



## **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**

- Between January 1 and January 12, ERCOT issued 71 collateral requests to 40 Counter-Parties due to futures prices increasing in anticipation of Winter Storm Heather.
- One trade-only entity defaulted on collateral requirements in January; There was no uplift to the market for this default.
- Market-wide average Total Potential Exposure (TPE) decreased from \$2.88 billion in October 2023 to \$1.33 billion in December 2023
  - TPEA (TPE related to Real-Time and Day Ahead exposure) decreased due to lower forward adjustment factors and market prices
- Average Discretionary Collateral decreased from \$4.33 billion in October 2023 to \$4.13 billion in December 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 was implemented this month – interest earnings for January 2024 credited to collateral; Phase 2: reporting of interest earnings is under project prioritization review
  - Clarifies the management of interest earned on cash collateral posted by Counter-Parties: Interest is credited to collateral accounts on a monthly basis as opposed to the prior process of sending interest payments to Counter-Parties once a year.
  - Requires ERCOT to report the interest earned and the calculation of interest

# Credit NPRRs

- **NPRR 1205 - Revisions to Credit Qualification Requirements of Banks and Insurance Companies [ERCOT]**
  - 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
  - Comments filed by Luminant that doubles the maximum issuer limits as a percentage of tangible net worth per issuer
    - Balances the higher credit rating threshold by providing more credit capacity available for market participants
    - Approach remains more conservative compared to other ISOs
    - The overall limit of \$750M per issuer was not changed
  - Both the NPRR and comments filed by Vistra have been endorsed by CFSG

# Market Credit Update

Appendices

# LC Issuing bank criteria comparison amongst different ISO/RTO's

	ERCOT	MISO	NYISO	CAISO	PJM	ISO-NE	SPP
<b>LC issuing bank minimum credit rating criteria</b>	As long as one of the rating agencies provides a rating of A-/A3. In other words, we do accept BBB ratings	A-/A3	A/A2. However, A-/A3 is acceptable as long as at least one rating is at least A/A2.	A-/A3	A / A2	Min A- rating by at least 1 of the agencies (any banks on Chicago Mercantile Exchange list of LC banks also permissible)	A-/A3
<b>Do accept BBB/BBB+ rated banks?</b>	Yes, as long as at least 1 of the agencies has a min A-/A3 rating	No	No	No	No	See above	No
<b>Rating definition</b>	Long term rating, issuer rating or long term bank deposit rating (domestic), but excludes long term counterparty rating	Long term rating	Long term rating or issuer rating	Long term/issuer rating or an equivalent short-term debt rating	Does not include short term ratings- P-1's etc as acceptable ratings. Only Long term or issuer ratings apply.	Long-term senior unsecured / corporate rating	
<b>LC language change option</b>	Non negotiable	Non negotiable	Non negotiable	Minor changes acceptable	Only non-substantive/non material changes. No wordsmithing	Non negotiable	Non negotiable
<b>Exercise of discretion</b>	Discretion is allowed, however, in practical terms not exercised	Discretion for unreasonable credit risk as well as tariff language for material adverse change	Discretion for unreasonable credit risk as well as tariff language for material adverse change	None	None	None	Discretion for unreasonable credit risk as well as tariff language for material adverse change
<b>Non US Bank</b>	If the LOC is issued from the US or Canadian branch of the foreign bank, and the branch does not have a standalone rating, the parent rating is used	US branch of the foreign bank MUST have a stand-alone rating that meets the above criteria	If the LOC is issued from the US or Canadian branch of the foreign bank, and the branch does not have a standalone rating, the parent rating is used	US branch of the foreign bank MUST have a stand-alone rating that meets the above criteria	US branch of the foreign bank MUST have a stand-alone rating that meets the above criteria	US branch of the foreign bank MUST have a stand-alone rating that meets the above criteria	US branch of the foreign bank MUST have a stand-alone rating that meets the above criteria
<b>Cap on total amount of LC's</b>	Yes. \$750MM or \$ calculated according to the protocols, whichever is the lower	None	None	None	None	Posting entity may not provide LCs from an affiliate and that a bank may not issue LCs exceeding \$100 million for any single posting entity or \$150 million for a group of affiliated posting entities.	None
<b>Funding timeline</b>	LC funded by EOD next business day (regardless of what time the LC was submitted the prior day)	If presented before 10:00 AM where the bank is located, the LC draft needs to be funded same day. If submitted after 10:00 A.M. then the draft needs to be funded by the next business day.	If presented before 10:00 AM where the bank is located, the LC draft needs to be funded same day. If submitted after 10:00 A.M. then the draft needs to be funded by the next business day.	Within 3 hours after such presentation (unless such presentation occurs after 1:00 p.m., Pacific Time, on the day of such presentation, in which event payment will be made within 3 hours after the opening of business at the office specified above on the next business day).	Same day payment if presentation is made by 10:00AM local time. If after 10:00 AM then payment is made next business day.	If presented before 10:00 AM where the bank is located, the LC draft needs to be funded same day. If submitted after 10:00 A.M. then the draft needs to be funded by the next business day.	If presented before 10:00 AM where the bank is located, the LC draft needs to be funded same day. If submitted after 10:00 A.M. then the draft needs to be funded by the next business day.

