

SEM Committee

Reference to Short-term Unit Commitment Status in Commercial Offer Data

Clarification Paper

SEM-09-014

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1. Issue

The Market Monitoring Unit (MMU) has identified an issue relating to the inclusion of short-term unit commitment status in the formulation of Generator Unit Commercial Offer Data (COD).

Following from the SEM Committee (SEMC) Final Report SEM-08-069 issued on 12 June 2008, it has emerged that certain participants have interpreted the decisions in that paper in such a way that the real-time unit commitment status is currently being factored in to the submitted Start-up Cost for their Generator Units.

In this way, the Generator can, depending on the settings and circumstances, appear more or less favourable to the MSP algorithm for start-up than it does for shut-down.

2. Rationale for Clarification

Re-examining the original set of decisions and the standing documentation, the SEMC is of the view that this behaviour is not, prima facie, in conflict with standing policy. Indeed the Bidding Code of Practice and the associated Papers that clarify the SEMC's decisions are written in such a way as to allow Generator units the necessary flexibility to as accurately as possible reflect the true costs of operating (specifically in this instance starting) their Generator units.

However, the SEMC wishes to provide a clarification to the market aimed at preventing the continued employment of this type of bidding behaviour for the following reasons:

1. By permitting Generator Units to submit a different Start-Up cost when the unit is physically off than when it is physically on, Generators would be less incentivised to accurately calculate the two costs than in the case where a single cost applies for both states. This is because, in the context of a strong contest for baseload operation, the Generators employing this strategy will be effectively immune, in a market sense¹, to the consequences of calculating the Costs incorrectly.
2. A policy of acceptance of this strategy would create what would in the SEMC's view be a 'cloudy game' under which the competing Generators would be incentivised to 'race to the top' for the Committed-On costs in order to avoid cycling scheduling and to correspondingly 'race to the bottom' for the Committed-Off costs in order to ensure re-scheduling of the unit(s) ahead of competitors. It is recognised that these potential

¹ It is recognised there may tend to be counter or cross-incentives regarding Dispatch Balancing Costs and other out-of-market incentives

rares would occur only to the extent that the Market Monitoring Unit could not prove a breach of any standing rules by any involved parties.

3. It is important that emergent Generator scheduling and dispatch be permitted to feed in to the COD relevant for the units in question in order for the standing decisions to be fully effective. As such the Decision in the next section is framed in such a way as to permit a degree of flexibility and lay the burden of interpretation in keeping with the standing bidding principles.

3. Decision

In the formulation of Technical and Commercial Offer Data for Generator Units, the short-term unit commitment status, either actual or predicted, under the market schedule or under real dispatch or otherwise, should not be referenced.