

Karl-Henrik Nordblad

2 February 2015

QUESTIONS ON 2ND AUCTION IMPLEMENTATION TO THE STAKEHOLDERS

Fortum's key comments are summarized in the following bullets:

- There is an obvious risk that a 2nd auction would harm the 1st auction quality through reduced incentive to bid full flexibility in the first round.
- The bid curves representing supply and demand in the daily auction should be comprehensive in all market situations, not only in imminent curtailment situations.
- **New products enabling the market actors to bid full flexibility of supply and demand should be implemented instead of an 2nd auction**

The Nordic TSO's and NPS have asked for input from the Nordic stakeholders on the questions raised below.

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

No, Fortum does not think that a 2nd auction would improve the Nordic power market. On the contrary there is a risk that it would make it less efficient.

The alleged lack of awareness by market participants will not improve with introduction of a 2nd auction. The option of a 2nd auction would most probably harm the 1st auction quality through reduced incentive to bid full flexibility in the first run.

In 99,9x % of the daily auctions we will not have a curtailment situation. Jeopardizing the quality of the bids in the daily 1st auction would thus have more negative impact on the market functioning than the gain of a 2nd auction in a curtailment situation.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

No! NPS should expand its product portfolio with products enabling the market actors to bid full flexibility of supply and demand in the first and only auction.

The 10 minute time for preparing new bids for a 2nd auction is in practise so short that fact based change in bids is not possible. Also connected with big risk for erroneous bidding.

3. If 2nd auction is to be implemented in Nord Pool Spot market area, do you see any drawbacks / benefits of re-opening order books

a. in all bidding zones or

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b. only non-matching bidding zones

If 2nd auction is to be implemented, order books must be re-opened in all bidding zones as they are closely inter-linked. The missing capacity might be in the adjacent bidding zone or beyond. There might also be increased cross-border capacity given by the TSOs.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

All market participants should be treated equally. Thus all market participants should have the possibility to react on the latest market information and update their bids accordingly.

Also to be noted that during the period between the 1st auction and a possible 2nd auction there might occur new capacity restrictions (production / consumption / transmission failures). It should be allowed to include such changes in the 2nd auction bidding.

Manipulative trading is by regulations forbidden, thus separate bidding restrictions for a possible 2nd auction should not be needed.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?

b. Do you have any other views related to 2nd auction and peak load capacity

The consultation document claims there is insufficient incentive for the market actors to offer all their flexibility in the DA auction. One reason is that the price caps are too low at the moment. Thus the TSO strategic reserves should be included in the 1st (and only) auction at technical max price.

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

We consider that instead of creating a 2nd auction, NPS should focus on developing among others suitable spot products and awareness.

Strong price signals are important in order to show the real value of flexibility in scarce market situations. In the long run, capped market price signals could jeopardize the security of supply and development of demand side management. It is in any event important to note that a curtailment situation on the DA market doesn't meant that consumers would not receive electricity.

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NPS should invest in more flexibility products in the spot market. The Euphemia algorithm should be fully utilized for the use of flexible products, and only if curtailment situations persist frequently after that, discussion on 2nd auction could be relevant.

The bidding terms for capacity suitable for extreme situations (load reduction, peak power, ...) doesn't change from day to day. Thus the possibility to bid such capacity as a "bid valid until further notice" separately from the ordinary daily bid could be considered. That would enable bidding of such "permanent" capacity with less effort.

20.2.2015

Energiavirasto's views on implementation of 2nd auction in the Nord Pool Spot market area

The Nordic TSOs and Nord Pool Spot (NPS) are considering the possibility of introducing 2nd auction at NPS day ahead spot market and have asked input from the Nordic stakeholders. As a response to this stakeholder engagement Energiavirasto expresses the following views.

Energiavirasto appreciates the theoretical motivation for implementing 2nd auction as mean to find market equilibrium in a non-matching situation. However, given the unavoidable time restrictions on the possible 2nd auction, Energiavirasto is somewhat skeptical that significant amount of new resources **that were 'unaware'** of the market situation in the first round would bid to the market in the possible 2nd round. Also, Energiavirasto would like to point out that there could be risks in implementing the 2nd auction as the market participants might, in this case, see the first round as a mere test for scarcity and this could result in unwanted market behavior. The risk of actual market manipulation might not be increased as any attempt of manipulation is strictly prohibited in any case, but the bidding behavior in the market might still be affected.

Energiavirasto finds it important that before the 2nd auction is implemented, the possible benefits of this 2nd round of bidding are evaluated against the risk of affecting the bidding behavior in the market.

If 2nd auction would be implemented, Energiavirasto considers that order books should be re-opened in all bidding zones to ensure equal treatment of market participants and also, restrictions should be put in place to ensure that bids are changed only in favorable manner which increases to possibility of market equilibrium. On the activation of peak load capacity, Energiavirasto shares the views presented in the consultation document that if 2nd auction is implemented, the peak load capacity should be activated at the maximum price to ensure that all commercial bids are activated before the peak load capacity.

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Nord Pool Spot

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Nyborg, den 23. februar 2015

Høring vedr. forslag om implementering af en 2nd auction procedure på Nord Pool Spot

FSE er enig i behovet for at have en 2nd auction, hvis spotpriserne ved første auktion er meget lave eller meget høje.

I Svejs, Tyskland, Østrig og Frankrig anvender EPEX Spot 2nd auction med positive resultater.

I det indre energimarked bør der være ensartede regler for spotbørserne. En 2nd auction på Nord Pool Spot vil være et vigtigt skridt i den retning; og den bør gennemføres efter samme retningslinjer som for EPEX Spot.

Her gælder bl.a., at 2nd auction kan gennemføres, hvis spotpriserne i første omgang ligger uden for intervallet -150 til 500 EUR/MWh.

FSE foreslår, at dette også kommer til at gælde en 2nd auction på Nord Pool Spot. Der er ingen grund til kun at gribe ind, hvis spotprisen rammer min. eller max. prisen.

Med venlig hilsen
Foreningen for Slutbrugere af Energi



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Stakeholder consultation – Possible implementation of second auction in the Nordic and Baltic market area, No 4/2015

SKGS is the energy cooperation within energy intensive industries in Sweden. These industries altogether yearly use around 40 TWh electricity and thereby are largely dependent on a well-functioning electricity market at competitive prices.

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

No. The best thing for the market would be if all participants learned how to use the existing products and procedures properly. Participants that does not adapt to the price level in the first auction round would most likely not change their bids in ten minutes because of imbalance in the market.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

No. We see that there is a risk that the power market and the NPS product portfolio would become more complicated to understand if a 2nd auction were introduced. For participants that already today finds it difficult to understand and handle the products and procedures that are available it would not be beneficial if more products were introduced.

3. If 2nd auctions is to be implemented in Nord Pool Spot market area, do you see any drawbacks/benefits of re-opening order books

a. In all bidding zones

b. Only non-matching bidding zones

If a second auction were introduced, it should be limited to the non-matching bidding zones only. Potential support from other bidding zones should have been maximized already in the first calculation round. However, the system price needs to be recalculated after the second auction in the non-matching bidding zones.

SKGS är ett samarbete mellan de fyra branschföreningarna Skogsindustrierna, IKEM, SveMin och Jernkontoret. SKGS arbetar med den svenska basindustrins energifrågor. Basindustrin sysselsätter 400 000 personer och har ett exportvärde på 323 miljarder kronor för 2012.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

If the books were to be opened for a second time, it is absolutely necessary that the new bids improve the situation for the customers. Producers should not be able to change their bids too much in the second auction due to low prices, by withdrawing too high amount of their production, making the imbalance reversed and the prices much higher. Otherwise a second auction would be completely unnecessary and possibly worsen the situation.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

- a. Do you agree that if 2nd auction is implemented in the NPS market area that peak load capacity is activated at maximum price of 3000 €/MWh?*
- b. Do you have other views related to 2nd auction and peak load capacity?*

Since the consumers in the electricity market pays for the peak load capacity arrangements to be available when needed, it should also be taken in operation in times of power shortage. The peak load capacity should be started regardless how long the time period is between the upcoming power shortage is detected and it occurs. The TSO (SvK) should always offer participation in the peak load capacity arrangement at its variable cost, to avoid that consumers pay for it twice.

SKGS,

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IKEM – Innovation and Chemical Industries

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Stakeholder consultation – possible implementation of second auction in the Nordic and Baltic market area

Agder Energi welcomes the opportunity to comment the consultation on possible implementation of second auction at NordPoolSpot.

Agder Energi is Norway's fourth largest energy group in terms of hydroelectric production. The group's 47 wholly and partly-owned power stations produce around 7.8 TWh of renewable energy on an annual basis.

Our input to the questions on 2nd auction implementation.

