LCRA FY 2012 Business Plan

ENERGY • WATER • COMMUNITY SERVICES

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Contents

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 business of preparing a budget and operating plan is a common procedure for many business and families across Texas. That's also true for the Lower Colorado River Authority – with the recognition that how we prepare and carry out our budget can significantly affect the budgets of those we serve.

As a result, LCRA has worked to develop its budget – or business plan – for fiscal year (FY) 2012 to meet the needs of our customers and stakeholders while remaining sensitive to the economic conditions affecting the state. Our projected revenues of $1.2 billion for FY 2012 will operate a network of power plants, transmission facilities, water and wastewater utilities, dams, lakes and parks that serve the people of Texas. We want to continue to be a competitive, dependable and stable service provider for this region. This business plan shows how LCRA will carry out that role during the 2012 fiscal year.

Economic Conditions and the FY 2012 Plan

Reflecting the current economic conditions, the FY 2012 Business Plan uses assumptions for sales of LCRA's energy and water services that reflect a slight economic improvement over the past year but looking ahead to a continued slow recovery. Accordingly, the FY 2012 plan anticipates slight growth in demand for LCRA's services.

Projected nonfuel revenues are anticipated to be $733.8 million for FY 2012, which is $50.1 million (7.3 percent) higher than the FY 2011 budget. And LCRA projects a 1.35x debt service coverage ratio in FY 2012, slightly more than the 1.32x projected in FY 2011.

Preparing for the Future

LCRA's FY 2012 Business Plan is based on the three major goals identified by LCRA's Board of Directors:

Generation Resource Planning: LCRA's 2012 fiscal year will be the beginning of a five-year transitional period for LCRA and its wholesale electric customers. By the start of FY 2012, all customers will have determined whether they will extend their power agreements with LCRA to 2041. At the same time, we intend to provide the same level of exceptional service to those customers that will leave LCRA after 2016. We are working closely with customers to plan for reliable, cost-effective generating resources, including options for additional capacity, plans for replacement of some aging generation plants, and more renewable energy and conservation options that are attractive to our customers. We also are addressing issues involving the costs and ownership of existing and new generation resources under different contract terms.

Water Resource Strategy: Planning continues with the Board's approval of LCRA's Water Supply Resource Plan to determine the basin's long-term water needs through this century and how to meet them. LCRA also is working with customers and stakeholders to update LCRA's Water Management Plan that governs the use of our present-day resources. Conservation will continue to be a key priority, especially as the region appears to be headed into another drought cycle as the FY 2012 Business Plan is being prepared.

Low-Cost Provider: This plan has incorporated strategies designed to manage LCRA's total costs without sacrificing the quality of service that our customers and stakeholders expect. LCRA's business units continue to examine their operations to identify opportunities to improve services while also maintaining or reducing costs and rates.

Features of the FY 2012 Business Plan

The FY 2012 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, employee compensation and benefits, 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 issues anticipated for FY 2012, major changes from 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 policymakers 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 public information 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 an energy affiliate 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 owns and develops all LCRA-related transmission operations and infrastructure, through December 2010 paid more than $121 million in state and local sales and property taxes since their creation.

What is the status of negotiations with wholesale power customers?

As of April 1, 2011, 33 of LCRA's 43 wholesale electric customers had amended their wholesale power agreements, committing to buy power from LCRA through June 2041. These customers represent about 64 percent of LCRA's total energy sales. Four customers have notified LCRA of their intent to terminate their agreements in 2016. LCRA continues discussions with the remaining customers and is hopeful they will choose to continue their LCRA partnerships beyond 2016, when the current contract term ends. According to the provisions of the current agreements, customers are expected to indicate by the end of June 2011 whether they will continue a partnership with LCRA. The key to LCRA's long-term success will be its ability to provide competitively priced energy to the Electric Reliability Council of Texas market, consequently creating value for its wholesale electric customers.

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.

How is LCRA's water supply affected by recent weather conditions?

Lake levels were about average at the beginning of 2011, but it was a dry fall, and 2011 is expected to be a dry year due to the La Niña weather pattern. LCRA forecasts that water supply levels may drop in 2011, causing limited recreation impacts during the summer boating season and potentially triggering LCRA this summer to ask its firm customers for voluntary firm demand reductions. There is also a chance LCRA will begin agricultural supply reductions in 2012. LCRA has begun to communicate the water supply impacts of possible drought conditions to its customers and the public and will do so as long as drought persists.

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.

Why is LCRA divesting the water and wastewater utility systems?

LCRA's Board decided that to remain a low-cost provider of raw water and wholesale electric power, LCRA should sell these utilities and focus its resources on helping to meet the basin's long-term water supply, power generation and transmission needs. Through most of its 76-year history, LCRA has not provided treated water, only raw water from the Colorado River. Over the past couple of decades, LCRA had purchased and upgraded the utility systems to meet regulatory requirements and demands caused by growth. In contrast to LCRA's other water and electric responsibilities, water and wastewater operations constitute a small part of LCRA's operations and roughly about 3 percent of its total revenues.

The process of determining a suitable buyer (or buyers) for the utilities will take at least two years, according to LCRA's consultants. In determining suitable candidates to purchase the systems, LCRA will consider the candidates' ability to (1) provide reliable, quality utility services; (2) invest capital for additional necessary water and wastewater utility infrastructure; (3) meet applicable regulatory requirements; and (4) compensate LCRA for its investments in the systems, which total roughly $300 million. Customers and communities served by LCRA's utilities will see continued reliable service through the period of exploring the sale of the utilities.

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 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 FY 2012 Strategic Goals

Generation Resource Plan

- Improve LCRA's competitiveness in the Electric Reliability Council of Texas wholesale market over the next five years, recognizing our changing customer base.

Water Supply Strategy

- Staff will seek Board guidance in the first half of FY 2012 to develop a revised Water Management Plan. The draft revised Water Management Plan will be distributed for stakeholder comment by the end of FY 2012.

Low-Cost Provider

Wholesale Power Services:

- Electric rates – excluding the portions dedicated to debt service and fuel costs – will be frozen through FY 2014.

Transmission Services:

- Manage LCRA Transmission Services Corporation (LCRA TSC) rates by filing a Transmission Cost of Service (TCOS) rate case in FY 2012 and subsequently file only Interim Capital Additions (ICAs) during the remainder of the five-year planning horizon. By using only ICAs in FY 2013 through 2016, LCRA TSC can recover costs it has invested in new capital assets. Operating cost increases are not included in ICA filings, as rules set by the Public Utility Commission of Texas only allow LCRA TSC to recover debt service, debt service coverage and property taxes associated with new capital investment. As a result, LCRA TSC will need to effectively manage its operating cost throughout the upcoming period of growth in transmission assets and increasing operations and maintenance requirements.

Water Services:

- Firm Raw Water: No increase to the current rate for three years through January 2014.
- Irrigation: After the current Board-approved rate increases through 2013, increase rates to cover the inflation in operating cost with no additional Public Service Fund support beyond the current level of $3.0 million.
- Hydroelectric: The Hydroelectric cost of service, excluding the existing debt service component, will remain the same for fiscal years 2012, 2013 and 2014.
- Water and Wastewater: Continue to manage costs and raise rates in order to reach full cost recovery for the entire utility by FY 2017.

Corporate Services:

- Manage growth in expenses to be no greater than the weighted average growth of nonfuel expenses in Wholesale Power, Transmission and Water Services.

Consolidated Look at Revenues and Expenses

LCRA, Affiliates and Nonprofit Corporations Financial Summary, FY 2011 – 2016 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues[1]						
Wholesale Power Services	$ 867,083	858,126	967,369	1,036,180	1,088,432	1,168,934
Transmission Services	260,062	290,913	325,324	353,135	384,864	390,669
Water Services	100,929	103,447	109,895	115,499	119,925	124,624
Community Services	7,665	8,220	8,520	8,691	8,867	9,019
Less Intracompany Eliminations	(33,117)	(34,327)	(35,188)	(35,875)	(36,943)	(38,061)
Total Net Revenue	1,202,622	1,226,379	1,375,920	1,477,630	1,565,145	1,655,185
Expenses[1]						
Fuel and Power Cost Recovery (F&PCR)	518,924	492,554	564,951	608,999	639,947	697,765
Operations and Maintenance	304,889	296,653	315,874	339,109	357,167	385,022
Total Net Expense	823,813	789,207	880,825	948,108	997,114	1,082,787
Net Available for Debt Service	378,809	437,172	495,095	529,522	568,031	572,398
Coverage Adjustments (GenTex)	1,472	3,338	3,836	500	900	4,700
Adjusted Net Revenues Available[2]	377,337	433,834	491,259	529,022	567,131	567,698
Debt Service	285,676	321,078	352,416	381,859	413,158	414,413
Debt Service Coverage, Adjusted[2]	1.32x	1.35x	1.39x	1.39x	1.37x	1.37x
Net Revenues After Debt Service	93,133	116,094	142,679	147,663	154,873	157,985
Less:						
Operating Reserves	18,615	11,063	29,360	27,802	23,743	22,050
Infrastructure Reserve	2,479	4,522	4,071	2,171	5,235	5,834
Revenue Funded Capital	67,480	94,496	106,589	115,705	95,768	78,077
Noncash Revenues	2,811	2,932	3,056	3,182	3,311	3,442
Restricted for Capital/Debt Retirement	162	626	555	713	29,509	51,806
GenTex Price Stabilization Reserve Fund	1,500	1,500	-	-	-	-
Community Services Net Proceeds and Grants	1,000	1,000	1,000	1,000	1,000	1,000
Water/Wastewater Divestiture Funding	-	500	-	-	-	-
Plus:						
Water and Wastewater Divestiture Proceeds	911	-	-	-	-	-
Amortization of Corporate/Minor Capital[3]	-	545	1,952	2,910	3,693	4,224
Net Cash Flow	-	-	-	-	-	-
Capital Expenditures						
Revenue Funded	67,480	94,496	106,589	115,705	95,768	78,077
Debt Funded	373,127	484,812	517,903	193,829	95,110	104,242
Third Party / Proceeds Funded	5,299	5,260	3,495	860	175	175
Total Capital	$ 445,906	584,568	627,987	310,394	191,053	182,494

[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.

[3] In FY 2012, Transmission Services will begin funding minor capital and its share of Corporate Capital with current year revenues but will include an amortization of the amount in each year to recover in rates.

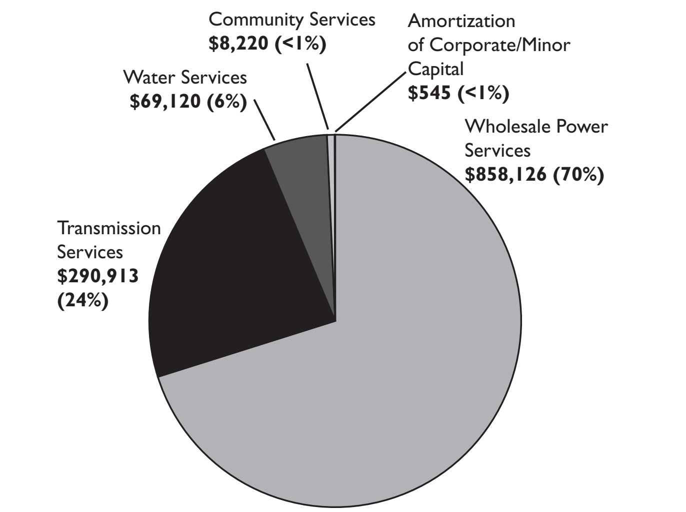
Key Points

- Total Revenue increases from the FY 2011 budget. Fuel revenues decrease by $26.4 million (5.1 percent), and nonfuel revenue increases $50.1 million (7.3 percent) due to increasing debt service and coverage.
- Total Expense decreases by $34.6 million (4.2 percent) due to reduction in fuel expense by $26.4 million (5.1 percent) and reductions to nonfuel Operations and Maintenance expense achieved mainly through labor cost reductions.
- Debt Service Coverage, a widely used measure of financial performance, is forecast to be 1.35x in FY 2012 and increasing to 1.37x in FY 2016.
- Net Revenues After Debt Service are projected to be $116.1 million. Of this, $11.1 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 ($94.5 million) and Borrowed Funds ($484.8 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.

