



LCRA TSC FY 2012 Business and Capital Plans

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Introduction

LCRA Transmission Services Corporation (LCRA TSC) is LCRA's nonprofit corporation that owns and operates transmission lines and substations providing service to customers throughout the Electric Reliability Council of Texas (ERCOT) region. LCRA TSC has no staff. LCRA's Transmission Services business unit (TSBU) provides or procures all necessary services required to construct, operate, and maintain LCRA TSC's system. Other LCRA business units provide support services to LCRA TSC.

Looking forward to FY 2012, LCRA TSC will continue to construct transmission projects that will upgrade or expand transmission service in LCRA's Central Texas electric service area as well as Competitive Renewable Energy Zones (CREZ) projects approved by the Public Utility Commission of Texas (PUC).

LCRA TSC also will continue operations and maintenance activities in order to fulfill the goal of keeping its transmission and transformation system available at least 99.999 percent of the time to provide reliable service to customers.

Under the direction of the PUC, LCRA TSC revenues historically have been committed to the benefit of the transmission system since the formation of LCRA TSC in 2002. With the exception of LCRA TSC's contribution to the Public Service Fund, which has been affirmed in a past transmission rate case, transmission revenues collected above the amount necessary for operating costs, debt service, and reserves have been used to revenue fund capital improvements to LCRA TSC's transmission system.

The accompanying discussion includes an analysis of LCRA TSC's business plan for FY 2012, including an analysis of anticipated revenues and expenses, and other information affecting LCRA TSC's operations.

Low-Cost Provider

LCRA TSC has set a goal to manage its rates by filing a Transmission Cost of Service (TCOS) rate case in FY 2012 and subsequently filing only Interim Capital Additions (ICAs) during the remainder of the five-year planning horizon. By using only ICAs in FY 2013 through 2016, LCRA TSC can recover costs it has invested in new capital assets but not increased operating costs. Therefore, LCRA TSC will need to effectively manage its operating cost throughout the upcoming period of growth in transmission assets and increasing operations and maintenance requirements.

LCRA TSC's rate recovery strategy includes filing a TCOS rate case in FY 2012. This rate case already was postponed by one year from the original planned filing date in fall 2010. The delay was facilitated, in part, by LCRA TSC managing its operating costs in FY 2011 and reducing its budget for FY 2012. The rate case cannot be delayed further if LCRA TSC is to maintain adequate financial performance in FY 2012 and beyond. A new TCOS rate is expected to be in place in May 2012. Thereafter, LCRA TSC has set a goal to manage its operating cost such that it does not file another TCOS rate case during the remainder of the FY 2012–2016 planning period. Meeting this goal will require LCRA TSC to continually review its operations and maintenance programs and activities to keep operating costs stable. At the same time, LCRA TSC will need ICA filings throughout the five-year planning period in order to recover a growing debt service requirement associated with high levels of capital investment. Operating cost increases are not included in ICA filings, as PUC rules only allow LCRA TSC to recover debt service, debt service coverage and property taxes associated with new capital investment.



LCRA Transmission Services Corporation

Contribution to LCRA

- LCRA Transmission Services Corporation (LCRA TSC) owns transmission, transformation and metering assets and is helping upgrade the transmission network in the Electric Reliability Council of Texas (ERCOT) region. LCRA TSC has no staff. LCRA provides or procures all necessary services required to construct, operate and maintain LCRA TSC's system. Additionally, LCRA TSC contributes 3 percent of revenue to LCRA for the Public Service Fund.

What's Changed From FY 2011?

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

What's Ahead for FY 2012?

- LCRA TSC plans to file a TCOS rate case in late 2011 based upon a FY 2011 historical test year. Due to the length and complexity of the process, implementation of the resulting rate increase is not expected until near the end of FY 2012.
- LCRA TSC will continue to maintain an operational goal of 99.999 percent system availability.

- Construction of new transmission facilities will remain a high priority for LCRA TSC in FY 2012. LCRA TSC's FY 2012 Capital Plan recommends adding 28 projects in Central Texas. These projects' lifetime budgets add \$71.6 million to the \$772 million in projects previously approved by the LCRA TSC Board of Directors.

Revenue Analysis

LCRA TSC projects collecting \$283 million in FY 2012 for provision of regulated transmission, transformation and metering services. This represents an increase of \$33 million, or 13 percent, from the FY 2011 budget of \$250 million for regulated services. Higher revenues will result primarily from the implementation of interim rates for recovery of invested capital on the Clear Springs-to-Hutto project and, later in the fiscal year, the implementation of a rate increase from a TCOS rate case.

Expense Analysis

Total expenses of \$101.6 million for FY 2012, including assigned corporate expense and Public Service Fund contribution, increase by \$3.5 million (4 percent) compared to FY 2011's budget. LCRA TSC's budget for FY 2012 will provide regulated services necessary for the safe, reliable operation of the transmission system. Direct expenses for services provided by the Transmission Services business unit are budgeted to total \$69.5 million. LCRA TSC's direct expense increased by \$0.05 million (less than 1 percent), while allocated corporate expense and Public Service Fund contributions increased by \$3.5 million (12 percent). The budget for allocated corporate expense is \$2.5 million higher than last year primarily due to lower capital spending expected for LCRA TSC in FY 2012, which results in a lower amount of corporate cost charged to LCRA TSC capital projects. LCRA TSC's Public Service Fund contribution, which is determined based on 3 percent of budgeted revenues, increased by about \$1 million from FY 2011 due to higher revenues in FY 2012.

Transmission Services has thoroughly reviewed its activities and costs to develop the FY 2012 budget and taken actions to reduce the cost of providing regulated transmission services. LCRA TSC's direct operating cost for FY 2012 (not including allocated corporate costs or Public Service Fund contribution) is \$4.4 million (6 percent) lower than the forecast for FY 2012 in last year's Business Plan. Labor accounts for \$3.9 million of this reduction. Labor reductions were achieved through a thorough evaluation of operations and maintenance programs and activities resulting in the consolidation of certain positions through attrition and reconsideration of the need for some vacant positions. Other nonlabor costs were removed from the FY 2012 O&M budget, with the largest decreases in outside services (lower by \$0.6 million) and employee expenses (lower by \$0.6 million).

