

Leone Roscorla
Elexon Ltd
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10th August 2005

Dear Leone,

Re: 'Sleeper bids'

I attach the presentation from last week's Ops Forum.

During the discussions on P171-173 it was generally recognised that there were wider issues associated with so-called sleeper bids in circumstances where balancing actions are taken outside of the normal operation of the market, and that the issue may merit consideration by market participants, including NGC. Ofgem echoed these concerns in its P173 and P175 decision letters, referring to the potential to distort competition.

More light was shed on this matter at NGC's interim operational forum on 3 August. In a presentation now posted on NGC's website, NGC concluded that there were a substantial number of BMU bids at "abnormal prices", and many of these were from non-nuclear plant. Perversely NGC data shows the incidence of posting high sleeper bids is now greater in the light of decisions on P173 and P175. The conclusion reached by NGC was that there is "fairly substantial industry risks" arising from these circumstances, which might be triggered by high demand scenarios or transmission constraints. By way of example, NGC showed that even had the Damhead Creek acceptance been tagged out of the energy pricing, it could have pushed BSUoS to £73/MWh in period 28.

It is clear that the ability of generators to post bids up to the theoretical maximum of £99,999 needs examination with a view to identification of appropriate rectifying modification proposals. One option for such change might be impose a requirement on all participants (the issue applies in principle to all offers and bids) that offers and bids must be related to their reasonable cost. We therefore ask formally that this matter be referred to a BSC issues group because of their potentially distorting competitive effect.

Please let me know if I can provide any further information.

Yours sincerely,

Louise Boland
Commercial Director

Cc. Dorcas Batstone & Nick Simpson

