



## **Item 7.4: Market Credit Update**

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Reliability and Markets Committee Meeting

ERCOT Public

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# Market Credit Update: Overview

- **Purpose**

Provide updates on key credit indicators and other credit-related developments

- **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) slightly increased from \$1.07 billion in March 2023 to \$1.09 billion in April 2023
- Average Discretionary Collateral decreased from \$3.31 billion in March 2023 to \$3.09 billion in April 2023

# Credit NPRRs

- NPRR 1067 - Market Entry Qualifications, Continued Participation Requirements, and Credit Risk Assessment
  - Withdrawn at Protocol Revision Subcommittee (PRS) in April 2023
  - Replaced by NPRR 1175 Revisions to Market Entry Financial Qualifications and Continued Participation Requirements
  - A separate NPRR will address credit scoring model
- NPRR 1175 - Revisions to Market Entry Financial Qualifications and Continued Participation Requirements
  - Tabled at PRS; Being discussed at the Credit Finance Sub Group (CFSG)
  - Creates a new background check process as a part of ERCOT's review of current and prospective Counter-Parties
  - Authorizes ERCOT to suspend or terminate a Qualified Scheduling Entity (QSE) or Congestion Revenue Right (CRR) Account Holder that is determined to pose an unreasonable credit risk

# 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
  - Endorsed by Credit Finance Sub Group (CFSG)
- NPRR 1146 - Credit Changes to Appropriately Reflect TAO\* Exposure
  - Tabled at PRS; being discussed at 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 CFSG
  - ERCOT opinion on NPRR 1146 has not changed

\*TAO = Trading Activity Only

## Other Credit Changes

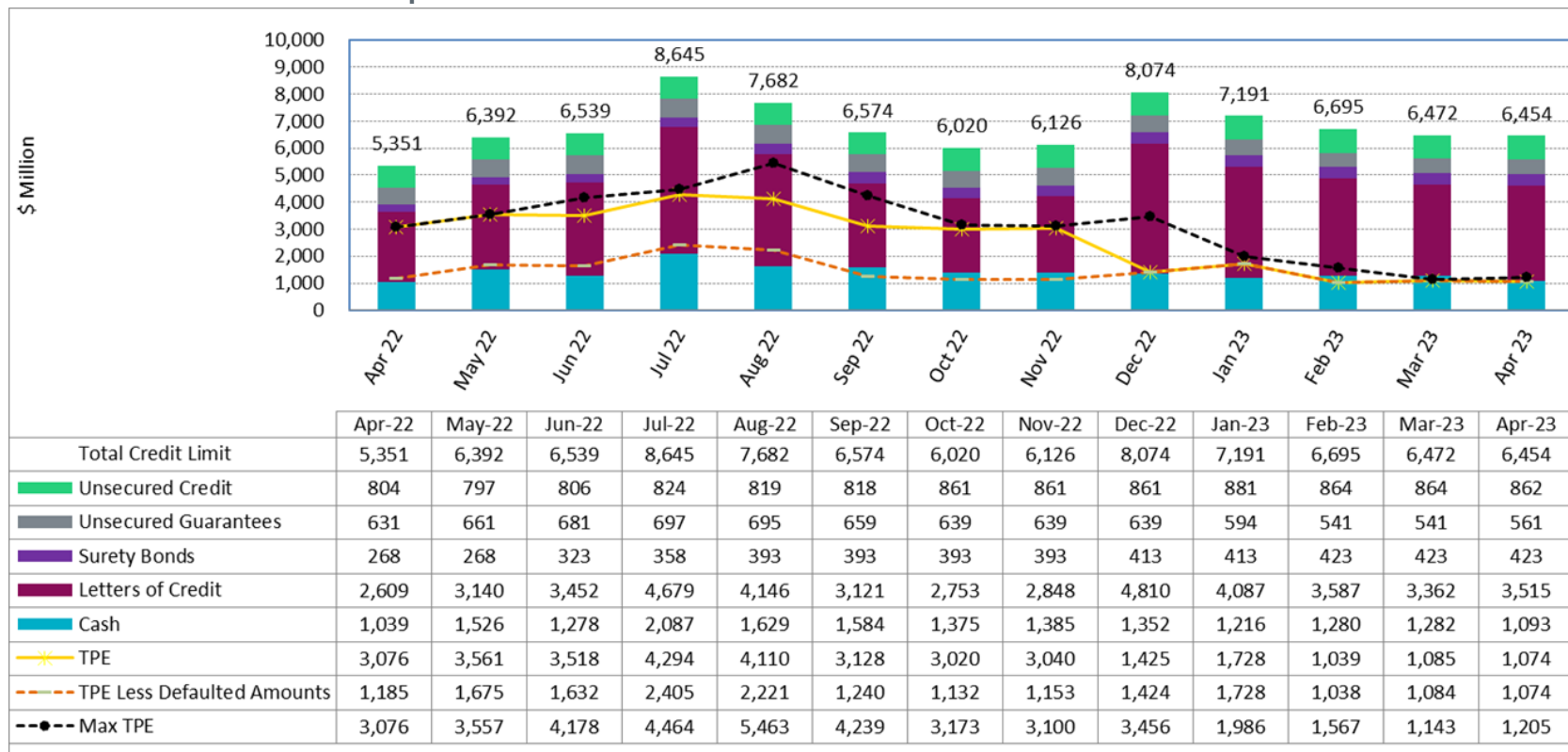
- Change in Collateral Forms
  - ERCOT periodically reviews ERCOT Board-approved collateral forms
  - Last review was done in 2017
  - ERCOT plans to bring changes to the Collateral forms for approval to the August 2023 Reliability and Markets Committee meeting
  - Administrative changes to the Letter of Credit and Surety Bond forms will be proposed
  - Elimination of Guarantee Agreements may be proposed due to the adoption of NPRR1112, Elimination of Unsecured Credit Limits, and NPRR 1165, Revisions to Requirements of Providing Audited Financial Statements and Providing Independent Amount

