

Single Electricity Market Committee

Bidding Code of Practice

13 March 2014

SEM-14-019

BIDDING CODE OF PRACTICE

INTRODUCTION

1. This Bidding Code of Practice (**this Code**) is published jointly by:
 - a. the Northern Ireland Authority for Utility Regulation (**the Authority**), in accordance with paragraph 5 of the following conditions of licences in Northern Ireland:
 - (i) Condition 17 of each electricity generation licence; and
 - (ii) Condition 57 of the public electricity supply licence granted to Northern Ireland Electricity plc under Article 10(1) of the Electricity (Northern Ireland) Order 1992 under a licence document dated 31 March 1992 and transferred to NIE Energy Limited; and
 - b. the Commission for Energy Regulation (**the Commission**), in accordance with paragraph 5 of the following conditions of licences to generate electricity in the Republic of Ireland:
 - (i) Condition 17 of the interim electricity generation licence granted to the Electricity Supply Board on 21 April 2006;
 - (ii) Condition 16 of the electricity generation licence granted to Synergen on 31 July 2002; and
 - (iii) Condition 15 of electricity generation licences granted to all other licensed generators of electricity.
2. For the purposes of the licence conditions under which it is made (**the relevant conditions**), this Code defines the concept of Opportunity Cost, makes provision for the calculation of cost-items and sets out other principles of good behaviour in the Single Electricity Market.
3. In accordance with paragraph 6 of each relevant condition:
 - a. electricity generators are required to comply with the provisions of this Code in submitting Commercial Offer Data under the Single Electricity Market Trading and Settlement Code, whether by themselves or through Intermediaries; and

- b. the Power Procurement Business of NIE Energy Limited is required to comply with the provisions of this Code in submitting Commercial Offer Data under the Single Electricity Market Trading and Settlement Code.
4. This Code aims to facilitate the efficient operation of the Single Electricity Market by ensuring that:
 - in combination with the Capacity Payment Mechanism established under the Single Electricity Market Trading and Settlement Code, generators are appropriately compensated for making available their generation sets or units (as appropriate) and for generating electricity in the Single Electricity Market;
 - generators cannot exercise market power in the generation of electricity on the island of Ireland or any part thereof; and
 - the Power Procurement Business cannot exercise market power by virtue of generation sets or units contracted to it under long term power purchases agreements in Northern Ireland, in respect of which it has been appointed an Intermediary.
5. **Words and expressions used in this Code and not defined shall, unless the context otherwise requires, have the same meaning as when used in the licences containing the relevant conditions or (where appropriate) in the Single Electricity Market Trading and Settlement Code.**

DEFINITION OF OPPORTUNITY COST, VALUATION OF COST-ITEMS AND PRINCIPLES OF GOOD MARKET BEHAVIOUR

General Principles

6. When calculating the Short Run Marginal Cost of a generation set or unit in respect of a Trading Day, constituent cost-items are to be valued at their Opportunity Cost, and so that a reasoned explanation of the calculation of that Opportunity Cost is capable of being given to the Authority or the Commission (as appropriate) on request.
7. The Opportunity Cost of any cost-item shall comprise the value of the benefit foregone by a generator in employing that cost-item for the purposes of electricity generation, by

reference to the most valuable realisable alternative use of that cost-item for purposes other than electricity generation.

8. Save as otherwise provided in this Code, in calculating the value of the benefit foregone in employing a cost-item for the purposes of electricity generation, the following principles shall, unless it can be demonstrated to the satisfaction of the Authority or the Commission (as appropriate) that there is good cause not to, be applied:
 - (i) where there exists a recognised and generally accessible trading market in the relevant cost-item, the Opportunity Cost of that item should reflect the prevailing price of the cost-item, which may be for immediate or future delivery or use as appropriate to the circumstances of the relevant generator, having regard to:
 - (a) costs the relevant generator would incur in offering that cost-item for sale, or acquiring that cost-item, on a recognised and generally accessible trading market;
 - (b) reasonable provision for the variability of the prevailing price of a cost-item on a recognised and generally accessible trading market;
 - (ii) where no recognised and generally accessible trading market exists in the relevant cost-item the Opportunity Cost of that item should reflect the costs which would be incurred by the relevant generator in replacing that cost-item; and
 - (iii) reasonable provision for increased risks to plant and equipment as a result of the operation of a generation set or unit may be included.
9. Subject to paragraph 12, all Commercial Offer Data submitted in respect of a generation set or unit are to reflect the costs relating to that generation set or unit when considered on a stand-alone basis.

Start-Up and No Load Costs

10. Start-up and no load costs should reflect the actual start-up and no load costs of the generation set or unit unless it can be demonstrated to the satisfaction of the Authority or the Commission (as appropriate) that the scheduling algorithm and associated software operates in such a way that the bidding of actual start-up and no load costs would distort the true economics of the generation set or unit.

Energy, Emissions or Time Limited Units

11. Where there is a constraint on:
- a. the total time a generation set or unit may run, or
 - b. the total emissions a generation set or unit may emit over a period of time, or
 - c. the total amount of energy available to a generation set or unit for a period of time,
- bids should reflect the Opportunity Cost of the generation set or unit over that period of time.

Co-Generation

12. Where the generation of electricity is associated with additional processes other than generation, the Opportunity Cost of generating electricity for delivery to the Single Electricity Market should reflect the value of the use of electricity, or heat used to generate electricity, or both, in those associated processes.

Gas Transportation Capacity Costs

- 12A. To the extent that the price components of the Commercial Offer Data (**COD**) submitted by a Licensee in respect of a Trading Day are required by the relevant conditions to reflect the gas transportation capacity (**GTC**) costs relating to a generating unit, the provisions of paragraphs 12B and 12C shall apply.
- 12B. Where this paragraph applies the value of the benefit foregone in employing GTC for the purposes of electricity generation by reference to the most valuable realisable alternative use of that GTC for purposes other than electricity generation, shall:
- (i) to the extent that the relevant COD reflects GTC not yet held by the Licensee in respect of the Trading Day, correspond to the amount which the Licensee would pay to purchase sufficient additional GTC within the Trading Day; and
 - (ii) to the extent that the relevant COD reflects GTC held in respect of the Trading Day, correspond to the amount which the Licensee would realise by disposing of the unused GTC within the Trading Day.

12C Where this paragraph applies, any assessment as to whether the price components mentioned in paragraph 12A are required to reflect GTC costs and any assessment of an amount under paragraph 12B must be reasonable.

Unreasonable Exposure to Certain Charges

12D. A Licensee's COD should reflect an expectation that it will act so as to avoid unreasonable exposure to the following:

- a. charges (known as overrun charges in Ireland and unauthorised flow charges in Northern Ireland) associated with the movement of gas on the relevant system without capacity; and
- b. any other penalties or charges of a similar nature.

CHANGE MANAGEMENT

13. In accordance with paragraph 5 of the relevant conditions, this Code may, following consultation with the holders of generation licences and such other persons as the Authority or the Commission (as the case may be) consider appropriate, from time to time be amended by direction.