

LCRA Transmission Services Corporation

Board Agenda

Wednesday, Feb. 14, 2018
LCRA Board Room
Austin

Action/Discussion Items

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Legal Notice

Although this is the expected agenda, the Board may discuss or take action on any item listed in the legal notice, which may include some items not currently on the Board agenda. Legal notices are available on the Texas Secretary of State website 72 hours prior to the meeting at the following link: <http://www.sos.state.tx.us/open/>.

Executive Session

The Board may go into executive session for deliberation on the matters listed in the legal notice posted pursuant to Chapter 551 of the Texas Government Code.

The Board may take final action on any of the executive session matters upon reconvening in open session pursuant to Chapter 551 of the Texas Government Code.

OVERVIEW OF LCRA TRANSMISSION SERVICES CORPORATION

In connection with the implementation of retail competition in the electric utility industry in the State of Texas, LCRA was required by the Texas Legislature in its amendments to the Public Utility Regulatory Act (enacted in 1999 under State legislation known as Senate Bill 7, and referred to as SB 7) to unbundle its electric generation assets from its electric transmission and distribution assets. LCRA conveyed, effective Jan. 1, 2002, all of its existing electric transmission and transformation assets (collectively, the Transferred Transmission Assets) to the LCRA Transmission Services Corporation (LCRA TSC) pursuant to the terms of an Electric Transmission Facilities Contract (the Initial Contractual Commitment), dated Oct. 1, 2001.

LCRA TSC is a nonprofit corporation created by LCRA to act on LCRA's behalf pursuant to Chapter 152, Texas Water Code, as amended. After Jan. 1, 2002, LCRA TSC engaged in the electric transmission and transformation activities previously carried out by LCRA and assumed LCRA's obligation to provide, and the right to collect revenues for, electric transmission and transformation services. LCRA TSC is an electric transmission service provider (a TSP) under the state's open-access electric transmission regulatory scheme within the approximately 85 percent area of the state covered by the Electric Reliability Council of Texas (ERCOT). In such capacity, LCRA TSC is entitled to receive compensation from all electric distribution service providers using the electric transmission system within ERCOT. As a TSP in the ERCOT region of the state, the rates that LCRA TSC will charge for transmission services are regulated by the Public Utility Commission of Texas (PUC) and determined pursuant to transmission cost of service rate proceedings filed with and approved by the PUC.

Within the framework of SB 7, LCRA TSC implements the electric transmission business of LCRA, including the expansion of electric transmission services outside of LCRA's traditional electric service territory. LCRA personnel are responsible for performing all of LCRA TSC's activities pursuant to a services agreement between LCRA TSC and LCRA. This includes procuring goods and services on behalf of LCRA TSC and is reflected in the LCRA Board agenda contracts.

Under the LCRA Master Resolution, defined as the LCRA Board resolution governing LCRA's outstanding debt, and certain provisions of state law, the LCRA Board is required to exercise control over all operations of LCRA TSC. This control includes approval of LCRA TSC's business plan and of the sale or disposition of any significant assets of LCRA TSC. The Board of Directors of LCRA TSC (LCRA TSC Board) is appointed by and serves at the will of the LCRA Board. The current membership of LCRA TSC Board is made up entirely of the existing LCRA Board.

The LCRA TSC Board Policy on Authority and Responsibilities directs that the business plan of the affiliated corporation include for approval a schedule of capital projects proposed for the fiscal year. The policy also states that only deviations from the approved plan will be brought before LCRA TSC Board. As such, the LCRA TSC Board agenda will not include consent items to approve specific capital projects, unless the project scope or budget changes significantly from what was originally approved.

FOR ACTION

1. Delegation of Authority to the President and Chief Executive Officer – Previously Approved Projects

Proposed Motion

Approve the attached resolution delegating authority to the president and chief executive officer on a short-term basis to approve additional funding for capital projects expected to exceed a lifetime budget by 10 percent and \$300,000.

Board Consideration

LCRA TSC Board Policy T301 – Finance requires Board of Directors approval for any previously approved project expected to exceed its lifetime budget by 10 percent and \$300,000.

Budget Status and Fiscal Impact

Approval of this item will have no budgetary or fiscal impact.

Summary

Staff recommends that the Board delegate authority to the president and CEO on a short-term basis to approve budget increases for capital projects expected to exceed a lifetime budget by 10 percent and \$300,000, in order to increase efficiency in maintaining project schedules and to minimize risk in completing projects while ensuring proper review of the project funding.

Staff initially estimated lifetime budgets for projects scheduled for completion by the end of fiscal year 2018 more than 12 months ago. Staff estimated budgets for several of these projects without contingency. The approved funding for these projects is based on a budgetary level estimation, which reflects an accuracy range of minus 10 percent to plus 25 percent. As a project budget reaches 10 percent more than its approved lifetime budget, Board Policy T301 requires a project budget reset with approval by the Board.

The proposed delegated authority will terminate on Dec. 31, 2018.

