



Financial Statements

Texas Electric Market Stabilization Funding N, LLC

Year ended December 31, 2022

With Independent Auditors' Report

April 2023



Texas Electric Market Stabilization Funding N, LLC.

Financial Statements

As of and for the Year Ended
December 31, 2022

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of Texas Electric Market Stabilization Funding N, LLC (the Company), which comprise the statement of financial position as of December 31, 2022, and the changes in its net assets and cash flows for the year then ended, 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 the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 N, LLC.

Statement of Financial Position

	December 31 2022
	<u>(In Thousands)</u>
Assets	
Current assets:	
Securitization charges receivable, current	\$ 40,817
Unbilled revenue	1,843
Receivable from ERCOT	454
Interest receivable	249
Restricted cash and cash equivalents	80,440
Total current assets	<u>123,803</u>
Securitization charges receivable, non-current	2,049,298
Total assets	<u>\$ 2,173,101</u>
Liabilities and Net Assets	
Current liabilities:	
Accrued liabilities	\$ 55,767
Payable to ERCOT	1,307
Security deposits	3,039
Debt payable, current portion	35,532
Total current liabilities	<u>95,645</u>
Debt payable, less current portion:	
Principal	2,080,168
Less unamortized discount and debt issuance costs	13,291
Debt payable, less current portion and unamortized discount and debt issuance costs	<u>2,066,877</u>
Total liabilities	<u>2,162,522</u>
Net assets without donor restrictions	10,579
Total liabilities and net assets	<u>\$ 2,173,101</u>

See accompanying notes to the financial statements

Texas Electric Market Stabilization Funding N, LLC.

Statement of Activities and Net Assets

	Year Ended December 31 2022
	<i>(In Thousands)</i>
Operating revenues:	
Securitization charges fees	\$ 56,372
Total operating revenues	<u>56,372</u>
Operating expenses:	
Outside services	801
Total operating expenses	<u>801</u>
Income from operations	<u>55,571</u>
Other income (expense):	
Investment return, net	476
Interest expense and amortization of debt issuance cost	<u>(56,047)</u>
Change in net assets without donor restrictions	-
Net assets without donor restrictions, beginning of year	-
Equity contribution from parent company	10,579
Net assets without donor restrictions, end of year	<u>\$ 10,579</u>

See accompanying notes to the financial statements.

Texas Electric Market Stabilization Funding N, LLC.

Statement of Cash Flows

	Year Ended December 31 2022
	<u>(In Thousands)</u>
Operating activities	
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 and discounts	407
Changes in operating assets and liabilities:	
Securitization charges receivable	(2,090,569)
Unbilled revenue	(1,843)
Interest receivable	(249)
Accrued liabilities	55,259
Payable to ERCOT	1,307
Security deposits	3,039
Net cash used in operating activities	<u>(2,032,649)</u>
Financing activities	
Proceeds from parent company investment	10,579
Proceeds from debt issuance	2,115,542
Payment of debt issuance costs	(13,032)
Net cash provided by financing activities	<u>2,113,089</u>
Net increase in restricted cash and cash equivalents	80,440
Restricted cash and cash equivalents, beginning of year	-
Restricted cash and cash equivalents, end of year	<u>\$ 80,440</u>
Supplemental disclosures of non-cash investing and financing activities	
Debt issuance costs included in amounts payable to ERCOT	<u>\$ 508</u>

See accompanying notes to the financial statements.

Texas Electric Market Stabilization Funding N, LLC.

Notes to Financial Statements *(Dollars in Thousands)*

As of and for the Year Ended
December 31, 2022

1. Organization and Operations

Texas Electric Market Stabilization Funding N LLC (TEMSFN, 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 13, 2021, the Public Utility Commission of Texas (PUCT) approved ERCOT's application for a Debt Obligation Order (The Order) under PURA § 39.653 (Subchapter N) and issued The Order.

The Order approves the uplift balance up to \$2,100,000, plus reasonable costs; approves the mechanisms to calculate and assess uplift charges to repay the uplift balance and other amounts necessary to implement The Order; approves bonds to be issued through a special purpose entity to finance the uplift balance; and approves the securitization of uplift charges and the creation of uplift property.

Texas Electric Market Stabilization Funding N, LLC.

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

As of and for the Year Ended
December 31, 2022

1. Organization and Operations (continued)

TEMSFN is a Delaware limited liability company with ERCOT as its sole member, and a disregarded entity for tax purposes. It was incorporated on December 2, 2021, for the limited purpose of (a) imposing, collecting, and receiving uplift charges and acquiring uplift property and related assets to support its obligations under the Texas Market Stabilization N bonds, (b) issuing Texas Market Stabilization N bonds in one or more series, and (c) performing other activities relating thereto or otherwise authorized by The Order. On June 15, 2022, TEMSFN issued \$2,115,700 of Texas Market Stabilization N Bonds, Series 2022, pursuant to The Order (see Note 5). ERCOT is the servicer and administrator of the Texas Market Stabilization N Bonds, Series 2022. Neither the Company nor ERCOT is an asset-backed issuer, and the bonds are not asset-backed securities as such terms are defined by the Securities and Exchange Commission (SEC) in Item 1101 of Regulation AB. The bonds were offered in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act, and outside the United States to entities which are not “U.S. persons” as defined in, and in compliance with, regulations under the Securities Act. The bonds will not be registered under the Securities Act or any state securities or “Blue Sky” laws and were offered and sold in reliance upon exemption from the registration requirements of the Securities Act and such laws. There were no substantive activities from inception until June 14, 2022.