1. *Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?*

Agder Energi:

No, we don't think it would improve the power market. We think it is more important to ensure that every market participant brings the maximum available volume to the first auction. By doing so all market participants will learn the costs for not having updated bids. For market participants that don't want to update the bid by themselves an aggregator can play an important role to reveal the possible flexibility in situations with extreme prices.

In addition we think it is important that NordPoolSpot have routines for checking that extreme situations is not caused by failure in bids, or even missing bids. The TSO's should also focus on giving the maximum available capacity between the price areas, and should in extreme and rare situations reconsider the use of overload capacity if an equilibrium market price is achievable.

If nevertheless a 2nd auction is introduced, it than has to be designed in such a way that there is no opportunity for tactically bidding.

2. *Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?*

Agder Energi:

At present we do not support a 2nd auction. We think there are better options to achieve improvements.

One issue is to give all market participants a precise and accurate information on the expected operational situation for the next day. Some TSO's have already such information listed on their homepages (Svenska Kraftnät¹, Statnett²). If the information is uniformed and made available in all spot area, all market participant should than have enough information to deliver, by them self or through an agent, sufficient and precise bids in the first auction. For the time being, the main focus on the mentioned information is the situation with high prices. In a future where also negative prices is a challenge, it would be obvious to develop an indication for these as well. This could properly be included in a similar way.

3. *If 2nd auction is to be implemented in Nord Pool Spot market area , do you see any drawbacks / benefits of re-opening order books*

- a. *in all bidding zones or*
- b. *only non-matching bidding zones*

Agder Energi:

To avoid negativ influence on the system price we think the best option is to only re-open the order books in the non-matching zone.

4. *Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?*

Agder Energi:

Yes, we find it necessary to have restriction on the orders.

5. *Specifically for market participants active in a bidding zone with peak load capacity arrangements:*

- a. *Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?*
- b. *Do you have any other views related to 2nd auction and peak load capacity*

6. *Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?*

Agder Energi:

One concern is to ensure that the spot price also in the future can remain as an important reference for financial contracts. For this purpose it is important to avoid situation where the market has to wait for the declaration of the spot price. The primary goal of the development of the spot market should be to ensure that an equilibrium market price is achieved in the first auction. And that there is a clear incentive for all the market participants to deliver updated bids with the full available flexibility in the first auction.

Another question is how a 2nd auction would influence on a possible future development with introduction of a flow-based market capacity calculation. We don't know if it is possible to handle, but we assume that there is a greater risk for delays.

Yours faithfully



Edvard Lauen

CEO

Agder Energi Kraftforvaltning AS



Trygve Døble

Senior Advisor

¹ <http://www.svk.se/Drift-och-marknad/Kraftsystemet/Forbrukning-och-effektprognos/>

² <http://www.statnett.no/Drift-og-marked/Kraftmarkedet/Kraftsituasjonen/>

Memo



Subject Proposal to implement 2nd auction procedures at Nord Pool
To 2nd-auction@npspot.com
Copy Energinet.dk (ulm@energinet.dk), Energitisynet
(hgo@energitisynet.dk)
From Lasse Sundahl
Regarding Consultation on new spot market rules from Nord Pool

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The Nordic TSOs and Nord Pool Spot are considering to introduce a second auction in the Nord Pool day ahead market. The rationale behind is to reduce the need for curtailment of bids and, consequently, hours with prices reaching the price ceiling or floor. The proposal is to open a short 10 minute auction after gate closure as a “wake up” call to the market and allowing for correction of mistakes.

23 February 2015

Our ref. LASSS

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We thank you for the opportunity to comment on the proposal. Please find our comments below.

As we understand, the concerns motivating the proposal are no longer present. Therefore, we do not expect the second auction to be used very often if at all.

Consequently, we suggest to direct the efforts and resources to further improvements of the existing Nord Pool Day Ahead algorithm rather than designing and implementing new market gates and processes. This might also reduce any need for second auctions in the first place.

If TSO find a wakeup call to the market is needed, a simple and pragmatic approach could be for TSOs to issue “Early warnings” of capacity tight events.

In general, DONG Energy supports clear and firm price signals to market participants and that market risks are handled by the market. Should second auctions be introduced we find it crucial that they do not function as a de-facto price cap taking away price spikes in the market. Furthermore, it must not be so that right/wrong market positions are rewarded/punished less due to this initiative. If introduced, we suggest that the decision is made only after a thorough cost-benefit analysis and further consultations.

In the following DONG Energy address the specific questions raised in the consultation document.

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

Our ref. LASSS

As we see it and understand the consultation document the concerns motivating introduction of second auctions are no longer present. The motivation is found in two events: 25 December 2012 and 7 June 2013. The December event was caused by a software error (not functioning stop loss function) and non-harmonisation of the German and Danish price floors.¹ The price floors in Denmark and Germany have been harmonised in November 2013. The June 2013 event was caused by the market expecting low prices and, hence, that some market participants did not place bids in the market. We do not expect rational market players to repeat this mistake.

We, therefore, suggest resources and efforts at Nord Pool are directed towards improvements of the existing Nord Pool Day Ahead Algorithm since we believe this will allow for the biggest improvements in the functioning of the Nordic power market for the money spend. We observe delays and no-price days not caused by non-matching, but by challenges in the Nord Pool algorithm. In addition, we observe that the algorithm struggles to handle block bids.

Additionally and more fundamentally, the nature of the proposed second auction arrangement is to take away some of the hours where prices would reach the price ceiling by allowing market participants to rethink bids. We believe that efforts should be directed towards improvements in the first auction and that right/wrong market positions should be rewarded/punished through this auction. Wrong bids can be corrected through subsequent markets. We suggest to let the market handle scarcity situations and to accept that wrong commercial decisions have commercial consequences.

If TSOs find it necessary to signal scarcity ex ante, a simple and cheap alternative could be “early warnings” issued as UMMs.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

We suggest that efforts are used to improve the Nord Pool Day Ahead algorithm before second auctions are considered, cf. 1.

Moreover and independently of the introduction of second auctions, we suggest that activation of the Swedish and Finish peak load reserve follow the same max price rules as the new reserve in DK2. This avoid the risk of a de-facto lowering of the price ceiling.

If second auctions are introduced the risk of changes in bids gaming on lower imbalance prices should be handled. This will not support the system, but might actually increase the imbalances to be handled by the TSO intra hour.

¹ Incident 4 August, No-price, Nord Pool presentation 18 November 2013.

Before considering second auctions further, we suggest that a thorough cost benefit analysis is prepared and evaluated by regulators after consultation of market participants. If introduced a short test period would be advisable.

Our ref. LASSS

3. If 2nd auction is to be implemented in Nord Pool Spot market area , do you see any drawbacks / benefits of re-opening order books

a. in all bidding zones or

b. only non-matching bidding zones

Since a second auction intends to change dispatch, trade patterns might be changed too. Therefore, order books in all bidding zones should be opened if second auctions are introduced.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

We suggest to do further analysis of the need and impact (including costs) of introducing second auctions before asking such detailed questions.

Furthermore, we suggest to analyse if improvements in the market functioning could be made faster and cheaper by improving the day ahead algorithm.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?

Yes.

b. Do you have any other views related to 2nd auction and peak load capacity

Cf. 1-4.

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

Cf. 1-4.

Sent to 2nd-auction@npspot.com

Ikast, the 19th of February 2015

To Nord Pool Spot

Regarding: Stakeholder consultation on 2nd auction in the Nord Pool Spot market area

We thank you for the opportunity to reply on the stakeholder consultation on 2nd auction in the Nord Pool Spot market area.

Scanenergis answer to the questions on 2nd auction implementation to the stakeholders:

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?
Scanenergi believe that 2nd auction might solve problems in some critical situations but might create new malfunctions. The shortage situation of June 7th 2013 in the DK1 area was solved during the delivery day in the Elbas Marketplace of Nord Pool Spot and by the TSO on behalf of market participants not acting in the Elbas Marketplace. In principle this solution is just as good as one stop SPOT + 2nd auction.
2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?
No. We do not support a general procedure change that allows a second auction.
3. If 2nd action is to be implemented in Nord Pool Spot market area, do you see any drawbacks / benefits of re-opening order books
 - a. In alle bidding zones or
 - b. Only non-matching bidding zonesWe believe in a. A new calculation should be made for all areas.
4. Do you think that is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the nonmatching situation?
Only the market participant(s) that has made mistakes should be allowed to alter order books for the second auction.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:
 - a. Do you agree that if 2nd auction is implemented in the Nord pool Spot market area that peak load capacity is activated at maximum price of 3 000 Euro/MWh?
 - b. Do you have any other views related to 2nd auction and peak load capacity?

It is stated on page 6 of the document that there is in fact no other option but to activate peak load capacity at € 3000. If this is stated in the auction rules for the Capacity Reserve and it is made clear to market participants that this is in fact the case then there is no problem.

