



Item 8.4: 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) increased from \$1.10 billion in May 2023 to \$1.46 billion in June 2023
 - TPEA (TPE related to Real-Time and Day Ahead exposure) increased due to higher Real-Time and Day-Ahead Settlement Point prices as well as higher forward adjustment factors
- Average Discretionary Collateral increased from \$3.10 billion in May 2023 to \$3.66 billion in June 2023

Credit NPRRs

- **NPRR 1175 - Revisions to Market Entry Financial Qualifications and Continued Participation Requirements [ERCOT]**
 - Will be voted on at the August 31, 2023 Board of Directors Meeting
 - 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 QSE or CRR Account Holder that is determined to pose an unreasonable credit risk
- **NPRR 1165 - Revisions to Requirements of Providing Audited Financial Statements and Providing Independent Amount [ERCOT]**
 - Item 5.1.1 on the R&M Committee agenda.
 - 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

Credit NPRRs

- **NPRR 1146 - Credit Changes to Appropriately Reflect TAO* Exposure [Rainbow Energy Marketing Corporation]**
 - Withdrawn by sponsor to allow stakeholders to address broader credit issues
 - ERCOT previously filed comments stating we do not support this NPRR

- **NPRR 1184 - Update to Procedures for Managing Interest on Cash Collateral [Tenaska]**
 - Under review at PRS; awaiting Impact Analysis results
 - Requires ERCOT to credit Counter-Party Collateral accounts for interest on a monthly basis, as opposed to the current annual process
 - Requires ERCOT to report the interest earned and the calculation of interest

*TAO = Trading Activity Only



- **Proposed NPRR - Revisions to Credit Qualification Requirements of Banks and Insurance Companies**
 - Under review by Credit Finance Sub Group (CFSG)
 - Changes include strengthening and clarifying minimum credit quality qualifications for banks and insurance companies that issue letters of credit and surety bonds on behalf of Market Participants
 - Uses the “lowest of” credit rating across rating agencies
 - Requires the U.S. branch of a foreign bank to be rated on a stand-alone basis
 - Introduces size qualifications for surety bond/insurance companies

