



Item 6: Periodic Report on Credit Work Group Activity

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Chair, Credit Work Group

Urgent Finance & Audit Committee Meeting

ERCOT Public

June 7, 2021

Reviewed NPRRs

- **Total NPRRs Reviewed**

- 7

NPRRs Reviewed With Credit Impact

NPRR1073, Market Participant Application Changes. This Nodal Protocol Revision Request (NPRR) strengthens ERCOT’s market entry qualification for ERCOT Counter-Parties i.e., Qualified Scheduling Entities (QSEs) and Congestion Revenue Right Account Holders (CRRAHs), classifies information provided in the background check and credit scoring process as Protected Information, modifies application forms for QSEs and CRRAHs, and adds a new background check fee to the Fee Schedule. This NPRR makes the following modifications to Section 16: (1) Creates a new background check process as a part of ERCOT’s review of current and prospective Counter-Parties; (2) Authorizes ERCOT to review current and prospective Counter-Parties to determine whether they pose an unreasonable credit risk to ERCOT; (3) Authorizes ERCOT to suspend a QSE or CRR Account Holder if it poses an unreasonable credit risk to; and (4) Authorizes ERCOT to terminate the registration of a Counter-Party if it is deemed an unreasonable credit risk that cannot be remedied. Further, this NPRR formalizes processes for ERCOT’s assessment of Counter-Party creditworthiness.

1074NPRR “mp” Definition Revision. This Nodal Protocol Revision Request (NPRR) changes the definition of “mp” in the credit default allocation calculations by changing “non-defaulting” to “existing”.



CWG Discussion Items

Review of Default Uplifts – current protocols

- Protocol Section 16.11.4.1 defines Potential Uplift (PUL) as:
Potential uplift to the Counter-Party, to the extent and in the proportion that the Counter-Party represents Entities to which an uplift of a short payment will be made pursuant to Section 9.19, Partial Payments by Invoice Recipients. It is calculated as the sum of:
 - (a) Amounts expected to be uplifted within one year of the date of the calculation; and
 - (b) 25%, or such other percentage based on available statistics regarding payment default under bankruptcy reorganization plans, of any short payment amounts being repaid to ERCOT under a bankruptcy reorganization plan that are due more than one year from the date of the calculation.
- ERCOT adjusted the PUL component of TPE after Counter-Party share reports are posted on April 26th.
- The PUL adjustment will be for one year of Counter-Party expected uplift ($\$30m * \text{activity share ratio}$).
- In addition, ERCOT will adjust TPE for voluntarily terminating Market Participants with their total accrued Default Uplift obligation.
- ERCOT does not expect to issue Default Uplift Invoices any sooner than the scheduled end of the legislative session on May 31, 2021.
- MPs are concerned about the ambiguity of part b, NPRR drafted and it is being proposed for urgent status.

