
Explanatory note on the All TSOs' proposal for amendment of the Congestion Income Distribution (CID) methodology in accordance with Article 57 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a Guideline on Forward Capacity Allocation

20 September 2022

DISCLAIMER

This explanatory document is submitted by All TSOs to the Agency for the Cooperation of Energy Regulators for information and clarification purposes only accompanying the All-TSOs' proposal for amendment of the Congestion Income Distribution (CID) methodology in accordance with Article 57 of Commission Regulation (EU) 2016/1719 establishing a Guideline on Forward Capacity Allocation

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I. Introduction

The Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (hereinafter "**FCA Regulation**") was published in the official Journal of the European Union on 27 September 2016 and entered into force on 17 October 2016.

Article 57 of the FCA Regulation required that by 6 months after the approval of the methodology for sharing congestion income referred to in Article 9(6) of Regulation (EU) 2015/1222 (hereinafter referred to as "**CACM CID methodology**"), all TSOs shall jointly submit a proposal for a methodology for sharing congestion income from forward capacity allocation (hereinafter referred to as "**FCA CID methodology**") to all National Regulatory Authorities (hereinafter referred to as "**NRAs**") for approval pursuant to Article 4(6)(e) of FCA Regulation.

Today's version of the FCA CID methodology from 15 March 2019 - and still into force today - took already into account the general principles, goals and other methodologies set out in the FCA Regulation. As put forward in Article 57 of the FCA Regulation, the FCA CID methodology follows the same principles as the CACM CID methodology. First, the congestion income per bidding zone border is calculated; then the congestion income is distributed amongst the TSOs on a bidding zone border following a default or specific sharing key. As for the CACM CID methodology, the default sharing key is 50%-50%. In specific cases the concerned TSOs may also use a sharing key different from 50%-50%. Such cases may involve different ownership shares or different investment costs. The shares for these specific cases and the reasons behind them shall be published by ENTSO-E.

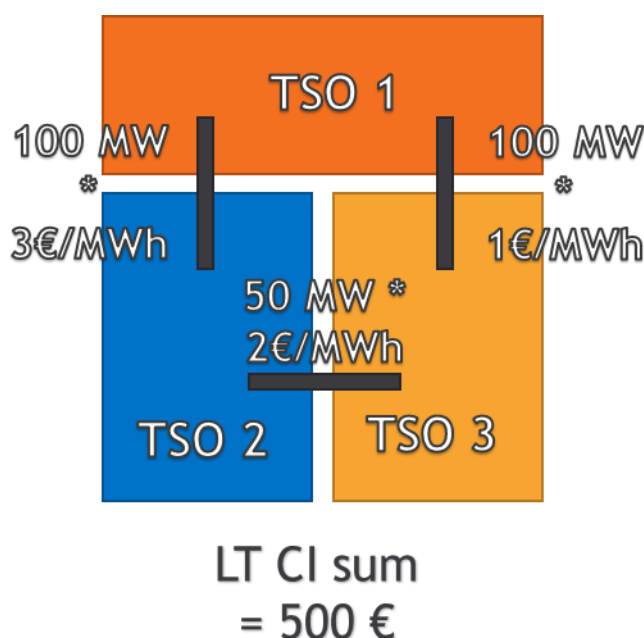
The revision of the FCA CID methodology associated to this explanatory document is driven by the changes required due to the introduction of the long-term flow-based allocation (hereinafter referred to as "**LT FBA**") principle introduced by Nordic LT CCM and Core LT CCM. The handling of LT FBA is leading to changes to the allocation algorithm and principles which requires an alignment of FCA CID methodology processes, so it is more suitable to this kind of allocation. Based on the above, all TSOs have elaborated on a draft reviewed FCA CID methodology where they proposed additional needs for adjustments that resulted from experience.

