

**LCRA Transmission Services Corporation,  
Component Unit of the  
Lower Colorado River Authority**

Financial Statements  
As of and for the  
Years Ended  
June 30, 2020, and 2019

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## **Report of Independent Auditor**

To the Board of Directors  
LCRA Transmission Services Corporation

We have audited the accompanying financial statements of the LCRA Transmission Services Corporation (LCRA TSC), which consist of the balance sheets as of June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and of cash flows and the related notes to the financial statements, which collectively comprise the LCRA Transmission Services Corporation's financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the LCRA Transmission Services Corporation as of June 30 2020 and 2019, and its changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



***Other Matter***

The accompanying Management's Discussion and Analysis (MD&A) for the year ended June 30 on pages 3 through 9 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by *the Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2020 on our consideration of the LCRA Transmission Services Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the LCRA Transmission Services Corporation's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*  
September 18, 2020

# **LCRA TRANSMISSION SERVICES CORPORATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

### **As of and for the Years Ended June 30, 2020, and 2019**

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

## **Financial Statements Overview**

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

### ***Management's Discussion and Analysis***

This section provides an objective and easily readable analysis of financial activities based on currently known facts, decisions or conditions.

### ***Balance Sheets***

The presentation of assets and liabilities of proprietary funds should distinguish between current and noncurrent assets and liabilities. Deferred inflow of resources and deferred outflow of resources are reported as separate line items.

### ***Statements of Revenues, Expenses and Changes in Net Position***

These statements provide the operating results broken into the categories of operating revenues and expenses, nonoperating revenues and expenses, costs to be (prior costs) recovered from revenues, capital contributions and transfers.

### ***Statements of Cash Flows***

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

### ***Notes to Financial Statements***

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

# LCRA TRANSMISSION SERVICES CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### As of and for the Years Ended June 30, 2020, and 2019

## Financial Highlights

Condensed Balance Sheets (Dollars in Millions)					
	June 30, 2020	June 30, 2019	June 30, 2018	2020 vs. 2019	2019 vs. 2018
Current assets	\$ 357.8	\$ 296.2	\$ 208.3	20.8%	42.2%
Capital assets, net	3,125.7	2,855.4	2,551.0	9.5%	11.9%
Other noncurrent assets	176.8	171.2	227.4	3.3%	(24.7%)
<b>Total Assets</b>	<b>3,660.3</b>	<b>3,322.8</b>	<b>2,986.7</b>	<b>10.2%</b>	<b>11.3%</b>
Total Deferred Outflow of Resources	28.8	34.2	38.1	(15.8%)	(10.2%)
<b>Total Assets and Deferred Outflow of Resources</b>	<b>\$ 3,689.1</b>	<b>\$ 3,357.0</b>	<b>\$ 3,024.8</b>	<b>9.9%</b>	<b>11.0%</b>
Current liabilities	\$ 381.3	\$ 345.4	\$ 328.6	10.4%	5.1%
Noncurrent liabilities	2,487.5	2,241.2	1,999.8	11.0%	12.1%
<b>Total Liabilities</b>	<b>2,868.8</b>	<b>2,586.6</b>	<b>2,328.4</b>	<b>10.9%</b>	<b>11.1%</b>
Total Deferred Inflow of Resources	36.0	34.2	11.9	5.3%	187.4%
Net investment in capital assets	544.1	499.6	473.8	8.9%	5.4%
Restricted for capital assets	0.7	-	0.7	70.0%	(100.0%)
Unrestricted net position	239.5	236.6	210.0	1.2%	12.7%
<b>Total Net Position</b>	<b>784.3</b>	<b>736.2</b>	<b>684.5</b>	<b>6.5%</b>	<b>7.6%</b>
<b>Total Liabilities, Deferred Inflow of Resources and Net Position</b>	<b>\$ 3,689.1</b>	<b>\$ 3,357.0</b>	<b>\$ 3,024.8</b>	<b>9.9%</b>	<b>11.0%</b>

### Balance Sheets Overview

Approximately 85.4% of LCRA TSC's assets are capital assets. The other assets exist to support the capital activity. LCRA TSC uses long-term debt to finance most of its capital activity. The chart to the right shows total assets and deferred outflow of resources for the last three years. It also identifies the amount of the assets and deferred outflow of resources funded by liabilities versus net position.

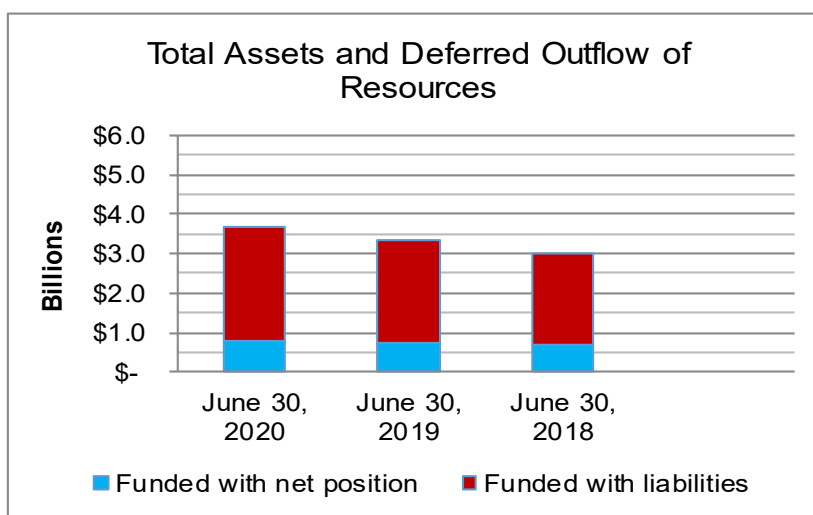
### 2020 Compared to 2019

Total assets and deferred outflows of resources increased by \$332.1 million, or 9.9%, from the prior year. The increase was primarily the result of a \$270.3 million, or 9.5%, increase in net capital assets. Capital additions were \$395.8 million, offset by \$107.3 million in accumulated depreciation and \$18.4 million in retirements. See details in the Capital Asset Activity section on Page 6. Current assets increased \$61.6 million, or 20.8%, due to an increase in cash and cash equivalents of \$54.4 million.

Total liabilities increased by \$282.2 million, or 10.9%, from the prior year primarily due to an increase in debt of \$278.6 million.

### 2019 Compared to 2018

Total assets and deferred outflows of resources increased by \$332.2 million, or 11.0%, from the prior year. The increase was primarily the result of a \$304.4 million, or 11.9%, increase in net capital assets. Capital additions were \$407.3 million, offset by \$68.5 million in accumulated depreciation and \$34.4 million in retirements. See details in the Capital Asset Activity section on Page 6. Other noncurrent assets decreased \$56.2 million, or 24.7%, due to a decrease in unrestricted investments.



# LCRA TRANSMISSION SERVICES CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### As of and for the Years Ended June 30, 2020, and 2019

Total liabilities increased by \$258.2 million, or 11.1%, from the prior year primarily due to an increase in debt of \$269.1 million.

