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# Item 8: Periodic Report on Credit Work Group Activity

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Chair, Credit Work Group

Finance and Audit Committee Meeting

ERCOT Public

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# Credit Work Group Update – Reviewed NPRRs

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## **NPRR 743: Revision to MCE to Have a Floor for Load Exposure**

- Changes in credit calculations introduced in NPRR639 providing a credit offset for bilateral hedges resulted in certain market participants having little or no collateral posted with ERCOT. NPRR 743 establishes a floor for minimal collateral postings.
- Unanimously endorsed by CWG without revision.

## **Other NPRRs Reviewed by CWG without Credit Impact**

- NPRR 720 Update to Settlement Stability Reporting Requirements
- NPRR 734 Digital Attestation Signature Authority Expansion
- NPRR 740 Retail Clarification and Cleanup
- NPRR 742 CRR Balancing Account Invoice Data Cuts
- NPRR 749 Option Cost for Outstanding CRRs
- NPRR 750 Clarify Resource Status when Providing Fast Responding Regulation Svc.

# 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.
- Last July, Crescent Power circulated a draft NPRR / White Paper on the potential to incorporate forward price curves into ERCOT credit calculations 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.
- Presentations to the CWG/MCWG have been made by Argus Media and ICE during 2015 on their available ERCOT Forward Power Curves.
- ICE appears to offer a range of actively traded daily ERCOT Forward Power Curves and are willing to offer such curves at little to no cost to ERCOT.
- Analysis by ERCOT staff and CWG/MCWG members have indicated that the use of ICE Forward Power Curves provide a statistically significant indicator of future periods of potentially elevated power prices over a short-term period.
- CWG/MCWG with ERCOT’s assistance are currently undertaking a more detailed quantitative analysis.

# Credit Work Group Update -

## Update on Proposed 2016 Seasonal Adjustment Factor (SAF) Factors

- Due to the continued work on incorporating an operational Forward Pricing Methodology into ERCOT credit calculations, it is prudent to continue the use of a Seasonal Adjustment Factor for the Summer of 2016 as was employed in the previous Summers of 2014 and 2015.
- ERCOT has prepared suggested SAF values for 2016 using a similar quantitative statistical analysis methodology as was used in 2015.
- The values below are proposed by ERCOT and discussed at the January 2016 CWG/MCWG meeting for further discussion/vote in February.

Effective Date	Calculated Ratio	Proposed 2016 Factor	2015	2014
June 1, 2016	1.09	100%	115%	-
July 1, 2016	1.03	100%	125%	200%
August 1, 2016	2.07*	175%	200%	300%
September 1, 2016	0.45	100%	100%	150%

\* August 2011 high prices contributed to the relatively high ratio for August.

# Credit Work Group Update

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## Other ERCOT Credit Related Activities

- **NPRR 741 – Clarifications to TPE and EAL Credit Exposure Calculations**
  - CWG/MCWG has reviewed ERCOT sponsored NPRR containing mostly ‘clean up’ items and correction of technical / clerical issues with current protocol language. CWG/MCWG has reviewed the NPRR language and proposed an additional modification to how net Day-Ahead Market Activities (DARTNET) are incorporated into credit calculations.
- **Annual Review of Credit Work Group Charter**
  - At the January 2016 meeting CWG reviewed the current CWG Charter and unanimously voted to reaffirm the current charter without modification.
- **New Business Items for next CWG/MCWG Meeting**
  - Review of DAM Collateral Factors and collateral posting requirements.
  - Discussion on market participant financial statement requirements and ability of market participants to temporarily suspend ERCOT activities.

# Review of 2015 Credit Working Group Goals

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- Pursue seasonality-based approach (NPRR638) 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
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- **Need to develop 2016 Credit Working Group Goals in Q1 2016**

Questions?