

LCRA Transmission Services Corporation

Board Agenda

Wednesday, April 28, 2021

Canyon of the Eagles

Live Oak Room

16942 Ranch Road 2341

Burnet, TX 78611

Earliest start time: 8 a.m.

Items From the Chair

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Items From the Chief Financial Officer

2. Financial Highlights 4

Action Items

3. Authorize the Fiscal Year 2021 Extraordinary LCRA Optional Purchase Price
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Executive Session

The Board may go into Executive Session to receive advice from legal counsel on any item listed above pursuant to Chapter 551 of the Texas Government Code.

Legal Notice

Legal notices are available on the Texas secretary of state website 72 hours prior to the meeting at www.sos.texas.gov/open/index.shtml.

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% 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.

FOR DISCUSSION

1. Comments From the Public

Summary

At this time, the Board will hear comments on topics under LCRA Transmission Services Corporation's jurisdiction or on any item listed on this agenda.

In order to address the Board, a member of the public is required to sign and complete the registration form at the entrance to the meeting room.

Please note: Each attendee will be required to wear a face covering in accordance with the Canyon of the Eagles policy.

FOR DISCUSSION

2. Financial Highlights

Summary

Staff will present financial highlights for LCRA Transmission Services Corporation covering the month and fiscal year to date.

Presenter(s)

Jim Travis

Treasurer and Chief Financial Officer

LCRA Transmission Services Corporation
Financial Highlights
March 2021

LCRA Transmission Services Corporation
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Key term:

Net margin – Total operating revenues, including interest income, less direct and assigned expenses.

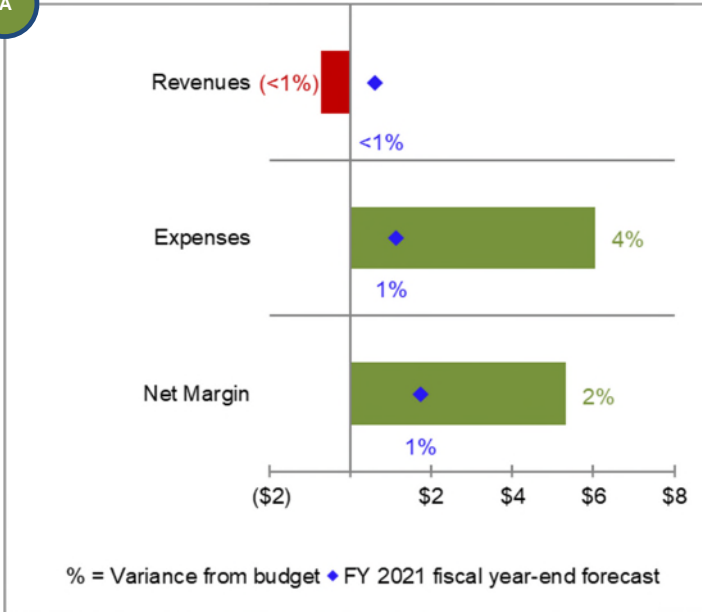
LCRA Transmission Services Corporation

March 31, 2021

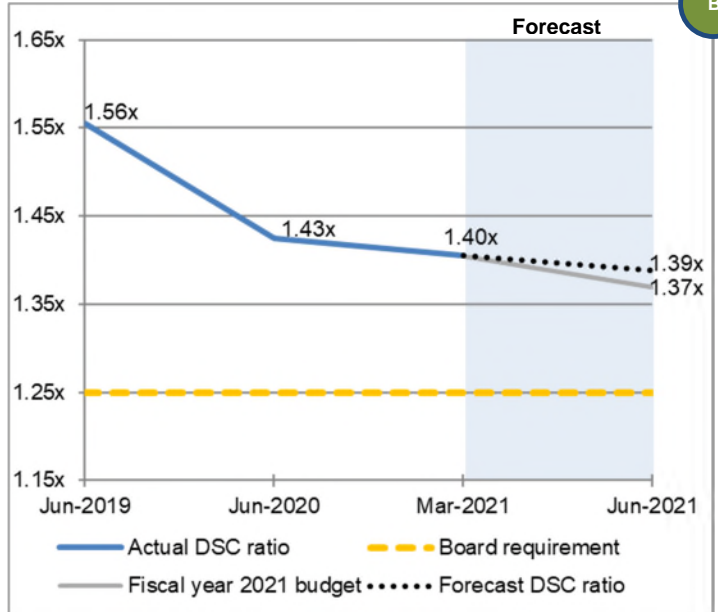
(Dollars in Millions)

