



Trading and Settlement Code

Terms of Reference for the Market Audit 2023

Decision Paper

09 February 2024

SEM-24-007

1 EXECUTIVE SUMMARY

The Trading and Settlement Code (“TSC” or “the Code”) forms part of the legal and regulatory framework that governs the Single Electricity Market (“SEM”). The Code governs the trading and settlement arrangements for the Balancing Market and the settlement arrangements for the Capacity Market. The Single Electricity Market Operator (“SEMO”) is responsible for the administration and operation of the Code.

Under Section B.16 of the TSC Part B, the Regulatory Authorities (“RAs”) shall appoint a person or firm as Market Auditor. The Market Auditor shall conduct an audit of the Code, its operation and implementation and the operations, trading arrangements, procedures and processes under the Code at least once a year. The RAs shall specify annually the precise terms of reference (“ToR”) for the audit following a consultation process.

This decision paper sets out the ToR that the SEM Committee has determined for the Market Audit 2023. This is following the publication of the Trading and Settlement Code Terms of Reference for the Market Audit 2023 Consultation Paper ([SEM-23-090](#)) and subsequent review of responses received.

In total, the RAs received two responses. Having reviewed these responses, the SEM Committee has made the following decisions on the ToR for the Market Audit 2023:

Period of audit	1 January 2023 – 31 December 2023
Scope of audit	Core SEMO Audit without expansion, covering the following areas: <ul style="list-style-type: none">• 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
Reporting approach	ISAE 3000 Assurance Opinion
Materiality level	0.5% of the estimated annual market value of electricity traded in the SEM, as governed by the Code. A lower threshold of 10% of the materiality value is set for reporting significant issues.

Following publication of this decision paper, the RAs will engage with the Market Auditor on the audit. Subject to approval by the SEM Committee, the final audit report will be published on the SEMO website and presented to the industry at the SEM TSC Modifications Committee in due course.

2 BACKGROUND

Paragraph B.16.1.3 of 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 RAs to consult with the parties to the Code on the ToR for the audit. Paragraph B.16.1.6 requires the RAs to specify annually the precise ToR for the audit following this consultation process.

The purpose of this paper is to set out the ToR for the Market Audit 2023 together with reporting arrangements.

A Market Audit has been historically conducted on an annual basis. Over the years, the scope has extended and changed to account for specific developments in the market and requests from market participants, on the basis of a core audit on activities of SEMO.

The [final report for the Market Audit 2022](#) was published on the SEMO website on 22 November 2023. The Market Audit 2022 was a core SEMO audit and was reported under the ISAE 3000 Assurance Opinion¹. Based on reasonable assurance engagement, SEMO was found, in all material respects, compliant with the Code and the relevant Agreed Procedures (“APs”) as set out in the ToR for the Market Audit 2022 for the period of 01 January 2022 – 31 December 2022.

3 PROPOSED 2023 AUDIT SCOPE

On 30 November 2023, the SEM Committee published a consultation paper on the proposed ToR for the Market Audit 2023 ([SEM-23-090](#)). The key proposals are outlined below.

3.1 Period of Audit

The RAs proposed that the Market Audit 2023 cover the 12-month period from 1 January 2023 to 31 December 2023. As specified under paragraph B.16.1.4 of the Code, the annual period covered by the audit shall be 1 January to 31 December unless the terms of reference specify a different period.

3.2 Scope of Audit

The RAs proposed that the Market Audit 2023 be a core SEMO audit, focusing on activities of SEMO under the Code and its APs and covering the systems and processes within the control of SEMO. The proposed scope excludes activities undertaken by the System Operators, Meter Data Providers and other participants as set out in the Code and its APs.

The core SEMO audit will cover, inter alia, the following areas:

¹ International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

- 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

The core SEMO audit will provide reasonable assurance, within a reasonable timeframe, to the RAs and Market Participants that market pricing and settlement activities are being carried out by SEMO in accordance with the Code and its APs.

3.3 Reporting Approach

The RAs proposed that the Market Audit 2023 be reported under the ISAE 3000 Assurance Opinion. The RAs consider this reporting approach as providing the greatest value to both the RAs and Market Participants upon SEMO's compliance with the Code.

3.4 Materiality Level

The RAs propose that the materiality level for the Market Audit 2023 remain at 0.5% of the estimated annual market value of electricity traded in the SEM, as governed by the Code. The quantitative threshold for reporting significant issues remains at 10% of the materiality value, which is 0.05% of the estimated annual market value.

4 RESPONSES RECEIVED

Two responses were received from:

- (1) ESB Generation and Trading ("ESB GT")
- (2) SEMO

SEMO acknowledged the proposed core SEMO audit and the materiality threshold remaining at 0.5% and provided no further comments.

ESB GT submitted opinions in the following three respects:

- (1) ESB GT agreed with the RAs' proposal to prioritise the timely completion of the audit process over the potential extension of the scope for the Market Audit 2023.

ESB GT further stated that the SEMC Committee should extend the subsequent 2024 market audit scope to focus on the areas of market development, in particular those market developments currently being implemented through EirGrid's Future Power

Market programme such as the battery integration and treatment of non-priority dispatch renewables where they are deployed in the 2024 period.

- (2) ESB GT expressed concerns that the 0.5% materiality level is too high and risks not capturing important issues that would have been captured under the 0.25% threshold.

ESB GT requested the RAs to reconsider the proposed 0.5% threshold. If the RAs decide to maintain the 0.5% level, ESB GT requested that the RAs inform market participants of the estimated cost and/or time savings that are expected to result from the reduction in the granularity of the audit process.

