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## **Annex**

# **Risk Management and Collateral**

**(T&C – BO)**

**V 0.1**



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## 1 Collateral

- a) Every balance group representative (BGR) must deposit collateral to secure its late payment or default risk, and to cover the late payment or default risk of other BGRs toward the Balancing Operator (BO) within the scope of the joint and several liability scheme. Depositing the required collateral is a prerequisite for admission and operation as a BGR in the Market Area East.
- b) The BGR shall deposit collateral for its balance groups (BG) and must, in the event the balance group has metering values, keep the collateral on deposit until final settlement (2nd clearing) of its balance group(s).
- c) The collateral is made up of the basic collateral and the variable collateral. The basic collateral is part of the joint and several liability. The variable collateral may be reduced due to good creditworthiness.
- d) The BO or a party it charges to act on its behalf monitors compliance with collateral requirements and manages the collateral.

## 2 Collateral requirements

- a) The BGR must deposit collateral with the BO in accordance with the following provisions.
- b) The minimum collateral per balance group is EUR 100,000 and is deemed the basic collateral.
- c) The collateral requirements for the BGR are determined based on the following criteria:
  - Minimum collateral per balance group
  - Exit allocations of the balance groups assigned to the BGR pursuant to 2 2.1.
  - Past settlements with the Balancing Operator pursuant to 2 2.2.
  - Open positions of the balance groups assigned to it pursuant to 2 2.3.
- d) The highest amount resulting from the aforementioned procedures in the clearing process becomes the collateral requirement.
- e) Collateral is released pursuant to clause 5.

### 2.1 Collateral requirement contingent on withdrawal allocations

#### Determination of collateral amount

The following formulas are used to determine the requirements for the basic collateral and for the variable collateral for each balance group representative:

Collateral amount per BG =  
[average daily metered value of withdrawals of the last settled clearing period \* 5 + average daily withdrawal nominations of the last settled clearing period \* 0.5] \* average exchange reference price of the last settled clearing period

$$SB_{\text{ohne Einkürzung}} = \left( \frac{\sum_{T \in CP} \text{AusspMess}_T}{|CP|} \cdot 5 + \frac{\sum_{T \in CP} \text{AusspNom}_T}{|CP|} \cdot 0,5 \right) \cdot \frac{\sum_{T \in CP} \text{Börsepreis}_T}{|CP|}$$

- $CP$  - Clearingperiode
- $|CP|$  - Anzahl der Tage in Clearingperiode
- $T \in CP$  - Tag in der Clearingperiode - (Beispiel:  $\{T_1, T_2, \dots, T_{31}\}$ )

*Legend: CP – clearing period; |CP| - Number of days in clearing period; T ∈ CP – Day in the clearing period (example: ...)*

#### **Variant: Commitment to balanced daily accounts**

For balance groups that do not supply final customers whose balance group representative has committed itself in writing to a balanced daily account, and therefore, agrees to EXIT nomination reductions to achieve a balanced daily account, the following formula shall apply for calculating the collateral amount:

Collateral amount per BG =

[average daily exit nominations of the last cleared clearing period \* 0.1] \* average exchange reference price of the last clearing period settled

$$SB_{\text{mit Einkürzung}} = \left( \frac{\sum_{T \in CP} \text{AusspNom}_T}{|CP|} \cdot 0,1 \right) \cdot \frac{\sum_{T \in CP} \text{Börsepreis}_T}{|CP|}$$

- $CP$  - Clearingperiode
- $|CP|$  - Anzahl der Tage in Clearingperiode
- $T \in CP$  - Tag in der Clearingperiode - (Beispiel:  $\{T_1, T_2, \dots, T_{31}\}$ )

This variant requires the consent of AGCS and presupposes that the MADAM or its agent are capable of making reductions to withdrawal nominations. Any declaration regarding a change to the reduction mechanism or a revocation of this declaration must be published on the website of AGCS. In case of repeated violation of the commitment to balanced daily accounts the balance operator is entitled to suspend the agreement.

The Balancing Operator has the right to calculate the collateral amount at any time and to carry out the calculation of the collateral based on current exchange reference prices as well as on the currently observed or estimated nominations for consumption or withdrawals.

The basic collateral, which is subject to joint and several liability, constitutes 50% of the collateral amount determined, with the other 50% of the collateral amount determined being the variable collateral.