II. Main changes

1 Distribution in CCRs applying the flow-based approach

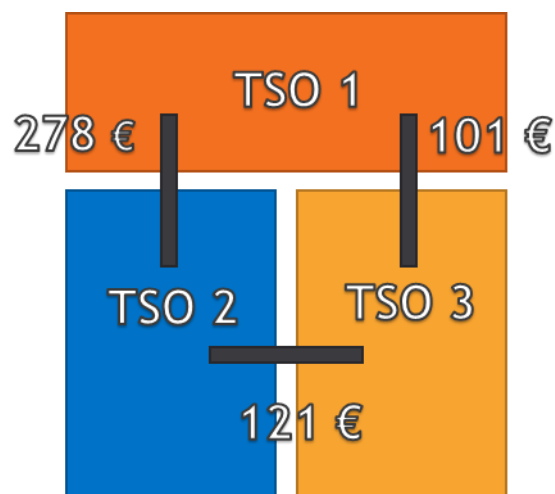
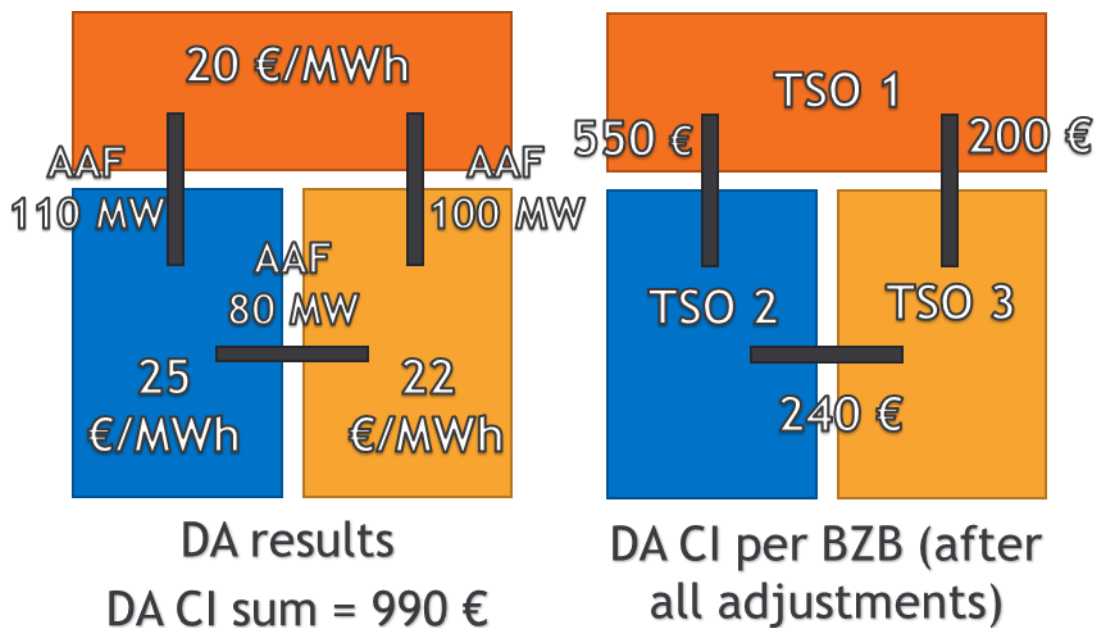
Article 3 has been restructured to distinguish between NTC-based and flow-based allocation. The original distribution principle remained in paragraph 1 to calculate the actual congestion income generated by the long-term allocation. This principle is then retained in paragraph 2 as the final distribution step to the bidding zone borders for CCRs applying NTC-based approach.

In paragraph 3, the new distribution method to the bidding zone borders is introduced for CCRs applying flow-based approach. First, the sum of the long-term congestion income (LT CI) generated within a CCR shall be calculated for each MTU within an auction Product Period using the original calculation in paragraph 1.



Then this sum of congestion income is proportionally distributed using the distribution key for the relevant MTU defined by the CACM CID methodology. Only relevant calculation of day-ahead congestion income is the absolute value of the commercial flow i.e. additional aggregated flow (AAF) multiplied by the relevant market spread. Final amounts of day-ahead congestion income (DA CI) assigned to a bidding zone border in the corresponding MTU should be used as the basis for proportional distribution of LT CI. Subsequently to the AAF * market spread calculation, redistributions due to non-intuitive flows and allocation constraints thus must be applied. These redistributions can be currently done separately from the calculation defined in CACM CID methodology by CCRs in need of them. In the final version of the CACM CID methodology, these redistributions should be described directly in the methodology and thus the final DA CI to be used for the proportional distribution will be completely defined by the CACM CID methodology.