	Year Ended June 30,			2020 vs. 2019 Favorable/ (Unfavorable)	2019 vs. 2018 Favorable/ (Unfavorable)
	2020	2019	2018		
Operating revenues	\$ 459.9	\$ 433.4	\$ 411.6	6.1%	5.3%
Operating expenses	(270.9)	(213.9)	(219.0)	(26.6%)	2.3%
Operating income	189.0	219.5	192.6	(13.9%)	14.0%
Nonoperating revenues	7.6	8.8	3.0	(13.6%)	193.3%
Nonoperating expenses	(142.1)	(169.9)	(138.9)	16.4%	(22.3%)
Nonoperating loss	(134.5)	(161.1)	(135.9)	16.5%	(18.5%)
Capital contributions	0.3	0.6	-	(50.0%)	100.0%
Transfers out	(6.7)	(7.3)	(4.1)	8.2%	(78.0%)
Transfers and contributions	(6.4)	(6.7)	(4.1)	4.5%	(63.4%)
Change in net position	48.1	51.7	52.6	(7.0%)	(1.7%)
Net position, beginning of year	736.2	684.5	631.9	7.6%	8.3%
Net position, end of year	\$ 784.3	\$ 736.2	\$ 684.5	6.5%	7.6%

### Operating Income Overview

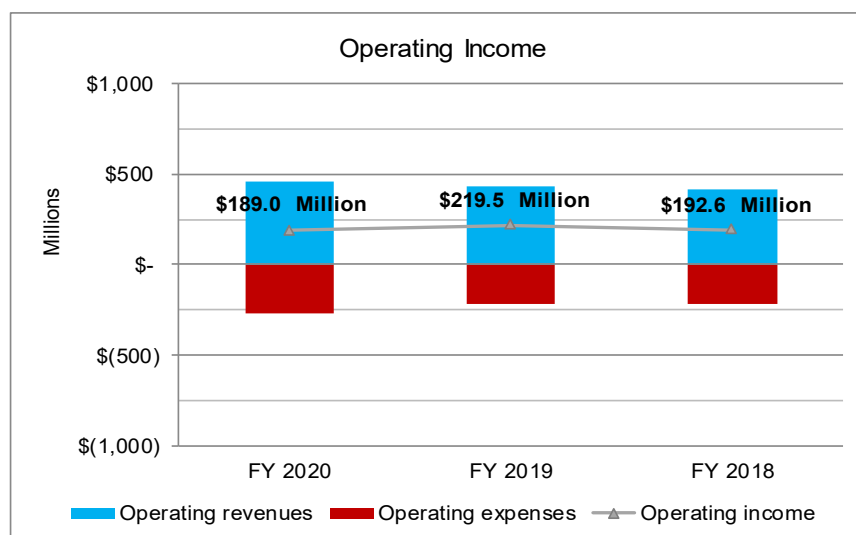
Operating revenue is derived from providing transmission and transformation services to customers. The Public Utility Commission of Texas (PUC) regulates LCRA TSC's operating revenues. The Operating Income chart shows an increase over the past two years and a decrease in the last year.

### 2020 Compared to 2019

Operating income for fiscal year 2020 decreased by \$30.5 million, or 13.9%, from the prior year primarily due to higher operating expenses. Operating expenses increased by \$57.0 million, or 26.6%, due to a \$38.8 million increase in depreciation and amortization expenses and a \$16.1 million increase in operations expenses.

### 2019 Compared to 2018

Operating income for fiscal year 2019 increased by \$26.9 million, or 14.0%, from the prior year primarily due to higher operating revenues. Operating revenues increased by \$21.8 million, or 5.3%, due to an increase in transmission rates authorized during the fiscal year.



# LCRA TRANSMISSION SERVICES CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### As of and for the Years Ended June 30, 2020, and 2019

#### Nonoperating revenues (expenses)

LCRA TSC's nonoperating revenues and expenses are composed primarily of:

- Interest income and expenses.
- Gains or losses on the disposition of assets.
- Deferral of costs to be recovered from future revenues or recognition of prior costs recovered from prior revenues.

#### 2020 Compared to 2019

LCRA TSC's nonoperating loss decreased by \$26.6 million, or 16.5%, from the prior year. The most significant item contributing to the decrease in FY 2020 was costs to be recovered from revenues increased from the prior year primarily due to more costs deferred to future years for recovery during FY 2020 compared with FY 2019.

#### 2019 Compared to 2018

LCRA TSC's nonoperating loss increased by \$25.2 million, or 18.5%, from the prior year. The most significant item contributing to the increase in FY 2019 was prior costs recovered from revenues increased from the prior year primarily due to less costs deferred to future years for recovery during FY 2019 compared with FY 2018.

## Regulatory Matters

Transmission revenues of \$443.4 million for the year ended June 30, 2020, were the result of rate changes authorized during the fiscal year. New rates of \$6.31 per kilowatt became effective on Oct. 24, 2019 and \$6.42 per kilowatt became effective on April 3, 2020. Prior to the change, the rate was \$6.18 per kilowatt and had been effective from Oct. 9, 2018. The rate increases were related to investments in transmission system improvements.

LCRA TSC filed for an interim rate increase in August 2020 with a rate effective October 2020 to recover transmission project improvements. Rate changes reflect return on rate base and incremental ad valorem taxes on system improvements.

## Capital Asset Activity

Capital Asset Activity (Dollars in Millions)	June 30, 2020	June 30, 2019
Expended for construction activities	\$ 395.8	\$ 407.3
Depreciation expense	\$ 107.3	\$ 68.5
Asset retirements, net of proceeds	\$ 18.4	\$ 34.4
Other capital asset activity	*No significant nonroutine transactions	*No significant nonroutine transactions

\*For additional details, see Note 5 of the Notes to the Financial Statements.

**LCRA TRANSMISSION SERVICES CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**As of and for the Years Ended June 30, 2020, and 2019**

**Capital Improvement Program**

LCRA TSC's capital improvement and expansion program for FY 2021 through FY 2025 is \$2.1 billion, with approximately 79.1% expected to be debt funded, as summarized in the following table. The capital projects are planned to meet industry requirements, such as compliance with Electric Reliability Council of Texas market rules, North American Electric Reliability Corporation reliability standards and PUC rules and direction to maintain the reliability and safety of LCRA TSC's electric system.

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

LCRA TSC Forecast Capital Expenditures (Dollars in Millions)						
	Year Ended June 30,					
	2021	2022	2023	2024	2025	Total
Revenue/other funded	\$ 60.3	\$ 79.4	\$ 75.0	\$ 80.9	\$ 135.9	\$ 431.5
Debt funded	437.4	392.3	340.8	303.4	156.3	1,630.2
Total LCRA TSC Capital	\$ 497.7	\$ 471.7	\$ 415.8	\$ 384.3	\$ 292.2	\$ 2,061.7
Percent debt funded	87.9%	83.2%	82.0%	78.9%	53.5%	79.1%



**LCRA TRANSMISSION SERVICES CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**As of and for the Years Ended June 30, 2020, and 2019**

**Debt Activity**

Debt Activity (Dollars in Millions)		
	June 30, 2020	June 30, 2019
Tax-exempt commercial paper issued	\$ 370.9	\$ 348.1
Scheduled contractual commitment payments	\$ 26.7	\$ 29.3
Scheduled debt payments	\$ 60.6	\$ 54.1
Interest payments	\$ 111.7	\$ 92.3
Bond issuance	LCRA TSC Series 2019A Refunding Revenue Bonds (\$173.3 million): The bonds were issued at a premium and proceeds were used to refund \$200.0 million of tax-exempt commercial paper. *	LCRA TSC Series 2019 Refunding Revenue Bonds (\$452.2 million): Proceeds were used to refund LCRA TSC 2009 Revenue Bonds in the amount of \$115.6 million as well as \$323.5 million of tax-exempt commercial paper. *
	LCRA TSC Series 2020 Refunding Revenue Bonds: The bonds were issued at a premium and proceeds were used to pay down \$159.6 million in previously outstanding bonds and \$150.0 million of tax-exempt commercial paper. *	

\*For additional details, see Note 3 of the Notes to the Financial Statements.