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

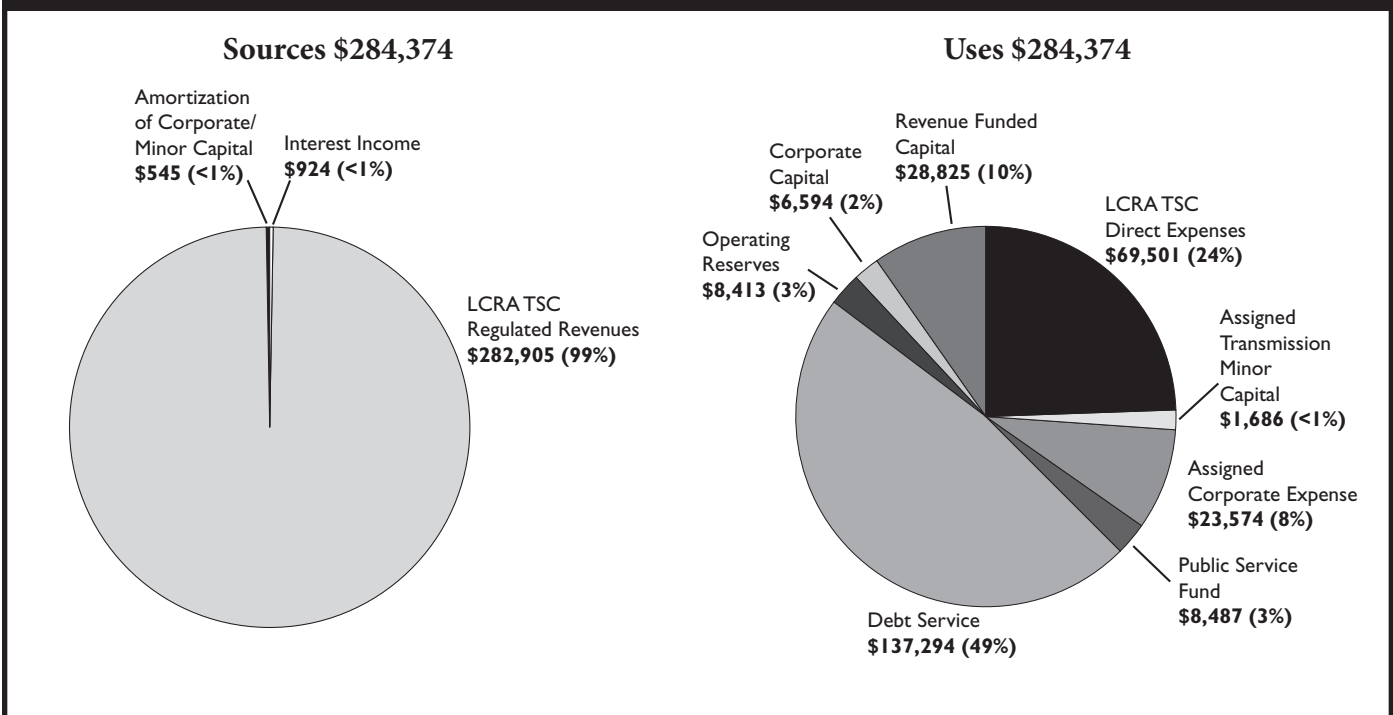
tions—including full-time, project and temporary positions—are budgeted this year compared to last year.

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

Summary

The FY 2012 Business Plan continues LCRA TSC's mission to provide safe, reliable and cost-effective transmission services while investing in new facilities to serve needs across ERCOT. Over the next five years, LCRA TSC plans to bring approximately \$800 million in new transmission system facilities into service, including approximately \$587 million in support of the PUC's CREZ initiatives.

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



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

	Budgeted	Proposed	Forecast			
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Corporation Total						
Revenues	250,027	282,905	315,796	341,030	372,134	377,940
Expenses	69,456	69,501	73,951	81,408	87,461	92,018
Net Operating Margin	180,571	213,404	241,845	259,622	284,673	285,922
Add: Interest Income	1,214	924	2,327	4,883	5,584	5,558
Less: Assigned Corporate Expense	21,092	23,574	25,994	26,610	30,461	34,096
Public Service Fund	7,501	8,487	9,474	10,231	11,164	11,338
Net Revenues Available for Debt Service	153,192	182,267	208,704	227,664	248,632	246,046
Debt Service	118,170	137,294	144,945	161,481	179,766	179,766
Debt Service Coverage	1.30x	1.33x	1.44x	1.41x	1.38x	1.37x
Net Revenue After Debt Service	35,022	44,973	63,759	66,183	68,866	66,280
Less:						
Operating Reserves	6,438	8,413	8,287	11,757	11,929	1,394
Corporate Capital	-	6,594	7,729	5,971	3,463	2,681
Assigned Transmission Minor Capital	-	1,686	1,853	1,853	1,853	1,853
Revenue Funded Capital	28,584	28,825	47,842	49,512	26,520	13,481
Restricted for Capital/Debt Retirement	-	-	-	-	28,794	51,095
Plus:						
Amortization of Corporate/Minor Capital ¹	-	545	1,952	2,910	3,693	4,224
Net Cash Flow	-	-	-	-	-	-
Capital Expenditures						
Revenue Funded	28,584	28,825	47,842	49,512	26,520	13,481
Debt Funded	248,150	205,723	210,268	102,489	23,170	403
Third Party Funded	-	-	-	-	-	-
Total Capital	\$ 276,734	234,548	258,110	152,001	49,690	13,884

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

Key Points

- LCRA TSC revenue projection for FY 2012 of \$283 million is \$33 million higher than FY 2011. Revenue growth will result from an interim rate increase filed in late FY 2011. This will be followed by a Transmission Cost of Service rate case expected to be filed in fall 2011 with rates effective in late FY 2012.
- LCRA TSC's FY 2012 expenses of \$101.6 million, including allocated corporate expense and Public Service Fund, are up by \$3.5 million over FY 2011.
- LCRA TSC's capital plan anticipates placing approximately \$800 million of new transmission facilities into service over the next five years.
- LCRA TSC's FY 2012 debt service coverage ratio is forecast to be 1.33x.

