



LCRA FY 2011 Business Plan



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Contents

Introduction	1
Frequently Asked Questions.....	3
LCRA Strategic Goals and Objectives.....	5
Consolidated Look at Revenues and Expenses	6
Key Topics.....	8
Wholesale Power Services.....	13
Transmission Services.....	17
Water Services.....	22
Community Services.....	27
Corporate Services.....	31
LCRA's Business Plans: A Look Back.....	35

This Business Plan presents a long-term vision for LCRA and affiliates and a summary of their operational plans. The Business Plan should not be used as a basis for making a financial decision with regard to LCRA or any of its securities or other obligations. This Business Plan is intended to satisfy the official intent requirements set forth in Section 1.150-2 of the Treasury Regulations. For more complete information on LCRA and its obligations, please refer to LCRA's annual financial report, the official statements relating to LCRA's bonds, and the annual and material event disclosures filed by LCRA with the nationally recognized municipal securities information repositories and the State Information Depository pursuant to Rule 15c2-12 of the Securities and Exchange Commission. The information in this report and each of the documents referred to speaks only as of its date. Copies of the documents referred to above or elsewhere in this report may be obtained from James Travis, Treasurer, LCRA, 3700 Lake Austin Boulevard, Austin, Texas 78703.



Introduction

The fiscal year (FY) 2011 business plan for the Lower Colorado River Authority stands in stark contrast to what the organization's business plan would have looked like when LCRA was created 75 years ago.

In 1935, LCRA's sole challenge was to acquire title to the abandoned Buchanan Dam project site and secure the federal funds that had been promised to finish the dam. Besides a nine-member Board of Directors, the organization had one employee – a stenographer. Its offices were a meeting room in the Travis County Courthouse in Austin. Its operating funds consisted of a \$5,000 loan from the State of Texas.

Seventy-five years later, LCRA has projected revenues of \$1.3 billion for FY 2011. LCRA's operations include a network of power plants, transmission facilities, water and wastewater utilities, dams, lakes, parks and a work force of almost 2,300 that provide energy, water and community services to the people of Texas.

As its service territory has grown and changed through the decades, so has LCRA in order to meet its customers' needs. LCRA has continued to deliver its services through cycles of floods and droughts and economic expansions and recessions. For all the changes, LCRA has been a constant, dependable and stable servant for this region. That is a role LCRA plans to continue. This business plan shows how LCRA will carry out that role during the 2011 fiscal year.

Economic Conditions and the FY 2011 Plan

Reflecting the current economic conditions, the FY 2011 Business Plan uses assumptions for growth and sales of LCRA's energy and water services that reflect slight economic improvement compared to conditions a year ago. The FY 2010 Business Plan assumed that overall demand for LCRA's electric and water utility services would be flat, if not lower,

during FY 2010 compared to prior years. The FY 2011 plan improves on these projections and includes slight growth in demand for LCRA's electric generation and water and wastewater services. This plan anticipates a slight decrease in demand for transmission services in the next year, which is the result of assuming a more normal summer compared to the extremely hot conditions of last summer.

Projected nonfuel revenues are anticipated to be \$683.7 million for FY 2011, which is \$5.3 million (0.8 percent) higher than the FY 2010 budget. And LCRA projects a 1.32x debt service coverage ratio in FY 2011, compared to the 1.37x debt service coverage budgeted in FY 2010.

Preparing for the Future

Generation Resource Planning: LCRA's goal is to provide long-term generation resources that are reliable and cost-effective, while also developing renewable-energy and conservation options that are attractive to wholesale customers. A key strategy is to anticipate variables – such as the effects of possible cap-and-trade legislation, and uncertainties about future load demand and fuel and power prices – to protect LCRA and its customers.

Water Resource Strategy: LCRA is enhancing the Water Supply Resource Plan to incorporate water supply funding strategies and agricultural options.

Low-Cost Provider: LCRA continues to look for ways to deliver its services in a cost-effective manner. For the next 75 years, LCRA will work to continue the tradition of cost-based services in partnership with customers and communities. LCRA's business units examine their operations to identify improvement opportunities, such as adapting innovative methods and technologies that can streamline delivery in processes or services.

Features of the FY 2011 Business Plan

The FY 2011 Business Plan is designed to show and explain, through text, tables and graphics, the factors that guide LCRA's operations and affect cost of service and other factors:

- "Sources and Uses" graphs – for total LCRA as well as for each business unit – that show the major sources of revenues and uses of these funds.
- The "Key Topics" section includes information about rates for electric, water and community services, the major sources and uses of the Public Service Fund, staffing levels, and other issues that affect LCRA's costs of providing services.

- Sections for LCRA's business units include information on how each unit contributes to LCRA's public-service mission, major changes from FY 2010, major issues anticipated for FY 2011, and revenue and expense information.

If you have questions or comments after reviewing this plan, please contact LCRA's general manager, Thomas G. Mason, by phone at 1-800-776-5272, Ext. 3283, or by e-mail at Thomas.Mason@lcra.org.



Frequently Asked Questions

Who governs LCRA?

LCRA is governed by a 15-member Board of Directors appointed by the governor and confirmed by the Texas Senate. LCRA is accountable to its customers and a number of stakeholders, including the Texas Legislature that created it. The Board chair is selected by the governor and communicates regularly with state policy makers and stakeholders. LCRA's energy, water and community services operations fall under a variety of state, federal and local regulatory authorities. As a public entity, LCRA conducts its business and sets policies in open meetings and is subject to open records laws. LCRA neither collects nor receives taxes but must operate on the rates and fees it charges for its services.

Do state or local governments receive any tax revenues from LCRA or its related entities?

Yes. Although LCRA, as a political subdivision of the state, is exempt from paying state and local taxes, the Board created a nonprofit transmission corporation and energy affiliates that pay state and local sales and property taxes. GenTex Power Corporation, which owns the Lost Pines 1 Power Project in Bastrop County, and LCRA Transmission Services Corporation (TSC), which now owns and develops all LCRA-related transmission operations and infrastructure, through February 2010 paid more than \$107 million in state and local sales and property taxes.

What is the status of negotiations with wholesale power customers?

As of April 2010, 32 of LCRA's 43 wholesale electric customers had committed to continue their wholesale power relationships with LCRA until 2041. These customers represent about 60 percent of LCRA's total energy sales. LCRA continues discussions with the remaining customers and expects that some of those customers will choose to continue their

LCRA relationships past the 2016 expiration of their current agreements. Customers are expected to indicate by the end of June 2011 whether they will continue this relationship, consistent with the provisions of the current agreements.

What is the mission of LCRA's nonprofit transmission corporation?

LCRA TSC works with other transmission providers, distribution providers and electric generators to provide reliable and cost-effective electric transmission services in Central Texas and throughout the Electric Reliability Council of Texas region.

What is CREZ, and why is LCRA involved?

CREZ, or Competitive Renewable Energy Zones, is an initiative overseen by the Public Utility Commission of Texas (PUC), as authorized by the Texas Legislature. CREZ is intended to significantly increase the use of renewable energy in Texas. Through its CREZ process, the PUC has designated zones in West Texas and the Panhandle as desirable for wind power generation. In addition, the PUC has selected, through a competitive process, certain transmission service providers to build transmission lines that connect these zones to the existing transmission grid to facilitate bringing additional wind power to market. As a result of this process, the PUC has directed LCRA TSC to build or upgrade about 600 miles of CREZ-related transmission and substation infrastructure.

What is the status of the drought?

The lower Colorado River basin has suffered the effects of a two-year drought that, at times, surpassed previous droughts in measures of intensity such as record-hot summer temperatures and record-low inflows into the Highland Lakes. As of April 2010, conditions had improved signifi-

cantly. Fall and winter rains raised water supply levels in lakes Buchanan and Travis from their low level of 39 percent full to 90 percent full. LCRA officials were optimistic that continued rains from the El Niño weather pattern may refill the lakes and end the drought this year.

Why does LCRA spend funds from electric and water operations on other activities such as parks and public safety?

The Texas Legislature has authorized LCRA to provide community services to help enhance the quality of life in Central Texas. These services include economic and community development, parks and recreation, land conservation

and public safety on waters and lands managed by LCRA. These programs need funding because they do not generate enough revenues to cover their costs. LCRA has no taxing authority and does not receive state appropriations. LCRA's enabling statute and related laws allow LCRA to use electric and water revenues to pay for programs that support its public service mission.

Foundation Values: How LCRA Works

LCRA's work and culture are shaped by five "foundation values" that are designed to provide quality services to customers and a quality workplace for employees. Each value is equally important:

Safety

Safety always comes first at LCRA, from its power plants, dams and transmission facilities to its offices. LCRA identifies dangers and risks to employees' safety and health and finds ways to mitigate those risks.

Customer Service

Everyone who comes in contact with LCRA is a customer and should be treated accordingly.

Employee Focus

LCRA benefits from an environment where employees feel personally and professionally rewarded and can reach their full potential in the workplace.

Diversity

The LCRA workplace is one in which everyone participates and contributes; each employee is welcomed, respected, encouraged and valued; and employees accomplish LCRA's mission and business objectives in an increasingly complex and changing business environment.

Environmental Leadership

LCRA weighs environmental considerations when making business decisions and seeks to lead by example in protecting the river basin's natural resources.



LCRA Strategic Goals and Objectives

Update of FY 2010 Goals:

In FY 2010, the financial and operational goals of LCRA focused on serving customers, developing employees, strengthening relationships with stakeholders and constituents, and conservation. Overall, good progress has been made on achieving these goals, and staff provides specific updates to the Board on the progress on a quarterly basis.

This business plan and its FY 2011 goals incorporate some of what staff has learned from carrying out the FY 2010 goals. The FY 2011 Business Plan includes the work on price predictability, and each business unit outlines its plan for the next two years. This plan also includes staff's work with customers and conservation programs that develop our future resources, including employees, as a reasonable low-cost provider.

FY 2011 Board Goals:

Generation Resource Plan:

- Define LCRA's long-term wholesale electric customer base by the end of FY 2011. Work collaboratively with customers to develop a corresponding long-term generation resource strategy and implementation plan consistent with the new form of contract that provides for Progressive Power and Customer Supply options that will provide our customers reliable, reasonably priced energy over the long term.

Water Supply Strategy

- Update the Water Management Plan by January 2013.
- Supplement the Water Supply Resource Plan with funding strategies and options to improve water supply for agriculture.

Low-Cost Provider

- Show improvement in actual nonfuel costs versus budgeted nonfuel costs in FY 2011 and in future budgets. The cost to maintain LCRA's existing equipment and facilities will grow but will be managed to provide customers more stable and predictable rates over the long term.

FY 2011 Foundation Value Goals

Safety:

- Reduce or eliminate lost-time accidents in the workplace. Performance will be measured based on the average annual number of lost-time incidents during FY 2005-2009.
 - Threshold: Eight lost-time incidents (20 percent reduction)
 - Target: Five lost-time incidents (50 percent reduction)
 - Maximum: No lost-time incidents

Customer Service

- Ensure clear communication of LCRA business strategies to the public and stakeholders in the public involvement process as measured through surveys on clarity of message.
 - Threshold: 75 percent
 - Target: 85 percent
 - Maximum: 95 percent

Employee Focus

- Increase the level of employee engagement at LCRA. Performance will be measured based on the threshold established in the 2008 Employee Engagement Assessment.
 - Threshold: 57 percent
 - Target: 62 percent
 - Maximum: 65 percent

Diversity

- Increase employee understanding of diversity strategies at LCRA. Performance will be measured based on the threshold established in the 2008 Employee Engagement Assessment.
 - Threshold: 66 percent
 - Target: 68 percent
 - Maximum: 70 percent

Environmental Leadership

- Initiate a three-year process that will ensure all LCRA operational units and facilities will have assessed their energy use, conducted appropriate audits, and developed energy efficiency and conservation plans by Dec. 31, 2013.
 - Threshold: 33 percent of facilities completed
 - Target: 50 percent of facilities completed
 - Maximum: 66 percent of facilities completed



Consolidated Look at Revenues and Expenses

LCRA, Affiliates and Nonprofit Corporations Financial Summary, FY 2010 – FY 2015 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues¹						
Wholesale Power Services	\$ 845,451	867,083	1,044,219	1,123,083	1,203,424	1,266,590
Transmission Services	250,354	260,062	310,503	342,058	387,245	414,256
Water Services	118,459	100,929	111,642	120,918	127,300	132,670
Community Services	7,296	7,665	7,948	8,189	8,383	8,554
Less Intracompany Eliminations	(32,253)	(33,117)	(34,703)	(35,965)	(36,704)	(37,667)
Total Net Revenue	1,189,307	1,202,622	1,439,609	1,558,283	1,689,648	1,784,403
Expenses¹						
Fuel and Power Cost Recovery (F&PCR)	510,903	518,924	651,629	683,975	739,774	795,806
Operations and Maintenance	294,214	304,887	323,792	333,387	355,904	366,869
Total Net Expense	805,117	823,811	975,421	1,017,362	1,095,678	1,162,675
Net Available for Debt Service	384,190	378,811	464,188	540,921	593,970	621,728
Gentex/Sandy Creek Other Revenues	4,020	1,472	1,883	8,448	6,800	7,550
Adjusted Net Revenues Available²	380,170	377,339	462,305	532,473	587,170	614,178
Debt Service	278,435	285,676	330,758	375,386	410,767	427,835
Debt Service Coverage, Adjusted²	1.37x	1.32x	1.40x	1.42x	1.43x	1.44x
Net Revenues After Debt Service	105,755	93,135	133,430	165,535	183,203	193,893
Less:						
Operating Reserves	23,211	18,615	53,009	18,951	34,099	26,892
Infrastructure Reserve	2,873	2,479	2,856	832	2,277	5,042
Revenue Funded Capital	75,818	67,480	73,471	141,535	131,155	96,325
Noncash Revenues	2,676	2,811	2,932	3,056	3,182	3,311
Restricted for Capital/Debt Retirement	177	1,662	162	162	11,490	61,323
Net Available Public Service Funds	-	-	-	-	-	-
F&PCR Revenues for Capital Funding	-	-	-	-	-	-
Board Policy 301 Deferred Nonfuel Revenues	-	-	-	-	-	-
Community Services Net Proceeds & Grants	1,000	1,000	1,000	1,000	1,000	1,000
Plus:						
Water and Wastewater Divestiture Proceeds	-	911	-	-	-	-
Net Cash Flow	-	-	-	-	-	-
Capital Expenditures						
Revenue Funded	75,818	67,480	73,471	141,535	131,155	96,325
Debt Funded	436,147	373,127	819,607	427,159	133,415	116,486
Third Party / Proceeds Funded	6,403	5,299	1,420	930	500	600
Total Capital	\$ 518,368	445,906	894,498	569,624	265,070	213,411

¹ Total Net Revenues and Total Net Expenses are net of intracompany transfers, including hydroelectric payment. Total Revenues include interest income.

