

LCRA Transmission Services Corporation

Board Agenda

Wednesday, September 21, 2011
LCRA Board Room
Austin

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Chief Operating Officer's Update

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Consent Items

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Legal Notice

Although this is the expected agenda, the Board may discuss or take action on any item listed in the legal notice, which may include some items not currently on the Board agenda. Legal notices are available on the Texas Secretary of State Web site 72 hours prior to the meeting at the following link: <http://www.sos.state.tx.us/open/>.

Executive Session

The Board may go into executive session for deliberation on the matters listed in the legal notice posted pursuant to Chapter 551 of the Texas Government Code.

The Board may take final action on any of the executive session matters upon reconvening in open session pursuant to Chapter 551 of the Texas Government Code.

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 percent 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.

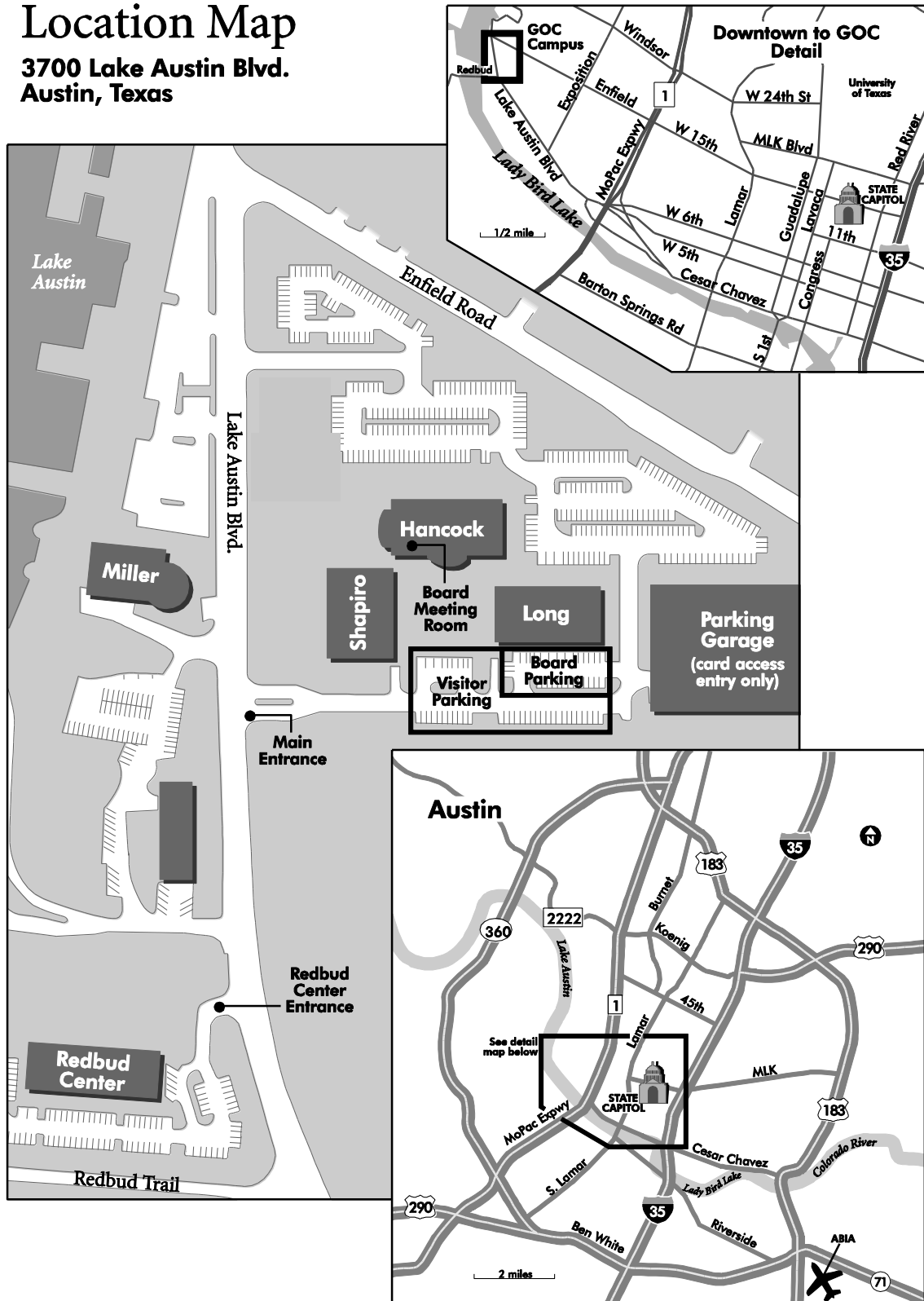
Under the LCRA Master Resolution, defined as the LCRA Board resolution governing LCRA's outstanding debt, and certain provisions of state law, the LCRA Board is required to exercise control over all operations of LCRA TSC. This control includes approval of LCRA TSC's Business Plan and of the sale or 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.

The LCRA TSC Board Policy on Authority and Responsibilities directs that the Business Plan of the affiliate include for approval a schedule of capital projects proposed for the fiscal year. The policy also states that only deviations from the approved plan will be brought before LCRA TSC Board. As such, the LCRA TSC Board agenda will not include consent items to approve specific capital projects, unless the project scope or budget changes significantly from what was originally approved.

LCRA General Office Complex

Location Map

3700 Lake Austin Blvd.
Austin, Texas



FOR DISCUSSION

1. Financial Report

Board Consideration

This report is presented monthly to the Board for discussion.

Summary

The financial report for LCRA Transmission Services Corporation covers the month and fiscal year to date.

Presenter(s)

Brady Edwards
Chief Financial Officer and Treasurer

FOR ACTION (CONSENT)

2. LCRA Transmission Services FY 2011 Financial Statements and Auditor's Report

Proposed Motion

Approve the LCRA Transmission Services Corporation (LCRA TSC) FY 2011 audited financial statements.

Board Consideration

LCRA TSC is required to file with the Public Utility Commission of Texas any documents provided to its lenders, credit agencies and financial institutions. This includes the annual audited financial statements.

Budget Status and Fiscal Impact

None.

Summary

The Board has received a copy of the FY 2011 audited financial statements.

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Financial Statements
LCRA Transmission Services Corporation
(with Independent Auditors' Report)

Years Ended June 30, 2011 and 2010



**LCRA TRANSMISSION SERVICES CORPORATION,
A COMPONENT UNIT OF
THE LOWER COLORADO RIVER AUTHORITY**

FINANCIAL STATEMENTS

**YEARS ENDED
JUNE 30, 2011 AND 2010**

**With Independent Auditors'
Report**

LCRA Transmission Services Corporation,
A Component Unit of
The Lower Colorado River Authority
Financial Statements
Years Ended
June 30, 2011 and 2010

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LCRA Transmission Services Corporation Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

The LCRA Transmission Services Corporation (LCRA TSC), a component unit of the Lower Colorado River Authority (LCRA), began operations as a nonprofit corporation on Jan. 1, 2002, in conjunction with the transfer of LCRA's transmission and transformation assets to LCRA TSC pursuant to the terms of an Electric Transmission Facilities Contract (Contractual Commitment) dated Oct. 1, 2001.

Overview of the Financial Statements

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments* (Statement 34) LCRA TSC, a component unit of LCRA, is considered a special purpose government engaged only in business-type activities. Statement 34 requires the following components in a governmental entity's annual report:

Management's Discussion and Analysis

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

Balance Sheets

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

Statements of Revenues, Expenses and Changes in Equity

This statement provides the operating results broken into the various categories of operating revenues and expenses, nonoperating revenues and expenses, costs to be (prior costs) recovered from revenues, capital contributions, and transfers.

Statements of Cash Flows

Sources and uses are classified using the direct method as resulting from operating, noncapital financing, capital and related financing or investing activities.

Notes to the Financial Statements

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

LCRA Transmission Services Corporation Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Financial Highlights

Condensed Balance Sheets

	June 30, 2011	June 30, 2010	June 30, 2009	2011 vs 2010	2010 vs 2009
<i>(Dollars in Thousands)</i>					
Current assets	\$ 109,736	\$ 93,578	\$ 81,206	17 %	15 %
Capital assets, net	1,637,995	1,516,959	1,306,774	8 %	16 %
Other long-term assets	150,513	151,990	149,135	(1) %	2 %
Total Assets	<u>\$ 1,898,244</u>	<u>\$ 1,762,527</u>	<u>\$ 1,537,115</u>	8 %	15 %
Current liabilities	\$ 242,936	\$ 73,708	\$ 63,818	230 %	15 %
Long-term liabilities	1,366,386	1,433,282	1,249,807	(5) %	15 %
Total Liabilities	<u>1,609,322</u>	<u>1,506,990</u>	<u>1,313,625</u>	7 %	15 %
Equity - Invested in capital assets, net of related debt	195,647	177,269	162,699	10 %	9 %
Equity - Unrestricted	93,275	78,268	60,791	19 %	29 %
Total Equity	<u>288,922</u>	<u>255,537</u>	<u>223,490</u>	13 %	14 %
Total Liabilities and Equity	<u>\$ 1,898,244</u>	<u>\$ 1,762,527</u>	<u>\$ 1,537,115</u>	8 %	15 %

2011 Compared to 2010

Current assets increased \$16.2 million, or 17 percent, due primarily to an increase in cash and investments resulting from increase cash flows from operating activities.

Net capital assets increased \$121.0 million, or 8 percent, due to the acquisition, construction and completion of transmission facilities to meet increasing demand for these services.