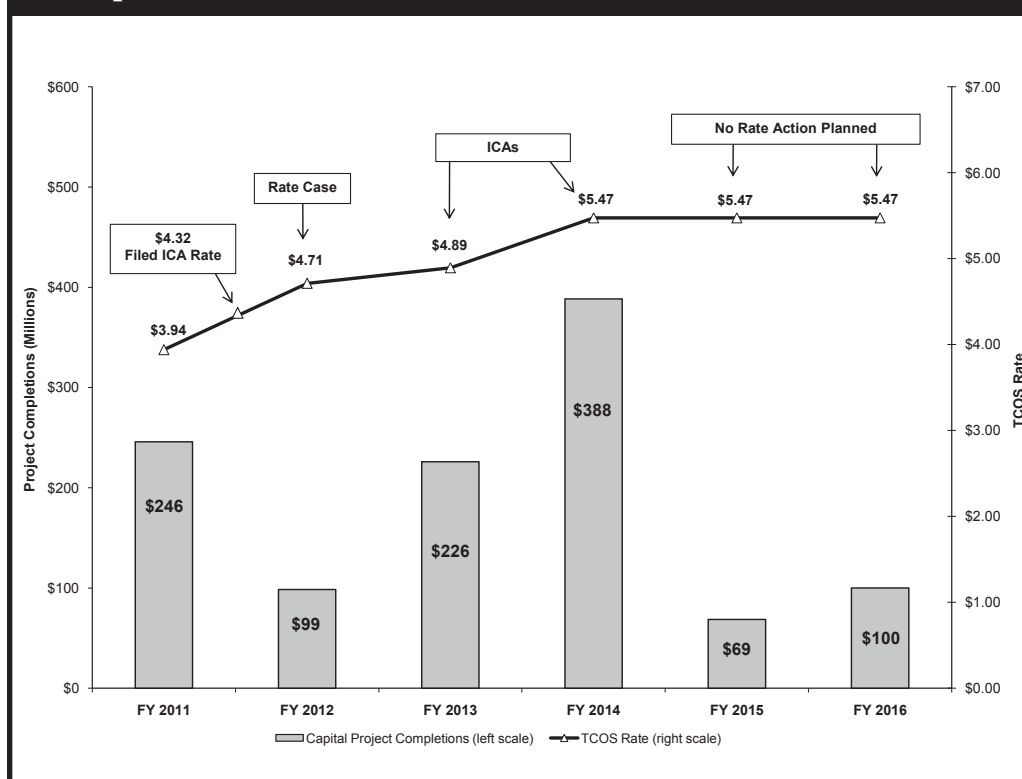
LCRA TSC's Share of ERCOT Transmission Rate

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

Source: PUC Docket 38900. 2011 Net Wholesale Transmission Matrix Charges for ERCOT

The ERCOT "postage stamp rate" refers to all of the transmission service provider (TSP) rates added together. LCRA TSC accounts for 14 percent of the total rate. Each distribution service provider (DSP) in ERCOT pays each TSP's rate times the DSP's share of the average summer peak load measured in kilowatts. DSPs pass through transmission costs to end-use customers.

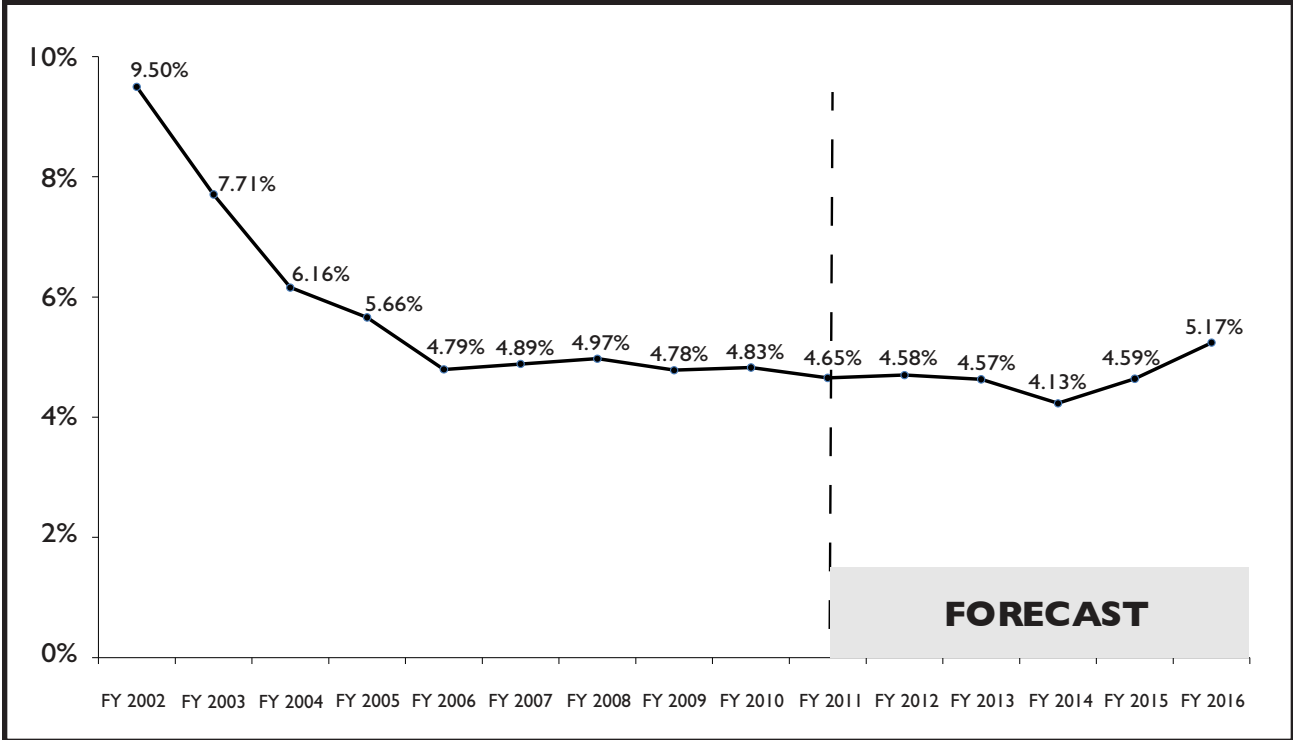
Forecast for LCRA TSC Capital Project Completions and Impact on Transmission Cost of Service (TCOS) Rate, FY 2011 - 2016



Significant capital investment for new and upgraded system capacity in Central Texas and Competitive Renewable Energy Zones transmission infrastructure will drive LCRA TSC's need to increase rates in the future. LCRA TSC forecasts approximately \$800 million in capital project completions in the coming five-year planning period.

