



Item 6.4: Market Credit Update

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Reliability and Markets Committee Meeting

ERCOT Public

April 17, 2023

Market Credit Update: Overview

- **Purpose**

Provide an update on recent market credit activity

- **Voting Items / Requests**

No action is requested of the R&M Committee or Board; for discussion only

- **Key Takeaways**

- No defaults or unusual collateral call activity
- Market-wide average Total Potential Exposure (TPE) decreased from \$1.60 billion in January 2023 to \$1.22 billion in February 2023
 - Removing the effects of load growth over these two months would reduce the TPE by 0.2% and 0.5% respectively
 - TPE decreased mainly due to lower Real-Time and Day-Ahead Settlement Point prices
- Average Discretionary Collateral slightly decreased from \$3.34 billion in January 2023 to \$3.31 billion in February 2023

Credit NPRRs

- NPRR 1067 - Market Entry Qualifications, Continued Participation Requirements, and Credit Risk Assessment
 - Tabled at Protocol Revision Subcommittee (PRS) in February 2021
 - ERCOT plans to withdraw NPRR 1067 and replace with new NPRRs
 - The new NPRRs will separate the background check process from the credit scoring model proposed in NPRR 1067 as well as update the baseline language to current protocols
- NPRR 1146 - Credit Changes to Appropriately Reflect TAO* Exposure
 - Tabled at PRS; being discussed at the Credit Finance Sub Group (CFSG)
 - ERCOT has filed comments stating we do not support this NPRR
 - The sponsor has filed comments/edits to this NPRR subsequent to ERCOT's comments, and those edits are being discussed in the newly formed Credit Finance Sub Group
 - At this time the ERCOT opinion on NPRR 1146 has not changed

*TAO = Trading Activity Only

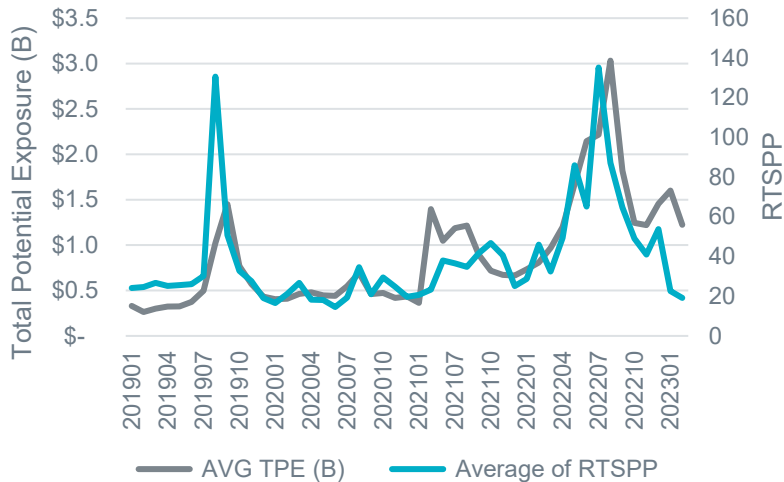
Credit NPRRs

- NPRR 1165 - Revisions to Requirements of Providing Audited Financial Statements and Providing Independent Amount
 - Related to NPRR1112, Elimination of Unsecured Credit Limits
 - Removes exemptions that allow Counter-Parties to avoid posting an Independent Amount
 - Current exemptions are based on total assets or Tangible Net Worth of the Counter-Party or a guarantor
 - Presented at the April PRS meeting

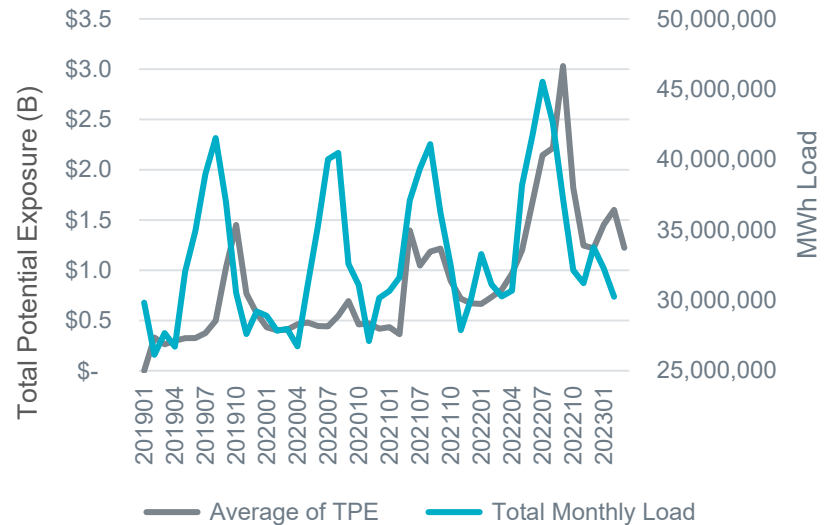
Key Takeaway: ERCOT is facilitating discussion of credit related NPRRs in the stakeholder process.

