



Item 4.2: Report on December 31, 2022 Financial Audit and Annual Servicer's Certificate

Jeff Gendreau, CPA, Partner
Sarah Slaughter, CPA, Senior Manager
Baker Tilly Virchow Krause, LLP

Finance and Audit Committee Meeting

ERCOT Public
April 18, 2023

Finance and Audit Committee Request

- **Purpose**

- To receive the report on 2022 financial statement audits prior to voting
 - ERCOT consolidated,
 - Texas Electric Market Stabilization Funding M LLC, and
 - Texas Electric Market Stabilization Funding N LLC
- To receive the report on 2022 servicer's assessment of compliance for the Committee's awareness

- **Key Takeaways**

- Expect to receive unmodified reports (clean opinions) for 2022 ERCOT, Inc. consolidated financial statements, Texas Electric Market Stabilization Funding M LLC financial statements, and Texas Electric Market Stabilization Funding N LLC financial statements
- ERCOT received the independent certified accountant's report regarding the annual Servicer's assessment of compliance



Electric Reliability Council of Texas, Inc.,
Texas Electric Market Stabilization
Funding M, LLC, Texas Electric Market
Stabilization Funding N, LLC and ERCOT
Servicer's Agreement Examination

Report on audits and examination
engagement for the year ended
December 31, 2022

April 18, 2023

(Content dated March 30, 2023)

Presented by:

Jeff Gendreau CPA, Partner

Sarah Slaughter, CPA, Senior Manager



The information provided here is of a general nature and is not intended to address the specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought. Tax information, if any, contained in this communication was not intended or written to be used by any person for the purpose of avoiding penalties, nor should such information be construed as an opinion upon which any person may rely. The intended recipients of this communication and any attachments are not subject to any limitation on the disclosure of the tax treatment or tax structure of any transaction or matter that is the subject of this communication and any attachments. Baker Tilly Virchow Krause, LLP trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd, the members of which are separate and independent legal entities. © 2018 Baker Tilly Virchow Krause, LLP



Contents

- Status of Audit Engagements
- Audit Overview
- Internal Control Communication
- Servicer’s Agreement Examination Engagement
- Auditor communications to those charged with governance
- Questions

Status of Audit Engagements

- We are substantially complete with our audits of the following entities:
 - Consolidated financial statements of ERCOT, Inc.
 - Texas Electric Market Stabilization Funding M, LLC (TEMSFM)
 - Texas Electric Market Stabilization Funding N, LLC (TEMSFN)
- We expect to issue our unmodified reports on these financial statements on or about April 19, 2023, pending the receipt of signed management letters of representation and responses to letters of inquiry from external and internal legal counsel.
- Our report on the consolidated financial statements of ERCOT, Inc. includes an emphasis of matter paragraph with respect to the uncertain impact of legislative, regulatory, legal and market participant, responses resulting from winter storm Uri in 2021.
- The audits were conducted with no difficulties.



Audit Overview

- Audits were performed in accordance with Generally Accepted Auditing Standards
- Audits were based on our assessment of risk in key financial statement areas. Key areas of focus included:
 - Unrestricted and restricted cash and investments
 - Accounts payable
 - Payroll
 - Accounts receivable/default charges receivable and revenue recognition
 - Market settlement liabilities
 - Security deposits and reserves
 - Notes and bonds payable
 - Property, equipment and systems under development
 - Evaluation of controls over cash disbursements, payroll, settlements and information technology
 - Analytical review of statements of financial position and statements of activities and net assets
 - Financial reporting and disclosures
 - Evaluation of going concern
 - Commitments and contingent liabilities
 - Subsequent events



Audit Overview

- Audit objective
 - To obtain reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error.
 - Under GAAS, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of an entity's internal control. Accordingly, we express no such opinion



Internal Control Communication

AU-C Section 265

Communicating Internal Control Related Matters Identified in an Audit

We noted no material weaknesses noted in ERCOT's, TEMSFM's and TEMSFN's internal controls.

