



**The Reliability and Markets (R&M) Committee
is expected to consider
R&M Committee Agenda Item 5:**

***Recommendation regarding Market Credit
Risk Corporate Standard***

at its meeting on February 26, 2024.

**The Board of Directors is expected to hear
the R&M Committee's recommendation on
this matter as part of the
R&M Committee Report
at the Board meeting
on February 27, 2024.**

**Attached are the Board and Committee
materials in relation to these agenda items.**



Item 5: Recommendation regarding Market Credit Risk Corporate Standard

Kenan Ögelman

Vice President, Commercial Operations

Reliability and Markets Committee Meeting

ERCOT Public

February 26, 2024

[Board/Committee] Request

Why this is being presented today:

The Board of Directors established ERCOT's Market Credit Risk Corporate Standard (Standard). The Standard's objective is to establish a framework to maintain ERCOT's long-term financial integrity and to help ensure that overall market credit risk is maintained within acceptable limits. Per the Reliability and Markets (R&M) Committee charter, the Standard must be reviewed annually. A redlined version of the Standard, identifying the proposed changes for this year, is attached.

ERCOT staff requests a vote from the R&M Committee to recommend that the Board approve the Standard, which has been revised to strike references to the Board's former Credit Work Group (CWG).

Request for Vote

ERCOT staff recommends that the Reliability and Markets Committee recommend that the Board of Directors approve ERCOT's Market Credit Risk Corporate Standard as revised.

<Vote>

Key Takeaway: References to CWG are no longer necessary because CWG was a sub-group of the Board that no longer exists. ERCOT staff provides market credit risk updates to the Board regularly at the R&M Committee and upon request of the Technical Advisory Committee (TAC).



Date: February 20, 2024
To: Board of Directors
From: Bob Flexon, Reliability and Markets (R&M) Committee Chair
Subject: Market Credit Risk Corporate Standard

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: February 27, 2024

Item No.: 11.1

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve any or all of the ERCOT staff proposed modifications or recommend and approve any other changes to the ERCOT Market Credit Risk Corporate Standard (Standard), to become effective upon approval by the Board.

Background/History:

The Board has established the ERCOT Market Credit Risk Corporate Standard, which requires review at least annually by the R&M Committee, with modifications approved by the Board. The Standard was last approved by the Board on February 28, 2023.

This Standard establishes a framework to maintain ERCOT's long-term financial integrity and to help ensure that overall market credit risk is maintained within acceptable limits. ERCOT recognizes that maintaining financial integrity and acceptable overall market credit risk is critical to accomplishing its corporate goals and discharging ERCOT's primary responsibilities.

ERCOT staff has reviewed the Standard and proposes revisions, as reflected in **Attachment A**, to become effective upon approval by the Board. The revisions strike references to the Board's former Credit Work Group (CWG). References to CWG are no longer necessary because CWG was a sub-group of the Board that no longer exists. ERCOT staff report market credit risk to the Board, and the Credit Finance Sub-Group (CFSG) of the Technical Advisory Committee (TAC) reports to TAC regarding market credit risk. The Standard already reflects that staff run stress scenarios with respect to market credit exposure upon request by the Board or TAC, and that staff provides market credit risk updates to the Board regularly at the R&M Committee and upon request of TAC.

The R&M Committee is expected to recommend the Board adopt, reject, or amend the Standard at its February 26, 2024 meeting.



Key Factors Influencing Issue:

These revisions will align the Corporate Standard language with the current structure of the Board.

Conclusion/Recommendation:

The R&M Committee is expected to review the revised Standard at its meeting on February 26, 2024 and is expected to recommend to the Board whether any revisions should be made to the Standard and whether they should become effective upon approval by the Board.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, after due consideration of the alternatives, the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) deems it desirable and in the best interest of ERCOT to approve the existing Market Credit Risk Corporate Standard (Standard), revised as reflected in **Attachment A**, as recommended by the Reliability and Markets (R&M) Committee;

THEREFORE, BE IT RESOLVED, that the revised Standard is hereby approved, as reflected in **Attachment A**, to be effective immediately.

CORPORATE SECRETARY'S CERTIFICATE

I, Jonathan M. Levine, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its February 27, 2024 meeting, the Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of February, 2024.

