2003 Annual Report

Public Service, Personal Mission

It's All About Helping People

LCRA

ENERGY • WATER • COMMUNITY SERVICES

LCRA Mission Statement

The mission of the Lower Colorado River Authority (LCRA) is to provide reliable, low-cost utility and public services in partnership with our customers and communities and to use our leadership role and environmental authority to ensure the protection and constructive use of the area's natural resources.

LCRA is a Texas conservation and reclamation district operating with no taxing authority.

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A Message From Management

Robert W. Lambert

"Public Service, Personal Mission: It's All About Helping People" is the theme of our Annual Report. It's an appropriate theme, as it explores a key facet of what makes LCRA a unique organization.

The need for energy, water and community services led to LCRA's creation nearly 70 years ago, and it drives our organization today. The State of Texas created LCRA in 1934 to provide services that were otherwise unavailable to residents in or near the lower Colorado River valley.

Because of this mission, LCRA has served communities and residents as have few other institutions in this state. More than 1 million people use low-cost LCRA electricity. LCRA's transmission services help keep electricity flowing across the state. Austin and other river communities enjoy a secure, reliable supply of water. Thousands of Texans enjoy Lake Travis and the other Highland Lakes. Schoolchildren learn about Central Texas' natural resources at LCRA parks. And LCRA grants help service-area communities build or expand parks, museums, volunteer fire departments and recreation centers.

During fiscal year 2003, LCRA continued to deliver these services that Texans need and want, fully funded by the revenues we collect from our operations, without appropriated tax money. You can read more about our accomplishments and our financial status in the accompanying pages.

LCRA's devotion to public service is shared by the men and women who work for us. Ask them why they work at LCRA, and you will find that LCRA offers an opportunity for professional and personal fulfillment not offered by many other companies or organizations. Our history of bringing lasting benefits to Texas inspires them to add their own contributions.

To illustrate this employee spirit, this year's report features eight of our employees from our business units. We have paired a veteran employee – one who has been with LCRA 15 years or more – with an employee who has worked for LCRA fewer than five years.

As the profiles demonstrate, this devotion to public service cuts across our major business operations. This devotion has driven our veteran employees for many years, yet it also inspires many of our newer employees – an encouraging sign that this spirit of public service will continue as more of our long-term employees retire.

The limited space in our report allowed us room for only eight profiles. Each of them is symbolic of hundreds of LCRA employees who through the years have built and operated our dams, power plants and transmission lines, who have responded to power and flood emergencies in the middle of the night, and in his or her own way has made life in the region a little better.

Nationwide, so many annual reports have stated that "Employees are our greatest resource" that the phrase has become a cliché. We hope our Annual Report puts some faces on that phrase and helps you appreciate, as we do, the men and women who make LCRA a success.

Robert W. Lambert

Robert W. Lambert, Board Chair

Joseph J. Beal

Joseph J. Beal, P.E., General Manager

Joseph J. Beal

FY 2003 HIGHLIGHTS

Throughout its 2003 fiscal year, LCRA continued to carry out successfully its mission of helping Central Texans by providing energy, water and community services. Here are some of the highlights that occurred this fiscal year, which ended June 30, 2003.

ENERGY: GENERATION

LCRA ENERGY PRICES REMAIN STABLE. LCRA will return $37.9 million in over-recovered fuel and purchased power costs to wholesale electric customers, thanks to favorable purchased-power contracts and market conditions. These credits will offset most if not all price increases in LCRA's Price $elect® program to wholesale customers, so that wholesale generation prices should remain about the same for the rest of 2003.

HILBIG GAS FACILITY CELEBRATES 10TH ANNIVERSARY. The Hilbig Gas Storage Facility in Bastrop County has enabled LCRA to improve daily fuel costs and store gas for times when prices rise or supplies run short. LCRA's competitive fuel management strategy includes market hedging to reduce risks while maintaining a balanced energy portfolio. As a result, LCRA and its wholesale electric customers have provided consumers with some of the state's lowest-cost electricity over the past decade.

COBRANDING CAMPAIGN BEGINS. LCRA and its wholesale electric customers implemented a cobranding advertising and public-education program to tell consumers about the value these public power partnerships bring to Central Texas communities. As of July 2003, 21 customers, half of LCRA's total wholesale customers, were participating in the program.

POWERHOUSE™ SCHOOL PROGRAM GROWS. The energy-education program reached 4,184 students at 37 middle schools during the 2002-2003 school year. Twenty-six wholesale customers sponsored the program.

ENERGY: TRANSMISSION

LCRA TRANSMISSION NETWORK EXPANDS. LCRA Transmission Services Corporation, an LCRA affiliate company, completed several major projects, including the 135-mile Morgan Creek line. The line will be an important segment of "the Texas renewable highway," a system of power lines designed to transmit electricity from West Texas wind power plants to other parts of the state, and will be able to transport about 1,600 megawatts of electricity, enough to power roughly 800,000 homes. LCRA's transmission affiliate also completed a number of projects to upgrade transmission equipment and services in LCRA's traditional electric service area.

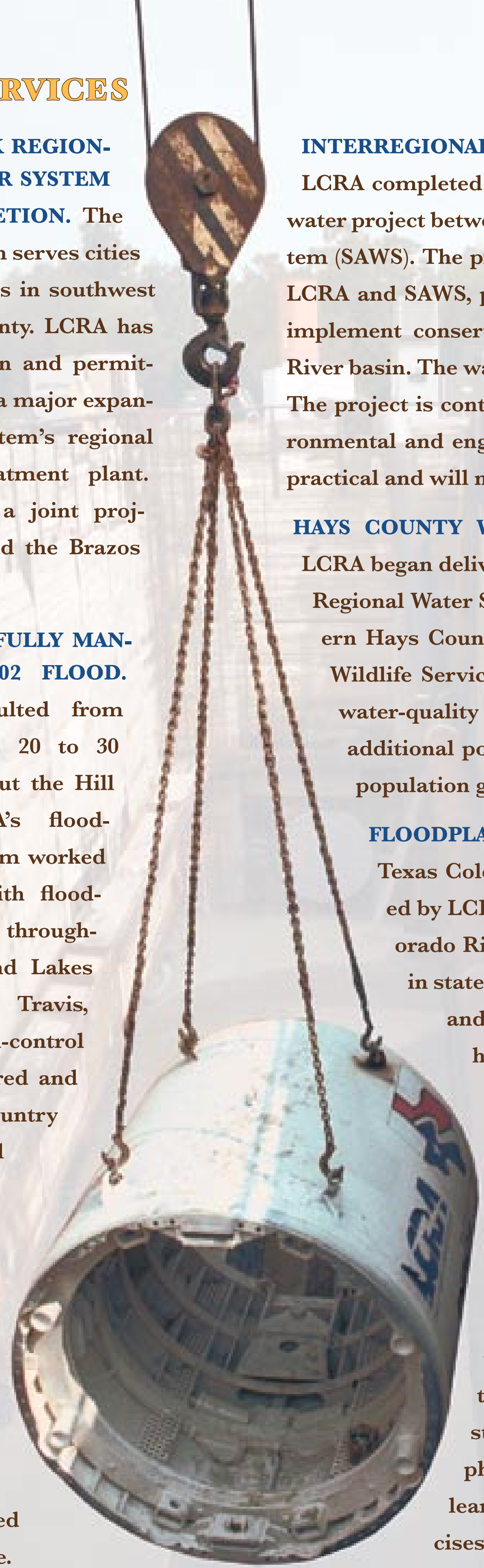
PUC APPROVES JOINT TRANSMISSION PROJECT. The Public Utility Commission of Texas (PUC) approved an application filed jointly by transmission affiliates of LCRA and American Electric Power (AEP) to acquire four transmission lines near Corpus Christi. The acquisition, costing $44 million through June 2003, is the first PUC-approved project or acquisition that has resulted from a joint development agreement between the two organizations.

LCRA TRANSMISSION AFFILIATE OBTAINS RATE INCREASE. PUC approved the settlement of a rate case for LCRA's transmission affiliate. The corporation requested an increase in transmission cost of service to pay for improvements to its existing system as well as growth into other areas of Texas.

LCRA TRANSMISSION AFFILIATE REFINANCES DEBT. The affiliate's taxable debt was refinanced to tax-exempt debt, resulting in present value savings of $40.9 million in debt service.

TRANSMISSION SERVICES' PROJECT MANAGEMENT ON TRACK. A review of Transmission Services' project-management activities by PricewaterhouseCoopers concluded that the LCRA business unit has processes in place to manage current and proposed transmission projects appropriately.

WATER SERVICES



BRUSHY CREEK REGIONAL WASTEWATER SYSTEM NEARS COMPLETION. The collection system serves cities and communities in southwest Williamson County. LCRA has begun the design and permitting process for a major expansion of the system's regional wastewater treatment plant. The system is a joint project of LCRA and the Brazos River Authority.

LCRA SUCCESSFULLY MANAGES JULY 2002 FLOOD. The flood resulted from rains of up to 20 to 30 inches throughout the Hill Country. LCRA's flood-operations system worked as expected, with floodgate operations throughout the Highland Lakes chain. Lake Travis, the chain's flood-control reservoir, captured and held the Hill Country floodwaters until they could be released safely and efficiently at a rate that would not cause downstream flooding. The Colorado River below Austin remained below flood stage.

INTERREGIONAL WATER STUDY PLAN COMPLETED. LCRA completed a plan to study a proposed interregional water project between LCRA and the San Antonio Water System (SAWS). The project, approved in 2002 by the boards of LCRA and SAWS, proposes to develop water resources and implement conservation measures in the lower Colorado River basin. The water would be shared by LCRA and SAWS. The project is contingent on the outcome of extensive environmental and engineering studies to ensure the project is practical and will not adversely affect the environment.

HAYS COUNTY WATER LINE PLACED INTO SERVICE. LCRA began delivering water from the West Travis County Regional Water System to residential customers in northern Hays County. LCRA worked with the U.S. Fish and Wildlife Service and other agencies to ensure effective water-quality measures that will significantly reduce additional pollution that would result from increased population growth.

FLOODPLAIN COALITION GETS FUNDING. The Texas Colorado River Floodplain Coalition, founded by LCRA and communities along the lower Colorado River, was awarded more than $2.2 million in state and federal funds to pay for flood studies and efforts by communities to plan for flood-hazard mitigation efforts. The coalition numbered 51 cities and counties as of June 2003.

"MAJOR RIVERS" GETS AN UPDATE. LCRA updated Major Rivers, a water-education program that teaches fourth-graders about the hydrologic cycle, major rivers and aquifers of Texas, watersheds, water quality and conservation, and other topics. Major Rivers meets state requirements that place greater emphasis on math, science and "hands-on" learning activities, such as laboratory exercises and activities outside the classroom.

HYDROMET SYSTEM EXPANDS. LCRA began the second phase of a $2.5 million project to expand the Hydromet system, a network of rainfall and streamflow gauges that provides critical data for effectively managing the Highland Lakes and lower Colorado River, especially during floods. The project calls for installing 79 additional gauges for a system total of 243.

HYDRILLA CONTROL STRATEGY DEVELOPED FOR LAKE AUSTIN. LCRA worked with the City of Austin, Texas Parks and Wildlife Department and Friends of Lake Austin to develop a plan to control the growth of hydrilla, a fast-growing, noxious aquatic plant, in Lake Austin. The plan includes stocking the lake with grass carp, which feed on the plant. The city is releasing the carp in controlled numbers to guard against overstocking the lake. Left unchecked, hydrilla can grow rapidly throughout a lake or riverbed, crowding out more desirable aquatic plants, interfering with recreational and other activities, and spread downstream.

DAM UPGRADES. Along the Highland Lakes, LCRA completed work on Starcke Dam's 10 floodgates and began an upgrade of Tom Miller Dam to improve river management operations and maintain dam safety standards.

LCRA ACQUIRES SEVEN WATER AND WASTEWATER UTILITY SYSTEMS. The new systems, which serve 920 residences, increase the retail customer base of LCRA's water and wastewater utilities which, as a whole, grew by 18 percent.

COMMUNITY SERVICES

LCRA CONTINUES TO IMPROVE ITS PARKS. Major improvements include a dining hall, dormitories and an amphitheater at McKinney Roughs Nature Park near Bastrop, a new educational center at Westcave Preserve in Travis County, and new facilities at Muleshoe Recreation Area at Lake Travis. LCRA is working with a private investor to upgrade the Flying K Park on Lake LBJ.

LCRA AWARDED FUNDING FOR MATAGORDA BAY NATURE PARK. Three grants, one from the Texas Parks and Wildlife Department for $2 million and two from the Coastal Coordination Council totalling $120,000, will provide funding for various recreational facilities at the park, including public fishing piers, hiking trails, public restroom facilities, recreational vehicle sites, parking areas and a wildlife viewing pavilion. The park, scheduled to open in 2005, will complement Canyon of the Eagles and McKinney Roughs as LCRA nature parks spanning the lower Colorado River basin.

LCRA SCHOLARSHIP PROGRAM CELEBRATES 15TH ANNIVERSARY. LCRA awarded scholarships this spring to 24 graduating seniors from LCRA's service area, bringing the total number of scholarships to almost 200 in the program's 15-year history.

LCRA HOSTS MORE THAN 3,000 "KIDS ON THE COLORADO." LCRA exceeded its goal of putting 3,000 youths on the Colorado River during calendar year 2002.

STUDENTS, CIVIC LEADERS RECEIVE LEADERSHIP TRAINING. More than 1,400 Central Texas high school students from more than 70 schools attended 16 leadership forums sponsored by LCRA during the 2002-2003 school year. Students learned about leadership and communication skills, goal-setting and community service, then planned projects to benefit their communities. Nearly 1,100 community leaders participated in training programs offered by LCRA's Texas Leadership Institute.

LCRA PROVIDES COMMUNITY AND ECONOMIC DEVELOPMENT ASSISTANCE. Recipients included 41 projects in 38 communities. Two businesses located in area communities with LCRA's assistance, creating 90 new jobs and $3.5 million in capital investment.

COMMUNITY GRANTS HELP LOCAL PROJECTS. LCRA and its electric and water customers awarded more than $1.6 million in grants to 71 communities through the Community Development Partnership Program and Recreation/Ball Field Lighting Program.

LCRA GRANTS HELP BUILD COMMUNITY PARKS. LCRA awarded nearly $1.5 million to 16 communities through its Partnerships In Parks program, which provides matching grants for community park projects.

CORPORATE SERVICES

LCRA MAINTAINS STRONG FINANCIAL RATINGS. The favorable ratings by Fitch, Standard & Poor's, and Moody's Investors Service remain unchanged. This reflects positively on LCRA at a time when many other utilities are being downgraded. When LCRA issued bonds to refinance existing debt and to raise capital for water and wastewater utility projects, many agencies reacted positively, such as this comment by Moody's: "LCRA's sound management of its businesses has provided confidence in the agency's capability."

LCRA ACHIEVES SAFETY AWARDS AND MILESTONES. LCRA was named first in safety among its peers in the electric industry by the American Public Power Association. LCRA operations received awards for exemplary safety performance by the Southwest Electric Safety Exchange. Fayette Power Project received the Distinguished Safety Award for accomplishing 3 million worker hours without a lost-time accident. Ferguson Power Plant received the Safety Achievement Award for accomplishing 15 years without a lost-time accident. Dam and Hydroelectric Operations received an award for reaching 1 million safe-worker hours. Water and Wastewater Operations and Irrigation Operations received awards for 10 years without a lost-time incident. Dam and Hydroelectric Operations employees also reached 13 years with no lost-time accidents or days away from work. Environmental Laboratory Services has gone without a lost workday for its entire history – 21 years.

