



# **Item 8: Recommendation Regarding ERCOT Creditworthiness Standards**

**Mark Ruane**

**Vice President, Credit and Enterprise Risk  
Management**

**Finance & Audit Committee Meeting**

**ERCOT Public**

**March 18, 2013**

# Recommendation regarding ERCOT Creditworthiness Standards

- The ERCOT Creditworthiness Standards require that:
  - “Revisions to the Creditworthiness Standards shall be reviewed by the Credit Work Group and the Finance and Audit Committee and approved by the ERCOT Board.”
- In November 2012, by electronic vote, the Credit Work Group (CWG) voted to endorse certain proposed revisions to the Creditworthiness Standards.
- The revisions were not immediately referred to the Finance and Audit (F&A) Committee due to the scheduled joint meeting of the Market Credit Work Group (MCWG) and CWG to address proposed Letter of Credit (LC) Concentration limits.

# CWG-Approved Revisions to ERCOT Creditworthiness Standards

CWG-approved changes to the Creditworthiness Standards include:

- Cash deposits to be made into an ERCOT-designated account.
- No modifications allowed to standard guarantee form.
- Corporate guarantees subject to a limit of \$50 million per Counter-Party and an overall limit of \$50 million per guarantor.
- Elimination of the reduction in credit limits for foreign guarantors who do not provide quarterly financial statements; however, foreign guarantors must provide ERCOT a legal opinion that the guarantee is enforceable in the US.
- Surety bonds must be on a standard form document approved by the ERCOT Board of Directors. The current surety bond template was approved by the Board in April 2012.

A copy of the Creditworthiness Standards with proposed revisions highlighted is provided for reference.

## Request for Vote

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- Pending additional consideration of LC Concentration limits by CWG, ERCOT staff respectfully requests that the F&A Committee recommend that the Board of Directors approve the CWG-approved revisions to the Creditworthiness Standards to be effective immediately.

**<Vote>**

# Electric Reliability Council of Texas, Inc.

## Creditworthiness Standards

Referenced in Section 16.11 of the Nodal Protocols

### Creditworthiness Standards for Cooperative and Municipal Systems

IF YOUR ENTITY HAS	AND	AND	AND	THEN
Minimum Equity (Patronage Capital)	Minimum Times Interest Earnings Ratio (TIER)	Minimum Debt Service Coverage (DSC)	Minimum Equity to Assets	Maximum unsecured line as a percentage of Unencumbered Assets*
<b>\$25,000,000</b>	<b>1.05</b>	<b>1.00</b>	<b>0.15</b>	<b>0.00% to 5.00%</b>

\* Unsecured line not to exceed \$ 50 million.

***Unencumbered Assets is defined as Total Assets minus Total Secured Debt.***

Note 1: Cooperatives shall apply these standards consistent with RUS [CFR Sec. 1717.656 (3)]. Municipals shall apply these standards annually.

Note 2: A Cooperative or Municipal must use "Rated Entity" standards for qualification if that entity is publicly rated by Fitch, S&P or Moody's and has greater than \$100 million in equity.

Note 3: The amount of unsecured line established within the range above is at the discretion of ERCOT if the above criteria are met.

# Electric Reliability Council of Texas, Inc.

## Creditworthiness Standards

Referenced in Section 16.11 of the Nodal Protocols

### Creditworthiness Standards for Rated Entities

IF YOUR ENTITY HAS		AND	THEN		
Long-Term or Issuer Rating		Tangible Net Worth greater than	Maximum unsecured line as a percentage of Tangible Net Worth*		
<u>Fitch or S&amp;P</u>	<u>Moody's</u>				
AAA	Aaa	\$ 100,000,000	0.00%	to	3.00%
AA+	Aa1	\$ 100,000,000	0.00%	to	2.95%
AA	Aa2	\$ 100,000,000	0.00%	to	2.85%
AA-	Aa3	\$ 100,000,000	0.00%	to	2.70%
A+	A1	\$ 100,000,000	0.00%	to	2.55%
A	A2	\$ 100,000,000	0.00%	to	2.35%
A-	A3	\$ 100,000,000	0.00%	to	2.10%
BBB+	Baa1	\$ 100,000,000	0.00%	to	1.80%
BBB	Baa2	\$ 100,000,000	0.00%	to	1.40%
BBB-	Baa3	\$ 100,000,000	0.00%	to	0.70%
Below BBB-	Below Baa3	Requires Security			

\* Unsecured line not to exceed \$ 50 million

**Tangible Net Worth is defined as Total Shareholder's Equity less Goodwill or other intangible assets.**

Note 1: If a Market Participant's or Guarantor's debt is rated by more than one of the rating agencies and all ratings fall within rating categories which are functional equivalents, ERCOT shall assign unsecured credit or allow a guarantee for amounts within the range for that rating.

If a Market Participant's or Guarantor's debt is rated by more than one of the rating agencies and the ratings fall within different rating categories which are not functional equivalents, ERCOT shall assign unsecured credit or allow a guarantee for amounts as follows:

- If there are 3 ratings and 2 of the 3 are functional equivalents, within the range where 2 of the 3 ratings apply
- If there are 3 ratings and all 3 are different, within the range where the average of the 3 ratings apply (rounded down)
- If there are 2 ratings and the two are different, within the range of the lower of the two

Note 2: ERCOT has the discretion to reasonably request any entity to provide updated financial information and may adjust credit limits as required.

