



Imbalance Settlement Agreement  
Appendix 2

**Collaterals**  
**21.8.2023**

21.8.2023

## Table of contents

---

<b>1</b>	<b>Provision of collateral</b>	<b>3</b>
<b>2</b>	<b>Use of collateral</b>	<b>3</b>
<b>3</b>	<b>Calculation of collateral requirement</b>	<b>4</b>
<b>4</b>	<b>Communicating and responding to Collateral Requirements</b>	<b>5</b>
<b>5</b>	<b>Collateral monitoring</b>	<b>6</b>
<b>6</b>	<b>Currency treatment</b>	<b>6</b>
<b>7</b>	<b>Release of collateral</b>	<b>6</b>

21.8.2023

## Appendix 2 Collaterals

This Appendix specifies the collaterals that the BRP shall provide to eSett as security for its obligations in the Imbalance Settlement, and the procedures that shall be followed in the administration of these collaterals. Capitalized terms not defined in this Appendix shall have the same meaning as in the Main Agreement.

### 1 Provision of collateral

- 1.1 The BRP shall provide collateral ("Collateral") to eSett as security against the risk ("Counterparty Risk") that the BRP is unable to fulfill its obligations towards eSett in the Imbalance Settlement, such as the payment of outstanding and future Settlement Amounts, or any other obligations of the BRP in the Imbalance Settlement.
- 1.2 The BRP shall provide the collateral in the form of cash ("Cash Collateral") or on-demand guarantee issued by a financial institution ("On-Demand Guarantee"), or a combination thereof.
- 1.3 Any Cash Collateral shall be held on a cash account ("Collateral Account") in a bank that fulfils eSett's requirements and is approved by eSett for use in the Imbalance Settlement ("Settlement Bank"). Prior to the provision of Cash Collateral, the BRP shall pledge the Collateral Account to eSett and grant eSett unconditional and irrevocable disposal rights to the Collateral Account by signing a Pledged Cash Account Agreement, the terms of which shall be defined by eSett.
- 1.4 Any On-Demand Guarantee shall be unconditional, irrevocable and payable on first demand, and issued by a financial institution that fulfils eSett's requirements and is approved by eSett for use in the Imbalance Settlement ("Guarantor"). The terms of the On-Demand Guarantee shall be defined by eSett. The On-Demand Guarantee shall be delivered to eSett for safekeeping.
- 1.5 Cash Collateral and On-Demand Guarantees provided by the BRP and meeting the requirements set out herein are collectively referred to as "Deposited Collateral".
- 1.6 Sufficient Deposited Collateral, as specified in this Appendix, shall be provided by the BRP for it to be entitled to act as a Balance Responsible Party.
- 1.7 If the Settlement Bank where the Cash Collateral is held or the Guarantor that has issued the On-Demand Guarantee no longer fulfils eSett's requirements, including but not limited to eSett's requirements on credit ratings, or if the Deposited Collateral becomes unenforceable for any reason, the BRP shall, when so demanded by eSett, without delay provide a new Collateral that meets the requirements set out herein.

### 2 Use of collateral

- 2.1 eSett shall be entitled to use the Deposited Collateral in or towards payment of any outstanding obligation of the BRP under the Imbalance Settlement Agreement that the BRP has not fulfilled in accordance with the settlement schedule defined in the NBS Handbook ("Overdue Obligation"). In addition, eSett shall be entitled to use the Deposited Collateral to recover any default interest on the Overdue Obligation together with all reasonable internal and external charges and expenses incurred by eSett to recover the Overdue Obligation.

21.8.2023

### 3 Calculation of collateral requirement

- 3.1 eSett shall each Monday calculate the amounts of collateral that the BRP is required to provide ("Collateral Requirement") to cover the Counterparty Risk. eSett shall further monitor the Counterparty Risk during the week and recalculate the Collateral Requirement if the Counterparty Risk increases significantly during the week.
- 3.2 Under normal circumstances, the Collateral Requirement shall be calculated according to the following formula ("Standard Formula"):

$$\text{Collateral Requirement} = 3 * (S_1 + S_2) + m * (V_1 + V_2) * P$$

Where:

- S<sub>1</sub>** = Average of the sums of invoiced production fees, consumption fees and consumption imbalance fees per week for the last three invoiced weeks, including any VAT on these amounts that the BRP is liable to
- S<sub>2</sub>** = Average of the absolute amounts of the sums of invoiced production and consumption imbalances in a week for the last three invoiced weeks, including any VAT on these amounts that the BRP is liable to
- V<sub>1</sub>** = Consumption volume the last seven settled days
- V<sub>2</sub>** = Bilateral and PX market sales volumes during the last seven days for which such volumes are available (current day minus 8 days to current day minus 2 days)
- m** = Multiplier:
- 3/7 for the share of (V<sub>1</sub>+V<sub>2</sub>) that does not exceed 80,000 MWh
  - 1/7 for the share of (V<sub>1</sub>+V<sub>2</sub>) that exceeds 80,000 MWh but does not exceed 400,000 MWh
  - 0 for the share of (V<sub>1</sub>+V<sub>2</sub>) that exceeds 400,000 MWh
- P** = The last seven days average imbalance price for which such prices are available in the MBAs where the BRP is active. When calculating the average price, the negative prices are replaced by zero, and the price of each MBA is weighted according to the share of the BRP's total turnover (consumption, PX market sales and bilateral sales) during the last three invoiced weeks that took place in the respective MBA.