Budget-to-Actual Highlights

Net Margin Fiscal Year-to-Date Variances



Debt Service Coverage



Key takeaways:

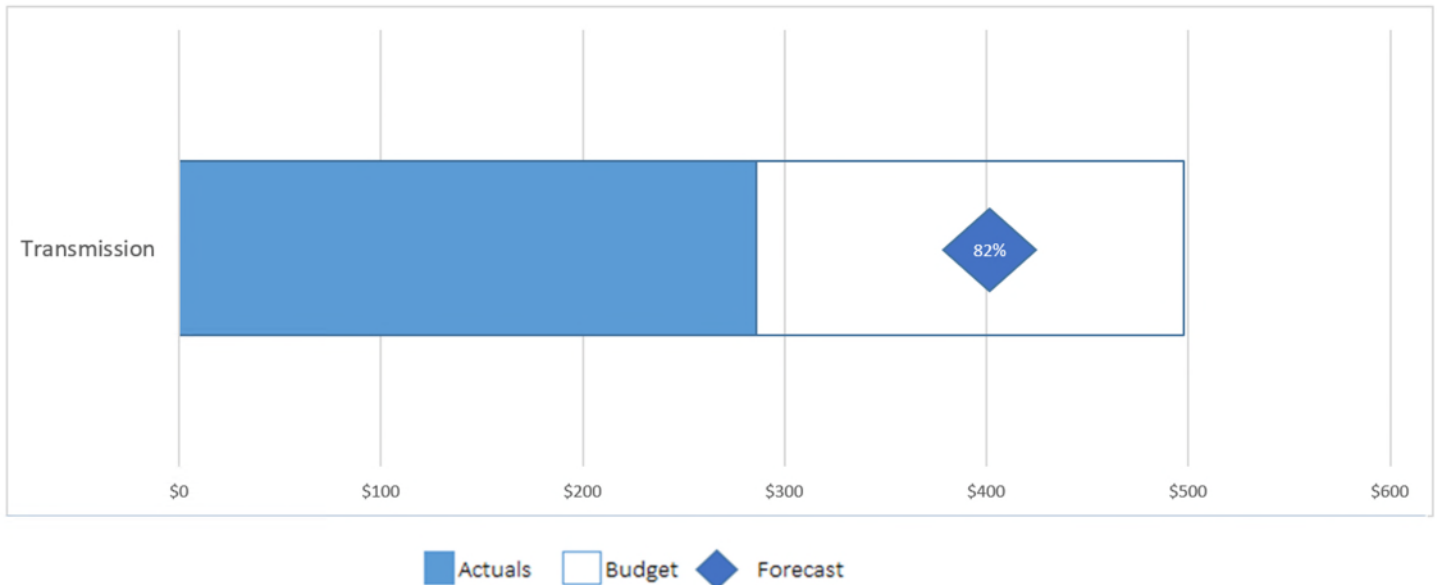
- Lower-than-budgeted expenses primarily drove year-to-date performance and year-end forecast.
- Lower-than-budgeted expenses and debt service are primarily driving the higher-than-budgeted debt service coverage projection.

LCRA Transmission Services Corporation

March 31, 2021

(Dollars in Millions)

Capital Forecast



Key takeaways:

- LCRA TSC currently is projecting capital spending for FY 2021 will be \$98.1 million under the capital plan budget of \$497.7 million.
- The favorable variance is primarily due to projects removed from the plan, project underruns, possible generation interconnect project reductions, and FY21 project costs shifting to future years.

General Manager Project Approvals:

- For any project not previously authorized by the Board in the capital plan, authority is delegated to the president and chief executive officer to approve any capital project with a lifetime budget not to exceed \$1.5 million, according to LCRA TSC Board Policy T301 – Finance. Additionally, the LCRA TSC Board delegated authority to the president and CEO to approve new generation interconnection projects and additional funding for capital projects expected to exceed a lifetime budget by 10% and \$300,000.

The president and CEO approved the following three budget resets this quarter:

- Cooks Point Substation and Transmission Line Addition from \$39.5 million to \$44.0 million.
- Ferguson-Sherwood Shores Transmission Line Storm Hardening from \$3.4 million to \$7.3 million.
- Soda Lake Substation Addition from \$3.5 million to \$5.2 million.

