



## **Item 9.1.1: ERCOT Presentation on Information Requested by Board**

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Vice President, Commercial Operations

Board of Directors Meeting

ERCOT Public

August 16, 2022

# ERCOT Proposed NPRR 1112 to Eliminate Unsecured Credit.

- Experience demonstrates unsecured credit does not provide the collateral coverage when the party receiving the credit is unable or unwilling to pay.
- Cost of capital associated with bearing credit risk exists. Texas and the United States have extensive markets for credit support.
- The use of unsecured credit moves credit costs from those receiving unsecured credit to the rest of the market and ultimately load.
- Unsecured credit calculations do not reflect the risk the recipient imposes on the ERCOT market.
- ERCOT Staff continues to recommend the elimination of unsecured credit.

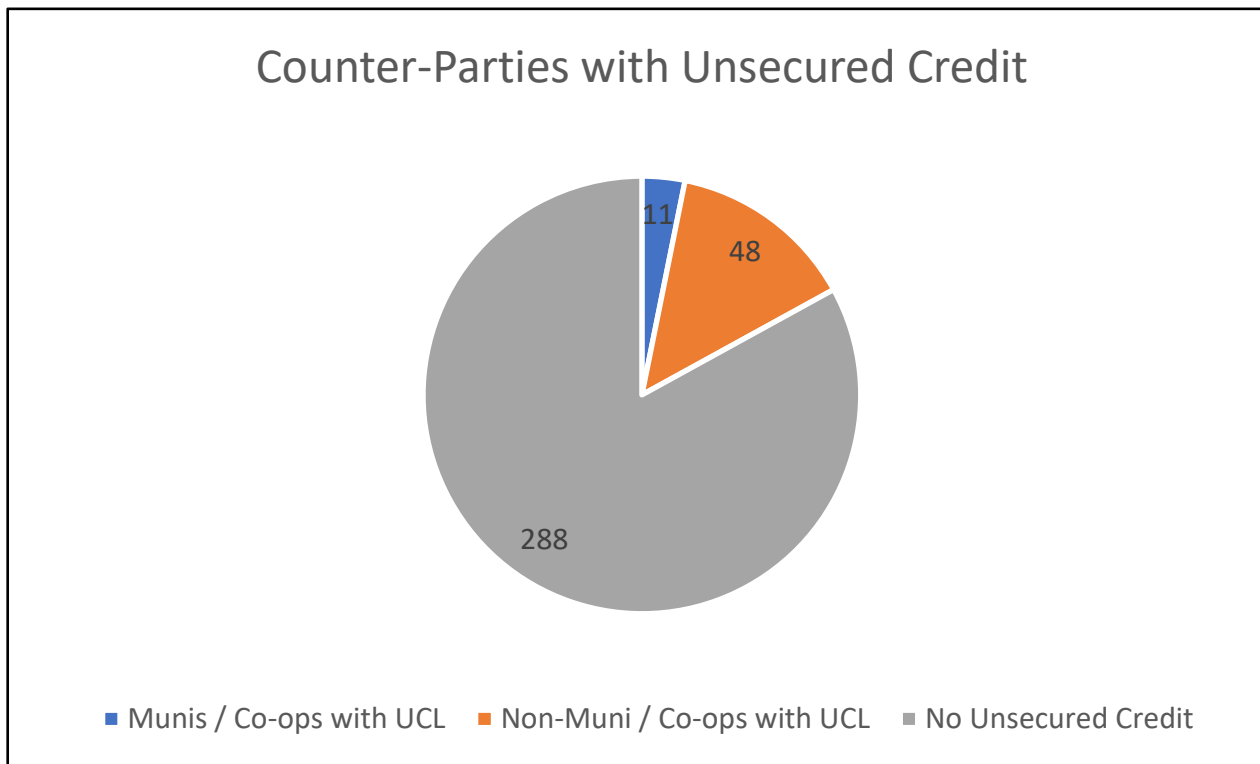
# NPRR1112 – Reduction of Unsecured Credit Limits

## Overview

ERCOT sets Unsecured Credit Limits (UCLs) in accordance with Protocol Section 16.11.2, *Requirements for Setting a Counter-Party's Unsecured Credit Limit*. UCLs are available to both agency-rated and non-rated Counter-Parties. UCLs are formulaically derived. For rated Counter-Parties, the UCL is based on a sliding percentage of Tangible Net Worth. For non-rated Counter-Parties, the UCL is determined based on a percentage applied to tangible net worth, once certain financial ratios are met.

