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Common redispatching and countertrading cost-sharing methodology for Italy North CCR in accordance with Article 74 of Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a Guideline on Capacity Allocation and Congestion Management

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## Whereas

- (1) This document (hereinafter “RDCT CS methodology”) is the methodology for redispatching and countertrading cost sharing for the Italy North Capacity Calculation Region (hereinafter “Italy North CCR”). This methodology is required by Article 74 of Regulation (EU) 2015/1222 establishing a guideline on Capacity Allocation and Congestion Management (hereinafter the “CACM Regulation”).
- (2) This proposal takes into account the general principles and goals set in the CACM Regulation., In addition, this proposal takes into account the effective structure of the grid and the borders between Italy and Third Countries by taking into account Technical Counterparties' grid elements.
- (3) Ensuring optimal use of the transmission infrastructure and operational security, which are among the objectives of capacity allocation and congestion management cooperation, laid down by Article 3 of the CACM Regulation, requires the inclusion of Third Countries in the scope of the Cost Sharing methodology of Italy North CCR. The CACM Regulation’s objectives cannot be achieved in any other way but by including Third Countries’ remedial actions and consequently ensuring Third Countries’ inclusion in the cost sharing. This inclusion is in line with Article 13 of Regulation (EU) 2017/1485 on Electricity Transmission System Operation (hereinafter the “SO Regulation”), providing that EU Transmission System Operators (hereinafter “TSOs”) must establish “*cooperation concerning secure system operation*” with non-EU TSOs belonging to the same synchronous area via an agreement with these non-EU TSOs. In order to comply with the requirement laid down by EU Regulation, this methodology will include Third Countries as Technical Counterparties.

In order to be included in the cost sharing, the relevant Technical Counterparties will enter into a TSO-TSO based contractual framework, provided they fulfil the conditions laid down by Article 1.3 of the “*All TSOs’ proposal for a common grid model methodology in accordance with Article 17 of Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management*”, applicable to TSOs from jurisdictions outside the area referred to in Article 1(2) of Regulation 2015/1222. Such contractual framework will govern mutual obligations and responsibilities of Technical Counterparty with Italy North TSOs in relation to this cost sharing methodology. This agreement will ensure availability of Technical Counterparties’ costly and non-costly remedial actions in the optimization procedure as well as participation of Technical Counterparty in the cost sharing of RDCT costs for solving congestions on the relevant grid perimeter.

- (4) The TSOs of the Italy North CCR submitted a first RDCT CS methodology in May 2018 in accordance with Article 9(7(h) of the CACM Regulation. On 23 November 2018 the National Regulatory Authorities (hereinafter “NRAs”) of the region issued a request for amendment to the RDCT CS methodology in accordance with Article 9(12) of the CACM Regulation. In February 2019 the TSOs informed that they were not able to unanimously agree on an amended proposal for RDCT CS methodology: this triggered the application of Article 9(4) that, according to the formulation in force at that stage, entitled the European Commission to take the appropriate steps to make possible the adoption of the methodology in due time.
- (5) The European Commission invited the TSOs to develop a transitory solution and an enduring solution under the guidance of NRAs and to submit it for approval once ready. This document represents the transitional solution to be applied until a methodology based on an enduring long-term approach is approved by the NRAs and implemented by TSOs of the Italy North CCR and the relevant Technical Counterparties.
- (6) Article 9(9) of the CACM Regulation requires that the proposed timescale for implementation and the expected impact of the RDCT CS methodology on the objectives of the CACM Regulation are described. The impact is presented below in point (10) of this Whereas Section, while the timescale is included in the methodology.
- (7) The TSOs aim at ensuring consistency with the redispatching and countertrading cost sharing methodologies of other CCRs in which the bidding zones relevant for Italy North CCR are

concerned whilst acknowledging the specific characteristics of the interconnectors within the Italy North CCR.

