

29. February 2024

To:

**Stakeholders and respondents to the Public Consultation**

## Report on coordinated Public Consultation related to the potential removal of the so-called Second Auctions

The Nominated Electricity Market Operators ("NEMOs") cooperating within the Single day-ahead coupling ("SDAC") conducted a coordinated Public Consultation in the period between the 24<sup>th</sup> of November 2023 and 8<sup>th</sup> of January 2024 (which was additionally extended until the 15<sup>th</sup> of January).

The Second Auctions are a procedure established in line with the Day-ahead operational Agreement (DAOA), specifically, the operational procedure SDAC\_SPE\_01. This procedure is applied during the Market Coupling process in case the prices of one or several concerned areas reach or exceed the predefined thresholds.

The following Market Participants ("MP"), Organizations/Associations and NRA(s) provided feedback to NEMOs during this Public Consultation: EDF, EFET, Eurelectric, Global Riskmanagement, IFIEC Europe, Ignitis, Nordenergi, SDAC Market Coupling TSOs, Statkraft, Vert (for Baltic NRAs).

The NEMOs would like to thank all the respondents for their feedback on this Public Consultation and for providing valuable suggestions, concerns and recommendations related to the consulted topic.

This report provides a summary of the main topics raised by the respondents and the relevant reactions and suggestions by NEMOs.

On top of this, the NEMOs are also providing further detailed reasoning on why they still consider the removal as paramount to the well-functioning of the operation of SDAC after the introduction of the 15-minutes products.

The individual responses are published on NEMO-Committee website together with this report.

The summary of the received feedback and the responses by NEMOs are organized as follows.

## Remarks raised on the removal

The following topics are commonly identified in general remarks provided by the respondents to the Public Consultation:

### 1.1 Replacement mechanisms in case of removal

#### 1.1.1 Fire alarm

Short summary of the identified topic:

*Many of the received responses to the consultation highlighted the fact that they consider Second Auction as what can be described as a "fire alarm", a preventive measure for severe incidents. At the same time, these respondents were against the removal of Second Auction without having an adequate alternative mechanism in place that could serve as a replacement for Second Auction. This together with the function of the Second auction of being a "safety net" (addressed in point 1.1.2 below) is seemingly a reoccurring theme across almost all received responses.*

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All the NEMOs have dedicated checks in place to deal with these problematic occurrences:

- NEMOs have checks in place to filter erroneous bids, the specific process may differ for each NEMO;
- Separately from the process related to the Second auction, there are existing procedures under the All NEMO Day-ahead Agreement (ANDOA) that enable both the modification of the orderbook of a NEMO and to run second calculation in case issues are detected;
- All NEMO procedures are continuously improved with market evolutions and thanks to lessons learnt.

The NEMOs would also like to highlight that the second auction does not serve as a preventative measure as it is triggered once the computation of the first auction is completed and there is a decision on the reopening of order books. Instead, most of the mechanisms listed above intervene early in the coupling process and before the publication of the prices.

#### 1.1.2 Safety net against erroneous bids/errors

Short summary of the identified topic:

*Another aspect common across almost all of the received responses is that Market Participants consider Second Auction to be, on top of being a preventive measure (as described in point 1.1.1 above), a corrective measure. From the received responses it is evident, that this seems to be what Market Participants consider*

*to be the main reason for their existence, to serve as a protection against human error or errors in general (also erroneous bids).*

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The Second Auction procedure is triggered when prices reach pre-defined thresholds. Second auctions cannot be a reliable safety net for market participants as price thresholds often will not be triggered. Indeed, most of the bidding errors will not push prices to the second auction thresholds and therefore will not activate the Second Auction.

Furthermore, analysing past Second Auction occurrences reveal that in 90% of the cases when a Second Auction was triggered, prices did not in fact improve. This means that the market price was the one already reached during the first auction and not an error. Or the second auction has not allowed a correction of a possible error.

For the prevention of erroneous bids, NEMOs already have safety mechanisms in their individual trading systems.

Moreover, a second calculation is also possible if a NEMO indicates that wrong inputs were taken into account during the first calculation process. NEMOs would like to insist that second calculation does not mean second auction. Indeed, the distinction shall be made between these two operational processes.

- A Second auction consists in a coordinated reopening of order books by the NEMOs proposing this process in the relevant SDAC bidding zones.
- a second calculation will see a single or very small subset of orders that reached the SDAC algorithm for the first calculation to be modified. This is based on the assessment of individual NEMOs in cooperation with individual market participants. This second calculation process means no coordinated reopening of order books, but a delayed publication of the market results.

NEMOs firmly believe that publication of market results based on wrong order data input due to trading error made by market participants can be avoided thanks to those two layers of NEMOs process:

- Checks done by trading platforms and associated individual NEMOs processes.
- Last resort: correction of the wrong bids and second calculation in a coordinated manner with all NEMOs.

Return to the outcome of First Auction, is also not possible, since the outcome of the First auction is basically discarded/disregarded, thus making it impossible to return to the previously calculated outcomes.

Last but not least, from NEMOs perspective, an additional reason why a second auction cannot be considered as a safety net against potential mistakes on the side of bidders is that there are no guarantees that mistakes/erroneous bids do not occur also in the second auction, especially considering the condensed nature of the second auction.

