Item 7.4: Market Credit Update

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Reliability and Markets Committee Meeting

ERCOT Public
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Market Credit Update: Overview

- **Purpose**

  Provide updates on key Credit indicators and other Credit-related developments

- **Voting Items / Requests**

  No action is requested of the Reliability and Markets (R&M) Committee or Board; for discussion only

- **Key Takeaways**
  - Market-wide average Total Potential Exposure (TPE) increased from $1.37 billion in March 2024 to $1.52 billion in April 2024
    - TPES increased by approximately $133 million with the implementation of NPRR 1165 (Revisions to Requirements of Providing Audited Financial Statements and Providing Independent Amount) which requires all Counter-Parties to post an Independent Amount.
  - Average Discretionary Collateral decreased from $4.43 billion in March 2024 to $4.10 billion in April 2024

Credit NPRRs

- **NPRR 1205 - Revisions to Credit Qualification Requirements of Banks and Insurance Companies [ERCOT]**
  - Approved by the BOD on April 18, 2023
  - Implementation will begin the month following PUCT approval
  - Specific changes include strengthening and clarifying minimum credit quality qualifications for:
    - Banks, which issue letters of credit on behalf of Market Participants to ERCOT; and
    - Insurance companies, which issue surety bonds on behalf of Market Participants to ERCOT
  - Comments filed by Luminant that doubles the maximum issuer limits as a percentage of tangible net worth per issuer
    - Balances the higher credit rating threshold by providing more credit capacity available for market participants
    - Approach remains more conservative compared to other ISOs
    - The overall limit of $750M per issuer was not changed

Issuer Credit Limits vs Total LC Amounts Per Issuer

	Total LC Amounts Per Issuer(US$)	Tangible Net Worth(US$)	Issuer Limits based on Tangible Net Worth(US$)	Unused Capacity based on Tangible Net Worth(US$)	Over CL
Lloyds Bank Corporate Markets PLC (FI)	$ 570,471,139	$ 40,955,359,400	$ 327,642,875	$ (242,828,264)	174%
CoBank ACB (FI)	$ 86,400,000	$ 11,193,000,000	$ 95,140,500	$ 8,740,500	91%
Credit Agricole Corporate & Investment Bank S	$ 217,909,399	$ 31,329,928,800	$ 250,639,430	$ 32,730,031	87%
BNP Paribas (FI)	$ 586,182,009	$ 126,186,026,400	$ 750,000,000	$ 163,817,991	78%
Unicredit Bank AG (FI)	$ 110,700,001	$ 21,145,656,200	$ 148,019,593	$ 37,319,592	75%
Societe Generale (FI)	$ 334,708,914	$ 64,038,926,800	$ 480,291,951	$ 145,583,037	70%
DNB Bank ASA (FI)	$ 136,650,003	$ 24,384,000,000	$ 207,264,000	$ 70,613,997	66%
Natixis (FI)	$ 81,680,263	$ 16,699,520,100	$ 125,246,401	$ 43,566,138	65%
Royal Bank of Canada (FI)	$ 391,000,001	$ 71,446,069,601	$ 607,291,592	$ 216,291,591	64%
Wells Fargo (FI)	$ 468,028,565	$ 128,401,000,000	$ 750,000,000	$ 281,971,435	62%
Others (26 banks)	$ 1,641,640,501	$ 1,334,747,582,381	$ 9,421,524,023	$ 7,779,883,522	17%
Totals	**$ 4,625,370,795**	**$ 1,870,527,069,682**	**$ 13,163,060,365**	**$ 8,537,689,571**	**35%**

- As of April 30, 2024
- There are a total of 36 banks that have issued LCs.