Current liabilities increased \$169.2 million, or 230 percent, due to an increase in the current portion of long-term debt. The current portion of long term debt is caused by a larger balance of tax-exempt commercial paper outstanding at June 30, 2011 compared to June 30, 2010.

Long-term liabilities decreased \$66.9 million, or 5 percent. This variance is due primarily to the decrease in the long-term portion of long-term debt as a result of regular principal and interest payments paid during the year for long-term bonds and the contractual commitment to LCRA.

2010 Compared to 2009

Current assets increased \$12.4 million, or 15 percent, due to an increase in cash and investments. Because of the capital expansion of LCRA TSC, the amount of cash on hand has increased in order to pay monthly expenses. Unrestricted investments have increased due to earlier funds availability to meet larger debt service requirements in November and May of each year.

Net capital assets increased \$210.2 million, or 16 percent, primarily due to the acquisition and construction of transmission facilities to meet increasing demand for these services. Utility plant in service also increased \$163.4 million, or 11 percent, because of electric plant in service additions.

Current liabilities increased \$9.9 million, or 15 percent, due to increases in accounts payable to LCRA and the current portion of long-term debt. The variance in accounts payable to LCRA is due to an increase in billings from LCRA to LCRA TSC for monthly expenses paid by LCRA on LCRA TSC's behalf due to LCRA TSC's capital expansion and increased related expenses. The current portion of long term debt is caused by the issuance of LCRA TSC Contract Refunding Revenue Bonds, Series 2008, and its first payment becoming due in the next year.

LCRA Transmission Services Corporation Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Long-term liabilities increased \$183.5 million, or 15 percent. This variance is primarily due to an \$18.5 million increase in accounts payable to LCRA from the construction fund due to the capital expansion projects of LCRA TSC. Additionally, a \$166 million increase in long-term debt occurred because of a refunding of tax-exempt commercial paper with LCRA TSC Contract Refunding Revenue Bonds, Series 2010 in May 2010.

Condensed Statements of Revenues, Expenses and Changes in Equity

	Year Ended June 30,			2011 vs 2010	2010 vs 2009
	2010	2010	2009	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)
	<i>(Dollars in Thousands)</i>				
Operating revenues	\$ 256,852	\$ 242,391	\$ 232,255	6 %	4 %
Operating expenses	(133,655)	(130,514)	(113,775)	(2) %	(15) %
Operating income	123,197	111,877	118,480	10 %	(6) %
Interest and other income	815	856	1,734	(5) %	(51) %
Interest and other expenses	(92,842)	(82,418)	(78,334)	(13) %	(5) %
Costs to be (prior costs) recovered from revenues	1,732	(706)	(4,581)	345 %	85 %
Capital contributions	451	2,306	315	(80) %	632 %
Income before transfers in	33,353	31,915	37,614	5 %	(15) %
Transfers in	32	132	226	(76) %	(42) %
Change in equity	33,385	32,047	37,840	4 %	(15) %
Equity, Beginning of Year	255,537	223,490	185,650	14 %	20 %
Equity, End of Year	\$ 288,922	\$ 255,537	\$ 223,490	13 %	14 %

2011 Compared to 2010

Operating revenues are derived from providing transmission and transformation services to customers. The increase in operating revenues of \$14.5 million, or 6 percent, is primarily due to the increase in the rate charged by LCRA TSC. See details in the Regulatory Matters section below.

Operating expenses of \$133.7 million include operations, maintenance, administrative and general, and depreciation expenses. Operating expenses remained comparable to FY 2010.

Interest and other expenses increased \$10.4 million, or 13 percent, primarily due to an increase in interest expense because of the issuance of LCRA TSC Series 2010 bonds in May 2010.

Costs to be recovered from revenues increased \$2.4 million, or 345 percent, due to more costs recovered this year compared to prior year.

The decrease in Capital contributions is primarily due to a low demand for projects funded with contributed capital in FY 2011 vs. FY 2010 as well as the completion of a large contributed capital project in FY 2010.

2010 Compared to 2009

Operating revenues are derived from providing transmission and transformation services to customers. The increase in operating revenues of \$10.1 million, or 4 percent, is primarily due to the increase in the electricity service volume amount used by customers, charged by LCRA TSC and regulated by the Public Utility Commission of Texas (PUC).

Operating expenses of \$130.5 million include operations, maintenance, administrative and general, and depreciation expenses. Operating expenses increased \$16.7 million, or 15 percent, due to an increase in administrative and general expenses, an increase in maintenance of overhead and underground lines from preventative maintenance and right-of-way work, and an increase in depreciation from new assets.

Interest and other income decreased \$0.9 million, or 51 percent, primarily due to a decrease in interest income as a result of a decrease in the fair market value of investments. Interest and other expenses increased

LCRA Transmission Services Corporation Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

\$4.1 million, or 5 percent, mostly due to an increase in interest expense related to LCRA TSC Series 2009 bonds, offset by an increase in capitalized interest.

Costs to be recovered from revenues increased \$3.9 million, or 85 percent, primarily due to an increase in the deferred loss on retirements and depreciation of debt funded assets offset by an increase in principal payments on debt.

In FY 2010, LCRA TSC adjusted FY 2009 beginning equity to reflect the implementation of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (Statement 51).

Regulatory Matters

LCRA TSC plans on filing a transmission cost of service rate application with the PUC in FY 2012. All previous rate filings since the last rate filing in 2007 are subject to review during this cost of service rate application process.

Capital Improvement and Expansion Program

LCRA TSC's capital improvement and expansion program for FY 2012 through FY 2016 is estimated to be \$708.2 million, with \$542.1 million, or 76.5 percent, expected to be debt funded. The majority of forecasted capital costs is for load growth, relief of congestion constraints and improved reliability of the transmission system. The capital plan includes \$485 million for projects assigned to LCRA TSC to meet the Competitive Renewable Energy Zones objectives.

The forecasted capital program is subject to periodic review and revision and may change significantly because of a number of factors, including economic conditions and regulatory constraints.

Capital Asset Activity

Fiscal Year 2011

- \$181.5 million was charged to construction activities in FY 2011. The majority of these costs were for the construction of transmission facilities to meet increasing demands for transmission services.
- \$60.5 million of depreciation expense and asset retirements were recorded in FY 2011 on plant in service.
- For additional detail, see Capital Asset Activity Table in Note 4 of the Notes to the Financial Statements.

Fiscal Year 2010

- \$258.5 million was charged to construction activities in FY 2010. The majority of these costs were for the construction of transmission facilities to meet increasing demands for transmission services.
- \$48.3 million of depreciation expense and asset retirements were recorded in FY 2010 on plant in service.

Debt Activity

Fiscal Year 2011

- In November 2010 and May 2011, LCRA TSC made scheduled payments of \$6.5 million and \$21.9 million respectively, on the contractual commitment to LCRA.
- In May 2010, LCRA, on behalf of TSC, made scheduled principal payments of \$7.7 million on the 2003B Refunding Revenue Bonds, \$4.5 million on the 2003C Refunding Revenue Bonds, \$4.2 million on the

LCRA Transmission Services Corporation Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

2004 Refunding Revenue Bonds, \$4.2 million on the 2005 Refunding Revenue Bonds, \$4.5 million on the 2006A Refunding Revenue Bonds, \$4.5 million on the 2006 Refunding Revenue Bonds, \$2.0 million on the 2008 Refunding Revenue Bonds, and interest payments of \$66.5 million.

- During FY 2011, LCRA, on behalf of LCRA TSC, issued \$165.7 million of tax-exempt commercial paper to fund eligible projects associated with transmission capital projects.
- For additional detail, see Note 3 of the Notes to the Financial Statements.

Fiscal Year 2010

- In November 2009 and May 2010, LCRA TSC made scheduled payments of \$6.9 million and \$21.5 million respectively, on the contractual commitment to LCRA.
- In May 2010, LCRA, on behalf of TSC, made scheduled principal payments of \$7.7 million on the 2003B Refunding Revenue Bonds, \$4.5 million on the 2003C Refunding Revenue Bonds, \$4.2 million on the 2004 Refunding Revenue Bonds, \$4.2 million on the 2005 Refunding Revenue Bonds, \$4.5 million on the 2006A Refunding Revenue Bonds, \$4.5 million on the 2006 Refunding Revenue Bonds and interest payments of \$56.4 million.
- On May 18, 2010, LCRA, on behalf of LCRA TSC, issued \$200 million of LCRA Transmission Contract Refunding Revenue Bonds, Series 2010. The bonds were issued at a premium of \$10.1 million, resulting in total available funds net of issuance costs of \$209.1 million. Proceeds from the issue were used to refund \$136.6 million of tax-exempt commercial paper. Proceeds of \$10.9 million were used to create the LCRA TSC 2010 debt service reserve fund, while \$61.2 million of new money was used to increase the LCRA TSC construction fund.
- During FY 2010, LCRA, on behalf of LCRA TSC, issued \$136.6 million of tax-exempt commercial paper to fund eligible projects associated with transmission capital projects.
- For additional detail, see Note 3 of the Notes to the Financial Statements.

Subsequent Events

In August 2011, one major rating agency downgraded debt issued by the U.S. government, and debt explicitly guaranteed by the U.S. government, from AAA to AA+, a one-level downgrade. The other two rating agencies reaffirmed the AAA rating. While the impact of this downgrade is not fully known at this time, it is not expected to significantly affect LCRA TSC's investment values or collectability.

