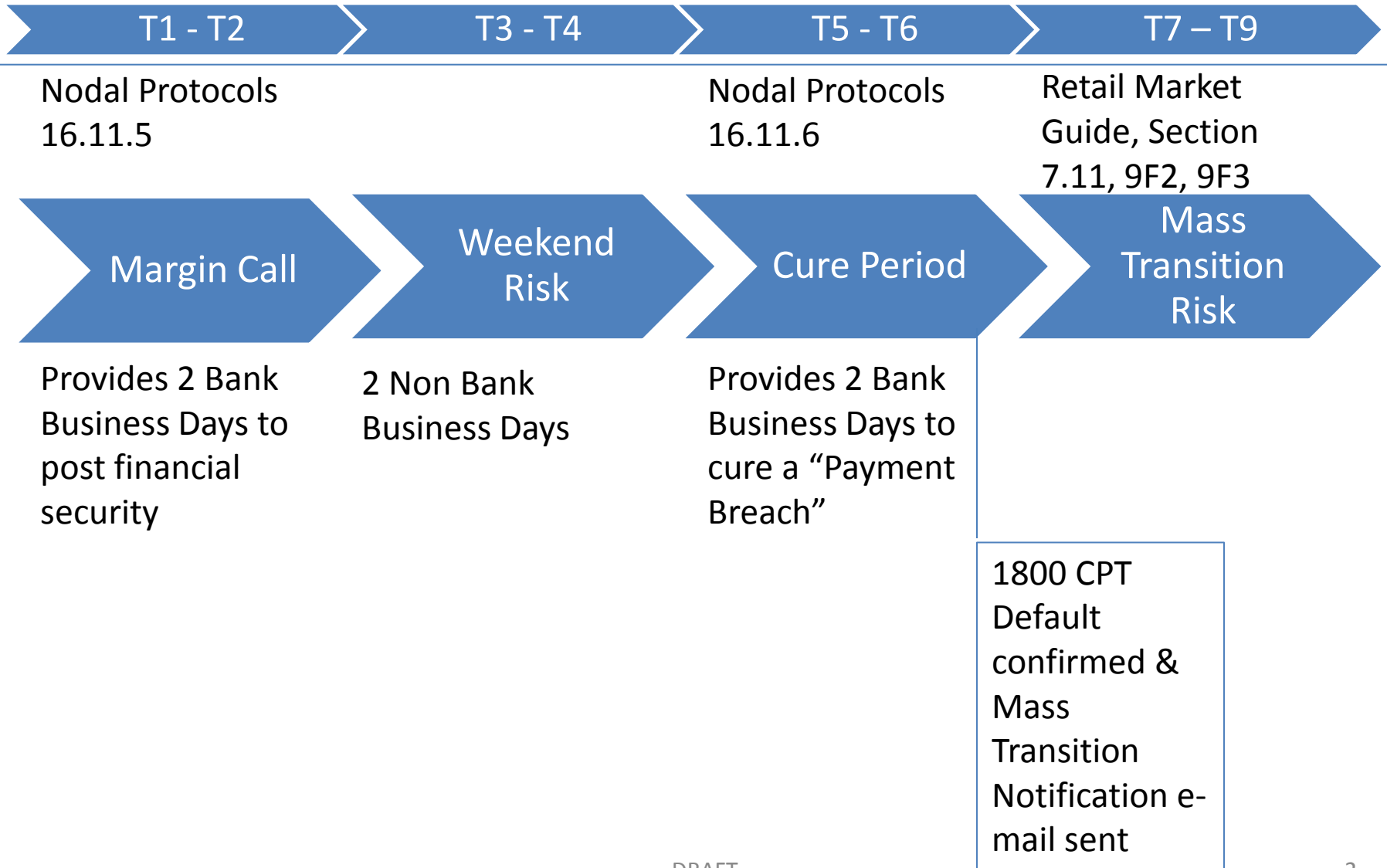


# Default Risk Timeline

CWG / MCWG Joint Meeting

2/23/2011

# Mass Transition Timeline



# Mass Transition Timeline

Issued Margin Call	Non BBD Risk	Cure Period	Non BBD Risk	Date Mass Transition ST	Total Days at Risk if Mass Tran on Day 3	Total Days at Risk if Mass Tran on Day 2
Mon	N/A	Thur. – Fri.	N/A	Sat	7	6
Tues	2 days	Fri - Mon	N/A	Tue	7	6
Wed	2 days	Mon-Tue	N/A	Wed	9	8
Thu	2 days	Tue-Wed	N/A	Thu	9	8
Fri	2 days	Wed-Thur	N/A	Fri	9	8
Average Days at Risk					8.2	7.2

