



Item 7: Periodic Report on Credit Work Group Activity

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Chair, Credit Work Group

Finance & Audit Committee Meeting

ERCOT Public

February 11, 2020

Reviewed NPRRs

- **Total NPRRs Reviewed**

- 6

- **NPRRs Reviewed With Credit Impact**

- NPRR 985 – Modify Forward Adjustment Factors to Include Pricing for the Current Operating Day

- The group reviewed NPRR 985 and determined that the changes proposed in NPRR 985 improve the accuracy of the Total Potential Exposure (TPE) calculation and therefore have positive credit impacts.



CWG Discussion Items

2020 Credit Working Group Goals

- Review the ongoing impact on Market Participant credit exposure and collateral requirements resulting from the incorporation of a forward price curve-based methodology
- Clarify the market's risk tolerance/appetite level and provide regular updates on credit exposure to the ERCOT Board
- Evaluate and quantify potential market risk under current credit rules and examine a framework for reviewing rules in flight
- Effectively communicate credit risk to the market
- Examine current Protocol language to determine how effective current calculations capture actual credit risk
- Review settlement timeline and determine if a reduction is feasible

Remedies for Late Payments (Draft NPRR)

- Clarifies timing for determining when a payment is determined to be received
 - Includes specific language for cash and other forms of financial security
- Level I Enforcement
 - Will be applied to all Market Participants upon their first late payment in a rolling 12-month period
 - Previously left to ERCOT's discretion and only mandatory on 2nd late payment
- Level II Enforcement
 - Applied on the 2nd late payment in a rolling 12-month period
 - The time period for which ERCOT will require increased financial security extended from 60 to 90 days
- Level III Enforcement
 - Applied on the 3rd late payment in a rolling 12-month period
 - ERCOT will immediately take action under Section 16.11.6.1.6 Revocation of a Market Participant's Rights and Termination of Agreements
 - Previously a notice would be given that such action would be taken upon the 4th late payment in a rolling 12-month period

Other CWG Discussion Items

- Suspension/Termination Process for QSEs Representing a Resource Entity
 - ERCOT has identified some potential gaps with the current procedure for managing a defaulting QSE that represents a resource
 - Gaps related to timing described in Protocols versus operational capabilities
 - Mechanics of switching a resource to another QSE
 - Telemetry
 - Database load
- Modification to Settlement Timeline
 - The CWG is reviewing the current settlement timeline to determine the feasibility of reducing the number of days between the Operating Day and the due date for payments
 - Added to the list of CWG goals for 2020
 - Shorter settlement timelines reduce ERCOT's credit exposure and potentially reduce collateral requirements
- CWG Charter Review
 - No changes recommended
- Workshop on Market Payment Process
 - ERCOT Treasury will host a workshop on February 28

