Technical Rule no. 07 REV. 01 ME

(under Article 4 of the Integrated Text of the Electricity Market Rules,
approved by the Decree of the Minister of Productive Activities of 19 December 2003,
as subsequently amended and supplemented)

Title	**Adequacy Verifications and Available Amount of the Financial Guarantee**

Reference Legislation	Article 81, Integrated Text of the Electricity Market Rules

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1. Foreword

Article 81 of the Integrated Text of the Electricity Market Rules (hereafter referred to as the "Electricity Market Rules") provides that

- the modalities and time limits for determining and updating the available amount of the guarantee and verifying the financial adequacy shall be defined in the Technical Rules;
- if, after being updated, the guarantee is not sufficient, the Market Participant shall adjust the guaranteed amount in accordance with the modalities and within the time limits defined in the Technical Rules.

2. Adequacy verifications with respect to the guarantee in the MPE

After the submission of bids/offers into the MGP and MI, which may give rise to Market Participant's payables towards GME, GME will verify the technical adequacy of the bid/offer with respect to the guaranteed amount allocated to the MPE. The offer/bid will be guaranteed if the available amount of the guarantee allocated to the MPE (determined under the procedure described herein) exceeds the maximum value of the payables/receivables arising from the submitted bid/offer, increased by VAT (where applicable).

The payables, including non-arbitrage fees, will be determined on the basis of the offered volumes and prices. If bids/offers are submitted without a specified price (non-price dependent bids/offers), the payables/receivables arising therefrom will be determined by using a conventional price (as per Technical Rule no. 11 rev. 1 MPE) posted on GME's website.

3. Adequacy verifications with respect to the guarantee in the MTE and on the Platform for physical delivery of financial contracts concluded on IDEX (CDE)

Upon submission of demand bids and supply offers into the MTE, upon registration of the net delivery position onto the PCE and upon submission of a request for registering a transaction on the CDE, GME will verify the technical adequacy with respect to the available amount of the guarantee allocated to the MTE/CDE (determined under the procedure described herein).

<u>Submission of demand bids/supply offers into the MTE</u>

A supply offer with a specified price will be adequate if the available amount of the guarantee allocated to the MTE/CDE is not lower than the product (increased by VAT, where applicable) between:

a) the absolute value of the volume quoted in the offer, or the absolute value of the number of contracts multiplied by the number of hours included in the delivery period;

b) the difference, if positive, between the check price and the price specified in the offer.

A demand bid with a specified price will be adequate if the available amount of the guarantee is not lower than the product (increased by VAT, where applicable) between:

c) the absolute value of the volume quoted in the bid, or the absolute value of the number of contracts multiplied by the number of hours included in the delivery period;

d) the difference, if negative, between the check price and the price specified in the bid.

If a bid/offer is submitted without a specified price (non-price-dependent bid/offer), the price of the bid/offer will be considered to be equal to the one of the best bids/offers of opposite sign which have been entered into the order book, until exhausting the same bid/offer.

The verification of the available amount of the guarantee described in this paragraph will be carried out, for each Market Participant and each product, only on the demand bid and supply offer with the highest price priority (hereafter referred to as "*n*" bid/offer) among all the demand bids and supply offers submitted by the Market Participant in the same market session.

If the *n* bid/offer is to be matched, GME will verify whether the bid/offer, which has been entered into the order the book and which, after the matching of the *n* bid/offer, becomes the bid/offer with the highest price priority, is adequate with respect to the guarantee. If the verification has a negative outcome, the non-adequate bid/offer will be deleted from the order book and GME will proceed with the verification of the next bid/offer.

The order book will show the volumes to be purchased and sold on which GME has not carried out adequacy verifications, because they pertain to bids/offers which fail to have the maximum price priority among those submitted by a same Market Participant for a given contract. However, the adequacy of such bids/offers will be verified upon matching. Non-adequate bids/offers will not be matched.

Therefore, demand bids and supply offers will be matched with bids/offers of opposite sign which have been entered into the order the book, which have the highest price/time priority and which have already been verified to be adequate.

Registration of the net delivery position in the MTE

Upon registration of the net buying position to be delivered, GME verifies whether the available amount of the guarantee allocated to the MTE/CDE is not lower than the value of such position, increased by VAT (where applicable).

