period following I-SEM go-live a single Capacity Market Audit may cover three Capacity Auctions.

As the Monitor only provides assurance on the Capacity Auctions, it will have no role linked to the 12 month period nominally covered by its Terms of Reference.

Given its role to ensure valid operation of the whole auction process, including qualification, it seems inappropriate to limit reporting of issues by the Monitor to any specific level of materiality. The Monitor should report on any issues with the operation of the auction process which it identifies.

The scope for the assurance performed by the Capacity Auction Monitor is as follows:

- Monitoring the Qualification process to ensure that the System Operators have complied with the Code;
- Being present at the auctions, with full read access to all key software, including access to all bids and all communications between the System Operators and all bidders;
- Reporting on whether it considers that the System Operators have conducted the Capacity Auction in accordance with the Code;
- Identifying any actual or potential breach of the rules and regulations or other actual or potential irregularities in the conduct of the Capacity Auction by the System Operators and an assessment of the consequences; and
- Making recommendations on the changes to the Capacity Market Code, Auction Guidelines and User Guides.

In the interim period, this scope will be modified in line with the Interim Arrangements set out on Chapter M of the Code.

The paper assumes that development of the Code was robust and subject to appropriate technical challenge. The Monitor's role will be restricted to confirming that the process for development has operated in accordance with the requirements of the Code. However, it is assumed that 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 would lie outside the Monitor's area of expertise and this would be excluded from their scope.

The Monitor may be required to analyse the results of a "mock" auction if one is conducted in advance of the first T-1 Transitional Auction. Such a "mock" auction would be scheduled to ensure that the software is correctly implementing the auction process set out in the Code.

Consultation Questions

The RAs welcome response on any part of the Terms of Reference for both the Auditor and the Monitor. Where possible, responses should include supporting evidence and/or alternative proposals.

To help focus the responses, the RAs are particularly interested in responses to the questions set out below:

- Do respondents have any specific concerns about the same person performing the role of both Monitor and Auditor?
- Do respondents agree that the Auditor should deliver an opinion on the ISRS4400 basis?
- Do respondents agree that the Monitor should deliver an opinion on the ISAE3000 basis?
- Do respondents agree that the Auditor should report based on volumetric materiality, i.e. on the volume of capacity affected?
- Do respondents agree that the Auditor should use materiality of 0.25% for market-level reporting and one tenth of this at the Participant-level?
- Do respondents agree that the Monitor should report all issues, regardless of materiality?
- Do respondents agree with the proposed level of governance and reporting set out in this paper?
- Do respondents agree with the period for the appointments of the Auditor and Monitor set out in this paper?
- Do respondents agree with the scope, and the exclusions, for the Auditor and Monitor set out in this paper?
- Do respondents have any additional transitional arrangements they believe should apply to the role of either the Auditor and Monitor?

Next Steps

Responses to the consultation paper should be sent to Karen Shiels (Karen.Shiels@uregni.gov.uk) and Thomas Quinn (tquinn@cer.ie) by 17:00 on Tuesday 21st February 2017. Please note that we intend to publish all responses unless marked confidential.

Following the closure of this consultation on 21 February 2017, the RAs will review responses and present their draft decision to the SEM Committee on 30 March with publication thereafter.

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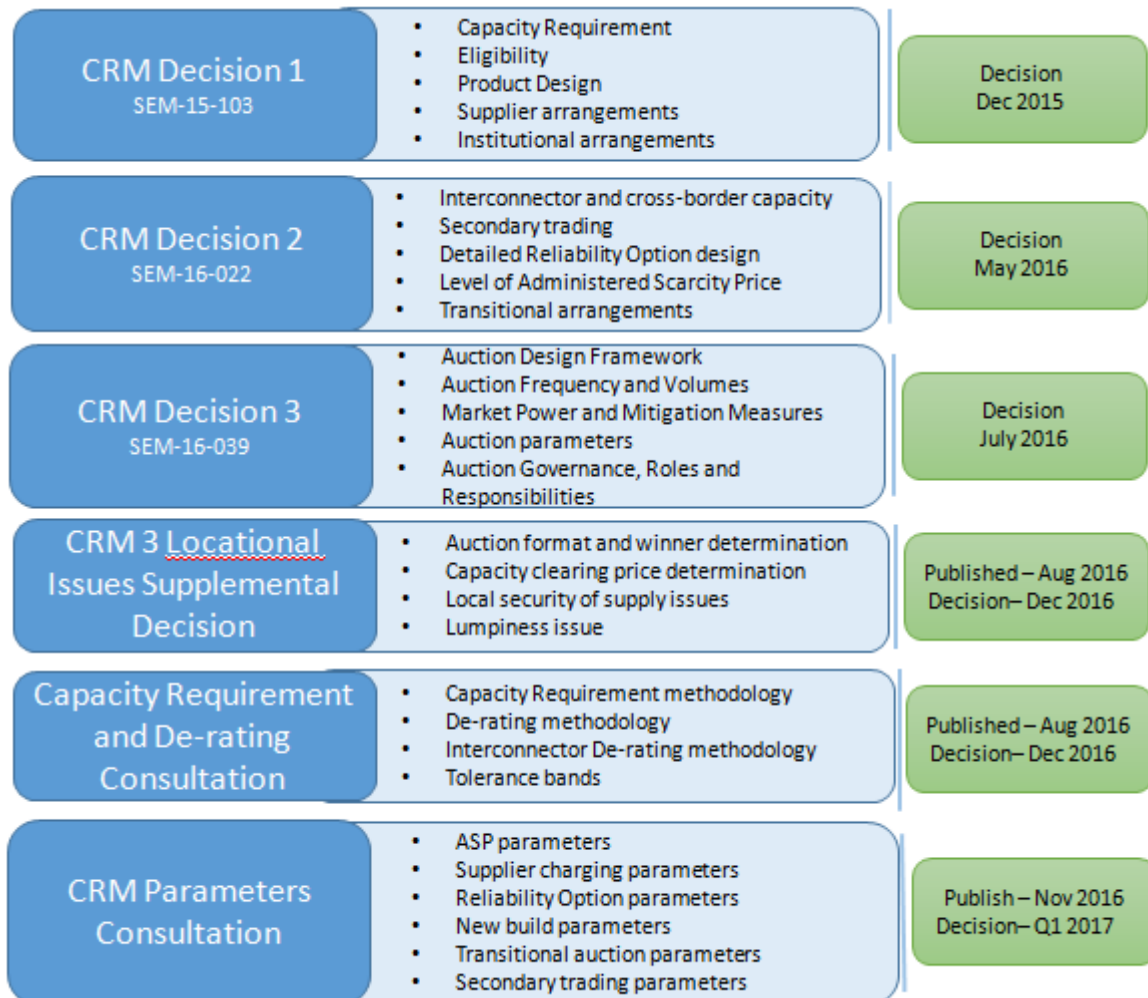
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1 INTRODUCTION