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Resulting LT CI distribution for each BZB, where LT CI sum generated in CCR in an MTU (500 €) is proportionally distributed using DAC I per BZB after all adjustments.

1.1 BZBs considered in proportional distribution

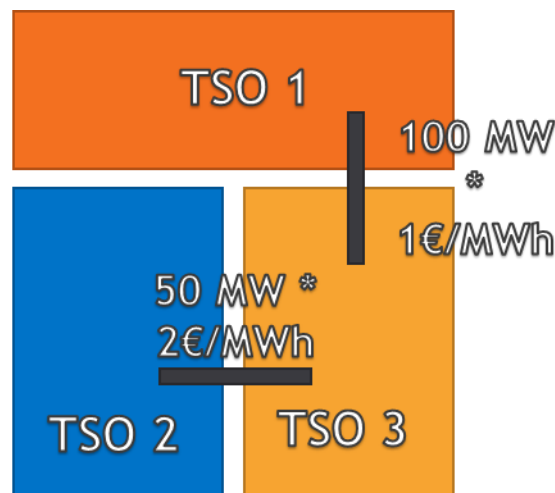
A distinction between CCRs where all bidding zone borders issue LTTRs and where only some of the bidding zone borders issue LTTRs had to be made in the methodology. In case of Core CCR, where all bidding zone borders issue LTTRs, complete results of DA CI can be used as the domain is fully used by all TSOs across all timeframes. All BZBs are therefore considered as the basis for proportional distribution of LT CI sum. That also includes both internal and external bidding zone borders as defined in CACM CID methodology.

No distinction is made between internal and external borders in the final calculation of the LT CI distribution. In the illustrative example above, for example, TSO 3 could be considered a Slack hub and the two BZBs

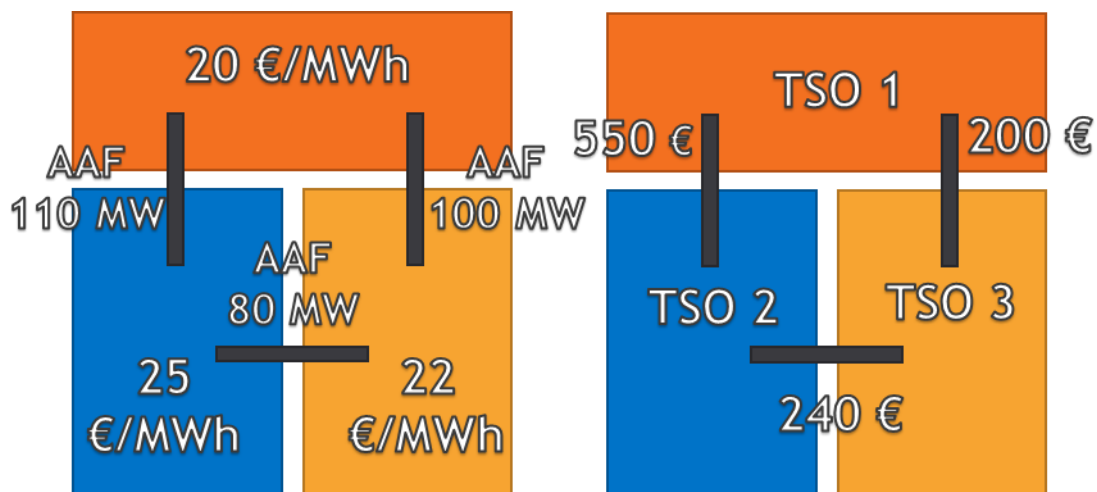
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would be external. Even in this case, the result would be the same. The difference would then only occur in the application of sharing keys on the BZBs, where a 100% key would be used instead of the usual 50:50 sharing key since only one TSOs is actually linked with the external border as it is done in CACM CID methodology.

In case of Nordic CCR, where only some of the bidding zone borders issue LTTRs, only these BZBs should be considered as the basis for proportional distribution of LT CI sum. Below we can see a modified numerical example. The LT CI is generated on only two BZBs issuing LTTRs. Even though we then have DA CI generated on all BZBs in the CCR, only the BZBs which issue LTTRs share the LT CI sum in proportion to their DA CI. External borders are therefore also excluded in this case.



