LCRA

1991 Annual Report
Lower Colorado River Authority

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Annual Report - 1991

Table of Contents

LCRA

THE POWER TO MAKE A DIFFERENCE.

The Lower Colorado River Authority was created by the Texas Legislature in 1934 as a special district encompassing ten counties along the Colorado River. The district was created to stop floods, to provide water for irrigation, and to produce and distribute electric power. No money came from the state. As part of the New Deal, the U.S. Government provided the money to build six dams and install electric generating equipment. The LCRA is subject to state laws such as the Open Meetings Act and Open Records Act; however, it is not a state agency. It still receives no state funds; it cannot pledge the credit of the state nor levy a tax.

Today the LCRA harnesses the Colorado River for hydroelectric and steam power generation and for flood control as well as raw water supplies for drinking water and irrigation. The LCRA protects the quality of the river by the adoption and enforcement of ordinances, by improving the standards for wastewater discharges into the Colorado and its tributaries, and by maintaining an ongoing assessment of quality. The LCRA provides lands for parks and enhances public access to the Colorado.

The LCRA serves 41 counties in Central Texas as a power supplier, ten counties in its statutory district as a steward of the Colorado, and indirectly all of Texas as a leader in water quality, water supply, and reliable, low-cost power.

A Message from the Chairman and General Manager

Why does the LCRA exist? No question is more fundamental to the customer, the employee, the bondholder who relies upon the LCRA, or the governments that allowed the LCRA's development to occur.

Raymond Barker

When the LCRA was created in the mid-1930s, it grew out of the crying needs of Central Texas and the Hill Country for electrification, water, and flood security. The people of the LCRA were driven by a goal to fill those needs. Today, conditions are different, but the same enthusiasm to serve continues.

The Legislature's mandate to us is to serve public purposes of many kinds. To fulfill that mission, we are opening new parkland, promoting tourism, supporting a globally competitive rice industry, and providing the low electric rates and technical assistance that lead to economic development of the region. Our environmental programs will bring cleaner water to the Colorado River basin. We have a unified system of electric, water, land, and environmental programs. We have the financial strength to do the public's business with no revenues from taxpayers. Our approach to business ensures operation as one agency with our foundation built on four fundamentals: **performance, leadership, service, and partnership.**

As a public service company, we have no right to exist if we are not providing an extra dimension of leadership and service.

Solid achievements give us the power to make a difference. The Texas Public Utility Commission approved in April 1991 the settlement of our electric rate case with our wholesale customers. We will not return to the PUC for a base rate increase for three years except under very specific and unexpected financial circumstances. The Board and staff committed in June to extending that freeze to five years or more. In addition to low base rates, we have achieved low fossil-fuel costs. Since 1988, no utility in Texas has had lower fossil-fuel costs than the LCRA. The largest generating plant in our system, the Fayette Power Project, was rated by an external engineering auditor as a "nine" on a performance scale of zero to ten. Our nonpoint-source pollution ordinance, the ban on wastewater discharges, and other environmental measures helped make Lake Travis, the largest of the Highland Lakes, the clearest lake in Texas.

Our commitment is based in our vision for the future and our desire to help Central Texas and the Hill Country. In 1991, we helped write a new law for Texas, the Texas Clean Rivers Act. The law requires all river authorities to assess the quality of the water they control and recommend to the Texas Water Commission any necessary corrective actions. We put in place one of the nation's largest networks of citizen water quality monitors, the Colorado RiverWatch Network. Our programs benefit citizens throughout Texas. Thousands of Texans travel each year to enjoy the parks and tourist facilities on the Highland Lakes. As an electric utility, we are a reliable and centrally located member of ERCOT, one of the finest utility networks in the nation.

Mark Rose

The LCRA will make a difference in the future because we recognize and are preparing now for the challenges of tomorrow. We are gaining the insight needed to be a perceptive and discerning regional authority. Developing a 21st Century view has become a task of the entire organization.

Insight, vision, solid achievements, and financial strength -- these qualities serve the 750,000 people who use our power, the 500,000 Central Texans who drink lower Colorado River water, and the hundreds of thousands who live securely because the floods of the Colorado River are tamed. We are proud of our past but recognize it is not our future. As a public service company, we have no right to exist if we are not providing an extra dimension of leadership and service. In the world today it is not enough to say that we should exist because we have a lower rate. Our task is to achieve that and much more. Our profits are reflected in cleaner water, public recreation, and community service. We look forward to these challenges with the enthusiasm and commitment our history brings to us.

Raymond Barker

Raymond Barker
Chairman

Mark Rose
General Manager

Performance

The Lower Colorado River Authority is demonstrating the power to make a difference by performing its mandated responsibilities with a continuous search for improved economies in operations and innovations that enable the agency to meet changing demands.

