

# **Annex to the GTC BGC on risk management and collateral**

V 8.0

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## Document history

Version	Status	Date	Organisa- tion re-	Reason for amendment
0.1	Preparation		AGCS	
1.0	Approval	27 Sep. 2002	E-Control	
0.2	Submission			Market Rules II
2.0	Application for approval			
3.0	Revised applica- tion, approved	5 Dec. 2003	E-Control	
4.0	Approval		E-Control	
0.5	Submission		AGCS	Market Rules III
5.0	Approval		E-Control	
0.6	Submission		AGCS	Limited-term bank guarantees
6.0	Approval	17 Jun. 2008	E-Control	
0.7				Increase in joint and several
7.0	Approval	12 Oct. 2011	E-Control	
0.8	Submission		AGCS	Gas Market Model Order 2012
8.0.	Approval	14 Sep. 2012	E-Control	

**Document was prepared with the following tools:**

MS Word 2007

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## 1. Collateral

- 1) Every BGR is obliged to post collateral as cover against the financial consequences of default on payments to the BGC. The only types of collateral that are eligible are those set out in section 3. (the “collateral”).
- 2) BGRs undertake to deposit the required amount of collateral no later than the conclusion of the “second clearing” round (as defined in section 6. Annex on balancing energy management).
- 3) The collateral is composed of equal portions of base and variation collateral.
- 4) The BGC monitors compliance with the collateral requirements, and administers the collateral in accordance therewith.

## 2. Calculation of collateral requirements

- 1) BGRs shall lodge minimum base collateral of at least EUR 50,000 with the BGC.
- 2) The collateral requirements shall be recalculated:
  - after each clearing round;
  - in the event of material changes in BGRs’ financial position, and in particular of credit rating downgrades;
  - in the event of the changes set out in section 2.5.1 GTC BGR;
  - in the event of changes in the gas market situation, and in particular of movements in balancing energy prices.
- 3) The BGC is entitled to recalculate the collateral requirements at any time, and to request an increase if necessary.
- 4) In the event that a BGR’s open positions exceed the collateral posted the BGC is entitled to make a commensurate margin call. The margin call is calculated by extrapolating observed balancing energy use over a time window of up to 68 days.
- 5) The calculation of total base and variation collateral is as follows:
  - a) The calculation is based on the average monthly turnover of the BG(s) managed by the BGR over the 12 months prior to calculation of the collateral (“observation period”), valued at the average balancing energy price plus the clearing fees and tax. The period for the calculation of the average balancing energy price

is determined by the BGC, and is normally 30 days. In the event of unusual price volatility the BGC is entitled to apply recently observed and/or forecast balancing energy prices to the calculation of collateral requirements. The BGC will inform the BGRs if forecast balancing energy prices are applied. In the event that monthly turnover statistics are not available, or are not available for all the BGs assigned to a BGR, the collateral requirements are calculated on the basis of the maximum monthly turnover estimated by the BGR for the BGs in question over the next 12 months. Turnover shall be recalculated on a rolling basis for periods of four calendar days. At least twice the maximum balancing energy costs for the past three clearing periods plus the clearing fees and tax must be posted as collateral.

- b) Balancing energy suppliers must post additional collateral, calculated on the basis of the distribution area manager's net merit order list balancing energy call-off positions that have not yet been cleared, settled and invoiced (plus tax). Such collateral must be equal to at least one-and-a-half times the highest merit order list call-off costs during the past three clearing periods. The collateral posted for balancing energy called-offs is classed as base collateral.
- c) When calculating collateral requirements account is taken of BGRs' credit ratings.
- d) The BGC deducts a certain amount ("allowance") from the variation collateral if a BGR has a sufficiently good credit rating. If the allowance exceeds the variation collateral the latter is zero. The base collateral is not affected by the credit rating.
- e) A deduction of 0.5% of the BGR's equity is made per credit rating class, starting with zero for the lowest rating class (5) and rising to a maximum of 2% for the top rating class (1). However the deduction may never be higher than the variation collateral component.

