

LCRA Transmission Services Corporation

Board Agenda

Wednesday, Oct. 23, 2024

Canyon of the Eagles

Live Oak Room

16942 Ranch Road 2341

Burnet, TX 78611

Earliest start time: 9 a.m.

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Item From the Chief Financial Officer

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Action Items

4. Capital Improvement Projects Approval 11
5. Authorize the Amendment and Extension of the LCRA Transmission Contract Revenue Notes Series E Note Purchase Agreement, and Authorize Related Agreements..... 14

Executive Session

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

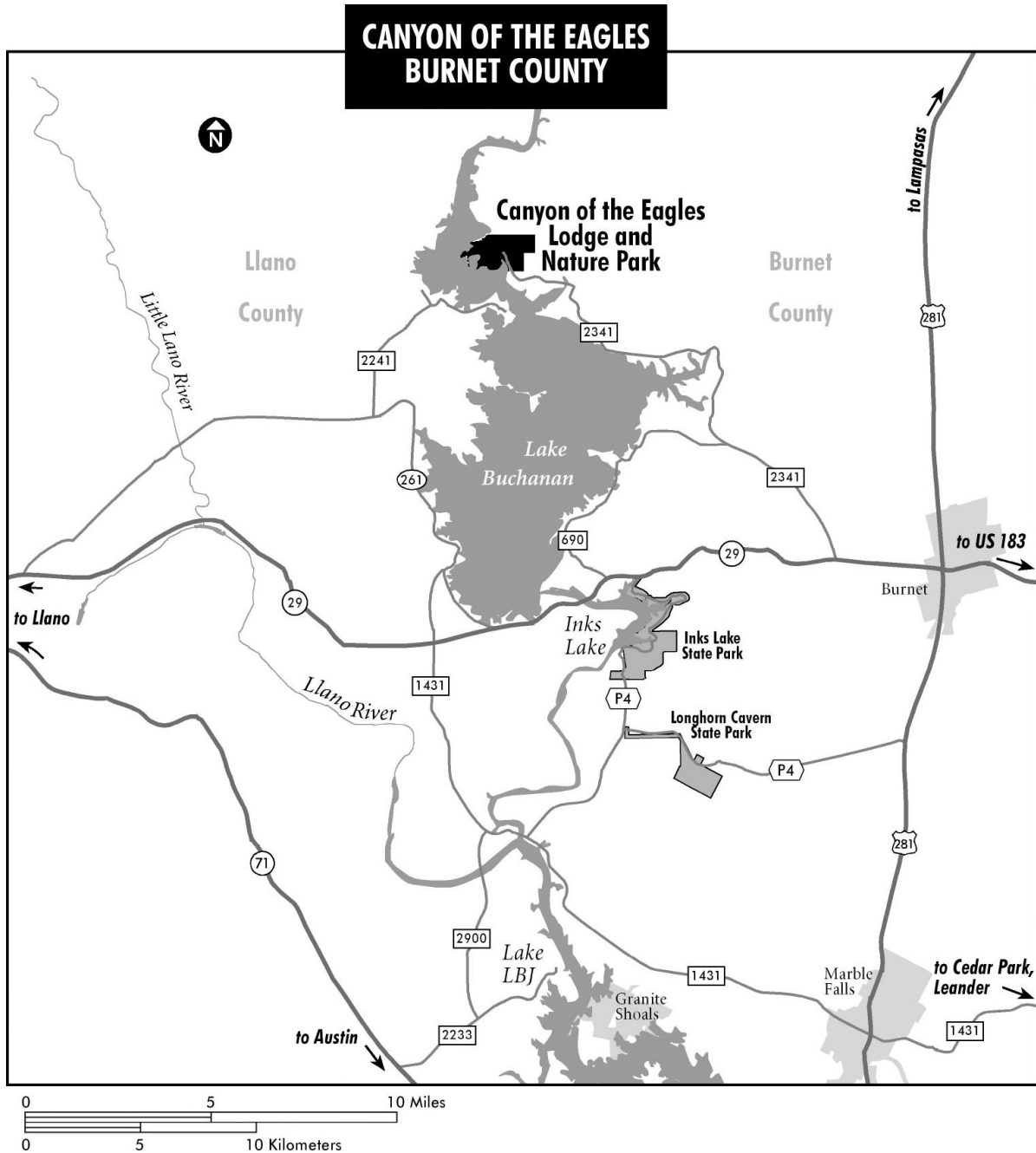
LCRA TSC is a nonprofit corporation created by LCRA to act on LCRA's behalf pursuant to Chapter 152, Texas Water Code, as amended. After Jan. 1, 2002, LCRA TSC engaged in the electric transmission and transformation activities previously carried out by LCRA and assumed LCRA's obligation to provide, and 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.