Planning for slimmer budgets

In FY 1991, efforts were initiated to scale back the budget to face the reality of hard times in Texas. After five rate increases in six years, the LCRA committed to freeze its base electric rates for at least five years and adopted a "pay-as-you-go" policy to limit borrowing. Innovative services are continuing even with a reduction in personnel of 12.5% from the historical peak.

Cutting fuel costs

For the second year in a row, Electric Operations produced the lowest fossil-fuel (coal, lignite, and natural gas) costs of any utility in Texas. The LCRA's $14.33 per megawatt-hour (MWH) cost compared well with a state average of $18.07 per MWH. Fossil fuels represent 96% of the Authority's fuel needs and 92% for Texas utilities on average.

Low fuel costs are being reinforced by the development of a 6-billion-cubic-foot gas storage facility at Bastrop. Capacity in an intrastate pipeline has been purchased to provide the larger of the two gas-fired plants, Sim Gideon, with lower delivery costs and access to multiple suppliers.

The outstanding performance in fuels management was complemented by excellence in power plant operations. In an audit of the Fayette Power Project (FPP), Stone & Webster, a nationally known engineering consultant, concluded: "In most areas, the FPP's operations are much better than the U.S. average and on a scale of zero to ten, we would rate the FPP's performance at a nine."

FPP's three units, which supply approximately 77% of the LCRA's power, had overall availability of 87% with Unit 3 rated at 98% -- well above the national average of 82%.

FPP, which supplies about 77% of the LCRA's power, had an overall availability of 87%, well above the national average.

Innovations for cycled operations

Innovations and modifications at Ferguson and Sim Gideon natural-gas-fired power plants have allowed the cycling of those plants. Originally built to operate continuously, both are now capable of starting up or shutting down as needed. During FY 1991, this flexibility resulted in a fuel savings of $720,000. A savings of $1.8 million is projected over the next five years.

Instituting efficiencies

Automation has been steadily incorporated into operations when savings in time and money and increased efficiency can be realized. Hydrogeneration at the LCRA's six dams is now automated with a control center established at Wirtz Dam.

A new process of coordinating specific objectives, priorities, and the financial plan produced a budget and operating plan document for FY 1992 that is a comprehensive, easy-to-read reference.

The Powell Bend lignite mine in Bastrop won the 1990 Texas Railroad Commission Reclamation Award as best in the state. The operation has had five years of flawless compliance with state and federal regulations. The soil was seeded with native plants, and a pond was created to hold runoff from the mined areas.

Encouraging successful water conservation programs

Agricultural water conservation programs produced the lowest water use ever on many of the 300 rice farms served by the LCRA irrigation districts. The average per-acre usage of 5.98 acre-feet during the 1990 season represents an encouraging decrease from the 7.28 acre-feet per acre average of 1987. A system to measure water diversion to each farm was successfully tested this year and will allow rates to be based on the amount of water used rather than the current flat charge-per-acre-cultivated.

Managing water resources

A Water Management Plan, which covers routine and crisis management of supplies, has been developed, and a Drought Management Plan is awaiting approval by the Texas Water Commission.

Water Resources personnel completed an evaluation of the six Highland Lakes dams to identify structures with potential modification needs and to complete emergency action planning. The results show that due to an excellent historical maintenance program, the dams (four of which are more than 50 years old) are in excellent condition and should perform well under normal operating conditions for decades to come.

Studies on the Highland Lakes were also performed in FY 1991 to determine the impact of sedimentation on reservoir capacity, navigation, and environmental quality. Results of the studies showed that neither the reservoir capacity of the six lakes nor environmental quality has been severely affected by increased sedimentation. Work is underway with citizen groups to obtain funding to improve navigation in key areas on Lakes Buchanan and LBJ.

Water for irrigation of rice moves through 640 miles of canals.

Leadership

The LCRA has made a difference in the way the state of Texas looks at water quality and power production through the example of innovative programs and the leadership necessary to bridge political boundaries.

River assessment incorporated in Texas law

In its drive to clean up the Colorado, Environmental Quality staff designed and began an ongoing assessment of the lower Colorado during FY 1991 -- the most comprehensive pollution study of any river in the state. The program served as the blueprint for the Texas Clean Rivers Act of 1991 which requires river authorities across Texas to take the lead in planning, coordinating, and assessing water quality and regional water supplies.

Conservation staff played an active role in the development of new state plumbing codes which set efficiency requirements for plumbing products sold in Texas.

