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PUC DOCKET NO. _____

APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. FOR A DEBT OBLIGATION ORDER PURSUANT TO CHAPTER 39, SUBCHAPTER N, OF THE PUBLIC UTILITY REGULATORY ACT	**§**	**PUBLIC UTILITY COMMISSION OF TEXAS**

APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. FOR A DEBT OBLIGATION ORDER TO FINANCE UPLIFT BALANCES UNDER PURA CHAPTER 39, SUBCHAPTER N, FOR AN ORDER INITIATING PARALLEL DOCKET, AND FOR A GOOD-CAUSE EXCEPTION

July 16, 2021

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Electric Reliability Council of Texas, Inc. ("ERCOT") files this Application for a Debt Obligation Order ("Application") pursuant to Subchapter N of Chapter 39 of the Public Utility Regulatory Act ("PURA"),[1] to finance the Winter Storm Uri Uplift Balance. PURA provides for a ninety-day period for the processing of this Application by the Public Utility Commission of Texas ("Commission") and issuance of an order. *See* PURA § 39.653(f). To meet the statutorily required schedule, ERCOT requests that the case be retained by the Commission, consistent with past financing order proceedings.

In addition, ERCOT requests that the Commission open a separate docket, to be processed in parallel with this docket, in which load-serving entities ("LSE") subject to Subchapter N should be required to make their one-time election regarding whether to opt out of uplift charges—if they are eligible to opt out. This request is consistent with PURA § 39.3653(d) that requires the Commission to develop a one-time process. In that parallel docket, LSEs should also be required to provide documentation of their exposure to the costs included in the Uplift Balance so that ERCOT will be able to quantify the amounts to be financed under Subchapter N. Eligible costs included in the Uplift Balance are Reliability Deployment Price Adder ("RDPA")

[1] TEX. UTIL. CODE §§ 11.001-66.016.

charges and Ancillary Service costs above the Commission's system-wide offer cap.[2] As explained in the testimony included with this Application, ERCOT cannot readily quantify the costs that comprise the Uplift Balance, because ERCOT has no way of knowing which LSEs were exposed to the RDPA charges and the Ancillary Services costs in excess of the system-wide offer cap. Nor does ERCOT have a way to quantify the exposure of those LSEs that were exposed to those types of charges. The LSEs themselves will need to provide that information. This is contemplated by PURA § 39.653(b)(3), which requires that the Commission set forth a process in the Debt Obligation Order that will require LSEs to submit such documentation. The best and most orderly way for them to do so is in a separate, parallel proceeding.

ERCOT also requests a good cause exception to ERCOT Protocol Section 1.3.1.1(j) to the extent it may become necessary during the course of this proceeding to disclose individual market participants' settlement and invoice information in response to discovery. As discussed below, that information will no longer be protected during the course of this proceeding once the period of confidentiality expires (i.e., after 180 days have passed since the relevant Operating Days tied to the Period of Emergency[3]); however, granting the exception now will help minimize disparate confidentiality requirements depending on the date information is requested or provided.

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[2] PURA § 39.652(5).

[3] The Period of Emergency is defined as the period beginning 12:01 a.m., February 12, 2021, and ending 11:59 p.m., February 20, 2021.

I. INTRODUCTION

After Winter Storm Uri, the Legislature[4] authorized different forms of financing to "serve[] the public purpose of allowing the commission to stabilize the wholesale electricity market in the ERCOT power region." PURA § 39.651(c). This Application requests a Debt Obligation Order for financing of the Uplift Balance to allow wholesale market participants who were assessed extraordinary uplift charges due to consumption during the Period of Emergency to pay those charges over a longer period of time, alleviating liquidity issues and reducing the risk of additional defaults in the wholesale market. PURA § 39.651(b). The Legislature also authorized financing for default balances, *see* Subchapter M of Chapter 39 of PURA, and required securitization financing for amounts owed by electric cooperatives to ERCOT based on Winter Storm Uri. *See* Subchapter D of Chapter 41 of PURA. ERCOT will submit a separate application for a debt obligation order to finance default balances under Subchapter M of Chapter 39 of PURA.

PURA defines the "uplift balance" to include:

> an amount of money of not more than $2.1 billion that was uplifted to load-serving entities on a load ratio share basis due to energy consumption during the period of emergency for reliability deployment price adder charges and ancillary services costs in excess of the commission's system-wide offer cap, excluding amounts securitized under Subchapter D, Chapter 41. The term does not include amounts that were part of the prevailing settlement point price during the period of emergency.

PURA § 39.652(4).

PURA authorizes the assessment and collection of "uplift charges" defined as:

> charges assessed to load-serving entities to repay amounts financed under this subchapter to pay the uplift balance and reasonable costs incurred by a state agency or the independent organization to implement a debt obligation order under Section 39.653, 39.654, or 39.655, including the cost of retiring or refunding existing debt.

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[4] Act of May 30, 2021, 87th Leg., R.S. ("H.B. 4492").

PURA § 39.652(5). The maximum amount of the Uplift Balance allowed to be financed is $2.1 billion, plus reasonable costs. *See* PURA § 39.652(4). In addition to the amounts needed to repay amounts financed under Subchapter N, Uplift Charges can include reasonable costs incurred to implement a Debt Obligation Order. PURA § 39.652(5).

ERCOT files this Application for a Debt Obligation Order under Section 39.653 of Subchapter N. However, in the alternative, the Commission may contract with another state agency with expertise in public financing to establish a debt financing mechanism under an order issued pursuant to PURA § 39.654. The Commission may also use a financial mechanism other than the mechanisms described by PURA §§ 39.653 and 39.654 that meets the requirements of Subchapter N to accomplish its purposes. *See* PURA § 39.655. Regardless of the financing mechanism ultimately chosen by the Commission, ERCOT requests a Debt Obligation Order that provides for the financing of up to $2,100,000,000.00, plus reasonable costs.

II. BUSINESS ADDRESS AND AUTHORIZED REPRSENTATIVES

The authorized representatives for ERCOT in this proceeding for service of pleadings and all other documents are:

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III. JURISDICTION

The Commission has jurisdiction over this Application pursuant to PURA Chapter 39, Subchapter N.

IV. AFFECTED PERSONS AND TERRITORIES

The Application and Debt Obligation Order will affect all wholesale market participants.

V. REQUEST FOR A DEBT OBLIGATION ORDER

1. The Financed Amount

ERCOT requests Commission approval of a Debt Obligation Order authorizing it to finance the Uplift Balance of up to $2,100,000,000, plus reasonable costs. ERCOT's proposed debt obligation order is included as Attachment 4 to this Application. The financial analysis in the testimony for this filing is based on an Uplift Balance of $ 2,100,000,000, plus reasonable costs.

As noted above, the Uplift Balance includes two categories of costs relating to the Period of Emergency: RDPA charges and Ancillary Services costs in excess of the system-wide offer cap. The Uplift Balance excludes any amounts for electric cooperatives that are eligible to securitize under Senate Bill 1580, and it excludes amounts from defaulted entities that are no longer ERCOT market participants.

ERCOT cannot determine the costs eligible for inclusion in the Uplift Balance, because that requires quantifying the actual exposure of LSEs. ERCOT settles the wholesale market at the Qualified Scheduling Entity (QSE) level. ERCOT does not know how its transactions with QSEs ultimately impact LSEs. ERCOT does not possess information about the financial relationships between a QSE and its LSEs, nor does ERCOT possess information about other financial arrangements that LSEs may have with other parties.

Accordingly, the final Uplift Balance will be the sum of all *documented* exposure by LSEs that is ultimately approved by the Commission, subject to the limit of $2.1 billion contained within PURA § 39.652(4). Pursuant to PURA § 39.653(b)(3), a process must be established for LSEs to document their actual exposure in order to determine the final Uplift Balance. Accordingly, ERCOT requests the Commission open a parallel proceeding to allow LSEs and the Commission to efficiently determine the final Uplift Balance. For purposes of this Application, ERCOT assumes an Uplift Balance of $2.1 billion.

2. The Structure of the Proposed Financing Transaction

ERCOT's proposed debt financing mechanism under PURA § 39.653 will include the creation of a bankruptcy-remote special purpose entity that will issue debt obligations with a principal amount equal to the Uplift Balance, plus the implementation costs. The transaction will securitize the Uplift Charges through the creation of Uplift Property to be pledged and assigned

by ERCOT as collateral, or sold and transferred, and act as the source of repayment for the debt obligations. In order to ensure that the structuring and pricing of the debt obligations results in the lowest Uplift Charges consistent with market conditions and the terms of an order issued under Subchapter N, as required by PURA § 39.651(e), ERCOT proposes a Debt Obligation Order that allows for the final structuring of the debt financing mechanism to be accomplished through the use of an Issuance Advice Letter Process. That process is described in the testimony of Charles Atkins and the attached proposed Debt Obligation Order.

As required by PURA, the debt obligation shall be secured solely by the Uplift Property and repayable through Uplift Charges explicitly assessed to repay the obligation, and ERCOT's obligations authorized under the proposed Debt Obligation Order do not create personal liability for ERCOT. *See* PURA § 39.653(h).

3. The Distribution and Use of Proceeds

Except for those LSEs that the Commission deems qualify to opt out under PURA § 39.653(d), LSEs who document their exposure to the costs included in the Uplift Balance—excluding amounts securitized under Subchapter D, Chapter 41[5]—could be entitled to receive proceeds from the Uplift Balance financing. *See* PURA § 39.653(b). As noted in Section X, below, ERCOT requests that the Commission open a separate docket to develop the documentation procedures required under Subchapter N in order to allow LSEs to submit the required documentation to the Commission to demonstrate their eligibility for proceeds from the Uplift Balance financing. ERCOT proposes that the Commission determine in that parallel proceeding the amount of exposure of each of the submitting LSEs in order to calculate the costs that will ultimately be included in the Uplift Balance.

[5] ERCOT interprets PURA § 39.652(4) and 39.653(i) to exclude Brazos Electric Power Cooperative Inc. and Rayburn Country Electric Cooperative, Inc. and requests the Commission make that determination in the parallel proceeding requested in Section X, below.

ERCOT proposes to disburse the proceeds of the Uplift Balance financing by issuing a miscellaneous invoice for payment to each QSE who represents an LSE that the Commission deems eligible to receive such proceeds. This process would rely upon a QSE who receives financing proceeds on behalf of a represented LSE to pass the funds directly on to the LSE that was deemed eligible to receive the financing. Such payments must be made by ERCOT through the QSE because ERCOT's systems only allow for financial transactions with QSEs, not LSEs directly. The Commission may wish to consider including language in the Debt Obligation Order that would specifically direct QSEs to pass through the Uplift Balance financing proceeds to the eligible LSEs.

4. Recovery of Uplift Charges

To recover the Uplift Charge, ERCOT proposes to allocate a charge to QSEs on a daily basis. The allocation will be based on the load ratio share for the day prior for the LSEs represented by the QSEs. In calculating the load ratio share, ERCOT will exclude the load of those LSEs that opt out under PURA § 39.353(d).[6] ERCOT proposes that the load ratio share used to assess Uplift Charges be updated on a daily basis, based on actual load. ERCOT proposes to create a new daily settlement invoice for the Uplift Charges only. On a going-forward basis, ERCOT will include the load of any new LSE that enters the ERCOT market in the allocation of the Uplift Charge.

As with the distribution of proceeds from the financing of the Uplift Balance to QSEs representing LSEs, ERCOT proposes to settle Uplift Charges with QSEs. Settling Uplift Charges

[6] A one-time opt-out process is to be developed by the Commission to allow municipally owned utilities, electric cooperatives, river authorities, a retail electric provider ("REP") that has the same corporate parent as each of the provider's customers, a REP that is an affiliate of each of the provider's customers, and transmission-voltage customers served by a REP to opt out of the Uplift Charges by paying in full all invoices owed for usage during the Period of Emergency. PURA § 39.653(d). LSEs and transmission-voltage customers that opt out under this subsection shall not receive any proceeds from the uplift financing. PURA § 39.653(d). As described herein, ERCOT requests that the Commission develop the opt-out procedure required under Subchapter N in a separate docket.

with QSEs is consistent with the ERCOT Protocols, which require a QSE to be financially responsible for payment of settlement charges for the entities they represent in the ERCOT market.

5. Request for Approval

The proposed transaction is set forth in further detail in the proposed Debt Obligation Order, testimony and accompanying attachments. ERCOT requests approval of the structure of the financing transaction as proposed and the issuance of a Debt Obligation Order. Authorizing the debt obligation will allow wholesale market participants who were assessed extraordinary charges due to consumption during the Period of Emergency to pay those charges over a longer period of time, alleviating liquidity issues and reducing the risk of additional defaults in the wholesale market. ERCOT believes that entry of the requested Debt Obligation Order will support the financial integrity of the wholesale market and is necessary to protect the public interest, considering the impacts on both wholesale market participants and retail customers.

VI. DESCRIPTION OF THE FILING PACKAGE

ERCOT's Application includes four attachments. These include a draft Debt Obligation Order. Additionally, the filing package supporting this Application includes the following direct testimony and the accompanying exhibits to the testimony:

Kenan Ögelman. Mr. Ögelman, Vice President, Commercial Operations of ERCOT, testifies that ERCOT's request for a Debt Obligation Order seeks financing that will preserve the financial integrity of the wholesale market and serve the public interest by providing liquidity to LSEs and will help restore and maintain confidence in the ERCOT wholesale market.

Charles N. Atkins II. Mr. Atkins is a Senior Advisor to Credit Suisse Securities (USA), LLC ("Credit Suisse" inclusive of its subsidiaries and affiliates), which is serving as the financial

advisor to ERCOT for the proposed issuance of debt obligations. Mr. Atkins provides historical information on the use of securitizations in Texas and other areas. He presents a proposed preliminary bond structure. Mr. Atkins provides background for the Debt Obligation Order proposed by ERCOT in connection with this financing, and he describes how the proposed transaction may be structured to achieve the highest possible credit ratings and price at the lowest market-clearing interest costs consistent with the terms of the Debt Obligation Order, and with investor demand and market conditions at the time of pricing..

Sean Taylor. Mr. Taylor, Vice President and Chief Financial Officer of ERCOT, testifies that ERCOT will make proceeds from the debt obligation available to QSEs representing those LSEs that are entitled to proceeds as determined by the Commission. He explains that ERCOT will assess the Uplift Charges and then use those proceeds to repay the debt obligation under the structure proposed in the Debt Obligation Order. He also explains how there will be true-ups for the Uplift Charges and the costs to implement the Debt Obligation Order.

Supplemental Testimony. ERCOT notes that HB 4492 mandated an accelerated filing of ERCOT's Application under Subchapter N. Accordingly, more detailed information or descriptions of processes that will ultimately implement the financing, to the extent necessary in this proceeding, will be provided in supplemental testimony or in response to discovery.

VII. PROTECTIVE ORDER

ERCOT requests the entry of the Protective Order in the event it becomes necessary for ERCOT or others to submit documents containing confidential information.

Attachment 1 is ERCOT's proposed Protective Order.

VIII. PROPOSED PROCEDURAL SCHEDULE

PURA § 39.653(f) requires the Commission to enter a debt obligation order "not later than the 90th day after the date [ERCOT] files an application for an order." Because financing may provide significant benefits to the wholesale market, efforts to expedite the approval of the requested Debt Obligation Order are in the public interest. ERCOT requests that the Commission retain this Application rather than refer it to the State Office of Administrative Hearings. ERCOT will file a motion requesting that a conference hearing take place as soon as possible.

Attachment 2 is ERCOT's Proposed Procedural Schedule.

IX. NOTICE

ERCOT will provide notice to all Market Participants through a Market Notice.

Attachment 3 is ERCOT's proposed Market Notice of Application for Debt Obligation Order.

X. REQUEST FOR PARALLEL PROCEEDING

In Subchapter N, the Legislature allowed certain LSEs who have paid in full all invoices owed to ERCOT to opt-out of the Uplift Charges that will be assessed under Subchapter N. Those entities that opt out will not be entitled to receive any proceeds from the uplift financing under Subchapter N. Subchapter N also requires LSEs seeking proceeds from the Uplift Balance financing to submit documentation of their exposure to the costs included in the Uplift Balance. Thus, the amount of the Uplift Balance to be financed under ERCOT's Application will depend on how many and which LSEs opt out as provided by the statute, and the amount of proceeds to be remitted to LSEs will depend on the Commission's determination of their exposure based on documentation the LSEs submit. By opening a docket to run parallel with this proceeding, the Commission can implement the "one-time process" mandated by PURA § 39.653(d) that allows

certain LSEs to opt out, and the Commission can also use that proceeding to allow LSEs to submit documentation to demonstrate their eligibility for Uplift Balance financing proceeds. This proposed process may allow the financial relief intended by the Legislature under Subchapter N to make it into the hands of those needing it the most in a timelier manner. It will also allow the Commission to determine the appropriate method of allocation of the financing proceeds to eligible LSEs within the legislatively capped amount of $2.1 billion. Accordingly, ERCOT requests that the Commission open a separate docket to develop the opt-out and documentation procedures required under Subchapter N.

XI. REQUEST FOR GOOD CAUSE EXCEPTION

ERCOT cannot disclose individual market participants' settlement and invoice information for 180 days after the relevant Operating Day under ERCOT Protocol Section 1.3.1.1(j). Because the Period of Emergency occurred within the last 180 days, the relevant settlement and invoice information is still considered confidential. ERCOT requests that the Commission approve a good cause exception to ERCOT Protocol Section 1.3.1.1(j), so that ERCOT can provide information about individual market participants' settlement and invoice transactions as needed in this proceeding. ERCOT anticipates certain intervenors may request information relating to specific amounts of costs incurred or payments received that make up the Uplift Balance and the amounts of proceeds participants will receive from the Uplift Balance financing. ERCOT asks that the good cause exception also apply in the requested parallel docket. There should be no prejudice to any market participant as the information will lose protected status on or about August 19, 2021, which is 180 days after February 20, 2021.

XII. PRAYER

ERCOT requests that this Application be granted, that a Debt Obligation Order under PURA Chapter 39, Subchapter N be issued, and that ERCOT be granted all other relief to which it may be entitled.

Respectfully submitted,

WINSTEAD PC

By: */s/ Elliot Clark*

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PUC DOCKET NO. _____

APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS FOR A DEBT OBLIGATION ORDER PURSUANT TO CHAPTER 39, SUBCHAPTER N, OF THE PUBLIC UTILITY REGULATORY ACT	**§ § § § § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

DIRECT TESTIMONY OF

OF

KENAN ÖGELMAN

ON BEHALF OF

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

JULY 16, 2021

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

Commission	Public Utility Commission of Texas
CRR	Congestion Revenue Right
Eligible Costs	RDPA charges and Ancillary Service costs in excess of the system-wide offer cap
ERCOT	Electric Reliability Council of Texas, Inc.
HB	House Bill
Period of Emergency	The period beginning 12.01 a.m., February 12, 2021 and ending 11:59 p.m., February 20, 2021
LSE	Load-Serving Entity
MWh	Megawatt-hour
PURA	Public Utility Regulatory Act
QSE	Qualified Scheduling Entity
RDPA	Reliability Deployment Price Adder
SB	Senate Bill
Subchapter M	PURA §§ 39.601-39.609
Subchapter N	PURA §§ 39.651-39.664

LIST OF ATTACHMENTS

Attachment	Description
KÖ-1	List of Testimony in Prior Commission Proceedings
KÖ-2	Map of ERCOT Footprint in Texas

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APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS FOR A DEBT OBLIGATION ORDER PURSUANT TO CHAPTER 39, SUBCHAPTER N, OF THE PUBLIC UTILITY REGULATORY ACT	**§ § § § § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

DIRECT TESTIMONY OF KENAN ÖGELMAN

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Kenan Ögelman. My business address is 2705 West Lake Drive, Taylor, Texas 76574.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Electric Reliability Council of Texas, Inc. ("ERCOT"), as Vice President, Commercial Operations.

Q. PLEASE DESCRIBE YOUR ROLE AT ERCOT.

A. In my role as Vice President, Commercial Operations, I oversee the market operations, settlement and retail operations, and market design and development functions of ERCOT.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. Prior to joining ERCOT in 2015, I served as Director of Energy Market Policy for CPS Energy. In that role, I was responsible for managing CPS Energy's activities at ERCOT and the Public Utility Commission of Texas ("Commission"). I was also responsible for developing strategic policy at CPS Energy. From 1997 through 2007, I worked as a senior economist for the Office of Public Utility Counsel, which represents residential and small commercial customers in Texas.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I graduated from Boston University with a B.A. in International Relations. I also earned an M.A. in Economics from the University of Texas at Arlington and an M.A. in Middle Eastern Studies from the University of Texas at Austin.

Q. HAVE YOU SERVED IN ANY LEADERSHIP ROLES IN THE ELECTRIC INDUSTRY?

A. Yes. From 2011 to 2013, I served as Chairman of the ERCOT Technical Advisory Committee. In addition, I served on the Gulf Coast Power Association's Board of Directors from 2013 until 2018. I was Vice-President of that organization in 2014 and President in 2015.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN ANY REGULATORY PROCEEDINGS BEFORE THE COMMISSION?

A. Yes. Attachment KÖ-1 contains a list of my testimony in regulatory proceedings before the Commission.

II. PURPOSE OF TESTIMONY AND RECOMMENDATIONS

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My direct testimony has numerous purposes:

1) I discuss House Bill ("HB") 4492, the legislation that authorizes ERCOT to apply for a Debt Obligation Order to finance the Uplift Balance, as that term is defined in Section 39.652 of the Public Utility Regulatory Act. ("PURA").[1]
2) I provide an overview of ERCOT's application to the Commission for a Debt Obligation Order in accordance with PURA § 39.653.
3) I describe ERCOT and its role in the Texas electric market, including its settlement responsibilities under the ERCOT Protocols.
4) I describe Winter Storm Uri and its effect on the ERCOT wholesale electric market.
5) I explain why ERCOT is unable to identify the Load Serving Entities ("LSE") that are eligible to receive proceeds from the Uplift Balance financing, and I describe ERCOT's proposal for the Commission to initiate a separate docket to allow LSEs to provide documentary proof of their exposure to Reliability Deployment Price Adder ("RDPA") charges and Ancillary Service costs above the Commission's system-wide offer cap.
6) I briefly describe ERCOT's proposal to issue bonds to finance the Uplift Balance, and I describe ERCOT's proposed process for distributing the bond proceeds to Qualified Scheduling Entities ("QSE") who represent those LSEs that demonstrate in a separate docket that they have been exposed to costs (referred to herein as

[1] PURA is codified in Title II of the Texas Utilities Code. *See* Tex. Util. Code §§ 11.001-66.016.

"Eligible Costs") that qualify them to receive proceeds from the Uplift Balance financing.

7) I describe ERCOT's proposed load ratio share method for collecting Uplift Charges from QSEs that represent LSEs, excluding certain LSEs and retail customers that opt-out pursuant to PURA § 39.653(d).

8) I describe the potential impact that the Uplift Balance financing may have on the ERCOT wholesale market.

Q. WHAT ARE YOUR RECOMMENDATIONS IN THIS CASE?

A. I recommend that the Commission issue a Debt Obligation Order that:

- authorizes ERCOT to obtain securitization financing of the Uplift Balance in an amount up to $2.1 billion, plus reasonable costs to implement a Debt Obligation Order;
- establishes a process by which LSEs may submit documentation and the methodology that LSEs should adhere to in doing so—either in a parallel or subsequent Commission proceeding—to establish their exposure during the Period of Emergency to Eligible Costs;[2]
- establishes a one-time process by which certain LSEs and retail customers who are authorized by PURA § 39.653(d) to opt out of Uplift Charges may do so;
- details the methodology ERCOT should use to prorate the proceeds to be distributed to each LSE through its QSE, if the total documented Eligible Costs of all LSEs exceed $2.1 billion;

[2] The "Period of Emergency" is the period beginning 12.01 a.m., February 12, 2021 and ending 11:59 p.m., February 20, 2021.

- authorizes ERCOT to establish a process to distribute the bond proceeds to the QSEs who represent LSEs that demonstrate they have Eligible Costs; and
- approves ERCOT's proposal to assess nonbypassable Uplift Charges on a daily basis to the QSEs who represent LSEs, based on a daily load ratio share calculation that excludes the load of those entities that have opted-out.

Q. IS ERCOT PRESENTING TESTIMONY FROM ANY OTHER WITNESSES IN THIS CASE?

A. Yes. ERCOT Vice President and Chief Financial Officer Sean Taylor is also providing testimony. In addition, ERCOT is presenting testimony from Charles Atkins, a senior advisor to Credit Suisse, which is ERCOT's financial advisor in this case.

Q. ARE YOU SPONSORING ANY ATTACHMENTS?

A. Yes. I am sponsoring the following attachments, which were prepared by me or under my direct supervision and control:

Attachment	Description
KÖ-1	List of Prior Testimony in Commission Proceedings
KÖ-2	Map of the ERCOT Footprint

III. HB 4492 - STATUTORY BACKGROUND

Q. DID THE TEXAS LEGISLATURE ENACT LEGISLATION THAT WAS DESIGNED TO ADDRESS THE FINANCIAL EFFECTS THAT WINTER STORM URI HAD ON THE ERCOT WHOLESALE MARKET?

A. Yes. During the 2021 Regular Session, the Legislature enacted HB 4492, and Governor Abbott signed the bill on June 16, 2021.[3] HB 4492, which is codified primarily in PURA Chapter 39, provides for two separate financing mechanisms related to the financial impacts arising from Winter Storm Uri: (1) a mechanism prescribed by Subchapter M of PURA Chapter 39[4] to fund what HB 4492 calls the "Default Balance"; and (2) a mechanism prescribed by Subchapter N of PURA Chapter 39[5] to fund what HB 4492 calls the "Uplift Balance."

During the 2021 Regular Session, the Legislature also enacted Senate Bill ("SB") 1580, which authorizes electric cooperatives to use securitization financing to recover extraordinary costs and expenses they incurred during the Period of Emergency. For purposes of this docket, ERCOT is assuming that the electric cooperatives eligible for funding under SB 1580 will not seek funding under Subchapter N of HB 4492.

Q. WHAT IS YOUR UNDERSTANDING OF THE DIFFERENCE BETWEEN THE "DEFAULT BALANCE" AND THE "UPLIFT BALANCE," AS THOSE TERMS ARE USED IN PURA CHAPTER 39.

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[3] Because HB 4492 received an affirmative vote of more than two-thirds of the members of the Texas House of Representatives and the Texas Senate, it took effect immediately upon the Governor's signature.

[4] PURA §§ 39.601 – 39.609.

[5] PURA §§ 39.651 – 39.664.

A. PURA § 39.602(1) defines the "Default Balance" as an amount of money of not more than $800 million that includes only:

> (A) amounts owed to the independent organization by competitive wholesale market participants from the Period of Emergency that otherwise would be or have been uplifted to other wholesale market participants;
>
> (B) financial auction revenue receipts used by the independent organization to temporarily reduce amounts short-paid to wholesale market participants during the Period of Emergency; and
>
> (C) reasonable costs incurred by state agency or the independent organization to implement a debt obligation order under Sections 39.603 and 39.604, including the cost of retiring or refunding existing debt.[6]

Thus, the Default Balance is composed of the amounts that market participants still owe ERCOT related to the Period of Emergency, the financial auction revenue receipts that ERCOT borrowed to pay part of the short-paid amounts, and the transaction costs that ERCOT has incurred or will incur to secure funding of the Default Balance.

In contrast, the Uplift Balance represents the amounts that LSEs were charged for the RDPA charges and Ancillary Services costs in excess of the system-wide offer cap during the Period of Emergency. PURA § 39.652(4) defines the Uplift Balance as:

> an amount of money of not more than $2.1 billion that was uplifted to load-serving entities on a load ratio share basis due to energy consumption during the Period of Emergency for reliability deployment price adder charges and ancillary services costs in excess of the commission's system-wide offer cap, excluding amounts securitized under Subchapter D, Chapter 41. The term does not include amounts that were part of the prevailing settlement point price during the Period of Emergency.[7]

[6] PURA § 39.602(1).

[7] PURA § 39.652(4).

As I will explain in more detail later in my testimony, ERCOT can quantify the "Default Balance," because the components that make up that amount are accounted for by ERCOT directly. In contrast, ERCOT cannot readily quantify the Eligible Costs that comprise the "Uplift Balance," because ERCOT has no way of knowing which LSEs were exposed to the RDPA charges and the Ancillary Services costs in excess of the system-wide offer cap. Nor does ERCOT have a way to quantify the exposure of those LSEs that were exposed to those types of charges. The LSEs themselves will need to provide that information.

Q. AS PART OF THIS APPLICATION MADE IN THIS CASE, IS ERCOT APPLYING FOR ORDERS TO FINANCE BOTH THE DEFAULT BALANCE AND THE UPLIFT BALANCE?

A. No. In this Application, ERCOT is seeking a Debt Obligation Order from the Commission authorizing ERCOT to secure debt financing for only the Uplift Balance under Subchapter N. However, contemporaneously with this Subchapter N Application, ERCOT is filing a separate Subchapter M application to secure Commission approval of a Debt Obligation Order to secure funding for the Default Balance. I provide testimony in support of that application as well.

IV. ERCOT'S APPLICATION FOR A DEBT OBLIGATION ORDER

Q. PLEASE DESCRIBE ERCOT'S APPLICATION FOR A DEBT OBLIGATION ORDER UNDER SUBCHAPTER N.

A. By this Subchapter N Application, ERCOT seeks Commission authorization to finance an Uplift Balance in an amount up to $2.1 billion, plus reasonable costs to implement a Debt Obligation Order. As explained in more detail by Mr. Atkins and Mr. Taylor, ERCOT proposes to establish a Special Purpose Entity ("SPE") and to cause that SPE to issue bonds equal to the Uplift Balance, plus reasonable costs to implement a Debt Obligation Order. ERCOT will distribute the proceeds of the bonds to those QSEs that represent LSEs who establish that they have Eligible Costs. ERCOT will then service the bonds by collecting Uplift Charges from QSEs representing those LSEs that have not opted out of paying Uplift Charges.

Q. PLEASE SUMMARIZE THE APPLICATION THAT ERCOT IS PRESENTING IN THIS CASE.

A. ERCOT's Application contains the following documents:

1. Application, including Proposed Protective Order and Notice
2. Testimony and Attachments of Kenan Ögelman
3. Testimony and Attachments of Sean Taylor
4. Testimony of Charles N. Atkins II
5. Proposed Debt Obligation Order

Q. PLEASE DESCRIBE ERCOT'S PROPOSED DEBT OBLIGATION ORDER.

A. The proposed Debt Obligation Order authorizes ERCOT to secure financing of the Uplift Balance. It also contains the findings required by Subchapter N, including findings that:

- the debt obligations are needed to preserve the integrity of the wholesale market and the public interest;
- the debt obligations are nonbypassable;
- ERCOT has the authority to pursue collection of Uplift Charges from applicable market participants; and
- the Uplift Charges are subject to true-up.

Q. IS ERCOT SEEKING COMMISSION AUTHORIZATION TO FINANCE THE UPLIFT BALANCE UNDER PURA § 39.654 OR PURA § 39.655?

A. ERCOT's primary request is that the Commission authorize financing of the Uplift Balance under PURA § 39.653. However, if the Commission determines that it would be more cost-effective to finance the Uplift Balance under PURA § 39.654 or PURA § 39.655, ERCOT seeks a Commission order authorizing financing under one of those sections of the statute, and ERCOT will provide the information required to support such an order in accordance with a schedule approved by the Commission.

V. DESCRIPTION OF ERCOT AND ITS ROLE IN THE WHOLESALE MARKET

Q. PLEASE DESCRIBE ERCOT.

A. ERCOT is a membership-based 501(c)(4) nonprofit corporation that manages the flow of electric power to more than 26 million Texas customers. Its members include power generators, transmission and distribution utilities, retail electric providers, electric cooperatives, municipally owned utilities, power marketers, and consumers. The interconnected ERCOT transmission and distribution grid covers about 75% of the land area of Texas,[8] but it provides service to approximately 90% of the state's electric load.

Q. HOW IS ERCOT GOVERNED?

A. ERCOT is governed by its Board of Directors, whose composition is mandated by PURA § 39.151(g-1). ERCOT is also subject to oversight by the Commission and the Texas Legislature.

Q. WHAT ROLE DOES ERCOT PLAY IN THE ELECTRICITY MARKET?

A. The Commission has certified ERCOT as the Independent Organization for the ERCOT region to perform the following functions:

(1) ensure open access to deliver power on the transmission lines that are interconnected to the ERCOT grid;

(2) maintain system reliability;

(3) facilitate a competitive wholesale market, including performing settlement and billing for transactions by buyers and sellers;[9] and

(4) administer retail switching in competitive choice areas.

[8] A map of the ERCOT footprint is Attachment KÖ-2 to my testimony.

[9] ERCOT has more than 1,800 active market participants that generate, move, buy, sell, or use wholesale electricity.

Q. HOW DOES ERCOT ENSURE THAT ELECTRICITY PRODUCTION AND DELIVERY ARE ACCURATELY ACCOUNTED FOR AMONG GENERATORS AND WHOLESALE BUYERS AND SELLERS?

A. ERCOT acts as the central counter-party for all transactions settled by ERCOT—i.e., for all energy, ERCOT is the sole seller to each buyer, and ERCOT is the sole buyer from each seller—and ERCOT must maintain revenue neutrality in serving this function. ERCOT generates no profit, but instead acts as a clearinghouse through which funds are exchanged between buyers and sellers in the ERCOT market. In its role as the central counter-party, ERCOT only transacts/settles with market participants registered with ERCOT as a QSE or a Congestion Revenue Rights ("CRR") account holder. A QSE representing a Resource Entity or LSE is responsible for communicating with ERCOT on behalf of the Resource Entity or LSE. The QSE is also responsible for settling payments and charges with ERCOT on behalf of its LSEs and Resource Entities.

Q. HOW DOES ERCOT FACILITATE A COMPETITIVE WHOLESALE MARKET?

A. ERCOT facilitates a competitive wholesale market in a way that is designed to provide the least-cost electric power to the market, consistent with reliability and dispatch constraints, while promoting wholesale competition. The electricity markets administered by ERCOT between buyers and sellers include a day-ahead market and real-time market. These markets are designed to ultimately provide consumers with competitive rates for electricity. ERCOT also performs settlement and billing for transactions by buyers and sellers participating in the competitive wholesale market.

Q. PLEASE DESCRIBE THE DAY-AHEAD AND REAL-TIME MARKETS THAT ERCOT ADMINISTERS.

A. The day-ahead market is a voluntary, daily market that occurs the day before the operating day for buyers and sellers to purchase energy, ancillary services, and congestion transactions. Prices for day-ahead market energy and ancillary service products are calculated by ERCOT for each hour. The real-time market is a daily market that occurs during the operating day. During real-time operations, ERCOT dispatches load or generation based on economics and reliability to balance consumer usage with production. This is referred to as security-constrained economic dispatch, which uses the dispatch of resources and the deployment of ancillary services to control frequency and resolve potential reliability issues. The real-time market produces prices for energy in 15-minute intervals.

Q. PLEASE DESCRIBE ERCOT'S PERFORMANCE OF FINANCIAL SETTLEMENT FOR TRANSACTIONS BY BUYERS AND SELLERS IN A COMPETITIVE WHOLESALE MARKET.

A. Settlement is the process used to resolve financial obligations between ERCOT and market participants. ERCOT generates no profit, but instead acts as a clearinghouse through which funds are exchanged between buyers and sellers in the ERCOT market. In its role as a clearinghouse, ERCOT settles only with QSEs and CRR account holders. A QSE may represent a Resource Entity (producer) or LSE and is responsible for communicating with ERCOT on behalf of the Resource Entity or LSE. The QSE is also responsible for settling payments and charges with ERCOT on behalf of its LSEs and Resource Entities. ERCOT does not financially transact directly with LSEs, Resource Entities, or end-use consumers.

As stated earlier, ERCOT acts only as the clearinghouse through which funds are exchanged between buyers and sellers in the ERCOT market. Therefore, when a market

participant fails to pay ERCOT for the electricity it purchased and ERCOT does not have sufficient collateral on hand for that market participant to cover the "short payment," then ERCOT will reduce payments to all market participants that are owed monies. If, over a period of time, sufficient funds remain unavailable to pay amounts owed to market participants whose revenue was reduced as a result of a short-payment by another market participant, then ERCOT will allocate the loss to other market participants on the basis of their market activity in the month prior to the month of payment default.

VI. EFFECTS OF WINTER STORM URI ON WHOLESALE MARKET

Q. PLEASE DESCRIBE THE WINTER STORM THAT THE ERCOT POWER REGION EXPERIENCED IN FEBRUARY 2021.

A. During the Period of Emergency, the ERCOT power region experienced a record-setting winter storm. On Friday, Feb. 12, Governor Greg Abbott declared a state of emergency in all 254 Texas counties in response to the extreme winter event, which is commonly referred to as Winter Storm Uri. Due to the extreme weather conditions, many electric generating units were forced offline and therefore were not available to produce power during the worst of the storm. On February 14, 2021, for example, approximately 25,000 megawatts ("MW") of generating capacity was on forced outage, at the same time that load was spiking because of the extreme cold. On February 15, at 1:20 a.m., ERCOT declared its highest state of emergency, an Emergency Energy Alert Level 3 ("EEA3"), due to exceptionally high electric demand and the lack of supply. In order to avoid a blackout of the entire ERCOT region, ERCOT directed transmission operators to curtail load. Significant levels of generation forced outages continued from February 15 through February 20, with approximately 48.6% of the potential generation offline and unavailable at one point. As a result, the ERCOT system remained in EEA3 and continued to direct the curtailment of load until Thursday, February 18 at 12:42 a.m. ERCOT ended EEA3 on Friday, February 19 at 9:00 a.m., and ERCOT returned to normal operations at 10:35 a.m. on February 19.

Q. HOW DID THE OUTAGES AFFECT THE ERCOT POWER REGION AND MARKET?

A. The most immediate impact of Winter Storm URI was the loss of power for millions of Texas households. The financial impact on the market was unprecedented. The average system-wide real-time price was $6,580 per megawatt-hour ("MWh") during the period from February 14-19, compared to an average system-wide real-time price of $20.79 in January 2021.

Q. COULD YOU EXPLAIN MORE SPECIFICALLY HOW THE EVENTS SURROUNDING WINTER STORM URI IMPACTED THE RDPA?

A. The RDPA is a mechanism set out in ERCOT Protocol Section 6.5.7.3.1 that includes a price adjustment to account for various "out-of-market" ERCOT actions. During the winter storm, ERCOT instructed transmission operators to institute firm load shed, but this load shed was not one of the "out-of-market" actions specifically accounted for in the existing RDPA calculation. Therefore, when firm load shed initially occurred on Feb. 15, 2021, there was no adjustment to the RDPA calculated by ERCOT under Section 6.5.7.3.1 specifically in relation to the firm load shed conditions. As a result, for many of the intervals during which there was firm load shed on February 15, 2021, energy prices in ERCOT were less than the $9,000/MWh Value of Lost Load.

To address this, the Commission issued an Order at an Open Meeting on Feb. 15, 2021, that directed ERCOT to "ensure that firm load that is being shed in EEA3 is accounted for in ERCOT's scarcity pricing signals." This directive was based on the Commission's observation that energy prices of less than $9,000/MWh during load-shed conditions are "inconsistent with the fundamental design of the ERCOT market."

ERCOT implemented the Commission's directive beginning at 10:15 p.m. on February 15, 2021 by effectively adjusting the RDPA to add firm load shed as an "out-of-

market" action that would result in a price adjustment that set energy prices at $9,000/MWh during load shed conditions.[10] ERCOT remained in EEA3 until 9:00 a.m. on February 19, 2021, and the RDPA adjustment remained in place until that time.[11]

Q. HOW DO THE RDPA ADJUSTMENTS AFFECT SETTLEMENTS?

A. The RDPA can result in payments or charges to resources pursuant to ERCOT Protocol 6.7.5. On a market-wide basis, the sum of all credits or charges for the RDPA among all QSEs is allocated to QSEs on a load ratio share basis pursuant to calculations set out in ERCOT Protocol Section 6.7.6. Generally, during the week of the winter storm, calculations made pursuant to ERCOT Protocol 6.7.6 resulted in charges to QSEs that were significantly in excess of their credits, thereby leading to substantial RDPA charges to QSEs representing LSEs.

Q. COULD YOU EXPLAIN MORE SPECIFICALLY HOW THE EVENTS SURROUNDING WINTER STORM URI IMPACTED ANCILLARY SERVICE PRICES?

A. Ancillary Services consist of various reliability products procured by ERCOT in the day-ahead market pursuant to Section 4 of the ERCOT Nodal Protocols. Prior to the execution of the day-ahead market, ERCOT determines and posts the total market requirement for each Ancillary Service product each hour of the operating day, and determines the obligation for each QSE based on its estimated load ratio share for the operating day. QSEs may self-arrange some or all of their Ancillary Service obligations. In the day-ahead market, for each Ancillary Service product, ERCOT procures the total market requirement

[10] http://www.ercot.com/services/comm/mkt_notices/archives/5196

[11] http://www.ercot.com/services/comm/mkt_notices/archives/5225; http://www.ercot.com/services/comm/mkt_notices/archives/5228

for each Ancillary Service, less the quantities of each Ancillary Service product that has been self-arranged by QSEs. For the Ancillary Services that ERCOT procures in the day-ahead market, ERCOT allocates to each QSE its share of the total Ancillary Service costs that were procured by ERCOT in the day-ahead market and includes those costs in each QSE's day-ahead market settlement. After the operating day, the Ancillary Services obligation for each Ancillary Services product for each QSE that was estimated prior to the day-ahead market is trued up to reflect the load ratio share based upon actual real-time load data, and any quantity difference for each QSE is reflected as a charge or credit in the QSEs real-time settlement. The ERCOT day-ahead market is a co-optimized procurement of energy and Ancillary Services, and offers for energy and Ancillary services are subject to the system-wide offer cap, which was $9,000/MWh during the Period of Emergency.

Typically, the prices for each Ancillary Service in the day-ahead market are much lower than $9,000/MWh, and historically the prices have not exceeded that level. However, because of the manner in which the day-ahead market co-optimizes the procurement of energy and Ancillary Services, it is theoretically possible to produce prices for Ancillary Services products that can significantly exceed the system-wide offer cap, particularly during times of acute scarcity, which occurred during many hours of the Period of Emergency.

ERCOT issued a market notice on February 14, 2021 describing details of the day-ahead market clearing process and the reason for Ancillary Service prices that were significantly in excess of the system-wide offer cap for operating day February 15, 2021. ERCOT noted at that time that it had found the Ancillary Service prices to be computed consistent with the ERCOT Protocols, and that ERCOT had not identified a need to correct

Ancillary Service prices for the operating day of February 15, 2021.[12] ERCOT subsequently has not identified a need to correct any of the Ancillary Service prices that exceeded the system-wide offer cap during the Period of Emergency

[12] http://www.ercot.com/services/comm/mkt_notices/archives/5188.

VII. QUANTIFICATION OF THE UPLIFT BALANCE

Q. HAS ERCOT QUANTIFIED THE PRECISE AMOUNT OF LSEs' EXPOSURE TO THE RDPA CHARGES UPLIFT BALANCE TO BE FINANCED UNDER THE FINANCING ORDER?

A. No, because ERCOT cannot do so with the information it currently has in its possession. As explained later in my testimony, PURA § 39.653(b)(3) requires that additional documentation must be provided by LSEs in order to properly quantify this amount. The RDPA charges and Ancillary Service costs were charged to QSEs who represent LSEs in the ERCOT market. ERCOT settles the wholesale market at the QSE level, so it does not have information related to the financial relationships between the QSE and the LSEs. Thus, ERCOT does not possess the information that would be required to quantify or document the exposure for LSEs required under PURA § 39.653(b)(3).

ERCOT's financial arrangement with QSEs is similar to an arrangement that a company may have with a contractor who employs subcontractors. The company knows about its own arrangement with the contractor, but the company does not necessarily know what arrangements the contractor has with its subcontractors. Thus, even though the company may be aware that the contractor has subcontractors, the company is unable to quantify the financial effect that its transactions with the contractor will have on the contractor's subcontractors.

Likewise, ERCOT is aware of the LSEs represented by each QSE, but ERCOT is unable to quantify the financial effect that ERCOT's transactions with QSEs will have on LSEs, because ERCOT settles only with the QSEs. ERCOT does not have information related to the financial relationships between the QSE and its LSEs, nor does ERCOT have

information regarding other financial arrangements that the LSEs may have with other parties.

Q. DOES PURA CONTEMPLATE A PROCESS BY WHICH THE UPLIFT BALANCE WILL BE QUANTIFIED?

A. Yes. PURA § 39.653(b)(3) requires that the Debt Obligation Order issued by the Commission "provide the process for remitting the proceeds of the financing to load-serving entities who were exposed to the costs included in the Uplift Balance, including a requirement for the load-serving entities to submit documentation of their exposure." This requirement in PURA is consistent with the issue I noted above, in which I explained that the information solely in ERCOT's possession is insufficient to quantify the Uplift Balance amounts. Therefore, it appears that the Commission could set forth the required process and methodology for LSEs to document their exposure in the Debt Obligation Order that the Commission issues in this matter. Whatever process is set forth in the Debt Obligation Order could then be implemented in a separate proceeding, which could be opened by the Commission for purposes of reviewing and approving submissions by LSEs relating to their claimed exposure to RDPA charges and Ancillary Service costs in excess of the system-wide offer cap.

Q. WOULD IT BE POSSIBLE FOR THE COMMISSION TO PRESCRIBE A PROCESS THAT BEGINS BEFORE THE ISSUANCE OF A DEBT OBLIGATION ORDER IN THIS DOCKET?

A. Yes. The Commission could require that, within a certain time after ERCOT files its application for a Debt Obligation Order, all LSEs must make a filing in this docket to: (1) opt out of the Uplift Charges in accordance with PURA § 39.653(d); or (2) document their

exposure to RDPA charges and Ancillary Service costs in excess of the system-wide offer cap. ERCOT proposes, however, that due to the limited time available in the current proceeding, and because PURA § 39.653(b)(3) only requires the provision of a "process" in the Debt Obligation Order, it would preferable if filings related to LSE opt outs and eligibility for financing are made in a docket that is separate from ERCOT's application for a Debt Obligation Order.

