All TSOs’ Proposal for sharing costs incurred to ensure firmness and remuneration of long-term transmission rights (FRC) methodology in accordance with Article 61 of the Commission Regulation (EU) 2016/1719 of 26 September 2016

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Methodology for sharing costs incurred to ensure firmness and remuneration of long-term transmission rights

in accordance with Article 61 of Commission Regulation (EU) 2016/1719 of 26 September 2016
All TSOs’ Proposal for sharing costs incurred to ensure firmness and remuneration of long-term transmission rights (ERC) methodology in accordance with Article 61 of the Commission Regulation (EU) 2016/1710 of 26 September 2016

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All TSOs, taking into account the following,
Whereas

(1) This document is a common proposal developed by all Transmission System Operators (hereafter referred to as “TSOs”) regarding the FRC methodology establishes a methodology for sharing costs incurred to ensure firmness and remuneration of long-term transmission rights in accordance with Article 61 of Commission Regulation (EU) 2016/1719 establishing a guideline on Forward Capacity Allocation (hereafter referred to as the “FCA Regulation”). This proposal is hereafter referred to as “FCA FRCM”, which stands for Firmness and Remuneration Costs Methodology.

(2) The FCA FRCM methodology takes into account and applies the requirements set out in Article 74 of Commission Regulation (EU) 2015/1222 establishing a guideline on Capacity Allocation and Congestion Management (hereafter referred to as the “CACM Regulation”).

(3) The FCA FRCM methodology takes into account the congestion income distribution methodology pursuant to the CACM Regulation (“CACM CIDM”), in accordance with Article 73 of the CACM Regulation (hereafter referred to as the “CACM CIDM”) and the congestion income distribution methodology pursuant to the FCA Regulation (“FCA CIDM”), in accordance with Article 57 of the FCA Regulation (hereafter referred to as the “FCA CIDM”). The FCA FRCM methodology follows the principles set out in the FCA CIDM for sharing of congestion income on a bidding zone border (“BZB”) by applying the same sharing keys. In case a flow-based approach (“FB approach”) will be applied for long-term capacity calculation (“LT CC”) by a Capacity Calculation Region (“CCR”), or if the implementation of a Capacity Calculation Method (“CCM”) based on the Coordinated Net Transmission Capacity approach (“CNTC approach”) requires, the FCA CIDM shall be amended and submitted on time for regulatory approval according to Article 4(12) of the FCA Regulation. If necessary, this FCA FRCM shall be amended accordingly.

(4) Furthermore, this FCA FRCM methodology takes into account the general principles, goals and other methodologies set out in the FCA Regulation. The goal of the FCA Regulation is the coordination and harmonisation of forward capacity calculation and allocation in the long-term capacity markets, and it sets requirements for the TSOs to co-operate on a pan-European level, on the level of the capacity calculation regions (“CCRs”) and across bidding zone borders (“BZBs”). The CACM Regulation also sets the rules for establishing the European Harmonised Allocation Rules (“HAR”) with regional or border specific annexes. In addition, Articles 49 and 50 of the FCA Regulation set out the rules for the establishment, the functioning and the cost sharing of a Single Allocation Platform (“SAP”). The CACM Regulation also specifies rules for establishing capacity calculation methodologies based on either the FBflow-based or the CNTCcoordinated net transmission capacity (“CNTC”) approach.

(5) Article 61 of the FCA Regulation requires all TSOs to develop a proposal for a methodology for sharing costs incurred to ensure firmness and remuneration of long-term transmission rights within six months after the approval of the congestion income distribution from forward capacity allocation methodology in accordance with the FCA Regulation.
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A regional application of sharing the costs incurred to ensure firmness and remuneration of long-term transmission rights is needed because the sharing of congestion income pursuant to the FCA CIDM and the CACM CIDM is applicable at the CCR level and therefore, the sharing of congestion remuneration costs must be kept at the same geographical level as stipulated in the CACM CIDM recital 6. Further, the revenue adequacy of each TSO as stipulated in CACM CIDM recital 7 should be ensured. It means that in each market time unit (MTU) as used for the day-ahead capacity calculation, the final congestion income distributed to each TSO according to the CACM CIDM shall not become negative.

The congestion income as resulting from the FCA CIDM and the CACM CIDM also contains the congestion income generated by the allocation of the long-term transmission rights (LTTRs). Parts of such LTTRs are subject to remuneration (i.e. the non-nominated physical transmission rights or the financial transmission rights) and the TSOs have the obligation to remunerate the holders of those rights in accordance with Article 35 of the FCA Regulation. Thus, in a situation where LTTRs have been issued in a CCR, the costs for the remuneration of those LTTRs should be borne by the same TSOs which receive the congestion income in the day-ahead timeframe that is generated by the capacity corresponding to these non-nominated LTTRs.