**LCRA TRANSMISSION SERVICES CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**As of and for the Years Ended June 30, 2020, and 2019**

**COVID-19**

Texas Governor Abbott declared a state of disaster on March 13, 2020, arising from the impacts of the COVID-19 pandemic. The total impacts of the pandemic are still emerging and will vary depending on the severity of impacts on society and the economy of the U.S. and Texas. At this time, LCRA does not anticipate a material adverse financial impact from COVID-19.

**Contacting LCRA TSC's Management**

This report provides a general overview of LCRA TSC's finances. For more information, contact Bill Lauderback, Executive Vice President for Public Affairs, Lower Colorado River Authority, P.O. Box 220, Austin, TX 78767.

# LCRA TRANSMISSION SERVICES CORPORATION

## BALANCE SHEETS

(Dollars in Millions)

	June 30, 2020	June 30, 2019
Assets		
Current Assets:		
Cash and cash equivalents	\$ 182.3	\$ 127.9
Unrestricted investments	62.2	72.7
Receivables, net	83.6	71.4
Inventories, net	28.5	23.0
Other	1.2	1.2
Total current assets	<u>357.8</u>	<u>296.2</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	0.7	-
Unrestricted investments	0.5	10.0
Accounts receivable from LCRA - restricted	122.0	110.7
Capital assets:		
Depreciable:		
Utility plant in service	3,520.9	3,218.1
Less: accumulated depreciation	<u>(939.5)</u>	<u>(841.0)</u>
Depreciable capital assets, net	2,581.4	2,377.1
Nondepreciable:		
Utility plant in service	87.8	17.8
Intangible assets - easements	269.9	250.8
Construction work in progress	<u>186.6</u>	<u>209.7</u>
Nondepreciable capital assets	544.3	478.3
Other charges		
Prepaid capital expense	<u>53.6</u>	<u>50.5</u>
Total other charges	<u>53.6</u>	<u>50.5</u>
Total noncurrent assets	<u>3,302.5</u>	<u>3,026.6</u>
Total Assets	<u>3,660.3</u>	<u>3,322.8</u>
Deferred Outflow of Resources:		
Unamortized loss on debt refundings	<u>28.8</u>	<u>34.2</u>
Total Deferred Outflow of Resources	<u>28.8</u>	<u>34.2</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 3,689.1</u>	<u>\$ 3,357.0</u>

# LCRA TRANSMISSION SERVICES CORPORATION

## BALANCE SHEETS

(Dollars in Millions)

	June 30, 2020	June 30, 2019
Liabilities		
Current Liabilities:		
Accounts payable to LCRA	\$ 21.9	\$ 18.5
Accounts payable	24.0	40.2
Interest payable	13.9	15.9
Other current liabilities	58.5	37.6
Bonds and notes payable	263.0	233.2
Total current liabilities	381.3	345.4
Noncurrent Liabilities:		
Construction payable	-	4.1
Bonds and notes payable	2,484.1	2,235.3
Other credits	3.4	1.8
Total noncurrent liabilities	2,487.5	2,241.2
Total Liabilities	2,868.8	2,586.6
Deferred Inflow of Resources:		
Regulatory credits from future recovery	31.9	32.1
Other	4.1	2.1
Total Deferred Inflow of Resources	36.0	34.2
Net Position		
Net investment in capital assets	544.1	499.6
Restricted for capital projects	0.7	-
Unrestricted	239.5	236.6
Total Net Position	784.3	736.2
Total Liabilities, Deferred Inflow of Resources and Net Position	\$ 3,689.1	\$ 3,357.0

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Dollars in Millions)

	Year Ended June 30,	
	2020	2019
Operating Revenues		
Transmission	\$ 443.4	\$ 417.8
Transformation	14.0	14.5
Other	2.5	1.1
Total Operating Revenues	<u>459.9</u>	<u>433.4</u>
Operating Expenses		
Operations	151.8	135.7
Maintenance	11.8	9.7
Depreciation and amortization	107.3	68.5
Total Operating Expenses	<u>270.9</u>	<u>213.9</u>
Operating Income	<u>189.0</u>	<u>219.5</u>
Nonoperating Revenues (Expenses)		
Interest income	7.2	8.8
Gain on disposition of property	0.2	-
Loss on disposition of property	(20.6)	(32.3)
Interest on debt	(101.1)	(94.6)
Other expenses	(20.4)	(20.6)
Total Nonoperating Revenues (Expenses)	<u>(134.7)</u>	<u>(138.7)</u>
Income Before Costs to be (Prior Costs) Recovered From Revenues, Capital Contributions and Transfers Out	54.3	80.8
Costs to be (Prior Costs) Recovered From Revenues	0.2	(22.4)
Capital Contributions	0.3	0.6
Transfers Out	(6.7)	(7.3)
Change in Net Position	<u>48.1</u>	<u>51.7</u>
Total Net Position, Beginning of Year	<u>736.2</u>	<u>684.5</u>
Total Net Position, End of Year	<u>\$ 784.3</u>	<u>\$ 736.2</u>

LCRA TRANSMISSION SERVICES CORPORATION  
STATEMENTS OF CASH FLOWS

(Dollars in Millions)

	Year Ended June 30,	
	2020	2019
Cash Flows From Operating Activities		
Receipts from customers	\$ 458.6	\$ 409.7
Payments for goods and services	(184.8)	(120.1)
Net cash provided by operating activities	273.8	289.6
Cash Flows From Noncapital Financing Activities		
Other expenses	(20.4)	(20.5)
Transfers out	(6.7)	(7.3)
Net cash used in noncapital financing activities	(27.1)	(27.8)
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(403.2)	(448.2)
Proceeds from sale of capital assets	1.1	-
Debt issue costs	(2.7)	(1.9)
Contributed capital received for capital costs	0.2	0.6
Proceeds from bonds and notes	524.1	452.2
Proceeds from commercial paper	370.9	348.1
Debt principal payments	(87.3)	(83.4)
Interest paid	(111.7)	(92.3)
Payments to refund and defease debt	(510.0)	(439.1)
Net cash used in capital and financing activities	(218.6)	(264.0)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	220.1	203.6
Purchase of investment securities	(200.4)	(141.7)
Note payments and interest received	7.3	7.5
Net cash provided by investing activities	27.0	69.4
Net Increase in Cash and Cash Equivalents	55.1	67.2
Cash and Cash Equivalents, Beginning of Year	127.9	60.7
Cash and Cash Equivalents, End of Year	\$ 183.0	\$ 127.9

LCRA TRANSMISSION SERVICES CORPORATION  
STATEMENTS OF CASH FLOWS

(Dollars in Millions)

	Year Ended June 30,	
	2020	2019
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 189.0	\$ 219.5
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	107.3	68.5
Changes in assets, liabilities, and deferred inflows and outflows of resources:		
Accounts receivable	(12.3)	(4.0)
Inventories	(5.5)	(2.1)
Other current assets	-	(0.4)
Current liabilities	17.3	51.2
Other noncurrent assets, charges and deferred outflow of resources	(3.1)	(5.3)
Other credits and other noncurrent liabilities, and deferred inflow of resources	(18.9)	(37.8)
Net cash provided by operating activities	<u>\$ 273.8</u>	<u>\$ 289.6</u>
Noncash Investing and Capital and Related Financing Activities		
Investment market adjustments	<u>\$ -</u>	<u>\$ (1.0)</u>
Capital assets financed through short-term liabilities	<u>\$ (1.1)</u>	<u>\$ (43.1)</u>

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2020, and 2019

## 1. Significant Accounting Policies

**Reporting Entity:** 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 under the Public Utility Regulatory Act, enacted in 1999 as Senate Bill 7 (SB7), to "unbundle" its electric generation assets from its electric transmission and transformation assets. Effective Jan. 1, 2002, LCRA conveyed all of its existing electric transmission and transformation assets to LCRA TSC pursuant to the terms of an Electric Transmission Facilities Contract, the initial contractual commitment dated Oct. 1, 2001.

