

LCRA FY 2010 Business Plan


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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.

Introduction

The Lower Colorado River Authority's business plan for fiscal year (FY) 2010 reflects continued stability in LCRA's operations and financial condition, even in this period of economic uncertainty.

Dealing with such uncertainty is not new to LCRA. The Texas Legislature created LCRA 74 years ago during the Great Depression. Since then, LCRA has continued its mission of providing energy, water, and community services as our Central Texas service area responds to cycles of economic expansion and contraction. These cycles have taught LCRA that our customers still depend on our services regardless of economic conditions, and that they expect us to continue providing quality and cost-effective services.

LCRA's FY 2010 Business Plan continues that tradition.

FY 2010 plan assumptions reflect economic conditions

Reflecting the current economic conditions, the FY 2010 Business Plan uses assumptions for growth and sales of LCRA's energy and water services that are more conservative than the assumptions used in preparing last year's plan.

As a result, the FY 2010 Business Plan assumes that overall demand for LCRA's electric and water utility services in FY 2010 will be slightly lower than estimated in our FY 2009 plan. These revised projections anticipate flat or slightly declining growth in the demand for LCRA's electric generation and transmission services, with a slight increase in demand for Water and Wastewater Utility Services compared to FY 2009.

Even with these slightly lower projections, LCRA's revenues and financial performance are expected to be strong for FY 2010. Projected nonfuel revenues are anticipated to be $678.4 million for FY 2010, which is less than 1 percent below the $682.2 million that were projected for FY 2010 in last year's plan. And LCRA projects a 1.37x debt service coverage ratio in FY 2010, one point lower than the coverage budgeted in FY 2009.

Preparing for long-term challenges

We are fortunate to be preparing for FY 2010 supported by many positive developments. Wholesale customers representing more than half of our customer load have signed long-term contracts through 2041. We have sufficient water resources to meet our basin's current needs, even after a year and a half of severe drought. Our nonprofit corporation, LCRA Transmission Services Corporation, is among the transmission service providers selected to expand the state's electric transmission network to help bring additional wind-generated power to the entire state.

As part of this business plan, LCRA will continue to focus on these long-term challenges:

- Planning for electric generation sources and solutions to meet our wholesale customers' long-term needs.
- Maintaining and upgrading the statewide electric transmission system to ensure reliable service.
- Continuing to restructure LCRA's water and wastewater utility operations to achieve financial stability and self-sufficiency.
- Helping people use water wisely, while we continue to plan for our basin's long-term water-resource needs.

Features of FY 2010 Business Plan

The FY 2010 Business Plan is designed to show and explain, through text, tables, and graphics, the factors that guide LCRA's operations and affect cost of service and other factors.

- "Sources and Uses" graphs – for total LCRA as well as for each business unit – that show the major sources of revenues and uses of these funds.

- The “Key Topics” section includes information about rates for electric, water, and community services, the major sources and uses of the Public Service Fund, staffing levels, and other issues that affect LCRA’s costs of providing services.
- Sections for LCRA’s business units include information on how each unit contributes to LCRA’s public-service mission, major issues anticipated for FY 2010, major changes from FY 2009, and revenue and expense information.

If you have questions or comments after reviewing this plan, please contact LCRA’s general manager, Thomas G. Mason, by phone at 1-800-776-5272, Ext. 3283, or by e-mail at Thomas.Mason@lcra.org.

Frequently Asked Questions

Who governs LCRA?

LCRA is governed by a 15-member Board of Directors appointed by the governor and confirmed by the Texas Senate. LCRA is accountable to its customers and a number of stakeholders, including the Texas Legislature that created it. The Board chair is selected by the governor and communicates regularly with state policymakers and stakeholders. LCRA's energy, water, and community services operations fall under a variety of state, federal, and local regulatory authorities. As a public entity, LCRA conducts its business and sets policies in open meetings and is subject to open records laws. LCRA neither collects nor receives taxes but must operate on the rates and fees it charges for its services.

What has LCRA done to control expenses?

The LCRA Board and general manager have set a clear expectation of cost consciousness. During the development of the FY 2009 Business Plan, staff conducted a program review process that resulted in an estimated $11.4 million in savings. Cost consciousness continues into FY 2010 as staff continues to evaluate where functions could be centralized and streamlined. Improvements include significant changes in the supply procurement process, which saved the organization more than $26 million in calendar year 2008 and is projected to save an additional $11 million in FY 2010.

Do state or local governments receive any tax revenues from LCRA or its related entities?

Yes. Although LCRA, as a political subdivision of the state, is exempt from paying state and local taxes, the Board created a nonprofit transmission corporation and energy affiliates that pay state and local sales and property taxes. GenTex Power Corporation, which owns the Lost Pines 1 Power Project in Bastrop County, and LCRA Transmission Services Corporation (TSC), which now owns and develops all LCRA-related transmission operations and infrastructure, in 2008 paid more than $11.7 million in state and local sales and property taxes.

What is the status of negotiations with wholesale power customers?

As of April 1, 2009, 31 of LCRA's 43 wholesale electric customers had committed to continue their wholesale power relationships with LCRA until 2041. These customers represent about 62 percent of LCRA's total energy sales. LCRA continues discussions with the remaining customers and expects that some of those customers will choose to continue their LCRA relationships past the 2016 expiration of their current agreements.

What is the mission of LCRA's nonprofit transmission corporation?

LCRA TSC works with other transmission providers, distribution providers, and electric generators to provide reliable and cost-effective electric transmission services in Central Texas and throughout the Electric Reliability Council of Texas (ERCOT) region. LCRA TSC has been involved in developing infrastructure to help bring renewable wind power to the more populated regions of the state.

What is CREZ, and why is LCRA involved?

CREZ, or Competitive Renewable Energy Zones, is an initiative overseen by the Public Utility Commission of Texas (PUC), as authorized by the Texas Legislature. CREZ is intended to significantly boost the use of renewable energy in Texas. Through its CREZ process, the PUC has designated zones in West Texas and the Panhandle as desirable for wind power generation siting. In addition, the PUC has selected, through a competitive process, certain transmission service providers to build transmission lines that connect these zones to the existing transmission grid to facilitate bringing additional wind power to market. As a result of this process, the PUC has directed LCRA TSC to build, own, and operate about 600 miles of CREZ-related transmission and substation infrastructure.

Has LCRA sold more water than is available to meet the competing needs and demands of the region?

No. Based on existing commitments, anticipated demands within its state and water planning region, and its existing water supplies, LCRA expects to have enough water supplies available for several decades into the future.

Why does LCRA spend funds generated from electric and water operations on other activities, such as parks and public safety?

The Texas Legislature has authorized LCRA to provide community services to help enhance the quality of life in Central Texas. These services include economic and community development, parks and recreation, land conservation, and public safety on waters and lands managed by LCRA. These programs need funding because they do not generate enough revenues to cover their costs. LCRA has no taxing authority and does not receive state appropriations. LCRA's enabling statute and related laws allow LCRA to use electric and water revenues to pay for programs that support its public service mission.

Foundation Values: How LCRA Works

LCRA's work and culture are shaped by five "foundation values" that are designed to provide quality services to customers and a quality workplace for employees. Each value is equally important:

Safety

Safety always comes first at LCRA, from its power plants, dams and transmission facilities to its offices. LCRA identifies dangers and risks to employees' safety and health and finds ways to mitigate those risks.

Customer Service

Everyone who comes in contact with LCRA is a customer and should be treated accordingly.

Employee Focus

LCRA benefits from an environment where employees feel personally and professionally rewarded and can reach their full potential in the workplace. Leadership development is a key element.

Diversity

LCRA is working to expand diversity among its work force and vendors to reflect the cultures, ideas, values and beliefs of the customers and communities it serves.

Environmental Leadership

LCRA weighs environmental considerations when making business decisions and seeks to lead by example in protecting the river basin's natural resources.

LCRA Fiscal Year 2010 Goals

Price Predictability and Fiscal Transparency

- Develop a multiyear plan to increase future nonfuel price predictability and fiscal transparency by January 2010.
- Reduce negotiated cost of goods and services by 3 percent (an estimated $11 million) by June 2010, based on any reductions from the median price received from vendors to the final negotiated price.
- Increase financial transparency to our ratepayers and the public by implementing the three applicable standards of the state comptroller's Texas Transparency Check-Up program by December 2009.

Conservation

- Reduce energy consumption by 7 percent at LCRA-owned office facilities in the five-county Austin region by June 2010 as measured against the FY 2009 energy consumption of 20,092,496 kilowatt-hours.
- Complete management plans and conservation projects on 7,000 acres of privately owned land through LCRA's Creekside Conservation Program, an increase of 2,500 acres over the annual average of 4,500.
- Beginning in July 2009, implement the Board-approved conservation program for raw and finished water that results in a cumulative yearly savings of 4,000 acre-feet of water by June 2010.

Customer and Community

- Respond effectively to recommendations in the FY 2009 wholesale electric customer satisfaction survey by April 2010.
- Develop and file certificates of convenience and necessity for priority projects under the Competitive Renewable Energy Zones program by October 2009, a process that normally takes at least 12 months to complete.
- Reduce water and wastewater utility customer service interruptions by 10 percent, as compared to the current outage rate of 50 outages per 1,000 customers per year.
- Operate and maintain LCRA TSC transmission and transformation systems to be available and provide service, on average, 99.999 percent of the time, as measured in minutes, during FY 2010, which is a 0.002 percentage point higher than the previous three-year average of 99.997 percent.
- Evaluate results of the online customer satisfaction survey for park service by December 2009, and develop plans for implementation of applicable improvements by March 2010.

Employees

- Achieve a record of no lost-time accidents.
- Reduce the number of miles driven in personal vehicles for business purposes by 15 percent, as measured against the 1.8 million miles driven in FY 2008.
- Implement the six compensation and benefit plan changes approved in the 2009 Total Rewards study, and develop recommendations for the remaining three items by January 2010.

Consolidated Look at Revenues and Expenses

LCRA, Affiliates and Nonprofit Corporations Financial Summary, FY 2009 – FY 2014 (Dollars in Thousands)

	Budgeted FY 2009	Proposed FY 2010	Forecast FY 2011	FY 2012	FY 2013	FY 2014
Revenues[1]						
Wholesale Power Services	$ 1,083,323	845,451	938,955	1,126,527	1,387,565	1,566,190
Transmission Services	244,671	250,354	251,736	314,787	347,297	414,317
Water Services	106,199	118,459	120,953	131,275	140,396	146,873
Community Services	6,838	7,296	7,224	7,340	7,458	7,578
Less Intracompany Eliminations	(30,224)	(32,253)	(33,677)	(35,019)	(35,511)	(36,066)
Total Net Revenue	1,410,807	1,189,307	1,285,191	1,544,910	1,847,205	2,098,892
Expenses[1]						
Fuel and Power Cost Recovery (F&PCR)	795,219	510,903	573,852	745,192	978,668	1,145,982
Operations and Maintenance	262,276	294,214	311,787	328,607	348,179	366,548
Total Net Expense	1,057,495	805,117	885,639	1,073,799	1,326,847	1,512,530
Net Available for Debt Service	353,312	384,190	399,552	471,111	520,358	586,362
Debt Service	255,728	278,435	298,388	330,322	360,759	402,107
Debt Service Coverage, Adjusted[2]	1.38x	1.37x	1.33x	1.42x	1.42x	1.44x
Net Revenues After Debt Service	97,584	105,755	101,164	140,789	159,599	184,255
Less:						
Operating Reserves	18,440	23,211	15,804	20,820	21,038	24,466
Infrastructure Reserve	5,437	2,873	1,744	2,619	5,462	8,237
Revenue Funded Capital	71,060	75,818	79,659	112,742	121,616	122,011
Noncash Revenues	2,528	2,676	2,811	2,932	3,056	3,182
Restricted for Capital/Debt Retirement	-	177	146	676	7,427	25,359
Net Available Public Service Funds	-	-	-	-	-	-
Community Services Net Proceeds & Grants	120	1,000	1,000	1,000	1,000	1,000
Net Cash Flow	-	-	-	-	-	-
Capital Expenditures						
Revenue Funded	71,059	75,818	79,659	112,742	121,616	122,009
Debt Funded	417,190	436,147	443,090	444,166	227,363	48,940
Third Party / Proceeds Funded	800	6,403	565	465	315	315
Total Capital	$ 489,049	518,368	523,314	557,373	349,294	171,264

[1] Total Net Revenues and Total Net Expenses are net of intracompany transfers, including hydroelectric payment. Total Revenues include interest income.

[2] Includes adjustments related to F&PCR Revenues for Capital Funding and Purchased Power Capacity payments.