LCRA INCREASES BUSINESS OPPORTUNITIES FOR MINORITY- AND WOMEN-OWNED VENDORS. In FY 2003 LCRA spent more than $29 million, or 9.1 percent of total contracts awarded, with minority- and women-owned businesses – a 45 percent increase from the previous year.

It's All About Helping People: Energy Generation

"You need customer relationships built on understanding each other's needs..."

– Dudley Piland –
28 Service Years

In his first month as an LCRA engineer in June 1975, Dudley Piland saved LCRA's customers more than $1 million. Piland, who was responsible for reviewing design plans by an engineering firm for the first two units of the Fayette Power Project (FPP), questioned why the designer had located a substation at what seemed to Piland an odd location.

"They told me, 'That location will save a quarter of a million dollars in cable costs,'" he recalled. "But it would have required LCRA to spend a million and a half dollars in additional transformers and switch gear." So the designer relocated the substation at a more efficient site. And Piland earned, early on, a reputation for "an innate ability to find the one thing that's wrong with a project," as Piland put it. "Some have described it as a plague," he chuckled.

Piland has risen through the ranks to become executive manager of LCRA's Wholesale Power Services, overseeing all aspects of LCRA's power-generation business that produces electricity for more than 1 million Central Texas residents. He has overseen numerous engineering projects and held several management positions, including plant manager of FPP, LCRA's largest power operation.

His attention to detail has proven valuable as the Texas electric utility industry becomes more competitive, with greater emphasis on low-cost power. "We saw it coming in the early 1990s and knew we had to get ready," he said. LCRA's Wholesale Power Services has continued to provide reliable power at low cost as it adjusts to the new environment.

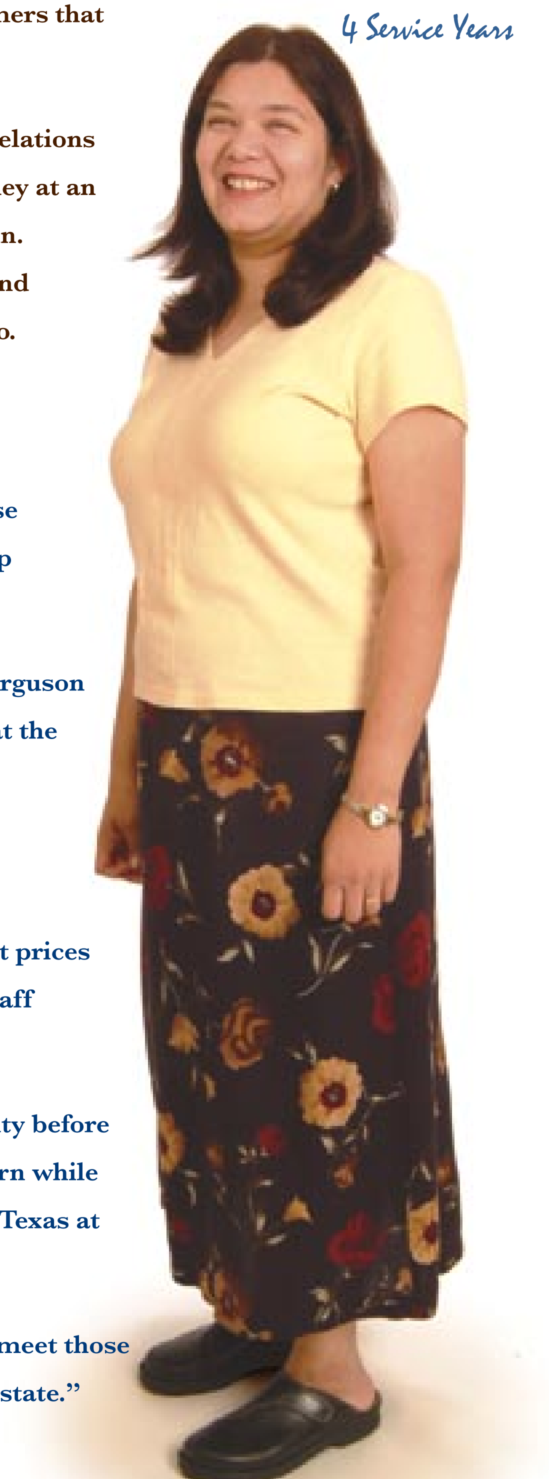
A key factor has been Piland's strong relationships with LCRA's employees and customers, an aspect he developed early in his career. He has always placed a high priority on safe working conditions for employees. During his tenure as FPP plant manager, the plant's annual lost-time incidents dropped from 16 to 0 in a five-year period. "Whatever the cost of an effective safety program, accidents cost much more," he said.

LCRA staff works closely with wholesale customers on many issues including costs and future generation needs. The partnership is not just good customer relations but also good business. "Your relationship with your customers affects the cost of your operations," Piland said. "You need customer relationships based on understanding each other's needs and a feeling among customers that they are working with you to develop solutions."

The result for LCRA has been efficient operations and good customer relations – and for Piland a satisfying career. "I might be making a lot more money at an investor-owned company," he said. "But it wouldn't be near as much fun. Here at LCRA there's never a boring moment, I work with employees and customers that I like and respect, and I get a kick out of doing what I do. I've been real lucky to do what I do."

"It's gratifying to...help keep LCRA's power prices among the lowest in the state."

– Rashmi Rao –
4 Service Years



Rashmi Rao's gentle demeanor may conceal a sharp business sense critical to her role as an energy risk analyst in helping LCRA keep its generating costs as low as possible.

LCRA generates most of its electricity at its Sim Gideon, Thomas C. Ferguson and Lost Pines power plants, which use natural gas as boiler fuel, and at the Fayette Power Project, which uses coal. With fuel comprising roughly two-thirds of LCRA's generating costs, LCRA's energy traders must purchase fuels and "hedge" against price spikes in a volatile market.

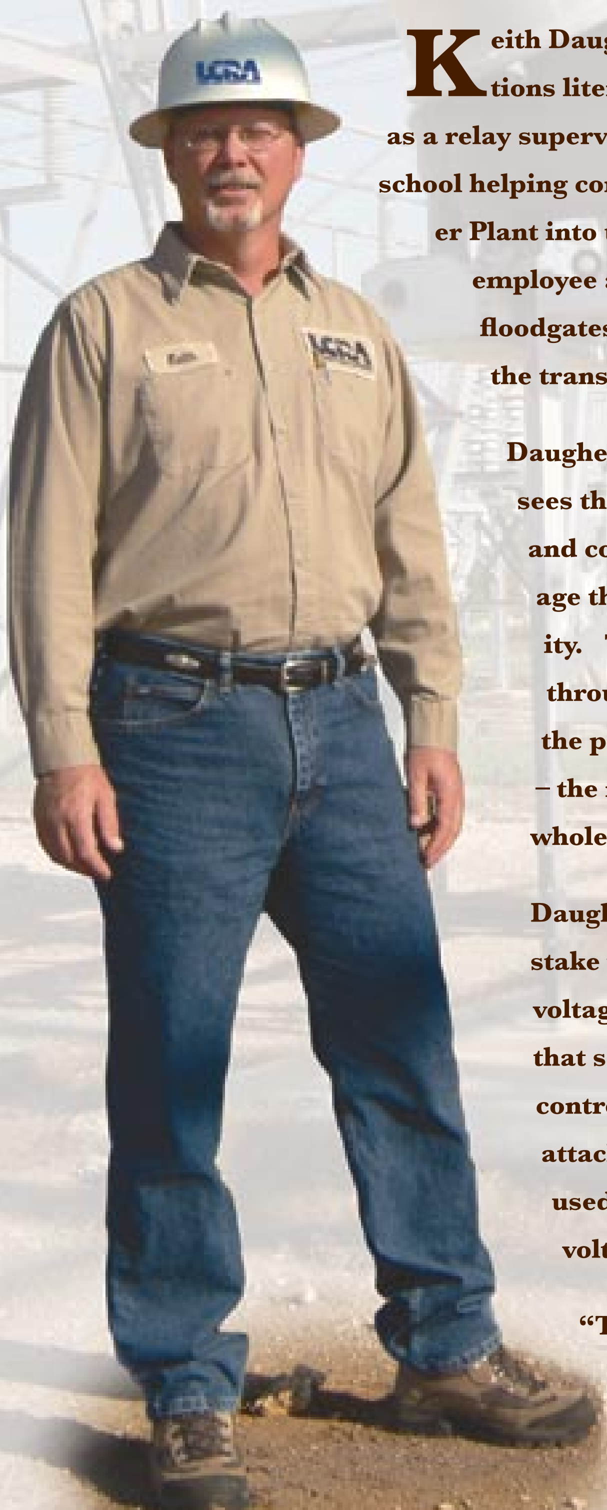
Rao helps the fuels staff manage LCRA's risk to increases in the market prices of natural gas. She provides daily market and weather data that help staff develop strategies to control LCRA's fuel costs.

Born in Delhi, India, Rao earned a master's degree from Delhi University before moving to the United States in 1995. She joined LCRA in 1999 as an intern while completing her work as one of the first graduates of The University of Texas at Austin's energy finance MBA program.

"My job brings new challenges every day," Rao said. "It's gratifying to meet those challenges and help keep LCRA's power prices among the lowest in the state."

It's All About Helping People: Energy Transmission

"If the people we serve assume that every time they flip a switch, the power will come on, then we're doing our jobs."
– Keith Daugherty –
27 Service Years



Keith Daugherty learned about LCRA and its transmission operations literally from the ground up. His father worked for LCRA as a relay supervisor. His first job at LCRA was during summer in high school helping construct the lines that tied the Thomas C. Ferguson Power Plant into the transmission system. He became a full-time LCRA employee after graduation in 1976, when he helped refurbish floodgates at Mansfield and Tom Miller dams. He transferred to the transmission area in 1978, where he has been ever since.

Daugherty, an area supervisor in Transmission Services, oversees the technicians who install and maintain system relays and controls, the "brains" that monitor the system and manage the opening and closing of circuits that carry electricity. Their work is vital to maintaining a safe flow of power through substations. These substations adjust the voltage of the power that travels through LCRA's transmission system – the network of wires that carry electricity to LCRA's 42 wholesale customers.

Daugherty knows the importance of safety, as lives are at stake when things go wrong. "When you see that kind of high-voltage arc, it's white-hot and really loud," he said. He noted that safety practices have improved from earlier years when controlmen checked line voltage with an insulated "hot stick" attached to a piece of Johnson grass. Daugherty himself once used a light bulb attached to a hot stick and wires to check voltage regulators.

"The linemen of the 1940s and '50s were rugged cowboy types," he said. "Now we have phasing meters and other equipment that make our jobs safer."

Crews at LCRA watch out for one another, in the field and beyond, Daugherty said. "LCRA is not really a family organization, but it has a family air to it," he said. "I can't imagine being somewhere else."

The safety practices help support a key goal of maintaining system reliability for LCRA's wholesale customers. "If the people we serve assume that every time they flip a switch, the power will come on, then we're doing our jobs," Daugherty said. "I'm glad that at LCRA, working safely is part of doing your job right."

"We're not here for our own benefit but to serve the people who depend on us..."
– Johnnie Davis –
2 Service Years

Johnnie Davis manages 19 major transmission expansion projects representing more than $700 million. Davis, 29, joined LCRA's Transmission Services team in 2001 as a project manager, helping develop and oversee projects that LCRA's affiliate, LCRA Transmission Services Corporation, is undertaking with American Electric Power and Oncor.

The projects are part of LCRA's long-term strategy to expand its transmission operations outside its traditional Central Texas service area. Some of the projects will provide additional transmission capacity in South and West Texas to bolster the state's power grid. Other projects will help deliver wind power from West Texas to other areas of the state.

An electrical engineer, project manager and former U.S. Air Force captain, Davis learned in his Air Force tour that "even in a regimented environment like the military, you had to persuade and motivate people to get things done," he said.

After leaving the Air Force, Davis moved to Austin to work for a private company but eventually joined LCRA, attracted by the ambitious challenges of the transmission projects and LCRA's publicly focused mission. He has put his educational and military experiences to good use, developing tools, processes and agreements that are critical to his projects' success.

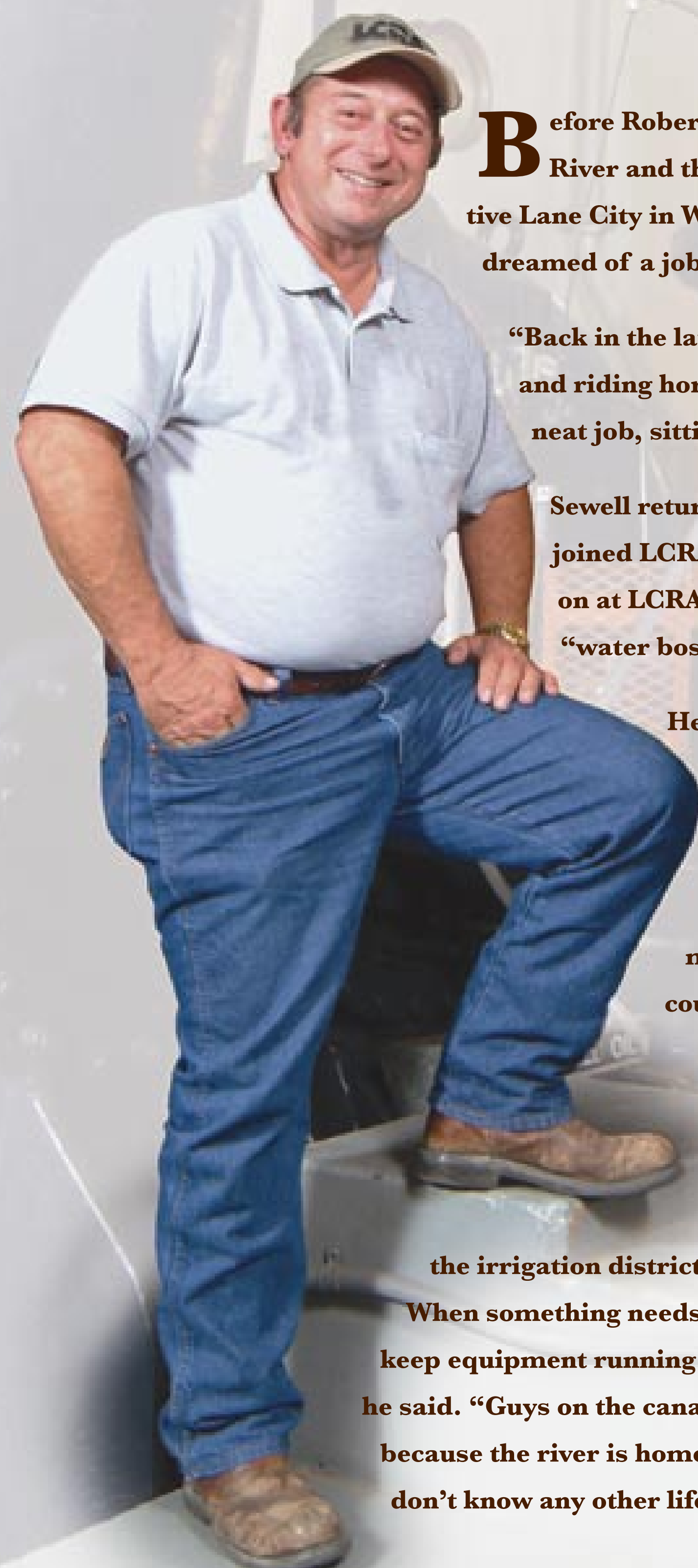
For Davis, his work meshes well with LCRA's mission of helping people. "A private company's main goal is just to get the job done," he said. "LCRA is committed to improving things for people. We're not here for our own benefit but to serve the people who depend on us for our services. That underlies everything we do."

