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# ACER



Agency for the Cooperation  
of Energy Regulators

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## ACER Coordination Group for Electricity Regional Initiatives

### ERI Quarterly Report #2

April 2012 – June 2012

A12-ERI-02

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## 1 Context

The entry into force of the Third Energy Package and the strong commitment of the Member States to complete the internal energy market by 2014 establishes a **firm regulatory, institutional and political background** for the completion of the internal energy market by 2014.

Nevertheless, 2014 remains an ambitious target date, which requires genuine commitment to the goal of integrating the regions into a single market area and the real mobilisation of stakeholders through the Regional Initiatives process which now falls under the responsibility of the Agency for the Cooperation of Energy Regulators (ACER).

To this end, the National Regulatory Authorities (NRAs) have produced, at the European Commission's request and coordinated by ACER, an **EU Energy Work Plan for 2011-2014** based on clear, commonly agreed objectives and milestones. This Work Plan was drafted on the basis of three important inputs:

- The AESAG (ACER Electricity Stakeholder Advisory Group) input prepared for the 20<sup>th</sup> Florence Forum in May 2011;
- The contributions of the seven electricity regions defined in Regulation (EC) No 714/2009;
- The draft Framework Guidelines on Capacity Allocation and Congestion Management (CACM).

The EU Energy Work Plan for 2011-2014 in Electricity is constituted from four cross-regional roadmaps focusing on the implementation of the target models for CACM across Europe and seven regional roadmaps complementing and detailing the cross-regional roadmaps and focusing on other important dimensions for the completion of the Internal Electricity Market.

## 2 Objective of the Quarterly Report

The objective of this Quarterly Report is to monitor progress in the implementation of the roadmaps and to ensure that any obstacle is well identified and can be tackled in the most effective and efficient way.

While the main focus of the Quarterly Reports will be on the implementation of the target models for CACM across Europe, a dedicated part will also review progress at regional level in other important areas of the market integration process.

### 3 Main insights from the 2<sup>nd</sup> Quarterly report

#### ***The European Price Coupling Project is on track***

For the cross-regional roadmap on European Price Coupling, a reliable plan confirming the NWE/PCR delivery in 2012 or beginning of 2013 is on track, even though it should be pointed out that the timelines are tight and do not include any contingency to cover unexpected problems.

The finalisation of the PCR PXs' cooperation and co-ownership agreements, the selection of the data handling system for the launch of the NWE project and the NWE NRAs' letter of comfort regarding the cost-sharing arrangements are amongst the most significant achievements during the 2<sup>nd</sup> Quarter.

The NWE Transmission System Operators (TSOs) and Power Exchanges (PXs) are planning a series of stakeholder meetings to accompany the implementation phase. The purpose is to inform the market about changes due to the NWE project and its organisation, and the meetings will be used to collect input from market participants. A first meeting will be scheduled for the end of September.

Non-NWE regions will now face the challenge of preparing themselves to couple and to report progress regarding preparation back to the next Florence Forum. This will require a high level of transparency and close collaboration between the NWE and non-NWE partners, facilitated by ACER, ENTSO-E and EuroPEX playing active roles at their respective levels. This will also require each non-NWE region to hire an excellent project manager and to set up an efficient cooperation and decision-making process.

#### ***A step back for the NWE Intraday Pilot Project***

Implementation of the target model for intraday trading took, on the other hand, a step back after confirmation by Nordpool Spot that the initially agreed starting point for the technical solution (i.e. ELBAS) would require important enhancements in order to fulfil, in particular, the requirements of market participants in the German market.

ACER will call a meeting, in the course of July, of CEOs from PXs in the NWE region to assess whether a solution is available. If it turns out that there is no feasible PX-based solution, ACER will have to consider asking TSOs to take the NWE intraday project over.

#### ***The ACER Long-Term Task Force is ready to begin consulting stakeholders on LT issues***

As envisaged in the cross-regional roadmap for the improvement and harmonisation of the allocation and nomination rules for long and medium-term transmission rights, ACER is about to issue a public consultation document containing a wish list, an analysis of/position on the different models for long-term hedging and nomination processes, with a view to delivering a common work plan.

***With one exception, the Nordic NRAs have decided in favour of the status quo regarding long-term transmission rights***

On 26 June, the Nordic NRAs agreed that the current organisation of transmission risk hedging products within the Nordic area had met market participants' needs and no significant change need be undertaken in the short term. Three days later, the same decision was taken in coordination with the relevant NRAs regarding links between the Nordic market and Continental markets. One exception to this is the pilot project to implement FTRs on the Danish-German border.

**Encouraging re-launch of Flow-Based Market Coupling within the CEE Region**

On 29 June, the CEE TSOs distributed a first draft of the roadmap with more than 150 tasks to the NRAs and PXs. While CEE PXs are starting work on the drawing up and integration of the relevant steps into the roadmap (to be completed by week 29), the CEE TSOs are working on the development of the FB MC concept and the finalisation of the roadmap and associated documents. It is intended to have this work finished and distributed to the CEE NRAs by 3 August 2012 and discussed at the next IG meeting on 13 August 2012.

## 4 Review of progress with implementation in each of the cross-regional projects

### 4.1 Implementation of a single European price market coupling model<sup>1</sup>

#### 4.1.1 Description of the project

**The target model for the day-ahead timeframe is a European Price Coupling (EPC) model which simultaneously** determines volumes and prices in all relevant zones, based on the marginal pricing principle.

Among the different elements of EPC, one of the most important is the choice of a single algorithm that meets the TSOs' requirements in terms of efficient allocation and can be approved by every Member State.

Another important element will be a common governance structure. In order to meet the 2014 deadline, implementation of EPC might have to start under interim governance arrangements until governance guidelines have been finalised.

The general approach to implementation of the target model across Europe relies on the following principles:

- ⇒ Focus on North-West Europe (NWE)<sup>2</sup> price coupling implementation by the end of 2012;
- ⇒ Adjacent borders may adopt the Price Coupling of Regions (PCR)<sup>3</sup> algorithm in parallel and/or join NWE price coupling from the beginning if this does not delay overall progress towards EPC;
- ⇒ Common information level and flexible governance arrangements are necessary to ensure the smooth integration of additional borders.

