



## **Item 6: Periodic Report on Credit Work Group Activity**

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Chair, Credit Work Group

Urgent Finance & Audit Committee Meeting

ERCOT Public  
August 9, 2021

# Reviewed NPRRs

## Total NPRRs Reviewed - 6

### NPRRs Reviewed With Credit Impact

1073NPRR 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.

1078NPRR Clarification of Potential Uplift. This Nodal Protocol Revision Request (NPRR) clarifies the definition of potential uplift within the calculation of a Counter-Party's "Total Potential Exposure Any" (TPEA).

1083NPRR Modification of Uplift Allocation Rules to Address Role of Central Counter-Party Clearinghouses. This Nodal Protocol Revision Request (NPRR) effectuates newly enacted Section 39.159 of the Texas Utilities Code, by prohibiting the allocation of uplift charges to Qualified Scheduling Entities (QSEs) that: (1) otherwise would be subject to uplift charges solely as a result of acting as central Counter-Party clearinghouses in wholesale market transactions in ERCOT; and (2) are regulated as Derivatives Clearing Organizations (DCOs) as defined by the Commodity Exchange Act, 7 U.S.C. § 1a.





# CWG Discussion Items

## CWG Discussion Items

- Review of Default Uplifts – Group reviewed data comparing uplift practices of various ISOs. See next slide for details per ISO. Some Market Participants would prefer to move to allocations based on dollars instead of volume activity.

## ISO/RTO Default Allocation Practices

	ERCOT	MISO	SPP	CAISO	PJM
Activity base used in default allocation:	<p>Based on previous month Max activity buckets:</p> <ul style="list-style-type: none"> <li>-Metered -- Generation/DC T Imp</li> <li>-Metered Load</li> <li>-Bilateral sales</li> <li>-Bilateral purchases</li> <li>-DAM sales</li> <li>-DAM purchases</li> <li>-CRR Sales &amp; ownership in DAM</li> <li>-CRR Auction Purchases</li> </ul>	<p>Based on invoice activity during the same period of time as the unpaid invoice(s) of the MP whose unpaid Past Due Amount has been declared an Uncollectible Obligation.</p> <p>Allocated to each MP that had been invoiced <b>during the same period of time as the unpaid invoice(s) of the MP whose unpaid Past Due Amount has been declared an Uncollectible Obligation.</b></p> <p>% Loss for MPA = MPA Market Charges + Market Credits in weekly invoicing cycle/MPALL (Market Charges + Market Credits) in <b>weekly invoicing cycle</b></p> <p>Loss Obligation of MPA = (% Loss for MPA) x \$ Amt of Uncollectible Obligation,</p> <p>where: MP = Market Participant</p> <ul style="list-style-type: none"> <li>-Market Charges = The <b>absolute value of all charge</b> amounts associated with invoices for Market Activities.</li> <li>-Market Credits = The <b>absolute value of all credit</b> amounts associated with invoices for Market Activities.</li> <li>-MPALL = All Market Participants other than MPs with Uncollectible Obligations.</li> </ul>	<p>Based on Invoice activity during the same period of time as the unpaid invoice(s) of the MP whose Unpaid Obligation has been declared an Uncollectible Obligation.</p> <p>The Uncollectible Obligation is allocated to all Non-Defaulting MPs who conducted business in the <b>market during the time covered by the invoice(s) containing the Uncollectible Obligation(s).</b></p> <p>=% Loss for MPA = MPA Market Charges + Market Credits in weekly invoicing cycle/MPALL (Market Charges + Market Credits) in <b>weekly invoicing cycle.</b></p> <p>-Loss Obligation of MPA = ((% Loss for MPA) x \$ Amt of Uncollectible Obligation) minus (-) (Reduction of Payments + Pro rata share of partial payment(s))</p> <p>Where:</p> <ul style="list-style-type: none"> <li>-MP = Market Participant</li> <li>--Market Charges = The <b>absolute value of all charge</b> amounts associated with invoices for Market Services.</li> <li>-Market Credits = The <b>absolute value of all credit</b> amounts associated with invoices for Market Services.</li> <li>-MPALL = All Market Participants other than MPs with Uncollectible Obligations.</li> <li>-Reduction of Payment = The amount of the Unpaid Obligation originally assessed to MP</li> <li>-Pro rata share of partial payment(s) = Any partial payments received during cure period</li> </ul>	<p>Hybrid approach based on dollar and MW activity:</p> <p>Based on quarterly percentage shares calculated based on <b>quarterly average over rolling four-quarter look-back period:</b></p> <ul style="list-style-type: none"> <li>-20% of payment default amount allocated in proportion to net amounts payable</li> <li>-30% of payment default amount allocated in proportion to sum of absolute values of dollar amounts shown on invoices payable or receivable after certain dollar amount exclusions for GMC, RMR, and Wheeling Access Charge costs and exclusions for billing of Access Charges and payment of Transmission Revenue Requirements to Participating Transmission Owners</li> <li>-50% of payment default amount allocated in proportion to largest of the following amounts calculated in MWh for every month in each applicable calendar quarter <ul style="list-style-type: none"> <li>•Cleared DA Schedules to supply Energy...</li> <li>•Metered Generation...</li> <li>•Cleared DA Schedules for demand...</li> <li>•Metered Load x 103%...</li> <li>•The greater of the quantity of CRRs or Inter-SC Trades of Energy...</li> </ul> </li> </ul>	<p>Activity component is based on on last three months gross activity</p> <p>Default Allocation Assessment shall be equal to <math>(0.1(1/N) + 0.9(A/Z))</math></p> <p>Dissection of calculation:</p> <ol style="list-style-type: none"> <li>1) % share to total number of participants weighted at 10% (not exceeding \$10,000); and</li> <li>2) % share to total market over last 3 months weighted at 90%</li> </ol> <p>A = for Members comprising factor "N" above, the Member's gross activity as determined by summing the <b>absolute values of the charges and credits</b> for each of the Activity Line Items identified in section 15.2.2(b) below as accounted for and billed pursuant to Operating Agreement, Schedule 1, section 3 <b>for the month of default and the two previous months.</b></p> <p>Z = the sum of factor A for all Members excluding ex officio Members, State Consumer Advocates , Emergency and Economic Load Response Program Special Members , and municipal electric system Members that have been granted a waiver under Operating Agreement, section 17.2.</p>
Default Uplift Billing Timeline	no earlier than 90 days	no prescribed timeline			next practicable invoices