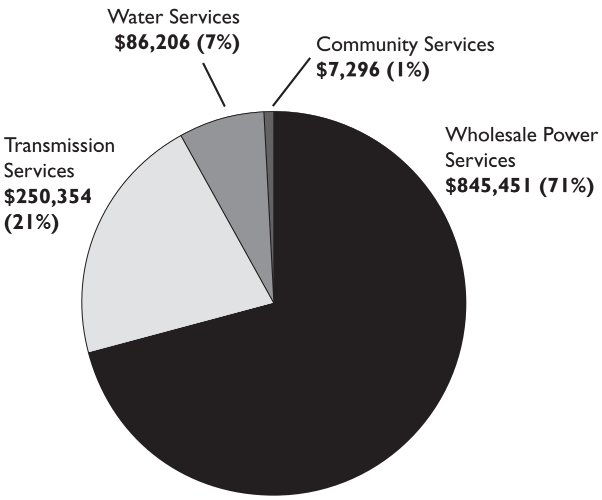
Key Points

- **Total Revenues** decrease $221.5 million (16 percent) from the FY 2009 budget. Fuel revenues decrease $284.3 million due to decreasing fuel costs, but nonfuel revenue increases by $62.8 million in order to recover the cost of increasing debt service and operations and maintenance expense.
- **Total Expenses** decrease by $252.4 million due to decreases in the cost of fuel and purchased power. Nonfuel expense increases $31.9 million to provide needed maintenance at plants and facilities.
- **Debt Service Coverage,** a widely used measure of financial performance, is forecast to be 1.37x in FY 2010 and increasing to 1.44x by FY 2014.
- **Net Revenues After Debt Service** are projected to be $105.8 million available. Of this, $23.2 million is for Operating Reserves, which are used to pay expenses if revenues are interrupted, as established by LCRA Board Policy 301 – Financial Policy.
- **Capital Project Expenditures** come from two major fund sources – Current Revenues ($75.8 million) and Borrowed Funds ($436.1 million) – to pay for projects that will last many decades. Another $6.4 million in capital is projected to be funded by entities other than LCRA. In FY 2010 it primarily represents a grant to upgrade the radio system for public entities.

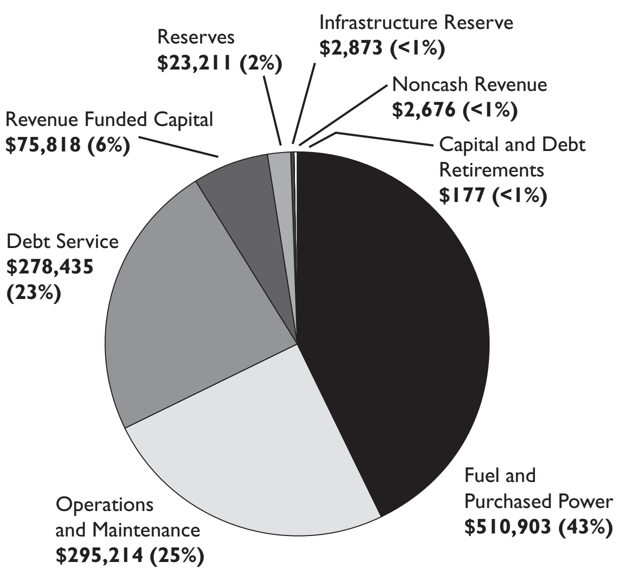
The graph on the left summarizes the sources of LCRA's total projected revenues for FY 2010 and how they will be used during the fiscal year. The graph on the right also reflects revenues and expenses for FY 2010, but it excludes fuel and purchased power revenues and expense. This provides a more detailed look at nonfuel expenses forecasted for the upcoming fiscal year.

LCRA Sources and Uses, FY 2010 (Dollars in Thousands)

Sources $1,189,307

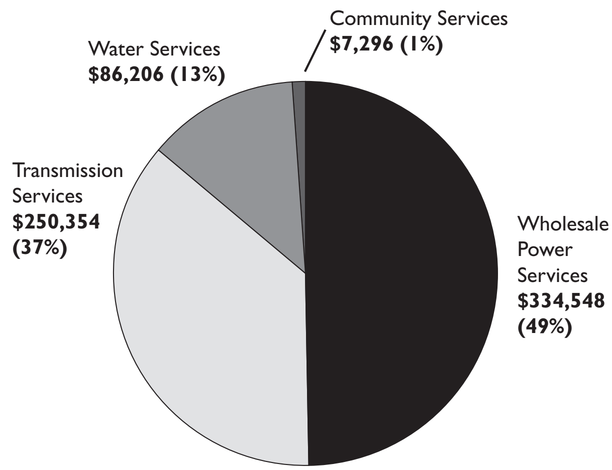


Uses $1,189,307

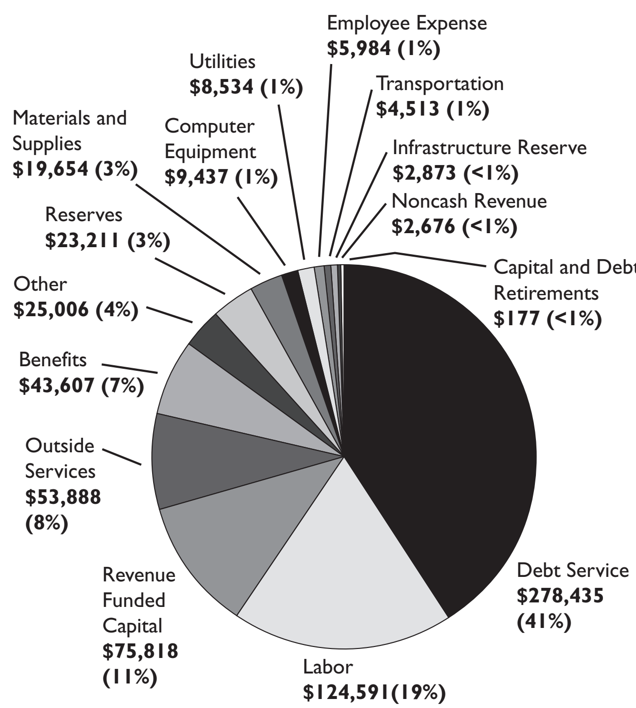


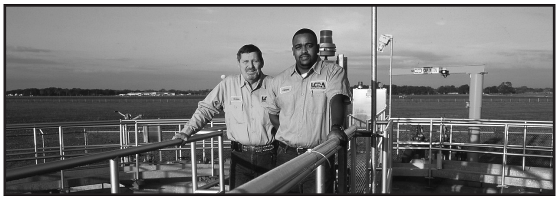
LCRA Sources and Uses, Nonfuel Only, FY 2010 (Dollars in Thousands)

Sources $678,404



Uses $678,404





Key Topics

Rate Impacts

Electric: Electric rates are projected to be lower than forecasted in last year's business plan due to a decrease in forecasted natural gas prices for FY 2010. The volatile nature of fuel commodity prices will be the most significant driver of fuel rates during the fiscal year. Debt service associated with capital investments will continue to be a larger part of the nonfuel rate as work continues on the development of new generation facilities and ongoing upgrades of existing facilities. While FY 2010 forecasts a nonfuel rate increase, LCRA is committed to producing competitively priced, reliable electricity. The investments in capacity additions and maintenance programs in FY 2010 will help meet generation load growth and stabilize costs in future years.

Electric rates are designed to recover the costs of providing wholesale electric power. LCRA does this through two rate components, a fuel and nonfuel rate, that recover LCRA's costs as listed below:

Fuel Rate

Covers costs of:

- Fuels (natural gas, coal, renewables, and purchased power) used to generate electricity
- Managing and transporting these fuels to power plants and fuel storage facilities
- Purchased power that is required when LCRA's generation resources cannot meet customer demands
- Labor for fuel-related activity and risk management

LCRA adjusts the fuel rate periodically to reflect changing fuel, fuel transportation, and purchased power costs.

Nonfuel Rate:

Covers costs of:

- Labor for nonfuel-related activity
- Operations and maintenance
- Debt service and debt service coverage
- Hydroelectric operations
- Expenses charged from Corporate Services
- Contributions to Public Service Fund
- Other nonfuel costs

LCRA combines these rates into a time-of-use pricing structure. This pricing structure is designed to be fair and equitable to all wholesale customers: each customer pays the exact same rate for energy based on when it is used (more for peak times such as summer afternoons, less for off-peak times such as the middle of the night). This pricing structure provides LCRA customers with pricing predictability, and they can use it to send pricing signals to their end-use consumers to encourage conservation.

Transmission: Capital investment has been, and will continue to be, the primary factor driving increases to the transmission cost of service set for LCRA Transmission Services Corporation (TSC) by the Public Utility Commission of Texas (PUC). These capital investments will be for new and upgraded infrastructure in LCRA's electric service area, as well as projects associated with the Competitive Renewable Energy Zones approved by the PUC. Based on the current forecast, LCRA TSC projects its transmission rate to rise from the current rate of $3.78 per billing unit to $6.39 by FY 2014, an increase of nearly 70 percent. These transmission cost of service rates are added together with the costs of other transmission providers in the state and paid by all end users in the Electric Reliability Council of Texas (ERCOT).

Raw Water: Raw water rates are not forecast to change in FY 2010. However, a rate increase of 9.5 percent is projected for calendar year 2011 due to increasing costs of storing, managing, and providing the water. This would raise the current rate of $138 per acre-foot to $151 in 2011. The reservation fee, which is half the firm-water rate, would similarly rise from the current rate of $69 per acre-foot to $75.50 in 2011.

Irrigation Water: Board-approved rate increases of 4 percent a year from FY 2010 through FY 2013 are projected to largely pay for operational costs incurred in providing the water.

Water and Wastewater Utilities: Previously approved rate increases of 15 and 24 percent are included for the West Travis County retail water and wastewater systems, respectively, during FY 2010. Also during FY 2010, the Glenlake Water System includes a 5 percent rate increase, and wholesale contract systems will see cost-of-service increases ranging from 2 to 10 percent.

Parks: Revenues from fees charged at LCRA parks and natural science centers are projected to increase from 3 to 5 percent during FY 2010 and an additional 5 percent each subsequent fiscal year through FY 2014. Revenue projections are based on Board-approved fee adjustments for LCRA parks and natural science centers that went into effect Jan. 1, 2009. The new fees are consistent with recommendations from a 2008 market study that compared fees for LCRA parks and natural science centers to those of other public and private park systems in Central Texas.

"Closed Loop" Budgeting

With the recent extensions of wholesale generation contracts, the concept of "closed loop" budgeting was included as a component of those contracts. This "closed loop" concept provides generation customers contractual assurance that revenues collected through the electric generation rates, with the exception of contributions to the Public Service Fund, will be used for the benefit of the generation system. This practice has been in place for a number of years; however, it is the first time it has been in a contract. LCRA must provide the generation customers an annual accounting for any above-budget financial performance. This concept is also applied to hydroelectric activity and the cost of providing that service, as LCRA's wholesale electric customers pay for the entire cost of accessing that power source. Under the direction of the PUC, LCRA TSC revenues 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 past transmission rate cases, 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.

Generation Resource Plan

Wholesale Power Services' generation resource plan strategy continues to build upon previous plans to provide its wholesale customers with reliable, reasonably priced power services in an environmentally responsible manner. The strategy incorporates the most current view of the wholesale customers' load obligations and key uncertainties such as fuel and market prices, potential environmental regulations, transmission congestion costs, electric market design, new generation opportunities, and generation technology costs. The action plan includes incremental steps to mitigate risk while adding the advantages of fuel diversity and flexibility over the longer term.

Competitive Renewable Energy Zones (CREZ)

The Texas Legislature passed Senate Bill 20 in 2005 initiating the multiyear CREZ process, overseen by the PUC, to significantly increase the availability of renewable energy resources in the state. To accomplish this goal, the PUC directed ERCOT to complete technical studies to assist with selecting the best available zones in the state to site wind generation facilities and to identify a cost-effective plan to connect these zones to the existing transmission grid. After designating zones in West Texas and the Texas Panhandle and validating a plan to construct an estimated $4.9 billion in transmission infrastructure needed to support delivery of wind generation from those zones, the PUC began its process to select transmission service providers (TSPs) to build the needed lines. LCRA TSC, which was involved in providing technical and public policy input throughout all phases of the CREZ process, submitted a detailed proposal to build a portion of the CREZ transmission facilities. Numerous other TSPs, both existing providers and new entrants to ERCOT, also submitted proposals to the PUC. After a lengthy public process that included submitting written and oral testimony to support its proposal, LCRA TSC was selected by PUC in early 2009 to construct, own, and operate about 600 miles of new and upgraded CREZ-related transmission facilities. LCRA TSC will complete these projects before PUC's deadline in calendar year 2013.

Conservation Programs

Water: In the FY 2010 Business Plan, Water Services has included significant new expenses for water conservation. The conservation program has a five-year goal of saving 13,500 acre-feet of raw water per year and a 10-year goal of saving 21,200 acre-feet of raw water per year. In addition, the water conservation plan includes aggressive treated water goals, particularly in the West Travis County Regional Water System area. The cost of this program is $0.4 million in FY 2010, rising to $1.0 million in FY 2014.

Energy: Wholesale Power Services will identify opportunities to partner with its wholesale electric customers on energy efficiency and conservation efforts. In addition to analyzing the results of a third-party study of the conservation programs available and appropriate for the Central Texas region, LCRA will continue to offer a time-of-use pricing structure that electric customers can pass along to consumers to encourage conservation. Also, Wholesale Power Services will continue to sponsor and facilitate the Energy Efficiency Working Group, which provides a forum for wholesale electric customers to share information and work together on energy efficiency and conservation projects and potential partnerships.

