



Date: February 4, 2014
To: Board of Directors
From: Mark Ruane, Director Market Credit
Subject: Market Credit Risk Corporate Standard

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: February 11, 2014

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 January 15, 2013.

ERCOT staff is proposing the following revisions to the Standard:

- Update ERCOT staff roles and titles in line with current organization.
- Remove inclusion of total potential exposure relative to stress scenario benchmarks. The total potential exposure metric has not been used since prior to the opening of the nodal market.
- Change F&A reporting from monthly to bi-annual.

Key Factors Influencing Issue:

Proposed revisions help ensure that the Standard reflects the current ERCOT organization and the reporting required by F&A.

Conclusion/Recommendation:

The F&A Committee is expected to review the Standard at its meeting on February 10, 2014, 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 due consideration of the alternatives, the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) deems it desirable and in the best interest of ERCOT to revise the Market Credit Risk Corporate Standard (the Standard), as recommended by the Finance and Audit (F&A) Committee, consistent with the revisions reflected in *Attachment A* hereto;

THEREFORE, BE IT RESOLVED, that ERCOT is hereby authorized and approved to revise the Standard consistent with the revisions reflected in *Attachment A*, to be effective immediately.

CORPORATE SECRETARY'S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its February 11, 2014 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, 2014.

Vickie G. Leady
Assistant Corporate Secretary

ERCOT CORPORATE STANDARD

Document Name:	Market Credit Risk Corporate Standard
Document ID:	CS3.6
Effective Date:	January 15, 2013 <u>Upon approval</u>
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 Counter-Party~~ 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~~ Commercial Operations ~~and~~ Operations and the Director, Credit Director, Market 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~~ Director, Credit Director, Market Credit ~~and Enterprise Risk~~ will ensure that written procedures and internal controls are established over the credit ~~risk analysis~~ processes to ensure that results are consistent with the approved process reflected in this standard.

The ~~Vice President~~ Director, Credit Director, Market 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, and
- ~~Collateralization relative to Total Potential Exposure~~ 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~~ annually for the F&A Committee,
2. whenever ERCOT determines there have been significant changes in ERCOT's market 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.