Other Credit Changes

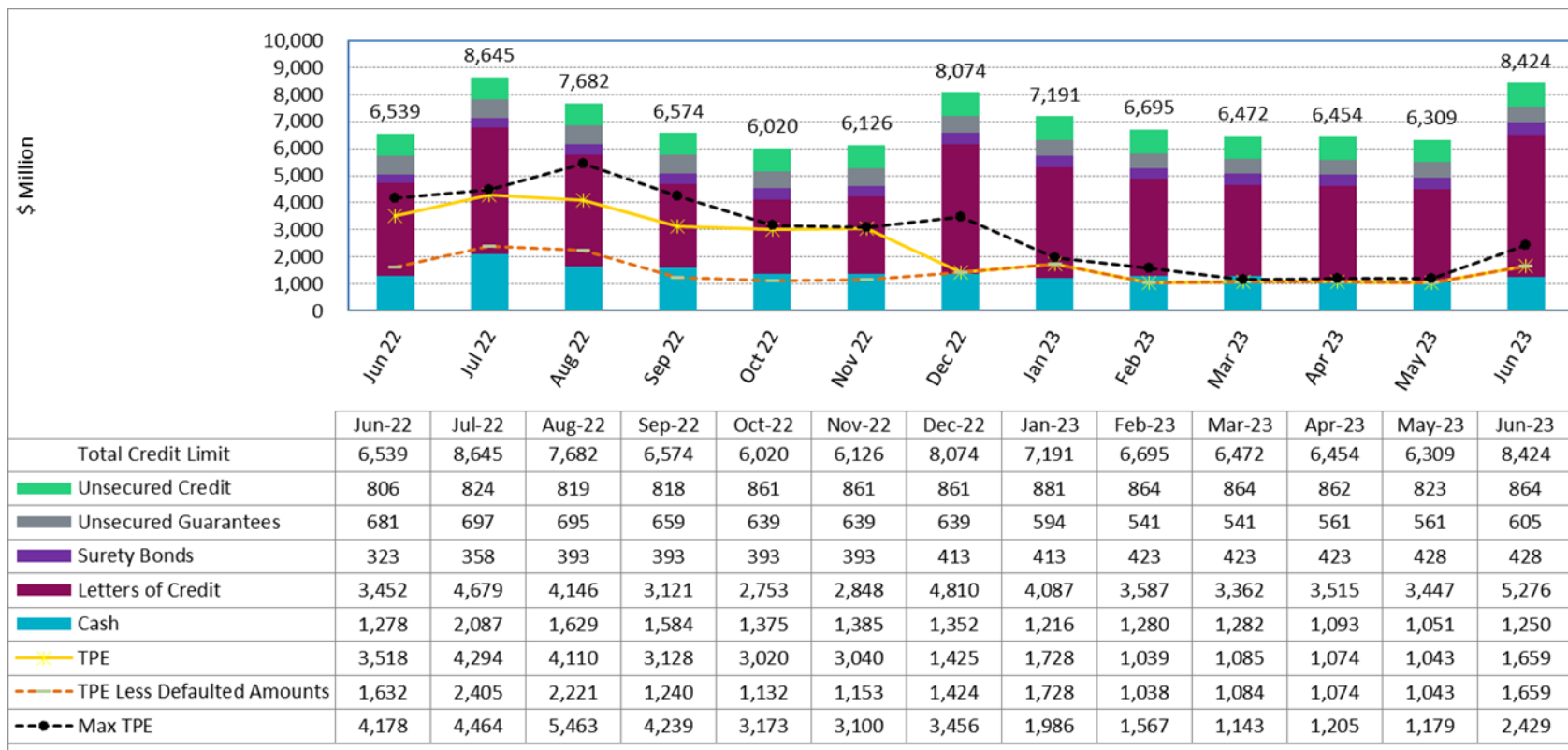
- **Modifications to Guarantee Agreement, Letter of Credit and Surety Bond Standard Forms**
 - Item number 6 on the R&M Committee agenda
 - ERCOT periodically reviews ERCOT Board-approved collateral forms
 - Last review was done in 2017
 - Administrative changes to the Letter of Credit and Surety Bond forms
 - Elimination of Guarantee Agreements 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 June 2022 – June 2023

This shows TPE compared to the forms of collateral held.