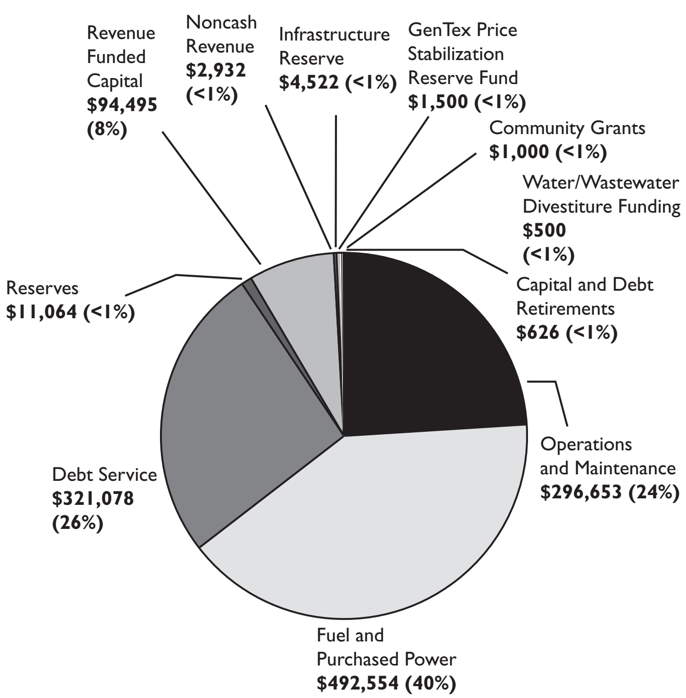
The graph on the left summarizes the sources of LCRA's total projected revenues for fiscal year (FY) 2012 and how they will be used during the fiscal year. The graph on the right also reflects revenues and expenses for FY 2012, but it excludes fuel and purchased power revenues and expense. This provides a more detailed look at nonfuel expenses forecasted for the upcoming fiscal year.

LCRA Sources and Uses, FY 2012 (Dollars in Thousands)

Sources $1,226,924

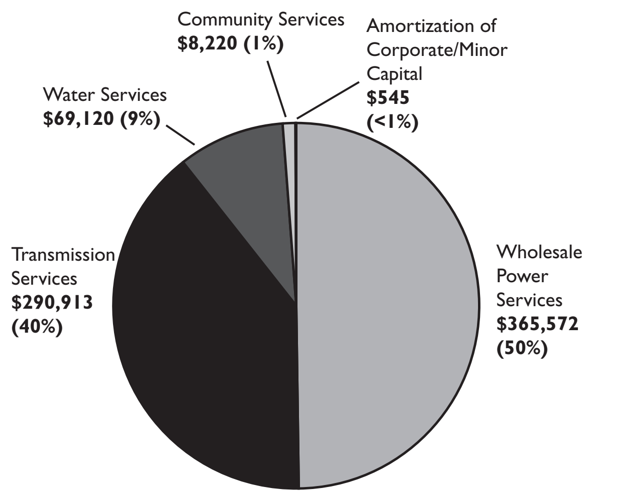


Uses $1,226,924

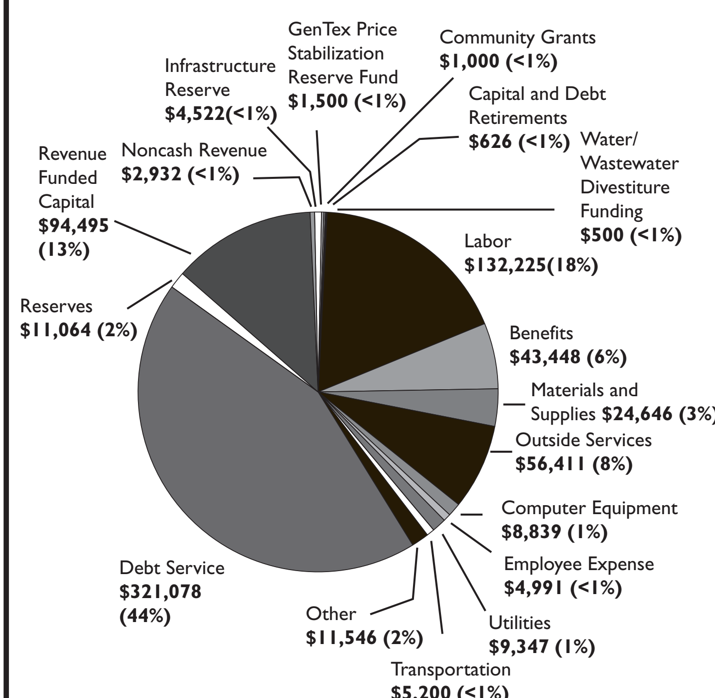


LCRA Sources and Uses, Nonfuel Only, FY 2012 (Dollars in Thousands)

Sources $734,370



Uses $734,370



Key Topics

Rates

Electric: Electric rates are projected to be higher than last year's approved electric rates as a result of a higher fuel rate, somewhat offset by a decrease in the nonfuel rate. The higher FY 2012 fuel rate is not associated with higher costs but is a result of returning an over-collection to customers in FY 2011 through a lower rate. 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. LCRA is committed to producing competitively priced and reliable electricity. The investments in capacity additions and maintenance programs in FY 2012 and beyond help meet generation load requirements and stabilize costs in future years.

Electric rates are designed to recover the costs of providing wholesale electric power and are based on the closed-loop budgeting concept. 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:

- Fuel (natural gas and coal) used to generate electricity
- Managing and transporting fuel 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 market opportunities
- Labor for fuel-related activity, power sales and purchases, 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 recover LCRA's reasonable and necessary costs of providing services 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 recover its costs of 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 pursued two ICA filings during FY 2011 to recover capital investment and taxes on recently completed projects. The second ICA of FY 2011, filed in March 2011, includes the Clear Springs-to-

Hutto project, which is one of LCRA TSC's largest 345-kilovolt transmission line construction projects in recent history. In addition, LCRA plans to follow these interim rate increases with a TCOS rate case to be filed in fall 2011. See the chart and discussion on page 20 for the FY 2012 to 2016 forecast of LCRA TSC rate actions and the resulting rate increases that are assumed in this business plan.

Raw Water

Current projections reflect that the current firm raw water rate of $151 per acre-foot is adequate to pay for LCRA's stewardship of the river, including water quality protection, flood and daily river management and water conservation. This rate, however, does not provide for potential new water supplies.

Irrigation

Board-approved rate increases of 4 percent per year from 2010 to 2013 are included to pay for rising operational costs. Subsequent rate increases of 4 percent per year are also assumed beyond 2013, largely to keep pace with inflationary increases.

Water and Wastewater Utilities

For this Business Plan, continued operations of all currently owned systems is assumed, including those systems currently under negotiation for divestiture.

At the West Travis County Water System, a retail rate increase originally approved by the LCRA Board to go into effect in October 2009 is now planned to be implemented in July 2011. Rate increases of 9.5 percent are assumed in February 2012 and January 2013, and an 8 percent increase is assumed in October 2013.

The Glenlake Water System projects a 5 percent rate increase in October 2011 and increases of 3 to 4 percent during FY 2013 to 2016.

Retail rate increases in the Hill Country Water System of 5 percent and 6 percent are projected in October 2013 and October 2015, respectively.

Rate increases in the Southeast Region are projected to range from 4 to 9.5 percent. Wholesale systems' revenue requirements are increasing to match the cost of service.

Parks

Revenues from fees charged at LCRA parks and natural science centers are projected to increase 16 percent over FY 2011 and remain relatively flat through FY 2016. 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.

Resource Planning

Generation Resource Plan

Wholesale Power Services' generation resource plan strategy continues to build upon previous plans to provide its wholesale customers with reliable, competitively 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, regulatory requirements, transmission congestion costs, 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 2011, LCRA's Board approved a Water Supply Resource Plan to act as a roadmap for LCRA to meet water supply needs until the year 2100. The plan includes potential water supply projects, probable costs and possible effects on available water for the environment, lake levels and downstream farmers.

The plan presents three approaches and cost estimates for meeting water supply needs. Proposed strategies include continued reliance on existing water rights, enhanced conservation and developing new supplies. Cost estimates range from several million dollars to about $1.6 billion. When creating the plan, LCRA took input from more than 500 stakeholders through surveys and public meetings. In FY 2012 the Board will discuss implementation of the plan, including options for funding new water supplies.

Competitive Renewable Energy Zones (CREZ) Projects

CREZ, or Competitive Renewable Energy Zones, is an initiative overseen by PUC, as authorized by the Texas Legislature. CREZ is intended to significantly boost the use of renewable energy in Texas. The PUC has directed LCRA TSC to build or upgrade about 460 miles of CREZ-related transmission and substation infrastructure. The PUC has approved the routes and structure types for all of LCRA TSC's CREZ transmission line projects. By the end of FY 2011, LCRA TSC will have placed into service seven of 18 CREZ projects awarded by the PUC and expects to complete three additional CREZ projects during FY 2012. All 18 CREZ projects will be completed within the five-year planning horizon.

Conservation

Water: Funds are included in the FY 2012 Business Plan to achieve an estimated cumulative yearly savings goal of 8,400 acre-feet of water. Approximately $475,000 is budgeted to continue the high efficiency toilet and showerhead programs, as well as conservation equipment rebates for commercial and institutional end-users. Approximately $200,000 from HB 1437 funds (an agricultural water conservation program) is also budgeted to continue cost-sharing grants to farmers for land leveling of rice farms.

Energy: Staff continues to work closely with wholesale electric customers and the Electric Reliability Council of Texas on a demand management program to reduce LCRA customers' peak energy use and demand over time. These efforts could potentially delay or offset the need for additional generation resources to serve customers' future needs. Several LCRA electric customers have implemented pilot programs to shift electricity use by residential and industrial customers to hours when demand and market prices for power are lower. In addition, LCRA will continue to offer a time-of-use pricing structure that electric customers can pass along to consumers to encourage energy efficiency.

Land: Staff is completing a five-year land conservation plan for all LCRA nonutility lands that establishes land management goals for each property. Best land management practices continue to be established on LCRA lands that 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 continues in FY 2012 and is included in this plan. In addition to conservation efforts, staff will continue to provide education and awareness activities to inform private landowners about the benefits of conservation easements.

Corporate Allocations

For the FY 2012 Business Plan, LCRA is implementing recommendations from a FY 2010 Cost of Service Study performed by an independent consultant to reduce the complexity of the Corporate expense assignment method by using cost assignment practices that are common in the power industry. The method assigns costs based on specific service levels requested by business units, labor hours, asset costs, revenues, square footage and the radio transport system as appropriate for each cost. LCRA feels the general and administrative cost assignments will be more understandable and simpler to process. LCRA will continue to reasonably assign costs to each of the business units, as well as entities within the business units such as Austin Energy and GenTex.

Compensation and Benefits

Compensation

LCRA's total estimated labor budget for FY 2012 is $175.2 million, which includes operations and maintenance expense and capital expenditures. This amount is $9.9 million, or 5.3 percent, less than the FY 2011 budget. Headcount for FY 2012 totals 2,298, which is a reduction of 98 positions (4.1 percent) from the FY 2011 budget, and 116 positions (4.8 percent) from what was projected last year for the FY 2012 budget.

For the FY 2012 Business Plan, LCRA's labor budget for non-fuel operations and maintenance activity is $133.9 million, $5.3 million for fuel activity, and $28.1 million for capital activity.

