



Alternatives to SDAC second auction

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Public version

Agenda

- **Experience and measurements on SDAC second auction**
- **Alternative proposal**
- **Next steps**

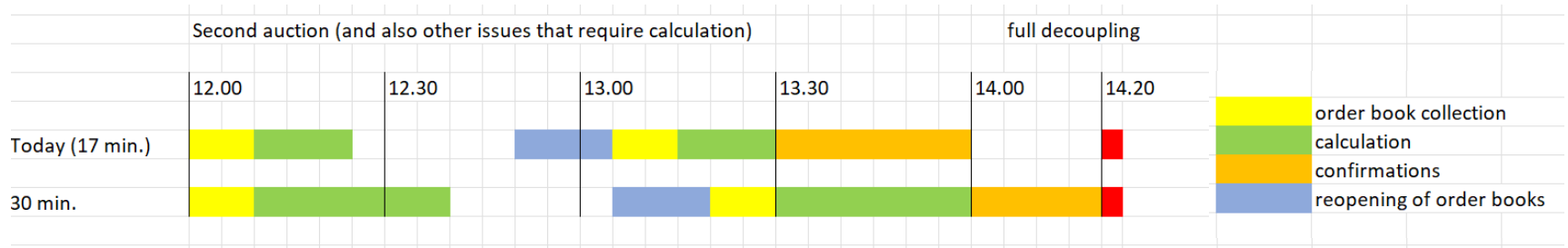
SDAC second auction – measured experience

- **Assessment based on experience**

- Measured usage of second auction in SDAC shows that Market Participants s are often not using this opportunity. When it is used,
 - the price difference between the two auction runs is hardly noticeable
 - the risk that the situation is worse after the 2nd auction already materialized in the past

- **Operational risk is a reality**

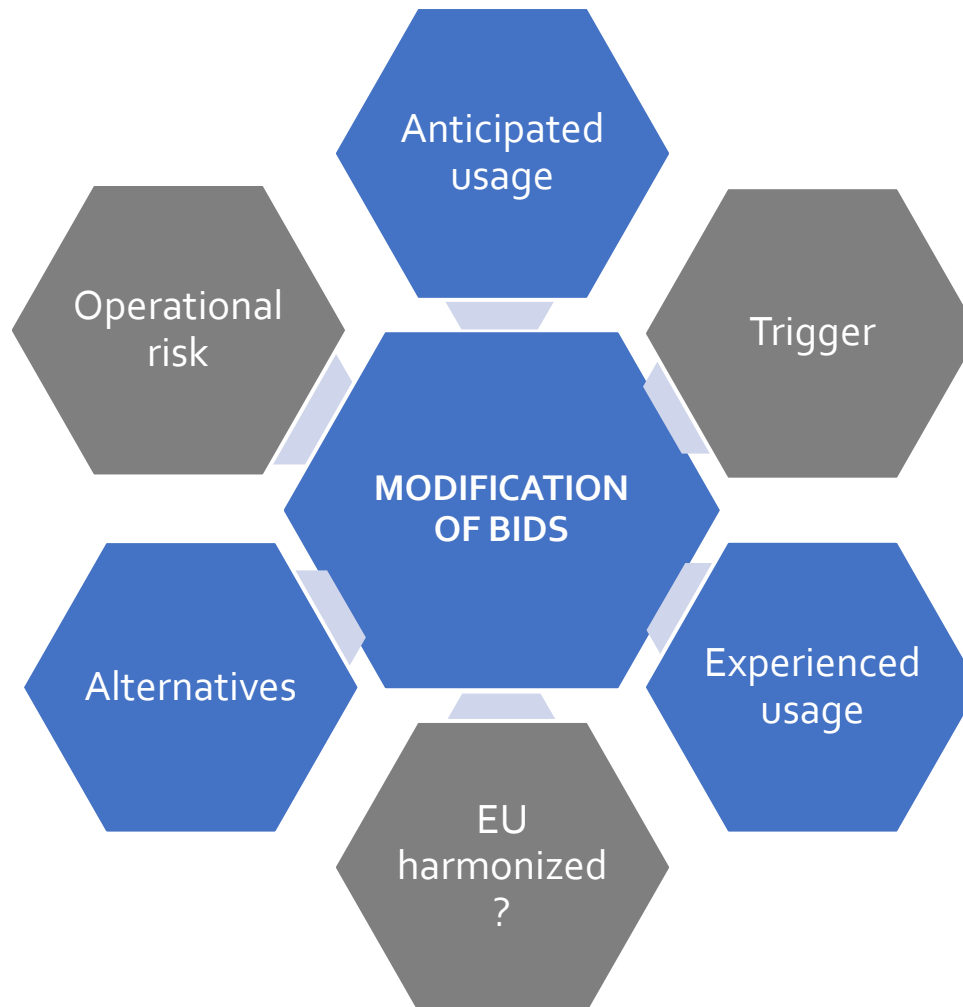
- When modified SDAC operational timings will enter into force in 2025 (15' MTU introduction in SDAC), the margin for any hiccup is reduced to zero. Full decoupling is a realistic consequence