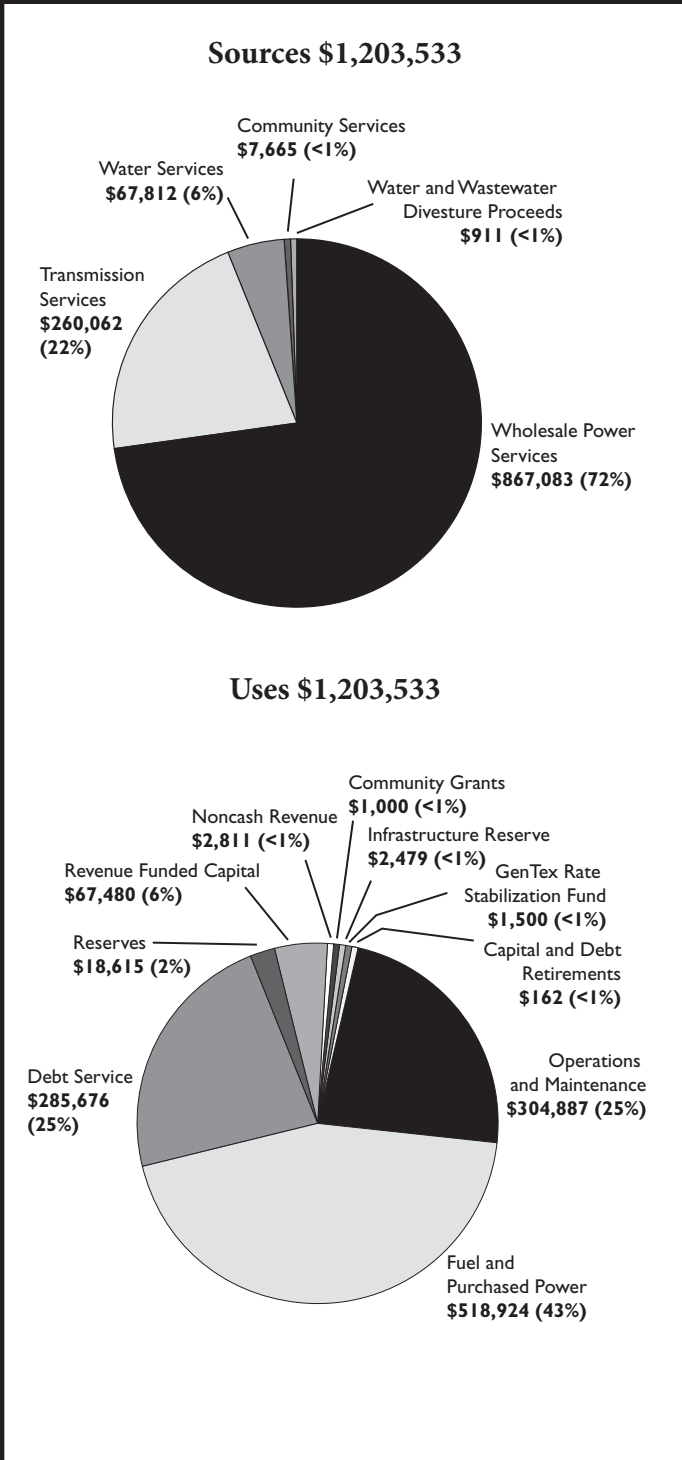
² Includes adjustments related to GenTex 1 Capital Funding and Price Stabilization Reserve Funding.

Key Points

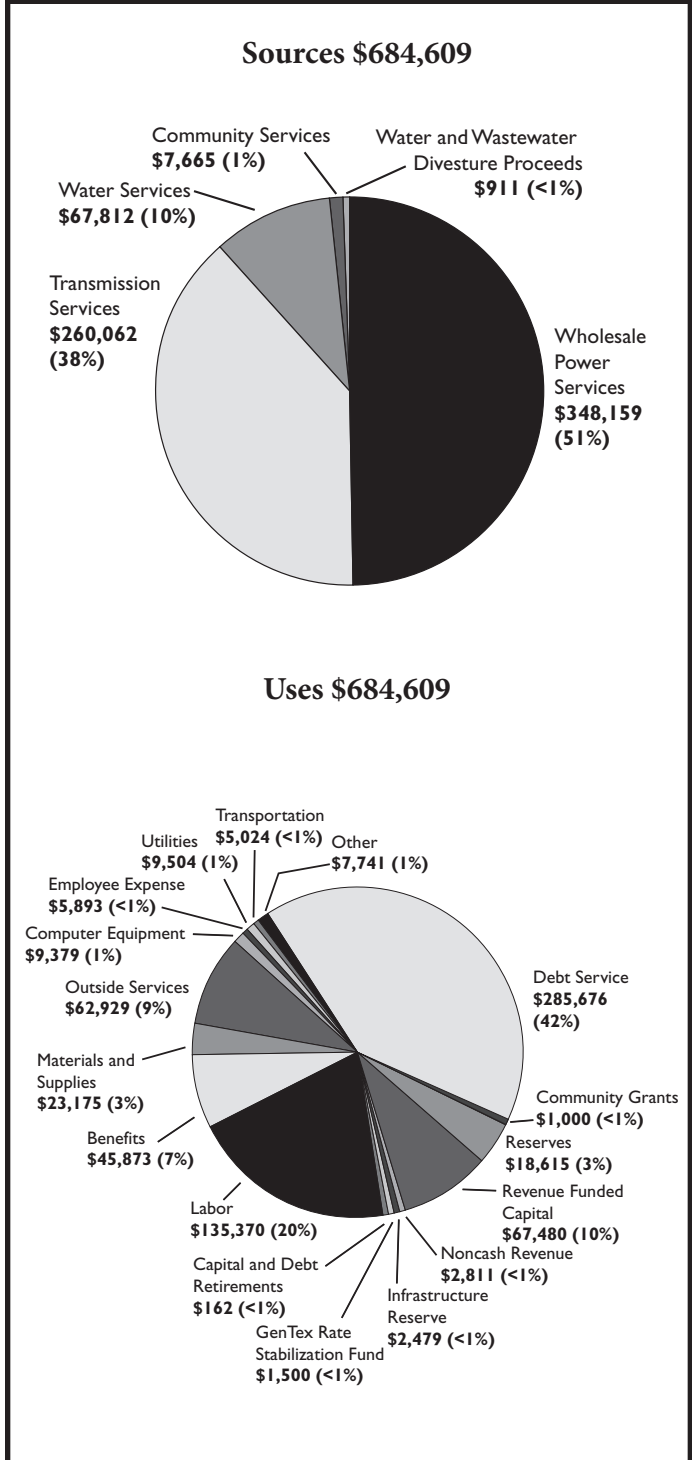
- **Total Revenues** increase \$13.3 million (1 percent) from FY 2010 budget. Fuel revenues increase \$8.0 million due to increasing fuel costs, and nonfuel revenue increases \$5.3 million due to increasing debt service and the cost of operations and maintenance.
- **Total Expenses** increase by \$18.7 million (2 percent) due to increases in the cost of fuel and purchased power, as well as nonfuel expenses, which increase by \$10.7 million (4 percent) to provide needed maintenance at plants and facilities.
- **Debt Service Coverage**, a widely used measure of financial performance, is forecast to be 1.32x in FY 2011 and increasing to 1.44x in FY 2015.
- **Net Revenues After Debt Service** are projected to be \$93.1 million. Of this, \$18.6 million is for liquidity reserves, which are used to pay expenses if revenues are interrupted.
- **Capital Project Expenditures** are funded by two major sources – Current Revenues (\$67.5 million) and Borrowed Funds (\$373.1 million) – to pay for projects that will last decades. Another \$5.3 million is capital projected to be funded by reserves from previous years or entities other than LCRA.

The graph on the left summarizes the sources of LCRA's total projected revenues for FY 2011 and how they will be used during the fiscal year. The graph on the right also reflects revenues and expenses for FY 2011, but it excludes fuel and purchased power revenues and expense. This provides a more detailed look at nonfuel expenses that are forecast for the upcoming fiscal year.

LCRA Sources and Uses, FY 2011
(Dollars in Thousands)



LCRA Sources and Uses, Nonfuel Only, FY 2011
(Dollars in Thousands)





Key Topics

Price Predictability

Electric: Electric rates are projected to be slightly lower than forecast in last year's business plan due to a decrease in projected natural gas prices for FY 2011. The volatile nature of fuel commodity prices will be the most significant driver of fuel rates during the fiscal year. Debt service associated with capital investments will continue to be a larger part of the nonfuel rate as work continues on the development of new generation facilities and ongoing upgrades of existing facilities. While the FY 2011 Business Plan forecasts a nonfuel rate increase, LCRA is committed to producing competitively priced, reliable electricity. The investments in capacity additions and maintenance programs in FY 2011 will help meet generation load growth and stabilize costs in future years.

Electric rates are designed to recover the costs of providing wholesale electric power. LCRA does this through two rate components, a fuel and nonfuel rate, that recover LCRA's costs as listed below:

Fuel Rate

Covers costs of:

- Fuels (natural gas and coal) used to generate electricity
- Managing and transporting these fuels to power plants and fuel storage facilities
- Purchased power that is required when LCRA's generation resources cannot meet customer demands, as well as electricity purchased from wind farms or other renewable energy sources
- Labor for fuel-related activity and risk management.

LCRA adjusts the fuel rate periodically to reflect changing fuel, fuel transportation, and purchased power costs.

Nonfuel Rate

Covers costs of:

- Labor for nonfuel-related activity
- Operations and maintenance
- Debt service and debt service coverage
- Hydroelectric operations
- Expenses charged from Corporate Services
- Contributions to Public Service Fund
- Other nonfuel costs

LCRA combines these rates into a time-of-use pricing structure. This pricing structure is designed to be fair and equitable to all wholesale customers: each customer pays the exact same rate for energy based on when it is used (more for peak times such as summer afternoons, less for off-peak times such as the middle of the night). This pricing structure provides LCRA customers with pricing predictability, and they can use it to send pricing signals to their end-use consumers to encourage conservation.

Transmission

LCRA Transmission Services Corporation (LCRA TSC) is continuing its approach of seeking rate increases as needed to maintain adequate financial performance while investing significant capital in new transmission facilities. LCRA TSC will fulfill this strategy by pursuing either Interim Capital Additions (ICA) or Transmission Cost of Service (TCOS) rate filings overseen by the Public Utility Commission of Texas (PUC). LCRA TSC has determined that an ICA filing planned for summer 2010 is the appropriate next step. In addition, LCRA plans to follow the interim rate increase with a full TCOS rate case to be filed in fall 2010. See the chart and discussion on page 20 for the FY 2011-2015 forecast of LCRA TSC rate actions and the resulting rate increases that are assumed in this business plan.

Raw Water

A raw water rate increase of 9.5 percent is planned during FY 2011, effective January 2011. The increase is needed due to the rising costs of storing, managing and providing the water supply, particularly in times of drought. This would raise the firm-water rate from \$138 per acre-foot to \$151 per acre-foot. The reservation fee, which is half the firm-water rate, would similarly rise from the current \$69 per acre-foot to \$75.50 per acre-foot.

Irrigation

Board-approved rate increases of 4 percent per year from 2010 to 2013 are included to pay for rising operational costs, particularly electric costs. Subsequent rate increases of 4 percent per year are also assumed beyond 2013.

Full first and second crop water deliveries are included in the FY 2011 Business Plan as a result of rains in late 2009 and early 2010 that increased LCRA's water supplies to a level that eliminated the need for an agricultural irrigation water curtailment.

Water and Wastewater Utilities

Rate increases approved by the LCRA Board for the West Travis County retail operations did not go into effect in October 2009, as originally planned. The delay is due to an interim rate set as part of a customer appeal of the rate increases. If LCRA receives a favorable ruling in this case, the rate increases are projected to go into effect April 2011.

The Glenlake water and Camp Swift wastewater retail systems include proposed 9.5 percent rate increases. Other retail systems include rate increases of 4 to 6 percent during FY 2011. Wholesale systems' revenue requirements are increasing to match the cost of service.

Water and Wastewater Utility Services' retail rate plan is to hold any annual rate increase to less than 10 percent during the five-year planning period.

Parks

Revenues from fees charged at LCRA parks and natural science centers are projected to increase 5 percent over FY 2010 and an additional 5 percent each subsequent fiscal year

through FY 2015. Revenue projections are based on Board-approved fee adjustments for LCRA parks and natural science centers that went into effect Jan. 1, 2009. The new fees are consistent with recommendations from a 2008 market study that compared fees for LCRA parks and natural science centers to those of other public and private park systems in Central Texas. Because park revenues do not cover costs, park operations receive financial support from the Public Service Fund.

Reserves

In October 2009, the Board amended its policies concerning reserves. The amendments require LCRA to: 1) covenant debt service reserve funds in the amount of six months of average annual debt service requirements for all outstanding long-term debt; and 2) target liquidity reserves equal to three months of average operations and maintenance expenses. This policy change became effective March 31, 2010, and is included in the FY 2011 Business Plan.

Generation Resource Plan

Wholesale Power Services' generation resource plan strategy continues to build upon previous plans to provide its wholesale customers with reliable, reasonably priced energy over the long term in an environmentally responsible manner. The strategy incorporates the most current view of the wholesale customers' load obligations and key uncertainties such as fuel and market prices, potential environmental regulations, transmission congestion costs, electric market design, new generation opportunities, and generation technology costs. The action plan includes incremental steps to mitigate risk while adding the advantages of fuel diversity and flexibility over the longer term.

Water Supply Resource Plan

In FY 2010, LCRA staff developed a Water Supply Resource Plan that will be LCRA's strategy for meeting water needs for cities, businesses and industries to the year 2100. The planning process began in mid-2008 with input from the public on water supply options and planning priorities. The plan includes potential water supply projects, probable costs and possible effects on available water for the environment, lake levels and downstream farmers.

Water supply options in the plan include enhanced conservation programs and building new supplies such as downstream off-channel reservoirs, desalinating brackish groundwater or sea water, storing water in aquifers and recovering it when needed, and importing groundwater. Costs for such options range from \$3 million to \$1.6 billion. In FY 2011, the Water Supply Resource Plan will be expanded to include funding strategies and options to improve water supply for agriculture.

CREZ

LCRA TSC is seeking public input and PUC approval to determine the appropriate routes and structure types for major CREZ transmission lines. LCRA TSC has already filed Certificate of Convenience and Necessity (CCN) applications with the PUC on two CREZ transmission lines and plans to file three additional CCN applications in late FY 2010 and early FY 2011 according to deadlines established by the PUC. Other projects, such as upgrades to existing LCRA TSC lines, do not require PUC direction on routing and are in various stages of design or construction. By the end of FY 2010, LCRA TSC expects to have completed and placed into service 5 of 21 CREZ projects awarded by the PUC.

Conservation

Water: Additional funds have been added for water conservation in the FY 2011 Business Plan to achieve the cumulative water savings goal of 6,000 acre-feet per year. Pilot residential conservation programs with municipal raw water customers, which began in FY 2010, will be expanded in FY 2011, and a new commercial and industrial program will begin in FY 2011. Landscape irrigation standards also are being developed for the West Travis County Regional Water System service area. Incentives for land leveling of rice farms, as

provided under HB 1437, will continue, and installation of equipment in the Garwood Irrigation District for metering water use will continue. All programs were included in the LCRA Board-approved 2009 Water Conservation Plan.

