



Item 7: Periodic Report on Credit Work Group Activity

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Chair, Credit Work Group

Finance & Audit Committee Meeting

February 13, 2017
ERCOT Public

Credit Work Group Update – Reviewed NPRRs

- No new NPRRs were reviewed by CWG for potential Credit Impact
- Discussion on NPRR 811 - Two Day Cure Period for Foreign Market Participant Guarantee Agreements
 - NPRR allows a two day cure period for Market Participants with a Guarantee Agreement from a Foreign Entity or Financial Institution.
 - Designed to allow for operational flexibility due to time zone considerations.
 - ERCOT comments filed noting that it would create an administrative burden to administer different rules for different counterparties, many non-Texas corporate entities face similar operational issues without benefit, and it would be possible to acquire a De Minimis foreign guarantee to acquire additional benefit not available to domestic Market Participants.
 - Discussion at the CWG that all market participants have to comply with consistent settlement and credit requirements in various regions of the country even if there were different holiday schedules, adverse local weather, or other issues without increasing the allowable cure period and increasing credit risk to the market.
 - It was noted that in 2013 the CFTC provided ERCOT with a Exemption Order to oversight contingent on ERCOT adopting FERC Order No. 741 requiring a single day cure period.
 - Tabled and a request was made of ERCOT Legal to review the implications of NPRR 811 with respect to CFTC regulation for discussion at the next CWG meeting in February 2017.

Credit Work Group Update – Reviewed SCRs

- SCR 785 - Update RTL Calculation to Include Real-Time Reserve Price Adder Based Components
 - Introduced October 22, 2014 and designated as “Urgent.”
 - Intended to be implemented in conjunction with NPRR 626 (Reliability Deployment Price Adder)to incorporate Operating Reserve Demand Curve (ORDC) related calculations in the Real-Time Liability (RTL) component of credit calculations.
 - October 2014 Impact Analysis indicated a cost of between \$135k and \$145k over a 10 to 12 month implementation period.
 - No ERCOT Stakeholder action since December 2014.
 - ERCOT staff asked for CWG recommendation on SCR 785 and noted limited ORDC impact on settlement prices in the interim.
 - CWG suggested that there was no urgent need for SCR 785 in light of observed ORDC market impact but no need to formally reject the SCR.
 - ERCOT requested withdrawal of SCR 785 in January 2017.

NPRR 800 Forward Pricing Credit Methodology

- Status update on NPRR 800 – Revisions to Credit Exposure Calculations to use Electricity Futures Market Prices
 - Recommended for Approval at TAC on January 26th, 2017 – Priority 2017; Rank 1561 – after a PRS request for Urgent Status.
 - There was one opposing vote from the Independent Generator Market Segment. All Market Segments were present for the vote.
 - Opponents to NPRR 800 cited the cost of NPRR 800 as the basis for their opposition.
 - ERCOT supports approval of NPRR 800.
 - If NPRR 800 receives ERCOT Board Approval efforts will be made to include the NPRR in the scheduled ERCOT Credit Monitoring and Management (CMM) refresh scheduled for Fall 2017.

CWG / MCWG Endorsed Seasonal Adjustment Factors (SAF) for Summer 2017

Effective Date	2014	2015	2016	2017 Calculated	2017 Proposed by CWG
1-Jun		115%	115%	111%	110%
1-Jul	200%	125%	125%	105%	125%
1-Aug	300%	200%	175%	193%	200%
1-Sep	150%	100%	100%	49%	100%

Counter-Party Credit Exposure – Nov. / Dec. 2016

- At its October 10, 2016 meeting, F&A requested that ERCOT regularly provide the ERCOT Counter-Party Credit Exposure Profile to the Committee.
- Profile data has been updated to reflect average values for November and December 2016.
- Efforts are being made by the CWG/MCWG to provide guidance to ERCOT as to the appropriateness of reported Credit Exposure calculations.

Number of CPs that are Active by Rating and Category

Rating Group	CRR Only	Gen Only	Load Only	Load and Gen	Trader	Total CPs	Percent CPs
AAA	0	0	0	0	0	0	0.0%
AA- to AA+	4	0	0	5	0	9	4.5%
A- to A+	3	1	3	6	5	18	8.9%
BBB- to BBB+	2	4	7	10	4	27	13.4%
BB- to BB+	0	1	2	0	0	3	1.5%
B- to B+	0	1	1	4	4	10	5.0%
CCC+ and below	0	0	0	0	0	0	0.0%
Not Rated	9	27	25	6	68	135	66.8%
Total CPs	18	34	38	31	81	202	100.0%
Percent CPs	8.9%	16.8%	18.8%	15.3%	40.1%	100.0%	

