



Item 10.4: 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 Reliability and Markets (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 \$2.50 billion in September 2023 to \$2.88 billion in October 2023
 - TPEA (TPE related to Real-Time and Day Ahead exposure) increased due to higher forward adjustment factors
- Average Discretionary Collateral decreased from \$5.04 billion in September 2023 to \$4.33 billion in October 2023

Credit NPRRs

- **NPRR 1184 - Update to Procedures for Managing Interest on Cash Collateral [Tenaska]**
 - Approved at the October 17, 2023 Board of Directors Meeting
 - Phase 1 (payment/crediting of interest into collateral) to be implemented in January 2024; Phase 2 (reporting of interest earnings under prioritization review)
 - 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 1175 - Revisions to Market Entry Financial Qualifications and Continued Participation Requirements [ERCOT]**
 - Approved at the October 12, 2023 PUCT meeting; implemented effective November 1, 2023
 - 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

Credit NPRRs

- **NPRR 1205 - Revisions to Credit Qualification Requirements of Banks and Insurance Companies [ERCOT]**
 - 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.

Letter of Credit (LC) Issuing Bank Credit Limit Breaches

- (iii) Letters of credit are subject to an overall limit per letter of credit issuer for all ERCOT Counter-Parties as determined below:

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

- (A) Each letter of credit issuer limit is also subject to an overall limit of \$750 million per issuer.

- (B) Each Bank Business Day, ERCOT will issue a report of each letter of credit issuer detailing the issuer's dollar amount of the letters of credit currently issued to ERCOT, the issuer's computed aggregate concentration limit, and the unused capacity under that limit. Market Participants may inquire of ERCOT about intra-day changes to the amount of posted letters of credit.
- (C) If a letter of credit issuer limit is breached, Counter-Parties utilizing that issuer will be notified and no new letters of credit from the issuer will be accepted while the limit remains breached.
- (D) After four months of the limit in breach, ERCOT will no longer accept new letters of credit or amendments to existing letters of credit from that issuer.

LC Issuing Bank Credit Limit Breaches

- ERCOT has LCs from 38 banks
- 2 banks have breached their credit limit
- 2 banks are at 80% or greater of their credit limit
- The table below shows the “top 10” utilized banks based on ERCOT established issuer credit limits as well as the remaining 28 banks and totals for all 38 banks.

Issuer Name	Total LC Amounts Per Issuer	Tangible Net Worth	Issuer Credit Limits based on Tangible Net Worth	Unused Capacity based on Tangible Net Worth	% Credit Limit Issued
Credit Agricole Corporate & Investment Bank SA	\$357,909,400	\$28,605,867,700	\$228,846,942	\$(129,062,458)	156%
BBVA	\$400,000,000	\$48,022,768,500	\$336,159,380	\$(63,840,621)	119%
CoBank ACB	\$84,700,000	\$10,224,688,000	\$86,909,848	\$2,209,848	97%
Royal Bank of Canada	\$454,000,000	\$65,770,217,758	\$559,046,851	\$105,046,851	81%
DNB Bank ASA	\$161,100,003	\$24,384,000,000	\$207,264,000	\$46,163,997	78%
Societe Generale	\$360,659,564	\$64,038,926,800	\$480,291,951	\$119,632,387	75%
Lloyds Bank Corporate Markets PLC	\$210,471,139	\$40,955,359,400	\$327,642,875	\$117,171,736	64%
BNP Paribas	\$481,062,012	\$120,721,538,800	\$750,000,000	\$268,937,988	64%
Sumitomo Mitsui Banking Corporation	\$301,219,008	\$69,538,314,379	\$521,537,358	\$220,318,350	58%
Wells Fargo	\$390,300,777	\$128,401,000,000	\$750,000,000	\$359,699,223	52%
Remaining 28 banks	\$1,406,631,737	\$1,269,577,533,471	\$9,042,529,285	\$7,635,897,548	16%
All 38 banks	\$4,608,053,640	\$1,870,240,214,808	\$13,290,228,489	\$8,682,174,849	35%

