

## COOPERATION AGREEMENT ON CROSS BORDER ISSUES IN 2005

According to the provisions as per article 9 of the Regulation No 1228/2003, AEEG and CRE will undertake a cooperation on cross border issues relevant to the French-Italian border, which will be carried out during the year 2005 taking into account the different jurisdictions in both countries. Such cooperation encompasses two steps, respectively: the medium term target and the short term framework.

### 1. Medium term target: a joint implementation of cross border mechanisms in 2006

It is foreseen a technical cooperation between the two regulators, aimed at the implementation of joint mechanisms to allocate and manage the French-Italian interconnection in 2006. Efforts shall be devoted to:

- Study and implement new methods to allocate and allow the usage of transfer capacity between the two Countries, based on market mechanisms which should cover a multi-annual period for sake of stability of the regulatory framework.
- Improve transparency for all market players;
- Develop systems and mechanisms to couple the power exchanges (Powernext and IPEX);
- Ensure the compatibility of both balancing systems (also called dispatching systems) at the border in order to share and optimise operating reserve and balancing resources based on economic merit orders.

### 2. Short term framework: two parallel but consistent methods for the year 2005

Following the novelty of the application of the Regulation No 1228/2003 (i.e. 2005 as the first full year of application), each country has to ensure a transition for market players allowing them to adapt their existing trading processes. Then, two methods to allocate the cross border capacity, parallel but consistent between them and, under the responsibility of each competent national authorities, with the respective national legislations on cross border issues including the above-mentioned Regulation have been developed.

In particular:

- CRE has proposed to apply explicit auctions of half the transfer capacity available on the Italian – French border after deduction of the historical contracts capacity. RTE will be the sole responsible for this mechanism. It will run this auctioning process and will keep the corresponding revenues to be used as per article 6.6 of the Regulation No 1228/2003. According to these principles, explicit auctions will be implemented to allocate the following quantities:

	Firm capacity to be explicitly auctioned (MW)
Winter day	597,5
Winter night	497,5
Summer day	472,5
Summer night	397,5

Criteria will be issued by CRE to have RTE carrying out this method. This method has been conceived to answer to the requests received by CRE by market players. A two-step process, a first application to the allocation of the transfer capacity available in January followed by a longer allocation for the 2005, has been envisaged;

- AEEG has introduced an application of implicit auctions of the transfer capacity which foresees the usage of IPEX on a similar amount of transfer capacity as indicated in the previous item plus the transfer capacity available to GRTN on the Swiss-Italian border as well as on other Italian borders. Implicit auctions have been consulted by AEEG on August 2004, along with other methods consistent with the Regulation including explicit auctions, through an ad-hoc consultation document which saw the favour of the quasi-unanimity of the consulted players to the implicit auctions. Due to the extreme volatility of hourly-based implicit auctions, appropriate hedging tools have been foreseen as a suitable complement. GRTN and IPEX will be the sole responsible for the functioning of this mechanism. Revenues arising in the implicit auction, taking into account the hedged transactions, will be used by GRTN as per article 6.6 of the Regulation No 1228/2003.

GRTN and RTE shall closely and efficiently cooperate in order to allow the parallel functioning of the two envisaged methods, especially in terms of contract nominations on the two sides in order to fully optimise the use of the actual existing capacity.

Lessons coming from the implementation of the cited mechanisms in 2005 will be used for the activities of the medium term target in order to develop a more stable system for 2006, also discussing the 2005 results in the foreseen mini-Forum process for the Central-Southern region of the European market.