



Item 5: Periodic Report on Credit Work Group Activity

Donald Meek
Chair, Credit Work Group

Finance & Audit Committee Meeting
December 7, 2015
ERCOT Public

Credit Work Group Update – Reviewed NPRRs

All NPRRs Reviewed by CWG are Operational in Nature and None have Credit Impacts

- NPRR 691 Alignment of Protocols with NERC Reliability Standard BAL-001-TRE-1
- NPRR 705 Consistency for Reference to the End Date of Generation Interconnection
- NPRR 712 Clarification of RUC Process
- NPRR 713 Reactive Power Testing Requirements
- NPRR 719 Removal of Trigger / Requirement to Reduce DG Registration Threshold
- NPRR 725 Modifications to CDR Pun Capacity Forecasting Requirements
- NPRR 727 Removal of Language Related to NPRR 327 State Estimator Redaction
- NPRR 730 Elimination of the RUC Behavioral Pricing Rule
- NPRR 735 Load Resource Controlled by High-Set Under-Frequency Parameters
- NPRR 736 Updates to the Ancillary Service Capacity Monitor Display
- NPRR 737 Clarification of SASM Notifications
- NPRR 739 Load resources Associated with a Dynamically Scheduled Resource

Credit Work Group Update - Forward Pricing Methodology

Update on Market Based Forward Pricing Credit Methodology

- NPRR638 designed to incorporate forward pricing into ERCOT credit calculations is currently tabled at TAC due to technical and modelling issues.
- Vendors of third-party ERCOT forward market price services invited to present to CWG/MCWG on the attributes of their product offerings.
 - Argus Media and the Intercontinental Exchange (ICE) have made presentations to CWG/MCWG to date, with Genscape declining after showing some initial interest after further reviewing ERCOT needs.
- The ICE offering seems particularly well suited to ERCOT needs providing a variety of daily prices daily for ERCOT peak and off-peak products with forward terms ranging from balance of day, next day, next week, and balance of month.
 - ICE is willing to offer their short-term products free of charge to ERCOT Market Participants on a daily basis for posting in the MIS Secure Area.
 - Mark-to-Market ICE prices are used by ICE for their own margining requirements and methodologies are extensively reviewed and audited.

Credit Work Group Update - Forward Pricing Methodology

Next Steps: Market Based Forward Pricing Credit Methodology

- CWG/MCWG will invite any additional third-party vendors to make presentations on their product offerings if any so wish.
- ERCOT Legal has been asked for guidance in utilizing third-party vendor offerings as a component part of the ERCOT credit calculation Protocols.
- Discussions will take place within the CWG/MCWG as to the most appropriate third-party vendor to consider in developing a market-based forward pricing methodology as well as vendor specific parameters to incorporate into such a methodology such as:
 - number of days forward to incorporate (e.g. 10, 14, 21 days)
 - specific ERCOT curves to consider (e.g. North Hub, on-peak, Real Time)
 - weightings (e.g. should next 5 days be weighted higher than subsequent 5)
 - trigger points (should any price changes increase credit or only ‘spikes’)
- A draft NPRR will be created based upon CWG/MCWG discussions as well as ERCOT Market Participants and third-party vendor input.

Credit Work Group Update – Market Risk Appetite Goal

Development of ERCOT Market Risk Appetite Goal

- One of the CWG/MCWG Goals for 2015 is the quantification or development of an assessment or better understanding of Market Risk Appetite within ERCOT.
- ERCOT has historically not provided a great deal of quantitative data on potential Market Participant default probabilities and it was proposed that a more qualitative survey be conducted to assess various Market Participants perception of possible uplifts based on uplift ratio share (e.g. the comfort level of having an x% chance of uplifts exceeding \$y over the next z years).
 - After lengthy discussion the CWG/MCWG through this was largely unworkable in a survey format and considered other approaches.
- Some of the qualitative data which would assist in the development of a Market Risk Appetite such as Total Potential Exposure by market segment and credit rating as well as collateral holdings have been generated for August 2015.
- CWG/MCWG has requested that ERCOT provide such data on a regular basis to assist in a qualitative assessment of potential exposures and collateral holdings by various Market Participants in assessing Market Risk Appetite.

Credit Work Group Update – Other Issues

- Certain Market Participants have asked the CWG/MCWG to review the DAM Collateral Requirements and in particular the requirement that collateral be posted to cover bids in the DAM at the System-Wide Offer Cap which ensures a Market Participant act as a ‘price taker’ to ensure its bids are successful.
 - Collateral is required based on the bid price because there may be a very small chance that the DAM settles at such a price and ‘if you are entering a bid to pay that price it can not be ruled out that you may pay that price.’
 - There are various DAM parameters such e_1 , y , and z which may be considered in reducing credit requirements for certain counterparties, especially those with both load and generation who attempt to operate a ‘balanced portfolio’ and may not require full collateralization.
 - CWG/MCWG will discuss DAM collateral requirements next month.
- ERCOT has sponsored NPRR 741 which contains ‘technical corrections’ to the current credit calculations which will be reviewed by CWG/MCWG next month.
- Data from the current prototype Capacity Forecasting Model developed in early 2015 will be reviewed next month and model runs suspended after December.

Credit Work Group Update - Questions

Questions ?