Q. WHY DOES ERCOT PROPOSE A SEPARATE DOCKET TO QUANTIFY THE LSEs' EXPOSURE TO THE COSTS INCLUDED IN THE UPLIFT BALANCE, RATHER THAN QUANTIFYING IT IN THIS DOCKET?

A. ERCOT believes that the Commission will need to resolve certain issues regarding LSEs' eligibility to obtain Uplift Balance financing, and it may not be possible to resolve those issues within the 90-day limit established by PURA § 39.653(f) for the Commission to issue a Debt Obligation Order. For example, ERCOT interprets PURA to mean that certain entities are ineligible for Uplift Balance financing, such as electric cooperatives and entities that have exited the wholesale market. If others interpret PURA differently, the Commission will need to resolve that disagreement.

In addition, the Commission will need to specify the methodology that each LSE must follow to document its exposure prior to the LSEs being able to engage in the activity of documenting the exposure. The Commission may also need to determine the maximum amount that each LSE is permitted to finance, particularly if the total amount that all LSEs seek to finance exceeds the $2.1 billion statutory cap on the Uplift Balance.

Q. IF THE SEPARATE DOCKET HAS NOT CONCLUDED BY THE TIME THE COMMISSION ISSUES THE DEBT OBLIGATION ORDER, HOW WILL THE

COMMISSION BE ABLE TO QUANTIFY THE UPLIFT BALANCE TO BE SECURITIZED?

A. If it is clear at the time the Debt Obligation Order is approved that the total amount sought to be financed by eligible LSEs will exceed the $2.1 billion, ERCOT proposes that the Debt Obligation Order authorize ERCOT to securitize an amount equal to $2.1 billion, plus reasonable costs to implement the Debt Obligation Order. ERCOT, however, recognizes that it is probably unlikely that this clarity will exist at the time the Debt Obligation Order is signed. Therefore, if it not clear whether the total Uplift Balance sought to be financed by eligible LSEs will total at least $2.1 billion at the time the Debt Obligation Order is signed, then ERCOT asks the Commission to authorize ERCOT to securitize the Uplift Balance in an amount up to $2.1 billion, plus reasonable costs to implement the Debt Obligation Order. After the amounts LSEs are deemed eligible to finance are finalized in the separate docket, ERCOT will be able to quantify the exact amount to be securitized, and an issuance advice letter filed by ERCOT will specify that amount. Mr. Atkins discusses the issuance advice letter in more detail in his testimony.

VIII. DISTRIBUTION OF SECURITIZATION PROCEEDS

Q. TO WHOM WILL ERCOT DISTRIBUTE THE PROCEEDS OF THE SECURITIZATION FINANCING?

A. ERCOT will distribute the proceeds of the securitization financing to those QSEs who represent LSEs that are eligible to receive such proceeds. That group will presumably be those LSEs that: (1) can demonstrate to the Commission their exposure to RDPA charges and Ancillary Service costs above the system-wide offer cap; and (2) have not opted out of paying Uplift Charges in accordance with PURA § 39.653(d).

Q. CAN ERCOT DISTRIBUTE THE PROCEEDS OF SECURITIZATION FINANCING DIRECTLY TO LSEs?

A. No. As explained earlier, ERCOT does not have processes in place to undertake financial settlements directly with LSEs, as financial settlement at ERCOT occurs only with the QSE that represents an LSE. Establishing a process though which ERCOT settles directly with LSEs would require significant ERCOT system changes that would take many months, or perhaps over a year, to implement. Further, before ERCOT could transact with LSEs directly, LSE credit requirements (e.g., collection of collateral) would need to be established, and this would require implementation of many new processes at ERCOT.

In light of the above, ERCOT proposes to disburse the proceeds of the Uplift Balance financing by issuing a miscellaneous invoice for payment to each QSE who represents an LSE that the Commission deems eligible to receive such proceeds. ERCOT will follow its standard process for wiring funds to those QSEs in accordance with the wiring instructions that the QSEs provide to ERCOT. This process would rely upon a QSE who receives financing proceeds on behalf of a represented LSE to pass the funds directly

on to the LSE that was deemed eligible to receive the financing. ERCOT itself could not ensure that the financing proceeds that are disbursed to the QSE are passed through by the QSE to its represented LSE, because ERCOT does not have visibility into the financial transactions between the QSE and LSE.

Q. IF THE TOTAL AMOUNT THAT LSEs ARE ELIGIBLE TO FINANCE EXCEEDS THE $2.1 BILLION AMOUNT SET FORTH IN SUBCHAPTER N, HOW SHOULD THE COMMISSION DECIDE WHAT AMOUNT TO ALLOCATE TO EACH LSE?

A. If the requests for financing exceeds $2.1 billion of Uplift Balance amounts, ERCOT requests that the Commission either determine the specific amount each LSE is eligible to receive in the proposed separate docket, or, in the alternative, specify a methodology that ERCOT should apply to determine the Eligible Costs to be distributed to each LSE.

IX. COLLECTION OF UPLIFT CHARGES

Q. HOW DOES ERCOT PROPOSE TO RECOVER THE UPLIFT CHARGES?

A. ERCOT proposes to allocate a charge to QSEs on a daily basis, which will be based on the load ratio share for the day prior of the LSEs represented by the QSEs. In calculating the load ratio share, ERCOT will exclude the load of those LSEs that opt out under PURA § 39.353(d). The charge that will be allocated each day will be determined based on the monthly amortization amount.

Q. WHAT LSEs ARE ELIGIBLE TO OPT OUT OF PAYING UPLIFT CHARGES?

A. PURA § 39.653(d) provides that the Commission "shall develop a one-time process that allows municipally owned utilities, electric cooperatives, river authorities, a retail electric provider that has the same corporate parent as each of the provider's customers, a retail electric provider that is an affiliate of each of the provider's customers, and transmission-voltage customers served by a retail electric provider to opt out of the Uplift Charges by paying in full all invoices owed for usage during the Period of Emergency." LSEs and transmission-voltage customers that opt out cannot receive any proceeds from the uplift financing.

It is possible that an entity that qualifies to opt out may be represented by a QSE that also represents a non-opted-out LSE, so that the QSE is allocated some amount of Uplift Charges. In such a case, an opted-out entity would need to ensure that its QSE does not pass through to it any of the Uplift Charges that are allocated to the QSE. One way to address this is for entities that have qualified to opt out to ensure that they are represented by a QSE that does not represent any non-opted-out LSEs. If a QSE only represents opted-out entities or non-LSEs, then they should not be allocated Uplift Charges under ERCOT's

proposed allocation methodology. As noted earlier, because ERCOT does not have visibility into the financial arrangements between QSEs and the entities they represent, ERCOT cannot make assurances regarding what amounts a QSE will or will not pass through to its represented entities.

Q. WILL THE LOAD RATIO SHARES REMAIN CONSTANT OVER THE PERIOD THAT THE UPLIFT BALANCE DEBT IS AMORTIZED?

A. No. LSEs' load ratio share would change daily based on actual load; therefore, the amount allocated to the QSEs representing the LSE would change on a daily basis. In addition, LSEs enter and exit the market from time to time. In order to ensure an accurate allocation of the Uplift Charges, ERCOT proposes that the load ratio share used to assess Uplift Charges be updated on a daily basis, based on actual load.

Q. HOW DOES ERCOT PROPOSE TO REFLECT THE UPLIFT CHARGES ON SETTLEMENT INVOICES?

A. ERCOT proposes to create a new daily settlement invoice for the Uplift Charges only.

Q. WILL ERCOT INSTITUTE MEASURES TO MAKE THE UPLIFT CHARGES NONBYPASSABLE?

A. ERCOT proposes to require each Counterparty representing the QSE for an LSE to post collateral equal to four months of the LSE's estimated Uplift Charges. If the LSE exits the market prior to the amortization of the Uplift Balance debt, ERCOT would retain the collateral held for the Counterparty for the QSE that represents that LSE to the extent necessary to account for any unpaid Uplift Charges.

Q. IF IT IS NECESSARY TO ADJUST THE AMOUNT OF CHARGES TO QSEs AS A RESULT OF TRUE-UPS OF THE UPLIFT CHARGE PROCEEDS, HOW DOES ERCOT PROPOSE TO ADJUST THOSE CHARGES?

A. Mr. Taylor details the proposed true-up process in his testimony.

X. IMPACT OF UPLIFT FINANCING

Q. DID THE LEGISLATURE REQUIRE THE COMMISSION TO MAKE ANY FINDINGS AS A PREREQUISITE TO APPROVING UPLIFT FINANCING?

A. Yes. PURA § 39.653(a) allows the Commission to establish a debt financing mechanism to finance the Uplift Balance only if the Commission finds that "such financing will support the financial integrity of the wholesale market and is necessary to protect the public interest, considering the impacts on both wholesale market participants and retail customers."

Q. ARE THE DEBT OBLIGATIONS NEEDED TO PRESERVE THE FINANCIAL INTEGRITY OF THE WHOLESALE MARKET AND THE PUBLIC INTEREST?

A. In my opinion, yes. Developments during and after Winter Storm Uri created significant uncertainty in the ERCOT wholesale market. It is ERCOT's understanding that some LSE's incurred significant charges for RDPA charges and Ancillary Service costs during the Period of Emergency. Liabilities incurred during that time may have driven a number of LSEs into bankruptcy or to the brink of bankruptcy. It is my opinion that providing liquidity to LSEs through the Uplift Balance financing will help restore and maintain confidence in the ERCOT wholesale market.

Q. IN YOUR OPINION, WHAT IMPACT WOULD THE CREATION OF A DEBT FINANCING MECHANISM HAVE ON WHOLESALE AND RETAIL MARKET PARTICIPANTS?

A. The creation of a debt financing mechanism would likely prevent some LSEs from entering bankruptcy or exiting the ERCOT wholesale market, which may benefit both wholesale and retail customers. It could also inject more liquidity into the ERCOT market.

XI. CONCLUSION

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN THIS CASE.

A. I recommend that the Commission issue a Debt Obligation Order that:

- authorizes ERCOT to obtain securitization financing of the Uplift Balance in an amount up to $2.1 billion, plus reasonable costs to implement a Debt Obligation Order;
- establishes a process by which LSEs may submit documentation and the methodology that LSEs should adhere to in doing so—either in a parallel or subsequent Commission proceeding—to establish each LSE's exposure during the Period of Emergency to Eligible Costs;
- establishes a one-time process by which certain LSEs and retail customers who are authorized by PURA § 39.653(d) to opt out of Uplift Charges may do so;
- if deemed necessary, details the methodology ERCOT should use to prorate the Eligible Costs of each LSE, if the total documented Eligible Costs of all LSEs exceed $2.1 billion;
- authorizes ERCOT to establish a process to distribute the financing proceeds to the QSEs who represent LSEs that demonstrate they have Eligible Costs; and
- approves ERCOT's proposal to assess nonbypassable Uplift Charges on a daily basis to the QSEs who represent LSEs, based on a daily load ratio share calculation that excludes the load of those entities that have opted-out.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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E-Signature Summary

E-Signature 1: Kenan Ogelman (KO)
July 15, 2021 12:26:38 -8:00 [4F4E08475233] [136.62.178.35]
kenan.ogelman@ercot.com (Principal) (ID Verified)

E-Signature Notary: Nicole E Rossero (NR)
July 15, 2021 12:26:38 -8:00 [FF25F8B3AF64] [70.112.135.24]
Nicole.Rossero@ercot.com
I, Nicole E Rossero, did witness the participants named above electronically sign this document.

PUC DOCKET NO. _____

APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS FOR A DEBT OBLIGATION ORDER PURSUANT TO CHAPTER 39, SUBCHAPTER N, OF THE PUBLIC UTILITY REGULATORY ACT	**§ § § § § § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

AFFIDAVIT

STATE OF TEXAS)
)
COUNTY OF TRAVIS)

KENAN ÖGELMAN, first being sworn on his oath, states:

I am the witness identified in the preceding testimony. I have read the testimony and the accompanying attachments, and I am familiar with the contents. Based on my personal knowledge, the facts stated in the testimony are true. In addition, in my judgment and based on my professional experience, the opinions and conclusions stated in the testimony are true, valid, and accurate.

Signed on 2021/07/15 12:26:38 -8:00

KENAN ÖGELMAN

Subscribed and sworn to before me this 15th day of July 2021 by Kenan Ögelman. This notarial act was an online notarization.

Signed on 2021/07/15 12:26:38 -8:00

Notary Public, State of Texas

My Commission Expires: May 19, 2024

Nicole E. Rossero
Commission # 12600172-5
Notary Public
STATE OF TEXAS
My Comm Exp. May 19, 2024

Notary Stamp 2021/07/15 12:26:38 PST FF25FBB3AFB4

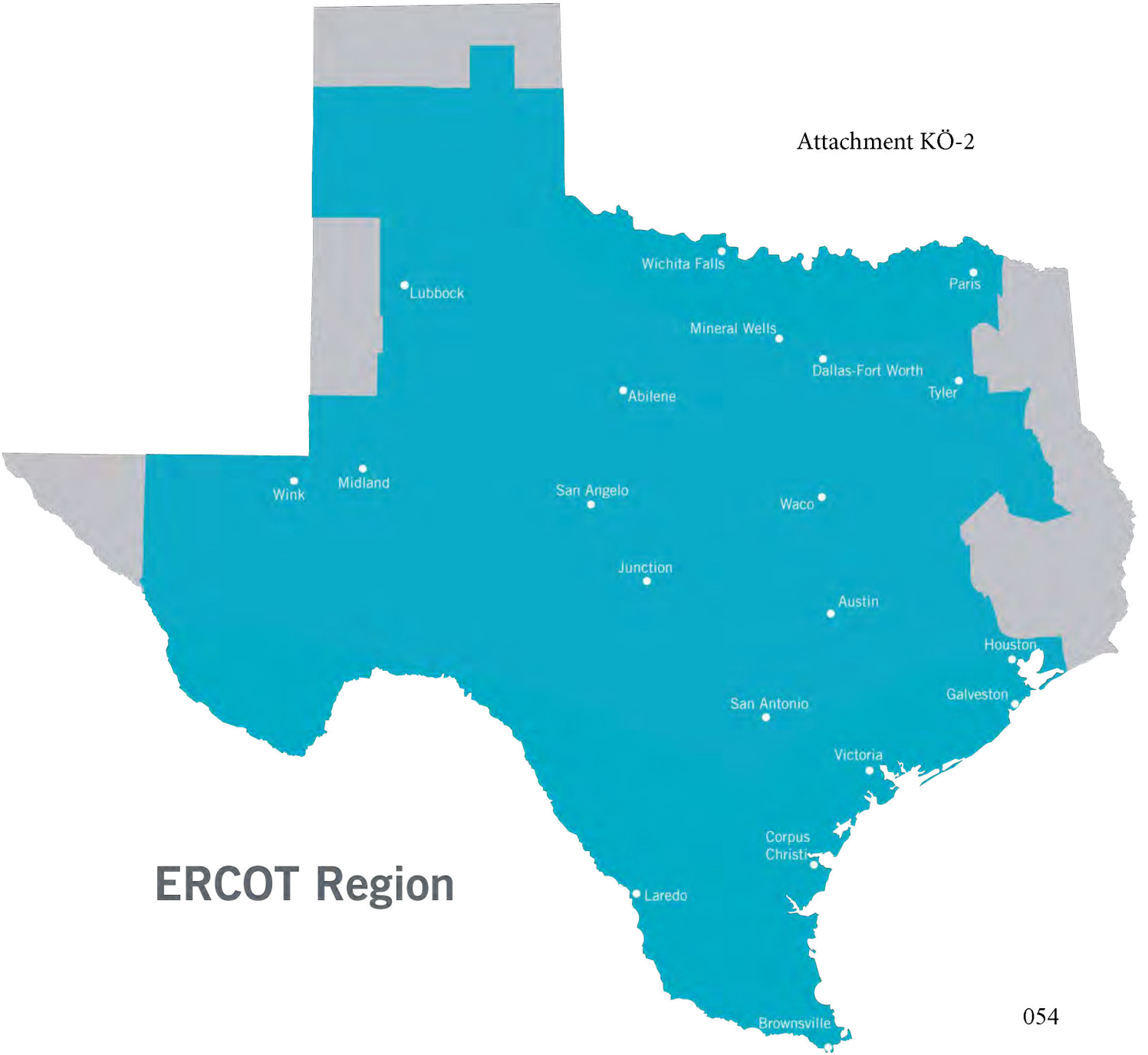
Attachment KÖ-1
List of Prior Testimony of Kenan Ögelman

Docket No.	Style
16705	*Application of Entergy Gulf States, Inc. for Approval of its Transition to Competition Plan and the Tariffs Implementing the Plan, and For the Authority to Reconcile Fuel Costs, to Set Revised Fuel Factors, and to Recover a Surcharge for Underrecovered Fuel Costs* (for OPUC)
17112	*Application Of Southwestern Bell Telephone Company To Revise Tariff, Rules And Regulations; An Internal Process Designed To Prevent Residential Customers From Having Their Service Disconnected When Toll Charges Exceed Their Ability To Pay. Pursuant To Section 3.353(D) Of Pura 1995* (for OPUC)
17751	*Application Of Texas-New Mexico Power Company For Approval Of A Transition Plan And Statement Of Intent To Decrease Rates* (for OPUC)
17809	*Petition Of Central Telephone Company Of Texas For Authority To Recover Lost Revenues And Cost Of Implementing Expanded Local Call Service. Pursuant To Subst. R. 23.49(C)(12)* (for OPUC)
18845	*Petition Central Power And Light Company, West Texas Utilities Company And Southwestern Electric Power Company For Approval Of Photovoltaic Contract And Renewable Energy Technologies Trailer Program And Associated Cost Recovery Mechanisms* (for OPUC)
20815	*Application Of Brazos Electric Power Cooperative, Inc. For Approval Of Acquisition Of DSM And Renewable Resources Under Integrated Resource Planning* (for OPUC)
21441	*Petition Of Central Power And Light Company For Approval Of Contract And Costs Associated With Demand-Side Management Resources* (for OPUC)
22349	*Application Of Texas-New Mexico Power For Approval Of Unbundled Cost Of Service Rate Pursuant To Pura §39.201 And Public Utility Commission Substantive Rule §25.344* (for OPUC)
22350	*Application Of TXU Electric Company For Approval Of Unbundled Cost Of Service Rate Pursuant To Pura §39.201 And Public Utility Commission Substantive Rule §25.344* (for OPUC)
22351	*Application Of Southwestern Public Service For Approval Of Unbundled Cost Of Service Rate Pursuant To Pura §39.201 And Public Utility Commission Substantive Rule §25.344* (for OPUC)

22352	*Application Of Central Power & Light Company For Approval Of Unbundled Cost Of Service Rate Pursuant To Pura §39.201 And Public Utility Commission Substantive Rule §25.344* (for OPUC)
22353	*Application Of Southwestern Electric Power Company For Approval Of Unbundled Cost Of Service Rate Pursuant To Pura §39.201 And Public Utility Commission Substantive Rule §25.344* (for OPUC)
22354	*Application Of West Texas Utilities For Approval Of Unbundled Cost Of Service Rate Pursuant To Pura §39.201 And Public Utility Commission Substantive Rule §25.344* (for OPUC)
22355	*Application Of Reliant Energy HL&P For Approval Of Unbundled Cost Of Service Rate Pursuant To Pura §39.201 And Public Utility Commission Substantive Rule §25.344* (for OPUC)
22356	*Application Of Entergy Gulf States For Approval Of Unbundled Cost Of Service Rate Pursuant To Pura §39.201 And Public Utility Commission Substantive Rule §25.344* (for OPUC)
23063	*Complaint Of AT&T Communications Of Texas, L.P. Against Southwestern Bell Telephone Company And Southwestern Bell Communications Services, Inc. Dba Southwestern Bell Long Distance* (for OPUC)
24190	*Petition To Appoint Provider Of Last Resort Pursuant To Pura 39.106 For Residential And Small Non-Residential Customers In The Entergy, TXU East-DFW, And TXU West-DFW Service Areas And For Large Non-Residential Customers In The Reliant North, Reliant South, CPL Gulf Coast, CPL Valley, WTU, And Swepco Service Areas* (for OPUC)
24468	*Public Utility Commission Of Texas Staff Petition To Determine Readiness For Retail Competition In The Portions Of Texas Within The Southwest Power Pool* (for OPUC)
24469	*Public Utility Commission Of Texas Staff Petition To Determine Readiness For Retail Competition In The Portions Of Texas Within The Southeastern Reliability Council* (for OPUC)
24840	*Petition To Appoint Provider Of Last Resort Pursuant To Pura §39.106 For Residential And Small Non-Residential Customers In The Entergy And TXU-East DFW Service Area, And For Large Non-Residential Customers In The CPL Gulf Coast, CPL Valley, WTU And Swepco Service Areas* (for OPUC)
31540	*Proceeding To Consider Protocols To Implement A Nodal Market In The Electric Reliability Council Of Texas Pursuant To Subst. R. §25.501* (for OPUC)
32686	*Application of the Electric Reliability Council of Texas (ERCOT) for Approval of a Nodal Market Implementation Surcharge and Request for Interim Relief* (for OPUC and CPS)

33672	*Commission Staff's Petition for Designation of Competitive Renewable Energy Zones* (for CPS)
33687	*Entergy Texas, Inc's Transition To Competition Plan (TTC Plan)* (for CPS)
38577	*PUC Proceeding To Determine Whether To Modify The CREZ Transmission Plan* (for CPS)
40487	*Notice Of Violation By Cps Energy, An Authorized Qualified Scheduling Entity (QSE), Of PURA §39.151(D) And (J), PUC Subst. R. §25.503(F)(2), ERCOT Protocols §§6.5.7.6.2.3(4) Relating To Non-Spinning Reserve Service (NSRS) Deployment, 8.1.1.2.1.3. Relating To NSRS Qualification, And 8.1.1.4.3(3)(B) Relating To NSRS Energy Deployment Criteria* (for CPS)

Attachment KÖ-2



APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. FOR A DEBT OBLIGATION ORDER PURSUANT TO CHAPTER 39, SUBCHAPTER N, OF THE PUBLIC UTILITY REGULATORY ACT	**§**	**PUBLIC UTILITY COMMISSION OF TEXAS**

DIRECT TESTIMONY

OF

CHARLES N. ATKINS II

July 16, 2021

CASE NO. -_____-
INDEX TO THE DIRECT TESTIMONY OF
CHARLES N. ATKINS II

WITNESS FOR
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

DIRECT TESTIMONY
OF CHARLES N. ATKINS II
_____CASE NO. _____-

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT EMPLOYMENT POSITION.

A. My name is Charles N. Atkins II. I am a Senior Advisor to Credit Suisse Securities (USA), LLC ("Credit Suisse Securities" or "Credit Suisse," both inclusive of subsidiaries and affiliates). My business address is Eleven Madison Avenue, New York, New York 10010.

Q. PLEASE SUMMARIZE YOUR TESTIMONY IN THIS PROCEEDING.

A. Pursuant to the recently enacted State of Texas H.B. No. 4492 (the "Act"),Subchapter N, Electric Reliability Council of Texas, Inc.("ERCOT) has requested that the Public Utility Commission of Texas (the "Commission") adopt the proposed Debt Obligation Order ("Order") enabling ERCOT to use a debt financing mechanism as a means to finance certain Uplift Balances, as defined in the Act, and also certain reasonable related upfront and ongoing financing costs, such Uplift Balances resulting from market conditions during the Winter Storm Uri period of emergency. The proposed Subchapter N financing is one among several State of Texas initiatives designed to support the financial soundness and stability of the wholesale and retail electric markets in the ERCOT region. Specifically, this proposed transaction is designed to finance the reliability deployment price adder ("RDPA") charges and ancillary service costs that exceeded the Commission's system-wide offer cap, which were uplifted to load-servicing entities ("LSEs")

based upon consumption during the period of emergency. LSEs receiving proceeds from this financing may use the proceeds solely for the purpose of fulfilling payment obligations directly related to such costs and refunding or crediting such costs to retail customers of the LSEs who paid or otherwise would be obligated to pay such costs.

My testimony provides background for the Order proposed by ERCOT in connection with this financing, and describes how the proposed transaction may be structured to achieve the highest possible credit ratings and price at the lowest market-clearing interest costs consistent with the terms of the Order, and with investor demand and market conditions at the time of pricing. ERCOT recognizes that the Texas Legislature, through the Act, intends ERCOT and the Commission to consider both timeliness of execution as well as lowest Uplift Charge objectives in connection with this Subchapter N financing. The proposed Order is consistent with the Act, in that the proposed Order provides flexibility to ERCOT and the Commission regarding the specific financing mechanism utilized. Moreover, through the Finance Team and Issuance Advice Letter process, described in greater detail in the proposed Order and this testimony, the Commission and ERCOT may balance the timeliness and lowest Uplift Charge objectives to implement a transaction that meets the principal electric market stabilization objectives of the Act.

Q. PLEASE DISCUSS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I am a graduate of Harvard Law School, with a Juris Doctor degree. I am also a graduate of Howard University's College of Arts and Sciences with a Bachelor of Arts degree in Political Science, with minor concentrations in Economics, Mathematics and Sociology (Honors Program, Magna Cum Laude, and Phi Beta Kappa).

My relevant professional experience includes 23 years of structured finance investment banking at Morgan Stanley, where I focused on corporate structured finance and the securitization of consumer, operating and new assets. I also served as an independent consultant to utilities, financial sponsors and other financial institutions as Chief Executive Officer of Atkins Capital Strategies LLC, from 2013 to 2017. I was a Senior Advisor at Guggenheim from 2017 through August 2020. I then briefly returned to the role of independent consultant, and I became a Senior Advisor to Credit Suisse in December 2020. I have been heavily involved in utility securitizations for the majority of my investment banking career and played a lead banking role in the first utility stranded cost securitization, which was the $2.9 billion transaction for Pacific Gas and Electric in 1997. At Morgan Stanley, as a Senior Advisor to Guggenheim Securities and as an independent consultant, I served as an advisor to utilities or as a senior Morgan Stanley banker where Morgan Stanley served as a lead or joint lead underwriter for 30 utility securitization assignments, totaling more than $19.7 billion, plus two utility ring-fencing

reorganization transactions with an associated value of $5.3 billion. I have provided testimony as an expert witness on behalf of utilities before regulatory commissions in Arkansas, Louisiana, Maryland, New Mexico, North Carolina, Texas and West Virginia.

Most recently, during October last year, I provided written and oral testimony on behalf of Duke Energy Carolinas and Duke Energy Progress, in connection with their proposed $978.8 million of North Carolina storm cost recovery securitization financings. During January of this year, I also provided written testimony on behalf of Public Service Company of New Mexico in connection with a financing order for a $300 million cost recovery securitization associated with the proposed abandonment of their investment in the Four Corners coal-powered generation facility. A copy of my professional resume is attached as Attachment CNA-1.

Q. DO YOU POSSESS ANY PROFESSIONAL LICENSES RELATED TO THE SECURITIES INDUSTRY?

A. Yes. I hold a Series 7 license (General Securities Representative) by the Financial Industry Regulatory Authority that allows an individual to solicit, purchase, or sell all securities products, including asset-backed securities. I also hold a Series 79 license (Investment Banking Representative) , which allows an individual to advise on and facilitate debt and equity offerings (public offerings or private placements), mergers and acquisitions, tender offers, financial restructurings, asset sales, divestitures, corporate reorganizations and business combination transactions.

II. PURPOSE OF TESTIMONY

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of ERCOT.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to:

1. Provide background information on the use of utility securitization in Texas and other jurisdictions ("utility securitization" is a generic term used to refer to securitizations for a number of different recovery purposes; some of the names used include rate reduction bonds, stranded cost bonds, energy transition bonds, storm recovery bonds, system restoration bonds, and restructuring bonds, among other names); as well as discuss some of the basic framework elements of the proposed financing transaction secured by Uplift Property (the "Subchapter N Bonds," or "Retail Market Stabilization Securities");
2. Present illustrative Retail Market Stabilization Securities structure scenarios, assuming a transaction placed in the capital markets, and discuss certain structuring considerations; and
3. Discuss several of the key commercial terms of proposed Retail Market Stabilization Securities that ERCOT expects will be required for a successful issuance of the Securities, as well as key provisions of the proposed Order.

Q. WHAT EXHIBITS TO THE ORDER APPLICATION DO YOU SPONSOR?

A. I am sponsoring the following exhibits described below and attached to my testimony:

- Attachment CNA-1: Professional resume of Charles N. Atkins II
- Attachment CNA-2: A list of investor-owned utility securitization transactions since 1997
- Attachment CNA-3: "Moody's Downgrades ERCOT to A1, Outlook Negative," March 4, 2021
- Attachment CNA-4: ...Moody's-"Securitization Will Be a Shock Absorber for ERCOT Defaults from February Storm," June, 2921
- Attachment CNA-5: Moody's-"Utility Cost Recovery through Securitization is a Credit Positive," July 18, 2018

III. SECURITIZATION BACKGROUND

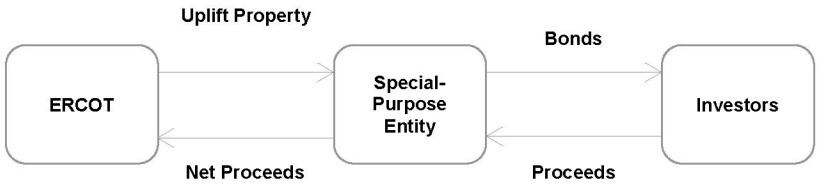
Q. PLEASE PROVIDE A BASIC DESCRIPTION OF SECURITIZATION.

A. Securitization is the process in which an owner of a cash flow-generating asset sells the asset for an upfront payment, done in a manner that legally isolates (or de-links) the cash flow-generating asset from the credit quality of the owner/seller. The sale process is intended to protect investors from any changes in credit circumstances, or even the bankruptcy, of the entity that sold the asset. Therefore, the "credit" of a securitization is the ability of the legally isolated asset to produce a set of payments (or cash flows) for investors, who purchase a securitized interest in the asset. Importantly, the securitized asset is legally isolated, and not subject to the lien of any pre-existing creditors of the entity that transferred the asset. Fixed income debt

securities collateralized by the legally isolated asset are issued to investors, and those investors rely solely on the legally isolated asset and associated cash flows to pay interest and principal on the issued debt securities. The debt securities are non-recourse to the selling entity.

In the context of utility securitization, the underlying cash flow-generating asset is an intangible property right authorized by state legislation and created pursuant to a financing order. Generally this property springs into existence simultaneously with the transfer of the property at the time the securitization debt is issued. Thus, counsel typically opines that the property is not subject to the lien of any of the selling entity's pre-existing creditors. This property right includes the right to impose upon the utility's customers charges required to pay the interest, principal and other ongoing financing costs associated with the debt securities issued in the securitization on a timely basis, as scheduled. This property right is also referred to as the collateral for the transaction. The utility sells the property right to a newly established, bankruptcy remote special-purpose entity ("SPE") which, as its name implies, functionally does nothing other than purchase the collateral and issue bonds to investors to fund that purchase. The conveyance of the property right from the utility to the SPE is also referred to as a "true sale," as it is designed to legally isolate the collateral from the seller of the collateral. A true sale of the collateral supports the "bankruptcy-remoteness" of the SPE and the securitization debt. To have the funds needed to purchase the collateral, the SPE issues debt securities to investors, collateralized by the property right. In exchange for the issued debt,

investors pay an upfront purchase price, which is passed through the SPE back to the utility. Below is a simplified indicative schematic of the transaction closing mechanics described above:



In addition to the essential structure described above, the securitization process also includes another key component: ongoing collections of the cash generated by the collateral. Here, a trustee (a "Trustee" is typically a commercial bank experienced with securitization trust services) and the utility play important roles. The utility will continue to perform its routine billing and collecting functions. In the context of securitization, this function is referred to as servicing and the utility takes on the role as the servicer. In addition to its routine billing and collecting functions, as servicer, the utility will also perform certain reporting duties with respect to the amount of money collected. The servicer will perform these functions for the SPE pursuant to a contractual arrangement known as the servicing agreement. The Trustee also plays an important role in the safekeeping of the ongoing collections and distributing them to investors. After receiving its collections, the servicer remits the monies to the SPE trust account held at the Trustee, which maintains those monies until it periodically remits them to investors according to a pre-determined set of payment priorities (the "waterfall") and schedule (typically semi-annually in utility securitizations). The Trustee serves as a representative of the

bondholding investors and ensures that their rights are protected in accordance with the terms of the transaction.

Q. WHAT IS THE VOLUME OF UTILITY SECURITIZATIONS THAT HAVE BEEN TRANSACTED TO DATE, AND WHO ARE THE TYPICAL INVESTORS?

A. Utility securitizations are structured based upon well-established legal and rating criteria and have been issued since 1997. According to public records, including SEC registration filings, since 1997 to date, there have been 68 securitization transactions by or on behalf of investor-owned utilities. Utilities in Texas have been relatively frequent issuers of securitizations to recover stranded costs and storm costs. Since 2001, there have been 13 utility securitization transactions in Texas, totaling $11.185 billion.

These transactions are well understood by many investors, and types of investors that have participated in utility securitizations include banks, institutional and retail trust funds, money managers, investment advisors, pension funds, insurance companies, securities lenders and state trust funds. I attach a list of investor-owned utility securitization transactions as Attachment CNA-2.

Q. HAVE OTHER COLLATERAL TYPES BEEN SECURITIZED IN A SIMILAR MANNER?

A. Yes, the market for securitized products or asset-backed securities ("ABS") is very large. Examples of other collateral types include certain consumer-related assets, such as credit card receivables, auto loans, auto leases, and student loans, as well as equipment loans, equipment leases, collateralized debt and collateralized loan obligations and other non-mortgage structured financings. During 2020, an estimated $304.2 billion of ABS was issued in the United States, and during 2021 through May, issuance for the U.S. ABS market was approximately $109.6 billion (Source: SIFMA.org). The investors who primarily purchase utility securitizations generally come from both the ABS market and the corporate fixed income debt market. The investment grade corporate debt market is significantly larger than the ABS market, with 2020 issuance of $1.859 trillion, and 2021 issuance through May of $697.9 billion. (Source: SIFMA.org). By contrast, the taxable municipal bond market is significantly smaller than either the ABS or the investment grade corporate market, with 2020 issuance of $138 billion, and 2021 issuance through May of $41.7 billion. (Source: SIFMA.org).

Q. DO YOU HAVE ANY THRESHOLD COMMENTS REGARDING ERCOT'S APPLICATION FOR SECURITIZATION FINANCING?

A. Yes. I am aware that the Commission has issued financing orders in the past authorize securitization transactions sponsored by investor-owned utilities. Some of those earlier financing orders were used by utilities to securitize stranded

costs;[1] others were used by utilities to securitize storm restoration costs.[2] Although the current ERCOT securitization application is somewhat similar to those utility applications, there are also important differences between those securitization applications and this one. For example, ERCOT is not an investor owned utility. It is a 501 (c) (4) not-for-profit corporation, with membership comprised of power generators, regulated electric utilities, municipal utilities, cooperative utilities, retail electric providers, power traders, and other electric market participants. ERCOT is the "independent organization" (sometimes also referred to as the "independent system operator") designated by the Public Utility Commission of Texas ("PUCT"), pursuant to the Public Utility Regulatory Act ("PURA"), for the purpose of managing the flow of electric power for the State's independent electric grid, which covers approximately 90 percent of the State's electric load. *See* Tex. Util. Code § 39.151(a) and (c). PURA is codified in the Texas Utilities Code. ERCOT's role includes, among other things, scheduling power on an electric grid that connects more than 46,000 miles of transmission lines and over 710 generation units, and performing financial settlements for the competitive wholesale power market. ERCOT operates the wholesale electric market in which generators offer their power for sale to retail electric providers ("REPs"), municipally-owned utilities, and other entities that provide electric service to end-use customers.

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[1] *See, e.g., Application of AEP Texas Central Company for a Financing Order*, Docket No. 39931, Financing Order (Jan. 12, 2012); *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*, Docket No. 39808, Financing Order (Oct. 27, 2011).
[2] *See, e.g., Application of AEP Texas, Inc. for a Financing Order to Securitize System Restoration Costs*, Docket No. 49308, Financing Order (June 17, 2019).

In connection with its operation of the wholesale electric market, ERCOT has a statutory obligation to "ensure that electricity production and delivery are accurately accounted for among the generators and wholesale buyers and sellers" in the ERCOT market. Tex. Util. Code at § 39.151(a)(4). ERCOT fulfills that obligation by accepting payments from buyers of electricity and remitting payments to sellers of electricity, with ERCOT retaining an approved amount to cover its operating costs. *Id.* at § 39.151(e). ERCOT essentially serves as the clearinghouse for market transactions between electricity buyers and sellers, ensuring that electricity generation, scheduling, and delivery are timely and accurately accounted for and provided.

ERCOT is "directly responsible and accountable" to the PUCT. Tex. Util. Code §§ 39.151(d). The PUCT has "complete authority" to oversee and investigate ERCOT's finances, budget, and operations as necessary to ensure ERCOT's accountability and to ensure that ERCOT adequately performs its functions and duties. *Id.* ERCOT is required to cooperate fully with the PUCT in the PUCT's oversight and investigatory functions. *Id.*

Another important difference is that the ERCOT securitization application arises under a newly enacted subchapter of PURA Chapter 39 that imposes different standards than the statutory provisions under which investor-owned utilities have sponsored the issuance of securitized stranded cost and storm-restoration debt. The

stranded cost securitization statute, for example, sets forth five tests that a utility must satisfy in order to establish its right to securitization financing:

1. The total revenue test in PURA § 39.303(a), which requires that "the total amount of revenues to be collected under the financing order is less than the revenue requirement that would be recovered . . . using conventional financing methods";

2. The proceeds test in PURA § 39.301, which requires that transition bonds be used solely for the purpose of reducing the amount of recoverable regulatory assets and other amounts . . . through the refinancing or retirement of utility debt or equity";

3. The tangible and quantifiable benefits test in PURA § 39.301, which requires that the proposed securitization provide tangible and quantifiable benefits to ratepayers, greater than would have been achieved absent the issuance of transition bonds;

4. The structuring and pricing test in PURA § 39.301, which requires that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and terms of the financing order; and

5. The present value test set forth in PURA § 39.301, which requires that the amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bond associated with the regulatory assets or stranded costs sought to be securitized.

Utilities seeking to secure securitization financing for storm restoration costs must satisfy those tests as well.[3] In contrast, the subchapter of PURA that authorizes ERCOT to securitize RDPA charges and Ancillary Service costs in excess of the system-wide offer cap contains only three tests:

1. The financial integrity test in PURA § 39.653(a), which requires the Commission to find that debt financing "will support the financial integrity of the wholesale market and is necessary to protect the

[3] *See, e.g.,* PURA § 39.460(a)-(b) (stating that the tests governing securitization of stranded costs also apply to securitization of storm restoration costs).

public interest, considering the impact on both wholesale market participants and retail customers."

2. The proceeds test in PURA § 39.651(d), which states that the proceeds of debt obligations undertaken by ERCOT "be used solely for the purpose of financing reliability deployment price adder charges and ancillary service costs that exceeded the commission's system-wide offer cap and were uplifted to load-serving entities based on consumption during the period of emergency." and

3. The structuring and pricing test in PURA § 39.651(e), which requires that the structuring and pricing of the debt obligations result in the lowest uplift charges consistent with market conditions and terms of the Commission's order.

Second, ERCOT has less risk than the investor-owned utilities do with respect to collection of the funds necessary to service the securitization bonds. The utilities must collect the amounts necessary to service stranded cost and storm restoration securitization bonds from retail customers, which creates both volumetric risk and bad debt risk. In contrast, ERCOT is proposing to collect a specific amount each month, beginning no sooner than the first month after the issuance of the securitization bonds, from the eligible Qualified Scheduling Entities ("QSEs") that represent LSEs operating in the wholesale market, which significantly mitigates volumetric risk. In addition, ERCOT intends to require that counterparties subject to Uplift Charges post sufficient collateral to ensure that ERCOT will be able to service the securitization securities, which significantly mitigates bad debt risk. ERCOT also intends to allocate Uplift Charges daily, which will be based on the day prior load ratio share of the LSEs represented by the QSEs. The charge that will be allocated each day will be determined based on the monthly revenue requirement amount. In other words, ERCOT will always charge the amounts

required to cover financing revenue requirements and those amounts will be payable by QSEs based on their respective load share ratio. Because of these important differences in risk, it would be reasonable for a properly structured ERCOT-sponsored transaction to have the potential for the highest ratings from one or more credit rating agencies, which are independent organizations.

Moody's, in its March 2021 report downgrading ERCOT's investment grade corporate rating from Aa3 to A1, notes that despite the challenges resulting from Winter Storm Uri, "ERCOT maintains strong credit fundamentals, for the most part due to its essential role as the provider and coordinator of critical energy infrastructure in the state of Texas. Its financial stability remains critical to the proper functioning of the power grid as ERCOT is the central counterparty to all market participants. ERCOT itself is insulated against credit losses due to counterparty defaults because it is allowed to socialize any credit losses among its market participants. All of ERCOT's costs, including any unexpected liabilities, are funded through a regulatorily approved charge to market participants. As a nonprofit corporate established to serve the public, ERCOT does not have shareholders or shareholder equity."

Moody's, in a June 7, 2021 report commented favorably on the enactment of the Act and SB 1580, a law authorizing electric cooperatives to implement securitizations to finance their share of the unpaid balances they owe. "Securitization is an effective tool in the aftermath of a catastrophe because it

spreads out costs over many years and minimizes the impact on customer rates. This, in turn, helps issuers manage their exposure to social risks related to customer relations and access to basic services. The bills seek to address the substantial market shortfall and extraordinary costs resulting from the severe winter storm that swept through the state in mid-February 2021." (See Attachment CNA-5).

Q. PLEASE DESCRIBE THE FORMATION OF THE SPE THAT MAY ISSUE THE RETAIL MARKET STABILIZATION SECURITIES.

A. The Act provides ERCOT and the Commission the flexibility to pursue a financing utilizing a bankruptcy remote SPE wholly owned by ERCOT. Alternatively, ERCOT and the Commission may pursue a financing issued by a Texas state agency authorized to issue bonds on behalf of ERCOT, or some other financing mechanism selected by the Commission and ERCOT. This section of my testimony describes a financing approach through an ERCOT-sponsored SPE.

ERCOT's securitization transaction relating to the proposed Uplift Property financing (the "Subchapter N Bonds," or "Retail Market Stabilization Financing") may follow a process similar to the process for utility securitizations described above. ERCOT may form the SPE as a Delaware LLC, and a wholly-owned subsidiary of ERCOT. Delaware is a jurisdiction preferred by the capital markets for securitization SPEs due to the well-developed set of Delaware statutory provisions and court opinion precedents. A particular benefit is the flexibility to

strengthen the bankruptcy remote legal conclusions regarding the scope of LLC director/manager fiduciary duties. The rating agencies are familiar with the enhanced degree of legal certainty available with Delaware LLCs compared to LLCs established in other jurisdictions. This familiarity could be a benefit during the rating and marketing process. The SPE LLC Agreement will contain provisions designed to ensure that the SPE will be considered to be a bankruptcy-remote limited purpose entity, and that the SPE may issue additional series of debt under certain circumstances. When I refer to "bankruptcy-remote," I mean that the SPE is being structured so that in the unlikely event of an ERCOT bankruptcy, counsel would conclude that the SPE would not be consolidated with other ERCOT entities into ERCOT's bankruptcy estate, and the payment of the securitization debt service would not be "stayed" or stopped during the bankruptcy process. It also provides support for a legal conclusion that other ERCOT creditors do not have any lien or other security interest attached the Uplift Property owned by the SPE. Importantly, the SPE is structured to operate independently, requiring that fees paid to third-parties providing services to the SPE, including ERCOT as Servicer and Administrator, are set on an arms-length basis. These provisions supporting the bankruptcy-remote nature of the SPE are critical to achieving the desired "AAA" ratings for the Retail Market Stabilization Securities.

Q. WHAT MAKES UP THE "UPLIFT PROPERTY" THAT ERCOT SELLS TO THE SPE?

A. The Uplift Property that is created pursuant to the Order and sold to the SPE is the right to bill and collect a certain non-bypassable charge, the Uplift Charge, directly from all existing and future eligible qualified scheduling entities ("QSEs") that participate in the Day-Ahead and Real-Time ERCOT markets, and that represent LSEs active in the competitive retail market, except those LSEs that are eligible to and elect to opt out of receiving proceeds from the securitization transaction. ERCOT imposes the Uplift Charges upon the eligible QSEs on a load share ratio basis, per the Act. The eligible QSEs are expected to pass along the Charges to their respective LSEs as appropriate. The Uplift Charge amounts will be designed to ensure that the principal and interest on the Retail Market Stabilization Securities, as well as ongoing financing costs are paid on a timely basis and in full. Included in this property right is the requirement, over the full life of the transaction, to adjust the amount of the Uplift Charges owed by ERCOT's eligible QSEs, to ensure that the amounts collected are sufficient to pay all amounts owed with respect to the Retail Market Stabilization Securities, on a timely basis as scheduled. This process is referred to as the "true-up" adjustment mechanism and is described more fully in my testimony and the testimony of ERCOT witness Sean Taylor.

Q. PLEASE FURTHER DESCRIBE THE SALE OF THE UPLIFT PROPERTY BY ERCOT TO THE SPE.

A. Pursuant to a Sales Agreement, in consideration for the payment by the SPE of the purchase price for the Uplift Property, ERCOT will sell, assign, transfer and convey

all right, title and interest of ERCOT in, to and under the Uplift Property to the SPE. The Sales Agreement will provide that such sale, transfer, assignment and conveyance is expressly stated to be an absolute transfer and true sale. Pursuant to the proposed Order, if the sale agreement expressly so states, any sale, assignment or transfer of Uplift Property to a financing entity assignee that is wholly owned, directly or indirectly, by ERCOT is designed to result in an absolute transfer and true sale of, and not a pledge of or secured transaction relating to, the seller's right, title and interest in, to and under the Uplift Property. Pursuant to the Act, the Uplift Property springs into being upon the true sale transfer, thus the Property is generally considered by legal counsel to not be subject to the liens of any pre-existing creditors of the securitization sponsor. As I mentioned previously, this "true sale" treatment is an essential component of legally isolating the Uplift Property collateral from other ERCOT creditors and the bankruptcy risk of ERCOT and achieving the potential for "AAA" ratings for the Retail Market Stabilization Securities.