Servicer's Agreement Examination Engagement

- The engagement was planned and performed to form and express an opinion as to whether management's assertion that ERCOT was in compliance, in all material respects, with the applicable servicing criteria set forth in Exhibit C-1 of the Uplift Property Servicing Agreement for the period from June 15, 2022 through December 31, 2022, was fairly stated.
- The focus of our procedures was to examine evidence supporting management's compliance with the applicable servicing criteria and to obtain evidence that management had performed an assessment of its compliance with the applicable servicing criteria.
- The timeline to complete the examination engagement was met and our unmodified report was issued on March 30th

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits and Examination

Area to Be Communicated	Auditor's Response
<p data-bbox="202 576 892 668">Auditor's View on Qualitative Aspects of Significant Accounting Practices</p> <ul style="list-style-type: none"> <li data-bbox="202 748 846 786">– Significant accounting policies <li data-bbox="202 829 639 868">– Sensitive estimates <li data-bbox="202 911 871 949">– Financial statement disclosures 	<ul style="list-style-type: none"> <li data-bbox="938 576 1725 768">– ERCOT, TEMSFM's and TEMSFN's significant accounting policies are discussed in Note 2 to their respective financial statements. <li data-bbox="938 811 1779 1002">– Management's methodologies used to record estimates appear to be consistent in their application and appear to make use of reasonable assumptions. <li data-bbox="938 1045 1740 1136">– Disclosures are neutral, consistent, and clear.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits and Examination (cont.)

Area to Be Communicated	Auditor's Response
Significant Difficulties Encountered in Performing the Audits or Examination	> We encountered no difficulties in performing our audits or examination engagement.
Fraud and Noncompliance with Laws and Regulations	> We did not identify any known or suspected instances of fraud or noncompliance with laws and regulations.
Significant and Unusual Transactions	> The formation and subsequent securitization of default property and sale of \$2.1 billion of Texas Market Stabilization N Bond, Series 2022, which were authorized to be issued under the Debt Obligation Order under PURA 39.653.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits and Examination (cont.)

Area to Be Communicated	Auditor's Response
Uncorrected Misstatements and Corrected Misstatements	<ul style="list-style-type: none"><li data-bbox="923 582 1831 853">> Professional standards require us to accumulate all known and likely misstatements identified during the audits, other than those that are trivial, and communicate them to the appropriate level of management.<li data-bbox="923 896 1831 989">> Uncorrected misstatements refer to immaterial passed audit adjustments.<li data-bbox="923 1032 1831 1075">> There were no misstatements identified.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits and Examination (cont.)

Area to be Communicated	Auditor's Response
<p>Disagreements with Management</p>	<p>> Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's reports. We are pleased to report that no such disagreements were encountered during the course of the audits.</p>
<p>Other Findings or Issues</p>	<p>> As a result of the ongoing legislative, regulatory, pending and/or threatened litigation surrounding Winter Storm Uri, we continue to consider the completeness and accuracy of disclosures and amounts recorded in the financial statements, including the risk relative to going concern to be inherently high. We continue to engage in consultations about these matters (including their impact on our audit report) with our Firm's Professional Practice Group, and correspond with ERCOT's legal counsel and general counsel to assist in our evaluation of these matters. Our report continues to include an emphasis of matter paragraph to draw the attention of a use of the financial statements to these matters.</p>

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits and Examination (cont.)

Area to Be Communicated	Auditor's Response
Management Representations	<ul style="list-style-type: none"> > We have requested certain representations from management that are included in the management representation letters.
Going Concern	<ul style="list-style-type: none"> > Management's evaluation of going concern did not identify any conditions or events that give rise to substantial doubt about the ability of ERCOT, TEMSFM or TEMSFN to continue as a going concern, apart from the uncertain potential outcome of legal and regulatory matters related to Winter Storm Uri.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits and Examination (cont.)

Area to Be Communicated	Auditor's Response
Management's Consultations with Other Accountants	<ul style="list-style-type: none"><li data-bbox="884 576 1831 1076">– Professional standards require a consulting accountant to discuss any consultations about auditing or the application of accounting principles with the current auditor to determine that the consultant has all the relevant facts. To the best of our knowledge and belief, management has not consulted with or obtained opinions from other independent accountants on auditing and or the application of accounting principles during the past year.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audits and Examination (cont.)

Area to Be Communicated	Auditor's Response
Auditor Independence	<ul style="list-style-type: none"> - We are not aware of any relationships between Baker Tilly US, LLP, ERCOT, TEMSFM and TEMSFN that, in our professional judgment, may reasonably be thought to bear on our independence.
Related Parties	<ul style="list-style-type: none"> - We are not aware of any material transactions involving related parties



Questions

Thank You!

We appreciate the work performed by ERCOT's accounting staff, management, and Internal Audit staff in preparing for and assisting in the audit!

We would be happy to answer any questions regarding the audits.