- **Need for harmonization and adequacy**

- Second auction process is not proposed in all SDAC Bidding Zones and will not be proposed in IDAs
- A solution must be robust, used, efficient. Risks and detrimental effects shall not outweigh the benefits

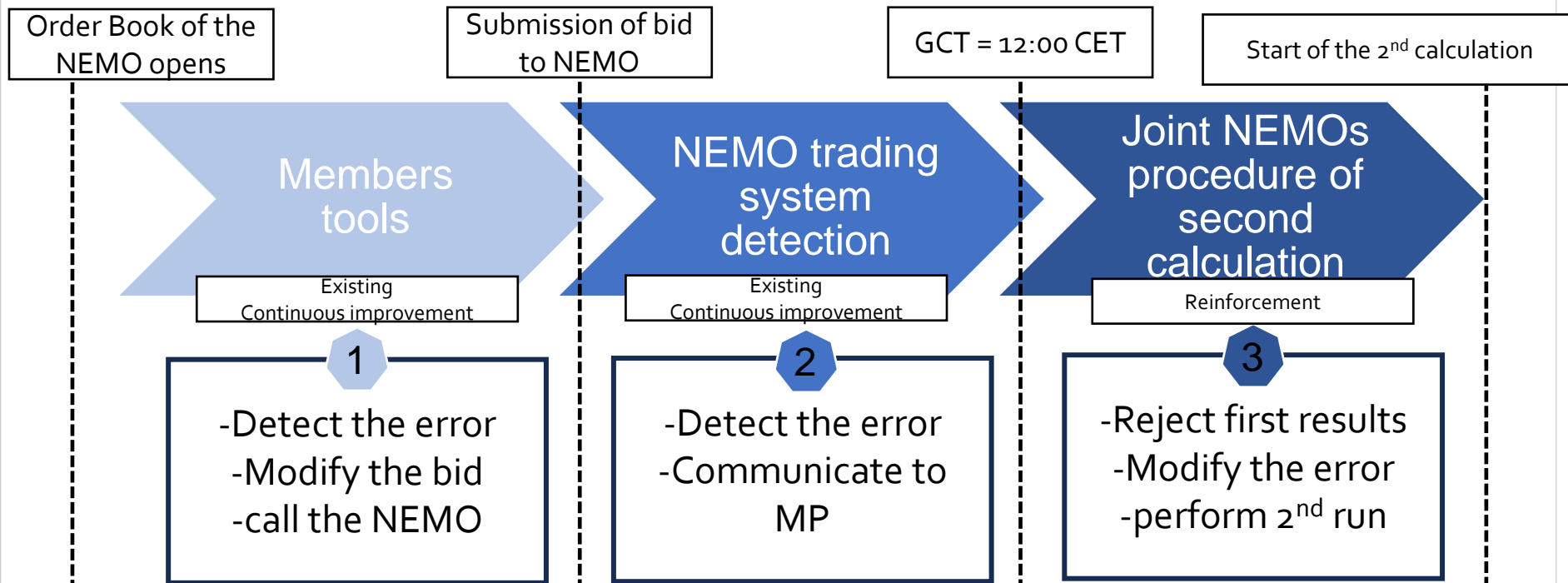
Modification of bids – multi-parameter issue



Alternative proposal – 3 layers defense incl second calculation

- Background:**

- NEMOs would like to bring back adequacy between experienced issues and proposed solution
- The 3 layers defense proposed by NEMOs:
 - reinforces the awareness on existing checks and processes
 - proposes efficient measures at each step of the process
 - brings a high level of robustness in the process of identification and correction of erroneous bids