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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
September 2024

LCRA Transmission Services Corporation
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Key term:

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

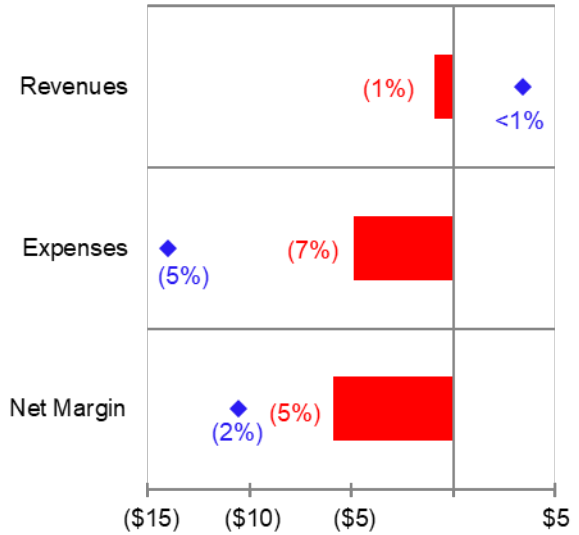
LCRA Transmission Services Corporation

Sept. 30, 2024

(Dollars in Millions)

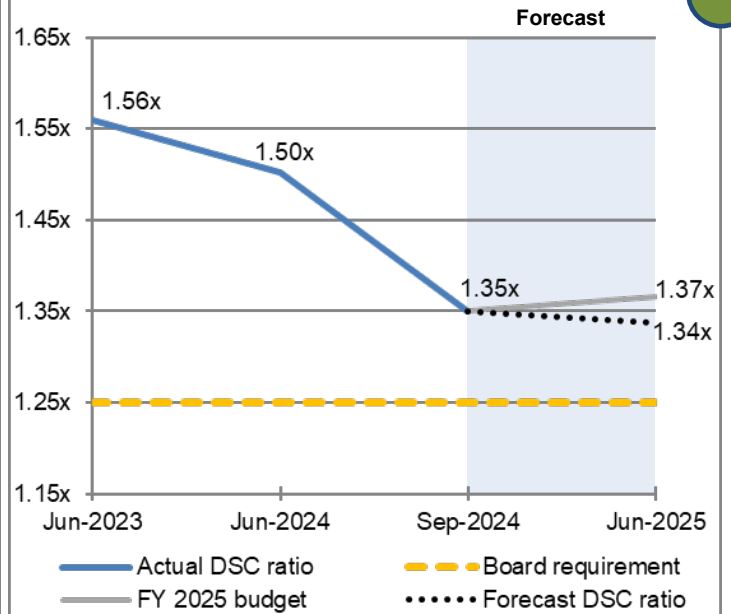
Budget-to-Actual Highlights

Net Margin Fiscal Year-to-Date Variances



% = Variance from budget ♦ FY 2025 fiscal year-end forecast

Debt Service Coverage



Key takeaways:

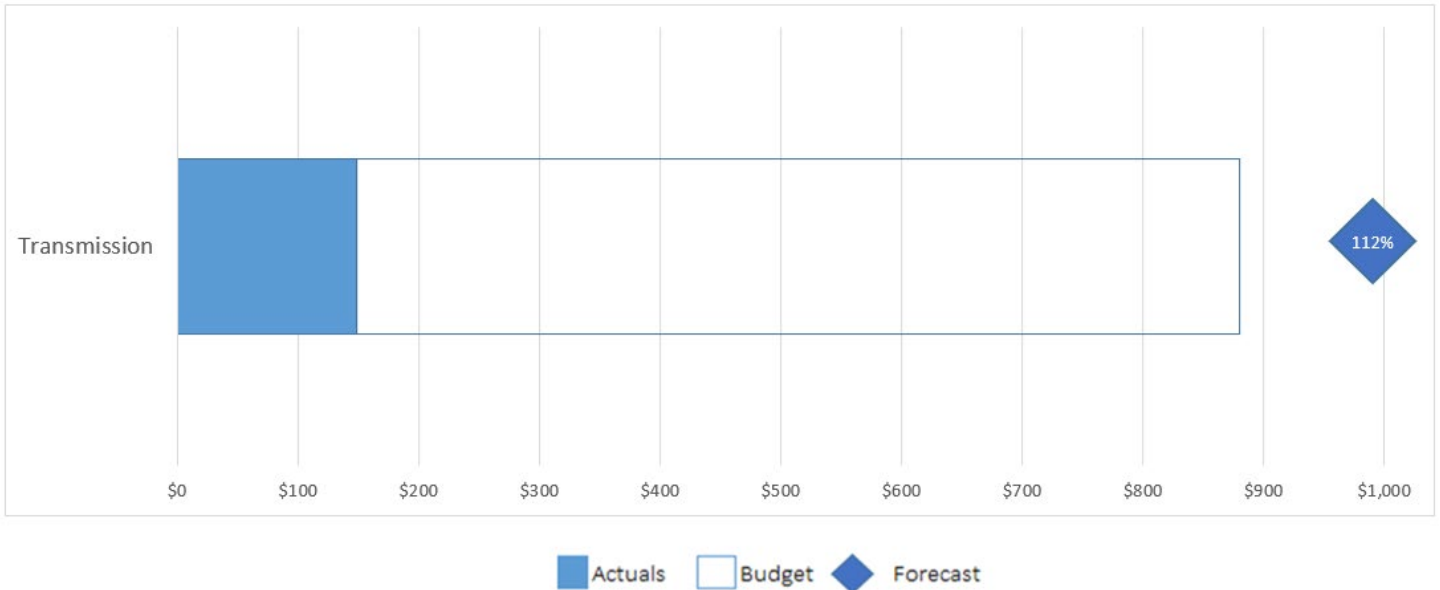
- Lower-than-budgeted cost of service revenues primarily drove the year-to-date revenue variance. Higher-than-budgeted interest and other income, partially offset by lower-than-budgeted cost of service revenues, primarily drove the revenue forecast.
- Higher-than-budgeted outside services primarily drove the year-to-date expense variance and year-end forecast.
- The debt service coverage ratio is forecast to be lower than budgeted primarily due to lower-than-budgeted cost of service revenues.

LCRA Transmission Services Corporation

Sept. 30, 2024

(Dollars in Millions)

Capital Forecast



Key takeaways:

- LCRA TSC currently is projecting capital spending for FY 2025 will be \$105.2 million more than the capital plan budget of \$880.6 million.
- The variance primarily is driven by increased estimates and schedule changes on projects and the addition of projects that were not included in the FY 2025 business and capital plan. Staff anticipates seeking LCRA Board approval to increase the LCRA TSC capital plan later this fiscal year.

President and CEO project approvals:

- For any project not previously authorized by the Board in the capital plan, authority is delegated to the president and chief executive officer to approve any capital project with a lifetime budget not to exceed \$1.5 million, according to LCRA TSC Board Policy T301 – Finance. Additionally, the LCRA TSC Board delegated authority to the president and CEO to approve new generation interconnection projects and additional funding for capital projects expected to exceed their lifetime budgets by 10% and \$300,000. The president and CEO approved the following budget reset this quarter:
 - Dale Power Transformer Upgrade from \$4.8 million to \$5.5 million.

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

- FPP Top Rock Substation Upgrade for \$860,000.
- SONET Migration – FY 2024 Telecommunications Upgrade for \$1.3 million.
- Sunglow Substation Addition for \$19.7 million.

