

ACER Decision on the requirements for the Single Allocation Platform (SAP) and the SAP cost sharing methodology: Annex II  
ACER Decision on the congestion income distribution (CID) methodology: Annex II  
ACER Decision on the methodology for sharing firmness and remuneration costs (FRC) of long-term transmission rights: Annex II

*For information only*

## **Evaluation of responses to the public consultation on the Single Allocation Platform (SAP) and the SAP cost sharing methodology, the congestion income distribution (CID) methodology and the methodology for sharing firmness and remuneration costs (FRC) of long-term transmission rights**

### **1 Introduction**

On 28 September 2022, ENTSO-E submitted, on behalf of all TSOs, the following proposals for amendments to the terms and conditions or methodologies referred to in Article 4(6), points (c), (e), (f) and (g) of Commission Regulation (EU) 2016/1719:

- All TSOs' proposal for amendment of the establishment of a single allocation platform (SAP) in accordance with Article 49 and for the cost sharing methodology in accordance with Article 59 of Commission Regulation (EU) 2016/1719 (hereinafter referred to "the SAP Proposal");
- All TSOs' proposal for amendment of the congestion income distribution (CID) methodology in accordance with Article 57 of Commission Regulation (EU) 2016/1719 (hereinafter referred to "the CID Proposal"); and
- All TSOs' proposal for amendment of the methodology for sharing costs incurred to ensure firmness and remuneration of long-term transmission rights (FRC) in accordance with Article 61 of Commission Regulation (EU) 2016/1719 (hereinafter referred to "the FRC Proposal").

In order to take an informed decision, ACER launched a public consultation on 26 October 2022 inviting all interested stakeholders to provide comments on the three Proposals for amendment. The closing date of the public consultation was 28 November 2022.

ACER invited the stakeholders to comment on the proposed requirements for the long-term allocation algorithm as well as to provide comments on other parts of the SAP Proposal and comments on the CID Proposal and the FRC Proposal.

## **2 Responses and ACER's assessment of the responses**

By the end of the consultation period, ACER received comments from 4 respondents.

This evaluation paper summarises all of the respondents' comments and provides ACER's view on those comments.

Respondents' views	ACER views
<p><b>Question 1.1: Do you have any comments on the proposed requirements for the long-term allocation algorithm (i.e. Article 39 and Annex to the SAP Proposal)?</b></p>	
<p>4 respondents (CEZ, Eurelectric, EFET and Nord Pool) provided an answer to this question.</p>	
<p>Stakeholders' viewpoints:</p> <ul style="list-style-type: none"> <li>- Stakeholders share their concerns regarding the establishment of a long-term flow-based allocation (LT FBA) approach.</li> <li>- The main risk linked to an LT FBA approach is that the borders where the market spread between the two bidding zones is low would have very low allocated volumes, since borders with a high market spread would naturally be favoured by the optimization function of the flow-based allocation (FBA) algorithm. This is, according to the stakeholders, not in line with the principle of non-discriminatory access to the grid for all market participants. Therefore, stakeholders believe that the choice of going for an FBA, combined with the proposed optimization function (Article 39(15) of the SAP Proposal) may be a suboptimal solution for the allocation of long-term transmission rights (LTTR) to the market.</li> <li>- Instead, stakeholders suggest to avoid very low capacities awarded on some borders with a long-term power transfer distribution factors (PTDF) domain far from the actual ones, based on market indicators or by ensuring that a minimum quantity will at least be allocated at each border (in order to improve welfare, previous available transfer capacity (ATC) capacities should be a feasible outcome, so the long-term PTDF matrix should be built accordingly).</li> </ul>	<p>ACER considers that the conditions for the application of the long-term flow-based capacity allocation stemming from Article 10(5) and Article 10(3) of the FCA Regulation are well explained and supported with experimentation results in ACER's decision on the Core LT CCM (Decision 03/2023). As described in ACER's Decision, ACER's experimentation results for the Core capacity calculation region showed that the flow-based approach increases economic efficiency (i.e. economic surplus) with the same level of system security.</p> <p>In addition, the application of the long-term flow-based approach was thoroughly discussed at the common ACER-ENTSO-E workshops with market participants dealing with long-term flow-based allocation. More specifically, this issue was addressed during the common workshops held on 27.01.2022, 24.05.2022, 29.09.2022 and 15.02.2023, and at ACER's public workshop (17.11.2022).</p> <p>The provided optimisation function for the flow-based CCRs in the SAP methodology, based on market spread, ensures fair and orderly forward capacity allocation and orderly price formation, and is compatible with the principles of day-ahead and intraday capacity allocation. Since all bids of market participants in the LT FBA auctions are equally considered,</p>

