

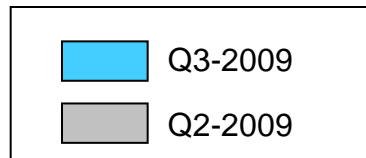
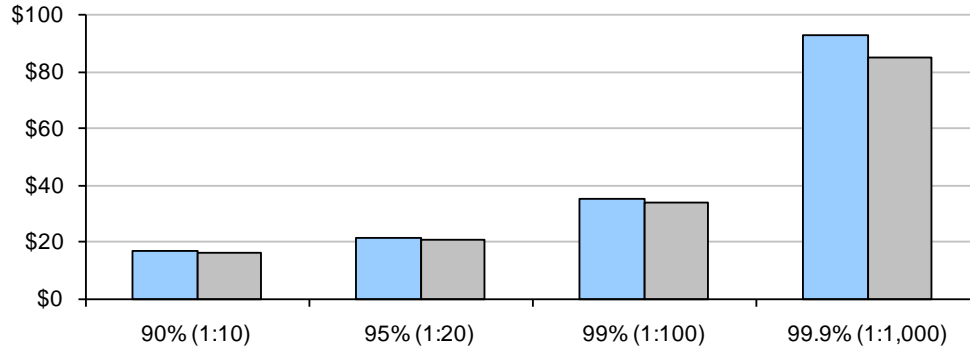
11. Credit Briefing – Potential Future Exposure: Current Case Simulations

- **Uses current levels and forms of collateral by QSE, at a minimum, held by ERCOT at Time₀**
- **ERCOT uses Group Logic to determine QSE Probability of Default (“PD”)**
 - This approach applies a combination of the QSE’s PD and the Parent’s PD, resulting in a PD between the QSE’s and Parent’s PD based on the strength of the relationship between the QSE and the Parent
 - Implies some level of support from a parent regardless of whether a guarantee is in place or not
 - This approach assumes that a QSE default occurs separately from a parent default, and that a guarantee has value as collateral
- **Credit Working Group (CWG) requested to see a different approach applied to the Current Case (Guarantor PD approach)**
 - Recognize the acceptance of a guarantee as granting unsecured credit rather than as collateral
 - Set QSE’s PD equal to the Parent’s PD when a parent guarantee is in place for a strategic subsidiary (and use Group Logic when no guarantee is in place or when guarantee is for a nonstrategic subsidiary)
 - This approach assumes that a QSE will only default when the guarantor defaults

11. Credit Briefing – Potential Future Exposure: Current Case Simulations - Comparison

Simulations using Q3-2009 and Q2-2009 Financials

Potential Credit Loss - Current Case
(\$Millions)



Horizon (in days)
Simulations

Total defaults
Simulations with defaults
Simulations without defaults
Default simulations with zero loss
Total simulations with zero loss

(\$Millions)
Expected Loss
Median (1:2)

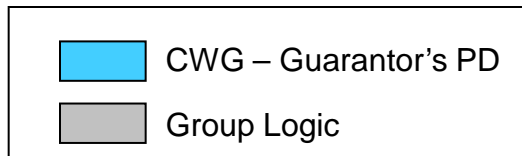
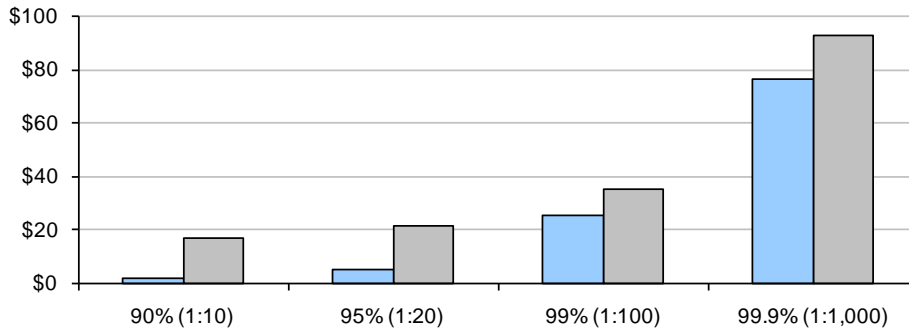
90% (1:10)
95% (1:20)
99% (1:100)
99.9% (1:1,000)
Max (1:10,000)