# LC Issuing Bank Credit Limit

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

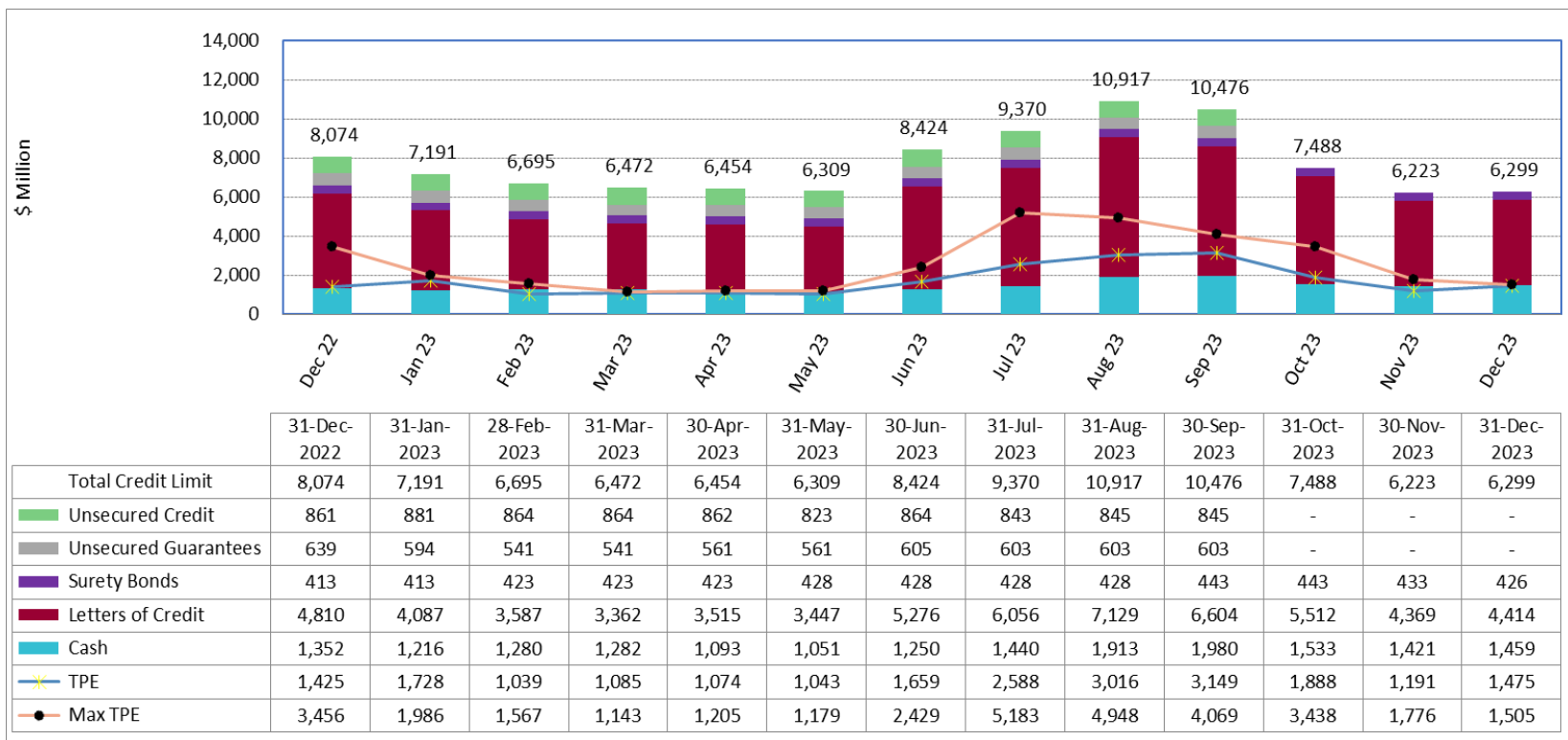
If the issuing entity has		Then
Long-Term or Issuer Rating		Maximum letter of credit issuer limit as a percentage of Tangible Net Worth of issuer
S&P or Fitch	Moody's	
AAA	<del>Aaa</del>	1.00%
AA+	Aa1	0.95%
AA	Aa2	0.90%
AA-	Aa3	0.85%
A+	A1	0.80%
A	A2	0.75%
A-	A3	0.70%
Below A-	Below A3	Not accepted

(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.

