



## Financial Statements

Texas Electric Market Stabilization Funding M, LLC

Year ended December 31, 2022 and for the Period from  
October 27, 2021 (Inception) through December 31, 2021

With Independent Auditors' Report

April 2023



Texas Electric Market Stabilization Funding M, LLC.

Financial Statements

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for  
the Period from October 27, 2021 (Inception) through  
December 31, 2021

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## **Independent Auditors' Report**

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

### **Opinion**

We have audited the financial statements of Texas Electric Market Stabilization Funding M, LLC (the Company), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and net assets and cash flows for the year ended December 31, 2022 and from the period from October 27, 2021 (inception) through December 31, 2021, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the year ended December 31, 2022 and for the period from October 27, 2021 (inception) through December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

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

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

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

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

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

In performing an audit in accordance with GAAS, we:

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

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

*Baker Tilly US, LLP*

Minneapolis, Minnesota  
April 19, 2023

Texas Electric Market Stabilization Funding M, LLC.

Statements of Financial Position

	December 31	
	2022	2021
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,044	\$ 4,000
Receivable from ERCOT	382,293	-
Securitization charges receivable, current	9,798	13,912
Unbilled revenue	-	3,264
Interest receivable	140	-
Restricted cash and cash equivalents	40,003	60,419
Prepaid expenses	2	8
Total current assets	<u>436,280</u>	<u>81,603</u>
Securitization charges receivable, non-current	392,500	784,181
Total assets	<u>\$ 828,780</u>	<u>\$ 865,784</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 4	\$ -
Accrued liabilities	11,853	3,181
Payable to ERCOT	636	83
Security deposits and reserves	18,565	60,419
Debt payable, current portion	396,974	4,244
Total current liabilities	<u>428,032</u>	<u>67,927</u>
Debt payable, less current portion:		
Principal	398,782	795,756
Less unamortized debt issuance costs	2,034	1,899
Debt payable, less current portion and unamortized debt issuance costs	<u>396,748</u>	<u>793,857</u>
Total liabilities	<u>824,780</u>	<u>861,784</u>
Net assets without donor restrictions	4,000	4,000
Total liabilities and net assets	<u>\$ 828,780</u>	<u>\$ 865,784</u>

See accompanying notes to the financial statements

Texas Electric Market Stabilization Funding M, LLC.

Statements of Activities and Net Assets

	Year Ended December 31, 2022	From October 27, 2021 (Inception) Through December 31, 2021
	<i>(In Thousands)</i>	
<b>Operating revenues:</b>		
Securitization charges fees	\$ 24,417	\$ 3,273
Total operating revenues	<u>24,417</u>	<u>3,273</u>
<b>Operating expenses:</b>		
Outside services	772	83
Other	1	-
Total operating expenses	<u>773</u>	<u>83</u>
Income from operations	<u>23,644</u>	<u>3,190</u>
<b>Other income (expense):</b>		
Investment return, net	195	-
Interest expense and amortization of debt issuance cost	(23,839)	(3,190)
Change in net assets without donor restrictions	-	-
Net assets without donor restrictions, beginning of year	4,000	-
Equity contribution from parent company	-	4,000
Net assets without donor restrictions, end of year	<u>\$ 4,000</u>	<u>\$ 4,000</u>

See accompanying notes to the financial statements.

Texas Electric Market Stabilization Funding M, LLC.

