

**LCRA**  
**TRANSMISSION SERVICES CORPORATION,**  
*Component Unit of the Lower Colorado River Authority*

**FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED**  
**June 30, 2022, and 2021**

*With Independent Auditors' Report*

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

Financial Statements  
As of and for the  
Years Ended  
June 30, 2022, and 2021

Table of Contents

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Independent Auditors' Report	1-3
Required Supplementary Information (unaudited)	
Management's Discussion and Analysis	4-9
Financial Statements	
Balance Sheets	10-11
Statements of Revenues, Expenses and Changes in Net Position	12
Statements of Cash Flows	13
Notes to Financial Statements	14-28

## **Independent Auditors' Report**

To the Board of Directors of  
LCRA Transmission Services Corporation

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of the LCRA Transmission Services Corporation (LCRA TSC), a component unit of the Lower Colorado River Authority, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the LCRA TSC's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LCRA TSC as of June 30, 2022 and 2021, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the LCRA TSC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Emphasis of Matter**

As discussed in Note 1, the LCRA TSC adopted the provisions of GASB Statement No. 87, *Leases*, effective July 1, 2021. Accordingly, the accounting change has been retrospectively applied to the prior period presented. Our opinion is not modified with respect to this matter.

#### **Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that rise substantial doubt about the LCRA TSC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 LCRA TSC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the LCRA TSC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audit 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 20, 2022 on our consideration of the LCRA TSC'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 solely 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 the effectiveness of the LCRA TSC's 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 TSC's internal control over financial reporting and compliance.

*Baker Tilly US, LLP*

Austin, Texas  
September 20, 2022

# **LCRA TRANSMISSION SERVICES CORPORATION**

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

### **For the Years Ended June 30, 2022, and 2021**

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)

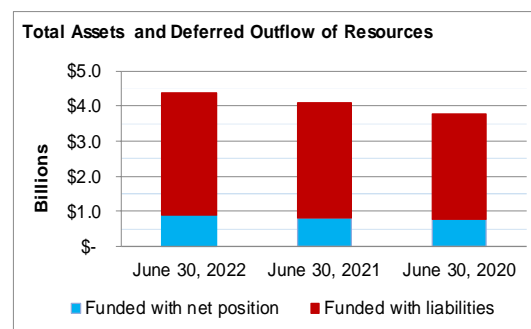
### For the Years Ended June 30, 2022, and 2021

## Financial Highlights

Condensed Balance Sheets (Dollars in Millions)					
	June 30, 2022	June 30, 2021	June 30, 2020	2022 vs. 2021	2021 vs. 2020
		Restated	Restated		
Current assets	\$ 360.4	\$ 390.4	\$ 357.8	(7.7%)	9.1%
Capital assets, net	3,711.1	3,469.6	3,187.3	7.0%	8.9%
Other noncurrent assets	261.3	210.2	176.8	24.3%	18.9%
Total Assets	4,332.8	4,070.2	3,721.9	6.5%	9.4%
Total Deferred Outflow of Resources	23.0	24.4	28.8	(5.7%)	(15.3%)
Total Assets and Deferred Outflow of Resources	\$ 4,355.8	\$ 4,094.6	\$ 3,750.7	6.4%	9.2%
Current liabilities	\$ 446.8	\$ 435.6	\$ 393.4	2.6%	10.7%
Noncurrent liabilities	2,932.5	2,767.0	2,538.0	6.0%	9.0%
Total Liabilities	3,379.3	3,202.6	2,931.4	5.5%	9.3%
Total Deferred Inflow of Resources	90.7	61.0	36.0	48.7%	69.4%
Net investment in capital assets	668.8	550.4	544.1	21.5%	1.2%
Restricted for capital assets	0.3	-	0.7	-	(100.0%)
Unrestricted net position	216.7	280.6	238.5	(22.8%)	17.7%
Total Net Position	885.8	831.0	783.3	6.6%	6.1%
Total Liabilities, Deferred Inflow of Resources and Net Position	\$ 4,355.8	\$ 4,094.6	\$ 3,750.7	6.4%	9.2%

### Balance Sheets Overview

Approximately 85.7% 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.



### 2022 Compared With 2021

Total assets and deferred outflows of resources increased by \$261.2 million, or 6.4%, from the prior year. The increase primarily was the result of an increase of \$241.5 million, or 7.0%, in net capital assets. Capital additions were \$387.2 million, partially offset by \$123.5 million in accumulated depreciation and \$22.2 million in retirements. See details in the Capital Asset Activity section. Current assets decreased \$30.0 million, or 7.7%, due to a decrease in unrestricted cash and cash equivalents of \$42.6 million.

Total liabilities increased by \$176.7 million, or 5.5%, from the prior year primarily due to an increase in debt of \$153.2 million.

### 2021 Compared With 2020

Total assets and deferred outflows of resources increased by \$343.9 million, or 9.2%, from the prior year. The increase primarily was the result of an increase of \$282.3 million, or 8.9%, in net capital assets. Capital additions were \$414.1 million, partially offset by \$113.3 million in accumulated depreciation and \$18.4 million in retirements. See details in the Capital Asset Activity section. Current assets increased \$32.6 million, or 9.1%, due to an increase in unrestricted cash and cash equivalents of \$37.4 million.

Total liabilities increased by \$271.2 million, or 9.3%, from the prior year primarily due to an increase in debt of \$278.9 million.

