

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

FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
June 30, 2023, and 2022

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
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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, 2023 and 2022, 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, 2023 and 2022, 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 (*Government Auditing Standards*). 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. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, effective July 1, 2022. 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 raise 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 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 15, 2023 on our consideration of 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 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 LCRA TSC's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Austin, Texas
September 15, 2023

LCRA TRANSMISSION SERVICES CORPORATION

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Years Ended June 30, 2023, and 2022

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,” the 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 inflows of resources and deferred outflows 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, and capital contributions.

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, 2023, and 2022

Financial Highlights

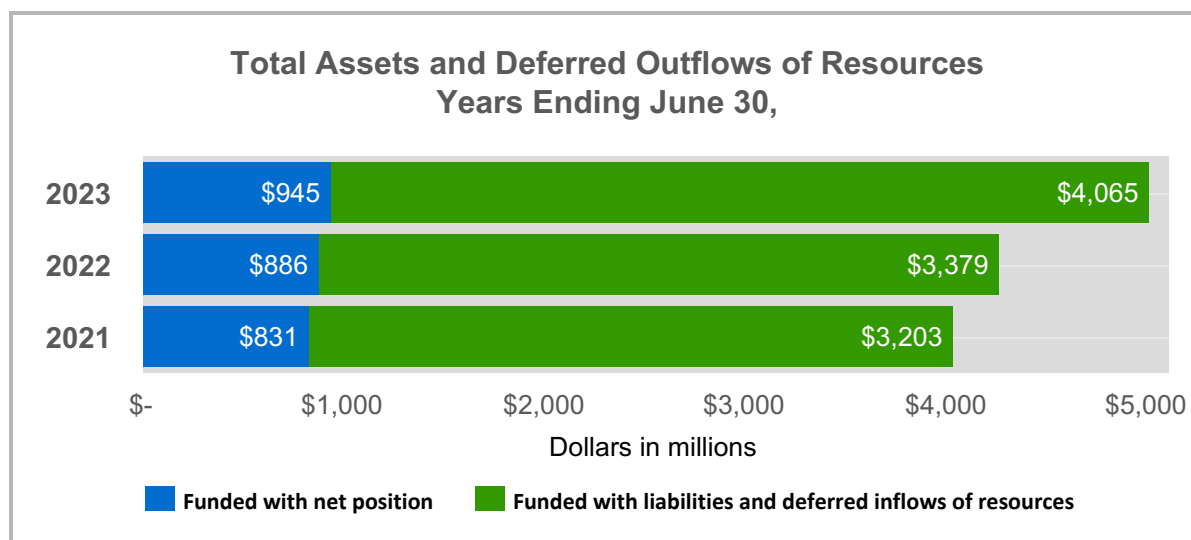
Condensed Balance Sheets					
(Dollars in millions)					
	June 30, 2023	June 30, 2022	June 30, 2021	2023 vs. 2022	2022 vs. 2021
			Restated		
Current assets	\$ 297	\$ 361	\$ 391	(18%)	(8%)
Capital assets, net	4,253	3,711	3,470	15%	7%
Other noncurrent assets	571	261	210	119%	24%
Total Assets	5,121	4,333	4,071	18%	6%
Total Deferred Outflows of Resources	15	23	24	(35%)	(4%)
Total Assets and Deferred Outflows of Resources	<u>\$ 5,136</u>	<u>\$ 4,356</u>	<u>\$ 4,095</u>	18%	6%
Current liabilities	\$ 361	\$ 446	\$ 436	(19%)	2%
Noncurrent liabilities	3,704	2,933	2,767	26%	6%
Total Liabilities	4,065	3,379	3,203	20%	5%
Total Deferred Inflows of Resources	126	91	61	38%	49%
Net investment in capital assets	764	669	550	14%	22%
Unrestricted net position	181	217	281	(17%)	(23%)
Total Net Position	945	886	831	7%	7%
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 5,136</u>	<u>\$ 4,356</u>	<u>\$ 4,095</u>	18%	6%

Balance Sheets Overview

LCRA TSC continues to be a capital asset-driven business with approximately 83% of its assets being capital assets. The other assets primarily exist to support the capital assets and their activities. See details in the Capital Asset Activity section. LCRA TSC uses long-term debt to finance most of its capital activity. The Debt Activity section provides additional details. The below chart shows total assets and deferred outflows of resources for each of the last three years. It also identifies the amount of the assets and deferred outflows of resources funded by liabilities and deferred inflows of resources versus net position.

LCRA TRANSMISSION SERVICES CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Years Ended June 30, 2023, and 2022



2023 Compared With 2022

Total assets and deferred outflows of resources increased by \$780 million, or 18%, from the prior year. This primarily was caused by an increase of \$542 million, or 15%, in net capital assets related to transmission project construction. Current assets decreased by \$64 million, or 18%. The decrease was due to a decrease of \$78 million, or 44%, in unrestricted cash and cash equivalents primarily due to an increase in investing activities. This decrease was partially offset by an increase of \$19 million in net receivables, a decrease of \$18 million in current investments, and an increase of \$12 million in inventories for transmission projects.

Other noncurrent assets increased \$310 million, or 119%, primarily due to a \$184 million increase in restricted cash and cash equivalents for construction projects. This was combined with an \$80 million increase in unrestricted noncurrent investments.