1.1 BACKGROUND

1.1.1 The purpose of the CRM Detailed Design is to develop through consultation the specific design features of the new capacity mechanism. This process is illustrated in Figure 1: Overview of CRM Policy Development below.

Figure 1: Overview of CRM Policy Development



1.1.2 While this paper does not form part of the key consultations outlined above it is important to the effective operation of the Capacity Auction and provides an independent check on the role of the System Operators in their function as Capacity Market Operator. The requirements for a Capacity Market Auditor and Capacity Auction Monitor are set out in the Capacity Market Code.

1.1.3 This is a four week consultation with responses requested on or before 21st February 2017.

1.1.4 We anticipate that procurement of the auction auditor and monitor will commence at the beginning of April 2017 following the publication of the decision paper on the terms of reference at the end of March.

1.2 PURPOSE OF THIS PAPER

- 1.2.1 This paper seeks to set out the Terms of Reference which will form the basis upon which the Regulatory Authorities will procure the Capacity Market Auditor (“the Auditor”) and Capacity Auction Monitor (“the Monitor”).
- 1.2.2 The Auditor role is similar to that of the Market Auditor in the existing Trading and Settlement Code. The role of the Monitor does not have an equivalent function in the current SEM, however in the GB Capacity Auction a monitor is in place. The Monitor role is explained in detail in the body of this paper.
- 1.2.3 We anticipate this procurement will commence in April 2017 through the OJEU process with appointment by the end of June to enable the Monitor to monitor the pre-qualification process.
- 1.2.4 The contract will be between the Regulatory Authorities and the Monitor or Auditor, but with the System Operators as a party to the contract in respect of their obligation to pay the fees. The scope is wholly governed by the decision on these Terms of Reference, and the Regulatory Authorities (on behalf of the SEMC) conduct the procurement and appoint the Monitor and Auditor.
- 1.2.5 While the Auditor and Monitor roles can be performed by the same Firm, the Regulatory Authorities reserve the right to appoint a separate Auditor and Monitor as appropriate and as such the requirements of both are set out separately in this paper.

1.3 ASSESSMENT CRITERIA

- 1.3.1 The assessment criteria for the detailed design of the CRM (including the auction design) are based on the same principles as those applied to the I-SEM High Level Design and as agreed with the Departments in the Next Steps Decision Paper published March 2013. We have developed detailed descriptions of these criteria to focus on issues that are relevant to procuring capacity and tailored to the detailed design elements of the capacity remuneration mechanism.
- 1.3.2 These assessment criteria are set out below:
 - **The Internal Electricity Market:** the market design should efficiently implement the EU Target Model and ensure efficient cross border trade.
 - **Security of supply:** the chosen wholesale market design should facilitate the operation of the system that meets relevant security standards.
 - **Competition:** the trading arrangements should promote competition between participants; incentivise appropriate investment and operation within the market; and should not inhibit efficient entry or exit, all in a transparent and objective manner.
 - **Equity:** the market design should allocate the costs and benefits associated with the production, transportation and consumption of electricity in a fair and reasonable manner.

- **Environmental:** while a market cannot be designed specifically around renewable generation, the selected wholesale market design should promote renewable energy sources and facilitate government targets for renewables.
- **Adaptive:** The governance arrangements should provide an appropriate basis for the development and modification of the arrangements in a straightforward and cost effective manner.
- **Stability:** the trading arrangements should be stable and predictable throughout the lifetime of the market, for reasons of investor confidence and cost of capital considerations.
- **Efficiency:** market design should, in so far as it is practical to do so, result in the most economic overall operation of the power system.
- **Practicality/Cost:** the cost of implementing and participating in the CRM should be minimised; and the market design should lend itself to an implementation that is well defined, timely and reasonably priced.

2. ROLE OF AUDITOR AND MONITOR

2.1 INTRODUCTION

- 2.1.1 CRM Decision 3 (SEM-16-039) sets out the roles of the independent auction monitor and auditor and the role of the Regulatory Authorities with respect to these in sections 5.6 and 5.7.
- 2.1.2 The draft Capacity Market Code sets out the detailed role of both the monitor and auditor in sections B.10 and B.11 respectively. Section 2.2 below summarises these roles as set out in the CMC.
- 2.1.3 In line with current practice for the TSC Market Auditor, it is assumed that the Monitor and Auditor would generally be appointed for a term of three years, but with their Terms of Reference reviewed on an annual basis (if required).

2.2 ROLE OF AUDITOR AND MONITOR

2.2.1 Role of Capacity Market Auditor

- The Auditor shall conduct an audit of the operation and implementation of the Capacity Auction, procedures and processes under the Code at least annually, in accordance with the terms of reference determined by the Regulatory Authorities.
- The RAs will conduct a consultation on any changes to these terms of reference from time to time.
- Terms of reference for the Auditor will be published
- The SOs will arrange for the publication of the Audit Report in final form upon its delivery (subject to any confidentiality obligations).
- We are consulting on the basis of the opinion upon which the Audit Report is conducted in this paper. The existing TSC Audit Opinion is conducted under ISRS 4400 and it would seem sensible that a similar basis is used for the Auditor.

