

LCRA Transmission Services Corporation

Board Agenda

Tuesday, Oct. 18, 2022

LCRA General Office Complex
Board Room – Hancock Building

3700 Lake Austin Blvd.

Austin, TX 78703

Earliest start time: 12:30 p.m.

Items From the Chair

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Items From the Chief Executive Officer

Chief Operating Officer Update

Items From the Chief Financial Officer

2. Financial Report 5

Consent Items

3. Minutes of Prior Meeting 7

Action Items

4. Capital Improvement Projects Approval 12

Executive Session

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

Legal Notice

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

OVERVIEW OF LCRA TRANSMISSION SERVICES CORPORATION

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

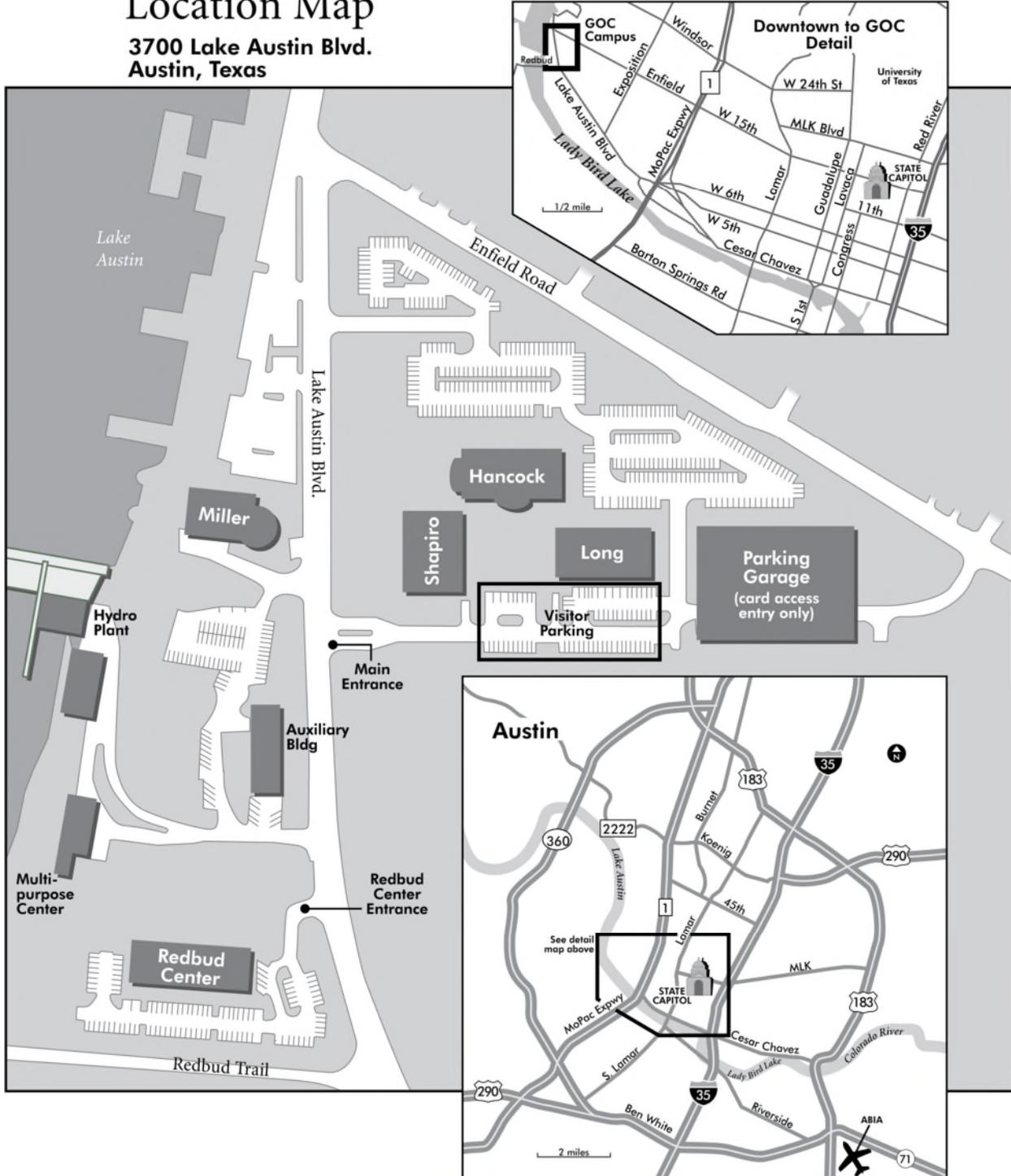
LCRA TSC is a nonprofit corporation created by LCRA to act on LCRA's behalf pursuant to Chapter 152, Texas Water Code, as amended. After Jan. 1, 2002, LCRA TSC engaged in the electric transmission and transformation activities previously carried out by LCRA and assumed LCRA's obligation to provide, and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