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	<p>and selected depending on the welfare maximisation principle, all participating market participants have equal access to the cross-zonal capacity allocated in such auction, which ensures non-discriminatory access to the grid.</p> <p>Regarding the occurrence of low or zero allocated capacities at some of the borders applying the flow-based allocation: ACER explained that the NTC allocation at different borders is independent, therefore bids on a given border do not compete with bids on other borders. Consequently, certain capacities may be allocated on a given border even if the offered prices are lower than the bids on another border for an order of magnitude. On the contrary, flow-based explicit auctions apply the interdependent optimisation of quantities (converted into flow contributions via PTDF) and offered prices across all borders of a region. Therefore, the bids with a higher price formally allocated on one border might outbid the low-price bids on another border, as their common influence is observed at each CNEC in a flow-based region.</p> <p>The optimisation criterion is the maximisation of economic surplus, which provides <u>more valuable quantities to be allocated</u>, and this might in turn result in a lower total amount of allocated quantities. This is the expected outcome of coordinated flow-based auctions.</p> <p>While ACER is generally open to consider any viable proposal that would improve the allocation principles, ACER considers that the alternative proposals/ideas put forward so far are not sufficiently developed and subject to several drawbacks. During the discussions on potential alternative approaches, there were no concrete or relevant proposals on how to extend</p>

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<ul style="list-style-type: none"> <li>- If the measures proposed by the stakeholders (see above, p. 3) cannot be implemented, stakeholders insist to have a close monitoring of the level of allocated capacities per border and the ability for market participants to meet their hedging needs. A detailed monitoring of the allocated transmission capacity to each border should be performed, in order to identify if some borders have indeed low/zero volumes allocated. Stakeholders are unclear whether the request for such monitoring should be included in the SAP or in the harmonised allocation rules (HAR).</li>   <li>- Another issue with the LT FBA approach is the increased stress put on collaterals requirements for market participants due to the simultaneous auctioning of multiple products. This issue needs to be tackled in the EU HAR.</li>   <li>- Eurelectric provides comments on the following Articles of the SAP Proposal:                         <ul style="list-style-type: none"> <li>o Point 1.1 (e) of the Annex to the SAP Proposal: where will the deterministic rules to select the solution chosen, be published?</li> <li>o Point 1.2 (a)(iii) of the Annex to the SAP Proposal: Eurelectric welcomes the need to ensure transparency on the algorithm and related deterministic</li> </ul> </li> </ul>	<p>the optimisation function in an efficient way, take into account the volatility component or define any kind of thresholds for minimum amounts of cross-zonal capacity per bidding zone border in a non-discriminatory manner. Also, the proposal to define certain minimum capacities per bidding zone border or to modify PTDF values could lead to arbitrary management of capacities and allocation results, which may not be consistent with the objectives of non-discrimination and optimised allocation of cross-zonal capacities (Article 3, points (b) and (c) of the FCA Regulation).</p> <p>In its decision on the SAP methodology, ACER added and specified several transparency and monitoring requirements under Article 7 of Annex I, including requirements for a regular assessment of the effects of long-term allocation and distribution of cross-zonal capacities to bidding zone borders, as requested by the respondents.</p> <p>As discussed at the common ACER-ENTSO-E workshop on the long-term flow-based capacity allocation held on 15.02.2023, the TSOs are expected to provide, in coordination with ACER, further analyses and simulations, based on the latest available data. These analyses and simulations will be provided to and discussed with market participants once they are available.</p> <p>ACER agrees that the issue of collaterals is in the scope of the HAR.</p> <p>The Annex of the SAP Proposal was moved to and integrated with the relevant provisions of Annex I of this decision. Transparency and publication requirements were added to these provisions.</p>