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

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



LCRA TSC's ratio of operations and maintenance (O&M) cost per dollar of net assets (plant) in service decreased significantly between FY 2002 and 2006 and has remained stable through FY 2010. The ratio, known as "O&M to Net Plant," is calculated by dividing the total O&M in a given year by the depreciated value of the equipment and facilities in the system. The ratio measures a utility's efficiency, overall cost-effectiveness of providing service and ability to complete planned capital improvements. The lower the ratio, the more efficiently a system has been operated and maintained. LCRA TSC's forecast shows the ratio continuing to decrease in most years until FY 2015, when capital investment drops off significantly, as shown in the LCRA TSC capital plan.

LCRA Transmission Services Corporation Capital Plan

Executive Summary

LCRA Transmission Services Corporation's (LCRA TSC) forecast capital spending during fiscal years (FY) 2012 to 2016 exceeds \$708 million, including approved, recommended and future projects. This year's plan recommends 28 new projects with cumulative lifetime budgets of \$72 million, which is a 9 percent increase over the \$72 million in lifetime budgets previously approved by the Board. Capital spending for recommended and approved projects during FY 2012 is expected to total \$235 million.

The FY 2012 plan addresses LCRA TSC system reliability requirements, responds to Electric Reliability Council of Texas (ERCOT) system needs, meets forecast area load growth, and connects new generators to the LCRA TSC electric system. The plan includes approximately \$587 million in total lifetime budgets for projects assigned to LCRA TSC by the Public Utility Commission of Texas (PUC) to meet the Competitive Renewable Energy Zones (CREZ) objectives.

FY 2012-2016 Capital Spending for Recommended, Approved and Future Projects LCRA Transmission Services Corporation (Dollars in Thousands)

Status	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	5-Year Total	Lifetime
Recommended Projects	\$	21,631	10,538	6,739	31,716	997	71,621	71,655
Approved Projects		212,917	232,676	129,303	2,099	-	576,995	772,489
CREZ Approved		171,844	198,697	114,432	-	-	484,972	587,444
Non-CREZ Approved		41,073	33,979	14,871	2,099	-	92,023	185,045
Subtotal Recommended and Approved	\$	234,548	243,214	136,042	33,815	997	648,616	844,144
Future Projects		-	14,896	15,959	15,875	12,887	59,617	62,196
Total FY 2012 Capital Plan	\$	234,548	258,110	152,001	49,690	13,884	708,233	906,340

Comparison to Previous Plan

FY 2011 Capital Plan	\$	276,734	329,276	301,468	81,760	26,508	1,015,746	1,220,993
Difference*		n/a	(94,728)	(43,358)	70,241	23,182	(307,513)	(314,653)

*Difference for "5-Year Total" is based on a rolling five-year comparison, i.e. FY 2012 - 2016 spending from the current plan compared to FY 2011 - 2015 from last year's plan.

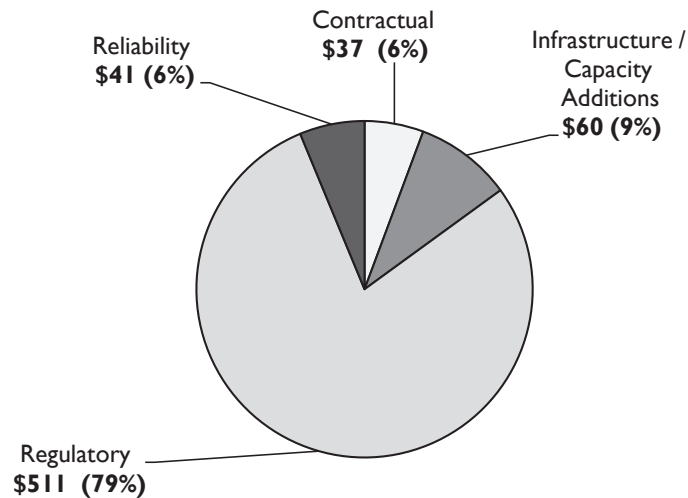
The funding requirements to accomplish these goals over the next five years are summarized by major categories in the accompanying chart. Of the \$649 million in capital spending for recommended and approved projects over the next five years, \$511 million (79 percent) is dedicated to responding to PUC and ERCOT regulatory requirements; \$60 million (9 percent) is needed for transmission and transformation system capacity needs (shown in the "Infrastructure/Capacity Additions" category); \$41 million (6 percent) is dedicated to supporting system reliability; and \$37 million (6 percent) is needed for contractual requirements (mainly LCRA TSC's facilities lease requirements);

Additionally, approximately \$60 million is estimated over the next five years for future funding requirements of future projects that are presently under review (and are not shown in

the accompanying chart). As the purpose and need for these future projects materialize, staff will bring future projects still in the identification stage to the LCRA Board of Directors for specific approval prior to initiation.

As load forecasts, project scopes, engineering evaluations and funding considerations evolve, the projects presented in this plan may change accordingly. From time to time, conditions change rapidly and result in a need for immediate action. In these cases, the capital plan is adjusted through an addendum process, and new projects are identified and presented for funding approval. Historically, the requirements of the ERCOT generation market and increased capacity for industrial-type electric loads have driven the need to amend the plan.

**LCRA Transmission Services Corporation
Five-Year Spending by Project Need Category
Includes Approved and Recommended Projects Only (Dollars in Millions)**



Capital Planning Approach

LCRA TSC’s capital planning approach conforms to LCRA standards discussed on pages 5 and 6 of the Executive Summary in LCRA’s capital plan. The following section highlights additional unique aspects to LCRA TSC’s approach to planning for capital additions to its transmission system.

