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ACER Survey on second auctions - market participants

A Eurelectric response paper

March 2023

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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WG Market Integration & Network Codes

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Survey on second auctions - market participants

This survey takes place in the context of recent changes to the second auctions mechanisms in SDAC across Europe: the implementation of second auctions in the Baltic bidding zones as well as the recent changes of price threshold to trigger second auctions in some member states.

ACER and NRAs would therefore like to better understand the opinion of the market participants regarding the second auctions.

Parties willing to keep confidential the name of their company are asked to indicate it and provide a justification for this request.

Eurelectric welcomes the opportunity to provide our comments to ACER's survey but:

- We ask ACER for better clarity on the motivations, objective pursued and the legal grounds for this survey.
- It should be clarified if/how ACER intends to include this topic in the framework of CACM revision (as it was mentioned by ACER during the MESC in Marc 2023).
- More publicity should be made on such consultation, while the initial information was only sent to MESC members and the link to the survey hidden in the material slides. We welcome ACER decision to publish the survey and to extend the consultation deadline.
- We ask ACER why this is targeting by the survey only market participants and notably not NEMOs while such mechanism has been proposed and put in place at first glance by them.

Second auctions - Current functioning

1. Do you consider that second auctions bring benefits?

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

2. Please justify your previous answer and list the benefits and drawbacks you consider that second auctions bring.

First, we would like to point out that the terminology "second auction" could be misleading. A well-functioning market is in our view best achieved through a single auction to which market actors always have the ambition and goal to present their best bids and offers always based on their best knowledge.

As such, the "second auction" procedure referred to here, is triggered when price goes above some pre-defined threshold in the coupled day-ahead auction and order books are reopened to allow market participants to correct their bids. This mechanism is based on a voluntary process by NEMOs.

This mechanism is rather a “book reopening” than a “second auction”. Eurelectric considers that such a “sanity check” mechanism makes sense and should be preserved.

We understand the difficult exercise of determining the higher threshold to balance:
a) the risk of operational errors leading to clearing errors (keeping the threshold sufficiently low to not “miss” an operational error) vs.
b) the risk of heavy operational burden in case of recurrent second auctions due to high prices (moving the second auction threshold higher).

We suggest that a cost-benefit analysis could be performed by NEMOs in order to find the right balance.

3. Do you consider that second auctions pose a 'principle' issue by allowing market participants to have a second chance in case of high/low market outcomes?

Strongly agree

Agree

Neutral

Disagree

Strongly disagree
4. Please justify your previous answer.

See question 2. We consider that with only 15 minutes given, market participants only have time to check if they did not make a mistake in their bidding. We remind the comment made in question 2 : the wording « second auction » is misleading since it concerns a book reopening, giving possibility to check if no operational mistake was made.

5. Do you consider that second auctions cause an operational burden to market participants?

Strongly agree

Agree

Neutral

Disagree

Strongly disagree
6. Please justify your previous answer.

See question 4. The time given is just enough to check bids. We do not consider this as an operational burden: operational mistakes should be avoided as much as possible.

7. Do you consider that second auctions in case of partial decoupling bring as much value as second auctions in case of normal operations?

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

8. Please justify your previous answer.

The question lacks clarity. Could ACER clarify to what the two cases are referring to ?
To our understanding, "second auction" refers to the "book reopening" in case high/low prices (higher and below predefined thresholds) are detected by Euphemia in the first run. In that case, market participants have 15 minutes to re-submit their bids.
In case of partial or full decoupling, "shadow capacity auction" are organized in order for MP to acquire transmission rights between bidding zones, and then "national / within BZ energy auctions" are organized.
The two processes are serving different purposes, they should not be ranked or compared with each other.
We understand that ACER is asking stakeholders if they see the need to also have a book reopening process in case of announcement of a partial decoupling, and in the case the price risk to exceed the threshold. Eurelectric supports such a proposal, to the extent that it does not lead to a full decoupling. Indeed, NEMOs should clarify to which extent adding a book reopening when a partial decoupling is announced is increasing the risk of having a full decoupling (that should be avoided as much as possible).

9. Do you consider that overall the benefits of the second auctions outweigh their inconvenient?

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

10. Please justify your previous answer.
Eurelectric considers that avoiding price errors due to operational mistakes is a sufficiently strong objectives that outweigh the operational burden linked with the extension of the process by 15 minutes.

Second auctions - Potential evolutions

11. If they are to be maintained, do you consider that second auctions should be harmonised at EU level?

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

12. Please justify your previous answer.
Eurelectric would welcome more transparency and harmonized principles around the book reopening process. A suggestion would be to clarify this procedure by for instance, clarifying that the threshold should be lower or equal to the triggering threshold for DA maximum price increase (currently set at 70% of the current maximum price limit in the Harmonised Maximum Minimum Clearing Price methodology). Therefore, it could be advantageous to have an aligned (standardized) communication of bidding adjustment rules by the NEMO's in case of such an event.

13. Do you consider that second auctions common rules (and not specific NEMO rules) should limit the modifications that can be brought to bids in case of second auction (for example, only allowing bid modification that would lead to a reduction of price peaks, in case of high prices)?

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

14. Please justify your previous answer.

We understand that ACER is referring to the already existing rules in second auctions event, available at each NEMO level. The question is hence whether such individual NEMO rules should be harmonized among NEMOs and across different bidding zones. We consider that an harmonization would make sense, but this of course depends on the way this harmonization would be done. In general, the rules should not be too restrictive and should allow market participants to freely adjust their bidding. More transparency on how the balance/trade-off is made on the choices of parameters (versus the risk of decoupling) for this book reopening process would be welcome.

15. Please list and explain any other changes to the design of the second auctions that you would see as beneficial.

Second auctions - individual market participants views
This section touches upon bidding strategy and NEMO competition. It is therefore proposed that only individual members answer the questions of this section.

Please note that the answers to the questions of this section will be kept strictly confidential to the NRAs and ACER.

1. Do you consider that second auctions and the different market rules of NEMOs have an impact on your decision to trade at a NEMO rather than another?

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

2. Please justify your previous answer.

3. Do you consider that second auctions have an influence on your bidding strategy?

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

4. Please justify your previous answer.

5. Others Please share any other element on second auctions that you find relevant.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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