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## **Item 7: Letter of Credit Issuer Concentration Proposal**

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Finance & Audit Committee Meeting

ERCOT Public

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# Letter of Credit Issuer Concentration Proposal

On March 18, 2013, the F&A Committee requested that ERCOT staff submit a Letter of Credit Issuer Concentration Limit proposal at its May 13, 2013 meeting

- **ERCOT Proposal:**

- Letters of Credit subject to an overall limit of \$750 million per Letter of Credit issuer for all ERCOT Counter-Parties
- Issuer limits adjusted based on Tangible Net Worth (TNW) and credit rating
  - This may reduce the overall limit for lower-rated entities and those for which LCs issued to ERCOT make up a larger proportion of Tangible Net Worth

Rating <sup>(1)</sup>		Maximum Letter of Credit Issuer Limit as a % of TNW
Moody's	Fitch/S&P	
Aaa	AAA	1.00%
Aa1	AA+	.95%
Aa2	AA	.90%
Aa3	AA-	.85%
A1	A+	.80%
A2	A	.75%
A3	A-	.70%

<sup>(1)</sup> Determined in accordance with ERCOT Creditworthiness Standards

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- **Limit structure to be reviewed by Credit Work Group and approved by the F&A Committee no less often than annually**
- **On Bank Business Days, ERCOT will issue a report of each Letter of Credit issuer and available capacity**
  - Market Participants may inquire intra-day
- **ERCOT in its sole discretion may authorize exceptions to the Letter Credit of Concentration limits**

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## Process for Limit Breaches

- If an issuer limit is breached, Counter-Parties utilizing that issuer will be notified. New Letter of Credit (LCs) from the issuer would not be accepted.
- This would start a timer that after four months ERCOT would no longer accept new LCs or amendments to existing LCs from that issuer.
- LCs currently held as collateral would not be rejected.
- ERCOT would continue to report outstanding LCs and unused limit by issuer.
- Note that if an issuer were to be downgraded below investment grade or otherwise fail to meet issuer requirements per ERCOT Creditworthiness Standards, outstanding LCs would be immediately ineligible as collateral.

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## Implementation

- **ERCOT supports a phase-in approach for implementation of any approved limits**
- **ERCOT will test the proposed limit structure on a shadow basis over the summer months before seeking approval of any final proposal from the F&A Committee**
- **This will enable ERCOT and the market to understand the potential impacts of higher price caps on Letters of Credit Concentration limits**

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Questions