2.2.2 Role of Capacity Auction Monitor

- The Monitor shall monitor the processes and procedures followed by the System Operators in carrying out Qualification and conducting Capacity Auctions under the CMC, in accordance with the terms of reference determined by the Regulatory Authorities.
- The RAs will conduct a consultation on any changes to these terms of reference from time to time.
- Terms of reference for the Monitor will be published.

- The SOs and the Monitor shall promptly notify the other and the Regulatory Authorities if they become aware of a potential or suspected non-compliance with the Code or any other potential or suspected irregularity with respect to the conduct of a Capacity Auction.
- The SOs may request that the Monitor give its opinion as to the most appropriate course of action regarding any potential or suspected non-compliance with the Capacity Market Code (“the Code”) or other potential or suspected irregularity with respect to the conduct of a Capacity Auction.
- The Monitor shall produce a report on the Qualification Process within two Working Days after the SOs have notified Parties of the provisional results of the Qualification Process under the terms of the Code. This report will be made available to both the RAs and the SOs and will;
 - confirm the list of Capacity Market Units that have been Qualified;
 - states whether or not the Monitor considers that the Qualification Process was conducted in accordance with the Code; and
 - where applicable, identifies any actual or potential non-compliance with the Code or other actual or potential irregularity in the conduct of the Qualification Process together with the Monitor’s assessment as to the likely consequences of the actual or potential non-compliance or irregularity.
- The Monitor shall produce a Report on Capacity Auction within two Working Days after the System Operators have notified Participants of the provisional results of a Capacity Auction under the terms of the code. This report will be made available to both the RAs and the SOs and will:
 - confirm the list of Participants with Capacity Market Units that have been allocated Awarded Capacity;
 - state whether or not the Monitor considers that the Capacity Auction was conducted in accordance with the Code; and
 - where applicable, identifies any actual or potential non-compliance with the Code or other actual or potential irregularity in the conduct of the Capacity Auction together with the Monitor’s assessment as to the likely consequences of the actual or potential non-compliance or irregularity.

2.2.3 We are consulting on the basis of the opinion upon which the Monitor will make its report. The GB Monitor Opinion is conducted under ISAE 3000 and it would seem sensible that a similar basis is used for the I-SEM Capacity Auction Monitor.

2.2.4 The role of the Monitor is NOT to provide a market monitoring role. This role will be conducted by the RAs, however the Monitor will have an obligation to notify the RAs of any irregularities they may identify as part of their role outlined above.

2.3 STANDING OF THE CAPACITY MARKET CODE

- 2.3.1 The Code (together with subsidiary documents) has been developed by the TSOs in discussion with industry through the Market Rules Working Group process. It is currently under consultation and will be finalised and approved by the Regulatory Authorities before it goes live.
- 2.3.2 Once published, the Code may be subject to modification through a defined process which may result in new versions of the Code being issued during the course of an audit period, or Approved Modifications superseding certain requirements of the Code.
- 2.3.3 Subject to the order of precedence described below, the Code, as modified from time to time, represents the principal authority for the Capacity Market (except for settlement which is carried out under the terms of the Trading and Settlement Code and does not fall within the scope of either the Monitor or Auditor) and specifies the requirements against which an audit would be conducted.
- 2.3.4 Furthermore, for the purposes of both the Monitor and Auditor, it is assumed that the Code contains all necessary requirements, and the Monitor and Auditor are not required to review any other documents, e.g. enabling legislation or statement of principles, to identify provisions which may override the Code.
- 2.3.5 Chapter 2 of the CMC, Legal and Governance, describes the priority in which the Code sits in relation to other legal, regulatory and licence requirements, with precedence being given to Applicable Laws, the decision of any Competent Authority, Licence, Grid Code and Metering Code in that order in the event of any conflict. The Monitor would require to be notified of any situations in which a conflict arose and would not be expected to identify any such conflicts themselves. Neither the Monitor nor Auditor are required to audit the Code itself. It is assumed that the Code is complete, valid and correct. Accordingly, the roles of the Monitor and Auditor are not to identify errors in the Code itself, but to identify non-compliance with the Code by the System Operators (and other Parties as appropriate).

2.4 SINGLE OPINION

- 2.4.1 It is clear that a single, overarching opinion from one auditor (or monitor) has a number of significant advantages over a suite of opinions from different auditors (or monitors). The principal advantages are as follows:
- it avoids duplication of audit work over market systems and processes by the individual participants' own auditors;
 - participants are provided with a single audit report, and are not forced to evaluate the opinions of multiple auditors, potentially prepared on different bases, and assess for

themselves the effect of any individual qualifications or issues raised on the overall market and them as participants;

- it enables practical monitoring of the qualification and auction processes; and
- it enables one market auditor (or monitor) to take overall responsibility for providing independent assurance to all market participants. This allows the market auditor to plan and perform the audit from end to end; to ensure that audit risk is addressed to their satisfaction; and to provide an authoritative report to market participants at the conclusion of the audit.

2.4.2 Expressing a preference for a single audit opinion should not lead to the automatic presumption that the market auditor should carry out all of the work required to support that opinion. Rather it simply recognises that the entire audit should be under the control of the market auditor who can perform or procure the work according to his assessment of risk across the whole of settlement. However, it is assumed that the monitor would carry out all of the work required to support its opinion.

2.5 INFORMED USER

2.5.1 It is considered reasonable to assume that the user is sufficiently knowledgeable about the capacity and electricity market and is aware of the approximations and estimations based on the Code and Agreed Procedures.

2.6 NATURE OF OPINION

Introduction

- 2.6.1 There are a range of bases on which the Auditor and Monitor could give their opinion. Some of these relate to a pure financial audit, which seems insufficient in the context of compliance with the Code, whereas others are designed to consider a broader range of compliance issues.
- 2.6.2 The RAs consider that the ISRS 4400 (Agreed Upon Procedures) opinion is likely to be most appropriate for the Auditor. This is the basis used under the existing TSC for the Market Auditor.
- 2.6.3 The RAs consider that ISAE 3000 assurance is most appropriate for the Monitor. This is the basis used by the auction monitor in the GB capacity market.