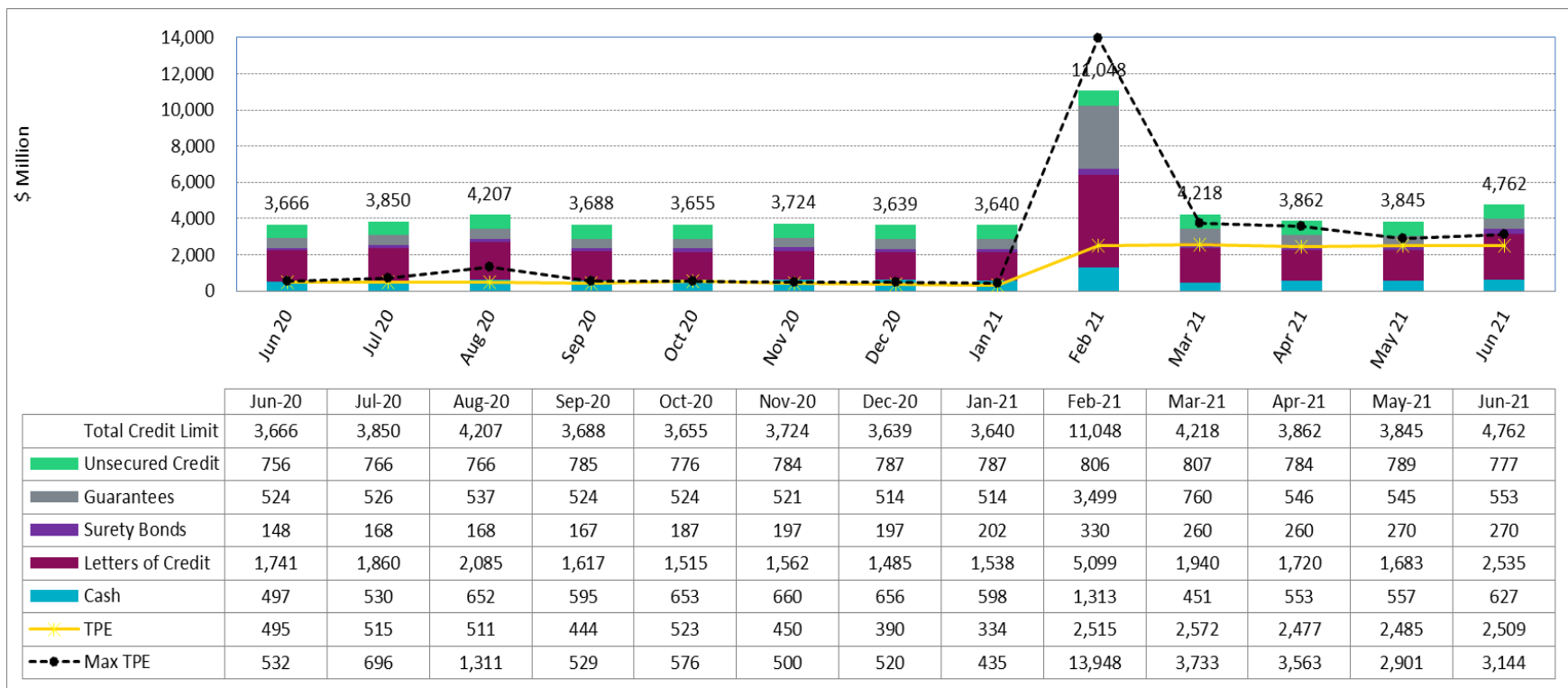


# ERCOT Credit Highlights and Statistics

## Monthly Highlights May 2021 - June 2021

- Market-wide average TPE increased from \$ 594.12 million in May to \$ 610.6 million in June
  - TPE increased mainly due to
    - higher Forward Adjustment Factors on 06/15/2021 and
    - higher Real-Time prices 06/13/2021 and higher Day-Ahead prices on 06/15/2021
- Discretionary Collateral is defined as Secured Collateral in excess of TPE, CRR Locked ACL and DAM Exposure
  - Average Discretionary Collateral increased from \$1,230.5 million to \$1,791.3 million
  - The increase in Discretionary Collateral is largely due to increase in Secured Collateral.
- Short pay entities are excluded from the above calculations to remove data skew
- No unusual collateral call activity

