

AUSTIN--( [BUSINESS WIRE](#) )--Fitch Ratings has affirmed the 'A+' rating on the following Lower Colorado River Authority, TX's (LCRA) bonds issued on behalf of the LCRA Transmission Services Corporation (TSC) project:

--\$1.59 billion in outstanding transmission revenue bonds.

The Rating Outlook is Stable.

### SECURITY

The bonds are issued by LCRA on behalf of the TSC and are secured by installment payments from TSC to LCRA. TSC's obligation to make the installment payments is from the net revenues of its transmission business. The obligation to pay installment payments is subordinate to contractual commitment payments made to LCRA, supporting approximately \$253.2 million (as of June 30, 2013) in remaining obligations to LCRA for debt issued prior to 2002 for transmission purposes.

### KEY RATING DRIVERS

**TRANSMISSION BUSINESS:** TSC is an LCRA transmission system-affiliated nonprofit corporation. Transmission is a regulated industry within the Electric Reliability Council of Texas (ERCOT) and revenues are paid by retail electric customers across the entire ERCOT system, which covers approximately 75% of Texas.

**STRONG REGULATED SUPPORT:** TSC is a regulated utility, subject to Public Utility Commission of Texas' (PUCT) rate approval. Timely rate approval and recovery, particularly the interim capital addition rate process, is a positive credit factor.

**REVENUE DIVERSITY:** TSC benefits from the geographic diversity and the essential nature of transmission services within ERCOT. Revenues are collected from 81 distribution service providers (DSP) within the ERCOT market.

**RETAIL COMPETITION NOT A RISK:** Transmission revenues are ultimately collected from every end-user of electricity within ERCOT. The transmission rate must be paid to TSC, regardless of whether a retail user changes energy suppliers, as is permitted under the deregulated retail energy market within ERCOT.

**STABLE FINANCIAL PROFILE:** Fitch's calculated debt service coverage is consistent with the regulated rate of return approved by PUCT. Coverage is typically between 1.35x and 1.50x, depending on the timing of rate approvals, but was 1.69x in fiscal 2013. Liquidity is strong at \$104.9 million at the end of fiscal year 2013 or 372 days of operating cash.

**LCRA MANAGEMENT:** There is operational and management overlap with LCRA (generation revenue bonds rated 'A' by Fitch Ratings), even though the revenue stream securing the transmission bonds is not paid from LCRA's other revenue sources (generation and water).

## CREDIT PROFILE

### Diverse, Regulated Revenue Stream

Transmission costs are determined by the PUC pursuant to rate cases filed by TSC and other transmission service providers (TSP). The transmission costs of service (TCOS) are spread among each DSP according to its load. The DSPs are regulated by the PUC and provide service within certificated service areas within ERCOT. Transmission services are not deregulated and are therefore not subject to competition within ERCOT, as is the case with generation service.

### Consistent Credit Quality of DSPs

TSC is a transmission service provider as defined by the PUCT. The TSPs are the traditional 'wires companies', whose primary business is the transmission of electricity. The PUCT determines the reasonableness of the transmission costs submitted by each TSP. Those collective costs are then summed and allocated out to the distribution service providers within ERCOT. As a result, TSC's revenues are provided by all distribution service providers (DSPs), or traditional 'retail utilities', throughout ERCOT according to their four-month peak the prior year.

There is some concentration and credit risk related to the DSPs. The largest DSPs and payers of the transmission charges securing bondholders are Oncor Electric Delivery Service (37%; IDR rated 'BBB'/ Stable by Fitch), CenterPoint Energy Houston Electric, LLC (24%; IDR 'BBB+'/Stable), AEP (9%; IDR 'BBB+'/Stable), and San Antonio City Public Service (7%; revenue bonds 'AA+'/Stable). The credit quality of Oncor Electric Delivery Services is considered by Fitch to be effectively ring-fenced from the rest of Energy Future Holdings Corp, its parent company that filed for bankruptcy on April 29, 2014. Fitch does not expect any material financial impact on Oncor as a result of the bankruptcy.