Jonathan M. Levine
Assistant Corporate Secretary

ERCOT CORPORATE STANDARD

| | |
|-----------------|--|
| Document Name: | Market Credit Risk Corporate Standard |
| Document ID: | CS3.6 |
| Effective Date: | February 28, 2023 February 27, 2024 |
| Owner: | Board of Directors |
| Governs: | ERCOT Personnel |
| Approved: | Board of Directors, ERCOT, Inc. |

1. Purpose

This Market Credit Risk Corporate Standard provides a framework by which the ERCOT Board of Directors seeks to maintain the long-term financial integrity of the ERCOT market and to help ensure that overall market credit risk is maintained within acceptable limits.

Recognizing that a number of risk factors contribute to overall market credit risk and that it is beneficial to understand the impact of these risks, various reports have been developed to help understand the nature and scope of market credit risk.

This standard does not change collateral requirements or Counter-Party obligations to comply with those collateral requirements under the ERCOT Protocols. Changes to collateral requirements require a change to ERCOT Protocols in accordance with Section 21, Process for Protocol Revision.

2. Definitions

| Terms & Acronyms | Definition / Description |
|---------------------------------------|---|
| BOD | Board of Directors |
| CWG | Credit Work Group |
| TAC | Technical Advisory Committee |
| Total Potential Exposure (TPE) | A measure of estimated credit risk as defined in ERCOT Protocols. |

3. Standards

Market Credit Risk Objective

In seeking to fulfill BOD objectives to provide for a reliable Texas electricity market, ERCOT stakeholders will

- directly consider the credit implications of operational or market decisions,

- maintain sufficiently detailed understanding of the nature and scope of market credit risk so as to be able to identify material changes in ERCOT's credit risk profile in a timely manner and
- seek to maintain a market-wide credit risk profile consistent with an investment grade rating.

Delegation of Authority

Responsibility for monitoring and reporting on credit risk for the market consistent with this standard is hereby delegated to the Chief Executive Officer, the Vice President, Commercial Operations, and the Director, Settlements, Retail and Credit. These individuals will ensure the BOD is advised of material changes in ERCOT's credit risk profile.

This delegation does not mean that the results of any particular model or report will be the final determination of credit risk in the ERCOT market. Such determination rests with the BOD.

Internal Control

The Director, Settlements, Retail and Credit will ensure that written procedures and internal controls are established over credit processes to ensure that results are consistent with the approved process reflected in this standard.

The Director, Settlements, Retail and Credit will ensure that these controls are reviewed periodically by ERCOT's Internal Audit staff to monitor compliance with control procedures. The results of Internal Audit reviews as well as underlying controls may be reviewed by the Reliability and Markets Committee of the BOD upon request.

Measurement

ERCOT recognizes that one metric cannot capture all aspects of credit risk.

Therefore, at a minimum, ERCOT internal credit risk reporting for the Nodal market will consider the following factors in assessing credit risk:

- Creditworthiness of Counter-Parties,
- Market activity
- Net Load and generation Counter-Party concentration,
- Total Potential Exposure by type of Counter-Party, and
- Collateralization relative to Total Potential Exposure

As applicable, reporting will incorporate time series to aid in the interpretation of credit risk factors and identification of changes to ERCOT's credit risk profile.

ERCOT will provide other information or analyses as necessary to effectively communicate the sources and scope of market credit risk.

At ERCOT's discretion or upon request by the BOD or, TAC ~~or CWG~~, ERCOT will run stress scenarios with respect to market credit exposure to aid in the understanding of the impact of extreme events, such as extreme prices or market conditions.

Reporting

ERCOT will prepare market credit risk updates:

1. regularly for the Reliability and Markets Committee,
2. whenever ERCOT determines there have been significant changes in ERCOT's market credit risk exposure or credit risk profile, and
3. upon request of TAC ~~or CWG~~ when contemplating market rule changes for which significant credit implications are being evaluated.

Market Credit Risk Corporate Standard Adoption

ERCOT's Market Credit Risk Corporate Standard was adopted by resolution of the BOD. The standard is reviewed at least annually by the Reliability and Markets Committee and any modifications made thereto must be approved by the BOD.