As part of the registration process, EXIT nominations are estimated by the BO based on the documents and information submitted in the registration process, or, a starting collateral amount is determined by the BO based on historical data, if available.

#### **Consideration of the credit rating**

The creditworthiness of the BGR is taken into account when calculating the amount of revenue-based variable collateral:

In the case of a credit rating better than category 5 pursuant to the Annex "Credit Assessment", the BO grants an amount (allowance) which reduces the variable collateral requirement. The allowance determined does not affect the amount of the basic collateral. For each credit rating level, 1.5% of own funds is used as a deduction amount. At the lowest credit rating level (5), it is 0%, and at the highest credit rating level (1) it is a maximum of 6%, however, more than the variable collateral is never deductible as an allowance.

If the calculated amount of the revenue-linked variable collateral is lower than the minimum collateral, and therefore, an allowance cannot be determined, the Balancing Operator has the right to suspend the credit assessment.

## **2.2 Collateral requirement based on past settlements**

The collateral requirement based on past settlements of imbalance energy is designed to cover invoice amounts of outstanding clearing periods (month not yet settled, current month, and up to 15 future final settlements).

Therefore, the sums of the two following calculations yield the collateral requirement based on past settlements.

- a) As long as the balance group representative is active, the collateral amount to be deposited shall be twice the highest BGR'S debit amounts observed in the last twelve months of the 1st clearing.
- b) Moreover, for every final settlement not yet completed (2nd clearing), double the average amount of the BGR's debits of the last twelve final settlements must be deposited as collateral. In any case, for these future final settlements, a collateral amount must be deposited that is not less than 30% of the BGR debits of the last settlement period.

Invoice balances are inclusive of fees and taxes shown on the respective invoices.

Within the scope of registration, past settlements and offsetting quantities of the balance groups are determined and evaluated, if available, and the starting collateral is calculated based on past settlements in this manner.

## **2.3 Collateral requirement based on open positions**

Based on available allocation data and available or forecasted metering values, the BO determines the open positions per BG of the BGR for the period still to be settled ("metering period") and measures this open position with available or indicative settlement prices.

If at the time of settlement of open positions there are invoices that will be issued on the following day, and therefore, the complete metering values from the grid operators are not available, the estimated consumption values sent by the BGRs to the BO are used. If these estimated consumption values are not available at the BO, the BO will use, if provided by the MADAM, the values estimated by the MADAM or will determine reference values itself. The procedure for the open positions calculation is published on the BO's website.

The BGR must deposit collateral which is at least equal in value to the open positions. For the calculation of the collateral, the preceding day's direct debits are weighted by a factor of 4.

The open positions are determined for each BG and, in the event a BGR has several BGs, these balances are included in the collateral requirement for the BGR.

When determining the value of open positions, debits transactions from settled delivery periods not yet received on the bank account of the BO are included.

In case of technical problems at the BO or MADAM, the last value of the open positions determined shall be considered for the collateral requirement for the open positions calculation.

After deactivation of a balance group, the open positions calculation is not used when determining collateral.

## 2.4 Collateral requirement for suppliers of physical imbalance energy

If a provider of imbalance energy makes bids for quantities via the merit order list, the Balancing Operator has the right to demand additional collateral in the amount of the value of the bid.

## 3 Types and depositing of collateral

### 1. Every BGR domiciled in a member state of the European Union (EU) may deposit the following types of collateral:

- a) Pledge agreement for monetary deposits in euro pursuant to the criteria of 3.2;
- b) Pledge agreement for securities pursuant to the criteria of 3.3 and under the conditions of 3.4;
- c) Pledge agreement for stored gas, if these quantities can be delivered by the operator of the storage facility to the Austrian virtual trading point;
- d) Bank guarantees pursuant to the criteria of 3.5;
- e) Deposit of funds with the BO pursuant to the criteria of 3.

At least 50% of the basic collateral must be deposited either in the form of a bank guarantee, in the form of a pledge agreement for monetary deposits in euro, or in the form of a cash deposit. Additional collateral deposits may be made in the form of pledged quantities of stored gas or of securities.

The BO reserves the right to refuse acceptance of collateral from banks that do not have an investment grade rating by a rating agency (Moody's, Fitch, Standard & Poor's). The rating of relevance is the rating for the issuing bank itself and not for a banking group to which the issuing bank belongs.