Energy: WPS continues to work closely with wholesale electric customers on energy efficiency and conservation efforts. LCRA staff plans to continue studying energy efficiency and conservation as part of a more comprehensive demand management program that reduces peak demand and energy use over time, potentially delaying or offsetting the need for additional generation resources to serve our customers' future needs. In addition, LCRA will continue to offer a time-of-use pricing structure that electric customers can pass along to consumers to encourage conservation.

Land: Additional funds have been added for land conservation efforts in the FY 2011 Business Plan to increase land management activities on LCRA lands. An additional \$250,000 has been added to increase brush clearing with a focus on water recharge and soil conservation. By December 2010, staff will complete a five-year land conservation plan for all LCRA nonutility lands that will establish land management goals for each property. Best land management practices established on LCRA lands will serve as an example for private landowners throughout the service territory. Current efforts to provide conservation techniques for land management and watershed protection to private landowners will continue next year. In FY 2011, staff will expand education and awareness activities to inform private landowners about the benefits of conservation easements.

Compensation and Benefits

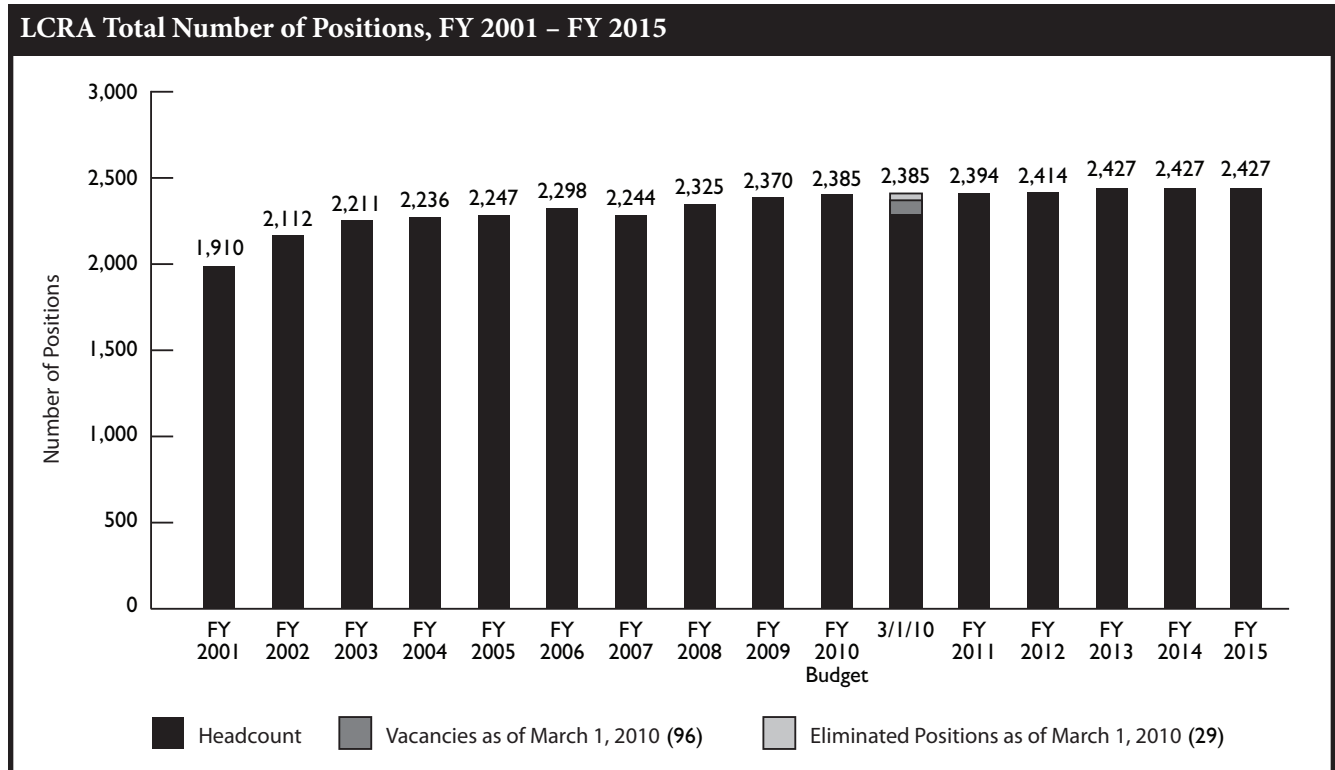
LCRA completed a comprehensive Total Rewards study to determine whether LCRA's compensation and benefits package is affordable and sustainable; offers appropriate compensation compared to practices of other employers with whom LCRA competes for talent; and reinforces a high-performance culture. LCRA is implementing compensation and benefits strategies to address these findings. As a result of that study, the FY 2011 budget includes recommended increases in total cash compensation (base salary and short-term incentive pay) as part of a multiyear plan to implement Total Rewards. Currently LCRA is 12.5 percent below the market in total cash compensation, and the FY 2011 Business Plan will bring LCRA to 6.8 percent below the market.

Compensation: LCRA's total estimated labor budget for FY 2011 is \$185.1 million, which includes operations and maintenance expense and capital expenditures. A portion of these costs is charged to Austin Energy for its share of the work at the Fayette Power Project. LCRA's share of total labor is \$135.4 million for nonfuel operations and maintenance activity, \$4.2 million for fuel activity, and \$32.9 million for capital activity.

Base Pay Increases: The estimated labor budget for FY 2011 includes \$5.0 million in annual labor adjustments, or increases in base salary.

Short-Term Incentive Pay ("At Risk"): The estimated labor budget also includes \$5.5 million in short-term incentive, or "at risk" pay, which can only be received if LCRA, business-unit and individual performance goals are met during the fiscal year.

Benefits: The estimated total benefits budget for FY 2011 is \$63.0 million. These costs follow labor expenditures, with LCRA's share being \$45.9 million for nonfuel operations and maintenance, \$1.4 million for fuel activity, and \$11.4 million for capital activity. Benefits are budgeted at 34.5 percent of payroll for FY 2011, which is lower than the forecasted amount of 36 percent from last year due to changes in LCRA's benefits plan and more aggressive negotiations with LCRA's benefits providers.



LCRA budgeted 2,385 positions for FY 2010. As of March 1, 2010, LCRA's work force totaled 2,260, with 96 vacant positions and 29 reductions. LCRA's overall staffing levels are projected to remain relatively stable through FY 2015.

Public Service Fund

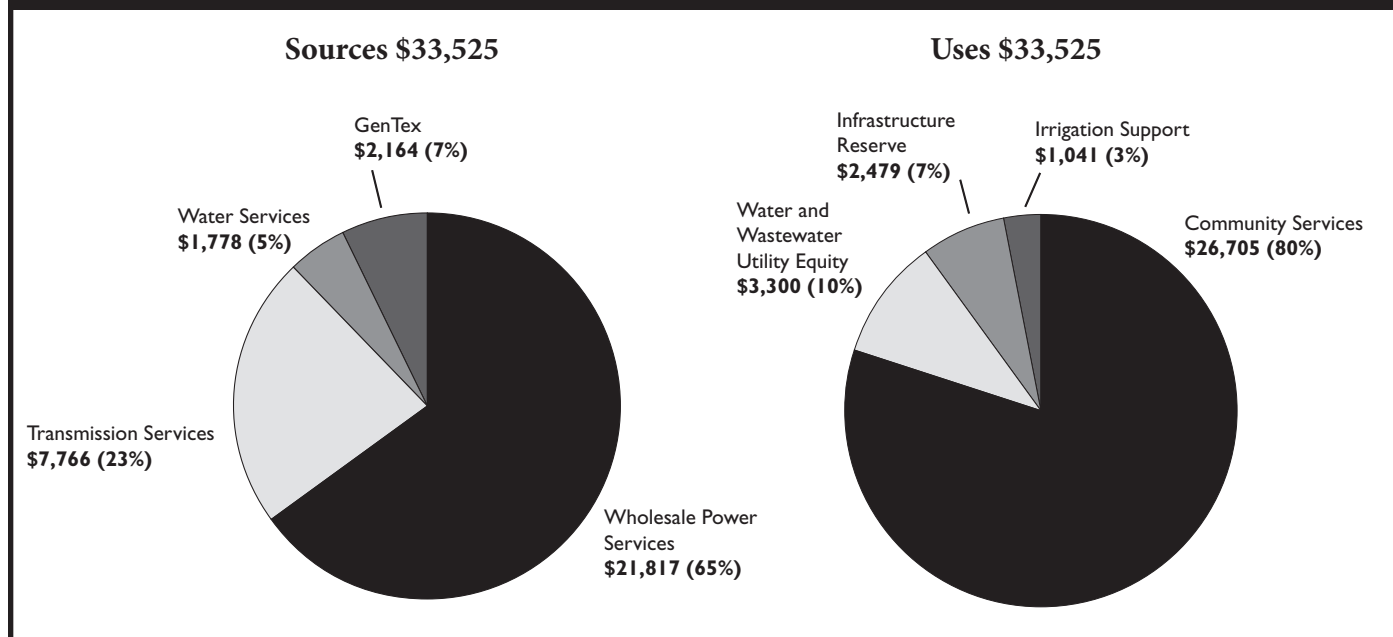
The Public Service Fund is the mechanism LCRA uses to fund statutory programs that do not generate sufficient revenues to fully recover their costs and for other uses at the Board's discretion. The Public Service Fund is directed through Board Policy 301 – Financial Policy, which establishes the fund parameters, and Board Policy 403 – Community Services, which establishes the guidelines for developing and carrying out Community Services programs. An element of the cost of service for LCRA's generation, transmission and water operations includes contributions to this fund.

Based on a negotiated contractual arrangement with LCRA's wholesale electric customers, Wholesale Power Services' contributions to the Public Service Fund are adjusted each year at a rate indexed to average load growth. Contributions from GenTex 1 are based on 3 percent of budgeted revenues. Transmission Services' annual contributions are also 3 percent of its total budgeted revenues. Contributions from Water Services are based on 3 percent of its budgeted revenues with the exceptions of revenues associated with irrigation services and pass-through transactions from service providers. Water Services' contributions also exclude intracompany revenues associated with LCRA's hydroelectric and utility operations.

LCRA Public Service Fund, FY 2010 – FY 2015 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Sources:						
Wholesale Power Services	\$ 21,619	21,817	22,139	22,640	23,419	24,236
GenTex	2,211	2,164	2,632	2,580	2,866	3,108
Transmission Services	7,497	7,766	9,224	10,132	11,484	12,277
Water Services	2,247	1,778	2,002	2,166	2,299	2,438
Subtotal	33,574	33,525	35,997	37,518	40,068	42,059
Uses:						
Community Services	25,134	26,705	29,171	33,027	35,388	34,616
Infrastructure Reserve	2,373	2,479	2,856	833	2,277	5,042
Irrigation Support	1,767	1,041	870	1,058	903	901
W/WW Utility Equity	4,300	3,300	3,100	2,600	1,500	1,500
Subtotal	33,574	33,525	35,997	37,518	40,068	42,059
Net Available Public Service Funds:	\$ -	-	-	-	-	-

Sources and Uses, LCRA Public Service Fund, FY 2011 (Dollars in Thousands)





Wholesale Power Services

Contribution to LCRA

- Wholesale Power Services (WPS) is responsible for providing reliable, competitively priced electricity for LCRA's 43 wholesale electric customers from LCRA power plants and purchased power.

What's Changed From FY 2010?

- Projected revenues for FY 2011 will be 2 percent higher than the previous year's budget, primarily due to an increase in fuel revenues.
- Nonfuel revenues are expected to increase by 4 percent, due in large part to outage and maintenance work at LCRA's generating facilities.

What's Ahead for FY 2011?

- Continue to work with unsigned wholesale electric customers to extend power contracts beyond the current 2016 expiration date to 2041.
- Begin receiving 200 megawatts (MW) of renewable wind power from the Papalote Creek Wind Farm, a step that nearly triples LCRA's commitment to wind-generated power.
- Continue feasibility studies for potential development of a natural gas-fired generation resource in the western portion of LCRA's electric service territory.
- Continue construction on the coal-fueled Sandy Creek Energy Station, which is scheduled to go on-line in FY 2013.

Revenue Analysis

In FY 2011, WPS' operating revenues of \$865 million are \$20 million, or 2 percent, higher than last year's budget. This increase reflects a fuel revenue increase of \$8 million and a nonfuel revenue increase of \$12 million, or 4 percent. For the FY 2012–2015 horizon, fuel revenue increases are

a product of higher prices forecast for fuel and purchased power, as well as an increase in customers' combined load requirements. Nonfuel revenue increases over this same period are the result of increasing debt service attributed to WPS' projected capital spending.

Expense Analysis

Operating expenses in FY 2011 of \$707 million are \$22 million, or 3 percent, higher than last year's budget. Nonfuel operations and maintenance expenses, including assigned corporate expense, increased by \$13 million over last year's budget, primarily due to increases associated with operating and maintaining LCRA's generating facilities. Fuel expense and purchased power increased \$8 million due to higher forecast energy prices. In FY 2011, debt service payments of \$127 million are \$2 million, or 1 percent, greater than last year's plan. Increases in debt service payments throughout this business plan horizon reflect capital spending associated with LCRA's 100-MW ownership investment in the Sandy Creek Energy Station, the addition of pollution-control technology at the Fayette Power Project, and the potential development of a natural gas-fired generating facility in the western portion of LCRA's electric service territory. Additionally, debt service coverage is included in the nonfuel revenue requirement to achieve a targeted 1.25x debt service coverage level. Projected capital expenditures for FY 2011 are \$104 million and are \$1.0 billion over the five-year plan period.

Summary

While costs associated with WPS capital projects result in an increase in the nonfuel cost component of LCRA's wholesale electric rate, these investments help WPS maintain a competitive position compared to the market over the long term. The addition of the Winchester Power Park peaking unit reduces customers' exposure to volatile market prices for purchased power, and the coal-fueled Sandy Creek Energy Station adds

additional base-load power to LCRA's generating portfolio.
These capacity additions, combined with the additional wind

power from Papalote Creek, offer further generating flexibility
and technology diversity to the LCRA portfolio.

