



Item 9: Periodic Report on Credit Work Group Activity

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Chair, Credit Work Group

Finance & Audit Committee Meeting

ERCOT Public

March 18, 2013

Credit Work Group Update

- **Credit Work Group Meeting**
 - No meeting in December 2012
 - Meetings held on January 30 and February 27, 2013
 - Next-meeting scheduled for March 27, 2013
- **Review of recommendations for CWG chair and vice-chair**
 - Simon Castillo (chair) – CPS Energy
 - Michael Mathews (vice-chair) – Bryan Texas Utilities

Credit Work Group Update

Key Outstanding Issues:

- **Updates to Creditworthiness Standards**
 - Presented to F&A in November 2012 & January 2013
 - Requires F&A approval
 - Letter of Credit(LC) Concentration
 - Sub-group has been reviewing potential limit on LC issuance.
 - ERCOT staff initial proposal in 2012:
 - Initial \$400 million overall cap per issuer
 - Cap reductions based on issuer credit rating and volume of LCs outstanding relative to Tangible Net Worth
 - ERCOT would report on concentration and notify Counter-Parties when limits were approached

Credit Work Group Update

Key Outstanding Issues:

- **Updates to Creditworthiness Standards (Cont...)**
 - CWG proposal February 27, 2013
 - Overall \$750 million cap
 - Quarterly review by CWG and F&A
 - Daily reporting of outstanding LCs by issuer
 - ERCOT increase the limit, temporarily, in extreme market conditions
 - None of the proposals were currently impacting any counterparty or bank issuer.
 - CWG did not endorse concentration limits on issuers of Letters of Credit.

Credit Work Group Update

Key Outstanding Issues:

- **Updates to Creditworthiness Standards (Cont...)**
 - Some of the concerns were:
 - Risk that in the event a concentration limit were reached that Counter-Parties would be unable to find secondary sources of financing
 - Desire to reduce caps to the extent LCs were confirmed by a second financial institution
 - Lack of provision for ERCOT to accept LCs on a temporary basis
 - Concern over exposure impacts of higher caps

Key Outstanding Issues

- **NPRR 484 to be reviewed by Board in March**
 - Revises collateralization for CRRs to address path-specific risk
 - CWG has reviewed
 - Three phase implementation proposed by ERCOT

- **NPRR 509 to be reviewed by Board in March**
 - Shortened RTM Settlement Timeline
 - CWG reviewed

Key Outstanding Issues

- **NPRR 510 will be reviewed by Board in March**
 - Posted on 12/20/2012
 - Clarifies language for ERCOT discretion to adjust Operating Days used in the calculation of Outstanding Unpaid Transactions (OUT)
 - Clarification of the appropriate Congestion Revenue Right (CRR) Auction clearing price to be used when there have been multiple auctions
 - CWG reviewed
- **NPRR 519**
 - Posted on 2/6/13
 - Exemption of ERS-Only QSEs from Collateral and Capitalization Requirements
 - Is being reviewed by CWG

Key Outstanding Issues

- **Future credit design**
 - A working group created by WMS to consider initiatives for future credit design:
 - Shortening the settlement timeline
 - Creating a probabilistic credit model
 - No new development in the group's activity
 - CWG will report developments to F&A regularly