The president and CEO approved the following two new projects this quarter:

- Kennedy Switch-Nordheim West Transmission Line Overhaul for \$309,000.
- Shadow Glen Substation Upgrade for \$795,000.

LCRA Transmission Services Corporation

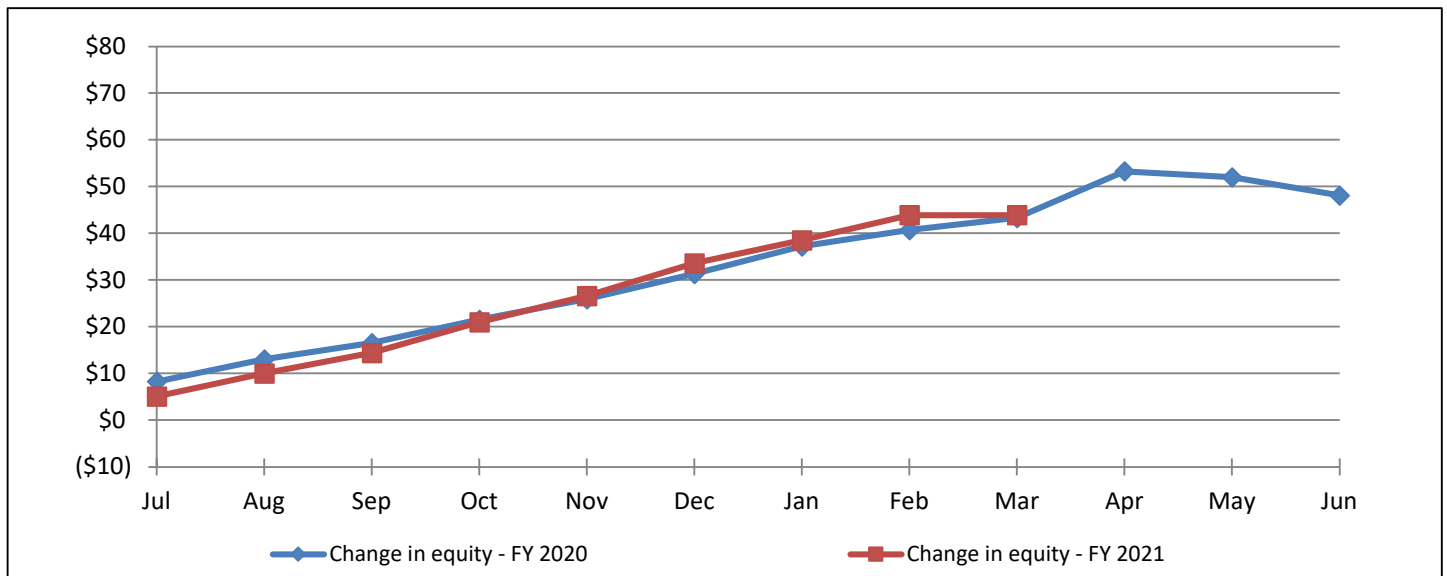
March 31, 2021

(Dollars in Millions)

Board Metrics

Board Metric	Description	Compliant
Equity Ratio	LCRA TSC will attempt to maintain a long-term average 30% equity ratio. At no time will the equity ratio fall below 20% without specific Board approval in the business plan.	✓
Debt Service Reserves	LCRA TSC will covenant debt service reserves in the amount of six months of maximum annual debt service requirements on outstanding debt. Debt service reserves may be collected through rates or met with proceeds from additional debt or through the use of a surety to mitigate rate impacts.	✓
Operating Reserves	LCRA TSC will build and maintain appropriate target levels of operating reserves as follows: six months of average debt service on all outstanding LCRA TSC debt and other obligations to LCRA; and two months of average operating and maintenance expenses, including those billed by LCRA. If at any time the level of reserves are less than the target levels set forth in this policy, the Board will promptly implement a plan, to be recommended by staff, to increase rates, reduce costs, or otherwise cause there to be sufficient revenues to replenish the level of reserves to such target levels within 12 months.	✓

Income Statement Trends Cumulative Fiscal Year to Date



Key takeaway:

- Year-to-date net income in FY 2021 is in line with FY 2020.