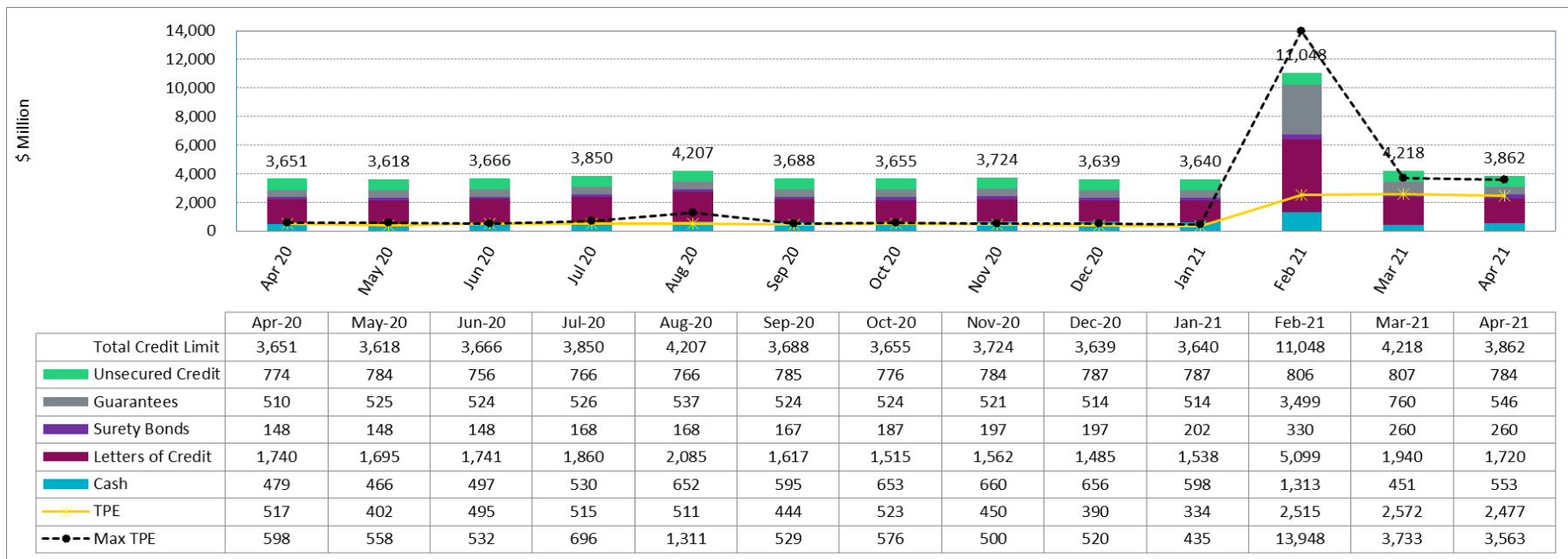


ERCOT Credit Highlights and Statistics

Monthly Highlights Mar 2021 - Apr 2021

- Market-wide average TPE decreased from \$ 716.6 million in March to \$ 550.8 million in April
 - TPE decreased mainly due to RTLE and URTA from high price days rolling off of MAXRTLE and MAXURTA
- Discretionary Collateral is defined as Secured Collateral in excess of TPE, CRR Locked ACL and DAM Exposure
 - Average Discretionary Collateral decreased from \$2,091.7 million to \$1,508.7 million
 - The decrease in Discretionary Collateral is largely due to decrease in Secured Collateral.
- Short pay entities are excluded from the above calculations to remove data skew

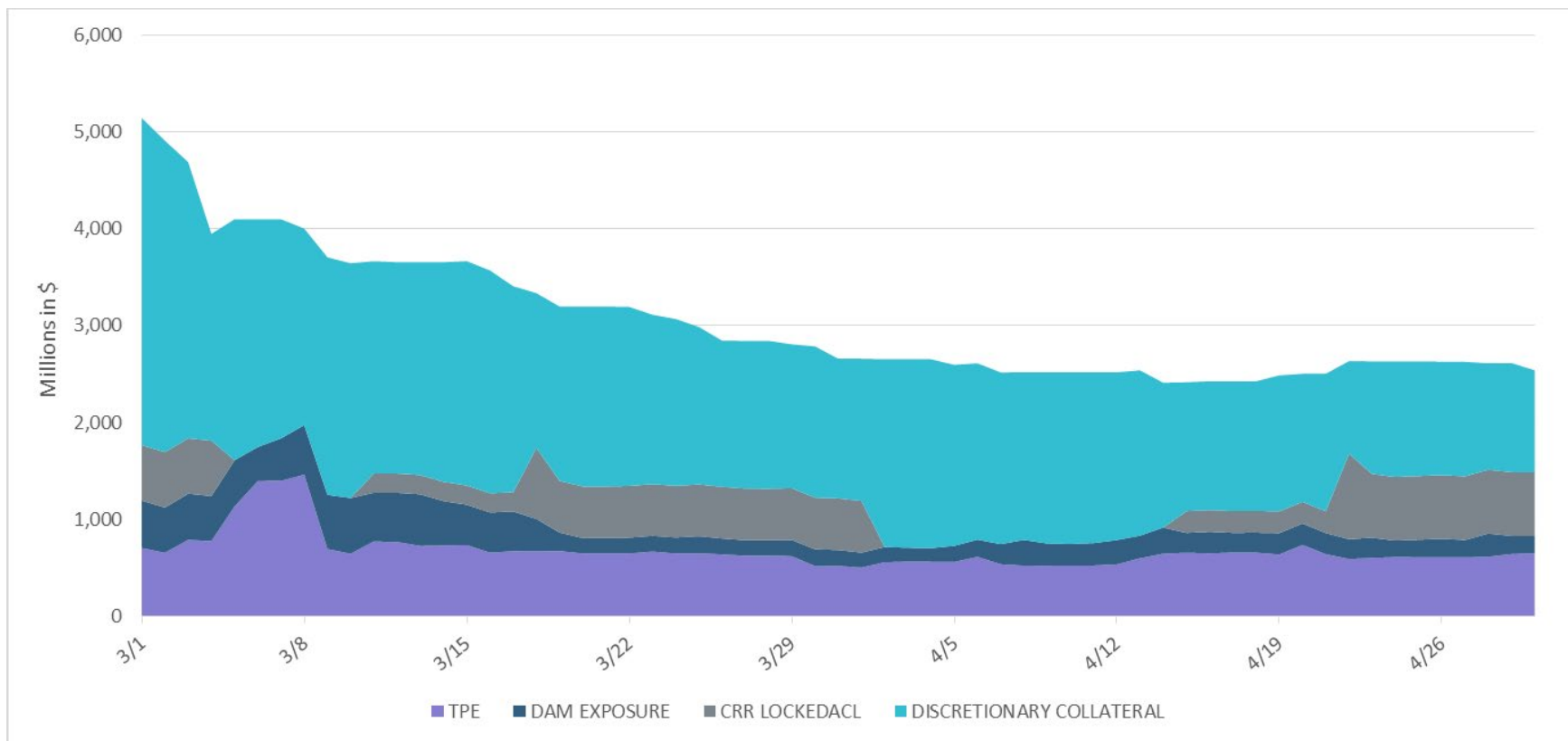
Available Credit by Type Compared to Total Potential Exposure (TPE)