As a transmission service provider (TSP) in ERCOT, LCRA TSC is compelled to provide reliable transmission service to ERCOT ratepayers and open access to the transmission grid to qualified generators and other transmission and distribution service providers. PUC rules require TSPs in ERCOT to “construct and place into service sufficient transmission capacity to ensure adequacy and reliability of the network to deliver power to transmission service customer loads.” The need for LCRA TSC’s capital projects primarily is driven by requirements to reliably meet anticipated growth in electric system load and generation.

LCRA TSC’s capital plan is developed to meet the following requirements:

- Compliance with ERCOT and North American Electric Reliability Corporation (NERC) planning criteria for the provision of adequate and reliable transmission and transformation service.

- Response to generators’ requests to connect to the transmission system to sell power in the ERCOT market.
- ERCOT direction to construct transmission facilities to relieve high-cost constraints to the flow of bulk power in ERCOT.
- Self-initiated improvements intended to bolster the reliability of LCRA TSC’s system and minimize the consequences associated with equipment failures.

The FY 2012 Capital Plan is the result of system assessment studies conducted during the annual planning process. LCRA TSC works closely with direct-connect customers (DCC), other service providers and ERCOT to identify electric system needs that directly affect LCRA TSC. DCCs are utilities within the geographic territory served by LCRA on Jan. 1, 1975, whose distribution systems are directly connected to transmission or transformation facilities owned or operated by LCRA TSC. LCRA TSC’s capital planning process results in the publication of the Transmission System Improvements Plan (TSIP). Projects recommended in the TSIP are developed jointly with DCCs, other TSPs, ERCOT and generation customers. As part of the TSIP process, the performance of LCRA TSC’s transmission and transformation facilities is modeled at anticipated load growth levels and system conditions to ensure it meets planning criteria requirements.

Each planning criteria issue identified in the TSIP process drives the need for a solution. Where feasible, multiple alternative solutions, including operating solutions, are analyzed. These solutions typically include modifications, upgrades or additions of substation and/or transmission line facilities.

LCRA's Transmission Services uses a planning department to develop a business case analysis for each project. Each project that is developed and recommended in the TSIP to meet a system need is evaluated based on technical merits and a "least cost analysis" to assist in selecting the best, most cost-effective alternative.

Project Prioritization

Projects in the five-year planning horizon are prioritized based on the risk to performance of the transmission system. Previously approved projects with completed work are prioritized first, followed by recommended projects on a four-tiered system. The four-tiered system prioritizes projects by greatest impact to ERCOT customers, contractual requirements for generation interconnects or line relocations, load serving needs and self-initiated reliability improvements.

Contingency

Cost estimates for project alternatives are developed using estimating templates populated with the current cost of materials and installation of transmission line and substation equipment. These templates allow engineers to develop estimates based on the assignment of quantities and the application of historical costs as defined in the project scope of each alternative. These same tools are used during the re-estimates at the end of conceptual design and before entering into construction. The estimating templates themselves are re-evaluated annually and updated as additional information is available on the cost of materials and labor.

Engineering staff adds a contingency amount to the project estimates to cover unknown costs. (See page 8 of the Executive Summary and Appendix B in the LCRA Capital Plan for a discussion of LCRA-wide standards for estimating, reporting and managing contingency.) For LCRA TSC, contingency is added as a percentage factor on the sum of the installed costs for the project. Contingency ranges between 2 and 10 percent

on projects and is typically applied at 2 percent. The variation in contingency is based on engineering judgment and can reach the higher end of the scale when numerous unknown conditions exist, such as precise line routing, soil conditions, unknown existing line conditions, or volatile real estate acquisition costs. Final estimates include adders for capitalized general and administrative costs and capitalized interest.

Capital Outlook

Recovery of the capital investment required to implement the FY 2012-2016 plan will be a primary driver causing LCRA TSC to seek increases to its PUC-approved rates in the coming years. As projects progress, LCRA TSC funds capital expenditures through revenues earned or debt issued. LCRA TSC requests recovery from the PUC for capital expenditures through scheduled debt service payments incorporated in its transmission cost of service rate case filings or interim capital additions filings. The prudence of costs expended will require review and approval by the PUC during the rate proceedings. Previous rate cases have allowed 1.5x coverage for scheduled payments on 30-year debt for capital projects.

This year's plan is large in terms of both scope and capital investment. Over the next five years, LCRA TSC will construct or upgrade numerous transmission line projects and substations across Central and West Texas. LCRA TSC has past experience in successfully implementing capital plans of this magnitude. LCRA TSC will finance the projects included in the FY 2012-2016 capital plan using the same approach that it has used to finance more than \$900 million in net additions to the transmission system since LCRA TSC's inception in January 2002.

FY 2012 Recommended Projects

In FY 2012, LCRA TSC will initiate \$72 million in newly recommended electric system capital projects, as described in the following pages.

Altair-to-Garwood Pump Transmission Line Upgrade

Perform inspections and replace deteriorated wood poles/structures, cross arms and braces on the 2.8-mile Altair-to-Garwood Pump 69-kilovolt (kV) transmission line in Colorado County to maintain the safe and reliable operation of the transmission network. Recommended project completion is June 30, 2012.

Blanco Power Transformer Addition

Add a new power transformer to the Blanco Substation in Blanco County to prevent projected future overloads of existing equipment. Recommended project completion is Dec. 31, 2012.

Burnet-to-Lampasas Transmission Line Upgrade

Perform inspections and replace deteriorated wood poles/structures, cross arms and braces on the 24.5-mile Burnet-to-Lampasas 138-kV transmission line in Burnet and Lampasas counties to maintain the safe and reliable operation of the transmission network. Recommended project completion is June 30, 2012.

Colorado-to-Nada Transmission Line Upgrade

Perform inspections and replace deteriorated wood poles and cross arms on the 10.5-mile Colorado-to-Nada 69-kV transmission line in Colorado County to maintain the safe and reliable operation of the transmission network. Recommended project completion is June 30, 2012.

