



Item 3: Periodic Report on Credit Work Group Activity

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Chair, Credit Work Group

Urgent Finance & Audit Committee Meeting

August 10, 2020
ERCOT Public

Reviewed NPRRs

- **Total NPRRs Reviewed**
 - 20
- **NPRRs Reviewed With Credit Impact**
 - NPRR 992 – Updated Day-Ahead Liability for NPRR863, Creation of ERCOT Contingency Reserve Service and Revisions to Responsive Reserve
 - The changes proposed in NPRR992 more accurately reflect the Day-Ahead liability estimate impacts due to changes to Ancillary Services as reflected in NPRR863, Creation of ERCOT Contingency Reserve Service and Revisions to Responsive Reserve, and therefore have positive credit implications.
 - NPRR 1018 – Clarifications Regarding ERCOT Suspension or Termination of a QSE and Participation by a Virtual or Emergency QSE
 - The changes proposed in NPRR1018 provide clarifications that improve operation of Virtual or Emergency Qualified Scheduling Entities (QSEs) in the event of default, and therefore have positive credit implications.

Reviewed NPRRs

- **NPRRs Reviewed With Credit Impact (continued)**

- NPRR 1019 – Pricing and Settlement Changes for Switchable Generation Resources (SWGRs) Instructed to Switch to ERCOT
 - The changes proposed in NPRR1019 improve the accuracy of Settlements for Switchable Generation Resources (SWGRs), and therefore have positive credit implications.
- NPRR 1021 – Adjustments to the Default Uplift Invoice Process
 - NPRR 1021 reduces the minimum time period ERCOT must wait to issue a Default Uplift Invoice from 180 to 90 days. NPRR 1021 has positive credit impacts and will accelerate the default uplift process to help address potential cash flow issues for market participants if defaults occur.



CWG Discussion Items

Credit Impacts Related to COVID-19

- At the March 24 CWG Meeting, the group discussed possible impacts to the market due to COVID-19
 - Topics included
 - Potential impacts on REPs as a result of the moratorium on Disconnects for Non-Pay put in place by the TDUs
 - Review of the settlement timeline
 - Review of Short-Pay and Default Uplift processes and timelines
 - Subsequent events and actions taken
 - Introduction of NPRR 1021
 - NPRR 1021 accelerates the timeline for issuance of Default Uplift invoices to help relieve the cash flow burden on short-paid QSEs
 - COVID-19 Electricity Relief Program
 - Established a customer assistance program for eligible residential customers impacted by COVID-19
 - Created a fund to reimburse TDUs and REPs for unpaid bills associated with eligible residential customers
 - Initial funding was provided by ERCOT, and the TDUs established a rider to collect amounts in order to repay ERCOT and maintain the fund