Q. PLEASE DESCRIBE THE UPLIFT PROPERTY AND UPLIFT CHARGES SUPPORTING THE RETAIL MARKET STABILIZATION SECURITIES.

A. The Uplift Property is defined in Section 39.662 of the Act as the rights and interests of ERCOT, or an assignee (*i.e.* the SPE) pursuant to the Debt Obligation Order that acquires such rights and interests of ERCOT, including the right to impose, charge, collect and receive Uplift Charges in an amount necessary to provide for full payment and recovery of all Uplift Balances identified in the Order, including all

revenues or other proceeds arising from those rights and interests. As set forth in the Act, Section 39.656, the Uplift Charges are to be the non-bypassable charges paid by all eligible ERCOT QSEs.

The Uplift Charges will be designed to provide for amounts sufficient to pay the principal of and interest on the Retail Market Stabilization Securities as scheduled and in full, as well as other ongoing Financing Costs associated with the Retail Market Stabilization Securities. Included in the Uplift Property is the True-Up Adjustment Mechanism, which is a requirement to adjust the amount of the Uplift Charges owed by ERCOT's eligible QSEs to ensure that the amounts actually collected are sufficient to pay all amounts owed with respect to the Retail Market Stabilization Securities as scheduled and in full, including ongoing Financing Costs. The process for implementing the True-Up Adjustment Mechanism is described in the testimony of ERCOT Witness Sean Taylor.

Q. HOW ARE RETAIL MARKET STABILIZATION SECURITIES DIFFERENT FROM CORPORATE BONDS?

A. The Retail Market Stabilization Securities will be structured to amortize with scheduled principal payments through specific points in time prior to the rated legal final maturity date of the Retail Market Stabilization Securities. These points in time are referred to as the expected or scheduled maturities for each of the multiple tranches of bonds issued in the transaction. (I will describe the "tranching" of the Retail Market Stabilization Securities below.) Amortizing, or sinking-fund,

structures are distinct from traditional utility corporate bonds, which generally have only a single "bullet" principal payment at the bond maturity date. Another difference is that the Retail Market Stabilization Securities will be structured with a time gap between each tranche's scheduled maturity and the rated legal maturity of that tranche. This time gap, sometimes called a "maturity cushion," provides extra time to pay the outstanding principal amount of the tranche in full in the event that unforeseen circumstances cause a material decrease in Uplift Charge collections--though this particular concern is greatly reduced based on the differences between ERCOT and investor-owned utilities as I described above and the fact that ERCOT faces very little volumetric risk.

Q. ARE THERE "OTHER AMOUNTS" BEYOND DEBT SERVICE REQUIRED TO BE COLLECTED IN CONNECTION WITH THE RETAIL MARKET STABILIZATION SECURITIES?

A. There will be other amounts in addition to the bond principal and interest that will be payable on an ongoing basis over the life of the transaction. These costs, which are required ongoing financing costs, include, but are not limited to, servicing fees, trustee fees, rating agency surveillance fees, legal fees, administrative fees, audit fees, other operating expenses, credit enhancement expenses (if any), as well as amounts designated as return on the capital contribution invested in the SPE by ERCOT, discussed more fully later in my testimony . Generally, these amounts are SPE expenses that are required to keep the transaction working as designed, without reliance on ERCOT or any other source of funds. It is essential to the SPE's status

as a bankruptcy-remote entity for the transaction structure to provide for the full payment of ongoing financing costs.

Q. IN ADDITION TO THE UPLIFT PROPERTY, ARE THERE ANY OTHER COMPONENTS OF THE COLLATERAL FOR THIS TRANSACTION?

A. Yes, the collateral for the transaction includes other components in addition to the Uplift Property. However, that property right is the principal asset pledged as collateral. Pursuant to the indenture by and between the SPE, as bond issuer, and the Trustee, as indenture trustee and securities intermediary (the "Indenture"), the other collateral includes a collection account, which is established by the SPE as a trust account to be held by the Trustee to ensure the scheduled payment of principal, interest and other costs associated with the Retail Market Stabilization Securities are paid in full and on a timely basis. The collection account, in turn, is comprised of the three subaccounts:

- the general subaccount;
- the capital subaccount;
- and the excess funds subaccount.

The collateral also consists of the SPE's rights under certain agreements it enters into as part of the transaction, including the Sales Agreement and the Servicing Agreement.

Q. PLEASE DESCRIBE THE SUBACCOUNTS OF THE COLLECTION ACCOUNT REFERRED TO ABOVE.

A. The general subaccount is the subaccount in which the Trustee deposits Uplift Charge remittances it receives from the Servicer. Monies in this subaccount will be applied by the Trustee on a periodic basis to make payments according to a prescribed order (or "waterfall"), which generally includes the payment of SPE expenses required to maintain the operations of the transaction, then interest on the Retail Market Stabilization Securities, and then principal on the Retail Market Stabilization Securities.

The capital subaccount represents the equity capital of the SPE and is funded by an amount contributed by ERCOT, in an amount upfront and also over time, if beneficial for debt treatment of the transaction for federal tax purposes, that is equal to at least 0.50% of the initial principal amount of the Retail Market Stabilization Securities transaction. The transaction should be structured so that the issued securities are considered debt for tax purposes. If that subaccount is drawn upon, it is replenished from Uplift Charge collections through the true-up and any available excess Uplift Charge collections. The proposed Order provides that the return allowed on a 0.50% equity contribution by ERCOT would be amounts equal to the investment earnings on that equity contribution.

The excess funds subaccount is where any monies on deposit in the general account that are not required to meet the scheduled interest and principal obligations and ongoing expenses of the Securities will be deposited. The initial balance is zero, and the target ongoing balance is also zero. To the extent there are funds on deposit

in this subaccount, those amounts will be considered in the next available true-up process and the subaccount value will again be generally targeted to be zero. Stated differently, to the extent Uplift Charge collections are higher than expected in any given annual true-up calculation period, those amounts do not pay down the principal balance of the Securities beyond the scheduled principal payment for that period. Rather, the amounts on deposit in the general subaccount above and beyond the scheduled obligations will be moved to the excess funds subaccount. Those amounts will then reduce the amount of Uplift Charge collections needed in the subsequent annual true-up calculation period.

The transaction may also be structured to comply with any applicable exemptions from certain asset-backed securities risk retention requirements. Issuers of certain types of asset-backed securities are required to retain a 5% "risk" portion of applicable transactions.

Q. PLEASE DESCRIBE THE TREATMENT OF ANY FUNDS REMAINING IN THE VARIOUS SUBACCOUNTS AT THE FINAL MATURITY OF THE TRANSACTION.

A. Funds remaining in the general subaccount and the excess funds subaccount will be returned to the SPE upon final payment in full of the Retail Market Stabilization Securities and all other Financing Costs. ERCOT intends to credit eligible QSEs amounts equivalent to these funds returned to ERCOT by the SPE. Other monies remaining in the ERCOT-funded capital subaccount along with the authorized

return, will be returned to ERCOT through the SPE without any equivalent credit to eligible QSEs, since the capital subaccount was funded at issuance with ERCOT's own funds.

IV. DESCRIPTION OF PROPOSED TRANSACTION

A. Transaction Structure

Q. PLEASE DESCRIBE THE PRELIMINARY STRUCTURE OF ERCOT'S PROPOSED RETAIL MARKET STABILIZATION SECURITIES.

A. My testimony presents three illustrative structure scenarios for an estimated $2.1 billion Retail Market Stabilization Securities transaction proposed by ERCOT. Table CNA-1 shows on a preliminary, illustrative basis, five tranches of debt securities, which will amortize in a sequential manner over approximately 28 years, along with the indicative credit spreads to benchmarks and the associated interest coupons, scheduled maturities and rated legal maturities.

The second scenario displayed in Table CNA-2 depicts a four-tranche structure, also amortizing sequentially over approximately 28 years. The third scenario shown in Table CNA-3, is a four-tranche structure amortizing over a shorter approximately 20 year period. I note a few key differences among the three scenarios. While the 20-year structure bears a lower indicative weighted average coupon of 2.30%, due to its shorter average life, it has a significantly higher annual revenue requirement of approximately $132.4 M, compared to the lower annual

revenue requirements of $105.0 M and $104.7 M for the four-tranche and five-tranche approximately 28- year transactions. The five-tranche structure carries a slightly lower weighted average indicative interest rate, compared to the four-tranche 28-year structure, 2.28% versus 2.30%. Of course each of these results are illustrative, and are subject to change due to rating agency, market and other considerations.

These scenarios assume that the initial debt service payment is approximately nine months after closing. In general for these and other utility securitizations, I recommend that the initial debt payment be set at approximately nine, and sometimes twelve months after closing, with debt service payments thereafter occurring on a semiannual basis. Given the fact that the obligation to pay Uplift Charges may not become effective on the transaction closing day, and also considering the expected billing cycles and other lags in collections, it may take some time for the full expected cash flow from Uplift Charges to be realized. The nine- to twelve-month initial period allows more time for the full amount of expected Uplift Charge revenues to become available, and provides for a mandatory interim true-up calculation prior to the first debt service payment, to mitigate the impact of any immediate unexpected declines in the Uplift Charge revenues. I note that the final size of the financing may be lower, due to certain "opt-out" provisions of the Act. The size and the terms of the transaction will be detailed in the draft and final issuance advice letters.

Table CNA-1

5-class: ~28yr Sched. Maturity, ~30yr Legal Final Maturity

Class	$mm	Mdy/ S&P/ Fitch	WAL (yrs)	*Sched. Mat (yrs)*	*Legal Mat. (yrs)*	Benchmark	Bench Rate	Spread	Coupon (mid)
A1	$290.0	Aaa/AAA/AAA	3.0	*5.3*	*7.3*	3yr UST	0.39%	0.12%a	0.51%
A2	$290.0	Aaa/AAA/AAA	7.5	*9.8*	*11.8*	7yr UST	1.11%	0.35%a	1.46%
A3	$625.0	Aaa/AAA/AAA	14.0	*18.3*	*20.3*	10yr UST	1.35%	0.65% - 0.70%	2.02%
A4	$310.0	Aaa/AAA/AAA	20.0	*21.8*	*23.8*	20yr UST	1.90%	0.55% - 0.60%	2.47%
A5	$585.0	Aaa/AAA/AAA	24.9	*27.8*	*29.8*	20yr UST	1.90%	0.65% - 0.70%	2.57%
Total | WA	**$2,100.0**		**15.5**				**1.66%**	**0.62%**	**2.28%**

Assumed Ongoing Expenses	Annual
Servicing Fee (5bps)	$1,050,000
Administration Fee	$100,000
Auditor Fee	$75,000
Legal	$50,000
Trustee	$10,000
Rating Agency	$80,000
Ind Manager	$7,500
Misc	$10,000
Total Annual	**$1,382,500**

Notes:

(1) Structure is preliminary and subject to change based on market conditions and rating agency requirements at the time of pricing. Class distribution, target WALs to be updated closer to market execution to achieve optimal class sizing for market demand.

(2) Structure is based in part upon information supplied by ERCOT, which is believed to be reliable but has not been verified. No representation or warranty is being made relating to this structure. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates. No assurance can be given that any such assumptions will reflect actual future events.

(3) Assumes "AAAsf" ratings.

(4) Assumes no collections for the first three months of the transaction.

(5) Benchmark rates as of July 9, 2021.

(6) Weighted average benchmark rate, spread, and coupon weighted based on tranche balance and WAL.

Table CNA-1

Assumptions	
Total Debt ($mm):	$2,100.0
Sched Mat. (yr):	27.75
Legal Final. (yr):	29.75
Ongoing Annual Expenses ($mm):	$1.38
Payment Frequency	Semi-Annual
First Payment period	9 months

Revenue by Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
Revenue Requirement	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$104.7	$52.4
Expenses	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$0.7
Cash Flow Available for Debt Service	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$51.7

Debt Cashflows by Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
A-1 Beg. Balance	$290.0	$237.9	$175.2	$112.2	$48.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-1 Interest	$1.8	$1.1	$0.8	$0.5	$0.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-1 Principal	$52.1	$62.7	$63.0	$63.3	$48.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-1 End Balance	$237.9	$175.2	$112.2	$48.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-2 Beg. Balance	$290.0	$290.0	$290.0	$290.0	$290.0	$275.2	$210.9	$145.7	$79.6	$12.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-2 Interest	$5.3	$4.2	$4.2	$4.2	$4.2	$3.8	$2.8	$1.9	$0.9	$0.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-2 Principal	$0.0	$0.0	$0.0	$0.0	$14.8	$64.3	$65.2	$66.2	$67.1	$12.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-2 End Balance	$290.0	$290.0	$290.0	$290.0	$275.2	$210.9	$145.7	$79.6	$12.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-3 Beg. Balance	$625.0	$625.0	$625.0	$625.0	$625.0	$625.0	$625.0	$625.0	$625.0	$625.0	$569.3	$499.7	$428.8	$356.4	$282.6	$207.2	$130.4	$51.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-3 Interest	$15.8	$12.6	$12.6	$12.6	$12.6	$12.6	$12.6	$12.6	$12.6	$12.4	$11.1	$9.7	$8.3	$6.8	$5.3	$3.8	$2.2	$0.6	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-3 Principal	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$55.7	$69.5	$70.9	$72.4	$73.8	$75.3	$76.9	$78.4	$51.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-3 End Balance	$625.0	$625.0	$625.0	$625.0	$625.0	$625.0	$625.0	$625.0	$625.0	$569.3	$499.7	$428.8	$356.4	$282.6	$207.2	$130.4	$51.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-4 Beg. Balance	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$281.9	$200.0	$116.1	$30.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-4 Interest	$9.6	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$7.7	$6.5	$4.4	$2.3	$0.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-4 Principal	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$28.1	$81.9	$83.9	$86.0	$30.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-4 End Balance	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$310.0	$281.9	$200.0	$116.1	$30.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-5 Beg. Balance	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$527.0	$436.6	$343.9	$248.7	$151.1	$51.0
A-5 Interest	$18.8	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$14.9	$13.0	$10.6	$8.2	$5.8	$3.2	$0.7
A-5 Principal	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$58.0	$90.4	$92.7	$95.1	$97.6	$100.1	$51.0
A-5 End Balance	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$585.0	$527.0	$436.6	$343.9	$248.7	$151.1	$51.0	$0.0
Total Debt Service	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$103.4	$51.7

Table CNA-2

4-class: ~28yr Sched. Maturity, ~30yr Legal Final Maturity

Class	$mm	Mdy/ S&P/ Fitch	WAL (yrs)	*Sched. Mat (yrs)*	*Legal Mat. (yrs)*	Benchmark	Bench Rate	Spread	Coupon (mid)
A1	$295.0	Aaa/AAA/AAA	3.0	*5.3*	*7.3*	3yr UST	0.39%	0.12%a	0.51%
A2	$275.0	Aaa/AAA/AAA	7.5	*9.8*	*11.8*	7yr UST	1.11%	0.35%a	1.46%
A3	$635.0	Aaa/AAA/AAA	14.0	*18.3*	*20.3*	10yr UST	1.35%	0.65% - 0.70%	2.02%
A4	$895.0	Aaa/AAA/AAA	23.3	*27.8*	*29.8*	20yr UST	1.90%	0.65% - 0.70%	2.57%
Total | WA	**$2,100.0**		**15.6**				**1.66%**	**0.64%**	**2.30%**

Assumed Ongoing Expenses	Annual
Servicing Fee (5bps)	$1,050,000
Administration Fee	$100,000
Auditor Fee	$75,000
Legal	$50,000
Trustee	$10,000
Rating Agency	$80,000
Ind Manager	$7,500
Misc	$10,000
Total Annual	**$1,382,500**

Notes:

(1) Structure is preliminary and subject to change based on market conditions and rating agency requirements at the time of pricing. Class distribution, target WALs to be updated closer to market execution to achieve optimal class sizing for market demand.

(2) Structure is based in part upon information supplied by ERCOT, which is believed to be reliable but has not been verified. No representation or warranty is being made relating to this structure. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates. No assurance can be given that any such assumptions will reflect actual future events.

(3) Assumes "AAAsf" ratings.

(4) Assumes no collections for the first three months of the transaction.

(5) Benchmark rates as of July 9, 2021.

(6) Weighted average benchmark rate, spread, and coupon weighted based on tranche balance and WAL.

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Table CNA-2

Assumptions	
Total Debt ($mm):	$2,100.0
Sched Mat. (yr):	27.75
Legal Final. (yr):	29.75
Ongoing Annual Expenses ($mm):	$1.38
Payment Frequency	Semi-Annual
First Payment period	9 months

Revenue by Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
Revenue Requirement	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$105.0	$52.5
Expenses	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$0.7
Cash Flow Available for Debt Service	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$51.8

Debt Cashflows by Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
A-1 Beg. Balance	$295.0	$243.0	$180.4	$117.5	$54.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-1 Interest	$1.8	$1.2	$0.8	$0.5	$0.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-1 Principal	$52.0	$62.6	$62.9	$63.3	$54.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-1 End Balance	$243.0	$180.4	$117.5	$54.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-2 Beg. Balance	$275.0	$275.0	$275.0	$275.0	$275.0	$265.6	$201.5	$136.4	$70.3	$3.3	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-2 Interest	$5.0	$4.0	$4.0	$4.0	$4.0	$3.6	$2.7	$1.8	$0.8	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-2 Principal	$0.0	$0.0	$0.0	$0.0	$9.4	$64.1	$65.1	$66.0	$67.0	$3.3	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-2 End Balance	$275.0	$275.0	$275.0	$275.0	$265.6	$201.5	$136.4	$70.3	$3.3	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-3 Beg. Balance	$635.0	$635.0	$635.0	$635.0	$635.0	$635.0	$635.0	$635.0	$635.0	$635.0	$570.2	$500.8	$429.9	$357.6	$283.9	$208.6	$131.8	$53.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-3 Interest	$16.0	$12.8	$12.8	$12.8	$12.8	$12.8	$12.8	$12.8	$12.8	$12.5	$11.2	$9.8	$8.3	$6.9	$5.4	$3.8	$2.3	$0.7	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-3 Principal	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$64.8	$69.5	$70.9	$72.3	$73.8	$75.3	$76.8	$78.4	$53.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-3 End Balance	$635.0	$635.0	$635.0	$635.0	$635.0	$635.0	$635.0	$635.0	$635.0	$570.2	$500.8	$429.9	$357.6	$283.9	$208.6	$131.8	$53.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-4 Beg. Balance	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$868.5	$786.7	$702.7	$616.6	$528.3	$437.7	$344.7	$249.3	$151.5	$51.1
A-4 Interest	$28.8	$23.0	$23.0	$23.0	$23.0	$23.0	$23.0	$23.0	$23.0	$23.0	$23.0	$23.0	$23.0	$23.0	$23.0	$23.0	$23.0	$23.0	$21.8	$19.7	$17.5	$15.3	$13.0	$10.7	$8.3	$5.8	$3.3	$0.7
A-4 Principal	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$26.5	$81.8	$83.9	$86.1	$88.3	$90.6	$93.0	$95.4	$97.8	$100.4	$51.1
A-4 End Balance	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$895.0	$868.5	$786.7	$702.7	$616.6	$528.3	$437.7	$344.7	$249.3	$151.5	$51.1	$0.0
Total Debt Service	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$103.6	$51.8

Table CNA-3

4-class: ~20yr Sched. Maturity, ~22yr Legal Final Maturity

Class	$mm	Mdy/ S&P/ Fitch	WAL (yrs)	*Sched. Mat (yrs)*	*Legal Mat. (yrs)*	Benchmark	Bench Rate	Spread	Coupon (mid)
A1	$460.0	Aaa/AAA/AAA	3.0	*5.3*	*7.3*	3yr UST	0.39%	0.12%a	0.51%
A2	$430.0	Aaa/AAA/AAA	7.5	*9.8*	*11.8*	7yr UST	1.11%	0.35%a	1.46%
A3	$525.0	Aaa/AAA/AAA	12.0	*14.3*	*16.3*	10yr UST	1.35%	0.55% - 0.60%	1.92%
A4	$685.0	Aaa/AAA/AAA	17.3	*19.8*	*21.8*	20yr UST	1.90%	0.45% - 0.50%	2.37%
Total | WA	**$2,100.0**		**10.8**				**1.54%**	**0.46%**	**2.01%**

Assumed Ongoing Expenses	Annual
Servicing Fee (5bps)	$1,050,000
Administration Fee	$100,000
Auditor Fee	$75,000
Legal	$50,000
Trustee	$10,000
Rating Agency	$80,000
Ind Manager	$7,500
Misc	$10,000
Total Annual	**$1,382,500**

Notes:

(1) Structure is preliminary and subject to change based on market conditions and rating agency requirements at the time of pricing. Class distribution, target WALs to be updated closer to market execution to achieve optimal class sizing for market demand.

(2) Structure is based in part upon information supplied by ERCOT, which is believed to be reliable but has not been verified. No representation or warranty is being made relating to this structure. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates. No assurance can be given that any such assumptions will reflect actual future events.

(3) Assumes "AAAsf" ratings.

(4) Assumes no collections for the first three months of the transaction.

(5) Benchmark rates as of July 9, 2021.

(6) Weighted average benchmark rate, spread, and coupon weighted based on tranche balance and WAL.

Table CNA-3

Assumptions	
Total Debt ($mm):	$2,100.0
Sched Mat. (yr):	19.75
Legal Final. (yr):	21.75
Ongoing Annual Expenses ($mm):	$1.38
Payment Frequency	Semi-Annual
First Payment period	9 months

Revenue by Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Revenue Requirement	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$132.4	$66.2
Expenses	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$0.7
Cash Flow Available for Debt Service	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$65.5

Debt Cashflows by Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
A-1 Beg. Balance	$460.0	$372.5	$275.9	$178.7	$81.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-1 Interest	$2.8	$1.8	$1.3	$0.8	$0.3	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-1 Principal	$87.5	$96.7	$97.2	$97.7	$81.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-1 End Balance	$372.5	$275.9	$178.7	$81.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-2 Beg. Balance	$430.0	$430.0	$430.0	$430.0	$430.0	$412.9	$313.9	$213.4	$111.4	$7.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-2 Interest	$7.8	$6.3	$6.3	$6.3	$6.3	$5.7	$4.2	$2.7	$1.3	$0.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-2 Principal	$0.0	$0.0	$0.0	$0.0	$17.1	$99.0	$100.5	$102.0	$103.5	$7.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-2 End Balance	$430.0	$430.0	$430.0	$430.0	$412.9	$313.9	$213.4	$111.4	$7.9	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-3 Beg. Balance	$525.0	$525.0	$525.0	$525.0	$525.0	$525.0	$525.0	$525.0	$525.0	$525.0	$427.9	$320.8	$211.6	$100.3	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-3 Interest	$12.6	$10.1	$10.1	$10.1	$10.1	$10.1	$10.1	$10.1	$10.1	$9.7	$7.7	$5.6	$3.5	$1.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-3 Principal	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$97.1	$107.1	$109.2	$111.3	$100.3	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-3 End Balance	$525.0	$525.0	$525.0	$525.0	$525.0	$525.0	$525.0	$525.0	$525.0	$427.9	$320.8	$211.6	$100.3	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
A-4 Beg. Balance	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$671.9	$556.2	$437.6	$316.2	$192.0	$64.7
A-4 Interest	$20.3	$16.2	$16.2	$16.2	$16.2	$16.2	$16.2	$16.2	$16.2	$16.2	$16.2	$16.2	$16.2	$16.2	$15.2	$12.5	$9.7	$6.8	$3.8	$0.8
A-4 Principal	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$13.1	$115.8	$118.5	$121.4	$124.3	$127.2	$64.7
A-4 End Balance	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$685.0	$671.9	$556.2	$437.6	$316.2	$192.0	$64.7	$0.0
Total Debt Service	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$131.0	$65.5

Please note that these terms of these illustrative scenarios are preliminary and estimated based on current market conditions. The final terms and conditions of the Retail Market Stabilization Securities will not be known until they have been priced in the marketplace. Investor demand at the time of pricing will determine market-clearing interest rates and the final structure offered to investors. Therefore, this preliminary structure and pricing information is illustrative and subject to change, and the actual structure and pricing will differ, and may differ materially from this preliminary structure. The size of the transaction could be lower if certain LSEs opt out of the opportunity to receive transaction proceeds. Estimated upfront transaction costs are not reflected here. An illustrative amount of ongoing expenses are included for displaying annual revenue requirement purposes. Initial upfront and ongoing cost estimates are to be provided by ERCOT in supplemental testimony and the draft issuance advice letter, and updated cost estimates will be provided as part of the final issuance advice letter. In addition, an authorized state agency may issue taxable municipal bonds to implement this transaction, or another alternative financing mechanism may be selected by ERCOT and the Commission. The final financing mechanism and transaction terms will be included in the final Issuance Advice Letter.

As you will note, the illustrative scenario structures, as of July 9, 2021, include multiple tranches. The multi-tranche structures are designed to provide an efficient distribution of securities across the maturity spectrum and thus result the lower weighted average cost of funds for the issuer given the targeted approximate

28-year and 20-year scheduled final maturities. The level of Uplift Charges paid by the eligible QSEs is directly affected by interest rates and the principal amortization structure of the Retail Market Stabilization Securities. Because of the expected size of the transaction, several tranches (*i.e.*, individual tranches with different maturities and average lives) can be structured to take advantage of discrete pockets of investor demand across the entire term of the transaction and to maintain large enough tranche sizes to ensure secondary market liquidity for the Securities, which is a consideration for investors during the marketing and pricing process. Liquidity in this context refers to the ability of a bondholder to sell a bond in the secondary market without having to discount significantly its price.

Average life is a measure of the average amount of time it takes to repay in full the principal balance of a bond tranche. Regularly scheduled principal amortization throughout the life of the transaction, as opposed to a single bullet maturity, results in a shorter average life for the financing and lower interest costs, resulting in lower Uplift Charges for the eligible QSEs. As demonstrated by the illustrative scenarios, longer-dated structures tend to result in a lower annual revenue required, because the principal amortization is stretched out over a longer period of time. Investors have nearly universally seen and accepted semiannual or quarterly amortization in these transactions. I have advised ERCOT that the proposed transaction should have a relatively level annual debt service and associated revenue requirement, such that the revenue requirement is predictable and the true-up process is facilitated. Another reason for a level annual debt service structure is that rating agencies tend

to apply more rigorous stress assumptions that may disadvantage transactions that significantly back-load debt service.

As previously noted, rating agency requirements and investor demand at the time of pricing will determine market-clearing interest rates and the final tranching offered to investors. Therefore, the structure and pricing information presented here are preliminary and subject to change, and the actual structure and pricing can be expected to differ, perhaps materially, from the information provided in Tables CNA-1, CNA-2 and CNA-3.

Q. PLEASE DESCRIBE THE MECHANICS IN TERMS OF HOW THE SECURITIES ARE PRICED.

A. The starting point for how each tranche is priced is the corresponding benchmark rate. In the preliminary structure above, U.S. Treasury benchmarks are listed. These benchmark rates are matched with the weighted average life of each tranche. Average life is a measure of the average amount of time it is expected to take to repay the principal balance of a bond tranche in full. The Treasury benchmark reflects the "risk-free" yield investors generally associate with securities issued by the United States Treasury. Some investors, particularly ABS investors, may evaluate the transaction from the perspective of swap benchmarks. Swap benchmarks reflect the yield demanded by investors for non-Treasury securities of similar terms, without regard to any further credit spread. Yields demanded by investors in the interest rate swap market for different terms are the basis for the

swap benchmarks for similar terms. Investors in the ABS market generally use swap rates as benchmarks, whereas investors in the corporate bond market typically use Treasury rates as benchmarks. An effective marketing strategy for ERCOT transaction should enable investors to evaluate the transaction from the perspective of either or both benchmarks.

The next consideration is the credit spread, which is generally the amount of yield above the given benchmark that is required by the marketplace to invest in the given bond tranche. To state the obvious, issuers would like this credit spread to be as small, or tight, as possible to the underlying benchmark (thereby lowering the coupon) and investors would like it to be higher, or wider, versus the underlying benchmark, all else being equal. While corporate investors assessing the attractiveness of a utility securitization may readily convert swap benchmarks to Treasury benchmarks, and thereby adjust proposed credit spreads accordingly, for investor convenience, underwriters sometimes give proposed price guidance to investors reflecting both benchmarks. The pricing credit spread is ultimately determined by market-clearing rates at the conclusion of the marketing process.

Q. WHAT IS THE DIFFERENCE BETWEEN THE SCHEDULED FINAL MATURITY AND LEGAL FINAL MATURITY?

A. I briefly addressed this topic above in the context of the basic discussion of securitization and will address it more fully here. The scheduled final maturity of the Retail Market Stabilization Securities represents the date at which final payment

is expected to be made, but no legal obligation exists to retire the tranche in full by that date. The rated legal final maturity is the date by which the bond principal must be paid or a default will be declared. The proposed preliminary structure for this transaction utilizes a legal maturity that is approximately 24 months longer than the scheduled maturity for each bond tranche, known as a "maturity cushion." The actual maturity cushion will be determined by the final "AAA" stress scenarios required by the rating agencies during the rating process for the Securities and may be shorter or longer than 24 months. The difference between the scheduled final maturity and legal final maturity provides additional credit protection by allowing shortfalls in principal payments to be recovered over this additional period due to any unforeseen circumstance. This gap between the two maturity dates is a benefit to the Issuer and contributes to the strong credit quality of the transaction, helping lower the cost of funds on the Securities and therefore benefitting charge payers. Moreover, many investors in utility securitization are familiar with this concept, which occurs in many ABS transactions. The ratings on the Securities are derived in part based on the assumption that the outstanding principal amount of the tranche will be paid in full by its legal final maturity date, and investors price the Securities assuming the Securities make the final scheduled principal payment in full at the earlier scheduled final maturity date.

Q. SHOULD THE TRANSACTION BE STRUCTURED AS A PUBLIC, SEC-REGISTERED TRANSACTION?

A. ERCOT and the Commission will evaluate both an SEC-registered public offering option for the transaction, as well as a private placement transaction. The Order instructs ERCOT and the Commission to evaluate and weigh both the timeliness of execution as well as potential interest costs, of either issuance strategy. SEC-registered publicly offered securities generally tend to have lower interest costs than privately placed transactions, but may require more upfront and ongoing expenses. The SEC registration process also takes additional time, potentially delaying the execution time frame compared to a private placement. In general, SEC-registered transactions are considered to be more liquid than Rule 144A or other private placement transactions. Publicly offered transactions are not limited to "qualified institutional investors" or "accredited investors" upon initial issuance or resale, as privately placed transactions are, and this broader potential investor universe will potentially be more attractive to investors and more likely to obtain lower interest rate coupons on any particular pricing day.

Q. WILL THE RETAIL MARKET STABILIZATION SECURITIES PAY FIXED OR FLOATING INTEREST RATES?

A. I recommend that the Retail Market Stabilization Securities be issued as fixed-rate securities. First, most utility securitizations have been issued as fixed rate bonds to date. Second, fixed interest rates are necessary to maintain predictable revenue requirements over time. Maintaining predictable revenue requirements facilitates the ongoing management of the Uplift Charge adjustment (or "true-up") process. If floating rate bonds were issued, interest rate swaps would be required to create a

fixed rate payment obligation. The use of interest rate swaps would create added risks for charge payers. For example, a swap incorporated as a part of the securitization structure would require an additional counterparty, so there is a risk of a ratings downgrade of or a default by the counterparty providing the swap.

Q. ARE THERE OTHER IMPORTANT CONSIDERATIONS REGARDING THE PRELIMINARY STRUCTURE OF THE SECURITIES?

A. Yes, I reiterate that it will be beneficial for the Retail Market Stabilization Securities to be structured to have substantially level annual debt service.

B. Uplift Charge Collection

Q. PLEASE DESCRIBE THE ONGOING BILLING, COLLECTING, AND REMITTING OF THE UPLIFT CHARGES OVER THE LIFE OF THE TRANSACTION.

A. ERCOT, as Servicer, will be responsible for billing and collecting uplift charges from eligible QSEs. The procedures for remitting uplift charges to the trustee will be established through a servicing agreement. Uplift charges will be remitted by ERCOT to the trustee frequently as required by the trust indenture (based on estimated amounts collected). The trustee will then hold the amounts remitted to it by ERCOT until the next debt payment date. These debt payment dates will generally occur twice a year, as is customary in utility securitizations.

V. DISCUSSION OF THE EXECUTION PROCESS

A. Rating Agency Process

Q. PLEASE DESCRIBE THE RATING AGENCY PROCESS.

A. An important element of preparing for the marketing and pricing of the Retail Market Stabilization Securities is obtaining the highest ratings on the Securities from the rating agencies. ERCOT and its lead underwriter will prepare written presentations and may meet with rating agency personnel to discuss the credit framework and credit strengths of the proposed Retail Market Stabilization Securities with each hired rating agency, in compliance with SEC Rule 17g-5. It is important to note that rating agencies are completely independent institutions, and each rating agency has its own method of reviewing a utility securitization and will request certain data and information that will facilitate such a review process. Rating agencies may update or amend their rating criteria at any time. ERCOT's lead underwriter will work with ERCOT to draft presentations that contain the required data and information. Additionally, the rating agencies may require a diligence review of the Servicer's billing and collecting processes.

Rating agencies generally view utility securitization transactions as a "credit positive." Moody's, in a July 18, 2018 report entitled, "Utility Cost Recovery through Securitization is a Credit Positive," stated, "Utility cost recovery charge (UCRC) securitization, a financing technique used to recover stranded costs, storm costs and other expenses, can be a credit positive tool for regulated utilities. UCRC

securitization, whereby utilities issue bonds with lower financing costs that are paid back through a special customer charge, is typically underpinned by state legislation and in recent years has become more versatile and widespread. The ability to use securitization as a tool to recover, often significant, costs related to large or unforeseen developments allows utilities to avoid potentially credit negative events. However, though the mechanism typically benefits utilities and their customers, too much securitization can have negative consequences." (See Attachment CNA-5).

The ratings process also entails a review of the cash flows of the proposed structure. As part of this phase, each rating agency will ask for various cash flow stress scenarios based on its requirements and the details of the particular transaction to ensure that the Securities will be repaid under extremely stressful cash flow projections.

Important rating elements include:

- Legal and regulatory framework;
- Political and regulatory environment;
- Transaction structure;
- Servicing review and capabilities;
- Service area analysis; and
- Cash flow stress analysis.

Q. IN YOUR PREVIOUS ANSWER, YOU MENTIONED SEC RULE 17G-5. PLEASE EXPLAIN WHAT IT IS AND HOW IT WILL PERTAIN TO THIS EXECUTION PROCESS.

A. In 2010, the U.S. Securities and Exchange Commission (the "SEC") amended its rules regulating ratings on structured finance securities where the issuer, sponsor, or underwriter pays for the ratings on the securities. In short, the amended regulation, which I refer to here as "Rule 17g-5" is intended to provide access to ratings-related information to non-hired rating agencies so that they, if desired, could issue unsolicited ratings. In practice, however, actual unsolicited ratings are very rare.

The rule has continued to be in effect since June 2010. Although SEC Rule 17g-5 only directly applies to a hired rating agency, the rule requires the agency to obtain commitments from the issuer to facilitate this process, effectively passing on the requirements to issuers.

Utility securitizations have been subject to SEC Rule 17g-5 since its implementation, and issuers and their underwriters have managed the process by maintaining most communication via email and/or recorded or transcribed phone communication. In summary, the SEC Rule 17g-5 changes the technical nature of how communication takes place during the ratings process, but it has not changed the fundamental nature of that process.

B. Marketing Process

Q. PLEASE DESCRIBE THE RETAIL MARKET STABILIZATION SECURITIES MARKETING PROCESS.

A. The marketing process entails a number of different phases, each uniquely tailored to the asset class, market conditions and the specifics of this contemplated transaction. The underwriter(s) will work with and make recommendations to ERCOT throughout the process. Key decisions at each step of the process will be made by ERCOT, in consultation with the lead underwriter(s). Described below are the general steps in a typical marketing process, but the actual process for the Retail Market Stabilization Securities could vary based on the market environment at the time of marketing. Each step below should be conducted consistent with SEC rules and regulations regarding publicly registered securities offerings, including an investor suitability analysis:

1. **Pre-marketing**. Once a preliminary prospectus for the transaction is on file with the SEC, the underwriter(s) will work together to bring the bond transaction to the attention of investors, to inform them of its structure and term, and to answer directly any questions they may have. This process is generally referred to as pre-marketing. It may include an electronic roadshow, one-on-one conference calls with significant potential investors, and open conference calls, which several investors may join. The purpose of this process is to stimulate broad investor demand for the issue, so that the

pricing process will result in the lowest possible interest rates reasonably consistent with market conditions at the time of pricing.

The timing of this process and the specifics of the new issue process are also important factors. Typically, new transactions in this sector are announced to the market on Monday mornings. As one could expect, the new issue calendar may be busy at that time, so in order to get the attention of investors as they may be considering several competing new issues, certain transactions are pre-marketed, starting approximately on a Thursday or Friday. Most transactions that announce on Monday morning will target a pricing by Wednesday or Thursday (as issuers do not want to take the risk of an intervening event over a weekend); thus, a pre-marketing start date on a Thursday or Friday is designed to gain the attention of investors when they may not be busy reviewing other active new issue pricings.

2. **Announcement**. Following pre-marketing, the transaction is officially announced to the market, which is typically done toward the start of the week (again, as mentioned above, the timing of the announcement is to ensure that a transaction prices during the same week in which it is officially announced; otherwise, issuers may be subject to unforeseen risk over a weekend). During this phase of marketing, the Retail Market Stabilization Securities will be offered for sale to investors through the underwriter(s). The underwriter(s), in conjunction with the Issuer, will begin to discuss informally with investors

the price(s) at which the Retail Market Stabilization Securities will be offered at initial issuance, stated as a credit spread relative to the benchmark rates for each tranche. In response, investors will provide initial indications of interest, generally specifying how much of the tranche for which they intend to submit an order at a given pricing level. The underwriter(s) will be charged with keeping the master record (known as "the book") in which all indications of interest received by the underwriter(s) from potential investors are recorded. The next phase of the transaction – price guidance – will be based on the aggregated number of indications of interest received from investors.

3. **Price guidance**. At this stage, the underwriter(s) will send out a notice to investors with price guidance, again typically stated as a range of credit spreads stated against the given benchmark. Thereafter, investors will be invited to place firm indications through the underwriter(s) for the amount and specific tranches of Retail Market Stabilization Securities they are willing to purchase, at certain prices and bond coupon rates. At a certain point in time, when the book has sufficient interest from investors, the underwriter(s) will stop taking orders (generally referred to as going "subject" to pricing and confirmation). The timing of this step will depend on the specifics of each transaction; however, it will obviously occur only when the book has at least an equal amount of orders for the Securities as the anticipated aggregate principal amount of each proposed tranche (generally referred to as "fully subscribed"). There is no specific threshold beyond that, and it will depend

on market conditions, the speed at which orders came in from investors and the composition of investor types in the book, to name a few factors. The underwriter(s) will exercise professional judgment in making a recommendation to take the book subject to final order confirmations, based on all relevant factors. Conversely, if the tranche is undersubscribed, the underwriter(s) may need to increase the coupon or restructure the tranching to attract sufficient investor orders to sell the entire tranche.

4. **Determining pricing levels**. Having exercised professional judgment and taken the transaction subject to pricing and final confirmation of orders, the underwriter(s) will then work to refine the pricing levels. Based on the strength of the book, in close coordination with ERCOT, the underwriter(s) may adjust the pricing levels lower (or tighter). This process is generally referred to as testing the pricing levels. It is done to ensure maximum distribution of the bonds at the lowest bond yields reasonably consistent with market conditions. If a tranche is oversubscribed, the underwriter(s) may continue to lower the pricing level (thus improving execution for the issuer), provided that this adjustment does not decrease the aggregate investor interest below the size of the tranche. If a tranche is undersubscribed, the pricing level may be adjusted higher until the tranche is fully subscribed. The underwriter(s) will use professional judgment in close coordination with ERCOT with respect to the recommendation for the amount of tightening and number of testing attempts.

5. **Launch**. Once the pricing levels have been determined for each tranche in the transaction, and the registration statement for the transaction has been declared effective by the SEC, the transaction will be launched at a specific pricing level. The intention of this stage is to declare to investors at which pricing levels, or credit spreads, the transaction will be issued. This will be the market-clearing pricing level, subject only to movements in the underlying benchmark rates.

6. **Allocations**. At this stage, the market-clearing pricing level has been determined by the marketing process, but the final book – how much each investor will purchase – has yet to be determined. Here, the underwriter(s) will work to recommend a specific amount of Retail Market Stabilization Securities to be sold to each investor. Each allocation depends on a number of factors; *e.g.*, the size of each investor's indication of preliminary orders, when the investor submitted its indication, its experience in the sector, its flexibility for the pricing process, the investor type, etc. Ultimately, each investor will purchase its final allocations for the transaction.

7. **Pricing**. Once the market-clearing pricing level and the book has been finalized, the transaction can be priced. At this stage, the underwriter(s), in close coordination with ERCOT and the Commission Representative will price the transaction by spotting the underlying benchmark rates and adding

the credit spread to determine the coupons for each tranche. Soon after the pricing, the investor orders will be confirmed, and the final prospectus will be provided to investors.

8. **Closing**. At the conclusion of the pricing, ERCOT, with its underwriter(s) and legal team, will work toward finalizing the transaction documents and close the transaction, typically approximately five days after pricing.

In summary, it is through this marketing and pricing discovery process that the actual investor market-clearing interest rates for the Retail Market Stabilization Securities are determined. It should be noted again that this determination will be specific to the Retail Market Stabilization Securities in question, based on the actual investor orders on the actual day of pricing.

C. The Financing Team and Issuance Advice Letter Process

Q. DESCRIBE THE PROPOSED FINANCE TEAM AND THE ISSUANCE ADVICE LETTER PROCESS

A. ERCOT proposes that designated representatives of the Commission, including any designated Commission counsel and advisors, participate in an ERCOT financing working group to develop the selected financing mechanism, its structure and terms. The Financing Team would also review the marketing and pricing process. ERCOT proposes that there be a draft issuance advice letter provided to the Financing Team prior to the initial marketing of the Securities,

and a final issuance advice letter containing the final transaction terms after pricing. The Commission would have four business days after pricing to stop the transaction in event the Commission determines the transaction is inconsistent with the terms of the Order. One designated representative of the Commission, and one designated representative of ERCOT would have co-equal decision-making authority over key aspects of the transaction.

VI. DISCUSSION OF THE ORDER

Q. ARE THE TERMS OF THE ORDER CRITICAL TO ACHIEVING A SUCCESSFUL RETAIL MARKET STABILIZATION TRANSACTION?

A. Yes. The Order, when taken together with applicable provisions of the Act, establishes in strong and definitive terms the legal right of investors to receive, in the form of Uplift Charges, those amounts necessary to pay the interest and principal on the Securities in full and on a timely basis.

As mentioned earlier, the Order specifies the mechanisms and structures for payments of bond interest, principal, and ongoing expenses in a manner that minimizes the amount of additional credit enhancements required by the rating agencies to achieve the highest possible ratings. The higher the bond rating, the better for Uplift Charge payers as interest costs will be lower. In addition, the Order, when taken together with applicable provisions of the Act, will enable ERCOT to structure the financing in a manner reasonably consistent with investor

preferences and rating agency considerations at the time of pricing, which is also necessary for the financing to achieve the desired results.

Q. WHAT ARE THE KEY ELEMENTS OF THE ORDER THAT ARE ESSENTIAL TO ACHIEVING THE DESIRED RESULT FOR THE TRANSACTION?

A. The Act sets out a number of key elements for the Order. Once the Uplift Property is created, one of the most important elements is insulating the transaction from the risk of any potential bankruptcy of ERCOT, which is accomplished via a legal "true sale" of the Uplift Property to the SPE. The structure utilized with this transaction, along with other securitizations, relies on techniques that allow the rating agencies and investors to conclude that the issuer of the securitization, the SPE, is highly unlikely to become the subject of a bankruptcy proceeding in the unlikely event of a bankruptcy of ERCOT. Under the federal bankruptcy code, payments on the debt obligations of an issuer in a bankruptcy proceeding become subject to an automatic stay – *i.e.*, the payments are suspended until the courts decide which creditors of the issuer are to be paid, when they will be paid, and whether they are to be paid in whole or in part. Unless the risk of an automatic stay in the unlikely event of a bankruptcy of ERCOT is essentially removed from the rating agencies' credit analysis, the financing cannot achieve the highest possible ratings, since ERCOT's debt obligations are rated below "AAA."

In addition, the creation of the bankruptcy-remote SPE, which is designed to be legally distinct from ERCOT, is expected to limit the ability of the SPE to be included with ERCOT in the unlikely event of an ERCOT bankruptcy. Therefore, even if ERCOT were to declare bankruptcy, the SPE would not become the subject of ERCOT's bankruptcy proceeding, and the SPE's debt service payments to investors would not be subject to the ERCOT automatic stay. The transaction, as structured and reflected in the Order, is intended to achieve this important element. This legal structure is supported by true sale and non-consolidation legal opinions from experienced legal counsel.

Q. ARE THERE ANY OTHER COMPONENTS OF THE ORDER THAT ARE ESSENTIAL TO ESTABLISHING THE LEGAL FOUNDATION FOR THE TRANSACTION?

A. There are several provisions in the Order intended to ensure that the SPE will be deemed to be bankruptcy-remote in addition to the elements mentioned above, including that the SPE will have at least one independent manager whose approval will be required for certain organizational changes or major actions of the SPE, such as a voluntarily filing for bankruptcy by the SPE. The Order will also enable the transfer of the Uplift Property from ERCOT to the SPE to be considered a "true sale." As discussed above, a true sale is a sale that a bankruptcy court should not overturn in the case of any ERCOT bankruptcy. The Order will allow the SPE to issue the Retail Market Stabilization Securities, pledging the Uplift Property as security for payment on the Securities.