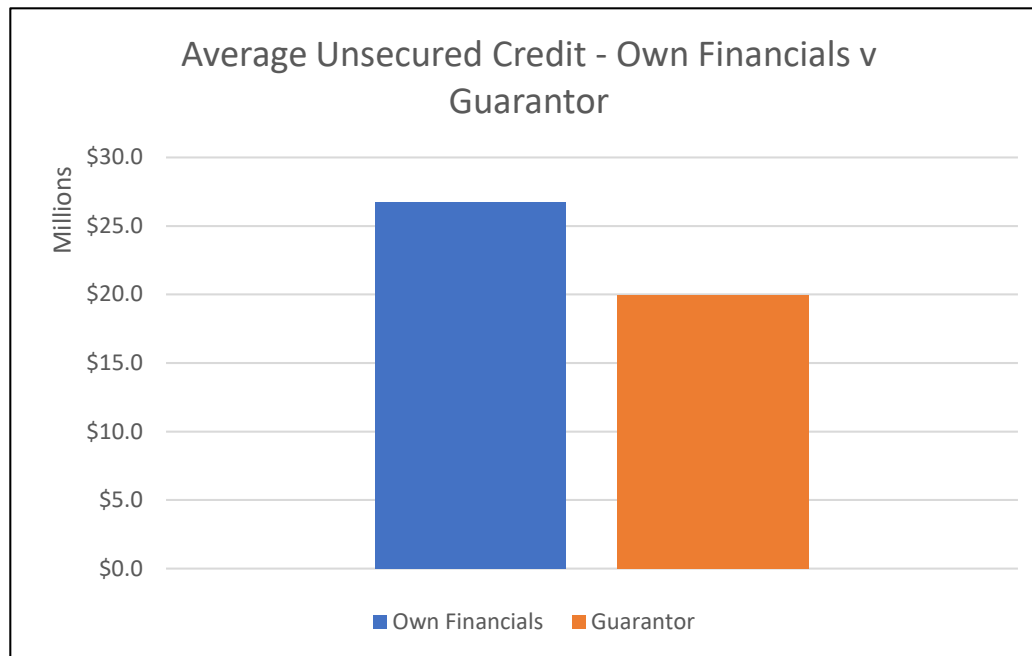
# NPRR1112 – Reduction of Unsecured Credit Limits

59 out of 347 active Counter-Parties, or about 17%, receive unsecured credit. Of these, 11 are municipals or co-operatives.



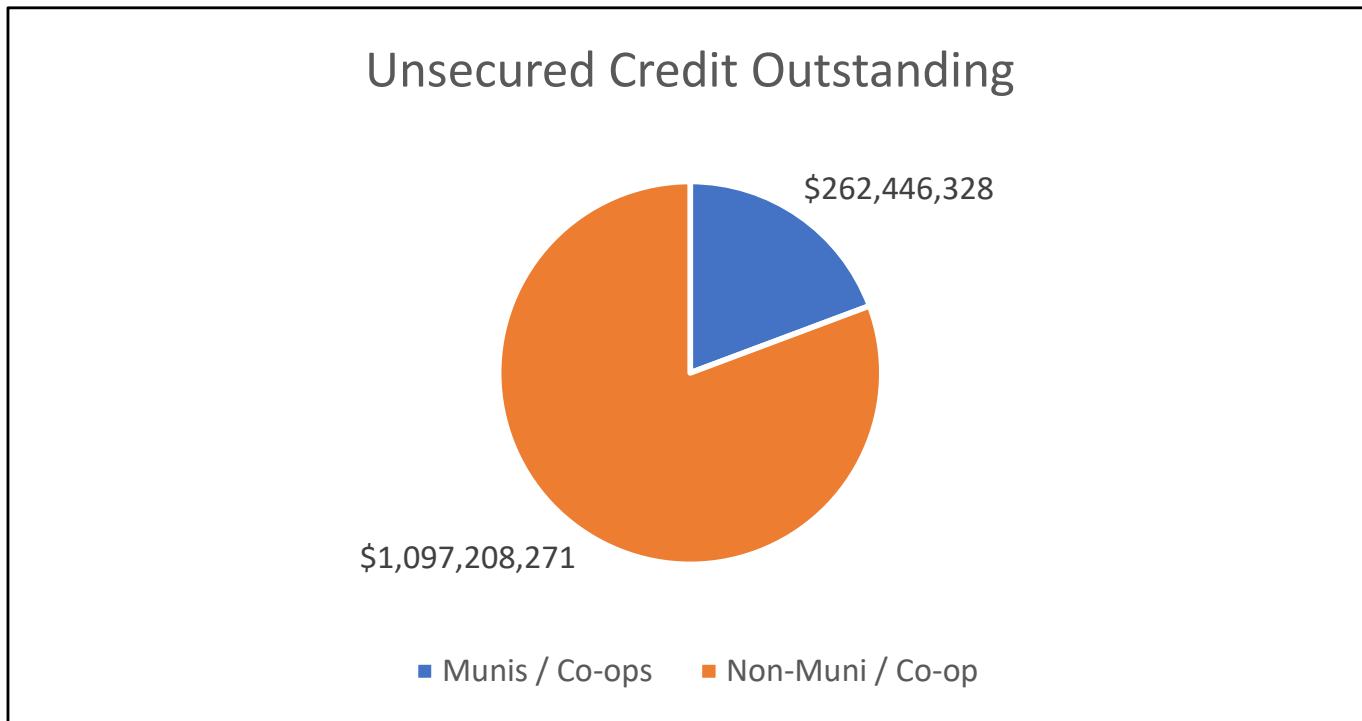
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Of the 59 Counter-Parties with unsecured credit, 27 receive unsecured credit based on their own financial statements, and 32 based on the financial statements of a guarantor. Average unsecured credit is higher for Counter-Parties relying on their own financial statements.



