



Date: April 16, 2024
To: Board of Directors
From: Bill Flores, Finance and Audit (F&A) Committee Chair
Subject: Acceptance of Texas Electric Market Stabilization Funding M LLC Financial Statements Audit Report

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: April 23, 2024

Item No.: 8.2

Issue:

Texas Electric Market Stabilization Funding M LLC (TEMSFM) must obtain an annual audit of its financial records pursuant to the Amended and Restated Limited Liability Company Agreement of TEMSFM.

Background/History:

Requirements of Bylaws, Protocols and Charter

Section 10.6 of the Electric Reliability Council of Texas, Inc. (ERCOT) Bylaws provides that “[a]t least annually, an audit of the financial statements of ERCOT shall be performed by the Auditor approved by the Board.” Baker Tilly US, LLP (Baker Tilly) was engaged by ERCOT, subsequent to approval by ERCOT’s Board of Directors (Board) in April 2023, to perform the annual audit of TEMSFM’s financial books and records.

At the April 22, 2024 meeting of the ERCOT F&A Committee, Baker Tilly will present the proposed audit report for the year ended December 31, 2023 and Baker Tilly’s assessment of internal controls, recommendations, and other business items raised by the F&A Committee.

The audit opinion is expected to be unmodified or “clean,” and the ERCOT F&A Committee is expected to recommend Board acceptance of the audited financial statements as presented by Baker Tilly during the Meeting on April 22, 2024.

Formation of Special Purpose Entity

On October 27, 2021, ERCOT formed TEMSFM, as a special purpose funding entity pursuant to the Public Utility Commission of Texas (PUCT) Debt Obligation Order in Docket No. 52321 (Order 52321), for the limited purpose of “(a) imposing, collecting, and receiving default charges and acquiring default property and related assets to support its obligations under the Subchapter M Bonds, (b) issuing Subchapter M Bonds in one or more series, and (c) performing other activities relating thereto or otherwise authorized by [Order 52321].” As the sole member of TEMSFM, ERCOT adopted on November 12, 2021 the Amended and Restated Company Agreement of TEMSFM, which provides in Section 1.07(h) that TEMSFM shall “maintain full books of accounts and records (financial or other) and financial statements ... prepared and



maintained in accordance with generally accepted accounting principles ... and audited annually by an independent accounting firm”

Key Factors Influencing Issue:

1. ERCOT’s Bylaws requirement;
2. The formation of TEMSFM as a wholly owned subsidiary of ERCOT in 2021; and
3. The expectation that Baker Tilly will issue an unmodified opinion in connection with its audit of TEMSFM’s financial statements for the year ended December 31, 2023.

Conclusion/Recommendation:

ERCOT staff recommends, and the ERCOT F&A Committee is expected to recommend, that the Board accept the TEMSFM audited financials and Report on Audit of Financial Statements for the years ended December 31, 2023 and 2022.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, on October 27, 2021, Electric Reliability Council of Texas, Inc. (ERCOT) formed Texas Electric Market Stabilization Funding M LLC (TEMSFM), as a special purpose funding entity pursuant to the Public Utility Commission of Texas (PUCT) Debt Obligation Order in Docket No. 52321;

WHEREAS, as the sole member of TEMSFM, ERCOT adopted on November 12, 2021 the Amended and Restated Limited Liability Company Agreement of TEMSFM, which provides in Section 1.07(h) that TEMSFM shall “maintain full books of accounts and records (financial or other) and financial statements ... prepared and maintained in accordance with generally accepted accounting principles ... and audited annually by an independent accounting firm ...”; and

WHEREAS, after due consideration of the alternatives, the Board of Directors (Board) of ERCOT deems it desirable and in the best interest of ERCOT to accept the TEMSFM audited Financial Statements for the Years Ended December 31, 2023 and 2022 (Report);

THEREFORE, BE IT RESOLVED, that ERCOT is hereby authorized and approved to accept the TEMSFM audited financial statements and Report.

CORPORATE SECRETARY’S CERTIFICATE

I, Jonathan M. Levine, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its April 23, 2024 meeting, the Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of April, 2024.

Jonathan M. Levine
Assistant Corporate Secretary