

LCRA Transmission Services Corporation

Board Agenda

Wednesday, May 22, 2024

Matagorda Bay Nature Park – Redfish Hall

6420 FM 2031

Matagorda, TX 77457

Earliest start time: 9:30 a.m.

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***This agenda item requires the approval of at least 12 members of the Board.**

Executive Session

1. Dalchau Service Center Optimization
2. Legal Advice Regarding Transmission Cost of Service Rate Case for LCRA Transmission Services Corporation
3. Legal Advice on Pending and Anticipated Litigation, Claims and Settlements
4. Legal Advice on Legal Matters

The Board may go into executive session on any item listed above, pursuant to Chapter 551 of the Texas Government Code, including, but not limited to, sections 551.071, 551.072, 551.074, 551.076, 551.086, 551.089 and 418.183(f) of the Texas Government Code.

Legal Notice

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

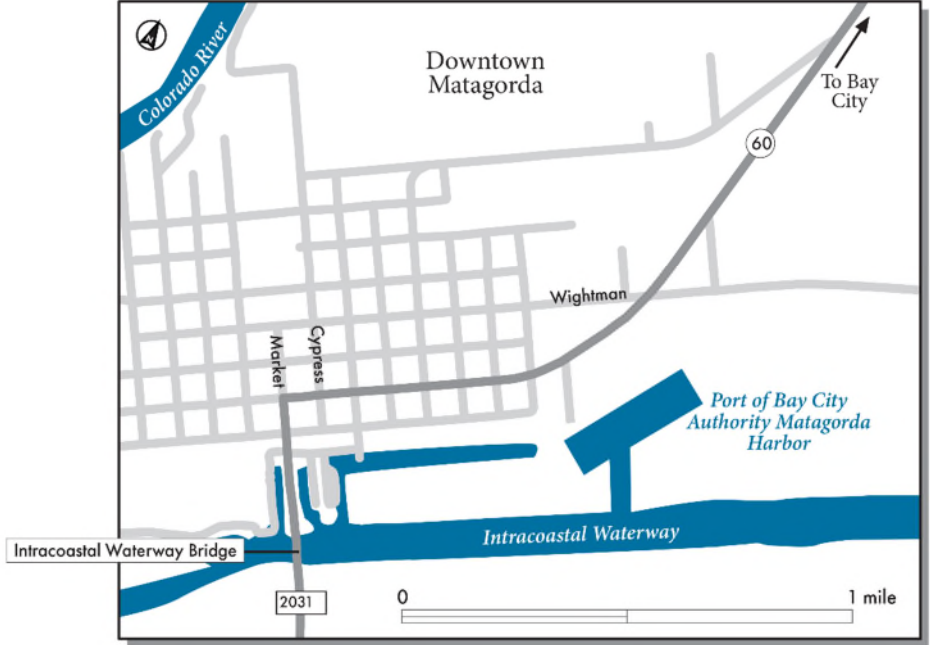
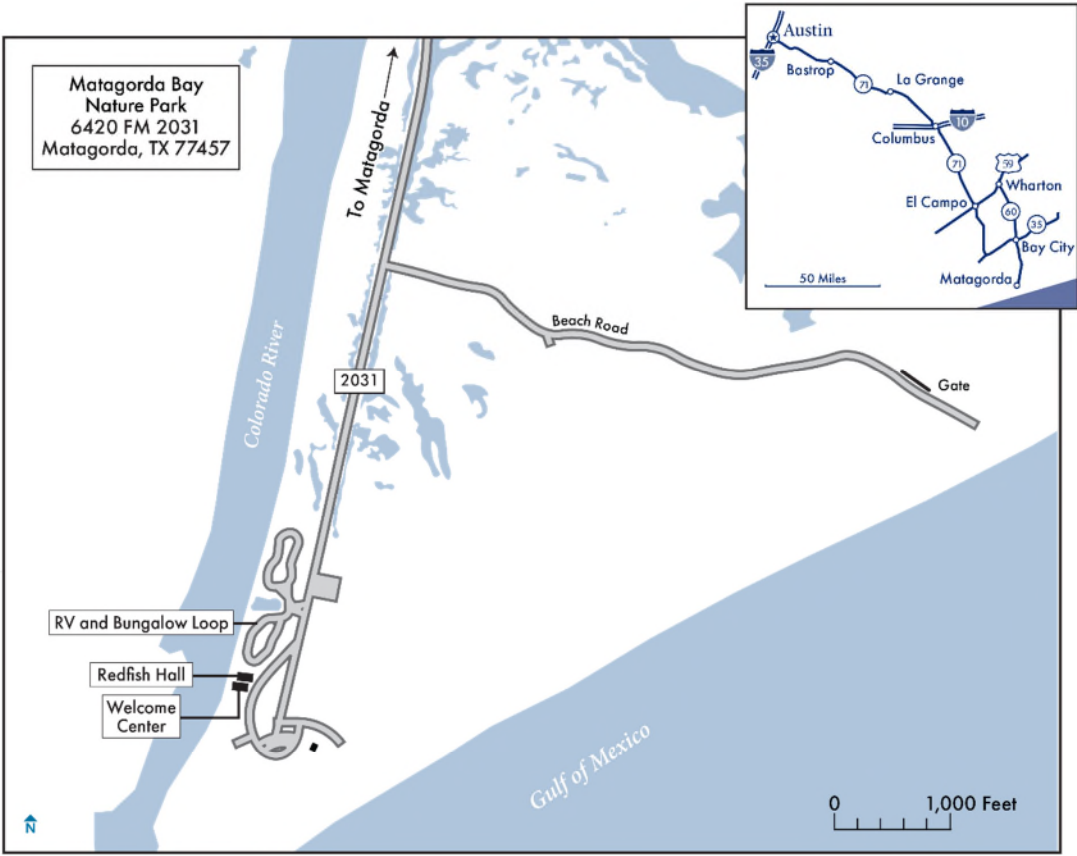
OVERVIEW OF LCRA TRANSMISSION SERVICES CORPORATION

