



Item 10.3: 2020 Summer Markets and Credit

Mark Ruane

Director, Settlements, Retail and Credit

Urgent Board of Directors Meeting

ERCOT Public

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Summer Market Changes

- This summer the Operating Reserve Demand Curve (ORDC) will operate with a shift of a 0.25 standard deviation relative to the summer of 2019.
 - The change went into effect March 1, 2020 and is the final adjustment in response to PUCT instruction in 2018.
 - If similar conditions arise, the 2020 ORDC curve will result in higher and more frequent adders relative to the 2019 ORDC.

Summer 2020 Credit Outlook

There are several risk factors impacting credit risk in summer 2020.

- Potential degradation of Counter-Party credit quality associated with coronavirus-related economic slowdown.
- Potential degradation of the credit quality of Counter-Parties in the oil and gas sector.
- Increased Counter-Party credit risk associated with the heightened risk of high prices during summer months.
- Cyber attacks on ERCOT Market Participants.

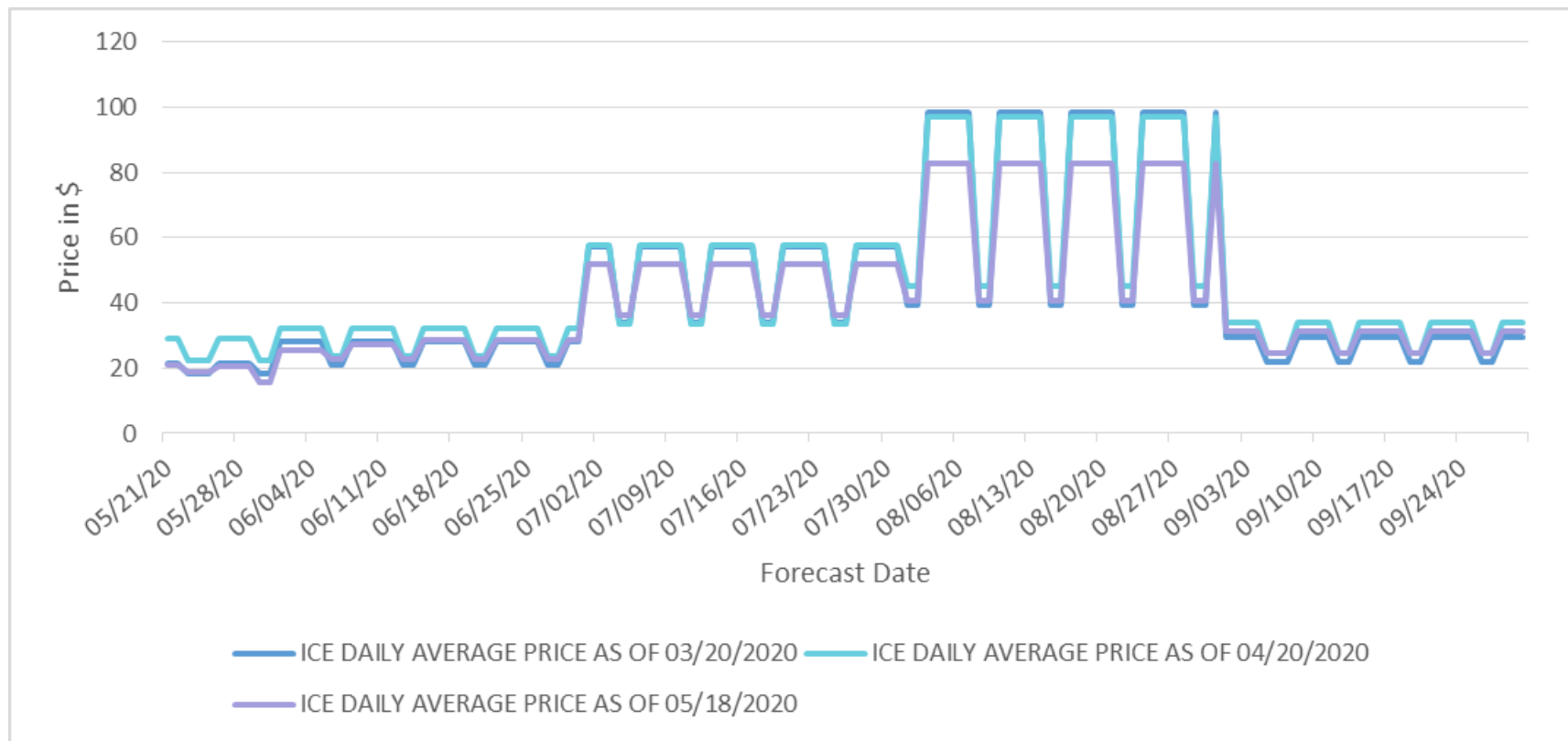
Summer 2020 Credit Outlook

However, so far in 2020 signs of Counter-Party credit quality deterioration have been limited.