Contacting LCRA TSC's Management

This financial report is designed to provide readers with a general overview of LCRA TSC's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Lower Colorado River Authority, P.O. Box 220, Austin, Texas 78767.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
LCRA Transmission Services
Corporation Austin, Texas

We have audited the accompanying balance sheets of the LCRA Transmission Services Corporation (LCRA TSC) as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in equity and cash flows for the years then ended. These financial statements are the responsibility of LCRA TSC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, LCRA TSC adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective July 1, 2009.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LCRA TSC as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 13, 2011

LCRA TRANSMISSION SERVICES CORPORATION

BALANCE SHEETS

(Dollars in Thousands)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
<i>Assets</i>		
Current Assets:		
Cash and cash equivalents	\$ 39,921	\$ 25,268
Unrestricted investments	29,614	32,416
Receivables, net	36,421	31,604
Accrued interest receivable	22	189
Inventories	3,758	4,101
Total current assets	<u>109,736</u>	<u>93,578</u>
Long-term Assets:		
Restricted cash and cash equivalents	586	8,429
Restricted investments	444	940
Accounts receivable from LCRA - restricted	<u>67,423</u>	<u>67,252</u>
Capital assets:		
Depreciable:		
Utility plant in service	1,780,601	1,598,943
Less accumulated depreciation	<u>(381,004)</u>	<u>(339,553)</u>
Depreciable capital assets, net	<u>1,399,597</u>	<u>1,259,390</u>
Nondepreciable:		
Utility plant in service	166,810	97,873
Construction work in progress	<u>71,588</u>	<u>159,695</u>
Nondepreciable capital assets	<u>238,398</u>	<u>257,568</u>
Other	<u>15</u>	<u>15</u>
Deferred charges:		
Costs to be recovered from future revenues	61,427	53,728
Unamortized debt expense	<u>20,618</u>	<u>21,627</u>
Deferred charges	<u>82,045</u>	<u>75,355</u>
Total long-term assets	<u>1,788,508</u>	<u>1,668,949</u>
Total Assets	<u>\$ 1,898,244</u>	<u>\$ 1,762,527</u>

LCRA TRANSMISSION SERVICES CORPORATION

BALANCE SHEETS

(Dollars in Thousands)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
<i>Liabilities</i>		
Current Liabilities:		
Accounts payable to LCRA	\$ 9,484	\$ 13,309
Interest payable	8,742	7,440
Other current liabilities	6,689	6,726
Bonds, notes and loans payable	218,021	46,233
Total current liabilities	<u>242,936</u>	<u>73,708</u>
Long-term Liabilities:		
Accounts payable to LCRA from construction fund	13,368	28,043
Accounts payable from restricted assets	167	1,352
Bonds, notes and loans payable	1,352,531	1,403,434
Deferred credits	320	453
Total long-term liabilities	<u>1,366,386</u>	<u>1,433,282</u>
Total liabilities	<u>1,609,322</u>	<u>1,506,990</u>
<i>Equity</i>		
Invested in capital assets, net of related debt	195,647	177,269
Unrestricted	93,275	78,268
Total equity	<u>288,922</u>	<u>255,537</u>
Total Liabilities and Equity	<u>\$ 1,898,244</u>	<u>\$ 1,762,527</u>

LCRA TRANSMISSION SERVICES CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

(Dollars in Thousands)

	Year Ended June 30,	
	2011	2010
Operating Revenues		
Transmission	\$ 241,756	\$ 228,106
Transformation	14,592	13,810
Other	504	475
Total operating revenues	<u>256,852</u>	<u>242,391</u>
Operating Expenses		
Operations	80,027	74,968
Maintenance	7,300	12,795
Depreciation and amortization	46,328	42,751
Total operating expenses	<u>133,655</u>	<u>130,514</u>
Operating income	123,197	111,877
Nonoperating Revenues (Expenses)		
Interest and other income	815	856
Interest and other expenses	<u>(92,842)</u>	<u>(82,418)</u>
Total nonoperating revenues (expenses)	<u>(92,027)</u>	<u>(81,562)</u>
Income before costs to be (prior costs) recovered from revenues, capital contributions, and transfers in	31,170	30,315
Costs to be (Prior Costs) Recovered from Revenues	1,732	(706)
Capital Contributions	451	2,306
Transfers In	<u>32</u>	<u>132</u>
Change in Equity	33,385	32,047
Total Equity, Beginning of Year	<u>255,537</u>	<u>223,490</u>
Total Equity, End of Year	<u>\$ 288,922</u>	<u>\$ 255,537</u>

LCRA TRANSMISSION SERVICES CORPORATION

STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	Year Ended June 30,	
	2011	2010
Cash Flows From Operating Activities		
Received from customers	\$ 251,893	\$ 246,699
Payments for goods and services	(86,993)	(88,273)
Net cash provided by operating activities	<u>164,900</u>	<u>158,426</u>
Cash Flows From Noncapital Financing Activities		
Other expenses	(7,147)	(6,916)
Net cash used in noncapital financing activities	<u>(7,147)</u>	<u>(6,916)</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(202,010)	(246,246)
Proceeds from sale of capital assets	473	64
Debt issue costs	1	(1,561)
Contributed capital received for capital costs	451	2,306
Proceeds from bond issues and commercial paper	165,700	346,706
Debt principal payments and commercial paper redemptions	(46,757)	(43,881)
Interest paid	(72,580)	(63,052)
Payments to refund and defease debt	-	(136,600)
Net cash used in capital and related financing activities	<u>(154,722)</u>	<u>(142,264)</u>
Cash Flows From Investing Activities		
Sale and maturity of investment securities	92,891	76,206
Purchase of investment securities	(90,108)	(88,624)
Interest received	996	2,002
Net cash provided by (used in) investing activities	<u>3,779</u>	<u>(10,416)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6,810	(1,170)
Cash and Cash Equivalents, Beginning of Year	33,697	34,867
Cash and Cash Equivalents, End of Year	<u>\$ 40,507</u>	<u>\$ 33,697</u>

LCRA TRANSMISSION SERVICES CORPORATION

STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	Year Ended June 30,	
	2011	2010
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating income	\$ 123,197	\$ 111,877
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	46,328	42,751
Changes in assets and liabilities:		
Accounts receivable	(4,817)	4,259
Inventories	343	244
Current liabilities	(18)	(754)
Deferred credits and other long-term liabilities	(133)	49
Net cash provided by operating activities	<u>\$ 164,900</u>	<u>\$ 158,426</u>
Noncash Investing Activities		
Investment market adjustments	<u>\$ (515)</u>	<u>\$ (1,413)</u>
Noncash Financing for Property, Plant and Equipment		
Purchase of equipment through short-term trade payables	<u>\$ -</u>	<u>\$ 11,922</u>

LCRA TRANSMISSION SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

Years Ended 2011 and 2010

1. Significant Accounting Policies

Reporting Entity: In connection with the implementation of retail competition in the electric utility industry in the State of Texas, the Lower Colorado River Authority (LCRA) was required by the Texas Legislature under the Public Utility Regulatory Act, enacted in 1999 as Senate Bill 7 (SB 7), to "unbundle" its electric generation assets from its electric transmission and transformation assets. Effective Jan. 1, 2002, LCRA conveyed all of its existing electric transmission and transformation 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 was created under the Texas Non-Profit Corporation Act under the Development Corporation Act of 1979. LCRA TSC is organized exclusively for the benefit of accomplishing public purposes for LCRA. Since Jan. 1, 2002, LCRA TSC has engaged in the electric transmission and transformation activities formerly carried out by LCRA and has 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 (TSP) under the state's open-access electric transmission regulatory scheme within the approximately 85 percent 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 (DSPs) using the electric transmission system within ERCOT. As a TSP in the ERCOT region of the state, the rates that LCRA TSC charges for transmission services are regulated by the Public Utility Commission of Texas, (PUC) and determined pursuant to transmission cost of service (TCOS) rate proceedings filed with and approved by the PUC.

LCRA TSC is a component unit of LCRA. Although it is a separate legal entity, LCRA TSC is reported in LCRA's financial statements as a blended component unit because it is governed by a board of directors that is composed in its entirety of the LCRA Board of Directors.

LCRA TSC reimburses LCRA for payroll costs, including the cost of employee fringe benefits and other expenses of LCRA employees performing LCRA TSC construction, operations and maintenance work. In addition, LCRA TSC reimburses LCRA for the costs of administrative services provided to LCRA TSC. LCRA charged LCRA TSC \$294.5 million and \$325.6 million during FY 2011 and FY 2010, respectively, for these costs. The majority of these costs were for capital projects. As of June 30, 2011, total noncontractual commitment liabilities to LCRA were \$22.9 million, and receivables from LCRA were \$67.4 million. As of June 30, 2010, total noncontractual commitment liabilities to LCRA were \$41.4 million, and receivables from LCRA were \$67.3 million. Please refer to Note 3, Long-Term Debt and Commercial Paper, for contractual commitment liability information.

Basis of Accounting: The accompanying financial statements of LCRA TSC, a governmental entity, have been prepared using proprietary fund and accrual basis accounting. LCRA TSC complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

LCRA TSC's accounts are maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenues for providing electric transmission and transformation services and the costs to operate and maintain these facilities are reported as operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Capital contributions consist of customer service work on LCRA TSC-owned assets.

Newly Adopted Standards for FY 2011: In FY 2011, LCRA TSC early implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (Statement 62). This Statement incorporates into the GASB's authoritative literature guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. By incorporating and maintaining this guidance in a single source, Statement 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local governmental financial reports. It eliminates the need for financial statement preparers and

LCRA TRANSMISSION SERVICES CORPORATION

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auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of relevant guidance in the financial statements of state and local governments. The implementation of Statement 62 did not have a material effect on LCRA TSC's financial position, results of operations or cash flows.

