



Item 5: Periodic Report on Credit Work Group Activity

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Finance & Audit Committee Meeting

ERCOT Public

August 6, 2018

Credit Work Group Update – Reviewed NPRRs

- **NPRRs Reviewed Without Credit Impact**

- NPRR 862 – Updates to Address Revisions under PUCT Project 46369
- NPRR 866 – Mapping Registered Distributed Generation and Load Resources to Transmission Loads in the Network Operations Model
- NPRR 874 – Change to Report for Net Allocation to Load Settlement Stability
- NPRR 875 – Clarification for the Implementation of NPRR 864, RUC Modifications to Consider Market-Based Solutions
- NPRR 878 – ERS Obligation Report for TDSPs

- **NPRRs with Positive Credit Impacts**

- NPRR 877 – Use of Actual Interval Data for IDR ESI IDs for Initial Settlement
 - The Credit WG unanimously voted to note that NPRR877 has positive credit implications as it more accurately matches credit exposure to activity.

NPRR 850 – Market Suspension and Restart

- ERCOT employed stakeholder feedback to develop a principles-based approach to Market Suspension and Market Restart.
- ERCOT has drafted proposed language to handle collateral requests during the transition from pre-to post-market restart.
 - Based upon feedback from the CWG, ERCOT has added discretionary language to allow up to two additional days for Market Participants to make payment on any outstanding invoices / collateral calls during a Market Restart.
- Credit Working Group is awaiting further comments or feedback from other ERCOT stakeholder working groups prior to filing additional comments.

Discussion will continue at upcoming CWG/MCWG meetings.

Posting of Transaction/Acquisition Business Contact Information (REP Book Sales)

- During the Summer of 2018, to better facilitate the sale/acquisition of a Retail Electric Provider's (REP's) portfolio, ERCOT has solicited and posted on the ERCOT public website a list of REPs (with contact names who are available 24x7) who are able to respond to other REPs that wish to quickly sell their books prior to a possible credit default/mass transition.
- A Retail Market Guide Revision Request (RMGRR) will be considered to document procedures for a Competitive Retailer to provide Transition/Acquisition Business contact information to be posted publically.
- Longer term maintenance of such a list may require an NPRR to include an M&A contact in the market participant registration forms.
- ERCOT will work with legal to explore a longer term approach.

This issues related to a longer term approach to providing ongoing M&A contact information to requesting market participants will be discussed further at RMS and CWG/MCWG.

ERCOT Mass Transition Drill “Lessons Learned”

Two important ‘lessons learned’ from the May 2018 ERCOT Mass Transition Drill:

1) When a credit default is declared no earlier than 15:00 on a given day, there is a minimum 2 hours window before a mass transition conference call can be held. This means that the call has to happen the next day because the notice cannot typically be issued before 15:30 to 16:00 by the time it clears ERCOT approval and notification processes.

This adds a day of delay to the mass transition timeline and potentially increases uplift. ERCOT is going to discuss at RMS if this window can be decreased. This will not require an NPRR but a Retail Market Guide Revision Request (RMGRR), which has a much shorter process than an NPRR.

2) Meter reads are performed (to establish the beginning of the new service with the POLR) two days after the declared default. This would require an NPRR to change the protocols.

There is additional default risk in reading meters two days after a declared default that would be reduced with one day reads, which is now possible given the extensive usage of AMS/IDR meters. This change would require confirmation/coordination with the TDSPs that they are capable of such a task as well as an NPRR and RMGRR – a much longer process.

ERCOT will endeavor to conduct another Mass Transition Drill after the peak summer season.

ERCOT Mass Transition – Breeze Energy

On May 30, 2018 Breeze Energy - a competitive Retail Electric Provider (REP) with approximately 9,800 ESI IDs - exited the ERCOT marketplace with its customers either voluntarily transitioning to another REP or involuntarily transferring to a Provider of Last Resort (POLR).

There were a number of identified issues and ‘lessons learned’ from the Breeze Energy Mass Transition:

- The mass transition process of approximately 9,800 ESI IDs took between 7 and 10 days to fully complete in coordination between ERCOT and the involved TDSPs. ERCOT’s collateral calculations presume 100,000 ESI IDs per day are transitioned.
- Certain Breeze Energy customers who selected another competitive REP had issues with the switching order queue at certain TDSPs and were switched first to their preferred REP and then subsequently to a POLR instead of just remaining with the REP of their choice.
- Each involved TDSP has its own mass transition process with some being more manual than others with different exception processes. Most TDSPs have not had to deal with a mass transition event for several years and staff turnover has identified a need for additional training and workflow process reviews at several entities.

Letter of Credit (LC) Concentration Limit Update

- After two LC Issuers previously exceeded their credit concentration limits, subsequent market participant reductions in LCs contracted with those issuers has resulted in currently no issuers exceeding their limits.
- Currently any institution which has reached its concentration limit may not supply an new LC to an ERCOT market participant, however any existing LC holder may amend/increase its LC with that financial institution during a 4 month window without limit.
- There was discussion that if a credit concentration limit was breached due to a downgrade in a financial institution's credit rating it would be prudent to not allow a 4 month amendment window.
 - For example, Bank X has a \$300 million LC limit and market participants have established LCs with that Bank for a total of \$250 million outstanding. If Bank X's credit rating were to fall to a level that ERCOT would only grant a \$200 million LC limit and market participants currently have an aggregate of \$250 million outstanding, no new LCs – including increases to currently established LCs – would be allowed.
- There was also concern regarding the content of the concentration limit exceedance market notices.

Letter of Credit Issuer Limits – July 2018

Detailed statistics

Letter of Credit Concentration Limits (\$ millions)