Load Growth and Total Potential Exposure (TPE)

TPE vs. Real-Time Settlement Point Price (RTSPP)
Monthly Average



Total Potential Exposure vs. Total Load



- Load impacts energy prices; however, fuel price, resource mix, generator outages and congestion are more primary drivers.
- Prices are the primary driver of TPE. Other drivers impacting TPE are number of participants, individual hedging strategies and market design changes.

Key Takeaway: Prices are the primary driver of change to Total Potential Exposure

Banking Liquidity Risk Update

- ERCOT does not have a direct exposure with Silicon Valley Bank, nor Signature Bank. ERCOT does not bank with nor have any Letters of Credit issued from these banks.
- 13 active ERCOT Market Participants had banking relationships with these banks. These active participants had cash collateral to cover payments due.
- ERCOT contacted the active participants, informing them of their option to apply credits to their collateral account and/or change their banking instructions.
- ERCOT had \$61.0 million in Letters of Credit issued from Credit Suisse as of March 24, 2023.
- ERCOT did not take any action due to the acquisition of Credit Suisse by UBS.

Key Takeaway: There have been no defaults or unusual collateral activity due to the recent issues in the banking sector. ERCOT will continue to monitor the situation and will act according to the Protocols to mitigate any potential risks related to the current funding/liquidity issues experienced by some banks.

Banking Liquidity Risk Update

- Per Protocol Section 16, ERCOT accepts Letters of Credit (LCs) from “A” rated banks only. Eligible banks have a tiered limit based on tangible net worth of the bank subject to an overall limit of \$750 million.
- If an issuer breaches its limit, Counter-Parties using the issuer will be notified and no new letters of credit will be accepted while in breach. Amendments to increase letters of credit existing prior to the breach will no longer be accepted after four months of the limit in breach.

If the issuing entity has		Then
Long-Term or Issuer Rating		Maximum letter of credit issuer limit as a percentage of Tangible Net Worth of issuer
S&P or Fitch	Moody's	
AAA	Aaa	1.00%
AA+	Aa1	0.95%
AA	Aa2	0.90%
AA-	Aa3	0.85%
A+	A1	0.80%
A	A2	0.75%
A-	A3	0.70%
Below A-	Below A3	Not accepted

Banking Liquidity Risk Update

- ERCOT posts a daily Letter of Credit Concentration Limits report reflecting the maximum issuer limit and unused capacity of each issuing bank or financial institution based on its latest credit rating and tangible net worth.
- ERCOT Credit monitors the health of the banks on continuous basis and will take immediate action in case of a bank downgrade/financial difficulty and will require the respective market participants to post LC collateral from an acceptable bank.