Noncurrent liabilities increased by \$771 million, or 26%, due to a \$783 million increase in long-term debt that was partially offset by a \$15 million decrease in noncurrent lease liability. The increase in debt is a result of capital expansion. Total deferred inflows of resources increased by \$35 million, or 38%, from the prior year due to a \$28 million increase in regulatory credits, combined with a \$7 million increase in unamortized gain on debt refundings.

2022 Compared With 2021

Total assets and deferred outflows of resources increased by \$261 million, or 6%, from the prior year. The increase primarily was the result of an increase of \$241 million, or 7%, in net capital assets. Capital additions were \$387 million, partially offset by \$124 million in accumulated depreciation and \$22 million in retirements. See details in the Capital Asset Activity section. Current assets decreased \$30 million, or 8%, due to a \$43 million decrease in unrestricted cash and cash equivalents.

Total liabilities increased by \$176 million, or 5%, from the prior year primarily due to a \$153 million increase in debt.

LCRA TRANSMISSION SERVICES CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Years Ended June 30, 2023, and 2022

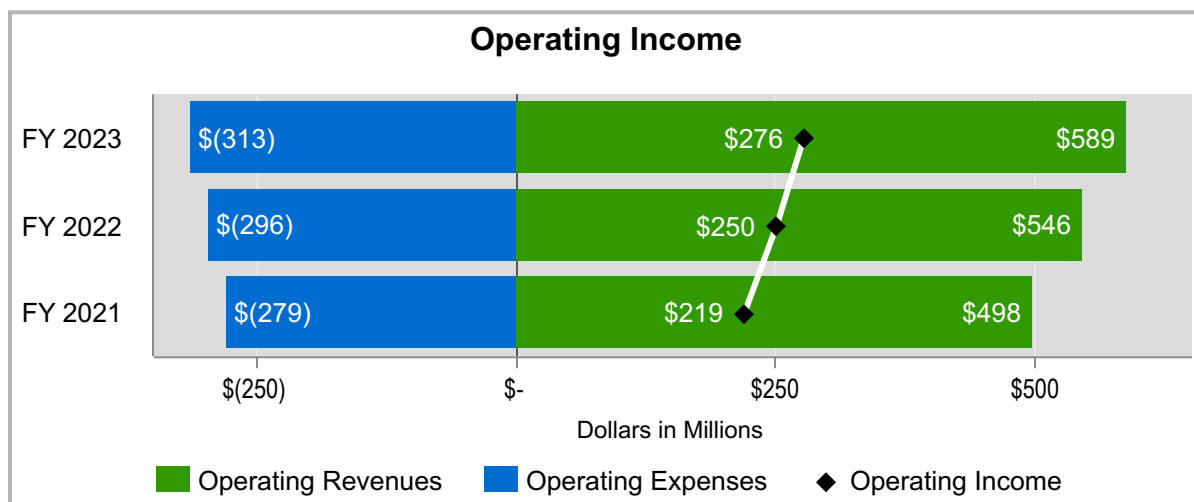
Condensed Statements of Revenues, Expenses and Changes in Net Position

(Dollars in millions)

	Year Ended June 30,			2023 vs 2022	2022 vs 2021
	2023	2022	2021	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)
			Restated		
Operating revenues	\$ 589	\$ 546	\$ 498	8%	10%
Operating expenses	(313)	(296)	(279)	(6%)	(6%)
Operating income	276	250	219	10%	14%
Nonoperating loss	(204)	(170)	(145)	(20%)	(17%)
Prior costs recovered from revenues	(30)	(27)	(25)	(11%)	(8%)
Capital contributions	17	2	—	750%	—%
Transfers out	—	—	(1)	—%	100%
Change in net position	59	55	48	7%	15%
Net Position, Beginning of Year	886	831	783	7%	6%
Net Position, End of Year	\$ 945	\$ 886	\$ 831	7%	7%

Operating Income Overview

Operating income is derived primarily from providing transmission and transformation services to customers. The Public Utility Commission of Texas (PUC) regulates LCRA TSC's operating revenues. The following chart shows the operating revenues, expenses and income for each of the last three years.



2023 Compared With 2022

Operating income for Fiscal Year (FY) 2023 increased by \$26 million, or 10%, compared with the prior year primarily due to higher operating revenues as a result of rate increases, partially offset by a \$17 million, or 6% increase in operating expenses.

LCRA TRANSMISSION SERVICES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As of and for the Years Ended June 30, 2023, and 2022

2022 Compared With 2021

Operating income for fiscal year 2022 increased by \$31 million, or 14%, from the prior year primarily due to higher operating revenues as a result of rate increases. This was partially offset by a \$17 million, or 6% increase in operating expenses .

Nonoperating and Other Revenues (Expenses)

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

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

2023 Compared With 2022

LCRA TSC's nonoperating loss increased by \$34 million, or 20%, from the prior year. The most significant items contributing to that increase were an increase in net loss on disposition of property and debt interest expense partially offset by an increase in investment income.

2022 Compared With 2021

LCRA TSC's nonoperating loss increased by \$25 million, or 17%, from the prior year. The most significant item contributing to that increase was an increase in the loss on the disposition of property.

Regulatory Matters

Transmission revenues of \$567 million for FY 2023 were affected by rate changes authorized during the fiscal year. New rates of \$7.66 per kilowatt became effective on Oct 21, 2022. Prior to the change, the rate was \$7.43 as of October 2021 and \$7.06 as of March 2021. The rate increases were related to investments in transmission system improvements.

