

**Credit Working Group
ERCOT
Meeting Minutes
March 30, 2011 (Face-to-Face Meeting, MET Center Room 206)**

Attendance

Independent Retail Electric Providers	Peter J. Karculias – Cirro Group Inc. Ryan Evans – ACES Power
Independent Power Marketers	Michelle Baer – Exelon Generation Company LLC Mark Holler – Tenaska Power Services co.
Independent Generators	Arleen Spangler- NRG Texas LLC Morgan Davies – Calpine Corp.
Investor Owned Utilities	Michael McCulty – American Electric Power Services Corp. Don Blackburn – Luminant Generation Company LLC Tim Coffing – Luminant Generation Company LLC Trish Egan - Luminant Generation Company LLC
Municipals	Tamila Nikazm – Austin Energy Josephine Wan – Austin Energy Don Daugherty – City of Garland Lee Starr – Bryan Texas Utilities (BTU) Michael Matthews – Bryan Texas Utilities (BTU) Domingo Villarreal – CPS Energy Simon Castillo – CPS Energy
Cooperatives	Roger Stewart – Lower Colorado River Authority Loretto Martin – Lower Colorado River Authority
Others	Seth Cochran Richard Gutierrez – NASDAQ OMX Phil Goette – NASDAQ OMX John Flory – NASDAQ OMX Sean Williams – NASDAQ OMX Clayton Greer Bob Wittmeyer Eric Goff Shams Siddiqi
ERCOT Staff	Cheryl Yager Vanessa Spells Rizaldy Zapanta

	Bill Magness Matt Morais Chad Seely
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Arleen Spangler called the meeting to order at 9:00 am.

Approval of Minutes of January 26, February 23 and March 10 Meetings

Lee Star submitted a motion to approve the Meeting Minutes for January 26, February 23 (with correction including Don Daugherty in the attendance list) and March 10, 2011. Tamila Nikazm seconded the motion. Motion passed.

Review PRRs/NPRRs

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

- NPRR 264** Clarification of Nodal Protocol Requirements for Generators with Multiple Points of Interconnection
- NPRR 311** Correction of Wind Adjust Formula to Account for Daylight Savings Time
- NPRR 313** Updating the Term Resource Plan to Current Operating Plan
- NPRR 316** Negative Self-Arranged Ancillary Services
- NPRR 317** Clarification of Entity Responsible for Hydro Responsive Testing
- NPRR 318** Alignment of Nodal Registration Requirements with Current Registration Process
- NPRR 326** Adjust the Calculation of the Real-Time Settlement Point Price for a Resource Node
- NPRR 329** Security Classification Changes for Extracts/Reports
- NPRR 330** Change in Frequency of Five Protocol Required Audits from Annual to Periodic
- NPRR 331** Addition of the Balance of the Year PCRR Allocation
- NPRR 335** TSP Request for Interval Data
- NPRR 339** Modifications to Heuristic Rules to Determine LMP at De-energized Electrical Bus and Treatment of CRR Offers at De-energized Settlement Points
- NPRR 341** Remove Ancillary Service Offers from SASM that do not Meet the Lead Time

Tim Coffing submitted a motion that there are no credit implications on the above other than as previously provided for NPRR 316. Ms. Nikazm seconded the motion. Motion passed.

Changes in Credit Reports

Vanessa Spells informed the group of changes in the ACL Summary Report. This report now shows the ACLs sent to CRR, the CRR locked credit and the ACLs sent to DAM. She added that the average price column had been removed from the AIL Details Report since the price provided was merely a derived value and did not reflect the actual weighted average pricing in the RT market. She also noted that there will be additional changes forthcoming to the ACL Summary Report to show transactional details on the collateral account as well as to the prepay account, if applicable. Mr. Davies and Ms. Martin pointed to Protocol requirements on reporting changes. ERCOT staff agreed to provide market notices in the future consistent with requirements.

Revisions to DAM Collateral Parameters Process Document

Ms. Yager presented to the group proposed revisions to the DAM Collateral Parameters Process Document. The revisions included:

- Providing ERCOT discretion to change DAM credit parameters to ensure they reasonably reflect anticipated activity
- Deleting parameters intended for Nodal market start up
- Simplifying parameters for new entrants to the market

Mr. Coffing requested that ERCOT provide advanced notification (similar to that provided for e-factors) to the market in instances where collateral parameter percentiles adjustments would generally result in higher collateral requirements, noting that this would help market participants to forecast their respective collateral requirements. Ms. Yager said that she will revise the document accordingly to include a similar notification requirement.

Feedback from F&A meeting and NPRR323 Progress Report

Ms. Yager informed the group that the F&A Committee did not take action on the proposed Investment Standard. She indicated that they wanted to consider further whether caps on the funds in which ERCOT invests were tight enough. Ms. Yager also told the group that ERCOT recently paid out interest earned through December 31, 2010 on cash collateral posted by market participants.

She added that ERCOT intends to pay out interest on a semi-annual basis provided amounts are substantial enough to warrant a payout.

Abacus Default Update

Ms. Yager informed the group that ERCOT does not yet have the final settlement amount that will be uplifted to the market due to the Abacus default. Currently, losses are estimated at approximately \$731,000. Once preliminary distribution percentages are available, ERCOT will collateralize the estimated uplifted amounts in the TPE calculation. Ms. Yager also summarized the timeline of the Abacus default.

Mr. Davies asked Ms. Yager if ERCOT is using market-driven information such as spreads on bonds and swaps, to evaluate collateral adequacy and if so, what market information sources ERCOT is using. Ms. Yager noted that ERCOT was not currently using CDS spreads but were considering it and asked the group to provide ERCOT Credit any suggestions on possible market information sources that it could use.