LC Issuing Bank Credit Limit Breaches

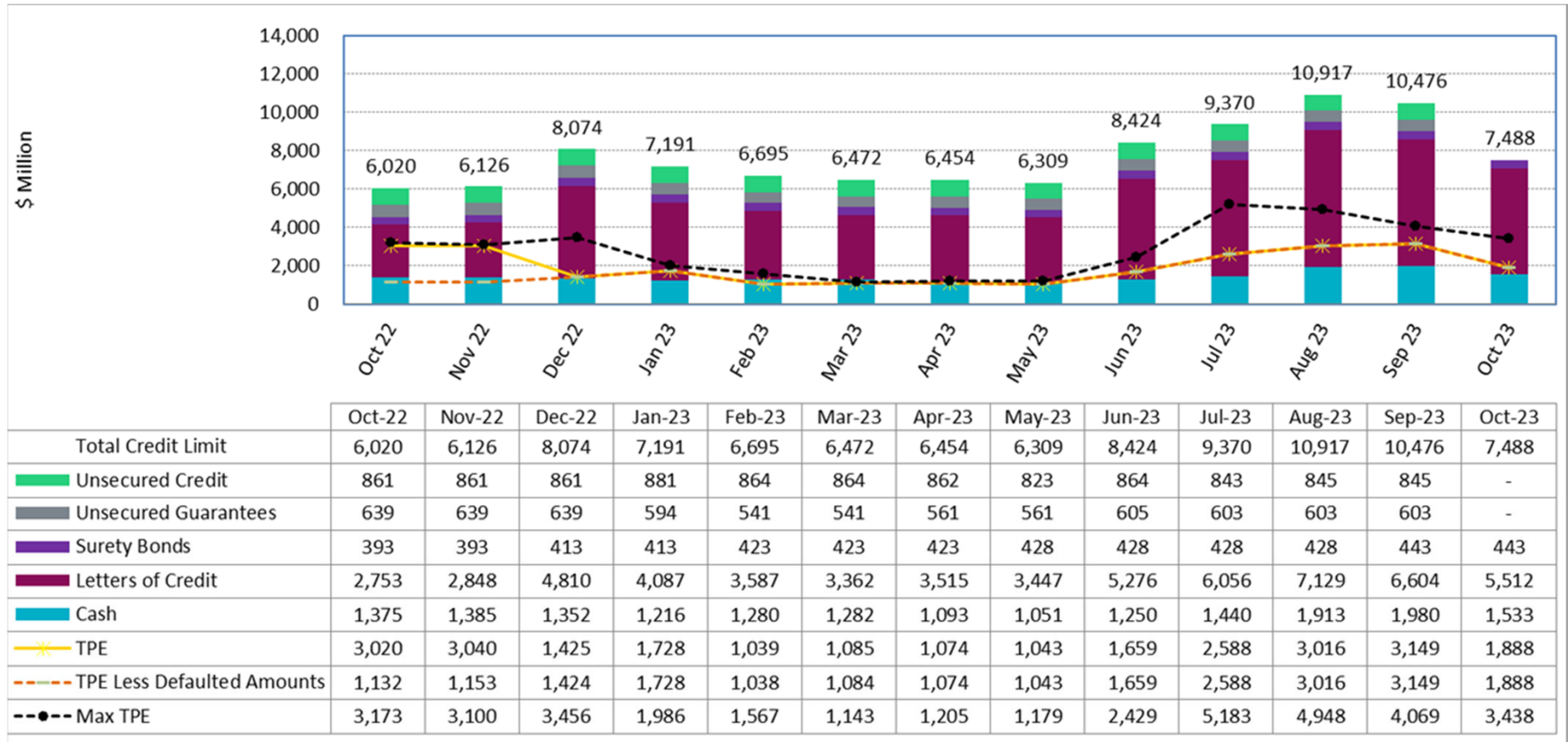
- Breaches are allowed per Protocol, they are designed to be a “soft cap” not a “hard cap”, however this is the first time ERCOT has seen the four-month limit reached.
- ERCOT brought this to the Credit Finance Subgroup (CFSG) for discussion several times this year. During the November Meeting, the CFSG determined that there was not a need for immediate action.
- NPRR1205, Revisions to Credit Qualification Requirements of Banks and Insurance Companies could decrease the pool of available LC issuing banks as well as reduce issuer limits which could lead to more breaches in the future.
 - If NPRR1205 is approved, ERCOT is considering increasing the issuer limits due to the higher quality standards for the LC issuing banks proposed in NPRR1205.
- ERCOT will continue to monitor and discuss both internally, with CFSG and the R&M subcommittee. ERCOT may propose adjustments to these limits in 2024.