Compliance opinion

- 2.6.4 The work of the auditor and monitor may be directed at providing assurance that the System Operators and other Parties, as appropriate, have complied in all material respects with the Code and its Agreed Procedures, i.e. the System Operator and other Parties have carried out those activities required of them, and has performed them according to the Code. This form of opinion would be restricted to Code compliance. It would confirm proper operation of the systems/processes, it would not address scenarios where errors or oversights in the Code lead to inequitable results. It would require users of the compliance opinion to make their own assessment of the assurance provided, and potentially undertake additional verification work to provide themselves with assurance as to the material accuracy of the data passed from the Code to the settlement system.
- 2.6.5 The opinion would be similar in format to a financial audit opinion on a company's financial statements. In accordance with ISA 700, it would set out the responsibilities of the respective parties (including the auditor or monitor), the basis of the opinion and the opinion itself.

ISRS 4400 opinion (Agreed Upon Procedures approach)

- 2.6.6 An Agreed Upon Procedures (AUP) approach has some fundamental differences compared to an audit. As an audit engagement, the auditor or monitor designs the approach in response to the terms of reference issued by the Regulatory Authorities in order to provide an overall audit opinion on compliance with the rules. Under AUP, the Regulatory Authorities, with input as necessary from the System Operators and the auditor or monitor, would determine the specific audit procedures to be undertaken. The auditor or monitor would be responsible for executing the tests and reporting the results which would require interpretation and evaluation by the Regulatory Authorities and Parties.
- 2.6.7 The approach to AUP assignments is well established and is set out in International Standards on Related Services ('ISRS') 4400 - Engagements to Perform Agreed-upon Procedures Regarding Financial Information. An AUP approach may be relevant where the focus is on key controls and known/expected market issues. Testing would be reduced in areas where the potential impact is minimal, the issue is dealt with by other verification mechanisms or other audit testing, or is directly apparent to the affected Parties without any testing or external assurance. The specific areas for inclusion in the testing programme would be decided by the Regulatory Authorities and, as such, they would carry the risk associated with the design of the procedures.
- 2.6.8 The AUP approach would no longer result in an audit opinion, but rather a report of the results of testing performed in the areas agreed, although the final report may not be noticeably different from a Statement of Significant Issues.
- 2.6.9 Benefits of an AUP approach may include:
- the opportunity for the Regulatory Authorities to direct the audit effort to the areas in which they have greatest concern and where the risk is perceived to be highest, with the

auditor or monitor carrying out an agreed programme of work in pre-defined areas. There would be a deliberate decision to dispense with audit testing over low risk or peripheral areas;

- the ability to change the scope of the work year on year, to reflect changes in the incidence and significance of errors and issues; and
- greater transparency and control of audit input and resulting costs, as the auditor or monitor will be able to provide a cost for each line of the Agreed Upon Procedures work programme, allowing the Regulatory Authorities to select those tests they believe are important, based on their understanding of risks and settlement impact.

2.6.10 The AUP approach is used for the current SEM Market Audit of the TSC.

ISAE 3000 Assurance

2.6.11 International Standard on Assurance Engagements (ISAE) 3000 is the standard applicable to assurance engagements other than audits or reviews of historical financial information and presents an alternative basis for undertaking audit work. While ISAE 3000 supports both reasonable assurance and limited assurance engagements, it is assumed that the former would be the more relevant form for the auditor or monitor. An ISAE 3000 approach involves:

- definition of the subject matter, e.g. non financial information and conditions for which the subject matter information may be key indicators of efficiency or effectiveness, or systems and processes for which the subject matter information may be an assertion about effectiveness.
- identification of the criteria against which the subject matter is evaluated or measured.
- appropriate subject matter needs to be identifiable and capable of consistent evaluation or measurement against the identified criteria, and be able to be subjected to appropriate procedures for gathering appropriate evidence.
- development of the work programme by the auditor or monitor to assess the subject matter against the specified criteria.
- reporting the results of testing to Regulatory Authorities and other stakeholders. The report would provide “assurance” that the subject matter had satisfied the evaluation criteria, and provide an “audit opinion”, supported by detail of the subject matter, evaluation criteria and work performed, and not merely a report of factual findings.

2.6.12 The increased flexibility over both the scope of the work and the level and depth of testing may provide the Regulatory Authorities with much greater control over costs of the auditor or monitor. Unlike the traditional approach which would address Code requirements, an ISAE 3000 approach has the potential to give the Regulatory Authorities the ability to specify the specific subject matter that would be included (and conversely excluded) and the evaluation criteria. Large sections of the scope could be removed where they are assessed as providing little value, and allowing work to be focused on key risk areas.

- 2.6.13 An ISAE 3000 reasonable assurance opinion would be addressed to the Regulatory Authorities, specify the responsibilities of each party and contain a description of the subject matter, measurement criteria, details of any significant inherent limitations, a summary of the work performed and the auditor's conclusion.
- 2.6.14 ISAE 3000 assurance reports are becoming more commonplace, particularly for Corporate Social Responsibility reports in public company accounts, reviews of internal controls and reporting on performance and quality information.
- 2.6.15 The ISAE3000 approach is used in GB for their capacity market monitor.

SAS70 opinion

- 2.6.16 A specific type of reasonable assurance report is a SAS70 (Statement on Auditing Standards No 70 issued by the American Institute of Public Accountants) type of opinion. This standard deals with "Reports on Processing of Transactions by Service Organisations" and is an internationally recognised method of providing assurance in complex control environments involving service provider/third party reporting.
- 2.6.17 A SAS70 involves the service provider preparing a detailed description of the controls in place which the auditor reviews in terms of design and operating effectiveness. The auditor then produces a SAS70 report which provides a general understanding of the principal procedures and internal controls in place as described by the service provider.
- 2.6.18 A SAS70 type opinion would require the Regulatory Authorities to procure a detailed description of controls in place (it is assumed this would be delegated to the System Operators). The controls description may be developed from existing business documentation such as process models, including process maps, descriptions of activities and responsibilities, etc. Audit verification and testing would then be on top-down basis, focusing on key controls, rather than attempting to provide full coverage. Testing can also be carried out at a point in time or be designed to cover a specific period and the final opinion would be based on the period selected. The nature of a SAS70 and the level of assurance provided mean that the Regulatory Authorities would have more control over the costs, but would require substantial input from the Regulatory Authorities and System Operators in the preparation of controls documentation. SAS70 engagements are particularly commonplace in the financial services sector and over the provision of IT and business process outsourcing services.

