EDF response to the NEMOs' consultation on the removal of second auctions within SDAC

January 8th, 2024

EDF welcomes the opportunity to give its opinion on second auctions. EDF provided a response to the ACER survey in March 2023 on second auctions.

EDF joins Eurelectric in their response to the consultation and is happy to provide a more detailed opinion as an individual market player.

We understand this consultation on the removal of second auctions takes place during the wider context of the launch of the 15-minute products planned for January 2025.

15-minute products will trigger longer computational time and we understand the need to optimize the market coupling process but it should not be at the cost of operational security. We agree with the limited benefits of second auctions as they are today but we do pledge for the introduction of safeguards. The recent example on 23rd November in Finland on NordPool highlights the use and collective benefits of checks. Indeed, the whole market and the electricity system have been disturbed by an operational error in volumes. Similar errors may happen again and although unintentional, are very costly, which justify the implementation of checks.

EDF advocates for the substitution of second auctions by more efficient and more selective safeguards. As designed today, second auctions have not proven useful as safeguards. They are not able to capture manifest bidding errors in a selective way since they have no volume criteria and debatable price criteria. Indeed, the price criteria stands in absolute caps whereas one may distinguish between a high (respectively low) price due to fundamentals or due to an operational error. Prices may reach unusual levels due to fundamentals, in which case reopening the order book to restrict bids within an interval would lead to market distortion. However, there is a collective benefit in tracking manifest operational errors. Also, second auctions are not applied evenly across Europe which weakens the process.

If second auctions shall be removed, then an operational tracking of manifest error process shall be put in place to protect the market from operational errors, in a uniform manner for all NEMOs across Europe. EDF suggests that NEMOs start with a benchmark of best practice in Europe. EDF would prefer an alternative which would not lead to reopen the order books for all market participants in order to keep the benefits of the removal of second auctions and allow time for contingency. EDF suggests NEMOs implement a check which runs automatically as soon as an order is submitted prior to the launch of the optimization algorithm. The check should aim at tracking both price and volume levels that are inconsistent with market fundamentals and/or the market participant's historical data measured whether relatively to its portfolio or to its bids.

For example; based on the last 12 months of the market participant's portfolio, if the order exceeds X % (100/200%, threshold to be determined), it could lead to a pop up window followed by a bilateral call between the NEMO and the market participant. In case of a manifest error, the NEMO could send a message to the market saying that the coupling is on hold as a manifest error has been detected, and the order books would only be re-opened for the concerned market participant and only to correct its mistake. Then timings need to be assessed to make sure it is more efficient than 2nd auctions.

EDF understands that the Spanish NEMO has implemented a similar mechanism which identifies out of scope orders. Such a process would need no computational time and may act as a preliminary warning for operational security. In addition to such *ex ante* checks, NEMOs could develop an *ex post* process that would, in case of inconsistent algorithm results (with criteria to be defined), identify manifestly erroneous bids and, after confirmation of the error by the concerned market participant, either discard the bids or allow for their substitution by this market participant (without a global order book reopening). Such a process would bring additional comfort but its benefits should be reassessed regarding time efficiency.