



Item 5: Periodic Report on Credit Work Group Activity

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Chair, Credit Work Group

Urgent Finance & Audit Committee Meeting

December 7, 2020

ERCOT Public

Reviewed NPRRs

- **Total NPRRs Reviewed**
 - 18 (Excluding RTC NPRRs)
- **NPRRs Reviewed With Credit Impact**
 - None



CWG Discussion Items

CWG Discussion Items

- Real-Time Co-Optimization NPRRs
 - CWG reviewed the bundle of RTC NPRRs (1007-1013) and acknowledges there are changes to credit risk and credit calculations within the RTC Protocols. After CWG review, the group agreed the primary areas of change have been properly identified and addressed in the Protocol changes.
 - The CWG submitted comments on NPRR 1007 which address all of the changes associated with the implementation of RTC. The group determined that the implementation of the RTC process allows for more precise application of credit liability.

CWG Discussion Items

- Proposed Credit Policy Revisions
 - ERCOT and the CWG have been working to draft an NPRR to implement changes to the Credit Protocols to improve ERCOT's processes for identifying and managing credit risk. There are two primary focuses of these changes:
 - Improvements to market entry qualification and continued participation procedures and,
 - Changes to the credit risk assessment methodology.

CWG Discussion Items

- Market Entry Qualifications and Continued Participation Highlights
 - Implementation of a background check process
 - Conducted on all new QSE or CRRRAH applicants
 - ERCOT may require an existing QSE or CRRRAH to undergo a new background check if they deem that a material change has occurred with regards to the ownership structure, or if there has been a material adverse change in the financial condition of the QSE or CRRRAH
 - Clarifies the process and timing for the approval or rejection of an application for a new QSE or CRRRAH
 - Allows ERCOT to determine if a QSE or CRRRAH poses an “unreasonable credit risk,” which is grounds for ERCOT to deny an application or suspend an existing Market Participant
 - Examples of evidence of “unreasonable credit risk” may include:
 - Past market manipulation activity
 - Financial defaults in ERCOT or other energy markets
 - Evidence of imminent bankruptcy or insolvency