# ERCOT Margin Call Timeline

## 16.11.5

(3) To the extent that a Counter-Party fails to maintain Financial Security in an amount equal to or greater than its TPE as defined in Section 16.11.4:

(a) ERCOT shall promptly notify the Counter-Party of the amount by which its Financial Security must be increased and allow it:

(i) **Until 1500 on the second Bank Business Day** from the date on which ERCOT delivered the notice to increase its Financial Security if ERCOT delivered its notice before 1500; or

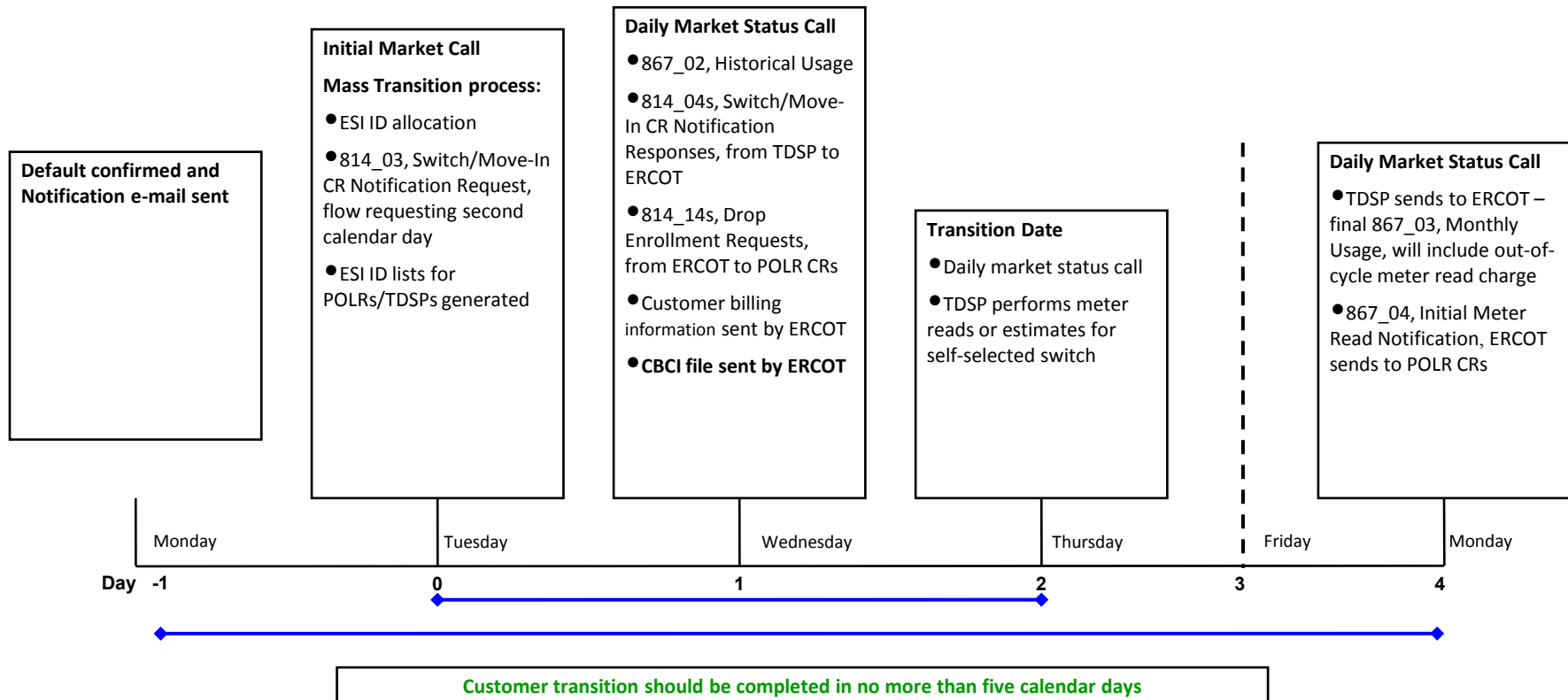
(ii) **Until 1700 on the second Bank Business Day** from the date on which ERCOT delivered notification to increase its Financial Security if ERCOT delivered its Notice after 1500 but prior to 1700. ERCOT shall notify the QSE's Authorized Representative(s) and Credit Contact if it has not received the required security by 1530 on the Bank Business Day on which the security was due; however, failure to notify the Counter-Party's representatives or contact that the required security was not received does not prevent ERCOT from exercising any of its other rights under this Section.