- 3.3 The Collateral Requirement shall be at least 40,000 EUR per country in Finland, Norway and Sweden. The Collateral Requirement in Denmark is 0 EUR.
- 3.4 In particular situations when eSett judges that the Standard Formula does not appropriately reflect the Counterparty Risk, eSett may calculate the Collateral Requirement according to a different formula, which better reflects the Counterparty Risk prevailing in that particular situation ("Situation-Specific Formula"). Circumstances in which Situation-Specific Formulas may be applied include but are not limited to the following:
- a) Situations when the invoicing or payment of outstanding settlement amounts are delayed due to public holidays
  - b) Situations when there is an apparent risk that the invoicing or payment of outstanding settlement amounts may be delayed, for example due to labor disputes affecting banks or other institutions that are part of the settlement process
  - c) Situations when substantial changes have taken place or can be expected in the PX Market or Regulation Power Markets and the quoted prices in these markets are no longer considered representative of current or future price levels, in which case the Standard Formula is adjusted by replacing the average regulation market price from the last seven days with an estimated price that better reflects the current or expected price levels.

21.8.2023

- d) Situations when higher imbalance amounts and regulation prices can be expected because power exchanges operating the PX market in the NBS Countries have been unable to calculate the day-ahead results in a normal order
- 3.5 In particular situations when the Standard Formula is not applicable for a particular BRP or eSett judges that the Standard Formula does not appropriately reflect the Counterparty Risk of the BRP, eSett may calculate the Collateral Requirement for the BRP according to a different formula, which better reflects the Counterparty Risk prevailing in that particular situation ("BRP-Specific Formula"). Circumstances in which BRP-Specific Formulas may be applied include but are not limited to the following:
- a) The BRP is new, in which case eSett shall calculate a preliminary collateral requirement based on documentation of planned balance, expected volumes of trade and consumption, and credit rating, if any.
  - b) The BRP's portfolio has recently undergone substantial changes, for example as a result of a merger, acquisition or divestment
  - c) The BRP participates in a shadow auction that is used to allocate cross-border capacities on the NorNed link in case of decoupling of the NWE day-ahead price coupling.
  - d) There are known errors in the volumes reported, which cause substantial errors in the Collateral Requirement for the BRP
  - e) There is evidence of an increased risk that the BRP may not be able to meet its financial obligations towards eSett
- 3.6 eSett shall inform the BRP as early as reasonably possible about the decision to use a Situation-Specific Formula or a BRP-Specific Formula for a certain period of time. eSett shall return to using the Standard Formula as soon as it deems that the Collateral Requirement provided by the Standard Formula again appropriately reflects the Counterparty Risk.

#### 4 Communicating and responding to Collateral Requirements

- 4.1 eSett shall publish the Collateral Requirement to the BRP through the Online Service.
- 4.2 For the purpose of monitoring and administration of Cash Collateral, eSett shall be entitled to report the BRP's Collateral Requirement to any Settlement Bank where the BRP's Cash Collateral is held.
- 4.3 Under normal conditions, eSett shall publish the updated Collateral Requirements each Monday no later than 13 CET. If eSett recalculates the Collateral Requirement on another day in the week, eSett shall publish the recalculated Collateral Requirement by 13 CET on that day.
- 4.4 The BRP shall provide sufficient Deposited Collateral to meet the Collateral Requirement during the same day as the Collateral Requirement was published ("Collateral Deadline"). Any additional Cash Collateral shall be deemed to have been provided by the Collateral Deadline if it was credited to the Collateral Account during the banking day so that it is included in account balance on the end-of-day account statement that is available to eSett in the following morning. Any additional On-Demand Guarantee shall be deemed to have been provided by the Collateral Deadline if it was provided to eSett by 15 CET.

21.8.2023

## 5 Collateral monitoring

- 5.1 eSett shall each day retrieve information from the Settlement Bank about the amount of Deposited Collateral and verify that the amount of Deposited Collateral meets or exceeds the Collateral Requirement ("Collateral Monitoring").
- 5.2 Failure by the BRP to meet the Collateral Requirement by the Collateral Deadline is considered a material breach of the Imbalance Settlement Agreement.

## 6 Currency treatment

- 6.1 All Collateral Requirements shall be calculated and published in Euro ("EUR"). The Collateral of the BRP may be denominated in EUR, Danish Krone ("DKK"), Norwegian Krone ("NOK") or Swedish Krona ("SEK"). The value of any Cash Collateral or On-Demand Guarantee denominated in DKK, NOK or SEK shall for the purpose of Collateral Monitoring be converted to EUR using the latest available Euro foreign exchange reference rates from the European Central Bank.

## 7 Release of collateral

- 7.1 If a Collateral Account holds a larger balance than what is necessary for the BRP to meet the Collateral Requirement and any other requirement on the balance of said account according to the Imbalance Settlement Agreement and its Appendices, the BRP may request from eSett that the balance in excess of the aforementioned requirements ("Excess Balance") be released. Upon the receipt of a valid request to release Excess Balance, eSett shall instruct the Settlement Bank to make the Excess Balance available to the BRP.
- 7.2 If the Imbalance Settlement Agreement is terminated, eSett shall be entitled to withhold the Deposited Collateral until the BRP has fulfilled all its obligations under the said agreement, and if necessary, to use the Deposited Collateral to cover any unsettled commitments that the BRP is unable to fulfill. Excess collateral, if any, shall be released to the BRP after the final economical settlement has been performed.