Since Jan. 1, 2002, LCRA TSC has engaged in the electric transmission and transformation activities on behalf of LCRA and has assumed LCRA's obligation to provide and the right to collect revenues for electric transmission and transformation services. LCRA TSC is an electric transmission service provider (TSP) under the state's open-access electric transmission regulatory scheme within the Electric Reliability Council of Texas (ERCOT) region. In such capacity, LCRA TSC is entitled to receive compensation from all electric distribution service providers (DSPs) using the electric transmission system within the ERCOT region. As a TSP in the ERCOT region of the state, the rates LCRA TSC charges for transmission services are regulated by the Public Utility Commission of Texas (PUC) and determined pursuant to transmission cost of service (TCOS) rate proceedings filed with and approved by the PUC.

LCRA TSC is an instrumentality and a component unit of LCRA. Although it is a separate legal entity, LCRA TSC is reported in LCRA's financial statements as a blended component unit because it is governed by a board of directors composed in its entirety of the LCRA Board of Directors. GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," requires disclosure of a related party relationship. LCRA TSC and LCRA share a common management and board of directors. Due to this relationship, LCRA TSC discloses material transactions between the entities.

LCRA TSC reimburses LCRA for payroll costs, including the cost of employee benefits and other expenses of LCRA employees performing LCRA TSC construction, operations and maintenance work. LCRA TSC also reimburses LCRA for the costs of administrative services provided to LCRA TSC. LCRA charged LCRA TSC \$191.4 million and \$157.9 million during FY 2020 and FY 2019, respectively, for these costs. The majority of these costs were for capital projects. Noncontractual commitment liabilities and receivables are separated on the balance sheets. See Note 3 of the Notes to Financial Statements for contractual commitment liability information.

**Basis of Accounting:** The accompanying LCRA TSC financial statements were prepared using proprietary fund and accrual basis accounting. LCRA TSC follows GASB guidance.

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

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

**Newly Adopted Standards for FY 2020:** In FY 2020, LCRA TSC implemented GASB Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements." This Standard only affects the disclosures found in Note 3; there were no effects on the accounting treatment for debt.

**Issued, But Not Yet Effective Pronouncements:** GASB No. 87, "Leases," requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognizes inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease



# LCRA TRANSMISSION SERVICES CORPORATION

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### As of and for the Years Ended June 30, 2020, and 2019

receivable and a deferred inflow of resources. LCRA TSC will implement this standard effective July 1, 2021, using the full retrospective method; prior years will be restated. The new standard will impact the balance sheets as noted above, but, in accordance with accounting for regulated operations, will not have an impact on LCRA TSC's results of operations or net cash flows. LCRA TSC has not yet quantified the impact to its balance sheets of adopting the new standard.

**Operating Revenues:** LCRA TSC's principal operating revenues are generated from transmission services. The customers served by LCRA TSC and the rates paid by such customers vary with services provided. Revenues are recorded when services are provided.

**Rates and Regulations:** Transmission rates within the ERCOT system are determined pursuant to a universal 100% "postage stamp" rate that spreads the total annual costs of transmission services among distribution service providers (DSPs) according to their electric loads. The transmission costs are determined pursuant to TCOS rate proceedings filed by all transmission service providers (TSPs), including LCRA TSC. Every electric end-use consumer in the ERCOT system pays a portion of the total costs of maintaining a reliable statewide transmission system. Transmission charges are calculated by multiplying a DSP's share of the statewide electric load by the statewide postage stamp rate of each TSP. The PUC determines the load shares and rates through its TCOS regulatory process. Beginning in January 2017, LCRA TSC began charging for export of power from ERCOT. These transmission charges, amounting to \$1.4 million and \$2.0 million for the years ended June 30, 2020, and 2019, respectively, are paid by utilities that have arranged in advance through ERCOT to receive the exported power. Pursuant to a tariff approved by the PUC, LCRA TSC collects revenues for transformation services, providing transformers that step down voltage from levels appropriate for transmission to lower levels for distribution. The transformation tariff authorizes a monthly charge for each transformation delivery point. LCRA TSC also collects monthly metering service revenues based on a per-meter charge according to the PUC approved tariff.

Transmission revenues of \$443.4 million for the year ended June 30, 2020, were the result of rate changes authorized during the fiscal year. New rates of \$6.31 per kilowatt became effective on Oct. 24, 2019 and \$6.42 per kilowatt became effective on April 3, 2020. Prior to the change, the rate was \$6.18 per kilowatt and had been effective from Oct. 9, 2018. The rate increases were related to investments in transmission system improvements.

LCRA TSC filed for an interim rate increase in August 2020 with a rate effective October 2020 to recover transmission project improvements. Rate changes reflect return on rate base and incremental ad valorem taxes on system improvements.

**Capital Contributions:** Capital contributions consist of donated assets and grant-funded or customer contributions for capital-related work.

**Cash and Cash Equivalents:** LCRA TSC considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. LCRA TSC maintains cash balances in excess of Federal Deposit Insurance Corporation limits at certain financial institutions. This credit risk is managed by concentrating the cash balances in high quality financial institutions and by periodically evaluating the credit quality of the primary financial institutions holding such deposits. With short maturities, the investments present insignificant risk of changes in value because of interest rate changes and are readily convertible to cash. Historically, no losses have been incurred due to such cash concentrations.

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

**Accounts Receivable and Allowance for Doubtful Accounts:** LCRA TSC accounts receivable balances are subject to risk of nonpayment. Allowances to account for that risk have been calculated based on a three-year average of customer write-offs, except in certain cases where amounts were recorded directly to bad debt expense and excluded from the three-year average. There was no allowance for a doubtful accounts balance at June 30, 2020, and 2019.

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2020, and 2019

**Inventories:** Inventories are stated at the lower of cost or market using the average cost method and are subject to write-off when deemed obsolete. LCRA TSC has established a reserve for excess and obsolete inventory that is based primarily on inventory aging and historical analysis. The reserve is intended to adjust the net realizable value of inventory LCRA TSC may not be able to use due to obsolescence. The balance in the reserve as of June 30, 2020, and 2019 totaled \$0.3 million.

**Restricted Funds:** Restricted funds consist of construction funds derived from debt issuances, system revenues designated for specific purposes by the LCRA TSC Board and other funds with legal or contractual constraints. It is LCRA TSC's policy to use restricted resources first for the specified purposes, then unrestricted resources if they are needed.