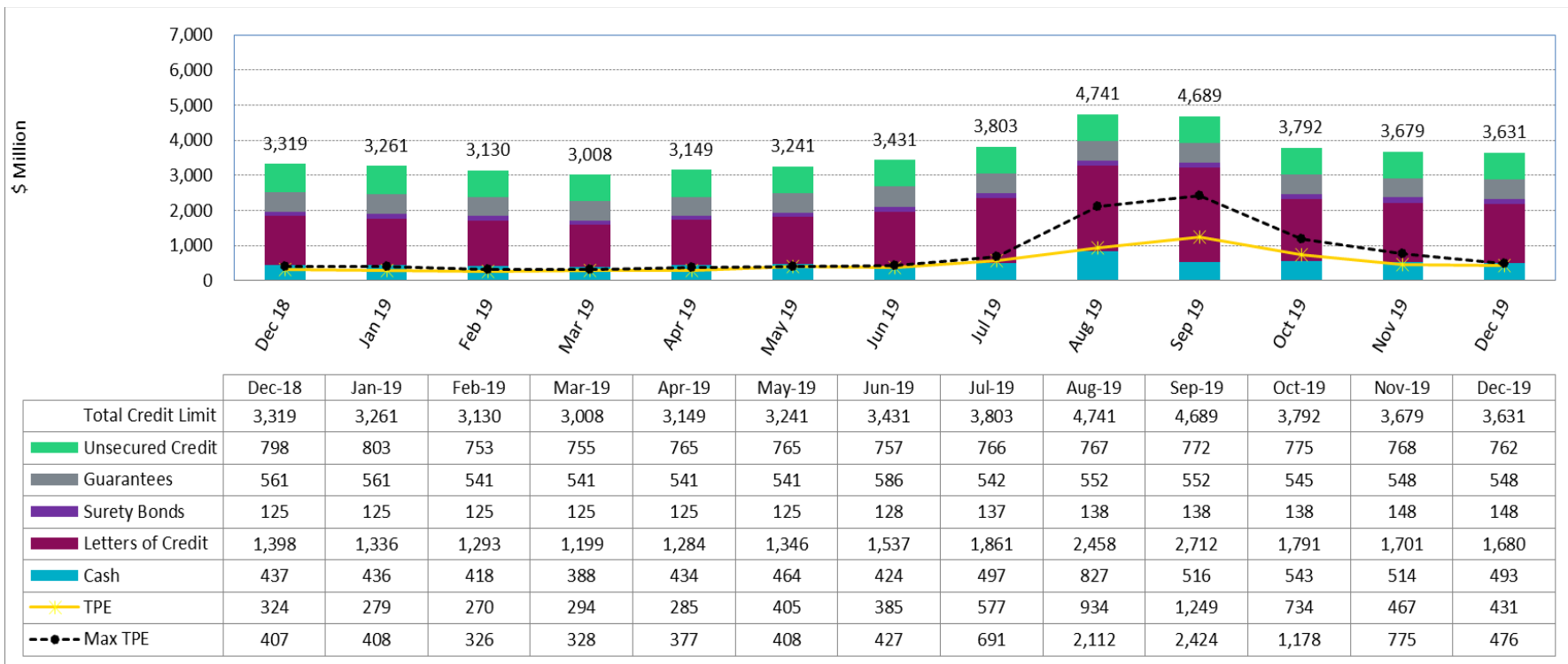


ERCOT Credit Highlights and Statistics

Monthly Highlights Nov 2019- Dec 2019

- Market-wide average TPE decreased from \$569.9 million to \$430.2 million
 - TPE decreased mainly due to lower Real-Time and Day-Ahead Settlement Point Prices in December compared to November
- Discretionary Collateral is defined as Secured Collateral in excess of TPE, CRR Locked ACL and DAM Exposure.
 - Average Discretionary Collateral decreased from \$1,272.5 million to \$1,255.7 million
 - The decrease in Discretionary Collateral is largely due to decrease in Secured Collateral and increase in CRR Locked ACL
- Number of active Counter-Parties remained flat at 251
- No unusual collateral call activity

Available Credit by Type Compared to Total Potential Exposure (TPE)