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

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

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

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



FOR DISCUSSION

1. Comments From the Public

Summary

This part of the meeting is intended for comments from the public on topics under LCRA Transmission Services Corporation's jurisdiction but not related to an item on the Board of Directors agenda. No responses or action may be taken by the Board during public comments.

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

Any member of the public wishing to comment on an item listed on this agenda will be called to make comments at the appropriate time.

FOR DISCUSSION

2. Financial Report

Summary

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

Presenter(s)

Jim Travis

Treasurer and Chief Financial Officer

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LCRA Transmission Services Corporation
Financial Highlights
April 2024

LCRA Transmission Services Corporation
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Key term:

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

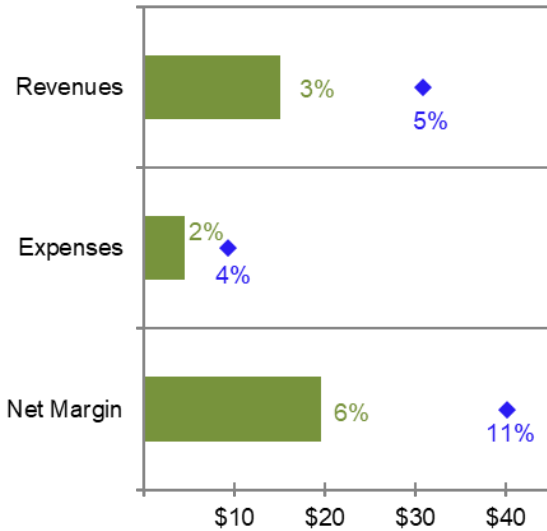
LCRA Transmission Services Corporation

April 30, 2024

(Dollars in Millions)

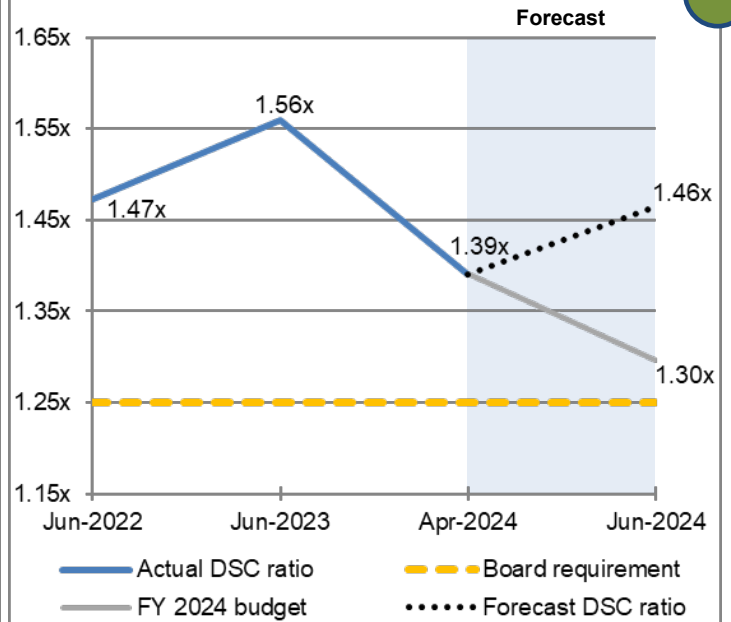
Budget-to-Actual Highlights

Net Margin Fiscal Year-to-Date Variances



% = Variance from budget ♦ FY 2024 fiscal year-end forecast

Debt Service Coverage



Key takeaways:

- Higher-than-budgeted interest income and other revenues, combined with lower-than-budgeted expenses, primarily drove the year-to-date performance.
- Higher-than-budgeted cost of service revenues, interest income and other revenues, combined with lower expenses, drove the year-end forecast.
- The debt service coverage ratio is forecast to be higher than budgeted due to the increased revenue, lower expense and lower debt service projections.

