



Item 5: Periodic Report on Credit Work Group Activity

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Finance & Audit Committee Meeting

ERCOT Public

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Credit Work Group Update – Reviewed NPRRs

- **The following NPRR was reviewed with Potential Credit Impact:**
 - NPRR 833 Modify PTP Obligation Bid Clearing Change
 - Current protocol language allows in certain circumstances for PTP obligations to clear at a price above the maximum bid price.
 - ERCOT credit requirements for CRR auctions are calculated based upon the maximum bid prices and thus do not adequately consider conditions which result in award prices exceeding maximum bid prices.
 - NPRR827 partially addressed the issue of clearing prices exceeding maximum bid prices (with a \$0.25/MWh ‘buffer’ for operational issues) and better aligned the CRR auction process with ERCOT credit practices and was approved by the ERCOT Board on at the June 2017 meeting.
 - NPRR 833 further reduces the ‘buffer’ to \$0.01 better aligning ERCOT credit requirements and CRR award obligations on a permanent basis replacing NPRR 827 which was intended to be a short-term solution.

Credit Work Group Update – Reviewed NPRRs

- **Other NPRRs Reviewed by CWG without Potential Credit Impact:**
 - NPRR768 Revisions to Real-Time On-Line Reliability Deployment Price Adder Categories
 - NPRR821 Elimination of the CRR Deration Process
- **Implemented Change Requests:**
 - NPRR 741 – Clarifications to TPE and EAL Credit Exposure Calculations
 - Implemented only language clarifications part
 - Change for removal of “abs” from MCE formula is not yet implemented
 - NPRR 773 – Broadening Scope of Acceptable Letter of Credit Issuers
 - NPRR 791 – Clarifications to IEL, MCE, and Aggregate Amount Owed by Breaching Party
 - NPRR 803 – Remove Grey-boxed Language from NPRR 439, Updating a Counter-Party’s Credit Limit for Current Day DAM
 - NPRR 728 – Removal of Language Related to NPRR484, Revisions to Congestion Revenue Rights Credit Calculations and Payments, and NPRR554, Clarification of Future Credit Exposure Calculation

Credit Work Group Update – Reviewed NPRRs

- **Implemented Change Requests (cont.):**
 - NPRR 673 – Correction to Estimated Aggregate Liability (EAL) for a QSE that Represents Neither Load nor Generation
 - NPRR 671 – Incorporation of DAM Credit Parameters into Protocols
 - NPRR 670 – Clarification of Portfolio-Weighted Auction Clearing Price (PWACP)
 - NPRR 612 – Reduction of Cure Period Subsequent to Event of Default
 - SCR 778 – Credit Exposure Calculations for NOIE Options Linked to RTM PTP Obligations
 - NPRR 559 – Revisions to MCE Calculation
 - NPRR 597 – Utilize Initial Estimated Liability (IEL) Only During Initial Market Activity
 - NPRR 601 – Inclusion of Incremental Exposure in Mass Transitions to Counter-Parties that are Registered as QSEs and LSEs and Provide POLR Service
 - NPRR 639 – Correction to Minimum Current Exposure
 - NPRR 690 – Incorporation of Creditworthiness Standards in Protocols
 - NPRR 692 – Removal of MIS Posting Requirement of DAM Credit Parameters

Credit Work Group Update – CMM Refresh

- Refresh of the Credit Monitoring and Management System (CMM) incorporating recently approved NPRRs is in the planning stage and targeted for Phase 1 implementation in Q2 2018.
 - The CMM Refresh is currently being proposed in three phases:
 - **Phase 1** is in Execution and will deliver the CMM technical refresh along with the majority of the Credit-related NPRRs (NPRR800, NPRR760, NPRR648, NPRR683, NPRR743, NPRR660, NPRR519, NPRR755, NPRR620, and NPRR741).
 - **Phase 2** which continues in Planning, will deliver Financial Transfer functionality and additional Credit/Treasury efficiencies (NPRR702).
 - **Phase 3** will deliver any remaining low-priority scope (NPRR484 1B). The go-live date for this phase will be addressed following completion of Planning for Phase 2.
 - NPRR 800 Revisions to Credit Exposure Calculations to Use Electricity Future Market Prices is anticipated to be included in Phase 1.
 - Seasonal Adjustment Factor (SAF) percentages may need to be calculated for 2018 on a contingency basis if the CMM refresh is delayed.

Counter-Party Credit Exposure – May / June 2017

- Profile data for Counter-Party credit exposure has been updated to reflect average values for May and June 2017.

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+	5	0	0	5	0	10	4.9%		
A- to A+	2	1	4	6	4	17	8.3%		
BBB- to BBB+	2	5	7	9	5	28	13.7%		
BB- to BB+	0	1	2	0	1	4	2.0%		
B- to B+	0	3	1	4	3	11	5.4%		
CCC+ and below	0	0	0	0	0	0	0.0%		
Not Rated	11	25	22	7	69	134	65.7%		
Total CPs	20	35	36	31	82	204	100.0%		
Percent CPs	9.8%	17.2%	17.6%	15.2%	40.2%	100.0%			

