European Network of
Transmission System Operators
for Electricity

All TSOs' proposal for amendment of the 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 establishing a Guideline on Forward Capacity Allocation

20 September 2022

Contents

All TSOs, taking into account the following,

Whereas

(1) This document ('**FRC methodology**') establishes a methodology for sharing costs incurred to ensure firmness and remuneration of long-term transmission rights ('**LTTRs'**), in accordance with Article 61 of Commission Regulation (EU) 2016/1719 establishing a guideline on forward capacity allocation ('**FCA Regulation'**).

(2) On 23 April 2020, all Transmission System Operators (hereafter referred to as "**all TSOs**") submitted to ACER a proposal for a methodology sharing the costs of ensuring firmness and remuneration of LTTRs in accordance with Article 61 of the FCA Regulation, together with a supporting document. On 23 October 2020, ACER approved – through Decision 25/2020 – the FRC methodology, however with amendments. Following an appeal by Polish TSO Polskie Sieci Elektroenergetyczne S.A. ('PSE') against Decision 25/2020, ACER's Board of Appeal remitted the case to ACER's Director by Decision A-009-2020 of 19 April 2021. The Decision 12/2021 of 4 October 2021 replaced Decision 25/2020.

(3) In a letter dated 12 July 2021, ACER requested all TSOs, pursuant to Article 4(12) of the FCA Regulation, to submit, as soon as possible, and no later than 1 June 2022, the relevant proposals for amendments of the four methodologies mentioned in Article 4(6), points (c), (d), (e) and (g) of the FCA Regulation for ACER's approval in order to allow for a timely implementation of the long-term flow-based auctions in the Core and Nordic capacity calculation regions (hereinafter referred to as "**CCRs**"). ENTSO for Electricity, on behalf of all TSOs, proposed postponed submission dates, to which ACER agreed in a letter dated 26 January 2022.

(4) The FRC methodology takes into account the general principles and goals set in the Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (hereafter referred to as "**Regulation (EU) 2019/943**").

(5) The FRC 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 ('**CACM Regulation'**).

(6) The FRC 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 and the congestion income distribution methodology pursuant to the FCA Regulation ('**FCA CIDM'**), in accordance with Article 57 of the FCA Regulation. The FRC 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 will be applied for long-term capacity calculation by a capacity calculation region ('**CCR'**), the FCA CIDM should be amended and a respective proposal should be submitted to the Agency in time for national regulatory authorities approval according to Article 4(12) of the FCA Regulation. To ensure the consistency of the FRC methodology with the FCA CIDM, the FRC methodology should be amended in case the FCA CIDM introduces the flow-based approach.

(7) Furthermore, this FRC 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 CCRs and BZBs. Moreover, it takes into account Article 51 of the FCA Regulation that sets the rules for establishing the European harmonised allocation rules ('**HAR'**) with regional or border specific annexes and Articles 49 and 59 of the FCA Regulation that set out the rules for the establishment, functioning and cost sharing of a single allocation platform for long-term capacity allocation ('**SAP'**). The FCA Regulation also specifies rules for establishing capacity calculation methodologies based on either the flow-based approach or the coordinated net transmission capacity approach.

(8) A regional application of sharing the costs incurred to ensure firmness and remuneration of LTTRs is needed because the sharing of congestion income pursuant to the FCA CIDM and the CACM CIDM is applicable at the CCR level. Therefore, the sharing of remuneration costs must be kept at the same geographical level as stipulated in the CACM CIDM. Further, the revenue adequacy of each TSO as stipulated in CACM CIDM 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 should not become negative.

(9) The congestion income as resulting from the FCA CIDM and the CACM CIDM also contains the congestion income generated by the allocation of the 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 LTTRs.

(10) The remuneration of LTTRs is in the scope of this FRC 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.

(11) The FRC 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 FRC methodology on the particular objectives of the FCA Regulation is presented below.

(12) This FRC 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 sharing of costs to be applied by all involved TSOs, thus creating a solid basis for European cost sharing principles applied at CCR level.

