DRAFT AGREEMENT BETWEEN AUTORITÀ PER L'ENERGIA ELETTRICA E IL GAS AND COMMISSION DE REGULATION DE L'ELECTRICITÉ ON TRANSFER CAPACITY ALLOCATION OVER THE GRID INTERCONNECTING ITALY AND FRANCE FOR THE YEAR 2002

The present document contains the general outlines adopted by the *Autorità per l'energia elettrica e il gas* (herefater AEEG) and the *Commission de Regulation de l'Electricité* (hereafter CRE) with respect to terms and conditions for allocating the transfer capacity over the interconnected grid between Italy, France and, with reference to a technically-coupled portion of the interconnection, Switzerland for the year 2002. Same conditions will be applied by AEEG, to a possible extent, to the transfer capacity allocation over the interconnected grid between Italy, Austria and Slovenia for the year 2002.

A Determination of the transfer capacity for the year 2002

1. Segregated capacities aimed at autonomous allocations performed by the single requesting Country to be devoted to electricity exchanges with the Italian eligible customers

1.1 Reference is made to the so-called winter figures of segregated capacities (months of October, November, December, January, February, March, April), once deducted the reserved capacities to the long-terms contracts (see para 3.1):

- Switzerland to Italy: 1000 MW;
- Austria to Italy: 110 MW (as agreed);
- Slovenia to Italy: 190 MW (as agreed).

2. Available capacities aimed at joint allocations performed by the Italian Transmission System Operator (hereafter GRTN) in cooperation with the French Transmission System Operator (hereafter RTE) to be devoted to electricity exchanges with the Italian eligible customers

2.1 Available capacities (other than the segregated capacities as per para 1.1 and the reserved capacities for the long-term contracts as per para 3.1) to support electricity exchanges from continental Europe to the Italian eligible customers are integrated into two separate borders to be separately allocated. Namely (Winter values):

a) the north-western border or NW Pool, composed by the interconnecting grid bewteen Italy and France and Italy and Switzerland – hereafter NW - for a total of 1800 MW. GRTN and RTE jointly perform the allocation. Operators accessing NW present requests for capacity esclusively to GRTN which also act on behalf of RTE as per a specific GRTN-RTE agreement notified to AEEG and CRE;
b) the north-eastern border or NE Pool, composed by the interconnecting grid bewteen Italy and Austria and Italy and Slovenia – hereafter NE - for a total of 300 MW. GRTN perform the allocation. Operators accessing NE present requests for capacity esclusively to GRTN;

2.2 Within the available capacities of NW, operators with pre-allocated capacities are foreseen. These capacities are to be assigned to third States embedded into the Italian territory as follows (according to decisions by the Italian Government):

a) for electricity import into the Republic of San Marino: max 50 MW;
b) for electricity import into the State of the Vatican City: max 50 MW.

B Transfer capacity allocation for the year 2002

3. Reserved capacities for the allocation of long-terms contracts

3.1 Existing long-term contracts (signed before entering into force of the European directive 96/92/EC) are allocated through a reservation of transfer capacity equal to the power profile stated in the contracts. Namely:

a) 1800 MW France to Italy, of which 1500(flat) + 300(flexible). Max 55 MW of pre-allocated capacity aimed at Corsica supply are taken within 300 MW of the cited long-term contract. It represents a transit trough the Italian power system;
b) 800 MW Switzerland to Italy.

3.2 These contracts are devoted to supply the Italian franchised market.

4. Integration of available capacities into available capacity pools

4.1 The above mentioned NW and NE borders constitute two separated "available capacity Pools" on which the identification of the network supporting the electricity exchanges is no longer needed.

4.2 The operator holding rights on transfer capacity shall establish transit contracts with the Tranmission System Operators (hereafter TSO) included in the pool and shall refer to the relevant TSO in order to settle energy unbalances against the declared exchange programs at the electrical border. The same provision is also valid in Italy at the grid withdrawal point.

4.3 Prior entering into force of the transitional ETSO agreement on "open transit", transit conditions (tariff) shall be *ex ante* declared and applied in a non-discriminatory manner by the involved TSOs.

