



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

*Kenan Ögelman*

Vice President, Commercial Operations

Reliability and Markets Committee Meeting

ERCOT Public

October 16, 2023

## Credit NPRRs

- **NPRR 1184 - Update to Procedures for Managing Interest on Cash Collateral [Tenaska]**
  - Will be voted on at the October 17, 2023 Board of Directors Meeting
  - Clarifies the management of interest earned on cash collateral posted by Counter-Parties and ensures timely payment of interest earned for each month
  - Requires ERCOT to report the interest earned and the calculation of interest
- **NPRR 1112 - Elimination of Unsecured Credit Limits [ERCOT]**
  - Implemented effective October 1, 2023

# 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**

- Two trade-only entities defaulted on collateral requirements; one load entity, with no active load, defaulted due to failure to submit financial statements; no market losses occurred due to these defaults
- Market-wide average Total Potential Exposure (TPE) increased from \$2.66 billion in July 2023 to \$3.66 billion in August 2023
  - 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 \$4.43 billion in July 2023 to \$4.91 billion in August 2023

## Credit NPRRs

- **NPRR 1165 - Revisions to Requirements of Providing Audited Financial Statements and Providing Independent Amount [ERCOT]**
  - Approved at the August 31, 2023 Board of Directors Meeting; plan to be implemented in Q2 2024
  - 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
- **NPRR 1175 - Revisions to Market Entry Financial Qualifications and Continued Participation Requirements [ERCOT]**
  - Approved at the August 31, 2023 Board of Directors Meeting; to be implemented after PUC approval
  - 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

## Other Credit Changes

- **Modifications to Guarantee Agreement, Letter of Credit and Surety Bond Standard Forms**
  - Approved at the August 30, 2023 R&M Committee Meeting; Credit staff to start transitioning all Letters of Credit and Surety Bonds to new forms starting October 1, 2023
  - 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 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

# Credit NPRRs

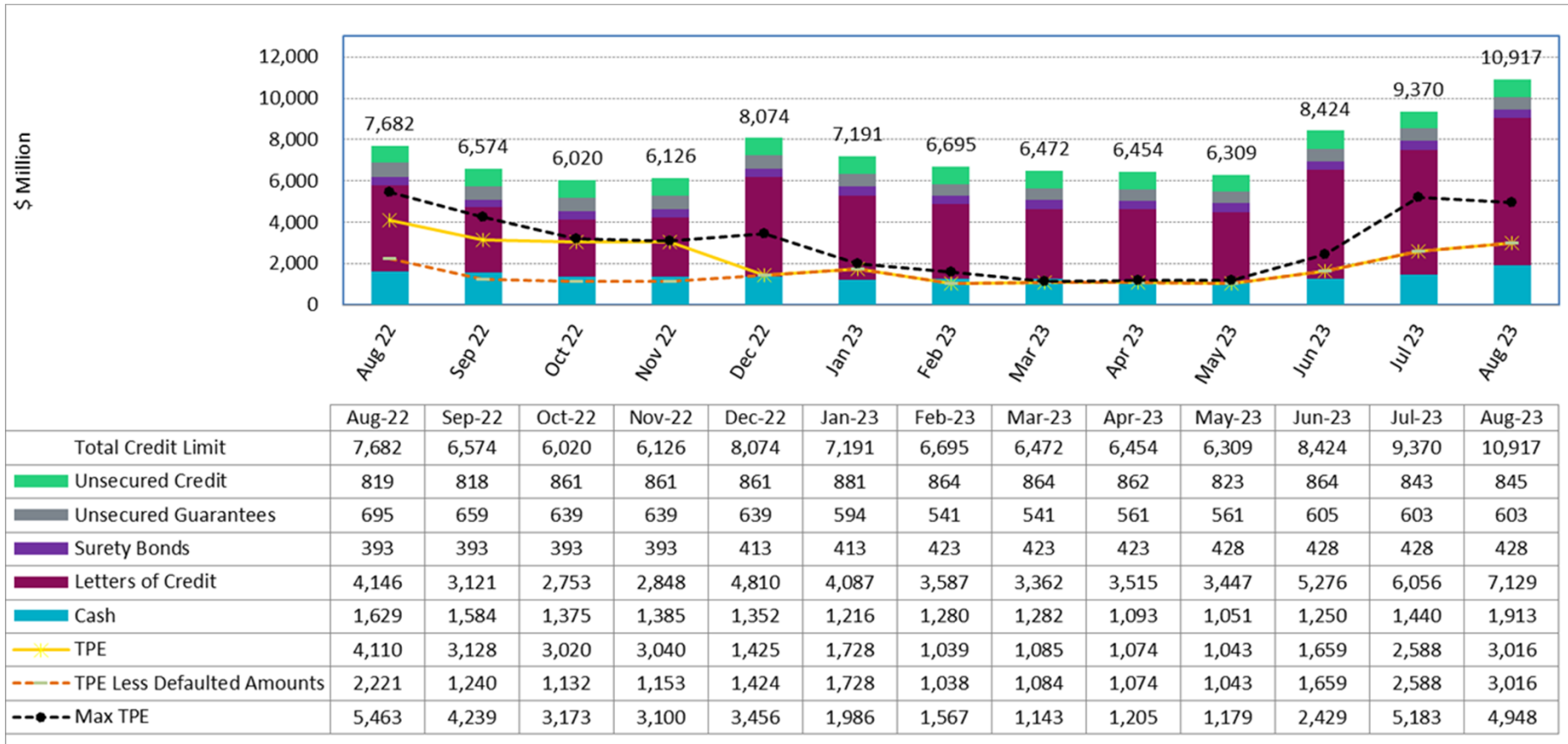
- **Proposed NPRR - Revisions to Credit Qualification Requirements of Banks and Insurance Companies**
  - Under review by Credit Finance Sub Group (CFSG)
  - Specific changes include strengthening and clarifying minimum credit quality qualifications for:
    - Banks, which issue letters of credit on behalf of Market Participants to ERCOT; and
    - Insurance companies, which issue surety bonds on behalf of Market Participants to ERCOT.