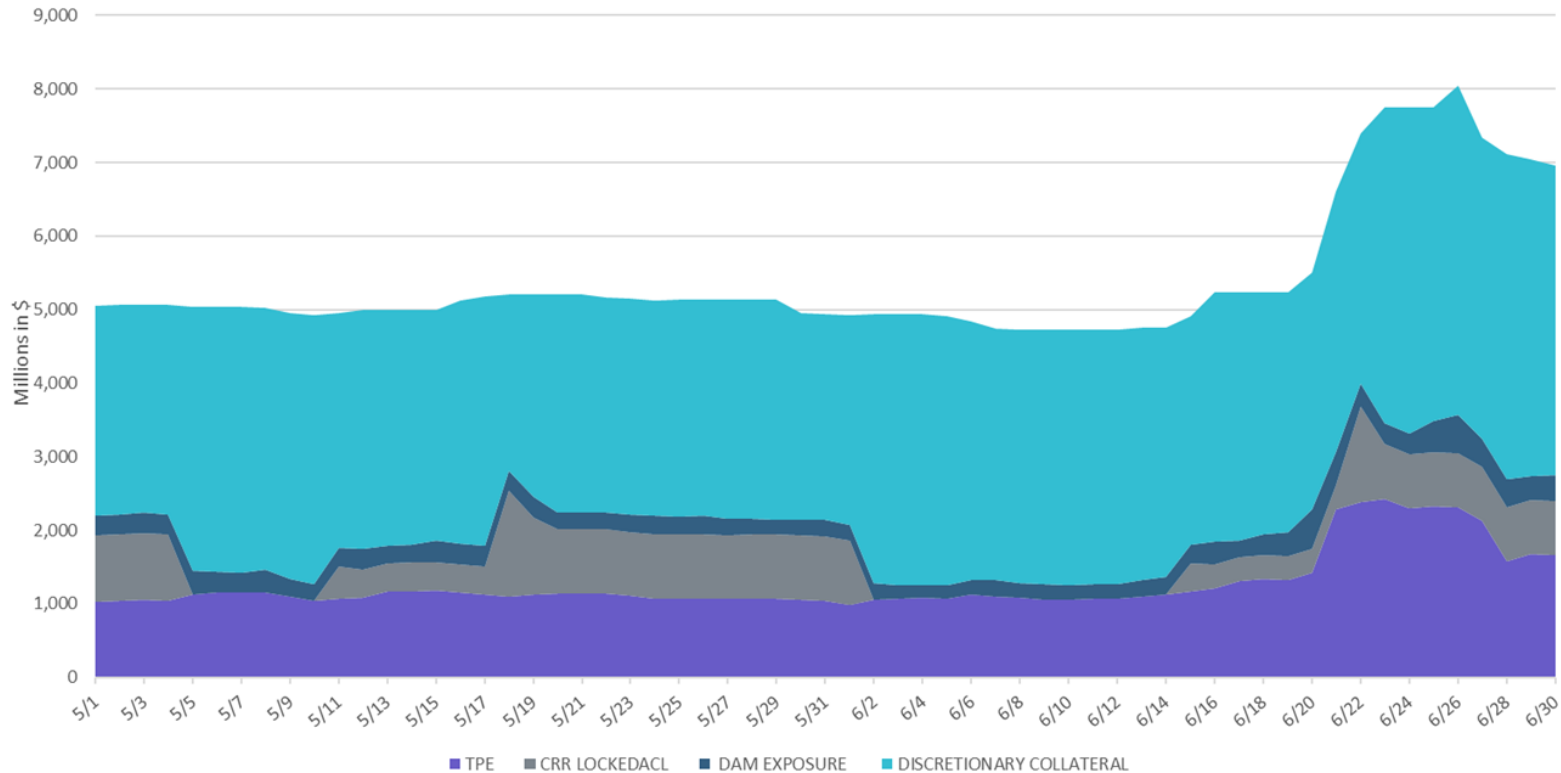


- Numbers are as of month-end except for Max TPE
- Max TPE is the highest TPE for the corresponding month
- TPE less Defaulted Amounts: TPE – Short-Paid Invoices



Discretionary Collateral May 2023 - June 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.