BNetzA (DE), with the support of AEEG (IT), is co-leading the Single European Price Market Coupling project.

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<sup>1</sup> The ACER cross-regional roadmap for the Single European Price Market Coupling Model is available on: [http://www.acer.europa.eu/Electricity/Regional\\_initiatives/Cross\\_Regional\\_Roadmaps/Pages/1.-Market-Coupling.aspx](http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/1.-Market-Coupling.aspx)

<sup>2</sup> North-West Europe comprises the CWE region, the Nordic market and Great Britain.

<sup>3</sup> PCR is a project comprising six power exchanges: APX-ENDEX, Belpex, EPEX Spot, GME, Nordpool Spot and OMIE and is supported by EuroPEX.



#### 4.1.2 Key milestones and accountabilities

<b>2011</b>	<b>Q3</b>	<p>1. ACER requests that:</p> <ul style="list-style-type: none"> <li>⇒ NWE (TSOs and PXs) define a very concrete proposal on flexible high-level interim governance arrangements for the NWE/PCR<sup>4</sup> project, incl. a description of those borders for which differences in approach might be appropriate;</li> <li>⇒ ENTSO-E validate the PCR algorithm starting point and reach agreement on one single algorithm with Europex;</li> <li>⇒ Europex demonstrate the efficiency, manageability and reliability of the system design.</li> </ul> <p>The NWE NRAs request the TSOs and PXs to prepare a detailed proposal regarding cost recovery for NWE costs.</p>
	<b>Q4</b>	<p>2. ENTSO-E sends algorithm requirements to Europex and assesses the PCR algorithm starting point.</p> <p>3. Europex demonstrates the efficiency, manageability and reliability of the system design to ACER and the NRAs.</p> <p>4. ENTSO-E and Europex propose cost-sharing between NWE and the non-NWE countries.</p>
<b>2012</b>	<b>Q1</b>	<p>5. ENTSO-E and Europex consult market participants on the PCR algorithm starting point as validated by ENTSO-E and report the outcome to ACER and the NRAs.</p> <p>6. NWE (TSOs and PXs) submit to ACER/NWE NRAs for review/validation:</p> <ul style="list-style-type: none"> <li>⇒ high-level interim governance arrangements for the NWE/PCR project;</li> <li>⇒ a cost-recovery proposal for NWE costs.</li> </ul> <p>7. ACER coordinates the NRAs' 'endorsement' (e.g. by means of a letter of comfort) of:</p> <ul style="list-style-type: none"> <li>⇒ the starting point of the PCR algorithm;</li> <li>⇒ cost-sharing between NWE and non-NWE countries for the costs associated with development of the PCR algorithm;</li> <li>⇒ flexible high-level interim governance arrangements for the NWE/PCR project.</li> </ul> <p>8. All NRAs to:</p> <ul style="list-style-type: none"> <li>⇒ agree on a common, coordinated approval/review process for the algorithm;</li> <li>⇒ involve MS where appropriate and necessary;</li> <li>⇒ start national review processes (possibly consultation) in parallel.</li> </ul>
	<b>Q2</b>	9. The NWE NRAs approve the cost recovery proposal regarding NWE costs.
	<b>Q3</b>	10. NRA approval/review of national specificities regarding the final algorithm; starting in NWE and the regions formally committed to join in 2012, this step is repeated for every additional border among the respective NRA/TSO/PXs.
	<b>Q4</b>	11. Final introduction of price coupling in NWE.
<b>2013</b>	<b>Q1-Q4</b>	12. Integration of the CEE and/or SWE borders into EPC (if not integrated into the NWE/PCR project from the beginning).
<b>2014</b>	<b>Q1-Q4</b>	13. Integration of the remaining CSE borders, FUI borders and Baltic borders into EPC.

<sup>4</sup> The pilot project is deliberately defined as a NWE/PCR project to reflect the actual scope of cooperation of, respectively, TSOs and PXs.

### 4.1.3 Review of progress during this quarter

The **PCR PXs** held a meeting with other interested PXs on 20 April to discuss the process of how to become full members of PCR as well as issues of governance. The **Cooperation Agreement and the Co-Ownership Agreement** were finalised later in the second quarter of 2012 and summaries distributed during an AESAG meeting on 13 June. Any PX can sign up to become a full PCR member on equal terms if it is supported by its local TSO and/or NRA. Alternatively, PXs may become associates of PCR with access to detailed information.

During an **NWE Day-Ahead IG meeting** on 9 May, the NWE TSOs and PXs reported on the status of the Day-Ahead Project. The All Party Cooperation Agreement (**APCA**) for the design and implementation phase will be **ready to be signed** as soon as the NWE NRAs have provided TSOs with assurance, in particular as regards cost recovery. On 10 May, a letter was sent to the lead NRAs of the NWE project and copied to ACER/other NRAs. This letter contained additional and detailed information in its annexes as well as excerpts from the APCA. With the letter, companies asked for assurance from the NRAs on the issues described therein. The **preliminary budget for the design and implementation phase** is unchanged compared to the figures presented at the last IG meeting (**€m 10.3 + 0.8**). The next JSC meeting of NWE TSOs and PXs will also discuss the decision between the one or two-step approach (PMB/PCS). A two-step approach may involve additional costs of about €m 2.5.

The **distribution of costs between NWE and non-NWE countries will be 60% / 40%**. **NWE TSOs** will only be **charged with 60% of the common costs of PCR**, while recovery of the 40% non-NWE costs will be managed by the PCR PX.

The NWE NRAs gave a presentation on the regulatory aspects of cost recovery and algorithm approval. The NWE NRAs asked companies to consider publishing at least some information concerning the APCA before the Florence Forum in order to accommodate the needs of market participants.