A portion of the labor costs is charged to Austin Energy for its share of the work at the Fayette Power Project, which equals $7.9 million in FY 2012.

Base Pay Increases

The estimated labor budget for FY 2012 includes no base salary increases.

Short-Term Incentive Pay ("At Risk")

The estimated labor budget does include $5.4 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

In addition to compensation, LCRA provides employees a range of benefits such as health plans, life insurance and retirement.

The estimated total benefits budget for FY 2012 is $59.6 million, which is $3.4 million (5.4 percent) less than the FY 2011 budget. These costs follow labor expenditures, with LCRA's share being $45.4 million for nonfuel operations and maintenance, $1.8 million for fuel activity, $9.7 million for capital activity, and $2.7 million charged to Austin Energy.

Benefits are budgeted at 34.5 percent of payroll for FY 2012, which is the same percentage used in the FY 2011 Business Plan.

Public Service Fund

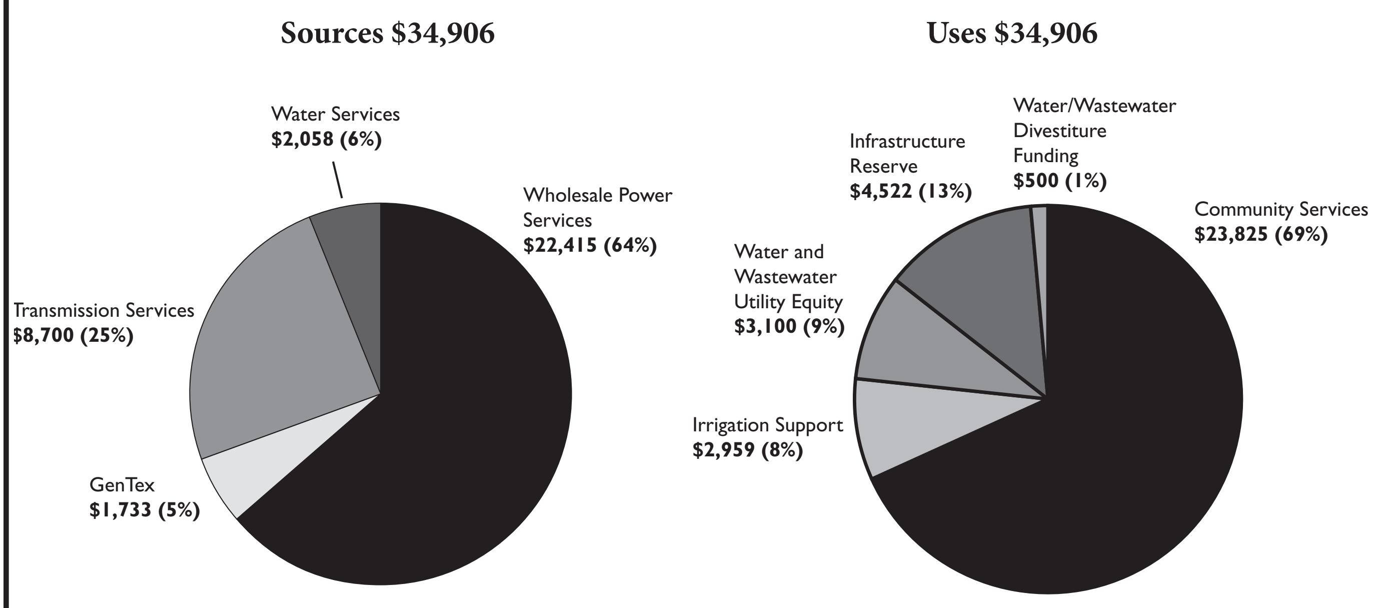
The Public Service Fund is the mechanism LCRA uses to fund statutory programs that do not generate sufficient revenues to fully recover their costs and for other uses at the Board's discretion. The Public Service Fund is directed through Board Policy 301 – Financial Policy, which establishes the fund 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 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 2011 – 2016 (Dollars in Thousands)

		Budgeted	Proposed	Forecast			
		FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Sources:							
Wholesale Power Services	$	21,817	22,415	22,674	23,167	23,807	24,907
GenTex		2,164	1,733	1,886	2,197	2,074	2,204
Transmission Services		7,766	8,700	9,690	10,448	11,378	11,553
Water Services		1,778	2,058	2,176	2,321	2,427	2,530
Subtotal		33,525	34,906	36,426	38,133	39,686	41,194
Uses:							
Community Services		26,705	23,825	27,334	31,705	31,444	30,801
Irrigation Support		1,041	2,959	2,421	2,757	1,507	3,059
Water/Wastewater Utility Equity		3,300	3,100	2,600	1,500	1,500	1,500
Infrastructure Reserve		2,479	4,522	4,071	2,171	5,235	5,834
Water/Wastewater Divestiture Funding		-	500	-	-	-	-
Subtotal		33,525	34,906	36,426	38,133	39,686	41,194
Net Available Public Service Funds:	$	-	-	-	-	-	-

Sources and Uses, LCRA Public Service Fund, FY 2012 (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. The business unit also provides LCRA wholesale electric customers with services that promote wise and efficient energy use by Central Texas electric consumers.

What's Changed From FY 2011?

- Projected revenues for FY 2012 will be 1 percent lower than the previous year's budget, primarily due to the offsetting combination of lower fuel revenues and increased recovery of debt service associated with the completion of the Sandy Creek Energy Station, emission control technology at the Fayette Power Project, and Phase 2 of the Ferguson Replacement Project, a natural gas-fired generating facility to replace the Thomas C. Ferguson Power Plant.

- Nonfuel revenues are expected to increase by 5 percent, largely driven by debt service requirements. Operating expenses are $3 million, or 2 percent, lower than last year's budget.

- Addition of 200 megawatts (MW) of renewable wind power from the Papalote Creek II Wind Farm into LCRA's existing portfolio of generation options.

What's Ahead for FY 2012?

- Complete permitting and initiate construction on the Ferguson Replacement Project.

- Begin receiving energy output from LCRA's investment in the Sandy Creek Energy Station.

Revenue Analysis

In FY 2012, WPS' operating revenues of $857 million are $8.2 million, or 1 percent, lower than last year's budget. This decrease reflects a fuel revenue decrease of $26.4 million and a nonfuel revenue increase of $18 million. For the FY 2013 to 2016 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 2012 of $631 million are $29 million, or 4 percent, lower than last year's budget, and debt service payments of $143 million are $16 million, or 13 percent, greater than last year's plan. Nonfuel operations and maintenance expenses, including assigned corporate expense, decreased 2.6 percent from last year's budget. Fuel expense and purchased power decreased $26.4 million due primarily to lower fuel prices. 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 emission-control technology at the Fayette Power Project, and the development of the Ferguson Replacement Project. 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 2012 are $288 million and are $865 million over the five-year plan period.

Nonfuel operations and maintenance expenses, excluding assigned corporate expense, decreased 8.7 percent from the FY 2012 budget from last year's plan.

Summary

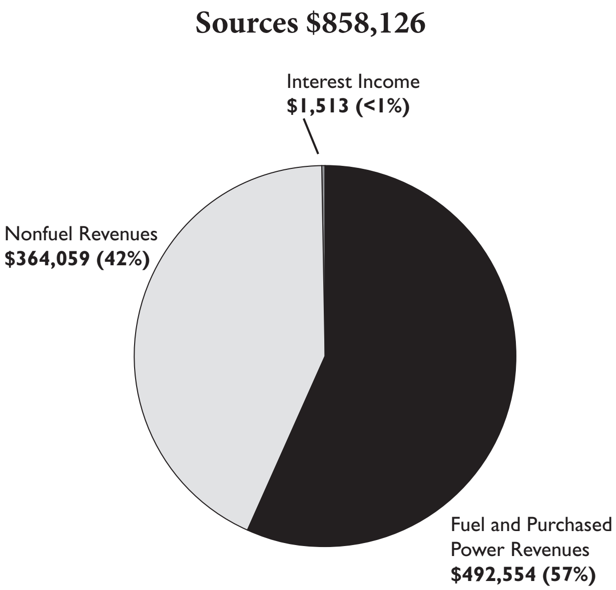
As Wholesale Power Services refines its vision and long-term strategy in the electric generation wholesale market, it continues to invest in projects that fit LCRA's generation resource planning goals and improve LCRA's competitive position in the Electric Reliability Council of Texas system. While investments in projects like the replacement of the Thomas C. Ferguson Power Plant increase nonfuel revenue requirements, this investment helps Wholesale Power Services improve its competitive position over the long term, as a new power plant will burn less fuel, produce fewer emissions and require fewer near-term maintenance outages. In addition, Wholesale Power Services continues to work on providing low-cost, reliable power by containing operation and maintenance costs when the risks are acceptable, which will allow LCRA to hold its nonfuel rate flat, exclusive of debt service, for more than two years.

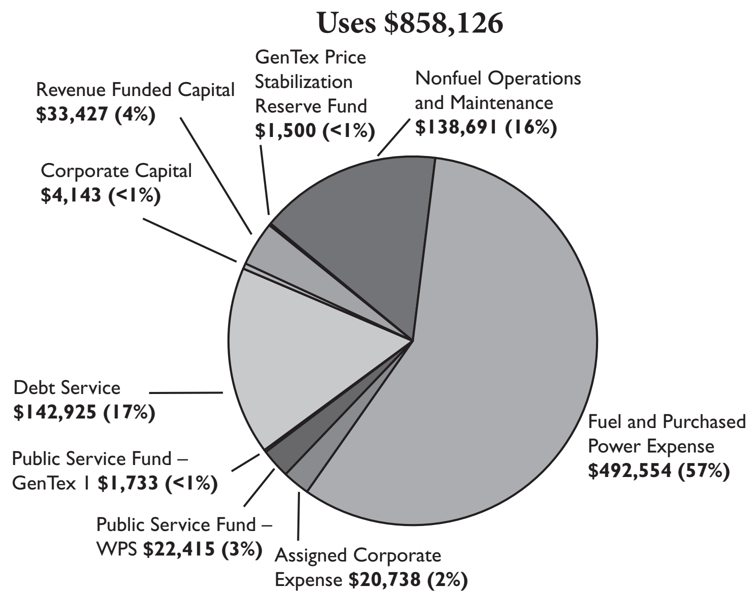
Wholesale Power Services and Affiliates Operating Budget[1], FY 2011 – 2016 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues						
Sale of Electricity:						
Nonfuel Revenues	$ 342,919	360,814	395,454	416,031	437,091	460,143
F&PCR Revenues [2]	506,674	486,613	559,224	603,072	633,812	691,416
Total Sales of Electricity	849,593	847,427	954,678	1,019,103	1,070,903	1,151,559
Other Revenues - F&PCR [3]	12,250	5,941	5,727	5,927	6,135	6,349
Other Revenues - WPS Nonfuel [4]	3,017	3,245	3,341	3,341	3,341	3,341
Total Revenue	864,860	856,613	963,746	1,028,371	1,080,379	1,161,249
Expenses						
Net F&PCR and Affiliate Fuel Expenses	518,924	492,554	564,951	608,999	639,947	697,765
Total Nonfuel Operations and Maintenance	141,312	138,691	142,319	154,219	159,414	175,551
Total Wholesale Power / Affiliate Expense	660,236	631,245	707,270	763,218	799,361	873,316
Net Operating Margin	204,624	225,368	256,476	265,153	281,018	287,933
Add: Interest Income	2,223	1,513	3,623	7,809	8,053	7,685
Less: Assigned Corporate Expense	22,365	20,738	22,683	25,928	26,931	26,859
Public Service Fund - WPS	21,817	22,415	22,674	23,167	23,807	24,907
Public Service Fund - GenTex 1	2,164	1,733	1,886	2,197	2,074	2,204
Net Revenues Available for Debt Service	160,501	181,995	212,856	221,670	236,259	241,648
Coverage Adjustments (GenTex)	1,472	3,338	3,836	500	900	4,700
Adjusted Net Revenues Available	159,029	178,657	209,020	221,170	235,359	236,948
Total Debt Service	126,624	142,925	167,216	176,936	188,287	189,558
Debt Service Coverage, Adjusted [5]	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x
Net Revenue After Debt Service	33,877	39,070	45,640	44,734	47,972	52,090
Less:						
Operating Reserves	10,019	-	19,425	14,857	10,309	18,528
Corporate Capital	3,421	4,143	4,558	5,316	4,302	3,041
Revenue Funded Capital	18,937	33,427	21,657	24,561	33,361	30,521
GenTex Rate Stabilization Fund	1,500	1,500	-	-	-	-
Net Cash Flow	-	-	-	-	-	-
Capital Expenditures						
Revenue Funded	18,937	33,427	21,657	24,561	33,361	30,521
Debt Funded	85,416	254,384	281,745	62,014	40,429	83,223
Prior-Year Available Funds	-	-	-	-	-	-
Total Capital	$ 104,353	287,811	303,402	86,575	73,790	113,744

[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.