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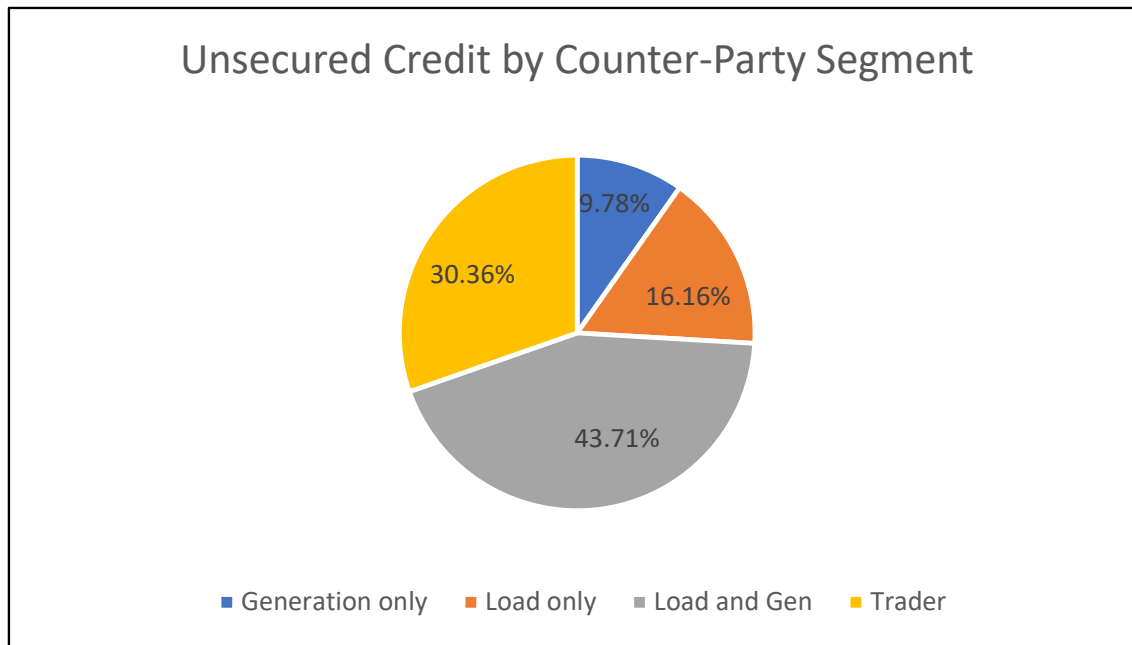
There is currently approximately \$1.36 billion in outstanding unsecured credit. Of this, approximately 81% goes to non-municipals / co-operatives.