Statements of Cash Flows

	Year Ended December 31, 2022	From October 27, 2021 (Inception) Through December 31, 2021
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Change in net assets without donor restrictions	\$ -	\$ -
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Amortization of debt issuance costs	78	9
Changes in operating assets and liabilities:		
Securitization charges receivable	13,502	(798,093)
Unbilled revenue	3,264	(3,264)
Interest receivable	(140)	-
Prepaid expenses	6	(8)
Accounts Payable	4	-
Accrued liabilities	8,459	3,181
Payable to ERCOT	553	83
Security deposits and reserves	(41,854)	60,419
Net cash used in operating activities	<u>(16,128)</u>	<u>(737,673)</u>
<b>Financing activities</b>		
Proceeds from parent company investment	-	4,000
Proceeds from debt issuance	-	800,000
Prepayment of debt payable	(4,244)	-
Payment of debt issuance costs	-	(1,908)
Net cash (used in) provided by financing activities	<u>(4,244)</u>	<u>802,092</u>
Net (decrease) increase in cash, cash equivalents, and restricted cash and cash equivalents	(20,372)	64,419
Cash, cash equivalents, and restricted cash and cash equivalents, beginning of year	64,419	-
Cash, cash equivalents, and restricted cash and cash equivalents, end of year	<u>\$ 44,047</u>	<u>\$ 64,419</u>

See accompanying notes to the financial statements.

Texas Electric Market Stabilization Funding M, LLC.

Statements of Cash Flows (continued)

	Year Ended December 31, 2022	From October 27, 2021 (Inception) Through December 31, 2021
	<i>(In Thousands)</i>	
<b>Supplemental information</b>		
Cash paid for interest	\$ 17,094	\$ -
<b>Supplemental disclosures of non-cash investing and financing activities</b>		
Debt issuance costs included in amounts payable to ERCOT	\$ 213	\$ -



# Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

### 1. Organization and Operations

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

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

# Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

### 1. Organization and Operations (continued)

TEMSFM is a Delaware limited liability company with ERCOT as its sole member, and a disregarded entity for tax purposes. It was incorporated on October 27, 2021, for the limited purpose of (a) imposing, collecting, and receiving default charges (securitization charges) and acquiring default property and related assets to support its obligations under the Texas Market Stabilization M bonds, (b) issuing Texas Market Stabilization M bonds in one or more series, and (c) performing other activities relating thereto or otherwise authorized by The Order. On November 12, 2021, TEMSFM issued \$800,000 of Texas Market Stabilization M Bonds, Series 2021, pursuant to The Order, which were sold to the Texas Treasury Safekeeping Trust Company, which was incorporated by the Texas Comptroller of Public Accounts (see Note 5). ERCOT is the servicer and administrator of the Texas Market Stabilization M bonds, Series 2021.

### 2. Summary of Significant Accounting Policies

#### Method of Accounting

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

#### Net Assets Without Donor Restrictions

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

# Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

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

#### **Use of Estimates**

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

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of deposits in banks and money market investment accounts with original maturities of 90 days or less. Cash and cash equivalents consist primarily of capital contribution from ERCOT.

#### **Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents consist of deposits in banks and money market investment accounts with original maturities of 90 days or less. Restricted cash and cash equivalents consist of security deposits from ERCOT's market participants subject to Subchapter M; reserve for retiring or refunding ERCOT exiting debt, debt service and supplemental capital pledged as collateral for the payment of the Texas Market Stabilization M Bonds, Series 2021; and payments collected from securitization charges receivable.

Payments collected from securitization charges receivable are deposited to a trust account held by the indenture trustee as collateral to ensure timely payment of debt principal and interest. The trustee shall have sole dominion and exclusive control over all money collected from securitization charges receivable.

## Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

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

##### Restricted Cash and Cash Equivalents (continued)

As of December 31, restricted cash and cash equivalents consist of below:

	2022	2021
Security deposits	\$ 13,688	\$ 6,419
Payments collected from securitization charges receivable	21,438	-
Reserve for supplemental capital	836	-
Reserve for retiring or refunding ERCOT existing debt	-	50,000
Reserve for debt service	4,041	4,000
Total	\$ 40,003	\$ 60,419

##### Custodial Credit Risk

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

##### Securitization Charges Receivable and Revenue Recognition

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



## Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

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

##### Securitization Charges Receivable and Revenue Recognition (continued)

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

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

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers at December 31.