LC Issuer	Computed Issuer Limit	LCs Outstanding as of July 16, 2018	Excess Capacity as of July 16, 2018	% Current Excess / Limit	Maximum LCs Issued, June 01, 2018 – July 16, 2018	Average LCs Issued, June 01, 2018 – July 16, 2018
Bank of America NA	750.00	272.90	477.10	64%	272.90	165.96
Bank of Nova Scotia	297.29	87.55	209.74	71%	87.55	82.39
Bank of Tokyo-Mitsubishi UFJ, Ltd. New York Branch	750.00	199.22	550.78	73%	201.22	200.06
Barclays Bank PLC	617.18	110.00	507.18	82%	116.00	110.58
BNP Paribas	750.00	110.45	639.55	85%	112.20	110.03
BOKF NA(FI)	19.24	0.20	19.04	99%	0.20	0.20
Canadian Imperial Bank	146.95	24.46	122.49	83%	39.46	26.26
Citibank NA	750.00	74.10	675.90	90%	98.00	80.06
CoBank ACB	77.01	35.00	42.01	55%	35.00	35.00
Comerica Bank	50.30	2.20	48.10	96%	2.20	2.20
Cooperatieve Rabobank U.A.	383.95	0.20	383.75	100%	0.20	0.20
Credit Agricole Corporate & Investment Bank SA (FI)	170.42		170.42	100%		
Credit Suisse AG	295.89	45.60	250.29	85%	45.60	43.34
DNB Bank ASA	172.57	150.00	22.57	13%	150.00	150.00
KeyBank National Association(FI)	90.65	15.00	75.65	83%	15.00	15.00
Lloyds Bank PLC	515.81	99.80	416.00	81%	99.80	99.80
Mizuho Corporate Bank Ltd.	462.01	287.95	174.06	38%	294.55	279.22
Morgan Stanley Bank, N.A.(FI)	121.03	60.50	60.53	50%	205.50	80.98
MUFG Union Bank N.A.	103.30	8.00	95.30	92%	8.00	8.00
Natixis	139.40	113.00	26.40	19%	152.80	100.52
PNC Bank NA	214.85	41.75	173.10	81%	41.75	41.75
Royal Bank of Canada (FI)	384.53		384.53	100%		
Societe Generale	472.87	97.00	375.87	79%	97.00	97.00
Sumitomo Mitsui Banking Corporation.	516.72	0.50	516.22	100%	0.50	0.50
Toronto-Dominion Bank, The (FI)	365.34	10.00	355.34	97%	10.00	10.00
US Bank(FI)	304.41	12.00	292.41	96%	12.00	9.86
Wells Fargo	750.00	108.30	641.70	86%	108.30	104.12
		1,965.67				

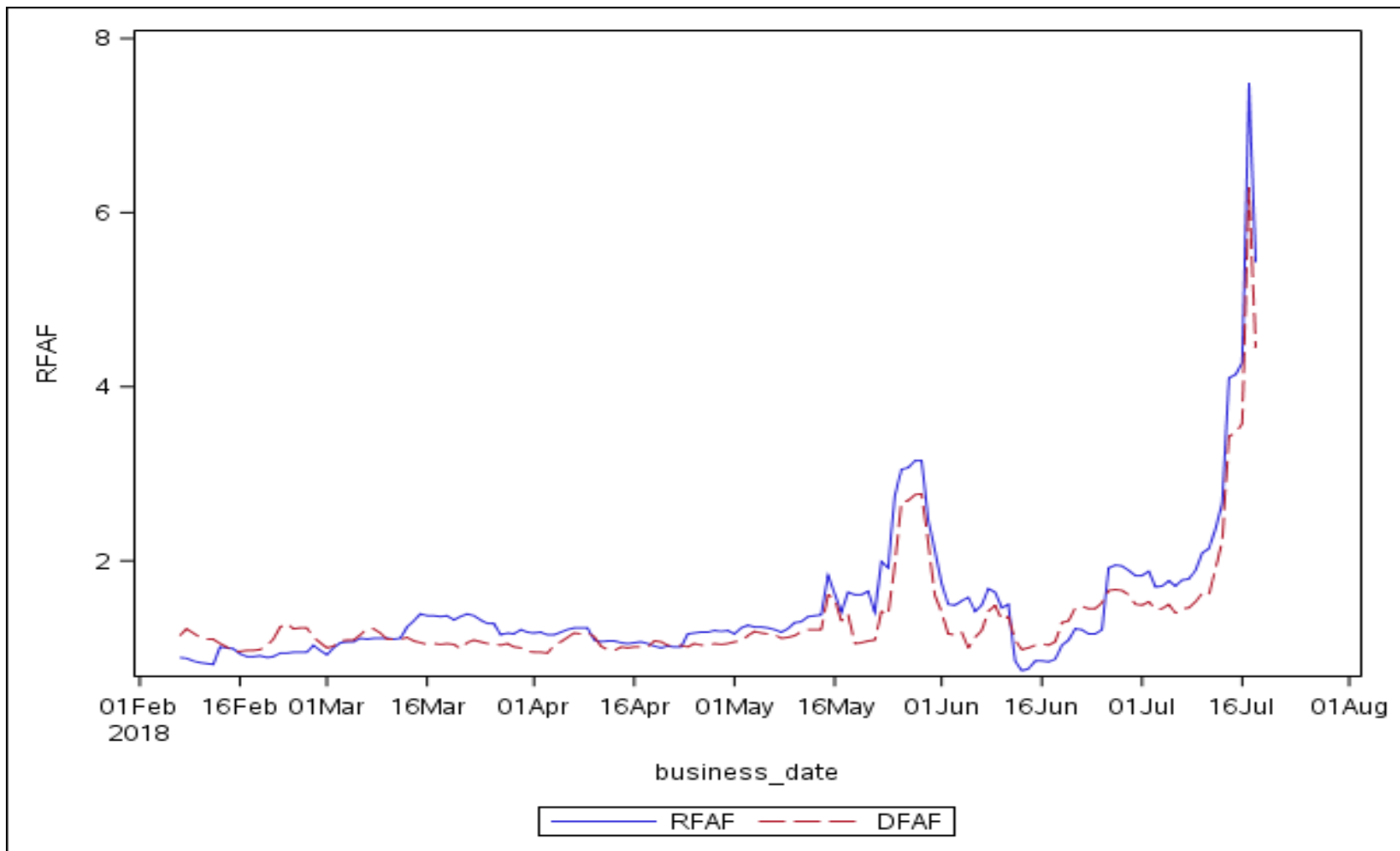
Review of ERCOT NPRR 800 Collateral Parameters

Parameter	Parameter Value
Electricity-Futures Based Factors (RFAF & DFAF) Parameters	
Number of Forward Weeks	3 weeks
Real-Time Weight Factors for Forward Week (RWF)	
• Week 1	1/3
• Week 2	1/3
• Week 3	1/3
Day-Ahead Weight Factors for Forward Week (DWF)	
• Week 1	1/3
• Week 2	1/3
• Week 3	1/3
Reference Hub (rHub)	ERCOT North Hub
M1 (Multiplier for RTLE and DALE) Parameters	
• M1a (no. of days for termination upon default)	12
• M1b (minimum no. of days to transition; based on no. of ESI IDs)	8
➢ ESI ID daily transition rate (to determine no. of days to transition)	100,000
RTLE Look-Back	
• No Load or Gen (NPRR 620; for implementation)	20
• All Others	40