Wholesale Power Services Sources and Uses, FY 2012 (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 2011?

- LCRA TSC delayed filing a planned Transmission Cost of Service (TCOS) rate case as anticipated in last year's business plan. LCRA TSC managed its operating cost to facilitate the one-year delay in filing a rate case. In addition, the expected completion date for LCRA TSC's Clear Springs-to-Hutto project was able to be accelerated from June 2011 to earlier in the year. LCRA TSC sought recovery for capital investment and taxes on the large 345-kilovolt transmission line addition project.
- The Public Utility Commission of Texas (PUC) implemented changes to the Competitive Renewable Energy Zones (CREZ) transmission plan to substitute cost-effective alternatives for certain CREZ projects. The PUC action resulted in six LCRA TSC projects being cancelled and three new projects being added to LCRA TSC's CREZ assignment, with a net impact of lowering LCRA TSC's capital plan by $256 million (23 percent) over five years.

What's Ahead for FY 2012?

- LCRA TSC plans to file a TCOS rate case in late 2011 based upon a FY 2011 historical test year. Due to the length and complexity of the process, implementation of the resulting rate increase is not expected until near the end of FY 2012.
- LCRA TSC will continue to maintain an operational goal of 99.999 percent system availability.
- Construction of new transmission facilities will remain a high priority for LCRA TSC in FY 2012. LCRA TSC's FY 2012 Capital Plan recommends adding 28 projects in Central Texas. These projects' lifetime budgets add $71.6 million to the $772 million in projects previously approved by the LCRA TSC Board of Directors.

Revenue Analysis

LCRA TSC projects collecting $283 million in FY 2012 for provision of regulated transmission, transformation and metering services. This represents an increase of $33 million, or 13 percent, from the FY 2011 budget of $250 million for regulated services. Higher revenues will result primarily from the implementation of interim rates for recovery of invested capital on the Clear Springs-to-Hutto project and, later in the fiscal year, the implementation of a rate increase from a TCOS rate case. In addition to regulated revenues, LCRA is budgeting $7.1 million in revenues from unregulated services. The rates for these services are set to recover fully the cost of providing the services.

Expense Analysis

Total expenses of $108.4 million for FY 2012, including assigned corporate expense and Public Service Fund contribution, increase by $1.5 million (1.4 percent), compared to FY 2011's budget. LCRA TSC's budget for FY 2012 will provide regulated services necessary for the safe, reliable operation of the transmission system. Direct expenses for services provided to LCRA TSC by the Transmission Services business unit are budgeted to total $69.5 million.

Direct expense decreased by $1.6 million (2.1 percent), while allocated corporate expense and Public Service Fund contributions increased by $3.1 million (10.5 percent). The budget for allocated corporate expense is $2.2 million higher than last year primarily due to lower capital spending expected for LCRA TSC in FY 2012, which results in a lower amount of corporate cost charged to LCRA TSC capital projects. The Public Service Fund contribution, which is based on 3 percent of budgeted revenues, increased by about $1.0 million from FY 2011 due to higher revenues in FY 2012.

Transmission Services has thoroughly reviewed its activities and costs to develop the FY 2012 budget and taken actions to reduce the cost of providing regulated transmission services. LCRA TSC's direct operating cost for FY 2012 (not including allocated corporate costs or Public Service Fund contribution) is $4.4 million (6 percent) lower than the forecast for FY 2012 in last year's Business Plan. Labor accounts for $3.9 million of this reduction, while nonlabor accounts for the remainder. Labor reductions were achieved through a thorough evaluation of operations and maintenance programs and activities resulting in the consolidation of certain positions through attrition and reconsideration of the need for some vacant positions.

LCRA TSC expects to spend $649 million over the coming five-year period for recommended and previously approved capital projects. However, capital activity in FY 2012 will be lower than previously expected due to recent PUC decisions that reduced LCRA TSC's CREZ project assignments by a net amount of $256 million. As such, fewer capital-related positions—including full-time, project and temporary positions—are budgeted this year compared to last year.

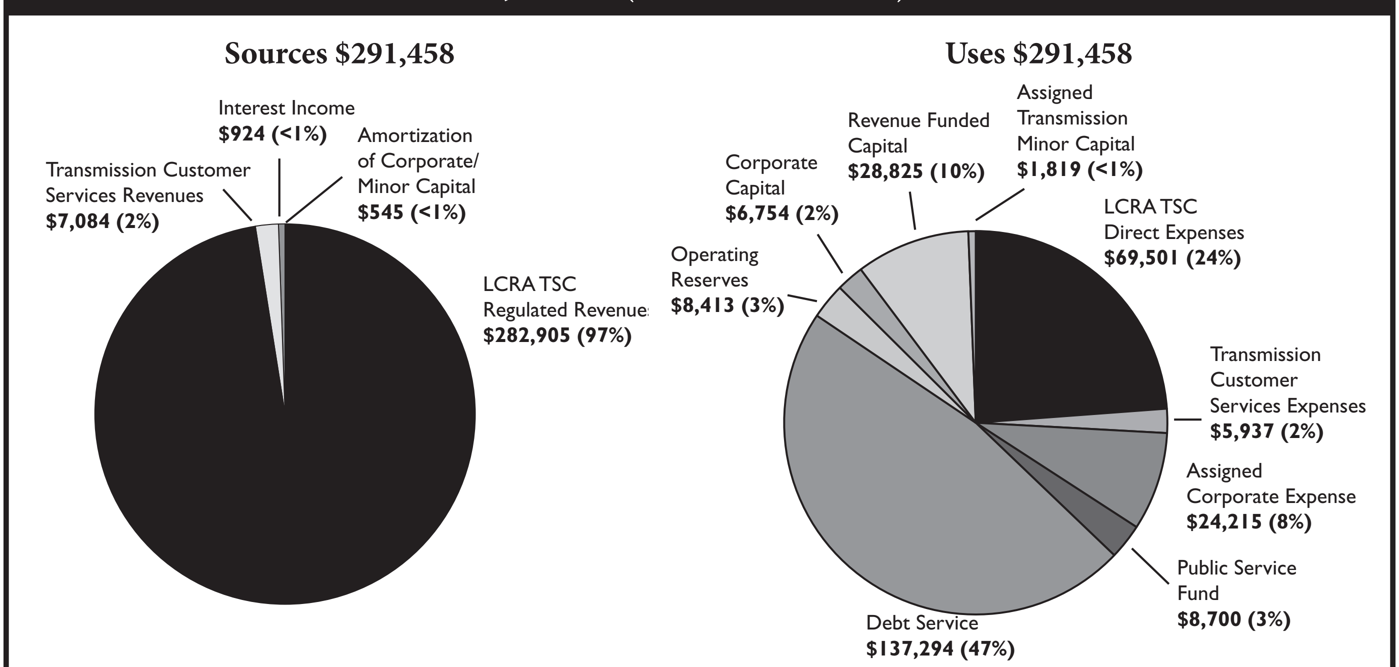
In addition, LCRA expects to see lower demand for unregulated customer services during the upcoming fiscal year.

These ongoing program evaluations and cost reductions are, and will continue to be, necessary to meet LCRA TSC's goal of not filing a rate case after FY 2012 and to meet LCRA's overall goal of being a low-cost provider of utility services.

Summary

The FY 2012 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 approximately $800 million in new transmission system facilities into service, including approximately $587 million in support of the PUC's CREZ initiatives.

Transmission Services Sources and Uses, FY 2012 (Dollars in Thousands)



Transmission Services Operating Budget, FY 2011 – 2016 (Dollars in Thousands)

	Budgeted FY 2011	Proposed FY 2012	Forecast FY 2013	FY 2014	FY 2015	FY 2016
LCRA Transmission Services Corporation						
Revenues	$ 250,027	282,905	315,796	341,030	372,134	377,940
Expenses	69,456	69,501	73,951	81,408	87,461	92,018
Net Operating Margin	180,571	213,404	241,845	259,622	284,673	285,922
Transmission Customer Services						
Revenues	8,821	7,084	7,201	7,222	7,147	7,171
Expenses	7,629	5,937	5,955	5,955	5,955	5,955
Net Operating Margin	1,192	1,147	1,246	1,267	1,192	1,216
Total Transmission Services						
Revenues	258,848	289,989	322,997	348,252	379,281	385,111
Expenses	77,085	75,438	79,906	87,363	93,416	97,973
Net Operating Margin	181,763	214,551	243,091	260,889	285,865	287,138
Add: Interest Income	1,214	924	2,327	4,883	5,583	5,558
Less: Assigned Corporate Expense	22,020	24,215	26,673	27,329	31,217	34,894
Public Service Fund	7,766	8,700	9,690	10,448	11,378	11,553
Net Revenues Available for Debt Service	153,191	182,560	209,055	227,995	248,853	246,249
Debt Service	118,170	137,294	144,945	161,481	179,766	179,766
Debt Service Coverage	1.30x	1.33x	1.44x	1.41x	1.38x	1.37x
Net Revenue After Debt Service	35,021	45,266	64,110	66,514	69,087	66,483
Less:						
Operating Reserves	6,437	8,413	8,286	11,755	11,929	1,395
Corporate Capital	-	6,755	7,934	6,157	3,537	2,736
Assigned Transmission Minor Capital	-	1,818	2,000	2,000	2,000	2,000
Revenue Funded Capital	28,584	28,825	47,842	49,512	26,520	13,481
Restricted for Capital/Debt Retirement	-	-	-	-	28,794	51,095
Plus:						
Amortization of Corporate/Minor Capital [1]	-	545	1,952	2,910	3,693	4,224
Net Cash Flow	-	-	-	-	-	-
Capital Expenditures						
Revenue Funded [2]	28,584	30,643	49,842	51,512	28,520	15,481
Debt Funded	248,150	205,723	210,268	102,491	23,170	403
Third Party Funded	-	-	-	-	-	-
Total Capital	$ 276,734	236,366	260,110	154,003	51,690	15,884

[1] In FY 2012, Transmission Services will begin funding minor capital and its share of Corporate Capital with current year revenues but will include an amortization of the amount in each year to recover in rates.

[2] The Transmission Services Consolidated Capital table includes LCRA TSC capital spending and spending for Transmission Services Minor Capital, which is used by LCRA TSC and Transmission Customer Services.

Key Points

- LCRA TSC revenue projection for FY 2012 of $283 million is $33 million higher than FY 2011. Revenue growth will result from an interim rate increase filed in late FY 2011. This will be followed by a Transmission Cost of Service rate case expected to be filed in fall 2011 with rates effective in late FY 2012.
- Transmission Customer Services is expected to provide revenue of $7.1 million and an operating margin (Revenues minus Expenses) of $1.1 million in FY 2012.
- LCRA TSC and Customer Services' combined FY 2012 expenses of $108.4 million, including allocated corporate expense and Public Service Fund, are up by $1.5 million over FY 2011.
- LCRA TSC's capital plan anticipates placing approximately $800 million of new transmission facilities into service over the next five years.
- LCRA TSC's FY 2012 debt service coverage ratio is forecast to be 1.33x.