# LCRA TRANSMISSION SERVICES CORPORATION

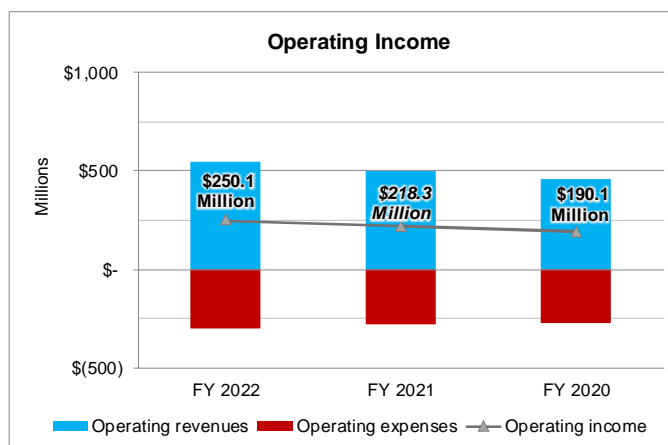
## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### For the Years Ended June 30, 2022, and 2021

Condensed Statements of Revenues, Expenses and Changes in Net Position (Dollars in Millions)					
	Year Ended June 30,			2022 vs. 2021	2021 vs. 2020
	2022	2021	2020	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)
		Restated	Restated		
Operating revenues	\$ 545.7	\$ 497.6	\$ 459.9	9.7%	8.2%
Operating expenses	(295.6)	(279.3)	(269.8)	(5.8%)	(3.5%)
Operating income	250.1	218.3	190.1	14.6%	14.8%
Nonoperating revenues	0.4	1.2	5.5	(66.7%)	(78.2%)
Nonoperating expenses	(198.0)	(170.7)	(142.1)	(16.0%)	(20.1%)
Nonoperating loss	(197.6)	(169.5)	(136.6)	(16.6%)	(24.1%)
Capital contributions	2.3	-	0.3	-	(100.0%)
Transfers out	-	(1.1)	(6.7)	100.0%	83.6%
Transfers and contributions	2.3	(1.1)	(6.4)	309.1%	82.8%
Change in net position	54.8	47.7	47.1	14.9%	1.3%
Net position, beginning of year	831.0	783.3	736.2	6.1%	6.4%
Net position, end of year	\$ 885.8	\$ 831.0	\$ 783.3	6.6%	6.1%

### 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 an increase in the last year.



### 2022 Compared With 2021

Operating income for fiscal year 2022 increased by \$31.8 million, or 14.6%, from the prior year primarily due to higher operating revenues as a result of rate increases. This was partially offset by an increase in operating expenses of \$16.3 million, or 5.8%.

### 2021 Compared With 2020

Operating income for fiscal year 2021 increased by \$28.2 million, or 14.8%, from the prior year primarily due to higher operating revenues as a result of rate increases. This was offset by an increase in operating expenses of \$9.5 million, or 3.5%.



# LCRA TRANSMISSION SERVICES CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### For the Years Ended June 30, 2022, and 2021

#### *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.

#### *2022 Compared With 2021*

LCRA TSC's nonoperating loss increased by \$28.1 million, or 16.6%, from the prior year. The most significant item contributing to that increase was an increase in the loss on the disposition of property.

#### *2021 Compared With 2020*

LCRA TSC's nonoperating loss increased by \$32.9 million, or 24.1%, from the prior year. The most significant item contributing to that increase was an increase in prior costs recovered from revenues compared with the prior year.

## Regulatory Matters

Transmission revenues of \$526.4 million for the year ended June 30, 2022, were the result of rate changes authorized during the fiscal year. New rates of \$7.43 per kilowatt became effective on Oct. 7, 2021. Prior to the change, the rate was \$7.06 as of March 2021 and \$6.76 as of September 2020. The rate increases were related to investments in transmission system improvements.

LCRA TSC filed for an interim rate increase in September 2022 with a rate anticipated to be effective in autumn 2022 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, 2022	June 30, 2021 Restated
Expended for construction activities	\$ 387.2	\$ 414.1
Depreciation expense	123.5	113.3
Asset retirements, net of proceeds	22.2	18.4

For additional details, see Note 6 of the Notes to the Financial Statements.

**LCRA TRANSMISSION SERVICES CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Years Ended June 30, 2022, and 2021**

## Capital Improvement Program

LCRA TSC's capital improvement and expansion program for FY 2023 through FY 2027 is \$2.2 billion, with approximately 75.7% 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 Ending June 30,					
	2023	2024	2025	2026	2027	Total
Revenue/other funded	\$ 82.3	\$ 59.6	\$ 110.6	\$ 137.9	\$ 140.8	\$ 531.2
Debt funded	397.4	406.5	300.3	277.5	277.5	1,659.2
Total LCRA TSC Capital	<u>\$ 479.7</u>	<u>\$ 466.1</u>	<u>\$ 410.9</u>	<u>\$ 415.4</u>	<u>\$ 418.3</u>	<u>\$ 2,190.4</u>
Percent debt funded	82.8%	87.2%	73.1%	66.8%	66.3%	75.7%

**LCRA TRANSMISSION SERVICES CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Years Ended June 30, 2022, and 2021**

**Debt Activity**

Debt Activity (Dollars in Millions)		
	June 30, 2022	June 30, 2021
Private notes issued	\$ 270.4	\$ 300.0
Tax-exempt commercial paper issued	\$ 280.5	\$ 282.9
Contractual commitment payments	\$ 46.5	\$ 4.4
Scheduled debt payments	\$ 87.4	\$ 54.2
Interest payments	\$ 129.4	\$ 113.0
Bond issuance	LCRA TSC refunding revenue bond series 2021A issued with a net premium. The bond proceeds were used to pay down \$50.0 million in outstanding commercial paper and \$150.0 million in notes. *	LCRA TSC Series 2020A Refunding Revenue Bonds: The bonds were issued at a premium and proceeds were used to pay down \$68.0 million of tax-exempt commercial paper and \$107.0 million of private notes.*
	LCRA TSC refunding revenue bond series 2022 issued with a net premium. The bond proceeds were used to pay down \$262.2 million in previously outstanding bonds, \$50.0 million in outstanding commercial paper and \$100.0 million in notes. *	LCRA TSC Series 2021 Refunding Revenue Bonds: The bonds were issued at a premium and proceeds were used to pay down \$333.8 million of previously outstanding bonds, \$50.0 million of tax-exempt commercial paper, and \$150.0 million of private notes.*

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

**Restatements**

LCRA TSC adopted a new accounting standard for leases effective July 1, 2021. Prior periods were restated.