The value of the net delivery position will be equal to the product between the absolute value of the volumes to be delivered and the corresponding average purchasing price.

Registration of a transaction on the CDE

GME will verify the financial adequacy only of requests for registering purchase transactions on the CDE.

After receiving a request for a purchase transaction on the CDE, GME will verify whether the available amount of the guarantee allocated to the MTE/CDE is not lower than the value of the transaction, increased by VAT (where applicable).

The value of the purchase transaction for which registration is requested will be equal to the product between the absolute value of the volume covered by the transaction and the price of settlement as per Article 70quater.3 of the Electricity Market Rules, identified by CC&G.

4. Definition of the available amount of the guarantees for the purposes of adequacy verifications

For each Market Participant, GME will define the available amount of the financial guarantee allocated to the MPE and to the MTE/CDE, with respect to which it will verify the financial adequacy of:

- the bids/offers submitted into the MGP and MI;
- the bids/offers submitted into the MTE, the net buying positions to be delivered which must be registered on the PCE and the requests for registering purchase transactions on the CDE.

4.1 Definition of the guaranteed amount for the purposes of the MPE and of the MTE/CDE

The amount of the guarantees posted by each Market Participant will be decreased by a maintenance margin, defined as a percentage of the amount of the guarantee.

The maintenance margin for the MPE will be equal to 3% of the total amount of the guarantees, to cover the penalty and the default interest for late payment.

The maintenance margin for the MTE/CDE will be equal to 10% of the total amount of the guarantees, to cover the penalty and the default interest for late payment, as well as the risk arising from partial coverage of the financial obligations arising from the trades concluded in the MTE.

Hence, the amount of the guarantees taken into consideration for the purposes of the adequacy verifications will be equal to:

$$G = \left(\sum_i F_i + \sum_j D_j \right) \quad \textbf{(1)}$$

where

F_i = amount of the i-th bank guarantee posted by the Market Participant;

D_j = amount of the j-th deposit made by the Market Participant.

Each Market Participant will define the share of his/her guarantees to be allocated to the MTE/CDE, to the MPE and to the PCE:

$$G^{MTE/CDE} = G * \delta^{MTE/CDE} * \left(1 - M^{MTE/CDE}\right) \quad \textbf{(2)}$$

$$G^{MPE} = G * \delta^{MPE} * \left(1 - M^{MPE}\right) \quad \textbf{(3)}$$

$$G^{PCE} = G * \delta^{PCE} * \left(1 - M^{PCE}\right) \quad \textbf{(4)}$$

$$\text{with} \begin{cases} \delta^{MTE/CDE} \le 1 \\ \delta^{MPE} \le 1 \\ \delta^{PCE} \le 1 \\ \delta^{MTE/CDE} + \delta^{MPE} + \delta^{PCE} = 1 \end{cases}$$

where

$G^{MTE/CDE}$ = guarantee allocated to the MTE/CDE;

$\delta^{MTE/CDE}$ = share of guarantee allocated to the MTE/CDE;

$M^{MTE/CDE}$ = maintenance margin in the MTE/CDE;

G^{MPE} = guarantee allocated to the MPE;

δ^{MPE} = share of guarantee allocated to the MPE;

M^{MPE} = maintenance margin in the MPE;

G^{PCE} = guarantee allocated to the PCE;

δ^{PCE} = share of guarantee allocated to the PCE;

M^{PCE} = maintenance margin on the PCE.

4.2 Financial position in respect of the months in which delivery has already taken place, but for which payments have not yet been settled

The Market Participant's amount of guarantees will be decreased by the amount of net payables, if any, pertaining to the months in which delivery has already taken place, but for which payments have not yet been settled.

In the MTE/CDE[1], both for each type of contract (base-load/peak-load) traded in the MTE and for each transaction registered on the CDE, let the volume covered by the contract or the transaction and pertaining to month m be equal to:

$QC_{m,i}^{BL} = n_i * h_m^{BL}$ and $QC_{m,j}^{PL} = n_j * h_m^{PL}$

where

$QC_{m,i}^{BL}$ = volume (MWh) covered by the i-th base-load contract/transaction and pertaining to month m;

$QC_{m,j}^{PL}$ = volume (MWh) covered by the j-th peak-load contract/transaction and pertaining to month m;

$n_{i/j}$ = number of contracts covered by the contract/transaction;

h_m^{BL} = number of hours of month m pertaining to the base-load profile;

h_m^{PL} = number of hours of month m pertaining to the peak-load profile;

For the purposes of this document, assume that

n < 0 for purchase transactions/contracts;

[1] At present, only base-load transactions may be registered on the CDE.

n > 0 for sale transactions/contracts.