Newly Adopted Standards for FY 2010: In FY 2010, LCRA implemented Statement 51. This statement provides guidance regarding how to identify, account for and report intangible assets. The statement characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life beyond a single reporting period. Statement 51 requires that intangible assets within the scope of the statement to be classified as capital assets. Examples of intangible assets are easements and computer software.

Revenue and Restricted Funds: Restricted funds consist of construction funds derived from debt issues, system revenues that have been designated for specific purposes by the LCRA TSC Board, and other funds with legal or contractual constraints. When both restricted and unrestricted resources are available for use, it is LCRA's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Assets

Utility Plant: Utility plant consists of electric transmission and transformation facilities, a system operations and control center, and related projects under construction. These assets are recorded at cost, which includes materials, labor, overhead and interest capitalized. The costs of repairs and minor replacements are charged to operating expense as incurred. Costs of asset replacements and betterments are capitalized. The cost of depreciable plant retired, along with removal expense less salvage value, is charged to nonoperating expense on the Statement of Revenues, Expenses and Changes in Equity. Gains and losses upon disposition are recorded in the period incurred.

Intangible Assets: Easements have an indefinite life and are not amortized. Internally generated software is amortized over approximately five years.

Inventories: Inventories include materials and supplies to support the transmission infrastructure and are stated at average cost, lower of cost or market.

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

Transfers In: Transfers in include an allocated share of LCRA interest income, investment gain or loss, and market adjustments based on operating reserve funds held by LCRA that are related to LCRA's underlying debt associated with the contractual commitment debt on LCRA TSC's books. The cash received from the transfers in is included in cash and cash equivalents.

Refunding and Defeasance of Debt: For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction from or an addition to the debt liability. For debt defeasances, the difference between the carrying amount of the debt and the amount of funds needed to retire the debt is recognized immediately in the Statements of Revenues, Expenses and Changes in Equity as Loss on early defeasance of debt, if significant. If not significant, the difference is recognized immediately as interest expense.

Rates and Regulations: Transmission rates within the ERCOT system are determined pursuant to a universal 100 percent "postage stamp" rate that spreads the total annual costs of transmission services among DSPs according to their electric loads. The transmission costs are determined pursuant to TCOS rate proceedings required to be filed by all TSPs, including LCRA TSC. Every electric end-use consumer in the ERCOT system pays a portion of the total costs of maintaining a reliable statewide transmission system. Transmission charges are calculated by multiplying a DSP's share of the statewide electric load by the statewide "postage stamp" rate of each

LCRA TRANSMISSION SERVICES CORPORATION

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transmission service provider. The load shares and rates are determined by the PUC through its TCOS regulatory process. Additionally, pursuant to a tariff approved by the PUC, LCRA TSC collects revenues for transformation services, providing transformers that “step down” voltage from levels appropriate for transmission to lower levels for distribution. A monthly charge for each transformation delivery point is authorized under the transformation tariff. LCRA TSC also collects monthly metering service revenues based on a per-meter charge according to the PUC-approved tariff.

FY 2011 transmission revenues of \$241.8 million were the result of rate changes authorized during the fiscal year. The predominant rate of \$3.94 per kW was in place from Sept. 29, 2010, through May 11, 2011. LCRA TSC filed an interim update of wholesale transmission rates with the PUC on Mar. 29, 2011, and the PUC commissioners approved the new rate of \$4.32 per kW on May 12, 2011.

FY 2010 transmission revenues of \$228.1 million were the result of rate changes authorized during the fiscal year. The predominant rate of \$3.78 per kW was in place from Oct. 23, 2008, through Sept. 28, 2010. LCRA TSC filed an interim update of wholesale transmission rates with the PUC on July 26, 2010, and PUC commissioners approved the new rate of \$3.94 per kW on Sept. 29, 2010.

Regulatory Assets and Liabilities: LCRA TSC applies the accounting requirements of Statement 62. Accordingly, certain costs may be capitalized as a regulatory asset that would otherwise be charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will result from inclusion of those costs in future rates. In addition, rate actions of the regulator may impose a liability. A regulatory liability occurs when a regulator requires refunds to customers or provides current rates intended to recover costs that are expected to be incurred in the future. A regulatory asset is amortized over the life of the related outstanding long-term debt, while a regulatory liability is recognized and charged to income when the associated costs are incurred. LCRA TSC’s regulatory assets amounted to \$61.4 million and \$53.7 million at June 30, 2011 and 2010, respectively. The regulatory assets, which are included under deferred charges, consist of depreciation of debt-funded assets and costs related to outstanding debt. Debt-funded costs are deferred pending future recovery through the inclusion of the related debt service in rates.

Capitalized Interest: Interest is capitalized as a part of the cost of capital assets if the assets are financed by debt proceeds. During FY 2011 and 2010, LCRA TSC capitalized \$6.0 million and \$7.7 million of interest, respectively.

Estimation of Fair Value: The estimated market value of long-term debt, based on current market yields, was \$1.2 billion at June 30, 2011 and \$1.3 billion at June 30, 2010.

Impairment: LCRA TSC evaluates the carrying value of its property, plant and equipment, and other long-lived assets when major events or changes in circumstances indicate a decline in an asset’s service capacity. Impairment is measured using methods that isolate the asset’s service capacity that has been rendered unusable. There were no impairments noted as of June 30, 2011 and 2010.

Depreciation and Amortization: LCRA TSC depreciates its utility plant in service on a straight-line basis over the estimated useful lives of the various classes of these assets. Depreciation and amortization expense, expressed as a percentage of average depreciable utility plant, was approximately 2.6 percent for FY 2011 and 2.7 percent for FY 2010. Depreciation and amortization expense for FY 2011 and FY 2010 was approximately \$46.3 million and \$42.8 million, respectively.

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

Transmission Plant	5 – 58 years
General Plant	4 – 45 years
Intangible Assets	5 years – Indefinite

LCRA TRANSMISSION SERVICES CORPORATION

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Gains or losses created by refunding transactions are amortized over the shorter of the remaining terms of the new issues or the refunded bonds. Amortization of debt discount and premium is computed using the effective interest method over the life of the related bond issues. Amortization of debt issue cost is computed on the straight-line method over the life of the related bond issues, which approximates the effective interest method.

Statements of Cash Flow: All highly liquid investments (including investments in restricted funds) with a remaining maturity at the time of acquisition of 90 days or less are considered cash equivalents.

Reclassifications: Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

2. Financial Instruments

As of June 30, 2011 and 2010, LCRA TSC had the following investments and maturities:

Type of Investment	June 30, 2011		June 30, 2010	
	Market Value	WAM (Years)*	Market Value	WAM (Years)*
<i>(Dollars in Thousands)</i>				
Investments				
U.S. Government Securities	\$ 30,058	0.51	\$ 33,356	0.47
Cash Equivalents				
Investment Pool	39,696	0.23	33,597	0.22
Total	<u>\$ 69,754</u>	0.35	<u>\$ 66,953</u>	0.35

Cash and Investments as of June 30, 2011 and 2010 consisted of the following:

Cash	811	100
Investments and Cash equivalents	69,754	66,953
Total Cash and Investments	<u>\$ 70,565</u>	<u>\$ 67,053</u>

*Weighted Average Maturity

External Investment Pool: LCRA TSC investments included an investment pool with TexPool at June 30, 2011 and 2010. The State Comptroller of Public Accounts oversees TexPool, and the pool seeks to maintain a \$1 value per share as required by the Texas Public Funds Investment Act. There are no minimum balance requirements for TexPool participants, and there is no limit on the number of accounts per participant.

Debt Service Reserve Funds: LCRA TSC has debt service reserve funds that include investments suitable to provide reserves to meet any shortfalls in funds available to make required debt service payments. Debt service reserve funds are not to be used except in the case of insufficient funds. The funds are held by LCRA on behalf of LCRA TSC in accordance with bond resolutions. The funds are reflected in Accounts receivable from LCRA-restricted on the LCRA TSC balance sheets. As of June 30, 2011 and 2010, the funds are in separate accounts holding U.S. Treasuries, held for the use of debt service reserves, totaling \$67.4 and \$66.9 million respectively.

LCRA TRANSMISSION SERVICES CORPORATION

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Interest Risk: LCRA TSC has no formal policy to address exposure to fair value losses resulting from changes in interest rates. However, in accordance with management policy, LCRA TSC manages its exposure to changing interest rates by laddering the investment portfolio, by matching maturities against liabilities when possible, and by holding investments to maturity.

Credit Risk: LCRA TSC's investment activities are governed by state statute (Texas Public Funds Investment Act), which specifies the type and ratings of investments governmental entities are allowed to purchase. LCRA Board policy and internal operating procedures further restrict investment activity. At June 30, 2011 and 2010, LCRA TSC's investment in the investment pool was rated AAAm by Standard & Poor's. Investments in U.S. Treasuries were rated AAAu by Standard & Poor's and Aaa by Moody's Ratings.

