

Technical Rule no. 4 rev. 06 PCE

(under article 4 of the Rules Governing
the Forward Electricity Account Registration Platform)

Title	Validation, technical adequacy verifications, and available amount of the financial guarantee
Reference Legislation	Article 35, para. 35.3, Article 36, paras. 36.3 and 36.4, Article 38, para. 38.3, Article 39 , paras. 39.3 and 39.5, Article 42, para. 42.3, and Article 60, paras. 60.1 and 60.3, Rules Governing the Forward Account Registration Platform

successfully verified by the Director of Markets
of *Autorità di Regolazione per Energia, Reti e Ambiente*
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1. Foreword

Article 35, para. 35.3, and Article 38, para. 38.3 of the Rules Governing the Forward Account Registration Platform (hereafter “PCE Rules”) provide that, if the request for or the confirmation of registration of a transaction is deemed to be invalid, GME shall – in accordance with the terms and conditions indicated in the Technical Rules – notify the submitting Participant thereof, specifying the reasons for such invalidity.

Article 36, paras. 36.3 and 36.4 and Article 39, paras. 39.3 and 39.5 of the PCE Rules provide that GME shall – under the terms and conditions indicated in the Technical Rules – notify the Participants of the results of the technical adequacy verifications of their requests or confirmation of registration of transactions that have been deemed to be technically adequate or inadequate.

Article 42, para. 42.3 of the PCE Rules provides that if the registration of CET bids/offers is not valid, GME shall notify the invalidity to the Participant according to the terms and conditions defined in the Technical Rules, specifying the reason for such invalidity.

Article 60, para. 60.1, of the PCE Rules provides that GME shall determine, according to the terms, conditions and time limits set forth in the Technical Rules, the sufficiency of the financial guarantee for each settlement period as the algebraic sum of the financial balance of the forward accounts referred to in Article 59 and of the amount of the bank guarantee, or of the deposit, reduced by the maintenance margin as defined in the Technical Rules.

Article 60, para. 60.3 of the PCE Rules provides that if, as a result of variations in the estimated CCT, the value of the financial guarantee calculated in accordance with the same article is negative, GME shall notify the Participant involved thereof. In accordance with the procedures and within the time limits defined in the Technical Rules, such Participant shall either reduce its exposure or increase the amount of the posted guarantee until reaching a positive value.

2. Validation and technical adequacy verification of registrations of transactions

GME validates the requests for registering transactions as soon as they are received by the PCE information system. In case of invalid requests, GME will notify to the submitting Participant the result of the verification, specifying the reasons for the invalidity.

GME carries out the physical adequacy verifications under Article 36, para. 36.1 a) and Article 39, para. 39.1 a), and the financial adequacy verifications under Article 36, para. 36.1 b) and c), Article 39, para. 39.1 b) and c), and Article 45, para. 45.3 of the requests for the registration of transactions that have been validated, and immediately notifies the submitting Participant of the result of the verifications. In case of inadequate requests, GME will specify the reasons for the inadequacy.

GME validates the confirmations of the registration of the transactions as soon as they are received by the PCE information system. As soon as the verifications are complete, and only in case of invalid confirmations GME will notify the submitting Participant of the result of the verifications, specifying the reasons for the invalidity.

GME verifies the technical and financial adequacy of the confirmations of transaction registrations that have been validated, and notifies the result of the verifications only to the submitting Participant (if they are inadequate) or to both Participants (if they are adequate), as soon as they have been completed.

After completing the validation and technical adequacy verifications and regardless of the way in which the Participant has submitted requests for the registration of the transactions or confirmations of the registration of the transactions, GME will notify the result of such verifications by making available an XML file (known as “Functional Acknowledgement” – FA) in the “Download” section.

If the validation and technical adequacy verifications are successful (i.e. when the request for registering a transaction or the confirmation of registering of a transaction has been submitted in accordance with the PCE Rules), the FA will contain the “**Accept**” message. If the verifications are not successful, the FA will contain the “**Reject**” message and the reasons for the rejection.

To upload and download multiple XML files automatically, users may rely on the web services made available by GME; these services are described in the “GME’s Web Services” document, which is posted at www.mercatoelettrico.org.

3. Checking the validity of requests of registration of CET bids/offers

GME validates the requests for registering CET bids/offers (schedules) as soon as they are received by the PCE information system and notifies the submitting Participant of the result of the verification by making available an XML file (known as “Functional Acknowledgement” – FA) in the “Download” section.