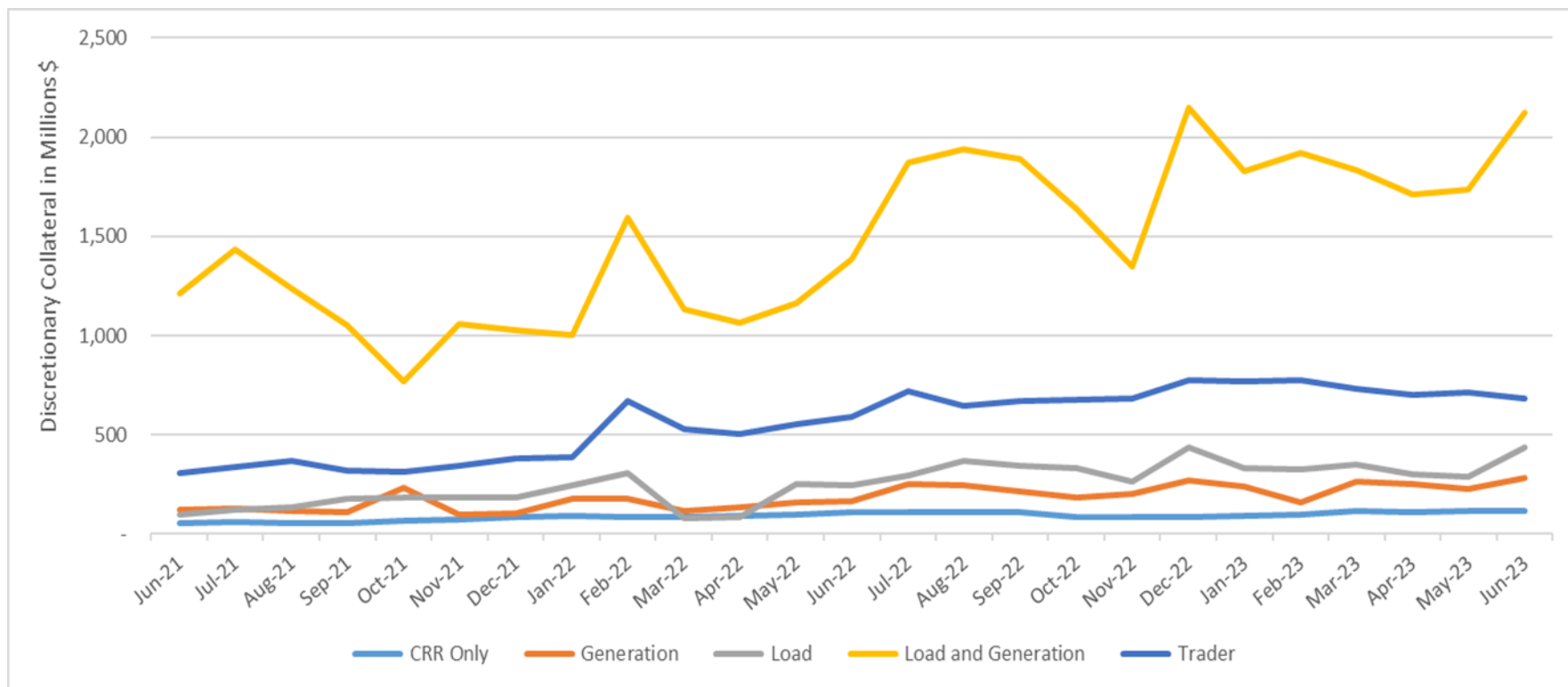


* Discretionary collateral doesn't include Unsecured Credit Limit or parent guarantees

