

Explanatory document to the Amendment to the TSOs' Proposal for the establishment of common and harmonised rules and processes for the exchange and procurement of Balancing Capacity for Frequency Containment Reserves (FCR)

September 2024

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Introduction

FCR Cooperation TSOs are proposing a new *Amendment to the TSOs' proposal for the establishment of common and harmonised rules and processes for the exchange and procurement of Balancing Capacity for Frequency Containment Reserves (FCR) in accordance with Article 33 of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing* (in this explanatory note, this document is referred to as the *Amended FCR Proposal*).

With this new amendment, TSOs are proposing a change to the TSO-TSO settlement mechanism. This change would not change the operations of the market or the way BSPs are remunerated, only the way TSOs remunerate TSOs for the import and export of FCR.

The current mechanism was included in the original *Proposal for the establishment of common and harmonised rules and processes for the exchange and procurement of Balancing Capacity for Frequency Containment Reserves (FCR)* in 2017. At that time, the FCR Cooperation consisted of a smaller number of countries, with smaller differences between average imports and exports of countries. The TSO-TSO settlement procedure established then aimed to have a simple distribution of the revenues collected through import (core-share) and export limits.

Today's FCR Cooperation is a more diverse group of countries and the amount of revenue collected through import and export limits is considerably larger. Therefore, FCR Cooperation TSOs have reconsidered the TSO-TSO settlement methodology. In this *Amended FCR Proposal*, a new TSO-TSO settlement methodology is proposed.

In simple terms, the new methodology eliminates revenues collected because of import/export limits. It does so by remunerating imports (or exports) of FCR at the Cross-border Marginal Price (CBMP), instead of the Local Marginal Price (LMP). More information on the establishment of a Cross-border and Local Marginal Price can be found in Article 7 of the *Amended FCR Proposal* or on the [FCR Cooperation website](#).

No changes to BSP remuneration or market design

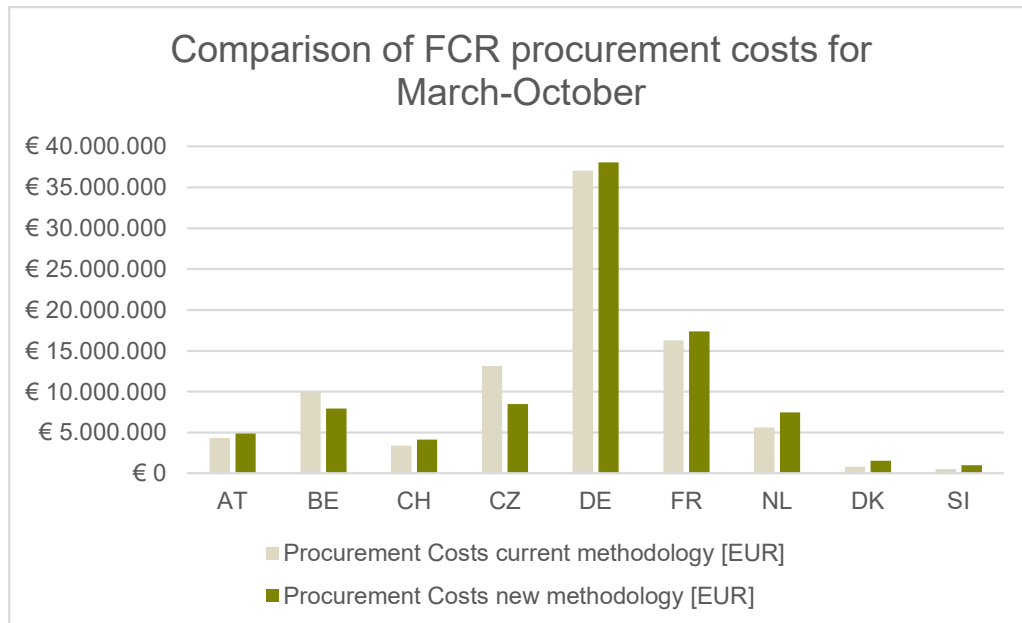
FCR Cooperation TSOs would like to stress that the proposed change has *no impact* on BSP remuneration or auction outcomes. There are no changes proposed to the market design of the FCR Cooperation.

