Date: July 9, 2013
To: ERCOT Board of Directors
From: Kenan Ögelman, Technical Advisory Committee (TAC) Chair
Subject: Credit Parameters

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors (ERCOT Board) Meeting Date:** July 16, 2013  
**Agenda Item No.:** 9.2

| **Issue:** |  
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| The Protocols require ERCOT Board review and approval of certain credit parameters: |  
| • Procedures for Setting Nodal Day-Ahead Market Credit Requirement Parameters; |  
| • Point to Point (PTP) Obligation Bid Reduction Factor; |  
| • Variables related to Point to Point (PTP) Obligations (X and Y; A and M); and |  
| • Multiplier for Unbilled Real Time Amount (URTA). |  

| **Background/History:** |  
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| **Procedures for Setting Nodal Day-Ahead Market Credit Requirement Parameters** |  
| As specified in Protocol Section 4.4.10, Credit Requirement for DAM Bids and Offers, the ERCOT Board is required to annually review the Procedures for Setting Nodal Day-Ahead Market Credit Requirement Parameters. The ERCOT Board last considered the Day Ahead Market credit parameters at its July 17, 2012 meeting. |  
| On July 2, 2012, TAC unanimously voted to affirm the current document, Procedures for Setting Nodal Day-Ahead Market Credit Requirement Parameters, as recommended by both the Wholesale Market Subcommittee (WMS) and the Credit Work Group. |  
| The current document is attached hereto as Attachment A. |  
| **Point to Point (PTP) Obligation Bid Reduction Factor** |  
| As specified in paragraph (6)(d)(iv) of Protocol Section 4.4.10, the ERCOT Board is required to annually review the credit factor as noted below: |  
| For qualified PTP Obligation bids, ERCOT shall reduce the credit exposure in paragraph (6)(d)(i) above, by the product of the bid price, if positive, and the quantity of the bid less than or equal to the quantity of the total of all expiring CRRs at the specified source and sink pair and delivery period, less all valid previously submitted PTP Obligation bids at the specified source and sink pair and delivery period multiplied by a factor initially set at 80% and to be reviewed by TAC and approved by the ERCOT Board at least annually. |  
| The ERCOT Board last considered the PTP Obligation bid reduction factor at its September 18, 2012 meeting. |
On July 2, 2013, TAC unanimously voted to recommend to the ERCOT Board maintaining the 80% PTP Obligation bid reduction factor as recommended by both the WMS and the Credit Work Group.

Variables Related to PTP Obligations (X and Y; A and M)
Protocols require annual review of certain credit variables related to PTP Obligations. Paragraph (2) of Protocol Section 16.11.4.5, Determination of the Counter-Party Future Credit Exposure, specifies the following:

The parameters to determine ACPE (Auction Clearing Price Exposure) (X and Y) shall be posted on the MIS Public Area. The TAC shall review these values at least annually and may recommend to the ERCOT Board changes to these values.

Additionally, Protocol Section 7.5.5.3, Auction Process, specifies:

The additional credit requirement for all awarded PTP Obligations, which is $A per MW per hour, plus the absolute value of the PTP Obligation bid price multiplied by M…The TAC shall review these values at least annually and may recommend, to the ERCOT Board, changes to these values that become effective at least 30 days prior to a monthly CRR Auction and 60 days prior to an annually CRR Auction.

ERCOT has reviewed with various stakeholder groups the following current credit factors:

- X = $1.00
- Y = $1.50
- A = $0.75
- M = 0

The ERCOT Board last considered the PTP Obligation credit variables at its November 13, 2012 meeting.

On July 2, 2013, TAC unanimously voted to recommend retaining the existing parameters (X=$1.00; Y=$1.50; A=$0.75; and M=0) as recommended by both the WMS and the Credit Work Group.

Multiplier for Unbilled Real Time Amount (URTA)
Protocol Section 16.11.4.1, Determination of Total Potential Exposure for a Counter-Party, defines the Multiplier for URTA which provides for unbilled historical activity based on historical activity. It also provides that the multiplier will be recommended by TAC and approved by the ERCOT Board.