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

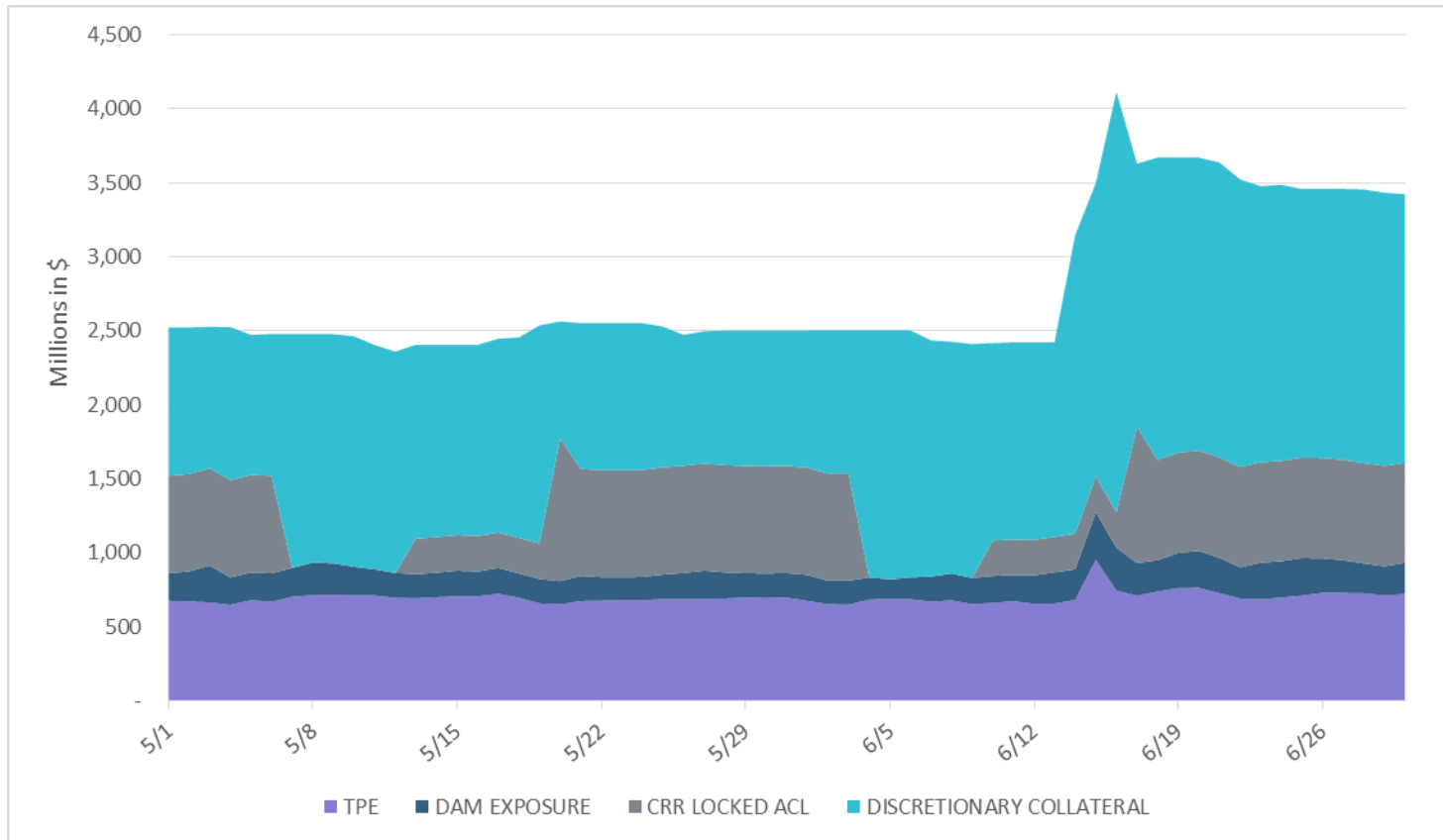


\* Numbers are as of month-end except for Max TPE





