

NEMOs consultation on the potential removal of the second auctions in Single day-ahead coupling (SDAC)

Brussels, 22 December 2023. The European Federation of Energy Traders (EFET) welcomes the opportunity of this consultation to provide insights into the usefulness of the second auction process and reflect what to possibly replace it with.

The NEMOs today propose to remove the second auction process, justified by the need to save the time allocated to this process for possible contingencies, in view of the implementation of 15-minute products in SDAC, foreseen in January 2025.

We welcome the fact that NEMOs are organizing a consultation prior to making this decision. We have been calling for an in-depth debate, supported by quantitative data and information, in order to evaluate the relevance of the second auctions and possibly find alternatives together.

How the market uses second auctions

The NEMOs analysis of the usefulness of the second auction process focuses on the effect that the organisation of second auctions had on market prices. As expected, this analysis shows very little changes to the clearing prices (derived from the bids entered by market participants) before and after an order book was reopened. Here we would like to clarify that:

- For market participants, second auctions can be a mean to readjust volumes or prices, but they are primarily a safety net in case of manifest operational errors in our bidding;
- In most cases, the second auction will not change the volumes or prices of bids entered into the first auction – unless a manifest operational error happened then;
- The second auctions are not used to artificially lower bid prices when thresholds have been hit, since the bid prices or volumes have been calculated according to market fundamentals.

Now, we understand that SDAC timings are under pressure. Exactly how the second auction process increases the risk of decoupling in a 15-minute SDAC environment is still unclear to us (is it a factor 2, 5, 10?) so we call once again for quantified information on the matter. In any case, it may mean we have to review priorities. And while secure and safe market operations are a priority, this motto should encompass limiting mistakes and irrelevant market results to the maximum. It is therefore important to keep the objective of correcting manifest operational errors in mind when thinking about the future of the second auction process. We would also like to reaffirm that a potential removal of the second auction process should not impact the way shadow capacity auctions work today.

The fire alarm and safety net functions of second auctions

We are conscious that the responsibility for checking bids remains primarily with the bidder. However, we would like to stress that **the second auction currently acts both as a “fire alarm”** – the announcement of the second auction leads market participants to watch out for any mistakes in their bids – **and as a “safety net”** – the second auction itself allows market participants to correct any possible mistake. It is not needed most days, but it acts as both a preventive and a corrective measure in case a severe incident occurs. Furthermore, even one occurrence is enough to deoptimize the market with significant costs for market participants.

The recent event in Finland shows that a manifest operational error by a market participant can lead to irrelevant market result¹. Second auctions are not organised in the Finnish market, and it is uncertain they would have solved the problem. But this incident is a testimony of the necessity of having preventive and corrective measures available to secure market operations as much as we can. The second auction process is one such tool, so should NEMOs deem it unavoidable to remove it alternative proposals should be developed to ensure a sufficiently high level of security on the electricity markets, in all bidding zones.

Collectively reflecting on possible alternatives

We are happy to support the NEMOs in the process of finding the right tools to secure market operations. The ideas below could be implemented whether or not the second auction process is maintained. Here are a few thoughts that can be further explored together:

For the “fire alarm” aspects:

1. Alerts on NEMO platforms:
 - NEMOs should make clear which alarm triggers they have set on their side.
 - NEMOs should make clear which consequences the breach of their triggers has.
 - NEMOs could offer market participants the possibility to tailor alerts:
 - Per absolute MWh volume? This might be complex for intermittent portfolios.

¹ While investigation on the incident are still ongoing, it is important to note that: (1) the manifest operational error was not caught in time to allow a reaction; (2) no second auction is planned on the Finnish market; (3) the error was largely corrected by the market participant in the intraday market, but at costs that could have been avoided by improved preventive and corrective measures.

- Per relative MWh volume compared to their average bidding of the last 12 months?
 - Per relative MWh volume compared to the market size?
2. Off-screen alerts by NEMOs:
- NEMOs should make clear which security framework they have in place for API-based trading.
 - NEMOs should seek how to facilitate contact-making with market participants (contact by emails/phone/ API app-based messages).

For the “safety net” aspects:

3. Could the calculation be halted in case an alarm has been raised and reaction (on the NEMO side or from the market participant) is missing?
4. Could there be a restricted [partial] reopening of order books, reserved to the market participant who entered a faulty bid?

In all cases, NEMOs should clearly lay out to their clients which are the services and options they propose to them to secure trading operations.

We would also request that NEMOs coordinate and find equivalence to their tools to provide security checks, in order that all market participants enjoy a similar level of security against operational errors across NEMOs.

NEMOs should where possible implement the four-eye principle, which is used by many market participants today, to make sure suspicious bids are identified early. Access to skilled human resources is key in this process.

Summary

In summary, we underline the importance of safeguards for secure and safe market operations, and underline that the second auction process plays a key role for this at the moment. **Removing the second auction process without any other alternative to guarantee a sufficiently high level of prevention/detections of manifest operational errors would threaten the secure and safe operation of markets.**

We are ready to engage into constructive discussions with the NEMOs and NRAs to find suitable alternative solutions and ensure a sufficiently high level of security.

These solutions should aim at detecting manifest operational errors and preventing erroneous bids to impact the market price.

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