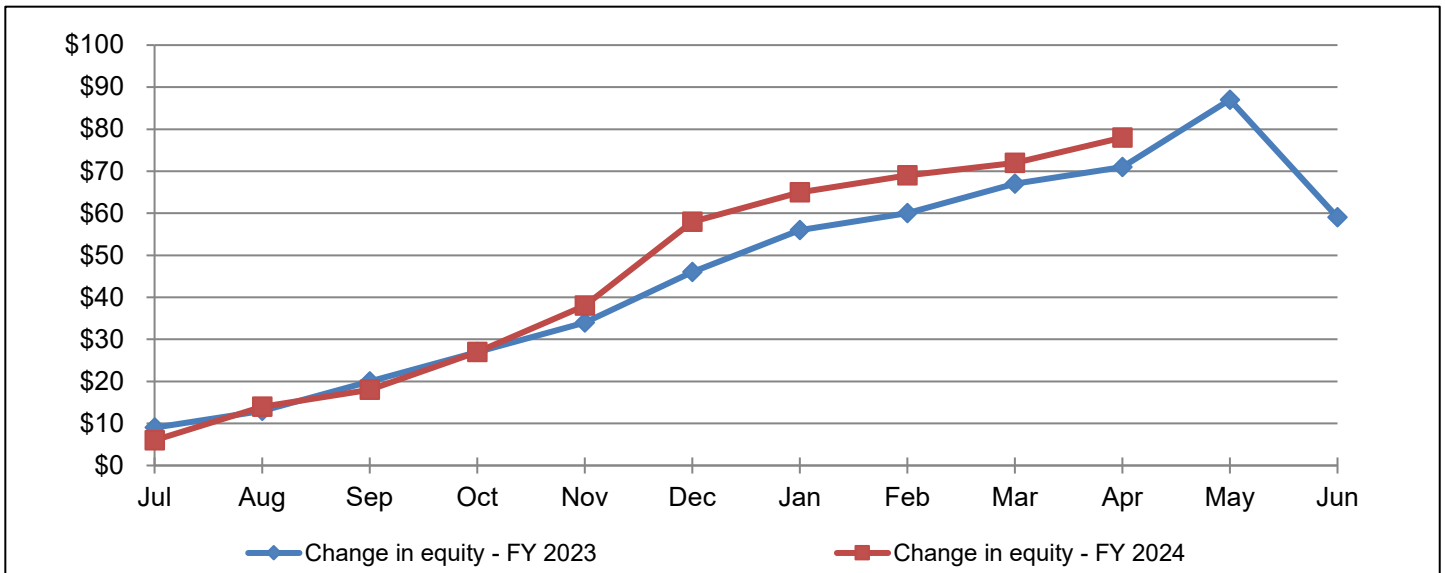
LCRA Transmission Services Corporation

April 30, 2024
(Dollars in Millions)

Board Metrics

Board Metric	Description	Compliant
Equity Ratio	LCRA TSC will build equity that will maintain appropriate access to capital markets and is consistent with regulatory guidance. While LCRA TSC may be highly leveraged during periods of rapid growth, LCRA TSC business plans will specifically address the accumulation of equity to achieve and maintain a minimum long-term equity position of 20%.	✓
Debt Service Reserves	LCRA TSC will covenant debt service reserves in the amount of six months of maximum annual debt service requirements on outstanding debt. Debt service reserves may be collected through rates or met with proceeds from additional debt or through the use of a surety to mitigate rate impacts.	✓
Operating Reserves	LCRA TSC will build and maintain appropriate target levels of operating reserves as follows: six months of average debt service on all outstanding LCRA TSC debt and other obligations to LCRA; and two months of average operating and maintenance expenses, including those billed by LCRA. If at any time the reserves are less than the target levels set forth in this policy, the Board will promptly implement a plan, to be recommended by staff, to increase rates, reduce costs or otherwise cause there to be sufficient revenues to replenish the reserves to such target levels within 12 months.	✓

Income Statement Trends Cumulative Fiscal Year to Date



Key takeaway:

- Net income increased year over year primarily due to increases in Transmission revenue and interest income, partially offset by increases in operating expenses and interest on debt.

LCRA Transmission Services Corporation

April 30, 2024

(Dollars in Millions)

Condensed Balance Sheets

	<u>April 30, 2024</u>	<u>April 30, 2023</u>
Assets		
Cash and cash equivalents	\$ 252	\$ 251
Current assets	<u>256</u>	<u>217</u>
Total current assets	<u>508</u>	<u>468</u>
Capital assets	4,680	4,147
Long-term assets	<u>451</u>	<u>648</u>
Total long-term assets	<u>5,131</u>	<u>4,795</u>
Total Assets	<u>\$ 5,639</u>	<u>\$ 5,263</u>
Liabilities		
Bonds and notes payable	\$ 179	\$ 554
Current liabilities	<u>211</u>	<u>216</u>
Total current liabilities	<u>390</u>	<u>770</u>
Bonds and notes payable	4,003	3,352
Long-term liabilities	<u>223</u>	<u>184</u>
Total long-term liabilities	<u>4,226</u>	<u>3,536</u>
Equity		
Total equity	<u>1,023</u>	<u>957</u>
Total Liabilities and Equity	<u>\$ 5,639</u>	<u>\$ 5,263</u>

Key takeaway:

- Assets and liabilities are trending higher compared with April 2023 due to construction activities related to the capital plan.

