

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS MEETING THE QUALIFICATIONS DESCRIBED IN THE ATTACHED OFFERING MEMORANDUM.

IMPORTANT: Prospective investors must read the following before continuing. The following applies to the Offering Memorandum following this page, and prospective investors are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, prospective investors agree to be bound by the following terms and conditions, including any modifications to them any time they receive any information from the Issuer as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE BONDS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION AND THE BONDS MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO SUCH LAWS. THE ACQUISITION AND TRANSFER OF THE BONDS ARE SUBJECT TO ANY ADDITIONAL RESTRICTIONS DESCRIBED IN THE OFFERING MEMORANDUM.

EXCEPT AS SET FORTH IN THE OFFERING MEMORANDUM, THE OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of Prospective Investors' Representation: In order to be eligible to view this Offering Memorandum, investors in the Bonds must be (i) "qualified institutional buyers" (within the meaning of Rule 144A(a)(1) under the Securities Act) or (ii) not a "U.S. Person" (as defined in §902(k) of Regulation S under the Securities Act) and purchasing in an "offshore transaction" (as defined in §902(h) of Regulation S under the Securities Act). This Offering Memorandum is being sent at prospective investors' request and by accessing this Offering Memorandum, prospective investors will be deemed to have represented to the Issuer that they are a qualified institutional buyer, or not a U.S. Person and purchasing in an offshore transaction, and that they consent to delivery of this Offering Memorandum by electronic transmission.

Prospective investors are reminded that this Offering Memorandum has been delivered to them on the basis that they are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which they are located and they may not, and are not authorized to, deliver this Offering Memorandum to any other person.

This Offering Memorandum has been sent to prospective investors in an electronic form. Prospective investors are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Initial Purchasers, or any director, officer, employee or agent of any such person or affiliate of such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to them in electronic format and the hard copy version available to them on request from the Initial Purchasers.

OFFERING MEMORANDUM
\$2,115,700,000 Texas Stabilization Subchapter N Bonds, Series 2022
Electric Reliability Council of Texas, Inc.
Sponsor, Depositor and Initial Servicer
Texas Electric Market Stabilization Funding N LLC
Issuing Entity

Tranche	Expected Weighted Average Life (Years)	Principal Amount Offered	Scheduled Final Payment Date	Final Maturity Date	Interest Rate	Initial Price to Public	Sales Discounts and Commissions	Proceeds to Issuing Entity (Before Expenses)
A-1	6.78	\$600,000,000	August 1, 2034	August 1, 2036	4.265%	99.99859%	0.40%	\$597,591,540.00
A-2	16.21	\$600,000,000	February 1, 2042	February 1, 2044	4.966%	99.99047%	0.40%	\$597,542,820.00
A-3	22.12	\$457,900,000	August 1, 2046	August 1, 2048	5.057%	99.99012%	0.40%	\$456,023,159.48
A-4	26.11	\$457,800,000	February 1, 2050	February 1, 2052	5.167%	99.98970%	0.40%	\$455,921,646.60

This **Offering Memorandum** provides information relating to the offering of Texas Stabilization Subchapter N Bonds, Series 2022, or the **Bonds** or the **Texas Stabilization Subchapter N Bonds**.

The total initial sale price is \$2,115,541,966.08. The total amount of the Initial Purchasers' discounts and commissions is \$8,462,800.00. The total amount of proceeds to the Issuing Entity before deduction of expenses (estimated to be \$7,237,200.00) is \$2,107,079,166.08. The distribution frequency is semi-annually. The first expected payment date is February 1, 2023.

Investing in the Texas Stabilization Subchapter N Bonds, Series 2022 involves risks. Please read "Risk Factors" beginning on page 20 to read about factors you should consider before buying the Bonds.

Electric Reliability Council of Texas, Inc., also referred to herein as ERCOT, as depositor and as sponsor is sponsoring the offering of \$2,115,700,000 Texas Stabilization Subchapter N Bonds in four tranches to be issued by Texas Electric Market Stabilization Funding N LLC, as the **Issuing Entity**. ERCOT is also the sponsor, depositor and initial servicer with regard to the Bonds, and the seller of the uplift property. The Bonds are senior secured obligations of the Issuing Entity supported by the uplift property, which includes the right to special, irrevocable nonbypassable charges, known as **uplift charges**, paid by responsible Qualified Scheduling Entities (**QSEs**), or **responsible QSEs**, as defined herein, representing one or more obligated load serving entities, or **obligated LSEs**, as defined herein, within ERCOT's wholesale electricity market, based on a load ratio sharing basis.

The Bonds will be issued pursuant to Subchapter N of Chapter 39 of the Texas Utilities Code, or **Subchapter N**, and an irrevocable debt obligation order issued by the Public Utility Commission of Texas, or the **Commission**, on October 13, 2021, or the **debt obligation order**, approving the issuance of the Bonds. The Commission's obligations under Subchapter N and the debt obligation order are irrevocable and the Commission agreed to neither reduce, alter, or impair the uplift charges authorized under the debt obligation order. Responsible QSEs are required under the debt obligation order to fully and promptly pay uplift charges and defaulting market participants may not continue to be a participant in the ERCOT power region until all amounts owed are fully paid. Credit enhancement for the Bonds will be provided by statutory true-up mechanism as well as by accounts held under the indenture. The debt obligation order requires the uplift charges to be reviewed and adjusted at least quarterly and authorizes more frequent interim adjustments to correct over-collections and under-collections and ensure sufficient recovery to provide timely payments of debt service and other required amounts and charges, as described further in this Offering Memorandum.

Each Bond will be entitled to interest on February 1 and August 1 of each year, beginning February 1, 2023. The first scheduled payment date is February 1, 2023. On each payment date scheduled for principal payments, each Bond will be entitled to payment of principal, but only to the extent funds are available in the collection account after payment of certain fees and expenses and after payment of interest. There currently is no secondary market for the Bonds, and we cannot assure you that one will develop.

The Bonds represent obligations only of the Issuing Entity, Texas Electric Market Stabilization Funding N LLC, and do not represent obligations of the sponsor or any of its affiliates other than the Issuing Entity. The Bonds are secured by the assets of the Issuing Entity, consisting principally of the uplift property and funds on deposit in the collection account for the

Bonds, and various related subaccounts. In addition, bondholders are entitled to receive application, pursuant to the servicing agreement, of certain deposits securing payment or performance of uplift charges. Please read "Security for the Bonds" and "Description of the Uplift Property" in this Offering Memorandum. The Bonds are not a debt or general obligation of the state of Texas, the Commission or any other governmental agency or instrumentality and are not a charge on the full faith and credit or the taxing power of the state of Texas or any governmental agency or instrumentality. The Bonds do not create a personal liability for ERCOT.

THE BONDS WILL BE OFFERED (1) IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT AND (2) OUTSIDE THE UNITED STATES TO ENTITIES WHICH ARE NOT "U.S. PERSONS" AS DEFINED IN, AND IN COMPLIANCE WITH, REGULATION S UNDER THE SECURITIES ACT, TO WHOM THIS OFFERING MEMORANDUM HAS BEEN FURNISHED. THE BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES OR "BLUE SKY" LAWS AND ARE BEING OFFERED AND SOLD IN RELIANCE UPON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH LAWS. THE TRANSFER OF THE BONDS IS SUBJECT TO CERTAIN ADDITIONAL RESTRICTIONS AND CONDITIONS. SEE "NOTICE TO INVESTORS." THERE IS NO MARKET FOR THE BONDS, AND THERE IS NO ASSURANCE THAT ONE WILL DEVELOP. REALES OF THE BONDS MAY BE MADE ONLY (I) PURSUANT TO RULE 144A, (II) PURSUANT TO REGULATION S, OR (III) PURSUANT TO ANOTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF APPLICABLE) AND (IV) IN ACCORDANCE WITH THE OTHER RESTRICTIONS ON TRANSFER SET FORTH IN THE INDENTURE AND DESCRIBED UNDER "TRANSFER RESTRICTIONS" IN THIS OFFERING MEMORANDUM.

THESE BONDS HAVE NOT BEEN RECOMMENDED BY THE SECURITIES AND EXCHANGE COMMISSION, OR THE SEC, OR BY ANY STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED ON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

It is expected that delivery of the Bonds will be made in global book entry form to investors against payment therefor in immediately available funds on or about June 15, 2022.

Joint Bookrunners

Citigroup

Barclays

Senior Co-Managers

Guggenheim Securities

Morgan Stanley

RBC Capital Markets

Loop Capital Markets

The date of this Offering Memorandum is June 8, 2022.

NOTICE TO INVESTORS

Prospective investors should assume that the information appearing in this Offering Memorandum is accurate as of the date on the front cover of this Offering Memorandum. Neither the delivery of this Offering Memorandum nor any sale of Bonds made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this Offering Memorandum.

The Issuing Entity has furnished this Offering Memorandum in connection with an offering that is exempt from registration under, or not subject to, the Securities Act, and exempt from applicable securities laws of other jurisdictions, solely to allow a prospective investor to consider purchasing the Bonds. Delivery of this Offering Memorandum to any person or any reproduction of this Offering Memorandum, in whole or in part, without prior consent from the Issuing Entity and representatives of the Initial Purchasers is prohibited.

The Issuing Entity and ERCOT have prepared the information in this Offering Memorandum. Neither ERCOT nor the Issuing Entity take any responsibility for other information others may give prospective investors.

A glossary of defined terms is included in this Offering Memorandum under "Glossary of Defined Terms."

Upon receiving this Offering Memorandum, prospective investors acknowledge that (i) they have been afforded an opportunity to request from the Issuing Entity, and to review, all additional information considered by them to be necessary to verify the accuracy of, or to supplement, the information contained herein, (ii) prospective investors have not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with any investigation of the accuracy of such information or their investment decision, and (iii) the Issuing Entity has not, and the Initial Purchasers have not, authorized any person to deliver any information different from that contained in this Offering Memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by the Issuing Entity, the Initial Purchasers or their respective agents. The offering is being made on the basis of this Offering Memorandum. Any decision to purchase Bonds must be based on the information contained in this Offering Memorandum. In making an investment decision, investors must rely on their own examination of the Issuing Entity and the terms of the offering, including the merits and risks involved.

The information contained in this Offering Memorandum has been furnished by the Issuing Entity and other sources that the Issuing Entity believes to be reliable. Prospective investors acknowledge and agree that the Initial Purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of any of the information set forth in this Offering Memorandum, and prospective investors should not rely on anything contained in this Offering Memorandum as a promise, representation or warranty by the Initial Purchasers, whether as to the past or the future. This Offering Memorandum contains summaries, believed to be accurate, of the terms that the Issuing Entity considers material of certain documents, but reference is made to the actual documents, copies of which will be made available by the Initial Purchasers upon request, for the complete information contained in those documents. All such summaries are qualified in their entirety by this reference.

THE BONDS WILL BE OFFERED (1) IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT AND (2) OUTSIDE THE UNITED STATES TO ENTITIES WHICH ARE NOT U.S. PERSONS IN OFFSHORE TRANSACTIONS IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, TO WHOM THIS OFFERING MEMORANDUM HAS BEEN FURNISHED. THE BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAWS AND ARE BEING OFFERED AND SOLD IN RELIANCE UPON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH LAWS. THE TRANSFER OF THE BONDS IS SUBJECT TO CERTAIN ADDITIONAL RESTRICTIONS AND CONDITIONS. SEE "TRANSFER RESTRICTIONS" IN THIS OFFERING MEMORANDUM. THERE IS NO MARKET FOR THE BONDS, AND THERE IS NO ASSURANCE THAT ONE WILL DEVELOP. REALES OF THE BONDS MAY BE MADE ONLY (I) PURSUANT TO RULE 144A, (II) PURSUANT TO REGULATION S, OR (III) PURSUANT TO ANOTHER EXEMPTION UNDER THE SECURITIES ACT AND (IV) IN ACCORDANCE WITH THE OTHER RESTRICTIONS ON TRANSFER SET FORTH IN THE INDENTURE AND DESCRIBED IN THIS OFFERING MEMORANDUM.

Laws in certain jurisdictions may restrict the distribution of this Offering Memorandum and the offer and sale of Bonds. Persons into whose possession this Offering Memorandum or any of the Bonds are delivered must inform themselves about, and observe, any such restrictions. Each prospective investor of the Bonds must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Bonds or distributes this Offering Memorandum and must obtain any consent, approval or permission required under any regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither the Issuing Entity shall have any responsibility therefor.

The Issuing Entity reserves the right to withdraw this offering at any time, and the Issuing Entity and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Bonds in whole or in part and to allot to prospective investors less than the full amount of Bonds subscribed for by such prospective investor. The Issuing Entity is making this offering subject to the terms described in this Offering Memorandum and the Indenture, the Series Supplement, the Sale Agreement, the LLC Agreement, the Servicing Agreement, the Administration Agreement, the Intercreditor Agreement and the Bond Purchase Agreement (as such documents may be further amended from time to time), collectively with all other documents and certificates delivered in connection with the issuance of the Bonds, the "**basic documents**".

This Offering Memorandum does not constitute an offer to sell the Bonds to or a solicitation of an offer to buy the Bonds from any person in any jurisdiction where it is unlawful to make such an offer or solicitation. Prospective investors are not to construe the contents of this Offering Memorandum as investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Bonds. The Issuing Entity and the Initial Purchasers are not making any representation to prospective investors regarding the legality of an investment in the Bonds by such prospective investor under any law.

This Offering Memorandum may not include all information that the Issuing Entity would be required to include in a prospectus prepared in compliance with SEC rules relating to a public offering of securities.

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS OF THIS OFFERING MEMORANDUM OR ANY PRIOR OR SUBSEQUENT COMMUNICATIONS FROM THE SPONSOR, THE ISSUING ENTITY, THE SERVICER, THE SELLER, THE TRUSTEE, THE INITIAL PURCHASERS OR ANY OF THEIR OFFICERS, EMPLOYEES OR AGENTS AS INVESTMENT, LEGAL, ACCOUNTING OR TAX ADVICE. PRIOR TO INVESTING IN THE BONDS, A PROSPECTIVE INVESTOR SHOULD CONSULT WITH ITS OWN ATTORNEY AND ITS OWN INVESTMENT, ACCOUNTING, REGULATORY AND TAX ADVISORS TO DETERMINE THE CONSEQUENCES OF AN INVESTMENT IN THE BONDS AND ARRIVE AT AN INDEPENDENT EVALUATION OF SUCH INVESTMENT.

THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES ACT OR UNDER THE SECURITIES LAWS OF ANY OTHER JURISDICTION AND THE ISSUING ENTITY IS NOT AND WILL NOT BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED, OR THE **INVESTMENT COMPANY ACT**. THE ISSUING ENTITY WILL BE RELYING ON AN EXCLUSION OR EXEMPTION FROM THE DEFINITION OF "INVESTMENT COMPANY" UNDER THE INVESTMENT COMPANY ACT CONTAINED IN SECTION 3(c)(5) OF THE INVESTMENT COMPANY ACT, ALTHOUGH THERE MAY BE OTHER EXEMPTIONS, EXCLUSIONS OR EXCEPTIONS AVAILABLE. THE ISSUING ENTITY HAS BEEN STRUCTURED SO AS NOT TO CONSTITUTE A "COVERED FUND" FOR PURPOSES OF SECTION 619 OF THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT. THE RESALE OR TRANSFER OF THE BONDS ARE RESTRICTED BY THE TERMS THEREOF AND BY THE TERMS OF THE INDENTURE. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THEIR INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

THIS OFFERING MEMORANDUM IS FURNISHED TO THE RECIPIENT ON A CONFIDENTIAL BASIS SOLELY FOR THE PURPOSE OF EVALUATING THE INVESTMENT OFFERED HEREBY. THE INFORMATION CONTAINED HEREIN MAY NOT BE USED IN WHOLE OR IN PART FOR ANY OTHER PURPOSE.

THE BONDS REPRESENT NON-RECOURSE OBLIGATIONS OF THE ISSUING ENTITY. BONDS WILL NOT REPRESENT INTERESTS IN OR OBLIGATIONS OF ERCOT, THE SPONSOR, THE SERVICER, THE SELLER, THE INITIAL PURCHASERS, THE TRUSTEE OR ANY OF THEIR AFFILIATES. THE BONDS WILL NOT BE GUARANTEED OR INSURED BY ANY GOVERNMENTAL AGENCY OR INSTRUMENTALITY OR ANY OTHER ENTITY. THE ASSETS OF THE ISSUING ENTITY WILL BE THE SOLE SOURCE OF PAYMENTS ON THE BONDS, AND THERE WILL BE NO RECOURSE TO THE SPONSOR, THE SERVICER, THE SELLER, THE INITIAL PURCHASERS, THE TRUSTEE, OR ANY OTHER ENTITY IN THE EVENT THAT PAYMENTS ON AND PROCEEDS OF THE BONDS ARE INSUFFICIENT OR OTHERWISE UNAVAILABLE TO MAKE ALL PAYMENTS PROVIDED FOR UNDER THE INDENTURE.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFERING MEMORANDUM AND ANY TERM SHEET PROVIDED TO PROSPECTIVE INVESTORS BY THE ISSUING ENTITY (OR THE INITIAL PURCHASER ON BEHALF OF THE ISSUING ENTITY) PRIOR TO THE DELIVERY OF THIS OFFERING MEMORANDUM AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON. THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE BONDS. THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR WILL THERE BE ANY SALE OF THE BONDS, IN ANY STATE OR OTHER JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF SUCH STATE OR OTHER JURISDICTION. THE DELIVERY OF

THIS OFFERING MEMORANDUM AT ANY TIME DOES NOT IMPLY THAT INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE. THE ISSUING ENTITY AND THE INITIAL PURCHASERS RESERVE THE RIGHT TO REJECT ANY OFFER TO PURCHASE THE BONDS IN WHOLE OR IN PART, FOR ANY REASON, OR TO SELL LESS THAN THE FULL AMOUNT OF THE BONDS OFFERED HEREBY.

BY ACQUIRING A BOND, (OR ANY INTEREST THEREIN), EACH PURCHASER AND TRANSFEREE (AND IF THE PURCHASER OR TRANSFEREE IS A PLAN (AS DEFINED BELOW), ITS FIDUCIARY) IS DEEMED TO (A) REPRESENT AND WARRANT THAT EITHER (I) SUCH PURCHASER OR TRANSFEREE IS NOT, AND IS NOT DIRECTLY OR INDIRECTLY, ACQUIRING SUCH BOND OR INTEREST THEREIN, FOR OR ON BEHALF OF OR WITH THE ASSETS OF ANY "EMPLOYEE BENEFIT PLAN" THAT IS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), THAT IS SUBJECT TO PART 4 OF SUBTITLE B OF TITLE I OF ERISA, ANY OTHER "PLAN" AS DEFINED IN SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (**INTERNAL REVENUE CODE**), THAT IS SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE (EACH ARRANGEMENT DESCRIBED IN CLAUSE I AND CLAUSE II, A "**PLAN**"), OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF AN EMPLOYEE BENEFIT PLAN'S INVESTMENT IN SUCH ENTITY (**PLAN ASSET ENTITY**), (EACH A **BENEFIT PLAN INVESTOR**), OR ANY "GOVERNMENTAL PLAN" WITHIN THE MEANING OF SECTION 3(32) OF ERISA, CHURCH PLAN OR OTHER PLAN NOT SUBJECT TO TITLE I OF ERISA OR CODE SECTION 4975 THAT IS SUBJECT TO ANY PROVISION OF STATE OR LOCAL OR OTHER LAW THAT IS SUBSTANTIALLY SIMILAR TO THE FOREGOING PROVISIONS OF ERISA OR THE INTERNAL REVENUE CODE (**SIMILAR LAW**), OR (II) IF THE PURCHASER OR TRANSFEREE IS A BENEFIT PLAN INVESTOR OR A PLAN SUBJECT TO SIMILAR LAW, THE ACQUISITION, HOLDING AND DISPOSITION OF SUCH BOND WILL NOT GIVE RISE TO A NONEXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE INTERNAL REVENUE CODE OR A SIMILAR VIOLATION OF ANY SIMILAR LAW AND WILL BE CONSISTENT WITH ANY APPLICABLE FIDUCIARY DUTIES THAT MAY BE IMPOSED UPON THE PURCHASER OR TRANSFEREE AND (B) ACKNOWLEDGE AND AGREE THAT SUCH BOND (OR ANY INTEREST THEREIN) MAY NOT BE ACQUIRED BY ANY BENEFIT PLAN OR PLAN THAT IS SUBJECT TO SIMILAR LAW UNLESS, AT ANY TIME THAT SUCH BOND IS ACQUIRED BY SUCH BENEFIT PLAN OR PLAN, IT IS RATED AT LEAST "BBB-" OR ITS EQUIVALENT BY A NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION AND IS NOT TREATED AS OTHER THAN INDEBTEDNESS FOR APPLICABLE LOCAL LAW PURPOSES WITHOUT SUBSTANTIAL EQUITY FEATURES AND THAT SUCH PURCHASER OR TRANSFEREE WILL SO TREAT SUCH BONDS. PLEASE SEE "ERISA CONSIDERATIONS" IN THIS OFFERING MEMORANDUM. THE BONDS MAY NOT BE SOLD IN THIS OFFERING WITHOUT DELIVERY OF A FINAL OFFERING MEMORANDUM.

THE BONDS REFERRED TO IN THIS OFFERING MEMORANDUM ARE SUBJECT TO MODIFICATION OR REVISION (INCLUDING THE POSSIBILITY THAT ONE OR MORE TRANCHES OF BONDS MAY BE SPLIT, COMBINED OR ELIMINATED AT ANY TIME PRIOR TO ISSUANCE OR AVAILABILITY OF A FINAL MEMORANDUM) AND ARE OFFERED ON A "WHEN, AS AND IF ISSUED" BASIS. PROSPECTIVE INVESTORS SHOULD UNDERSTAND THAT, WHEN CONSIDERING THE PURCHASE OF THESE BONDS, AS TO ANY INVESTOR A CONTRACT OF SALE WILL COME INTO BEING NO SOONER THAN THE DATE ON WHICH THE REPRESENTATIVES OF THE INITIAL PURCHASERS HAVE CONFIRMED TO THE INVESTOR THE SALE OF A SPECIFIED AMOUNT OF THE RELEVANT TRANCHES OF BONDS AT A SPECIFIED PRICE, ANY "INDICATIONS OF INTEREST" EXPRESSED BY ANY PROSPECTIVE INVESTOR, AND ANY "SOFT CIRCLES" GENERATED BY THE INITIAL PURCHASERS, WILL NOT CREATE BINDING CONTRACTUAL OBLIGATIONS FOR SUCH PROSPECTIVE INVESTORS, ON THE ONE HAND, OR THE INITIAL PURCHASERS OR ANY OF THEIR RESPECTIVE AGENTS OR AFFILIATES, ON THE OTHER HAND.

AS A RESULT OF THE FOREGOING, A PROSPECTIVE INVESTOR MAY COMMIT TO PURCHASE BONDS THAT HAVE CHARACTERISTICS THAT MAY CHANGE, AND EACH PROSPECTIVE INVESTOR IS ADVISED THAT ALL OR A PORTION OF THE BONDS REFERRED TO IN THIS OFFERING MEMORANDUM MAY BE ISSUED WITHOUT ALL OR CERTAIN OF THE CHARACTERISTICS DESCRIBED IN THIS OFFERING MEMORANDUM OR MAY BE ISSUED WITH CHARACTERISTICS THAT DIFFER FROM THE CHARACTERISTICS DESCRIBED IN THIS OFFERING MEMORANDUM. THE INITIAL PURCHASERS' OBLIGATIONS TO SELL BONDS TO ANY PROSPECTIVE INVESTOR IS CONDITIONED ON THE BONDS AND THE TRANSACTION HAVING THE CHARACTERISTICS DESCRIBED HEREIN. IF THE INITIAL PURCHASERS DETERMINE THAT ONE OR MORE CONDITIONS ARE NOT SATISFIED IN ANY MATERIAL RESPECT, SUCH PROSPECTIVE INVESTOR WILL BE NOTIFIED, AND NEITHER THE INITIAL PURCHASERS NOR ANY OF THEIR AGENTS OR AFFILIATES WILL HAVE ANY OBLIGATION TO SUCH PROSPECTIVE INVESTOR TO DELIVER ANY PORTION OF THE BONDS WHICH SUCH PROSPECTIVE INVESTOR HAS COMMITTED TO PURCHASE, AND THERE WILL BE NO LIABILITY BETWEEN THE INITIAL PURCHASERS OR ANY OF THEIR RESPECTIVE AGENTS OR AFFILIATES, ON THE ONE HAND, AND SUCH PROSPECTIVE INVESTOR, ON THE OTHER HAND, AS A CONSEQUENCE OF SUCH NON- DELIVERY.

THIS OFFERING MEMORANDUM IS PERSONAL TO EACH OFFEREE AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON OR TO THE PUBLIC GENERALLY TO SUBSCRIBE FOR OR OTHERWISE ACQUIRE THE BONDS. DISTRIBUTION OF THIS OFFERING MEMORANDUM TO ANY PERSON OTHER THAN THE OFFEREE AND THOSE PERSONS, IF ANY, RETAINED TO ADVISE SUCH OFFEREE WITH RESPECT THERETO IS UNAUTHORIZED, AND ANY DISCLOSURE OF ANY OF THE CONTENTS THEREOF OR HEREOF WITHOUT THE PRIOR WRITTEN CONSENT OF THE ISSUING ENTITY IS PROHIBITED. EACH PROSPECTIVE INVESTOR, BY ACCEPTING DELIVERY OF THIS OFFERING MEMORANDUM, AGREES TO THE FOREGOING AND THAT IT WILL NOT MAKE ANY COPIES OF, NOR FORWARD, THIS OFFERING MEMORANDUM OR ANY DOCUMENTS REFERRED TO HEREIN AND, IF THE OFFEREE DOES NOT PURCHASE ANY BONDS OR THIS OFFERING IS TERMINATED, TO RETURN TO THE ISSUING ENTITY THIS OFFERING MEMORANDUM, AND ALL DOCUMENTS DELIVERED HERewith.

THIS OFFERING MEMORANDUM HAS BEEN PREPARED BY THE ISSUING ENTITY AND ERCOT, AS SPONSOR AND DEPOSITOR, SOLELY FOR USE IN CONNECTION WITH THE SALE OF THE BONDS. NONE OF THE SPONSOR, THE ISSUING ENTITY, THE SERVICER, THE SELLER, THE TRUSTEE OR THE INITIAL PURCHASERS MAKES ANY REPRESENTATIONS OR WARRANTIES AS TO THE FUTURE PERFORMANCE OF THE ISSUING ENTITY OR THE BONDS.

INVESTORS INTERESTED IN PARTICIPATING IN THIS OFFERING SHOULD CONDUCT AN INDEPENDENT INVESTIGATION OF THE RISKS POSED BY AN INVESTMENT IN THE BONDS. REPRESENTATIVES OF THE ISSUING ENTITY AND THE SPONSOR WILL BE AVAILABLE TO ANSWER QUESTIONS CONCERNING THE BONDS AND WILL, UPON REQUEST, MAKE AVAILABLE SUCH OTHER INFORMATION AS INVESTORS MAY REASONABLY REQUEST.

THE APPROPRIATE CHARACTERIZATION OF THE BONDS UNDER VARIOUS LEGAL INVESTMENT RESTRICTIONS, AND THUS THE ABILITY OF INVESTORS SUBJECT TO THESE RESTRICTIONS TO PURCHASE SUCH BONDS, IS SUBJECT TO SIGNIFICANT INTERPRETIVE UNCERTAINTIES. ACCORDINGLY, INVESTORS WHOSE INVESTMENT AUTHORITY IS SUBJECT TO LEGAL RESTRICTIONS SHOULD CONSULT THEIR OWN LEGAL ADVISORS TO DETERMINE WHETHER AND TO WHAT EXTENT THE BONDS CONSTITUTE LEGAL INVESTMENTS FOR THEM.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with sales of the Bonds, the Issuing Entity Agent will be required to furnish, upon the request of any holder of the Bonds, to such holder and a prospective investor designated by such holder, the information required to be delivered under the SEC's promulgating release for Rule 144A and Rule 144A(d)(4) under the Securities Act. Also, certain reports will be posted on the sponsor's website at <https://www.ercot.com/about/hb4492securitization/subchaptern>.

EU AND UK SECURITIZATION RISK RETENTION

None of the Sponsor, the Issuing Entity or the Initial Purchasers consider that the Bonds fall within the definition of a "securitization" for the purposes of the EU Securitization Rules or the UK Securitization Rules and therefore none of the Sponsor, the Issuing Entity or the Initial Purchasers or any other party to the transaction intends, or is required, to retain a material net economic interest in the securitization constituted by the issuance of the securities in a manner that would satisfy any requirements of the EU Securitization Rules or the UK Securitization Rules. In addition, no such person undertakes, or makes any representation or agreement that it or any other party will take any other action, or refrain from taking any action, prescribed or contemplated in, or for purposes of, or in connection with, compliance by any investor with any applicable requirement of, the EU Securitization Rules or the UK Securitization Rules. However, if a competent authority were to take a contrary view and determine that the transactions described in this Offering Memorandum do constitute a "securitization" for the purposes of the EU Securitization Regulation or the UK Securitization Regulation, then any failure by an affected investor to comply with any applicable EU Securitization Rules or the UK Securitization Rules (as applicable) with respect to an investment in the Bonds may result in the imposition of a penal regulatory capital charge on that investment or of other regulatory sanctions and remedial measures.

Consequently, the Bonds may not be a suitable investment for affected investors. As a result, the price and liquidity of the Bonds in the secondary market may be adversely affected.

Prospective investors are responsible for analyzing their own legal and regulatory position and are advised to consult with their own advisors and any relevant regulator or other authority regarding the scope applicability and compliance requirements of the EU Securitization Rules and the UK Securitization Rules, and the suitability of the Bonds for investment. None of the Sponsor, the Issuing Entity or the Initial Purchasers, nor any other party to the transactions described in this Offering Memorandum make any representations as to any such matter, or have any liability to any investor (or any other person) for any non-compliance by any such person with the EU Securitization Rules, the UK Securitization Rules or any other applicable legal, regulatory or other requirements.

For further information concerning the EU Securitization Rules and the UK Securitization Rules, see "*European Union and United Kingdom Securitization Rules may apply and the Bonds may not be suitable investments for certain investors*" in this Offering Memorandum.

NOTICE TO UNITED KINGDOM INVESTORS

THIS OFFERING MEMORANDUM IS NOT A PROSPECTUS FOR THE PURPOSES OF REGULATION (EU) 2017/1129 (AS AMENDED), AS IT FORMS PART OF UK DOMESTIC LAW BY VIRTUE OF THE UK'S EUROPEAN UNION (WITHDRAWAL) ACT 2018, OR THE **UK PROSPECTUS REGULATION**.

THE DISTRIBUTION OF THIS OFFERING MEMORANDUM AND ANY OTHER MATERIAL IN RELATION TO THE BONDS IS ONLY BEING DISTRIBUTED TO AND IS DIRECTED IN THE UNITED KINGDOM ONLY AT PERSONS WHO ARE "QUALIFIED INVESTORS" (AS DEFINED IN THE UK PROSPECTUS REGULATION) WHO ARE (1) "INVESTMENT PROFESSIONALS" FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED, OR THE **FINANCIAL PROMOTION ORDER**, OR (2) HIGH NET WORTH ENTITIES OR OTHER PERSONS FALLING WITHIN ARTICLES 49(2)(A) THROUGH (D) OF THE FINANCIAL PROMOTION ORDER OR (3) PERSONS WHO OTHERWISE FALL WITHIN AN EXEMPTION SET FORTH IN THE FINANCIAL PROMOTION ORDER SO THAT SECTION 21(1) OF THE FINANCIAL SERVICES AND MARKETS ACT, OR **FSMA**, DOES NOT APPLY TO THE ISSUING ENTITY (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS THE "RELEVANT PERSONS"). THIS OFFERING MEMORANDUM MUST NOT BE ACTED ON OR RELIED ON IN THE UNITED KINGDOM BY PERSONS WHO ARE NOT RELEVANT PERSONS AND ONLY RELEVANT PERSONS MAY INVEST IN THE BONDS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING MEMORANDUM RELATES, INCLUDING THE BONDS AND ANY INVITATION, OFFER OR, AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH BONDS IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. THIS OFFERING MEMORANDUM AND ITS CONTENTS ARE CONFIDENTIAL AND NO PART OF THIS OFFERING MEMORANDUM SHOULD BE PUBLISHED, REPRODUCED, DISTRIBUTED OR OTHERWISE MADE AVAILABLE IN WHOLE OR IN PART TO ANY OTHER PERSON IN THE UNITED KINGDOM. THE BONDS ARE NOT BEING OFFERED OR SOLD TO ANY PERSON IN THE UNITED KINGDOM, EXCEPT IN CIRCUMSTANCES WHICH WILL NOT RESULT IN AN OFFER OF SECURITIES TO THE PUBLIC IN THE UNITED KINGDOM WITHIN THE MEANING OF PART VI OF THE FSMA.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS OFFERING MEMORANDUM OR ANY OTHER EXPRESS OR IMPLIED AGREEMENT TO THE CONTRARY, EACH PROSPECTIVE INVESTOR (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF EACH PROSPECTIVE INVESTOR) OF THE BONDS MAY

DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF AN INVESTMENT IN THE BONDS OFFERED HEREBY AND ALL MATERIALS OF ANY KIND THAT ARE PROVIDED TO SUCH PROSPECTIVE INVESTOR (OR ITS AGENT) RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE (AS SUCH TERMS ARE DEFINED IN U.S. TREASURY REGULATIONS SECTION 1.6011-4). THIS AUTHORIZATION OF TAX DISCLOSURE IS RETROACTIVELY EFFECTIVE TO THE COMMENCEMENT OF DISCUSSIONS WITH THE PROSPECTIVE INVESTOR REGARDING THE TRANSACTIONS CONTEMPLATED HEREIN.

PROSPECTIVE INVESTORS IN THE UNITED KINGDOM ARE ADVISED THAT ALL, OR MOST, OF THE PROTECTIONS AFFORDED BY THE UNITED KINGDOM REGULATORY SYSTEM WILL NOT APPLY TO AN INVESTMENT IN THE BONDS AND THAT COMPENSATION WILL NOT BE AVAILABLE UNDER THE UNITED KINGDOM FINANCIAL SERVICES COMPENSATION SCHEME.

THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO, AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO, ANY UK RETAIL INVESTOR IN THE UNITED KINGDOM. FOR THIS PURPOSE, THE EXPRESSION "RETAIL INVESTOR" MEANS A PERSON WHO IS ONE (OR MORE) OF THE FOLLOWING: (1) A RETAIL CLIENT, AS DEFINED IN POINT (8) OF ARTICLE 2 OF COMMISSION DELEGATED REGULATION (EU) NO 2017/565, AS IT FORMS PART OF UK DOMESTIC LAW BY VIRTUE OF THE UK'S EUROPEAN UNION (WITHDRAWAL) ACT 2018; OR (II) A CUSTOMER WITHIN THE MEANING OF THE PROVISIONS OF THE FSMA AND ANY RULES OR REGULATIONS MADE UNDER THE FSMA TO IMPLEMENT DIRECTIVE (EU) 2016/97, WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT, AS DEFINED IN POINT (8) OF ARTICLE 2(1) OF REGULATION (EU) NO 600/2014, AS IT FORMS PART OF UK DOMESTIC LAW BY VIRTUE OF THE UK'S EUROPEAN UNION (WITHDRAWAL) ACT 2018, AS AMENDED; OR (III) NOT A QUALIFIED INVESTOR, OR **UK QUALIFIED INVESTOR**, AS DEFINED IN ARTICLE 2 OF REGULATION (EU) 2017/1129, AS IT FORMS PART OF UK DOMESTIC LAW BY VIRTUE OF THE UK'S EUROPEAN UNION (WITHDRAWAL) ACT 2018.

CONSEQUENTLY NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014, AS IT FORMS PART OF UK DOMESTIC LAW BY VIRTUE OF THE UK'S EUROPEAN UNION (WITHDRAWAL) ACT 2018, AS AMENDED, OR THE **UK PRIIPS REGULATION**, FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE UNITED KINGDOM HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE UNITED KINGDOM MAY BE UNLAWFUL UNDER THE UK PRIIPS REGULATION.

THIS OFFERING MEMORANDUM HAS BEEN PREPARED ON THE BASIS THAT ANY OFFER OF THE BONDS IN THE UNITED KINGDOM WILL BE MADE PURSUANT TO AN EXEMPTION UNDER THE UK PROSPECTUS REGULATION FROM A REQUIREMENT TO PUBLISH A PROSPECTUS FOR OFFERS OF SECURITIES.

NOTICE TO EUROPEAN ECONOMIC AREA RESIDENTS

THIS OFFERING MEMORANDUM IS NOT A PROSPECTUS FOR THE PURPOSES OF REGULATION (EU) 2017/1129, OR THE **EU PROSPECTUS REGULATION**.

THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA, OR THE **EEA**. FOR THESE PURPOSES, THE EXPRESSION "RETAIL INVESTOR" MEANS A PERSON WHO IS ONE (OR MORE) OF THE FOLLOWING: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU, AS AMENDED, OR **EU MIFID II**; OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97, AS AMENDED, OR THE **INSURANCE DISTRIBUTION DIRECTIVE**, WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF EU MIFID II; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN THE EU PROSPECTUS REGULATION.

CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014, AS AMENDED, OR THE **EU PRIIPS REGULATION**, FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE EU PRIIPS REGULATION.

THIS OFFERING MEMORANDUM HAS BEEN PREPARED ON THE BASIS THAT ANY OFFER OF THE BONDS IN ANY MEMBER STATE OR THE EEA, OR A **RELEVANT STATE**, WILL BE MADE ONLY PURSUANT TO AN EXEMPTION UNDER THE EU PROSPECTUS REGULATION FROM THE REQUIREMENT TO PUBLISH A PROSPECTUS FOR OFFERS OF BONDS. ACCORDINGLY ANY PERSON MAKING OR INTENDING TO MAKE AN OFFER IN THAT RELEVANT STATE OF BONDS WHICH ARE THE SUBJECT OF THE OFFERING CONTEMPLATED IN THIS OFFERING MEMORANDUM MAY ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUING

ENTITY OR SPONSOR TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE EU PROSPECTUS REGULATION, IN RELATION TO SUCH OFFER. NEITHER THE ISSUING ENTITY NOR THE SPONSOR HAVE AUTHORISED NOR DO THEY AUTHORISE THE MAKING OF ANY OFFER OF BONDS IN CIRCUMSTANCES IN WHICH AN OBLIGATION ARISES FOR THE ISSUING ENTITY OR THE SPONSOR TO PUBLISH A PROSPECTUS FOR SUCH OFFER.

EU MIFID II PRODUCT GOVERNANCE

SOLELY FOR THE PURPOSES OF THE MANUFACTURER'S PRODUCT APPROVAL PROCESS, THE TARGET MARKET ASSESSMENT IN RESPECT OF THE BONDS HAVE LED TO THE CONCLUSION THAT: (I) THE TARGET MARKET FOR THE BONDS IS ELIGIBLE COUNTERPARTIES AND PROFESSIONAL CLIENTS ONLY, EACH AS DEFINED IN EU MIFID II; AND (II) ALL CHANNELS FOR DISTRIBUTION OF THE BONDS TO ELIGIBLE COUNTERPARTIES AND PROFESSIONAL CLIENTS ARE APPROPRIATE. ANY PERSON SUBSEQUENTLY OFFERING, SELLING OR RECOMMENDING THE BONDS, OR A **DISTRIBUTOR**, SHOULD TAKE INTO CONSIDERATION THE MANUFACTURER'S TARGET MARKET ASSESSMENT; HOWEVER, A DISTRIBUTOR SUBJECT TO EU MIFID II IS RESPONSIBLE FOR UNDERTAKING ITS OWN TARGET MARKET ASSESSMENT IN RESPECT OF THE BONDS (BY EITHER ADOPTING OR REFINING THE MANUFACTURER'S TARGET MARKET ASSESSMENT) AND DETERMINING APPROPRIATE DISTRIBUTION CHANNELS FOR THE PURPOSES OF THE EU MIFID II PRODUCT GOVERNANCE RULES UNDER EU DELEGATED DIRECTIVE (EU) 2017/593 AS AMENDED THE DELEGATED DIRECTIVE). NONE OF THE SPONSOR THE ISSUING ENTITY OR THE INITIAL PURCHASERS OR ANY OTHER PARTY TO THE TRANSACTION MAKES ANY REPRESENTATIONS OR WARRANTIES AS TO A DISTRIBUTOR'S COMPLIANCE WITH THE DELEGATED DIRECTIVE.

UK MIFID II PRODUCT GOVERNANCE

SOLELY FOR THE PURPOSES OF THE MANUFACTURER'S PRODUCT APPROVAL PROCESS, THE TARGET MARKET ASSESSMENT IN RESPECT OF THE BONDS HAVE LED TO THE CONCLUSION THAT: (I) THE TARGET MARKET FOR THE BONDS IS ONLY ELIGIBLE COUNTERPARTIES, AS DEFINED IN THE UK'S FINANCIAL CONDUCT AUTHORITY, OR THE **FCA**, HANDBOOK CONDUCT OF BUSINESS SOURCEBOOK, OR **COBS**, AND PROFESSIONAL CLIENTS, AS DEFINED IN REGULATION (EU) NO600/2014 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE UK'S EUROPEAN UNION(WITHDRAWAL) ACT 2018, OR **UK MIFIR**; AND (II) ALL CHANNELS FOR DISTRIBUTION OF THE BONDS TO ELIGIBLE COUNTERPARTIES AND PROFESSIONAL CLIENTS ARE APPROPRIATE. ANY PERSON SUBSEQUENTLY OFFERING, SELLING OR RECOMMENDING THE BONDS, OR A **DISTRIBUTOR**, SHOULD TAKE INTO CONSIDERATION THE MANUFACTURER'S TARGET MARKET ASSESSMENT; HOWEVER, A DISTRIBUTOR SUBJECT TO THE FCA HANDBOOK PRODUCT INTERVENTION AND PRODUCT GOVERNANCE SOURCEBOOK, OR THE **UK MIFIR PRODUCT GOVERNANCE RULES**, IS RESPONSIBLE FOR UNDERTAKING ITS OWN TARGET MARKET ASSESSMENT IN RESPECT OF THE BONDS (BY EITHER ADOPTING OR REFINING THE MANUFACTURER'S TARGET MARKET ASSESSMENT) AND DETERMINING APPROPRIATE DISTRIBUTION CHANNELS. NONE OF THE SPONSOR, THE ISSUING ENTITY, THE INITIAL PURCHASERS OR ANY OTHER PARTY TO THE TRANSACTION MAKES ANY REPRESENTATIONS OR WARRANTIES AS TO A DISTRIBUTOR'S COMPLIANCE WITH THE UK MIFIR PRODUCT GOVERNANCE RULES.

NOTICE TO RESIDENTS OF CANADA

THIS OFFERING MEMORANDUM IS NOT AND IS UNDER NO CIRCUMSTANCES TO BE CONSTRUED AS A PROSPECTUS, AN ADVERTISEMENT OR A PUBLIC OFFERING OF THE BONDS IN CANADA. NO SECURITIES COMMISSION OR SIMILAR REGULATORY AUTHORITY IN CANADA HAS REVIEWED OR IN ANY WAY PASSED UPON THIS OFFERING MEMORANDUM OR THE MERITS OF THE BONDS AND ANY REPRESENTATION TO THE CONTRARY IS AN OFFENCE.

THE BONDS MAY BE SOLD IN THE PROVINCES OF ALBERTA, BRITISH COLUMBIA, MANITOBA, NEWBRUNSWICK, NOVA SCOTIA, ONTARIO AND QUÉBEC, CANADA, OR THE **SUBJECT PROVINCES**, ONLY TO PURCHASERS PURCHASING, OR DEEMED TO BE PURCHASING, AS PRINCIPAL THAT ARE ACCREDITED INVESTORS, AS DEFINED IN NATIONAL INSTRUMENT 45-106 PROSPECTUS EXEMPTIONS OR SUBSECTION 73.3(1) OF THE SECURITIES ACT (ONTARIO), AND ARE PERMITTED CLIENTS, AS DEFINED IN NATIONAL INSTRUMENT 31-103 REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS THROUGH A DEALER THAT IS PROPERLY REGISTERED UNDER THE SECURITIES LEGISLATION OF THE SUBJECT PROVINCE WHERE THE BONDS ARE OFFERED AND/OR SOLD OR, ALTERNATIVELY, BY A DEALER THAT QUALIFIES UNDER AND IS RELYING UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREIN. THE DISTRIBUTION OF THE BONDS IS BEING MADE IN THE SUBJECT PROVINCES ON A PRIVATE PLACEMENT BASIS EXEMPT FROM THE REQUIREMENT THAT THE ISSUING ENTITY PREPARE AND FILE A PROSPECTUS WITH THE RELEVANT CANADIAN SECURITIES REGULATORY AUTHORITIES. ANY RESALE OF THE BONDS MUST BE MADE IN ACCORDANCE WITH AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE PROSPECTUS REQUIREMENTS OF APPLICABLE SECURITIES LAWS. CANADIAN PURCHASERS ARE ADVISED TO SEEK LEGAL ADVICE PRIOR TO ANY RESALE OF THE SECURITIES.

THE DEALER MAY HAVE AN OWNERSHIP, LENDING OR OTHER RELATIONSHIP WITH THE ISSUING ENTITY OF THE SECURITIES OFFERED BY THIS OFFERING MEMORANDUM THAT MAY CAUSE THE ISSUING ENTITY TO BE A **RELATED ISSUER** OR **CONNECTED ISSUER** TO THE DEALER, AS SUCH TERMS ARE DEFINED IN NATIONAL INSTRUMENT 33-105 – UNDERWRITING CONFLICTS, OR **NI 33-105**. PURSUANT TO SECTION 3A.3 OF NI 33-105, THE DEALER AND THE ISSUING ENTITY ARE RELYING ON AN EXEMPTION FROM THE DISCLOSURE REQUIREMENTS RELATING TO THE RELATIONSHIP BETWEEN THE DEALER AND THE ISSUING ENTITY PRESCRIBED BY SECTION 2.1(1) OF NI 33-105.

SECURITIES LEGISLATION IN THE RELEVANT PROVINCES MAY PROVIDE A PURCHASER WITH OR REQUIRES A PURCHASER TO BE PROVIDED WITH REMEDIES FOR RESCISSION OR DAMAGES IF THIS OFFERING MEMORANDUM (INCLUDING ANY AMENDMENT THERETO) CONTAINS A MISREPRESENTATION, PROVIDED THAT THE REMEDIES FOR RESCISSION OR DAMAGES ARE EXERCISED BY THE PURCHASER WITHIN THE TIME LIMIT PRESCRIBED BY THE SECURITIES LEGISLATION OF THE PURCHASER'S PROVINCE. THE PURCHASER SHOULD REFER TO ANY APPLICABLE PROVISIONS OF THE SECURITIES LEGISLATION OF THE PURCHASER'S PROVINCE FOR PARTICULARS OF THESE RIGHTS OR CONSULT WITH A LEGAL ADVISOR.

NO REPRESENTATION OR WARRANTY IS MADE AS TO THE TAX CONSEQUENCES TO A RESIDENT OF CANADA OF AN INVESTMENT IN THE BONDS. CANADIAN PURCHASERS SHOULD CONSULT WITH THEIR OWN LEGAL, FINANCIAL AND TAX ADVISERS WITH RESPECT TO THE TAX CONSEQUENCES OF AN INVESTMENT IN THE BONDS IN THEIR PARTICULAR CIRCUMSTANCES AND WITH RESPECT TO ELIGIBILITY OF AN INVESTMENT IN THE BONDS FOR INVESTMENT BY THE PURCHASER UNDER APPLICABLE CANADIAN FEDERAL AND PROVINCIAL LEGISLATION AND REGULATIONS. PROSPECTIVE PURCHASERS IN THE RECOVERY BONDS ARE STRONGLY ADVISED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE CANADIAN AND OTHER TAX CONSIDERATIONS APPLICABLE TO THEM.

UPON RECEIPT OF THIS OFFERING MEMORANDUM, EACH CANADIAN INVESTOR HEREBY CONFIRMS THAT IT HAS EXPRESSLY REQUESTED THAT ALL DOCUMENTS EVIDENCING OR RELATING IN ANY WAY TO THE SALE OF THE SECURITIES DESCRIBED HEREIN (INCLUDING FOR GREATER CERTAINTY ANY PURCHASE CONFIRMATION OR ANY NOTICE) BE DRAWN UP IN THE ENGLISH LANGUAGE ONLY. PAR LA RÉCEPTION DE CE DOCUMENT, CHAQUE INVESTISSEUR CANADIEN CONFIRME PAR LES PRÉSENTES QU'IL A EXPRESSÉMENT EXIGÉ QUE TOUS LES DOCUMENTS FAISANT FOI OU SE RAPPORTANT DE QUELQUE MANIÈRE QUE CE SOIT À LA VENTE DES VALEURS MOBILIÈRES DÉCRITES AUX PRÉSENTES (INCLUANT, POUR PLUS DE CERTITUDE, TOUTE CONFIRMATION D'ACHAT OU TOUT AVIS) SOIENT RÉDIGÉS EN ANGLAIS SEULEMENT.

NOTICE TO PROSPECTIVE INVESTORS IN JAPAN

The Bonds offered in this Offering Memorandum have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, or **FIEL**. The Initial Purchasers have represented and agreed that the Bonds have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term, as used in this paragraph means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except (i) pursuant to an exemption from the registration requirements of the FIEL and (ii) in compliance with any other applicable laws, regulations and ministerial guidelines of Japan.

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ABOUT THIS OFFERING MEMORANDUM

This Offering Memorandum provides information about us, the Bonds and ERCOT, the depositor, sponsor and initial servicer. This Offering Memorandum describes the terms of the Bonds offered hereby. You should carefully review this Offering Memorandum, and the information, if any, contained in the documents referenced in this Offering Memorandum under the heading "Where Prospective Investors Can Find More Information."

References in this Offering Memorandum to the term **we**, **us**, or the Issuing Entity mean Texas Electric Market Stabilization Funding N LLC, a Delaware limited liability company, the entity which will issue the Bonds. References to the **"Texas Stabilization Subchapter N Bonds"** or the **"Bonds,"** unless the context otherwise requires, means the Texas Electric Market Stabilization Funding N LLC Texas Stabilization Subchapter N Bonds, Series 2022 offered pursuant to this Offering Memorandum. References to **ERCOT**, the **seller**, the **depositor** or the **sponsor** mean Electric Reliability Council of Texas, Inc., a nonprofit corporation described in Section 501(c)(4) of the Internal Revenue Code of 1986, as amended, organized under the laws of the state of Texas. References to the **"bondholders"** refer to the registered bondholders of the Texas Stabilization Subchapter N Bonds. References to the servicer refer to ERCOT and any successor servicer under the servicing agreement referred to in this Offering Memorandum. References to **"PURA"** refer to the Texas Public Utility Regulatory Act, as codified in Title II of the Texas Utilities Code. The Texas Legislature, or the **Legislature**, amended PURA, effective as of June 16, 2021, by adding among other things, Subchapter N to Chapter 39, which provides for recovery of the uplift balance incurred as a result of Winter Storm Uri in Texas in February 2021. We refer to this legislation as **"Subchapter N."** Unless the context otherwise requires, the term load serving entities, referred to herein as **LSEs**, means a municipally owned utility, an electric cooperative, or a retail electric provider within the ERCOT power region. References to **obligated LSEs** refer to LSEs who have not opted out in accordance with Subchapter N and are not otherwise exempt from paying uplift charges under PURA. ERCOT may recover costs associated with implementing the debt obligation order, or **costs**, through nonbypassable uplift charges assessed on Qualified Scheduling Entities representing obligated LSEs, referred to herein as **responsible QSEs**, within the ERCOT power region market. References to **QSEs** refer to qualified scheduling entities as defined in the glossary. References to the **Commission** refer to the Public Utility Commission of Texas. You can find a glossary of some of the other defined terms we use in this Offering Memorandum beginning on page 129 of this Offering Memorandum.

We have included cross-references to sections in this Offering Memorandum where you can find further related discussions. You can also find key topics in the table of contents on the preceding pages. Check the table of contents to locate these sections.

You should rely only on the information contained in this Offering Memorandum specifying the terms of this offering. Neither we nor any Initial Purchaser, agent, dealer, salesperson, the Commission or ERCOT has authorized anyone else to provide you with any different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not offering to sell the Bonds in any jurisdiction where the offer or sale is not permitted. The information in this Offering Memorandum is current only as of the date of this Offering Memorandum.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Some statements contained in this Offering Memorandum concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are not historical facts, including statements in the documents that are incorporated by reference as discussed in this Offering Memorandum under the heading "Where Prospective Investors Can Find More Information," are *forward-looking statements* within the meaning of the federal securities laws. Actual events or results may differ materially from those expressed or implied by these statements. In some cases, you can identify our forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "will," or other similar words.

We have based our forward-looking statements on our management's beliefs, expectations and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual events or results will not differ materially from those expressed or implied by our forward-looking statements. In light of these risks and uncertainties, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. For additional details regarding these and other risks and uncertainties, see "Risk Factors" in this Offering Memorandum.

The following are some of the factors that could cause actual results to differ from those expressed or implied by our forward-looking statements:

- state and federal legislative, judicial and regulatory actions or developments, including deregulation, reregulation, restructuring of the electric industry and changes in, or changes in application of, laws or regulations applicable to various aspects of ERCOT's business;
- non-payment of uplift charges due to financial distress of responsible QSEs;
- changes in market demand and demographic patterns or activity within the ERCOT power region;
- weather variations, natural disasters and other natural phenomena, including hurricanes, tropical storms, ice or snow, wildfires, earthquakes, floods and other weather-related events affecting market activity within the ERCOT power region, the ability of responsible QSEs or obligated LSEs to pay uplift charges, or ERCOT's ability to service the uplift property;
- pandemics, such as the novel coronavirus (COVID-19), and other events that cause regional, statewide, national or global disruption which could impact, among other things, electric market activity within the ERCOT power region;
- the implementation and reliability of the systems, procedures and other infrastructure necessary to operate the ERCOT System, including the systems owned and operated by ERCOT and the obligated LSEs;
- national or regional economic conditions affecting electric market activity within the ERCOT power region;
- direct or indirect results of cyber-attacks, security breaches or other attempts to disrupt the business of responsible QSEs, obligated LSEs, ERCOT, critical vendors, or the Issuing Entity;
- other unforeseen circumstances causing financial distress of responsible QSEs or obligated LSEs;
- any expectations regarding the outcome of any currently pending litigation or future litigation against or otherwise affecting ERCOT or the Issuing Entity, and the effect of any such litigation on ERCOT's or the Issuing Entity's financial condition or ability to fulfill their respective obligations under the basic documents;
- acts of war or terrorism or other catastrophic events affecting electric market activity in the ERCOT power region; and
- other factors we discuss in this Offering Memorandum.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to update or revise any forward-looking statement, including unanticipated events, after the date on which such statement is made. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

OFFERING MEMORANDUM SUMMARY OF TERMS

The following section is only a summary of selected information and does not provide you with all the information you will need to make your investment decision. There is more detailed information in this Offering Memorandum. To understand all of the terms of the offering of the Bonds, carefully read this entire Offering Memorandum. **You should carefully consider the Risk Factors beginning on page 20 of this Offering Memorandum before you invest in the Bonds.**

Securities Offered:

\$2,115,700,000 Texas Stabilization Subchapter N Bonds, Series 2022, scheduled to pay principal semi-annually and sequentially in accordance with the expected amortization schedule. Only the Bonds are being offered through this Offering Memorandum.

<u>Tranche</u>	<u>Principal Amount</u>
Tranche A-1	\$600,000,000
Tranche A-2	\$600,000,000
Tranche A-3	\$457,900,000
Tranche A-4	\$457,800,000

Issuing Entity and Capital Structure:

Texas Electric Market Stabilization Funding N LLC is a special purpose Delaware limited liability company. We have no commercial operations. We were formed solely to purchase and own uplift property, to issue bonds (including the Bonds) secured by uplift property and to perform activities incidental thereto and our organizational documents prohibit us from engaging in any other activity except as specifically authorized by the debt obligation order and any debt obligation order for Additional Bonds. The Texas Stabilization Subchapter N Bonds are the only bonds which we have issued. We may issue Additional Bonds secured by additional uplift property, subject to certain conditions and only as authorized under a separate debt obligation order. Please read "Texas Electric Market Stabilization Funding N LLC, the Issuing Entity" in this Offering Memorandum.

We will be capitalized with an upfront cash deposit from ERCOT (to be held in the capital subaccount) and will have an excess funds subaccount to retain, until each successive payment date, any amounts collected and remaining after all scheduled payments due on such payment date for the Bonds have been made.

Our capital will be equal to at least 0.5% of the aggregate principal amount of the Bonds issued and in an amount that will allow us to achieve the desired credit rating on the Bonds and to treat the Bonds as debt under applicable U.S. federal income tax rules, and other guidance issued by the Internal Revenue Service, which we also refer to as the **IRS**.

Our Address:

8000 Metropolis Drive (Building E), Suite 100
Austin, Texas 78744

Our Telephone Number:

(512) 225-7000

Depositor, Seller, Initial Servicer and Sponsor; The Commission and Legislature's Relationship with ERCOT:

Electric Reliability Council of Texas, Inc., referred to as **ERCOT**, is a non-profit corporation organized under Texas law serving as an Independent System Operator responsible for managing the flow of electric power to more than 26 million Texas consumers. ERCOT was certified by the Public Utility Commission of Texas, effective as of November 10, 2000, as the independent organization to perform the functions

mandated under PURA § 31.159(a). ERCOT is governed by a board of directors and subject to oversight by the Commission and the Legislature. The board of directors consists of 11 members including eight directors appointed by a three-member nominating committee with such committee members being appointed one each by the Governor of Texas, the Lieutenant Governor of Texas, and the Speaker of the House of Texas. The remaining three members of the Board of Directors of ERCOT consist of the chair of the Commission as an ex officio non-voting member, the chief executive officer of ERCOT as an ex officio non-voting member, and the Public Counsel of the Office of Public Utility Counsel as an ex officio voting member.

As the Independent System Operator for the ERCOT power region, ERCOT schedules power on an electric grid that connects more than 52,700 miles of transmission lines and over 1,030 generation units. It also performs financial settlement for the competitive wholesale bulk-power market in Texas and administers retail switching for 8 million premises in areas where customers can choose among various providers, fuel types and energy programs. As an Independent System Operator performing an exchange function, ERCOT acts as the central counterparty for all ERCOT power market transactions. However, it does not take market positions by purchasing or delivering electricity on its own account and is not exposed to such market-making risks. The Bonds do not constitute a debt, liability or other legal obligation of ERCOT.

ERCOT, acting as the initial servicer, and any successor servicer, referred to in this Offering Memorandum as the servicer, will service the uplift property under a servicing agreement with us. Please read "ERCOT: The Depositor, Seller, Initial Servicer and Sponsor" and "The Servicing Agreement" in this Offering Memorandum.

ERCOT currently provides such services under a separate servicing agreement for separate property, referred to as default property, securing bonds issued by another wholly owned subsidiary of ERCOT: **Texas Electric Market Stabilization Funding M LLC** referred to as **Texas Funding M**. Please read "Relationship to the Texas Stabilization M Bonds, Series 2021" in this Offering Memorandum.

ERCOT's Address:

8000 Metropolis Drive (Building E), Suite 100
Austin, Texas 78744

ERCOT's Phone Number:

(512) 225-7000

Our Relationship with the Commission as it relates to Structuring of the Texas Stabilization Subchapter N Bonds:

- The Commission or its designated representative has a joint decision-making role co-equal with ERCOT with respect to the structuring and pricing of the Bonds and all matters related to the structuring and pricing of the Bonds will be determined through a joint decision of ERCOT and the Commission or its designated representative; however, the Commission retains final authority to determine if the proposed issuance of the Bonds complies with PURA and the debt obligation order.
- ERCOT is directed to 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 power over, the proposed securitization.

- The servicer will file periodic adjustments to the uplift charges with the Commission on our behalf.

We have agreed that certain reports concerning uplift charge collections will be provided to the Commission.

Trustee:

U.S. Bank Trust Company, National Association, a national banking association, is serving as Trustee. Please read "The Trustee" in this Offering Memorandum for a description of the Trustee's duties and responsibilities under the indenture. An affiliate of the Trustee, U.S. Bank National Association, a national banking association, serves as the Securities Intermediary and also serves as Trustee for the Texas Stabilization M Bonds.

Purpose of Transaction:

This issuance of Texas Stabilization Subchapter N Bonds, Series 2022 will enable ERCOT to finance the uplift balance on behalf of wholesale market participants who were assessed reliability deployment price adder charges and ancillary services costs in excess of the Commission's system-wide offer cap (referred to herein as **extraordinary charges**) during the period of emergency. Financing the uplift balance will support the financial integrity of the wholesale electricity market by reducing the risk of market participant defaults. Additionally, financing of the uplift balance serves a public purpose by stabilizing the wholesale electricity market in the ERCOT power region and providing financial relief for electric consumers. Obligated LSEs who receive proceeds from this financing must issue refunds to customers who previously paid extraordinary charges and adjust customer invoices to reflect offsets for any charges that would otherwise be passed through to customers. Please read "Subchapter N" and "Use of Proceeds—Allocation Methodology" in this Offering Memorandum.

Transaction Overview:

In February 2021, Winter Storm Uri resulted in outages at many of the generation resources within the ERCOT power region, and the demand for power exceeded supply for several days during the week of the storm. The inadequate supply of power required that load be involuntarily shed to protect the integrity of the ERCOT System grid, and many Texas homes and businesses lost power for extended periods that week. This condition also drove up prices in the wholesale electricity market resulting in great financial burdens to both market participants and the ultimate electric customers. As a result of these market conditions, ERCOT was unable to collect sufficient funds to fully pay certain wholesale-market participants who were due payments from ERCOT for power they produced into the ERCOT System during the storm. For a discussion of how ERCOT has addressed default balances that resulted from Winter Storm Uri see "Relationship to the Texas Stabilization M Bonds, Series 2021."

