



## **Item 9: 2019 Credit Update**

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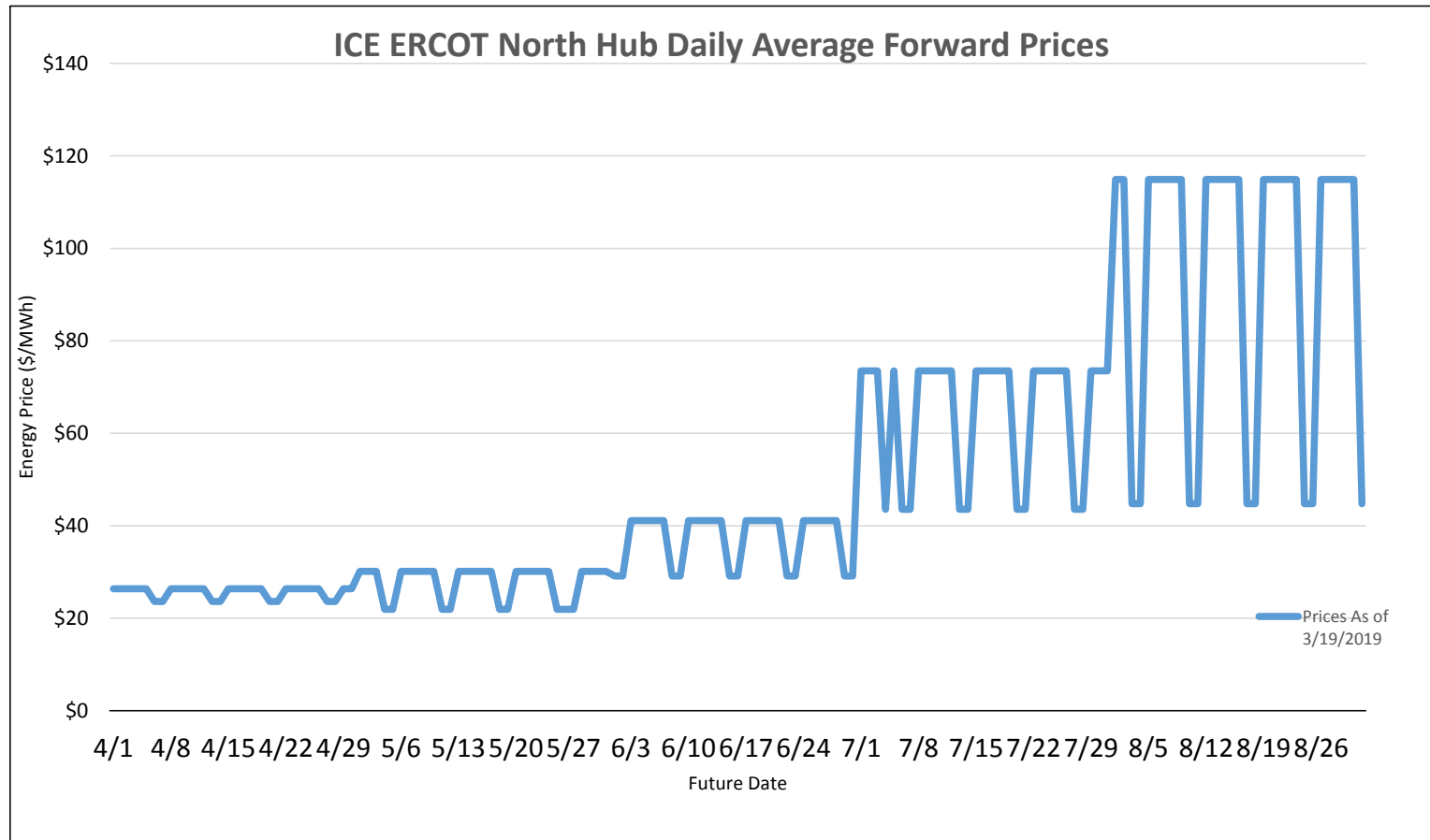
Board of Directors Meeting