CWG Discussion Items

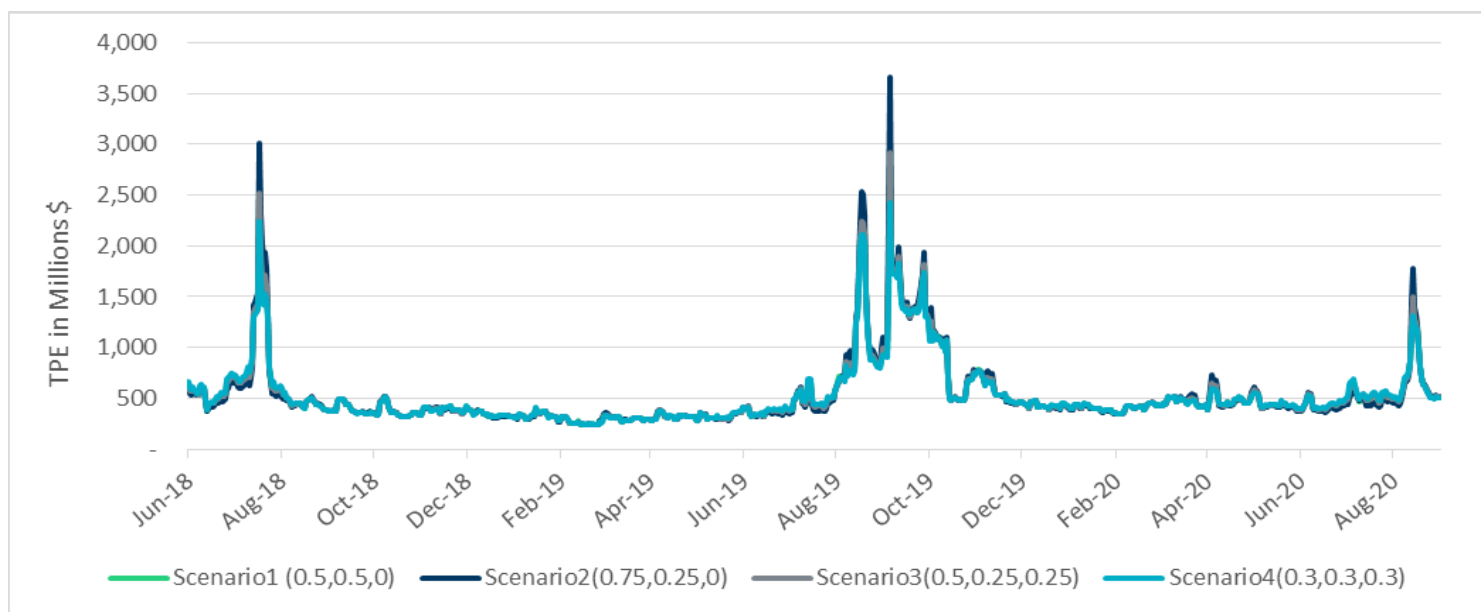
- Credit Risk Assessment Highlights
 - Provides a framework for a new process for ERCOT to assess Counter-Party creditworthiness
 - Includes a new quantitative scoring model being developed by ERCOT staff
 - Also includes a qualitative assessment of the Counter-Party based on information obtained from the Counter-Party including, but not limited to, information obtained from the Counter-Party's financial statements, publicly available information, or information obtained during the background check process
 - If ERCOT determines, in its sole reasonable discretion, that a Counter-Party's credit risk is not appropriately reflected in that Counter-Party's approved Unsecured Credit Limit and/or their calculated Total Potential Exposure (TPE) then ERCOT may
 - Revise the Counter-Party's Unsecured Credit Limit
 - Revise the Counter-Party's TPE
 - Provides a process for a Counter-Party to request an updated qualitative review if new information becomes available

CWG Discussion Items

- Forward Adjustment Factors
 - The CWG reviewed the potential impact of different weighting methodologies used to calculate the forward adjustment factors to determine the potential changes in TPE.
 - Those changes were compared to actual exposures from 2019 and 2020 to determine if changes were warranted.
 - Based on this review the CWG does not recommend a change to the weightings at this time. The CWG will continue to review these weightings on an annual basis as more data becomes available.

