

Second auctions: Frequently Asked Questions

What are Second auctions?

The Second auction procedure is triggered in certain countries of the European Single Day-Ahead Coupling (SDAC) when pre-defined price thresholds are reached. Order books are then re-opened in order to allow market participants to review and update their positions. A second and final calculation is then performed by the NEMOs based on unchanged network data provided by TSOs but modified order data provided by market participants. Results confirmation and publication are based on this second calculation. Today, Second auctions are part of power exchanges' market rules and are even a legal obligation in some member states. Some SDAC countries do not have a Second auction procedure in place, e.g. the Nordics or Poland. Current countries/bidding areas where Second auctions are organized are the following: Austria, Belgium, Croatia, Czech Republic, Estonia, France, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Netherlands, Portugal, Romania, Slovakia, Slovenia, and Spain.

Since when do Second auctions exist?

Second auctions were first introduced in Central Western Europe (France, Germany et al.) in the 2000s. At the time, power spot markets were not as liquid as today. Extreme prices were often the result of missing liquidity. Second auctions were intended to ask market participants to adjust their strategies in cases of dry markets. Today, Day-Ahead markets across Europe are both liquid and interconnected, hence the need to request more liquidity through Second auctions has become obsolete. Still, extreme prices can be reached due to market fundamentals or specific weather conditions.

What are the prerequisites for triggering a Second auction?

During the Day-Ahead auction, the Second auction procedure is triggered when certain predefined price levels are reached, depending on the country. In most SDAC countries, the threshold is set at -500 EUR/MWh and 2,400 EUR/MWh. These thresholds are linked with (although not necessarily equal to) the thresholds of the Harmonised Maximum and Minimum Clearing Price Methodology for the SDAC.

How does the Second auction process work?

When the predefined price threshold is reached or exceeded, the All NEMO operational procedure SDAC_SPE_01 is triggered. Nominated Electricity Market Operators (NEMOs) orderbooks will be reopened for 15 minutes. Market participants will be given the opportunity then to modify their bids in a way to improve the market situation. After the closing of the orderbooks, a new calculation will take place and the publication of the Market Coupling Results will follow as soon as possible. If prices still reach thresholds after the Second calculation, no additional auction is triggered, and Market Results are confirmed.

How can orders be modified?

If SDAC_SPE_01 is triggered and orderbooks are opened, market participants shall only adjust orders in a way to improve extreme price situations, and only for the time unit when modified bids are welcomed.

What is the purpose, what are the benefits of a Second auction?

Second auctions were introduced with the purpose of warning market participants of unusual extreme prices, dealing with limited levels of liquidity, or due to exceptional market fundamentals. They allow

market participants to review their positions when price levels are higher or lower than usual. The goal is to raise awareness, to improve prices, and to mitigate price spikes through modified buy or sell orders.

What are the negative effects of a Second auction?

NEMOs need to reserve considerable time to execute the Second auction procedure (in the event that it is needed) – each and every day. Today that represents more than 30 minutes for which time cannot be used for, e.g., a longer calculation period for the central SDAC algorithm Euphemia, or to avoid decoupling situations. There are also operational risks associated: Any re-opening of order books and performance of a second calculation could endanger the Market Coupling session and increase the risk of Full Decoupling.

While the goal is to improve extreme price situations, a risk of worsening cannot be excluded. Even though order modification aims to improve the situation, the market may react with extreme prices spreading or switching to different times or bidding zones.

What are the outcomes of past Second auctions?

In accordance with the observation of all NEMOs in the past cases, the alleged benefits of Second auctions remain rather hypothetical. Only a clear minority (sometimes even less than 1%) of market participants used the Second auction to change their bids. In addition, these changes very often were not helping the market or improving the price situation – also since market volumes have grown over the past two decades, small changes do not have enough impact.

Second auctions have been triggered 6 times in SDAC between 2022 and 2023 and 6 times between 2015 and 2016. The second auctions triggered between 2022 and 2023 resulted, in half of the instances in worse prices and in the other half in negligibly improved prices, which do not justify the operational risk entailed by running the auction.

Why are Second auctions not suited for detecting and dealing with trading errors?

Second auctions are far from ideal for dealing with trading errors: first, they cannot be entirely excluded in this extra-ordinary process due to considerable time-limits; and second, with today's market volumes, trading errors often will not trigger a Second auction in the first place if the erroneous volumes are not impacting the prices such that it reaches a defined threshold.

The drawbacks, however, are quite concrete and apply every day (i.e., also in normal day procedures). Looking at the data of past Second auctions, the Second auction procedure has also not proven effective nor efficient to deal with mis-trades.

Trading errors are made on volumes whereas the Second auction procedure is triggered by predefined clearing prices thresholds. Therefore, it is not a proper tool to address erroneous bids, that potentially do not lead to extreme prices.

For erroneous bids prevention, NEMOs already have safety mechanisms in their trading systems. In addition, all NEMOs common procedures such as ANDOA (All NEMO Day-Ahead Operational Agreement) backup procedures foresee cases where a NEMO can modify its order book.

A second calculation is also possible if a NEMO indicates that wrong inputs were taken into account during the first calculation process. NEMOs would like to insist that second calculation does not mean second auction. Indeed, the distinction shall be made between these two operational processes:

- A **second auction** consists in a coordinated reopening of order books by the NEMOs proposing this process in the relevant SDAC bidding zones.
- A **second calculation** will see a single or very small subset of orders that reached the SDAC algorithm for the first calculation be modified. This is based on the assessment of individual

NEMOs in cooperation with individual market participants. This second calculation process means no coordinated reopening of order books, but a delayed publication of the market results.

NEMOs firmly believe that publication of market results based on wrong order data input due to trading error made by market participants can be avoided thanks to those two layers of NEMOs process:

- Checks done by trading platforms, and associated individual NEMOs processes.
- Last resort: correction of the wrong bids and second calculation.

What is the status of Second auctions in the European SDAC?

NEMOs initiated a public consultation on the Second auction procedure and will evaluate the results in Q1/2024. NEMOs will not implement a solution or changes if they are not clearly supported by market participants and other relevant stakeholders. Moreover, Second auctions are part of power exchanges market rules and are even a legal obligation in some member states, so that the lead time for implementation of any change cannot be short. No changes will be made before NEMOs have the legal possibility to do so.