

'Sleeper' Bids

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Interim Operational Forum

3 August 2005

Presentation Outline

- ◆ Background
- ◆ Ofgem Views from P173/P175 decisions letters
- ◆ ‘Analysis of ‘Sleeper’ Bids
- ◆ Summary

Background

- ◆ ‘Sleeper’ Bids as a *“a topic for ... NGC Operational Forum”* (Ofgem decisions letters on P173 and P175)
- ◆ Damhead Creek Emergency Instruction
- ◆ Extent of ‘sleeper’ Bids as an issue

Background (cont.)

Damhead Creek Emergency Instruction (19/5/04)

- ◆ Bid Price
 - ◆ **-£9,999 / MWh** (for a large proportion of volume)
 - ◆ 'High' and negative
- ◆ Impact
 - ◆ High / negative System Sell Price (**-£5,871 / MWh** in Settlement Period 28) – P172 / P171
 - ◆ 623 MWh exposed to this price
 - ◆ High BSUoS charges (**£73 / MWh** in Settlement Period 28, compared with **44p / MWh** in Settlement Period 26) – P173/P175
 - ◆ 37, 351 MWh exposed to this charge

Ofgem Views (P173 and P175)

- ◆ Different treatment of Emergency Instructions may be warranted, particularly given the potential for sleeper Bids to be *“.... submitted as a signal of a market participant’s unwillingness to be flexible”*
- ◆ *“.... concerns about the potential for “sleeper” Bids, if accepted, to distort competition....”*
- ◆ *“.... potentially significant implications for Settlement and associated cashflows”*

Ofgem Views (cont.)

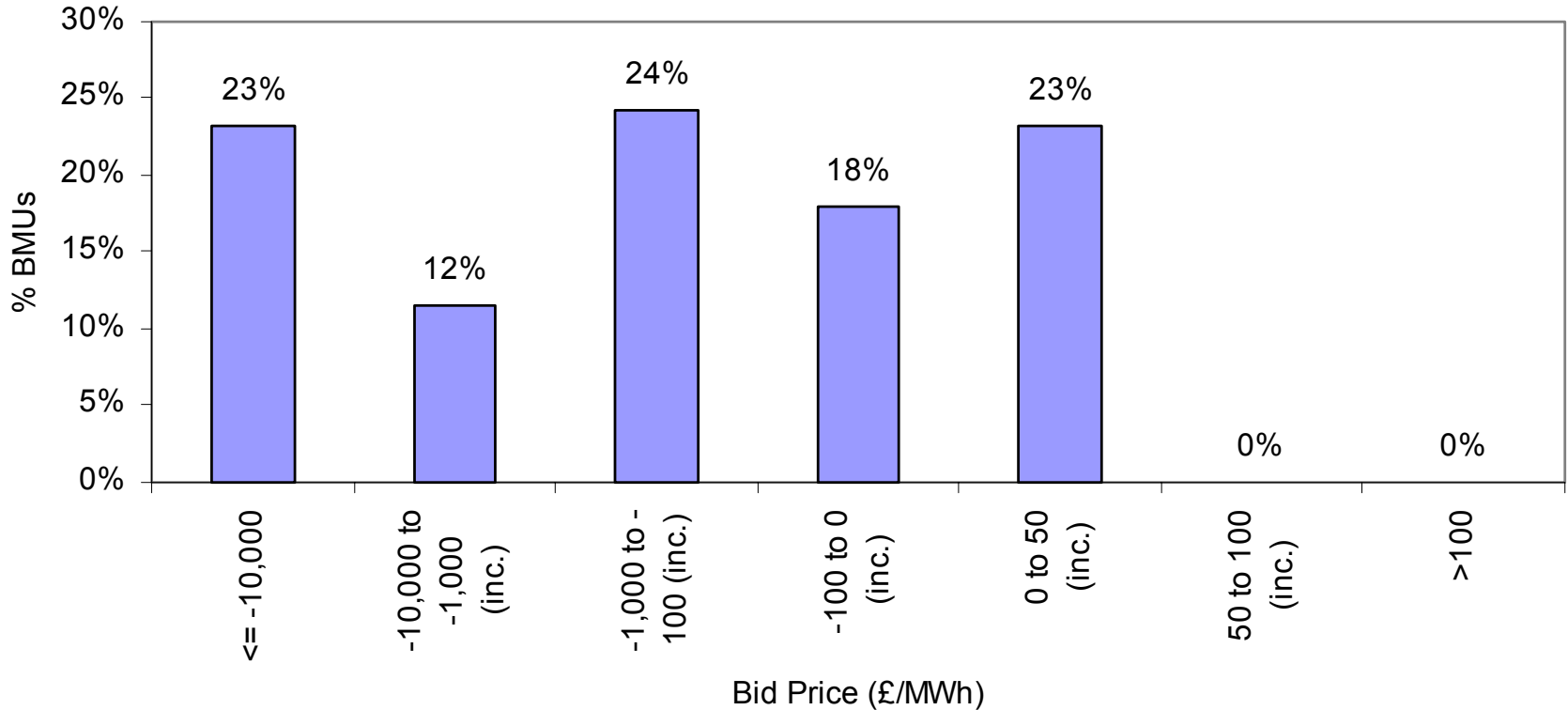
- ◆ *“.... may be inappropriate for the pay-as-bid approach to apply in certain circumstances when actions are taken outside the normal operation of the market”*
 - ◆ Emergency Instructions
- ◆ *“.... may be appropriate for alternative compensation arrangements to be put in place for Emergency Instructions....”*
 - ◆ Operational intertrips