LCRA Transmission Services Corporation

April 30, 2024

(Dollars in Millions)

Condensed Statements of Revenues, Expenses and Changes in Equity

Fiscal Year to Date

	<u>2024</u>	<u>2023</u>
Operating Revenues		
Transmission	\$ 502	\$ 460
Transformation	16	15
Other	3	2
Total Operating Revenues	<u>521</u>	<u>477</u>
Operating Expenses		
Operations	151	133
Maintenance	16	16
Depreciation and amortization	111	102
Total Operating Expenses	<u>278</u>	<u>251</u>
Operating Income	<u>243</u>	<u>226</u>
Nonoperating Expenses		
Interest on debt	(107)	(89)
Other nonoperating expenses	(58)	(66)
Total Nonoperating Expenses	<u>(165)</u>	<u>(155)</u>
Change in Equity	78	71
Equity - Beginning of Period	<u>945</u>	<u>886</u>
Equity - End of Period	<u>\$ 1,023</u>	<u>\$ 957</u>

FOR ACTION (CONSENT)

3. Conveyance of Easement in Guadalupe County

Proposed Motion

Authorize the general manager or his designee to convey an overhead 30-foot-wide easement and an underground 20-foot-wide easement to Bluebonnet Electric Cooperative across a portion of LCRA Transmission Services Corporation's Zorn Substation in Guadalupe County.

Board Consideration

LCRA TSC Board Policy T401 – Land Resources requires the declaration, terms of conveyance and requests for easements across LCRA TSC land to be approved by a three-fourths vote of the membership of the LCRA TSC Board of Directors.

Budget Status and Fiscal Impact

The fiscal year 2024 LCRA TSC business plan contains the administrative costs associated with the conveyance of this easement.

Summary

LCRA acquired the 95.05-acre Zorn Substation in 1969. LCRA transferred the Zorn Substation to LCRA TSC in 2002. LCRA's Telecommunications department has an equipment building within the substation that requires distribution electric power be provided by Bluebonnet Electric Cooperative. The approximate easement area is shown on Exhibit B. The easement will authorize BBEC to place distribution facilities within the easement. There will be no charge to BBEC for the easement as the distribution power is required for the LCRA project.

LCRA representatives will complete environmental and cultural resource due diligence in accordance with Board Policy 401.403 – Land Disposition prior to conveying the easement.

Exhibit(s)