(13) This FRC 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.

(14) This FRC 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 ensures full remuneration and firmness of LTTRs as required by the FCA Regulation. Consequently, it is fully compliant with the HAR.

(15) The 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 of TSOs, ACER, regulatory authorities and market participants.

(16) The 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 FRC methodology, in common with the interrelated methodologies, will be published by TSOs.

(17) The FRC methodology fulfils the objectives of Article 3(g) of the FCA Regulation, 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.

(18) Article 61 of the FCA Regulation requires all TSOs to develop the FRC methodology. The list of TSOs responsible for the development of the FRC methodology under the relevant legislation and for its submission to ACER is the following: APG - Austrian Power Grid AG, VÜEN-Vorarlberger Übertragungsnetz GmbH, Elia - Elia Transmission Belgium S.A., ESO – Electroenergien Sistemen Operator EAD, HOPS d.d. - Croatian Transmission System Operator Plc., ČEPS - ČEPS, a.s., Energinet - Energinet, Elering - Elering AS, Fingrid - Fingrid OyJ, Kraftnät - Kraftnät Åland Ab, RTE - Réseau de Transport d'Electricité S.A, Amprion - Amprion GmbH, TransnetBW -TransnetBW GmbH, TenneT GER - TenneT TSO GmbH, 50Hertz - 50Hertz Transmission GmbH, BCAB – Baltic Cable AB, IPTO - Independent Power Transmission Operator S.A., MAVIR ZRt. - MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zártkörűen Működő Részvénytársaság ZRt., EirGrid - EirGrid plc, Terna - Terna SpA, Augstsprieguma tïkls - AS Augstsprieguma tïkls, LITGRID - LITGRID AB, CREOS Luxembourg - CREOS Luxembourg S.A., TenneT TSO - TenneT TSO B.V., PSE - Polskie Sieci Elektroenergetyczne S.A., REN - Rede Eléctrica Nacional, S.A., Transelectrica - Compania Nationala de Transport al Energiei Electrice S.A., SEPS - Slovenská elektrizačná prenosovú sústava, a.s, Svenska Kraftnät - Affärsverket Svenska Kraftnät, SONI - System Operator for Northern Ireland Ltd Slovenská elektrizačná prenosovú sústava, a.s., ELES - ELES,d.o.o, REE - Red Eléctrica de España S.A.U.,

SUBMIT THE FOLLOWING FRC METHODOLOGY TO ACER:

TITLE 1
General Provisions

Article 1
Subject matter and scope

1. The FRC methodology shall be considered as the common proposal of all TSOs in accordance with Article 61 of the FCA Regulation and shall determine the sharing of costs incurred to ensure firmness and remuneration of eligible LTTRs on all BZBs where LTTRs are allocated.
2. In the specific case where there are several TSOs on the same side of a bidding zone border, this FCR methodology shall only apply to the TSO generating an income from capacity allocation on a bidding zone.
3. This FCR methodology shall not apply to the TSOs of the bidding zone borders where regulatory authorities decide that long-term transmission rights shall not be issued by the respective TSOs or that other long-term cross-zonal hedging products shall be made available by the respective TSOs, according to article 30(7) of FCA Regulation.
4. 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 FRC methodology with the relevant transmission asset owners to contribute to sharing costs incurred to ensure firmness and remuneration of LTTRs on the operated assets.
5. 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.
6. Imbalance costs associated with compensating market participants do not occur when LTTRs have been curtailed before the day-ahead firmness deadline and the holders of curtailed LTTRs are compensated pursuant to Article 53(2) of the FCA Regulation. Sharing rules for the compensation of costs due to curtailment of LTTRs are described in Article 5.