3. Long-Term Debt and Commercial Paper

Changes during FY 2011 and FY 2010, of long-term debt, including current portions are as follows (dollars in thousands):

Series	Balance			Balance			Balance	Amount Due
	June 30, 2009	Increase	Decrease	June 30, 2010	Increase	Decrease	June 30, 2011	in FY 2012
Series 2003B	\$ 221,860		\$ (7,690)	\$ 214,170		\$ (7,690)	\$ 206,480	\$ 8,785
Series 2003C	115,010		(4,515)	110,495		(4,515)	105,980	4,515
Series 2004	113,065		(4,185)	108,880		(4,185)	104,695	4,185
Series 2005	117,730		(4,200)	113,530		(4,200)	109,330	4,200
Series 2006	127,170		(4,540)	122,630		(4,540)	118,090	4,540
Series 2006A	129,095		(4,490)	124,605		(4,490)	120,115	4,490
Series 2008	165,205			165,205		(2,020)	163,185	2,525
Series 2009	118,550			118,550			118,550	
Series 2010	-	200,000		200,000			200,000	4,125
Contractual Commitment	366,883		(28,423)	338,460		(28,421)	310,039	28,411
Less: Unamortized Net Discount	(105,447)		20,430	(85,017)		9,044	(75,973)	(8,350)
Subtotal	1,369,121	200,000	(37,613)	1,531,508		(51,017)	1,480,491	57,426
Unamortized Net Losses	(87,923)		6,082	(81,841) ⁽²⁾		6,202	(75,639) ⁽³⁾	(5,105)
Tax-Exempt Commercial Paper	-	136,600	(136,600)	-	165,700		165,700	165,700
Total	\$ 1,281,198	\$ 336,600	\$ (168,131)	\$ 1,449,667	\$ 165,700	\$ (44,815)	\$ 1,570,552	\$ 218,021 ⁽¹⁾

(1) The total amount due in FY 2011 was \$46.2 million.

(2) \$42,769 is associated with LCRA 1999 A, B and F refunding bonds and \$39,072 is associated with LCRA TSC 2003B refunding bonds.

(3) \$38,439 is associated with LCRA 1999 A, B and F refunding bonds and \$37,200 is associated with LCRA TSC 2003B refunding bonds.

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Interest rates and maturity dates for all TSC bonds, notes and commercial paper payable presented in the above table are as follows:

	May 15,	
<u>Series</u>	<u>From</u>	<u>To</u>
Series 2003B (5.00%-5.375%)	2012	2031
Series 2003C (5.00%-5.25%)	2012	2033
Series 2004 (4.75%-5.00%)	2012	2034
Series 2005 (4.50%-5.00%)	2012	2035
Series 2006 (4.50%-5.00%)	2012	2036
Series 2006A (4.20%-5.00%)	2012	2036
Series 2008 (5.00%-5.25%)	2012	2035
Series 2009 (3.75%-5.50%)	2016	2036
Series 2010 (3.20% - 5.00%)	2012	2040
Contractual Commitment (6.06%) ⁽¹⁾	2012	2032
Tax-Exempt Commercial Paper ⁽²⁾		

¹ Matures Nov. 15 and May 15.

² Commercial paper rates are variable as of June 30, 2011. Rates ranged from 0.12% - 0.31%.
Outstanding notes are issued with maturities of 270 days or less from their respective issue dates.

LCRA TSC's debt as of June 30, 2011, has been rated by Fitch, Moody's and Standard & Poor's, respectively, as follows:

Fitch, Moody's and Standard & Poor's

Transmission Services Contract Refunding Revenue Bonds: A+, A2, A (Uninsured)

Transmission Services Commercial Paper: F-1+, P-1, A-1+

Transmission Services Commercial Paper Series B: F-1+, P-1, A-1

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

<u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 65,776	\$ 61,971	\$ 127,747
2013	67,632	60,111	127,743
2014	69,630	58,117	127,747
2015	71,665	56,079	127,744
2016	73,862	53,886	127,748
2017-2021	338,251	234,849	573,100
2022-2026	292,642	172,796	465,438
2027-2031	295,556	106,231	401,787
2032-2036	276,295	39,456	315,751
2037-2040	5,155	658	5,813
	1,556,464	844,154	2,400,618
Unamortized Net Discount	(75,973)		(75,973)
Total	<u>\$ 1,480,491</u>	<u>\$ 844,154</u>	<u>\$ 2,324,645</u>

LCRA TRANSMISSION SERVICES CORPORATION

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New and Refunding Bonds: During FY 2011, LCRA TSC issued \$165.7 million of tax-exempt commercial paper. The commercial paper was used to fund capital projects. LCRA TSC did not issue any bonds in FY 2011.

During FY 2010, LCRA TSC issued \$136.6 million of tax-exempt commercial paper. The commercial paper was used to fund capital projects.

On May 18, 2010, LCRA TSC issued \$200 million of LCRA Transmission Contract Refunding Reserve Bonds, Series 2010. The bonds were issued at a premium of \$10.1 million, resulting in total available funds net of issuance costs of \$209.1 million. The proceeds from the bond issuance were used to refund \$136.6 million of tax-exempt commercial paper. In addition, \$61.2 million was used for new capital improvements, and \$10.9 million funded the debt service reserve fund.

Contractual Commitment: Concurrent with the transfer by LCRA of transmission and transformation assets to LCRA TSC on Jan. 1, 2002, in order to comply with the requirements of SB 7, LCRA TSC assumed responsibility for its share of LCRA's debt service in return for such assets. This obligation is evidenced by a contract executed between LCRA TSC and LCRA whereby LCRA TSC is responsible for payments equal to the scheduled debt service attributable to LCRA TSC. The total semiannual payments to be made by LCRA TSC to LCRA from May 15, 2002, until May 15, 2032, are \$596 million. The present value of these payments equals \$334 million. The difference between the future payment amounts and the present value of the payments represents imputed interest. The amortization of the imputed interest and principal of the note payable was amortized using the interest method. The effective interest rate of the note is 6.06 percent. In addition to the asset transfer on Jan. 1, 2002, a net premium of \$6.4 million and a net loss on refunded bonds of \$72 million associated with past LCRA bond issues were transferred to the LCRA TSC.

Commercial Paper: LCRA TSC is authorized to issue tax-exempt commercial paper notes in an aggregate amount of principal and interest not to exceed \$250 million under its commercial paper program. The commercial paper program expires on May 15, 2042. It is management's intent to periodically renew outstanding commercial paper upon maturity and to periodically convert the commercial paper balances to long-term bonds.

LCRA TSC maintains credit facilities with banks that provide available borrowing sufficient to pay the principal and interest on the notes. A \$150 million credit agreement is available to pay \$136.7 million of principal and \$13.3 million of interest. This agreement expires on Dec. 15, 2015. A \$100 million credit agreement is available to pay \$91.8 million of principal and \$8.2 million of interest. This agreement expires on June 18, 2012. Failure by LCRA or LCRA TSC to meet certain restrictive covenants could result in the withdrawal of the banks' commitments for the unused line of credit. There were no borrowings under either credit facility agreement as of June 30, 2011 and 2010.

Optional Redemption: LCRA TSC has the option to redeem a number of its term bonds prior to maturity. The redemption dates, related redemption amounts and price, and maturity dates are as follows:

<u>Series</u>	<u>Redeemable on or after...</u>	<u>In increments of...</u>	<u>At a redemption price of...</u>	<u>Maturing on and after...</u>
LCRA TSC 2003B	May 15, 2012	\$ 5,000	100 + accrued interest	May 15, 2013
LCRA TSC 2003C	May 15, 2013	5,000	100 + accrued interest	May 15, 2014
LCRA TSC 2004	May 15, 2011	5,000	100 + accrued interest	May 15, 2012
LCRA TSC 2005	May 15, 2011	5,000	100 + accrued interest	May 15, 2012
LCRA TSC 2006	May 15, 2011	5,000	100 + accrued interest	May 15, 2012
LCRA TSC 2006A	May 15, 2016	5,000	100 + accrued interest	May 15, 2017
LCRA TSC 2008	May 15, 2018	5,000	100 + accrued interest	May 15, 2019
LCRA TSC 2009	May 15, 2019	5,000	100 + accrued interest	May 15, 2020
LCRA TSC 2010	May 15, 2020	5,000	100 + accrued interest	May 15, 2021

LCRA TRANSMISSION SERVICES CORPORATION

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Mandatory Redemption: A number of LCRA TSC term bonds are subject to mandatory redemption at the redemption price, which equals the principal amount thereof plus accrued interest to the redemption date. The particular bonds or portions to be redeemed are to be selected and designated by LCRA (provided that a portion of a bond may be redeemed only in an integral multiple of \$5,000). The mandatory redemption dates range from May 15, 2022, to May 15, 2040.

Other Long-Term Liabilities: Changes during FY 2011 and FY 2010 of other long-term liabilities were as follows (dollars in thousands):

Description	Balance			Balance			Balance
	June 30, 2009	Increase	(Decrease)	June 30, 2010	Increase	(Decrease)	June 30, 2011
Payables Related to Debt Funded Capital ⁽¹⁾	\$ 1,448	\$ 11,457	\$ (12,743)	\$ 162	\$ 2,605	\$ (2,600)	\$ 167
Accounts Payable to LCRA ⁽²⁾	9,542	255,547	(237,046)	28,043	208,533	(223,208)	13,368
Other Long-term Liabilities	1,410	20,381	(20,148)	1,643	19,311	(20,634)	320
Total	\$ 12,400	\$ 287,385	\$ (269,937)	\$ 29,848	\$ 230,449	\$ (246,442)	\$ 13,855

(1) Vendor and sales tax payables related to debt funded capital spending.

(2) Capital expenses paid with LCRA revenue to be reimbursed by TSC construction fund.