Wholesale Power Services and Affiliates Operating Budget ¹, FY 2010 – FY 2015 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues						
Sale of Electricity:						
Nonfuel Revenues	\$ 330,824	342,919	384,008	428,070	452,385	459,638
F&PCR Revenues ²	505,026	506,674	648,768	681,013	738,407	794,391
Total Sales of Electricity	835,850	849,593	1,032,776	1,109,083	1,190,792	1,254,029
Other Revenues - F&PCR ³	5,877	12,250	2,861	2,962	1,367	1,415
Other Revenues - WPS Nonfuel ⁴	3,089	3,017	2,905	2,905	2,905	2,905
Total Revenue	844,816	864,860	1,038,542	1,114,950	1,195,064	1,258,349
Expenses						
Net F&PCR and Affiliate Fuel Expenses	510,903	518,924	651,629	683,975	739,774	795,806
Total Nonfuel Operations and Maintenance	129,926	141,312	151,878	150,698	161,139	159,865
Total Wholesale Power / Affiliate Expense	640,829	660,236	803,507	834,673	900,913	955,671
Net Operating Margin	203,987	204,624	235,035	280,277	294,151	302,678
Add: Interest Income	635	2,223	5,677	8,133	8,360	8,241
Less: Assigned Corporate Expense	20,385	22,365	24,011	25,655	25,554	25,078
Public Service Fund - WPS	21,619	21,817	22,139	22,640	23,419	24,236
Public Service Fund - GenTex 1	2,211	2,164	2,632	2,580	2,866	3,108
Net Revenues Available for Debt Service	160,407	160,501	191,930	237,535	250,672	258,497
Gentex/Sandy Creek Other Revenues	4,020	1,472	1,883	8,448	6,800	7,550
Adjusted Net Revenues Available	156,387	159,029	190,047	229,087	243,872	250,947
Total Debt Service	125,110	126,624	147,112	183,270	195,084	200,513
Debt Service Coverage, Adjusted ⁵	1.25x	1.25x	1.29x	1.29x	1.28x	1.29x
Debt Service Coverage w/o Purchased Power ⁶	1.25x	1.25x	1.29x	1.25x	1.25x	1.25x
Net Revenue After Debt Service	35,297	33,877	44,818	54,265	55,588	57,984
Less:						
Operating Reserves	12,819	10,019	36,170	8,448	16,642	13,643
Corporate Capital	3,797	3,421	4,882	5,426	7,001	3,504
Revenue Funded Capital	18,681	18,937	3,766	40,391	31,945	40,837
Gentex Rate Stabilization Fund	-	1,500	-	-	-	-
Net Cash Flow	-	-	-	-	-	-
Capital Expenditures						
Revenue Funded	18,681	18,937	3,766	40,391	31,945	40,837
Debt Funded	170,532	85,416	483,589	156,823	71,932	89,608
Prior-Year Available Funds	-	-	-	-	-	-
Total Capital	\$ 189,213	104,353	487,355	197,214	103,877	130,445

¹ Includes affiliate GenTex Power Corporation.

² F&PCR stands for Fuel and Power Cost Recovery.

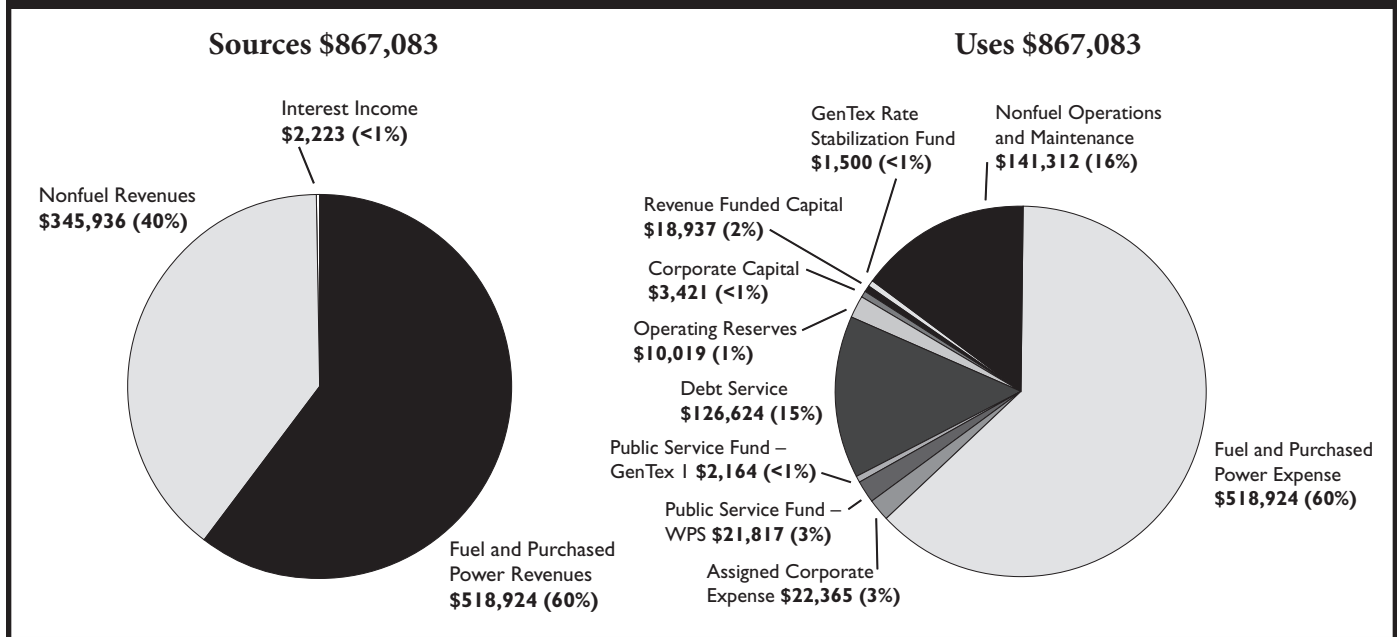
³ Other Revenues - F&PCR is primarily composed of revenue from the sale of ancillary services to third parties, and net settlement revenues from ERCOT.

⁴ Other Revenues - WPS Nonfuel is primarily composed of fly ash sales and oil and gas royalties.

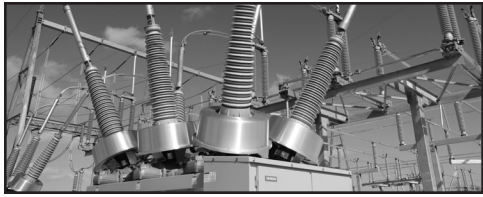
⁵ Includes adjustments related to GenTex 1 Capital Funding and Price Stabilization Reserve Funding.

⁶ In FY 2013 - FY 2015, excludes \$6.8 million related to the purchased power component of the Sandy Creek plant project.

Wholesale Power Services Sources and Uses, FY 2011 (Dollars in Thousands)



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Transmission Services

Contribution to LCRA

- Transmission Services provides services to LCRA Transmission Services Corporation (LCRA TSC), which owns transmission, transformation and metering assets and is helping upgrade the transmission network in the Electric Reliability Council of Texas (ERCOT) region. LCRA TSC has no staff. LCRA provides or procures all necessary services required to construct, operate and maintain LCRA TSC's system.
- The Transmission Services business unit also provides construction, maintenance, engineering and other unregulated services to LCRA's wholesale electric customers and other external customers, as well as to LCRA business units.

What's Changed From FY 2010?

- Due to the acceleration of the expected completion dates for two major capital projects, LCRA TSC now plans to file an interim rate increase intended to address recovery of capital investment costs. LCRA TSC plans to follow this interim update by filing a Transmission Cost of Service rate case in late 2010, based upon a FY 2010 historical test year.

What's Ahead for FY 2011?

- LCRA TSC takes full operational control of facilities in Southeast Texas acquired from American Electric Power. Integration of these aging transmission lines, while still maintaining LCRA TSC's goal of 99.999 percent system availability, will pose a significant challenge in FY 2011.
- Construction of new transmission facilities will remain a high priority. FY 2011 will represent a continuation of LCRA TSC's strategy to construct major transmission lines throughout the ERCOT region. LCRA TSC expects to complete its Clear Springs-to-Hutto project, a 100-mile, 345-kilovolt transmission line in Central Texas. During FY 2011, LCRA TSC will continue working with landown-

ers and the Public Utility Commission of Texas (PUC) to determine appropriate routes for major Competitive Renewable Energy Zones (CREZ) projects in the Hill Country and West Texas. Other CREZ projects will be in various stages of design and construction.

- LCRA TSC's FY 2011 Capital Plan recommends adding 21 projects in Central Texas. These projects' lifetime budgets will add \$39.9 million to the \$1.1 billion in projects previously approved by the LCRA TSC Board of Directors.

Revenue Analysis

Revenue for all services provided by the Transmission Services business unit is forecast to total \$259 million in FY 2011. LCRA TSC projects collecting \$250 million in FY 2011 for provision of regulated transmission, transformation and metering services. This represents an increase of \$13 million or 5.5 percent from the FY 2010 budget of \$237 million for regulated services. Higher regulated revenues will result from unusually hot temperatures in summer 2009, driving an increase in the transmission billing unit combined with LCRA TSC's expected interim rate increase during FY 2011. This increase will be partially offset by an anticipated decline in demand for the Transmission Services business unit's unregulated services, resulting in \$4 million less in revenues for these services in FY 2011 compared to FY 2010.

Expense Analysis

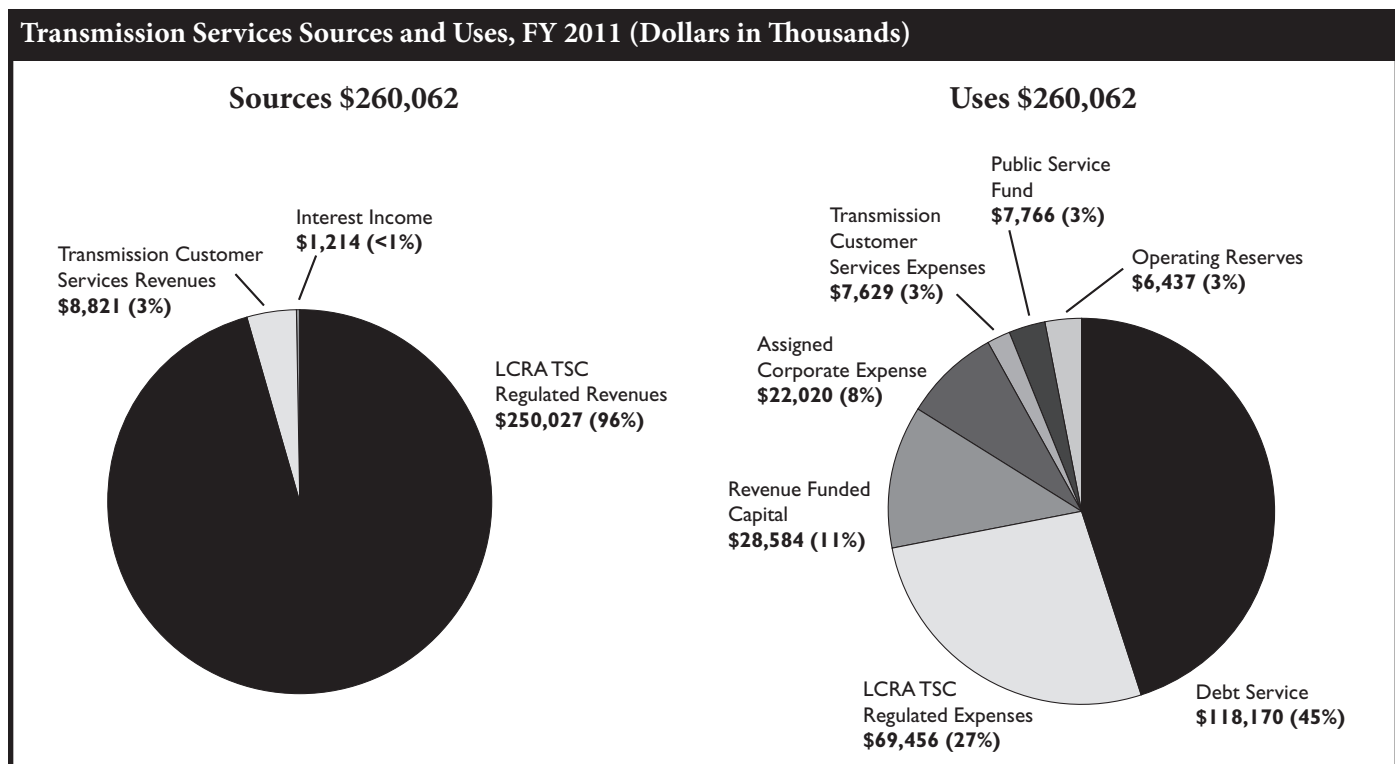
Expenses for services provided by the Transmission Services business unit are budgeted at \$106.9 million, including \$98 million for services provided to LCRA TSC and \$8.9 million for unregulated customer services. LCRA TSC's budget for FY 2011 will provide regulated services necessary for the safe, reliable operation of the transmission system. Total expenses for FY 2011, including assigned corporate expense and Public Service Fund contribution, increase by \$0.9 million compared

to FY 2010. The budget increase will help ensure that LCRA TSC is able to meet North American Electric Reliability Corporation and ERCOT reliability standards.

Additional budgeted staff positions are planned to be added to address needed transmission right-of-way maintenance and enhancements and to bolster the technical staff at LCRA TSC's Eloy Soderberg System Operations Control Center. LCRA TSC will outsource a significant amount of its construction costs to external contractors. In addition, the Transmission Services business unit forecasts the need to add full-time, temporary or project employees in its engineering, real estate services and construction departments to address higher levels of capital project activity.

Summary

The FY 2011 Business Plan continues LCRA TSC's mission to provide safe, reliable and cost-effective transmission services while investing in new facilities to serve needs across ERCOT. Over the next five years, LCRA TSC plans to bring more than \$1 billion in new transmission system facilities into service, including more than \$700 million in support of the PUC's CREZ initiative.



Transmission Services Operating Budget, FY 2010 – FY 2015 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
LCRA Transmission Services Corporation						
Revenues	\$ 237,050	250,027	298,595	328,796	373,810	400,181
Expenses	65,223	69,456	73,919	79,331	86,243	91,792
Net Operating Margin	171,827	180,571	224,676	249,465	287,567	308,389
Transmission Customer Services						
Revenues	12,860	8,821	8,875	8,942	8,996	9,053
Expenses	11,417	7,629	7,629	7,629	7,629	7,629
Net Operating Margin	1,443	1,192	1,246	1,313	1,367	1,424
Total Transmission Services						
Revenues	249,910	258,848	307,470	337,738	382,806	409,234
Expenses	76,640	77,085	81,548	86,960	93,872	99,421
Net Operating Margin	173,270	181,763	225,922	250,778	288,934	309,813
Add: Interest Income	444	1,214	3,033	4,320	4,439	5,022
Less: Assigned Corporate Expense	21,840	22,020	22,425	24,118	30,151	34,428
Public Service Fund	7,497	7,766	9,224	10,132	11,484	12,277
Net Revenues Available for Debt Service	144,377	153,191	197,306	220,848	251,738	268,130
Debt Service	106,933	118,170	141,116	147,232	167,826	178,726
Debt Service Coverage	1.35x	1.30x	1.40x	1.50x	1.50x	1.50x
Net Revenue After Debt Service	37,444	35,021	56,190	73,616	83,912	89,404
Less:						
Operating Reserves	5,286	6,437	14,913	6,356	13,512	7,215
Revenue Funded Capital	32,158	28,584	41,277	67,260	59,072	21,028
Restricted for Capital/Debt Retirement	-	-	-	-	11,328	61,161
Net Cash Flow	-	-	-	-	-	-
Capital Expenditures						
Revenue Funded	32,158	28,584	41,277	67,260	59,072	21,028
Debt Funded	224,597	248,150	287,999	234,208	22,688	5,480
Third Party Funded	-	-	-	-	-	-
Total Capital	\$ 256,755	276,734	329,276	301,468	81,760	26,508

Key Points

- LCRA TSC revenue projection for FY 2011 of \$250 million is \$13 million higher than in FY 2010. Revenue growth will result from a higher transmission billing unit driven by unusually high summer peak temperatures in 2009 and an interim rate increase expected to be filed by LCRA TSC early in FY 2011.
- Transmission Customer Services is expected to provide revenue of \$8.8 million and an operating margin of \$1.2 million in FY 2011.
- LCRA TSC's FY 2011 expenses of \$98 million, including allocated corporate expense and Public Service Fund, are up \$4.9 million over FY 2010.
- LCRA TSC's capital plan anticipates placing more than \$1.1 billion of new transmission system facilities into service over the next five years.
- LCRA TSC's FY 2011 debt service coverage ratio is forecast to be 1.30x.