See Note 1 for additional details.

**Contacting LCRA TSC's Management**

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

# LCRA TRANSMISSION SERVICES CORPORATION

## BALANCE SHEETS

(Dollars in Millions)

	June 30, 2022	June 30, 2021
		Restated
Assets		
Current Assets:		
Cash and cash equivalents	\$ 177.1	\$ 219.7
Unrestricted investments	38.3	45.2
Receivables, net	93.8	90.8
Inventories, net	49.2	34.1
Other	2.0	0.6
Total current assets	<u>360.4</u>	<u>390.4</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	0.6	11.5
Unrestricted investments	12.3	11.3
Accounts receivable from LCRA - restricted	128.7	126.1
Capital assets:		
Depreciable:		
Utility plant in service	4,290.9	3,971.0
Intangible assets – leases and other	84.0	79.7
Less: accumulated depreciation and amortization	<u>(1,193.1)</u>	<u>(1,046.8)</u>
Depreciable capital assets, net	3,181.8	3,003.9
Nondepreciable:		
Utility plant in service	35.4	36.9
Intangible assets - easements	340.8	318.0
Construction work in progress	<u>153.1</u>	<u>110.8</u>
Nondepreciable capital assets	<u>529.3</u>	<u>465.7</u>
Notes receivable	0.1	-
Other charges		
Facilities regulatory asset	53.4	-
Prepaid capital expenses	<u>66.2</u>	<u>61.3</u>
Total other charges	<u>119.6</u>	<u>61.3</u>
Total noncurrent assets	<u>3,972.4</u>	<u>3,679.8</u>
Total Assets	<u>4,332.8</u>	<u>4,070.2</u>
Deferred Outflow of Resources:		
Unamortized loss on debt refundings	<u>23.0</u>	<u>24.4</u>
Total Deferred Outflow of Resources	<u>23.0</u>	<u>24.4</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 4,355.8</u>	<u>\$ 4,094.6</u>

LCRA TRANSMISSION SERVICES CORPORATION  
BALANCE SHEETS

(Dollars in Millions)

	June 30, 2022	June 30, 2021 Restated
Liabilities		
Current Liabilities:		
Accounts payable to LCRA	\$ 26.3	\$ 22.1
Accounts payable	37.6	29.0
Interest payable	19.3	19.6
Other current liabilities	87.1	64.5
Bonds and notes payable	276.5	300.4
Total current liabilities	<u>446.8</u>	<u>435.6</u>
Noncurrent Liabilities:		
Accounts payable from restricted assets	0.3	0.9
Bonds and notes payable	2,902.7	2,725.6
Other credits	2.9	2.3
Lease liability	26.6	38.2
Total noncurrent liabilities	<u>2,932.5</u>	<u>2,767.0</u>
Total Liabilities	<u>3,379.3</u>	<u>3,202.6</u>
Deferred Inflow of Resources:		
Regulatory credits from future recovery	83.3	57.2
Other	7.4	3.8
Total Deferred Inflow of Resources	<u>90.7</u>	<u>61.0</u>
Net Position		
Net investment in capital assets	668.8	550.4
Restricted for capital projects	0.3	-
Unrestricted	216.7	280.6
Total Net Position	<u>885.8</u>	<u>831.0</u>
Total Liabilities, Deferred Inflow of Resources and Net Position	<u>\$ 4,355.8</u>	<u>\$ 4,094.6</u>

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

(Dollars in Millions)

	Year Ended June 30,	
	2022	2021
		Restated
Operating Revenues		
Transmission	\$ 526.4	\$ 478.5
Transformation	17.1	15.8
Other	2.2	3.3
Total Operating Revenues	<u>545.7</u>	<u>497.6</u>
Operating Expenses		
Operations	157.1	151.3
Maintenance	15.0	14.7
Depreciation and amortization	123.5	113.3
Total Operating Expenses	<u>295.6</u>	<u>279.3</u>
Operating Income	<u>250.1</u>	<u>218.3</u>
Nonoperating Revenues (Expenses)		
Interest income (expense)	(6.6)	1.2
Gain on disposition of property	0.4	-
Loss on disposition of property	(41.6)	(25.2)
Interest on debt	(98.5)	(94.5)
Other expenses	(24.1)	(25.7)
Total Nonoperating Revenues (Expenses)	<u>(170.4)</u>	<u>(144.2)</u>
Income Before Prior Costs Recovered From		
Revenues, Capital Contributions and Transfers Out	79.7	74.1
Prior Costs Recovered From Revenues	(27.2)	(25.3)
Capital Contributions	2.3	-
Transfers Out	-	(1.1)
Change in Net Position	<u>54.8</u>	<u>47.7</u>
Total Net Position, Beginning of Year - Restated	<u>831.0</u>	<u>783.3</u>
Total Net Position, End of Year	<u>\$ 885.8</u>	<u>\$ 831.0</u>

LCRA TRANSMISSION SERVICES CORPORATION  
STATEMENTS OF CASH FLOWS  
PERIODS ENDING JUNE 30, 2022, AND JUNE 30, 2021  
(Dollars in Millions)

