

Single Electricity Market Operator

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22nd May 2023

Re: Response to SEM-23-033 terms of Reference for the Market Audit 2022

Dear Mary and Yongkang,

The Single Electricity Market Operator (SEMO) welcomes the opportunity to comment on the consultation regarding the Terms of Reference for the forthcoming Market Audit 2022 (SEM-23-033). SEMO sets out below our response to the consultation including aspects we wish to bring to the RAs' attention.

Proposed 2022 Market Audit Scope: Core Audit

SEMO acknowledges the Core Audit scope proposed by the RAs and has no further comments.

Proposed 2022 Audit Scope: Materiality Level

SEMO welcomes the inclusion of the SEM Market Audit materiality threshold setting in this consultation. As Market Operator, we believe that the 0.25% materiality threshold is currently set too low and have set out below our rationale for increasing the threshold to at least 0.5%.

As noted in the consultation paper SEM-23-033, the materiality threshold of 0.25% was initially determined for the SEM arrangements 2007 – 2018 where the market was a gross mandatory pool market for all electricity generated/imported on the island of Ireland. The gross pool market volumes were significantly greater than in the current market arrangement and as such the 0.25% materiality threshold in monetary terms was significantly higher than the current Market Audit materiality threshold. In the current SEM the majority of the market value is traded day ahead. As the total market value related to

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the audit now excludes Day-Ahead Market and Intraday Market (which make up 70% of the total market value), the market value of the balancing market and capacity market is typically less than 30% of total market volume. As a result, the materiality threshold is now 0.25% of this reduced value and warrants at least this increase in the materiality percentage to 0.5%.

In the early years of operation of this market, we were, as expected at go-live, addressing a number of queries and rules changes as well as system and settlement defects and implementing numerous modifications. We were resettling and repricing in accordance with the trading and settlement code and as demonstrated in the 2020 Market Audit, amounts in excess of the 0.25% have been resettled. The settlement systems are now considerably more stable compared to ISEM go live in 2018. A large number of defect fixes have been delivered in bi-annual releases over the last number of years with only a small number of outstanding defects awaiting to be fixed.

However, as the market matures we continue to address a number of queries and rules changes as well as system and settlement defects and implementing numerous modifications. The volume of change in the balancing market has remained significant through modifications continuing as well as programmes of change that are in progress, e.g. Emergency Generation, DSU Energy Payments, Scheduling and Dispatch Programme. We also continue to see a high volume of queries driven by a number of factors including high prices. As such, we anticipate that resettlement of amounts in excess of 0.25% may continue to arise while the current threshold remains.

For comparison, in Great Britain the materiality threshold for the Balancing and Settlement Code Audit¹¹ typically equates to approximately 0.5% of the total annual electricity supplied across Great Britain during the audit period, typically an order of magnitude greater than in SEM.

As such, we fully support an increase of the SEM Market Audit materiality level to at least 0.5%. This will provide a more accurate threshold against which to benchmark, and would avoid potential breaches of a threshold set artificially too low, which could damage confidence in the market and divert resources away from areas of higher impact to the market. This increase in materiality threshold will not affect the

¹¹ <https://www.elexon.co.uk/reference/performance-assurance/performance-assurance-techniques/bsc-audit-performance-assurance-framework/bsc-audit-reports/>

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value and the transparency of reporting in the Market Audit, as all substantive matters are reported regardless.

Yours Sincerely,

[Sent by email and accordingly bears no signature]

Michael Kelly
Director of Market Operations