



# Financial Statements

Texas Electric Market Stabilization Funding M, LLC  
For the Period from October 27, 2021 (Inception) through  
December 31, 2021  
With Independent Auditors' Report

April 2022

Texas Electric Market Stabilization Funding M, LLC.

Financial Statements

As of December 31, 2021 and for the Period from October 27, 2021 (Inception) through  
December 31, 2021

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## **Independent Auditors' Report**

The Board of Managers of  
Texas Electric Market Stabilization Funding M, LLC

### **Opinion**

We have audited the financial statements of Texas Electric Market Stabilization Funding M, LLC (the Organization), which comprise the statement of financial position as of December 31, 2021, and the related statement of activities and cash flows from the period from October 27, 2021 (inception) through December 31, 2021, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021, and the changes in its net assets and its cash flows from October 27, 2021 (inception) through December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

*Baker Tilly US, LLP*

Minneapolis, Minnesota  
April 29, 2022

Texas Electric Market Stabilization Funding M, LLC.

Statement of Financial Position

	December 31 2021
	<i>(In Thousands)</i>
<b>Assets</b>	
Current assets:	
Cash	\$ 4,000
Accounts receivable	13,912
Unbilled revenue	3,264
Restricted cash	60,419
Prepaid expenses	8
Total current assets	<u>81,603</u>
Default charges receivable, non-current	<u>784,181</u>
Total assets	<u><u>\$ 865,784</u></u>
<b>Liabilities and Net Assets</b>	
Current liabilities:	
Accrued liabilities	\$ 3,264
Security deposits and reserves	60,419
Debt payable, current portion	<u>4,244</u>
Total current liabilities	67,927
Debt payable, less current portion:	
Principal	795,756
Less unamortized debt issuance costs	<u>1,899</u>
Debt payable, less current portion and unamortized debt issuance costs	<u>793,857</u>
Total liabilities	<u>861,784</u>
Net assets without donor restrictions	<u>4,000</u>
Total liabilities and net assets	<u><u>\$ 865,784</u></u>

See accompanying notes to the financial statements

Texas Electric Market Stabilization Funding M, LLC.

Statement of Activities and Net Assets

	<u>From October 27, 2021 (Inception) Through December 31, 2021</u> <i>(In Thousands)</i>
<b>Operating revenues:</b>	
Default charges fees	\$ 3,273
Total operating revenues	<u>3,273</u>
<b>Operating expenses:</b>	
Outside services	<u>83</u>
Total operating expenses	<u>83</u>
Income from operations	<u>3,190</u>
<b>Other income (expense):</b>	
Investment expense	<u>(3,190)</u>
Change in net assets without donor restrictions	-
Net assets without donor restrictions, beginning of year	-
Equity contribution from parent company	<u>4,000</u>
Net assets without donor restrictions, end of year	<u>\$ 4,000</u>

See accompanying notes to the financial statements.



Texas Electric Market Stabilization Funding M, LLC.

Statement of Cash Flows

	From October 27, 2021 (Inception) Through December 31, 2021
	<u>(In Thousands)</u>
<b>Operating activities</b>	
Change in net assets without donor restrictions	\$ -
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:	
Amortization of debt issuance costs	9
Changes in operating assets and liabilities:	
Accounts receivable	(13,912)
Unbilled revenue	(3,264)
Prepaid expenses	(8)
Default charges receivable, non-current	(784,181)
Accrued liabilities	3,264
Security deposits and reserves	60,419
Net cash used in operating activities	<u>(737,673)</u>
<b>Financing activities</b>	
Proceeds from parent company investment	4,000
Proceeds from debt issuance	800,000
Payment of debt issuance costs	(1,908)
Net cash provided by financing activities	<u>802,092</u>
Net increase in cash and restricted cash	64,419
Cash and restricted cash, beginning of year	-
Cash and restricted cash, end of year	<u>\$ 64,419</u>

See accompanying notes to the financial statements.