Counter-Party Credit Exposure – Nov. / Dec. 2016

Distribution of TPE by Rating and Category

Rating Group	CRR Only	Gen Only	Load Only	Load and Gen	Trader	Total TPE	Percent TPE
AAA	0	0	0	0	0	0	0.0%
AA- to AA+	63,524	0	0	9,810,165	0	9,873,689	3.8%
A- to A+	2,141	3,196	984,612	33,796,401	1,497,812	36,284,161	13.8%
BBB- to BBB+	229,079	1,181,105	3,163,960	26,789,017	6,604,792	37,967,954	14.5%
BB- to BB+	0	1,215,322	3,167,769	0	0	4,383,091	1.7%
B- to B+	0	2,282,419	0	54,968,777	17,581,428	74,832,624	28.5%
CCC+ and below	0	0	0	0	0	0	0.0%
Not Rated	958,147	19,735,018	5,574,591	17,105,097	55,526,420	98,899,273	37.7%
Total TPE	1,252,892	24,417,060	12,890,931	142,469,456	81,210,452	262,240,791	100.0%
Percent TPE	0.5%	9.3%	4.9%	54.3%	31.0%	100.0%	

Distribution of Excess Collateral by Rating and Category

Rating Group	CRR Only	Gen Only	Load Only	Load and Gen	Trader	Excess Collateral	Percent Excess Collateral
AAA	0	0	0	0	0	0	0.0%
AA- to AA+	3,122,548	0	0	52,321,095	0	55,443,643	3.3%
A- to A+	405,749	3,496,804	1,342,263	204,770,238	80,029,029	290,044,082	17.4%
BBB- to BBB+	17,270,921	4,322,318	90,612,090	461,772,703	65,278,729	639,256,761	38.4%
BB- to BB+	0	11,340,077	9,038,379	0	0	20,378,456	1.2%
B- to B+	0	12,799,549	390,473	160,010,788	26,892,708	200,093,519	12.0%
CCC+ and below	0	0	0	0	0	0	0.0%
Not Rated	6,304,533	42,491,656	27,828,986	136,463,139	245,288,341	458,376,655	27.6%
Total Excess Collateral	27,103,750	74,450,404	129,212,192	1,015,337,963	417,488,807	1,663,593,117	100.0%
Percent Excess Collateral	1.6%	4.5%	7.8%	61.0%	25.1%	100.0%	

Counter-Party Credit Changes Oct. – Dec. 2016

Summary of distribution by Category									
Category	CP Distribution			Average TPE Distribution			Average Excess Collateral Distribution		
	Sep-Oct	Nov-Dec	Change	Sep-Oct	Nov-Dec	Change	Sep-Oct	Nov-Dec	Change
CRR Only	9.10%	8.90%	-0.20%	0.40%	0.50%	0.10%	1.70%	1.60%	-0.10%
Gen Only	17.30%	16.80%	-0.50%	7.40%	9.30%	1.90%	5.30%	4.50%	-0.80%
Load Only	17.80%	18.80%	1.00%	5.00%	4.90%	-0.10%	9.00%	7.80%	-1.20%
Load and Gen	15.70%	15.30%	-0.40%	56.10%	54.30%	-1.80%	59.40%	61.00%	1.60%
Trader	40.10%	40.10%	0.00%	31.10%	31%	-0.10%	24.60%	25.10%	0.50%

Summary of distribution by Rating Group									
Rating Group	CP Distribution			Average TPE Distribution			Average Excess Collateral Distribution		
	Sep-Oct	Nov-Dec	Change	Sep-Oct	Nov-Dec	Change	Sep-Oct	Nov-Dec	Change
AAA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
AA- to AA+	4.10%	4.46%	0.36%	2.80%	3.77%	0.97%	0.40%	3.33%	2.93%
A- to A+	8.60%	8.91%	0.31%	16.50%	13.84%	-2.66%	17.50%	17.43%	-0.07%
BBB- to BBB+	14.70%	13.37%	-1.33%	17.70%	14.48%	-3.22%	43%	38.43%	-4.57%
BB- to BB+	1.50%	1.49%	-0.01%	1.30%	1.67%	0.37%	1.80%	1.22%	-0.58%
B- to B+	4.60%	4.95%	0.35%	15.00%	28.54%	13.54%	6.70%	12.03%	5.33%
CCC+ and below	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Not Rated	66.50%	66.83%	0.33%	46.80%	37.71%	-9.09%	30.60%	27.55%	-3.05%

Note: Changes from Oct 2016 to Dec 2016

The PD rates increased by 1.3%, 1.24% and 0.84% for Counter-Parties rated B, B- and CCC/NR respectively.

Number of active Counter-Parties has increased from 197 to 202.

Market-wide TPE has decreased from 308 million to 262 million while market-wide Excess Collateral has increased from 1,469 million to 1,663 million.

TPE of Load and Gen category has decreased by 1.8% while the excess collateral increased by 1.6%.

TPE of Gen only category has increased by 1.9%.

Credit Work Group Update - Other Topics

- CWG Charter reviewed at the January 2017 CWG meeting and readopted for 2017 without change.
- 2017 CWG Goals discussed at the January 2017 CWG meeting and additional Market Participant Comments will be reviewed in February 2017 for presentation to the F&A Committee.
- Proposed refresh of the Credit Monitoring and Management System (CMM) incorporating recently approved NPRRs in the planning stage and targeted for implementation in Q3/Q4 2017.
- Credit Impact in a Market Continuity Event discussions are tabled until further input from WMS and related sub-committees.
- ERCOT Credit Management Training sessions have been held in 2016 in Austin, Dallas/Fort Worth, and Houston with the next session scheduled in Austin on April 6th, 2017.

Questions?