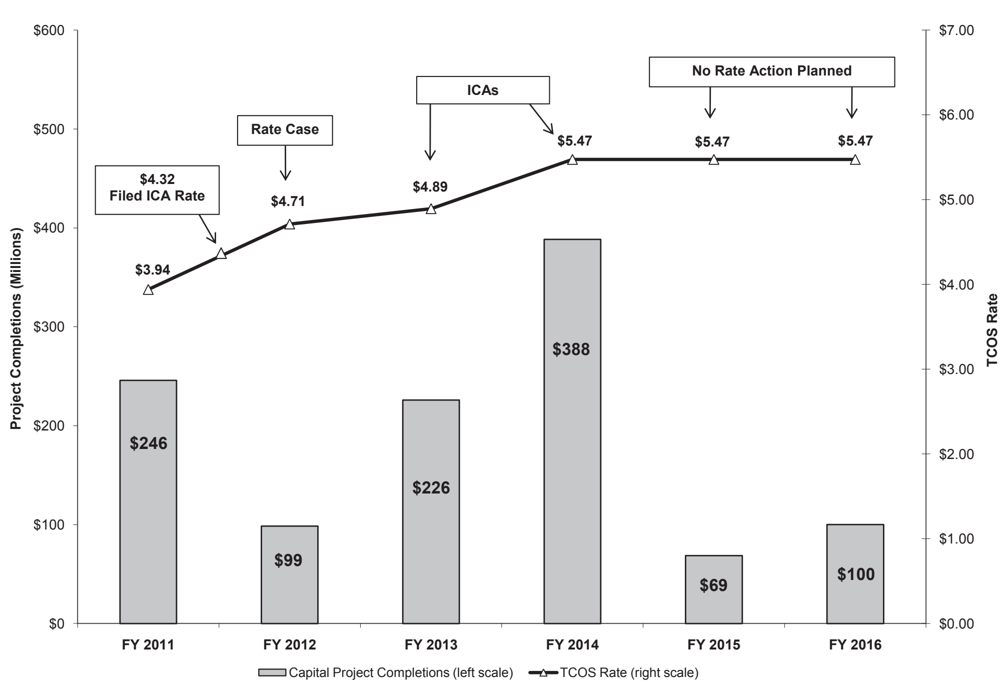
LCRA TSC's Share of ERCOT Transmission Rate

Transmission Service Provider (TSP)	Transmission Rate	% of Total
Oncor Electric Delivery	$8.94	32%
CenterPoint Energy	$4.20	15%
Lower Colorado River Authority	**$3.94**	**14%**
AEP Texas Central	$1.94	7%
San Antonio City Public Service	$1.62	6%
Brazos Electric Cooperative	$1.45	5%
Austin Energy	$1.00	4%
AEP Texas North	$0.93	3%
Texas Municipal Power Agency	$0.66	2%
Other TSPs	$3.42	12%
Total ERCOT Transmission Rate	**$28.10**	**100%**

Source: PUC Docket 38900, 2011 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 14 percent of the total rate. Each 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.

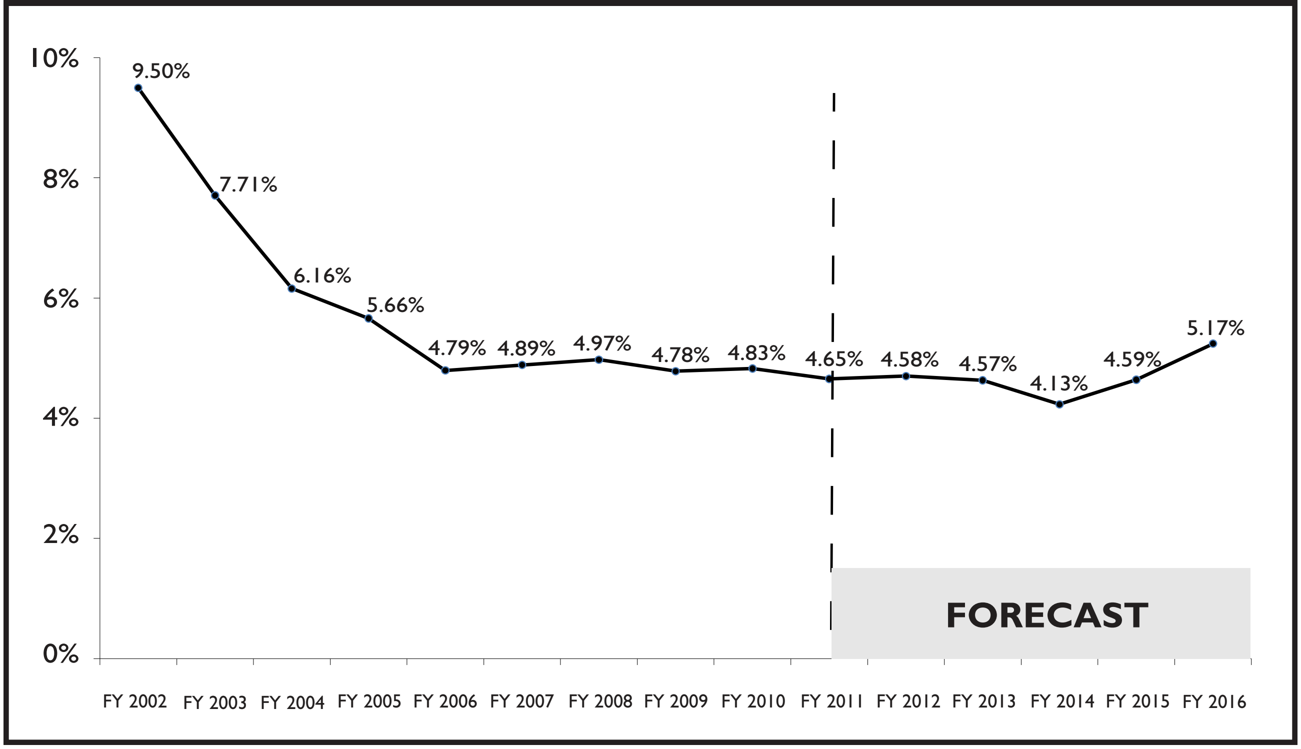
Forecast for LCRA TSC Capital Project Completions and Impact on Transmission Cost of Service (TCOS) Rate, FY 2011 - 2016



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 forecasts approximately $800 million in capital project completions in the coming five-year planning period.

LCRA TSC filed an Interim Capital Addition (ICA) in late FY 2011 to begin recovering debt service, debt service coverage and associated property taxes for the Clear Springs-to-Hutto transmission line project along with other capital projects completed during the first eight months of FY 2011. LCRA TSC will follow this rate action with a Transmission Cost of Service rate case filing in fall 2011, with rates expected to be in place in late FY 2012. Successive ICA filings in FY 2013 and FY 2014 will be required to recover costs associated with the new transmission facilities being placed into service.

**LCRA TSC's O&M to Net Plant Ratio Trend,
FY 2002 - 2010 Actual and FY 2011 - 2016 Forecast**



LCRA TSC's ratio of operations and maintenance (O&M) cost per dollar of net assets (plant) in service decreased significantly between FY 2002 and 2006 and has remained stable through FY 2010. 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, as shown in the LCRA TSC capital plan.

Water Services

Contribution to LCRA

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

What's Changed From FY 2011?

- Lower revenue growth than expected in the West Travis County water and wastewater systems due to continued slow near-term growth and uncertainty of the retail rate appeal.
- New dam gate and infrastructure projects at Mansfield and Buchanan dams.
- No expected firm raw water rate increases in any year of the plan.

What's Ahead for FY 2012?

- In accordance with the November 2010 Board resolution, continue to seek a viable purchaser(s) of all LCRA's water and wastewater utility assets.
- Continue to update the Highland Lakes Water Management Plan.

Revenue Analysis

Water Services FY 2012 operating revenues of $98.8 million, excluding impact fee revenue of $4.5 million, are $1.1 million (1 percent) greater than FY 2011. The revenue increase is primarily the result of additional retail rate increases in West Travis County.

Overall slow growth is expected for Water and Wastewater Services for FY 2012. West Travis County Residential Water living-unit-equivalents (LUEs) are expected to grow by 5 percent, which is less than the 7 percent planned for FY 2012 from last year's plan. Increased growth in FY 2013 and beyond is expected to occur with an improvement in economic conditions in the area.

Water Resource Management revenues of $29.1 million are down slightly from FY 2011 by $0.2 million (1 percent) primarily from the assumption of no new reservations of water. No rate increases are included over the five-year plan horizon. Based on current projections, the current rate of $151 per acre-foot is adequate to fund Water Services' ongoing operations and capital needs, including the ongoing rehabilitation of the floodgates at Buchanan.

Hydroelectric revenues of $26 million are cost-of-service based and continue to rise primarily from existing debt and future capital expenditures. For FY 2012, the projected cost of service is below the forecast market value despite the drop in natural gas prices.

Irrigation revenues of $9.1 million are down from FY 2011 by $0.2 million (2 percent) as a result of fewer acres planted in the Gulf Coast Division. 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 as well.

Water and Wastewater revenues of $34.6 million, excluding impact fees, are up $0.8 million (2 percent) from FY 2011 primarily in Liberty Hill ($0.2 million) as well as West Travis County Water and Wastewater ($0.5 million). This is due to a full year of the rate increase originally planned in October

2009 and an additional 9.5 percent increase planned in February 2012 for the West Travis County Water System. As mentioned, these rate increases are at risk of delay and/or reduction pending the resolution of the rate appeal at the Texas Commission on Environmental Quality, affecting revenues in FY 2012 and beyond. Other rate increases planned during FY 2012 include:

- 5 percent in Glenlake Water System,
- 6 percent in Lometa and Ridge Harbor Wastewater systems,
- 4 percent in Alleyton Water and Wastewater systems, and
- 6 percent in Matagorda Dunes Water and Wastewater systems.

Expense Analysis

Expenses of $56.5 million, including Public Service Fund expense, are $2.0 million (3.4 percent) lower than FY 2011. This is due to lower labor costs of $0.9 million as a result of eliminating positions, as well as lower Corporate expenses of $1.4 million. These lower expenses were partially offset by greater Texas Commission on Environmental Quality water rights permit fees of $0.4 million.

In FY 2012, debt service payments of $34.5 million are $0.5 million greater than FY 2011. The debt service includes $0.8 million to retire previously deferred Water and Wastewater Utility debt.

Projected capital expenditures are $21.7 million and $178.1 million for FY 2012 and the five-year plan period, respectively. The $21.7 million planned for FY 2012 is significantly lower than FY 2011. This is because of elimination of previously planned Water and Wastewater projects that are currently in negotiation for divestiture as well as slower near-term West Travis County expenditures, pending the resolution of the rate appeal.

The five-year capital plan includes $26 million for the rehabilitation of the floodgates at Buchanan Dam and $31 million for dam and hydroelectric upgrades at Mansfield and Tom Miller dams.

Additionally, Water Services' total FY 2012 operating expense of $41.9 million, excluding assigned Corporate and Public Service Fund expenses, is $2.8 million (6.3 percent) lower than the FY 2012 projection from last year's plan.

Summary

Water and Wastewater Utility Services is expected to see near-term slow growth and will continue to be challenged to achieve financial sustainability. Water and Wastewater capital spending has been delayed to the greatest extent possible, without sacrificing safety or quality service, due to the uncertainty of West Travis County retail rates and the divestiture process.