Reducing pollution and erosion

LCRA was successful in combining the resources of four government agencies -- the Federal Correctional Institute, the County of Bastrop, the Texas Army National Guard, and the LCRA -- to begin construction in October 1991 of a regional wastewater treatment plant in Bastrop County that will alleviate threats to public health and water quality of the Colorado River.

Nonpoint-source pollution ordinances are being extended to all six of the Highland Lakes watersheds. These performance-based ordinances require that specific amounts of pollution be removed from rainwater runoff leaving newly developed property.

Nine creekside demonstration projects were developed in a partnership with private land owners to test soil erosion prevention techniques.

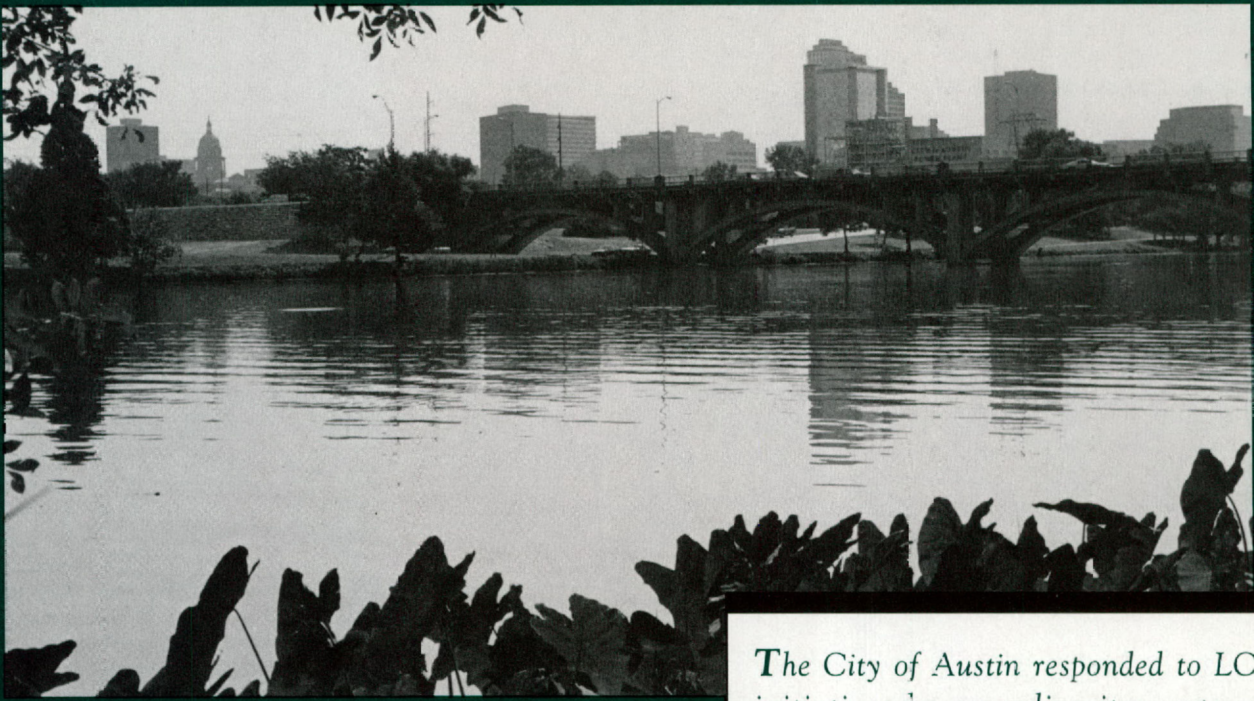
The LCRA's water quality assessment program served as a blueprint for the Texas Clean Rivers Act of 1991.

Moving power for the benefit of all Texans

With its service area in Central Texas, the utility is in a pivotal position and is a leader in facilitating the movement of electric power from one region to another in the state. Texas leads the nation in opening access to transmission facilities which reduces the need for new generating facilities. Leadership in wheeling power saves natural resources, reduces pollution, cuts costs for all Texans, and serves as a model for regions outside of Texas.

Demonstrating environmentally sound power production

Over the past decade, the Fayette Power Project's coal-fired units have set an excellent record in compliance with air and water quality standards. Unit 3 has been the cleanest coal and lignite plant in the state for the past three years. This unit, 10% lignite- and 90% coal-fired, achieved better than a 90% removal of sulfur dioxide, far above federal standards, a record which is the result of an agency goal. Similar records of compliance with environmental standards have been established at the two natural gas plants as well. With the seventeenth best national fuel-to-electricity ratio, the LCRA has led the way in showing that high environmental standards are compatible with economical and reliable production.