Corporate Services' Cost Assignment

The process by which LCRA has charged out costs of corporate support to individual business units has been tested in regulatory proceedings and reviewed by independent consultants. In each situation the process has been deemed reasonable and equitable for each business unit; however, in each instance the level of complexity was raised as an issue. As part of LCRA's efforts for continuous improvement, the process is being modified for FY 2010. This refinement will build upon the foundation of equitable cost sharing found in the old approach, but will improve the transparency and understanding. This modification allows each business unit to easily identify how much each pays for corporate costs. The proposed FY 2010 budgets have removed all corporate expense previously embedded in business unit expense, and are now disclosed in total in the one line item titled "Assigned Corporate Expense."

Compensation and Benefits

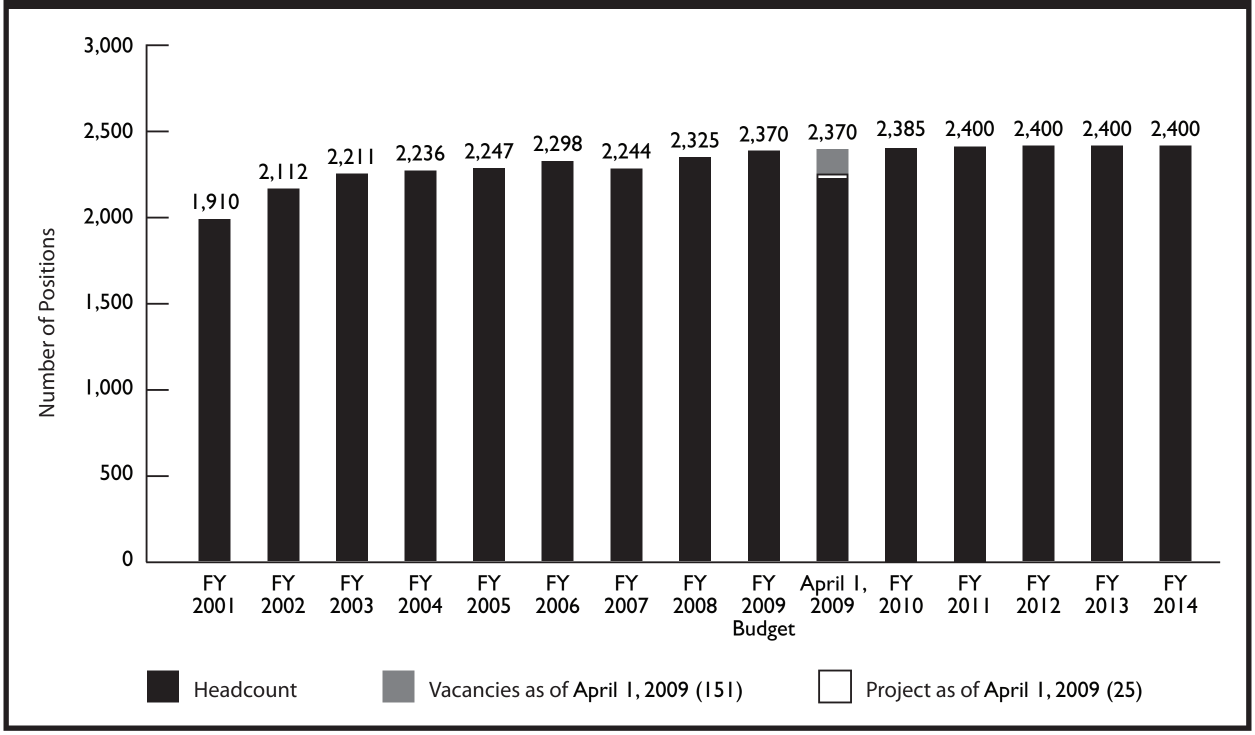
Compensation: LCRA's total estimated labor budget for FY 2010 is $173.4 million, which includes operations and maintenance and capital expenditures. A portion of these costs is charged to Austin Energy for its share of the work at the Fayette Power Project. LCRA's share of total labor is $124.6 million for nonfuel operations and maintenance activity, $5.7 million for fuel activity, and $32.2 million for capital activity.

Benefits: The estimated total benefits budget for FY 2010 is $60.7 million. These costs follow labor expenditures, with LCRA's share being $43.6 million for nonfuel operations and maintenance activity, $2.0 million for fuel activity, and $11.4 million for capital activity. Benefits are budgeted at 35 percent of payroll for FY 2010, with the plan projecting annual increases in the adder, reaching 37.5 percent of payroll by FY 2014.

Total Rewards

The Total Rewards review includes compensation and benefits that employees receive from their employment with LCRA. In fall 2008 LCRA began a comprehensive Total Rewards study to determine whether LCRA's compensation and benefits package is affordable and sustainable; offers appropriate compensation compared to practices of other employers with whom LCRA competes for talent; and reinforces a high-performance culture.

LCRA Total Number of Positions, FY 2001 – FY 2014



LCRA budgeted 2,370 positions for FY 2009. As of April 1, 2009, LCRA's work force totaled 2,219 (including 25 project employees), with the remaining 151 positions vacant. LCRA's overall staffing levels are projected to remain relatively stable through FY 2014.

Public Service Fund

The Public Service Fund is the mechanism LCRA uses to fund those statutory programs and activities that do not generate sufficient revenues to fully recover their costs. An element of the cost of service for LCRA's generation, transmission, and water operations includes contributions to this fund.

Wholesale Power Services' contributions to the Public Service Fund were originally set at $20 million in calendar year 2007 and adjusted each year at a rate indexed to load growth. Contributions from GenTex 1 are based on 3 percent of budgeted revenues. Transmission Services' annual contributions are also 3 percent of its total budgeted revenue. Contributions from Water Services are based on 3 percent of its budgeted revenues with the exceptions of revenues associated with irrigation services and pass-through transactions from service providers. Water Services' contributions also exclude intracompany revenues associated with LCRA's hydroelectric operations.

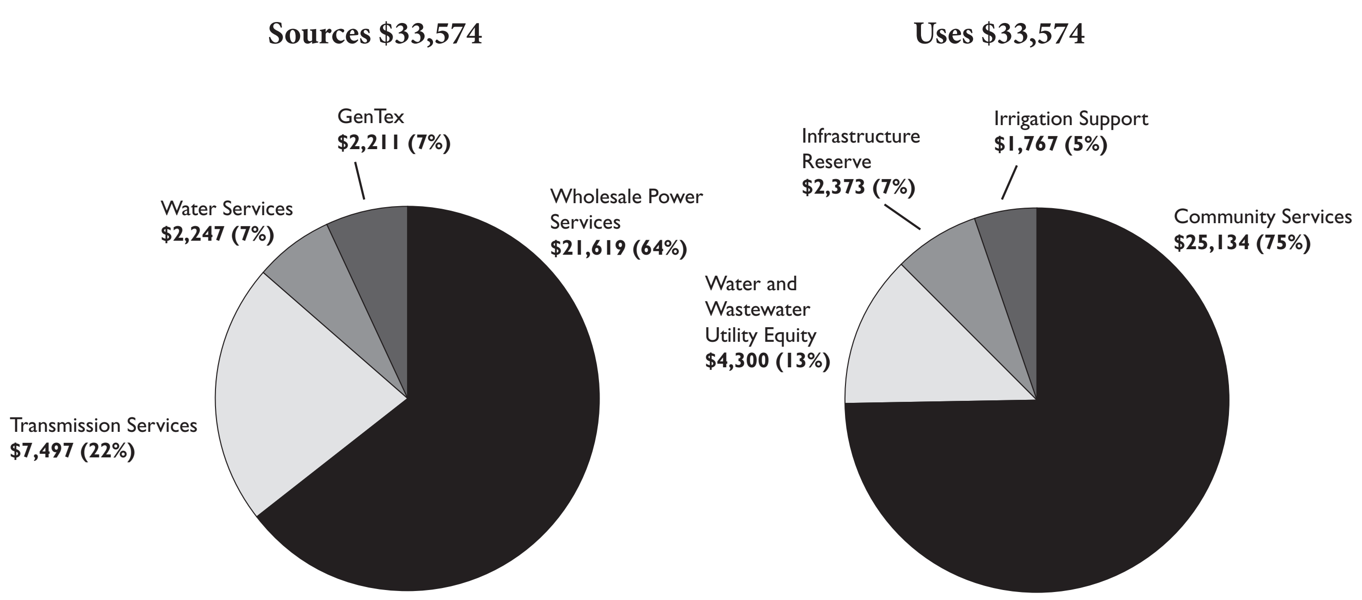
Sources: As shown by the table and the graph below, 71 percent of the $33.6 million budgeted for the Public Service Fund in FY 2010 is projected to come from Wholesale Power Services and GenTex Power Corporation. Transmission Services is projected to contribute approximately 22 percent, while Water Services' share is 7 percent.

Uses: Of the $33.6 million proposed for FY 2010, about 75 percent will be allocated to Community Services projects and programs. Approximately 13 percent will support water and wastewater utilities, and another 5 percent will support irrigation capital improvements. Consistent with prior years' allocation, staff is recommending that any remainder be used for the infrastructure reserve.

LCRA Public Service Fund, FY 2009 – FY 2014 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Sources:						
Wholesale Power Services	$ 20,818	21,619	21,943	22,250	22,773	23,671
GenTex	3,722	2,211	2,709	3,047	3,257	3,818
Transmission Services	7,236	7,497	7,499	9,366	10,332	12,330
Water Services	1,920	2,247	2,278	2,450	2,611	2,830
Subtotal	33,696	33,574	34,429	37,113	38,973	42,649
Uses:						
Community Services	19,536	25,134	27,894	29,756	29,915	32,067
Infrastructure Reserve	4,937	2,373	1,244	2,119	4,962	7,737
Irrigation Support	2,023	1,767	1,986	2,113	1,471	1,320
W/WW Utility Equity	7,200	4,300	3,305	3,125	2,625	1,525
Subtotal	33,696	33,574	34,429	37,113	38,973	42,649
Net Available Public Service Funds:	$ -	-	-	-	-	-

Sources and Uses, LCRA Public Service Fund, FY 2010 (Dollars in Thousands)



Wholesale Power Services

Contribution to LCRA

- Wholesale Power Services is responsible for providing reliable, competitively priced electricity for LCRA's 43 wholesale electric customers from LCRA power plants and purchased power. The business unit also provides LCRA wholesale electric customers with services that promote wise and efficient energy use by Central Texas electric consumers.

What's Ahead for FY 2010?

- Continue to work with its wholesale electric customers to extend power contracts beyond the current 2016 expiration date to 2041.
- Winchester Power Park is scheduled to be operational in FY 2010.
- Construction continues on the Sandy Creek Energy Station, which is scheduled to be operational in FY 2013.

What's Changed from FY 2009?

- Projected revenues for FY 2010 will be 21 percent lower, due to the decrease in fuel costs as compared to the previous year's budgets.
- Debt service is expected to increase by 20 percent, due in large part to investments in additional generating capacity and the addition of pollution-control technology at the Fayette Power Project.

Revenue Analysis

In FY 2010, Wholesale Power Services (WPS) operating revenues of $845 million are $231 million, or 21 percent, lower than last year's budget. This decrease reflects a fuel revenue decrease of $284 million and a nonfuel revenue increase of $53 million. For the FY 2011–2014 horizon, fuel revenue increases are a product of increased load and higher forecasted fuel and purchased-power prices. Nonfuel revenue increases over this same period are primarily the result of increasing debt service attributed to WPS projected capital spending.

Expense Analysis

Operating expenses in FY 2010 of $641 million are $281 million, or 30 percent, lower than last year's budget. The primary driver of this decrease is fuel expenses and purchased-power decreases of $284 million due to lower forecasted natural gas prices. Nonfuel operations and maintenance expenses, including assigned corporate expense, increase by $17 million over last year's budget primarily due to increases associated with maintenance projects at LCRA's generating facilities. In FY 2010, debt service payments of $125 million are $21 million, or 20 percent, greater than last year's plan. Increases in debt service payments throughout this business plan horizon reflect capital spending associated with the addition of the Winchester Power Park peaking unit, LCRA's 100-megawatt ownership investment in the Sandy Creek Energy Station, and the addition of pollution-control technology at the Fayette Power Project. Additionally, debt service coverage is included in the nonfuel revenue requirement to achieve a targeted 1.25x debt service coverage level. Projected capital expenditures for FY 2010 are $189 million and are $534 million over the five-year plan period.