# Market Credit Update

Appendices

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

This shows TPE compared to the forms of collateral held.

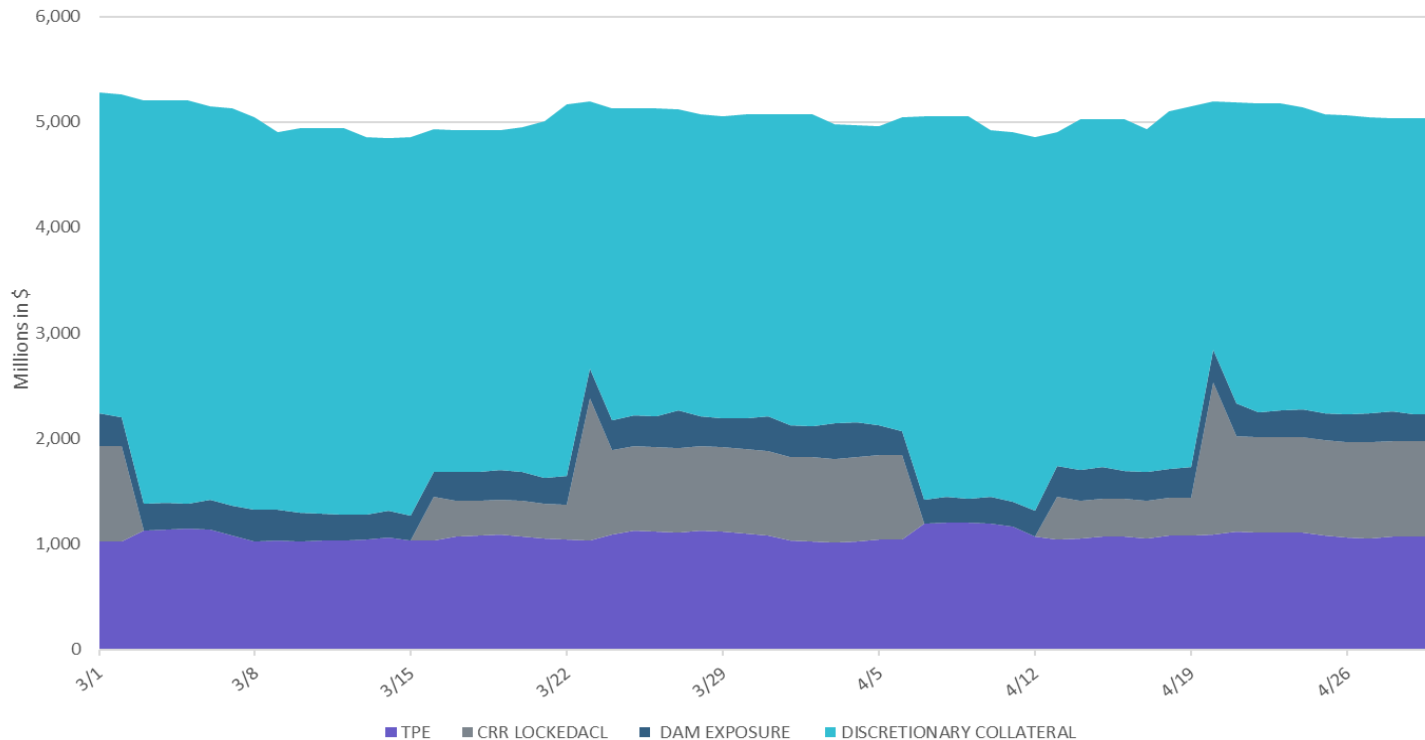


- Numbers are as of month-end except for Max TPE
- Max TPE is the highest TPE for the corresponding month