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 TEMSFN’s objectives. Accordingly, net assets of TEMSFN and changes therein are classified and reported as net assets without donor restrictions.

Texas Electric Market Stabilization Funding N, LLC.

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

As of and for the Year Ended
December 31, 2022

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.

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 responsible Qualified Scheduling Entities (QSEs) representing obligated Load Serving Entities (LSEs) within the ERCOT wholesale market subject to Subchapter N (see Note 2 Security Deposits); and capital contribution from ERCOT and payments collected from securitization charges receivable.

Capital contribution from ERCOT and 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.

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

	2022
Security Deposits	\$ 3,039
Payments collected from securitization charges receivable	66,741
Capital contribution from ERCOT	10,660
Total	<u>\$ 80,440</u>

Texas Electric Market Stabilization Funding N, LLC.

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

As of and for the Year Ended
December 31, 2022

2. Summary of Significant Accounting Policies (continued)

Custodial Credit Risk

TEMSFN 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, TEMSFN's deposits may not be returned. TEMSFN 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 Organization and Operations, TEMSFN is approved to finance the uplift balance under The Order through Texas Market Stabilization N Bonds, Series 2022 and performs other activities relating thereto or otherwise authorized by The Order. TEMSFN has the rights to impose, collect, and receive uplift charges (securitization charges) along with the other rights arising under The Order.

As the issuer of Texas Market Stabilization N Bonds, Series 2022, TEMSFN has the performance obligations to maintain and service the bonds. Ongoing expenses associated with the performance obligations and interest on the bonds are recovered through securitization charges fees revenue. Responsible QSEs representing obligated LSEs within the ERCOT wholesale are billed daily on a load ratio share basis in an amount sufficient to ensure the recovery of securitization charges receivable and ongoing expenses. Each securitization invoice payment is due by 5:00pm on the second bank business day after the invoice date.

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

At December 31, 2022, there is \$40,817 and \$2,049,298 securitization charges receivables current and non-current, respectively. Contract assets relate to the Company's rights to consideration for Texas Market Stabilization N Bonds, Series 2022 interest expenses and ongoing expenses, and are reported as unbilled revenue of \$1,843.

Texas Electric Market Stabilization Funding N, LLC.

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

As of and for the Year Ended
December 31, 2022

2. Summary of Significant Accounting Policies (continued)

Securitization Charges Receivable and Revenue Recognition (continued)

Non-contract related receivables on December 31, 2022 on the statement of financial position include \$454 receivable from ERCOT for securitization charges collected by ERCOT not transferred to TEMSFN yet (see Note 7 Related Party Transactions), and \$249 interest receivable from money market investments.

TEMSFN 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.

Accrued Liabilities

Accrued liabilities are expenses that TEMSFN has incurred but hasn't yet been billed for. As of December 31, 2022, the accrued liabilities consist of below:

	2022
Debt interest payable	\$ 55,640
Accrued fees liabilities	127
Total	<u>\$ 55,767</u>

Security Deposits

Pursuant to The Order, each responsible QSE representing obligated LSE subject to securitization charges is required to provide a cash deposit or letter of credit equal to two months of projected securitization charges. TEMSFN is required to remit interest earned on security deposits to QSEs. Although ERCOT is the servicer for the assessment and collection of securitization charges, TEMSFN is granted a secured interest in the security deposits to secure its obligation to pay the same.

\$3,039 security deposits represent the cash deposits received as of December 31, 2022.

Texas Electric Market Stabilization Funding N, LLC.

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

As of and for the Year Ended
December 31, 2022

2. Summary of Significant Accounting Policies (continued)

Income Taxes

TEMSFN 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

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

3. Liquidity and Availability

As a special purpose entity solely to provide for the financing of the uplift balance to be repaid by responsible QSEs representing obligated LSEs in the ERCOT wholesale market, TEMSFN's general expenditures include payment of bond principal and interest, administrative and servicing 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>
Restricted cash equivalents	\$ 77,401
Securitization charges receivable, current	40,817
Unbilled revenue	1,843
Receivable from ERCOT	454
Interest receivable	240
Total	<u>\$ 120,755</u>

The balance of interest receivable on the statement of financial position as of December 31, 2022 also includes \$9 interest receivable from security deposits investment that TEMSFN is required to remit to the market participants. This portion is not included in the financial assets available for general expenditures.