- (8) This RDCT CS methodology takes into account the methodologies pursuant to Article 76 of the SO Regulation and Article 35 of the CACM Regulation. This RDCT CS methodology is considered as a transitory solution that applies to the agreed operational procedure “PENTALATERAL handling of the Control Program on the Italian Northern Interconnection” in force in line with the provision of Article 31 of the ROSC methodology. This transitory cost sharing methodology ceases to apply and shall be replaced by an enduring cost sharing methodology when the ROSC methodology is implemented.
- (9) This RDCT CS methodology ensures consistency with Article 19 of Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity by guaranteeing cost sharing keys in line with congestion-management procedures and namely with procedures for the distribution of the revenues resulting from allocation of cross-zonal capacity (“congestion income”).
- (10) The RDCT CS methodology contributes to and does not in any way hinder the achievement of the objectives of Article 3 of the CACM Regulation. In particular this methodology:
  - a. Establishes a common process for the Redispatching and Countertrading cost sharing by defining a set of harmonised rules for congestion management and as such serves the objective of promoting effective competition in the generation, trading and supply of electricity in accordance with Article 3(a) of the CACM Regulation;
  - b. Contributes to the objective of ensuring optimal use of the transmission infrastructure in accordance with Article 3(b) of the CACM Regulation by using last available inputs based on the best possible forecast of transmission systems and market results at the time of each security analysis, updated in a timely manner, for the detection of Coordinated Redispatching and Countertrading needs;
  - c. Contributes to the objective of ensuring and enhancing the transparency and reliability of information in accordance with Article 3(f) of the CACM Regulation by providing mechanism to verify the needs, monitor, assess the impact and allow improvement of Countertrading in the Italy North CCR pursuant to Article 74(5) of the CACM Regulation;
  - d. Contributes to the objective of respecting the need for a fair and orderly market and price formation in accordance with Article 3(h) of the CACM Regulation by developing rules within this methodology that ensure a fair distribution of costs and benefits between the involved TSOs.
- (11) According to Article 74(4) of the CACM Regulation, the RDCT CS methodology shall at least:
  - a. determine which costs incurred from using remedial actions are eligible for sharing between the TSOs of the CCR and the Technical Counterparties in accordance with the capacity calculation methodology set out in Articles 20 and 21 of the CACM Regulation.

This RDCT CS methodology provides this information in Articles 3-6.
  - b. define which costs incurred from using redispatching or countertrading to guarantee the firmness of cross-zonal capacity are eligible for sharing between Italy North TSOs and the Technical Counterparties.

This RDCT CS methodology provides this information in Articles 4 and 5.
  - c. set rules for region-wide cost sharing as determined in accordance with points (a) and (b) above.

This RDCT CS methodology Proposal provides this information in Article 7.
- (12) According to Article 74(5) of the CACM Regulation, the redispatching and countertrading cost sharing methodology shall include:
  - a. a mechanism to verify the actual need for redispatching or countertrading between the TSOs.

This RDCT CS methodology provides this element in Articles 8 and 10.

- b. an ex post mechanism to monitor the use of remedial actions with costs.

This RDCT CS methodology provides this element in Articles 8.

- c. a mechanism to assess the impact of the remedial actions, based on operational security and economic criteria.

This RDCT CS methodology provides this element in Articles 8 and 10.

- d. a process allowing improvement of the remedial actions;

This RDCT CS methodology provides this element in Article 10.

- e. a process allowing monitoring of each CCR by the competent regulatory authorities.

This RDCT CS methodology provides this element in Article 10

(13) According to Article 74(6) of the CACM Regulation, the RDCT CS methodology shall also:

- a. provide incentives to manage congestion, including remedial actions and incentives to invest effectively.

The cost sharing arrangements defined in this methodology ensure a fair distribution of costs between the TSOs, thus facilitating the use of countertrading and redispatching measures, among other available measures, in order to manage the congestions.

- b. be consistent with the responsibilities and liabilities of the TSOs.

The cost sharing arrangements defined in this methodology represent a transitional and applicable solution setting rules for a fair, auditable and transparent distribution of costs allowing TSOs to ensure the firmness of the allocated capacity and system security.

- c. ensure a fair distribution of costs and benefits between the TSOs.

This methodology ensures a fair distribution of costs/benefits by establishing that costs are shared among Italy North TSOs and Technical Counterparties on the basis of the congestion income distribution methodologies (hereinafter “CID methodologies”) in accordance with article 73 of the CACM Regulation and article 57 of Regulation (EU) 2016/1719 establishing a guideline on forward capacity allocation (hereinafter “FCA Regulation”).

- d. be compatible across the day-ahead and intraday market time-frames.

The cost sharing arrangements defined in this methodology are compatible with both day-ahead and intraday market processes time-frames.