6. Any other views or comments related to implementation of 2nd auction in Nord pool Spot market area?

Scanenergi do see a problem in a development where the Spot Market loses credibility as reference for the forward market. Larger differences between Spot and intraday could be damaging to the Nordic Market Model. We support a second auction if NPS will apply the procedure only in cases of obvious market bidding – mistakes. Only the market participant(s) that has made mistakes should be allowed to alter order books for the second auction.

Kind regards

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POSSIBLE IMPLEMENTATION OF 2ND AUCTION

We refer to your Exchange information no 4/2015 regarding stakeholder consultation on a possible 2nd auction in the Nord Pool Spot (NPS) market area. Statkraft appreciates the possibility to give comments on this issue.

According to the consultation document the motivation for a 2nd auction is to provide a more efficient market as it potentially would include more resources in price formation to avoid non-matching of aggregated demand and supply bids. This is further justified with reference to two previous non-matching situations in Denmark West. A second auction is proposed to be carried out when the first round of price calculation is unable to match demand and supply, hence potentially leading to curtailment of bids. In such a situation submission of orders is re-opened and market participants are allowed to provide new bids and update existing bids within a timeframe of approximately 10 minutes. The assumption is that this would allow for more orders entering into the market.

Statkraft general comments

Statkraft doubts that a 2nd auction will increase the efficiency of the market. We believe it must be an absolute requirement that market participants submit proper orders in the first order submission to NPS. Otherwise we see a risk for strategic bidding and a less efficient and reliable pricing at NPS.

A possible non-strategic reason for not submitting bids into ordinary first auction is unawareness or blunt behaviour from market participants. We wonder whether a possible 2nd auction with 10 minutes deadline would be able to mobilize thoroughly prepared bids when it was not done in the first auction with a considerably longer time limit. In addition the possibility of a 2nd auction can reduce the motivation for well-prepared bids in the first auction. Further, market participants are able to learn and if they lose money by not submitting well-prepared bids, we believe that they will learn and improve the bidding for the following auctions.

NPS proposes that the relevant TSOs will be asked to review the transmission capacity that is given and evaluate if it is possible to increase it in case of a 2nd auction. We believe that it is unfortunate if all available transmission capacity is not given to the first auction. TSOs should be able to anticipate the situations with highest probability of non-matching bids; low price non-matching situations would probably be high wind situations and high price non-matching situations would probably be high load due to cold weather. Therefore

possible adjustment in transmission capacity due to such situations should also be done in advance of the first auction.

Comments to the concrete questions

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

No, ref our general comments.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

No, ref our general comments.

3. If 2nd auction is to be implemented in Nord Pool Spot market area, do you see any drawbacks / benefits of re-opening order books

a. in all bidding zones or

b. only non-matching bidding zones

As we think a 2nd auction would have a negative impact on the power market, its impact should be as limited as possible.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

As we think a 2nd auction would have a negative impact on the power market, its impact should be as limited as possible, implying that there should be restrictions on orders entered in the 2nd auction.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?

b. Do you have any other views related to 2nd auction and peak load capacity


We believe that the common Nordic power market should have a harmonized arrangement in respect of possible peak load capacity arrangements. If a 2nd auction is implemented we accept that the peak load is activated at the maximum price at NPS, currently 3000 €/MWh.

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

No.

If NPS wants Statkraft to elaborate on these issues we are prepared to do so whenever it would suit NPS.

Yours sincerely,
for Statkraft Energi AS

A handwritten signature in blue ink, appearing to read 'Ketil Fodstad', with a stylized, cursive script.

Ketil Fodstad
Senior Vice-President
Nordic Energy



ENERGITILSYNET

Danish Energy Regulatory Authority

Nord Pool Spot
Att: Hilde Rosenblad
2nd-auction@npspot.com

23 January 2015
Wholesale &
Transmission

PCO

Consultation response on 2nd auctions

DERA would like to thank for the opportunity to contribute with comments on the consultation paper for the possible implementation of 2nd auctions in the Nordic and Baltic market area.

Overall, DERA finds that the implementation of 2nd auctions can improve the functioning of the Nordic power market and potentially increase the consumer and producer surplus.

DERA supports the implementation of 2nd auctions as part of the NPS product portfolio. Under the assumption of the existence of lazy bidders¹ DERA supports the implementation of 2nd auctions namely for the following two reasons: Firstly 2nd auctions seem to be a more suitable measure in stressed market situations. Secondly 2nd auctions can free up the TSO's reserve capacity to deal with unexpected imbalances. In the next few sections we will elaborate more on these statements and address associated concerns.

DERA foresees the possibility of an economic gain through an implementation of 2nd auctions due to less curtailment of sales and purchase offers. By implementing 2nd auctions it is possible to decrease the volume of lazy bidders and thereby match more sales and purchase offers which in turn will increase both the overall volume of trades on the exchange and the economic efficiency in the market.

DERA sees the implementation of 2nd auctions as a way of possibly increasing the security of supply under the assumption that lazy bidding is present in the market. By introducing 2nd auctions in the market – under the assumption of the existence of lazy bidding and that the 2nd auctions is implemented in a way that gives the involved parties a realistic chance to react – the concerned TSO will have fewer expected imbalances to deal with in the balancing market and thereby decrease the use of the reserves on expected imbalances.

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¹ Lazy bidding is when a bidding agent is not submitting bids into the spot market even though the agent has the capacity to do so. The reason for this lacking bid could for example be that the agent does not recognize the prevailing spot market price as high enough to make a profit and therefore does not submit a bid. This bid is then lacking when the market behaves unexpectedly which could send the spot market price to the price cap (3.000 €/MWh) - and vice versa for lacking consumer bids and the price bottom (-500 €/MWh).

DERA is aware of concerns associated with the implementation of 2nd auctions i.a. the risk that market participants will exploit the 2nd auction implementation to behave strategically. DERA, however, believes these concerns to be manageable.

For the implementation of 2nd auctions to have an effect there actually needs to be lazy bidding present in the market and secondly the 2nd auction design needs to make all market participants aware of the situation and allow for due response time to make new market bids.

Due to the composition of power generation in Denmark DERA finds that the introduction of second auctions is a relevant measure in the Danish market. The reason for this is that the combined heat and power (CHP) generation share of Denmark's total installed capacity (14.861 MW) for power generation in 2013 is 16,67 pct.² and the fact that CHP's in Denmark is managed by numerous owners which is presumably less professional in always submitting market sale (or purchase) bids for example when the price is too low to make a profit. Denmark may therefore be likely to contain lazy bidding.

In Denmark we have encountered two incidents where sale/purchase offers were curtailed in the past years. Both incidents were partly caused by lazy bidding and could have been avoided to some extent if the lazy bidders were included in the market.

DERA stresses that for 2nd auctions to have a positive impact on the market situation it is critical that all market participants – including the smaller ones as well – will be informed of the 2nd auctions. Furthermore it is crucial that the 2nd auctions are designed in a way so that it is realistic for the market participants to construct new bids. DERA therefore finds it important that NPS and the TSO's take the views of the market participants on this particular subject into account.

2nd auctions and strategic reserves³

DERA acknowledges the need for adapting procedures with the involvement of strategic reserves when introducing 2nd auctions. It is important that the European day-ahead market coupling continues to function satisfyingly with the incorporation of 2nd auctions as well.

DERA sees a possibility of the 3.000 €/MWh strategic reserve approach being less market interfering than the alternative marginal price approach. In a curtailment situation from a viewpoint where there is no strategic reserve the consumers and producers respectively pay and receive the maximum price 3.000 €/MWh after the pro rata curtailment of the consumers' bids. With the 3.000 €/MWh strategic reserve arrangement nothing changes except there is less (and possibly zero) curtailment of the consumers' bids which implies an increase in the consumer and producer surplus as a result of more executed trades.

² Cf. page 52 in the Nordic Market Report 2014 for the numbers:
<http://www.nordicenergyregulators.org/wp-content/uploads/2014/06/Nordic-Market-Report-2014.pdf>.

³ Also known as 'peak load reserves'

Energinet.dk is planning to buy strategic reserves for DK2 which can possibly be included in a pooling of the Nordic reserves. For this cooperation to be introduced DERA believes that the countries participating should have a harmonized activation price.

Best regards,

Peter Christian Olsen (SET)

Head of section

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Petteri Haveri
23.2.2015

Nord Pool Spot
2nd-auction@npspot.com

Implementation of 2nd auction in the Nord Pool Spot market area

The Finnish Energy Industries is a trade organisation for producers, suppliers, transmission, distributors and sales of electricity, for district heating and district cooling, and for design, implementation, operation, maintenance and construction of networks and power plants.

Energiateollisuus ry / Finnish Energy Industries (EC Register ID number 68861821910-84)
Address: PL 100, 00101 Helsinki, Finland
Contact person: Petteri Haveri (email: petteri.haveri@energia.fi, phone: +358 9 5305 2404)

We thank for the opportunity to comment the proposal for 2nd auction in the Nord Pool Spot market area. Please find below our views on the questions

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

Probably not. It is not immediately clear, how incentives to bid into the 2nd auction differ from the incentives to bid into the 1st auction. In principle, all actors should be prepared to give correct price dependent bids already in the first round.