# Discretionary Collateral May 2021 - June 2021



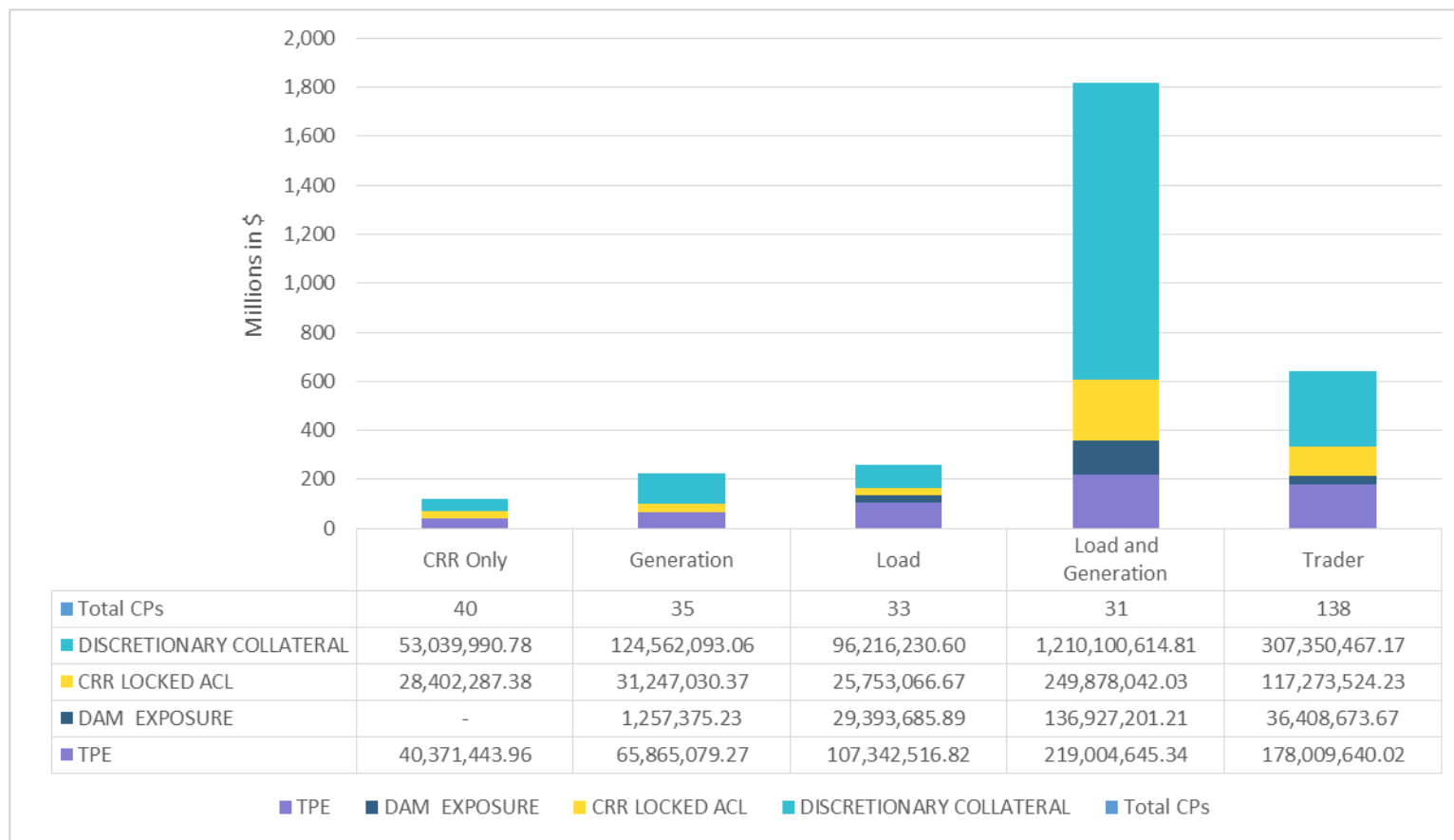
\*Discretionary collateral doesn't include Unsecured Credit Limit or parent guarantees