Summary

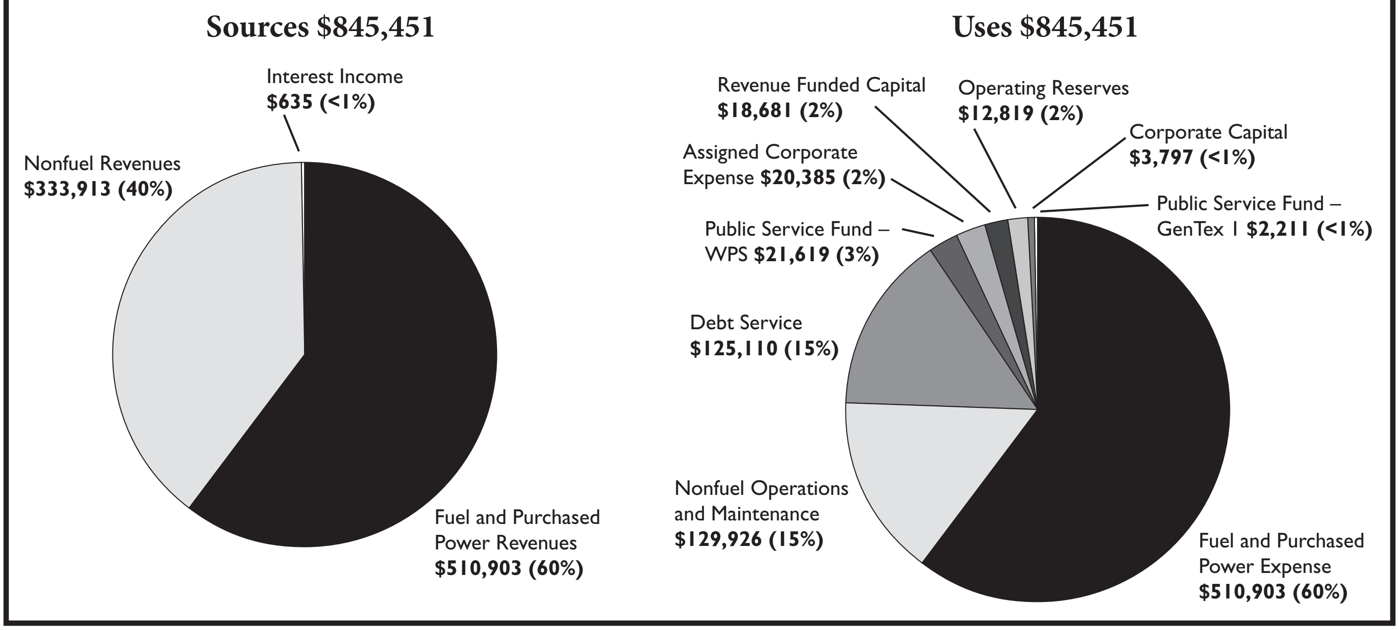
While costs associated with WPS capital projects result in an increase in the nonfuel cost component of LCRA's wholesale price, these investments help WPS maintain a competitive position compared to the market over the long term. The addition of the peaking unit reduces customers' exposure to volatile market prices for purchased power, and the coal-fueled Sandy Creek Energy Station adds additional lower-cost baseload power to LCRA's generating portfolio. These capacity additions offer further generating flexibility and technology diversity to the LCRA portfolio.

Wholesale Power Services and Affiliates Operating Budget [1], FY 2009 – FY 2014 (Dollars in Thousands)

	Budgeted	Proposed	Forecast			
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues						
Sale of Electricity:						
Nonfuel Revenues	$ 277,349	330,824	359,753	374,942	401,924	413,211
F&PCR Revenues [2]	775,163	505,026	566,323	737,437	970,680	1,137,755
Total Sales of Electricity	1,052,512	835,850	926,076	1,112,379	1,372,604	1,550,966
Other Revenues - F&PCR [3]	20,056	5,877	7,529	7,755	7,988	8,227
Other Revenues - WPS Nonfuel [4]	3,189	3,089	3,114	3,114	3,114	3,114
Total Revenue	1,075,757	844,816	936,719	1,123,248	1,383,706	1,562,307
Expenses						
Net F&PCR and Affiliate Fuel Expenses	795,219	510,903	573,852	745,192	978,668	1,145,982
Total Nonfuel Operations and Maintenance	126,820	129,926	141,146	148,225	157,528	164,517
Total Wholesale Power / Affiliate Expense	922,039	640,829	714,998	893,417	1,136,196	1,310,499
Net Operating Margin	153,718	203,987	221,721	229,831	247,510	251,808
Add: Interest Income	7,566	635	2,236	3,279	3,859	3,883
Less: Assigned Corporate Expense [5]	6,327	20,385	22,342	23,724	25,414	24,366
Public Service Fund - WPS	20,818	21,619	21,943	22,250	22,773	23,671
Public Service Fund - GenTex 1	3,722	2,211	2,709	3,047	3,257	3,818
Net Revenues Available for Debt Service	130,417	160,407	176,963	184,089	199,925	203,836
Total Debt Service	104,332	125,110	138,929	145,233	154,500	157,678
Debt Service Coverage, Adjusted [6]	1.25x	1.25x	1.25x	1.25x	1.29x	1.29x
Debt Service Coverage w/o Purchased Power [7]	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x
Net Revenue After Debt Service	26,085	35,297	38,034	38,856	45,425	46,158
Less:						
Operating Reserves	9,580	12,819	9,141	4,574	6,524	2,766
Corporate Capital	3,235	3,797	3,707	3,492	2,882	2,882
Revenue Funded Capital	13,270	18,681	25,186	30,790	28,810	40,510
Restricted for Capital/Debt Retirement	-	-	-	-	7,209	-
Net Cash Flow	-	-	-	-	-	-
Capital Expenditures						
Revenue Funded	13,270	18,681	25,186	30,789	28,810	40,510
Debt Funded	262,870	170,532	138,175	72,145	-	8,717
Prior-Year Available Funds	-	-	-	-	-	-
Total Capital	$ 276,140	189,213	163,361	102,934	28,810	49,227

[1] Includes affiliate GenTex Power Corporation.
[2] F&PCR stands for Fuel and Power Cost Recovery.
[3] Other Revenues - F&PCR is primarily composed of revenue from the sale of ancillary services to third parties, and net transmission congestion rights revenues from ERCOT.
[4] Other Revenues - WPS Nonfuel is primarily composed of fly ash sales and oil and gas royalties.
[5] Beginning in FY 2010, all Corporate Expense is assigned in a single line item rather than embedded in Business Unit expense as described on page 10 of this plan.
[6] Includes adjustments related to F&PCR Revenues for Capital Funding, and GenTex Capital Funding.
[7] In FY 2013 and FY 2014, excludes $6.8 million related to the purchased power component of the Sandy Creek plant project.

Wholesale Power Services Sources and Uses, FY 2010 (Dollars in Thousands)



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Transmission Services

Contribution to LCRA

- Transmission Services provides services to LCRA Transmission Services Corporation (TSC), which owns transmission, transformation, and metering assets and is helping upgrade the transmission network in the Electric Reliability Council of Texas (ERCOT) region. LCRA TSC has no staff. LCRA provides or procures all necessary services required to construct, operate, and maintain LCRA TSC's system.
- The Transmission Services business unit also provides construction, maintenance, engineering, and other unregulated services to LCRA's wholesale electric customers and other external customers, as well as to LCRA business units.

What's Ahead for FY 2010?

- 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).
- Continue operations and maintenance activities to fulfill the goal of keeping LCRA TSC's transmission and transformation system available and providing service to customers.

What's Changed from FY 2009?

- LCRA TSC's FY 2010 Capital Improvement Plan includes significant increases in capital investment. CREZ-related transmission projects were budgeted as future projects for LCRA TSC in last year's plan, whereas now they have been awarded by the PUC, approved by the LCRA TSC Board, and integrated into the capital plan with scheduled completion dates ranging from FY 2010 to 2014.
- Operations and maintenance costs are budgeted to increase to reflect the need for increased transmission system maintenance, as well as increases in taxes and lease payments.

Revenue Analysis

Transmission Services forecasts collecting revenues of $250 million in FY 2010, of which $237 million comes from LCRA TSC for provision of regulated transmission, transformation, and metering services. (Refer to the LCRA TSC FY 2010 Business Plan for additional details on its operating budget.) Unregulated customer services accounts for the remaining $13 million in revenues. Total Transmission Services revenues are expected to be $9 million, or 3.6 percent, higher than the $241 million budgeted for revenues in FY 2009.

LCRA TSC's revenues are collected from all customers in ERCOT based upon rates that are established and approved by the PUC. LCRA TSC seeks rate increases at the PUC through regulatory filings which can take anywhere from two to 12 months to complete. Approved rates are charged to customers using a billing determinant established in the four summer months based upon average peak demand for electricity.

LCRA TSC rates increased most recently in October 2008. Higher revenues for FY 2010 as compared to FY 2009 are the result of that rate being in place for a full fiscal year. This rate impact will be partially offset by forecasted lower average demand for electricity due to the slowdown in the Texas economy.

LCRA TSC has no plans to increase its rates during FY 2010 but expects to file an application to increase its rates in a full rate case proceeding in early FY 2011 (see graph on page 21) based on FY 2010 actual expenses and scheduled debt service. LCRA TSC's next rate increase is expected to be in place at the beginning of FY 2012.

Expense Analysis

Transmission Services has budgeted $106 million of expenses in FY 2010, of which $93 million is needed to operate and maintain the transmission facilities owned and leased by LCRA TSC. (Refer to the LCRA TSC FY 2010 Business Plan for additional details on its operating budget.) Unregulated customer services expenses are budgeted at $11 million in FY 2010.

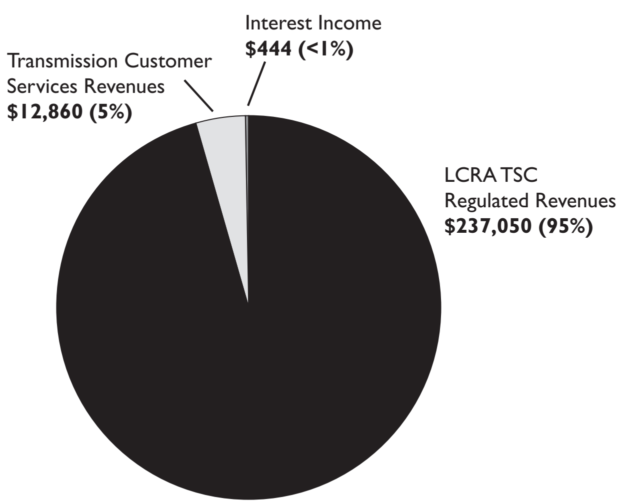
Total expenses for FY 2010, including assigned corporate expense and Public Service Fund contribution, increase $9.4 million as compared to FY 2009. This increase is driven primarily by expected increases in nondiscretionary items such as property taxes and payments to transmission facility lease participants. Additional costs as compared to the previous year's budget are related to required transmission right of way maintenance and enhancements to meet North American Electric Reliability Corporation and ERCOT reliability standards.

Summary

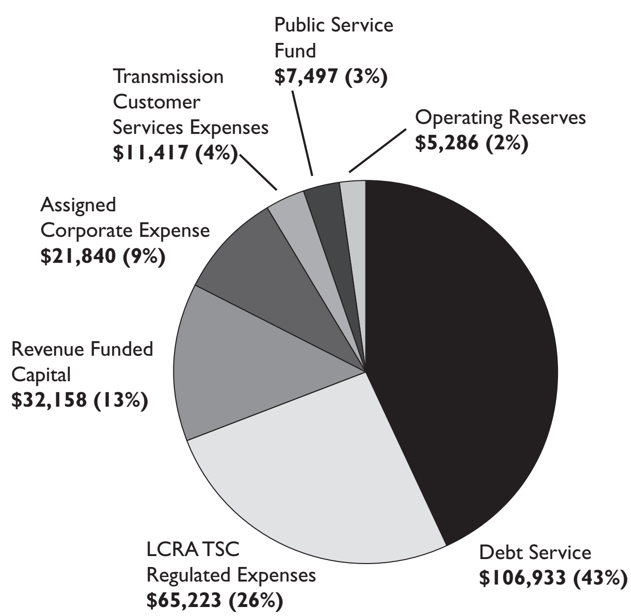
Safe and reliable access to the bulk transmission system is the primary function of LCRA TSC with the FY 2010 Business Plan funding the required operational, maintenance, and capital construction activity to meet this objective. LCRA TSC's capital plan calls for putting more than $1.3 billion of new transmission system facilities into service over the five-year planning horizon. Projects in Central Texas account for about 40 percent of those total capital completions. In addition to the continued investment in the Central Texas service area, LCRA TSC also will participate in the major CREZ-related projects in the Hill Country and West Texas. The FY 2010 Business Plan is the first to fully integrate the capital investment, financial, and rate impacts of the PUC's CREZ initiative.