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



Discretionary Collateral Mar 2021 - Apr 2021



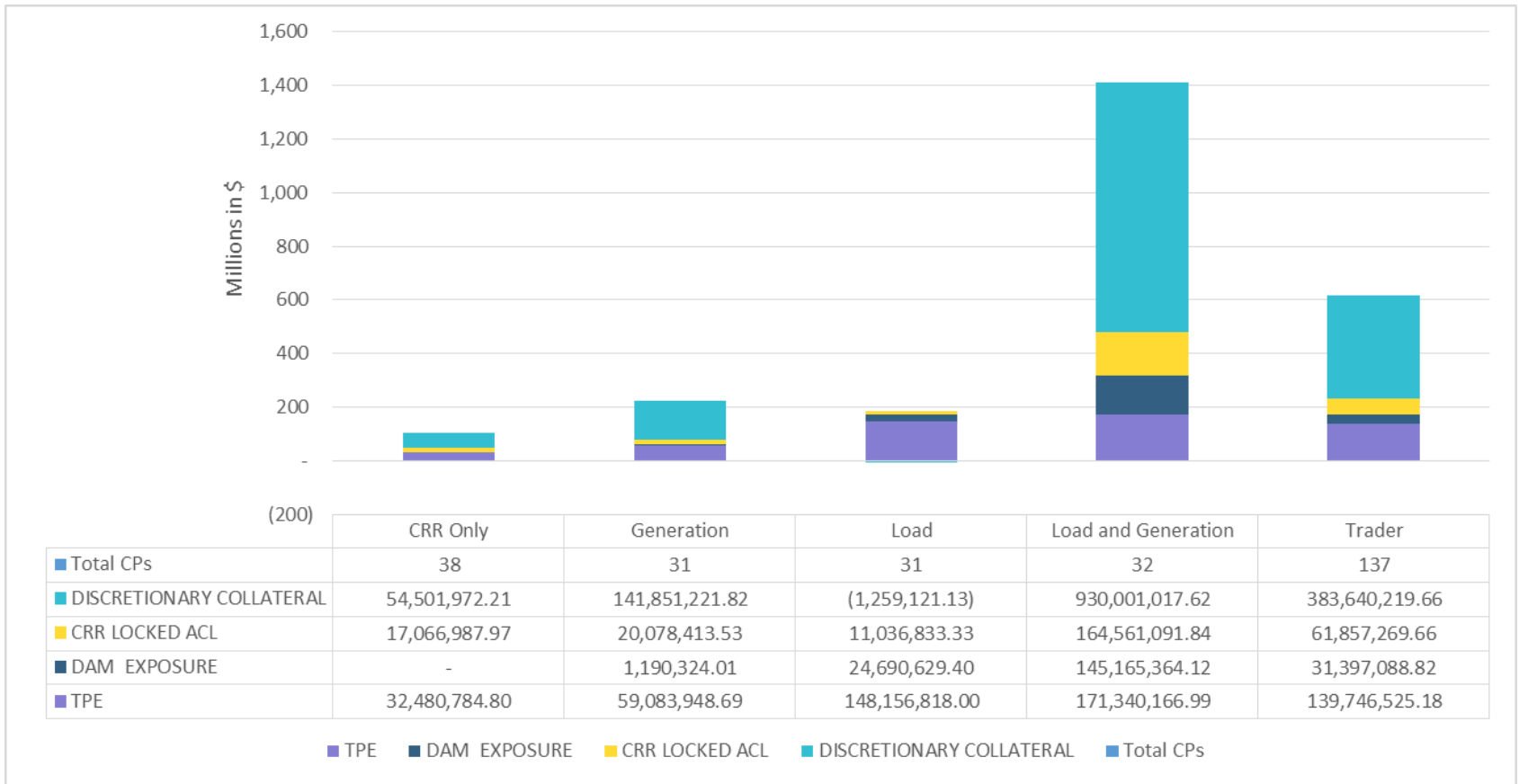
*Discretionary collateral doesn't include Unsecured Credit Limit or parent guarantees

