# Technical Rule no. 10 rev. 01 MLF

(pursuant to article 4 of the Local Flexibility Market Regulations, approved by the Regulatory Authority for Energy, Networks and the Environment with resolution 372/2023/R/eel, as subsequently amended and supplemented)

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| **Title** | **Adequacy and capacity checks of the financial guarantee** |

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| Reference Legislation | Article 77, paragraphs 77.1, 77.2, and 77.4 of the Regulations |

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## 1. Foreword

GME, as a central counterparty, determines the exposure of each Market Participant in order to hedge the settlement risk by requiring them to cover their exposure with adequate guarantees. For this purpose, both during the proposal phase and in the subsequent phases in which different valuations of the exposure may take place, GME performs financial adequacy checks aimed at verifying that the guarantee amount posted by the Market Participant is sufficient to cover their exposure.

Article 77 of the Local Flexibility Market Regulation (hereinafter referred to as: Regulations) provides that:

- GME determines and updates the guarantee amount according to the modalities and within the timings defined in the Technical Rules (paragraph 77.1);
- if the guarantee, updated according to the modalities indicated in the Technical Rules, is insufficient, the Market Participant must adjust the guaranteed amount according to the modalities and within the timings defined in the Technical Rules. If the adjustment of the guaranteed amount is not completed, the Market Participant cannot conclude negotiations that lead to an increase of their exposure towards GME (paragraph 77.2);
- the determination, the update, and the adequacy checks of the guarantee amount are performed according to the modalities indicated in the Technical Rules and to the principles referred to in the same Article 77.4 (paragraph 77.4);
- GME reduces the Market Participants' total guarantee value by an amount determined in the Technical Rules (paragraph 77.4, letter a);
- the purchase and sale offers presented on the Local Forward Flexibility Market (hereinafter referred to as: MLT-Flex) are verified to be adequate if the guarantee provides coverage of the economic items deriving from those offers, as indicated in the Technical Rules (paragraph 77.4, letter b);
- the purchase and sale offers presented on the Local Spot Flexibility Market (hereinafter referred to as: MLP-Flex) are verified to be adequate if the guarantee provides coverage of the

economic items deriving from those offers, as indicated in the Technical Rules (paragraph 77.4, letter c).

## 2. Guarantee system on the MLF

GME carries out financial adequacy checks in order to verify whether the guarantee amount posted by the Market Participant is sufficient to cover their exposure (net debit position) pertaining to step-down margins on the Local Flexibility Market (hereinafter referred to as: MLF).

The financial adequacy of the guarantee (C) is given by the algebraic sum of the guarantee amount (G) and of the Market Participant's exposure (E).

Equation 1

$$C = G + E$$

The guarantee is financially adequate if:

$$C \geq 0$$

The amount of the guarantee posted by each debtor Market Participant in the form of a cash deposit is decreased by an amount, defined as the maintenance margin (MM):

Equation 2

$$G = \sum_{j} D_j \times (1 - MM)$$

where:

$G$ = guarantee allocated for the MLF markets;

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

$MM$ = maintenance margin on the MLF markets.

The maintenance margin for guarantees is set equal to 3%, of which 2% to cover default interest for late payment and 1% to cover the penalty.

The exposure E is equal to 100% of the value (increased by VAT where chargeable) of offers presented and subsequently awarded on the MLF, pertaining to step-down margins having a unit price higher than or equal to zero.

Offers pertaining to step-up services on the MLF (identified in Technical Rule no. 5 MLF) which have a unit price higher than or equal to zero do not generate exposure.