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| COMPLIANCE FILING FOR DOCKET | § | PUBLIC UTILITY COMMISSION |
| NO. 52321 (APPLICATION OF | § | |
| ELECTRIC RELIABILITY COUNCIL | § | |
| OF TEXAS, INC. FOR A DEBT | § | OF TEXAS |
| OBLIGATION ORDER PURSUANT TO | § | |
| CHAPTER 39, SUBCHAPTER M, OF | § | |
| THE PUBLIC UTILITY | § | |
| REGULATORY ACT) | § | |

**PROPOSED ORDER ON
SUPPLEMENTAL ANNUAL TRUE-UP COMPLIANCE FILING,
REPORT OF RECOVERIES, NOTICE OF DEFAULT CHARGE ADJUSTMENT, AND
RECALCULATIONS**

This Order addresses the Electric Reliability Council of Texas, Inc. (ERCOT) Supplemental Annual True-Up Filing, Report of Recoveries, Notice of Default Charge Adjustment, and Recalculation of Both the Initial Revenue Requirement and Default Charge Schedule Based on the Expected Optional Early Partial Redemption of the Texas Stabilization M Bonds Series 2021 (True-Up Filing). The True-Up Filing reflects (i) the expected optional early redemption of \$382,288,420 of the Texas Electric Market Stabilization Funding M LLC Texas Stabilization M Bonds, Series 2021 (the Stabilization M Bonds) which were issued on November 12, 2021 in the aggregate principal amount of \$800 million; (ii) the replacement of the existing Revenue Requirements (Amortization Schedule) to reflect the reduced amount of the Stabilization M Bonds; and (iii) the re-calculation of the Default Charge Schedule applicable to the reduced amount of the Stabilization M Bonds.

Accordingly, the Commission

- (1) acknowledges, and to the extent required, approves the expected optional early redemption of \$382,288,420 Stabilization M Bonds (Optional Early Redemption);

- (2) acknowledges, and to the extent required, conditionally approves the replacement of the Revenue Requirements (Amortization Schedule) to reflect the Optional Early Redemption; and
- (3) acknowledges, and to the extent required, conditionally approves the recalculation of the Default Charge Schedule to reflect the Optional Early Redemption.

I. Background

On July 16, 2021, ERCOT filed an application for a debt obligation order from the Commission under Subchapter M of Chapter 39 of the Public Utility Regulatory Act (PURA) to securitize extraordinary costs incurred due to Winter Storm Uri. That proceeding was assigned Docket No. 52321. On October 14, 2021, the Commission issued a Debt Obligation Order¹ that authorized the issuance of the debt obligations in an aggregate amount of up to \$800 million (the Default Balance) and approved 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 the debt obligations.

In accordance with the Debt Obligation Order, Texas Electric Market Stabilization Funding M LLC (the Issuer) issued on November 12, 2021, the Stabilization M Bonds in an aggregate principal amount of \$800 million. The Servicer began billing Default Charges, consistent with the requirements of the Debt Obligation Order, in January 2022. As Servicer for the Issuer, ERCOT bills, collects, receives, and adjusts the Default Charges imposed

¹ *Application of the Electric Reliability Council of Texas, Inc. for a Debt Obligation Order Pursuant to Chapter 39, Subchapter M, of the Public Utility Regulatory Act*, Docket No. 52321, Final Debt Obligation Order, (Oct. 14, 2021) [hereinafter, Debt Obligation Order].

pursuant to the Default Property Servicing Agreement (the Servicing Agreement), dated November 12, 2021, that was entered into between the Issuer and the Servicer. The Servicer remits Default Charges received to the Indenture Trustee to repay the Stabilization M Bonds. The Debt Obligation Order, ERCOT Protocols, and the Servicing Agreement set out the terms and conditions under which the Default Charges will be billed and collected with respect to the Stabilization M Bonds.

The Debt Obligation Order requires the Servicer to review and adjust Default Charges at least annually to correct for any under-collections or over-collections from the preceding annual true-up period, to estimate any anticipated under-collections or over-collections for the current or upcoming annual true-up period, and to ensure the expected recovery of amounts sufficient to provide all payments of debt service.² True-up adjustments are based on cumulative differences, regardless of the reason, between the periodic payment requirements and the amount of Default Charge remittances made to the Indenture Trustee by the Servicer.³

As required under PURA §39.159(c), ERCOT has successfully pursued collection of amounts owed by Market Participants that otherwise would have been borne by other Market Participants or their customers. This includes the recently received \$374,763,872 from the Brazos Electric Power Cooperative, Inc. (Brazos) bankruptcy plan representing a recovery of amounts owed by a Market Participant. Those recoveries (Recoveries) are, pursuant to the Debt Obligation Order and PURA, payable by ERCOT to the Issuer because those Recoveries were included in the Default Balance.⁴

² *Id.* at Finding of Fact No. 70 and Ordering Paragraphs Nos. 15 and 15A.

³ *Id.*

⁴ PURA §39.603(c).