*Short pay entities are excluded from the above calculations to remove data skew



TPE and Discretionary Collateral by Market Segment- Apr 2021*

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

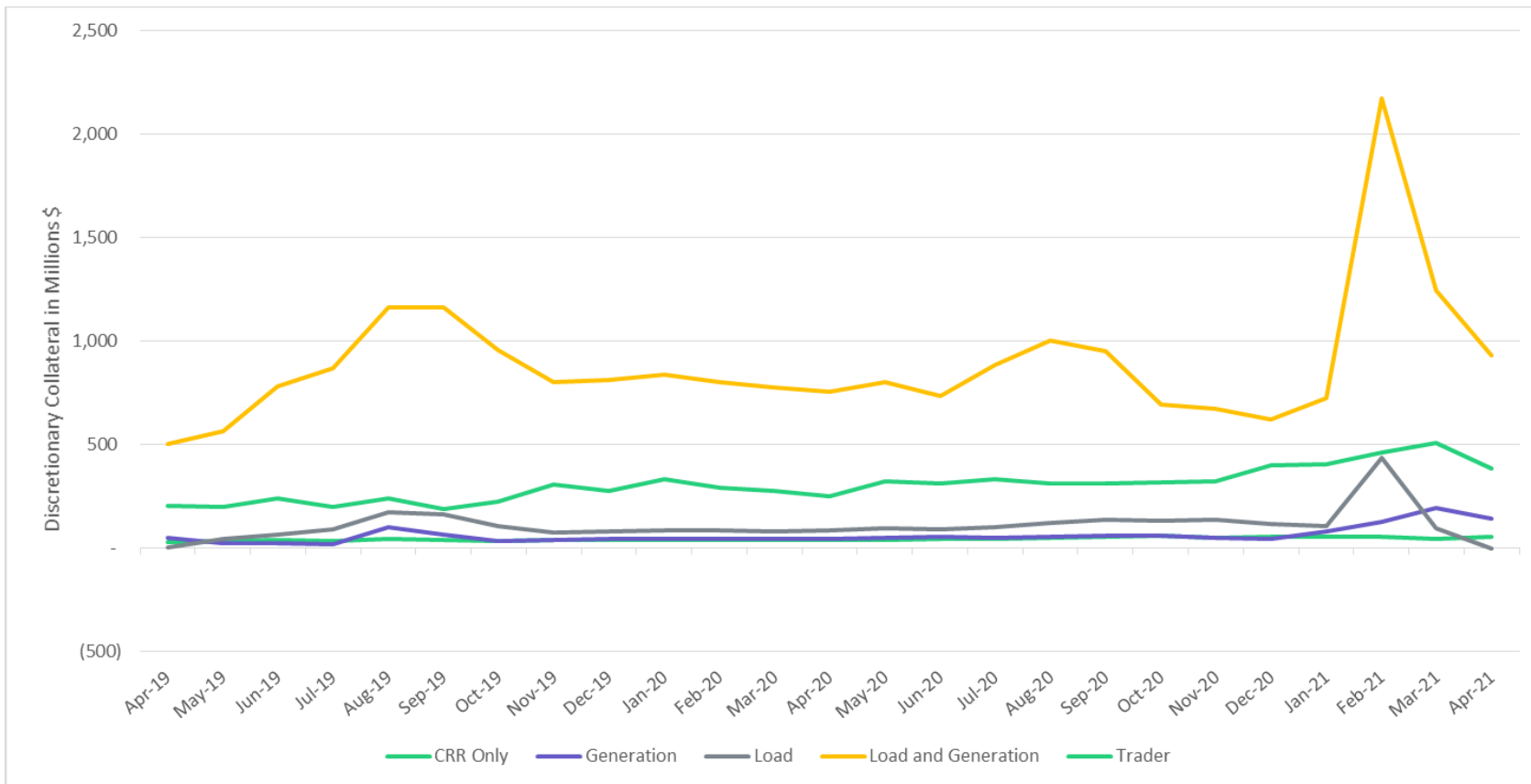


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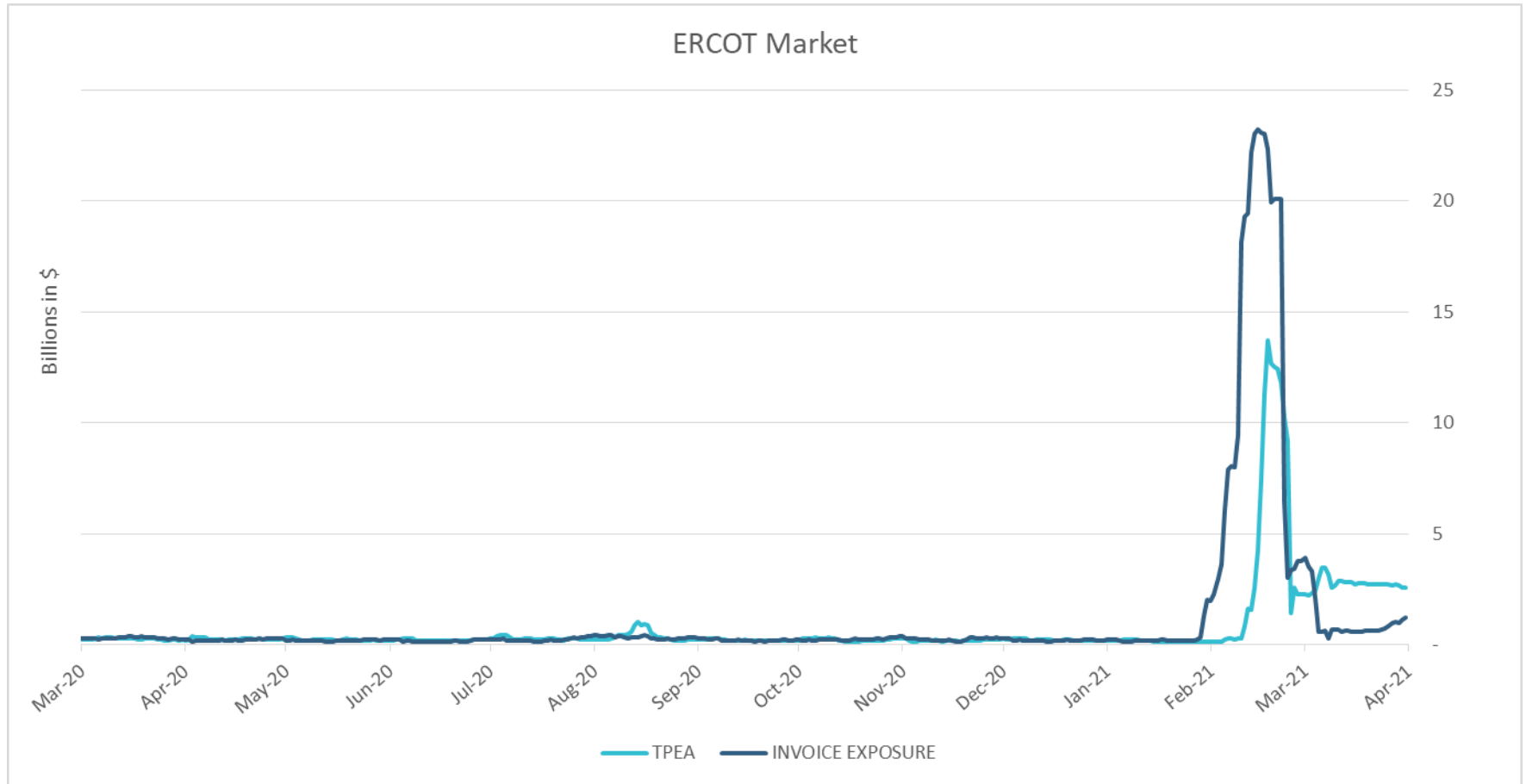
Discretionary Collateral by Market Segment Apr 2019 - Apr 2021