LCRA TSC filed for an interim rate increase in August 2023 with a rate anticipated to be effective in autumn 2023 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)		
	<u>FY 2023</u>	<u>FY 2022</u>
Expended for construction activities	\$ 711	\$ 387
Depreciation expense	133	124
Asset retirements, net of proceeds	36	22

For additional details, see Note 6 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, 2023, and 2022

Capital Expansion and Improvement Program

LCRA TSC's capital expansion and improvement program for FY 2024 through FY 2028 is forecast to be \$3 billion with approximately 79% to be debt-funded and the remainder to be funded from operations, as summarized in the following table. The majority of forecast capital costs are for expansion of transmission services.

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.

Forecast Capital Expenditures						
(Dollars in millions)						
	Year Ending June 30,					
	2024	2025	2026	2027	2028	Total
Revenue/other funded	\$ 66	\$ 119	\$ 132	\$ 150	\$ 169	\$ 636
Debt funded	694	575	449	303	337	2,358
Total LCRA TSC Capital	<u>\$ 760</u>	<u>\$ 694</u>	<u>\$ 581</u>	<u>\$ 453</u>	<u>\$ 506</u>	<u>\$ 2,994</u>
Percent debt funded	91%	83%	77%	67%	67%	79%

Debt Activity

(Dollars in millions)		
	FY 2023	FY 2022
Private notes issued	\$ 504	\$ 270
Tax-exempt commercial paper issued	245	281
Contractual commitment payments	-	47
Scheduled debt payments	102	87
Interest payments	143	129
Bond issuance		
FY 2023		
<p>— LCRA TSC refunding revenue bond series 2022A issued with a net premium. The bond proceeds were used to pay down \$75 million in outstanding commercial paper and \$125 million in notes.</p> <p>LCRA TSC refunding revenue bond series 2023 issued with a net premium. The bond proceeds</p> <p>— were used to pay down \$121 million in previously outstanding bonds, \$71 million in outstanding commercial paper and \$204 million in outstanding notes.</p> <p>LCRA TSC refunding revenue bond series 2023A issued with a net premium. The bond proceeds</p> <p>— were used to pay down \$75 million in previously outstanding bonds, \$138 million in outstanding commercial paper and \$300 million in outstanding notes.</p>		
FY 2022		
<p>— LCRA TSC refunding revenue bond series 2021A issued with a net premium. The bond proceeds were used to pay down \$50 million in outstanding commercial paper and \$150 million in notes.</p> <p>LCRA TSC refunding revenue bond series 2022 issued with a net premium. The bond proceeds</p> <p>— were used to pay down \$262 million in previously outstanding bonds, \$50 million in outstanding commercial paper and \$100 million in outstanding notes.</p>		

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, 2023, and 2022

Restatements

Restatements to FY 2021 financial statements were the result of the adoption of a new accounting standard for leases effective as of July 1, 2021.

Contacting LCRA's Management

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

LCRA TRANSMISSION SERVICES CORPORATION
BALANCE SHEETS
(Dollars in millions)

	June 30, 2023	June 30, 2022
Assets		
Current Assets:		
Cash and cash equivalents	\$ 99	\$ 177
Investments	20	38
Receivables, net	113	94
Inventories, net	62	50
Other	3	2
Total current assets	<u>297</u>	<u>361</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	185	1
Unrestricted investments	92	12
Accounts receivable from LCRA - restricted	165	129
Capital assets:		
Depreciable assets	4,870	4,375
Less: accumulated depreciation and amortization	<u>(1,309)</u>	<u>(1,193)</u>
Depreciable capital assets, net	3,561	3,182
Nondepreciable assets	<u>692</u>	<u>529</u>
Net capital assets	<u>4,253</u>	<u>3,711</u>
Prepaid capital expenses	69	66
Facilities regulatory asset	51	53
Other	9	—
Total noncurrent assets	<u>4,824</u>	<u>3,972</u>
Total Assets	<u>5,121</u>	<u>4,333</u>
Deferred Outflows of Resources:		
Unamortized loss on debt refundings	<u>15</u>	<u>23</u>
Total Deferred Outflows of Resources	<u>15</u>	<u>23</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 5,136</u>	<u>\$ 4,356</u>

LCRA TRANSMISSION SERVICES CORPORATION
BALANCE SHEETS
(Dollars in millions)

	June 30, 2023	June 30, 2022
Liabilities		
Current Liabilities:		
Accounts payable to LCRA	\$ 40	\$ 26
Accounts payable	74	38
Interest payable	25	19
Other current liabilities	99	87
Bonds and notes payable	123	276
Total current liabilities	361	446
Noncurrent Liabilities:		
Accounts payable from restricted assets	2	—
Bonds and notes payable	3,686	2,903
Other credits and other noncurrent liabilities	4	3
Lease and subscription liability	12	27
Total noncurrent liabilities	3,704	2,933
Total Liabilities	4,065	3,379
Deferred Inflows of Resources:		
Regulatory credits from future recovery	111	83
Other	15	8
Total Deferred Inflows of Resources	126	91
Net Position		
Net investment in capital assets	764	669
Unrestricted	181	217
Total Net Position	945	886
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 5,136	\$ 4,356

LCRA TRANSMISSION SERVICES CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
(Dollars in millions)