The proposed timescale for making amendments to the bids is rather short, and it very unlikely that actors who weren't active in the first round, would have any possibilities to react in 10 minutes to the call for modifications. It also very clear, that opening the order books for a longer period is impossible.

Instead, the proposal induces two severe risks. Having a second auction would delay the calculation and publication of market results and hence increase the risk for de-coupling. Further, second round could induce some sort of gaming and weaken the trust on spot markets.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

No, with the provided information and set up we recommend not introducing 2nd auctions. We further recommend NPS to ask EPEX spot to evaluate the pros and cons of existing Continental 2nd auctions.

3. If 2nd auction is to be implemented in Nord Pool Spot market area, do you see any drawbacks / benefits of re-opening order books

- a. in all bidding zones or
- b. only non-matching bidding zones

If introduced, it should apply all bidding zones. In any case the modification of results may affect transmission between bidding zones.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

If introduced and applied, the second round is likely to cause confusion and possibly erroneous modifications. Due to the very short time to react, some advice from NPS is likely to have no value at all.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

- a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?
- b. Do you have any other views related to 2nd auction and peak load capacity

If the second auction would be introduced, the activation process of peak load reserves needs to be considered. In any case, it is recommendable that peak load reserves are activated according to the same rules in the whole market area.

As it is stated in the consultation material, there are strategic reserves in place in Sweden, Finland and Lithuania and as of 2016 also likely in DK2. The reasoning for strategic reserves is that in a very tight situation they provide the needed extra energy in order to avoid curtailment.

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

TSOs could consider do they have rules that hinder the participation of demand response into the spot-market. For example, the requirement in draft NC Balancing to have a balanced position in spot market could cause inefficiency and leave less room for intraday market.

We also propose NPS to investigate whether implementing obligatory D-2 auctions would improve markets' functioning. The purpose of D-2 auctions could be three-fold.

- First, it would give the needed back-up results in case the D-1 calculation fails. Also, if problems in the calculation arise in D-2, there's additional 24 hours' time for looking in the causes.
- Second, if some market participants have failed sending bids in D-2, NPS can remind them for doing so well in advance.
- Third, the preliminary calculation could be used to help TSOs in planning their daily operations.

On the negative side D-2 auctions would add complexity and work.

The results of D-2 auctions would become binding only in the case D-1 auction fails, and the market participants should be able to alter their bids until D-1 Gate Closure. If implemented, the D-2 arrangement should ideally be used in the whole coupled market.

Eesti Energia AS

Answer to consultation about second auction

We at the Eesti Energia AS discussed this issue and came to the following conclusions:

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?
We believe that NPS market should reflect reliable spot prices and 2nd auction might serve the purpose if market errors emerge. Let us clarify, the purpose of 2nd auction should not be avoidance of curtailment of spot bids. The purpose should be avoidance of unreliable spot prices.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?
Yes.

3. If 2nd auction is to be implemented in Nord Pool Spot market area , do you see any drawbacks / benefits of re-opening order books
a. in all bidding zones or
b. only non-matching bidding zones
We believe that the order books should be re-opened in all bidding zones of NPS area.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?
We believe that the market should be reopened for participants to freely enter new orders. Obviously some advice from NPS shall be helpful.

~~5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:
a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?
b. Do you have any other views related to 2nd auction and peak load capacity~~

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

According to consultation paper the market participants would receive altogether 20 minutes for preparing and putting forward new bids. We would prefer to have a bit longer period for this purpose.

Best regards

Andres Tropp
Regulatory affairs manager
Eesti Energia AS



Implementation of 2nd auction in the Nord Pool Spot market area

Remissvar från Göteborg Energi Din El till remissförfarande om 2nd auctions per 2015-01-21

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

Nej, vi anser att alla aktörer borde buda in den kraft man har tillgänglig redan vid den "första" auktionen. Man har redan idag möjlighet att lägga graderade bud, vilket vi anser vara en tillräckligt bra möjlighet för aktörerna att använda sig av.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

Nej, vi stöder inte införandet av en andra auktion.

3. If 2nd auction is to be implemented in Nord Pool Spot market area , do you see any drawbacks / benefits of re-opening order books

a. in all bidding zones or

Om man ska öppna orderböckerna igen bör samtliga elområden öppnas igen.

b. only non-matching bidding zones

Se ovan (3.a)

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

Vi anser att detta bör hanteras i elbas och reglerkraftmarknaderna istället.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?

Vi anser att effektreserven ska prisas in på samma sätt som idag, det vill säga det högsta kommersiella budet + 0,1 €/MWh.

b. Do you have any other views related to 2nd auction and peak load capacity?

Vi tycker att en andra auktion är fel väg att gå. Vi skulle hellre se att reglerkraftsmarknaden utvecklades mer.

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

Vi hoppas att den inte implementeras. Vi ser den som en produkt som löser ett problem som inte finns, då vi hoppas att alla aktörer redan idag lägger bud de har möjlighet att lägga för nästkommande dygn under det första auktionstillfället.

Vi anser dessutom att elbas och reglerkraftmarknaden borde ha potential att utvecklas mer vid pristak/golv om man mot förmodan har kraft över efter den första auktionen. Då finns möjligheten att använda sig av både elbas och reglerkraftmarknaden. Fördelen av dessa marknadsplatser är att de ligger närmare drifttimmen vilket ger betydligt mer betänketid än de 10 minuter man har på sig att justera buden för den andra auktionen.

Vi anser att 10 minuter är för kort tid varför den andra auktionen inte bör genomföras. En andra auktion, enligt föreslagen modell, löser inte de problem den är avsedd att lösa.

24. Februar 2015

Høring vedrørende forslag om implementering af en 2nd auction procedure på Nord Pool Spot

Ad 1: We do now find that the introduction of a 2nd auction would improve the nordic powermarket. We expect that this would reduce the incentives from smaller players to be a part of the powermarket in the first place as they will get two chances in situations where power prices are profitable. This means that the remainder of the time the powermarket will be worse off because certain types of capacities will only be available in the very high price scenarios.

Ad2: No.

Ad 3: We see the need to reopen all bidding zones to a 2nd auction since scarcity of power in one market can be alleviated in another.

Ad 4: If this is implemented it would be necessary to reopen all bids from the 1st auction as well with no restrictions on new bids based on bids in round 1.

Ad 6: We feel it is detrimental to the overall functionality of the power market to implement a 2nd auction which would undermine the first round auction. This could lead to a situation where more and more powerproducers are not active in the daily powermarket. This could lead to less and less capacity being available to the ordinary powermarket with more and more hours being settled at a higher price than the marginal price of the most efficient power producer not producing.

Venlig hilsen

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Høring vedr. forslag til implementering af en 2nd auction procedure på Nord Pool Spot

13. februar 2015

Energitilsynet har med brev af 27. januar 2015 sendt ovennævnte forslag til implementering af en 2nd auction procedure på Nord Pool Spot i høring med svarfrist den 23. februar 2015.

Kontor: 6. kt.

J.nr.: 2015-8500-36

Rigsrevisionen har gennemgået forslaget alene med fokus på bestemmelser vedrørende statslige revisions- og/eller regnskabsforhold.

Forslaget til implementering af en 2nd auction procedure på Nord Pool Spot indeholder så vidt ses ikke bestemmelser herom, og Rigsrevisionen har derfor ingen bemærkninger hertil.

Med venlig hilsen

Casper Ussing
Fuldmægtig

Implementation of 2nd auction in the Nord Pool Spot market area

Response by NAET to questions asked in stakeholder consultation paper dated January 21st 2015

1. *Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?*

We do not see any situations where the implementation of a second auction round would improve the functioning of the Nordic power market.

Any additional supply or demand added to the market would be in direct violation of Nordpool's regulation, everything should be bidded in the 1st auction. Units of supply and demand with capacity less than 100 MW are assumed to either not be able to revise bids in the given timeframe or not physically able to change demand/supply.

We also would like to point out that a second auction would sideline the Elbas market and market for FRR-M.

2. *Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?*

No. The introduction of more flexible products will improve it much more.

3. *If 2nd auction is to be implemented in Nord Pool Spot market area, do you see any drawbacks / benefits of re-opening order books a. in all bidding zones or b. only non-matching bidding zones*

a. and b. A major drawback with the concept of any second auction is that it diminishes the importance of the first auction round. The TSO's may set a lower initial transfer capacity in auction 1 because they know that if it causes any major issues they can enter a new transmission capacity in round 2. The same goes for all participants in the market you can enter a "Robust" bid in round 1 with the knowledge that you can always fine tune your bidding in extreme situations.