	Year Ended June 30,	
	2022	2021
		Restated
Cash Flows From Operating Activities		
Receipts from customers	\$ 505.3	\$ 489.7
Payments for goods and services	(175.0)	(182.3)
Other receipts (payments)	2.9	(2.7)
Net cash provided by operating activities	<u>333.2</u>	<u>304.7</u>
Cash Flows From Noncapital Financing Activities		
Other expenses	(26.1)	(25.5)
Transfers out	-	(1.1)
Net cash used in noncapital financing activities	<u>(26.1)</u>	<u>(26.6)</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(406.2)	(413.0)
Lease payments	(14.2)	(14.2)
Proceeds from sale of capital assets	1.3	-
Debt issue costs	(2.7)	(4.8)
Contributed capital received for capital costs	2.3	0.1
Proceeds from long-term debt	618.2	684.8
Proceeds from commercial paper and notes	550.9	582.9
Debt principal payments	(137.3)	(58.6)
Interest paid	(129.4)	(113.0)
Payments to refund and defease debt	(840.3)	(902.1)
Net cash used in capital and financing activities	<u>(357.4)</u>	<u>(237.9)</u>
Cash Flows From Investing Activities		
Sale and maturity of investment securities	184.8	74.6
Purchase of investment securities	(189.5)	(68.5)
Note payments and interest received	1.5	1.9
Net cash provided by (used in) investing activities	<u>(3.2)</u>	<u>8.0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(53.5)	48.2
Cash and Cash Equivalents, Beginning of Year	231.2	183.0
Cash and Cash Equivalents, End of Year	<u>\$ 177.7</u>	<u>\$ 231.2</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 250.1	\$ 218.3
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	123.5	113.3
Changes in assets, liabilities, and deferred inflows and outflows of resources:		
Accounts receivable	(4.5)	(6.5)
Inventories	(15.0)	(5.6)
Current liabilities	34.1	35.1
Other noncurrent assets, charges and deferred outflow of resources	(4.9)	(7.8)
Other credits and other noncurrent liabilities, and deferred inflow of resources	(50.1)	(42.1)
Net cash provided by operating activities	<u>\$ 333.2</u>	<u>\$ 304.7</u>
Noncash Investing and Capital and Related Financing Activities		
Investment market adjustments	\$ 8.2	\$ 0.1
Capital assets financed through short-term liabilities	(1.2)	1.3
Noncash loss on asset retirements	(33.7)	(16.3)

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2022, and 2021

## 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.

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 \$212.9 million and \$209.9 million during fiscal year 2022 and FY 2021, 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 4 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 Fiscal Year 2022:** In FY 2022, LCRA TSC implemented GASB Statement No. 87, *“Leases,”* which requires recognition of 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 receivable and a deferred inflow of resources. LCRA TSC implemented this standard effective July 1, 2021, using the full retrospective method; prior years were restated.



# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2022, and 2021

**Issued, But Not Yet Effective Pronouncements:** In May 2020, the GASB issued a new accounting standard (GASB Statement No. 96) for subscription-based information technology arrangements (SBITAs). This includes Software as a Service arrangements. Under the new standard, a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. The new standard also provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA. The accounting method is similar to the accounting for leases established in GASB Statement No. 87. The adoption of the new standard will have an immaterial impact on LCRA TSC's financial statements.

**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 \$0.8 million and \$0.4 million for FY 2022 and FY 2021, 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 \$526.4 million for the year ended June 30, 2022, were the result of rate changes authorized during the fiscal year. New rates of \$7.43 per kilowatt became effective on Oct. 7, 2021. Prior to the change, the rate was \$7.06 as of March 2021 and \$6.76 as of September 2020. The rate increases were related to investments in transmission system improvements.

LCRA TSC filed for an interim rate increase in September 2022 with a rate anticipated to be effective autumn 2022 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 the \$250,000 Federal Deposit Insurance Corporation limits at certain financial institutions. At June 30, 2022, LCRA TSC held \$2.4 million in funds which were both FDIC insured and/or collateralized by securities held by the pledging financial institution in which the deposits are held. Credit risk is also managed by concentrating the cash balances in high quality financial institutions and 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.

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2022, and 2021

**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. The allowance for doubtful accounts was less than \$1,000 at June 30, 2022, and June 30, 2021.

**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 was \$0.3 million as of June 30, 2022, and 2021.

**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. Restricted accounts receivable from LCRA represents debt service reserve funds held by LCRA. Proceeds to purchase the debt service reserve funds came from LCRA TSC debt issuances.

**Utility Plant:** Utility plant consists of electric transmission and transformation facilities, capital spares, a system operations and control center and projects under construction. These assets are recorded at cost, which includes materials, labor, and overhead. 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—Leases and Other:** This line item includes leases and internally generated software.

**Intangible Assets—Easements:** Easements are stated at cost, have an indefinite life and are disclosed under the provisions of GASB Statement No. 51, *"Accounting and Financial Reporting for Intangible Assets."*

**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, 2022, and \$0.7 million as of June 30, 2021.

**Depreciation and Amortization:** LCRA TSC depreciates its utility plant and right to use assets 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 plant, was approximately 2.9% and 3.0% for the years ended June 30, 2022, and 2021, respectively.

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2022, and 2021

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

Transmission Facilities	5–58 years
Office Buildings	4–45 years
Intangible Assets	
Internally generated software	5 years
Leases	5-10 years

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 facilities regulatory asset arose from LCRA TSC's purchase of facilities from LCRA, consistent with GAAP for regulated operations. The regulatory asset is being amortized over the remaining life of the facilities.

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.