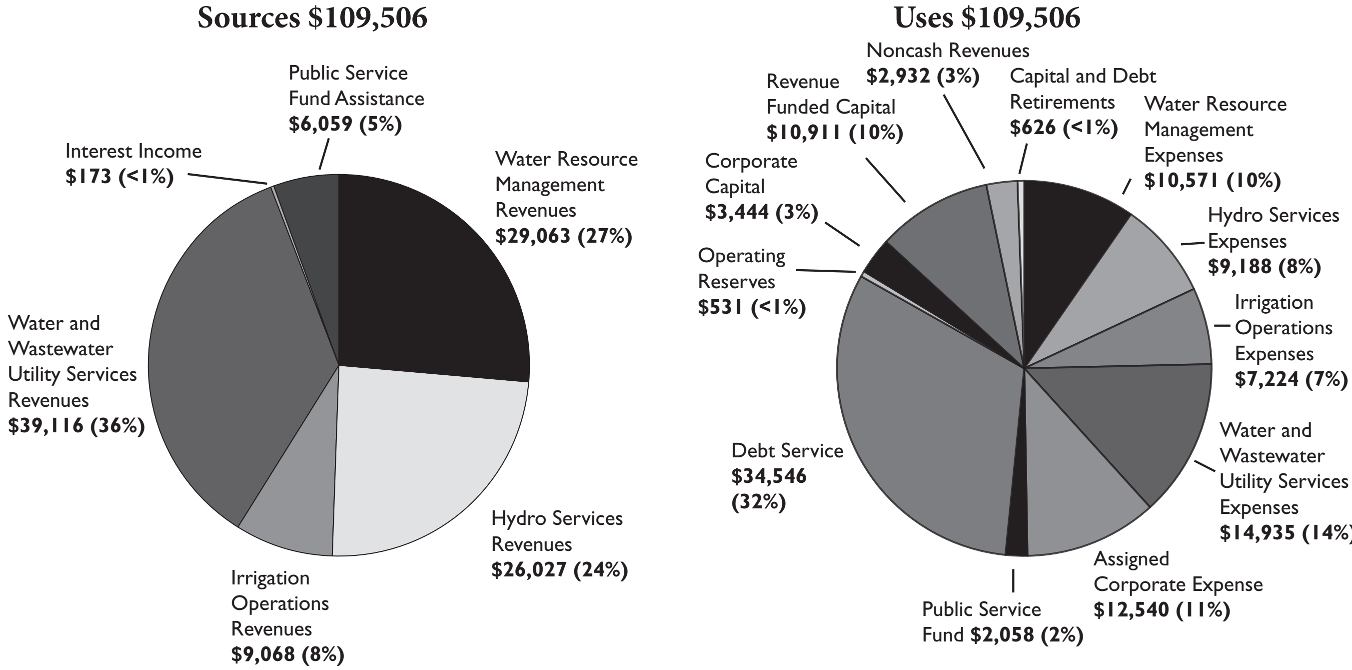
For planning purposes, this business plan does not include any impacts of the ongoing utility divestiture process. Any completed sales of water or wastewater systems will affect both revenues and expenses. Contingency plans are in place to manage any impacts by reducing expenses and short-term use of divestiture proceeds.

Despite these challenges, this plan demonstrates Water Services' continuation of providing vital utility services and planning for future water needs in a cost-conscious manner.

Water Services Operating Budget, FY 2011 – 2016 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Water Resource Management						
Revenues	$ 29,271	29,063	29,540	29,936	30,393	30,862
Expenses	11,764	10,571	11,074	11,462	11,863	12,278
Net Operating Margin	17,507	18,492	18,466	18,474	18,530	18,584
Hydro Services						
Revenues	25,327	26,027	26,710	27,278	28,226	29,226
Expenses	9,342	9,188	9,609	9,945	10,293	10,653
Net Operating Margin	15,985	16,839	17,101	17,333	17,933	18,573
Irrigation Services						
Revenues	9,291	9,068	9,423	9,787	10,150	10,556
Expenses	7,199	7,224	7,542	7,806	8,080	8,362
Net Operating Margin	2,092	1,844	1,881	1,981	2,070	2,194
Water/Wastewater Utility Services						
Revenues	36,751	39,116	43,789	47,615	50,262	53,137
Expenses	15,067	14,935	15,366	15,904	16,461	17,037
Net Operating Margin	21,684	24,181	28,423	31,711	33,801	36,100
Total Water Services						
Direct Revenues	100,640	103,274	109,462	114,616	119,031	123,781
Direct Expenses	43,372	41,918	43,591	45,117	46,697	48,330
Net Operating Margin	57,268	61,356	65,871	69,499	72,334	75,451
Add: Interest Income	289	173	433	883	894	843
Less: Assigned Corporate Expense	13,396	12,540	13,238	13,278	13,158	14,158
Public Service Fund	1,778	2,058	2,176	2,321	2,427	2,530
Net Revenues Available for Debt Service	42,383	46,931	50,890	54,783	57,643	59,606
Debt Service						
Water Resource Management	6,027	6,137	6,569	6,523	7,028	7,137
Hydro	10,475	10,745	10,841	11,110	11,705	12,161
Irrigation	518	518	518	518	518	518
Water/Wastewater Utility	17,007	17,146	18,377	18,872	19,965	20,103
Total Debt Service	34,027	34,546	36,305	37,023	39,216	39,919
Debt Service Coverage						
Water Resource Management	1.96x	2.28x	2.10x	2.11x	1.96x	1.89x
Hydro	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x
Irrigation	1.88x	0.07x	-0.05x	0.07x	-0.01x	0.18x
Water/Wastewater Utility	0.97x	1.14x	1.28x	1.43x	1.47x	1.53x
Total Water Services Debt Service Coverage	**1.25x**	**1.36x**	**1.40x**	**1.48x**	**1.47x**	**1.49x**
Net Revenue After Debt Service	8,356	12,385	14,585	17,760	18,427	19,687
Less:						
Operating Reserves	372	531	608	407	370	663
Corporate Capital	1,588	3,444	3,476	3,546	1,551	1,128
Revenue Funded Capital	8,675	10,911	11,911	14,169	15,487	18,301
Impact Fees Used To Defease Debt	0	0	0	0	0	0
Restricted for Capital/Debt Retirement	162	626	555	713	715	712
Noncash Revenues	2,811	2,932	3,056	3,182	3,311	3,442
Plus:						
Public Service Fund Assistance - Irrigation	1,041	2,959	2,421	2,757	1,507	3,059
Public Service Fund Assistance - Water and Wastewater	3,300	3,100	2,600	1,500	1,500	1,500
Water and Wastewater Divestiture Proceeds	911	-	-	-	-	-
Net Cash Flow	-	-	-	-	-	-
Capital Expenditures						
Revenue Funded	6,308	7,348	7,105	9,086	11,339	13,850
Impact Fee Funded	2,367	3,563	4,805	5,083	4,148	4,450
Debt Funded	19,841	9,633	22,636	23,377	28,111	20,191
Third Party / Proceeds Funded	1,402	1,135	995	860	175	175
Total Capital	$ 29,918	21,679	35,541	38,406	43,773	38,666

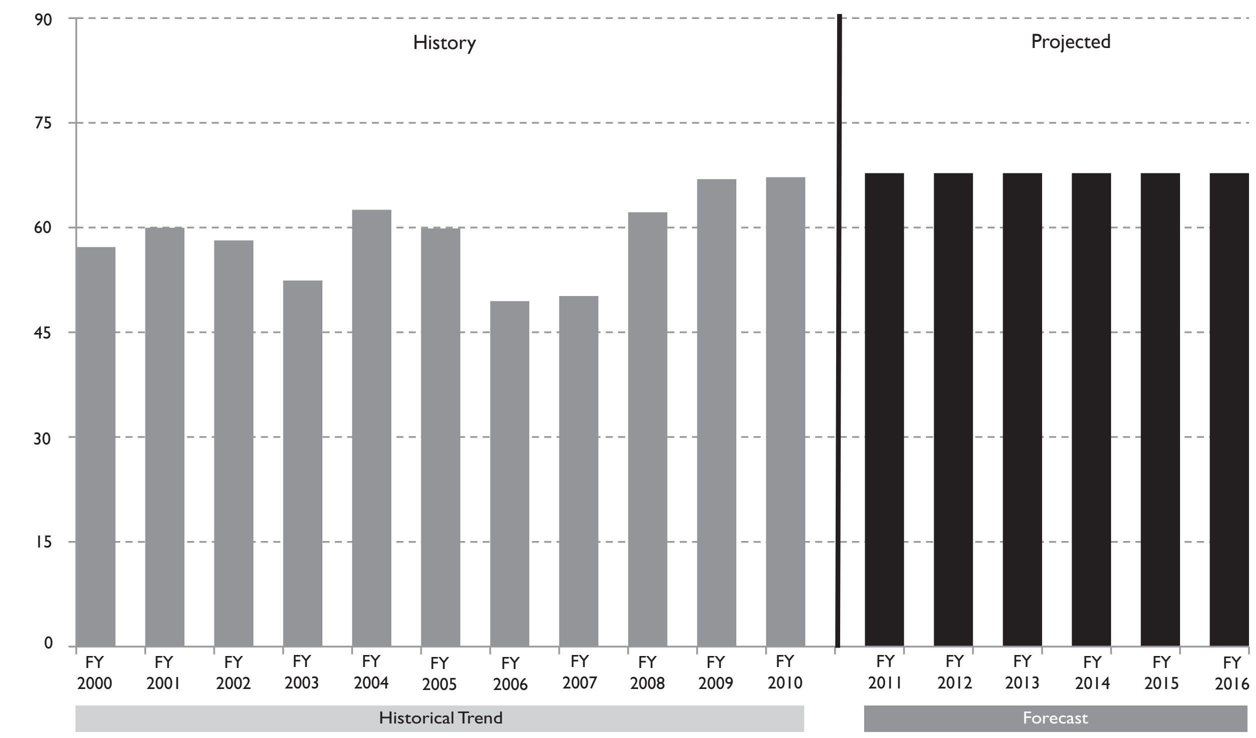
Water Services Sources and Uses, FY 2012 (Dollars in Thousands)



Key Points

- Water and Wastewater Utility Services revenue is greater due to rate increases, primarily in West Travis County. These planned rate increases are at risk, pending resolution of the rate appeal.
- Water Services continues to reduce controllable costs by, among other things, including 14 fewer positions than last year's plan and delaying needed capital expenditures.

Irrigation First Crop Acreage FY 2000 - 2016 (Thousands of Acres)



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 and educational opportunities for the public along the lower Colorado River and its tributaries and reservoirs through its 42 parks and two 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 2011?

- During the fiscal year, Operations and Maintenance expenses were reduced through a consolidation of services, which included a reorganization that removed a layer of management and a number of positions being eliminated.
- Beginning in FY 2012, Community Services' Corporate Capital Allocation now includes Community Services' share of debt-funded Corporate Capital. However, the share is funded with current-year funds rather than issuing and assigning debt to Community Services.

What's Ahead for FY 2012?

- Begin implementing any changes to Board Policy 403 - Community Services.
- Open the San Saba River Nature Park in San Saba County.
- Begin construction of the Pedernales River Nature Park in Blanco County.
- $4.1 million of park capital projects will be funded by the Public Recreation and Conservation Land Account (PRCLA), reducing the level of funding required from the Public Service Fund. The projects include San Saba River Nature Park, Pedernales River Nature Park, Matagorda Bay Nature Park bank stabilization, and park system preventive maintenance. Another $2.5 million in capital spending funded by PRCLA is provided for FY 2013.
- Staff will focus on implementing new preventive maintenance standards at all facilities to accommodate a growing number of visitors at all parks and natural science centers.

