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| NPRR Number | XXX | NPRR Title | Revisions to Credit Qualification Requirements of Banks and Insurance Companies |
| Date Posted | | TBD | |
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| Requested Resolution | | Normal | |
| Nodal Protocol Sections Requiring Revision | | 16.11.3, Alternative Means of Satisfying ERCOT Creditworthiness Requirements | |
| Related Documents Requiring Revision/Related Revision Requests | | Surety Bond Form | |
| Revision Description | | This Nodal Protocol Revision Request (NPRR) strengthens ERCOT’s market entry eligibility and continued participation requirements for ERCOT Counter-Parties (i.e., Qualified Scheduling Entities (QSEs) and Congestion Revenue Right (CRR) Account Holders). 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. | |
| Reason for Revision | | Addresses current operational issues.  Meets Strategic goals (tied to the [ERCOT Strategic Plan](https://www.ercot.com/files/docs/2018/12/13/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 | | In light of the recent take over of Credit Suisse by UBS with the involvement of the Swiss government and Swiss central bank, potential regional banking crisis in the U.S., and overall concerns about credit tightening, ERCOT credit staff reviewed ERCOT’s current practices as it relates to qualifications for banks and insurance companies, which issue collateral instruments to ERCOT such as letters of credit and surety bonds on behalf of Market Participants. ERCOT staff also compared ERCOT’s current practices against the same at other Regional Transmission Operators / Independent System Operators.  This review identified several areas, which need to be corrected and/or clarified, including the following:   1. Current Protocols allow ERCOT to accept a letter of credit issuing bank as long as it is rated “A-“ (S&P equivalent) or above by at least one of the rating agencies, even if the issuing bank is rated in BBB range by one or two other rating agencies. This NPPR will require an issuing bank to have A- or above ratings across all rating agencies, if available; 2. If there is a split rating amongst the agencies, ERCOT takes the average for capacity purposes. The subject NPRR will codify using the lowest of the ratings within the same rating agency and amongst rating agencies; 3. Rating is internally interpreted as “Long term rating, issuer rating, or long term bank deposit rating (domestic).” The proposal will define ratings as Long term issuer rating, Long term Senior Unsecured rating and Long Term Counterparty Risk Assessment (for Moody’s); 4. ERCOT does not require a U.S. branch of a foreign bank to be rated on its own. The proposal will require US branches of foreign banks to have their own standalone rating; 5. There are no minimum size qualifications for the surety bond/insurance companies in the Protocols. The proposal will require insurance companies to have a minimum Financial Size Category by AM Best of XII; and 6. Protocol language requires clarification to overall limit of $100 million per surety bond insurer for all ERCOT Counter-Parties to make clear that this cap applies to aggregate amounts of bonds issued by the companies belonging to the same corporate family.   This NPRR will strengthen credit qualification requirements of banks and insurance companies, whose collateral instruments ERCOT relies on to protect from credit risk posed by the Market Participants. | |

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| Market Segment | Not applicable |

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| **Market Rules Notes** |

Please note that the following NPRR(s) also propose revisions to Section 16.11.3:

* NPRR1184, Update to Procedures for Managing Interest on Cash Collateral

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| Proposed Protocol Language Revision |

***16.11.3 Alternative Means of Satisfying ERCOT Creditworthiness Requirements***

(1) If a Counter-Party is required to provide Financial Security under these Protocols, then it may do so through one or more of the following means:

(a) Another Entity may give a guarantee to ERCOT, if ERCOT has set an Unsecured Credit Limit for the Entity under Section 16.11.2, Requirements for Setting a Counter-Party’s Unsecured Credit Limit. ERCOT shall value the guarantee based on the guarantor’s Unsecured Credit Limit and other obligations the guarantor has under these Protocols or other contracts with ERCOT.

(i) The guarantee must be given using one of the ERCOT Board-approved standard guarantee forms. No modifications are permitted.

(ii) Guarantees are subject to a limit of $50 million of guarantees per Counter-Party and an overall limit of $50 million per guarantor for all ERCOT Counter-Parties.

