



NPRR1112

Reduction of Unsecured Credit Limits

ERCOT Board of Directors Meeting
June 21, 2022

Presented by Darrell Cline
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Background

- December 2021: ERCOT proposed the elimination of unsecured credit
- February 2022: a group of joint commenters filed a revision to lower the unsecured credit limit from \$50.0M to \$27.5M
- Credit Work Group (Credit WG) unanimously endorsed retaining unsecured credit with a \$30M limit
- Protocol Revision Subcommittee (PRS) endorsed (90.5%) the reduction of the unsecured credit limit to \$30M
- Technical Advisory Committee (TAC) recommended approval (92%) of the reduction of the unsecured credit limit to \$30M
- April 28, 2022: ERCOT Board tabled decision for further review
- No party has filed comments in support of ERCOT's position

ISO/RTO Unsecured Credit Findings

- All ISO/RTOs offer unsecured credit
- All ISO/RTOs offer up to \$50M in unsecured credit
- According to ERCOT staff's findings:
 - Unsecured credit amounts in other ISO/RTOs range from \$100M to \$1.75B
 - ERCOT has \$1.4B in outstanding unsecured credit
 - Reducing the unsecured credit limit from \$50M to \$30M will reduce outstanding unsecured credit to approximately \$400M

Non-ISO/RTOs

- Uncertain why this comparison is being made
- Facilitation of transactions versus the obligation of providing an essential end-use service/product
- Commodity Futures Trading Commission (CFTC) recognized the uniqueness of ISO/RTOs by exempting specified transactions from provisions of the Commodity Exchange Act and CFTC regulations ⁽¹⁾
- FERC recognized the need to balance market liquidity and risk (cost to the market) in setting the \$50M unsecured credit limit ⁽²⁾

(1) CFTC RIN 3038-AE02

(2) FERC Docket RM10-13-000; Order 741; PP 52

Conclusion

- All ISO/RTOs offer unsecured credit up to \$50M
- Market Participants, who bear the risk for non-performance by Counterparties, overwhelmingly support retaining unsecured credit at the reduced limit of \$30M
- ERCOT's unsecured credit limit would be the lowest of the ISO/RTOs
- According to ERCOT staff, reducing the unsecured credit limit from \$50M to \$30M will reduce outstanding unsecured credit from \$1.4B to \$400M
- TAC recommends the Board approve NPRR1112 as endorsed by the Credit Working Group on March 14, 2022 and as endorsed by TAC on April 13, 2022