Transmission Services Sources and Uses, FY 2010 (Dollars in Thousands)

Sources $250,354



Uses $250,354



Transmission Services Operating Budget, FY 2009 – FY 2014 (Dollars in Thousands)

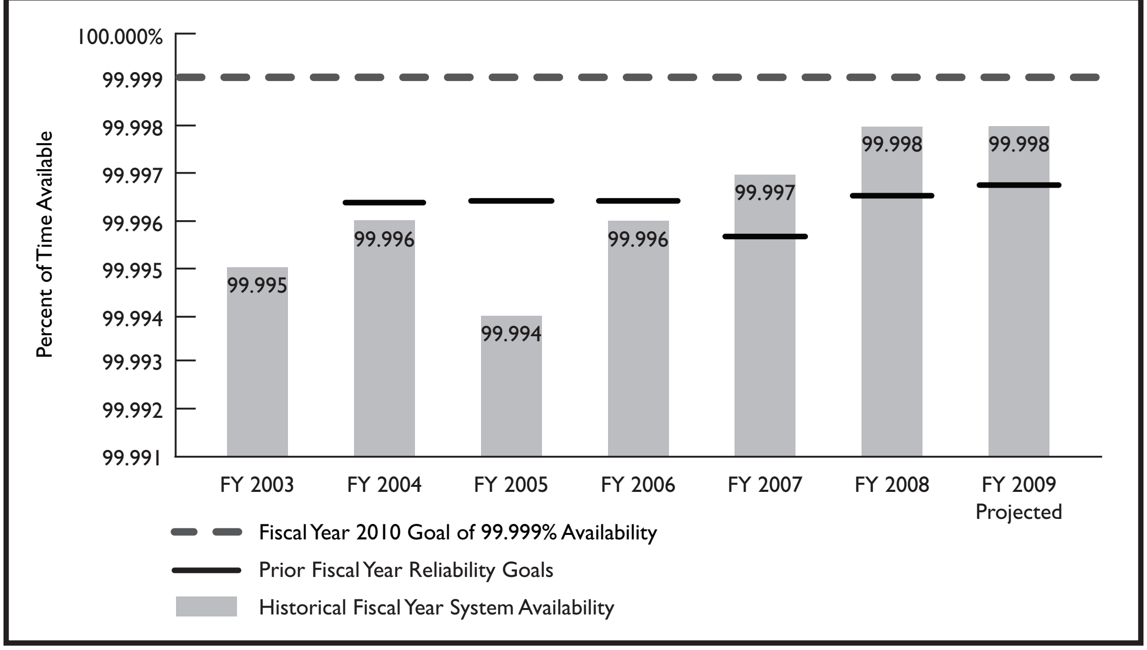
	Budgeted FY 2009	Proposed FY 2010	Forecast FY 2011	FY 2012	FY 2013	FY 2014
LCRA Transmission Services Corporation						
Revenues	$ 231,176	237,050	236,482	298,558	330,640	397,104
Expenses	70,648	65,223	65,910	71,676	77,334	84,911
Net Operating Margin	160,528	171,827	170,572	226,882	253,306	312,193
Transmission Customer Services						
Revenues	10,020	12,860	13,500	13,635	13,771	13,909
Expenses	9,325	11,417	11,987	12,058	12,151	12,254
Net Operating Margin	695	1,443	1,513	1,577	1,620	1,655
Total Transmission Services						
Revenues	241,196	249,910	249,982	312,193	344,411	411,013
Expenses	79,973	76,640	77,897	83,734	89,485	97,165
Net Operating Margin	161,223	173,270	172,085	228,459	254,926	313,848
Add: Interest Income	3,475	444	1,754	2,594	2,886	3,304
Less: Assigned Corporate Expense [1]	9,388	21,840	23,240	23,443	24,569	30,366
Public Service Fund	7,236	7,497	7,499	9,366	10,332	12,330
Net Revenues Available for Debt Service	148,074	144,377	143,100	198,244	222,911	274,456
Debt Service	105,020	106,933	106,933	132,163	148,608	182,970
Debt Service Coverage	1.41x	1.35x	1.34x	1.50x	1.50x	1.50x
Net Revenue After Debt Service	43,054	37,444	36,167	66,081	74,303	91,486
Less:						
Operating Reserves	6,197	5,286	3,044	14,804	11,670	19,686
Revenue Funded Capital	36,857	32,158	33,123	51,277	62,633	46,660
Restricted for Capital/Debt Retirement	-	-	-	-	-	25,140
Net Cash Flow	-	-	-	-	-	-
Capital Expenditures						
Revenue Funded	36,857	32,158	33,123	51,277	62,633	46,660
Debt Funded	112,149	224,597	247,748	339,958	181,437	2,760
Third Party Funded	-	-	-	-	-	-
Total Capital	$ 149,006	256,755	280,871	391,235	244,070	49,420

[1] Beginning in FY 2010, all Corporate Expense is assigned in a single line item rather than embedded in Business Unit expense as described on page 10 of this plan.

Key Points

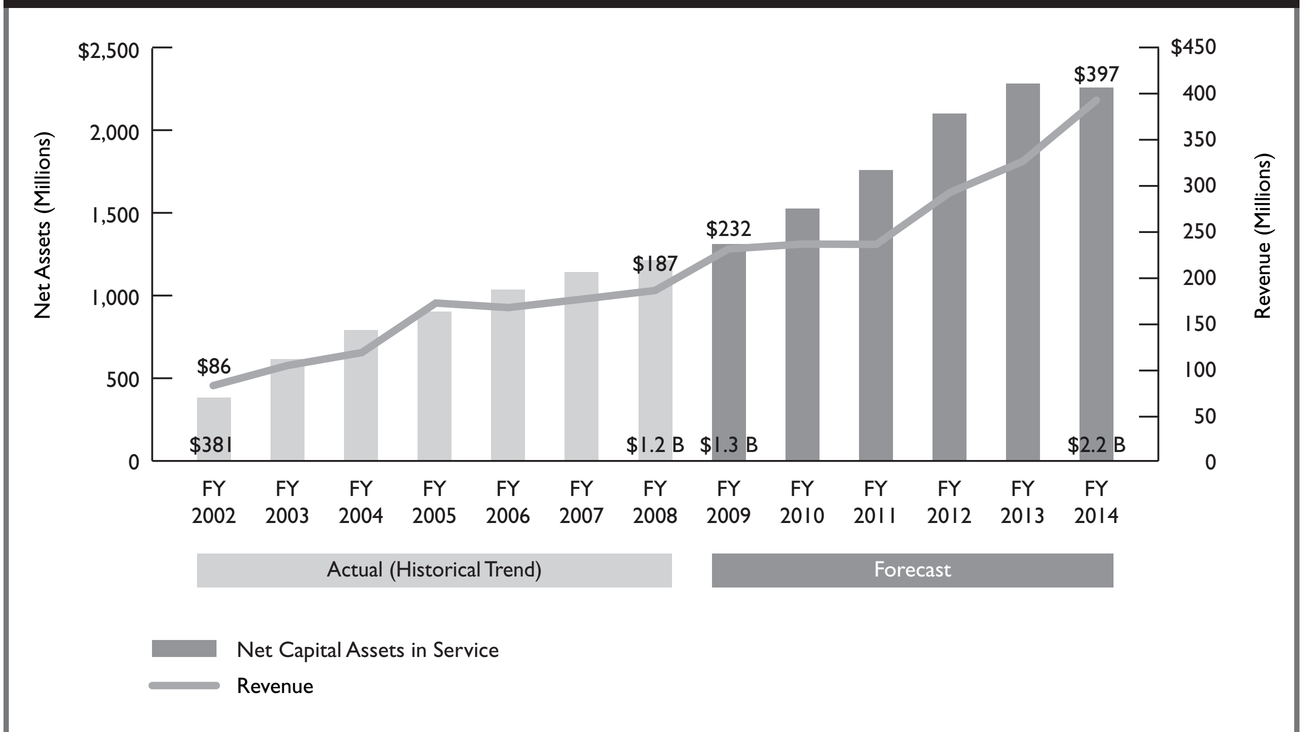
- LCRA TSC revenue projected for FY 2010 of $237 million is $6 million higher than in FY 2009. Revenue growth from charging a full year of LCRA TSC's rate increase approved during FY 2009 will be partially offset by lower forecasted billing units.
- Transmission Customer Services is expected to provide revenue of $12.9 million and an operating margin of $1.4 million in FY 2010. The Customer Service operating margin primarily covers support and Public Service Fund costs allocated to this function.
- LCRA TSC's FY 2010 expenses of $93 million, including allocated Corporate Expense and Public Service Fund, are up by $6.5 million over FY 2009.
- LCRA TSC's capital plan projects placing more than $1.3 billion of new transmission system facilities into service over the next five years.
- LCRA TSC's FY 2010 debt service coverage ratio is forecasted to be 1.35x.

LCRA TSC Total System Availability, FY 2003 – FY 2009 (Projected)



Transmission system availability is a key measure of LCRA TSC's success. This chart shows that LCRA TSC has been steadily improving the percentage of time that its system is available and serving ERCOT ratepayers.

LCRA TSC's Net Capital Assets in Service and Total Revenue, FY 2002 - Forecast FY 2014 (Dollars in Millions)



This chart shows LCRA TSC's historical trend and forecast for total annual revenues and net capital assets in service. These trend lines are closely aligned because incorporating increasing debt service payments for capital assets is the most significant factor driving growth in LCRA TSC's revenue requirement.

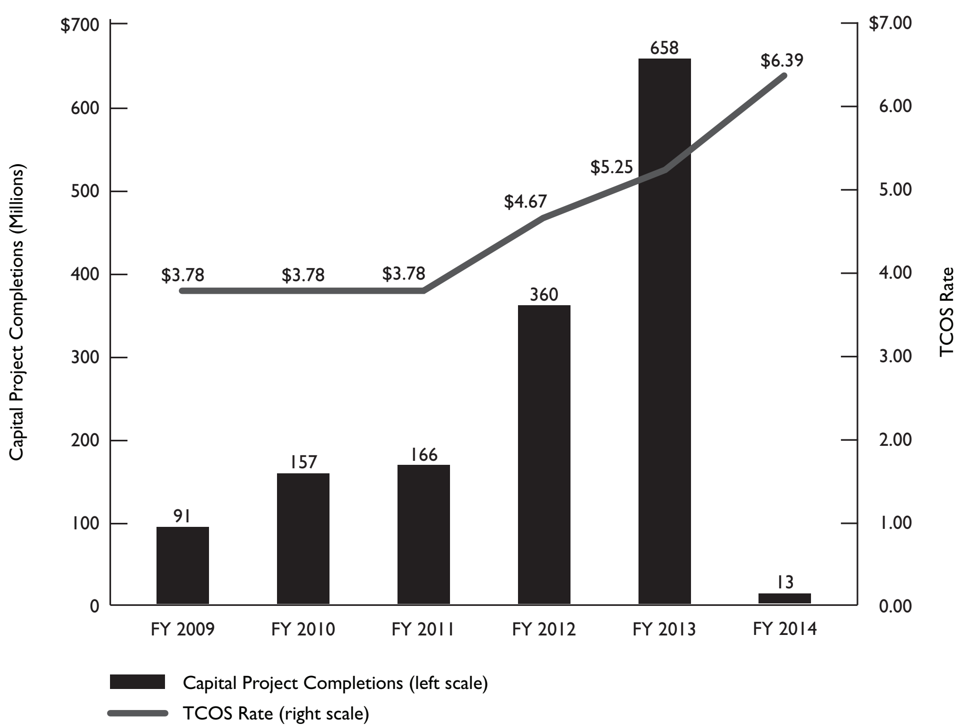
LCRA TSC's Share of ERCOT Transmission Rate

Transmission Service Provider (TSP)	Transmission Rate	% of Total
Oncor Electric Delivery	$7.91	31%
CenterPoint Energy	$4.20	17%
Lower Colorado River Authority	**$3.78**	**15%**
AEP Texas Central	$1.87	7%
San Antonio City Public Service	$1.62	6%
Brazos Electric Cooperative	$1.21	5%
Austin Energy	$1.00	4%
AEP Texas North	$0.77	3%
Texas Municipal Power Agency	$0.69	3%
Other TSPs	$2.08	8%
Total ERCOT Transmission Rate	**$25.13**	**100%**

Source: PUC Docket 36374, 2009 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 15 percent of the total rate. Each retail electric utility, or 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 2009 - 2014



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 is forecasting more than $1.3 billion in capital project completions in the coming five-year planning period.

LCRA TSC will file a TCOS rate case in early FY 2011 with a rate increase expected to be in place by FY 2012. Successive filings in FY 2012 through 2014 will be required to recover increased debt service, debt service coverage, and property taxes associated with the new transmission facilities being placed into service.

Water Services

Contribution to LCRA

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

What's Ahead for FY 2010?

- Continue the development of the long-term water supply plan for the basin.
- Implement the Board-approved Conservation and Drought Management Plan.
- Continue to pursue financial improvements in the Water and Wastewater utilities consistent with Board direction provided at the April 2008 meeting.

What's Changed from FY 2009?

- Growth in Water and Wastewater Utilities is projected to slow over the next two years as a result of economic uncertainty.

Revenue Analysis

Water Services' FY 2010 operating revenues of $118.4 million are $13.0 million or 12 percent higher than the FY 2009 budget. This increase reflects already approved and projected rate increases in all areas. Continued growth in demands for all of Water Services' products and services is expected, although the business plan assumes that Water and Wastewater Utility Services' growth will be slower than last year's budget.

For firm raw water, a proposed rate increase of 9.5 percent on Jan. 1, 2011, to $151 per acre-foot is included in order to carry out LCRA's statutory mission of flood control, water supply, water quality, water conservation and other river management services. In addition, this rate increase is needed in order to fund a large capital project to rehabilitate the floodgates at Buchanan Dam.