Scope of Analysis

- ◆ Context – Damhead Creek Emergency Instruction
- ◆ Synchronised BMUs (more relevant to Emergency Instructions)
- ◆ No definition of ‘sleeper’ Bids
 - ◆ Analysis presented in different price bands
 - ◆ More negative than - £1,000 / MWh
- ◆ Data corresponding to a 12 month period
 - ◆ One settlement period per month (corresponding to peak demand)
 - ◆ Data publicly available

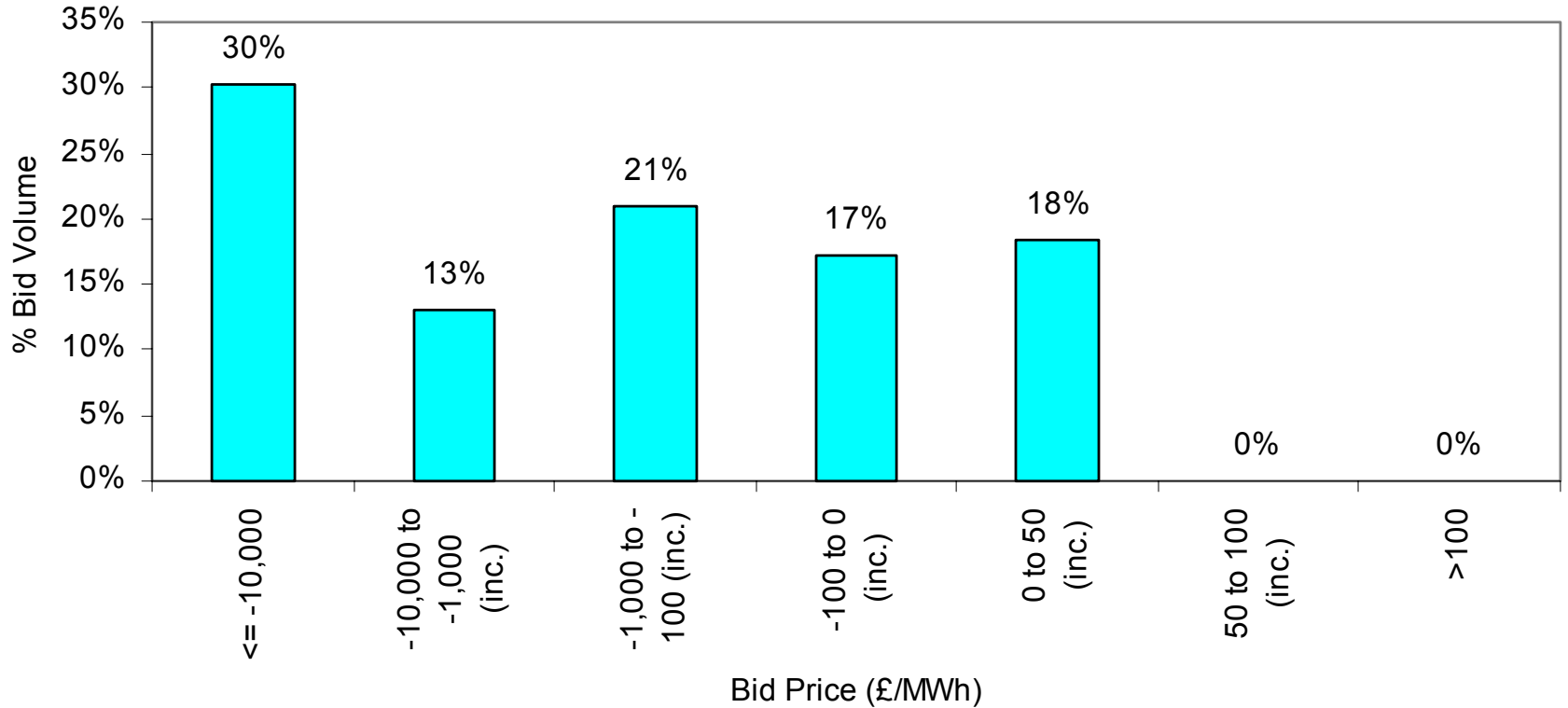
19 May 2004 - %BMUs with **minimum** Bid Prices