**Other Current Liabilities:** This line item includes expense accruals including property and sales tax, security deposits, and short-term lease liabilities.

**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.

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

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2022, and 2021

**Contractual Commitment:** The contractual commitment between LCRA TSC and LCRA was paid off in February 2022. See Note 3 for additional details.

**Transfers Out:** In accordance with the contractual commitment agreement, LCRA TSC made an LCRA Optional Purchase Price Payment to LCRA in FY 2021. These payments were recorded as transfers out on the statements of revenues, expenses and changes in net position.

**Restatement:** LCRA TSC adopted a new accounting standard for leases effective July 1, 2021. Prior periods were restated. See Note 5. The following table shows the impact of the restatement.

Schedule of Restatements to Balance Sheet			
	As Previously Reported - Year Ended June 30, 2021	Adjustments	As Restated - Year Ended June 30, 2021
Assets & Deferred Outflows Of Resources			
Other current assets	\$ 0.5	\$ 0.1	\$ 0.6
Utility plant in service	3,976.6	(5.6)	3,971.0
Intangible Assets--leases and Other	-	79.7	79.7
Accumulated depreciation and amortization	(1,021.6)	(25.2)	(1,046.8)
Liabilities & Net Position	-	-	-
Interest payable	19.5	0.1	19.6
Other current liabilities	52.2	12.3	64.5
Other credits and other noncurrent liabilities	2.2	0.1	2.3
Lease liability	-	38.2	38.2
Net investment in cap assets	551.9	(1.5)	550.4
Unrestricted net position	280.8	(0.2)	280.6

Schedule of Restatements to Statements Of Revenue, Expenses And Changes In Net Position			
	As Previously Reported - Year Ended June 30, 2021	Adjustments	As Restated - Year Ended June 30, 2021
Operations expense	\$ 165.0	\$ (13.7)	\$ 151.3
Depreciation and amortization expense	100.7	12.6	113.3
Other income (expenses)	(23.9)	(1.8)	(25.7)
Change in Net Position	48.4	(0.7)	47.7
Net position, beginning	784.3	(1.0)	783.3
Net position, ending	832.7	(1.7)	831.0

**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, 2022, and 2021, debt-funded assets not related to capital assets included cash and investments restricted for future capital projects of \$128.7 million and \$126.1 million, respectively.

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2022, and 2021

These debt-funded assets are recorded as a restricted receivable from LCRA on the LCRA TSC balance sheet and represent debt service reserve funds held by LCRA.

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.

## 2. Financial Instruments

As of June 30, 2022, and 2021, LCRA TSC had the following investments and maturities:

Investments and Maturities (Dollars in Millions)				
	June 30, 2022		June 30, 2021	
Type of Investment	Fair Value	WAM (Years) <sup>1</sup>	Fair Value	WAM (Years) <sup>1</sup>
Investments				
Commercial paper	\$ 33.7	0.52	\$ 39.9	0.19
Taxable Municipals	16.9	0.09	16.6	0.51
Cash equivalents				
Investment pools	176.6 <sup>2</sup>	0.03	218.7 <sup>2</sup>	0.14
Total	<u>\$ 227.2</u>	0.05	<u>\$ 275.2</u>	0.17
Cash and investments as of June 30, 2022, and 2021, consisted of the following:				
Cash	\$ 1.1		\$ 12.5	
Investments and cash equivalents	227.2		275.2	
Total Cash and Investments	<u>\$ 228.3</u>		<u>\$ 287.7</u>	

<sup>1</sup>Weighted Average Maturity

<sup>2</sup>Net Asset Value

**Investment Pool:** LCRA TSC investments included an investment pool with TexPool as of June 30, 2022, and 2021. 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, 2022, and 2021. Hilltop Securities Inc. and J.P. Morgan Asset Management oversee LOGIC. The pool seeks to maintain a \$1 value per share as required by the Texas Public Funds Investment Act.

TexPool investments were \$82.3 million and \$113.2 million as of June 30, 2022, and 2021, respectively. LOGIC investments were \$94.3 million and \$105.5 million as of June 30, 2022, and 2021, respectively.

Both investment pools have no account balance or transaction amount minimum or maximum requirements.

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2022, and 2021

**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, 2022, and 2021, 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 \$126.9 million and \$124.5 million, respectively.

**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.

**Concentration Risk:** As of June 30, 2022, and June 30, 2021, LCRA TSC held commercial paper with individual issuers that accounts for greater than 5.0% of its investment portfolio. This excludes mutual funds and investments issued by or explicitly guaranteed by the U.S. government.

Concentration Risk (Dollars in millions)				
Issuer	June 30, 2022		June 30, 2021	
	Amount	Percentage of Portfolio	Amount	Percentage of Portfolio
JP Morgan	\$ 14.9	6.6%	n/a	n/a
Natixis	n/a	n/a	\$ 20.0	7.2%

**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.

Credit Risk (Dollars in millions)				
Credit Rating	June 30, 2022		June 30, 2021	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
AAAm	\$ 176.6	77.6%	\$ 218.7	79.4%
AAA	2.0	0.9%	2.9	1.1%
AA+	12.0	5.3%	5.0	1.8%
AA	2.9	1.3%	6.1	2.2%
AA-	-	0.0%	2.2	0.8%
A-1+	18.8	8.3%	20.0	7.3%
A-1	14.9	6.6%	20.0	7.3%
Aaa <sup>1</sup>	-	-	0.3	0.1%
Total investments and maturities portfolio	\$ 227.2	100.0%	\$ 275.2	100.0%

<sup>1</sup> Ratings are from Moody's; all other ratings are from Standard & Poor's.