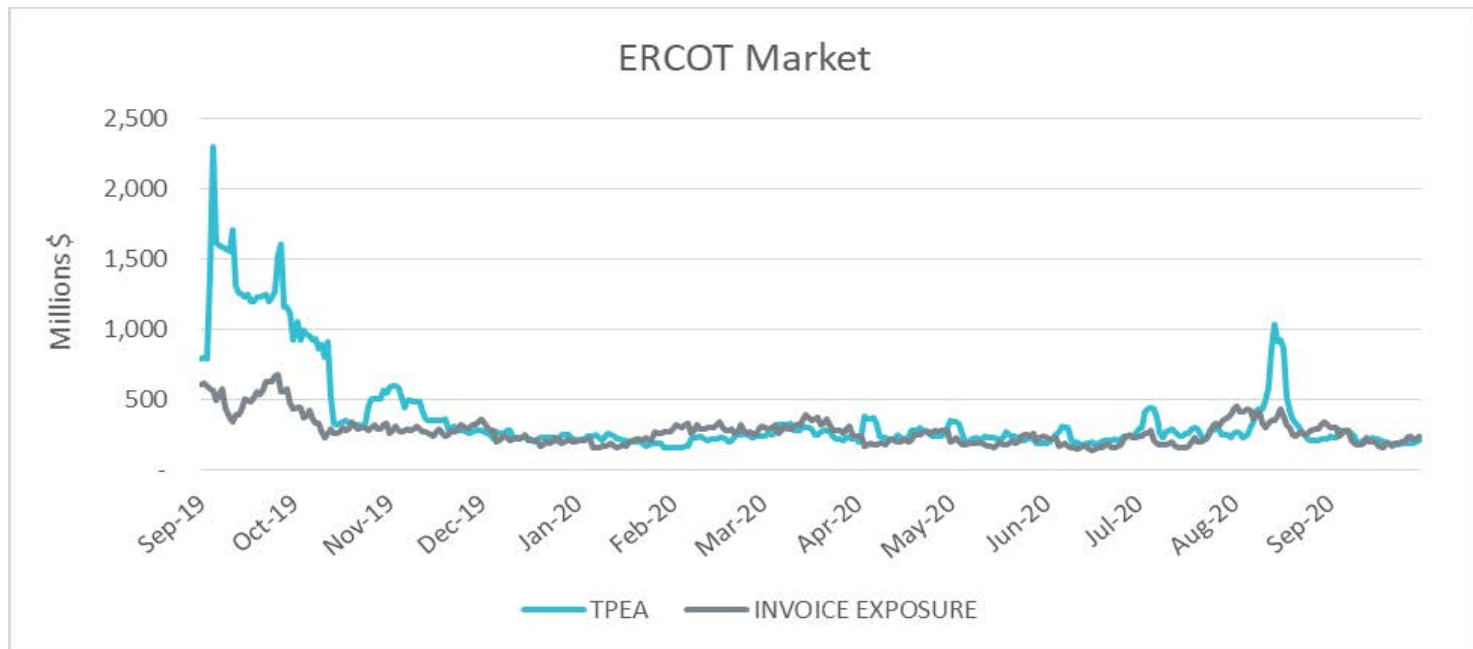
CWG Discussion Items

- Forward Adjustment Factors
 - Total Potential Exposure (TPE) under different scenarios



