



Trading and Settlement Code

Terms of Reference for the Market Audit 2021

Consultation Paper

13 August 2021

SEM-21-064

1 BACKGROUND

Paragraph B.16.1.3 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 B.16.1.5 of the Code requires the Regulatory Authorities (RAs) to consult with Parties on the terms of reference for the audit. Paragraph B.16.1.6 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 2021 audit together with the reporting arrangements.

A Market Audit has been conducted on an annual basis since 2007. Over the years the scope has extended and changed to account for specific developments in the market and requests from market participants.

The 2020 Market Audit has now been completed and was the first ISEA 3000 Assurance Opinion TSC Market Audit of the new SEM which went live on 1st October 2018. The 2020 Market Audit was a Core SEMO Audit, without expansion.¹ The 2020 audit resulted in a qualified opinion due to two material non-compliances. Except for the two qualified material non-compliances, the Single Electricity Market Operator (SEMO) was found in all material respects compliant with the Code and relevant Agreed Procedures as set out in the “Terms of Reference for the Market Audit 2020” for the period 01 January 2020 – 31 December 2020.

The two material non compliances (which were the basis for the qualified conclusion) were both in relation to the calculation of certain quantities related to interconnector units, namely:

1. Application of combined loss adjustment factors in respect of interconnector units, specifically the requirement to divide the non-adjusted variable by the loss factor when the variable was negative, was not applied;
2. Calculation of the Biased Accepted Bid Quantity for Interconnector residual capacity units, due to defects causing a mismatch in data mapping in the underlying calculations.

The issues had been identified by SEMO and communicated to the market in the Known Issues Report. Both issues were resolved in late 2020.

¹ In the past, some SEM markets Audits have included the core audit with some additional areas of interest

2 PROPOSED 2021 AUDIT SCOPE

The RAs propose that the 2021 Market Audit will cover the 12-month period of 1st January 2021 – 31st December 2021 under an ISAE 3000 Assurance Opinion Audit.

The RAs propose that the 2021 Market Audit is a Core SEMO Audit, with limited expansion into the calculation, application and reporting of Market Operator charges and Imperfection charges within the TSC. The 2020 Market Audit resulted in a qualified opinion as a result of two known issues which are now resolved. The RAs therefore consider that the scope of the audit can be expanded upon for the 2021 Market Audit.

2.1 Core Audit

The core SEMO Market 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 Core Audit will cover, inter alia, the following areas:

- Accession & Registration
- Imbalance Settlement Price calculation and recalculation
- Settlement Production and Reruns (to include all of the Market Operator Charges)
- Currency and balancing charges
- Invoices, payments and credit cover
- Queries and disputes
- Code development
- Information publication
- Communication channels, systems and operation

2.2 Limited Expansion

This option would include a core SEMO audit, with an additional expansion to the scope. The RAs propose a limited expansion into the calculation, application and reporting of the Market Operator charges (Fixed and Variable) and Imperfection charges within the TSC.

How these charges are calculated, applied and reported is significant for market participants. Therefore, the RAs consider the findings of such an extension of the scope of the audit would be of value and provide a level of assurance to the RAs and market participants.

2.3 Materiality Level

The Market Audit has historically used a materiality level of 0.25% of estimated annual market value, with a threshold of 10% of the materiality level set for the reporting of Significant Issues.

The definition of market value has been calculated for past Market Audits to incorporate the Balancing Market, Capacity Market and Imperfections. For 2020 this came to a materiality level of €2.2m. In the

old SEM the market value was higher at a materiality level of €3.6m for 2016 and €6.4m for 2017/18 (however it should be noted that the 2017/18 audit covered the period 01 January 2017 – 30 September 2018, so it would be expected that the market value would be higher, as it is over a longer timeframe).

The RAs note the new SEM is an inherently different landscape than the old SEM. Given that the 0.25% multiplier was the number used for the gross pool model whereas it is now being applied to a balancing market which is an inherently different base, it may be warranted to change the materiality level for the 2021 Market Audit. Therefore, the RAs seeks views from the market on whether the same measure of materiality and definition of market value should be used as was in the old SEM.

The RAs are cognisant of the extraordinary environment of 2021 due to the COVID-19 pandemic, resulting in new protocols and working arrangements. This, however, did not impede the ability to complete the 2020 Market Audit. The RAs therefore do not foresee the COVID-19 pandemic having any implications upon the 2021 Market Audit.

3 PREFERRED APPROACH

The RAs consider an ISAE 3000 Assurance Opinion Audit reporting approach as providing the greatest value to both the RAs and Market Participants.

The RAs favour an Audit upon the Core SEMO activities with limited expansion into the calculation, application and reporting of Market Operator charges and Imperfection charges within the TSC. The RAs note that the previous Market Audit resulted in a qualified opinion as a result of two known issues which are now resolved. The RAs therefore consider that the scope of the audit can be expanded upon for the 2021 Market Audit. The RAs consider a limited expansion into the calculation, application and reporting of the Market Operator charges (Fixed and Variable) and Imperfection charges within the TSC, would provide value to market participants and the RAs. The RAs invite views and opinions on the option to expand the audit, and any alternative approaches for the Market Audit.

The RAs further seek views from the market on whether the same measure of materiality and definition of market value as was used in previous Market Audits (namely 0.25% of estimated annual market value calculated to incorporate the Balancing Market, Capacity Market and Imperfections) should be used in the 2021 Market Audit. The RAs will consider any alternative approaches to determining materiality for the Market Audit.

4 CONSULTATION AND NEXT STEPS

In presenting this paper for consultation, the SEM Committee seeks views on the proposed Market Audit Scope for 2021.

Responses to this Consultation Paper should be sent to Rachel Strong (rstrong@cru.ie) and Karen Shiels (karen.shiels@uregni.gov.uk) by 17.00 on 10 September 2021. Please note that the SEM Committee intends to publish all responses unless marked confidential².

Further to their consideration of the comments received, the RAs will publish their decision on the terms of reference for the 2021 SEM Market Audit.

Once the terms of reference for the 2021 SEM Market Audit have been decided, they will be issued in a Decision Paper. The Auditor will begin work on an interim audit report. The interim audit report will be provided to the RAs but not published. However, if any major issues arise they will be articulated to market participants. The full audit report is due to be published in 2022.

² While the SEMC does not intend to publish responses marked confidential please note that both Regulatory Authorities are subject to Freedom of Information legislation.