After the IG meeting, the **NWE NRAs** continued to work on a **letter of comfort** which was finalised and sent to the NWE Steering Committee Chair on **22 June**. The main content of the letter of comfort, which BNetzA and Dera signed on behalf of the NWE NRAs comprised:

- Support to the NWE Price Coupling Project and its goals;
- Acknowledgement of the principles with regard to governance and support, continuing with finalisation of the design and implementation of the project;
- Need to develop and sign the APCA for the design and implementation phases in due time and that the current, and any potential future cooperation agreements, to be as transparent to the general public as possible in order to ensure maximum acceptance of and support to the project from all stakeholders;
- Assurance that the cost-sharing principle outlined in the letter is acceptable, but that this does not constitute premature fixation on any future cost-sharing agreements in the project or others and, in particular, as regards the operational cost of NWE price coupling;

- Acknowledgement that costs eligible to be considered for recovery would need to be reasonable, efficient, transparent, and auditable in accordance with national procedures;
- Agreement on the project decision to use COSMOS as a starting point for the price coupling algorithm.

In a meeting of the **NWE NRA TF on algorithm issues with PX experts**, the PXs gave an update on the status of the development of the algorithm. The industrialisation phase has started and is expected to finish in October. Currently, all deadlines have been met in order for implementation to start in 2013. In addition, the PXs listed requirements that are new to the current solutions implemented in CWE and the Nordic region. Some deviations from the welfare criterion (side constraints/heuristics) were also discussed. More information was requested from regulators on some points.

During an NWE Day-Ahead IG meeting on 27 June, the TSOs and PXs reported on the status of the project. The All Party Cooperation Agreement (APCA) for the design and implementation phase has been finalised and the process of signing has started. The project has therefore now entered the implementation phase. The APCA has been sent to NWE regulators. Companies are planning a series of stakeholder meetings to accompany the implementation phase. The purpose is to inform the market about changes due to the NWE project and its organisation and the meetings will be used to collect input from market participants. A first meeting will be scheduled for end of September.

In the SWE region, the NRAs, TSOs and PXs supported the extension of NWE market coupling to SWE as soon as NWE goes live. The NRAs welcomed the structural changes made to market coupling. Thanks to these improvements, it has been possible to enter into a project phase to specify pre and post-coupling arrangements in the region, to analyse impacts and the changes to be made and to prepare for implementation. It was therefore decided that the TSOs and PXs of the SWE region would sign a cooperation agreement by mid July 2012 to start this design project. The project will be led by the Spanish parties, REE and OMIE.

Regarding the CEE Region, it should also be mentioned that it is now intended that **trilateral market coupling** will begin operating on the borders between the Czech Republic, Hungary and Slovakia at the **beginning of September** (it was originally planned to start on 1 July 2012). The CEE PXs have received the relevant PCR documentation from the NWE partners and are working on developing and integrating PX-relevant steps. It is expected that this work will be finished and distributed to the CEE NRAs by 3 August 2012. At the last CEE IG meeting held on 29 June, the parameters of the CEE FB MC project were confirmed.

**Significant  
 achievements during  
 the 2nd Quarter**

**20 April:** A PCR PX meeting with the associate PXs was held, at which the process of how to become a full member of PCR was discussed alongside issues of governance. The PCR Cooperation Agreement and Co-Ownership Agreement should be finalised before the Florence Forum. Any party can sign up to become a PCR party provided that it is supported by its local TSO and/or NRA. If parties do not choose to become full members, they may become associates and have access to more detailed information on PCR.

**9 May:** At the NWE Day-Ahead IG meeting in Copenhagen, the TSOs and PXs reported that the All Party Cooperation Agreement (APCA) for the design and implementation phase would be ready for signature before the Florence Forum on 22 May. The NRAs asked companies to consider publishing at least some information concerning the APCA before the Florence Forum in order to accommodate market participants' needs.

**10 May:** The Chair of the NWE TSOs Steering Committee sent a letter to the NWE lead regulators, BNetzA and Dera to provide information about the project and asking for a letter of comfort to facilitate signing of the APCA between the TSOs and PXs. In the letter it also requested confirmation of:

Support of the NWE Price coupling project and its goals;  
 Agreement that the project parties would continue with the design and implementation of the project in line with the principles of governance, cost sharing and cost recovery, algorithm and budget as set out in the Steering Committee's letter;  
 Assurance that each TSO would be able to recover reasonable, transparent and auditable costs arising in accordance with the described principles.

**23 May:** At the Florence Forum, the PCR PXs announced the selection of PMB as the PCR data-handling system for the launch of NWE Price coupling project.

**13 June:** At the AESAG meeting in Brussels, PCR PXs, supported by Europex, gave an update on the cooperation agreement and its development status. Summaries of the PCR agreements on cooperation and on co-ownership were distributed. Dera reported on the status of the NWE lead regulators' letter of comfort which was due to be finalised before the next IG meeting on 27 June and which gave a general "green light" for the project to continue. The NWE TSOs announced that two stakeholder meetings would be scheduled for the day-ahead price coupling in late September/early October and in December. The TSOs and PXs underlined the importance of having a common NRA position when it came to assessment of the algorithm.

**21 June:** In a meeting of the NWE NRA TF on algorithm issues with PX experts, the PXs gave an update on progress on the development of the algorithm. The industrialisation phase has started and is expected to finish in October. Currently, all deadlines have been met in order for implementation to start in 2013.