Let the financial position of each month, in which delivery[2] has already taken place but for which payments have not yet been settled, be equal to:

$$PF_m^{MTE/CDE} = \sum_i P_i * (1+VAT) * QC_{m,i}^{BL} + \sum_i P_i * (1+VAT) * QC_{m,i}^{PL}$$

where

$PF_m^{MTE/CDE}$ = financial position in the MTE/CDE pertaining to month m;

P_i = trading price of the i-th contract concluded in the MTE or price of registration of the transaction on the CDE.

With regard to the MPE[3], let the financial positions of the previous months for which payments have not yet been settled be equal to:

$$PF_m^{MPE} = \sum_i P_i^{MPE} * (1+VAT) * Q_{m,i}^{MPE} + CIP6_m$$

respectively,

where

PF_m^{MPE} = financial position for the MPE pertaining to month m;

P_i^{MPE} = acceptance price of the i-th bid/offer in the MPE (including non-arbitrage fees, if any);

$CIP6_m$ = adjustments recognised to assignees of CIP-6 bands;

$Q_{m,i}^{MPE}$ = accepted volume of the i-th bid/offer in the MPE and pertaining to month m, with

$Q_{m,i}^{MPE} > 0$ for supply offers and $Q_{m,i}^{MPE} < 0$ for demand bids.

For the purposes of adequacy verifications in the MTE/CDE, the overall financial position of month m, in which delivery has already taken place but for which payments have not yet been settled, will thus be equal to:

$$PF_m^{MTE/CDE*} = Min\left\{0; \left[Min\left(0; PF_m^{MTE/CDE}\right) + Max\left(0; PF_m^{MPE}\right)\right]\right\}$$

[2] In the MTE, the months in which delivery has already taken place are those for which the related delivery position has already been registered onto the PCE.

[3] For the MPE, consideration is given to all the months for which all the sessions of the MGP have taken place.

For the purposes of adequacy verifications in the MTE/CDE, the overall financial position of the past months, for which payments have not yet been settled, will thus be equal to:

$$PF^{MTE/CDE} = \sum_m PF_m^{MTE/CDE*} \quad \textbf{(5)}$$

with

PF^{MPE} = financial position for the MPE.

For the purposes of adequacy verifications in the MPE, the overall financial position of the month m, in which delivery has already taken place and for which payments have not yet been settled, will thus be equal to:

$$PF_m^{MPE*} = Min\left\{0; \left[Min\left(0; PF_m^{MPE}\right) + Max\left(0; PF_m^{MTE/CDE}\right)\right]\right\}$$

For the purposes of adequacy verifications in the MPE, the overall financial position of the past months, for which payments have not yet been settled, will thus be equal to:

$$PF^{MPE} = \sum_m PF_m^{MPE*} \quad \textbf{(6)}$$

with

PF^{MPE} = financial position for the MPE.

4.3 Exposure on contracts traded in the MTE

Let the exposure on contracts traded in the MTE, limited to periods for which delivery has not yet taken place, be equal to:

$$EC^{MTE} = \sum_m \sum_i QC_{m,i}^{BL} * \left(P_i^{BL} * (1+VAT) - PC_m^{BL} * (1+VAT)\right) + \sum_m \sum_j QC_{m,j}^{PL} * \left(P_j^{PL} * (1+VAT) - PC_m^{PL} * (1+VAT)\right)$$

(7)

where

EC^{MTE} = exposure on contracts;

PC_m^{BL} = check price of the base-load profile of the delivery month m;

PC_m^{PL} = check price of the peak-load profile of the delivery month m.