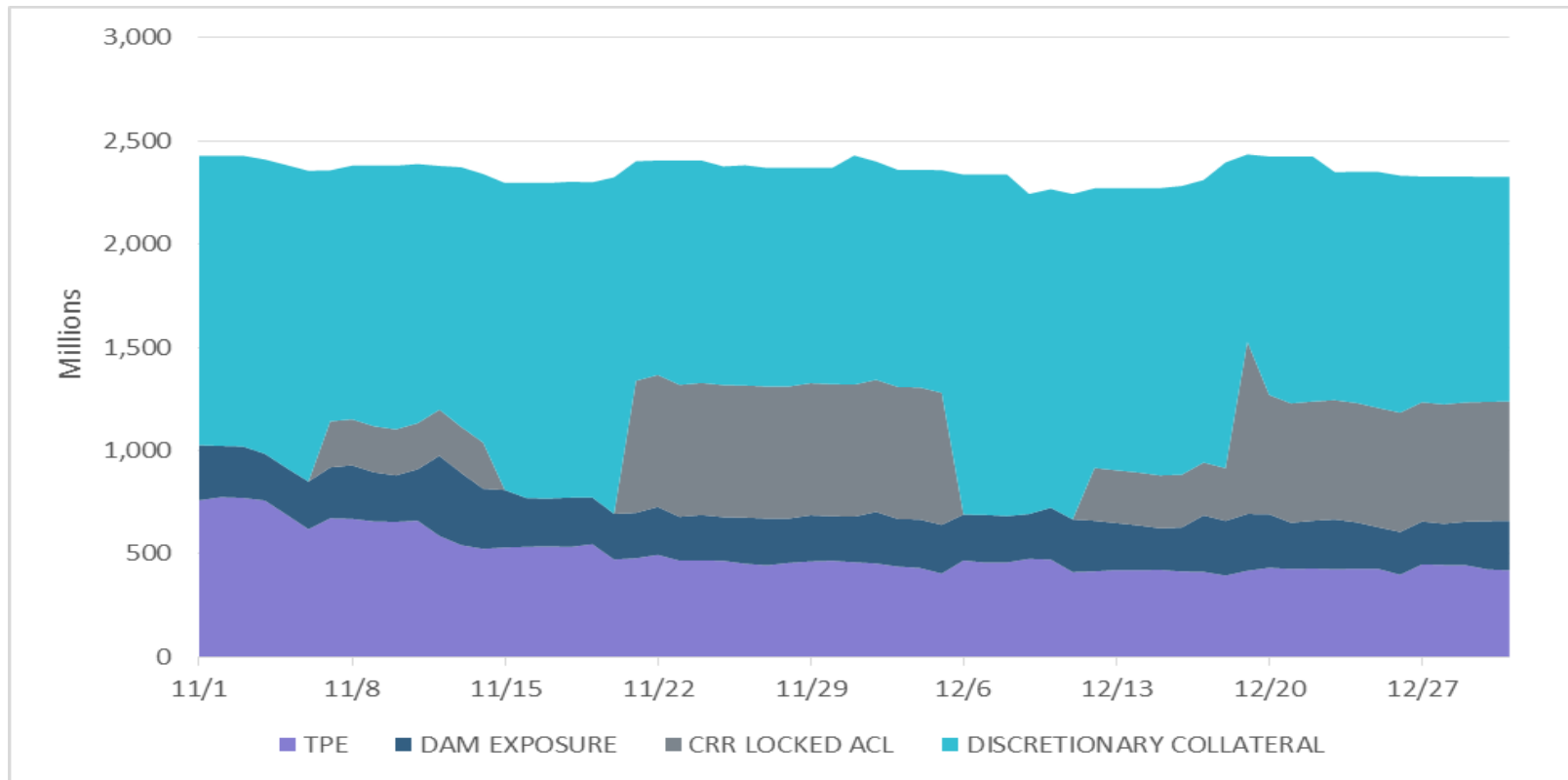


*Numbers are as of month end except for Max TPE



Discretionary Collateral