19/5/04 (P28) - % BMUs in Bid Price range



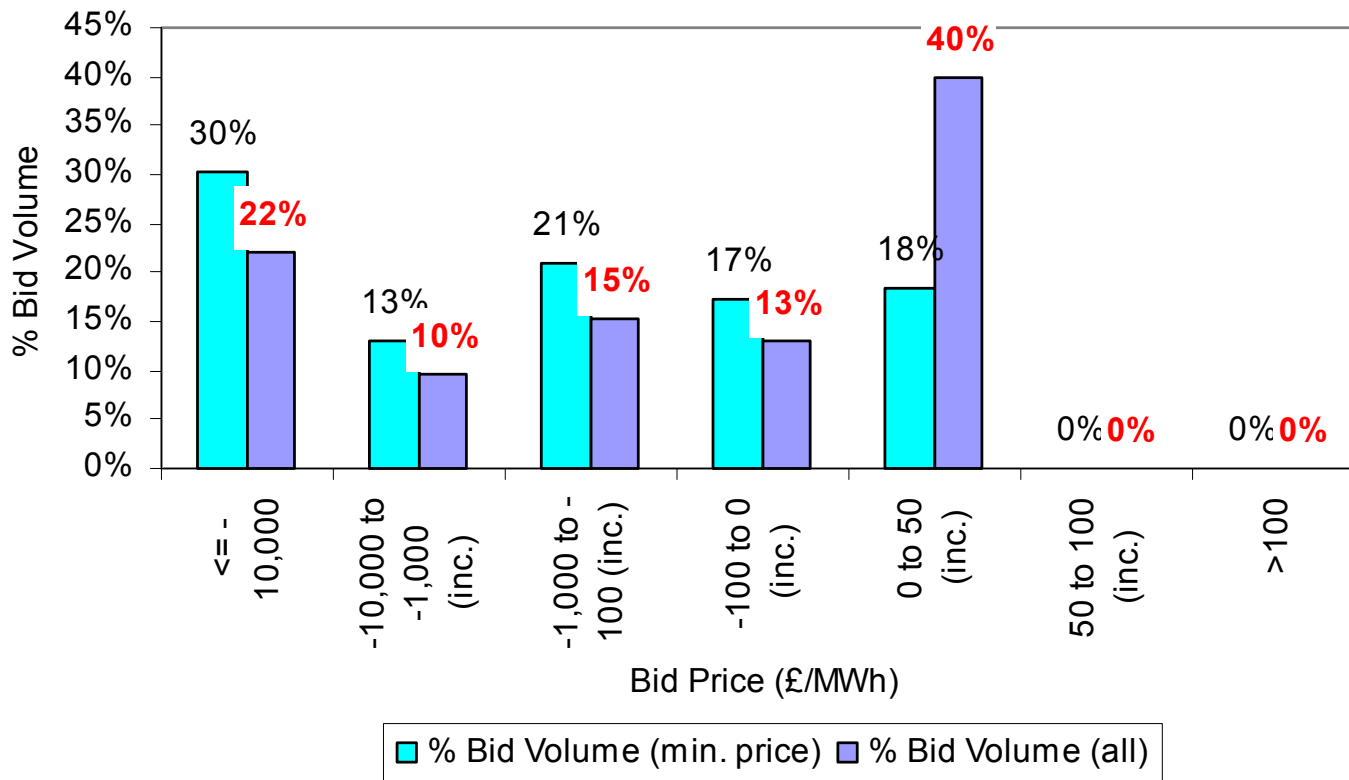
19 May 2004 - % Bid Vol. (minimum Bid Prices)