In response to the impact of Winter Storm Uri on the ERCOT power region, the Legislature enacted Subchapter N. The debt financing mechanism authorized in Subchapter N is

intended to benefit obligated LSEs who were assessed extraordinary charges related to Winter Storm Uri, as well as the obligated LSEs' retail customers who may have otherwise been invoiced for those extraordinary costs. The financing is further intended to alleviate liquidity issues and reduce the risk of additional defaults in the wholesale electricity market of the ERCOT power region. Subchapter N permits ERCOT to finance the uplift balance, which includes not more than \$2.1 billion in extraordinary costs assessed to LSEs during the period of emergency for reliability deployment price adder charges and ancillary services costs in excess of the Commission's system-wide cap, plus costs incurred in issuing and servicing the Bonds. Please read "ERCOT: The Depositor, Seller, Initial Servicer, and Sponsor—QSEs" in this Offering Memorandum.

In accordance with Subchapter N, the Commission authorized an irrevocable, nonbypassable uplift charge to be assessed to responsible QSEs to repay the uplift balance and related costs. Please read "ERCOT's Debt Obligation Order" for a discussion of the costs authorized in the debt obligation order.

Subchapter N permits ERCOT, as an Independent System Operator, to transfer its rights and interests under a debt obligation order, including the right to impose, collect and receive uplift charges, to a special purpose entity formed by ERCOT to issue debt securities secured by the right to receive revenues arising from the uplift charges, among other rights pursuant to the debt obligation order and the servicing agreement. ERCOT's right to receive the uplift charges, all revenues and collections resulting from the uplift charges and its other rights and interests under the debt obligation order and the servicing agreement, upon transfer to the Issuing Entity, constitute the uplift property. Under Subchapter N, uplift property does not come into existence until the rights or interests of ERCOT under the debt obligation order are first transferred to an assignee or pledged in connection with the issuance of the Bonds. However, for convenience of reference in this Offering Memorandum, the transfer of ERCOT's rights under the debt obligation order is sometimes referred to as the sale of the uplift property.

References in this Offering Memorandum to the debt obligation order, unless the context indicates otherwise, mean the debt obligation order issued by the Commission on October 13, 2021, under Docket Number 52322, which is further described below. Please read "ERCOT's Debt Obligation Order."

On October 13, 2021, the Commission issued the debt obligation order enabling ERCOT to recover the uplift balance and certain other costs through the issuance of the Bonds, in an aggregate principal amount not to exceed the **securitizable amount**, which includes \$2,100,000,000 as the uplift balance plus up-front costs as discussed in the debt obligation order. Please read "ERCOT's Debt Obligation Order" for a discussion of the costs authorized in the debt obligation order. The uplift charges will be assessed to responsible QSEs to pay the Bonds and any ongoing costs. Such QSEs are financially responsible for the payment of

uplift charges, whether or not they receive any payments from obligated LSEs.

In practice, ultimate repayment of the Bonds will be funded by obligated LSEs (through the responsible QSEs) that receive payments for the Uplift Charges from end-user consumers of electricity in the ERCOT power region. The composition and credit profiles of individual responsible QSEs / obligated LSEs are not critical for the ERCOT Subchapter N Securitization. As described herein, the mandatory security deposits are designed to mitigate any credit exposures. See "— Credit Enhancements." Furthermore, any unpaid balances of Uplift Charges will be uplifted to the performing responsible QSEs through the true-up mechanism that are not subject to caps. See " – Statutory True-Up Mechanism for Payment of Scheduled Principal and Interest."

While certain responsible QSEs and obligated LSEs from time to time may exit the market, numerous other existing and new market participants have a strong incentive to, and are expected to take advantage of the opportunity to satisfy the demand in the ERCOT System. When a responsible QSE (or obligated LSE) exits the market (voluntarily or by default), the impacted retail electric customers will be served by another performing obligated LSE. If no LSE will step in to provide electricity to these retail electric customers, an obligated LSE will be designated by the Public Utility Commission of Texas, or the **Commission**, as a Provider of Last Resort, or **POLR**, that is required to service the customers of the exiting obligated LSE (at premium pricing). As of May 2, 2022, the Commission maintains a list of thirty (30) POLRs and available voluntary replacement LSEs. Whether a POLR or replacement obligated LSE is providing electricity to retail customers, the demand of electric retail customers in this market can only be satisfied through purchases settled through ERCOT (and therefore are subject to the Uplift Charges). Under the ERCOT Protocols applicable to the Uplift Charges and the Texas Stabilization Subchapter N Bonds, any changes in the composition of the responsible QSEs / obligated LSEs should, therefore, not affect the collectability of the Uplift Charges necessary to pay debt service and other ongoing costs in full. The Uplift Charges will continue to be assessed to the responsible QSEs / obligated LSEs in the ERCOT System throughout the life of the Subchapter N Securitization and may be passed on to the end-user consumers by the obligated LSEs.

The primary transactions underlying the offering of the Bonds are as follows:

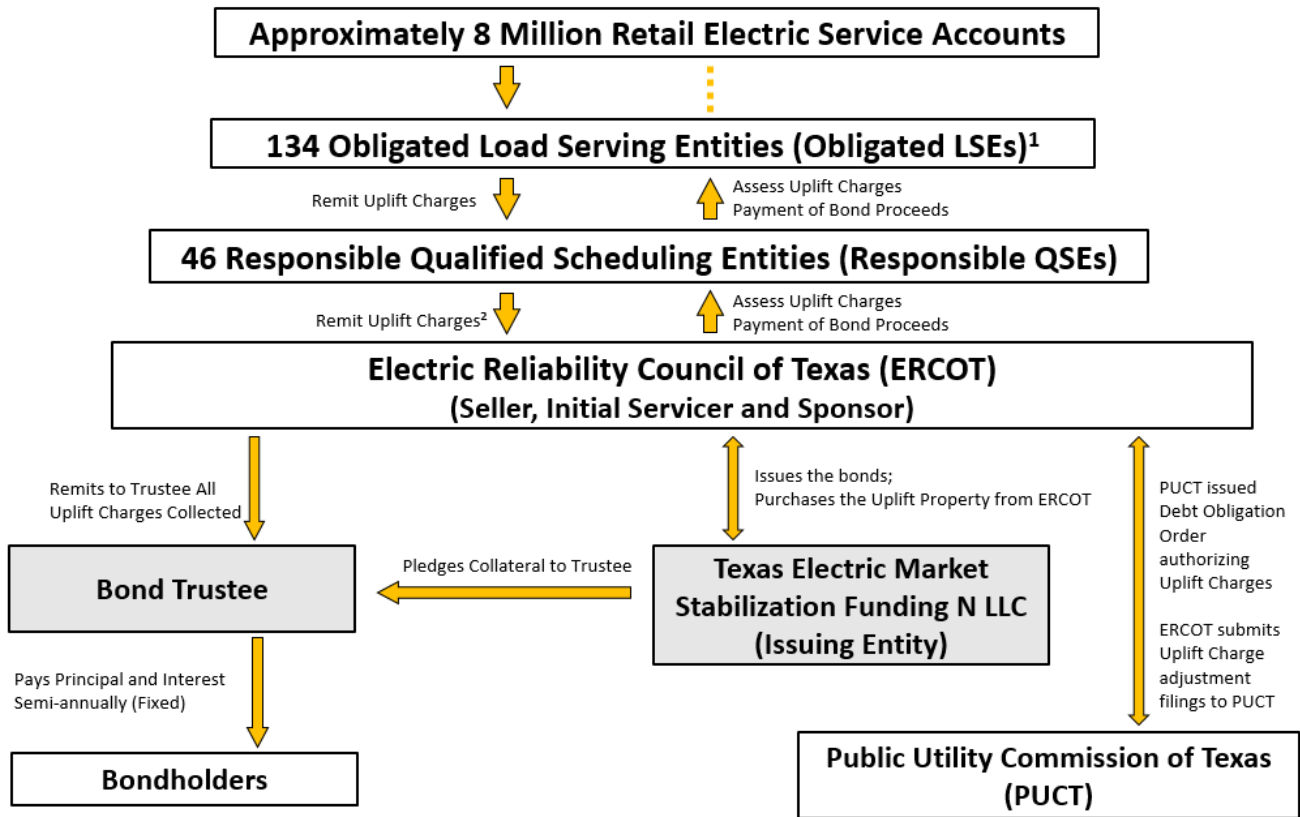
- ERCOT will sell the uplift property to us in exchange for the net proceeds from the sale of the Bonds.
- We will sell the Bonds, which will be secured primarily by the uplift property, to the Initial Purchasers for resale under Rule 144A as contemplated herein, and
- ERCOT will act as the initial servicer of the uplift property.

The Bonds are not obligations of the Trustee, our managers, ERCOT, or of any of their affiliates other than us. The Bonds are also not obligations of the state of Texas or any

governmental agency, authority or instrumentality of the state of Texas.

Transaction Overview

The following chart represents a general summary of the parties impacted by the transactions underlying the offering of the Bonds, their roles and their various relationships to the other parties:

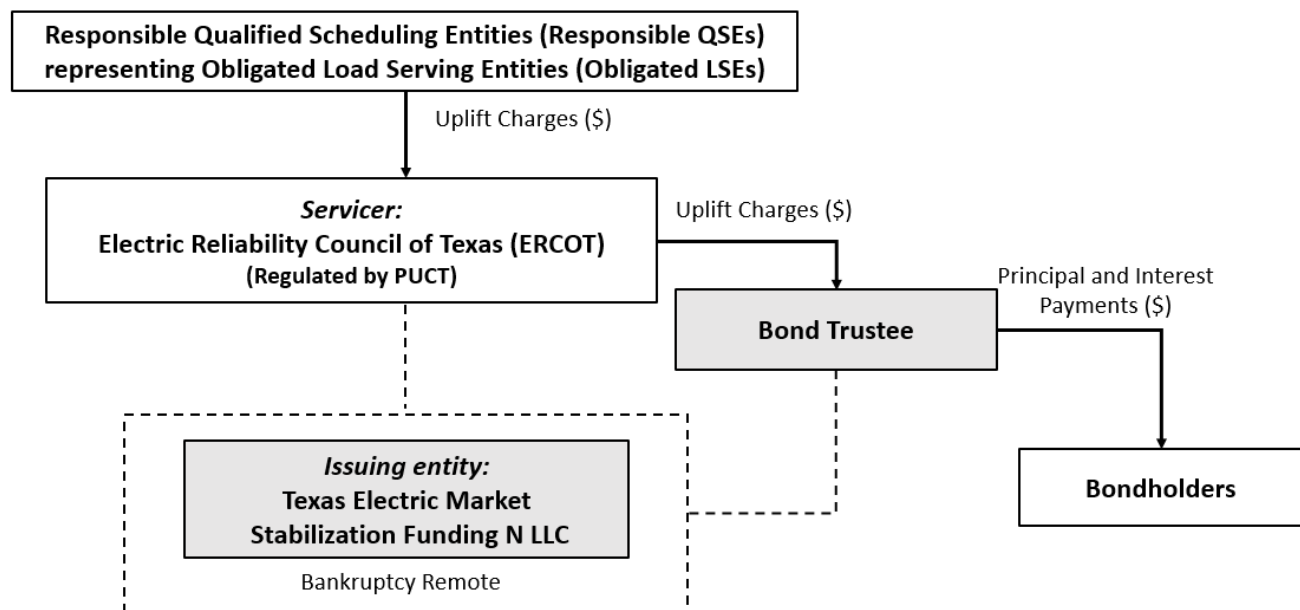


¹ Based on customer Electronic Service Identifiers. Does not include Non-Opt-In Entities (NOIE) retail customers. NOIEs include an Electric Cooperative or Municipally Owned Utility that does not offer customer choice. Currently, all but one Obligated LSE is a Retail Electric Provider (REP); the non-REP Obligated LSE is a small Municipally Owned Utility that is projected to be billed a de minimis amount of the uplift charge).

² Responsible QSEs must pay uplift charges on behalf of obligated LSEs whose interests they represent. See Docket 52322, Debt Obligation Order, Ordering Paragraph 31.

Flow of Funds

The following chart represents a general summary of the ongoing flow of funds:



The Collateral:

The Bonds are secured only by our assets. The principal asset securing the Bonds will be the uplift property, which is a present property right created under Subchapter N by the debt obligation order issued by the Commission. The collateral also includes:

- our rights under the sale agreement (pursuant to which we will acquire the uplift property), under an administration agreement and under the bill of sale delivered by ERCOT pursuant to the sale agreement,
- our rights under the debt obligation order, including our rights under the statutory true-up mechanism,
- our rights under the servicing agreement, including the obligation of the servicer to forward certain responsible QSE deposits to meet bond payments under certain circumstances, and any subservicing, agency, intercreditor or collection agreements executed in connection with the servicing agreement,
- the collection account for the Bonds and all related subaccounts,
- our rights in all deposits, guarantees, letters of credit and other forms of credit support provided by or on behalf of responsible QSEs pursuant to the debt obligation order,
- all of our other property related to the Bonds, other than any cash released to us by the Trustee on any payment date from earnings on the capital subaccount,
- all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, and
- all payments on or under and all proceeds in respect of any or all of the foregoing.

The subaccounts consist of a capital subaccount, a general subaccount, into which the servicer will deposit all uplift charge collections, and an excess funds subaccount, into which we will transfer any amounts collected and remaining on a payment date after all payments to bondholders and other parties have been made. Amounts on deposit in each of these subaccounts will be available to make payments on the Bonds on each payment date. For a description of the uplift property, please read "Description of the Uplift Property" in this Offering Memorandum.

At closing, the capital subaccount will be equal to at least 0.5% of the aggregate principal amount of the Bonds issued and in an amount that will allow us to achieve the desired credit rating on the Bonds and to treat the Bonds as debt under applicable U.S. federal income tax rules and other guidance issued by the IRS.

The collateral for the Bonds will be separate from the collateral for the Texas Stabilization M Bonds, which were issued by a different issuing entity from us, and holders of the Bonds will have no recourse to the collateral for that other issuance. Please read "Security for the Bonds."

The Uplift Property:

In general terms, all of the rights and interests of ERCOT under the debt obligation order that are transferred to us pursuant to the sale agreement are referred to in this Offering Memorandum as the uplift property. The uplift property consists of all of ERCOT's rights and interests under the debt obligation order transferred to us in connection with the issuance of the Bonds, including our rights under the Servicing Agreement and other transaction agreements, the irrevocable right to impose, collect and receive nonbypassable uplift charges and the right to implement the true-up adjustments. Uplift property is a present property right created by Subchapter N and the debt obligation order and is protected by the State Pledge in Subchapter N described below. Uplift charges are payable on a load ratio share basis by all responsible QSEs that represent obligated LSEs, which excludes LSEs who have opted out in accordance with the debt obligation order or who are otherwise exempt under PURA. Uplift charges are assessed to responsible QSEs on a load ratio share basis of obligated LSEs, including LSEs entering the market after implementation of the debt obligation order, but excluding LSEs who have opted-out of uplift charges as provided in the debt obligation order or are exempt under PURA. This load ratio share of individual obligated LSEs will change daily based upon actual load and as obligated LSEs enter and exit the market from time to time. The load ratio share used to assess uplift charges to responsible QSEs will be updated on a daily basis based on actual load. A fixed amount of uplift charges will be allocated to responsible QSEs each day and the collection of uplift charges is not expected to vary significantly because a fixed amount will be collected each day regardless of day-to-day changes in the volume of the load.

The uplift charges authorized in the debt obligation order are irrevocable and not subject to reduction, impairment, or adjustment by further action of the Commission. The uplift charges are subject to mandatory quarterly true-up adjustments to correct over-collections and under-collections, and optional interim true-up adjustments to correct under-collections 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 Bonds. Please read "The Servicing Agreement—True-Up Adjustment Process." All revenues and collections resulting from the uplift charges are part of the uplift property.

We will purchase the uplift property from ERCOT to support the issuance of the Bonds. The servicer will (i) collect the applicable uplift charges from responsible QSEs, which are entities certified by ERCOT in accordance with ERCOT Protocols to submit schedules and settle payments within the ERCOT power region, and (ii) remit the collections to the Trustee. The responsible QSEs will invoice and collect the uplift charges from obligated LSEs.

Please read "ERCOT's Debt Obligation Order—Statutory True-Ups" in this Offering Memorandum, as well as the chart entitled "Parties to Transaction and Responsibilities," "Subchapter N" and "Description of the Uplift Property—Creation of Uplift Property; Debt Obligation Order" in this Offering Memorandum.

Pursuant to the debt obligation order, each responsible QSE will be invoiced on a daily basis and pay the uplift charges on or

before the second bank business day after it receives the invoice from the servicer, whether or not the responsible QSE has collected all amounts owed to it by its obligated LSEs. Please read "Risk Factors—Risks Associated with Potential Bankruptcy Proceedings of QSEs," "QSEs" and "How a Bankruptcy May Affect Your Investment—Bankruptcy of a QSE."

State Pledge:

The state of Texas has pledged, or the **State Pledge**, in Subchapter N that it will not take or permit any action that would impair the value of the uplift property, or reduce, alter, or impair the uplift charges to be imposed, collected, and remitted to financing parties (including to the Trustee for the benefit of the bondholders with respect to the Bonds), until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the Bonds have been paid and performed in full. The Bonds are not a debt or an obligation of the state of Texas. Please read "Subchapter N—ERCOT May Issue Bonds to Recover the Securitizable Amount" in this Offering Memorandum.

Statutory True-Up Mechanism for Payment of Scheduled Principal and Interest:

The debt obligation order, as authorized by Subchapter N, mandates that uplift charges to responsible QSEs be adjusted at least quarterly to correct any over-collections or under-collections of the preceding three (3) 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 Bonds. In addition, the debt obligation order requires that uplift charges to responsible QSEs be adjusted on a more frequent basis as needed if determined necessary to ensure the expected recovery of amounts sufficient to provide timely payment of scheduled principal and interest on the Bonds, ongoing costs, and to replenish draws on the capital subaccount.

There is no cap on the level of uplift charges that may be imposed on responsible QSEs to pay on a timely basis scheduled principal and interest on the Bonds. Through the true-up mechanism, which adjusts for over-collections and under-collections of uplift charges due to any reason, the obligations to pay uplift charges are cross-collateralized among all responsible QSEs. Payment defaults by responsible QSEs that are not immediately covered by security deposits, or other shortfalls, are to be made up by true-up adjustments of the uplift charges to be paid by all responsible QSEs. If a responsible QSE does not receive payment of uplift charges from an obligated LSE, the responsible QSE remains liable for payment of the uplift charges. A responsible QSE that does not remit uplift charges when due is subject to termination from the ERCOT market in accordance with the ERCOT Protocols.

The debt obligation order became effective in accordance with its terms and, together with the uplift charges authorized in the debt obligation order, is irrevocable and not subject to reduction, impairment, or adjustment by further action of the Commission after it takes effect. Please read "Subchapter N—ERCOT May Securitise Uplift Balance and Costs" and "The Servicing Agreement—True-Up Adjustment Process" in this Offering Memorandum.

Nonbypassable Uplift Charges:

Subchapter N mandates, and the debt obligation order requires, the imposition and the collection of uplift charges from all existing and future responsible QSEs representing current or future obligated LSEs, subject to certain limitations specified in Subchapter N, including exemption from uplift charges for LSEs that have opted-out in accordance with Subchapter N and the debt obligation order. Please read "Risk Factors—Other Risks Associated with an Investment in the Bonds" in this Offering Memorandum. The uplift charges are assessed to responsible QSEs and are adjusted and reallocated among responsible QSEs as necessary under the statutory true-up mechanism. Please read "Description of the Uplift Property—Billing and Collection Terms and Conditions," "ERCOT's Debt Obligation Order—Statutory True-Ups" and "The Servicing Agreement—True-Up Adjustment Process" in this Offering Memorandum.

Relationship to the Texas Stabilization M Bonds, Series 2021:

The Bonds are the first series of bonds which ERCOT has sponsored that are secured by uplift property created under Subchapter N. The default property securitized under Subchapter M of Chapter 39 of PURA in a prior transaction by ERCOT (1) allowed wholesale market participants that were owed money to be paid in a more timely manner, (2) resulted in the replenishment of some financial revenue auction receipts temporarily used by ERCOT to reduce the Winter Storm Uri related amounts short-paid to wholesale market participants, and (3) allowed the wholesale electricity market to repay the default balance over time. While the nature of the costs recovered through this prior securitization differs, the statutory framework with respect to the right to recover costs and regarding securitization are similar to those regarding recovery of the uplift balance.

In November 2021, Texas Funding M, a special purpose, wholly owned subsidiary of ERCOT, issued \$800,000,000 of Texas Stabilization M Bonds, Series 2021, referred to herein as the **Texas Stabilization M Bonds**, in accordance with a debt obligation order issued by the Commission on October 13, 2021. All proceeds of the Texas Stabilization M Bonds were promptly distributed thereafter in accordance with the terms thereof.

ERCOT currently acts as servicer with respect to the Texas Stabilization M Bonds.

Texas Funding M will not have any obligations under the Bonds, and we will have no obligations under the Texas Stabilization M Bonds. The security pledged to secure the Bonds will be separate from the security that is securing the Texas Stabilization M Bonds. The Texas Stabilization M Bonds and the Bonds will be issued by separate entities and each will have its own separate collateral. The uplift charges and default charges will be collected through separate invoices. Default charges are invoiced to a larger pool of market participants than the uplift charges. Default charges are also invoiced to ERCOT Congestion Revenue Right Account Holders. Please read "Description of the Texas Stabilization Subchapter N Bonds," "Relationship to the Texas Stabilization M Bonds, Series 2021—Intercreditor Agreement," and "The Servicing Agreement—Remittances to Collection Account."

Initial Uplift Charge:

An estimate of the initial aggregate monthly uplift charges for a month for the Bonds and the estimated aggregate initial monthly uplift charges for the Bonds together with the monthly default charges for the Texas Stabilization M Bonds would average approximately 1.59% and 1.66%, respectively, of the ERCOT-wide Average Real Time Energy Prices, as published by Potomac Economics, Ltd., the independent market monitor for the ERCOT power region, with the single highest monthly percent of prices in the ERCOT power region being approximately 2.80% and 2.88%, respectively (based on the 2020 and 2021 monthly data).

Payment Dates:

Semi-annually, February 1 and August 1 and on the final maturity date for any tranche. The first scheduled payment date is February 1, 2023.

Interest Payments:

Interest is due on each interest payment date. Interest will accrue with respect to each tranche of bonds on a 30/360 basis at the interest rate specified for such tranche in the table below:

<u>Tranche</u>	<u>Interest Rate</u>
Tranche A-1	4.265%
Tranche A-2	4.966%
Tranche A-3	5.057%
Tranche A-4	5.167%

If any payment date is not a business day, payments scheduled to be made on such date may be made on the next succeeding business day and no interest shall accrue upon such payment during the intervening period.

We will pay interest on all tranches of bonds before we pay the principal of any tranche of bonds. Please read "Description of the Texas Stabilization Subchapter N Bonds—Interest Payments" and "—Principal Payments". If there is a shortfall in the amounts available in the collection account to make interest payments, the Trustee will distribute interest pro rata to each tranche of bonds based on the amount of interest payable on each outstanding tranche.

Principal Payments and Record Dates and Payment Sources:

The Issuing Entity is scheduled to make payments of principal on each principal payment date and sequentially in accordance with the Expected Amortization Schedule included in this Offering Memorandum.

Principal for each tranche is due upon the final maturity date for that tranche. Failure to pay the entire outstanding principal amount of a tranche by the final maturity date for such tranche will result in an event of default.

Failure to pay a scheduled principal payment on any payment date or the entire outstanding amount of the Bonds of any tranche by the scheduled final payment date will not result in a default with respect to that tranche. The failure to pay the entire outstanding principal balance of the Bonds of any tranche will result in a default only if such payment has not been made by the final maturity date for the tranche.

If there is a shortfall in the amounts available to make principal payments on the Bonds that are due and payable, including

upon an acceleration following an event of default, the Trustee will distribute principal from the collection account pro rata to each tranche of bonds based on the principal amount then due and payable on the payment date; and if there is a shortfall in the remaining amounts available to make principal payments on the Bonds that are scheduled to be paid, the Trustee will distribute principal from the collection account pro rata to each tranche of bonds based on the principal amount then scheduled to be paid on the payment date.

Weighted Average Life:

<u>Tranche</u>	<u>Expected Weighted Average Life (years)</u>
Tranche A-1	6.78
Tranche A-2	16.21
Tranche A-3	22.12
Tranche A-4	26.11

Scheduled Final Payment Date and Final Maturity Date:

The scheduled final payment date and final maturity date for each tranche of bonds will be as set forth in the table below:

<u>Tranche</u>	<u>Scheduled Final payment date</u>	<u>Final Maturity Date</u>
Tranche A-1	August 1, 2034	August 1, 2036
Tranche A-2	February 1, 2042	February 1, 2044
Tranche A-3	August 1, 2046	August 1, 2048
Tranche A-4	February 1, 2050	February 1, 2052

Optional Redemption:

None.

Mandatory Redemption:

None.

Priority of Payments:

On each payment date for the Bonds, the Trustee will allocate or pay all amounts on deposit in the general subaccount of the collection account (including investment earnings thereon) in the following order of priority:

1. payment of the Trustee's fees, expenses and any outstanding indemnity amounts not to exceed \$100,000 per annum, or the **Trustee Cap**; provided, however, that any amounts in excess of the Trustee Cap that are unpaid pursuant to the Trustee Cap shall remain due and owing to the Trustee or Securities Intermediary and payable in the following year and each subsequent year thereafter until repaid in full; provided, further, that the Trustee Cap shall be disregarded and inapplicable upon the acceleration of the Bonds following the occurrence and continuation of an event of default,
2. payment of the servicing fee relating to the Bonds, plus any unpaid servicing fees from prior payment dates,
3. payment of the administration fee, and the fees owed to our Independent Managers, plus any unpaid administrative fees and fees owed to our Independent Managers from prior payment dates,
4. payment of all of our other ordinary periodic operating expenses relating to the Bonds, such as accounting and audit fees, rating agency fees, legal fees and certain

reimbursable costs of the administrator under the administration agreement and of the servicer under the servicing agreement,

5. payment of the interest then due on the Bonds, including any past-due interest,
6. payment of the principal then due and payable on the Bonds as a result of acceleration upon an event of default or at final maturity,
7. payment of the principal then scheduled to be paid on the Bonds in accordance with the expected amortization schedule, including any overdue scheduled principal, paid pro rata among the Bonds if there is a deficiency,
8. payment of any remaining unpaid fees, expenses and indemnity amounts owed to the Trustee,
9. payment of any of our other unpaid operating expenses and any remaining amounts owed pursuant to the basic documents,
10. replenishment of any amounts drawn from or other shortfalls in the capital subaccount,
11. so long as no event of default has occurred and is continuing, release to ERCOT any investment return on any amount contributed the capital subaccount in excess of the required capital level,
12. so long as no event of default has occurred and is continuing, release to ERCOT an amount not to exceed the lesser of any remaining balance and the investment earnings on amounts in the capital subaccount (other than on the excess referred to in 11, above),
13. allocation of the remainder, if any, to the excess funds subaccount, and
14. after the Bonds have been paid in full and discharged, the balance, together with all amounts in the capital subaccount and the excess funds subaccount, to us free and clear of the lien of the indenture.

The annual servicing fee for the Bonds in clause 2 payable to ERCOT or any affiliate thereof while it is acting as servicer shall not at any time exceed 0.05% of the original principal amount of the Bonds. The annual servicing fee for the Bonds payable to any other servicer not affiliated with ERCOT shall not at any time exceed 0.60% of the original principal amount of the Bonds unless such higher rate is approved by the Commission. The annual administration fee in clause 3 above may not exceed \$100,000 per annum, plus reimbursable expenses. Please read "Security for the Bonds—How Funds in the Collection Account will be Allocated" in this Offering Memorandum.

Issuance of Additional Bonds:

If necessary, ERCOT may seek additional debt obligation orders from the Commission in the future to approve the recovery of other costs, due to other storms or otherwise. Such bonds are referred to as Additional Bonds and would be authorized by separate legislation and by a separate debt

obligation order issued by the Commission (each, an additional debt obligation order) except we may issue Additional Bonds to refund the Bonds without additional legislation or another debt obligation order.

Additional Bonds may be issued by us subject to the conditions described below, or through another entity. Each series of Additional Bonds (except bonds to refund the Bonds) will be secured by separate uplift property created by an additional debt obligation order and additional legislation and acquired by us or such other entity for the purpose of repaying that series of Additional Bonds. Any series of Additional Bonds may include terms and provisions unique to that particular series of Additional Bonds. Each series of Additional Bonds will have the benefit of a true-up mechanism.

No series of Additional Bonds may be issued unless the Rating Agency Condition for the Bonds is satisfied. In addition, the execution of an intercreditor agreement is a condition precedent to the sale of property consisting of nonbypassable charges comparable to the uplift property sold by ERCOT pursuant to the sale agreement. Please read "Risk Factors—Other Risks Associated with an Investment in the Bonds—You might receive principal payments for the Bonds later than you expect", "Security for the Bonds—Intercreditor Agreement" and "The Sale Agreement—Covenants of the Seller" in this Offering Memorandum.

Our organizational documents and the basic documents give us the authority and flexibility to issue Additional Bonds subject to the satisfaction of each of the following conditions:

- Legislation similar to the legislation authorizing the Bonds would be enacted with respect to the Additional Bonds (other than bonds refunding the Bonds);
- Satisfaction of the Rating Agency Condition;
- ERCOT requests and receives another debt obligation order from the Commission;
- ERCOT shall serve as the initial servicer and administrator for the series of Additional Bonds and the servicer and administrator cannot be replaced without the requisite approval of all series of bonds;
- each series of Additional Bonds has recourse only to the uplift property and funds on deposit in the trust accounts held by the indenture trustee with respect to that series of Additional Bonds;
- each series of Additional Bonds must be nonrecourse to our other assets and cannot constitute a claim against us if revenue from the uplift charges and funds on deposit in the trust accounts with respect to that series of Additional Bonds are insufficient to pay such other series in full;
- the Trustee and the rating agencies then rating the Bonds are provided an opinion of a nationally recognized law firm experienced in such matters to the effect that such issuance would not result in our substantive consolidation with ERCOT and that there has been a true sale of the uplift

property with respect to such series, subject to the customary exceptions, qualification and assumptions contained therein;

- transaction documentation for the other series provides that the indenture trustee on behalf of holders of the Additional Bonds will not file or join in filing of any bankruptcy petition against us;
- if holders of such Additional Bonds are deemed to have any interest in any of the collateral dedicated to the Bonds, holders of such Additional Bonds must agree that their interest in the collateral dedicated to the Bonds is subordinate to claims or rights of holders of the Bonds in accordance with the related intercreditor agreement;
- each series of Additional Bonds issued under any separate indenture will have a separate collection account;
- no series of Additional Bonds will be issued under the indenture governing the Bonds offered hereby; and
- each series of Additional Bonds will bear its own trustee fees, servicer fees and administration fees.

Please read "Description of the Texas Stabilization Subchapter N Bonds—Conditions of Issuance of Additional Bonds" in this Offering Memorandum.

The debt obligation order for Additional Bonds must require that, in the event a responsible QSE does not pay in full all amounts owed under any invoice including uplift charges, any resulting shortfalls in uplift charges will be allocated ratably between the Trustee and other bonds trustees for each series of Additional Bonds and the trustee for the Texas Stabilization M Bonds. Please read "The Servicing Agreement—Remittances to Collection Account" in this Offering Memorandum.

Allocation among Series of Bonds:

The Bonds will not be subordinated in right of payment to any Additional Bonds. Each series of Additional Bonds will be secured by its own uplift property, which will include the right in and to uplift charges calculated in respect of such series of Additional Bonds, and the right to impose true up adjustments to correct over-collections or under-collections in respect of that series. Each series of Additional Bonds will also have its own collection account, including any related subaccounts, into which revenue from the uplift charges relating to that series of Additional Bonds will be deposited and from which amounts will be withdrawn to pay the related series of bonds. Holders of one series of bonds will have no recourse to collateral for a different series. Each series of Additional Bonds will also have the benefit of a true up mechanism. See "Description of the Texas Stabilization Subchapter N Bonds—Allocation as Between Series of Bonds" in this Offering Memorandum.

Although each series of Additional Bonds will have its own property, uplift charges relating to the Bonds and uplift charges relating to any series of Additional Bonds or relating to Texas Stabilization M Bonds may be collected through a single invoice to each responsible QSE.

In the event a responsible QSE does not pay in full all amounts owed under any invoice including charges, each servicer would be required to allocate any resulting shortfalls in uplift charges ratably based on amounts of uplift charges owing in respect of the Bonds and any amounts owing on any Additional Bonds and Texas Stabilization M Bonds. See "The Servicing Agreement—Remittances to Collection Account" in this Offering Memorandum.

Credit Enhancement:

Credit enhancement for the Bonds, which is intended to protect you against losses or delays in scheduled payments on the Bonds, will be as follows:

- The servicer is required to make adjustments to the uplift charges to make up for any shortfall, due to any reason, or reduce any excess in collected uplift charges. We sometimes refer to these adjustments as the **true-up adjustments** or the **statutory true-up mechanism**. These adjustments will be made quarterly, and if determined necessary by the servicer, more frequently, 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 Bonds. Please read "ERCOT's Debt Obligation Order—Statutory True-Ups."
- Collection Account—Under the indenture, the Trustee will hold a collection account for the Bonds, divided into various subaccounts. The primary subaccounts for credit enhancement purposes are:
 - the general subaccount—the Trustee will deposit into the general subaccount all uplift charge collections remitted to it by the servicer;
 - the capital subaccount—at closing, the capital subaccount will be equal to at least 0.5% of the aggregate principal amount of the Bonds issued and in an amount that will allow us to achieve the desired credit rating on the Bonds and to treat the Bonds as debt under applicable U.S. federal income tax rules and other guidance issued by the IRS; and
 - the excess funds subaccount—any excess amount of collected uplift charges and investment earnings not released to us will be held in the excess funds subaccount.

Responsible QSEs are required to provide a cash deposit to us of two (2) months' projected uplift charge collections or letters of credit for such an amount to provide for payment of such amount of uplift charge collections in the event that the responsible QSE defaults in its payment obligations. If a responsible QSE defaults in making a payment of uplift charges to the servicer, pursuant to the servicing agreement, amounts on deposit or available from letters of credit (up to an amount of the lesser of the payment default of the responsible QSE or the amount of the deposit or letters of credit amount) will be available to make payments in respect of the Bonds. Such deposits are managed by the servicer and are to be held in separate bank accounts of the Issuing Entity structured to be bankruptcy remote from ERCOT. Please read "ERCOT: The

Depositor, Seller, Initial Servicer and Sponsor—ERCOT Credit Practices, Policies and Procedures."

Reports to Bondholders:

Pursuant to the indenture, the Trustee will make available to the holders of record of the Bonds regular reports prepared by the servicer containing information concerning, among other things, us and the collateral. Unless and until the Bonds are issued in definitive certificated form, the reports will be provided to The Depository Trust Company. The reports will be available to beneficial owners of the Bonds upon written request to the Trustee or the servicer. These reports may not be examined and reported upon by an independent public accountant. In addition, no independent public accountant will provide an opinion thereon. Please read "Description of the Texas Stabilization Subchapter N Bonds—Reports to Bondholders."

Neither we nor ERCOT is an asset-backed issuer and the Bonds are not asset-backed securities as such terms are defined by the SEC in governing regulations Item 1101 of Regulation AB. Certain reports consistent with those that would be required by Regulation AB will be posted to the sponsor's website at <https://www.ercot.com/about/hb4492securitization/subchapter> [n](#).

Servicing Compensation:

We will pay the servicer on each payment date the servicing fee with respect to the Bonds. As long as ERCOT or any affiliated entity acts as servicer, this fee will be 0.05% of the original principal balance of the Bonds on an annualized basis. But if a successor servicer is appointed, the servicing fee will be negotiated by the successor servicer and the Trustee, but will not, unless the Commission consents, exceed 0.60% of the original principal balance of the Bonds on an annualized basis. In no event will the Trustee be liable for any servicing fee in its individual capacity.

Federal Income Tax Status:

In the opinion of Winstead PC, counsel to us and to ERCOT, for federal income tax purposes, the Bonds will constitute indebtedness of ERCOT, our sole member. If you purchase a beneficial interest in any bond, you agree by your purchase to treat the Bonds as debt of our sole member for federal income tax purposes.

ERISA Considerations:

Because the Bonds are expected to constitute indebtedness, rather than equity, investments by "Benefit Plan Investors" (defined herein) will not cause our assets to be considered "plan assets" for purposes of the Employee Retirement Income Security Act of 1974, as amended, or **ERISA**, or the Internal Revenue Code of 1986, as amended, or **Code**. Nonetheless, the acquisition and holding of the Bonds could implicate fiduciary responsibility and prohibited transaction rules under ERISA and the Code. Please read "ERISA Considerations."

We are not undertaking to provide individualized investment advice, or to give advice in a fiduciary capacity, that will serve as the primary basis of a Benefit Plan Investor's decision to invest in the Bonds. Accordingly, this Offering Memorandum is not intended, and should not be construed, to constitute fiduciary investment advice by us, or any affiliate, regarding the investment or management of assets held by a Benefit Plan Investor.

Each Benefit Plan Investor subject to ERISA or the Code is urged to consult its own advisors as to the provisions of ERISA and the Code applicable to an investment in the Bonds. See "ERISA Considerations."

Credit rating:

We expect the Bonds will receive a credit rating from at least one nationally recognized statistical rating organization. Please read "Ratings for the Texas Stabilization Subchapter N Bonds."

Use of proceeds:

Proceeds will be used to pay expenses of issuance and to purchase the uplift property from ERCOT. In accordance with the debt obligation order, ERCOT will distribute the proceeds it receives from the sale of the uplift property to responsible QSEs for disbursement to obligated LSEs for recovery of the uplift balance incurred as a result of Winter Storm Uri. Please read "Use of Proceeds" in this Offering Memorandum.

1940 Act Registration:

The Issuing Entity will be relying on an exemption from the definition of "investment company" contained in Section 3(c)(5) of the 1940 Act, although there may be additional exclusions or exemptions available to the Issuing Entity. The Issuing Entity is being structured so as not to constitute a "covered fund" for purposes of the Volcker Rule under the Dodd-Frank Act.

Risk Retention:

The Issuing Entity has determined that the purchase of the Uplift Property by the Issuing Entity and sale of the Bonds are not subject to the five percent (5%) risk retention requirements imposed by Section 15G of the Securities Exchange Act of 1934, or the **Exchange Act**, due to the exemption provided in Rule 19(b)(8) of the risk retention regulations in 17 C.F.R. Part 246 of the Exchange Act, or **Regulation RR**. For information regarding the requirements of the European Union Securitization Regulation as to risk retention and other matters. Please read "Risk Factors—Other Risks Associated with an Investment in the Bonds--Regulatory provisions affecting certain investors could adversely affect the liquidity of the Bonds" in this Offering Memorandum.

Minimum Denomination:

\$100,000 or integral multiples of \$1,000 in excess thereof, except for one bond of each tranche which may be of a smaller denomination.

Expected Settlement:

On or about June 15, 2022, settling flat. DTC, Clearstream and Euroclear.

RISK FACTORS

Please carefully consider all the information we have included or incorporated by reference in this Offering Memorandum, including the risks described below and the statements in "Cautionary Statement Regarding Forward-Looking Information," before deciding whether to invest in the Bonds.

You may experience material payment delays or incur a loss on your investment in the Bonds because the source of funds for payment is limited.

The only source of funds for payment of the Bonds will be our assets, which consist of:

- the uplift property securing the Bonds, including the right to impose, collect and receive related uplift charges and our rights under the debt obligation order to the statutory true-up mechanism and rights pursuant to the servicing agreement to uplift charge deposits under certain circumstances;
- the funds on deposit in the accounts held by the Trustee; and
- our rights under various contracts we describe in this Offering Memorandum.

The Bonds are not a charge on the full faith and credit or taxing power of the state of Texas or any governmental agency or instrumentality, additionally the Bonds do not create personal liability for ERCOT, including in its capacity as the servicer, or any of its affiliates (other than us), the Trustee or by any other person or entity. Thus, you must rely for payment of the Bonds solely upon the securitization provisions of Subchapter N, state and federal constitutional rights to enforcement of Subchapter N, the irrevocable debt obligation order, collections of the uplift charges and funds on deposit in the related accounts held by the Trustee. If these amounts are not sufficient to make payments or there are delays in recoveries, you may experience material payment delays or incur a loss on your investment in the Bonds.

RISKS ASSOCIATED WITH POTENTIAL JUDICIAL, LEGISLATIVE OR REGULATORY ACTIONS

We are not obligated to indemnify you for changes in law.

Neither we nor ERCOT will indemnify you for any changes in the law, including any federal preemption or repeal or amendment of PURA, that may affect the value of your bonds. ERCOT will agree in the sale agreement to institute any action or proceeding as may be reasonably necessary to block or overturn any attempts to cause a repeal, modification or amendment to PURA that would be materially adverse to us, the Trustee or bondholders. Please read "The Sale Agreement—Covenants of the Seller" and "The Servicing Agreement—Servicing Standards and Covenants." However, we cannot assure you that ERCOT would be able to take this action or that any such action would be successful. Although ERCOT or any successor seller might be required to indemnify us if legal action based on the law in effect at the time of the issuance of the Bonds invalidates the uplift property. Such indemnification obligations do not apply for any changes in law after the date the Bonds are issued, whether such changes in law are effected by means of any legislative enactment, any constitutional amendment or any final and non-appealable judicial decision. See "The Sale Agreement—Seller Representations and Warranties" and "The Servicing Agreement—Servicing Standards and Covenants" in this Offering Memorandum.

Future judicial action could reduce the value of your investment in the Bonds.

The uplift property securing the Bonds is created pursuant to Subchapter N and the debt obligation order that has been issued by the Commission to ERCOT. There is uncertainty associated with investing in bonds payable from an asset that depends for its existence on legislation because there is limited judicial or regulatory precedent implementing and interpreting such legislation. Because the uplift property is a creation of Subchapter N, any judicial determination affecting the validity of or interpreting Subchapter N, the uplift property or our ability to make payments on the Bonds might have an adverse effect on the Bonds. Subchapter N might be directly contested in courts or otherwise become the subject of litigation. In addition, the debt obligation order or any provision thereof might be directly contested in courts or otherwise become the subject of litigation. As of the date of this Offering Memorandum, no litigation challenging the validity of Subchapter N or the debt obligation order has arisen. In June 2001, the Supreme Court of the state of Texas upheld the constitutionality of certain unrelated securitization provisions of PURA. Similarly, a federal or state court could be asked in the future to determine whether the relevant provisions of Subchapter N are unlawful or invalid. If Subchapter N is invalidated, the debt obligation order might also be invalidated.

Other states have passed laws permitting the securitization of electrical utility costs similar to Subchapter N, such as costs associated with the deregulation of the electric market, environmental control costs or hurricane recovery costs. Some

such similar laws have been challenged by judicial actions or in utility commission proceedings. To date, none of these challenges has succeeded, but future challenges might be made. An unfavorable decision regarding another state's law would not automatically invalidate Subchapter N or the debt obligation order, but it might provoke a challenge to Subchapter N, establish a legal precedent for a successful challenge to Subchapter N or heighten awareness of the political or other risks of the Bonds, and in that way may limit the liquidity and value of the Bonds. Therefore, legal activity in other states may indirectly affect the value of the Bonds.

If an invalidation of any relevant underlying legislative provision or debt obligation order provision were to result from such litigation, you might lose some or all of your investment or you might experience delays in recovering your investment.

Future state legislative action might attempt to reduce the value of your investment in the Bonds.

Despite its pledge in PURA not to take or permit certain actions that would impair the value of the uplift property or the uplift charges, the Legislature might attempt to repeal or amend Subchapter N in a manner that limits or alters the uplift property so as to reduce its value. For a description of the State's pledge, please read "Subchapter N—State Pledge." It might be possible for the Legislature to repeal or amend Subchapter N notwithstanding the State's pledge if the Legislature acts in order to serve a significant and legitimate public purpose. Any such action, as well as the costly and time-consuming litigation that likely would ensue, might adversely affect the price and liquidity, the dates of payment of interest and principal and the weighted average lives of the Bonds. Moreover, the outcome of any litigation cannot be predicted. Accordingly, you might incur a loss on or delay in recovery of your investment in the Bonds.

If an action of the Legislature adversely affecting the uplift property or the ability to collect uplift charges were considered a "taking" under the United States or Texas Constitutions, the state of Texas might be obligated to pay compensation for the taking. However, even in that event, there is no assurance that any amount provided as compensation would be sufficient for you to recover fully your investment in the Bonds or to offset interest lost pending such recovery.

Unlike the citizens of some states, the citizens of the state of Texas currently do not have the constitutional right to adopt or revise state laws by initiative or referendum. Thus, absent an amendment of the Texas Constitution, PURA cannot be amended or repealed by direct action of the electorate of the state of Texas or by ERCOT.

The enforcement of any rights against the state of Texas or the Commission under the State's pledge may be subject to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against state and local governmental entities in Texas. These limitations might include, for example, the necessity to exhaust administrative remedies prior to bringing suit in a court, or limitations on type and locations of courts in which the state of Texas or the Commission may be sued.

The Commission might attempt to take actions that could reduce the value of your investment in the Bonds.

Subchapter N provides that the debt obligation order is irrevocable and not subject to reduction, impairment, or adjustment by further action of the Commission after the debt obligation order takes effect. However, the Commission retains the power to adopt, revise or rescind rules or regulations affecting ERCOT. The Commission also retains the power to interpret the debt obligation order granted to ERCOT, and in that capacity might be called upon to rule on the meanings of provisions of the debt obligation order that might need further elaboration. Any new or amended regulations or orders from the Commission might attempt to affect the ability of the servicer to collect the uplift charges in full and on a timely basis, the rating of the Bonds or their price and, accordingly, the amortization of the Bonds and their weighted average lives.

The servicer is required to file with the Commission, on our behalf, certain adjustments of the uplift charges. Please read "ERCOT's Debt Obligation Order-Statutory True-Ups" and "The Servicing Agreement – True-Up Adjustment Process." Pursuant to the debt obligation order, the Commission's administrative review of uplift charge adjustments is limited to confirming the adjustment complies with the terms of the debt obligation order and PURA. True-up adjustment procedures have been challenged in the past and may be challenged in the future. Challenges to or delays in the true-up process might adversely affect the market perception and valuation of the Bonds. Also, any litigation, as well as being costly and time-consuming, might materially delay uplift charge collections due to delayed implementation of true-up adjustments and might result in missing payments or payment delays and lengthened weighted average life of the Bonds.

The servicer may not fulfill its obligations to act on behalf of the bondholders to protect bondholders from actions by the Commission or the state of Texas, or the servicer may be unsuccessful in any such attempt.

The servicer will agree in the servicing agreement to take any action or proceeding necessary to compel performance by the Commission and the state of Texas of any of their obligations or duties under Subchapter N or the debt obligation

order, including any actions reasonably necessary to block or overturn attempts to cause a repeal or modification of Subchapter N or the debt obligation order. The servicer, however, may not be able to take those actions for a number of reasons, including due to legal or regulatory restrictions, financial constraints and practical difficulties in successfully challenging any such legislative enactment or constitutional amendment. Additionally, any such actions the servicer takes may not be successful. Any failure to perform its obligations or to successfully compel performance by the Commission or the state of Texas could negatively affect bondholders' rights and result in a loss of their investment.

Certain Existing Litigation Against ERCOT, If Determined Adversely, Could Have a Material Adverse Effect on ERCOT and its Ability to Act as Servicer for the Bonds.

ERCOT, which acts as sponsor, depositor and initial servicer with respect to the bonds offered hereby, is subject to certain on-going litigation. While negative results for much of such litigation would not likely result in financial exposure to ERCOT, as it is ERCOT's belief that any significant negative award or reduction in collections would be subject to market resettlement among market participants, other litigation could result in financial exposure to ERCOT. In the event of a negative result impacting ERCOT, to the extent not covered by ERCOT's budget that was approved by the Commission, ERCOT would be required to approach the Commission to determine approval for a budget and process for addressing such negative item. While this circumstance has not occurred previously in ERCOT's history, based on prior interactions with the Commission in other circumstances ERCOT believes the Commission would take appropriate action to address any financial exposure, but it is unable to predict the timing or nature of the Commission's response or the methods to be implemented to address such matter. In the event that the Commission's response is not fully supportive, the negative litigation result could have a material adverse impact on ERCOT and its ability to act as servicer for the Bonds. See "Legal Proceedings" in this Offering Memorandum.

SERVICING RISKS

Inaccurate collection forecasting might reduce scheduled payments on the Bonds.

The uplift charges are generally assessed and collected from responsible QSEs within the ERCOT wholesale market 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 in connection with the Bonds. The uplift charges are allocated and assessed to responsible QSEs on a load ratio share basis. The uplift charges are calculated by the servicer according to the methodology approved in the debt obligation order and further described in the servicing agreement. This methodology entails the allocation of uplift charges as nonbypassable charges. In estimating uplift charges, ERCOT, as servicer, will take into account over-collections and under-collections. The servicing agreement includes safeguards that will enable the servicer to compensate for under-collections, such as drawing upon uplift charge deposits and interim true-up procedures. However, notwithstanding these safeguards, it is possible that there could be shortfalls or delays in uplift charge collections, which might result in missed or delayed payments of principal and interest on the Bonds.

Changes to billing, collection and posting practices might adversely affect the value of the Bonds.

The debt obligation order specifies the methodology for determining the amount of the uplift charges ERCOT may impose. However, subject to any required Commission approval, ERCOT may set its own billing, collection and posting arrangements with responsible QSEs from whom it collects uplift charges, provided that these arrangements comply with any applicable Commission customer safeguards and the provisions of the servicing agreement. Subject to any required Commission approval, ERCOT may change billing, collection and posting practices, which might adversely impact the timing and amount of responsible QSE payments and might reduce collection of uplift charges, thereby limiting our ability to make scheduled payments on the Bonds. Separately, the Commission might require changes to previously approved practices. Any such changes in billing, collection and posting practices or regulations might make it more difficult for ERCOT to collect the uplift charges and may adversely affect the value of the Bonds.

There is no guaranty that uplift charge deposits will be available to pay for delinquencies.

ERCOT, as servicer, will require the responsible QSEs to establish cash deposits or to deliver standby letters of credit to secure the payment of two months of projected uplift charges, which are referred to in the servicing agreement as the uplift charge deposits. Letters of credit must meet the requirements established by the ERCOT Protocols referenced in the servicing agreement. Such uplift charge deposits are to be held in separate accounts of the Issuing Entity and standby letters of credit will be structured to be bankruptcy remote from ERCOT. For administrative ease these uplift charge deposits will not be held with the Trustee and will not be pledged as part of the Texas Stabilization Subchapter N Bond collateral. The rights regarding payments from uplift charge deposits pursuant to the servicing agreement are included as uplift property, and as a part of the servicing agreement do constitute bond collateral. The uplift charge deposits will be managed by ERCOT, as servicer, in accordance with the servicing agreement. ERCOT as servicer will draw on the uplift charge

deposits only if a responsible QSE defaults on the payment of invoiced uplift charges. ERCOT's ability to access uplift charge deposits may be affected by problems affecting the financial institutions functioning as depositories of the cash deposits or as issuers of letters of credit. The uplift charge deposits may also be invested by the servicer in eligible investments and may therefore be subject to investment losses or liquidity problems. See "Risk Factor--Other Risks Associated with an Investment in the Bonds—You Might Receive Principal Payments for the Bonds later than you expect" in this Offering Memorandum. It is also possible that that responsible QSEs may dispute uplift charges or contest ERCOT's right to access the uplift charge deposits. Any delay in accessing uplift charge deposits could result in missed or delayed payments of principal and interest on the Bonds.

Cybersecurity risks could affect ERCOT's ability to timely perform under servicing agreement.

ERCOT's operations require the continuous availability of critical information technology systems, sensitive customer data and network infrastructure and information, all of which are targets for malicious actors. ERCOT depends on a wide array of vendors to provide it with services and equipment. Malicious actors may attack vendors to disrupt the services such vendors provide to ERCOT, or to use them as a cyber-conduit to attack ERCOT. Additionally, the equipment and material provided by ERCOT's vendors may contain cyber vulnerabilities.

ERCOT's Systems have been, and will likely continue to be, subjected to computer attacks of malicious codes, unauthorized access attempts, and other illicit activities, but to date, ERCOT has not experienced a material cybersecurity breach. Though ERCOT actively monitors developments in this area and is involved in various industry groups and government initiatives, no security measures can completely shield its systems and infrastructure from vulnerabilities to cyberattacks, intrusions or other catastrophic events that could result in their failure or reduced functionality.

If ERCOT's information technology and operational technology systems' security measures were to be breached, or a critical system failure were to occur, without timely remediation this could impact ERCOT's ability to timely invoice and collect uplift charges or to perform its other obligations under the servicing agreement.

ERCOT's performance is subject to various business interruption risks.

While ERCOT has extensive experience managing and monitoring settlements to QSEs, ERCOT's operations could nevertheless be impacted by any number of unforeseen events or circumstances beyond its control. Such events may include natural disasters, storms, pandemics, including the COVID-19 pandemic, cyber-attacks and other force majeure events. These events could impact ERCOT's ability to timely invoice and collect uplift charges or to perform its other obligations under the servicing agreement.

Your investment in the Bonds depends on ERCOT or its successor or assignee, acting as servicer of the uplift property.

ERCOT, as servicer, will be responsible for, among other things, calculating, billing and collecting the uplift charges from responsible QSEs, submitting requests to the Commission to adjust the uplift charges, monitoring the collateral for the Bonds and taking certain actions in the event of non-payment by a responsible QSE. The Trustee's receipt of collections in respect of the uplift charges, which will be used to make payments on bonds, will depend in part on the skill and diligence of the servicer in performing these functions. The protocols that the servicer has in place for uplift charge billings and collections, together with the Commission regulations governing ERCOT, might, in particular circumstances, cause the servicer to experience difficulty in performing these functions in a timely and completely accurate manner. If the servicer fails to make collections for any reason, then the servicer's payments to the Trustee in respect of the uplift charges might be delayed or reduced. In that event, our payments on the Bonds might be delayed or reduced.

If we replace ERCOT as the servicer, we may experience difficulties finding and using a replacement servicer.

If ERCOT ceases to exist or is no longer able to service the uplift property related to the Bonds, it may be difficult to find a successor servicer. As the central clearing agency for all market activity within the ERCOT power region, ERCOT is uniquely qualified to serve as servicer for the Bonds. Any successor servicer would need to have similar access to the transactional data managed by ERCOT in order to properly assess and collect uplift charges, and is likely to experience difficulties in collecting uplift charges, determining appropriate adjustments to the uplift charges, and billing and/or payment arrangements may change, resulting in delays or disruptions of collections.

A successor servicer might not be willing to perform except for fees higher than those approved in the debt obligation order and Issuance Advice Letter and might charge fees that, while permitted under the debt obligation order, are substantially higher than the fees paid to ERCOT as servicer. Although a true-up adjustment would be permitted to allow

for the increase in fees, there could be a gap between the incurrence of those fees and the implementation of a true-up adjustment to adjust for that increase that might adversely affect distributions to bondholders.

In the event of the commencement of a case by or against the servicer under Title 11 of the United States Code, as amended, of the Bankruptcy Code, or similar laws, we (as the Issuing Entity) and the Trustee might be prevented from effecting a transfer of servicing due to operation of the Bankruptcy Code. Any of these factors and others might delay the timing of payments and may reduce the value of the Bonds.

It might be difficult to collect uplift charges from responsible QSEs.

Because ERCOT financially transacts only with QSEs, the debt obligation order provides that uplift charges are nonbypassable to all responsible QSEs within the ERCOT power region. Each responsible QSE must pay the uplift charges on behalf of the obligated LSEs whose interests they represent.

ERCOT is entitled to exercise any available remedies and take any action in response to a default on the payment of uplift charges; however, the availability of effective remedies is not known, particularly with respect to wholesale market participants with whom ERCOT does not financially transact. ERCOT may account for payment delinquencies by accessing uplift charge deposits and making interim true-up adjustments. However, these safeguards may not be adequate for any widespread payment delinquencies among many responsible QSEs at one time.

As required by the debt obligation order and ERCOT Protocols, obligated LSEs will pay the uplift charges to the responsible QSEs who represent them. Because the responsible QSEs will invoice obligated LSEs directly for the uplift charges, we will have to rely on a relatively small number of entities for the collection of the bulk of the uplift charges. Please read "ERCOT: The Depositor, Seller, Initial Servicer and Sponsor--Responsible QSEs." As of March 15, 2022, there were 978 QSEs registered with ERCOT of which 46 were responsible QSEs. For the year 2021, two (2) responsible QSEs (including their respective affiliates) accounted for approximately 28.0% and 24.8%, respectively, of the load ratio share of the obligated LSEs.

Failure by the responsible QSEs to remit uplift charges to the servicer might cause delays in payments on the Bonds and adversely affect your investment in the Bonds. The servicer will not pay any shortfalls resulting from the failure of any QSE to forward uplift charge collections.

Adjustments to the uplift charges and any credit support provided by a responsible QSE, while available to compensate for a failure by a responsible QSE to pay the uplift charges to the servicer, might not be sufficient to protect the value of your investment in the Bonds. Please read "ERCOT's Debt Obligation Order- Statutory True-Ups" and "The Servicing Agreement- True-Up Adjustment Process."

Changes in market activity may increase charges allotted to responsible QSEs representing remaining obligated LSEs.

Unlike typical utility securitizations, which are secured by tariffs or surcharges assessed by electric utilities to their customers based upon consumption, ERCOT will assess uplift charges in its capacity as a clearinghouse for the wholesale electric market. ERCOT is revenue neutral and acts as a clearinghouse through which funds are exchanged between buyers and sellers within the ERCOT market. In this role, ERCOT settles only with QSEs and Congestion Revenue Rights account holders. QSEs represent a variety of participants in the ERCOT market, including LSEs and resource entities.

Uplift charges are assessed to responsible QSEs on a load ratio share basis of obligated LSEs, including LSEs entering the market after implementation of the debt obligation order, but excluding LSEs who have opted-out of uplift charges as provided in the debt obligation order or are exempt under PURA. This load ratio share of individual obligated LSEs will change daily based upon actual load and as obligated LSEs enter and exit the market from time to time. The load ratio share used to assess uplift charges to responsible QSEs will be updated on a daily basis based on actual load. A fixed amount of uplift charges will be allocated to responsible QSEs each day and the collection of uplift charges is not expected to vary significantly because a fixed amount will be collected each day regardless of day-to-day changes in the volume of the load. Notwithstanding the interposition of obligated LSEs and responsible QSEs in the collection process pursuant to Subchapter N and the debt obligation order, the ultimate source of funding for repayment of the Bonds will be the payments of uplift charges assessed to approximately 8 million end-user retail electric service accounts who obtain their power from the ERCOT System.

Broader use of distributed generation by customers may result from customers' changing perceptions of the merits of utilizing existing generation technology, tax or other economic incentives or from technological developments resulting in smaller-scale, more fuel-efficient, more environmentally friendly and/or more cost-effective distributed generation.

Moreover, an increase in distributed generation may result if extreme weather conditions result in shortages of grid-supplied energy or if other factors cause grid-supplied energy to be less reliable. More widespread use of distributed generation, particularly battery storage, may reduce the total volume of load served by the obligated LSEs. However, any significant decrease in load served by the obligated LSEs would not affect the daily collected amount of uplift charges, because a fixed amount will be invoiced and collected each day regardless of the overall volume of load. Rather, any decrease in the total volume of load served by the obligated LSEs could lead to an increase in the portion of uplift charges payable by a responsible QSE in relation to gross invoiced amounts.

RISKS ASSOCIATED WITH THE UNUSUAL NATURE OF THE UPLIFT PROPERTY

Foreclosure of the Trustee's lien on the uplift property for the Bonds might not be practical, and acceleration of the Bonds before maturity might have little practical effect.

Under the indenture, the Trustee or the bondholders have the right to foreclose or otherwise enforce the lien on the uplift property securing the Bonds. However, in the event of foreclosure, there is likely to be a limited market, if any, for the uplift property. Therefore, foreclosure might not be a realistic or practical remedy. Moreover, although principal of the Bonds will be due and payable upon acceleration of the Bonds before maturity, uplift charges likely would not be accelerated and the nature of our business will result in principal of the Bonds being paid as funds become available. If there is an acceleration of the Bonds, all tranches of the Bonds will be paid pro rata; therefore, some tranches might be paid earlier than expected and some tranches might be paid later than expected.

RISKS ASSOCIATED WITH POTENTIAL BANKRUPTCY PROCEEDINGS OF THE SELLER OR THE SERVICER

For a more detailed discussion of some of the following bankruptcy risks, please read "How a Bankruptcy May Affect Your Investment."

The servicer could commingle the uplift charges with other revenues it collects, which might obstruct access to the uplift charges in case of the servicer's bankruptcy and reduce the value of your investment in the Bonds.

The servicer will be required to remit collections to the Trustee within two (2) bank business days of receipt. While responsible QSEs will be required to remit uplift charges into a separate account specifically designated for uplift charge collections, inadvertent commingling could occur.

Despite this requirement, the servicer might fail to pay the full amount of the uplift charges to the Trustee or might fail to do so on a timely basis. This failure, whether voluntary or involuntary, might materially reduce the amount of uplift charge collections available to make payments on the Bonds.

In a bankruptcy of the servicer, the bankruptcy court might decline to recognize, or significantly delay, our right to collect the uplift charges that are commingled with other funds of the servicer as of the date of bankruptcy. If so, the collection of the uplift charges held by the servicer as of the date of bankruptcy or collected and commingled by the servicer after bankruptcy would not be available to pay amounts owing on the Bonds. In this case, we would have only a general unsecured claim against the servicer for those amounts. This decision could also cause material delays in payments of principal or interest, or losses, on your bonds and could materially reduce the value of your investment in the Bonds.

The bankruptcy of ERCOT or any successor seller might result in losses or delays in payments on the Bonds.

Subchapter N provides that 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. ERCOT will represent and warrant in the sale agreement that (i) upon the effectiveness of the Issuance Advice Letter and transfer of the uplift property, the rights and interests of ERCOT under the debt obligation order, including the right to impose, collect and receive the uplift charges authorized in the debt obligation order, become "uplift property"; and (ii) the uplift property constitutes a present property right vested in the Issuing Entity. It will be a condition of closing for the sale of the uplift property pursuant to sale agreement that ERCOT will take the appropriate actions under Subchapter N to consummate this sale.

The transfer of the uplift property under the sale agreement is expressly stated to be a sale treated as an absolute transfer of all of the seller's right, title and interest in and to (as in a true sale), and not as a pledge or other financing of, the uplift property (other than for federal income tax purposes and, to the extent consistent with applicable state tax law, state income and franchise tax purposes). The Issuing Entity and ERCOT will treat such a transaction as a sale under applicable law.

