

Q&As document on SDAC second calculation

1st July 2024

This document is based on questions received from Market Coupling Consultative Group convenors (members associations); it describes the second calculation process as well as highlights the rationale and background leading to the decision taken by NEMOs to not propose the SDAC second auction beyond 2025.

- **Is a low utilization of the SDAC second auction process a sufficient reason to remove it completely?**

NEMOs: NEMOs highlighted several reasons why the removal and replacement of the second auction process is the preferred way forward:

- Low utilization of an exceptional case has negative consequences on the operational timings applied to a normal day scenario. This “insurance” has a high costs visible every day because it penalises the resolution of potential SDAC incidents by safeguarding unnecessary time to exceptional process only triggered on rare occasions
- Wrong or inefficient usage of the concept when activated
- Bidding mistakes can be identified and isolated from the computation of SDAC market results using an alternative mechanism
- Significantly larger risk of conducting a second auction as compared to running a second calculation. Second auction entails a tremendous number of places where a new mistake can be done or a new technical

issue can occur. For e.g., market participants doing a mistake when in a hurry or a technical issue for one of the NEMOs submitting a new orderbook.

From NEMOs perspectives, drawbacks of the second auction concept outweigh advantages as long as erroneous orders/fat fingers are handled in an alternative way.

- **Can NEMOs highlight which steps amongst 1, 2, or 3 are new or existing and enhanced?**

NEMOs feedback on the 3 steps of the process is the following :

- **Step 1 (individual members checks):** NEMOs encourage member to review their technical routines as well as operational process to identify errors and correct bids before submission of the order, at the latest before Gate Closure Time
- **Step 2 (individual NEMOs trading platforms):** NEMOs thoroughly reviewed the operational best practices as well as technical behavior of features checking bids received from market participants
- **Step 3 (joint NEMOs procedure of second calculation):** NEMOs did not commission from scratch this step 3 in the last months but clarified further the conditions of activation of this exceptional process. The change implemented by NEMOs was to clarify amongst stakeholders that declaration of erroneous order book is a case for potential recalculation and the wording was improved in the operational procedure to make it clear that this case should be followed.

- **Where will NEMOs describe the checks implemented in order to decide if a bid is erroneous or not?**

NEMOs: Step 3 of the process (second calculation) is only triggered in case the SDAC market results generated after a first calculation are rejected by at least one NEMO, before any publication and due to late identification of a wrong order book taken as input.

This process is built centrally because of the efficient synchronized operations ensured by the NEMOs during the coupling process. SDAC process must accommodate this specific measure, to be activated by the NEMOs in case of errors made by market participants, and coordinated amongst all NEMOs when applied. Still, NEMOs will individually interact together with its market participants in order to bring transparency on individual trigger and activation conditions.

- **Will criteria to identify and correct orders will be the same amongst all NEMOs?**

NEMOs: many characteristics and differences in the following factors prevent NEMOs to define a single golden rule governing the second calculation activation for all orders in all SDAC Bidding Zones: liquidity of a given BZ, trading pattern of a given market participants, time resolution of a given order, clearing price in unusual situation justified by market fundamentals, etc.

Likewise, the market participants have very different sensitivity of the definition and the magnitude of an error.

A single EU-wide rule is not fit for purpose nor possible due the differences in the parameters mentioned above.

- Can you confirm that a bid modification would only be the result of a mutual agreement on NEMO and concerned MP side?

NEMOs: A bid modification is always made following an identification by the market participants or the NEMO. In the majority of the cases, the NEMO validate with the market participants that a modification is needed. As per their market rules, some NEMOs reserve the right to unilaterally to remove, reject or modify a bid.

- How is the market participant included in the decision?

NEMOs:

- Either the market participant identifies the error after the submission of the order and is not able to modify it; it contacts its power exchange.
- Or the NEMOs identifies the error after submission of the bid by the market participants and it contacts the market participants

- What are the criteria/triggers and what will be the governance to determine them, to identify a “wrong significant bid”?

NEMOs: Each NEMO will define, sometimes in cooperation with its market participants and regulatory authority, the rules applied during the order collection process, for identification of bids that could be categorized as errors. NEMOs think that “consistency” shall not mean “harmonization” across Europe, given that the sensitivity to deviations is very different from one bidding zones to the other and from one market participant to the other.

- Who would be responsible if a “problematic bid” is not identified by the NEMOs?

NEMOs: Market participants are solely responsible for their bids, NEMOs cannot be liable for consequences of orders characteristics submitted by market participants. NEMOs are proposing pro-active measures here and safety nets in case market participants processes do not prevent a wrong order to submitted.