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



# TPE and Discretionary Collateral by Market Segment - June 2021\*

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

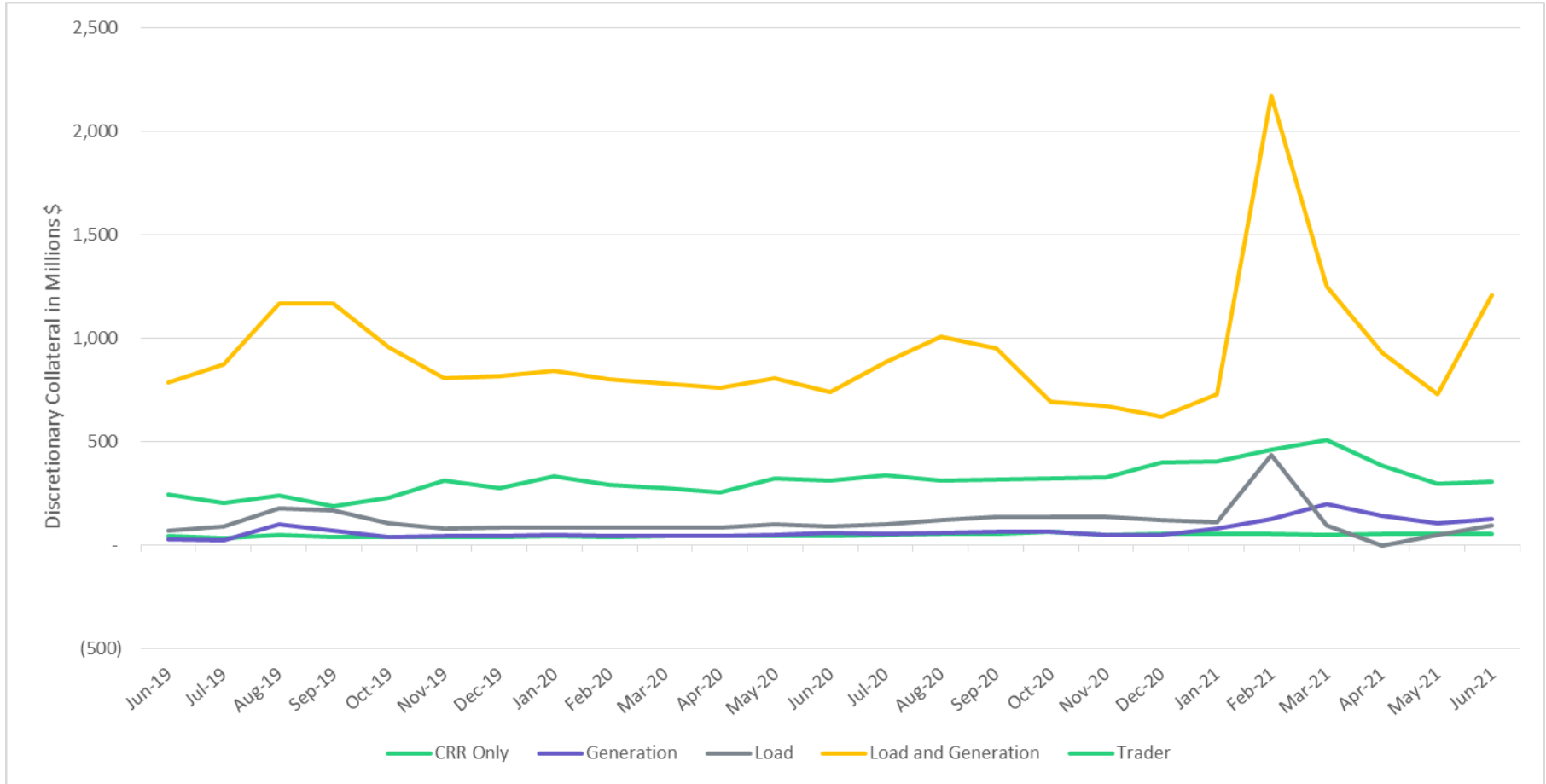


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\*Discretionary collateral doesn't include Unsecured Credit Limit or parent guarantees