**22 June:** BNetzA and Dera sent a 'letter of comfort' on behalf of all NWE NRAs to the NWE TSOs Steering Committee underlining their

	<p>support of the NWE Price Coupling Project and its goals. Moreover, in the letter the principles with regard to governance and the finalisation of the design and implementation of the project were acknowledged. Most importantly, the regulators provided assurance that the cost-sharing principle outlined in the letter of the TSOs Steering Committee dated 10 May was acceptable from their point of view. Finally, the NWE regulators agreed with the project decision to use COSMOS as the starting point for the price coupling algorithm.</p> <p><b>27 June:</b> At the NWE Day-Ahead IG meeting in Brussels, the TSOs and PXs reported on the status of the project. The All Party Cooperation Agreement (APCA) for the design and implementation phase has been finalised and the process of signing has started. The project has therefore now entered the implementation phase. The APCA has been sent to the NWE regulators. Companies are planning a series of stakeholder meetings to accompany the implementation phase. The purpose is to inform the market about changes due to the NWE project and its organisation and the meetings will be used to collect input from market participants. A first meeting will be scheduled for the end of September.</p> <p><b>29 June:</b> There was a CEE IG meeting in Vienna</p>
<b>Obstacles or delays in implementation</b>	No obstacles or delays in implementation were observed. Procedural Step 6 (ENTSO-E and Europex to consult market participants on the starting point algorithm) is, however, pending.
<b>Potential divergences from the FG on CACM</b>	No divergences identified so far.
<b>Comments</b>	

#### ***4.1.4 Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM***

A reliable plan confirming NWE/PCR delivery in 2012 or the beginning of 2013 is on track, although it should be pointed out that deadlines are tight and that the plan does not include any contingency to cover unexpected problems.

Non-NWE regions will now face the challenge of preparing themselves to be part of the project and to report progress back to the next Florence Forum. This will require a high level of transparency and close collaboration between the NWE and non-NWE partners, facilitated by ACER, ENTSO-E and EuroPEX playing active roles at their respective levels. This will also require each non-NWE region to hire an excellent project manager and set up an efficient cooperation and decision-making process.

The APCA and joint PXs cooperation and ownership agreements are available to all NRAs. They have until mid July to make comments.

## **4.2 Implementation of a cross-border continuous intraday trading system across Europe<sup>5</sup>**

### **4.2.1 Description of the project**

The overall objective of the Intraday Cross-Regional Roadmap is to implement the Intraday Target Model on all borders in Europe by the end of 2014. The Intraday Target Model, as explained in the ACER CACM FG, is a development of continuous intraday trading, to include intraday capacity recalculation, capacity pricing reflecting congestion and the ability to trade sophisticated products.

Target model implementation will make it easier for market parties to trade electricity across borders close to gate closure and keep their positions in balance. The intraday timeframe is seen as increasingly important in the context of growing intermittent generation.

The Intraday Cross-Regional Roadmap envisages a phased approach to implementation, starting with implicit continuous trading which will then evolve to include intraday capacity recalculation, capacity pricing and the ability to trade sophisticated products.

Ofgem (UK) is leading the Single European Continuous Implicit Mechanism for the Cross-Border Intraday Project.

### **4.2.2 Key milestones and accountabilities<sup>6</sup>**

The table below shows the key milestones and commitments identified in the Intraday Cross-Regional Roadmap for 2012 and beyond. Here we review progress in Q2 2012 towards these 2012 milestones. An explanation of how the 2012 milestones contribute to achieving the 2014 objective is provided in the Roadmap.

The northern European region, the CWE region and GB are participating in the TSO-led North-West Europe (NWE) project to introduce an implicit intraday solution on all borders by the end of 2012. The NWE region intraday project is seen as the European pilot project to implement the Intraday Target Model.

Additional projects have been established in the northern European region to implement an intraday solution on the SwePol Link (Q1 2012) and in the Baltic Region (2013), and in the FUI region to implement explicit intraday allocation on the SEM-GB border in Q3 2012.

For the CSE region, a project is already under way to introduce interim explicit access on all borders in Q2 2012. In Q4 2012, the CSE region NRAs intend to consult stakeholders on a roadmap to implement the Intraday Target Model.

The CEE region has undertaken to explore options for implementing the target model in Q2 2012 and to decide on a preferred approach in Q3 2012.

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<sup>5</sup> The ACER cross-regional roadmap on continuous intraday trading is available at: [http://www.acer.europa.eu/Electricity/Regional\\_initiatives/Cross\\_Regional\\_Roadmaps/Pages/2.-Cross-border-Intraday.aspx](http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/2.-Cross-border-Intraday.aspx)

<sup>6</sup> So far, no project has been agreed upon for the Baltic Cable.

2011	Q3	1. The NWE TSOs, in cooperation with the NWE PXs, develop a detailed project proposal for implementation of an interim solution.
	Q4	2. The NWE region TSOs consult on the detailed project proposal with market parties. 3. The NWE TSOs, in cooperation with PXs, develop options for intraday capacity recalculation and pricing of intraday capacity. 4. The NWE NRAs develop a proposal for the governance structure for NWE ID. 5. The CEE region improves the existing capacity allocation mechanism. 6. Implement continuous intraday trading on the SwePol interconnector.
2012	Q1	7. Northern region to implement intraday trading on the NordNed interconnector 8. SWE region to identify the necessary systems and regulatory changes to implement continuous trading by Q4 2012. SW TSOs and PXs to become involved in the development of the CMM and SOB in Q1 2012.
	Q2	9. CSE region to implement an interim explicit allocation on all CSE region borders. CSE region will propose a roadmap to implement the intraday target model, which will take the NWE pilot project into consideration.
	Q3	10. FUI region to implement explicit allocation on the SEM-GB border 11. CEE region to propose a stepwise approach to implementing the intraday target model
	Q4	12. NWE intraday project to introduce an implicit intraday solution by the end of 2012, which will facilitate hub-to-hub trading. 13. SWE border implementation of an implicit intraday solution as part of the NWE project. 14. Exploring options for incorporating SEM into the NWE project to implement the intraday target model. 15. CEE region to decide on the preferred approach to implementation of the target model. The options for implementing the intraday project will be evaluated by the regulators and a solution will be decided upon in Q3 2012. 16. CSE region to check the proposed roadmap to implement the intraday target model for coherence with existing intraday projects and to submit it for consultation. Once the consultation is over, the NRAs will decide on and commit themselves to the necessary steps to implement the intraday target model.
2013		17. The NWE region PXs, in cooperation with the TSOs, to consult on options and specifications for sophisticated products.
	Q3	18. The CEE region will implement an intraday solution in line with the CACM FG and the NWE project.
	Q4	19. The NWE region to implement the intraday capacity recalculation. 20. The Baltic region to implement intraday trading based on the ELBAS model.
2014	Q1	21. The NWE region to implement capacity pricing.
	Q4	22. The NWE region to implement sophisticated products.