2.7 AUDIT PERIOD

- 2.7.1 In line with the approach used for the current TSC Market Auditor, it is assumed that both the Monitor and Auditor will be appointed for a three year period but with their Terms of Reference consulted on annually, if required.

- 2.7.2 Unlike a traditional audit, or the TSC Market Audit, assurance activities for the Capacity Market, as set out under the Code, do not fall neatly into fixed 12 month periods. Audit of many activities under the Code, e.g. registration, termination and secondary trading, can be performed on the basis of a fixed 12 month period. However, it is important that processes associated with a Capacity Auction, including the associated Qualification Process, are subject to a single assurance process.
- 2.7.3 In consequence, the Terms of Reference for both the Monitor and Auditor should specify which Capacity Auctions are to be included within the scope of their assurance activities. In general, this will cover one T-1 Capacity Auction and one T-4 Capacity Auction. However, during the transitional period following I-SEM go-live a single Capacity Market Audit may cover three Capacity Auctions.
- 2.7.4 For the Auditor, their assurance role will also cover processes not directly associated with the Capacity Auctions for the 12 month period to which the audit applies. As the Monitor only provides assurance on the Capacity Auctions, it will have no role linked to the 12 month period nominally covered by its Terms of Reference.
- 2.7.5 The Terms of Reference for both the Monitor and Auditor will need to have the flexibility to cope with changes to the planned schedule of Capacity Auctions. This flexibility will be needed to cope with delay or cancellation of Capacity Auctions or the scheduling of additional Capacity Auctions, e.g. a T-2 or T-3 Capacity Auction, after the Terms of Reference have been set.

3. TERMS OF REFERENCE FOR CAPACITY MARKET AUDITOR

3.1 PRINCIPLES

- 3.1.1 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, excluding settlement which will be audited under the Trading and Settlement Code.
- 3.1.2 This assurance is required by participants and their auditors, the Regulatory Authorities and other stakeholders as the systems and calculations within the Code fall outside their control making them unable to verify for themselves the processing and calculations being undertaken on their collective behalf. The Capacity Market Audit should therefore be designed to provide an opinion or report which can be relied upon by participants (and their auditors) for the purposes of their own financial statements.
- 3.1.3 The Capacity Market Audit is also required by the Regulatory Authorities in assuring compliance with the Code.
- 3.1.4 Set out below are the main principles underpinning the Capacity Market Audit function and the opinion to be provided to the Market.

3.2 NATURE OF OPINION

- 3.2.1 An opinion on the ISRS4400 basis as set out in section 2.6 above, and as used for the current TSC Market Audit, is proposed for the Auditor.

3.3 MATERIALITY

- 3.3.1 A key objective of the Auditor's opinion is to provide participants (and their auditors and other stakeholders) with assurance over the reliability of the qualification, auction and contract award information which will underpin their commercial activities with respect to the Capacity Market and from which will be derived the revenues and costs reported in their own financial statements. The opinion may provide assurance over compliance with the CMC, operational effectiveness of controls or material accuracy of CMC processes, and is discussed further in section 2.6 above.
- 3.3.2 A second key objective of the Auditor's opinion is to provide the Regulatory Authorities with confidence in the operation of the Capacity Market as set out in the Code.
- 3.3.3 Definitions of materiality are provided in auditing standards. In the International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) 320, "Audit Materiality", paragraph 3, materiality is defined in the following manner, "Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the

particular circumstances of its omission or misstatement. Thus materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful”.

- 3.3.4 Once selected the audit materiality measure is used in two principal ways:
- to determine the nature, timing and extent of audit procedures required; and
 - to evaluate the impact of errors, omission or misstatements.

Financial vs volumetric data

- 3.3.5 Participants require a clear understanding of the level of materiality to which they can relate in the context of their financial statements, i.e. in terms of the financial impact on their sales and cost of sales. However, there is no settlement under the CMC and so any measure of financial materiality would have to be derived. The ultimate outputs to participants from the CMC are the volumes and prices at which reliability options are initially awarded or later traded through the secondary trade auction platform.
- 3.3.6 The Regulatory Authorities need to understand the materiality on the market and individual Participants of any issues identified in the Capacity Market Audit.
- 3.3.7 Given that the primary function of the Code is to contract for capacity, the materiality of any error or issue should be related to the volume of capacity affected. For issues with Qualification, there is no clear basis on which to determine the financial materiality of any error. This strongly suggests that a volumetric measure of materiality is more relevant than a financial one.
- 3.3.8 The calculation of materiality typically involves identifying a suitable base, estimating its amount and applying an appropriate percentage to compute the level of materiality. For an error relating to a given Capacity Year (whether through the Capacity Auction or through Secondary Trade), the volume of the Capacity Requirement would provide a suitable base against which to measure volumetric materiality.
- 3.3.9 There may be an additional requirement to identify a material issue if the error in the clearing price in an auction (whether a Capacity Auction or a Secondary Trade Auction) exceeds some percentage threshold. Normally, any such difference would be captured via a test for volumetric materiality, but on very rare occasions an immaterial change in volume could lead to a large shift in auction clearing price.
- 3.3.10 A percentage of between 0.1% and 0.5% being applied to calculate the level of materiality. The current TSC Market Audit uses a level of 0.25%.
- 3.3.11 It should be noted that there are also qualitative aspects to materiality, for example in relation to compliance with certain laws and regulations or in respect of certain classes of transaction, which the Capacity Market Auditor would be required to consider during the planning, execution and reporting of the Capacity Market Audit.

