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# **NPRR 206**

## **Key Factors Procedure and Variables**

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# Overview

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- Summary
- Highlights of procedure

- **NPRR 206 and the related Procedure for Setting DAM Auction Credit Requirement Parameters**
  - Revises credit requirements for the daily DAM auction
    - Parameters are set more conservatively during the first 60 days of the market
  - Seeks to balance the need for better market liquidity with the need to ensure that DAM bid and offer activity is real and can be paid for
  - Generally, the “e” factors:
    1. Allow bids to be valued somewhere between recent historical values and full bid price (based on recent DAM activity)
      - Mitigation
        - » ERCOT will monitor for significant changes in awarded bids and offers and may require collateral for full bid price, if needed

2. Under certain circumstances, allows a level of credit for Energy Only Offers (There was considerable discussion on this point)
  - Reasonable practice for “normal” activity
  - However, the potential for manipulation exists to “create” credit
  - Mitigation
    - » Credit is granted only when CP provides information about activity in advance
    - » Even when credit is granted, collateral will be held for Energy Only Offers at the difference between the DAM and RT prices (at the 95<sup>th</sup> percentile)
    - » ERCOT will monitor for significant changes in awarded bids and offers and will eliminate credit, if needed

Note: Three Part Offers (TPOs) also receive credit based on the fact that physical assets back up these offers (but no “e” factor customization)

- **Establishes values for the variables defined in NPRR 206 (d, a, b, y, z, u, t)**
  - Variables relate to the percentile of 30-day historical hourly prices that will be used to value various bids and offers (e.g. 95<sup>th</sup> percentile of the past 30-day historical pricing would use the 3<sup>rd</sup> highest price in the past 30 days)
- **Establishes procedure for determining individual “e” factors**
  - Tailored to each Counter-Party by way of historical DAM activity
  - General treatment – “e” factors set more conservatively
  - Optional treatment – allows for more favorable “e” factor settings
    - Requirement – CP provides ERCOT advance notice of expected changes in “e” factors and their components
      - Demonstrates CP’s control over their activity
      - Provides ERCOT an opportunity to gain an understanding (prior to activity) of what a CP is doing and why
    - If ERCOT believes the level of disclosure is adequate and the risk is acceptable, ERCOT may allow more favorable “e” factor settings

# Highlights of Procedure

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- **ERCOT retains flexibility to adjust any “e” factor if ERCOT determines that the calculated “e” factor does not adequately match the financial risk created by that CP’s activities in the market**
  - May be done immediately, if needed
  
- **ERCOT will review “e” factors**
  - At least once every two weeks
    - Will update based on recent history of DAM activity
      - May change a CP’s “e” factor generally with 2 bank business days notice
  - More often as needed
    - If calculated “e” factors suddenly change due to an alteration in a CP’s activity in the DAM (e.g. Energy Only Offers suddenly and significantly increase or decrease)
    - Due to other credit factors (e.g. high use of ACL in the DAM)
      - Generally with 2 bank business days notice
  - When NPRR 206 was considered, ERCOT estimated an ongoing need for .2 FTE to manage this process. ERCOT now estimates that it will require up to .5 FTE to manage this process.

**Questions?**