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

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

LCRA General Office Complex Location Map

3700 Lake Austin Blvd.
Austin, Texas



FOR DISCUSSION

1. Comments From the Public

Summary

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

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

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

FOR DISCUSSION

2. Financial Report

Summary

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

Presenter(s)

Jim Travis

Treasurer and Chief Financial Officer

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LCRA Transmission Services Corporation
Financial Highlights
September 2022

LCRA Transmission Services Corporation
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Key term:

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

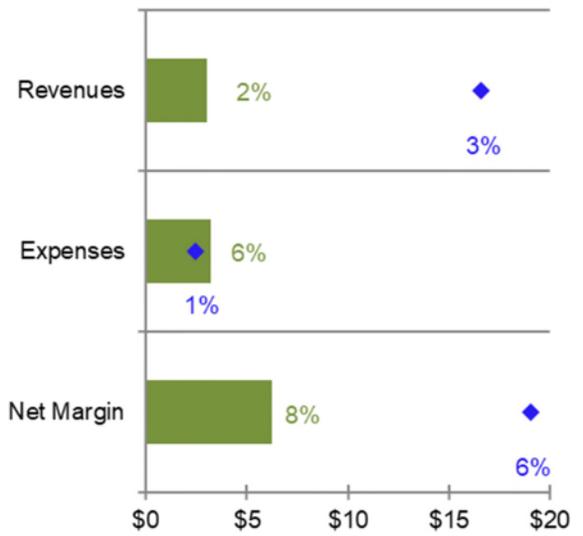
LCRA Transmission Services Corporation

Sept. 30, 2022

(Dollars in Millions)

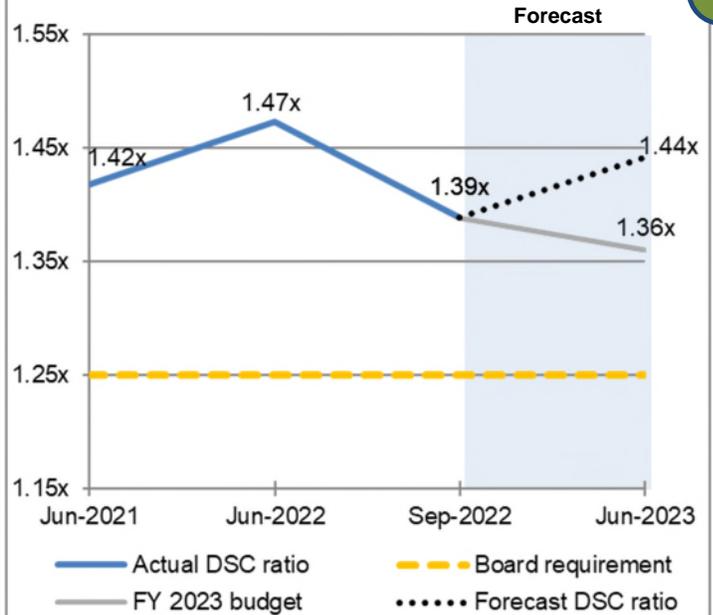
Budget-to-Actual Highlights

Net Margin Fiscal Year-to-Date Variances



% = Variance from budget ♦ FY 2023 fiscal year-end forecast

Debt Service Coverage



Key takeaways:

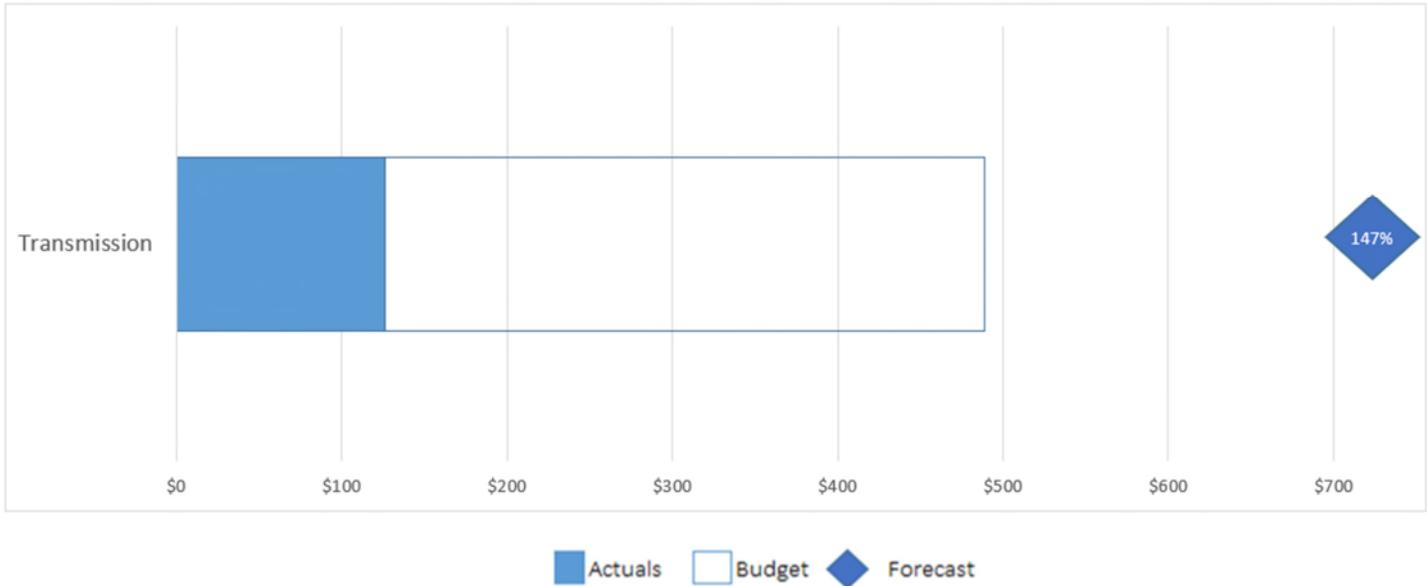
- Lower-than-budgeted expenses and higher-than-budgeted interest income, cost of service and other revenues primarily drove year-to-date performance.
- Higher-than-budgeted cost of service revenues and lower-than-budgeted expenses primarily drove the year-end forecast.
- The debt service coverage ratio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

LCRA Transmission Services Corporation

Sept. 30, 2022

(Dollars in Millions)

Capital Forecast



Key takeaways:

- LCRA TSC currently is projecting capital spending for FY 2023 will be \$229 million more than the capital plan budget of \$488.7 million.
- The variance primarily is driven by increased estimates on future projects, increased spending on active projects and potential generation interconnection projects. Staff anticipates seeking LCRA Board approval to increase the LCRA TSC capital plan later this fiscal year.

General manager project approvals:

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

The president and CEO approved the following seven budget resets this quarter:

- Asphalt Mines Substation Addition from \$2.4 million to \$4.9 million.
- Bastrop West-Split Transmission Line Storm Hardening from \$4 million to \$7.3 million.
- Buchanan Central Texas Electric Cooperative-Pittsburg Transmission Line Overhaul from \$24.9 million to \$32.9 million.
- Fairland-Lago Vista Transmission Line Upgrade from \$13.7 million to \$27 million.
- Hilltop-Strahan Transmission Line Upgrade from \$8.4 million to \$15.3 million.
- Kerrville Stadium Substation Upgrade from \$2 million to \$3.2 million.
- Swiftex Substation Upgrade from \$2.8 million to \$4 million.

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

- Hornsby Circuit Breaker Addition for \$4.9 million.
- Remote Terminal Unit – FY 2023 Substation Upgrade for \$1.3 million.

