

On Wednesday 7th December, Nord Pool [introduced](#) a *second auction* for the Baltic market. The topic of second auctions is relevant for all areas where Nord Pool operates, since triggering a second auction means that the order books reopen in most bidding zones. In this quarterly newsletter from Nord Pool Market Surveillance, we shed light on how the second auction works, its purpose and provide guidance on how market participants can modify orders in the second auction while remaining compliant with REMIT. It is important that market participants are prepared for the second auction in advance, so they are ready to act when a second auction is announced.

How does the second auction work?

In the day-ahead market, market participants enter orders to buy and sell electricity for all hours with delivery the next day. Orders from market participants are then used to calculate the day-ahead price. The day-ahead prices are published at 12:45 CET.

Should, however, the day-ahead price in any hour exceed the set thresholds for the second auction in certain bidding zones, the second auction will be launched and the order books will reopen. These thresholds are currently at €2400/MWh¹ and -€150/MWh. Figure 1 provides an overview of SDAC (Single Day-Ahead Coupling) areas where the thresholds exist and where order books may reopen for the second auction.

Market participants are informed that the thresholds for a second auction have been reached, which hours are affected and the new gate opening and closure times. Nord Pool will reopen the order books for all hours for a minimum of 15 minutes, generally in all bidding zones. Market participants are then able to modify their orders before the new day-ahead prices are recalculated and final results are published. The rules for a second auction are set out in [Nord Pool's Day-ahead Market Regulations](#). Figure 2 summarises the operational procedure and information published.

- SDAC areas where price above threshold triggers second auction and order books are reopened
- SDAC areas where there is no threshold, but order books are reopened in case second auction is triggered elsewhere

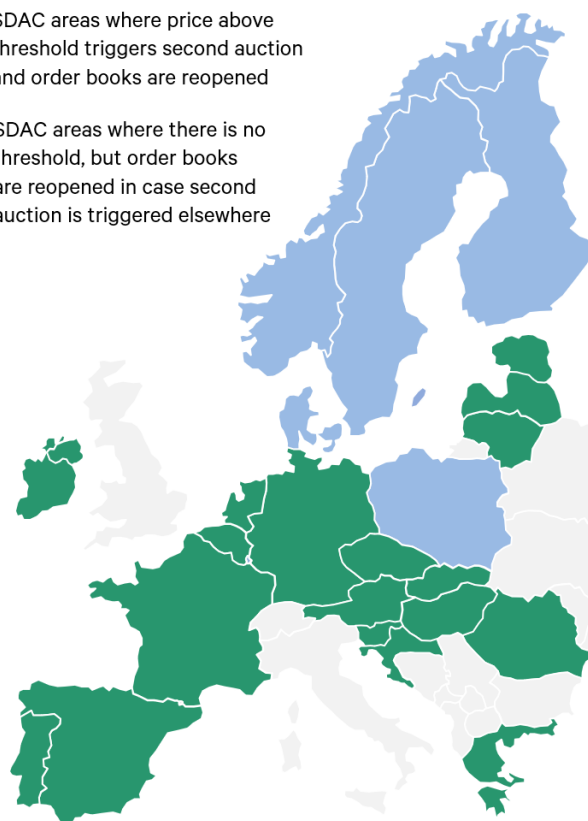


Figure 1. Second auction setup in SDAC areas. Whenever the threshold is reached in any price area in green, order books reopen in all price areas in blue and green.

¹ For several countries, i.e., Greece, Slovakia, and Czech Republic, the threshold is currently at €1500/MWh.

