



**Item 5:
Periodic Report on
Credit Work Group Activity**

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Chair, Credit Work Group

Finance and Audit Committee Meeting
April 3, 2017
ERCOT Public

Credit Work Group Update – Reviewed NPRRs

- The Following NPRR was Reviewed by CWG with Potential Credit Impact:
 - NPRR808 Three Year CRR Auction
 - Credit requirements for buying or selling CRR's in a CRR auction are spelled out in Protocol Section 7.5.5.2 and were established for the current two year CRR auction process as part of the Nodal Market redesign.
 - ERCOT Protocols calculate Future Credit Exposure for PTP Obligations over the entire life of the obligations using the higher of a historic Portfolio Weighted Adder (3 year lookback, 100% CI) or the most recent Portfolio Weighted Auction Clearing Price using volume weightings and path-specific settlement prices and PTP Options are valued for positions exercisable in the current and next month using a Path-Specific DAM Based Adder (99% CI) for each option position.
 - It was the consensus of the CWG that current ERCOT Protocols appropriately manage CRR-related credit exposure without the need for modification in a three year versus two year operating environment.
 - NPRR808 was unanimously endorsed by the Credit Working Group.

Credit Work Group Update – Reviewed NPRRs

- Other NPRRs Reviewed by CWG without Potential Credit Impact:
 - NPRR776 Voltage Set Point Communication
 - NPRR799 Updates to Outages of Transmission Facilities
 - NPRR802 Settlements Clean-up
 - NPRR804 Remove Posting Requirement for One-Line Diagram
 - NPRR809 GTC or GTL for New Generation Interconnection
 - NPRR810 Applicability of RMR Incentive Factor on Reservation and Transportation Costs
 - NPRR812 Alignment of Currently-Published Reports
 - NPRR813 updated Terminology Related to Annual Market Settlement Operational Audits
 - NPRR818 Allow Curtailment of DC Tie Load Prior to Declaring Emergency Condition
- Other NPRRs Requested to be Tabled by CWG for Further Discussion:
 - NPRR811 Two Day Cure Period for Foreign Market Participant Guarantee Agreements
 - To be discussed at the April 2017 CWG/MCWG Meeting

2017 Credit Working Group Goals Adopted by CWG in February 2017

- Provide support to the ERCOT stakeholder process incorporating a forward price curve-based methodology (NPRR800) in collateral requirement calculations
- Clarify the market's risk tolerance/appetite level and provide regular updates on credit exposure to the ERCOT Board
- Evaluate and quantify potential market risk under current credit rules and examine a framework for reviewing rules in flight
- Explore methodologies to incorporate Counter-Party specific ratings into ERCOT collateral requirement calculations
- Participate in TAC/WMS-led discussions related to credit in the event of a market continuity business interruption
- Explore potential usage of letter of credit / credit insurance
- Pursue a calculator to allow market participants to calculate their requirements for CRR auctions



Counter-Party Credit Exposure – Jan. / Feb. 2017

- Profile data for Counter-Party credit exposure has been updated to reflect average values for January and February 2017.
- Efforts are being made by the CWG/MCWG to provide guidance to ERCOT as to the appropriateness of reported Credit Exposure calculations.

Number of CPs that are Active by Rating and Category							
Rating Group	CRR Only	Gen Only	Load Only	Load and Gen	Trader	Total CPs	Percent CPs
AAA	0	0	0	0	0	0	0.0%
AA- to AA+	4	0	0	5	0	9	4.2%
A- to A+	3	1	5	6	4	19	9.0%
BBB- to BBB+	2	4	7	10	5	28	13.2%
BB- to BB+	0	1	2	0	0	3	1.4%
B- to B+	0	2	1	4	4	11	5.2%
CCC+ and below	0	0	0	0	0	0	0.0%
Not Rated	10	27	27	6	72	142	67.0%
Total CPs	19	35	42	31	85	212	100.0%
Percent CPs	9.0%	16.5%	19.8%	14.6%	40.1%	100.0%	

Counter-Party Credit Exposure – Jan. / Feb. 2017

Distribution of TPE by Rating and Category

Rating Group	CRR Only	Gen Only	Load Only	Load and Gen	Trader	Total TPE	Percent TPE
AAA	0	0	0	0	0	0	0.0%
AA- to AA+	138,972	0	0	3,561,094	0	3,700,066	1.3%
A- to A+	13,307	1,926	2,009,083	35,311,701	234,498	37,570,515	13.5%
BBB- to BBB+	224,498	1,471,698	4,988,340	31,123,026	7,504,066	45,311,628	16.3%
BB- to BB+	0	911,811	5,546,206	0	0	6,458,016	2.3%
B- to B+	0	5,487,713	0	46,641,118	20,018,037	72,146,868	26.0%
CCC+ and below	0	0	0	0	0	0	0.0%
Not Rated	7,789,660	33,076,249	6,326,719	16,444,387	48,603,467	112,240,483	40.5%
Total TPE	8,166,438	40,949,397	18,870,347	133,081,326	76,360,067	277,427,575	100.0%
Percent TPE	2.9%	14.8%	6.8%	48.0%	27.5%	100.0%	