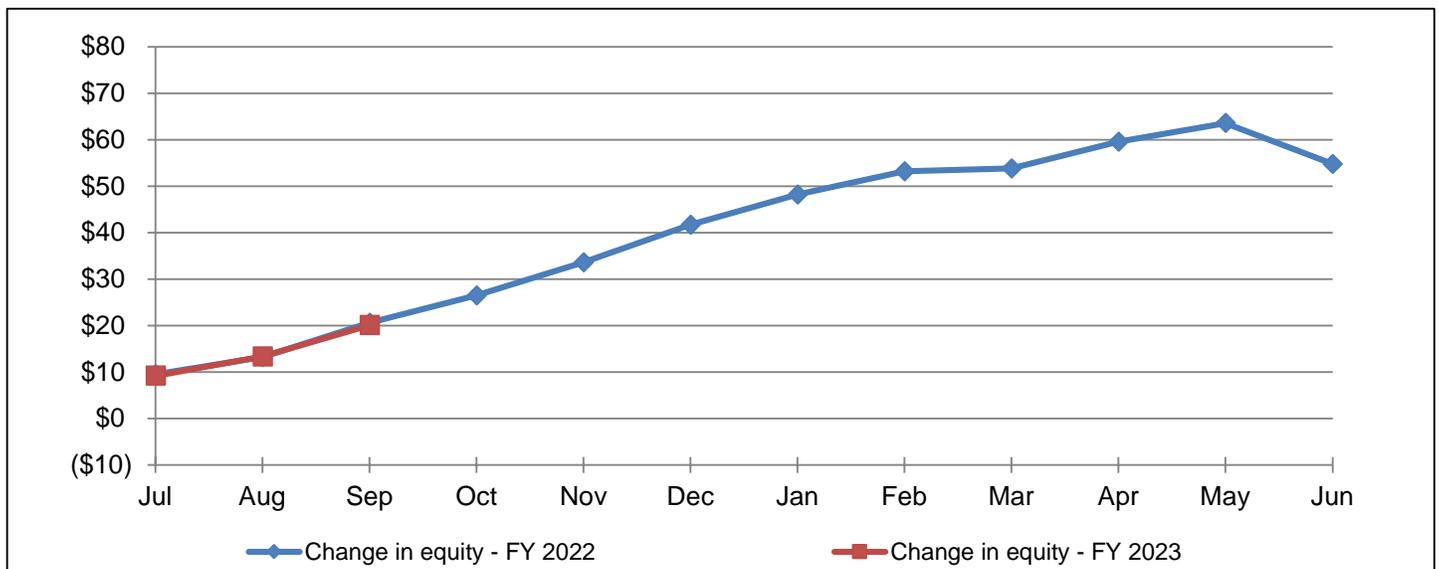
LCRA Transmission Services Corporation

Sept. 30, 2022
(Dollars in Millions)

Board Metrics

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

Income Statement Trends Cumulative Fiscal Year to Date



Key takeaway:

- Net income remained stable year over year primarily due to an increase in depreciation and amortization, partially offset by an increase in transmission revenue.

LCRA Transmission Services Corporation

Sept. 30, 2022

(Dollars in Millions)

Condensed Balance Sheets

	<u>Sept. 30, 2022</u>	<u>Sept. 30, 2021</u>
Assets		
Cash and cash equivalents	\$ 130.9	\$ 264.5
Current assets	<u>218.7</u>	<u>179.7</u>
Total current assets	<u>349.6</u>	<u>444.2</u>
Capital assets	3,810.1	3,517.3
Long-term assets	<u>323.3</u>	<u>221.0</u>
Total long-term assets	<u>4,133.4</u>	<u>3,738.3</u>
Total Assets	<u>\$ 4,483.0</u>	<u>\$ 4,182.5</u>
Liabilities		
Bonds, notes and loans payable	\$ 339.6	\$ 338.4
Current liabilities	<u>205.2</u>	<u>151.4</u>
Total current liabilities	<u>544.8</u>	<u>489.8</u>
Bonds, notes and loans payable	2,892.8	2,717.4
Long-term liabilities	<u>139.5</u>	<u>123.7</u>
Total long-term liabilities	<u>3,032.3</u>	<u>2,841.1</u>
Equity		
Total equity	<u>905.9</u>	<u>851.6</u>
Total Liabilities and Equity	<u>\$ 4,483.0</u>	<u>\$ 4,182.5</u>

Key takeaway:

- Assets and liabilities are trending higher compared with September 2021 due to construction activities related to the capital plan.