Q. DOES THE ORDER PROVIDE FOR ANY CREDIT ENHANCEMENT TO THE TRANSACTION?

A. Yes, in a number of forms. The primary form of credit enhancement is the true-up adjustment mechanism. The Order, together with Act, ensures that the collection of Uplift Charges arising from the Uplift Property is expected to be sufficient to pay all amounts owed on the Retail Market Stabilization Securities on a timely basis and in full, even in the face of dramatic increases in delinquencies and losses on payments from ERCOT QSEs. The true-up mechanism represents the most fundamental component of credit enhancement to investors and is a cornerstone of utility securitizations. True-ups are to be incorporated so that Uplift Charges may be adjusted on a periodic basis to correct for any over- or under-collection of non-bypassable Uplift Charges for any reason and to ensure that the expected collection of future Uplift Charges is in accordance with the payment terms of the Retail Market Stabilization Securities. But again, as I explained above, ERCOT is heavily insulated from volumetric risk based on its unique nature as the independent system operator that acts as the market clearinghouse. Still, true-up adjustments are proposed to be made on a periodic basis, at least annually, throughout the life of the Retail Market Stabilization Securities in accordance with the objective of achieving the highest credit ratings per rating agency requirements and investor expectations, except that during the 12 months prior to the scheduled final maturity, the true-up calculations must be conducted at least quarterly, and if any undercollections are projected, the adjustments are to be implemented. In addition,

optional adjustments are likely to be authorized to be conducted at any time. The frequency of true-up adjustments throughout the life of the Retail Market Stabilization Securities will be described in the final issuance advice letter and final offering document for the transaction and will be consistent with rating agency considerations for achieving the highest credit ratings. .

It is critical for rating agency purposes that, insofar as Commission action is required, true-up adjustments are automatic and implemented on an immediate basis subject only to mathematical and clerical error review. True-up adjustments will consider other ongoing financing costs as well as anticipated debt service requirements, in addition to forecasted projections of QSE uncollectibles and delinquencies. Pursuant to the Act, the true-up adjustment mechanism shall remain in effect until the Retail Market Stabilization Securities and all associated financing costs have been fully paid and any under-collection is recovered from QSEs and any over-collection is returned or credited to QSEs.

The capital subaccount funded with an amount equal to at least 0.50% of the initial principal balance of the Retail Market Stabilization Securities transaction, will also serve as credit enhancement of the transaction.

Also, it is important that the Order provide for flexibility to include other forms of credit enhancement and other mechanisms (*e.g.*, letters of credit, additional amounts of overcollateralization or reserve accounts, or surety bonds) to improve

the marketability of the Retail Market Stabilization Securities. None are anticipated but it is important to have such built-in flexibility. In connection with implementing any such other credit enhancement, ERCOT may enter into one or more "ancillary agreements." An "ancillary agreement" means a bond, insurance policy, letter of credit, reserve account, surety bond, interest rate lock or swap arrangement, hedging agreement, liquidity or credit support arrangement or other similar agreement or arrangement entered into in connection with the issuance of a Retail Market Stabilization Securities transaction that is designed to promote the credit quality and marketability of the securities or to mitigate the risk of an increase in interest rates.

Q. COULD YOU PLEASE PROVIDE SOME FURTHER EXPLANATION OF THESE ANCILLARY AGREEMENTS?

A. Certainly. As discussed above, the statutory true-up mechanism to adjust the Uplift Charges and the minimum 0.5% capitalization account will serve as protections to investors against the risk of non-payment of the bonds. To provide further protection to investors against the risk of non-payment, a surety bond could be provided by a highly rated insurance company and could be drawn upon to pay interest and principal on the bonds if at any time there was a shortfall in Uplift Charge collections such that sufficient amounts were not available to pay required principal and interest. A letter of credit would work in a similar manner but would be provided by a highly rated financial institution. Alternatively, the size of the bond offering could be increased to fund additional reserve accounts, such as an

overcollateralization account, to protect against non-payment. There would be an additional cost in implementing any of these credit enhancements. As a result, these credit enhancements would only be appropriate if the cost of the enhancement would be outweighed by a reduction in the interest rate that investors would require on the bonds.

In my prior experience with utility securitization, the statutory true-up mechanism and capitalization account have been sufficient credit enhancement, and additional forms of credit enhancement have not been used. As a result, I do not anticipate any additional credit enhancements will be necessary. However, I believe it is advisable to provide flexibility in case market conditions change, as it would make sense to use one or more of these enhancements if the reduction in interest costs outweighed the cost of the credit enhancement.

Q. PLEASE DISCUSS THE IRREVOCABLE NATURE OF THE ORDER.

A. The Order is irrevocable, and the Uplift Charges are not subject to reduction, alteration or impairment by any further action of the Commission, except for the mathematical and clerical error review of the formulaic true-up adjustment process. Thus, so long as the Retail Market Stabilization Securities are outstanding, rights and benefits arising from the Uplift Property created by the Order may be definitively relied upon by investors and the rating agencies.

Equally important, the Act affirms the pledge of the State not to take or permit any action that would impair the value of the Uplift Property authorized by the Order. Investors generally perceive that one of the greatest risks to them is that there is a change in law that affects the Uplift Property, thereby adversely affecting their rights under the Act or the Order. The Commission's affirmation in the Order of the State pledge will enhance investor understanding that the risk of an adverse change in law or regulation is remote and will permit counsel to deliver important legal opinions that such adverse changes would not be legally valid.

Q. PLEASE DESCRIBE THE SECTIONS OF THE ORDER ENTITLED, "FINDINGS OF FACT," "CONCLUSIONS OF LAW," AND "ORDERING PARAGRAPHS."

A. The Findings of Fact, Conclusions of Law, and the Ordering Paragraphs of the Order constitute the means by which the Commission definitively affirms the conformity of the financing with the applicable provisions of the Act. These provisions of the proposed Order reflect the level of detail and scope that will be expected by investors and the rating agencies. With these findings and conclusions, counsel will have the basis that they need for the highly technical and specialized legal opinions they must issue in connection with the financing, and upon which the rating agencies will rely in assigning the highest possible ratings for the Retail Market Stabilization Securities. I emphasize that the provisions of the Order have been drafted with a view toward providing the basis that counsel will need for these essential opinions. With the structure authorized thereby, the stability of the cash

flows securing the Retail Market Stabilization Securities will be maximized. The combination of maximized cash flow stability and highest possible ratings will allow the Retail Market Stabilization Securities to be structured and priced so as to meet statutory requirements.

Q. ARE THERE ANY OTHER KEY ELEMENTS OF THE ORDER UPON WHICH YOU WISH TO ELABORATE?

A. Yes. In addition, in the Ordering Paragraphs of the Order, the Commission recognizes the need for, and affords ERCOT the flexibility to establish, the final terms and conditions of the Retail Market Stabilization Securities. This flexibility will allow ERCOT to achieve the structure and pricing that will meet the statutory requirements, including the lowest cost objective commitment, reasonably consistent with market conditions on the day of pricing, rating agency considerations, and the terms of the Order.

VII. DISCUSSION OF THE SERVICING AGREEMENT

Q. PLEASE DESCRIBE THE CONTENTS AND PURPOSE OF THE SERVICING AGREEMENT.

A. The Servicing Agreement is an agreement among ERCOT (in its capacity as the Servicer of the Retail Market Stabilization Securities), the Trustee, and the SPE. The agreement sets forth the responsibilities and obligations of the servicer, including, among other things, billing and collecting of Uplift Charges, responding

to QSE inquiries, filing for true-up adjustments and remitting collections to the Trustee for distribution to bondholders. Servicing Agreements typically prohibit the initial Servicer's ability to resign as Servicer unless (i) it is unlawful for the initial Servicer to continue in such a capacity, or (ii) the Commission consents and the rating agencies confirm the resignation would not impact the ratings on the bonds. Its resignation would typically not be effective until a replacement Servicer has assumed its obligations in order to continue servicing the Retail Market Stabilization Securities without interruption. The Servicer may also be terminated from its responsibilities in certain cases upon a majority vote of bondholders, such as the failure to remit collections within a specified period. Any merger or consolidation of the Servicer with another entity would require the merged entity to assume the Servicer's responsibility under the Servicing Agreement. The terms of the Servicing Agreement are critical to the rating agency analysis of the Retail Market Stabilization Securities and the ability to achieve credit ratings in the highest categories.

As compensation for its role as initial Servicer, the Servicer is entitled to earn a servicing fee payable out of Uplift Charge collections. It is important to the rating agencies and the bankruptcy analysis of the transaction that ERCOT receives an arm's-length fee as Servicer of the Uplift Property, and for its services as Administrator of the SPE. Utility securitizations to date have also required an increase in the servicing fee in the unlikely event ERCOT is no longer able to perform the servicing role, and a replacement servicer must be brought on board.

Rating agencies expect that ERCOT will be the Servicer but assume that a replacement Servicer may require additional compensation to perform these services, without access to ERCOT's existing infrastructure and counterparty relationships.

VIII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. I believe the Order, as proposed, will enable ERCOT to structure a transaction that can achieve the highest possible ratings and is consistent with investor preferences that will enable ERCOT to price at the lowest market-clearing interest costs reasonably consistent with investor demand and market conditions at the time of pricing, consistent with the terms of the Order.

Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes, it does. Thank you.

GCG#

PUC DOCKET NO. _____

APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS FOR A DEBT OBLIGATION ORDER PURSUANT TO CHAPTER 39, SUBCHAPTER N, OF THE PUBLIC UTILITY REGULATORY ACT	**§ § § § § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

AFFIDAVIT

STATE OF NEW YORK)
)
COUNTY OF New York)

CHARLES N. ATKINS II, first being sworn on his oath, states:

I am the witness identified in the preceding testimony. I have read the testimony and the accompanying attachments, and I am familiar with the contents. Based on my personal knowledge, the facts stated in the testimony are true. In addition, in my judgment and based on my professional experience, the opinions and conclusions stated in the testimony are true, valid, and accurate.

CHARLES N. ATKINS II

Subscribed and sworn to before me this 16th day of July 2021 by Charles N. Atkins II.

Notary Public, State of New York

My Commission Expires: 03-18-2023

MICHAEL BORDENAVE
NOTARY PUBLIC, STATE OF NEW YORK
Registration No. 01BO6388941
Qualified in Kings County
My Commission Expires: 03-18-2023

CHARLES N. ATKINS II

Email: charles.atkins@credit-suisse.com

CREDIT SUISSE SECURITIES (USA), LLC **2020-Present**

Senior Advisor to Credit Suisse

Consultant to Credit Suisse, including subsidiaries and affiliates, regarding structured finance transactions and new product development, with an emphasis on the power and utility sector

ATKINS CAPITAL STRATEGIES LLC **2020 - 2020**

Chief Executive Officer

Strategic consultant to companies in the utility, power and energy sectors, as well as investment banking and financial sponsor institutions. Focus on utility, contract monetization, whole business and other non-traditional securitizations, as well as corporate and structured credit analysis, and rating agency negotiations. Served PNM and Duke Energy as a co-financial advisor in connection with proposed $300 million and $978.8 million utility securitizations, respectively

GUGGENHEIM SECURITIES, LLC **2017 - 2020**

Senior Advisor, Structured Products Origination Group, Investment Banking Division

Focus on utility, power and energy securitizations and recapitalizations, as well as new structured product development across industry sectors. Served as a financial advisor to PNM and expert witness, testified before the New Mexico Public Regulation Commission in connection with a proposed $361 million utility securitization

ATKINS CAPITAL STRATEGIES LLC /
MAROON CAPITAL GROUP LLC **2013 – 2017**

Chief Executive Officer/Partner

Strategic consultant to investment banking and financial sponsor institutions, power, utility, service and industrial companies, as well as emerging U.S. and U.K. enterprises. Served as financial advisor to Entergy and AEP in connection with 4 utility securitizations in Louisiana and West Virginia totaling $793.8 million

- Utility securitizations
- Wireless spectrum securitizations
- Recapitalization and capital allocation
- Balance sheet optimization
- Corporate and structured credit analysis, rating agency negotiations
- Enhanced capital markets access
- Emerging enterprise business plan development and execution

MORGAN STANLEY & CO. LLC **1990 - 2013**

Executive Director, Global Capital Markets, Securitization Group

Principal focus on improving corporate capital structures, creating equity value by recapitalizing, enhancing access to the debt capital markets and lowering capital costs

- Team leader for the development of legal and credit structures for first-time structured solutions for financial sponsor and corporate clients
- Industry's leading utility securitization and corporate reorganization (ring-fencing) banker, serving as advisor and/or a lead underwriter for 24 transactions since 1997 totaling $22.6 billion for AEP, CenterPoint, Entergy, Constellation Energy, Baltimore Gas and Electric, Oncor, West Penn, Atlantic City Electric, SDG&E and PG&E.
- Testified as a utility company expert witness before regulatory commissions in Arkansas, Louisiana, Maryland, Texas in connection with 10 transactions
- Structured five International Financing Review "Deal of the Year" transactions
    - $965.4MM Louisiana Utilities Restoration Corporation (Entergy) – 2008 (off-balance sheet, off-credit electric system capital cost recovery)
    - $1.9BN Crown Castle – 2005 (wireless tower company recapitalization)
    - $418MM Global Signal – 2004 (wireless tower company recapitalization)
    - $800MM PPL Electric – 2001 (off-credit reorganization/recapitalization)
    - $290MM Arby's Franchise – 2000 (restaurant company recapitalization)

Developed and executed significant recapitalizations, reorganizations and acquisition financings for financial sponsor and corporate clients including

- Corporate reorganization of Constellation Energy in connection with the $4.5 BN nuclear JV with Electricite de France, uplifting subsidiary Baltimore Gas and Electric's (BGE) ratings, removing BGE's debt from Constellation's rating agency credit ratios (off-credit)
- Restructuring and $838MM debt recapitalization of leading security business Monitronics International, uplifting debt ratings from B1/B+ to Baa2/BBB-, lowering capital costs (an Abry Partners portfolio company)
- Restructuring and $290MM debt recapitalization of restaurant business Arby's, uplifting ratings from B1/B+ to A3/BBB-, lowering capital costs (a Trian portfolio company)
- Restructurings and $1.9BN, $418MM debt recapitalizations of wireless tower businesses, Crown Castle and Global Signal, uplifting debt ratings from B1/B+ to as high as Aaa/AAA, lowering capital costs (Global Signal - a Fortress portfolio company)
- Restructuring and $800MM debt recapitalization of PPL, issuing incremental electric transmission and distribution subsidiary debt, taking $3BN of subsidiary debt off-credit for parent rating purposes, without changing subsidiary or parent ratings
- Structuring and executing $800MM permanent acquisition financing for TimberStar Southwest, obtaining debt ratings to as high as Aaa/AAA/AAA, lowering capital costs (an I-Star Financial/Perry Capital/MSD Capital/York Capital portfolio company)
- Structuring and executing $315MM permanent financing for the Staples Center arena, based upon sports team and arena revenue contracts, obtaining A ratings and lowering capital costs (an Anschutz Entertainment Group subsidiary)
- Structuring a $33 BN student loan industry-sponsored ABCP conduit utilizing credit and liquidity support from the U.S. Government, to finance existing and newly originated federally guaranteed student loans (Straight-A Funding, LLC)

PREVIOUS EXPERIENCE:

LEHMAN BROTHERS INC. / E.F. HUTTON INC. **1985 - 1990**
Senior Vice President

OFFICE OF U.S. SENATOR DAVID L. BOREN (D-OK) Legislative Counsel	**1983, 1985**
MONDALE-FERRARO PRESIDENTIAL CAMPAIGN Deputy National Campaign Manager, VP Campaign	**1984**
DEMOCRATIC NATIONAL COMMITTEE Deputy Director, Platform Committee	**1983 - 1984**
THE WHITE HOUSE Associate Assistant to the President	**1980 - 1981**
AKIN, GUMP, STRAUSS, HAUER & FELD Attorney, Washington, D.C. Office	**1978 - 79, 1981 - 83**

OTHER:

METROPOLITAN MUSEUM OF ART Board of Trustees, Elective Trustee Audit Committee External Affairs Committee Director Search Committee (Search Completed) Digital, Education, Publications, Imaging, Libraries and Live Arts Committee Diversity Committee Digital Visiting Committee Modern and Contemporary Visiting Committee American Wing Visiting Committee	**2013 - Present**
AMERICAN FOLK ART MUSEUM Board of Trustees, Member	**2014 - 2018**
AMERICAN SECURITIZATION FORUM Board of Directors, Alternate Board Member	**2003 - 2006**
U. S. EXPORT-IMPORT BANK Presidential Appointment, Advisory Committee	**1997 - 1998**
PRESIDENTIAL TRANSITION COMMITTEE U.S. Department of Housing and Urban Development	**1992 - 1993**
DISTRICT OF COLUMBIA BAR Member (Inactive)	**1978 - Present**
HOWARD UNIVERSITY Board of Trustees, Undergraduate Trustee	**1974 - 1975**

EDUCATION:

HARVARD LAW SCHOOL, J.D. **1978**

- Class of 1978 Committee Representative, elected by classmates

HOWARD UNIVERSITY, College of Arts and Sciences B.A. **1975**

- *Magna Cum Laude*
- Honors Program
- Phi Beta Kappa (Junior year)
- Major: Political Science / Double Minor: Math and Economics
- Howard University Board of Trustees, Undergraduate Trustee, elected by the several Undergraduate College student bodies
- College of Arts and Sciences Student Council, elected Sophomore Representative

Investor -Owned Utility Securitization Transactions, 1997 – 2021			
#	Issuer	Deal Amount ($)	Pricing Date
1	WEPCO Environmental Trust Finance I, LLC	118,814,000	5/4/2021
2	SCE Recovery Funding LLC (EIX) 2021-1	337,783,000	2/17/2021
3	AEP Texas Restoration Funding LLC	235,282,000	9/11/2019
4	Public Service New Hampshire Funding LLC.	635,663,200	5/1/2018
5	Duke Energy Florida Project Finance LLC	1,294,290,000	6/15/2016
6	Entergy New Orleans Storm Recovery Funding I	98,730,000	7/14/2015
7	Dept. of Business, Economic Development, and Tourism / Hawaii Electric	150,000,000	11/13/2014
8	Louisiana Utilities Restoration Corporation Project/ELL	243,850,000	7/29/2014
9	Louisiana Local Government System Restoration/EGSL	71,000,000	7/29/2014
10	Consumers 2014 Securitization Funding LLC	378,000,000	7/14/2014
11	Appalachian Consumer Rate Relief Funding LLC	380,300,000	11/6/2013
12	Ohio Phase-In-Recovery Funding LLC	267,408,000	7/23/2013
13	FirstEnergy Ohio PIRB Special Purpose Trust	444,922,000	6/12/2013
14	AEP Texas Central Funding III	800,000,000	3/7/2012
15	CenterPoint Energy Transmission Bond Co. IV	1,695,000,000	1/11/2012
16	Entergy Louisiana Investment Recovery Funding I, LLC	207,156,000	9/15/2011
17	Entergy Arkansas Energy Restoration Funding LLC	124,100,000	8/11/2010
18	Louisiana Utilities Restoration Corporation Project/ELL	468,900,000	7/15/2010
19	Louisiana Utilities Restoration Corporation Project/EGSL	244,100,000	7/15/2010
20	MP Environmental Funding LLC	64,380,000	12/16/2009
21	PE Environmental Funding LLC	21,510,000	12/16/2009
22	CenterPoint Energy Restoration Bond	664,859,000	11/18/2009
23	Entergy Texas Restoration Funding	545,900,000	10/29/2009
24	Louisiana Public Facilities Authority	278,400,000	8/20/2008
25	Louisiana Public Facilities Authority	687,700,000	7/22/2008
26	Cleco Katrina/Rita Hurricane Recovery Funding LLC 2008	180,600,000	2/28/2008
27	CenterPoint Energy Transition Bond Company III	488,472,000	1/29/2008
28	Entergy Gulf States Reconstruction Funding I, LLC	329,500,000	6/22/2007
29	RSB BondCo LLC (BG&E sponsor)	623,200,000	6/22/2007
30	FPL Recovery Funding LLC	652,000,000	5/15/2007
31	MP Environmental Funding LLC	344,475,000	4/3/2007
32	PE Environmental Funding, LLC	114,825,000	4/3/2007
33	AEP Texas Central Transition Funding II	1,739,700,000	10/4/2006
34	JCP&L Transition Funding II	182,400,000	8/4/2006
35	CenterPoint Energy Series A	1,851,000,000	12/9/2005
36	PG&E Energy Recovery Funding LLC Series 2005-2	844,461,000	11/3/2005
37	West Penn Power	115,000,000	9/22/2005
38	PSE&G 2005-1	102,700,000	9/9/2005
39	Massachusetts RRB Special Purpose Trust 2005-1	674,500,000	2/15/2005
40	PG&E Energy Recovery Funding LLC Series 2005-1	1,887,864,000	2/3/2005
41	Rockland Electric Company	46,300,000	7/28/2004

42	Oncor (TXU) 2004-1	789,777,000	5/28/2004
43	Atlantic City Electric	152,000,000	12/18/2003
44	Oncor 2003-1	500,000,000	8/14/2003
45	Atlantic City Electric	440,000,000	12/11/2002
46	JCP&L Transition Funding LLC	320,000,000	6/4/2002
47	CPL Transition Funding LLC	797,334,897	1/31/2002
48	PSNH Funding LLC 2	50,000,000	1/16/2002
49	Consumers Funding LLC	468,592,000	10/31/2001
50	CenterPoint Energy Transition Bond Company I	748,987,000	10/17/2001
51	Western Mass Electric	155,000,000	5/14/2001
52	PSNH Funding LLC	525,000,000	4/20/2001
53	CL&P Funding LLC	1,438,400,000	3/27/2001
54	Detroit Edison 2001-1	1,750,000,000	3/2/2001
55	PECO 2001-A	805,500,000	2/15/2001
56	PSE&G 2001-A	2,525,000,000	1/25/2001
57	PECO 2000-A	1,000,000,000	4/27/2000
58	West Penn Power	600,000,000	11/3/1999
59	Pennsylvania Power & Light	2,420,000,000	7/29/1999
60	Boston Edison	725,000,000	7/27/1999
61	Sierra Pacific Power	24,000,000	4/8/1999
62	PECO Energy	4,000,100,000	3/18/1999
63	Montana Power	64,000,000	12/22/1998
64	Illinois Power	864,000,000	12/10/1998
65	Commonwealth Edison	3,400,000,000	12/7/1998
66	San Diego Gas & Electric	657,900,000	12/4/1997
67	Southern California Edison	2,463,000,000	12/4/1997
68	Pacific Gas & Electric	2,901,000,000	11/25/1997
Total		$51,219,635,097	
Source: SEC Registration Statements			

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades ERCOT to A1, outlook negative

04 Mar 2021

New York, March 04, 2021 -- Moody's Investors Service, ("Moody's") has downgraded Electric Reliability Council of Texas, Inc.'s (ERCOT) Issuer rating to A1 from Aa3 following the political and financial fallout resulting from the four-day power outages that occurred during the severe cold weather event in February. The outlook was revised to negative from stable.

RATINGS RATIONALE

"ERCOT is being heavily criticized by political leaders and stakeholders, has been subject to several lawsuits, and did not receive $2.5 billion of payments for market transactions due to payment defaults following the cold weather event," said Toby Shea, VP -- Sr. Credit Officer. "The downgrade reflects higher reputational and regulatory risk for ERCOT and uncertainty over potential changes to or reforms of the Texas power market in the wake of these developments", added Sheane. The negative outlook reflects the possibility that the rating could fall further should Texas fail to resolve the weaknesses of its energy infrastructure and associated market design that were highlighted by the outage disaster.

We view ESG factors as a material driver of the increase in ERCOT's risk profile and the associated rating downgrade. In particular, the power outages and resulting controversy have raised ERCOT's social risk because we regard responsible production, which includes supply cost and reliability and community relations, as a key component of social risk within our ESG analytical framework.

On 15 February, ERCOT began instructing transmission operators to implement load shed across the electric grid as unusually frigid temperatures disrupted power plant operations and natural gas supplies just as customer demand surged. The lengthy power outages and higher electricity bills angered and frustrated customers with a heightened focus on the actions taken and overall role of ERCOT as the grid operator. ERCOT has been subject to several lawsuits and some of the lawsuits filed by customers against retail energy suppliers have also included ERCOT as a defendant.

Political leaders in Texas, including Governor Greg Abbott, blamed ERCOT for its failure to adequately prepare the state's power grid for the winter storm. So far, seven of the fifteen ERCOT board members have resigned and the board has terminated the employment of its Chief Executive Officer, Bill Magness. The chairwoman of the Public Utility Commission of Texas (PUCT), the regulatory agency that has primary responsibility for overseeing ERCOT's operations, has also resigned. In addition, the US House of Representatives Environmental Subcommittee has opened an inquiry and requested documents from ERCOT related to the outages. These developments have increased political and regulatory uncertainty for ERCOT as it grapples with how to address payment shortfalls in the Texas power market.

On March 1, ERCOT announced that it had failed to collect $2.5 billion from market participants resulting from the severe cold weather event. It balanced the shortfall by drawing $0.8 billion of cash deposit collateral from its congestion revenue rights account and short-paid the rest of the market by $1.7 billion.

Counterparties that have been short-paid large amounts will pressure the PUCT and ERCOT to accelerate the process by which the amounts will be paid. Under the existing ERCOT protocols, it could take something in the order of 80 years to complete the repayment process. Under these protocols, ERCOT is only allowed to invoice the cost of any socialization of payment shortfalls, also known as the uplift payments, at the rate of $2.5 million per thirty days to the entire market, a fraction of what is owed to market participants. Therefore, a $2.5 billion shortfall would take something in the order of 1,000 months, or eight decades, to complete. Uncertainty over potential changes to these protocols in light of the potential shortfall are a key driver of the downgrade and negative outlook.

Despite these pending issues, ERCOT maintains strong credit fundamentals, for the most part due to its essential role as the provider and coordinator of critical energy infrastructure in the state of Texas. Its financial stability remains critical to the proper functioning of the power grid. As ERCOT is the central counterparty to market participants, ERCOT itself is insulated against credit losses due to counterparty defaults because it is allowed to socialize any credit losses among its market participants. All of ERCOT's costs, including any

unexpected liabilities, are funded through a regulatorily approved charge to market participants. As a non-profit corporate established to serve the public, ERCOT does not have shareholders or shareholder equity.

Outlook

The negative outlook reflects the possibility that the rating could fall should Texas fail to take steps to resolve the weaknesses of its energy infrastructure and associated market design that were highlighted by the February outages. Texas will likely reform its laws regulation regarding its electric and gas sector and the negative outlook considers the potential that any such reforms could lead to a less supportive regulatory framework or environment for ERCOT.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Factors that could lead to an upgrade

We could revise ERCOT's outlook to stable should the pressure from criticism and lawsuits subside, ERCOT is able to continue in its primary role of managing the Texas electric grid with adequate regard for financial support for its own operations, and Texas takes steps to reform its electric supply system in a credit supportive manner.

Factors that could lead to a downgrade

We may downgrade ERCOT's rating should

- Texas fails to make changes to its power supply system and market design in a way that adequately addresses the impact of extreme weather events,

- legislative or regulatory action undermine ERCOT's ability to cover its expenses and debt service costs, continue to fully insulate itself from market-related counterparty defaults or is required to finance any socialization costs

Profile

Established in 1970, ERCOT is a Texas membership-based non-profit corporation governed by a 16 member board including both stakeholders and unaffiliated directors (who are approved by the PUCT). The company serves to ensure a reliable, and open access, transmission network on a system that encompasses about 75% of the land area (90% of the electrical load) of Texas including over 46,500 miles of transmission lines and serving more than 26 million consumers.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in June 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1072530. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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credit rating action and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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SECTOR COMMENT
7 June 2021

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Electric and Gas – US

Securitization will be a shock absorber for ERCOT defaults from February storm

On 31 May, the Texas (Aaa stable) legislature passed House Bill 4492 and Senate Bill 1580, which work together to authorize the use of securitization and financing from the state's main budget reserve, the Economic Stabilization Fund (ESF), to cover the substantial unpaid balances of electric cooperatives and retail energy providers to the wholesale power market totaling about $3 billion. SB 1580 allows electric cooperatives to securitize their share of the unpaid balance, currently totaling $2.5 billion, while the remaining amount will be covered by default balance financing authorized by HB 4492. The legislation, which is supported by Gov. Greg Abbott, is credit positive for utilities with generation because they will allow for timely repayment for amounts earned from dispatching generation resources into the Electric Reliability Council of Texas Inc. (ERCOT, A1 negative) market during the February winter storm referred to as Winter Storm Uri. HB 4492 also authorizes financing of up to $2.1 billion for reliability deployment price adder charges and ancillary services in excess of the systemwide offer cap of $9,000 per MWh. This provision is positive for utilities whose financial losses from the winter storm were compounded by these additional charges.

Securitization is an effective tool in the aftermath of a catastrophe because it spreads out costs over many years and minimizes the impact on customer rates. This, in turn, helps issuers manage their exposure to social risks related to customer relations and access to basic services. The bills seek to address the substantial market shortfall and extraordinary costs resulting from the severe winter storm that swept through the state in mid-February 2021. The storm affected much of the central and southern US, but the extent and duration of electricity blackouts were much more severe in Texas, specifically within the territory served by ERCOT. Electric generating assets tripped offline and fuel supplies were squeezed, resulting in extremely high power and gas prices.

SB 1580 authorizes securitization financing, enabling electric cooperatives to pay their own defaulting balances. Brazos Electric Cooperative and Rayburn Country Electric Cooperative defaulted on amounts owed to the wholesale market and represent about $2.5 billion of the $3 billion cumulative defaulted invoices (see Exhibit 1). The remaining defaulting balance not recovered by SB 1580 will be funded by a loan to ERCOT from the state's economic stabilization fund balance (the rainy day fund), authorized by HB 4492. When market participants default on amounts they owe for power purchases, ERCOT will first draw from financial security provided by the defaulting participants and then "short-pay" participants, which means it reduces settlement payments to invoice recipients owed money from ERCOT.

Exhibit 1

Brazos and Rayburn cooperatives represent the bulk of ERCOT invoice defaults

Short-pay amounts owed by ERCOT counterparties

Counterparty	Short-pay amount ($)
Brazos Electric Power Co Op Inc	1,879,466,498
Rayburn Country Electric Cooperative Inc	640,510,035
Entrust Energy Inc	296,555,580
Hanwha Energy Usa Holdings Corp d/b/a 174 Power Global	50,177,025
Iluminar Energy LLLC	42,045,416
Griddy Energy LLC	30,040,670
Gbpower LLC	20,317,539
MQE LLC	13,713,515
Energy Monger LLC	8,884,384
Volt Electricity Provider LP	6,435,245
Gridplus Texas Inc	1,478,516
Eagles View Partners Ltd	1,152,199
Power Of Texas Holdings Inc Virtual	16
TOTAL	**2,990,776,638**

Source: ERCOT settlement notice dated 28 May 2021

HB 4492 establishes two financing mechanisms. First, the Winter Storm Uri Default Balance Financing provision authorizes the ESF to lend up to $800 million to ERCOT to finance the default balance, which refers to the remaining share of the short-pay amount shown in Exhibit 1 that will not be securitized under SB 1580. The loan will be repaid from "default charges" assessed to wholesale market participants for a term of up to 30 years. While $800 million is the cap, we expect the actual loan amount will be about $500 million since the other $2.5 billion will be recovered by SB 1580 securitization. ERCOT will use the proceeds to replenish cash from congestion revenue rights accounts that were withdrawn to temporarily reduce the short-pay allocation to the wholesale market.

Language in HB 4492 bears some of the hallmarks of securitization, including the state's non-impairment pledge, requirements for charges that are nonbypassable, and true-up mechanisms for charges to be reviewed at least once annually for over- or under-collections. There must also be a finding that the financing serve a public interest that would not be available in the absence of the debt obligation, which is a typical feature of securitization. However, HB 4492 does not call for issuance by a bankruptcy-remote special purpose entity (SPE), or specify that the conveyance of the assets will constitute a true sale, which is a key facet of a standard securitization. A utility using securitization would typically sell the securitized asset to the SPE in a true sale transaction, which protects securitization investors from potential claims on cash flows by the utility's creditors in a bankruptcy. HB 4492, nevertheless, does specify that the only source of payment on the debt are the special charges. The debt authorized by HB 4492 does not create a personal liability for ERCOT and no assets of ERCOT are subject to claims by holders of the debt obligations.

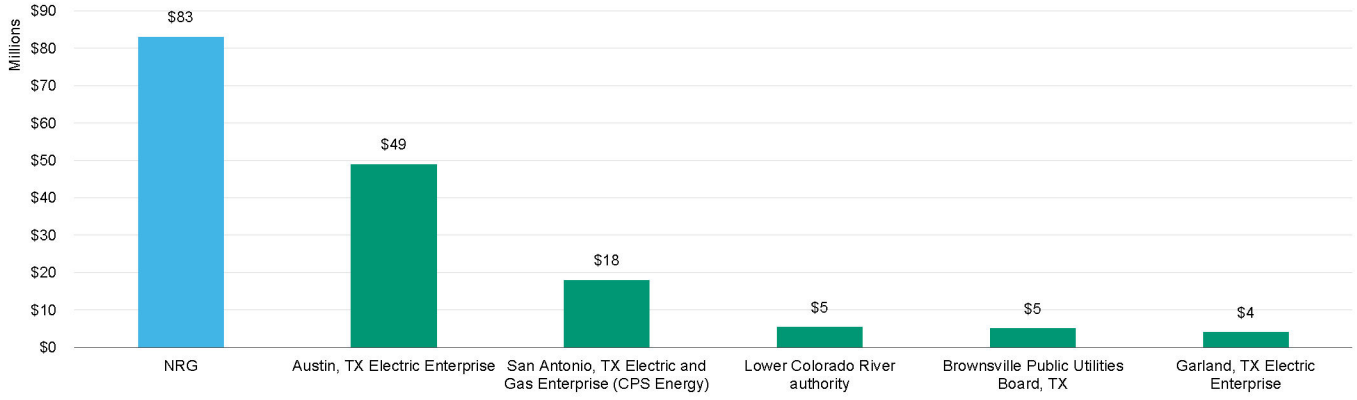
HB 4492 and SB 1580 together provide an alternative to ERCOT's "default uplift" process, which invoices participants based on market activity up to a maximum of $2.5 million every 30 days. Full recovery of the $3 billion short-pay would take about 100 years at that rate. ERCOT has held off on initiating default uplift invoices while the legislation was in session through 31 May.

Proceeds from the financings will allow wholesale participants that were short-paid to be paid back much faster than under ERCOT's default uplift protocol. Many of them incurred substantial natural gas bills to keep gas-fired power plants available and producing during the storm. When there is a short-pay, payments are reduced to an amount necessary to keep ERCOT revenue-neutral and are allocated on a pro rata basis. In their reporting on total estimated financial losses from the storm, NRG Energy Inc. (Ba1 stable) reported an $83 million short-pay (see Exhibit 2). Vistra Corp. (Ba1 stable) has not disclosed its short-pay amount. Short-pays allocated to municipal utilities were comparatively lower, as shown in Exhibit 2, because they represent a smaller share of activity and net settlement payments at that time.

Exhibit 2

ERCOT short-paid, or paid less than what was owed, to wholesale market participants to remain revenue neutral

Estimated short-pay allocations by selected rated utilities with independent power producers depicted in blue and municipal utilities in green



Source: Issuer disclosures to the public and to Moody's

The Cities of Denton, TX and San Antonio (City of) TX Combined Utility Enterprise (CPS Energy, Aa1 negative) were granted temporary restraining orders that prevent ERCOT from invoicing short-pays and default uplift charges to these cities. The cities alleged that, under the Texas constitution, municipal utilities cannot be asked to extend their credit to settle the debts of other entities. Their respective short-pays have been allocated to the rest of the market since the restraining orders went into effect. On 4 June 2021, however, the court dismissed Denton's case based on jurisdiction. The potential for future litigation introduces some uncertainty, but at this point, we expect that the default charges from the $800 million authorization in HB 4492 will still flow to their customer bases. The default charges will be calculated using the same pro rata methodology under ERCOT's default uplift protocol reflecting market activity.

The second financing mechanism established by HB 4492 is the Winter Storm Uri Uplift Financing provision, which authorizes up to $2.1 billion to finance uplift costs, which is not to be confused with ERCOT's default uplift protocol to socialize short-pay balances. The meaning of "uplift" in this section refers to certain charges that exceeded the systemwide cap of $9,000 per MWh that were charged to load-serving entities on a load ratio share basis. In this case, the uplift costs are the real-time operating reserve demand curve (ORDC) adder and ancillary services. The ORDC artificially boosts real-time energy prices when power supply runs low, in theory to incentivize generation during scarcity pricing periods. Ancillary service charges are paid to generators and are designed to keep system frequency at 60 Hertz, otherwise the grid becomes unstable. In its quarterly earnings presentation, NRG described $395 million of negative impact from "unhedgeable uplift costs." A portion of this reflecting the uplift costs that were higher than the $9,000 MWh cap would likely be considered eligible costs. Garland, TX Electric Enterprise (Aa3 negative) also estimates $12 million from ancillary service charges that could be eligible for financing. If a cost advantage can be demonstrated, uplift financing under HB 4492 could alleviate this burden by remitting proceeds to entities exposed to these costs, moving the liability off-balance sheet, and spreading the costs to the market at a more favorable interest rate for a period of up to 30 years.

Uplift charges that will repay the uplift debt obligation will be assessed by ERCOT to all load-serving entities on a load ratio share basis, which may be translated to a kWh charge. The charges are nonbypassable, but HB 4492 allows some entities to opt-out if they pay in full all amounts owed for usage during the winter storm and do not receive any proceeds from the uplift financing.

Moody's related publications

Sector Comments

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» Regulated Electric and Gas Utilities – US: Storm costs in south-central US are credit negative for region's regulated utilities, 5 March 2021

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» Regulated utilities - US: Utility cost recovery through securitization is credit positive, 18 July 2018

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Regulated utilities - US

Utility cost recovery through securitization is credit positive

Utility cost recovery charge (UCRC) securitization, a financing technique used to recover stranded costs, storm costs and other expenses, can be a credit positive tool for regulated utilities. UCRC securitization, whereby utilities issue bonds with lower financing costs that are paid back through a special customer charge, is typically underpinned by state legislation and in recent years has become more versatile and widespread. The ability to use securitization as a tool to recover, often significant, costs related to large or unforeseen developments allows utilities to avoid potentially credit negative events. However, though the mechanism typically benefits utilities and their customers, too much securitization can have negative consequences.

» **Securitization typically benefits utilities and their current customers.** Utilities benefit because they receive an immediate source of cash from the securitization proceeds and are ensured recovery of large costs in a timely manner that may, otherwise, be recovered over a lengthy period of time or denied recovery altogether. Current utility customers benefit because the cost of the securitized debt is lower than the utility's cost of debt, which reduces the impact on their monthly bills.

» **UCRC securitization has become more versatile and prevalent.** Utility securitization became widespread for the recovery of stranded costs following deregulation of the sector in the late 1990s. It is now used to recover costs associated with storm restoration and environmental costs, utility restructuring, deferred fuel costs and renewable energy projects.

» **State law and financing orders strongly protect securitization assets.** There are three major components of a UCRC securitization—state legislation, a financing order and a true-up mechanism—which ultimately protect the assets backing the bonds.

» **Too much securitization can have negative consequences.** The use of securitization removes the utility's opportunity to include the corresponding asset in its rate base and the ability to earn a return on that asset. A significant amount of securitization debt could impact customer bills substantially while hurting the utility's financial flexibility and ability to raise rates for other reasons, such as to recover future costs and investments.

Securitization typically benefits utilities and their current customers

UCRC securitization was widely used after the deregulation of the utility sector in the late 1990s as a way to finance so-called stranded costs—the shortfall between the market value of utilities' generation assets and their book value when certain states switched to competitive electric supply markets and utilities sold their generation assets. In UCRC securitization, utilities issue bonds with lower financing costs that are paid back through a discrete customer charge. We typically view use of the technique as credit positive for utilities.

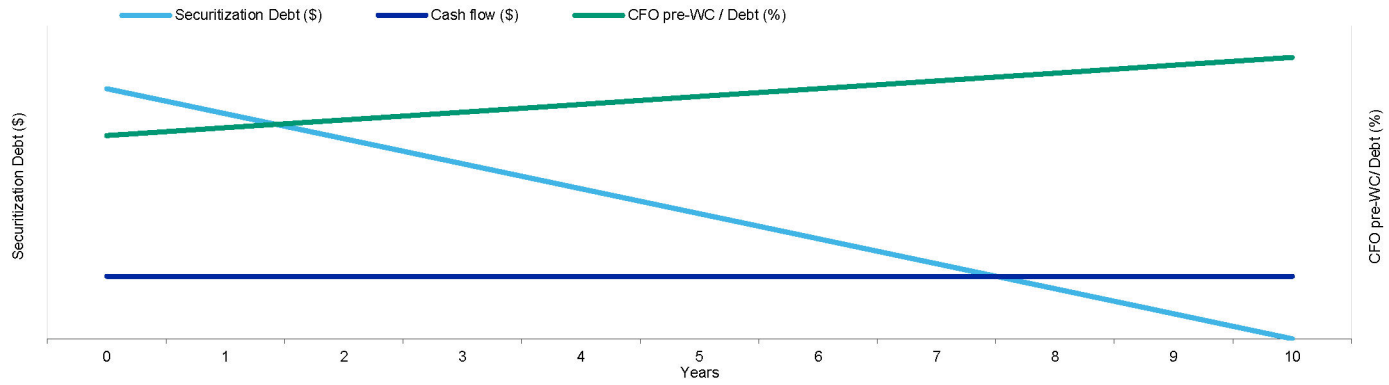
A utility benefits from the securitization because it receives an immediate source of cash. The ability to use securitization generally means the utility is allowed to recover all or most of the costs in question in a timely manner. The ability to use securitization as a tool to recover costs related to large or unforeseen developments allows utilities to avoid potentially credit negative events. The utility's ratepayers benefit because customer rates are lower than if the securitization was not utilized and in many cases avert the need for a substantial rate increase. Under state legislation, the utility must show that the savings to its customers on a net present value basis will be higher than they would have been without securitization.

The savings result from the cost of the securitized debt being lower than the utility's unsecuritized cost of debt and much lower than its all-in cost of capital, which reduces the revenue requirement associated with the cost recovery. The special surcharges involved are also spread out over a long period, typically corresponding to the maturity of the securitization bonds. This eases the impact on customer bills when compared with requesting cost recovery from customers through a one-time payment.

Exhibit 1 shows an illustrative example of the potential impact over time on a utility's ratio of cash flow from operations pre-working capital changes (CFO pre-W/C) to debt, all else being equal. Depending on the size of the securitization debt as a proportion of total debt, the impact on a utility's financial metrics can vary. If the securitization is a significant component of total debt then a utility's ratio of CFO pre-W/C to debt could be severely negatively affected.

Exhibit 1

Illustrative example of the impact UCRC securitization can have on a utility's ratio of CFO pre-W/C to debt



Source: Moody's Investors Service

In the presentation of securitization debt in our published financial ratios, we make our own assessment of the appropriate credit representation, but in most cases we follow the accounting in audited statements under US Generally Accepted Accounting Principles (GAAP), which in turn considers the terms of enabling legislation. As a result, accounting treatment may vary. In most cases, utilities have been required to consolidate securitization debt under GAAP, even though it is technically non-recourse.

We typically view securitization debt of utilities as on-credit debt, in part because the rates associated with it reduce the utility's headroom to increase rates for other purposes while keeping all-in rates affordable to customers. Thus, where accounting treatment is off balance sheet, we seek to adjust the company's financial ratios by including the securitization debt and related revenues in our analysis. Where the securitized debt is on balance sheet, our credit analysis also considers the significance of financial ratios that

exclude securitization debt and related revenues to ensure that the benefits of securitization are not ignored. Since securitization debt amortizes mortgage-style, including it makes financial ratios look worse in early years, when most of the revenue collected goes to pay interest, and better in later years, when most of the revenue collected goes to pay principal.

CenterPoint Energy Houston Electric has a long history of issuing securitization bonds

In 1999, the Texas legislature adopted the Texas Electric Choice Plan, under which integrated utilities operating within the Electric Reliability Council of Texas, Inc. (ERCOT, Aa3 stable) were required to unbundle their operations into separate retail sales, power generation, and transmission and distribution companies. The legislation provided for a transition period and a true-up mechanism for the utilities to recover stranded and certain other costs resulting from the transition. Those costs were recoverable, after approval by the Public Utility Commission of Texas (PUCT), either through the issuance of securitization bonds or through the implementation of a competition transition charge as a rider to the utility's tariff.

In the early 2000s, CenterPoint Energy Houston Electric, LLC (CEHE, A3 stable) restructured its business in accordance with the new law and its generating stations were sold to third parties. Over the years that followed, CEHE has worked with regulators to obtain recovery of most its stranded assets and associated costs through the use of securitization bonds and other regulatory mechanisms.

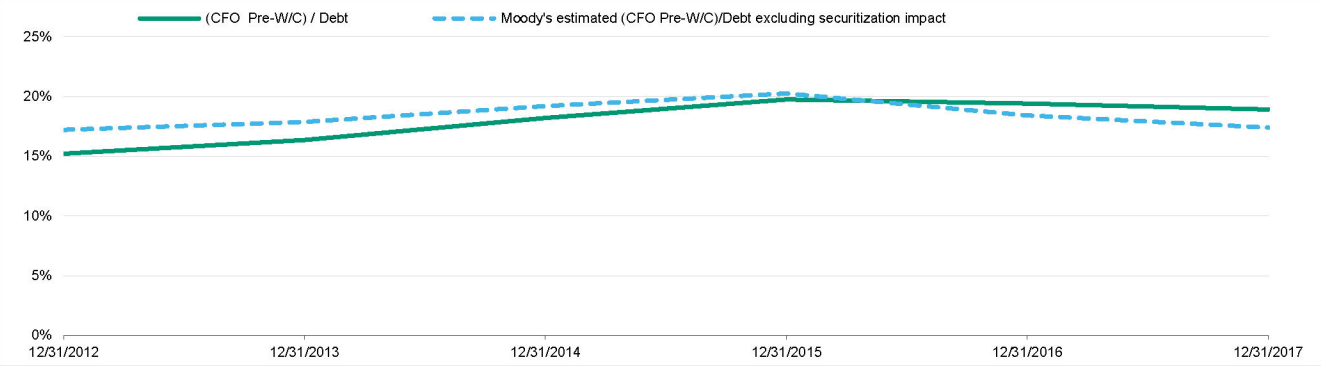
In October 2011, PUCT approved a final order that allowed CEHE to recover an additional $1.695 billion of stranded costs through the use of securitization bonds. In January 2012, CEHE created a new special purpose subsidiary, CenterPoint Energy Transition Bond Company IV, LLC, which issued $1.695 billion of securitization bonds in three tranches with interest rates ranging from 0.9012% to 3.0282% and final maturity dates ranging from April 15, 2018 to October 15, 2025. The securitization bonds will be repaid over time through a charge imposed on customers in CEHE's service territory.