### 4.2.3 Review of progress during this quarter

#### 4.2.3.1 Progress against milestones in Q2 2012

On the 20 June, the CSE region launched intraday explicit auctions on the borders between Italy and France and between Austria and Slovenia. The mechanism will be extended to the border between Italy and Austria in Q4 2012. At the last Stakeholder Group meeting, EPEX Spot and GME presented the preliminary results of a pilot study to integrate continuous trading in France with the intraday implicit auctions in Italy.

As regards the French-Spanish border, the NRAs, TSOs and PXs supported the introduction of intraday cross-border continuous trading in the SWE region as soon as possible, while acknowledging the difficulties faced in the NWE project resulting from the diversity of market design features even within NWE. The NRAs welcomed the work already completed on the concept of combining implicit auctions and continuous trading, as well as the study made by GME and EPEX in collaboration with Terna and RTE on the French-Italian border on the same topic. It was therefore decided to continue the exchanges based on this background in the coming weeks and to present a study in two months proposing solutions regarding this 'hybrid' solution and draw up a detailed project as soon as possible, but one that does not interfere with the Day-Ahead Pre and Post-Coupling Project which has a higher priority.

As regards the issue of OTC, CRE will consult market participants in June. EPEX and OMIE will analyse, as part of the study to be presented, the impact of introducing OTC in intraday CB trading in IFE. Based on the different inputs, the implementation of an OTC facility may be studied during the design phase.

On the French-Belgian border, the NRAs are concerned at the delay expressed by project leaders (further information below) and would like to have certainty about the way forward before any decision is taken on the issue of OTC access.

Regarding the delay in the implementation of a continuous intraday mechanism on SwePol, the relevant NRAs gave more details on the status of the negotiations on the transfer of ownership. The termination of this process is expected to take place this year.

**As explained below, there was no progress in the NWE region in Q2 2012. Bearing that in mind, the NWE TSOs and PXs will be unable to meet the 2012 objective.**

#### ***4.2.3.2 Progress in the NWE Pilot Project***

##### ***a) Background***

This section reports on progress with the NWE Intraday Project in Q2 2012. At the Florence Forum in December 2010, the NWE TSOs announced the launch of the NWE Intraday Project to implement a common approach to intraday trading. In May 2011, the Florence Forum supported the continuation of both the NWE Intraday and Day-Ahead projects, to meet the target date of 2012.

Following a series of high-level meetings with the Commission and NRAs, ENTSO-E and Europex presented a joint proposal for the implementation of a common approach to intraday trading in the NWE region by the end of 2012 and pan-European implementation of the Intraday Target Model by the end of 2014 (the 'September proposal'). The September proposal was supported by the ACER Board of Regulators and incorporated into the ACER Intraday Cross-Regional Roadmap.

The December 2011 Florence Forum endorsed both the ACER Intraday Cross-Regional Roadmap and the September proposal and it welcomed the NRAs' formal commitment to the process.



### **b) Project objectives**

The NWE project proposed is a phased approach to achieve the Intraday Target Model with the implementation of basic continuous trading in 2012, which will then evolve towards implementation of the Intraday Target Model by the end of 2014.

The September proposal confirmed that Europex and ENTSO-E were committed to the implementation of a pan-European cross-border intraday mechanism consisting of a Shared Order Book (SOB), performing continuous cross-border implicit intraday matching, and a Capacity Management Module (CMM), allocating cross-border intraday capacity in a continuous manner.

For the Interim Model, ENTSO-E and Europex proposed ELBAS as a starting point for the technical solution to be implemented on a border-by-border basis during 2012. This would allow continuous cross-border trading of standardised hourly products on a hub-to-hub basis. It would also allow for over-the-counter (OTC) access to cross-border capacity on some borders. ENTSO-E and Europex stated that the aim was to cover at least the NWE region by the end of 2012.

In this quarterly report we focus on implementation of the Interim Model in 2012. However, it should be noted that NWE implementation of the interim model is seen as an important step towards the Intraday Target Model.

### **c) NWE progress in Q2 2012**

At the NWE Stakeholder Group on 9 December, the project parties identified five key milestones for Q1 2012:

1. Finalisation of the ENTSO-E and Europex Memorandum of Understanding (the 'MoU').
2. Completion of a PX Cooperation Agreement (the 'PX CA').
3. Development of the SOB by the PXs.
4. An NRA decision on whether to allow interim explicit access to intraday capacity.
5. Launch of the relevant border-by-border implementation projects.

The NRAs hosted one Implementation Group (IG) meeting on 9 May with the NWE TSOs and PXs. During these meetings it became clear that the NWE TSOs and PXs had not made further progress against the five key actions.

**Development of the SOB by PXs:** the most critical milestone in the NWE project is the development of the SOB by the NWE PXs. At the 9 May IG meeting, the NWE PXs presented the outcome of their evaluation of ELBAS as a starting point. The evaluation assessed the system development necessary to enhance ELBAS to meet the requirements of German market participants.

The result of the preliminary assessment was that it would take 18-21 months and cost approximately €1.4 - 2 million to upgrade ELBAS to meet all identified requirements. The identified enhancements were classified as follows:

- **60%** - updating ELBAS trading functionalities, to improve trading tools, products, monitoring tools and the trading interface.
- **10%** - updating ELBAS operation, to improve clearing and settlement processes.
- **20%** - updating ELBAS performance, to improve trading speed and the robustness of the platform.
- **10%** - Updating ELBAS to meet the TSO requirements, to include hub-to-hub trading and explicit access.

**Finalisation of the MoU:** Europex and ENTSO-E expected to finalise the MoU before the Florence Forum in May 2012. However, no progress has been reported.

**Finalisation of the PX CA:** Europex expected to finalise the PX CA before the Florence Forum. However no progress has been reported.

**The NRA decision on explicit access:** the NWE NRAs have clarified whether to allow explicit access on all borders in the NWE region, except for France and Belgium.