Under Section 541(a) of the Bankruptcy Code, the commencement of a bankruptcy case creates an estate consisting of all the debtor's then owned legal and equitable interests in property. The Bankruptcy Code and applicable federal bankruptcy law govern whether any particular interest in property constitutes property of a debtor's estate. However, state law and other applicable non-bankruptcy laws generally define the existence and nature of the debtor's interests in property, and correspondingly, the bankruptcy estate's interests. See *Butner v. United States*, 440 U.S. 48, 54 (1979) ("Congress has generally left the determination of property rights in the assets of a bankrupt estate to state law.").

In the event of a bankruptcy of ERCOT, the determination of whether ERCOT's bankruptcy estate would include the uplift property depends on the characterization and treatment of the transactions under applicable non-bankruptcy law. If there has been an absolute sale of the uplift property by the seller to the buyer, then the seller would no longer have an interest in the uplift property, and it would not become property of the ERCOT's bankruptcy estate. If, on the other hand, the transactions are characterized as a transfer of the uplift property as security for a loan by the Issuing Entity to ERCOT, then ERCOT's bankruptcy estate would have an interest in the uplift property and the Issuing Entity would be treated as a creditor of ERCOT. See, e.g., *In re Carolina Utilities Supply Company, Inc.*, 118 B.R. 412 (Bankr. D.S.C. 1990) (finding that a factoring agreement was a secured financing and not a sale and that accounts receivable constituted property of the estate and cash collateral of the seller). A true sale opinion is being delivered at closing opining that the transfer of the uplift property from ERCOT to the Issuing Entity is a true sale and that the uplift property would not be property of ERCOT's bankruptcy estate. A court, however, could nevertheless rule otherwise and recharacterize the transfer.

Nonetheless, the Issuing Entity and ERCOT have attempted to mitigate the impact of a possible recharacterization of the sale of uplift property from ERCOT to the Issuing Entity as a financing transaction. The sale agreement provides that if the transfer of the applicable uplift property is thereafter recharacterized by the holding of any court of competent jurisdiction to not be a true sale, then such sale, transfer, assignment, setting over and conveyance shall be treated as a pledge of the uplift property and as a creation of a security interest (within the meaning of the UCC) in the uplift property and, without prejudice to its position that it has absolutely transferred all of its rights in the uplift property to the Issuing Entity, and ERCOT has granted a security interest in the uplift property to the Issuing Entity (and to the Trustee for the benefit of the secured parties) to secure their respective rights under the basic documents to receive the uplift charges and all other uplift property. In addition, at the time of the issuance of the Bonds, ERCOT will cause the filing of a financing statement naming ERCOT as the debtor and the Issuing Entity as the secured party and identifying the uplift property and the proceeds thereof as collateral. As a result of such filing, the Issuing Entity should be a secured creditor of ERCOT and entitled to recover against the collateral.

Notwithstanding the efforts of ERCOT and the Issuing Entity to protect the uplift property from recharacterization, consolidation or from other claims of ERCOT's creditors, these steps may not be completely effective as any determination by a court as to the treatment of the sale of the uplift property depends on a variety of facts and circumstances and there is no controlling legal authority directly on point and the existing statutory and judicial authority is, thus, not conclusive. Moreover, even if a bankruptcy court were to ultimately recognize the sale and transfer of the uplift property as a true sale, the institution of bankruptcy proceedings could lead to material delays and reductions in payments of principal or interest on the Bonds and could materially reduce the value of the Bonds.

In the event of a bankruptcy of the ERCOT and a determination that the transfer of the uplift property was not a true sale, but rather a financing, the Issuing Entity would be a creditor of ERCOT with the transfer of the uplift property being payments on the Issuing Entity's claim. As such, a party in interest might take the position that the remittance of funds to the Issuing Entity by ERCOT prior to the bankruptcy of ERCOT constitutes a preference under the Bankruptcy Code. If a court were to hold that the remittance of funds constitutes a preference, any such remittance within ninety (90) days of the filing of the bankruptcy petition could be avoidable, and the funds could be required to be returned to ERCOT's bankruptcy estate. Also, the Issuing Entity may be considered an "insider" of ERCOT. If the Issuing Entity is considered to be an "insider" of ERCOT, any such remittance made within one (1) year of the filing of the bankruptcy petition could be avoidable as well if the court were to hold that such remittance constitutes a preference. If any funds were required to be returned to the bankruptcy estate of ERCOT, the Issuing Entity would expect the amount of any future uplift charges to be increased through the statutory true-up mechanism to recover such amount, though this would not eliminate the risk of payment delays or adverse effects on the value of the Bonds.

A bankruptcy court generally follows state law on issues such as those addressed by the state law provisions described above. However, a bankruptcy court may not follow state law if it determines that the state law is contrary to a paramount federal bankruptcy policy or interest. If a bankruptcy court in an ERCOT bankruptcy refused to enforce one or more of the state law provisions described above, the effect of this decision on you as a beneficial owner of the Bonds might be similar to the treatment you would receive in an ERCOT bankruptcy if the Bonds had been issued directly by ERCOT. A decision by the bankruptcy court that, despite our separateness from ERCOT, our assets and liabilities and those of ERCOT should be consolidated would have a similar effect on you as a bondholder.

We have taken steps together with ERCOT, as the seller, to reduce the risk that in the event the seller or an affiliate of the seller were to become the debtor in a bankruptcy case, a court would order that our assets and liabilities be substantively consolidated with those of ERCOT or an affiliate. Nonetheless, these steps might not be completely effective, and thus if ERCOT or an affiliate of the seller were to become a debtor in a bankruptcy case, a court might order that our assets and liabilities be consolidated with those of ERCOT or an affiliate of the seller. This might cause material delays in payment of, or losses on, your bonds and might materially reduce the value of your investment in the Bonds. For example:

- without permission from the bankruptcy court, the Trustee might be prevented from taking actions against ERCOT or recovering or using funds on your behalf or replacing ERCOT as the servicer,
- the bankruptcy court might order the Trustee to exchange the uplift property for other property, including property of lower value or property that is more difficult to monetize,
- tax or other liens on ERCOT's property might have priority over the Trustee's lien and might be paid from collected uplift charges before payments on the Bonds,
- the Trustee's lien might not be properly perfected in the collected uplift property collections prior to or as of the date of ERCOT's bankruptcy, with the result that the Bonds would represent only general unsecured claims against ERCOT,
- the bankruptcy court might rule that neither our property interest nor the Trustee's lien extends to uplift charges assessed after the commencement of ERCOT's bankruptcy case, with the result that the Bonds would represent only general unsecured claims against ERCOT,
- we and ERCOT might be relieved of any obligation to make any payments on the Bonds during the pendency of the bankruptcy case and might be relieved of any obligation to pay interest accruing after the commencement of the bankruptcy case or such interest might be allowed at a lower rate,
- ERCOT might be able to alter the terms of the Bonds as part of its bankruptcy plan, or
- the bankruptcy court might rule that the remedy provisions of the sale agreement are unenforceable, leaving us with an unsecured claim for actual damages against ERCOT that may be difficult to prove or, if proven, to collect in full.

Furthermore, if ERCOT enters bankruptcy proceedings, it might be permitted to stop acting as servicer, and it may be difficult to find a third party to act as servicer. The failure of the servicer to perform its duties or the inability to find a successor servicer might cause payment delays or losses on your investment in the Bonds. Also, the mere fact of a servicer or seller bankruptcy proceeding might have an adverse effect on the resale market for the Bonds and on the value of the Bonds.

The sale of the uplift property might be construed as a financing and not a sale in a case of ERCOT's bankruptcy which might delay or limit payments on the Bonds.

The transfer of the uplift property under the sale agreement is expressly stated to be a sale treated as an absolute transfer of all of the seller's right, title and interest in and to (as in a true sale), and not as a pledge or other financing of, the uplift property. (Other considerations regarding the nature of the true sale of the uplift property are discussed in this Offering Memorandum.) Additionally, the sale agreement provides that if the transfer of the applicable uplift property is for any reason determined not to be a true sale, then the parties agree that such sale, transfer, assignment, setting over and conveyance shall be treated as a pledge of the uplift property and as the creation of a security interest (within the meaning of the UCC) in the uplift property and, without prejudice to its position that it has absolutely transferred all of its rights in the uplift property to the Issuing Entity, and ERCOT has granted a security interest in the uplift property to the Issuing Entity (and to the Trustee for the benefit of the secured parties) to secure their respective rights under the basic documents to receive the uplift charges and all other uplift property.

If the transfer of the uplift property is for any reason determined not to be a true sale, then as described above, the Issuing Entity would be treated as a secured creditor of ERCOT with a security interest in the uplift property and proceeds thereof. The priority of the Issuing Entity's security interest in the uplift property over other creditors will depend on the successful perfection and continuation of perfection of the Issuing Entity's security interest. In such a case, the Issuing Entity's rights with respect to the uplift property may be significantly impaired if the uplift property loses perfection, as described below.

At the time of the issuance of the Bonds, ERCOT will cause the filing of a financing statement naming ERCOT as the debtor and the Issuing Entity as the secured party and identifying the uplift property and the proceeds thereof as collateral. The filing of a financing statement will only be effective for the perfection of ERCOT's right to invoice and collect uplift

charges. Uplift charge payments will be deposited into a general account of ERCOT and will be considered proceeds of the uplift charges within the meaning of the applicable Uniform Commercial Code (**UCC**). The UCC provides for the indefinite perfection of uplift charge payments as proceeds of the uplift charges as long as the uplift charge payments are clearly identifiable from other amounts. ERCOT has proposed changes to the ERCOT Protocols for the separate invoicing of uplift charges that would cause uplift charge payments to be clearly identifiable from other funds commingled in ERCOT's account. However, if the uplift charge payments cannot be clearly identified due to a change in ERCOT's invoicing procedures, recordkeeping failures, or for any other reason, then the uplift charge payments, as proceeds of the uplift charges, would only remain perfected for twenty (20) days under UCC temporary perfection rules unless transferred into the collection account maintained with the Trustee within such time frame.

Reliance on UCC rules for the perfection of proceeds is a unique risk of the Bonds compared with other utility securitization financing transactions. In other jurisdictions, some securitization laws will expressly provide that the priority of a lien and security interest perfected in pledged property is not impaired by the commingling of the property with other funds of the servicer. Subchapter N does not provide for any such treatment for the uplift property. Additionally, other securitization laws extend the effective period for financing statements for the perfection of pledged property for up to thirty (30) years. Subchapter N provides for no such extension, and therefore, it will be necessary for the Issuing Entity to regularly file continuation statements for the uplift property prior to expiration, at least every five (5) years. The Issuing Entity has covenanted to cause a perfection legal opinion to be delivered to the Trustee annually to the effect that all filings and other actions necessary to maintain the lien and the perfected security interest in the uplift property have been taken. However, notwithstanding these precautions, if the Issuing Entity fails to maintain a perfected security interest in the uplift charges through the maintenance of proper filings or by any other means, then the uplift charge payments, as proceeds of the uplift charges, would also lose their perfection under the UCC.

If the servicer or the seller enters bankruptcy proceedings, the collection of the uplift charges might constitute preferences and those funds might be required to be returned.

In the event of a bankruptcy of the servicer or the seller, a party in interest might take the position that the remittance of funds by such seller or servicer prior to its bankruptcy constitutes a preference if the remittance of those funds was deemed to be paid on account of a preexisting debt. If a court were to hold that the remittance of funds constitutes a preference, any such remittance within ninety (90) days of the filing of the bankruptcy petition could be avoidable, and the funds could be required to be returned to the bankruptcy estate of the servicer or the seller. To the extent that uplift charges have been commingled with the general funds of the servicer, the risk that a court would hold that a remittance of funds was a preference would increase. Also, we may be considered an "insider" of the servicer or the seller. In that event, any such remittance made within one (1) year of the filing of the bankruptcy petition could be avoidable as well if the court were to hold that such remittance constitutes a preference. In either case, we or the Trustee would merely be an unsecured creditor of the servicer or the seller. If any funds were required to be returned to the bankruptcy estate, we would expect (but cannot be assured) that the amount of any future uplift charges would be increased through the statutory true-up mechanism to recover such amount. There is a similar risk related to claims, including indemnity claims, against the servicer in the event it becomes a debtor in bankruptcy.

Claims against ERCOT, or any successor seller or servicer, might be limited in the event of a bankruptcy.

If the seller were to become a debtor in a bankruptcy case, claims, including indemnity claims, by us against the seller under the sale agreement and the other documents executed in connection with the sale agreement would be unsecured claims and would be adjudicated in the bankruptcy case. In addition, the bankruptcy court might estimate any contingent claims that we have against the seller and, if it determines that the contingency giving rise to these claims is unlikely to occur, estimate the claims at a lower amount or disallow the claims altogether. A party in interest in the bankruptcy of the seller might challenge the enforceability of the indemnity provisions. If a court were to hold that the indemnity provisions were unenforceable, we would be left with a claim for actual damages against the seller based on breach of contract principles, which would be subject to estimation and/or calculation by the court. We cannot give any assurance as to the result if any of the above-described actions or claims were made. Furthermore, we cannot give any assurance as to what percentage of their claims, if any, unsecured creditors would receive in any bankruptcy proceeding involving the seller. The bankruptcy of ERCOT or any successor seller might limit the remedies available to the Trustee.

RISKS ASSOCIATED WITH POTENTIAL BANKRUPTCY PROCEEDINGS OF RESPONSIBLE QSES

Responsible QSEs may commingle uplift charges from obligated LSEs they represent with other revenues they collect. This may cause losses on, or reduce the value of your investment in the Bonds in the event a responsible QSE enters bankruptcy proceedings.

A responsible QSE is not required to segregate from its general funds the uplift charges it collects from obligated LSEs, either on a series basis or otherwise, but will be required to remit to the servicer amounts billed to it for uplift charges within two (2) bank business days of the billing by the servicer. A responsible QSE nevertheless might fail to remit the full amount of the uplift charges owed to the servicer or might fail to do so on a timely basis. This failure, whether voluntary or involuntary, might materially reduce the amount of uplift charge collections available on the next payment date to make timely payments on the Bonds.

Section 9.315 of the UCC provides that the priority of a perfected lien on the uplift property will not be impaired by the commingling of these funds with other funds so long as the uplift property is identifiable cash proceeds. In a bankruptcy of a responsible QSE, however, a bankruptcy court might not recognize our right to receive the collected uplift charges that are commingled with other funds of a responsible QSE as of the date of bankruptcy by determining that federal bankruptcy law takes precedence over the applicable provisions of the UCC or on some other basis. If so, the collections of the uplift charges held by a responsible QSE as of the date of bankruptcy or collected and commingled by the responsible QSE after bankruptcy would not be available to pay amounts owing on the Bonds. In this case, we would have only a general unsecured claim against the responsible QSE for those amounts. This decision might cause material delays in payments of principal or interest or losses on your bonds and could materially reduce the value of your investment in the Bonds. Please read "How a Bankruptcy May Affect Your Investment."

If a responsible QSE enters bankruptcy proceedings, any cash deposit of the responsible QSE held by ERCOT might not be available to cover amounts owed by the responsible QSE.

Pursuant to the debt obligation order, each responsible QSE must provide a deposit equal to two months of projected uplift charges. Those deposits will be managed by the servicer and held in accounts of the Issuing Entity structured to be legally isolated from ERCOT, for payment if the responsible QSE fails to pay uplift charges when they are due. If the responsible QSE becomes bankrupt, the automatic stay may prevent ERCOT from applying that deposit to cover amounts owed by the responsible QSE absent relief from the court, and ERCOT might be required to return that deposit to the responsible QSE's bankruptcy estate if the bankruptcy court determines there is no valid right of set-off or recoupment. In that case, the Issuing Entity might only have an unsecured claim for any amounts owed by the responsible QSE in the responsible QSE's bankruptcy proceedings.

To date, ERCOT has not suffered losses from the bankruptcy of any QSE actively participating in the ERCOT market with which ERCOT has transacted with over the past fifteen (15) years. To the extent one or more responsible QSEs discontinue operating in the ERCOT market, any obligated LSE must select another responsible QSE to represent it in the ERCOT settlement process, and that responsible QSE will be responsible for paying uplift charges to ERCOT on behalf of that obligated LSE.

If a responsible QSE enters bankruptcy proceedings, uplift charge payments made by that responsible QSE to the servicer might constitute preferences, and we or the servicer may be required to return such funds to the bankruptcy estate of the responsible QSE.

In the event of a bankruptcy of a responsible QSE, a party in interest might take the position that the remittance of funds by the responsible QSE to the servicer, pursuant to the debt obligation order, prior to bankruptcy, constitutes a preference under bankruptcy law if the remittance of those funds was deemed to be paid on account of a preexisting debt. If a court were to hold that the remittance of funds constitutes preferences, any remittance of such funds made within ninety (90) days of the filing of the bankruptcy petition might be avoidable, and the funds might be required to be returned to the bankruptcy estate of the responsible QSE by us or the servicer. To the extent that uplift charges have been commingled with the general funds of the responsible QSE, the risk that a court would hold that a remittance of funds was a preference would increase. Also, we or the servicer might be considered an "insider" with any responsible QSE that is affiliated with us or the servicer. If the servicer or we are considered to be an "insider" of the responsible QSE, any such remittance made within one (1) year of the filing of the bankruptcy petition could be avoidable as well if the court were to hold that such remittance constitutes a preference. In either case, we or the servicer would merely be an unsecured creditor of the responsible QSE. If any funds were required to be returned to the bankruptcy estate of the responsible QSE, we would expect that the amount of any future uplift charges would be increased through the true-up mechanism to recover the amount returned.

There is also the possibility that, in the bankruptcy case of a responsible QSE, the bankruptcy court rules that all or some portion of the uplift charges previously paid or incurred by such provider were not for "reasonably equivalent value" and, thus, were constructively fraudulent. In this event, payments made and/or charges incurred up to two years (under the Bankruptcy Code) or up to four years (under Texas law), before the responsible QSE's bankruptcy case could be avoided and required to be returned to the bankruptcy estate.

If any funds were required to be returned to the bankruptcy estate of the responsible QSE, we would expect (but cannot be assured) that the amount of any future uplift charges would be increased through the true-up mechanism to recover the amount returned.

Furthermore, the mere fact of a responsible QSE bankruptcy proceeding could have an adverse effect on the resale market for the Bonds and on the value of the Bonds. Please read "How a Bankruptcy May Affect Your Investment."

If a responsible QSE defaults with respect to the payment of uplift charges owed to the servicer, any cash deposit or other collateral of the responsible QSE held by the Trustee might not cover amounts owed by the responsible QSE.

Pursuant to the debt obligation order, each responsible QSE must provide a cash deposit or letter of credit equal to two months of projected uplift charges. If a responsible QSE defaults with respect to the payment of uplift charges, the amount of such deposit may be inadequate as a result of factors that include (a) an increase in the load ratio share of obligated LSEs represented by the responsible QSE shortly before the default, (b) the length of time between the initial payment default by a responsible QSE and the date all of such responsible QSE's obligated LSEs are transferred to another responsible QSE, and (c) deficiencies in the collateral documentation or a failure of a letter of credit provider to honor a demand for payment.

OTHER RISKS ASSOCIATED WITH AN INVESTMENT IN THE BONDS

ERCOT's indemnification obligations under the sale and servicing agreements are limited and might not be sufficient to protect your investment in the Bonds.

ERCOT is obligated under the sale agreement to indemnify us and the Trustee, for itself and on behalf of the bondholders, only in specified circumstances and will not be obligated to repurchase any uplift property in the event of a breach of any of its representations, warranties or covenants regarding the uplift property. Similarly, ERCOT is obligated under the servicing agreement to indemnify us and the Trustee, for itself and on behalf of the bondholders, only in specified circumstances. Please read "The Sale Agreement" and "The Servicing Agreement."

Neither the Trustee nor the bondholders will have the right to accelerate payments on the Bonds as a result of a breach under the sale agreement or servicing agreement, absent an event of default under the indenture relating to the Bonds as described in "Description of the Texas Stabilization Subchapter N Bonds—Events of Default; Rights Upon Event of Default." Furthermore, ERCOT might not have sufficient funds available to satisfy its indemnification obligations under these agreements, and the amount of any indemnification paid by ERCOT might not be sufficient for you to recover all of your investment in the Bonds. In addition, if ERCOT becomes obligated to indemnify bondholders, the then-current ratings on the Bonds will likely be downgraded as a result of the circumstances causing the breach and the fact that bondholders will be unsecured creditors of ERCOT with respect to any of these indemnification amounts. ERCOT will not indemnify any person for any loss, damages, liability, obligation, claim, action, suit or payment resulting solely from a downgrade in the ratings on the Bonds, or for any consequential damages, including any loss of market value of the Bonds resulting from a default or a downgrade of the ratings of the Bonds. Please read "The Sale Agreement—Seller Representations and Warranties" and "—Indemnification" in this Offering Memorandum.

Finally, if ERCOT were to become a debtor in a bankruptcy case, claims, including indemnity claims, by us against ERCOT under the servicing agreement or the sale agreement would be unsecured claims and would be adjudicated in the bankruptcy case. In addition, the bankruptcy court might estimate any contingent claims that the Issuing Entity have against ERCOT and, if it determines that the contingency giving rise to these claims is unlikely to occur, estimate the claims at a lower amount. A party in interest in the bankruptcy of ERCOT might challenge the enforceability of these indemnity provisions. If a court were to hold that the indemnity provisions were unenforceable, the Issuing Entity would be left with a claim for actual damages against ERCOT based on breach of contract principles, which would be subject to estimation and/or calculation by the court. The ERCOT parties cannot give any assurance as to the results if any of the above-described actions or claims were made. Furthermore, the Issuing Entity cannot give any assurance as to what percentage of their claims, if any, unsecured creditors would receive in any bankruptcy proceeding involving the seller.

The credit ratings are no indication of the expected rate of payment of principal on the Bonds.

We expect the Bonds will receive a credit rating from one nationally recognized statistical rating organization, an **NRSRO**, Moody's Investor Service, Inc., or **Moody's**. A rating is not a recommendation to buy, sell or hold the Bonds. The rating merely analyzes the probability that we will repay the total principal amount of the Bonds at the final maturity date (which is later than the scheduled final payment date) and will make timely interest payments. The rating is not an indication that the rating agency believes that principal payments are likely to be paid on time according to the expected amortization schedule.

Under Rule 17g-5 of the Exchange Act, NRSROs providing the sponsor with the requisite certification will have access to all information posted on a website by the sponsor for the purpose of determining the initial rating and monitoring the rating after the closing date in respect of the Bonds. As a result, an NRSRO other than Moody's, the NRSRO hired by the sponsor, or the **hired NRSRO**, may issue ratings on the Bonds, or **Unsolicited Ratings**, which may be lower, and could be significantly lower, than the ratings assigned by the hired NRSRO. The Unsolicited Ratings may be issued prior to or after the closing date in respect of the Bonds. Issuance of any Unsolicited Rating will not affect the issuance of the Bonds. Issuance of an Unsolicited Rating lower than the ratings assigned by the hired NRSRO on the Bonds might adversely affect the value of the Bonds and, for regulated entities, could affect the status of the Bonds as a legal investment or the capital treatment of the Bonds. Investors in the Bonds should consult with their legal counsel regarding the effect of the issuance of a rating by a non-hired NRSRO that is lower than the rating of the hired NRSRO. None of ERCOT, us, the Initial Purchasers or any of their affiliates will have any obligation to inform you of any Unsolicited Ratings assigned after the date of this Offering Memorandum. In addition, if we or ERCOT fail to make available to a non-hired NRSRO any information provided to any hired rating agency for the purpose of assigning or monitoring the ratings on the Bonds, a hired NRSRO could withdraw its ratings on the Bonds, which could adversely affect the market value of your bonds and/or limit your ability to resell your bonds.

The absence of a secondary market for the Bonds might limit your ability to resell your bonds.

The Initial Purchasers of the Bonds might assist investors in resales of the Bonds, but they are not required to do so. A secondary market for the Bonds might not develop, and we do not expect to list the Bonds on any securities exchange. If a secondary market does develop, it might not continue or it might not be sufficiently liquid to allow you to resell any of your bonds. Please read "Plan of Sale."

The Securities and Exchange Commission has recently amended Exchange Act Rule 15c2-11, which governs the publication or submission of quotations in the over-the-counter securities markets. The amended rule presents certain implementation issues, some of which the Securities and Exchange Commission staff has attempted to address by extending the compliance date until at least January 3, 2023. If these implementation issues are not resolved in a timely manner, the amended rule may further restrict the ability or willingness of brokers and dealers to publish quotations on the Bonds on any interdealer quotation system or other quotation medium after January 3, 2023, which could have an adverse effect on the development of a secondary market and the liquidity of the Bonds. Additionally, the ability of any Initial Purchaser or any other person to make a secondary market in the Bonds may be adversely impacted in the future by the implementation or adoption of other regulatory requirements applicable to the marketing, holding and trading of, and issuing quotations with respect to, the Bonds.

You might receive principal payments for the Bonds later than you expect.

There are a variety of causes that could lead to periodic delays in the timely payment of principal and interest on a payment date, such as delays in ERCOT's ability to invoice, collect and remit uplift charges, widespread payment defaults, and legal proceedings. If the servicer collects the uplift charges at a slower rate than expected from any QSE, it might have to request adjustments of the uplift charges. Additionally, payment of principal and interest on the Bonds will be made from the collection account and subaccounts established under the indenture. While the eligible investments are traditionally viewed as highly liquid with a low probability of principal loss, invested funds are not entirely immune from losses or liquidity risk.

The Bonds will be secured by certain reserves held by the Trustee that may be accessed for the payment of principal and interest on the Bonds on each payment date if sufficient funds are not available for any reason. In addition to these reserves, ERCOT, as servicer, has agreed in the servicing agreement to implement scheduled and interim true-up adjustments to make up for any payment shortfalls or to replenish reserves. However, the methodology established in the servicing agreement will require some forecasting by ERCOT to predict collection and payment shortfalls, and certain shortfalls may be difficult to accurately predict or entirely unforeseeable. Additionally, the process for making true-up adjustments could take forty-five (45) days or longer in extenuating circumstances. If those adjustments are not timely and

accurate, you might experience a delay in payments of principal and interest and a decrease in the value of your investment in the Bonds.

ERCOT may cause the issuance, by us or other affiliated entities, of Additional Bonds secured by additional uplift property or other property that includes a nonbypassable charge on QSEs, which may cause a delay in the payment of the Bonds and potential conflicts of interest among bondholders.

We may, at our sole discretion, but subject to conditions set forth in our organizational documents and the indenture, acquire additional uplift property created under a separate debt obligation order and separate legislation and issue one or more a series of Additional Bonds supported by such additional uplift property without your prior review or approval. This could cause delays in payment and potential conflicts of interest among different series. Please read "Description of the Texas Stabilization Subchapter N Bonds—Conditions of Issuance of Additional Bonds" and "Security for the Bonds—Issuance of Additional Bonds." In addition, ERCOT may in its sole discretion sell additional uplift property or property similar to uplift property created by a separate financing order to one or more entities other than us in connection with the issuance of Additional Bonds or obligations similar to the Bonds without your prior review or approval.

Any new issuance may include terms and provisions that would be unique to that particular issuance. ERCOT has covenanted in the sale agreement that satisfaction of the Rating Agency Condition and the execution and delivery of an intercreditor agreement, or joinder of the relevant parties to the Intercreditor Agreement relating to the Bonds and the Texas Stabilization M Bonds, are conditions precedent to the sale of additional uplift property or similar property consisting of nonbypassable charges payable by customers comparable to the uplift property to another entity. Please read "Relationship to the Texas Stabilization M Bonds, Series 2021—Intercreditor Agreement" and "The Sale Agreement—Covenants of the Seller" in this Offering Memorandum.

In the event a responsible QSE does not pay in full all amounts owed under any invoice, including uplift charges, ERCOT, as servicer, is required to allocate any resulting shortfalls in uplift charges ratably based on the amounts of uplift charges owing in respect of the Bonds, the Texas Stabilization M Bonds, and amounts owing in respect of Additional Bonds. However, if a dispute arises with respect to the allocation of such uplift charges or other delays occur on account of the administrative burdens of making such allocation, we cannot assure you that any new issuance would not cause reductions or delays in payment of your Bonds.

In addition, actions taken by the holders of the Texas Stabilization M Bonds or one or more series of Additional Bonds might conflict with the interests of the beneficial owners of the Bonds, and could result in an outcome that is materially unfavorable to you.

If the investment of collected uplift charges and other funds held by the Trustee in the collection account results in investment losses or the investments become illiquid, you may receive payment of principal and interest on the Bonds later than you expect.

Funds held by the Trustee in the collection account and cash collateral provided by responsible QSEs will be invested in eligible investments at the written direction of the servicer. Eligible investments include money market funds having a rating not less than A1 and P-1 or their equivalents by each of S&P and Moody's, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Bonds. Although investments in these money market funds have traditionally been viewed as highly liquid with a low probability of principal loss, illiquidity and principal losses have been experienced by bondholders in certain of these funds as a result of disruptions in the financial markets in recent years. If investment losses or illiquidity is experienced, you might experience a delay in payments of principal and interest and a decrease in the value of your investment in the Bonds. **Eligible investments** mean instruments or investment property which evidence:

- (a) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;
- (b) demand or time deposits of, unsecured certificates of deposit of, money market deposit accounts of, or bankers' acceptances issued by, any depository institution (including the Trustee or any of its affiliates, acting in its commercial capacity) incorporated or organized under the laws of the United States of America or any State thereof and subject to supervision and examination by federal or state banking authorities, so long as the commercial paper or other short term debt obligations of such depository institution are, at the time of deposit, rated not less than A1 and P-1 or their equivalents by each of S&P and Moody's, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Bonds;

- (c) commercial paper (including commercial paper of the Trustee or any of its affiliates, acting in its commercial capacity, and other than commercial paper of ERCOT or any of its affiliates), which at the time of purchase is rated not less than A1 and P-1 or their equivalents by each of S&P and Moody's, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Bonds;
- (d) investments in money market funds (including funds for which the Trustee or any of its affiliates is investment manager or advisor), which at the time of purchase are rated not less than A1 and P-1 or their equivalents by each of S&P and Moody's, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Bonds;
- (e) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or certain of its agencies or instrumentalities, entered into with eligible institutions;
- (f) repurchase obligations with respect to any security or whole loan entered into with an eligible institution or with a registered broker dealer, acting as principal and that meets the ratings criteria; and
- (g) any other investment permitted by each of the rating agencies;

in each case maturing not later than the Business Day immediately preceding the next Payment Date or Special Payment Date, if applicable (for the avoidance of doubt, investments in money market funds or similar instruments which are redeemable on demand will be deemed to satisfy the foregoing requirement). Notwithstanding the foregoing: (1) no securities or investments which mature in thirty (30) days or more will be "eligible investments" unless the issuer thereof has either a short-term unsecured debt rating of at least P-1 from Moody's or a long-term unsecured debt rating of at least A1 from Moody's and also has a long-term unsecured debt rating of at least A+ from S&P; (2) no securities or investments described in clauses (b) through (d) above which have maturities of more than thirty (30) days but less than or equal to three (3) months will be "eligible investments" unless the issuer thereof has a long-term unsecured debt rating of at least A1 from Moody's and a short-term unsecured debt rating of at least P-1 from Moody's; (3) no securities or investments described in clauses (b) through (d) above which have maturities of more than three (3) months will be an "eligible investment" unless the issuer thereof has a long-term unsecured debt rating of at least A1 from Moody's and a short-term unsecured debt rating of at least P-1 from Moody's.

European Union and United Kingdom Securitization Rules may apply, and the Bonds may not be suitable investments for certain investors.

EU legislation comprising Regulation (EU) 2017/2402, or the **EU Securitization Regulation**, and all related regulatory and/or implementing technical standards adopted by the European Commission and official guidance published in relation thereto or, together, the **EU Securitization Rules**, impose certain restrictions and obligations with regard to a "securitisation" (as such term is defined for purposes of the EU Securitization Regulation). The EU Securitization Rules are in force throughout the EU (and are expected also to be implemented in the non-EU member states of the European Economic Area) in respect of securitizations the securities of which are issued (or the securitization positions of which are created) on or after January 1, 2019.

Under the terms of the Withdrawal Agreement, which was entered into between the UK and the EU in relation to Brexit, the EU Securitization Regulation became part of the laws of the UK under the UK's European Union (Withdrawal) Act 2018 and secondary legislation made under it, in each case, as amended, including by the European Union (Withdrawal Agreement) Act 2020, or the **UK Securitization Regulation**, and, together with all related regulatory and/or implementing technical standards and official guidance published in relation thereto, the **UK Securitization Rules**.

Investors should be aware, and in some cases are required to be aware, of the requirements with respect to "securitisations" as defined in the EU Securitization Rules and the UK Securitization Rules which currently apply, or are expected to apply in the future, in respect of certain specified types of EU regulated investors falling within the definition of "institutional investor" under the EU Securitization Regulation and in respect of certain specified types of UK regulated investors falling within the definition of "institutional investor" under the UK Securitization Regulation, each an **Affected Investor**. Among other things, the EU Securitization Rules and the UK Securitization Rules each contain risk retention and due diligence requirements, or the **Risk Retention Requirements** and the **Due Diligence Requirements**, respectively, which restrict an Affected Investor from investing in securitizations unless: (i)(a) the originator, sponsor or original lender in respect of the relevant securitization has explicitly disclosed that it will retain, on an on-going basis, a net economic interest of not less than 5% percent in respect of certain specified credit risk tranches or securitized exposures, and (b) the risk retention is disclosed to the Affected Investor in accordance with the EU Securitization Rules or the UK Securitization Rules (as relevant); (ii) the originator or original lender grants all the credits giving rise to the underlying exposure on the basis of

sound and well-defined criteria and clearly established processes for approving, amending, renewing and financing those credits and has effective systems in place to apply those criteria and processes to ensure that credit-granting is based on a thorough assessment of the obligor's creditworthiness; (iii) (a) (in the case of an institutional investor (as defined in the EU Securitization Regulation)) the originator, sponsor or securitization special purpose entity, or an **SSPE**, has, where applicable, made available the information required by Article 7 of the EU Securitization Regulation in accordance with the frequency and modalities provided for in that Article, or (b) (in the case of an institutional investor (as defined in the UK Securitization Regulation)), (A) if established in the United Kingdom, the originator, sponsor or SSPE has, where applicable, made available the information required by Article 7 of the UK Securitization Regulation in accordance with the frequency and modalities provided for in that Article or (B) if established in a third country, the originator, sponsor or SSPE has, where applicable, (I) made available information which is substantially the same as that which it would have made available in accordance with Article 5(1)(e) of the UK Securitization Regulation if it had been established in the United Kingdom and (II) has done so with such frequency and modalities as are substantially the same as those with which it would have made information available in accordance with Article 5(1)(e) of the UK Securitization Regulation if it had been established in the United Kingdom; and (v) such Affected Investor is able to demonstrate that they have undertaken certain due diligence in respect of various matters including but not limited to the risk characteristics of its investment position, the underlying assets and (in the case of certain types of investors) the relevant sponsor or originator and that procedures have been established for such activities to be monitored on an ongoing basis. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those investors subject to regulatory capital requirements, the imposition of a punitive capital charge on the offered Bonds acquired by the relevant Affected Investor.

Although the Issuer has determined that the Bonds should not be a "securitisation" for the purposes of either Securitization Regulation (because each of the Securitization Regulations defines "securitisation" as "a transaction or scheme where the credit risk associated with an exposure or a pool of exposures is tranching", where a "tranche" means "a contractually established segment of the credit risk associated with an exposure or a pool of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in another segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments"), Affected Investors will need to determine whether this transaction is, or could become, a "securitisation" for the purposes of either Securitization Regulation and would therefore require compliance with the EU Securitization Rules or the UK Securitization Rules.

Neither the Sponsor nor any other party to the transaction described in this Offering Memorandum will retain or commit to retain a 5% material net economic interest with respect to this transaction in accordance with the Risk Retention Requirements. In addition, no party makes or intends to make any representation or agreement that it or any other party is undertaking or will undertake (i) to make information available as required in accordance with either Securitization Regulation, (ii) take any other action, or refrain from taking any action, to facilitate or enable the compliance by any Affected Investor with the requirements of EU Securitization Rules or the UK Securitization Rules or (iii) to comply with the requirements of any other law or regulation now or hereafter in effect in the EU, any EEA member state or the UK, in relation to risk retention, due diligence and monitoring, credit granting standards or any other conditions applicable with respect to investments in securitization transactions by an Affected Investor.

None of the Trustee, the Initial Purchaser, the Sponsor, or any other party to the transaction or their respective affiliates or any other person (i) makes any representation, warranty or guarantee as to whether or not the transaction described in this Preliminary Offering Memorandum is a "securitisation" for the purposes of either Securitization Regulation or complies with the EU Securitization Rules or the UK Securitization Rules, or any other applicable legal, regulatory or other requirements; (ii) will have any liability to any prospective investor or any other person with respect to the failure of the transactions contemplated herein to comply with or otherwise satisfy the EU Securitization Rules or the UK Securitization Rules, or any other applicable legal, regulatory or other requirements; or (iii) will have any obligation to enable compliance with the EU Securitization Rules or the UK Securitization Regulation or any other applicable legal, regulatory or other requirements.

Changes to the regulation or regulatory treatment of the Bonds for some or all investors may negatively impact the regulatory position of individual investors and, in addition, have a negative impact on the price and liquidity of the Bonds in the secondary market. Prospective investors of the Securitized Bonds which is subject to the EU Securitization Rules or the UK Securitization Rules should analyze their own regulatory position consult with their own investment, legal, accounting and other advisors regarding the scope, applicability and compliance with the relevant Due Diligence Requirements as applicable to them and the suitability of the Securitized Bonds for investment. None of the Trustee, the Initial Purchasers, the Sponsor, or any other party to the transaction makes any representation to any prospective investor or purchaser of the Securitized Bonds regarding the regulatory position with respect to any investor, or the regulatory capital treatment of its investment in the Securitized Bonds on the Closing Date or at any time in the future.

REVIEW OF UPLIFT PROPERTY

Consistent with disclosure obligations under applicable securities laws, ERCOT, as sponsor, has performed, as described below, a review of the uplift property underlying the Bonds. The review was designed and effected to provide reasonable assurance that disclosure regarding the uplift property is accurate in all material respects. ERCOT did not engage a third party in conducting its review.

The Bonds will be secured under the indenture by a security interest in the uplift property and the other property described under "Security for the Bonds – Pledge of Collateral." The uplift property is a present property right authorized and created pursuant to Subchapter N and the irrevocable debt obligation order. The uplift property includes the irrevocable right to impose, collect and receive nonbypassable uplift charges in amounts sufficient to pay scheduled principal and interest and other amounts and charges in connection with the Bonds. Excluding entities, mainly municipal and cooperative electric power providers, that previously opted out in accordance with Subchapter N and the debt obligation order, the uplift charges are payable by responsible QSEs representing obligated LSEs, within the ERCOT power region, including LSEs who enter the market at a later date. The uplift charges will be allocated among the responsible QSEs on a load ratio share basis.

Uplift charges authorized in the debt obligation order that relate to the uplift property are irrevocable and not subject to reduction, impairment, or adjustment by further action of the Commission. Uplift charges are, however, subject to quarterly and interim true-up adjustments to correct over-collections or under-collections and to provide the expected recovery of amounts sufficient to timely provide all scheduled payments of debt service and other required amounts and charges in connection with the Bonds. There is no cap on the level of uplift charges that may be imposed on responsible QSEs in the ERCOT power region to meet scheduled principal of and interest on the Bonds and ongoing costs. All revenues and collections resulting from uplift charges provided for in the debt obligation order that relate to the Bonds are part of the uplift property. The uplift property relating to the Bonds is described in more detail under "Description of the Uplift Property" in this Offering Memorandum.

In the debt obligation order, the Commission, among other things:

- orders that ERCOT, as servicer, shall collect from all responsible QSEs under the debt obligation order, uplift charges in an amount sufficient to provide for the timely payment of principal, interest, and other amounts and charges in connection with the Bonds, and
- orders that, upon the transfer of the uplift property to us by ERCOT, we shall have all of the rights, title and interest of ERCOT with respect to the uplift property.

Please read "Subchapter N" and "ERCOT's Debt Obligation Order" in this Offering Memorandum for more information.

The characteristics of uplift property are unlike the characteristics of assets underlying mortgage and other commercial asset securitizations because uplift property is a creature of statute and state regulatory commission proceedings. Because the nature and characteristics of the uplift property and many elements of the securitization are set forth and constrained by Subchapter N; ERCOT, as sponsor, does not select the assets to be securitized in ways common to many securitizations. Moreover, the Bonds do not contain origination or underwriting elements similar to typical mortgage or other loan transactions involved in other forms of asset-backed securities. Subchapter N and the Commission require the imposition on, and collection of uplift charges from responsible QSEs representing obligated LSEs located within the ERCOT power region. Since the uplift charges are assessed against all such QSEs, and obligated LSEs, and the true-up adjustment mechanism adjusts for the impact of defaults, the collectability of the uplift charges is not ultimately dependent upon the credit quality of particular QSEs or LSEs, as would be the case in the absence of the true-up adjustment mechanism.

The review by ERCOT of the uplift property underlying the Bonds has involved a number of discrete steps and elements as described in more detail below. First, ERCOT has analyzed and applied Subchapter N's requirements for securitization of the uplift balance in seeking approval of the Commission for the issuance of the debt obligation order and in its proposal with respect to the characteristics of the uplift property to be created pursuant to the debt obligation order. In preparing this proposal, ERCOT analyzed the terms of previous securitizations under PURA and the practical experience gained in structuring and issuing the Texas Stabilization M Bonds issued by the prior securitization under Subchapter M of PURA. ERCOT worked with its counsel in preparing the application for a debt obligation order and with the Commission on the terms of the debt obligation order. Moreover, ERCOT worked with its counsel, its structuring agent, and counsel to the Initial Purchasers in preparing the legal agreements that provide for the terms of the Bonds and the security for the Bonds. ERCOT has analyzed economic issues and practical issues for the scheduled payment of the Bonds and reviewed the impacts of economic factors.

In light of the unique nature of the uplift property, ERCOT has taken (or prior to the offering of the Bonds, will take) the following actions in connection with its review of the uplift property and the preparation of the disclosure for inclusion in this Offering Memorandum describing the uplift property, the Bonds and the proposed securitization:

- reviewed Subchapter N and the rules and regulations of the Commission as they relate to the uplift property in connection with the preparation and filing of the application with the Commission for the approval of the debt obligation order in order to confirm that the application and proposed order satisfied applicable statutory and regulatory requirements;
- actively participated in the proceeding before the Commission relating to the approval of the requested order;
- compared the debt obligation order, as issued by the Commission, to Subchapter N and the rules and regulations of the Commission as they relate to the uplift property to confirm that the debt obligation order met such requirements;
- compared the proposed terms of the Bonds to the applicable requirements in Subchapter N, the debt obligation order and the regulations of the Commission to confirm that they met such requirements;
- prepared and reviewed the agreements to be entered into in connection with the issuance of the Bonds and compared such agreements to the applicable requirements in Subchapter N, the debt obligation order and the regulations of the Commission to confirm that they met such requirements;
- reviewed the disclosure in this Offering Memorandum regarding Subchapter N, the debt obligation order and the agreements to be entered into in connection with the issuance of the Bonds, and compared such descriptions to the relevant securitization provisions of Subchapter N, the debt obligation order and such agreements to confirm the accuracy of such descriptions;
- consulted with legal counsel to assess if there is a basis upon which the bondholders (or the Trustee acting on their behalf) could successfully challenge the constitutionality of any legislative action by the state of Texas (including the Commission) that could repeal or amend Subchapter N that could substantially impair the value of the uplift property, or substantially reduce, alter or impair the uplift charges;
- reviewed the process and procedures in place for it, as servicer, to perform its obligations under the servicing agreement, including without limitation, billing and collecting the uplift charges, forecasting uplift charge revenues, preparing and filing applications for true-up adjustments to the uplift charges and enforcing ERCOT Protocols,
- reviewed the operation of the true-up mechanism for adjusting uplift charge levels to meet the scheduled payments on the Bonds; and
- with the assistance of its structuring agent and the Initial Purchasers, prepared financial models in order to set the initial uplift charges to be provided for under the uplift property at a level sufficient to pay on a timely basis scheduled principal, interest, and other charges in connection with the Bonds.

In connection with the preparation of such models, ERCOT:

- reviewed (i) the historical adjusted meter loads and growth within the ERCOT market and (ii) forecasts of total ERCOT market load and growth; and
- analyzed the sensitivity of the weighted average life of the Bonds in relation to variances in actual adjusted meter load and related charge collections from forecasted levels and in relation to the true-up adjustment in order to assess the probability that the weighted average life of the Bonds may be extended as a result of such variances, and in the context of the operation of the true-up adjustment for adjustment of uplift charges to address under-collections or over-collections in light of scheduled payments on the Bonds to prevent an event of default.

As a result of this review, ERCOT has concluded that:

- the uplift property, the debt obligation order and the agreements to be entered into in connection with the issuance of the Bonds meet in all material respects the applicable statutory and regulatory requirements;
- the disclosure in this Offering Memorandum regarding Subchapter N, the debt obligation order, and the agreements to be entered into in connection with the issuance of the Bonds is as of its date, accurate in all material respects;

- the servicer has adequate processes and procedures in place to perform its obligations under the servicing agreement;
- Uplift charges, as adjusted from time to time as provided in Subchapter N and the debt obligation order, are expected to be sufficient to pay on a timely basis scheduled principal, interest, and other charges in connection to the Bonds; and
- the design and scope of ERCOT's review of the uplift property as described above is effective to provide reasonable assurance that the disclosure regarding the uplift property in this Offering Memorandum is accurate in all material respects.

SUBCHAPTER N

An Overview of Subchapter N

In February 2021, Winter Storm Uri resulted in outages at many of the generation resources within the ERCOT power region, and the demand for power exceeded supply for several days during the week of the storm. The inadequate supply of power required that load be involuntarily shed to protect the integrity of the ERCOT System, and many Texans lost power for extended periods that week. This condition also drove up prices in the wholesale electricity market causing a number of market participants, many of whom represented LSEs, to default on their payment obligations under ERCOT Protocols. As a result of these payment defaults, ERCOT was unable to collect sufficient funds to fully pay certain wholesale market participants who were due payments from ERCOT for power they produced during the storm.

To address these problems, the Legislature enacted two bills that authorized financing mechanisms to provide funds to help ERCOT and market participants meet their obligations. One bill added Subchapters M and N to Chapter 39 of PURA and the other bill authorized certain coops to engage in securitization transactions and each provided authority for a financing mechanism to address different aspects of the financial problem.

The Legislature found that the use of the debt financing mechanism authorized in Subchapter N will 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. The Legislature also found that authorizing financing under Subchapter N serves the public purpose of stabilizing the electricity market in the ERCOT power region. The Commission concluded that the debt financing mechanism approved in the debt obligation order meets the goals of the Legislature.

Further, as required by Subchapter N to approve the debt financing mechanism described in the debt obligation order, the Commission found that financing the uplift balance and costs will support the financial integrity of the wholesale electricity market and is necessary to protect the public interest, considering the impacts on both wholesale market participants and retail electricity customers. As discussed in the debt obligation order, the mechanism proposed by ERCOT in its application, as modified by the debt obligation order, meets these standards and provides significant benefits to both wholesale market participants and retail electricity customers.

The financial mechanisms authorized in Subchapter N are meant to address two specific types of charges (referred to herein as **extraordinary charges**): reliability deployment price adder charges and ancillary services costs in excess of the Commission's system-wide offer cap, but only to the extent that these items were charged to obligated LSEs during a specified period: the **period of emergency**, which is defined as the period beginning at 12:01 a.m. on February 12, 2021 and ending at 11:59 p.m. on February 20, 2021.

The uplift balance is defined as an amount of money of not more than \$2.1 billion that was charged to obligated LSEs on a load ratio share basis due to energy consumption during the period of emergency for extraordinary charges, excluding amounts securitized under Subchapter D, Chapter 41 of PURA. The uplift balance does not include amounts that were part of the prevailing settlement point price during the period of emergency. Uplift charges will be assessed to responsible QSEs to pay the uplift balance and the reasonable costs incurred by a state agency or ERCOT to implement the debt obligation order issued under Subchapter N.

Subchapter N provides several benefits and protections for the financing of the uplift balance. One of these is that 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.

ERCOT May Issue Bonds to Recover the Securizable Amount

We May Issue Bonds to Recover the Securizable Amount

Subchapter N authorizes the Commission to issue orders approving the issuance of bonds, such as the Texas Stabilization Subchapter N Bonds issued by us, to recover the uplift balance.

The Legislature provided three avenues to address the uplift balance: a debt obligation order under PURA § 39.653, Commission-authorized financing under PURA § 39.654, or any other financial mechanism that meets the requirements of Subchapter N to accomplish the purposes of that subchapter under PURA § 39.655. However, ERCOT was directed by the Legislature to file an application for a debt obligation order under PURA § 39.653 by July 16, 2021, and it did so.

Upon issuing the Bonds, we will transfer the net proceeds from the sale of the Bonds to ERCOT to be remitted to responsible QSEs as permitted by the debt obligation order. Each responsible QSE that receives proceeds from ERCOT for the recovery of costs associated with the uplift balance is obligated under the debt obligation order to remit the proceeds to the obligated LSEs that such responsible QSE represents incurred such costs, in the amounts required under the debt obligation order. Each obligated LSE that receives proceeds from the Bonds will be required to use the proceeds solely to fulfill payment obligations directly related to costs and to refund retail customers who have paid or otherwise would be obligated to pay such costs. Any obligated LSE that receives any portion of the net proceeds of the Bonds that exceed the entity's actual costs will be required to immediately notify ERCOT and remit any excess receipts back to ERCOT, and any such excess receipts received by ERCOT will be delivered to the Trustee for deposit into the collection account.

Creation of Uplift Property.

The rights and interests of ERCOT, or a successor, under the debt obligation order, including the right to impose, collect, and receive uplift charges are only contract rights until they are first transferred or pledged in connection with the issuance of debt obligations. After a transfer or pledge, the rights and interest become uplift property. Uplift property is 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. Further, the debt obligation order remains in effect and the uplift property continues to exist for the same period as the State Pledge. In addition, all revenues and collections resulting from uplift charges constitute proceeds only of the uplift property arising from the debt obligation order.

The Debt Obligation Order is Irrevocable.

Pursuant to Subchapter N and the debt obligation order, the debt obligation order together with the uplift charges authorized in the debt obligation order became irrevocable and, except as set forth below, not subject to reduction, impairment, or adjustment by the Commission when issued on October 13, 2021. Subchapter N provides that the debt obligation order is not subject to rehearing by the Commission. Any party wishing to file an appeal challenging the debt obligation order was required to file in Travis County district within fifteen (15) days of October 13, 2021, which was the date the debt obligation order was signed by the Commission. No such appeal was filed. The servicer is authorized to adjust the uplift charges pursuant to Subchapter N and the debt obligation order to correct over-collections or under-collections and to provide that sufficient funds are available to provide on a timely basis for payments of debt service and other required amounts in connection with the Bonds. Although the debt obligation order is irrevocable, Subchapter N allows the Commission to issue one or more new orders to provide for refinancing the bonds if such refinancing is in the public interest and otherwise meets the requirements of Subchapter N.

State Pledge.

Debt obligations issued under the debt obligation order, including the Bonds, are not a debt or obligation of the state of Texas and are not a charge on the state's full faith and credit or taxing power. The state of Texas has pledged, however, for the benefit and protection of financing parties, including bondholders, and ERCOT that it will not take or permit any action that would impair the value of the 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, if any, and any other charges incurred and contracts to be performed in connection with the related debt obligations have been paid and performed in full. Any party issuing a debt obligation under the debt obligation order is authorized to include this pledge in any documentation relating to the obligation.

Constitutional Matters.

To date, no federal or Texas cases addressing the repeal or amendment of securitization provisions analogous to those contained in Subchapter N have been decided. There have been cases in which federal courts have applied the Contract Clause of the United States Constitution and Texas courts have applied the Contract Clause of the Texas Constitution to strike down legislation regarding similar matters, such as legislation reducing or eliminating taxes, public charges or other sources of revenues servicing other types of bonds issued by public instrumentalities or private issuers (or issuing entities), or otherwise substantially impairing or eliminating the security for bonds or other indebtedness. Based on this case law, Winstead PC expects to deliver an opinion, prior to the closing of the offering of the Bonds to the effect that the language of the State Pledge constitutes a contractual relationship with the bondholder and, therefore, the bondholders (or the Trustee acting on their behalf) could, absent a demonstration that such action was necessary to serve a significant and legitimate public purpose, challenge successfully the constitutionality under the United States Constitution of any act by the state of Texas (including the Commission) of a legislative character to repeal or amend Subchapter N, or to take or refuse to take any action required under its pledge described above if the repeal or amendment or the action or inaction would limit, alter, impair or reduce the value of the uplift property or the uplift charges so as to substantially impair (i) the terms of the indenture

or the Bonds or (ii) the rights and remedies of the bondholders (or the Trustee acting on their behalf) prior to the time that the Bonds are fully paid and discharged. In addition, based upon this case law, Winstead PC expects to deliver an opinion, prior to the closing of the offering of the Bonds, to the effect that the pledge described above provides a basis upon which the bondholders (or the Trustee acting on their behalf) could challenge successfully in the Texas courts under the Contract Clause of the Texas Constitution the constitutionality of any action by the state of Texas (including the Commission) of a legislative character, that seeks to repeal the State Pledge or limits, alters, impairs or reduces the value of the uplift property so as to cause a substantial impairment under the Contract Clause of the Texas Constitution of (i) the terms of the indenture or the Bonds or (ii) the rights and remedies of the bondholders (or the Trustee acting on their behalf) prior to the time the Bonds are fully paid and discharged. It may be possible for the Legislature to repeal or amend PURA or for the Commission to amend or revoke the debt obligation order notwithstanding the state's pledge, if the Legislature or the Commission acts in order to serve a significant and legitimate public purpose, such as protecting the public health and safety or responding to a national or regional catastrophe affecting the ERCOT power region, or if the Legislature otherwise acts in the valid exercise of the state's police power. We will file a copy of each of the Winstead PC opinions with the Trustee. See "Where Prospective Investors Can Find More Information" in this Offering Memorandum.

In addition, any action of the Legislature adversely affecting the uplift property or the ability to collect uplift charges may be considered a "taking" under the United States or Texas Constitutions. Winstead PC has advised us that it is not aware of any federal or Texas court cases addressing the applicability of the Takings Clause of the United States or Texas Constitutions in a situation analogous to that which would be involved in an amendment or repeal of Subchapter N. It is possible that a court would decline even to apply a Takings Clause analysis to a claim based on an amendment or repeal of Subchapter N, since, for example, a court might determine that a Contract Clause analysis rather than a Takings Clause analysis should be applied. Winstead PC expects to render an opinion, prior to the closing of the offering of the Bonds, to the effect that under existing case law, assuming a Takings Clause analysis were applied under the United States Constitution, the state of Texas would be required under the United States Constitution to pay just compensation to the bondholders if the State were to repeal or amend PURA, or if the Commission were to amend or revoke the debt obligation order or take any other action in contravention of the State Pledge, in either case which (i) permanently appropriates the uplift property or denies all economically productive use of the uplift property; (ii) destroys the uplift property, other than in response to emergency conditions; or (iii) substantially reduces, alters or impairs the value of the uplift property, if the law unduly interferes with the bondholders' reasonable expectations arising from their investments in the Bonds. In determining what is an undue interference, a court would consider the nature of the governmental action and weigh the public purpose served thereby against the degree to which it interferes with the legitimate property interests and distinct investment-backed expectations of the bondholders. In addition, Winstead PC expects to render an opinion, prior to the closing of an offering of the Bonds, to the effect that under existing case law, assuming a Takings Clause analysis were applied under the Texas Constitution, a Texas state court would find a compensable taking under the Takings Clause of the Texas Constitution if (a) it concludes that the uplift property is property of a type protected by the Takings Clause of the Texas Constitution and (b) the state of Texas (including the Commission) takes action that, without paying just compensation to the bondholders, (i) permanently appropriates the uplift property or denies all economically productive use of the uplift property; or (ii) destroys the uplift property, other than in response to emergency conditions; or (iii) substantially reduces, alters or impairs the value of the uplift property, if the action unduly interferes with the bondholders' reasonable investment backed expectations. In examining whether action of the Legislature amounts to a regulatory taking, both federal and state courts will consider the character of the governmental action and whether such action substantially advances the state's legitimate governmental interests, the economic impact of the governmental action on the bondholders, and the extent to which the governmental action interferes with distinct investment-backed expectations. There is no assurance, however, that, even if a court were to award just compensation, it would be sufficient for bondholders to recover fully their investment in the Bonds.

In connection with the foregoing, Winstead PC has advised us that issues relating to the Contract and Takings Clauses of the United States and Texas Constitutions are essentially decided on a case-by-case basis and that the courts' determinations, in most cases, appear to be strongly influenced by the facts and circumstances of the particular case, and Winstead PC has further advised us that there are no reported controlling judicial precedents that are directly on point. The opinions described above will be subject to the qualifications included in them. The degree of impairment necessary to meet the standards for relief under a Takings Clause analysis or Contract Clause analysis could be substantially in excess of what a bondholder would consider material.

For a discussion of risks associated with potential judicial, legislative or regulatory actions, please read "Risk Factors—Risks Associated with Potential Judicial, Legislative or Regulatory Actions."

The Uplift Charges may be Adjusted.

While PURA requires the Commission to provide in all orders a mechanism requiring that uplift charges be adjusted at least annually, the final debt obligation order increased this requirement by providing that true-up adjustments will be performed each quarter. The purpose of these adjustments is:

- to correct any over-collections or under-collections during the preceding three (3) months, and
- to provide for the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the Bonds.

Uplift Charges are Nonbypassable.

Subchapter N provides that the uplift charges are nonbypassable. The debt obligation order further provides that the uplift charges are nonbypassable to responsible QSEs, such that all responsible QSEs must pay the uplift charges to ERCOT on behalf of its obligated LSEs. Any such existing or future obligated LSE may not avoid uplift charges by switching to another responsible QSE on or after the date the debt obligation order was issued. As authorized by Subchapter N and the debt obligation order, ERCOT has adopted protocols to establish appropriate fees and other methods for collection of uplift charges and pursuing amounts owed by entities exiting the wholesale market. Please see "ERCOT: The Depositor, Seller, Initial Servicer and Sponsor" in this Offering Memorandum.

PURA Provides a State Tax Exemption for Uplift Property and Receipt of Uplift Charges.

Section 39.658 of PURA provides that "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."

ERCOT'S DEBT OBLIGATION ORDER

Determination of the Securitizable Amount to be Financed Through the Bonds

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 obligated LSEs and securitize the uplift charges and cause the issuance of the Bonds to finance the uplift balance in a principal amount equal to the securitizable amount. The **securitizable amount** includes the uplift balance of \$2.1 billion, plus the upfront costs associated with the issuance of the Bonds.

ERCOT's Order

On October 13, 2021, the Commission issued a final order under Commission Docket No. 52322 approving ERCOT's application under Subchapter N approving the uplift balance, the assessment and collection of uplift charges, and the issuance of the Bonds, among other things. The debt obligation order became final and non-appealable on October 28, 2021.

Pursuant to the debt obligation order:

- ERCOT is authorized to issue the Bonds in one or more series, in an aggregate principal amount not to exceed the securitizable amount, to securitize the uplift charges, and create uplift property to be pledged and assigned by ERCOT as collateral and a source of repayment for the Bonds,
- The uplift charges must be assessed over the scheduled life of the Bonds, which may not exceed thirty (30) years from the date of issuance of the first series of Bonds,
- Each electric cooperative, including its member cooperatives, municipally-owned utility or LSE that opted out in accordance with Subchapter N may not receive any of the Bond proceeds,
- The Commission or its designated representative has a decision-making role co-equal with ERCOT with respect to the structuring and pricing of the Bonds and all matters related to the structuring and pricing of the Bonds will be determined through a joint decision of ERCOT and the Commission or its designated representative. Prior to the issuance of the Bonds, the Commission's designated representative must notify ERCOT and the Commission whether the structuring, marketing and pricing of the Bonds complies with the criteria established in the debt obligation order. The Commission retains final authority to determine if the proposed issuance of the Bonds complies with PURA and the debt obligation order.
- ERCOT may recover ongoing costs through uplift charges,
- ERCOT must use a special purpose entity to issue the Bonds, in this case, the Issuing Entity,
- We are authorized to enter into the servicing agreement and administration agreement with ERCOT related to the Bonds,
- ERCOT is directed to 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 power over, the proposed securitization,
- The servicer will perform quarterly true-ups and interim true-ups, if necessary, to uplift charges,
- The net proceeds of the Bonds will be transferred to responsible QSEs in accordance with the debt obligation order,
- Any obligated LSE that receives bond proceeds must return an amount of proceeds equal to any money received by the obligated LSE due to litigation seeking judicial review of pricing or uplift action taken by the Commission or ERCOT in connection with the period of emergency and any such returned proceeds will be deposited into a recovery subaccount of the excess funds subaccount and credited against the uplift balance to reduce the remaining uplift charges over the life of the Bonds, and
- The Commission may use any enforcement mechanism established in Chapters 15 and 39 of PURA, including revocation of certification by the Commission, against any entity that fails to remit excess receipts back to ERCOT or otherwise misappropriates or misuses bond proceeds.

We have placed on file with the Trustee a copy of the debt obligation order. We have summarized portions of the debt obligation order and reference is made to the full text of the debt obligation order a copy of which is posted on the sponsor's website at <https://www.ercot.com/about/hb4492securitization/subchaptern>. See "Where Prospective Investors Can Find More Information" in this Offering Memorandum.

Opt-Out Process

Section 39.653 of PURA requires the Commission to create a one-time process, allowing 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.

Accordingly, the Commission opened a compliance proceeding as Docket No. 52364 (the "compliance proceeding") that allowed municipally owned utilities, electric cooperatives, river authorities, a retail electric provider that had the same corporate parent as each of the provider's customers, a retail electric provider that was 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.

The Settlement Agreement

In addition to entities that opted out via the compliance proceeding, certain entities opted-out of uplift charges pursuant to an Unopposed Partial Stipulation and Settlement Agreement (the "Settlement Agreement") filed with the Commission in Docket No. 52322 on September 20, 2021, before the issuance of the debt obligation order.

