



**Single Electricity Market
(SEM)**

Capacity Market Code

**Terms of Reference for the Year 3 Market Audit
Consultation Paper**

SEM-21-039

4 May 2021

1. BACKGROUND

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

Paragraph B.11.2.3 of the Code requires the Regulatory Authorities (RAs) to consult with Parties on the terms of reference for the audit. Paragraph B.11.2.4 requires the RAs to specify annually the precise terms of reference for the audit following this consultation process.

The purpose of this paper is to set out the RAs proposed approach for the scope of the Year 3 audit together with the reporting arrangements.

The first Capacity Market Audit was conducted in 2019/20 and the second (Year 2) was conducted in 2020/21. Following both of these audit processes the RAs have revisited the original Terms of Reference (TOR) set out in SEM-17-023¹. Following the completion of these Capacity market Audits, it is important to consider whether or not the scope for the next Audit report should be changed. This consultation is seeking views on this question.

The Year 2 Market Audit is now in its final stages and has entailed the following:

1. This audit covered the period from 1 May 2019 – 30 April 2020 and incorporated the following capacity Auctions:
 - a. T-1 CY2020/2021 – which took place on 26 November 2019;
 - b. T-2 CY2021/2022 – which took place on 5 December 2019; and
 - c. T-4 CY2023/2024 – which took place on 27 April 2020.

The basis of the Auditor’s Opinion was conducted under the International Standard on Assurance Engagements (ISAE 3000).

2. PROPOSED YEAR 3 AUDIT SCOPE

The Year 3 audit will cover the 12-month period of 1 May 2020 – 30 April 2021. This audit report will incorporate the T-4 CY2024/25 Capacity Auction which took place on 21 January 2021.

The RAs also propose that the Auditor’s Opinion continue to be conducted under the International Standard on Assurance Engagements (ISAE 3000).

Taking the following into account that there have not been any changes to processes within the CRM as yet (aside from the inclusion of the Secondary Trading Process which will be covered in this period), the SEM Committee propose that the Year 3 audit report will mirror the Terms of Reference covered in both the Year 1 and Year 2. This includes:

¹ <https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-17-023%20CRM%20Auditor%20%20Monitor%20Decision%20Paper.pdf>

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

Given that the Secondary Trading process went “live” in September 2020, the RAs will now request the Market Auditor to include this area with their analysis.

3. CONSULTATION AND NEXT STEPS

In presenting this paper for consultation, the SEM Committee seeks views on the proposed Capacity Market Audit Scope for the Year 3 report.

Responses to this Consultation Paper should be should be sent to Kevin Lenaghan (Kevin.lenaghan@uregni.gov.uk) and Kevin Baron (Kevin.Baron@uregni.gov.uk) by 17.00 on Tuesday, 18 May 2021.

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.

Further to their consideration of the comments received, the RAs will publish their decision on the terms of reference for the Year 3 SEM Capacity Market Audit. The Auditor will begin work on an interim audit to report to the RAs in Q2 2021.