## **CHAPTER 1 - GENERAL PROVISIONS**

### **Article 1 - Subject matter and scope**

1. The RDCT CS methodology as determined in this document is the common methodology for redispatching and countertrading cost sharing for Italy North CCR in accordance with Article 74 of the CACM Regulation.
2. Considering the structure of the grid, Third Countries' borders are taken into account via a separate agreement in the cost sharing framework.
3. This Proposal is considered as a transitory solution that applies to the Pentalateral Procedure. This proposal will lose any effect and shall be replaced by an enduring cost sharing methodology when the ROSC methodology is implemented.

### **Article 2 - Definitions**

1. For the purpose of this RDCT CS methodology, the terms used shall have the meaning given to them in Article 2 of the CACM Regulation.
2. In addition, the following definitions shall apply:
  - a. 'CCM methodology' means the methodology for capacity calculation for day-ahead and intraday timeframes pursuant to Article 21 of the CACM Regulation;
  - b. 'CID methodologies' means the methodologies for congestion income distribution in accordance with Article 73 of the CACM Regulation and Article 57 of the "FCA Regulation";
  - c. 'Cross-border relevance' means a cross-border impact of neighbouring Italy North TSOs on critical network element, which is recognized as significantly constraining one during the capacity calculation process;
  - d. 'Pentalateral procedure' means the agreed operational procedure "PENTALATERAL handling of the Control Program on the Italian Northern Interconnection" in force for the coordination of remedial actions pending the implementation of the ROSC methodology;
  - e. 'Regional Security Coordinator (RSC)' means an entity appointed in accordance with Article 76 of the SO Regulation;
  - f. 'Regional Coordination Centre (RCC)' means an entity appointed in accordance with Article 35 of Regulation (EU) 2019/943;
  - g. 'ROSC methodology' means the methodology for regional operational security coordination pursuant to Article 76 of the SO Regulation;
  - h. 'Technical Counterparty' means any non-EU TSO to be included in the procedures of this methodology through respective agreements;
  - i. 'Third Country' means a country from jurisdictions outside the area referred to in Article 1(2) of the CACM Regulation.
3. In this RDCT CS methodology, including its annexes, unless the context requires otherwise:
  - a. the singular indicates the plural and vice versa;
  - b. references to one gender include all other genders;
  - c. headings are inserted for convenience only and do not affect the interpretation of this methodology;
  - d. any reference to legislation, regulations, directive, order, instrument, code or any other enactment shall include any modification, extension or re-enactment of it when in force;

- e. any reference to another agreement or document, or any deed or other instrument is to be construed as a reference to that other agreement, or document, deed or other instrument as amended, varied, supplemented, substituted or novated from time to time.

## **CHAPTER 2 - ELIGIBLE COSTS FOR COST-SHARING**

### **Article 3 - Cross-border relevance of congestions**

1. Eligible costs for cost-sharing arrangements defined in Chapter 3 of this RDCT CS methodology are only those of countertrading or redispatching measures implemented to solve constraints on critical network elements considered in the coordinated capacity calculation process established in accordance with the CCM methodology.

### **Article 4 - Countertrading costs**

1. Costs of countertrading measures shall be the incurred costs to solve a constraint, consisting of costs and revenues for bought and sold energy at bidding zone level, in accordance with applicable rules for each TSO and Technical Counterparty, and may include imbalancing costs or revenues and the missing income caused by the countertrading where relevant. Costs of countertrading shall be auditable and transparent.

### **Article 5 - Redispatching costs**

1. Costs of redispatching shall be the incurred costs to solve a constraint, consisting of costs and revenues for upward and downward regulated energy at nodal level and it may include imbalance costs where relevant, start-up costs and shut-down costs where a generation unit has been started or stopped exclusively to solve a congestion on a critical network element at the time of the decision. Costs of redispatching shall be auditable and transparent.

### **Article 6 - Activation of costly remedial actions**

1. The decision for activation of costly remedial actions is taken, according to the Pentalateral procedure agreed by Italy North TSOs and Technical Counterparties.

