Explanatory note on the 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

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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 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.

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I. Introduction

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 long-term transmission rights (FRC methodology) 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.

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-E, on behalf of all TSOs, proposed postponed submission dates, to which ACER agreed in a letter dated 26 January 2022.

As long-term flow-based allocation (LT FBA) approach will be applied for long-term capacity calculation by Core and Nordic CCRs, the congestion income distribution methodology pursuant to the FCA Regulation ('FCA CIDM'), in accordance with Article 57 of the FCA Regulation is to be amended. 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.

In consequence all TSOs made a revision of the FRC methodology ("**TSO-Proposal**") associated to this explanatory document which is driven by the changes required due to the introduction of LT FBA approach and provide cost sharing regulations for CCRs using this approach.

In the second chapter of this document, the main changes applied are highlighted to ease the understanding of the reader, focusing on the gap-analysis between the previous version of FRC Proposal and the TSO-Proposal. In the third and fourth chapter of this document, the focus is set on NTC and FB allocation – as the main changes are due to the inclusion of LT FBA, replacing for most borders the NTC allocation.

II. Main changes

1 Overview table of amended articles

In the following table, please see the gap analysis between the previous version of the FRC methodology and the new FRC Proposal. Apart from some legal and scope wording adaptations in different articles, the main bulk of changes is to be seen in the newly drafted Article 4 about the LT FBA cost sharing principles.

Article Number	Topic	Reasoning
Whereas (2) to (4)	Background information	Insertion of new recitals to explain the background and reasons for triggering the amendment of the FRC Proposal
Article 1 - Subject matter and scope	Scope	Clarifying to which TSOs the FRC Proposal applies
Article 3 – Sharing of remuneration costs of eligible LTTRs among BZBs of Long-Term NTC CCRs	Clarification	Pointing out that Article 3 is for cNTC approach solely
(New) Article 4 – Sharing of remuneration costs of eligible LTTRs among BZBs of Long-Term Flow based CCRs	Principles for LT FBA approach	New article – see detailed description in Article 4 of this explanatory note
Article 7 – Publication, implementation and revision of the FRC methodology	Need for revision	One point added to keep the consistency with FCA CIDM

2 Detailed list of changes

2.1 Whereas

New paragraphs have been added to explain the background and the need for the amendment (introduction of Flow-Based).

2.2 Article 1 - Subject matter and scope

It was underlined that FRC methodology shall not apply to **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. In addition, it was clarified that in the specific case where there are several TSOs on the same side of a bidding zone border, the FRC methodology shall only apply to the TSO generating an income from capacity allocation on a bidding zone border.

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

It was clarified that now provisions in Article 3 are relevant only for capacity calculation regions which apply the coordinated net transmission capacity approach for the capacity calculation of long-term transmission rights.

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

A completely new article was drafted to regulate the principles for sharing the costs incurred to ensure firmness and remuneration of long-term transmission rights (including also costs with regards to returns) in capacity calculation regions (CCRs) which apply the flow-based approach for the capacity calculation of long-term transmission rights. The detailed description of these principles and the particular steps in process can be found in Article 4 of this explanatory note.

A distinction between CCRs where all bidding zone borders issue LTTRs and where only some of 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 and of costs incurred to ensure firmness and remuneration of LTTRs. 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 or on the costs incurred to ensure firmness and remuneration of LTTRs.

In case of Nordic CCR, where only some of bidding zone borders issue LTTRs, only these BZBs should be considered as the basis for proportional distribution of LT CI sum and of costs incurred to ensure firmness and remuneration of LTTRs.

2.5 Article 7 - Publication, implementation and revision of the FRC methodology

The principles proposed for sharing the costs incurred to ensure firmness and remuneration of long-term transmission rights in capacity calculation regions which apply the flow-based approach in the FRC proposal were developed with assumption that the FCA CIDM will be calculated in accordance with the CACM CIDM pursuant to the CACM Regulation, in accordance with Article 73 of the CACM Regulation. If this will not be the case, the principles proposed in Article 4 of FRC proposal will not be valid anymore. Therefore, an additional point was introduced to ensure consistency.

3 NTC allocation

The principles for sharing the costs incurred to ensure firmness and remuneration of long-term transmission rights in capacity calculation regions which apply the coordinated net transmission capacity approach remain as adopted by ACER Decision 12/2021 of 4 October 2021.

4 FB allocation

While developing the FCA CID proposal for flow-based approach in the long-term timeframe, a solution to better reflect congestions in the grid was chosen. Thus, there has been a consensus among the TSOs to move away from long-term income distribution based on long-term auction results, as this is more of a market indicator resulting from bids of market participants.

In the proposed approach for congestion income distribution in CCRs applying the flow-based approach, as a basis for distribution, results of day-ahead market are used i.e. final day ahead for each bidding zone border. The distribution is done per each MTU to achieve a complete harmonization between the different timeframes, to reflect dynamic changes in the day-ahead market and to ease the implementation.

With such approach, long term congestion income is distributed not only to the border where transmission rights were issued, but also to the borders used by transactions realising those rights. The cost sharing should reflect these principles for consistency purposes.

Therefore, the TSOs have decided to move the cost sharing process from the biding zone to the "pot" level. This means that the income generated by the relevant TSOs will be aggregated at CCR level and used to cover the aggregated costs at CCR level. Considering ACER's rationale in their previous decisions: i.e. that day ahead congestion income is the one correlated with costs incurred to ensure firmness and remuneration of long-term transmission rights, the TSO propose: To use first the day ahead congestion income "pot", and in case of any remaining negative difference between the aggregated remuneration costs of eligible LTTRs and the aggregated day-ahead congestion income in a given CCR, secondly, to use the long term income "pot". The unused part of the pot will by shared according to the respective day ahead or long-term CID methodologies. If in a particular MTU there would still be costs to be covered, after consuming the day ahead and long-term "pots", those costs shall be assigned to the bidding zone borders of the relevant TSOs. The allocation will be proportional to the distribution of day ahead congestion income distribution for that MTU and those costs will be covered by any other financial resources of the TSO responsible for that bidding zone border.