**Launch of the implementation projects:** as mentioned above, the NWE TSOs are not willing to launch the implementation project until the PXs undertake to integrate their local order books and provide a detailed project plan for development of the SOB, and, until the MoU has been finalised.

Significant achievements in the period	<b>20 June:</b> First intraday capacity allocation on the Italian borders with France, Austria and Slovenia
Obstacles or delays in implementation	No progress in the NWE intraday project during the 2nd Quarter.
Potential divergences from the FG on CACM	No divergence identified so far.
Comments	

#### **4.2.4 Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM**

Despite the conclusions of the last Florence Forum, which called on the NWE project parties to provide further detail on the phased timetable by the end of June, the NWE PXs were not able to make any progress during the 2nd Quarter. The negative results of the preliminary assessment of the ELBAS platform, which was supposed to have been used as the starting point for the SOB, created such confusion that some stakeholders are now seriously considering the option of selecting another platform.

ACER will call a meeting with CEOs of all PXs involved in this NWE project in the course of July to assess the different options envisaged and their impact in terms of the implementation timetable, fulfilment of the requirements of the TSOs' and market participants', costs and extendibility to non-NWE regions.

### 4.3 Improvement and harmonisation of the allocation and nomination rules for long and medium-term transmission rights<sup>7</sup>

#### 4.3.1 Description of the project

The cross-regional roadmap reflects the main objectives of the CACM FG that set the target model. The objective is to give market participants an opportunity to hedge themselves against congestion costs and day-ahead congestion pricing, in a manner compatible with zone delimitation, through one single access point and a harmonised set of rules for long-term transmission rights, where financial markets do not enable them to do so in an efficient manner.

In order to achieve this objective, four areas of work have been identified:

1. Harmonisation of the allocation rules, since existing allocation rules may differ greatly among themselves and from the CACM FG. The CACM FG envisages a harmonised set of rules for borders where PTRs with UIOSI are applied, and a harmonised set of rules for borders where FTRs are applied.
2. Harmonisation of the allocation platform, as transmission rights today are allocated on different platforms. The CACM FG requires TSOs to implement a single platform (point of contact) at the European level.
3. Harmonisation of nomination procedures as the variety of procedures for using transmission rights may represent a barrier for some market players. As set out in the CACM FG, there should be greater harmonisation of nomination rules, deadlines and processes.
4. The implementation of FTRs may require a change in regulation. A dedicated ACER task force has been created in order to study this issue. Member States and regulators will have to assess this question carefully when deciding on the long-term transmission rights to be implemented.

CRE (FR) and EI (SE) are co-leading the European Platform for the Allocation of Long-Term Transmission Rights Project.

#### 4.3.2 Key milestones and accountabilities

<b>2011</b>	<b>Q3</b>	1. Drafting of rules by the TSOs following NRA guidance (CWE+CSE+Switzerland).
	<b>Q4</b>	2. NRA approval for entry in force at the beginning of 2012 (CWE+CSE+Switzerland). Rules applying to the CWE region in line with CACM FG (in particular, firmness). 3. Assessment of the legal consequences of moving towards FTRs (would MiFID legislation be applicable and, if so, what would be the impact on the allocation platforms?) → ACER in coordination with ENTSO-E and stakeholders.
		4. The NRAs' to decide on the possibility of implementing Transmission

<sup>7</sup> The ACER cross-regional roadmap for the European Platform for the Allocation of Long-Term Transmission Rights is available at:  
[http://www.acer.europa.eu/Electricity/Regional\\_initiatives/Cross\\_Regional\\_Roadmaps/Pages/3.-Long-Term-Transmission-Rights.aspx](http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/3.-Long-Term-Transmission-Rights.aspx)

<b>2012</b>	<b>Q1</b>	<p>Rights on the Portuguese-Spanish (IPE) border (Q1 2012), in the northern region (within the NE region and between the NE region and others) (end of Q2 2012), and in the Baltic region (end of Q4 2012).</p> <p>5. Depending on that decision, NE, NE – Continent, Baltic, IPE to join CASC.</p>
	<b>Q1-Q2</b>	<p>6. Benchmark for the current LT nomination procedures (ENTSO-E).</p> <p>7. Impact assessment of the implementation of FTRs → ENTSO-E in co-operation with ACER.</p>
	<b>Q1-Q3</b>	<p>8. The NRAs compare existing auction rules in order to list the differences between them and in comparison with the CACM FG. Agreement on a common wish list for a single European set of allocation rules (this wish list to indicate requirements for FTRs and for PTRs). End of Q2 ACER will issue a public consultation document containing a wish list, an analysis/position on the different models for the LT hedging and nomination processes, with a view to delivering a common work plan.</p>
	<b>Q3-Q4</b>	<p>9. Definition of a wish list for the harmonisation of nomination rules based on the decision to move towards FTRs (ACER+ENTSO-E).</p> <p>10. Agreement on an implementation schedule for this harmonisation (ACER+ENTSO-E).</p> <p>11. Subject to the conclusions of the legal analysis and impact assessment, elaboration of a pan-European implementation schedule for the move towards FTRs → ENTSO-E and ACER, in close consultation with stakeholders.</p>
	<b>Q4</b>	<p>12. The TSOs draft new allocation rules in line with the common wish list agreed by the NRAs. The NRAs to follow this work closely. A dedicated ENTSO-E TF could be created to supervise this work.</p>
<b>2014</b>	<b>Q3-Q4</b>	<p>13. NRA approval of new allocation rules for entry in force at the beginning of 2014.</p>

### **4.3.3 Review of progress during this quarter**

During the 2<sup>nd</sup> Quarter, the ACER Task Force on Long-Term Transmission Rights worked on a wish list for the harmonisation of long-term rules as well as on the draft working documents that would serve for the public consultation.

In addition, ENTSO-E delivered to the LTR TF:

- An analysis of different long-term transmission risk hedging products. This could be used as a basis for the ACER public consultation.
- An analysis of the harmonisation of nomination processes.
- First feedback on the wish list to deliver European common allocation rules to be submitted to public consultation.

The draft wish list as well as the approach for the public consultation was also presented to stakeholders during the AESAG meeting on 13 June.