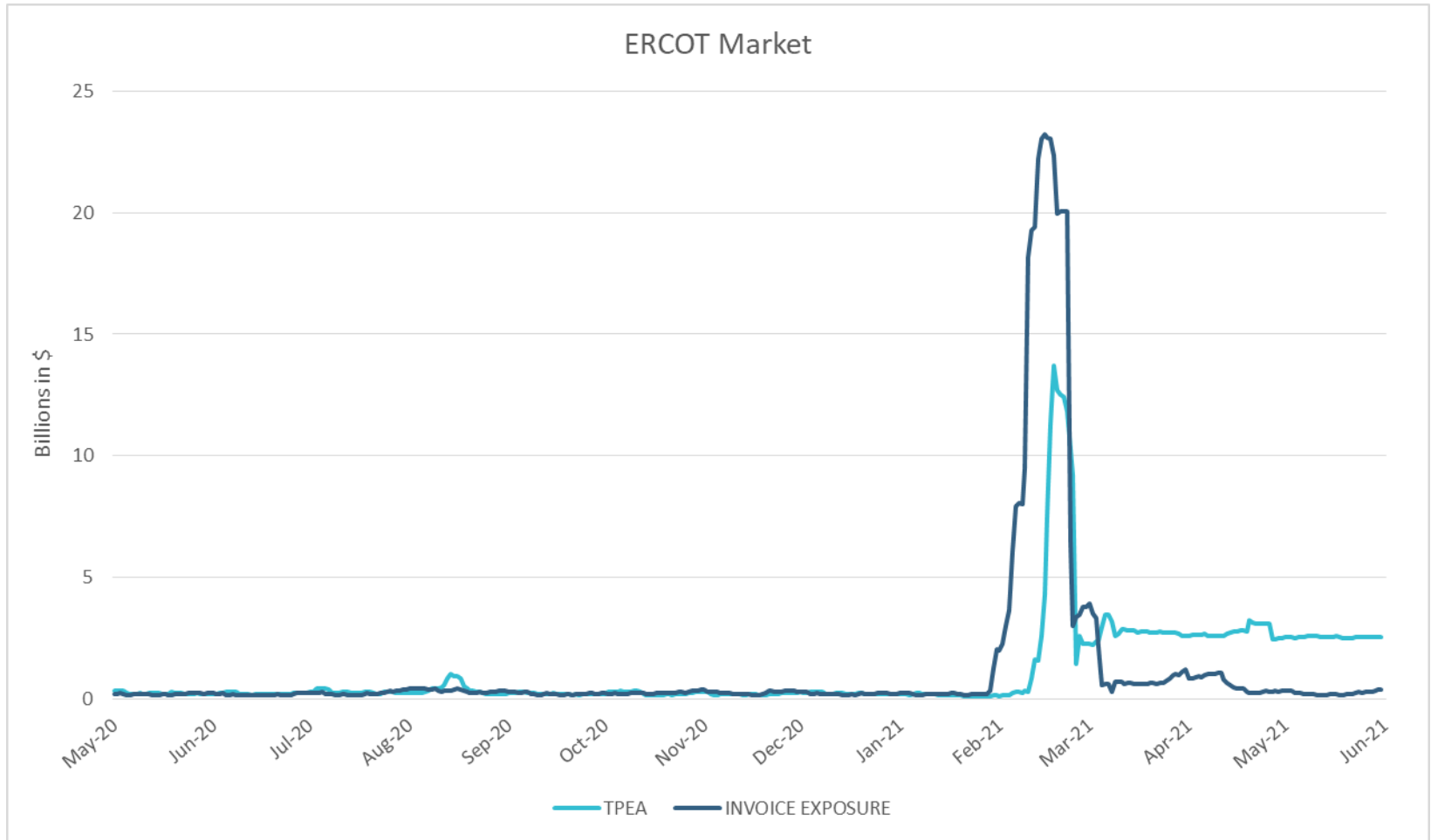
# Discretionary Collateral by Market Segment June 2019 - June 2021