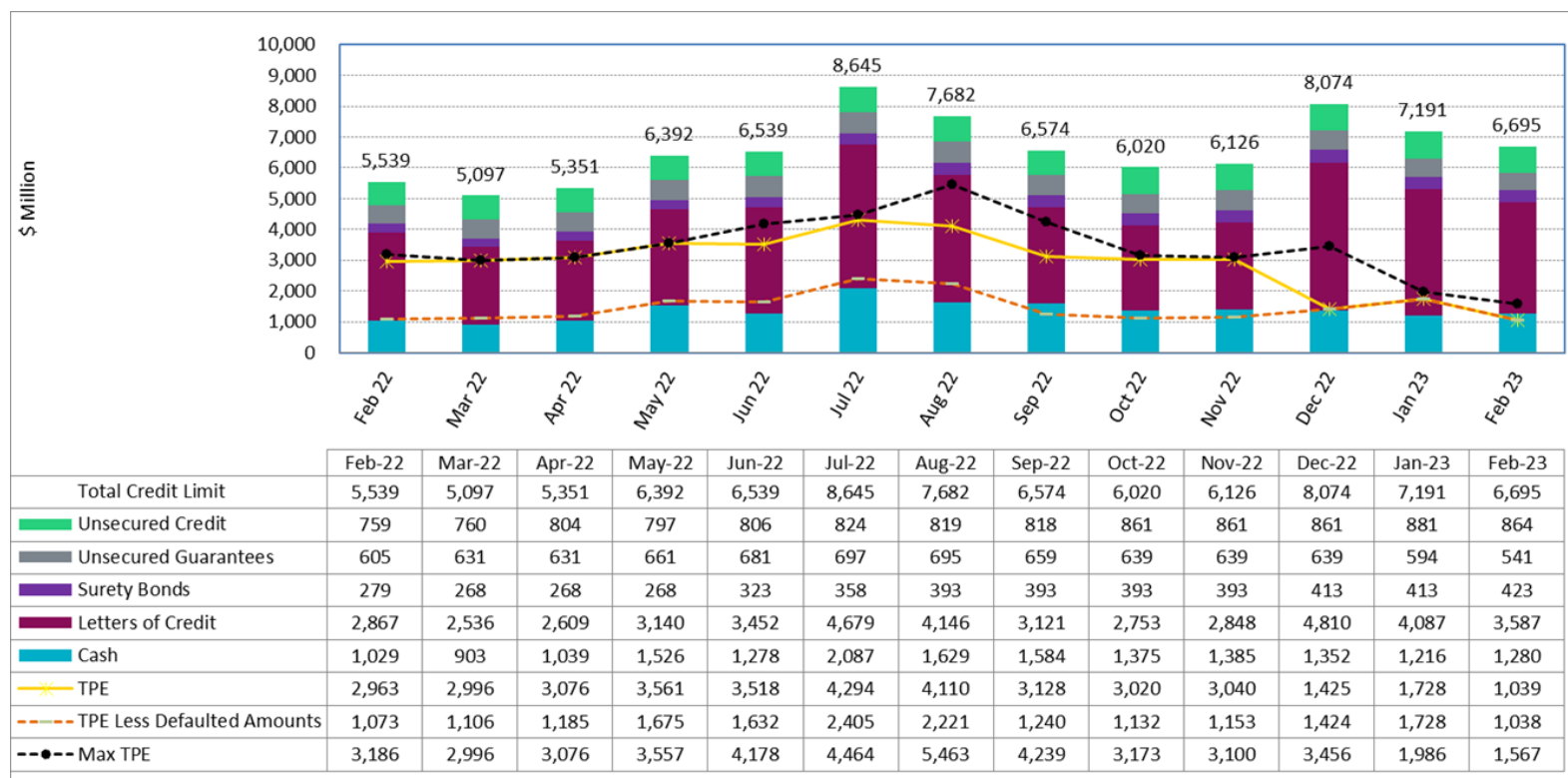
Key Takeaway: ERCOT monitors Letter of Credit Concentration Limits continuously and takes immediate action in case of changes to an issuer's credit rating or breach of issuer limits.

Market Credit Update

Appendices

Available Credit by Type Compared to Total Potential Exposure (TPE) Month-End February 2022 – February 2023