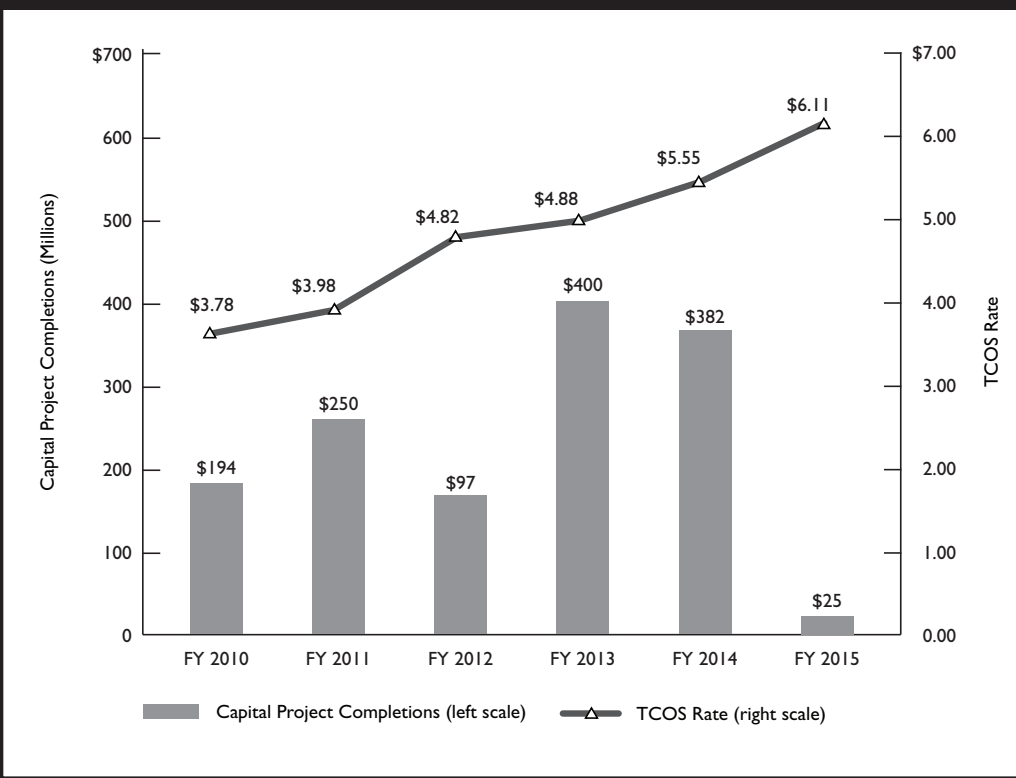
LCRA TSC's Share of ERCOT Transmission Rate

Transmission Service Provider (TSP)	Transmission Rate	% of Total
Oncor Electric Delivery	\$8.23	32%
CenterPoint Energy	\$4.20	16%
Lower Colorado River Authority	\$3.78	15%
AEP Texas Central	\$1.93	7%
San Antonio City Public Service	\$1.62	6%
Brazos Electric Cooperative	\$1.31	5%
Austin Energy	\$1.00	4%
AEP Texas North	\$0.89	3%
Texas Municipal Power Agency	\$0.66	3%
Other TSPs	\$2.43	9%
Total ERCOT Transmission Rate	\$26.05	100%

Source: PUC Docket 37680, 2010 Net Wholesale Transmission Matrix Charges for ERCOT

The ERCOT “postage stamp rate” refers to all of the transmission service provider (TSP) rates added together. LCRA TSC accounts for 15 percent of the total rate. Each retail electric utility, or distribution service provider (DSP), in ERCOT pays each TSP’s rate times the DSP’s share of the average summer peak load measured in kilowatts. DSPs pass through transmission costs to end-use customers.

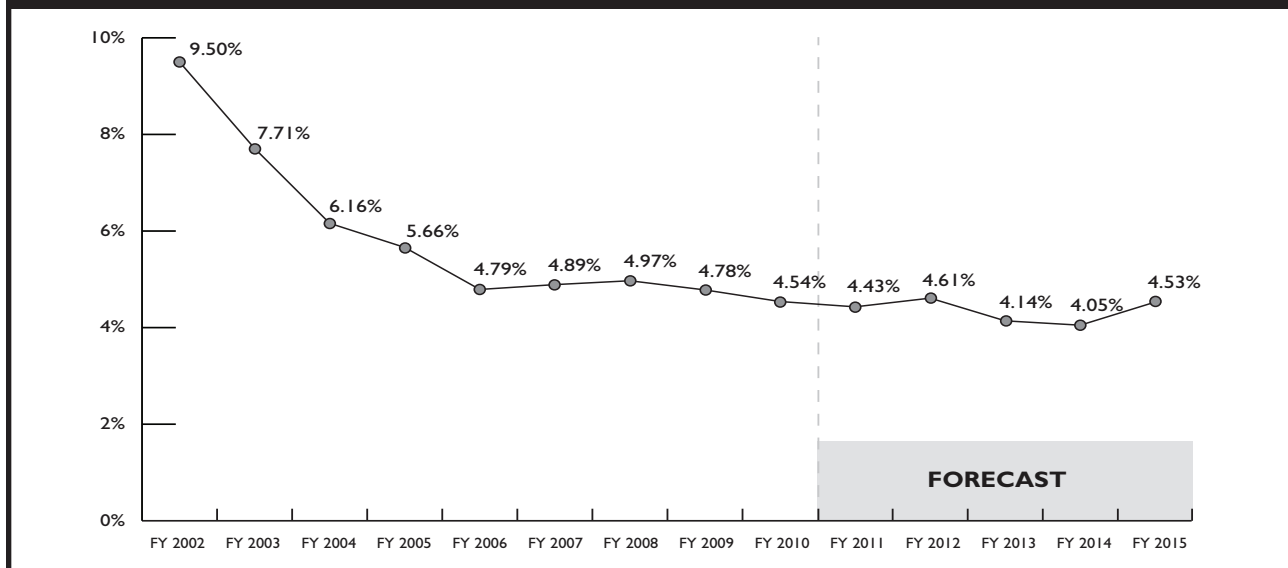
Forecast for LCRA TSC Capital Project Completions and Impact on Transmission Cost of Service (TCOS) Rate, FY 2010 - FY 2015



Significant capital investment for new and upgraded system capacity in Central Texas and Competitive Renewable Energy Zones transmission infrastructure will drive LCRA TSC’s need to increase rates in the future. LCRA TSC is forecasting more than \$1.1 billion in capital project completions in the coming five-year planning period.

LCRA TSC plans to file an interim update followed by a TCOS rate case in FY 2011, with a rate increase expected to be in place by FY 2012. Successive filings in FY 2012 through 2014 will be required to recover increased debt service, debt service coverage, and property taxes associated with the new transmission facilities being placed into service.

**LCRA TSC's O&M to Net Plant Ratio Trend,
FY 2002 - FY 2009 Actual and FY 2010 - FY 2015 Forecast**



LCRA Transmission Services Corporation's (TSC) ratio of operations and maintenance (O&M) cost per dollar of net assets (plant) in service decreased significantly between FY 2002 and FY 2006 and has remained stable through FY 2009. The ratio, known as "O&M to Net Plant," is calculated by dividing the total O&M in a given year by the depreciated value of the equipment and facilities in the system. The ratio measures a utility's efficiency, overall cost-effectiveness of providing service and ability to complete planned capital improvements. The lower the ratio, the more efficiently a system has been operated and maintained. LCRA TSC's forecast shows the ratio continuing to decrease in most years until FY 2015, when capital investment drops off significantly.



Water Services

Contribution to LCRA

- Water Services manages the basin's water resources to provide a clean, reliable water supply and protect communities from the worst effects of floods and droughts; operates the Highland Lakes' dams and hydroelectric facilities; and provides water and utility services to communities, businesses and individuals throughout the lower Colorado River basin.

What's Changed From FY 2010?

- Lower Water and Wastewater Utility revenues, primarily as a result of the divestiture of the Brushy Creek and Hutto wastewater systems and due to the uncertainty of the outcome of the West Travis County retail water and wastewater rate appeal.
- The FY 2011 plan assumes that the LCRA-SAWS (San Antonio Water System) Water Project will remain on hold.

What's Ahead for FY 2011?

- Expand the Water Supply Resource Plan to include funding strategies and options to improve water supply for agriculture.
- In accordance with Board direction from April 2008, continue to pursue financial improvements and divestitures, where prudent for LCRA and its customers, in the Water and Wastewater Utilities.
- Begin the process to update the Highland Lakes Water Management Plan.

Revenue Analysis

Water Services' FY 2011 revenues of \$100.6 million are \$17.8 million or 15 percent lower than FY 2010. The revenue decrease is the result of the divestiture of the Brushy Creek and Hutto wastewater systems and the appeal of the Board-approved West Travis County retail water and wastewater rate increases in October 2009.

Continued slow growth is expected for Water and Wastewater Utility Services for FY 2011. Increased growth in FY 2012 and beyond is expected to occur with an improvement in economic conditions in the area.

For firm raw water, a proposed rate increase of 9.5 percent in January 2011 to \$151 per acre-foot is included in order to carry out LCRA's statutory mission of flood management, water supply, water quality, water conservation and other water-resource management services. In addition, this rate increase is needed in order to fund a large capital project to rehabilitate the floodgates at Buchanan Dam.

The 4 percent per year increase in irrigation rates is largely to try to keep up with the inflationary effects of the substantial electric and other variable costs of the irrigation operation. These rate increases are Board-approved through 2013. Even with the additional revenues from these rate increases and from the recent increases in rice acres farmed, Irrigation Operations does not attain full cost recovery, due to the policy of no new debt issued for Irrigation.

Revenues for hydroelectric operations are cost-of-service based and continue to rise primarily as a result of existing debt and future capital improvements. The projected costs are still below the forecasted market value (see graph on page 25), which is tied to the price of natural gas.

Revenue from the Board-approved rate increases of 15 and 24 percent for retail treated water and wastewater, respectively, for the West Travis County system is assumed in April 2011. (As mentioned earlier, these rate increases are currently under appeal.) Depending on the outcome of the rate appeal process, this rate increase could be less and/or delayed from April 2011, affecting revenues in FY 2011 and beyond. Rate increases of less than 10 percent are included for the West Travis County water system for FY 2012 and FY 2013. Rate increases are planned in FY 2011 for the Glenlake, Hill Country, Alleyton and Matagorda Dunes water systems and the Ridge Harbor, Lometa, Camp Swift and Alleyton wastewater

systems. Growth in living unit equivalents for the West Travis water system is expected to grow by 3 percent in FY 2011, with 8 to 11 percent per year growth in FY 2012 and beyond. Revenues for all wholesale systems are forecast to rise to match cost of service.

Expense Analysis

Expenses in FY 2011 are \$58.5 million, which is \$4.0 million or 6.4 percent lower than FY 2010. These expense reductions result from the sale of the Brushy Creek and Hutto wastewater systems and elimination of 24 staff positions in Water Services. The reductions enable Water Services to plan for \$1.4 million for base pay increases and short-term incentive pay and to cover increased outside legal costs, while still reducing overall costs.

In FY 2011, debt service payments of \$34.0 million are \$4.8 million less than FY 2010 as a result of the divestiture of the Brushy Creek and Hutto wastewater systems and, to a lesser extent, Water Services' lower overall capital program. Payback of previously deferred Water and Wastewater Utility Services debt is scheduled to begin in FY 2011.

Projected capital expenditures for FY 2011 are \$29.9 million and for the five-year plan period are \$181.2 million. This is lower than FY 2010 as a result of the Brushy Creek

and Hutto wastewater systems divestitures. In addition, capital expenditures reflect slower near-term West Travis County expenditures, pending the outcome of the rate appeal process.

The five-year capital plan includes almost \$27 million for the rehabilitation of the floodgates at Buchanan Dam.

Summary

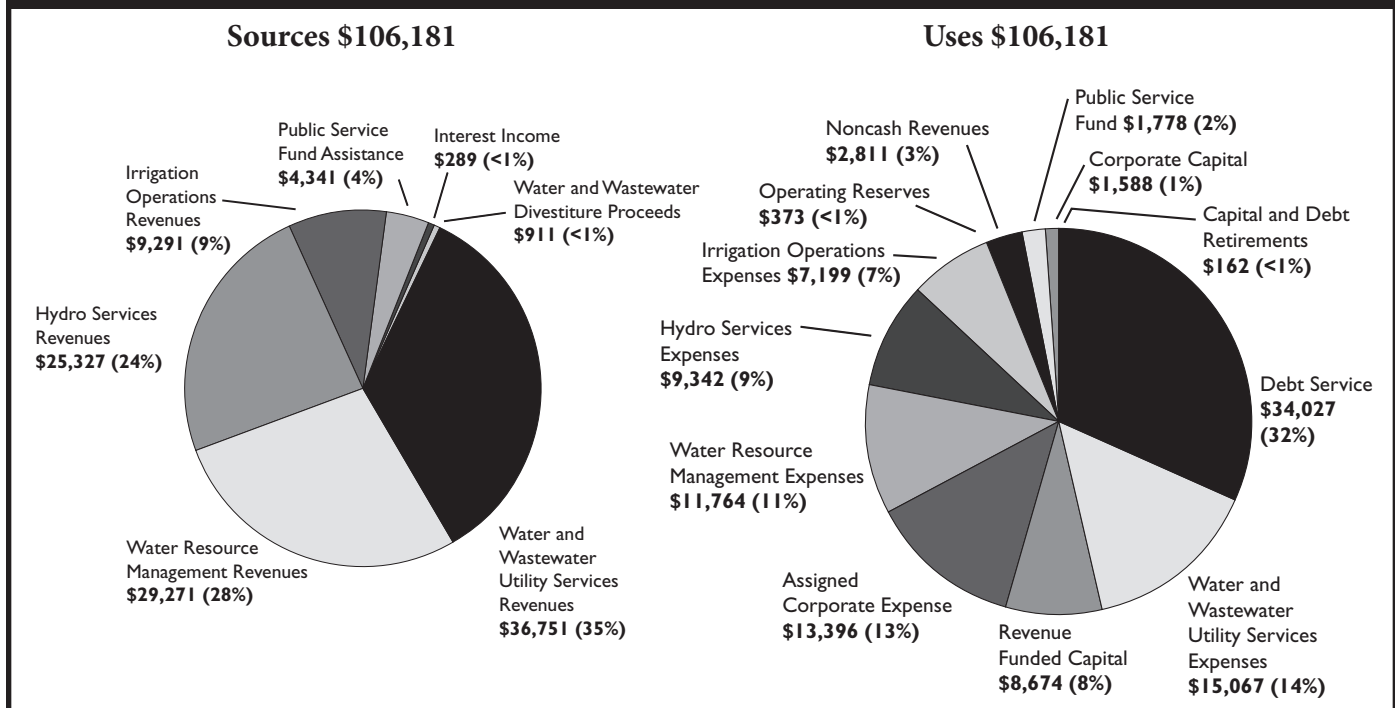
Over the long term, demands for all Water Services' products and services are expected to remain strong with slower growth in FY 2011 and increased projected growth in FY 2012 and beyond as the economy improves. Water Services' price plan is to hold any rate increases to single-digit percentages.