The Settlement Agreement was entered into by the following parties:

AP Gas & Electric (TX) LLC	Avangrid Renewables LLC
City of Austin	City of Denton
City of Lubbock (acting by and through Lubbock Power & Light)	City of Seguin
ERCOT	Engie Resources LLC
Exelon Generation Company, LLC	Gexa Energy LP
Lower Colorado Energy Authority	LCRA WSC Energy
NRG Energy, Inc.	Office of Public Utility Council
Rayburn County Electric Cooperative, Inc.	Shell Energy North America (US) LP
Southern Federal Power, LLC	Texas Industrial Energy Consumers
Calpine Corporation	Golden Spread Electric Cooperative, Inc.
City of Garland	Luminant Energy Company LLC
East Texas Electric Cooperative, Inc.	Public Utility Commission of Texas Staff
Engie Energy Marketing NA, Inc.	South Texas Electric Cooperative, Inc.
Texpo Power LP	TXU Load-Serving Entities
Coalition of Competitive Retail Electric Providers	TXU Energy Retail Company LLC
Alliance Power Company LLC	Ambit Texas, LLC
Brooklet Energy Distribution LLC	Luminant ET Services Company LLC
Bulb US LLC	TriEagle Energy LP
Freepoint Energy Solutions LLC	Value Based Brads LLC dba 4Change Energy
LPT LLC	Express Energy
Summer Energy LLC	Veteran Energy
Young Energy LLC dba Payless Power	
Just Energy Texas, LP	
Fulcrum Retail Energy, LLC dba Amigo Energy	
Tara Energy, LLC	
Hudson Energy Services, LLC	

The Settlement Agreement provided that the entities in **bold** above opted out of uplift charges.

Based upon 2021, the percentage of the load that opted out is 41.6% of the annual total adjusted meter load. For a chart reflecting the historical adjusted meter load, please see "ERCOT: The Depositor, Seller, Initial Servicer and Sponsor—General" in this Offering Memorandum. Entities that opted out via the compliance proceeding or in the Settlement Agreement will not be assessed uplift charges and are ineligible to receive any bond proceeds.

Collection of Uplift Charges

The debt obligation order authorizes ERCOT to impose uplift charges on, and the servicer is authorized to assess and collect uplift charges from, all responsible QSEs. ERCOT must develop and adopt new protocol provisions governing the assessment and collection of uplift charges. There is no cap on the level of uplift charges that may be imposed on responsible QSEs to pay on a timely basis scheduled principal and interest on the Bonds. However, we may not charge uplift charges for the Bonds after the thirtieth (30th) anniversary of the date of issuance of the Bonds.

Issuance Advice Letter

By the close of the business day after the pricing date for the Bonds and prior to their issuance, ERCOT is required to file with the Commission an issuance advice letter, which will:

- demonstrate compliance with the requirements of the debt obligation order,
- evidence the final terms on which the Bonds will be issued,
- show the actual dollar amount of the uplift charges relating to the Bonds,
- identify the uplift property relating to the Bonds we will purchase,
- identify us, and
- certify that, based on information reasonably available, the structuring and pricing of the Bonds will result in the lowest uplift charges consistent with market conditions and the terms of the debt obligation order.

Both the issuance advice letter and the accompanying uplift charges become effective on the date of issuance of the Bonds unless the Commission issues an order, prior to noon on the fourth (4th) business day after the determination of the final terms of the Bonds, that the proposed issuance does not comply with the requirements of PURA, Subchapter N or the debt obligation order.

Statutory True-Ups

PURA mandates that uplift charges be reviewed and adjusted at least annually, to correct any under-collections or over-collections during the preceding twelve (12) months, and 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 debt obligation order. The servicer will be required to provide a quarterly true-up calculation until the scheduled maturity of the Bonds, and if that calculation projects under-collections of uplift charges, then the servicer will implement a true-up adjustment in accordance with the standard true-up procedure. These required debt service payments and other amounts are sometimes referred to as the "**periodic payment requirement.**" True-up adjustments may also be made by the servicer under the debt obligation order more frequently at any time, without limits as to frequency, in order 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 Bonds.

True-up adjustments consider among other things (i) any increases or decreases in the periodic payment requirement, including any unanticipated ongoing costs relating to the administration and maintenance of the Bonds, (ii) 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, (iii) any changes to the ERCOT Protocols relating to its allocation methodology for the collection of uplift charges, to the extent permitted under the debt obligation order, and (iv) any changes to the ERCOT Protocols or procedures relating to the collection of uplift charges from responsible QSEs, to the extent permitted the debt obligation order.

True-ups will be based upon the cumulative differences between the periodic payment requirement and the amount of uplift charges remittances to the Trustee. For each quarterly true-up the servicer will (i) calculate under-collections or over-collections from the preceding true-up period by subtracting the previous period's uplift charges revenues collected from the periodic billing requirement determined for the same period, (ii) estimate any anticipated under-collections or over-collections for the current or upcoming true-up period, (iii) calculate the periodic billing requirement for the upcoming true-up period, taking into account the total amount of prior and anticipated over-collection and under-collection amounts described in steps (i) and (ii) in this paragraph and calculate the daily amortization amount for the periodic billing requirement, and (iv) assess the updated daily amortization amount to each responsible QSE in accordance with the uplift-charges assessment methodology.

If the servicer forecasts that the uplift charge collections will be insufficient to make all scheduled payments of principal, interest and other amounts on a timely basis during the current or next succeeding payment period, the servicer shall prepare an interim true-up whereby the servicer will (i) calculate under-collections for the interim period by subtracting the interim period's uplift charges revenues collected from the periodic billing requirement determined for the same period, (ii) estimate any anticipated under-collections for the remaining interim period, (iii) calculate the periodic billing requirement for the remaining interim period, taking into account the total amount of prior and anticipated under-collection amounts described in steps (i) and (ii) in this paragraph and calculate the daily amortization amount for the periodic billing requirement, and (iv) assess the updated daily amortization amount to each responsible QSE in accordance with the uplift-charges assessment methodology.

In accordance with the servicing agreement, the Commission must be given at least forty-five (45) days' notice in the case of mandatory true-ups and fifteen (15) days' notice prior to the first billing cycle of the month in which the revised daily uplift charges will be in effect. The Commission has fifteen (15) days after the filing to confirm that the servicer's true-up adjustment complies with Subchapter N, and the debt obligation order. In the event any correction to a true-up adjustment due to mathematical errors in the calculation of the adjustment or otherwise is necessary, the correction will be made in a future true-up adjustment so as not to delay the implementation of the requested true-up adjustment.

There is no cap on the level of uplift charges that may be imposed as a result of the true-up process. Through the true-up mechanism, which adjusts for under-collections of uplift charges due to any reason, responsible QSEs share in the liabilities of all other responsible QSEs for the payment of uplift charges.

Statutory True-Ups—Credit Risk

The state of Texas has pledged in PURA that it will not take or permit any action that would impair the value of the 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 bonds have been paid and performed in full.

The debt obligation order provides that the true-up mechanism described above are necessary and appropriate to lower risks associated with the collection of uplift-charges, will lower risks associated with the collection of uplift charges, will result in lower uplift charges, and support the financial integrity of the wholesale and retail electric markets. The debt obligation order further provides that the State Pledge is for the benefit and protection of all financing parties. The limitations in the Issuing Entity's organizational documents and management procedures are necessary and appropriate to minimize risks related to the Bonds will serve to minimize risk to the payment of the Bonds (i.e., that uplift charges arising from uplift property will be sufficient to timely pay principal, interest, and other amounts due in connection with the Bonds when due).

Allocation

Under the terms of the debt obligation order, ERCOT will allocate the uplift charges among responsible QSEs on a load ratio share basis as described below under "Description of the Uplift Property—Uplift Charges."

Servicing Agreement

In the debt obligation order, the Commission authorized ERCOT, as the servicer, to enter into the servicing agreement described under "The Servicing Agreement" in this Offering Memorandum.

Binding on Successors

The debt obligation order is binding on ERCOT, any successor to ERCOT, and any other entity responsible for billing and collecting uplift charges on our behalf, which must comply with the debt obligation order.

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.

Additional Bonds

ERCOT may seek additional debt obligation orders to recover other costs. Please read "Risk Factors—Other Risks Associated with an Investment in the Bonds— You might receive principal payments for the Bonds later than you expect"

in this Offering Memorandum. In addition, ERCOT has covenanted in the sale agreement that it will not sell uplift property or property comparable to the uplift property unless, among other conditions, the Rating Agency Condition is satisfied and until it has entered into an intercreditor agreement or added the relevant additional parties to the Intercreditor Agreement, as described in "Relationship to the Texas Stabilization M Bonds, Series 2021—Intercreditor Agreement" in this Offering Memorandum. Please read "The Sale Agreement—Covenants of the Seller" in this Offering Memorandum.

DESCRIPTION OF THE UPLIFT PROPERTY

Creation of Uplift Property; Debt Obligation Order

PURA states that the rights to impose, collect, and receive the uplift charges approved in the debt obligation order along with the other rights arising pursuant to the debt obligation order will become uplift property upon the transfer of such rights by ERCOT to us. Uplift property becomes property at the time that it is first transferred to an assignee or pledged in connection with the issuance of bonds, such as the Texas Stabilization Subchapter N Bonds, although until such time it remains a contract right pursuant to PURA. The Texas Stabilization Subchapter N Bonds will be secured by uplift property, as well as the other collateral described under "Security for the Bonds."

In addition to the right to impose, collect and receive uplift charges, the debt obligation order:

- authorizes the transfer of uplift property to us and the issuance of bonds;
- establishes procedures for true-up adjustments to uplift charges in the event of over-collection or under-collection;
- implements guidelines for the servicer to collect uplift charges; and
- provides that the debt obligation order is irrevocable and not subject to reduction, impairment, or adjustment by further act of the Commission.

A form of issuance advice letter is attached to the debt obligation order. We will complete and file a final issuance advice letter with the Commission immediately after the pricing of the Bonds. The issuance advice letter confirms to the Commission the interest rate and expected amortization schedule for the Bonds and sets forth the actual dollar amount of the initial uplift charges as described above under "ERCOT's Debt Obligation Order—Issuance Advice Letter."

Billing and Collection Terms and Conditions

Uplift charges will be allocated and collected by the servicer, for our benefit as owner of the uplift property, from responsible QSEs representing obligated LSEs, which includes obligated LSEs who enter the market after the issuance of the debt obligation order but exclude LSEs who are exempt or have opted out as provided in Subchapter N and the debt obligation order. Uplift charges will be assessed on a load ratio share basis 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 Bonds. Because the load ratio share of individual obligated LSEs will change daily based upon actual load and as obligated LSEs enter and exit the market from time to time, the load ratio share used to assess uplift charges to responsible QSEs will be updated on a daily basis based upon on the actual load experienced by obligated LSEs. 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. Uplift charges will be deposited by the servicer into the collection account under the terms of the indenture and the servicing agreement. The servicer will deposit in the collection accounts payments of uplift charges on each business day based on estimated collections in accordance with the procedures described below under "The Servicing Agreement—Remittances to Collection Account." Notwithstanding the interposition of obligated LSEs and responsible QSEs in the collection process pursuant to Subchapter N and the debt obligation order, the ultimate source of funding for repayment of the Bonds will be the payments of uplift charges assessed to approximately 8 million end-user customers of electricity who receive their power from the ERCOT System.

Responsible QSEs are responsible for billing, collecting and paying to the servicer the uplift charges. Each responsible QSE will be responsible for paying uplift charges, whether or not the obligated LSEs pay the responsible QSE.

The obligation to pay uplift charges is not subject to any right of set-off in connection with the bankruptcy of the seller or any other entity. Uplift charges are "nonbypassable" in accordance with the provisions set forth in Subchapter N and the debt obligation order. In the case of any shortfall in the payment of uplift charges, ERCOT will draw on any available uplift deposits as described below under "The Depositor, Seller, Initial Servicer and Sponsor – Billing and Collections."

In practice, ultimate repayment of the Bonds will be funded by obligated LSEs (through the responsible QSEs) that receive payments for the Uplift Charges from end-user consumers of electricity in the ERCOT power region. The composition and credit profiles of individual responsible QSEs / obligated LSEs are not critical for the ERCOT Subchapter N Securitization. As described herein, the mandatory security deposits are designed to mitigate any credit exposures. See "— Credit Enhancements." Furthermore, any unpaid balances of Uplift Charges will be uplifted to the performing responsible QSEs through the true-up mechanism that are not subject to caps. See " – Statutory True-Up Mechanism for Payment of Scheduled Principal and Interest."

While certain responsible QSEs and obligated LSEs from time to time may exit the market, numerous other existing and new market participants have a strong incentive to, and are expected to take advantage of the opportunity to satisfy the demand in the ERCOT System. When a responsible QSE (or obligated LSE) exits the market (voluntarily or by default), the impacted retail electric customers will be served by another performing obligated LSE. If no LSE will step in to provide electricity to these retail electric customers, an obligated LSE will be designated by the Commission as a Provider of Last Resort, or **POLR**, that is required to service the customers of the exiting obligated LSE (at premium pricing). As of May 2, 2022, the Commission maintains a list of thirty (30) POLRs and available voluntary replacement LSEs. Whether a POLR or replacement obligated LSE is providing electricity to retail customers, the demand of electric retail customers in this market can only be satisfied through purchases settled through ERCOT (and therefore are subject to the Uplift Charges). Under the ERCOT Protocols applicable to the Uplift Charges and the Texas Stabilization Subchapter N Bonds, any changes in the composition of the responsible QSEs / obligated LSEs should, therefore, not affect the collectability of the Uplift Charges necessary to pay debt service and other ongoing costs in full. The Uplift Charges will continue to be assessed on the responsible QSEs / obligated LSEs in the ERCOT System throughout the life of the Subchapter N Securitization and may be passed on to the end-user consumers by the obligated LSEs.

ERCOT: THE DEPOSITOR, SELLER, INITIAL SERVICER AND SPONSOR

General

ERCOT will be the depositor, seller and initial servicer of the uplift property securing the Bonds, and will be the sponsor of the securitization in which bonds covered by this Offering Memorandum are issued.

ERCOT manages the flow of electric power to more than 26 million Texas consumers, representing about ninety percent (90%) 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 52,700 miles of transmission lines and over 1,030 generation units. It also performs financial settlement for the competitive wholesale bulk-power market in Texas and administers retail switching for approximately 8 million end-user premises in competitive choice areas. ERCOT is a 501(c)(4) nonprofit corporation formed under the laws of Texas, governed by a board of directors and subject to oversight by the Commission and the Legislature. The current chair of the Commission also serves as a nonvoting member of the ERCOT board of directors. ERCOT has members, who do not own any interests in ERCOT, that include consumers, cooperatives, generators, power marketers, retail electric providers, investor-owned electric utilities, transmission and distribution providers and municipally owned electric utilities.

ERCOT is an Independent System Operator that acts as the central counterparty for all transactions settled in the ERCOT wholesale electricity 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 is revenue neutral and acts as a clearinghouse through which funds are exchanged between buyers and sellers in the ERCOT power region. In its role as the central counterparty, ERCOT only financially transacts with market participants registered with ERCOT as a QSE or a Congestion Revenue Rights (CRR) account holder. ERCOT does not take market positions by purchasing or delivering electricity on its own account and is not exposed to such market-making risks. ERCOT does not transact directly with LSEs. A responsible QSE is responsible for communicating with ERCOT on behalf of the obligated LSEs it represents. QSEs may represent entities other than load-serving entities as well. Under the ERCOT Protocols, the responsible QSE is also responsible for settling payments and charges with ERCOT on behalf of its obligated LSEs.

A CRR is a financial instrument that results in a charge or a payment to the owner when the ERCOT transmission grid is congested in the Day Ahead Market (DAM). CRRs may be used as either a financial hedge or a financial investment. When used as a hedge, a CRR locks in the price of congestion at the purchase price of the CRR. When purchased as an investment, it may be used as a financial tool to speculate whether the congestion rent will be greater than the purchase price.

ERCOT Protocols

The ERCOT Nodal Protocols, or ERCOT Protocols, outline the procedures and processes used by ERCOT and market participants for the orderly functioning of the ERCOT System and nodal market. The ERCOT Protocols relevant to the collection of uplift charges from responsible QSEs are incorporated by reference into the servicing agreement. Through collaborative efforts with market participants, ERCOT developed the ERCOT Protocols which contain scheduling, operating, planning reliability, and settlement policies, rules, guidelines, procedures, standards and criteria of ERCOT. One purpose of the ERCOT Protocols is to implement ERCOT's function as the independent organization for the ERCOT power region. An independent organization, or Independent System Operator, is (i) an entity supervising the collective transmission facilities of a power region that is charged with non-discriminatory coordination of market transactions, systemwide transmission planning, and network reliability, or (ii) another person that is sufficiently independent of any producer or seller of electricity that its decisions will not be unduly influenced by any producer or seller of electricity. Procedures contained in the ERCOT Protocols are initially approved by the Commission, and subject to continuing oversight and review by the Commission.

Servicing Experience

In November 2021, ERCOT sponsored and has since acted as servicer for the Texas Stabilization M Bonds issued by Texas Funding M in the original principal amount of \$800,000,000. While the servicer has limited experience acting as a servicer in circumstances similar to the Bonds and uplift property, ERCOT's responsibilities and activities in carrying out its own business are substantially similar to those to be provided under the Servicing Agreement.

Please read "Relationship to the Texas Stabilization M Bonds, Series 2021." ERCOT services the Texas Stabilization M Bonds in accordance with servicing standards that are substantially similar to those set forth in ERCOT's servicing agreement with us.

QSEs

ERCOT interacts with the market through QSEs for almost all operational purposes. QSEs enter all trades, offers and bids into ERCOT market systems and then financially settle directly with ERCOT for all electricity that is bought and sold in the market.

Currently to become and remain a QSE, an entity must meet the following requirements established by ERCOT's Protocols:

- (a) Submit a properly completed QSE application for qualification, including any applicable fee, necessary disclosures, and designation of authorized representatives, each of whom is responsible for administrative communications with the QSE and each of whom has enough authority to commit and bind the QSE and the entities it represents;
- (a) Sign a standard form market participant agreement;
- (b) Sign any required agreements relating to use of the ERCOT network, software, and systems;
- (c) Demonstrate to ERCOT's reasonable satisfaction that the entity is capable of performing the functions of a QSE;
- (d) Demonstrate to ERCOT's reasonable satisfaction that the entity is capable of complying with the requirements of all ERCOT Protocols and operating guides;
- (e) Satisfy ERCOT's creditworthiness and capitalization requirements as set forth in the ERCOT Protocols, unless exempted;
- (f) Be generally able to pay its debts as they come due. ERCOT may request evidence of compliance with this qualification only if ERCOT reasonably believes that a QSE is failing to comply with it;
- (g) Provide all necessary bank account information and arrange for Fedwire system transfers for two-way confirmation;
- (h) Be financially responsible for payment of settlement charges for those entities it represents under the ERCOT Protocols;
- (i) Comply with the backup plan requirements in the operating guides;
- (j) Maintain a 24-hour, seven-day-per-week scheduling center with qualified personnel for the purposes of communicating with ERCOT relating to Day-Ahead and Operating Day exchange of market and operational obligations in representing Load, Resources, and market positions. Those personnel must be responsible for operational communications and must have sufficient authority to commit and bind the QSE and the entities that it represents;
- (k) Demonstrate and maintain a working functional interface with all required ERCOT computer systems; and
- (l) Allow ERCOT, upon reasonable notice, to conduct a site visit to verify information provided by the QSE.

Additionally, a QSE or QSE applicant must be able to demonstrate to ERCOT's reasonable satisfaction that none of its principals were or are principals of any entity with an outstanding payment obligation that remains owing to ERCOT under any agreement or the ERCOT Protocols. Continued qualification as a QSE is contingent upon compliance with all applicable requirements in the ERCOT Protocols. ERCOT may suspend a QSE's rights as a market participant when ERCOT reasonably determines that it is an appropriate remedy for the entity's failure to satisfy any applicable requirement.

Under the ERCOT Protocols, responsible QSEs are responsible for financially settling all payments and charges with ERCOT on behalf of the obligated LSEs it represents. ERCOT, as the servicer, will assess uplift charges to each responsible QSE based on the load ratio share of the obligated LSEs represented by such responsible QSE. Because the load ratio share of individual obligated LSEs will change daily based upon actual load and as obligated LSEs enter and exit the market from time to time, the load ratio share used to assess uplift charges to responsible QSEs will be updated on a daily basis based on the actual load. The methodology to be utilized by the servicer for the assessment of uplift charges is referenced in the debt obligation order as the uplift-charges assessment methodology and is set forth immediately below:

- (a) The servicer will determine the periodic billing requirement that must be billed for any given period. The periodic billing requirement will be updated at least quarterly, and on an interim basis from time to time in accordance with the true-up procedures described in the debt obligation order.
- (b) The servicer will amortize the daily periodic billing requirement daily for the given period. This amount is referenced in the debt obligation order as the daily amortization amount.
- (c) The servicer will assess the daily amortization amount to each responsible QSE as a daily charge, based upon the initial settlement data for the load ratio share of each obligated LSE represented by such responsible QSE.

Neither ERCOT nor any successor servicer will pay any shortfalls resulting from the failure of any responsible QSE to remit payments arising from the uplift charges to the servicer. The true-up mechanism for the uplift charges, as well as the amounts deposited in the capital subaccount, are intended to mitigate the risk of shortfalls. Any shortfalls that occur may delay the distribution of interest on and principal of the Bonds.

LSEs

LSEs are defined under Subchapter N as municipally owned utilities, electric cooperatives and retail electric providers (REP). LSEs provide electric service to individual retail and wholesale Customers. Each LSE is responsible for purchasing sufficient power through the wholesale markets to serve their individual retail and wholesale Customers. To acquire sufficient power, LSEs rely upon their QSEs designated to act on their behalf. Each LSE is required to designate a QSE, because ERCOT ultimately settles payment with QSEs for all power consumed by the LSEs they represent. LSEs collect payment for electricity from Customers they have contracted with to provide power.

To become an LSE, an entity must complete a registration and qualification process with ERCOT and thereafter comply with ERCOT's rules. Under ERCOT current Protocols, this includes an application, a standard form market participant agreement, and satisfaction of technical and financial requirements applicable to LSEs. An LSE that is a REP must gain additional certification through the Commission in accordance with Commission rules.

An LSE applicant must comply with the following technical and managerial requirements:

- (a) Be capable of complying with all policies, rules, guidelines, registration requirements and procedures established by ERCOT, the ERCOT Protocols, or other Independent Organizations, if applicable;
- (b) Be capable of purchasing power from entities registered with or by ERCOT or the Independent Organizations and capable of complying with its system rules; and,
- (c) Be capable of purchasing capacity and reserves, or other Ancillary Services, as may be required by ERCOT, or other Independent Organizations, to provide adequate electricity to all the applicant's Customers.

LSEs who have not opted out of uplift charges in accordance with Subchapter N and are not otherwise exempt from uplift charges under Subchapter N, are referred to herein as obligated LSEs, and accounted for approximately 58.4% of the annual total adjusted meter load in 2021.

ERCOT's Historical Adjusted Meter Load

The below chart summarizes ERCOT's historical adjusted meter load on an annual basis over the past eleven (11) years. The adjusted meter load is broken out between responsible QSEs and non-responsible QSEs that have elected not to participate in the Subchapter N securitization.

ERCOT's total annual adjusted meter load has increased steadily by 17.7% with relatively little variance since the end of 2011. Similarly, over this period, ERCOT's total annual adjusted meter load to the responsible QSEs has also steadily increased by 6.8%. During this period, the responsible QSEs as a group have maintained a relatively stable share of the total adjusted meter load in the range of 58.4% to 64.3%.

Annual Total Adjusted Meter Load by Responsible / Non-Responsible QSEs

	2011		2012		2013		2014		2015		2016	
	TWh	%	TWh	%	TWh	%	TWh	%	TWh	%	TWh	%
Responsible QSEs	214.8	64.3%	208.4	64.1%	210.3	63.4%	213.4	62.7%	217.3	62.5%	218.1	62.0%
Non-Responsible QSEs	119.2	35.7%	116.6	35.9%	121.4	36.6%	126.8	37.3%	130.3	37.5%	133.5	38.0%
Total	334.0	100.0%	325.0	100.0%	331.7	100.0%	340.2	100.0%	347.6	100.0%	351.6	100.0%

	2017		2018		2019		2020		2021	
	TWh	%	TWh	%	TWh	%	TWh	%	TWh	%
Responsible QSEs	218.4	61.1%	228.6	60.7%	229.6	59.8%	223.8	58.6%	229.5	58.4%
Non-Responsible QSEs	139.0	38.9%	147.8	39.3%	154.4	40.2%	158.1	41.4%	163.7	41.6%

Total	357.4	100.0%	376.4	100.0%	384.0	100.0%	381.9	100.0%	393.2	100.0%
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TWh = Tera watt hour

Source: ERCOT internal data.

The below charts summarize ERCOT's historical adjusted meter load broken out by calendar months since 2011. Similar to the above chart, this data is also broken out between responsible QSEs and non-responsible QSEs that have elected not to participate in the Subchapter N securitization.

While there are variances between years due to weather impact, the pattern of seasonality in the adjusted meter loads is relatively constant with elevated consumption from June to September.

Monthly Average Adjusted Meter Load by Responsible / Non-Responsible QSEs

	January		February		March		April		May		June	
	TWh	%	TWh	%	TWh	%	TWh	%	TWh	%	TWh	%
Responsible QSEs	17.1	60.9%	15.1	60.9%	15.3	60.2%	15.4	60.5%	18.3	61.5%	21.4	62.9%
Non-Responsible QSEs	11.0	39.1%	9.7	39.1%	10.1	39.8%	10.0	39.5%	11.4	38.5%	12.7	37.1%
Total	28.1	100.0	24.8	100.0%	25.4	100.0%	25.4	100.0%	29.7	100.0%	34.1	100.0%

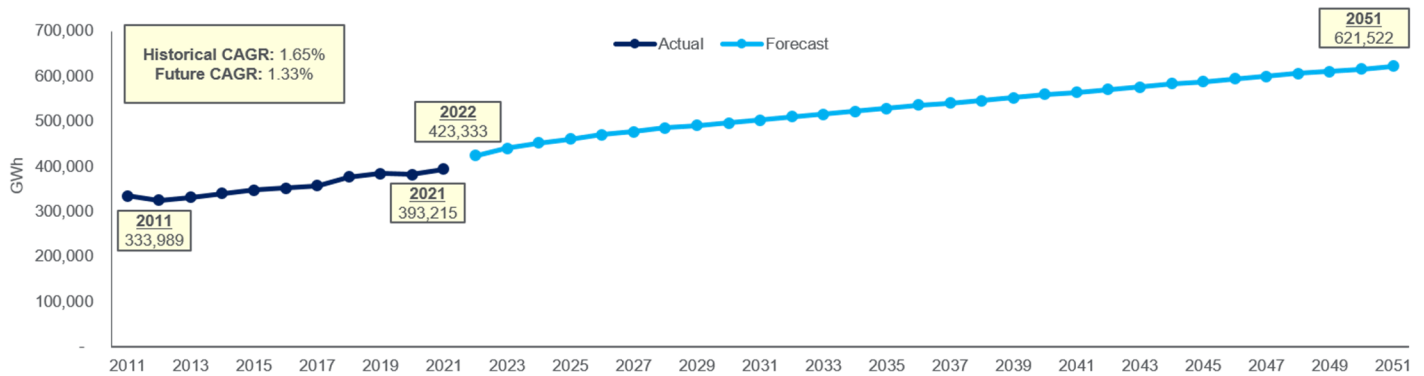
	July		August		September		October		November		December	
	TWh	%	TWh	%	TWh	%	TWh	%	TWh	%	TWh	%
Responsible QSEs	23.5	63.0%	23.9	63.0%	20.3	62.4%	17.3	60.9%	15.1	59.8%	16.7	60.1%
Non-Responsible QSEs	13.8	37.0%	14.1	37.0%	12.2	37.6%	11.1	39.1%	10.2	40.2%	11.1	39.9%
Total	37.3	100.0%	38.0	100.0%	32.5	100.0%	28.4	100.0%	25.3	100.0%	27.8	100.0%

TWh = Tera watt hour

Source: ERCOT internal data.

ERCOT's Forecasted Adjusted Meter Load

The below table and chart summarize ERCOT's forecasted adjusted meter load for the years 2022 to 2051. On average, adjusted meter loads are expected to grow by ~1.3% per year over the next twenty-nine (29) years. From 2022 to 2051, adjusted meter loads are expected to increase by ~47% and, as a result of the uplift charges remaining relatively constant, the uplift charge per MWh would be expected to decrease over time assuming an unchanged share of the metered loads each month are purchased by Responsible QSEs.



(1) Source: 2022 ERCOT System Planning, Long-Term Hourly Peak Demand and Energy Forecast. January 18, 2022.

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Annual Total	423,333	439,714	452,161	460,429	469,634	476,839	484,883	490,232	496,464	502,357

	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Annual Total	510,233	515,361	521,654	527,859	535,317	539,952	545,963	551,980	559,435	564,031

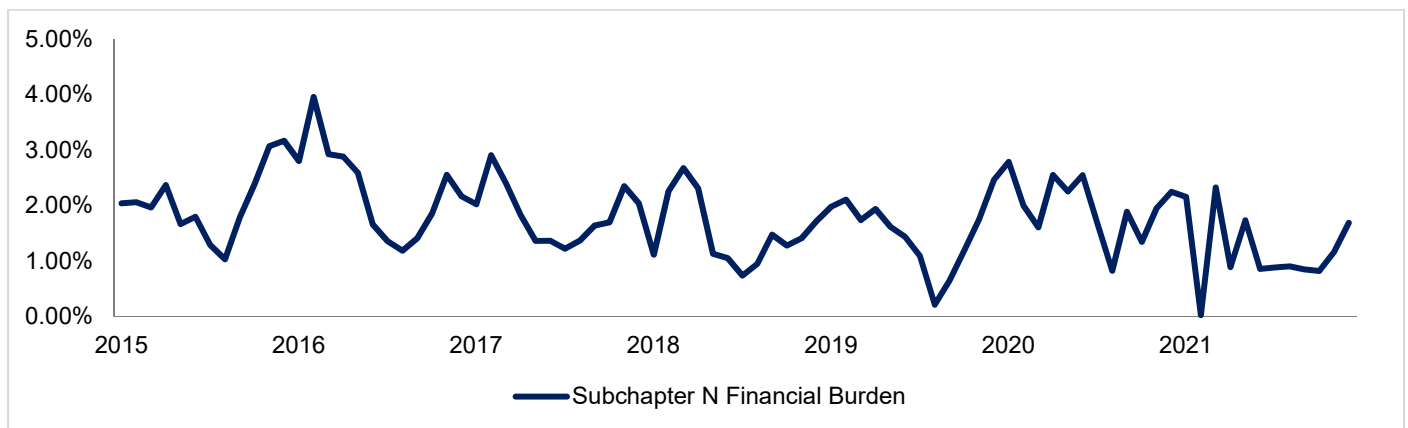
	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051
Annual Total	570,059	576,047	583,498	587,852	593,617	599,295	606,310	610,469	615,992	621,522

(1) Source: 2022 ERCOT System Planning, Long-Term Hourly Peak Demand and Energy Forecast. January 18, 2022.

Financial Impact on Responsible QSEs from the Uplift Charges

When comparing the Estimated Monthly Adjusted Meter Load Value to the estimated aggregate uplift charges (reflecting both debt service as well as ongoing costs), the financial impact on the responsible QSEs from the uplift charges can be estimated for each month for 2015 to 2021 assuming the Subchapter N securitization had been in place during this period. This estimated impact on responsible QSEs from uplift charges resulting from the Subchapter N securitization is illustrated in the chart below and the estimated impact on responsible QSEs from uplift charges resulting from both the Subchapter M and Subchapter N securitizations is illustrated in the table below.

Estimated Financial Impact on Responsible QSEs from Uplift Charges on a Monthly Basis: 2015-2021⁽¹⁾⁽²⁾⁽³⁾



Estimated Financial Impact on Responsible QSEs from Uplift Charges on a Monthly Basis: 2020-2021⁽¹⁾⁽²⁾⁽³⁾

	Subchapter N	Subchapter M	Aggregate
Average Impact	1.59%	0.07%	1.66%
Maximum Impact	2.80%	0.11%	2.88%

⁽¹⁾ The number for February 2021 is significantly impacted by Winter Storm Uri.

⁽²⁾ This estimated impact is based on what uplift charges would have been allocated to responsible QSEs had the Subchapter N securitization been in place during the period from 2015 through 2021 for the chart and from 2020-2021 for the table (including in the table had the Subchapter M securitization been in place).

⁽³⁾ The Estimated Monthly Adjusted Meter Load Value was estimated by multiplying the actual Adjusted Meter Load delivered to the responsible QSEs on a monthly basis by the monthly ERCOT-wide Average Energy Prices Real Time prices per MWh as published by Potomac Economics, Ltd., the independent market monitor for the ERCOT power region.

Source: ERCOT internal data.

Source: ERCOT internal data.

Historical Adjusted Meter Loads & Load Ratio Shares for the Responsible QSEs and Obligated LSEs

The below table present the historical adjusted meter loads and load ratio shares for the responsible QSEs for the period 2016 to 2021. Affiliated QSEs have been aggregated in the below table based on **DUNs** numbers. The top 2 Responsible QSEs have not changed since 2016 and have consistently comprised over 42% of Adjusted Meter Load the last six years.

Historical Adjusted Meter Loads & Load Ratio Shares for the Top 10 Responsible QSEs: 2016 - 2021

Top 2021 Responsible QSEs	2016 AML	2016 LRS	2017 AML	2017 LRS	2018 AML	2018 LRS	2019 AML	2019 LRS	2020 AML	2020 LRS	2021 AML	2021 LRS
QSE #1	50,338	23.1%	51,142	23.4%	52,907	23.1%	53,000	23.1%	52,376	23.4%	64,377	28.0%
QSE #2	41,778	19.2%	41,640	19.1%	45,658	20.0%	48,142	21.0%	56,465	25.2%	57,027	24.8%
QSE #3	9,595	4.4%	9,937	4.6%	10,093	4.4%	11,963	5.2%	11,785	5.3%	12,884	5.6%
QSE #4	5,212	2.4%	6,435	2.9%	8,306	3.6%	9,585	4.2%	11,452	5.1%	12,608	5.5%
QSE #5	13,009	6.0%	13,020	6.0%	13,277	5.8%	12,708	5.5%	12,107	5.4%	11,322	4.9%
QSE #6	7,733	3.5%	7,609	3.5%	7,731	3.4%	8,515	3.7%	8,423	3.8%	9,207	4.0%
QSE #7	12,031	5.5%	13,211	6.1%	12,833	5.6%	11,738	5.1%	9,500	4.2%	8,389	3.7%
QSE #8	23,583	10.8%	22,126	10.1%	22,191	9.7%	22,570	9.8%	20,648	9.2%	7,977	3.5%
QSE #9	4,877	2.2%	5,321	2.4%	6,539	2.9%	7,218	3.1%	7,674	3.4%	7,640	3.3%
QSE #10	4,175	1.9%	4,393	2.0%	8,850	3.9%	7,854	3.4%	6,633	3.0%	7,016	3.1%
All Other Responsible QSEs	45,737	21.0%	43,517	19.9%	40,193	17.6%	36,332	15.8%	26,767	12.0%	31,068	13.5%
Total Electricity AML	218,068	100.00%	218,351	100.00%	228,578	100.00%	229,625	100.00%	223,830	100.00%	229,515	100.00%

Source: ERCOT internal data.

Historical Adjusted Meter Loads & Load Ratio Shares for the Top 10 Obligated LSEs: 2016 - 2021

The below table presents the historical adjusted meter loads and load ratio shares for the obligated LSEs for the period 2016 to 2021. The top 10 obligated LSEs for 2021 have maintained a fairly stable aggregate load share ratio ranging from 58.1% to 60.1% since 2016.

Historical Adjusted Meter Loads & Load Ratio Shares for the Top 10 Obligated LSEs: 2016 - 2021

Top 2021 Obligated LSEs	2016 AML	2016 LRS	2017 AML	2017 LRS	2018 AML	2018 LRS	2019 AML	2019 LRS	2020 AML	2020 LRS	2021 AML	2021 LRS
LSE #1	39,210	18.0%	38,574	17.7%	41,953	18.4%	43,668	19.0%	43,376	19.4%	44,814	19.5%
LSE #2	24,831	11.4%	24,865	11.4%	25,419	11.1%	24,211	10.5%	23,199	10.4%	23,160	10.1%
LSE #3	9,524	4.4%	9,844	4.5%	9,966	4.4%	11,258	4.9%	11,319	5.1%	12,671	5.5%
LSE #4	12,110	5.6%	12,106	5.5%	12,346	5.4%	11,801	5.1%	11,190	5.0%	12,542	5.5%
LSE #5	11,429	5.2%	9,995	4.6%	9,084	4.0%	11,174	4.9%	9,205	4.1%	8,558	3.7%
LSE #6	9,832	4.5%	9,844	4.5%	10,668	4.7%	9,900	4.3%	8,774	3.9%	7,821	3.4%
LSE #7	5,288	2.4%	6,115	2.8%	6,747	3.0%	7,846	3.4%	7,180	3.2%	7,792	3.4%
LSE #8	4,705	2.2%	4,914	2.3%	6,098	2.7%	6,820	3.0%	7,321	3.3%	6,778	3.0%
LSE #9	6,859	3.1%	6,756	3.1%	7,232	3.2%	6,808	3.0%	6,189	2.8%	5,737	2.5%
LSE #10	3,575	1.6%	3,748	1.7%	4,167	1.8%	4,589	2.0%	5,139	2.3%	5,389	2.3%
All Other Obligated LSEs	90,704	41.6%	91,589	41.9%	94,899	41.5%	91,552	39.9%	90,940	40.6%	94,254	41.1%
Total Electricity Consumption	218,067	100.00%	218,350	100.00%	228,579	100.00%	229,627	100.00%	223,832	100.00%	229,516	100.00%

Source: ERCOT internal data.

LSE Historical Default Experience

Prior to the Winter Storm Uri in 2021, the need to uplift default balances to other market participants has been very limited in terms of both number of occurrences and amounts. The below table summarizes these occurrences since ERCOT changed to a Nodal market back in 2010.

Mass Transition/Acquisitions of Electric Retail Customers due to Retail Electric Provider (REP) Defaults since Nodal Market

Year	Counter-Party	Approx. ESIDs Range ⁽¹⁾	Impact to Electric Retail Customers Served by Defaulting Entity ⁽²⁾
2011	ABACUS	7,000-8,000	Acquisition
	CHAIN LAKES ENERGY DBA SIMPLE	14,000-15,000	Acquisition
2012	TEXREP1 LLC DBA EPCOT / EPCOT LLC	5,000-6,000	Mass Transition
	GREEN LINE / TEXREP 7	<100	Mass Transition
2014	REACH ENERGY	<100	Acquisition
	PROTON ENERGY	500-700	Mass Transition
2016	TRUSMART	1,500-2,500	Acquisition
	GLACIAL	2,500-3,500	Acquisition
2018	BREEZE LLC	9,000-11,000	Mass Transition
2020	AGERA	<100	Acquisition
2021	BRILLIANT ENERGY LLC (LSE)	8,500-9,500	Acquisition
	ENTRUST ENERGY INC (CP)	11,000-12,000	Mass Transition
	GRIDDY ENERGY LLC (CP)	9,000-10,000	Mass Transition
	POWER OF TEXAS HOLDINGS INC (LSE)	<100	Mass Transition
	VOLT ELECTRICITY PROVIDER LP (CP)	14,000-15,000	Acquisition

(1) ESIDs = Electronic Service Identifier

(2) "Acquisitions" are the voluntary acquisition/transfer of a defaulting LSE's customers to another LSE in the ERCOT market. "Mass Transitions" are the involuntary transfer of a defaulting LSE's customers to other LSEs that have been designated as POLRs by the Commission.

Source: ERCOT internal data.

Winter Storm Uri in 2021 resulted in a number of LSEs experiencing financial difficulties and therefore resulted in a number of failures to settle invoices in accordance with ERCOT requirements. Of particular significance were the failure to pay invoices by Entrust Energy, Brazos Electric Power Co-op, or **Brazos**, and Rayburn Country Electric Co-op. The majority of these unpaid invoices have now been settled with proceeds from the Subchapter M securitization or, in the case of Rayburn Country Electric Co-op, proceeds from a securitization authorized under Senate Bill 1580 relating to the use of securitization by electric cooperatives to address certain weather-related extraordinary costs and expenses and to the duty of electric utility market participants to pay certain amounts owed, passed during the 87th Texas legislative session (**SB 1580**). The below table summarizes the current status of these unpaid invoices as well as the amounts required to be uplifted to the ERCOT market.

Market Participants with Unpaid Invoices following 2021 Winter Storm (\$000)

Served/ Serves Customers?	Counter-Party	Unpaid Invoiced Amounts as of February 21, 2022	HB 4492 Subchapter M Bond Proceeds Applied to Unpaid Invoices (serviced by ERCOT market default charges)	SB 1580 Cooperative Securitization Funds	Remaining Uplift required to ERCOT market ⁽¹⁾
No	EAGLES VIEW PARTNERS LTD	\$ 1,152	\$ 1,152	\$ -	\$ -
Yes	ENERGY MONGER	\$ 8,838	\$ 8,778	\$ -	\$ 60
Yes	ENTRUST ENERGY INC (CP)	\$ 295,854	\$ 294,678	\$ -	\$ 1,176
Yes	GBPOWER	\$ 20,261	\$ 20,214	\$ -	\$ 47
Yes	GRIDDY ENERGY LLC (CP)	\$ 29,921	\$ 29,819	\$ -	\$ 102
Yes	GRIDPLUS TEXAS INC	\$ 1,446	\$ 1,441	\$ -	\$ 5
Yes	ILUMINAR ENERGY LLC	\$ 42,117	\$ 41,833	\$ -	\$ 284
Yes	MQE	\$ 13,640	\$ 13,559	\$ -	\$ 82
Yes	VOLT ELECTRICITY PROVIDER LP (CP)	\$ 5,883	\$ 5,861	\$ -	\$ 21
Yes	BRAZOS ELECTRIC POWER CO-OP INC ⁽²⁾	\$ 1,886,596	\$ -	TBD ⁽²⁾	TBD ⁽²⁾
Yes	RAYBURN COUNTRY ELECTRIC CO-OP ⁽³⁾	\$ -	\$ -	\$ 637,339	\$ -
2021 Total		\$ 2,305,707	\$ 417,335	\$ 637,339	\$ 1,776

(1) The 2021 uplift amounts are amounts remaining unpaid by defaulted Market Participants, other than Brazos, that were not covered by funds received pursuant to House Bill 4492 relating to financing certain costs associated with electric markets, granting authority to issue bonds, and authorizing

fees, passed during the 87th Texas legislative session (**HB 4492**) or SB 1580. Those amounts have not yet been uplifted to the market, but they will be uplifted to all CRR Account Holders and QSEs representing both Load and Generation, per ERCOT Protocol Section 9.19.1.

- (2) Brazos is currently in federal bankruptcy proceedings concerning amounts owed to ERCOT. Until that is resolved, it is not known what unpaid amounts will be ultimately paid by Brazos -- through the use of the SB 1580 securitization process or otherwise -- or whether any of those amounts will ultimately be uplifted to the entire market.
- (3) Rayburn Country Electric Cooperative did not timely pay Invoices related to Winter Storm Uri; however, following the Legislature's passage of SB 1580 in 2021, which allowed Rayburn to securitize extraordinary costs from Winter Storm Uri, ERCOT deferred holding Rayburn in payment breach so that Rayburn could obtain securitization financing. In February 2022, Rayburn closed on that financing and remitted payment to ERCOT for the full amount of its outstanding Invoice amounts.

ERCOT Credit Practices, Policies and Procedures

Billing and collection standards are imposed on responsible QSEs with respect to uplift charges. The standards relate only to the billing and collection of uplift charges authorized under the debt obligation order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all responsible QSEs that invoice and collect uplift charges from obligated LSEs.

The following subsections summarize the responsible QSE standards required under the debt obligation order and ERCOT Protocols.

Deposit and Related Requirements.

As a form of security, each responsible QSE is required to maintain an uplift deposit with us subject to control by the servicer, an amount equal to two (2) months of projected uplift charges calculated pursuant to the servicing agreement. The uplift deposits are intended to serve as a supplemental source of payment of uplift charges on behalf of responsible QSEs, to the extent necessary to account for unpaid or delinquent uplift charges. The deposits are to be held in accounts by the Issuing Entity and managed by the servicer, pursuant to the Servicing Agreement, and are structured to be legally isolated from servicer bankruptcy risk. Uplift deposits consist of either a cash deposit amount or an unconditional, irrevocable letter of credit naming the Issuing Entity as the beneficiary posted as a source of payment of uplift charges by responsible QSEs. If the amount of the uplift deposit held for a particular responsible QSE is insufficient to cover the responsible QSE's payment shortfall, the servicer may utilize any other financial security held with respect to other ERCOT market activities, except for financial security held for default charges securing the Texas Stabilization M Bonds.

Interest on cash uplift deposits will be calculated based on each QSE's cash collateral balance. Once per year, the servicer will return interest earned on a responsible QSE's cash uplift deposit.

The servicer will monitor uplift deposits and promptly notify each responsible QSE of the need to increase its uplift deposit. Any responsible QSE failing to maintain compliance with uplift deposit requirements may have its rights under ERCOT Protocols suspended until it meets the uplift deposit requirements. If at any time a responsible QSE does not maintain an uplift deposit in accordance with ERCOT Protocols, then the responsible QSE may be considered in breach of its agreements with ERCOT and ERCOT may suspend or terminate such responsible QSE's rights under the ERCOT Protocols if such responsible QSE fails to cure the breach within the time required by the ERCOT Protocols. ERCOT's failure to suspend or terminate a responsible QSE on any particular occasion of a breach does not prevent ERCOT from suspending or terminating such responsible QSE's rights on any subsequent occasion.

Computation of Deposit, etc.

Each responsible QSE is required to maintain an uplift deposit equal to two (2) months of projected uplift charges. Any responsible QSE that enters the market after the issuance of the debt obligation order will be required to provide an estimated uplift deposit. ERCOT shall monitor the creditworthiness of each responsible QSE and credit exposure and will promptly notify each applicable responsible QSE of the need to increase their uplift deposit. Each responsible QSE is responsible for maintaining an uplift deposit equal to two months of projected uplift charges owed by such responsible QSE. Upon notice by ERCOT of the amount by which a responsible QSE's uplift deposit must be increased, such responsible QSE has until 3:00pm on the second bank business day from the date ERCOT delivered the notice to increase its uplift deposit if the notice is delivered prior to 3:00pm. If ERCOT delivers the notice after 3:00pm, but before 5:00pm, such responsible QSE has until 5:00pm on the second bank business day from the date on which ERCOT delivered the notice to increase its uplift deposit. A responsible QSE failing to so remit any such shortfall is required to comply with the provisions set forth below under "—Remedies Upon Default." Responsible QSE cash deposits will be held by the Issuing Entity in an uplift deposit account managed by the servicer and may only be invested in eligible investments.

Billing and Collections

ERCOT does not directly invoice LSEs, but instead bills QSEs representing LSEs. Responsible QSEs are financially responsible for the payment of uplift charges, whether or not a responsible QSE receives payments from obligated LSEs for the uplift charges. Please read "ERCOT—Credit Practices, Policies and Procedures."

The servicer of the Bonds will invoice a responsible QSE for the uplift charges attributable to obligated LSEs represented by that respective responsible QSE, which will in turn invoice each obligated LSE it represents for the uplift charges applicable to such entity. The servicer will not pay any shortfalls resulting from the failure of any responsible QSE to pay uplift charge collections.

Billing.

ERCOT will allocate to responsible QSEs their portion of the uplift charges that is to be collected for each operating day. The uplift invoices will be prepared based on the real time settlement data for the load-allocated uplift charges. ERCOT will issue uplift invoices on the same business day as the day statements covering all initial real time settlements are posted. Each uplift invoice payment is due by 5:00pm on the second bank business day after the uplift invoice date, regardless of whether there is a dispute regarding the uplift invoice. A bank business day is a day during which the United States Federal Reserve Bank of New York is open for normal business activity. If, however, the second bank business day is not also a business day defined in the ERCOT Protocols, then the payment is due by 5:00pm on the next bank business day after the second bank business day that is also a business day defined in the ERCOT Protocols. All disputes regarding the uplift invoices shall follow the process described in ERCOT Protocols. The uplift invoices are separate and distinct from other invoices issued by ERCOT. A responsible QSE that receives an uplift invoice from the servicer may not net amounts owing on an uplift invoice with any other funds due to or from ERCOT.

Collection of Uplift Charges.

On a daily basis, the servicer will invoice each responsible QSE for uplift charges owed by obligated LSEs it represents. The payment due date and time for the payment of the uplift charges is 5:00pm on the second bank business day after the uplift charge invoice date, unless the second bank business day is not a business day. If the second bank business day is not a business day, the payment is due by 5:00pm on the next bank business day after the second bank business day that is also a business day. The servicer will accept payment in U.S. Dollars by electronic funds transfer in immediately available or good funds (i.e. not subject to reversal). A responsible QSE in default is required to comply with the provisions set forth below under "—Remedies Upon Default."

Payments of uplift invoices must be made to the Issuing Entity's account designated on the uplift invoice. If payment is made to a different account, the payment will be rejected and the failure to remit funds to the correct account may result in a payment breach under ERCOT Protocols. If a responsible QSE does not pay the uplift invoice when due, the servicer will draw on such responsible QSE's uplift deposit to pay the amount due. If the uplift deposit is insufficient to fully pay the uplift invoice, the servicer may draw upon any other financial security held with respect to other ERCOT market activities, except for any financial security held for default charges securing the Texas Stabilization M Bonds.

A draw on a responsible QSE's uplift deposit shall be considered a late payment. In the event ERCOT cannot fully recover amounts due under an uplift invoice after drawing on available escrow deposits and taking other actions authorized under the ERCOT Protocols, this will be reflected in the next re-estimation of the daily uplift charge calculation.

Remedies Upon Default.

In the event of a payment breach or late payment by a responsible QSE (whether for uplift charges or the uplift deposit), all remedies specified in Section 16.11.6 Payment Breach and Late Payments by Market Participants, and Section 27, Securitization Uplift Charges, of the ERCOT Protocols are applicable and are incorporated by reference in the servicing agreement as applicable. The servicer will have the option to seek recourse against any uplift deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof provided by the applicable responsible QSE, and avail itself of such legal remedies as may be appropriate to collect any remaining unpaid uplift charges and associated penalties due the servicer after the application of such responsible QSE's uplift deposit.

In accordance with ERCOT Protocols, it is the sole responsibility of each responsible QSE to ensure that the full amounts due to ERCOT are paid by the applicable date and time. The failure of a responsible QSE to pay when due any payment or financial security obligation (including uplift deposits) owed to ERCOT constitutes an event of "payment breach." The failure of a responsible QSE to pay when due any payment or financial security obligation owed to ERCOT, including

uplift charges and uplift deposits owed by such responsible QSE to ERCOT as servicer, constitutes an event of "payment breach" under the ERCOT Protocols and ERCOT market participant agreement.

Upon a payment breach, ERCOT as servicer, will immediately attempt to contact the responsible QSE or its designee telephonically to inform the QSE of the payment breach and demand payment of the past due amount. ERCOT will also provide the market participant with written notice of the payment breach. Upon a payment breach, ERCOT may impose remedies for payment breach, as set forth in ERCOT Protocols, in addition to any other rights or remedies ERCOT has under any agreement or at common law. For payment breaches in relation to the uplift charges, the servicer will first utilize any available uplift deposit to cover unpaid uplift charges, but may also utilize financial security held for any other market activity by the QSE, except for any financial security held for the Texas Stabilization M Bonds related to default charges.

If a responsible QSE fails to timely pay uplift charges or uplift deposits, ERCOT is not required to make any payments to such responsible QSE unless and until such responsible QSE cures the payment breach by paying in full all past due amounts. The payments that ERCOT will not make include invoice receipts, reimbursements for short payments, and any other reimbursements or credits under any and all other agreements between ERCOT and the responsible QSE. ERCOT will retain all such amounts, and may apply all withheld funds toward the payment of any delinquent amounts, until the responsible QSE has fully paid all amounts owed to ERCOT under any agreements and the ERCOT Protocols, including all amounts owed for uplift charges and uplift deposits.

If a responsible QSE commits a payment breach by failing to timely pay uplift charges or uplift deposits, ERCOT may revoke a breaching responsible QSE's rights to conduct activities under the ERCOT Protocols and terminate the breaching responsible QSE's agreements with ERCOT. After revocation of a responsible QSE's rights under the ERCOT Protocols or termination of agreements with ERCOT, the responsible QSE will remain liable for all charges or costs associated with any continued activity related to the responsible QSE's relationship with ERCOT and any expenses arising from the termination or revocation. Upon termination of the responsible QSE's rights or agreements, all amounts owed to ERCOT become accelerated and due immediately.

Disputes.

If a responsible QSE disputes any amount of billed uplift charges, the QSE must pay ERCOT as the servicer the disputed amount in full in accordance with the ERCOT Protocols and follow the settlement and billing dispute process set forth in the ERCOT Protocols, which are incorporated by reference into the servicing agreement.

Responsible QSEs are responsible for reviewing invoices for uplift charges to verify the accuracy of data used to produce them. If a responsible QSE wishes to dispute items or calculations, the dispute must be submitted electronically through ERCOT's dispute tool. The dispute must be submitted within ten business days of the date ERCOT posted the related invoice. If the QSE does not dispute an uplift charge invoice within ten business days, the invoice is deemed to have been validated by the responsible QSE and ERCOT will reject any late filed disputes. ERCOT will notify the responsible QSE of any additional information needed to resolve the dispute and will make all reasonable attempts to resolve any disputes within fifteen business days. In the event the dispute requires complex research or additional time for resolution, ERCOT will notify the responsible QSE of the expected time needed to resolve the dispute.

If the dispute is unable to be resolved, the responsible QSE has the right to proceed to alternative dispute resolution as outlined in the ERCOT Protocols. The ERCOT Protocols define the procedures for alternative dispute resolution. Each party to the dispute is responsible for its own costs incurred in any alternative dispute resolution proceeding. If an agreement regarding the dispute cannot be reached, any of the parties to the dispute may apply for relief to the Public Utility Commission of Texas (Commission). The alternative dispute resolution procedures outlined in the ERCOT Protocols do not limit or restrict the right of a market participant to file a petition seeking direct relief from the Commission or other governmental authority where actual or threatened action by ERCOT or a market participant could cause irreparable harm that cannot be addressed within the time permitted under the alternative dispute resolution process.

Where to Find Information About ERCOT.

ERCOT posts information on its website at <https://www.ercot.com>. No information contained on that website constitutes part of this Offering Memorandum related to the Bonds.

TEXAS ELECTRIC MARKET STABILIZATION FUNDING N LLC, THE ISSUING ENTITY

We are a special purpose limited liability company formed under the Delaware Limited Liability Company Act pursuant to a limited liability company agreement executed by our sole member, ERCOT, and the filing of a certificate of formation with the Secretary of the State of Delaware. The limited liability company agreement was amended and restated on June 7,

2022, and references in this Offering Memorandum to our limited liability company agreement mean the amended and restated agreement. Our limited liability company agreement restricts us from engaging in activities other than those described in this section. We do not have any employees, but we will pay our member for out-of-pocket expenses incurred by the member in connection with its services to us in accordance with our limited liability company agreement. We have summarized selected provisions of our limited liability company agreement below, a copy of which has been filed with the Trustee. See "Where Prospective Investors Can Find More Information" in this Offering Memorandum. At closing, the capital subaccount will be equal to at least 0.5% of the aggregate principal amount of the Bonds issued and in an amount that will allow us to achieve the desired credit rating on the Bonds and to treat the Bonds as debt under applicable U.S. federal income tax rules and other guidance issued by the IRS.

As of the date of this Offering Memorandum, we have not carried on any business activities and have no operating history. We are not an agency or instrumentality of the state of Texas but are responsible to the state of Texas and the Commission as described below under the caption "—Our Relationship with the Commission."

Our assets will consist of:

- the uplift property,
- our rights under the sale agreement, the administration agreement, and the bill of sale delivered by ERCOT pursuant to the sale agreement,
- our rights under the servicing agreement and any subservicing, agency, administration, intercreditor or collection agreements executed in connection with such servicing agreement,
- the collection account and all subaccounts of such collection account,
- our rights in all deposits, guarantees, surety bonds, letters of credit and other forms of credit support provided by or on behalf of responsible QSEs pursuant to the debt obligation order,
- all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, and
- all payments on or under and all proceeds in respect of any or all of the foregoing.

The indenture provides that the uplift property, as well as our other assets, other than any cash released to us by the Trustee semi-annually from earnings on the capital subaccount, will be pledged by us to the Trustee to secure our obligations in respect of the Bonds. Pursuant to the indenture, the collected uplift charges remitted to the Trustee by the servicer must be used to pay principal and interest on the Bonds and our other obligations specified in the indenture.

Our organizational documents, as well as the basic documents supporting the Bonds, give us the authority and/or flexibility to issue Additional Bonds authorized by additional debt obligation orders and to acquire uplift property created by such additional debt obligation orders, which will be pledged solely to the payment of such Additional Bonds, subject to satisfaction of the Rating Agency Condition. As a result, we may acquire additional uplift property and issue one or more series of Additional Bonds that are supported by such additional and separate uplift property or other collateral to finance the recovery costs approved by an additional debt obligation order. Please read "Security for the Bonds—Issuance of Additional Bonds" and "—Allocations as Between Series of Bonds" in this Offering Memorandum.

Neither the Issuing Entity nor ERCOT is an asset-backed issuer and the Bonds are not asset-backed securities as such terms are defined by the SEC in Item 1101 of Regulation AB.

Restricted Purpose

We have been created for the sole purpose of:

- purchasing, owning, administering and servicing the uplift property and any uplift property created by an additional debt obligation order, and the other collateral;
- issuing and registering the Bonds and one or more series of Additional Bonds;
- making payments on the Bonds and any series of Additional Bonds;
- distributing amounts released to us;

- managing, selling, assigning, pledging, collecting amounts due on, or otherwise dealing with the uplift property and the other bond collateral and related assets;
- negotiating, executing, assuming and performing our obligations under the basic documents;
- pledging our interest in the uplift property and other collateral to an indenture trustee under one or more indentures and one or more series supplements in order to secure any series of additional bonds; and the Trustee under the indenture in order to secure the Bonds; and
- performing other activities that are necessary, suitable or convenient to accomplish these purposes.

Our limited liability company agreement does not permit us to engage in any activities not directly related to these purposes, including issuing securities (other than the Bonds and Additional Bonds), borrowing money or making loans to other persons. The list of permitted activities set forth in our limited liability company agreement may not be altered, amended or repealed without the affirmative vote of a majority of our managers, which vote must include the affirmative vote of our Independent Managers. Our limited liability company agreement and the indenture will prohibit us from issuing any bonds other than the Texas Stabilization Subchapter N Bonds that we will offer pursuant to this Offering Memorandum.

Our Relationship with ERCOT

On the issue date for the Texas Stabilization Subchapter N Bonds, ERCOT will sell uplift property to us pursuant to a sale agreement between us and ERCOT. ERCOT will service the uplift property pursuant to a servicing agreement between us and ERCOT and will provide administrative services to us pursuant to an administration agreement between us and ERCOT.

Our Relationship with the Commission

Pursuant to the debt obligation order,

- the Commission or its designated representative has a decision-making role co-equal with ERCOT with respect to the structuring and pricing of the Bonds and all matters related to the structuring and pricing of the Bonds will be determined through a joint decision of ERCOT and the Commission or its designated representative,
- ERCOT is directed to 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 power over, the proposed securitization, and
- the servicer will file periodic adjustments to uplift charges with the Commission on our behalf.

We have also agreed that certain reports concerning uplift charge collections will be provided to the Commission.

Our Management

Pursuant to our limited liability company agreement, our business will be managed by five or more managers, of whom at least two will be Independent Managers, in each case appointed from time to time by ERCOT or, in the event that ERCOT transfers its interest in us, appointed by our then owner or owners. Following the initial issuance of the Bonds, we will have at least two Independent Managers, each of whom, among other things, (1) is an individual who has prior experience as an independent director, Independent Manager or independent member for special-purpose entities, (2) is employed by a nationally-recognized company that provides professional Independent Managers and other corporate services, (3) is duly appointed as an Independent Manager and (4) is not and has not been for at least five (5) years from the date of his or her appointment, and while serving as an Independent Manager will not be, any of the following:

- a member, partner, or equity holder, officer, employee, director or manager (other than as an independent director or manager for a special purpose bankruptcy-remote entity) of us, ERCOT, any of our affiliates or any of our owner's affiliates or any responsible QSE or obligated LSE or related parties thereof,
- a creditor, supplier or service provider (including provider of professional services) to us, ERCOT or any of their respective equity holders or affiliates, other than a nationally recognized company that routinely provides professional Independent Managers and other corporate services to us, ERCOT or any of its affiliates in the ordinary course of its business,

- a family member of any member, partner, equity holder, manager, officer, employee, creditor, supplier or service provider, or
- a person who controls (whether directly, indirectly or otherwise) ERCOT or its affiliates or any member, partner, equity holder, manager, officer, employee, director, creditor, supplier or service provider described above.

The managers shall be obligated to devote as much of their time to our business as shall be reasonably required in light of our business and objectives.

ERCOT, as our sole member, will appoint the Independent Managers prior to the issuance of the Bonds. None of our managers or officers has been involved in any significant legal proceedings.