The overall time-weighted interest rate of approximately 2.5% for the securitization bonds was substantially lower than the average rate on CEHE's unsecuritized debt of about 7.66% at that time. The PUCT estimated that the reduced interest charges from the securitization of the stranded costs resulted in savings for CEHE's customers of more than $700 million over the life of the bonds.

Exhibit 2 shows our estimate of the impact on CEHE's ratio of CFO pre-W/C to debt from 2012 through 2017 due to the impact of the $1.695 billion securitization debt. We estimate that the securitization debt had at most a 200-basis-point impact on CEHE's ratio of CFO pre-W/C to debt either positive or negative, depending on the year.

Exhibit 2

How CEHE's ratio of CFO pre-W/C to debt was impacted by securitization debt from 2012 through 2017



Source: company's filings, Moody's Investors Service

UCRC securitization has become more versatile and widespread

UCRC bonds were created after the deregulation of utilities in the late 1990s as a way to finance stranded costs. To date, more than 20 states have used this model to recover not only stranded costs but also costs associated with storm recovery and to a lesser degree environmental restoration, utility restructuring, deferred fuel costs and renewable energy projects.

In June 2005, for example, Section 366.8260 of the Florida Statutes was enacted through Senate Bill 1366, allowing the Florida Public Service Commission to authorize the state's utilities to securitize storm recovery costs. Following Hurricanes Katrina, Rita and Wilma in 2005, Arkansas, Louisiana, Mississippi and Texas joined Florida by passing special legislation giving utilities operating in their jurisdictions the option of utilizing securitization for recovery of storm costs. Recently in California, legislators are considering an amended version of Assembly Bill 33 which, as amended, would allow securitization to be used for prudently incurred costs arising from wildfires, a credit positive step for utilities dealing with potentially significant wildfire-related liabilities. Exhibit 3 shows a list of securitizations completed by utilities in recent years.

In each case, with the exception of the Entergy New Orleans LLC's (ENO, Ba1 stable) bond issuance (Aa1 (sf)) in 2015, we rated the securitization bonds Aaa (sf) owing to the strength of the state legislation, including the state's non-impairment pledge, the irrevocable financing order typically from the state public utility commission, credit enhancement consisting of a statutory uncapped true-up adjustment mechanism, the manageable size of the cost recovery charge and the remote likelihood of a successful legal, political or regulatory challenge, among other factors.

The Aa1 (sf) rating on ENO's securitization bond issuance, which is one-notch lower than the typical Aaa (sf) rating, reflects the relative small size and concentration of the ratepayer base from whom the storm recovery charge will be collected. The bonds are exposed to the risk of declines in the rate payer base in the service area of ENO in case of severe events, such as anther severe hurricane.

Exhibit 3

Moody's rated UCRC securitizations issued since 2012

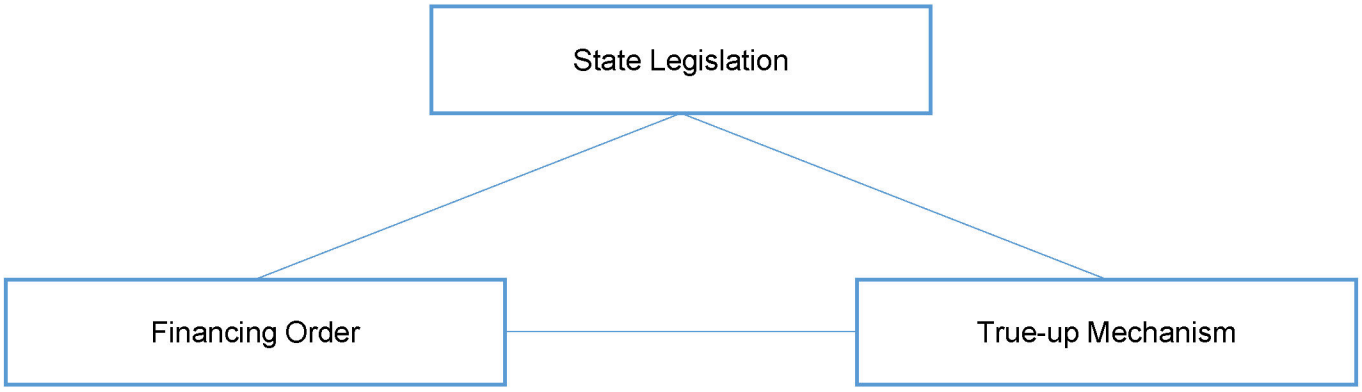
Deal Name	Servicer	Issuance ($ millions)	Year Completed	Rating (sf)	State
PSNH Funding LLC 3, Series 2018-1	Public Service Co. of New Hampshire	$636	2018	Aaa	New Hampshire
Utility Debt Securitization Authority Restructuring Bonds, Series 2017	Long Island Power Authority	369	2017	Aaa	New York
Utility Debt Securitization Authority Restructuring Bonds, Series 2016B	Long Island Power Authority	469	2016	Aaa	New York
Duke Energy Florida Project Finance, LLC	Duke Energy Florida LLC	1294	2016	Aaa	Florida
Utility Debt Securitization Authority Restructuring Bonds, Series 2016A	Long Island Power Authority	637	2016	Aaa	New York
Utility Debt Securitization Authority Restructuring Bonds, Series 2015	Long Island Power Authority	1002	2015	Aaa	New York
Entergy New Orleans Storm Recovery Funding I, L.L.C.	Entergy New Orleans LLC	99	2015	Aa1	Louisiana
State of Hawaii Department of Business, Economic Development, and Tourism - Green Energy Market Securitization Bonds, 2014 Ser. A	Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited	150	2014	Aaa	Hawaii
Louisiana Local Government Environmental Facilities and Community Development Authority - System Restoration Bonds (Louisiana Utilities Restoration Corporation Project/EGSL), Ser. 2014 (Federally Taxable)	Entergy Gulf States Louisiana, L.L.C.	71	2014	Aaa	Louisiana
Louisiana Local Government Environmental Facilities and Community Development Authority - System Restoration Bonds (Louisiana Utilities Restoration Corporation Project/ELL), Ser. 2014 (Federal Taxable)	EL Investment Company, LLC	244	2014	Aaa	Louisiana
Consumer 2014 Securitization Funding LLC - Senior Secured Securitization Bonds, Series 2014-A	Consumers Energy Company	378	2014	Aaa	Michigan
Utility Debt Securitization Authority Restructuring Bonds Series 2013T and Series 2013TE	Long Island Power Authority	2022	2013	Aaa	New York
Appalachian Consumer Rate Relief Funding LLC - Senior Secured Consumer Rate Relief Bonds	Appalachian Power Company	380	2013	Aaa	West Virginia
Ohio Phase-In-Recovery Funding LLC	Ohio Power Company	267	2013	Aaa	Ohio
FirstEnergy Ohio PIRB Special Purpose Trust 2013	Cleveland Electric Illuminating Company (The), Ohio Edison Company, Toledo Edison Company	445	2013	Aaa	Ohio
AEP Texas Central Transition Funding III LLC, Senior Secured Transition Bonds	AEP Texas Central Company	800	2012	Aaa	Texas
CenterPoint Energy Transition Bond Company IV, LLC, Series 2012 Senior Secured Transition Bonds	CenterPoint Energy Houston Electric, LLC	1695	2012	Aaa	Texas

Source: Moody's Investor Service

State law and financing order strongly protect the securitization assets

There are three major components of a UCRC securitization: state legislation, a financing order and a true-up mechanism, as shown in Exhibit 4. The securitization law and financing order legally protect the assets backing the bonds.

Exhibit 4
UCRC securitization has three major components



Source: Moody's Investors Service

The state legislature typically passes a law authorizing the utility to finance the recovery of certain costs through the issuance of securitization bonds. The legislation authorizes the creation of a property right allowing the issuer to collect special charges from customers which are used to repay the bonds. Bondholders receive protection through a non-impairment pledge, under which the state pledges that it will not take any actions that alter the charges or the law until the bonds have been repaid in full.

The legislation also mandates an irrevocable financing order, typically issued by the state public utility commission, which means the state cannot change or revoke the financing order once it is issued. The order authorizes the transaction servicer, typically the utility, on behalf of the issuer of the debt, to charge and collect the special surcharges from the utility's ratepayer base.

The securitization law and the financing order mandate a true-up adjustment mechanism under which the servicer must adjust the charges at least annually to ensure the collection of adequate funds to provide for timely payments on the securitization bonds. The securitization law also establishes the issuer of the debt as a bankruptcy-remote special purpose entity (SPE), and the utility sells the securitized asset (the property right) to the SPE via a true sale transaction. The assets are thus legally isolated from the utility. The SPE issues the bonds and uses the proceeds to acquire the asset. The SPE then uses the charge collected from the utility's customers to pay debt service until the bonds are repaid in full. The utility receives the proceeds from the bond issuance.

Too much securitization can also have negative consequences

While the use of securitization does provide more timely recovery of costs for the utility, there can be some downside. In cases where utilities use securitization to recover stranded costs, the mechanism requires utilities to give up the opportunity to include the corresponding asset in its rate base as well as the ability to earn a return on that asset. This diminishes the utility's future earnings power and cash flow generation.

A significant amount of securitization debt could represent a substantial portion of the utility's customer bills. This would not only raise customer rates but could also prevent regulators from approving rate increases in the future, out of concern that rates are rising too much. This could in turn affect the utility's capital investments and the ability to add any such investments to rate base and earn on a return on them.

In addition, since the surcharge on customer bills used to pay off the securitization bonds will typically exist for several years, any new customers in the utility's service territory will be subject to this surcharge. As a result, future customers will be paying for costs related to historical occurrences, which may deter new commercial and industrial businesses from moving into the service territory if rates become less competitive.

Further, customer rates or cash flow used to service securitization debt is senior and has a higher legal priority to the utility's remaining cash flow generation. As such, securitization bondholders would have a senior claim in a liability waterfall during times of financial distress. So a significant amount of securitization debt within a capital structure could put secured and unsecured debt holders at risk of less than full recovery in a bankruptcy filing.

Pacific Gas & Electric's securitization during bankruptcy in the early 2000's demonstrates the enforceability and resiliency of the legal structure

In 1997, Pacific Gas & Electric Company (PG&E, A3 negative) issued $2.9 billion of securitization bonds after obtaining approval by the California Public Utility Commission to recover stranded asset costs associated with the state's utility deregulation. When PG&E filed for bankruptcy on 6 April 2001, both the company and bankruptcy court respected the bankruptcy-remote structure of the securitization that the parties had established in order to isolate the assets of PG&E's securitization from PG&E's bankruptcy estate. PG&E remained the servicer of the transaction and continued to collect and remit the securitization payment. The securitization cash flows were not affected by the bankruptcy due to a build-up in the reserve fund and the base level of customer consumption used to calculate the 2001 tariff remained relatively stable. For these reasons among others, the Aaa (sf) rating on PG&E's stranded costs recovery securitization bonds was maintained throughout the company's bankruptcy.

The bankruptcy remoteness of securitization transactions is stronger than that of other, purely corporate asset-backed securities for several reasons including the explicit recognition, by state legislation, of the right to collect the special surcharge from customers as well as the first lien on the asset that is often granted by statute upon its transfer. The consumption-based fee is imposed on ratepayers and is not dependent on a particular electrical supplier. The fee is not affected if the servicer becomes bankrupt. The underlying legislation usually requires that any successor to the original utility (due to bankruptcy, reorganization, merger, or acquisition) must satisfy all obligations of the original utility, including the collection of the special surcharge. The right to collect the special surcharge is irrevocable and cannot be altered by either the state utility commission or the state.

In January 2005, PG&E issued $1.9 billion of securitization known as energy recovery bonds (ERBs). The securitization financing accelerated the company's collection of the regulatory asset that was created as part of PG&E's bankruptcy. A second securitization financing was completed in late 2005 which enabled PG&E to largely recover the entire regulatory asset. This was another example where securitization was used as a tool to significantly reduce the uncertainty and length of time in the recovery of significant costs, a credit positive, while also reducing costs for customers by keeping rates lower over the long-term.

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» Regulated utilities - US: 2019 outlook shifts to negative due to weaker cash flows, continued high leverage 18 June 2018

Rating Methodologies:

» Regulated Electric and Gas Utilities 23 June 2017

» Regulated Electric and Gas Networks 16 March 2017

» U.S. Electric Generation & Transmission 15 April 2013

» Natural Gas Pipelines 6 July 2018

» Moody's Global Approach to Rating Securities Backed by Utility Cost Recovery Charges 22 June 2015

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

REPORT NUMBER 1128247

MOODY'S INVESTORS SERVICE

PUC DOCKET NO. _____

APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. FOR A DEBT OBLIGATION ORDER PURSUANT TO CHAPTER 39, SUBCHAPTER N, OF THE PUBLIC UTILITY REGULATORY ACT	**§ § § § § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

DIRECT TESTIMONY OF

OF

SEAN TAYLOR

ON BEHALF OF

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

JULY 16, 2021

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

Commission	Public Utility Commission of Texas
ERCOT	Electric Reliability Council of Texas, Inc.
HB 4492	House Bill 4492
Period of Emergency	The period beginning 12.01 a.m., February 12, 2021 and ending 11:59 p.m., February 20, 2021
LSE	Load-Serving Entity
PURA	Public Utility Regulatory Act
QSE	Qualified Scheduling Entity
Subchapter M	PURA §§ 39.601-39.609
Subchapter N	PURA §§ 39.651-39.664

PUC DOCKET NO. _____

APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. FOR A DEBT OBLIGATION ORDER PURSUANT TO CHAPTER 39, SUBCHAPTER N, OF THE PUBLIC UTILITY REGULATORY ACT	**§ § § § § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

DIRECT TESTIMONY OF SEAN TAYLOR

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Sean Taylor. My business address is 2705 West Lake Drive, Taylor, Texas 76574.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Electric Reliability Council of Texas, Inc. ("ERCOT"), as Vice President and Chief Financial Officer.

Q. PLEASE DESCRIBE YOUR ROLE AT ERCOT.

A. In my role as Vice President and Chief Financial Officer, I oversee the treasury, accounting, financial planning and analysis, and supply chain management functions at ERCOT.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. I was named Vice President and Chief Financial Officer of ERCOT in October 2019 after serving as ERCOT's Controller from 2013-2019. Prior to joining ERCOT in 2013, I spent seven years in the finance department at the Lower Colorado River Authority. Before that, I was a consultant performing mergers and acquisition advisory services at PricewaterhouseCoopers in New York. I also served in the United States Army.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I graduated from the University of Michigan with a Bachelor of Business Administration degree.

Q. DO YOU HAVE ANY PROFESSIONAL LICENSES OR CERTIFICATIONS?

A. Yes. I am a licensed Certified Public Accountant in Texas and New York. I am also a Chartered Financial Analyst Charterholder.

II. PURPOSE OF TESTIMONY AND RECOMMENDATIONS

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My direct testimony has several purposes. First, I explain that ERCOT seeks Public Utility Commission of Texas ("Commission") approval of a Debt Obligation Order authorizing ERCOT to finance the Uplift Balance, as that term is defined by Section 39.652(4) of the Public Utility Regulatory Act ("PURA").[1] Under the proposed Debt Obligation Order, ERCOT would create a bankruptcy-remote Special Purpose Entity ("SPE") to issue bonds up to $2.1 billion representing the Uplift Balance, plus upfront costs. ERCOT will be the Servicer of the bonds.

Second, I explain that ERCOT will make the proceeds of the bond issuance available to Qualified Scheduling Entities ("QSE") that represent Load-Serving Entities ("LSE") who were exposed to Reliability Deployment Price Adder ("RDPA") charges and Ancillary Service costs above the system-wide offer cap during the Period of Emergency.[2] ERCOT proposes to rely on the Commission to determine which LSEs are eligible for funding from the bond proceeds and what amount of exposure each LSE had.

Third, I explain that ERCOT will assess Uplift Charges to all QSEs representing LSEs, except for those QSEs representing LSEs that opt out in accordance with PURA § 39.653(d). ERCOT will deposit the Uplift Charge proceeds in the SPE's trust account, and the SPE trustee will follow the trust indenture waterfall provisions and pay certain SPE servicing costs, administration costs, and scheduled interest and principal on the bonds.

[1] PURA is codified in Title II of the Texas Utilities Code. *See* Tex. Util. Code §§ 11.001-66.016.

[2] PURA § 39.652 defines the "Period of Emergency" as the period beginning 12.01 a.m., February 12, 2021 and ending 11:59 p.m., February 20, 2021.

Certain proceeds may be held in trust accounts until scheduled expense, interest and principal payments are due.

Fourth, I explain that ERCOT will collect and true-up the Uplift Charges in accordance with PURA § 39.657 to ensure that adequate funds are available to service the bonds.

Finally, I describe briefly the types of costs that ERCOT expects to incur to implement the Debt Obligation Order, and I support ERCOT's request to recover those costs.

Q. WHAT ARE YOUR RECOMMENDATIONS IN THIS CASE?

A. I recommend that the Commission approve a Debt Obligation Order that:

- authorizes ERCOT to establish an SPE and to cause that SPE to issue $2.1 billion of bonds representing the Uplift Balance, plus upfront costs;
- approves ERCOT's proposal to make the proceeds of the bond issuance available to QSEs representing LSEs that were exposed to RDPA charges and Ancillary Service costs above the system-wide offer cap during the Period of Emergency;
- approves ERCOT's proposed method for depositing the appropriate amount of proceeds from the Uplift Charges into the SPE's trust account;
- approves ERCOT's proposed method of collecting and truing up the Uplift Charge proceeds; and
- approves ERCOT's request to recover the costs incurred to implement the Debt Obligation Order.

Q. IS ERCOT PRESENTING TESTIMONY FROM ANY OTHER WITNESSES IN THIS CASE?

A. Yes. ERCOT Vice President Kenan Ögelman provides an overview of ERCOT's Application for a Debt Obligation Order ("Application"). He also describes the events that gave rise to the Application, and he discusses ERCOT's proposed methodology for allocating Uplift Charges to market participants, among other things.

ERCOT is also presenting testimony from Charles N. Atkins, a senior advisor to Credit Suisse, who is ERCOT's financial advisor for this docket. Mr. Atkins describes the advantages of using an SPE to issue the bonds and describes the financing structure that ERCOT proposes to use.

III. UPLIFT BALANCE FINANCING

Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE TERM "UPLIFT BALANCE."

A. PURA § 39.652(4) defines the term "Uplift Balance" to mean an amount of not more than $2.1 billion that was uplifted to LSEs on a load ratio share basis due to energy consumption during the Period of Emergency for RDPA charges and Ancillary Service Costs in excess of the Commission's system-wide offer cap, excluding amounts securitized under Subchapter D of PURA Chapter 41. The term does not include amounts that were part of the prevailing settlement point price during the Period of Emergency. Mr. Ögelman describes the Uplift Balance in more detail in his testimony.

Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF HOW ERCOT INTENDS TO FINANCE THE UPLIFT BALANCE.

A. ERCOT proposes to establish a bankruptcy-remote SPE that I will refer to in this testimony as "BondCo." Upon approval of the Debt Obligation Order by the Commission, ERCOT will cause BondCo to issue bonds in an amount of up to $2.1 billion representing the Uplift Balance, plus upfront costs. When BondCo receives the proceeds from the bond issuance, it will transfer them to ERCOT.[3] Mr. Atkins describes the financing structure in more detail in his direct testimony.

Q. WHY DID ERCOT CHOOSE THAT FORM OF FINANCING?

[3] In the next section of my testimony, I explain in more detail how ERCOT proposes to use the proceeds of the bond issuance.

A. ERCOT's financial advisor, Mr. Atkins, recommended that financing structure in order to secure the lowest financing costs consistent with market conditions and the need for timely financing. Mr. Atkins provides more detail in his testimony.

Q. PLEASE DESCRIBE THE TERMS THAT ERCOT IS PROPOSING FOR THE FINANCING OF THE UPLIFT BALANCE.

A. The terms of the proposed financing are detailed in Mr. Atkins's testimony. Please note that these proposed terms are preliminary and estimated. The final terms and conditions will not be known until the transaction has been priced.

Q. WILL ERCOT CONTINUE TO PLAY ANY ROLE IN THE UPLIFT BALANCE FINANCING AFTER THE CREATION OF BONDCO?

A. Yes. ERCOT will service the bonds issued by BondCo by collecting Uplift Charges from QSEs representing LSEs (except the QSEs representing those LSEs that opt out of receiving Uplift Balance funding and paying Uplift Charges).[4] ERCOT's proposed process for collecting the Uplift Charges from market participants is set forth in detail in Mr. Ögelman's testimony. ERCOT will also true-up the Uplift Charges, which I discuss in more detail later in my testimony.

[4] PURA § 39.653(d) describes the LSEs and retail customers that are eligible to opt out.

IV. DISTRIBUTION OF BOND PROCEEDS

Q. HOW DOES ERCOT PROPOSE TO APPLY THE PROCEEDS OF THE BONDS?

A. ERCOT proposes to make funds available to the QSEs representing LSEs that establish their eligibility to funds from the Uplift Balance financing. As explained in more detail in Mr. Ögelman's testimony, ERCOT requests that the Commission open a separate docket in which it determines which LSEs are eligible for such funding and the amount of the funding that each such LSE is eligible to receive.

Q. PLEASE DESCRIBE HOW ERCOT PROPOSES TO DISTRIBUTE THE PROCEEDS OF THE BOND ISSUANCE TO THE LSEs THAT ESTABLISH THEIR ELIGIBILITY.

A. ERCOT will issue a one-time miscellaneous invoice for payment to each QSE who represents an LSE that demonstrates its exposure to RDPA charges and Ancillary Services costs in excess of the system-wide offer cap. ERCOT will follow its standard process for wiring funds to those QSEs in accordance with the wiring instructions that the QSEs provide to ERCOT.

V. COLLECTION AND TRUE-UP OF UPLIFT CHARGES

Q. HOW DOES ERCOT PLAN TO DEFINE THE AMOUNT OF UPLIFT CHARGES TO BE RECOVERED?

A. ERCOT plans to define the annual requirements to cover the financing costs (including principal, interest, and all related financing costs). ERCOT will then divide that amount by twelve to determine the monthly amount of Uplift Charges to be recovered. ERCOT will next determine the amount of days in the month over which the charge needs to be allocated, and then determine the amount applicable to each settlement interval. The charge to QSEs will be based on the eligible load ratio share for that interval.

Q. WILL ERCOT REQUIRE ADDITIONAL COLLATERAL TO COVER THE DEFAULT CHARGES?

A. Yes. ERCOT plans to require collateral specifically identifiable to the Uplift Charges to cover projected costs (including principal, interest, and all related financing costs) for four months, based on the plan for quarterly true-ups. ERCOT plans to accept only secured collateral for this purpose.

Q. WILL ANY OTHER COLLATERAL BE AVAILABLE TO COVER THE DEFAULT CHARGES?

A. Yes. If the specifically identified collateral above is not sufficient, ERCOT would draw on other collateral held as priority over other obligations.

Q. AFTER ERCOT COLLECTS THE UPLIFT CHARGES FROM WHOLESALE MARKET PARTICIPANTS, HOW DOES ERCOT PROPOSE TO REMIT THE APPROPRIATE AMOUNT OF PROCEEDS TO THE BONDHOLDERS?

A. As I testified earlier, ERCOT will deposit proceeds from the Uplift Charges into BondCo's trust account. BondCo or its designee will then allocate Uplift Charge proceeds according to the trust indenture waterfall provisions to pay servicing costs and administration costs to ERCOT, and scheduled interest and principal on the bonds. Certain proceeds may be held in trust accounts until scheduled expense, interest and principal payments are due.

Q. WILL ERCOT TRUE-UP THE UPLIFT CHARGES?

A. Yes. PURA § 39.657 requires that the Uplift Charges be trued up at least annually. The annual true-up mechanism is necessary to correct any under-collections or over-collections during the preceding twelve months, and will also consider the total revenue requirements looking forward to the next two debt service payment periods, which ensures the expected recovery of amounts sufficient to timely provide all payments of principal and interest and any other amounts due in connection with the bonds. Mr. Atkins discusses the importance of the true-up in more detail.

Q. IS ERCOT ANTICIPATING MATERIAL UNDER- OR OVER-COLLECTIONS?

A. No. Under- or over-collections are anticipated to be primarily limited to the variance in projected financing costs (principal, interest, and all related financing costs) and the actual amounts of those costs. ERCOT does not anticipate material under- or over- collections resulting from non-payment because of the planned collateral requirements previously noted. If there is a non-payment that is not covered by collateral, ERCOT plans to perform an interim true-up and collect that money by increasing the fixed amount charged for the next month and allocate it out among eligible market participants. ERCOT would then revert to the anticipated fixed monthly costs in the following month. Additionally, ERCOT does not anticipate under- or over-collections resulting from changes in market activity

(including electricity usage) due to the allocation of a fixed amount of Default Charges that is not tied to activity levels.

Q. WHEN WILL ERCOT PERFORM TRUE-UPS?

A. Six months following the closing of any series of bonds, ERCOT will provide a six-month true-up calculation. If that calculation projects under-collections of Uplift Charges, ERCOT will implement a true-up adjustment in accordance with the true-up procedure.

ERCOT will also provide a true-up calculation every year on the date provided in the issue advice letter and continuing until the scheduled maturity of the bonds. If an interim calculation projects under-collections of Uplift Charges, ERCOT will implement an interim true-up adjustment in accordance with the true-up procedure.

In addition, ERCOT proposes to provide a quarterly true-up calculation. If a quarterly calculation projects under-collections of Uplift Charges, ERCOT will implement a true-up adjustment in accordance with the true-up procedure.

Q. PLEASE DESCRIBE BRIEFLY HOW THE TRUE-UP ADJUSTMENTS WILL BE CONDUCTED.

A. The true-up filings will be based upon the cumulative differences, regardless of the reason, between the periodic payment requirement (including charges required to pay the principal, interest and other costs related to the Uplift Balance financing on a timely basis, as scheduled) and the amount of Uplift Charge remittances to the BondCo trust.

VI. COSTS TO IMPLEMENT THE DEBT OBLIGATION ORDER

Q. IS ERCOT ASKING THE COMMISSION TO AUTHORIZE RECOVERY OF THE COSTS ERCOT INCURS TO IMPLEMENT THE DEBT OBLIGATION ORDER?

A. Yes. PURA § 39.65(5) provides that collected Uplift Charges can include "reasonable costs incurred…to implement a debt obligation order."

Q. HAS ERCOT QUANTIFIED THE COSTS TO IMPLEMENT THE DEBT OBLIGATION ORDER?

A. At this time, ERCOT can only estimate the costs to implement the Debt Obligation Order because it has not yet incurred most of them. In fact, ERCOT will not know the actual amount of the costs until after it issues the bonds. Nevertheless, ERCOT is in the process of gathering the cost information that is currently available, and it will quantify as many of those costs as possible in supplemental and rebuttal testimony.

Q. WHAT TYPES OF COSTS HAVE BEEN INCURRED OR WILL BE INCURRED TO IMPLEMENT THE DEBT OBLIGATION ORDER?

A. ERCOT has identified the following categories of costs that will likely be necessary to implement the Debt Obligation Order:

- Financing costs;
- Financial advisor fees;
- Outside legal counsel fees;
- Costs incurred to develop and maintain the SPE;
- Costs incurred to create or modify ERCOT systems so that they can accurately account and bill for Uplift Charges;
- Equity capital required to satisfy legal standards for bond placements;

- Costs incurred to service and maintain the bonds; and
- Underwriting costs, legal costs, and other types of costs necessary to place the bonds.

ERCOT may incur additional types of costs during the course of this docket or in the bond issuance process.

Q. DOES ERCOT INTEND TO USE ANY OF THE BOND PROCEEDS TO RETIRE OR REFUND EXISTING ERCOT DEBT?

A. No.

VII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN THIS CASE.

A. I recommend that the Commission approve a Debt Obligation Order that:

- authorizes ERCOT to establish an SPE and to cause that SPE to issue bonds up to $2.1 billion representing the Uplift Balance, plus upfront costs;
- approves ERCOT's proposal to make the proceeds of the bond issuance available to QSEs that represent LSEs who were exposed to RDPA charges and Ancillary Service costs above the system-wide offer cap during the Period of Emergency;
- approves ERCOT's proposed method for remitting the proceeds of the Uplift Charges into BondCo's trust account;
- approves ERCOT's proposed methods for securing collateral and charging Default Charges;
- approves ERCOT's proposed method of truing up the Uplift Charge proceeds; and
- approves ERCOT's request to recover the costs incurred to implement the Debt Obligation Order.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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Taylor Affidavit - 2.pdf

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E-Signature Summary

E-Signature 1: Sean Taylor (ST)
July 15, 2021 07:46:54 -8:00 [2667797206CA] [72.179.5.248]
sean.taylor@ercot.com (Principal) (Personally Known)

E-Signature Notary: Nicole E Rossero (NR)
July 15, 2021 07:46:54 -8:00 [2CCC9F51658C] [70.112.135.24]
Nicole.Rossero@ercot.com
I, Nicole E Rossero, did witness the participants named above electronically sign this document.

PUC DOCKET NO. _____

APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS FOR A DEBT OBLIGATION ORDER PURSUANT TO CHAPTER 39, SUBCHAPTER N, OF THE PUBLIC UTILITY REGULATORY ACT	**§**	**PUBLIC UTILITY COMMISSION OF TEXAS**

AFFIDAVIT

STATE OF TEXAS)
)
COUNTY OF TRAVIS)

SEAN TAYLOR, first being sworn on his oath, states:

I am the witness identified in the preceding testimony. I have read the testimony and the accompanying attachments, and I am familiar with the contents. Based on my personal knowledge, the facts stated in the testimony are true. In addition, in my judgment and based on my professional experience, the opinions and conclusions stated in the testimony are true, valid, and accurate.

Sean Taylor
Signed on 2021/07/15 07:46:54 -8:00

SEAN TAYLOR

Subscribed and sworn to before me this 15th day of July 2021 by Sean Taylor. This notarial act was an online notarization.

Signed on 2021/07/15 07:46:54 -8:00

Notary Public, State of Texas

My Commission Expires: May 19, 2024

DocVerify
NOTARY PUBLIC STATE OF TEXAS
Nicole E. Rossero
Commission # 12600172-5
Notary Public
STATE OF TEXAS
My Comm Exp. May 19, 2024
Notary Stamp 2021/07/15 07:46:54 PST

PUC DOCKET NO. _____

APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. FOR A DEBT OBLIGATION ORDER PURSUANT TO CHAPTER 39, SUBCHAPTER N, OF THE PUBLIC UTILITY REGULATORY ACT	**§ § § § § § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

PROTECTIVE ORDER

This Protective Order shall govern the use of all information deemed confidential (Protected Materials) or highly confidential (Highly Sensitive Protected Materials), including information whose confidentiality is currently under dispute, by a party providing information to the Public Utility Commission of Texas (Commission) or to any other party to this proceeding.

It is ORDERED that:

1. **Designation of Protected Materials**. Upon producing or filing a document, including, but not limited to, records on a computer disk or other similar electronic storage medium in this proceeding, the producing party may designate that document, or any portion of it, as confidential pursuant to this Protective Order by typing or stamping on its face "PROTECTED PURSUANT TO PROTECTIVE ORDER ISSUED IN DOCKET NO. _____" (or words to this effect) and consecutively Bates Stamping each page. Protected Materials and Highly Sensitive Protected Materials include the documents so designated, as well as the substance of the information contained in the documents and any description, report, summary, or statement about the substance of the information contained in the documents. Critical Energy Infrastructure Information (CEII), as that term is defined in Section 2.1 of the ERCOT Protocols, is considered Protected Material for purposes of this Protective Order.

2. **Materials Excluded from Protected Materials Designation**. Protected Materials shall not include any information or document contained in the public files of the Commission or any other federal or state agency, court, or local governmental authority subject to the Public Information Act.[1] Protected Materials also shall not include documents or

[1] Tex. Gov't Code Ann. § 552.001-.353.

information which at the time of, or prior to disclosure in, a proceeding is or was public knowledge, or which becomes public knowledge other than through disclosure in violation of this Protective Order.

3. **Reviewing Party**. For the purposes of this Protective Order, a "Reviewing Party" is any party to this docket.

4. **Procedures for Designation of Protected Materials**. On or before the date the Protected Materials or Highly Sensitive Protected Materials are provided to the Commission, the producing party shall file with the Commission and deliver to each party to the proceeding a written statement, which may be in the form of an objection, indicating: (a) any exemptions to the Public Information Act claimed to apply to the alleged Protected Materials; (b) the reasons supporting the producing party's claim that the responsive information is exempt from public disclosure under the Public Information Act and subject to treatment as protected materials; and (c) that counsel for the producing party has reviewed the information sufficiently to state in good faith that the information is exempt from public disclosure under the Public Information Act and merits the Protected Materials designation.

5. **Persons Permitted Access to Protected Materials**. Except as otherwise provided in this Protective Order, a Reviewing Party may access Protected Materials only through its "Reviewing Representatives" who have signed the Protective Order Certification Form (see Attachment A). Reviewing Representatives of a Reviewing Party include its counsel of record in this proceeding and associated attorneys, paralegals, economists, statisticians, accountants, consultants, or other persons employed or retained by the Reviewing Party and directly engaged in this proceeding. At the request of the PUC Commissioners, copies of Protected Materials may be produced by Commission Staff. The Commissioners and their staff shall be informed of the existence and coverage of this Protective Order and shall observe the restrictions of the Protective Order.

6. **Highly Sensitive Protected Material Described**. The term "Highly Sensitive Protected Materials" is a subset of Protected Materials and refers to documents or information that a producing party claims is of such a highly sensitive nature that making copies of such documents or information or providing access to such documents to employees of the

Reviewing Party (except as specified herein) would expose a producing party to unreasonable risk of harm. Highly Sensitive Protected Materials include but are not limited to: (a) customer-specific information protected by § 32.101(c) of the Public Utility Regulatory Act; (b) contractual information pertaining to contracts that specify that their terms are confidential or that are confidential pursuant to an order entered in litigation to which the producing party is a party; (c) market-sensitive fuel price forecasts, wholesale transactions information and/or market-sensitive marketing plans; and (d) business operations or financial information that is commercially sensitive. Documents or information so classified by a producing party shall bear the designation "HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTIVE ORDER ISSUED IN DOCKET NO. _____" (or words to this effect) and shall be consecutively Bates Stamped. The provisions of this Protective Order pertaining to Protected Materials also apply to Highly Sensitive Protected Materials, except where this Protective Order provides for additional protections for Highly Sensitive Protected Materials. In particular, the procedures herein for challenging the producing party's designation of information as Protected Materials also apply to information that a producing party designates as Highly Sensitive Protected Materials.

7. **Restrictions on Copying and Inspection of Highly Sensitive Protected Material**. Except as expressly provided herein, only one copy may be made of any Highly Sensitive Protected Materials except that additional copies may be made to have sufficient copies for introduction of the material into the evidentiary record if the material is to be offered for admission into the record. The Reviewing Party shall maintain a record of all copies made of Highly Sensitive Protected Material and shall send a duplicate of the record to the producing party when the copy or copies are made. The record shall specify the location and the person possessing the copy. Highly Sensitive Protected Material shall be made available for inspection only at the location or locations provided by the producing party, except as specified by Paragraph 9. Limited notes may be made of Highly Sensitive Protected Materials, and such notes shall themselves be treated as Highly Sensitive Protected Materials unless such notes are limited to a description of the document and a general characterization of its subject matter in a manner that does not state any substantive information contained in the document.

8. **Restricting Persons Who May Have Access to Highly Sensitive Protected Material**. With the exception of Commission Staff, the Office of the Attorney General (OAG), the Office of Public Utility Counsel (OPC), and Electric Reliability Council of Texas, Inc. (ERCOT), and except as provided herein, the Reviewing Representatives for the purpose of access to Highly Sensitive Protected Materials may be persons who are (a) outside counsel for the Reviewing Party, (b) outside consultants for the Reviewing Party working under the direction of Reviewing Party's counsel, or (c) employees of the Reviewing Party working with and under the direction of Reviewing Party's counsel who have been authorized by the presiding officer to review Highly Sensitive Protected Materials. The Reviewing Party shall limit the number of Reviewing Representatives that review Highly Sensitive Protected Materials to the minimum number of persons necessary. The Reviewing Party is under a good faith obligation to limit access to each portion of any Highly Sensitive Protected Materials to two Reviewing Representatives whenever possible. Reviewing Representatives for Commission Staff, OAG, OPC, and ERCOT for the purpose of access to Highly Sensitive Protected Materials, shall consist of their respective counsel of record in this proceeding and associated attorneys, paralegals, economists, statisticians, accountants, consultants, or other persons employed or retained by them and directly engaged in these proceedings.

9. **Copies Provided of Highly Sensitive Protected Material**. A producing party shall provide one copy of Highly Sensitive Protected Materials specifically requested by the Reviewing Party to the person designated by the Reviewing Party who must be a person authorized to review Highly Sensitive Protected Material under Paragraph 8. Representatives of the Reviewing Party who are authorized to view Highly Sensitive Protected Material may review the copy of Highly Sensitive Protected Materials at the office of the Reviewing Party's representative designated to receive the information. Any Highly Sensitive Protected Materials provided to a Reviewing Party may not be copied except as provided in Paragraph 7. The restrictions contained herein do not apply to Commission Staff, OPC, ERCOT, and the OAG when the OAG is representing a party to the proceeding.

10. **Procedures in Paragraphs 10-14 Apply to Commission Staff, OPC, ERCOT, and the OAG and Control in the Event of Conflict**. The procedures in Paragraphs 10 through

14 apply to responses to requests for documents or information that the producing party designates as Highly Sensitive Protected Materials and provides to Commission Staff, OPC, ERCOT, and the OAG in recognition of their purely public functions. To the extent the requirements of Paragraphs 10 through 14 conflict with any requirements contained in other paragraphs of this Protective Order, the requirements of these Paragraphs shall control.

11. **Copy of Highly Sensitive Protected Material to be Provided to Commission Staff, OPC, ERCOT and the OAG**. When, in response to a request for information by a Reviewing Party, the producing party makes available for review documents or information claimed to be Highly Sensitive Protected Materials, the producing party shall also deliver one copy of the Highly Sensitive Protected Materials to the Commission Staff, OPC (if OPC is a party), ERCOT, and the OAG (if the OAG is representing a party) in Austin, Texas. Provided however, that in the event such Highly Sensitive Protected Materials are voluminous, the materials will be made available for review by Commission Staff, OPC (if OPC is a party), ERCOT, and the OAG (if the OAG is representing a party) at the designated office in Austin, Texas. The Commission Staff, OPC (if OPC is a party), ERCOT, and the OAG (if the OAG is representing a party) may request such copies as are necessary of such voluminous material under the copying procedures specified herein.

12. **Delivery of the Copy of Highly Sensitive Protected Material to Commission Staff and Outside Consultants**. The Commission Staff, OPC (if OPC is a party), ERCOT, and the OAG (if the OAG is representing a party) may deliver the copy of Highly Sensitive Protected Materials received by them to the appropriate members of their staff for review, provided such staff members first sign the certification specified by Paragraph 15. After obtaining the agreement of the producing party, Commission Staff, OPC (if OPC is a party), ERCOT, and the OAG (if the OAG is representing a party) may deliver the copy of Highly Sensitive Protected Materials received by it to the agreed, appropriate members of their outside consultants for review, provided such outside consultants first sign the certification in Attachment A.

13. **Restriction on Copying by Commission Staff, OPC, ERCOT, and the OAG**. Except as allowed by Paragraph 7, Commission Staff, OPC, ERCOT, and the OAG may not make

additional copies of the Highly Sensitive Protected Materials furnished to them unless the producing party agrees in writing otherwise, or, upon a showing of good cause, the presiding officer directs otherwise. Commission Staff, OPC, ERCOT, and the OAG may make limited notes of Highly Sensitive Protected Materials furnished to them, and all such handwritten notes will be treated as Highly Sensitive Protected Materials as are the materials from which the notes are taken.

14. **Public Information Requests**. In the event of a request for any of the Highly Sensitive Protected Materials under the Public Information Act, an authorized representative of the Commission, OPC, or the OAG may furnish a copy of the requested Highly Sensitive Protected Materials to the Open Records Division at the OAG together with a copy of this Protective Order after notifying the producing party that such documents are being furnished to the OAG. Such notification may be provided simultaneously with the delivery of the Highly Sensitive Protected Materials to the OAG.

15. **Required Certification**. Each person who inspects the Protected Materials shall, before such inspection, agree in writing to the following certification found in Attachment A to this Protective Order:

> I certify my understanding that the Protected Materials are provided to me pursuant to the terms and restrictions of the Protective Order in this docket, and that I have been given a copy of it and have read the Protective Order and agree to be bound by it. I understand that the contents of the Protected Materials, any notes, memoranda, or any other form of information regarding or derived from the Protected Materials shall not be disclosed to anyone other than in accordance with the Protective Order and unless I am an employee of the Commission or OPC shall be used only for the purpose of the proceeding in Docket No. _____. I acknowledge that the obligations imposed by this certification are pursuant to such Protective Order. Provided, however, if the information contained in the Protected Materials is obtained from independent public sources, the understanding stated herein shall not apply.

In addition, Reviewing Representatives who are permitted access to Highly Sensitive Protected Material under the terms of this Protective Order shall, before inspection of such material, agree in writing to the following certification found in Attachment A to this Protective Order:

I certify that I am eligible to have access to Highly Sensitive Protected Material under the terms of the Protective Order in this docket.

The Reviewing Party shall provide a copy of each signed certification to Counsel for the producing party and serve a copy upon all parties of record. In addition, Reviewing Representatives who are permitted access to Protected Material that is also CEII under the terms of this Protective Order shall, before inspection of such material, agree to be bound by substantive restrictions in paragraphs 3, 5, 7 and 9 of the FERC CEII NDA located at https://www.ferc.gov/legal/ceii-foia/ceii/gen-nda.pdf, with the producing party serving as the "CEII Coordinator" for purposes of paragraph 9. A copy of each signed certification shall be provided by the Reviewing Party to Counsel for the producing party and served upon all parties of record.

16. **Disclosures between Reviewing Representatives and Continuation of Disclosure Restrictions after a Person is no Longer Engaged in the Proceeding**. Any Reviewing Representative may disclose Protected Materials, other than Highly Sensitive Protected Materials, to any other person who is a Reviewing Representative provided that, if the person to whom disclosure is to be made has not executed and provided for delivery of a signed certification to the party asserting confidentiality, that certification shall be executed prior to any disclosure. A Reviewing Representative may disclose Highly Sensitive Protected Material to other Reviewing Representatives who are permitted access to such material and have executed the additional certification required for persons who receive access to Highly Sensitive Protected Material. In the event that any Reviewing Representative to whom Protected Materials are disclosed ceases to be engaged in these proceedings, access to Protected Materials by that person shall be terminated and all notes, memoranda, or other information derived from the protected material shall either be destroyed or given to another Reviewing Representative of that party who is authorized pursuant to this Protective Order to receive the protected materials. Any person who has agreed to the foregoing certification shall continue to be bound by the provisions of this Protective Order so long as it is in effect, even if no longer engaged in these proceedings.

17. **Producing Party to Provide One Copy of Certain Protected Material and Procedures for Making Additional Copies of Such Materials**. Except for Highly Sensitive Protected Materials, which shall be provided to the Reviewing Parties pursuant to Paragraphs 9, and

voluminous Protected Materials, the producing party shall provide a Reviewing Party one copy of the Protected Materials upon receipt of the signed certification described in Paragraph 15. Except for Highly Sensitive Protected Materials, a Reviewing Party may make further copies of Protected Materials for use in this proceeding pursuant to this Protective Order, but a record shall be maintained as to the documents reproduced and the number of copies made, and upon request the Reviewing Party shall provide the party asserting confidentiality with a copy of that record.

18. **Procedures Regarding Voluminous Protected Materials**. 16 Texas Administrative Code § 22.144(h) (TAC) will govern production of voluminous Protected Materials. Voluminous Protected Materials will be made available in the producing party's voluminous room, in Austin, Texas, or at a mutually agreed upon location, Monday through Friday, 9:00 a.m. to 5:00 p.m. (except on state or Federal holidays), and at other mutually convenient times upon reasonable request.

19. **Reviewing Period Defined**. The Protected Materials may be reviewed only during the Reviewing Period, which shall commence upon entry of this Protective Order and continue until the expiration of the Commission's plenary jurisdiction. The Reviewing Period shall reopen if the Commission regains jurisdiction due to a remand as provided by law. Protected materials that are admitted into the evidentiary record or accompanying the evidentiary record as offers of proof may be reviewed throughout the pendency of this proceeding and any appeals.

20. **Procedures for Making Copies of Voluminous Protected Materials**. Other than Highly Sensitive Protected Materials, Reviewing Parties may take notes regarding the information contained in voluminous Protected Materials made available for inspection or they may make photographic, mechanical or electronic copies of the Protected Materials, subject to the conditions in this Protective Order; provided, however, that before photographic, mechanical or electronic copies may be made, the Reviewing Party seeking photographic, mechanical or electronic copies must provide written confirmation of the receipt of copies listed on Attachment B of this Protective Order identifying each piece of Protected Materials or portions thereof the Reviewing Party will need.

21. **Protected Materials to be Used Solely for the Purposes of These Proceedings**. All Protected Materials shall be made available to the Reviewing Parties and their Reviewing Representatives solely for the purposes of these proceedings. Access to the Protected Materials may not be used in the furtherance of any other purpose, including, without limitation: (a) any other pending or potential proceeding involving any claim, complaint, or other grievance of whatever nature, except appellate review proceedings that may arise from or be subject to these proceedings; or (b) any business or competitive endeavor of whatever nature. Because of their statutory regulatory obligations, these restrictions do not apply to Commission Staff or OPC.