19/5/04 (P28) - % Volume in Bid Price range



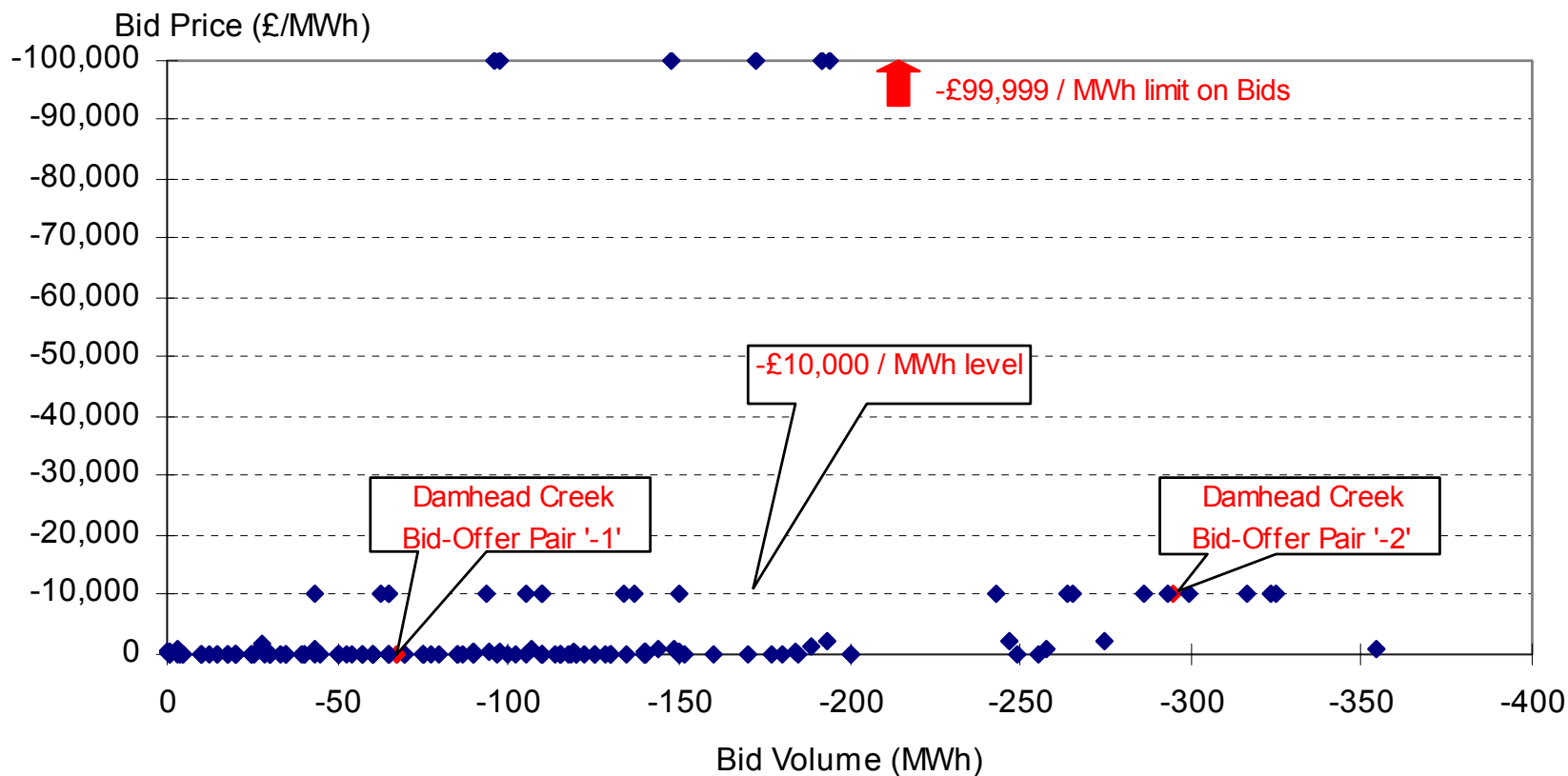
19 May 2004 - % Bid Vol. (minimum and all Bid Prices)