Stakeholders will be consulted during the summer on this wish list and on the consultation document.

On 26 June, the Nordic regulators informed ACER of their decision that long-term hedging will continue to be handled through the financial markets as is the case today. According to the Nordic regulators, this view was confirmed by the findings of a 2011 consultancy study conducted by Hagman & Björndalen. Some measures will be taken, under the aegis of NordREG, in order to improve liquidity within the Nordic market alongside the continuous work of the Nordic regulators to monitor and improve the Nordic electricity market.

On 29 June, the NRAs informed ACER of their decision on the interconnections between the Nordic area and the Continent. First, they agreed that no uniform solution could apply to all links. The decisions taken for each interconnector were as follows:

- NorNed: due to the strongly opposing views expressed by stakeholders, the limited practical experience of FTRs applied to sub-cables and the particularities of the NorNed cable and of the Norwegian and Dutch markets, NMa and NVE have decided to undertake further research this year to help arrive at a decision.
- Kontek and the DK1-Germany border: BnetzA and DERA have agreed to implement FTRs as a pilot project starting in 2013.
- The SwePol link: as only low/vague demand for long-term hedging was expressed for this cable, EI and URE have decided not to ask the TSOs to issue transmission rights (TR).
- The Baltic Cable: due to the current legal barriers, no TR can be implemented in the short-term. Moreover, EI and BnetzA will take stock of the effects of introducing FTRs on the Danish-German border before agreeing on a final decision regarding the Baltic Cable.

In both cases (the decisions of 26 and 29 June), ACER will publish the decisions and supporting documents provided by the NRAs.

In the CWE region, the TSOs suggested to the NRAs in April that they introduce FTR options for the year 2013 from the beginning of the year. The NRAs' reply was that the timing was too short to be able to introduce FTRs in September (the 1<sup>st</sup> annual auction on the Dutch borders) and that firmness rules for FTRs needed to be further elaborated. The TSOs could plan to introduce FTR in the middle of 2013 before introduction of flow-based method.

In the SWE region, the NRAs and TSOs supported the extension of the CASC.EU platform to the SWE borders.

- The Portugal-Spain Interconnection(IPE): On the basis of the agreement reached by Mibel's Council of Regulators in 2010, an updated joint proposal for the management of the long-term interconnection capacity (based on FTR) would be in place by the end of the year 2012 to provide for auctions aimed at 2013 capacity products.
- The France-Spain Interconnection (IFE): In a meeting on 14 May, Spanish and French TSOs agreed to sign a MoU by November 2012, in order to enable French-Spanish border products to be traded in May 2013 through CASC.

<p><b>Significant achievements in the period</b></p>	<p><b>14 June:</b> presentation of the wish list and the consultation document. Deliveries from ENTSOE: comparisons of nomination procedures and of cross-border hedging products</p> <p><b>26 June:</b> the Nordic NRAs decided that long term hedging within the Nordic area would continue to be handled through the financial markets as is the case today</p> <p><b>29 June:</b> the NRAs informed ACER of their decisions regarding long-term hedging instruments on the borders between the Nordic area and the Continent.</p>
<p><b>Obstacles or delays in implementation</b></p>	
<p><b>Potential divergences from the FG on CACM</b></p>	<p>No divergences identified so far</p>
<p><b>Comments</b></p>	

#### **4.3.4 Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM**

No constraint or potential divergence from the FG on CACM has been identified so far.

## 4.4 Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks<sup>8</sup>

### 4.4.1 Description of the project

The target model, as defined by the CACM Framework Guidelines, specifies that TSOs need to apply an *Available Transfer Capacity* (ATC) or a *Flow-based* (FB) method. A flow-based allocation method is however clearly preferable for short-term capacity calculation in highly meshed and highly interdependent grids. Whatever the case, a common grid model must be used.

By nature, the capacity calculation method and the market coupling method and algorithm are highly interdependent. The FB method and market coupling implementation must be coordinated.

Coordination among the TSOs will be of key importance for successful implementation of the required capacity calculation method, for optimising utilisation of the infrastructure and for implementing the flow-based allocation method. Coordination with regard to capacity calculation will be required among all TSOs, not only when two regions apply the same method (FB or ATC), but also in cases when one region applies the FB and the other ATC-based calculations.

Prior to switching to the FB method, the following requirements are to be fulfilled:

- ⇒ Full coordination of principles and data;
- ⇒ No negative impact of the FB method on system security;
- ⇒ Increased social welfare brought about by the application of the FB method;
- ⇒ Sufficient time provided for market participants to adapt to the new method;
- ⇒ Work on and implementation of FB capacity calculation and market coupling need to be closely coordinated.

CREG (BE) and E-Control (AT) are co-leading the Capacity Calculation Project.

### 4.4.2 Key milestones and accountabilities

	Q1	1. CEE FBA implementation path evaluation and decision by the CEE NRAs, in coordination with ACER and the NRAs and stakeholders from other relevant regions, based on input from CEE TSOs and the CAO. 2. CEE MC decision and compatibility with the CWE (cf. price market coupling, 4.1).
	Q2	3. Study of the impact of bidding zones by the CWE TSOs and PXs, in cooperation with the CWE NRAs.

<sup>8</sup> The ACER cross-regional roadmap for the Flow-Based Capacity Calculation Method for short-term capacity allocation is available at: [http://www.acer.europa.eu/Electricity/Regional\\_initiatives/Cross\\_Regional\\_Roadmaps/Pages/Capacity-Calculation.aspx](http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/Capacity-Calculation.aspx).

<b>2012</b>		4. Review of the ATC method in the Nordic area by the NE NRAs. 5. Information exchange between the CWE and CEE FB and other regions.
	<b>Q3</b>	6. Decision on FB or the ATC capacity calculation method for CSE, NEE, SEE.
<b>2013</b>	<b>Q2</b>	7. CWE FB MC implementation by CWE TSOs with CWE NRA approval.
<b>2014</b>	<b>Q4</b>	8. Coordinated European Capacity Calculation

#### 4.4.3 Review of progress during this quarter

This quarter was characterised by intense work on drafting a CEE Target Model Roadmap. The Target Model consists of two elements, a flow-based capacity calculation and day-ahead market coupling, both to be implemented in the CEE region in one single step by the end of 2013. At the IG meeting in mid April, the TSOs and PXs from the CEE region were required in order to meet the above target to develop a CEE Target Model Implementation Roadmap by June 2012.