Colorado Power Transformer Upgrade

Increase the capacity of an existing power transformer at the Colorado Substation in Colorado County to prevent projected future overloads of existing equipment. Recommended project completion is Aug. 30, 2011.

Devil's Hill Power Transformer Addition

Pedernales Electric Cooperative will add a new power transformer at the Devil's Hill Substation in Comal County to increase the transformation capacity. LCRA TSC will install a meter panel, remote terminal unit and telecommunications

equipment in support of the project. Recommended project completion is May 31, 2012.

El Campo-to-Eagle Lake Transmission Line Upgrade

Perform inspections and replace deteriorated wood structures and cross arms on the 33.7-mile El Campo-to-Eagle Lake 69-kV transmission line in Colorado and Wharton counties to maintain the safe and reliable operation of the transmission network. Recommended project completion is June 30, 2012.

Fayette Power Project-to-Fayetteville Transmission Line Upgrade

Increase the capacity of the transmission lines and substations between the Fayette Power Project (FPP) and Fayetteville substations to support a new CenterPoint Energy transmission line project. The FPP-to-Fayetteville Transmission Line is in Fayette and Washington counties. Recommended project completion is June 30, 2015.

Transmission Services Corporation

General Additions FY 2012

Maintain funding for required but unplanned system improvements to accommodate load increases, failed equipment, substation reliability enhancement or changing system conditions as they occur through June 30, 2012. General additions represent small incremental additions to existing assets not to exceed \$300,000 on an individual basis. This project is recommended for approval by the LCRA TSC Board of Directors, based on a preliminary estimate.

Hallettsville City Substation Upgrade

Install three low-voltage regulators and related bus work at the Hallettsville City Substation in Lavaca County to maintain transformation services. Recommended project completion is June 30, 2012.

Hays Energy Substation Upgrade

Replace and upgrade high-voltage substation equipment at the Hays Energy Substation in Hays County to maintain the safe and reliable operation of the transmission network. Recommended project completion is June 30, 2012.

Helena Substation Addition

Construct the transmission facilities for a new distribution substation located under LCRA TSC Nixon-to-Kenedy Switch

69-kV transmission line in Karnes County to provide a transmission point of interconnection with South Texas Electric Cooperative. Recommended project completion is Oct. 31, 2011.

Henne Power Transformer Addition

New Braunfels Utilities will add a new power transformer at the Henne Substation in Comal County to increase the transformation capacity. LCRA TSC will install metering facilities and extend the 138-kV operating bus in support of the project. Recommended project completion is June 2013.

Kerrville Stadium-to-Raymond F. Barker Transmission Line Upgrade

Increase capacity and improve the reliability of the 69-kV transmission line between the Kerrville Stadium, Kerrville Travis, Kerrville Legion and Raymond F. Barker substations in Kerr County. Recommended project completion is June 30, 2015.

Kerrville Travis Circuit Breaker Addition

Add 138-kV circuit breakers at the Kerrville Travis Substation in Kerr County to improve the reliability of transmission service to loads that exceed 20 megawatts (MW) during peak loading conditions. Recommended project completion is June 30, 2015.

Laguna-to-Naval Base Transmission Line Upgrade

Increase the capacity of the 3.09-mile Laguna-to-Naval Base 69-kV transmission line in Nueces County by increasing the wire size and replacing the poles with 138-kV-capable structures. Recommended project completion is June 30, 2013.

Lampasas Substation Upgrade

Replace and upgrade equipment at the Lampasas Substation in Lampasas County to increase the reliability of the LCRA TSC transmission system. Recommended project completion is June 30, 2012.

Lockhart Substation Upgrade

Install switches and replace circuit switchers at the Lockhart Substation in Caldwell County to maintain the safe and reliable operation of the transmission network. Recommended project completion is June 30, 2012.

Mobile Transformer Low-Side Hookup Switches Substation Upgrade

Install switching equipment to improve the safety and speed of installing a mobile transformer at 14 substations in Burnet, Caldwell, Gillespie, Gonzales, Guadalupe, Hays, Kendall, Lampasas and Travis counties to increase the reliability of the LCRA TSC transmission system. Recommended project completion is June 30, 2014.

Pilot Grove Substation Addition

Construct the transmission facilities for a new distribution substation located under LCRA TSC Sweet Home-to-Yoakum 138-kV transmission line in Lavaca and Dewitt counties to provide a transmission point of interconnection with Guadalupe Valley Electric Cooperative. Recommended project completion is Nov. 30, 2011.

Plum Creek Substation Addition

Construct the transmission facilities for a new distribution substation located under the LCRA TSC Luling-to-Lockhart 138-kV transmission line in Caldwell County to provide a transmission point of interconnection with American Electric Power. Recommended project completion is Oct. 31, 2012.

Protective System Upgrades – FY 2012 Substation Upgrade

Upgrade substation equipment at the Marshall Ford, Spice-wood, Lampasas, Burnet, Glidden, Fayetteville, FPP, Winchester and Round Top substations to maintain safe and reliable operation of the transmission network. The counties are Travis, Lampasas, Burnet, Colorado and Fayette. Recommended project completion is June 30, 2013.

Substation Site Upgrades, Phase 4

Complete site upgrades at Cuero, Hallettsville and Smithville substations in Dewitt, Lavaca and Bastrop counties to maintain the safe and reliable operation of the transmission network. Recommended project completion is June 30, 2012.

Switch Replacement Substation Upgrade

Upgrade switching equipment at 15 LCRA TSC substations in Colorado, Dewitt, Guadalupe and Karnes counties to maintain the safe and reliable operation of the transmission network. Recommended completion is June 30, 2016.

Terminal Equipment Upgrades, Phase 5

Upgrade switches and terminal equipment at LCRA TSC's Winchester Substation in Fayette County to prevent overloading of existing equipment. Recommended completion is June 30, 2014.

Twin Buttes-to-Divide Transmission Line Upgrade

Remove the existing ground wire and replace with optical ground wire on 30 miles of the existing LCRA TSC 345-kV transmission line in Coke and Tom Green counties to maintain safe and reliable operation of the transmission network. Recommended completion is June 30, 2013.