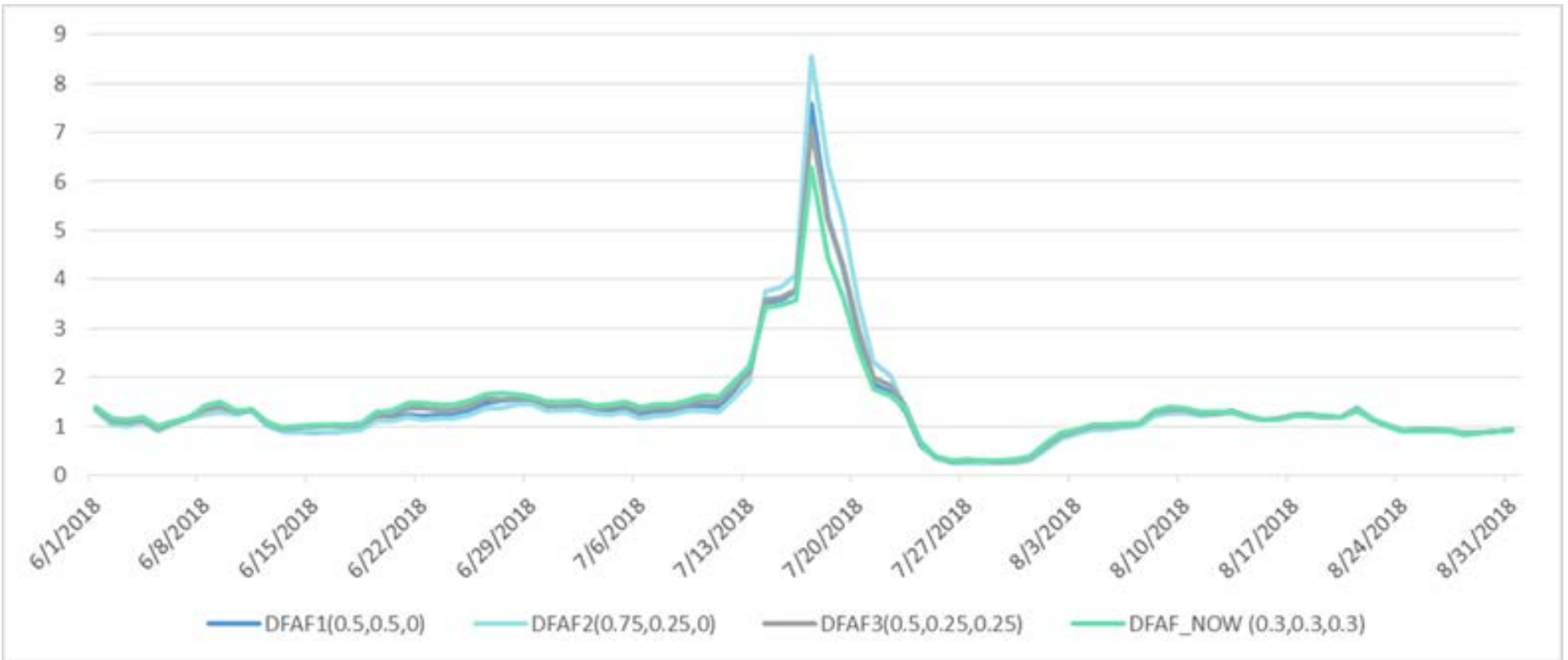
Review of Forward Weighting Factors

- As part of the CWG review of the weighting factors used to calculate the Real-Time and Day-Ahead Forward Adjustment Factors, ERCOT provided analysis on the following scenarios:

Scenario Number	Week1 Weight	Week2 Weight	Week3 Weight
1	0.5	0.5	0
2	0.75	0.25	0
3	0.5	0.25	0.25
4-Current	0.33	0.33	0.33