22. **Procedures for Confidential Treatment of Protected Materials and Information Derived from Those Materials**. Protected Materials, as well as a Reviewing Party's notes, memoranda, or other information regarding or derived from the Protected Materials are to be treated confidentially by the Reviewing Party and shall not be disclosed or used by the Reviewing Party except as permitted and provided in this Protective Order. Information derived from or describing the Protected Materials shall be maintained in a secure place and shall not be placed in the public or general files of the Reviewing Party except in accordance with the provisions of this Protective Order. A Reviewing Party must take all reasonable precautions to insure that the Protected Materials including notes and analyses made from Protected Materials that disclose Protected Materials are not viewed or taken by any person other than a Reviewing Representative of a Reviewing Party. Unless otherwise ordered by the presiding officer, Protected Material that is also designated as CEII shall be handled consistent with the producing party's policies applicable to CEII.

23. **Procedures for Submission of Protected Materials**. If a Reviewing Party tenders for filing any Protected Materials, including Highly Sensitive Protected Materials, or any written testimony, exhibit, brief, motion or other type of pleading or other submission at the Commission or before any other judicial body that quotes from Protected Materials or discloses the content of Protected Materials, the confidential portion of such submission shall be filed and served in sealed envelopes or other appropriate containers endorsed to the effect that they contain Protected Material or Highly Sensitive Protected Material and are sealed pursuant to this Protective Order. If filed at the Commission, such documents shall be marked "PROTECTED MATERIAL" and shall be filed under seal with the

presiding officer and served under seal to the counsel of record for the Reviewing Parties. The presiding officer may subsequently, on his/her own motion or on motion of a party, issue a ruling respecting whether or not the inclusion, incorporation or reference to Protected Materials is such that such submission should remain under seal. If filing before a judicial body, the filing party: (a) shall notify the party which provided the information within sufficient time so that the producing party may seek a temporary sealing order; and (b) shall otherwise follow the procedures in Rule 76a, Texas Rules of Civil Procedure.

24. **Maintenance of Protected Status of Materials during Pendency of Appeal of Order Holding Materials are not Protected Materials**. In the event that the presiding officer at any time in the course of this proceeding finds that all or part of the Protected Materials are not confidential or proprietary, by finding, for example, that such materials have entered the public domain or materials claimed to be Highly Sensitive Protected Materials are only Protected Materials, those materials shall nevertheless be subject to the protection afforded by this Protective Order for three (3) full working days, unless otherwise ordered, from the date the party asserting confidentiality receives notice of the presiding officer's order. Such notification will be by written communication. This provision establishes a deadline for appeal of a presiding officer's order to the Commission. In the event an appeal to the Commissioners is filed within those three (3) working days from notice, the Protected Materials shall be afforded the confidential treatment and status provided in this Protective Order during the pendency of such appeal. Neither the party asserting confidentiality nor any Reviewing Party waives its right to seek additional administrative or judicial remedies after the Commission's denial of any appeal.

25. **Notice of Intent to Use Protected Materials or Change Materials Designation**. Parties intending to use Protected Materials shall notify the other parties prior to offering them into evidence or otherwise disclosing such information into the record of the proceeding. During the pendency of Docket No. _____ at the Commission, in the event that a Reviewing Party wishes to disclose Protected Materials to any person to whom disclosure is not authorized by this Protective Order, or wishes to have changed the designation of certain information or material as Protected Materials by alleging, for example, that such information or material has entered the public domain, such Reviewing Party shall first file and serve on all parties written notice of such proposed disclosure or request for change in

designation, identifying with particularity each of such Protected Materials. A Reviewing Party shall at any time be able to file a written motion to challenge the designation of information as Protected Materials.

26. **Procedures to Contest Disclosure or Change in Designation**. In the event that the party asserting confidentiality wishes to contest a proposed disclosure or request for change in designation, the party asserting confidentiality shall file with the appropriate presiding officer its objection to a proposal, with supporting affidavits, if any, within five (5) working days after receiving such notice of proposed disclosure or change in designation. Failure of the party asserting confidentiality to file such an objection within this period shall be deemed a waiver of objection to the proposed disclosure or request for change in designation. Within five (5) working days after the party asserting confidentiality files its objection and supporting materials, the party challenging confidentiality may respond. Any such response shall include a statement by counsel for the party challenging such confidentiality that he or she has reviewed all portions of the materials in dispute and, without disclosing the Protected Materials, a statement as to why the Protected Materials should not be held to be confidential under current legal standards, or that the party asserting confidentiality for some reason did not allow such counsel to review such materials. If either party wishes to submit the material in question for in camera inspection, it shall do so no later than five (5) working days after the party challenging confidentiality has made its written filing.

27. **Procedures for Presiding Officer Determination Regarding Proposed Disclosure or Change in Designation**. If the party asserting confidentiality files an objection, the appropriate presiding officer will determine whether the proposed disclosure or change in designation is appropriate. Upon the request of either the producing or Reviewing Party or upon the presiding officer's own initiative, the presiding officer may conduct a prehearing conference. The burden is on the party asserting confidentiality to show that such proposed disclosure or change in designation should not be made. If the presiding officer determines that such proposed disclosure or change in designation should be made, disclosure shall not take place earlier than three (3) full working days after such determination unless otherwise ordered. No party waives any right to seek additional administrative or judicial remedies concerning such presiding officer's ruling.

28. **Maintenance of Protected Status during Periods Specified for Challenging Various Orders**. Any party electing to challenge, in the courts of this state, a Commission or presiding officer determination allowing disclosure or a change in designation shall have a period of ten (10) days from: (a) the date of an unfavorable Commission order; or (b) if the Commission does not rule on an appeal of an interim order, the date an appeal of an interim order to the Commission is overruled by operation of law, to obtain a favorable ruling in state district court. Any party challenging a state district court determination allowing disclosure or a change in designation shall have an additional period of ten (10) days from the date of the order to obtain a favorable ruling from a state appeals court. Finally, any party challenging a determination of a state appeals court allowing disclosure or a change in designation shall have an additional period of ten (10) days from the date of the order to obtain a favorable ruling from the state supreme court, or other appellate court. All Protected Materials shall be afforded the confidential treatment and status provided for in this Protective Order during the periods for challenging the various orders referenced in this paragraph. For purposes of this paragraph, a favorable ruling of a state district court, state appeals court, Supreme Court or other appellate court includes any order extending the deadlines in this paragraph.

29. **Other Grounds for Objection to Use of Protected Materials Remain Applicable**. Nothing in this Protective Order shall be construed as precluding any party from objecting to the use of Protected Materials on grounds other than confidentiality, including the lack of required relevance. Nothing in this Protective Order constitutes a waiver of the right to argue for more disclosure, provided, however, that unless the Commission or a court orders such additional disclosure, all parties will abide by the restrictions imposed by the Protective Order.

30. **Protection of Materials from Unauthorized Disclosure**. All notices, applications, responses or other correspondence shall be made in a manner which protects Protected Materials from unauthorized disclosure.

31. **Return of Copies of Protected Materials and Destruction of Information Derived from Protected Materials**. Following the conclusion of these proceedings, each Reviewing Party must, no later than thirty (30) days following receipt of the notice

described below, return to the party asserting confidentiality all copies of the Protected Materials provided by that party pursuant to this Protective Order and all copies reproduced by a Reviewing Party, and counsel for each Reviewing Party must provide to the party asserting confidentiality a letter by counsel that, to the best of his or her knowledge, information, and belief, all copies of notes, memoranda, and other documents regarding or derived from the Protected Materials (including copies of Protected Materials) that have not been so returned, if any, have been destroyed, other than notes, memoranda, or other documents which contain information in a form which, if made public, would not cause disclosure of the substance of Protected Materials. As used in this Protective Order, "conclusion of these proceedings" refers to the exhaustion of available appeals, or the running of the time for the making of such appeals, as provided by applicable law. If, following any appeal, the Commission conducts a remand proceeding, then the "conclusion of these proceedings" is extended by the remand to the exhaustion of available appeals of the remand, or the running of the time for making such appeals of the remand, as provided by applicable law. Promptly following the conclusion of these proceedings, counsel for the party asserting confidentiality will send a written notice to all other parties, reminding them of their obligations under this Paragraph. Nothing in this Paragraph shall prohibit counsel for each Reviewing Party from retaining two (2) copies of any filed testimony, brief, application for rehearing, hearing exhibit or other pleading which refers to Protected Materials provided that any such Protected Materials retained by counsel shall remain subject to the provisions of this Protective Order.

32. **Applicability of Other Law**. This Protective Order is subject to the requirements of the Public Information Act, the Open Meetings Act,[2] the Texas Securities Act[3] and any other applicable law, provided that parties subject to those acts will notify the party asserting confidentiality, if possible under those acts, prior to disclosure pursuant to those acts. Such notice shall not be required where the Protected Materials are sought by governmental officials authorized to conduct a criminal or civil investigation that relates to or involves the Protected Materials, and those governmental officials aver in writing that such notice

[2] Tex. Gov't Code Ann. § 551.001-.144.

[3] Tex. Rev. Civ. Stat. Ann. arts. 581-1 to 581-43.

could compromise the investigation and that the governmental entity involved will maintain the confidentiality of the Protected Materials.

33. **Procedures for Release of Information under Order**. If required by order of a governmental or judicial body, the Reviewing Party may release to such body the confidential information required by such order; provided, however, that: (a) the Reviewing Party shall notify the producing party of the order requiring the release of such information within five (5) calendar days of the date the Reviewing Party has notice of the order; (b) the Reviewing Party shall notify the producing party at least five (5) calendar days in advance of the release of the information to allow the producing party to contest any release of the confidential information; and (c) the Reviewing Party shall use its best efforts to prevent such materials from being disclosed to the public. The terms of this Protective Order do not preclude the Reviewing Party from complying with any valid and enforceable order of a state or federal court with competent jurisdiction specifically requiring disclosure of Protected Materials earlier than contemplated herein. The notice specified in this section shall not be required where the Protected Materials are sought by governmental officials authorized to conduct a criminal or civil investigation that relates to or involves the Protected Materials, and those governmental officials aver in writing that such notice could compromise the investigation and that the governmental entity involved will maintain the confidentiality of the Protected Materials.

34. **Best Efforts Defined**. The term "best efforts" as used in the preceding paragraph requires that the Reviewing Party attempt to ensure that disclosure is not made unless such disclosure is pursuant to a final order of a Texas governmental or Texas judicial body, the written opinion of the Texas Attorney General sought in compliance with the Public Information Act, or the request of governmental officials authorized to conduct a criminal or civil investigation that relates to or involves the Protected Materials. The Reviewing Party is not required to delay compliance with a lawful order to disclose such information but is simply required to timely notify the party asserting confidentiality, or its counsel, that it has received a challenge to the confidentiality of the information and that the Reviewing Party will either proceed under the provisions of § 552.301 of the Public Information Act, or intends to comply with the final governmental or court order. Provided, however, that no notice is required where the Protected Materials are sought by

governmental officials authorized to conduct a criminal or civil investigation that relates to or involves the Protected Materials, and those governmental officials aver in writing that such notice could compromise the investigation and that the governmental entity involved will maintain the confidentiality of the Protected Materials.

35. **Notify Defined**. "Notify" for purposes of Paragraphs 32, 33 and 34 means written notice to the party asserting confidentiality at least five (5) calendar days prior to release; including when a Reviewing Party receives a request under the Public Information Act. However, the Commission, OAG, OPC, or ERCOT may provide a copy of Protected Materials to the Open Records Division of the OAG as provided herein.

36. **Requests for Non-Disclosure**. If the producing party asserts that the requested information should not be disclosed at all, or should not be disclosed to certain parties under the protection afforded by this Protective Order, the producing party shall tender the information for in camera review to the presiding officer within ten (10) calendar days of the request. At the same time, the producing party shall file and serve on all parties its argument, including any supporting affidavits, in support of its position of non-disclosure. The burden is on the producing party to establish that the material should not be disclosed. The producing party shall serve a copy of the information under the classification of Highly Sensitive Protected Material to all parties requesting the information that the producing party has not alleged should be prohibited from reviewing the information.

Parties wishing to respond to the producing party's argument for non-disclosure shall do so within five working days. Responding parties should explain why the information should be disclosed to them, including why disclosure is necessary for a fair adjudication of the case if the material is determined to constitute a trade secret. If the presiding officer finds that the information should be disclosed as Protected Material under the terms of this Protective Order, the presiding officer shall stay the order of disclosure for such period of time as the presiding officer deems necessary to allow the producing party to appeal the ruling to the Commission.

37. **Sanctions Available for Abuse of Designation**. If the presiding officer finds that a producing party unreasonably designated material as Protected Material or as Highly Sensitive Protected Material, or unreasonably attempted to prevent disclosure pursuant to

Paragraph 36, the presiding officer may sanction the producing party pursuant to 16 TAC § 22.161.

38. **Modification of Protective Order**. Each party shall have the right to seek changes in this Protective Order as appropriate from the presiding officer.

39. **Breach of Protective Order**. In the event of a breach of the provisions of this Protective Order, the producing party, if it sustains its burden of proof required to establish the right to injunctive relief, shall be entitled to an injunction against such breach without any requirements to post bond as a condition of such relief. The producing party shall not be relieved of proof of any element required to establish the right to injunctive relief. In addition to injunctive relief, the producing party shall be entitled to pursue any other form of relief to which it is entitled.

ATTACHMENT A

Protective Order Certification

I certify my understanding that the Protected Materials are provided to me pursuant to the terms and restrictions of the Protective Order in this docket and that I have received a copy of it and have read the Protective Order and agree to be bound by it. I understand that the contents of the Protected Materials, any notes, memoranda, or any other form of information regarding or derived from the Protected Materials shall not be disclosed to anyone other than in accordance with the Protective Order and unless I am an employee of the Commission or OPC shall be used only for the purpose of the proceeding in Docket No. _____. I acknowledge that the obligations imposed by this certification are pursuant to such Protective Order. Provided, however, if the information contained in the Protected Materials is obtained from independent public sources, the understanding stated here shall not apply. I further certify my understanding that the Protected Material provided to me may include information designated as critical energy infrastructure information (CEII) and agree to treat such CEII confidentially and in accordance with Paragraph 15 of the Protective Order.

Signature	Party Represented
Printed Name	Date

I certify that I am eligible to have access to Highly Sensitive Protected Material under the terms of the Protective Order in this docket.

Signature	Party Represented
Printed Name	Date

ATTACHMENT B

I request to view/copy the following documents:

Document Requested	# of Copies	Non-Confidential	Protected Materials and/or Highly Sensitive Protected Materials

Signature

Party Represented

Printed Name

Date

PROPOSED PROCEDURAL SCHEDULE

DATE	EVENT
July 16, 2021	ERCOT Application Filed
July 19, 2021	ERCOT Provides Proof of Notice to all Market Participants and Relevant ERCOT Committees and Files Proof of Notice with PUC
July 27, 2021	Intervention Deadline
July 27, 2021	Objections to ERCOT Direct Testimony
August 6, 2021	ERCOT Supplemental Testimony (if necessary)
August 13, 2021	Intervenor Direct Testimony
August 25, 2021	Staff Direct Testimony
August 25, 2021	Objections to Intervenor Testimony
August 30, 2021	ERCOT Rebuttal Testimony, Staff and Intervenor Cross-Rebuttal Testimony
August 30, 2021	Objections to Staff Testimony
September 1, 2021	Objections to Rebuttal Testimony and Cross-Rebuttal Testimony
September 1, 2021	Prehearing Conference
September 2-3, 2021	Hearing on the Merits – After PUC Open Meeting and Continues to September 3 if necessary.
September 10, 2021	Initial Briefs (25 page limit)
September 15, 2021	Reply Briefs (20 page limit)
September 23, 2021	PUC Open Meeting Discussion
October 7, 2021	PUC Open Meeting Discussion (if necessary)
October 14, 2021	Statutory Deadline to Issue Final Order

ERCOT proposes that responses to RFIs be due within 7 calendar days, objections to RFIs due within 3 calendar days, motions to compel due within 2 business days, and responses to motions to compel due within 2 business days.

NOTICE DATE: July 19, 2021

NOTICE TYPE: W-A071921-01 Legal

SHORT DESCRIPTION: Notice of Application for Uplift Balance Financing

INTENDED AUDIENCE: All Market Participants

DAY AFFECTED: July 16, 2021 forward

LONG DESCRIPTION: On July 16, 2021, Electric Reliability Council of Texas, Inc. (ERCOT) filed with the Public Utility Commission of Texas (Commission) an application for a debt obligation order to finance the Uplift Balance, as that term is defined in Subchapter N of Chapter 39 of the Public Utility Regulatory Act (PURA). ERCOT's request for approval of a debt financing mechanism to finance the Uplift Balance is intended to mitigate the effect of Winter Storm Uri on load-serving entities (LSEs) within the ERCOT power region.

In PURA § 39.652(4), the Legislature defined the Uplift Balance to mean an amount of money of not more than $2.1 billion that was uplifted to LSEs on a load ratio share basis due to energy consumption during the period of emergency for reliability deployment price adder charges and ancillary services costs in excess of the Commission's system-wide offer cap, excluding amounts securitized under Subchapter D of PURA Chapter 41. The term does not include amounts that were part of the prevailing settlement point price during the period of emergency. PURA § 39.652(3) defines the period of emergency as the period beginning 12:01 a.m., February 12, 2021, and ending 11:59 p.m., February 20, 2021.

If approved by the Commission, the debt obligation order sought by ERCOT will authorize ERCOT to:

- establish a debt financing mechanism for the payment of the Uplift Balance;
- establish a process to distribute proceeds to qualified scheduling entities (QSEs) that represent LSEs that demonstrate Eligible Costs;
- impose nonbypassable uplift charges on LSEs through their QSEs, except for those that opt out of the uplift charges in accordance with PURA § 39.653(d); and
- remit the uplift charge proceeds to pay the debt obligations.

If approved, ERCOT's application will affect all QSEs that represent LSEs in the ERCOT power region except those LSEs eligible to opt out of the uplift charges by the QSE paying in full all invoices owed for LSE usage during the period of emergency. Entities eligible to opt out of uplift charges are municipally owned utilities, electric cooperatives, river authorities, a retail electric provider (REP) that has the same corporate parent as each of the REP's customers, a REP that is an affiliate of each of the REP's customers, and transmission-voltage customers served by a REP. LSEs and transmission-voltage customers that opt out of uplift charges cannot receive any proceeds from the uplift financing.

ERCOT has requested authority to recover the amount financed by imposing uplift charges to QSEs based on the load ratio share of their eligible LSEs, as required by PURA § 39.653(c). An LSE's load ratio share

will change on a daily basis based on actual load. In calculating an LSE's load ratio share, ERCOT will exclude the load of those entities that opt out under PURA § 39.653(d). While the load ratio share used to assess uplift charges will be updated on a daily basis, the uplift charges will be charged to QSEs on a monthly basis. Uplift charges will be allocated among all eligible LSEs, including LSEs that enter the ERCOT wholesale market after the Commission issues its order.

A complete copy of the application is available at [link to application in docket].

PURA § 39.653(f) requires the Commission to issue an order in this proceeding no later than 90 days after the filing of the application. Persons who wish to intervene in or comment on these proceedings should contact the Public Utility Commission of Texas at P.O. Box 12236, Austin, Texas 78711-3326. Further information may also be obtained by calling the Public Utility Commission at (512) 936-7120 or (888) 782-8477. Hearing- and speech-impaired individuals with text telephone (TTY) may contact the Commission at (512) 936-7136. A request for intervention or a request for further information should refer to Docket No. _____. ERCOT has proposed the intervention deadline to be July 27, 2021, which is the eleventh day after the filing of the application.

CONTACT: If you have any questions, please contact your ERCOT Account Manager. You may also call the general ERCOT Client Services phone number at (512) 248-3900 or contact ERCOT Client Services via email at ClientServices@ercot.com.

If you are receiving email from a public ERCOT distribution list that you no longer wish to receive, please follow this link in order to unsubscribe from this list: http://lists.ercot.com.

PUC DOCKET NO. _____

APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. FOR A DEBT OBLIGATION ORDER PURSUANT TO CHAPTER 39, SUBCHAPTER N, OF THE PUBLIC UTILITY REGULATORY ACT	§ § § § § § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

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APPLICATION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. FOR A DEBT OBLIGATION ORDER PURSUANT TO CHAPTER 39, SUBCHAPTER N, OF THE PUBLIC UTILITY REGULATORY ACT	§ § § § § § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

DEBT OBLIGATION ORDER

This Debt Obligation Order addresses the application of Electric Reliability Council of Texas, Inc. ("ERCOT") under Subchapter N of Chapter 39 of the Public Utility Regulatory Act ("PURA"),[1] for approval of: (1) the Uplift Balance (as hereinafter defined) in a the amount of up to $2.1 billion, (2) the assessment and collection of Uplift Charges (as hereinafter defined) to all load-serving entities except those expressly exempted by PURA for the payment of the Uplift Balance and the reasonable costs of ERCOT to implement this Debt Obligation Order, (3) the debt obligation financing structure that ERCOT has proposed in its application for the financing of the Uplift Balance, and (4) the securitization of Uplift Charges and the creation of Uplift Property to be pledged and assigned by ERCOT as collateral, or sold and transferred in connection with the approved financing structure.

In its application filed with the Public Utility Commission of Texas ("Commission") on July 16, 2021, ERCOT seeks Commission approval to create a debt financing mechanism to pay for the (i) Uplift Balance in the amount of $2.1 billion, and (ii) its reasonable costs to implement this Debt Obligation Order. As discussed in this Debt Obligation Order, the Commission finds that ERCOT's application should be approved, as amended by this Debt Obligation Order. The Commission also

[1] Tex. Util. Code §§ 39.651-664

finds that the financing and/or securitization methodologies approved in this Debt Obligation Order meet all applicable requirements of PURA. Accordingly, the Commission:

(1) approves the Uplift Balance in the amount of up to $2.1 billion, to be calculated as provided in this Debt Obligation Order;

(2) approves the assessment and collection of Uplift Charges to all load-serving entities, except those expressly exempted by PURA, in an amount sufficient to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the Subchapter N Bonds, as provided in this Debt Obligation Order;

(3) authorizes, subject to the terms of this Debt Obligation Order, the issuance of debt obligations (referred to herein as "Subchapter N Bonds") in one or more series, in an aggregate principal amount not to exceed the sum of (a) the Uplift Balance in the amount of up to $2.1 billion, plus (b) the reasonable implementation costs incurred to implement this Debt Obligation Order, including upfront costs associated with the issuance of the Subchapter N Bonds; and

(4) approves the securitization of Uplift Charges and the creation of Uplift Property to be pledged and assigned by ERCOT as collateral, or transferred and assigned, and act as the source of repayment for the Subchapter N Bonds.

As provided in PURA § 39.653(a), in order to approve the financing or securitization of the Uplift Charges, the Commission must find that the issuance of Subchapter N Bonds is needed to support the financial integrity of the wholesale market and is necessary to protect the public interest, after considering the impacts on both load-serving entities and retail customers.

ERCOT submitted evidence that the proposed securitization or financing will support the financial integrity of the wholesale market and is necessary to protect the public interest by stabilizing the wholesale electricity market in the ERCOT power region.

Based on the evidence presented, the Commission finds that the issuance of Subchapter N Bonds will support the financial integrity of the wholesale market and serve the public interest.

ERCOT provided a general description of the proposed transaction structure in its application, the testimony and exhibits submitted in support of its application. The proposed transaction structure does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final transaction structure will depend, in part, upon the considerations of any purchaser at a private or public sale, the considerations of the nationally-recognized credit rating agencies which will rate the Subchapter N Bonds and, in part, upon the market conditions that exist at the time the Subchapter N Bonds are sold or taken to the market.

In view of these obligations, the Commission has established certain criteria in this Debt Obligation Order that must be met in order for the approvals and authorizations granted in this Debt Obligation Order to become effective. This Debt Obligation Order grants authority for ERCOT to cause the issuance of Subchapter N Bonds and to impose, collect, and receive Uplift Charges, but only if the final structure of the financing or securitization transaction complies in all material respect with these criteria. ERCOT's compliance with these criteria with respect to each issuance of Subchapter N Bonds will be evidenced by ERCOT's filing with the Commission of an issuance advice letter, as provided in this Debt Obligation Order. If market conditions make it desirable to issue Subchapter N Bonds in more than one series (including for the refinancing of previously issued Subchapter N Bonds), then the authority and approval granted in this Debt Obligation Order are effective as to each such issuance upon, but only upon, ERCOT's filing with the Commission a

separate issuance advice letter for that issuance demonstrating compliance of that issuance with the provisions of this Debt Obligation Order.

I. DISCUSSION AND STATUTORY OVERVIEW

In February 2021, Winter Storm Uri resulted in outages at many of the generating resources within the ERCOT region, and the demand for power exceeding supply for many days during the storm. These conditions required that load be involuntarily shed to protect the integrity of the ERCOT transmission grid, and many Texans lost power for extended periods during the storm. As a result of these scarcity conditions, wholesale electricity prices in ERCOT were charged at the price cap over the course of many days. The financial impact of this extended period of high prices caused a number of market participants, many of whom represented load-serving entities, to default on their payment obligations under the ERCOT protocols. As a result of these payment defaults, ERCOT was unable to collect sufficient funds to fully pay other wholesale market participants who were due payments from ERCOT for power they produced during the storm.

In response to these payment defaults, the Texas Legislature passed House Bill 4492 during the 87th Legislative Session ("HB 4492"), which, among other things, authorized ERCOT, under Subchapter N of Chapter 39 of PURA ("Subchapter N"), to apply to the Commission for the establishment of a debt financing mechanism to finance the Uplift Balance arising from by Winter Storm Uri.[2] "Uplift Balance" means an amount of money of not more than $2.1 billion that represents amounts uplifted to load-serving entities on a load ratio share basis due to energy consumption from the period beginning 12:01 a.m., February 12, 2021, and ending 11:59 p.m., February 20, 2021 (the "Period of Emergency"), for reliability deployment price adder charges ("RDPA Charges") and ancillary services costs in excess of the Commission's system-wide

[2] Tex. Util. Code § 39.653(a)

offer cap ("Ancillary Service Charges," and together with RDPA Charges, "Qualifying LSE Costs").[3] The term Uplift Balance does not include amounts that were part of the prevailing settlement point price during the Period of Emergency.[4]

According to the statutory language enacted by the Legislature, the use of a debt financing mechanism will enable load-serving entities who were assessed extraordinary Uplift Charges due to consumption during the Period of Emergency to pay those charges over a longer period of time, alleviating liquidity issues and reducing the risk of additional defaults in the wholesale market.[5]

The Legislature provided this option for recovering the Uplift Balance based on its conclusion that such financing serves the public purpose of stabilizing the electricity market in the ERCOT region.[6] As a precondition to the financing, the Legislature requires the Commission to find that the issuance of Subchapter N Bonds is needed to support the financial integrity of the wholesale market and is necessary to protect the public interest, after considering the impacts on both load-serving entities and retail customers.

To enable ERCOT to finance the Uplift Balance, the Commission may approve a debt obligation order in accordance with PURA § 39.653(a). ERCOT has requested that the Commission issue a debt obligation order authorizing ERCOT to issue evidences of indebtedness or ownership that are issued under a debt obligation order, that are secured and payable from Uplift Charges, and authorized for the public purpose of stabilizing the electricity market in the ERCOT region. "Uplift Charges" are defined in Subchapter N as charges assessed to load-serving entities to repay amounts

[3] Tex. Util. Code § 39.652(4)
[4] Tex. Util. Code § 39.652(4)
[5] Tex. Util. Code § 39.651(b)
[6] Tex. Util. Code § 39.651(c)

financed to pay the Uplift Balance and reasonable costs incurred to implement a debt obligation order under Subchapter N, including the cost of retiring or refunding existing debt.

If Subchapter N Bonds are approved by the Commission and issued through ERCOT, Load-Serving Entities must pay the principal, interest, and related charges of the Subchapter N Bonds through Uplift Charges.[7] Uplift Charges are nonbypassable charges to be assessed to load-serving entities on a load ratio share basis, including load-serving entities who enter the market after a debt obligation order has been issued, but excluding the load-serving entities that opt-out (as hereinafter described), and as further provided in this Debt Obligation Order.[8] Under Subchapter N, the term "Load-Serving Entity" means a municipally owned utility, an electric cooperative, or a retail electric provider.[9] In connection with a debt obligation order, Subchapter N requires the Commission to develop a one-time process, created by the Commission, that allows municipally owned utilities, electric cooperatives, river authorities, a retail electric provider that has the same corporate parent as each of the provider's customers, a retail electric provider that is an affiliate of each of the provider's customers, and transmission-voltage customers served by a retail electric provider to opt-out of the Uplift Charges by paying in full all invoices owed for usage during the Period of Emergency.[10] Any entity that opts out shall not receive any proceeds from the uplift financing.[11]

Pursuant to PURA § 39.653(b)(2), the period over which Uplift Charges may be assessed to repay the debt obligations may not exceed thirty (30) years. The Commission concludes that this prevents the assessment of Uplift Charges to Load-Serving Entities after the 30-year period, but it

[7] Tex. Util. Code § 39.660. See also § 39.657 (providing that Uplift Charges shall be sufficient to ensure that the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the debt obligations).
[8] Tex. Util. Code § 39.653(c)
[9] Tex. Util. Code § 39.652(2)
[10] Tex. Util. Code § 39.653(d)
[11] *Id.*

does not prohibit recovery of Uplift Charges for assessments rendered during the 30-year period but not actually collected until after the 30-year period.

In accordance with PURA § 39.653(b)(3), a debt obligation order must provide a process for remitting Subchapter N Bond proceeds to Load-Serving Entities that were exposed to Qualifying LSE Costs, and Load-Serving Entities must provide documentation of their exposure to the Qualifying LSE Costs. A debt obligation order must include a requirement that any Load-Serving Entity that receives proceeds from the financing that exceed the entity's actual exposure to Uplift Charges (hereinafter defined as "Excess Receipts") from consumption during the Period of Emergency must notify ERCOT and remit any Excess Receipts.[12] Excess Receipts received by ERCOT must be credited against the Uplift Balance to reduce the remaining Uplift Charges.[13] Additionally, Load-Serving Entity that receives proceeds from the Subchapter N Bonds is required to return an amount of the proceeds equal to any amount of money received by the entity due to litigation seeking judicial review of pricing or uplift actions taken by the Commission or ERCOT in connection with the Period of Emergency.[14]

The Commission must ensure that net proceeds from the sale of Subchapter N Bonds are used solely for the purpose of financing Qualifying LSE Costs.[15] A Load-Serving Entity that receives proceeds from the debt obligations may use the proceeds solely for the purposes of fulfilling payment obligations directly related to the Qualifying LSE Costs and refunding the Qualifying LSE Costs to retail customers who have paid or otherwise would be obligated to pay such Qualifying LSE Costs.[16] The Commission may use any enforcement mechanism established by Chapters 15 and 39 of PURA, including revocation of certification by the Commission, against any entity that fails to remit Excess

[12] Tex. Util. Code § 39.653(e)
[13] Tex. Util. Code § 39.653(e)
[14] Tex. Util. Code § 39.664
[15] Tex. Util. Code § 39.651(d)
[16] *Id.*

Receipts or otherwise misappropriates or misuses amounts received from the Uplift Balance financing.[17]

All Load-Serving Entities that receive bond proceeds or credits to specific Uplift Charges from ERCOT must adjust customer invoices to reflect the bond proceeds or credits for any charges that were or would otherwise be passed through to customers under the terms of service with the Load-Serving Entity, including by providing a refund for any bond proceeds or credits charges that were previously paid.[18] An electric cooperative, including an electric cooperative that elects to receive bond proceeds or credits, may not otherwise become subject to rate regulation by the commission and receipt of bond proceeds or credits does not affect the applicability of Chapter 41 of PURA to an electric cooperative.[19]

PURA requires the Commission and ERCOT to pursue collection in full of amounts owed to ERCOT by any Load-Serving Entity that does not opt-out in accordance with PURA § 39.653(f), that would otherwise be borne by other wholesale market participants or their customers.[20]

PURA provides that Uplift Charges shall be assessed by ERCOT;[21] however, the rights and interest of ERCOT to impose, collect and receive Uplift Charges may be assigned or pledged to a successor under a debt obligation order in connection with the issuance of Subchapter N Bonds.[22] Such rights become contract rights until they are first transferred to an assignee in connection with the issuance of, at which time they become the Uplift Property of the assignee.[23] "Uplift Property" constitutes a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of Uplift Charges depends on further acts of the

[17] Tex. Util. Code § 39.661
[18] Tex. Util. Code § 39.660
[19] *Id.*
[20] Tex. Util. Code § 39.159(c)
[21] Tex. Util. Code § 39.653(c)
[22] Tex. Util. Code § 39.662(a)
[23] Tex. Util. Code § 39.662(a)

independent organization or others that have not yet occurred.[24] A debt obligation order issued under Subchapter N shall remain in effect and the property shall continue to exist until the principal, interest and premium, and any other authorized charges incurred and contracts to be performed in connection with the related financings have been paid and performed in full.[25] All revenues and collections resulting from Uplift Charges shall constitute proceeds only of the Uplift Property arising from a debt obligation order.[26] Transactions involving the transfer and ownership of Uplift Property and the receipt of Uplift Charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.[27]

A debt obligation order under PURA must ensure that the imposition and collection of Uplift Charges authorized therein shall be nonbypassable, except for entities that opt-out in accordance with the Commission's one-time process.[28] A debt obligation order is also required to include a mechanism requiring that Uplift Charges be reviewed and adjusted at least annually, within forty-five (45) days of the anniversary date of the issuance of the Subchapter N Bonds, to correct any over-collections or under-collections during the preceding twelve (12) months and to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the Subchapter N Bonds.[29] In addition to the required annual reviews, more frequent reviews are allowed and under certain circumstances required to ensure that the amount of the Uplift Charges matches the funding requirements approved in a debt obligation order.

[24] Tex. Util. Code § 39.662(b)
[25] *Id.*
[26] Tex. Util. Code § 39.662(c)
[27] Tex. Util. Code § 39.658
[28] Tex. Util. Code § 39.656
[29] Tex. Util. Code § 39.657

Effective on the date that the first Subchapter N Bonds are issued under a debt obligation order, if any provision of PURA is held to be invalid or is invalidated or superseded, replaced or repealed, or expires for any reason, that occurrence does not affect the validity or continuation of any other provision of PURA that is relevant to the issuance, administration, payment, retirement, or refunding of any Subchapter N Bonds authorized under a debt obligation order or to any actions of ERCOT, its successors, any assignee, a collection agent, or an issuer and those provisions shall remain in full force and effect.[30]

The State of Texas has pledged, for the benefit and protection of financing parties and ERCOT, that it shall not take or permit any action that would impair the value of Uplift Property, or reduce, alter, or impair the Uplift Charges to be imposed, collected, and remitted to financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the related Subchapter N Bonds have been paid and performed in full.[31] ERCOT is authorized to include this pledge in any documentation relating to the Subchapter N Bonds.[32]

The Commission must ensure that the structuring and pricing of the Subchapter N Bonds result in the lowest Uplift Charges consistent with market conditions and the terms of this Debt Obligation Order.[33]

The financing requested by ERCOT will support the financial integrity of the wholesale market and is necessary to protect the public interest.

In accordance with the mandate provided in HB 4492, ERCOT is filing an application under Subchapter N on an accelerated timeline. Accordingly, more detailed information or descriptions of

[30] Tex. Util. Code § 39.659
[31] Tex. Util. Code § 39.663
[32] Tex. Util. Code § 39.663
[33] Tex. Util. Code § 39.651(e)

processes that will ultimately implement the financing, to the extent necessary in this proceeding, will be provided in supplemental testimony or in response to discovery.

To facilitate compliance and consistency with applicable statutory provisions, this Debt Obligation Order adopts the definitions in PURA § 39.652.

II. DESCRIPTION OF PROPOSED TRANSACTIONS

A description of the transactions proposed by ERCOT is contained in its application and the filing package submitted as part of the application. A brief summary of the proposed transaction is provided in this section. A more detailed description is included in Section III.C., titled "Structure of the Proposed Financing."

To facilitate the proposed financing, ERCOT proposed that one or more special purpose funding entities ("BondCo") be created to which ERCOT will transfer the rights to impose, collect, and receive Uplift Charges along with the other rights arising pursuant to this Debt Obligation Order. Upon transfer these rights will become Uplift Property as provided by PURA § 39.662. BondCo will issue Subchapter N Bonds and will transfer the net proceeds from the sale of the Subchapter N Bonds to ERCOT in consideration for the transfer of the Uplift Property. If ERCOT determines it to be necessary to achieve the lowest overall Uplift Charges consistent with market conditions and the terms of this Debt Obligation Order, ERCOT may elect to cause BondCo to be organized and managed in a manner designed to achieve the objective of maintaining BondCo as a bankruptcy-remote entity that would not be affected by the bankruptcy of ERCOT or any other affiliates of ERCOT or any of their respective successors. ERCOT may also elect to cause BondCo to have at least one independent manager whose approval will be required for certain major actions or organizational changes by BondCo. ERCOT may organize BondCo so that it may issue more than one series of debt under conditions specified in the BondCo organizational documents.

The Subchapter N Bonds will be issued pursuant to an indenture and administered by an indenture trustee (any such indenture, the "Indenture," and any such trustee under an Indenture, the "Indenture Trustee"). The Subchapter N Bonds will be secured by and payable solely out of the Uplift Property created pursuant to this Debt Obligation Order and other collateral described in ERCOT's application. That collateral will be pledged to the Indenture Trustee for the benefit of the holders of the Subchapter N Bonds and to secure payment of the Uplift Balance.

The servicer of the Subchapter N Bonds will collect the Uplift Charges and remit those amounts to the Indenture Trustee on behalf of BondCo. The servicer will be responsible for making any required or allowed true-ups of the Uplift Charges. If the servicer defaults on its obligations under the servicing agreement, the Indenture Trustee may appoint a successor servicer. ERCOT will act as the initial servicer for the Subchapter N Bonds.

Uplift Charges will be calculated to ensure the collection of an amount sufficient to service the principal, interest, and related charges for the Subchapter N Bonds incurred to implement this Debt Obligation Order. Uplift Charges will be allocated among qualified scheduling entities ("QSE") representing Load-Serving Entities on a load ratio share basis, including Load-Serving Entities who enter the market after a Debt Obligation Order has been issued, but excluding the Load-Serving Entities that opt-out in accordance with the Commission's one-time process.[34] The Uplift Charges will be calculated, assessed and charged pursuant to the method described in Findings of Fact Paragraphs 52 through 59 of this Debt Obligation Order. In addition to the annual true-up required by PURA § 39.657, interim true-ups may be required and performed as necessary to ensure that the amount collected from Uplift Charges is sufficient to service the Subchapter N Bonds. The methodology for making true-ups and allocation adjustments and the circumstances under which

[34] Tex. Util. Code § 39.653(c)

each will be made are described in Findings of Fact Paragraphs 61 through 70 of this Debt Obligation Order.

The Commission determines that ERCOT's proposed structure for the Uplift Charges should be utilized. This structure is designed to provide substantially level annual debt service and revenue requirements over the life of the bond issue, which shall not exceed thirty (30) years.

In its application, filed on July 16, 2021, ERCOT requested authority to securitize Uplift Charges and cause the issuance of Subchapter N Bonds to finance (a) the Uplift Balance in the amount of up to $2.1 billion, plus (b) the Upfront Costs associated with the issuance of the Subchapter N Bonds approved in any issuance advice letter (collectively, the "Securitizable Amount").

The Commission finds that ERCOT should be permitted to pay out of the proceeds of the Subchapter N Bonds, the reasonable implementation costs incurred to implement this Debt Obligation Order, including upfront costs associated with the issuance of the Subchapter N Bonds in accordance with this Debt Obligation Order ("Upfront Cots"). Upfront Costs may include (i) the cost of original issue discount, credit enhancements and other arrangements to enhance marketability, (ii) the cost of ERCOT's financial advisor, (iii) SEC registration fees, underwriters' fees, rating agency fees, attorneys' fees, (iv) any costs incurred by ERCOT, including costs related to the establishment and maintenance of BondCo(s), and (iv) any costs incurred by ERCOT if this Debt Obligation Order is appealed. The draft issuance advice letter shall reflect the estimated Upfront Costs to be paid from the proceeds of the Subchapter N Bonds. The amount of such Upfront Costs will be updated in the issuance advice letter to reflect more current information available to ERCOT prior to the issuance of the Subchapter N Bonds.

BondCo may, through Uplift Charges, cover the ongoing costs of maintaining and servicing Subchapter N Bonds as those are a cost to repay amounts financed under Subchapter N as authorized

by this Debt Obligation Order ("Ongoing Costs"). The draft issuance advice letter shall reflect the estimated Ongoing Costs of servicing and administrating each series Subchapter N Bond authorized in this Debt Obligation Order. The amount of such Ongoing Costs will be updated in the issuance advice letter to reflect more current information available to ERCOT prior to the issuance of the Subchapter N Bonds.

III. FINDINGS OF FACT

A. Identification and Procedure

1. Identification of Applicant and Background

1. ERCOT manages the flow of electric power to more than 26 million Texas customers -- representing about 90 percent of the state's electric load. As the independent system operator for the region, ERCOT schedules power on an electric grid that connects more than 46,500 miles of transmission lines and 710+ generation units. It also performs financial settlement for the competitive wholesale bulk-power market and administers retail switching for 8 million premises in competitive choice areas. ERCOT is a membership-based 501(c)(4) nonprofit corporation, governed by a board of directors and subject to oversight by the Commission and the Texas Legislature. Its members include consumers, cooperatives, generators, power marketers, retail electric providers, investor-owned electric utilities, transmission and distribution providers and municipally owned electric utilities.

2. Winter Storm Uri resulted in forced outages at many of the generating resources within the ERCOT region, and demand for power greatly exceeded supply. Wholesale electricity prices in ERCOT were charged at the price cap for many days. The financial impact of the extended period of high prices caused a number of market participants, many of whom represented load-serving entities, to default on payment obligations to ERCOT. As a result of, ERCOT was unable to collect sufficient funds to fully pay other wholesale market participants due

payments from ERCOT for power produced during the storm. In response, the Texas Legislature passed HB 4492 during the 87th Texas Legislative Session, which added Subchapter N to Chapter 39 of PURA and is codified as §§ 39.651-.664. HB 4492 enables ERCOT finance the Uplift Balance in a manner that will allow wholesale market participants who were assessed Uplift Charges due to consumption during the Period of Emergency to pay those charges over a longer period of time, alleviating liquidity issues and reducing the risk of additional defaults in the wholesale market.[35]

3. ERCOT acts as the central counter-party for all transactions settled in the ERCOT wholesale market, meaning that ERCOT is the sole seller to each buyer, and ERCOT is the sole buyer from each seller. It is essential for ERCOT to maintain revenue neutrality in serving this function. ERCOT generates no profit, but instead acts as a clearinghouse through which funds are exchanged between buyers and sellers in the ERCOT market. In its role as the central counter-party, ERCOT only transacts with market participants registered with ERCOT as a QSE or a congestion revenue right ("CRR") account holder. ERCOT does not transact directly with Load-Serving Entities. A QSE representing one or more Load-Serving Entities is responsible for communicating with ERCOT on behalf of the Load-Serving Entities. Under the ERCOT protocols, the QSE is also responsible for settling payments and charges with ERCOT on behalf of its Load-Serving Entities.

2. Procedural History

4. On July 16, 2021, ERCOT filed an application for a debt obligation order pursuant to PURA § 39.653 to approve the Uplift Balance of up to $2.1 billion, approve the assessment and collection of Uplift Charges to all Load-Serving Entities (except as expressly exempted

[35] Tex. Util. Code § 39.651(b)

under PURA), and securitize the Uplift Charges and cause the issuance of Subchapter N Bonds to finance the Uplift Balance in a principal amount equal to the Securitizable Amount. The application includes exhibits, schedules, attachments and testimony. ERCOT's application was assigned Docket No. _____.

5. An intervention deadline of _____, 2021 was established by order issued on _____, 2021.
6. The following parties requested and were granted intervention: _____. Commission Staff also participated in the proceeding.
7. On _____, 2021, in an open meeting, the Commission deliberated on the merits of ERCOT's application and rendered this final Debt Obligation Order, which, among other things: (a) approves the Uplift Balance in an aggregate amount of $2.1 billion; (b) approves the assessment and collection of the Uplift Charges to all obligated Load-Serving Entities in an amount sufficient to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the Subchapter N Bonds; (c) authorizes the issuance of Subchapter N Bonds by ERCOT in one or more series in an aggregate principal amount not to exceed the Securitizable Amount; (d) approves the securitization of Uplift Charges and the creation of Uplift Property to be pledged and assigned by ERCOT as collateral, or transferred and assigned, and act as the source of repayment for the Subchapter N Bonds.

3. Notice of Application

8. Notice of ERCOT's application to Load-Serving Entities was provided through ERCOT's existing communication platforms.
9. ERCOT provided proof of notice through an affidavit.

B. Costs and Amount to be Securitized

1. Identification and Amount of Uplift Balance

10. The term "Uplift Balance" is defined in PURA, Subchapter N of Chapter 39, to mean an amount of money of not more than $2.1 billion that that was uplifted to Load-Serving Entities on a load ratio share basis due to energy consumption during the Period of Emergency for RDPA Charges and Ancillary Service Costs. The term does not include amounts that were part of the prevailing settlement point price during the Period of Emergency.[36] ERCOT cannot readily quantify the Uplift Balance attributable to each Load-Serving Entity because ERCOT has no way of identifying which Load-Serving Entities were exposed to Qualifying LSE Costs due to the structure of the wholesale market. More specifically, ERCOT charges QSEs for RDPA charges and ancillary costs, which are then passed on to Load-Serving Entities under the terms of separate agreements with their respective QSE. However, ERCOT is able to provide estimates of the total amounts charged to QSEs.

11. Reserved.

12. Reserved.

13. Pursuant to PURA § 39.653(b)(3), ERCOT requested that the Commission open a separate compliance proceeding (the "Uplift Balance Proceeding") in which Load-Serving Entities shall have _____ days to submit appropriate documentation evidencing their exposure to Qualifying LSE Costs, whereupon the Commission will determine the amount of each Load-Serving Entity's allocation of amounts for the recovery of Qualifying LSE Costs, in an aggregate amount not to exceed the Uplift Balance. Within _____ days of the effective date of this Debt Obligation Order, the Commission will enter an order approving the allocation

[36] Tex. Util. Code § 39.652(4)

of the Uplift Balance to the qualifying Load-Serving Entities for the recovery of Qualifying LSE Costs (the "Uplift Balance Verification Order"). The Commission determines that this process is reasonable and necessary for purposes of expeditiously ensuring that the Uplift Balance is properly allocated to qualifying Load-Serving Entities for the recovery of Qualifying LSE Costs and should therefore be implemented.

