



Date: October 11, 2011
To: Board of Directors
From: Mark Ruane, ERCOT Vice President of Credit and Enterprise Risk Management
Subject: ERCOT Creditworthiness Standards

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: October 18, 2011

Agenda Item No.: 10a

Issue:

Approval of revisions to the Creditworthiness Standards, as described in Exhibit A, which is attached hereto and incorporated herein, which revisions are recommended by the Credit Work Group (CWG) and ERCOT staff.

Background/History:

Protocol Section 16.11.2, "Requirements for Setting a Counter-Party's Unsecured Credit Limit," requires the ERCOT Board of Directors ("Board") to approve ERCOT Creditworthiness Standards that define how ERCOT will grant unsecured credit to Counter-Parties and Guarantors.

The ERCOT Creditworthiness Standards were last updated in September 2007. The current change proposed reduces the maximum unsecured credit that may be granted to a Counter-Party from \$100 million to \$50 million. This revision will also reduce the maximum amount of Guarantees that may be taken from a single Guarantor from \$100 million to \$50 million. Since 2010, ERCOT has imposed a \$75 million cap on unsecured credit pending CWG review of this policy. A marked draft of the proposed changes to the Creditworthiness Standards is included as Exhibit A.

Below is a summary of the anticipated impact of this change on unsecured credit and Guarantees if this change was in place as of August 31, 2011:

As of August 31, 2011	<u>With \$75 million cap</u>		<u>With \$50 million cap</u>	
	Count	\$\$	Count	\$\$
Unsecured Credit	28	844,439,283	28	657,084,283
Guarantees	40	937,485,597	40	811,792,363
Total	68	1,781,924,880	68	1,468,876,646
Net reduction				313,048,234

Reducing unsecured credit reduces the overall credit risk in the ERCOT market and is consistent with the maximums established at other Independent System Operators (ISOs) (as required by FERC Order 741).

While ERCOT is not subject to FERC Order 741, ERCOT is seeking an exemption from regulation by the Commodities Futures Trading Commission (CFTC). In conjunction with



seeking this exemption, the CFTC has indicated that consistency with the FERC Order 741 is required.

The CWG reviewed this proposed change and unanimously voted to recommend the change to the ERCOT Creditworthiness Standards with all market segments represented except the Consumer segment.

The Finance & Audit Committee is expected to review the proposed change to the ERCOT Creditworthiness Standards at its October 17, 2011 meeting and will vote on whether to recommend the changes reflected in Exhibit A to the Board.

ERCOT staff respectfully recommends that the Board approved the proposed changes to the ERCOT Creditworthiness Standards as recommended by CWG and ERCOT staff with an implementation date of December 31, 2011. An implementation date of December 31, 2011 allows Counter-Parties time to obtain collateral, if needed, to replace unsecured credit or Guarantees and allows Guarantors time to execute new documents.

Key Factors Influencing Issue:

Reducing the maximum allowed amount of unsecured credit from \$100 million to \$50 million is expected to:

- a. Reduce the overall credit risk in the ERCOT market
- b. Make ERCOT credit policy more consistent with that of other ISOs
- c. Be viewed favorably by the CFTC as we seek exemption from CFTC regulation

Alternatives:

1. Approve the proposed changes to the Creditworthiness Standards as proposed by the CWG and recommended by ERCOT staff; or
2. Leave the Creditworthiness Standards in the current form.

Conclusion/Recommendation:

ERCOT staff respectfully recommends that the Board approve the proposed changes to the ERCOT Creditworthiness Standards as recommended by the CWG and ERCOT staff with an implementation date of December 31, 2011. An implementation date of December 31, 2011 allows Counter-Parties time to obtain collateral, if needed, to replace unsecured credit or Guarantees and allows Guarantors time to execute new documents.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, Section 16.11.2, *Requirements for Setting a Counter-Party's Unsecured Credit Limit*, of the Nodal Protocols requires the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) to approve ERCOT Creditworthiness Standards that define how ERCOT will grant unsecured credit to Counter-Parties and Guarantors;

WHEREAS, after due consideration of the alternatives, the ERCOT Board deems it desirable and in the best interest of ERCOT to approve the proposed changes to the ERCOT Creditworthiness Standards as recommended by the Credit Work Group (CWG) and ERCOT staff, as described in Exhibit A, with an implementation date of December 31, 2011; and

THEREFORE, BE IT RESOLVED, that the ERCOT Creditworthiness Standards as recommended by CWG and ERCOT staff, as described in Exhibit A, are hereby authorized and approved with an implementation date of December 31, 2011.

CORPORATE SECRETARY'S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its October 18, 2011 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of October, 2011.

Vickie G. Leady
Assistant Corporate Secretary