



Item 8: Recommendation Regarding Market Credit Risk Corporate Standard

Mark Ruane

Vice President, Credit and Enterprise Risk
Management

Finance & Audit Committee Meeting

ERCOT Public

January 14, 2013

Review of ERCOT Market Credit Risk Standard <vote>

The ERCOT Market Credit Risk Standard requires review at least annually by the Finance and Audit Committee with any modifications to be approved by the Board.

The Standard was last approved by the F&A Committee at its February 20, 2012 meeting. A copy of the Standard has been provided for reference.

No revisions to the Standard are being proposed for 2013.

ERCOT staff respectfully recommends that the F&A Committee recommend that the Board of Directors approve the Market Credit Risk Standard with no revisions.

<Vote>

Questions



Date: January 8, 2013
To: Board of Directors
From: Mark Ruane, Vice President Credit & Enterprise Risk
Subject: Market Credit Risk Corporate Standard

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: January 15, 2013

Item No.: 13.2

Issue:

Approval of ERCOT Market Credit Risk Corporate Standard.

Background/History:

The ERCOT Market Credit Risk Corporate Standard requires review at least annually by the Finance and Audit Committee, with modifications approved by the Board. The Standard was last approved by the Board on February 14, 2012.

Key Factors Influencing Issue:

No revisions to the Standard have been proposed for the 2013 review and approvals.

Conclusion/Recommendation:

ERCOT staff respectfully recommends approval of the Market Credit Risk Corporate Standard.



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

WHEREAS, after its meeting on January 14, 2013, 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 January 15, 2013 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of January, 2013.

Vickie G. Leady
Assistant Corporate Secretary

ERCOT CORPORATE STANDARD

Document Name:	Market Credit Risk Corporate Standard
Document ID:	CS3.6
Effective Date:	February 21, 2012
Owner:	Board of Directors
Governs:	ERCOT Personnel
Approved:	Board of Directors, ERCOT, Inc.

1. Purpose

This Market Credit Risk Corporate Standard provides a framework by which the ERCOT Board of Directors seeks to maintain the long-term financial integrity of the ERCOT market and to help ensure that overall market credit risk is maintained within acceptable limits.

Recognizing that a number of risk factors contribute to overall market credit risk and that it is beneficial to understand the impact of these risks, various reports have been developed to help understand the nature and scope of market credit risk.

This standard does not change collateral requirements or Market Participant obligations to comply with those collateral requirements under the ERCOT Protocols. Changes to collateral requirements require a change to ERCOT Protocols through Section 21, Process for Protocol Revision.

2. Definitions

Terms & Acronyms	Definition / Description
BOD	Board of Directors
CWG	Credit Work Group
TAC	Technical Advisory Committee
Total Potential Exposure (TPE)	A measure of estimated credit risk as defined in ERCOT Protocols.

3. Standards

Market Credit Risk Objective

In seeking to fulfill BOD objectives to provide for a reliable Texas electricity market, ERCOT stakeholders will

- directly consider the credit implications of operational or market decisions,

- maintain sufficiently detailed understanding of the nature and scope of market credit risk so as to be able to identify material changes in ERCOT's credit risk profile in a timely manner and
- seek to maintain a market-wide credit risk profile consistent with an investment grade rating.

Delegation of Authority

Responsibility for monitoring and reporting on credit risk for the market consistent with this standard is hereby delegated to the Chief Executive Officer, the Vice President – Credit and Enterprise Risk Management and the Director, Credit. These individuals will ensure the BOD is advised of material changes in ERCOT's credit risk profile.

This delegation does not mean that the results of any particular model or report will be the final determination of credit risk in the ERCOT market. Such determination rests with the BOD.

Internal Control

The Vice President, Credit and Enterprise Risk will ensure that written procedures and internal controls are established over the credit risk analysis process to ensure that results are consistent with the approved process reflected in this standard.

The Vice President, Credit and Enterprise Risk will ensure that these controls are reviewed periodically by ERCOT's Internal Audit staff to monitor compliance with control procedures. The results of Internal Audit reviews as well as underlying controls may be reviewed by the Finance and Audit Committee of the BOD upon request.

Measurement

ERCOT recognizes that one metric cannot capture all aspects of credit risk.

Therefore, at a minimum, ERCOT's credit risk reporting for the Nodal market will include the following risk factors:

- Creditworthiness of Counter-Parties,
- Market activity volume,
- Net load and generation Counter-Party concentration,
- Total Potential Exposure by type of Counter-Party
- Collateralization relative to Total Potential Exposure and
- Total potential exposure relative to stress scenario benchmarks.

As applicable, reporting will incorporate time series to aid in the interpretation of credit risk factors and identification of changes to ERCOT's credit risk profile.

ERCOT will provide other information or analyses as necessary to effectively communicate the sources and scope of market credit risk.

At ERCOT's discretion or upon request by the BOD, TAC or CWG, ERCOT will run stress scenarios with respect to market credit exposure to aid in the understanding of the impact of extreme events, such as extreme prices or market conditions.

Reporting

ERCOT will prepare credit risk reporting:

1. bi-monthly for the F&A Committee,
2. whenever ERCOT determines there have been significant changes in ERCOT's credit risk exposure or credit risk profile, and

upon request of TAC or CWG when contemplating market rule changes for which significant credit implications are being evaluated.

Market Credit Risk Corporate Standard Adoption

ERCOT's Market Credit Risk Corporate Standard was adopted by resolution of the BOD. The standard is reviewed at least annually by the Finance and Audit Committee and any modifications made thereto must be approved by the BOD.