The Debt Obligation Order allows for an optional early redemption (prepayment) of the Stabilization M Bonds if it can be done without premium or penalty.⁵ That right to redeem without premium or penalty is expressly provided for in the Subchapter M Bonds, so long as the optional redemption occurs before the third anniversary of the issuance of the Subchapter M Bonds or at any time thereafter the Texas Comptroller of Public Accounts (Initial Purchaser) remains the owner of the Stabilization M Bonds.⁶

The right to include an optional early redemption feature in the Stabilization M Bonds is permitted under the terms the Debt Obligation Order.⁷ The Debt Obligation Order provided to ERCOT and the Issuer flexibility in establishing the terms and conditions of the Stabilization M Bonds, including the right to establish repayment schedules, payment dates, and optional early redemption rights.⁸

Exercising contractual rights under the Stabilization M Bonds, including the right to early redeem portions of the Stabilization M Bonds, requires no notice to or approval of the Commission. Only amendments which increase the ongoing costs to the applicable Stabilization M Bonds require notice and approval of the Commission⁹.

In its True-Up Filing, ERCOT advises the Commission of the Issuer's intent to early redeem \$382,288,420 of the Stabilization M Bonds to explain why there is a need to (i) submit a Supplemental Annual True Up, (ii) reduce the amount of the Default Charges to avoid anticipated over collection of Default Charges, (iii) provide the replacement Revenue Requirements

⁵ Debt Obligation Order *supra* at Finding of Fact 49.

⁶ ERCOT Texas Stabilization M Bonds, Series 2021, Series Supplement Section 5.

⁷ Debt Obligation Order *supra* at Ordering Paragraph 40.

⁸ *Id.*

⁹ ERCOT Texas Stabilization M Bonds, Indenture, Section 3.21(e) and Debt Obligation Order *supra* at Ordering Paragraph 33.

(Amortization Schedule), and (iv) provide the recalculation of the Default Charge Schedule in each case to reflect the effect of the expected Optional Early Redemption.

In its True-Up Filing, ERCOT has provided evidence that the expected Optional Early Redemption will significantly reduce the financing cost of the Stabilization M Bonds by reducing by almost one half the amount of outstanding principal balance owed on the Stabilization M Bonds. Such a result is consistent with (i) the legislative intent, (ii) the requirements of the Debt Obligation Order that the structure and pricing of the Stabilization M Bonds results in the lowest finance costs consistent with market conditions, and (iii) the terms of the Debt Obligation Order.¹⁰

II. Findings of Fact

The Commission makes the following findings of fact:

1. The Servicer has recovered \$382,292,691 from Market Participants whose unpaid obligations from the period of emergency were included in the Stabilization M Bonds.

2. The Optional Early Redemption (prepayment) of the Stabilization M Bonds does not involve penalties or premium.¹¹

3. The effect of the Optional Early Redemption of the Stabilization M Bonds necessitates the re-amortization of the reduced principal of the Stabilization M Bond and requires delivery of a replacement Revenue Requirements (Amortization Schedule)¹² and a recalculation of the Default Charge Schedule to reflect the Optional Early Redemption.

APPLICATION

¹⁰ See PURA §§ 39.159(c) and 39.601(e).

¹¹ ERCOT Texas Stabilization M Bonds, Series 2021 Series Supplement Section 5.

¹² ERCOT Texas Stabilization M Bonds, *supra*, Series Supplement Section 2(d).

4. On January 12, 2022, ERCOT filed its True-Up Filing advising the Commission of its intent to optionally early redeem \$382,288,420 of the Stabilization M Bonds. The True-Up Filing includes schedules and attachments which reflect (i) the anticipated reduced principal balance of the Stabilization M Bonds, (ii) the anticipated reduced Default Charge, (iii) the replacement of the Revenue Requirements (Amortization Schedule), and (iv) the recalculation of the Default Charge Schedule which will apply to the Subchapter M Bonds after the anticipated Optional Early Redemption.

5. The anticipated Optional Early Redemption represents the exercise by the Issuer of a contractual right that was created at the time of the issuance of the Subchapter M Bonds.

6. The anticipated Optional Early Redemption does not involve any amendment to the Stabilization M Bonds.

7. The anticipated Optional Early Redemption of the Subchapter M Bonds does not involve the payment of any premium or penalty.

8. The anticipated Optional Early Redemption of the Subchapter M Bonds does not increase the ongoing costs of the Subchapter M Bonds.

III. Conclusion of Law

The Commission makes the following conclusion of law:

1. The Commission has the authority to approve this Order under subchapter M of PURA, Chapter 39.

2. The Issuer has the authority to Optional Early Redemption of \$382,288,420 of the Stabilization M Bonds as such redemption (prepayment) (i) requires no amendment to the Stabilization M Bonds, (ii) can be done without premium or penalty, and (iii) does not increase the ongoing costs of the Stabilization M Bonds.

3. As no amendment to the of the Stabilization M Bonds is required for the Optional Early Redemption of \$382,288,420 of the Stabilization M Bonds, no prior notice to the Commission is required.

IV Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

A. Approval

1. Approval of True-Up Filing. The Commission approves the application of ERCOT for the Optional Early Redemption of \$382,288,420 of the Stabilization M Bonds.

2. Issuance of Replacement Revenue Requirements (Amortization Schedule) and Default Charge Schedule. The Commission conditionally approves the issuance of both the Replacement Revenue Requirements (Amortization Schedule) and the Default Charge Schedule. Such approval is conditioned on the Early Optional Redemption taking place on or near February 1, 2023.

SIGNED at Austin, Texas the _____ day of January, 2023.

PUBLIC UTILITY COMMISSION OF TEXAS

WILL McADAMS, COMMISSIONER

LORI COBOS, COMMISSIONER

JIMMY GLOTFELTY, COMMISSIONER

KATHLEEN JACKSON,

COMMISSIONER