4. *Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?*

We believe that all non-matching situations should be handled in Elbas and FRR-M.

5. *Specifically for market participants active in a bidding zone with peak load capacity arrangements:*

Same as above

6. *Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?*

We reiterate that any implementation of a second auction round will only diminish the importance of round 1 and possibly encourage unlawful behavior.

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Nord Pool Spot
2nd-auction@npspot.com

Nordenergi response to the 'Implementation of 2nd auction in the Nord Pool Spot market area – paper for stakeholder consultation'

Nordenergi is the collaboration between national associations for electricity producers, distributors and sales companies in the Nordic countries.

Nordenergi thanks NPS and the group of Nordic TSOs for the opportunity to comment on the proposal for the introduction of 2nd auctions in the Nordic price area.

In our view, a second auction would add unwanted complexity, without improving the security of electricity supply. The general principle should be that market actors must have the incentive to offer all capacity and flexibility at any times and already in the existing auction.

Further, due to the fact that 2nd auction will delay the calculation, it will risk leading into a situation of decoupling.

Instead of introducing second auctions in the Nord Pool spot market, we suggest investigations on how to further develop the Elspot and Elbas markets.

Questions on 2nd auction implementation to the stakeholders

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

No. The examples provided cannot be generalised to more common situations. In addition, it is doubtful that during the 10 minutes interval market participants (especially smaller parties) have possibilities to restudy their bids and give rational updates. Instead 2nd auction will risk causing a decoupling situation. It is also questionable whether additional generation resources are even available beyond the strategic reserves. In our view TSOs and NPS should improve the participation of demand already in the first round.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

No, given the information in the stakeholder consultation document, Nordenergi recommends not to introduce 2nd auctions. The 2nd auction adds complexity and creates risk for de-coupling.

3. If 2nd auction is to be implemented in Nord Pool Spot market area, do you see any drawbacks/ benefits of re-opening order books?

- a. in all bidding zones or*
- b. only non-matching bidding zones*

A. To treat all actors equally as stated in the report, a second round needs to allow all actors to make changes and additions. This equal treatment of all would also ensure that the flows between zones remain efficient i.e. from low price areas to high price areas. However, we do not see a positive net benefit from introducing a second auction.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

The 2nd auction would likely cause confusion and hasty moves. In general all market participants should be treated equally. Thus all market participants should have the possibility to react on the latest market information and update their bids accordingly.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?

No common view. However peak load reserves must be activated in a way that they don't distort the price formation in the market.

b. Do you have any other views related to 2nd auction and peak load capacity?

As it is stated in the consultation material, there are strategic reserves in place in Sweden, Finland and Lithuania and as of 2016 also likely in DK2. The reasoning for strategic reserves is that in a very tight situation they should provide the needed extra effect to avoid curtailment. The existence of strategic reserves should therefore by definition make 2nd auctions unnecessary.

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

Strong price signals are important in order to show the real value of flexibility in scarce market situations. In the long run, capped market price signals could jeopardize the security of supply and development of demand side management of consumption. It is in any event important to note that a curtailment situation on the DA market doesn't mean that consumers would not receive electricity.

Instead of introducing a second auction, Nord Pool Spot should focus in investigating how to further develop the Elspot and Elbas markets.

New products enabling the market actors to bid full flexibility of supply and demand should be looked into. Also a possibility to submit bids that would be valid until they are changed could be considered.

Yours sincerely,



Juha Naukkarinen
Chairman of Nordenergi

Svenska Cellulosa

Response to consultation about 2nd auction

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions? **No it will not improve the situation, rather the contrary, see below.**
2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?
No.
3. If 2nd auction is to be implemented in Nord Pool Spot market area , do you see any drawbacks / benefits of re-opening order books
 - a. in all bidding zones or **N/A**
 - b. only non-matching bidding zones **N/A**
4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?
N/A
5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:
 - a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh? **N/A**
 - b. Do you have any other views related to 2nd auction and peak load capacity **N/A**
6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

All efforts shall be directed towards the inclusion of all flexible volumes (production as well as consumption) in the first and only auction round. To introduce a second round will make the price formation less transparent and weaken the trust in the market function among the broad consumer collective. The main reason for this is the simple fact that virtually no non-energy company consumer will be able to participate in the second round. The consumers who are active in the market will include all their flexibility in the first auction and they will not have the organizational set-up to manage a second round, hence the participants in the second round will be energy companies. This one sided participation will not be of benefit to the trust of the market. It could be questioned if an introduction of a second auction is neutral from a competition perspective.

The way it works today with one auction, straight forward rules for how the peak load capacity reserve is activated and finally how curtailment is handled, gives a clear and simple framework which all participants, regardless of size, can understand and adhere to.

Best Regards

Fredrik Kopp
Energy Procurement Director
Corporate Energy

Stakeholder consultation on a second auction in Nord Pool Spot

We refer to the stakeholder consultation on introducing 2nd auction at NPS day ahead spot market. Please find below answers from Norsk Hydro to the questions raised in the consultation paper.

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

Securing a day-ahead price set by matching supply and demand bids is of paramount importance for the market and for the integrity of the system, and a second auction could be considered as a last resort measure. However, introducing the option of a second auction is not recommended in textbooks on auction theory since it may allow players to have a slack attitude to bid quality and may also open up for strategic bidding in the first auction. A second auction operating under the same conditions as the first auction will only have a positive effect on the functioning of the market if the problem is due to lack of attention. In the worst case such procedure may thus actually undermine the functioning of the market.

Introduction of a second auction is a sign of weakness for the organisation of the market. The market operator and the system operator should together in most cases be able to provide optimal capacity settings for the impending crisis and to notify the market participants of it before the first auction. In parallel with this introduction therefore, there should be a process to establish preparedness procedures in all relevant organisations (NPS, TSOs, generators, consumers, etc.) firstly in order to avoid a second auction and secondly on how to manage the second auction within the very tight time limits given.

Second auctions may mobilise consumers whose flexibility potential is not fully utilised yet to reduce consumption. For most consumers, the marginal cost of reducing consumption is higher than “normal” market prices, and bidding such reductions at very high prices will only be made if it is asked for by the system operator or the market operator. It will however only be possible to make such bids in ten minutes in a second auction if it is prepared in advance. It could then just as well be given in the first round.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

Before implementing a second auction as a last resort measure, some remaining issues in the basic functioning of the market should be removed. This would require cooperation with system operators, regulators and authorities. Firstly, negative market prices are hardly ever optimal. Securing that renewable generation is turned off when market prices are below marginal cost excluding support, would prevent negative prices. Secondly, increasing demand side participation and improved quality of demand side bids would improve the ability of the market to absorb supply side shocks at more moderate price levels. This may involve the development of new exchange products fitting better to consumer requirements, simplified procedures for bidding and balancing, as well as notification procedures and incentive schemes to secure consumption reduction bids in critical situations.

Marginally increased cross-zonal capacity could in some cases solve the problems. TSO should implement a procedure for such cases, reassessing the capacities set for flows between bidding zones in view of the increased level of risk due to the market situation, based on concrete information from the exchange on the nature of the problem.

In order to avoid strategic behaviour and as importantly, loss of trust in the market mechanism, the scope of possible bid changes in the second round should be tightly defined, similarly to EEX rules. Also taking into account that hydropower generators may be able to move volumes from one hour to another within the operational day, bidders should only be allowed to improve bids as seen from the markets, i.e. reducing price requirements and/or increasing volumes in case of deficit. (Rules should be tight; the rather theoretical “two-way crisis” described in the consultation document should not be taken into account.)

3. If 2nd auction is to be implemented in Nord Pool Spot market area, do you see any drawbacks / benefits of re-opening order books

- a. in all bidding zones or**
- b. only non-matching bidding zones**

A general reopening of order books could have a negative effect on market behaviour. As underlined above, only slight adjustments of bids should be allowed. Only order books in zones that may have a beneficial influence on the actual situation through available cross-zonal capacities should be re-opened.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the nonmatching situation?

A free reopening of order books may invite strategic bidding behaviour as described in our response to question 1. The scope of allowable book adjustments should thus be defined as tightly as possible.

Furthermore, as a matter of routine, the actions of the TSOs and market operator, the bidding and the price setting in second auctions should always be investigated by the regulators.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?

Yes.

b. Do you have any other views related to 2nd auction and peak load capacity?

The proposed change in the rules for activation of peak load capacity may also neutralise the incentive to strategic bidding behaviour provided by the present rules.

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

No.

Best regards

for Hydro Energi AS



Einar Sælen
Head of Energy Policy

Copy: [Click here to enter your copy to list.](#)

Lietuvos Energijos Gambya AB

Answer to consultation about 2nd auction

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

Yes, we support implementation of 2nd auction.