4.4 Electricity transits aimed to the Italian customers over the network of the neighboring Countries to Italy shall be possible.

5. Preliminary allocation of available capacities to Italian eligible customers with "interruptible loads" in the NW and NE pools

5.1 Customers forwarding requests above 10 MW can have access to the preliminary allocation, provided that a certification of the real interruptible load is issued by GRTN and the interruptible load is greater than the requested capacity.

5.2 An ad-hoc obligation will be imposed to the interruptible customers and to the GRTN:

a) Interruptible customers: in the bilateral contract for the supply from abroad they shall provide clauses foreseeing that during the periods of the interrupted loads (decided under the full responsibility of GRTN) the supply from abroad will not be interrupted/reduced and the resulting electricity (on hourly basis, according to the ex-ante declared program) shall flow into the Italian power system. Violations will induce the disruption of allocated rights on capacity for the remaining part of the year;
b) GRTN: apart from transient disturbances (to be covered within few minutes according to the existing UCTE rules), GRTN is obliged to withdraw the electricity relevant to the interruptible loads and to redirect it into the Italian power system. The interruptible loads operation shall not induce deviations into the hourly exchange programs agreed among Countries.

5.3 A capacity portion of 600 MW (max) is reserved to the preliminary allocation over the two capacity pools (divided into: 500 MW on NW and 100 MW on NE, maximum sizes). 600 MW is defined according to the size of the whole Transmission Reliability Margin capacity to be used during the system emergency conditions.

5.4 In case of capacity scarcity, a pro-rata mechanism is applied to the requests.

5.5 Allocated capacity – once released - can be re-allocated only to interruptible loads by means of a secondary allocation. The capacity can also be re-allocated to non interruptible customers, provided that the original interruptible load is maintained.

5.6 No company or group of companies can hold capacity rights above 180 MW of NW (10% of the whole NW) and 30 MW of NE (10% of the whole NE).

5.7 The above mentioned portion and the preliminary allocation performed for the year 2002 can be guaranteed up to three years (2002-2004). According to possible modifications of rules for the cross-border trade within the internal market which might be introduced by new European Commission directives or regulations, long-term rights shall be maintained against the payment of an ad hoc fee.

5.8 Allocated capacity – if resulting a scarce resource - must be used to import electricity at least 90% of the equivalent hours of the period (month or week), in order to guarantee an efficient use of the resource. GRTN and RTE propose to adopt monthly or weekly period. Use of the allocated capacity will be verified taking into account the weekly or 4-weeks exchange program at the Italian border. Violations of the above mentioned limit (monthly or weekly verified) determines the disruption of the allocated rights to the single operator for the entire duration of the preliminary allocation. Released capacity will be re-allocated in the secondary allocation to other operators.

6. Primary allocation of available capacities in the NW and NE pools (after preliminary allocations)

6.1 Remaining available capacities (i.e. minimum 1300 MW for NW and minimum 200 for NE) are allocated for a one-year-long period through a pro-rata mechanism with an exit treshold of 3 MW (lower capacities after the pro-rata application are disregarded).

6.2 Declarations of the final customers linked to a single request for capacity shall be produced in a esclusive manner.

6.3 Allocated capacity might be released and reallocated esclusively via secondary allocation mechanisms which are executed monthly and weekly.

6.4 No company or group of companies can hold capacity rights above 180 MW of NW (10% of the whole NW) and 30 MW of NE (10% of the whole NE).

6.5 The primary allocation is performed only for the year 2002.

6.6 Allocated capacity – if resulting a scarce resource - must be used to import electricity at least 80% of the equivalent hours of the period (month or week), in order to guarantee an efficient use of the resource. GRTN and RTE propose to adopt monthly or weekly period. Use of the allocated capacity will be verified taking into account the weekly or 4-weeks exchange program at the Italian border. Violations of the above mentioned constraint (monthly or weekly verified) determines the disruption of the allocated rights to the single operator for the entire duration of the primary allocation. Released capacity will be re-allocated in the secondary allocation to other operators.