## **CHAPTER 3 – TRANSITORY COST SHARING METHODOLOGY PROPOSAL**

### **Article 7 – Cost-sharing arrangements**

1. Eligible countertrading and redispatching costs shall be shared on the basis of the congestion income splitting among the TSOs of Italy North CCR and Technical Counterparties in accordance with the CID methodologies.
2. The share of the cost for each TSO or Technical Counterparty is calculated in the following manner:

$$COST_{a,y} = \frac{CI_{a,y-1}}{CI_{tot,y-1}}$$

Where:

$COST_{ay}$  = share in percentage (%) of the eligible costs defined in article 3 of this methodology to be borne by TSO or Technical Counterparty  $a$  to be applied for the year  $y$ ;

$CI_{ay-1}$  = Congestion income collected by TSO or Technical Counterparty  $a$  in the year  $y-1$  on the borders belonging to Italy North CCR or considered from technical point of view within it;

$CI_{tot,y-1}$  = Congestion income collected by all TSOs of Italy North CCR and Technical Counterparties in the year  $y-1$  on the borders belonging to Italy North CCR or considered from technical point of view within it;

3. In case of the unexpected event of having zero congestion income, the split shall be based on the Net Transfer Capacity splitting in direction towards Italy, as applied in the coordinated capacity calculation process established in accordance with the CCM methodology.

## **CHAPTER 4 - FINAL PROVISIONS**

### **Article 8 - Monitoring of the costs incurred**

1. For every activation of a remedial action, regardless if countertrading or redispatching is applied, a set of data shall be stored in a central database. The documentation shall be such that it allows for a yearly review for improvement. The following process steps shall be documented on the central database for each activation of a remedial action:
  - a. the security violation;
  - b. the grid model used for the decision for the remedial action, i.e. the grid model that shows the overload;
  - c. the resources selected by the resource selection process;
  - d. the cost of the selected resources given as an input to the resource selection process;
  - e. the final cost of the selected resources used for settlement;
  - f. the grid model containing the implementation of the remedial action, i.e. the grid model that shows the effectiveness of the remedial action.
2. Upon request, TSOs of Italy North CCR or Technical Counterparties shall provide copies of the credit or debit notes between generators and connecting TSO or Technical Counterparty. In case of confidentiality issues, the responsible TSO or Technical Counterparty undertakes its best effort to provide the information in an alternative manner.

### **Article 9 - Reporting to Regulatory Authorities**

1. The TSOs of Italy North CCR and Technical Counterparties shall prepare a report based on the documentation described in Article 8. This report shall:
  - a. list all activations of remedial actions including the security violation, the activated resources and the associated costs;
  - b. give an overview of the total cost per TSO or Technical Counterparty for remedial actions within the quarter according to the applied cost sharing key;
  - c. give an overview of the total cost per TSO or Technical Counterparty since the entry into force of this RDCT CS methodology.
2. The report shall be sent to the NRAs of Italy North CCR and to the competent NRAs for Technical Counterparties on a quarterly basis 60 calendar days after the end of each quarter.

### **Article 10 - Yearly review for improvement**

1. The TSOs of Italy North CCR and Technical Counterparties shall perform a yearly review for improvement of the RDCT CS methodology, based on the documented data described in Article 8. The review shall consist of:
  - a. an assessment of the effectiveness of the activated remedial actions in terms of volume and cost;
  - b. an assessment of the proper functioning of the general process with a focus on:
    - i. deadlines regarding the delivery of data and information;
    - ii. deadlines regarding the settlement process;
    - iii. quality of cost estimations;
  - c. an assessment of the cost-sharing methodology against the criteria mentioned in Article 74(6) of the CACM Regulation;
2. In case of differences between the effective and the expected cost of each costly remedial actions, the yearly review shall specify the reasons of such differences. If the differences exceed a reasonable threshold (and this cannot be properly justified), some measures to improve the quality of the estimations shall be included.
3. The outcome of the yearly review along with all the data and assumptions shall be sent to the NRAs of Italy North CCR and to the competent NRAs for Technical Counterparties by 31<sup>st</sup> March of each year.

#### **Article 11 – Implementation**

1. The TSOs of Italy North CCR shall publish the RDCT CS methodology without undue delay after the approval of all the NRAs of Italy North CCR.
2. This methodology shall apply for the cost incurred as per 1 January 2022. Should the invoicing process start after 1 January 2022 it will be applied retroactively to share the costs incurred starting from the date of 1 January 2022.
3. No later than 18 months before the expected go-live of the ROSC methodology, the TSOs of Italy North CCR shall submit a proposal for the enduring solution for sharing the cost for countertrading and redispatching measures developed in accordance with article 74 of the CACM Regulation and Article 16(13) of Regulation (EU) 2019/943.

#### **Article 12 - Language**

1. The reference language for this RDCT CS methodology shall be English.
2. For the avoidance of doubt, where TSOs need to translate this methodology into their national language(s), in the event of inconsistencies between the English version published by TSOs in accordance with Article 9(14) of the CACM 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 methodology.