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2022, and 2021

**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. LCRA TSC uses the market approach, which is one of the acceptable valuation techniques. 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. A Level 1 input is defined as: “quoted prices for identical assets or liabilities in active markets that LCRA TSC can access at the measurement date.” A Level 2 input is defined as “inputs – other than quoted prices – included within Level 1 that are observable for the asset or liability, either directly or indirectly.” A Level 3 input is defined as “significant unobservable inputs.” 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.

LCRA TSC holds investments in each category as shown in the below table:

Fair Value Measurement (Dollars in Millions)				
Type of Investment	June 30, 2022		June 30, 2021	
	Fair Value	Level	Fair Value	Level
Investments				
Commercial paper	33.7	2	39.9	2
Taxable Municipals	16.9	1	16.6	1
Investment pools	176.6 <sup>1</sup>		218.7 <sup>1</sup>	
Total	\$ 227.2		\$ 275.2	

<sup>1</sup>Net Asset Value

## 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, 2020	Increase	Decrease	Balance June 30, 2021	Increase	Decrease	Balance June 30, 2022	Amount Due in FY 2023
LCRA TSC 2011A	\$ 256.9	\$ -	\$ (256.9)	\$ -	\$ -	\$ -	\$ -	\$ -
LCRA TSC 2011B	76.9	-	(76.9)	-	-	-	-	-
LCRA TSC 2013	269.7	-	(7.4)	262.3	-	(262.3)	-	-
LCRA TSC 2013A	195.7	-	-	195.7	-	-	195.7	-
LCRA TSC 2015	223.2	-	(4.9)	218.3	-	(5.2)	213.1	5.4
LCRA TSC 2016	173.2	-	(6.4)	166.8	-	(6.5)	160.3	6.7
LCRA TSC 2018	274.1	-	(8.5)	265.6	-	(8.2)	257.4	14.9
LCRA TSC 2019	391.7	-	(5.6)	386.1	-	(5.5)	380.6	19.2
LCRA TSC 2019A	173.3	-	(5.5)	167.8	-	(5.4)	162.4	5.4
LCRA TSC 2020	261.5	-	(12.1)	249.4	-	(18.3)	231.1	4.0
LCRA TSC 2020A	-	145.6	(3.8)	141.8	-	(4.5)	137.3	4.5
LCRA TSC 2021	-	397.2	-	397.2	-	(28.4)	368.8	23.2
LCRA TSC 2021A	-	-	-	-	167.3	(5.3)	162.0	5.1
LCRA TSC 2022	-	-	-	-	342.6	-	342.6	7.9
Contractual commitment	69.8	-	(4.4)	65.4	-	(65.4)	-	-
Unamortized net premium	210.0	142.0	(34.3)	317.7	108.3	(22.8)	403.2	15.5
Subtotal	2,576.0	684.8	(426.7)	2,834.1	618.2	(437.8)	3,014.5	111.8
Private notes	107.0	300.0	(257.0)	150.0	270.4	(295.4)	125.0	125.0
Tax-exempt commercial paper	64.1	282.9	(305.1)	41.9	280.5	(282.7)	39.7	39.7
Total	\$ 2,747.1	\$ 1,267.7	\$ (988.8)	\$ 3,026.0	\$ 1,169.1	\$ (1,015.9)	\$ 3,179.2	\$276.5 <sup>(1)</sup>

<sup>(1)</sup> Total amount due in FY 2022 was \$300.4 million.

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2022, and 2021

Interest rates and maturity dates for all LCRA TSC bonds, notes and commercial paper as of June 30, 2022, are as follows:

Interest Rates and Maturity Dates on Debt		
Series	From	May 15, To
LCRA TSC 2013A (5.00%)	2024	2036
LCRA TSC 2015 (3.00% - 5.00%)	2023	2045
LCRA TSC 2016 (3.00% - 5.00%)	2023	2046
LCRA TSC 2018 (5.00%)	2023	2048
LCRA TSC 2019 (3.88% - 5.00%)	2023	2049
LCRA TSC 2019A (4.00% - 5.00%)	2023	2049
LCRA TSC 2020 (5.00%)	2023	2050
LCRA TSC 2020A (5.00%)	2023	2050
LCRA TSC 2021 (5.00%)	2023	2051
LCRA TSC 2021A (5.00%)	2023	2051
LCRA TSC 2022 (2.50% - 5.00%)	2023	2047
Commercial paper <sup>(1)</sup>		
Private notes <sup>(2)</sup>		

<sup>(1)</sup> Commercial paper rates are variable. As of June 30, 2022, rates ranged from 1.25% to 1.40% with maturities of 270 days or less from their respective issue dates.

<sup>(2)</sup> Private note rates are variable. As of June 30, 2022, rates range from 0.60% to 1.93%, with maturities of 364 days or less from their respective issue dates.

LCRA TSC's debt as of June 30, 2022, was rated by Moody's, Standard & Poor's and Fitch as follows:

Debt Program	June 30, 2022		
	Moody's Ratings	Standard & Poor's Ratings	Fitch Ratings
LCRA Transmission Services Corporation Contract Refunding Revenue Bonds	A1 (Stable)	A (Negative)	A+ (Stable)
LCRA Transmission Services Corporation Tax-Exempt Commercial Paper Series A	P-1	A-1	F-1+
LCRA Transmission Services Corporation Tax-Exempt Commercial Paper Series B	Inactive	Inactive	Inactive



**LCRA TRANSMISSION SERVICES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**As of and for the Years Ended June 30, 2022, and 2021**

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

Debt Payments, Excluding Commercial Paper (Dollars in Millions)			
Year Ending June 30,	Principal	Interest	Total
2023	\$ 96.3	\$ 130.3	\$ 226.6
2024	90.0	123.1	213.1
2025	122.7	118.6	241.3
2026	123.3	112.4	235.7
2027	123.4	106.4	229.8
2028-2032	589.8	441.4	1,031.2
2033-2037	556.4	294.9	851.3
2038-2042	430.4	177.0	607.4
2043-2047	353.6	77.2	430.8
2048-2052	125.4	12.4	137.8
	2,611.3	1,593.7	4,205.0
Unamortized net premium	403.2	-	403.2
Total	<u>\$ 3,014.5</u>	<u>\$ 1,593.7</u>	<u>\$ 4,608.2</u>

**New and Refunding Bonds:** The following schedules summarize new and refunding bonds as of June 30, 2022, and June 30, 2021.