- A – Vicinity Map
- B – Site Map

EXHIBIT A

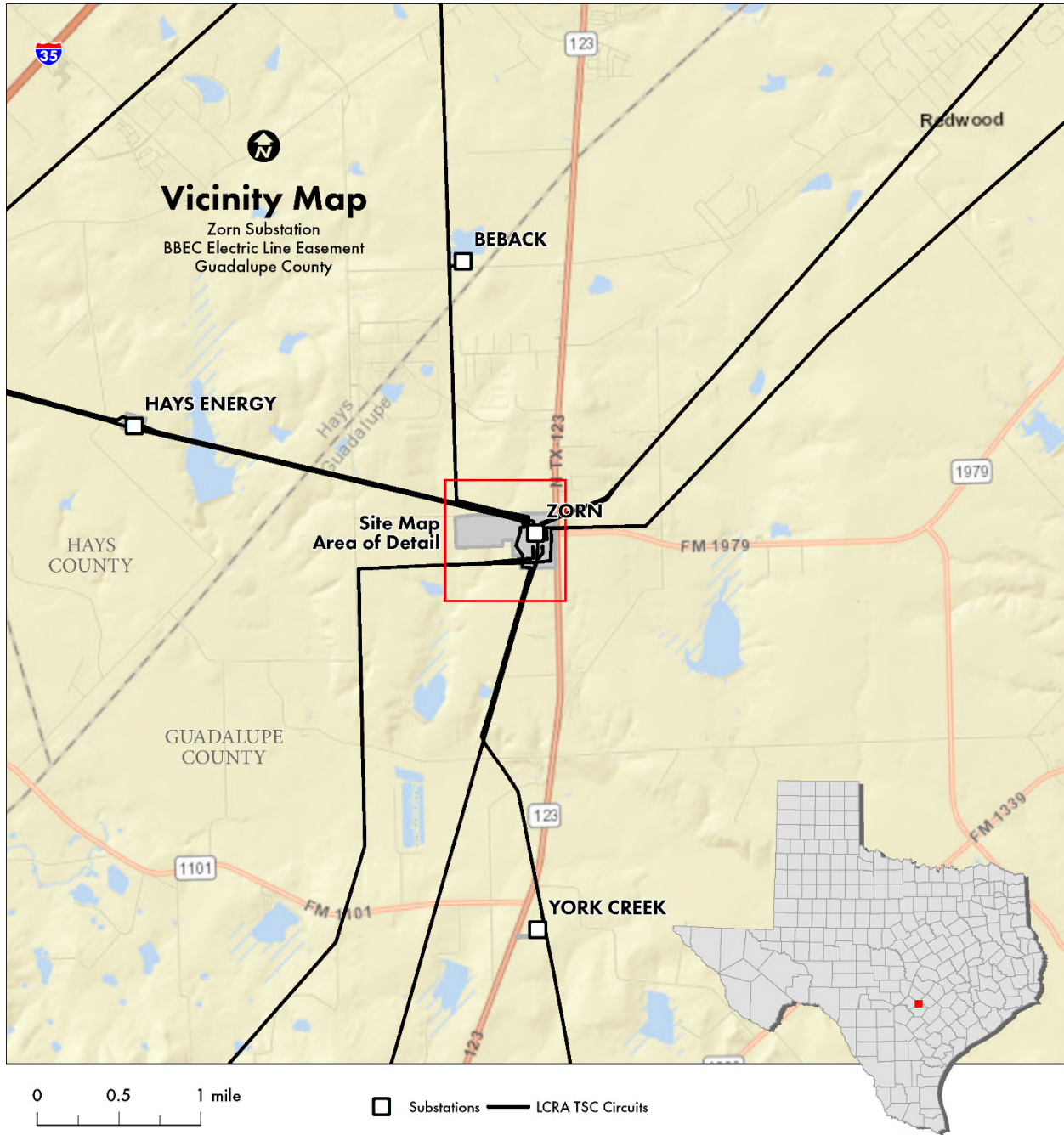
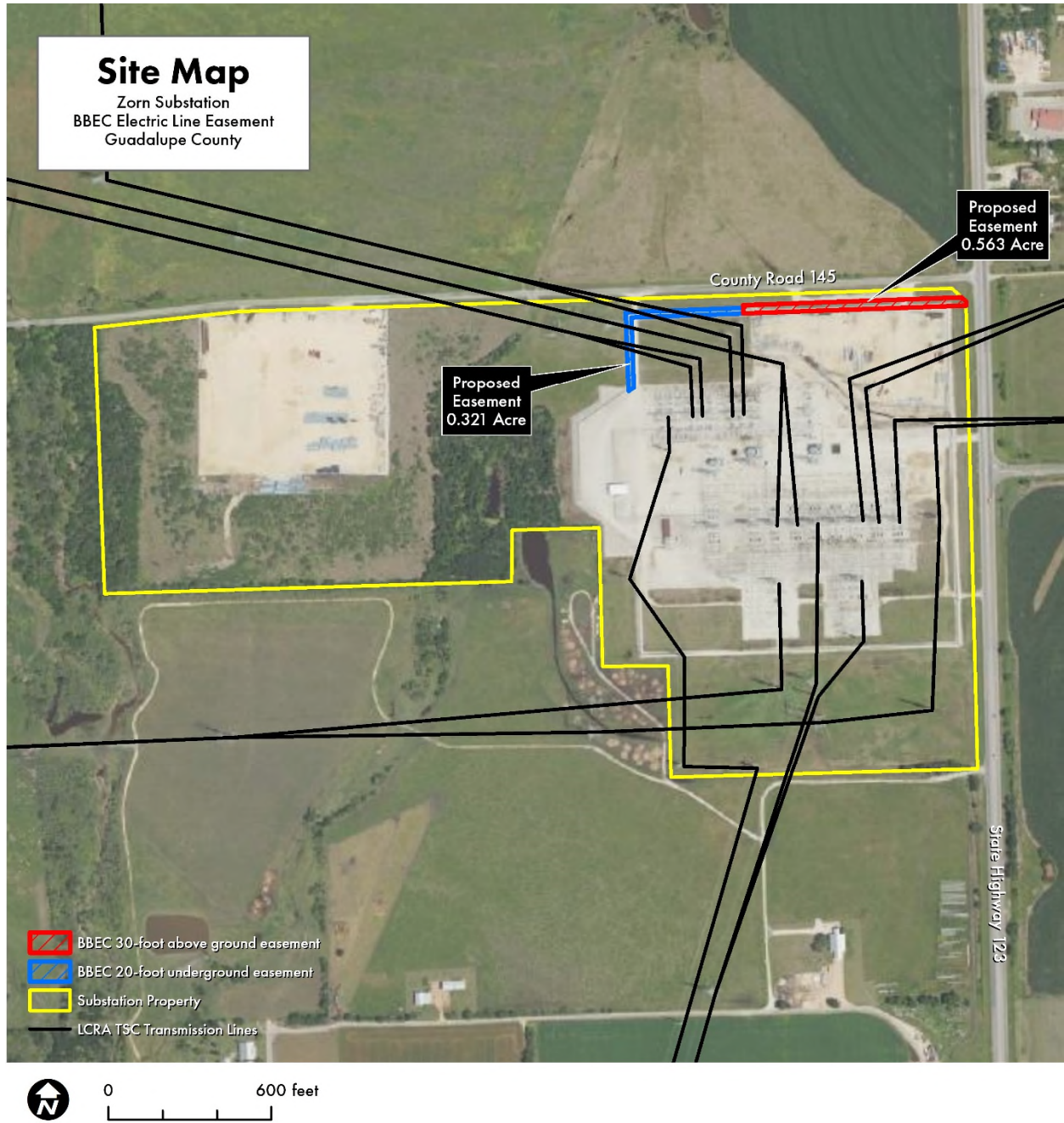