LCRA Transmission Services Corporation

March 31, 2021

(Dollars in Millions)

Condensed Balance Sheets

	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Assets		
Cash and cash equivalents	\$ 229.0	\$ 136.7
Current assets	<u>177.0</u>	<u>242.3</u>
Total current assets	<u>406.0</u>	<u>379.0</u>
Capital assets	3,340.6	3,065.6
Long-term assets	<u>222.4</u>	<u>210.1</u>
Total long-term assets	<u>3,563.0</u>	<u>3,275.7</u>
Total Assets	\$ <u><u>3,969.0</u></u>	\$ <u><u>3,654.7</u></u>
Liabilities		
Bonds, notes and loans payable	\$ 105.8	\$ 283.0
Current liabilities	<u>120.7</u>	<u>112.9</u>
Total current liabilities	<u>226.5</u>	<u>395.9</u>
Bonds, notes and loans payable	2,836.2	2,429.1
Long-term liabilities	<u>78.1</u>	<u>50.2</u>
Total long-term liabilities	<u>2,914.3</u>	<u>2,479.3</u>
Equity		
Total equity	<u>828.2</u>	<u>779.5</u>
Total Liabilities and Equity	\$ <u><u>3,969.0</u></u>	\$ <u><u>3,654.7</u></u>

Key takeaway:

- Assets and liabilities are trending higher compared with March 2020 due to construction activities related to the capital plan.

LCRA Transmission Services Corporation

March 31, 2021

(Dollars in Millions)

Condensed Statements of Revenues, Expenses and Changes in Equity

	Fiscal Year to Date	
	2021	2020
Operating Revenues		
Transmission	\$ 354.8	\$ 327.4
Transformation	11.5	10.6
Other	2.1	1.1
Total Operating Revenues	368.4	339.1
Operating Expenses		
Operations	119.6	110.7
Maintenance	10.8	8.8
Depreciation and amortization	64.3	79.8
Total Operating Expenses	194.7	199.3
Operating Income	173.7	139.8
Nonoperating Revenues (Expenses)		
Interest on debt	(71.9)	(75.4)
Other expenses	(57.9)	(21.1)
Total Nonoperating Revenues (Expenses)	(129.8)	(96.5)
Change in Equity	43.9	43.3
Equity - Beginning of Period	784.3	736.2
Equity - End of Period	\$ 828.2	\$ 779.5

LCRA Transmission Services Corporation

March 31, 2021

(Dollars in Millions)

Condensed Statements of Cash Flows

	Fiscal Year to Date	
	2021	2020
Cash Flows From Operating Activities		
Received from customers	\$ 362.0	\$ 345.0
Payments	(166.5)	(136.8)
Net cash provided by operating activities	195.5	208.2
Cash Flows From Noncapital Financing Activities	(18.0)	(16.2)
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(281.7)	(312.1)
Debt principal payments	(1.2)	(1.9)
Other capital and financing activities	151.5	201.0
Net cash used in capital and financing activities	(131.4)	(113.0)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	67.2	102.5
Purchase of investment securities	(68.5)	(177.9)
Note payments and interest received	1.8	5.2
Net cash provided by (used in) investing activities	0.5	(70.2)
Net Increase (Decrease) in Cash and Cash Equivalents	46.6	8.8
Cash and Cash Equivalents - Beginning of Period	183.0	127.9
Cash and Cash Equivalents - End of Period	\$ 229.6	\$ 136.7