M1a / M1b – Number of Days in a Mass Transition

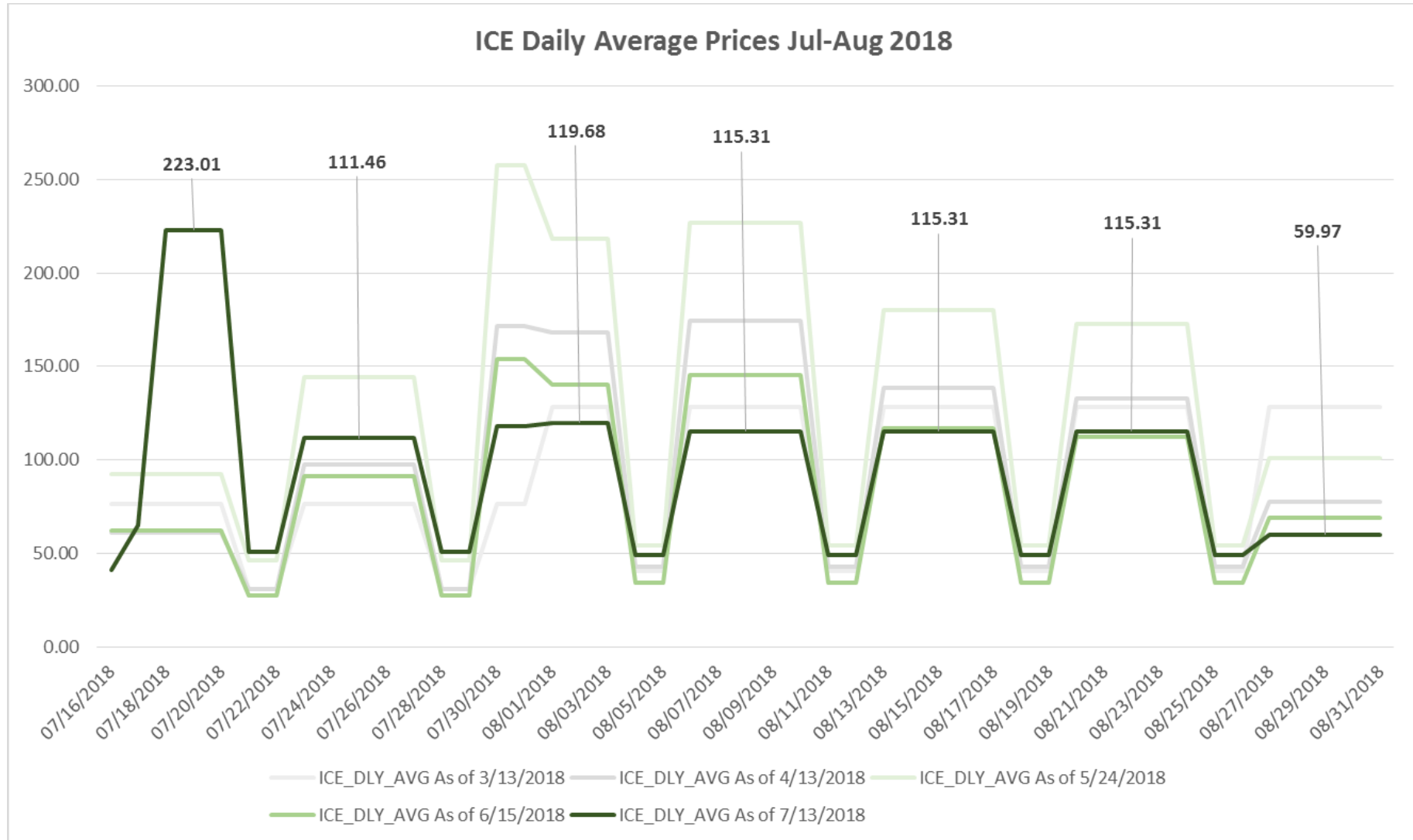
	Best Case	Worst Case	Day	Q1		Q2		Q3		Q4	
				Best case	Worst case	Best case	Worst case	Best case	Worst case	Best case	Worst case
Initial transaction	M1a	M1a	1	(Mon.)	(Thur.)	(Mon.)	(Thur.)	(Mon.)	(Thur.)	(Mon.)	(Tue.)
Collateral call issuance			2	(Tue.)	(Fri.)	(Tue.)	(Fri.)	(Tue.)	(Fri.)	(Tue.)	(Wed.)
Collateral call cure (2 Bank Business Days)			3	(Wed.)	(Sat.)	(Wed.)	(Sat.)	(Wed.)	(Sat.)	(Wed.)	(Thur.)
Breach notice issuance			4	(Thur.)	(Sun.)	(Thur.)	(Sun.)	(Thur.)	(Sun.)	(Thur.)	(Fri.)
Breach cure (1 Bank Business Day)			5	(Fri.)	(Mon.)	(Fri.)	(Mon.)	(Fri.)	(Mon.)	(Fri.)	(Sat.)
Termination, Mass Transition notification			6	(Sat.)	(Tue.)	(Sat.)	(Tue.)	(Sat.)	(Tue.)	(Sat.)	(Sun.)
Mass Transition			7	(Sun.)	(Wed.)	(Sun.)	(Wed.)	(Sun.)	(Wed.)	(Sun.)	(Mon.)
Mass Transition complete (min two days)	M1b	M1b	8	(Mon.)	(Thur.)	(Mon.)	(Thur.)	(Mon.)	(Thur.)	(Mon.)	(Tue.)
			9	(Tue.)	(Fri.)	(Tue.)	(Fri.)	(Tue.)	(Fri.)	(Tue.)	(Wed.)
			10	(Wed.)	(Sat.)	(Wed.)	(Sat.)	(Wed.)	(Sat.)	(Wed.)	(Thur.)
			11	(Thur.)	(Sun.)	(Thur.)	(Sun.)	(Thur.)	(Sun.)	(Thur.)	(Fri.)
			12	(Fri.)	(Mon.)	(Fri.)	(Mon.)	(Fri.)	(Mon.)	(Fri.)	(Sat.)
			13	(Sat.)	(Tue.)	(Sat.)	(Tue.)	(Sat.)	(Tue.)	(Sat.)	(Sun.)
		M1b	14	(Sun.)	(Wed.)	(Sun.)	(Wed.)	(Sun.)	(Wed.)	(Sun.)	(Mon.)
			15	(Mon.)	(Thur.)	(Mon.)	(Thur.)	(Mon.)	(Thur.)	(Mon.)	(Tue.)
			16	(Tue.)	(Fri.)	(Tue.)	(Fri.)	(Tue.)	(Fri.)	(Tue.)	(Wed.)
			17	(Wed.)	(Sat.)	(Wed.)	(Sat.)	(Wed.)	(Sat.)	(Wed.)	(Thur.)
			18	(Thur.)	(Sun.)	(Thur.)	(Sun.)	(Thur.)	(Sun.)	(Thur.)	(Fri.)
			19	(Fri.)	(Mon.)	(Fri.)	(Mon.)	(Fri.)	(Mon.)	(Fri.)	(Sat.)
			20	(Sat.)	(Tue.)	(Sat.)	(Tue.)	(Sat.)	(Tue.)	(Sat.)	(Sun.)
			21	(Sun.)	(Wed.)	(Sun.)	(Wed.)	(Sun.)	(Wed.)	(Sun.)	(Mon.)
			22	(Mon.)	(Thur.)	(Mon.)	(Thur.)	(Mon.)	(Thur.)	(Mon.)	(Tue.)
			23	(Tue.)	(Fri.)	(Tue.)	(Fri.)	(Tue.)	(Fri.)	(Tue.)	(Wed.)
			24	(Wed.)	(Sat.)	(Wed.)	(Sat.)	(Wed.)	(Sat.)	(Wed.)	(Thur.)
			25	(Thur.)	(Sun.)	(Thur.)	(Sun.)	(Thur.)	(Sun.)	(Thur.)	(Fri.)
			26	(Fri.)	(Mon.)	(Fri.)	(Mon.)	(Fri.)	(Mon.)	(Fri.)	(Sat.)
			27	(Sat.)	(Tue.)	(Sat.)	(Tue.)	(Sat.)	(Tue.)	(Sat.)	(Sun.)
			28	(Sun.)	(Wed.)	(Sun.)	(Wed.)	(Sun.)	(Wed.)	(Sun.)	(Mon.)
			29	(Mon.)	(Thur.)	(Mon.)	(Thur.)	(Mon.)	(Thur.)	(Mon.)	(Tue.)
			30	(Tue.)	(Fri.)	(Tue.)	(Fri.)	(Tue.)	(Fri.)	(Tue.)	(Wed.)
			31	(Wed.)	(Sat.)	(Wed.)	(Sat.)	(Wed.)	(Sat.)	(Wed.)	(Thur.)
			32	(Thur.)	(Sun.)	(Thur.)	(Sun.)	(Thur.)	(Sun.)	(Thur.)	(Fri.)
			33	(Fri.)	(Mon.)	(Fri.)	(Mon.)	(Fri.)	(Mon.)	(Fri.)	(Sat.)
			34	(Sat.)	(Tue.)	(Sat.)	(Tue.)	(Sat.)	(Tue.)	(Sat.)	(Sun.)
			35	(Sun.)	(Wed.)	(Sun.)	(Wed.)	(Sun.)	(Wed.)	(Sun.)	(Mon.)
			36	(Mon.)	(Thur.)	(Mon.)	(Thur.)	(Mon.)	(Thur.)	(Mon.)	(Tue.)
			37	(Tue.)	(Fri.)	(Tue.)	(Fri.)	(Tue.)	(Fri.)	(Tue.)	(Wed.)
			38	(Wed.)	(Sat.)	(Wed.)	(Sat.)	(Wed.)	(Sat.)	(Wed.)	(Thur.)
			39	(Thur.)	(Sun.)	(Thur.)	(Sun.)	(Thur.)	(Sun.)	(Thur.)	(Fri.)
			40	(Fri.)	(Mon.)	(Fri.)	(Mon.)	(Fri.)	(Mon.)	(Fri.)	(Sat.)
			41	(Sat.)	(Tue.)	(Sat.)	(Tue.)	(Sat.)	(Tue.)	(Sat.)	(Sun.)