EXHIBIT B



FOR ACTION (CONSENT)

4. Minutes of Prior Meeting

Proposed Motion

Approve the minutes of the April 25, 2024, Board meeting.

Board Consideration

Section 4.06 of the LCRA Transmission Services Corporation bylaws requires the secretary to keep minutes of all meetings of the Board of Directors.

Budget Status and Fiscal Impact

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

Summary

Staff presents the minutes of each meeting to the Board for approval.

Exhibit(s)

A – Minutes of April 25, 2024, Board meeting

EXHIBIT A

LCRA Transmission Services Corporation Board of Directors
Minutes Digest
April 25, 2024

- 24-08 Approval of the minutes of the March 26, 2024, meeting.

- 24-09 Approval of the Capital Improvement Project Authorization Request for the following projects and associated lifetime budgets: Flatonia-Plum Transmission Line Overhaul; Macedonia Substation Upgrade; and Florence Substation Addition.

MINUTES OF THE REGULAR MEETING OF THE
BOARD OF DIRECTORS OF
LCRA TRANSMISSION SERVICES CORPORATION
Brenham, Texas
April 25, 2024

Pursuant to notice posted in accordance with the Texas Open Meetings Act, the Board of Directors (Board) of LCRA Transmission Services Corporation (LCRA TSC) convened in a regular meeting at 9:30 a.m. Thursday, April 25, 2024, in Morriss Hall, at The Barnhill Center, 111 W. Main St., Brenham, Washington County, Texas. The following directors were present, constituting a quorum:

Timothy Timmerman, Chair
Stephen F. Cooper, Vice Chair
Michael L. "Mike" Allen
Matthew L. "Matt" Arthur
Joseph M. "Joe" Crane
Carol Freeman
Thomas L. "Tom" Kelley
Robert "Bobby" Lewis
Thomas Michael Martine
Margaret D. "Meg" Voelter
Martha Leigh M. Whitten
David R. Willmann

Absent: Melissa K. Blanding
Nancy Eckert Yeary

Chair Timmerman convened the meeting at 9:30 a.m. and led the Board in pledges of allegiance to the American and Texas flags. Director Whitten provided an invocation.

There were no comments from the public during the meeting [Agenda Item 1].

The Board next took action on the consent agenda.

24-08 Upon motion by Director Voelter, seconded by Director Arthur, the Board unanimously approved the minutes of the March 26, 2024, Board meeting [Consent Item 2] by a vote of 12 to 0.

24-09 Vice President of Transmission Asset Optimization Kristian M. Koellner presented for consideration a staff recommendation, described in Agenda Item 3 [attached hereto as Exhibit A], that the Board approve the Capital Improvement Project Authorization Request for the following projects and associated lifetime budgets: Flatonia-Plum Transmission Line Overhaul; Macedonia Substation Upgrade; and Florence Substation Addition. Upon motion by Vice Chair Cooper, seconded by Director Allen, the recommendation was unanimously approved by a vote of 12 to 0.

Chair Timmerman declared the meeting to be in executive session at 9:38 a.m. pursuant to sections 551.071, 551.072, 551.074, 551.076, 551.086, 551.089 and 418.183(f) of the Texas Government Code. Executive session ended, and Chair Timmerman declared the meeting to be in public session at 10 a.m.

There being no further business to come before the Board, the meeting was adjourned at 10 a.m.

Leigh Sebastian
Secretary
LCRA Transmission Services Corporation
Approved: May 22, 2024

FOR ACTION

5. Capital Improvement Projects Approval

Proposed Motion

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

Board Consideration

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

Budget Status and Fiscal Impact

- All projects recommended for Board approval are within the total annual budget approved in the fiscal year 2024 capital plan.
- Staff will monitor the FY 2024 forecast and will request a fiscal year budget increase if needed.
- The treasurer and chief financial officer will release funds as needed.
- Project costs will be funded through LCRA TSC regulated rates, subject to approval by the Public Utility Commission of Texas.