Single vs multiple levels of materiality

- 3.3.12 Materiality may be considered from the perspective of individual participants or the market as a whole. As one purpose of the Capacity Market Audit is to provide assurance to participants and their auditors, there is a prima facie case for taking into account their perspective on materiality. However, adopting a different materiality for each participant may not be practical, with the granularity of audit work varying by participant and potentially being dependent on the size of the participant. While it is theoretically possible to choose the lowest materiality based on the volume traded by the smallest supplier or generator, this would most likely be prohibitive in terms of the resources required and costs associated with delivering the corresponding opinion.
- 3.3.13 Using the same basis of materiality for both market-level and Participant-level reporting has the advantage of simplicity and clarity. Performing the calculation would be reasonably straightforward and transparent. Market participants would have a clear understanding of the basis of calculation in assessing the Auditor's report and its implications for them. To lessen some of the problems identified above in respect of a single level of materiality, participants would be provided with a Report of Significant Issues which would have a lower threshold for reporting, e.g. one tenth of materiality as is used in for the current TSC Market Audit. This report would provide them with transparency over issues arising in the market and allow them to estimate the impact on their own position for themselves.

3.4 REPORT OF SIGNIFICANT ISSUES

- 3.4.1 The Regulatory Authorities would also be provided with a Report of Significant Issues containing matters identified during the course of the Capacity Market Audit which did not affect the audit opinion but were in themselves of significance. These issues would be reported to the market and other stakeholders at the same time as the issue of the Auditor's opinion and also after an interim audit where performed.
- 3.4.2 The Report of Significant Issues would 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 the issue would also be included. With this information, participants could ascertain for themselves the effect on them of the matters reported, and request further investigation as required. Where appropriate, the estimate of magnitude would include a quantification of the effect of the error on qualified or awarded volumes, or on the level of the auction clearing prices.
- 3.4.3 The drafting process for the Report of Significant Issues would involve dialogue with operational management to confirm factual accuracy of the detailed points and develop the response/resolution, discussion of the draft report in its entirety with the Regulatory Authorities prior to its issue.
- 3.4.4 It is important to note that the level of materiality would remain unaffected by the reporting of significant issues. The Regulatory Authorities and market participants would continue to be provided with an audit opinion giving them reasonable assurance that there were no

undetected material errors or misstatements. However, there could be no assurance as to the completeness of significant issue items reported. Audit testing would be designed to confirm that no material errors or misstatements existed, not to detect all significant issues and only those significant issue items as were identified during the course of the audit work could be reported.

- 3.4.5 Experience in other electricity markets confirms that great importance is placed on the Report of Significant Issues by market participants. They take comfort from the fact that issues which are not material in overall market terms, are identified and quantified, enabling them to assess for themselves the impact of each issue on their business. This transparency and clarity helps diffuse any debate on the level of materiality being set for the overall market rather than individual participants.

3.5 GOVERNANCE AND REPORTING

Contractual and reporting relationships

- 3.5.1 The Code states that the Regulatory Authorities will appoint the Auditor and specify the terms of reference, the System Operators will pay the fees and costs of the Auditor, and the Auditor will report to the Regulatory Authorities. Nominated representatives of the System Operators shall be entitled to attend the meeting with the Regulatory Authorities following the delivery of the final Market Audit Report, and the System Operators are required to publish the final Market Audit Report.
- 3.5.2 In line with the current contracting for the TSC Market Auditor, it is assumed that the Auditor will be engaged via a tri-partite agreement which includes the System Operators in respect of their obligation to pay the Auditor.
- 3.5.3 It is assumed that the Regulatory Authorities will engage the Auditor for the provision of Market Audit services, and the Auditor's contractual and primary reporting responsibility will be to the Regulatory Authorities. This gives rise to the situation where the Auditor will be interacting extensively with the System Operators and reporting to market participants in the absence of any contractual relationship covering respective responsibilities, access to information, confidentiality, intellectual property, liability provisions, use of deliverables, etc. In this regard, and in respect of a duty of care to these other parties, the Auditor may need to be afforded some protection, as described below.

Interaction with SO

- 3.5.4 Notwithstanding the contractual arrangements, the Auditor will require significant interaction with the System Operators in light of their role under the Code. It is important that the System Operators are engaged during the drafting and finalisation of the report in order to allow the System Operators to confirm factual accuracy of issues raised and to allow the development of appropriate and practical resolution actions. Furthermore in the

interests of fairness, it is reasonable that any Party being audited has sight of issues in advance of publication in order to be able to comment and respond appropriately.

Interaction with TSC Market Auditor

- 3.5.5 The Auditor would be expected to liaise with the Market Auditor under the TSC. This will ensure that any issues under the TSC which would impact the Code (and vice versa) are captured in the audit opinion.

Auditor's liability and duty of care

- 3.5.6 There may be a requirement for some portion of the Auditor's report to be confidential. This could arise if there were a suspicion of market manipulation but further investigation was required before it could be proven.
- 3.5.7 In addition to contractual liability under the Capacity Market Auditor's contract or letter of engagement, it is probable that the Auditor will have a duty of care to the System Operators and the Parties to the Code who will receive the Market Audit report and may seek to rely on it. This duty of care is not restricted by the terms of the contract as the System Operators and Parties are not signatories. The RAs have been advised that it is normal practice for recipients of the Market Audit report to sign up to side letters confirming their acceptance of the basis on which they are being provided with the report, including the basis of its preparation, limitations on its use and liability provisions.

3.6 PERIOD COVERED BY AUDIT

- 3.6.1 As set out in 2.7 above, the Capacity Market Audit will be specified on two bases:
- The Capacity Auctions to be included; and
 - The 12 month period to be audited for other activities performed under the Code.

3.7 INITIAL PERIOD (AS APPLICABLE)

- 3.7.1 The bases for specifying the Capacity Market Audit will be the same in the initial period as for the enduring situation. However, it is likely that for some periods three Capacity Auctions will fall within the audit period.
- 3.7.2 Additionally, the Regulatory Authorities will want some form of audit opinion after the first transitional T-1 auction (which in line with SEM-17-004 may cover the sub-year 2017/8 and full year 2018/9) and before the first T-4 auction to incorporate any lessons learned.