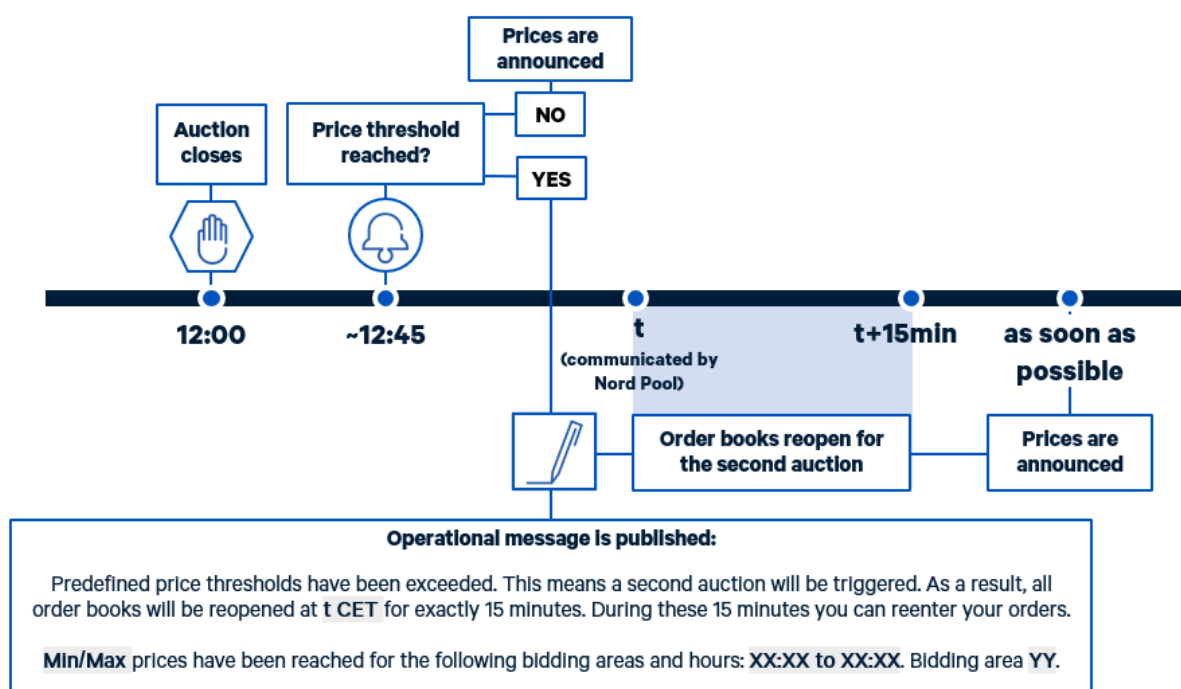


Figure 2. Simplified summary of the operational procedure in case the second auction is triggered.

What is the purpose of a second auction?

In Market Surveillance's view a second auction should ensure that the day-ahead price is correct – the result of a fair and competitive interplay between supply and demand. The second auction may help to ensure this goal in two ways.

First, triggering of a second auction sends new relevant information about the fundamental situation of the power market – that the price is likely to be very high (or low) in certain hours. A second auction thus gives market participants the ability to adjust orders and bidding strategy in light of this new information.

Second, the second auction gives market participants the possibility of ensuring their orders are genuine, by correcting any mistakes.

REMIT compliance

It is important to emphasise that REMIT applies to both the first and the second auction. This means that market participants should ensure that their orders are correct and that they are not engaging in economic withholding, i.e. their orders are not priced above marginal and opportunity cost without justification and that their behaviour does not fall under any other type of market manipulation.

Also, market participants shall evaluate already for the first auction if they have a possibility to reduce demand at high prices. Such demand flexibility can be physical or opportunity-cost flexibility, as described in our [Quarterly Newsletter Q2 2022](#).

Best Practice

We consider it the best operational practice to create special procedures and routines defining how market participants' orders can be changed in a second auction. The order books are reopened only for a short time, which does not allow the carrying out of a thorough analysis of potential changes of orders. Therefore, it could be beneficial to define in advance which checks and actions shall be performed by the responsible personnel. We focus in the next section on some of the potential adjustments that should be reviewed when devising a procedure for the second auction.