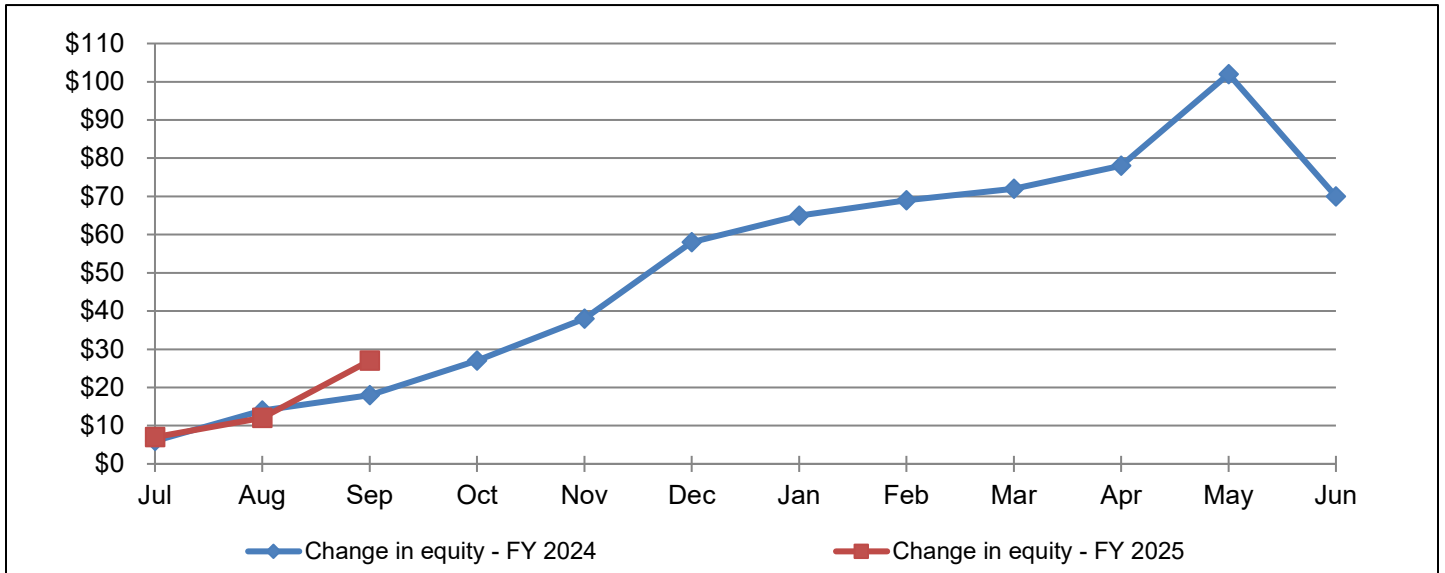
LCRA Transmission Services Corporation

Sept. 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 primarily due to an increase in transmission revenue, partially offset by an increase in operations expense.

LCRA Transmission Services Corporation

Sept. 30, 2024

(Dollars in Millions)

Condensed Balance Sheets

	<u>Sept. 30, 2024</u>	<u>Sept. 30, 2023</u>
Assets		
Cash and cash equivalents	\$ 183	\$ 112
Current assets	<u>341</u>	<u>252</u>
Total current assets	<u>524</u>	<u>364</u>
Capital assets	4,900	4,346
Noncurrent assets	<u>451</u>	<u>416</u>
Total noncurrent assets	<u>5,351</u>	<u>4,762</u>
Total Assets	<u>\$ 5,875</u>	<u>\$ 5,126</u>
Liabilities		
Bonds and notes payable	\$ 166	\$ 246
Current liabilities	<u>230</u>	<u>180</u>
Total current liabilities	<u>396</u>	<u>426</u>
Bonds and notes payable	4,225	3,551
Noncurrent liabilities	<u>212</u>	<u>186</u>
Total noncurrent liabilities	<u>4,437</u>	<u>3,737</u>
Equity		
Total equity	<u>1,042</u>	<u>963</u>
Total Liabilities and Equity	<u>\$ 5,875</u>	<u>\$ 5,126</u>