14. Pursuant to PURA § 39.653(d), a one-time process must be developed to allow qualifying Load-Serving Entities to opt-out of the Uplift Charges by submit payment in full of all invoices owed for usage during the Period of Emergency. Due to the limited time available in the current proceeding, ERCOT requested that the Commission, as part of the Uplift Balance Proceeding, review and approve requests of Load-Serving Entities seeking to opt-out of the Uplift Charges. The Commission determines that this process is reasonable and necessary for purposes of giving qualifying Load-Serving Entities an opportunity to opt-out of the Uplift Charges, while also ensuring the expeditious and timely implementation of the financing structure described in this Debt Obligation Order, and should therefore be implemented.

2. Upfront Costs

15. ERCOT has requested authorization to finance and pay for its Upfront Costs from the proceeds of the Subchapter N Bonds in accordance with this Debt Obligation Order. Upfront Costs may include (i) the cost of original issue discount, credit enhancements and other arrangements to enhance marketability; (ii) the cost of ERCOT's financial advisor; (iii) SEC registration fees, underwriters' fees, rating agency fees, and attorneys' fees; (iv) any costs incurred by ERCOT, including costs related to the establishment and maintenance of BondCo(s); (v) any other costs incurred by ERCOT in connection with the implementation of this Debt Obligation Order; and (vi) any costs incurred by ERCOT if this Debt Obligation

Order is appealed. The actual Upfront Costs to be paid from the proceeds of the Subchapter N Bonds will not be known until the Subchapter N Bonds are issued. ERCOT supplemented its testimony with an estimate of Upfront Costs expected to be incurred, including both fixed and variable costs. The form issuance advice letter contains sections for the estimated Upfront Costs to be paid from the proceeds of the Subchapter N Bonds. ERCOT's best estimate of the Upfront Costs associated with the issuance of each series of Subchapter N Bonds is to be specified in the issuance advice letter delivered by ERCOT in connection with the issuance of such series of Subchapter N Bonds. ERCOT will update the amount of such Upfront Costs in the issuance advice letter to reflect more current information available to ERCOT prior to the issuance of the Subchapter N Bonds.

16. As permitted under Subchapter N, ERCOT has requested authorization to recover reasonable Ongoing Costs of maintaining and servicing Subchapter N Bonds through Uplift Charges, as provided in this Debt Obligation Order. Ongoing Costs are a cost to repay amounts financed under Subchapter N as authorized by this Debt Obligation Order. The actual Ongoing Costs of administering and servicing the Subchapter N Bonds will not be known until the Subchapter N Bonds are issued. ERCOT's testimony has been supplemented to include an estimate of the ongoing administration and servicing costs expected to be incurred, including both fixed and variable costs. The form issuance advice letter contains sections for the estimated Ongoing Costs to be paid from the assessment of Uplift Charges. The amount of such Ongoing Costs will be updated in the issuance advice letter to reflect more current information available to ERCOT prior to the issuance of the Subchapter N Bonds. ERCOT's best estimate of the Ongoing Costs associated with the issuance of each series of Subchapter N Bonds is to be specified in the issuance advice letter delivered by ERCOT in connection with the issuance of such series of Subchapter N Bonds.

17. The financing of Upfront Costs to be paid from the proceeds of the Subchapter N Bonds, as well as the assessment of Uplift Charges for the payment of Ongoing Costs associated with the Subchapter N Bonds, each as provided in Findings of Fact Paragraphs 15 and 16 of this Debt Obligation Order, are reasonable and necessary in connection with the implementation of this Debt Obligation Order and the proposed financing transactions, and should therefore be approved.

3. Amounts to be Securitized

18. ERCOT has requested authority to securitize Uplift Charges and cause the issuance of Subchapter N Bonds to finance the Securitizable Amount, which consists of (a) the Uplift Balance in an amount of up to $2.1 billion (to be calculated as described in Findings of Fact Paragraphs 12 and 13 of this Debt Obligation Order), plus (b) the Upfront Costs associated with the issuance of the Subchapter N Bonds (as provided in Findings of Fact Paragraph 15 of this Debt Obligation Order).

19. ERCOT should be authorized to cause Subchapter N Bonds to be issued in an aggregate principal amount not exceed the Securitizable Amount, subject to the issuance advice letter process described in Findings of Fact Paragraphs 20 through 25 of this Debt Obligation Order. The issuance of Subchapter N Bonds as provided in this Debt Obligation Order should be approved because the Subchapter N Bonds are needed to support the financial integrity of the wholesale market and is necessary to protect the public interest, after considering the impact on both wholesale market participants and retail customers. Entry of this Debt Obligation Order will allow Load-Servicing Entities who were assessed extraordinary Uplift Charges due to consumption during the Period of Emergency to pay those charges over a longer period of time, alleviating liquidity issues and reducing the risk of additional defaults in the wholesale market.

4. Issuance Advice Letter

20. ERCOT will submit a draft issuance advice letter in the form attached to this Debt Obligation Order as Appendix A to the Commission staff for review not later than two weeks prior to the expected date of the commencement of marketing or sale of each series of Subchapter N Bonds. Within one week after receipt of the draft issuance advice letter, Commission staff shall provide ERCOT comments and recommendations regarding the adequacy of the information provided. Provided however, the Commission staff may elect to expedite their review and provide comments and recommendations to ERCOT more quickly.

21. Because the actual structure and pricing of the Subchapter N Bonds shall not be known at the time this Debt Obligation Order is issued, following determination of the final terms of the Subchapter N Bonds and prior to issuance of the Subchapter N Bonds, ERCOT will file with the Commission for each series of Subchapter N Bonds issued, and no later than 24 hours after the pricing of that series of Subchapter N Bonds, a final issuance advice letter. The form issuance advice letter contains sections for the estimated Upfront Costs to be paid from the proceeds of the Subchapter N Bonds. Within sixty (60) days of issuance of the Subchapter N Bonds, ERCOT will submit to the Commission a final accounting of the total Upfront Costs with respect to such issuance. The issuance advice letter shall report the actual dollar amount of the initial Uplift Charges and other information specific to the Subchapter N Bonds issued. All amounts that require computation shall be computed using the mathematical formulas contained in the form of the issuance advice letter.

22. Commission staff may request such revisions of the draft issuance advice letter as may be necessary to ensure that the requirements of PURA and of this Debt Obligation Order have been met. The initial Uplift Charges and the final terms of the Subchapter N Bonds set forth in the issuance advice letter shall become effective on the date of issuance of the

Subchapter N Bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA or this Debt Obligation Order.

23. If the actual Upfront Costs payable from the proceeds of the Subchapter N Bonds (as indicated in ERCOT's issuance advice letter) are less than the Upfront Costs included in the amount allocated therefor from the proceeds of the Subchapter N Bonds, the Periodic Billing Requirement, defined below, for the first semi-annual true-up adjustment shall be reduced by the amount of such unused funds (together with interest, if any, earned on the investment of such funds). If the actual Upfront Costs payable from the proceeds of the Subchapter N Bonds (as indicated in ERCOT's issuance advice letter) are more than the Upfront Costs included in the amount allocated therefor from the proceeds of the Subchapter N Bonds, the Periodic Billing Requirement for the first semi-annual true-up adjustment shall be increased by the amount necessary for the payment of such excess costs.

24. The completion and filing of an issuance advice letter in the form of the issuance advice letter attached as Appendix A, including the certification from ERCOT discussed in Ordering Paragraph 7 of this Debt Obligation Order, are necessary to ensure that any securitization actually undertaken by ERCOT complies with the terms of this Debt Obligation Order.

25. The certification statement contained in ERCOT's certification letter shall be worded identically the statement in the form of the issuance advice letter approved by the Commission. Other aspects of the certification letter may be modified to describe the particulars of the Subchapter N Bonds and the actions that were taken during the transaction.

C. Structure of the Proposed Financing

5. BondCo.

26. For purposes of this securitization, ERCOT shall create one or more special purpose funding entities (each of which is referred to as "BondCo"), which shall be a Delaware limited liability company with ERCOT as its sole member. BondCo shall be formed for the limited purpose of (a) imposing, collecting and receiving Uplift Charges and acquiring Uplift Property and related assets to support its obligations under the Subchapter N Bonds, (b) issuing Subchapter N Bonds in one or more tranches, and (c) performing other activities relating thereto or otherwise authorized by this Debt Obligation Order. BondCo shall not be permitted to engage in any other activities and shall have no assets other than as contemplated in this Debt Obligation Order and related assets to support its obligations under the Subchapter N Bonds. Obligations relating to the Subchapter N Bonds shall be BondCo's only significant liabilities.

27. If ERCOT determines it to be necessary to achieve the lowest overall Uplift Charges consistent with market conditions, ERCOT may elect to cause BondCo to be organized and managed in a manner designed to achieve the objective of maintaining BondCo as a bankruptcy-remote entity that would not be affected by the bankruptcy of ERCOT or any other affiliates of ERCOT or any of their respective successors. ERCOT may also elect to cause BondCo to have at least one independent manager whose approval will be required for certain major actions or organizational changes by BondCo. BondCo may also be restricted from amending the provisions of the organizational documents that relate to bankruptcy-remoteness of BondCo without the consent of the independent manager. Similarly, BondCo may also be restricted from instituting bankruptcy or insolvency proceedings or from consenting to the institution of bankruptcy or insolvency proceedings against it, or to

dissolve, liquidate, consolidate, convert, or merge without the consent of the independent manager. Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of BondCo, as applicable under rating agency consideration. The initial capital of BondCo shall be a nominal amount of $100. However, if necessary to maintain status as a bankruptcy remote entity or to preserve ERCOT's status as an exempt 501(c)(4) organization under applicable federal tax and securities laws with respect to any issuance of Subchapter N Bonds, then as a condition to such issuance, BondCo shall secure the minimum capital as may be required in accordance with such laws and regulations then in effect. As a condition to accepting any issuance advice letter relating to any issuance of Subchapter N Bonds in a public or private offering, the Commission may require such documentation, opinions, or other assurance as may be reasonably necessary to ensure that the applicable capitalization requirements have been met.

28. Concurrent with the issuance of any of the Subchapter N Bonds, ERCOT shall transfer and assign to BondCo all of ERCOT's rights under this Debt Obligation Order related to the amount of Subchapter N Bonds to be issued by BondCo, including rights to impose, collect, and receive Uplift Charges approved in this Debt Obligation Order. Such rights shall constitute a present property right for purposes of contracts concerning the sale or pledge of property, and shall become "Uplift Property" concurrently with the sale or assignment to BondCo as provided in PURA § 39.662. By virtue of the transfer, BondCo shall acquire all of the right, title, and interest of ERCOT in the Uplift Property arising under this Debt Obligation Order that is related to the amount of Subchapter N Bonds issued by BondCo.
29. BondCo shall issue one or more series of Subchapter N Bonds consisting of one or more tranches. BondCo shall pledge to the Indenture Trustee, as collateral for payment of the Subchapter N Bonds, the Uplift Property, including BondCo's right to receive the Uplift

Charges as and when collected, and certain other collateral described in ERCOT's application.

30. The use and proposed structure of BondCo and the limitations related to its organization and management are necessary to minimize risks related to the proposed financing transactions and to minimize the Uplift Charges. Therefore, the use and proposed structure of BondCo should be approved.

6. Credit Enhancement and Arrangements to Enhance Marketability

31. ERCOT requested approval to use additional forms of credit enhancement (including letters of credit, reserve accounts, surety bonds, or guarantees) and other mechanisms designed to promote the credit quality and marketability of the Subchapter N Bonds if the benefits of such arrangements exceed their cost. ERCOT also asked that the costs of any credit enhancements as well as the costs of arrangements to enhance marketability be included in the amount of Upfront Costs to be securitized. If the use of original issue discount, credit enhancements, or other arrangements is proposed by ERCOT, ERCOT shall provide the Commission's designated representative copies of all cost/benefit analyses performed by or for ERCOT that support the request to use such arrangements. This finding does not apply to the collection account or its subaccounts approved in this Debt Obligation Order.

32. ERCOT's proposed use of credit enhancements and arrangements to enhance marketability is customary and should be approved, provided that ERCOT certifies that the enhancements or arrangements provide benefits greater than their cost and that such certifications are agreed to by the Commission's designated representative.

7. Uplift Property

33. Under PURA § 39.662(a), the rights and interest of ERCOT or its successor under this Debt Obligation Order, including the right to impose, collect, and receive the Uplift Charges

authorized in this Debt Obligation Order, are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of Subchapter N Bonds, at which time they shall become Uplift Property.

34. The rights to impose, collect, and receive the Uplift Charges approved in this Debt Obligation Order along with the other rights arising pursuant to this Debt Obligation Order shall become Uplift Property upon the transfer of such rights by ERCOT to BondCo pursuant to PURA § 39.662(a). If Subchapter N Bonds are issued in more than one series, then the Uplift Property transferred as a result of each issuance shall be only those rights associated with that portion of the Uplift Property securitized by such issuance. The rights to impose, collect and receive Uplift Charges along with the other rights arising pursuant to this Debt Obligation Order as they relate to any portion of the total amount authorized to be securitized that remains unsecuritized shall remain with ERCOT and shall not become Uplift Property unless and until transferred to a BondCo in connection with a subsequent issuance of Subchapter N Bonds.

35. Under PURA § 39.662(b), Uplift Property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of Uplift Charges depends on further acts of ERCOT or others that have not yet occurred.

36. Uplift Property and all other collateral will be held and administered by the Indenture Trustee pursuant to the indenture, as described in ERCOT's application. This structure is customary for securitized debt and pledged collateral, and will help to ensure that the lowest Uplift Charges will be achieved, and should therefore be approved.

8. Servicer and Servicing Agreement

37. ERCOT shall execute a servicing agreement with BondCo. The servicing agreement may be amended, renewed or replaced by another servicing agreement. The entity responsible for carrying out the servicing obligations under any servicing agreement is the servicer. ERCOT shall be the initial servicer but may be succeeded as servicer by another entity under certain circumstances detailed in the servicing agreement and as authorized by the Commission pursuant to this Debt Obligation Order. The replacement servicer should not begin providing service until the date the Commission approves the appointment and the servicing fee of such replacement servicer. Pursuant to the servicing agreement, the servicer is required, among other things, to impose and collect the applicable Uplift Charges for the benefit and account of BondCo, to make the periodic true-up adjustments of Uplift Charges required or allowed by this Debt Obligation Order, and to account for and remit the applicable Uplift Charges to or for the account of BondCo in accordance with the remittance procedures contained in the servicing agreement without any charge, deduction or surcharge of any kind (other than the servicing fee specified in the servicing agreement). Under the terms of the servicing agreement, if any servicer fails to perform its servicing obligations in any material respect, the Indenture Trustee acting under the indenture to be entered into in connection with the issuance of the Subchapter N Bonds, or the Indenture Trustee's designee, may, or, upon the instruction of the requisite percentage of holders of the outstanding amount of Subchapter N Bonds, shall appoint an alternate party to replace the defaulting servicer, in which case the replacement servicer shall perform the obligations of the servicer under the servicing agreement. The obligations of the servicer under the servicing agreement and the circumstances under which an alternate servicer may be appointed are more fully described in the servicing agreement. The rights of BondCo under the servicing agreement shall be

included in the collateral pledged to the Indenture Trustee under the indenture for the benefit of holders of the Subchapter N Bonds.

38. The servicing agreement negotiated as part of this financing shall contain a recital clause that the Commission, or its attorney, shall enforce the servicing agreement for the benefit of Texas wholesale market participants or their customers to the extent permitted by law.

39. The servicing agreement negotiated as part of this securitization shall include a provision that ERCOT shall indemnify the Commission in connection with any increase in servicing fees that become payable as a result of a default resulting from ERCOT's willful misconduct, bad faith or negligence in performance of its duties or observance of its covenants under the servicing agreement. The indemnity shall be enforced by the Commission but shall not be enforceable by any wholesale market participant.

40. The obligations to continue to provide service and to collect and account for Uplift Charges shall be binding upon ERCOT and its successors. The Uplift Charges must be assessed on all Load-Serving Entities (except as provided in PURA §§ 39.653(f) and 39.151(j-1)), including (1) wholesale market participants who are in default but still participating in the wholesale market, and (2) wholesale market participants who enter the market after this Debt Obligation Order is issued. In addition, the Uplift Charges may be based on periodically updated transaction data to prevent wholesale market participants from engaging in behavior designed to avoid the Uplift Charges. The Commission shall enforce the obligations imposed by this Debt Obligation Order, its applicable substantive rules, and statutory provisions.

41. The servicing arrangements described in Findings of Fact Paragraphs 37 through 40 of this Debt Obligation Order are reasonable, will reduce risk associated with the proposed financing and will, therefore, result in lower Uplift Charges and will help to support the

financial integrity of the wholesale market and is necessary to protect the public interest and should be approved.

9. Subchapter N Bonds

42. BondCo shall issue and sell Subchapter N Bonds in one or more series, and each series may be issued in one or more tranches. The legal final maturity date of any series of Subchapter N Bonds shall not exceed thirty (30) years from the date of issuance of the first series of Subchapter N Bonds. The legal final maturity date of each series and tranche within a series and amounts in each series shall be finally determined by ERCOT and the Commission's designated representative, consistent with market conditions, at the time the Subchapter N Bonds are priced, but subject to ultimate Commission review through the issuance advice letter process. ERCOT shall retain sole discretion regarding whether or when to assign, sell, or otherwise transfer any rights concerning Uplift Property arising under this Debt Obligation Order, or to cause the issuance of any Subchapter N Bonds authorized in this Debt Obligation Order, subject to the right of the Commission to find that the proposed issuance does not comply with the requirements of PURA and this Debt Obligation Order. BondCo shall issue the Subchapter N Bonds on or after the fifth business day after pricing of the Subchapter N Bonds unless, prior to noon on the fourth business day following pricing of the bonds, the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and this Debt Obligation Order.

43. The Commission finds that the proposed structure—providing substantially level annual debt service and revenue requirements over the expected life of the Subchapter N Bonds—is in the public interest and should be used. This structure is reasonable and should be approved, provided that the issuance advice letter demonstrates that all of the statutory requirements are met.

10. Security for the Subchapter N Bonds

44. The payment of the Subchapter N Bonds and related charges authorized by this Debt Obligation Order is to be secured solely by Uplift Charges explicitly assessed to repay the Subchapter N Bonds and other collateral as described in the application. Each series of the Subchapter N Bonds shall be issued pursuant to an Indenture administered by the Indenture Trustee. The Indenture shall include provision for a collection account for the series and subaccounts for the collection and administration of the Uplift Charges and payment or funding of the principal and interest on the Subchapter N Bonds and other costs, including ongoing fees and expenses, in connection with the Subchapter N Bonds; subject, however, to the limitations set forth in Ordering Paragraph 22 of this Debt Obligation Order. Pursuant to the Indenture, BondCo shall establish a collection account as a trust account to be held by the Indenture Trustee as collateral to ensure the payment of the principal, interest, and other costs approved in this Debt Obligation Order related to the Subchapter N Bonds in full and on a timely basis. The collection account shall include a general subaccount, a capital subaccount, and an excess funds subaccount, and may include other subaccounts.

(a) The General Subaccount

45. The Indenture Trustee shall deposit the Uplift Charge remittances that the servicer remits to the Indenture Trustee for the account of BondCo into one or more segregated trust accounts and allocate the amount of those remittances to the general subaccount. The Indenture Trustee shall on a periodic basis apply moneys in this subaccount to pay expenses of BondCo, to pay principal and interest on the Subchapter N Bonds, and to meet the funding requirements of the other subaccounts. The funds in the general subaccount shall be invested by the Indenture Trustee in short-term high-quality investments, and such funds (including, to the extent necessary, investment earnings) shall be applied by the Indenture Trustee to pay

principal and interest on the Subchapter N Bonds and all other components of the Periodic Payment Requirement ("PPR") (as defined in Findings of Fact Paragraph 57 of this Debt Obligation or as otherwise in accordance with the terms of the Indenture).

(b) The Capital Subaccount

46. If in connection with the issuance of any series of Subchapter N Bond, ERCOT determines it to be necessary to establish capital reserves to achieve the lowest overall financing cost, ERCOT may make a capital contribution to BondCo for that series, which BondCo shall deposit into the capital subaccount. The amount of the capital contribution is expected to be not less than the required percentage of the original principal amount of each series of Subchapter N Bonds, as determined pursuant to applicable tax and securities laws and regulations, as well as applicable rating agency considerations. The capital subaccount shall serve as collateral to ensure timely payment of principal and interest on the Subchapter N Bonds and all other components of the PPR. Any funds drawn from the capital account to pay these amounts due to a shortfall in the Uplift Charge remittances shall be replenished through future Uplift Charge remittances. The funds in this subaccount shall be invested by the Indenture Trustee in short-term high-quality investments, and such funds (including investment earnings) shall be used by the Indenture Trustee to pay principal and interest on the Subchapter N Bonds and all other components of the PPR. Upon payment of the principal amount of all Subchapter N Bonds and the discharge of all obligations that may be paid by use of Uplift Charges, all amounts in the capital subaccount, including any investment earnings, shall be released to BondCo for further remittance to ERCOT. Investment earnings in this subaccount may be released earlier in accordance with the Indenture.

47. The capital contribution to BondCo will be funded by ERCOT in an amount upfront and also over time, if beneficial for the debt treatment of the transaction for federal tax purposes. To

ensure that wholesale market participants receive the appropriate benefit from the securitization approved in this Debt Obligation Order, the proceeds from the sale of the Subchapter N Bonds should not be applied towards this capital contribution. Because ERCOT funds the capital subaccount, ERCOT should receive the investment earnings earned through the Indenture Trustee's investment of that capital from time to time. Upon payment of the principal amount of all Subchapter N Bonds and the discharge of all obligations that may be paid by use of Uplift Charges, all amounts in the capital subaccount, including any investment earnings, shall be released to BondCo for payment to ERCOT. Investment earnings in this subaccount may be released earlier in accordance with the terms of the Indenture.

(c) The Excess Funds Subaccount

48. The excess funds subaccount shall hold any Uplift Charge remittances and investment earnings on the collection account (other than earnings attributable to the capital subaccount and released under the terms of the indenture) in excess of the amounts needed to pay current principal and interest on the Subchapter N Bonds and to pay other PPRs (including, but not limited to, replenishing the capital subaccount). Any balance in or allocated to the excess funds subaccount on a true-up adjustment date shall be subtracted from the Periodic Billing Requirement, ("PBR") (as defined in Findings of Fact Paragraph 58) for purposes of the true-up adjustment. The money in this subaccount shall be invested by the Indenture Trustee in short-term high-quality, investments, and such money (including investment earnings thereon) shall be used by the Indenture Trustee to pay principal and interest on the Subchapter N Bonds and other PPRs.

(d) Other Subaccounts

49. Other credit enhancements in the form of subaccounts may be utilized for any issuance of Subchapter N Bonds. For example, ERCOT does not propose use of an over-collateralization subaccount. If ERCOT subsequently determines, however, that use of an over-collateralization subaccount or other subaccount are necessary to obtain the highest possible ratings or shall otherwise increase the benefits of the securitization, ERCOT may implement such subaccounts in order to reduce Subchapter N Bonds charges.

11. General Provisions

50. The collection account and the subaccounts described above are intended to provide for full and timely payment of scheduled principal and interest on the Subchapter N Bonds and all other components of the PPR. If the amount of Uplift Charges remitted to the general subaccount is insufficient to make all scheduled payments of principal and interest on the Subchapter N Bonds and to make payment on all of the other components of the PPR, the excess funds subaccount and the capital subaccount shall be drawn down, in that order, to make those payments. Any deficiency in the capital subaccount because of such withdrawals must be replenished to the capital subaccount on a periodic basis through the true-up process. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources (*e.g.,* amounts received from wholesale market participants), or to be used for specified purposes. Such accounts shall be administered and utilized as set forth in the servicing agreement and the indenture. Upon the maturity of the Subchapter N Bonds and the discharge of all obligations in respect thereof, remaining amounts in the collection account, other than amounts that were in the capital subaccount, shall be released to BondCo and equivalent amounts shall be credited by ERCOT to Load-Serving Entities consistent with Ordering Paragraph 23 of this Debt Obligation Order.

51. The use of a collection account and its subaccounts in the manner proposed by ERCOT is reasonable and customary, will lower risks associated with the financing and will in turn help to ensure that the lowest Uplift Charges under Subchapter N will be achieved, and should, therefore, be approved.

12. Uplift Charges – Allocation, Collection, Nonbypassability

52. ERCOT seeks authorization to allocate and collect from QSEs representing Load-Serving Entities within the ERCOT wholesale market, in the manner provided in this Debt Obligation Order, Uplift Charges in an amount sufficient to provide for the timely recovery of the Uplift Balance approved in this Debt Obligation Order. Pursuant to PURA § 39.657, Uplift Charges shall be sufficient to ensure that the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the Subchapter N Bonds. The Commission also finds that it is necessary and appropriate for ERCOT to recover the Ongoing Costs associated with administering Subchapter N Bonds through Uplift Charges, as those administrative costs are a cost to repay amounts financed under Subchapter N. Ongoing servicing and administration costs are necessary and unavoidable costs of financing the Subchapter N Bonds under PURA. The payment of ongoing costs from Uplift Charges is needed to ensure that the necessary costs to service the Subchapter N Bonds will be covered.

53. The Subchapter N Bonds may have a scheduled final payment date of not more than thirty (30) years from the date of the first issuance of Subchapter N Bonds by ERCOT. However, amounts may still need to be recovered after the final payment date. PURA § 39.653(b) prohibits the assessment of Uplift Charges for a period of time that exceeds thirty (30) years. This restriction does not, however, prevent the recovery of amounts due at the end of such 30-year period for charges assessed during such 30-year period. The initial Uplift Charges

will be implemented no sooner than the first month following the initial issuance of the Subchapter N Bonds.

54. Pursuant to PURA 39.653(c) Uplift Charges will be assessed to all QSEs that represent Load-Serving Entities on a load ratio share basis, including the load of Load-Serving Entities entering the market after the implementation of this Debt Obligation Order, but excluding the load of Load-Serving Entities who have qualified to opt-out pursuant to the one-time opt-out procedure described in Findings of Fact Paragraphs 14 of this Debt Obligation Order. Load-Serving Entities who have not opted out are referred to herein as ("Obligated LSEs").

55. ERCOT has proposed to create a new daily settlement invoice for Uplift Charges. Uplift Charges will be assessed and collected in accordance with the billing and collection standards for wholesale market participants are as set forth in the ERCOT protocols, as the same may be modified from time to time.

56. ERCOT, acting as servicer, and any subsequent servicer, will assess Uplift Charges to each QSE that represents one or more Obligated LSEs based on the load ratio share of the Obligated LSEs represented by the QSE, as required by PURA § 39.653(c). Because the load ratio share of individual Obligated LSEs will change daily based upon actual load and Obligated LSEs enter and exit the market from time to time, ERCOT has proposed that the load ratio share used to assess Uplift Charges to QSEs be updated on a daily basis based upon on the actual load. The precise methodology to be utilized by ERCOT, or any subsequent servicing entity for the assessment of Uplift Charges is set forth below (the "Uplift Charges Assessment Methodology"):

    (a) ERCOT (or any subsequent servicing entity) will determine the PBR that must be billed for any given period (as described in Findings of Fact Paragraph 58 of this Debt Obligation Order). The PBR will be updated at least annually, and on an interim

basis from time to time in accordance with the true-up procedures described in this Debt Obligation Order.

(b) ERCOT (or any subsequent servicing entity) will amortize the PBR monthly for the given period (the "Monthly Amortization Amount").

(c) ERCOT (or any subsequent servicing entity) will assess the Monthly Amortization Amount to each QSE as a daily charge, based upon the previous day's load ratio share of each Obligated LSE represented by the QSE.

57. The Periodic Payment Requirement ("PPR") is the required periodic payment for a given period (i.e., annually, semi-annually, or quarterly) due under the Subchapter N Bonds. Each PPR includes: (a) the principal amortization of the Subchapter N Bonds in accordance with the expected amortization schedule (including deficiencies of previously scheduled principal for any reason); (b) periodic interest on the Subchapter N Bonds (including any accrued and unpaid interest); and (c) Ongoing Costs consisting of the servicing fee, rating agencies' fees, trustee fees, legal and accounting fees, and other ongoing fees and expenses. The initial PPR for the Subchapter N Bonds issued pursuant to this Debt Obligation Order should be updated in the issuance advice letter.

58. The Periodic Billing Requirement ("PBR") represents the aggregate dollar amount of Uplift Charges that must be billed during a given period (i.e., annually, semi-annually, or quarterly) so that the Uplift Charge collections shall be sufficient to meet the sum of all PPR for that period, and also taking into account: (i) forecast usage data for the period; (ii) forecast uncollectibles for the period; (iii) forecast lags in collection of billed Uplift Charges for the period; and (iv) Total Potential Exposure.

59. ERCOT will require each QSE representing one or more Obligated LSE to post collateral equal four (4) months of its projected Uplift Charges. If the Obligated LSE exits the market

prior to the amortization of the Uplift Balance debt, ERCOT will retain the collateral held for the QSE that represents that Obligated LSE to the extent necessary to account for unpaid Uplift Charges. If any QSE representing the interests of any Obligated LSE defaults on or disputes the payment of any Uplift Charges, then ERCOT (or any subsequent holder of the Uplift Property) shall be entitled to exercise any remedies and take any action in accordance with PURA, Commission Substantive Rules, a Commission Order, or the ERCOT protocols then in effect.

60. The billing and collection standards, Uplift Charges Assessment Methodology, remedies, and other procedures described in Findings of Fact Paragraphs 52 through 59 of this Debt Obligation Order are appropriate, are reasonable for the assessment and collection of Uplift Charges sufficient to support the timely payment of principal and interest on the Subchapter N Bonds and any other amounts due in connection with the Subchapter N Bonds, will lower risks associated with the collection of Uplift Charges, will result in lower Subchapter N Bonds charges, will support the financial integrity of the wholesale market, and are necessary to protect the public interest.

13. Mandatory True-Up of Uplift Charges

61. Pursuant to PURA § 39.657, the Uplift Charges will be adjusted at least annually, to:

(a) correct any under-collections or over-collections during the preceding twelve (12) months; and

(b) ensure the expected recovery of amounts sufficient to timely provide all payments of principal and interest (or deposits to sinking funds in respect of principal and interest) on the Subchapter N Bonds and any other amounts due in connection with the Subchapter N Bonds (including ongoing fees and expenses and amounts required to be deposited in or allocated to any collection account or subaccount, trustee

indemnities, payments due in connection with any expenses incurred by the Indenture Trustee or the servicer to enforce bondholder rights and other payments that may be required pursuant to the waterfall payments set forth in the indenture) during the period for which such Uplift Charges are to be in effect.

62. With respect to any series of Subchapter N Bonds, the Annual True-Up of Uplift Charges will be calculated pursuant to the standard true-up procedure described in Findings of Fact Paragraph 67 of this Debt Obligation Order (the "Standard True-Up Procedure"). The servicer shall make adjustment filings related to the Annual True-Up with the Commission within forty-five (45) days of the anniversary of the date of the original issuance of the Subchapter N Bonds of that series.

63. Six (6) months following the closing of any series of Subchapter N Bonds, the servicer will be required to provide a six-month true-up calculation (the "Six Month Calculation"). If the Six Month Calculation projects under-collections or over-collections of Uplift Charges, the servicer will implement a true-up adjustment in accordance with the Standard True-Up Procedure for the remainder of the initial Annual True-Up Period.

64. The servicer will required to provide a quarterly or semi-annual interim true-up calculation (the "Interim Calculation") until the scheduled maturity of the Subchapter N Bonds. If an Interim Calculation projects under-collections or over-collections of Uplift Charges, then the servicer will implement a true-up adjustment in accordance with the Standard True-Up Procedure for the remainder of the Annual True-Up Period.

65. The servicer is required to provide a quarterly true-up calculation (the "Quarterly Calculation") beginning twelve (12) months prior to the scheduled maturity of the bonds and continuing every three (3) months until maturity. If a Quarterly Calculation projects under-collections or over-collections of Uplift Charges, the servicer shall implement a true-up

adjustment in accordance with the Standard True-Up Procedure for the remainder of the Annual True-Up Period.

66. Because a fixed amount of Uplift Charges will be allocated each day to the QSEs representing the interests of Obligated LSEs on a load ratio share basis, the collection of Uplift Charges should not be subject to significant variability since a fixed amount will be collected each day regardless of day-to-day changes in the volume of load. Nevertheless, ERCOT has recommended the adoption of true-up adjustments based upon cumulative differences, regardless of the reason, between the PPR (including scheduled principal and interest payments on the Subchapter N Bonds) and the amount of Uplift Charge remittances to the Indenture Trustee. Adjustments will consider, among other things, the following:

    (1) Any increases or decreases in the PPR, including any unanticipated Ongoing Costs relating to the administration and maintenance of the Subchapter N Bonds;

    (2) Any changes to the ERCOT protocols or procedures relating to the forecasting of projected loads, uncollectibles, and delinquencies, including declines in collection from any ERCOT customer class;

    (3) Any changes to the ERCOT protocols relating to its allocation methodology for the collection of Uplift Charges, to the extent permitted under this Debt Obligation Order; and

    (4) Any changes to the ERCOT protocols or procedures relating to the collection of Uplift Charges from QSEs, to the extent permitted under this Debt Obligation Order.

67. For each of the true-up calculations described in Findings of Fact Paragraphs 62 through 65 of this Debt Obligation Order, the servicer will make true-up adjustments in the following manner, known as the "Standard True-Up Procedure":

    With respect to the upcoming Annual True-Up Period described:

(a) calculate under-collections or over-collections from the preceding Annual True-Up period by subtracting the previous period's Uplift Charges revenues collected from the PBR determined for the same period;

(b) estimate any anticipated under-collections or over-collection for the upcoming Annual True-Up period, taking into account the considerations described in Findings of Fact Paragraph 66 of this Debt Obligation Order;

(c) calculate the PBR for the upcoming Annual True-Up period, taking into account the total amount of prior and anticipated over-collection and under-collection amounts described in steps (a) and (b) above and calculate the Monthly Amortization Amount for the PBR; and

(d) assess the updated Monthly Amortization Amount to each QSE in accordance with the Uplift Charges Assessment Methodology.

With respect to any standard interim True-Up Period (as described in Findings of Fact Paragraphs 63 through 65 of this Debt Obligation Order):

(a) calculate under-collections or over-collections for the interim period by subtracting the interim period's Uplift Charges revenues collected from the PBR determined for the same period;

(b) estimate any anticipated under-collections or over-collections for remaining interim period, taking into account the considerations described in Findings of Fact Paragraph 66 of this Debt Obligation Order;

(c) calculate the PBR for the remaining interim period, taking into account the total amount of prior and anticipated under-collection amounts described in steps (a) and (b) above and calculate the Monthly Amortization Amount for the PBR; and

(d) assess the updated Monthly Amortization Amount to each QSE in accordance with

the Uplift Charges Assessment Methodology.

14. Optional Interim True-Up of Uplift Charges

68. In addition to the foregoing regular true-up adjustments, interim optional true-up adjustments may be made by the servicer more frequently at any time during the term of the Subchapter N Bonds to correct any under-collection or over-collection, as provided in this Debt Obligation Order, in order to assure timely payment of Subchapter N Bonds based on rating agency and bondholder considerations. Further, the servicer shall make mandatory interim true-up adjustments on a more frequent basis as needed:

    (a) if the servicer forecasts that the Uplift Charge collections shall be insufficient to make all scheduled payments of principal, interest, and other amounts in respect of the Subchapter N Bonds on a timely basis during the current or next succeeding payment period; and/or

    (b) to replenish any draws upon the capital subaccount.

69. In the event of an optional true-up, the interim true-up adjustment shall be filed not less than fifteen (15) days prior to the first billing cycle of the month in which the revised Monthly Amortization Amount shall be in effect.

15. Additional True-Up Provisions

70. The true-up adjustment filing shall set forth the servicer's calculation of the true-up adjustment to the Uplift Charges. The Commission shall have fifteen (15) days after the date of a true-up adjustment filing in which to confirm the servicer's adjustment complies with PURA and this Debt Obligation Order. Any true-up adjustment filed with the Commission should be effective on its proposed effective date, which shall be not less than fifteen (15) days after filing. Any necessary corrections to the true-up adjustment shall be made in future

true-up adjustment filings. Any interim true-up may take into account the PPR for the next succeeding twelve (12) months if required by the servicing agreement.

71. The true-up procedures contained in Findings of Fact Paragraphs 61 through 70 of this Debt Obligation Order are reasonable to ensure that the collection of Uplift Charges arising from the Uplift Property will be sufficient to timely pay principal and interest on the Subchapter N Bonds and any other amounts due in connection with the Subchapter N Bonds, will lower risks associated with the collection of Uplift Charges, and will result in lower Subchapter N Bonds charges and to support the financial integrity of the wholesale market and is necessary to protect the public interest.

16. Designated Representative

72. In order to ensure, as required by PURA § 39.651, that the structuring and pricing of the Subchapter N Bonds result in the lowest Uplift Charges consistent with market conditions and the terms of this Debt Obligation Order, the Commission finds that it is necessary for the Commission or its designated representative to have a decision-making role co-equal with ERCOT with respect to the structuring and pricing of the Subchapter N Bonds and that all matters related to the structuring and pricing of the Subchapter N Bonds shall be determined through a joint decision of ERCOT and the Commission or its designated representative. The Commission's primary goal is to ensure that the structuring and pricing of the Subchapter N Bonds result in a balance between obtaining the lowest Uplift Charges and expediting the funding of the Uplift Balance consistent with market conditions and the terms of this Debt Obligation Order.

73. The Commission or its designated representative must have an opportunity to participate fully and in advance in all plans and decisions relating to the structuring, marketing, and pricing of the Subchapter N Bonds and must be provided timely information as necessary to

allow it to participate in a timely manner (including, but not limited to, information prepared for the benefit of rating agencies and information prepared for use in marketing the Subchapter N Bonds to investors).

74. The Commission or its designated representative may require a certificate from any underwriter(s) confirming that the structuring, marketing, and pricing of the Subchapter N Bonds resulted in the lowest Uplift Charges consistent with market conditions, the marketing plan, and the terms of this Debt Obligation Order.

75. ERCOT stated that it expected the following transaction documents to be executed in connection with each series of Subchapter N Bonds issued pursuant to this Debt Obligation Order: Administration Agreement, Indenture, Limited Liability Company Agreement, Uplift Property Servicing Agreement, and Uplift Property Purchase and Sale Agreement. The Commission's designated representative shall be afforded an opportunity to review and comment on these documents before they are finalized, and the final versions shall be consistent with this Debt Obligation Order.

17. Lowest Uplift Charges

76. The statutory requirement in PURA § 39.651(e) directs the Commission to ensure that the structuring and pricing of financings issued under Subchapter N result in the lowest Uplift Charges consistent with market conditions and the terms of this Debt Obligation Order.[37] Pursuant to PURA § 39.651(c), the financing must achieve the goal of preserving the financial integrity of the electric market, which is to be balanced against achieving the lowest Uplift Charges. Financing the Uplift Balance in this manner will allow wholesale market participants to be paid in a more timely manner in accordance with PURA § 39.653(b). In

[37] Tex. Util. Code § 39.653(a)

making this determination, any present value calculation (if any), the must use a discount rate used must be equal to the proposed interest rate on the financings.[38] The Commission finds that the financing structure contemplated in this Debt Obligation Order, including the securitization of Uplift Charges and the initial issuance of Subchapter N Bonds, will result in the lowest Uplift Charges consistent with market conditions.

77. ERCOT has proposed a transaction structure that is expected to include (but is not limited to):

(a) the use of BondCo as issuer of the Subchapter N Bonds, limiting the risks to Subchapter N Bonds holders of any adverse impact resulting from a bankruptcy proceeding of its parent or any affiliate;

(b) the right to impose and collect Uplift Charges that are nonbypassable and which must be trued-up at least annually, but may be required to be trued-up more frequently under certain circumstances, in order to assure the timely payment of the debt service and other Ongoing Costs;

(c) if and to the extent that BondCo, in order to maintain status as a bankruptcy remote entity or to preserve ERCOT's status as an exempt 501(c)(4) organization under applicable federal tax and securities laws with respect to any issuance of Subchapter N Bonds, then as a condition to such issuance, BondCo shall secure the minimum capital as may be required in accordance with such laws and regulations then in effect;

(d) benefits for federal income tax purposes including: (i) the transfer of the rights under this Debt Obligation Order to BondCo not resulting in gross income to ERCOT and

[38] Tex. Util. Code § 39.651(e)

the future revenues under the Uplift Charges being included in ERCOT gross income under its usual method of accounting, (ii) the issuance of the Subchapter N Bonds and the transfer of the proceeds of the Subchapter N Bonds to ERCOT not resulting in gross income to ERCOT, and (iii) the Subchapter N Bonds constituting obligations of ERCOT;

(e) other features to meet requirements to obtain debt treatment for federal tax purposes, and also to satisfy the requirements of applicable securities laws and regulations;

(f) the Subchapter N Bonds shall be marketed using proven underwriting and marketing processes, through which market conditions and investors' preferences, with regard to the timing of the issuance, the terms and conditions, related maturities, and other aspects of the structuring and pricing shall be determined, evaluated and factored into the structuring and pricing of the Subchapter N Bonds; and

(g) furnishing timely information to the Commission's designated representative to allow the Commission through the issuance advice letter process to ensure that the structuring and pricing of the Subchapter N Bonds result in the lowest Uplift Charges consistent with market conditions and the terms of this Debt Obligation Order.

78. ERCOT's proposed transaction structure is necessary to ensure that the structuring and pricing of the Subchapter N Bonds shall result in the lowest Uplift Charges consistent with market conditions, and the terms of this Debt Obligation Order, and ensures the preservation of the financial integrity of the wholesale market and is necessary to protect the public interest.

18. Personal Liability

79. The Subchapter N Bonds authorized to be issued pursuant to this Debt Obligation Order and PURA § 39.653 will be a nonrecourse debt secured solely by the Uplift Property created by

this Debt Obligation Order (including the Uplift Charges explicitly assessed to repay the Subchapter N Bonds), and the Subchapter N Bonds will not create a personal liability for ERCOT.

D. Use of Net Proceeds

80. Prior to issuing the initial series of Subchapter N Bonds, the Uplift Balance must be determined after the Commission issues the Uplift Balance Verification Order as described in Findings of Fact Paragraphs 13 and 14 of this Debt Obligation Order. Upon issuing the Subchapter N Bonds, BondCo will transfer the net proceeds from the sale of the Subchapter N Bonds to ERCOT to be remitted to QSEs representing one or more Load-Serving Entities for the recovery of Qualifying LSE Costs, as determined by the Commission pursuant to the process described in Findings of Fact Paragraph 13 of this Debt Obligation Order.

81. Each QSE that receives proceeds from ERCOT for the recovery Qualifying LSE Costs will be obligated to remit such amounts to each Load-Serving Entity whom it represents in the amounts approved by the Commission. Each Load-Serving Entity that receives proceeds from the Subchapter N Bonds will be required to use the proceeds solely to fulfill payment obligations directly related to Qualifying LSE Costs and refunding Qualifying LSE Costs to retail customers who have paid or otherwise would be obligated to pay such costs. Any Load-Serving Entity that receives any portion of the net proceeds of Subchapter N Bonds that exceed the entity's actual Qualifying LSE Costs will be required to immediately notify ERCOT and remit any Excess Receipts back to ERCOT. Any Excess Receipts received by ERCOT must be credited against the Uplift Balance to reduce the remaining Uplift Charges.

82. Each of BondCo, ERCOT and the QSEs will be entitled to conclusively rely upon the amounts approved by the Commission for remittance to Load-Serving Entities for the recovery of Qualifying LSE Costs authorized for remittance under PURA.

83. The Commission concludes that the steps for the allocation of net proceeds from the sale of Subchapter N Bonds for the payment of the Uplift Balance to QSEs representing the interests of qualifying Load-Serving Entities as described in Findings of Fact Paragraphs 80 through 82 is reasonable and sufficient to ensure that the net proceeds of the Subchapter N Bonds will be used shall be used solely for the purposes described in Subchapter N, and should therefore be approved.

IV. CONCLUSIONS OF LAW

1. ERCOT is an independent organization as defined in PURA § 39.652(1).
2. ERCOT is entitled to file an application for a debt obligation order under PURA § 39.653.
3. The Commission has jurisdiction and authority over ERCOT's application for a debt obligation order pursuant to PURA § 39.653.
4. The Commission has authority to approve this Debt Obligation Order under Subchapter N.
5. Notice of ERCOT's application was provided in compliance with applicable law, through ERCOT's standard form of communication with Load-Serving Entities.
6. Reserved.
7. Financing the Uplift Balance in the manner provided by this Debt Obligation Order fulfills the purposes of PURA § 39.651 by (1) allowing wholesale market participants who were assessed extraordinary uplift charges due to consumption during the period of emergency to pay those charges over a longer period of time, alleviating liquidity issues and reducing the risk of additional defaults in the wholesale market, and (2) allowing the Commission to stabilize the wholesale electricity market in the ERCOT power region.

8. The issuance advice letter submission process contemplated in this Debt Obligation Order for each series of Subchapter N Bonds satisfies the requirements of PURA § 39.651(e), prescribing that the Commission shall ensure that the structuring and pricing of the Subchapter N Bonds results in the lowest uplift charges consistent with market conditions and the terms of this Debt Obligation Order.
9. The financing mechanism contemplated in this Debt Obligation Order, including the securitization of Uplift Charges and issuance of Subchapter N Bonds, satisfies the requirements of PURA § 39.653(a), prescribing that the financing will support the financial integrity of the wholesale market and is necessary to protect the public interest, considering the impacts on both wholesale market participants and retail customers.
10. This Debt Obligation Order adequately details the Uplift Balance to be recovered and financed as required by PURA § 39.653(b)(1).
11. The financing of Upfront Costs to be paid from the proceeds of the Subchapter N Bonds as described in this Debt Obligation Order are costs of implementing this Debt Obligation Order as described in PURA § 39.652(5).
12. The Ongoing Costs associated with administering Subchapter N Bonds as described in this Debt Obligation Order are necessary and unavoidable costs of financing the Subchapter N Bonds under PURA, and the payment of Ongoing Costs from Uplift Charges is needed to ensure that the necessary costs to service the Subchapter N Bonds will be covered.
13. This Debt Obligation Order states the period over which Uplift Charges must be assessed to repay the Subchapter N Bonds, which may not exceed 30 years, as required in PURA § 39.653(b)(2). This provision does not preclude the servicer from recovering Uplift Charges attributable to service rendered during the 30-year period but remaining unpaid at the end of the 30-year period.

