



CWG Update – Nodal Readiness

Finance & Audit Committee Meeting
August 17, 2010

Confirm Understanding of Request from the F&A Committee

- **The Credit Work Group (CWG) would like to confirm that the F&A Committee (F&A) requests CWG to**
 - make a recommendation to F&A
 - by the October F&A meeting
 - as to Nodal Credit Readiness
- **Nodal Credit Readiness means that**
 - Credit calculations are functioning as per the Nodal Protocols based on data available in market trials
 - Credit risk in the Nodal market is adequately addressed

- **Credit calculations**

- Core credit calculations (Section 16)

- Preliminarily, CWG members note that, with a few exceptions, core credit calculations currently seem to be performing as per Protocols
- Testing is ongoing

- DAM credit constraints and “e” factor calculations (Section 4)

- DAM credit constraints (as adjusted for NPRR 206, 226 and “e” factors) are still being validated as all components became functional as of August 9th

- CRR credit constraints (Section 7)

- Market participants still have questions about how auction credit constraints have been implemented and the parameters that are currently set
- Discussions are ongoing to try to clarify

Status – Observations to Date

- **Credit risk in the Nodal market**

- Of much greater concern to the CWG is the Market Trials (MTs) data flowing into the core credit calculations, which reflects (among other things)
 - Significant levels of real time energy purchases (e.g. if Energy Trades are not confirmed/reconciled by trading partners, etc)
 - Significant levels of Nodal real time congestion levels non-existent in Zonal
 - Energy pricing exceeding \$2,000/MWH in Nodal in a gas market assuming a 10 Heat rate that would produce energy costs below \$40/MWH
- Extreme MT data cause concerns in several ways
 - Concern that risk factors observed in market trials might actually occur after go live
 - Risk of severe financial consequences
 - Members are not seeing a decrease in extreme MT data
 - Difficulty in evaluating the reasonableness of exposure calculations
 - Extremes in market trials data flowing through the core credit calculations result in potentially prohibitive collateral requirements

Status – Observations to Date

- **CWG suggestions include**
 - Making participation in Market Trials mandatory for all Counter-Parties
 - With participation at reasonable levels
 - More robust post mortem process with more transparency
- **If more normal activity is not experienced, CWG may find it challenging to confirm Nodal Credit Readiness because of abnormal results seen to date.**
 - Options include:
 - Base recommendation on validity of the calculation
 - Base recommendation on “pro forma” calculation
 - Other?