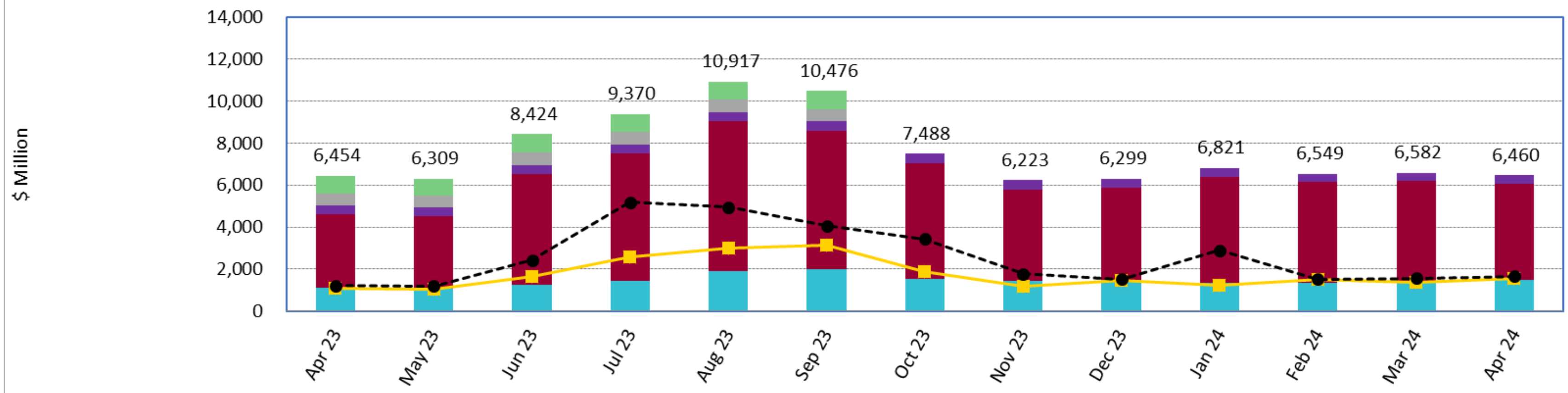
Credit NPRRs

- **NPRR 1215 - Clarifications to the Day-Ahead Market (DAM) Energy-Only Offer Calculation [ERCOT]**
  - Language approved by the Protocol Revision Subcommittee (PRS) in May 2024
  - Clarifies certain calculations performed in determining the exposure of bids and offers submitted in the Day-Ahead Market
    - Credit exposure calculation for DAM Energy-Only Offers zeroes out negative values in calculating the percentile of historical hourly differences between Real-Time and Day-Ahead prices; and
  - Corrects a paragraph reference error
  - Incorporation of the as-built value of “e2” used in the calculation of the credit exposure for DAM Energy-Only Offers. The “e2” value which was in an Other Binding Document (OBD) previously approved by ERCOT Board of Directors was inadvertently omitted when the OBD was incorporated into the Protocols.

Appendices

Available Credit by Type Compared to Total Potential Exposure (TPE) Month-End April 2023 – April 2024

This shows TPE compared to the forms of collateral held.