### 2. Pledge agreement for euro money deposits must meet the following criteria:

- a) Euro money deposits must be callable daily to ensure their immediate realization at any time;
- b) Euro money deposits must be deposited on accounts within the EU, hereinafter referred to as deposit account;

- c) The entire deposit account shall be pledged in favor of the Balancing Operator and the corresponding disclosures and transfers must be verifiable.
- d) It must also be ensured that the BO or its agent, can access the deposit account directly at any time on the basis of an irrevocable direct debit authorization.
- e) The BO must be able to inspect the deposit account at any time. To this end, the BO or its agent must receive proof of the respective account balance (i) of any changes to the account balance, and (ii) upon request of the BO or its agent, proof must be furnished in the form of account statements;
- f) The pledge agreement shall conform to the specimen published by the BO on its website at the time it is issued;
- g) Collateral shall be deemed to be deposited when the BO has received a corresponding account statement from the account manager, and the required disclosure and transfers have been completed.

**3. Pledge agreements for securities must meet the following criteria:**

- a) Single-list securities admitted to trading on the Vienna Stock Exchange pursuant to the Guidelines of the European Central Bank;
- b) The securities must comply with liquidity class L1A pursuant to the Guidelines of the European Central Bank
- c) The nominal currency must be EUR
- d) The securities to be deposited must have a remaining time to maturity of at least two years at any time during the deposit period;
- e) The remaining time to maturity of the securities to be deposited may not exceed ten years at any time during the deposit period;
- f) Own issues or issues of affiliated companies (as defined in § 15 Stock Corporation Act or § 115 Limited Liability Companies Act) cannot be deposited as collateral;
- g) Collateral shall be deemed deposited when the BO has received the corresponding custody account statement from the custodian bank, the required disclosure and transfers have been completed, and the BO has granted the corresponding approval for the depositing of the security.

**Approval of the deposit of securities is subject to the following conditions:**

- h) In the case of collateral provided in the form of securities, 80% of the current market value is counted towards the collateral requirement;
- i) The securities are deposited in a custody account, which is pledged in favour of BO;
- j) The BO reserves the right to reject at any time certain securities and also issuers of securities, even if they meet the criteria set out in 3.3;
- k) A security not accepted by the BO as collateral shall be disregarded in the calculation of the collateral deposited.

**4. Pledge agreement for natural gas in natural gas storage facilities must meet the following criteria:**

- a) Pledged quantities of stored gas must be available daily so as to ensure immediate realization at any time.
- b) Stored gas quantities are transferred to a separate gas storage account to be set up by the storage facility operator for its gas storage customers.
- c) The entire gas storage account shall be pledged in favor of the BO and the corresponding disclosure and transfers shall be completed and verified.



- d) It must be ensured that the BO or its agent (for example MADAM) can access the gas storage account directly and at any time on the basis of an irrevocable authorization.
- e) The BO must be able to inspect the gas collateral account at any time. To this end, the BO or its agent must receive proof of the respective account balance (i) of any changes to the account balance, and (ii) upon request of the BO or its agent, proof must be furnished in the form of the records kept;
- f) The pledge agreement and the commitment declaration for the pledged gas quantities in storage must conform to the specimen published on the website of the BO.
- g) Collateral shall be deemed to have been deposited when the BO has received the corresponding storage records from the storage facility operator, and the required disclosures and transfers have been completed.
- h) The storage facility operator shall be liable for delivery of the stored gas pledged at all times and shall provide a maximum possible withdrawal rate for this purpose according to capability and capacity.
- i) When stored gas is used as collateral, measurement is as follows: every MWh of stored gas is assigned a value of 80% of the lowest exchange reference price of the last 30 days.
- j) The BO reserves the right to refuse stored gas as collateral and/or to request the BGR to replace the stored gas by other collateral. Reasons for refusal include situations in which the valuation or the usage of the stored gas pledged as collateral would be unreliable, which includes but is not limited to volatile market prices, supply shortages, energy steering measures, emergency supplies. In the case of refusal, the BO shall immediately notify the storage facility operator and the BGR, and the latter shall provide the collateral amount in another form of collateral within the period stipulated by the BO.
- k) Any stored gas not accepted as collateral by the BO shall be disregarded in the calculation of the collateral deposited and/or shall be derecognized as collateral.