Revenue Analysis

Community Services revenues are expected to increase 7 percent to $8.2 million in FY 2012, compared to $7.7 million in FY 2011, due to additional revenue from three parks, primarily Matagorda Bay Nature Park. Other revenue-generating activities include Environmental Laboratory Services, LCRA's two 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 $21.0 million in FY 2012, which is $0.4 million (2 percent) lower than FY 2011's operating costs. The primary changes in the operating costs are as follows:

- $217,000 reduction due to elimination of positions and reorganization of staff,
- $138,000 reduction due to reassignment of costs at the natural science centers,
- $220,000 reduction due to lower outside services and other expenses across Community Services,
- $250,000 reduction due to staff transfers out of Community Services,
- $133,000 increase in Environmental Laboratory Services, due to lower than anticipated internal customer work, and
- $300,000 increase in Public Safety expense, due to transfer of Emergency Management expenses from the other business units.

Additionally, Community Services' operating costs of $21.0 million are $1.3 million (5.8 percent) lower than projected for the FY 2012 budget from last year's plan.

Summary

Public Safety has absorbed the reassignment of costs related to Emergency Management that had previously been allocated to the other business units. The use of PRCLA funds for capital construction at parks has led to a decrease in the amount of money from the Public Service Fund that was anticipated in last year's projections. The planning and development of future parks is focused on those properties, which will provide revenue generation to help offset park operations costs.

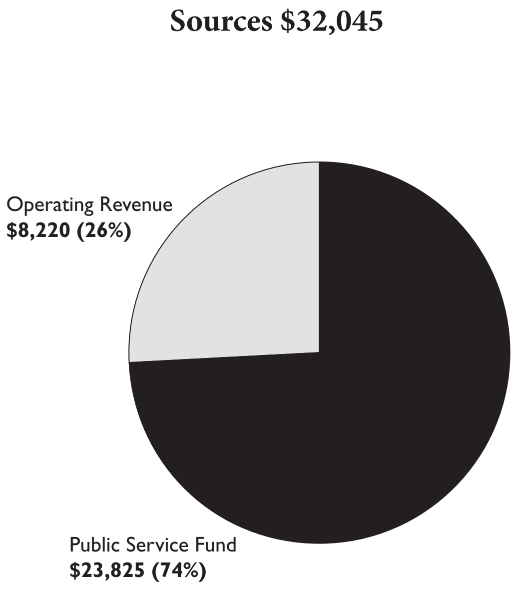
Community Services Operating Budget, FY 2011 – 2016 (Dollars in Thousands)

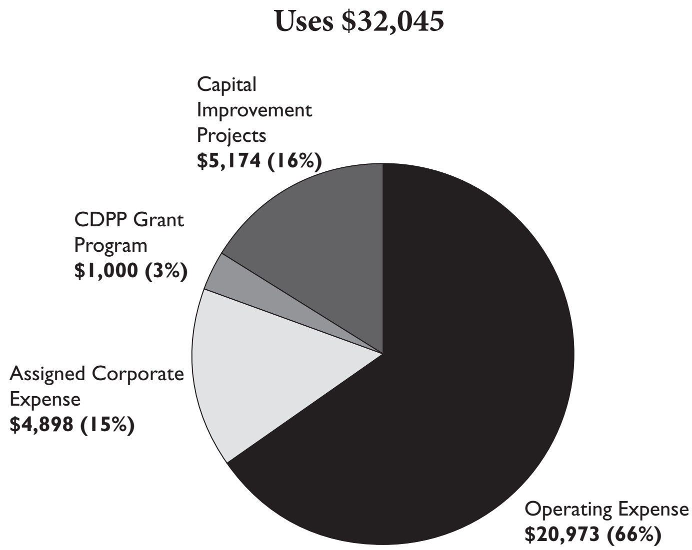
	Budgeted	Proposed	Forecast			
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Park Operations						
Operating Revenue	$ 722	979	1,060	1,060	1,060	1,060
Operating Expense	3,658	3,641	3,997	4,196	4,406	4,627
Net Funding Requirement	(2,936)	(2,662)	(2,937)	(3,136)	(3,346)	(3,567)
Natural Science Centers						
Operating Revenue	900	900	900	900	900	900
Operating Expense	3,913	3,768	4,023	4,224	4,435	4,657
Net Funding Requirement	(3,013)	(2,868)	(3,123)	(3,324)	(3,535)	(3,757)
Natural Resource Services						
Operating Revenue	200	200	200	200	200	200
Operating Expense	3,024	3,130	3,413	3,584	3,763	3,951
Net Funding Requirement	(2,824)	(2,930)	(3,213)	(3,384)	(3,563)	(3,751)
Community Assistance Services						
Operating Revenue	-	-	-	-	-	-
Operating Expense	1,839	1,722	1,866	1,959	2,057	2,160
Net Funding Requirement	(1,839)	(1,722)	(1,866)	(1,959)	(2,057)	(2,160)
Public Safety						
Operating Revenue	623	660	660	660	660	660
Operating Expense	4,058	3,871	4,076	4,280	4,494	4,718
Net Funding Requirement	(3,435)	(3,211)	(3,416)	(3,620)	(3,834)	(4,058)
Environmental Laboratory Services						
Operating Revenue	5,220	5,481	5,700	5,871	6,047	6,199
Operating Expense	3,953	4,198	4,422	4,643	4,876	5,119
Net Funding Requirement	1,267	1,283	1,278	1,228	1,171	1,080
Manage and Support Business Activities						
Operating Revenue	-	-	-	-	-	-
Operating Expense	967	643	697	732	769	807
Net Funding Requirement	(967)	(643)	(697)	(732)	(769)	(807)
Total Community Services						
Operating Revenue	7,665	8,220	8,520	8,691	8,867	9,019
Operating Expense	21,412	20,973	22,494	23,618	24,800	26,039
Net Funding Requirement	(13,747)	(12,753)	(13,974)	(14,927)	(15,933)	(17,020)
Assigned Corporate Expense	5,683	4,898	5,150	5,334	5,499	5,912
Operating Funding Requirement	(19,430)	(17,651)	(19,124)	(20,261)	(21,432)	(22,932)
Funding Requirement Analysis						
Operating Funding Requirement	19,430	17,651	19,124	20,261	21,432	22,932
Capital Improvement Projects	4,367	5,607	7,650	7,800	7,900	6,300
Corporate Capital Allocation	1,910	3,692	2,060	2,644	1,112	569
CDPP Grant Program	1,000	1,000	1,000	1,000	1,000	1,000
Net Proceeds	-	(4,125)	(2,500)	-	-	-
Total Funding Requirement	26,707	23,825	27,334	31,705	31,444	30,801
Capital Expenditures						
Revenue Funded	4,367	1,482	5,150	7,800	7,900	6,300
Debt Funded	-	-	-	-	-	-
Prior-Year Available Funds	-	4,125	2,500	-	-	-
Total Capital	$ 4,367	5,607	7,650	7,800	7,900	6,300

Key Points

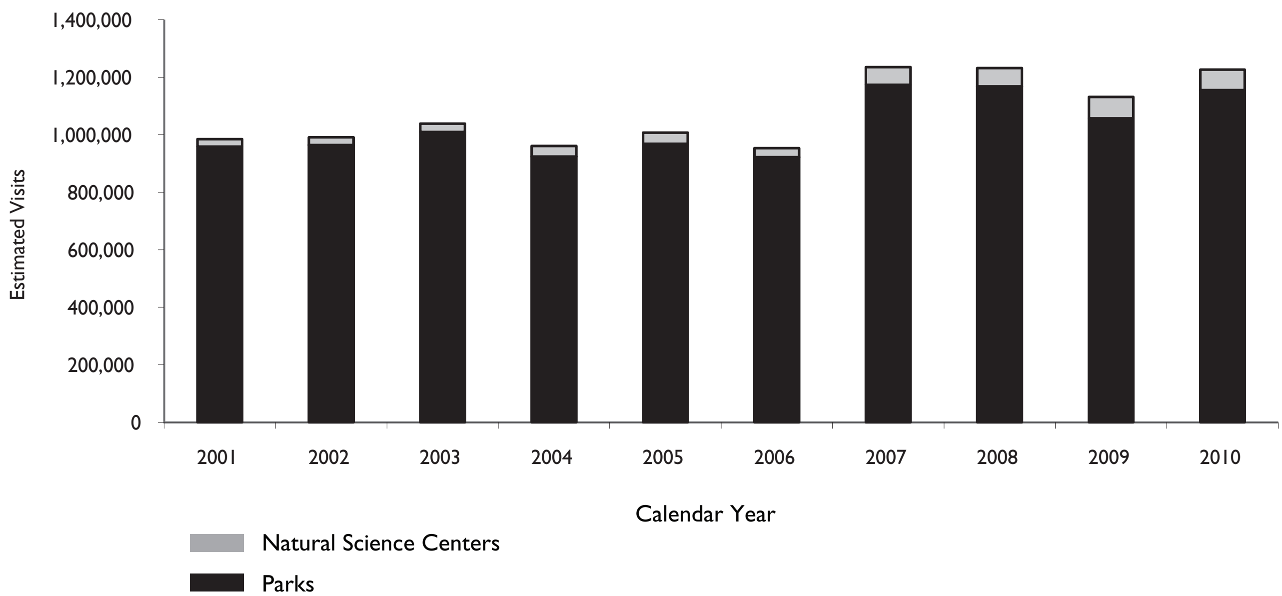
- The operating costs for FY 2012 are $0.4 million less than FY 2011.
- Parks and Public Safety revenues are projected to be higher than the FY 2011 estimate.
- FY 2012 capital spending is 14 percent lower than the FY 2012 projection in last year's budget.

Community Services Sources and Uses, FY 2012 (Dollars in Thousands)





Parks and Natural Science Centers Visitation, CY 2001 – 2010 (Estimated Visits)



Visitation at LCRA parks and natural science centers has returned to levels preceding the onset of drought conditions in earlier years. Because of the parks' location in and around the fastest growing population centers in the state and the trend to vacationing closer to home, staff anticipates continued growth in visitation. Community Services is focusing its efforts on capital projects that will improve facilities and increase revenue.

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Corporate Services

Contribution to LCRA

- Corporate Services provides functional 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 and staff; the Chief Financial Officer and staff, which provides financial oversight; the Chief Administrative Officer and staff, which provides internal operations support; and External Affairs, which coordinates external relationships primarily with regulators and other public officials.
- LCRA Telecommunications, reporting to the Chief Administrative Officer, also provides radio and telecommunications services 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 and equitable cost allocation method as a means of recovering the cost to provide oversight and support services.

What's Changed From FY 2011?

- Corporate areas reduced costs to meet FY 2011 cost reduction goals, which will continue into FY 2012. These reductions were accomplished by reducing costs in all areas and implementing a reduction in force in Facilities, Human Resources, Communication Services and Corporate Finance.
- Corporate Services also increased support to the business units for various operations and projects. Examples include Fayette Power Project facilities, the GenDesk and the Ferguson Replacement Project (all for Wholesale Power Services), and an Industrial Hygienist position to support all business units.

What's Ahead for FY 2012?

- Elimination of additional vacancies and aligned services to meet levels of service requested by business units.
- Implementation of a more simplified cost assignment process to the business units, based on consultants' recommendations.
- Elimination of the Bergstrom Technology Center office lease by moving into the new office building at the Dalchau Service Center.
- Begin construction of the new Western Maintenance Service Center in Marble Falls. This service center will consolidate four current office locations and continue to take advantage of the soft construction market prices.

Revenue Analysis

Corporate Services revenues are expected to be $4.6 million for FY 2012, compared to $5.0 million in FY 2011. 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 $82.2 million in FY 2012 for net operations and maintenance expenses, which is $1.2 million (1.4 percent) lower than FY 2011. Cost reductions of $2.9 million (3.4 percent) were offset by lower revenue projections of $0.4 million and $1.3 million in business unit requests for additional services, including:

- $0.4 million for additional Information Technology and Telecommunications support.
- $0.3 million for Facilities to support the air conditioning systems at the Fayette Power Project.
- $0.2 million for Supply Management efforts to assist Wholesale Power Services with the Ferguson Replacement Project, Phase 2.
- $0.2 million for additional staff to support industrial hygiene efforts in all business units.