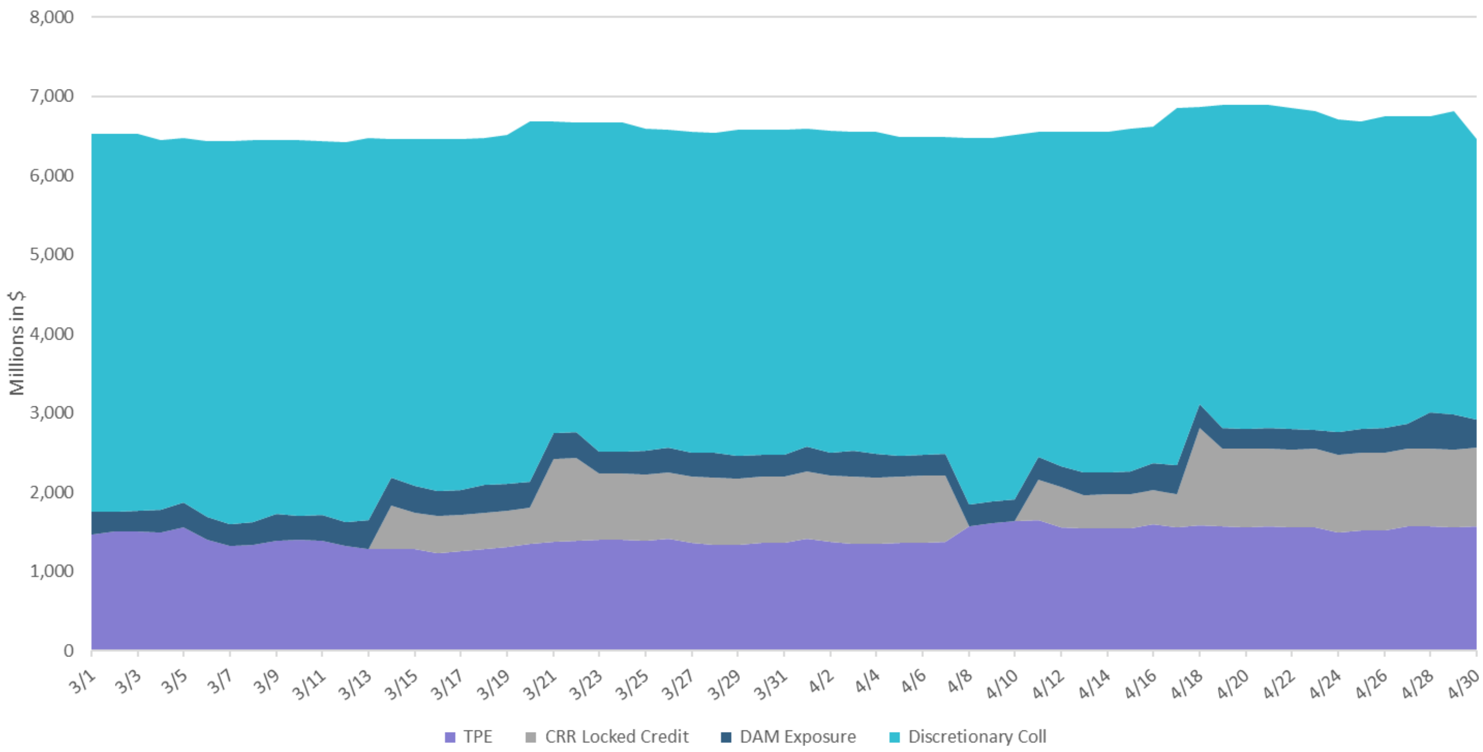


	30-Apr-2023	31-May-2023	30-Jun-2023	31-Jul-2023	31-Aug-2023	30-Sep-2023	31-Oct-2023	30-Nov-2023	31-Dec-2023	31-Jan-2024	29-Feb-2024	31-Mar-2024	30-Apr-2024
Total Credit Limit	6,454	6,309	8,424	9,370	10,917	10,476	7,488	6,223	6,299	6,821	6,549	6,582	6,460
Unsecured Credit	862	823	864	843	845	845	-	-	-	-	-	-	-
Unsecured Guarantees	561	561	605	603	603	603	-	-	-	-	-	-	-
Surety Bonds	423	428	428	428	428	443	443	433	426	416	396	391	406
Letters of Credit	3,515	3,447	5,276	6,056	7,129	6,604	5,512	4,369	4,414	5,066	4,821	4,832	4,572
Cash	1,093	1,051	1,250	1,440	1,913	1,980	1,533	1,421	1,459	1,338	1,332	1,358	1,482
TPE	1,074	1,043	1,659	2,588	3,016	3,149	1,888	1,191	1,475	1,201	1,505	1,365	1,574
Max TPE	1,205	1,179	2,429	5,183	4,948	4,069	3,438	1,776	1,505	2,903	1,505	1,558	1,651