Key takeaway:

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

LCRA Transmission Services Corporation

Sept. 30, 2024

(Dollars in Millions)

Condensed Statements of Revenues, Expenses and Changes in Equity

	Fiscal Year	
	2025	2024
Operating Revenues		
Transmission	\$ 166	\$ 147
Transformation	5	5
Other	8	1
Total Operating Revenues	179	153
Operating Expenses		
Operations	57	49
Maintenance	5	5
Depreciation and amortization	26	27
Total Operating Expenses	88	81
Operating Income	91	72
Nonoperating Expenses		
Interest on debt	(38)	(30)
Other nonoperating expenses	(26)	(24)
Total Nonoperating Expenses	(64)	(54)
Change in Equity	27	18
Equity - Beginning of Period	1,015	945
Equity - End of Period	\$ 1,042	\$ 963

LCRA Transmission Services Corporation

Sept. 30, 2024

(Dollars in Millions)

Condensed Statements of Cash Flows

	Fiscal Year	
	2025	2024
Cash Flows From Operating Activities		
Received from customers	\$ 161	\$ 162
Payments	(111)	(142)
Net cash provided by operating activities	50	20
Cash Flows From Noncapital Financing Activities	(10)	(8)
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(151)	(121)
Other capital and financing activities	209	(2)
Net cash provided by (used in) capital and financing activities	58	(123)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	16	15
Purchase of investment securities	(138)	(57)
Note payments and interest received	6	6
Net cash used in investing activities	(116)	(36)
Net Decrease in Cash and Cash Equivalents	(18)	(147)
Cash and Cash Equivalents - Beginning of Period	227	284
Cash and Cash Equivalents - End of Period	\$ 209	\$ 137