LCRA Transmission Services Corporation

Sept. 30, 2022

(Dollars in Millions)

Condensed Statements of Revenues, Expenses and Changes in Equity

	Fiscal Year to Date	
	2023	2022
Operating Revenues		
Transmission	\$ 135.0	\$ 125.2
Transformation	4.3	4.4
Other	0.5	0.5
Total Operating Revenues	139.8	130.1
Operating Expenses		
Operations	40.4	38.5
Maintenance	4.2	3.4
Depreciation and amortization	25.8	18.7
Total Operating Expenses	70.4	60.6
Operating Income	69.4	69.5
Nonoperating Revenues (Expenses)		
Interest on debt	(23.1)	(22.0)
Other expenses	(26.2)	(26.9)
Total Nonoperating Revenues (Expenses)	(49.3)	(48.9)
Change in Equity	20.1	20.6
Equity - Beginning of Period	885.8	831.0
Equity - End of Period	\$ 905.9	\$ 851.6

LCRA Transmission Services Corporation

Sept. 30, 2022

(Dollars in Millions)

Condensed Statements of Cash Flows

	Fiscal Year to Date	
	2023	2022
Cash Flows From Operating Activities		
Received from customers	\$ 132.6	\$ 129.9
Payments	(28.8)	(51.6)
Net cash provided by operating activities	103.8	78.3
Cash Flows From Noncapital Financing Activities	(7.0)	(6.5)
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(124.1)	(70.5)
Debt principal payments	-	-
Other capital and financing activities	58.8	37.5
Net cash used in capital and financing activities	(65.3)	(33.0)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	-	34.2
Purchase of investment securities	(77.5)	(40.0)
Note payments and interest received	(0.8)	0.3
Net cash used in investing activities	(78.3)	(5.5)
Net Increase (Decrease) in Cash and Cash Equivalents	(46.8)	33.3
Cash and Cash Equivalents - Beginning of Period	177.7	231.2
Cash and Cash Equivalents - End of Period	\$ 130.9	\$ 264.5

LCRA Transmission Services Corporation

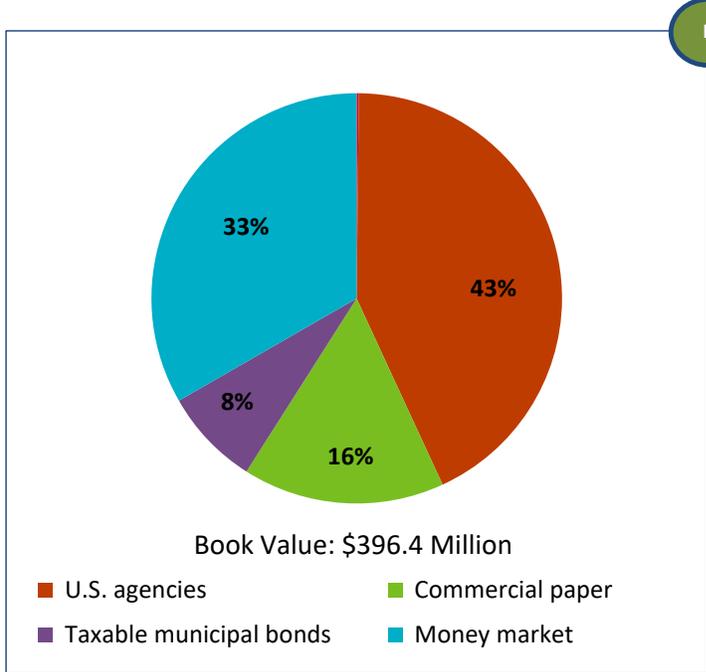
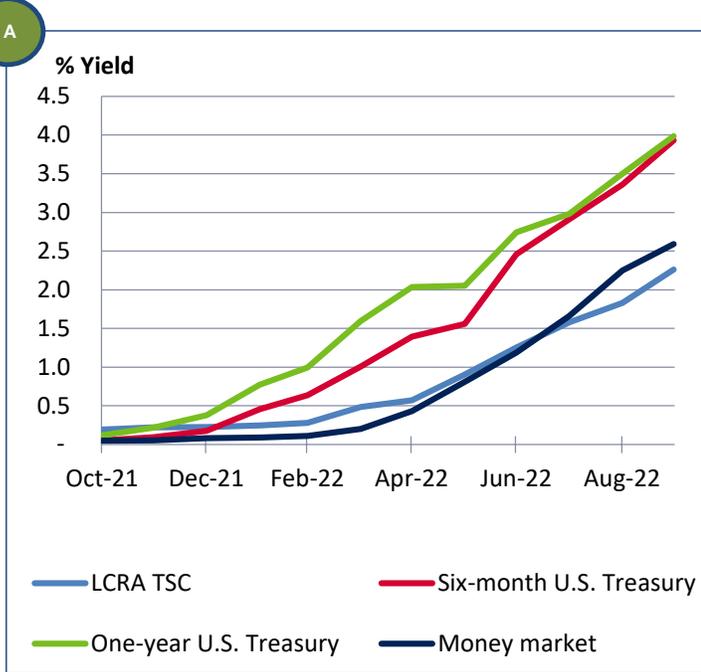
Sept. 30, 2022