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<p>rules. Eurelectric suggests to clarify that this transparency should be ensured to all stakeholders, including the market participants.</p> <ul style="list-style-type: none"> <li>○ Article 38: Eurelectric supports the issuance of LTTR beyond one year-ahead horizon.</li> </ul>	<p>ACER notes respondents' support for the issuance of LTTR beyond one year-ahead horizon but considers this out of scope of the SAP Proposal.</p>
<b>Question 1.2: Do you have any comments on other requirements of the SAP Proposal?</b>	
<p>4 respondents (CEZ, Eurelectric, EFET and Nord Pool) provided an answer to this question.</p>	
<p>Stakeholders' viewpoints:</p> <ul style="list-style-type: none"> <li>- CEZ considers that the changes implemented to replace JAO by the SAP in the SAP Proposal are unclear.</li> <li>- Nord Pool provides comments on the following Articles of the SAP Proposal for amendments:                     <ul style="list-style-type: none"> <li>○ Article 4: It is difficult to understand why the maximum implementation time differs depending on the type of link (AC vs DC).</li> <li>○ Article 4: It is difficult to understand how the provisions of the Article allow to secure an overall efficient solution related to all Member States and interconnectors.</li> </ul> </li> </ul>	<p>In Article 5 of Annex I, ACER specified that JAO is the SAP operator.</p> <p>The implementation timeline defined in Article 3<sup>1</sup> of Annex I and explained in recital 37 of the SAP Decision does not differ per types of links (AC or DC), but per position of the links towards the flow-based CCR in question:</p> <ul style="list-style-type: none"> <li>• in the first phase (yearly auctions for 2025) the evolved flow based (EFB) approach would be applied only on HVDC interconnectors internal to a flow-based CCR (the internal AC interconnectors apply the flow-based allocation);</li> <li>• the second phase (yearly auctions for 2026) and third phase (yearly auctions for 2027) consider the EFB application on external links of flow-based CCRs, equally for DC links and</li> </ul>

<sup>1</sup> According to the numbering of the initial TSO proposal, implementation details were specified in Article 4.

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<ul style="list-style-type: none"> <li>○ Articles 36 and 42: Force majeure provisions are not in line with the basic properties of a hedging product. Also, it is assumed that the LTTRs are to be in the form of FTRs, thus without physical right to cross zonal capacity or any requirement on physical scheduling, and therefore hard to see how force majeure can be triggered by the Operational Security Limits (reference to Article 36(1)).</li> <li>○ Articles 46, 47 and 48: To enable competitive and transparent secondary trading in LTTRs there should logically not only be a process to "return or transfer" or have LTTRs posted on a Notice Board, but rather also a formalised registry of LTTR holders.</li> </ul>	<p>AC links (where eligible according to the definition of EFB: links at radial non-meshed AC bidding zone borders).</p> <p>ACER considers that the implementation target defined in Article 3 of Annex I allows for a maximum level of coordination within the flow-based CCRs and on their external borders, with equal treatment of all bidding zone borders eligible for applying the EFB approach. ACER carefully examined the implementation phases defined in Article 3 jointly with all TSOs and NRAs, in order to impose a realistic implementation timeline. ACER accepted the TSOs' reasoning as explained in Recital 37 of the SAP decision, and reached consensus with the TSOs and NRAs in this respect.</p> <p>Regarding provisions on force majeure, the SAP proposal is mainly referring to the HAR. The provisions on force majeure are not contradicting the requirements on force majeure from the FCA and CACM Regulation in any way.</p> <p>The provisions of the SAP Proposal allow for the return and transfer of LTTRs and are referring to the HAR where these processes are further specified.</p>

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<b>Question 2: Do you have any comments on the FCA CIDM Proposal?</b>	
1 respondent (Nord Pool) provided an answer to this question.	

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<p>Stakeholder's viewpoints:                      Nord Pool considers that it is not clear on what basis ACER expects that the proposed amendments in the CID Proposal would only have negligible and only indirect impacts on market participants via TSOs' tariffs.</p>	<p>The CID Proposal defines how congestion income from allocated cross-zonal capacities is distributed amongst the TSOs. Market participants do not have a direct role in this process and are not directly affected by it. The only impacts on market participants from this process are indirect ones, as the congestion income affects the TSO's budget for investments and the TSO's tariffs which are paid by consumers. While these impacts are considered in ACER's decisions, the impact of the CID process on market participants is considered as minimal.</p>



Respondents' views	ACER views
<b>Question 3: Do you have any comments on the FRC Proposal?</b>	
No responses were provided to this question.	

Respondents' views	ACER views
<b>Question 4: Do you have any other relevant comments?</b>	
No responses were provided to this question.	

### 3 List of respondents

Organisation	Type
CEZ, a.s.	Energy company
Eurelectric	Association
EFET- European Federation of Energy Traders	Association
Nord Pool	Energy company