	Year Ended June 30,	
	2023	2022
Operating Revenues		
Transmission	\$ 567	\$ 527
Transformation	18	17
Other	4	2
Total operating revenues	<u>589</u>	<u>546</u>
Operating Expenses		
Operations	163	157
Maintenance	17	15
Depreciation and amortization	<u>133</u>	<u>124</u>
Total operating expenses	<u>313</u>	<u>296</u>
Operating income	<u>276</u>	<u>250</u>
Nonoperating Revenues (Expenses)		
Investment income (loss)	15	(6)
Loss on disposition of property	(79)	(42)
Interest on debt	(113)	(98)
Other expense	<u>(27)</u>	<u>(24)</u>
Net Nonoperating Expenses	<u>(204)</u>	<u>(170)</u>
Income before prior costs recovered from revenues and capital contributions	72	80
Prior costs recovered from revenues	(30)	(27)
Capital contributions	<u>17</u>	<u>2</u>
Change in Net Position	59	55
Total Net Position, Beginning of Year	<u>886</u>	<u>831</u>
Total Net Position, End of Year	<u>\$ 945</u>	<u>\$ 886</u>

LCRA TRANSMISSION SERVICES CORPORATION
STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Year Ended June 30,	
	2023	2022
Cash Flows From Operating Activities		
Receipts from customers	\$ 542	\$ 505
Payments to suppliers	(123)	(175)
Other payments	4	3
Net cash provided by operating activities	<u>423</u>	<u>333</u>
Cash Flows From Noncapital Financing Activities		
Other expenses	(29)	(26)
Net cash used in noncapital financing activities	<u>(29)</u>	<u>(26)</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(744)	(406)
Lease payments	(14)	(14)
Proceeds from sale of capital assets	—	1
Debt issue costs	(4)	(3)
Contributed capital received for capital costs	17	2
Proceeds from long-term debt	1,145	618
Proceeds from commercial paper and notes	748	551
Debt principal payments	(102)	(137)
Interest paid	(143)	(129)
Payments to refund and defease debt	(1,108)	(840)
Net cash used in capital and financing activities	<u>(205)</u>	<u>(357)</u>
Cash Flows From Investing Activities		
Sale and maturity of investment securities	124	185
Purchase of investment securities	(221)	(190)
Note payments and interest received	14	2
Net cash used in investing activities	<u>(83)</u>	<u>(3)</u>
Net Increase / (Decrease) in Cash and Cash Equivalents	<u>106</u>	<u>(53)</u>
Cash and Cash Equivalents, Beginning of Year	<u>178</u>	<u>231</u>
Cash and Cash Equivalents, End of Year	<u>\$ 284</u>	<u>\$ 178</u>

LCRA TRANSMISSION SERVICES CORPORATION
STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Year Ended June 30,	
	2023	2022
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 276	\$ 250
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	133	124
Changes in assets, liabilities and deferred inflows and outflows of resources:		
Accounts receivable	(19)	(5)
Inventories	(13)	(15)
Other current assets	(1)	—
Current liabilities	68	34
Other noncurrent assets, charges and deferred outflows of resources	(3)	(5)
Other credits, other noncurrent liabilities and deferred inflows of resources	(18)	(50)
Net cash provided by operating activities	<u>\$ 423</u>	<u>\$ 333</u>
Noncash Investing and Capital and Related Financing Activities		
Investment market adjustments	\$ —	\$ 8
Capital assets financed through short-term liabilities	10	(1)
Noncash loss on asset retirements	(57)	(34)

LCRA TRANSMISSION SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2023, and 2022

1. Significant Accounting Policies

Reporting Entity: In connection with the implementation of retail competition in the electric utility industry in the state of Texas, the Lower Colorado River Authority (LCRA) was required by the Texas Legislature under the Public Utility Regulatory Act, enacted in 1999 as Senate Bill 7, to “unbundle” its electric generation assets from its electric transmission and transformation assets. 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.

Governmental Accounting Standards Board (“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 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.

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 \$245 million and \$213 million during FY 2023 and FY 2022, respectively, for these costs. The majority of these costs were for capital projects.

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 accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows 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.

LCRA TRANSMISSION SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2023, and 2022

Newly Adopted Standards for Fiscal Year 2023: In Fiscal Year (FY) 2023, LCRA TSC implemented GASB Statement No. 96, "Subscription-Based Information Technology Arrangements (SBITA)," which requires recognition of a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods. LCRA TSC adopted this standard effective July 1, 2022; prior periods were not restated due to immateriality.

In FY 2023, LCRA TSC implemented GASB Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements." Public-private partnerships ("PPPs") are arrangements in which a governmental entity contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital assets, for a defined period in an exchange transaction. An availability payment arrangement ("APA") is an arrangement in which a governmental entity compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a defined period in an exchange transaction with payments based on the asset's availability for use. LCRA TSC does not have any PPPs or APAs.

Issued But Not Yet Effective Pronouncements: In June 2022, the GASB issued GASB Statement No. 101, "Compensated Absences." The new accounting standard requires estimated sick leave to be recorded as a liability as service is provided rather than expensed as incurred. The new standard is required to be adopted not later than FY 2025. LCRA TSC has no employees and therefore this new standard will not affect LCRA TSC (there are LCRA employees who perform services for LCRA TSC).

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 DSPs according to their electric loads. The transmission costs are determined pursuant to TCOS rate proceedings filed by all 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 the export of power from ERCOT. These transmission charges, amounting to \$1 million for FY 2023 and less than \$1 million for FY 2022, 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 \$567 million for FY 2023, were affected by rate changes authorized during the fiscal year. New rates of \$7.66 per kilowatt became effective on Oct 21, 2022. Prior to the change, the rate was \$7.43 as of October 2021 and \$7.06 as of March 2021. The rate increases were related to investments in transmission system improvements.

