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**Explanatory document on the all TSOs' Proposal for the establishment and the cost sharing methodology of the Single Allocation Platform (SAP) in accordance with Article 49 and Article 59 of Commission Regulation (EU) 2016/1719 establishing a Guideline on Forward Capacity Allocation**

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**Disclaimer**

This explanatory document is submitted by all TSOs to all NRAs for information and clarification purposes only accompanying the All TSOs' proposal for the establishment of a Single Allocation Platform (SAP) in accordance with Article 49 and for the cost sharing methodology in accordance with Article 59 of Commission Regulation (EU) 2016/1719 establishing a Guideline on Forward Capacity Allocation.

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## 1. Executive Summary

The [Commission Regulation \(EU\) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation](#) (hereinafter “**FCA Regulation**”) sets out rules regarding the type of long term transmission rights that can be allocated via explicit auction, and the way holders of transmission rights are compensated in case their rights are curtailed. The overarching goal is to promote the development of liquid and competitive forward markets in a coordinated way across Europe, and provide market participants with the ability to hedge their risk associated with cross-border electricity trading. In order to deliver these objectives, a number of steps are required.

One of these steps is the establishment of a Single Allocation Platform (hereinafter “**SAP**”) at European level. This central platform should aim at facilitating the allocation of long-term transmission rights (hereinafter “**LTTR**”) and the transfer of these rights among market participants. In addition, it should contribute to a transparent and non-discriminatory allocation of long-term transmission rights.

Pursuant to Articles 49 and 59 of the FCA Regulation, all TSOs have developed a Proposal for the establishment and development of the Single Allocation Platform as well as for the SAP cost sharing methodology (hereinafter “**SAP Proposal**”). This document provides additional information to the SAP Proposal. It is meant to ease the approval process of the Proposal by all NRAs. The terms used in this document follow the definitions of Article 2 of the SAP Proposal.

### 1.1. Document structure

This document is structured in two parts:

- Section 2 provides details on the legal framework; and
- Section 3 is the summary of explanatory remarks on the different parts of the SAP Proposal.

### 1.2. Document scope

The scope of the SAP Proposal is laid down in its Article 1.1. It is understood that any reference in the SAP Proposal to “all TSOs” is to be interpreted in light of Article 30 of the FCA Regulation. Accordingly, where a regulatory authority makes a decision as referenced in Article 30(7) of the FCA Regulation, the corresponding TSO shall not fall within the scope of the SAP Proposal. Furthermore, as a matter of clarification, only EU TSOs are able to adhere to the SAP CA.

## 2. Legal framework

Article 49 of the FCA Regulation provides the following:

*“1. Within six months after the entry into force of this Regulation, all TSOs shall submit to all regulatory authorities a common proposal for a set of requirements and for the establishment of the single allocation platform. The proposal shall identify different options for the establishment and governance of the single allocation platform, including the development by TSOs or by third parties on their behalf. The proposal by TSOs shall cover the general tasks of the single allocation platform provided for in Article 50 and the requirements for cost recovery in accordance with Article 59.*

*2. The functional requirements for the single allocation platform shall at least include:*

- (a) the expected bidding zone borders to be covered;*
- (b) the technical availability and reliability of provided services;*
- (c) the operational processes;*
- (d) the products to be offered;*
- (e) the forward capacity allocation time frames;*

- (f) the allocation methods and algorithms;
- (g) the principles of financial settlement and risk management of allocated products;
- (h) a harmonised contractual framework with market participants;
- (i) the data interfaces.”

Article 49 thus sets out the functional requirements that must at least be met by the SAP.

Article 50 sets out the several tasks of the SAP which are at least to be covered by the SAP Proposal:

*“The relevant TSOs shall use the single allocation platform, at least, for the following purposes:*

- (a) the registration of market participants;*
- (b) providing a single point of contact to market participants;*
- (c) the operation of auction procedures;*
- (d) the financial settlement of allocated long-term transmission rights with market participants, including management of collaterals;*
- (e) the cooperation with a clearing house, if required by the common rules for the implementation of FTRs — obligations pursuant to Article 34;*
- (f) the organisation of a fallback procedure pursuant to Article 42 and 46;*
- (g) enabling the return of long-term transmission rights pursuant to Article 43;*
- (h) facilitating the transfer of long-term transmission rights pursuant to Article 44;*
- (i) the publication of market information pursuant to Article 47;*
- (j) providing and operating interfaces for data exchange with market participants.”*

It is worth noting that Article 50 of the FCA Regulation states that the SAP shall “at least” perform the tasks enumerated in this Article. This implies that the list of tasks mentioned here is only indicative and the SAP may perform other tasks.

Regarding the SAP Cost Sharing Methodology included in the SAP Proposal, Article 59 of the FCA Regulation provides:

*“Cost of establishing, developing and operating the single allocation platform: All TSOs issuing long-term transmission rights on the single allocation platform shall jointly bear the costs related to the establishment and operation of the single allocation platform. Within six months of entry into force of this regulation, all TSOs shall propose a methodology for sharing these costs, which shall be reasonable, efficient and proportionate, for example on the basis of principles similar to those provided under Article 80 of Regulation (EU) No 2015/1222.”*

### **3. Explanatory remarks on the different parts of the SAP Proposal**

The structure of this document follows the structure of the SAP Proposal.

#### **3.1. Part 1: General Provisions**

Article 49.1 of the FCA Regulation provides that the SAP Proposal has to identify different options for the establishment and governance of the SAP, including the development by TSOs or by third parties on their behalf. This analysis has been made by the TSOs. It is included in the “whereas” section of the SAP Proposal and is further developed below.

