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| NPRR Number | XXX | NPRR Title | Clarifications for Securitization Default Charges |
| Date Posted | | February XX, 2022 | |
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| Requested Resolution | | Urgent - Urgent status is requested in order to assure that Market Partcipants do not time their market activity in such a manner that Securitization Default Charge Invoice exposure is not sufficiently collateralized. | |
| Nodal Protocol Sections Requiring Revision | | 26.5.3, Means of Satisfying Securitization Default Charge Credit Requirements  26.5.4, Determination of Securitization Default Charge Credit Exposure for a Counter-Party  26.5.7, Release of Market Participant’s Securitization Default Charge Escrow Deposit Requirement | |
| Related Documents Requiring Revision/Related Revision Requests | | None | |
| Revision Description | | This Nodal Protocol Revision Request (NPRR) clarifies that ERCOT shall retain all Securitization Default Charge escrow deposits to cover, if necessary, potential future obligations for Securitization Default Charges, without the limitation that this is only after termination of a Market Participant’s Standard Form Market Participant Agreement.  In addition, the NPRR clarifies that funds provided for Securitization Default Charge escrow deposits must be sent to the correct account to be properly credited.  Finally, this NPRR corrects a subscript definition error in the Securitization Default Charge Maximum MWh Activity Ratio Share. | |
| Reason for Revision | | Addresses current operational issues.  Meets Strategic goals (tied to the [ERCOT Strategic Plan](http://www.ercot.com/content/wcm/lists/144926/ERCOT_Strategic_Plan_2019-2023.pdf) or directed by the ERCOT Board).  Market efficiencies or enhancements  Administrative  Regulatory requirements  Other: (explain)  *(please select all that apply)* | |
| Business Case | | This NPRR address the potential case where a Market Participant limits its market activity to reduce its Securitizaton Default Charge escrow deposit requirement prior to a Securitization Default Charge Invoice being issued. This situation could occur since Securitization Default Charge escrow deposit requirements are computed based on market activity in the most recent full month for which there are Initial Settlement data. Securitization Default Charge Invoices are computed based on market activity in the most recent full month for which there is Final Settlement data. A Market Participant could curtail its activity subsequent to a reference month, and then withdraw its escrow deposits before activity in that reference month has been invoiced. This NPRR clarifies that escrow deposits will not be released until all potential obligations for Securitization Default Charges have been paid. In this example, ERCOT would not release escrow deposits until the Invoices computed using the reference month data have been invoiced and paid.  In addition, this NPRR clarifies that Counter-Parties must remit Securitization Default Charge escrow deposit funds to the correct account, and that ERCOT cannot be responsible to transferring funds that have been remitted to the wrong account. | |

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| Market Segment | Not applicable |

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| Proposed Protocol Language Revision |

***26.5.3 Means of Satisfying Securitization Default Charge Credit Requirements***

(1) If a Counter-Party is required to provide a Securitization Default Charge escrow deposit, then it may do so through one or both of the following means:

(a) The Counter-Party may give an unconditional, irrevocable letter of credit naming Texas Electric Market Stabilization Funding M LLC (TEMSFM) as the beneficiary. ERCOT or the TEMSFM may reject the letter of credit if the issuer is unacceptable to ERCOT or TEMSFM or if the conditions under which ERCOT or TEMSFM may draw against the letter of credit are unacceptable to ERCOT or TEMSFM.

(b) All letters of credit must be drawn on a US domestic bank or a domestic office of a foreign bank, and must meet the requirements in Section 16.11.3, Alternative Means of Satisfying ERCOT Creditworthiness Requirement.

(c) Letters of credit held as Securitization Default Charge escrow deposits are subject to letter of credit issuer limits as specified in paragraph (1) of Section 16.11.3.

(d) The Counter-Party may deposit cash with ERCOT with the understanding that ERCOT may draw part or all of the deposited cash to satisfy any overdue payments owed by the Counter-Party to ERCOT for Securitization Default Charges. The cash deposits may bear interest payable directly to the Counter-Party, but any such arrangements may not restrict ERCOT’s immediate access to the cash.