- Numbers are as of month-end except for Max TPE
- Max TPE is the highest TPE for the corresponding month

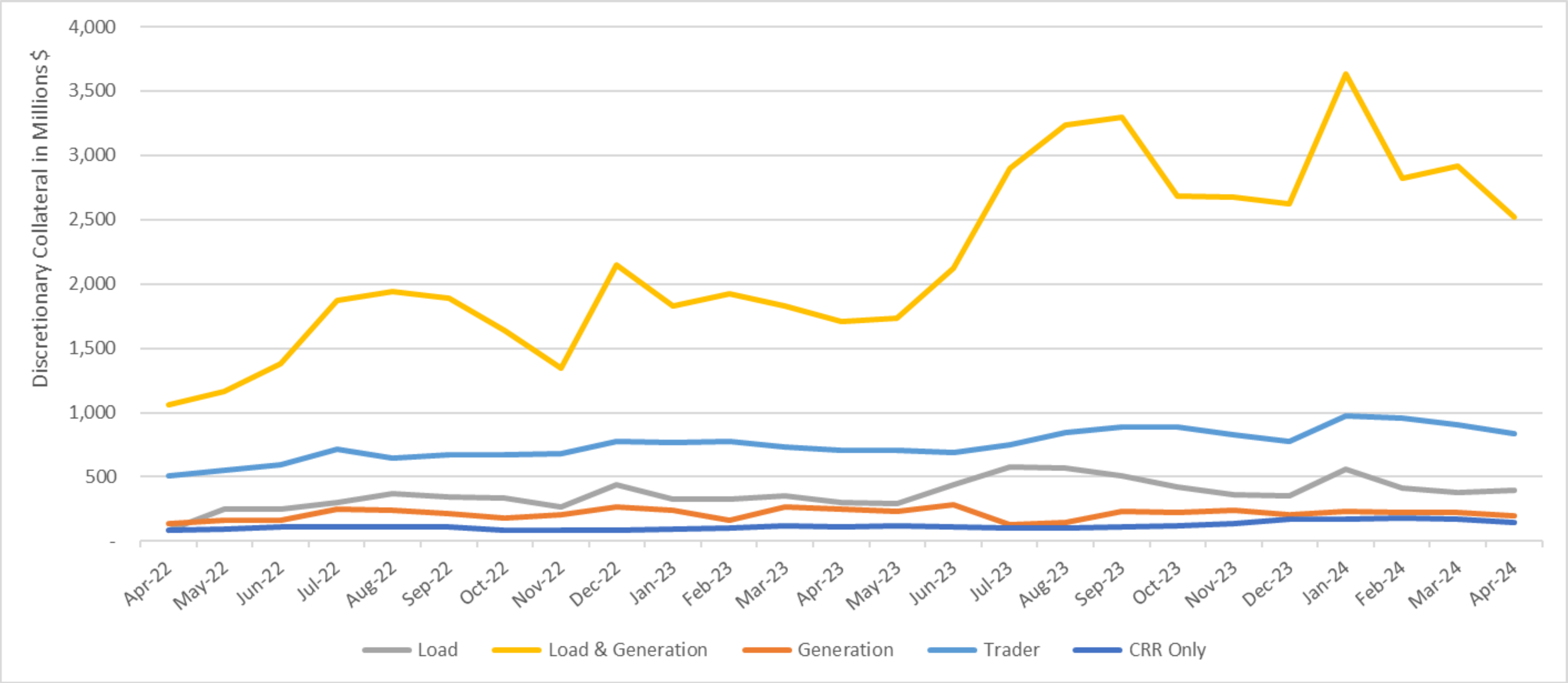
Discretionary Collateral March 2024 – April 2024

ERCOT Counter-Parties typically provide a large measure of collateral in excess of that required to cover TPE, Day-Ahead Market (DAM) activity and Congestion Revenue Right (CRR) auctions.