	Q3-2009	Q2-2009
Current Case	365	365
Simulations	10,000	10,000
Total defaults	44,014	42,055
Simulations with defaults	9,539	9,456
Simulations without defaults	461	544
Default simulations with zero loss	3,195	3,208
Total simulations with zero loss	3,656	3,752
Expected Loss	\$5.1	\$4.9
Median (1:2)	\$0.2	\$0.3
90% (1:10)	\$17.3	\$16.7
95% (1:20)	\$21.3	\$20.8
99% (1:100)	\$35.6	\$34.1
99.9% (1:1,000)	\$92.6	\$85.1
Max (1:10,000)	\$204.4	\$148.4

11. Credit Briefing – Potential Future Exposure: Current Case Simulations – Comparison to CWG

Simulations using Q3-2009 and Q2-2009 Financials

Potential Credit Loss - Current Case
(\$Millions)



Horizon (in days)
Simulations

Total defaults
Simulations with defaults
Simulations without defaults
Default simulations with zero loss
Total simulations with zero loss

(\$Millions)
Expected Loss
Median (1:2)

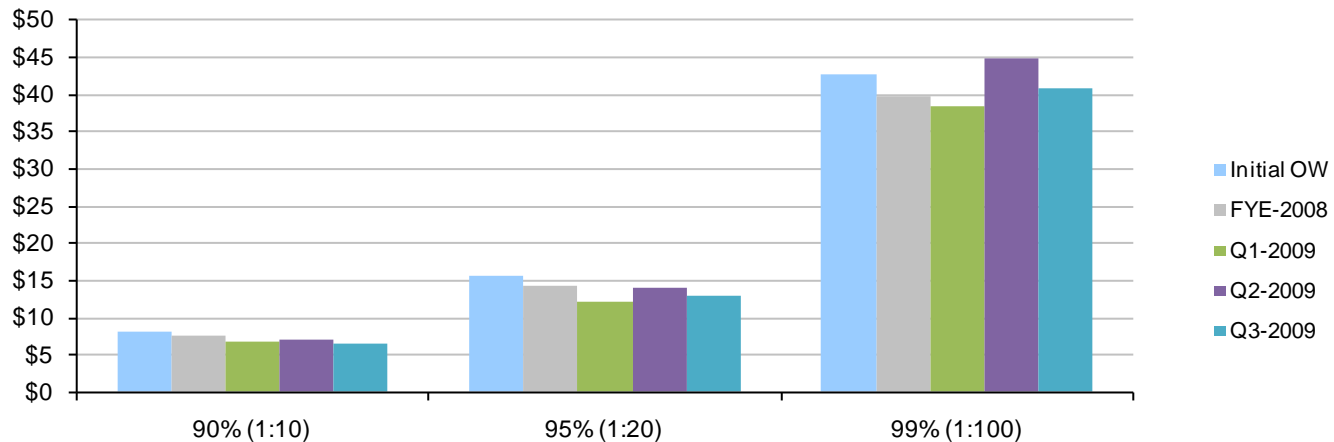
90% (1:10)
95% (1:20)
99% (1:100)
99.9% (1:1,000)
Max (1:10,000)

	Guarantor's PD	Group Logic
Current Case	365	365
Simulations	10,000	10,000
Total defaults	25,595	44,014
Simulations with defaults	8,568	9,539
Simulations without defaults	1,432	461
Default simulations with zero loss	4,373	3,195
Total simulations with zero loss	5,805	3,656
Expected Loss	\$1.1	\$5.1
Median (1:2)	\$0.0	\$0.2
90% (1:10)	\$1.9	\$17.3
95% (1:20)	\$5.1	\$21.3
99% (1:100)	\$25.3	\$35.6
99.9% (1:1,000)	\$76.4	\$92.6
Max (1:10,000)	\$189.8	\$204.4

11. Credit Briefing – Potential Future Exposure: Comparison of Results Over Multiple Periods

- **The Potential Credit Risk Model demonstrates consistent levels of risk over multiple periods**
- **Results impacted by offsetting influences**
 - For example, between the initial OW results and the FYE-2008 results, market prices decreased while market participant risk increased