(Dollars in Millions)

Investments and Debt

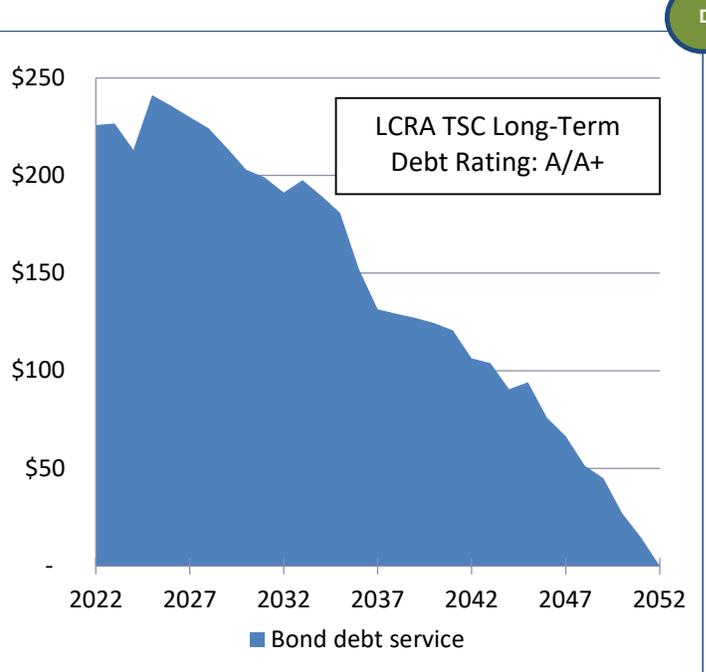
Investment Portfolio Yield

Investment Portfolio Composition



Short-Term Debt

Bond Debt Service



Key takeaways:

- The Federal Reserve raised benchmark interest rates by three-quarters of a percentage point on Sept. 21, 2022, its fifth hike for the year.
- The federal funds rate range is 3%-3.25%.

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FOR ACTION (CONSENT)

3. Minutes of Prior Meeting

Proposed Motion

Approve the minutes of the Sept. 21, 2022, meeting.

Board Consideration

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

Budget Status and Fiscal Impact

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

Summary

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

Exhibit(s)

A – Minutes of Sept. 21, 2022, meeting

EXHIBIT A

Minutes Digest
Sept. 21, 2022

- 22-30 Approval of the minutes of the Aug. 17, 2022, meeting.
- 22-31 Approval of the adoption of the Fortieth Supplemental Resolution to the Controlling Resolution establishing the LCRA Transmission Contract Revenue Financing Program authorizing the issuance of Transmission Contract Refunding Revenue Bonds (LCRA Transmission Services Corporation Project), Series 2022A (Bonds) in an amount not to exceed \$300 million for the following purposes: (i) current refunding of portions of the LCRA Transmission Contract Revenue Commercial Paper Notes (LCRA Transmission Services Corporation Project) Tax-Exempt Series and any series of LCRA Transmission Contract Revenue Revolving Notes (LCRA Transmission Services Corporation Project); (ii) funding debt service reserve funds for the Bonds; and (iii) paying for issuance costs.
- 22-32 Approval of the Capital Improvement Project Authorization Request for the following projects and associated lifetime budgets: Crane East Substation Upgrade; Gabriel Power Transformer Addition; and Saxet Substation Addition.
- 22-33 Adoption of a resolution authorizing the use of the power of eminent domain in Colorado, DeWitt, Guadalupe and Waller counties to acquire rights in the properties described in Exhibit 1 to the resolution for the acquisition of easement rights for the LCRA Broadband Program project to provide, on behalf of LCRA and at LCRA's expense, for communications and to facilitate broadband services on the: Fayetteville to Frelsburg (T176), Lost Creek to Guadalupe (T541), Clear Springs to Geronimo (T505), Luling City to Deer Creek (T538) and Bellville South to Waller (T213) transmission lines.