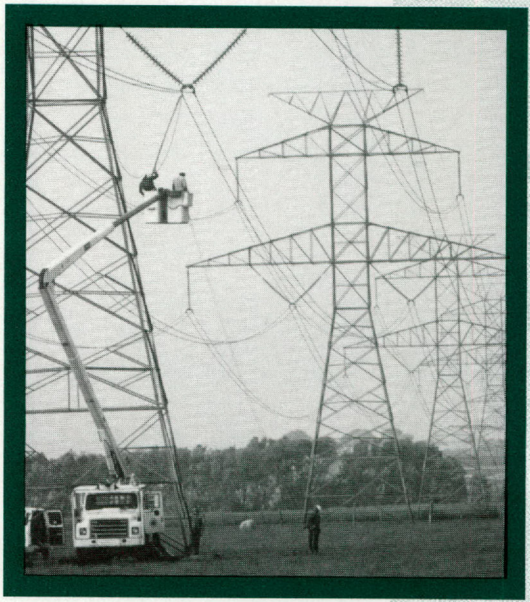


The City of Austin responded to LCRA initiatives by amending its wastewater discharge permits from 10-15-2 to 5-5-2 and by approving a ban on phosphate-based laundry detergents. The higher permit levels, the most stringent of those for any major city in the state, will reduce by one-half the amount of future pollution discharged into the Colorado from Austin wastewater treatment plants. With encouragement by the LCRA, the phosphate ban is being adopted by cities up and down the lower Colorado.

The Colorado RiverWatch Network, the most sophisticated volunteer water quality monitoring program in the state, was expanded during FY 1991. Four hundred students from 30 schools and adult volunteers conduct weekly water quality testing for nine different water quality parameters at 36 sites along the river. U.S. Environmental Protection Agency Administrator William Reilly called the program the most outstanding of those he has observed.

Service

Clearly the LCRA is making a difference in the quality of life in Central Texas by providing low-cost power and by harnessing the floodwaters of the Colorado. That quality of life is further enhanced by other services provided for water and electric customers.



Technical services for electric customers

Numerous technical services are provided to wholesale electric customers, ranging from complete engineering design and construction to vehicle repair and safety equipment testing. In FY 1991, more than half of the electric customers used the LCRA's distribution engineering services. Employees tested 700 pieces of safety equipment for customers, calibrated 300 home electric meters, and worked on 74 hydraulic vehicles.

FY 1991 saw the introduction of the Energy Fitness Program, an energy conservation program aimed at weatherizing up to 250 homes a year throughout the 41-county service area. Intensified efforts in the energy-saving Good Cents Home Program are also paying off. During FY 1991, 232 Good Cents Homes were certified -- a 125% increase over the year before.

Eliminating leaks in local water systems

The Leak Detection Program continues to provide an invaluable service to water customers. During FY 1991 water system inspections in Lakeway and Fredericksburg identified 100,000,000 gallons per year of water losses. In five years the program has inspected 24 systems, identifying water losses of almost 700,000,000 gallons per year.

Building local economies

The Economic Development Department played a significant role in bringing six new industries to our service area during FY 1991. These activities resulted in 225 new or retained jobs and $5,000,000 in new capital investment.

The LCRA's economic development efforts resulted in 225 new or retained jobs and $5,000,000 in new capital investment in Central Texas.

Opening lands for greater access to the river

As the steward of the Highland Lakes and the Colorado River, Land Resources staff continue to open more lands for parks, boat ramps, and general access areas. Three primitive camping areas were opened during FY 1991, and 12 more are planned over the next four years. A new public boat ramp was completed on Lake Travis, bringing the total to seven with another boat ramp on the drawing boards for Lake Buchanan. A major effort was launched in FY 1991 to develop a chain of parks and points of access downstream of the Highland Lakes, beginning with the establishment of two parks in the cities of Smithville and Columbus.

Keeping in touch with the public

The Community Affairs and Public Information departments form a link from the LCRA to the public, keeping people in the service area informed of the Authority's activities. Community Affairs personnel are an LCRA presence in communities far from Austin headquarters. Public Information improves internal communications through publications and a monthly video production, which is also shown on area public access television stations.

Broadening recreational opportunities along the river includes designation of primitive camping areas as well as development of full-service parks in cooperation with cities and counties. Emphasis now is on more downstream sites.

Employees are making a big difference in their communities, donating $130,000 a year to a charities fund and contributing personal time for volunteer work. In FY 1991, those monies were distributed to more than 100 organizations. Among other drives, employees helped collect 21,000 pounds of food for the needy in the Scouting for Food campaign in Central Texas. Volunteers are visible in many other activities for nonprofit services, including the Texas Special Olympics.