Ms. Spangler asked whether market-driven information would be a main determinant of collateral requirements. Ms. Yager explained that market-driven information would not be the sole parameter in determining minimum collateral requirements but instead would be one of several parameters that could be used for identifying potential problems. Mr. Coffing asked if ERCOT is considering applying the minimum collateral requirements to all market participants. Ms. Yager replied that ERCOT is primarily concerned with ensuring that adequate collateral is held for those Counter-Parties most at risk but would be open to considering applying it to all market participants.

ERCOT Legal Update

Chad Seely said that ERCOT Legal plans to send out red-line changes on the guarantee and letter of credit forms soon.

Matt Morais informed the group that ERCOT and other ISOs are in the process of pursuing an exception from the requirements of the CFTC. A draft of the exemption request has been submitted to the CFTC. The target filing date is sometime late May or June. Ms. Nikazm added that a presentation will be made regarding this subject to the F&A in its April meeting. The presentation will focus on the impact on credit requirements particularly on the CRR market. Ms. Nikazm also requested that ERCOT Legal provide CWG with updates on this process.

Mr. Morais noted that the CFTC has indicated that they would want ERCOT to be consistent with the new FERC credit requirements. He presented the highlights of the FERC credit rules, highlighting the potential changes ERCOT would need to make to be consistent with the FERC rule.

Mr. Coffing asked whether the CWG/MCWG should begin discussions with other ERCOT committees to begin addressing the outstanding items. Mr. Morais cautioned that the application is still in its early stages and ERCOT has yet to receive feedback from CFTC.

Ms. Yager informed the group that in order to continue the current netting process within and between markets, i.e. netting between RTM and DAM; and DAM purchases and sales netting, establishing a central counterparty would likely be required. Without that, ERCOT would likely be required to gross up liabilities.

Mr. Morais confirmed that ERCOT considers becoming a central counterparty the primary alternative. Mr. Seely indicated that ERCOT is reviewing ERCOT's organizational structure and ERCOT Protocols to determine what needs to be done to make the change. .

NASDAQ OMX Presentation

Richard Gutierrez of NASDAQ OMX presented to the group an overview of its proposal to provide central counterparty services to ERCOT. The proposal includes a three-phased approach. NASDAQ OMX indicated that the first phase does not require any changes to ERCOT operations and entails only minimal revisions to collateral requirements. Governance would remain the same and losses would continue to be uplifted to the market. Phase 2 would entail an evaluation of proposed changes to the ERCOT protocols while Phase 3 would involve expanded netting (e.g. between RTO markets, fuel commodities, etc).

Ms. Martin inquired about the costs associated with the proposal. NASDAQ explained that fees will be minimal under Phase 1 but further study is needed to determine what the fee structure is for Phases 2 and 3.

Review of Balance of Term CRR Auction

Trish Egan informed the group that due to time constraints, she did not have an analysis to present on CRR activity and would try to have something for the next meeting.

Ms. Yager explained that customizing the A and M factors by path would require a system change. The associated costs and timeline for implementing such

cannot be determined at this point; however, she noted that these changes could not be made in time for the balance of year CRR auction.

The group discussed the following options for WMS to consider as they considered the needs for the balance of year auction:

- 1) Eliminated RES as a Sink
- 2) Eliminate specific paths (MCWG suggest ERCOT make a recommendation)
- 3) Revise X, Y, A
 - a) Path specific values
 - b) Step change of single determinant
 - c) Unique X, Y, A values for monthly and annual auctions
- 4) Allow all paths to be bid on (OPTs and OBLs) and apply FCE as currently defined in Section 16 of the Protocols
- 5) Delay balance of year until credit revisions can be implemented
- 6) No OBL in bal. yr beyond prompt month
- 7) Combination of 1-4

Forward Risk

Ms. Martin reported that SEWG does not support changing the settlement days from 10 to 9 due to concerns on data integrity and ERCOT's ability to get complete data.

Ms. Yager said that ERCOT is working on completing the impact analysis and filing the NPRR proposing a consolidation of DAM and RT invoices before April 6 in order for the NPRR to be considered at the April PRS. ERCOT is currently considering: 1) combining DAM and RTM invoicing; and 2) combining all invoices at the Counter-Party level. Collateral calculations would be adapted for invoicing changes. She noted that ADTE would become a daily calculation as statements get generated daily. ERCOT is also considering including the minimum collateral exposure in the exposure calculations and incorporating the credit for CRR revenue allocation for two months.

Ms. Yager said that ERCOT is supportive of reducing the 40 days currently in the ADTE by some number of days with the reduction in the invoice cycle and resultant reduction in risk.

Eric Goff noted that TAC would be considering a Texas SET revision. He noted that if CWG/MCWG staff wanted to propose changes to the mass transition timeline, they should file comments soon. Mr. Coffing submitted a motion to waive notice on voting on recommending a reduction in the mass transition timeline. Ms. Nikazm seconded the motion. Motion passed.

Mr. Coffing then submitted a motion that CWG file the following comment "If operationally feasible, the CWG recommends reducing the Mass Transition Timeline by one day by submitting 814_03, Enrollment Notification Request for a meter read date that is one day earlier". Ms. Nikazm seconded the motion. Motion passed.

Also, the group reviewed the PJM cure period language, which would reduce the cure period from what ERCOT currently has, while providing some flexibility for the ISO to extend the cure period. ERCOT will review proposed language with Legal and the group will discuss at its next meeting.

The meeting was adjourned at 4:00 pm.