



**The Finance & Audit (F&A) Committee is  
expected to consider  
F&A Committee Agenda Item 5.1:**

***Recommendation Regarding Market Credit  
Risk Corporate Standard***

**at its meeting on February 11, 2019.**

**The Board of Directors is expected to hear  
the F&A Committee's recommendation on  
this matter as part of the F&A Committee  
Report at the Board meeting on  
February 12, 2019.**

**Attached are the Board and Committee  
materials in relation to these agenda items.**



## **Item 5.1: Recommendation Regarding Market Credit Risk Corporate Standard**

*Mark Ruane*

Director, Settlements, Retail and Credit

Finance and Audit Committee Meeting

ERCOT Public

February 11, 2019

# Recommendation regarding Market Credit Risk Corporate Standard

- The ERCOT Market Credit Risk Corporate Standard requires review at least annually by the Finance and Audit Committee with any modifications to be approved by the Board.
- The Standard was last reviewed by the Committee at its February 19, 2018 meeting, and was last approved by the Board at its February 20, 2018 meeting.
- The current Standard specifies that ERCOT internal credit risk reporting will consider “Market activity volume” in assessing credit risk. ERCOT’s credit risk methodology incorporates both market volume and prices. Therefore, for additional clarity ERCOT staff proposes removing the word “volume.”
- A red-lined copy of the Standard has been provided for reference as **Attachment A**.

## Request for Vote

**ERCOT is seeking a vote from Finance and Audit Committee to recommend that the Board of Directors approve ERCOT's Market Credit Risk Corporate Standard as revised.**

**<Vote>**



**Date:** February 5, 2019  
**To:** Board of Directors  
**From:** Finance and Audit (F&A) Committee Chair  
**Subject:** Market Credit Risk Corporate Standard

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors Meeting Date:** February 12, 2019

**Item No.:** 15.2

**Issue:**

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve the ERCOT Market Credit Risk Corporate Standard (Standard), to become effective upon approval by the Board.

**Background/History:**

The Board has established the ERCOT Market Credit Risk Corporate Standard, which requires review at least annually by the Finance and Audit (F&A) Committee, with modifications approved by the Board. The Standard was last approved by the Board on February 20, 2018.

This Standard establishes a framework to maintain ERCOT’s long-term financial integrity and to help ensure that overall market credit risk is maintained within acceptable limits. ERCOT recognizes that maintaining financial integrity and acceptable overall market credit risk is critical to accomplishing its corporate goals and discharging ERCOT’s primary responsibilities.

ERCOT staff has reviewed the Standard and has proposed the following revision to become effective upon approval by the Board:

- In Section 3, Standards – Measurement, among the factors to be considered in assessing credit risk, replace “Market activity volume” with “Market activity.”

A copy of the revised Market Credit Risk Corporate Standard is included as **Attachment A**.

**Key Factors Influencing Issue:**

ERCOT’s methodology for calculating credit exposure risk incorporates historic and forward prices, as well as activity volume. Deleting the word “volume” from the Standard will therefore more accurately reflect the methodology used in credit risk reporting.

**Conclusion/Recommendation:**

The F&A Committee is expected to review the Standard at its meeting on February 11, 2019, and is expected to recommend to the Board whether any revisions should be



made to the Standard and whether they should become effective upon approval by the Board.



**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**BOARD OF DIRECTORS RESOLUTION**

WHEREAS, after due consideration of the alternatives, the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) deems it desirable and in the best interest of ERCOT to revise the existing Market Credit Risk Corporate Standard (Standard), as recommended by the Finance and Audit (F&A) Committee, as reflected in **Attachment A**;

THEREFORE, BE IT RESOLVED, that the revised Standard is hereby approved as reflected in **Attachment A**, to be effective immediately.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its February 12, 2019 meeting, the ERCOT Board passed a motion approving the above Resolution by \_\_\_\_\_.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_ day of February, 2019.