*Short pay entities are excluded from the above calculations from March 2021 to remove data skew



TPE Coverage of Settlements Mar 2020 – Mar 2021



TPEA closely approximates actual/invoice exposure except during weather event – see next two slides for Credit adjustments during Winter Storm Uri.

Adjustments to Total Potential Exposure (TPE)

Parameter/ Adjustment	Description	Protocol Value	Adjusted Value	Effective Date	Expiration Date	Changed to Protocol value
DWF1, RWF1	Weight Factor for forward week1	0.33	0.1	2/13/2021	2/28/2021	3/1/2021
DWF2, RWF2	Weight Factor for forward week2	0.33	0.45	2/13/2021	2/28/2021	3/1/2021
DWF3, RWF3	Weight Factor for forward week 3	0.33	0.45	2/13/2021	2/28/2021	3/1/2021
rtlf%	Real-Time Liability Forward Percentage used in RTLF	150%	100%	2/13/2021	2/18/2021	2/27/2021
		150%	37.5%	2/19/2021	2/26/2021	
rtlcu%	Real-Time Liability Markup used in RTLCNS calculations	110%	100%	2/19/2021	2/28/2021	3/1/2021
M1d	Bank Business Days forward used in M1 calculations	8	4	2/19/2021	2/28/2021	3/1/2021
MaxURTAQ	Max URTA during previous 40 days			2/24/2021	4/19/2021	
MaxURTAT	Max URTA during previous 20 days			2/24/2021	3/29/2021	
MaxRTLEQ	Max RTLE during previous 40 days			2/27/2021	4/19/2021	
MaxRTLET	Max RTLE during previous 20 days			2/27/2021	3/29/2021	
TPEA	Total Potential Exposure Any		85%	2/14/2021	4/19/2021	
TPES	Total Potential Exposure Secure		85%	2/14/2021	4/19/2021	

All TPE adjustments ended on or before April 20th.



Adjustments to Total Potential Exposure (TPE)

Excluded calculated RTLE and URTA (2/19 to 3/10) in MaxRTLE and MaxURTA look back calculations MaxURTA

- MaxRTLET
- MaxRTLEQ
- MaxURTAT
- MaxURTAQ

ERCOT accepted Financial Security until 8:30 am CPT on Tuesday, February 16, 2021, for the Day Ahead Market for Operating Day February 17, 2021

“e” Factors were last re-set on 2/9. Once the high prices roll out of the calculation, “e” Factors will be reset on 4/6/21.

All TPE adjustments ended on or before April 20th.

