

Explanatory note for the public consultation on potential removal of the so-called Second Auctions

1. Introduction

The purpose of this explanatory note is to outline the reasoning behind this public consultation, done on a voluntary basis, by all Nominated Electricity Market Operators (the NEMOs) cooperating within the scope of the Single Day-ahead Coupling (SDAC).

The Second Auctions are activated according to a procedure described in the Day-ahead Operational Agreement (DAOA), SDAC_SPE_01: Impact of Second Auctions. The Second Auctions are triggered in case at least one of the prices reaches or exceeds the predefined price thresholds, as mentioned in this procedure.

The process consists of reopening the NEMOs order books for the duration of 15 minutes, to give Market Participants the opportunity to modify their bids in order to improve the market situation. All SDAC NEMOs have the right, but not the obligation to reopen their order books to their Market Participants.

After the closing of the order books, a second calculation takes place and the publication of the Market Coupling Results will be considered delayed.

In case the concerned prices still reach the thresholds even after the second calculation, no additional Second Auction is triggered.

2. Background

The NEMOs have collectively decided to modify the original thresholds, via a decision made by the NEMO Committee on the 24th of November 2022, increasing the maximum price threshold to trigger a Second auction to 2400 EUR/MWh from the original 1500 EUR/MWh.

More recently, via another decision, the NEMOs decided to decrease the minimum price threshold to trigger a second auction to -500 EUR/MWh.

Although the responsibility to modify the thresholds for the activation of the second auction lies with each individual NEMO, the NEMO Committee agreed to implement a coordinated increase/decrease to guarantee the most efficient outcome across the SDAC and limit any negative impact on its orderly functioning.

These decisions were taken against the backdrop of the raising prices of electricity, which would have resulted in an ever-increasing likelihood to hit the previous limit, thus in turn triggering an ever-increasing number of second auctions, which would pose an excessive and unreasonable risk to the SDAC, as second auctions, increase operational risks, including that of decoupling.

However, even with these changes, the Second Auctions have over the past few years led to an increase in operational risks while simultaneously they have not delivered their expected benefits.

Additionally, the removal of the Second Auctions is deemed necessary in terms of the optimization of the market coupling process in preparation for the launch of the 15-minute products.

Last, but not least, it should be noted, that while the Second auctions are part of the SDAC Operational procedures for operational reasons, the Second Auctions themselves can be considered a local responsibility of each concerned NEMO.

The Second Auctions are organized according to local/regional processes in case the prices reach or exceed the predefined thresholds in the concerned countries/bidding areas, and are the local responsibility of respective NEMOs in these countries/bidding areas.

The list of the concerned countries/bidding areas is the following:

Austria, Belgium, Croatia, Czech Republic, Estonia, France, Germany, Greece, Hungary, Latvia, Lithuania, Netherlands, Portugal, Republic of Ireland, Romania, Slovakia, Slovenia and Spain.

While the Second Auctions are organized only in the countries/bidding areas listed above, the NEMOs decided to launch this coordinated consultation, because the removal of the Second Auctions would only be effective in terms of preserving operational reliability of the SDAC if there is a coordinated removal of the Second Auctions across all of the concerned countries/bidding areas.

3. Description of the proposal

The NEMOs are proposing the removal of the Second Auctions.

There are two main reasons behind the proposal to remove the Second auctions:

Firstly, the Second Auctions did not deliver the benefits expected from running this procedure, either in terms of an increase in volumes supplied to the market, or in terms of improving the price from the First to the Second Auction. This is clearly visible from the Table below:



Table: List of seconds auctions run in the SDAC in 2022 and 2023.

The events that triggered a change in the maximum or minimum prices or a period of monitoring of in accordance with the HMMP methodology.