Nov 2019 - Dec 2019

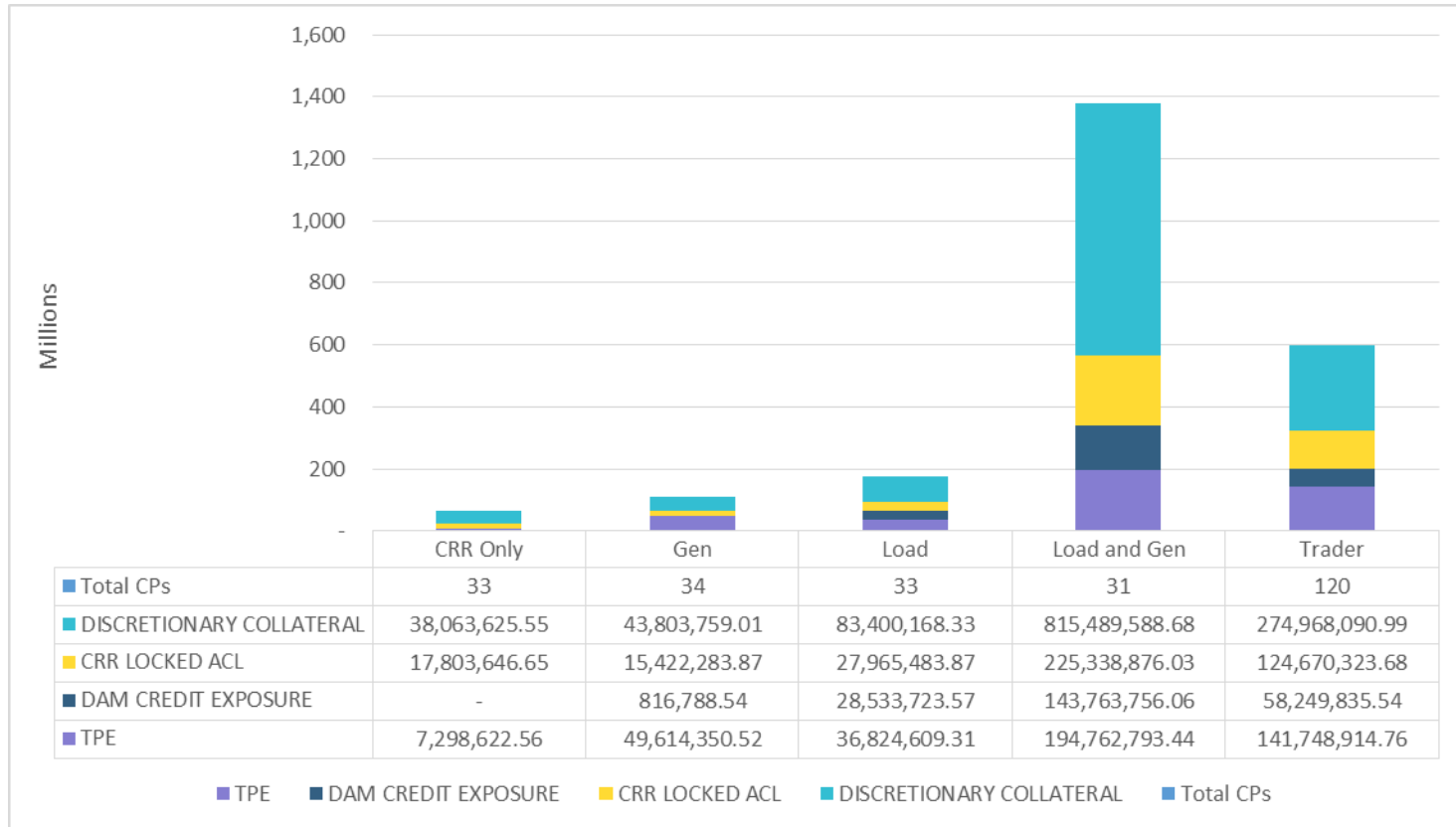
At a Counter-Party level, no unusual changes were noted