Summary

Staff recommends approval of the service reliability, system capacity and general addition capital projects described in exhibits A and B. These projects meet legal requirements in the Public Utility Regulatory Act and PUC rules.

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

Presenter(s)

Kristian M. Koellner
Vice President, Transmission Asset Optimization

Exhibit(s)

A – Project Cost Estimates and Cash Flow
B – Project Details

EXHIBIT A

Project Cost Estimates and Cash Flow

Dollars in millions

Project Name	FY 2023 and Prior	FY 2024	FY 2025	FY 2026	FY 2027	Lifetime
Service Reliability Projects						
Easement Enhancement – FY 2025 System Upgrade	-	-	4.0	4.6	-	8.6
Lockhart-Luling 69-kV Transmission Line Overhaul	0.5	3.6	43.3	-	-	47.4
Piney Creek-Winchester Fiber Upgrade	0.0	0.3	2.4	-	-	2.7
System Capacity Projects						
Sim Gideon-Swiftex Transmission Line Upgrade	0.6	2.3	17.5	20.0	-	40.4
General Additions						
LCRA Transmission Services Corporation – FY 2025 General Additions	-	-	8.0	-	-	8.0
Total	1.1	6.2	75.2	24.6	-	107.1

EXHIBIT B

Project Details

Project Name: Easement Enhancement – FY 2025 System Upgrade

Project Number: 1031523

Lifetime Budget: \$8.6 million

Description: The project is related to LCRA TSC right-of-way easements on multiple transmission lines in Bastrop, Fayette, Gillespie, Kendall, Llano, Lee and Mason counties. The project scope includes a review of right-of-way easements and the acquisition of new easements or the amendment of existing easements to meet LCRA TSC operational needs and design standards. The recommended project completion date is June 30, 2026.

Project Name: Lockhart-Luling 69-kV Transmission Line Overhaul

Project Number: 1027401

Lifetime Budget: \$47.4 million

Description: The project will perform an overhaul on the 15.8-mile Lockhart-Luling 69-kilovolt transmission line in Caldwell County. The scope of work includes replacing the structures and conductor along the transmission line and installing optical ground wire, switches and foundations at Lockhart, Luling, Luling Magnolia and Magnolia Mercer substations. The recommended project completion date is May 31, 2025.

Project Name: Piney Creek-Winchester Fiber Upgrade

Project Number: 1029343

Lifetime Budget: \$2.7 million

Description: The project will upgrade the fiber capacity between Piney Creek and Winchester substations in Fayette County for transmission operational needs. The scope of work includes upgrading the optical ground wire fiber along the 1.56-mile transmission line and replacing the structures and components necessary to route the fiber into control enclosures at both substations. The recommended project completion date is Dec. 31, 2024.

Project Name: Sim Gideon-Swiftex Transmission Line Upgrade

Project Number: 1029104

Lifetime Budget: \$40.4 million

Description: The project will enhance transmission system reliability and increase the capacity of the Sim Gideon-Swiftex 138-kV transmission line in Bastrop County. The scope of work includes replacing structures, conductor and optical ground wire along the transmission line and installing switches and foundations at Sim Gideon and Swiftex substations. The recommended project completion date is Dec. 31, 2025.

Project Name: LCRA Transmission Services Corporation – FY 2025 General Additions

Project Number: 1005987

Lifetime Budget: \$8 million

Description: The project will fund required, but unanticipated, minor system improvements to accommodate load increases, equipment needs, substation reliability upgrades, easement enhancements, customer requests and other work driven by changing system conditions as needed through June 30, 2025.

FOR ACTION

6. LCRA Transmission Services Corporation Fiscal Year 2025 Business and Capital Plans

Proposed Motion

Adopt a resolution (Exhibit A) approving the LCRA Transmission Services Corporation Fiscal Year 2025 Business and Capital Plans.

Board Consideration

LCRA TSC Board Policy T301 – Finance requires approval of a business plan by the LCRA TSC Board of Directors and the LCRA Board of Directors before the start of each fiscal year.

Budget Status and Fiscal Impact

The proposed business plan and the budgets included therein provide targets for revenue, operating and maintenance expenses, and capital spending for FY 2025.

Summary

The Board received a draft of the LCRA TSC FY 2025 business and capital plans under separate cover. The business and capital plans are the LCRA TSC comprehensive operations plans and budget. Approval of the LCRA TSC FY 2025 business and capital plans provides authorization for all expenditures and plans of LCRA TSC.

Presenter(s)

Jim Travis
Treasurer and Chief Financial Officer

Exhibit(s)

A – LCRA Transmission Services Corporation Board Resolution: LCRA Transmission Services Corporation Fiscal Year 2025 Business and Capital Plans

EXHIBIT A

**LCRA TRANSMISSION SERVICES CORPORATION BOARD RESOLUTION
LCRA TRANSMISSION SERVICES CORPORATION
FISCAL YEAR 2025 BUSINESS AND CAPITAL PLANS**

BE IT RESOLVED that the LCRA Transmission Services Corporation Board of Directors hereby adopts and approves the LCRA Transmission Services Corporation Fiscal Year 2025 Business and Capital Plans.