The following is a list of our managers as of the date of this Offering Memorandum:

<u>Name</u>	<u>Age</u>	<u>Background</u>
Chad V. Seely	45	Chad V. Seely became Vice President, General Counsel, and Corporate Secretary for ERCOT on January 1, 2016. Mr. Seely oversees state and federal regulatory and litigation issues related to the ERCOT power region, including market, operational, planning, and compliance matters. In addition, Mr. Seely supervises the information governance program and market rules and stakeholder support groups. Mr. Seely has been with ERCOT since May 2005. Prior to joining ERCOT, Mr. Seely was an attorney at the Texas Department of Insurance, working on enforcement matters against licensed insurance agents and companies and unlicensed entities before the State Office of Administrative Hearings and the Commissioner of Insurance.
Sean Taylor	53	Sean Taylor has served as Vice President and Chief Financial Officer of ERCOT since October 2019. From February 2013 to September 2019, Mr. Taylor served as Controller at ERCOT.
Leslie Wiley	48	Leslie Wiley has served as the Treasurer of ERCOT since January 2014. From February 2010 to December 2013, Ms. Wiley served as the Treasury Manager at ERCOT.
Thomas M. Strauss (Independent)	47	Thomas Strauss is responsible for managing Wilmington Trust's Special Purpose Vehicle (SPV) business in the United States, which provides directors, managers, officers; as well as administrative, accounting, and tax services for a wide variety of structured finance and securitization vehicles. Tom and his team of highly credentialed professionals specialize in transactions including ABS, MBS, SIVs, CD's, CLOs, Real Estate Financings, and others. Tom joined Wilmington Trust in 1991 with expertise in tax and accounting services. Earlier in his career, he practiced public accounting for a firm in Pennsylvania. He holds a bachelor's degree in Accounting from Pennsylvania State University and is a Certified Public Accountant and Certified Corporate Trust Specialist. Tom is a member of the American Institute of CPAs, the Pennsylvania Institute of CPAs, and the American Securitization Forum.
Kevin Burns (Independent)	52	Kevin P. Burns co-founded Global Securitization Services, LLC ("GSS") in 1996. He is responsible for the management of all aspects of GSS's administration services, as well as overall supervision of the firm. For special purpose vehicles ("SPVs") managed by the firm, Mr. Burns' responsibilities include origination, structuring and execution, with particular emphasis on administration of bank sponsored asset-backed commercial paper programs. Fortune 1000 companies have selected Mr. Burns to serve as Independent Director for their SPV subsidiaries established to finance commercial real estate, energy infrastructure and many classes of financial assets. Prior to co-founding Global, Mr. Burns spent five years with Lord Securities Corporation where he became a Director and Vice President in charge of Lord's asset-backed commercial paper group. Previous to

Name	Age	Background
		this, he spent a year at the broker/dealer Mabon Securities Corporation where he sat on the intermediate corporate bond desk. Mr. Burns received a Bachelor of Business Administration degree in Finance from the University of Notre Dame in 1991.

Manager Fees and Limitation on Liabilities

We have not paid any compensation to any manager since we were formed. We will not compensate our managers, other than the Independent Managers, for their services on our behalf. We will pay the annual fees of the Independent Managers from our revenues and will reimburse them for reasonable expenses. These expenses include the reasonable compensation, expenses and disbursements of the agents, representatives, experts and counsel that the Independent Managers may employ in connection with the exercise and performance of his or her rights and duties under our limited liability company agreement.

Our limited liability company agreement provides that to the extent permitted by law, the managers will not be personally liable for any of our debts, obligations or liabilities. Our limited liability company agreement further provides that, except as described below, to the fullest extent permitted by law, we will indemnify the managers against any liability incurred in connection with their services as managers for us if they acted in good faith and in a manner which they reasonably believed to be in or not opposed to our best interests. With respect to a criminal action, the managers will be indemnified unless they had reasonable cause to believe their conduct was unlawful. We will not indemnify the manager for any judgment, penalty, fine or other expense directly caused by their fraud, gross negligence or willful misconduct or in the case of an Independent Manager, bad faith or willful misconduct. In addition, unless ordered by a court, we will not indemnify the managers if a final adjudication establishes that their acts or omissions involved intentional misconduct, fraud or a knowing violation of the law and were material to the cause of action. We will pay any indemnification amounts owed to the managers out of funds in the collection accounts, subject to the priority of payments described in "Security for the Bonds—How Funds in the Collection Account will be Allocated."

We Are a Separate and Distinct Legal Entity from ERCOT

Under our limited liability company agreement, we may not file a voluntary petition for relief under the Bankruptcy Code, without the affirmative vote of our member and the affirmative vote of all of our managers, including the Independent Managers. ERCOT has agreed that it will not cause us to file a voluntary petition for relief under the Bankruptcy Code. Our limited liability company agreement requires us, except for financial reporting purposes (to the extent required by generally accepted accounting principles) and for federal income tax purposes, and, to the extent consistent with applicable state law, state income and franchise tax purposes, to maintain our existence separate from ERCOT including:

- taking all necessary steps to continue our identity as a separate legal entity;
- making it apparent to third persons that we are an entity with assets and liabilities distinct from those of ERCOT, other affiliates of ERCOT, the managers or any other person; and
- making it apparent to third persons that, except for federal and certain other tax purposes and insofar as we are a wholly owned subsidiary of ERCOT, we are not a division of ERCOT or any of its affiliated entities or any other person.

Administration Agreement

ERCOT will, pursuant to an administration agreement between ERCOT and us, provide administrative services to us, including services relating to the preparation of financial statements, any tax returns we might be required to file under applicable law, qualifications to do business, and minutes of our managers' meetings. We will pay ERCOT a fixed fee of \$100,000 per annum, payable in installments of \$50,000 on each Payment Date for performing these services, plus we will reimburse ERCOT for all costs and expenses for services performed by unaffiliated third parties and actually incurred by ERCOT in performing such services described above.

RELATIONSHIP TO THE TEXAS STABILIZATION M BONDS, SERIES 2021

ERCOT's Prior Securitization

The Bonds are the second series of bonds which ERCOT has sponsored in accordance with the legislation passed in response to the aftermath of Winter Storm Uri in February 2021. The default property securitized in the prior transaction enabled ERCOT to address the default balance created by Winter Storm Uri, which included amounts owed to ERCOT by competitive wholesale market participants from the period of emergency that otherwise would be uplifted to other wholesale market participants, financial revenue auction receipts used by ERCOT to temporarily reduce amounts short-paid to wholesale market participants related to the period of emergency, and reasonable related costs. While the nature of the costs recovered through that prior securitization differs, the statutory framework with respect to the right to recover costs and regarding securitization is very similar to the framework regarding recovery of the uplift balance.

In November 2021, Texas Funding M, a special purpose, wholly owned subsidiary of ERCOT, issued \$800,000,000 of Texas Stabilization M Bonds Series 2021. The Texas Stabilization M Bonds were issued to securitize certain default property of ERCOT recoverable through irrevocable, nonbypassable default charges provided for in PURA and a debt obligation order issued by the Commission on October 13, 2021. ERCOT currently acts as servicer with respect to the Texas Stabilization M Bonds.

ERCOT will also be the sponsor and initial servicer with respect to the Texas Stabilization Subchapter N Bonds described in this Offering Memorandum. We are a separate legal entity from Texas Funding M. The Bonds described herein will be payable from collateral that is separate from that securing the Texas Stabilization M Bonds. The Texas Stabilization M Bonds and the Bonds offered hereby will be backed by legally separate property; however, all such bonds will be serviced by the same servicer (i.e., ERCOT). Additionally, the default charges backing the Texas Stabilization M Bonds and the uplift charges backing the Bonds will be imposed on QSEs in the ERCOT power region from and after the issuance date of the Bonds, and will be collected by some of the same entities.

Texas Funding M does not have any obligations in respect to the Bonds. The collateral pledged to secure the Bonds will be separate from the collateral that is securing the Texas Stabilization M Bonds and from any collateral that would secure any other series of bonds that may be issued in the future.

Intercreditor Agreement

With respect to the Bonds, we will enter into an intercreditor agreement with ERCOT (on behalf of itself and in its capacities as servicer and as servicer of the Texas Stabilization M Bonds issued by Texas Funding M), the Trustee of the Bonds to which this Offering Memorandum relates, Texas Funding M and the trustee under the indenture relating to the Texas Stabilization M Bonds issued by Texas Funding M pursuant to which:

- the servicer that allocates and remits uplift charge revenues received from responsible QSEs for the Bonds to which this Offering Memorandum relates and default charge revenues received from QSEs and congestion revenue rights account holders for the Texas Stabilization M Bonds issued by Texas Funding M must be one and the same entity; and
- in the event of a default by the servicer under any servicing agreement relating to the Bonds issued by us or the Texas Stabilization M Bonds issued by Texas Funding M, the Trustee and the trustee for the Texas Stabilization M Bonds, acting upon the vote of bondholders representing a majority of the outstanding principal amount of the Bonds and the bonds issued by Texas Funding M must agree upon a replacement servicer that performs the allocation services described in the preceding subparagraph.

If the trustees are unable to agree on a replacement servicer, no trustee would be able to replace ERCOT or any successor as servicer, and they will be required to petition a court of competent jurisdiction to appoint a replacement servicer. During the interim period, under the intercreditor agreement, any trustee could upon such a default require all collections by the servicer to be deposited directly into a designated account with a financial institution selected by the trustees, subject to satisfaction of the Rating Agency Condition. The financial institution holding the designated account would then be responsible for allocating the collections in the account between uplift charges relating to the Bonds offered in this Offering Memorandum and the Texas Stabilization M Bonds issued by Texas Funding M.

The intercreditor agreement also provides that if, after the issuance of Texas Stabilization Subchapter N Bonds by the Issuing Entity, ERCOT hereafter causes uplift property to be created under any other debt obligation order and acts as servicer for other bonds issued pursuant to such other debt obligation order, the intercreditor agreement may, by written agreement, be amended and restated to add as parties the relevant issuing entity of such other bonds, the trustee for such bonds, and the servicer of such property covered thereby in order to reflect the rights and obligations of such parties with

respect to such property on terms substantially similar to the rights and obligations of Texas Funding M, the Issuing Entity, ERCOT, the Trustee and the trustee for Texas Funding M. No such amendment, however, shall be effective unless the Rating Agency Condition shall have been satisfied and no party shall be required to execute any such amended agreement on terms which are materially more disadvantageous to it than those already contained in the intercreditor agreement.

The parties to the intercreditor agreement will also agree to share with each other any and all records and other data regarding the uplift charges, default charges and allocation of the charges among various entities as are necessary to effect collection, allocation and remittance of payments in respect of uplift charges, default charges and other collected funds in accordance with the servicing agreements and the intercreditor agreement.

If ERCOT becomes a party to any future trade receivables purchase and sale arrangement or similar arrangement under which it sells all or any portion of its accounts receivables, ERCOT and the other parties to such arrangement shall enter into a joinder to the intercreditor agreement in connection therewith and the terms of the documentation evidencing such trade receivables purchase and sale arrangement or similar arrangement shall expressly exclude the uplift charges from any receivables or other assets pledged or sold under such arrangement.

DESCRIPTION OF THE TEXAS STABILIZATION SUBCHAPTER N BONDS

General

We have summarized below selected provisions of the indenture, the series supplement and the Bonds. A form of the indenture and series supplement have been filed with the Trustee. See "Where Prospective Investors Can Find More Information" in this Offering Memorandum.

The Bonds are not a debt, liability or other obligation of the state of Texas, the Commission or of any political subdivision, governmental agency, authority or instrumentality of the State or Texas and do not represent an interest in or legal obligation of ERCOT or any of its affiliates, other than us. Neither ERCOT nor any of its affiliates will guarantee or insure the Bonds. The debt obligation order authorizing the issuance of the Bonds does not constitute a pledge of the full faith and credit of the state of Texas or of any of its political subdivisions. The issuance of the Bonds under PURA will not directly, indirectly or contingently obligate the state of Texas or any of its political subdivisions to levy or to pledge any form of taxation for the Bonds or to make any appropriation for their payment.

We will issue the Bonds and secure their payment under an indenture that we will enter into with U.S. Bank Trust Company, National Association, as Trustee, referred to in this Offering Memorandum as the "**Trustee**." We will issue the Bonds in minimum denominations of \$100,000 and in integral multiples of \$1,000 in excess thereof, except that we may issue one bond in each tranche in a smaller denomination. The initial principal balance, scheduled final payment date, final maturity date and interest rate for each tranche of the Bonds are stated in the table below:

Tranche	Expected Weighted Average Life (Years)	Principal Amount Offered	Scheduled Final Payment Date	Final Maturity Date	Interest Rate
A-1	6.78	\$600,000,000	August 1, 2034	August 1, 2036	4.265%
A-2	16.21	\$600,000,000	February 1, 2042	February 1, 2044	4.966%
A-3	22.12	\$457,900,000	August 1, 2046	August 1, 2048	5.057%
A-4	26.11	\$457,800,000	February 1, 2050	February 1, 2052	5.167%

The scheduled final payment date for each tranche of the Bonds is the date when the outstanding principal balance of that tranche will be reduced to zero if we make payments according to the expected amortization schedule for that tranche. The final maturity date for each tranche of bonds is the date when we are required to pay the entire remaining unpaid principal balance, if any, of all outstanding bonds of that tranche. The failure to pay principal of any tranche of bonds by the final maturity date for that tranche is an event of default, but the failure to pay principal of any tranche of bonds by the respective scheduled final payment date will not be an event of default. Please read "—Interest Payments" and "—Principal Payments" and "—Events of Default; Rights Upon Event of Default" in this Offering Memorandum.

Payment and Record Dates and Payment Sources

Beginning February 1, 2023 we will make payments on the Bonds semi-annually on February 1 and August 1 of each year, or, if that day is not a business day, the following business day (each, a **payment date**). So long as the Bonds are in book-entry form, on each payment date, we will make interest and principal payments to the persons who are the bondholders of record as of the business day immediately prior to that payment date, which is referred to as the "**record date**." If we issue certificated bonds to beneficial owners of the Bonds, the record date will be the last business day of the calendar month immediately preceding the payment date. On each payment date, we will pay amounts on outstanding bonds from amounts available in the collection account and the related subaccounts held by the Trustee in the priority set forth under "Security for the Bonds—How Funds in the Collection Account will be Allocated" in this Offering Memorandum. These available amounts, which will include amounts collected by the servicer for us with respect to the uplift charges, are described in greater detail under "Security for the Bonds—How Funds in the Collection Account will be Allocated" and "The Servicing Agreement—Remittances to Collection Account" in this Offering Memorandum.

Interest Payments

Interest on each tranche of bonds will accrue from and including the issue date to but excluding the first payment date, and thereafter from and including the previous payment date to but excluding the applicable payment date until the Bonds have been paid in full, at the interest rate indicated on the cover of this Offering Memorandum and in the table above on

page 12. Each of those periods is referred to as an "**interest accrual period**." We will calculate interest on tranches of the Bonds on the basis of a 360-day year of twelve 30-day months.

On each payment date, we will pay interest on each tranche of the Bonds equal to the following amounts:

- if there has been a payment default, any interest payable but unpaid on any prior payment date, together with interest on such unpaid interest, if any, and
- accrued interest on the principal balance of each tranche of the Bonds as of the close of business on the preceding payment date (or with respect to the initial payment date, the date of the original issuance of the Bonds) after giving effect to all payments of principal made on the preceding payment date, if any.

We will pay interest on the Bonds before we pay principal on the Bonds. Interest payments will be made from the Collections Account, including investment earnings thereon. In the event of default by a QSE, the amounts in the QSE's uplift deposit or available from other credit support (up to an amount of the lesser of the payment defaults of a QSE or that QSE's deposit or other credit support amount) will be used to make interest payments to the bondholders on each payment date for the Bonds after more senior payments are made pursuant to the indenture. Please read "Security for the Bonds—How Funds in the Collection Account will be Allocated."

If there is a shortfall in the amounts available in the collection account to make interest payments on the Bonds, the Trustee will distribute interest pro rata to each tranche of bonds based on the amount of interest payable on each such outstanding tranche. Please read "Security for the Bonds—How Funds in the Collection Account will be Allocated" in this Offering Memorandum.

Principal Payments

On each payment date, we will pay principal of the Bonds to the bondholders equal to the sum, without duplication, of:

- the unpaid principal amount of any bond whose final maturity date is on that payment date, plus
- the unpaid principal amount of any bond upon acceleration following an event of default relating to the Bonds, plus
- any overdue payments of principal, plus
- any unpaid and previously scheduled payments of principal, plus
- the principal scheduled to be paid on any bond on that payment date,

but only to the extent funds are available in the collection account after payment of certain of our fees and expenses and after payment of interest as described above under "—Interest Payments." If the Trustee receives insufficient collections of uplift charges for any payment date, and amounts in the collection account (and the applicable subaccounts of the collection account) are not sufficient to make up the shortfall, principal of any tranche of bonds may be payable later than expected. Please read "Risk Factors—Other Risks Associated with an Investment in the Bonds." To the extent funds are so available, we will make scheduled payments of principal of the Bonds in the following order:

1. to the bondholders of the tranche A-1 bonds, until the principal balance of that tranche has been reduced to zero,
2. to the bondholders of the tranche A-2 bonds, until the principal balance of that tranche has been reduced to zero,
3. to the bondholders of the tranche A-3 bonds, until the principal balance of that tranche has been reduced to zero, and
4. to the bondholders of the tranche A-4 bonds, until the principal balance of that tranche has been reduced to zero.

However, on any payment date, unless an event of default has occurred and is continuing and the Bonds have been declared due and payable, the Trustee will make principal payments on the Bonds only until the outstanding principal balances of those bonds have been reduced to the principal balances specified in the applicable expected amortization schedule for that payment date. Accordingly, principal of the Bonds may be paid later, but not sooner than reflected in the expected amortization schedule, except in the case of an acceleration. The entire unpaid principal balance of each tranche of the Bonds will be due and payable on the final maturity date for that tranche. The failure to make a scheduled payment of principal on the Bonds because there are not sufficient funds in the collection account does not constitute a default or an

event of default under the indenture, except for the failure to pay in full the unpaid balance of any tranche upon the final maturity date for such tranche.

Unless the Bonds have been accelerated following an event of default, any excess funds remaining in the collection account after payment of principal, interest, applicable fees and expenses and payments to the applicable subaccounts of the collection account will be retained in the excess funds subaccount until applied on a subsequent payment date.

If an event of default (other than a breach by the state of Texas of the State Pledge) has occurred and is continuing, then the Trustee or the bondholders of not less than a majority in principal amount of the Bonds then outstanding may declare the Bonds to be immediately due and payable, in which event the entire unpaid principal amount of the Bonds will become due and payable. Please read "—Events of Default; Rights Upon Event of Default." However, the nature of our business will result in payment of principal upon an acceleration of the Bonds being made as funds become available. Please read "Risk Factors—Risks Associated with the Unusual Nature of the Uplift Property—Foreclosure of the Trustee's lien on the uplift property for the Bonds might not be practical, and acceleration of the Bonds before maturity might have little practical effect" and "Risk Factors—You may experience material payment delays or incur a loss on your investment in the Bonds because the source of funds for payment is limited" in this Offering Memorandum.

If there is a shortfall in the amounts available to make principal payments on the Bonds that are due and payable, including upon an acceleration following an event of default, the Trustee will distribute principal from the collection account pro rata to each tranche of bonds based on the principal amount then due and payable on the payment date; and if there is a shortfall in the remaining amounts available to make principal payments on the Bonds that are scheduled to be paid, the Trustee will distribute principal from the collection account pro rata to each tranche of bonds based on the principal amount then scheduled to be paid on the payment date.

The expected amortization schedule below sets forth the corresponding principal payment that is scheduled to be made on each payment date for each tranche of the Bonds from the issuance date to the scheduled final payment date. Similarly, the expected outstanding principal balance schedule below sets forth the principal balance that is scheduled to remain outstanding on each payment date for each tranche of the Bonds from the issuance date to the scheduled final payment date.

EXPECTED AMORTIZATION SCHEDULE

Semi-Annual Payment Date	Tranche A-1	Tranche A-2	Tranche A-3	Tranche A-4
February 1, 2023	\$ 14,807,197.92	\$ —	\$ —	\$ —
August 1, 2023	\$ 20,724,514.07	\$ —	\$ —	\$ —
February 1, 2024	\$ 21,149,573.86	\$ —	\$ —	\$ —
August 1, 2024	\$ 21,583,351.61	\$ —	\$ —	\$ —
February 1, 2025	\$ 22,026,026.16	\$ —	\$ —	\$ —
August 1, 2025	\$ 22,477,779.95	\$ —	\$ —	\$ —
February 1, 2026	\$ 22,938,799.22	\$ —	\$ —	\$ —
August 1, 2026	\$ 23,409,273.99	\$ —	\$ —	\$ —
February 1, 2027	\$ 23,889,398.20	\$ —	\$ —	\$ —
August 1, 2027	\$ 24,379,369.76	\$ —	\$ —	\$ —
February 1, 2028	\$ 24,879,390.63	\$ —	\$ —	\$ —
August 1, 2028	\$ 25,389,666.93	\$ —	\$ —	\$ —
February 1, 2029	\$ 25,910,409.01	\$ —	\$ —	\$ —
August 1, 2029	\$ 26,441,831.49	\$ —	\$ —	\$ —
February 1, 2030	\$ 26,984,153.45	\$ —	\$ —	\$ —
August 1, 2030	\$ 27,537,598.44	\$ —	\$ —	\$ —
February 1, 2031	\$ 28,102,394.59	\$ —	\$ —	\$ —
August 1, 2031	\$ 28,678,774.70	\$ —	\$ —	\$ —
February 1, 2032	\$ 29,266,976.37	\$ —	\$ —	\$ —
August 1, 2032	\$ 29,867,242.05	\$ —	\$ —	\$ —
February 1, 2033	\$ 30,479,819.19	\$ —	\$ —	\$ —
August 1, 2033	\$ 31,104,960.28	\$ —	\$ —	\$ —
February 1, 2034	\$ 31,742,923.02	\$ —	\$ —	\$ —
August 1, 2034	\$ 16,228,575.11	\$ 16,165,395.25	\$ —	\$ —
February 1, 2035	\$ —	\$ 33,111,554.85	\$ —	\$ —
August 1, 2035	\$ —	\$ 33,899,609.85	\$ —	\$ —
February 1, 2036	\$ —	\$ 34,706,420.57	\$ —	\$ —

Semi-Annual Payment Date	Tranche A-1	Tranche A-2	Tranche A-3	Tranche A-4
August 1, 2036	\$ —	\$ 35,532,433.38	\$ —	\$ —
February 1, 2037	\$ —	\$ 36,378,105.29	\$ —	\$ —
August 1, 2037	\$ —	\$ 37,243,904.20	\$ —	\$ —
February 1, 2038	\$ —	\$ 38,130,309.12	\$ —	\$ —
August 1, 2038	\$ —	\$ 39,037,810.48	\$ —	\$ —
February 1, 2039	\$ —	\$ 39,966,910.36	\$ —	\$ —
August 1, 2039	\$ —	\$ 40,918,122.83	\$ —	\$ —
February 1, 2040	\$ —	\$ 41,891,974.16	\$ —	\$ —
August 1, 2040	\$ —	\$ 42,889,003.14	\$ —	\$ —
February 1, 2041	\$ —	\$ 43,909,761.41	\$ —	\$ —
August 1, 2041	\$ —	\$ 44,954,813.74	\$ —	\$ —
February 1, 2042	\$ —	\$ 41,263,871.37	\$ 4,760,866.93	\$ —
August 1, 2042	\$ —	\$ —	\$ 47,124,150.01	\$ —
February 1, 2043	\$ —	\$ —	\$ 48,285,524.68	\$ —
August 1, 2043	\$ —	\$ —	\$ 49,475,521.44	\$ —
February 1, 2044	\$ —	\$ —	\$ 50,694,845.67	\$ —
August 1, 2044	\$ —	\$ —	\$ 51,944,220.14	\$ —
February 1, 2045	\$ —	\$ —	\$ 53,224,385.44	\$ —
August 1, 2045	\$ —	\$ —	\$ 54,536,100.42	\$ —
February 1, 2046	\$ —	\$ —	\$ 55,880,142.62	\$ —
August 1, 2046	\$ —	\$ —	\$ 41,974,242.65	\$ 15,283,066.08
February 1, 2047	\$ —	\$ —	\$ —	\$ 58,670,478.32
August 1, 2047	\$ —	\$ —	\$ —	\$ 60,124,332.77
February 1, 2048	\$ —	\$ —	\$ —	\$ 61,614,213.74
August 1, 2048	\$ —	\$ —	\$ —	\$ 63,141,013.96
February 1, 2049	\$ —	\$ —	\$ —	\$ 64,705,648.28
August 1, 2049	\$ —	\$ —	\$ —	\$ 66,309,054.24
February 1, 2050	\$ —	\$ —	\$ —	\$ 67,952,192.61
Total Payments	\$ 600,000,000	\$ 600,000,000	\$ 457,900,000	\$ 457,800,000

We cannot assure you that the principal balance of any tranche of the Bonds will be reduced at the rate indicated in the table above. The actual reduction in tranche principal balances may occur more slowly. The actual reduction in tranche principal balances will not occur more quickly than indicated in the above table, except in the case of acceleration due to an event of default under the indenture. The Bonds will not be in default if principal is not paid as specified in the schedule above unless the principal of any tranche is not paid in full on or before the final maturity date of that tranche.

EXPECTED OUTSTANDING PRINCIPAL BALANCE SCHEDULE

Outstanding Principal Balance Per Tranche

Semi-Annual Payment Date	Tranche A-1 Balance	Tranche A-2 Balance	Tranche A-3 Balance	Tranche A-4 Balance
Issuance Date	\$ 600,000,000.00	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2023	\$ 585,192,802.08	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2023	\$ 564,468,288.01	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2024	\$ 543,318,714.15	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2024	\$ 521,735,362.54	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2025	\$ 499,709,336.38	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2025	\$ 477,231,556.43	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2026	\$ 454,292,757.21	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2026	\$ 430,883,483.22	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2027	\$ 406,994,085.02	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2027	\$ 382,614,715.26	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2028	\$ 357,735,324.63	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2028	\$ 332,345,657.70	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00

Semi-Annual Payment Date	Tranche A-1 Balance	Tranche A-2 Balance	Tranche A-3 Balance	Tranche A-4 Balance
February 1, 2029	\$ 306,435,248.69	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2029	\$ 279,993,417.20	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2030	\$ 253,009,263.75	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2030	\$ 225,471,665.31	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2031	\$ 197,369,270.72	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2031	\$ 168,690,496.02	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2032	\$ 139,423,519.65	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2032	\$ 109,556,277.60	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2033	\$ 79,076,458.41	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2033	\$ 47,971,498.13	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2034	\$ 16,228,575.11	\$ 600,000,000.00	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2034	\$ —	\$ 583,834,604.75	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2035	\$ —	\$ 550,723,049.90	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2035	\$ —	\$ 516,823,440.05	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2036	\$ —	\$ 482,117,019.48	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2036	\$ —	\$ 446,584,586.10	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2037	\$ —	\$ 410,206,480.81	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2037	\$ —	\$ 372,962,576.61	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2038	\$ —	\$ 334,832,267.49	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2038	\$ —	\$ 295,794,457.01	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2039	\$ —	\$ 255,827,546.65	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2039	\$ —	\$ 214,909,423.82	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2040	\$ —	\$ 173,017,449.66	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2040	\$ —	\$ 130,128,446.52	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2041	\$ —	\$ 86,218,685.11	\$ 457,900,000.00	\$ 457,800,000.00
August 1, 2041	\$ —	\$ 41,263,871.37	\$ 457,900,000.00	\$ 457,800,000.00
February 1, 2042	\$ —	\$ —	\$ 453,139,133.07	\$ 457,800,000.00
August 1, 2042	\$ —	\$ —	\$ 406,014,983.06	\$ 457,800,000.00
February 1, 2043	\$ —	\$ —	\$ 357,729,458.38	\$ 457,800,000.00
August 1, 2043	\$ —	\$ —	\$ 308,253,936.94	\$ 457,800,000.00
February 1, 2044	\$ —	\$ —	\$ 257,559,091.27	\$ 457,800,000.00
August 1, 2044	\$ —	\$ —	\$ 205,614,871.13	\$ 457,800,000.00
February 1, 2045	\$ —	\$ —	\$ 152,390,485.69	\$ 457,800,000.00
August 1, 2045	\$ —	\$ —	\$ 97,854,385.27	\$ 457,800,000.00
February 1, 2046	\$ —	\$ —	\$ 41,974,242.65	\$ 457,800,000.00
August 1, 2046	\$ —	\$ —	\$ —	\$ 442,516,933.92
February 1, 2047	\$ —	\$ —	\$ —	\$ 383,846,455.60
August 1, 2047	\$ —	\$ —	\$ —	\$ 323,722,122.83
February 1, 2048	\$ —	\$ —	\$ —	\$ 262,107,909.09
August 1, 2048	\$ —	\$ —	\$ —	\$ 198,966,895.13
February 1, 2049	\$ —	\$ —	\$ —	\$ 134,261,246.85
August 1, 2049	\$ —	\$ —	\$ —	\$ 67,952,192.61
February 1, 2050	\$ —	\$ —	\$ —	\$ —

On each payment date, the Trustee will make principal payments to the extent the principal balance of each tranche of the Bonds exceeds the amount indicated for that payment date in the table above and to the extent of funds available in the collection account after payment of certain of our fees and expenses and after payment of interest.

Distribution Following Acceleration

Upon an acceleration of the maturity of the Bonds, the total outstanding principal balance of and interest accrued on the Bonds will be payable, without regard to tranche. Although principal will be due and payable upon acceleration, the nature of our business will result in principal being paid as funds become available. Please read "Risk Factors—Risks Associated with the Unusual Nature of the Uplift Property—Foreclosure of the Trustee's lien on the uplift property for the Bonds might not be practical, and acceleration of the Bonds before maturity might have little practical effect" and "Risk

Factors—You may experience material payment delays or incur a loss on your investment in the Bonds because the source of funds for payment is limited" in this Offering Memorandum.

Optional Redemption

The Issuing Entity may not voluntarily redeem any tranche of the Subchapter N Bonds.

Payments on the Bonds

On each payment date, the Trustee will pay, to the extent of available funds in the collection account, to the bondholders of record as of the related record date, principal and interest due for such payment date other than the final payment. The Trustee will make the final payment for each tranche of bonds, however, only upon presentation and surrender of the Bonds of that tranche at the office or agency of the Trustee specified in the notice given by the Trustee of the final payment. The Trustee will mail notice of the final payment to the bondholders no later than five (5) days prior to the final payment date, specifying the date set for the final payment and the amount of the payment.

The failure to pay accrued interest on any payment date (even if the failure is caused by a shortfall in uplift charges received) will result in an event of default for the Bonds unless such failure is cured within five (5) business days. Please read "—Events of Default; Rights Upon Event of Default." Any interest not paid when due (plus interest on the defaulted interest at the applicable interest rate to the extent lawful) will be payable to the bondholders on a special record date. The special record date will be at least fifteen (15) business days prior to the date on which the Trustee is to make such special payment (a special payment date). We will fix any special record date and special payment date. At least ten (10) days before any special record date, the Trustee will mail to each affected bondholder a notice that states the special record date, the special payment date and the amount of defaulted interest (plus interest on the defaulted interest) to be paid.

The entire unpaid principal amount of the Bonds will be due and payable:

- on the final maturity date,
- if an event of default under the indenture occurs and is continuing and the Trustee or the bondholders of a majority in principal amount of the Bonds have declared the Bonds to be immediately due and payable.

However, the nature of our business will result in payment of principal upon an acceleration of the Bonds being made as funds become available. Please read "Risk Factors—Risks associated with the Unusual Nature of the uplift property—foreclosure of the Trustee's lien on the uplift property securing the Bonds might not be practical, and acceleration of the Bonds before maturity might have little practical effect" and "—You may experience material payment delays or incur a loss on your investment in the Bonds because the source of funds for payment is limited."

At the time, if any, we issue the Bonds in the form of definitive bonds and not to DTC or its nominee, the Trustee will make payments with respect to that tranche on a payment date or a special payment date by wire transfer to each bondholder of a definitive bond of the tranche of record on the applicable record date to an account maintained by the payee.

If any special payment date or other date specified for any payments to bondholders is not a business day, the Trustee will make payments scheduled to be made on that special payment date or other date on the next succeeding business day and no interest will accrue upon the payment during the intervening period.

Fees and Expenses

As set forth in the table below, the Issuing Entity is obligated to pay fees to the servicer, the Trustee, its Independent Managers and ERCOT as administrator. The following table illustrates this arrangement.

Recipient	Source of Payment	Fees and Expenses Payable
Servicer	Uplift charge collections and investment earnings.	0.05% of the initial principal balance of the Bonds on an annualized basis (so long as servicer is ERCOT or an affiliate)
Trustee	Uplift charge collections and investment earnings.	\$3,000 per annum plus expenses

Recipient	Source of Payment	Fees and Expenses Payable
Independent Managers	Uplift charge collections and investment earnings.	\$5,000 per annum plus expenses
Administration Fee	Uplift charge collections and investment earnings.	\$100,000 per annum plus expenses

The annual servicing fee payable to any servicer not affiliated with ERCOT shall not at any time exceed 0.60% of the original principal amount of the Bonds unless such higher rate is approved by the Commission.

Bonds Will Be Issued in Book-Entry Form

The Bonds will be available to investors only in the form of book-entry bonds. You may hold your bonds through DTC in the United States, Clearstream Banking, Luxembourg, S.A., referred to as Clearstream, or Euroclear in Europe. You may hold your bonds directly with one of these systems if you are a participant in the system or indirectly through organizations that are participants.

The Role of DTC, Clearstream and Euroclear

Cede & Co., as nominee for DTC, will hold the global bond or bonds representing the Bonds. Clearstream and Euroclear will hold omnibus positions on behalf of the Clearstream customers and Euroclear participants, respectively, through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositaries. These depositaries will, in turn, hold these positions in customers' securities accounts in the depositaries' names on the books of DTC.

The Function of DTC

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its participants are on file with the SEC. More information about DTC can be found at www.dtcc.com and www.dtc.org.

The Function of Clearstream

Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thereby eliminating the need for physical movement of securities. Transactions may be settled by Clearstream in any of various currencies, including United States dollars. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream also deals with domestic securities markets in various countries through established depository and custodial relationships. Clearstream is registered as a bank in Luxembourg and therefore is subject to regulation by the Luxembourg *Commission de Surveillance du Secteur Financier*, which supervises Luxembourg banks. Clearstream's customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations, among others, and may include the underwriters of the Bonds. Clearstream's U.S. customers are limited to securities brokers and dealers and banks. Clearstream has customers located in various countries. Indirect access to Clearstream is also available to other institutions that clear through or maintain a custodial relationship with an account bondholder of Clearstream. Clearstream has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream and Euroclear.

The Function of Euroclear

The Euroclear System was created in 1968 in Brussels. Euroclear holds securities and book-entry interests in securities for Euroclear participants and facilitates the clearance and settlement of securities transactions between Euroclear participants, and between Euroclear participants and participants of certain other securities intermediaries through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of securities and any risk from lack of simultaneous transfers of securities and cash. Such transactions may be settled in any of various currencies, including United States dollars. The Euroclear System includes various other services, including, among other things, safekeeping, administration, clearance and settlement, securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described below. The Euroclear System is operated by Euroclear Bank SA/NV. Euroclear participants include central banks and other banks, securities brokers and dealers and other professional financial intermediaries and may include the underwriters of the Bonds. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Terms and Conditions of Euroclear

Securities clearance accounts and cash accounts with Euroclear are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). These Terms and Conditions govern transfers of securities and cash within the Euroclear System, withdrawals of securities and cash from the Euroclear System and receipts of payments with respect to securities in the Euroclear System. All securities in Euroclear are held on a fungible basis without attribution of specific securities to specific securities clearance accounts. Euroclear acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

The Rules for Transfers Among DTC, Clearstream or Euroclear Participants

Transfers between DTC participants will occur in accordance with DTC rules. Transfers between Clearstream customers or Euroclear participants will occur in the ordinary way in accordance with their applicable rules and operating procedures and will be settled using procedures applicable to conventional securities held in registered form.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream customers or Euroclear participants, on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its depositary; however, those cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines, which will be based on European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depositary to take action to effect final settlement on its behalf by delivering or receiving bonds in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream customers and Euroclear participants may not deliver instructions directly to Clearstream's and Euroclear's depositories.

Because of time-zone differences, credits of securities in Clearstream or Euroclear as a result of a transaction with a participant will be made during the subsequent securities settlement processing, dated the business day following the DTC settlement date, and those credits or any transactions in those securities settled during that processing will be reported to the relevant Clearstream customer or Euroclear participant on that business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream customer or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

DTC Will Be the Holder of the Bonds

Bondholders that are not participants or Indirect Participants but desire to purchase, sell or otherwise transfer ownership of, or other interest in, bonds may do so only through participants and Indirect Participants. In addition, bondholders will receive all payments of principal of and interest on the Bonds from the Trustee through the participants, who in turn will receive them from DTC. Under a book-entry format, bondholders may experience some delay in their receipt of payments because payments will be forwarded by the Trustee to Cede & Co., as nominee for DTC. DTC will forward those payments to its participants, who thereafter will forward them to Indirect Participants or bondholders. It is anticipated that the only "bondholder" of record will be Cede & Co., as nominee of DTC. The Trustee will not recognize bondholders as bondholders, as that term is used in the indenture, and bondholders will be permitted to exercise the rights of bondholders only indirectly through the participants, who in turn will exercise the rights of bondholders through DTC.

Under the rules, regulations and procedures creating and affecting DTC and its operations, DTC is required to make book-entry transfers of book-entry certificates among participants on whose behalf it acts with respect to the Bonds and is required to receive and transmit payments of principal and interest on the Bonds. Participants and Indirect Participants with whom bondholders have accounts with respect to the Bonds similarly are required to make book-entry transfers and receive and transmit those payments on behalf of their respective bondholders. Accordingly, although bondholders will not possess bonds, bondholders will receive payments and will be able to transfer their interests.

Because DTC can act only on behalf of participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of a bondholder to pledge bonds to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of those bonds, may be limited due to the lack of a physical certificate for those bonds.

DTC has advised us that it will take any action permitted to be taken by a bondholder under the indenture only at the direction of one or more participants to whose account with DTC the Bonds are credited. Additionally, DTC has advised us that it will take those actions with respect to specified percentages of the collateral amount only at the direction of and on behalf of participants whose holdings include interests that satisfy those specified percentages. DTC may take conflicting actions with respect to other interests to the extent that those actions are taken on behalf of participants whose holdings include those interests.

Except as required by law, none of the Initial Purchasers, the servicer, ERCOT, the Trustee, us or any other party will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the certificates held by Cede & Co., as nominee for DTC, or for maintaining, supervising or reviewing any records relating to such beneficial interests.

How Bond Payments Will Be Credited by Clearstream and Euroclear

Payments with respect to bonds held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream customers or Euroclear participants in accordance with the applicable system's rules and operating procedures, to the extent received by its depository. Those payments will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Please read "Material U.S. Federal Income Tax Consequences" in this Offering Memorandum. Clearstream or the Euroclear operator, as the case may be, will take any other action permitted to be taken by a bondholder under the indenture on behalf of a Clearstream customer or Euroclear participant only in accordance with its applicable rules and operating procedures and subject to its depository's ability to effect those actions on its behalf through DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the Bonds among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform those procedures, and those procedures may be discontinued at any time.

Definitive Bonds

We will issue bonds in registered, certificated form to bondholders, or their nominees, rather than to DTC, only under the circumstances provided in the indenture, which will include: (1) us advising the Trustee in writing that DTC is no longer willing or able to properly discharge its responsibilities as nominee and depository with respect to the book-entry bonds and that we are unable to locate a qualified successor, (2) our electing to terminate the book-entry system through DTC, with written notice to the Trustee, or (3) after the occurrence of an event of default under the indenture, bondholders of bonds aggregating not less than a majority of the aggregate outstanding principal amount of the Bonds maintained as book-entry bonds advising us, the Trustee, and DTC in writing that the continuation of a book-entry system through DTC (or a successor) is no longer in the best interests of those bondholders. Upon issuance of definitive bonds, the Bonds evidenced by such definitive bonds will be transferable directly (and not exclusively on a book-entry basis) and registered bondholders will deal directly with the Trustee with respect to transfers, notices and payments.

Upon surrender by DTC of the definitive securities representing the Bonds and instructions for registration, the Issuing Entity will sign and the Trustee will authenticate and deliver the Bonds in the form of definitive bonds, and thereafter the Trustee will recognize the registered bondholders of the definitive bonds as bondholders under the indenture.

The Trustee will make payment of principal of and interest on the Bonds directly to bondholders in accordance with the procedures set forth herein and in the indenture. The Trustee will make interest payments and principal payments to bondholders in whose names the definitive bonds were registered at the close of business on the related record date. The Trustee will make payments by wire transfer to the bondholder as described in the indenture or in such other manner as may be provided in the series supplement. The Trustee will make the final payment on any bond (whether definitive bonds or notes registered in the name of Cede & Co.), however, only upon presentation and surrender of the bond on the final

payment date at the office or agency that is specified in the notice of final payment to bondholders. The Trustee will provide the notice to registered bondholders not later than the fifth (5th) day prior to the final payment date.

Definitive bonds will be transferable and exchangeable at the offices of the transfer agent and registrar, which initially will be the Trustee. There will be no service charge for any registration of transfer or exchange, but the transfer agent and registrar may require payment of a sum sufficient to cover any tax or other governmental charge imposed in connection therewith.

Access of Bondholders

Upon written request of any bondholder or group of bondholders of bonds evidencing not less than ten percent (10%) of the aggregate outstanding principal amount of the Bonds, the Trustee will afford the bondholder or bondholders making such request a copy of a current list of bondholders for purposes of communicating with other bondholders with respect to their rights under the indenture.

The indenture does not provide for any annual or other meetings of bondholders.

Reports to Bondholders

On or prior to each payment date, special payment date or any other date specified in the indenture for payments with respect to any tranche of Bonds, the servicer will deliver to the Trustee, and the Trustee will make available on its website (currently located at <https://pivot.usbank.com>), a statement prepared by the servicer with respect to the payment to be made on the payment date, special payment date or other date, as the case may be, setting forth the following information:

- the amount of the payment to bondholders allocable to (1) principal and (2) interest,
- the aggregate outstanding principal balance of the Bonds, before and after giving effect to any payments allocated to principal reported immediately above,
- the difference, if any, between the amount specified immediately above and the principal amount scheduled to be outstanding on that date according to the related expected amortization schedule,
- any other transfers and payments to be made on such payment date, including amounts paid to the Trustee and the servicer, and
- the amounts on deposit in the capital subaccount and the excess funds subaccount, after giving effect to the foregoing payments.

Unless and until Bonds are no longer issued in book-entry form, the reports will be provided to the depository for the Bonds, or its nominee, as sole owner of the Bonds. The reports will be available to bondholders upon written request to the Trustee or the servicer. Such reports will not constitute financial statements prepared in accordance with generally accepted accounting principles. The financial information provided to bondholders will not be examined and reported upon by an independent public accountant. In addition, an independent public accountant will not provide an opinion on the financial information.

Within the prescribed period of time for tax reporting purposes after the end of each calendar year during the term of the Bonds, the Trustee, so long as it is acting as paying agent and transfer agent and registrar for the Bonds, will, upon written request by us or any bondholder, mail to persons who at any time during the calendar year were bondholders and received any payment on the Bonds, a statement containing certain information for the purposes of the bondholder's preparation of United States federal and state income tax returns.

Website Disclosure

We will cause to be posted on the Trustee's website for investors, currently located at <https://Pivot.usbank.com> (or via such other website as may be designated by the Trustee for such purpose), the following (in the case of clause (h) and (i) to the extent such information is reasonably available to us):

- a. the Offering Memorandum for the Bonds,
- b. a statement of uplift charge remittances made to the Trustee,

- c. a statement reporting the balances in the collection account and in each subaccount of the collection account as of the end of each quarter or the most recent date available,
- d. a statement showing the balance of outstanding Bonds that reflects the actual periodic payments made on the Bonds during the applicable period,
- e. the semi-annual servicer's certificate delivered for the Bonds pursuant to the servicing agreement,
- f. the monthly servicer's certificate delivered for the Bonds pursuant to the servicing agreement,
- g. the text (or a link to the website where a reader can find the text) of each true-up filing in respect of the outstanding Bonds and the results of each such true-up filing,
- h. any change in the long-term or short-term credit ratings of the servicer assigned by the rating agencies,
- i. material legislative or regulatory developments directly relevant to the Bonds,
- j. any reports and other information that we are required to file under the securities laws of the United States, and
- k. a quarterly statement either affirming that, to the Issuing Entity's or the depositor's knowledge, as applicable, in all material respects, that each materially significant responsible QSE (A) has been billed in compliance with the requirements outlined in the debt obligation order, (B) has made payments in compliance with the requirements outlined in the debt obligation order and (C) each such responsible QSE has satisfied the responsible QSE Uplift Deposit requirements in accordance with the ERCOT Protocols, or if any of clauses (A), (B), or (C) have not occurred, such quarterly statements shall describe the servicer's actions.

Information contained on the Trustee's website or that can be accessed through the website is not incorporated into and does not constitute a part of this Offering Memorandum.

Conditions of Issuance of Additional Bonds

Our acquisition of uplift property created by an additional debt obligation order and legislation authorizing the issuance of Additional Bonds with respect thereto after the acquisition and issuance described in this Offering Memorandum is subject to the following conditions, among others, provided Additional Bonds may be issued to refund the Bonds without such compliance:

- ERCOT requests and receives an additional debt obligation order from the Commission;
- ERCOT must serve as initial servicer and administrator for such series of the Additional Bonds and the servicer and the administrator cannot be replaced without the requisite approval of the holders of the Bonds and all series of Additional Bonds then-outstanding;
- satisfaction of the Rating Agency Condition;
- each series of the Additional Bonds has recourse only to the uplift property created by the additional debt obligation order and funds on deposit in the trust accounts held by the indenture trustee with respect to that series, is nonrecourse to the uplift property securing the Bonds and does not constitute a claim against us if revenue from the uplift charges and funds on deposit in the trust accounts with respect to that series are insufficient to pay such other series in full;
- we have provided to the Trustee and the rating agencies then rating the Bonds or any Additional Bonds an opinion of a nationally recognized law firm experienced in such matters to the effect that such issuance would not result in our substantive consolidation with ERCOT and that there has been a true sale of the uplift property for such series, subject to the customary exceptions, qualifications and assumptions contained therein;
- transaction documentation for the other series provides that the indenture trustee on behalf of holders of the bonds of the other series will not file or join in filing of any bankruptcy petition against us;
- if holders of such other series are deemed to have any interest in any of the collateral dedicated to the Bonds, holders of such Additional Bonds must agree that their interest in the collateral dedicated to their bonds is subordinate to claims or rights of holders of the Bonds in accordance with the related intercreditor agreement;

- each series of Additional Bonds under any separate indenture will have a separate collection account;
- no series of Additional Bonds will be issued under the indenture governing the Bonds offered hereby; and
- each series will bear its own indenture trustee fees, servicer fees and administration fees.

The acquisition by any issuing entity (other than us) of uplift property created by an additional debt obligation order and issuance of Additional Bonds with respect thereto after the acquisition and issuance described in this Offering Memorandum is subject to our satisfaction of the Rating Agency Condition.

In addition, ERCOT has covenanted under the sale agreement that the execution of an intercreditor agreement or a joinder of the relevant parties to the Intercreditor Agreement relating to the Bonds and the Texas Stabilization M Bonds is a condition precedent to the sale of property by ERCOT consisting of nonbypassable charges payable by customers comparable to the uplift property sold by ERCOT pursuant to the sale agreement. Please read "Security for the Bonds—Issuance of Additional Bonds," "Relationship to the Texas Stabilization M Bonds, Series 2021—Intercreditor Agreement" and "The Sale Agreement—Covenants of the Seller" in this Offering Memorandum.

Allocation as Between Series of Bonds

Although each series of Additional Bonds, whether issued by us or another issuing entity, will have its own uplift property reflecting the right in and to a separate uplift charge, uplift charges relating to the Bonds and uplift charges relating to any Additional Bonds will be collected through single invoices to responsible QSEs, and all uplift charges might be combined into a single line item on those invoices. In the event a responsible QSE does not pay in full all amounts owed under any invoice, including uplift charges owing in respect of the Bonds and each series of Additional Bonds and the Texas Stabilization M Bonds the servicer is required to allocate any resulting shortfalls in uplift charges ratably based on the amount of uplift charges owing in respect of each such series of bonds. Please read "The Servicing Agreement—Remittances to Collection Account" in this Offering Memorandum.

We and the Trustee May Modify the Indenture

Modifications of the Indenture that do not Require Consent of Bondholders

From time to time, and without the consent of the bondholders (but with prior notice to the rating agencies and, in certain instances, with the consent or deemed consent of the Commission and when authorized by an issuer order), we may enter into one or more agreements supplemental to the indenture for various purposes described in the indenture, including:

- to correct or amplify the description of any property including, without limitation, the collateral subject to the indenture, or to better convey, assure and confirm to the Trustee the property subject to the indenture, or to add additional property,
- to add to the covenants for the benefit of the bondholders and the Trustee, or surrender any right or power conferred to us with the indenture,
- to convey, transfer, assign, mortgage or pledge any property to or with the Trustee,
- to cure any ambiguity or mistake or correct or supplement any provision in the indenture or in any supplemental indenture which may be inconsistent with any other provision in the indenture or in any supplemental indenture or to make any other provisions with respect to matters or questions arising under the indenture or in any supplemental indenture, provided however, that (i) such action will not, as evidenced by an opinion of counsel, adversely affect in any material respect the interests of the bondholders and (ii) the Rating Agency Condition shall have been satisfied with respect thereto,
- to evidence and provide for the acceptance of the appointment under the indenture of a successor trustee with respect to the Bonds and to add or change any of the provisions of the indenture as shall be necessary to facilitate the administration of the trusts thereunder by more than one trustee,
- to evidence the final terms of the Bonds in the Series Supplement,
- to evidence the succession of another person to us in accordance with the terms of the indenture and the assumption by any such successor of the covenants in the indenture and in the Bonds,

- to qualify the Bonds for registration with a clearing agency,
- to satisfy any rating agency requirements,
- to make any amendment to the indenture or the Bonds relating to the transfer and lending of the Bonds to comply with applicable securities laws,
- to conform the text of the indenture or the Bonds to any provision of this Offering Memorandum with respect to the issuance of the Bonds to the extent that such provision was intended to be a verbatim recitation of a provision of the indenture or the Bonds.

We may also, without the consent of the bondholders, enter into one or more other agreements supplemental to the indenture so long as (i) the supplemental agreement does not, as evidenced by an opinion of counsel experienced in structured finance transactions, adversely affect the interests of any bondholders of bonds then outstanding in any material respect, (ii) the Rating Agency Condition shall have been satisfied with respect thereto, and (iii) with respect to any amendment that would increase ongoing costs, we have obtained the consent or deemed consent of the Commission.

Modifications of the Indenture that Require the Approval of Bondholders.

We may, with the consent of bondholders holding not less than a majority of the aggregate outstanding principal amount of the Bonds (and with prior notice to the rating agencies and with the consent or deemed consent of the Commission if such supplemental indenture will increase ongoing costs), enter into one or more indentures supplemental to the indenture for the purpose of, among other things, adding any provisions to or changing in any manner or eliminating any of the provisions of the indenture. In determining whether a majority of bondholders have consented, bonds owned by us, ERCOT or any affiliate of us shall be disregarded, except that, in determining whether the Trustee shall be protected in relying upon any such consent, the Trustee shall only be required to disregard any bonds that a responsible officer of the Trustee actually knows to be so owned. No supplement, however, may, without the consent of each bondholder of each tranche affected thereby, take certain actions enumerated in the indenture, including:

- change the date of payment of any installment of principal of or premium, if any, or interest on any bond of such tranche, or reduce in any manner the principal amount thereof, the interest rate thereon or the premium, if any, with respect thereto,
- change the provisions of the indenture and any applicable supplemental indenture relating to the application of collections on, or the proceeds of the sale of, the collateral to payment of principal of or premium, if any, or interest on the Bonds or tranche, or change the coin or currency in which any bond or any interest thereon is payable,
- impair the right to institute suit for the enforcement of those provisions of the indenture specified therein regarding payment or application of funds,
- reduce the percentage of the aggregate amount of the outstanding bonds, or of a tranche thereof, the consent of the bondholders of which is required for any supplemental indenture, or the consent of the bondholders of which is required for any waiver of compliance with those provisions of the indenture specified therein or of defaults specified therein and their consequences provided for in the indenture or modify certain aspects of the definition of the term "outstanding,"
- reduce the percentage of the outstanding amount of the Bonds or tranche the bondholders of which are required to consent to direct the Trustee to sell or liquidate the collateral,
- modify any of the provisions of the indenture in a manner so as to affect the amount of any payment of interest, principal or premium, if any, payable on any bond of such tranche on any payment date or change the expected amortization schedules or final maturity dates of any bonds of such tranche,
- decrease the required capital amount,
- permit the creation of any lien ranking prior to or on a parity with the lien of the indenture with respect to any of the collateral for the Bonds or tranche or, except as otherwise permitted or contemplated in the indenture, terminate the lien of the indenture on any property at any time subject thereto or deprive the bondholder of any bond of the security provided by the lien of the indenture, or
- cause any material adverse federal income tax consequence to the seller, the Issuing Entity, the manager, the Trustee or the beneficial owners of the Bonds.

Promptly following the execution of any supplement to the indenture requiring the approval of the bondholders, we will furnish either a copy of such supplement or written notice of the substance of the supplement to each bondholder, and a copy of such supplement to each rating agency.

Notification of the rating agencies, the Commission, the Trustee and the Bondholders of Any Modification

If we, ERCOT, the servicer, or any other party to the applicable agreement:

- proposes to amend, modify, waive, supplement, terminate or surrender, or agree to any other amendment, modification, waiver, supplement, termination or surrender of, the terms of the indenture, sale agreement, administration agreement, or the servicing agreement, or
- waives timely performance or observance by ERCOT or the servicer under the sale agreement, the intercreditor agreement or the servicing agreement,

in each case in a way which would materially and adversely affect the interests of bondholders, we must first notify the rating agencies of the proposed amendment and satisfy the Rating Agency Condition. Upon satisfaction of the Rating Agency Condition, we must thereafter notify the Trustee and the Commission in writing, and the Trustee will be required to notify the bondholders of the proposed amendment and whether the Rating Agency Condition has been satisfied with respect thereto. The Trustee will consent to this proposed amendment, modification, supplement or waiver only with the written consent of the bondholders of a majority of the outstanding principal amount of the Bonds of the tranches materially and adversely affected thereby. In determining whether a majority of bondholders have consented, bonds owned by us, ERCOT or any affiliate of us shall be disregarded, except that, in determining whether the Trustee shall be protected in relying upon any such consent, the Trustee shall only be required to disregard any bonds that a responsible officer of the Trustee actually knows to be so owned.

Modifications to Sale Agreement, the Administration Agreement, the Intercreditor Agreement and the Servicing Agreement

With the prior written consent of the Trustee, the sale agreement, the administration agreement, the intercreditor agreement and the servicing agreement may be amended, so long as the Rating Agency Condition is satisfied in connection therewith, at any time and from time to time, without the consent of the bondholders but, with respect to amendments that would increase ongoing costs as defined in the debt obligation order, with the consent or deemed consent of the Commission (other than with respect to the intercreditor agreement). However, any such amendment may not adversely affect the interest of any bondholder in any material respect without the consent of the bondholders of a majority of the outstanding principal amount of the Bonds. In determining whether a majority of bondholders have consented, bonds owned by us, ERCOT or any affiliate of us shall be disregarded, except that, in determining whether the Trustee shall be protected in relying upon any such consent, the Trustee shall only be required to disregard any bonds that a responsible officer of the Trustee actually knows to be so owned. The parties to the servicing agreement acknowledge that the debt obligation order provides that the Commission, acting through its authorized legal representative and for the benefit of Texas ratepayers, may enforce the servicer's obligations imposed under the servicing agreement pursuant to the debt obligation order to the extent permitted by law.

In addition, the sale agreement, the administration agreement and the servicing agreement may be amended with ten (10) business days' prior written notice given to the rating agencies, the prior written consent of the Trustee (other than with respect to the sale agreement and the administration agreement, and which consent shall be given in reliance on an opinion of counsel and an officer's certificate stating that such amendment is permitted or authorized under and adopted in accordance with the provisions of the applicable agreement and that all conditions precedent have been satisfied, upon which the Trustee may conclusively rely) and, if the contemplated amendment may in the judgment of the Commission increase ongoing costs, the consent of the Commission, but without the consent of the bondholders, (i) to cure any ambiguity, to correct or supplement any provisions in the applicable agreement or for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions in such agreement or of modifying in any manner the rights of the bondholders; provided, however, that such action shall not, as evidenced by an officer's certificate delivered to the Issuing Entity and the Trustee, adversely affect in any material respect the interests of any bondholder or (ii) to conform the provisions of the applicable agreement to the description of such agreement in this Offering Memorandum. Promptly after the execution of any such amendment or consent, the Issuing Entity shall furnish copies of such amendment or consent to each of the rating agencies.

Enforcement of the Sale Agreement, the Administration Agreement, the Intercreditor Agreement and the Servicing Agreement

The indenture provides that we will take all lawful actions to enforce our rights under the sale agreement, the administration agreement, the intercreditor agreement and the servicing agreement; provided that such action shall not adversely affect the interests of bondholders in any material respect. The indenture also provides that we will take all lawful actions to compel or secure the performance and observance by ERCOT, the administrator and the servicer of their respective obligations to us under or in connection with the sale agreement, the administration agreement, the intercreditor agreement and the servicing agreement. So long as no event of default occurs and is continuing, we may exercise any and all rights, remedies, powers and privileges lawfully available to us under or in connection with the sale agreement, the administration agreement, the intercreditor agreement and the servicing agreement. However, if we or the servicer propose to amend, modify, waive, supplement, terminate or surrender in any material respect, or agree to any material amendment, modification, supplement, termination, waiver or surrender of, the process for adjusting the uplift charges, we must notify the Trustee and the Commission in writing and the Trustee must notify the bondholders of this proposal. In addition, the Trustee may consent to this proposal only with the written consent of the bondholders of a majority of the principal amount of the outstanding bonds of the tranches materially and adversely affected thereby and only if the Rating Agency Condition is satisfied. In determining whether a majority of bondholders have consented, bonds owned by us, ERCOT or any affiliate of us shall be disregarded, except that, in determining whether the Trustee shall be protected in relying upon any such consent, the Trustee shall only be required to disregard any bonds that a responsible officer of the Trustee actually knows to be so owned. In addition, any proposed amendment of the indenture, the sale agreement or the servicing agreement that would increase ongoing costs as defined in the debt obligation order requires the prior written consent or deemed consent of the Commission.

If an event of default occurs and is continuing, the Trustee may, and, at the written direction of the bondholders of a majority of the outstanding amount of all affected tranches of bonds, will, exercise all of our rights, remedies, powers, privileges and claims against ERCOT, the seller, the administrator and servicer, under or in connection with the sale agreement, administration agreements, intercreditor agreements and servicing agreement, and any right of ours to take this action shall be suspended.

Procedure for Obtaining Consent or Deemed Consent of the Commission

To the extent the consent of the Commission is required to effect any amendment, modification or supplemental indenture of the indenture or any other of the basic documents, the indenture sets forth procedures whereby we may request such consent and the Commission shall, within thirty (30) days of receiving such a request, either (i) provide notice of its consent or lack of consent, or (ii) be conclusively deemed to have consented to the proposed amendment, modification or supplemental indenture, unless, within such thirty (30) day period, the Commission delivers to us a written statement requesting an additional amount of time, not to exceed thirty (30) days, in which to consider whether to consent to the proposed amendment, modification or supplemental indenture. If the Commission requests an extension of time as described above, the Commission shall either (i) provide notice of its consent or lack of consent no later than the last day of such extended period of time or (ii) be conclusively deemed to have consented to the proposed amendment, modification or supplemental indenture on the last day of such extended period of time.

Our Covenants

We may not consolidate with or merge into any other entity, unless:

- the entity formed by or surviving the consolidation or merger is organized under the laws of the United States or any state;
- the entity expressly assumes, by a supplemental indenture, the performance or observance of all of our agreements and covenants under the indenture and the series supplement;
- the entity expressly assumes all of our obligations and succeeds to all of our rights under the sale agreement, servicing agreement and any other basic document to which we are a party;
- no default, event of default or servicer default under the indenture has occurred and is continuing immediately after the merger or consolidation;
- the Rating Agency Condition will have been satisfied with respect to the merger or consolidation;

- we have delivered to ERCOT, the Trustee and the rating agencies an opinion or opinions of outside tax counsel (as selected by us, in form and substance reasonably satisfactory to ERCOT and the Trustee, and which may be based on a ruling from the IRS) to the effect that the consolidation or merger will not result in a material adverse federal or state income tax consequence to us, ERCOT, the Trustee or the then existing bondholders;
- any action as is necessary to maintain the lien and the first priority perfected security interest in the collateral created by the indenture and the series supplement has been taken, as evidenced by an opinion of counsel of external counsel; and
- we have delivered to the Trustee an officer's certificate and an opinion of counsel of external counsel, each stating that all conditions precedent in the indenture provided for relating to the transaction have been complied with.

We may not sell, convey, exchange, transfer or otherwise dispose of any of our properties or assets included in the collateral to any person or entity, unless the person or entity acquiring the properties and assets:

- is a United States citizen or an entity organized under the laws of the United States or any state,
- expressly assumes, by a supplemental indenture, the performance or observance of all of our agreements and covenants under the indenture and the series supplement,
- expressly agrees by the supplemental indenture that all right, title and interest so conveyed or transferred will be subject and subordinate to the rights of bondholders,
- unless otherwise specified in the supplemental indenture referred to above, expressly agrees to indemnify, defend and hold us and the Trustee harmless against and from any loss, liability or expense arising under or related to the indenture, the series supplement and the Bonds (including the enforcement cost of such indemnity),
- expressly agrees by means of the supplemental indenture that the person (or if a group of persons, then one specified person) will make all filings with the Trustee (and any other appropriate person) required by the indenture in connection with the Bonds; and
- if such sale, conveyance, exchange, transfer or disposal relates to our rights and obligations under the sale agreement or the servicing agreement, such person or entity assumes all obligations and succeeds to all of our rights under the sale agreement and the servicing agreement, as applicable;
- no default, event of default or servicer default under the indenture has occurred and is continuing immediately after the transactions;
- the Rating Agency Condition has been satisfied with respect to such transaction;
- we have delivered to ERCOT, the Trustee and the rating agencies an opinion or opinions of outside tax counsel (as selected by us, in form and substance reasonably satisfactory to ERCOT and the Trustee, and which may be based on a ruling from the IRS) to the effect that the disposition will not result in a material adverse federal or state income tax consequence to us, ERCOT, the Trustee or the then existing bondholders;
- any action as is necessary to maintain the lien and the first priority perfected security interest in the collateral created by the indenture and the series supplement has been taken as evidenced by an opinion of counsel of external counsel; and
- we have delivered to the Trustee an officer's certificate and an opinion of counsel of external counsel, each stating that the conveyance or transfer complies with the indenture and the series supplement and all conditions precedent therein provided for relating to the transaction have been complied with.