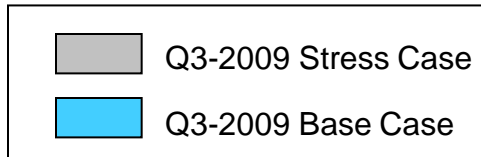
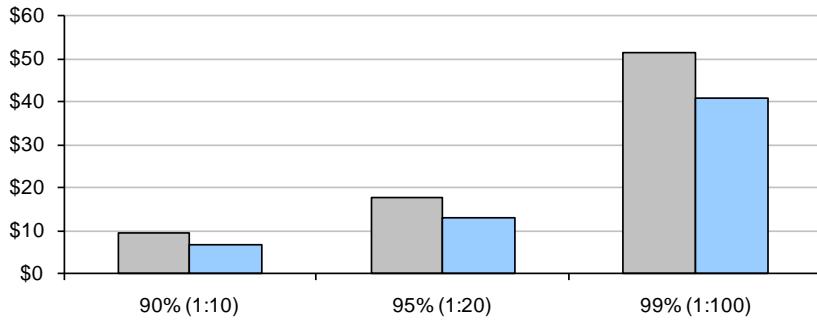
Potential Credit Loss - Base Case
(\$Millions)



11. Credit Briefing – Potential Future Exposure: Stress Case – 50% Escalation in Natural Gas Prices

Simulations using Q3-2009 and Q2-2009 Financials

Potential Credit Loss - Base Case
(\$Millions)



	Q3-2009 Stress Case	Q3-2009 Base Case
Horizon (in days)	365	365
Simulations	10,000	10,000
Total defaults	44,307	44,782
Simulations with defaults	9,529	9,546
Simulations without defaults	471	454
Default simulations with zero loss	3,754	3,670
Total simulations with zero loss	4,225	4,124

(\$Millions)

Expected Loss	\$3.7	\$2.8
Median (1:2)	\$11.4	\$0.0
90% (1:10)	\$9.3	\$6.5
95% (1:20)	\$17.7	\$12.9
99% (1:100)	\$51.3	\$40.8

11. Credit Briefing – Potential Future Exposure: Plan for 2010

Randy Baker

- **2010 Runs of PFE Model –**
 - Less than one-year time horizon due to Nodal Market
 - FYE-2009 - June 2010
 - Q1-2010 - July 2010
- **Issues to be addressed**
 - Model enhancements for Nodal Market
 - Q2-2010 & Q3-2010 Model Runs

Questions

Q&A only

ERCOT Market Credit Stats

as of 11/30/2009					as of 12/31/2009					
	# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted		# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
Exposure in the ERCOT Market (owed to ERCOT)										
<u><i>QSEs that meet ERCOT Creditworthiness Standards</i></u>										
Ratings over BBB-	9	21,003,765	8%	138,161,174	U	10	23,383,899	8%	171,336,431	U
<u><i>QSEs that do not meet ERCOT Creditworthiness Standards</i></u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	50	139,316,445	53%	288,959,130	S	55	183,257,798	59%	266,546,619	S
Guarantee Agreements	16	100,777,434	39%	370,412,171	S	17	102,726,268	33%	380,549,571	S
Total Exposure	75	261,097,644	100%			82	309,367,965	100%		
Other QSEs in the ERCOT Market (ERCOT owes)										
<u><i>QSEs that meet ERCOT Creditworthiness Standards</i></u>										
Ratings over BBB-	7	(2,956,555)	-8%	76,347,047	U	6	(1,191,380)	-2%	43,171,790	U
<u><i>QSEs that do not meet ERCOT Creditworthiness Standards</i></u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	67	(23,993,325)	-60%	81,273,580	S	64	(53,164,644)	-70%	70,507,307	S
Guarantee Agreements	11	(13,017,368)	-33%	149,511,700	S	12	(21,044,403)	-28%	162,411,700	S
Total	85	(39,967,248)	-100%			82	(75,400,427)	-100%		
Total	160					164				