### **3. Types of collateral and forms of deposit**

- 1) All BGRs may post the following types of collateral:
  - a) Cash deposits denominated in euro;
  - b) Guarantees extended by independent banks domiciled in the EU or Switzerland with residual maturities of at least two years. A

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guaranteeing bank is not deemed to be independent if it directly or indirectly holds an interest of over 10% in the BGR or the latter holds such an interest in the bank. The BGC reserves the right to reject bank guarantees that are not rated by an international rating agency. Sample documents are posted on the BGC's website.

- 2) Cash deposits denominated in euro may be lodged on custody or other accounts in the EU or Switzerland to which the BGC or an agent of same has direct access by way of an irrevocable direct debit mandate.
- 3) Such collateral, lodged on custody or other accounts, shall be pledged to the BGC or an agent of same, and the parties shall perform appropriate acts of publicity and transfer. Collateral shall be deemed to have been posted if the BGC or an agent of same receives an account statement from the custodian bank or account holding bank, and the necessary acts of publicity and transfer have been performed.
- 4) Bank guarantees must be made out to and deposited with the BGC or an agent of same.

## 4. Change in the value of the collateral

The BGC is entitled to make a margin call if the value of the collateral has fallen since it was posted, if there are reasonable grounds for questioning its value or if another of the types of changes set out in section 2.2 has occurred.

## 5. Posting and release of collateral

The BGC or an agent of same will recalculate the collateral to be posted and notify the BGR of the amount.

- 1) Any BGR with a collateral shortfall of more than EUR 2,000 shall – depending on the collateral actually posted – by **11.00 am** on the banking day after next:

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- a) issue payment and/or transfer orders sufficient to ensure that there is adequate collateral coverage on the custody or other account by the appointed time;
  - b) check whether there is adequate collateral coverage on the custody or other account after the payment or transfer orders have been issued;
  - c) obtain an increase in the bank guarantee to the required amount, and deliver the increased guarantee to the BGC or an agent of same by the appointed time.
- 2) If the collateral on the custody or other account does not provide adequate coverage or a sufficient bank guarantee has not been received by 11:00 am on the banking day after next, then:
- a) the BGC will be issue the BGR with a reminder and give it a grace period of 72 hours, or 24 hours in the event that a significant default is imminent; if such default persists after the grace period the BGC will terminate the contract with the BGR under the GTC BGC with immediate effect;
  - b) any net monetary credit balances of the defaulting BGR arising from balancing energy clearing and settlement will be withheld;
  - c) interest of 8 (eight) percentage points p.a. above the base rate will be charged on the collateral shortfall.
- 3) The procedure for the release of collateral is follows:
- a) at the request of the BGR, the BGC or an agent of same will assess the collateral requirements of the BGR in question;
  - b) if this assessment reveals excess coverage part of the BGR's collateral shall be released accordingly;
  - c) upon termination of the contract or the disbanding of a BG the collateral shall be released after the second clearing round.

## 6. Recourse to, and realisation of collateral

- 1) In the event that a BGR fails to meet its payment obligations despite

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a reminder and granting of a grace period of one week the BGC or an agent of same will be entitled to realise the collateral posted by such BGR. Such realisation will take place in the following order:

- a) base and variable collateral of the defaulting BGR;
- b) base collateral of all BGRs: the obligations of the BGR not covered by the collateral will be met by recourse to the base collateral of the other BGRs; the BGC will have recourse to a percentage of the fair value of the base collateral furnished by the BGRs, up to a maximum of EUR 10 million.

2) The means of realisation are:

- a) Cash deposits denominated in euro: direct debit from the BGR's account and crediting to an account of the BGC or or an agent of same, with the amount offset against the unfulfilled payment obligations;
- b) Bank guarantees: drawing by the BGR or or an agent of same on the guarantees; any surplus is to be used to replenish the collateral.

3) In the event that the BGC or an agent of same have recourse to the collateral posted by the BGR the latter shall replenish the base and variation collateral up to the required amount within one banking day.