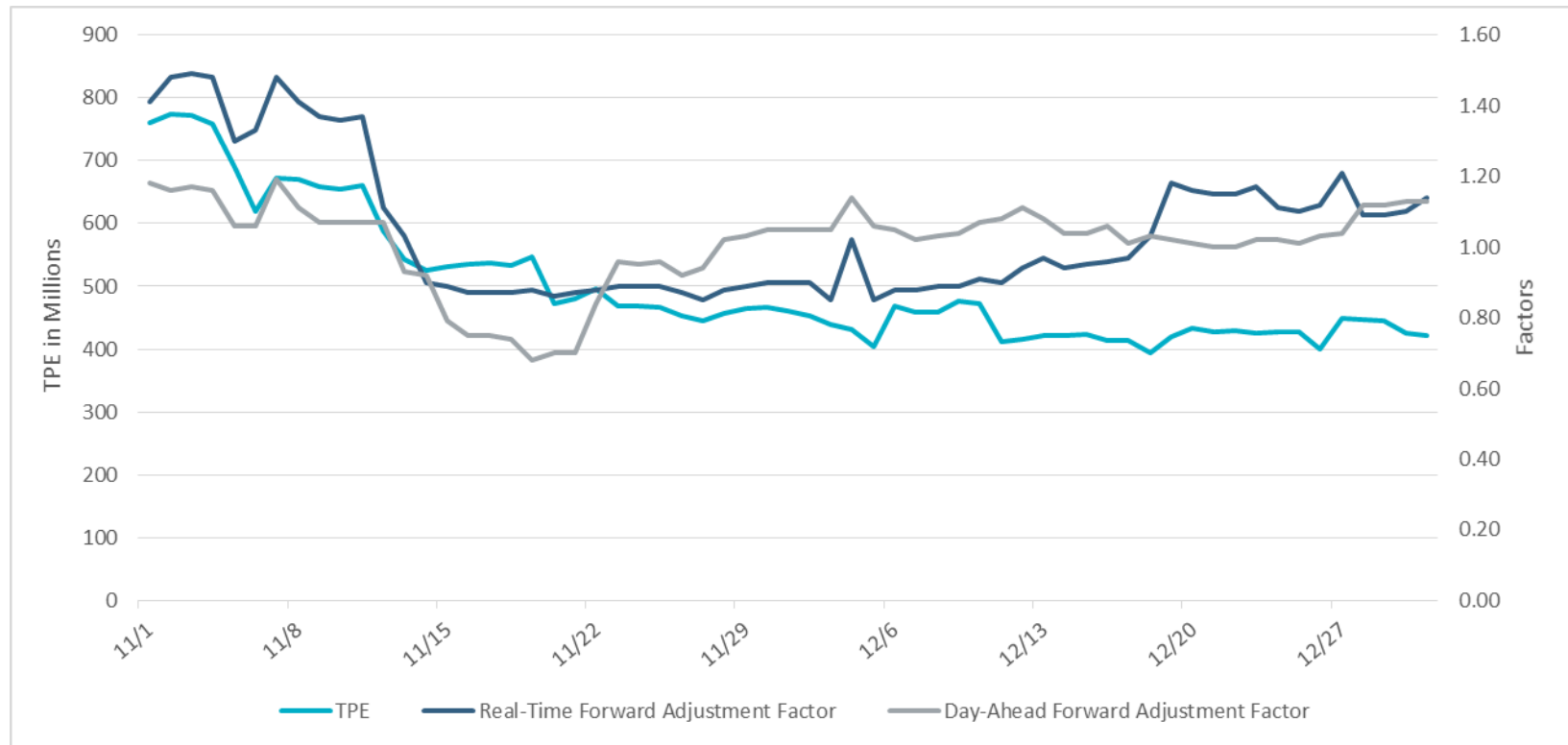
Note: Discretionary collateral doesn't include Unsecured Credit Limit or parent guarantees

TPE and Discretionary Collateral by Market Segment- Dec 2019

Load and Generation entities accounted for the largest portion of discretionary collateral