Modifying orders in a second auction

This section offers guidance on potential checks and changes that market participants should consider for their second auction routines. Some of the measures may be relevant for all market participants and for both negative and positive price thresholds (correcting erroneous orders), while other are more specific to the type of portfolio managed and the situation. We separate the measures into two categories – measures based on

new fundamental information and measures to ensure the correctness of existing orders.

A) Modifying orders based on new fundamental information

As already mentioned, all orders placed to the first auction should fully reflect the market participant's willingness to trade on supply and consumption sides (please see our [Quarterly Newsletter Q2 2022](#) for guidance on competitive bidding strategies). However, the new fundamental information provided by triggering of the second auction can be used to improve bidding strategies. We offer a non-exhaustive list of five options:

1. *Changing block bids into single hourly orders*
As explained in our [Quarterly Newsletter Q2 2022](#), *block orders* are not as flexible as *single hourly orders* in price formation. This is particularly true in cases where the price is likely to be in a steep part of the supply curve.

In some circumstances, blocks that are not well in the money risk being paradoxically rejected. Announcement of a second auction gives market participants new information about current market conditions. Therefore, market participants may consider if changing (parts of) a block order into a single hourly order can be a good trading strategy. They should also consider preparing an alternative bid configuration in advance to ensure that a change can be made correctly, should the second auction situation arise.

2. *Changing block configuration*
When offering blocks as an *exclusive group* or in a *parent-child structure*, market participants face limitations in the number of combinations they may offer generating capacity. With new fundamental information on very high prices in certain hours, market participants may consider reconfiguring block offers towards the hours where the price is expected to be high.

This can for instance be to prioritise offering more variations of 8- or 12-hour long blocks instead of 24-hour blocks.

3. *Rearranging energy limited resources*
Some market participants face energy limitations in addition to capacity limitations, which may be reflected differently in their normal trading strategies. Market participants can consider if it is

possible to rearrange their disposition of this energy, in order to offer more capacity in the high-priced hours.

One example can be for a hydro power plant to rearrange water to allow for more production in the hours that triggered the second auction and instead offer less in less strained hours

4. *Updating forecast for intermittent production and demand*
In addition to new information on the likelihood of high prices in the day-ahead market, market participants may find themselves with new fundamental information on intermittent production and demand.

Both producers and consumers face the challenge of predicting intermittent production and demand for the next day in the day-ahead auction. As the second auction is held after the original gate closure time for the day-ahead auction, market participants may see that they have more precise forecasts for production and demand. Market participants' orders may therefore be adjusted accordingly.

5. *Rescheduling planned maintenance*
The planned maintenance of a power plant is often scheduled to be completed when the price is expected to be relatively low. Although most maintenance cannot be rescheduled at short notice, there might be some circumstances where a market participant can reschedule the maintenance to offer more capacity in the hours triggering the second auction. Any active UMMs would have to be adjusted accordingly, prior to gate closure for the second auction.

B) Correcting erroneous orders

When a second auction is launched, we recommend assessing that all orders are correct – and modifying orders to correct levels if needed.

Nord Pool, together with market participants, has published the [REMIT Best Practice report](#) – a sector review on how to comply with REMIT, related to inside information and market abuse. Page 42 lists routines and measures to prevent errors when trading, which can be relevant both for the first and for the second auction.

Conclusion

The second auction aims to ensure that day-ahead prices are correct. In this newsletter we have provided guidance on the ways market participants may choose to modify their orders, while at the same time staying compliant with REMIT.

Primarily, Market Surveillance's view is that it is in line with REMIT to readjust bidding strategy to competitively offer volumes in light of the new fundamental information, as well as to correct erroneous orders.

As the order books only reopen for 15 minutes when a second auction is launched, it will be very difficult for market participants to properly assess how orders can be modified. Market Surveillance therefore recommends that market participants consider creating specific procedures with predefined actions that can be taken in the short amount of time available. As always, Market Surveillance welcomes any input on this topic.

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