

# Fallback to the Future – Creating a More Robust Day-Ahead Fallback Solution

**In partnership with our customers, Nord Pool has handled coupled power trading markets since 1996. That long-term experience and expertise means we have strong views on the best fallback solution for the European power market in the single day-ahead coupling (SDAC).**

**Since its inception in 2014, SDAC has grown in terms of geography, technical complexity, products and liquidity. The increasing connectivity and reliance of markets on the SDAC solution serves to emphasise the importance of ensuring it delivers results in a robust and reliable manner and without having to fall back on splitting up market liquidity by decoupling NEMOs or bidding zones. Resorting to splitting up market liquidity in this way, means leaving market participants with sub-optimal trades, as well as risking unpredictable, erratic price results.**

**The current on-going revision of the Capacity Allocation and Congestion Management (CACM) regulation, as well as recent ENTSO-E consultation around potential fallback solutions, has cast a welcome spotlight on an issue which has troubled the experts here at Nord Pool, and our many day-ahead customers, for some time.**

## Highlighting the Problem

Decoupling situations happen – and when they happen they are both challenging and disruptive for market participants, Transmission System Operators (TSOs) and Nominated Electricity Market Operators (NEMOs) alike. These incidents also cast unwarranted doubt on the robustness and reliability of price formation in the power market.

Decoupling undermines the trust of market participants in SDAC. Nord Pool's view is that a rethink over whether decoupling is the right solution to deal with SDAC's operational problems, or whether there is a better way to ensure a single day-ahead price signal, is long overdue.

## The Situation Today

Currently, in CWE (soon to be part of the 'Core' region), decoupling automatically splits market liquidity into local NEMO liquidity pools and, in case of the decoupling of an entire bidding zone, triggers explicit cross-border capacity allocation in 'shadow auctions' for cross-zonal capacities on the decoupled interconnectors.

That means market participants lose access to the combined market liquidity of all NEMOs and implicit cross-zonal capacity allocation via SDAC. Their chances of obtaining the optimal match for their day-ahead bids and offers are reduced, while unforeseeable, erratic price results become more likely.

## A Solution That Works

The current day-ahead market is needlessly vulnerable in its dependence on a single event - the SDAC auction at 12:00 CET D-1 - to deliver results.

Operating a second day-ahead auction at 15:00 CET D-1, would practically eliminate any risk of decoupling, by allowing all involved parties at least an extra hour over current SDAC backup, in which to resolve issues.

Nord Pool believes a single day-ahead price signal from a second SDAC auction at 15:00 CET D-1 would be more useful to market participants than contradictory price signals for the same bidding zone/region emerging from parallel auctions, each with only a fraction of market liquidity and an explicit cross-border capacity allocation in shadow auctions. A second SDAC auction could deliver day-ahead reference prices in all bidding zones connected to SDAC, based on 100% market liquidity and implicit cross-zonal capacity allocation between all connected bidding zones.

## How it Works

A trusted fallback procedure needs to be founded on a methodology that works for, and is workable to, both NEMOs and TSOs, since fallback impacts not only daily operations, but also the all-important 'level playing' field for all NEMOs. A backup solution must ensure that the SDAC auction is able to produce a robust and reliable price.

Backup procedures for the SDAC auction should not permit cancellation of the first SDAC auction any earlier than 14:00 CET (14:30 would be even better). Depending on the origin of the problem, this would give TSOs, NEMOs or NEMOs performing the market coupling operator (MCO) function a full two to two-and-a-half hours to fix any issues with the first auction.

Only if it becomes clear that the SDAC auction at 12:00 CET will not deliver results by 14:00/14:30 CET, should it be cancelled. Available cross-zonal capacities can then be recalculated (if required) and allocated to a second SDAC auction at 15:00 CET.

To ensure the second SDAC auction delivers robust results, it could be operated using simplified products and/or the coordinated net transmission capacity (NTC) approach, instead of the flow-based approach for allocating cross-zonal capacities.

Intraday trading starting at 15:00 CET would, of course, have to be postponed accordingly, which should not be particularly problematic.

## Why it is Better

A second SDAC auction at 15:00 CET D-1 has a number of key advantages over other potential solutions.

It delivers reliable SDAC price results, while creating a day-ahead reference price and sending a strong day-ahead price signal to market participants, based on 100% market liquidity.

This solution would avoid the negative consequences of decoupling already mentioned, remove barriers to entry for potential new NEMOs and would sit as part of the (extended) day-ahead timeframe, making it open for all market participants and NEMOs in day-ahead.

Finally, it would be able to accommodate the large day-ahead volumes of the 12:00 CET D-1 auctions while also allowing market participants which lack the operational resources to participate in intraday, to be involved.

Put simply, extending the day-ahead time frame and operating a second SDAC auction at 15:00 CET, where the SDAC auction at 12:00 CET fails, gives the necessary priority to producing a reliable day-ahead price signal over the timely opening of intraday trading.

## Tell Us What You Think

As you can see, at Nord Pool, we have considered the issue of SDAC fallback at length and have developed strong views about what we think is the right way, for the entire power market, to proceed.

But we are always interested to hear the opinions of customers and other energy sector stakeholders on issues such as this.

If you would like to discuss fallback solutions or any other aspect of day-ahead trading, please contact:

[support@nordpoolgroup.com](mailto:support@nordpoolgroup.com)

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