Market Credit Update

Appendices

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

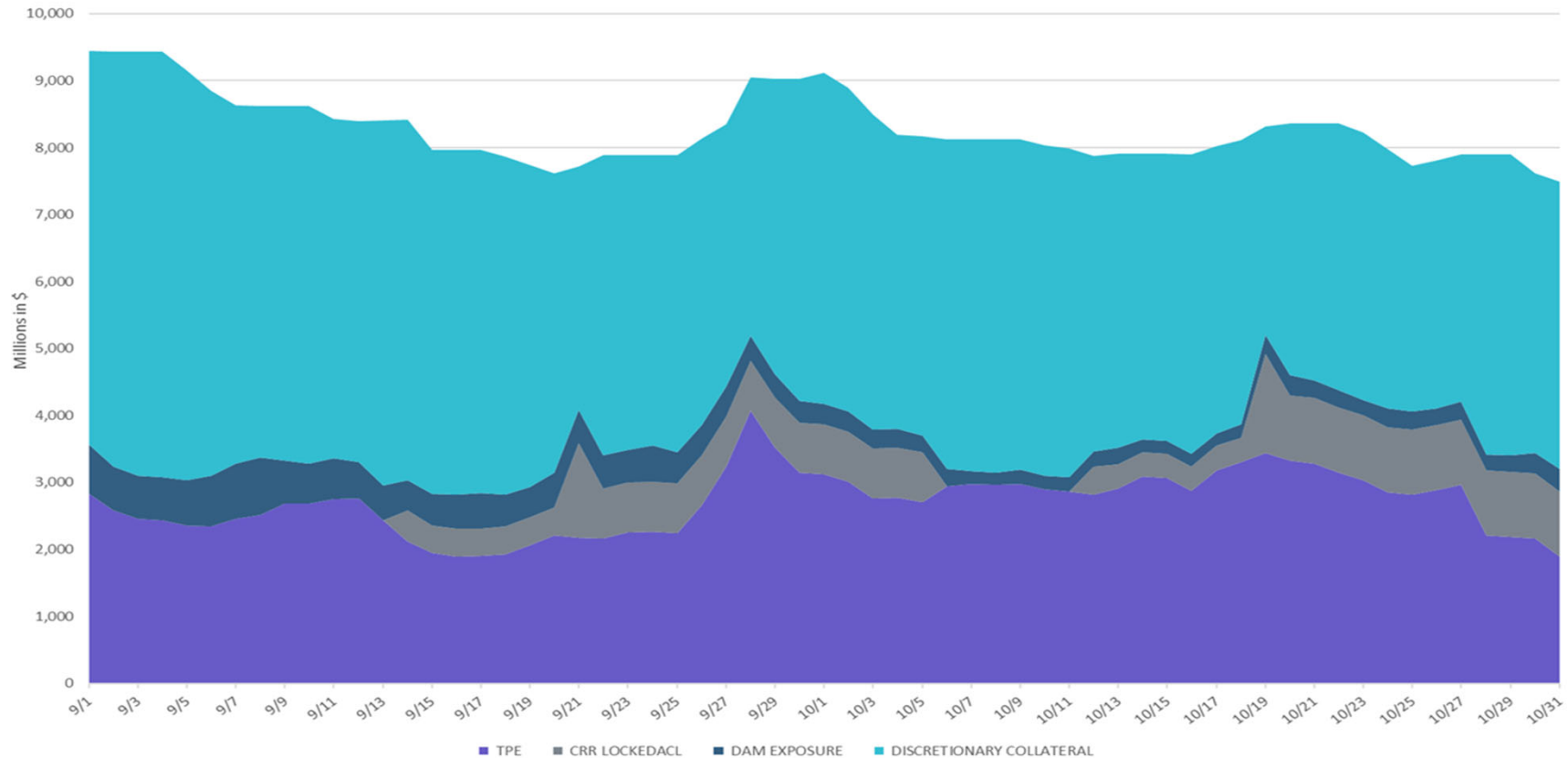
This shows TPE compared to the forms of collateral held.



- 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 September 2023 - October 2023