ERCOT Public

April 9, 2019

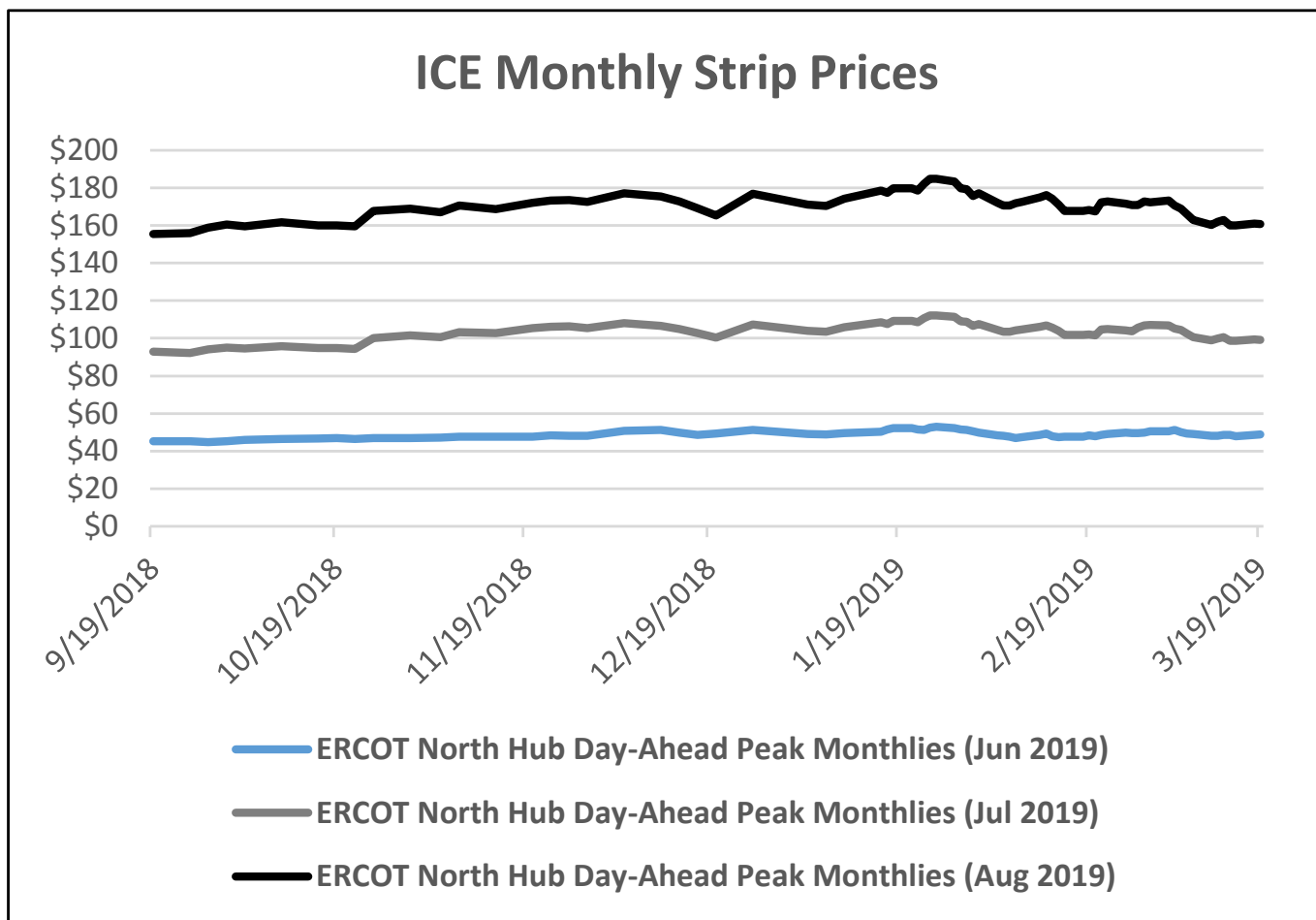
## 2019 Credit Update

**ICE ERCOT North Hub daily average forward prices indicate market expectations of increased summer 2019 prices.**



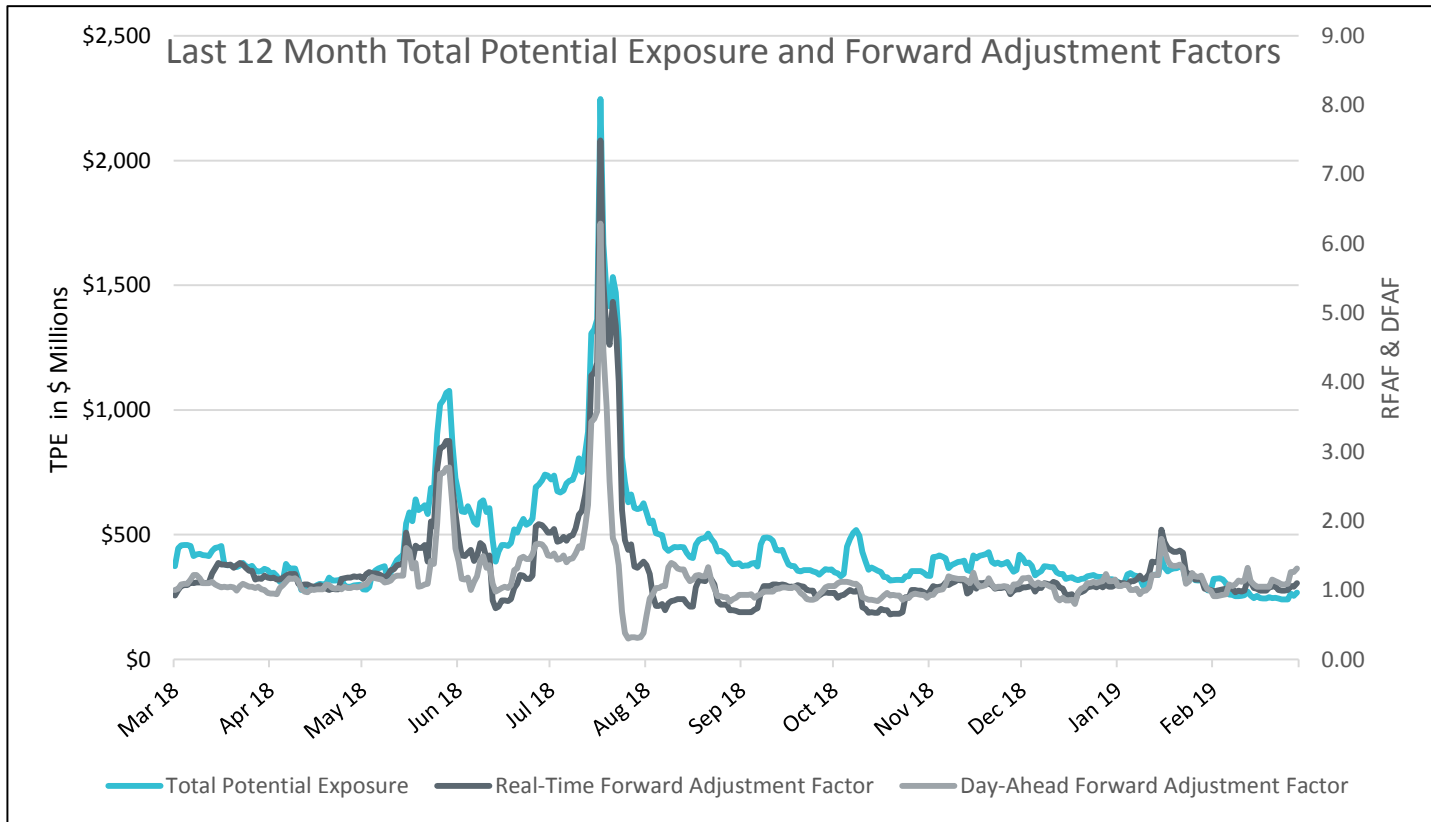
## 2019 Credit Update

**Peak forward prices for summer 2019 have remained elevated for several months.**



## 2019 Credit Update

**Forward prices are used to adjust the Day-Ahead and Real-Time exposure components of ERCOT's credit calculation.**

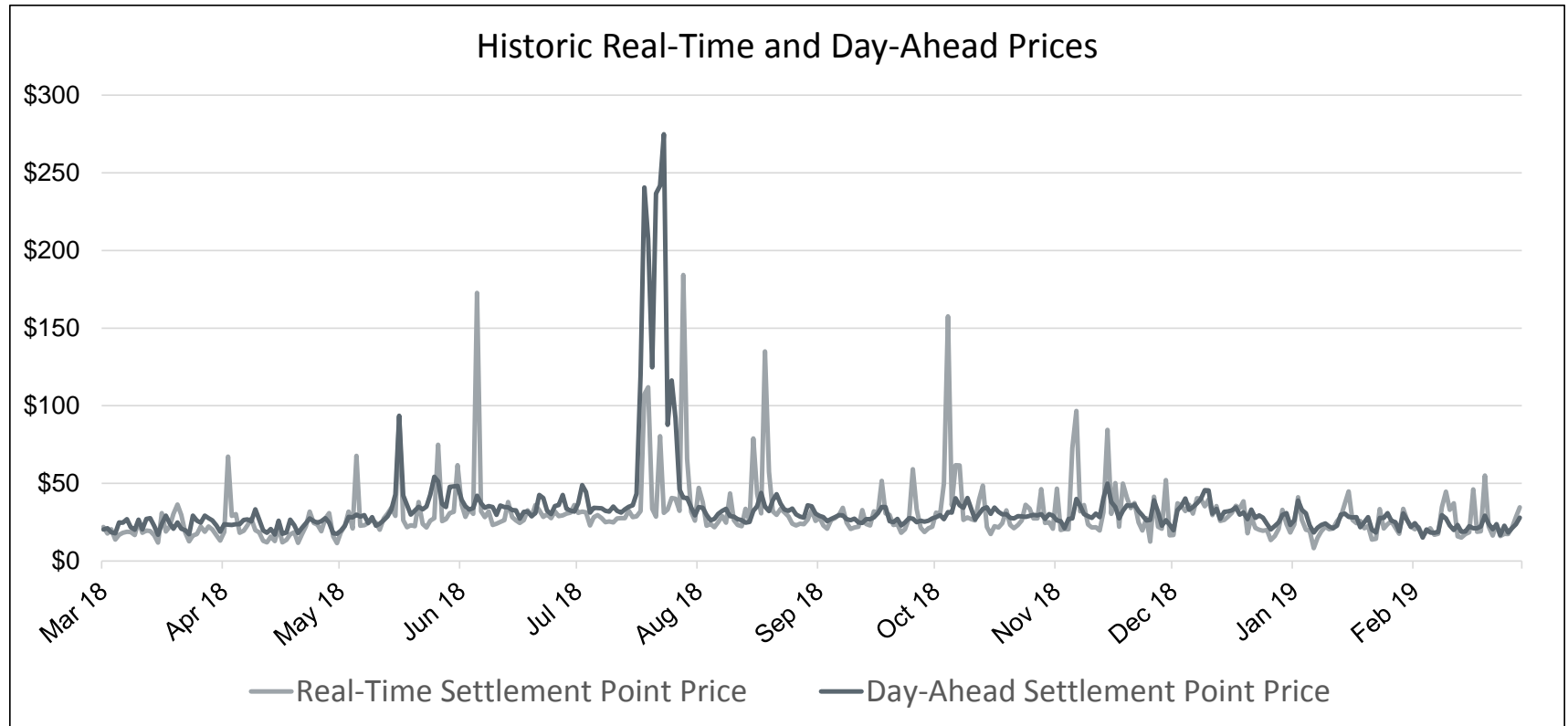


## 2019 Credit Update

**Current forward prices for summer months indicate that the Forward Adjustment Factors may increase materially as we approach the summer. This could lead to substantial increases in collateral requirements for ERCOT Counter-Parties.**

## 2019 Credit Update

**Credit requirements may also increase unexpectedly due to price spikes not anticipated by forward markets, as happened in 2018.**



## Letter of Credit Issuer Limits

- Protocol Section 16.11.2, Requirements for Setting a Counter-Party's Unsecured Credit Limit, incorporates letter of credit (LC) issuer limits determined by the long-term issuer rating and the Tangible Net Worth of the Issuer.
- LC issuer limits are determined based on the issuing bank's credit rating and tangible net worth, with an overall cap of \$750m.
