



**Response by Energia to SEM Committee  
Consultation Paper SEM-14-031**

*Terms of Reference for SEM Market Audit 2014*

**20 May 2014**

## **1. Introduction**

Energia welcomes the opportunity to respond to this consultation on the terms of reference for the SEM market audit 2014. We have considered the three options put forward in the consultation paper:

- Option 1 Core SEMO Audit
- Option 2 Core SEMO Audit plus follow-up of all previous AuP findings
- Option 3 Core SEMO Audit plus limited expansion to cover Dispatch Instructions

We note the RA's preference for Option 1 which is effectively the minimum possible requirement. Our views in relation to this and the options presented are provided below.

## **2. Energia's Views**

The SEM market audit serves an important function in providing necessary oversight and assurance to market participants, regulatory authorities (RAs), the market operator, and other stakeholders. The relevance and value of the audit to these stakeholders is very much shaped by its terms of reference.

As a market participant we have been broadly supportive of the evolutionary approach that has been favoured by the RAs to date in expanding the scope for the SEM market audit. The progressive but selective expansion of the scope observed since 2007/8 seems to strike a reasonable balance. We consider proposed Option 1 for the 2014 market audit as an unwelcome reversal of this trend.

The consultation paper states that the RAs favour Option 1 based on the likelihood of significant changes to the market in 2016 and the short timeframe to implement any required changes before then, along with the additional cost of the other options. We have some concerns with this proposal and its justification and would favour Option 2 instead:

- The actions of MDPs and SOs are critically important to the correct functioning of the market and this is why the 2010, 2011 and 2013 Market Audits included a selective examination of their activities. In our view it is important that there is some focus on MDPs and SOs in the audit given the significant impact to the market. At the very least, it would be advisable and efficient to follow up on previous audit findings and to consider the operating effectiveness of any new processes and controls as per Option 2.
- Future market change in 2016 has little or no relevance in this context and should certainly not constrain the scope of the 2014 market audit. It should have no impact on the required deliverables of MDPs or SOs in the context of the current market and therefore we consider the timing issue for implementing any required changes before 2016 a moot point. Moreover the primary purpose of the audit is not to identify required changes to the market rules and agreed procedures but to ensure that existing rules and procedures are being followed.

- In any event, any actions that may arise from the audit may be a possible consideration for the new market design trading and settlement code.
- The consultation paper refers to the additional cost of options 2 and 3 but does not provide any indication of how much the additional costs are likely to be. It would be important to understand this given the stated relevance of this additional cost.
- Overall we favour Option 2 and have concerns with the reasons put forward in the consultation paper for not favouring this option. Should Option 1 be progressed it would be important to provide assurances on the performance and operating effectiveness of MDP and SO activities through other processes.