\_\_\_\_\_  
Vickie G. Leady  
Assistant Corporate Secretary

## ERCOT CORPORATE STANDARD

Document Name:	Market Credit Risk Corporate Standard
Document ID:	CS3.6
Effective Date:	February <del>2012</del> , 2018 <del>9</del>
Owner:	Board of Directors
Governs:	ERCOT Personnel
Approved:	Board of Directors, ERCOT, Inc.

### 1. Purpose

This Market Credit Risk Corporate Standard provides a framework by which the ERCOT Board of Directors seeks to maintain the long-term financial integrity of the ERCOT market and to help ensure that overall market credit risk is maintained within acceptable limits.

Recognizing that a number of risk factors contribute to overall market credit risk and that it is beneficial to understand the impact of these risks, various reports have been developed to help understand the nature and scope of market credit risk.

This standard does not change collateral requirements or Counter-Party obligations to comply with those collateral requirements under the ERCOT Protocols. Changes to collateral requirements require a change to ERCOT Protocols in accordance with Section 21, Process for Protocol Revision.

### 2. Definitions

Terms & Acronyms	Definition / Description
<b>BOD</b>	Board of Directors
<b>CWG</b>	Credit Work Group
<b>TAC</b>	Technical Advisory Committee
<b>Total Potential Exposure (TPE)</b>	A measure of estimated credit risk as defined in ERCOT Protocols.

### 3. Standards

#### Market Credit Risk Objective

In seeking to fulfill BOD objectives to provide for a reliable Texas electricity market, ERCOT stakeholders will

- directly consider the credit implications of operational or market decisions,



- maintain sufficiently detailed understanding of the nature and scope of market credit risk so as to be able to identify material changes in ERCOT's credit risk profile in a timely manner and
- seek to maintain a market-wide credit risk profile consistent with an investment grade rating.

### **Delegation of Authority**

Responsibility for monitoring and reporting on credit risk for the market consistent with this standard is hereby delegated to the Chief Executive Officer, the Chief Operating Officer, the Vice President, Commercial Operations, and the Director, Settlements, Retail and Credit. These individuals will ensure the BOD is advised of material changes in ERCOT's credit risk profile.

This delegation does not mean that the results of any particular model or report will be the final determination of credit risk in the ERCOT market. Such determination rests with the BOD.

### **Internal Control**

The Director, Settlements, Retail and Credit will ensure that written procedures and internal controls are established over the credit processes to ensure that results are consistent with the approved process reflected in this standard.

The Director, Settlements, Retail and Credit will ensure that these controls are reviewed periodically by ERCOT's Internal Audit staff to monitor compliance with control procedures. The results of Internal Audit reviews as well as underlying controls may be reviewed by the Finance and Audit Committee of the BOD upon request.

### **Measurement**

ERCOT recognizes that one metric cannot capture all aspects of credit risk.

Therefore, at a minimum, ERCOT internal credit risk reporting for the Nodal market will consider the following factors in assessing credit risk:

- Creditworthiness of Counter-Parties,
- Market activity ~~volume~~,
- Net load and generation Counter-Party concentration,
- Total Potential Exposure by type of Counter-Party, and
- Collateralization relative to Total Potential Exposure

As applicable, reporting will incorporate time series to aid in the interpretation of credit risk factors and identification of changes to ERCOT's credit risk profile.

ERCOT will provide other information or analyses as necessary to effectively communicate the sources and scope of market credit risk.

At ERCOT's discretion or upon request by the BOD, TAC or CWG, ERCOT will run stress scenarios with respect to market credit exposure to aid in the understanding of the impact of extreme events, such as extreme prices or market conditions.

## **Reporting**

ERCOT will prepare market credit risk updates:

1. regularly for the F&A Committee,
2. whenever ERCOT determines there have been significant changes in ERCOT's market credit risk exposure or credit risk profile, and
3. upon request of TAC or CWG when contemplating market rule changes for which significant credit implications are being evaluated.

## **Market Credit Risk Corporate Standard Adoption**

ERCOT's Market Credit Risk Corporate Standard was adopted by resolution of the BOD. The standard is reviewed at least annually by the Finance and Audit Committee and any modifications made thereto must be approved by the BOD.