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LCRA TSC filed for an interim rate increase in August 2023 with a rate anticipated to be effective in autumn 2023 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. LCRA TSC held \$1 million in funds at June 30, 2023, and June 30, 2022, that were both FDIC insured and/or collateralized by securities held by the pledging financial institution in which the deposits were held. Custodial credit risk also is 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.

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 as of June 30, 2023, and 2022.

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, which 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. There was a balance of less than \$1 million in the reserve as of June 30, 2023 and 2022.

Restricted Funds: Restricted funds are presented on the balance sheet as restricted cash and cash equivalents and accounts receivable as indicated below:

(Dollars in millions)		
	June 30, 2023	June 30, 2022
Restricted accounts receivable from LCRA ¹	\$ 165	\$ 129
Debt proceeds restricted for construction ²	185	1
	<u>\$ 350</u>	<u>\$ 130</u>

¹ 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. Debt service reserve funds are required by bond covenants to provide reserves to meet any shortfalls in funds available to make required debt service payments.

² 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.

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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 cost 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 a retired depreciable plant, 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 revenues 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.

Contributed Assets: Contributed assets are recorded at acquisition value, the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date.

Intangible Assets-Lease, SBITA 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 rendered unusable. LCRA TSC had no material impairments during FY 2023 or FY 2022.

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 2.9% for FY 2023 and FY 2022.

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 and SBITA	1-78 years

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

Regulatory Assets: 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.

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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.

Regulatory Credits: 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: Other Current Liabilities are composed of the following:

Schedule of Other Current Liabilities		
(Dollars in millions)		
	June 30, 2023	June 30, 2022
Security deposits	\$ 24	\$ 44
Accrued expenses	32	10
Property tax accruals	16	14
Lease liabilities	14	13
Sales, use and other taxes	11	1
Other	3	5
	<u>\$ 99</u>	<u>\$ 87</u>

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 Credits and Other Noncurrent Liabilities: Other credits and other noncurrent liabilities consist of long-term lease liabilities, unearned revenues and other noncurrent liabilities.

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Deferred Outflow of Resources: A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Deferred Inflows of Resources: A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

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

Classifications of Net Position: The net position section of the balance sheets includes the following components:

Net investment in capital assets is the portion of net position that consists of capital assets, net of accumulated depreciation, plus deferred outflows of resources, reduced by outstanding debt and construction contracts payable attributable to the acquisition, construction or improvement of those assets. Capital assets for the net investment computation include both capital assets and regulatory assets.

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

Comparative Data: Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

2. Financial Instruments

As of June 30, 2023, and 2022, LCRA TSC had the following investments and maturities:

Investments and Maturities				
(Dollars in millions)				
Type of Investment	June 30, 2023		June 30, 2022	
	Fair Value	WAM (Years) ¹	Fair Value	WAM (Years) ¹
Investments				
U.S. Agency Notes	\$ 69	0.92	\$ —	—
Commercial Paper	15	0.37	33	0.52
Taxable Municipal Bonds	28	1.15	17	0.09
Cash Equivalents				
Investment Pools	283 ²	—	177 ²	—
Subtotal	\$ 395	0.90	\$ 227	0.37
Cash	1		1	
Total Cash, Cash Equivalents and Investments	\$ 396		\$ 228	

¹ Weighted Average Maturity

² Net Asset Value

Investment Pools: LCRA TSC investments included an investment pool with TexPool on June 30, 2023, and 2022. 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.

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TexPool maintains a portfolio WAM not to exceed 60 days. LCRA TSC's investment in TexPool were \$250 million and \$82 million as of June 30, 2023, and 2022, respectively.

LCRA TSC investments also included an investment pool with Local Government Investment Cooperative (LOGIC) on June 30, 2023, and 2022. 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. LOGIC maintains a portfolio WAM not to exceed 60 days. LCRA TSC's investment in LOGIC were \$33 million and \$95 million as of June 30, 2023, and 2022, respectively.

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

Interest Risk: LCRA TSC has no formal policy to address exposure to fair value losses resulting from changes in interest rates. However, 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: LCRA TSC owns investments from two issuers as of June 30, 2023, and as of June 30, 2022, that account for greater than 5% of its investment portfolio, as shown in the table below. LCRA TSC has no formal policy on concentration risk.

Concentration Risk				
(Dollars in millions)				
Issuer Description	June 30, 2023		June 30, 2022	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
JP Morgan	\$ —	—%	\$ 15	7%
Federal Home Loan Bank	50	13%	—	—%

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Credit Risk: LCRA TSC's investment activities are governed by the Texas Public Funds Investment Act, which specifies the types and ratings of investments governmental entities are allowed to purchase. In addition, LCRA TSC Board policy and internal operating procedures further restrict the types and duration of investment activities. The credit ratings of LCRA TSC's investments and external investment pools are summarized in the table below.

Credit Risk				
(Dollars in millions)				
Credit Rating	June 30, 2023		June 30, 2022	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
U.S. Government Securities (AA+)	\$ 64	16 %	\$ -	- %
¹ U.S. Government Securities (Aaa)	6	2	-	-
AAAm	283	72	176	78
AAA	4	1	2	1
AA+	13	3	12	5
AA	10	2	3	1
A-1+	15	4	19	8
A-1	-	-	15	7
Total investments and maturities portfolio	<u>\$ 395</u>	<u>100 %</u>	<u>\$ 227</u>	<u>100 %</u>

¹ Ratings are from Moody's; all other ratings are from S&P Global.