When developing the SAP Proposal, the following options were examined for the establishment and governance of the SAP:

- a) Assigning the tasks described in Article 50 of the FCA Regulation (hereinafter “SAP Tasks”) to one TSO.
- b) Appointing a separate legal entity established as a vehicle of cooperation by all or some certified TSOs to perform the SAP Tasks.
- c) Creating a new legal entity to provide the SAP Tasks.
- d) Appointing a legal entity which is independent from TSOs.

As to option (a): Assigning the TSO Tasks to one TSO would have been challenging due to proportionality issues for the decision-making process and also the costs associated with performing the SAP Tasks

As to option (d): A legal entity independent from TSOs performing the SAP Tasks would entail some risks in terms of technical efficiency and costs, especially since the primary objective of such an entity may be the maximisation of profits. Consequently, the importance/ priority of performing the SAP Tasks could be compromised since such an entity could also be involved in other industries (other than TSO-related ones).

Moreover, and importantly, the task of operating the SAP is part of the the task of forward capacity allocation, which in turn is one of the “core tasks” of the TSOs.

Notably, according to Article 12 of Directive 2009/72/EC TSOs shall in particular be exclusively responsible for:

- *“Managing electricity flows on the system, taking into account exchanges with other interconnected systems. To that end, the transmission system operator shall be responsible for ensuring a secure, reliable and efficient electricity system and, in that context, for ensuring the availability of all necessary ancillary services, including those provided by demand response, insofar as such availability is independent from any other transmission system with which its system is interconnected”;*
- *“collecting congestion rents and payments under the inter-transmission system operator compensation mechanism, in compliance with Article 13 of Regulation (EC) No 714/2009, granting and managing third-party access and giving reasoned explanations when it denies such access, which shall be monitored by the national regulatory authorities; in carrying out their tasks under this Article transmission system operators shall primarily facilitate market integration ”.*

Annex 1 of Regulation (EC) No 714/2009 further describes the tasks related to the management of interconnections, which includes among other tasks the allocation of available capacity, granted to TSOs.

In any case and in view of these elements, it derives from a common understanding of the Directive 2009/72/EC and Regulation (EC) No 714/2009 that the management of interconnections, including the allocation of available capacity, and especially forward capacity allocation, (i) is one of the component of the management of the electricity transmission system (ii) and falls under the tasks exclusively performed by TSOs.

For these reasons, TSOs have decided that the SAP should be operated in a structure that is owned by them. Accordingly, for both options (b) and (c), the legal entity providing the SAP Tasks needs to be owned by TSOs as it will be entrusted with one of the key tasks of the TSOs, i.e. forward capacity allocation. As per Article 48(1) of the FCA Regulation, TSOs shall ensure that, for forward capacity allocation, the SAP is operational and complies with the functional requirements. This implies that the responsibility for establishing and operating the SAP remains with the TSOs.

As to options (b) and (c): In deciding between options b) and c), TSOs considered that using an existing legal entity which is owned by TSOs is the optimal approach. Indeed, given the already existing experience in several similar entities and for reasons of efficiency as well as with view to cost, establishing a new entity was considered as suboptimal.

When finally agreeing to use an existing, TSO-owned entity through which the TSOs will operate the SAP, the Joint Allocation Office (hereinafter referred to as “**JAO**”) was considered as the only feasible option, in view of (i) the nature and role of JAO and (ii) for both technical and economical reasons.

(i) The nature and role of JAO

The objective of coordination set by the European Commission for the TSOs is strongly emphasised in Directive 2009/72/EU (and the Third Energy Package), which promotes the establishment of cooperation between TSOs in order, notably, to deal with cross border issues. Article 6 of Directive 2009/72/EC states namely that:

*“The regulatory authorities [...] or member States shall promote and facilitate the cooperation of transmission system operators at a regional level, including cross-border issues, with the aim of creating a competitive internal market in electricity, foster the consistency of their legal, regulatory and technical framework [...]”.*

Within this framework, Regulation (EC) No 714/2009 has imposed the creation of a European network of transmission system operators (ENTSO-E) hereby giving to TSOs a sustainable structure of cooperation at European level.

Regarding the allocation of available capacity, historically, TSOs, with the support of the NRAs, first established bilateral cooperation arrangements to allocate jointly cross-border capacity of their common interconnectors. Then the TSOs took the initiative to meet the requirements of cooperation by setting up joint auction offices (Capacity Allocation Service Company (“**CASC**”) and the Centrale Allocation Office (“**CAO**”)) in charge of operating the allocation of available interconnection capacities, through auctions, on behalf of their respective TSOs. Those auction offices have their own legal personality but constitute entities that are not independent from their TSOs.

In order to anticipate the requirements of the FCA Regulation and the future single allocation platform, TSOs, again with the support of the NRAs, have decided to merge CASC and CAO, which led to the creation of JAO:

- JAO is a joint-venture owned solely by TSOs and constitutes a vehicle of cooperation between them. It is important to note on the one hand that JAO acts on behalf of the TSOs, and on the other hand that, though JAO has its own legal personality, it is not independent from the TSOs. Thus by creating companies like JAO in charge of the allocation of capacity on behalf of TSOs, TSOs did not intend to waive their tasks or responsibilities with regard to allocation of capacity but only to continue to exercise such tasks in a multilaterally coordinated manner. In other words, by creating JAO, TSOs have organized how they would like to exercise their tasks in common, but they do not intend to renounce their exclusive rights or to the responsibility imposed to them by European and national texts concerning the allocation of cross-border capacities.
- As explained below, JAO (including the IT tools operated by JAO to perform forward capacity allocation) meets the criteria set out in the FCA Regulation and in the HAR.