3.8 LIMITED SCOPE OR INTERIM REVIEW

- 3.8.1 The CMC represents part of a fundamental change in the electricity market arrangements and the System Operators' functions under the Code are entirely new. With new rules, systems and processes which are untested in live operations, there may be issues with data retention and audit trails which affect the auditability of the new arrangements. There will be limited visibility over the System Operators activities via reporting under the Code.
- 3.8.2 Rather than wait until the end of the first audit year before undertaking Capacity Market Audit work, there may be benefit from a limited scope review several months into the operation of the new market in which the Auditor executes all audit procedures on a "walkthrough" basis, reporting the results to the Regulatory Authorities and allowing the System Operators to address any weaknesses identified in its processes at an early stage. However, in the context of the Code, this role is covered by the Monitor in the context of the Capacity Auctions. There may remain some requirement for an interim report six months into the first audit period to identify any other issues in the Code. For the first audit period, this is likely to have limited scope given that secondary trading may not yet have started, but it may be useful as a review of the registration and other Code start-up processes.
- 3.8.3 If an interim audit is used, an annualised value for materiality would be adopted and approximately 50% of the audit work that would be required for a full year would be performed for the interim audit (though this percentage may be lower for the first interim audit). The interim review would encompass the areas of scope set out at 3.9 below, and the nature, extent and timing of the audit procedures performed at the interim stage would be set out in the Audit Plan agreed by the Regulatory Authorities, following consultation with the System Operators. The resolution and prioritisation of any significant issues identified would be considered by the Regulatory Authorities and discussed with the relevant participants.

3.9 SCOPE OF CAPACITY MARKET AUDIT

Introduction

- 3.9.1 A decision on the scope of the Capacity Market Audit is essentially a matter of judgment, based on the assurance needs of the respective parties, balanced with the costs of providing that assurance, while taking into account the feasibility of performing the audit procedures. Ideally, the Capacity Market Audit should provide market participants with an annual opinion that is as comprehensive and meaningful as possible, that provides them with the required assurance over areas that are not transparent to them or are beyond their control. This however needs to be judged in the context of what is practically feasible and the related cost, both in terms of direct audit fees which are passed on to the market and the System Operators' and Participants' own time in dealing with the Capacity Market Auditor.

Systems/process under the control of the System Operators

3.9.2 The relevant System Operators' activities, to the extent covered by specific requirements in the CMC, Appendices and Agreed Procedures, would 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.

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

An initial assessment of auditability suggests that the design of appropriate audit procedures is feasible in all areas.

Scope relating to Capacity Auctions

3.9.3 Of the scope set out above, 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".

3.9.4 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

- 3.9.5 While the work of the Capacity Market Auditor would include checking the application of the Code, 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 would report any inconsistency or error coming to their attention during the course of the audit work, they would not be specifically charged with confirming the validity of the Code.
- 3.9.6 It is assumed that development of the Code was robust and subject to appropriate technical challenge. The Market Auditor's role would be restricted to confirming that the process for development has operated in accordance with the requirements of the Code.
- 3.9.7 It is further assumed that 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 would lie outside the Capacity Market Auditor's area of expertise. As a result, it is expected that this would be excluded from the scope of the audit. However, the Auditor would still be expected to ensure that any relevant processes or procedures have been followed correctly.

Transitional Arrangements

- 3.9.8 No specific transitional arrangements applying to the first year of the I-SEM are anticipated for the Auditor. However, it is noted that the workload for the first year is likely to be somewhat different than in subsequent years, e.g. there will be a greater volume of registrations to audit.

4. TERMS OF REFERENCE FOR CAPACITY AUCTION MONITOR

4.1 PRINCIPLES

- 4.1.1 The role of the Capacity Auction Monitor is to provide independent assurance to the market that the System Operators' are correctly carrying out their obligations under the Code in respect of qualification for and running of Capacity Auctions. The monitor also provides earlier warning of any issues relating to qualification or capacity auctions to the Regulatory Authorities than can be offered by the Capacity Market Auditor. This early warning enables any issues to be resolved before they impact either the auction itself, awarding of capacity or settlement of reliability options.
- 4.1.2 Set out below are the main principles underpinning the Capacity Auction Monitor function and the opinion to be provided to the market.

4.2 NATURE OF OPINION

- 4.2.1 An opinion on the ISAE3000 basis as set out in section 2.6 above, and as used by the current GB Auction Monitor, is proposed for the Capacity Auction Monitor.

4.3 MATERIALITY

- 4.3.1 Given its role to ensure valid operation of the whole auction process, including qualification, it seems inappropriate to limit reporting of issues by the Capacity Auction Monitor to any specific level of materiality.
- 4.3.2 The Monitor should report on any issues with the operation of the auction process which it identifies. It will be appropriate for the Monitor to indicate which issues would be expected to directly affect the outcome of the qualification, auction or capacity award process and those issues which do not affect the outcomes of the current auction but which still need to be resolved.

4.4 GOVERNANCE AND REPORTING

Contractual and reporting relationships

- 4.4.1 The Code states that the Regulatory Authorities will appoint the Monitor and specify the terms of reference, the System Operators will pay the fees and costs of the Capacity Auction Monitor, and the Capacity Auction Monitor will report to the Regulatory Authorities.

- 4.4.2 In line with the current contracting for the TSC Market Auditor, it is assumed that the Monitor will be engaged via a tri-partite agreement which includes the System Operators in respect of their obligation to pay the Monitor.
- 4.4.3 It is assumed that the Regulatory Authorities will engage the Monitor for the provision of auction monitoring services, and the Monitor's contractual and primary reporting responsibility will be to the Regulatory Authorities. This gives rise to the situation where the Monitor will be interacting extensively with the System Operators in the absence of any contractual relationship covering respective responsibilities, access to information, confidentiality, intellectual property, liability provisions, use of deliverables, etc. It is assumed that those items not covered in the Code itself will need to be specified in the contract with the Monitor.
- 4.4.4 The Capacity Auction Monitor's report will be published by the System Operators. This published report may need to be redacted to protect confidential data or if some of the report's conclusions are commercially sensitive and/or remain under investigation.