Changes of TSO procurement costs

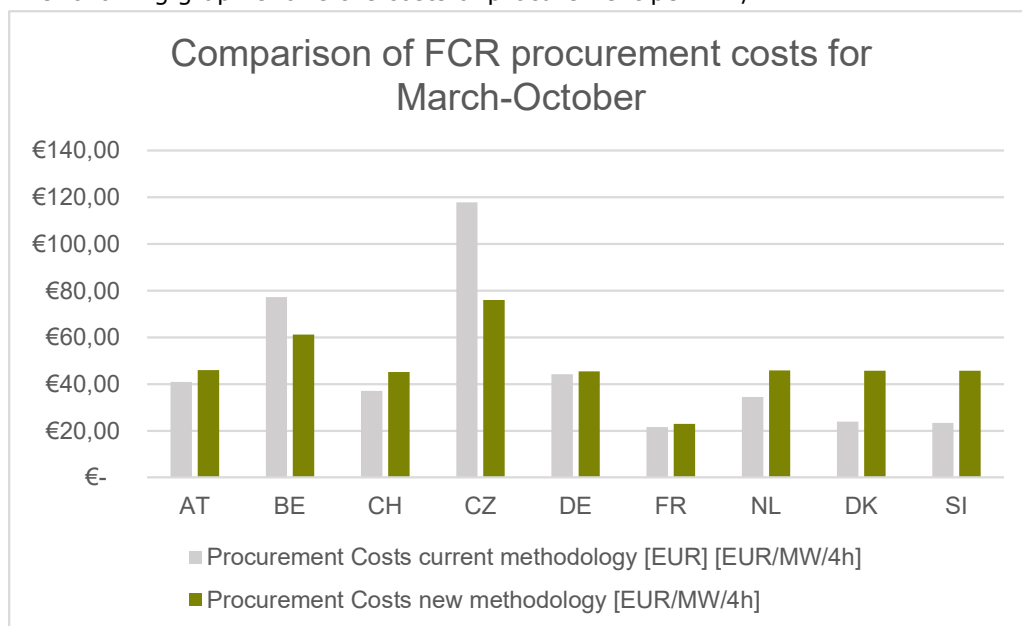
The total procurement costs for the FCR Cooperation remain the same (as there are no changes to BSP remuneration). However, the distribution of costs between TSOs changes with the new TSO-TSO settlement mechanism.

The impact on TSO procurement costs depends on the auction outcomes. The FCR Cooperation TSOs have analysed what the impact would have been if the new TSO-TSO settlement mechanism would have been in place. Below, the changes to TSO procurement costs are presented.

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The following graph shows the costs of procurement per MW/4h.



In the following sections, the background of the changes are explained per article of the *Amended FCR Proposal*.

Whereas

In this Article there are no changes.

Article 1 - Subject matter and scope

In this Article there are no changes.

Article 2 - Definitions and interpretations

In this Article there are no changes.

Article 3 - TSO-TSO-Model

In this Article there are no changes.

Article 4 – Auction frequency and auction timing

In this Article there are no changes.

Article 5 – Product

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Article 6 - Bid design possibilities

In this article there are no changes.

Article 7 – Auction Allocation algorithm

In this Article there are no changes.

Article 8 - TSO-BSP settlement

In this Article there are no changes.

Article 9 - TSO-TSO settlement

Article 9 denotes how TSO-TSO settlement is done. Procurement is done based on *LFC Areas* and *LFC Blocks*; the currently defined LFC areas and LFC blocks can be found here [\[LINK\]](#).

The changes to paragraph (b) define the proposed TSO-TSO settlement method.

In the current methodology, TSOs pay the Local Marginal Price for imported (or exported) FCR. As the TSOs from which this FCR is imported pay their Local Marginal Price (normally the CBMP) to BSPs, this leads to additional revenue (when the LMP is not equal to the CBMP). This is analogous to *congestion revenue* in other electricity markets—with one important difference: in the FCR Cooperation there is no physical congestion (the import and export limits are defined in SOGL).

Therefore, TSOs propose to change the TSO-TSO settlement mechanism to a fair and pragmatic approach. In this new mechanism, TSOs do not renumerate each other for imports with $LMP \times [\text{imported volume}]$, but instead pay $CBMP \times [\text{imported volume}]$. The same is true for exports.

With this remuneration mechanism, no revenues from the delta of a Local Marginal Price for imported FCR and a CBMP will be created any longer and no distribution between the TSO is needed, Potential revenues of a delta of Local Marginal Price for exported FCR and a CBMP are accepted but will also

not be distributed between the TSO. Hence the new proposal for article 9 removes paragraphs (e) and (f).

Article 10 - Accession of new parties

In this Article there are no changes.

Article 11 - Implementation roadmap

In this Article there are no changes.

Article 12 – Language

In this Article there are no changes.