- (3) ESB GT noted that the dispute resolution process remains an opaque aspect of the operation of the Code. It noted that previously modification proposals had sought to clarify the role of the dispute resolution board and improve the degree of transparency of the dispute resolution process. It also noted that the most recent modifications to the Code intended to allow for decisions of the dispute resolution board to be made publicly available to market participants while maintaining the confidentiality of disputing parties.

While SEMO have published market messages relating to dispute resolution board decisions, ESB GT considered that these market messages offer limited insight into the substance of the dispute and therefore limited assurance that important information has been made available to parties impacted by the dispute but not more widely to the market.

ESB GT requested that the market audit should play a role in improving the transparency of the dispute resolution process, with the potential for the audit to include a plain English summary of any dispute resolution board decisions in the audit period. Or at a minimum, the audit should include a report on the number of disputes to which SEMO was a party in the audit period, the number of these disputes that were brought to the dispute resolution board, the number of determinations made by the dispute resolution board and the number of notices of dissatisfaction subsequently submitted to the dispute resolution board.

5 DECISION AND RATIONALE

Having reviewed the responses, the SEM Committee has made the following decisions.

5.1 Period of audit

The SEM Committee has decided that the Market Audit 2023 covers the 12-month period from 1 January 2023 to 31 December 2023.

5.2 Scope of audit

The SEM Committee has decided that the Market Audit 2023 is a core SEMO audit without expansion. This 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

The audit will focus on activities of SEMO under the Code and its APs and cover the systems and processes within the control of SEMO. The audit will not include activities undertaken by the System Operators, Meter Data Providers and other participants as set out in the Code and its APs.

The SEM Committee notes the comment provided by ESB GT on the areas of market development potentially to be covered by the Market Audit 2024. The RAs will take this into consideration when preparing the consultation paper on the terms of reference for the Market Audit 2024. Any further comments or opinions may be submitted during the consultation period then.

5.3 Reporting approach

The SEM Committee has decided that the Market Audit 2023 is to be reported under the ISAE 3000 Assurance Opinion. Consistent with the report in previous years, the Market Auditor's report will list all significant issues and any other issues identified by the Market Auditor, in addition to the conclusion and, where applicable, material issues.

The SEM Committee notes ESB GT's comments on the transparency of the dispute resolution process and the role of the Dispute Resolution Board ("DRB"). It should be noted that the role of the Market Auditor is to audit the Code, its operation and implementation and the operations, trading arrangements, procedures, and processes under the Code. Under the core SEMO audit, the Market Auditor is to assess SEMO's compliance with its obligations under the Code. The SEM Committee does not consider ESB GT's comments to be relevant to this work. However, the SEM Committee notes ESB GT's concerns and will consider this issue separately.

In the meantime, the SEM Committee notes the following sections of the Code, which set out requirements on SEMO to publish the decisions made by the DRB. The audit will assess and report on whether SEMO complied with these requirements during the relevant period of audit and, where applicable, to what extent SEMO failed to comply with such requirements.

Section B.19.10.2 of Part B of the Code sets out that:

Subject to B.19.10.3, the DRB shall send a copy of its decision to the Market Operator no later than 30 Working Days from the date that the DRB issued its decision to the Disputing Parties, unless a notice of dissatisfaction is raised under B.19.9.7. Such a decision shall be published by the Market Operator on its website no later than two Working Days after receipt.

For information, section B.19.10.3 sets out that the DRB shall:

- (a) maintain the confidentiality of the Disputing Parties;*
- (b) prior to sending a copy of its written decision to the Market Operator for publication, redact the identity of the Disputing Parties and any commercially sensitive information;*
- (c) prior to sending a copy of its written decision to the Market Operator for publication, consult with the Disputing Parties in respect of the information to be redacted from the written decision for publication, and have due regard to the Disputing Parties' view of what information the DRB should designate as commercially sensitive; and*
- (d) have due regard to the General Obligations on Members set out in Clause 5 of the Dispute Resolution Agreement.*

5.4 Materiality level

The SEM Committee has decided that the quantitative threshold for reporting material issues is 0.5% of the estimated annual market value as governed by the Code.

A lower quantitative threshold of 10% of the materiality value, i.e., 0.05% of the estimated annual market value as governed by the Code, is set for reporting significant issues. It should be noted that there may be qualitative aspects in determining the significance of any issue. That means, the Market Auditor shall report on issues that come to its attention which exceed the quantitative threshold or which it believes to be significant for other reasons.

The SEM Committee notes the ESB GT's concern about the materiality level. As explained in the decision paper on the terms of reference for the Market Audit 2022 ([SEM-23-048](#)), the change to the materiality level has been based on changes to the SEM arrangements. Considering that a significantly lower share of the market, and hence the relevant annual market value, are covered by the Code under the revised SEM arrangements, the SEM Committee has considered it to be appropriate to increase the percentage of the materiality level from 0.25% to 0.5%.

As noted in the consultation paper (SEM-23-090), the RAs are satisfied that, in general, such change to the materiality level in the Market Audit 2022 did not impact on the Market Auditor's conclusion or the identification of any compliance issues.

Therefore, the SEM Committee has decided not to reverse the previous change made during the Market Audit 2022. However, the SEM Committee will keep the materiality threshold under review.

6 NEXT STEPS

Following publication of this decision paper, the RAs will engage with the Market Auditor on the audit.

Subject to approval by the SEM Committee, the final Market Auditor's Report will be published on the SEMO website and presented to the industry at the SEM TSC Modifications Committee in due course.