ERCOT Forward Adjustment Factors

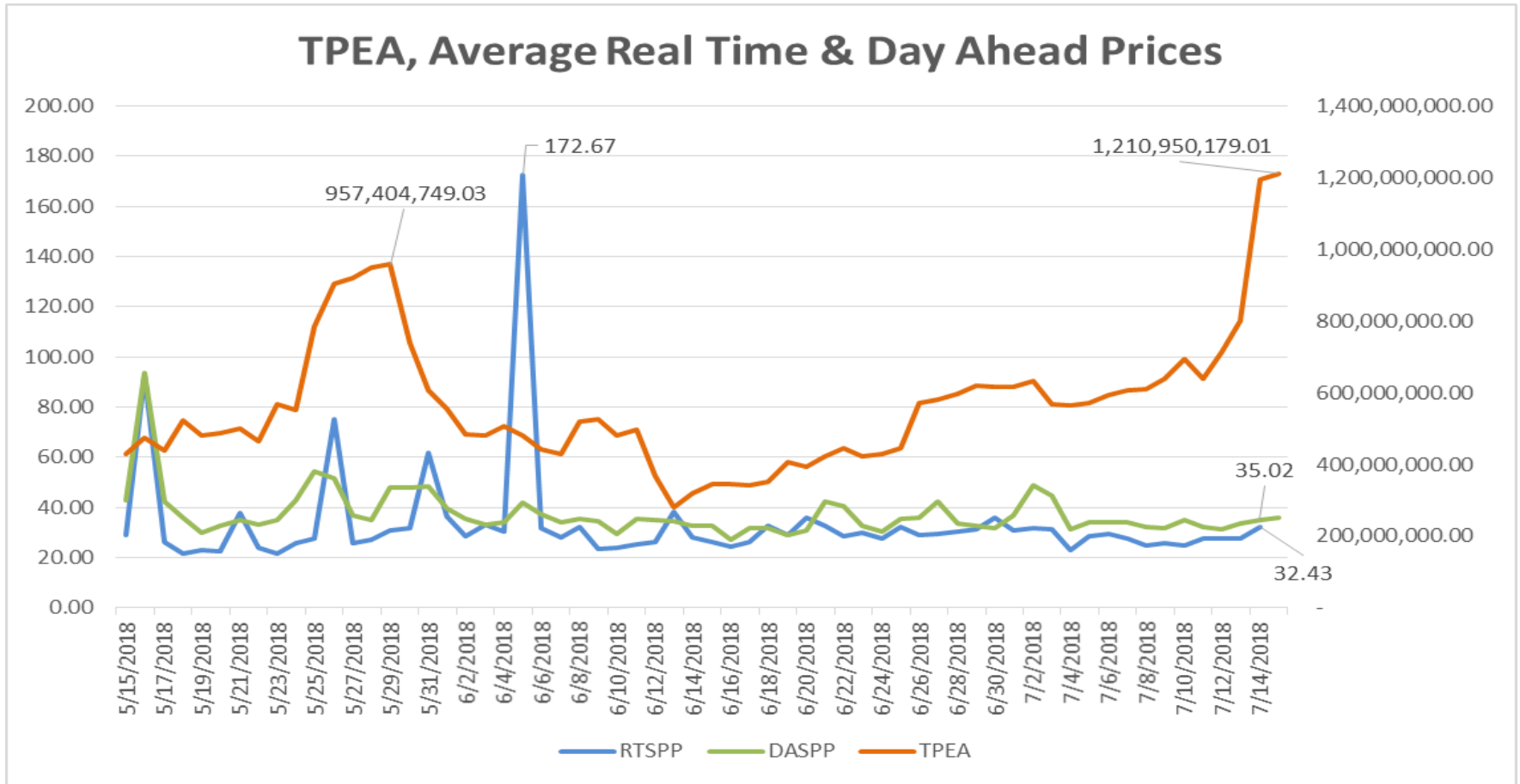


Forward adjustment factors are calculated as the ratio of 21 days forward ICE prices to 14 days Real-Time or 7 days Day-Ahead historic prices.