It's All About Helping People: Water Services

"We take pride in what we do because the river is home for everybody."

– Robert Sewell –

25 Service Years



Before Robert Sewell knew there was an LCRA, he knew the Colorado River and the irrigation canals feeding the rice fields of his native Lane City in Wharton County near the Texas Gulf Coast. As a boy he dreamed of a job like the men he saw working the irrigation pumps.

"Back in the late '50s and early '60s when I was growing up swimming and riding horseback down those canals, I thought that would be a neat job, sitting out there on the river all day," Sewell said.

Sewell returned to Lane City after a tour with the U.S. Navy and joined LCRA's Gulf Coast Irrigation District. Feeling lucky to get on at LCRA, Sewell worked as a pump operator before becoming a "water boss," or irrigation coordinator.

He now serves as regional operations and maintenance supervisor for LCRA's three irrigation districts, which include Lakeside, Garwood and Gulf Coast. The three districts can supply water to about 90,000 acres through a network of canals spanning more than 800 miles, sustaining the agricultural community in the three-county (Colorado, Wharton and Matagorda) coastal region.

"My main purpose in life is to make sure we can meet all our water demands through our pumping stations," Sewell said. He handles the occasional challenge on the job – just like everyone else working in the irrigation districts, where old-timers easily outnumber the new recruits. When something needs attention, employees put personal concerns aside to keep equipment running and water flowing. "Everybody down here does that," he said. "Guys on the canals do. Guys in the plants do. We take pride in what we do because the river is home for everybody. Most of us have been here for so long we don't know any other life." Sewell tries to be the mentor for his new employees just as the old-timers of his early years were for him. "Every time we're turning nuts and bolts together, I try to tell them things that will help them – giving them advice and telling them old stories."

One of his favorite pump-station stories is also a fish tale. After a weekend of setting trot lines with a buddy, Sewell came around a bend in the river to find the plant all lit up, a rare sight. "The Number 4 pump was down," he said. "Needless to say, I didn't go home again for 32 hours." Meanwhile, perfect fishing conditions on the river loaded down his lines with 200 pounds of fish. Sewell's wife staged a fish fry. "I had enough catfish to give everybody some," he said.

Good times when the work is pleasant and co-workers seem like family are so plentiful that Sewell is hard pressed to come up with a single case of work-related hardship. "It's an exceptionally good job, just exactly the job I've wanted to do since I was 9 or 10 years old."

"You can't put a price tag on public service."

– Susan Keller –

2 Service Years

Susan Keller doesn't have trouble being sincere when asked why she works at LCRA. "I really enjoy working with people and serving people," said Keller, a utility development coordinator in LCRA's Water and Wastewater Utility Services. A licensed professional engineer, Keller develops water and wastewater projects.

LCRA's water and wastewater utility operations have experienced dramatic growth inside LCRA in recent years, as LCRA responds to communities' needs to provide reliable and quality utility services to a growing population.

Keller, a former consultant, is gratified by public service. "You can't put a price tag on that," she said. LCRA's workplace culture creates an interest in public service, she added. "Employees have the freedom to look for creative solutions to challenges. We also have a direct impact on people's lives by making sure they have safe water."

Veteran co-workers, many of whom have stayed with LCRA for 10 to 15 years or more, have assured Keller that the rewards of public service remain constant as they respond to requests by communities for service. "We only go where we're wanted and needed," Keller said. "Communities call us because of our reputation and the variety of services we provide, and many of them need help immediately. We do our best to respond to their needs and requests."

It's All About Helping People: Community Services

"Now we are a self-sufficient lab that fully supports LCRA's role as an environmental steward..."

– Roland Garcia –

18 Service Years

Roland Garcia remembers crawling around in the ceiling of the old environmental lab, dropping sections of coaxial cable to connect the facility to LCRA's first computer network system. "We barely had a calculator back then. We were making graphs with paper and a pencil," Garcia joked. "I'd always had an interest in computers. And at that time, jumping on the technology bandwagon was a leap that the lab needed to make."

Garcia came to LCRA's Environmental Laboratory Services in June 1985 when the lab was just a three-year-old in-house laboratory that supported LCRA operations. Since then the lab has grown to support a number of communities and businesses in LCRA's service area in testing and analysis services, such as helping local water utilities monitor the quality of their drinking water.

"The lab started out primarily processing boiler water analyses for LCRA's power plants," Garcia explained. "As LCRA expanded its services, so did the lab. Now we are a self-sufficient lab that fully supports LCRA's role as an environmental steward both externally and internally."

Garcia began his career at LCRA after working in a commercial lab for five years. At LCRA he has climbed the career ladder rung by rung, working in almost every position from lab analyst to supervisory roles. As a manager, Garcia has worked hard to maintain an effective relationship with his employees. "It's the synergistic relationship between management and employees that allows us to serve our customers in the best way possible," he said.

He also enjoys being a mentor. "I like watching my co-workers grow professionally and helping them succeed in any way that I can," he said.

Garcia has been part of several significant milestones for the lab, including when it received national accreditation in 1990 as the first and only laboratory in Texas besides the state health department to perform drinking water quality tests.

He takes great pride in the services that the lab provides. "The direct effect my job has on the daily lives of people in Texas through services like drinking water quality testing and participating in hazardous-waste cleanups is an integral part of LCRA's mission," he said.

What motivates Garcia after 23 years in the same industry are the daily challenges. "There's always something new going on to keep it fresh. No matter what successes the lab has shared, it's our relentless pursuit of perfection that keeps us challenged."

"We help communities leverage their limited resources..."

– Katherine Gonzalez –

3 Service Years

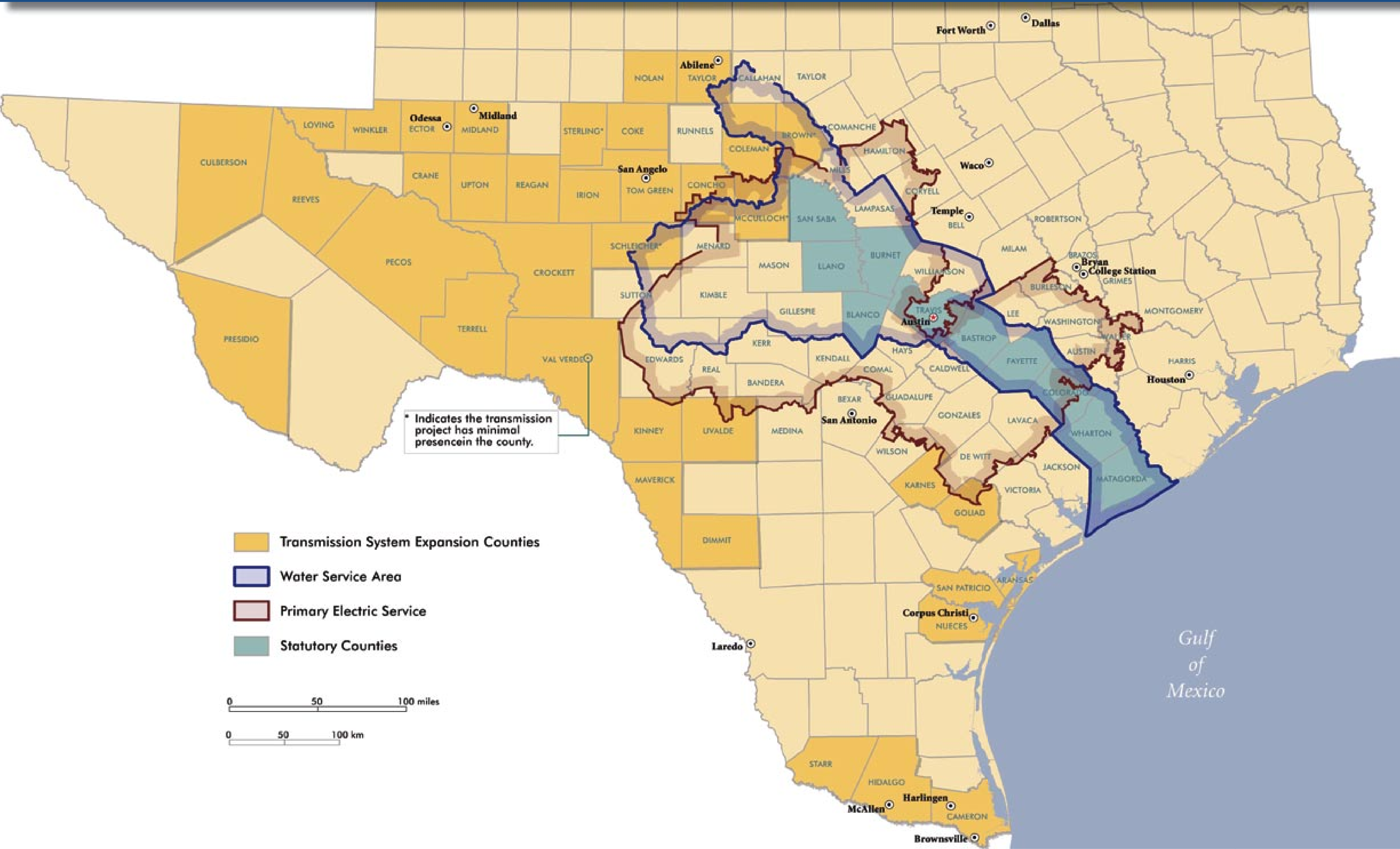
For Katherine Gonzalez, making the transition from being a self-employed affordable-housing consultant to working for LCRA's parks planning and recreation development was easy – both jobs serve the same customer base.

Gonzalez's interest in LCRA developed while working with LCRA staff on a consulting job. "I was very impressed with their professionalism and integrity," Gonzalez said. "When the opportunity came for me to work with LCRA, I grabbed it." She brought to LCRA a valuable asset – a good relationship and understanding of LCRA's customer base. She talks with community residents about their needs for assistance with parks and recreation projects.

Each year, LCRA provides grants and technical assistance to communities to help build or expand local public parks or various community-development projects. Recipients match this assistance with support from other sources. "We help the communities leverage their limited resources to develop facilities they otherwise couldn't afford," Gonzalez explained.

For Gonzalez, the best part of her job is witnessing a park's positive effect on a community. "Providing a place for kids to play and participate in educational programs helps keep them involved in positive activities," she said, "and it gives them a place to have fun as they exercise their bodies and their minds."

LCRA Customer Service Map



Financial Information

Five-Year Financial Summary

Comparative Financial Information

(Dollars in Thousands)	Fiscal Year ended June 30,				
	2003	**2002**	**2001**[2]	**2000**	**1999**
Operating revenues					
Electric[1]	$ 581,226	$ 511,655	$ 635,231	$ 483,131	$ 409,502
Other	22,423	16,695	17,765	12,981	10,237
Water, wastewater and irrigation	37,955	35,068	29,601	26,460	21,388
Total operating revenues	641,604	563,418	682,597	522,572	441,127
Interest and other income available for debt service	9,398	6,839	10,770	13,048	13,126
Total	651,002	570,257	693,367	535,620	454,253
Operating expenses as adjusted[1][3]	478,831	400,660	498,041	341,000	268,764
Net Revenues Available for Debt Service	$ 172,171	$ 169,597	$ 195,326	$ 194,620	$ 185,489
Debt Service Requirement	$ 120,438	$ 91,615	$ 79,707	$ 82,774	$ 122,185
Debt Service Coverage Ratio	1.43x	1.85x	2.45x	2.35x	1.52x
Utility plant	$ 2,657,942	$ 2,346,050	$ 2,141,434	$ 2,041,473	$ 1,895,390
Accumulated depreciation	$ 899,315	$ 834,490	$ 775,909	$ 695,984	$ 649,106
Long-term debt	$ 1,393,810	$ 1,407,020	$ 925,747	$ 1,086,706	$ 1,233,257
Equity ratio	25 %	25 %	28 %	30 %	29 %
Statistics					
MWH Sales					
Wholesale	13,193,923	12,971,239	12,606,527	11,598,517	11,048,508
Retail	-	7,871	57,784	65,230	69,772
Total MWH Sales	13,193,923	12,979,110	12,664,311	11,663,747	11,118,280
MWH Generation and Purchased Power					
Hydraulic	367,766	233,318	342,748	167,487	256,390
Fossil	11,922,306	11,530,871	11,118,742	10,966,833	10,684,499
Purchased power	1,262,661	1,392,680	1,709,241	1,057,220	631,360
Total MWH Generation and Purchased Power	13,552,733	13,156,869	13,170,731	12,191,540	11,572,249
Net Peak Demand (MW) (Summer/Winter)	2747(W)	2838(S)	2692(S)	2454(S)	2335(S)
Electric Customers:					
Wholesale	42	42	43	43	44
Other	-	-	2	3	18
Total Electric Customers	42	42	45	46	62
Number of Employees	2,211	2,112	1,910	1,724	1,723

(1) Excludes GenTex Power Corporation's revenues and expenses (see Note 2 of Notes to the Financial Statements). Net revenues of nonobligated affiliates, such as GenTex Power Corporation, are not available for debt service.

(2) Reflects restatements for the effects of the adoption of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (see Note 2 of the Notes to the Financial Statements).

(3) Operating expenses have been adjusted to include other interest and exclude depreciation, depletion, amortization and other noncash miscellaneous expenses.

Report of Management

The management's discussion and analysis, the financial statements and related footnotes included herein are the responsibility of LCRA's management as is other information contained in this annual report. The financial statements are prepared in conformity with generally accepted accounting principals applied on a consistent basis and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management has developed and maintains a system of accounting and controls, including an internal audit program, designed to provide reasonable assurance that LCRA's assets are protected from improper use and that accounting records provide a reliable basis for the preparation of financial statements. This system is continually reviewed, improved and modified in response to changing business conditions and operations and to recommendations made by the independent auditors and the internal auditors. Due to the inherent limitations of the effectiveness of internal controls, no internal control system can provide absolute assurance that errors and irregularities will not occur. However, management strives to maintain a balance, recognizing that the cost of such a system should not exceed the benefits derived.

LCRA's Board of Directors, appointed by the governor of Texas, oversees LCRA's financial reporting activities through the Audit Committee and Finance and Administration Committee which are comprised wholly of Board members. The duties of these committees include keeping informed of the financial condition of the LCRA and reviewing its financial policies and procedures, its internal accounting controls, and the objectivity of its financial reporting. Both LCRA's independent and internal auditors may meet directly with the Audit Committee without management concurrence.

The Independent Auditors' Report, included herein, does not limit the responsibility of management for information in the financial statements and elsewhere in the annual report.