4.4 Exposure arising from proposals entered into the order book of the MTE

For each type of contract listed in the MTE, let the best trading proposal submitted by the Market Participant and, for such proposal, the volume pertaining to month m be equal to:

$QP_{m,i}^{BL} = n_i * h_m^{BL}$ and $QP_{m,j}^{PL} = n_j * h_m^{PL}$

where

$QP_{m,i}^{BL}$ = volume covered by the best proposal for the i-th base-load contract and pertaining to month m;

$QP_{m,j}^{PL}$ = volume covered by the best proposal for the j-th peak-load contract and pertaining to month m;

n = number of contracts covered by the proposal;

h_m^{BL} = number of hours of month m pertaining to the base-load profile;

h_m^{PL} = number of hours of month m pertaining to the peak-load profile;

For the purposes hereof, assume that

n < 0 for purchase transactions;

n > 0 for sale transactions.

Let the exposure arising from each of the best proposals, referring to the different types of contracts entered into the order book and pertaining to month m, be equal to

$$EP_{m,i}^{BL} = If\left[QP_{m,i}^{BL} * \left(P_i^{BL} * (1+VAT) - PC_m^{BL}(1+VAT)\right) \geq 0; 0; QP_{m,i}^{BL} * \left(P_i^{BL} * (1+VAT) - PC_m^{BL} * (1+VAT)\right)\right]$$

$$EP_{m,j}^{PL} = If\left[QP_{m,j}^{PL} * \left(P_j^{PL} * (1+VAT) - PC_m^{PL} * (1+VAT)\right) \geq 0; 0; QP_{m,j}^{PL} * \left(P_j^{PL} * (1+VAT) - PC_m^{PL} * (1+VAT)\right)\right]$$

for the base-load and peak-load profiles, respectively,

where

$EP_{m,i}^{BL}$ = exposure on the best proposal for each type of i-th base-load contract entered into the order book and pertaining to month m;

$EP_{m,i}^{PL}$ = exposure on the best proposal for each type of j-th peak-load contract entered into the order book and pertaining to month m;

$P_{i/,j}$ = price at which the proposal has been submitted;

The total exposure EP_{MTE} on the best proposals entered into the order book will thus be equal to:

$$EP^{MTE} = \sum_m \sum_i EP^{BL}_{m,i} + \sum_m \sum_j EP^{PL}_{m,j} \quad \textbf{(8)}$$

4.5 Exposure on the monthly net position in respect of periods still being traded

Let the net position of each month, separately for base-load and peak-load contracts, be equal to the sum of the volumes covered by contracts including the month in the delivery period:

$$PN^{BL}_m = \sum_i Q^{BL}_{m,i} \quad \text{and} \quad PN^{PL}_m = \sum_j Q^{PL}_{m,i}$$

where

PN_m^{BL} = net position of month m pertaining to base-load contracts;

PN_m^{PL} = net position for month m pertaining to peak-load contracts.

Let the future exposure on net base-load and peak-load positions of each month still being traded be equal to:

$$EF^{BL}_m = \sum_m PN^{BL}_m * \alpha^{BL} * PC^{BL}_m * (1+VAT)$$

$$EF^{PL}_m = \sum_m PN^{PL}_m * \alpha^{PL} * PC^{PL}_m * (1+VAT)$$

where

EF_m^{BL} = future exposure of the net base-load position of month m;

EF_m^{PL} = future exposure of the net peak-load position of month m;

α_{BL} = parameter α for base-load contracts;

α_{PL} = parameter α for peak-load contracts.

The future exposure of each month will thus be equal to:

$$EF_m = if\left\{\left(EF^{BL}_m * EF^{PL}_m\right) \geq 0; \left(EF^{BL}_m + EF^{PL}_m\right); if\left[\left(\left|EF^{BL}_m\right| \geq \left|EF^{PL}_m\right|\right); EF^{BL}_m + EF^{PL}_m * \beta; EF^{BL}_m * \beta + EF^{PL}_m\right]\right\}$$

where

EF_m = future exposure of month m;

β = discount factor, ranging from 0 to 1.

The total future exposure EF^{MTE} will be equal to:

$$EF^{MTE} = Max\left[\left(\forall EF_m > 0, \sum_m EF_m\right);\left(\forall EF_m < 0, \sum_m |EF_m|\right)\right]$$
$$-Min\left[\left(\forall EF_m > 0, \sum_m EF_m\right);\left(\forall EF_m < 0, \sum_m |EF_m|\right)\right] * \gamma \quad \textbf{(9)}$$

where

γ = offsetting factor, ranging from 0 to 1.