Water and Wastewater Utility Services will be challenged in the near term to achieve financial sustainability given the uncertainty of the West Travis County rate appeal. Despite this and other challenges, this plan demonstrates Water Services' commitment to delivering quality services in a cost-conscious manner.

Water Services Operating Budget, FY 2010 – FY 2015 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<u>Water Resource Management</u>						
Revenues	\$ 28,408	29,271	31,921	33,125	34,160	35,473
Expenses	9,996	11,764	12,087	12,510	12,948	13,401
Net Operating Margin	18,412	17,507	19,834	20,615	21,212	22,072
<u>Hydro Services</u>						
Revenues	24,894	25,327	26,358	27,331	27,970	28,749
Expenses	9,691	9,342	9,776	10,118	10,472	10,839
Net Operating Margin	15,203	15,985	16,582	17,213	17,498	17,910
<u>Irrigation Services</u>						
Revenues	8,260	9,291	9,652	10,030	10,419	10,808
Expenses	6,980	7,199	7,446	7,706	7,976	8,255
Net Operating Margin	1,280	2,092	2,206	2,324	2,443	2,553
<u>Water/Wastewater Utility Services</u>						
Revenues	56,839	36,751	43,054	49,566	53,854	56,771
Expenses	20,443	15,067	15,445	15,985	16,545	17,124
Net Operating Margin	36,396	21,684	27,609	33,581	37,309	39,647
<u>Total Water Services</u>						
Direct Revenues	118,401	100,640	110,985	120,052	126,403	131,801
Direct Expenses	47,110	43,372	44,754	46,319	47,941	49,619
Net Operating Margin	71,291	57,268	66,231	73,733	78,462	82,182
Add: Interest Income	58	289	657	866	897	869
Less: Assigned Corporate Expense	13,210	13,396	14,090	14,787	14,305	16,091
Public Service Fund	2,247	1,778	2,002	2,166	2,299	2,438
Net Revenues Available for Debt Service	55,892	42,383	50,796	57,646	62,755	64,522
<u>Debt Service</u>						
Water Resource Management	5,751	6,027	6,056	6,459	6,301	6,389
Hydro	10,191	10,475	10,882	11,231	11,413	11,554
Irrigation	523	518	518	518	518	518
Water/Wastewater Utility	22,301	17,007	17,965	21,462	22,198	23,005
Total Debt Service	38,766	34,027	35,421	39,670	40,430	41,466
<u>Debt Service Coverage</u>						
Water Resource Management	2.11x	1.96x	2.30x	2.23x	2.35x	2.39x
Hydro	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x
Irrigation	0.38x	1.88x	2.03x	2.14x	2.30x	2.34x
Water/Wastewater Utility	1.38x	0.97x	1.24x	1.31x	1.46x	1.46x
Total Water Services Debt Service Coverage	1.44x	1.25x	1.43x	1.45x	1.55x	1.56x
Net Revenue After Debt Service	17,126	8,356	15,375	17,976	22,325	23,056
Less:						
Operating Reserves	4,877	373	559	590	326	883
Water Supply Reserve	500	-	-	-	-	-
Corporate Capital	1,601	1,588	2,275	2,406	3,018	1,354
Revenue Funded Capital	13,362	8,674	13,417	15,420	18,040	19,747
Restricted for Capital/Debt Retirement	177	162	162	162	162	162
Noncash Revenues	2,676	2,811	2,932	3,056	3,182	3,311
Plus:						
Public Service Fund Assistance - Irrigation	1,767	1,041	870	1,058	903	901
Public Service Fund Assistance - Water and Wastewater	4,300	3,300	3,100	2,600	1,500	1,500
Water and Wastewater Divestiture Proceeds	-	911	-	-	-	-
Net Cash Flow	-	-	-	-	-	-
<u>Capital Expenditures</u>						
Revenue Funded	10,859	6,308	9,093	9,148	11,023	13,312
Impact Fee Funded	2,503	2,367	4,324	6,272	7,017	6,434
Debt Funded	26,629	19,841	20,879	21,612	24,943	15,662
Third Party / Proceeds Funded	2,116	1,402	700	300	300	300
Total Capital	\$ 42,107	29,918	34,996	37,332	43,283	35,708

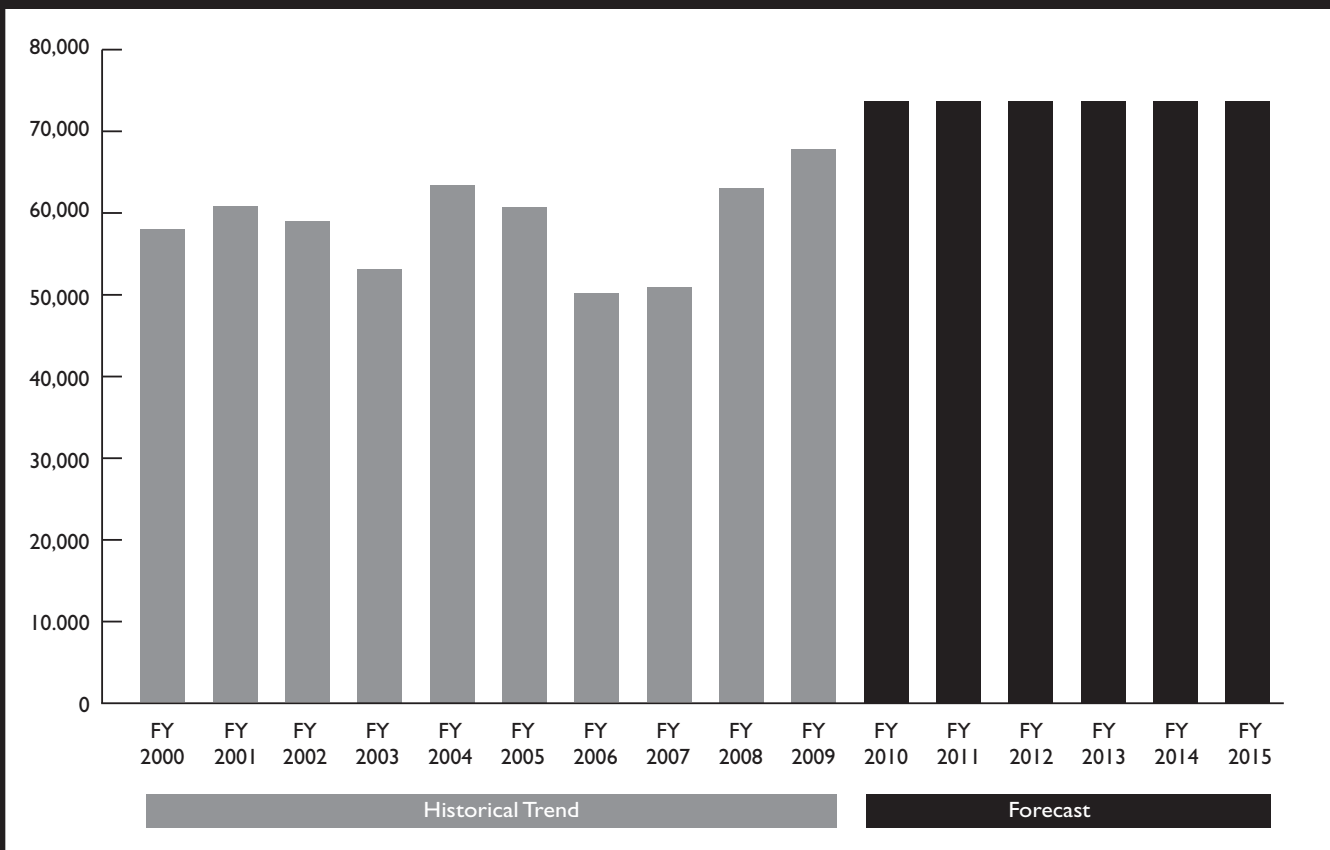
Water Services Sources and Uses, FY 2011 (Dollars in Thousands)



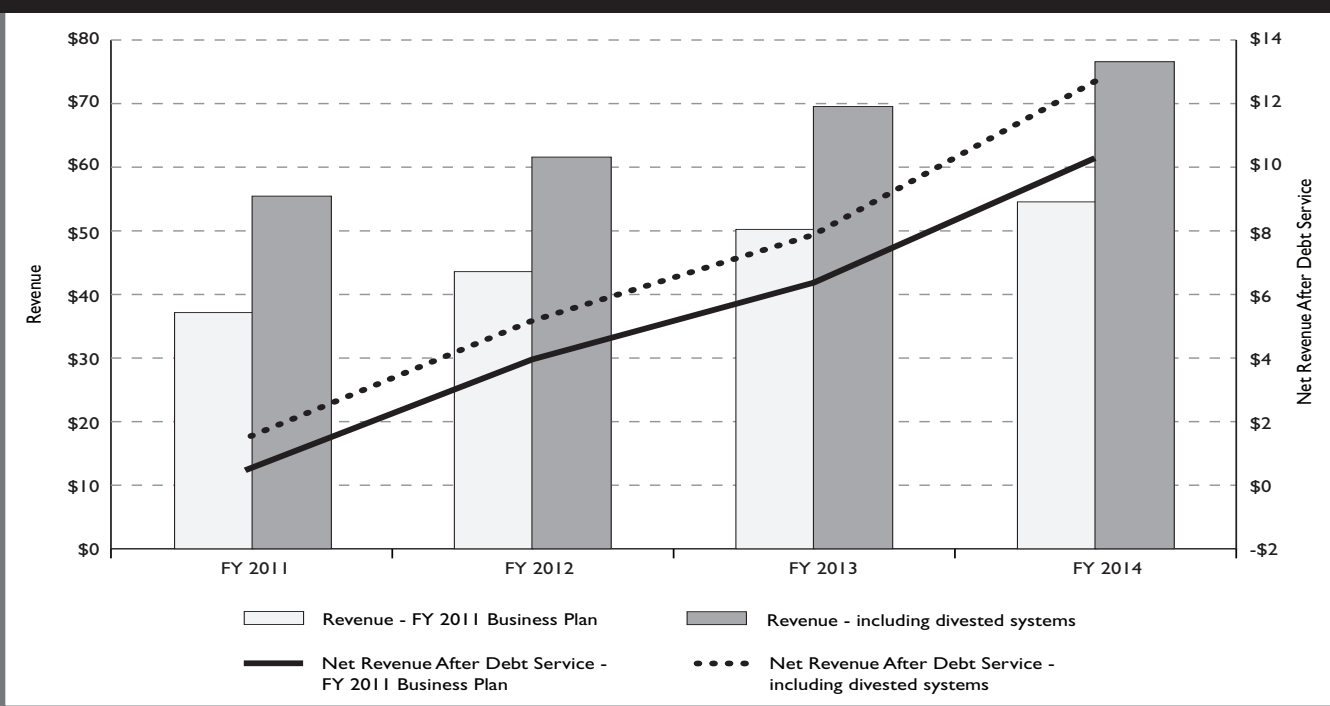
Key Points

- Water and Wastewater Utility Services is significantly lower in revenues, expenses and debt service as a result of the divestiture of Brushy Creek and Hutto wastewater systems. In addition, West Travis County revenues are lower in FY 2011 from the delay in the Board-approved rate increase until April 2011 as a result of the rate appeal.
- Water Services has worked to reduce controllable costs wherever possible, including eliminating 24 positions.
- Water and Wastewater Utility capital spending is partially delayed in the near term, pending the outcome of the rate appeal process in West Travis County.
- Despite the rate and other challenges, Water Services is decreasing the use of Public Service Funds by \$1.9 million or almost 45 percent over the plan period.

Irrigation First Crop Acreage FY 2000 - FY 2015



Impact of Water and Wastewater System Divestitures FY 2011 - FY 2014 (Dollars in Millions)



This graph shows the impact of the divested Water and Wastewater Utility systems to-date on revenues (plotted on the left) and net revenues after debt service (plotted on the right). The divested systems include the Brushy Creek and Hutto Wastewater Systems and the Harper, London and Bridgepoint Water Systems.



Community Services

Contribution to LCRA

- Board Policy 403 - Community Services established the guidelines for developing and carrying out Community Services programs. Community Services provides access and recreational opportunities for the public to the lower Colorado River and its tributaries and reservoirs through its 42 parks and three natural science centers. The business unit is responsible for a Public Safety Department that safeguards LCRA parks, lakes and facilities. Community Services also provides community and economic development assistance to LCRA service-area communities; an environmental laboratory that provides services to state agencies, cities and the general public, as well as to LCRA power plants and water operations; and conservation services for the more than 16,000 acres of LCRA land that is not dedicated to its electric or water operations.

What's Changed From FY 2010?

- Increased soil conservation efforts on LCRA lands
- Deferred capital projects for parks to obtain better cost estimates
- Eliminated expenses for the Texas Leadership Institute program in Community Assistance Services.

What's Ahead for FY 2011?

- Begin construction of San Saba River Nature Park.
- Complete planning for Pedernales River Nature Park.
- Assume operations of three parks.
- Refocus and increase soil conservation and brush clearing efforts on LCRA lands.

Revenue Analysis

Community Services revenues are expected to increase 5 percent to \$7.7 million in FY 2011, compared to \$7.3 million in FY 2010, due to additional revenue streams at three parks, primarily

Matagorda Bay Nature Park. Other revenue-generating activities include Environmental Laboratory Services, LCRA's three natural science centers and nature parks, marina and boat dock fees, ground lease revenues, and soil conservation grants. These revenues reduce the amount from the Public Service Fund that is needed for Community Services to carry out programs and capital projects.

Expense Analysis

Operating costs are expected to be \$27.1 million in FY 2011, which is \$1.9 million (7.5 percent) higher than FY 2010's operating costs. The primary drivers of the operating cost increases are as follows:

- \$250,000 due to growth in park operations for the addition of three new sites,
- \$475,000 for increased utilities and maintenance costs at the natural science centers,
- \$250,000 increase in conservation on LCRA lands,
- \$180,000 in higher environmental laboratory expenses to support public drinking water analyses,
- \$250,000 increase in security at lakes and parks, and
- \$50,000 transfer from Communication Services for the Nobody's Waterproof public awareness program.

Expenses for these groups account for \$1.5 million of the increase based on additional demands for public services. These areas represent \$18.6 million (69 percent) of the total operating expense budget.

Summary

In order to meet the increasing demands and needs of the public, the five-year plan projects Community Services' share of the Public Service Fund assistance to grow at about a 6 percent average per year during FY 2011-2015. Capital expenditures increase in FY 2013 reflecting improvements to the Pedernales River Nature Park in Blanco County.