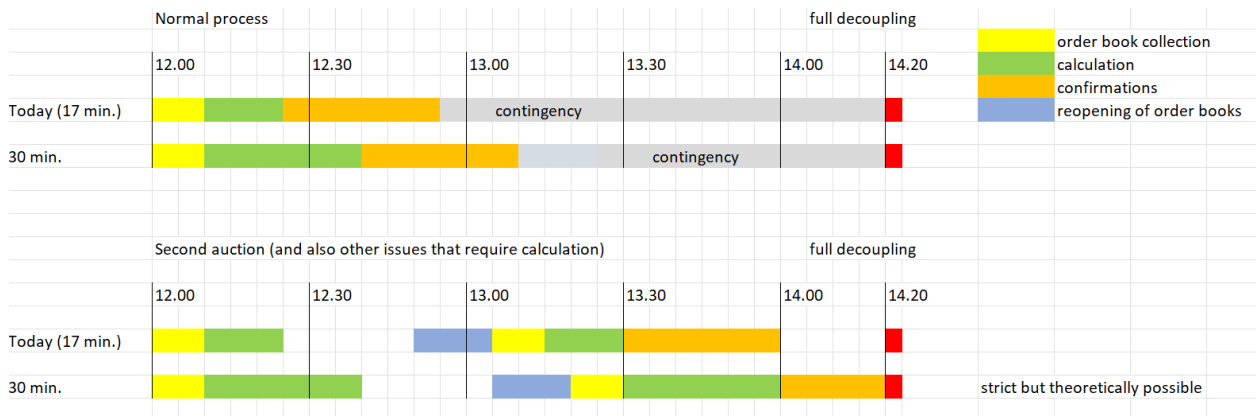
Year	Date	Hour	Bidding Zone	1st Auction (€/MWh)	2nd Auction (€/MWh)
2022					
	03-Apr				
		8	France	2758,54	2712,99
		9	France	3000	2987,78
	22-Apr				
		12	Netherlands	-200	-184,94
		13	Netherlands	-200	-222,36
		14	Netherlands	-204,93	-217,42
		15	Netherlands	-200	-214,9
		16	Netherlands	-175,8	-166,82
	16-Aug				
			Lithuania	4000	4000
2023					
	18-Apr				
		14	Netherlands	-200	-194,2
		15	Netherlands	-200	-195,41
		16	Netherlands	-150	-150
	26-May				
		16	Netherlands	-200	-200
	27-May				
		14	Netherlands	-200	-235,96
		15	Netherlands	-400	-400
		16	Netherlands	-160	-162,55
	28-May				
		14	Netherlands	-161,52	-161,7
		15	Netherlands	-186,09	-185,86

	01-Jul				
		14	Netherlands	-500	-500
		15	Netherlands	-500	-500
		16	Netherlands	-499	-500
		15	Germany	-440,99	-500
		15	Austria	-151,38	-500

The outcomes of the Second Auctions rarely improved the situation compared to the strike prices in the First Auctions. In most cases the prices either stayed the same or they have even gotten worse, as already previously indicated.

Additionally, Second Auctions significantly increase operational risks for both NEMOs & TSOs and Market Participants, with related financial consequences. In order to support the implementation of the 15 mins MTU, NEMOs and TSOs are indeed considering an extension of the calculation time for the algorithm from the current 17 minutes to 30 minutes.

This extension requires finding additional 13 minutes in the daily operational process of the SDAC. The NEMOs are currently assessing the optimization of the confirmation process. Nevertheless, the deadline for the publication of Final Results will have a new deadline, which is foreseen to be at 13:11.



As can be visible from the graphical representation of the extension of the calculation, the process of having a Second Auction remains possible (albeit theoretically). Nonetheless, as the calculation period for the Second Auctions would also be 30 minutes, there is no remaining contingency, which increase the risk of trespassing the deadline for full decoupling declaration. This means making the Second Auction extremely risky to the daily operation of the SDAC, as the organization of the Second Auction would almost certainly approach the full decoupling deadline.

4. Description of the outcomes

The outcome of this consultation will be taken into account when considering the removal of the Second Auctions. Nevertheless, the actual removal is subject to multiple additional steps:

- In certain countries, the Second Auctions are a regulatory requirement. The outcomes of this consultation will be presented to the relevant authorities in these countries, to initiate the discussion on their eventual removal.
- In several countries, the NEMOs have to change their NEMO market rules (which can also be subject to regulatory approval).

Despite these additional necessary steps, the eventual removal of the Second Auction should from the perspective of NEMOs lead to an increase of operational safety of the SDAC, as their removal means there is more contingency (available time) to finish the daily operational process, while also taking into account the fact that the calculation time necessary will increase with the introduction of the 15-minute products, as described in Part 2 and Part 3 of this Explanatory Note.

This consultation follows a similar consultation organized by the Agency for the Cooperation of Energy Regulators (ACER) in March of 2023, as well as local consultation by NEMOs in countries where Second Auctions are organized.

5. Useful links

SDAC Operational Procedure SDAC_SPE_01 – Impact of second auctions (partially redacted) - https://www.nemo-committee.eu/assets/files/SDAC_SPE_01%20-%20Impact%20of%20Second%20Auctions%20-%20redacted-4accda159b701e07e899fe0a7a9e6555.pdf

ACER survey on the second auctions in the day-ahead market

<https://www.acer.europa.eu/news-and-events/news/acer-invites-eu-electricity-market-participants-take-part-survey-second-auctions-day-ahead-market>



6. List of used abbreviations

ACER – Agency for the Cooperation of Energy Regulators

HMMP (methodology) – Harmonised maximum and minimum prices

MTU – Market time unit

NEMO – Nominated electricity market operator

DAOA – Day-ahead Operational Agreement

SDAC – Single Day-ahead Coupling

TSO – Transmission System Operator