4.6 Exposure on the sessions of the MPE of the current month

For the market sessions of the MPE already concluded and pertaining to the current month m_0, consider the following financial position:

$$PF_{m_0}^{MPE} = \sum_i P_i^{MPE} * Q_{m_0,i}^{MPE} * (1+VAT) \quad \textbf{(10)}$$[4]

4.7 Exposure on adequate bids/offers in the MPE

For the market sessions of the MPE being held, let the maximum exposure, pertaining to the bids/offers submitted into the ongoing market and already verified to be adequate, be equal to:

$$EM^{MPE} = \forall Q_i^{off} < 0, \sum_i P_i^{off} * Q_i^{off} * (1+VAT) \quad \textbf{(11)}$$

where

Q_i^{off} = volume of the i-th bid/offer;

P_i^{off} = price of the i-th bid/offer (or conventional price) including non-arbitrage fees;

For the purposes hereof, assume

$Q_i^{off} < 0$ for purchase transactions;

$Q_i^{off} > 0$ for sale transactions.

[4] The price P_i^{MPE} takes into account the adjustments, if any, referred to in paras. 6 and 7 below.

4.8 Available amount of the financial guarantee

For the purposes of adequacy verifications in the MTE/CDE, the available amount of the guarantee $CG^{MTE/CDE}$ will be equal to:

$$CG^{MTE/CDE} = G^{MTE/CDE} + PF^{MTE/CDE} + EC^{MTE} + EP^{MTE} - EF^{MTE} \quad \textbf{(12)}$$

For the purposes of adequacy verifications in the MPE, the available amount of the guarantee CG^{MPE} will be equal to:

$$CG^{MPE} = G^{MPE} + PF^{MPE} + PF_{m_0}^{MPE} + EM^{MPE} \quad \textbf{(13)}$$

5. Adjustment of the guarantee

If the guarantee, after being updated under the procedure described herein, is not sufficient, GME will send an e-mail request for adjustment to the Market Participant, specifying the minimum amount to be paid.

By 10:30 of the 5th working day after receipt of the request, the Market Participant must pay the requested amount (with value date on the same day) to the bank in charge of treasury services by bank transfer (*bonifici di importo rilevante* - BIR) or equivalent procedures, or submit a bank guarantee (or update the already posted bank guarantee) for an amount at least equal to the requested amount

If the Market Participant fails to pay within the above-mentioned time limits, GME will initiate the default procedure referred to in Article 89 of the Electricity Market Rules.

6. Adjustment of the financial guarantee for non-arbitrage fees

For the purposes of the technical adequacy verification, every day, after the close of each sitting of the MI and before the adequacy verification of the submitted bids/offers, the amount of the financial guarantee allocated to the MPE for each bid/offer submitted in respect of a withdrawal point will be adjusted as follows:

a) for demand bids - it will be decreased by an amount equal to the product (if negative) between the volume quoted in the bid and the difference between the price referred to in article 42, para. 42.2 b) of the Electricity Market Rules and the price mentioned in article 42, para. 42.2 c) thereof (hereinafter "non-arbitrage fee");

b) for supply offers - it will be decreased by an amount equal to the difference (if negative) between:
    - the product between the price and the volume quoted in the offer, and
    - the non-arbitrage fee.

If a supply offer submitted in respect of withdrawal points is not adequate after the adjustments referred to in subpara. a) above, such offer will not be indicated in the BN.

For the purposes of the technical adequacy verification, every day, after the close of each session of the MI, the amount of the financial guarantee in the MPE, for each bid/offer accepted in the MI and pertaining to withdrawal points, will be adjusted as follows:

c) for each accepted demand bid – it will be increased (if positive) or decreased (if negative) by an amount equal to the non-arbitrage fee;
d) for each supply offer accepted in the MI and pertaining to withdrawal points - it will be increased (if negative) or decreased (if positive) by an amount equal to the non-arbitrage fee.

At the end of each session of the MI, the adjustments referred to in subparas. a) and b) above are cancelled and the adjustments referred to in subparas. c) and d) above are carried out.

7. Adjustment of the financial guarantee as a result of the assignment of CIP-6 rights

Only for the purpose of determining the available amount of the financial guarantee, the purchases that a Market Participant makes in the MGP in respect of withdrawal points for which the same Participant qualifies as assignee of CIP-6 rights (hereafter "CIP-6 Market Participant"), or the purchases that a Market Participant makes in the MGP in respect of withdrawal points for which he/she has been delegated to submit bids/offers into the MGP by a CIP-6 Market Participant, will be valued at the price of assignment and not at the price specified in Article 42, para. 42.2 c) of the Electricity Market Rules (hereinafter "PUN" – National Single Price).