Summary of Distribution by Rating Group*

Rating Group	Counter-Party Distribution			Average TPE Distribution			Average Excess Collateral Distribution		
	Mar-21	Apr-21	Change	Mar-21	Apr-21	Change	Mar-21	Apr-21	Change
AAA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
AA- to AA+	4.46%	4.46%	0.00%	1.22%	1.21%	-0.01%	1.20%	1.76%	0.56%
A- to A+	6.32%	6.32%	0.00%	3.28%	5.09%	1.80%	9.59%	15.98%	6.39%
BBB- to BBB+	13.01%	13.38%	0.37%	20.57%	22.83%	2.25%	55.78%	43.91%	-11.87%
Investment Grade	23.79%	24.16%	0.37%	25.08%	29.13%	4.05%	66.57%	61.65%	-4.92%
BB- to BB+	4.09%	4.09%	0.00%	32.48%	25.00%	-7.49%	17.00%	12.73%	-4.27%
B- to B+	1.12%	1.12%	0.00%	1.48%	1.89%	0.41%	0.95%	1.89%	0.94%
CCC+ and below	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Not Rated	71.00%	70.63%	-0.37%	40.95%	43.98%	3.03%	15.48%	23.73%	8.24%
Non-investment Grade	76.21%	75.84%	-0.37%	74.92%	70.87%	-4.05%	33.43%	38.35%	4.92%

*Short pay entities are excluded from the above calculations to remove data skew

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+	1,469,561	0	0	5,177,911	38,509	6,685,981	1.21%
A- to A+	27,070	4,854	9,561,684	15,212,722	3,227,601	28,033,932	5.09%
BBB- to BBB+	2,135,246	8,187,524	7,354,217	70,971,860	37,089,056	125,737,903	22.83%
Investment Grade	3,631,877	8,192,378	16,915,902	91,362,492	40,355,167	160,457,815	29.13%
BB- to BB+	0	45,288,140	1,814,306	54,817,865	35,757,870	137,678,181	25.00%
B- to B+	0	0	0	4,192,588	6,206,927	10,399,515	1.89%
CCC+ and below	0	0	0	0	0	0	0.00%
Not Rated	28,848,908	5,603,431	129,426,610	20,967,222	57,426,561	242,272,732	43.98%
Non-Investment Grade	28,848,908	50,891,571	131,240,916	79,977,675	99,391,358	390,350,428	70.87%
Total TPE	32,480,785	59,083,949	148,156,818	171,340,167	139,746,525	550,808,244	100.00%
Percent TPE	5.90%	10.73%	26.90%	31.11%	25.37%	100.00%	

*Short pay entities are excluded from the above calculations to remove data skew

Distribution of Excess Collateral by Rating and Category*

Rating Group	Generation					Trader	Percent Excess	
	CRR Only	Only	Load Only	Load and Generation	Excess Collateral		Collateral	
AAA	0	0	0	0	0	0	0	0.00%
AA- to AA+	3,796,421	0	0	40,493,449	2,461,535	46,751,405	1.76%	
A- to A+	204,740	995,146	11,588,445	350,401,458	61,646,343	424,836,132	15.98%	
BBB- to BBB+	22,744,457	71,932,467	85,124,234	691,382,937	296,325,644	1,167,509,739	43.91%	
Investment Grade	26,745,618	72,927,612	96,712,679	1,082,277,844	360,433,522	1,639,097,276	61.65%	
BB- to BB+	33	80,759,154	11,219,237	224,653,055	21,932,817	338,564,296	12.73%	
B- to B+	0	0	0	46,370,119	3,883,075	50,253,194	1.89%	
CCC+ and below	0	0	0	0	0	0	0.00%	
Not Rated	47,863,809	31,933,193	(23,606,795)	258,864,584	315,758,889	630,813,680	23.73%	
Non-Investment Grade	47,863,842	112,692,347	(12,387,558)	529,887,758	341,574,781	1,019,631,171	38.35%	
Total Excess Collateral	74,609,460	185,619,959	84,325,121	1,612,165,603	702,008,303	2,658,728,446	100.00%	
Percent Excess Collateral	2.81%	6.98%	3.17%	60.64%	26.40%	100.00%		

Note: Excess collateral doesn't include Unsecured Credit Limit

*Short pay entities are excluded from the above calculations to remove data skew



Questions?