The 4 percent per year increase in irrigation rates is largely to keep up with the variable costs of the irrigation operation. These rate increases are Board-approved through 2013. Despite these rate increases as well as recent increases in rice acres farmed, Irrigation Operations does not attain full cost recovery.

Revenues for hydroelectric operations are cost-of-service based and continue to rise primarily as a result of existing debt and future capital improvements. The projected costs are still below the forecasted market value of this service, which is tied to the price of natural gas.

Board-approved rate increases of 15 and 24 percent for retail treated water and wastewater, respectively, for the West Travis County (WTC) system for FY 2010 are included. Single-digit rate increases every other year are included for the WTC water system over the remainder of the plan period. Overall growth in the WTC system living unit equivalents are expected to grow 3 percent in FY 2010, as compared to 9 percent for FY 2010 in last year's plan. Revenues for all wholesale systems are forecast to rise to match cost-of-service.

Expense Analysis

Total expenses (excluding Public Service Fund) in FY 2010 of $60.3 million are $5.0 million higher or 9 percent than FY 2009's budget. The primary reasons for the increase are 1) greater expenses from the Brazos River Authority for operating the utility plants in Williamson County; and 2) Water Services' lower overall capital program, causing a greater portion of costs to be charged to expense rather than capital.

In FY 2010, debt service payments of $38.8 million are greater than the FY 2009 budget by $1.9 million or 5 percent. However, compared to the FY 2010 projection from the FY 2009 Business Plan, debt service is $2.8 million lower due to Water Services' lower capital program. As directed by the Board, payback of previously deferred Water and Wastewater Utility Services debt is scheduled to begin in FY 2011.

Projected capital expenditures are $42.1 million for FY 2010 and $209 million over the five-year plan period. More than $146 million of the planned capital expenditures over the next five years are for water and wastewater utility infrastructure, primarily in the West Travis County region. In addition, the five-year capital plan includes $27 million for the rehabilitation of the floodgates at Buchanan Dam.

Compared to the FY 2009 capital plan, the five-year capital spending projection is down $51 million or 20 percent, reflective of an expectation of slowed Water and Wastewater Utility growth.

Summary

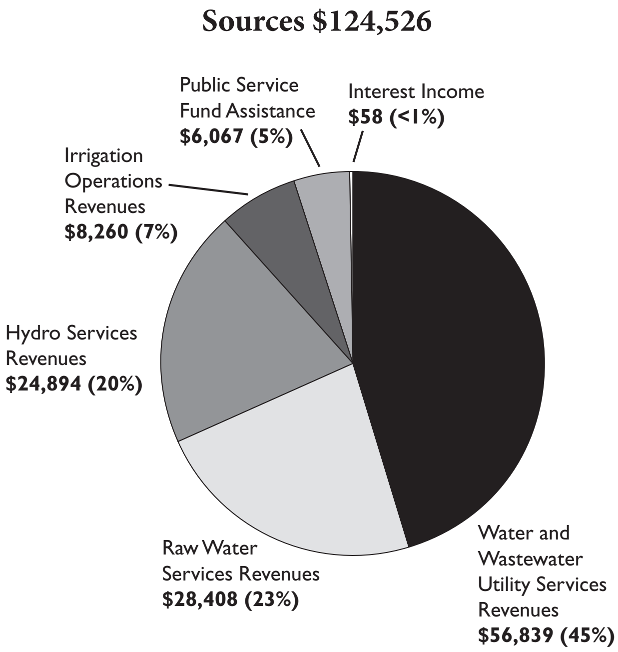
Demands for all Water Services' products and services are expected to remain strong, despite the recent economic downturn affecting Water and Wastewater Utility Services in the near term. While further rate increases are needed to generate the cash required for greater cost recovery, this plan demonstrates Water Services' commitment to delivering quality services in a cost-conscious manner. The total debt service coverage for Water Services is forecast at or above the target 1.25x in all years.

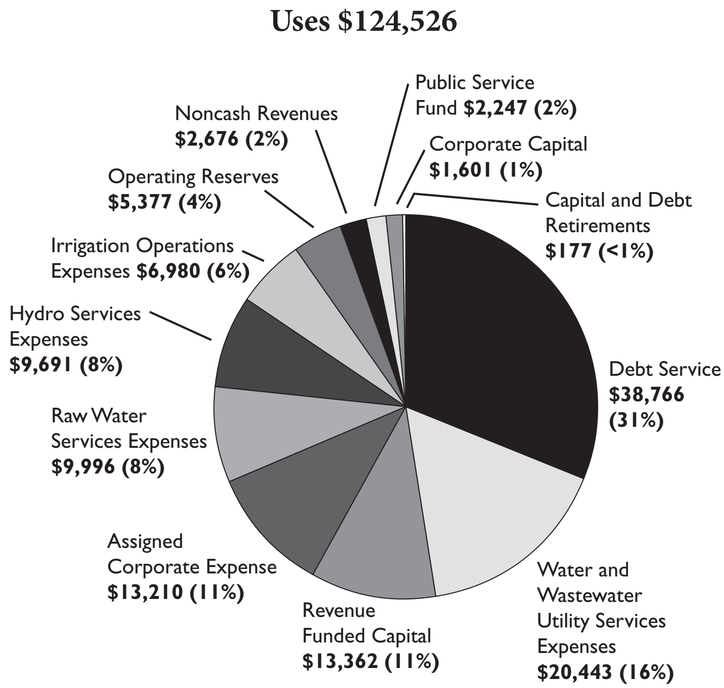
Water Services Operating Budget, FY 2009 – FY 2014 (Dollars in Thousands)

	Budgeted FY 2009	Proposed FY 2010	Forecast FY 2011	FY 2012	FY 2013	FY 2014
River Management						
Revenues	$ 25,716	28,408	29,914	32,671	33,725	34,802
Expenses	12,981	9,996	10,829	11,303	11,886	12,529
Net Operating Margin	12,735	18,412	19,085	21,368	21,839	22,273
Hydro Services						
Revenues	23,496	24,894	26,110	26,680	27,059	27,400
Expenses	10,885	9,691	9,916	10,247	10,590	10,945
Net Operating Margin	12,611	15,203	16,194	16,433	16,469	16,455
Irrigation Services						
Revenues	6,984	8,260	8,581	8,915	9,260	9,602
Expenses	6,545	6,980	7,017	7,255	7,502	7,757
Net Operating Margin	439	1,280	1,564	1,660	1,758	1,845
Water/Wastewater Utility Services						
Revenues	49,210	56,839	56,036	62,597	69,912	74,684
Expenses	20,098	20,443	21,144	21,825	22,529	23,256
Net Operating Margin	29,112	36,396	34,892	40,772	47,383	51,428
Total Water Services						
Direct Revenues	105,406	118,401	120,641	130,863	139,956	146,488
Direct Expenses	50,509	47,110	48,906	50,630	52,507	54,487
Net Operating Margin	54,897	71,291	71,735	80,233	87,449	92,001
Add: Interest Income	792	58	312	412	440	385
Less: Assigned Corporate Expense [1]	4,796	13,210	14,287	15,082	14,702	14,210
Public Service Fund	1,920	2,247	2,278	2,450	2,611	2,830
Net Revenues Available for Debt Service	48,973	55,892	55,482	63,113	70,576	75,346
Debt Service						
Raw Water	5,522	5,751	6,098	6,018	6,357	6,101
Hydro	9,563	10,191	10,759	10,844	10,936	10,994
Irrigation	550	523	523	523	523	523
Water/Wastewater Utility	21,247	22,301	26,948	27,629	31,421	32,997
Total Debt Service	36,882	38,766	44,328	45,014	49,237	50,615
Debt Service Coverage						
Raw Water	1.88x	2.11x	2.05x	2.40x	2.36x	2.56x
Hydro	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x
Irrigation	-0.04x	0.38x	0.86x	0.93x	1.18x	1.41x
Water/Wastewater Utility	1.25x	1.38x	1.08x	1.25x	1.31x	1.37x
Total Water Services Debt Service Coverage	**1.33x**	**1.44x**	**1.25x**	**1.40x**	**1.43x**	**1.49x**
Net Revenue After Debt Service	12,091	17,126	11,154	18,099	21,339	24,731
Less:						
Operating Reserves	4,511	4,877	3,228	794	2,349	1,061
Water Supply Reserve	500	500	500	500	500	500
Corporate Capital	1,844	1,601	1,638	1,500	1,305	1,305
Revenue Funded Capital	11,931	13,362	8,122	16,935	18,006	21,309
Restricted for Capital/Debt Retirement	-	177	146	676	219	219
Noncash Revenues	2,528	2,676	2,811	2,932	3,056	3,182
Plus:						
Public Service Fund Assistance - Irrigation	2,023	1,767	1,986	2,113	1,471	1,320
Public Service Fund Assistance - Water and Wastewater	7,200	4,300	3,305	3,125	2,625	1,525
Net Cash Flow	-	-	-	-	-	-
Capital Expenditures						
Revenue Funded	7,793	10,859	6,198	11,671	9,992	15,001
Impact Fee Funded [2]	4,138	2,503	1,925	5,265	8,014	6,308
Debt Funded	32,569	26,629	24,269	13,115	34,632	28,768
Third Party / Proceeds Funded	800	2,116	565	465	315	315
Total Capital	$ 45,300	42,107	32,957	30,516	52,953	50,392

[1] Beginning in FY 2010, all Corporate Expense is assigned in a single line item rather than embedded in Business Unit expense as described on page 10 of this plan.
[2] Impact fees are 100 percent applied to capital projects.

Water Services Sources and Uses, FY 2010 (Dollars in Thousands)

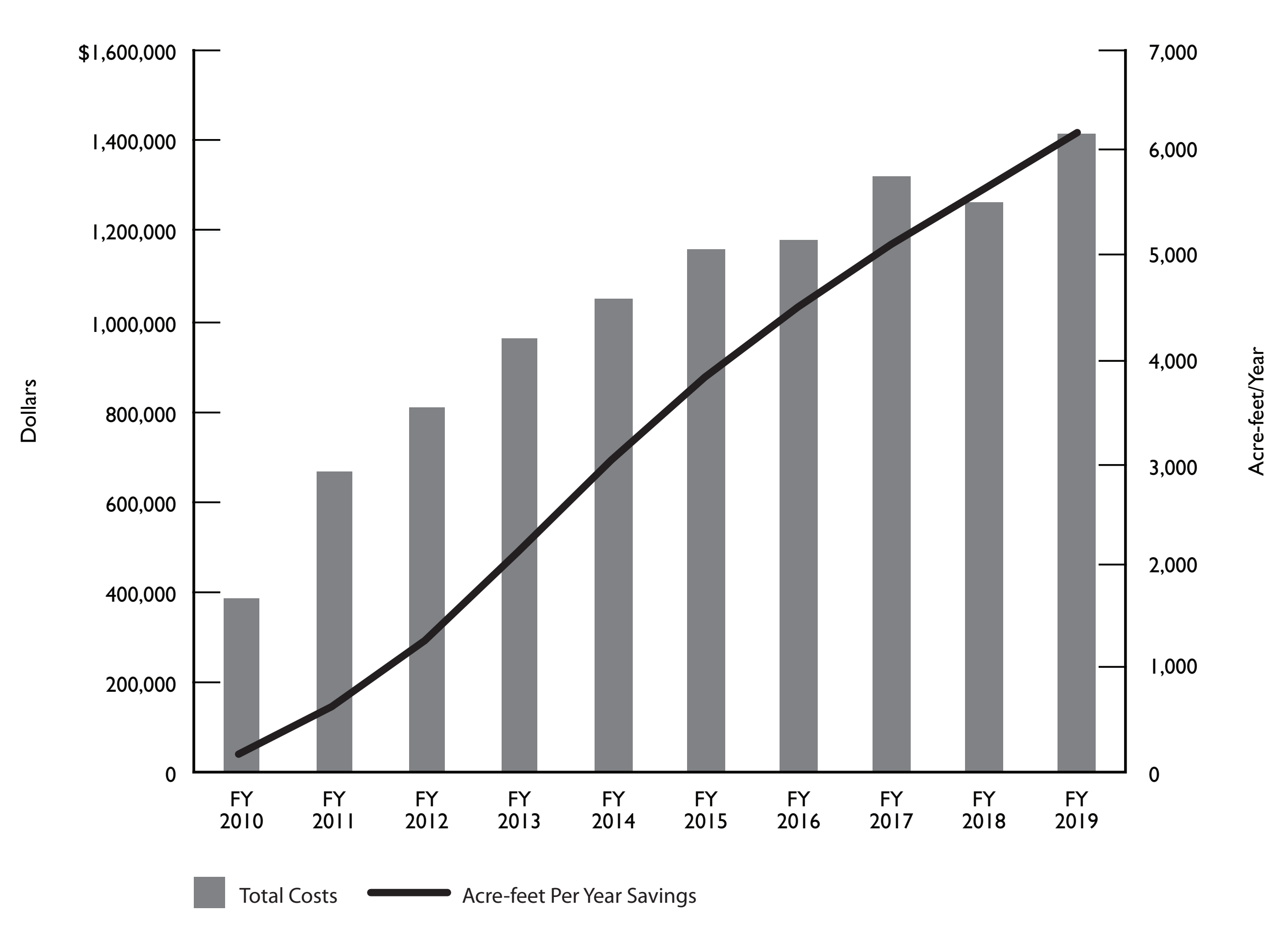




Key Points

- Water and Wastewater Utility Services revenues are down in all years compared to last year's plan due to expected slower growth over the next two years.
- Debt service coverage is at or above the minimum target of 1.25x in all years, despite slowed growth affecting Water and Wastewater Utility Services, particularly in FY 2011.
- Capital spending is down compared to the prior year's capital plan, reflective of slowed near-term growth; however, this shifts more overhead and other allocated costs to expense rather than capital.