Texas Electric Market Stabilization Funding N, LLC.

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

As of and for the Year Ended
December 31, 2022

3. Liquidity and Availability (continued)

To ensure the timely payment of general expenditures, the Company bills and collects the securitization charges daily 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 responsible QSEs representing obligated LSEs in the ERCOT wholesale market can be drawn on if they cannot make their timely payment, following the ERCOT Nodal Protocols (see Note 2 Security Deposits).

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.

Texas Electric Market Stabilization Funding N, LLC.

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

As of and for the Year Ended
December 31, 2022

4. Fair Value Measurement (continued)

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.

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
Assets				
Money Market Mutual Funds				
Restricted cash equivalents	\$ 80,156	\$ 80,156	\$ -	\$ -
Total assets at fair value	\$ 80,156	\$ 80,156	\$ -	\$ -

5. Debt Payable

On June 15, 2022, the Company issued \$2,115,700 of Texas Market Stabilization N Bonds, Series 2022, tranches A-1, A-2, A-3 and A-4, pursuant to The Order (see Note 1 Organization and Operations). The bonds proceeds were allocated to first pay upfront costs, before payout to finance the ERCOT wholesale market. The bonds have target scheduled final payment dates ranging from approximately 12 years to 28 years and final maturities not exceeding 30 years from the date of issuance. Payments of the bonds are semi-annual, beginning February 1, 2023. On December 31, 2022, the unamortized debt issuance costs were \$13,137, and unamortized bond discounts were \$154. As of December 31, 2022, the bonds comprise each tranche as following:

Texas Electric Market Stabilization Funding N, LLC.

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

As of and for the Year Ended
December 31, 2022

5. Debt Payable (continued)

Tranche	Principal Amount Offered	Issuance Date	Scheduled Final Payment Date	Final Maturity Date	Interest Rate	Unamortized Bond Discount	Unamortized Debt Issuance Cost
A-1	\$ 600,000	6/15/2022	8/1/2034	8/1/2036	4.265%	\$ 8	\$ 3,668
A-2	600,000	6/15/2022	2/1/2042	2/1/2044	4.966%	56	3,733
A-3	457,900	6/15/2022	8/1/2046	8/1/2048	5.057%	44	2,864
A-4	457,800	6/15/2022	2/1/2050	2/1/2052	5.167%	46	2,872
Total	<u>\$2,115,700</u>					<u>\$ 154</u>	<u>\$ 13,137</u>

Under PURA § 39.653(h), the Texas Market Stabilization N Bonds, Series 2022 authorized to be issued under The Order are a nonrecourse debt secured solely by the uplift charges created by The Order and explicitly assessed to repay the Texas Market Stabilization N Bonds, Series 2022 (including the uplift property as well as earnings from the investment and reinvestment of uplift charges). The Texas Market Stabilization N Bonds, Series 2022 authorized to be issued under The Order and PURA § 39.653 do not create a personal liability for ERCOT.

Future maturities of the debt payable are as follows:

Texas Market Stabilization N Bonds, Series 2022

Year Ending December 31:	A-1	A-2	A-3	A-4	Total
2023	\$ 35,532	\$ -	\$ -	\$ -	\$ 35,532
2024	42,733	-	-	-	42,733
2025	44,504	-	-	-	44,504
2026	46,348	-	-	-	46,348
2027	48,269	-	-	-	48,269
Thereafter through 2050	382,614	600,000	457,900	457,800	1,898,314
	<u>\$ 600,000</u>	<u>\$ 600,000</u>	<u>\$ 457,900</u>	<u>\$ 457,800</u>	<u>\$ 2,115,700</u>

Texas Electric Market Stabilization Funding N, LLC.

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

As of and for the Year Ended
December 31, 2022

6. Expenses by Nature and Function

As a special purpose entity solely to provide for the financing of the uplift balance to be repaid by ERCOT market participants, TEMSFN'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

TEMSFN is a Delaware limited liability company with ERCOT as its sole member. ERCOT is the servicer and administrator of the Texas Market Stabilization N Bonds, Series 2022. As a result, TEMSFN pays ERCOT for the beforementioned administrative services. At times, ERCOT pays bills and receives payments on behalf of TEMSFN. As of December 31, 2022, the intercompany transactions and balances are listed as below:

	<u>2022</u>
Debt service and administration expenses recognized throughout the year	\$ 675
Receivable from ERCOT for securitization charges received by ERCOT not transferred to TEMSFN yet	\$ 454
Payable to ERCOT for debt service and administration expenses	\$ 675
Payable to ERCOT for expenses paid by ERCOT on behalf of TEMSFN	\$ 516
Payable to ERCOT for interest income earned on equity contribution	\$ 116

8. Contingencies

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

Texas Electric Market Stabilization Funding N, LLC.

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

As of and for the Year Ended
December 31, 2022

9. Subsequent Events

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