	2022	2021
Receivables-current	\$ 9,798	\$ 13,912
Receivables-non-current	\$ 392,500	\$ 784,181
Contract assets	\$ -	\$ 3,264
Contract liabilities	\$ 1,756	\$ -

Receivables-current and receivables-non-current are comprised solely of securitization charges receivable, current and non-current, respectively, and are represented that way on the statements of financial position. Contract assets relate to the Company's rights to consideration for Texas Market Stabilization M Bonds, Series 2021 interest expenses and ongoing expenses. Contract liabilities relate to advance consideration received from customers for Texas Market Stabilization M Bonds, Series 2021 interest expenses and ongoing expenses. Revenues are recognized when performance obligations are satisfied.

## Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

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

##### Securitization Charges Receivable and Revenue Recognition (continued)

Non-contract related receivables on December 31, 2022 on the statements of financial position include \$382,293 receivable from ERCOT for early redemption of Texas Market Stabilization M bonds, Series 2021 (see Note 7 Intercompany Transactions and Note 9 Subsequent Events), and \$140 interest receivable from money market investments.

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

##### Prepaid Expenses

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

##### Accrued Liabilities

Accrued liabilities are expenses that TEMSFM has incurred but hasn't yet been billed for. As of December 31, the accrued liabilities consist of the amounts shown in the table below:

	2022	2021
Debt interest payable	\$ 9,847	\$ 3,181
Advance consideration from customers for bond interest and ongoing expenses	1,756	-
Accrued fees liabilities	250	-
Total	<u>\$ 11,853</u>	<u>\$ 3,181</u>

## Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

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

##### Security Deposits and Reserves

Security deposits and reserves consist of security deposits from ERCOT's market participants subject to Subchapter M, reserve for retiring or refunding ERCOT exiting debt, debt service, and supplemental capital.

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

Cash security deposits and debt reserves are classified as restricted cash and cash equivalents on the statements of financial position. See Note 2 Restricted Cash and Cash Equivalents. The balance of cash security deposits and reserves is \$18,565 and \$60,419 on December 31, 2022 and 2021, respectively.

##### Income Taxes

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

##### Debt Issuance Costs

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

## Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

#### 3. Liquidity and Availability

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

	<u>2022</u>	<u>2021</u>
Cash equivalents and restricted cash equivalents	\$ 25,482	\$ 4,000
Receivable from ERCOT	382,293	-
Securitization charges receivable, current	9,798	13,912
Unbilled revenue	-	3,264
Interest receivable	80	-
Total	<u>\$ 417,653</u>	<u>\$ 21,176</u>

The balance of interest receivable on the statement of financial position as of December 31, 2022 also includes \$60 interest receivable from security deposits investment that TEMSFM is required to remit to the market participants. This portion is not included in the financial assets available for general expenditures.

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



## Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

#### 4. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement. In a three-tier fair value hierarchy, which prioritizes inputs to valuation techniques used for fair value measurement, the following levels were established for each input:

- Level 1 valuations use quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 valuations use inputs, other than those included in Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 valuations use unobservable inputs for the asset or liability. Unobservable inputs are used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The input may reflect the assumptions of the reporting entity of what a market participant would use in pricing an asset or liability.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

## Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

#### 4. Fair Value Measurement (continued)

The following tables set forth by level within the fair value hierarchy the Company's financial assets. The fair value on a recurring basis as of December 31 is as follows:

	2022			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Money Market Mutual Funds				
Cash equivalents	\$ 4,044	\$ 4,044	\$ -	\$ -
Restricted cash equivalents	39,918	39,918	-	-
Total assets at fair value	<u>\$ 43,962</u>	<u>\$ 43,962</u>	<u>\$ -</u>	<u>\$ -</u>

The Company did not hold cash and restricted cash equivalents as of December 31, 2021, so there is no fair value measurement report for that time.

#### 5. Debt Payable

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

## Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

#### 5. Debt Payable (continued)

On December 31, 2022 and 2021, the unamortized debt issuance costs were \$2,034 and \$1,899, respectively.