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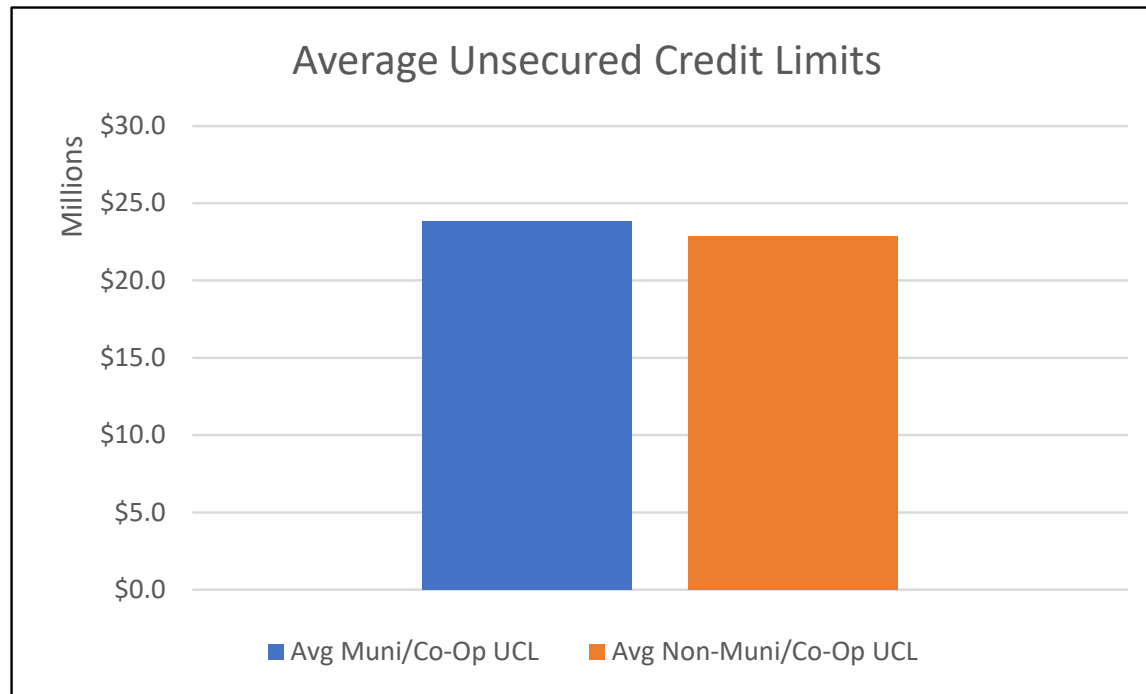
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This shows allocation of unsecured credit by market segment.



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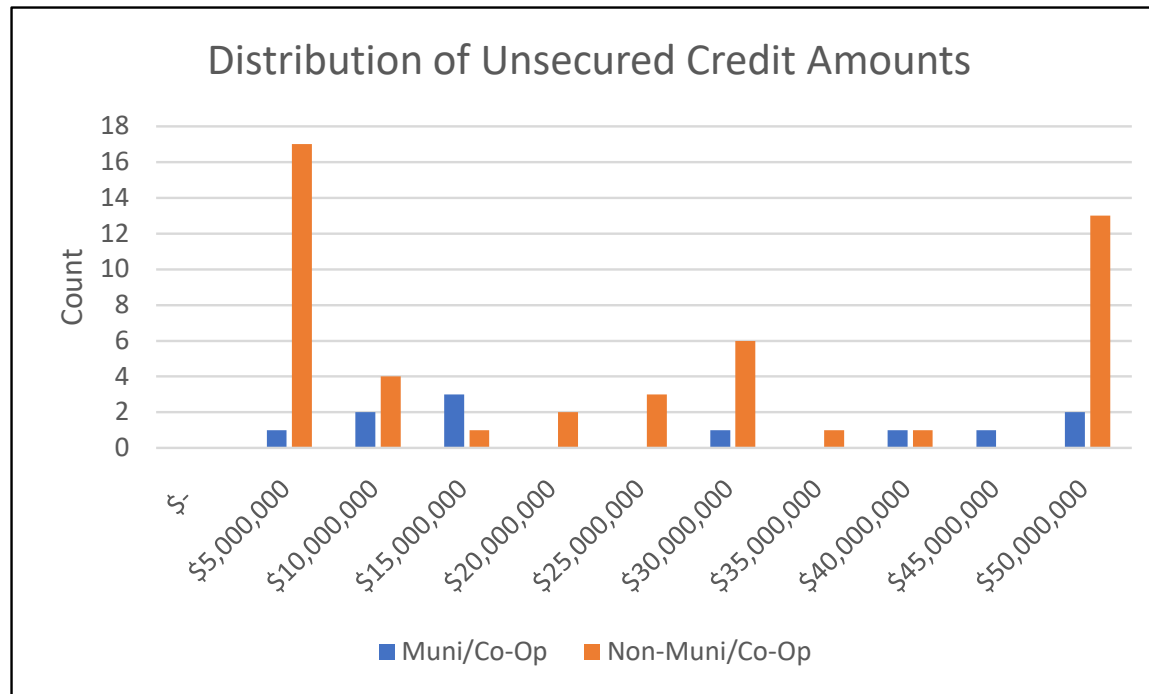
Average unsecured credit per Counter-Party is approximately \$23 million. The average Unsecured Credit Limit is slightly higher for non-municipals / co-operatives.