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

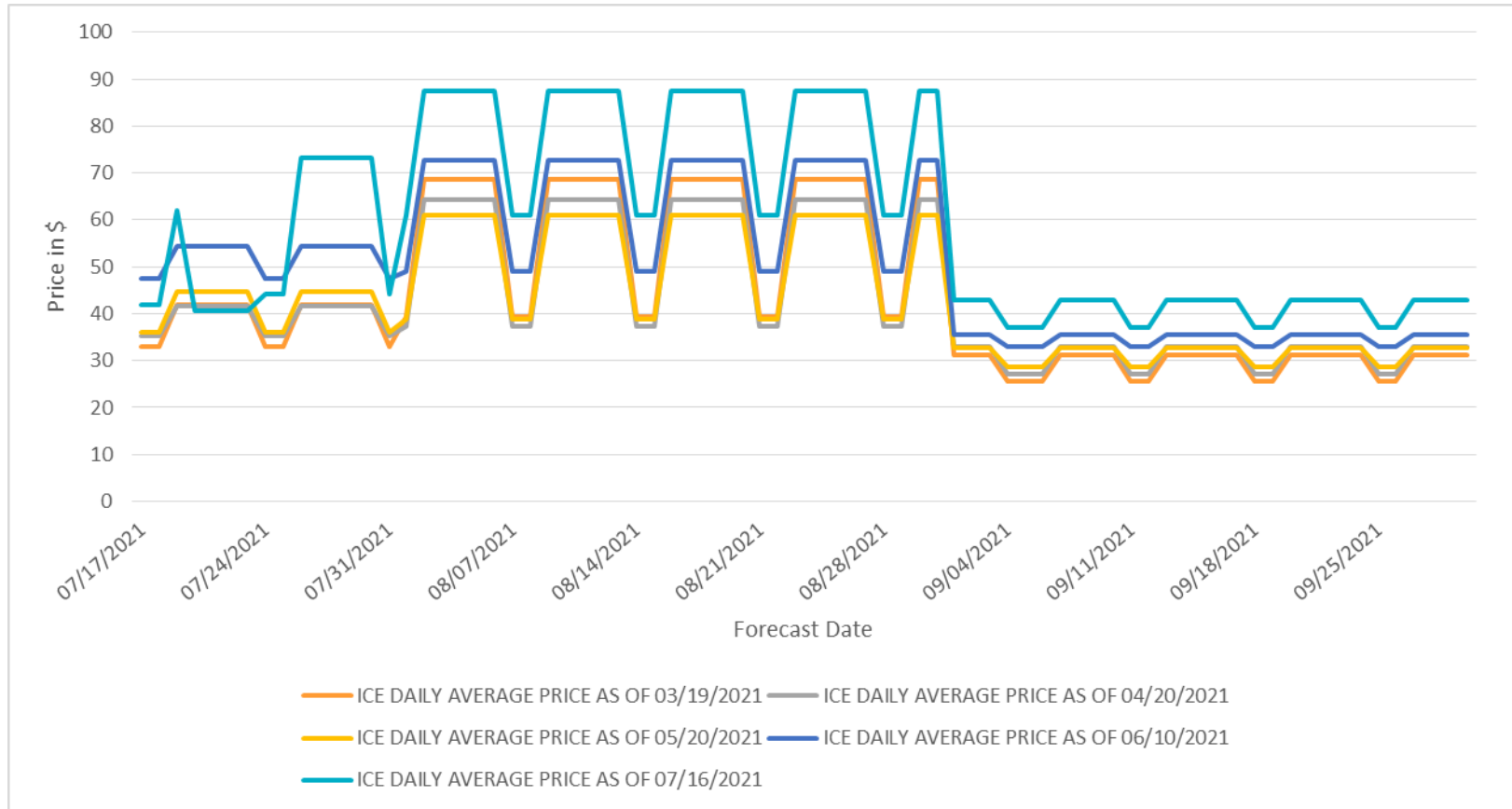


## TPE Coverage of Settlements May 2020 - May 2021



TPEA closely approximates actual/invoice exposure except during 2021 weather event

# ICE Daily Average Future Prices Jul 2021 - Sep 2021



TPEA closely approximates actual/invoice exposure except during 2021 weather event