John M. Meismer	James D. Travis	Joseph J. Beal, P.E.
Deputy General Manager Chief Financial Officer	Controller	General Manager

Management's Discussion and Analysis

Condensed Balance Sheets (Dollars in Thousands)	**June 30, 2003**	**June 30, 2002**
Current assets	$ 244,758	$ 274,939
Capital assets	1,787,897	1,535,393
Other long-term assets	454,235	632,504
Total Assets	$ 2,486,890	$ 2,442,836
Current liabilities	$ 313,550	$ 286,277
Long-term liabilities	1,542,713	1,548,584
Total Liabilities	1,856,263	1,834,861
Equity - Invested in capital assets, net of related debt	491,127	492,058
Equity - Restricted for capital assets	13,266	5,833
Equity - Unrestricted	126,234	110,084
Total Equity	630,627	607,975
Total Liabilities and Equity	$ 2,486,890	$ 2,442,836

Condensed Statements of Revenues, Expenses and Changes in Equity (Dollars in Thousands)	**Year Ended June 30, 2003**	**2002**
Operating revenues	$ 643,133	$ 556,141
Operating expenses	555,682	466,065
Operating income	87,451	90,076
Interest and other income	7,272	16,938
Interest and other expenses	(84,670)	(79,031)
Costs to be recovered from revenues	7,202	19,982
Capital contributions	5,397	2,213
Change in equity	22,652	50,178
Equity, Beginning of Year	607,975	557,797
Equity, End of Year	$ 630,627	$ 607,975

Financial Highlights

Capital assets increased by $253 million or 16 percent for Fiscal Year (FY) 2003. The majority of the increase is due to the acquisition and construction of transmission and water and wastewater facilities to meet increasing demand for these services. Current liabilities increased $27 million or 10 percent due to a maturity of the 2000 revenue bonds which was reclassified from long term to current liabilities and the over-recovery of fuel costs.

Other long-term assets for FY 2003 decreased by $178 million or 28 percent primarily due to the use of construction and debt service funds for capital construction and to refund outstanding bonds.

Operating revenues for FY 2003 increased by $87 million or 16 percent due to higher fuel revenues of $59 million resulting from passing on increases in the cost of fuel to customers and higher transmission revenues of $22 million due to a rate increase. The increase in revenues, attributable to the new rate retroactive to May 31, 2002, is included in 2003 revenues.

Operating expenses for FY 2003 increased by $90 million or 19 percent due primarily to higher fuel and purchased power expenses.

Interest and other income decreased by $10 million primarily due to a $6.5 million payment received in a contract settlement in FY 2002 and lower investment balances, due to refunding of debt, and lower interest rates in FY 2003.

Costs to be recovered from revenues for FY 2003 decreased by $13 million or 64 percent due primarily to accelerated recovery of those prior year costs through FY 2003 rates.

Overview of the Financial Statements

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments." The objective of this Statement is to enhance the understandability and usefulness of the external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. LCRA implemented Statement No. 34, as amended by GASB Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government: Omnibus," in FY 2002.

In accordance with Statement No. 34, LCRA is considered a special-purpose government engaged only in business-type activities. Statement No. 34 requires the following components in a governmental entity's annual report:

Management's Discussion and Analysis

The purpose is to provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions or conditions.

Balance Sheet

Assets and liabilities of proprietary funds should be presented to distinguish between current and long-term assets and liabilities.

Statement of Revenues, Expenses and Changes in Equity

This statement provides the operating results broken into the categories of operating revenues and expenses, nonoperating revenues and expenses, and capital contributions.

Notes to the Financial Statements

The notes explain information in the financial statements and provide additional detailed information.

Competition

Senate Bill 7 (SB 7) provided for retail electric competition to open January 1, 2002. Retail customers of investor-owned utilities and retail customers of municipality-owned utilities and electric cooperatives that elect to participate in retail competition, can now choose their electric provider. LCRA's strategy is to help its wholesale electric customers succeed regardless of how they position themselves. As part of this strategy, LCRA will work aggressively to reduce generation costs as well as to support wholesale electric customers in their opt-in decisions.

Regulatory Matters

LCRA Transmission Services Corporation

To promote electric competition, SB 7 requires all transmission system owners to make their transmission system available for use by others at prices and terms comparable to each respective owner's use of its system for its own wholesale transactions. Pursuant to the requirements of SB 7, on January 1, 2002, LCRA transferred its existing electric transmission and transformation facilities to LCRA Transmission Services Corporation (the Corporation), a component unit of LCRA for accounting purposes. The Corporation owns and operates all of LCRA's regulated electric transmission and transformation assets. In accordance with accounting and financial reporting requirements, the assets, liabilities and transactions of the Corporation are included in the financial statements of LCRA.

Transmission Cost of Service Rate Case

On January 1, 2002, when operations began, the Corporation assumed LCRA's Transmission Cost of Service (TCOS) and transformation rates that were approved by the Public Utility Commission of Texas (PUC) on March 7, 2001. On May 31, 2002, the Corporation filed a rate case with the PUC seeking a new TCOS rate and transformation tariff. The Corporation began to charge increased interim rates as of the May 31, 2002 filing date.

In February 2003, the Corporation received PUC approval for a new TCOS rate. This new rate represented a 20 percent increase over the interim rate initially put into effect May 31, 2002. The increase in revenues of $15.3 million attributable to the new TCOS rate since May 31, 2002, is included in the fiscal year ended June 30, 2003.

In May 2003, the Corporation received PUC approval for new transformation and metering services tariffs. Although the transformation tariff increased by 14 percent, the revenues to be collected, effective prospectively from May 2003, will decrease on an annual basis because of lower cost of service and billing demand.

Capital Expansion and Improvement Program

LCRA's capital improvement program for FY 2004 to FY 2008 is $2.3 billion, with $2 billion or 87 percent to be debt funded. The majority of capital expenditures are for expansion of transmission services, water and wastewater services and generation improvements as well as additional corporate infrastructure and facilities. The Corporation is significantly increasing its transmission system investment due to the need for additional electric transmission capability statewide. LCRA will continue its water and wastewater services capital expansion due to the region's growing population.

The capital budget is expected to be applied as follows:

(1) $1.3 billion for transmission projects, including $606 million for transmission projects in South and West Texas under a joint development agreement with a private entity.

(2) $145 million for park and corporate facilities.

(3) $196 million for dam improvements and modernization, and acquisition and construction of water and wastewater utilities and facilities.

(4) $623 million for generation and system improvements.

The cost of the capital program will be provided from internally generated funds of LCRA and the Corporation, long-term bonds (including LCRA bonds and LCRA bonds issued on behalf of the Corporation), and commercial paper notes.

Capital Asset Activity

- $323 million was expended for construction activities in FY 2003. The majority of these expenditures were for acquisition and construction of transmission and water and wastewater facilities to meet increasing demand for these services.
- $73 million of depreciation expense and asset retirements were recorded in FY 2003 on plant in service.
- For additional detail, see Capital Asset Activity table in Note 8 of the Notes to the Financial Statements.

Debt Activity

- In October 2002, $107.9 million of taxable commercial paper debt became eligible for conversion to tax-exempt debt. To take advantage of lower interest rates associated with tax-exempt debt, on October 4, 2003, LCRA issued $107.9 million of tax-exempt commercial paper to refund the $107.9 million of taxable commercial paper.
- On October 15, 2002, LCRA issued $121 million of tax-exempt Refunding Revenue Bonds, Series 2002. The proceeds were used to refund $15.9 million of taxable commercial paper and $109.1 million of tax-exempt commercial paper. Commercial paper is used to fund construction until it is economically feasible to issue long-term debt.
- To take advantage of lower interest rates associated with tax-exempt debt, on March 28, 2003, LCRA, on behalf of the Corporation, issued $50 million of tax-exempt Transmission Contract Auction Rate Refunding Revenues Bonds, Series 2003A, and $255 million of tax-exempt Transmission Contract Refunding Revenue Bonds, Series 2003B. The bond proceeds, along with $113.9 million of construction and debt service funds, were used to refund the $358.9 million of 2001 Transmission Contract Refunding and Improvement Revenue Bonds, Taxable Series 2001. The refunding resulted in a deferred accounting loss of $56 million and an economic gain of $40.9 million. Also, to take advantage of lower interest rate associated with tax-exempt debt, on May 7, 2003, LCRA issued $13.2 million of tax-exempt commercial paper to refund $13.2 million of taxable commercial paper.
- During FY 2003, LCRA issued $120.1 million of tax-exempt commercial paper, of which $44.5 million was on behalf of the Corporation, and $8.5 million of taxable commercial paper to fund various capital projects.
- In FY 2003, LCRA made the following scheduled principal payments:
  - $38.82 million, 2000 Refunding Revenue Bonds
  - $0.025 million, 2001 Refunding Revenue Bonds
  - $2.1 million, 2001A Refunding Revenue Bonds
  - $0.77 million, 2002 Refunding Revenue Bonds

  In addition, in May 2003, LCRA paid $1.2 million of tax-exempt commercial paper.

Independent Auditors' Report

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Dallas, Texas 75201-6778

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lower Colorado River Authority
Austin, Texas

We have audited the accompanying balance sheets of the Lower Colorado River Authority ("LCRA") as of June 30, 2003 and 2002 and the related statements of revenues, expenses and changes in equity, and of cash flows for the years then ended. These financial statements are the responsibility of LCRA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, examining, on a test basis, evidence supporting the amounts and disclosures of the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LCRA as of June 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

September 18, 2003

Deloitte
Touche
Tohmatsu

LCRA Balance Sheets

(Dollars in Thousands)	June 30, 2003	June 30, 2002
Assets		
Current Assets		
Cash and cash equivalents	$ 52,429	$ 41,001
Investments	17,643	71,800
Receivables, net	93,248	85,057
Accrued interest receivable	962	1,072
Inventories	74,128	66,470
Other	6,348	9,539
Total current assets	244,758	274,939
Long-term Assets		
Restricted cash and cash equivalents	15,498	38,649
Restricted investments	22,270	235,818
Unrestricted investments	101,481	46,643
Capital assets:		
Utility plant in service	2,351,955	1,934,477
Construction work in progress	277,829	383,415
Oil and gas property	28,158	28,158
Other physical property	29,270	23,833
Less accumulated depreciation	(899,315)	(834,490)
Capital assets, net	1,787,897	1,535,393
Water rights, net	86,381	86,381
Other	3,412	3,170
Deferred charges:		
Costs to be recovered from future revenues	172,438	165,555
Unamortized debt expense	22,506	22,756
Contract extension settlement with major customers	10,456	11,230
Other	19,793	22,302
Deferred charges, net	225,193	221,843
Total long-term assets	2,242,132	2,167,897
Total Assets	$ 2,486,890	$ 2,442,836

The accompanying notes are an integral part of these financial statements.

LCRA Balance Sheets

(Dollars in Thousands)	June 30, 2003	June 30, 2002
Liabilities		
Current Liabilities		
Accounts payable	$ 111,811	$ 103,797
Compensated absences	7,101	5,703
Bonds, notes and loans payable	194,638	176,777
Total current liabilities	313,550	286,277
Long-term Liabilities		
Accounts payable from restricted assets	39,736	31,534
Bonds, notes and loans payable	1,393,810	1,407,020
Deferred credits	109,167	110,030
Total long-term liabilities	1,542,713	1,548,584
Total liabilities	1,856,263	1,834,861
Equity		
Invested in capital assets, net of related debt	491,127	492,058
Restricted for capital projects	13,266	5,833
Unrestricted	126,234	110,084
Total equity	630,627	607,975
Total Liabilities and Equity	$ 2,486,890	$ 2,442,836

The accompanying notes are an integral part of these financial statements.

Statements of Revenues, Expenses and Changes in Equity

(Dollars in Thousands)	Year Ended June 30, 2003	2002
Operating Revenues		
Electric	$ 582,755	$ 504,378
Water, wastewater and irrigation	37,955	35,098
Other	22,423	16,665
Total operating revenues	643,133	556,141
Operating Expenses		
Fuel	234,310	177,748
Purchased power	42,020	35,525
Operations	171,535	156,950
Maintenance	35,528	30,819
Depreciation, depletion and amortization	72,760	63,728
Plant commitment	(471)	1,295
Total operating expenses	555,682	466,065
Operating income	87,451	90,076
Nonoperating Revenues (Expenses)		
Interest and Other Income	7,272	16,938
Interest and Other Expenses	(84,670)	(79,031)
Nonoperating revenues (expenses)	(77,398)	(62,093)
Income before costs to be recovered from revenues and capital contributions	10,053	27,983
Costs To Be Recovered from Revenues	7,202	19,982
Capital Contributions	5,397	2,213
Change in Equity	22,652	50,178
Total Equity, Beginning of Year	607,975	557,797
Total Equity, End of Year	$ 630,627	$ 607,975

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

(Dollars in Thousands)	Year Ended June 30, 2003	2002
Cash Flows From Operating Activities		
Cash received from customers	$ 657,774	$ 573,823
Cash payments for goods and services	(375,615)	(275,722)
Cash payments to employees	(122,274)	(115,937)
Other revenues and expenses, net	(3,298)	1,193
Net cash provided by operating activities	156,587	183,357
Cash Flows From Noncapital Financing Activities		
Grant proceeds received	1,855	1,047
Other income (expenses)	(430)	4,876
Net cash provided by noncapital financing activities	1,425	5,923
Cash Flows From Capital and Related Financing Activities		
Expenditures for property, plant and equipment	(316,434)	(179,050)
Proceeds from sale of capital assets	2,533	-
Contributed capital received for capital expenditures	2,636	1,860
Proceeds from refundings and new debt issues	701,936	574,881
Debt principal payments	(42,915)	(22,830)
Interest paid	(78,614)	(78,675)
Payments to refund debt and related issue costs	(660,225)	(181,002)
Net cash provided by (used in) capital and related financing activities	(391,083)	115,184
Cash Flows From Investing Activities		
Sale and maturity of investment securities	602,395	434,498
Purchase of investment securities	(393,935)	(702,208)
Interest received	13,130	8,944
Infrastructure financial assistance activity	(242)	(448)
Net cash provided by (used in) investing activities	221,348	(259,214)
Net Increase (Decrease) in Cash and Cash Equivalents	(11,723)	45,250
Cash and Cash Equivalents, Beginning of Year	79,650	34,400
Cash and Cash Equivalents, End of Year	$ 67,927	$ 79,650

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

(Dollars in Thousands)

	Year Ended June 30, 2003	2002
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 87,451	$ 90,076
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	72,760	63,728
Plant commitment	(471)	1,295
Changes in assets and liabilities:		
Accounts receivable	(7,506)	(2,734)
Inventories	(7,658)	2,562
Other current assets	3,191	15,159
Current liabilities	9,384	16,159
Other deferred charges	62	(795)
Deferred credits and other long-term liabilities	(626)	(2,093)
Net cash provided by operating activities	$ 156,587	$ 183,357
Noncash Investing Activities		
Investment market adjustments	$ (4,407)	$ 868
Noncash Financing for Property, Plant and Equipment Expenditures		
Purchase of equipment through short-term trade payables	$ 8,532	$ 21,297
Capitalized Interest	$ -	$ 3,055

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

1. General

The Lower Colorado River Authority (LCRA) is a conservation and reclamation district created by the Texas Legislature in 1934. It receives no state tax money and cannot levy taxes. It operates on revenues from the sale of wholesale electricity, water and other services. The LCRA Board of Directors (Board) is appointed by the governor of the state, with Senate approval, to serve six-year terms. The financial condition of LCRA is not controlled by or dependent on the State or any other political subdivision of the state. Under the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," LCRA considers its relationship to the state to be that of a related organization.