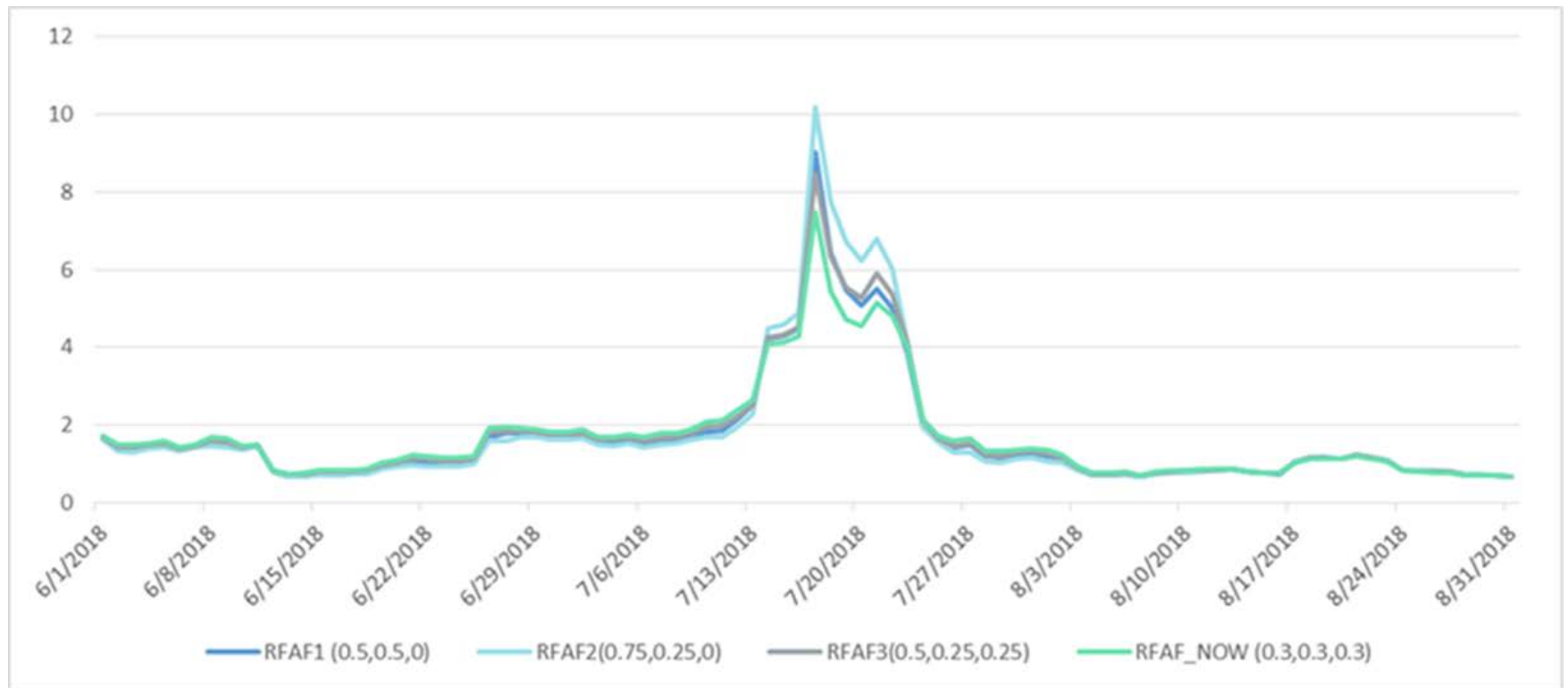
Review of Forward Weighting Factors

- Day-Ahead Forward Adjustment Factors (DFAF)



Review of Forward Weighting Factors

- Real-Time Forward Adjustment Factors (RFAF)



Late Payment Enforcement Provisions

- While reviewing a proposed NPRR to update the enforcement process for late payments, as discussed at F&A in February, ERCOT Legal identified a conflict between the ERCOT Protocols and the Standard Form Agreement.

Late Pmt.	Existing Enforcement Provisions			Proposed Enforcement Provisions	
1	Review, or	Level I Enforcement	Increase to or provide 110% collateral for min. 60 days	Level I Enforcement	Increase to or provide 110% collateral for min. 60 days
2	Level I Enforcement, or	Level II Enforcement	110% collateral in cash or LC for 60 days	Level II Enforcement	110% collateral in cash or LC for 60 days
3	Level II Enforcement, or	Level III Enforcement	Warning or terminate SFA	Level III Enforcement	120% collateral in cash or LC for 90 days
4	Terminate SFA			Terminate SFA	

Late Payment Enforcement Provisions

- Note that, under the existing rules, a third late payment with Level III Enforcement can lead to a termination of the SFA. This would conflict with the SFA which only allows for termination if more than three late payments occur in a rolling 12-month period.
 - In the event of a conflict between the ERCOT Protocols and the SFA, the terms of the SFA govern.
 - ERCOT will abide by the terms of the SFA until a revised SFA is approved and published.

Other CWG Discussion Items

- **Surety Bond Format Review**
 - ERCOT Legal provided an overview of changes between the current approved form of surety bond and a proposed revised form. The CWG will continue the process of determining if changes to the form are appropriate and beneficial to the market.
- **Revisions to ERCOT Credit Calculations for Real-Time Co-Optimization**
 - ERCOT Staff provided an initial summary of updates that will be needed to account for optimization of Ancillary Services and Energy in the Real-Time Market.
 - This will be a topic for further review at future meetings.
- **Counter-Party Risk Assessment**
 - ERCOT is evaluating credit risk assessment models as part of the market entry qualifications initiative.
 - The focus has been on choosing relevant credit ratios and associated weightings to optimize the model with respect to the scores for rated entities and their agency ratings.
 - ERCOT has reviewed the existing ERCOT model, MISO's scoring model, as well as a potential 3rd party vendor model.
 - ERCOT and the CWG will continue to discuss the results of this evaluation and determine the appropriate model for ERCOT for future recommendation.