4. Capital Assets and Depreciation

Capital asset activity for the year ended June 30, 2011, was as follows (dollars in thousands):

Description	Beginning	Additions	Transfers	Retirements	Depreciation	Transfers	Ending
	Balance		from Construction in Progress				In/Out
<i>(Dollars in Thousands)</i>							
Utility plant in service:							
Depreciable assets	\$ 1,598,943	\$ -	\$ 194,610	\$ (12,952)	\$ -	\$ -	\$ 1,780,601
Nondepreciable assets	97,873		69,034	(97)			166,810
Total utility plant in service	1,696,816		263,644	(13,049)	-	-	1,947,411
Construction work in progress:							
Nondepreciable assets	159,695	181,506	(263,644)	(5,969)			71,588
Less accumulated depreciation	(339,553)			4,877	(46,328)		(381,004)
Capital assets, net	\$ 1,516,958	\$ 181,506	\$ -	\$ (14,141)	\$ (46,328)	\$ -	1,637,995

LCRA TRANSMISSION SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

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Capital asset activity for the year ended June 30, 2010, was as follows (dollars in thousands):

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation	Transfers In/Out	Ending Balance
Utility plant in service:							
Depreciable assets	\$1,446,140	\$ -	\$ 159,587	\$ (8,794)	\$ -	\$ 2,010	\$ 1,598,943
Nondepreciable assets	87,273		12,610			(2,010)	97,873
Total utility plant in service	1,533,413		172,197	(8,794)	-	-	1,696,816
Construction work in progress:							
Nondepreciable assets	73,381	258,497	(172,197)	14			159,695
Less accumulated depreciation	(300,021)			3,219	(42,751)		(339,553)
Capital assets, net	\$1,306,773	\$258,497	\$ -	\$ (5,561)	\$ (42,751)	\$ -	\$ 1,516,958

5. Commitments and Contingencies

Construction: Construction commitments through 2016 total \$35.3 million for LCRA TSC.

Customer Transmission Leases: In addition to the transmission and transformation assets owned by LCRA TSC, certain leases of transmission assets owned by 11 of LCRA's wholesale electric customers and leased to LCRA have been assigned to LCRA TSC. The leases are the basis for LCRA TSC to provide the same service to all of the wholesale electric customers and for the cost of such service to be shared by all customers on a consistent basis. Payments for the lease facilities vary from year to year and are based on the original cost of the facilities, adjusted for depreciation, and are updated annually to reflect additions, retirements and depreciation. The terms of the leases are perpetual but may be terminated by LCRA or the lessors upon five years written notice. Lease expenses were \$14.2 and \$13.8 million annually in FY 2011 and 2010.

The following is a schedule by years of future minimum rental payments required under these operating leases for the remaining noncancellable lease terms as of June 30, 2011 (in thousands):

Fiscal Year	Minimum Lease Payments
2012	\$ 14,000
2013	14,300
2014	14,800
2015	15,300
2016	15,800

Insurance: LCRA TSC's assets, other than transmission lines, are covered under LCRA's insurance program, which includes the purchase of commercial insurance and a self-insurance program to finance risk of loss. LCRA TSC pays for the insurance premiums based on the covered transmission asset values. LCRA TSC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. Self-funding of property damage varies from \$100,000 to \$2.5 million depending on the insurance deductible. Claims, which are covered events, are covered by commercial insurance up to the policy limits after meeting the deductible. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. Based on an insurance risk analysis, LCRA TSC carries no commercial insurance on transmission lines. There is no significant decrease in coverage from prior years.

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



Lower Colorado River Authority
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FOR ACTION (CONSENT)

3. Minutes of Prior Meeting

Proposed Motion

Approve the minutes of the August 24, 2011, meeting.

Board Consideration

Section 4.06 of the LCRA Transmission Services Corporation bylaws provides that the Secretary will keep minutes of all meetings of the Board.

Budget Status and Fiscal Impact

None.

Summary

Each meeting the Board approves the minutes of previous meeting.

Exhibit(s)

A - Minutes of August 24, 2011, meeting

EXHIBIT A

Minutes Digest
August 24, 2011

- 11-23 Appointment of Rebecca S. “Becky” Motal as president and chief executive officer of LCRA Transmission Services Corporation (LCRA TSC).
- 11-24 Approval of the minutes of the June 15, 2011, meeting.
- 11-25 Authorization for the chief executive officer or her designee to acquire from Don and Sue Baugh a tract of land in Kimble County for the Big Hill-to-Kendall transmission line and to pay the landowner the amount determined by LCRA TSC’s appraiser as the fair market value of the land; and further authorization for the CEO or her designee to do all things necessary to accomplish the purposes hereof.
- No Action: Agenda Item 5 - Acquisition of Land and Land Rights in Tom Green County was pulled from the agenda.

MINUTES OF THE REGULAR MEETING OF THE
BOARD OF DIRECTORS OF THE
LCRA TRANSMISSION SERVICES CORPORATION

Austin, Texas
August 24, 2011

Pursuant to notice posted in accordance with the Texas Open Meetings Act, the Board of Directors (Board) of the LCRA Transmission Services Corporation (LCRA TSC) convened in a regular meeting at 3:24 p.m. on Wednesday, August 24, 2011, at the principal office of the Lower Colorado River Authority, 3700 Lake Austin Boulevard, Hancock Building, Board Room, Austin, Travis County, Texas. The meeting was open to the public, and the following directors were present, constituting a quorum:

Timmerman
Klein
Arbuckle
Berger
Dickerson
Franklin
Gill
Johnson
Kibby
Martine
McHenry
Spears
Schrader
White

Absent: Balas

Chair Timmerman convened the meeting at 3:24 p.m. The Board next took action on the Consent Agenda.

Upon motion by Director Berger, seconded by Director McHenry, the Board, by a vote of 14 to 0, unanimously approved consent items 3 and 4, included on the August 24, 2011, Board Consent Agenda, as follows:

11-23 Appointment of Rebecca S. “Becky” Motal as president and chief executive officer of LCRA Transmission Services Corporation, as recommended in Consent Item 3 [attached hereto as Exhibit A].

11-24 Approval of the minutes of the June 15, 2011, meeting [Consent Item 4].

Chief Operating Officer Ross Phillips gave an update on transmission system operations and handling of the current summer high peak demand. Phillips also gave an update on the appeal of the Public Utility Commission of Texas’ decision in the Big Hill (McCamey D)-to-Kendall Competitive

Renewable Energy Zone transmission line project, filed at the District Court of Travis County by the City of Kerrville, City of Junction, and Kerrville Public Utility Board.

Jim Travis presented the FY 2011 Business Plan fourth quarter update. Chief Financial Officer Brady Edwards presented the financial report for July 2011.

Chair Timmerman declared the meeting to be in executive session at 3:45 p.m., pursuant to sections 551.071 and 551.072 of the Texas Government Code (Open Meetings Act). Executive session ended, and Chair Timmerman declared the meeting to be in public session at 4:04 p.m.

11-25 Upon motion by Director Spears, seconded by Director Kibby, the Board, by a vote of 14 to 0, unanimously authorized the chief executive officer or her designee to acquire from Don and Sue Baugh a tract of land in Kimble County for the Big Hill-to-Kendall transmission line and to pay the landowner the amount determined by LCRA TSC's appraiser as the fair market value of the land; and further authorized the CEO or her designee to do all things necessary to accomplish the purposes hereof.

There being no further business to come before the Board, the meeting was adjourned at approximately 4:05 p.m.

John W. Rubottom, Secretary
LCRA Transmission Services Corporation

FOR ACTION

4. Capital Improvement Project Approval - Lost Creek Substation Addition

Proposed Motion

Approve the Capital Improvement Project Authorization Request for the Lost Creek Substation Addition project.

Board Consideration

LCRA Transmission Services Corporation (LCRA TSC) Board Policy T304 - Financial Planning Policy requires Board approval of any project not included in the annual Capital Plan or any previously approved project that is expected to exceed its lifetime budget by 10 percent and \$300,000.

Budget Status and Fiscal Impact

- Project is not included in the FY 2012 LCRA TSC Transmission Capital Plan.
- Approval is sought for a total lifetime budget of \$2,093,000 and for \$2,054,000 of the project budget expected to be spent in the current fiscal year.
- The proposed lifetime budget for the project includes a contingency of 2 percent.
- Staff believes that this additional spending can be managed within the existing FY 2012 capital budget and is not currently requesting additional fiscal year capital budget authorization. FY 2012 capital spending will be monitored throughout the fiscal year to ensure compliance with the \$234,548,000 limit established by the LCRA TSC Board in the FY 2012 Capital Plan.
- The chief operating officer will release funds as needed.
- Project cost will be funded through LCRA TSC regulated rates, pending approval by the Public Utility Commission of Texas (PUC).

Summary

The Lost Creek Substation Addition Project is recommended as an addendum to the FY2012-2016 Transmission System Improvements Plan. This project will satisfy legal requirements specified in the Public Utility Regulatory Act and the rules of the PUC. These rules require transmission utilities to provide transmission service to all wholesale market participants.

In June, Guadalupe Valley Electric Cooperative (GVEC) requested to connect its new Lost Creek Substation to LCRA TSC's Cuero Hydro-to-FM 237 Yorktown 69-kilovolt (kV) transmission line. The Lost Creek Substation will provide service to a new industrial load in Dewitt County.

LCRA TSC will construct and own the transmission portion of the substation, including the installation of a device used to control voltage, and establish a point of interconnection with GVEC. GVEC will acquire and own the substation site, power transformers and other non-transmission equipment needed to serve the new industrial load. LCRA TSC will amend its interconnect agreement with GVEC to include the new point of delivery.