The remuneration of LTTRs is in the scope of this FCA FRCM methodology and includes situations where the remuneration of LTTRs exceeds the total congestion income generated in a respective MTU by day-ahead and long-term capacity allocation on bidding zone border level pursuant to the CACM CIDM and the FCA CIDM.

The FCA FRCM methodology generally contributes to the achievement of the objectives of Article 3 of the FCA Regulation and, according to Article 4(8) of the FCA Regulation, the expected impact of the proposed FCA FRCM methodology on the particular objectives of the FCA Regulation is presented below.

This FCA FRCM methodology fulfils the objectives of Article 3(a) of the FCA Regulation, because it serves the objective of promoting effective long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants as it lays down objective criteria and solutions for the distribution of costs to be applied by all involved TSOs, thus creating a solid basis for European cost sharing principles applied at CCR level.

This FCA FRCM methodology fulfils the objectives of Article 3(b) of the FCA Regulation, i.e. the objectives of optimising the calculation and allocation of long-term cross-zonal capacity, because it takes into account the results of the long-term capacity calculation methodology in accordance with Article 10 of the FCA Regulation and Article 21 of the CACM Regulation which duly considers the provisions and limitations related to secure system operation.

This FCA FRCM methodology fulfils the objectives of Article 3(c) and 3(e) of the FCA Regulation, i.e. the objectives of providing non-discriminatory access to long-term cross-zonal capacity and of respecting the need for a fair and orderly forward capacity allocation and orderly price formation because it does not apply barriers for access to the auctioning of LTTRs via the SAP ensures full remuneration and firmness of LTTRs as required by the FCA Regulation. Consequently, it is fully compliant with the HAR.
The FCA FRC methodology fulfils the objectives of Article 3(d) of the FCA Regulation, i.e. it ensures fair and non-discriminatory treatment of all affected parties, because it sets out cost sharing keys that are based on objective and fair principles and it secures full transparency and involvement in the preparation phase as well as in the adoption process of TSOs, ACER, regulatory authorities and market participants.

The FCA FRC methodology fulfils the objectives of Article 3(f) of the FCA Regulation, because it provides clear rules and a solid basis for cost sharing in a transparent and reliable way, since the FCA FRC methodology, in common with the interrelated methodologies, will be published by TSOs.

In conclusion, the FCA FRC methodology fulfils the objectives of Article 3(g) of the FCA Regulation and contributes, i.e. contributing to the efficient long-term operation and development of the electricity transmission system and the electricity sector in the Union, because it maintains and guarantees the remuneration and firmness principles established by the FCA Regulation, which are facilitating efficient cross-zonal hedging that is needed for efficient market functioning and price signals.

SUBMIT THE FOLLOWING FCA FRCM TO THE AGENCY FOR THE COOPERATION OF ENERGY REGULATORS:
TITLE 1
General Provisions

Article 1
Subject matter and scope

1. The FCA FRCM shall be considered as the common proposal of all TSOs in accordance with Article 61 of the FCA Regulation and shall cover the sharing of costs incurred to ensure firmness and remuneration of eligible LTTRs for all existing and future bidding zone borders and interconnectors, within and between Member States, on which LTTRs are allocated. For the avoidance of doubt, the FRC methodology does not apply on BZBs on which the LTTRs do not exist, in accordance with Article 30 of the FCA Regulation applies and where Congestion Income from Forward Capacity Allocation is collected.

2. Where cost sharing considers transmission assets owned by legal entities other than TSOs, these parties shall be treated in a transparent and non-discriminatory way. The TSOs operating these assets shall conclude the necessary agreements compliant with this FCA FRCM methodology with the relevant transmission asset owners to contribute to sharing costs incurred to ensure firmness and remuneration of long-term transmission rights on assets they operate on their behalf.

3. If costly remedial actions are used to ensure firmness of capacity allocated in the form of LTTRs, the provisions set by Article 74(1) of the CACM Regulation shall apply to the sharing of these costs.

4. Imbalance costs associated with compensating market participants do not occur when long-term transmission rights have been curtailed before the day-ahead firmness deadline and the holders of curtailed long-term transmission rights are compensated pursuant to Article 53(2) of the FCA Regulation. Sharing rules for the compensation of costs due to curtailment of long-term transmission rights are described in Article 5.

Article 2
Definitions and interpretation

1. For the purpose of the FCA FRCM methodology, terms used in this document shall have the meaning of the definitions included in Article 2 of the FCA Regulation, Article 2 of the CACM Regulation, Article 2 of the HAR, the SAP methodology according to Article 49(1) of the FCA Regulation, SAP, Article 2 of the Regulation (EU) 2019/943 of the European Parliament and the Commission on the internal market for electricity and Article 2 of the Directive (EU) 2019/944 of the European Parliament and of the Council on common rules for the internal market for electricity.

