



Item 4: Periodic Report on Credit Work Group Activity

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Finance & Audit Committee Meeting

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ERCOT Public

Credit Work Group Update

NPRR 683: Revision to Available Credit Limit Calculation

- Currently ACL is calculated as 90% of excess posted collateral
 - $ACL = 0.9 * (\text{posted collateral} - \text{required collateral})$
- Reduction is independent of exposure and discourages overcollateralization
- NPRR change is to increase required collateral in the ACL calculation by 10%
 - $ACL = \text{posted collateral} - (1.1 * \text{required collateral})$
- Passed via e-mail vote and CWG comments circulated on March 25, 2015

Other NPRRs Reviewed by CWG

- NPRR 662 Proxy Energy Offer Curves
- NPRR 672 Clarification EMR Status
- NPRR 674 Clarification of Water Supply Rights Documentation
- NPRR 678 Posting of Wind Peak Average Capacity Percentage Data
- NPRR 679 ONOPTOUT for RUC Given After the Adjustment Period
- NPRR 682 Changes to Notification Method when ERCOT intends to Procure Additional Ancillary Services

Credit Work Group Update

NPRR 638: Revision to Price Components of EAL

- Passed at January 20 2015 CWG Meeting.
- Subsequent to passing CWG, comments were filed by Reliant and Freeport LNG proposing new language related to the usage of historical Fuel Index Prices (FIPs) to normalize calculations and by ERCOT proposing that the MAF notice period be increased from 14 to 45 days and may be adjusted at the sole discretion of ERCOT due to market rule or market condition changes.
- ERCOT also subsequently provided additional analysis to CWG relating to the performance of NPRR 638 using 2014 data for various look-back periods.
- Currently tabled at PRS at the request of CWG with two outstanding issues:
 - Confirmation of the look-back period, currently recommended as 10-days.
 - Review of the credit and operational impact of ERCOT and Reliant's comments on the NPRR subsequent to passing CWG.
- ERCOT requires approximately six months to implement NPRR 638, it is anticipated that CWG and PRS will be able to address all outstanding issues, in conjunction with ERCOT in sufficient time to be in place for Summer 2016.

Credit Work Group Update

Summer 2015 Seasonal Adjustment Factor (SAF) Proposal

- Due to NPRR 638 not being finalized, credit seasonality or the ability to employ a Market Adjustment Factor are not available for Summer 2015, ERCOT has proposed the use of the 16.11.4.1 “Seasonal Adjustment Factor” (SAF) for Summer 2015 based upon back-casted data.
- The Credit Working Group reviewed ERCOT’s proposals and endorsed a proposal to set SAF at 115% for June 2015, 125% for July 2015, 200% for August 2015, and 100% for September 2015 at the March 2015 CWG Meeting.
- For comparison, 2014 SAF was set by ERCOT at 200% for July 2014, 300% for August 2015, 150% for September 2014, and 100% for October 2014.

Capacity Forecast Model Update

- ERCOT began posting daily capacity forecast model results effective February 24th showing hourly MW forecasts of excess reserves over the next seven operating days with a P50 of occurrence.
- Early data results are being reviewed by ERCOT and CWG.

Credit Work Group Update

Development of Market Risk Appetite Goal

- As requested by F&A, CWG has set a goal to assess various approaches to establishing an ERCOT Market Risk Appetite.
- The goal covers both market risks associated with market participant activities in both 'normal' markets as well as during 'extreme events' where tail risk pricing may exceed market participant posted collateral levels.
- The process of reviewing an appropriate Market Risk Appetite will also likely lead to a basis for proposing risk transfer methods such as the use of credit insurance or other financing mechanisms if the Market Risk Appetite is likely to be exceeded after employing other available risk mitigation approaches.

Creation of Credit Risk Impacts and Modelling (CRIM) Task Force

- To assist CWG in the quantitative analysis of various risks, a separate Task Force was established under MCWG to assist ERCOT with the development and interpretation of various analytical models.
- The first meeting was held March 10th, 2015 with planned monthly meetings.

Credit Work Group Update

Vacancy of CWG Vice-Chair due to Market Segment Change

- The CWG Vice-Chair, Loretto Martin has resigned from LCRA and is now employed by Direct Energy where she will be assuming CWG membership
- A change in market segment membership has resulted in a vacancy in the Vice-Chair position and a nomination and election are scheduled to occur at the next CWG meeting in April 2015 to be confirmed by F&A in June 2015.

Market Credit Working Group (MCWG) Update – Bill Barnes

- As designed by WMS, the Market Credit Working Group Charter contains a provision that “The MCWG shall provide the ERCOT Finance and Audit Committee (“F&A”), as well as the ERCOT CWG (“CWG”) a summary of all reports provided to WMS, and the Chair of the MCWG shall be available to both F&A and CWG as requested.”

Questions