(iii) For foreign guarantees, the guarantor must also meet the following standards:

(A) The country of domicile for the foreign guarantor must:

(1) Maintain a sovereign rating greater than or equal to AA with Fitch or S&P or Aa2 with Moody’s;

(2) If the ratings are below those in item (a)(iii)(A)(1) above, but greater than or equal to A with Fitch or S&P or A2 with Moody’s, then the sovereign rating would qualify if the country had a ceiling rating of AAA with Fitch or S&P or Aaa with Moody’s; and

(3) Must have reciprocity agreements with the U.S. regarding enforcement and collection of guarantee agreements.

(B) The foreign guarantor must:

(1) Provide to ERCOT annual audited financial statements, prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) or International Accounting Standards (IAS) and semi-annual unaudited financial statements;

(2) Provide a guarantee in one of the standard form documents approved by the ERCOT Board of Directors for foreign Entities. No modifications are permitted; and

(3) Provide an opinion letter from a law firm unaffiliated with the Counter-Party or guarantor affirming that the guarantee agreement is enforceable in the U.S. and in the jurisdiction of the corporate guarantor’s domicile.

(b) The Counter-Party may give an unconditional, irrevocable letter of credit naming ERCOT as the beneficiary. ERCOT may, in its sole discretion, reject the letter of credit if the issuer is unacceptable to ERCOT or if the conditions under which ERCOT may draw against the letter of credit are unacceptable to ERCOT.

(i) The letter of credit must be given using the ERCOT Board-approved standard letter of credit form.

(ii) Letters of credit must be issued by a bank or other financial institution that is acceptable to ERCOT, with a minimum rating of A- with S&P and Fitch and A3 with Moody’s. No letters of credit will be accepted from banks which are rated below A-/A3 by one or more rating agencies. If there are split ratings amongst rating agencies, ERCOT will use the lowest of different ratings within the same rating agency and amongst different rating agencies. The ratings are defined as follows (if available): Long term issuer rating, Long term Senior Unsecured rating or Long Term Counterparty Risk Assessment (for Moody’s). For U.S. offices of foreign banks, U.S. branch/office must have an acceptable rating on its own by at least one of the rating agencies.

(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 | Aaa | 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.

(E) Letters of credit held as collateral at the time of an issuer limit breach will not be rejected.

(F) ERCOT in its sole discretion may authorize exceptions to these limits.

(G) Revisions to the issuer limit calculation in this Section will be recommended by the Technical Advisory Committee (TAC) and approved by the ERCOT Board. ERCOT shall update parameter values on the first day of the month following ERCOT Board approval unless otherwise directed by the ERCOT Board. ERCOT shall provide a Market Notice prior to implementation of a revised parameter value.

(c) The Counter-Party may give a surety bond naming ERCOT as the beneficiary.

(i) The surety bond must be signed by a surety acceptable to ERCOT, in its sole discretion and must be in the form of ERCOT’s standard surety bond form approved by the ERCOT Board. No modifications to the form are permitted.

(ii) The surety bond must be issued by an insurance company with a minimum rating of A- with S&P and Fitch and A3 with Moody’s, if available. No surety bonds will be accepted from insurance companies, which are rated below A-/A3 by one or more rating agencies. If there are split ratings amongst rating agencies, ERCOT will use the lowest of different ratings within the same rating agency and amongst different rating agencies.

(iii) Surety bonds are subject to a limit of $10 million per Counter-Party per insurer and an overall limit of $100 million per insurer for all ERCOT Counter-Parties. This overall limit is aggregated for the entire corporate family in case of multiple insurance companies belonging to the same corporate family.

(iv) The surety bond must be issued by an insurance company with a minimum financial size category of XII as determined by AM Best.

(d) The Counter-Party may deposit Cash Collateral 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. The Cash Collateral 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 Collateral will be calculated based on Counter-Party average Cash Collateral balances. Interest is not paid on Cash Collateral balances 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 remain owing or will become due and payable.