# Texas Electric Market Stabilization Funding M, LLC.

## Notes to Financial Statements *(Dollars in Thousands)*

As of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

### 1. Organization and Operations

Texas Electric Market Stabilization Funding M LLC (TEMSFM, or the Company) was established to facilitate the financing under a Debt Obligation Order. As a result of the February 2021 extreme winter weather event, extraordinary prices in the wholesale electricity market caused some wholesale market participants to default on their payment obligations to Electric Reliability Council of Texas, Inc. (ERCOT) for power under the ERCOT Nodal Protocols. As a result of these payment defaults, ERCOT was unable to fully settle obligations to certain wholesale market participants who were due payments from defaulting market participants for the power they produced during the storm. To address these problems, the Texas Legislature, during the 87th legislative session, enacted two bills that authorized financing mechanisms to provide funds to pay market participants who were previously short-paid and provide liquidity to market participants. One of these bills, House Bill 4492, added subchapters M and N to chapter 39 of the Public Utility Regulatory Act (PURA) and each provided authority for a financing mechanism to address different aspects of the extraordinary costs incurred due to the February 2021 extreme winter weather event, with Subchapter M authorizing up to \$800,000 and Subchapter N authorizing up to \$2,100,000, plus reasonable costs. On October 14, 2021, the Public Utility Commission of Texas (PUCT) approved ERCOT's application for a Debt Obligation Order (The Order) under PURA §39.603(Subchapter M) and issued The Order.

The Order approves the default balance in an aggregate amount of up to \$800,000; approves the assessment of default charges to all wholesale market participants except those expressly exempted by PURA, in an amount sufficient to ensure the recovery of amounts expected to be necessary to timely provide all payments of debt service and other required amounts and charges in connection with the issuance of debt obligations; authorizes the issuance of Texas Stabilization M bonds in one or more series in an aggregate amount of up to \$800,000 for the payment of the default balance; and approves the financing or securitization of default charges and the creation of default property.



# Texas Electric Market Stabilization Funding M, LLC.

## Notes to Financial Statements (continued) *(Dollars in Thousands)*

As of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

### 1. Organization and Operations (continued)

TEMSFM is a Delaware limited liability company with ERCOT as its sole member, and a disregarded entity for tax purposes. It was incorporated on October 27, 2021, for the limited purpose of (a) imposing, collecting, and receiving default charges and acquiring default property and related assets to support its obligations under the Texas Stabilization M bonds, (b) issuing Texas Stabilization M bonds in one or more series, and (c) performing other activities relating thereto or otherwise authorized by The Order. On November 12, 2021, TEMSFM issued \$800,000 of Texas Electric Stabilization M Bonds, Series 2021, pursuant to The Order, which were sold to the Texas Treasury Safekeeping Trust Company, which was incorporated by the Texas Comptroller of Public Accounts (see Note 4). ERCOT is the servicer and administrator of the Texas Stabilization M bonds, Series 2021.

### 2. Summary of Significant Accounting Policies

#### Method of Accounting

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### Net Assets Without Donor Restrictions

Net assets without donor restrictions are those that are not subject to donor restrictions or stipulations and that may be expendable for any purpose in performing TEMSFM's objectives. Accordingly, net assets of TEMSFM and changes therein are classified and reported as net assets without donor restrictions.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities of the financial statements and reported amounts of revenues, expenses, and capital expenditures during the reporting period. Actual results could differ from those estimates.

# Texas Electric Market Stabilization Funding M, LLC.

## Notes to Financial Statements (continued) (Dollars in Thousands)

As of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

### 2. Summary of Significant Accounting Policies (continued)

#### Cash

Cash consists of deposits in banks. For the purposes of the statement of cash flows, TEMSFM considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. As of December 31, 2021, TEMSFM held no cash equivalents.

#### Restricted Cash

Restricted cash consists of deposits in banks. Restricted cash consists of security deposits from ERCOT's market participants subject to subchapter M, and partial proceeds from \$800,000 Texas Stabilization M Bonds, Series 2021 issuance that are reserved for retiring or refunding ERCOT existing debt, and debt service.

As of December 31, restricted cash consists of below:

	<u>2021</u>
Security Deposits	\$ 6,419
Reserve for retiring or refunding ERCOT existing debt	50,000
Reserve for debt service	4,000
Total	<u>\$ 60,419</u>

#### Custodial Credit Risk

TEMSFM maintains cash balances at financial institutions, which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) limits and are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, TEMSFM's deposits may not be returned. TEMSFM has not experienced, nor does it anticipate, any losses with respect to such cash deposits.