Municipal Water Conservation Summary FY 2010 - FY 2019



This chart shows that LCRA expects to save as much as 6,000 acre-feet (nearly 2 billion gallons) of water per year by FY 2019 through its water-conservation programs. As new conservation programs are implemented, the amount of water savings increases over time.

Community Services

Contribution to LCRA

- Community Services provides access and recreational opportunities for the public to the lower Colorado River and its tributaries and reservoirs through its 42 parks and three natural science centers. The business unit is responsible for a Public Safety Department that safeguards LCRA parks, lakes, and facilities. Community Services also provides community and economic development assistance to LCRA service-area communities; an environmental laboratory that provides services to state agencies, cities, and the general public, as well as to LCRA power plants and water operations; and conservation services for the more than 16,000 acres of LCRA land that is not dedicated to its electric or water operations.

What's Ahead for FY 2010?

- Community Services will begin the planning process for the development of parks in San Saba and Blanco counties, fulfilling the Colorado River Trail vision of providing an LCRA park in each of LCRA's 10 statutory counties.
- The Pedernales River Nature Park in Blanco County will be open for limited day use in FY 2010, requiring additional resources in park operations.

What's Changed from FY 2009?

- Acceleration of soil conservation efforts to meet the FY 2010 goal of clearing an additional 7,000 acres of privately owned land.
- Deferral of the Muleshoe Bend Park capital project on Lake Travis until potable water can be provided to the site.
- The addition of two Public Safety Rangers for lake patrol on the Highland Lakes.
- Growth in the Environmental Laboratory Services to meet the additional contract work related to the State of Texas' safe drinking water programs.

Revenue Analysis

Community Services operations are expected to increase 7 percent ($7.3 million) in FY 2010, compared to $6.8 million in FY 2009. Revenue-generating activities include Environmental Laboratory Services, LCRA's three natural science centers and nature parks, marina and boat dock fees, parks and recreation area user fees, ground lease revenues, and soil conservation grants. These revenues reduce the amount of public service funds needed to carry out programs and capital projects.

Expense Analysis

Operating costs are expected to be $25.2 million in FY 2010, which is $2.9 million (13 percent) higher than FY 2009's operating costs. The primary drivers of the operating cost increase include:

- Growth in park operations, conservation, Environmental Laboratory Services, and the additional security on the Highland Lakes account for $2.3 million of the increase based on additional demands for public services. These areas represent $13.6 million (54 percent) of the total operating expense budget.
- The allocation of corporate expense to Community Services increased by $0.6 million, compared to FY 2009 allocations. Community Services has always received its share of corporate operating and maintenance expenses. Total corporate allocations account for $5.4 million (21 percent) of the operating budget.

Summary

In order to meet the increasing demands and needs of the public, the five-year plan projects Community Services' share of the Public Service Fund assistance to grow at about a 6 percent average per year during FY 2010-2014, the same average annual growth as the Public Service Fund. Capital expenditures increase slightly after FY 2010, reflecting improvements to existing LCRA parks, mainly those located along upper Lake Travis.

Community Services Operating Budget, FY 2009 – FY 2014 (Dollars in Thousands)

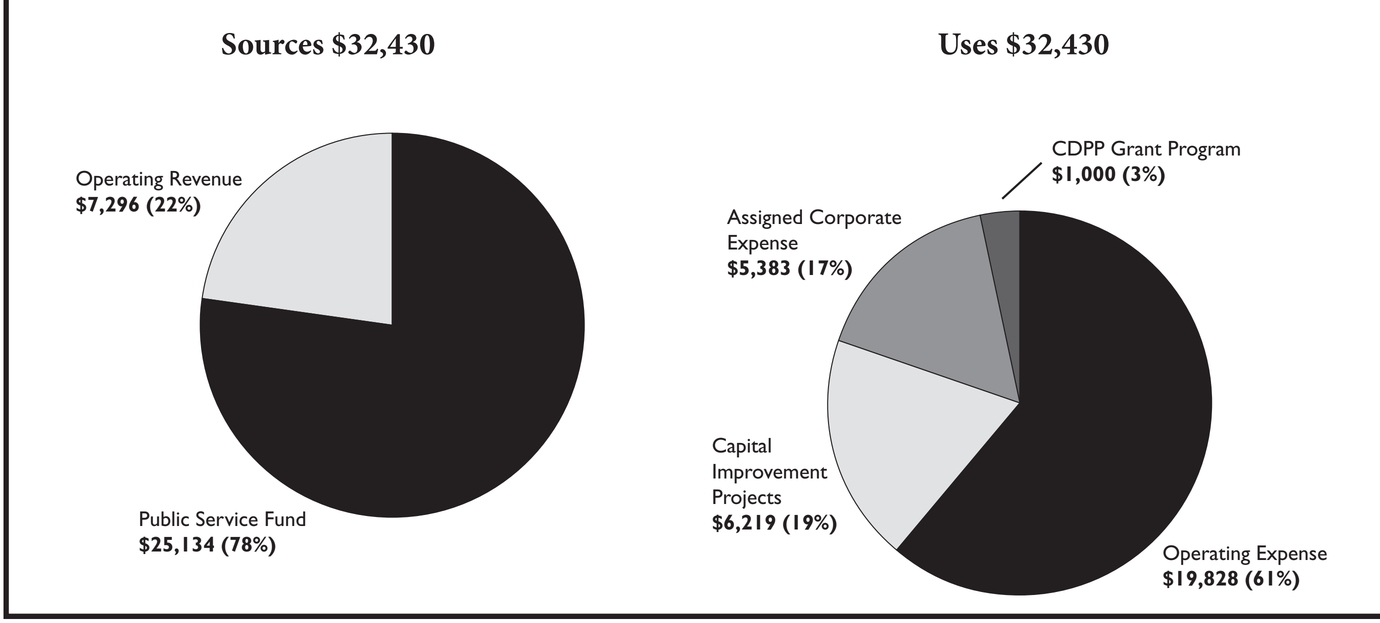
	Budgeted FY 2009	Proposed FY 2010	Forecast FY 2011	FY 2012	FY 2013	FY 2014
Park Operations						
Operating Revenue	$ 388	470	484	499	514	529
Operating Expense	3,044	3,404	3,540	3,681	3,829	3,981
Net Funding Requirement	(2,656)	(2,934)	(3,056)	(3,182)	(3,315)	(3,452)
Natural Science Centers						
Operating Revenue	968	968	968	968	968	968
Operating Expense	3,433	3,438	3,556	3,699	3,847	4,001
Net Funding Requirement	(2,465)	(2,470)	(2,588)	(2,731)	(2,879)	(3,033)
Natural Resource Services						
Operating Revenue	374	218	100	100	100	100
Operating Expense	2,918	2,673	2,699	2,807	2,919	3,036
Net Funding Requirement	(2,544)	(2,455)	(2,599)	(2,707)	(2,819)	(2,936)
Community Assistance Services						
Operating Revenue	0	-	-	-	-	-
Operating Expense	1,937	1,882	1,949	2,027	2,108	2,193
Net Funding Requirement	(1,937)	(1,882)	(1,949)	(2,027)	(2,108)	(2,193)
Public Safety						
Operating Revenue	608	690	623	623	623	623
Operating Expense	4,570	3,757	3,894	4,050	4,212	4,380
Net Funding Requirement	(3,962)	(3,067)	(3,271)	(3,427)	(3,589)	(3,757)
Environmental Laboratory Services						
Operating Revenue	4,500	4,950	5,049	5,150	5,253	5,358
Operating Expense	3,905	3,776	3,970	4,129	4,295	4,466
Net Funding Requirement	595	1,174	1,079	1,021	958	892
Manage and Support Business Activities						
Operating Revenue	-	-	-	-	-	-
Operating Expense	1,672	898	938	975	1,014	1,055
Net Funding Requirement	(1,672)	(898)	(938)	(975)	(1,014)	(1,055)
Total Community Services						
Operating Revenue	6,838	7,296	7,224	7,340	7,458	7,578
Operating Expense	21,479	19,828	20,546	21,368	22,224	23,112
Net Funding Requirement	(14,641)	(12,532)	(13,322)	(14,028)	(14,766)	(15,534)
Assigned Corporate Expense [1]	853	5,383	5,690	5,979	6,169	6,190
Operating Funding Requirement	(15,494)	(17,915)	(19,012)	(20,007)	(20,935)	(21,724)
Funding Requirement Analysis						
Operating Funding Requirement	15,494	17,915	19,012	20,007	20,935	21,724
Capital Improvement Projects	3,922	5,358	6,980	7,936	7,263	8,626
Corporate Capital Allocation	-	861	902	812	717	717
CDPP Grant Program	1,000	1,000	1,000	1,000	1,000	1,000
Net Proceeds	(880)	-	-	-	-	-
Total Funding Requirement	19,536	25,134	27,894	29,755	29,915	32,067
Capital Expenditures						
Revenue Funded	3,922	5,358	6,980	7,936	7,263	8,626
Debt Funded	-	-	-	-	-	-
Prior-Year Available Funds	-	-	-	-	-	-
Total Capital	$ 3,922	5,358	6,980	7,936	7,263	8,626

[1] Beginning in FY 2010, all Corporate Expense is assigned in a single line item rather than embedded in Business Unit expense as described on page 10 of this plan.

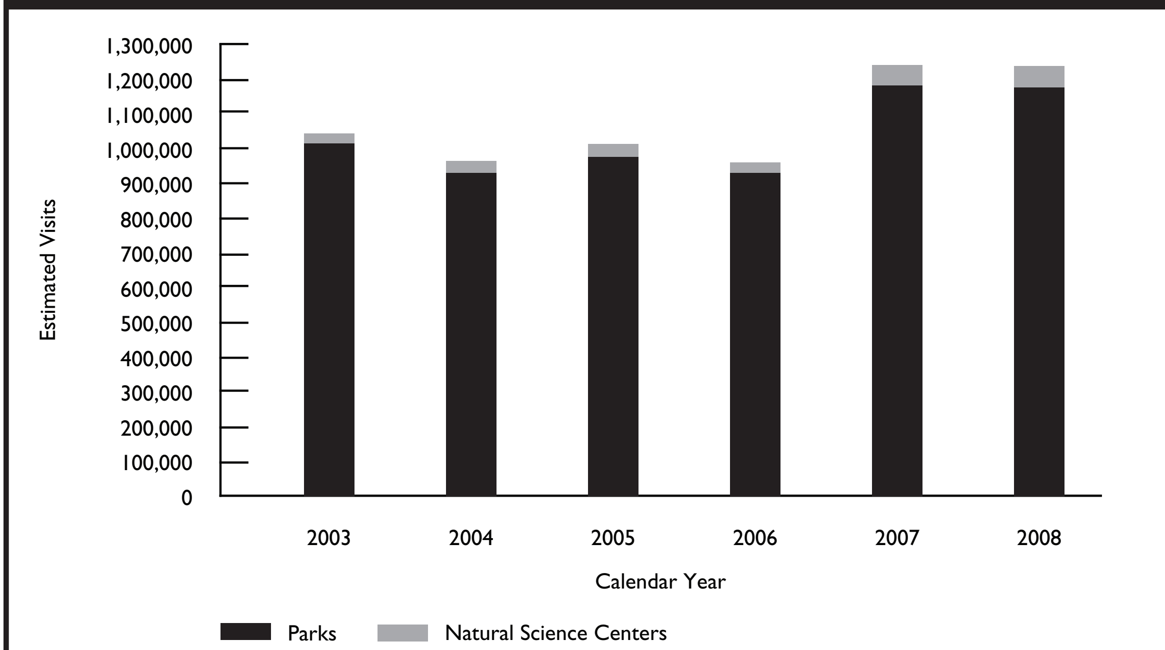
Key Points

- Capital plan focuses on revenue-generating projects to meet the increasing demand for park/natural science center visitations and the increasing growth in the LCRA service area.
- Grant dollars for the Community Development Partnership Program have been added back to the plan, in accordance with the board's instructions last year.
- In FY 2010, Community Services is being allocated a portion of the corporate revenue-funded capital improvement expenses for $0.9 million.

