

ACER decision on FRC methodology: Annex Ia

**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**

~~23 October 2020~~ **4 October 2021**

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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) 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').
- (3) 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 European Union Agency for the Cooperation of Energy Regulators (the 'Agency') in time for regulatory 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.
- (4) 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 ~~capacity calculation regions ('CCRs')~~ 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 ('CNTC') approach.
- (5) A regional application of sharing the costs incurred to ensure firmness and remuneration of ~~long-term transmission rights~~ 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.
- (6) 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')~~ 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.

- (7) 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.
- (8) 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.
- (9) 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.
- (10) 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.
- (11) 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.
- (12) 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.
- (13) 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.
- (14) 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.

TITLE 1 General Provisions

Article 1 Subject matter and scope

1. In accordance with Article 61 of the FCA Regulation, this FRC methodology determines the sharing of costs incurred to ensure firmness and remuneration of eligible LTTRs on all BZBs where 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.
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 FRC methodology with the relevant transmission asset owners to contribute to sharing costs incurred to ensure firmness and remuneration of ~~long term transmission rights~~LTTRs on the operated 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.
4. Imbalance costs associated with compensating market participants do not occur when ~~long term transmission rights~~LTTRs have been curtailed before the day-ahead firmness deadline and the holders of curtailed ~~long term transmission rights~~LTTRs 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~~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 Article 2 of the FCA Regulation, Article 2 of the CACM Regulation, Article 2 of the HAR, Article 2 of the SAP, Article 2 of ~~the~~ Regulation (EU) 2019/943 of the European Parliament and of the Council 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. 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 terms used apply in the context of the CACM Regulation and the FCA Regulation;~~
 - ~~b.~~a. the singular indicates the plural and vice versa, unless otherwise explicitly specified;
 - ~~c.~~b. the table of contents and headings are inserted for convenience only and do not affect the interpretation of this FRC methodology; and
 - ~~d.~~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

1. The remuneration ~~of~~ costs of eligible LTTRs on a given BZB and MTU ~~constitutes an obligation of~~ ~~shall be paid by~~ the relevant TSO(s) on that BZB to ~~remunerate~~ 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 2 to 5 below.
2. In the first step, the remuneration costs of eligible LTTRs on a given BZB and MTU shall be covered by the day-ahead congestion income¹ 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 (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 (2) 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 congestion income pursuant to paragraph (2), 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.
 - (b) In CCRs which apply the coordinated net transmission capacity approach in the day-ahead capacity calculation, the remuneration costs on an interdependent ~~BZBs~~BZB and MTU, which were not covered by the day-ahead congestion income pursuant to paragraph (2), 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. 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 SAP.

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 costs of eligible LTTRs on a given BZB and MTU that were not covered pursuant to paragraphs 2 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 2 to 4~~;~~ shall be covered by any other congestion income (e.g. from

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

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 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 5

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 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 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 3

Final provisions

Article 6

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 ACER, in accordance with Article 4(6) of the FCA Regulation and with Article 5 of ~~the~~ 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. In particular, when all TSOs submit to the Agency a proposal for an amendment of the FCA CIDM to introduce the flow-based approach, the TSOs shall submit to the Agency also a proposal including the entire FRC methodology and ensuring consistency of the FRC methodology with the amended FCA CIDM.

Article 7 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 ~~NRA~~national regulatory authorities with an updated translation of the FRC methodology.