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 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." GASB Statement No. 72 also requires assets and liabilities to be categorized into three levels. 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." 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 holds investments in each category as shown in the table below:

Fair Value Measurement				
(Dollars in millions)				
Type of Investment	June 30, 2023		June 30, 2022	
	Fair Value	Level	Fair Value	Level
U.S. Agency Notes	\$ 69	2	\$ —	2
Commercial Paper	15	2	34	2
Taxable Municipal Bonds	28	2	17	2
Investment Pools	283 ¹	—	176 ¹	—
Total	<u>\$ 395</u>		<u>\$ 227</u>	

¹ Net Asset Value

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3. Long-Term Debt and Commercial Paper

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

Debt Activity								
(Dollars in millions)								
Series	Balance June 30, 2021	Increase	(Decrease)	Balance June 30, 2022	Increase	(Decrease)	Balance June 30, 2023	Amount Due in FY 2024
LCRA TSC 2013	\$ 262	\$ -	\$ (262)	\$ -	\$ -	\$ -	\$ -	\$ -
LCRA TSC 2013A	196	-	-	196	-	(196)	-	-
LCRA TSC 2015	218	-	(5)	213	-	(6)	207	6
LCRA TSC 2016	167	-	(7)	160	-	(7)	153	7
LCRA TSC 2018	266	-	(8)	258	-	(15)	243	15
LCRA TSC 2019	386	-	(6)	380	-	(19)	361	19
LCRA TSC 2019A	168	-	(5)	163	-	(5)	158	5
LCRA TSC 2020	249	-	(18)	231	-	(4)	227	4
LCRA TSC 2020A	142	-	(5)	137	-	(4)	133	4
LCRA TSC 2021	397	-	(28)	369	-	(23)	346	12
LCRA TSC 2021A	-	167	(5)	162	-	(5)	157	5
LCRA TSC 2022	-	343	-	343	-	(8)	335	11
LCRA TSC 2022A	-	-	-	-	194	(6)	188	6
LCRA TSC 2023	-	-	-	-	365	-	365	2
LCRA TSC 2023A	-	-	-	-	473	-	473	13
Contractual commitment	65	-	(65)	-	-	-	-	-
Unamortized net premium	318	108	(23)	403	112	(52)	463	14
Subtotal	<u>2,834</u>	<u>618</u>	<u>(437)</u>	<u>3,015</u>	<u>1,144</u>	<u>(350)</u>	<u>3,809</u>	<u>123</u>
Private notes	150	270	(295)	125	504	(629)	-	-
Commercial paper	42	281	(284)	39	245	(284)	-	-
Total	<u>\$ 3,026</u>	<u>\$ 1,169</u>	<u>\$ (1,016)</u>	<u>\$ 3,179</u>	<u>\$ 1,893</u>	<u>\$ (1,263)</u>	<u>\$ 3,809</u>	<u>\$ 123</u> ¹

⁽¹⁾ Total amount due in FY 2023 was \$276 million.

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Interest rates and maturity dates for bonds, notes and commercial paper as of June 30, 2023, are as follows:

Interest Rates and Maturity Dates on Debt		
Series	May 15,	
	From	To
LCRA TSC 2015 (3.00% - 5.00%)	2024	2045
LCRA TSC 2016 (3.00% - 5.00%)	2024	2046
LCRA TSC 2018 (5.00%)	2024	2048
LCRA TSC 2019 (3.88% - 5.00%)	2024	2049
LCRA TSC 2019A (4.00% - 5.00%)	2024	2049
LCRA TSC 2020 (5.00%)	2024	2050
LCRA TSC 2020A (5.00%)	2024	2050
LCRA TSC 2021 (5.00%)	2024	2051
LCRA TSC 2021A (5.00%)	2024	2051
LCRA TSC 2022 (2.50% - 5.00%)	2024	2047
LCRA TSC 2022A (5.00% - 6.00%)	2024	2052
LCRA TSC 2023 (4.00% - 5.50%)	2024	2053
LCRA TSC 2023A (4.00% - 5.25%)	2024	2053
LCRA TSC had no outstanding commercial paper or notes as of June 30, 2023		

LCRA TSC's debt as of June 30, 2023, was rated by Moody's, S&P Global and Fitch as follows:

Debt Credit Ratings			
Debt Program	June 30, 2023		
	Moody's Ratings	S&P Global Ratings	Fitch Ratings
LCRA Transmission Services Corporation Contract Refunding Revenue Bonds	Not rated	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

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

Debt Payments, Excluding Commercial Paper			
(Dollars in millions)			
Year Ending June 30,	Principal	Interest	Total
2024	\$ 109	\$ 169	\$ 278
2025	144	161	305
2026	144	153	297
2027	145	146	291
2028	145	139	284
2029-2033	701	591	1,292
2034-2038	636	419	1,055
2039-2043	570	273	843
2044-2048	483	139	622
2049-2053	269	37	306
	3,346	2,227	5,573
Unamortized net premium	463	-	463
Total	<u>\$ 3,809</u>	<u>\$ 2,227</u>	<u>\$ 6,036</u>

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New and Refunding Bonds: The following schedules summarize new and refunding bonds for FY 2023 and FY 2022:

FY 2023 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	\$ 504 ¹	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Paper	245 ²	-	-	-	-	-
LCRA TSC 2022A Refunding Bonds ³	194	(200)	-	-	-	-
LCRA TSC 2023 Refunding Bonds ⁴	365	(275)	(121)	5	17	17
LCRA TSC 2023A Refunding Bonds ⁵	473	(438)	(75)	3	15	11
Total	<u>\$ 1,781</u>	<u>\$ (913)</u>	<u>\$ (196)</u>	<u>\$ 8</u>	<u>\$ 32</u>	<u>\$ 28</u>

¹ Private note issuances used to fund capital projects of \$504 million.