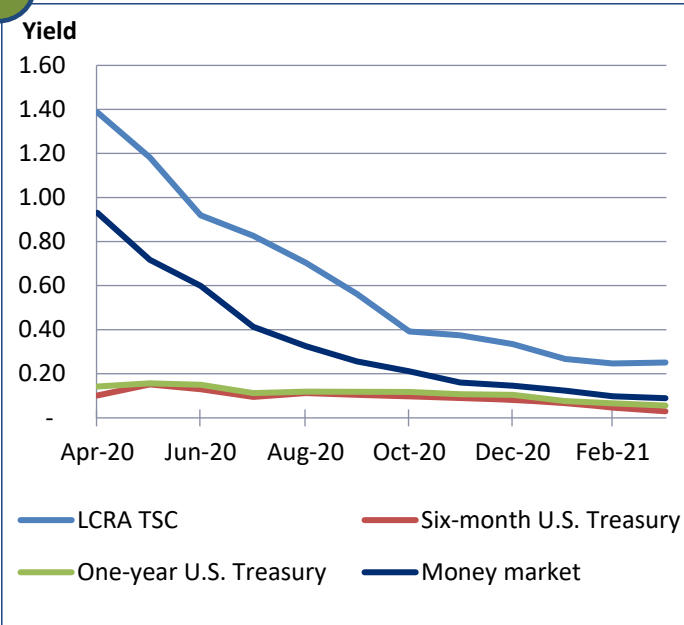
LCRA Transmission Services Corporation

March 31, 2021

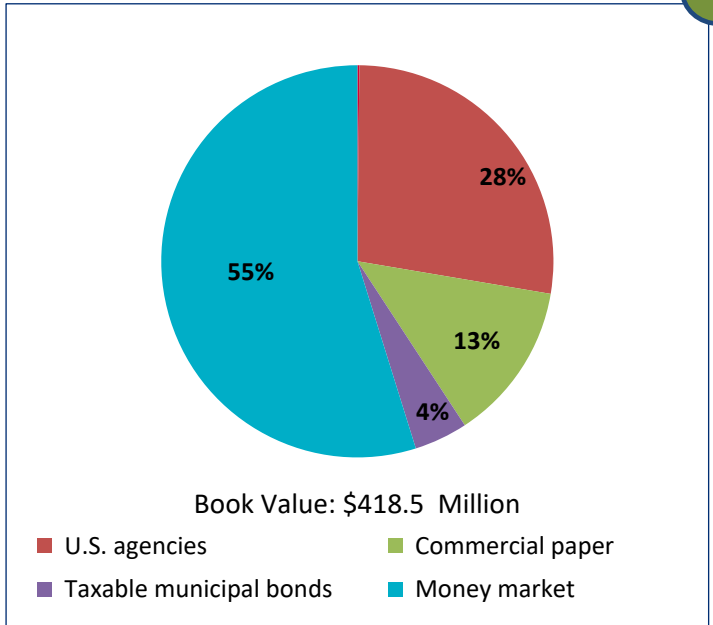
(Dollars in Millions)

Investments and Debt

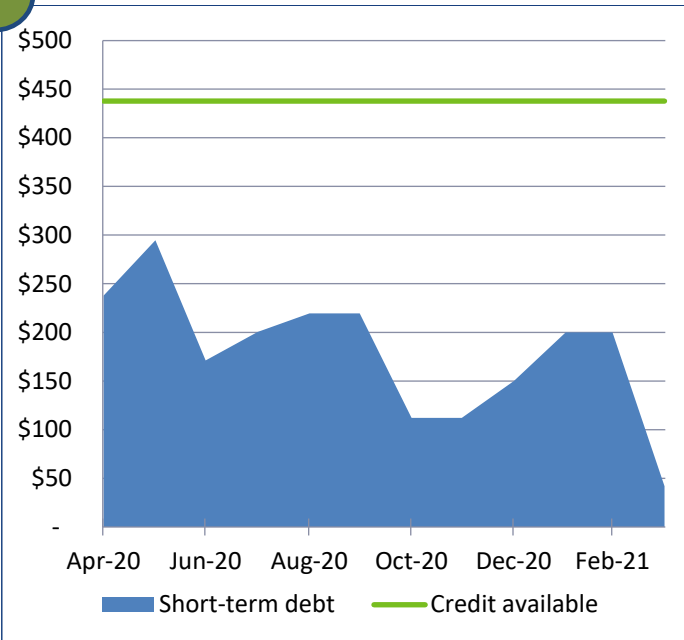
Investment Portfolio Yield



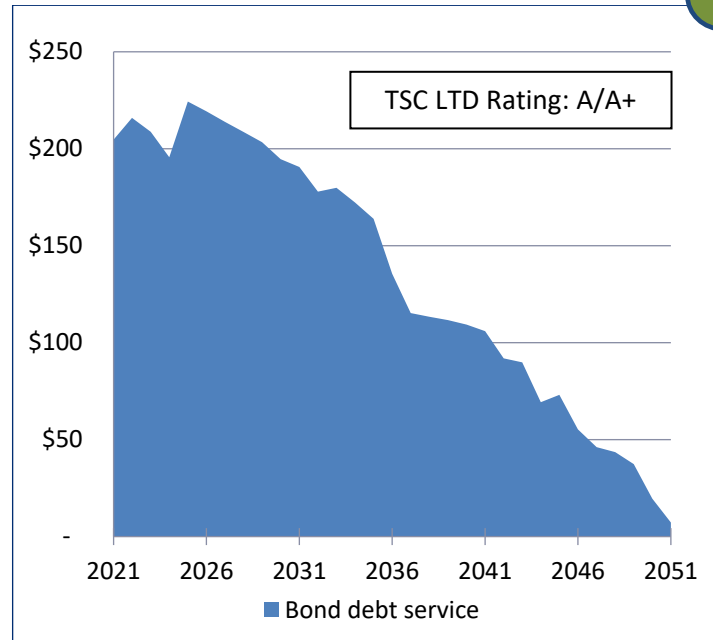
Investment Portfolio Composition



Short-Term Debt



Bond Debt Service



Key takeaway:

- The Federal Open Market Committee will keep loose monetary policy in effect until economic outcomes are achieved, based on minutes from the March meeting.

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FOR ACTION

3. Authorize the Fiscal Year 2021 Extraordinary LCRA Optional Purchase Price Payment From LCRA Transmission Services Corporation to LCRA

Proposed Motion

Authorize the payment of an Extraordinary LCRA Optional Purchase Price Payment to LCRA of \$1.1 million for fiscal year 2021, contingent on the determination by the LCRA Board of Directors of such payment being due and payable pursuant to the Electric Transmission Facilities Contract (the Contractual Commitment) between LCRA and LCRA Transmission Services Corporation dated as of Oct. 1, 2001.

Board Consideration

Under the terms of the Contractual Commitment, LCRA TSC Board of Directors approval is required for any ELOPPP made to LCRA.

Budget Status and Fiscal Impact

The transfer of the \$1.1 million to LCRA was contemplated in the FY 2021 business plan. The initiation of this transfer is being made after ensuring LCRA TSC will meet all financial commitments, including annual expenses for operations and maintenance, debt service, and any other payments required under its financial policies.

Summary

As part of the formation of LCRA TSC and the transfer of LCRA's transmission assets to LCRA TSC, LCRA and LCRA TSC executed the Contractual Commitment to govern that transfer and to obligate LCRA TSC to pay a purchase price for those assets. As required by the Contractual Commitment, LCRA TSC has made, each year since its inception, purchase price payments equal to the LCRA debt service obligation associated with the assets transferred to LCRA TSC. Under Section 4.02 of the Contractual Commitment, the LCRA Board has sole discretion to determine each fiscal year if an annual ELOPPP will be made to LCRA. The amount of any ELOPPP is capped at 25% of the amount of LCRA TSC's Contractual Commitment purchase price payments and guarantee reimbursement payments, and is only payable if all other financial commitments of LCRA TSC have been met, including debt, debt service, operations and maintenance, and coverage ratios and reserve funds required by LCRA TSC's financial policies.

Staff determined LCRA TSC has to date met, and is expected to meet, all financial obligations required by any agreement or the financial policies of LCRA TSC for FY 2021.

Presenter(s)

Jim Travis

Treasurer and Chief Financial Officer

FOR ACTION

4. Capital Improvement Projects Approval

Proposed Motion

Approve the Capital Improvement Project Authorization Request for the projects and associated lifetime budgets as described in Exhibit A.

Board Consideration

LCRA Transmission Services Corporation Board Policy T301 – Finance requires Board of Directors approval for any project exceeding \$1.5 million.

Budget Status and Fiscal Impact

- All projects recommended for Board approval are within the total annual budget approved in the fiscal year 2021 capital plan.
- Staff will monitor the FY 2021 forecast and will request a fiscal year budget increase if needed.
- The treasurer and chief financial officer will release funds as needed.
- Project costs will be funded through LCRA TSC regulated rates, subject to approval by the Public Utility Commission of Texas.

Summary

Staff recommends approval of the capital projects described in Table 1 and Exhibit A. These projects meet legal requirements in the Public Utility Regulatory Act and PUC rules.

Project funds will pay for activities, including but not limited to project management, engineering, materials acquisition, construction and acquisition of necessary land rights. LCRA TSC representatives also will perform all necessary regulatory, real estate, environmental and cultural due diligence activities.