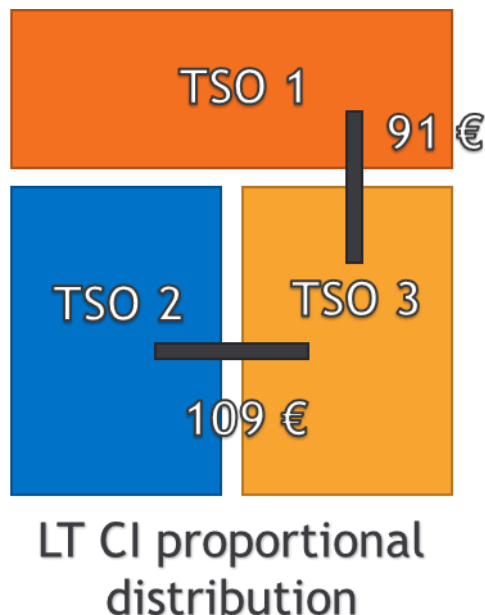
LT CI sum = 200 €



DA results
DA CI sum = 990 €

DA CI per BZB (after all adjustments)

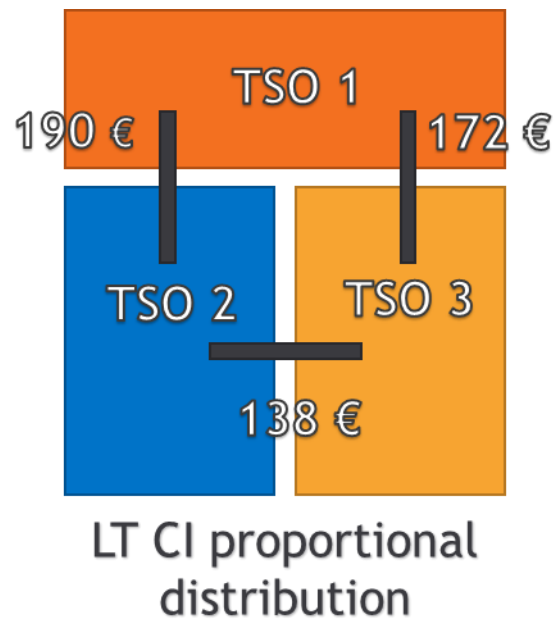
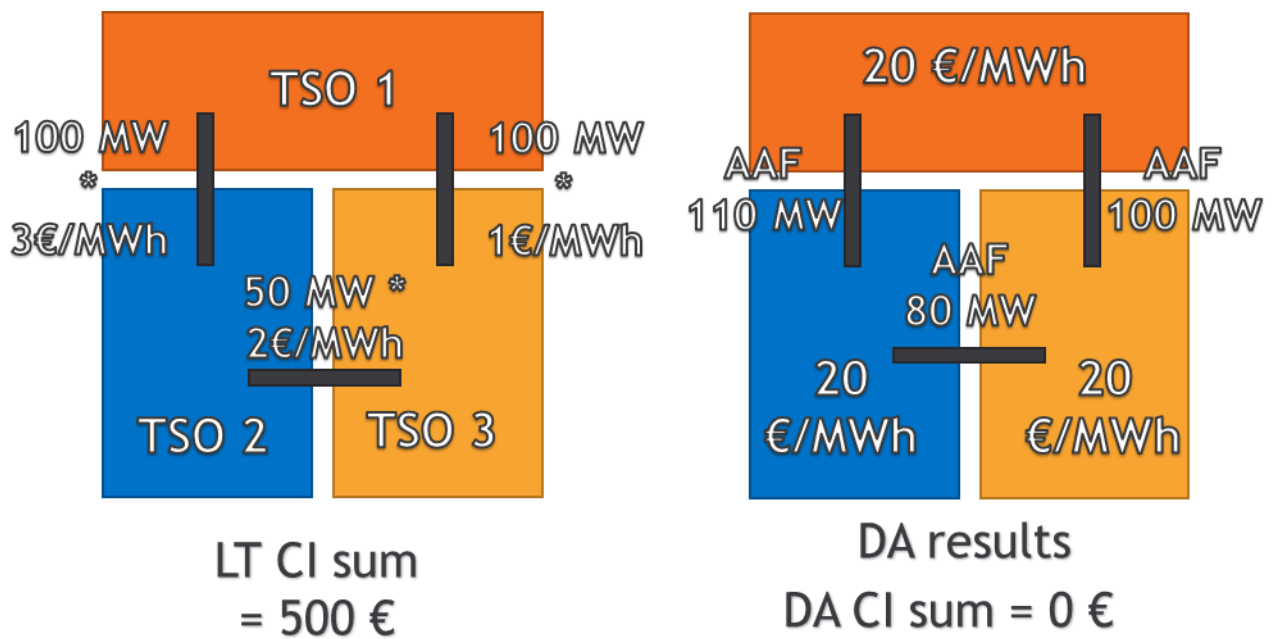
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1.2 Price convergence case