#### Capital Assets

**Utility Plant:** Utility plant consists of electric transmission and transformation facilities, capital spares, a system operations and control center and related projects under construction. These assets are recorded at cost, which includes materials, labor, overhead and interest capitalized (when applicable). The costs of repairs and minor replacements are charged to operating expense as incurred. Costs of asset replacements and betterments are capitalized. The net book value of depreciable utility plant retired, along with removal expense less salvage value, is charged to nonoperating expense on the statements of revenues, expenses and changes in net position. Gains and losses upon disposition are recorded as nonoperating revenue or expenses in the period incurred. Expenditures for long-lived items greater than \$1,000 are eligible to be capitalized. LCRA TSC allows for direct expensing of items where the costs associated with obtaining approval of and tracking a capital project are onerous.

**Intangible Assets:** Intangible assets primarily include easements, internally generated software, and development rights. Easements have an indefinite life and are disclosed under the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Internally generated software is included in the depreciable capital assets line item and is amortized over approximately five years. Development rights are amortized over the length of the associated development project and included in the depreciable utility plant in service line item of the Balance Sheets. Easements are shown separately on the balance sheets.

**Capitalized Interest:** Interest can be capitalized as a part of the cost of capital assets if the assets are financed by debt proceeds per regulatory accounting under GASB Statement No. 62. LCRA TSC did not capitalize interest as of June 30, 2020, and 2019.

**Impairment:** LCRA TSC evaluates the carrying value of its property, plant and equipment, and other long-lived assets when major events or changes in circumstances indicate a decline in an asset's service capacity. Impairment is measured using methods that isolate the asset's service capacity that has been rendered unusable. There were no impairments as of June 30, 2020, and 2019.

**Depreciation and Amortization:** LCRA TSC depreciates its utility plant in service on a straight-line basis over the estimated useful lives of the various classes of these assets. Depreciation and amortization expense, expressed as a percentage of average depreciable utility plant, was approximately 3.2% and 2.1% for the years ended June 30, 2020, and 2019, respectively.

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2020, and 2019

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

Transmission Facilities	5 – 58 years
Office Buildings	4 – 45 years
Intangible Assets	5 years – indefinitely

Other charges are amortized on a straight-line basis over the life of the related asset.

**Regulatory Assets and Deferred Inflows:** LCRA TSC applies the accounting requirements of GASB Statement No. 62. Accordingly, certain costs may be capitalized as a regulatory asset that otherwise would be charged to expense. A regulatory asset is recorded when it is probable future revenue in an amount at least equal to the capitalized costs will result from inclusion of those costs in future rates. The regulatory assets, included under other charges, consist of depreciation of debt-funded assets and costs related to outstanding debt. These debt-funded costs will be recovered through the inclusion of the related debt service in future rates.

LCRA TSC also applies the accounting requirements of GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities.” As it relates to regulatory accounting, Statement No. 65 requires debt issuance costs be recognized as interest expense when incurred on the statements of revenues, expenses and changes in net position. There are no impacts to net income due to GASB Statement No. 62 allowing for the capitalization of debt-funded issue costs (interest expense) until the associated debt is paid. The interest expense is offset by recognizing the amount in costs to be recovered.

In addition, rate actions of the regulator may impose a regulatory credit on LCRA TSC. A regulatory credit may occur either when a regulator requires refunds to customers or provides current rates intended to recover costs expected to be incurred in the future. A regulatory credit is reported as a deferred inflow of resources on the balance sheets and is recognized and charged to income when the associated costs are incurred.

**Bonds, Notes and Loans Payable:** LCRA TSC reports the current portion of long-term debt, which includes all commercial paper and scheduled debt payments to be made within the next 12 months, as a current liability. LCRA TSC debt includes long-term revenue bonds, commercial paper and other notes outstanding. Amortization of debt discount and premium is computed using the effective yield method over the life of the related bond issues and is recorded as interest expense.

**Refunding and Defeasance of Debt:** For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a component of deferred inflows or outflows of resources. Losses created by refunding transactions are amortized over the shorter of the remaining terms of the new issues or the refunded bonds. The amounts are reported as deferred outflows of resources on the balance sheets.

Gains created by refunding transactions are amortized over the shorter of the remaining terms of the new issues or the refunded bonds. The amounts are reported as deferred inflows of resources on the balance sheets.

For debt defeasances, the difference between the carrying amount of the debt and the amount of funds needed to retire the debt is recognized immediately in the statements of revenues, expenses and changes in net position as a gain or loss on early defeasance of debt, if significant. If the difference is not significant, it is recognized immediately as interest expense.

**LCRA TRANSMISSION SERVICES CORPORATION**  
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**Other Expenses:** Other expenses include statutory obligation payments to LCRA.

**Transfers Out:** In accordance with the contractual commitment agreement (see Note 3, Contractual Commitment), LCRA TSC made an Extraordinary LCRA Optional Purchase Price Payment to LCRA. These payments were recorded as transfers out on the statements of revenues, expenses and changes in net position.

**Classifications of Net Position:** Net investment in capital assets consists of capital assets, net of accumulated depreciation, plus deferred outflows of resources, reduced by outstanding debt and construction contracts payable that are attributable to the acquisition, construction or improvement of those assets. Capital assets for the net investment computation include both capital assets and regulatory assets. In the event there are unspent proceeds from a bond issuance for the stated purpose of capital improvement, the debt outstanding is reduced by the amount that has not been used for capital projects as of period end. As of June 30, 2020, and 2019, debt-funded assets not related to capital assets included cash and investments restricted for future capital projects of \$122.0 million and \$110.7 million, respectively.

Restricted for capital projects consists of unspent cash and investments restricted for future capital projects, reduced by any related outstanding debt.

Unrestricted net position is the share of net position that is neither restricted nor invested in capital assets.

**Reclassifications:** Certain prior-year amounts have been reclassified to conform to the FY 2020 presentation. LCRA TSC has separately presented easements within the nondepreciable utility plant in service section of the balance sheets. This reclassification had no impact on the previously presented results of operations, cash flows or financial position.

**LCRA TRANSMISSION SERVICES CORPORATION**  
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**2. Financial Instruments**

As of June 30, 2020, and 2019, LCRA TSC had the following investments and maturities:

Investments and Maturities (Dollars in Millions)				
Type of Investment	June 30, 2020		June 30, 2019	
	Market Value	WAM (Years) <sup>1</sup>	Market Value	WAM (Years) <sup>1</sup>
Investments				
U.S. Agency Notes <sup>2</sup>	\$ -	-	\$ 10.0	0.62
Commercial paper	50.4	0.28	72.7	0.32
Taxable Municipals	12.3	0.24	-	-
Cash equivalents				
Investment pools	181.9	0.13	125.9	0.14
Total	<u>\$ 244.6</u>	0.22	<u>\$ 208.6</u>	0.23
Cash and investments as of June 30, 2020, and 2019, consisted of the following:				
Cash	\$ 1.1		\$ 2.0	
Investments and cash equivalents	244.6		208.6	
Total Cash and Investments	<u>\$ 245.7</u>		<u>\$ 210.6</u>	

<sup>1</sup>Weighted Average Maturity

<sup>2</sup>LCRA TSC held one callable U.S. Agency Note as of June 30, 2019

**Investment Pool:** LCRA TSC investments included an investment pool with TexPool as of June 30, 2020, and 2019. The Texas Comptroller of Public Accounts oversees TexPool, and the pool seeks to maintain a \$1 value per share as required by the Texas Public Funds Investment Act. There are no minimum balance requirements for TexPool participants, and there is no limit on the number of accounts per participant.