# Market Credit Update

Appendices

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

This shows TPE compared to the forms of collateral held.

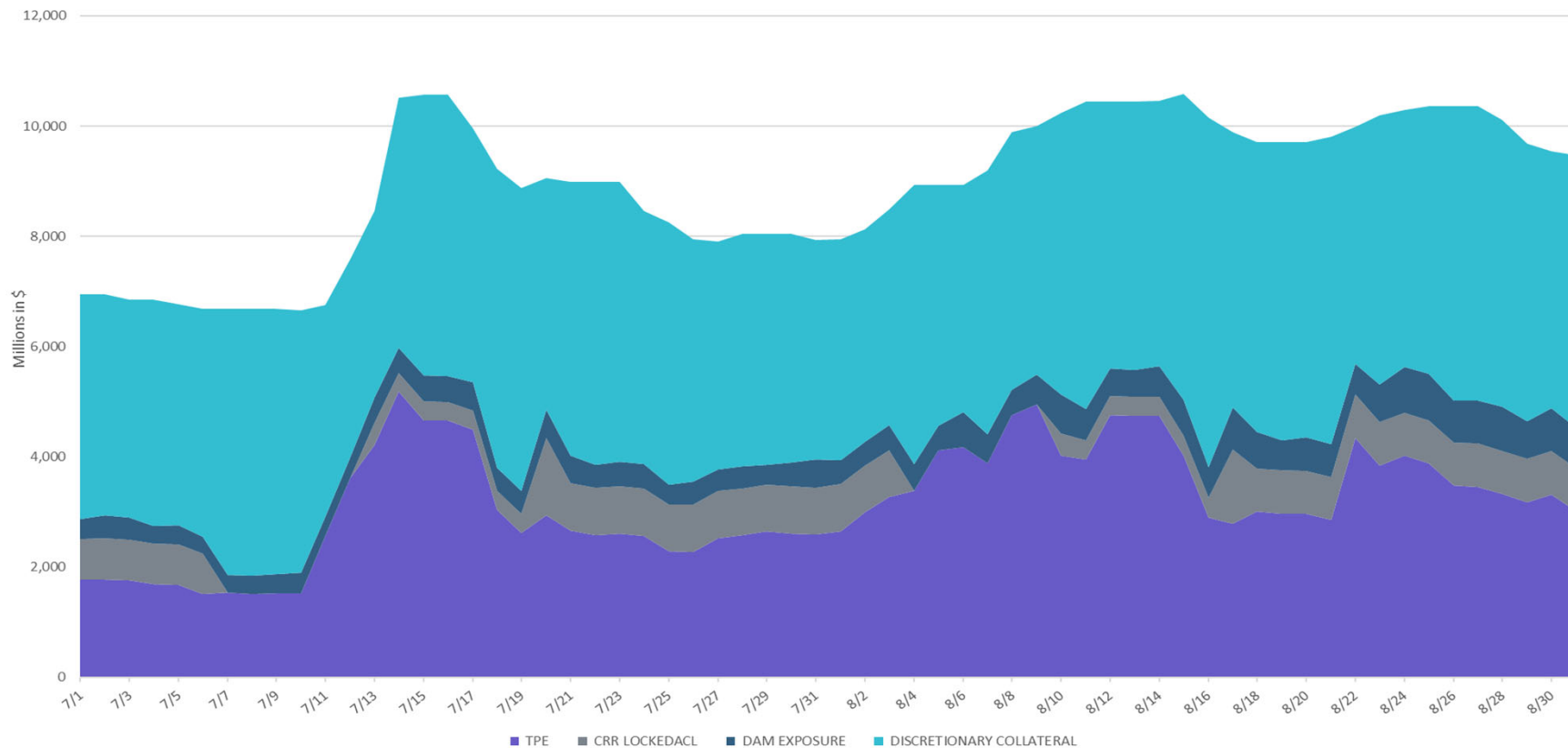


- Numbers are as of month-end except for Max TPE
- Max TPE is the highest TPE for the corresponding month
- TPE less Defaulted Amounts: TPE – Short-Paid Invoices