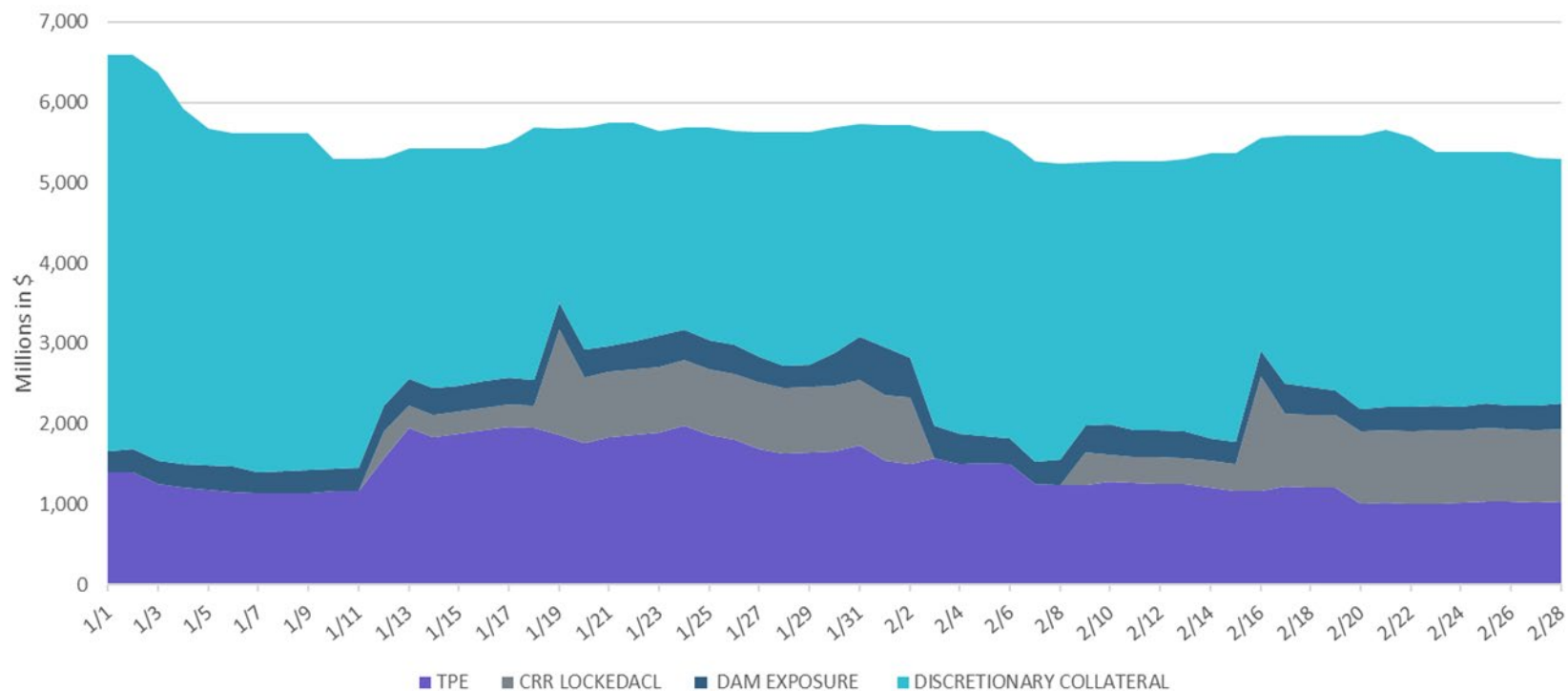
This shows TPE compared to the forms of collateral held.



- Numbers are as of month-end except for Max TPE
- Max TPE is the highest TPE for the corresponding month
- TPE less Defaulted Amounts: TPE – Short-Paid Invoices