(ii) Once per year, ERCOT will:

(A) Return interest earned on a Counter-Party’s Cash Collateral to the Counter-Party if the amount of interest earned is greater than $50; or

(B) Retain interest earned on a Counter-Party’s Cash Collateral as additional Cash Collateral if the amount of interest earned is less than or equal to $50.

(iii) ERCOT has a security interest in all property delivered by the Counter-Party to ERCOT from time to time to meet the creditworthiness requirements, and that property secures all amounts owed by the Counter-Party to ERCOT.

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| ***[NPRR1112: Replace paragraph (1) above with the following upon system implementation and October 1, 2023:]***  (1) A Counter-Party required to provide Financial Security under these Protocols may do so through one or more of the following means:  (a) The Counter-Party may give an unconditional, irrevocable letter of credit naming ERCOT as the beneficiary. ERCOT may, in its sole discretion, reject the letter of credit if the issuer is unacceptable to ERCOT or if the conditions under which ERCOT may draw against the letter of credit are unacceptable to ERCOT.   1. The letter of credit must be given using the ERCOT Board-approved standard letter of credit form. 2. All letters of credit must be drawn on a U.S. domestic bank or a U.S. domestic office of a foreign bank.   (iii) Letters of credit must be issued by a bank or other financial institution that is acceptable to ERCOT, with a minimum rating of A- with S&P and Fitch and A3 with Moody’s. No letters of credit will be accepted from banks which are rated below A-/A3 by one or more rating agencies. If there are split ratings amongst rating agencies, ERCOT will use the lowest of different ratings within the same rating agency and amongst different rating agencies. The ratings are defined as follows (if available): Long term issuer rating, Long term Senior Unsecured rating or Long Term Counterparty Risk Assessment (for Moody’s). For U.S. offices of foreign banks, U.S. branch/office must have an acceptable rating on its own by at least one of the rating agencies.  (iv) 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 | Aaa | 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.  (E) Letters of credit held as collateral at the time of an issuer limit breach will not be rejected.  (F) ERCOT in its sole discretion may authorize exceptions to these limits.  (G) Revisions to the issuer limit calculation in this Section will be recommended by the Technical Advisory Committee (TAC) and approved by the ERCOT Board. ERCOT shall update parameter values on the first day of the month following ERCOT Board approval unless otherwise directed by the ERCOT Board. ERCOT shall provide a Market Notice prior to implementation of a revised parameter value.  (b) The Counter-Party may give a surety bond naming ERCOT as the beneficiary.  (i) The surety bond must be signed by a surety acceptable to ERCOT, in its sole discretion and must be in the form of ERCOT’s standard surety bond form approved by the ERCOT Board. No modifications to the form are permitted.  (ii) The surety bond must be issued by an insurance company with a minimum rating of A- with S&P and Fitch and A3 with Moody’s, if available. No surety bonds will be accepted from insurance companies, which are rated below A-/A3 by one or more rating agencies. If there are split ratings amongst rating agencies, ERCOT will use the lowest of different ratings within the same rating agency and amongst different rating agencies.  (iii) Surety bonds are subject to a limit of $10 million per Counter-Party per insurer and an overall limit of $100 million per insurer for all ERCOT Counter-Parties. This overall limit is aggregated for the entire corporate family in case of multiple insurance companies belonging to the same corporate family. (iv) The surety bond must be issued by an insurance company with a minimum financial size category of XII as determined by AM Best.  (c) The Counter-Party may deposit Cash Collateral 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. The Cash Collateral 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 Collateral will be calculated based on Counter-Party average Cash Collateral balances. Interest is not paid on Cash Collateral balances 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 remain owing or will become due and payable.  (ii) Once per year, ERCOT will:  (A) Return interest earned on a Counter-Party’s Cash Collateral to the Counter-Party if the amount of interest earned is greater than $50; or  (B) Retain interest earned on a Counter-Party’s Cash Collateral as additional Cash Collateral if the amount of interest earned is less than or equal to $50.  (iii) ERCOT has a security interest in all property delivered by the Counter-Party to ERCOT from time to time to meet the creditworthiness requirements, and that property secures all amounts owed by the Counter-Party to ERCOT. |