JAO is also the only TSOs owned entity composed of most of EU TSOs issuing LTTRs (18 EU TSOs out of 28) and that is already allocating forward capacities in line with the main body of HAR since the delivery period starting on January 1<sup>st</sup>, 2015. It is also the only existing entity already able to allocate explicitly the long term cross-zonal capacities on 27 EU borders out of 30.

These elements increase the efficiency and reactivity in the implementation of any provisions related to forward capacity allocation.

(ii) Technical and operational reasons

By agreeing to operate the SAP Tasks through JAO, the TSOs aim at minimising the costs of establishment and operation of the SAP, keeping the administrative burden to a reasonable limit and building on the experience already gained. Also, since the tasks provided by JAO are not limited to the SAP Tasks, the



common costs borne by all TSOs, such as IT costs, are therefore reduced because only a fraction of them is allocated to the SAP Tasks.

Indeed, IT tools for the cross-zonal capacity allocation through explicit auctions are also used for other timeframes (daily or intraday explicit allocation for instance). By pooling these tasks for most of European borders with a common operator and IT infrastructure, TSOs aim at increasing the efficiency of these processes by the following:

- Improved robustness and reliability since allocation processes, including related fallbacks are more frequently executed: this fosters the expertise of operators. Besides, registered participants are often active on many borders in all allocation timeframes: by offering a common contractual framework and central communication, this also facilitates the participation and procedures for all market parties.
- Higher cost savings since operators and IT tools are the same for all allocations performed by JAO; JAO already complies with the applicable harmonised allocation rules, including most of the rules described in the border specific annexes. Since the current harmonised allocation rules (hereinafter referred to as “**HAR**”) were drafted in anticipation of the FCA Regulation’s entry into force, additional developments to comply with the foreseen amendments of the harmonised allocation rules required by Article 51 of FCA Regulation shall only imply limited cost.

This allows all TSOs to continue to use an already existing IT Tool that complies with the technical requirements set out by the FCA Regulation and benefit from experienced operators with well proven system for long term allocation. This would in turn allow significant cost savings for all TSOs, and for the community as a whole, hence contributing to social welfare.

Besides, it is required in Article 48.1 of the FCA Regulation that all TSOs shall ensure that the SAP is operational and complies with the functional requirements specified in said Article 49 within 12 months after the approval of this proposal. By agreeing to use JAO as the SAP operator, whose IT tools are already compliant with applicable HAR, TSOs are willing to set the best conditions for market participants in trading on the SAP. Based on past experiences, creating a new entity owned by TSOs to comply with the FCA Regulation within 12 (or 18) months would not have been realistic since it would have required not only the creation of such an entity but also to organize a tender in order to find a provider able to develop a new IT infrastructure for this new entity, which would then have needed to be tested from the basis with all TSOs (and market participants where applicable)<sup>1</sup>. JAO has already tested and still tests frequently its IT tools and procedures with TSOs (and market participants where applicable). Thus it already has an efficient IT Tool, which has been improved in performing allocation in accordance with the HAR based on recent feedbacks.

All TSOs have a decision-making power on the operational procedures of the SAP. These operational procedures are the strict implementation of the functional requirements here proposed, such decision-making process thus being exercised in accordance with the functional requirements of the SAP and the HAR. Both the SAP and the HAR are subject to the approval of all TSOs following the provisions of the FCA Regulation. The scope of this proposal is nevertheless limited to SAP Tasks as required by the FCA Regulation. The SAP Proposal does not cover all other tasks offered by JAO on behalf of TSOs.

For the above reasons, TSOs consider that no other entity than JAO can presently fulfil the SAP Tasks entrusted upon TSOs by the applicable legislation and within the abovementioned timings. As a result, the TSOs consider it opportune and transparent to include JAO in the SAP Proposal and thus to explicitly indicate the entity that will act as the SAP Operator for the purposes of complying with the TSOs’ obligations laid down in Article 48 of the FCA Regulation.

### 3.2. Part 2: Chapter 1 – Governance rules

<sup>1</sup> Being reminded that a tender has been conducted for the provider that has developed the tool operated by JAO.

The present section of this explanatory document first clarifies the governance structure through which TSOs will cooperate in a fair and non-discriminatory way in performing the SAP Tasks. It will subsequently address a number of specific concerns raised by NRAs and provide some further clarifications in this respect.

## 1. Governance structure

As described in Title 1 of this Chapter of the SAP Proposal, the SAP Operator as an entity performing the SAP Tasks on behalf of all TSOs (i.e. the entity through which the TSOs perform the SAP Tasks) has its own working framework, based on the rules of the place where it is officially registered.

Given that the SAP Tasks are entrusted to all TSOs under the FCA Regulation, all TSOs shall cooperate in fulfilling this obligation. This will be accomplished in a fair and non-discriminatory way by the governance structure described below.

- All TSOs and the SAP Operator will adhere to the terms described in a common contract, which will be concluded between the TSOs and the SAP Operator (named the “**SAP Cooperation Agreement**” or “SAP CA”).

The SAP CA shall describe further how the TSOs will cooperate through the SAP Operator.

In Article 3.4 of the SAP Proposal, it is once more clarified that the SAP Operator acts on behalf of TSOs, the responsibility for capacity allocation remaining with the TSOs as required by the FCA Regulation (thus illustrating the fact that, by using JAO, the TSOs are operating the SAP through a common entity).