Discretionary Collateral January 2023 - February 2023

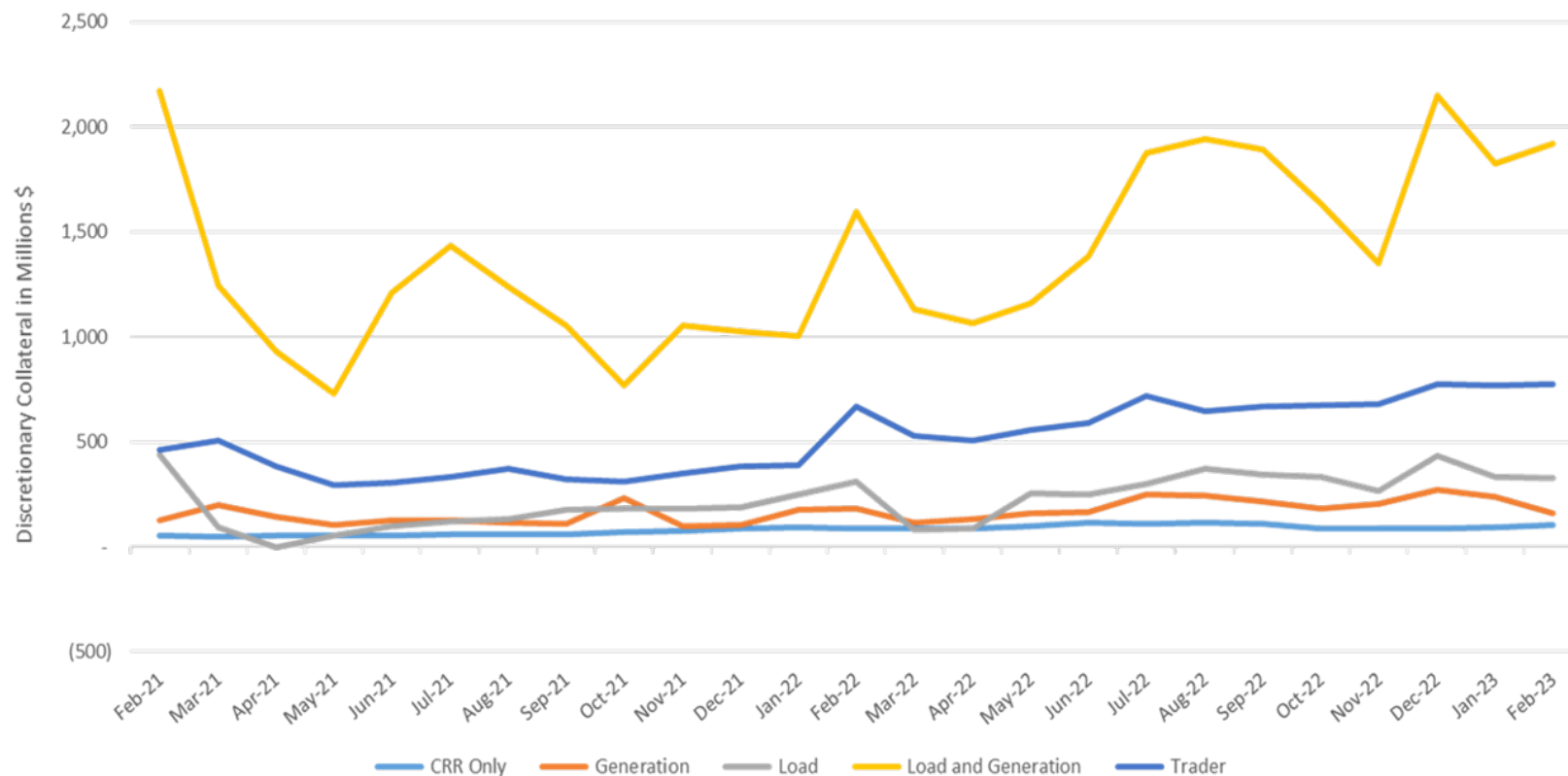
ERCOT Counter-Parties typically provide a large measure of collateral in excess of that required to cover TPE, Day-Ahead Market (DAM) activity and Congestion Revenue Right (CRR) auctions



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

* TPE adjusted to exclude short pay entities eliminating data skew

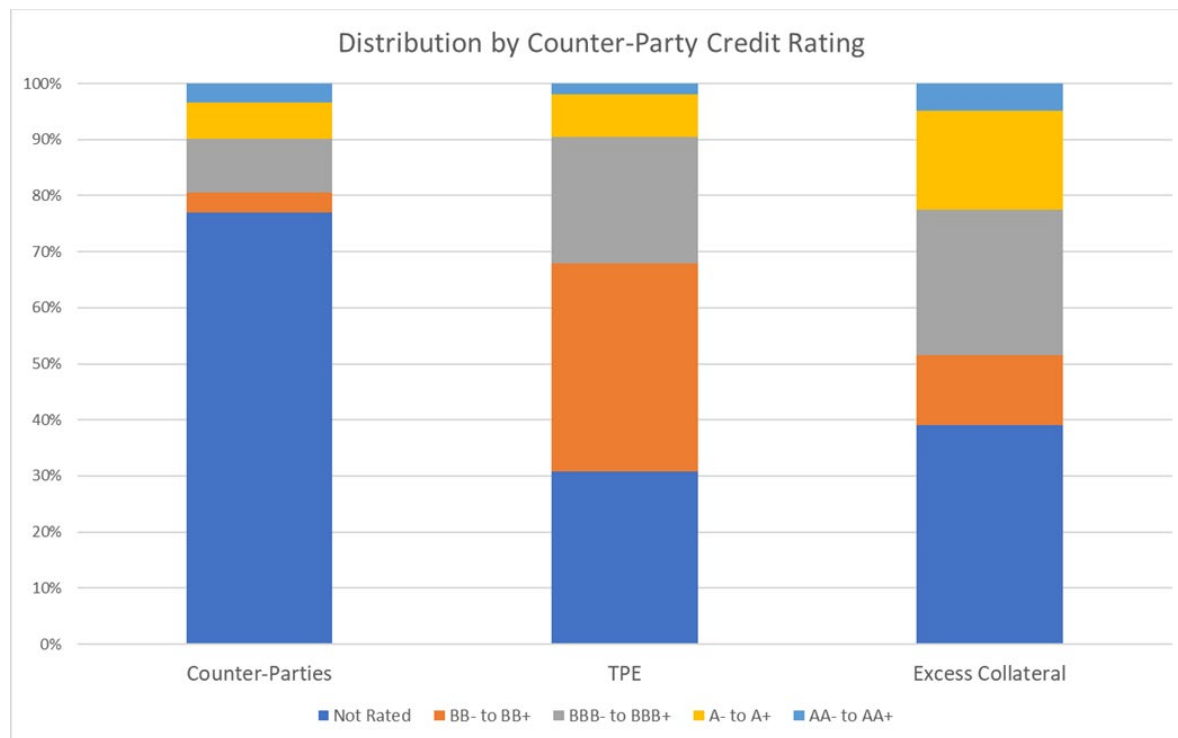
Discretionary Collateral by Market Segment February 2021 - February 2023