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

This shows TPE compared to the forms of collateral held.

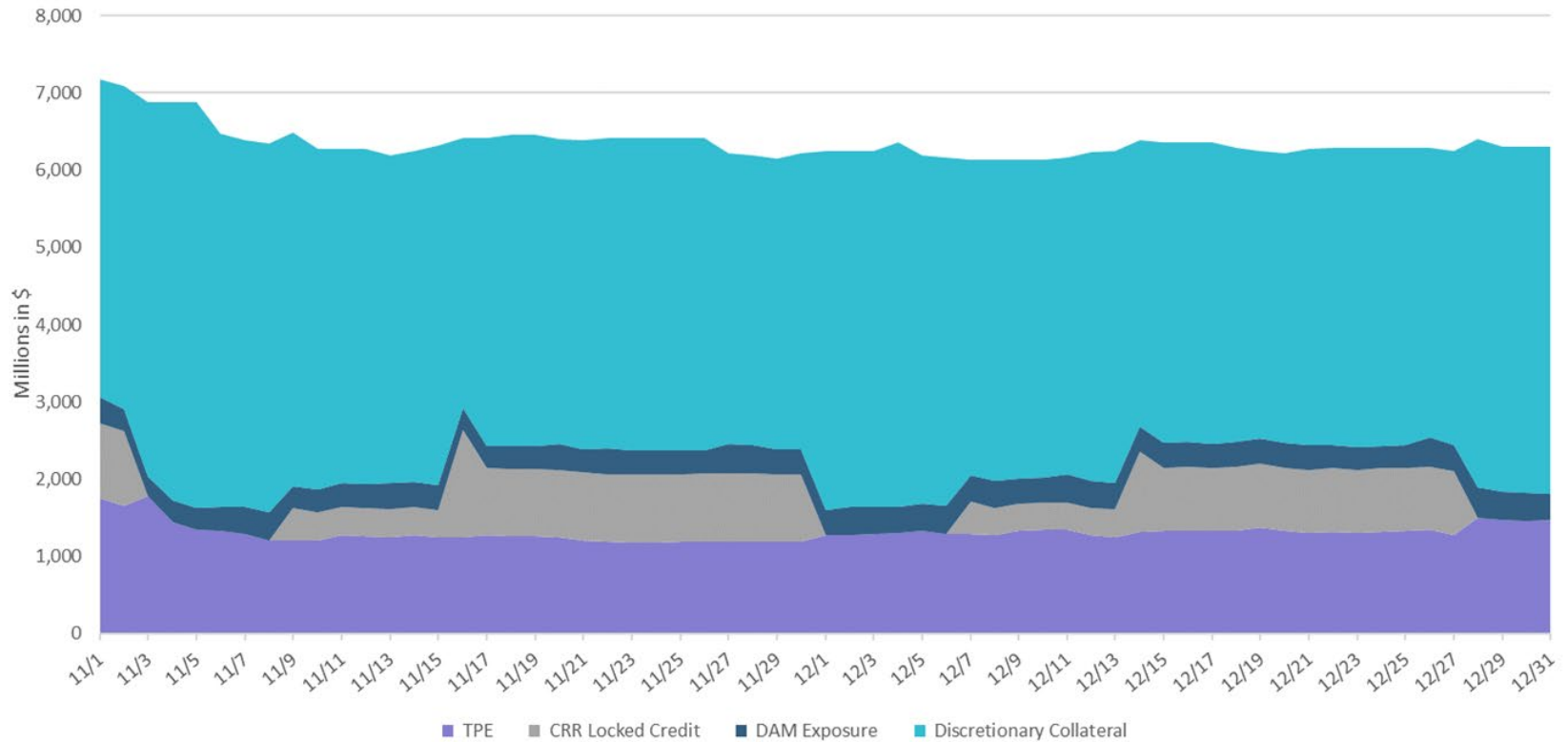


- Numbers are as of month-end except for Max TPE
- Max TPE is the highest TPE for the corresponding month