7. Secondary allocation of available capacities in the NW and NE pools (re-allocation)

7.1 Monthly and weekly sessions of a secondary allocation mechanism are executed in order to:

a) allow the negotiation of transfer capacity rights;
b) re-allocate released available capacities;
c) allocate further capacities which might be declared by GRTN under a monthly and/or weekly frameworks.

7.2 Conditions stated in paras 6.2, 6.4 and 6.6 hold for the secondary allocation.

7.3 Due to the imposed condition as per para 6.6, the secondary allocation, although being based on capacity assignements, is similar to an allocation of electricity (energy). Moreover, the secondary allocation on capacites allows larger flexibility to change supply contracts with the foreign supplier in case of capacity re-allocation to different Italian customers. Such possibility to replace the foreign supplier along with the negotiation of the economic value of the re-allocated capacity in the secondary market (see also para 7.4) introduces an

incentive to allocate resources in an efficient manner, resulting into an effective promotion of the importation of cheapest electricity (energy) for the Italian system.

7.4 Secondary allocation is based on bilateral transactions on an organised market of negotiated capacities through portions of 1 MW each. The regulation of such market is defined by GRTN and RTE and approved by AEEG and CRE before entering in operation. Possible incomes from the secondary allocation of further capacities on NW are collected by GRTN and shared in equal parts with RTE with reference to the transfer capacity on the French-Italian electrical border. Other incomes deriving from the secondary allocation of further capacities on other borders are collected by GRTN; final destination of such incomes will be decided by AEEG.

7.5 On the organised market buy and sell offers of transfer capacity are sorted into books respectively on descending and ascending price orders and combined on the basis of these orders. The price of a transaction combining a buy and a sell offer is the price of the firstly-entered (time) offer. A participation fee is charged to each transaction to cover the organization costs.

7.6 Allocated capacity might be released and reallocated esclusively via secondary allocation mechanisms which are, in principle, daily executed but, if not feasible, weekly or monthly.

7.7 A session of the secondary allocation will be run immediately after the primary allocation session to let operators adjust capacity positions.

7.8 In case of delays in the start-up of the secondary allocation, AEEG and CRE should foresee a subsidiary mechanism, based on pro-rata criteria, to temporary replace the said secondary market.

8. Spot electricity

8.1 In order to maximize the usage of the whole transfer capacity, GRTN may acquire spot electricity to be executed within time periods shorter than a week by using capacities which are not allocated, neither allocatable, neither used in the primary and secondary allocations. Directives to GRTN to buy and sell the spot electricity will be subsequently issued by AEEG based on the criterion of the selection of lower-price bids at the offer side. Windfall profit of GRTN deriving from spot activities are not allowed.

9. Summary of transfer capacity (figures in MW, Winter values)

9.1 Reserved capacities to long-term contracts

1800	(France to Italy, including 55 MW to Corsica);
800	Switzerland to Italy;
2600	total of 9.1

9.2 Segregated capacities

1000	Switzerland
110	Austria
190	Slovenia
1300	total of 9.2

9.3 Capacity pools

1800	(NW, 500_{max} interruptible, 50_{max} +50_{max} MW to San Marino and Vatican State);
300	(NE, 100_{max} interruptible);

	2100 total of 9.3
9.4 TOTAL 9.1+9.2+9.3	6000

10. Regulations of the allocations

10.1 General regulations for the preliminary, primary and secondary allocation procedures are jointly proposed by GRTN and RTE according to the timing as per para 10.2. The regulations enter into operation once approved by AEEG and CRE. The regulations will be jointly applied by GRTN and RTE on NW allocation. NE will be allocated by GRTN by applying the same regulation.

10.2 Regulations for the preliminary and primary allocation have to be proposed by December 10, 2001. Regulations for the secondary allocation by December 20, 2001.

11. Organisation of the joint allocation by GRTN and RTE

11.1 GRTN and RTE enter into agreement to propose a common regulation for the NW allocation and to execute the NW allocation once the regulation has been approved by AEEG and CRE. Agreement shall be drawn according to AEEG and CRE deliberations in the matter and shall be notified to the respective regulator.