LCRA TSC investments also included an investment pool with Local Government Investment Cooperative (LOGIC), as of June 30, 2020, and 2019. First Southwest Company and J.P. Morgan Investment Management, Inc. oversee LOGIC. The pool seeks to maintain a \$1 value per share as required by the Texas Public Funds Investment Act.

TexPool investments were \$53.2 million and \$92.3 million as of June 30, 2020, and 2019, respectively. LOGIC investments were \$128.7 million and \$33.6 million as of June 30, 2020, and 2019, respectively.

**Debt Service Reserve Funds:** LCRA TSC has debt service reserve funds, including investments suitable to provide reserves to meet shortfalls in funds available to make required debt service payments. Debt service reserve funds are not to be used except in the case of insufficient funds. The funds are held by LCRA on behalf of LCRA TSC, in accordance with bond resolutions. The funds are reflected in accounts receivable from LCRA restricted on the LCRA TSC balance sheets. As of June 30, 2020, and 2019, the funds are in separate accounts holding U.S. Treasury notes and U.S. agency notes, held for the use of debt service reserves, totaling \$119.2 million and \$108.0 million, respectively.

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2020, and 2019

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

**Credit Risk:** LCRA TSC's investment activities are governed by state statute (Texas Public Funds Investment Act), which specifies the type and ratings of investments governmental entities are allowed to purchase. LCRA TSC Board policy and internal operating procedures further restrict investment activities. The credit ratings of LCRA TSC's investments and external investment pools are summarized in the following table.

Investment Credit Ratings			
Credit Risk	June 30, 2020		
	Moody's Ratings	Standard & Poor's Ratings	Fitch Ratings
TexPool investment pool		AAAm	
LOGIC investment pool		AAAm	
Indiana University	Aaa	AAA	
Massachusetts State Housing	Aa2	AA	
Minnesota State Housing Finance Agency	Aa1	AA+	
Neshaminy School District	Aa1		
New Jersey Turnpike Authority	A2	A+	A
Texas State Transportation	MIG1	SP-1+	F1+
Credit Risk	June 30, 2019		
	Moody's Ratings	Standard & Poor's Ratings	Fitch Ratings
TexPool investment pool		AAAm	
LOGIC investment pool		AAAm	
U.S. Agency Notes	Aaa	AA+	AAA <sup>1</sup>
Pricoa Short Term FDG LL	P-1	A-1+	
Natixis	P-1	A-1	
Banco Santander	P-1	A-1	F-1
U.S. Bank National Association	P-1	A-1+	F-1+
J.P. Morgan Securities LLC	P-1	A-1	F-1+

<sup>1</sup>U.S. agency note issued by FHLB not rated by Fitch

**Reporting Requirements:** Under GASB Statement No. 72, "Fair Value Measurement and Application," LCRA TSC is required to disclose the valuation technique and level of inputs for all investments. One of the acceptable valuation techniques, and that which LCRA TSC uses, is the market approach. The market approach is defined as "using prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or a group of assets or liabilities, such as quoted prices." Statement No. 72 also requires assets and liabilities to be categorized into three levels. LCRA TSC's investments in Treasuries, commercial paper and notes are valued at a Level 1 input, defined as: "quoted prices for identical assets or liabilities in active markets that LCRA TSC can access at the measurement date." LCRA TSC uses Bloomberg Finance LP Service to quote investment market price by uniquely identifying each security with the Committee on Uniform Security Identification Procedures (CUSIP).

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2020, and 2019

## 3. Long-Term Debt and Commercial Paper

Changes in long-term debt, including current portions, are as follows:

Changes in Noncurrent Debt (Dollars in Millions)								
Series	Balance June 30, 2018	Increase	Decrease	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020	Amount Due in FY 2021
LCRA TSC 2009	\$ 115.6	\$ -	\$ (115.6)	\$ -	\$ -	\$ -	\$ -	\$ -
LCRA TSC 2010	159.6	-	-	159.6	-	(159.6)	-	-
LCRA TSC 2011A	291.2	-	(17.0)	274.2	-	(17.3)	256.9	17.5
LCRA TSC 2011B	107.0	-	(15.1)	91.9	-	(15.0)	76.9	15.0
LCRA TSC 2013	283.9	-	(7.0)	276.9	-	(7.2)	269.7	7.4
LCRA TSC 2013A	195.7	-	-	195.7	-	-	195.7	-
LCRA TSC 2015	232.4	-	(4.5)	227.9	-	(4.7)	223.2	4.9
LCRA TSC 2016	181.4	-	(1.9)	179.5	-	(6.3)	173.2	6.4
LCRA TSC 2018	291.4	-	(8.6)	282.8	-	(8.7)	274.1	8.5
LCRA TSC 2019	-	393.0	-	393.0	-	(1.3)	391.7	5.6
LCRA TSC 2019A	-	-	-	-	173.3	-	173.3	5.5
LCRA TSC 2020	-	-	-	-	261.5	-	261.5	12.1
Contractual commitment	125.8	-	(29.3)	96.5	-	(26.7)	69.8	4.4
Unamortized net premium	89.9	59.2	(8.8)	140.3	89.3	(19.6)	210.0	4.6
Subtotal	2,073.9	452.2	(207.8)	2,318.3	524.1	(266.4)	2,576.0	91.9
Tax-exempt commercial paper/private notes	125.5	348.1	(323.4)	150.2	370.9	(350.0)	171.1	171.1
Total	\$ 2,199.4	\$ 800.3	\$ (531.2)	\$ 2,468.5	\$ 895.0	\$ (616.4)	\$ 2,747.1	\$ 263.0 <sup>(1)</sup>

(1) Total amount due in FY 2020 was \$233.2 million.

Interest rates and maturity dates for all LCRA TSC bonds, notes and commercial paper as of June 30, 2020, are as follows:

Interest Rates and Maturity Dates on Debt		
Series	From	To
LCRA TSC 2011A (4.50%-5.00%)	2021	2041
LCRA TSC 2011B (5.00%-5.00%)	2021	2026
LCRA TSC 2013 (3.25%-5.00%)	2021	2043
LCRA TSC 2013A (5.00%-5.00%)	2024	2036
LCRA TSC 2015 (3.00%-5.00%)	2021	2045
LCRA TSC 2016 (3.00%-5.00%)	2021	2046
LCRA TSC 2018 (5.00%-5.00%)	2021	2048
LCRA TSC 2019 (3.88%-5.00%)	2021	2049
LCRA TSC 2019A (4.00%-5.00%)	2021	2049
LCRA TSC 2020 (5.00%-5.00%)	2021	2050
Commercial paper <sup>(1)</sup>		
Private notes <sup>(2)</sup>		

(1) Commercial paper rates are variable as of June 30, 2020. Rates ranged from 0.21% to 0.25%, with maturities of 270 days or less from their respective issue dates.

(2) Private note rates are variable as of June 30, 2020. Rates are 0.75%, with maturities of 364 days or less from their respective issue dates.