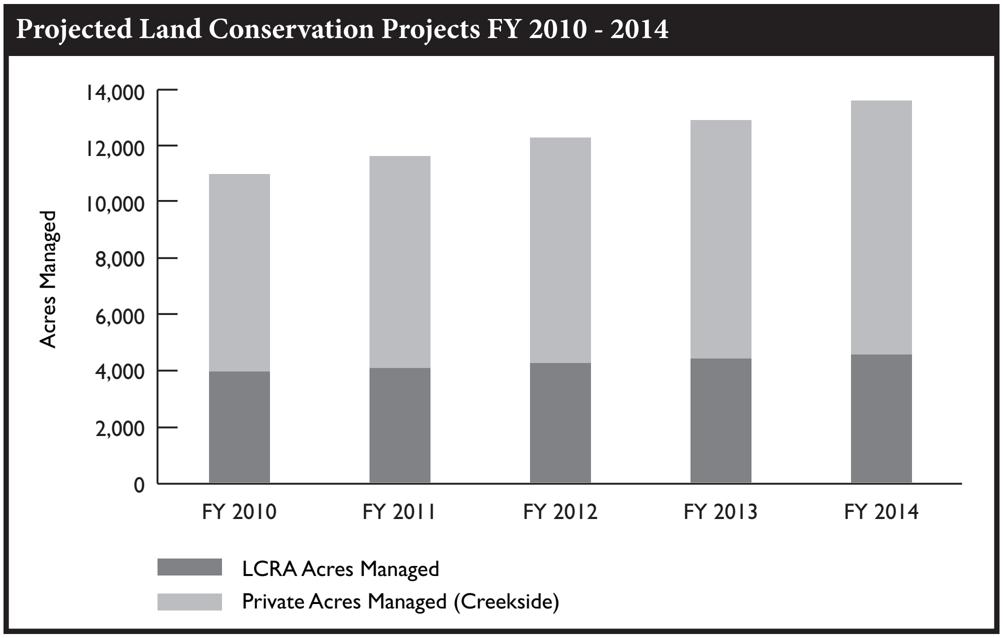
Community Services Sources and Uses, FY 2010 (Dollars in Thousands)



Parks and Natural Science Centers Visitation, CY 2003 – 2008 (Estimated Visits)



Visitation at LCRA parks has averaged more than 1 million a year since 2003. Attendance increased in 2007 and 2008 primarily due to the opening of Matagorda Bay Nature Park and new program opportunities provided by McKinney Roughs Nature Park to customers of the adjacent Lost Pines Resort.



Beginning in FY 2010, Community Services will focus on accelerating land conservation projects on an additional 500 acres per year of private lands through the Creekside Conservation Program and managing invasive brush on an additional 150 acres per year at LCRA parks and natural areas.

Corporate Services

Contribution to LCRA

- Corporate Services provides functional oversight as well as support services to the LCRA business units that can be managed most cost effectively as a central operation. The four areas of support are the General Manager and staff; the Chief Financial Officer and staff, which provides financial oversight; the Chief Administrative Officer and staff, which provides internal operations support; and External Affairs, which coordinates external relationships primarily with regulators and other public officials.
- LCRA Telecommunications, under the Chief Administrative Officer, also provides radio and telecommunications services to LCRA's wholesale electric customers, law enforcement agencies, school districts, transportation agencies, and other customers upon request.

What's Ahead for FY 2010?

- Implement the final phase of the supply management changes that focus on buying value, saving money, and mitigating risk in the purchase of goods and services.
- Continue to support electric and water reliability through technology and facilities infrastructure expansion projects.
- Implement the employee compensation and benefit plan recommendations from the 2009 Total Rewards project.

What's Changed from FY 2009?

- Revenues for FY 2010 are projected to increase by 32 percent, due to increased demand for LCRA's telecommunications services.
- The manner in which Corporate Services costs are assigned to each business unit has been modified for FY 2010. The change maintains a reasonable and equitable cost-sharing approach while improving transparency.

Revenue Analysis

Corporate Services revenues are expected to be $5.4 million for FY 2010, compared to $4.1 million in FY 2009. This revenue is generated from customers who purchase access to LCRA telecommunications infrastructure in the service area. This service is directed by LCRA Board Policy 220 – Telecommunications, and these revenues reduce the internal technology expenses allocated to each business unit. Only contracted revenues are included in this budget.

Expense Analysis

Corporate Services has budgeted $80.2 million in FY 2010 for net operations and maintenance expenses. The primary drivers of the cost increase include:

- Centralization of services account for $2.9 million (4 percent) with more consolidation of work for efficiency and cost savings. In previous fiscal years these expenses were budgeted within each business unit. Examples are internal chargebacks for employee training, print shop usage or an office move. Also included in this year's costs is a consolidation of air-conditioning preventative maintenance across a number of facilities, project management consolidation between Corporate and Community Services, and environmental consolidation between Corporate and Community Services.
- Accounting reclassifications from capital to operating and maintenance expenses represent $1.8 million (2 percent). This plan represents a shift in some employee benefit costs and services that had been previously capitalized and now are expensed.
- Liability and other insurance increased in FY 2010 by $900,000 (1 percent).

- With the centralization of services, the accounting reclassifications, and the insurance increases, Corporate Services was still $2.8 million (3.5 percent) below its FY 2010 budget forecast in the FY 2009 Business Plan. The FY 2010 Business Plan absorbed the increasing costs to support the infrastructure expansion in Wholesale Power Services and Transmission Services through prioritization of staffing requirements and services.

Summary

The services provided are scaled to the specific needs of business units as they respond to changes in their business requirements and the current economic pressures. In some areas there is a demand to expand services, such as supporting new generation resources and the Competitive Renewable Energy Zones projects. Some areas are scaled back or adjusted in response to a changing business such as the water and wastewater utility systems. Technology demands are increasing in all areas as dependency on technology continues to drive infrastructure expansion, while some technologies are being consolidated to eliminate redundancy across the company. Employee benefits and compensation recommendations are being implemented to support an affordable, competitive work force.

Corporate Services Operating Budget, FY 2009 – FY 2014 (Dollars in Thousands)

		Budgeted	Proposed	Forecast			
		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues							
Operating Revenue[1]	$	4,119	5,423	5,339	5,553	5,775	6,006
Expenses							
Board of Directors		180	180	180	187	195	202
General Manager and Staff		7,458	7,825	8,166	8,493	8,832	9,186
Chief Financial Officer and Staff		13,034	14,158	14,842	15,435	16,052	16,694
Chief Administrative Officer and Staff		52,424	58,720	62,400	64,896	67,492	70,193
External Affairs		5,097	4,770	4,970	5,169	5,376	5,591
Total Expenses		78,193	85,653	90,558	94,180	97,947	101,866
Total Net Operating Expense		74,074	80,230	85,219	88,627	92,172	95,860
Capital Expenditures							
Revenue Funded		5,079	6,259	6,247	5,804	4,904	4,904
Debt Funded		9,602	14,389	32,896	18,947	11,295	8,694
Third Party / Proceeds Funded		-	4,287	-	-	-	-
Total Capital	$	14,681	24,935	39,143	24,751	16,199	13,598

[1] Telecommunications Revenue

Corporate Services Net Expense Reconciliation, FY 2009 – FY 2010 (Dollars in Thousands)

FY 2009 Corporate Expense	$	74,074
Plus:		
Centralization of Support[1]		2,911
Labor & Benefit Increases		1,958
Cost Reclassification[2]		1,792
Liability & Other Insurance		937
Reorganizations		(1,441)
FY 2010 Corporate Expense	$	80,231
% Increase excluding centralization and reclassification costs		2.0%

[1] Centralization of Support: Consolidation of certain items into the Corporate Services Budget from the Business Units, including: Print shop services, Facilities move and maintenance costs, and HR training expenses. Costs historically included in LCRA's benefit burden were also transferred into the Corporate Services Budget. These costs include: Education Assistance, Benefits Administration, and Employee Assistance Program costs.

[2] Cost Reclassification: Movement of Procurement costs from Capital to O&M Expense and a change in business practices relating to Fleet Services.

Corporate Services Net Expense Reconciliation, FY 2010 (Last Year) to FY 2010 (This Year) (Dollars in Thousands)

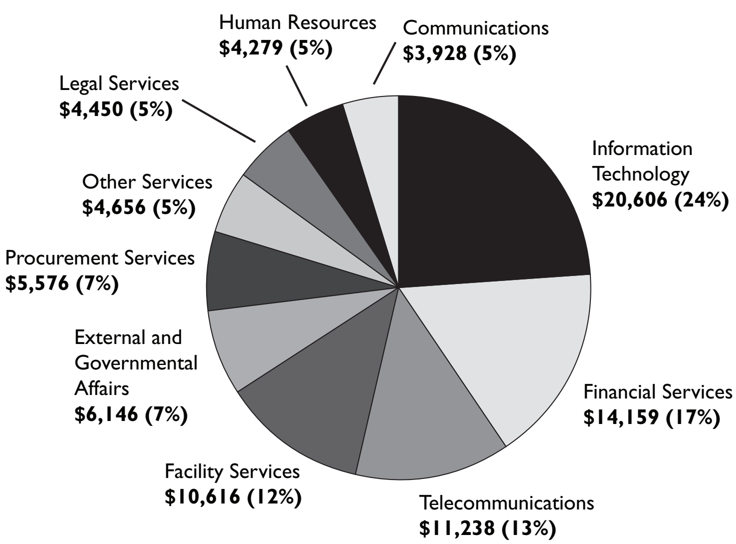
FY 2010 Corporate Expense (Last Year's plan)	$	78,297
Plus:		
Centralization of Support[1]		2,911
Cost Reclassification[2]		1,792
Savings / Reductions		(2,769)
FY 2010 Corporate Expense	$	80,231
% Increase excluding centralization and reclassification costs		-3.5%

[1] Centralization of Support: Consolidation of certain items into the Corporate Services Budget from the Business Units, including: Print shop services, Facilities move and maintenance costs, and HR training expenses. Costs historically included in LCRA's benefit burden were also transferred into the Corporate Services Budget. These costs include: Education Assistance, Benefits Administration, and Employee Assistance Program costs.

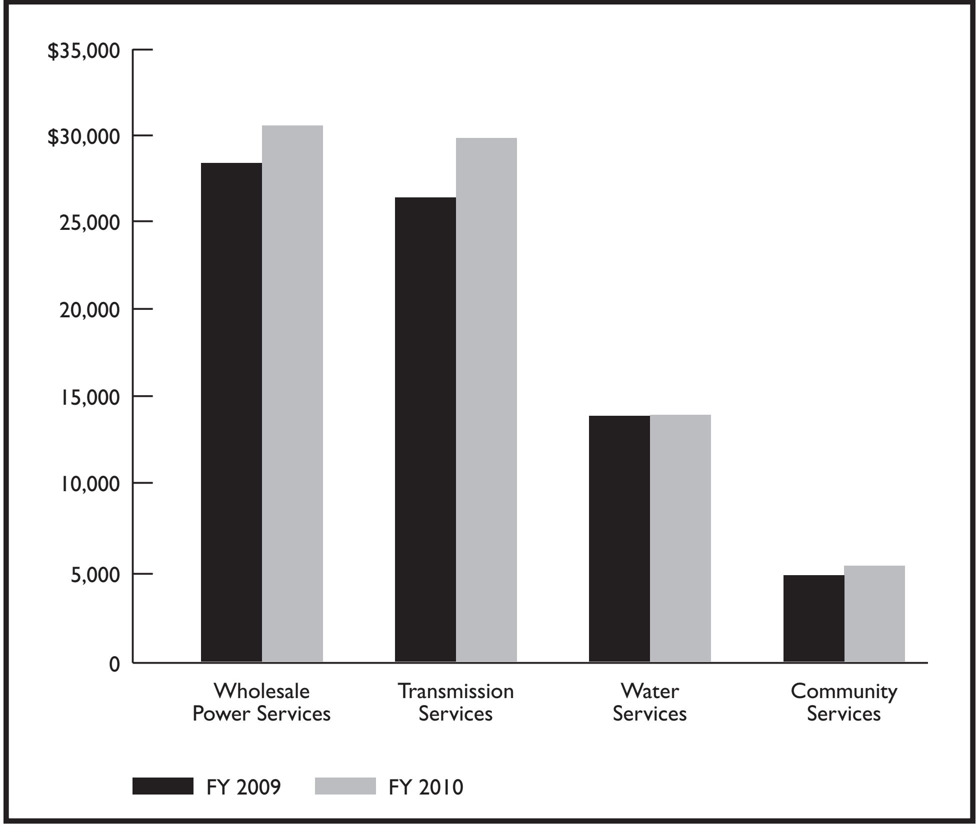
[2] Cost Reclassification: Movement of Procurement costs from Capital to O&M Expense and a change in business practices relating to Fleet Services.

Corporate Services Expenses, FY 2010 (Dollars in Thousands)

Total $85,654



Total Corporate Expense Charged to Business Units, FY 2010 (Dollars in Thousands)



Corporate expenses increased primarily in Wholesale Power Services and Transmission Services in support of new generation resources and expanding transmission projects. Wholesale Power Services' share increased $2.2 million, Transmission Services' share increased $3.3 million, Water Services' share increased $0.1 million, and Community Services' share increased $0.6 million.

In FY 2010 approximately $10.0 million of corporate expense is forecasted to be capitalized to LCRA capital projects. This figure is lower than the $10.3 million capitalized in the FY 2009 budget.

ENERGY • WATER • COMMUNITY SERVICES

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