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18 May 2021

**RE: SEM-21-039 - Consultation on Capacity Market Code Terms of Reference for the Year 3 Market Audit**

Dear Kevin and Kevin,

Bord Gáis Energy (**BGE**) welcomes the opportunity to respond to this consultation on Capacity Market Code (**CMC**) Terms of Reference for the Year 3 Market Audit.

In principle, BGE welcomes that the Terms of Reference for the audit of Year 3 operations of the Capacity Market Code will mirror those that covered the audit in the previous 2 years. Consistency of approach and reporting is important to ensure the operation of the CMC within its scope and in line with requirements. Similarly, the retainment by the Regulatory Authorities (**RA**s) of the requirements set out in SEM Committee Decision Paper SEM-17-023<sup>1</sup> support continuity in the approach, roles and completion of the audit process including the application of recognised international standards<sup>2</sup>.

BGE believes it is important that the upcoming audit on Year 3 operations examines the success of Auction Format D against its expectations given its introduction for the Capacity Year 2024/25 T-4 capacity auction that was held in January 2021. We would welcome views in the audit report on whether the use of Auction Format D provided increased benefit to the market (or not) over the Interim Auction Solution Methodology<sup>3</sup> (**IASM**) which was utilised in the auctions in Year 2. We ask that a worked example of the application of Auction Format D is presented to participants to provide a guided explanation on the working of Auction Format D in capacity auctions as this information would facilitate our understanding of the increased benefit or not over the IASM. This information has been requested by us previously and has not been forthcoming. Overall, we welcome transparency on the betterment that the use of Format D has brought to the auction process and so too to the benefit of the consumer.

BGE would also welcome a view in the audit report on the operation of the secondary trading arrangements under the Capacity Market Code. Year 3 is the first year that the Alternative Secondary Trading Arrangements have operated alongside the Interim Secondary Trading Arrangements. BGE appreciates that analysis of the Secondary Trading Process is a point of request by the RAs within the Terms of Reference for this Year 3 Audit and we ask that the audit reviews all aspects of the process to see it meets its design and operational requirements or otherwise identifies any potential improvements needed. We ask this includes requirements

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<sup>1</sup> SEM-17-023: Capacity Remuneration Mechanism Terms of Reference for the Capacity Market Auditor and Capacity Auction Monitor

<sup>2</sup> International Standard on Assurance Engagements (ISAE 3000).

<sup>3</sup> Capacity Market Code Terms of Reference for the Year 2 Market Audit Decision Paper (SEM-21-003) -pg 9, Section 5

for full and timely information publication and transparency – this includes the need for both counterparties to a secondary trade to be named on the register. We also request that a liquidity assessment is made of the secondary traded capacity market to consider if there are any design or operational limitations impeding it given the very poor liquidity seen to date in secondary traded capacity.

BGE would welcome the auditor’s validation of the efforts made by the SO to reduce the scale and duration of delays to information being publicly available in auction processes and publications. We note the reiteration by the SEM Committee of their minded-to position in the decision paper SEM-21-003<sup>4</sup> published in January this year on this topic and we would welcome an update on the efforts, successes and opportunities of the System Operator to address any residual delays in capacity auction publications or processes. Participants look to the System Operator to publicly provide information on all market participants for transparency in a timely manner. High levels of transparency of information are increasingly important for market participants, especially now with the implementation of the Alternative Secondary Trading Arrangements for capacity contracts (see earlier point) and the reliance on up-to-date Capacity Contract registers.

Finally, BGE continues to support the **independent oversight of the CMC operations played by both the Auction Monitor and Auction Auditor**. Our position remains that these two roles should remain separate and be performed by different entities to avoid any potential undermining of the integrity of each role due to perceived/ actual conflicts of interest that may arise.

I hope you find the above comments and suggestions helpful. If you have any queries thereon please do not hesitate to contact me.

Yours sincerely,

**Ian Mullins**  
**Regulatory Affairs – Commercial**  
**Bord Gáis Energy**

*{By email}*

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<sup>4</sup> [SEM-21-003](#) - Capacity Market Code Terms of Reference for the Year 2 Market Audit Decision Paper