# Texas Electric Market Stabilization Funding M, LLC.

## Notes to Financial Statements (continued)

*(Dollars in Thousands)*

As of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

### 2. Summary of Significant Accounting Policies (continued)

#### Receivable and Revenue Recognition

As described in Note 1 Organization and Operations, TEMSFM is approved to finance the default balance under The Order through Texas Stabilization M bonds, Series 2021 and performs other activities relating thereto or otherwise authorized by The Order. TEMSFM has the rights to impose, collect, and receive default charges along with the other rights arising under The Order. As the issuer of Texas Market Stabilization M bonds, Series 2021, TEMSFM has the performance obligations to maintain and service the bonds.

Ongoing expenses associated with the performance obligations are recovered through default charges fees revenue. Wholesale market participants except those expressly exempted by PURA are billed and collected monthly on a pro rata basis in an amount sufficient to ensure the recovery of default charges receivable and ongoing expenses.

Revenue is recognized over time when related services are provided, and related expenses are incurred.

At December 31, 2021, there is \$13,912 and \$784,181 default charge receivables current (accounts receivable) and non-current, respectively. Contract assets are reported as unbilled revenue of \$3,264 for expenses incurred but not billed yet.

TEMSFM has no significant continuing obligation and collection is reasonably assured. The Company does not maintain an allowance for doubtful accounts as it does not believe it has a material risk of loss associated with lack of collection.

#### Prepaid Expenses

Prepaid expenses consist of amounts paid in advance for items that had not yet occurred as of the end of fiscal year. Prepaid expenses are amortized in the periods when items occur.

# Texas Electric Market Stabilization Funding M, LLC.

## Notes to Financial Statements (continued) *(Dollars in Thousands)*

As of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

### 2. Summary of Significant Accounting Policies (continued)

#### Accrued Liabilities

Accrued liabilities are expenses that TEMSFM has incurred but hasn't yet been billed for. As of December 31, 2021, the accrued liabilities include \$83 in debt service and administration expenses from ERCOT (see Note 6 Related Party Transactions), and \$3,181 in bond interest expense.

#### Security Deposits and Reserves

Security deposits and reserves consist of security deposits from ERCOT's market participants subject to subchapter M, and partial proceeds from \$800,000 Texas Stabilization M Bonds, Series 2021 issuance that are reserved for retiring or refunding ERCOT existing debt, and debt service.

Market participants who have the obligation to pay default charges and do not meet certain creditworthiness standards referenced in ERCOT Protocols must maintain a means of security with the Company in order to mitigate market credit risk. Market participants have discretion in the means of security, such as letters of credit, or cash security deposits provided the market participants remain in compliance with ERCOT Protocols. TEMSFM is required to remit interest earned on security deposits to market participants. Although ERCOT is the servicer for the assessment and collection of default charges, TEMSFM is granted a secured interest in the security deposits to secure its obligation to pay the same.

Cash security deposits and debt reserves are classified as restricted cash on the statement of financial position. See Note 2 Restricted Cash. The balance of cash security deposits and reserves is \$60,419 at December 31, 2021.

#### Income Taxes

TEMSFM is classified as a disregarded entity for tax purposes. Accordingly, no provision for income taxes or uncertain tax positions has been reflected in the financial statements.

# Texas Electric Market Stabilization Funding M, LLC.

## Notes to Financial Statements (continued) (Dollars in Thousands)

As of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

### 2. Summary of Significant Accounting Policies (continued)

#### Debt Issuance Costs

TEMSFM capitalizes issuance costs related to debt. The amounts are presented as a direct deduction from the debt liability and amortized over the life of the debt.

