



City of Denton

City Hall
215 E. McKinney Street
Denton, Texas
www.cityofdenton.com

AGENDA INFORMATION SHEET

DEPARTMENT: Finance

ACM: Cassandra Ogden

DATE: March 25, 2024

SUBJECT

Consider recommending adoption of an ordinance establishing the City of Denton Utility System Nodal Market Revenue Financing Program and authorizing Utility System Nodal Market Revenue Notes, Taxable Series A, in a maximum aggregate principal amount not to exceed sixty million five thousand dollars (\$60,005,000) to satisfy ERCOT financial security requirements; and providing an effective date.

BACKGROUND

As a direct result of the short pay and defaults of ERCOT market participants during winter storm Uri, ERCOT staff recommended to the ERCOT Board of Directors that the practice of granting unsecured credit to market participants with excellent credit (like DME) be terminated. The default of Brazos Electric Cooperative for \$1.2 billion and Rayburn Electric Cooperative for \$800 million, both of whom had been extended a level of unsecured credit, was cited as the reason for this policy change. It is important to note that the elimination of unsecured credit to investment grade entities is counter to best practices in the commodity and energy trading business.

Under the approved credit protocol changes adopted by the ERCOT Board, market participants can use cash or letters of credit to securitize their credit and collateral obligations. The City's Finance Department has explored the cost of obtaining and using a bank letter of credit as the mechanism to meet this requirement as opposed to posting the daily cash margin requirements, which would require the City to keep funds liquid and not invested. Given current interest rates for instruments authorized for investment by the City, staff has determined that it will be more cost effective to utilize a bank letter of credit. The letter of credit will not exceed DME's ability to provide payment to the bank or ERCOT if so required. The use of the letter of credit is only to meet the day-to-day collateral requirements that became effective on October 1, 2023.

Previously DME had a \$40 million unsecured line of credit with ERCOT based upon the A+ (S&P) and A (Fitch) ratings of DME's revenue bonds and the City's credit rating of AA+. On average DME's use of this credit line is approximately \$15 million but during high priced periods in the summer and winter, the use of the credit line approaches \$30 million. While not anticipated to happen because of market changes and conservative operations by ERCOT since winter storm Uri, maximum credit requirements could rise as high as \$60 million. These conditions would only persist for a limited number of days since DME is both a payer to ERCOT for the energy purchased to serve load (creating the need to post credit to meet payment obligations) and a receiver of funds from ERCOT associated with the sale of energy by DME from our renewable PPA positions and the Denton Energy Center. However, under ERCOT protocols, accounts payable to ERCOT are due at least one day prior to amounts receivable from ERCOT. Consequently, these

positions do not offset one another to reduce ERCOT's credit exposure to DME or DME's collateral posting requirements to ERCOT.

The City issued a letter of credit request for proposal on July 9, 2023, for ERCOT qualified banking institutions for up to \$60 million and Wells Fargo Bank was selected.

Finance sought and obtained an opinion from Bond Counsel indicating that such a letter of credit can be legally obtained for the purpose of providing collateral to meet DME's obligations and other electric utilities have already put the letter of credit in place. DME currently has approximately \$10 million in cash with ERCOT to meet the daily cash margin requirements.

RECOMMENDATION

Finance recommends approval the Letter of Credit

FISCAL INFORMATION

Funds to meet these obligations are budgeted in the Electric Fund.

EXHIBITS

1. Agenda Information Sheet
2. Ordinance
3. Presentation

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