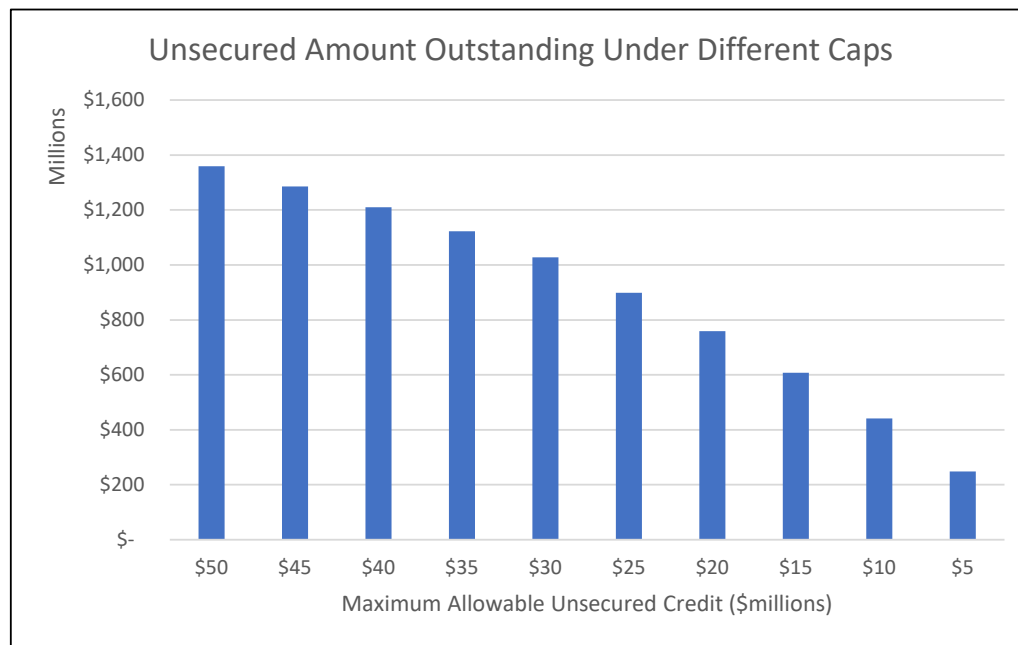
# NPRR1112 – Reduction of Unsecured Credit Limits

The following shows the size distribution of unsecured credit amounts. UCLs are capped at \$50 million.



# NPRR1112 – Reduction of Unsecured Credit Limits

Unsecured credit is currently capped at \$50 million per Counter-Party. This chart shows the amount of unsecured credit that would be outstanding at lower cap values.