LCRA's basic statutory boundaries include a 10-county district comprising the counties of San Saba, Burnet, Llano, Blanco, Travis, Bastrop, Fayette, Colorado, Wharton and Matagorda. LCRA's service area includes all or part of 58 Central Texas counties in which LCRA provides electric utility services, flood control, water and wastewater services, economic development programs, and other public services. LCRA is responsible for regulating the flow of water within its reservoirs for hydroelectric generation, irrigation and other useful purposes. LCRA aids in the prevention of flood damage, conserves and protects the forests within the Colorado River watershed, and operates and maintains electric generating plants and 3,503 miles of transmission lines. LCRA also has a comprehensive water quality program along the Colorado River within its 10-county statutory district and owns 40 parks, recreational areas and wildlife preserves adjacent to the Highland Lakes or the Colorado River. Seventeen of these parks are leased to or operated by other entities.

LCRA has 2,614 megawatts (MW) of net generating capacity and power supply contracts through June 2016 with 42 wholesale customers. Hydroelectric net generating capacity of 281-MW is provided by five dams LCRA owns and one it leases. LCRA owns and operates four gas-fired generation units with 1,040-MW of net generation and has a 50 percent ownership interest with Calpine Corporation in Lost Pines 1 Power Project with a combined net capacity of 536-MW of gas-fired generation. In addition, LCRA has full ownership of one coal-fired generating unit with a 445 net MW capacity and a 50 percent ownership interest with the City of Austin (Austin) in two coal-fired units with a combined net capacity of 1,160 MW.

Sales of electricity to LCRA's two largest electric customers represented approximately 32 percent of total electric revenues for Fiscal Year (FY) 2003 and 34 percent for FY 2002. Electric revenues represented approximately 91 percent of LCRA's operating revenues for both FY 2003 and 2002.

Senate Bill 7 (SB 7) allows LCRA to own, build, and manage transmission infrastructure statewide with the approval of the Public Utility Commission of Texas. The LCRA Board of Directors authorized the creation of LCRA Transmission Services Corporation (the Corporation), a nonprofit corporation of LCRA, to benefit and accomplish public purposes of LCRA. The Corporation is governed by a board of directors, which is composed in its entirety of the LCRA Board of Directors. This Corporation was created under provisions of the Subchapter B of Chapter 152, Texas Water Code and the Texas Non-Profit Corporation Act. Effective January 1, 2002, the Corporation began operations subsequent to the transfer of LCRA's transmission and transformation assets to the Corporation pursuant to the terms of an Electric Transmission Facilities Contract (the Initial Contractual Commitment) dated October 1, 2001.

LCRA has ownership of and operating arrangements for various water and wastewater systems. Some water and wastewater facilities are owned by LCRA and operated by another river authority in connection with an alliance agreement to address immediate and long-term water and wastewater needs in Williamson County and other areas. In addition, LCRA owns three irrigation systems consisting of more than 815 miles of canal and three low-head dams. The irrigation systems are located in Colorado, Wharton and Matagorda counties.

2. Significant Accounting Policies

Basis of Accounting: The accompanying financial statements of LCRA, a governmental entity, have been prepared utilizing proprietary fund and accrual basis accounting. LCRA implements all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) pronouncements that do not conflict with or contradict GASB pronouncements. LCRA's accounts are maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LCRA considers electric revenues and costs that are directly related to the generation, purchase, transmission and distribution of electricity to be operating revenues and expenses. Water and wastewater revenues and other services related to environmental laboratory operations, licensing, and recreation, and the costs directly related to these services, are also considered operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Newly Adopted Standards for FY 2002 and FY 2003: In FY 2002, LCRA implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and GASB Statement No. 38, "Certain Financial Statements Note Disclosures." The adoption of GASB 34, as amended by GASB 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus," requires LCRA to make several changes to the presentation of its basic financial statements and requires the presentation of LCRA's Management Discussion and Analysis (MD&A). Specifically, the Balance Sheets reflect fund equity as restricted and unrestricted and the Statements of Cash Flows conforms to the direct method. In addition, grants restricted for capital acquisition or construction are reflected on the Statement of Revenues, Expenses and Changes in Equity as Capital Contributions and displayed after nonoperating revenues and expenses. They are recognized as they are earned. The MD&A will introduce the basic financial statements and provide an analytical overview of LCRA's financial activities. The basic financial statements consist of the Balance Sheets, Statements of Revenues, Expenses and Changes in Equity, the Statements of Cash Flows, and notes to the financial statements. GASB Statement No. 38 requires additional disclosures related to debt service requirements.

In FY 2003, LCRA implemented a number of FASB Pronouncements:
Statement of Financial Accounting Standards No. 143 (SFAS 143): This statement, "Accounting for Asset Retirement Obligations," applies to retirement obligations that result from the acquisitions, construction, development or normal operations of long-lived assets. Effective for fiscal years beginning after June 15, 2002, the fair value of asset retirement obligations must be recognized as a liability in the period in which it is incurred, if a reasonable estimate of fair value can be made. The implementation of SFAS 143 did not have a material impact on LCRA's financial position or results of operations.
Statement of Financial Accounting Standards No. 144 (SFAS 144): This statement, "Accounting for the Impairment or Disposal of Long-Lived Assets," addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS 144 states the required accounting for disposing of long-lived assets whether previously held and used or newly acquired, and broadens the presentation of discontinued operations to include more disposal transactions. This Statement is effective for fiscal years beginning after December 15, 2001. The implementation of SFAS 144 did not have a material impact on LCRA's financial position or results of operations.
Statement of Financial Accounting Standards No. 146 (SFAS 146): This statement, "Accounting for Costs Associated with Exit or Disposal Activities," requires a liability for a cost associated with an exit or disposal activity to be recognized and measured initially at fair value in the period in which the liability is incurred. The most common costs associated with exit or disposal activity are one-time employee termination benefits, contract termination costs, and costs associated with the consolidation or closing of facilities and the relocation of employees. This statement is effective for exit or disposal activities initiated after December 31, 2002. The implementation of SFAS 146 did not have a material impact on LCRA's financial position or results of operations.
Financial Interpretation No. 45 (FIN 45): This statement, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," requires a company to disclose in its financial statement footnotes many of the guarantees or indemnification agreements it issues. In addition, a company is required to recognize a liability at the time it enters into the guarantees. The initial recognition and initial measurement provisions of this Interpretation are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements with periods ending after December 15, 2002. The implementation of FIN 45 did not have an impact on LCRA's financial position or results of operations.

GenTex Power Corporation: The GenTex Power Corporation (GenTex), a nonprofit corporation and wholly owned affiliate of LCRA, is governed by a nine-member board appointed by the LCRA Board. GenTex has an undivided 50 percent interest in a 536-MW gas-fired combined cycle generating unit which began commercial operation in June 2001. GenTex's share of the construction costs of the facility was entirely funded by an LCRA Economic Development Grant. Although it is a separate legal entity, GenTex is reported as part of LCRA because its sole purpose is to provide assistance to LCRA's 42 long-term wholesale customers in meeting their demands and operating in a competitive market.

GenTex entered into contracts with LCRA's wholesale customers to sell energy to the customers at a price recovering only operating expenses, excluding depreciation, over the life of the plant. The contracts provide the customers the right of first refusal to purchase the facility and obtain full interest at a price of $975 per customer. Since the cost of the facility was funded by an economic development grant provided by LCRA, there is no debt service to recover and the expected cash flows are intended to recover only the operating costs. The plant is effectively committed to serve LCRA's wholesale customers and is included in the Balance Sheets at the contractual value.

LCRA Transmission Services Corporation: The Corporation is a nonprofit corporation created by LCRA that began operations on January 1, 2002, by engaging in the electric transmission and transformation business activities previously performed by LCRA. Although, it is a separate legal entity the Corporation is reported as part of LCRA because it is governed by a board of directors which is composed in its entirety of the LCRA Board of Directors.

Fayette Power Project: LCRA's coal-fired generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with Austin. LCRA has an undivided 50 percent interest in units 1 and 2 and wholly owns Unit 3. LCRA's investment is financed with LCRA funds, and its pro-rata share of operations is recorded as if wholly owned. LCRA's equity in FPP was $36.1 million and $33.1 million as of June 30, 2003 and 2002, respectively. The original cost of LCRA's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of LCRA in accordance with its accounting policies. The equity interest in FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within LCRA's financial statements.

Restricted Funds: Restricted Funds consist of construction funds derived from debt issues and system revenues, which have been designated for specific purposes by the Board.

Utility Plant: Utility plant consists of generating plants, electric transmission and distribution facilities, dams, reservoir land, natural gas production and development, irrigation systems, water and wastewater treatment facilities, telecommunication facilities, and related projects under construction. These assets are recorded at cost, which includes materials, labor, overhead and interest capitalized during construction. The costs of repairs and minor replacements are charged to operating expense as incurred. Costs of asset replacements and betterments are capitalized. The cost of depreciable plant retired, along with removal expense less salvage value, is charged to accumulated depreciation. Gains and losses upon disposition are recorded in the period incurred.

Water Rights: Water rights are stated at cost, net of accumulated amortization of $7.4 million as of June 30, 2003 and 2002. Beginning in FY 2003, in accordance with accounting and reporting requirements, water rights are no longer being amortized but are evaluated annually to determine whether or not they are impaired and whether or not an indefinite life is reasonable.

Inventories: Coal is recorded at cost using the last-in, first-out method. Stored natural gas, fuel oil, and materials and supplies are stated at average cost. All nonfuel inventories are stated at the lower of cost or market.

Investments: LCRA's investments are stated at fair value. Any changes, unrealized and realized, in the fair value of financial investments are recorded as investment income.

Refunding and Defeasance of Debt: For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction from or an addition to the debt liability. For debt defeasances, the difference between the carrying amount of the debt and the amount of funds needed to retire the debt is recognized immediately in the Statements of Revenues, Expenses and Changes in Equity as a special item.

Compensated Absences: LCRA records earned vacation leave as a liability and accrues for certain salary-related expenses associated with the payment of compensated absences.

Rates and Regulations: LCRA's electric, water and wastewater rates are set by LCRA's Board of Directors at a level sufficient to recover its operating costs, debt service and debt service coverage requirements. LCRA's bond counsel is of the opinion that a Texas court applying Texas law would ultimately conclude that LCRA's Board has the authority to establish and collect such fees and charges. LCRA's transmission service rates remain regulated by the Public Utility Commission of Texas (PUC). While the LCRA Board has original jurisdiction over its water and wastewater rates, the Texas Commission on Environmental Quality has appellate jurisdiction.

Senate Bill 7 (SB 7), passed by the Texas Legislature in 1999, provided for retail electric open competition to begin in January 2002, continued electric transmission open access, and fundamentally redefined and restructured the Texas electric industry. SB 7 directly and indirectly impacts LCRA and its wholesale electric customers. Under SB 7, LCRA has structurally unbundled its electric generation business and assets from its electric transmission business and assets. SB 7 also allows retail customers of investor owned utilities, as well as the retail customers of those municipally owned utilities and electric cooperatives that elect to participate in retail competition, to choose their electric supplier.

Transmission rates within the ERCOT system are determined pursuant to a universal 100 percent "postage stamp" rate which spreads the total annual costs of transmission services among distribution service providers (DSPs) according to their electric loads. The transmission costs are determined pursuant to transmission costs of service (TCOS) rate proceedings required to be filed by all transmission service providers (TSPs), including the Corporation. Every electric end-use consumer in the ERCOT system pays a portion of the total cost of maintaining a reliable statewide transmission system. Transmission charges are calculated by multiplying a DSP's share of the statewide electric load by the statewide "postage stamp" rate. The load shares and rates are determined by the PUC through its TCOS regulatory process. Additionally, pursuant to a tariff approved by the PUC, the Corporation collects revenues for transformation services, providing transformers that "step down" voltage from levels appropriate for transmission to lower levels for distribution. A monthly charge for the transformation delivery point is also authorized under the transformation tariff.

The greatest potential impact on LCRA from SB 7 could result from actions of its wholesale electric customers. If LCRA's larger wholesale electric customers open their territories to retail competition, there is a potential that such customers could lose end-user customers to other retail electric providers resulting in a reduced electric load, thus reducing the requirements served by LCRA under the existing wholesale power agreements. On the other hand, if LCRA's wholesale electric customers are successful in retaining existing customers and in growing their customer base, requirements served by LCRA under the existing wholesale power agreements could increase.

Regulatory Assets and Liabilities: LCRA applies the accounting requirements of FASB Statement of Financial Accounting Standards No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulation." Accordingly, certain costs may be capitalized as a regulatory asset that would otherwise be charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will result from inclusion of those costs in future rates. In addition, rate actions of the regulator may impose a liability on LCRA. A regulatory liability occurs when a regulator requires refunds to customers or provides current rates intended to recover costs that are expected to be incurred in the future. Any regulatory asset is amortized over the life of LCRA's outstanding long-term debt, while a regulatory liability is recognized in income when the associated costs are incurred. LCRA's regulatory assets amounted to $190 million and $186 million at June 30, 2003 and 2002, respectively. Regulatory liabilities amounted to $2.9 million and $3.4 million at June 30, 2003 and 2002, respectively. The regulatory assets, which are included under deferred charges, consist of depreciation of debt-funded assets and costs related to outstanding debt. Debt-funded costs are deferred pending future recovery through the inclusion of the related debt service in rates. Regulatory liabilities are included in deferred credits and other long-term liabilities.

LCRA has reviewed and will continue to monitor the relevance of SFAS 71 in light of SB 7 and future changes in the Texas electric industry. As of June 30, 2003, and for the foreseeable future, management believes that SFAS 71 will continue to apply and anticipates no material losses from the write-off of regulatory assets.

Capitalized Interest: Interest is capitalized as part of the cost of capital assets if financed by debt proceeds. During FY 2003 and 2002, LCRA capitalized $20.6 million and $13.9 million of interest, respectively.

Gas Price Management: LCRA enters into futures contracts, swaps and options for energy price risk management purposes. Derivative instruments are recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings. LCRA is using mark to market accounting for its derivatives and gains and losses related to the financial contracts are recognized in current earnings.

Fixed Fuel Factor: Revenues from the sale of electricity include amounts collected through the fixed-fuel factor. LCRA records over- or under-recoveries of fuel costs, including unrealized gains or losses on financial contracts entered into as part of its gas price management program, as a deferred asset or liability. These costs are periodically reconciled through adjustment of the fixed-fuel factor. Over-recoveries may result in refunds to customers and, correspondingly, under-recoveries may result in additional assessments to customers.

Natural Gas Development and Production: LCRA has adopted the full-cost method of accounting for natural gas development and production. Under this method, all costs directly associated with acquisition and development of oil and gas properties are capitalized and depleted to expense over the life of proved reserves on a units-of-production method. For the years ended June 30, 2003 and 2002, depletion expense totaled approximately $494,598 and $703,080, respectively.

