Date: February 14, 2012
To: Board of Directors
From: Mark Ruane, ERCOT Vice President Credit and Enterprise Risk Management
Subject: ERCOT Market Credit Risk Corporate Standard

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: February 21, 2012
Agenda Item No.: 13a(1)

Issue:
Approval of modifications to the ERCOT Market Credit Risk Corporate Standard (Standard).

Background/History:
The ERCOT Market Credit Risk Corporate Standard requires review at least annually by the Finance and Audit (F&A) Committee, with modifications approved by the Board. The Standard was last approved by the Board on March 22, 2011.

The Standard establishes a Potential Future Exposure (PFE) model as a standard for measuring ERCOT credit risk. On March 22, 2011, the Board approved suspension of running the PFE model for 2011 pending model updates to reflect the nodal market.

Based on the response to ERCOT's Request for Proposal (RFP) to update the PFE model, ERCOT staff believes that the anticipated price for such services is in excess of the value derived from the model and instead has recommended provision of revised credit risk reporting to the F&A Committee. ERCOT staff has likewise drafted proposed revisions to the Standard that would be appropriate upon F&A Committee acceptance of revised credit risk reporting in lieu of PFE model results. The proposed Standard with changes highlighted is attached as *Attachment A*.

If the F&A Committee agrees with the proposed modifications to market credit risk reporting and votes to accept the ERCOT staff-proposed modifications to the Standard, then Board approval of revisions to the Standard would be necessary. The F&A Committee is expected to recommend the Board adopt, reject or amend the revisions at its February 20, 2012 meeting.

Key Factors Influencing Issue:
1. Cost of converting the PFE model for the nodal market versus the benefit derived from such conversion.
2. Improved understanding and management of credit exposure by more comprehensive reporting.

Conclusion/Recommendation:
ERCOT staff respectfully recommends approval of revisions to the Market Credit Risk Corporate Standard as presented in *Attachment A*. The F&A Committee will review the ERCOT staff-proposed modifications at its meeting on February 20, 2012, and is expected to

recommend to the Board whether any revisions should be made to the Standard and whether they should become effective upon approval by the Board.

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

WHEREAS, after its meeting on February 20, 2012, the Finance and Audit (F&A) Committee of the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) has recommended that the Board approve revisions to the Market Credit Risk Corporate Standard as forth in *Attachment A*;

WHEREAS, after due consideration of the alternatives, the Board deems it desirable and in the best interest of ERCOT, in furtherance of improved understanding and management of credit exposure by more comprehensive reporting, to approve revisions to the Market Credit Risk Corporate Standard as recommended by the F&A Committee; and

THEREFORE, BE IT RESOLVED, that the revised Market Credit Risk Corporate Standard, as set forth in *Attachment A*, which is attached hereto and incorporated herein by reference for all purposes, is hereby authorized and approved by the Board in each and every respect to be effective immediately.

CORPORATE SECRETARY'S CERTIFICATE

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

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of February, 2012.

_____
Vickie G. Leady
Assistant Corporate Secretary