### 1.1.3 Case of the incident in Finland in November 2023

Short summary of the identified topic:

*Multiple responses touched upon the case of the incident in Finland in November 2023, where respondents pointed out the importance of protection against erroneous bids in connection to this specific incident and how it highlighted the need for the preservation of Second auction.*

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NEMOs share the view of Market Participants to have mechanisms in place to prevent incidents and trading errors. One of the most important goals NEMOs have, is to ensure safe operations at all times. As detailed in the previous paragraphs, that is the reason why several layers of processes are in place both at individual and at all NEMO level. In the specific incident in Finland the prices did hit the threshold of the Second auction, and the procedure would have been triggered if it were in place in Finland. However, relying on this procedure to correct such issues may bring a different set of problems:

- Prices may have reached the threshold in this instance, but an important error could go unnoticed if prices had not reached the defined threshold. Relying on the wrong tool may still lead to incidents in different conditions.
- The Second auction procedure would have published the extreme price and would have allowed all participants to adjust their bids based on that initial price. This may lead the Market Participants, besides the erroneous one, to modify their position based on a wrong initial signal. This in turn may stir the market away from the reality of the auction.

In conclusion, Second auction is not the adequate solution to the issue and in some cases Second auction can provide a wrong reading of the market situation potentially worsening the incident.

NEMOs have analyzed the incident in Finland and improved their All NEMO backup procedures to decrease the occurrence risk of trading mistakes.



## 1.2 Historical reasons for the establishment of Second auction

Short summary of the identified topic:

*Respondents to the consultation have highlighted that the Second auction procedure is a crucial safeguard against trading errors. For this reason, Market Participants insist that the removal of the Second auction should only occur if the fire alarms and safety nets detailed in the first paragraph are in place.*

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Second auctions were originally introduced in the early 2000s with the goal of addressing limited liquidity in the Central Western European region. Today, given the interconnected and mature markets, liquidity is no longer such a pressing concern.

More details on the background of the processes surrounding the Second auction and reasons for its establishment can be found within the document titled Frequently Asked Questions (FAQ), which has been prepared by NEMOs in parallel to this Consultation Report. This FAQ is also available on the NEMO Committee website, on the following [link](#).

## 1.3 Quantification of the increase in operational risk

### 1.3.1 Description of the impact on full decoupling deadline with the introduction of 15' MTU

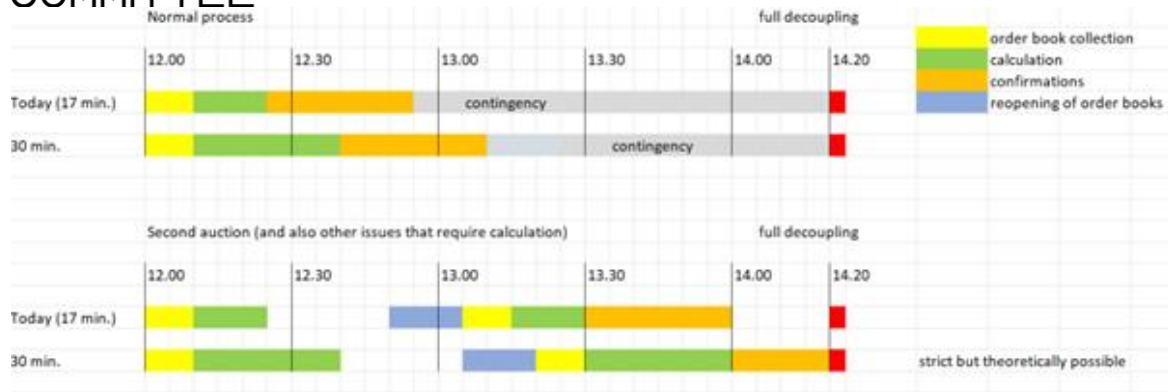
Short summary of the identified topic:

*Some of the responses requested a quantification related to the magnitude of the increase in the risk of full decoupling after the introduction of 15-MTUs and the increase from the computation time to 30 minutes. The respondents would like to see a clarification on what order/factor of magnitude will operational risks increase by.*

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The NEMOs are aware of the requests related to quantification of the increase of operational risks. The NEMOs offer the following response:

While the exact timing for the publication of Final Results is still under discussion within the 15'MTU project, please find below a preliminary visualisation of the impact that the increase of calculation time will have on the timeline of SDAC that was also provided within the materials as part of the Consultation:



With the increased computation time necessary (which applies to both the First calculation and to the Second calculation – thus going from 2x17 minutes to 2x30 minutes), the Second Auction procedure will push the process to its limits. Within that operational timing, the smallest issue could lead to disastrous effects on the whole of SDAC, as it would lead to increased likelihood of full decoupling every time a Second Auction will take place.

In the current SDAC process the available contingency timings are longer exactly because of the shorter computation time. The time dedicated to the SDAC process is from 12:00 to 14:20, both of which are timings that cannot be moved. With the abovementioned 13-minute extension applicable to both the first and the second calculation/auction, the available contingency time is severely reduced.

The NEMOs are heavily engaged in optimizing steps within the SDAC process, for example by shortening the timings of confirmation steps by both NEMOs and by TSOs/Market Participants, nevertheless, finding additional 26 minutes that are necessary for the completion of the first and second calculation/auction after 15' MTU go-live will undoubtedly highly increase the risk of full decoupling.

With no contingency left in the operational timings in case of a Second auction in a 30-minute computation scenario, NEMOs evaluate that the risk of full decoupling increases to almost certain in the risk assessment.

**List of abbreviations:**

ANDOA – All NEMO Day-Ahead Operational Agreement

FAQ – Frequently asked questions

MTU – Market Time Unit

NEMO – Nominated Electricity Market Operator

SDAC – Single Day-Ahead Coupling

TSO – Transmission System Operator