ICE Forward Curves July – August 2018

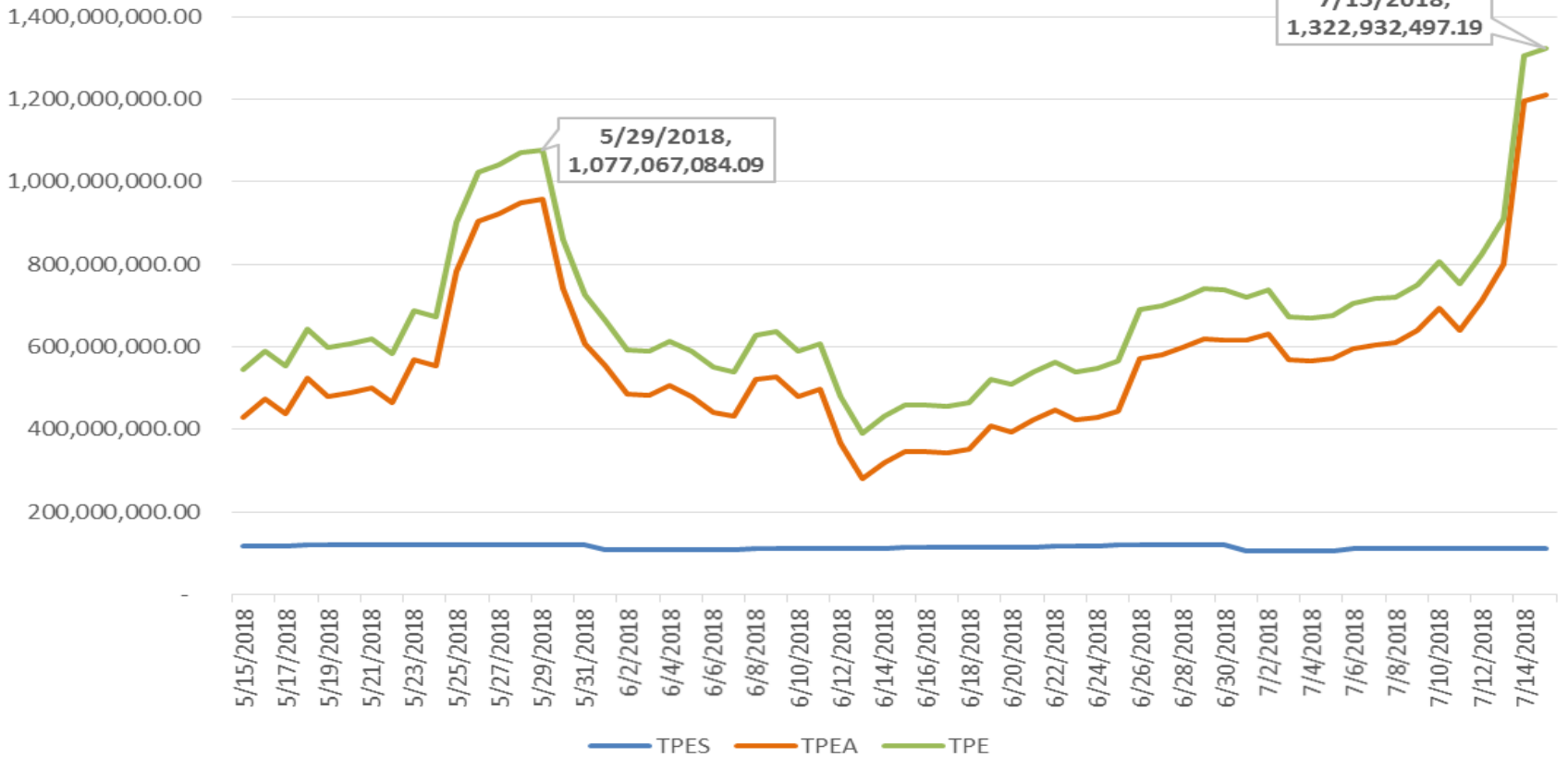


Credit Exposure Update



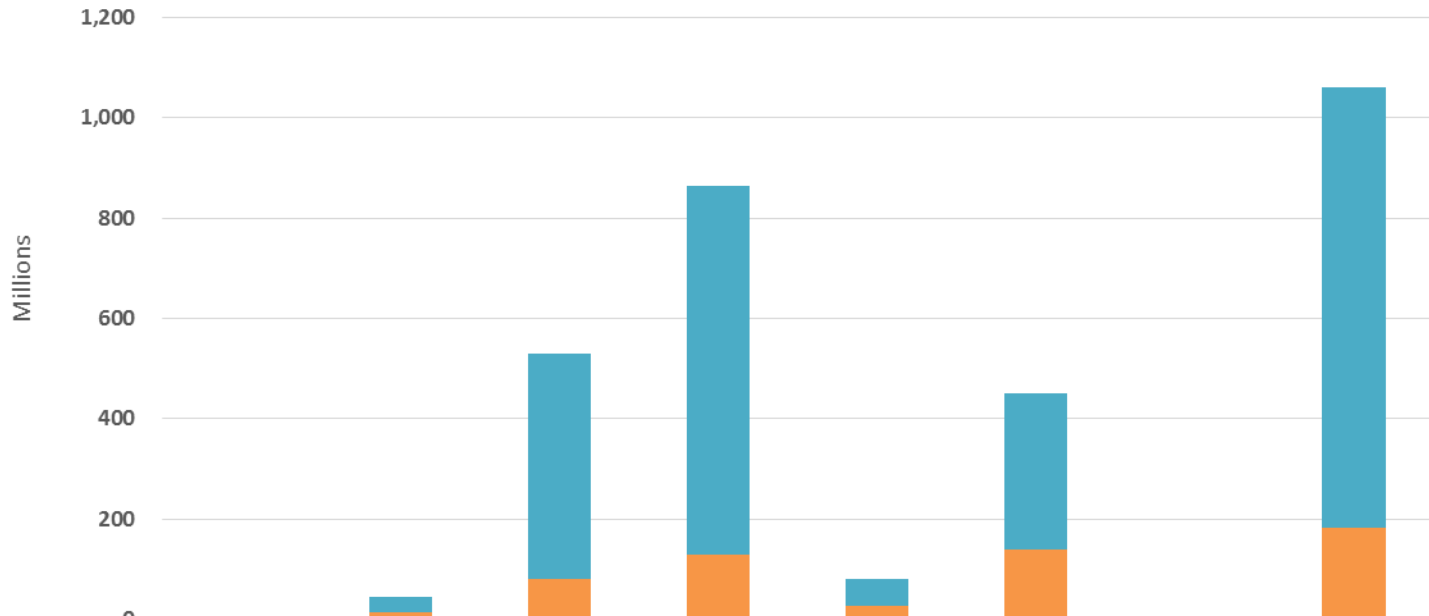
Credit Exposure Update

Total Potential Exposure



Credit Exposure Update

Average TPE and Collateral Distribution by Rating Category

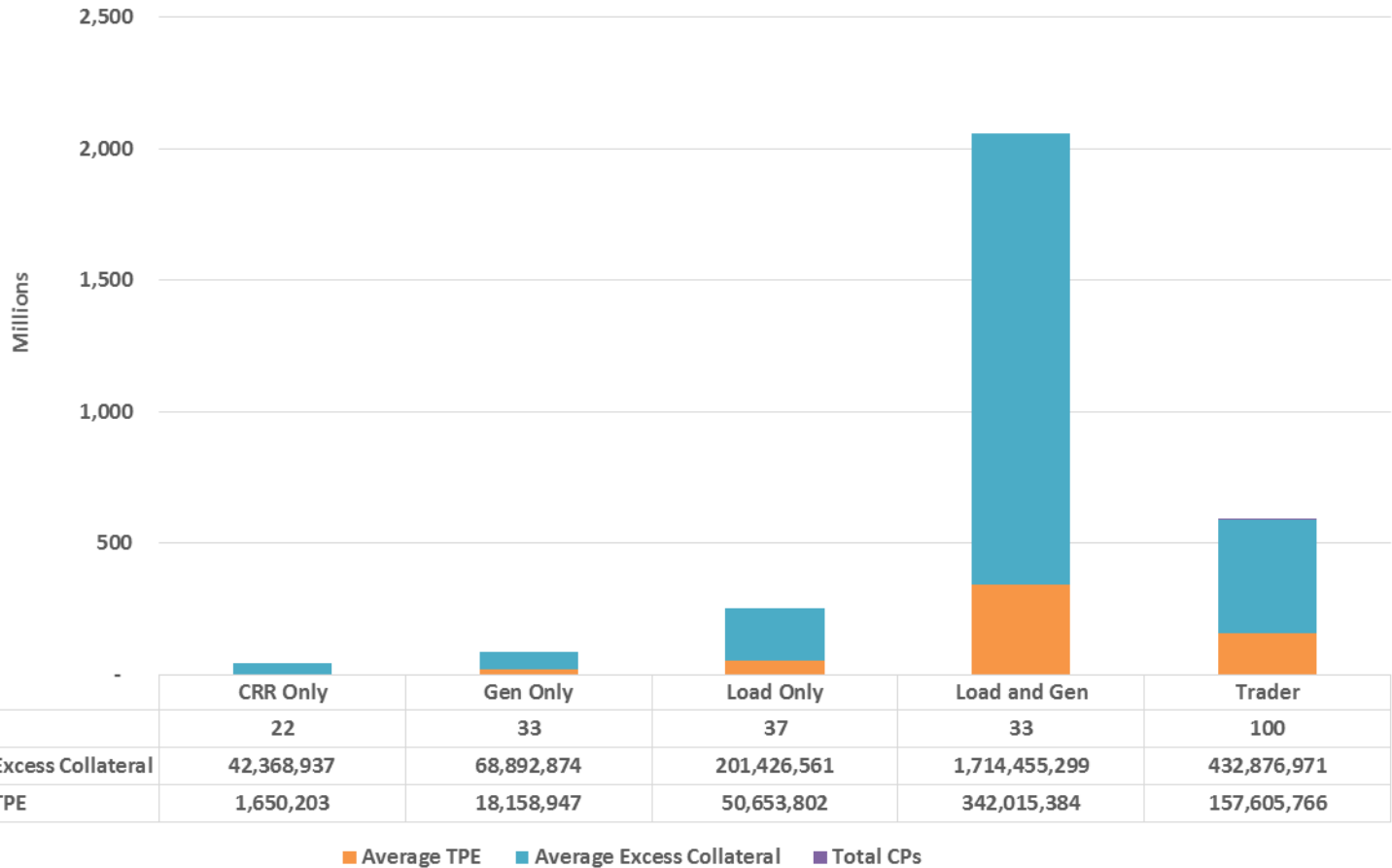


	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	CCC+ and below	Not Rated
Total CPs	0	10	17	26	4	10	0	158
Average Excess Collateral	0	30,606,600	450,030,866	735,320,722	53,025,175	313,207,567	0	877,829,712
Average TPE	0	13,061,973	80,008,483	129,079,861	26,642,298	138,529,621	0	182,761,865