* Discretionary Collateral adjusted to exclude short pay amounts eliminating data skew

Distributions by Counter-Party Credit Rating – February 2023

Most ERCOT Counter-Parties are not agency-rated. However, unrated entities account for proportionately less TPE and excess collateral than agency-rated entities.

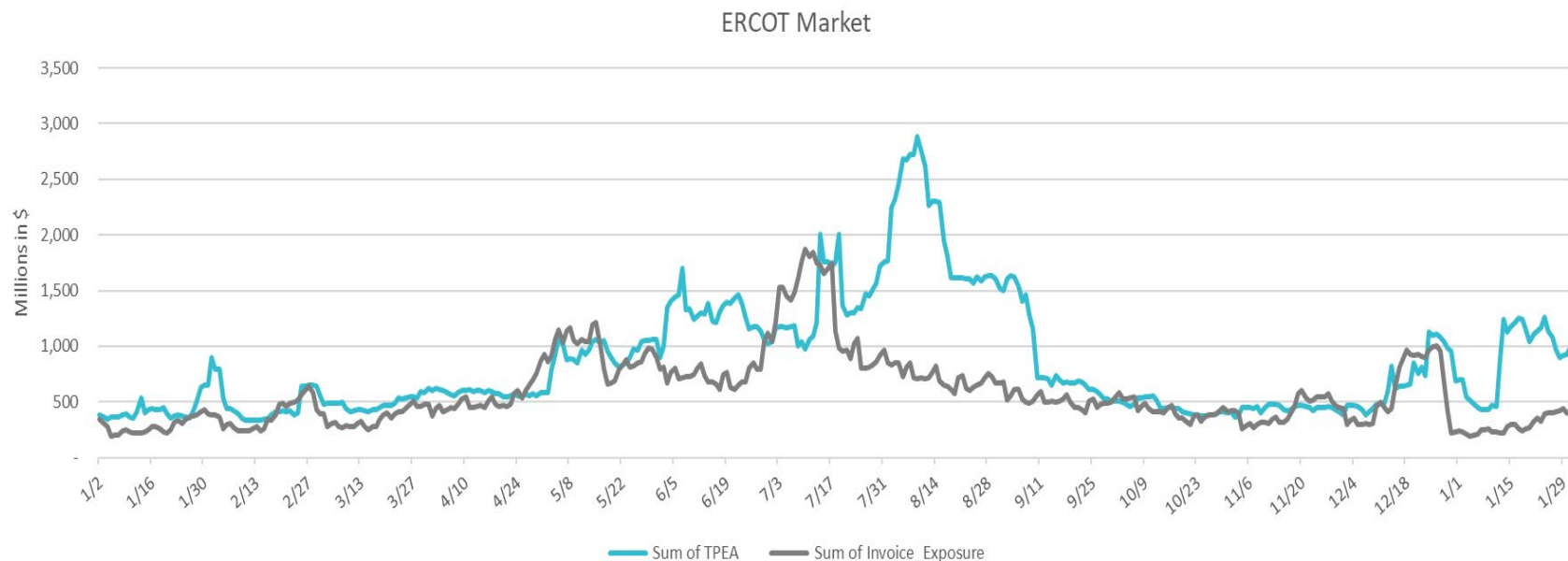


* TPE is average for the month

* Excess collateral (TPE less unsecured credit and secured collateral) is average for the month

TPEA Coverage of Settlements January 2022 – January 2023

Total Potential Exposure – Any (TPEA) is estimated credit exposure for non-CRR market activities. It typically closely approximates actual Invoice exposure.



*TPEA adjusted to exclude short pay entities eliminating data skew