Credit Working Group
ERCOT
Meeting Minutes
September 19, 2007

Attendance

Independent Retail Electric Providers	Amanda List – Strategic Energy Pam Carr – Stream Gas & Electric Joseph Fox – Stream Gas & Electric	Amy Archambault – Tara Energy Peter J. Karculias – Cirro Energy
Independent Power Marketers	Tanya Rohauer – Reliant Energy Phil Priolo – Exelon Generation	
Independent Generators	Morgan Davies – Calpine Johnnie Simmons – FPL Power Mktg	
Investor Owned Utilities	Lisa Groff – AEP Corporation Renita Shah – AEP Corporation	Jerry Burt – TXU Portfolio Timothy Coffing – TXU Portfolio
Municipals	Tamila Nikazm – Austin Energy Josephine Wan - Austin Energy Robert Miller – CPS Energy	Domingo Villareal – CPS Energy Lee Starr – Bryan Texas Utilities (BTU)
Cooperatives	Khaki Bordovsky – Brazos Electric	
Non-Members Attending	Becky Kilbourne – NECC John Flory - NECC Neal Frederick – PUCT Donald Meek – Green Mountain Bruce Thompson – Airtricity, Inc. Lou Vitale – ACES Power	Eddie Koloozies – Customized Energy Solutions Edward Smith – Oliver Wyman Michael Denton – Oliver Wyman Justin Blesy – Oliver Wyman Andrea Leewong – Oliver Wyman
ERCOT Staff	Cheryl Yager Vanessa Spells Andrew Gallo	Rizaldy Zapanta Srini Sundhararajan

Morgan Davies called the meeting to order at 9:30 am.

Approval of Minutes of August 23, 2007

Amanda List submitted a motion to approve the August 23, 2007 Minutes. Lee Starr seconded the motion. Motion passed.

Review PRRs/NPRRs

The group discussed the following PRR/NPRRs and agreed there were no credit implications:

PRR 736	Demand Response Revisions
NPRR 077	Incorporating the ERCOT Internal Audit Department and Other Clarifications
NPRR 081	Automatic Voltage Regulator (AVR) Status
NPRR 082	Section 8, Performance Monitoring and Compliance, Revisions to Monitoring and Qualification Test

The group agreed to provide comments for the following PRR which is expected to possibly result in more price volatility and an increase in exposure.

PRR 737	Direct Assignment of RPRS Costs

Jerry Burt submitted a motion that the CWG has reviewed the above PRRs and NPRR and agreed that these had no credit implications (e.g. did not require additional monitoring or changes to the existing calculation). Lee Starr seconded the motion. Motion passed.

Internal Credit Scoring Framework

Oliver Wyman, the selected vendor for the credit review project, reviewed the general objectives and approach for the capital adequacy project and presented their current approach to the internal credit scoring module. CWG members provided the following feedback:

1. Several MPs noted that providing a base rating of B (non-investment grade) to non-rated entities which do not provide financial statements may be too "generous". It was noted that most MPs use a rating of B- or CCC+ in these situations.

   Ms. Yager clarified that there are basically two types of entities which may not provide sufficient (or any) financial information: 1) legal entities which are subsidiaries of rated parents; and 2) very small entities which do not provide financial statements. Ms. Yager emphasized that with regard to the first type of entity, ERCOT will consider (although not rely wholly on) the strength of relationship between the subsidiary and the parent.

2. Tanya Rohauer noted that factors that focus on the size of the entity may have been given too much weight in the proposed credit risk scoring model. Sales/Assets and Total Assets account for 2 of 7 quantitative factors with a combined weighting of 25%. Ms. Rohauer noted that entity size does not always reflect the real credit risk profile of an entity. Others noted that some entities may have minimal asset sizes because of limited credit/borrowing facilities or access to capital. It was pointed out that the current proposed approach provides for 'adjustments' to address inadequacies of quantitative factors.

3. Some CWG members expressed concern that the use of a B- or CCC+ rating when there was an absence of financial information from specific entities could unduly bloat estimates of expected losses for the market which may ultimately increase a market participant's risk capital contribution. Ms. Yager noted that ERCOT's first objective was to obtain financials for all entities. If an entity did not want to be subject to the "default" rating, it could and should provide the financial statements. She noted that ERCOT was contemplating the actions needed to obtain financial statements when not provided as required by Protocols. Ms. Yager clarified that the objective of the study is to project the capital adequacy and potential losses of the market as a whole, not determine collateral requirements. .
4. Khaki Bordovsky was concerned that municipals and cooperatives would be disadvantaged by the quantitative factors presented given these entities' unique nature of having minimal asset size and being low-capitalized and that the qualitative factors provided did not appear to adequately offset that impact. OW noted that all municipals and cooperatives currently in the market are rated but clarified that they were still considering (for new entrants) whether to a) have different metrics for this group or b) weight factors common to all entities differently for this group.
5. Several CWG members noted that while all municipals and cooperatives currently participating in the ERCOT market are rated, there are unrated municipals and cooperatives that could potentially participate in the market in the future. The consensus of the group was generally that municipals and cooperatives should be treated as a separate group (option a above) given their different risk factors.

Given the discussion around treatment of entities for whom ERCOT does not have financials, Ms. Yager asked how the CWG would like to evaluate these entities. After discussion among the group, Lisa Groff suggested a CCC+ rating be assigned to entities which are not rated and do not provide any financials. A straw poll indicated that the majority of the members present agreed to the assignment of a CCC+ rating.. Ms. Yager noted that CCC+ would be used as the default. The model will allow ERCOT to look at scenarios considering different default ratings as well.

Update on Risk Mitigation Subcommittee

Mr. Davies informed the group that the Risk Mitigation Subcommittee is currently reviewing options to mitigate credit risk in the market, which include credit default swaps, credit insurance and market clearing. Cheryl Yager noted that the subgroup members planned to summarize the pros and cons of the options considered and present them to the CWG as a starting point for further discussions on the matter.

Other Matters

Ms. Yager informed the group that the revised Creditworthiness Standards were approved in the Board meeting yesterday. The new standards will take effect on October 1.

The meeting was adjourned at 3:00 pm.