* TPE adjusted to exclude short pay entities eliminating data skew

Discretionary Collateral by Market Segment April 2022 - April 2024



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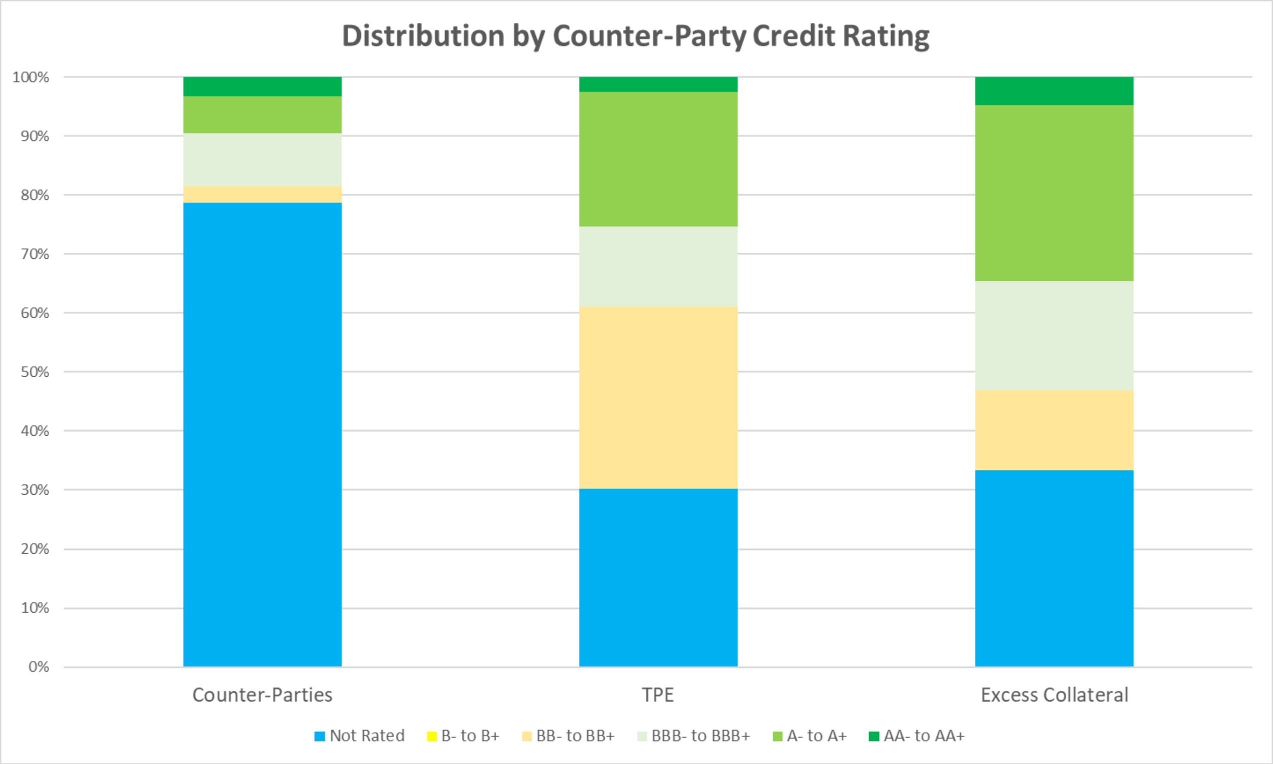
Distributions by Counter-Party Credit Rating – April 2024

Most ERCOT Counter-Parties are not agency-rated. However, unrated entities account for proportionately less TPE and excess collateral than agency-rated entities.



* TPE is average for the month
* Excess collateral (TPE less unsecured credit and secured collateral) is average for the month

TPEA Coverage of Settlements March 2023 – March 2024

Total Potential Exposure – Any (TPEA) is estimated credit exposure for non-CRR market activities.