**LCRA TRANSMISSION SERVICES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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LCRA TSC's debt as of June 30, 2020, was rated by Moody's, Standard & Poor's and Fitch as follows:

Debt Program	June 30, 2020		
	Moody's Ratings	Standard & Poor's Ratings	Fitch Ratings
LCRA Transmission Services Corporation Contract Refunding Revenue Bonds	A1 (Stable)	A (Stable)	A+ (Stable)
LCRA Transmission Services Corporation Tax-Exempt Commercial Paper Series	P-1	A-1	F-1+
LCRA Transmission Services Corporation Tax-Exempt Commercial Paper Series B	Inactive	Inactive	Inactive

Bond debt payments, excluding commercial paper, are as follows:

Debt Payments, Excluding Commercial Paper (Dollars in Millions)			
Year Ended June 30,	Principal	Interest	Total
2021	\$ 87.4	\$ 109.3	\$ 196.7
2022	94.1	105.8	199.9
2023	100.9	101.3	202.2
2024	99.2	96.5	195.7
2025	111.2	91.7	202.9
2026-2030	560.5	379.5	940.0
2031-2035	542.6	253.2	795.8
2036-2040	364.0	142.3	506.3
2041-2045	289.1	62.9	352.0
2046-2050	117.2	12.4	129.6
	2,366.2	1,354.9	3,721.1
Unamortized net premium	209.8	-	209.8
Total	<u>\$ 2,576.0</u>	<u>\$ 1,354.9</u>	<u>\$ 3,930.9</u>



# LCRA TRANSMISSION SERVICES CORPORATION

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**New and Refunding Bonds:** The following schedules summarize new and refunding bonds as of June 30, 2020, and June 30, 2019.

FY 2020 New and Refunding Bonds (Dollars in Millions)						
Program	Issued Amount	Commercial Paper Repayment	Debt Defeasance	Accounting Gain /(Loss)	Reduction to Aggregate Debt Service Payment	Economic Gain
Commercial Paper/Private Notes	\$ 370.9 <sup>1</sup>	\$ -	\$ -	\$ -	\$ -	\$ -
LCRA TSC 2019A Refunding Bonds <sup>2</sup>	173.3	(200.0)	-	-	-	-
LCRA TSC 2020 Refunding Bonds <sup>3</sup>	261.5	(150.0)	(159.6)	2.1	30.4	28.2
Total	\$ 805.7	\$ (350.0)	\$ (159.6)	\$ 2.1	\$ 30.4	\$ 28.2

<sup>1</sup> Commercial paper and private note issuances used to fund capital projects in FY 2020 was \$370.9 million for LCRA TSC.

<sup>2</sup> LCRA TSC refunding revenue bond series 2019 issued with a net premium. The bond proceeds were used to pay down \$200.0 million in outstanding commercial paper.

<sup>3</sup> LCRA TSC refunding revenue bond series 2020 issued with a net premium. The bond proceeds were used to pay down \$159.6 million in previously outstanding bonds and \$150.0 million in commercial paper.

FY 2019 New and Refunding Bonds (Dollars in Millions)						
Program	Issued Amount	Commercial Paper Repayment	Debt Defeasance	Accounting Gain /(Loss)	Reduction to Aggregate Debt Service Payment	Economic Gain
Commercial Paper/Private Notes	\$ 348.1 <sup>1</sup>	\$ -	\$ -	\$ -	\$ -	\$ -
LCRA TSC 2019 Refunding Bonds <sup>2</sup>	393.0	(323.4)	(115.6)	2.0	33.6	26.3
Total	\$ 741.1	\$ (323.4)	\$ (115.6)	\$ 2.0	\$ 33.6	\$ 26.3

<sup>1</sup> Used to fund capital projects.

<sup>2</sup> LCRA TSC refunding revenue series 2019 issued with a net premium. The bond proceeds were used to pay down \$115.6 million in previously outstanding bonds and \$323.4 million in commercial paper.

There was no principal outstanding as of June 30, 2020, and 2019 associated with bonds that have been previously refunded by LCRA TSC.

**Contractual Commitment:** Concurrent with the transfer by LCRA of transmission and transformation assets to LCRA TSC on Jan. 1, 2002, in order to comply with the requirements of SB7, LCRA TSC assumed responsibility for its share of LCRA's debt service in return for such assets. This obligation is evidenced by a contract executed between LCRA TSC and LCRA whereby LCRA TSC is responsible for payments equal to the scheduled debt service attributable to LCRA TSC. The total semiannual payments to be made by LCRA TSC to LCRA from May 15, 2002, until May 15, 2032, are \$596.0 million. The present value of these payments equals \$334.0 million. The difference between the future payment amounts and the present value of the payments represents imputed interest. The amortization of the imputed interest and principal of the note payable was amortized using the interest method. The effective interest rate of the note is 6.06%. In addition to the asset transfer on Jan. 1, 2002, a net premium of \$6.4 million and a net loss on refunded bonds of \$72.0 million associated with past LCRA bond issues were transferred to LCRA TSC.

# LCRA TRANSMISSION SERVICES CORPORATION

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

Optional Redemption Amounts and Maturity Dates				
Series	Redeemable on or after:	In increments of:	At a redemption price of:	Maturing on and after:
LCRA TSC 2011A	May 15, 2021	5,000	100 + accrued interest	May 15, 2022
LCRA TSC 2011B	May 15, 2021	5,000	100 + accrued interest	May 15, 2022
LCRA TSC 2013	May 15, 2022	5,000	100 + accrued interest	May 15, 2023
LCRA TSC 2013A	May 15, 2023	5,000	100 + accrued interest	May 15, 2024
LCRA TSC 2015	May 15, 2025	5,000	100 + accrued interest	May 15, 2026
LCRA TSC 2016	May 15, 2026	5,000	100 + accrued interest	May 15, 2027
LCRA TSC 2018	May 15, 2024	5,000	100 + accrued interest	May 15, 2025 - May 15, 2031
LCRA TSC 2018	May 15, 2028	5,000	100 + accrued interest	May 15, 2032
LCRA TSC 2019	May 15, 2027	5,000	100 + accrued interest	May 15, 2037 - May 15, 2049
LCRA TSC 2019	May 15, 2029	5,000	100 + accrued interest	May 15, 2030 - May 15, 2036
LCRA TSC 2019A	May 15, 2028	5,000	100 + accrued interest	May 15, 2049
LCRA TSC 2019A	May 15, 2029	5,000	100 + accrued interest	May 15, 2030 - May 15, 2041, May 15, 2044
LCRA TSC 2020	May 15, 2029	5,000	100 + accrued interest	May 15, 2030

**Commercial Paper and Private Notes:** LCRA TSC is authorized to issue short-term debt under four separate Board-approved programs. The following schedule summarizes the commercial paper and private note programs as of June 30, 2020.