Interaction with SO

- 4.4.5 Notwithstanding the contractual arrangements, the Capacity Auction Monitor will require significant interaction with the System Operators in light of their role under the CMC.
- 4.4.6 The Capacity Auction Monitor will require access to the System Operators' premises to monitor the auction itself.
- 4.4.7 The Monitor will also require read-only access to the qualification and auction systems and to the Qualification Capacity Register and Capacity and Trade Register.

4.5 PERIOD COVERED BY CAPACITY AUCTION MONITOR

- 4.5.1 As set out in 2.7 above, the role of the Monitor will be defined in terms of the specified Capacity Auctions for which it is to provide assurance.

4.6 INITIAL PERIOD (AS APPLICABLE)

- 4.6.1 The specification of the Capacity Auctions to be assured by the Monitor will be the same in the initial period as for the enduring situation. However, it is likely that for some periods three Capacity Auctions will fall within the monitored period.

4.7 SCOPE OF CAPACITY AUCTION MONITOR'S ROLE

Introduction

- 4.7.1 The scope of the role of the Capacity Auction Monitor is set out in CRM Decision 3 (SEM-16-030) and this has been transcribed into the draft Code (B.10).
- 4.7.2 The basic tasks set out for the Capacity Auction Monitor are:
- Monitoring the Qualification process to ensure that the System Operators have complied with the Code;
 - Being present at the auctions, with full read access to all key software, including access to all bids and all communications between the System Operators and all bidders;
 - Reporting on whether it considers that the System Operators have conducted the Capacity Auction in accordance with the Code;
 - Identifying any actual or potential breach of the rules and regulations or other actual or potential irregularities in the conduct of the Capacity Auction by the System Operators and an assessment of the consequences; and
 - Making recommendations on the changes to the Capacity Market Code, Auction Guidelines and User Guides.

Systems/process under the control of the System Operators

- 4.7.3 The sections of the Code relating to qualification and the auction which are to be monitored are as follows:
- 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 monitored;
 - Section L.5 of Chapter L, in so far as it relates to publication of data relating to the qualification or auction process being monitored;
 - Appendices C, D, E and F; and
 - Any Agreed Procedures relating to the qualification or auction process being monitored, specifically including AP3 "Qualification and Auction Process".
- 4.7.4 For the first appointment and throughout the Interim Period, some of the enduring sections of the Code to be monitored will be replaced as set out in Chapter M (Interim Arrangements). 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.

4.7.5 The Monitor should check that the version of software used for the qualification and auction processes was the correct version as implemented in accordance with AP5.

Limitations and exclusions from scope

4.7.6 It is assumed that 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 would lie outside the Capacity Auction Monitor's area of expertise. As a result, it is expected that this would be excluded from the scope of the appointment. However, the Auditor would still be expected to ensure that any relevant processes or procedures have been followed correctly.

Transitional arrangements

4.7.7 The Capacity Auction Monitor may be required to analyse the results of a "mock" auction if one is conducted in advance of the first T-1 Transitional Auction. Such a "mock" auction would be scheduled to ensure that the software is correctly implementing the auction process set out in the Code.

5. CONSULTATION QUESTIONS

- 5.1.1 The RAs welcome response on any part of the Terms of Reference for both the Capacity Market Auditor and the Capacity Auction Monitor. Where possible, responses should include supporting evidence and/or alternative proposals.
- 5.1.2 To help focus the responses, the RAs are particularly interested in responses to the questions set out in the remainder of this section. Where respondents disagree with the proposed options set out in this paper, they should provide alternative proposals.

Procurement of the Monitor and Auditor

- 5.1.3 The CRM 3 Decision allowed the Auditor and Monitor roles to be carried out by the same person. This would potentially realise procurement synergies, but some concerns have been raised about lack of cross-over in expertise. In this context, the RAs would note that the same person currently acts as the Market Auditor under the TSC and as the Monitor for the GB capacity market. Do respondents have any specific concerns about the same person performing both roles?

Nature of Opinion

- 5.1.4 Do respondents agree that the Capacity Market Auditor should deliver an opinion on the ISRS4400 basis?
- 5.1.5 Do respondents agree that the Capacity Auction Monitor should deliver an opinion on the ISAE3000 basis?

Materiality

- 5.1.6 Do respondents agree that the Capacity Market Auditor should report based on volumetric materiality, i.e. on the volume of capacity affected?
- 5.1.7 Do respondents agree that, in line with the current TSC Market Audit, the Capacity Market Auditor should use materiality of 0.25% for market-level reporting and one tenth of this at the Participant-level?
- 5.1.8 Do respondents agree that the Capacity Auction Monitor should report all issues, regardless of materiality?

Governance and reporting

- 5.1.9 Do respondents agree with the proposed level of governance and reporting set out in this paper?

Timing issues

- 5.1.10 Do respondents agree with the period for the appointments of the Capacity Market Auditor and Capacity Auction Monitor set out in this paper?

Scope

- 5.1.11 Do respondents agree with the scope, and the exclusions, for the Capacity Market Auditor and Capacity Auction Monitor set out in this paper?

Transitional Arrangements

- 5.1.12 Do respondents have any additional transitional arrangements they believe should apply to the role of either the Capacity Market Auditor and Capacity Auction Monitor?

6. NEXT STEPS

- 6.1.1 Following the closure of this consultation on 21 February 2017, the RAs will review responses and present their draft decision to the SEM Committee on 30 March with publication thereafter.
- 6.1.2 Given the Code is out for final consultation any references to it contained in this consultation are subject to change. The overarching principles for the Capacity Market Auditor and Capacity Auction Monitor are unlikely to change significantly.
- 6.1.3 Responses to the consultation paper should be sent to Karen Shiels (Karen.Shiels@uregni.gov.uk) and Thomas Quinn (tquinn@cer.ie) by 17:00 on Tuesday 21st February 2017.
- 6.1.4 Please note that we intend to publish all responses unless marked confidential. While respondents may wish to identify some aspects of their responses as confidential, we request that non-confidential versions are also provided, or that the confidential information is provided in a separate annex. Please note that both Regulatory Authorities are subject to Freedom of Information legislation.
- 6.1.5 Following the closure of this consultation on 21 February 2017, the RAs will review responses and present their draft decision to the SEM Committee on 30 March with publication thereafter