

**IRREVOCABLE AND UNCONDITIONAL  
STANDBY LETTER OF CREDIT**

**Irrevocable and Unconditional Standby  
Letter of Credit No.** \_\_\_\_\_

**“Amount”:** \_\_\_\_\_ U.S. Dollars

**“Date of Issuance”:** \_\_\_\_\_

**“Expiration of Initial Term (subject to automatic extension and renewal as provided herein)”:**  
\_\_\_\_\_

**“Market Participant Applicant”:**

\_\_\_\_\_  
[Name]

\_\_\_\_\_  
[Address]

**“Issuer”:**

[Name] \_\_\_\_\_

[Address] \_\_\_\_\_

[Phone] \_\_\_\_\_

[Fax] \_\_\_\_\_

**“Beneficiary”:**

Texas Electric Market Stabilization Funding M LLC (“TEMSFM”)

Attn: Credit

7620 Metro Center Drive

Austin, Texas 78744

Facsimile No. (512) 225-7020

To Beneficiary:

At the request of and on behalf of Market Participant Applicant, the undersigned Issuer hereby establishes and issues in your favor, effective immediately, an Irrevocable and Unconditional Standby Letter of Credit No. \_\_\_\_\_ (“Letter of Credit”) in the amount of \_\_\_\_\_ U.S. Dollars.

This Letter of Credit is available for payment upon your demand at sight presented at our counters by hand delivery of courier located at: \_\_\_\_\_, to the attention of \_\_\_\_\_ telephone \_\_\_\_\_, or upon demand by fax at \_\_\_\_\_ against presentation to us of the following: (i) your written demand for payment containing the text of Exhibit I attached hereto, and (ii) your statement containing the text of Exhibit II, Exhibit IV, Exhibit V, or Exhibit VI attached hereto. If presentation is made by facsimile, original documents will be delivered to us at the address stated above.

Funds may be drawn under this Letter of Credit, from time to time, in one or more drawings, in amounts not exceeding in the aggregate the Amount specified above. Partial drawings shall reduce the Amount thereafter available for drawing under this Letter of Credit.

Upon presentation to us in conformity with the foregoing, we will, not later than the close of business on our next local banking day after presentation, but without any other delay whatsoever, irrevocably and without reserve or condition issue payment instructions to the Federal Reserve wire transfer system in proper form to transfer to the account at the bank designated by you in the demand, the full amount demanded by you in the same-day funds which are immediately available to you up to the Amount of this Letter of Credit.

Payment hereunder shall be made regardless of: (a) any written or oral direction, request, notice or other communication now or hereafter received by us from the Market Participant Applicant or any other person except you, including without limitation any communication regarding fraud, forgery, lack of authority or other defect not apparent on the face of the documents presented by you, but excluding solely an effective written order issued, other than at our instance, by a court of competent jurisdiction which order is legally binding upon us and specifically orders us not to make such payment; (b) the solvency, existence or condition, financial or other, of the Market Participant Applicant or any other person or property from whom or which we may be entitled to reimbursement for such payment; and (c) without limiting clause (b) above, whether we are in receipt of or expect to receive funds or other property as reimbursement in whole or in part for such payment. We agree that we will not take any action to cause the issuance of an order described in clause (a) of the preceding sentence.

We further agree that the time set forth herein for payment of any demand(s) for payment is sufficient to enable us to examine such demand(s) and the related documents(s) referred to above with care so as to ascertain that on their face they appear to comply with the terms of this Letter of Credit and that if such demand(s) and document(s) on their face appear to so comply, failure to make any such payment within such time shall constitute dishonor of such demand(s) and this Letter of Credit.

Except as stated herein, payment is not subject to any condition or qualification. The only documents required to be presented for payment are Exhibit I and one of the following: Exhibit II, Exhibit IV, Exhibit V, or Exhibit VI. Our obligation under this Letter of Credit shall be our individual obligation and in no way is contingent upon reimbursement with respect thereto.