Note 3: The amount of unsecured line established within the range above is at the discretion of ERCOT if the above criteria are met.

# Electric Reliability Council of Texas, Inc.

## Creditworthiness Standards

Referenced in Section 16.11 of the Nodal Protocols

### Creditworthiness Standards for Privately-Held Entities

IF YOUR ENTITY HAS	<u>AND</u>	<u>AND</u>	<u>AND</u>	<u>THEN</u>
Tangible Net Worth	Minimum Current Ratio	Maximum Debt to Total Capitalization Ratio	Minimum EBITDA to Interest and CMLTD	Maximum unsecured line as a percentage of Tangible Net Worth*
100,000,000	1.0	0.60	2.0	0.00% to 1.80%

\*Unsecured line not to exceed \$ 50 million

***Tangible Net Worth is defined as Total Shareholders' Equity less Goodwill or other intangible assets.***

***Debt to Total Capitalization Ratio is defined as Long-Term Debt (including all current borrowings) divided by Total Shareholders' Equity plus Long-Term Debt.***

Note 1: An unsecured limit will be set for privately-held entities which do not have a long-term rating based on the above criteria, subject to the entity providing ERCOT with the most recent audited financial statements, and subsequent quarterly unaudited interim financial statements.

Note 2: ERCOT has the discretion to reasonably request any entity to provide updated financial information and may adjust credit limits as required.

Note 3: The amount of unsecured line established within the range above is at the discretion of ERCOT if the above criteria are met.

# Electric Reliability Council of Texas, Inc.

## Creditworthiness Standards

Referenced in Section 16.11 of the Nodal Protocols

Entities not meeting the requirements established by the ERCOT Protocols must provide one (or a combination) of the following forms of Financial Security for the benefit of ERCOT, as defined in the ERCOT Protocols. Acceptance of Financial Security is subject to the review and approval of ERCOT.

1. ~~Cash Deposit~~ - ~~standard form n/a~~ Deposited in an account designated by ERCOT.

2. **Letter of Credit (LC)**

a. Must be issued by a bank with a minimum rating of A- with Fitch or S&P or A3 with Moody's. Must be issued on the Sstandard Form document approved by the ERCOT Board of Directors; no modifications are permitted.

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3. **Corporate Guarantee**

a. Guarantor must meet applicable credit standards as stated in ~~the~~ ERCOT Protocols.

b. Guarantee must be on the Sstandard Fform document approved by the ERCOT Board of Directors; no modifications are permitted

c. Subject to a limit of \$50 million of guarantees per Counter-Party and an overall limit of \$50 million per guarantor for all ERCOT Counter-Parties.

4. **Foreign Guarantee**

a. Guarantor must meet applicable credit standards as stated in ~~the~~ ERCOT Protocols, as well as the standards listed below.

b. The country of domicile for the foreign guarantor must:

i. Maintain a sovereign rating greater than or equal to AA with Fitch or S&P or Aa2 with Moody's.

ii. If the ratings are below those in (i) above, but greater than or equal to A with Fitch or S&P or A2 with Moody's, then the sovereign rating would qualify if the country had a ceiling rating of AAA with Fitch or S&P or Aaa with Moody's.

iii. Must have reciprocity agreements with the U.S. regarding enforcement and collection of guarantee agreements.

c. The foreign guarantor must:

i. Provide to ERCOT annual audited financial statements, prepared in accordance with U.S. generally accepted accounting principles or international accounting standards and semi-annual/quarterly unaudited financial statements.

~~ii. However, if the foreign guarantor does not provide quarterly financial statements, the assigned credit limit will be reduced for the relevant quarters based on their credit rating by:~~

~~1. A- (Fitch or S&P) or A3 (Moody's) and above: 20%~~

~~2. BBB+ (Fitch or S&P) or Baa1 (Moody's) or below: 50%~~

~~iii. Provide a guarantee in one of the standard form documents approved by the ERCOT Board of Directors, approved standard form guarantee Agreement for foreign Entities; no modifications are permitted.~~

~~iv. Provide Reimburse ERCOT the cost of obtaining an opinion letter from a law firm unaffiliated with the Counter-Party or guarantoref-counsel affirming that the guarantee agreement is enforceable in the U.S. and in the jurisdiction of the corporate guarantor's domicile. Maintain a registered Texas Registration Agent~~

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# Electric Reliability Council of Texas, Inc.

## Creditworthiness Standards

Referenced in Section 16.11 of the Nodal Protocols

### 5. Surety Bond

- a. Must be issued by an insurance company with a minimum rating of A- with Fitch or S&P or A3 with Moody's.
- a.b. Surety Bond must be on the standard form document approved by the ERCOT Board of Directors; no modifications are permitted.
- b.c. Subject to a limit of \$10 million per ~~Counter-PartyQSE~~ per insurer and an overall limit of \$100 million per insurer for all ERCOT ~~Counter-PartiesQSEs~~.

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Revisions to the Creditworthiness Standards shall be reviewed by the Credit Work Group and the Finance and Audit Committee and approved by the ERCOT Board.