Article 2
Definitions and interpretation

1. For the purpose of the FRC methodology, terms used in this document shall have the meaning of the definitions included in the FCA Regulation, CACM Regulation, HAR, SAP, Regulation (EU) 2019/943 of the European Parliament and of the Council on the internal market for electricity and Directive (EU) 2019/944 of the European Parliament and of the Council on common rules for the internal market for electricity, as amended from time to time.
2. In addition, in this FRC methodology, the following terms shall have the meaning below:
   (a) 'eligible LTTRs' means either non-nominated physical transmission rights or financial transmission rights; and

(b) 'bidding zone border' or 'BZB' means one or several interconnectors between two bidding zones having a direct network connection (regardless of whether the interconnector is owned by a TSO or by another legal entity)

3. In this FRC methodology, unless the context requires otherwise:
   (a) the singular indicates the plural and vice versa, unless otherwise explicitly specified;
   (b) the table of contents and headings are inserted for convenience only and do not affect the interpretation of this FRC methodology; and
   (c) 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.

TITLE 2
Sharing of remuneration costs

Article 3
Sharing of remuneration costs of eligible LTTRs among BZBs of Long-Term NTC CCRs

1. The remuneration costs of eligible LTTRs of capacity calculation regions which apply the coordinated net transmission capacity approach for the capacity calculation of long-term transmission rights shall be shared according to the provisions in paragraphs 2 to 6 below.

2. The remuneration costs of eligible LTTRs on a given BZB and MTU shall be paid by the relevant TSO(s) on that BZB to the LTTR holders in case the price difference is positive in the direction of the LTTR, in accordance with Article 35 of the FCA Regulation and the HAR. The remuneration costs of eligible LTTRs shall be covered in four consecutive steps determined in paragraphs 3 to 6 below.

3. In the first step, the remuneration costs of eligible LTTRs on a given BZB and MTU shall be covered by the day-ahead congestion income[1] assigned to that BZB and MTU. If the resulting day-ahead congestion income on a given BZB and MTU remains positive after this step, it constitutes the 'remaining income' for the purpose of paragraph (4).

4. 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 (3) shall be covered as follows:
   (a) In CCRs which apply the flow-based approach in the day-ahead capacity calculation, but do not apply the flow-based approach in the long-term capacity calculation the remuneration costs on a given BZB and MTU, which were not covered by the day-ahead congestion income pursuant to paragraph (3), shall be covered by all BZBs in the respective CCR with the use of the remaining income and 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 a CCR, these shared costs on a given BZB and MTU shall be decreased proportionally to match the total remaining income on all BZBs in the CCR.

[1] Including the income resulting from day-ahead fallback procedures.

(b) In CCRs which apply the coordinated net transmission capacity approach in the day-ahead capacity calculation, the remuneration costs on an interdependent BZB and MTU, which were not covered by the day-ahead congestion income pursuant to paragraph (3), 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 for Electricity on its web page for information purposes. The document shall be updated and published promptly as soon as any changes occur. Each publication shall be announced in an ENTSO for Electricity's newsletter and on the website of the SAP.

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

5. In the third step, the remuneration costs of eligible LTTRs on a given BZB and MTU that were not covered pursuant to paragraphs 3 and 4 shall be covered by the long-term congestion income generated on that BZB and MTU.

6. In the fourth step, the remuneration costs of eligible LTTRs on a given BZB and MTU that were not covered pursuant to paragraphs 3 to 5 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 5.

7. In the case that the single day-ahead coupling process is unable to produce results for at least one BZB, i.e. the fallback procedures are triggered, as approved in accordance with Article 44 of the CACM Regulation, the second step determined by paragraph 4 above does not apply on the decoupled BZBs.

Article 4
Sharing of remuneration of costs of eligible LTTRs among BZBs of Long-Term Flow-based CCRs

1. The remuneration costs of eligible LTTRs of capacity calculation regions which apply the flow-based approach for the capacity calculation of long-term transmission rights shall be shared according to the provisions in paragraphs 2 to 6 below.

2. The remuneration costs of eligible LTTRs on a given BZB and MTU shall be paid by the relevant TSO(s) on that BZB to the LTTR holders in case the price difference is positive in the direction of the LTTR, in accordance with Article 35 of the FCA Regulation and the HAR. Furthermore, the remuneration costs of eligible LTTRs which have been returned by their rights holders in accordance with Article 43 of the FCA regulation and the HAR shall be included in the total remuneration costs subject to this Article. These remuneration costs of eligible LTTRs shall be covered in four consecutive steps determined in paragraphs 3 to 6 below.