If the validation and technical adequacy verifications are successful (i.e. when the request for registering a CET bid/offer has been submitted in accordance with the PCE Rules), the FA will contain the **"Accept"** message. If the verifications are not successful, the FA will contain the **"Reject"** message and the reasons for the rejection.

To upload and download multiple XML files automatically, users may rely on the web services made available by GME; these services are described in the "GME's Web Services" document, which is posted at www.mercatoelettrico.org.

4. Guarantee system on the PCE

For the verifications of the financial adequacy under Article 36, para. 36.1 b) and c), Article 39, para. 39.1 b) and c), and Article 45, para. 45.3, of the PCE Rules, the estimated CCT will apply to:

- a. a transaction increasing, in absolute value, the net sell position of the forward sell account;
- b. a transaction increasing, in absolute value, the net sell or buy position of the forward storage account;
- c. a CET demand bid pertaining to zonal injection portfolios that is associated with a forward withdrawal account for the step-down margin only.

With a view to determining the CCT (once the PUN index GME is known), the CCT will be applied to the following bids/offers, as set forth in article 48, paras. 48.1, 48.2, and 48.3 of the PCE Rules:

- i. CET supply offers registered on the related forward injection account;
- ii. CET supply offers and demand bids registered on the related forward storage account;
- iii. CET demand bids pertaining to zonal injection portfolios associated with a forward withdrawal account for the step-down margin only, registered on the related forward account.

4.1 Financial adequacy verifications with respect to the guarantee on the PCE

In line with Article 60, paras. 60.1 and 60.2 of the PCE Rules, the available amount of the guarantee CG^{PCE} is equal to:

Equation 1

$$CG^{PCE} = G^{PCE} + E^{PCE}$$

Thus, a request for registration and confirmation of a transaction as referred to in subparas. a. and b., or

a bid as referred to in subpara. c. of paragraph 4 above is adequate compared to the available amount of the financial guarantee towards GME, if the guarantee available for the PCE (G^{PCE} defined in Equation 4) is greater than or equal to the exposure on the PCE (E^{PCE} defined in Equation 8).

Equation 2

$$CG^{PCE} \geq 0$$

4.2 Other cases of updating of the available amount of the guarantee

In addition to the phases of request for registration and confirmation of a transaction as referred to in subparas. a. and b., or a bid as referred to in subpara. c. of paragraph 4 above, the available amount of the financial guarantee on the PCE is recalculated in the following cases:

- cancellation of registration requests;
- update of the estimated CCT;
- receipt of the results of the MGP;
- change of the VAT code;
- update of the guarantee amount;
- settlement of payments¹.

The position is guaranteed if the posted guarantees are sufficient, otherwise an adjustment is required as indicated in the following paragraph 5.

4.3 Definition of the guarantee for adequacy verifications on the PCE

The amount of the guarantee - in accordance with the forms provided for PA Participants and non-PA Participants² - considered for the purposes of the adequacy verifications is equal to:

¹ Payments are defined as those made to completely settle the payables relating to the valuing of CCTs as provided for in Technical Rule no. 06 PCE. Therefore, in case of partial payments with respect to the amount due, the available amount of the guarantee is not updated.

² Pursuant to Article 56, para. 56.1 a) and Article 56, para. 56.2 of the PCE Rules, a non-PA Participant is required to post financial guarantees in the form of first-demand bank guarantees, issued by banks with an adequate credit rating in compliance with the PCE Rules. Furthermore, pursuant to the provisions of Article 56, para. 56.1 b) of the PCE Rules, a non-PA Participant that is already an ME or MGAS Participant may also use part of the financial guarantees posted pursuant to Title V of the ME Rules or Title V of the MGAS Rules, in accordance with the procedures provided therein. Conversely, according to Article 56, comma 56.1 c), a PA Participant shall post guarantees exclusively in the form of a non-interest bearing cash deposit to be posted into the bank account held by GME with the bank in charge of GME's treasury services.

Equation 3

$$G = \left(\sum_i F_i + \sum_j D_j \right)$$

where

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

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

Each Participant, in accordance with Technical Rule no. 4 ME and Technical Rule no. 19 MGAS, can define the portion of its guarantees to be allocated to the PCE, which will be equal to:

Equation 4

$$G^{PCE} = G * \delta^{PCE} * (1 - MM^{PCE})$$

where

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

δ^{PCE} = guarantee share allocated for the PCE (where $0 \leq \delta^{PCE} \leq 1$ ³);

MM^{PCE} = maintenance margin on the PCE, equal to 3%.