3. If 2nd auction is to be implemented in Nord Pool Spot market area, do you see any drawbacks / benefits of re-opening order books

a. in all bidding zones or

b. only non-matching bidding zones

We do not see any drawbacks of re-opening order books in all bidding zones.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

We believe that there should be restrictions on the orders that can be entered in the 2nd auction. Only orders that improve the situation should be allowed. If there is a max price situation, only orders that increase supply or decrease demand should be accepted and if there is min price situation only orders that decrease supply or increase demand should be accepted.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?

We agree with the proposal that peak load capacity in the 2nd auction should be activated at the maximum price of 3000 €/MWh in order to ensure that it is only activated after all bids from 2nd auction are activated.

b. Do you have any other views related to 2nd auction and peak load capacity?

No.

Vattenfall AB

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Date:
23/02/2015

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The Nordic TSOs and Nord Pool Spot's stakeholder consultation on

Possible implementation of second auction in the Nordic and Baltic market area

Vattenfall welcomes the opportunity to comment on the proposal.

General comments

Vattenfall's view is that the Nord Pool Spot market should remain the cornerstone of the decentralised planning of electricity deliveries for the next coming day. In order to support and maintain this position, the market place should be based on robust and transparent processes. In our view, a second auction would add unwanted complexity, without improving the security of electricity supply. The general principle should be that market actors must have the incentive to offer all available capacity and flexibility at any times and already in the existing auction.

We recognise that curtailment of bid curves is a last resort measure when supply does not match demand. In relation to that, it is important to note curtailment on the spot market does not mean that consumers will not receive electricity. In such situations a strong signal is given to market actors that further adjustments may be needed. The intraday market provides the opportunity for the market actors to make the adjustments after curtailment in the spot market has occurred. Instead of introducing second auctions in the Nord Pool spot market we suggest that the Elbas market is developed further by adding an auction in the end of the continuous trading period (see response to Q6 for further details). This development will preserve the incentives in the market and does not send the signal to actors that it is not needed to bid all resources in the spot market which could be the case if actors are provided with a second chance.

We think that the proposal to include the peak load reserves at the technical maximum price would decrease the risk that activation distorts prices and long term signals. It would ensure the incentive to offer all available flexibility already in the spot market, thus improving the security of supply. Vattenfall proposes to implement that change outside the second auction proposal.

The questions on 2nd auction implementation

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

No. On the contrary there is a risk that the development of active demand participation under normal market conditions is held back. The existence of a second auction sends a signal to market actors that it is not necessary to bid all resources in the regular auction, thus the proposal would introduce inefficiencies that are not compatible with a well-functioning market. The report refers to a low awareness among some participants as rationale for the proposal. Instead of introducing second auctions, the TSOs and Nord Pool Spot should work to enhance the awareness so that the actors bid already in the regular auction.

In a curtailment situation the spot market send a strong signal that additional measures might be needed. It should be noted that such situation day ahead does not mean that involuntary load shedding will occur. The resources that according to the report where not bid into the spot market could for example be bid into the Elbas market or the regulating market. The report does not reveal if the resources where bid into the Elbas or regulating market, but in either case and over time, we expect that actors will learn and participate actively in both the spot and intraday market.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

No. Nord Pool Spot should instead investigate how to develop the intraday market and provide products suitable for adjusting positions closer to real time.

3. If 2nd auction is to be implemented in Nord Pool Spot market area , do you see any drawbacks / benefits of re-opening order books

a. in all bidding zones or

Again we do not see a positive net benefit from introducing a second auction. It sends a clear signal to market actors that it is not necessary to bid all resources in the regular auction. A second auction for a particular hour will have an effect on other hours. Hence, if there is one hour with curtailment in a zone, all hours would have to be reopened for new and revised orders so that it is possible to shift production between hours and find a new optimum.

The flow on the borders should match the available transmission capacity thus there should not be room for additional flows in a second auction. This implies that additional bids or offers in the other zones would not counteract the need for curtailment. However, to treat all actors equally as stated in the report, a second round needs to allow all actors to make changes and additions. This equal treatment of all would also ensure that the flows between zones remain efficient i.e. from low price areas to high price areas.

The financial market settled with the system price may be affected and it is not straightforward to foresee the potential consequences for the established reference price, e.g. in a maximum price situation actors would be asked to increase the sell bids. If more sell bids are entered in matched zones this would not counteract the deficit in the non-matched zone. Thus it will not change the spot price but it will affect the system price.

b. only non-matching bidding zones

This option may cause inefficient flows. This would not occur if the market actors include their full capability in the regular auction. The financial market settled with the system price may be affected and it is not straightforward to foresee the potential consequences for the established reference price in this case either.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

The rules surrounding bidding should be transparent and not open for arbitrary solutions thus only advising on type of orders in a certain situation is not clear enough. A change of orders may have an effect for other hours e.g. if NPS wants an increase of supply in one hour that may mean the actor has to decrease production in another hour i.e. shifting production from one hour to another. Further, it's unclear how the restrictions deal with possible outages occurring between the regular bidding and the second auction. If a plant needs to be taken out of operation in between the auctions will the actor still have to include it in the second auction? If that that is the case NPS will calculate an inefficient price including resources that where known to be out of operation. This situation would not happen without the second auction.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?

Yes, the peak load reserves should be bid into the market at the maximum price.

b. Do you have any other views related to 2nd auction and peak load capacity

Peak load reserves must not distort the price formation and should thus be bid into the market at technical maximum price also when a second auction is not considered.

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

We do not recommend to introduce a second auction. We rather suggest that the Elbas market is developed to include an intraday auction before gate closure. The concept would mean that continuous trading for each market time frame (one hour) is stopped during a minimum of time and as close to intraday gate closure as possible. The TSOs should then calculate remaining cross border capacity that together with the market actors' bids and offers are settled with an implicit intraday auction. In total, there would be one intraday auction per intraday delivery period (i.e. 24 auctions per day). This will enable actors to balance their portfolios just before real time and provide them with around 11 to 35 hours to prepare their offers and bids if they want to make their final adjustments in the auction. In addition to the intraday auction the possibilities to make adjustments continuously would remain.

Energi Danmark

Answer to consultation about 2nd auction

Here are our answers to questions about possible implementation of Second auction in the Nordic and Baltic Market area.

If you should have any questions please don't hesitate calling us.

1. Yes. The 2nd auction will improve the functioning of the Nordic power market.
2. Yes. We support the implementation of 2nd auction as part of the Nord Pool Spot procedure.
3. It is very important for the power market confidence that the spot prices reflect the actual physical balance situation. In the German market we have a 2nd auction. The result is better security and the elimination of human errors affecting the spot market with incorrect price signals to the forward market. From our point of view it is enough to re-open in the non-matching areas, but as we would like to have the same rules in the whole European power market we have to launch the 2nd auction in all bidding zones covered by Nord Pool spot if necessary.
4. To prevent misuse we would like to use the same restrictions on bidding in the 2nd auction as for the German EPEX spot market.
6. It is important to make the rules similar to the rules for the German EPEX spot market. In particular we would like that Nord Pool Spot has the possibility to run the 2nd auction if prices are beyond -150 EUR to 500 EUR as it is the case at EPEX spot.

Med venlig hilsen
Best regards
Mit freundlichen Grüßen

Energi Danmark

Mike Thygesen
Markedsdirektør / 1. Vice President Markets

Suomen ELFi's statement to Nord Pool Spot questions about 2nd auction in the spot market

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

Suomen ELFi gives full support to second auction on the Nordic and Baltic day-ahead spot market as a part of integration of European electricity market. It is important to harmonize market rules in the European electricity market and encourage competition in the market. Nord Pool Spot's second auction supports this development but only if price range is equal with Epex Spot, EUR 500/MWh - EUR -150/MWh.

There is European wide price and flow algorithm operating today in the day-ahead market and when price range for second auction is in place and equal we all are one big step closer to one common European electricity market.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

Yes, but only if price range is equal with Epex Spot, EUR 500/MWh - EUR -150/MWh.

3. If 2nd auction is to be implemented in Nord Pool Spot market area , do you see any drawbacks / benefits of re-opening order books

ELFi's view is b. "only non-matching bidding zones". Market should trust TSO's that they are giving full cross border capacity to the market all the hours so there is no reason to re-open order books from areas where pricing is inside normal limits.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

ELFi highlight Nord Pool Spot's second auction supports this development but only if price range is equal with Epex Spot, EUR 500/MWh - EUR -150/MWh. It is very important to have restrictions on areas with peak load capacity in high price curtailment situations, market participants located in this bidding zone are only allowed to reduce their purchase orders or submit new sales orders. In low price situations should have similar but opposite orders.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?

No. It is important to harmonize market rules in the European electricity market and encourage competition in the European electricity market. This means that Nordic electricity market must operate with same price range with Epex Spot, EUR 500/MWh - EUR -150/MWh.

