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| NPRR Number | [1112](https://www.ercot.com/mktrules/issues/NPRR1112) | NPRR Title | Reduction of Unsecured Credit Limits |
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| Date | | April 12, 2022 | |
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| Submitter’s Information | | | |
| Name | | Mark Ruane | |
| E-mail Address | | [mruane@ercot.com](mailto:mruane@ercot.com) | |
| Company | | ERCOT | |
| Phone Number | | 512-248-3000 | |
| Cell Number | |  | |
| Market Segment | | Not applicable | |

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| Comments |

ERCOT appreciates the opportunity to provide comments to Nodal Protocol Revision Request (NPRR) 1112, as endorsed and forwarded to TAC by PRS in the 4/6/22 PRS Report.

As expressed in the 3/18/22 ERCOT comments, ERCOT disagrees with the resinstatement of Unsecured Credit Limits in the PRS-endorsed language. ERCOT’s position may be summarized as follows:

1. The availability of Unsecured Credit Limits is in effect a subsidization of the credit costs of some Market Partipants by others, since all Market Participants must share in default uplift costs.
2. Since ISO/RTOs function as central clearinghouses, there is no inherent reason why ISO/RTOs should be in the business of financing credit risk to some Market Participants. Since banks are in the business of understanding and pricing credit risk, they are better positioned to provide credit support for Market Participants.
3. Highly-rated Market Participants eligible for Unsecured Credit Limits should be able to obtain replacement financing from eligible letter of credit-issuing banks. If not, it is doubtful whether ERCOT should be financing their credit risk.
4. It has been suggested that NPRR1112 is unnecessary since ERCOT has discretionary authority under Section 16.11.2, Requirements for Setting a Counter-Party’s Unsecured Credit Limit, to set Unsecured Credit Limits, and under Section 16.11.4.1, Determination of Total Potential Exposure for a Counter-Party, to revise Total Potential Exposure to reflect a Counter-Party’s financial risk. Historically, ERCOT has interpreted these provisions as providing responses to specific market-related risks (*e*.*g*. an unexpected bankruptcy filing), rather than providing means to set overall credit policy. Notwithstanding allowable discretionary authority, ERCOT believes that NPRR1112, as amended by the 3/18/22 ERCOT comments, is appropriate from a credit policy viewpoint.
5. ERCOT creditworthiness requirements for banks issuing letters of credit are, in the aggregate, more stringent than those currently used to grant Unsecured Credit Limits. Therefore it can be expected that elimination of Unsecured Credit Limits, and assumption of those credit risks by banks, would improve ERCOT’s overall credit profile. To illustrate this, the percentage distribution by credit rating of Counter-Parties with Unsecured Credit Limits compared to banks with currently posted letters of credit is shown below.

In light of the above, ERCOT requests that TAC recommend approval of NPRR1112 as amended by the 3/18/22 ERCOT comments.

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| Revised Cover Page Language |

None

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| Revised Proposed Protocol Language |

None