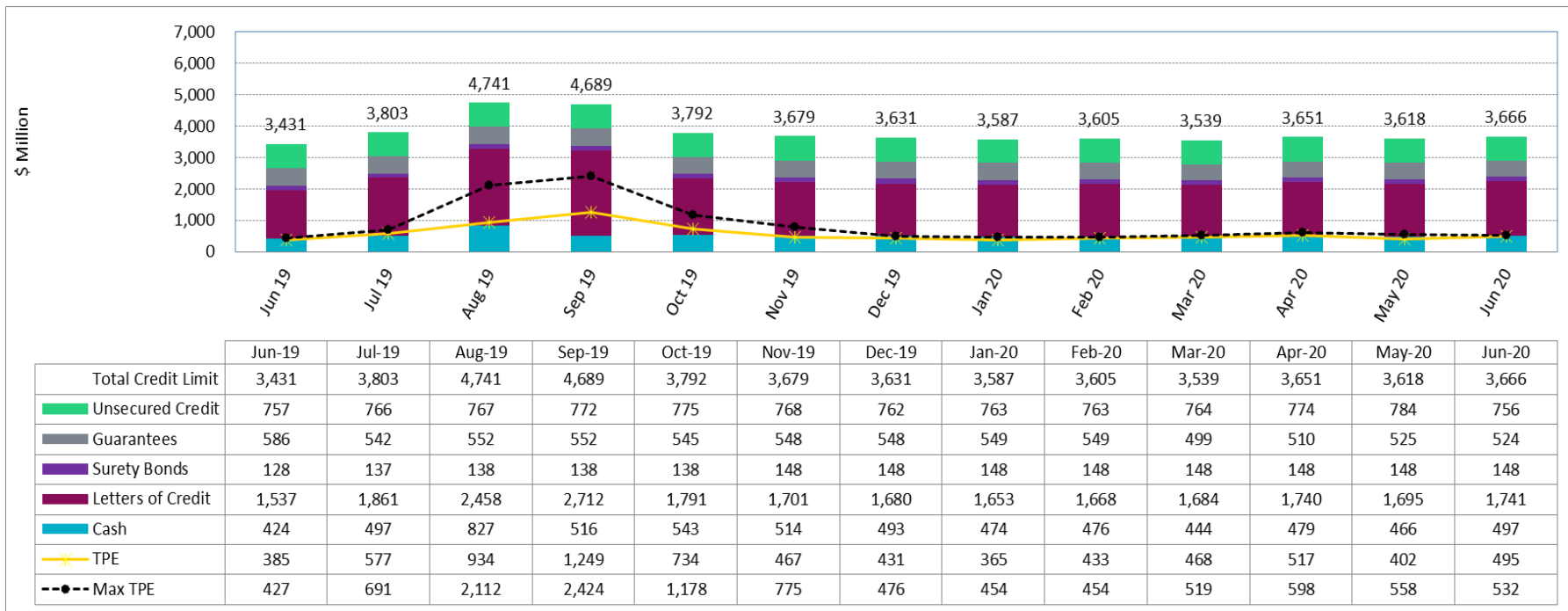


ERCOT Credit Highlights and Statistics

Monthly Highlights May 2020 – June 2020

- Market-wide average TPE slightly decreased from \$ 442.4 million to \$ 439.5 million
 - TPE decreased mainly due to lower Real-Time and Day-Ahead prices in June compared to May
- Discretionary Collateral is defined as Secured Collateral in excess of TPE, CRR Locked ACL and DAM Exposure
 - Average Discretionary Collateral decreased from \$ 1,319.1 million to \$1,243.6 million
 - The decrease in Discretionary Collateral is largely due to increase in CRR Locked ACL
- Number of active Counter-Parties increased by 5
- No unusual collateral call activity