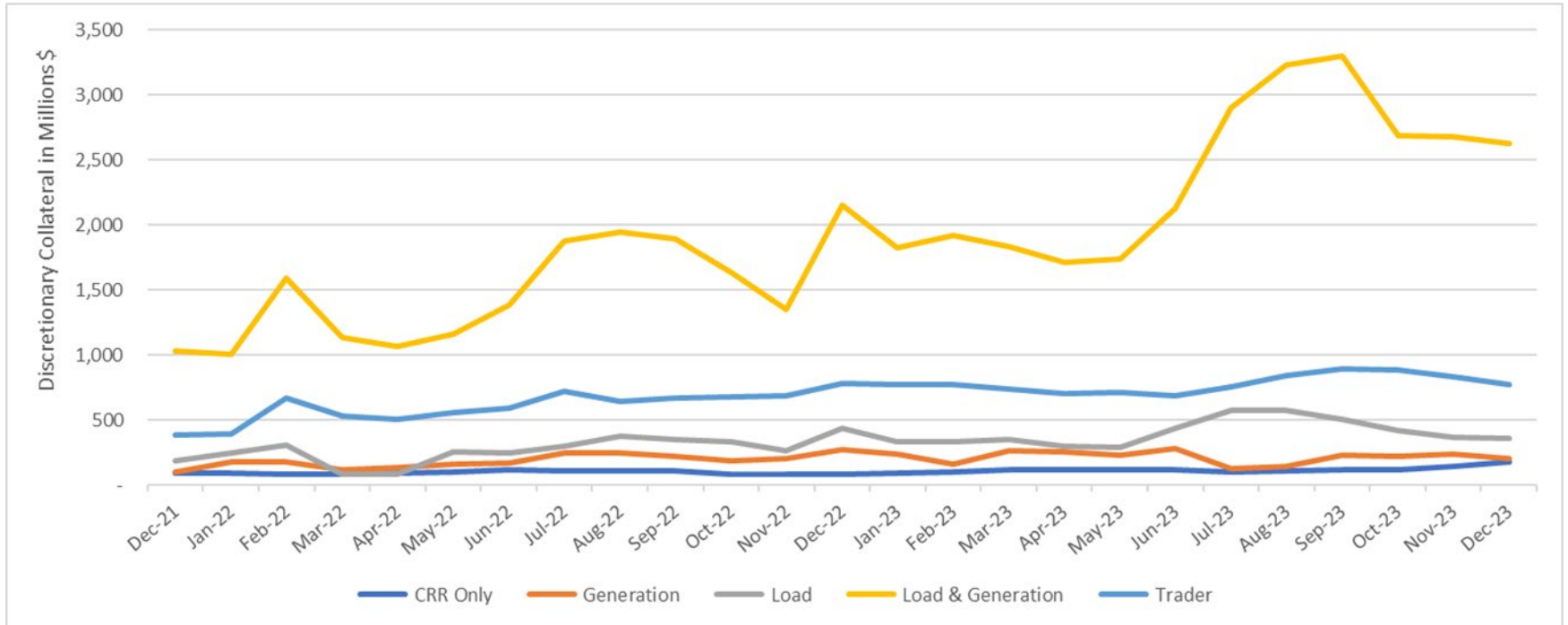
## Discretionary Collateral November 2023 - December 2023

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.