MINUTES OF THE REGULAR MEETING OF THE
BOARD OF DIRECTORS OF
LCRA TRANSMISSION SERVICES CORPORATION
Sept. 21, 2022

Pursuant to notice posted in accordance with the Texas Open Meetings Act, the Board of Directors (Board) of LCRA Transmission Services Corporation (LCRA TSC) convened in a regular meeting at 10:03 a.m. Wednesday, Sept. 21, 2022, in the Board Room of the Hancock Building, at the principal office of the Lower Colorado River Authority, 3700 Lake Austin Blvd., Austin, Travis County, Texas. The following directors were present, constituting a quorum:

Timothy Timmerman, Chair
Stephen F. Cooper, Vice Chair
Matthew L. "Matt" Arthur
Joseph M. "Joe" Crane
Laura D. Figueroa
Carol Freeman
Thomas L. "Tom" Kelley
Robert "Bobby" Lewis
Thomas Michael Martine
Margaret D. "Meg" Voelter
Martha Leigh M. Whitten
Nancy Eckert Yeary [joined the meeting at 10:11 a.m.]

Absent: Michael L. "Mike" Allen
Melissa K. Blanding
Raymond A. "Ray" Gill Jr.

Chair Timmerman convened the meeting at 10:03 a.m. and led the Board in pledges of allegiance to the American and Texas flags. Director Whitten provided an invocation.

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

The Board next took action on the consent agenda.

22-30 Upon motion by Director Voelter, seconded by Director Figueroa, the Board unanimously approved the minutes of the Aug. 17, 2022, meeting [Consent Item 2] by a vote of 11 to 0.

22-31 Treasurer and Chief Financial Officer Jim Travis presented for consideration a staff recommendation, described in Agenda Item 3 [attached hereto as Exhibit A], that the Board approve the adoption of the Fortieth Supplemental Resolution to the Controlling Resolution establishing the LCRA Transmission Contract Revenue Financing Program authorizing the issuance of Transmission Contract Refunding Revenue Bonds (LCRA Transmission Services Corporation Project), Series 2022A

(Bonds) in an amount not to exceed \$300 million for the following purposes: (i) current refunding of portions of the LCRA Transmission Contract Revenue Commercial Paper Notes (LCRA Transmission Services Corporation Project) Tax-Exempt Series and any series of LCRA Transmission Contract Revenue Revolving Notes (LCRA Transmission Services Corporation Project); (ii) funding debt service reserve funds for the Bonds; and (iii) paying for issuance costs.

This motion also will:

1. Approve related documents, in substantially final form, including the escrow agreement, the paying agent/registrars agreement, the preliminary official statement and the Transmission Contract Revenue Debt Installment Payment Agreement Supplement Related to the Bonds (the 2022A Installment Payment Agreement Supplement). Bond counsel has prepared or reviewed all documents.
2. Delegate authority to the president and chief executive officer, and/or the treasurer and chief financial officer to:
 - a. Select all or a portion of LCRA TSC's outstanding debt to be refunded by the Bonds and provide for appropriate notices of redemption/prepayment/defeasance;
 - b. Approve any final changes to said documents necessary to facilitate proper issuance of such Bonds;
 - c. Establish the terms of the Bonds as provided in the resolution (including issuing such bonds in one or more separate series (tax-exempt and/or taxable), principal amounts and maturity schedules, interest rates, redemption provisions and terms of any reserve funds); and
 - d. Approve the terms of the sale of the Bonds to an underwriting team and execute a Bond purchase agreement.

Upon motion by Director Lewis, seconded by Director Figueroa, the recommendation was unanimously approved by a vote of 11 to 0.