DSPs receive their revenue, in turn, from the Retail Electric Providers (REPs). REPs serve as billing entities for the end-use retail customers. REPs contract with power generation companies to receive power and bill the retail electric customers for the cost of power plus the distribution and transmission costs (of the DSPs) in one consolidated bill. The DSPs remit payments monthly to the TSP, limiting the counterparty risk from these entities. The process of 81 DSPs making monthly payments to each of the 48 TSPs is well established and not viewed as a material risk to TSC. A potential default from a DSP would be limited, given the PUC's ability to step in and transfer responsibility for that DSP's service area to another DSP.

### STRONG AND TIMELY RECOVERY RECORD

Timely rate recovery provided by the PUCT has been a positive credit factor since TSC began operations in 2002. There are two types of rate cases that provide more timely relief to TSC. The full TCOS rate case provides a full rate review in which all expenses and costs of capital are reviewed and adjusted for 'known and measurable' changes occurring after the test year. A TCOS rate case can be filed as frequently as TSC determines it is needed. The PUCT permits recovery of 0.25x above TSC's own 1.25x rate covenant for debt service costs from transmission-related projects. TSC's actual debt service coverage

is usually slightly below the 1.5x level, given the carrying costs of construction projects underway and the delay in getting those construction project costs into transmission rates.

TSC's last TCOS was filed in Nov. 2011 and became effective March 2012. TSC received 98.3% of the amount requested, which is consistent with the last TCOS filing in 2007. TSC currently has no plans to file another TCOS rate case in the next five years.

The interim capital additions update (ICA) is a partial rate review in which rates are updated to reflect changes only in to the cost of invested capital and taxes since the prior TCOS rate case. TSC has typically filed ICAs annually but is able to file up to two per year. The ICAs are typically implemented more quickly than TCOS rate cases.

The ICA allows construction costs to be rolled into rates as soon as a project is in service, limiting the delay in rate recovery, to some degree, during a large capital program. Costs recoverable under the ICA are limited to invested capital with the previously approved rate of return, depreciation and taxes.

TSC has filed eight ICA filings since it began and has received the full amounts requested under those filings. The interim process with the PUCT has provided an advantageous mechanism to recover capital cost in a timely manner during the pace of TSC's large construction program over the past few years.

### STABLE FINANCIAL PERFORMANCE

As a regulated utility, debt service coverage is a result of the regulated rate of return permitted by the PUCT of 1.5x debt-related expenses for capital projects. TSC's actual debt service coverage is typically between 1.35x and 1.5x, reflecting some lag between its incurrence of the costs and its receipt of those costs in rates. Coverage is projected to remain in this range. However, coverage was higher at 1.69x in fiscal 2013. Future coverage is expected to be more typically between 1.3x and 1.4x.

## Fitch Affirms Lower Colorado River Auth's, TX Transmission Contract Rev Bonds at 'A+

Written by Australian Business

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In 2014, the LCRA Board of Directors approved two new revenue transfers from TSC to LCRA. The first increase is a new transfer to LCRA's resource development fund that will equal 2% of TSC's revenues, or between \$7 - \$8 million annually beginning in fiscal 2015. The second increased transfer is an increase in the contractual commitment payment to LCRA. LCRA has the right each year to request an additional equity transfer from TSC to support the remaining transmission debt held at LCRA. LCRA has historically only collected 1.0x coverage of the contractual commitment from TSC but beginning in fiscal 2014 plans to collect 1.25x the contractual payment, also an additional \$7 million annually over the next few years. The increased payments will not result in a transmission rate increase but will be funded from the existing margin (1.5x debt costs) already allowed in the existing rates.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria and U.S. Public Power Rating Criteria, this action was informed by information from CreditScope.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria'(June 14, 2014);

--'U.S. Public Power Rating Criteria'(March 18, 2014);

--'Rating U.S. Public Finance Short-term Debt'(Dec. 9, 2013);

--'Fitch Affirms Oncor's IDR at 'BBB'; Outlook Stable'(May 5, 2014).

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=750012](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012)

U.S. Public Power Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=740841](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=740841)

Rating U.S. Public Finance Short-Term Debt

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=724680](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=724680)

Additional Disclosure

Solicitation Status

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