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| NPRR Number | [1146](https://www.ercot.com/mktrules/issues/NPRR1146) | NPRR Title | Credit Changes to Appropriately Reflect TAO Exposure |
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| Date | | September 16, 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 | | 512-248-6534 | |
| Cell Number | |  | |
| Market Segment | | Not applicable | |

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| Comments |

ERCOT appreciates the opportunity to file comments to Nodal Protocol Revision Request (NPRR) 1146. For the following reasons, ERCOT does not support adoption of this NPRR in its current form.

1. As proposed, NPRR 1146 would require certain Qualified Scheduling Entities (QSEs) to suspend all Real-Time Market (RTM) activity for all Operating Days following the Operating Day on which the Counter-Party representing the QSE receives notice of suspension from ERCOT in accordance with paragraph (5) of Section 16.11.5, Monitoring of a Counter-Party’s Creditworthiness and Credit Exposure by ERCOT, (note that, under the ERCOT Protocols, Day-Ahead and Congestion Revenue Right (CRR) activity are already constrained by credit limits). ERCOT notes that this provision would need to be automated, as there currently is no system mechanism to temporarily suspend Counter-Parties.

The NPRR specifies that QSEs that do not represent Load Service Entities (LSEs) or Resource Entities may request an M1 of two days under certain conditions. M1 is a factor in the Total Potential Exposure (TPE) calculation that provides for forward risk during a Counter-Party termination upon default (M1a), and, as applicable, during the period it would take to execute a Mass Transition (M1b). The current M1a value is based on a base value of eight Bank Business Days. This was determined based on a worst-case scenario of how long it might take to terminate a defaulting Counter-Party relative to an Operating Day. If the proposal in NPRR 1146 to permit the TPE calculation for certain QSEs to include an M1 value of two days were to be adopted, such would result in collateral only being required for that Operating Day and the following day on which the collateral call would be issued. This minimal level of risk coverage means that a Counter-Party suspension would have to be immediately executed upon detection of the collateral shortfall, and therefore automation would be necessary. Although an Impact Analysis has not been completed, ERCOT asserts the required system enhancements would bear a substantial cost.

1. NPRR 1146, in its current form, would also eliminate the Unbilled Real-Time Amount (URTA) for Trading Activity Only (TAO) QSEs. Currently, the TPE calculations for trading Counter-Parties takes the maximum of URTA and RTLCNS (Real-Time Liability Completed and not Settled). Using the maximum of different estimations of unsettled RT liability is a means of maintaining conservatism in the TPE calculation, limiting Market Participants’ exposure to the costs of default by Counter-Parties. ERCOT does not believe that making credit requirements less conservative for one subset of Counter-Parties is appropriate from an equity perspective.
2. Finally, as proposed, NPRR 1146 couples market suspension with minimal collateral requirements for certain QSEs. ERCOT is concerned this combination would create an incentive for TAO Counter-Parties to rely on automatic suspensions to avoid having to post additional collateral during periods of high prices, and that this is not optimal in terms of market design. Moreover, this ability to leverage suspension in lieu of posting required collateral, and not cure collateral requests within two Bank Business Days, would not be available to all Market Participants.

For the foregoing reasons, ERCOT does not support NPRR1146.

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| Revised Cover Page Language |

None

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| Revised Proposed Protocol Language |

None