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**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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23 April 2020

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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 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 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 takes into account the Congestion income distribution methodologies in accordance with Article 73 of CACM Regulation (hereafter referred to as the “CACM CIDM”) and Article 57 of the FCA Regulation (hereafter referred to as the “FCA CIDM”). The FCA FRCM 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 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 capacity calculation regions, and across bidding zone borders (“BZBs”). The FCA Regulation in Article 51 also sets rules for establishing European Harmonised Allocation Rules (“HAR”) and regional/border specific annexes. In addition, the FCA Regulation in Articles 49 and 59 sets out rules for the establishment, the functioning and the 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 FB approach or the 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.
- (6) 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 CACM CIDM is applicable at a CCR-level and therefore the sharing of

congestion costs must be kept at the same geographical level as stipulated in CACM CIDM recital 6. Further the revenue adequacy of each TSO as stipulated in CACM CIDM recital 7 should be ensured meaning 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 CACM CIDM shall not become negative.

- (7) The congestion income as resulting from the FCA CIDM and CACM CIDM also contains the congestion income generated by 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 TSOs have the obligation to remunerate the holders of those rights in accordance with 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 (“DA”) timeframe that is generated by the capacity corresponding to these non-nominated LTTRs.
- (8) The remuneration of LTTRs is in the scope of this FCA FRCM including situations where the remuneration of LTTRs exceeds the total congestion income generated in a respective MTU by DA and LT capacity allocation on bidding zone border level pursuant to CACM CIDM and FCA CIDM.
- (9) The FCA FRCM 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 on the particular objectives of the FCA Regulation is presented below.
- (10) This FCA FRCM 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.
- (11) This FCA FRCM fulfils objectives of Article 3(b) of the FCA Regulation, i.e. 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 CACM Regulation which duly considers the provisions and limitations related to secure system operation.
- (12) This FCA FRCM 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. Consequently, it is fully compliant with the HAR.
- (13) The FCA FRCM 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 secures full transparency and involvement in the preparation phase as well as in the adoption process.

- (14) The FCA FRCM 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 FRCM, in common with the interrelated methodologies, will be published by TSOs.
- (15) In conclusion, the FCA FRCM fulfils the objectives of Article 3(g) of the FCA Regulation and contributes to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union.

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 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, to which 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 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.

#### **Article 2**

##### **Definitions and interpretation**

1. For the purpose of the FCA FRCM, terms used in this document shall have the meaning of the definitions included in Article 2 of the FCA Regulation, CACM Regulation, the HAR, the SAP methodology according to Article 49(1) of the FCA Regulation, the Regulation 2019/943/EC and the Commission Directive (EU) 2019/944/EC.
2. Eligible LTTRs are to be understood as either non-nominated physical LTTRs or financial LTTRs.
3. BZB stands also for interconnectors which are owned by TSOs or by other legal entities.
4. 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.

5. In addition, in this FCA FRCM, 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 FRCM; 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.

## **TITLE 2**

### **Distribution of costs to the bidding zone borders**

#### **Article 3**

#### **Costs of remuneration of eligible LTTRs attributed to the implicit daily allocation process based on flow-based capacity calculation**

1. For each MTU, where costs of remuneration of eligible LTTRs on a 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 CIDM is insufficient 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.
4. 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 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.

#### **Article 4**

#### **Costs of remuneration 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 BZB shall be covered by the income generated in that MTU on that BZB in the DA allocation process.
2. In case eligible LTTRs in the implicit DA allocation process were allocated on a subset of BZBs and within a MTU the DA 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 from the DA income generated in that MTU on BZBs in that subset that have positive DA income after covering costs of eligible LTTRs remuneration pursuant to Article 4((1)). The subsets of BZBs 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.

3. 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.
4. 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 remuneration of long-term transmission rights assigned to a particular BZB pursuant to Article 3 and Article 4 shall be distributed among the TSOs on that BZB according to the sharing keys defined by FCA CIDM for that BZB.

##### **Article 6**

##### **Compensation costs due to curtailment of long-term transmission rights**

1. In case curtailment of LTTRs occurs to ensure operation remains within operational security limits prior to the the DA firmness deadline, the compensation costs arising from the application of that curtailment shall be distributed pursuant to 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 DA firmness deadline, the costs arising from the application of that curtailment shall be distributed according to the provisions set out in Article 72 of the CACM Regulation.
3. Compensation costs resulting from curtailment of LTTRs shall be subject to the cap applied to the compensations on specific BZB if specified in the relevant annexes to HAR for LTTRs.

### **TITLE 4**

#### **Final provisions**

### **Article 7**

#### **Publication, Implementation and Revision of the FCA FRCM**

1. The TSOs shall publish the FCA FRCM without undue delay after a decision has been taken by the Agency for the Cooperation of Energy Regulators in accordance with Article 4(6) of the FCA Regulation and with Article 5 of Regulation 2019/942.
2. The TSOs of each capacity calculation region shall implement the methodology at the date of implementation of the long-term capacity calculation methodology within their respective capacity calculation region in accordance with Article 10 of the FCA Regulation and the Congestion income distribution methodology in accordance with Article 57 of the FCA Regulation.
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 9**

#### **Language**

The reference language for this FCA FRCM shall be English. For the avoidance of doubt, where TSOs need to translate this FCA FRCM 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 FRCM.