LCRA Transmission Services Corporation

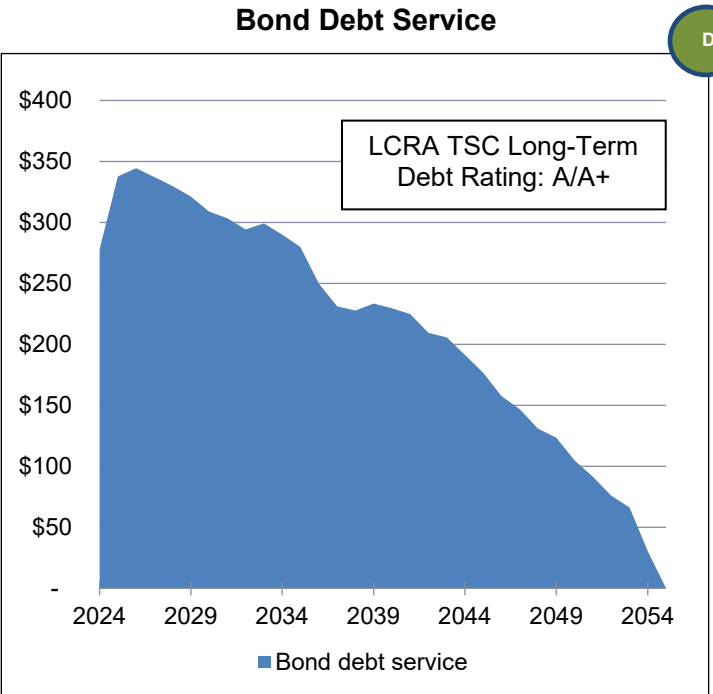
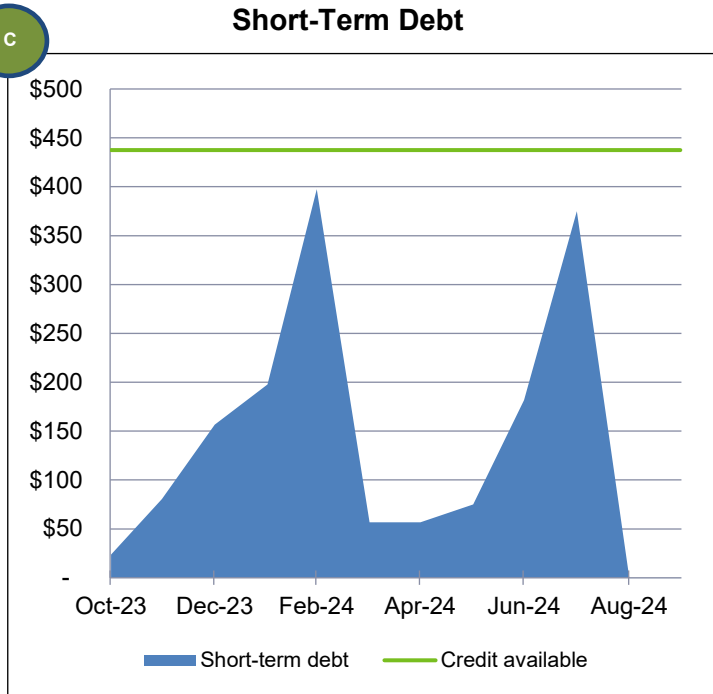
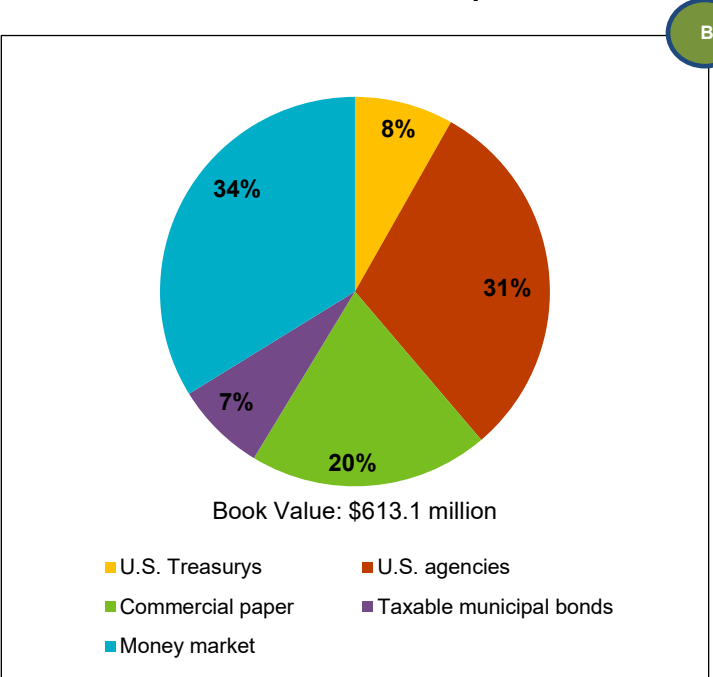
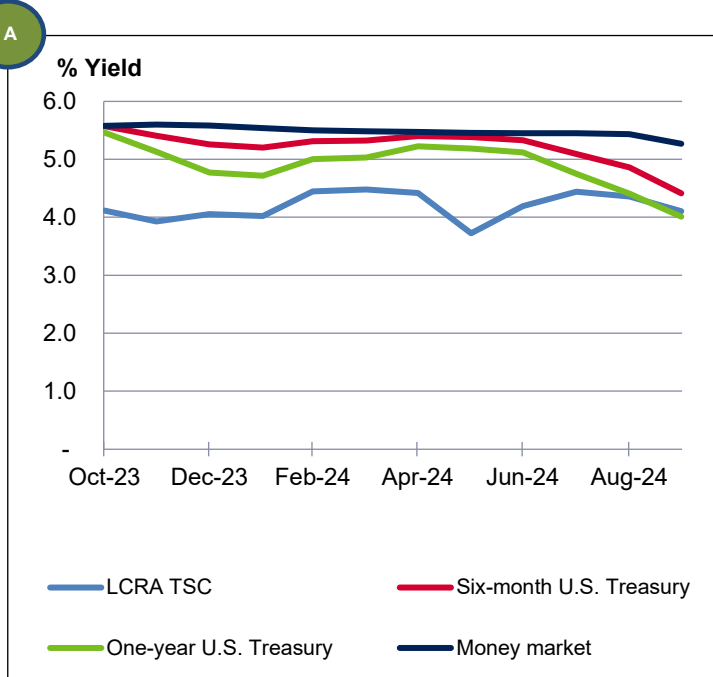
Sept. 30, 2024