- To date there have been three issuer limit exceedances, all in Summer 2018. In the event of a limit exceedance, for four months ERCOT can accept amendments to existing letters of credit, but no new letters of credit, from these issuers. After four months ERCOT can accept neither new letters of credit nor amendments to existing letters of credit from the issuer.

## 2019 Credit Update

**ERCOT requests that Counter-Parties be aware of the risks of increased credit requirements and constraints on letter of credit issuers, and maintain appropriate collateral, and as applicable, sufficient letter of credit capacity.**



## Other activities

- ERCOT will be holding a Mass Transition drill with Market Participants and PUCT staff during the second quarter. The drill is intended to identify potential issues around the Mass Transition of a defaulting Competitive Retailer's ESI IDs. The drill will include:
  - Counter-Party collateral call default and breach (internal communications)
  - Mass Transition initiation upon breach (communications with TDSPs, POLRs and PUCT staff)
  - Mass Transition processing in a test environment (POLRs and IOU TDSPs)
  - Prioritization of competitive switches during a Mass Transition ("stacking logic")
  - Daily update calls (TDSPs, POLRs and PUCT staff)

## Other activities

- ERCOT-sponsored NPRR 908, Revisions to Mass Transition Processes, and associated RMGRR 159 incorporate changes intended to facilitate processing of Mass Transitions. These include:
  - Allowing preliminary notification of a potential Mass Transition to help affected TDSPs, POLRs and PUCT staff to be adequately prepared, and
  - Eliminating the required minimum timeline for initial notification of a Mass Transition to affected parties, which in many cases will reduce the required Mass Transition timeline by a day.
- Retail Market Participants held a Summer Preparedness Workshop on March 4<sup>th</sup>. The workshop reviewed Energy Emergency Alert (EEA) processes and responsibilities, the ERCOT EEA Communications Matrix, and applicable PUCT substantive rules.

# 2019 Credit Update

## Other activities

- The Credit Monitoring and Management System (CMM) Technical Refresh Phase 1B is expected to go live in June 2019. Phase 1B updates the CMM platform architecture and implements four NPRRs.
- ERCOT has been in ongoing discussions with Market Participants about the NPRR revisions to credit calculations and will also hold supplementary training in April. Please contact ERCOT Credit ([ercotcredit@ercot.com](mailto:ercotcredit@ercot.com)) to enroll in training.

# Committee Education on Market Credit

Questions