Partnership

The LCRA has learned what a difference customers and employees can make. These relationships, as well as those with the general public, have improved. Participation in planning and major decision-making has been broadened to an unprecedented degree.

Customer committees

Customers, through the Association of Wholesale Customers, have standing committees which help guide policy development from power supply and transmission to budget and finance.

These committees helped to shape the rate structure and to settle issues in the recent rate case. The effort produced a policy of compensation for transmission lines built by customers but utilized by the system and set a coordinated policy for the future construction of lines and substations. The result was a rate case which ended in virtual unanimous agreement with accolades from Texas Public Utility Commissioners for exemplary teamwork.

The Association of Wholesale Customers has standing committees to help guide policy development from power supply and transmission to budget and finance.

Public comment on major issues

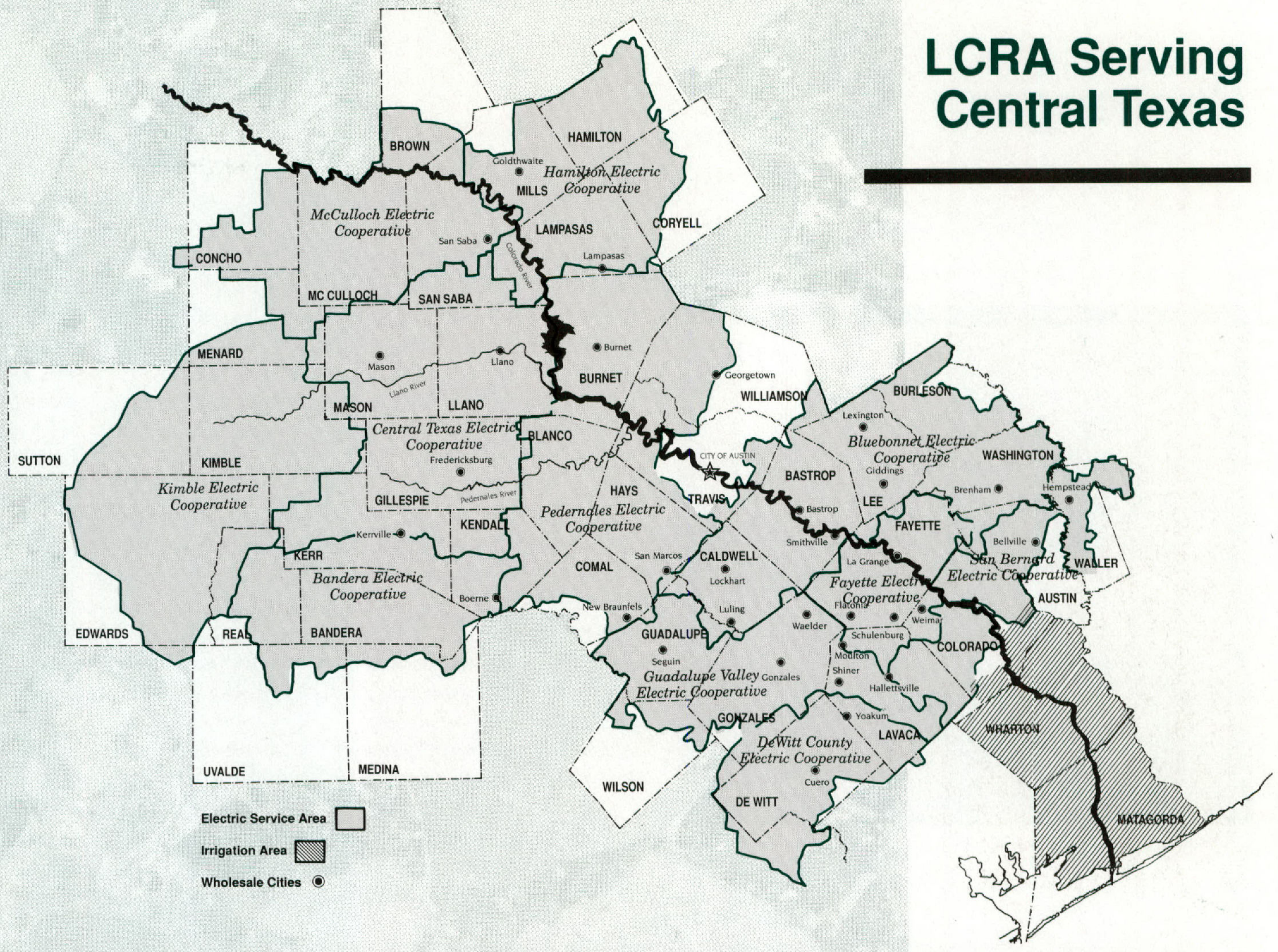
This policy of openness, careful listening, and involvement has also been extended to the public. Town meetings for the discussion and detailed explanation of plans for power line and substation construction are now standard practice.