(Dollars in Millions)

Investments and Debt

Investment Portfolio Yield

Investment Portfolio Composition



Key takeaways:

- The Federal Open Market Committee eased its monetary policy in September 2024 by cutting the federal funds target rate by 50 basis points.
- The federal funds rate range is 4.75%-5.00%.
- The Consumer Price Index (year over year) as of August 2024 was at 2.5%, a decrease of 0.4% from July 2024.

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FOR ACTION (CONSENT)

3. Minutes of Prior Meeting

Proposed Motion

Approve the minutes of the Sept. 18, 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 Sept. 18, 2024, Board meeting

EXHIBIT A

LCRA Transmission Services Corporation Board of Directors
Minutes Digest
Sept. 18, 2024

- 24-27 Authorization for the president and chief executive officer or his designee to convey a 10-foot-wide drainage easement across a portion of LCRA Transmission Services Corporation's Seguin Substation to the City of Seguin in Guadalupe County.
- 24-28 Approval of the minutes of the Aug. 21, 2024, Board meeting.
- 24-29 Approval of the Capital Improvement Project Authorization Request for the following projects and associated lifetime budgets: Dalchau Service Center Physical Security Facilities Upgrade; Mobile Substation – FY 2025 Power Transformer Addition; Spare Transformer – FY 2025 Power Transformer Addition; Redwood to San Marcos Transmission Line Upgrade; and Redwood Substation Upgrade.
- 24-30 Adoption of a resolution authorizing the use of the power of eminent domain in Kendall County to acquire rights in the properties described in Exhibit 1 to the resolution for the acquisition of easement rights for the Broadband Easement Enhancement project to provide, on behalf of LCRA and at LCRA's expense, for communications and to facilitate broadband services on the Kendall to Fredericksburg (T120) transmission line.

MINUTES OF THE REGULAR MEETING OF THE
BOARD OF DIRECTORS OF
LCRA TRANSMISSION SERVICES CORPORATION
Austin, Texas
Sept. 18, 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 12:49 p.m. Wednesday, Sept. 18, 2024, in the Board Room of the Hancock Building, at the principal office of the Lower Colorado River Authority, 3700 Lake Austin Blvd., Austin, Travis 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 [attended via videoconference]
Thomas Michael Martine
Margaret D. "Meg" Voelter
Martha Leigh M. Whitten
Nancy Eckert Yeary

Absent: Melissa K. Blanding
David R. Willmann

Chair Timmerman convened the meeting at 12:49 p.m.

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

The Board next took action on the consent agenda.

Upon motion by Director Voelter, seconded by Vice Chair Cooper, the Board unanimously approved consent items 2 and 3 by a vote of 12 to 0 as follows:

24-27 Authorization for the president and chief executive officer or his designee to convey a 10-foot-wide drainage easement across a portion of LCRA Transmission Services Corporation's Seguin Substation to the City of Seguin in Guadalupe County, as recommended by staff in Consent Item 2 [attached hereto as Exhibit A].

24-28 Approval of the minutes of the Aug. 21, 2024, Board meeting [Consent Item 3].

24-29 Vice President of Transmission Asset Optimization Kristian M. Koellner presented for consideration a staff recommendation, described in Agenda Item 4 [attached hereto as Exhibit B], that the Board approve the Capital Improvement Project Authorization Request for the following projects and associated lifetime budgets: Dalchau Service Center Physical Security Facilities Upgrade; Mobile Substation – FY 2025 Power Transformer Addition; Spare Transformer – FY 2025 Power Transformer Addition; Redwood to San Marcos Transmission Line Upgrade; and Redwood Substation Upgrade. Upon motion by Director Arthur, seconded by Director Yeary, the recommendation was unanimously approved by a vote of 12 to 0.