- $0.2 million for a transfer of transmission billing staff to the Accounting Division.

Additionally, Corporate Services' net operations and maintenance expense of $82.2 million is $5.3 million (6.1 percent) less than the projected FY 2012 budget from last year's plan.

Summary

Services are scaled to the specific needs of business units as they respond to changes in their business requirements 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 Competitive Renewable Energy Zones projects. Some areas are scaled back in response to a changing business, such as Communication Services scope, and water and wastewater utility systems. Technology 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 2011 – 2016 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues						
Operating Revenue[1]	$ 5,017	4,596	4,779	4,779	4,779	4,779
Expenses						
Board of Directors	200	200	200	210	221	233
General Manager and Staff	7,254	6,982	7,273	7,648	8,044	8,464
Chief Financial Officer and Staff	14,176	13,996	14,772	15,535	16,339	17,193
Chief Administrative Officer and Staff	61,635	60,624	64,057	67,358	70,850	74,546
External Affairs	5,145	5,001	5,228	5,497	5,782	6,084
Total Expenses	88,410	86,803	91,530	96,248	101,236	106,520
Total Net Operating Expense	83,393	82,207	86,751	91,469	96,457	101,741

Corporate Services Expense Allocations, FY 2011 – 2016 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	$ FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Allocated Corporate Expense	83,393	82,207	86,751	91,469	96,457	101,741
Capital and Other Credits						
Capital Credits	(9,603)	(10,497)	(8,997)	(8,755)	(8,274)	(8,130)
Miscellaneous Credits	(5,760)	(5,806)	(6,098)	(6,438)	(6,788)	(7,164)
Total Capital and Other Credits	(15,363)	(16,303)	(15,095)	(15,193)	(15,062)	(15,294)
Total Net Corporate Expense	68,030	65,904	71,656	76,276	81,395	86,447
Net Allocated Corporate Expense Fuel						
Wholesale Power Services	4,566	3,513	3,912	4,407	4,590	4,624
Net Allocated Corporate Expense Nonfuel						
Community Services	5,683	4,898	5,150	5,334	5,499	5,912
Transmission Customer Service	928	641	678	718	757	798
Transmission Services Corporation	21,092	23,574	25,995	26,611	30,460	34,096
Water Services	13,396	12,540	13,238	13,278	13,158	14,158
Wholesale Power Services	22,365	20,738	22,683	25,928	26,931	26,859
Total Net Allocated Corporate Expense Nonfuel	63,464	62,391	67,744	71,869	76,805	81,823
Total Net Allocated Corporate Expense	68,030	65,904	71,656	76,276	81,395	86,447
Capital Expenditures						
Revenue Funded	6,917	18,033	18,030	17,663	10,500	7,475
Debt Funded	19,720	15,071	3,254	5,947	3,400	425
Third Party	3,897	-	-	-	-	-
Proceeds Funded	530	-	-	-	-	-
Total Capital	31,064	33,105	21,284	23,610	13,900	7,900

[1] Telecommunications Revenue

Key Points

- Revenues for Telecommunication Customer Services are expected to be 8.4 percent lower in FY 2012, due to changes in the economy.
- Operating expenses for FY 2012 are lower (1.8 percent) than last year.
- Capital expenditures in the five-year forecast include the completion of two buildings and the continuation of upgrades in the radio system that supports LCRA operations.

In the two reconciliation charts below, the first chart shows the growth from FY 2011 to FY 2012. The second chart compares last year's estimate for FY 2012 versus the proposed Corporate budget.

Corporate Services Net Expense Reconciliation, FY 2011 to FY 2012 (Dollars in Thousands)

FY 2011 Corporate Expense	$ 83,393
Less:	
Cost Reductions [1]	$ 2,873
Plus:	
Specific Work Requested [2]	$ 1,267
Lower Revenues	$ 420
FY 2012 Corporate Expense	$ 82,207
% Decrease Excluding Business Unit Requests	2.9%

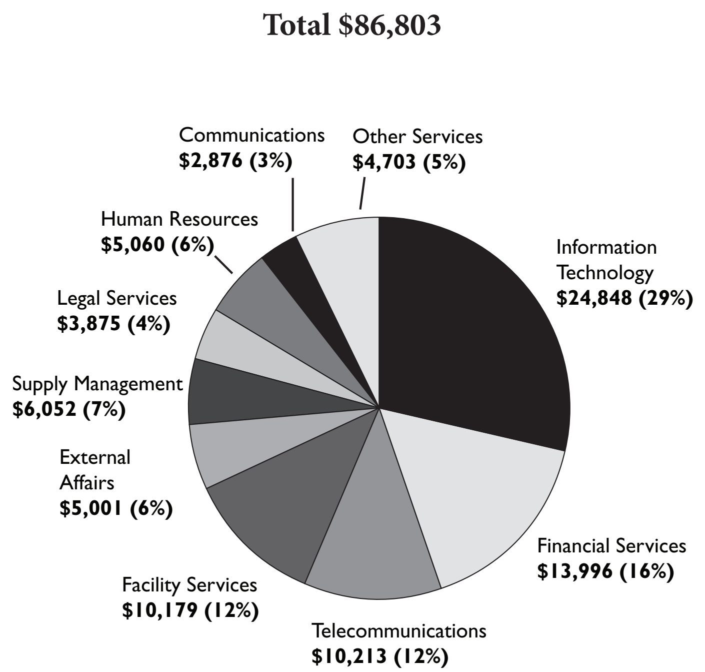
Corporate Services Net Expense Reconciliation, FY 2012 (Last Year) to FY 2012 (This Year) (Dollars in Thousands)

FY 2012 Corporate Expense (Last Year's plan)	$ 87,516
Less:	
Cost Reductions [1]	$ 6,996
Plus:	
Specific Work Requested [2]	$ 1,267
Lower Revenues	$ 420
FY 2012 Corporate Expense	$ 82,207
% Decrease From Last Year's Estimate	7.5%

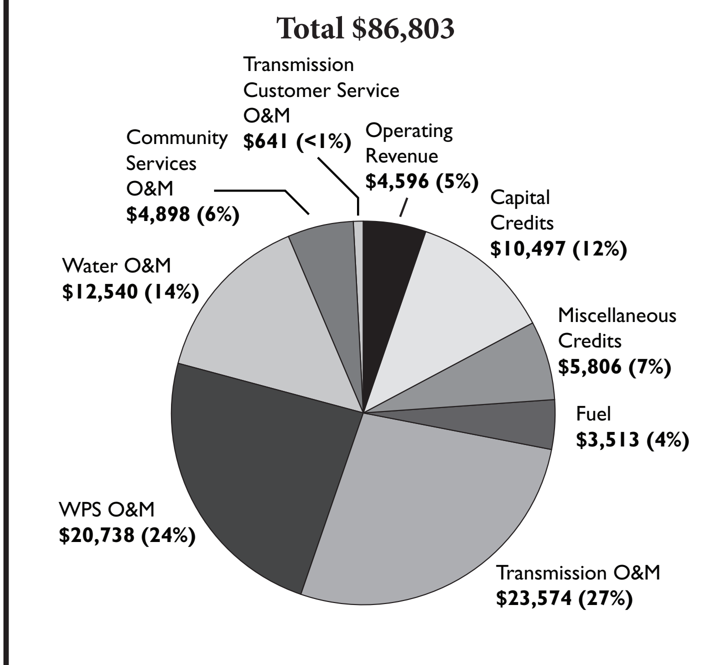
1 All Corporate Services Departments worked to find cost savings in their budgets in support of organizational cost reductions goals. These reductions were accomplished by eliminating existing positions and reducing costs in areas like Facilities, Corporate Finance, Human Resources and Communication Services.

2 Corporate Services manages business-unit-specific requests as part of its annual planning process. In the FY 2012 budget additional requested work includes additional support from Information Technology, Telecommunications, Facilities, Supply Management and Accounting (among others).

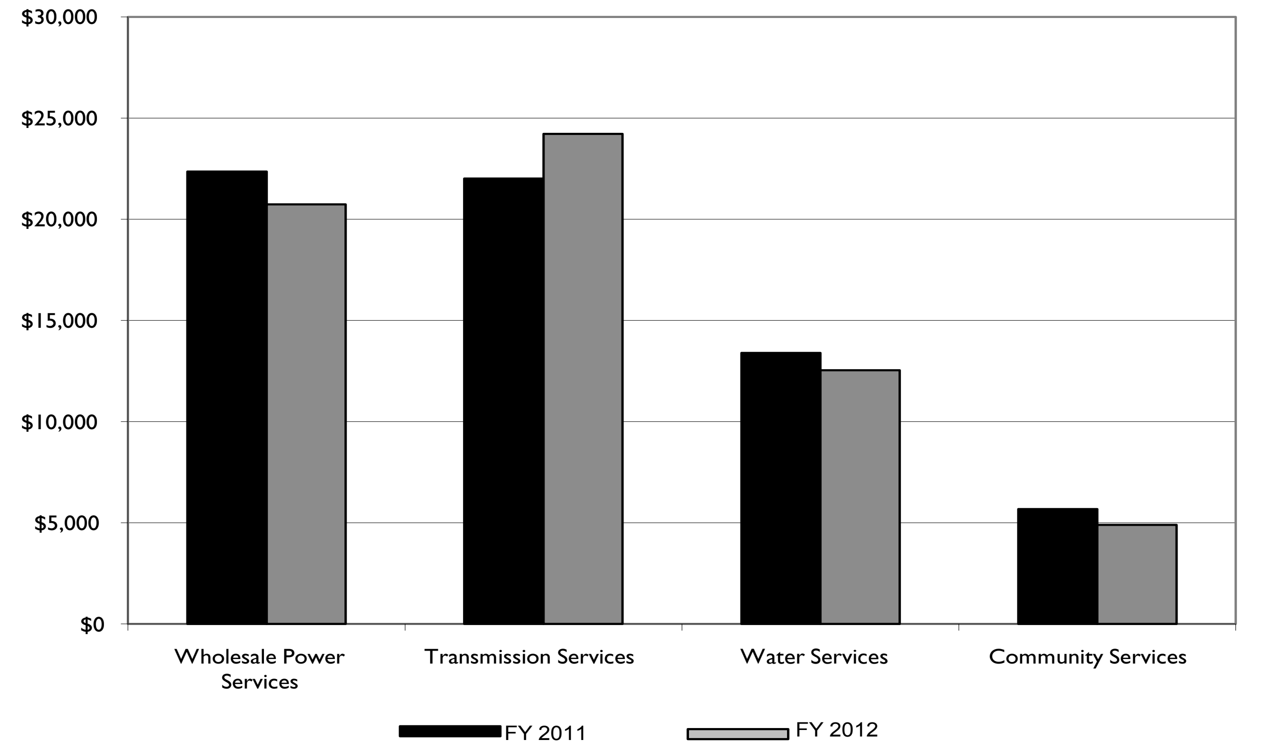
Corporate Services Expenses, FY 2012 (Dollars in Thousands)



Corporate Services - Cost Allocations, FY 2012 (Dollars in Thousands)



Total Corporate Expense Charged to Business Units, FY 2012
(Dollars in Thousands)



Overall, total corporate expenses charged to business units decrease by $1.1 million (1.7 percent) compared to FY 2011. Wholesale Power Services' share decreased by $1.6 million, Water Services decreased by $0.9 million, and Community Services decreased by $0.8 million. Transmission Services' share increased by $2.2 million as a result of lower capital spending, which results in a lower amount of corporate costs charged to LCRA TSC capital projects.

In FY 2012, approximately $10.5 million of corporate expense is forecast to be capitalized to LCRA capital projects. This figure is approximately $0.9 million more than the amount projected in the FY 2011 budget. The increase is the result of approximately $138 million more in total capital spending compared to FY 2011.

ENERGY • WATER • COMMUNITY SERVICES

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