



**Single Electricity Market
(SEM)**

**Capacity Market Code
Terms of Reference for the Year 4 Market Audit
Consultation Paper**

SEM-22-083

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1. Introduction

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 (TOR) for the audit. Paragraph B.11.2.4 requires the RAs to annually specify the precise Terms of Reference for the audit following a consultation process.

The purpose of this paper is to set out the RAs proposed approach for the scope of the Year 4 audit together with the reporting arrangements.

The first Capacity Market audit for Year 1 was conducted in 2019/20. The second Capacity Market audit for Year 2 was conducted in 2020/21. The RAs are cognisant of the delay to the Year 3 Capacity Market audit and currently plan to publish both Year 3 and Year 4 audit reports towards the end of Q2 2023.

The RAs revisited the original TOR set out in SEM-17-023¹ alongside the Year 3 TOR Decision Paper and considered whether or not the scope for the Year 4 Audit report should be changed. This consultation is seeking views on this question.

2. Proposed Year 4 Audit Scope

The SEM Committee propose that the Year 4 audit will cover the twelve-month period of 1 May 2021 – 30 April 2022. The audit would incorporate the following Capacity Auctions:

- T-1 2022/2023 Capacity Auction – which took place on 21 October 2021
- T-3 2024/2025 Capacity Auction – which took place on 20 January 2022
- T-4 2025/2026 Capacity Auction – which took place on 24 March 2022

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

The SEM Committee also recommend that the Auditor's Opinion continue to be conducted under the International Standard on Assurance Engagements (ISAE 3000).

The SEM Committee propose that the Year 4 audit report will mirror the Terms of Reference set for Year 3. This includes:

- 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.

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 4 report.

Responses to this Consultation Paper should be should be sent to Donna Maye (Donna.Maye@uregni.gov.uk) and Kevin Baron (kevin.baron@uregni.gov.uk) by 17.00 on Friday 06 January 2023.

Please note that the RAs 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 Paper confirming the TOR for the Year 4 Capacity Market Audit.