The SAP CA provisions on governance shall be based on the actual governance of the SAP, which is performed by the SAP Council where all TSOs who have adhered to the SAP CA are represented (see, below).

The details on the content of the SAP CA and on how the SAP CA Parties shall co-operate are outlined in Title 2 of the SAP Proposal. The SAP CA shall cover all the rights and responsibilities of the SAP CA Parties and include relevant provisions for all the SAP Tasks as outlined in Article 50 of the FCA Regulation.

The SAP CA should also detail several other points related to the day-to-day operation of the SAP (e.g. availability of the tools, liability questions) and also on the extension of the agreement to new TSOs.

- Decisions on the fulfilment of the SAP Tasks shall be taken within a body composed of all TSOs and the SAP Operator (named the “**SAP Council**”)

Part of the SAP proposal is to set out how the SAP Council shall work as a forum for co-operation of the SAP CA Parties and what would be the responsibilities of this body.

In the SAP Council, decisions shall be made by unanimity by the concerned TSOs for matters regarding operational procedures as referenced in Article 7.5 of the SAP proposal and by unanimity by all TSOs that are SAP Parties for all other matters listed in the Article 7.5. When unanimity between the TSOs cannot be reached, decisions shall be taken as follows:

- For matters regarding operational procedures as referenced in Article 7.5.a of the SAP Proposal, alternative proposals shall be submitted for a second round. The SAP Operator shall have an advisory role and shall be consulted on the recommended decisions by the concerned TSOs. Where the unanimous decision of concerned TSOs can lead to significant risks and operational costs for the SAP operator, the decision on such operational procedures shall be taken by all TSOs that are SAP CA parties and qualified majority principles in accordance with Article 4(2) of the FCA Regulation shall apply.
- Operational procedures could include the following: data provision, invoicing settlement, backup procedures. For the sake of clarity, Operational procedures are common SAP CA parties’ detailed document where, for instance, back up communication channel between TSOs and SAP operator are defined or communication/timing of SAP operator’s invoicing to TSOs are defined (some TSO request invoice by e-mail or others by post).



- For all other matters listed in Article 7.5 of the SAP Proposal, alternative proposals shall be submitted for a second round. In case unanimity cannot be reached at the second round, qualified majority principles in accordance with Article 4(2) of the FCA Regulation shall apply. The SAP Operator shall have an advisory role and shall be consulted on the recommended decisions by TSOs.

This would help avoiding lengthy blocking situations, which could endanger the sound and efficient operation of the SAP.

## 2. Further clarifications

Further clarifications are provided on specific items listed below:

- For the avoidance of doubt, Article 9.k of the SAP Proposal refers to the reporting that the SAP Operator can perform upon a prior decision of TSOs and on behalf of TSOs, within the framework of European Regulations such as regulation 714/2009, regulation 543/2013, regulation 1227/2011, regulation 1348/2014 as amended from time to time. It does not cover any other information that the SAP Operator can communicate to the relevant NRA following a request that a TSO may submit to JAO, which shall be subject to Article 13.d. Indeed, where a NRA is requesting information to its TSO, the concerned TSO will assess what is the most optimal way to provide its NRA with; since the SAP operator in certain conditions could not have all information requested by NRA (information related to both Long term auctions and balancing for example), the TSO will be the appropriate entity to provide these information.
- Articles 9 and 13 of the SAP Proposal: NRAs suggested the inclusion of an obligation for the SAP Operator to directly provide information to the NRAs. This suggestion was taken into account and TSOs consider that there is no need to include an obligation for the SAP Operator to directly provide information to the regulatory authorities, in view of TSOs' obligation to provide such information to NRAs pursuant to Article 37 of Directive 2009/72/EC and of ENTSO-E's obligation to provide information to ACER pursuant to Article 8.9 of Regulation (EC) N° 714/2009.
- Article 8.9 of Regulation (EC) No 714/2009. Accordingly, any request for information can be directly be addressed to the TSOs.
- Article 15 of the SAP Proposal – “availability”: NRAs asked TSOs to clarify the meaning of the word “availability” in this provision. TSOs specify that availability rate shall mean the amount of time the auction tool is reachable over the year.
- Article 16.1 of the SAP Proposal – “defaulting party”: NRAs requested that the TSOs clarify who will be the defaulting party in the sense of this provision. On this point, TSOs consider that the defaulting party shall be the party not complying with its obligations under the operational procedures and/or the HAR.
- Article 22.a of the SAP Proposal – the reference to a new TSO accessing the SAP CA shall be understood to cover EU TSOs bound by the FCA Regulation and the resulting obligations for the SAP. Being understood that TSOs refers to certified TSOs in the sense of Article 10 of Directive 2009/72/EC without prejudice to the provisions of 44 of Directive 2009/72/EC.
- Article 22.c of the SAP Proposal – “confirmations shall not be unreasonably withheld”: NRAs requested that TSOs introduce a time limit during which confirmations are to be given. TSOs will do so within the framework of the SAP CA and shall specify a time limit, which can be, for example, 3 months.
- Article 28.2 of the SAP Proposal – “good cause”: NRAs requested that clarification be provided on the notion of “good cause” in this provision. TSOs herewith specify that good cause shall exist when a SAP CA Party fails to comply with a provision of the SAP CA, the HAR and/or the operational procedures that is determined by the SAP CA Parties in the SAP CA to be of material significance to the business relationship between the SAP CA Parties, provided that the defaulting SAP CA Party was duly notified of the non-compliance and has not remedied the non-compliance

within the time period specified in the SAP CA. For example, good cause shall exist if one TSO loses its license and/or is not a certified TSO anymore.