## Discretionary Collateral July 2023 - August 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.

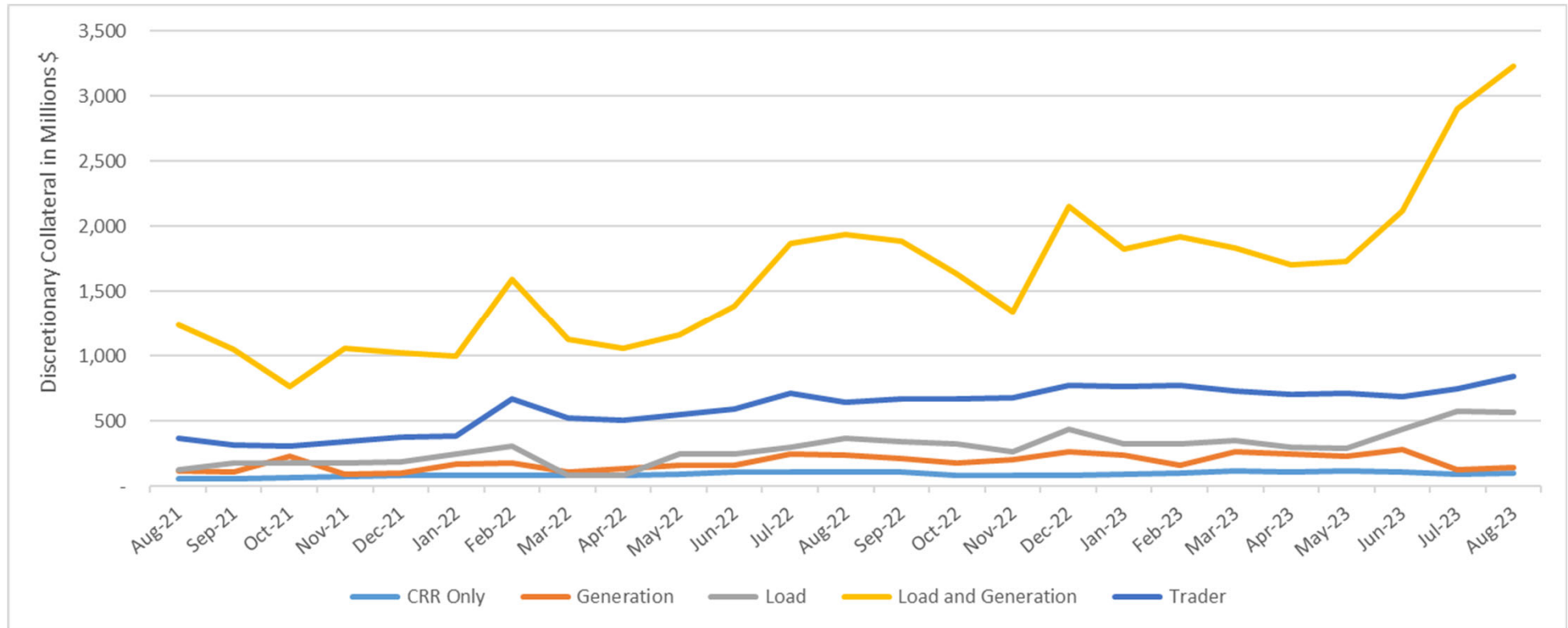


\* Discretionary collateral doesn't include Unsecured Credit Limit or parent guarantees