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

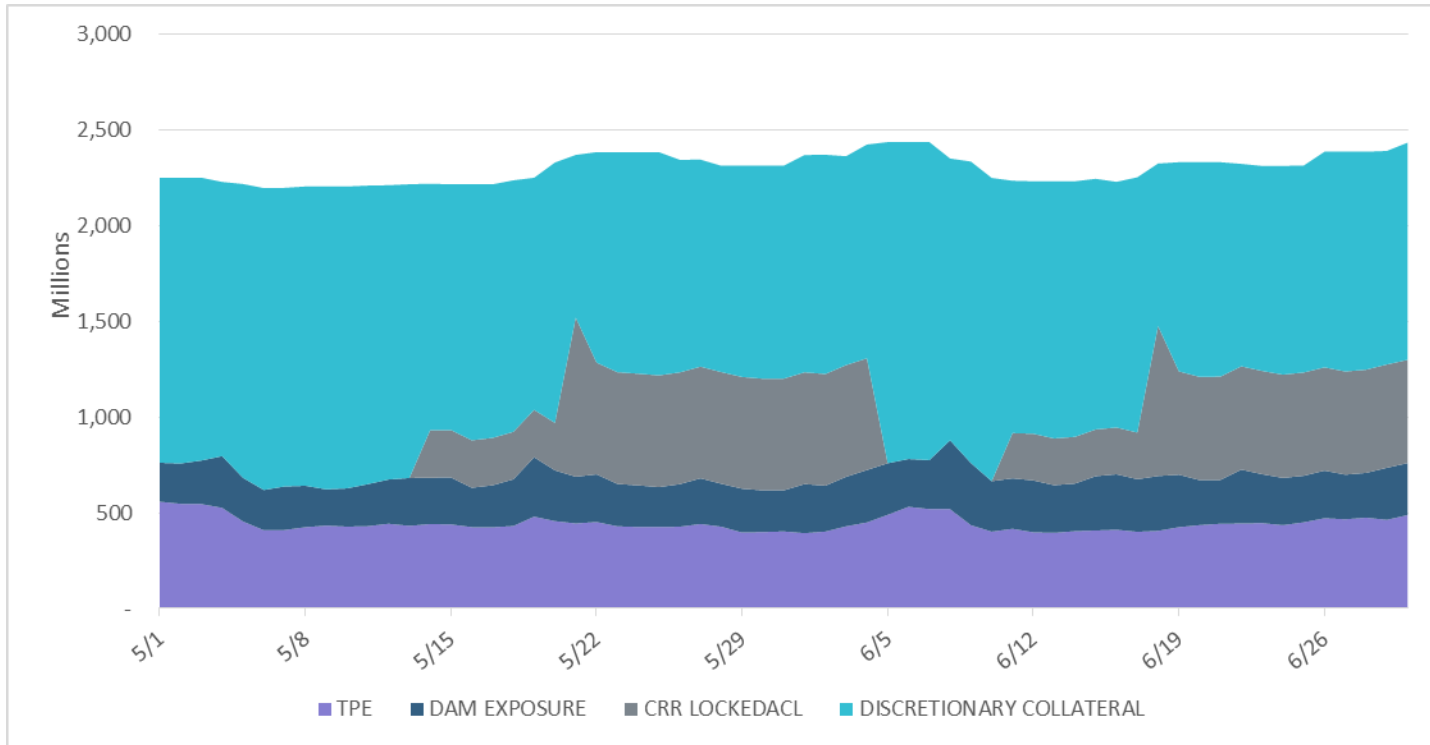


*Numbers are as of month end except for Max TPE



Discretionary Collateral May 2020- Jun 2020

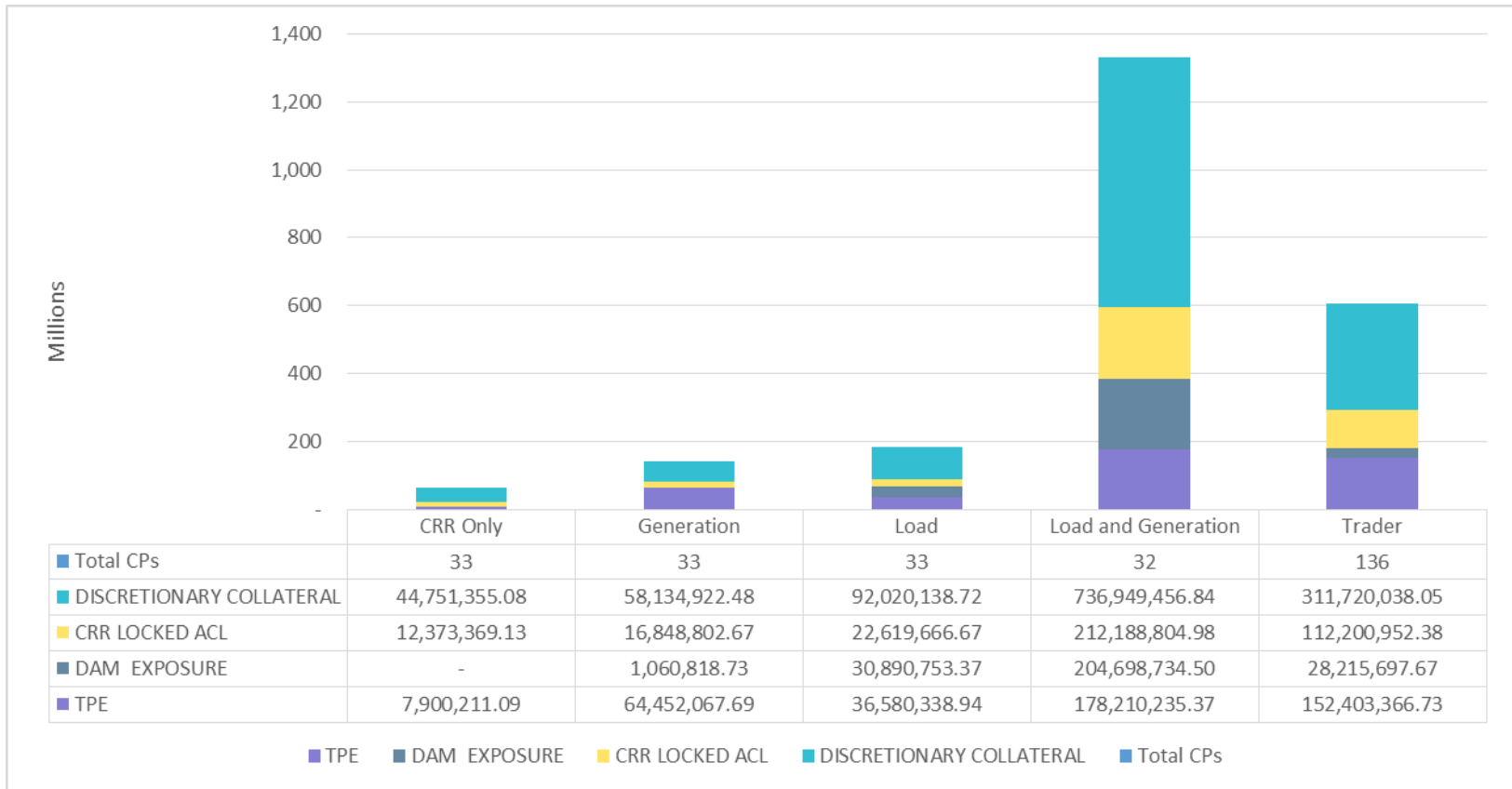
At a Counter-Party level, no unusual changes were noted



