



Item 5: Periodic Report on Credit Work Group Activity

Donald Meek

Chair, Credit Work Group

Finance and Audit Committee Meeting

August 10, 2015

ERCOT Public



Credit Work Group Update – Reviewed NPRRs

NPRR 702: Flexible Accounts, Payment of Invoices, and Disposition of Interest

- Approach to pay/receive invoices in a timely manner on the due date and reduce wire fees through use of a separate account from the cash collateral account.
- Unanimously endorsed by CWG as submitted without revision.

NPRR 714: Real-Time Make-Whole Payment for Exceptional Fuel Cost

- NPRR restores a pre-existing manual process established as part of NPRR 664 which expired May 1, 2015 impacting Protocol Sections 6.6.3.7 and 6.6.3.8 which returned to grey box language until an automated process is established by ERCOT.
- NPRR 714 re-implements the manual process post-May 1st and does not impact credit in a different manner than existed with the manual process prior to May 1st.

Other NPRRs Reviewed by CWG*

- NPRR 649 Lost Opportunity Payments for HDL Manual Overrides
- NPRR 701 As-Built Clarification of NPRR 589, Ancillary Service Offers in the SASM
- NPRR 703 Clarification of Disclosure Requirements for GINR Study Information
- NPRR 704 Revisions to the Size of Aggregate Generation Resources
- NPRR 706 Restore the ability to use Physical Responsive Reserve Capability as an Indicator of Available Frequency-Response Capacity
- NPRR 710 Remove of ORDC Phase 2 Language and Modification to HASL Calculation

* Note: June 17th CWG/MCWG Meeting was cancelled due to anticipated adverse weather conditions, NPRRs reviewed by e-mail



Credit Work Group Update

Update on Forward Pricing Credit Calculation Methodology

- NPRR 638 designed to incorporate forward pricing seasonality into ERCOT credit calculations is currently tabled due to technical and modelling issues.
- On July 20th, Crescent Power circulated a draft NPRR / Enhanced Seasonal Adjustment White Paper on the potential to incorporate forward price curves into ERCOT credit calculations, largely simplifying and replacing NPRR 638 by proposing adjustments to credit posting requirements based in part on movements in forward price curves through the use of a “Forward Price Adjustment Factor” calculated daily.
- At the July 22nd CWG/MCWG meeting Argus Media made a presentation on their available Risk Management ERCOT Forward Power Curves.
- A number of issues remain regarding the usage of third-party proprietary curves such as calculation methodology, usage of extrapolative and interpolative statistical data to ‘back fill’ missing data, and the availability and potential usage by ERCOT market participants to shadow calculated results.
- Additional Risk Management Forward Power Curve providers will be invited to address future CWG/MCWG meetings to explore potential alternatives.

Credit Work Group Update

NPRR 639 and 'T5' Calculations

- NPRR 639 was approved by the Board on December 9, 2014 and provides a credit for Market Participants with 'long' bilateral transactions settled through ERCOT. Prior to NPRR 639 no credit was provided for 'long' bilateral transactions, however 'short' bilateral transactions were required to be collateralized.
- At the July 22nd CWG meeting, CWG discussed the impact of NPRR 639 on QSEs representing both Load and Generation.
- The CWG discussed the 'T5' variable and its effect on QSEs serving load by providing a lower credit requirement for being a net buyer and a higher credit requirement for being a net seller.
- The Market is aware of concerns over the MCE function and CWG will continue to review the appropriateness and calculation methodology related to the various components of MCE in future meetings.

Credit Work Group Update

Other ERCOT Credit Related Activities

- **NPRR 484 – Revisions to Congestion Revenue Rights Credit Calculations and Payments (Phase II)**
 - Discussion of an NPRR to remove remaining NPRR 484 Phase II outstanding grey box protocol language relating to the prepayment of deferred auction invoices for Long Term Auction Sequence (LTAS) by operating month. This would result in ERCOT not proceeding with implementation of NPRR 484 Phase II but would allow progress with system changes address presently known defects with Phase IA and IB.
- **Draft NPRR - Credit Protocols Clarifications and Corrections**
 - ERCOT has identified approximately 20 ‘clean up’ items and is preparing an NPRR to correct technical / clerical issues with current language.
- **NEPOOL Novation of FTR Credit/Settlements to a Third-Party Exchange**
 - NEPOOL has decided effective 2016 to novate FTR clearing, collateral exposure, and settlement activities to a third-party exchange (Nodal Exchange/LCH.Clearnet) while NEPOOL conducts ongoing auctions.

Overview of 2015 Credit Working Group Goals

- Pursue seasonality-based approach (NPRR 638) in collateral requirements
- Explore using Counter-Party specific ratings for collateral requirements
- Clarify the market's risk tolerance/appetite level
- Evaluate potential market risk under current credit rules and rules in flight
- Examine a framework for reviewing rules in flight
- Letter of credit and credit insurance

Questions ?