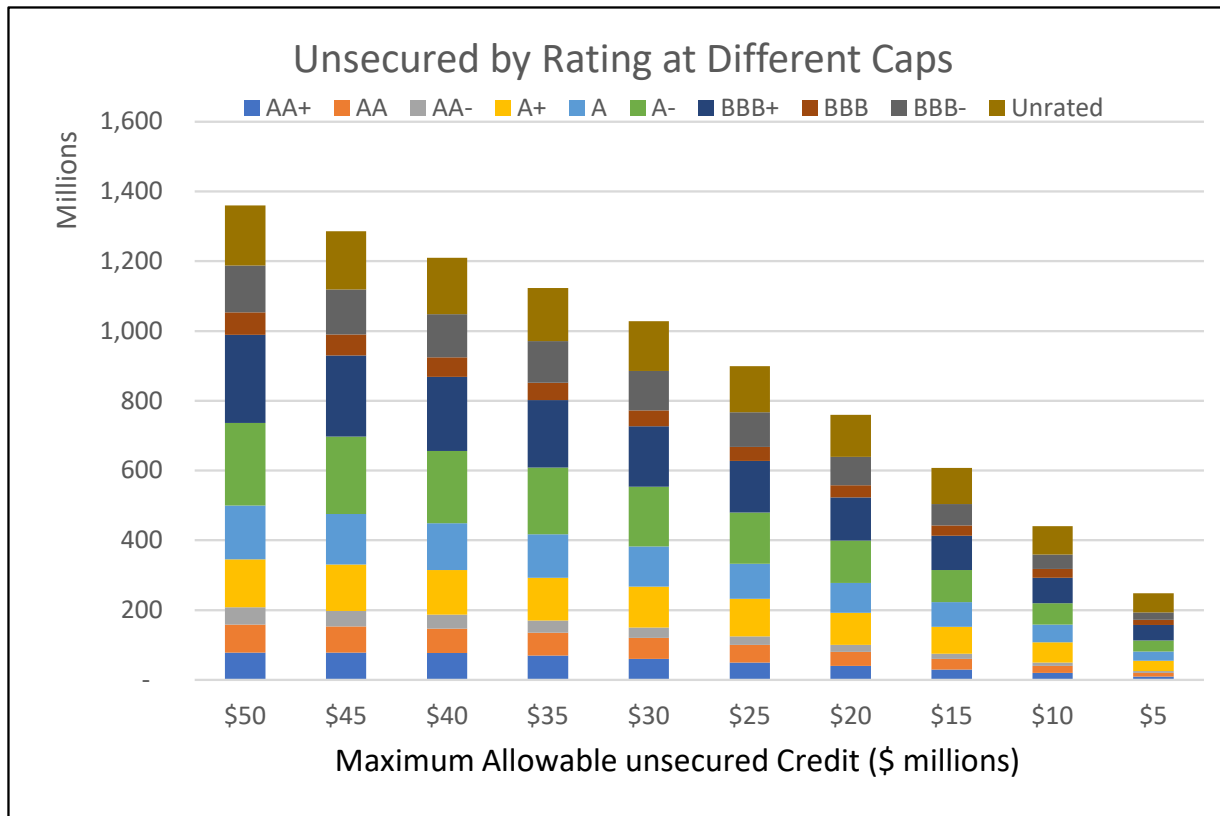


Reducing currently outstanding unsecured credit by \$1 billion would imply a Counter-Party cap of approximately \$7.8 million.

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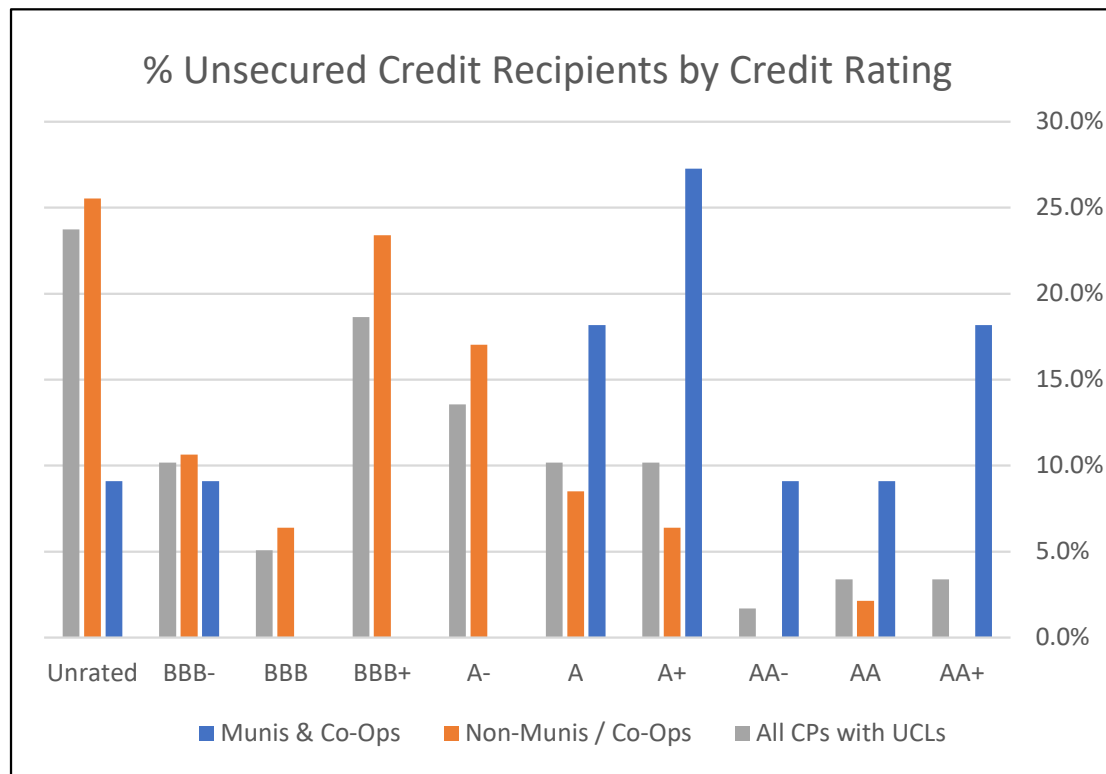
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At a \$50 million cap unrated entities account for 13% of unsecured credit. At a \$5 million cap they would account for 22% of unsecured credit.