CWG Discussion Items

- Forward Adjustment Factors
 - TPE Coverage of Settlements Sep 2019 – Sep 2020



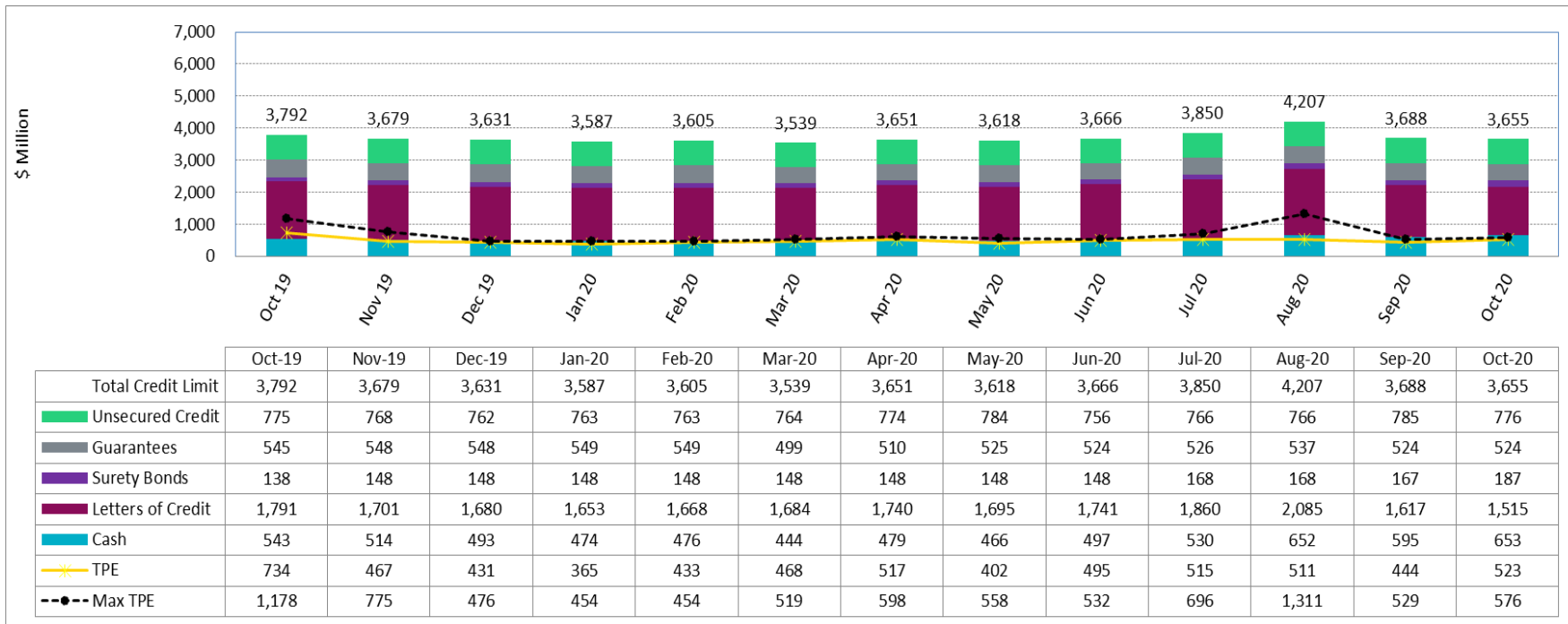


ERCOT Credit Highlights and Statistics

Monthly Highlights Sep 2020 - Oct 2020

- Market-wide average TPE increased from \$ 459.24 million to \$ 470.84 million
 - TPE increased mainly due to higher Real-Time and Day-Ahead Settlement Point prices as well as higher Forward Adjustment Factors in October compared to September
- Discretionary Collateral is defined as Secured Collateral in excess of TPE, CRR Locked ACL and DAM Exposure
 - Average Discretionary Collateral decreased from \$ 1,552.7 million to \$1,276.6 million
 - The decrease in Discretionary Collateral is largely due to decrease in Secured Collateral.
- Number of active Counter-Parties increased by 2
- No unusual collateral call activity

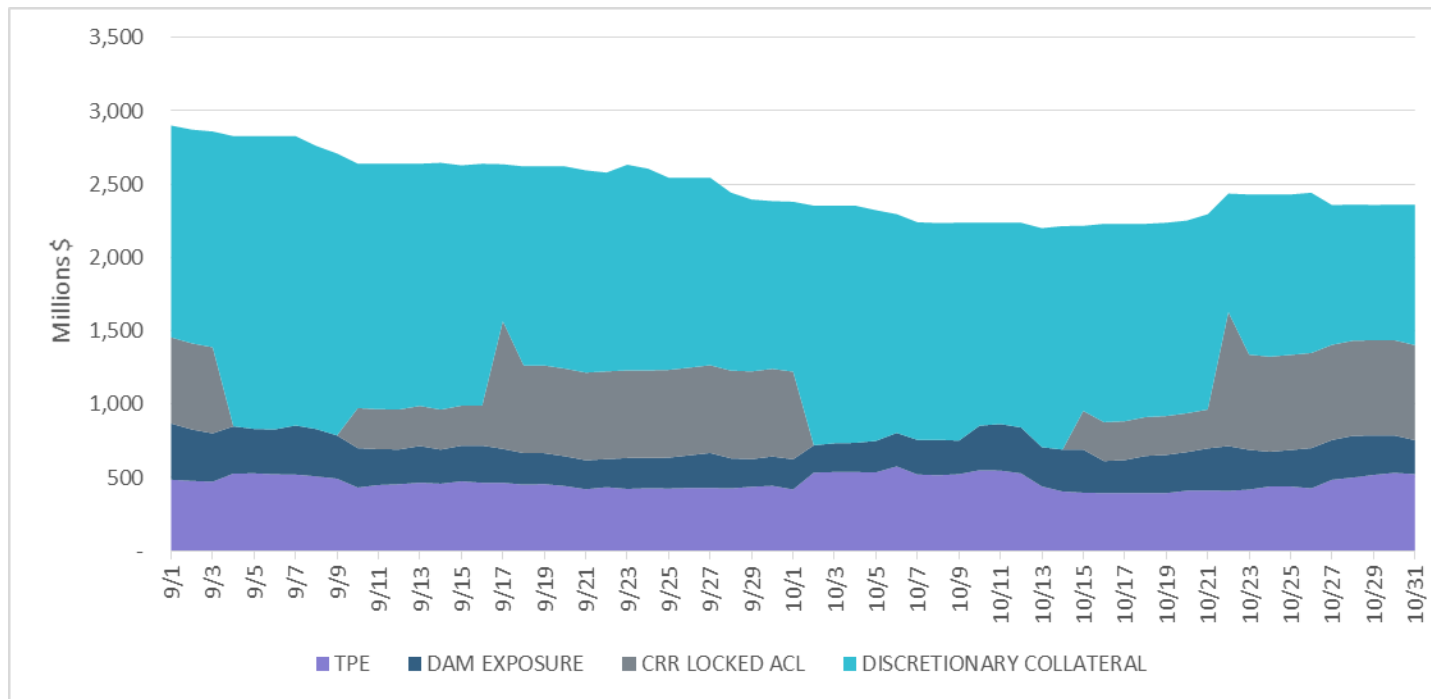
Available Credit by Type Compared to Total Potential Exposure (TPE)