2. Eligible LTTRs are to be understood as. In addition, in this FRC methodology, the following terms shall have the meaning below:
   (a) ‘eligible LTTRs’ means either non-nominated physical LTTRs or financial LTTRs; and
   (b) BZB stands also for ‘bidding zone border’ or ‘BZB’ means one or several interconnectors which are between two bidding zones having a direct network connection (regardless of whether the interconnector is owned by a TSO or by another legal entity).
2. Imbalance costs associated with compensating market participants occur when long-term transmission rights have been curtailed and the holders of curtailed long-term transmission rights have been compensated pursuant to Article 53(2) of FCA Regulation. Sharing rules for compensation cost due to curtailment of long-term transmission rights are described in Article 6.

3. In addition, in this FCA FRC methodology, unless the context requires otherwise:
   a. the terms used apply in the context of the CACM Regulation and the FCA Regulation;
   b. the singular indicates the plural and vice versa, unless otherwise explicitly specified;
   c. the table of contents and headings are inserted for convenience only and do not affect the interpretation of this FCA FRC methodology; and
   d. any reference to legislation, regulations, directives, orders, instruments, codes or any other enactment shall consider any modification, extension or re-enactment of them when in force.
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## TITLE 2

## Distribution

### Sharing of remuneration costs to the bidding zone borders

#### Article 3

**Costs sharing of remuneration costs of eligible LTTRs attributed to the implicit daily allocation process based on flow-based capacity calculation among BZBs**

1. **For each MTU, where costs of The remuneration of costs of eligible LTTRs on a given BZB are incurred, those costs shall be covered via the DA congestion income assigned in that MTU to that BZB.**

2. **If within a MTU the day-ahead congestion income assigned to a BZB according to CACM CIDMA is insufficient and MTU constitutes an obligation of the relevant TSO(s) on that BZB to remunerate the eligible LTTRs on that BZB due to welfare optimisation in the daily allocation process, the resulting deficit shall then be covered pro rata from the DA income generated in that MTU on BZBs that have positive DA income after covering costs of eligible LTTRs remuneration pursuant to Article 3(1).**

3. **Before applying the cost sharing process of Article 3(2), the costs of remuneration of eligible LTTRs on a particular BZB shall be reduced by income generated on that BZB in all preceding allocation processes.**

LTTR holders in

1. **In case the DA congestion income cannot be assigned to the BZBs due to extraordinary situations, including but not limited to DA market decoupling, a lack of a DA price, auction cancellation and/or shadow auction introduction, the costs of difference is positive in the direction of the LTTR, in accordance with Article 35 of the FCA Regulation and the HAR. The remuneration of eligible LTTRs attributed to the implicit daily allocation process need to be covered by the TSOs on the affected BZB pursuant to Article 5. shall be covered in four consecutive steps determined in paragraphs 0 to 5 below.**

#### Article 4

**Costs sharing of remuneration costs of eligible LTTRs attributed to the implicit daily allocation process based on CNTC capacity calculation**

1. **For each MTU, costs of remuneration of eligible LTTRs incurred on a given BZB and MTU shall be covered by the day-ahead congestion income generated in that MTU on assigned to that BZB in the DA allocation process.**

2. **In case eligible LTTRs in and MTU. If the implicit DA allocation process were allocated resulting day-ahead congestion income on a subset of BZBs given BZB and within a MTU remains positive after this step, it constitutes the ‘remaining income’ for the purpose of paragraph (3).**

3. **In the second step, the remuneration costs of eligible LTTRs on a given BZB and MTU that were not covered by the day-ahead congestion income pursuant to paragraph (1) shall be covered as follows:**

(a) **In CCRs which apply the flow-based approach in the day-ahead capacity calculation, the remuneration costs on a given BZB and MTU, which were not covered by the day-ahead**

\[^{1} Including the income resulting from day-ahead fallback procedures.\]
congestion income assigned to a BZB according to CACM CIDM is insufficient to remunerate the eligible LTTRs on that BZB, the resulting deficit shall then be covered pro rata by all BZBs in the respective CCR with the use of the remaining income generated in that MTU in proportion to the remaining income on these BZBs. If the costs to be shared in such a way exceed the total remaining income on all BZBs in that subset that have positive DA income after covering CCR, these shared costs of eligible LTTRs remuneration pursuant to Article 4(1). The subsets of BZBs on a given BZB and MTU shall be decreased proportionally to match the total remaining income on all BZBs in the CCR.

In CCRs which apply the coordinated net transmission capacity approach in the day-ahead capacity calculation, the remuneration costs on an interdependent BZBs and MTU, which were not covered by the day-ahead congestion income pursuant to paragraph (1), shall be covered by all interdependent BZBs in the respective CCR with the use of the remaining income and in proportion to the remaining income on these interdependent BZBs. If the costs to be shared in such a way exceed the total remaining income on all interdependent BZBs in a CCR, these shared costs on a given interdependent BZB and MTU shall be decreased proportionally to match the total remaining income on all interdependent BZBs in the CCR.