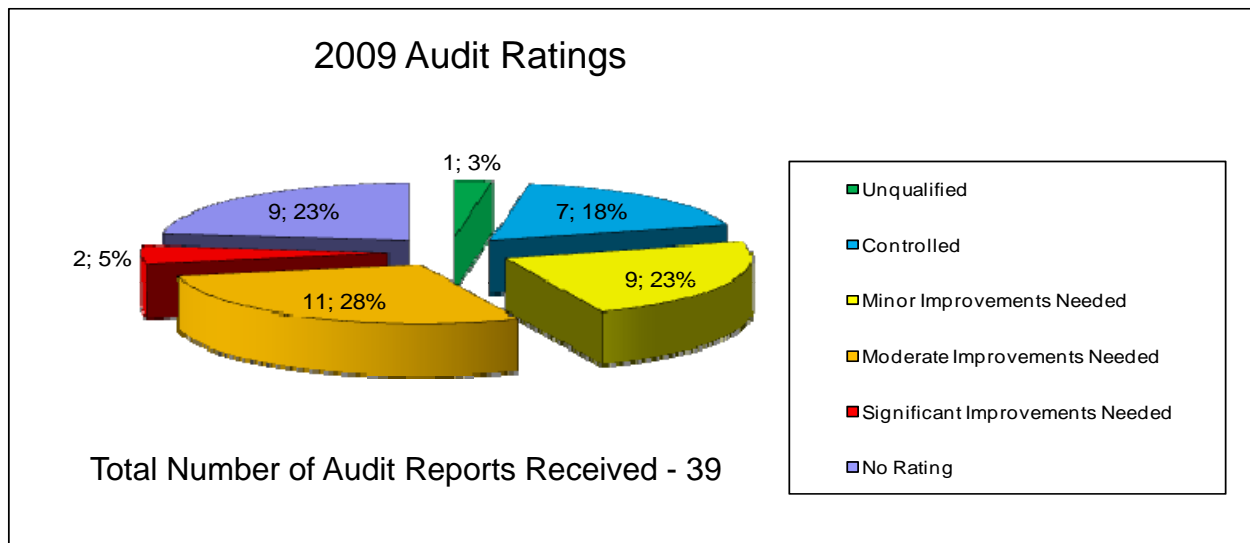
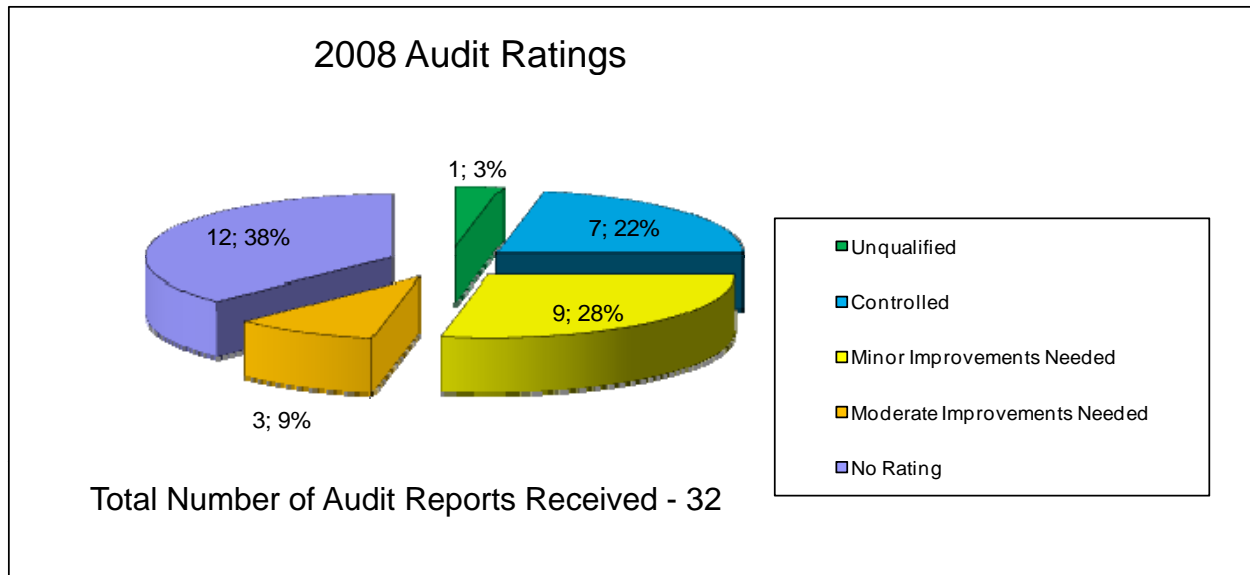
U: For QSEs that meet ERCOT's Creditworthiness Standards, amount of unsecured credit granted.

S: For QSEs that do not meet ERCOT's Creditworthiness Standards, amount of Security posted.

Note 1: Guarantee Agreements provided to meet a QSE's collateral requirements by entities that meet ERCOT's Creditworthiness Standards.

Guarantee Agreements provided to meet financial statement requirements by entities that do not meet ERCOT's Creditworthiness Standards are not included on this schedule.

12. Committee Brief: ICMP - Summary of Audit Ratings Cheryl Moseley



12. Committee Brief: ICMP – Status of Open Audit Points Cheryl Moseley