We will not, among other things, for so long as any bonds are outstanding:

- except as expressly permitted by the indenture, sell, transfer, exchange or otherwise dispose of any of our assets unless directed to do so by the Trustee;
- claim any credit on, or make any deduction from the principal or premium, if any, or interest payable in respect of, the Bonds (other than amounts properly withheld from such payments under the Internal Revenue Code or other tax laws) or assert any claim against any present or former bondholder by reason of the payment of the taxes levied or assessed upon any part of the collateral;

- terminate our existence, or dissolve or liquidate in whole or in part, except as permitted above,
- permit the validity or effectiveness of the indenture or the series supplement to be impaired;
- permit the lien of the indenture and the series supplement to be amended, hypothecated, subordinated, terminated or discharged or permit any person to be released from any covenants or obligations with respect to the Bonds except as may be expressly permitted by the indenture;
- permit any lien, charge, claim, security interest, mortgage, pledge, equity or other encumbrance, other than the lien and security interest granted under the indenture or the series supplement, to be created on or extend to or otherwise arise upon or burden the collateral or any part thereof or any interest therein or the proceeds thereof (other than tax liens arising by operation of law with respect to amounts not yet due);
- permit the lien granted under the indenture or the series supplement not to constitute a valid first priority perfected security interest in the related collateral;
- enter into any swap, hedge or similar financial arrangement;
- elect to be classified as an association taxable as a corporation for federal tax purposes, file any tax return, make any election or take any other action inconsistent with our treatment, for federal income tax purposes and, to the extent consistent with applicable state tax law, state income and franchise tax purposes, as a disregarded entity that is not separate from our sole member;
- change our name, identity or structure or the location of our chief executive office, unless at least ten (10) business days prior to the effective date of any such change, we deliver to the Trustee (with copies to each rating agency) such documents, instruments or agreements, executed by us, as are necessary to reflect such change and to continue the perfection of the security interest of the indenture or the series supplement;
- take any action which is subject to the Rating Agency Condition if such action would result in a downgrade, suspension or withdrawal of the then-current ratings assigned to the Bonds; or
- issue any bonds under PURA or any similar law (other than the Bonds offered hereby) and Additional Bonds as described under "Description of Texas Stabilization Subchapter N Bonds--Condition of Issuance of Additional Bonds" in this Offering Memorandum.

We may not engage in any business other than financing, purchasing, owning and managing the uplift property and the other collateral and the issuance of the Bonds in the manner contemplated by the debt obligation order and the basic documents, or certain related activities incidental thereto.

We will not issue, incur, assume, guarantee or otherwise become liable for any indebtedness except for the Bonds. Also, we will not, except as contemplated by the Bonds and the basic documents, make any loan or advance or credit to, or guarantee, endorse or otherwise become contingently liable in connection with the obligations, stocks or dividends of, or own, purchase, repurchase or acquire (or agree contingently to do so) any stock, obligations, assets or securities of, or any other interest in, or make any capital contribution to, any other person. We will not, except for the acquisition of uplift property as contemplated by the Bonds and the basic documents, make any expenditure (by long-term or operating lease or otherwise) for capital assets (either realty or personalty).

We will not make any payments, distributions, dividends or redemptions to any bondholder of our equity interests in respect of that interest except in accordance with the indenture.

We will cause the servicer to deliver to the Trustee the annual accountant's certificates, compliance certificates, reports regarding distributions and statements to bondholders required by the servicing agreement.

Events of Default; Rights Upon Event of Default

An "event of default" with respect to the Bonds is defined in the indenture as any one of the following events:

- a default for five (5) business days in the payment of any interest on any bond (whether such failure to pay interest is caused by a shortfall in uplift charges received or otherwise),
- a default in the payment of the then unpaid principal of any bond of any tranche on the final maturity date for that tranche,

- a default in the observance or performance of any of our covenants or agreements made in the indenture (other than defaults described above) and the continuation of any default for a period of thirty (30) days after the earlier of (i) the date that written notice of the default is given to us by the Trustee or to us and the Trustee by the bondholders of at least twenty-five percent (25%) in principal amount of the Bonds then outstanding or (ii) the date that we had actual knowledge of the default,
- any representation or warranty made by us in the indenture or in any certificate delivered pursuant to the indenture or in connection with the indenture having been incorrect in any material respect as of the time made, and such breach not having been cured within thirty (30) days after the earlier of (i) the date that notice of the breach is given to us by the Trustee or to us and the Trustee by the bondholders of at least twenty-five percent (25%) in principal amount of the Bonds then outstanding or (ii) the date that we had actual knowledge of the default,
- certain events of bankruptcy, insolvency, receivership or liquidation, or
- a breach by the state of Texas or any of its agencies (including the Commission), officers or employers that violates or is not in accordance with the state's pledge.

If an event of default (other than a breach of the State Pledge by the state of Texas) should occur and be continuing with respect to the Bonds, the Trustee or bondholders of not less than a majority in principal amount of the Bonds then outstanding may declare the unpaid principal of the Bonds and all accrued and unpaid interest thereon to be immediately due and payable. However, the nature of our business will result in payment of principal upon an acceleration of the Bonds being made as funds become available. Please read "Risk Factors—Risks Associated with the Unusual Nature of the Uplift Property—Foreclosure of the Trustee's lien on the uplift property for the Bonds might not be practical, and acceleration of the Bonds before maturity might have little practical effect" and "Risk Factors—You may experience material payment delays or incur a loss on your investment in the Bonds because the source of funds for payment is limited." The bondholders of a majority in principal amount of the Bonds may rescind that declaration under certain circumstances set forth in the indenture. Additionally, the Trustee may exercise all of our rights, remedies, powers, privileges and claims against the seller or the servicer under or in connection with the sale agreement, the servicing agreement and the administration agreement. If an event of default as specified in the sixth bullet above has occurred, the servicer will be obligated to institute (and the Trustee, for the benefit of the bondholders, will be entitled and empowered to institute) any suits, actions or proceedings at law, in equity or otherwise, to enforce the State's pledge and to collect any monetary damages as a result of a breach thereof, and each of the servicer and the Trustee may prosecute any suit, action or proceeding to final judgment or decree. The servicer will be required to advance its own funds in order to bring any suits, actions or proceedings and, for so long as the legal actions were pending, the servicer will be required, unless otherwise prohibited by applicable law or court or regulatory order in effect at that time, to invoice and collect the uplift charges, perform adjustments and discharge its obligations under the servicing agreement. The costs of any such action would be payable by the seller pursuant to the sale agreement. Except for an event of default specified in the first two bullet points above, the Trustee will not be deemed to have knowledge of any event of default or a breach of representation or warranty unless a responsible officer of the Trustee has actual knowledge of the default or the Trustee has received written notice of the default in accordance with the indenture.

If the Bonds have been declared to be due and payable following an event of default, the Trustee may elect to have us maintain possession of all or a portion of such uplift property and continue to apply uplift charge collections as if there had been no declaration of acceleration. There is likely to be a limited market, if any, for the uplift property following a foreclosure, in light of the event of default, the unique nature of the uplift property as an asset and other factors discussed in this Offering Memorandum. In addition, the Trustee is prohibited from selling the uplift property following an event of default, other than a default in the payment of any principal or a default for five (5) business days or more in the payment of any interest on any bond, which requires the direction of bondholders of a majority in principal amount of the Bonds, unless:

- the bondholders of all the outstanding bonds consent to the sale,
- the proceeds of the sale are sufficient to pay in full the principal of and the accrued interest on the outstanding bonds, or
- the Trustee determines that the proceeds of the collateral would not be sufficient on an ongoing basis to make all payments on the Bonds as those payments would have become due if the Bonds had not been declared due and payable, and the Trustee obtains the written consent of the bondholders of 66 2/3% of the aggregate outstanding amount of the Bonds.

Subject to the provisions of the indenture relating to the duties of the Trustee, if an event of default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Bonds at the request or direction of any of the bondholders of bonds if the Trustee reasonably believes it will not be adequately indemnified against

the costs, expenses and liabilities which might be incurred by it in complying with the request. Subject to the provisions for indemnification and certain limitations contained in the indenture:

- the bondholders of not less than a majority in principal amount of the outstanding bonds of an affected tranche will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee and,
- the bondholders of not less than a majority in principal amount of the Bonds may, in certain cases, waive any default with respect thereto, except a default in the payment of principal or interest or a default in respect of a covenant or provision of the indenture that cannot be modified without the consent of all of the bondholders of the outstanding bonds of all tranches affected thereby.

No bondholder of any bond will have the right to institute any proceeding, to avail itself of any remedies provided in PURA or of the right to foreclose on the collateral, or otherwise to enforce the lien and security interest on the collateral or to seek the appointment of a receiver or trustee, or for any other remedy under the indenture, unless:

- the bondholder previously has given to the Trustee written notice of a continuing event of default,
- the bondholders of not less than a majority in principal amount of the outstanding bonds have made written request of the Trustee to institute the proceeding in its own name as Trustee,
- the bondholder or bondholders have offered the Trustee satisfactory indemnity,
- the Trustee has for sixty (60) days failed to institute the proceeding, and
- no direction inconsistent with the written request has been given to the Trustee during the sixty (60) day period by the bondholders of a majority in principal amount of the outstanding bonds,

it being understood that the Trustee does not have an affirmative duty to ascertain whether or not any such action by a bondholder affects, disturbs, or prejudices the rights of any other bondholders or obtains or seeks to obtain priority or preference over another bondholder.

In addition, the Trustee and the servicer will covenant and each bondholder will be deemed to covenant that it will not, prior to the date which is one (1) year and one (1) day after the termination of the indenture, institute against us or against our managers or our member or members any bankruptcy, reorganization or other proceeding under any federal or state bankruptcy or similar law, subject to the right of a Travis county, Texas district court to order sequestration and payment of revenues arising with respect to the uplift property.

Neither any manager nor the Trustee in its individual capacity, nor any bondholder of any ownership interest in us, nor any of their respective owners, beneficiaries, agents, officers, directors, employees, successors or assigns will, in the absence of an express agreement to the contrary, be personally liable for the payment of the principal of or interest on the Bonds or for our agreements contained in the indenture.

Actions by Bondholders

Subject to certain exceptions, the bondholders of not less than a majority of the aggregate outstanding amount of the Bonds of the affected tranche or tranches will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, of exercising any trust or power conferred on the Trustee under the indenture; provided that:

- the direction is not in conflict with any rule of law or with the indenture and would not involve the Trustee in personal liability or expense;
- subject to the other conditions described above under "Events of Default; Rights Upon Event of Default", the consent of one-hundred percent (100%) of the bondholders is required to direct the Trustee to sell the collateral (other than event of default for failure to pay interest or principal at maturity);
- if the Trustee elects to retain the collateral in accordance with the indenture, then any direction to the Trustee by less than one-hundred percent (100%) of the bondholders will be of no force and effect; and
- the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with the direction.

In circumstances under which the Trustee is required to seek instructions from the bondholders of the Bonds of any tranche with respect to any action or vote, the Trustee will take the action or vote for or against any proposal in proportion to the principal amount of the corresponding tranche, as applicable, of bonds taking the corresponding position. Notwithstanding the foregoing, the indenture allows each bondholder to institute suit for the nonpayment of (1) the interest, if any, on its bonds which remains unpaid as of the applicable due date and (2) the unpaid principal, if any, of its bonds on the final maturity date therefor.

Annual Compliance Statement

We will file annually with the Trustee and the rating agencies a written statement as to whether we have fulfilled our obligations under the indenture.

Satisfaction and Discharge of Indenture

The indenture will cease to be of further effect with respect to the Bonds and the Trustee, on our written demand and at our expense, will execute instruments acknowledging satisfaction and discharge of the indenture with respect to the Bonds, when:

- either (a) all bonds which have already been authenticated or delivered, with certain exceptions set forth in the indenture, have been delivered to the Trustee for cancellation or (b) either (i) the scheduled final payment date has occurred with respect to all bonds not previously delivered to the Trustee for cancellation or (ii) we have irrevocably deposited in trust with the Trustee cash and/or U.S. government obligations in an aggregate amount sufficient to pay principal, interest and premiums, if any, on the Bonds and all other sums payable by us with respect to the Bonds when scheduled to be paid and to discharge the entire indebtedness on such bonds when due,
- we have paid all other sums payable by us under the indenture with respect to the Bonds, and
- we have delivered to the Trustee an officer's certificate, an opinion of external counsel, and if required by the Trust Indenture Act or the Trustee, a certificate from a firm of independent certified public accountants, each stating that there has been compliance with the conditions precedent in the indenture relating to the satisfaction and discharge of the indenture.

Our Legal and Covenant Defeasance Options

We may, at any time, terminate all of our obligations under the indenture, referred to herein as the legal defeasance option, or terminate our obligations to comply with some of the covenants in the indenture, including some of the covenants described under "—Our Covenants," referred to herein as our covenant defeasance option.

We may exercise the legal defeasance option of the Bonds notwithstanding our prior exercise of the covenant defeasance option. If we exercise the legal defeasance option, the Bonds will be entitled to payment only from the funds or other obligations set aside under the indenture for payment thereof on the scheduled final payment date or redemption date therefor as described below. The Bonds will not be subject to payment through redemption or acceleration prior to the scheduled final payment date or redemption date, as applicable. If we exercise the legal defeasance option, the final payment of the Bonds may not be accelerated because of an event of default. If we exercise the covenant defeasance option, the final payment of the Bonds may not be accelerated because of an event of default relating to a default in the observance or performance of any of our covenants or agreements made in the indenture.

The indenture provides that we may exercise our legal defeasance option or our covenant defeasance option of bonds only if:

- we irrevocably deposit or cause to be irrevocably deposited in trust with the Trustee cash and/or U.S. government obligations in an aggregate amount sufficient to pay principal, interest and premium, if any, on the Bonds other sums payable by us under the indenture with respect to the Bonds when scheduled to be paid and to discharge the entire indebtedness on the Bonds when due,
- we deliver to the Trustee a certificate from a nationally recognized firm of independent certified public accountants expressing its opinion that the payments of principal and interest on the U.S. government obligations when due and without reinvestment plus any deposited cash will provide cash at times and in sufficient amounts to pay in respect of the Bonds:
- principal in accordance with the expected amortization schedule therefor,

- interest when due, and
- all other sums payable by us under the indenture with respect to the Bonds,
- in the case of the legal defeasance option, ninety-five (95) days pass after the deposit is made and during the ninety-five (95) day period no default relating to events of our bankruptcy, insolvency, receivership or liquidation occurs and is continuing at the end of the period,
- no default has occurred and is continuing on the day of this deposit and after giving effect thereto,
- in the case of the legal defeasance option, we deliver to the Trustee an opinion of external counsel stating that: we have received from, or there has been published by, the IRS a ruling, or since the date of execution of the indenture, there has been a change in the applicable federal income tax law, and in either case confirming that the bondholders of the Bonds will not recognize income, gain or loss for federal income tax purposes as a result of the exercise of the legal defeasance option and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the legal defeasance had not occurred,
- in the case of the covenant defeasance option, we deliver to the Trustee an opinion of external counsel to the effect that the bondholders of the Bonds will not recognize income, gain or loss for federal income tax purposes as a result of the exercise of the covenant defeasance option and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the covenant defeasance had not occurred,
- we deliver to the Trustee a certificate of one of our officers and an opinion of external counsel, each stating that all conditions precedent to the legal defeasance option or the covenant defeasance option, as applicable, have been complied with as required by the indenture,
- we deliver to the Trustee an opinion of external counsel to the effect that (a) in a case under the Bankruptcy Code in which ERCOT (or any of its affiliates, other than us) is the debtor, the court would hold that the deposited cash or U.S. government obligations would not be in the bankruptcy estate of ERCOT (or any of its affiliates, other than us, that deposited the cash or U.S. government obligations); and (b) in the event ERCOT (or any of its affiliates, other than us, that deposited the cash or U.S. government obligations), were to be a debtor in a case under the Bankruptcy Code, the court would not disregard the separate legal existence of ERCOT (or any of its affiliates, other than us, that deposited the cash or U.S. government obligations) and us so as to order substantive consolidation under the Bankruptcy Code of our assets and liabilities with the assets and liabilities of ERCOT or such other affiliate, and
- the Rating Agency Condition has been satisfied with respect to the exercise of any legal defeasance option or covenant defeasance option.

No Recourse to Others

No recourse may be taken directly or indirectly, by the bondholders with respect to our obligations on the Bonds, under the indenture or any supplement thereto or any certificate or other writing delivered in connection therewith, against (1) any owner of a beneficial interest in us (including ERCOT) or (2) any shareholder, partner, owner, beneficiary, agent, officer, director or employee of the Trustee, the managers or any owner of a beneficial interest in us (including ERCOT) in its individual capacity, or of any successor or assign or any of them in their respective individual or corporate capacities, except as any such person may have expressly agreed in writing. Each bondholder by accepting a bond specifically confirms the nonrecourse nature of these obligations, and waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Bonds.

Notwithstanding any provision of the indenture or the series supplement to the contrary, bondholders shall look only to the bond collateral with respect to any amounts due to the bondholders under the indenture and the Bonds, and, in the event such collateral is insufficient to pay in full the amounts owed on the Bonds, shall have no recourse against us in respect of such insufficiency. Each bondholder by accepting a bond specifically confirms the nonrecourse nature of these obligations, and waives and releases all such liability. The waiver and release are part of consideration for issuance of bonds.

THE TRUSTEE

U.S. Bank Trust Company, National Association, or U.S. Bank Trust Co., will act as Trustee.

U.S. Bank National Association, or U.S. Bank N.A., made a strategic decision to reposition its corporate trust business by transferring substantially all of its corporate trust business to its affiliate, U.S. Bank Trust Co., a non-depository trust company (U.S. Bank N.A. and U.S. Bank Trust Co. are collectively referred to herein as U.S. Bank). Upon U.S. Bank Trust Co.'s succession to the business of U.S. Bank N.A., it became a wholly owned subsidiary of U.S. Bank N.A. The Trustee will maintain the accounts of the Issuing Entity in the name of the Trustee at U.S. Bank N.A.

U.S. Bancorp, with total assets exceeding \$587 billion as of March 31, 2022, is the parent company of U.S. Bank N.A., the fifth largest commercial bank in the United States. As of March 31, 2022, U.S. Bancorp operated over 2,200 branch offices in 26 states. A network of specialized U.S. Bancorp offices across the nation provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses, and institutions.

U.S. Bank has one of the largest corporate trust businesses in the country with office locations in 48 domestic and two international cities. The indenture will be administered from U.S. Bank's corporate trust office located at 190 S. LaSalle Street, 7th Floor, Chicago, IL 60603.

U.S. Bank has provided corporate trust services since 1924. As of March 31, 2022, U.S. Bank was acting as trustee with respect to over 120,000 issuances of securities with an aggregate outstanding principal balance of over \$5.5 trillion. This portfolio includes corporate and municipal bonds, mortgage-backed and asset-backed securities and collateralized debt obligations.

The Trustee shall make each monthly statement available to the bondholders via the Trustee's internet website at <https://pivot.usbank.com>. Bondholders with questions may direct them to the Trustee's bondholder services group at (800) 934-6802.

U.S. Bank serves or has served as trustee, paying agent and registrar on several issues of rate-payer backed securities.

U.S. Bank N.A. and other large financial institutions have been sued in their capacity as trustee or successor trustee for certain residential mortgage backed securities ("RMBS") trusts. The complaints, primarily filed by investors or investor groups against U.S. Bank N.A. and similar institutions, allege the trustees caused losses to investors as a result of alleged failures by the sponsors, mortgage loan sellers and servicers to comply with the governing agreements for these RMBS trusts. Plaintiffs generally assert causes of action based upon the trustees' purported failures to enforce repurchase obligations of mortgage loan sellers for alleged breaches of representations and warranties, notify securityholders of purported events of default allegedly caused by breaches of servicing standards by mortgage loan servicers and abide by a heightened standard of care following alleged events of default.

U.S. Bank N.A. denies liability and believes that it has performed its obligations under the RMBS trusts in good faith, that its actions were not the cause of losses to investors, that it has meritorious defenses, and it has contested and intends to continue contesting the plaintiffs' claims vigorously. However, U.S. Bank N.A. cannot assure you as to the outcome of any of the litigation, or the possible impact of these litigations on the Trustee or the RMBS trusts.

On March 9, 2018, a law firm purporting to represent fifteen Delaware statutory trusts, or the DSTs, that issued securities backed by student loans, or the Student Loans, filed a lawsuit in the Delaware Court of Chancery against U.S. Bank N.A. in its capacities as trustee and successor special servicer, and three other institutions in their respective transaction capacities, with respect to the DSTs and the Student Loans. This lawsuit is captioned The National Collegiate Student Loan Master Trust I, et al. v. U.S. Bank National Association, et al., C.A. No. 2018-0167- JRS (Del. Ch.), or the NCMSLT Action. The complaint, as amended on June 15, 2018, alleged that the DSTs have been harmed as a result of purported misconduct or omissions by the defendants concerning administration of the trusts and special servicing of the Student Loans.

Since the filing of the NCMSLT Action, certain Student Loan borrowers have made assertions against U.S. Bank N.A. concerning special servicing that appear to be based on certain allegations made on behalf of the DSTs in the NCMSLT Action.

U.S. Bank N.A. has filed a motion seeking dismissal of the operative complaint in its entirety with prejudice pursuant to Chancery Court Rules 12(b)(1) and 12(b)(6) or, in the alternative, a stay of the case while other prior filed disputes involving the DSTs and the Student Loans are litigated. On November 7, 2018, the Court ruled that the case should be stayed in its entirety pending resolution of the first-filed cases. On January 21, 2020, the Court entered an order consolidating for pretrial purposes the NCMSLT Action and three other lawsuits pending in the Delaware Court of Chancery concerning the DSTs and the Student Loans, which remains pending.

U.S. Bank N.A. denies liability in the NCMSLT Action and believes it has performed its obligations as indenture trustee and special servicer in good faith and in compliance in all material respects with the terms of the agreements governing the

DSTs and that it has meritorious defenses. It has contested and intends to continue contesting the plaintiffs' claims vigorously.

The Trustee may resign at any time upon thirty (30) days' prior written notice to us. The bondholders of a majority in principal amount of the Bonds then outstanding may remove the Trustee upon thirty (30) days' prior written notice to the Trustee and may appoint a successor Trustee. We will remove the Trustee if the Trustee ceases to be eligible to continue in this capacity under the indenture, the Trustee becomes a debtor in a bankruptcy proceeding or is adjudicated insolvent, a receiver, other public officer takes charge of the Trustee or its property, the Trustee becomes incapable of acting or the Trustee fails to provide to us certain information we reasonably request which is necessary for us to satisfy our reporting obligations under the securities laws. If the Trustee resigns or is removed or a vacancy exists in the office of Trustee for any reason, we will be obligated to promptly appoint a successor Trustee eligible under the indenture and notice of such appointment is required to be promptly given to each rating agency by the successor Trustee. No resignation or removal of the Trustee will become effective until acceptance of the appointment by a successor Trustee. We are responsible for payment of the expenses associated with any such removal or resignation.

If required by the Trust Indenture Act, the Trustee will at all times satisfy the requirements of the Trust Indenture Act and Rule 3a-7 under the Investment Company Act of 1940 and have a combined capital and surplus of at least \$50 million and a long-term debt rating of "Baa3" or better by Moody's and "BBB-" or better by S&P. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business or assets to, another entity, the resulting, surviving or transferee entity will without any further action be the successor Trustee.

The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided that its conduct does not constitute willful misconduct or negligence as determined by a final, non-appealable decision of a court of competent jurisdiction. We have agreed to indemnify the Trustee and its officers, directors, employees and agents against any and all loss, liability or expense (including taxes (other than taxes based upon, or measured by or determined by the income of the Trustee), court costs and attorneys' fees and expenses, the fees of experts and agents and any reasonable extraordinary out-of-pocket expenses) incurred by it in connection with the administration and the enforcement of the indenture (including the costs and expenses of defending against any claim of liability in connection with the exercise of the Trustee's rights, powers and obligations under the indenture and the performance of its duties thereunder and obligations under or pursuant to the indenture and the costs of defending any claim or bringing any claim to enforce our indemnification obligations thereunder), provided that we are not required to pay any expense or indemnify against any loss, liability or expense incurred by the Trustee through the Trustee's own willful misconduct or negligence as determined by a final, non-appealable decision of a court of competent jurisdiction, and subject to the written consent of the Issuing Entity and certain other requirements in the case of the settlement of any action, proceeding or investigation.

TRANSFER RESTRICTIONS

The Bonds have not been and will not be registered under the Securities Act or any state's securities laws. The Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons, except to qualified institutional buyers (as defined in Rule 144A(a)(1), or **QIBs**, in reliance on the exemption from registration provided by Rule 144A and to certain non-U.S. Persons in offshore transactions in reliance on Regulation S. Terms that are defined in Rule 144A or Regulation S are used herein as defined therein.

Under the terms of the Indenture, each purchaser of Bonds (other than the Initial Purchasers) will be deemed to have represented and agreed as follows:

1. The purchaser (A)(i) is a QIB, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring the Bonds or interests therein for its own account or for the account of a QIB, or (B) is not a U.S. Person and is purchasing the Bonds or interests therein in an offshore transaction pursuant to Regulation S.
2. The purchaser understands that the Bonds and interests therein are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the Bonds have not been and will not be registered under the Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the Bonds or any interests therein, the Bonds (or interests therein) may not be offered, resold, pledged or otherwise transferred in denominations or its **Minimum Denomination**, of lower than \$100,000, and, in each case, in integral multiples of \$1,000 in excess thereof, and the Bonds may only be offered, resold, pledged or otherwise transferred (i) in the United States to a person whom each Seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction complying with the provisions of Regulation S under the Securities Act, or (iii) pursuant to another exemption from registration under the Securities Act (if available and evidenced by an opinion of counsel acceptable to the Issuing Entity and

the Trustee), in each of cases (i) through (iii) in accordance with any applicable securities laws of any state of the U.S. and any other applicable jurisdiction, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of such Bonds or interests therein from the resale restrictions referred to above. Notwithstanding the foregoing restriction, any Bond that has originally been properly issued in an amount no less than the Minimum Denomination, or any interest therein, may be offered, resold, pledged or otherwise transferred in a denomination less than the Minimum Denomination if such lesser denomination is solely a result of a reduction of principal due to payments made in accordance with the Indenture.

3. The purchaser understands that the Bonds will, until the Bonds may be resold pursuant to Rule 144(b)(1) of the Securities Act, unless otherwise agreed by the Issuing Entity and the holder thereof, bear a legend substantially to the following effect:

THIS BOND (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND NEITHER THIS BOND NOR ANY INTEREST HEREIN MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS BOND OR ANY INTEREST HEREIN IS HEREBY NOTIFIED THAT EACH SELLER OF THIS BOND OR INTEREST HEREIN MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. THE HOLDER OF THIS BOND OR ANY INTEREST HEREIN AGREES FOR THE BENEFIT OF THE ISSUING ENTITY THAT (A) THIS BOND AND ANY INTEREST HEREIN MAY NOT BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IN MINIMUM DENOMINATIONS OF LOWER THAN \$100,000 AND IN INTEGRAL MULTIPLES OF \$1,000 IN EXCESS THEREOF, AND ONLY (I) IN THE UNITED STATES TO A PERSON WHOM EACH SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE THE U.S. IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S, OR (III) PURSUANT TO ANOTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE AND EVIDENCED BY AN OPINION OF COUNSEL ACCEPTABLE TO THE ISSUING ENTITY AND THE TRUSTEE), IN EACH OF CASES (I) THROUGH (III) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS BOND OR ANY INTEREST HEREIN FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NOTWITHSTANDING THE FOREGOING RESTRICTION, ANY BOND THAT HAS ORIGINALLY BEEN PROPERLY ISSUED IN AN AMOUNT NO LESS THAN THE MINIMUM DENOMINATION, OR ANY INTEREST THEREIN, MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IN A DENOMINATION LESS THAN THE MINIMUM DENOMINATION IF SUCH LESSER DENOMINATION IS SOLELY A RESULT OF A REDUCTION OF PRINCIPAL DUE TO PAYMENTS MADE IN ACCORDANCE WITH THE INDENTURE.

4. The purchaser understands that any Bond offered in reliance on Regulation S will, during the 40-day distribution compliance period commencing on the day after the later of the commencement of the offering and the date of original issuance of the Bonds, bear a legend substantially to the following effect:

THIS BOND IS A TEMPORARY GLOBAL BOND FOR PURPOSES OF REGULATION S UNDER THE SECURITIES ACT WHICH IS EXCHANGEABLE FOR A PERMANENT REGULATION S GLOBAL BOND SUBJECT TO THE TERMS AND CONDITIONS SET FORTH IN THE INDENTURE. PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE ORIGINAL ISSUE DATE OF THE BONDS, THIS BOND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE U.S. OR TO A U.S. PERSON EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

Following the 40-day distribution compliance period, interests in a Regulation S Temporary Global Bond will be exchanged for interests in a Regulation S Permanent Global Bond.

5. Each purchaser and transferee by its purchase of an Bond or interest therein shall be deemed to (A) have represented and warranted that either (i) it is not, and is not directly or indirectly acquiring the Bond or interest therein, for or on behalf of or with the assets of any employee benefit plan as defined in Section 3(3) of ERISA that is subject to Part 4 of Subtitle B of Title I of ERISA, any other "plan" as defined in Section 4975 of the Internal Revenue Code, or Code Section 4975, that is subject to Code Section 4975 or any entity whose underlying assets include plan assets by reason of an employee benefit plan's or plan's investment in such entity, each a Benefit Plan Investor, or any "governmental plan" within the meaning of Section 3(32) of ERISA, church plan or other plan not subject to Title I of ERISA or Code Section 4975 that is subject to any provision of state or local or other, Similar Law, or (ii) if the purchaser or transferee is a Benefit Plan Investor or a plan subject to Similar Law, the purchaser and transferee and the fiduciary of such Benefit Plan Investor or plan by its purchase of the Bond or interest therein shall be deemed to have represented and warranted that the purchase, holding and disposition of the Bonds or interest therein will not result in a non-exempt prohibited transaction under ERISA or Code Section 4975 or Similar Law and will be consistent with any applicable fiduciary duties that may be imposed upon the purchaser or transferee and (B) have acknowledged and agreed that such bond (or any interest therein) may not be acquired by any benefit plan or plan that is subject to similar law unless, at any time that such bond is acquired by such benefit plan or plan, it is rated at least "BBB-" or its equivalent by a nationally recognized statistical rating organization and is not treated as other than indebtedness for applicable local law purposes without substantial equity features and that such purchaser or transferee will so treat such bonds. Please see "ERISA Considerations" in this Offering Memorandum.

If any transfer of a Definitive Bond or any interest therein is to be made to a QIB in accordance with Rule 144A or in an offshore transaction pursuant to Regulation S, a certification from the prospective investor with respect to the foregoing representations and warranties, in either case in form and substance satisfactory to the Issuing Entity and the Trustee, must be delivered to the Issuing Entity and the Trustee to that effect and, if a Definitive Bond is being transferred in reliance on any other exemption from the registration requirements of the Securities Act, a certification and an opinion of counsel stating that such transfer may be made without registration under the Securities Act or any applicable state securities laws must be delivered to the Issuing Entity and the Trustee.

SECURITY FOR THE BONDS

General

The Bonds issued under the indenture will be non-recourse obligations and are payable solely from and secured solely by a pledge of and lien on the uplift property and the other collateral as provided in the indenture. If and to the extent the uplift property and the other assets of the trust estate are insufficient to pay all amounts owing with respect to the Bonds, then the bondholders will generally have no claim in respect of such insufficiency against us or any other person. By the acceptance of the Bonds, the bondholders waive any such claim.

Pledge of Collateral

To secure the payment of principal of and interest on the Bonds, we will grant to the Trustee a security interest in all of our right, title and interest (whether now owned or hereafter acquired or arising) in and to the following property:

- the uplift property and all related uplift charges,
- our rights under the statutory true-up mechanism,
- our rights under a sale agreement pursuant to which we will acquire the uplift property, and under the bill of sale delivered by ERCOT pursuant to the sale agreement,
- our rights under the servicing agreement, including rights with respect to uplift charge deposits and standby letters of credit, the intercreditor agreement and any subservicing, agency, or collection agreements executed in connection with the servicing agreement,
- our rights under the administration agreement (or our allocable rights, if one or more series of Additional Bonds are issued),

- the collection account for the Bonds and all subaccounts of the collection account, and all amounts of cash instruments, investment property or other assets on deposit therein or credited thereto from time to time and all financial assets and securities entitlements carried therein or credited thereto,
- our rights in all deposits, guarantees, surety bonds, letters of credit and other forms of credit support provided by or on behalf of QSEs pursuant to the debt obligation order,
- all of our other property related to the Bonds, other than any cash released to us by the Trustee on any payment date from earnings on the capital subaccount,
- all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, and
- all proceeds in respect of any or all of the foregoing.

The security interest does not extend to:

- amounts (including net investment earnings) on deposit in any responsible QSE uplift deposit accounts that are required under the ERCOT Protocols to be returned to the applicable responsible QSEs,
- amounts representing investment earnings on the capital subaccount or any other subaccount that has been released to us,
- amounts deposited in the capital subaccount or any other subaccount that have been released to us or as we direct following retirement of bonds, and
- amounts deposited with us on the issuance date for payment of costs of issuance with respect to the Bonds (together with any interest earnings thereon).

We refer to the foregoing assets in which we, as assignee of the seller, will grant the Trustee a security interest as the collateral. The collateral for the Bonds will be separate from the collateral for the Texas Stabilization M Bonds or any Additional Bonds and the holders of such bonds will have no recourse to the collateral. The uplift charges relating to the Bonds, however, will be imposed on responsible QSEs in the ERCOT power region, the vast majority of which are also assessed default charges to support the Texas Stabilization M Bonds, and likely any Additional Bonds that may be issued, and forwarded to the servicer by the same responsible QSEs, and subject to the same servicing procedures. Please read "How Funds in the Collection Account will be Allocated."

Security Interest in the Collateral

The Indenture creates a valid and enforceable lien and security interest in the uplift property and the indenture states that it constitutes a security agreement and such security agreement is created under the terms of the UCC. The servicer pledges in the servicing agreement to file with the Texas Secretary of State on or before the date of issuance of bonds the filings to perfect the lien of the Trustee in the uplift property. The seller will represent, at the time of issuance of bonds, that no prior filing has been made with respect to the uplift property securing the Bonds to be issued other than a filing which provides the Trustee with a first priority perfected security interest in such uplift property.

The perfection of the Trustee's security interest in the uplift property is subject to the UCC. The perfection of the Trustee's security interest in collateral other than from the uplift property is also either subject to the UCC or common law. These items consist of our rights in:

- the sale agreement, the servicing agreement, the administration agreement, the intercreditor agreement and any other basic documents,
- the capital subaccount or any other funds on deposit in the collection account which do not constitute uplift charge collections together with all instruments, investment property or other assets on deposit therein or credited thereto and all financial assets and securities entitlements carried therein or credited thereto which do not constitute uplift charge collections,
- all accounts, chattel paper, deposit accounts, documents, general intangibles, goods, instruments, investment property, letters-of-credit, letter-of-credit rights, money, commercial tort claims and supporting obligations and all of our other property to the extent not uplift property, and
- proceeds of the foregoing items.

Additionally, any contractual rights we have against responsible QSEs (other than the right to impose uplift charges and rights otherwise included in the definition of uplift property) would be collateral to which the UCC applies.

As a condition to the issuance of the Bonds, we will have made all filings and taken any other action required by the UCC or common law to perfect the lien of the Trustee in all the items included in collateral which do not constitute uplift property. We will also covenant to take all actions necessary to maintain or preserve the lien and security interest on a first priority basis. We will represent, along with the seller, at the time of issuance of the Bonds, that no prior filing has been made with respect to that party under the terms of the UCC, other than a filing which provides the Trustee with a lien and first priority perfected security interest in the collateral.

Description of Indenture Accounts

Collection Account

Pursuant to the indenture, we will establish a segregated trust account in the name of the Trustee with an eligible institution, for the Bonds called the collection account. The collection account will be under the sole dominion and exclusive control of the Trustee. The Trustee will hold the collection account for our benefit as well as for the benefit of the bondholders. The collection account for the Bonds will consist of three subaccounts: a general subaccount, an excess funds subaccount, and a capital subaccount, which need not be separate bank accounts. For administrative purposes, the subaccounts may be established by the Trustee as separate accounts which will be recognized individually as subaccounts and collectively as the collection account. All amounts in the collection account not allocated to any other subaccount will be allocated to the general subaccount. Unless the context indicates otherwise, references in this Offering Memorandum to the collection account include the collection account and each of the subaccounts contained therein.

The following institutions are eligible institutions for the establishment of the collection account:

- (i) the corporate trust department of the Trustee, so long as any of the securities of the Trustee have either a short-term credit rating from Moody's of at least P-1 or a long term unsecured rating from Moody's of at least A2 and have a credit rating from S&P in one of its generic rating categories which signifies investment grade and the Trustee is a bank or depository institution organized under the laws of the United States or any state thereof or any United States branch or agency of a foreign bank or depository institution that is subject to supervision and examination by federal or state banking authorities that is authorized under those laws to act as a trustee or in any other fiduciary capacity, whose deposits are insured by the FDIC; or
- (ii) U.S. Bank N.A. or a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank), which (i) has either (A) a long-term issuer rating of "AA" or higher by S&P and "A1" or higher by Moody's or (B) a short-term issuer rating of "A-1+" or higher by S&P and "P-1" or higher by Moody's, or any other long-term, short-term or certificate of deposit rating acceptable to the rating agencies and (ii) whose deposits are insured by the FDIC.

Permitted Investments for Funds in the Collection Account.

Funds in the collection account and the QSE deposit accounts may be invested only in such investments as meet the criteria described below and which mature on or before the business day preceding the next payment date:

- direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America,
- demand deposits, time deposits, certificates of deposit and bankers' acceptances of eligible institutions,
- commercial paper (other than commercial paper issued by ERCOT or any of its affiliates) having, at the time of investment or contractual commitment to invest, a rating of not less than A- 1 and P-1 or their equivalents by each of S&P and Moody's,
- money market funds which have the highest rating from Moody's and S&P,
- repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or certain of its agencies or instrumentalities, entered into with eligible institutions,
- repurchase obligations with respect to any security or whole loan entered into with an eligible institution or a registered broker-dealer, acting as principal and that meets certain ratings criteria, or

- any other investment permitted by each rating agency.

The Trustee will have access to the collection account for the purpose of making deposits in and withdrawals from the collection account in accordance with the indenture. The servicer will select the eligible investments in which funds will be invested, unless otherwise directed by us.

The servicer will remit uplift charge payments to the collection account in the manner described under "The Servicing Agreement—Remittances to Collection Account."

General Subaccount

The general subaccount will hold all funds held in the collection account that are not held in the other two subaccounts. The servicer will remit all uplift charge payments to the general subaccount. On each payment date, the Trustee will draw on amounts in the general subaccount to pay our expenses and to pay interest and make scheduled payments on the Bonds, and to make other payments and transfers in accordance with the terms of the indenture. Funds in the general subaccount will be invested in the eligible investments described above.

Excess Funds Subaccount

The Trustee, at the written direction of the servicer, will allocate to the excess funds subaccount uplift charge collections available with respect to any payment date in excess of amounts necessary to make the payments specified on such payment date. The excess funds subaccount will also hold all investment earnings on the collection account (other than investment earnings on the capital subaccount) in excess of such amounts.

Capital Subaccount

In connection with the issuance of the Bonds, the seller, in its capacity as our sole owner, will contribute capital to us in an amount equal to the required capital level, which will be not less than 0.5% of the aggregate principal amount of the Bonds issued. This amount will be funded by the seller and not from the proceeds of the sale of the Bonds, and will be deposited into the capital subaccount on the issuance date. In the event that amounts on deposit in the general subaccount and the excess funds subaccount are insufficient to make scheduled payments of principal and interest on the Bonds and payments of fees and expenses contemplated by the first eight bullets under "How Funds in the Collection Account will be Allocated," below, the Trustee will draw on amounts in the capital subaccount to make such payments up to the lesser of the amount of such insufficiency and the amounts on deposit in the capital subaccount. In the event of any such withdrawal, collected uplift charges available on any subsequent payment date that are not necessary to pay scheduled payments of principal and interest on the Bonds and payments of fees and expenses will be used to replenish any amounts drawn from the capital subaccount. If the Bonds have been retired as of any payment date, the amounts on deposit in the capital subaccount and supplemental subaccount will be released to us, free of the lien of the indenture.

Uplift Deposit Accounts

Deposits received from responsible QSEs will be held by the Issuing Entity in the uplift deposit accounts. Amounts in the uplift deposit accounts and other forms of credit support provided by responsible QSEs are not our property. Rather, amounts in the uplift deposit accounts and other forms of credit support will only be available to make payments of uplift charges in the event that a responsible QSE defaults in payment, in which case pursuant to the Servicing Agreement, the servicer may withdraw the amount of the payment default from the applicable responsible QSE's uplift deposit account or, if less, the amount of that responsible QSE's uplift deposit or seek recourse against any other credit support for such amount. Amounts in the uplift deposit accounts will be invested in the eligible investments described above.

How Funds in the Collection Account will be Allocated

On each payment date for the Bonds, the Trustee will allocate or pay, solely at the written direction of the servicer, all amounts on deposit in the general subaccount of the collection account (including investment earnings thereon) to pay the following amounts in the following priority:

- (1) amounts owed by us to the Trustee for the Trustee's fees and expenses and any outstanding indemnity amounts owed to the Trustee in an amount not to exceed the Trustee Cap; provided, however, that any amounts in excess of the Trustee Cap that are unpaid pursuant to the Trustee Cap shall remain due and owing to the Trustee or Securities Intermediary and payable in the following year and each subsequent year thereafter until repaid in full; provided, further, that the Trustee Cap shall be disregarded and inapplicable upon the acceleration of the Bonds following the occurrence and continuation of an event of default;

- (2) the servicing fee and any unpaid servicing fees from prior payment dates as described under "The Servicing Agreement — Servicing Compensation," to the servicer;
- (3) the administration fee and the fees owed to our Independent Managers, plus any unpaid administration fees and fees owed to any Independent Managers from prior payment dates;
- (4) all of our other ordinary periodic operating expenses, such as accounting and audit fees, rating agency fees, legal fees and certain reimbursable costs of the administrator under the administration agreement and of the servicer under the servicing agreement;
- (5) interest then due on the Bonds, including any past-due interest;
- (6) principal then due and payable on the Bonds as a result of acceleration upon an event of default or on the final maturity date for the Bonds;
- (7) scheduled principal payments of bonds according to the expected amortization schedule, including any overdue scheduled principal payments, paid pro rata among the Bonds if there is a deficiency;
- (8) any remaining unpaid fees, expenses and indemnity amounts owed to the Trustee;
- (9) any other unpaid operating expenses and any remaining amounts owed pursuant to the basic documents;
- (10) replenishment of any amounts drawn from or other shortfalls in the capital subaccount;
- (11) so long as no event of default has occurred and is continuing, release to ERCOT any investment return on any amount contributed the capital subaccount in excess of the required capital level;
- (12) if so long as no event of default has occurred and is continuing, release to ERCOT an amount not to exceed the lesser of any remaining balance and the investment earnings on amounts in the capital subaccount (other than on the excess referred to in 11, above);
- (13) allocation of the remainder, if any, to the excess funds subaccount for distribution on subsequent payment dates; and
- (14) after the Bonds have been paid in full and discharged, the balance, together with all amounts in the capital subaccount and the excess funds subaccount, to us free and clear of the lien of the indenture.

If on any payment date funds on deposit in the general subaccount of the collection account are insufficient to make the payments contemplated by clauses (1) through (9) above, the Trustee will first, draw from amounts on deposit in the excess funds subaccount and, second, draw from amounts on deposit in the capital subaccount up to the amount of the shortfall, in order to make those payments in full. If the Trustee uses amounts on deposit in the capital subaccount to pay those amounts or make those transfers, as the case may be, subsequent adjustments to the uplift charges will take into account, among other things, the need to replenish those amounts. In addition, if on any payment date funds on deposit in the general subaccount are insufficient to make the transfers described in clause (10) above, the Trustee will draw from amounts on deposit in the excess funds subaccount to make such transfers. Please read "Risk Factors—Other Risks Associated with an Investment in the Bonds—ERCOT's indemnification obligations under the sale and servicing agreements are limited and might not be sufficient to protect your investment in the Bonds."

If, on any payment date, available collections of the uplift charges, together with available amounts in the subaccounts, are not sufficient to pay interest due on all outstanding Bonds on that payment date, amounts available will be allocated pro rata based on the amount of interest payable. If, on any payment date, remaining collections of the uplift charges, together with available amounts in the subaccounts, are not sufficient to pay principal due and payable on all outstanding Bonds on that payment date, amounts available will be allocated pro rata based on the principal amount then due and payable.

State Pledge

Section 39.663 of PURA provides: "Debt obligations issued pursuant to this subchapter, including any bonds, 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. The state of Texas pledges, however, for the benefit and protection of financing parties and the independent organization that it will not take or permit any action that would impair the value of the 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 debt obligations have been paid and performed in full. Any party

issuing a debt obligation under this subchapter, including the Bonds, is authorized to include this pledge in any documentation relating to the obligation."

The bondholders and the Trustee, for the benefit of the bondholders, will be entitled to the benefit of the pledges and agreements of the state of Texas set forth in Section 39.663 of PURA and we are authorized to include these pledges and agreements in any contract with the bondholders, the Trustee or with any assignees pursuant to PURA. We have included these pledges and agreements in the indenture and the Bonds for the benefit of the Trustee and the bondholders, and acknowledge that any purchase by a bondholder of a bond is made in reliance on these agreements and pledges of the state of Texas. Additionally, pursuant to Subchapter N, the debt obligation order is irrevocable and not subject to reduction, impairment or adjustment by further action of the Commission.

Issuance of Additional Bonds

We have been organized as a special purpose subsidiary of ERCOT for the limited purpose of holding uplift property and issuing the Bonds, including the Bonds, and any Additional Bonds, secured by uplift property and other collateral pledged to secure such bonds. As a result, we may acquire additional uplift property and issue one or more series of Additional Bonds that are supported by such additional and separate uplift property or other collateral to finance the costs approved by an additional debt obligation order.

We may issue Additional Bonds and acquire additional uplift property after the acquisition and issuance described in this Offering Memorandum, subject to satisfaction of the conditions described in this Offering Memorandum. See Description of the Texas Stabilization Subchapter N Bonds – Conditions of Issuance of Additional Bonds.

The acquisition by any issuing entity (other than us) of uplift property created by an additional debt obligation order and issuance of Additional Bonds with respect thereto after the acquisition and issuance described in this Offering Memorandum is subject to our satisfaction of the Rating Agency Condition.

In addition, ERCOT has covenanted under the sale agreement that the execution of an intercreditor agreement or a joinder of the relevant parties to the Intercreditor Agreement relating to the Bonds and the Texas Stabilization M Bonds is a condition precedent to the sale of property by ERCOT consisting of nonbypassable charges payable by customers comparable to the uplift property sold by ERCOT pursuant to the sale agreement. Please read "Relationship to Texas Stabilization M Bonds, Series 2021—Intercreditor Agreement" and "The Sale Agreement—Covenants of the Seller" in this Offering Memorandum.

Each series of Additional Bonds that may be issued, whether issued by us or any affiliated entity, will be backed by separate uplift property acquired by us or such other entity for the separate purpose of repaying that series of Additional Bonds. Each series of Additional Bonds that may be issued will have the benefit of a true-up mechanism.

Any series of Additional Bonds may include terms and provisions that would be unique to that particular series of bonds.

Allocations as Between Series of Bonds

The Bonds are not and will not be subordinated in right of payment to any series of Additional Bonds. The Bonds are, and each series of Additional Bonds will be, secured by its own separate uplift property, which will include the right to impose, bill, collect and receive uplift charges calculated in respect of that series, and the right to implement the true-up mechanism to correct over-collections or under-collections in respect of that series. Also, each series will have its own collection account, including any related subaccounts, into which revenue from the uplift charges relating to that series will be deposited and from which amounts will be withdrawn to pay the related series of Additional Bonds. Holders of the Bonds or any series of Additional Bonds will have no recourse to collateral for a different series. The administration fees, Independent Manager fees and other operating expenses payable by us on a payment date will be assessed to each series of bonds issued by us on a pro rata basis, based upon the respective outstanding principal amounts of each series.

Although the Bonds, and each series of Additional Bonds, whether issued by us or another issuing entity and the Texas Stabilization M Bonds, will each have its own uplift property reflecting the right in and to a separate uplift charge, uplift charges relating to the Bonds, uplift charges relating to the Texas Stabilization M Bonds and uplift charges relating to any Additional Bonds will be collected through separate invoices to each responsible QSE. In the event a responsible QSE does not pay in full all amounts owed under any invoice of uplift charges, the servicer is required to allocate any resulting shortfalls in uplift charges ratably based on the amount of uplift charges owing in respect of each such series of bonds. Please read "The Servicing Agreement—Remittances to Collection Account" in this Offering Memorandum.

WEIGHTED AVERAGE LIFE AND YIELD CONSIDERATIONS FOR THE BONDS

The rate of principal payments, the amount of each interest payment and the actual final payment date of each tranche of the Bonds and the weighted average life thereof will depend primarily on the timing of receipt of collected uplift charges by the Trustee and the statutory true-up mechanism. The amount of uplift charges to be collected from each responsible QSE shall be determined by the servicer in order to collect sufficient uplift charges to make timely payments of principal interest and ongoing costs. The aggregate amount of collected uplift charges and the rate of principal amortization on the Bonds will depend, in part, on the rate of delinquencies and write-offs. The uplift charges are required to be adjusted from time to time based in part on the actual rate of uplift charges. However, we can give no assurance that the servicer will be able to forecast accurately the rate of delinquencies and write-offs or to implement adjustments to the uplift charges that will cause collected uplift charges to be received at any particular rate. Please read "Risk Factors—Servicing Risks," "Servicing Risks—Inaccurate consumption forecasting might reduce scheduled payments on the Bonds" and "ERCOT's Debt Obligation Order—Statutory True-Ups."

The Bonds may be retired later than expected. Except in the event of an acceleration of the final payment date of the Bonds after an event of default, however, the Bonds will not be paid at a rate faster than that contemplated in the expected amortization schedule for each tranche of the Bonds even if the receipt of collected uplift charges is accelerated. Instead, receipts in excess of the amounts necessary to amortize the Bonds in accordance with the applicable expected amortization schedules, to pay interest and related fees and expenses and to fund subaccounts of the collection account will be allocated to the excess funds subaccount. Amounts on deposit in the excess funds subaccount will be taken into consideration in calculating the next true-up adjustment. Acceleration of the final maturity date after an event of default in accordance with the terms thereof will result in payment of principal earlier than the related scheduled final payment dates. A payment on a date that is earlier than forecast might result in a shorter weighted average life, and a payment on a date that is later than forecast might result in a longer weighted average life. In addition, if a larger portion of the delayed payments on the Bonds is received in later years, the Bonds may have a longer weighted average life.

Weighted Average Life Sensitivity

Weighted average life refers to the average amount of time from the date of issuance of a security until each dollar of principal of the security has been repaid to the investor. The rate of principal payments on each tranche of bonds, the aggregate amount of each interest payment on each tranche of bonds and the actual final payment date of each tranche of bonds will depend on the amounts and the timing of the servicer's receipt of uplift charges from responsible QSEs. Responsible QSEs will be required to pay uplift charges in the amount invoiced regardless of the amount of electricity actually consumed by customers of the ERCOT System. As a result, any variation between forecast levels and actual electricity usage should not impact timely repayment of principal and interest on and ongoing costs for the Bonds.

THE SALE AGREEMENT

The following summary describes particular material terms and provisions of the sale agreement pursuant to which we will purchase uplift property from the seller. For more information regarding the Sale Agreement see "Where Prospective Investors Can Find More Information" in this Offering Memorandum.

Sale and Assignment of the Uplift Property

On the issuance date the seller will offer and sell the uplift property to us, subject to the satisfaction of the conditions specified in the sale agreement and the indenture. We will finance the purchase of the uplift property through the issuance of the Bonds. On the issuance date, the seller will sell to us, without recourse, its entire right, title and interest in and to the uplift property. The uplift property will include all of the seller's rights under the debt obligation order related to such uplift property to impose, collect and receive uplift charges in an amount sufficient to recover the costs approved in the debt obligation order.

Under Subchapter N, all rights and interests under the debt obligation order will become uplift property upon transfer of such rights to us by ERCOT in connection with the issuance of the Bonds. The uplift property will constitute our present property right for purposes of contracts concerning the sale or pledge of property. Under Subchapter N, the sale of the uplift property will constitute a true sale under state law whether or not:

- we have any recourse against ERCOT,
- ERCOT retains any equity interest in the uplift property under state law,
- ERCOT acts as a collector of uplift charges relating to the uplift property, or
- ERCOT treats the transfer as a financing for tax, financial reporting or other purposes.

Upon the issuance of the debt obligation order, the execution and delivery of the sale agreement and the related bill of sale and the filing of a notice with the Texas Secretary of State in accordance with the rules prescribed under PURA, the transfer of the uplift property will be perfected as against all third persons, including subsequent judicial or other lien creditors.

Conditions to the Sale of Uplift Property

Our obligation to purchase and the seller's obligation to sell uplift property on the issuance date is subject to the satisfaction of each of the following conditions:

- on or prior to the issuance date, the seller must deliver to us a duly executed bill of sale identifying uplift property to be conveyed on that date;
- on or prior to the issuance date, the seller must have received the debt obligation order from the Commission creating the uplift property;
- as of the issuance date, the seller may not be insolvent and may not be made insolvent by the sale of uplift property to us, and the seller may not be aware of any pending insolvency with respect to itself;
- as of the issuance date, the representations and warranties of the seller in the sale agreement must be true and correct (except to the extent they relate to an earlier date), the seller may not have breached any of its covenants in the sale agreement, and the servicer may not be in default under the servicing agreement;
- as of the issuance date, we must have sufficient funds available to pay the purchase price for the uplift property to be conveyed and all conditions to the issuance of the Bonds intended to provide the funds to purchase that uplift property set forth in the indenture must have been satisfied or waived;
- on or prior to the issuance date, the seller must have taken all action required to transfer ownership of uplift property to be conveyed to us on the issuance date, free and clear of all liens other than liens created by us pursuant to the basic documents and to perfect such transfer including, without limitation, filing any statements or filings under the Uniform Commercial Code; and we or the servicer, on our behalf, must have taken any action required for us to grant the Trustee a lien and first priority perfected security interest in the collateral and maintain that security interest as of the issuance date;

- the seller must deliver appropriate opinions of counsel to us and to the rating agencies;
- the seller must receive and deliver to us and the Trustee an opinion or opinions of outside tax counsel (as selected by the seller, and in form and substance reasonably satisfactory to us and the Initial Purchasers) to the effect that: (i) we will not be subject to United States federal income tax as an entity separate from our sole owner and that the Bonds will be treated as debt of our sole owner for U.S. federal income tax purposes and (ii) for U.S. federal income tax purposes, the issuance of the Bonds will not result in gross income to the seller;
- on and as of the issuance date, our limited liability company agreement, the servicing agreement, the sale agreement, the indenture, PURA, Subchapter N and the debt obligation order authorizing the collection of the uplift charges must be in full force and effect;
- as of the issuance date, the Bonds shall have received a rating or ratings by two or more rating agencies; and
- the seller must deliver to us and to the Trustee an officers' certificate confirming the satisfaction of each of these conditions.

Seller Representations and Warranties

In the sale agreement, the seller will represent and warrant to us, as of the issuance date, to the effect, among other things, that:

- no portion of the uplift property has been sold, transferred, assigned or pledged or otherwise conveyed by the seller to any person other than us and immediately prior to the sale of the uplift property, the seller owns the uplift property free and clear of all liens and rights of any other person, and no offsets, defenses or counterclaims exist or have been asserted with respect to the uplift property;
- on the issuance date, immediately upon the sale under the sale agreement, the uplift property transferred on the issuance date will be validly transferred and sold to us, we will own the uplift property free and clear of all liens (except for liens created in your favor by the basic documents) and all filings and action to be made or taken by the seller (including filings with the Secretary of state of Texas) necessary in any jurisdiction to give us a perfected ownership interest (subject to any lien created by us in your favor under the basic documents) in the uplift property will have been made or taken;
- subject to the clause below regarding assumptions used in calculating the uplift charges as of the issuance date, all written information, as amended or supplemented from time to time, provided by the seller to us with respect to the uplift property (including the expected amortization schedule, the debt obligation order and the issuance advice letter relating to the uplift property) is true and correct in all material respects;
- under the laws of the state of Texas (including PURA) and the United States in effect on the issuance date:
 - the debt obligation order pursuant to which the rights and interests of the seller have been created, including the right to impose, collect and receive the uplift charges and, the interest in and to the uplift property, has become final and non-appealable and is in full force and effect;
 - as of the issuance of the Bonds, those bonds are entitled to the protection provided in PURA and, accordingly, the debt obligation order, uplift charges and issuance advice letter are not revocable by the Commission;
 - the process by which the debt obligation order was approved and the debt obligation order and issuance advice letter comply with all applicable laws and regulations;
 - the issuance advice letter has been filed in accordance with the debt obligation order and an officer of the seller has provided the certification to the Commission required by the issuance advice letter; and
 - no other approval, authorization, consent, order or other action of, or filing with any governmental authority is required in connection with the creation of the uplift property, except those that have been obtained or made;
 - under PURA, the state of Texas has pledged that it will not take or permit any action that would impair the value of the uplift property, or, except for true-up adjustments made in accordance with Subchapter N and the debt obligation order, reduce, alter, or impair the uplift charges relating to such uplift property until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the related bonds have been paid and performed in full, and consequently the state of Texas could not

constitutionally take any action of a legislative character, including the repeal or amendment of Subchapter N, which would substantially limit, alter or impair the uplift property or other rights vested in the bondholders pursuant to the debt obligation order, or substantially limit, alter, impair or reduce the value or amount of the uplift property, unless that action is a reasonable exercise of the state of Texas's sovereign powers and of a character reasonable and appropriate to further a legitimate public purpose, and, under the takings clauses of the Texas and United States Constitutions, the state of Texas could not repeal or amend Subchapter N or take any other action in contravention of its pledge and agreement quoted above without paying just compensation to the bondholders, as determined by a court of competent jurisdiction, if doing so would constitute a permanent appropriation of a substantial property interest of the bondholders in the uplift property and deprive the bondholders of their reasonable expectations arising from their investments in the Bonds; however, there is no assurance that, even if a court were to award just compensation, it would be sufficient to pay the full amount of principal and interest on the Bonds;

- based on information available to the seller on the issuance date, the assumptions used in calculating the uplift charges as of the issuance date are reasonable and are made in good faith; however, notwithstanding the foregoing, ERCOT makes no representation or warranty, express or implied, that amounts actually collected arising from those uplift charges will in fact be sufficient to meet the payment obligations on the related bonds or that the assumptions used in calculating such uplift charges will in fact be realized;
- upon the effectiveness of the debt obligation order and the issuance advice letter with respect to the transferred uplift property and the transfer of such uplift property to us:
 - the rights and interests of the seller under the debt obligation order, including the right to impose, collect and receive the uplift charges established in the debt obligation order, become uplift property;
 - the uplift property constitutes a present property right vested in us;
 - the uplift property includes the right, title and interest of the seller in the debt obligation order and the uplift charges, the right to impose, collect and make periodic adjustments (with respect to adjustments, in the manner and with the effect provided in the servicing agreement) of the uplift charges, and other charges authorized by the debt obligation order and all revenues, claims, payments, money or proceeds of or arising from the uplift charges;
 - the owner of the uplift property is legally entitled to invoice uplift charges and collect payments in respect of the uplift charges in the aggregate sufficient to pay the interest on and principal of the related bonds in accordance with the indenture, to pay the fees and expenses of servicing the Bonds, to replenish the capital subaccount to the required capital level until the Bonds are paid in full or until the last date permitted for the collection of payments in respect of the uplift charges under the debt obligation order, whichever is earlier, and the customer class allocation percentages in the debt obligation order do not prohibit the owner of the transferred uplift property from obtaining adjustments and effecting allocations to the uplift charges in order to collect payments of such amounts; and
 - the uplift property is not subject to any lien other than the lien created by the basic documents;
- the seller is a corporation duly organized and in good standing under the laws of the state of Texas, with the requisite corporate power and authority to own its properties and conduct its business as currently owned or conducted;
- the seller has the requisite corporate power and authority to obtain the debt obligation order and to own the rights and interests under the debt obligation order relating to the Bonds, to sell and assign those rights and interests to us, whereupon (subject to the effectiveness of the related issuance advice letter) such rights and interests will become uplift property;
- the seller is duly qualified to do business and is in good standing, and has obtained all necessary licenses and approvals, in all jurisdictions in which the ownership or lease of property or the conduct of its business shall require qualifications, licenses or approvals (except where the failure to so qualify or obtain such licenses and approvals would not be reasonably likely to have a material adverse effect on the seller's business, operations, assets, revenues or properties).
- the seller has the requisite corporate power and authority to execute and deliver the sale agreement and to carry out its terms, and the execution, delivery and performance of the sale agreement have been duly authorized by the seller by all necessary corporate action;

- the sale agreement constitutes a legal, valid and binding obligation of the seller, enforceable against it in accordance with its terms, subject to customary exceptions relating to bankruptcy, creditor's rights and equitable principles;
- the consummation of the transactions contemplated by the sale agreement and the fulfillment of its terms do not (a) conflict with or result in a breach of any of the terms or provisions of or otherwise constitute (with or without notice or lapse of time) a default under the seller's organizational documents or any indenture, or other agreement or instrument to which the seller is a party or by which it or any of its property is bound, (b) result in the creation or imposition of any lien upon the seller's properties pursuant to the terms of any such indenture, agreement or other instrument (other than any liens that may be granted in favor of the Trustee for the benefit of the bondholders or any liens created by us pursuant to Subchapter N, the debt obligation order, or the basic documents) or (c) violate any existing law or any existing order, rule or regulation applicable to the seller of any government authority having jurisdiction over the seller or its properties;
- no proceeding is pending and, to the seller's knowledge, no proceeding is threatened and, to the seller's knowledge, no investigation is pending or threatened before any governmental authority having jurisdiction over the seller or its properties involving or relating to the seller or to the Issuing Entity or, to the seller's knowledge, any other person:
 - asserting the invalidity of Subchapter N, the debt obligation order, the sale agreement, the Bonds and the basic documents;
 - seeking to prevent the issuance of the Bonds or the consummation of any of the transactions contemplated by the sale agreement or any of the other basic documents;
 - seeking a determination that could reasonably be expected to materially and adversely affect the performance by the seller of its obligations under, or the validity or enforceability of, Subchapter N, the debt obligation order, the Bonds, the sale agreement or the other basic documents; or
 - seeking to adversely affect the federal income tax or state income or franchise tax classification of the Bonds as debt;
- except for financing statements under the Uniform Commercial Code and other filings under PURA, no governmental approvals, authorizations, consents, orders or other actions or filings with any governmental authority are required for the seller to execute, deliver and perform its obligations under the sale agreement except those which have previously been obtained or made or are required to be made by the servicer in the future pursuant to the servicing agreement;
- there is no order by any court providing for the revocation, alteration, limitation or other impairment of Subchapter N, the debt obligation order, the issuance advice letter, the uplift property or the uplift charges or any rights arising under any of them or that seeks to enjoin the performance of any obligations under the debt obligation order; and
- after giving effect to the sale of the uplift property under the sale agreement, ERCOT:
 - is solvent and expects to remain solvent;
 - is adequately capitalized to conduct its business and affairs considering its size and the nature of its business and intended purposes;
 - is not engaged and does not expect to engage in a business for which its remaining property represents an unreasonably small portion of its capital;
 - reasonably believes that it will be able to pay its debts as they become due; and
 - is able to pay its debts as they mature and does not intend to incur, or believes that it will not incur, indebtedness that it will not be able to repay at its maturity.