# ERCOT Payment Breach Cure Period

## 16.11.6

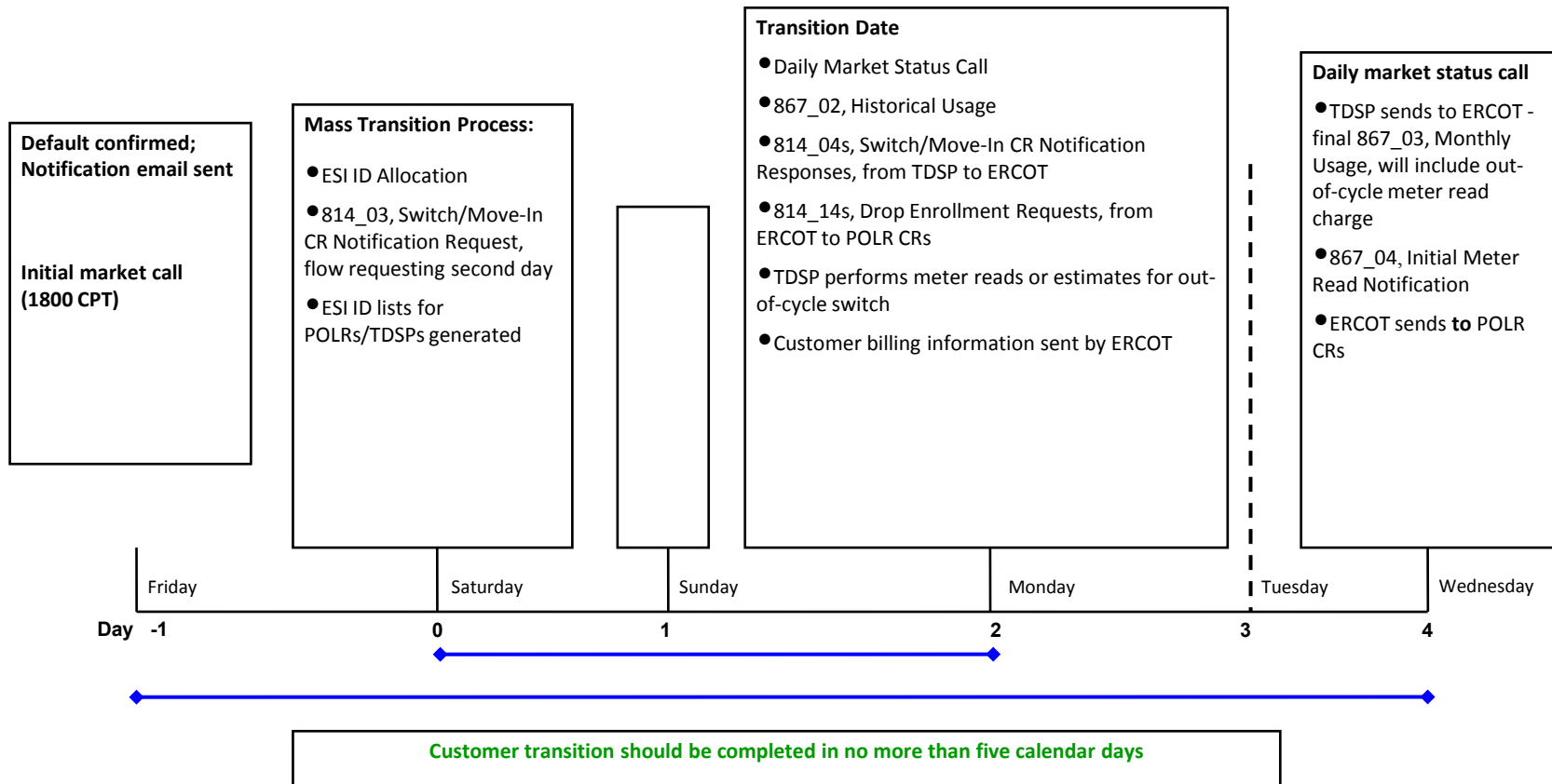
- (3) **The failure of a Market Participant to pay when due any payment or Financial Security obligation owed to ERCOT or its designee, if applicable, under any agreement with ERCOT, is an event of “Payment Breach.”** Any Payment Breach by a Market Participant under any agreement with ERCOT is a default under all other agreements between ERCOT and the Market Participant. Upon a Payment Breach, ERCOT shall immediately attempt to contact an Authorized Representative and Credit Contact of the Market Participant telephonically and shall send appropriate written notices, as described below, and demand payment of the past due amount.
- (4) Upon a Payment Breach, ERCOT may impose the below-listed remedies for Payment Breach (“Default Breach”), as set forth in Section 16.11.6.1, ERCOT’s Remedies , in addition to any other rights or remedies ERCOT has under any agreement, these Protocols or at common law. If a Market Participant makes a payment or a partial payment as allowed by these Protocols or a collateral call to ERCOT after the due date and time, that payment is a “Late Payment,” regardless of the reason it was late. **If ERCOT receives, within two Bank Business Days after the due date, a Late Payment that fully pays the Market Participant’s payment obligation or Financial Security obligation, ERCOT may waive the Payment Breach, except for ERCOT’s remedies in Section 16.11.6.2,** ERCOT’s Remedies for Late Payments by a Market Participant. Even if ERCOT chooses to not immediately impose Default Remedies against a Market Participant because it has fully paid its obligation within two Bank Business Days, ERCOT shall track the number of Late Payments received from each Market Participant in each rolling 12-month period for purposes of imposing the Late Payment remedies set forth in Section 16.11.6.2.