The project is scheduled for completion by June 2012. The requested funds will be used for project management, engineering, materials, and construction. Environmental and cultural due diligence studies will be performed by LCRA staff and all identified concerns will be addressed. A certificate of convenience and necessity is not required for this project.

Project Recap

Total Project Estimated Cost: \$2,093,000

Previous Project Lifetime Budget: \$ 0

(Additional) Lifetime Budget Approval \$2,093,000

Sought:

FY 2012 \$2,054,000

FY 2013 \$ 39,000

Total: \$2,093,000

Project Direction

Project Manager: Dan Normand

Project Sponsor: Brad Woods

Project Number: 1012237

Presenter(s)

Ross Philips

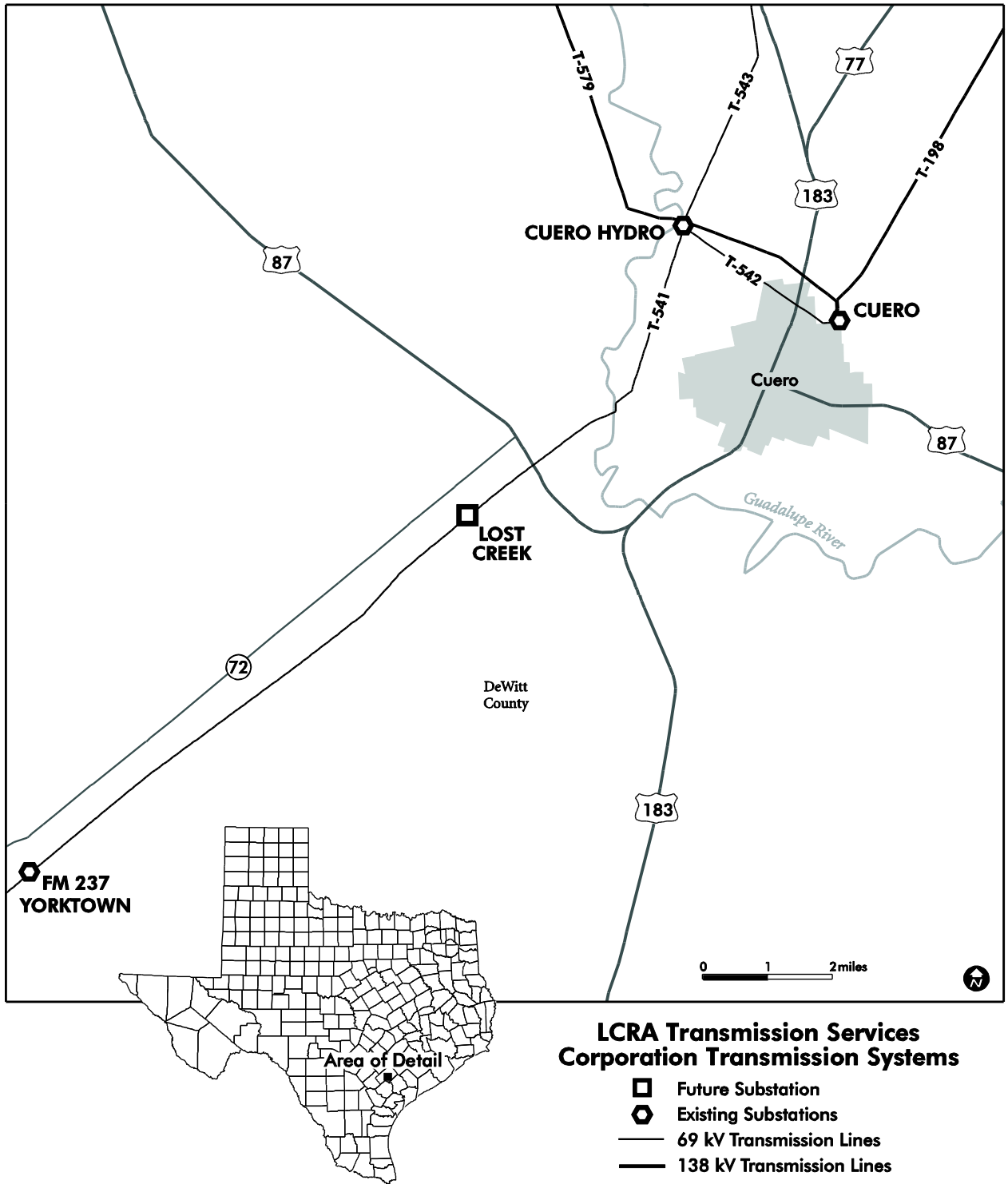
Vice President and Chief Operating Officer

Exhibit(s)

A - Location Map - Lost Creek Substation Addition

EXHIBIT A

Lost Creek Substation Addition



FOR ACTION

5. Capital Improvement Project Approval - Odlaw Substation Addition

Proposed Motion

Approve the Capital Improvement Project Authorization Request for the Odlaw Substation Addition project, and authorize the chief executive officer or her designee to negotiate and execute an agreement with the wind generator to construct new facilities and upgrade existing ones.

Board Consideration

LCRA Transmission Services Corporation (LCRA TSC) Board Policy T304 - Financial Planning Policy requires Board approval of any project not included in the annual Capital Plan or any previously approved project that is expected to exceed its lifetime budget by 10 percent and \$300,000.

Budget Status and Fiscal Impact

- Project is not included in the FY 2012 LCRA TSC Capital Plan.
- Approval is sought for a total lifetime budget of \$3,613,000 and for \$1,992,000 of the project budget expected to be spent in the current fiscal year.
- The proposed lifetime budget for the project includes a contingency of 2 percent.
- Staff believes that this additional spending can be managed within the existing FY 2012 capital budget and is not currently requesting additional fiscal year capital budget authorization. FY 2012 capital spending will be monitored throughout the fiscal year to ensure compliance with the \$234,548,000 limit established by the LCRA TSC Board in the FY 2012 Capital Plan.
- The chief operating officer will release funds as needed.
- Project cost will be funded through LCRA TSC regulated rates, pending approval by the Public Utility Commission of Texas (PUC). The wind project developer will provide financial security to reimburse LCRA TSC in the event the wind generation project is not completed.

Summary

The Odlaw Substation Addition Project is recommended as an addendum to the FY 2012-2016 Transmission System Improvements Plan. This project is intended to meet legal requirements specified in the Public Utility Regulatory Act and the rules of the PUC. These rules require transmission utilities to provide transmission service to all wholesale market participants, including generation facilities owned by independent power producers. This requirement includes constructing new facilities and upgrading existing ones.

Through an Electric Reliability Council of Texas (ERCOT) process, in March 2010 a wind generation developer requested an interconnection for a 130-megawatt (MW) wind generating facility. An Odlaw substation project was approved by the LCRA TSC Board in June 2010. At the developer's request, the project was cancelled in January 2011 and an interconnection agreement was not executed. In March 2011 the developer submitted a second request for interconnection through ERCOT for a 101-MW wind generating facility at the original location. The March 2011 date was beyond the deadline to include this project in the FY 2012 LCRA TSC Capital Plan.

LCRA TSC will negotiate an interconnect agreement with the wind generation developer for the interconnection of these generation facilities to LCRA TSC's transmission system at the new LCRA TSC Odlaw Substation. The Odlaw Substation will be constructed in Kinney County near the existing LCRA TSC Bracketville-to-Asphalt Mines 138-kilovolt transmission line. The ERCOT Generation Interconnection Procedures require that the generator's name be kept confidential until the agreement is signed.

The required project completion date is October 2012. The funds will be used for project management, engineering, materials, real estate and construction. Environmental and cultural due diligence studies will be performed by LCRA staff and all identified concerns will be addressed. A Certificate of Convenience and Necessity is not required for this project.

Project Recap

Total Project Estimated Cost:	<u>\$3,613,000</u>
Previous Project Lifetime Budget:	\$ 0
Lifetime Budget Approval Sought:	<u>\$3,613,000</u>
FY 2012	\$1,992,000
FY 2013	\$1,621,000
Total:	<u>\$3,613,000</u>

Project Direction

Project Manager: Jerry B. Insall
 Project Sponsor: Brad Woods
 Project Number: 1012264

Presenter(s)