### **3.3. Part 2: Chapter 2 – Functional Requirements**

The functional requirements for the SAP are detailed considering the requirements set out both in the FCA Regulation (Article 49.2) and some requirements are covered by the HAR and thus, references in the SAP Proposal are made to these rules as applicable each time. In application of the texts mentioned above, the TSOs, through the SAP Operator, need to ensure compliance with the FCA Regulation, HAR and any other requirements set in the SAP Proposal.

The TSOs opted to operate the SAP through JAO, notably because the functional requirements set out in the FCA Regulation have been implemented by the TSOs through JAO. Indeed, JAO has developed, on the basis of the know-how and expertise of the TSOs, an IT tool, which allows him to operate forward capacity allocation. The functionalities and technical abilities of this tool have been aligned on the provisions/functional requirements of the FCA Regulation and the HAR in order to ensure an efficient and timely implementation of those texts

Thus, the TSOs through JAO, are already offering the technical expertise. The establishment and operation of the SAP by the TSOs through JAO also offers more guarantees in terms of transparency, as the TSOs are regulated entities, which will be dedicated to ensure an efficient (notably in terms of costs) operation of the SAP on a multi-national level, in accordance with the provisions of the FCA Regulation. This is why the TSOs have chosen to operate the SAP by means of an entity that already exists and operates the forward capacity allocation in a way that is supported by the relevant TSOs, their respective regulatory authorities and the markets participants. As an illustration, currently JAO performs tasks on behalf of TSOs serving more than 200 market participants and covering 27 borders for forward capacity allocation.

Furthermore, it is worth noting that the IT systems of market participants (especially traders) were updated with the aim to be compatible with existing JAO IT tools, thus the TSOs have already implemented a harmonised practice for forward capacity allocation in compliance with the FCA Regulation and the HAR. All the necessary investments (be it the investments to be made by the TSOs or the ones to be made by the market participants), have already been made. The agreement on JAO as SAP Operator does therefore not imply any changes in operational procedures and it is financially neutral for the aforementioned market participants and for the end consumers.

As a consequence, the agreement on JAO as SAP Operator represents the most efficient way to proceed, regarding the objectives of transparency, non-discriminatory access and technical guarantees because the SAP is to some extent already established and operated, by means of an entity created and owned only by TSOs.

It should be clarified that in this chapter whenever the term “SAP” is used, it refers to the Actual tool. That is the reason for distinguishing between “SAP” and “SAP Operator” in the Articles of this Chapter.

Regarding the provisions of the accepted collaterals, these are in line with the HAR proposal. The forms of collaterals should in principle not be blocking the implementation of alternative solutions (e.g. clearing house or CCP) since both these options would use cash deposits.

### **3.4. Part 2: Chapter 3 – SAP Cost Sharing Methodology**

Chapter 3 of the SAP Proposal includes the SAP Cost Sharing Methodology to be applied by all TSOs and the SAP Operator when sharing the costs for the establishment and the operation of the SAP (with the term “costs” referring to both direct and indirect costs).

#### **1. Direct and indirect costs associated with the SAP**

The cost-sharing methodology to be elaborated by the TSOs in accordance with the FCA Regulation requires a Cost Allocation Proposal based on direct and indirect costs calculated by the relevant bodies of the SAP Operator.

Direct costs for the SAP are those that can be directly associated with the SAP Tasks, i.e. costs for new investments in IT tools dedicated to SAP tasks but also costs for IT maintenance dedicated to the accounting software and IT maintenance dedicated to the reconciliation tools for accounting.

Indirect costs may include costs such as but not limited to IT supplies and IT general maintenance costs, rent for the SAP Operator, audit accounting, insurances, personnel costs in financial department, human resources department, other costs related to human resources (such as recruitment), office operating costs, training and consultancy.

Indirect costs are to be allocated to the SAP Tasks based on time spent and usage in order to ensure a fair cost distribution.

Allocation of a proportionate share of the minimum required cost-plus margin will be applied only if required by the national tax authorities where the SAP Operator is headquartered. The minimum cost-plus margin agreed with national tax authorities is currently 5%. It shall be noticed that such transparency on the costs would not have been possible with an entity not owned by TSOs.

## **2. Costs for the establishment of the SAP**

The costs for the establishment of the SAP shall be borne by all TSOs after the approval of the SAP Proposal and in accordance with the SAP Cost Sharing Methodology. All TSOs will be charged with such costs in the yearly Fee Application Report.

These costs will be mainly related to the investments in the IT tools of the SAP, excluding historical costs but considering the depreciation expenses related to these investments as from the approval of this SAP proposal. Investment costs related to the implementation of the form of products as defined in Article 38(2) of this SAP proposal, and that not allocated so far by JAO, will be considered as common costs related to the establishment of the SAP. Potential costs for setting up of the SAP Council are expected to be negligible due to the existing arrangements within JAO. By capitalising on the existing structures, the participation of new TSOs in the SAP will be eased.

## **3. Costs for the development of the SAP**

The costs for the development of the SAP shall be borne by all or the concerned TSOs. For instance, some additional products could be required by one or more TSOs and IT development costs associated shall be borne by these TSOs and other TSOs that could be interested in the future. The cost for these developments shall be distributed between concerned TSOs on the basis of the sharing keys defined in the SAP Cost Sharing Methodology (“Per Allocation Border” and “Per TSO”).