* TPE adjusted to exclude short pay entities eliminating data skew



Discretionary Collateral by Market Segment June 2021 - June 2023

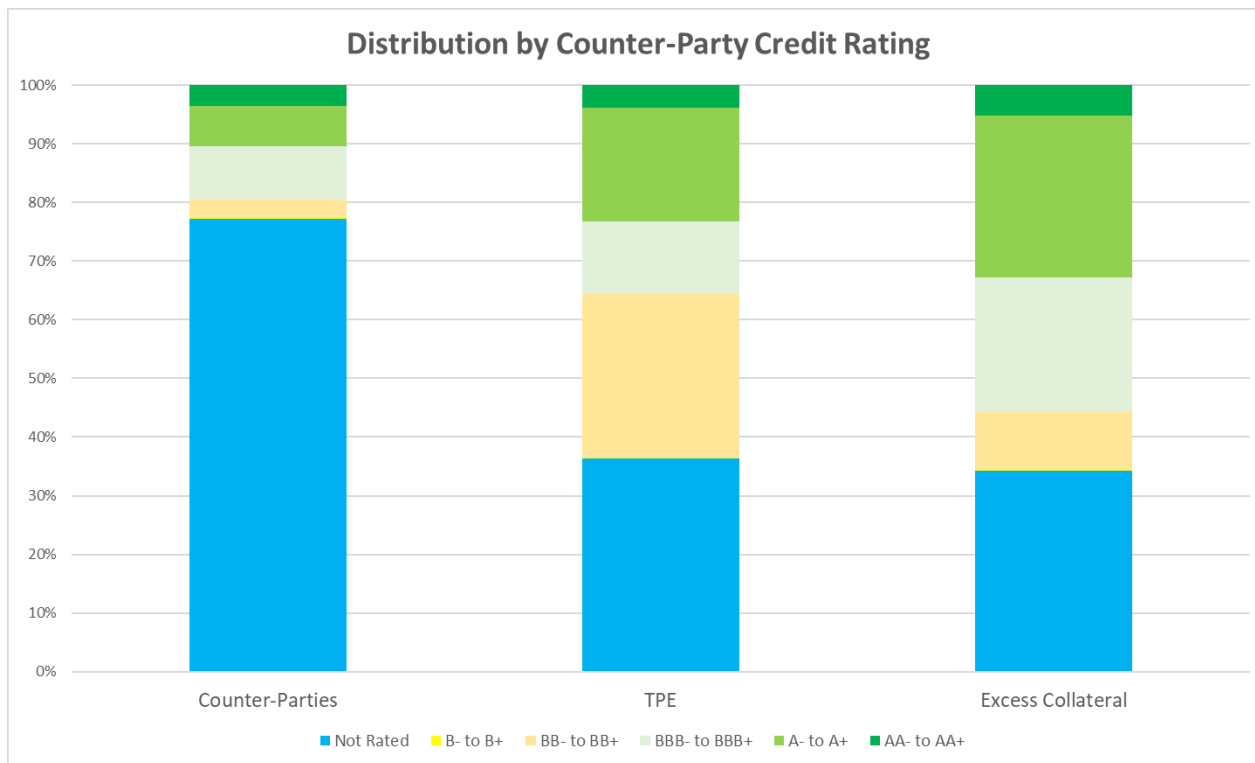


* Discretionary Collateral adjusted to exclude short pay amounts eliminating data skew



Distributions by Counter-Party Credit Rating – June 2023

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

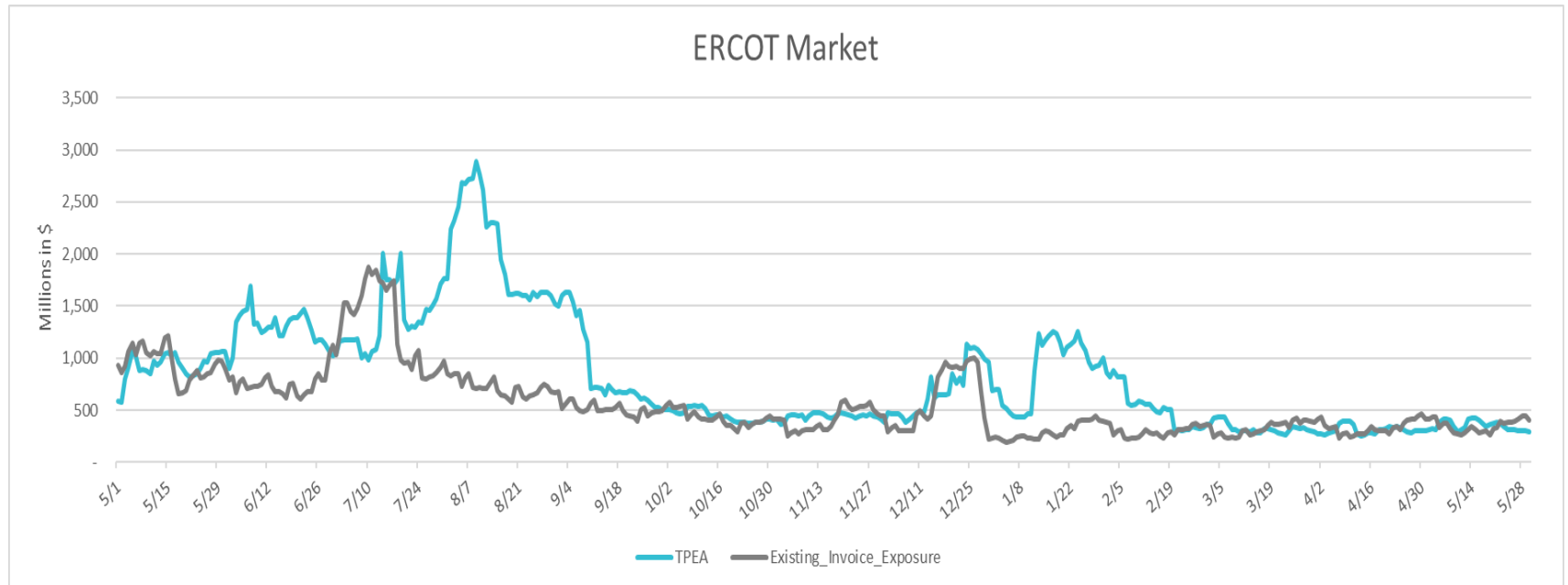


* TPE is average for the month

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

TPEA Coverage of Settlements May 2022 – May 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

