Margin Model

Nord Pool

Risk Management

Introduction

The aim of the new Margin Model is to produce a collateral requirement that easily and realistically reflects risk in the member's trading behaviour. The model will be stable in reference to the daily collateral calls and will keep administration and following up on daily collaterals to a minimum.

Margin Model:

As a result of harmonising the margining methodology for all Nord Pool markets and simplifying clearing processes, there will be changes to the collateral calculation methodology from January 17th 2017.

The new collateral calculation methodology is described below;

Initial Collateral

Initial Collateral is the requirement that needs to be met before any trading activity starts. Nord Pool estimate the Initial Collateral for all Clearing Members based on the maximum expected net MWh position for a delivery day. This estimate is inserted into the Daily Margin Calculation - giving the Clearing Member an Initial Collateral Call they have to meet before they start to trade. All members need to post collateral as a guarantee that they can pay for the contracts they have entered into. Minimum Collateral for all Nord Pool member's is EUR 30.000,-

Daily Margin

The Daily Margin is calculated on a daily basis, as the sum of a Clearing Member's net MWh position, multiplied by the risk parameter, times the day factor set by Nord Pool.

∑ (Daily Net MWh position x Risk Parameter) x Day Factor

Where;

- The Daily Net MWh position is the sum of the volume flow for a specific delivery day, within a specific country, between Nord Pool and the Clearing Member.
- The Risk Parameter is a parameter set on either a net long or a net short position per delivery country, estimated as a worst case spot price, using three years' lookback and 99.7% confidence interval.
- The Day Factor is a parameter set to account for the Clearing Member's exposure towards Nord Pool over weekends, which can be increased at the discretion of Nord Pool.

Collateral Call

The daily collateral call is estimated as the highest of the Daily Margins looking back on the last 30 days.

MAX (DailyMargin1, DailyMargin2, … , DailyMargin30)

Where;

-   DailyMargin1, 2, …, 30 denotes the Daily Margin calculated for day 1 to day 30.

▶ **Example**

If you have traded 1000 MWh net buy position in area SE and the risk parameter long is 100 then your daily trading margin will be 1000 MWh x € 60 x 2 = € 120k.

Days	Daily Margin	Collateral Call
Day 1	EUR 100,000	EUR 100,000
Day 2	EUR 120,000	EUR 120,000
Day N	EUR 150,000	EUR 150,000
Day 30	EUR 100,000	EUR 150,000

The Daily Margin calculation will run daily, and the highest calculation from the last 30 days will be set as the Clearing Member's Collateral Call. This is to ensure that Nord Pool is covered for empirically observed peaks in trading volumes.