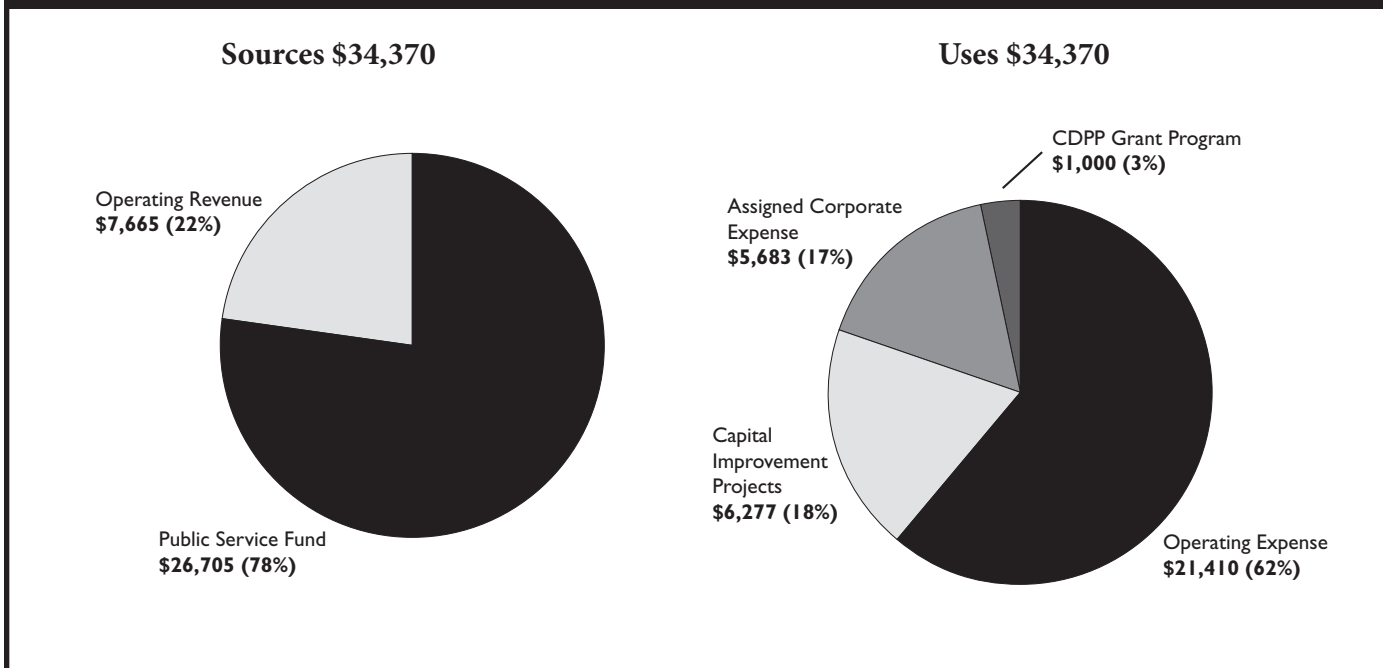
Community Services Operating Budget, FY 2010 – FY 2015 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<u>Park Operations</u>						
Operating Revenue	\$ 470	722	744	766	789	813
Operating Expense	3,404	3,658	3,941	4,138	4,344	4,562
Net Funding Requirement	(2,934)	(2,936)	(3,197)	(3,372)	(3,555)	(3,749)
<u>Natural Science Centers</u>						
Operating Revenue	968	900	900	900	900	900
Operating Expense	3,438	3,913	3,991	4,191	4,401	4,621
Net Funding Requirement	(2,470)	(3,013)	(3,091)	(3,291)	(3,501)	(3,721)
<u>Natural Resource Services</u>						
Operating Revenue	218	200	200	200	200	200
Operating Expense	2,673	3,024	3,082	3,236	3,398	3,568
Net Funding Requirement	(2,455)	(2,824)	(2,882)	(3,036)	(3,198)	(3,368)
<u>Community Assistance Services</u>						
Operating Revenue	-	-	-	-	-	-
Operating Expense	1,882	1,839	1,976	2,075	2,179	2,288
Net Funding Requirement	(1,882)	(1,839)	(1,976)	(2,075)	(2,179)	(2,288)
<u>Public Safety</u>						
Operating Revenue	690	623	623	623	623	623
Operating Expense	3,757	4,058	4,188	4,398	4,617	4,848
Net Funding Requirement	(3,067)	(3,435)	(3,565)	(3,775)	(3,994)	(4,225)
<u>Environmental Laboratory Services</u>						
Operating Revenue	4,950	5,220	5,481	5,700	5,871	6,018
Operating Expense	3,776	3,953	4,138	4,229	4,347	4,443
Net Funding Requirement	1,174	1,267	1,343	1,471	1,525	1,575
<u>Manage and Support Business Activities</u>						
Operating Revenue	-	-	-	-	-	-
Operating Expense	898	967	997	1,047	1,099	1,154
Net Funding Requirement	(898)	(967)	(997)	(1,047)	(1,099)	(1,154)
<u>Total Community Services</u>						
Operating Revenue	7,296	7,665	7,948	8,189	8,383	8,554
Operating Expense	19,828	21,410	22,313	23,313	24,385	25,483
Net Funding Requirement	(12,532)	(13,745)	(14,365)	(15,124)	(16,002)	(16,929)
Assigned Corporate Expense	5,383	5,683	5,952	6,271	6,307	6,831
Operating Funding Requirement	(17,915)	(19,428)	(20,317)	(21,395)	(22,309)	(23,760)
<u>Funding Requirement Analysis</u>						
Operating Funding Requirement	17,915	19,428	20,317	21,395	22,309	23,760
Capital Improvement Projects	5,358	4,367	6,550	9,300	10,400	9,150
Corporate Capital Allocation	861	1,910	1,304	1,332	1,679	706
CDPP Grant Program	1,000	1,000	1,000	1,000	1,000	1,000
Net Proceeds	-	-	-	-	-	-
Total Funding Requirement	25,134	26,705	29,171	33,027	35,388	34,616
<u>Capital Expenditures</u>						
Revenue Funded	5,358	4,367	6,550	9,300	10,400	9,150
Debt Funded	-	-	-	-	-	-
Prior-Year Available Funds	-	-	-	-	200	300
Total Capital	\$ 5,358	4,367	6,550	9,300	10,600	9,450

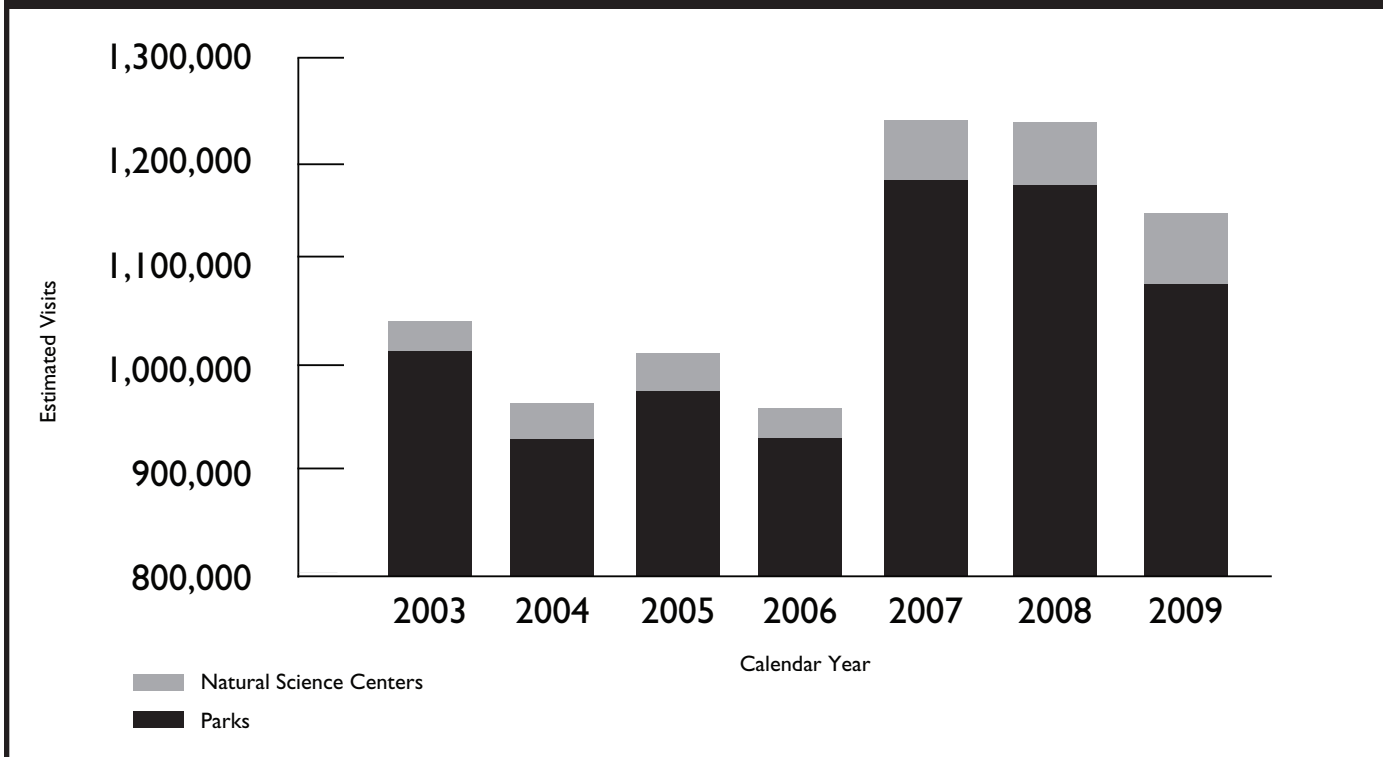
Key Points

- Revenues for Park Operations are expected to be higher than last year, due to additional revenue streams at three sites, primarily at Matagorda Bay Nature Park.
- Operating expenses are higher than last year's amounts, primarily due to additional demands for public services.
- Capital expenditures in the five-year forecast include projects focused on parks in Blanco, San Saba and Travis counties.

Community Services Sources and Uses, FY 2011 (Dollars in Thousands)



Parks and Natural Science Centers Visitation, CY 2003 – 2009 (Estimated Visits)



Prior to 2007, visitation at LCRA parks has averaged approximately 1 million users annually. A fee increase in Travis County-operated LCRA parks in 2004 and lower lakes levels in 2006 may have affected overall visitation during those years. Attendance increases in 2007 and since then are primarily due to the opening of Matagorda Bay Nature Park, capital improvement projects at other park sites, new program opportunities at McKinney Roughs and outreach programs throughout the LCRA service area. In 2009, record low water levels on lakes Buchanan and Travis greatly affected the overall visitation at all of the LCRA Highland Lakes parks as boat ramps and other recreational opportunities became unavailable.

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Corporate Services

Contribution to LCRA

- Corporate Services provides oversight as well as support services to the LCRA business units that can be managed most cost effectively as a central operation. The four areas of support are the General Manager, including Legal and Internal Audit; the Chief Financial Officer, which provides financial oversight; the Chief Administrative Officer, which provides internal operations support; and External Affairs, which coordinates external relationships primarily with regulators and other public officials.
- LCRA Telecommunications, under the Chief Administrative Officer, provides radio and telecommunications services to LCRA as well as to LCRA's wholesale electric customers, law enforcement agencies, school districts, transportation agencies and other customers upon request.
- Corporate costs are assigned to each business unit based on a reasonable cost allocation method as a means of recovering the cost to provide oversight and support services.

What's Changed From FY 2010?

- Increased technology support for implementing the Public Utility Commission of Texas' nodal wholesale market design in December 2010
- Increased technology support for implementing the North American Electric Reliability Corporation cyber standards
- Delay of regulatory support for Competitive Renewable Energy Zones (CREZ) projects to 2011
- Reduced Communication Services expenses

What's Ahead for FY 2011?

- Provide regulatory support for CREZ projects.
- Conduct an employee opinion survey.
- Continue implementing the Supply Management changes with an FY 2011 goal of \$11.0 million cost reduction in procuring goods and services.

- Complete a study on future computer data center requirements.
- Begin the 900-MHz radio system upgrade project.
- Begin construction of an office building at the Dalchau Service Center and a maintenance facility in the western service region, which will reduce annual leasing costs.

Revenue Analysis

Corporate Services revenues are expected to be \$5.0 million for FY 2011, compared to \$5.4 million in FY 2010. Changes in the economy, combined with the radio upgrade capital project, are expected to affect customer decisions on purchases and planned projects, resulting in no projected new radio sales or related maintenance agreements. This revenue is generated from customers who purchase access to LCRA telecommunications infrastructure in the service area. This service is directed by LCRA Board Policy 220 – Telecommunications, and these revenues reduce the internal technology expenses allocated to each business unit.

Expense Analysis

Corporate Services has budgeted \$83.4 million in FY 2011 for net operations and maintenance expenses, which is \$3.2 million, or 4 percent, higher than FY 2010. The primary drivers of the cost increase from FY 2010 budget includes:

- Increased technology support for Wholesale Power Services' nodal market efforts.
- Supply management efforts to continue the cost savings for materials and services that were initiated in FY 2009.
- A request from the Fayette Power Project for Facilities to begin supporting the air-conditioning systems.
- Legal services for additional staff to support litigation issues in Water and Wholesale Power Services.

Summary

Services provided are scaled to the specific needs of business units as they respond to changes in their business require-

ments and the current economic pressures. In some areas there is a demand to expand services, such as supporting new generation resources, nodal market implementation and the CREZ projects. Some areas are scaled back in response to a changing business, such as Communication Services scope, and water and wastewater utility systems. Technol-

ogy demands are increasing in all areas as dependency on technology continues to drive infrastructure expansion, while some technologies are being consolidated to eliminate redundancy across the company. Employee benefits and compensation recommendations are being implemented to support an affordable, competitive work force.

Corporate Services Operating Budget, FY 2010 – FY 2015 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues						
Operating Revenue ¹	\$ 5,423	5,017	5,096	5,096	5,096	5,096
Expenses						
Board of Directors	180	200	200	211	221	232
General Manager and Staff	7,825	7,254	7,474	7,885	8,259	8,654
Chief Financial Officer and Staff	14,158	14,176	14,751	15,561	16,300	17,080
Chief Administrative Officer and Staff	58,720	61,635	64,915	68,477	71,730	75,167
External Affairs	4,770	5,145	5,272	5,562	5,826	6,105
Total Expenses	85,653	88,410	92,612	97,696	102,336	107,238
Total Net Operating Expense	80,230	83,393	87,516	92,600	97,240	102,142

Corporate Services Expense Allocations, FY 2010 – FY 2015 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Allocated Corporate Expense	80,230	83,393	87,516	92,600	97,240	102,142
Capital and Other Credits						
Capital Credits	(10,044)	(9,603)	(10,020)	(10,054)	(8,849)	(7,322)
Miscellaneous Credits	(5,708)	(5,760)	(6,073)	(6,442)	(6,764)	(7,104)
Total Capital and Other Credits	(15,752)	(15,363)	(16,093)	(16,496)	(15,613)	(14,426)
Total Net Corporate Expense	64,478	68,030	71,423	76,104	81,627	87,716
Net Allocated Corporate Expense Fuel						
Wholesale Power Services	3,660	4,566	4,945	5,273	5,310	5,288
Net Allocated Corporate Expense Nonfuel						
Community Services	5,383	5,683	5,952	6,271	6,307	6,831
Transmission Customer Service	1,057	928	981	1,046	1,096	1,153
Transmission Services Corporation	20,783	21,092	21,444	23,072	29,055	33,275
Water Services	13,210	13,396	14,090	14,787	14,305	16,091
Wholesale Power Services	20,385	22,365	24,011	25,655	25,554	25,078
Total Net Allocated Corporate Expense Nonfuel	60,818	63,464	66,478	70,831	76,317	82,428
Total Net Allocated Corporate Expense	64,478	68,030	71,423	76,104	81,627	87,716
Capital Expenditures						
Revenue Funded	6,259	6,917	8,461	9,164	11,698	5,564
Debt Funded	14,389	19,720	27,140	14,516	13,852	5,736
Third Party / Proceeds Funded	4,287	3,897	720	630	-	-
Total Capital	24,935	30,534	36,321	24,310	25,550	11,300

¹ Telecommunications Revenue

Key Points

- Revenues for Telecommunication Customer Services are expected to be 7.5 percent lower in FY 2011, due to changes in the economy.
- Operating expenses for FY 2011 are 3.2 percent higher than last year, due to increased demands for Information Technology, Facilities and Supply Management Services.
- Capital expenditures in the five-year forecast include construction of two buildings and an upgrade of the radio system that supports LCRA operations.