24-30 Vice President of Real Estate Services Mark Sumrall presented for consideration a staff recommendation, described in Agenda Item 5 – Acquisition of Interests in Real Property – Use of Eminent Domain in Kendall County [attached hereto as Exhibit C]. Director Yeary moved, seconded by Director Whitten, that the Board authorize by record vote the use of the power of eminent domain to acquire rights in the properties described in Exhibit 1 to the resolution for the acquisition of easement rights for the Broadband Easement Enhancement project to provide, on behalf of LCRA and at LCRA's expense, for communications and to facilitate broadband services on the Kendall to Fredericksburg (T120) transmission line; and that the first record vote applies to all units of property to be condemned. The Board unanimously approved the motion by a record vote of 12 to 0.

There being no further business to come before the Board, the meeting was adjourned at 12:57 p.m.

Leigh Sebastian
Secretary
LCRA Transmission Services Corporation

Approved: Oct. 23, 2024

FOR ACTION

4. Capital Improvement Projects Approval

Proposed Motion

Approve the Capital Improvement Project Authorization Request for the projects and associated lifetime budgets as described in 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 2025 capital plan.
- Staff will monitor the FY 2025 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 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 2024 and Prior	FY 2025	FY 2026	FY 2027	FY 2028	Lifetime
Service Reliability Projects						
Rim Rock Substation Upgrade	0.8	3.3	-	-	-	4.1
Transmission Insulators – FY 2024 System Upgrade	0.0	5.1	-	-	-	5.1
Total	0.8	8.4	0.0	0.0	0.0	9.2

EXHIBIT B

Project Details

Project Name: Rim Rock Substation Upgrade

Project Number: 1029126

Lifetime Budget: \$4.1 million

Description: The project will increase the reliability of substation equipment at the Rim Rock Substation in Kerr County. The scope of work includes replacing switches, instrument transformers, motor operators, protective relaying and other substation equipment at the Rim Rock Substation. The recommended project completion date is May 15, 2025.

Project Name: Transmission Insulators – FY 2024 System Upgrade

Project Number: 1030840

Lifetime Budget: \$5.1 million

Description: The project will increase the reliability of the transmission system by upgrading to high-contamination-area insulators. The scope of work includes upgrading insulators on several LCRA TSC transmission lines in Fayette County. The recommended project completion date is May 15, 2025.

FOR ACTION

5. Authorize the Amendment and Extension of the LCRA Transmission Contract Revenue Notes Series E Note Purchase Agreement, and Authorize Related Agreements

Proposed Motion

Request and approve the adoption by LCRA of the Forty-sixth Supplemental Resolution to the Controlling Resolution establishing the LCRA Transmission Contract Revenue Financing Program (Controlling Resolution) to authorize a note purchase agreement (Series E Agreement) among LCRA, LCRA Transmission Services Corporation (LCRA TSC) and U.S. Bank National Association (the Bank) for the LCRA Transmission Contract Revenue Notes, Series E (Series E Notes), for a term not to exceed four years, and authorize the president, chief executive officer or treasurer to select the Bank, negotiate and execute such Series E Agreement and any related documents, setting forth the terms and conditions governing the issuance of the debt directly to the Bank in an amount up to \$100 million for the Series E Notes and authorize any other necessary agreements.

Board Consideration

The Forty-sixth Supplemental Resolution to the existing Controlling Resolution requires Board approval. The Series E Agreement complies with the covenants of the LCRA Controlling Resolution, the Thirty-first Supplement to the Controlling Resolution that authorized up to \$100 million for the Series E 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 amended and restated Series E 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. The proposed fees for this facility are in line with current market pricing.

Summary

Staff recommends the Board request, consent and approve the adoption of the Forty-sixth Supplemental Resolution authorizing the president, chief financial officer or treasurer to select the Bank, negotiate and execute the Series E Agreement, which may be in the form of an amended and restated 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, a \$200 million private placement Series C Notes program with Bank of America and a \$100 million private placement Series E Notes program with U.S. Bank.

Staff now seeks to continue the \$100 million Series E Notes program with the Bank. Each of the Series E Notes issued will have a maximum 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.

The Series E 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 E 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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