New range for 2nd auction will as well affect to peak load capacity activation. Peak load capacity should be able to active to market all the prices equal or more than 500 EUR/MWh. It is important that as long there are in the market oil condensing power plants price of the 2nd auction shall be higher than marginal cost of those power plants. For consumption side the most important issue is competitive electricity price even for those who are able to cut theirs consumption between price range 500-3000EUR/MWh.

b. Do you have any other views related to 2nd auction and peak load capacity.

It would be good for the market if terms for peak load capacity would have similar structure in all Nordic countries if possible.

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

For consumers this is important. Elfi's view is that 2nd auction is the most effective mechanism to find "extra" MW's outside normal daily procedures to the market when needed. Areas with peak load capacity todays rules regarding for peak load activation seems unjust for consumers and are based on assumption of perfect market. Nordic market function well but is not perfect, yet.

Sincerely yours,

Suomen ElFi Oy

Pasi Kuokkanen
Managing Director

Bixia AB and Bixia Energy Management AB

Answer to consultation about 2nd auction

Bixia och Bixia Energy Management AB är tveksamt inställda till förslaget med en andra spotauktion på NP Spot.

Fråga 1;

Vi bedömer att risken för kortade bud på NP Spot kan minska med en andra auktion men ifrågasätter varför kapaciteterna ej bjudits in i första spotauktionen.

Ökar risken för marknadsmanipulation och taktiska bud på produktionssidan.

En andra auktion kan ge effekter på förbrukarsidan till följd av mediauppmärksamheten, men då sker detta efter både auktion 1 och 2 och då oplanerad och ej avtalad med balansansvarig

Fråga 2;

Tveksamt

Fråga 3;

Att öppna orderböcker i alla budområden verkar rationellt ur NP Spots vy.

Fråga 4;

Vi stödjer förslaget med restriktioner på vilka typer av bud som man ska kunna lägga i runda 2, som beskrivs i kapitel 5, om en andra auktion skulle implementeras.

Fråga 5;

Vi anser att om effektreserven aktiveras i auktion nummer 2 ska denna prisas som högsta kommersiella bud + 0,1 euro per MWh. Detta utifrån befintlig prissättning vid effektbrist. Vårt motiv till detta är att priset, enligt förslaget, alltid hamnar på pristaket när effektreserven aktiveras. Jämfört med nuvarande hantering minskar risken för kortade bud med liggande förslag men om effektreserven aktiveras blir priset högre än vid nuvarande hantering.

Fråga 6;

Om en andra auktion skulle implementeras har vi följande kommentarer.

Vi förutsätter att man som aktör inte behöver skicka om budet till den andra auktionen om inga ändringar görs från den första auktionen.

Vi önskar att tiden för att skicka bud nummer två ökas från 10 till 20 minuter.

Med vänlig hälsning

Stefan Braun



Stefan Braun

VD / CEO, Bixia Energy Management AB

vVD / Vice President, Bixia AB

Till

Nord Pool Spot

2nd-auction@Nord.Pool.Spotpot.com

Swedenergy's reply to the Consultation on the 'Implementation of 2nd auction in the Nord Pool Spot market area'

Swedenergy welcomes the opportunity to comment on the consultation on implementing a second auction in the Nord Pool Spot market area. Our comments are structured so the general remarks regarding the proposition commences, followed by answers to the specific questions.

General comments

It is Swedenergy's view that the Nord Pool Spot market should remain the cornerstone of the decentralised planning of electricity deliveries for the next coming day. In order to support and maintain this position, the market place should be based on robust and transparent processes. In our view, a second auction would add unwanted complexity, without improving the security of electricity supply. The general principle should be that market actors must have the incentive to offer all capacity and flexibility at any times and already in the existing auction. We believe there is an obvious risk that a second auction would harm the quality if the ordinary auction trough reduced incentive to bid full flexibility in the first round. The bid curves representing supply and demand in the daily auction should be comprehensive in all market situations, not only in imminent curtailment situations.

We recognise that curtailment is a last resort measure when supply does not match demand. In relation to that, it is important to note that curtailment on the spot market does not mean that consumers will not receive electricity. In such situations a strong signal is given to market actors that further adjustments may be needed. The intraday market provides the opportunity for the market actors to make adjustments if curtailment in the spot market has occurred.

Instead of introducing a second auction in the Nord Pool spot market, we suggest investigations on how to further develop the Elspot and Elbas markets.

New products enabling the market actors to bid full flexibility of supply and demand should be looked into. Also a possibility to submit bids that would be valid until they are changed could be considered.



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On the Elbas market, the introduction of an auction in the end of the continuous trading period should be analysed. This development will preserve **the incentives in the market and don't send the signal to actors that it is not** needed to bid all resources in the spot market; which could be the case if actors are provided with a second chance.

We think that the proposal to include the peak load reserves at the technical max price would decrease the risk that activation distorts prices and long term signals. It would ensure the incentives to offer all available flexibility already in the spot market, thus improving the security of supply.

The questions on 2nd auction implementation

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

No. Swedenergy believes that a well-functioning market is best achieved through a single auction to which market actors always have the ambition and goal to present their best bids and offers based on their best knowledge at all times. In our opinion, a second auction could have a negative impact as it sends a signal to the market actors that it is not of highest importance to present the best bids and offers in the ordinary auction. By this, there is a risk that the development of active demand participation under normal market conditions is held back.

The alleged lack of awareness by market participants will not improve with introduction of a second auction; rather most probably harm the quality of the ordinary auction through reduced incentive to bid full flexibility in the first run. Instead of introducing a second auction, the TSOs and NORD POOL SPOT should strive to enhance the awareness so that the actors bid already in the ordinary auction.

In the Nordic market, curtailment is very rare in the Elspot auctions. Jeopardizing the quality of the bids in the daily ordinary auction would thus have more negative impact on the market functioning than the gain of a second auction in a curtailment situation.

In a curtailment situation, a strong signal is sent to actors that additional measures might be needed. It should be noted that such situation day ahead does not mean that involuntary load shedding will occur. The resources that according to the report where not bid into the spot market could be bid into the Elbas market or the regulating market. The spot market signal should raise the awareness also for the actor with the resources not bid into the ordinary auction. The report does not reveal if the resources where bid into the Elbas or regulating market, but in either case and over time, we expect that actors will learn and participate actively in both the spot and intraday market.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

No. Nord Pool Spot and the TSOs should seek other ways to make certain that all market actors bid in their best offers in the ordinary auction, e.g. by expanding the product portfolio with products enabling the market actors to bid full flexibility of supply and demand. Also Nord Pool Spot should investigate how to develop the intraday market and provide products suitable for adjusting positions closer to real time.

However, if Nord Pool Spot and the TSOs do not discard the thoughts on a second auction, further analysis is necessary. Not the least is it important that all regulation is harmonized with the rest of Europe, and that the model is possible in regards to the tight time schedule of market coupling. One central item is the 10 minute time for preparing new bids, as this in practice is too short that fact based changes in bids are not possible. Also, it is connected with big risk for erroneous bidding.

3. If 2nd auction is to be implemented in Nord Pool Spot market area, do you see any drawbacks / benefits of re-opening order books

a. in all bidding zones or

We do not see a positive net benefit from introducing a second auction. It sends a clear signal to market actors that it's not necessary to bid all resources in the ordinary auction. How a second auction for a particular hour will affect other hours is not clear. Hence, if there is one hour with curtailment in a zone, all hours needs to be reopened for new and revised orders so that it is possible to shift production between hours.

During the time span between the gate closure for the ordinary and the second auction respectively, there is a likelihood that market conditions can change, e.g. power plants becoming available or unavailable. Only by allowing all bidding zones to re-open the order books would it be possible to include such fundamental market changes in a second auction.

The flow on the borders should be according to the available transmission capacity, thus there should not be room for additional flows in a second auction. This implies that additional bids or offers in the other zones would not counteract the need for curtailment. However, to treat all actors equally as stated in the report, a second round needs to allow all actors to make changes and additions. This equal treatment of all would also ensure that the flows between zones remain efficient i.e. from low price areas to high price areas.

The financial market settled with the system price may be affected and it is not straightforward to foresee the potential consequences for the established reference price, e.g. in a maximum price situation actors would be asked to increase the sell bids. If more sell bids are entered in matched zones this would not counteract the deficit in the non-matched zone. Thus it will not change the spot price but it will affect the system price.

b. only non-matching bidding zones

This option could create inefficient flows. This would not occur if the market actor reacts in the ordinary auction. The financial market settled with the system price may be affected and it is not straightforward to foresee the potential consequences for the established reference price in this case either.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NORD POOL SPOT on what type of orders that will remedy the non-matching situation?

The rules regarding bidding should be transparent and not open for arbitrary solutions, thus only advising on type of orders in a certain situation as

proposed is not clear enough. Using the same rules and principals as in the ordinary auction is an appropriate way to avoid confusion and uncertainty.

In general all market participants should be treated equally. Thus all market participants should have the possibility to react on the latest market information and update their bids accordingly.