The stated Amount of this Letter of Credit may be increased or decreased by an amendment to this Letter of Credit in the form of Exhibit III executed by you and us. This Letter of Credit may not otherwise be amended or modified without your written agreement. Any such amendment shall become effective only upon acceptance by your signature on a hard copy amendment.

You shall not be bound by any written or oral agreement of any type between us and the Market Participant Applicant or any other person relating to this Letter of Credit, whether now or hereafter existing.

We hereby agree, warrant, and represent that your demand(s) for payment in conformity with the terms of this Letter of Credit will be duly honored as set forth above. All fees, charges, and/or other costs associated with the issuance of and any drawing(s) against this Letter of Credit shall be for the account of and paid by the Market Participant Applicant. All of the rights of Beneficiary set forth herein shall inure to the benefit of Beneficiary's successors and assigns. In this connection, in the event of a drawing made by a party other than Beneficiary, such drawing must be accompanied by the following signed certification:

The undersigned does hereby certify that \_\_\_\_\_ **[Drawer]** is the successor by operation of law to Texas Electric Market Stabilization Funding M LLC, a beneficiary named in \_\_\_\_\_ **[Name of Issuer]** Letter of Credit No. \_\_\_\_\_ and we attach herewith copies of official documents proving our legal status as successor.

\_\_\_\_\_  
\_\_\_\_\_  
[Name and Title]

The initial term of this Letter of Credit shall be one year from the Date of Issuance. It is a condition of this Letter of Credit that it shall be automatically extended without amendment for one (1) additional calendar year after the initial term, or one (1) additional calendar year after any extended term, unless at least sixty (60) days prior to the expiration of the initial term or sixty (60) days prior to the expiration of any extended term we notify Beneficiary by certified mail, return receipt requested (receipt effective upon scheduled weekday delivery day) or facsimile (receipt effective upon receipt of evidence, including facsimile evidence, that the facsimile was actually received) or overnight courier to the address/facsimile number for Beneficiary set forth above that we elect not to extend this Letter of Credit which notice shall contain the following statement:

\_\_\_\_\_ [Name of Issuer] hereby notifies you that Irrevocable and Unconditional Standby Letter of Credit No. \_\_\_\_\_ ("**Letter of Credit**") in the remaining amount of \_\_\_\_\_ U.S. Dollars dated \_\_\_\_\_ issued by \_\_\_\_\_ [Name of Issuer] in your favor for the account of \_\_\_\_\_ [Name of Market Participant Applicant] will not be extended and will expire on \_\_\_\_\_.

In the event that we timely send notice to you in writing that we elect not to extend this Letter of Credit, you may at any time within the thirty (30) days before the expiration date demand payment of the remaining balance of this Letter of Credit upon presentation of (a) your written demand for payment containing the text of Exhibit I attached hereto, and (b) your statement containing the text of Exhibit IV attached hereto. The demand rights in this paragraph are in addition to any other rights under this Letter of Credit.

It is a condition of this Letter of Credit that we shall maintain a corporate debt rating not less than that required by the protocols of Electric Reliability Council of Texas Inc. (the "ERCOT Protocols"). In the event that we do not maintain the minimum corporate debt rating required by the ERCOT Protocols, you may demand payment of the remaining balance of this Letter of Credit upon presentation of (a) your written demand for payment containing the text of Exhibit I attached hereto, and (b) your statement containing the text of Exhibit V attached hereto. The demand rights in this paragraph are in addition to any other rights under this Letter of Credit.

This Letter of Credit may be terminated by us on sixty (60) days written notice by sending Beneficiary notification by certified mail, return receipt requested (receipt effective upon scheduled weekday delivery day) or facsimile (receipt effective upon receipt of evidence, including facsimile evidence, that the facsimile was actually received) or courier to the address/facsimile number for Beneficiary set forth above that we elect to terminate this Letter of Credit which notice shall contain the following statement:

\_\_\_\_\_ [Name of Issuer] hereby notifies you that Irrevocable and Unconditional Standby Letter of Credit No. \_\_\_\_\_ (“**Letter of Credit**”) in the remaining amount of \_\_\_\_\_ U.S. Dollars dated \_\_\_\_\_ issued by \_\_\_\_\_ [Name of Issuer] in your favor for the account of \_\_\_\_\_ [Name of Market Participant Applicant] will terminate sixty (60) days following our sending this Notice of Termination.