* Numbers are as of month-end except for Max TPE

Discretionary Collateral Sep 2020 - Oct 2020

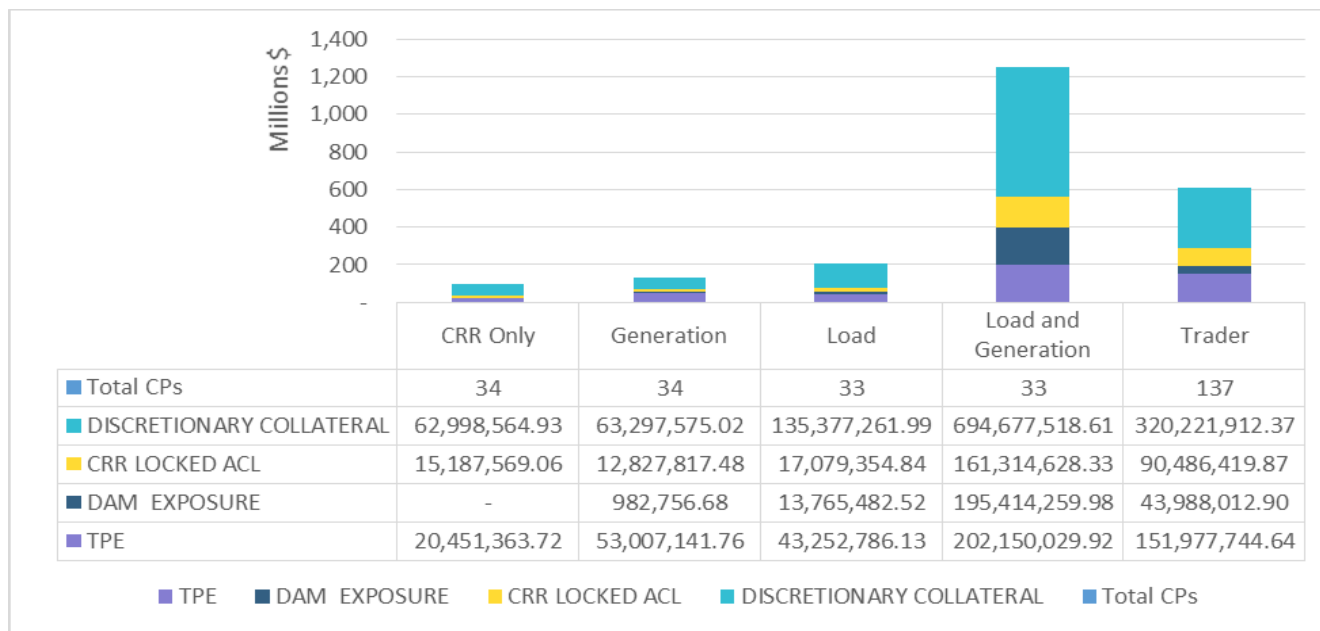
At a Counter-Party level, no unusual changes were noted