To be noted is that during the period between the ordinary auction and a possible second auction, capacity restrictions due to failure in production, consumption or might occur. It should be allowed to include such changes in the second auction bidding. Otherwise, Nord Pool Spot will calculate an inefficient price including resources that were known to be out of operation. This situation would only occur with a second auction.

It must also be taken into account that a change of orders may have an effect for other hours, e.g. if Nord Pool Spot wants an increase of supply in one hour may mean that the actor has to decrease production in another hour, i.e. shifting production from one hour to another. This also applies for demand response.

Manipulative trading is by regulations forbidden, thus separate bidding restrictions for a possible second auction should not be needed.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?

The consultation document claims there is insufficient incentive for the market actors to offer all their flexibility in the DA auction. One interpretation is that the price caps are too low at the moment. Thus the strategic reserves should be included in the auction at technical max price, so that it will not distort the normal price formation.

b. Do you have any other views related to 2nd auction and peak load capacity?

Peak load reserves must not distort the price formation and should thus be bid into the market at technical maximum price also when a second auction is not considered.

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

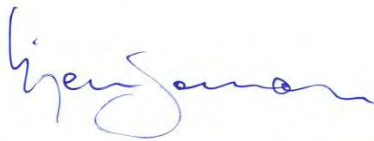
Strong price signals are important in order to show the real value of flexibility in scarce market situations. In the long run, capped market price signals could jeopardize the security of supply and development of demand side management of consumption. It is in any event important to note that a curtailment situation on the DA market doesn't mean that consumers would not receive electricity.

Instead of introducing a second auction, Nord Pool Spot should focus in investigating how to further develop the Elspot and Elbas markets.

New products enabling the market actors to bid full flexibility of supply and demand should be looked into. Also a possibility to submit bids that would be valid until they are changed could be considered.

On the Elbas market, the introduction of an auction in the end of the continuous trading period should be analysed. This development will preserve **the incentives in the market and don't send the signal to actors that it is not** needed to bid all resources in the spot market which could be the case if actors are provided with a second chance.

Stockholm as above



Kjell Jansson
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Oberoende Elhandlare

Answer to consultation about second auction

Synpunkter på "Implementation of 2nd auction in the Nord Pool Spot market area"

Svenska Kraftnät har tillsammans med övriga nordiska TSO:er och Nord Pool Spot givit Oberoende Elhandlare (OE) möjligheten att lämna synpunkter på det rubricerade förslaget. Vi lämnar våra svar på de frågor som ställs i samband med remissen.

Questions on 2nd auction implementation to the stakeholders

The Nordic TSO's and NPS would like to have input from the Nordic stakeholders on the questions raised below.

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

OE anser att det är bra att införa en extra möjlighet att finna ett priskryss i extrema situationer.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

Ja, vi tycker att förfarandet bör ingå i Nord Pool Spots produktportfölj.

3. If 2nd auction is to be implemented in Nord Pool Spot market area , do you see any drawbacks / benefits of re-opening order books

a. in all bidding zones or

b. only non-matching bidding zones

OE anser att det är nödvändigt att öppna alla prisområden för en andra auktion om det inte blir ett priskryss i ett område. Marknaderna påverkar varandra.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as

described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

Vi anser att det är nödvändigt med sådana restriktioner som föreslås för att motverka inslag av manipulation på marknaden.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?

OE anser att nivån 3000 EUR/MWh är för hög och menar att det är bättre att välja 1 500 EUR/MWh och hellre då korta marknaden.

b. Do you have any other views related to 2nd auction and peak load capacity

Vi anser också att effektreserven bör bjudas in på kommersiella grunder och inte till maxpriset.

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

Det är viktigt att säkerställa att möjligheten till en andra budomgång inte medför att producenter "tjuvhåller" på produktion till den andra budomgången.

Questions on 2nd auction implementation to the stakeholders

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

No, Telge Kraft finds that the implementation of 2nd auctions would deteriorate the functioning of the Nordic power market.

The risk of spot price manipulation would increase. A large market participant could withhold offers from the spot auction in order to have the 1st round of spot calculations fail. Such a failure would send a strong signal to the forward market (NasdaqOMX Commodities) and make the front end of the forward curve rise. If long positioned in the forward market, the value of that market participant's positions would increase. In the 2nd auction, the market participant that withheld volumes from the first auction would get the possibility to sell the previously withheld volumes, thus securing spot revenues at a high price.

The opposite scenario, when spot bids are withheld in order to make the front end of the forward curve fall, is equally bad from a market functioning perspective and should also be considered.

Moreover, a 2nd auction would per se distort the price signals from the spot market. With the transition to smart grids, it is important that electricity consumers receive reliable and non-distorted price signals on which they can react. The introduction of a 2nd spot auction would in this respect be counterproductive.

All in all, Telge Kraft strongly oppose the proposed introduction of 2nd auctions. 2nd auctions would deteriorate the functioning of the market and has no place in a deregulated power market.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

No, as it would not improve the functioning of the market.

3. If 2nd auction is to be implemented in Nord Pool Spot market area , do you see any drawbacks / benefits of re-opening order books
 - a. in all bidding zones or
 - b. only non-matching bidding zones

If 2nd auctions were to be implemented, which Telge Kraft does not support, the order books in all bidding zones should be reopened. The solution to the non-matching situation is not necessarily found in only the bidding zone where supply and demand don't match. The non-matching situation in a bidding zone could be triggered by orders in other bidding zones. Even if that is not the case, the situation could be relieved by changed or new orders in other areas.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

As stated in section 5 of the consultation paper, it may not be clear how orders should be changed in order to improve the non-matching situation. Therefore, participants should be allowed to freely enter new orders,

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:
 - a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?

No, Telge Kraft does not support the idea that peak load capacity should be activated at maximum price of 3 000 €/MWh in a 2nd auction.

Instead, peak load reserve should be activated at the short term marginal cost of each individual plant in the reserve. The plants are

already compensated by the TSO for participating in the reserve, and are guaranteed significant revenues, even if the plants are not activated. These revenues cover startup costs. Therefore, it makes no sense to let these plants place orders at 3 000 €/MWh, a price that is more than tenfold the short term marginal cost of power production in gas turbine and oil condensing plants.

Activating the peak load reserve at a price significantly lower than 3 000 €/MWh in the 2nd round will also put pressure on sellers in the spot market not to withhold any volumes from the first auction. Sellers risk getting a lower spot price in round two, than they would have gotten in the first round if they had made more production available to the market in that round and a non-matching situation could have been avoided.

- b. Do you have any other views related to 2nd auction and peak load capacity
-
- 6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

These are the official view of Telge Kraft.

A handwritten signature in black ink, appearing to be 'FL' or similar, written over a horizontal line.

Frans Lundquist, MD Telge Kraft

LITGRID opinion regarding implementation of 2nd auction in the Nord Pool Spot market area –paper for stakeholder consultation

As Lithuanian TSO LITGRID is placing peak-load reserve bid and it was also the practice that this bid was activated two days in 2014, so this topic is actual for us and Lithuanian electricity market. Please find our LITGRID position on the provided questions:

1. Do you find it would improve the functioning of the Nordic power market to implement 2nd auctions?

Yes, it would create more certainty and trust for the market.

2. Do you support the implementation of 2nd auction as part of the Nord Pool Spot product portfolio?

Yes.

But this should not make traders too much relaxed, knowing that they always will have the second chance. This mechanism should be used as the exception, but not as usual practice. And all cases of not placing the bids, meaning capacity withdrawing, should be supervised by NPS Market Surveillance and NRAs.

3. If 2nd auction is to be implemented in Nord Pool Spot market area, do you see any drawbacks / benefits of re-opening order books

- a. in all bidding zones or**
- b. only non-matching bidding zones**

We would support re-opening of order books in all bidding areas.

4. Do you think that it is necessary to have restrictions on orders entered in the 2nd auction as described in section 5, or should the market be reopened for participants to freely enter new orders only with some advice from NPS on what type of orders that will remedy the non-matching situation?

We would support re-opening of orders only that would remedy the non-matching situation.

5. Specifically for market participants active in a bidding zone with peak load capacity arrangements:

- a. Do you agree that if 2nd auction is implemented in the Nord Pool Spot market area that peak load capacity is activated at maximum price of 3 000 €/MWh?**
- b. Do you have any other views related to 2nd auction and peak load capacity**

In our situation one of the goals of peak load capacity activation is to avoid non-matching situation and to avoid maximum price in the system, as it would cause a lot of losses and distrust in the market. So we would support to apply regulated price of peak load capacity. Currently in Lithuania this price is regulated and set by regulator.

6. Any other views or comments related to implementation of 2nd auction in Nord Pool Spot market area?

Application of convertible block orders is important and should be agreed with market participants and applied in practice. Most probably this could let to avoid activation peak load reserves in Lithuania in 2014.

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