During this quarter, the CEE TSOs began setting up a preliminary overview of the TSO tasks which would need to be processed to reach the goal and founded the WG RMDT (Roadmap Drafting Team), which began work on developing the CEE Target Model Implementation Roadmap. Several regional and one cross-regional working group are active or (re)starting up. The first draft of the Roadmap is slightly late, but was expected to be finished by the end of June for comment by the project parties, the NRAs and ACER.

The CEE PXs established the PX Advisory Group to support the work of the TSO's HLM (on 24 May 2012). The PX Advisory Group, which was founded during the meeting, was bound to cooperate and to set up a project in order to achieve the CEE target model for Q4 2013.

The NRAs requested all parties to establish a joint Project Management and Project Management Structure and incorporate all relevant inputs into one single, joint roadmap.

In the CWE region, work on the FBMC continued. During a technical FB meeting on 11 June 2012, various aspects regarding the FBMC were discussed between the CWE TSOs, PXs and NRAs. Discussions mainly covered issues regarding the timeline, the regulatory approval process, the content of the public consultation, intuitiveness and the methods used for the Generation Shift Key (GSK), Flow Reliability Margin (FRM) and Critical Branch (CB) selection.

The CWE NRAs, TSOs and PXs will evaluate whether the proposed FBMC timeline is feasible for all parties. The content of the public consultation was presented to the CWE NRAs. The CWE NRAs insist on receiving detailed information on GSKs, FRM and CBs for good monitoring of the process. The final approach for these important elements needs further refinement. A study on the intuitiveness of the FBMC results will be prepared by mid-July.

On 8 May 2012, the CWE Price Zone Study (PZS) Task Force finished Phase 1 of its study, the Initiation Report. It was sent to the CWE NRAs on 15 May 2012. The results were also presented by task Force representatives on 15 June 2012.



On 8 May 2012, BNetzA also communicated its withdrawal of all support to the CWE PZS, since in its view justification for the launch of the study was no longer existent. The basis for the study was a joint decision taken on 17 September 2010 to start the study on the one hand and to refrain from having minimum capacities on the other. Recent months have shown that this was no longer the case. In the light of this decision by BNetzA, the CWE Joint Steering Committee also decided to freeze the work of the CWE Price Zone Study Task Force and not to launch Phase 2, the Qualitative Analysis. The CWE NRAs and TSOs are looking into the way forward with respect to studying the price zones.

On 25 June, Nordic NRAs approved the evaluation of the current method applied for capacity calculation in the Nordic area, which concludes that it works sufficiently although some areas might be improved.

On 28 June, ACER organised an internal workshop with the NRAs and the Commission to discuss possible remedies for the rapidly growing phenomenon of unplanned electricity flows in Central-West Europe and Central-East Europe. The conclusions of this workshop will be communicated soon.

On 27 June, as required in the letter sent by ACER to the CWE and CEE TSOs on 3 April, a first version of the minimum requirements allowing CWE and CEE flow-based methods to co-exist as well as a detailed roadmap were circulated. The CEE TSOs, which are currently elaborating the new CEE FB concept, are working in parallel on an analysis and integration of the proposed harmonisation steps. Among other things, the main work on this topic is expected to be finished this summer.

<b>Significant achievements in the period</b>	<p><b>16 April:</b> CEE IG meeting; the CEE NRAs and ACER presented the Joint Declaration and set the parameters for development.</p> <p><b>8 May:</b> finalisation of the CWE Price Zone Study, Initiation Report (the first of three phases) by the CWE PZS Task Force.</p> <p><b>8 May:</b> withdrawal of support for the CWE PZS by BNetzA.</p> <p><b>4 June:</b> CEE RCC meeting and CEE IG meeting. Report on development status, agreement on further steps.</p> <p><b>11 June:</b> technical CWE FBMC meeting on issues regarding the timeline, regulatory approval process, the content of the public consultation, intuitiveness and the methods used for GSK, FRM and CB selection.</p> <p><b>25 June:</b> Approval of the evaluation of the current method for capacity calculation in the Nordic area.</p> <p><b>27 June:</b> Circulation of the roadmap on minimum harmonisation between CWE and CEE FB projects</p> <p><b>28 June:</b> ACER workshop on unplanned flows.</p>
<b>Obstacles or delays in</b>	<p>See section 4.4.4 below.</p>

<b>implementation</b>	
<b>Potential divergences from the FG on CACM</b>	No divergences identified so far.
<b>Comments</b>	

***4.4.4 Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM***

After regulatory agreement on the steps towards the target model for the CEE Region expressed in the Joint Declaration, it will become crucial to develop a specific roadmap within the next quarter. The necessary level of coordination with the NWE and, in particular, CWE project is very important and may require resources from both projects. This has to be carefully planned and prioritised. It might still constitute a constraint.

With the withdrawal of support for the Price Zone Study by BNetzA, the future of the study of price zones is uncertain. CWE NRAs, TSOs and PXs will look at how to proceed with respect to the study of zones. One way forward could be early implementation of the NC CACM, covering at least CWE, CEE, Switzerland and Italy, as was concluded at the ACER workshop on 28 June 2012.

## **5 Review of progress with implementation in other important areas**

In this section, the NRAs review achievements and obstacles, at regional level, regarding other important dimensions/areas for the completion of the Internal Electricity Market.

### ***5.1 Transmission development plans***

**No significant progress during this Quarter**

### ***5.2 Development of cross-border balancing***

**No significant progress during this Quarter**

### ***5.3 Transparency***

**ACER is reviewing the latest draft of the Transparency Guidelines.**

### ***5.4 Management and use of interconnections***

**ACER is still in the process of finalising data collection through the NRAs.**



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