Committees of officials and citizens were formed to help fine-tune the nonpoint-source pollution ordinance and the Drought Management Plan. An extensive public input process is preceding the filing of a permit application for an expansion of the Powell Bend lignite mine. In each county along the river, Water Councils continue to advise the LCRA on water issues in their regions and encourage public participation in natural resources programs.

Employees as partners

Team building has gone beyond departmental lines for the 1,736 employees of the LCRA. An emphasis on cooperation on all levels has created a drive for common goals and full participation of employees in major departmental and employee policy decisions. Employees have opportunities to serve on agencywide committees with charges as diverse as recycling and employee benefits. Employees are continuing to seek ways to reduce costs and reduce bureaucracy for further savings and smoother operations.

LCRA Serving Central Texas



Wholesale Electric Customers

Electric Cooperatives: Bandera Electric Cooperative, Inc., Bandera • Bluebonnet Electric Cooperative, Inc., Giddings • Central Texas Electric Cooperative, Inc., Fredericksburg • DeWitt County Electric Cooperative, Inc., Cuero • Fayette Electric Cooperative, Inc., La Grange • Guadalupe Valley Electric Cooperative, Inc., Gonzales • Hamilton County Electric Cooperative, Inc., Hamilton • Kimble Electric Cooperative, Inc., Junction • McCulloch Electric Cooperative, Inc., Brady • Pedernales Electric Cooperative, Inc., Johnson City • San Bernard Electric Cooperative, Inc., Bellville.

Cities: Bastrop • Bellville • Boerne • Brenham • Burnet • Cuero • Flatonia • Fredericksburg • Georgetown • Giddings • Goldthwaite • Gonzales • Hallettsville • Hempstead • Kerrville • La Grange • Lampasas • Lexington • Llano • Lockhart • Luling • Mason • Moulton • New Braunfels • San Marcos • San Saba • Schulenburg • Seguin • Shiner • Smithville • Waelder • Weimar • Yoakum.

Wholesale Water Customers

More than 100 wholesale water customers depend on the lower Colorado River for drinking water. Rice farmers in Matagorda, Colorado, and Wharton counties use water to irrigate up to 64,000 acres each year. The LCRA's six hydro and three steam power plants are major users of water from the Colorado River.

Challenges

The LCRA will surely meet its challenges just as it met the needs of the Hill Country and mid-Texas during the 1930s. The excellent performance of our electric system and our prudent fuel policy will keep rates low. We will exercise leadership through innovative environmental programs. The Colorado River will become cleaner, and a reliable, unpolluted water supply will be assured for Central Texas. We will continue to build on our strengths -- performance, leadership, service, and partnership -- because these things give us the power to make a difference.

Assessment of future needs

A period of adequate electric power supply for the Authority extends only to the end of the century. We must use the time we have to evaluate carefully the strategies that will best fit the future. The challenge is to balance conservation and load management measures against the alternatives for additional power sources. Our target must be to sustain low rates, with reliable service and environmental responsibility.

Everything possible must be done to maintain our exceptionally low fuel costs through diversity of sources, control of fuel supplies, and prudent operations that reduce fuel use. Our natural gas strategy must be fine-tuned to capitalize on the possibilities of acquisition, development, and storage. The Hilbig Storage Facility must prove its value in supplying natural gas when it is needed.

Plans for a healthy river

The assessment of the Colorado River must continue so that we can determine the sources of pollution of the river and the best way to keep the river healthy. Our entire staff must be challenged with the task of finding efficient ways to reverse degradation of our waters.

Ways to conserve water supplies

We must learn to stretch our water supplies through new agricultural and municipal conservation programs. We must respond to opportunities to protect the Colorado River by protecting the groundwater in its basin.

Designs for wider access to the river

More land, especially along the river, must be opened for use by the public so that more people gain respect for the river and are attentive to its problems. We must promote recreational uses of the river and construction of riverside community parks.

Steps toward new efficiencies in administration

To meet the challenge of relatively flat operating budgets for the next five years, we need to continue to remove bureaucratic stumbling blocks in internal operations and reduce the costs of doing business. We must turn the challenge of slow growth and frozen base electric rates into an opportunity to build streamlined operations. Meeting these challenges will lead to greater customer satisfaction, stronger community support, and a clearer sense of the LCRA's place in the world of the 21st Century.

We will define our place in the future of Central Texas by planning for the 21st Century and by selecting strategies that will direct our path to the needs of the future.