Commercial Paper and Private Notes (Dollars in Millions)							
Program	Status	Taxability	Board- Approved Program	Program Expiration Date	Facility Available	Facility Expiration Date	Amount Outstanding
LCRA TSC Project Tax-Exempt Series Commercial Paper	Active	Tax-exempt	\$ 200.0	May 15, 2042	\$ 150.0	April 25, 2021	\$ 64.1
LCRA TSC Tax-Exempt Series B Commercial Paper	Inactive	Tax-exempt	150.0	May 15, 2042	N/A	N/A	-
LCRA TSC Private Revolving Note Program Series C <sup>1</sup>	Active	Both	150.0	May 01, 2027	150.0	Nov. 15, 2021	107.0
LCRA TSC Private Revolving Note Program Series E <sup>1</sup>	Active	Tax-exempt	100.0	May 01, 2027	100.0	June 09, 2023	-
LCRA TSC Private Revolving Note Program Series F <sup>1</sup>	Active	Both	50.0	May 01, 2027	50.0	June 10, 2021	-
Total			<u>\$ 650.0</u>		<u>\$ 450.0</u>		<u>\$ 171.1</u>

The proceeds from these programs can be used to provide system improvements, acquire facilities, refund outstanding debt, and pay interest on outstanding debt. The credit facilities were utilized to back outstanding commercial paper issuances in 2020 and 2019. LCRA TSC did not draw on its credit lines in either year as short term financing was executed through commercial paper issuances backed by the facilities.

LCRA TSC issues short-term debt on a regular basis. Any issuances of commercial paper or notes after June 30, 2020, are not considered subsequent events and are not disclosed in the Notes to the Financial Statements.

**Pledged Revenues:** The LCRA TSC Transmission Contract Revenue Bonds Series 2011A, 2011B, 2013, 2013A, 2015, 2016, 2018, 2019, 2019A and 2020 are solely secured by the obligation of LCRA TSC to make installment payments to LCRA from the net revenues of LCRA TSC (subordinate to first lien on gross revenues securing the purchase price payments under the initial contractual commitment). Net revenues are defined as gross revenues less any purchase price payments due to LCRA and less the operating and maintenance expenses during the period.

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2020, and 2019

**Mandatory Redemption:** A number of LCRA TSC term bonds are subject to mandatory redemption at the redemption price, which equals the principal amount plus accrued interest to the redemption date. The particular bonds or portions to be redeemed are to be selected and designated by LCRA (provided that a portion of a bond may be redeemed only in an integral multiple of \$5,000). The mandatory redemption dates range from May 15, 2025, to May 15, 2050.

**Estimation of Fair Value:** The fair value measurements of long-term debt were estimated based on published market prices, and were \$2.8 billion and \$2.5 billion as of June 30, 2020, and 2019, respectively.

#### **Debt Covenant Requirements:**

LCRA TSC is required by its long-term debt covenants to maintain annual revenues sufficient to:

- I. Produce a 1.25x coverage ratio on certain payments under the Initial Contractual Commitment due LCRA.
- II. Pay all operating and maintenance expenses.
- III. Produce a 1.25x coverage ratio on debt service on existing LCRA TSC debt and any other parity debt.
- IV. Pay all other debt of LCRA TSC.
- V. Produce amounts to fund any required capital charge coverage ratios required by the financial policies of LCRA TSC and to accumulate the required funds in any debt service reserve fund or any other funds of LCRA TSC.

There are no additional quantitative ratios or calculations required by credit facility agreements for LCRA TSC. As of June 30, 2020, LCRA TSC is in compliance with all of its long-term debt covenants and credit facility agreements.

## **4. Commitments and Contingencies**

**Construction:** LCRA TSC construction commitments through 2025 total \$55.8 million, with \$2.1 million committed through calendar year 2021.

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

As of June 30, 2020, two lessors have notified LCRA TSC of their intent to terminate their lease within five years, the earliest of which will occur in January 2021.

During FY 2018, LCRA TSC entered into a 10-year operating lease agreement with a third party for the use of space on structures for telecommunications purposes. These agreements include an annual escalation clause and four renewal option periods for five years each. Rental expense was \$3.5 million and \$3.4 million for FY 2020 and FY2019, respectively.

**LCRA TRANSMISSION SERVICES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**As of and for the Years Ended June 30, 2020, and 2019**

Lease expenses were \$13.7 million and \$14.3 million annually for the years ended June 30, 2020, and 2019. The following is a schedule by year of future minimum lease payments under the operating leases for the remaining noncancellable terms as of June 30, 2020:

Future Minimum Lease Payments (Dollars in Millions)	
<u>Year Ended June 30,</u>	<u>Amount</u>
2021	\$ 13.5
2022	12.6
2023	12.0
2024	12.1
2025	3.8

**Insurance:** LCRA TSC's assets, other than transmission lines, are covered under LCRA's insurance program, which includes both the purchase of commercial insurance and a self-insurance program to finance losses. LCRA TSC pays for the insurance premiums based on the covered transmission asset values. In the normal course of business, LCRA TSC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. Self-funding of property damage varies from \$0.1 million to \$2.0 million depending on the insurance deductible for the loss event. Several commercial liability insurance policies cover liability claims up to the policy limits after meeting the deductibles. Settled claims have not exceeded commercial insurance coverage in any of the past two fiscal years. Based on an insurance risk analysis, LCRA TSC carries no commercial insurance on transmission lines outside of substations. Transmission lines inside substations and lines within 1,000 feet of a generating facility are covered by property insurance.

**LCRA TRANSMISSION SERVICES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**As of and for the Years Ended June 30, 2020, and 2019**

**5. Capital Asset Activity**

Capital asset activity for the year ended June 30, 2020, was as follows:

FY 2020 Capital Asset Activity (Dollars in Millions)						
	Beginning Balance	Additions	Transfers	Retirements	Depreciation	Ending Balance
Utility plant in service						
Depreciable assets	\$ 3,218.1	\$ (0.5)	\$ 385.6	\$ (82.3)	\$ -	\$ 3,520.9
Nondepreciable assets	17.8	-	33.4	36.6	-	87.8
Total Utility Plant in Service	<u>3,235.9</u>	<u>(0.5)</u>	<u>419.0</u>	<u>(45.7)</u>	<u>-</u>	<u>3,608.7</u>
Construction work in progress						
Nondepreciable assets	209.7	396.3	(419.0)	(0.4)	-	186.6
Less accumulated depreciation	(841.0)	-	-	8.8	(107.3)	(939.5)
Intangible assets - easements	250.8	-	0.2	18.9	-	269.9
Capital assets, net	<u>\$ 2,855.4</u>	<u>\$ 395.8</u>	<u>\$ 0.2</u>	<u>\$ (18.4)</u>	<u>\$ (107.3)</u>	<u>\$ 3,125.7</u>

Capital asset activity for the year ended June 30, 2019, was as follows:

FY 2019 Capital Asset Activity (Dollars in Millions)						
	Beginning Balance	Additions	Transfers	Retirements	Depreciation	Ending Balance
Utility plant in service						
Depreciable assets	\$ 2,992.7	\$ 5.0	\$ 261.8	\$ (41.4)	\$ -	\$ 3,218.1
Nondepreciable assets	17.1	-	3.9	(3.2)	-	17.8
Total utility plant in service	<u>3,009.8</u>	<u>5.0</u>	<u>265.7</u>	<u>(44.6)</u>	<u>-</u>	<u>3,235.9</u>
Construction work in progress						
Nondepreciable assets	80.4	402.3	(267.7)	(5.3)	-	\$ 209.7
Less accumulated depreciation	(788.2)	-	-	15.7	(68.5)	(841.0)
Intangible assets - easements	249.0	-	2.0	(0.2)	-	250.8
Capital assets, net	<u>\$ 2,551.0</u>	<u>\$ 407.3</u>	<u>\$ -</u>	<u>\$ (34.4)</u>	<u>\$ (68.5)</u>	<u>\$ 2,855.4</u>