## **4. Cost for the operation of the SAP**

The costs for the operation of the SAP shall be borne by all TSOs. The operational costs are mostly indirect cost and will be allocated to each SAP Task performed by the SAP Operator on behalf of the TSOs. For the sake of clarity, each form of product listed in Article 38(2) of the SAP proposal may be considered as an individual SAP Task in order to ensure each TSO will be charged only for the products offered on its borders. These costs shall be distributed between concerned TSOs on the basis of the sharing keys defined in the SAP Cost Sharing Methodology (“Per Allocation Border” and “Per TSO”), from the moment of signing the SAP CA and starting the SAP Tasks on the relevant border. So far, none of the EU TSOs foresee to offer FTR obligations on its border. However the potential costs related to the clearing of such product through a clearing-house could be significant compared to FTR options and PTR. To ensure a fair distribution of these costs, the clearing of FTRs obligations through a clearing house shall be considered as an individual SAP task. These costs shall be distributed between all concerned TSOs where FTR obligations will be offered on the basis of the sharing keys defined in the SAP Cost Sharing Methodology (“Per Allocation Border” and “Per TSO”).

## 5. Cost Sharing Methodology

Once the costs have been calculated for each SAP Task in accordance with Cost Allocation Proposal, they will be distributed to each TSO based on two sharing keys, the “Per allocation border” and the “Per TSO” cost sharing key. The combination of the cost-sharing keys applicable to each SAP Task will be included in the so-called SAP fee structure to be approved by the SAP Council in accordance with the rules established in Article 61 of the SAP Proposal. To ensure the SAP operator will be remunerated on time to perform SAP Tasks, the applicable cost-sharing keys have to be defined the year preceding the application as defined in Article 61.

The approach to cost sharing by TSO and by border seeks to ensure a fair distribution of costs where TSOs with more borders are required to pay a proportionately higher share of the common costs.

For the sharing key “Per allocation border” (as introduced in Article 60), a distinction should be made for the DC interconnectors and Bidding Zone Border involving the same TSO on both side in order to ensure the same treatment as other Allocation Borders. As an example, an Allocation Border like the country-border Belgium-France (BE-FR) is counted once for the Belgium side and once for the French side of the Bidding Zone border. The same treatment should apply for DC Interconnector with dedicated long term allocation, e.g. DC Interconnector between France and United Kingdom (FR-UK), the Allocation Border is counted once for the French side and once for the British side regardless the number of owners. Same principles apply also for Allocation Border involving the same TSO on both side. For Allocation Borders where there is more than one TSO on one side, the Allocation Border is counted once as a total and split equally between the concerned TSOs. As an example, an Allocation Border like the country-border Germany-France (DE-FR) is counted once for the German side and once for the French side of the Bidding Zone border. The two german TSOs of this Allocation Border will be counted as one half for each. Same principles apply also for Bidding Zone Border involving the same TSO on both side.

An indicative example of the cost sharing keys for the SAP Tasks (as mentioned in Article 60) is provided below:

Applied keys per SAP task	Per Allocation Border	Per TSO
Long Term auctions	50%	50%
On call service	0%	100%
Clearing & settlement	0%	100%

These cost sharing keys are consistent with the incurred costs by the SAP Operator: indeed, part of the costs is depending on the number of borders (basically, the SAP Operator’s costs are essentially proportional to the number of auctions executed and most of borders have the same number of auctions through the year). Other costs are dependent on the number of TSOs as invoicing where number of borders or auctions does not imply additional workload for the SAP Operator. These 2 principles ensure the share of the costs between TSOs is fair, efficient and proportionate as required by the FCA Regulation, Article 59.

Finally, the yearly Fee Application Report includes all necessary information about the allocation of SAP costs per TSO and SAP Task along other information such as the SAP Task categories, the TSOs, the overview of Allocation Borders where such categories apply. To ensure the necessary transparency, the Fee Application Report includes also the breakdown per SAP Task of the yearly fee for each TSO

This Report is approved in accordance with the SAP Cost Sharing methodology, and is consulted with the SAP Council on a yearly basis and no later than on 31 October for the invoicing period from 1 January to 31 December of the following year.

Furthermore, the Fee Application Report can be updated in some extraordinary conditions in particular to allow new TSOs, even during the year, to start the execution of SAP Tasks through the SAP operator with more flexibility (compared to a yearly single window of access).

### 6. Example of the cost sharing methodology

This section provides an example in order to clarify the way the cost sharing methodology will be applied. It should be highlighted that the numbers in the example are fictitious and indicative. Also in the calculations, a cost-plus margin of 5% is considered.

The following two tables show the costs considered which are then augmented with the cost-plus margin. In the following columns of the tables, the individual costs are assigned to the different tasks.

It should be noted that the indirect costs are split among all services that the SAP Operator may offer. In the example shown below, the rental costs are allocated to different services with different percentages. The costs for the website are to be allocated to all services (i.e. SAP and non SAP Tasks) equally.

