

INDEPENDENT AMOUNT POSTING REQUIREMENT

CSFG – MARCH 2024

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BACKGROUND

- Independent Amount (IA) is governed by 16.16.1(d) of Protocols
- Upon implementation of NPRR 1165 (April 1, 2024), all CPs will be required to post a defined IA amount
 - CRR only CP - \$500,000
 - Multi-market CP - \$200,000

16.11.4 Determination and Monitoring of Counter-Party Credit Exposure

16.11.4.1 Determination of Total Potential Exposure for a Counter-Party

- (1) A Counter-Party's TPE is the sum of its "Total Potential Exposure Any" (TPEA) and TPES:
 - (a) TPEA is the positive net exposure of the Counter-Party not included in TPES.
 - (b) TPES is the positive net exposure of the Counter-Party for Future Credit Exposure (FCE) and the Independent Amount (IA).

- (2) For all Counter-Parties:

$$\text{TPEA} = \text{Max} [0, \text{MCE}, \text{Max} [0, ((1-\text{TOA}) * \text{EAL}_g + \text{TOA} * \text{EAL}_t + \text{EAL}_a)] + \text{PUL}]$$

$$\text{TPES} = \text{Max} [0, \text{FCE}_a] + \text{IA}$$

CRRAH OPTION CREDIT REQUIREMENTS

- Options are fully collateralized across their entire lifespan

Auction

- CRR awards cannot exceed posted collateral to the auction



CRR Options

- Options only result in payment from ERCOT, negating credit risk posed



CRR Settlement

- Options only result in payment from ERCOT, negating credit risk posed

CLIENT OVERVIEW

- NOIEs ranging in load from 20MW to 150MW peak load
 - Posted collateral ranges from ~\$50,000 - \$1,000,000
- Utilize QSE services for other market participants
- Registered as:
 - LSE
 - TDSP
 - CP
 - CRRRAH
- CP and CRRRAH are only to mitigate basis risk associated with contracts (Option-Only participants)

NPRR 1165 IMPACT TO OPTION-ONLY CRRRAH

- CRRRAHs who only procure Options are fully collateralized under current market rules
 - NPRR1165 adjustments will result in significant overcollateralization of risk to market
- Outsized impact to smaller, OPT-Only CRRRAH may result in ceding CRRRAH & CP registrations
- CRRRAHs leaving the market may increase risk posed to the market via reduced hedging activity

DISCUSSION

- Should IA amount be scaled in accordance to uncollateralized risk in market?
 - Complicated and likely difficult to implement
- Is there a binary solution for required IA posting?
 - NPRR likely required
 - If $FCE \leq \$0$ and $TPEA \leq \$0$, then $IA = \$0$
 - Could be inserted as a clause under 16.16.1(d)
 - Would also affect QSEs without load
 - Something else?