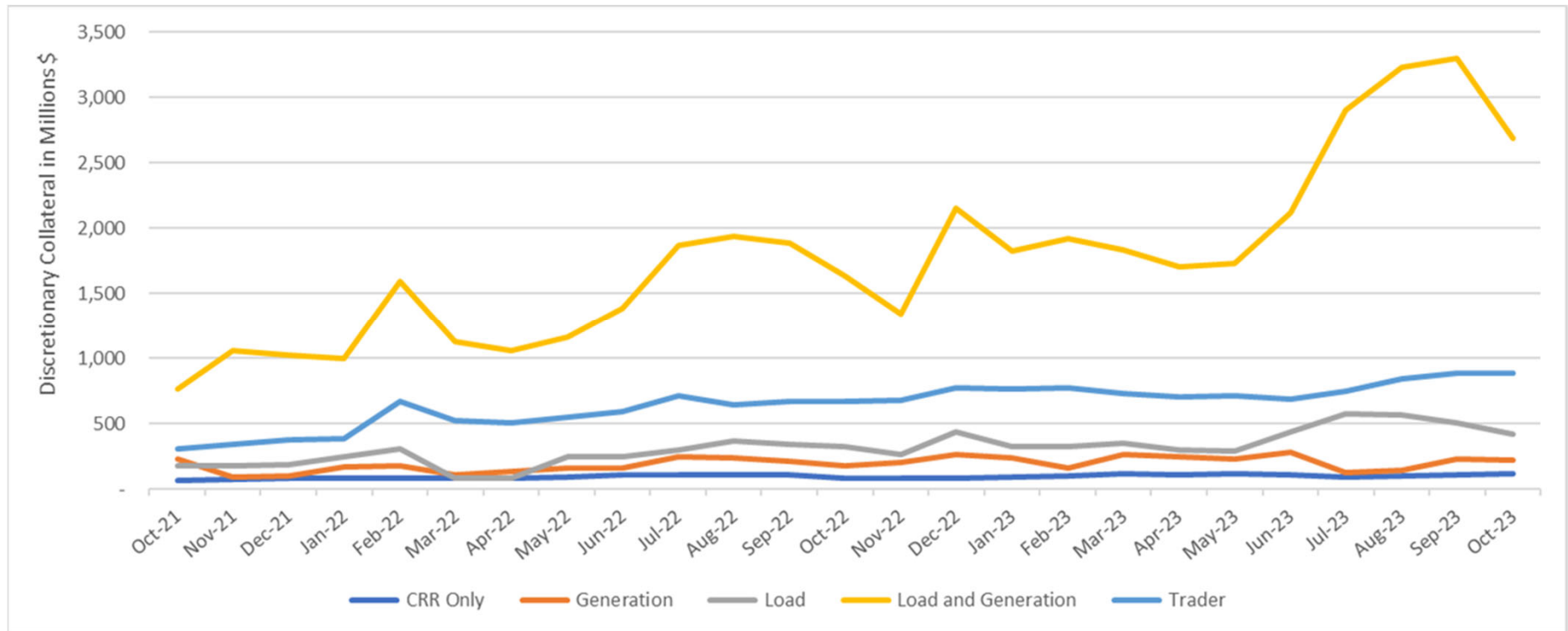
ERCOT Counter-Parties typically provide a large measure of collateral in excess of that required to cover TPE, Day-Ahead Market (DAM) activity and Congestion Revenue Right (CRR) auctions.



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

* TPE adjusted to exclude short pay entities eliminating data skew

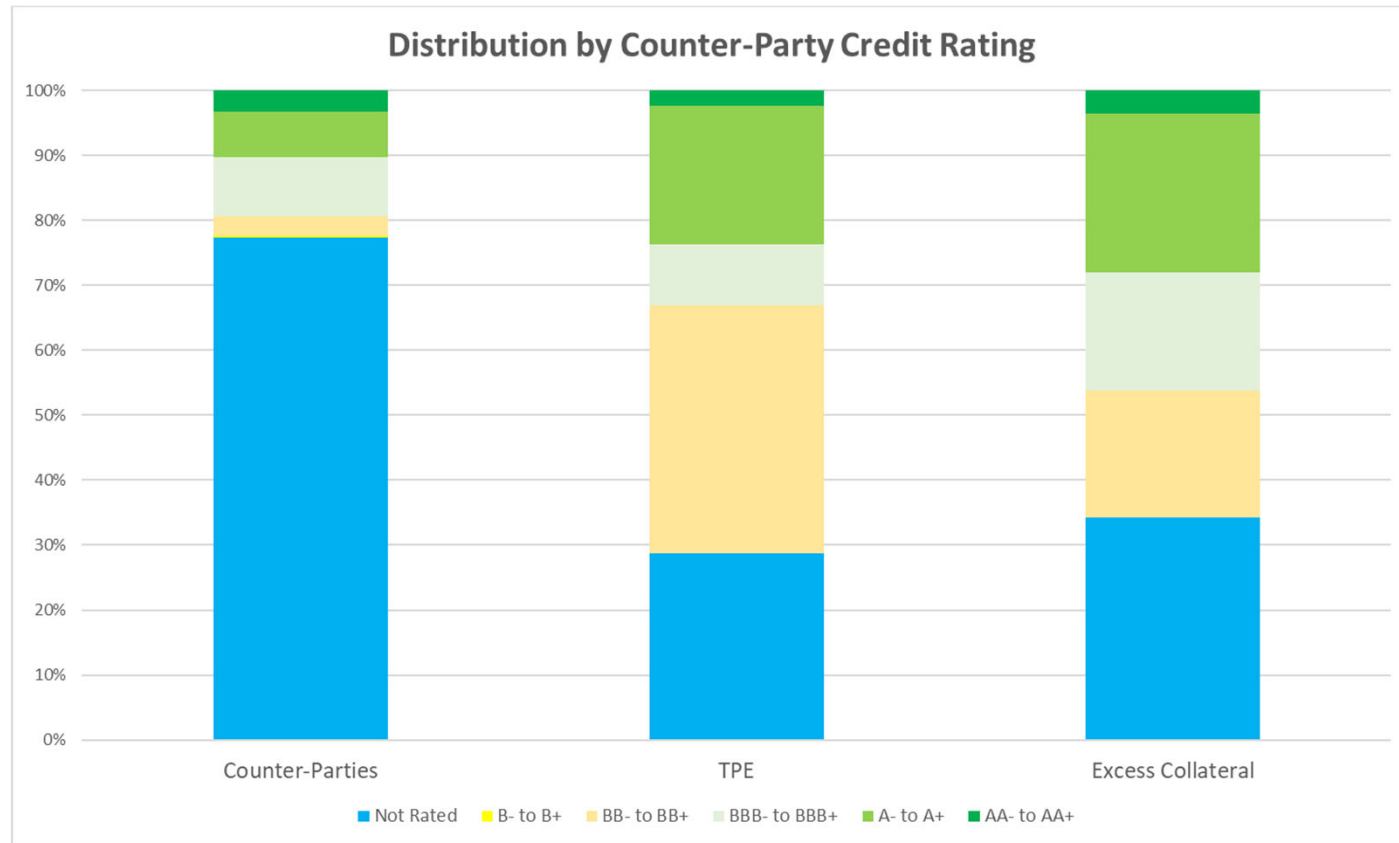
Discretionary Collateral by Market Segment October 2021 - October 2023