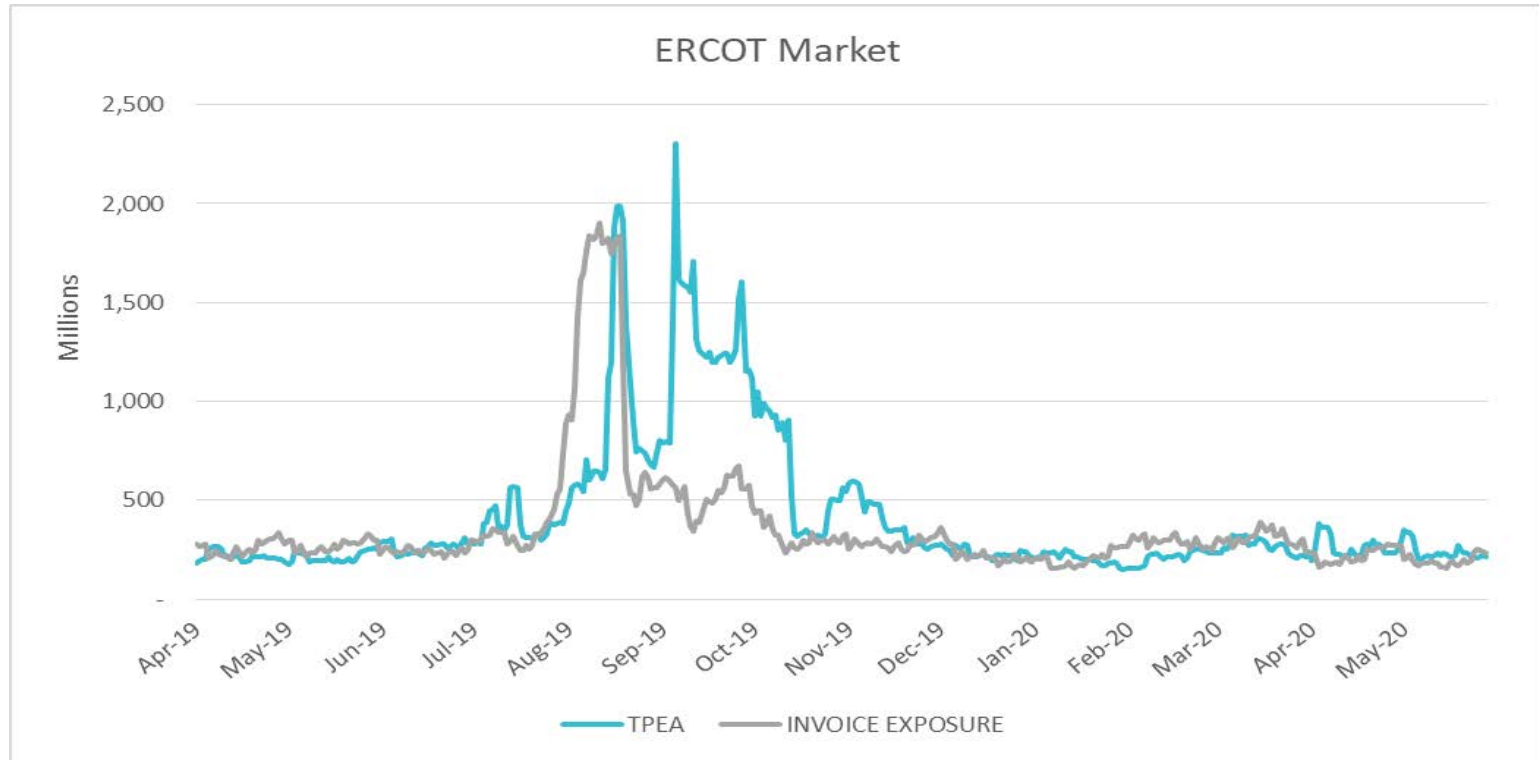
Note: Discretionary collateral doesn't include Unsecured Credit Limit or parent guarantees