Verde Creek-to-Turtle Creek Transmission Line Upgrade

Perform inspections and replace deteriorated wood poles/structures, cross arms and braces on the 10.3-mile Verde Creek-to-Turtle Creek 138-kV transmission line in Kerr County to maintain safe and reliable operation of the transmission network. Recommended completion is June 30, 2012.

Welfare Circuit Breaker Addition

Add 138-kV circuit breakers at the Welfare Substation in Kendall County to improve the reliability of transmission service to loads that exceed 20 MW during peak loading conditions.

Recommended completion is June 30, 2013.

Direct-Connect Customer (DCC) Projects Affecting LCRA TSC

In addition to the recommended projects that increase or upgrade LCRA TSC's electric system, the joint planning process produced recommendations for improvements and additions to DCC-owned facilities. The scope of these projects primarily affects DCC systems, and the bulk of the capital costs will be paid by the affected DCC. However, some DCC projects require that LCRA TSC facilities also be upgraded or replaced. In addition, LCRA TSC leases transmission and transformation facilities from direct-connect customers in Central Texas pursuant to the lease agreement that was established in 1991 in PUC Docket No. 9247. The lease agreement payments for facilities are properly included in LCRA TSC's rate filings.

Two additional DCC projects subject to the lease were recommended with no resulting stand-alone LCRA TSC capital project scope:

- Georgetown East Power Transformer Addition
- Blockhouse Capacitor Addition

LCRA TSC FY 2012 Capital Plan Table

The following tables on pages 12-16 contain proposed lifetime budgets for recommended capital projects as well as budgetary projections for all previously approved projects.

The details of the recommended projects were discussed in the pages preceding this table, while the details for previously approved projects were presented to the LCRA TSC Board

in preceding capital plans or individual Board items. Future projects are potential projects that address future electric system deficiencies for which a detailed project recommendation is either in progress or sufficient engineering data is not currently available to develop a project recommendation. Future projects in development are shown separately in Appendix A.

FY 2012 Capital Plan Approved and Recommended Projects
LCRA Transmission Services Corporation (Dollars in Thousands)

Project Name	Contingency	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	5-Year Total	Lifetime
Recommended								
Altair-Garwood Pump Transmission Line Upgrade	10%	1,559	30	-	-	-	1,589	1,589
Blanco Power Transformer Addition	2%	5	70	1	-	-	76	76
Burnet-Lampasas Transmission Line Upgrade	10%	590	11	-	-	-	601	601
Colorado Power Transformer Upgrade	2%	657	13	-	-	-	670	670
Colorado-Nada Transmission Line Upgrade	10%	189	4	-	-	-	193	193
Devil's Hill Power Transformer Addition	2%	306	6	-	-	-	312	312
El Campo - Eagle Lake Transmission Line Upgrade	10%	6,967	134	-	-	-	7,101	7,101
FPP - Fayetteville Transmission Line Upgrade	2%	169	449	1,749	22,691	251	25,309	25,309
General Additions -Transmission Services Corporation - FY 2012	0%	3,000	-	-	-	-	3,000	3,000
Hallettsville City Substation Upgrade	2%	135	3	-	-	-	138	138
Hays Energy Substation Upgrade	2%	772	15	-	-	-	787	787
Helena Substation Addition	2%	1,241	24	-	-	-	1,265	1,265
Henne Power Transformer Addition	2%	5	136	1	-	-	142	142
Kerrville Stadium - Raymond F. Barker Transmission Line Upgrade	2%	504	894	3,009	6,717	111	11,235	11,235
Kerrville Travis Circuit Breaker Addition	2%	58	71	296	1,540	20	1,985	1,985
Laguna - Naval Base Transmission Line Upgrade	2%	602	2,654	33	-	-	3,289	3,289
Lampasas Substation Upgrade	2%	109	2	-	-	-	111	111

Project Name	Contingency	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	5-Year Total	Lifetime
Lockhart Substation Upgrade	2%	301	6	-	-	-	307	307
Mobile Transformer Low-Side Hookup Switches Substation Upgrade	2%	109	426	526	11	-	1,072	1,072
Pilot Grove Substation Addition	2%	1,391	27	-	-	-	1,418	1,418
Plum Creek Substation Addition	2%	549	945	15	-	-	1,509	1,509
Protection System Upgrades - FY 2012 Substation Upgrade	2%	682	1,632	23	-	-	2,337	2,337
Substation Site Upgrades, Phase 4 Substation Upgrade	2%	724	14	-	-	-	738	738
Switch Replacements Substation Upgrade	2%	448	693	881	755	615	3,392	3,426
Terminal Equipment Upgrades, Phase 5 Substation Upgrade	2%	5	6	180	2	-	193	193
Twin Buttes - Divide Transmission Line Upgrade	2%	72	1,303	14	-	-	1,389	1,389
Verde Creek-Turtle Creek Transmission Line Upgrade	10%	390	8	-	-	-	398	398
Welfare Circuit Breaker Addition	2%	92	962	11	-	-	1,065	1,065
Recommended Subtotal		21,631	10,538	6,739	31,716	997	71,621	71,655
Approved								
Airline-to-Laguna-to-Naval Base Transmission Line Upgrade	2%	291	-	-	-	-	291	347
Bakersfield Substation Addition	2%	346	5,126	342	-	-	5,814	6,089
Bertram Power Transformation Addition	2%	137	1	-	-	-	139	164
Big Hill Substation Addition	2%	10,873	14,156	42	-	-	25,071	28,360
Big Hill-Kendall Transmission Line Addition	2%	94,287	107,031	112,668	-	-	313,986	345,150
Blumenthal Substation Addition	2%	1	1	225	40	-	267	15,055