**5. Bank guarantees must meet the following criteria:**

- a) Bank guarantees must be issued by an independent bank domiciled in the EU or Switzerland. Independence is not given if the guaranteeing bank owns a direct or indirect stake of more than 10% in the BGR or if the BGR owns a stake of more than 10% in the guaranteeing bank.
- b) The remaining time to maturity of the bank guarantee shall be at least twenty-four months at all times during the deposit period.
- c) The bank guarantee must conform to the specimen published on the BO's website.
- d) The BO reserves the right to refuse banks even if they meet the criteria set out in 3.5.
- e) Bank guarantees are deemed to have been deposited when the original has been received by OeKB acting as agent of BO.

**6. Deposit of cash as collateral with the Balancing Operator:**

- a) In the event that the BO is required to make a margin call in accordance with the provisions of the T&C and it is foreseeable that the BGR will not meet the deadlines for depositing under the margin call, the BO has the right to request the BGR to deposit cash into the margin call account of BO;
- b) The cash deposit is considered deposited as soon as the corresponding amount is credited to the BO's account;
- c) A cash deposit, which has been placed on the margin call account, will be released as soon as other types of collateral, in addition to the already existing collateral, have been deposited in an amount corresponding to the margin call.
- d) The BO's margin call account does not have the purpose of being used for the permanent deposit of collateral. The BGR is therefore under the obligation to deposit other types of collateral within a period of two months.
- e) The BO has the right to pass on any interest expenses incurred to the depositor of the cash deposit.

**7. Approval of securities deposited by a BGR domiciled in a country outside the EU is subject to the following conditions:**

- a) In the case of collateral provided in the form of securities, 80% of the current market value is counted towards the collateral requirement.
- b) The BO reserves the right to reject certain securities and also issuers of securities, even if they meet the criteria set out in 3.3.
- c) The BO must maintain a separate custody account for each BGR. This custody account is set up and administrated by OeKB in the name of and for the account of the BO.
- d) The securities shall be deposited exclusively on the custody account in accordance with 3.8.c; other types of depositing are not permitted.
- e) The BO reserves the right to examine the securities in accordance with the principles of collateralization and check if they can be realized at any time, and also reject securities pursuant to these criteria. If collateral is rejected, the BO will immediately notify the BGR. A security not accepted by the BO as collateral shall be disregarded in the calculation of the collateral deposited.

**8. Margin call for collateral to secure recoverability**

The BO has the right to demand the depositing of additional collateral if the value of the collateral no longer corresponds to the value at the time it was deposited or is insufficient or if there are justified doubts regarding its recoverability.

## **4 Consequences of a shortfall**

The collateral required from the BGR is the highest value determined in accordance with 2. c).

If the sum of all collateral deposited is less than the collateral required, the difference shall be deemed a shortfall. The BGR must ensure that there is no shortfall in coverage.

The current collateral requirement can be viewed by the BGR in the login area of the clearing platform. Each BGR is required to avoid shortfalls and to monitor the current collateral requirement on a daily basis. A collateral request submitted in writing by e-mail shall take precedence over the collateral request displayed in the clearing system.

Collateral is determined within the scope of clearing and on a daily basis:

1. If a **shortfall results from the allocation-linked collateral calculation** (pursuant to 2.2.1.) or **from past settlements** (pursuant to 2.2.2.), the BGR shall top up the collateral deposited to the required amount by 15:00 hrs. of the fourth subsequent banking day. If the BGR fails to meet this obligation, the BO will send a reminder to the BGR and grant a grace period of two banking days.

Should this grace period expire unused, the BO has the right to terminate the contract with the BGR.

2. If the **shortfall results from an open position** to be invoiced, immediate action is required. The BO has the right to exercise discretion to terminate the BGR contract effective as of the close of the following day if the required collateral has not been deposited at the latest by 15:00 hrs. of the following day.

The BO has the right to exercise discretion to block BGR's balance groups temporarily effective as of the close of the following day if the required collateral has not been deposited at the latest by 15:00 hrs. of the following day.

If a block is not imposed despite a shortfall, the situation will be continuously monitored, and if necessary, blocked on the next day by the same procedure. As soon as the BGR has fulfilled its collateral obligations accordingly, the blocking of its balance groups will be reversed.