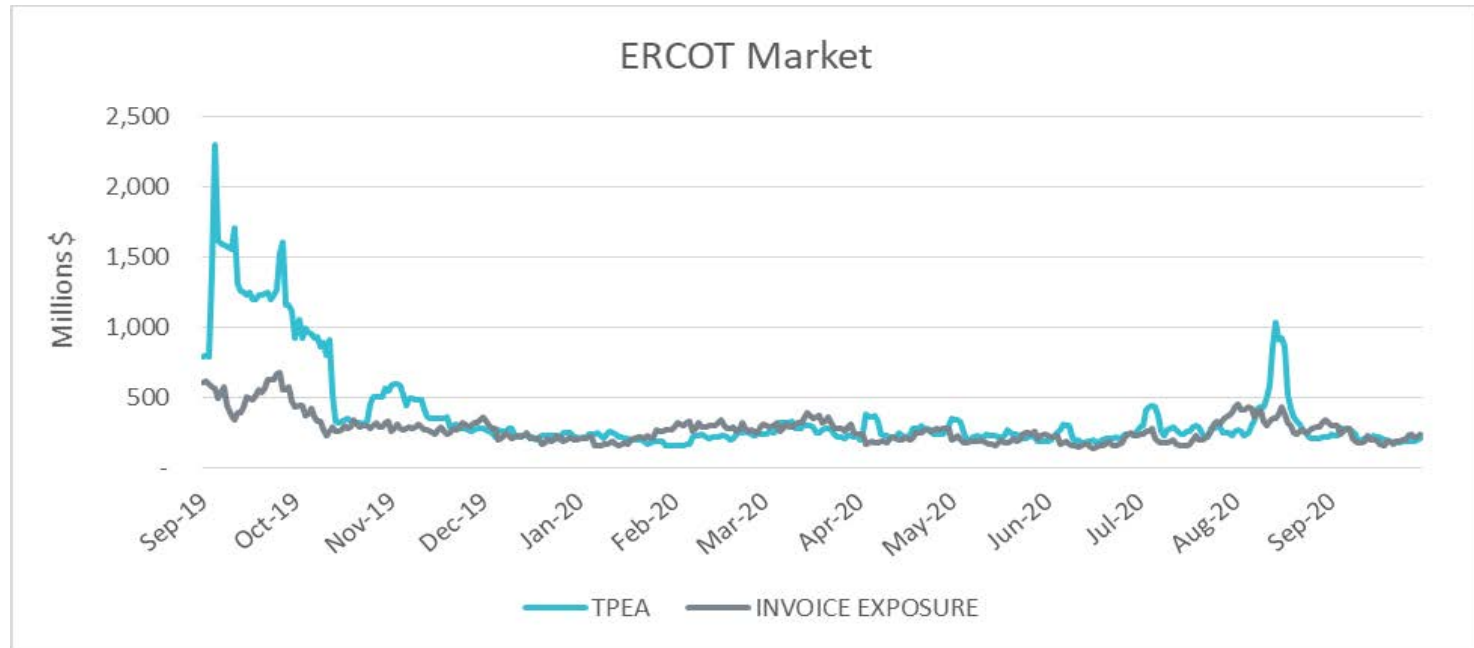
Note: Discretionary collateral does not include Unsecured Credit Limit or parent guarantees