Focus step 2 – checks performed by NEMOs

- **Joint NEMOs statement**

- **Each NEMO has local consistency checks** to minimize the risk of material mistakes in the bid submission from Market Participants, affecting the market results for all other Parties.
- It is impossible for NEMOs to jointly share the exact nature of such controls, both for antitrust reasons and because of the differences among the local market design applied by each NEMO (LTS design, product offering, unit/portfolio bidding, product definition, ...).
- Notwithstanding, **it can be shared that each NEMO strive with best effort basis to use the local monitoring measures** (see the examples listed below), whilst recognizing the variability of its application by each of the individual NEMO:
 - **formats of bids and offers** received respect the market standards;
 - **prices offered for each bid** and offer are included within the minimum and maximum prices set by the HMMCP;
 - **countervalues of purchase bids** are consistent with collateral requirements established by the individual NEMO;
 - **the quantities offered** by each market participant on each portfolio/unit is included within certain boundaries established by the individual NEMO (e.g. with respect to the historical values offered by the same market Participant or by financially securing the potential coverage for individual MPs orders in the LTS (max volumes/hour, max. acceptable price for Buy/Sell order)).
- It shall be reminded that there are more common measures and all NEMOs have joint procedures in place to manage the case of erroneous order book reported by relevant NEMOs even after gate closure time.
- Third parties are invited to get in touch with individual NEMOs to get any further detail.

Focus step 3 - second calculation vs second auction

	Second auction	Second calculation
Trigger	Price thresholds are reached in predefined list of SDAC Bidding Zones	Rejection of results by individual NEMO(s) due to identification of a wrong significant bid together with the market participant
Order Books reopened to MPs	YES, in a majority of SDAC Bidding Zones	NO, only problematic bid is modified or removed
Operational risk	<p>-Completion of process a few minutes before full decoupling deadline</p> <p>-Reopening of Order Books, modification, and closing in 15 mins only is risky</p>	Limited to one order book, on selected bid
Efficiency	<p>-No guarantee that MPs will improve the situation, on the contrary</p> <p>-Low usage by MPs</p>	<p>-Targeted bid is identified quickly and modify or removed.</p> <p>-SDAC NEMOs Order Books except one remain untouched</p>

- NEMOs would like to state that the second calculation (step 3 of the process) still represents some risks for SDAC operations. In light of this element, NEMOs call for proportionate usage of this concept.
- While no harmonization is possible for the definition of the trigger due to difference in products, liquidity of BZs, anticipated trading behavior of MPs, it is a fact that small errors will NOT be corrected after 12.00.
- This proposal already offers a much broader coverage of erroneous bids than with second auction concept

Next steps

- **Decision making:**

- NEMOs were undergoing the following alignments:
 - Internal Boards
 - Market participants including associations and MCCG
 - National Regulatory Authorities when relevant or necessary
- NEMOs would like to insist on the fact that steps 1 and 2 of the 3-layers defense are also valid for SIDC IDAs (timings are different) but not step 3 (no time to run a second calculation).

- **Timeline for implementation:**

- NEMOs will decommission the SDAC second auction process:
 - In January 2025 for all SDAC Bidding Zones except Baltic
 - For the Baltic region, the change will be done when 15' MTU is introduced

SDAC Operational timings

Second auction process reconsideration

Background

- NEMOs engaged together with Market Parties in the last two MCCG on the reconsideration of the SDAC second auction process
- The consultation ended on 15/01/2024, and all pros/cons were subject to analysis before a decision is made
- Potential alternative was presented to market participants MCCG conveners, and the focus was done on the management of major bidding mistakes. NEMOs reinforced their operational processes as well as individual checks to prevent bidding errors to influence the market results.

Published documents

- Consultation report [\[LINK\]](#)
- FAQs document on Second Auctions [\[LINK\]](#)

Way forward

- In light of all comments received, NEMOs decided to **decommission the Second Auction process and to advertise again publicly the safety nets against bidding errors**. This change will be applied **by January 2025 for SDAC except for Baltic** bidding zones which will wait for the introduction of 15' MTU in SDAC
- NEMOs publish a presentation on the management of bidding errors as well as a dedicated FAQ.

Summary:

- Decision to **remove the second auction process by January 2025** except of Baltic (linked with introduction of 15' MTU to the Baltic).
- NEMOs publish documents describing the functioning of the alternative and improvement made against trading errors.

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