# Mass Transition on a Business Day not Prior to a Weekend or ERCOT Holiday



**Source:** ERCOT Retail Market Guide, Section 9, Appendix F2: Timeline for Initiation of a Mass Transition on a Business Day not Prior to a Weekend or ERCOT Holiday, November 1, 2010

# Mass Transition on a Day Before a Weekend or an ERCOT Holiday



**Source:** ERCOT Retail Market Guide, Section 9, Appendix F3: Timeline for Initiation of a Mass Transition on a Day Before a Weekend or an ERCOT Holiday, November 1, 2010

# FERC Recommendation

- The Commission has requested each ISO and RTO to adopt a model similar to PJM and NYISO
  - Adopt a two business day limit on curing collateral calls
- Revisions will take effect October 1, 2011
- Reason - time allowed for a “cure” needs to be short to minimize the risk and costs of a default by a participant and two-day limit is a standard industry practice
- The Commission understands the CFTC staff suggestion that any period longer than a day can be hazardous to the market

Source: [Credit Reforms in Organized Wholesale Electric Markets, “Section G. Grace Period to “Cure” Collateral Posting,” October 21, 2010, pages 72 - 79](#)



# PJM Cure Period

## PJM Cure Period VII. POLICY BREACH AND EVENTS OF DEFAULT

A Participant will have **two Business Days from** notification of Breach (including late payment notice) **or notification of a Collateral Call** to remedy the Breach or satisfy the Collateral Call in a manner deemed acceptable by PJM. Failure to remedy the Breach or satisfy such Collateral Call within such two Business Days will be considered an event of default. If a Participant fails to meet the requirements of this policy but then remedies the Breach or satisfies a Collateral Call within the two Business Day cure period, the Participant shall be deemed to have complied with the policy. Any such two Business Day cure period will expire at 4:00 p.m. eastern prevailing time on the final day.

Only one cure period shall apply to a single event giving rise to a breach or default. Application of Financial Security towards a non-payment Breach shall not be considered a satisfactory cure of the Breach if the Participant fails to meet all requirements of this policy after such application.

Failure to comply with this policy (except for the responsibility of a Participant to notify PJM of a Material change) shall be considered an event of default. Pursuant to § 15.1.3(a) of the Operating Agreement of PJM Interconnection, L.L.C. and § 1.7.3 of the PJM Open Access Transmission Tariff, non-compliance with the PJM credit policy is an event of default under those respective Agreements. In event of default under this credit policy or one or more of the Agreements, PJM will take such actions as may be required or permitted under the Agreements, including but not limited to the termination of the Participant's ongoing Transmission Service and participation in PJM Markets. PJM has the right to liquidate all or a portion of a Participant's Financial Security at its discretion to satisfy Total Net Obligations to PJM in the event of default under this credit policy or one or more of the Agreements.

