



Trading and Settlement Code

Terms of Reference for the Market Audit 2017

Consultation Paper

7 April 2017

SEM-17-021

1 BACKGROUND

Paragraph 2.133 of the Trading and Settlement Code (“TSC” or “the Code”) requires the Market Auditor to conduct an audit of the Code, its operation and implementation of the operations, trading arrangements, procedures and processes under the Code at least once a Year.

Paragraph 2.135 of the Code requires to Regulatory Authorities (RAs) to consult with Parties on the terms of reference for the audit. Paragraph 2.136 requires the Regulatory Authorities to specify annually the precise terms of reference for the audit following this consultation process.

The purpose of this paper is to set out a number of options for the scope of the 2017 audit.

In 2007/08 the Market Audit represented an audit of compliance by the Single Electricity Market Operator (“SEMO”) and, in so far as it related to the calculation of Modified Interconnector Unit Nominations (“MIUNs”), the Interconnector Administrator, with their requirements under the Code.

For the second Market Audit, relating to year 2009, the scope was extended to include a review of the decision process and approvals for using the Mixed Integer Programming (MIP) solver instead of Lagrangian Relaxation (LR) in MSP. As result of the findings, the Market Operator raised a Modification Proposal on the Solver Policy (Mod_27_11) which was approved by the SEM Committee on 7 March 2012.

In both these Market Audits, the scope excluded activities undertaken by the System Operators (“SOs”), Meter Data Providers (“MDPs”) and other participants as set out in the Code and Agreed Procedures.

However for the 2010 Market Audit, options were put forward setting out potential extensions to the scope of the Audit that would involve the Market Auditor assessing compliance of the MDPs and SOs with their obligations under the Code, or conducting a limited examination of the accuracy of source data provided by the MDPs and SOs. Following consultation, the scope for the 2010 Market Audit was extended to include a limited examination of certain activities of the MDPs and SOs including generation metering and dispatch instructions performed on an Agreed upon Procedures (AuPs) basis, with factual findings and any exceptions being reported to the RAs and Parties separately.

The 2011 Market Audit included AuPs which examined key interval meter demand side feeds. In 2012 the Market Audit consisted of a Core SEMO Audit with an early examination of Intra-Day Trading. In 2013, the Audit consisted of a Core SEMO Audit with limited expansion to cover key MDP demand side data feeds.

In 2014 the market audit consisted of a Core SEMO Audit with limited expansion to look at publication of information within requirement timescales, including communication in relation to changes to interconnector Available Transfer Capacity (ATC) and the determination of MIUNs. Furthermore, the SEM Committee had also decided that the RAs would follow up and review the AuPs from previous audits.

In 2015, the audit consisted of a Core SEMO Audit plus limited expansion to cover Dispatch Instructions. It was the view of the SEM Committee that there was value in pursuing this approach on the basis that dispatch instructions will remain an enduring feature of the market and any insights that can be gained now can be carried forward into the new market design. The 2016 Audit consisted of a Core SEMO Audit plus a follow up of all previous AuP findings.

2 PROPOSED 2017 AUDIT SCOPE

As with the last number of years the RAs propose a number of options for the scope of the 2017 Market Audit. Option 1 is an audit of the settlement and pricing activities carried out by SEMO. Option 2 was consulted upon in 2016, and includes a limited expansion to the activities of the MDPs in relation to non-interval metering aggregation.

2.1 Option 1 - Core SEMO Audit

As in previous years, this audit will provide a reasonable level of assurance to the RAs and market participants that market pricing and settlement activities are being carried out by SEMO in accordance with the TSC and its Agreed Procedures. The audit work will focus on the activities and processing performed by SEMO. This contained scope excludes activities undertaken by the TSOs, Meter Data Providers and other participants as set out in the TSC and Agreed Procedures.

As with previous Market Audits, it is intended to exclude the operation of certain components of the MSP Engine from the scope of the Market Audit. The excluded components are the operation of Unit Commitment, Economic Dispatch and calculation of Shadow Prices.

2.2 Option 2 - Core SEMO Audit plus limited expansion to non-interval aggregation processes

This option would include a core SEMO Audit, in addition to an examination of the activities of the MDPs in relation to index or non-half hour data settlement processing including the application of loss and usage factor rates, user demand profiles and theft losses.

While the method of recovery of the system error will change from smearing across all non-interval meters to a supplier tariff in I-SEM, the findings of such an extension of the scope of the Audit would be expected to have continued relevance in the new market.

Due to the expansion of this option into MDP responsibilities, the details of such an extension would be agreed on an AuP basis between the Auditors and MDPs, and submitted to the RAs for approval in December 2017.

3 PREFERRED APPROACH

In previous years the RAs have indicated an initial preference for one of the proposed options.

A SEMO Core Market Audit (Option 1) will minimise costs and operational burden on the participants involved while providing a reasonable level of assurance to the RAs and Market Participants that market pricing and settlement activities are being carried out by SEMO in accordance with the Trading and Settlement Code and its Agreed Procedures. The RAs note that there is a relatively high-level of engagement required on SEMO's part in the Core Audit process.

In the case of Option 2 and the expansion of the Audit to include index or non-half hour data processing, it is obvious that the need for accurate information from MDPs is constant across market design.

As mentioned above, these are similar Options to those consulted upon for the 2016 Market Audit. The RAs do not have a strong preference for an approach at this point and therefore views on the Options put forward in this consultation document, including a preferred option, are welcomed from interested parties. The RAs would also be interested in views and opinions on alternative approaches for the Market Audit.

4 CONSULTATION AND NEXT STEPS

In presenting this paper for consultation, the RAs seek views on the merits of the above options for the Market Audit Scope for 2017. The RAs would also be interested in views and opinions on other approaches for the Market Audit.

Responses to this Consultation Paper should be should be sent to Sheena Byrne (shbyrne@cer.ie) and Kenny Dane (kenny.dane@uregni.gov.uk) by 17:00 on 12 May 2017. Please note that the RAs intend to publish all responses unless marked confidential¹.

Further to their consideration of the comments received, the RAs will publish their decision on the terms of reference for the Market Audit for the period January to December 2017.

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¹ While the RAs do not intend to publish responses marked confidential please note that both RAs are subject to Freedom of Information legislation.