In case price convergence occurs across the whole CCR, no DA CI is generated in the CCR. For this case there is no basis that can be used for proportional distribution. In these specific MTUs, DA CI to be used as the basis for proportional distribution would be calculated using market spreads for each BZBs equal to 1 instead of 0. This solution has been chosen to keep the link with the day-ahead market situation in these specific MTUs as the results are than based solely on AAFs. Below we can see a modified numerical example in case of full price convergence.

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1.3 Decoupling

In case of full or partial decoupling in day-ahead timeframe, usual market results cannot be used as the basis for proportional distribution for decoupled BZBs. LT CI generated on the decoupled BZBs in the relevant MTUs will not be gathered as a sum generated in the whole CCRs and shared via proportional distribution. LT CI generated on decoupled BZBs in the relevant MTUs will be calculated using relevant long-term auction

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results, which would be identical to principles used for NTC CCRs. As the results are already BZBs direction specific, only sharing keys defined for the relevant BZBs needs to be applied.

2 Final congestion income

Original Article 3(3) was deleted as FCA CID methodology should not regulate the remunerations to be paid to the long-term transmission rights (LTTRs) holders. The amount of remuneration assigned to the bidding zone border shall be defined separately by the methodology for sharing costs incurred to ensure firmness and remuneration of long-term transmission rights according to Article 61 of the FCA Regulation. Similar deduction of LTTRs remuneration costs is also specified in the CACM CID methodology and there is therefore a risk of procedural conflict between several methodologies.

3 Minor beneficial changes

The following changes are not the main changes due to which the methodology was reopened but were identified during the modifications. They are the result of the development of other legislation, status quo of the FCA CID methodology, and a general improvement of wording and definitions.

III. Reasoning

With flow-based approach introduced in long-term timeframe, a solution better reflecting congestions in the grid was desired. Thus, there has been a consensus among TSOs to move away from distribution based on long-term auction results, as this is more of a market indicator resulting from bids of market participants.

Congestion in a long-term auction is a speculative concept as LTTRs are mainly a financial hedging tool. Real electricity flows only occur subsequently in the day-ahead timeframe. In day-ahead timeframe a true congestion arising from capacity utilisation could be observed. Targeting congestion already in the long-term auction has so far proved to be laborious and complex. However, the principle of shadow pricing in the long-term timeframe will still be investigated. It is important to note, that until the implementation of LT FBA in relevant CCRs, new insights may emerge that may determine which of the currently investigated and future solutions is the most appropriate.

The currently chosen approach to congestion income distribution for CCRs applying the flow-based approach is a recurring solution from past years of discussions. The idea is based on harmonizing congestion income distributions across timeframes by one simple calculation principle. Currently, this principle is used for Day-ahead timeframe, but also some methodologies of Commission regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing.

As a basis for distribution, results of day-ahead market are used i.e. final DA CI for each BZB. The distribution is done per each MTU to achieve complete harmonization between different timeframes, reflect dynamic changes in the day-ahead market and ease the implementation.

As the issuance of LTTRs is subject to TSOs and NRAs decision, this aspect should be taken into account for each CCR. For bidding zone borders where LTTRs are not issued, both income and costs associated with the allocation of LTTRs should not be shared. This also applies to flow-based cases where even if we can prove direct occurrence of subsequent electricity flows and interdependency with LTA inclusion, this sharing cannot be involuntarily imposed. Thus, BZBs not issuing LTTRs, and external borders are omitted from the distribution in CCRs where LTTRs are not issued on every BZB.