Table 1*Dollars in millions*

Project Name	Previous Fiscal Years	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Lifetime
Service Reliability Projects							
Lockhart-Red Rock Transmission Line Overhaul	0.2	0.4	4.4	8.7	-	-	13.5
Lockhart-Split Transmission Line Upgrade	0.1	0.1	3.6	4.3	-	-	8.0
Turtle Creek-Verde Creek Transmission Line Overhaul	0.1	0.5	5.6	-	-	-	6.0
Wirtz Erosion-Control Substation Upgrade	0.1	0.2	1.9	-	-	-	2.1
System Capacity Projects							
Hilltop-Ranch Road 12 Transmission Line Upgrade	0.2	0.7	8.5	-	-	-	9.3
Hilltop-Strahan Transmission Line Upgrade	0.2	1.0	2.1	5.2	-	-	8.4
McCarty Lane-Ranch Road 12 Transmission Line Upgrade	0.2	0.8	16.1	-	-	-	17.1
Requested Total	\$ 0.8	\$ 3.4	\$ 42.0	\$ 18.2	\$ -	\$ -	\$ 64.2

Note: Totals may not equal the sum of numbers shown due to rounding.

Presenter(s)

Kristian M. Koellner
Vice President, Transmission Asset Optimization

Exhibit(s)

A – Project Details

EXHIBIT A

Project Details

Project Name: Lockhart-Red Rock Transmission Line Overhaul

Project Number: 1023861

Lifetime Budget: \$13.5 million

Description: The project will improve the reliability and capability of transmission facilities on the 11.4-mile, 138-kilovolt T578 Lockhart to Red Rock transmission line in Bastrop and Caldwell counties by replacing aging conductor and structures with 138-kV-capable components that meet the latest design standards and installing new 72-count optical ground wire. The recommended project completion date is May 15, 2023.

Project Name: Lockhart-Split Transmission Line Upgrade

Project Number: 1023809

Lifetime Budget: \$8 million

Description: The project will improve the reliability and capability of transmission facilities on the 5.7-mile, 138-kV T184 Lockhart to Luling and T578 Lockhart to Red Rock double-circuit transmission lines in Bastrop and Caldwell counties by replacing aging conductor and structures with 138-kV-capable components that meet the latest design standards and installing new 72-count optical ground wire on the T578 Lockhart to Red Rock circuit. The recommended project completion date is May 15, 2023.

Project Name: Turtle Creek-Verde Creek Transmission Line Overhaul

Project Number: 1020867

Lifetime Budget: \$6 million

Description: The project will improve the reliability and capability of transmission facilities on the 10.3-mile, 138-kV T221 Turtle Creek to Verde Creek transmission line in Kerr County by replacing aging conductor and structures with 138-kV-capable components that meet the latest design standards and installing new 72-count optical ground wire. The recommended project completion date is May 15, 2022.

Project Name: Wirtz Erosion-Control Substation Upgrade

Project Number: 1023815

Lifetime Budget: \$2.1 million

Description: The project will improve the reliability of substation equipment at the Wirtz Substation in Burnet County by installing erosion-control measures to restore the integrity of the riverbank protection and stormwater drainage facilities that were damaged as a result of the October 2018 Llano River flood. The recommended project completion date is May 15, 2022.

Project Name: Hilltop-Ranch Road 12 Transmission Line Upgrade

Project Number: 1023190

Lifetime Budget: \$9.3 million

Description: The project will increase transmission system capacity to support system needs on the 3.9-mile, 138-kV T375 Hilltop to Ranch Road 12 transmission line in Hays County by replacing conductor and structures as necessary to achieve a minimum 580-megavolt ampere rating. The project scope also includes upgrading and adding telecommunications and relaying equipment and new 72-count optical ground wire. The recommended project completion date is May 15, 2022.

Project Name: Hilltop-Strahan Transmission Line Upgrade

Project Number: 1023192

Lifetime Budget: \$8.4 million

Description: The project will increase transmission system capacity to support system needs on the 1.2-mile, 138-kV T445 Hilltop to Strahan transmission line in Hays County by replacing conductor and structures as necessary to achieve a minimum 580-MVA rating. The project scope also includes upgrading and adding telecommunications and relaying equipment and new 72-count optical ground wire. The recommended project completion date is May 15, 2023.

Project Name: McCarty Lane-Ranch Road 12 Transmission Line Upgrade

Project Number: 1023196

Lifetime Budget: \$17.1 million

Description: The project will increase transmission system capacity to support system needs on the 6.7-mile, 138-kV T699 McCarty Lane to Ranch Road 12 transmission line in Hays County by replacing conductor and structures as necessary to achieve a minimum 580-MVA rating. The project scope also includes upgrading and adding telecommunications and relaying equipment and new 72-count optical ground wire. The recommended project completion date is May 15, 2022.

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