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

Distributions by Counter-Party Credit Rating – October 2023

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

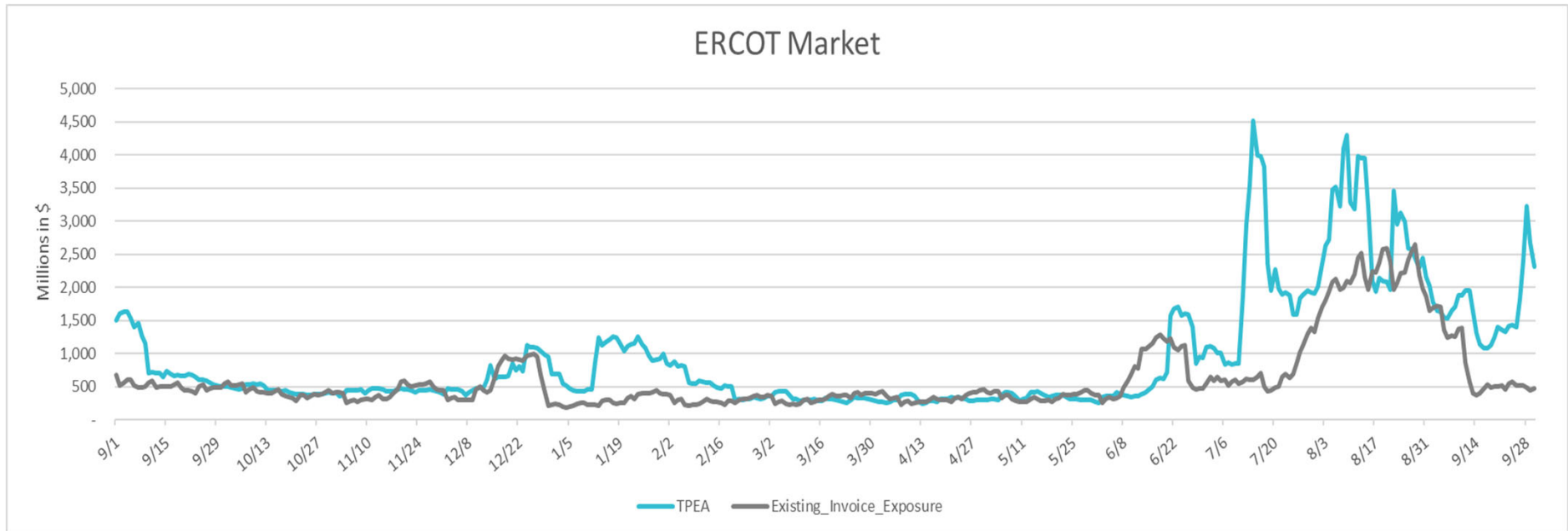


* TPE is average for the month

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

TPEA Coverage of Settlements Sep 2022 – Sep 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