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

# Discretionary Collateral by Market Segment August 2021 - August 2023

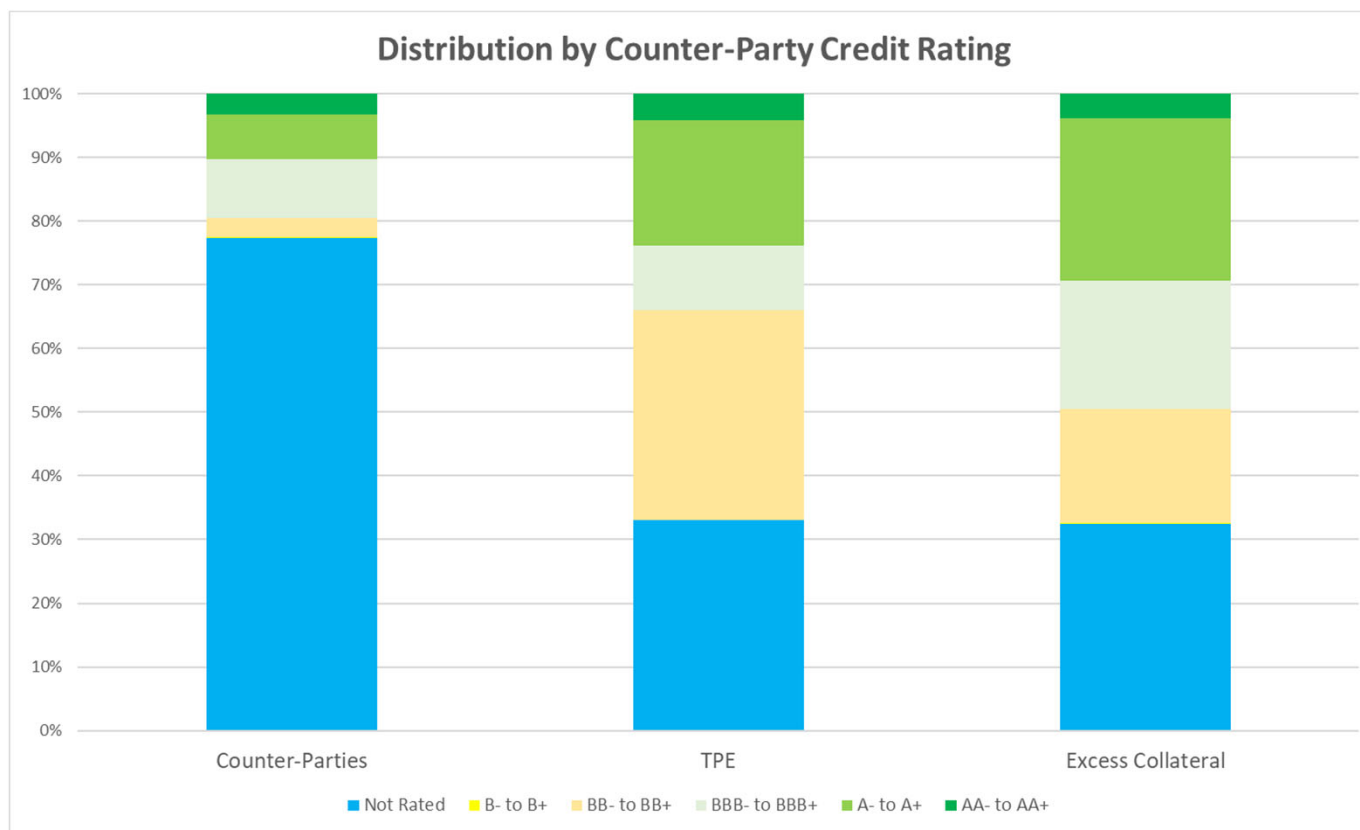
Discretionary collateral evidences seasonality, such as in summer months.