- TPE less Defaulted Amounts: TPE – Short-Paid Invoices



## Discretionary Collateral March 2023 - April 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

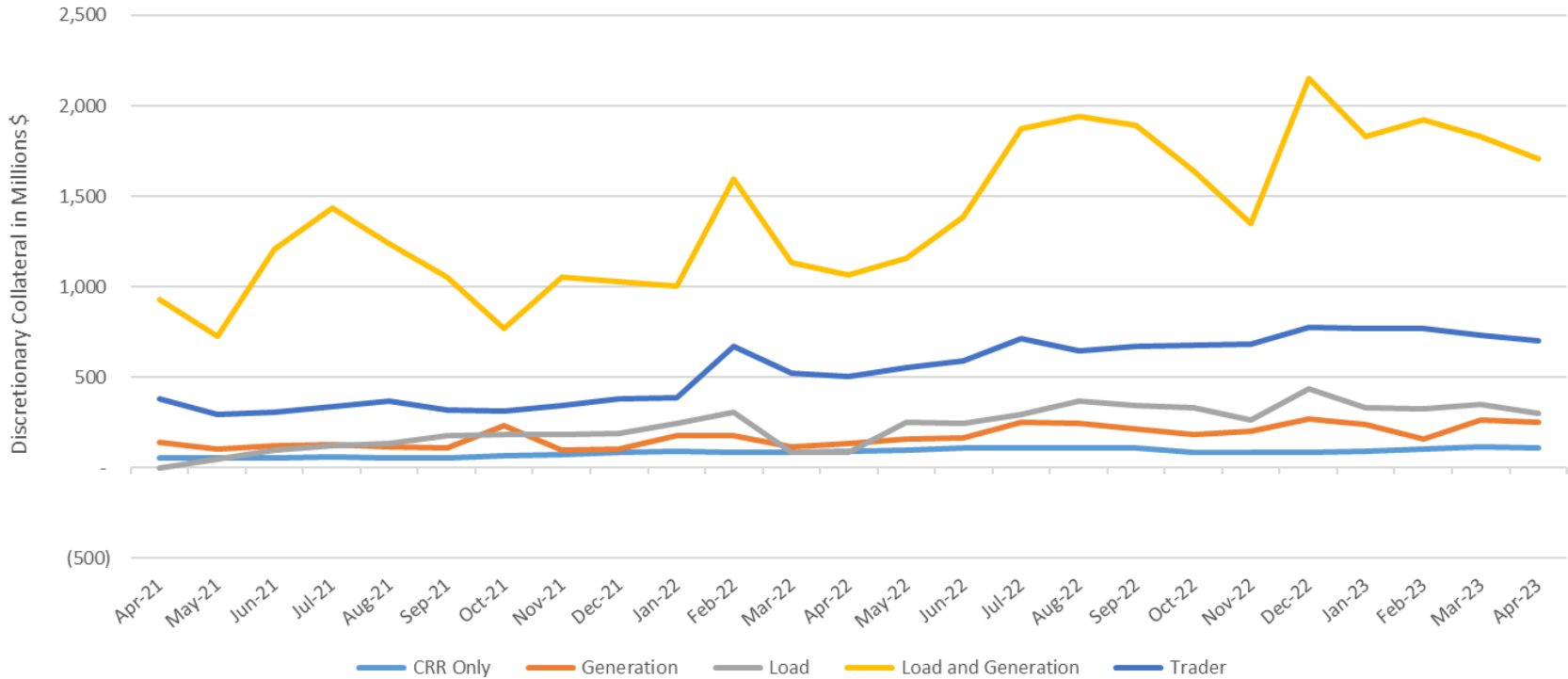
\* TPE adjusted to exclude short pay entities eliminating data skew