Contract Extension Settlement with Major Customers: According to the terms of a 1987 settlement with two major customers, their wholesale power contracts were extended to 2016 and in return, LCRA reimbursed the customers for their costs incurred in planning generating facilities. These costs are amortized over the period affected by the contract extension.

Impairment: LCRA evaluates the carrying value of its property, plant and equipment, and other long-lived assets by comparing the anticipated undiscounted future net cash flows associated with those assets to the related book value. For oil and gas properties, the remaining book value is compared to the total future estimated remaining reserves. In the case of assets to be disposed of, the fair value less cost to sell is compared to the related net book value.

Depreciation and Amortization: LCRA depreciates its utility plant in service on a straight-line basis over the estimated useful lives of the various classes of these assets. Annual depreciation expense, expressed as a percentage of average depreciable utility plant, was approximately 3 percent for both FY 2003 and 2002. Depreciation expense for FY 2003 and 2002 was approximately $69 million and $58 million, respectively.

The estimated useful life of property, plant and equipment by major category is as follows:

Hydraulic Production Plant	55 - 100 years
Steam Production Plant	35 - 40 years
Transmission Plant	35 - 65 years
General Plant	4 - 45 years
Irrigation Plant	15 - 100 years
Sewage and Water Treatment Plant	10 - 50 years
Telecommunication Facilities	10 - 25 years

Water rights are not amortized, but are evaluated annually to determine whether or not they are impaired, and whether or not an indefinite life is reasonable. Gains or losses created by refunding transactions are amortized over the shorter of the remaining terms of the new issues or the refunded bonds. Amortization of debt discount and premium is computed using the interest method over the life of the related bond issues. Amortization of debt issue cost is computed on the straight-line method over the life of the related bond issues, which approximates the interest method. Other deferred charges are amortized on a straight-line basis ranging from 20 to 40 years.

Statements of Cash Flows: All highly liquid investments (including investments in restricted funds) with an original maturity of three months or less are considered cash equivalents. Hedge transactions are classified in the same category as the item being hedged.

3. Financial Instruments

Deposits: Texas law and Board policy require that LCRA deposits be placed in financial institutions located in Texas. Such deposits must be collateralized with securities or surety bonds to the extent not insured by the Federal Deposit Insurance Corporation (FDIC). Securities that may be accepted as collateral are those authorized by the Public Funds Collateral Act. Accordingly, these are limited to obligations of the United States and its agencies and instrumentalities, obligations issued by public agencies with at least a rating of "A" by a nationally recognized rating agency, and any other security in which a public entity may invest under the Public Funds Investment Act.

At June 30, 2003 and 2002, LCRA deposits in excess of the amount insured by the FDIC were collateralized entirely by direct obligations of the United States and its agencies and instrumentalities. This collateral, amounting to approximately $7.5 million for June 30, 2003, and June 30, 2002, was held at the Federal Reserve Bank in the name of LCRA in an account separate and apart from the pledging banks.

Investments: LCRA's investment activities are governed by state statute (the Public Funds Investment Act), LCRA Board policy, internal operating procedures, and applicable bond resolutions. These governing instruments further restrict certain funds from participating in all investment types. At June 30, 2003 and 2002, LCRA investments consisted of securities of the United States and its agencies and instrumentalities, commercial paper, repurchase agreements, and a money market fund.

At June 30, 2003 and 2002, LCRA's investments, including cash equivalents, are insured or registered or are held by LCRA or by LCRA's agent in LCRA's name.

External Investments Pool: LCRA's investments included a money market fund with TexPool at June 30, 2003. The State Comptroller of Public Accounts oversees TexPool and the pool seeks to maintain a $1.00 value per share as required by the Texas Public Funds Investment Act. There are no minimum balance requirements for TexPool participants, and there is no limit on the number of accounts per participant.

Estimation of Fair Values: The carrying amount of all financial instruments is market value. Investment securities are valued at quoted market prices.

Type of Investment	June 30, 2003	June 30, 2002
	(Dollars in Thousands)	
Investments		
U.S. Government Securities	$ 141,108	$ 354,261
Commercial Paper	286	-
Cash Equivalents		
U.S. Government Securities	5,996	9,878
Commercial Paper	19,869	2,956
Money Market Fund	43,476	71,403
Totals	$ 210,735	$ 438,498

The carrying amount of receivables and certain other liabilities approximates market value due to the short maturity of these instruments. The estimated market value of bonds, notes and loans payable debt, based on current market yields, was $2.0 billion and $1.7 billion at June 30, 2003 and 2002, respectively.

Hedging Instruments: LCRA's natural gas activities are subject to price variability based on fluctuations in the market price as measured by changes in the delivered price of natural gas at various points in the system's natural gas grid. In an effort to mitigate the financial and market risk associated with these activities for the customers, LCRA routinely enters into natural gas swaps, futures contracts and options for other than trading purposes. This use of these types of transactions for the purpose of reducing exposure to price risk is generally referred to as hedging, with the results matching the financial impact of these transactions with the cash impact resulting from consummation of the transaction being hedged. These contracts are commitments to either purchase or sell designated quantities of a commodity at a specified price and at a specified date. These contracts may be settled in cash or through delivery of the specified commodity; however, in general, LCRA settles futures contracts in cash. LCRA holds highly liquid contracts with terms ranging up to 18 months. Initial margin requirements, which are flat fees per contract, and daily margin calls are met in cash or short-term liquid government securities. The financial impact of these futures contracts, the effects of which were substantially offset by the physical gas purchases, was to recognize a loss of approximately $1.8 million during 2003 and a gain of $4.0 million during 2002. Net income is not affected because this activity is a component of the fuel costs passed through to the customers and is included in the balance sheet fuel over- or under-recovery account.

All derivative instruments are recorded on the balance sheet at their fair value, which generally reflects the estimated amounts that LCRA would receive or pay to terminate the contracts. Changes in the fair value of the derivatives are recorded in current earnings. LCRA has not designated any of the derivatives as hedging instruments, as allowed by FASB 133.

Counterparties expose LCRA to credit-related losses in the event of nonperformance, but LCRA does not expect any counterparties to fail to meet their obligations given their high credit ratings.

4. Long-Term Debt

Changes during FY 2003 and balances at June 30, 2003, of long-term debt, including current portions are as follows (in thousands):

Series	May 15, From	To	Balance June 30, 2002	Increases	(Decreases)	Balance June 30, 2003	Amount Due in FY 2004
Series 2003A (Auction Rate)(1)	2030	2032	$	$50,000	$	$50,000	$
Series 2003B (5.00 %-5.375 %)	2005	2031		254,985		254,985	
Taxable Series 2001 (6.19 %-6.25 %)	2017	2032	358,875		(358,875)	-	
2002 (3.50 %-5.00 %)	2004	2031		120,965	(770)	120,195	1,060
2001A (4.00 %-5.375 %)	2004	2032	156,385		(2,100)	154,285	2,465
2001 (5.00 %-8.00 %)	2004	2031	97,635		(25)	97,610	560
1999A (5.50 %-5.875 %)	2014	2020	347,540			347,540	
1999B (5.875 %-6.00 %)	2007	2014	348,520			348,520	
1999C (6.82 %-7.02 %)	2004	2006	147,040		(35,510)	111,530	39,260
1999D (6.875 %-6.875 %) (2)	2003	2003	16,185			16,185	16,185
1999E (4.75 %-5.75 %)	2004	2011	25,660		(1,250)	24,410	1,250
1999F (5.50 %-5.75 %)	2008	2012	97,930			97,930	
1999G (3.50 %-4.85 %)(3) (4)	2003	2016	44,275		(1,215)	43,060	1,435
1999H (2.75 %-3.65 %)(3) (5)	2004	2011	8,565		(790)	7,775	890
1999I (3.00 %-4.15 %)(5)	2004	2020	3,775		(55)	3,720	80
TWDB Note Payable (6.05 %-6.10 %)	2020	2034	10,500			10,500	
TWDB Note Payable (5.63 %-5.78 %)	2023	2036		7,455		7,455	
Add: Unamortized Net Premium			12,180	17,620		29,800	648
Subtotal			1,675,065	451,025	(400,590)	1,725,500	63,833
Unamortized Net Losses on Refunded Debt			(232,868)	(55,913)	7,729	(281,052)	(13,195)
TSCorp Tax Exempt Commercial Paper (Variable Rate)			-	44,500		44,500	44,500
Taxable Commercial Paper (Variable Rate)			130,000	8,500	(137,000)	1,500	1,500
Tax-Exempt Commercial Paper (Variable Rate)			11,600	196,700	(110,300)	98,000	98,000
Total			$1,583,797	$644,812	$(640,161)	$1,588,448	$194,638

(1) Rate is reset at auction every 28 days
(2) Maturity Date is November 15
(3) Represents yield rate of Capital Appreciation Bonds
(4) Maturity Date is July 1
(5) Maturity is January 1

LCRA's Debt as of June 30, 2003, has been rated by Fitch, Moody's, and Standard & Poor's, respectively, as follows:

FITCH, MOODY'S AND STANDARD & POOR'S
Revenue Bonds: AA-, A1, and A (Uninsured)
Commercial Paper: F-1+, P-1, A-1
Transmission Services Contract Refunding Revenue Bonds Series 2003A & B: A, A2, A (Uninsured)
Transmission Services Commercial Paper: F-1, P-1, A-1+

Fiscal Year Ending June 30	Principal	Interest	Total
2004	$ 63,185	$ 90,740	$ 153,925
2005	53,185	87,507	140,692
2006	48,580	84,505	133,085
2007	66,085	81,602	147,687
2008	73,595	77,988	151,583
2009-2013	430,375	324,878	755,253
2014-2018	433,420	198,334	631,754
2019-2023	263,850	100,352	364,202
2024-2028	128,620	48,078	176,698
2029-2033	131,635	16,440	148,075
2034-2036	3,170	316	3,486
	1,695,700	1,110,740	2,806,440
Unamortized Net Premium	29,800	-	29,800
Total	$ 1,725,500	$ 1,110,740	$ 2,836,240

Bond and Note debt payments, excluding commercial paper, are as follows (in thousands):

New and Refunding Bonds: On May 7, 2003, LCRA issued $13.2 million of tax-exempt commercial paper to refund $13.2 million of taxable commercial paper. On October 4, 2002, LCRA issued $108 million of tax exempt commercial paper to refund $107.9 million of taxable commercial paper.

In March 2003 LCRA on behalf of the Corporation issued $50 million of Transmission Contract Auction Rate Refunding Revenue Bonds, Series 2003A and $255 million of Transmission Contract Refunding Revenue Bonds, Series 2003B. The bond proceeds, along with $91.9 million of construction funds and $22 million of Debt Service Reserve funds, were used to call (current refunding) the 2001 LCRA Transmission Services Revenue Construction Bonds. Although the refunding resulted in the recognition of a deferred accounting loss of $56 million, it reduced the future aggregated debt service payment by $231 million over the next 29 years. The deferred loss will be amortized over the life of the refunding issue. The refunding resulted in an economic gain of $40.9 million. The economic gain of the refunding $40.9 million represents the difference between the present value of the old debt service requirements (principal and interest payments) and the present value of the new debt service requirements and adjusted for additional cash paid. The interest rate on the Series 2003A bonds is variable and is reset at auction every 28 days. The Series 2003B bonds have a fixed coupon that pays semiannually. To calculate the economic gain of the transaction, it was necessary to assume a fixed interest rate on the $50 million Series A bonds. For the economic gain calculation, it was assumed that the variable rate bonds had ascending fixed rates of 2.5 percent from the delivery date to May 15, 2004, 3.0 percent from May 15, 2004 to May 15, 2005 and

3.5 percent from May 15, 2005 to the final maturity of the bonds. This conservative estimate was based on the 10-year Bond Market Association (BMA) average. The BMA index is a weekly high-grade market index of tax-exempt variable rate demand notes produced by Municipal Market Data Group. Currently the variable rate bonds have a coupon of 1.08 percent and the BMA index is 1.74 percent. If interest rates remain below the assumed rates in the calculation, the economic gain will be greater than $40.9 million. However, if rates rise above the assumed rates at any time, the economic gain will be less. For LCRA to realize an economic loss on the transaction, rates on the 2003A bonds would have to rise above 7.00 percent.

On October 15, 2002, LCRA issued $121 million of tax-exempt Revenue Bonds, Series 2002. The proceeds from the bond issue were used to refund $15.9 million of taxable commercial paper and $109.1 of tax-exempt commercial paper.

During FY 2003, LCRA issued $75.6 million of tax exempt commercial paper and $8.5 million of taxable commercial paper to fund various capital projects. In addition, LCRA on behalf of the Corporation issued $44.5 million to fund transmission-related capital projects.

On December 6, 2001, LCRA on behalf of the Corporation, issued $358.9 million of Transmission Contract Refunding and Improvement Revenue Bonds Taxable Series 2001. The proceeds from the bond issue were used to refund $36.6 million of taxable commercial paper and provide $291 million for capital project funding.

On December 6, 2001, LCRA issued $163.6 million of tax-exempt revenue bonds (Series 2001A). The proceeds from the bond issue were used to refund existing taxable commercial paper of $62.6 million, tax exempt commercial paper of $74 million and provide $29 million for capital project funding.

During FY 2002, LCRA issued $34.1 million of taxable commercial paper to fund various capital projects. In addition, LCRA issued $17 million tax-exempt commercial paper for water- and wastewater-related projects.

The principal associated with the bonds that have been previously refunded by LCRA but remain outstanding at June 30, 2003 and 2002, totals $510 million and $624 million, respectively. Proceeds from these refunding bond issues were escrowed to purchase U.S. government obligations that will mature at such time and yield interest as such amounts so that sufficient monies are available for payment of principal, premium, if any, and interest on the refunded bonds when due. None of these refunded bonds are included in LCRA's outstanding long-term debt at June 30, 2003 and 2002.

Optional Redemption: The Refunding Revenue Bonds, Series 2003A bonds, are subject to optional redemption by LCRA, upon the written direction of the Corporation, in whole or in part, on any Interest Payment Date immediately following an Auction Period, in Authorized Denominations at a Redemption Price equal to the principal amount thereof, plus accrued interest to the redemption date; provided, however, that in the event of a partial redemption of Bonds, the aggregate principal amount of Bonds which will remain outstanding must equal at least $10 million unless otherwise consented to by the related Broker-Dealers.

The Refunding Revenue Bonds, Series 2003B bonds that mature on and after May 15, 2013, are redeemable at the option of LCRA, on May 15, 2012, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and, if in part, the particular Bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such Bonds to be redeemed, plus accrued interest to the redemption date.

The Refunding Revenue Bonds, Series 2002 bonds that mature on and after May 15, 2014, are redeemable at the option of LCRA, on May 15, 2013, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and, if in part, the particular Bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Refunding Revenue Bonds, Series 2001A bonds maturing on and after May 15, 2012, are redeemable at the option of LCRA, on May 15, 2011, or on any date thereafter, in whole or in part, in principle amounts of $5,000 or integral multiples thereof at a redemption price equal to the principal amount of such Bonds to be redeemed, plus accrued interest to the redemption date.

The Refunding Revenue Bonds, Series 2001 bonds maturing on or after May 15, 2011, are callable at the option of LCRA for a period of one year beginning on May 15, 2010, at the price of 101 percent plus accrued interest. These bonds are also callable at LCRA's option on May 15, 2011, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof at the price of 100 percent plus accrued interest.