Indeed, the portion of the guarantee allocated to the PCE, in compliance with Article 57, para. 57.1 a) and b) of the PCE Rules, is reduced by an amount equal to 1% to cover the penalty and to 2% to cover the default interest for late payment, respectively.

³ The sum of the shares of the guarantee allocated among GME's ME, MGAS, and PCE (MPEG, MGP/MI, MTE, MPGAS, MT-GAS, and PCE), in accordance with the guarantee allocation form submitted, must be equal to 1.

4.4 Definition of exposure for the purposes of the adequacy verifications on the PCE

4.4.1 Exposure on proposals on the PCE

On the PCE, the submission or confirmation of registration of a transaction as referred to in subparas. a. and b., or a bid as referred to in subpara. c. of paragraph 4 above will generate an exposure equal to:

Equation 5

$$PF^{PCE}_g = - \left\{ \left| \sum Q_{g,i} \right| \times [estimated\ CCT_{g,i} \times (1 + VAT)] \right\}$$

where:

PF_g^{PCE} = exposure from transactions on the PCE referring to day g;

Estimated CCT= estimated CCT value for day g;

$Q_{g,i}$ = quantity expressed in MW covered by the i-th proposal of the registration of a transaction or a bid referred to in subparas. from a. to c. of paragraph 4 above⁴;

VAT = VAT value associated with the transaction sign.

In case of CET demand bids pertaining to zonal injection portfolios associated with a forward withdrawal account only for the step-down margin only, the verification is run in accordance with the market interval/merit priority of these bids; in contrast, in case of a sale on an injection account, or of a sale or purchase on a storage account, this verification is carried out in real time at the time of submission.

4.4.2 Exposure on the net delivery position on the PCE

Once the PUN Index GME is known, based on the CET bids/offers referred to in the previous paragraph 4, subparas. from i. to iii, the exposure calculation is updated according to the following formula:

Equation 6

$\forall Q_{g,i}$

$$PF^{PCE}_g = \sum [Q_{g,z,i} \times CCT_{gh,i} \times (1 + VAT)]$$

⁴ Observing the sign convention adopted on the PCE.

where:

$$CCT_{gh,i} = (PZ_{ih} - PUN\ Index\ GME_{gh})$$

CCT = actual CCT value determined as the difference between the zonal price and the PUN Index GME;

Pz_{ih} = zonal price, for day g and for market time interval h (indicated in Technical Rule no. 13 PCE), of the i-th CET bid/offer accepted in the MGP;

$Q_{g,z,i}$ = quantity accepted in the MGP for zone z, expressed in MW covered by the i-th registration;

PUN Index $GME_{g,h}$ = PUN Index GME value for day g and for each market time interval h indicated in Technical Rule no. 13 PCE.

4.4.3 Exposure by settlement date

In order to determine the exposure as a function of the weekly settlement, each daily exposures $PF_{g,h}$, determined as shown in the paragraphs above, is aggregated on the basis of the settlement date S associated with each flow day g.

The Participant's exposure for each settlement date S is equal to:

Equation 7

$$E_S^{PCE} = \sum_{g \in S} PF_g^{PCE} + ACC_S$$

where:

ACC = amount of any adjustment due to, including but not limited to, extraordinary operations and changes in tax rates.

The overall exposure on the PCE is equal to:

Equation 8

$$\forall E_S^{PCE} < 0$$

$$E^{PCE} = \sum E_S^{PCE}$$

5. Adjustment of the guarantee

If the guarantee, after being updated under the procedure described herein on the positions held, is not sufficient, GME will send by e-mail a request for adjustment to the Participant, specifying the minimum amount to be posted.

By 10:30 am on the 3rd working day following the receipt of the request, the Participant:

- must credit to GME's treasury institute, and with beneficiary value date on the same day, via SEPA Urgent/Priority Credit Transfer or equivalent - from the bank account whose details have been previously communicated to GME pursuant to Article 23, para. 23.2 h) of the PCE Rules, according to the terms and conditions established in Technical Rule no. 06 PCE -, the transfer of an amount adequate for covering its exposure, or

- must post a further bank guarantee (or adjust the validity and/or the amount of the guarantee already posted) for an amount at least adequate for covering its exposure⁵.

In case of failure to provide the adjustments within the given period, the Participant will be suspended.

⁵ PA Participants are not allowed to do so, as they must post a guarantee exclusively in the form of a cash deposit.