FY 2022 New and Refunding Bonds (Dollars in Millions)						
Program	Issued Amount	Commercial Paper / Private Note Repayment	Debt Defeasance	Accounting Gain/(Loss)	Reduction to Aggregate Debt Service Payment	Economic Gain
Private Notes	\$ 270.4 <sup>1</sup>	\$ (45.4)	\$ -	\$ -	\$ -	\$ -
Commercial Paper	280.5 <sup>2</sup>	(182.7)	-	-	-	-
LCRA TSC 2021A Refunding Bonds <sup>3</sup>	167.3	(200.0)	-	-	-	-
LCRA TSC 2022 Refunding Bonds <sup>4</sup>	342.6	(150.0)	(262.2)	3.9	18.8	22.7
Total	<u>\$ 1,060.8</u>	<u>\$ (578.1)</u>	<u>\$ (262.2)</u>	<u>\$ 3.9</u>	<u>\$ 18.8</u>	<u>\$ 22.7</u>

<sup>1</sup> Private note issuances used to fund capital projects of \$270.4 million for LCRA TSC.

<sup>2</sup> Commercial paper issuances used to fund capital projects of \$280.5 million for LCRA TSC.

<sup>3</sup> LCRA TSC refunding revenue bond series 2021A issued with a net premium. The bond proceeds were used to pay down \$50.0 million in previously outstanding commercial paper and \$150.0 million in outstanding notes.

<sup>4</sup> LCRA TSC refunding revenue bond series 2022 issued with a net premium. The bond proceeds were used to pay down \$262.2 million in previously outstanding bonds, \$50.0 million in outstanding commercial paper and \$100.0 million in outstanding notes.

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2022, and 2021

FY 2021 New and Refunding Bonds (Dollars in Millions)						
Program	Issued Amount	Commercial Paper / Private Note Repayment	Debt Defeasance	Accounting Gain/(Loss)	Reduction to Aggregate Debt Service Payment	Economic Gain
Private Notes	\$ 300.0 <sup>1</sup>	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Paper	282.9 <sup>2</sup>	(187.1)	-	-	-	-
LCRA TSC 2020A Refunding Bonds <sup>3</sup>	145.6	(175.0)	-	-	-	-
LCRA TSC 2021 Refunding Bonds <sup>4</sup>	397.2	(200.0)	(333.8)	(15.8)	34.4	65.5
Total	<u>\$ 1,125.7</u>	<u>\$ (562.1)</u>	<u>\$ (333.8)</u>	<u>\$ (15.8)</u>	<u>\$ 34.4</u>	<u>\$ 65.5</u>

<sup>1</sup> Private note issuances used to fund capital projects of \$300.0 million for LCRA TSC.

<sup>2</sup> Commercial paper issuances used to fund capital projects of \$282.9 million for LCRA TSC.

<sup>3</sup> LCRA TSC refunding revenue bond series 2020A issued with a net premium. The bond proceeds were used to pay down \$68.0 million in outstanding commercial paper and \$107.0 million in notes.

<sup>4</sup> LCRA TSC refunding revenue bond series 2021 issued with a net premium. The bond proceeds were used to pay down \$333.8 million in previously outstanding bonds, \$50.0 million in outstanding commercial paper and \$150.0 million in notes.

There was no principal outstanding as of June 30, 2022, and 2021 associated with bonds that previously have been 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 TSC paid off the balance of the contractual commitment in February 2022. The cash payoff amount was \$46.5 million. LCRA TSC used proceeds from the issuance of tax-exempt commercial paper for the pay off. The outstanding tax-exempt commercial paper was then paid off in June 2022.

# LCRA TRANSMISSION SERVICES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### As of and for the Years Ended June 30, 2022, and 2021

**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 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
LCRA TSC 2020A	May 15, 2030	5,000	100 + accrued interest	May 15, 2031
LCRA TSC 2021	May 15, 2030	5,000	100 + accrued interest	May 15, 2031
LCRA TSC 2021A	May 15, 2031	5,000	100 + accrued interest	May 15, 2032
LCRA TSC 2022	May 15, 2031	5,000	100 + accrued interest	May 15, 2032

**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, 2022.

Commercial Paper and Private Notes (Dollars in Millions)								
Program	Status	Taxability	Board-Approved Program	Program Expiration Date	Facility Limit	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, 2024	\$ 39.7	
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	200.0	May 1, 2031	200.0	July 12, 2024	125.0	
LCRA TSC Private Revolving Note Program Series E	Active	Tax-Exempt	100.0	May 1, 2030	100.0	Dec. 20, 2024	-	
Total			<u>\$ 650.0</u>		<u>\$ 450.0</u>		<u>\$ 164.7</u>	

<sup>(1)</sup> Permitted to issue either taxable or tax-exempt debt under a commercial paper/private revolving note.