Project Name	Contingency	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	5-Year Total	Lifetime
Buttercup - Whitestone Transmission Line Upgrade	7%	1	1	98	2	-	102	121
Caddo Substation Addition	2%	1	1	1	237	-	240	268
Canyon Power Transformation Addition	2%	60	-	-	-	-	60	72
Capacitor Bank Replacement Project Substation Upgrade	7%	998	-	-	-	-	998	6,585
Cushman Power Transformation Addition	2%	1,719	-	-	-	-	1,719	2,168
Cushman to Highway 123 Transmission Line Addition	9%	1,182	3,231	7,217	368	-	11,998	12,976
Divide Station-CREZ Phase	2%	174	1,096	-	-	-	1,271	1,401
E C Mornhinweg (FM 482) Substation Addition	2%	1,184	2,082	4,086	-	-	7,352	9,692
Eckert Power Transformer Upgrade	2%	24	214	8	-	-	246	522
Elroy Substation Addition	2%	1,831	-	-	-	-	1,831	2,384
Esperanza Substation Addition	7%	12	834	809	-	-	1,655	2,636
Ferguson - Wirtz Transmission Line Upgrade	3%	8,629	-	-	-	-	8,629	9,769
Flatonia-Yoakum Gartner Road Transmission Line Upgrade	9%	3,660	17,260	333	-	-	21,253	20,425
FM 239 Nordheim - Substation Addition	2%	2,220	35	-	-	-	2,255	2,518
FM 725 Substation Addition	2%	283	6	-	-	-	289	191
Fort Lancaster Substation Upgrade	2%	624	-	-	-	-	624	729
Fort Mason-Pittsburg Transmission Line Upgrade	2%	1,343	-	-	-	-	1,343	22,594
Glasscock Power Transformation Addition	2%	418	-	-	-	-	418	519

Project Name	Contingency	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	5-Year Total	Lifetime
Hollmig Substation Addition	2%	2,337	-	-	-	-	2,337	3,113
Hunter Power Transformer Addition	7%	204	-	-	-	-	204	214
Kendall Autotransformer Addition	2%	3,930	1,784	-	-	-	5,714	11,850
Kendall Autotransformer Upgrade	2%	12,210	-	-	-	-	12,210	25,426
Kendall-Miller Creek-Paleface Transmission Line Upgrade	2%	15,324	17,026	498	-	-	32,848	33,710
Kent Street - Power Transformer Addition	2%	514	8	-	-	-	522	590
Kimbrow Substation Addition	2%	1,320	-	-	-	-	1,320	3,574
Lakeway AEN - Substation Upgrade	7%	2,479	-	-	-	-	2,479	2,806
Lehigh Power Transformation Addition	2%	35	1	-	-	-	36	44
Maxwell Substation Addition	2%	2	1	1	1,292	-	1,296	1,305
McNeil-Substation Upgrade	7%	241	-	-	-	-	241	380
Metering Additions - FY2009	7%	68	-	-	-	-	68	1,628
Metering Additions - FY2010	2%	220	-	-	-	-	220	465
Mico Substation Addition	7%	752	-	-	-	-	752	838
Milton Substation Addition	2%	1,600	-	-	-	-	1,600	2,225
Mountain Top-to-Blanco-to-Devil's Hill Substation Upgrade	7%	71	695	80	-	-	846	1,088
North McCamey Autotransformer Addition	2%	2,430	17,316	300	-	-	20,046	30,752
North McCamey Substation Upgrade	2%	230	2,115	258	-	-	2,603	2,659

Project Name	Contingency	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	5-Year Total	Lifetime
Obsolete Totalizing Breaker Replacement Program	7%	464	-	-	-	-	464	2,332
Pleasant Farms Substation Addition	2%	335	-	-	-	-	335	2,752
Protective System Upgrades Substation Upgrade	7%	1,277	4	-	-	-	1,281	1,406
RTU Additions Substation Upgrade	2%	155	1	-	-	-	156	777
Sattler Power Transformation Addition	2%	66	3	-	-	-	69	77
Sherwood Shores Circuit Breaker Addition	7%	1	1,380	1,809	-	-	3,190	3,898
Transformer Protection System Upgrades-Substation Upgrade	2%	492	-	-	-	-	492	1,168
Transmission Easements Project FY 2006 - Transmission Line Upgrade	7%	282	-	-	-	-	282	3,375
Twin Buttes-Big Hill Transmission Line Addition	2%	30,696	33,047	324	-	-	64,067	79,453
Twin Buttes-Brown Transmission Line Addition	2%	100	-	-	-	-	100	43,460
Whisper Valley Substation Addition	2%	1	1	205	3	-	210	219
Wild Horse North Substation Addition	2%	1	1	1	157	-	160	165
Williamson Co. SH-195 Transmission Line Relocation	2%	200	-	-	-	-	200	3,589
Wirtz-Burnet and Ferguson-Granite Mountain Transmission Circuit Swap	2%	462	-	-	-	-	462	1,404
Zorn Autotransformer Addition	7%	4,119	8,218	-	-	-	12,337	15,012
Approved Subtotal		212,917	232,676	129,303	2,099	-	576,995	772,489
Total Recommended and Approved		234,548	243,214	136,042	33,815	997	648,616	844,144

LCRA Transmission Services projects, with the exception of general additions, are recommended for Board approval based on budgetary estimates. The General Additions – Transmission Services Corporation FY 2012 project is recommended for Board approval based on a preliminary estimate.

FY 2012 Capital Improvement Plan

Appendix A: Future Projects

**Appendix A: FY 2012 Capital Plan Future Projects
LCRA Transmission Services Corporation
(Dollars in Thousands)**

Project Name	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	5-Year Total	Lifetime
EMS Upgrade 3	-	2,500	1,500	1,500	1,500	7,000	9,500
General Additions -Transmission Services Corporation - Future	-	3,000	3,000	3,000	3,000	12,000	12,000
Leakey Capacitor Addition	-	-	-	200	2	202	202
Merrelltown Substation Addition	-	522	2,346	29	-	2,897	2,897
Minor Capital - TSC Future	-	350	350	350	350	1,400	1,400
Pflugerville South Substation Addition	-	266	479	2,790	35	3,570	3,570
Physical Security Substation Upgrade	-	337	284	6	-	627	627
Transmission Line Upgrades - Future	-	7,921	8,000	8,000	8,000	31,921	32,000
Total Future	-	14,896	15,959	15,875	12,887	59,617	62,196

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



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