The Series 1999A Bonds, Series 1999B Bonds, Series 1999E Bonds and Series 1999F Bonds maturing on or after May 15, 2010, are callable at the option of LCRA for a period of one year beginning on May 15, 2009, at the price of 101 percent plus accrued interest. These bonds are also callable at LCRA's option on May 15, 2010, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof at the price of 100 percent plus accrued interest.

LCRA bonds outstanding as of June 30, 2003 and 2002 are Parity Debt under the Master Resolution and are collateralized by a lien on and pledge of the Pledged Revenues. Pledged Revenues are defined to include all amounts received pursuant to Contractual Commitments and all lawfully available funds of LCRA. The LCRA Transmission Contract Revenue Bonds Series 2003A and 2003B are solely secured by the obligation of the Corporation to make Installment Payments to LCRA from the Net Revenues of the Corporation (subordinate to first lien on Gross Revenues securing the Purchase Price Payments under the Initial Contractual Commitment). Net revenues are defined as Gross Revenues less any Purchase Price Payments due to LCRA and less the Operating and Maintenance Expenses during the period.

Commercial Paper: LCRA is authorized to issue up to $350 million in short-term tax-exempt obligations and $350 million in short-term taxable obligations to provide system improvements, acquire fuel reserves and facilities, refund outstanding debt, and pay interest on outstanding debt. Outstanding notes were issued in denominations of $100,000 or more with maturities of 270 days or less from their respective issue dates. The Commercial Paper program expires May 15, 2020. It is management's intent to periodically renew outstanding commercial paper upon maturity.

LCRA maintains credit facilities with banks that provide available borrowings sufficient to pay the principal of the notes. LCRA has entered into a revolving credit agreement with a bank that is obligated to lend LCRA amounts of up to $150 million for the tax-exempt Series. Of the $150 million, $75 million of this agreement expires on October 15, 2003, and the remaining $75 million expires on June 28, 2004. LCRA has an additional revolving credit agreement with a bank that is obligated to lend LCRA aggregate amounts of up to $100 million for the Taxable Series. Of the $100 million, $60 million of this agreement expires on October 31, 2003, and the remaining $40 million expires on November 1, 2005. Failure by LCRA to meet certain restrictive covenants could result in the withdrawal of the banks' commitments for the unused lines of credit. There were no borrowings under any of the agreements as of June 30, 2003.

The Corporation is authorized to issue tax exempt commercial paper notes in an aggregate amount of principal and interest not to exceed $150 million in short-term tax-exempt obligations. Outstanding notes were issued in denominations of $100,000 or more with maturities of 270 days or less from their respective issue dates. The Commercial Paper program expires May 15, 2042. It is management's intent to periodically renew outstanding commercial paper upon maturity.

The Corporation maintains a $150 million credit facility with a bank that provides available borrowings to pay the principal and interest of the commercial paper notes. Of the $150 million total, $137 million is available to pay the principal of the notes and $13 million is available to pay interest on the notes. The credit facility has an expiration date of April 29, 2006. Failure by LCRA or the Corporation to meet certain restrictive covenants could result in the withdrawal of the banks' commitments for the unused lines of credit. There were no borrowings under the agreement as of June 30, 2003.

Conduit Debt: At June 30, 2003, there are two series of Pollution Control Revenue Bonds outstanding with an aggregate principal amount payable of $50 million. The bonds mature in April 2027 and 2030, $25 million each year. The bonds were issued to finance the costs of acquiring, constructing and improving certain solid waste and sewage disposal facilities of a private-sector entity. LCRA executed an installment sale agreement with the entity whereby the proceeds of the bonds were used to finance a portion of the project. In turn, the entity agreed to make payments sufficient to pay, when due, the principal and interest on the bonds. The bonds do not constitute a debt or pledge of LCRA and accordingly have not been reported in the accompanying financial statements.

Mandatory Redemption: The following term bonds will be subject to mandatory sinking fund redemption prior to maturity on May 15 in each of the following years and in the following amounts at the redemption price equal to the principal amount thereof plus accrued interest to the redemption date, with the particular Bonds or portions thereof to be redeemed, to be selected and designated by LCRA (provided that a portion of a Bond may be redeemed only in an integral multiple of $5,000):

Series 2003A

Term Bond Maturing May 15, 2032

Redemption Date	Amount
May 15, 2030	$3,675,000
May 15, 2031	12,325,000
May 15, 2032	34,000,000

Series 2003B

Term Bond Maturing May 15, 2031

Redemption Date	Amount
May 15, 2026	$10,985,000
May 15, 2027	10,985,000
May 15, 2028	10,985,000
May 15, 2029	10,985,000
May 15, 2030	7,310,000
May 15, 2031	8,040,000

Series 2002

Term Bond Maturing May 15, 2031

Redemption Date	Amount
May 15, 2025	$780,000
May 15, 2026	815,000
May 15, 2027	6,425,000
May 15, 2028	6,460,000
May 15, 2029	6,545,000
May 15, 2030	8,630,000
May 15, 2031	8,665,000

Series 2001A

Term Bond Maturing May 15, 2026

Redemption Date	Amount
May 15, 2022	$7,380,000
May 15, 2023	6,315,000
May 15, 2024	6,635,000
May 15, 2025	6,975,000
May 15, 2026	7,320,000

Series 2001A

Term Bond Maturing May 15, 2032

Redemption Date	Amount
May 15, 2029	$4,500,000
May 15, 2030	4,500,000
May 15, 2031	4,500,000
May 15, 2032	4,505,000

Series 2001

Term Bond Maturing May 15, 2031

Redemption Date	Amount
May 15, 2027	$1,810,000
May 15, 2028	1,900,000
May 15, 2029	2,000,000
May 15, 2030	2,100,000
May 15, 2031	2,210,000

Series 2001

Term Bond Maturing May 15, 2026

Redemption Date	Amount
May 15, 2024	$10,885,000
May 15, 2025	11,210,000
May 15, 2026	3,330,000

Series 1999A

Term Bond Maturing May 15, 2021

Redemption Date	Amount
May 15, 2020	$47,535,000
May 15, 2021	27,430,000

5. Retirement and 401(k) Plans and Post-Employment Benefits

Retirement Plan: The Lower Colorado River Authority Retirement Plan (Plan) is a single-employer defined benefit pension plan and is administered by the LCRA Retirement Plan Board of Trustees. The Plan issues a stand-alone financial report that is available from the Board of Trustees. As a result of the amendments and restatements of the Plan during FY 2002, the Plan has submitted an application for a determination concerning the qualification of the Plan to the Internal Revenue Service. The previous Plan had received a favorable determination letter from the Internal Revenue Service and was exempt from federal income taxes, under the appropriate section of the Internal Revenue Code. LCRA anticipates that the restated Plan also will qualify for tax-exempt status.

The Plan provides retirement, death and disability benefits. Employees are not required to contribute to the Plan although the Plan retains employee contributions and associated liabilities for years prior to April 1, 1984, when the plan did require employee contributions. Amendments to the Plan are made only with the authority of the LCRA Board of Directors.

Effective January 1, 2002, the Plan was amended to provide cash balance benefit features. Active employees as of December 31, 2001, were given the opportunity to remain participants under the pension provisions (Retirement Program A) or to elect to become participants under the cash balance provisions (Retirement Program B). Employees hired prior to January 1, 2002, who elected Program A and who worked at least 1,000 hours per annum were eligible plan participants in the plan upon completion of six months of service and become 100 percent vested after three complete years of service. Any employee that was employed by LCRA prior to January 1, 2002, and who elected Program B were eligible to participate in the cash balance benefit plan as of January 1, 2002, and will be 100 percent vested after three complete years of service. Any employee hired after January 1, 2002, who works at least 1,000 hours per annum will automatically be enrolled in Program B, will be eligible to participate in the plan after three consecutive months of service and will be 100 percent vested after three complete years of service.

Under Program A, employees may retire with unreduced accrued benefits at age 65 with five years of service, or when the total of their age and service equals 80. Retirement benefits are based on years of service and salary levels at retirement. Under Program B, the value of the employee's account will be adjusted by increasing the balance by 4 percent of the employee's compensation paid per year. The value of the account earns an annual interest rate of 7 percent. The retirement benefit for an employee who has reached their normal retirement date is a single lump sum payment equal to the participant's accrued balance or monthly payments as provided by the Plan.

LCRA makes contributions to the Plan that are determined actuarially as of each of the Plan's valuation dates. The required employer contribution for FY 2003 was 8.39 percent of total employee payroll. The current recommended employer contributions for FY 2004 are 8.34 percent of total employee payroll. The costs of administering the Plan are paid by the Plan and are considered in the determination of the required employer contribution rate.

Changes in plan provisions that impacted funding were an ad hoc cost of living adjustment to retirees effective January 1, 2002, an increase in maximum benefits and compensation limitations imposed under the Internal Revenue Code, and revised assumptions for withdrawal and retirement due to cash balance benefits. In addition, the recommended contribution amount was based on a 16-year amortization of the unfunded actuarial accrued liability. The prior year's contribution amount was based on a 15-year amortization of the unfunded actuarial accrued liability.

Schedule of Funding Progress

Actuarial Valuation Date	(1) Actuarial Value of Assets[1]	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll[2]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
April 1, 2001	$213,678,014	$232,271,046	92.0	$18,593,032	$ 91,709,001	20.3
April 1, 2002	216,437,489	279,453,512	77.5	63,016,023	107,945,731	58.4
April 1, 2003	225,914,808	303,162,298	74.5	77,247,490	124,210,361	62.2

1 Actuarial value recognizes asset gains and losses over a 5-year period.
2 Based on projected payroll as of valuation date.

Three-Year Annual Pension Cost (APC) Trend Information

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation (NPO)[1]
June 30, 2001	$ 8,557,439	100 %	$ -
June 30, 2002	9,331,879	100	-
June 30, 2003	10,472,737	100	-

1 NPO is zero since employer contributions have been equivalent to actuarially determined funding requirements for all fiscal years beginning December 15, 1986.

401(k) Plan: The LCRA's Retirement Benefits Board of Trustees administers this single-employer defined contribution plan. The Plan is accounted for on the accrual basis and all assets are recorded at fair value. The Plan has received a favorable determination letter from the Internal Revenue Service and is exempt from federal income taxes, under the appropriate section of the Internal Revenue Code.

Employees are eligible to participate in the Plan following the completion of three months of service. Eligible employees who elect to participate in the Plan may contribute a minimum of 1 percent and a maximum of 100 percent of their annual compensation, not to exceed $12,000 in 2003. Employees age 50 or over may contribute an additional $2,000 in 2003. Effective January 1, 2002, employees under Program A of the Pension Plan receive an LCRA matching contribution equal to 25 percent of the first 4 percent of compensation that the employee had elected to contribute to the plan. Under Program B of the Pension Plan, LCRA provides matching contributions equal to 100 percent of the first 4 percent of compensation and 50 percent of the next 2 percent of compensation that the employee has elected to contribute to the plan. Contributions made by both the employer and employee are vested immediately. Amendments to the Plan are made only with the authority of the LCRA Board.

Contributions by LCRA and the employees for the years ended June 30, 2003 and 2002, are presented below:

	2003	2002
	(Dollars in Thousands)	
Employer contributions	$1,407	$ 955
Employee contributions	6,326	5,561

Post-Employment Benefits: LCRA provides post-employment health care benefits to retirees and to terminated employees eligible for such benefits. LCRA contributes approximately 80 percent of the retirees' health plan premiums, but makes no contributions for terminated employees. These contributions are recognized currently as premiums are paid and totaled approximately $3.6 million and $3.1 million for FY 2003 and 2002, respectively. At June 30, 2003, there were 541 retirees and 26 terminated employees eligible for such benefits.

6. Gas Production and Development Activities

LCRA provides a portion of expected annual gas requirements through the ownership of gas reserves. LCRA operates a producing field, Rocky Creek, in Fayette County, Texas, with an average 52 percent ownership interest in 12 producing gas wells. Based on an analysis as of July 1, 2003, by an independent engineering firm, the estimated proved remaining reserves associated with the Rocky Creek program were 5,658 barrels of oil and 3.131 billion cubic feet of gas, net to LCRA's interest. Production for FY 2003 and 2002, for the Rocky Creek program was approximately 2,124 and 1,875 barrels of oil and 0.518 and 0.536 billion cubic feet of gas, respectively. As of June 30, 2003, LCRA had incurred capital costs of approximately $25.8 million for the Rocky Creek program.

7. Commitments and Contingencies

Construction: LCRA's construction budget provides for capital improvement projects with cash requirements through FY 2008 of approximately $2.3 billion, including $504.8 million in FY 2004.

Customer Transmission Leases: LCRA leases and operates certain transmission facilities and equipment owned by 12 customers. The leases are the basis for LCRA to provide the same service to all of its customers and for the cost of such service to be shared by all customers on a consistent basis. Payments for the leased facilities vary from year to year and are based on the original cost of the facilities, adjusted for depreciation, and are updated annually to reflect additions, retirements and depreciation. The terms of the leases are perpetual but may be terminated by LCRA or the lessors upon five years written notice. Lease expenses for FY 2003 and 2002 totaled $9.7 million and $11.9 million, respectively.

Coal and Rail Contracts: For FY 2003, approximately 43 percent of the fuel requirements for the Fayette Power Project units 1 and 2 (FPP 1 and 2) were supplied under two multiyear contracts with mines in Wyoming's Powder River Basin. One contract has a fixed price per year and is for a volume that is subject to LCRA's discretion within a specified range. Under the second contract, which began mid-year and has a fixed price for its entire term, the annual volume is dependent upon railroad performance. Combined, these two multiyear contracts will provide over 50 percent of the annual fuel requirements for FPP 1 and 2. During FY 2003 and 2002, LCRA's purchases totaled $6.9 million and $4.6 million, respectively, under the multiyear contracts.

For FY 2003, approximately 73 percent of the fuel requirements for Fayette Power Project Unit 3 (FPP 3) were supplied under three multiyear contracts with mines in Wyoming's Powder River Basin. One contract, that expired at the end of calendar year 2002, had a fixed price per year. The other contract, that also expired at the end of the calendar year, had a portion of the price fixed and a portion of the price subject to semi-annual adjustment based on changes in a market basket of published indexes. The volume of coal purchased under both contracts was subject to LCRA's discretion, within a specified range. The third contract, that began on January 1, 2003, and is intended to replace the two expired contracts, has a fixed price for its entire term. The annual volume under this contract is subject to LCRA's discretion, within a specified range. In FY 2004, this contract will supply approximately 50 percent of FPP Unit 3's coal needs. LCRA's purchases under these contracts totaled $6.0 and $5.6 million for FY 2003 and 2002, respectively.

LCRA and Austin Energy have entered into a multiyear transportation agreement with two railroad carriers to ship Powder River Basin coal to all three units at FPP. LCRA's share of the costs incurred under these agreements was approximately $46.8 million and $51.1 million in FY 2003 and FY 2002, respectively.

Natural Gas: LCRA has a long-term contract to provide a portion of the natural gas requirements to its gas-fired generation units, through June 2005. LCRA is committed to buy a fixed amount of gas annually. LCRA's purchases under this contract totaled $83.5 million for FY 2003 and $48.4 million for FY 2002, based on price indices.