² Commercial paper issuances used to fund capital projects of \$245 million.

³ LCRA TSC refunding revenue bond series 2022A issued with a net premium. The bond proceeds were used to pay down \$75 million in outstanding commercial paper and \$125 million in notes.

⁴ LCRA TSC refunding revenue bond series 2023 issued with a net premium. The bond proceeds were used to pay down \$121 million in previously outstanding bonds, \$71 million in outstanding commercial paper and \$204 million in outstanding notes.

⁵ LCRA TSC refunding revenue bond series 2023A issued with a net premium. The bond proceeds were used to pay down \$75 million in previously outstanding bonds, \$138 million in outstanding commercial paper and \$300 million in outstanding notes.

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FY 2022 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 ¹	\$ (45)	\$ —	\$ —	\$ —	\$ —
Commercial Paper	281 ²	(183)	—	—	—	—
LCRA TSC 2021A Refunding Bonds ³	167	(200)	—	—	—	—
LCRA TSC 2022 Refunding Bonds ⁴	343	(150)	(262)	4	19	23
Total	\$ 1,061	\$ (578)	\$ (262)	\$ 4	\$ 19	\$ 23

¹ Private note issuances used to fund capital projects of \$270 million.

² Commercial paper issuances used to fund capital projects of \$281 million.

³ LCRA TSC refunding revenue bond series 2021A issued with a net premium. The bond proceeds were used to pay down \$50 million in previously outstanding commercial paper and \$150 million in outstanding notes.

⁴ LCRA TSC refunding revenue bond series 2022 issued with a net premium. The bond proceeds were used to pay down \$262 million in previously outstanding bonds, \$50 million in outstanding commercial paper and \$100 million in outstanding notes.

As of June 30, 2023, and 2022 there was no principal outstanding 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. LCRA TSC paid off the balance of \$65 million for the contractual commitment in February 2022.

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Optional Redemption: The following bonds are redeemable at the option of LCRA according to the following schedule:

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 2015	May 15, 2025	\$ 5,000	Principal, plus accrued interest	May 15, 2026
LCRA TSC 2016	May 15, 2026	5,000	Principal, plus accrued interest	May 15, 2027
LCRA TSC 2018	May 15, 2024	5,000	Principal, plus accrued interest	May 15, 2025 - May 15, 2031
LCRA TSC 2018	May 15, 2028	5,000	Principal, plus accrued interest	May 15, 2032
LCRA TSC 2019	May 15, 2027	5,000	Principal, plus accrued interest	May 15, 2037 - May 15, 2049
LCRA TSC 2019	May 15, 2029	5,000	Principal, plus accrued interest	May 15, 2030 - May 15, 2036
LCRA TSC 2019A	May 15, 2028	5,000	Principal, plus accrued interest	May 15, 2049
LCRA TSC 2019A	May 15, 2029	5,000	Principal, plus accrued interest	May 15, 2030 - May 15, 2041, May 15, 2044
LCRA TSC 2020	May 15, 2029	5,000	Principal, plus accrued interest	May 15, 2030
LCRA TSC 2020A	May 15, 2030	5,000	Principal, plus accrued interest	May 15, 2031
LCRA TSC 2021	May 15, 2030	5,000	Principal, plus accrued interest	May 15, 2031
LCRA TSC 2021A	May 15, 2031	5,000	Principal, plus accrued interest	May 15, 2032
LCRA TSC 2022	May 15, 2031	5,000	Principal, plus accrued interest	May 15, 2032
LCRA TSC 2022A	May 15, 2032	5,000	Principal, plus accrued interest	May 15, 2033
LCRA TSC 2023	May 15, 2032	5,000	Principal, plus accrued interest	May 15, 2033
LCRA TSC 2023A	May 15, 2033	5,000	Principal, plus accrued interest	May 15, 2034

Pledged Revenues: The LCRA TSC Transmission Contract Revenue Bonds Series 2015, 2016, 2018, 2019, 2019A, 2020, 2020A, 2021, 2021A, 2022, 2022A, 2023 and 2023A 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, 2023, and 2022

Commercial Paper and Private Notes: LCRA TSC is authorized to issue short-term debt under five separate Board-approved programs. The following schedule summarizes the commercial paper and private note programs as of June 30, 2023.

Commercial Paper and Private Note Programs							
(Dollars in millions)							
Program	Status	Taxability	Board- Approved Program	Program Expiration Date	Facility Limit	Facility Expiration Date	Amount Outstanding
LCRA TSC Tax-Exempt Commercial Paper Series	Active	Tax- Exempt	\$ 200	May 15, 2042	\$ 150	April 25, 2024	\$ —
LCRA TSC Tax-Exempt Commercial Paper Series B	Inactive	Tax- Exempt	150	May 15, 2042	N/A	N/A	—
LCRA TSC Private Revolving Notes Series C	Active	Both	200	May 1, 2031	200	July 12, 2024	—
LCRA TSC Private Revolving Notes Series E	Active	Tax- Exempt	100	May 1, 2030	100	Dec 20, 2024	—
LCRA TSC Private Revolving Notes Series F	Inactive	Both	50	May 1, 2030	N/A	N/A	—
Total			<u>\$ 700</u>		<u>\$ 450</u>		<u>\$ —</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 FY 2023 and FY 2022. 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. Additionally, private note programs for LCRA TSC were used for short-term financing. LCRA TSC issues commercial paper on a regular basis. Therefore, any issuances of commercial paper or notes after June 30, 2023, are not considered subsequent events and are not disclosed in the Notes to the Financial Statements.