[PJM OPEN ACCESS TRANSMISSION TARIFF, PJM CREDIT POLICY \(ATTACHMENT Q\), Section VII. POLICY BREACH AND EVENTS OF DEFAULT, Page 2442-2443](#)

# Adopting PJM Mass Transition Timeline

≈33% Less  
Default Risk

T1 - T2

T3 - T5

Nodal Protocols  
16.11.5

Retail Market Guide,  
Section 7.11, 9F2, 9F3

Margin Call

Mass  
Transition  
Risk

Provides  
2 Bank  
Business  
Days to  
post  
financial  
security

1800 CPT  
Default  
confirmed &  
Mass  
Transition  
Notification e-  
mail sent

Issued Margin Call	Non BBD Risk	Date Mass Transition ST	Total Days at Risk if Mass Tran on Day 3	Total Days at Risk if Mass Tran on Day 2
Mon.	N/A	Wed	5	4
Tues.	N/A	Thur	5	4
Wed.	N/A	Fri	5	4
Thur.	2 days	Sat	5	4
Fri.	2 days	Tue	7	6
Average Days at Risk			5.4	4.4

# Next Steps

- Evaluate the benefits related to a reduced Cure Period
  - Should ERCOT have the sole discretion to increase the cure period?
    - Providing ERCOT the discretion may prevent defaults that otherwise could not have been avoided in 2 days
- Evaluate ADTE and DALE decreases

Multiple Breakdown	Current ADTE + 7 FWD RTL	DALE
Days Unbilled	14 – 20	N/A (in UDAA)
Mass Transition Allocation		
Excess from ADTE Look Back &/or RTL	6	
Implied ADTE	26 - 20	16
Total Days	46	16

## ➤ Given Mass Transition Takes 3 Days

- 30 Day Avg. Multiple / 8.2 days at Risk = 3.55 Multiple per days at Risk
- Cure Period Change would enable ADTE to decrease by 7.84 days
  - 9.85 days = [8.2 days – 5.4 days ] \* 3.55 = 2.8 \* 3.55)

## ➤ Given Mass Transition Takes 2 Days

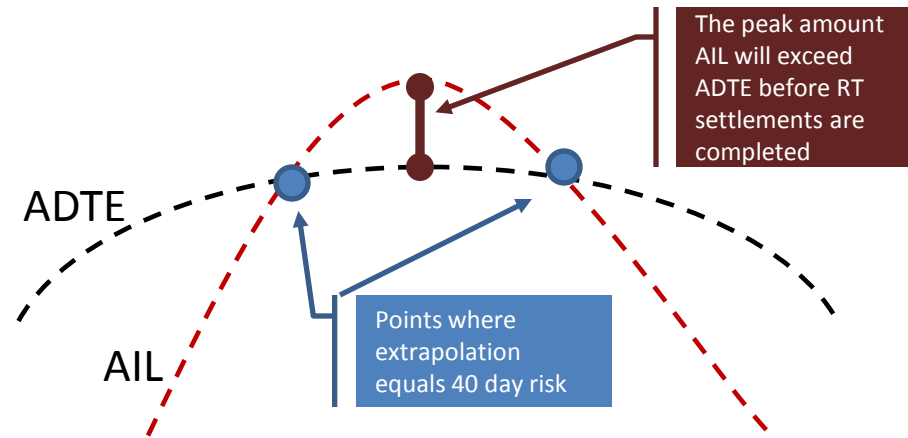
- 30 Day Avg. Multiple / 7.2 days at Risk = 4.06 Multiple per days at Risk
- Cure Period Change would enable ADTE to decrease by 11.25 days
  - 11.25 days = [7.2 days – 4.4 days ] \* 4.06 = 2.8 \* 4.06)

# Appendix

# Excess from ADTE Look Back &/or RTL

- 60 day look back range within ADTE expands the extrapolation multiple beyond 40 days
- The 150% multiplier within the RTL calculation and the 90% discount on ADTE expand the extrapolation beyond 40 days

	Beginning of RT Invoice Cycle	End of RT Invoice Cycle
ADTE Multiplier	40 days	40 days
"N" Days in AIL	21 Days	27 days
90% ADTE Adjustment	-2.1 days	-2.7 days
Adjusted ADTE Days in AIL	18.9 days	24.3 days
Days in RTLNC	7 days	7 days
RTLNC Multiplier	150%	150%
Subtotal RTLNC	10.5 Days	10.5 Days
RTLNS	10 Days	10 Days
RTLCS	4 Days	4 Days
Total RTL Days	24.5 Days	30.5 Days
ADTE less RTL	5.6 Days	6.2 Days



$$AIL = RTL - \text{Max} [0, (ADTE / 40 * N * 0.9)]$$

AIL = Aggregate Incremental Liability

RTL = RTLCS + RTLCNS + RTLNC

Where:

RTLCS = Real Time Liability for completed and settled but not invoiced

RTLCNS = Real Time Liability for completed and not settled operating days

RTLNC = Real Time Liability for not completed operating days (7 future days)