The list of interdependent BZBs and the TSOs (or related parties) of those BZBs for each CCR applying the coordinated net transmission capacity approach in the day-ahead capacity calculation shall be published in a common document by ENTSO-E on its web page for information purposes only. This document shall list all these specific subsets with the BZBs contained and the involved TSOs/Parties. The document shall be updated and published promptly as soon as any changes occur. Each publication shall be announced in an ENTSO-E’s newsletter and on the website of the Single Allocation Platform—SAP.

2. Before applying the cost sharing process of Article 4(2), the costs of remuneration of eligible LTTRs on a particular BZB shall be reduced by income generated on that BZB in all preceding allocation processes.

3. In case congestion income cannot be assigned to the BZBs due to extraordinary situations, including but not limited to DA market decoupling, a lack of DA price, auction cancellation and/or shadow auction introduction, the costs of remuneration of eligible LTTRs attributed to the implicit daily allocation process need to be covered by the TSOs on the affected BZB pursuant to Article 5.

### Title 3

**Distribution of costs on the bidding zone border**

**Article 5**

Costs of remuneration of long-term transmission rights on BZB level

Costs of In this step, the BZBs, which do not issue LTTRs, shall not be considered in sharing of the remuneration costs.

4. In the third step, the remuneration of long-term transmission rights assigned costs of eligible LTTRs on a given BZB and MTU that were not covered pursuant to paragraphs 1 and 3 shall be covered by the long-term congestion income generated on that BZB and MTU.
5. In the fourth step, the remuneration costs of eligible LTTRs on a given BZB and MTU that were not covered pursuant to paragraphs 9 to 4, shall be covered by any other congestion income (e.g. from other MTUs, intraday timeframe etc.) assigned to the TSOs on that BZB and, eventually, by any other financial resources of a TSO responsible for that BZB, in accordance with Article 4.

6. In the case that the single day-ahead coupling process is unable to produce results, i.e. the fallback procedures are triggered, as approved in accordance with Article 44 of the CACM Regulation, the second step determined by paragraph 3 above does not apply on the decoupled BZBs.

**Article 4**
Sharing of remuneration costs of eligible LTTRs among TSOs on a BZB

Costs of remuneration of LTTRs resulting from Article 3 to a particular BZB pursuant to Article 3 and Article 4 shall be shared among the TSOs on that BZB according to the sharing keys defined in the FCA CIDM for that BZB.

**TITLE 3**
Sharing of compensation costs

**Article 6**
Compensation costs due to curtailment of long-term transmission rights (LTTRs)

1. In case the curtailment of LTTRs occurs to ensure that the operation remains within operational security limits prior to the day-ahead firmness deadline, the compensation costs arising from the application of that curtailment shall be distributed pursuant to Article 5 shared at the BZB level by the same sharing key as defined in Article 4 unless involved parties, as referred to in Article 1(2)), have made specific cost sharing arrangements.

2. In case curtailment of LTTRs occurs due to force majeure or an emergency situation after the day-ahead firmness deadline, the costs arising from the application of that curtailment shall be distributed shared according to the provisions set out in Article 7 of the CACM Regulation.

3. Compensation costs resulting from the curtailment of LTTRs shall be subject to a cap applied to the compensations on a specific BZB as specified in the relevant annexes to the HAR for LTTRs.

**TITLE 4**
Final provisions

**Article 26**
Publication, Implementation and Revision of the FCA ERCM methodology

1. The TSOs shall publish the FCA ERCM methodology without undue delay after a decision has been taken by the Agency for the Cooperation of Energy Regulators (ACER), in accordance with Article 4(6) of the FCA Regulation and with Article 5 of the Regulation (EU) 2019/942 of the
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2. The TSOs of each capacity calculation region CCR shall implement the FRC methodology at the date of implementation of the long-term capacity calculation methodology within their respective capacity calculation region CCR in accordance with Article 10 of the FCA Regulation and the Congestion income distribution methodology in accordance with Article 57 of the FCA Regulation CIDM.

3. This methodology shall be revised and amended if needed when:
   a) a BZB (existing BZB or new BZB) gains exemption from issuing LTTRs
   b) a BZB being exempted from issuing LTTRs is part of a CCR configuration change
   c) the FCA CIDM is changed

Article 97

Language

The reference language for this FCA FRC methodology shall be English. For the avoidance of doubt, where TSOs need to translate this FCA FRC methodology into their national language(s), in the event of inconsistencies between the English version published by TSOs in accordance with Article 4 (13) of the FCA Regulation and any version in another language, the relevant TSOs shall, in accordance with national legislation, provide the relevant NRAs with an updated translation of the FCA FRC methodology.