In the event that we send notice to you in writing that we elect to terminate this Letter of Credit, you may at any time within the thirty (30) days before the termination date demand payment of the remaining balance under this Letter of Credit upon presentation of (a) your written demand for payment containing the text of Exhibit I attached hereto, and (b) your statement containing the text of Exhibit VI attached hereto. The demand rights in this paragraph are in addition to any other rights under this Letter of Credit.

Notwithstanding our ability to terminate this Letter of Credit on the terms set forth above, this Letter of Credit is otherwise irrevocable and unconditional.

This Letter of Credit may not be assigned or transferred by us.

The Beneficiary shall not be deemed to have waived any rights under this Letter of Credit, unless the Beneficiary shall have signed a written waiver. No such waiver, unless expressly so stated therein, shall be effective as to any transaction that occurs subsequent to the date of the waiver, nor as to any continuance of a breach after the waiver.

We agree that if, on the expiration or termination date of this Letter of Credit, our counters specified above are not open for business for any reason whatsoever (including without limitation an event under Rule 3.14 of the ISP), drawings under this Letter of Credit will be duly honored if the specified complying documents are presented by you within thirty (30) full banking days after such counters are reopened for business.

Except so far as otherwise stated herein, this Letter of Credit shall be subject to and governed by the International Standby Practices Publication No. 590 of the International Chamber of Commerce, including any amendments, modifications or revisions thereof (the “ISP”), in effect on the date of issuance of this Letter of Credit. This Letter of Credit shall also be governed by the laws of the State of Texas to the extent that the terms of the ISP are not applicable; provided that, in the event of any conflict between the ISP and Texas law, the ISP shall control. To the extent the terms of this Letter of Credit are inconsistent with the provisions of the ISP and/or Texas law, the terms of this Letter of Credit shall govern.

Yours faithfully,

**ISSUER**

\_\_\_\_\_  
(Name of Issuer)

By: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT I**

**DEMAND FOR PAYMENT**

Re: Irrevocable and Unconditional Standby Letter of Credit

No. \_\_\_\_\_ Dated: \_\_\_\_\_, \_\_\_\_\_

To Whom It May Concern:

Demand is hereby made upon you for payment to us of \$ \_\_\_\_\_ by deposit to our account no. \_\_\_\_\_ at \_\_\_\_\_ [Name of Issuer]. This demand is made under, and is subject to and governed by, your Irrevocable and Unconditional Standby Letter of Credit No. \_\_\_\_\_ dated \_\_\_\_\_, \_\_\_\_\_ in the amount of \$ \_\_\_\_\_ established by you in our favor for the account of \_\_\_\_\_ as the Market Participant Applicant.

Wiring instructions for our account are as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

DATED: \_\_\_\_\_, \_\_\_\_\_.

Texas Electric Market Stabilization Funding M LLC

By: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT II**

**STATEMENT OF AMOUNT DUE**

Re: Irrevocable and Unconditional Standby Letter of Credit  
No. \_\_\_\_\_ Dated: \_\_\_\_\_, \_\_\_\_\_

To Whom It May Concern:

Reference is made to your Irrevocable and Unconditional Standby Letter of Credit No. \_\_\_\_\_ dated \_\_\_\_\_, \_\_\_\_\_ in the amount of \$ \_\_\_\_\_ established by you in our favor for the account of \_\_\_\_\_.

We hereby certify to you that \$ \_\_\_\_\_ is due and owing to us by the Market Participant Applicant, under and in accordance with the ERCOT Protocols.

DATED: \_\_\_\_\_, \_\_\_\_\_.