(i) Interest on cash deposited pursuant to this Section will be calculated based on Counter-Party average cash deposit balance. Interest is not paid on a cash deposit balance held by ERCOT where, in accordance with paragraph (4) of Section 16.11.7, Release of Market Participant’s Financial Security Requirement, the Counter-Party’s Standard Form Market Participant Agreement has been terminated and ERCOT has determined that no obligations for Securitization Default Charges remain owing or will become due and payable.

(ii) Once per year, ERCOT will return interest earned on a Counter-Party’s cash deposits pursuant to this Section to the Counter-Party.

(2) Securitization Default Charge escrow deposits are held solely for the purpose of collateralizing Securitization Default Charge credit exposure. They are independent of and in addition to any other Financial Security obligations of the Counter-Party arising under Section 16.11, Financial Security for Counter-Parties.

(3) Funds provided for Securitization Default Charge escrow deposits must be made to the account designated for Securitization Default Charge escrow deposits. If a payment is not made to the correct account, ERCOT is not responsible for transferring the funds to the correct escrow deposit account. Failure to remit funds to the correct account may result in a Late Payment and Payment breach.

(4) A Counter-Party with excess cash held with respect to one or more Securitization Default Charge escrow deposit requirements may request ERCOT to return some or all of the excess cash to the Counter-Party.

(5) Securitization Default Charge escrow deposits will not be used to pay periodic Securitization Default Charge Invoices unless there is an insufficient payment by the Invoice Recipient, in accordance with Section 26.3.1.2, Insufficient Payments by Miscellaneous Invoice Recipients for Securitization Default Charges.

(6) Securitization Default Charge escrow deposits in excess of the Securitization Default Charge Credit Exposure requirement shall not be used to cover insufficient payments of Settlement Invoices for ERCOT market activities under Section 9.19, Partial Payments by Invoice Recipients, or requests for additional Financial Security made in accordance with paragraph (6) of Section 16.11.5, Monitoring of a Counter-Party’s Creditworthiness and Credit Exposure by ERCOT.

***26.5.4 Determination of Securitization Default Charge Credit Exposure for a Counter-Party***

(1) For each Counter-Party, ERCOT shall calculate the Securitization Default Charge credit exposure as follows:

SDCCE *cp* = SDCMMARS *cp, rm, s*\* TSDCMA *fmd*)

The above variables are defined as follows:

| **Variable** | **Unit** | **Description** |
| --- | --- | --- |
| SDCCE *cp* | $ | *Securitization Default Charge Credit Exposure –* Estimated credit exposure for each Counter-Party related to Securitization Default Charges. |
| SDCMMARS *cp, rm* | None | *Securitization Default Charge Maximum MWh Activity Ratio Share* – The Counter-Party’s pro rata share of Securitization Default Charge Maximum MWh Activity in the most recent available reference month *rm* based on Initial Settlements*.* |
| TSDCMA | $ | *Total Securitization Default Charge Monthly Amount* –  The amount ERCOT determines must be collected for the month in order to timely repay the Securitization Default Balance. |
| *cp* | none | A registered Counter-Party. |
| *rm* | none | *Reference Month* – most recent available operating month |
| *fmd* | None | *Forward Month* – a month from Securitization Default Charge forward months |
| *nfmd* | None | *Number of forward months* – total number of forward months Securitization Default Charge is extrapolated |

The above parameters are defined as follows:

| **Parameter** | **Unit** | **Current Value** |
| --- | --- | --- |
| *nfmd* | Months | 4 |

***26.5.7 Release of Market Participant’s Securitization Default Charge Escrow Deposit Requirement***

(1) ERCOT shall retain all Securitization Default Charge escrow deposits to cover, if necessary, potential future obligations for Securitization Default Charges.

(2) Upon ERCOT’s sole determination that all potential Securitization Default Charge Invoices have been paid, ERCOT shall return or release any remaining Securitization Default Charge escrow deposits to the terminated Market Participant.