**Corporate Services Net Expense Reconciliation,
FY 2010 – FY 2011
(Dollars in Thousands)**

FY 2010 Corporate Expense	\$ 80,230
Less:	
Amounts moved to Business Units ¹	\$ (1,104)
Plus:	
Specific Work Requested	\$ 852
Labor & Benefit Increases	\$ 4,568
Savings/Reductions ²	\$ (1,153)
 FY 2011 Corporate Expense	 \$ 83,393
 % Increase excluding amounts moved	 <u>5.4%</u>

¹Certain items in the Corporate Services Budget were decentralized and moved into the Business Units to provide appropriate management and oversight: outside legal counsel, communication costs for Water IQ and Nobody's Waterproof, and annual membership dues in power related organizations (APPA and LPPC).

² Savings/Reductions include reductions primarily in communication costs and telecommunication costs, and increases in Information Technology.

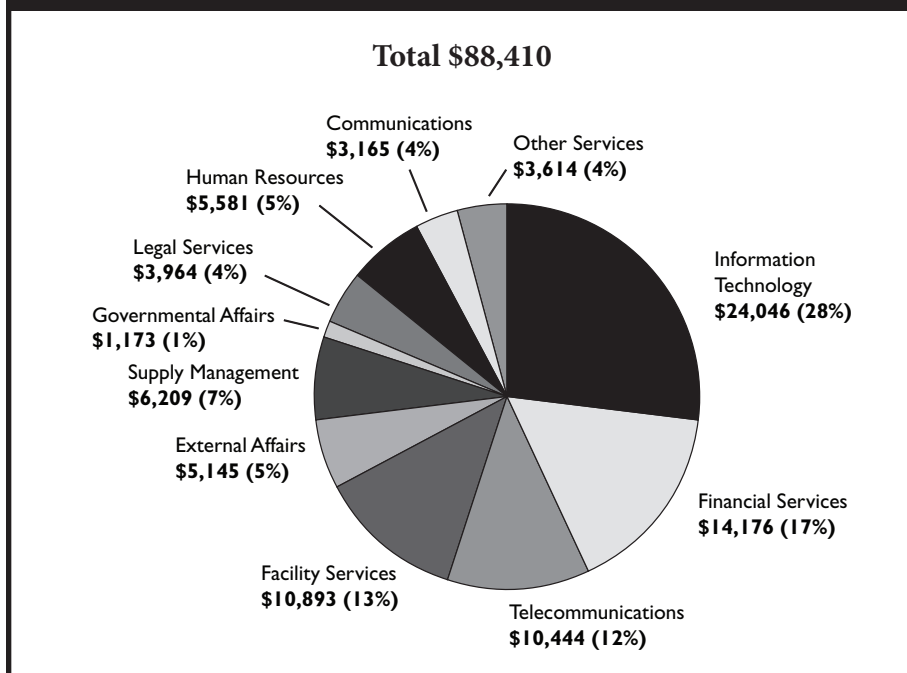
**Corporate Services Net Expense Reconciliation,
FY 2011 (Last Year) to FY 2011 (This Year)
(Dollars in Thousands)**

FY 2011 Corporate Expense (Last Year's plan)	\$ 85,219
Less:	
Amounts moved to Business Units ¹	\$ (1,104)
Savings/Reductions	<u>\$ (722)</u>
 FY 2011 Corporate Expense	 \$ 83,393
 % Decrease from last year's estimate	 <u>-2.1%</u>

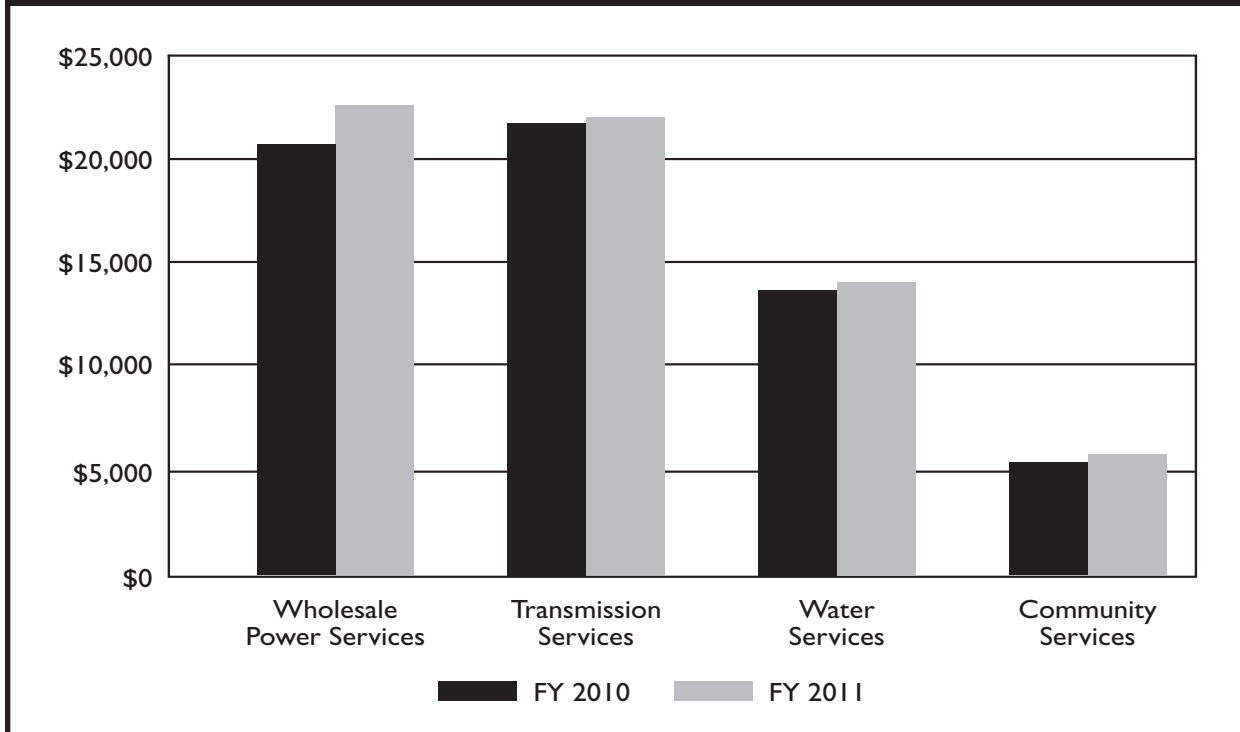
¹Certain items in the Corporate Services Budget were decentralized and moved into the Business Units to provide appropriate management and oversight: outside legal counsel, communication costs for Water IQ and Nobody's Waterproof, and annual membership dues in power related organizations (APPA and LPPC).

The first reconciliation chart shows the growth from FY 2010 to FY 2011. The second chart compares last year's estimate for FY 2011 versus the proposed Corporate budget.

Corporate Services Expenses, FY 2011 (Dollars in Thousands)



Total Corporate Expense Charged to Business Units, FY 2011
(Dollars in Thousands)



Corporate expenses increased primarily in Wholesale Power Services in support of new generation resources. Wholesale Power Services' share increased \$2.0 million, Transmission Services' share increased \$0.2 million, Water Services' share increased \$0.2 million, and Community Services' share increased \$0.3 million.

In FY 2011 approximately \$9.6 million of corporate expense is forecast to be capitalized to LCRA capital projects. This figure is lower than the \$10.0 million capitalized in the FY 2010 budget.



LCRA's Business Plans: A Look Back

During 2010 LCRA is observing its 75th anniversary. How have LCRA and its business operations evolved over time? This section takes a look at where LCRA was 75, 50, 25 and 10 years ago. Because LCRA's planning process has evolved along with its operations, a direct comparison with some figures, as shown in present-day business plans, was not always possible. Some figures may come from other documents of the era, such as Board meeting minutes and financial audits. Even so, the facts and figures shed light on how LCRA has grown and changed through the years.

FY 1936 (75 Years Ago)

For LCRA's first full fiscal year (which began Sept. 1, 1935, in keeping with other state agencies), the focus was on completing the Buchanan Dam project, for which LCRA had been created. The Buchanan project assets included one horse, which LCRA had acquired as part of a land purchase. (LCRA sold the horse for \$75 in January 1936.) LCRA looked forward to the hiring of its first general manager, Clarence McDonough, and leasing its first headquarters offices in the Littlefield Building in downtown Austin.

Operating Budget: Roughly \$793,833.49, based on cash on hand from federal and state appropriations, income from rental fees on Buchanan land properties, escrow accounts and advances for traveling expenses, according to LCRA's audit for 1935.

Amount from Electric Operations: \$0.00, as LCRA had no electric operations at the time.

Capital Budget: \$7,804,749.84 in federal grants and loans and deferred debt for Buchanan Dam construction, according to the 1935 audit.

Number of Employees: 9, counting the incoming general manager, as of the close of LCRA's 1935 fiscal year on Aug. 31. Employees included General Counsel Alvin Wirtz, a treasurer, auditor, land commissioner, health officer, police superintendent (for Buchanan security patrols), and LCRA's

first hire, stenographer Madeline Norris. By the following two months, LCRA had hired an additional 30 employees, including a personnel director, eight accountants, six stenographers, a telephone-system operator and support staff for LCRA executives.

FY 1961 (50 Years Ago)

By its 25th anniversary, LCRA regarded itself primarily as an electric utility, serving wholesale and retail customers. Non-electric operations played relatively minor roles. LCRA had phased out its soil conservation program; some present-day operations, such as water quality, were nonexistent. LCRA's main generation source was the hydroelectric stations at the Highland Lakes dams, supplemented by the Comal Power Plant and purchased power. But shortly before the start of LCRA's 1961 fiscal year, General Manager Sim Gideon had made one strategic acquisition: the Gulf Coast Water Company, the first of the coastal irrigation districts that LCRA would acquire in subsequent years. Growing demand for electricity, coupled with uncertainties about the reliability of hydrogenation and purchased power to meet that demand, eventually led LCRA to build the gas-fired Sim Gideon Power Plant.

Operating Budget: About \$7.6 million, based on cash and other assets listed in LCRA's audit for its 1960 fiscal year.

Amount from Electric Operations: At least \$3.4 million for the 12 months ending June 30, 1960, based on reported revenues for Pedernales and Bluebonnet electric cooperatives (which LCRA operated at the time) and LCRA's retail electric operations in Kerrville, San Marcos and San Saba. LCRA records do not indicate revenues from its wholesale electric sales.

Fuel and Purchased Power Costs: \$1.2 million (35 percent of LCRA's total retail electric revenues) for 12 months ending June 30, 1960, including \$363,209.80 for fuel (about 10 percent of total retail revenues) and \$871,247.12 (about 25 percent of total retail revenues) for purchased power.

Capital Budget: \$761,704.39, based on construction funds listed in the LCRA audit.

Number of Employees: 572 at the start of the fiscal year, which began July 1. By year's end, staff had grown to 591.

FY 1986 (25 Years Ago)

By its 50th anniversary LCRA was expanding some of its nonelectric operations, such as water quality and conservation and education programs. But electric generation plans continued to drive the budget. Roughly 91 percent of the five-year capital budget was for expansion of the Fayette Power Project, including construction of Unit 3 (already under way), a possible Unit 4 (never built), and construction of the nearby Cummins Creek lignite mine (ultimately abandoned, though LCRA incorporated some of the acreage acquired for the mine into its Natural Resource Conservation programs). But other electric operations were changing: By fall 1985 the LCRA Board voted to sell off LCRA's retail electric operations in Kerrville, San Marcos and San Saba. And there would be changes at the top: the fiscal year began with General Manager Elof Soderberg and ended with S. David Freeman.

Operating Budget: \$292.1 million, based on projected total revenues.

Amount from Electric Operations: \$257.0 million (88.0 percent of total revenues).

Fuel Costs: Projected expenses of \$162.6 million (55.7 percent of total revenues); but the budget anticipated collecting only \$155.9 million from a "fixed fuel factor" set by the Public Utility Commission of Texas, which at the time regulated the rates of LCRA and many other electric utilities.

Capital Budget: \$345.7 million (\$1.5 billion for FY 1986-1990).

Number of Employees: 1,828, including 29 part-time employees.

FY 2001 (10 Years Ago)

LCRA's attention to its nonelectric operations continued to expand in the ensuing years. That expansion was reflected in LCRA's FY 2001 Business Plan, which listed 48 goals under the headings of Public Service, Utility and Community Infra-

structures, and Foundation Strategies. But electric operations were still a key priority. The coming state-mandated deregulation of the electric utility market required LCRA to anticipate its possible effects on LCRA's wholesale customers and to plan for "unbundling" of its transmission assets and operations. LCRA also was expanding its water and wastewater utilities system and preparing for the startup of the Lost Pines 1 Power Project, 50 percent of which LCRA owned through its GenTex subsidiary. Urbanization of the Highland Lakes region challenged LCRA to meet higher public expectations regarding surface water management, flood-warning notification and water quality assessments.

Operating Budget: \$565.4 million.

Amount from Electric Operations: \$513.4 million (90.8 percent of total revenues).

Fuel and Purchased Power Costs: \$222.6 million (39.4 percent of total expenditures).

Capital Budget: \$221.3 million (\$602 million for FY 2001-2005).

Number of Employees: 1,724 at start of fiscal year; increased to 1,910 by fiscal year-end, primarily due to expansion of the water utility system.

For the FY 2000 Business Plan, which incorporated a 10-year planning scenario, General Manager Mark Rose envisioned the LCRA of 2010:

"In 2010, the LCRA will be a powerful force in the life of Central Texas – a mature regional organization that delivers on its mission. We will be supplying wholesale power at competitive rates, water to growing communities, and an array of services that will help communities grapple with growth and, in some cases, with economic decline. We will be here, making a difference.

"The LCRA is well-positioned: it is financially sound and valued by our communities. It is solving the problems placed before us by our mission. In 2010, circumstances will be very different. Our markets will have changed, our services will be modified, and our customers will have different needs. But, as we are today, we will be strong contributing members of our communities."



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