# Discretionary Collateral by Market Segment April 2021 - April 2023

Discretionary collateral evidences seasonality, such as in summer months.

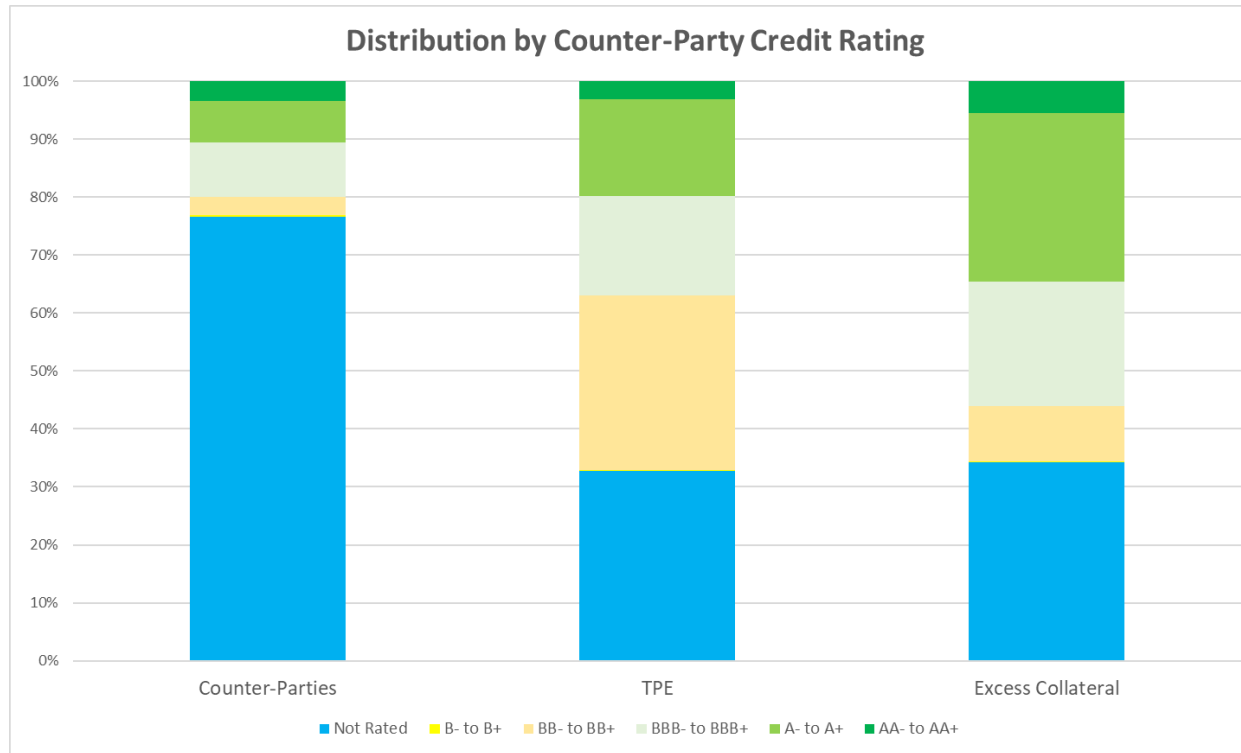


\* Discretionary Collateral adjusted to exclude short pay amounts eliminating data skew