CAT Name	Assumption	Mark up	Fees required	Allocation	Market Coupling	Long Term	Daily Auctions	Shadow auctions	CCA service	On call service	Intraday auctions	Clearing &	MRC	Merger Costs
					Allocation %	Allocation %	Allocation %	Allocation %	Allocation %	Allocation %	Allocation %	Allocation %	Allocation %	Allocation %
Salaries Finance	500,000	5%	525,000	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Salaries Finance MRC	70,000	5%	73,500	MRC	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%
Salaries HR	400,000	5%	420,000	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Salaries Office	60,000	5%	63,000	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Salaries Project Management	300,000	5%	315,000	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Salaries Project Management MRC	70,000	5%	73,500	MRC	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%
Salaries Corporate	100,000	5%	105,000	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Salaries Operations	900,000	5%	945,000	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Salaries Operations On Call	25,000	5%	26,250	OCS	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%
Salaries IT	130,000	5%	136,500	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Recruitment - Temporary Staff - Other	50,000	5%	52,500	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Office Operating Costs	228,000	5%	239,400	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Travelling	112,000	5%	117,600	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Training	52,000	5%	54,600	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Consultancy	90,000	5%	94,500	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
<b>IT Supplies - Maintenance</b>														
IT supplies	10,000	5%	10,500	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
SAP	11,000	5%	11,550	C&S	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%
SAP Ticketing System	30,000	5%	31,500	C&S	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%
Mana Reconciliation Tool	6,000	5%	6,300	C&S	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%
Risk Management Tool	8,000	5%	8,400	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Office Cisco WLAN	2,000	5%	2,100	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
eCAT	420,000	5%	441,000	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
Hosting Old Systems	5,000	5%	5,250	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
New Website	12,000	5%	12,600	A	25%	25%	25%	5%	0%	0%	20%	0%	0%	0%
Domain Name Registration	2,000	5%	2,100	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Support MCR Unicorn	20,000	5%	21,000	A	25%	25%	25%	5%	0%	0%	20%	0%	0%	0%
ETP Connector Service	15,000	5%	15,750	A	25%	25%	25%	5%	0%	0%	20%	0%	0%	0%
MPLS Line Lease - Business VPN	38,000	5%	39,900	MC	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%
FB CRDS	24,000	5%	25,200	MC	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%
General Maintenance	20,000	5%	21,000	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
IT Hosting	800,000	5%	840,000	FTE	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
IT Backup Costs	26,000	5%	27,300	A	25%	25%	25%	5%	0%	0%	20%	0%	0%	0%
IT Shared Hosting	2,000	5%	2,100	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Electronic Management of Documents	5,000	5%	5,250	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
HR Tool	20,000	5%	21,000	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
SAP License	15,000	5%	15,750	C&S	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%
HR Tool License	10,000	5%	10,500	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Project Place	10,000	5%	10,500	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Oracle Partition License	13,000	5%	13,650	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
JIRA	2,000	5%	2,100	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
CPLX License Maintenance	3,000	5%	3,150	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
Rent	170,000	5%	178,500	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Charges	23,000	5%	24,150	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%



Explanatory document on the all TSOs' Proposal for the establishment and the cost sharing methodology of the Single Allocation Platform (SAP)



CAT Name	Assumption Costs	Mark up	Fees required	Allocation	Market Coupling	Long Term	Daily Auctions	Shadow auctions	CCA service	On call service	Intraday auctions	Clearing &	MRC	Merger Costs
					Allocation %	Allocation %	Allocation %	Allocation %	Allocation %	Allocation %	Allocation %	Allocation %	Allocation %	Allocation %
Maintenance - Security	19,000	5%	19,950	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Audit accounting	120,000	5%	126,000	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
IT Audit	85,000	5%	89,250	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Insurances	82,000	5%	86,100	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Tax advices	45,000	5%	47,250	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Payroll fees	15,000	5%	15,750	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Bank charges	4,000	5%	4,200	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Bank charges CRDS	2,000	5%	2,100	MC	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Legal costs	103,000	5%	108,150	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
<b>Depreciation &amp; Amortisation</b>														
JAO Formation Expense Depreciation	150,000	5%	157,500	MER	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
CEO Company Car	30,000	5%	31,500	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
IT Hardware	23,000	5%	24,150	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Moving Costs	23,000	5%	24,150	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Equipment	12,000	5%	12,600	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Furniture	7,000	5%	7,350	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
New Server Deployment	4,000	5%	4,200	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
SAP Change Requests	26,000	5%	27,300	C&S	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%
SAP Implementation	9,000	5%	9,450	C&S	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%
Mona Interweb	3,000	5%	3,150	C&S	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%
SAP New Invoicing Tool	47,000	5%	49,350	C&S	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%
SAP Recharging Tool	13,000	5%	13,650	C&S	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%
SAP FI/CO Updated & Fees Invoicing Tool	27,000	5%	28,350	C&S	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%
SAP-CRDS Webservices	6,000	5%	6,300	MC	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%
SAP Webservices	11,000	5%	11,550	C&S	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%
HR Digitalisation	23,000	5%	24,150	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Electronic Management of Documents	27,000	5%	28,350	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
EMFIP Platform	34,000	5%	35,700	A	25%	25%	25%	5%	0%	0%	20%	0%	0%	0%
FB CRDS	47,000	5%	49,350	MC	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%
eCAT R1 + R2	306,000	5%	321,300	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
JAO Website	40,000	5%	42,000	A	25%	25%	25%	5%	0%	0%	20%	0%	0%	0%
Electronic Highway CREOS	1,000	5%	1,050	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
Hosting Services 2nd Auction Platform	16,000	5%	16,800	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
JIRA	2,000	5%	2,100	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
FB CRDS CR	33,000	5%	34,650	MC	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%
eCAT CR	13,000	5%	13,650	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
Regulation Related Changes	10,000	5%	10,500	A	25%	25%	25%	5%	0%	0%	20%	0%	0%	0%
EMFIP Platform Changes	8,000	5%	8,400	A	25%	25%	25%	5%	0%	0%	20%	0%	0%	0%
General Changes	10,000	5%	10,500	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Automated eCAT Testing	15,000	5%	15,750	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
CPLX Licenses	7,000	5%	7,350	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
FUIN System Changes	0	5%	0	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
eCAT RS	100,000	5%	105,000	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
eCAT Development	9,000	5%	9,450	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
Other Corporate	1,000	5%	1,050	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Interests	15,000	5%	15,750	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
Interests CRDS	0	5%	0	MC	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Interests EXAU	0	5%	0	EA	0%	37%	37%	7%	0%	0%	20%	0%	0%	0%
Extra Charges/Income	0	5%	0	FTE	20%	17%	20%	5%	5%	3%	15%	15%	0%	0%
<b>Total</b>	<b>6,392,000</b>		<b>6,711,600</b>											

Based on the above tables, the costs for the SAP Tasks can be derived without considering the costs of other services.