ERCOT received the first settlement payment in the amount of approximately \$1,151,400 from Brazos under its bankruptcy exit plan on December 15, 2022. On December 29, 2022, TEMSFM notified the trustee of its election to redeem on February 1, 2023 \$382,288 of the Texas Market Stabilization M Bonds, Series 2021 (see Note 9 Subsequent Events) at a redemption price equal to the principal amount thereof plus interest accrued to the redemption Date.

PUCT Order No. 6 addressing ERCOT's January 12, 2023, Supplemental True-Up Filing approved ERCOT's Application for Early Optional Redemption of \$382,288 of the Texas Market Stabilization M Bonds, conditionally approved the issuance of the Replacement Revenue Requirement Amortization Schedule and Default Charge Schedule entered on January 23, 2023 under Docket No. 52709.

The following future maturities table was based on an assumed rate of 6.266%, and the new amortization schedule approved by PUCT mentioned above.

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

## Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

#### 5. Debt Payable (continued)

Future maturities of the debt payable are as follows:

	<b>Texas Market Stabilization M Bonds, Series 2021</b>	
Year Ending December 31:		
2023	\$	396,974
2024		10,260
2025		8,608
2026		7,047
2027		7,495
Thereafter through 2049		365,372
	\$	<u>795,756</u>

#### 6. Expenses by Nature and Function

As a special purpose entity established solely to provide for the financing of the default balance to be repaid by ERCOT market participants, TEMSFM's expenses are all contributed to program services. Expenses are presented by nature on the statements of activities and net assets.

#### 7. Related Party Transactions

TEMSFM is a Delaware limited liability company with ERCOT as its sole member. ERCOT is the servicer and administrator of the Texas Market Stabilization M bonds, Series 2021. As a result, TEMSFM pays ERCOT for the beforementioned administrative services. At times, ERCOT pays bills and receives payments on behalf of TEMSFM. As of December 31, the intercompany transactions and balances are listed as below:

## Texas Electric Market Stabilization Funding M, LLC.

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

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

#### 7. Related Party Transactions (continued)

	2022	2021
Debt service and administration expenses recognized throughout the year	\$ 500	\$ 83
Receivable from ERCOT for debt early redemption (see Note 9 Subsequent Events)	\$ 382,293	\$ -
Payable to ERCOT for debt service and administration expenses	\$ 333	\$ 83
Payable to ERCOT for expenses paid by ERCOT on behalf of TEMSFM	\$ 246	\$ -
Payable to ERCOT for interest income earned on equity contribution	\$ 57	\$ -

#### 8. Contingencies

Management is not aware of any pending or threatened litigation, claims or assessments as of December 31, 2022.

#### 9. Subsequent Events

Following Winter Storm Uri, Brazos Electric Power Cooperative, Inc. filed a petition for relief under Chapter 11 of the United States Bankruptcy Code. On December 15, 2022, ERCOT received the first settlement payment in the amount of approximately \$1,151,400 from Brazos under its bankruptcy exit plan. Among the payment, \$374,764 was to be used to pay down Texas Market Stabilization M Bonds.

On February 1, 2023, TEMSFM made an early optional redemption of \$382,288 of Texas Market Stabilization M Bonds, Series 2021, as mentioned in Note 5 Debt Payable. The early redemption amount was funded by the \$374,764 from the Brazos settlement and \$7,524 recovered from market participants whose unpaid obligations were included in the Texas Market Stabilization M Bonds. The total \$382,288 fund was held by ERCOT and then transferred to TEMSFM on January 31, 2023 for debt payment.



Texas Electric Market Stabilization Funding M, LLC.

Notes to Financial Statements (continued)

*(Dollars in Thousands)*

As of and for the Year ended December 31, 2022 and as of December 31, 2021 and for the Period from October 27, 2021 (Inception) through December 31, 2021

**9. Subsequent Events (continued)**

TEMSFM has evaluated material subsequent events through April 19, 2023, the date the Company's financial statements were available to be issued. TEMSFM is not aware of any material subsequent events.