Distribution of Excess Collateral by Rating and Category

Rating Group	CRR Only	Gen Only	Load Only	Load and Gen	Trader	Excess Collateral	Percent Excess Collateral
AAA	0	0	0	0	0	0	0.0%
AA- to AA+	3,683,908	0	0	46,622,834	0	50,306,742	3.1%
A- to A+	351,652	3,498,074	59,317,793	227,950,568	23,292,696	314,410,783	19.1%
BBB- to BBB+	17,519,570	5,031,726	84,160,591	495,466,653	66,417,939	668,596,478	40.6%
BB- to BB+	0	11,644,108	4,979,645	0	0	16,623,753	1.0%
B- to B+	0	7,684,322	390,473	156,744,531	18,557,733	183,377,060	11.1%
CCC+ and below	0	0	0	0	0	0	0.0%
Not Rated	17,211,493	34,817,546	19,274,638	136,302,990	205,202,225	412,808,892	25.1%
Total Excess Collateral	38,766,622	62,675,775	168,123,141	1,063,087,576	313,470,593	1,646,123,707	100.0%
Percent Excess Collateral	2.4%	3.8%	10.2%	64.6%	19.0%	100.0%	



Counter-Party Credit Changes Dec. 2016 – Feb. 2017

Summary of distribution by Category									
Category	CP Distribution			Average TPE Distribution			Average Excess Collateral Distribution		
	Nov-Dec	Jan-Feb	Change	Nov-Dec	Jan-Feb	Change	Nov-Dec	Jan-Feb	Change
CRR Only	8.90%	8.96%	0.06%	0.50%	2.94%	2.44%	1.60%	2.36%	0.76%
Gen Only	16.80%	16.51%	-0.29%	9.30%	14.76%	5.46%	4.50%	3.81%	-0.69%
Load Only	18.80%	19.81%	1.01%	4.90%	6.80%	1.90%	7.80%	10.21%	2.41%
Load and Gen	15.30%	14.62%	-0.68%	54.30%	47.97%	-6.33%	61.00%	64.58%	3.58%
Trader	40.10%	40.09%	-0.01%	31%	28%	-3.48%	25.10%	19.04%	-6.06%
Summary of distribution by Rating Group									
Rating Group	CP Distribution			Average TPE Distribution			Average Excess Collateral Distribution		
	Nov-Dec	Jan-Feb	Change	Nov-Dec	Jan-Feb	Change	Nov-Dec	Jan-Feb	Change
AAA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
AA- to AA+	4.46%	4.25%	-0.21%	3.77%	1.33%	-2.43%	3.33%	3.06%	-0.28%
A- to A+	8.91%	8.96%	0.05%	13.84%	13.54%	-0.29%	17.43%	19.10%	1.67%
BBB- to BBB+	13.37%	13.21%	-0.16%	14.48%	16.33%	1.85%	38.43%	40.62%	2.19%
BB- to BB+	1.49%	1.42%	-0.07%	1.67%	2.33%	0.66%	1.22%	1.01%	-0.22%
B- to B+	4.95%	5.19%	0.24%	28.54%	26.01%	-2.53%	12.03%	11.14%	-0.89%
CCC+ and below	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Not Rated	66.83%	66.98%	0.15%	37.71%	40.46%	2.74%	27.55%	25.08%	-2.48%

Note: Changes from Dec 2016 to Feb 2017:

- Number of active Counter-Parties has increased from 202 to 212.
- Market-wide TPE has increased from 262 million to 277 million while market-wide Excess Collateral has decreased from 1,663 million to 1,646 million.
- TPE of Load and Gen category has decreased by 6.3% while the excess collateral increased by 3.6%.
- TPE of Gen only category has increased by 5.5%.



Credit Work Group Update - Other Topics

- Proposed refresh of the Credit Monitoring and Management System (CMM) incorporating recently approved NPRRs in the planning stage and targeted for implementation in May 2018.
 - NPRR 800 Revisions to Credit Exposure Calculations to Use Electricity Future Market Prices is anticipated to be included in the CMM refresh.
- ERCOT Credit Management Training sessions have been held in 2016 in Austin, Dallas/Fort Worth, and Houston with the next session scheduled in Austin on April 6, 2017.

Questions?