Texas Electric Market Stabilization Funding M LLC

By: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT III**

**AMENDMENT**

Re: Irrevocable and Unconditional Standby Letter of Credit

No. \_\_\_\_\_

Dated: \_\_\_\_\_

Beneficiary:

Market Participant Applicant:

Texas Electric Market Stabilization Funding M LLC (“TEMSFM”)

[Name and Address]

7620 Metro Center Drive

Austin, Texas 78744

Attn: Credit

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

To Whom It May Concern:

The above referenced Irrevocable and Unconditional Standby Letter of Credit is hereby amended as follows: by increasing / decreasing / leaving unchanged (*strike two*) the stated amount by \$ \_\_\_\_\_ to a new stated amount of \$ \_\_\_\_\_. All other terms and conditions of the Irrevocable and Unconditional Letter of Credit remain unchanged.

This amendment is effective only when accepted by Beneficiary, which acceptance may only be valid by a signature of an authorized representative.

Dated: \_\_\_\_\_

Yours faithfully,

\_\_\_\_\_  
[Name of Issuer]

By: \_\_\_\_\_

Title: \_\_\_\_\_

ACCEPTED:

Texas Electric Market Stabilization Funding M LLC

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**EXHIBIT IV**

**STATEMENT REGARDING ISSUER'S NONRENEWAL**

Re: Irrevocable and Unconditional Standby Letter of Credit  
No. \_\_\_\_\_ Dated: \_\_\_\_\_, \_\_\_\_\_

To Whom It May Concern:

Reference is made to your Irrevocable and Unconditional Standby Letter of Credit No. \_\_\_\_\_ dated \_\_\_\_\_, \_\_\_\_\_ in the amount of \$ \_\_\_\_\_ established by you in our favor for the account of \_\_\_\_\_.

We hereby certify to you that Beneficiary has not received an extension or replacement of said Letter of Credit and/or other acceptable replacement collateral from Market Participant Applicant in accordance with the ERCOT Protocols.

DATED: \_\_\_\_\_, \_\_\_\_\_.

Texas Electric Market Stabilization Funding M LLC

By: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT V**

**STATEMENT REGARDING ISSUER RATING**

Re: Irrevocable and Unconditional Standby Letter of Credit  
No. \_\_\_\_\_ Dated: \_\_\_\_\_, \_\_\_\_\_

To Whom It May Concern:

Reference is made to your Irrevocable and Unconditional Standby Letter of Credit No. \_\_\_\_\_ dated \_\_\_\_\_, \_\_\_\_\_ in the amount of \$ \_\_\_\_\_ established by you in our favor for the account of \_\_\_\_\_.

We hereby certify to you that the Issuer has not maintained a corporate debt rating required by the ERCOT Protocols and Market Participant Applicant has failed to replace the Letter of Credit in a manner acceptable to Beneficiary and/or provide other acceptable replacement collateral from Market Participant Applicant in accordance with the ERCOT Protocols.

DATED: \_\_\_\_\_, \_\_\_\_\_.

Texas Electric Market Stabilization Funding M LLC

By: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT VI**

**STATEMENT REGARDING TERMINATION**

Re: Irrevocable and Unconditional Standby Letter of Credit  
No. \_\_\_\_\_ Dated: \_\_\_\_\_, \_\_\_\_\_

To Whom It May Concern:

Reference is made to your Irrevocable and Unconditional Standby Letter of Credit No. \_\_\_\_\_ dated \_\_\_\_\_, \_\_\_\_\_ in the amount of \$ \_\_\_\_\_ established by you in our favor for the account of \_\_\_\_\_.

We hereby certify to you that Beneficiary received notice that the Letter of Credit will be terminated. We further certify that Market Participant Applicant has failed to replace the Letter of Credit in a manner acceptable to Beneficiary and/or provide Beneficiary with other acceptable replacement collateral in accordance with the ERCOT Protocols.

DATED: \_\_\_\_\_, \_\_\_\_\_.

Texas Electric Market Stabilization Funding M LLC

By: \_\_\_\_\_

Title: \_\_\_\_\_