19/5/04 (P28) - % Volume in Bid Price range

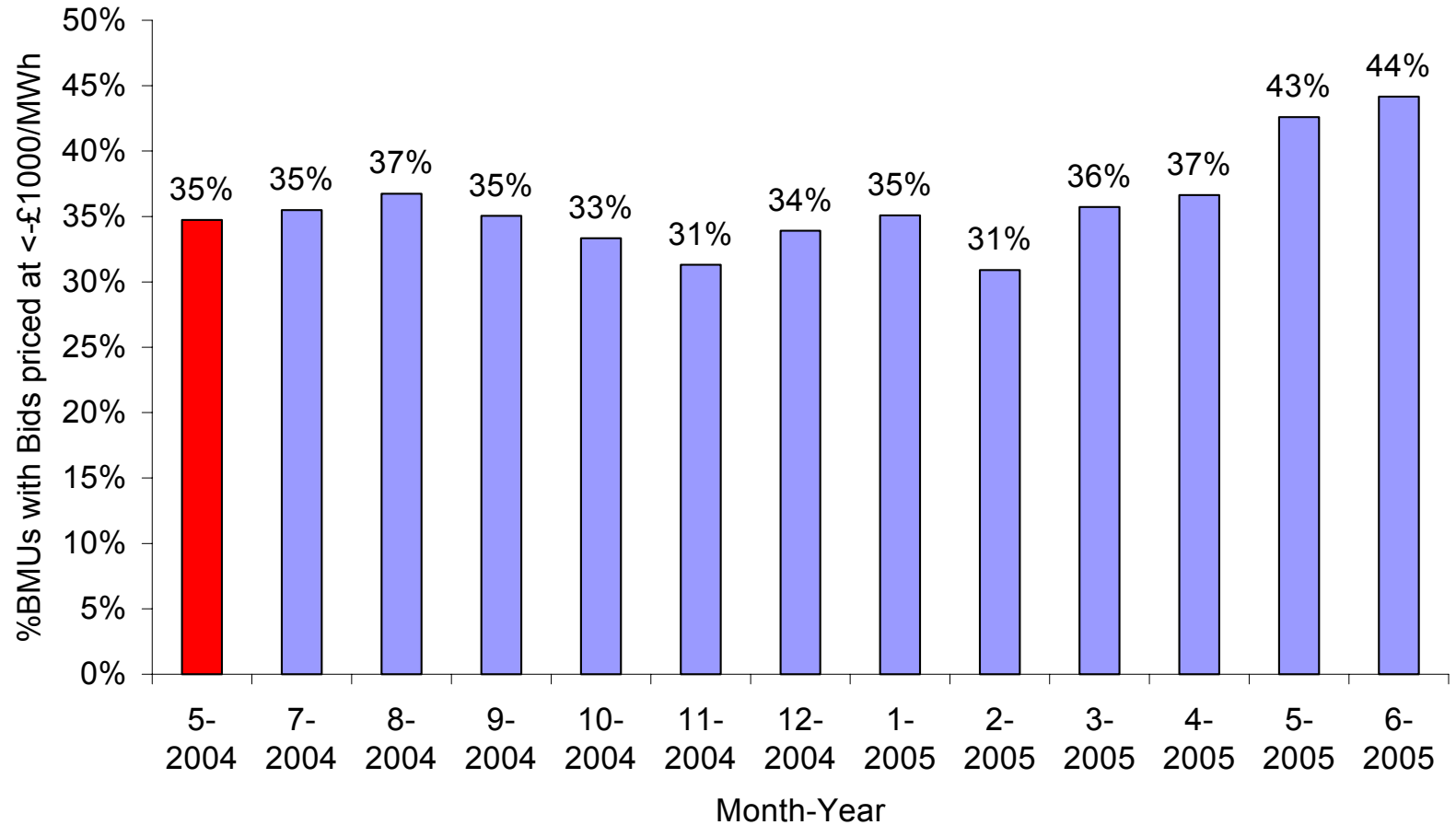


19 May 2004 – Bid Price v Bid Volume

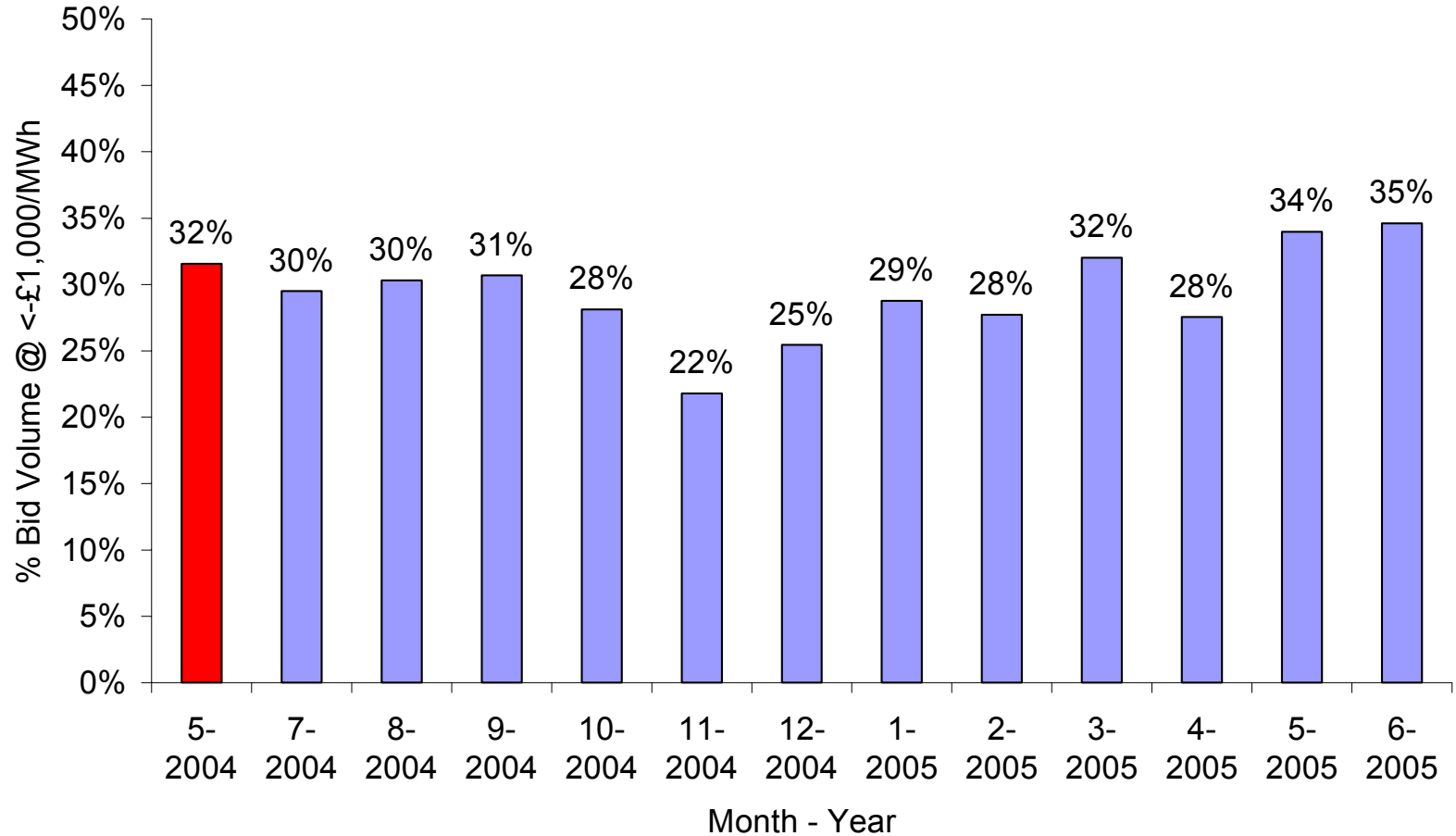
19/5/04 - Bid Price v Bid Volume



%BMUs with Bids priced at less than - £1,000 / MWh



%Volume of all Bids priced at less than -£1,000 / MWh



Summary

- ◆ Recent decision letters (P173 and P175) & 'sleeper' Bids
- ◆ Analysis of sleeper Bids
 - ◆ 19/5/04 data (Damhead Creek)
 - ◆ Jul '04 – Jun '05 data
- ◆ P172 resolves impact on cashout prices but not on BSUoS charges
- ◆ Industry still exposed to risks associated with high negative Bid prices (via BSUoS)
 - ◆ >30% chance of accepting a 'sleeper' Bid (in a similar scenario to Damhead Creek)