TPE and Forward Adjustment Factors Nov 2019 - Dec 2019



Summary of Distribution by Rating Group

Rating Group	Counter-Party Distribution			Average TPE Distribution			Average Excess Collateral		
	Nov-19	Dec-19	Change	Nov-19	Dec-19	Change	Nov-19	Dec-19	Change
AAA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
AA- to AA+	3.98%	3.98%	0.00%	2.34%	1.95%	-0.38%	1.74%	1.86%	0.12%
A- to A+	6.77%	6.77%	0.00%	11.34%	9.01%	-2.32%	22.36%	23.46%	1.09%
BBB- to BBB+	11.16%	11.16%	0.00%	30.31%	26.86%	-3.45%	26.85%	25.09%	-1.77%
Investment Grade	21.91%	21.91%	0.00%	43.98%	37.83%	-6.15%	50.96%	50.41%	-0.56%
BB- to BB+	2.79%	2.79%	0.00%	27.24%	27.72%	0.48%	10.88%	11.92%	1.04%
B- to B+	1.99%	1.99%	0.00%	0.94%	0.72%	-0.22%	1.21%	1.15%	-0.05%
CCC+ and below	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Not Rated	73.31%	73.31%	0.00%	27.83%	33.73%	5.89%	36.95%	36.52%	-0.43%
Non-investment Grade	78.09%	78.09%	0.00%	56.02%	62.17%	6.15%	49.04%	49.59%	0.56%

Distribution of TPE by Rating and Category

Rating Group	CRR Only	Generation Only	Load Only	Load and Generation	Trader	Total TPE	Percent TPE
AAA	0	0	0	0	0	0	0.00%
AA- to AA+	1,343,332	0	0	7,058,435	0	8,401,767	1.95%
A- to A+	72,066	0	8,487,542	28,327,881	1,897,380	38,784,869	9.01%
BBB- to BBB+	2,891	11,100,006	3,922,590	59,875,341	40,681,399	115,582,227	26.86%
Investment Grade	1,418,289	11,100,006	12,410,132	95,261,658	42,578,779	162,768,863	37.83%
BB- to BB+	0	1,222,749	8,754,571	76,561,758	32,743,020	119,282,097	27.72%
B- to B+	0	7,522	0	2,477,627	602,395	3,087,544	0.72%
CCC+ and below	0	0	0	0	0	0	0.00%
Not Rated	5,880,333	37,284,074	15,659,906	20,461,751	65,824,721	145,110,787	33.73%
Non-Investment Grade	5,880,333	38,514,345	24,414,477	99,501,136	99,170,136	267,480,428	62.17%
Total TPE	7,298,623	49,614,351	36,824,609	194,762,793	141,748,915	430,249,291	100.00%
Percent TPE	1.70%	11.53%	8.56%	45.27%	32.95%	100.00%	

Distribution of Excess Collateral by Rating and Category

Rating Group	CRR Only	Generation Only	Load Only	Load and Generation	Trader	Excess Collateral	Percent Excess Collateral
AAA	0	0	0	0	0	0	0.00%
AA- to AA+	4,519,785	0	0	41,055,585	0	45,575,370	1.86%
A- to A+	14,346,098	0	60,428,588	438,806,953	60,118,751	573,700,389	23.46%
BBB- to BBB+	3,489,078	29,054,728	64,212,325	341,615,457	175,206,787	613,578,375	25.09%
Investment Grade	22,354,960	29,054,728	124,640,913	821,477,996	235,325,537	1,232,854,134	50.41%
BB- to BB+	0	29,333,104	41,250,524	202,560,831	18,310,812	291,455,270	11.92%
B- to B+	0	836,550	0	24,780,440	2,601,596	28,218,586	1.15%
CCC+ and below	0	0	0	0	0	0	0.00%
Not Rated	36,512,312	19,818,449	55,762,939	404,772,035	376,449,706	893,315,442	36.52%
Non-Investment Grade	36,512,312	49,988,103	97,013,463	632,113,306	397,362,114	1,212,989,298	49.59%
Total Excess Collateral	58,867,272	79,042,831	221,654,376	1,453,591,302	632,687,651	2,445,843,432	100.00%
Percent Excess Collateral	2.41%	3.23%	9.06%	59.43%	25.87%	100.00%	

Note: Excess collateral doesn't include Unsecured Credit Limit

Questions?