Mandatory Redemption: A number of LCRA TSC's term bonds are subject to mandatory sinking fund redemption at the redemption price, which equals the principal amount plus accrued interest through the redemption date. The particular bonds or portions thereof to be redeemed are to be selected and designated by LCRA (provided a portion of a bond may be redeemed only in integral multiples of \$5,000). The mandatory sinking fund redemption dates range from May 15, 2038, to May 15, 2053.

Estimation of Fair Value: The fair value measurements of long-term debt were estimated based on published market prices and were \$3.6 billion and \$2.9 billion as of June 30, 2023, and 2022, respectively.

LCRA TRANSMISSION SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2023, and 2022

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.

4. Commitments and Contingencies

Construction: At June 30, 2023, LCRA had construction commitments totaling \$166 million through FY 2028.

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 with the prior year.

5. Leases and SBITA

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 escalation clauses based on an index or rate.

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 \$14 million and \$13 million for FY 2023 and FY 2022, 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 TSC 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.

LCRA TRANSMISSION SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2023, and 2022

Lease Intangible Assets

(Dollars in millions)

	June 30, 2023	June 30, 2022
Equipment	\$ 77	\$ 78
Accumulated amortization	(52)	(39)
Total Lease Intangible Assets	<u>\$ 25</u>	<u>\$ 39</u>

At June 30, 2023, future expected lease payments were as follows:

Future Expected Lease Payment

(Dollars in millions)

Year Ending June 30,	Principal	Interest ¹	Total
2024	\$ 14	\$ -	\$ 14
2025	4	-	4
2026	4	-	4
2027	4	-	4
2028	1	-	1
2029-2053	-	-	-
Total	<u>\$ 27</u>	<u>\$ -</u>	<u>\$ 27</u>

¹ Individual five-year periods accumulated totals less than \$1million.

Subscription-based information technology arrangements: LCRA TSC recognizes subscription-based information technology arrangements (SBITAs) greater than one year at the present value of the minimum payments. SBITAs are recorded as a liability and an intangible right-to-use asset. Variable payments are excluded in the measurement of SBITA liabilities, except escalation clauses based on an index or rate.

The terms of the SBITA contracts are one to four years. Total SBITA expense (including amortization and interest) was less than \$1 million for FY 2023. Variable payments not previously included in the measurement of the SBITA liability were less than \$1 million for FY 2023. At June 30, 2023, gross SBITA assets and future expected SBITA payments were less than \$1 million.

LCRA TRANSMISSION SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2023, and 2022

6. Capital Assets

Capital asset activity for the year ended June 30, 2023, was as follows:

FY 2023 Capital Asset Activity							
(Dollars in millions)							
	Beginning Balance	Additions	Transfers	Retirements	Depreciation	Ending Balance	
Depreciable assets							
Plant in service:							
Transmission plant	\$ 4,175	\$ —	\$ 536	\$ (51)	\$ —	\$ 4,660	
General and other plant	115	—	11	—	—	126	
Total plant in service	4,290	—	547	(51)	—	4,786	
Intangible assets - leases and SBITAs	78	—	—	(1)	—	77	
Intangible assets - other	7	—	—	—	—	7	
Total depreciable assets	4,375	—	547	(52)	—	4,870	
Less accumulated depreciation and amortization	(1,193)	—	—	17	(133)	(1,309)	
Net depreciable assets	3,182	—	547	(35)	(133)	3,561	
Nondepreciable assets							
Plant in service:							
Land	35	—	4	—	—	39	
Construction work in progress	153	711	(569)	(1)	—	294	
Intangible assets - easements	341	—	18	—	—	359	
Total nondepreciable assets	529	711	(547)	(1)	—	692	
Capital assets, net	<u>\$ 3,711</u>	<u>\$ 711</u>	<u>\$ —</u>	<u>\$ (36)</u>	<u>\$ (133)</u>	<u>\$ 4,253</u>	

LCRA TRANSMISSION SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2023, and 2022

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	
Depreciable assets							
Plant in service:							
Transmission Plant	\$ 3,924	\$ —	\$ 289	\$ (38)	\$ —	\$ 4,175	
General and other plant	46	65	4	—	—	115	
Total plant in service	3,970	65	293	(38)	—	4,290	
Intangible assets - leases and SBITAs	74	4	—	—	—	78	
Intangible assets - other	7	—	—	—	—	7	
Net depreciable assets	4,051	69	293	(38)	—	4,375	
Less accumulated depreciation and amortization	(1,047)	(44)	1	21	(124)	(1,193)	
Total Depreciable - Net	3,004	25	294	(17)	(124)	3,182	
Nondepreciable assets							
Plant in service:							
Land	37	2	(1)	(3)	—	35	
Construction work in progress	111	360	(316)	(2)	—	153	
Intangible assets - easements	318	—	23	—	—	341	
Total nondepreciable assets	466	362	(294)	(5)	—	529	
Capital assets, net	\$ 3,470	\$ 387	\$ —	\$ (22)	\$ (124)	\$ 3,711	

See Note 5 of the Notes to the Financial Statements for additional lease and SBITA information.