■ Average TPE
 ■ Average Excess Collateral
 ■ Total CPs

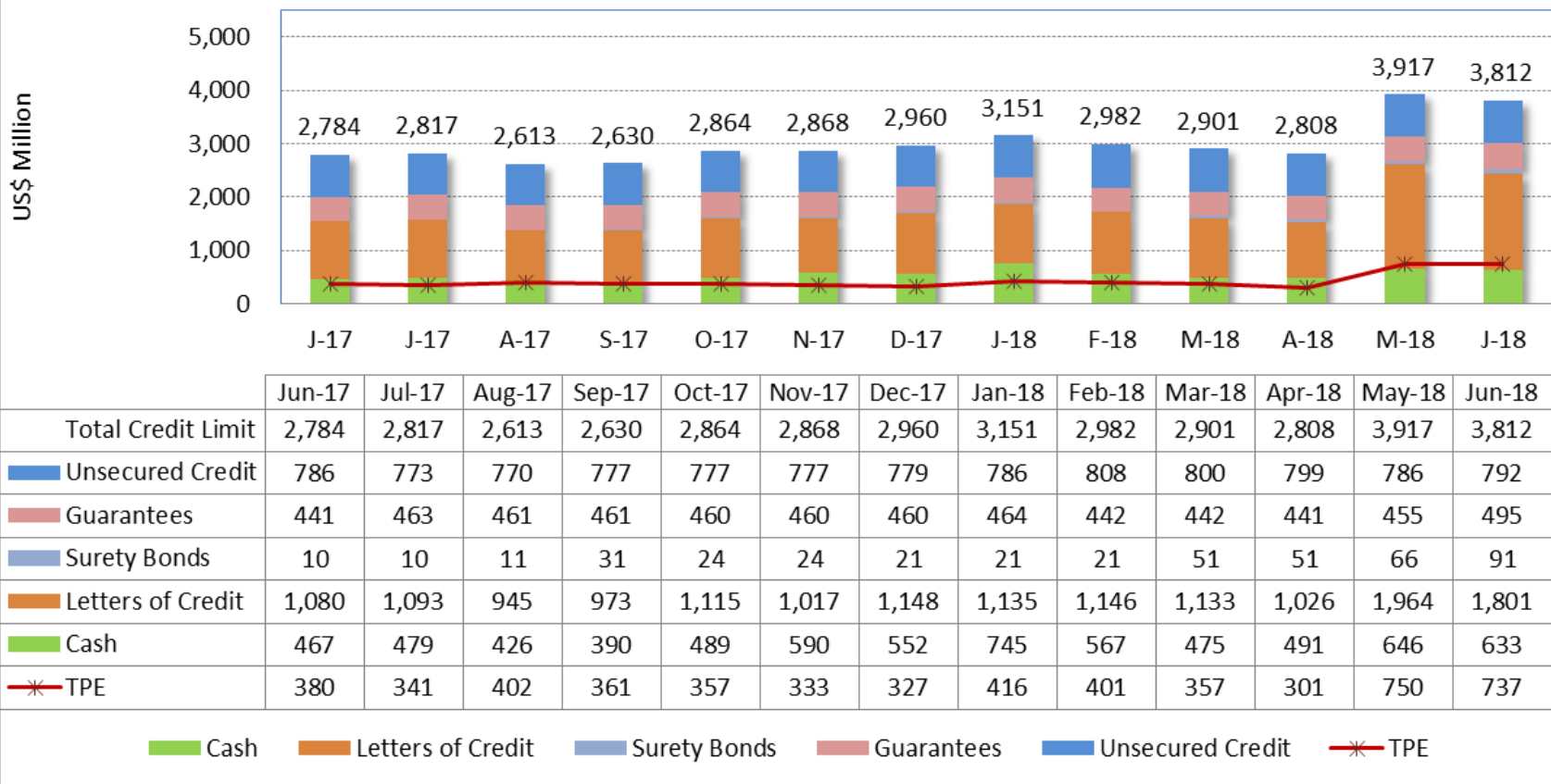
Credit Exposure Update

Average TPE and Collateral Distribution by Market Segment



Credit Exposure Update

Credit Limit/Type of Security vs TPE



■ Cash
 ■ Letters of Credit
 ■ Surety Bonds
 ■ Guarantees
 ■ Unsecured Credit
 —* TPE

Counter-Party Credit Exposure – June 2018

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	0.00%
AA- to AA+	219,532	0	0	12,842,441	0	13,061,973	2.29%
A- to A+	0	3,224,389	11,137,056	60,533,446	5,113,593	80,008,483	14.03%
BBB- to BBB+	3,501	5,218,768	10,144,242	86,480,179	27,233,171	129,079,861	22.64%
Investment Grade	223,033	8,443,157	21,281,298	159,856,065	32,346,765	222,150,317	38.97%
BB- to BB+	0	0	12,068,468	1,894,438	12,679,392	26,642,298	4.67%
B- to B+	0	53,010	0	111,230,450	27,246,161	138,529,621	24.30%
CCC+ and below	0	0	0	0	0	0	0.00%
Not Rated	1,427,170	9,662,781	17,304,036	69,034,431	85,333,448	182,761,865	32.06%
Non-Investment Grade	1,427,170	9,715,790	29,372,504	182,159,319	125,259,001	347,933,784	61.03%
Total TPE	1,650,203	18,158,947	50,653,802	342,015,384	157,605,766	570,084,102	100.00%
Percent TPE	0.29%	3.19%	8.89%	59.99%	27.65%	100.00%	

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	0.00%
AA- to AA+	6,518,481	0	0	24,088,119	0	30,606,600	1.24%
A- to A+	14,157,050	31,775,611	45,462,944	325,690,051	32,945,209	450,030,866	18.29%
BBB- to BBB+	3,146,499	17,125,464	98,655,769	517,877,887	98,515,104	735,320,722	29.89%
Investment Grade	23,822,030	48,901,075	144,118,713	867,656,057	131,460,313	1,215,958,189	49.43%
BB- to BB+	0	0	16,503,244	13,661,414	22,860,518	53,025,175	2.16%
B- to B+	0	132,035	0	286,086,221	26,989,312	313,207,567	12.73%
CCC+ and below	0	0	0	0	0	0	0.00%
Not Rated	18,546,907	19,859,764	40,804,604	547,051,607	251,566,829	877,829,712	35.68%
Non-Investment Grade	18,546,907	19,991,799	57,307,848	846,799,242	301,416,658	1,244,062,453	50.57%
Total Excess Collateral	42,368,937	68,892,874	201,426,561	1,714,455,299	432,876,971	2,460,020,642	100.00%
Percent Excess Collateral	1.72%	2.80%	8.19%	69.69%	17.60%	100.00%	



Counter-Party Credit Changes May - June 2018

Summary of distribution by Market Segment

Category	CP Distribution			Average TPE Distribution			Average Excess Collateral Distribution		
	May-18	Jun-18	Change	May-18	Jun-18	Change	May-18	Jun-18	Change
CRR Only	9.82%	9.78%	-0.04%	0.37%	0.29%	-0.08%	2.25%	1.72%	-0.53%
Gen Only	14.73%	14.67%	-0.07%	3.90%	3.19%	-0.71%	4.96%	2.80%	-2.16%
Load Only	16.96%	16.44%	-0.52%	8.93%	8.89%	-0.04%	8.26%	8.19%	-0.08%
Load and Gen	14.7%	14.7%	-0.07%	58.83%	59.99%	1.16%	61.43%	69.69%	8.26%
Trader	43.8%	44.4%	0.69%	27.97%	27.65%	-0.33%	23.09%	17.60%	-5.49%

Summary of distribution by Rating Group

Rating Group	CP Distribution			Average TPE Distribution			Average Excess Collateral Distribution		
	May-18	Jun-18	Change	May-18	Jun-18	Change	May-18	Jun-18	Change
AAA	0.0%	0.0%	0.00%	0.0%	0.0%	0.00%	0.0%	0.0%	0.00%
AA- to AA+	4.5%	4.4%	-0.02%	2.6%	2.3%	-0.28%	1.6%	1.2%	-0.36%
A- to A+	8.0%	7.6%	-0.48%	9.4%	14.0%	4.65%	18.2%	18.3%	0.14%
BBB- to BBB+	11.6%	11.6%	-0.05%	23.7%	22.6%	-1.08%	29.2%	29.9%	0.67%
BB- to BB+	1.8%	1.8%	-0.01%	4.7%	4.7%	-0.01%	2.4%	2.2%	-0.26%
B- to B+	4.5%	4.4%	-0.02%	27.3%	24.3%	-2.99%	14.0%	12.7%	-1.22%
CCC+ and below	0.0%	0.0%	0.00%	0.0%	0.0%	0.00%	0.0%	0.0%	0.00%
Not Rated	69.6%	70.2%	0.58%	32.3%	32.1%	-0.28%	34.7%	35.7%	1.03%
Investment Grade	24.1%	23.6%	-0.55%	35.7%	39.0%	3.29%	49.0%	49.4%	0.45%
Non-investment Grade	75.9%	76.4%	0.55%	64.3%	61.0%	-3.29%	51.0%	50.6%	-0.45%

