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Nordenergi's reply to SDAC NEMOs coordinated consultation, related to the potential removal of the so-called Second Auctions.

Nordenergi supports the removal of the Second Auction procedure SDAC_SPE_01 in the SDAC auction. Market actors must be incentivised to offer all capacity and flexibility at any time and already in the existing auction. A well-functioning market is, in our view, best achieved through a single auction in which market actors always have the ambition and goal to present their best bids and offers based on their best knowledge.

The day-ahead auction is the cornerstone of the decentralised planning of electricity deliveries for the next day. The marketplace needs to be based on robust and transparent processes to support and maintain this position. The second auction process adds unwanted complexity without improving the security of the electricity supply.

The general principle should be that market actors must be incentivised to offer all capacity and flexibility in the ordinary auction. In our opinion, a second auction could have a negative impact as it signals to the market actors that presenting their best bids and offers in the ordinary auction is not of the highest importance.

Instead of introducing a second auction, the TSOs and NEMOs should strive to enhance awareness so that the actors bid correctly in the ordinary auction. In particular, the use of price-independent bids is a practice that should be advised against unless the market participants are genuinely price-independent.

As the NEMOs also point to, the Second Auctions have increased operational risks without improving the market situation. The results of the Second Auctions over the last couple of years have demonstrated that in the best cases, the strike prices in the second auctions improved by a few Euros, whereas in other instances, the outcome of the second auction was worse than the outcome of the first one. Therefore, it is clear that the risks of running the second auction are much higher than the benefits, and we understand that the operational risks that stem from a second auction will increase significantly with the introduction of 15 min MTU and the need to increase the calculation time. Therefore, we fully support removing "Second Auctions" from the SDAC procedures.

However, in light of the recent disastrous bidding error in the Finnish bidding zone on November 23rd, we strongly recommend that the NEMOs create and implement an SDAC procedure that allows for a "safety valve" in case of significant errors. There should always

be mechanisms in place at the individual NEMOs that flag and prevent erroneous orders of a significant size. However, should this fail, as it did on November 23rd 2023, there needs to be a central SDAC procedure put in place, and this procedure has to be simpler and pose less operational risk than a Second Auction. We, therefore, propose that if a substantial error is discovered immediately after the price calculation, the NEMO with the erroneous order in their order book must be allowed to fix the error and resubmit the corrected order book. The coordinator should then recalculate the prices and the process should continue as normal but with a delay.

The erroneous bid allowed into the price calculation on November 23rd was of a magnitude that threatened grid security in Finland and had significant consequences in the neighbouring bidding zones.

Nordenergi, sees it as paramount that there are procedures in place, as we described above, to detect and correct such errors. Both at the individual NEMOs and, as a last resort, as part of the SDAC procedures.

And finally, Nordenergi suggest that if a curtailment situation should occur in areas with concentration of large block bids, the breakup of block bids should be pursued as a mean to reach an equilibrium price. This was formerly a practice applied in the Nordic market before the market coupling in 2014.

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Nordenergi is the joint-collaboration between the Nordic associations for electricity producers, suppliers and distributors. Members are Swedenergy, Finnish Energy, Renewables Norway and Green Power Denmark. Overall, Nordenergi represents more than 800 market actors (member companies), most of them active in the electricity sector, but also in other areas such as district heating, gas and services.