The seller will not make any representation or warranty, express or implied, that billed uplift charges will be actually collected from responsible QSEs.

Certain of the representations and warranties that the seller makes in the sale agreement involve conclusions of law. The seller makes those representations and warranties in order to reflect the understanding of the basis on which we are issuing the Bonds and to reflect the agreement that if this understanding proves to be incorrect, the seller will be obligated to indemnify us.

The representations and warranties made by the seller will survive the execution and delivery of the sale agreement, and our pledge of the uplift property to the Trustee. The seller will not be in breach of any representation or warranty as a result of any change in law occurring after the issuance date including by means of any legislative enactment, constitutional amendment or voter initiative that renders any of the representations or warranties untrue.

Covenants of the Seller

In the sale agreement, the seller makes the following covenants:

- Subject to its right to assign its rights and obligations to a successor under the sale agreement, so long as any of the Bonds are outstanding, the seller will (a) keep in full force and effect its existence and remain in good standing under the laws of the jurisdiction of its organization, (b) obtain and preserve its qualifications to do business in those jurisdictions necessary to protect the validity and enforceability of the sale agreement and the other basic documents or to the extent necessary to perform its obligations under the sale agreement and the other basic documents and (c) continue to operate as an independent organization certified under PURA for the ERCOT power region.
- Except for the conveyances under the sale agreement or any lien for the benefit of us, the bondholders or the Trustee, the seller will not sell, pledge, assign or transfer, or grant, create, incur, assume or suffer to exist any lien on, any of the uplift property, or any interest therein, and the seller will defend the right, title and interest of us and of the Trustee on behalf of the bondholders, in, to and under the uplift property against all claims of third parties claiming through or under the seller. The seller also covenants that, in its capacity as seller, it will not at any time assert any lien against, or with respect to, any of the uplift property.
- If the seller receives any payments in respect of the uplift charges or the proceeds thereof other than in its capacity as the servicer, the seller agrees to pay all those payments to the servicer, on behalf of us, and to hold such amounts in trust for us and the Trustee prior to such payment. If the seller becomes a party to any future trade receivables purchase and sale arrangement or similar arrangement under which it sells all or any portion of its accounts receivables, the seller and the other parties to such arrangement shall enter into an intercreditor agreement in connection therewith and the terms of the documentation evidencing such trade receivables purchase and sale arrangement or similar arrangement shall expressly exclude uplift charges from any receivables or other assets pledged or sold under such arrangement.
- If the seller enters into a sale agreement selling to us or to any other seller affiliate uplift property or similar property, consisting of nonbypassable charges payable by QSEs comparable to those sold by the seller pursuant to the sale agreement, the Rating Agency Condition must be satisfied with respect to the Bonds prior to or coincident with such sale and the issuance of any related Additional Bonds, and the seller will either cause the issuer, servicer and trustee for such Additional Bonds to become parties to the Intercreditor Agreement or to enter into a new intercreditor agreement, with similar terms, with us, the Trustee and the servicer for the Bonds and the issuer, trustee, and servicer for any other outstanding Additional Bonds, as described in "Security for the Bonds— Intercreditor Agreement."
- The seller will notify us and the Trustee promptly after becoming aware of any lien on any of the uplift property, other than the conveyances under the sale agreement, or any lien under the basic documents, Subchapter N, the debt obligation order, or the UCC in favor of the Trustee for the benefit of the bondholders.
- The seller agrees to comply with its organizational or governing documents and all laws, treaties, rules, regulations and determinations of any governmental authority applicable to it, except to the extent that failure to so comply would not materially adversely affect our or the Trustee's interests in the uplift property or under the basic documents to which the seller is a party or the seller's performance of its obligations under the basic documents to which the seller is a party.
- So long as any of the Bonds are outstanding, the seller will:
 - treat the uplift property as our property for all purposes other than for financial reporting, state or federal regulatory or tax purposes;
 - treat the Bonds as indebtedness of the seller secured by the bond collateral unless otherwise required by appropriate taxing authorities;

- disclose in its financial statements that we and not the seller are the owner of the uplift property and that our assets are not available to pay creditors of the seller or its affiliates (other than us);
- not own or purchase any bonds; and
- disclose the effects of all transactions between us and the seller in accordance with generally accepted accounting principles.
- The seller agrees that, upon the sale by the seller of uplift property to us pursuant to the sale agreement:
 - to the fullest extent permitted by law, including applicable Commission regulations and Subchapter N, we will have all of the rights originally held by the seller with respect to the uplift property, including the right (subject to the terms of the servicing agreement) to exercise any and all rights and remedies to collect any amounts payable by any QSE in respect of the uplift property, notwithstanding any objection or direction to the contrary by the seller (and the seller agrees not to make any such objection or to take any such contrary action), and
 - any payment by any QSE to us will discharge that QSE's obligations, if any, in respect of the uplift property to the extent of that payment, notwithstanding any objection or direction to the contrary by the seller.
- So long as any of the Bonds are outstanding:
 - in all proceedings relating directly or indirectly to the uplift property, the seller will affirmatively certify and confirm that it has sold all of its rights and interests in and to such property (other than for financial reporting or tax purposes), and will not make any statement or reference in respect of the uplift property that is inconsistent with our ownership interest (other than for financial accounting, state or regulatory or tax purposes),
 - the seller will not take any action in respect of the uplift property except solely in its capacity as servicer pursuant to the servicing agreement or as otherwise contemplated by the basic documents,
 - the seller will not sell uplift property under a separate order in connection with the issuance of Additional Bonds unless the Rating Agency Condition has been satisfied, and
 - neither the seller nor the Issuing Entity will make any election, file any tax return, or make any election inconsistent with the treatment of the Issuing Entity, for federal income tax purposes and, to the extent consistent with applicable state tax law, state income and franchise tax purposes, as a disregarded entity that is not separate from the seller (or, if relevant, from another sole owner of us, as the Issuing Entity).
- The seller will execute and file the filings required by law to fully preserve, maintain, protect and perfect our ownership interest in and the Trustee's lien on the uplift property, including all filings required under the Uniform Commercial Code relating to the transfer of the ownership of the rights and interests related to the Bonds under the debt obligation order by the seller to us and the pledge of the uplift property to the Trustee. The seller will institute any action or proceeding necessary to compel performance by the Commission, the state of Texas or any of their respective agents of any of their obligations or duties under Subchapter N, the debt obligation order or any issuance advice letter. The seller also will take those legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar proceedings, in each case, as may be reasonably necessary (i) to protect us, the bondholders and the Trustee from claims, state actions or other actions or proceedings of third parties which, if successfully pursued, would result in a breach of any representation or warranty of the seller in the sale agreement and (ii) to block or overturn any attempts to cause a repeal of, modification of or supplement to Subchapter N, the debt obligation order, any issuance advice letter or the rights of bondholders by legislative enactment or constitutional amendment that would be materially adverse to us, the Trustee or the bondholder or which would otherwise cause an impairment of our rights or those of the bondholders and the Trustee, and the seller will pay the costs of any such actions or proceedings.
- Even if the sale agreement or the indenture is terminated, the seller will not, prior to the date which is one (1) year and one (1) day after the termination of the indenture and payment in full of the Bonds or any other amounts owed under the indenture, petition or otherwise invoke or cause us to invoke the process of any court or government authority for the purpose of commencing or sustaining a case against us under any federal or state bankruptcy, insolvency or similar law, appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official or any substantial part of our property, or ordering the winding up or liquidation of our affairs.
- So long as any of the Bonds are outstanding, the seller will, and will cause each of its subsidiaries to, pay all material taxes, assessments and governmental charges imposed upon it or any of its properties or assets or with respect to

any of its franchises, business, income or property before any penalty accrues if the failure to pay any such taxes, assessments and governmental charges would, after any applicable grace periods, notices or other similar requirements, result in a lien on the transferred uplift property; provided that no such tax need be paid if the seller or any of its affiliates is contesting the same in good faith by appropriate proceedings promptly instituted and diligently conducted and if the seller or such affiliate has established appropriate reserves as shall be required in conformity with generally accepted accounting principles.

- The seller will not withdraw the filing of any issuance advice letter with the Commission.
- Promptly after obtaining knowledge of any breach in any material respect of its representations, warranties or covenants in the sale agreement, the seller will notify us, the Trustee, the Commission and the rating agencies of the breach.
- The seller will use the proceeds of the sale of the uplift property in accordance with the debt obligation order and Subchapter N.
- Upon our request, the seller will execute and deliver such further instruments and do such further acts as may be necessary to carry out more effectively the provisions and purposes of the sale agreement.

Indemnification

The seller will indemnify, defend and hold harmless us, the Trustee (for itself and for the benefit of the bondholders) and any of our and the Trustee's officers, directors, employees and agents against:

- any and all amounts of principal and interest on the Bonds not paid when due or when scheduled to be paid,
- any deposits required to be made by or to us under the basic documents or the debt obligation order which are not made when required, and
- any and all other liabilities, obligations, losses, claims, damages, payment, costs or expenses incurred by any of these persons

in each case, as a result of the seller's breach of any of its representations, warranties or covenants contained in the sale agreement.

The seller will indemnify us and the Trustee (for itself and for the benefit of the bondholders) and each of our and the Trustee's respective officers, directors, employees, trustees, managers, and agents for, and defend and hold harmless each such person from and against, any and all taxes (other than taxes imposed on the bondholders as a result of their ownership of bonds) that may at any time be imposed on or asserted against any such person as a result of (i) the sale of the uplift property to us, (ii) our ownership and assignment of the uplift property, (iii) the issuance and sale by us of the Bonds or (iv) the other transactions contemplated in the basic documents, including any franchise, sales, gross receipts, general corporation, tangible personal property, privilege or license taxes, but excluding any taxes imposed as a result of a failure of such person to withhold or remit taxes with respect to payments on the Bonds.

In addition, the seller will indemnify, defend and hold harmless the Trustee (for itself), our Independent Managers and each of their respective officers, directors, employees and agents against any and all liabilities, obligations, losses, claims, damages, payments, costs or expenses incurred by any of these parties as a result of the seller's breach of any of its representations and warranties or covenants contained in the sale agreement, except to the extent of such losses either resulting from the willful misconduct, bad faith or negligence of such indemnified persons or resulting from a breach of a representation or warranty made by such indemnified persons in the indenture or any related documents that gives rise to the seller's breach. The seller will not be required to indemnify any person otherwise indemnified under the sale agreement for any amount paid or payable by such person in the settlement of any action, proceeding or investigation without the prior written consent of the seller, which consent will not be unreasonably withheld.

The seller will indemnify the servicer (if the servicer is not the seller) for the costs of any action instituted by the servicer pursuant to the servicing agreement which are not paid as an operating expense under the indenture.

The indemnification provided for in the sale agreement will survive any repeal of, modification of, or supplement to, or judicial invalidation of, Subchapter N or the debt obligation order and will survive the resignation or removal of the Trustee, or the termination of the sale agreement and will rank in priority with other general, unsecured obligations of the seller. The seller shall not indemnify any person otherwise indemnified under the sale agreement for any changes in law after the

issuance date, whether such changes in law are effected by means of any legislative enactment, constitutional amendment or any final and non-appealable judicial decision.

ERCOT's indemnification obligations will rank equally in right of payment with other general unsecured obligations of ERCOT.

Successors to the Seller

Any entity which becomes the successor by merger, sale, transfer, lease, management contract or otherwise to all or substantially all of the electric transmission and distribution business of ERCOT may assume the rights and obligations of ERCOT under the sale agreement. So long as the conditions of any such assumption are met, ERCOT will automatically be released from its obligations under the sale agreement. The conditions include that:

- immediately after giving effect to any transaction referred to in this paragraph, no representation, warranty or covenant made in the sale agreement will have been breached, and no servicer default, and no event that, after notice or lapse of time, or both, would become a servicer default will have occurred and be continuing,
- the successor must execute an agreement of assumption to perform all of the obligations of the seller under the sale agreement;
- officers' certificates and opinions of counsel specified in the sale agreement will have been delivered to us, the Trustee and the rating agencies, and
- the rating agencies will have received prior written notice of the transaction.

Amendment

The sale agreement may be amended in writing by the seller and us, if a copy of the amendment is provided by us to each rating agency and the Rating Agency Condition is satisfied, with the consent of the Trustee and, with respect to amendments that would increase ongoing costs as defined in the debt obligation order, the consent or deemed consent of the Commission. If any such amendment would adversely affect the interest of any bondholder in any material respect, the consent of the holders of a majority of each affected tranche of bonds is also required. In determining whether a majority of the bondholders have consented, bonds owned by us, ERCOT or any affiliate of us shall be disregarded, except that, in determining whether the Trustee shall be protected in relying upon any such consent, the Trustee shall only be required to disregard any bonds that a responsible officer of the Trustee actually knows to be so owned.

In addition, the sale agreement may be amended in writing by the seller and us with ten (10) business days' prior written notice given to the rating agencies and, if the contemplated amendment may in the judgment of the Commission increase ongoing costs, the consent of the Commission, but without the consent of any of the bondholders, (i) to cure any ambiguity, to correct or supplement any provisions in the sale agreement or for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions in the sale agreement or of modifying in any manner the rights of the bondholders; provided, however, that such action shall not, as evidenced by an officer's certificate delivered to us and the Trustee, adversely affect in any material respect the interests of any bondholder or (ii) to conform the provisions of the sale agreement to the description of the sale agreement in this Offering Memorandum. Promptly after the execution of any such amendment or consent, we will furnish copies of such amendment or consent to each of the rating agencies.

THE SERVICING AGREEMENT

The following summary describes the material terms and provisions of the servicing agreement pursuant to which the servicer is undertaking to service the uplift property. For more information regarding the Servicing Agreement see "Where Prospective Investors Can Find More Information" in this Offering Memorandum.

Servicing Procedures

The servicer, as our agent, will manage, service and administer, and invoice and collect payments in respect of the uplift property according to the terms of the servicing agreement. The servicer's duties will include: calculating, billing and collecting the uplift charges from responsible QSEs or an agent appointed by the servicer or an account designated under the intercreditor agreement to collect the charges, as applicable, and posting all collections; responding to inquiries of responsible QSEs, obligated LSEs, the Commission or any other governmental authority regarding the uplift property; calculating load ratio share basis; accounting for collections; furnishing periodic reports and statements to us, the rating agencies and to the Trustee; making all filings with the Commission and taking all other actions necessary to perfect our ownership interests in and the Trustee's lien on the uplift property; making all filings and taking such other action as may be necessary to perfect the Trustee's lien on and security interest in all collateral that is not uplift property; selling, as our agent, as our interests may appear, defaulted or written off accounts; and taking all necessary action in connection with true-up adjustments.

The servicer will be responsible for maintenance of uplift charge deposits. The uplift charge deposits, which are isolated and held in account at the Issuing Entity, will be managed by the servicer and will be a supplemental source of payment of uplift charges on behalf of responsible QSEs for any unpaid or delinquent uplift charges. The servicer will be required to deliver to the Trustee proceeds of uplift charge deposits or proceeds of standby letters of credit it manages for us should any responsible QSE default in making payment of uplift charges. The servicer will be permitted to enforce all rights set forth in and take all steps permitted in the debt obligation order, ERCOT Protocols, and Commission regulations reasonably necessary to ensure prompt payment of uplift charges and uplift deposits. The servicer may invest any cash uplift charge deposits in eligible investments.

The servicer is required to notify us, the Trustee and the rating agencies in writing of any laws or Commission regulations promulgated after the execution of the servicing agreement that have a material adverse effect on the servicer's ability to perform its duties under the servicing agreement. The servicer is also authorized to execute and deliver documents and to make filings and participate in proceedings on our behalf.

In addition, upon our reasonable request or the reasonable request of the Trustee or any rating agency, the servicer will provide to us, the Trustee or rating agency, public financial information about the servicer and any material information about the uplift property that is reasonably available, as may be reasonably necessary and permitted by law to enable us, the Trustee or rating agency to monitor the servicer's performance (provided, however, that any such request by the Trustee will not create an obligation for the Trustee to monitor the servicer's performance) and, so long as any bonds are outstanding, within a reasonable time after written request thereof, any information available to the servicer or reasonably obtainable by it that is necessary to calculate the uplift charges applicable to each responsible QSE. The servicer will also prepare any reports required to be filed by us with the Trustee and will cause to be delivered required opinions of counsel to the effect that all filings with the Commission necessary to preserve and protect the interests of the Trustee in the uplift property have been made.

Servicing Standards and Covenants

The servicing agreement will require the servicer, in servicing and administering the uplift property, to employ or cause to be employed procedures and exercise or cause to be exercised the same care and diligence it customarily employs and exercises with respect to billing and collection activities it conducts for its own account and, if applicable, for others.

The servicing agreement requires the servicer to implement procedures and policies to ensure that responsible QSEs remit the uplift charges collected from their obligated LSEs to the servicer on behalf of us and the bondholders. These procedures and policies include creating and maintaining records that would permit prompt transfer of billing responsibilities in the event that a responsible QSE defaults. The servicer will also monitor payments from responsible QSEs and will take all permitted steps to ensure and collect payment by the responsible QSEs. The servicer will impose collection policies on the responsible QSEs, as permitted under the debt obligation order and the rules of the Commission. Any agreement entered into between the servicer and a defaulted responsible QSE must satisfy the Rating Agency Condition.

The servicing agreement requires the servicer to (i) manage, service, administer and make collections in respect of the uplift property with reasonable care and in material compliance with applicable requirements of law, including all applicable

regulations of the Commission, (ii) follow customary standards, policies and procedures for the industry in Texas in performing its duties, (iii) use all reasonable efforts, consistent with ERCOT Protocols, including any protocols created in relation to Subchapter N, to enforce, and maintain rights in respect of, the uplift property and to invoice and collect the uplift charges, (iv) comply with all requirements of law including all applicable regulations of the Commission applicable to and binding on it relating to the uplift property, (v) file all notices with the Commission described in Subchapter N and file and maintain the effectiveness of UCC financing statements with respect to the property transferred from time to time under the sale agreement, and (vi) take such other action on our behalf to ensure that the lien of the Trustee on the collateral remains perfected and of first priority.

The servicer is responsible for instituting any proceeding to compel performance by the state of Texas or the Commission of their respective obligations under Subchapter N, the debt obligation order, any issuance advice letter, or any true-up adjustment. The servicer is also responsible for instituting any proceeding as may be reasonably necessary to block or overturn any attempts to cause a repeal of, modification of or supplement to Subchapter N or the debt obligation order or the rights of holders of uplift property by legislative enactment, voter initiative or constitutional amendment that would be materially adverse to bondholders or which would cause an impairment of the rights of the Issuing Entity or the bondholders. In any proceedings related to the exercise of the power of eminent domain by any municipality to acquire a portion of ERCOT's operations, the servicer will assert that the court ordering such condemnation must treat such municipality as a successor to ERCOT under Subchapter N and the debt obligation order. The servicing agreement also designates the servicer as the custodian of our records and documents. The servicing agreement requires the servicer to indemnify us, our Independent Managers and the Trustee (for itself and for your benefit) for any negligent act or omission relating to the servicer's duties as custodian, except in the case of willful misconduct, bad faith or negligence of us, any Independent Manager or the Trustee.

True-Up Adjustment Process

Among other things, the debt obligation order and the servicing agreement both require the servicer to file true-up adjustments quarterly. In addition to these mandatory true-up adjustment requests, the servicer may file at any time optional true-up adjustments in order to assure timely payment of the Bonds and the other amounts payable with respect to the Bonds. For more information on the true-up process, please read "ERCOT's Debt Obligation Order—Statutory True-Ups."

As part of each true-up adjustment, the servicer will calculate the uplift charges which must be billed in order to generate the revenues for the ensuing 12-month period necessary to result in:

- all accrued and unpaid interest on the Bonds being paid in full,
- the outstanding principal balance of the Bonds equaling the amount provided in the expected amortization schedule,
- the amount on deposit in the capital subaccount equaling the required capital level, and
- all other fees, expenses and indemnities of the Issuing Entity (up to the authorized amounts of such payments set forth in the debt obligation order) being paid.

In calculating the necessary true-up adjustment, the servicer will use its most recent daily uplift amount and its most current estimates of ongoing transaction-related expenses. The true-up adjustment will reflect (i) any increases or decreases in the periodic payment requirement, including any unanticipated ongoing costs relating to the administration and maintenance of the Bonds, (ii) any changes to the ERCOT Protocols or procedures relating to the forecasting of projected loads, uncollectibles, and delinquencies, including declines in collection from any responsible QSEs, (iii) any changes to the ERCOT Protocols relating to its allocation methodology for the collection of uplift charges, to the extent permitted under the debt obligation order, and (iv) any changes to the ERCOT Protocols or procedures relating to the collection of uplift charges from responsible QSEs, to the extent permitted under the debt obligation order. The true-up adjustment will also take into account any amounts due to any responsible QSEs as a result of the reconciliation of the remittances and collections, and any under-collections due to any reason.

There is no cap on the level of uplift charges that may be imposed on responsible QSEs as a result of the true-up process.

The servicer must provide timely notice to the Commission of any true-up adjustment. The Commission must be given at least forty-five (45) days' notice in the case of mandatory quarterly true-ups and at least fifteen (15) days' notice in the case of an optional interim true-up prior to the first billing cycle of the month in which the revised daily amortization amount will be in effect. In the event any correction to a true-up adjustment due to mathematical errors in the calculation of the adjustment or otherwise is necessary, the corrections will be made in a future true-up adjustment.

In the case any true-up adjustment goes into effect after the final scheduled payment date, the calculation period shall begin on the date the true-up adjustment goes into effect and end on the payment date next following such true-up adjustment date.

Remittances to Collection Account

The servicer will remit estimated collection payments on the uplift charges to the Trustee for deposit in the collection account each business day. For a description of the allocation of the deposits, please read "Security for the Bonds—How Funds in the Collection Account will be Allocated." Please read "Risk Factors—Risks Associated with Potential Bankruptcy Proceedings of the Seller or the Servicer" in this Offering Memorandum.

The servicer will remit to the Trustee uplift charge collections received from responsible QSEs.

The servicing agreement requires that, in the event a responsible QSE does not pay in full all amounts owed under any invoice, including uplift charges, any resulting shortfalls in uplift charges will be allocated ratably between the Trustee and other bond trustees for each series of Additional Bonds and the trustee for the Texas Stabilization M Bonds.

Servicing Compensation

The servicer will be entitled to receive an annual servicing fee in an amount equal to:

- 0.05% of the original aggregate principal amount of the Bonds for so long as the servicer remains ERCOT or an affiliate; or
- if ERCOT or any of its affiliates is not the servicer, an amount agreed upon by the successor servicer and the Trustee, but any amount in excess of 0.60% of the original aggregate principal amount of the Bonds must be approved by the Commission.

The servicing fee shall be paid semi-annually with half of the servicing fee being paid on each payment date. The servicer will also be entitled to retain any interest earnings on uplift charge collections prior to remittance to the collection account, as well as all late payment charges, if any, collected from responsible QSEs. However, if the servicer has failed to remit the uplift charge collections to any collection account within two (2) bank business days that the servicer received such uplift charge collections on more than three (3) occasions during the period that the Bonds are outstanding, then thereafter the servicer will be required to pay to the Trustee any interest earnings on uplift charge collections received by the servicer and invested by the servicer during each collection period prior to remittance to the collection account for so long as the Bonds remain outstanding. The Trustee will pay the servicing fee on each payment date (together with any portion of the servicing fee that remains unpaid from prior payment dates) to the extent of available funds prior to the distribution of any interest on and principal of the Bonds.

Servicer Representations and Warranties; Indemnification

In the servicing agreement, the servicer will represent and warrant to us, as of the issuance date of the Bonds, among other things, that:

- the servicer is duly organized, validly existing and is in good standing under the laws of the state of its organization (which is Texas when ERCOT is the servicer), with requisite corporate or other power and authority to own its properties, to conduct its business as such properties are currently owned and such business is presently conducted by it, and to service the uplift property and hold the records related to the uplift property, and to execute, deliver and carry out the terms of the servicing agreement and the intercreditor agreement;
- the servicer is duly qualified to do business, is in good standing and has obtained all necessary licenses and approvals in all jurisdictions in which the ownership or lease of property or the conduct of its business (including the servicing of the uplift property as required under the servicing agreement and the intercreditor agreement) requires such qualifications, licenses or approvals (except where a failure to qualify would not be reasonably likely to have a material adverse effect on the servicer's business, operations, assets, revenues or properties or to its servicing of the uplift property);
- the execution, delivery and performance of the terms of the servicing agreement have been duly authorized by all necessary action on the part of the servicer under its organizational or governing documents and laws;

- each of the servicing agreement and the intercreditor agreement constitutes a legal, valid and binding obligation of the servicer, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, fraudulent transfer and other laws relating to or affecting creditors' rights generally from time to time in effect and to general principles of equity, regardless of whether considered in a proceeding in equity or at law (including concepts of materiality, reasonableness, good faith and fair dealing);
- the consummation of the transactions contemplated by the servicing agreement and the intercreditor agreement do not conflict with, result in any breach of, nor constitute a default under the servicer's organizational documents or any indenture or other agreement or instrument to which the servicer is a party or by which it or any of its property is bound, result in the creation or imposition of any lien upon the servicer's properties pursuant to the terms of any such indenture or agreement or other instrument (other than any lien that may be granted in favor of the Trustee for the benefit of the bondholders under the basic documents) or violate any existing law or any existing order, rule or regulation applicable to the servicer of any governmental authority having jurisdiction over the servicer or its properties;
- each report or certificate delivered in connection with the issuance advice letter or delivered in connection with any filing made to the Commission by us with respect to the uplift charges or true-up adjustments will be true and correct in all material respects, or, if based in part on or containing assumptions, forecasts or other predictions of future events, such assumptions, forecasts or predictions are reasonable based on historical performance (and facts known to the servicer on the date such report or certificate is delivered);
- no governmental approvals, authorizations, consents, orders or other actions or filings with any governmental authority are required for the servicer to execute, deliver and perform its obligations under the servicing agreement or the intercreditor agreement except those which have previously been obtained or made, those that are required to be made by the servicer in the future pursuant to the servicing agreement and those that the servicer may need to file in the future to continue the effectiveness of any financing statements; and
- no proceeding is pending and, to the servicer's knowledge, there are no proceedings threatened and, to the servicer's knowledge, there are no investigations pending or threatened before any governmental authority having jurisdiction over the servicer or its properties involving or relating to the servicer or the Issuing Entity or, to the servicer's knowledge, any other person, asserting the invalidity of the servicing agreement or the other basic documents, seeking to prevent issuance of the Bonds or the consummation of the transactions contemplated by the servicing agreement or other basic documents, seeking a determination that could reasonably be expected to materially and adversely affect the performance by the servicer of its obligations under or the validity or enforceability of the servicing agreement or the other basic documents, the Bonds or seeking to adversely affect the federal income tax or state income or franchise tax classification of bonds as debt.

The servicer is not responsible for any ruling, decision, action or determination made or not made, or any delay of the Commission (except any delay caused by the servicer's failure to file required documents in a timely and correct manner or other breach of its duties under the servicing agreement that adversely affects the uplift property or the true-up adjustments) in any way related to the uplift property, the uplift charges or any true-up adjustment. The servicer also is not liable for the calculation of the uplift charges and adjustments, including any inaccuracy in the assumptions made in the calculation, so long as the servicer has acted in good faith and has not acted in a negligent manner or for any person, including the bondholders, not receiving any payment, amount or return anticipated or expected or in respect of any bond generally, except only to the extent that the same is caused by the servicer's negligence, willful misconduct, or bad faith.

The Servicer Will Indemnify Us, Other Entities and the Commission in Limited Circumstances

The servicer will indemnify, defend and hold harmless us and the Trustee (for itself and for your benefit) and the Independent Managers and each of their respective officers, directors, employees and agents from any and all liabilities, obligations, losses, damages, payments and claims, and reasonable costs or expenses, arising as a result of:

- the servicer's willful misconduct, bad faith or negligence in the performance of, or reckless disregard of, its duties or observance of its covenants under the servicing agreement or the intercreditor agreement,
- the servicer's breach of any of its representations or warranties under the servicing agreement or the intercreditor agreement,
- litigation and related expenses relating to its status and obligations as servicer (other than any proceeding the servicer is required to institute under the servicing agreement), and

- any finding that interest payable to a QSE with respect to disputed funds must be paid by us or from the uplift property.

The servicer will not be liable, however, for any liabilities, obligations, losses, damages, payments or claims, or reasonable costs or expenses, resulting from the willful misconduct, bad faith or gross negligence of the party seeking indemnification, or resulting from a breach of a representation or warranty made by any such person in any of the basic documents that give rise to the servicer's breach.

In addition, the servicer will agree to indemnify the Commission (for the benefit of responsible QSEs) in connection with any liabilities, obligations, losses, damages, payments and claims, including any increase in servicing fees as described under "—Servicing Compensation," resulting from the servicer's willful misconduct, bad faith or negligence in performance of its duties or observance of its covenants under the servicing agreement as provided in the debt obligation order. Any such indemnity payments made to the Commission for the benefit of the responsible QSEs will be remitted to the Trustee promptly for deposit in the collection account.

Except for payment of the servicing fee, reimbursement of excess remittances and certain costs incurred and payment of the purchase price of the uplift property, the servicing agreement also provides that the servicer releases us and our Independent Managers, the Trustee and each of our respective officers, directors and agents from any actions, claims and demands which the servicer, in the capacity of servicer or otherwise, may have against those parties relating to the uplift property or the servicer's activities with respect to the uplift property, other than actions, claims and demands arising from the willful misconduct, bad faith or gross negligence of the parties.

The Commission, acting through its authorized legal representative, may enforce the servicer's obligations imposed pursuant to the debt obligation order for the benefit of responsible QSEs to the extent permitted by law.

Evidence as to Compliance

The Servicing Agreement will provide that the servicer will furnish annually to us, the Trustee and the rating agencies, on or before March 31 of each year, beginning March 31, 2023, a certificate from a responsible officer of the servicer, stating that: (i) a review of the activities of the servicer during the preceding calendar year (or relevant portion thereof in the case of the first certificate of a responsible officer) and of its performance under the Servicing Agreement has been made under such officer's supervision, and (ii) to the best of such officer's knowledge, after reasonable inquiry, based on such review, the servicer has fulfilled all its obligations in all material respects under the Servicing Agreement throughout the period or, if there has been a default in the fulfillment of any such obligation, describing each such default and its status.

The Servicing Agreement also provides that a firm of independent certified public accountants, at the servicer's expense, will furnish annually to us, the Trustee and the rating agencies on or before March 31 of each year, beginning March 31, 2023, to the effect that such firm has performed certain procedures in connection with the servicer's compliance with its obligations under the Servicing Agreement during the preceding calendar year identifying the results of such procedures and including any exceptions noted. The report will also indicate that the accounting firm providing the report is independent of the services within the meaning of the Public Accounting Oversight Board.

The servicer will also be required to deliver to us, the Trustee and the rating agencies monthly reports setting forth certain information relating to collections of uplift charges received during the preceding calendar month and, shortly before each payment date, a semi-annual certificate setting forth the amount of principal and interest payable to bondholders on such date, the difference between the principal outstanding on the Bonds and the amounts specified in the related expected amortization schedule after giving effect to any such payments, and the amounts on deposit in the capital subaccount and excess funds subaccount after giving effect to all transfers and payments to be made on such payment date.

In addition, the servicer is required to send copies of each filing or notice evidencing a true-up adjustment to us and the Trustee. The servicer is also required to prepare and deliver certain disclosures to responsible QSEs, and to provide to the rating agencies any non-confidential and non-proprietary information about the responsible QSEs as is reasonably requested by the rating agencies.

Matters Regarding the Servicer

The servicing agreement will provide that ERCOT may not resign from its obligations and duties as servicer thereunder, except when ERCOT delivers to the Trustee and the Commission an opinion of independent legal counsel to the effect that ERCOT's performance of its duties under the servicing agreement is no longer permissible under applicable law. No resignation by ERCOT as servicer will become effective until a successor servicer has assumed ERCOT's servicing obligations and duties under the servicing agreement.

The servicing agreement further provides that neither the servicer nor any of its directors, officers, employees, or agents will be liable to us or to the Trustee, our managers, you or any other person or entity, except as provided under the servicing agreement, for taking any action or for refraining from taking any action under the servicing agreement or for good faith errors in judgment. However, neither the servicer nor any person or entity will be protected against any liability that would otherwise be imposed by reason of willful misconduct, bad faith or negligence in the performance of its duties, or in the case of an Independent Manager, bad faith or willful misconduct. The servicer and any of its directors, officers, employees or agents may rely in good faith on the advice of counsel reasonably acceptable to the Trustee or on any document submitted by any person respecting any matters under the servicing agreement. In addition, the servicing agreement will provide that the servicer is under no obligation to appear in, prosecute, or defend any legal action, except as provided in the servicing agreement at our expense.

Under the circumstances specified in the servicing agreement, any entity which becomes the successor by merger, sale, transfer, lease, management contract or otherwise to all or substantially all of the servicer's operations may assume all of the rights and obligations of the servicer under the servicing agreement. The following are conditions to the transfer of the duties and obligations to a successor servicer:

- immediately after the transfer, no representation or warranty made by the servicer in the servicing agreement will have been breached and no servicer default or event which after notice of, lapse of time or both, would become a servicer default, has occurred and is continuing;
- the successor to the servicer must execute an agreement of assumption to perform every obligation of the servicer under the servicing agreement;
- the servicer has delivered to us and to the Trustee an officer's certificate and an opinion of counsel stating that the transfer complies with the servicing agreement and all conditions to the transfer under the servicing agreement have been complied with;
- the servicer has delivered to us and to the Trustee and the rating agencies an opinion of counsel stating either that all necessary filings, including those with the Commission, to preserve, perfect and maintain the priority of our interests in and the Trustee's lien on the uplift property, have been made or that no filings are required;
- the servicer has given prior written notice to the rating agencies; and
- the servicer has delivered to us, the Commission, the Trustee and the rating agencies an opinion of independent tax counsel to the effect that, for federal income tax purposes, such transaction will not result in a material federal income tax consequence to the Issuing Entity or the bondholders.

So long as the conditions of any such assumptions are met, then the prior servicer will automatically be released from its obligations under the servicing agreement.

The servicing agreement permits the servicer to appoint any person to perform any or all of its obligations. However, unless the appointed person is an affiliate of ERCOT, appointment must satisfy the Rating Agency Condition. In all cases, the servicer must remain obligated and liable under the servicing agreement.

Servicer Defaults

Servicer defaults under the servicing agreement will include:

- any failure by the servicer to remit any amount, including payments arising from the uplift charges into the collection account as required under the servicing agreement, which failure continues unremedied for five (5) business days after written notice from us or the Trustee is received by the servicer or after discovery of the failure by an officer of the servicer;
- any failure by the servicer to duly perform its obligations to make uplift charge adjustment filings in the time and manner set forth in the servicing agreement, which failure continues unremedied for a period of five (5) days;
- any failure by the servicer or, if the servicer is ERCOT or an affiliate of ERCOT, by ERCOT to observe or perform in any material respect any covenants or agreements in the servicing agreement or the other basic documents to which it is a party, which failure materially and adversely affects the rights of bondholders and which continues unremedied for sixty (60) days after written notice of this failure has been given to the servicer or, if the servicer is ERCOT or an affiliate of ERCOT, by us or by the Trustee or after such failure is discovered by an officer of the servicer;

- any representation or warranty made by the servicer in the servicing agreement or any basic document proves to have been incorrect in a material respect when made, which has a material adverse effect on the bondholders and which material adverse effect continues unremedied for a period of sixty (60) days after the giving of written notice to the servicer by us or the Trustee after such failure is discovered by an officer of the servicer; and
- events of bankruptcy, insolvency, receivership or liquidation of the servicer.

Rights Upon a Servicer Default

In the event of a servicer default that remains unremedied, the Trustee may, and upon the instruction of the Commission or the holders of bonds evidencing not less than a majority in principal amount of then outstanding bonds, the Trustee will terminate all the rights and obligations of the servicer under the servicing agreement, other than the servicer's indemnity obligation and obligation to continue performing its functions as servicer until a successor servicer is appointed. After the termination, the Trustee may and, upon the instruction of the holders of bonds evidencing not less than a majority in principal amount of then outstanding bonds, the Trustee will appoint a successor servicer who will succeed to all the responsibilities, duties and liabilities of the servicer under the servicing agreement and will be entitled to similar compensation arrangements. Any successor servicer must be approved by all of the trustees party to the intercreditor agreement and is subject to satisfaction of the Rating Agency Condition.

In addition, when a servicer defaults by failing to remit uplift charges as required by the servicing agreement, the bondholders (in accordance with the indenture) and the Trustee as beneficiary of any lien will be entitled to (i) apply to a Travis County, Texas district court for sequestration and payment of revenues arising from the uplift property, (ii) foreclose on or otherwise enforce the lien and security interests in any uplift property, and (iii) apply to the Commission for an order that amounts arising from the uplift charges be transferred to a separate account for the benefit of the bondholders in accordance with Subchapter N. If, however, a bankruptcy trustee or similar official has been appointed for the servicer, and no servicer default other than an appointment of a bankruptcy trustee or similar official has occurred, that bankruptcy trustee or official may have the power to prevent the Trustee or the bondholders from effecting a transfer of servicing. Please read "Risk Factors—Risks Associated with Potential Bankruptcy Proceedings of the Seller or the Servicer" and "How a Bankruptcy May Affect Your Investment" in this Offering Memorandum.

If within thirty (30) days after the delivery of the termination notice, a new servicer shall not have been appointed, the Trustee may appoint, or petition the Commission or a court of competent jurisdiction for the appointment of, a successor servicer which satisfies the Rating Agency Condition. In no event will the Trustee be liable for its appointment of a successor servicer. The Trustee may make arrangements for compensation to be paid to the successor servicer.

ERCOT is also the servicer of certain default property sold to Texas Funding M as described in "Relationship to the Texas Stabilization M Bonds, 2021" and may be the servicer of certain other property sold in the future. We and Texas Funding M will enter into an intercreditor agreement which requires that any replacement servicer for the Bonds also act as servicer for Texas Funding M's Texas Stabilization M Bonds. Consequently, it may be impractical and/or difficult upon a servicer default to appoint a replacement servicer unless the holders of bonds issued by Texas Funding M have similarly elected to replace ERCOT as servicer of the default property owned by Texas Funding M. Please read "Relationship to the Texas Stabilization M Bonds, 2021."

Waiver of Past Defaults

The Commission, together with holders of bonds evidencing not less than a majority in principal amount of the then outstanding bonds, on behalf of all bondholders, may direct the Trustee to waive in writing any default by the servicer in the performance of its obligations under the servicing agreement and its consequences, except a default in making any required remittances to the collection account under the servicing agreement. The servicing agreement provides that no waiver will impair the bondholders' rights relating to subsequent defaults. Promptly after executing such a waiver, the servicer will furnish a copy of such waiver to each rating agency.

Successor Servicer

If for any reason a third-party assumes the role of the servicer under the servicing agreement, the servicing agreement will require the servicer to cooperate with us and with the Trustee and the successor servicer in terminating the servicer's rights and responsibilities under the servicing agreement, including the transfer to the successor servicer of all cash amounts then held by the servicer for remittance or subsequently acquired. The servicing agreement will provide that the servicer will be liable for the reasonable costs and expenses incurred in transferring the uplift property records to the successor servicer and amending the servicing agreement to reflect such succession if such transfer is the result of a servicer default.

Amendment

The servicing agreement may be amended in writing by the servicer and us, if a copy of the amendment is provided by us to each rating agency and if the Rating Agency Condition has been satisfied, with the prior written consent of the Trustee and, with respect to amendments that would increase ongoing costs as defined in the debt obligation order, the consent or deemed consent of the Commission. If any such amendment would adversely affect the interest of any bondholder in any material respect, the consent of the holders of a majority of the outstanding principal amount of the Bonds is also required.

In addition, the servicing agreement may be amended in writing by the servicer and us with ten (10) business days' prior written notice given to the rating agencies and the prior written consent of the Trustee (which consent shall be given in reliance on an opinion of counsel and an officer's certificate stating that such amendment is permitted or authorized under and adopted in accordance with the provisions of the servicing agreement and that all conditions precedent have been satisfied, upon which the Trustee may conclusively rely) and, if the contemplated amendment may in the judgment of the Commission increase ongoing costs, the consent of the Commission, but without the consent of any of the bondholders, (i) to cure any ambiguity, to correct or supplement any provisions in the servicing agreement or for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions in the servicing agreement or of modifying in any manner the rights of the bondholders; provided, however, that such action shall not, as evidenced by an officer's certificate delivered to us and the Trustee, adversely affect in any material respect the interests of any bondholder or (ii) to conform the provisions of the servicing agreement to the description of the servicing agreement in this Offering Memorandum. Promptly after the execution of any such amendment or consent, we will furnish copies of such amendment or consent to each of the rating agencies.

If the Commission adopts rules or regulations or if ERCOT revises its Uplift Charge Protocols, the effect of which is to modify or supplement any provision of the servicing agreement related to the credit and deposit requirements for QSEs and which the rating agencies have confirmed will not result in a suspension, withdrawal or downgrade of the then-current ratings on the Bonds, and if the servicer has notified us and the Trustee in writing of such modification or supplement and delivered an opinion of counsel stating that such modification or supplement is authorized and permitted by the servicing agreement, the servicing agreement will be so modified or supplemented on the effective date of such rule or regulation without the necessity of any further action by any party to the servicing agreement.

HOW A BANKRUPTCY MAY AFFECT YOUR INVESTMENT

Challenge to True Sale Treatment

ERCOT will represent and warrant that the transfer of the uplift property in accordance with the sale agreement constitutes a true and valid sale and assignment of that uplift property by ERCOT to us. It will be a condition of closing for the sale of the uplift property pursuant to the sale agreement that ERCOT will take the appropriate actions to perfect this sale. We and ERCOT will treat the transfer of uplift property as a sale under applicable law. However, we expect that bonds will be reflected as debt on ERCOT's consolidated financial statements. In addition, we anticipate that the Bonds will be treated as debt of ERCOT for federal income tax purposes. Please read "Material U.S. Federal Income Tax Consequences." In the event of an ERCOT bankruptcy, if a party in interest in the bankruptcy case were to take the position that the transfer of the uplift property to us pursuant to that sale agreement was a financing transaction and not a true sale under applicable law, there can be no assurance that a court would not adopt this position. Even if a court did not ultimately recharacterize the transaction as a financing transaction, the mere commencement of a bankruptcy of ERCOT and the attendant possible uncertainty surrounding the treatment of the transaction could result in delays in payments on the Bonds.

In that regard, we note that the bankruptcy court in *In re: LTV Steel Company, Inc., et al.*, 274 B.R. 278 (Bankr. N. D. Oh. 2001) issued an interim order that observed that a debtor, LTV Steel Company, which had previously entered into securitization arrangements with respect both to its inventory and its accounts receivable may have "at least some equitable interest in the inventory and receivables, and that this interest is property of the Debtor's estate. . . sufficient to support the entry of an interim order permitting the debtor to use proceeds of the property sold in the securitization." 274 B.R. at 285. The court based its decision in large part on its view of the equities of the case.

LTV and the securitization investors subsequently settled their dispute over the terms of the interim order and the bankruptcy court entered a final order in which the parties admitted and the court found that the pre-petition transactions constituted "true sales." The court did not otherwise overrule its earlier ruling. The LTV memorandum opinion serves as an example of the pervasive equity powers of bankruptcy courts and the importance that such courts may ascribe to the goal of reorganization, particularly where the assets sold are integral to the ongoing operation of the debtor's business.

Even if creditors did not challenge the sale of the uplift property as a true sale, a bankruptcy filing by ERCOT could trigger a bankruptcy filing by us with similar negative consequences for bondholders. In a recent bankruptcy case, *In re*

General Growth Properties, Inc., General Growth Properties, Inc. filed for bankruptcy together with many of its direct and indirect subsidiaries, including many subsidiaries that were organized as special purpose vehicles. The bankruptcy court upheld the validity of the filings of these special purpose subsidiaries and allowed the subsidiaries, over the objections of their creditors, to use the lenders' cash collateral to make loans to the parent for general corporate purposes. The creditors received adequate protection in the form of current interest payments and replacement liens to mitigate any diminution in value resulting from the use of the cash collateral, but the opinion serves as a reminder that bankruptcy courts may subordinate or delay the legal rights of creditors to the interests of helping debtors reorganize.

We and ERCOT have attempted to mitigate the impact of a possible recharacterization of a sale of the uplift property as a financing transaction under applicable creditors' rights principles. The sale agreement will provide that if the transfer of the uplift property is thereafter recharacterized by a court as a financing transaction and not a true sale, the transfer by ERCOT will be deemed to have granted to us on behalf of ourselves and the Trustee a first priority security interest in all ERCOT's right, title and interest in and to the uplift property and all proceeds thereof. In addition, the sale agreement will require the filing of a notice of security interest in the uplift property and the proceeds thereof. As a result of this filing, we would be a secured creditor of ERCOT and entitled to recover against the collateral or its value. This does not, however, eliminate the risk of payment delays or reductions and other adverse effects caused by an ERCOT bankruptcy. Further, if, for any reason, an uplift property notice is not filed or we fail to otherwise perfect our interest in the uplift property, and the transfer is thereafter deemed not to constitute a true sale, we would be an unsecured creditor of ERCOT.

Consolidation of the Issuing Entity and ERCOT

If ERCOT were to become a debtor in a bankruptcy case, a party in interest might attempt to substantively consolidate the assets and liabilities of ERCOT with our assets and liabilities. We and ERCOT have taken steps to attempt to minimize this risk. Please read "Texas Electric Market Stabilization Funds N LLC, The Issuing Entity" in this Offering Memorandum. However, no assurance can be given that if ERCOT were to become a debtor in a bankruptcy case, a court would not order that our assets and liabilities be substantively consolidated with those of ERCOT. Substantive consolidation could result in substantial delay of the payment of the claims of the beneficial owners of the Bonds, and to adjustment in timing and amount of such payments under a plan of reorganization in the bankruptcy case.

Status of Uplift Property as Current Property

ERCOT will represent in the sale agreement, and Subchapter N provides, that the uplift property sold pursuant to such sale agreement constitutes a current property right on the date that it is first transferred or pledged in connection with the issuance of bonds. Nevertheless, no assurance can be given that, in the event of a bankruptcy of ERCOT, a court would not rule that the uplift property comes into existence only as LSEs use electricity or some other future event.

If a court were to accept the argument that the uplift property comes into existence only as LSEs incur uplift charges, no assurance can be given that a security interest in favor of the bondholders would attach to the uplift charges after the commencement of the bankruptcy case or that the uplift property has validly been sold to us. If it were determined that the uplift property had not been sold to us, and the security interest in favor of the bondholders did not attach to the uplift property after the commencement of the bankruptcy case, then we would have an unsecured claim against ERCOT. If so, there could be delays and/or reductions in payments on the Bonds. Regardless of whether a court determined that the uplift property had been sold to us pursuant to a sale agreement, no assurances can be given that a court would not rule that any uplift charges relating to uplift charges incurred after the commencement of the bankruptcy could not be transferred to us or the Trustee.

In addition, in the event of a bankruptcy of ERCOT, a party in interest in the bankruptcy could assert that we should pay, or that we should be charged for, a portion of ERCOT's costs associated with managing the ERCOT electric grid or other expenses, which gave rise to the uplift charge receipts used to make payments on the Bonds.

Regardless of whether ERCOT is the debtor in a bankruptcy case, if a court were to accept the argument that uplift property sold pursuant to the sale agreement comes into existence only as uplift charges are incurred, a tax or government lien or other nonconsensual lien on property of ERCOT arising before that uplift property came into existence could have priority over our interest in that uplift property. Adjustments to the uplift charges may be available to mitigate this exposure, although there may be delays in implementing these adjustments.

Estimation of Claims; Challenges to Indemnity Claims

If ERCOT were to become a debtor in a bankruptcy case, to the extent we do not have secured claims as discussed above, claims, including indemnity claims, by us or the Trustee against ERCOT as seller or servicer under the sale agreement and the other documents executed in connection therewith would be unsecured claims and would be subject to

being discharged in the bankruptcy case. In addition, a party in interest in the bankruptcy may request that the bankruptcy court estimate any contingent claims that we or the Trustee have against ERCOT. That party may then take the position that these claims should be estimated at zero or at a low amount because the contingency giving rise to these claims is unlikely to occur. If a court were to hold that the indemnity provisions were unenforceable, we would be left with a claim for actual damages against ERCOT based on breach of contract principles. The actual amount of these damages would be subject to estimation and/or calculation by the court.

No assurances can be given as to the result of any of the above-described actions or claims. Furthermore, no assurance can be given as to what percentage of their claims, if any, unsecured creditors would receive in any bankruptcy proceeding involving ERCOT.

Enforcement of Rights by the Trustee

Upon an event of default under the indenture, the Trustee is permitted to enforce the security interest in the uplift property sold pursuant to the sale agreement in accordance with the terms of the indenture. In this capacity, the Trustee is permitted to request the Commission or a Travis County, Texas district court to order the sequestration and payment to bondholders of bonds of all revenues arising from the uplift charges. There can be no assurance, however, that the Commission or a district court judge would issue this order after a seller bankruptcy in light of the automatic stay provisions of Section 362 of the United States Bankruptcy Code. In that event, the Trustee may under the indenture seek an order from the bankruptcy court lifting the automatic stay with respect to this action by the Commission or a district court judge and an order requiring an accounting and segregation of the revenues arising from the uplift property sold pursuant to the sale agreement. There can be no assurance that a court would grant either order or when a court might grant either order.

Bankruptcy of the Servicer

The servicer is entitled to commingle the uplift charges that it receives with its own funds until each date on which the servicer is required to remit funds to the Trustee as specified in the servicing agreement. The UCC provides that so long as the proceeds are identifiable proceeds, the relative priority of a lien is not defeated or adversely affected by the commingling of uplift charges arising with respect to the uplift property with funds of the servicer. In the event of a bankruptcy of the servicer, a party in interest in the bankruptcy might assert, and a court might rule, that the uplift charges commingled by the servicer with its own funds and held by the servicer are property of the servicer, and are therefore property of the servicer's bankruptcy estate, rather than our property. If the court so rules, then the court would likely rule that the Trustee has only a general unsecured claim against the servicer for the amount of commingled uplift charges and could not recover the commingled uplift charges.

Further, even if a court ruled that we owned the commingled uplift charges, the automatic stay arising upon the bankruptcy of the servicer could delay the Trustee from receiving the commingled uplift charges held by the servicer as of the date of the bankruptcy until the court grants relief from the stay. A court ruling on any request for relief from the stay could be delayed pending the court's resolution of whether the commingled uplift charges are our property or are property of the servicer, including resolving any tracing of proceeds issues.

The servicing agreement will provide that the Trustee, as our assignee, together with the other persons specified therein, may vote to appoint a successor servicer that satisfies the Rating Agency Condition. The servicing agreement will also provide that the Trustee, together with the other persons specified therein, may petition the Commission or a court of competent jurisdiction to appoint a successor servicer that meets this criterion. However, the automatic stay in effect during a servicer bankruptcy might delay or prevent replacement of the servicer. Even if a successor servicer may be appointed and may replace the servicer, a successor may be difficult to obtain and may not be capable of performing all of the duties that ERCOT as servicer was capable of performing. Furthermore, should the servicer enter into bankruptcy, it may be permitted or required to stop acting as servicer, including before a successor servicer is appointed.

Bankruptcy of a Responsible QSE

A responsible QSE is not required to segregate the uplift charges it collects from its general funds. In a bankruptcy of a responsible QSE, however, a bankruptcy court might not recognize our right to receive the collected uplift charges that are commingled with other funds of a responsible QSE prior to, or as of the date of bankruptcy, including uplift charges or uplift charges associated with other issuances of bonds, as applicable, such as the Texas Stabilization M Bonds. If so, the collected uplift charges or uplift charges held by a responsible QSE as of the date of bankruptcy would not be available to us to pay amounts owing on the Bonds. In this case, we would have only a general unsecured claim against that responsible QSE for those amounts.

In addition, the bankruptcy of a responsible QSE may cause a delay in or prohibition of enforcement of various rights against the responsible QSE, including rights to require payments by such responsible QSE, rights to enforce against such responsible QSE's deposit account or any other security deposits of such responsible QSE held by the Trustee, rights to retain preferential payments made by the responsible QSE prior to bankruptcy, rights to require such responsible QSE to comply with financial provisions of PURA or other state laws, rights to terminate contracts with such responsible QSE and rights that are conditioned on the bankruptcy, insolvency or financial condition of such responsible QSE. Such a bankruptcy could also cause a possible disgorgement of any security deposits of such responsible QSE held by the Trustee.

USE OF PROCEEDS

We will use the proceeds of the issuance of the Bonds to pay the expenses of the issuance and sale of the Bonds and to purchase the uplift property from ERCOT.

The Commission approved the distribution of bond proceeds to obligated LSEs that demonstrated in the compliance proceeding that they were exposed to extraordinary costs. In accordance with the debt obligation order, the net proceeds from the sale of the uplift property will be sent to responsible QSEs for disbursement to obligated LSEs. Entities that opted-out, as described above, are not eligible to receive bond proceeds. Obligated LSEs that are eligible to receive bond proceeds are referred to below as eligible obligated LSEs.

Obligated LSEs are also required to use the proceeds to refund their retail customers who have paid or are otherwise obligated to pay the extraordinary costs. Any obligated LSE that receives bond proceeds in excess of their extraordinary costs is required to remit any excess amounts back to ERCOT as servicer, and such amounts will be applied going forward to reduce remaining uplift charges.

Bond Proceeds Allocation to Eligible Obligated LSEs

To determine the allocation of bond proceeds, ERCOT calculated total exposure, total exposure adjusted for transmission-voltage-customer opt-outs, and load-ratio share for each eligible obligated LSE, pursuant to the allocation methodology set forth in the Settlement Agreement and approved in the debt obligation order. ERCOT filed the allocation calculation in the compliance proceeding, and each eligible obligated LSE was required to file a verification of its allocation in the compliance proceeding. The allocation methodologies were intended to ensure that each obligated LSE will receive at least fifty percent (50%) of its adjusted total exposure, and that obligated LSEs with a higher risk of liquidity issues will receive one-hundred percent (100%) of their total exposure.

Eligible obligated LSEs will receive through their respective responsible QSEs their respective allocated portion of the proceeds of the Bonds. Each eligible obligated LSE that receives bond proceeds is required to (i) refund customers for any extraordinary costs that were passed through and paid by such obligated LSE's customers, and (ii) adjust customer invoices to remove any extraordinary costs that were passed through, but not paid by such obligated LSE's customers. If an obligated LSE is not allocated 100% of its total exposure, refunds or adjustments must be made in an amount that is not less than an amount that is proportionate to the percentage of the obligated LSEs' total exposure that was allocated to that obligated LSE.

PLAN OF SALE

Subject to the terms and conditions in the bond purchase agreement, or the **Bond Purchase Agreement**, among us, ERCOT and the Initial Purchasers, for whom Citigroup Global Markets Inc. and Barclays Capital Inc. are acting as representatives, we have agreed to sell to the Initial Purchasers, and the Initial Purchasers have severally agreed to purchase, the principal amount of the Bonds listed opposite each Initial Purchaser's name below:

Initial Purchaser	Tranche A-1	Tranche A-2	Tranche A-3	Tranche A-4
Citigroup Global Markets Inc.	\$ 210,000,000	\$ 210,000,000	\$ 160,265,000	\$ 160,230,000
Barclays Capital Inc.	\$ 120,000,000	\$ 120,000,000	\$ 91,580,000	\$ 91,560,000
Guggenheim Securities, LLC	\$ 72,000,000	\$ 72,000,000	\$ 54,948,000	\$ 54,936,000
Morgan Stanley & Co. LLC	\$ 72,000,000	\$ 72,000,000	\$ 54,948,000	\$ 54,936,000
RBC Capital Markets, LLC	\$ 72,000,000	\$ 72,000,000	\$ 54,948,000	\$ 54,936,000
Loop Capital Markets LLC	\$ 54,000,000	\$ 54,000,000	\$ 41,211,000	\$ 41,202,000
Total	\$ 600,000,000	\$ 600,000,000	\$ 457,900,000	\$ 457,800,000

Under the Bond Purchase Agreement, the Initial Purchasers will purchase and pay for all of the Bonds we offer, if any are taken. If an Initial Purchaser defaults, the Bond Purchase Agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or the Bond Purchase Agreement may be terminated.

The Initial Purchasers will offer the Bonds for sale from time to time in one or more transactions (which may include block transactions), in negotiated transactions or otherwise, or a combination of both methods of sale, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. The Initial Purchasers may do so by selling the Bonds to or through broker/dealers, who may receive compensation in the form of purchaser discounts and fees, concessions or commissions from the Initial Purchasers and/or the purchasers of the Bonds for whom it may act as agent. In connection with the sale of the Bonds, the Initial Purchasers may be deemed to have received compensation

in the form of an Initial Purchaser's discounts, and the Initial Purchasers may also receive commissions from the purchasers of the Bonds for whom it may act as agent.

The Bonds have not been and will not be registered under the Securities Act, or any state securities laws, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons, except to QIBs in reliance on Rule 144A under the Securities Act and to certain non-U.S. Persons in offshore transactions in reliance on Regulation S under the Securities Act. The Initial Purchasers have agreed that (i) they will not offer, sell or deliver the Bonds as part of their distribution at any time except to, or for the account or benefit of, persons reasonably believed to be QIBs in reliance on Rule 144A under the Securities Act and to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act, and (ii) they will have sent to each broker/dealer to which they sell Bonds in reliance on Regulation S during the 40-day restricted period, a confirmation or other notice detailing the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. Persons. Resales of the Bonds are restricted as described under "Transfer Restrictions" in this Offering Memorandum.

In addition, during the 40-day restricted period, an offer or sale of Bonds within the U.S. by a broker/dealer (whether or not they are participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

Purchasers of Bonds sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors.

As set forth in the Bond Purchase Agreement, the Issuing Entity has agreed to indemnify the Initial Purchasers against certain securities law liabilities or to contribute to payments which it may be required to make in that respect.

No action has been or will be taken by the Issuing Entity or any other person that would or is intended to permit a public offer of Bonds in any country or jurisdiction where action for that purpose is required. Accordingly, no offer or sale of any Bonds has been authorized in any country or jurisdiction where action for that purpose is required, and neither this Offering Memorandum nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from or published in any country or jurisdiction, except under circumstances which will result in compliance with applicable laws and regulations. The Issuing Entity will have no responsibility with respect to the right of any person to offer or sell Bonds or to distribute this Offering Memorandum or any other offering material relating to the Bonds in any country or jurisdiction except in compliance with applicable law.

The Bonds are new securities for which there currently is no market. The Initial Purchasers intend to make a market in the Bonds as permitted by applicable law. They are not obligated, however, to make a market in the Bonds and any market making may be discontinued at any time at their sole discretion and without notice. Accordingly, no assurance can be given as to the development or liquidity of any market for the Bonds.

It is expected that delivery of the Bonds will be made against payment therefor on the Closing Date specified on the cover page of this Offering Memorandum, which may be more than three Business Days following the date of pricing of the Bonds.

The Initial Purchasers' Representations with Respect to EEA Related Investors

The Initial Purchasers will represent and agree that they have not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the EEA. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of EU MiFID II; or
 - (ii) a customer within the meaning of Directive (EU) 2016/97 (the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II; or
 - (iii) not a qualified investor as defined in the EU Prospectus Regulation); and

- (b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds.

Prohibition of sales to UK retail investors

The Initial Purchasers will represent and agree that they have not offered, sold or otherwise made available and will not offer, sell or otherwise make available, any Bonds to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
 - (i) a retail client, as defined in point (8) of Article 2 of Commission Delegated Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the UK's European Union (Withdrawal) Act 2018; or
 - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the UK's European Union (Withdrawal) Act 2018.
 - (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the UK's European Union (Withdrawal) Act 2018; and
- (b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered.

The Initial Purchasers will represent and agree that:

- (i) they have only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuing Entity; and
- (ii) they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the UK.

Various Types of Initial Purchaser Transactions That May Affect the Price of the Bonds

Certain of the Initial Purchasers or their affiliates may in the future receive customary fees relating to, and each Initial Purchaser may from time to time take positions in, the Bonds.

We estimate that our share of the total expenses of the offering will be \$15,700,000.

The Initial Purchasers are purchasing the Bonds and reoffering them, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters, including the validity of the Bonds and other conditions contained in the Bond Purchase Agreement, such as receipt of ratings confirmations, officers' certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers and to reject offers in whole or in part.

The Issuing Entity expects to deliver the Bonds against payment for the Bonds on or about the date specified in the last paragraph of the cover page of this Offering Memorandum, which will be the fifth (5th) business day following the date of pricing of the Bonds. Since trades in the secondary market generally settle in two (2) business days, purchasers who wish to trade Bonds on the date of pricing or the succeeding two (2) business days will be required, by virtue of the fact that the Bonds initially will settle in T + 5, to specify alternative settlement arrangements to prevent a failed settlement.