LCRA Board Of Directors

(Left to right)
Roy Bandy
Secretary
Caldwell County
C. Patrick Oles, Jr.
Travis County
Ray S. Knox
Blanco County
Angela Flores Beck
Fayette County
John H. Hill
Blanco County (not shown)

(Left to right)
Betty Jo Miller
San Saba County
Michael J. Lucksinger
Burnet County
Jack M. Johnson
Colorado County
Cecil B. Long
Bastrop County
Alex Massad
Travis County

(Left to right)
Neal Norris
Llano County
Burton B. LeTulle
Matagorda County
J. Randall Grimes
Williamson County
Rita M. Radley
Vice Chairman
Wharton County
Raymond F. Barker
Chairman
Kerr County

LCRA Executive Committee

Above:
Larry J. Krenek, Senior Director of Transmission and Energy Operations; Frank McCamant, Senior Director of Fuels and Transmission Analysis; Glen Taylor, General Counsel; John M. Meismer, Senior Director of Corporate Planning; Philip J. Kolman, Internal Auditor.

Right:
Walter J. Reid, Executive Director of Electric Operations; Missy Mandell, Executive Director of Conservation and Environmental Quality; William P. Freeman, Executive Director of Corporate Services and Chief Financial Officer; William E. West, Executive Director of Natural Resources.

LCRA Financial Statements

Comparative Financial Information Fiscal Year ended June 30,

(Dollars in Thousands)

	1991
Operating Revenues	$ 353,668
Interest and Other Income,	
Less Amounts not Available for Debt Service	19,908
Total	373,576
Operating Expenses,	
Excluding Depreciation & Amortization	201,231
Net Revenues Available for Debt Service	$ 172,345
Debt Service Requirement*	$ 124,049
Debt Service Coverage Ratio	1.39 x
Electric Revenue per KWH Sold (cents):	
Wholesale	3.95
Retail	4.21
Utility Plant @ June 30	$ 1,419,409
Accumulated Depreciation @ June 30	$ 319,441
Long Term Debt @ June 30	$ 1,327,008

Statistics

	1991
MWH Sales	
Wholesale	7,258,981
Retail-Residential	198
Retail-Other	133,778
Subtotal	7,392,957
Economy Energy and Other	563,783
Total MWH Sales	7,956,740
MWH Generation and Purchased Power	
Hydraulic	291,249
Steam:	
Gas	1,606,181
Coal	6,342,834
Purchased Power	73,907
Total Generation and Purchased Power	8,314,171
Net Peak Demand (MW)	1,756
Electric Customers:	
Wholesale	44
Retail-Residential	13
Other	54
Total Electric Customers	111
Number of Employees @ June 30	1,736

	1990	1989	1988	1987	1986	1985	1984	1983	1982
	$ 319,555	$ 284,672	$ 245,737	$ 210,930	$ 243,839	$ 274,443	$ 279,318	$ 241,940	$ 210,020
	19,780	17,064	15,406	23,934	27,801	21,620	10,540	8,723	10,593
	339,335	301,736	261,143	234,864	271,640	296,063	289,858	250,663	220,613
	194,073	202,529	188,630	167,984	195,257	229,696	233,756	195,867	170,046
	$ 145,262	$ 99,207	$ 72,513	$ 66,880	$ 76,383	$ 66,367	$ 56,102	$ 54,796	$ 50,567
	$ 106,468	$ 82,447	$ 51,507	$ 52,645	$ 47,994	$ 42,829	$ 38,091	$ 35,261	$ 29,810
	1.36 x	1.20 x	1.41 x	1.27 x	1.59 x	1.55 x	1.47 x	1.55 x	1.70 x
	3.69	3.35	3.07	2.84	3.39	4.07	4.40	4.24	3.85
	3.95	3.43	3.73	3.68	4.08	4.77	5.18	5.11	4.65
	$ 1,401,868 **	$ 1,493,621	$ 1,420,421	$ 1,320,599	$ 1,179,378	$ 884,251	$ 734,956	$ 677,292	$ 608,512
	$ 281,143	$ 247,848	$ 214,002	$ 200,304	$ 184,929	$ 170,505	$ 154,432	$ 139,228	$ 124,635
	$ 1,333,357	$ 1,345,429	$ 1,315,140	$ 1,443,564	$ 1,206,883	$ 728,208	$ 684,085	$ 324,039	$ 427,953
	7,299,357	7,134,324	6,707,783	6,099,374	5,590,143	5,314,239	5,080,024	4,569,471	4,248,793
	176	212	95,897	235,577	269,792	268,232	249,360	229,288	210,905
	129,926	152,112	260,137	407,924	546,283	512,803	455,459	419,380	407,615
	7,429,459	7,286,648	7,063,817	6,742,875	6,406,218	6,095,274	5,784,843	5,218,139	4,867,313
	623,864	750,787	451,114	149,150	287,832	200,381	164,263	120,601	226,385
	8,053,323	8,037,435	7,514,931	6,892,025	6,694,050	6,295,655	5,949,106	5,338,740	5,093,698
	235,840	249,925	322,368	827,731	254,347	228,416	204,084	218,952	387,303
	1,624,293	1,824,355	2,873,852	3,164,320	3,198,427	2,185,624	1,891,473	1,417,486	1,213,956
	6,426,723	6,179,218	4,462,050	3,093,259	3,535,669	4,110,758	4,076,818	3,933,865	3,721,448
	83,366	75,352	166,735	101,805	66,106	73,029	63,909	55,361	53,505
	8,370,222	8,328,850	7,825,005	7,187,115	7,054,549	6,597,827	6,236,284	5,625,664	5,376,212
	1,930	1,684	1,494	1,500	1,418	1,451	1,326	1,140	1,106
	44	44	44	42	41	41	41	41	41
	13	16	17	13,240	23,056	22,245	20,928	19,589	18,670
	58	50	48	3,890	5,518	5,153	4,799	4,404	4,168
	115	110	109	17,172	28,615	27,439	25,768	24,034	22,879
	1,797	1,834	1,923	1,964	1,829	1,714	1,599	1,483	1,365