### 3. Liquidity and Availability

As a special purpose entity solely to provide for the financing of the default balance to be repaid by ERCOT market participants, TEMSFM's general expenditures include payment of bond principal and interest, administrative services fees paid to ERCOT, and debt service related costs. Financial assets available for general expenditures within one year of the statement of financial position date, comprise the following:

	<u>2021</u>
Cash	\$ 4,000
Accounts receivable	13,912
Unbilled revenue	<u>3,264</u>
Total	<u>\$ 21,176</u>

To ensure the timely payment of general expenditures, the Company bills and collects the default charges monthly from the ERCOT's market participants in an amount that is sufficient to recover the Company's general expenditures. In addition, security such as letters of credit and cash security deposits provided by the market participants can be draw on if market participants cannot make their timely payment, following the Company's protocol (see Note 2 Security Deposits and Reserves).

## Texas Electric Market Stabilization Funding M, LLC.

### Notes to Financial Statements (continued) (Dollars in Thousands)

As of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

#### 4. Debt Payable

On November 12, 2021, the Company issued \$800,000 of Texas Stabilization M Bonds, Series 2021 as a result of securitization of default charges, pursuant to The Order (see Note 1 Organization and Operations). The bonds were sold to the Texas Treasury Safekeeping Trust Company, which was incorporated by the Texas Comptroller of Public Accounts. The bonds proceeds are allocated to first pay upfront costs, then to pay amounts owed to ERCOT by competitive wholesale market participants, and finally to use the rest to replenish CRR auction funds temporarily used by ERCOT to reduce the short payments to wholesale market participants due to Winter Storm Uri. The bonds are payable out of default charges to all wholesale market participants except those expressly exempted by PURA. The bonds have target scheduled final maturities of approximately 28 years and legal final maturities not exceeding 30 years from the date of issuance. The interest rate is calculated by using the rate determined by the Municipal Market Data Municipal Electric Index, as published by Refinitiv TM3, based on the credit rating of ERCOT, plus 2.5%. At December 31, 2021, the interest rate is fixed at 2.97% for the first 3 years, after 01/31/2025 the interest rate will be reset based on the aforementioned calculation. The following future maturities table was based on an assumed rate of 4.12%. Payments of the bonds are semi-annual, beginning August 1, 2022. At December 31, 2021, the unamortized debt issuance costs were \$1,899.

Under PURA § 39.603(i), the Texas Stabilization M Bonds, Series 2021 authorized to be issued under The Order are a nonrecourse debt secured solely by the default charges created by The Order and explicitly assessed to repay the Texas Stabilization M Bonds, Series 2021 (including the default property as well as earnings from the investment and reinvestment of default charges). The Texas Stabilization M Bonds, Series 2021 authorized to be issued under The Order and PURA § 39.603 do not create a personal liability for ERCOT.

## Texas Electric Market Stabilization Funding M, LLC.

### Notes to Financial Statements (continued) (Dollars in Thousands)

As of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

#### 4. Debt Payable (continued)

Future maturities of the debt payable are as follows:

	<u>Texas Stabilization M Bonds, Series 2021</u>
Year Ending December 31:	
2022	\$ 4,244
2023	19,479
2024	20,062
2025	19,166
2026	18,375
Thereafter through 2049	718,674
	<u>\$ 800,000</u>

#### 5. Expenses by Nature and Function

As a special purpose entity solely to provide for the financing of the default balance to be repaid by ERCOT market participants, TEMSFM's expenses are all contributed to program services. On the statement of activities and net assets, outside services expenses include debt servicer and administrator services provided by ERCOT; interest expenses include \$3,181 of bond interest expense and \$9 of amortization of debt issuance cost.

#### 6. Related Party Transactions

TEMSFM is a Delaware limited liability company with ERCOT as its sole member. ERCOT is the servicer and administrator of the Texas Stabilization M bonds, Series 2021. As a result, TEMSFM pays ERCOT for the beforementioned administrative services. As of December 31, 2021, TEMSFM recognized \$83 services expenses on the statement of activities and net assets, and \$83 accrued liabilities on the statement of financial position.

#### 7. Contingencies

Management is not aware of any pending or threatened litigation, claims or assessments as of December 31, 2021.

Texas Electric Market Stabilization Funding M, LLC.

Notes to Financial Statements (continued)  
*(Dollars in Thousands)*

As of December 31, 2021 and for the Period from October 27, 2021 (Inception) through  
December 31, 2021

**8. Subsequent Events**

TEMSFM has evaluated material subsequent events through April 29, 2022, the date the Company's financial statements were available to be issued.