Purchased Power: LCRA has one energy contract with a power marketer to provide 100 MW of firm electric energy for the period June 1 through September 30, 2003 thru 2005. The total minimum commitment from this contract is $5.0 million plus energy payments.

Wind Power: LCRA is committed to purchase 35 MW of wind power capacity from Texas' first commercial wind power plant, the Texas Wind Power Project. LCRA in turn sells 10 MW of this capacity to Austin Energy. During FY 2003, LCRA purchased 30 MW of wind power capacity from the Delaware Mountain Wind Farm. In FY 2003, LCRA also purchased 51 MW of wind power capacity from the Indian Mesa Wind Farm. Total wind power capacity is 116 MW, of which 106 MW is for LCRA and its customers. LCRA expects to pay approximately $9.1 million in FY 2004 for purchases from all wind power plants, increasing to approximately $12.0 million in FY 2014.

Insurance Self-Funding: In addition to the purchase of commercial insurance, LCRA has established a Self-Insurance Program to finance risk of loss. LCRA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. LCRA self-funds each worker's compensation claim up to $250,000 and each general liability claim up to a maximum of $2 million dependent on the insurance policy deductible. Self-funding of property damage varies from $100,000 to $5 million depending on the insurance deductible. Any claims or damages above self-funded amounts are covered by commercial general excess liability insurance. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. Based on an insurance risk analysis, LCRA carries no commercial insurance on transmission lines.

Accrued Liability: The accrued liability presented in the table below is associated with obligations resulting from environmental regulations established by federal, state and local authorities. Although the effect of future environmental regulations upon existing and proposed facilities and operations cannot be determined, LCRA monitors proposed changes and takes actions necessary to mitigate adverse impacts to its operations. At the present, no materially adverse impacts are anticipated. The environmental accrual amount is based upon LCRA's assessment and analysis of identified sites.

Changes in the accrued liability amount for FY 2002 and 2003 were as follows:

	Balance Beginning of Year	Changes in Estimates	Payments	Balance End of Year
FY 2002	$4,605,000	$209,000	$892,000	$3,922,000
FY 2003	3,922,000	-	1,131,000	2,791,000

Litigation: There are various lawsuits in which LCRA is involved. LCRA's management, including its General Counsel, estimates that the potential claims against LCRA not covered by insurance resulting from such litigation would not materially affect LCRA's financial position, results of operations and cash flows.

8. Capital Asset Activity

Capital asset activity for the year ended June 30, 2003, was as follows:

(Dollars in Thousands)	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation	Ending Balance
Utility plant in service:						
Depreciable assets	$1,910,545	$	$ 423,941	$ (8,217)	$	$2,326,269
Nondepreciable assets	23,932		1,754	-		25,686
Total Utility Plant in service	1,934,477	–	425,695	(8,217)		2,351,955
Construction work in progress:						
Nondepreciable assets	383,415	323,275	(428,861)			277,829
Oil and gas property:						
Depreciable assets	28,158					28,158
Other physical property:						
Depreciable assets	11,230		6,052			17,282
Nondepreciable assets	12,603		(615)			11,988
Total Other physical property	23,833	–	5,437	–		29,270
Less accumulated depreciation	(834,490)	–	–	4,004	(68,829)	(899,315)
Capital assets, net	$1,535,393	$ 323,275	$ 2,271	$ (4,213)	$(68,829)	$1,787,897

9. Segment

Governments that use enterprise fund accounting and reporting standards to report their activities are required to present segment information. A segment is an identifiable activity reported as or within an enterprise fund or an other stand-alone entity that has one or more bonds outstanding with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required to be accounted for separately. An external party should impose the requirements for separate accounting. The LCRA Transmission Services Corporation (Corporation) qualifies as a segment.

The Corporation was created by LCRA to comply with the requirements of SB 7. LCRA transferred all of the assets of its regulated electric transmission and transformation businesses to the Corporation effective on January 1, 2002.

Segment information for the Corporation:

LCRA Transmission Services Corporation - Segment Information Balance Sheets

(Dollars in Thousands)	June 30, 2003	June 30, 2002
Assets		
Current Assets		
Cash and cash equivalents	$ 25,788	$ 25,953
Unrestricted Investments	5,066	-
Receivables, net	11,313	10,116
Accrued interest receivable	51	-
Total current assets	42,218	36,069
Long-term Assets		
Restricted cash and cash equivalents	251	24,736
Restricted investments	-	203,087
Accounts receivable from LCRA - restricted	12,178	21,958
Capital assets:		
Utility plant in service	705,667	463,002
Construction work in progress	69,886	117,862
Less accumulated depreciation	(147,020)	(135,892)
Capital assets, net	628,533	444,972
Deferred charges:		
Costs to be recovered from future revenues	18,146	12,375
Issue costs	10,214	12,007
Total deferred charges	28,360	24,382
Total long-term assets	669,322	719,135
Total Assets	$ 711,540	$ 755,204
Liabilities		
Current Liabilities		
Accounts payable to LCRA	$ 4,640	$ 11,968
Accounts payable	5,079	3,937
Bonds, notes, and loans payable	59,381	16,797
Total current liabilities	69,100	32,702
Long-term Liabilities		
Accounts payable to LCRA from Construction Fund	21,062	13,225
Accounts payable from restricted assets	30,653	25,150
Bonds, notes, and loans payable	506,807	610,817
Total long-term liabilities	558,522	649,192
Total liabilities	627,622	681,894
Equity		
Invested in capital assets, net of related debt	50,818	52,817
Unrestricted	33,100	20,493
Total equity	83,918	73,310
Total Liabilities and Equity	$ 711,540	$ 755,204

LCRA Transmission Services Corporation - Segment Information Revenues, Expenses and Changes in Equity

(Dollars in Thousands)	Year Ended, June 30, 2003	Six Months Ended June 30, 2002
Operating Revenues		
Transmission	$ 93,322	$ 35,274
Transformation	10,473	7,803
Other	90	76
Total operating revenues	103,885	43,153
Operating Expenses		
Operations	50,192	23,930
Maintenance	9,023	2,848
Depreciation	14,537	5,469
Total operating expenses	73,752	32,247
Operating income	30,133	10,906
Non-Operating Revenues (Expenses)		
Interest income	4,030	2,979
Loss on disposition of property	(1,503)	-
Interest on debt	(23,328)	(12,631)
Other expenses	(3,150)	-
Total nonoperating revenues (expenses)	(23,951)	(9,652)
Income before prior costs recovered from revenues and transfers in	6,182	1,254
Cost To Be (Prior Costs) Recovered from Revenues	5,771	(2,206)
Income (Loss) before transfers in	11,953	(952)
Transfers In (Out)	(1,345)	74,262
Change in Equity	10,608	73,310
Total Equity, Beginning of Period	73,310	-
Total Equity, End of Period	$ 83,918	$ 73,310

LCRA Transmission Services Corporation - Segment Information
Statements of Cash Flows

(Dollars in Thousands)	Year Ended June 30, 2003	Six Months Ended June 30, 2002
Cash Flows From Operating Activities		
Cash received from customers	$ 90,953	$ 35,090
Cash payments for goods and services	(59,133)	(33,798)
Net cash provided by operating activities	31,820	1,292
Cash Flows From Noncapital Financing Activities		
Working capital transfer from LCRA	-	14,562
Other income (expenses)	(3,150)	-
Net cash provided by (used in) noncapital financing activities	(3,150)	14,562
Cash Flows From Capital and Related Financing Activities		
Expenditures for property, plant and equipment	(192,459)	(78,551)
Proceeds from long-term debt issues	317,757	358,875
Proceeds from commercial paper	44,500	-
Principal payments on long-term debt	(29,679)	(13,162)
Interest paid	(1,170)	(1,742)
Cash received on sale of assets	2,533	-
Accounts receivable from LCRA	14,400	(21,958)
Payment to refund debt and related issue costs	(411,102)	(8,385)
Net cash provided by (used in) capital and related financing activities	(255,220)	235,077
Cash Flows From Investing Activities		
Sale and maturity of investment securities	405,046	257,036
Purchase of investment securities	(207,053)	(458,409)
Interest received	3,907	1,131
Net cash provided by (used in) investing activities	201,900	(200,242)
Net Increase (Decrease) in Cash and Cash Equivalents	(24,650)	50,689
Cash and Cash Equivalents, Beginning of Year	50,689	-
Cash and Cash Equivalents, End of Year	$ 26,039	$ 50,689

LCRA Transmission Services Corporation - Segment Information
Statements of Cash Flows

(Dollars in Thousands)	Year Ended June 30, 2003	Six Months Ended June 30, 2002
Reconciliation of Operating Income to Net Cash Flows provided by Operating Activities:		
Operating income	$ 30,133	$ 10,906
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	14,537	5,469
Changes in assets and liabilities:		
Accounts receivable - trade	(1,197)	(7,407)
Other current assets	-	33
Current liabilities	(1,813)	(7,709)
Other deferred charges and long-term liabilities	(9,840)	-
Net cash provided by operating activities	$ 31,820	$ 1,292
Noncash Investing Activities		
Investment market adjustments	$ 410	$ 1,382
Noncash Financing for Property, Plant and Equipment Expenditures		
Transfer of net property, plant and equipment and other assets related to the contractual commitment with LCRA	$ (3,980)	$ 444,769
Capital assets financed through short-term payables	$ 15,444	$ 35,634
Capitalized interest	$ 3,992	$ 2,741

LCRA Board of Directors*

ROBERT W. LAMBERT, CHAIR
F. SCOTT LaGRONE, VICE CHAIR
RAY A. WILKERSON, SECRETARY
G. HUGHES ABELL
PAMELA R. AKINS
CONNIE GRANBERG
ANN E. JONES
PATRICIA J. KIRK
GALE LINCKE
ROBERT K. LONG, SR.
JOHN H. MATTHEWS
ARTHUR J. MILBERGER
CHARLES R. MOSER
ROSEMARY RUST

The Board of Directors is composed of 15 members appointed by the governor, (One vacancy existed on the Board as of June 30, 2003.) Directors represent counties in the electric and water service areas. The directors meet regularly to set strategic corporate direction for the general manager and the staff, to approve projects and large expenditures, and to review progress on major activities and industry issues.

*As of June 30, 2003.

LCRA Executive Management

JOSEPH J. BEAL, P.E.,
General Manager

RICK BLUNTZER,
Deputy General Manager,
External Affairs

DONNA K. BRASHER,
Deputy General Manager,
Community Services

JOHN M. MEISMER,
Deputy General Manager and
Chief Financial Officer

MARCUS PRIDGEON,
Deputy General Manager,
Energy Services

PAUL D. THORNHILL, P.E.,
Deputy General Manager,
Water Services

BRENDA COLEMAN-BEATTIE,
Senior Advisor to Deputy
General Managers

PHILIP J. KOLMAN, General Auditor

THOMAS G. MASON,
General Counsel

HEATHER BAILEY, Executive Manager –
Business Management and Asset Development,
Transmission Services

ROBERT CULLICK, Executive Manager,
Customer Service and Communications

KAREN FARABEE, Executive Manager,
Human Resources

BOB FOSTER, Executive Manager,
Corporate Safety

RANDY J. GOSS, Executive Manager,
Water and Wastewater Utility Services

CHRISTOPHER KENNEDY, Executive Manager,
Corporate Services and Chief Information Officer

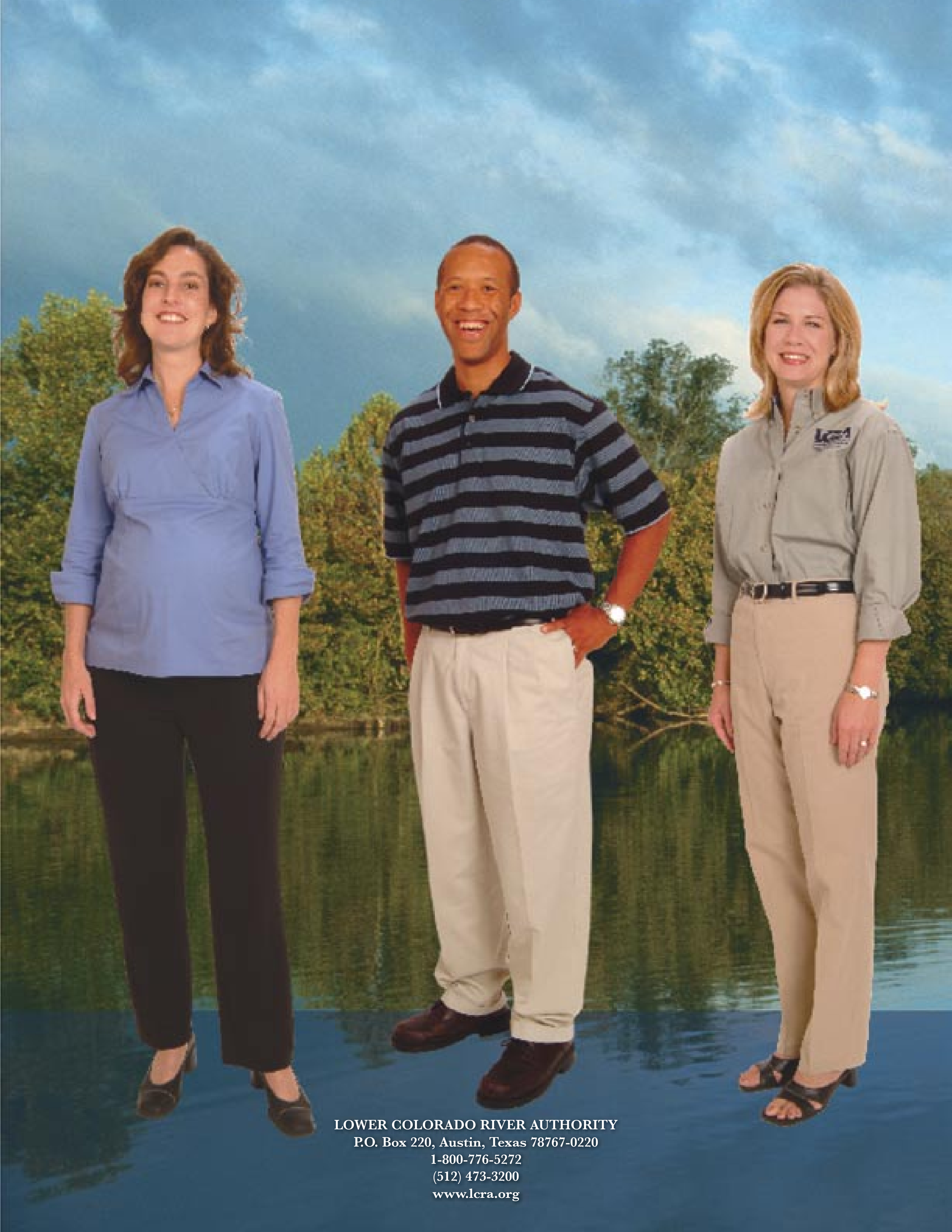
MICHELE MANDELL, Executive Manager,
Federal Affairs

FRANK C. McCAMANT, Executive Manager,
Business Development

ROSS PHILLIPS, Executive Manager – Operations,
Transmission Services

DUDLEY C. PILAND, JR., Executive Manager,
Wholesale Power Services

SUZANNE ZARLING, Executive Manager,
Community Services



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