



**Energia Response to SEM Committee
Consultation Paper SEM-20-073**

***Capacity Market Code
Terms of Reference for the Year 2 Market Audit***

14 December 2020

1. Introduction

Energia welcomes the opportunity to respond to the SEM Committee Consultation Paper SEM-20-073 titled “Capacity Market Code Terms of Reference for the Year 2 Market Audit” (the Consultation Paper).

The Capacity Market Audit function, in conjunction with the Auction Monitoring function, serves an important purpose in providing independent assurance to both market participants and to the Regulatory Authorities on the operation and conduct of the Capacity Market. It is therefore important that the scope of both functions is clear and adequate and that reports are published in a timely manner. In this brief response, Energia reflects on these points with reference to the Year 1 Market Audit with a view to providing comments relevant to the upcoming Year 2 Audit. The remainder of this response elaborates.

2. Audit Format, Scope and Publication of Audit Report

Audit Report Format

The Consultation Paper indicates a position to conduct the Year 2 Market Audit under the same International Standard on Assurance Engagements (ISAE3000) format that was used for the Year 1 Market Audit. However, upon review of the Decision Paper in relation to the original Terms of Reference (SEM-17-023)¹ for the Capacity Market Audit, the audit opinion was to be provided using the Agreed upon Procedures approach set out in the International Standards on Related Services 4400 (ISRS 4400). It would be beneficial if clarity is provided on the differences between the two reporting formats and an update provided on why the Market Audit reports are to use a different format than that stated in the SEM-17-023 Decision Paper.

Audit Scope

Two areas which are included within the proposed scope of the auditor’s review, namely Qualification and Operation of the auction and award of capacity appear to have been omitted from the Year 1 Report. The report states that *“the RAs have confirmed that those areas already assessed and reported on by the Capacity Auction Monitor are not required to also be assessed by the Capacity Market Auditor – in broad terms....this excludes from the Auditor scope the activities relating to Qualification and Operation of the Auction for the three Auctions included in the Auction Period”*.

The three auctions referred to in the Auction Period for the Year 1 Market Audit report are as follows:

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

- T-1 CY2018/2019 – which took place on 15 December 2017;
- T-1 CY2019/2020 – which took place on 13 December 2018; and
- T-4 CY2022/2023 – which took place on 28 March 2019.

Of these, we have only been able to source publication of the Capacity Auction Monitor Report for the T-4 CY2022/2023 auction. It is not clear if the Auction Monitor Reports for the remaining auctions have been published. We would welcome clarity on this in advance of the upcoming Year 2 Market Audit given that for two of the specified auctions within the Year 2 Audit Period i.e. the T-1 CY2020/2021 auction and the T-2 CY2021/2022 auction, the Capacity Auction Monitor Reports do not appear to have been published.

Publication of Audit Report

We would also comment on the timing of publication of the Capacity Market Audit Report. The Year 1 report was finalised on 14 July 2020 however it was not published on the SEMO website until 23 November 2020. This is approximately 19 months after the Audit Period (15 December 2017 – 30 April 2019). We would recommend more timely publication of the Capacity Audit Market Report to help provide clarity for all parties concerned. Paragraph B.11.2.6 of the Capacity Market Code (CMC) states that the System Operators shall arrange publication of the Audit Report in its final form upon delivery but does not specify a time period for which this must be completed. We recommend that a reasonable timeframe for publication of the Audit Report by the System Operator be codified in the CMC to assist with providing transparency in a timelier manner.

3. Conclusion

The Capacity Market Audit function, in conjunction with the Auction Monitoring function, serves an important purpose in providing independent assurance to both market participants and to the Regulatory Authorities on the operation and conduct of the Capacity Market. It is therefore important that the scope of both functions is clear and adequate and that all reports are published in a timely manner. We trust our comments above are helpful in this regard and would be happy to discuss if that would be helpful.