TPE and Discretionary Collateral by Market Segment- Jun 2020

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

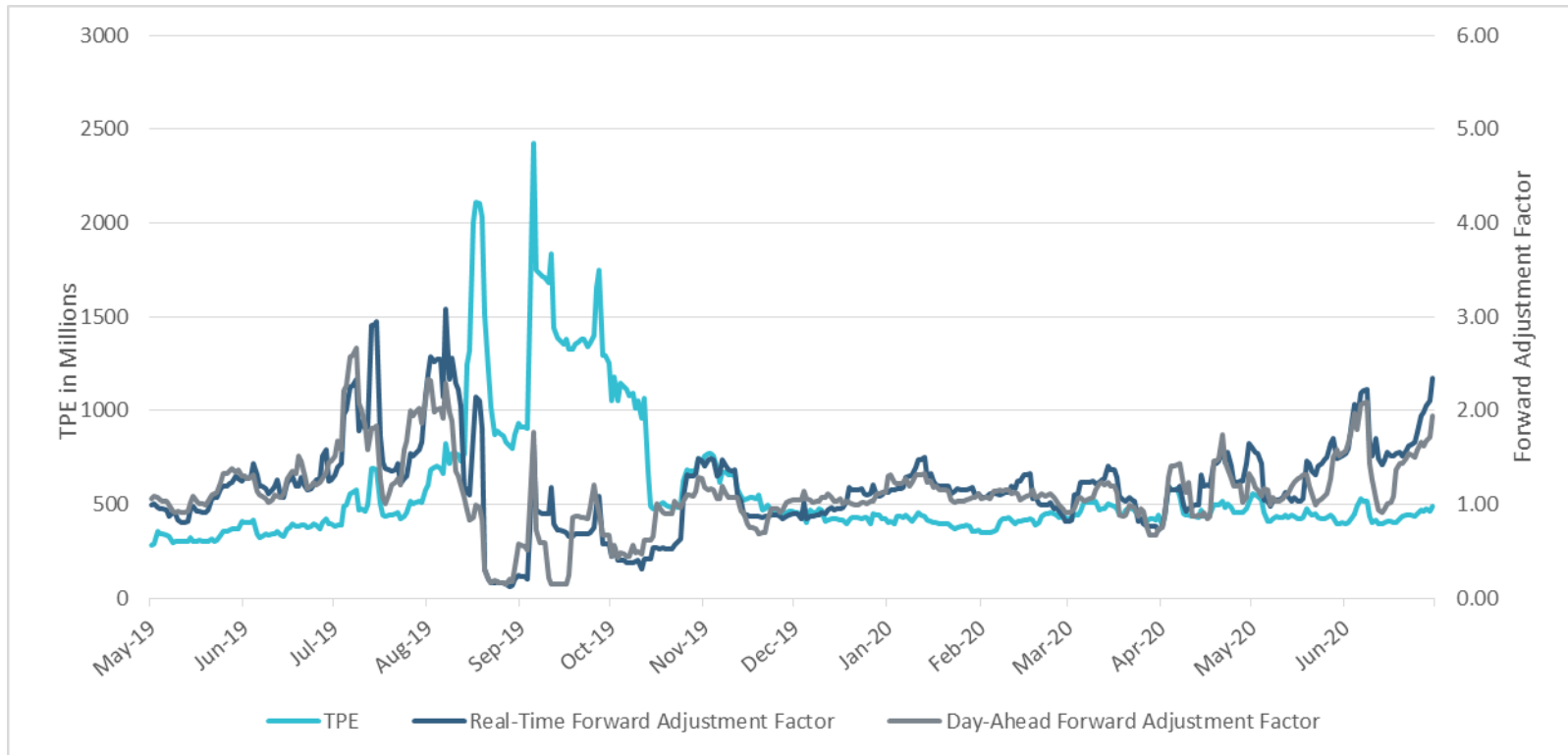


TPE coverage of settlements Apr 2019-May 2020



TPEA closely approximates actual/invoice exposure during winter and shoulder months