# Distributions by Counter-Party Credit Rating – April 2023

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

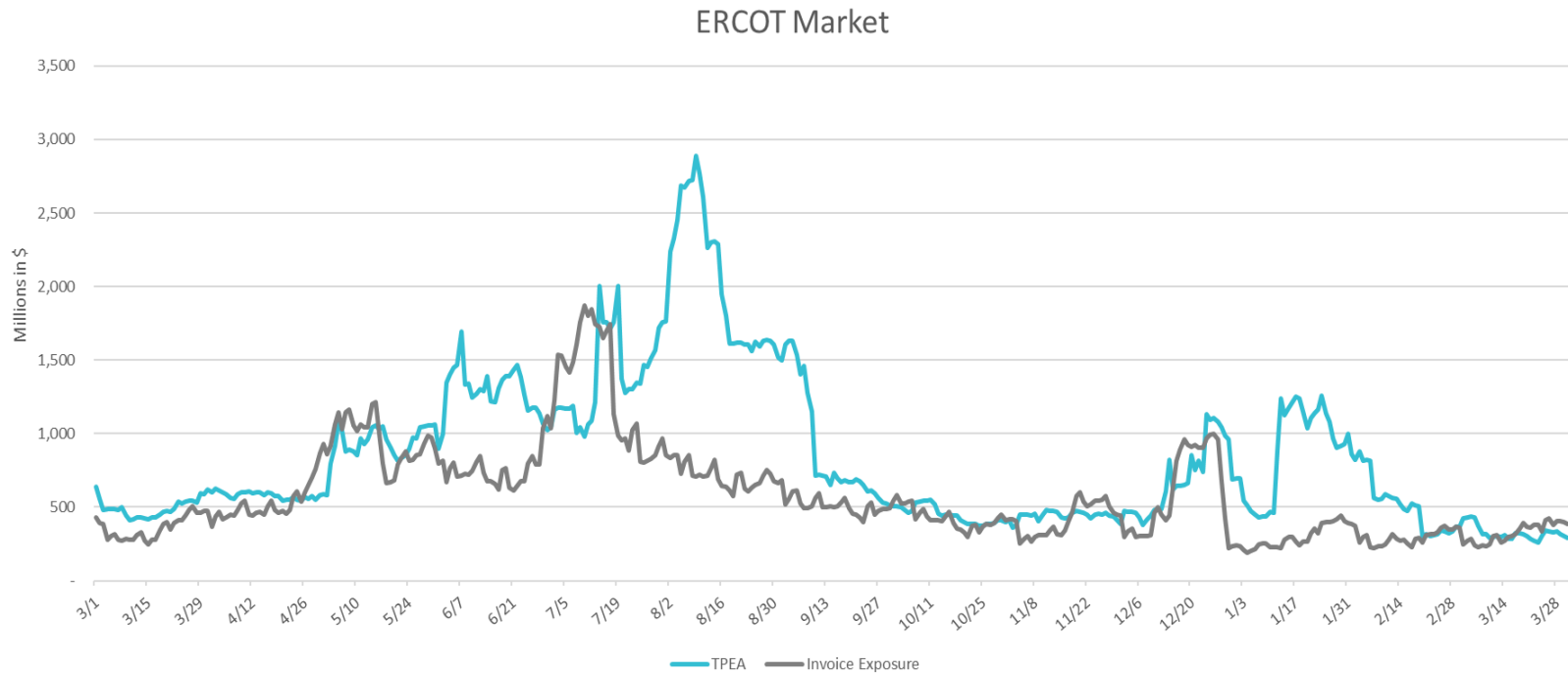


\* TPE is average for the month

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

# TPEA Coverage of Settlements March 2022 – March 2023

Total Potential Exposure – Any (TPEA) is estimated credit exposure for non-CRR market activities.



\*TPEA adjusted to exclude short pay entities eliminating data skew