- One default of a trader with no resulting uplift to the market.
- One downgrade of an oil and gas entity leading to loss of unsecured credit.
- Weakened financial position noted in year-end 2019 financial statements for a number of other Counter-Parties.

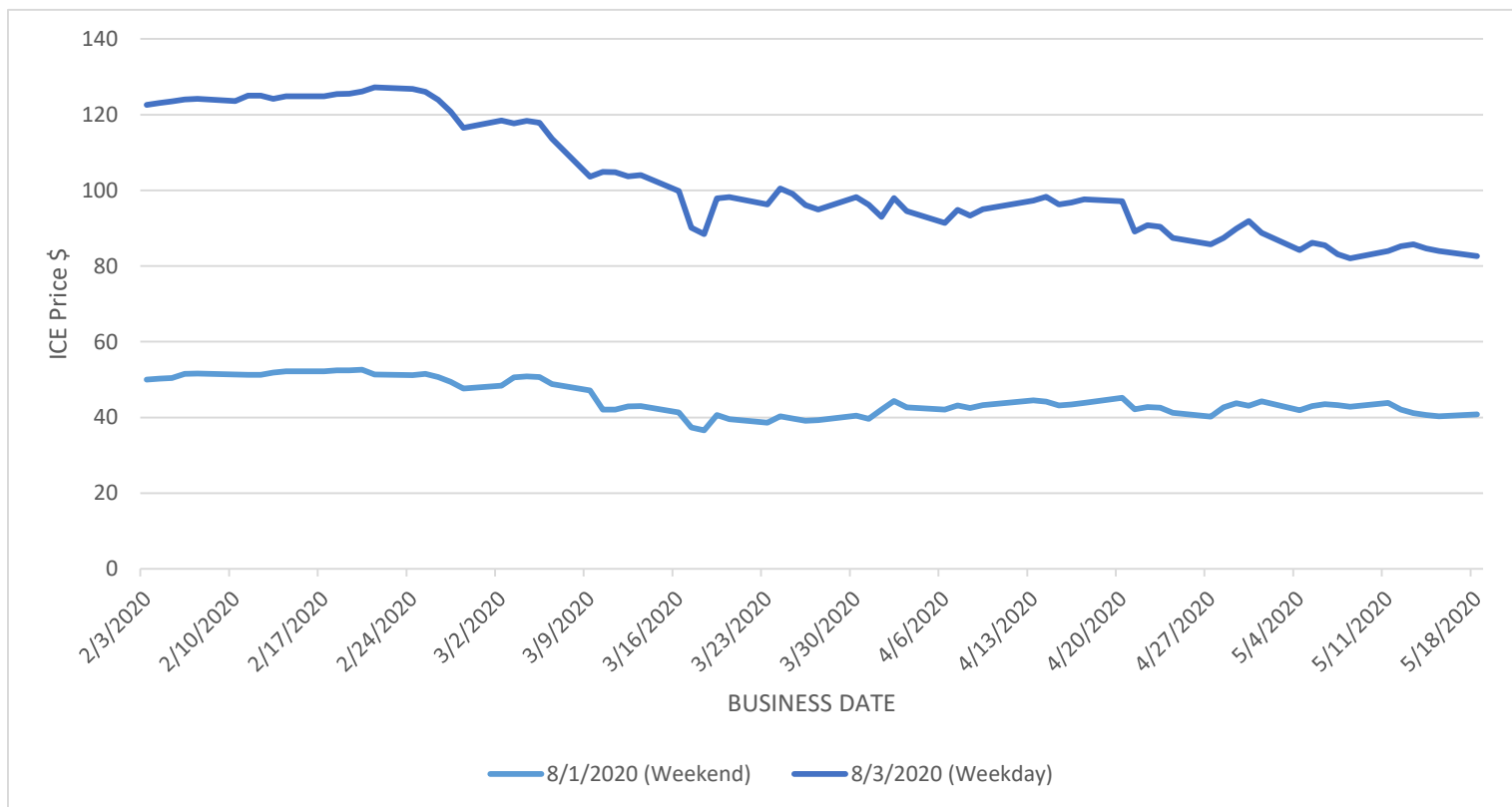
Summer 2020 Credit Outlook

ICE forward prices for ERCOT summer power have trended downwards in 2020, particularly for August.



Summer 2020 Credit Outlook

This chart shows additional detail of the change in representative August weekday and weekend prices.



Summer 2020 Credit Outlook

In addition,

- No material increase in collateral calls.
- Discretionary collateral, or collateral posted by Counter-Parties in excess of their Total Potential Exposure (TPE) minimum requirement, has remained broadly steady. Historically, discretionary collateral increases closer to summer peaks.
- No letter of credit-issuing banks have exceeded their ERCOT limits for letter of credit acceptance.

Summer 2020 Credit Outlook

Next steps:

- ERCOT has begun a project addressing qualifications for market entry and continued participation by Counter-Parties.
 - Initial workshop with Market Participants held May 13, 2020.
 - Follow-up workshop scheduled July 29, 2020.

Summer 2020 Credit Outlook

Questions?