The current multiplier for URTA, M2, is 12 days. To accommodate the reduction in the Real Time Market Settlement timeline resulting from the implementation of NPRR509, Shortened RTM Settlement Timeline, the WMS and the Credit Work Group recommended the multiplier be reduced from 12 to 10 days, effective no earlier than September 1, 2013.

On July 2, 2013, TAC unanimously voted to recommend reducing the Multiplier for URTA,
ERCOT Public M2, from 12 to 10 days effective September 1, 2013.

Key Factors Influencing Issue:
Considering Credit Work Group, WMS and ERCOT staff input, TAC did the following:

- Reviewed the Procedures for Setting Nodal Day-Ahead Market Credit Requirement Parameters and voted to submit the above recommendation to the ERCOT Board or as further defined in Attachment A;
- Reviewed the current PTP Obligation bid reduction factor in Protocol Section 4.4.10 and voted to recommend to the ERCOT Board maintaining the 80% PTP Obligation bid reduction factor;
- Reviewed the PTP Obligation related credit parameters in Protocol Sections 16.11.4.5, Determination of the Counter-Party Future Credit Exposure and 7.5.5.3, Auction Process, and recommended retaining the current parameters; and
- Reviewed the Real-Time Market Settlement timeline in light of recent market rule changes and recommended the Multiplier for UTRA be reduced from 12 to 10 days effective September 1, 2013.

Conclusion/Recommendation:
As more specifically described above, TAC respectfully recommends that the ERCOT Board:

- Reaffirm the current Procedures for Setting Nodal Day-Ahead Market Credit Requirement Parameters as described in Attachment A;
- Maintain the 80% PTP Obligation bid reduction factor;
- Retain the following credit parameters with no revisions where X = $1.00; Y = $1.50; A = $0.75; and M = 0; and
- Reduce the Multiplier for URTA from 12 to 10 days effective September 1, 2013.
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.  
BOARD OF DIRECTORS RESOLUTION  

WHEREAS, the following Protocol Sections require ERCOT Board review and approval of certain credit parameters:

- Protocol Section 4.4.10, Credit Requirement for DAM Bids and Offers, requires annual ERCOT Board review of the Procedures for Setting Nodal Day-Ahead Market Credit Requirement Parameters;
- Protocol Section 4.4.10, Credit Requirement for DAM Bids and Offers, requires annual ERCOT Board review of the Point to Point (PTP) Obligation bid reduction factor;
- Protocol Sections 16.11.4.5, Determination of the Counter-Party Future Credit Exposure and 7.5.5.3, Auction Process, require annual review of credit variables (X and Y; A and M); and
- Protocol Section 16.11.4.1, Determination of Total Potential Exposure for a Counter-Party, allows for the Multiplier for Unbilled Real Time Amount (URTA) to be revised by the ERCOT Board.

WHEREAS, the ERCOT Board deems it desirable and in ERCOT's best interest to:

- Reaffirm the current Procedures for Setting Nodal Day-Ahead Market Credit Requirement Parameters, attached hereto as Attachment A;
- Maintain the 80% PTP Obligation bid reduction factor;
- Retain the following credit parameters with no revisions where X = $1.00; Y = $1.50; A = $0.75; and M = 0; and
- Reduce the Multiplier for URTA from 12 to 10 days effective September 1, 2013.

THEREFORE be it RESOLVED, that the ERCOT Board hereby approves the following:

- The current Procedures for Setting Nodal Day-Ahead Market Credit Requirement Parameters;
- The current 80% PTP Obligation bid reduction factor as specified in paragraph (6)(d)(iv) of Protocol Section 4.4.10;
- The existing credit parameters A and M and X and Y where X = $1.00; Y = $1.50; A = $0.75; and M = 0; and
- A revised Multiplier for URTA, M2, from 12 to 10 days effective September 1, 2013.
CORPORATE SECRETARY’S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its July 16, 2013 meeting, the ERCOT Board passed a motion approving the above Resolution by ____.

IN WITNESS WHEREOF, I have hereunto set my hand this ___ day of July, 2013.

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Vickie G. Leady
Assistant Corporate Secretary