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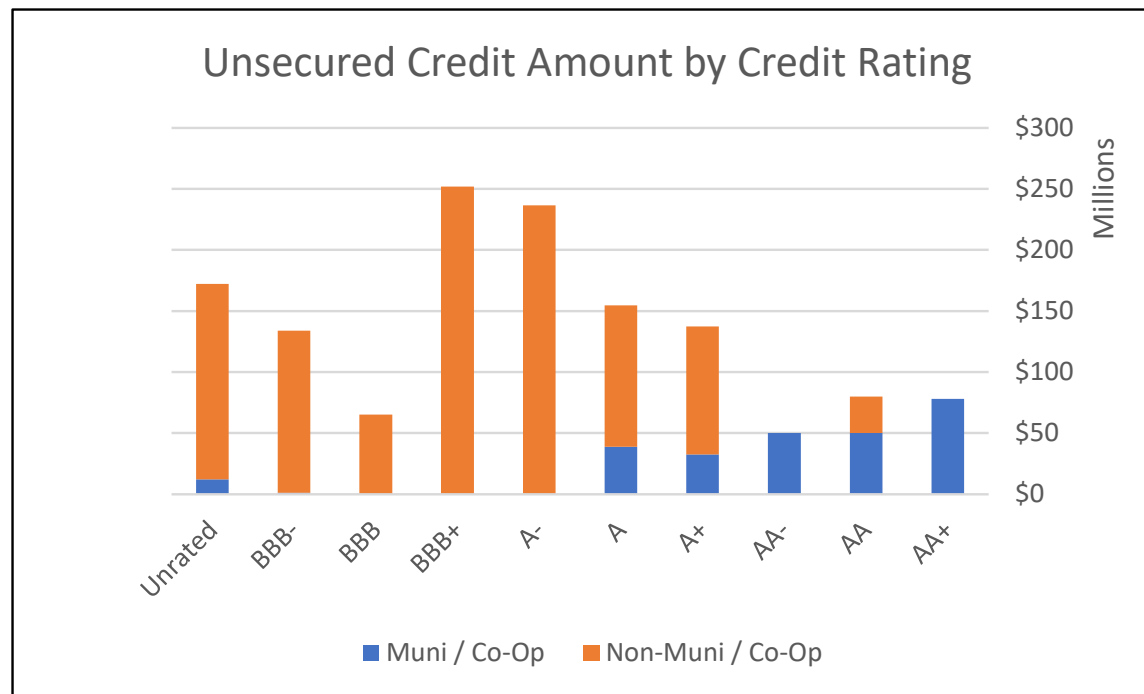
The following chart shows the distribution of Counter-Parties with unsecured lines of credit by their S&P-equivalent rating.