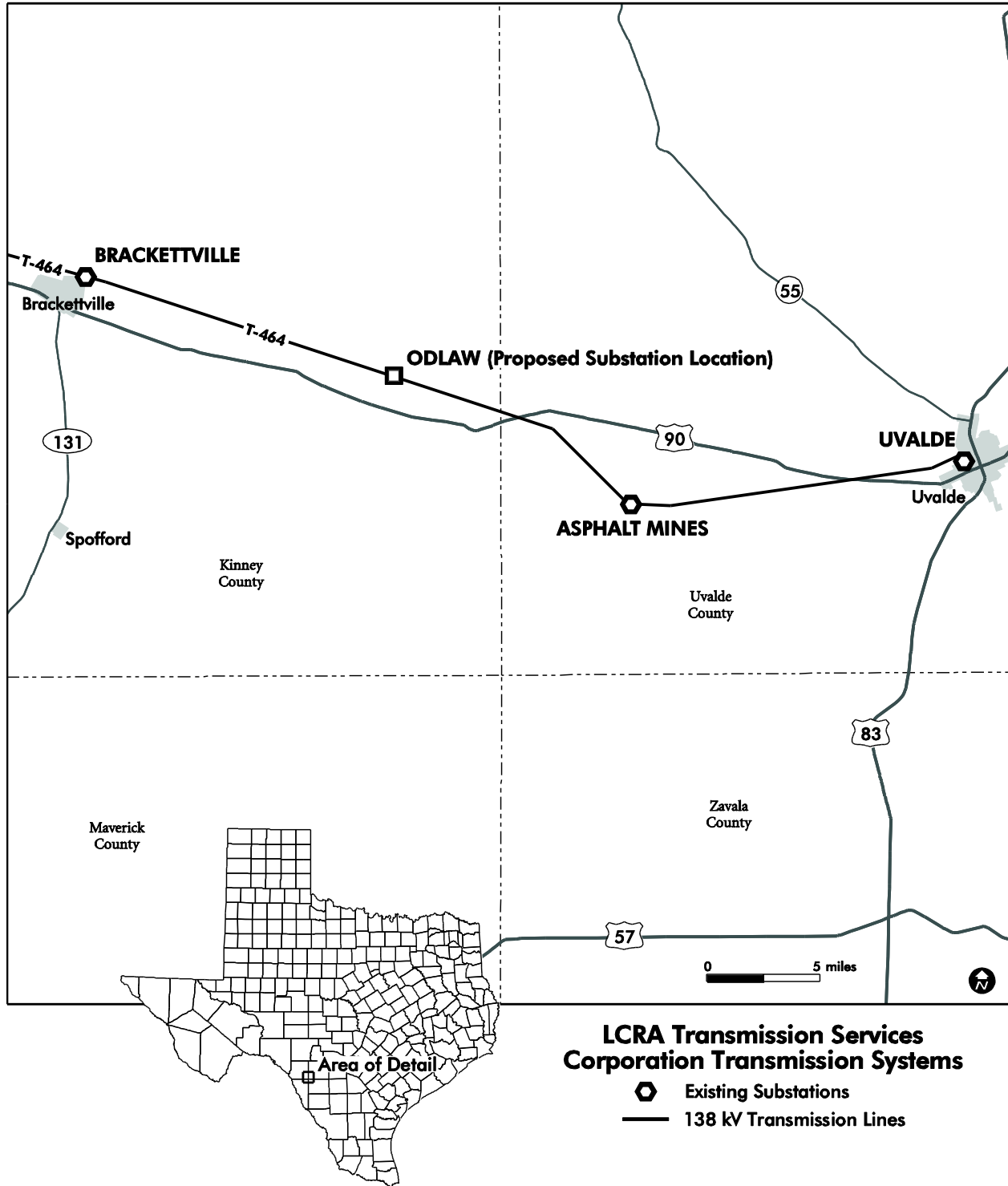
Ross Philips
 Vice President and Chief Operating Officer

Exhibit(s)

A - Location Map - Odlaw Substation Addition

EXHIBIT A

Odlaw Substation Addition



FOR ACTION

6. LCRA Transmission Services Corporation 2011 Bond Issue

Proposed Motion

Staff recommends the Board approve the adoption of the Seventeenth Supplemental Resolution to the Controlling Resolution establishing the LCRA Transmission Contract Revenue Financing Program authorizing the issuance of tax-exempt and/or taxable debt in an amount not to exceed \$900 million (the LCRA TSC 2011 Bonds) for the following purposes: (i) refunding the Transmission Contract Revenue Commercial Paper Notes (LCRA Transmission Services Corporation Project), Tax-Exempt Series and Tax-Exempt Series B (the Transmission Commercial Paper), (ii) refunding certain outstanding long-term Transmission Contract Debt, (iii) funding debt service reserves for the LCRA TSC 2011 Bonds; and (iv) paying for issuance costs.

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

This motion also will:

1. Approve related documents, including bond purchase agreements, escrow agreements, paying agent/registrars agreements, the Preliminary Official Statement in substantially final form and the Transmission Contract Revenue Debt Installment Payment Agreement Supplement Related to the LCRA TSC 2011 Bonds (the 2011 Installment Payment Agreement Supplement). Bond counsel has prepared or reviewed all documents.
2. Delegate authority to the chief executive officer or the chief financial officer:
 - a. to approve any final changes to said documents necessary to facilitate proper issuance of such LCRA TSC 2011 Bonds;
 - b. to establish the terms of the LCRA TSC 2011 Bonds as provided in the resolution (including issuing such bonds in one or more separate series (tax-exempt and/or taxable), the principal amounts and maturity schedules, interest rates, redemption provisions, and terms of any reserve funds); and,
 - c. to approve the terms of the sale of the LCRA TSC 2011 Bonds to an underwriting team led by Morgan Stanley & Co. and Barclays Capital, Inc. and to execute bond purchase agreements.

Board Consideration

Section 152.052 of the Texas Water Code authorizes a non-profit corporation acting on behalf of a river authority to issue bonds or other obligations or otherwise borrow money. In 2003, the LCRA Board, at the request of LCRA TSC, adopted an amended and restated Controlling Resolution establishing the a contract revenue financing program whereby LCRA issues bonds on behalf of LCRA TSC that are secured by a lien on and a pledge of revenues paid by LCRA TSC to LCRA.

Budget Status and Fiscal Impact

The FY 2012 LCRA TSC Business Plan includes an anticipated refunding of outstanding commercial paper with long-term bonds and the costs of fixed-rate debt that will be adequate to cover the issuance costs of the LCRA TSC 2011 Bonds. Substantial annual debt service savings will be realized from the refunding transactions.

Summary

With this action, the Board will approve the LCRA TSC 2011 Bonds, issued for the purpose of refunding outstanding LCRA TSC Commercial Paper and refunding certain other LCRA TSC tax-exempt bonds in an amount not to exceed \$900 million, establishing the Debt Service Reserve Fund for the Bonds, and paying for the issuance costs related to the bonds. The Board also will approve the execution of documents necessary for the sale of the LCRA TSC 2011 Bonds further described below.

Background. The Seventeenth Supplement is a supplemental resolution to the Controlling Resolution establishing LCRA TSC's transmission revenue financing system adopted by the Board in 2001 and readopted in 2003. The Seventeenth Supplement authorizes the LCRA TSC 2011 Bonds, approves the forms of the ancillary agreements relating to such bonds, and delegates to the chief executive officer or the chief financial officer authority to set the specific terms of such bonds (including maturity, amortization, interest rates, redemption provisions, etc.) according to parameters set forth in the resolution. The Seventeenth Supplement also requires an officer of LCRA to also agree to the specific terms of the LCRA TSC 2011 Bonds. The Controlling Resolution, the Seventeenth Supplement and the pricing certificate of the LCRA officer and the LCRA TSC officer establishing the terms of the LCRA TSC 2011 Bonds together constitute the authorization of such bonds.

The Supplemental Transmission Installment Payment Agreement is a supplemental agreement to the Transmission Installment Payment Agreement between LCRA and LCRA TSC executed in 2003. The supplemental agreement provides for the arms-length obligation of LCRA TSC to pay LCRA the debt service associated with the LCRA TSC 2011 Bonds and further provides for LCRA TSC's ownership of the projects financed or refinanced with the proceeds of the LCRA TSC 2011 Bonds.

The Bond Purchase Agreement is the contract among LCRA, LCRA TSC, and the underwriters of the LCRA TSC 2011 Bonds that establishes the terms of the sale and delivery of such bonds from LCRA to such underwriters. This agreement provides for the conditions for closing on the LCRA TSC 2011 Bonds, including required legal opinions, and provides for certain limited events that may terminate LCRA's obligation to deliver and/or the underwriters' obligation to accept the LCRA TSC 2011 Bonds at closing.

The Paying Agent/Registrar Agreement is the contract between LCRA and The Bank of New York Mellon Trust Company, NA, setting forth the rights, duties, and obligations of the two parties under which such bank will act as the paying agent and registrar for the LCRA TSC 2011 Bonds. The bank will provide paying agent and transfer agent services, maintain registration books and facilitate providing certain notices for the LCRA TSC 2011 Bonds, among other services.

Bank of New York will also act as the Escrow Agent for the refunded LCRA and LCRA TSC bonds under an Escrow Agreement that is a trust agreement between LCRA, LCRA TSC, and The Bank of New York Mellon Trust Company that establishes trust accounts necessary to hold the federal securities or other securities which will be sufficient to defease certain of the debt being refunded by the LCRA TSC 2011 Bonds.

The Official Statement is the document that provides disclosure to prospective investors regarding the terms of the bonds, security, risk factors, and financing and operating information of LCRA TSC.

Morgan Stanley and Barclays Capital will be the senior manager of the underwriting team for the LCRA TSC 2011 Bonds. Baker Tilly Virchow Krause, LLP, will perform certain procedures

relating to the financial information disclosed in documents related to the bonds and provide appropriate letters to the Board regarding those procedures.

Use of Proceeds. Proceeds from the LCRA TSC 2011 Bonds will be used to refund outstanding transmission tax-exempt commercial paper, refund certain other LCRA TSC tax-exempt bonds, establish the Debt Service Reserve Fund for the Bonds, and to pay for issuance costs.

LCRA, as a conduit issuer for LCRA TSC, authorized the issuance of up to \$250 million of Transmission Services Tax-Exempt Commercial Paper. LCRA has issued approximately \$228 million in outstanding tax-exempt commercial paper on behalf of LCRA TSC at this time. Periodically, staff recommends refunding short-term variable-rate debt with long-term fixed-rate debt when market conditions are favorable and the short-term debt credit facility approaches its maximum capacity.

Staff also recommends refunding certain LCRA long-term fixed-rate debt, given market conditions. Staff currently expects the LCRA TSC 2011 Bonds to be sold in October and delivered in October or November, subject to the approving opinions of the Office of the Attorney General and bond counsel.

Presenter(s)

Brady Edwards
Chief Financial Officer

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