Before proceeding with the sharing of the costs, it is essential to have an overview of the TSOs that use the service. For illustration purposes, the following table is to be used as assumption.



	Number Borders	
	Long Term auctions	Clearing & Settlement
TSO 1	2.0	2.0
TSO 2	1.0	1.0
TSO 3	4.0	4.0
TSO 4	1.0	1.0
TSO 5	2.0	2.0
TSO 6	2.0	2.0
TSO 7	1.0	1.0
TSO 8	2.0	2.0
TSO 9	1.0	1.0
TSO 10	1.0	1.0
TSO 11	0.0	0.0
TSO 12	0.0	0.0
TSO 13	1.5	1.5
TSO 14	2.0	2.0
TSO 15	1.0	1.0
TSO 16	3.0	3.0
TSO 17	0.0	0.0
TSO 18	2.0	2.0
TSO 19	1.0	1.0
TSO 20	0.0	0.0
TSO 21	4.0	4.0
TSO 22	6.0	6.0
TSO 23	0.0	0.0
TSO 24	0.0	0.0
TSO 25	4.0	4.0
TSO 26	4.5	4.5
TSO 27	5.0	5.0
TSO 28	5.0	5.0
<b>Number of Directional Borders</b>	<b>56.00</b>	<b>56.00</b>
<b>Number of TSOs</b>	<b>22.00</b>	<b>22.00</b>

In view of Article 60 of the SAP proposal, the combination of the two sharing keys is to be used for the cost sharing. For the example, we consider the combinations of section 3.4(3) above. This is also demonstrated in the figure below. The total numbers of the costs of the services are those deriving from the first two tables of the example.

Applied keys per SAP task	Per Allocation Border	Per TSO	Revenue per SAP Task
LT auctions	50%	50%	1,299,680
Clearing & settlement	0%	100%	908,880

By combining the two sharing keys indicated above, the resulting fictitious figures per TSO will be the following:

TSOs	EUR	Split per service		
		Long Term Auctions	Clearing & Settlement	Number Borders
TSO 1	94,059	52,747	41,313	2
TSO 2	82,455	41,142	41,313	1
TSO 3	117,268	75,955	41,313	4
TSO 4	82,455	41,142	41,313	1
TSO 5	94,059	52,747	41,313	2
TSO 6	94,059	52,747	41,313	2
TSO 7	82,455	41,142	41,313	1
TSO 8	94,059	52,747	41,313	2
TSO 9	82,455	41,142	41,313	1
TSO 10	82,455	41,142	41,313	1
TSO 11	0	0	0	0
TSO 12	0	0	0	0
TSO 13	88,257	46,945	41,313	2
TSO 14	94,059	52,747	41,313	2
TSO 15	82,455	41,142	41,313	1
TSO 16	105,664	64,351	41,313	3
TSO 17	0	0	0	0
TSO 18	94,059	52,747	41,313	2
TSO 19	82,455	41,142	41,313	1
TSO 20	0	0	0	0
TSO 21	117,268	75,955	41,313	4
TSO 22	140,477	99,164	41,313	6
TSO 23	0	0	0	0
TSO 24	0	0	0	0
TSO 25	117,268	75,955	41,313	4
TSO 26	123,070	81,757	41,313	5
TSO 27	128,872	87,560	41,313	5
TSO 28	128,872	87,560	41,313	5
<b>Total Fees</b>		<b>1,299,680</b>	<b>908,880</b>	<b>56</b>
		<b>2,208,560</b>		

For clarification on the cost allocation performed by the SAP operator, an example of indirect cost is detailed below:

The rent the SAP operator shall pay for its office is one of the indirect costs taken into account in the budget of the SAP operator. Indeed, this cost is common for all tasks performed by the SAP operator.

For instance, the expenditure for the SAP Operator's rent is (in the numerical example above) 170 000 €/year. After application of the cost-plus margin of 5%, the total cost related to the rent is 178 500 €/year

If 17% of the workload of the SAP operator on an average is dedicated to LT auctions, then the part of the rent to be allocated to the LT auctions is 30 345 €/year.

This amount shall be distributed according to the applicable sharing keys between 28 TSOs and 56 Allocation borders.

If the applicable sharing key for costs related to LT auctions is 50% per Allocation Border and 50% per TSO, then the distribution will be as follows :

Per Allocation Border :  $(50\% * 30\,345) / 56 = 270.94 \text{ €}$

Per TSO :  $(50\% * 30\,345) / 28 = 689.66 \text{ €}$

Therefore, a TSO with 1 Allocation Border will have to pay 960.6 €/year.

Through this concrete example, it is clear that the choice of TSOs to appoint an existing entity performing other tasks than SAP tasks ensures that costs allocated to SAP Tasks are reasonable and bring economies of scale for the general benefit.