For the purposes of invoicing and settlement of payments, the above valuing will not modify the payables and receivables between Market Participants and GME, which arise from purchases made in the MGP in respect of withdrawal points for which the same Market Participants are assignees of CIP-6 rights.

Consequently, only for the purposes of the technical adequacy verification, the value of the demand bids already billed in the same invoicing period, for the CIP-6 Market Participants or for the parties that they have delegated to trade in the MGP, in respect of the withdrawal points owned by the CIP-6 Market Participants, will be adjusted as follows:

a) for each hour in which the PUN is higher than the price of assignment, it will be increased by the amount (increased by 1%) resulting from the product between: i) the difference between the PUN and the price of assignment; ii) the minimum between the assigned volume and the volume of electricity that the CIP-6 Market Participant or the party delegated by the same CIP-6 Market Participant has purchased in the MGP in respect of the withdrawal points for which the assignment has been made;
b) for each hour in which the PUN is lower than the price of assignment, it will be decreased by the amount (increased by 1%) resulting from the product between: i) the difference between the price of assignment and the PUN; ii) the minimum between the assigned volume and the volume of electricity that the CIP-6 Market Participant or the party delegated by the same CIP-6 Market Participant has purchased in the MGP in respect of the withdrawal points for which the assignment has been made.

The adjustments covered in this paragraph will be carried out, for each month, on the following days, after the close of the energy markets:

i) on day 9 or, if such day is a holiday or a day preceding a holiday, the immediately preceding working day;
ii) on day 19 or, if such day is a holiday or a day preceding a holiday, the immediately preceding working day;
iii) the next-to-the last calendar day of the month.

8. Adjustment of the financial guarantee as a result of a deposit made in favour of GSE as a guarantee for the payment of CIP-6 electricity

Market Participants that are assignees of CIP-6 rights are required to make a guarantee deposit in favour of GSE. The amount of the deposit will be equal to the product, in each hour, between the price of assignment and, with reference to a 30-day period, the volume of electricity covered by the

Contract for Difference, in accordance with the modalities and within the time limits established by GSE itself.

GSE will notify GME of the guarantee deposit so made or of any subsequent variations in the amount thereof resulting from the updating of the price of assignment or of the volume of electricity covered by the Contract for Difference in the course of the year, so as to enable GME to adjust the guaranteed amounts.

After receiving the above notifications from GSE, GME will adjust the amount of the financial guarantee allocated to the MPE by each CIP-6 Market Participant that has made such deposit or by the party delegated by the same CIP-6 Market Participant to trade in the MGP in respect of withdrawal points belonging to the same CIP-6 Market Participant. Therefore, the amount of the financial guarantee for the MPE will be:

a) increased by an amount equal to the guarantee deposit or to the up-adjustment of the guarantee deposit made by the CIP-6 Market Participant in favour of GSE;

b) decreased by an amount equal to the amount of the down-adjustment of the guarantee deposit made as a result of a credit memo issued by GSE in favour of the CIP-6 Market Participant. For the purposes of technical adequacy verifications, the decrease will be made only if, after GME's verification, the payables of the Market Participant for whom the adjustment is made are covered by the guarantees that the same Market Participant has posted in favour of GME.

The above adjustment will be carried out by the end of the second working day after receipt of the notification from GSE.

9. Parameters

The parameters α, β and γ have been determined by examining the time series of the PUN ("Prezzo Unico Nazionale" – National Single Price) and of the prices of electricity futures traded in European regulated markets.

The parameter α has been determined on the basis of the volatility of the observed prices; it is differentiated on the basis of the traded profile: base-load (α_{BL}) and peak-load (α_{PL}).

The parameter β has been determined on the basis of the correlation between the observed prices of the base-load and peak-load contracts.

The parameter γ has been determined on the basis of the correlation of prices between different delivery periods.

The values of the parameters taken into consideration for the purpose of verifying the available amount of the guarantee will be as follows:

α_{BL} = 40%

α_{PL} = 50%

β = 70%

γ = 70%