

Eurelectric response to NEMO's consultation on second auction removal

A Eurelectric response paper

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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January 2024

Eurelectric welcomes the opportunity to provide opinion on the second auction. Eurelectric has been calling for having an in-depth debate, supported by quantitative data and information, in order to evaluate the relevance of the second auction.

Eurelectric already responded ACER survey in March 2023 on the same issue.

In winter 2022 and spring 2023, NEMOs already made the decision to modify (respectively increase the upper level and decrease the lower level) the threshold triggering the book reopening. While we understand and support the need to find the right balance between operational burden and avoiding operational errors, we regret the lack of market involvement at the time those decisions were made.

The NEMOs are today proposing to remove the second auction process, justified by the need to save the time allocated to this process for possible contingencies, in views of the implementation of the 15 min granularity in SDAC, foreseen in January 2025. We welcome the fact that NEMOs are organizing a consultation prior to making this decision. We provide here below our feedback on this proposal.

We understand that SDAC timings are under pressure and that we may have to review priorities. We also agree that security and safe operations are a priority, but we underline that this encompasses also ensuring the avoidance of mistakes and resulting irrelevant market results. In this spirit, we would like to stress that the second auction currently acts as a "fire alarm". It is not needed most days, but it acts as a preventive measure in case a severe incident occurs. In Eurelectric's view, the main risk against which a second auction or equivalent process should protect is bidding errors from individual market participants, more than extreme price formation due to market tension. Eurelectric considers that the second auction is a process that can and should be improved to better deliver on the objectives set previously. The recent event in Finland is a testimony of the necessity of such preventive measure.

Therefore, we regret that NEMOs' proposal to remove the second auction is not accompanied by proposals to replace the current process of a second auction with an alternative, less-impactful measure such as:

- a detailed list of checks that are implemented by individual NEMOs, under the supervision/guidance of MCSC
- An individual book reopening process in case outlying bid volumes or prices

- Checks and warnings on interface level that provide warnings in case of bid volumes or prices that exceed threshold levels.

Irrespective of the precise measure that is implemented, Eurelectric strongly believes that it should be possible to replace the current, burdensome process with an alternative that allows NEMOs to claim back the majority of time currently allocated to a possible second auction. At the same time, Eurelectric would like to stress the following points:

- Some kind of process should remain to protect the Day- Ahead Market against erroneous bids and market outcomes, as this affects the entire market due to the auction mechanism.
- The process should be communicated transparently and implemented in a harmonized fashion, to ensure that all market participants across Europe enjoy the same level of protection against erroneous bids.

To identify the most adequate alternative to the second auction, Eurelectric recommends that NEMOs initiate a benchmark of EU's national best practices on the matter.

In addition, to better understand the stakes and the time NEMOs seek to free up, Eurelectric would welcome further explanations on what would be done during the contingency period they would miss in case the book reopening is maintained. In particular:

- Why is this time necessary? What kind of issues does it cover?
- What is the nature of actions performed during the contingency time and why is this time necessary?
- Are there possibilities to parallelize such actions with the primary process?
- Alternatively, and as a last resort, would it be possible for example to resume to the results of the first auction when the second auction competes with required contingency actions?

Finally, Eurelectric would welcome information on the magnitude of the increase in decoupling risk: would maintaining the book reopening process increase the risk of decoupling by a factor 2, 5, 10 ? We have been calling several times for a more substantiated debate and regret that no quantified information has been provided so far.

Therefore, **Eurelectric underlines that, although it is perfectible, the second auctions act as a safeguard and contributes to prevent severe difficulties. Eurelectric does not support the mere removal of the second auction in bidding areas where it exists without having any other alternative in place to guarantee a sufficiently high level of prevention/detections of operational errors.** In bidding areas where 2nd auctions do not exist, we strongly recommend that the NEMOs create and implement a SDAC procedure that allows for a "safety valve" in case of significant errors. In the long run, the focus should be on seeking harmonization.

Eurelectric is ready to engage into constructive discussion with the NEMOs and NRAs to find a suitable alternative solution, while ensuring a sufficiently high level of security. This solution should aim at reaching the objective of detecting operational errors and preventing those erroneous bids to impact the market price.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability



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