

Statkraft's response stakeholder consultation on the removal of second auctions
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Statkraft would like to thank the All NEMO Committee for consulting market participants on the potential removal of second auctions within the single day-ahead coupling (SDAC) region. To date, second auctions can be activated across 18 countries in the region, including the Baltics, where such auctions were introduced towards the end of 2022. NEMOs have gained experience with second auctions on numerous occasions over the past two years, most notably in the Netherlands.

Although second auctions have been justified due to non-matching situations, Statkraft understands that NEMOs have concerns regarding the benefits of such auctions, as they increase operational risk (including decoupling) and do not significantly improve the market situation, once activated. Furthermore, a removal would benefit the market coupling process foreseen with the launch of 15-minute products in SDAC in 2025.

Statkraft has previously doubted the effectiveness of second auctions in the Nordic region but would like to convey the following messages related to the need for appropriate measures during unforeseen events.

1. The potential removal of second auctions must be replaced by a safety net to tackle possible bidding errors in the future.

- Statkraft supports a safety net for bidding errors in order to limit their impact on markets and system operation. Such an emergency process following erroneous bids should be in place at the time the second auction procedure is abandoned across all NEMOs. It is therefore important to avoid an interim period without such a safety net.
- In most cases, bidding errors have minor consequences on the market, as they tend to be relatively small compared to the overall size of the market. The price impact is also generally subdued. However, in exceptional circumstances, bidding errors cause significant stress to the market and system operations.
- The unprecedented bidding error in Finland on 24 November 2023 clearly suggests there is a need for a safety net for market participants whose erroneous bids are either detected by the NEMO or the market participant itself after bid submission. A safety net should not necessarily entail the full resubmission of bids from all market participants and the recalculation of prices across the SDAC region, but efficiently allow for the reopening of the position of the market participant concerned.
- Allowing one market participant to resubmit bids may potentially raise concerns about a fair level playing field among market participants. Yet, from a system perspective such a procedure is likely to be less risky compared to a full reopening. All resubmitted bids after gate closure should be sufficiently reported and investigated by the regulator, ensuring that the safety net is not being misused. In addition, the introduction of a penalty fee should be considered. This fee should, as a minimum, reflect the inconvenience caused by the delay, as the procedure is likely to delay the European processes.

- We generally share the concern that the comprehensiveness of second auctions increases the operational risks amid the implementation of 15-minute products in the day-ahead market. There is also a risk of unfortunate bidding behaviour when auctions are reopened due to unexpected price levels. As seen in the Kinect Energy incident in Finland, non-matching situations caused by bidding errors in the day-ahead market can be handled subsequently in the intraday and balancing markets.
- Furthermore, Statkraft would like to stress that the responsibility for checking bids remains with the bidder. Market participants should always strive to bid their available capacity in a way that tackles unexpected price levels (both upper and lower price thresholds), for example by means of a cut-off when prices drop below attractive levels. If this principle is watered out, ie. by reducing the motivation for market participants to offer well-prepared bids in the first auction, market participants are likely to bear the costs over time.

2. NEMOs should have in place proper fallback procedures (fire alarm and safety net functions) for all market participants to improve redundancy.

- To our knowledge, at least some NEMOs perform “reasonability checks” once bids are received prior to the price calculation. The Kinect Energy incident suggests that sizable erroneous bids from smaller/medium-sized market participants may slip through this safety net, and that there is a need for all NEMOs to jointly review their safety procedures.
- For example, this review process could include checks which detect changed bidding behaviour compared to the previous day and absolute values based on the bidder’s maximum generation capacity. It is a good idea to let market participants set their own thresholds per bidding zone. We acknowledge the limited time scope for NEMOs before and during the price calculation. A combination of automated checks and sufficient staffing is key for NEMOs in this process.
- To improve operational security, safety net procedures need to be aligned across NEMOs to ensure safe and robust incident management.

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