LCRA Transmission Services Corporation has budgeted FY 2025 operating expense and capital amounts at \$158.7 million and \$880.6 million, respectively. Staff will bring future projects individually to the Board or chief executive officer for approval after scope and cost estimates have been further refined and the budget has been established.

The Board recognizes that through its normal agenda process, it will approve capital projects and other major expenditures not included in the business and capital plans, and the president and chief executive officer is instructed to inform the Board when a capital project or other major expenditure is proposed on the agenda that significantly changes or varies from the approved budget in accordance with LCRA Transmission Services Corporation Board Policy T301 – Finance. Furthermore, the president and chief executive officer shall provide the Board with monthly financial reports and quarterly business and capital plan updates describing the progress toward the accomplishment of LCRA Transmission Services Corporation’s goals within the budgeted amounts approved by the Board.

Adoption of the LCRA Transmission Services Corporation Fiscal Year 2025 Business and Capital Plans provides authorization for all expenditures and plans in the business and capital plans and approves the budget for LCRA Transmission Services Corporation, as required by state law. Individual purchases and contracts to implement the business and capital plans fall under various state laws and Board policies and may require additional approval.

FOR ACTION

7. Approve the LCRA Transmission Contract Revenue Notes Series C Note Purchase Agreement and Authorize Related Agreements

Proposed Motion

Request and approve the adoption by LCRA of the Forty-fourth Supplemental Resolution to the Controlling Resolution establishing the LCRA Transmission Contract Revenue Financing Program (Controlling Resolution) to authorize a note purchase agreement (Series C NP Agreement) among LCRA, LCRA Transmission Services Corporation (LCRA TSC) and Bank of America, N.A., or another bank if acceptable terms cannot be reached with Bank of America (in each case, the Bank), for the LCRA Transmission Contract Revenue Notes, Series C (Series C Notes) for a term not to exceed three years, and authorize the president, chief executive officer or treasurer to select the Bank, negotiate and execute such Series C NP Agreement and any related fee agreement, setting forth the terms and conditions governing the issuance of the debt directly to the Bank in an amount up to \$200 million for the Series C Notes and authorize any other necessary agreements.

Board Consideration

The Forty-fourth Supplemental Resolution to the existing Controlling Resolution requires Board approval. The Series C NP Agreement complies with the covenants of the LCRA Controlling Resolution, the Twentieth Supplement to the Controlling Resolution that authorized up to \$200 million for the Series C Notes, and with LCRA TSC Board Policy T301 – Finance. Section 8503.004(p) of the Texas Special District Local Laws Code (LCRA Act) authorizes the Board to issue debt under certain conditions.

Budget Status and Fiscal Impact

Staff anticipates the Series C NP Agreement will allow LCRA to issue private bank debt on behalf of LCRA TSC to finance the construction of facilities and delay the issuance of long-term bonds, which have higher interest rates in the current market. Staff anticipates LCRA TSC will experience lower debt service costs until long-term bonds are issued.

Summary

Staff recommends the Board request, consent and approve the adoption of the Forty-fourth Supplemental Resolution authorizing the president, CEO or treasurer to select the Bank, and negotiate and execute the Series C NP Agreement and other related documents.

LCRA, as the conduit issuer for LCRA TSC currently has authorized LCRA TSC to borrow from a \$150 million tax-exempt commercial paper program with JPMorgan

Chase Bank, the Series C Notes program and \$100 million private placement Series E Notes with U.S. Bank.

Staff now seeks to continue the \$200 million Series E Notes program with the Bank selected. Each Series C Note issued will have a one-year term.

The note purchases by the Bank will allow LCRA TSC to fund project costs in a similar manner to the existing commercial paper programs. However, the direct purchase facilities with the Bank provide an alternative structure that eliminates marketing and remarketing risk that can occur with a public commercial paper program. The private debt facilities do not require public credit ratings to be issued and maintained. The credit facilities allow LCRA TSC to choose the variable interest rate and period to effectively manage the debt. Credit terms and fees are higher than existing commercial paper credit facilities due to current market conditions.

The Series C Notes are issued on parity with LCRA TSC contract revenue bonds and notes pursuant to the LCRA Controlling Resolution and in compliance with the variable debt limitations in LCRA TSC Board Policy T301 – Finance (25% of the total long-term debt and total equity of LCRA TSC).

A supplement to the restated Transmission Contract Revenue Debt Installment Payment Agreement between LCRA and LCRA TSC, dated March 1, 2003, secures the Series C Notes by obligating LCRA TSC to make all payments related to the notes. The notes may be refunded into long-term debt when the conditions are advantageous to LCRA TSC.

Presenter(s)

Jim Travis

Treasurer and Chief Financial Officer

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