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

# Discretionary Collateral by Market Segment December 2021 - December 2023

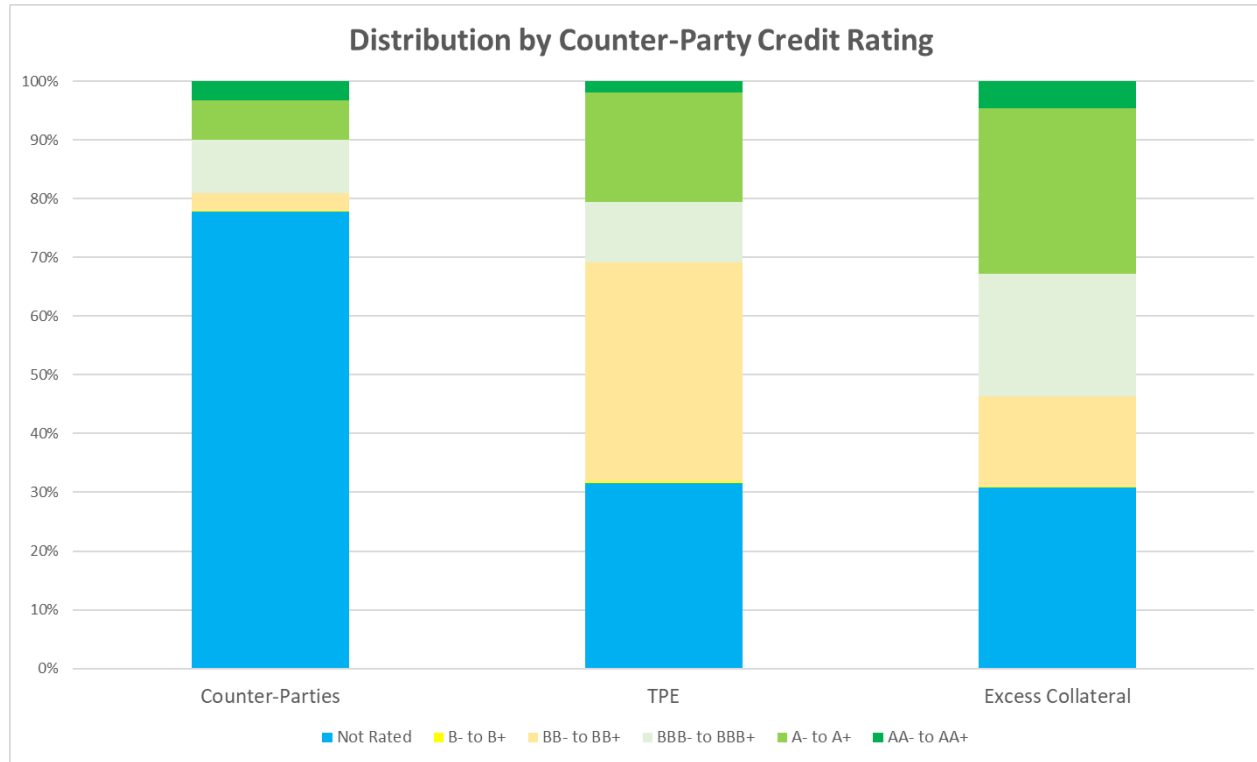


\* Discretionary Collateral adjusted to exclude short pay amounts eliminating data skew



# Distributions by Counter-Party Credit Rating – December 2023

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

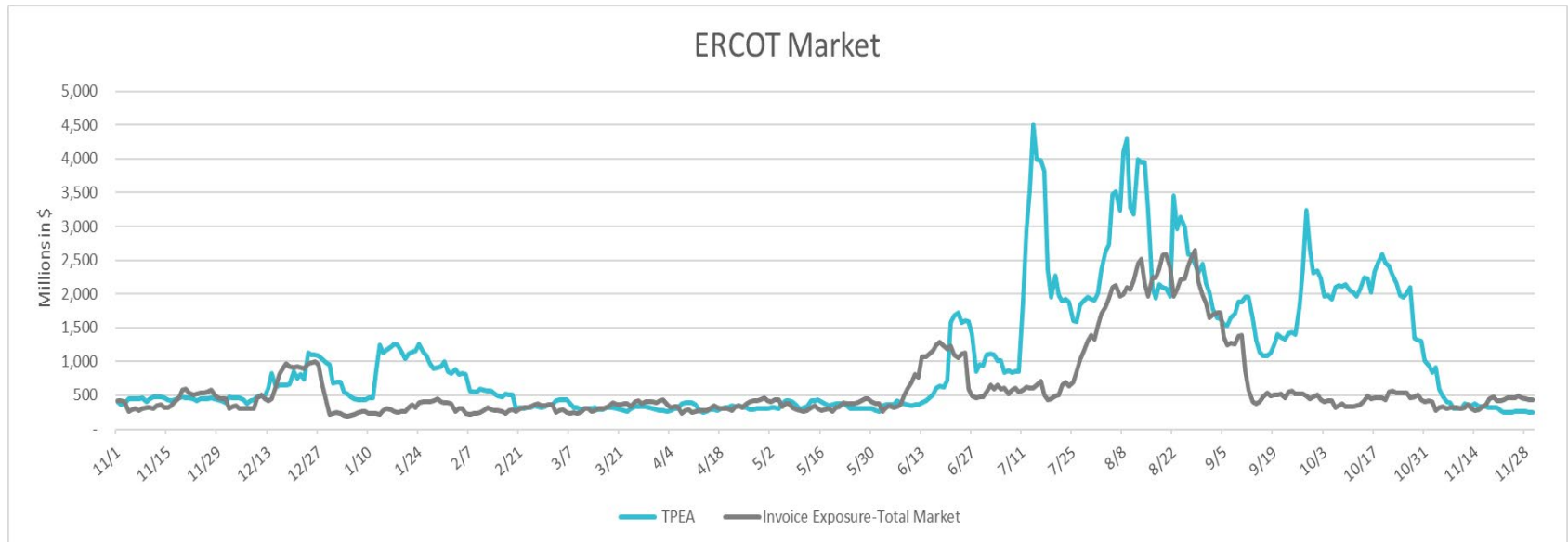


\* TPE is average for the month

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

# TPEA Coverage of Settlements November 2022 – November 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