Presenter(s)

Mike Shuba
Vice President and Chief Operating Officer

Phil Wilson
President and Chief Executive Officer

Exhibit(s)

A – Resolution

EXHIBIT A

RESOLUTION DELEGATING AUTHORITY TO THE PRESIDENT AND CHIEF EXECUTIVE OFFICER ON A SHORT-TERM BASIS TO APPROVE ADDITIONAL FUNDING FOR CAPITAL PROJECTS EXPECTED TO EXCEED A LIFETIME BUDGET BY 10 PERCENT AND \$300,000

WHEREAS, Board Policy T301 – Finance requires Board approval of additional funding if an approved capital project is expected to exceed its lifetime budget by 10 percent and \$300,000; and

WHEREAS, the Board desires to delegate to the president and chief executive officer on a temporary basis the authority to approve additional funding if an approved capital project is expected to exceed its lifetime budget by 10 percent and \$300,000;

NOW THEREFORE, BE IT RESOLVED that the Board hereby delegates to the president and CEO the authority to approve additional funding for any approved capital project expected to exceed its lifetime budget by 10 percent and \$300,000, so long as any such additional funding is available within the capital plan approved by the Board and subject to the following:

- Prior to the approval of additional funding, the president and CEO shall consult with the treasurer and chief financial officer and the vice president and chief operating officer.
- The authority delegated to the president and CEO may not be re-delegated by the president and CEO.
- The president and CEO shall report to the Board on a quarterly basis all project funding approved by the president and CEO pursuant to this delegated authority.
- This delegation of authority shall terminate on Dec. 31, 2018.

FOR ACTION

2. Delegation of Authority to the President and Chief Executive Officer – New Generation Interconnection Projects

Proposed Motion

Approve the attached resolution delegating authority to the president and chief executive officer on a short-term basis to approve capital projects associated with generation interconnection projects not included in the approved capital plan, in each case only after the generator has provided appropriate financial security to LCRA Transmission Services Corporation for its expenses.

Board Consideration

LCRA TSC Board Policy T301 – Finance requires Board of Directors approval for any project exceeding \$1.5 million that is not included in the annual capital plan.

Budget Status and Fiscal Impact

Approval of this item will have no budgetary or fiscal impact.

Summary

Staff recommends that the Board delegate authority to the president and chief executive on a short-term basis to approve all capital projects associated with generation interconnection projects not included in the approved capital plan, in each case only after the generator has provided appropriate financial security to LCRA TSC for its expenses.

The Public Utility Regulatory Act and Public Utility Commission of Texas rules require transmission utilities to provide transmission service to wholesale market participants, including generation facilities owned by independent power producers. This requirement includes constructing new facilities and modifying existing facilities.

Through an Electric Reliability Council of Texas process, a generation developer requests an interconnection to LCRA TSC's facilities. LCRA TSC negotiates an interconnection agreement with the generation developer to connect the generation facilities to the existing transmission system. Once an interconnection agreement is signed, the generator must post financial security to cover the transmission utility's expenses.

The renewable energy tax credits are set to expire by 2023 and are being reduced each year between now and 2023. This has significantly increased the number of requests by wind and solar developers to connect to LCRA TSC's facilities. Staff currently is working on 45 generation interconnection requests and expects that at least 12 of these will exceed the president and CEO's current approval authority by the end of calendar year 2018. With the reduction and expiration of the tax credits, generators are requesting very aggressive project schedules. Project schedules are typically very short because generators are unwilling to provide financial security to LCRA TSC until they have signed a power sale agreement for the facility.

Delegation of this authority to the president and CEO is requested to allow staff to efficiently maintain project schedules and minimize risk in completing projects by the in-service date requested by the generator.

The proposed delegated authority will terminate on Dec. 31, 2018.

Presenter(s)

Mike Shuba
Vice President and Chief Operating Officer

Phil Wilson
President and Chief Executive Officer

Exhibit(s)

A – Resolution

EXHIBIT A

RESOLUTION DELEGATING AUTHORITY TO THE PRESIDENT AND CHIEF EXECUTIVE OFFICER ON A SHORT-TERM BASIS TO APPROVE GENERATION INTERCONNECTION-RELATED CAPITAL PROJECTS

WHEREAS, Board Policy T301 – Finance requires Board of Directors approval for any project exceeding \$1.5 million that is not included in the annual capital plan; and

WHEREAS, the Board desires to delegate to the president and chief executive officer authority to approve all capital projects associated with new generation interconnect projects, subject to certain limitations;

NOW THEREFORE, BE IT RESOLVED that the Board hereby delegates to the president and CEO the authority to approve all capital projects associated with generation interconnection projects not included in the approved capital plan, in each case only after the generator has provided appropriate financial security to LCRA Transmission Services Corporation for its expenses, subject to the following:

- Prior to the approval of any generation interconnection capital project, the president and CEO shall consult with the treasurer and chief financial officer and the vice president and chief operating officer.
- The approval by the president and CEO must meet the official intent requirements set forth in Section 1.150-2 of the IRS Treasury Regulations.
- The approval must not cause total capital expenditures to exceed the approved capital plan or materially adversely impact business planning assumptions.
- The authority delegated to the president and CEO may not be re-delegated by the president and CEO.
- The president and CEO shall report to the Board on a quarterly basis all generation interconnection projects approved by the president and CEO pursuant to this delegated authority.
- This delegation of authority shall terminate on Dec. 31, 2018.

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