TPE and Forward Adjustment Factors May 2019- Jun 2020



Summary of Distribution by Rating Group

Summary of distribution by Rating Group									
Rating Group	Counter-Party Distribution			Average TPE Distribution			Average Excess Collateral		
	May-20	Jun-20	Change	May-20	Jun-20	Change	May-20	Jun-20	Change
AAA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
AA- to AA+	2.67%	3.75%	1.07%	3.00%	1.96%	-1.04%	11.59%	2.00%	-9.59%
A- to A+	6.11%	7.12%	1.01%	13.63%	5.88%	-7.74%	11.68%	19.58%	7.91%
BBB- to BBB+	11.83%	12.73%	0.90%	29.60%	31.82%	2.21%	29.18%	35.89%	6.71%
Investment Grade	20.61%	23.60%	2.98%	46.23%	39.66%	-6.57%	52.45%	57.47%	5.03%
BB- to BB+	4.20%	4.49%	0.30%	2.29%	26.24%	23.95%	4.36%	14.46%	10.10%
B- to B+	1.91%	1.87%	-0.04%	10.87%	1.11%	-9.75%	3.57%	1.61%	-1.96%
CCC+ and below	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Not Rated	73.28%	70.04%	-3.24%	40.61%	32.98%	-7.63%	39.63%	26.46%	-13.17%
Non-investment Grade	79.39%	76.40%	-2.98%	53.77%	60.34%	6.57%	47.55%	42.53%	-5.03%

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+	1,672,836	0	0	6,951,061	0	8,623,898	1.96%
A- to A+	697	14,609	9,926,315	12,686,764	3,236,537	25,864,921	5.88%
BBB- to BBB+	901,366	2,918,374	2,355,161	83,769,327	49,901,960	139,846,188	31.82%
Investment Grade	2,574,899	2,932,983	12,281,476	103,407,152	53,138,497	174,335,006	39.66%
BB- to BB+	0	18,940,224	6,082,322	51,610,685	38,719,982	115,353,213	26.24%
B- to B+	0	0	0	4,006,280	889,755	4,896,035	1.11%
CCC+ and below	0	0	0	0	0	0	0.00%
Not Rated	5,325,312	42,578,862	18,216,540	19,186,118	59,655,133	144,961,965	32.98%
Non-Investment Grade	5,325,312	61,519,085	24,298,863	74,803,083	99,264,870	265,211,213	60.34%
Total TPE	7,900,211	64,452,068	36,580,339	178,210,235	152,403,367	439,546,220	100.00%
Percent TPE	1.80%	14.66%	8.32%	40.54%	34.67%	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+	4,769,255	0	0	43,349,811	0	48,119,066	2.00%
A- to A+	118,047	4,259,900	58,824,202	342,790,666	65,763,484	471,756,300	19.58%
BBB- to BBB+	22,853,689	25,112,919	64,825,406	558,721,995	193,216,559	864,730,568	35.89%
Investment Grade	27,740,990	29,372,819	123,649,608	944,862,472	258,980,043	1,384,605,934	57.47%
BB- to BB+	0	47,409,884	43,974,468	230,516,897	26,382,933	348,284,182	14.46%
B- to B+	0	844,043	0	35,438,144	2,435,867	38,718,055	1.61%
CCC+ and below	0	0	0	0	0	0	0.00%
Not Rated	32,424,234	19,684,464	59,661,483	162,018,564	363,665,515	637,454,260	26.46%
Non-Investment Grade	32,424,234	67,938,391	103,635,950	427,973,605	392,484,316	1,024,456,496	42.53%
Total Excess Collateral	60,165,224	97,311,211	227,285,559	1,372,836,077	651,464,359	2,409,062,430	100.00%
Percent Excess Collateral	2.50%	4.04%	9.43%	56.99%	27.04%	100.00%	

Note: Excess collateral doesn't include Unsecured Credit Limit



Questions?