A contract with a BGR shall not be terminated if the probability of damage arising under the joint and several liability is assessed by the BO as low or if suitable technical or organizational measures can be taken to avert damage arising from the joint and several liability.

The termination of the contract does not require the dissolution of the balance groups. The BGR is only permitted to dissolve balance groups when all members of a balance group have become members of other balance groups, regardless of whether this is because they have been accepted by them or because they have been assigned to them by e-Control with legal effect.

The BO notifies all market participants and system operators of the time of as of when

- the termination of the contract takes effect
- when the dissolution or blocking of balance groups takes effect.

In the event of a shortfall on the part of the BGR, the BO shall withhold credit balances from the settlement of imbalance energy until the BGR has complied with the margin call for the collateral.

## 5 Release of collateral

Collateral will be released only upon the request of the BGR and with positive review by the BO.

### **Collateral release due to overcollateralization**

If the sum of the collateral deposited is higher than the collateral required pursuant to the clearing platform, the difference shall be deemed excess collateral. In the event of excess cover, the calculated excess cover value of the collateral may be released to the corresponding extent at the request of the BGR.

### **Collateral release after effective termination of the contract of the BGR for BGRs without metering components:**

Upon the effective termination of the contract with the BGR, the balance groups of the BGR will be deactivated. After deactivation of the balance groups and completion of settlement for the last period for the BGR, and if no further settlements for the BGR are expected, the BO may grant full release of the collateral at the request of the BGR.

### **Collateral release after effective termination of the contract of the BGR for BGRs with metering components:**

Upon the effective termination of the contract with the BGR and under the condition that the metering points have been assigned to other balance groups, the balance groups of the BGR will be deactivated. However, after deactivation of the balance groups and after the last settlement of a period has been completed for the BGR, the values used for the collateral calculation based on past settlements as described in 2.2. b) shall continue to apply.

Collateral must be deposited until final settlement of a balance group for deactivated balance groups. Final settlement of a balance group is deemed given when clearing has been completed for which all metered values and allocation data are available, and it is no longer possible to make changes to the data. The minimum collateral must be deposited until final settlement.

## **6 Realization of collateral**

If payment obligations are not met despite the BGR having been sent reminders and granted a grace period of two banking days, the BO shall have the right to the realization of collateral deposited. The realization is carried out in the following order:

- a) Basic and variable collateral of the BGR in default
- b) Basic collateral of all BGRs within the scope of the joint and several liability pursuant to 6.1

## **7 Joint and several liability**

Under the joint and several liability scheme, the BGRs are liable for the payment defaults of other BGRs with their basic collateral.

BGR's liability under joint and several liability is limited to the amount of the outstanding receivables and any other outstanding claims to be expected from the settlement of imbalance energy with the BGR in default. For the proportionate allocation of the open receivables in cases of joint and several liability, the basic collateral of the BGR with active balance groups at the time of the payment default shall apply, with default being deemed given after a reminder has been sent and a grace period of two banking days has expired without result.

The liability amount of the liable BGR within the scope of joint and several liability is calculated as a percentage share in the outstanding amount of the receivables. The percentage is determined by the share of the basic collateral required of the liable BGR in the sum of the required basic collateral.

Prior to the realization of the collateral, the BO will request the liable BGR to transfer the cover pool contributions to an account of the Balancing Operator. If the transfer does not take place by the defined deadline, the BO has the right to realize the basic collateral.

Pursuant to § 1358 Austrian Civil Code (ABGB), the claim against the defaulting market participant shall transfer to the BGR who is liable under the joint and several liability scheme in the amount of the contribution to the cover pool. The BO has the right to offer the liable BGR collection of the third-party claims against the defaulting market participant. In order for the BO to collect the claim as a third party, an

assignment agreement must be sent by the liable BGR to the BO. A specimen of this agreement is provided by the BO for such cases.

If a defaulting BGR makes payments after the basic collateral of all BGVs has been used, the percentage shares of the basic collateral are returned to the liable BGRs up to the amount of the payments made.

## **8 Topping up collateral**

If the collateral provided by the BGR is used by the BO or its agent to cover outstanding claims or for a contribution to the cover pool under the joint and several liability scheme, the BGR is under the obligation to top up the basic and variable collateral to the required amount within four banking days.