Counter-Party Credit Exposure – May / June 2017

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+	43,843	0	0	6,920,097	0	6,963,939	1.9%
A- to A+	0	739,032	5,433,901	35,645,228	453,701	42,271,862	11.6%
BBB- to BBB+	99,774	1,991,657	4,681,232	49,617,211	16,783,043	73,172,918	20.0%
BB- to BB+	0	1,382,256	6,647,516	0	6,382,097	14,411,868	3.9%
B- to B+	0	8,150,532	0	46,002,538	42,726,672	96,879,742	26.5%
CCC+ and below	0	0	0	0	0	0	0.0%
Not Rated	13,272,246	29,836,192	7,747,540	27,387,675	53,104,583	131,348,236	36.0%
Total TPE	13,415,862	42,099,669	24,510,188	165,572,749	119,450,097	365,048,566	100.0%
Percent TPE	3.7%	11.5%	6.7%	45.4%	32.7%	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+	3,441,266	0	0	25,666,884	0	29,108,150	1.9%
A- to A+	301,804	21,638,017	56,282,319	192,014,261	23,074,237	293,310,638	18.7%
BBB- to BBB+	19,662,521	11,594,865	67,718,782	285,044,859	91,047,199	475,068,227	30.3%
BB- to BB+	0	11,173,231	3,827,494	0	28,160,682	43,161,407	2.8%
B- to B+	0	45,005,169	390,473	139,472,928	33,782,826	218,651,396	14.0%
CCC+ and below	0	0	0	0	0	0	0.0%
Not Rated	23,746,374	35,395,825	15,751,157	219,876,789	212,794,621	507,564,766	32.4%
Total Excess Collateral	47,151,966	124,807,107	143,970,225	862,075,720	388,859,566	1,566,864,583	100.0%
Percent Excess Collateral	3.0%	8.0%	9.2%	55.0%	24.8%	100.0%	

Counter-Party Credit Exposure – May / June 2017

Average Excess Collateral Distribution for the Bottom Quintile of Market Participants

Quintile Distribution of Excess Collateral by Rating and Category								
Rating Group	CRR Only	Gen Only	Load Only	Load and Gen	Trader	Total Quintile Excess Collateral	Percent Quintile Excess Collateral	Percent Total Excess Collateral
AAA	0	0	0	0	0	0	0.0%	0.0%
AA- to AA+	22,515	0	0	0	0	22,515	1.4%	0.0%
A- to A+	111,550	0	0	0	6,424	117,974	7.4%	0.0%
BBB- to BBB+	0	3,404	0	0	0	3,404	0.2%	0.0%
BB- to BB+	0	0	0	0	0	0	0.0%	0.0%
B- to B+	0	88,263	0	0	99,662	187,925	11.8%	0.0%
CCC+ and below	0	0	0	0	0	0	0.0%	0.0%
Not Rated	147,495	190,911	494,163	59,309	365,898	1,257,777	79.1%	0.1%
Total Quintile Excess Collateral	281,561	282,578	494,163	59,309	471,983	1,589,595	100.0%	0.1%
Percent Quintile Excess Collateral	17.7%	17.8%	31.1%	3.7%	29.7%	100.0%		
Percent Total Excess Collateral	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%		

Counter-Party Credit Changes May / June 2017

Summary of distribution by Category									
Category	CP Distribution			Average TPE Distribution			Average Excess Collateral Distribution		
	Mar-Apr	May-Jun	Change	Mar-Apr	May-Jun	Change	Mar-Apr	May-Jun	Change
CRR Only	9.30%	9.80%	0.50%	2.60%	3.68%	1.08%	2.40%	3.01%	0.61%
Gen Only	17.10%	17.16%	0.06%	13.60%	11.53%	-2.07%	6.40%	7.97%	1.57%
Load Only	18.00%	17.65%	-0.35%	5.70%	6.71%	1.01%	10.30%	9.19%	-1.11%
Load and Gen	15.10%	15.20%	0.10%	39.80%	45.36%	5.56%	60.60%	55.02%	-5.58%
Trader	40.50%	40.20%	-0.30%	38.30%	32.72%	-5.58%	20.30%	24.82%	4.52%

Summary of distribution by Rating Group									
Rating Group	CP Distribution			Average TPE Distribution			Average Excess Collateral Distribution		
	Mar-Apr	May-Jun	Change	Mar-Apr	May-Jun	Change	Mar-Apr	May-Jun	Change
AAA	0.0%	0.0%	0.00%	0.0%	0.0%	0.00%	0.0%	0.0%	0.00%
AA- to AA+	4.9%	4.9%	0.02%	1.7%	1.9%	0.26%	1.9%	1.9%	-0.06%
A- to A+	8.8%	8.3%	-0.45%	7.8%	11.6%	3.73%	21.4%	18.7%	-2.71%
BBB- to BBB+	13.2%	13.7%	0.55%	15.2%	20.0%	4.88%	30.3%	30.3%	0.05%
BB- to BB+	2.0%	2.0%	0.01%	4.0%	3.9%	-0.05%	3.0%	2.8%	-0.26%
B- to B+	5.9%	5.4%	-0.46%	36.5%	26.5%	-9.92%	10.9%	14.0%	3.05%
CCC+ and below	0.0%	0.0%	0.00%	0.0%	0.0%	0.00%	0.0%	0.0%	0.00%
Not Rated	65.4%	65.7%	0.32%	34.9%	36.0%	1.10%	32.5%	32.4%	-0.08%

Credit Work Group Update - Other Topics

- One of the CWG goals is to “pursue a calculator to allow market participants to calculate their credit requirements for CRR auctions” on an ad hoc basis prior to submitting CRR bids.
- ERCOT has identified an issue with such a calculator in that two path specific adders used for CRR Obligation purchase bids, ACi99 and ACP, are calculated manually for ‘non-baseload’ paths and are available for ‘baseload paths’ only 5 business days before a bid window closes and not available on an ad hoc basis.
- NPRR 484 Phase B (2019 timeframe) will largely address automating the calculation of ACi99 and ACP path specific adders.
- ERCOT has proposed several ‘work around’ approaches with more limited functionality which may be employed prior to 2019 which are currently under discussion by CWG.

Questions?