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 2022 and 2021. 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, 2022, 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 2013A, 2015, 2016, 2018, 2019, 2019A, 2020, 2020A, 2021, 2021A and 2022 are solely secured by the obligation of LCRA TSC to make installment payments to LCRA from the net revenues of LCRA TSC. Net revenues are defined as gross revenues 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, 2022, and 2021

**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, 2038, to May 15, 2051.

**Estimation of Fair Value:** The fair value measurements of long-term debt were estimated based on published market prices, and were \$2.9 billion and \$3.1 billion as of June 30, 2022, and 2021, respectively.

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

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

- I. Pay all operating and maintenance expenses.
- II. Produce a 1.25x coverage ratio on debt service on existing LCRA TSC debt and any other parity debt.
- III. Pay all other debt of LCRA TSC.
- IV. 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, 2022, LCRA TSC is in compliance with all of its long-term debt covenants and credit facility agreements.

## **4. Commitments and Contingencies**

**Construction:** At June 30, 2022, LCRA TSC had construction commitments totaling \$37.8 million through FY 2027.

**Insurance:** LCRA TSC's assets, other than most transmission lines, are covered under LCRA's insurance program. 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. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

**LCRA TRANSMISSION SERVICES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**As of and for the Years Ended June 30, 2022, and 2021**

**5. Leases**

LCRA TSC recognizes leases greater than one year at the present value of the minimum lease payments. Lessee leases are recorded as a lease liability and an intangible right-to-use lease asset, and lessor leases are recorded as a lease receivable and a deferred inflow of resources. Variable lease payments are excluded in the measurement of lease liabilities, except for escalation clauses based on an index or rate. As discussed in Note 1, in FY 2022 LCRA TSC adopted a new accounting standard for leases; prior periods were restated.

**Leases as Lessee:** LCRA TSC leases property and equipment. The terms of the lease contracts are five to 10 years. Total lease expense (including amortization and interest) was \$13.4 million and \$14.4 million for FY 2022 and FY 2021, respectively. Variable payments not previously included in the measurement of the lease liability were less than \$1 million for all periods presented.

In addition to the transmission and transformation assets owned by LCRA TSC, LCRA TSC leases certain transmission assets owned by seven direct connect transmission customers. The leases were established for LCRA TSC to provide the same service to all the wholesale electric customers and for the cost of such service to be shared by all customers on a consistent basis. The terms of the equipment leases are perpetual but may be terminated by LCRA or the lessors upon five years written notice. All seven of the lease participants have executed agreements with LCRA TSC to no longer add or retire assets from the lease, to freeze the payment and to terminate the lease in its entirety with approval from the Public Utility Commission of Texas during LCRA TSC's next rate case proceeding.

Lease intangible assets were:

Lease Intangible Assets (Dollars in Millions)		
	June 30, 2022	June 30, 2021
Equipment	\$ 78.4	\$ 74.1
Accumulated amortization	(39.7)	(25.2)
Total Lease Right-To-Use Assets	<u>\$ 38.7</u>	<u>\$ 48.9</u>

At June 30, 2022, future expected lease payments were as follows:

Future Expected Lease Payment (Dollars in Millions)			
Year Ending June 30,	Principal	Interest	Total
2023	\$ 13.5	\$ 0.3	\$ 13.8
2024	13.7	0.2	13.9
2025	3.9	0.1	4.0
2026	4.0	0.1	4.1
2027	4.1	-	4.1
2028-2032	0.9	-	0.9
Total	<u>\$ 40.1</u>	<u>\$ 0.7</u>	<u>\$ 40.8</u>

**LCRA TRANSMISSION SERVICES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**As of and for the Years Ended June 30, 2022, and 2021**

**6. Capital Asset Activity**

Capital asset activity for the year ended June 30, 2022, was as follows:

FY 2022 Capital Asset Activity (Dollars in Millions)						
	Beginning Balance	Additions	Transfers	Retirements	Depreciation	Ending Balance
	Restated					Restated
Utility plant in service						
Depreciable assets	\$ 3,971.0	\$ 65.0	\$ 293.2	\$ (38.3)	\$ -	\$ 4,290.9
Nondepreciable assets	36.9	1.9	-	(3.4)	-	35.4
Total Utility Plant in Service	4,007.9	66.9	293.2	(41.7)	-	4,326.3
Construction work in progress						
Nondepreciable assets	110.8	360.2	(315.9)	(2.0)	-	153.1
Intangible assets - leases and other	79.7	4.3	-	-	-	84.0
Less accumulated depreciation and amortization	(1,046.8)	(44.2)	-	21.4	(123.5)	(1,193.1)
Intangible assets - easements	318.0	-	22.7	0.1	-	340.8
Capital assets, net	3,469.6	387.2	-	(22.2)	(123.5)	3,711.1

Capital asset activity for the year ended June 30, 2021, was as follows:

FY 2021 Capital Asset Activity (Dollars in Millions)						
	Beginning Balance	Additions	Transfers	Retirements	Depreciation	Ending Balance
	Restated					Restated
Utility plant in service						
Depreciable assets	\$ 3,517.9	\$ -	\$ 436.0	\$ 17.1	\$ -	\$ 3,971.0
Nondepreciable assets	87.8	-	2.0	(52.9)	-	36.9
Total Utility Plant in Service	3,605.7	-	438.0	(35.8)	-	4,007.9
Construction work in progress						
Nondepreciable assets	186.6	414.1	(488.7)	(1.2)	-	110.8
Intangible assets - leases and other	77.1	-	1.3	1.3	-	79.7
Less accumulated depreciation and amortization	(952.1)	-	-	18.6	(113.3)	(1,046.8)
Intangible assets - easements	269.9	-	49.4	(1.3)	-	318.0
Capital assets, net	3,187.2	414.1	-	(18.4)	(113.3)	3,469.6

See Note 5 for additional lease information.