## Summary of Distribution by Rating Group\*

Rating Group	Counter-Party Distribution			Average TPE Distribution			Average Excess Collateral		
	May-21	Jun-21	Change	May-21	Jun-21	Change	May-21	Jun-21	Change
AAA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
AA- to AA+	4.01%	3.97%	-0.04%	1.26%	1.95%	0.69%	1.62%	1.08%	-0.54%
A- to A+	6.93%	6.86%	-0.08%	5.62%	7.52%	1.90%	17.40%	22.40%	5.00%
BBB- to BBB+	13.14%	13.00%	-0.14%	29.08%	26.48%	-2.59%	37.57%	39.16%	1.60%
<b>Investment Grade</b>	<b>24.09%</b>	<b>23.83%</b>	<b>-0.26%</b>	<b>35.95%</b>	<b>35.95%</b>	<b>0.00%</b>	<b>56.58%</b>	<b>62.64%</b>	<b>6.06%</b>
BB- to BB+	3.65%	3.61%	-0.04%	25.32%	25.94%	0.62%	11.54%	10.48%	-1.06%
B- to B+	1.09%	1.08%	-0.01%	3.18%	3.96%	0.78%	1.72%	1.31%	-0.41%
CCC+ and below	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Not Rated	71.17%	71.48%	0.31%	35.55%	34.15%	-1.40%	30.15%	25.56%	-4.59%
<b>Non-investment Grade</b>	<b>75.91%</b>	<b>76.17%</b>	<b>0.26%</b>	<b>64.05%</b>	<b>64.05%</b>	<b>0.00%</b>	<b>43.42%</b>	<b>37.36%</b>	<b>-6.06%</b>

\*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+	1,965,092	0	0	9,850,652	96,941	11,912,685	1.95%
A- to A+	84,691	9,102	18,569,932	24,343,238	2,889,076	45,896,040	7.52%
BBB- to BBB+	2,775,743	57,064,159	9,940,399	53,409,796	38,515,419	161,705,516	26.48%
<b>Investment Grade</b>	<b>4,825,526</b>	<b>57,073,261</b>	<b>28,510,332</b>	<b>87,603,686</b>	<b>41,501,436</b>	<b>219,514,242</b>	<b>35.95%</b>
BB- to BB+	0	1,865,957	2,113,850	103,565,435	50,845,735	158,390,978	25.94%
B- to B+	0	0	0	8,672,068	15,478,408	24,150,476	3.96%
CCC+ and below	0	0	0	0	0	0	0.00%
Not Rated	35,545,918	6,925,861	76,718,335	19,163,456	70,184,060	208,537,629	34.15%
<b>Non-Investment Grade</b>	<b>35,545,918</b>	<b>8,791,818</b>	<b>78,832,185</b>	<b>131,400,959</b>	<b>136,508,204</b>	<b>391,079,084</b>	<b>64.05%</b>
<b>Total TPE</b>	<b>40,371,444</b>	<b>65,865,079</b>	<b>107,342,517</b>	<b>219,004,645</b>	<b>178,009,640</b>	<b>610,593,325</b>	<b>100.00%</b>
<b>Percent TPE</b>	<b>6.61%</b>	<b>10.79%</b>	<b>17.58%</b>	<b>35.87%</b>	<b>29.15%</b>	<b>100.00%</b>	

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

## 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+	2,400,097	0	0	27,610,523	2,403,103	32,413,723	1.08%
A- to A+	2,768,709	990,898	2,580,197	605,073,695	59,651,534	671,065,033	22.40%
BBB- to BBB+	21,538,174	126,940,849	89,820,193	718,370,648	216,740,748	1,173,410,612	39.16%
<b>Investment Grade</b>	<b>26,706,979</b>	<b>127,931,747</b>	<b>92,400,390</b>	<b>1,351,054,866</b>	<b>278,795,385</b>	<b>1,876,889,367</b>	<b>62.64%</b>
BB- to BB+	33	23,134,202	11,331,992	239,598,917	39,994,952	314,060,097	10.48%
B- to B+	0	0	0	34,154,537	5,041,594	39,196,131	1.31%
CCC+ and below	0	0	0	0	0	0	0.00%
Not Rated	57,775,766	29,500,550	91,820,714	224,535,667	362,314,459	765,947,154	25.56%
<b>Non-Investment Grade</b>	<b>57,775,799</b>	<b>52,634,752</b>	<b>103,152,705</b>	<b>498,289,121</b>	<b>407,351,005</b>	<b>1,119,203,382</b>	<b>37.36%</b>
<b>Total Excess Collateral</b>	<b>84,482,778</b>	<b>180,566,499</b>	<b>195,553,096</b>	<b>1,849,343,987</b>	<b>686,146,390</b>	<b>2,996,092,750</b>	<b>100.00%</b>
<b>Percent Excess Collateral</b>	<b>2.82%</b>	<b>6.03%</b>	<b>6.53%</b>	<b>61.73%</b>	<b>22.90%</b>	<b>100.00%</b>	

Note: Excess collateral doesn't include Unsecured Credit Limit

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





# Questions?