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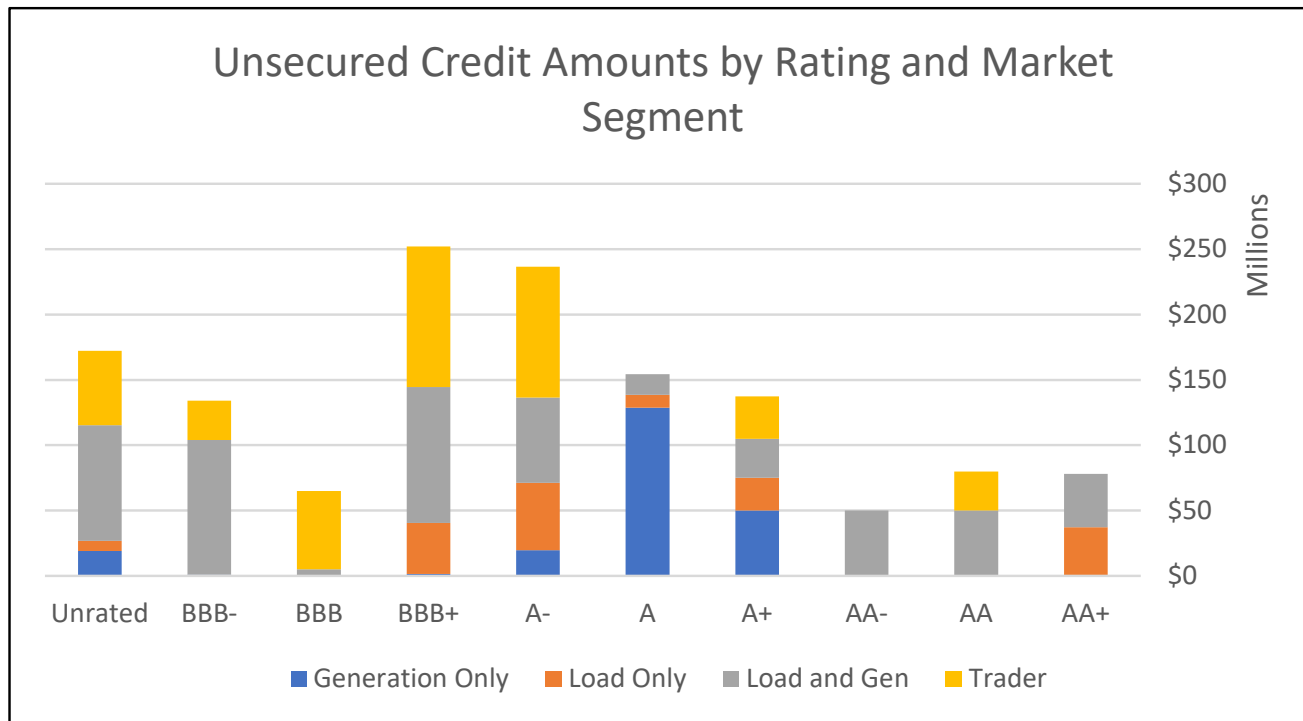
The following chart shows the amount of unsecured credit by rating equivalent.



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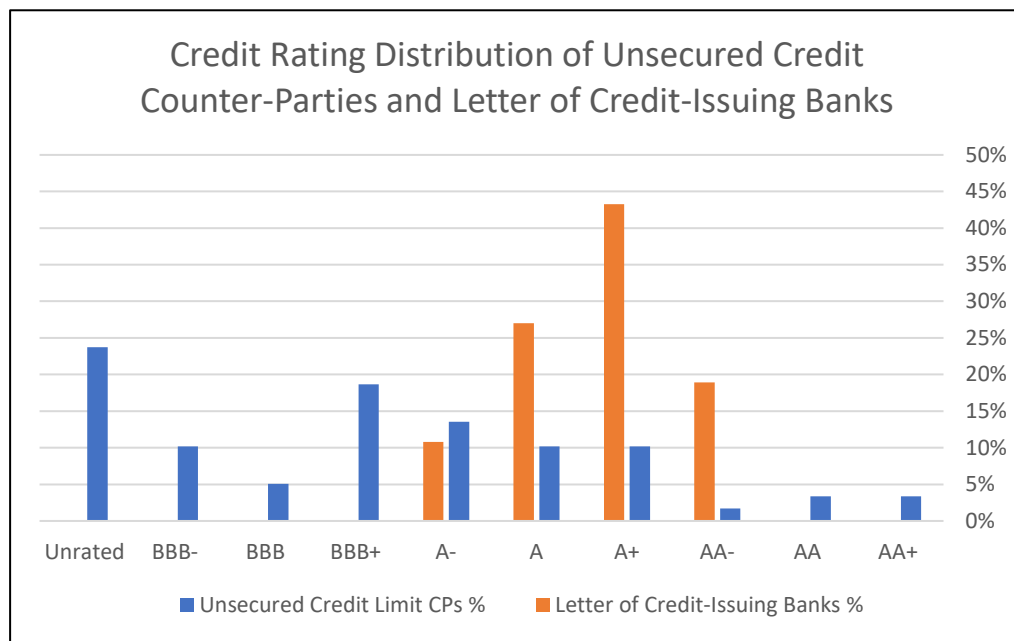
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The following chart shows the amount of unsecured credit by Counter-Party segment and rating equivalent.



# NPRR1112 – Reduction of Unsecured Credit Limits

The following chart shows the credit rating distribution of Counter-Parties receiving unsecured credit compared to the credit rating distribution of banks providing letters of credit for ERCOT Market Participants. ERCOT requires banks issuing letters of credit to have a minimum rating of A- (S&P/Fitch) or A3 (Moody's).



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Questions