3. In the first step, the remuneration costs of eligible LTTRs of a given CCR and MTU shall be aggregated at CCR level. The day-ahead congestion income generated in that CCR and MTU shall as well be aggregated at CCR level. The aggregated remuneration costs of eligible LTTRs on a given CCR and MTU shall be covered by the day-ahead congestion income generated in that CCR and MTU. For the avoidance of doubt, any aggregated day-ahead congestion income in that CCR and MTU that remains after this step shall be distributed in accordance with article 73 of CACM Regulation.

4. In the second step, any remaining negative difference between the aggregated remuneration costs of eligible LTTRs and the aggregated day-ahead congestion income in a given CCR shall be covered by the aggregated long-term congestion income generated in that CCR and MTU. For the avoidance of doubt, any aggregated long-term congestion income in that CCR and MTU that remains after this step shall be distributed in accordance with article 57 of FCA Regulation.

5. Any aggregated remuneration costs of eligible LTTRs in a given CCR and MTU that remain after the second step will be allocated to individual bidding zone borders. This allocation is proportional to the distribution of day ahead gross congestion income of that CCR and MTU in accordance with article 73 of CACM Regulation. In a third step, in case of remaining costs that are allocated to individual BZBs, these shall be covered by any other congestion income assigned to the TSOs on that BZB and, eventually, by any other financial resources of a TSO responsible for that BZB.

6. In CCRs where not all bidding zone borders issue LTTRs, the aggregation of congestion income pursuant to paragraphs 3 and 4 shall not consider any BZB which does not issue LTTRs. In CCRs where all bidding zone borders issue LTTRs, the aggregation of congestion income pursuant to paragraphs 3 and 4 shall consider all bidding zone borders, including external borders.

7. In the case that the single day-ahead coupling process is unable to produce results for at least one BZB, i.e. the fallback procedures are triggered, as approved in accordance with Article 44 of the CACM Regulation, the remuneration costs of eligible LTTRs of that BZB are assigned to the affected BZB only, and remuneration costs shall be covered by any other congestion income assigned to the TSOs on that BZB and, eventually, by any other financial resources of a TSO responsible for that BZB. Any aggregation step as described in paragraphs 3 to 5 is not applicable in this case.

Article 5
Sharing of remuneration costs of eligible LTTRs among TSOs on a BZB

Costs of remuneration of LTTRs resulting from Article 3 or Article 4(5) attributed to a particular BZB 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
Sharing of compensation costs due to curtailment of 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 shared at the BZB level by the same sharing key as defined in Article 5 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 compensation costs arising from the application of that curtailment shall be shared according to the provisions set out in Article 72 of the CACM Regulation.

3. Compensation costs resulting from the curtailment of LTTRs can 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 7
Publication, implementation and revision of the FRC methodology

1. The TSOs shall publish the FRC methodology without undue delay after a decision has been taken by the Agency, in accordance with Article 4(6) of the FCA Regulation and with Article 5 of Regulation (EU) 2019/942 of the European Parliament and of the Council establishing a European Union Agency for the Cooperation of Energy Regulators.

2. The TSOs of each CCR shall implement the FRC methodology at the date of implementation of the long-term capacity calculation methodology within their respective CCR in accordance with Article 10 of the FCA Regulation and the FCA CIDM.

3. This FRC methodology shall be revised and amended when the FCA CIDM is changed, where this is necessary for consistency according to Article 61(3) of the FCA Regulation.
4. Notwithstanding Article 7(3), if congestion income assigned to the BZB according to amended FCA CIDM will not be calculated in accordance with the CACM CIDM then FRC methodology shall be adapted accordingly.

Article 8
Language

The reference language for this FRC methodology shall be English. For the avoidance of doubt, where TSOs need to translate this 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 national regulatory authorities with an updated translation of the FRC methodology.

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