Counter-Party Credit Exposure – June 2018 Average TPE and Excess Collateral for the Bottom Quintile of Market Participants

Quintile Distribution of Average TPE by Rating and Category								
Rating Group	CRR Only	Gen Only	Load Only	Load and Gen	Trader	Quintile Average TPE	Percent Quintile Average TPE	Percent Total Average TPE
AAA	0	0	0	0	0	0	0.0%	0.00%
AA- to AA+	337	0	0	0	0	337	0.0%	0.00%
A- to A+	0	0	0	0	0	0	0.0%	0.00%
BBB- to BBB+	3,501	250	0	0	0	3,751	0.1%	0.00%
Investment Grade	3,838	250	0	0	0	4,088	0.1%	0.00%
BB- to BB+	0	0	0	0	0	0	0.0%	0.00%
B- to B+	0	53,010	0	0	0	53,010	1.8%	0.01%
CCC+ and below	0	0	0	0	0	0	0.0%	0.00%
Not Rated	14,858	614,038	893,141	202,699	1,155,093	2,879,828	98.1%	0.51%
Non-Investment Gra	14,858	667,048	893,141	202,699	1,155,093	2,932,838	99.86%	0.51%
Quintile Average TPE	18,695	667,298	893,141	202,699	1,155,093	2,936,926	100.0%	0.52%
Percent Quintile Average TPE	0.6%	22.7%	30.4%	6.9%	39.3%	100.0%		
Percent Total Average TPE	0.00%	0.12%	0.16%	0.04%	0.20%	0.52%		

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	0.00%	0.00%
AA- to AA+	75,451	0	0	0	0	75,451	2.86%	0.00%
A- to A+	157,050	0	0	0	0	157,050	5.94%	0.01%
BBB- to BBB+	146,499	103,246	0	0	0	249,745	9.45%	0.01%
Investment Grade	379,000	103,246	0	0	0	482,246	18.25%	0.02%
BB- to BB+	0	0	0	0	0	0	0.00%	0.00%
B- to B+	0	132,035	0	0	102,136	234,170	8.86%	0.01%
CCC+ and below	0	0	0	0	0	0	0.00%	0.00%
Not Rated	112,807	333,744	617,779	52,320	808,910	1,925,560	72.88%	0.08%
Non-Investment Gra	112,807	465,779	617,779	52,320	911,045	2,159,731	81.75%	0.09%
Total Quintile Excess Collateral	491,807	569,025	617,779	52,320	911,045	2,641,977	100.00%	0.11%
Percent Quintile Excess Collateral	18.62%	21.54%	23.38%	1.98%	34.48%	100.00%		
Percent Total Excess Collateral	0.02%	0.02%	0.03%	0.00%	0.04%	0.11%		

Other CWG Topics for Discussion

- ERCOT is working on preparing a scenario analysis of the expected credit exposures in a ‘stressed’ market, however actual market events have largely matched the stress case scenarios and actual market data may offer better opportunities for analysis than the scenario data.
- A presentation was made to the CWG on Surety Bonds issued by insurance companies which may offer diversification from Letters of Credit issued by other types of financial institutions.
 - Currently ERCOT has a limit of \$10 million per Counter-Party per Issuer for Surety Bonds as opposed to no limit per Counter-Party by LC issuers.
 - Surety bonds have changed dramatically over the last several years and now are much closer in terms and conditions to a letter of credit.
 - ERCOT legal will need to be involved to ensure that the standard Surety Bond agreement language satisfies ERCOT credit requirements.

Questions?

Appendix

Credit Components

Component	Definition
RFAF	<i>Real-Time Forward Adjustment Factor</i> —The adjustment factor for RTM-related forward exposure
DFAF	<i>Day-Ahead Forward Adjustment Factor</i> —The adjustment factor for DAM-related forward exposure
RTLE	<i>Real-Time Liability Extrapolated</i> —M1 multiplied by the sum of the net amount, with zero substituted for missing values, due to or from ERCOT by the Counter-Party in the 14 most recent Operating Days for which RTM Initial Statements are produced for Counter-Parties according to the ERCOT Settlement Calendar divided by 14.
DALE	<i>Average Daily Day-Ahead Liability Extrapolated</i> —M1 multiplied by the sum of the net amount, with zero substituted for missing values, due to or from ERCOT by the Counter-Party in the seven most recent Operating Days for which DAM Settlement Statements are produced for Counter-Parties according to the ERCOT Settlement Calendar divided by seven.
MCE	<i>Minimum Current Exposure</i> —For each Counter-Party, ERCOT shall determine a Minimum Current Exposure (MCE)
M1	Multiplier for DALE and RTLE. Provides for forward risk during a Counter-Party termination upon default based upon the sum of the time period required for any termination upon default (M1a) and the time period required for a Mass Transition only (M1b). The M1a component is applicable to all Counter-Parties. The M1b component is applicable only to Counter-Parties representing any QSE associated with a LSE.
M1a	Time period required for any termination upon default.
M1b	Weighted average transition days = $\text{Min}(B, (2 + \text{Max}(1, (u+1)/2)) * (1-DF))$, rounded up to whole days

Estimated Aggregate Liability Minimum Current Exposure

- $EAL_q = \text{Max} [\text{IEL during the first 40-day period only beginning on the date that the Counter-Party commences activity in ERCOT markets, } RFAF * \text{Max} \{RTLE \text{ during the previous } lrq \text{ days}\}, RTLF] + DFAF * DALE + \text{Max} [RTLCNS, \text{Max} \{URTA \text{ during the previous } lrq \text{ days}\}] + OUT_q + ILE_q$
- $MCE = RFAF * MAF * \text{Max}[\{ [L_{i, od, p} * RTSPP_{i, od, p}] / n \}, \{ [[[L_{i, od, p} * T2 - G_{i, od, p} * (1 - NUCADJ) * T3] * RTSPP_{i, od, p}] + [RTQQNET_{i, od, p} * T5]] / n \}, \{ [G_{i, od, p} * NUCADJ * T1 * RTSPP_{i, od, p}] / n \}, \{ ((DARTNET_{i, od, p})) * T4 / n \}]$