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

## Distributions by Counter-Party Credit Rating – August 2023

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

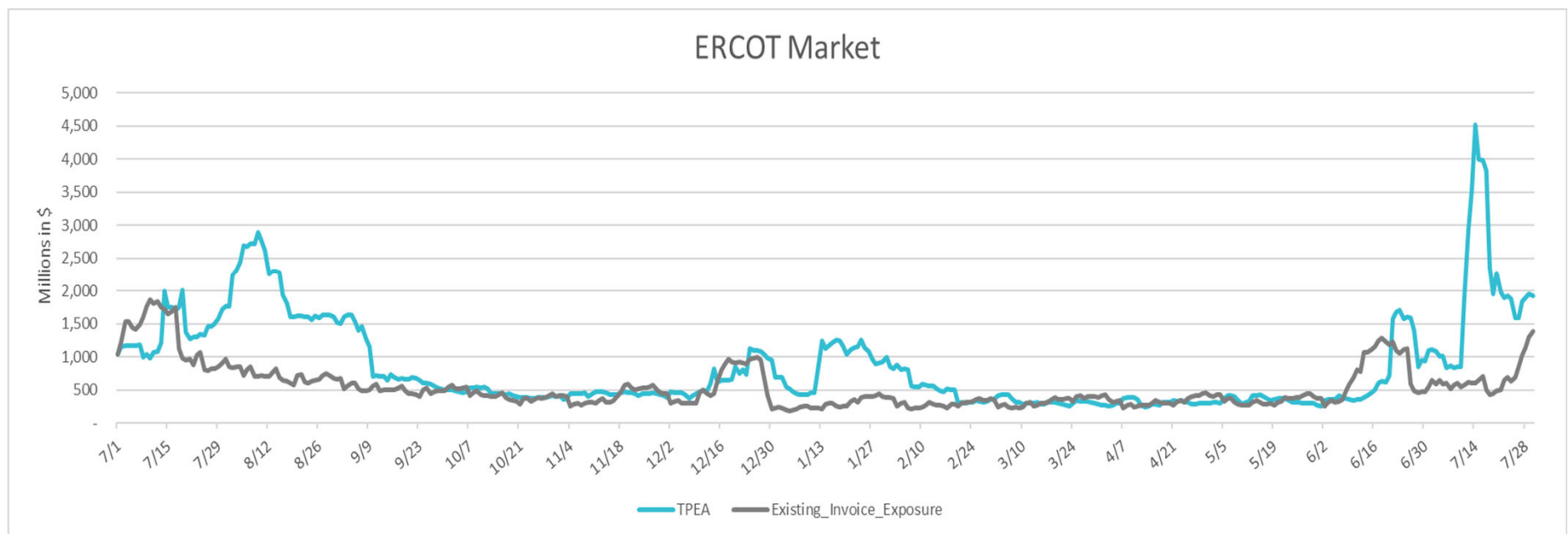


\* TPE is average for the month

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

## TPEA Coverage of Settlements Jul 2022 – Jul 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