22-32 Vice President of Transmission Asset Optimization Kristian M. Koellner presented for consideration a staff recommendation, described in Agenda Item 4 [attached hereto as Exhibit B], that the Board approve the Capital Improvement Project Authorization Request for the following projects and associated lifetime budgets: Crane East Substation Upgrade; Gabriel Power Transformer Addition; and Saxet Substation Addition. [Director Yearly joined the meeting at 10:11 a.m.] Upon motion by Director Arthur, seconded by Director Voelter, the recommendation was unanimously approved by a vote of 12 to 0.

22-33 Vice President of Real Estate Services Mark Sumrall presented for consideration a staff recommendation, described in Agenda Item 5 – Acquisition of Interests in Real Property – Use of Eminent Domain in Colorado, DeWitt, Guadalupe and Waller counties [attached hereto as Exhibit C]. Director Martine moved, seconded by Director Whitten, that the Board adopt a resolution authorizing by record vote the use of the power of eminent domain to acquire rights in the properties described in Exhibit 1 to the resolution for the acquisition of easement rights for the LCRA Broadband Program project to provide, on behalf of LCRA and at LCRA's expense, for communications and to facilitate broadband services on the: Fayetteville to Frelsburg

(T176), Lost Creek to Guadalupe (T541), Clear Springs to Geronimo (T505), Luling City to Deer Creek (T538) and Bellville South to Waller (T213) transmission lines; and that the first record vote applies to all units of property to be condemned. The Board unanimously approved the motion by a record vote of 12 to 0.

There being no further business to come before the Board, the meeting was adjourned at 10:26 a.m.

Leigh Sebastian
Secretary
LCRA Transmission Services Corporation

Approved: Oct. 18, 2022

FOR ACTION

4. Capital Improvement Projects Approval

FOR ACTION

Proposed Motion

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

Board Consideration

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

Budget Status and Fiscal Impact

- All projects recommended for Board approval are within the total annual budget approved in the fiscal year 2023 capital plan.
- Staff will monitor the FY 2023 forecast and will request a fiscal year budget increase if needed.
- The treasurer and chief financial officer will release funds as needed.
- Project costs will be funded through LCRA TSC regulated rates, subject to approval by the Public Utility Commission of Texas.

Summary

Staff recommends approval of the capital projects described in Table 1 and Exhibit A. These projects meet legal requirements in the Public Utility Regulatory Act and PUC rules.

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

Presenter(s)

Kristian M. Koellner
Vice President, Transmission Asset Optimization

Exhibit(s)

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

EXHIBIT A

Project Cost Estimates and Cash Flow

Dollars in millions

Project Name	FY 2022 and Prior	FY 2023	FY 2024	FY 2025	FY 2026	Lifetime
Service Reliability Projects						
Battery Systems - FY 2023 Substation Upgrade	0.1	1.8	-	-	-	1.9
Sim Gideon Circuit Breaker Substation Upgrade	0.1	1.6	2.0	-	-	3.7
Total	0.2	3.4	2.0	-	-	5.6

Note: Totals may not equal the sum of numbers shown due to rounding.

EXHIBIT B

<h3>Project Details</h3>

Project Name: Battery Systems – FY 2023 Substation Upgrade

Project Number: 1026633

Lifetime Budget: \$1.9 million

Description: The project will increase the reliability of substation equipment at the Avery Ranch, Bastrop City, Bellville South, Fayetteville, Fayette Power Project 345-kilovolt Yard 1, Freiheit, Harwood, Highway 36, Ingram, Lockhart, Raymond F. Barker, Rosita Creek, San Saba, Webberville, and Weiderstein substations in multiple counties across LCRA TSC's service territory. The project scope includes replacing battery banks and chargers and making other control power system improvements. The recommended project completion date is May 15, 2023.

Project Name: Sim Gideon Circuit Breaker Substation Upgrade

Project Number: 1027058

Lifetime Budget: \$3.7 million

Description: The project will increase transmission reliability and operational flexibility at the Sim Gideon Substation in Bastrop County. The project scope includes replacing two 138-kilovolt circuit breakers, installing two new 138-kV circuit breakers, installing supporting equipment such as surge arresters and protective relaying and modifying foundations. The recommended project completion date is May 15, 2024.