



Trading and Settlement Code

Terms of Reference for the Market Audit 2017

Decision Paper

20 June 2017

SEM-17-038

1 BACKGROUND

Paragraph 2.133 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 2.135 of the Code requires to Regulatory Authorities (RAs) to consult with Parties on the terms of reference for the audit. Paragraph 2.136 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 a number of options for the scope of the 2017 audit.

In 2007/08 the Market Audit represented an audit of compliance by the Single Electricity Market Operator (“SEMO”) and, in so far as it related to the calculation of Modified Interconnector Unit Nominations (“MIUNs”), the Interconnector Administrator, with their requirements under the Code.

For the second Market Audit, relating to year 2009, the scope was extended to include a review of the decision process and approvals for using the Mixed Integer Programming (MIP) solver instead of Lagrangian Relaxation (LR) in MSP. As result of the findings, the Market Operator raised a Modification Proposal on the Solver Policy (Mod_27_11) which was approved by the SEM Committee on 7 March 2012.

In both these Market Audits, the scope excluded activities undertaken by the System Operators (“SOs”), Meter Data Providers (“MDPs”) and other participants as set out in the Code and Agreed Procedures.

However for the 2010 Market Audit, options were put forward setting out potential extensions to the scope of the Audit that would involve the Market Auditor assessing compliance of the MDPs and SOs with their obligations under the Code, or conducting a limited examination of the accuracy of source data provided by the MDPs and SOs. Following consultation, the scope for the 2010 Market Audit was extended to include a limited examination of certain activities of the MDPs and SOs including generation metering and dispatch instructions performed on an Agreed upon Procedures (AuPs) basis, with factual findings and any exceptions being reported to the RAs and Parties separately.

The 2011 Market Audit included AuPs which examined key interval meter demand side feeds. In 2012 the Market Audit consisted of a Core SEMO Audit with an early examination of Intra-Day Trading. In 2013, the Audit consisted of a Core SEMO Audit with limited expansion to cover key MDP demand side data feeds.

In 2014 the market audit consisted of a Core SEMO Audit with limited expansion to look at publication of information within requirement timescales, including communication in relation to changes to interconnector Available Transfer Capacity (ATC) and the determination of MIUNs. Furthermore, the SEM Committee had also decided that the RAs would follow up and review the AuPs from previous audits.

In 2015, the audit consisted of a Core SEMO Audit plus limited expansion to cover Dispatch Instructions. It was the view of the SEM Committee that there was value in pursuing this approach on the basis that dispatch instructions will remain an enduring feature of the market and any insights gained would be carried forward into the new market design. The 2016 Audit consisted of a Core SEMO Audit plus a follow up of all previous AuP findings.

2 PROPOSED 2017 AUDIT SCOPE

On 7 April 2017, the SEM Committee published a consultation paper on the [Terms of Reference for the 2017 Market Audit \(SEM-17- 021\)](#). As with the last number of years the RAs proposed a number of options:

Option 1 is an audit of the settlement and pricing activities carried out by SEMO.

Option 2 was consulted upon in 2016, and includes a limited expansion to the activities of the MDPs in relation to non-interval metering aggregation.

2.1 Option 1 - Core SEMO Audit

As in previous years, this audit would 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 audit work would focus on the activities and processing performed by SEMO. This contained scope excludes activities undertaken by the TSOs, Meter Data Providers and other participants as set out in the TSC and Agreed Procedures.

As with previous Market Audits, this Audit would exclude the operation of certain components of the MSP Engine from the scope of the Market Audit. The excluded components are the operation of Unit Commitment, Economic Dispatch and calculation of Shadow Prices.

2.2 Option 2 - Core SEMO Audit plus limited expansion to non-interval aggregation processes

This option would include a core SEMO Audit, in addition to an examination of the activities of the MDPs in relation to index or non-half hour data settlement processing

including the application of loss and usage factor rates, user demand profiles and theft losses.

While the method of recovery of the system error will change from smearing across all non-interval meters to a supplier tariff in I-SEM, the findings of such an extension of the scope of the Audit would be expected to have continued relevance in the new market.

Due to the expansion of this option into MDP responsibilities, the details of such an extension would be agreed on an AuP basis between the Auditors and MDPs, and submitted to the RAs for approval in December 2017.

The RAs did not indicate a preference for an approach during the consultation, but welcomed views on the Options put forward, and well as views and opinions on alternative approaches for the Market Audit.

3 RESPONSES RECEIVED

Three responses were received:

- Power NI
- Power NI - Power Procurement Business ("PPB")
- SSE

3.1 Audit Type

Power NI and PPB both supported Option 2: Core Audit plus limited expansion to non-interval aggregation processes.

PPB believes that the Terms of Reference for the 2017 Market Audit should be expanded from the core SEMO Audit to cover a subsection of the activities of the Meter Data Providers (MDPs) and the System Operators (SOs) with their obligations under the Code. As non-interval aggregation processes were last reviewed in 2013, and the need for accurate information from MDPs is essential to any market design, PPB are in favour of Option 2.

Power NI agrees that the core element should be a basic requirement. Power NI would welcome the scope of the market audit to include the activities of the MDPs specifically in relation to non-interval data processing. Power NI therefore recommends Option 2 is the approach taken; accurate meter reading and aggregation processes are critical to the efficient and effective operation of the market.

Given the substantial changes taking place to facilitate the introduction of I-SEM in May 2018, SSE would prefer a Core SEMO Audit only for 2017. While SSE recognises the RAs' point that:

"While the method of recovery of the system error will change from smearing across all non-interval meters to a supplier tariff in I-SEM, the findings of such an extension of the scope of the Audit would be expected to have continued relevance in the new market."

there is limited resource available on the part of SEMO, the MDPs and Market Participants to review and action any findings from this Audit within the first 12 months of I-SEM Go-Live. In addition, SSE's expectation is that the Modifications Committee and supporting industry resource will be occupied for the first 12 months of market go-live, resolving both 'Day 2' and unknown issues.

3.2 Timing

Power NI recognises that the start of the I-SEM falls midway through a SEM Audit Year. To resolve that issue, Power NI would support the 2017 Audit being expanded to cover the period up to May 2018. Power NI considers this to be a practical solution to a timing difficulty, however would encourage the RAs to ensure that the first I-SEM Audit also included the resettlement of the SEM which will continue in parallel with the operation of the I-SEM for a period of 13 months.

PPB would support this approach. However, should events transpire to cause the ISEM to be delayed further then the RAs should consider implementing the audit of 2017.

4 DECISION

Based on the responses received, the SEM Committee has decided to implement Option 1: Core SEMO Audit. While the SEM Committee recognises the value in expanding the Audit to include non-interval aggregation processes on an AUP basis, the level of work involved for SEMO and the MDPs of such an expansion is challenging at this point. In making this decision the SEM Committee notes that the 2013 Audit included consideration of some of the same areas relating to aggregation, and also, that the 2016 Audit confirmed that in general, these recommendations have been implemented by the MDPs.

The SEM Committee will recommend an Audit in line with Option 2 in a TSC Audit after Go Live of the revised SEM arrangements. Participants should note that this is unlikely to be in the year immediately after Go Live which is unlikely to have scope for expansion.

Due to the go-live of I-SEM in May 2018, it has also decided to delay and expand the 2017 Audit to cover the first five months of 2018 also (up until 23 May 2018).