TPE and Discretionary Collateral by Market Segment- Oct 2020

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



TPE Coverage of Settlements Sep 2019 - Sep 2020



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

Summary of Distribution by Rating Group

Rating Group	Counter-Party Distribution			Average TPE Distribution			Average Excess Collateral Distribution		
	Sep-20	Oct-20	Change	Sep-20	Oct-20	Change	Sep-20	Oct-20	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%	-0.03%	2.0%	3.2%	1.20%	2.1%	1.9%	-0.18%
A- to A+	6.7%	6.6%	-0.05%	4.8%	5.6%	0.76%	11.6%	11.0%	-0.57%
BBB- to BBB+	13.0%	12.9%	-0.10%	28.0%	26.7%	-1.32%	36.1%	34.1%	-1.99%
BB- to BB+	4.5%	4.4%	-0.03%	24.9%	25.0%	0.18%	14.8%	13.7%	-1.12%
B- to B+	1.1%	1.1%	-0.01%	2.1%	1.8%	-0.27%	1.7%	1.2%	-0.49%
CCC+ and below	0.0%	0.0%	0.00%	0.0%	0.0%	0.00%	0.0%	0.0%	0.00%
Not Rated	70.3%	70.5%	0.22%	38.3%	37.7%	-0.54%	33.8%	38.1%	4.35%
Investment Grade	24.16%	23.99%	-0.18%	34.80%	35.44%	0.63%	49.74%	47.00%	-2.74%
Non-investment Grade	75.84%	76.01%	0.18%	65.20%	64.56%	-0.63%	50.26%	53.00%	2.74%

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+	673,465	0	0	14,174,301	40,500	14,888,266	3.16%
A- to A+	1,678	10,499	9,310,077	10,909,777	6,079,748	26,311,779	5.59%
BBB- to BBB+	1,751,493	8,543,447	6,478,975	61,884,402	46,984,538	125,642,855	26.68%
Investment Grade	2,426,636	8,553,946	15,789,052	86,968,480	53,104,786	166,842,901	35.44%
BB- to BB+	0	39,518,940	5,778,820	47,705,102	24,921,317	117,924,179	25.05%
B- to B+	0	0	0	4,592,673	3,816,487	8,409,160	1.79%
CCC+ and below	0	0	0	0	0	0	0.00%
Not Rated	18,024,727	4,934,255	21,684,914	62,883,774	70,135,156	177,662,827	37.73%
Non-Investment Grade	18,024,727	44,453,196	27,463,734	115,181,549	98,872,959	303,996,165	64.56%
Total TPE	20,451,364	53,007,142	43,252,786	202,150,030	151,977,745	470,839,066	100.00%
Percent TPE	4.34%	11.26%	9.19%	42.93%	32.28%	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+	6,588,113	0	0	35,940,434	1,959,544	44,488,091	1.89%
A- to A+	111,596	4,118,695	59,598,116	127,694,576	67,022,238	258,545,221	11.00%
BBB- to BBB+	21,182,374	30,342,611	87,702,623	465,716,542	196,547,198	801,491,348	34.10%
Investment Grade	27,882,082	34,461,306	147,300,739	629,351,552	265,528,980	1,104,524,660	47.00%
BB- to BB+	0	53,432,112	43,849,317	199,799,901	25,022,357	322,103,688	13.71%
B- to B+	0	0	0	22,526,351	4,880,290	27,406,641	1.17%
CCC+ and below	0	0	0	0	0	0	0.00%
Not Rated	53,050,685	9,414,751	58,827,043	416,727,683	358,090,493	896,110,655	38.13%
Non-Investment Grade	53,050,685	62,846,864	102,676,360	639,053,936	387,993,140	1,245,620,985	53.00%
Total Excess Collateral	80,932,767	97,308,170	249,977,099	1,268,405,488	653,522,120	2,350,145,644	100.00%
Percent Excess Collateral	3.44%	4.14%	10.64%	53.97%	27.81%	100.00%	

Note: Excess collateral does not include Unsecured Credit Limit

Questions?