
Overview of NPRR 400
Elimination of Unsecured Credit and Guarantee for CRR Activity
ERCOT

Overview

- **CFTC 4 (c) Exemption**
- **FERC Credit Rule and ERCOT Rule**
- **NPRR 400 – Calculations Affected**

CFTC 4 (c) Exemption

ERCOT along with other ISO/RTOs began a conversation with CFTC last year to discuss applying for an exemption from CFTC jurisdictional oversight of ISO/RTO markets

- Potential requirements of ISO/RTOs for obtaining CFTC exemption
 - FERC Credit Rule – The CFTC preliminarily seems to view favorably the requirements of the FERC Credit Rule
 - While not under FERC Jurisdiction, compliance with the FERC Order helps ERCOT make progress towards the exemption
- Dodd Frank becomes effective incrementally in the second half 2011; CFTC exemption must be obtained within a comparable timeframe
- CFTC exemption may be contingent on ERCOT making changes to existing Protocols, systems, etc. in a timely manner

FERC Credit Rule and ERCOT Rule

Unsecured Credit

FERC Rule

- Eliminates unsecured credit for FTR markets;
- \$50 million limit per participant, including corporate family if relevant.

ERCOT Rule

- \$100 million limit per participant across all markets
- ERCOT currently allows unsecured credit in FTR (CRR) market

FERC Credit Rule and ERCOT Rule

Netting of FTR and non-FTR activity

FERC Rule

- Netting of FTR and non-FTR activity is not allowed (even if ISO is a Central Counter-Party)

ERCOT Rule

- ERCOT allows netting of forward mark to market value of transmission rights (CRR) positions with other market activity if
 - a first priority security interest is granted
 - for Electric Cooperatives and Entities created under Texas Water Code (TWC) § 222.001, Creation.
- **NPRR 400**
 - Eliminates unsecured credit for the FCE component of the TPE calculation and eliminates unsecured credit from the ACL for CRRs
 - Eliminates netting of CRR and non-CRR activity
- **Creditworthiness Standards**
 - Reduce Unsecured Credit from \$100 million to \$50 million

NPRR 400 – Calculations Affected

- **Calculations Impacted**

- TPE (replaced with TPES and TPEA)
- EAL (split between EALq (for QSEs) and EALa (for CRRAHs))
- ACL (replaced with ACLD (for DAM) and ACLC (for CRR Auction))
- Collateral Requests

- **Definitions Introduced**

- **Secured Collateral** : The term “Secured Collateral” in this Section means the collateral posted by a Counter-Party with ERCOT in the form of an unconditional, irrevocable letter of credit or surety bond naming ERCOT as the beneficiary or cash.
- **Remainder Collateral**: The term “Remainder Collateral” in this Section means the Financial Security posted by a Counter-Party with ERCOT minus Total Potential Exposure Secured (TPES) minus Net Positive Exposure of approved Congestion Revenue Right (CRR) Bilateral Trades.

NPRR 400 – Calculations Affected

- **Definitions Introduced – continued**
 - TPES (Total Potential Exposure Secured)
 - TPEA (Total Potential Exposure Any)
 - ACLC (Available Credit Limit for the CRR Auction)
 - ACLD (Available Credit Limit for the DAM)
 - Secured Collateral Request (SCR)
 - Any Collateral Request (ACR)

NPRR 400 – Calculations Affected – TPES & TPEA

- **TPES** = Max [0, MCE, Max [0, ($\sum_q EAL_q + CRRA * \sum_a EAL_a$)]]
- **TPEA** = Max [0, (1 – CRRA) * $\sum_a EAL_a$] + Max [0, $\sum_a FCE_a$]

Where

Variable	Unit	Description
EAL_q	\$	<i>Estimated Aggregate Liability for the QSE—EAL for the QSE “q” represented by Counter-Party.</i>
EAL_a	\$	<i>Estimated Aggregate Liability for the CRR Account Holder —EAL for the CRR Account Holder “a” represented by Counter-Party.</i>
FCE_a	\$	<i>Future Credit Exposure for the CRR Account Holder —FCE for the CRR Account Holder “a” represented by Counter-Party.</i>
MCE	\$	<i>Minimum Collateral Exposure – Minimum Collateral Exposure for the Counter-Party</i>
CRRA	\$	<i>CRR Activity other than FCE—CRR activity other than FCE – May have a value of “0” or “1”. Flag to indicate whether CRR activity other than FCE will be included in TPES or TPEA. Initially set to “1” to include activity into TPEA. ERCOT, in its sole discretion, can reset to “0” if needed.</i>

NPRR 400 – Calculations Affected – ACLC & ACLD

- **CRR ACL (ACLC) =**
 - » **Max(0, (SC - Max(0, TPES) - Max(0, Approved Bilateral Trades) + Min(0, RC + UCL - Max(0, TPEA)))**

- **DAM ACL (ACLD) =**
 - » **Max(0, (RC + UCL - Max(Locked ACL, SCR) - Max(0, TPEA)))**

NPRR 400 – Calculations Affected – Collateral Requests

- **Secured Collateral Request (SCR) =**
 - » **Max(0, -(SC - Max(0, TPES) - Max(0, Approved Bilateral Trades) - Locked ACL))**
- **Any Collateral Request (ACR) =**
 - » **Max(0, -(RC + UCL – If(SCR > Locked ACL, 0, Locked ACL) - Max(0, TPEA)))**

Examples followed....