AFFILIATIONS AND CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Issuing Entity is a wholly-owned subsidiary of ERCOT. ERCOT is a 501(c)(4) non-profit corporation organized under Texas law serving as an Independent System Operator. One of the Initial Purchasers, Citigroup Global Markets Inc., also served as structuring agent to ERCOT in connection with the structuring of the Bonds. Each of the sponsor, the initial servicer and the depositor may maintain other banking relationships in the ordinary course with U.S. Bank, including as

sponsor, servicer and depositor with respect to the Texas Stabilization M Bonds for which U.S. Bank N.A. also serves as trustee.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

General

The following is a general discussion of the material U.S. federal income tax consequences of the purchase, ownership and disposition of the Bonds. Except as specifically provided below with respect to Non-U.S. Holders (as defined below), this discussion does not address the tax consequences to persons other than initial purchasers who are U.S. Holders (as defined below) that hold their Bonds as capital assets within the meaning of Section 1221 of the Internal Revenue Code, and it does not address all of the tax consequences relevant to investors that are subject to special treatment under the United States federal income tax laws (such as financial institutions, life insurance companies, retirement plans, regulated investment companies, persons who hold Bonds as part of a "straddle," a "hedge" or a "conversion transaction," persons that have a "functional currency" other than the United States dollar, investors in pass-through entities and tax-exempt organizations). This summary also does not address the consequences to holders of the Bonds under state, local or foreign tax laws. However, by acquiring a Bond, a bondholder agrees to treat its Bond as debt of ERCOT for federal tax purposes unless otherwise required by appropriate taxing authorities.

This summary is based on current provisions of the Internal Revenue Code, the Treasury Regulations promulgated and proposed thereunder, judicial decisions and published administrative rulings and pronouncements of the IRS and interpretations thereof. All of these authorities and interpretations are subject to change, and any change may apply retroactively and affect the accuracy of the opinions, statements and conclusions set forth in this discussion.

U.S. Holder and Non-U.S. Holder Defined

A "U.S. Holder" means a beneficial owner of a Bond that, for U.S. federal income tax purposes, is (i) a citizen or individual resident of the United States, (ii) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust if (A) a court in the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (B) it has a valid election in place to be treated as a U.S. person. A "**Non-U.S. Holder**" means a beneficial owner of a Bond that is not a U.S. Holder but does not include (i) an entity or arrangement treated as a partnership for U.S. federal income tax purposes, (ii) a former citizen of the United States or (iii) a former resident of the United States.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes is a holder of a Bond, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partners are encouraged to consult their tax advisors about the particular U.S. federal income tax consequences applicable to them. Similarly, former citizens and former residents of the United States are encouraged to consult their tax advisors about the particular U.S. federal income tax consequences that may be applicable to them.

ALL PROSPECTIVE BONDHOLDERS ARE ENCOURAGED TO CONSULT THEIR TAX ADVISERS REGARDING THE FEDERAL INCOME TAX CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF BONDS IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES, AS WELL AS THE EFFECT OF ANY FOREIGN, STATE, LOCAL OR OTHER LAWS.

Taxation of the Issuing Entity and Characterization of the Bonds

It is the opinion of Winstead PC, as tax counsel, that for U.S. federal income tax purposes, (1) the Issuing Entity will not be treated as a taxable entity separate and apart from ERCOT and (2) the Bonds will be treated as debt of ERCOT. By acquiring a Bond, a beneficial owner agrees to treat the Bond as debt of ERCOT for U.S. federal income tax purposes. This opinion is based on certain representations made by us and ERCOT, on the application of current law to the facts as established by the indenture and other relevant documents and assumes compliance with the indenture and such other documents as in effect on the date of issuance of the Bonds. ERCOT also has submitted a request to IRS Chief Counsel for a Closing Agreement confirming that the Issuing Entity will not be treated as a taxable entity separate and apart from ERCOT and that the Bonds will be treated as debt of ERCOT for tax purposes.

Tax Consequences To U.S. Holders

Interest

Interest income on the Bonds, payable at a fixed rate, will be includible in income by a U.S. Holder when it is received, in the case of a U.S. Holder using the cash receipts and disbursements method of tax accounting, or as it accrues, in the case of a U.S. Holder using the accrual method of tax accounting.

Original Issue Discount

The Bonds may be issued with original issue discount, or **OID**. Notwithstanding a U.S. Holder's usual method of tax accounting, any OID on a Bond will be includible in the U.S. Holder's income when it accrues in accordance with the constant yield method, which takes into account the compounding of interest, in advance of receipt of the cash attributable to such income. In general the Bonds will be treated as issued with OID if the "stated redemption price at maturity" of the Bonds (ordinarily, the initial principal amount of the Bonds) exceeds the "issue price" of the Bonds (ordinarily, the price at which a substantial amount of the Bonds are sold to the public) by more than a statutorily defined "de minimis" amount.

Sale or Retirement of Bonds

On a sale, exchange or retirement of a Bond, a U.S. Holder will have taxable gain or loss equal to the difference between the amount received by the U.S. Holder and the U.S. Holder's tax basis in the Bond. A U.S. Holder's tax basis in a Bond is the U.S. Holder's cost, subject to adjustments such as increases in basis for any OID previously included in income and reductions in basis for principal payments received previously. Gain or loss will generally be capital gain or loss on the sale or retirement of a Bond, and will be long-term capital gain or loss if the Bond was held for more than one (1) year at the time of disposition. If a U.S. Holder sells a Bond between interest payment dates, a portion of the amount received will reflect interest that has accrued on the Bond but that has not yet been paid by the sale date. To the extent that amount has not already been included in the U.S. Holder's income, it will be treated as ordinary interest income and not as capital gain.

3.8% Tax on "Net Investment Income"

Certain non-corporate U.S. bondholders will be subject to an additional 3.8% tax on all or a portion of their "net investment income," which may include the interest payments and any gain realized with respect to the Bonds, to the extent their modified adjusted gross income, exceeds \$200,000 for an unmarried individual, \$250,000 for a married taxpayer filing a joint return (or a surviving spouse), or \$125,000 for a married individual filing a separate return. The 3.8% tax is determined in a manner different from the regular income tax.

Tax Cuts and Jobs Act

Notwithstanding the foregoing, under the recently enacted Tax Cuts and Jobs Act, U.S. Holders that use the accrual method of accounting and file certain "financial statements," must include interest and OID in income no later than when that income is reported as revenue in such financial statements.

Tax Consequences to Non-U.S. Holders

Withholding Tax on Interest

Payments of interest income and OID on the Bonds received by a Non-U.S. Holder that does not hold its Bonds in connection with the conduct of a trade or business in the United States generally will not be subject to U.S. federal withholding tax, provided that the Non-U.S. Holder is not a controlled foreign corporation for U.S. federal income tax purposes directly or indirectly related to ERCOT within the meaning of section 881(c)(3)(C) of the Code and is not a bank whose receipt of interest on the Bonds is described in section 881(C)(3)(A) of the Code, and/or is not an individual who ceased being a U.S. citizen or long-term resident for tax avoidance purposes, and the withholding agent receives:

- from a Non-U.S. Holder appropriate documentation to treat the payment as made to a foreign beneficial owner under Treasury Regulations issued under Section 1441 of the Internal Revenue Code;
- a withholding certificate from a person claiming to be a foreign partnership and the foreign partnership has received appropriate documentation to treat the payment as made to a foreign beneficial owner in accordance with these Treasury Regulations;

- a withholding certificate from a person representing to be a "qualified intermediary" that has assumed primary withholding responsibility under these Treasury Regulations and the qualified intermediary has received appropriate documentation from a foreign beneficial owner in accordance with its agreement with the IRS; or
- a statement, under penalties of perjury from an authorized representative of a financial institution, stating that the financial institution has received from the beneficial owner a withholding certificate described in these Treasury Regulations or that it has received a similar statement from another financial institution acting on behalf of the foreign beneficial owner and a copy of such withholding certificate.

In general, it will not be necessary for a Non-U.S. Holder to obtain or furnish a United States taxpayer identification number to ERCOT or its paying agent in order to claim the foregoing exemption from United States withholding tax on payments of interest. Interest paid to a Non-U.S. Holder and OID will be subject to a United States withholding tax of thirty percent (30%) upon the actual payment of interest income, except as described above and/or except where an applicable income tax treaty provides for the reduction or elimination of the withholding tax and the Non-U.S. Holder provides a withholding certificate properly establishing such reduction or elimination. A Non-U.S. Holder generally will be taxable in the same manner as a United States corporation or resident with respect to interest income if the income is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States). Effectively connected income received by a Non-U.S. Holder that is a corporation may in some circumstances be subject to an additional "branch profits tax" at a thirty percent (30%) rate, or if applicable, a lower rate provided by an income tax treaty. To avoid having the 30% withholding tax imposed on effectively connected interest income, the Non-U.S. Holder must provide a withholding certificate on which the Non-U.S. Holder certifies, among other facts, that payments on the Bonds are effectively connected with the conduct of a trade or business of the Non-U.S. Holder in the United States.

Capital Gains Tax Issues

Subject to the discussion concerning backup withholding below, a Non-U.S. Holder generally will not be subject to United States federal income or withholding tax on gain realized on the sale or exchange of Bonds, unless:

- the Non-U.S. Holder is an individual who is present in the United States for one-hundred and eighty-three (183) days or more during the taxable year and this gain is from United States sources; or
- the gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States).

FATCA

Under the "Foreign Account Tax Compliance Act", or **FATCA**, a thirty percent (30%) withholding tax is generally imposed on certain payments, including payments of U.S.-source interest made to "foreign financial institutions" and certain other foreign entities if those foreign entities fail to comply with the requirements of FATCA. The withholding agent will be required to withhold amounts under FATCA on payments made to Non-U.S. Holders that are subject to the FATCA requirements but fail to provide the withholding agent with proof that they have complied with such requirements.

Backup Withholding

Backup withholding of United States federal income tax may apply to payments made in respect of the Bonds to registered owners who are not "exempt recipients" and who fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Bonds to a U.S. Holder must be reported to the IRS, unless the U.S. Holder is an exempt recipient or establishes an exemption. A U.S. Holder can obtain a complete exemption from the backup withholding tax by providing a properly completed Form W-9 (Payer's Request for Taxpayer Identification Number and Certification). Compliance with the identification procedures described above under "Tax Consequences to Non-U.S. Holders—Withholding Taxation on Interest" would establish an exemption from backup withholding for those Non-U.S. Holders who are not exempt recipients.

In addition, backup withholding of United States federal income tax may apply upon the sale of a Bond to (or through) a broker, unless either (1) the broker determines that the seller is an exempt recipient or (2) the seller provides, in the required manner, certain identifying information and, in the case of a Non-U.S. Holder, certifies that the seller is a Non-U.S. Holder (and certain other conditions are met). The sale may also be reported by the broker to the IRS, unless either (a) the broker determines that the seller is an exempt recipient or (b) the seller certifies its non-U.S. status (and certain other

conditions are met). Certification of the seller's non-U.S. status would be made normally on an IRS Form W-8BEN signed under penalty of perjury, although in certain cases it may be possible to submit other documentary evidence. A sale of a Bond to (or through) a non-U.S. office of a broker generally will not be subject to information reporting or backup withholding unless the broker is a United States person or has certain connections to the United States.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's U.S. federal income tax provided the required information is timely furnished to the IRS.

ERISA CONSIDERATIONS

General

Holders of bonds may include (i) employee benefit plans as defined in Section 3(3) of ERISA, that are subject to Part 4 of Subtitle B of Title I of ERISA ("ERISA Plans"); (ii) plans as defined in and subject to Section 4975 of the Code, which include individual retirement accounts ("IRAs"); and (iii) entities (including certain insurance company general and separate accounts and certain investment funds) or accounts whose underlying assets include "plan assets" under ERISA by reason of a plan's investment in such entity (each, a "Benefit Plan Investor"). The following is a brief summary of some of the material investment considerations that may apply to Benefit Plan Investors under ERISA and the Code. Each Benefit Plan Investor should consider the matters described below in determining whether to invest in the Bonds and should consult with its own legal counsel concerning the implications of an investment in the Bonds.

The fiduciary investment considerations summarized herein generally apply to private employee benefit plans and to certain collective investment vehicles in which such plans invest, but generally do not apply to employee benefit plans established and maintained by federal, state and local governmental units or plans maintained outside of the U.S. Applicable provisions of federal, state and international law may restrict the type of investments any such plan may make or otherwise have an impact on such a plan's ability to invest in the Bonds. This summary does not include a discussion of any laws, regulations or statutes that may apply to non-Benefit Plan Investors, such as, for example, state statutes that impose fiduciary responsibility requirements in connection with the investment of assets of governmental plans, or Section 503 or other sections of the Code which have prohibitions that operate similarly to the prohibited transaction rules of ERISA. Such prospective Investors should consult their own counsel on these matters.

The following summary of certain aspects of ERISA and the Code is based upon the statutes, judicial decisions, and regulations and rulings of the U.S. Department of Labor and the IRS in existence on the date hereof. This summary is general in nature and does not address every issue under ERISA or the Code that may be applicable to the investment in the Bonds or a particular Benefit Plan Investor. Accordingly, each prospective Benefit Plan Investor should consult with its own counsel in order to understand such issues.

Fiduciary and Investment Considerations

ERISA imposes certain requirements on fiduciaries of an ERISA Plan in connection with the investment of the assets of the plan. Generally, all employee benefit plans (other than governmental plans, foreign plans and most IRAs, Keogh plans and certain plans of churches and similar organizations) are subject to Part 4 of Title I of ERISA.

A fiduciary of an investing plan is any person who in connection with the assets of the plan:

- has or exercises discretionary authority or control over the management or disposition of assets, or
- provides investment advice, or has authority or responsibility to provide such advice, for a fee.

As a general matter, ERISA does not bar ERISA Plans from investing in any specific type of investment. Instead, ERISA requires, among other things, that a plan fiduciary invest plan assets in accordance with its fiduciary duties prescribed under ERISA. Fiduciaries of ERISA Plans must give appropriate consideration to, among other things, the role that an investment in the Bonds plays in the ERISA Plan's portfolio, taking into consideration whether the investment is designed to reasonably further the ERISA Plan's purposes, the investment's risk and return factors, the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cash flow needs of the ERISA Plan, the projected return of the total portfolio relative to the ERISA Plan's objectives, and the limited right to withdraw all or any part of their capital or to transfer their holdings.

Additionally, fiduciaries of Benefit Plan Investors must determine whether investment in the Bonds constitutes a direct or indirect transaction with a party in interest (under ERISA) or a disqualified person (under the Code). Section 406 of ERISA and Section 4975 of the Code specifically prohibit a broad range of transactions involving the assets of a plan and persons who have certain specified relationships to the plan, referred to as "parties in interest," as defined under ERISA or "disqualified persons" as defined under Section 4975 of the Code unless a statutory or administrative exemption is available. The types of transactions that are prohibited include:

- sales, exchanges or leases of property;
- loans or other extensions of credit; and
- the furnishing of goods or services.

Certain persons that participate in a prohibited transaction may be subject to an excise tax under Section 4975 of the Code or a penalty imposed under Section 502(i) of ERISA, unless a statutory or administrative exemption is available. In addition, the persons involved in the prohibited transaction may have to cancel the transaction. Further, individual retirement accounts involved in the prohibited transaction may be disqualified which would result in adverse tax consequences to the owner of the account.

Further, the failure of a fiduciary of an ERISA Plan to abide by its duties under ERISA may result in personal liability of the fiduciary to a plan for any losses to the plan resulting from the fiduciary's breach of responsibility, and for restoration to the plan of any profits the fiduciary made through the use of the assets of the plan by the fiduciary

Regulation of Assets Included in a Plan

A fiduciary's investment of the assets of a Benefit Plan Investor in certain pooled investment vehicles can cause the assets of such pooled investment vehicles to be deemed assets of the plan. United States Department of Labor regulations at 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA, collectively, the **plan asset regulations**, provides that the assets of an entity will be deemed to be assets of a plan that purchases an interest in the entity if the interest that is purchased by the plan is an equity interest, equity participation by Benefit Plan Investors is "significant" within the meaning of the plan asset regulations and none of the other exceptions contained in the plan asset regulations applies. An equity interest is defined in the plan asset regulations as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there is no authority directly on point, it is anticipated that the Bonds will be treated as indebtedness under local law without any substantial equity features.

If, however, the Bonds were deemed to be equity interests in us and none of the exceptions contained in the plan asset regulations were applicable, then our assets would be considered to be assets of any Benefit Plan Investors that purchase the Bonds. The extent to which the Bonds are owned by Benefit Plan Investors will not be monitored.

If our assets were deemed to constitute "plan assets" pursuant to the plan asset regulations, transactions we might enter into, or may have entered into in the ordinary course of business, might constitute non-exempt prohibited transactions under ERISA and or Section 4975 of the Code. Furthermore, under such circumstances, fiduciaries of ERISA Plans would need to determine whether the ERISA Plan's undivided interest in us constitutes a prudent investment for such plan, taking into account the abovementioned fiduciary considerations.

In addition, and without regard to whether the Bonds are treated as indebtedness or equity for purposes of the plan asset regulations, the acquisition or holding of the Bonds by or on behalf of a Benefit Plan Investor could give rise to a prohibited transaction if we or the Trustee, ERCOT, any other servicer, any Initial Purchaser or certain of their affiliates has, or acquires, a relationship to a Benefit Plan Investor. Before acquiring any bonds by or on behalf of a Benefit Plan Investor, you should consider whether the purchase and holding of bonds might result in a prohibited transaction under ERISA or Section 4975 of the Internal Revenue Code and, if so, whether any prohibited transaction exemption might apply to the acquisition and holding of the Bonds. Each purchaser or holder of the Bonds will be deemed to have represented and warranted that its acquisition and holding of the Bonds will not result in a non-exempt prohibited transaction under ERISA or the Internal Revenue Code.

Prohibited Transaction Exemptions

If you are a fiduciary of a plan, before purchasing any bonds, you should consider the availability of one of the Department of Labor's prohibited transaction class exemptions, referred to as PTCEs, or one of the statutory exemptions provided by ERISA or Section 4975 of the Code, which include:

- PTCE 75-1, which exempts certain transactions between a plan and certain broker-dealers, reporting dealers and banks;
- PTCE 84-14, which exempts certain transactions effected on behalf of a plan by a "qualified professional asset manager;"
- PTCE 90-1, which exempts certain transactions between insurance company separate accounts and parties in interest;
- PTCE 91-38, which exempts certain transactions between bank collective investment funds and parties in interest;

- PTCE 95-60, which exempts certain transactions between insurance company general accounts and parties in interest;
- PTCE 96-23, which exempts certain transactions effected on behalf of a plan by an "in-house asset manager;" and
- the statutory service provider exemption provided by Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code, which exempts certain transactions between plans and parties in interest that are not fiduciaries with respect to the transaction.

We cannot provide any assurance that any of these class exemptions or statutory exemptions will apply with respect to any particular investment in the Bonds by, or on behalf of, a Benefit Plan Investor or, even if it were deemed to apply, that any exemption would apply to all transactions that may occur in connection with the investment. Even if one of these class exemptions or statutory exemptions were deemed to apply, bonds may not be purchased with assets of any Benefit Plan Investor if we or the Trustee, ERCOT, any other servicer, any underwriter or any of their affiliates:

- has investment discretion over the assets of the Benefit Plan Investor used to purchase the Bonds;
- has authority or responsibility to give, or regularly gives, investment advice regarding the assets of the Benefit Plan Investor used to purchase the Bonds, for a fee and under an agreement or understanding that the advice will serve as a primary basis for investment decisions for the assets of the Benefit Plan Investor, and will be based on the particular investment needs of the Benefit Plan Investor; or
- unless PTCE 90-1 or 91-38 applied to the purchase and holding of the Bonds, is an employer maintaining or contributing to the Benefit Plan Investor.

Consultation with Counsel; No Investment Advice

The sale of the Bonds to a Benefit Plan Investor will not constitute a representation by us or the Trustee, ERCOT, any other servicer, any Initial Purchaser or any of their affiliates that such an investment meets all relevant legal requirements relating to investments by such Benefit Plan Investors generally or by any particular Benefit Plan Investor, or that such an investment is appropriate for such Benefit Plan Investors generally or for a particular Benefit Plan Investor.

If you are a fiduciary which proposes to purchase the Bonds on behalf of or with assets of a plan, you should consider your general fiduciary obligations under ERISA and you should consult with your legal counsel as to the potential applicability of ERISA and the Code to any investment and the availability of any prohibited transaction exemption in connection with any investment.

We are not undertaking to provide individualized investment advice, or to give advice in a fiduciary capacity, that will serve as the primary basis of a Benefit Plan Investor's decision to invest in the Bonds. Accordingly, this Offering Memorandum is not intended, and should not be construed, to constitute fiduciary investment advice by us, or any affiliate, regarding the investment or management of assets held by a Benefit Plan Investor.

LEGAL PROCEEDINGS

ERCOT is not aware of any litigation contesting the validity of Subchapter N or the debt obligation order or the ability of the servicer to collect the uplift charges. Under PURA § 39.653(g), the debt obligation order is not subject to rehearing and was only permitted to be reviewed by an appeal by a party to the proceeding to Travis County district court that was filed not later than the 15th day after the debt obligation order was signed by the Commission. The debt obligation order was signed October 13, 2021. Thus, the deadline under the statute for a party to appeal the debt obligation order was October 28, 2021. No such appeal was filed.

ERCOT is presently a party to certain litigation identified below.

Panda Power Generation Infrastructure Fund, LLC d/b/a Panda Power Funds, et al. v. Electric Reliability Council of Texas, Inc.; Cause No. CV-16-0401; Grayson County, Texas, 15th Judicial District.

On March 15, 2016, Panda Power Generation Infrastructure Fund, LLC, d/b/a Panda Power Funds, et al., collectively, **Panda**, filed Panda's First Amended Original Petition and Jury Demand against ERCOT in the District Court of Grayson County, Texas, or the **Panda Lawsuit**. The Panda plaintiffs are affiliated entities involved in the financing, construction, and operation of three power plants located in Sherman, Texas and Temple, Texas. The Panda Lawsuit arises from ERCOT's conduct in connection with forecasting electric power capacity, demand and reserves in the Texas electric market

between 2010 and 2013. Twice per year ERCOT publishes reports forecasting capacity, demand, and reserves, or **CDR Forecasts**, for the ERCOT region. Panda alleges, among other things, that the CDR Forecasts published in 2011 and 2012 were false and misleading because they inaccurately depicted forecast capacity, demand, and reserves in the ERCOT region. Panda claims that ERCOT's acts and omissions were intended to induce them to invest over \$2 billion in the development of new electric power generation, and that they relied on the CDR Forecasts to their detriment. Panda asserted causes of action against ERCOT for fraud, negligent misrepresentation, and breach of fiduciary duty. ERCOT pursued dismissal of the Panda Lawsuit on two independent jurisdictional grounds, sovereign immunity and exclusive jurisdiction in the Commission. The trial court declined to dismiss the Panda Lawsuit in response to the grounds for dismissal asserted by ERCOT. The Dallas Court of Appeals originally held that ERCOT is entitled to sovereign immunity. The Dallas Court of Appeals did not decide whether the Commission has exclusive jurisdiction over claims against ERCOT for its performance as the independent organization certified by the Commission because it decided the case based on sovereign immunity and dismissed the claims against ERCOT on that basis. The Texas Supreme Court declined to review that decision based on the procedural posture of the case. A parallel appeal was filed by Panda due to the anticipated procedural jurisdiction issue identified by the Texas Supreme Court. Abatement of that companion case was lifted and made an en banc matter in the Dallas Court of Appeals. On February 23, 2022, the Dallas Court of Appeals en banc determined that the previous decision by the Dallas Court of Appeals panel was erroneous, and held that ERCOT is not entitled to sovereign immunity and that the Texas Legislature did not grant exclusive jurisdiction over Panda's claims to the Commission. ERCOT will seek review of this decision by the Texas Supreme Court.

Winter Storm Uri Litigation—Wrongful Death, Personal Injury, and Property Damage

In re Winter Storm Uri Litigation, Cause No. 21-0313, before the Judicial Panel on Multi-District Litigation, or MDL, Pretrial to be Conducted in Master Cause No. 2021-41903 in the 281st Judicial District Court, Harris County, Texas.

Following Winter Storm Uri in February 2021, ERCOT has been named in more than one hundred wrongful death, personal injury, and property damage lawsuits, including two class action lawsuits (which have since been dismissed) and a subrogation lawsuit by hundreds of insurance carriers asserting claims on behalf of their insureds. ERCOT sought and obtained transfer of all related matters to an MDL pre-trial court. ERCOT's motion to transfer to an MDL was granted and the MDL is pending in Harris County. The plaintiffs in the lawsuits mostly allege claims for negligence and gross negligence, asserting that ERCOT, and many other defendants in the electricity industry, are responsible for their alleged injuries. Various other causes of action are also alleged. ERCOT is not a party to all lawsuits in the MDL. Because new cases are still being filed, it is likely there are other cases not yet identified that will be added to the MDL. Plaintiffs in the MDL allege that ERCOT's alleged failure to ensure the availability of electrical power or water caused them harm. The plaintiffs that have sued ERCOT all assert claims against ERCOT on the general theory that ERCOT contributed to or caused them to lose electricity and/or water for some period of time during Winter Storm Uri. All plaintiffs allege they suffered some property damage or personal injury as a result of the alleged loss of electricity and/or water. ERCOT also notes it has received voluminous notices of potential subrogation claims and Texas Tort Claim Act notices of claims stemming from property damage or personal injury associated with Winter Storm Uri. The pretrial court in the MDL has entered several case management orders, and five bellwether cases have been selected for initial motions to dismiss. Dispositive motions were filed in the five cases on May 17, 2022.

Winter Storm Uri Litigation—Pricing Disputes

There are multiple lawsuits, appeals and bankruptcy proceedings contesting the wholesale price of electricity during Winter Storm Uri. Multiple parties contest the validity of the Commission's electricity pricing orders issued during Winter Storm Uri, and/or they assert that ERCOT improperly set the price of electricity or held the price of electricity at the market cap for too long at the end of the storm in contravention of the Commission's orders. The prices resulting from ERCOT's implementation of those Commission orders are the basis of the uplift balance as defined in PURA § 39.652(4). In the event that one of these disputes ultimately resulted in a market-wide repricing, then there would be a market-wide resettlement among market participants. Under PURA § 39.664, in the event that litigation over pricing or uplift actions results in an obligated LSE receiving money, then that obligated LSE must return any proceeds received from this financing equal to the amount of money received due to litigation. Thus, a repricing and resettlement should not negatively impact ERCOT, the uplift property, the uplift charges, or the Bonds.

The lawsuits, appeals and bankruptcy proceedings contesting pricing or uplift actions include the following, some of which also include claims against ERCOT under various causes of action seeking to impose personal liability:

Exelon Generation Co., LLC et al. v. Pub. Util. Comm'n of Tex. et al., Cause No. D-1-GN-21-001772, in the 53rd Judicial District Court, Travis County, Texas.

Luminant Energy Co. v. PUC, No. 03-21-00098-CV (Tex. App.—Austin filed March 2, 2021) to which ERCOT is not a party but relates to similar issues.

CPS Energy v. Electric Reliability Council of Tex., Inc. et al., Cause No. 2021CI04574, in the 285th Judicial District Court, Bexar County, Texas.

In Re: Brazos Electric Power Cooperative, Inc., Case No. 21-03863, U.S. Bankruptcy Court, Southern District of Texas.

In Re: Just Energy Group, Inc., et al., Adv. Pro. No. 21-04399, in the United States Bankruptcy Court for the Southern District of Texas.

Anna Phillips, as trustee of the Entrust Liquidating Trust v. Electric Reliability Council of Texas, Inc., Adv. Pro. No. 22-03018, in the United States Bankruptcy Court for the Southern District of Texas.

There are a number of other suits and threatened actions related to Winter Storm Uri that are individually immaterial but raise many of the same issues as the proceedings noted above.

ERCOT is vigorously defending against the foregoing litigation and will continue to do so. ERCOT cannot predict the outcome of the litigation. ERCOT has and will assert defenses to the litigation, including without limitation, sovereign immunity and exclusive jurisdiction where appropriate.

While negative results for much of the foregoing litigation would not likely result in financial exposure to ERCOT, as it is ERCOT's belief that any significant negative award or reduction in collections would be subject to market resettlement among market participants, certain other litigation could result in exposure to ERCOT. In the event of a negative result impacting ERCOT, to the extent not covered by ERCOT's budget that was approved by the Commission, ERCOT would be required to approach the Commission to determine approval for a budget and process for addressing such negative item. While this circumstance has not occurred previously in ERCOT's history, based on prior interactions with the Commission in other circumstances ERCOT believes the Commission would take appropriate action, but it is unable to predict the timing or nature of the Commission's response or the methods to be implemented to address such matter. In the event that the Commission's response is not fully supportive, the negative litigation result could have a material adverse impact on ERCOT and its ability to act as servicer for the Bonds.

Under the provisions of Subchapter N, any obligated LSE that receives proceeds of the sale of Uplift Property from ERCOT is obligated to return an amount equal to any amount of money the obligated LSE receives due to litigation seeking judicial review of pricing action taken by either the Commission or ERCOT in connection with the period of emergency. Any such return of funds that ERCOT receives will not represent an offset against any responsible QSE's obligation to pay Uplift Charges on behalf of an obligated LSE that ERCOT bills to such responsible QSE as servicer on behalf of the Issuing Entity.

RATINGS FOR THE TEXAS STABILIZATION SUBCHAPTER N BONDS

We expect that the Bonds will receive a credit rating from one NRSRO. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning NRSRO. Each rating should be evaluated independently of any other rating. No person is obligated to maintain the rating on any bonds and, accordingly, we can give no assurance that the ratings assigned to any tranche of the Bonds upon initial issuance will not be lowered or withdrawn by a NRSRO at any time thereafter. If a rating of any tranche of bonds is lowered or withdrawn, the liquidity of this tranche of the Bonds may be adversely affected. In general, ratings address credit risk and do not represent any assessment of any particular rate of principal payments on the Bonds other than the payment in full of each tranche of the Bonds by the final maturity date or tranche final maturity date, as well as the timely payment of interest.

Under Rule 17g-5 of the Exchange Act, NRSROs providing the sponsor with the requisite certification will have access to all information posted on a website by the sponsor for the purpose of determining the initial rating and monitoring the rating after the closing date in respect of the Bonds. As a result, an NRSRO other than the NRSRO hired by the sponsor (hired NRSRO) may issue ratings on the Bonds (Unsolicited Ratings), which may be lower, and could be significantly lower, than the ratings assigned by the hired NRSROs. The Unsolicited Ratings may be issued prior to, or after, the closing date in respect of the Bonds. Issuance of any Unsolicited Rating will not affect the issuance of the Bonds. Issuance of an Unsolicited Rating lower than the ratings assigned by the hired NRSRO on the Bonds might adversely affect the value of the Bonds and, for regulated entities, could affect the status of the Bonds as a legal investment or the capital treatment of the Bonds. Investors in the Bonds should consult with their legal counsel regarding the effect of the issuance of a rating by a non-hired NRSRO that is lower than the rating of the hired NRSRO.

A portion of the fees paid by ERCOT to the NRSRO which is hired to assign a rating on the Bonds is contingent upon the issuance of the Bonds. In addition to the fees paid by ERCOT to a hired NRSRO at closing, ERCOT will pay a fee to the hired NRSRO for ongoing surveillance for so long as the Bonds are outstanding. However, no NRSRO is under any obligation to continue to monitor or provide a rating on the Bonds.

WHERE PROSPECTIVE INVESTORS CAN FIND MORE INFORMATION

Copies of our limited liability company agreement and each of the debt obligation order, the indenture, the series supplement, the Servicing Agreement, the Sale Agreement, the administration agreement and the Intercreditor Agreement will be held on file with the Trustee. Prior to the Closing Date, the Initial Purchasers will make available for review by prospective investors in the Bonds upon request copies of our limited liability company agreement and the debt obligation order, and the forms of the indenture, the series supplement, the Servicing Agreement, the Sale Agreement, the administration agreement and the Intercreditor Agreement. In addition, prior to the Closing Date, the Initial Purchasers will make available for review by prospective investors in the Bonds upon request the form of the Winstead PC's legal opinions that address constitutional law matters.

INVESTMENT COMPANY ACT OF 1940 AND VOLCKER RULE MATTERS

The Issuing Entity will be relying on an exemption from the definition of "investment company" under the Investment Company Act, Section 3(c)(5) of the Investment Company Act, although there may be additional exclusions or exemptions available to the Issuing Entity. As a result of such exclusion, the Issuing Entity will not be subject to regulation as an "investment company" under the Investment Company Act.

In addition, the Issuing Entity is being structured so as not to constitute a "covered fund" for purposes of the Volcker Rule, or the **Volcker Rule**, under the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the **Dodd-Frank Act**. As part of the Dodd-Frank Act, federal law prohibits a "banking entity"—which is broadly defined to include banks, bank holding companies and affiliates thereof—from engaging in proprietary trading or holding ownership interests in certain private funds. The definition of "covered fund" in the regulations adopted to implement the Volcker Rule includes (generally) any entity that would be an investment company under the Investment Company Act but for the exclusion provided under Sections 3(c)(1) or 3(c)(7) thereunder. Because the Issuing Entity will rely on Section 3(c)(5) of the Investment Company Act, it will not be considered a "covered fund" within the meaning of the Volcker Rule regulations.

RISK RETENTION

The Issuing Entity has determined that its purchase of the uplift property and the sale of the of bonds is not subject to the credit risk retention requirements imposed by Section 15G of the Exchange Act due to the exemption provided in Rule 19(b)(8) of Regulation RR.

For information regarding the requirements of the European Union Securitization Regulation as to risk retention and other matters, please read "Notice to Investors" and "Risk Factors—Other Risks Associated with an Investment in the Bonds--Regulatory provisions affecting certain investors could adversely affect the liquidity of the Bonds" in this Offering Memorandum.

LEGAL MATTERS

Certain legal matters relating to the Bonds, including certain federal income tax matters, will be passed on by Winstead PC, counsel to ERCOT and us. Certain other legal matters relating to the Bonds will be passed on by Richards, Layton & Finger, special Delaware counsel to us, by Kutak Rock, LLP, special regulatory counsel to ERCOT, and by Hunton Andrews Kurth LLP, counsel to the Initial Purchasers.

GLOSSARY OF DEFINED TERMS

Set forth below is a list of the defined terms used in this Offering Memorandum:

"1940 Act" means the Investment Company Act of 1940, as amended.

"Additional Bonds" means one or more series of bonds that are supported by additional and separate uplift property or other collateral to finance the costs approved by an additional debt obligation order.

"Adjusted Meter Load" means retail Load usage data that has been adjusted for Unaccounted for Energy (UFE), Transmission Losses, Distribution Losses, and Direct Current Tie exports.

"Affected Investor" has the meaning ascribed under "Risk Factors – Other Risks Associated with an Investment in the Bonds – European Union and United Kingdom Securitization Rules may apply, and the Bonds may not be suitable investments for certain investors" in this Offering Memorandum.

"ancillary service" means a service necessary to support the transmission of energy to Loads while maintaining reliable operation of the Transmission Service Provider's transmission system using good utility practice.

"bank business day" means any day which the United States Federal Reserve Bank of New York is open for normal business activity.

"Bankruptcy Code" means Title 11 of the United States Code, as amended.

"basic documents" means the administration agreement, the sale agreement, intercreditor agreement, servicing agreement, indenture and any supplements thereto, the bill of sale given by the seller and the Bonds.

"*Benefit Plan Investors*" has the meaning ascribed to such term under "Notice to Investors" in this Offering Memorandum.

"*Bonds*" means the Texas Electric Market Stabilization Funding N LLC Texas Stabilization Subchapter N Bonds, Series 2022.

"*Brazos*" means Brazos Electric Co-op, Inc.

"*business day*" means any day other than a Saturday, a Sunday or a day on which banking institutions in Austin, Texas, or New York, New York, or DTC or the corporate trust office of the Trustee at which the indenture will be administered is, authorized or obligated by law, regulation or executive order to remain closed.

"*CDR Forecasts*" has the meaning ascribed to such term under "Legal Proceedings" in this Offering Memorandum.

"*Clearstream*" means Clearstream Banking, Luxembourg, S.A.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Code Section 4975*" means Section 4975 of the Code.

"*collateral*" means all of our assets pledged to the Trustee for the benefit of the bondholders of the Bonds, which includes the uplift property, all rights of the Issuing Entity under the sale agreement, the servicing agreement and the other documents entered into in connection with the Bonds, all rights to the collection account and the subaccounts of the collection account, and all other property of the Issuing Entity relating to the Bonds, including all proceeds.

"*collection account*" means the segregated trust account relating to the Bonds designated the collection account and held by the Trustee under the indenture.

"*Commission*" means the Public Utility Commission of Texas.

"*Competitive Retailer*" means a Municipally Owned Utility or an Electric Cooperative that offers Customer Choice and sells electric energy at retail in the restructured electric power market in Texas or a Retail Electric Provider.

"*Congestion Revenue Rights*" or "CRR" means a financial instrument that entitles the holder to be charged or to receive compensation depending on the instrument, when the ERCOT Transmission Grid is congested the Day Ahead Market or in Re-Time.

"*Connected Issuer*" has the meaning ascribed to such term under "Notice to Residents of Canada" in this Offering Memorandum.

"*Customer*" means an entity that purchases electricity for its consumption.

"*Customer Choice*" means the freedom of a retail Customer to purchase electric services, either individually or on an aggregated basis with other retail Customers, from the provider or providers of the Customer's choice and to choose among various fuel types, energy efficiency programs, and renewable power suppliers.

"*daily amortization amount*" means the amount allocated to each responsible QSE for their portion of the uplift charges that is to be collected for each day during which energy flows.

"*Day Ahead Market*" means daily, co-optimized market in the 24-hour period before the start of the day, including hours ending 0100 to 2400, during which energy flows, for ancillary service capacity, certain CRRs, and forward financial energy transactions.

"*debt obligation order*" means, unless the context indicates otherwise, the debt obligation order issued by the Commission to ERCOT on October 13, 2021 under Docket No. 52322.

"*default charges*" means any default charges authorized by the Commission in a debt obligation order to be assessed and collected from QSEs and Congestion Revenue Rights account holders by ERCOT pursuant to PURA.

"*default property*" means all default property pertaining to the Texas Stabilization M Bonds, created, sold, assigned, or pledged as authorized by the Commission pursuant to Subchapter M of Chapter 39 of PURA.

"*demand*" means the amount of instantaneous electric power in megawatts delivered at any specified point or points on a system.

"*Direct Current Tie*" means any non-synchronous transmission interconnections between ERCOT and non-ERCOT electric power systems.

"*Direct Participants*" means DTC participants that deposit U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments with DTC.

"*Distribution Losses*" means the difference between the energy delivered to the Distribution System and the energy consumed by Customers connected to the Distribution System.

"*Distribution System*" means that portion of an electric delivery system operating under 60 kV that provides electric service to Customers.

"*Distributor*" has the meaning ascribed to such term under, as applicable, "EU MiFID II Product Governance" and "UK MiFID II Product Governance" in this Offering Memorandum.

"*DSTs*" means Delaware statutory trusts.

"*DTC*" means the Depository Trust Company, New York, New York, and its nominee bondholder, Cede & Co.

"*DTCC*" means The Depository Trust & Clearing Corporation.

"*DUNs*" means a unique nine-digit common company identifier used in electronic commerce transactions, supplied by the Data Universal Numbering System (DUNS).

"*Due Diligence Requirements*" has the meaning ascribed under "Risk Factors – Other Risks Associated with an Investment in the Bonds – European Union and United Kingdom Securitization Rules may apply, and the Bonds may not be suitable investments for certain investors" in this Offering Memorandum.

"*EEA*" means the European Economic Area.

"*Electric Cooperative*" or "*EC*" means (a) a corporation organized under the Electric Cooperative Corporation Act, Tex. Util. Code Ann. Chapter 161 (Vernon 1998 & Supp. 2007); (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct business in Texas; or (c) a successor to an electric cooperative created before June 1, 1999 under a conversion plan approved by a vote of the members of the electric cooperative, regardless of whether the successor later purchases, acquires, merges with, or consolidates with other electric cooperatives.

"*eligible institution*" means (a) the corporate trust department of the Trustee, so long as any of the securities of the Trustee have either a short-term credit rating from Moody's of at least P-1 or a long term unsecured credit rating from Moody's of at least A2 and have a credit rating from S&P in one of its generic rating categories which signifies investment grade and the Trustee is a bank or depository institution organized under the laws of the United States or any state thereof or any United States branch or agency of a foreign bank or depository institution that is subject to supervision and examination by federal or state banking authorities that is authorized under those laws to act as a trustee or in any other fiduciary capacity, whose deposits are insured by the FDIC; or

(b) U.S. Bank N.A. or a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank), which (i) has either (A) a long-term issuer rating of "AA" or higher by S&P and "A1" or higher by Moody's or (B) a short-term issuer rating of "A-1+" or higher by S&P and "P-1" or higher by Moody's, or any other long-term, short-term or certificate of deposit rating acceptable to the rating agencies and (ii) whose deposits are insured by the FDIC.

"*eligible investments*" means instruments or investment property which evidence:

- (a) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;
- (b) demand or time deposits of, unsecured certificates of deposit of, money market deposit accounts of, or bankers' acceptances issued by, any depository institution (including the Trustee or any of its affiliates, acting in its commercial capacity) incorporated or organized under the laws of the United States of America or any State

thereof and subject to supervision and examination by federal or state banking authorities, so long as the commercial paper or other short term debt obligations of such depository institution are, at the time of deposit, rated not less than A1 and P-1 or their equivalents by each of S&P and Moody's, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Bonds;

- (c) commercial paper (including commercial paper of the Trustee or any of its affiliates, acting in its commercial capacity, and other than commercial paper of ERCOT or any of its affiliates), which at the time of purchase is rated not less than A- 1 and P-1 or their equivalents by each of S&P and Moody's, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Bonds;
- (d) investments in money market funds (including funds for which the Trustee or any of its affiliates is investment manager or advisor), which at the time of purchase are rated not less than A1 and P-1 or their equivalents by each of S&P and Moody's, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Bonds;
- (e) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or certain of its agencies or instrumentalities, entered into with eligible institutions;
- (f) repurchase obligations with respect to any security or whole loan entered into with an eligible institution or with a registered broker dealer, acting as principal and that meets the ratings criteria set forth below:
 - (i) a broker/dealer (acting as principal) registered as a broker or dealer under Section 15 of the Exchange Act (any broker/dealer being referred to in this definition as a "broker/dealer"), the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's and "A-1+" by Standard & Poor's at the time of entering into this repurchase obligation, or
 - (ii) an unrated broker/dealer, acting as principal, that is a wholly-owned subsidiary of a non-bank or bank holding company the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's and "A-1+" by Standard & Poor's at the time of purchase so long as the obligations of such unrated broker/dealer are unconditionally guaranteed by such non-bank or bank holding company; and
- (g) any other investment permitted by each of the rating agencies;

in each case maturing not later than the Business Day immediately preceding the next Payment Date or Special Payment Date, if applicable (for the avoidance of doubt, investments in money market funds or similar instruments which are redeemable on demand will be deemed to satisfy the foregoing requirement). Notwithstanding the foregoing: (1) no securities or investments which mature in thirty (30) days or more will be "eligible investments" unless the issuer thereof has either a short-term unsecured debt rating of at least P-1 from Moody's or a long-term unsecured debt rating of at least A1 from Moody's and also has a long-term unsecured debt rating of at least A+ from S&P; (2) no securities or investments described in clauses (b) through (d) above which have maturities of more than 30 days but less than or equal to three (3) months will be "eligible investments" unless the issuer thereof has a long-term unsecured debt rating of at least A1 from Moody's and a short-term unsecured debt rating of at least P-1 from Moody's; (3) no securities or investments described in clauses (b) through (d) above which have maturities of more than 3 months will be an "eligible investment" unless the issuer thereof has a long-term unsecured debt rating of at least A1 from Moody's and a short-term unsecured debt rating of at least P-1 from Moody's.

"*Entrust*" has the meaning ascribed to such term under "Legal Proceedings" in this Offering Memorandum.

"*ERCOT*" means the Electric Reliability Council of Texas, Inc.

"*ERCOT Protocols*" means the protocols and procedures adopted by ERCOT, including any attachments or exhibits referenced therein, as amended from time to time, including any protocols related to the uplift charges.

"*ERCOT System*" means the interconnected power system that is under the jurisdiction of the Commission and that is not synchronously interconnected with either the Eastern Interconnection grid, which covers the U.S. from the great plains eastward to the Atlantic Coast (excluding most of Texas) and portions of Canada, or the Western Electricity Coordinating Council grid, which covers the Western part of North America (excluding Texas).

"*ERCOT Transmission Grid*" means all transmission facilities that are part of the ERCOT System.

"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended.

"*ERISA Plans*" means employee benefit plans as defined in Section 3(3) of ERISA, that are subject to Part 4 of Subtitle B of Title I of ERISA.

"*Estimated Monthly Adjusted Meter Load Value*" means the actual Adjusted Meter Load delivered to the responsible QSEs on a monthly basis multiplied by the monthly ERCOT-wide Average Energy Prices Real Time prices per MWh as published by Potomac Economics, Ltd., the independent market monitor for the ERCOT power region.

"*Euroclear*" means the Euroclear System.

"*EU MiFID II*" has the meaning ascribed to such term under "Notice to European Economic Area Residents" in this Offering Memorandum.

"*EU Prospectus Regulation*" has the meaning ascribed to such term under "Notice to European Economic Area Residents" in this Offering Memorandum.

"*EU Securitization Regulation*" has the meaning ascribed under "Risk Factors – Other Risks Associated with an Investment in the Bonds – European Union and United Kingdom Securitization Rules may apply, and the Bonds may not be suitable investments for certain investors" in this Offering Memorandum.

"*EU Securitization Rules*" has the meaning ascribed under "Risk Factors – Other Risks Associated with an Investment in the Bonds – European Union and United Kingdom Securitization Rules may apply, and the Bonds may not be suitable investments for certain investors" in this Offering Memorandum.

"*excess funds subaccount*" means that subaccount of the collection account into which funds collected by the servicer in excess of amounts necessary to make the payments specified on a given payment date.

"*extraordinary charges*" means reliability deployment price adder charges and fund ancillary services costs in excess of the Commission's system-wide offer cap, but only to the extent these items were charged to obligated LSEs during the period of emergency.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

"*FATCA*" means the Foreign Account Tax Compliance Act.

"*FCA*" means the Financial Conduct Authority in the United Kingdom.

"*FDIC*" means the Federal Deposit Insurance Corporation.

"*FIEL*" means the Financial Instruments and Exchange Law of Japan.

"*Financial Promotion Order*" has the meaning ascribed to such term under "Notice to United Kingdom Investors" in this Offering Memorandum.

"*FSMA*" means the Financial Services and Markets Act 2000 of the Parliament of the United Kingdom, as amended.

"*HB 4492*" means House Bill 4492 relating to financing certain costs associated with electric markets, granting authority to issue bonds, and authorizing fees, passed during the 87th Texas legislative session.

"*hired NRSRO*" means an NRSRO hired by the sponsor to issue ratings on the Bonds.

"*indenture*" means the indenture to be entered into between the Issuing Entity and the Trustee, providing for the issuance of the Bonds, as the same may be amended and supplemented from time to time.

"*Independent Manager*" means an individual who qualifies as independent under the Issuing Entity's amended and restated limited liability company agreement in that such individual (1) has prior experience as an independent director, Independent Manager or independent member, (2) is employed by a nationally-recognized company that provides professional Independent Managers and other corporate services in the ordinary course of its business, (3) is duly appointed as an Independent Manager and (4) is not and has not been for at least five years from the date of his or her or its appointment, and will not while serving as Independent Manager have any disqualifying restrictions as detailed in the Issuing Entity's amended and restated limited liability company agreement.

"*Independent Organization*" means an independent organization as defined in the PURA § 39.151.

"Independent System Operator" means (i) an entity supervising the collective transmission facilities of a power region that is charged with non-discriminatory coordination of market transactions, systemwide transmission planning, and network reliability, or (ii) other person that is sufficiently independent of any producer or seller of electricity that its decisions will not be unduly influenced by any producer or seller of electricity.

"Indirect Participants" means U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and others that access the DTC system and clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly.

"Initial Purchasers" means Citigroup Global Markets Inc., Barclays Capital Inc. and the other initial purchasers who will act as such in the placements of the Bonds.

"Insurance Distribution Directive" has the meaning ascribed to such term under "Notice to European Economic Area Residents" in this Offering Memorandum.

"Intercreditor Agreement" means the intercreditor agreement to be entered into between the Issuing Entity, the Trustee (in its capacity as Trustee for the Bonds and as Trustee for the Texas Stabilization M Bonds), and ERCOT (on behalf of itself and in its capacities as servicer of the Bonds and as servicer as the Texas Stabilization M Bonds issued by Texas Funding M), pursuant to which the servicer will allocate uplift charge revenues and default charge revenues.

"interest accrual period" has the meaning ascribed to such term under "Description of the Texas Stabilization Subchapter N Bonds—Interest Payments" in this Offering Memorandum.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended.

"IRA" means individual retirement accounts.

"IRS" means the Internal Revenue Service of the United States.

"Issuing Entity" means Texas Electric Market Stabilization Funding N LLC.

"Legislature" means the legislature of the state of Texas.

"load ratio share basis" means the ratio of an entity's adjusted metered load (as such term is defined in ERCOT Protocols) to total ERCOT adjusted metered load for an interval.

"Load" means the amount of energy in MWh delivered at any specified point or points on a system.

"load serving entity" or "LSE" means a municipally owned utility, an electric cooperative, or a Retail Electric Provider.

"market participant" means an entity, other than ERCOT, that engages in any activity that is in whole or in part the subject of the ERCOT protocols.

"Minimum Denomination" has the meaning ascribed to such term under "Transfer Restrictions" in this Offering Memorandum.

"Moody's" means Moody's Investors Service, Inc. or any successor in interest.

"Municipally Owned Utility" means a utility owned, operated, and controlled by a nonprofit corporation, the directors of which are appointed by one or more municipalities, or a utility owned, operated, or controlled by a municipality.

"MWh" means megawatt-hour.

"nonbypassable" refers to the right of the servicer to collect the uplift charges from all existing and future responsible QSEs located within ERCOT's power region, subject to certain limitations specified in PURA and the debt obligation order.

"Non-Opt-In Entities" or "NOIEs" means an Electric Cooperative or Municipally Owned Utility that does not offer Customer Choice.

"Non-U.S. Holder" means a beneficial owner of a bond that is not a U.S. Holder but does not include (i) an entity or arrangement treated as a partnership for U.S. federal income tax purposes, (ii) a former citizen of the United States or (iii) a former resident of the United States.

"NRSRO" means a nationally recognized statistical rating organization.

"obligated LSE" means an LSE who has not opted out of uplift charges in accordance with Subchapter N and is not otherwise exempt from uplift charges under Subchapter N.

"OID" means original issue discount.

"opt-out pool" has the meaning ascribed to such term under "Use of Proceeds" in this Offering Memorandum.

"Panda" has the meaning ascribed to such term under "Legal Proceedings" in this Offering Memorandum.

"Panda Lawsuit" has the meaning ascribed to such term under "Legal Proceedings" in this Offering Memorandum.

"payment date" means the date or dates on which interest and principal are to be payable on the Bonds.

"periodic billing requirement" means the aggregate amount of uplift charges calculated by the servicer as necessary to be billed during a period in order to collect the periodic payment requirement on a timely basis.

"periodic payment requirement" means the total dollar amount of uplift charge collections reasonably calculated by the servicer in accordance with the servicing agreement as necessary to be received during a certain period (after giving effect to the allocation and distribution of amounts on deposit in the excess funds subaccount at the time of calculation and which are projected to be available for payments on the Texas Stabilization Subchapter N Bonds at the end of such period and including any shortfalls in periodic payment requirements for certain prior periods) in order to ensure that, as of the last payment date occurring in such period, (1) all accrued and unpaid interest on the Texas Stabilization Subchapter N Bonds then due can be paid in full on a timely basis; (2) the outstanding amount of the Texas Stabilization Subchapter N Bonds is equal to the projected unrecovered balance on each payment date during such period; (3) the balance on deposit in the capital subaccount equals the required capital level; and (4) all fees and expenses due and owing and required or allowed to be paid under the indenture as of such date can be paid in full; provided that, with respect to any true-up occurring after the last scheduled final payment date for the Texas Stabilization Subchapter N Bonds, the periodic payment requirement shall be calculated to ensure that sufficient uplift charges will be collected to retire the Texas Stabilization Subchapter N Bonds in full as of the next payment date.

"period of emergency" means beginning 12:01 a.m., February 12, 2021, and ending 11:59 p.m., February 20, 2021, the period of impact of Winter Storm Uri.

"Plan" has the meaning ascribed to such term under "Notice to Investors" in this Offering Memorandum.

"Plan Asset Entity" has the meaning ascribed to such term under "Notice to Investors" in this Offering Memorandum.

"projected unrecovered balance" means, as of any payment date, the sum of the projected outstanding principal amount of each outstanding tranche or series of Texas Stabilization Subchapter N Bonds for such payment date set forth in the expected amortization schedule.

"Provider of Last Resort" or "POLR" means the designated Competitive Retailer as defined in Commission Substantive Rules 25.43, Provider of Last Resort (POLR), for default Customer service, and as further described in Section 15.1, Customer Switch of Competitive Retailer.

"PTCE" means a prohibited transaction class exemption of the United States Department of Labor.

"PURA" means the Texas Public Utility Regulatory Act, as codified in Title II of the Texas Utilities Code.

"Qualified Investor" has the meaning ascribed to it in Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC.

"Qualified Scheduling Entity" or "QSE" means a market participant (as defined in Section 16 of the Nodal protocols), that is qualified by ERCOT for communication with ERCOT for certain load serving entities and other entities and for settling payments and charges with ERCOT.

"QIB" means a qualified institutional buyer as defined in Rule 144A(a)(i).

"rating agencies" means nationally recognized statistical rating organizations or other comparable entity, including Moody's.

"Rating Agency Condition" means, with respect to any action, not less than ten (10) business days' prior written notification to Moody's of such action, and written confirmation from Moody's to the Trustee and us that such action will not result in a suspension, reduction or withdrawal of the then current rating by such rating agency of any tranche of bonds issued by us and that prior to the taking of the proposed action no other rating agency shall have provided written notice to us that such action has resulted or would result in the suspension, reduction or withdrawal of the then current rating of any such tranche of bonds. For the purposes of this definition, any confirmation, request, acknowledgment or approval that is required to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a rating agency's right to review or consent).

"record date" means the date or dates with respect to each payment date on which it is determined the person in whose name each bond is registered will be paid on the respective payment date.

"Regulation AB" means the rules of the SEC promulgated under Subpart 229.1100 - Asset-Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1125, as such may be amended from time to time.

"Regulation S" means Regulation S promulgated under the Securities Act.

"Related Issuer" has the meaning ascribed to such term under "Notice to Residents of Canada" in this Offering Memorandum.

"reliability deployment price adder charges" means a current instant price adder that captures the impact of reliability deployments on energy prices.

"required capital level" means the amount required to be funded in the capital subaccount, which will equal at least 0.5% of the initial aggregate principal amount of the Bonds, that is required to treat the Bonds as debt of ERCOT under applicable U.S. federal income tax rules and other guidance issued by the IRS.

"responsible QSE" means a QSE representing an obligated LSE responsible for the assessment, collection and payment of uplift charges.

"Retail Electric Provider" or *"REP"* means an entity that sells electric energy to retail Customers in Texas but does not own or operate generation assets and is not a Municipally Owned Utility or Electric Cooperative.

"Risk Retention Requirements" has the meaning ascribed under "Risk Factors – Other Risks Associated with an Investment in the Bonds – European Union and United Kingdom Securitization Rules may apply, and the Bonds may not be suitable investments for certain investors" in this Offering Memorandum.

"RMBS" means residential mortgage backed securities.

"Rule 144A" means Rule 144A promulgated under the Securities Act.

"Sale Agreement" means the uplift property purchase and sale agreement to be entered into between the Issuing Entity and ERCOT, pursuant to which ERCOT sells and Texas Electric Market Stabilization Funding N LLC buys the uplift property.

"SB 1580" means Senate Bill 1580 relating to the use of securitization by electric cooperatives to address certain weather-related extraordinary costs and expenses and to the duty of electric utility market participants to pay certain amounts owed, passed during the 87th Texas legislative session.

"Securities Act" means the United States Securities Act of 1933, as amended.

"Securities Intermediary" means U.S. Bank N.A., in its capacity as securities intermediary under the indenture and, if applicable, any successor Securities Intermediary.

"securitizable amount" means the uplift balance of \$2.1 billion plus the upfront costs associated with the issuance of the Bonds.

"series supplement" means the supplement to the indenture which establishes the specific terms of the Bonds.

"servicer" means ERCOT, acting as the servicer, and any successor or assignee servicer, which will service the uplift property under a servicing agreement with the Issuing Entity.

"*Servicing Agreement*" means the uplift property servicing agreement to be entered into between the Issuing Entity and ERCOT, as the same may be amended and supplemented from time to time, pursuant to which ERCOT undertakes to service the uplift property.

"*Settlement Agreement*" means the Unopposed Partial Stipulation and Settlement Agreement filed with the Commission in Docket No. 52322 on September 20, 2021

"*Settlement Interval*" means the time period for which markets are settled.

"*Similar Law*" has the meaning ascribed to such term under "Notice to Investors" in this Offering Memorandum.

"*special payment*" means with respect to any series of tranche of the Bonds, any payment of principal or interest on (including any interest accruing upon default), or any other amount in respect of, the Bonds of such series or tranche that is not actually paid within five (5) days of the payment date applicable thereto.

"*special payment date*" means the date on which a special payment is to be made by the Trustee to the bondholders.

"*SSPE*" means securitisation special purpose entity.

"*S&P*" means Standard & Poor's Ratings Group, Inc., or any successor thereto.

"*State Pledge*" means the pledge of the state of Texas as set forth in Section 39.663 of PURA.

"*Student Loans*" has the meaning ascribed to such term under "The Trustee" in this Offering Memorandum.

"*Subchapter N*" means the Subchapter N of Chapter 39 of PURA.

"*Subject Provinces*" has the meaning ascribed to such term under "Notice to Residents of Canada" in this Offering Memorandum.

"*Terms and Conditions*" means the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law governing securities clearance accounts and cash accounts with Euroclear.

"*Texas Funding M*" means Texas Electric Market Stabilization Funding M LLC.

"*Texas Stabilization M Bonds*" means the Texas Stabilization M Bonds, Series 2021, issued by Texas Funding M.

"*Texas Stabilization Subchapter N Bonds*" and, unless the context otherwise indicates, "*Bonds*" means the Texas Stabilization Subchapter N Bonds, Series 2022 being issued by us and offered in this Offering Memorandum.

"*Transmission Losses*" means the difference between energy put into the ERCOT Transmission Grid and energy taken out of the ERCOT Transmission Grid.

"*Treasury Regulations*" means proposed or issued regulations promulgated from time to time under the Internal Revenue Code.

"*true-up*" means any annual true-up adjustment or interim true-up adjustment performed in accordance with the debt obligation order.

"*Trustee*" means U.S. Bank Trust Company, National Association in its capacity as trustee under the indenture and, if applicable, any successor trustee.

"*Trustee Cap*" means an amount not to exceed in any twelve (12) month period \$100,000.

"*Trust Indenture Act*" means the Trust Indenture Act of 1939, as amended.

"*UK MiFIR*" has the meaning ascribed to such term under "Notice of United Kingdom Investors" in this Offering Memorandum.

"*UK MiFIR Product Governance*" has the meaning ascribed to such term under "Notice of United Kingdom Investors" in this Offering Memorandum.

"*UK PRIIPS Regulation*" has the meaning ascribed to such term under "Notice of United Kingdom Investors" in this Offering Memorandum.

"*UK Prospectus Regulation*" has the meaning ascribed to such term under "Notice of United Kingdom Investors" in this Offering Memorandum.

"*UK Qualified Investor*" has the meaning ascribed to such term under "Notice of United Kingdom Investors" in this Offering Memorandum.

"*UK Securitization Regulation*" has the meaning ascribed under "Risk Factors – Other Risks Associated with an Investment in the Bonds – European Union and United Kingdom Securitization Rules may apply, and the Bonds may not be suitable investments for certain investors" in this Offering Memorandum.

"*UK Securitization Rules*" has the meaning ascribed under "Risk Factors – Other Risks Associated with an Investment in the Bonds – European Union and United Kingdom Securitization Rules may apply, and the Bonds may not be suitable investments for certain investors" in this Offering Memorandum.

"*Unaccounted for Energy*" means the difference between total Load for each Settlement Interval, adjusted for applicable Distribution Losses and Transmission Losses, and total ERCOT generation.

"*Unsolicited Ratings*" means ratings on the Bonds by a NRSRO that was not hired by the sponsor.

"*uplift balance*" means 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, Chapter 41 of PURA. The term does not include amounts that were part of the prevailing settlement point price during the period of emergency.

"*uplift charges*" means charges assessed to LSEs to repay amounts financed under Subchapter N to pay the uplift balance and reasonable costs incurred to implement the debt obligation order.

"*uplift deposit*" means the amount required by the servicer in accordance with the debt obligation order to be posted in collateral deposit accounts or letters of credit as a source of payment of uplift charges in accordance with ERCOT's protocols relating to uplift charges under Subchapter N. The uplift deposits will be held by the servicer on behalf of QSEs as a supplemental source of payment to the extent necessary to account for unpaid or delinquent uplift charges.

"*uplift invoice*" means invoices submitted to QSEs by the servicer for the payment of uplift charges.

"*uplift property*" means all uplift property pertaining to the Bonds and created, sold, assigned, or pledged as authorized by the Commission pursuant to Subchapter N and the debt obligation order; including the right to impose, collect, and receive the uplift charges.

"*U.S. Bank*" means U.S. Bank N.A. and U.S. Bank Trust Co.

"*U.S. Bank N.A.*" means U.S. Bank National Association.

"*U.S. Bank Trust Co.*" means U.S. Bank Trust Company, National Association.

"*U.S. Holder*" means a beneficial owner of a bond that, for U.S. federal income tax purposes, is (i) a citizen or individual resident of the United States, (ii) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust if (A) a court in the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (B) it has a valid election in place to be treated as a U.S. person.

"*Volcker Rule*" means Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

\$2,115,700,000 Texas Stabilization Subchapter N Bonds, Series 2022

Electric Reliability Council of Texas, Inc.
Sponsor, Depositor and Initial Servicer

Texas Electric Market Stabilization Funding N LLC
Issuing Entity

Citigroup

Joint Bookrunner

Barclays

Joint Bookrunner

Guggenheim Securities

Morgan Stanley

RBC Capital Markets

Loop Capital Markets