- Could you elaborate on the operational risks behind the recalculation, vs the second auction? To which extent is the risk of decoupling reduced?

NEMOs: Significantly larger risk of conduction a second auction as compared to running a second calculation. Second auction entails a tremendous number of places where a new mistake can be made or a new technical issue can occur. For e.g., market participants doing a mistake when in a hurry or a technical issue for one of the NEMOs submitting a new orderbook. The number of the impacted parties and processes within the second calculation is significantly lower compared to the second auction process.

- Will a market message be published if this procedure with a second calculation is triggered?

NEMOs: Yes, market messages are sent and made public during the market coupling session itself.

-The labeling of the first message is “*ExC_o2: Delay in Market Coupling results publication*” and the timing of publication is 12.45.

-In some regions (example: CORE), if the results are still not published by 13.05, another message is sent to market participants: *UMM_o1a : Delay in final Market Coupling Results publication.*

-Ultimately, at 13:50, the message announcing the risk of SDAC full decoupling is sent to market participants, in case the market coupling session is not finished.

- **Will the results of the first calculation be published before being cancelled?**

NEMOs: the second calculation process is only triggered if:

- A first calculation was performed
- But at least one NEMO rejected the first market results.

In this case the market results of the first calculation will not be published, and the second calculation starts as soon as the NEMO declares that the order book uploaded into the central system is correct.

Two exceptional cases deviate from the case of application of this second auction

- 1- Either the NEMO eventually validates the original order and no second calculation is needed. The market results from the first calculation are confirmed and subsequently published.
- 2- Or the rejection of the results by the NEMO is maintained and the full decoupling is declared. This is an extreme case that never happened in the last 10 years.

- **When NEMOs say “2nd calculation”, does it mean there will be a 1st calculation of prices, and then it will be cancelled and replaced by the “2nd calculation”, OR the 1st calculation will be interrupted ?**

NEMOs: A second calculation is performed because a modification took place in the order book input data at a late stage (after the start of the first calculation), market participants will not receive or see the results of the first calculation. Indeed, First, market results will be rejected and never published in this case.

- **Can the timings of the process be further described?**

NEMOs: the following timings shed some light on the second calculation process.

Timings are valid for 2024, in CET.

12:00 – SDAC Gate Closure Time. No order entry, deletion or modification is possible in the NEMOs trading solutions

12:10 – Start of the SDAC first calculation

12:27 – End of the SDAC first calculation

[12:30 – 12:35] – Rejection of the first market results by at least one NEMO

12:45 – SDAC Market Results NOT published. External operational message ExC 02 is sent to market participants indicating that SDAC market results publication are delayed.

As of 12:35 – Modification of the wrong order book. This is where MPs and NEMOs will try to act swiftly in order not to endanger the SDAC session.

Under normal operational process, correction to wrong order book and re-run of the 2nd re-calculation should be carried out promptly, prior to finalization of the market coupling session.

13:50 – Operational message is sent to market participants to announce the risk of full decoupling.

14:20 latest – SDAC full decoupling deadline. Publication of the second market results shall take place before this deadline. In practice a smooth application of this process will make the results published between 13.00 and 14.00.

- **Until when after 12.00 CET GCT can this erroneous be modified?**

NEMOs: Because the order books of the SDAC NEMOs proposing second auction process are not reopened for 15minutes in case of second calculation, the process of second calculation is quicker.

Moreover, the margin and time dedicated to incident resolution process will be reduced as of 2025 because the calculation will be 13 minutes longer, which means that 26 minutes extra will be dedicated to results computation.

- **Is there an obligation for second calculation?**

NEMOs: this process is not mandatory. Second calculation is only triggered if at least one NEMO reject the results based on internal consideration (in collaboration with the market participant in most of the cases) and confirms that the input order data must be changed before a second calculation is started.

This ad-hoc process must remain exceptional.

- **Which bids will be removed? If it is a linear bid, do they remove only hours?**

NEMOs: The modification of the bid (not necessarily a removal) is done in cooperation with the market participant and the concerned NEMO.

- **What happens if a removal of a bid leads to an extreme result on the other side (extreme negative flip to extreme positive prices?) This gets even more complex with quarter-hourly auctions starting in 2025.**

NEMOs: First, when applying the second calculation process, the aim is to correct an error in order not to base the SDAC market results on wrong input data.

Second, no comparison between the first and second market results can be made by the public because the market results of the first calculation are rejected by at least one NEMO and are not published.

The application of the correction is not dependent on the level of the clearing price.