14. The processes for (1) the Commission's verification and approval of Qualifying LSE Costs payable to qualifying Load-Serving Entities (as described in Findings of Fact Paragraph 13 of this Debt Obligation Order), and (2) remitting the net proceeds of the Subchapter N Bonds for the payment of approved Qualifying LSE Costs (as described in Findings of Fact Paragraphs 80 and 81 of this Debt Obligation Order), satisfy the requirements of PURA § 39.653(b)(3).
15. Ordering Paragraphs 38 and 39 of this Debt Obligation Order are adequate to ensure that the net proceeds of the Subchapter N Bonds must be used solely for the purposes of financing Qualifying LSE Costs, as prescribed by PURA § 39.651(d).
16. Amounts that are required to be paid to the servicer as Uplift Charges under this Debt Obligation Order are "Uplift Charges" as defined in PURA § 39.652(5).
17. The processes described in Findings of Fact Paragraphs 52 through 59 of this Debt Obligation Order (pertaining to the assessment and collection of Uplift Charges) and Findings of Paragraphs 61 through 70 of this Debt Obligation Order (pertaining to the true-up of Uplift Charges), satisfy the requirements of PURA § 39.653(c). In keeping with the existing protocols of ERCOT, any QSE representing one or more Load-Serving Entities is responsible for paying and settling Uplift Charges with ERCOT on behalf of its Load-Serving Entities.
18. The one-time process described in Findings of Fact Paragraph 14 of this Debt Obligation Order for allowing qualifying Load-Serving Entities to opt-out of the Uplift Charges authorized under this Debt Obligation Order satisfies the requirements of PURA § 39.653(d).
19. Ordering Paragraph 41 of this Debt Obligation Order satisfies the requirements of PURA § 39.653(e).

20. The Subchapter N Bonds authorized to be issued pursuant to this Debt Obligation Order and PURA § 39.653 are a nonrecourse debt secured solely by the Uplift Property created by this Debt Obligation Order (including the Uplift Charges explicitly assessed to repay the Subchapter N Bonds), and the Subchapter N Bonds do not create a personal liability for ERCOT.
21. Ordering Paragraphs 14 and 15 of this Debt Obligation Order, together with the other terms contained in this Debt Obligation Order, are sufficient to ensure that the imposition and collection of Uplift Charges authorized in this Debt Obligation Order shall be nonbypassable and authorize ERCOT to establish appropriate fees and other amounts for pursuing amounts owed from QSEs and Obligated LSEs, as prescribed in PURA §39.656.
22. The mechanisms for the true-up of Uplift Charges described in Findings of Fact Paragraphs 61 through 70 of this Debt Obligation Order satisfy the requirements of PURA § 39.657.
23. The rights and interests of ERCOT or its successor under this Debt Obligation Order, including the right to impose, collect and receive the Uplift Charges authorized in this Debt Obligation Order, are assignable and shall become Uplift Property when they are first transferred to BondCo, as prescribed by PURA § 39.662.
24. The rights, interests and property conveyed to BondCo in any purchase and sale agreement or related bill of sale, including the irrevocable right to impose, collect and receive Uplift Charges and the revenues and collections from Uplift Charges are "Uplift Property" within the meaning of PURA § 39.662.
25. All Uplift Property created under this Debt Obligation Order shall constitute a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of the Uplift Charges depend on further acts by ERCOT or others that have not yet occurred, as prescribed by PURA § 39.662(b).

26. All revenues and collections resulting from the Uplift Charges assessed under this Debt Obligation Order shall constitute proceeds only of the Uplift Property arising from this Debt Obligation Order, as provided by PURA § 39.662(c).
27. Upon the transfer by ERCOT of Uplift Property to a BondCo, the BondCo shall have all of the rights, title and interest of ERCOT with respect to such Uplift Property including the right to impose, collect and receive the Uplift Charges authorized by this Debt Obligation Order.
28. The transactions involving the transfer and ownership of Uplift Property and the receipt of Uplift Charges to BondCo as contemplated in this Debt Obligation Order are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges, pursuant to PURA § 39.658.
29. The holders of the Subchapter N Bonds and the Indenture Trustee are each "financing parties" within the meaning of PURA § 39.663.
30. BondCo may issue Subchapter N Bonds in accordance with this Debt Obligation Order.
31. The Subchapter N Bonds issued pursuant to this Debt Obligation Order are "debt obligations" within the meaning of PURA § 39.651(a) and the Subchapter N Bonds and holders thereof are entitled to all of the protections provided under Subchapter N of Chapter 39 of PURA.
32. If and when ERCOT transfers to a BondCo the right to impose, collect, and receive the Uplift Charges and to issue the Subchapter N Bonds, the servicer shall be able to recover the Uplift Charges associated with such Uplift Property only for the benefit of the BondCo and the holders of the Subchapter N Bonds in accordance with the servicing agreement.
33. As provided by PURA § 39.663, the Subchapter N Bonds authorized by this Debt Obligation Order are not a debt or obligation of the State of Texas and are not a charge on its full faith and credit or taxing power.

34. By adopting this Debt Obligation Order Each of the State of Texas and the Commission has lawfully pledged for the benefit and protection of all financing parties and ERCOT, that it shall not take or permit any action that would impair the value of Uplift Property, or reduce, alter, or impair the Uplift Charges to be imposed, collected, and remitted to financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the related Subchapter N Bonds have been paid and performed in full. A BondCo, in issuing Subchapter N Bonds, is authorized pursuant to PURA § 39.663 and this Debt Obligation Order to include this pledge in any documentation relating to the Subchapter N Bonds.
35. This Debt Obligation Order shall remain in full force and effect and unabated notwithstanding the bankruptcy of ERCOT, its successors, or assignees.
36. Reserved.
37. This Debt Obligation Order is a final order approving ERCOT's application for a debt obligation order under PURA § 39.653, and is irrevocable and not subject to reduction, impairment or adjustment by further action of Commission, as prescribed by PURA §39.653(f), and the finality of this Debt Obligation Order is not impaired in any manner by the participation of the Commission through its designated representative in any decisions related to issuance of the Subchapter N Bonds or by the Commission's review of or issuance of an order related to the issuance advice letter required to be filed with the Commission by this Debt Obligation Order.
38. The Uplift Charges authorized in this Debt Obligation Order are irrevocable and not subject to reduction, impairment, or adjustment by further action of the Commission, as prescribed by PURA §39.653(f).

39. This Debt Obligation Order is a final order described in PURA § 39.653(g), and is not subject to rehearing by the Commission.

40. This Debt Obligation Order is not subject to review or appeal except as expressly permitted under PURA § 39.653(g), and any review on appeal shall be based solely on the record before the Commission and briefs to the court and shall be limited to whether this Debt Obligation Order conforms to the constitution and laws of this state and the United States and is within the authority of the Commission under PURA.

41. This Debt Obligation Order meets the requirements for a debt obligation order under Subchapter N of Chapter 39 of PURA.

42. Pursuant to PURA § 39.659, effective on the date the first Subchapter N Bonds are issued under this Debt Obligation Order, if any provision in this title or portion of PURA is held to be invalid or is invalidated, superseded, replaced, repealed, or expires for any reason, that occurrence shall not affect the validity or continuation of Subchapter N or any other provision of PURA that is relevant to the issuance, administration, payment, retirement, or refunding of the Subchapter N Bonds or to any actions of ERCOT, its successors, an assignee, a collection agent, or a financing party, which shall remain in full force and effect.

V. ORDERING PARAGRAPHS

Based upon the record, the Findings of Fact and Conclusions of Law set forth herein, and for reasons stated above, this Commission orders:

A. Approval

1. **Approval of Application**. The application of ERCOT for the issuance of a debt obligation order under PURA § 39.653 is approved, as amended by this Debt Obligation Order.

2. **Uplift Balance**. The Uplift Balance in the amount of up to $2.1 billion, to be calculated as provided in this Debt Obligation Order, is hereby approved.
3. **Uplift Charges**. The assessment and collection of Uplift Charges to QSEs representing the interests of Obligated LSEs on a load ratio share basis as provided for in this Debt Obligation Order is hereby approved in an amount sufficient to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the Subchapter N Bonds, as provided in this Debt Obligation Order. The initial billing of Uplift Charges is to commence no sooner than the first month following the initial issuance of Subchapter N Bonds.
4. **Subchapter N Bond**s. ERCOT is authorized in accordance with this Debt Obligation Order to issues Subchapter N Bonds in one or more series, in an aggregate principal amount not to exceed the Securitizable Amount.
5. **Authority to Securitize.** ERCOT is authorized in accordance with this Debt Obligation Order to securitize Uplift Charges corresponding to the Securitizable Amount, to cause the issuance of Subchapter N Bonds in an aggregate amount not to exceed the Securitizable Amount, and create Uplift Property to be pledged and assigned by ERCOT as collateral and a source of repayment for the Subchapter N Bonds.
6. **Provision of Information.** ERCOT shall take all necessary steps to ensure that the Commission or its designated representative is provided sufficient and timely information to allow the Commission or its designated representative to fully participate in and exercise its decision making authority over the proposed financing as provided in this Debt Obligation Order.
7. **Issuance Advice Letter**. For each series of Subchapter N Bonds issued, ERCOT shall submit a draft issuance advice letter to the Commission staff for review not later than two

weeks prior to the expected date of commencement of marketing the Subchapter N Bonds. Unless the Commission staff elected to act sooner, within one week after receipt of the draft issuance advice letter, Commission staff shall provide ERCOT comments and recommendations regarding the adequacy of the information provided. Not later than the end of the first business day after the pricing of the Subchapter N Bonds and prior to the issuance of the Subchapter N Bonds, ERCOT, in consultation with the Commission acting through its designated representative, shall file with the Commission an issuance advice letter in substantially the form of the issuance advice letter attached as Appendix A to this Debt Obligation Order. As part of the issuance advice letter, ERCOT, through an officer of ERCOT, shall provide a certification worded identically to the statement in the form of issuance advice letter approved by the Commission. The issuance advice letter shall be completed, evidencing the actual dollar amount of the Uplift Charges and other information specific to the Subchapter N Bonds to be issued, and shall certify to the Commission that the structure and pricing of that series results in the lowest Uplift Charges consistent with market conditions at the time that the Subchapter N Bonds are priced and with the terms set out in this Debt Obligation Order. In addition, if original issue discount, additional credit enhancements, or arrangements to enhance marketability are used, the issuance advice letter shall include certification that the original issue discount, additional credit enhancements, or other arrangements are reasonably expected to provide benefits as required by this Debt Obligation Order. All amounts which require computation shall be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix A to this Debt Obligation Order. Electronic spreadsheets with the formulas supporting the schedules contained in the issuance advice letter shall be included with such letter. The Commission's review of the issuance advice letter shall be limited to compliance with PURA,

this Debt Obligation Order, and the specific requirements that are contained in the issuance advice letter. The initial Uplift Charges and the final terms of the Subchapter N Bonds set forth in the issuance advice letter shall become effective on the date of issuance of the Subchapter N Bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements set forth above in this Ordering Paragraph.

B. Uplift Charges

8. **Imposition and Collection.** ERCOT is authorized to impose Uplifted Charges on, and the servicer is authorized to assess and collect Uplift Charges from, all QSEs representing the interests of Obligated LSEs (which includes Load-Serving Entities who enter the market after a Debt Obligation Order has been issued, but excludes Load-Serving Entities that opt-out in accordance with the Commission's one-time opt-out process, as approved in this Debt Obligation Order), in accordance with the procedures described in Findings of Fact Paragraphs 52 through 58 of this Debt Obligation Order.
9. **One-Time Opt Out Procedure**. Commission Staff shall open a separate compliance docket as described in Findings of Fact Paragraph 14 of this Debt Obligation Order, in which qualifying Load-Serving Entities shall be permitted to apply to opt-out of the obligation to pay Uplift Charges by submitting appropriate documentation evidencing the invoiced amounts owed for usage during the Period of Emergency. Any Load-Serving Entity that pays the amount verified by the Commission pursuant to an Uplift Balance Verification Order shall be exempt from the payment of Uplift Charges.
10. **Uplift Charge Remittance Procedures**. Uplift Charges shall be billed to and collected from QSEs representing one or more Obligated LSEs in accordance with ERCOT's existing

protocols, and as described in Findings of Fact Paragraphs 52 through 58 of this Debt Obligation Order.

11. **Collector of Uplift Charges.** ERCOT or any subsequent servicer of the Subchapter N Bonds shall bill QSEs or any other entity which, under the terms of this Debt Obligation Order, are required to remit Uplift Charges, for the Uplift Charges attributable to Obligated LSEs they represent.
12. **Collection Period.** The Uplift Charges related to a series of Subchapter N Bonds shall be designed to be assessed over the scheduled life of the Subchapter N Bonds, which may not exceed thirty (30) years from the date of issuance of the first series of Subchapter N Bonds. However, amounts remaining unpaid after this 30-year period may be recovered but only to the extent that the charges are attributable to Uplift Charges allocable to the 30-year period.
13. **Allocation.** ERCOT shall allocate the Uplift Charges to each QSE that represents one or more Obligated LSEs based on the load ratio share of the Obligated LSEs represented by the QSE, Findings of Fact Paragraphs 52 through 58 of this Debt Obligation Order.
14. **Nonbypassability.** The imposition and collection of all Uplift Charges authorized in this Debt Obligation Order shall be nonbypassable to all QSEs representing the interests of Obligated LSEs within the ERCOT power region. All Obligated LSEs must remit, consistent with this Debt Obligation Order, the Uplift Charges collected from its Obligated LSEs. All QSEs shall be responsible for paying Uplift Charges on behalf of its Obligated LSEs whose interests they represent.
15. **Rights and Remedies**. ERCOT (or any successor servicer) is authorized to exercise all of the rights, remedies, and other methods for pursuing collection of Uplift Charges from QSEs and Obligated LSEs described in Findings of Fact Paragraph 59 of this Debt Obligation Order. ERCOT (or any subsequent holder of the Uplift Property) shall be entitled to exercise

any such remedies and take any action in accordance with PURA, Commission Substantive Rules, a Commission Order, or the ERCOT protocols then in effect.

16. **True-Ups.** True-ups of the Uplift Charges, shall be undertaken and conducted in accordance with the mechanisms described in Findings of Fact Paragraphs 61 through 71 of this Debt Obligation Order. If Subchapter N Bonds are issued in more than one series, then each series shall be subject to separate true-up adjustments pursuant to PURA and this Debt Obligation Order, provided, however, that more than one series may be trued-up in a single proceeding.

17. **Transfer and Assignment of Uplift Property**. Upon the transfer by ERCOT of the Uplift Property to a BondCo, BondCo shall have all of the rights, title and interest of ERCOT with respect to such Uplift Property, including, without limitation, the right to exercise any rights and remedies with respect thereto. If Subchapter N Bonds are issued in more than one series, then the Uplift Property transferred as a result of each issuance shall be only those rights associated with that portion of the total amount authorized to be securitized pursuant to this Debt Obligation Order which is securitized by such issuance. The rights to imposed, collect, and receive Uplift Charges along with the other rights arising pursuant to this Debt Obligation Order as they relate to any portion to the total amount to be securitized that remains unsecuritized shall remain with ERCOT and shall not become Uplift Property until transferred to a BondCo in connection with a subsequent issuance of Subchapter N Bonds. A servicer of Subchapter N Bonds shall have the remedies adopted by this Debt Obligation Order.

C. Subchapter N Bonds

18. **Issuance**. ERCOT is authorized through one or more BondCos to issue one or more series of Subchapter N Bonds in an aggregate principal amount not to exceed the Securitizable

Amount, as specified in this Debt Obligation Order. The Subchapter N Bonds shall be denominated in U.S. Dollars.

19. **Upfront Costs**. ERCOT is authorized, as part of the Securitizable Amount, to finance and pay for its Upfront Costs from the proceeds of the Subchapter N Bonds in accordance with the terms of this Debt Obligation Order. The Upfront Costs are more fully described in, as provided in Findings of Fact Paragraph 15 of this Debt Obligation Order. No individual cap shall apply to any component of the Upfront Costs.

20. **Ongoing Costs**. ERCOT may recover its actual Ongoing Costs through its Uplift Charges in accordance with the terms of this Debt Obligation Order. The Ongoing Costs are more fully described in, as provided in Findings of Fact Paragraph 15 of this Debt Obligation Order.

21. **Refinancing**. ERCOT shall be authorized to refinance a portion or all of any prior series of Subchapter N Bonds. This Debt Obligation Order constitutes Commission approval to refinance under PURA § 39.151(d-2). Any such refinancing bonds may be offered for sale in public or private markets consistent with market conditions that will result in the lowest Uplift Charges consistent with then market conditions. ERCOT will not be required to apply for a subsequent order for any refinancing of Subchapter N Bonds; however, the authority and approval granted in this Debt Obligation Order is effective as to any such refinancing upon, but only upon, ERCOT filing with the Commission a separate issuance advice letter for that issuance demonstrating compliance of that issuance with the provisions of this Debt Obligation Order.

22. **Collateral**. All Uplift Property shall be held and administered by the Indenture Trustee pursuant to the indenture as described in ERCOT's application. BondCo shall establish a collection account with the Indenture Trustee as described in the application and Findings of Fact Paragraphs 44 through 48 of this Debt Obligation Order. Upon payment of the principal

amount of all Subchapter N Bonds authorized in this Debt Obligation Order and the discharge of all obligations in respect thereof all amounts in the collection account, including investment earnings, other than amounts in the capital subaccount, shall be released by the Indenture Trustee to BondCo for distribution in accordance with Ordering Paragraph 23 of this Debt Obligation Order. ERCOT shall notify the Commission within thirty (30) days after the date that these funds are eligible to be released of the amount of such funds available for crediting to the benefit of wholesale market participants.

23. **Distribution Following Repayment.** Following repayment of the Subchapter N Bonds authorized in this Debt Obligation Order and release of the funds held by the Indenture Trustee, the servicer, on behalf of BondCo, shall distribute to ERCOT, the final balance of the general, excess funds, and all other subaccounts (other than amounts that were in the capital subaccount), whether such balance is attributable to principal amounts deposited in such subaccounts or to interest thereon, remaining after all other Uplift Balance have been paid. The amounts shall be distributed to each Obligated LSE that paid Uplift Charges during the last twelve (12) months that the Uplift Charges were in effect. BondCo or its successor in interest to the Uplift Property shall, to the extent the capital subaccount is not depleted below its original amount, also distribute to QSEs representing the interests of Obligated LSEs any subsequently collected Uplift Charges. The amount paid to each wholesale market participant shall be determined by multiplying the total amount available for distribution by a fraction, the numerator of which is the total Uplift Charges paid by the wholesale market participant during the last twelve (12) months Uplift Charges were in effect and the denominator of which is the total Uplift Charges paid by all QSEs representing the interests of Obligated LSEs during the last twelve (12) months the Uplift Charges were in effect.

24. **Funding of Capital Subaccount.** The capital contribution by ERCOT to be deposited into the capital subaccount shall, with respect to each BondCo and series of Subchapter N Bonds, be funded by ERCOT and not from the proceeds of the sale of Subchapter N Bonds. Such capital may be contributed at the issuance of each series of Subchapter N Bonds or, consistent with applicable tax and securities laws and regulations, periodically during the term of each series of Subchapter N Bonds. Upon payment of the principal amount of all Subchapter N Bonds and the discharge of all obligations in respect thereof, all amounts in the capital subaccount, including investment earnings, shall be released to BondCo for payment to ERCOT. Investment earnings in this subaccount and authorized return on capital contributions in excess of 0.05%, or such greater amount of capital as is required by applicable tax and securities laws and regulations, of the original principal amount of the Subchapter N Bonds, if any, may be released earlier in accordance with the indenture.

25. **Original Issue Discount; Credit Enhancement**. ERCOT may provide original issue discount or provide for various forms of credit enhancement, including letters of credit, an over-collateralization subaccount or other reserve accounts, surety bonds, and other mechanisms designed to promote the credit quality or marketability of the Subchapter N Bonds to the extent not prohibited by this Debt Obligation Order. The decision to use such arrangements to enhance credit or promote marketability shall be made in conjunction with the Commission acting through its designated representative. ERCOT may not enter into an interest rate swap, currency hedge, or interest rate hedging arrangement. ERCOT may include the costs of original issue discount, credit enhancements or other arrangements to promote credit quality or marketability as Upfront Costs or Ongoing Costs (as appropriate) only if ERCOT certifies that such arrangements are reasonably expected to provide benefits greater than their cost and such certifications are agreed with by the Commission designated

representative. ERCOT shall not be required to enter any arrangements to promote credit quality or marketability unless all related costs and liabilities can be included in as Upfront Costs or Ongoing Costs (as appropriate). ERCOT and the Commission designated representative shall evaluate the relative benefits of the arrangements in the same way that benefits are quantified under the quantifiable benefits test. This Ordering Paragraph does not apply to the collection account or its subaccounts approved in this Debt Obligation Order.

26. **Life of Bonds.** The scheduled final payment of the Subchapter N Bonds authorized by this Debt Obligation Order shall not exceed thirty (30) years.

27. **Amortization Schedule.** The Commission approves, and the Subchapter N Bonds shall be structured to provide, Uplift Charges that are designed to produce substantially level annual debt service over the expected life of the Subchapter N Bonds and utilize consistent allocation factors, subject to modification in accordance with the true-up mechanisms adopted in this Debt Obligation Order.

28. **Commission Participation in Bond Issuance.** The Commission, acting through its designated representative, shall participate directly with ERCOT in negotiations regarding the structuring, pricing, and marketing, and shall have equal rights with ERCOT to approve or disapprove the proposed structuring, pricing, and marketing of the Subchapter N Bonds. The Commission's designated representative shall have the right to participate fully and in advance regarding all aspects of the structuring, pricing, and marketing of the Subchapter N Bonds (and all parties shall be notified of the designated representative's role), and shall be provided timely information that is necessary to fulfill its obligation to the Commission. The Commission directs its designated representative to advise the Commission of any proposal that does not comply in any material respect with the criteria established in this Debt Obligation Order and to promptly inform ERCOT and the Commission of any items that, in

the designated representative's opinion, are not reasonable. Although this Debt Obligation Order is written in the context of an underwritten offering, nothing herein shall be construed to preclude issuance of the Subchapter N Bonds through a competitive bid offering or private placement if ERCOT and the Commission's designated representative agree that ERCOT should do so. The Commission's designated representative shall notify ERCOT and the Commission no later than 12:00 p.m. on the business day after the Commission's receipt of the issuance advice letter for each series of Subchapter N Bonds whether the structuring, marketing, and pricing of that series of Subchapter N Bonds comply with the criteria established in this Debt Obligation Order.

29. **Use of BondCo.** ERCOT shall use BondCo, a special purpose transition funding entity as proposed in its application, in conjunction with the issuance of a series of Subchapter N Bonds authorized under this Debt Obligation Order. BondCo shall be funded with an amount of capital that is sufficient for BondCo to carry out its intended functions and to avoid the possibility that ERCOT would have to extend funds to BondCo in a manner that could jeopardize the bankruptcy remoteness of BondCo. ERCOT may create more than one BondCo in which event, the rights, structure, and restrictions described in this Debt Obligation Order with respect to BondCo would be applicable to each purchaser of Uplift Property to the extent of the Uplift Property sold to it and the Subchapter N Bonds issued by it.

30. **Pledge of the State**. Each of the State of Texas and the Commission pledges for the benefit and protection of all financing parties and ERCOT, that it shall not take or permit any action that would impair the value of Uplift Property, or reduce, alter, or impair the Uplift Charges to be imposed, collected, and remitted to financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with

the related Subchapter N Bonds have been paid and performed in full. A BondCo, in issuing Subchapter N Bonds, is authorized pursuant to PURA § 39.663 and this Debt Obligation Order to include this pledge in any documentation relating to the Subchapter N Bonds.

31. **Limitation on ERCOT's Liability**. The Subchapter N Bonds authorized to be issued pursuant to this Debt Obligation Order and PURA § 39.653 are a nonrecourse debt to ERCOT, secured solely by the Uplift Property created by this Debt Obligation Order (including the Uplift Charges explicitly assessed to repay the Subchapter N Bonds), and the Subchapter N Bonds shall not create a personal liability for ERCOT.

D. Servicing

32. **Servicing Agreement**. The Commission authorizes ERCOT to enter into the servicing agreement with BondCo and to perform the servicing duties approved in this Debt Obligation Order. Without limiting the foregoing, in its capacity as initial servicer of the Uplift Property, ERCOT is authorized to calculate, bill and collect for the account of BondCo, the Uplift Charges initially authorized in this Debt Obligation Order, as adjusted from time to time to meet the Periodic Payment Requirements as provided in this Debt Obligation Order and to make such filings and take such other actions as are required or permitted by this Debt Obligation Order in connection with the true-ups described in this Debt Obligation Order. The servicer shall be entitled to collect servicing fees in accordance with the provisions of the servicing agreement, provided that the annual servicing fee payable to ERCOT while it is serving as servicer (or to any other servicer affiliated with ERCOT) shall not at any time exceed the amount described in the applicable issue advice letter. The servicing agreement shall also include a provision that ERCOT shall indemnify the Commission in connection with any increase in servicing fees that become payable as a result of a default resulting from ERCOT's willful misconduct, bad faith, or negligence in performance of its duties or

observance of its covenants under the servicing agreement. The indemnity shall be enforced by the Commission but shall not be enforceable by any other market participant.

33. **Administration Agreement**. The Commission authorizes ERCOT to enter into an administration agreement with each BondCo to provide services relating to the administration of the Subchapter N Bonds. The fee charged by ERCOT as administrator under that agreement shall not exceed the amount described in the applicable issue advice letter, plus reimbursable third-party costs.

34. **Replacement of ERCOT as Servicer**. Upon the occurrence of an event of default under the servicing agreement relating to servicer's performance of its servicing functions with respect to the Uplift Charges, the financing parties may seek to replace ERCOT as the servicer in accordance with the terms of the servicing agreement. If the servicing fee of the replacement servicer exceeds the amount described in the applicable issue advice letter, the replacement servicer shall not begin providing service until (i) the date the Commission approves the appointment of such replacement servicer or (ii) if the Commission does not act to either approve or disapprove the appointment, the date which is forty-five (45) days after notice of appointment of the replacement servicer is provided to the Commission. No entity may replace ERCOT as the servicer in any of its servicing functions with respect to the Uplift Charges and the Uplift Property authorized by this Debt Obligation Order, if the replacement would cause any of the then current credit ratings of the Subchapter N Bonds to be suspended, withdrawn, or downgraded.

35. **Amendment of Agreements**. The parties to the servicing agreement, administration agreement, indenture, and Uplift Property sale or assignment agreement may amend the terms of such agreements; provided, however, that no amendment to any such agreement shall increase the Ongoing Costs without the approval of the Commission. Any amendment

that does not increase the Ongoing Costs shall be effective without prior Commission authorization. Any amendment to any such agreement that may have the effect of increasing Ongoing Costs shall be provided by BondCo to the Commission along with a statement as to the possible effect of the amendment on the Ongoing Costs. The amendment shall become effective on the later of (i) the date proposed by the parties to the amendment or (ii) thirty-one (31) days after such submission to the Commission unless the Commission issues an order disapproving the amendment within a 30-day period.

36. **Collection Terms**. The servicer shall remit collections of the Uplift Charges to BondCo or the Indenture Trustee for BondCo's account in accordance with the terms of the servicing agreement.

E. Structure of the Securitization

37. **Structure**. ERCOT shall structure the financing as proposed in ERCOT's application. This structure shall be consistent with Findings of Fact Paragraphs 26 through 79 of this Debt Obligation Order.

F. Use of Net Proceeds

38. **Verification of Qualifying LSE Costs**. Commission Staff shall open a separate compliance docket as described in Findings of Fact Paragraph 13 of this Debt Obligation Order, in which qualifying Load-Serving Entities shall have the opportunity to submit appropriate documentation evidencing their exposure to Qualifying LSE Costs, whereupon the Commission will determine the amount of each Load-Serving Entity's allocation of amounts for the recovery of Qualifying LSE Costs in an aggregate amount not to exceed the Uplift Balance.

39. **Remittance of Qualifying LSE Costs**. The net proceeds from the sale of any Subchapter N Bonds issued under this Debt Obligation Order must be used solely for the purpose of

financing Qualifying LSE Costs. Upon the issuance of Subchapter N Bonds, BondCo shall transfer the net proceeds from the sale of the Subchapter N Bonds to ERCOT to be remitted to QSEs representing one or more Load-Serving Entities for the recovery of Qualifying LSE Costs authorized by the Commission pursuant to an Uplift Balance Verification Order, as provided in Findings of Fact Paragraphs 80 and 81 of this Debt Obligation Order. Each of BondCo, ERCOT and the QSEs shall be entitled to conclusively rely upon the amounts approved by the Commission for remittance to Load-Serving Entities for the recovery of Qualifying LSE Costs authorized for remittance under PURA.

40. **Adjustments to Customer Invoices**. All Load-Serving Entities that receive offsets to specific uplift charges from ERCOT pursuant to this Debt Obligation Order must adjust customer invoices to reflect the offsets for any charges that were or would otherwise be passed through to customers under the terms of service with the Load-Serving Entity, including by providing a refund for any offset charges that were previously paid. An electric cooperative, including an electric cooperative that elects to receive offsets, shall not otherwise become subject to rate regulation by the commission and receipt of offsets does not affect the applicability of PURA Chapter 41 to an electric cooperative.

41. **Return of Excess Receipts**. Each Load-Serving Entity that receives any portion of the net proceeds of the Subchapter N Bonds shall use the net proceeds of Subchapter N Bonds solely to fulfill payment obligations directly related to Qualifying LSE Costs and refunding Qualifying LSE Costs to retail customers who have paid or otherwise would be obligated to pay such costs. Any Load-Serving Entity that receives any portion of the net proceeds of Subchapter N Bonds that exceed the entity's actual Qualifying LSE Costs shall immediately notify ERCOT and remit any Excess Receipts back to ERCOT. Any Excess Receipts

received by ERCOT or any subsequent servicing entity shall be credited against the Uplift Balance to reduce the remaining Uplift Charges.

42. **Legal Actions Involving Pricing or Uplift Action**. Any Load-Serving Entity that r receives any portion of the net proceeds of the Subchapter N Bonds pursuant to this Debt Obligation Order shall return an amount of the proceeds equal to any money received by the Load-Serving Entity due to litigation seeking judicial review of pricing or uplift action taken by the Commission or ERCOT in connection with the Period of Emergency.

43. **Enforcement by the Commission**. Commission Staff may use any enforcement mechanism established by PURA Chapter 15 or PURA Chapter 39, including revocation of certification by the Commission, against any entity that fails to remit Excess Receipts back to ERCOT or otherwise misappropriates or misuses amounts received from the proceeds of the Subchapter N Bonds.

G. Miscellaneous Provisions

44. **Continuing Issuance Right**. ERCOT has the continuing irrevocable right to cause the issuance of Subchapter N Bonds in one or more series in accordance with this Debt Obligation Order for a period commencing with the date of this Debt Obligation Order and extending twenty-four (24) months following the later of (i) the date on which this Debt Obligation Order becomes final and no longer subject to any appeal; (ii) the date on which the Uplift Balance Verification Order has been issued by the Commission and no longer subject to any appeal; or (iii) the date on which any other regulatory approvals necessary to issue the Subchapter N Bonds are obtained and no longer subject to any appeal. If at any time during the effective period of this Debt Obligation Order there is a severe disruption in the financial markets of the United States, the effective period shall automatically be extended to a date which is not less than ninety (90) days after the date such disruption ends.

45. **Internal Revenue Service Private Letter or Other Rulings**. ERCOT is not required by this Debt Obligation Order to obtain a ruling from the IRS; however, if it elects to do so, then upon receipt, ERCOT shall promptly deliver to the Commission a copy of each private letter or other ruling issued by the IRS with respect to the proposed transaction, the Subchapter N Bonds or any other matter related thereto. ERCOT shall also include a copy of every such ruling by the IRS it has received as an attachment to each issuance advice letter required to be filed by this Debt Obligation Order. ERCOT may cause Subchapter N Bonds to be issued without a private letter ruling if it obtains an opinion of tax counsel sufficient to support the issuance of the bonds.

46. **Binding on Successors**. This Debt Obligation Order, together with the Uplift Charges authorized in it, shall be binding on ERCOT and any successor to ERCOT. This Debt Obligation Order is also binding on any other entity responsible for billing and collecting Uplift Charges on behalf of BondCo, and any successor to the Commission. In this paragraph, a "successor" means any entity that succeeds by any means whatsoever to any interest or obligation of its predecessor or transferor, including by way of bankruptcy, reorganization or other insolvency proceeding, merger, division, consolidation, conversion, assignment, sale, transfer, lease, management contract, pledge or other security, by operation of law or otherwise.

47. **Flexibility**. Subject to compliance with the requirements of this Debt Obligation Order, ERCOT and BondCo shall be afforded flexibility in establishing the terms and conditions of the Subchapter N Bonds, including the final structure of BondCo, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves, interest rates, use of original issue discount, hedges, indices and other financing costs and the ability

of ERCOT, at its option, to cause one or more series of Subchapter N Bonds to be issued or to create more than one BondCo for purposes of issuing such Subchapter N Bonds.

48. **Effectiveness of Order**. This Debt Obligation Order is effective upon issuance and is not subject to rehearing by the Commission. Notwithstanding the foregoing, no Uplift Property shall be created hereunder, and ERCOT shall not be authorized to impose, collect, and receive Uplift Charges, until concurrently with the transfer of ERCOT's rights hereunder to BondCo in conjunction with the issuance of the Subchapter N Bonds.

49. **Regulatory Approvals**. All regulatory approvals within the jurisdiction of the Commission that are necessary for the financing of the Uplift Charges associated with the Uplift Balance that is the subject of the application, and all related transactions contemplated in the application, are granted.

50. **Effect**. This Debt Obligation Order constitutes a legal Debt Obligation Order for ERCOT under Subchapter N. The Commission finds this Debt Obligation Order complies with the provisions of Subchapter N. A Debt Obligation Order gives rise to rights, interests, obligations and duties as expressed in Subchapter N. It is the Commission's express intent to give rise to those rights, interests, obligations and duties by issuing this Debt Obligation Order. ERCOT and the servicer are directed to take all actions as are required to effectuate the transactions approved in this Debt Obligation Order, subject to compliance with the criteria established in this Debt Obligation Order.

51. **Further Commission Action**. The Commission guarantees that it shall act pursuant to this Debt Obligation Order as expressly authorized by PURA to ensure that expected Uplift Charge revenues are sufficient to pay on a timely basis scheduled principal and interest on the Subchapter N Bonds issued pursuant to this Debt Obligation Order and other costs, including fees and expenses, in connection with the Subchapter N Bonds.

52. **All Other Motions, etc., Denied**. All motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief not expressly granted herein, are denied for want of merit.

SIGNED AT AUSTIN, TEXAS the _____ day of _____, 2021.

PUBLIC UTILITY COMMISSION OF TEXAS

_____

WILL MCADAMS, COMMISSIONER

_____

LORI COBOS, COMMISSIONER

APPENDIX A

FORM OF ISSUANCE ADVICE LETTER

(*appears on immediately following page*)

FORM OF ISSUANCE ADVICE LETTER

[_____, 2021]

Docket No._____p

THE PUBLIC UTILITY COMMISSION OF TEXAS

SUBJECT: ISSUANCE ADVICE LETTER FOR SUBCHAPTER N BONDS

Pursuant to this Debt Obligation Order adopted in Application of Electric Reliability Council of Texas, Inc. for a debt obligation order, Docket No. _____(the "Debt Obligation Order"), the Electric Reliability Council of Texas, Inc., ("Applicant") hereby submits, no later than twenty-four hours after the pricing of this series of Subchapter N Bonds, the information referenced below. This Issuance Advice Letter is for the [BondCo] Subchapter N Bonds series [_____], tranches [ ]. Any capitalized terms not defined in this letter shall have the meanings ascribed to them in this Debt Obligation Order.

PURPOSE

This filing establishes the following:

(a) the total amount of the Securitizable Amount being financed;
(b) confirmation of compliance with issuance standards;
(c) the actual terms and structure of the Subchapter N Bonds being issued;
(d) the initial Uplift Charges; and
(e) the identification of the BondCo.

SECURITIZABLE AMOUNT BEING FINANCED

The total amount of the Securitizable Amount being financed is presented in Attachment 1.

COMPLIANCE WITH ISSUANCE STANDARDS

This Debt Obligation Order requires Applicant to confirm, using the methodology approved therein, that the actual terms of the Subchapter N Bonds result in compliance with the standards set forth in this Debt Obligation Order. These standards are:

53. The financing of the Securitizable Amount shall support the financial integrity of the wholesale market and is necessary to protect the public interest.

54. ERCOT shall recover the Uplift Charges by collecting from and allocating among Load-Serving Entities the Uplift Charges on a load ratio share basis.

55. The Uplift Charges shall be assessed on all load-serving entities on a load ratio share basis, including load serving entities who enter the market after the Debt Obligation Order is issued, but excluding the load of entities that opt out in accordance with PURA § 39.653(d).

56. ERCOT shall not reduce payments to or uplift short-paid amounts to a municipally owned utility that becomes subject to ERCOT's jurisdiction on or after May 29, 2021 and before December 30, 2021, related to a default on a payment obligation by a market participant that occurred before May 29, 2021.

57. The present value calculation uses a discount rate equal to the proposed interest rate on the debt obligations.

58. The Subchapter N Bonds shall be issued in one or more series comprised of one or more tranches having target final maturities of __ years and legal final maturities not exceeding thirty (30) years from the date of issuance of such series;

59. The Subchapter N Bonds may be issued with an original issue discount, additional credit enhancements, or arrangements to enhance marketability provided that the Applicant

60. The structuring and pricing of the Subchapter N Bonds is certified by the Applicant to result in the lowest Uplift Charges consistent with market conditions and the terms set out in this Debt Obligation Order.

ACTUAL TERMS OF ISSUANCE

Subchapter N Bonds Series: _____
Subchapter N Bonds Issuer: [Bondco]
Trustee: _____
Closing Date: _____, 2021
Bond Ratings: _____
Amount Issued: $[____]
Subchapter N Bonds Upfront Costs: See Attachment [_____], Schedule [_____].
Subchapter N Bonds Ongoing Costs: See Attachment [_____], Schedule [_____].

Tranche	Coupon Rate	Expected Final Payment	Legal Final Maturity

Effective Annual Weighted Average Interest Rate of Subchapter N Bonds	[_____]%
Life of Series	_____ years
Weighted Average Life of Series	_____ years
Call Provisions (including premium, if any)	Attachment __, Schedule __
Target Amortization Schedule	Attachment __, Schedule __
Target Final Payment Dates	Attachment __, Schedule __
Legal Final Maturity Dates	Attachment __, Schedule __
Payment to Investors	Semiannually, Beginning _____, 202_
Initial annual Servicing Fee as a percent of the original Subchapter N Bonds principal balance	[_____]%

INITIAL UPLIFT CHARGE

Table I below shows the current assumptions for each of the variables used in the calculation of the initial Uplift Charges.

TABLE I	
Input Values for Initial Uplift Charges	
Applicable period: from _____ to _____	
Forecasted Uplift Charges for the applicable period:	
Debt service for applicable period:	
Percent of Uplift Charges expected to be charged-off:	
Forecasted Uplift Charges billed and collected for applicable period:	
Forecasted annual ongoing expenses (excluding bond principal and interest):	
Current Subchapter N Bond outstanding balance:	
Target Subchapter N Bond outstanding balance as of __/__/__:	
Total Periodic Billing Requirement for applicable period:	

Based on the foregoing, the initial Uplift Charges to Qualified Scheduling Entities representing Load Serving Entities are as follows:

IDENTIFICATION OF SPE

The owner of the Uplift Property will be: _____ [BondCo].

EFFECTIVE DATE

In accordance with the Debt Obligation Order, the Uplift Charges shall be automatically effective upon approval of the Debt Obligation Order.

NOTICE

Copies of this filing are being furnished to the parties on the attached service list. Notice to the public is hereby given by filing and keeping this filing open for public inspection at Applicant's corporate headquarters.

AUTHORIZED OFFICER

This undersigned is an officer of Applicant and authorized to deliver this Issuance of Advice Letter on behalf of Applicant.

Respectfully submitted,

ERCOT

By: _____
Name: _____
Title: _____

ATTACHMENT 1
SCHEDULE A

CALCULATION OF SECURITIZABLE AMOUNT FINANCED

Amounts uplifted to Load-Serving Entities on a load ratio share basis due to energy consumption during the Period of Emergency for Reliability Deployment Price Adder Charges.	$_____
Amounts uplifted to Load-Serving Entities on a load ratio share basis due to energy consumption during the Period of Emergency for Ancillary Service Charges.	$_____
Reasonable costs incurred by ERCOT to implement a debt obligation.	$_____
TOTAL SECURITIZABLE AMOUNT	$_____

ATTACHMENT 1
SCHEDULE B
PROJECTED UPFRONT COSTS

Underwriters' Fees	$
Company's/Issuer's Counsel and Underwriters' Counsel Legal Fees & Expenses	$
Commission's Financial Advisor's Fees, Legal Fees & Expenses	$
ERCOT Financial Advisor Fees & Expenses	$
Printing/Edgarizing Expenses	$
SEC Registration Fee	$
Securitization Proceeding Expenses	$
Rating Agency Fees	$
ERCOT Non-legal Financing Proceeding Costs/Expenses	$
ERCOT Miscellaneous Administrative Costs	$
Accountant's Fees	$
Servicer's Set-Up Costs	$
Trustee's/Trustee Counsel's Fees & Expenses	$
BondCo Set-Up Costs	$
Debt Retirement Transaction Costs	$
Costs of Paying Down Equity	$
Original Issue Discount	$
TOTAL PROJECTED UPFRONT COSTS FINANCED	$

Note: Any difference between the projected upfront costs financed and the actual upfront costs incurred shall be resolved through the true-up process described in this Debt Obligation Order.

ATTACHMENT 2
SCHEDULE A
SUBCHAPTER N BOND REVENUE REQUIREMENT INFORMATION

SERIES ,TRANCHE				
Payment Date	Principal Balance	Interest	Principal	Total Payment
	$	$	$	$

SERIES ,TRANCHE				
Payment Date	Principal Balance	Interest	Principal	Total Payment
	$	$	$	$

SERIES ,TRANCHE				
Payment Date	Principal Balance	Interest	Principal	Total Payment
	$	$	$	$

ATTACHMENT 2
SCHEDULE B
ONGOING COSTS

	ANNUAL AMOUNT
Ongoing Servicer Fees (ERCOT as Servicer)	$
Administration Fees	$
Accountants Fees	$
Lead Underwriter Ongoing Administration Fees	$
Legal Fees/Expenses for Company's/Issuer's Counsel	$
Trustee's/Trustee Counsel Fees & Expenses	$
Independent Managers' Fees	$
Rating Agency Fees	$
Printing/Edgarization Expenses	$
Miscellaneous	$
TOTAL (ERCOT AS SERVICER) PROJECTED ANNUAL ONGOING COSTS	$
Ongoing Servicer Fees (Third Party as Servicer – [___]% of principal)	$
Other Servicing Fees	$
TOTAL (THIRD PARTY AS SERVICER) PROJECTED ONGOING COSTS	$

Note: The amounts shown for each category of operating expense on this attachment are the expected expenses for the first year of the Subchapter N Bonds. Uplift Charges shall be adjusted at least annually to reflect any changes in ongoing through the true-up process described in this Debt Obligation Order.

ATTACHMENT 2
SCHEDULE C
CALCULATION OF UPLIFT CHARGES

Year	Subchapter N Bond Payments[1]	Ongoing Costs[2]	Total Nominal Uplift Charge Requirement[3]	Present Value of Uplift Charges[4]

[1] From Attachment 2, Schedule A.
[2] From Attachment 2, Schedule B.
[3] Sum of Subchapter N Bond payments and ongoing costs.

ATTACHMENT 3
FORM OF APPLICANT'S CERTIFICATION

[ERCOT Letterhead}

Date: [_____], 2021

Public Utility Commission of Texas
1701 N. Congress Avenue
P.O. Box 13362
Austin, TX 78711-3326

[Commission's Financial Advisor]

Re: *Application of ERCOT for a debt obligation order,* Docket No. [_____]

ERCOT (the "Applicant") submits this Certification pursuant to Ordering Paragraph No. [_____] of this Debt Obligation Order in *Application of Electric Reliability Council of Texas, Inc. for a debt obligation order,* Docket No.[_____] (the "Debt Obligation Order"). All capitalized terms not defined in this letter shall have the meanings ascribed to them in this Debt Obligation Order.

In its issuance advice letter dated [_____], 2021, the Applicant has set forth the following particulars of the Subchapter N Bonds:

Name of Subchapter N Bonds:[_____]

SPE: [BondCo]

Closing Date: [_____], 2021

Amount Issued: [_____]

Expected Amortization Schedule: See Attachment 2, Schedule A to the Issuance Advice Letter

Distributions to Investors (semi-annually): Weighted Average Coupon Rate: ____%

Weighted Average Yield:___%

The following actions were taken in connection with the design, marketing, structuring and pricing of the bonds:

- [Insert actions actually taken here.]

Based upon information reasonably available to its officers, agents, and employees of Applicant, the Applicant hereby certifies that the structuring and pricing of the bonds, as described in the issuance advice letter, shall result in the lowest Uplift Charges consistent with market conditions and the terms of this Debt Obligation, all within the meaning of § 39.651 of PURA.

Respectfully submitted,

ERCOT

By: _____
Name: _____
Title: _____