*For fiscal years 1985 through 1987, Debt Service Requirements have been revised to include all short-term and long-term obligations.

**Restated

Balance Sheets

Assets

	June 30, 1991	June 30, 1990
	(Thousands of Dollars)	
Property, Plant & Equipment		
Utility plant in service:		
Electric	$ 1,297,160	$ 1,250,657
Irrigation	15,048	13,246
	1,312,208	1,263,903
Less accumulated depreciation	319,441	281,143
	992,767	982,760
Construction work in progress	61,881	93,273
Oil and gas property, net	45,320	44,692
Utility plant, net	1,099,968	1,120,725
Lignite mine and other physical property, net	5,580	6,581
Total Property, Plant & Equipment	1,105,548	1,127,306
Cash & Investments in Restricted Funds (includes cash and cash equivalents of $38,544 and $56,229 for 1991 and 1990, respectively)		
General improvement and construction funds	33,215	32,600
Debt service funds	177,649	133,210
Debt service funds with paying agent		47,714
Contingency and other restricted funds	10,109	10,390
Less net amount due revenue fund	6,074	5,508
Total Cash & Investments in Restricted Funds	214,899	218,406
Current Assets		
Cash & investments in revenue fund (includes cash and cash equivalents of $17,748 and $17,370 for 1991 and 1990, respectively)	32,931	33,411
Accrued interest receivable	4,270	3,767
Net amount due revenue fund from general improvement, construction, and other restricted funds	6,074	5,508
	43,275	42,686
Accounts receivable (net of allowance for doubtful accounts of $361 and $250 for 1991 and 1990, respectively)	40,237	42,373
Inventories:		
Fuel	35,038	28,481
Material and supplies	24,110	22,536
Other	9,849	6,453
Total Current Assets	152,509	142,529
Deferred Charges		
Costs to be recovered from future revenues	250,677	241,676
Unamortized losses on refunded debt	119,628	106,587
Contract extension settlement with major customers	18,588	18,588
Unamortized debt expense	18,094	18,544
Coal contract settlement	15,255	16,475
Other deferred charges	9,807	8,838
Total Deferred Charges	432,049	410,708
Total Assets	$ 1,905,005	$ 1,898,949

The accompanying notes are an integral part of these financial statements.

Capitalization and Liabilities

	June 30, 1991	June 30, 1990
	(Thousands of Dollars)	
Capitalization		
Contributed capital	$ 11,346	$ 11,672
Capital derived from earnings:		
Balance, beginning of year	374,674	351,473
Net income for the year	32,047	22,876
Current depreciation on utility plant acquired or constructed with contributions	325	325
Balance, end of year	407,046	374,674
Long-term debt:		
Capital reimbursable to U.S. Government	4,408	4,566
Senior and junior lien revenue bonds, including amounts due within one year of $28,375 and $24,265 1991 and 1990, respectively	1,181,408	1,188,807
Subordinate debt: commercial paper and adjustable rate revenue bonds	145,600	144,550
Total long-term debt	1,331,416	1,337,923
Accrued interest	43,643	48,422
Total Capitalization	1,793,451	1,772,691
Liabilities Payable from Restricted Funds (includes amounts due within one year of $1,091 and $1,008 for 1991 and 1990, respectively)	3,595	2,627
Current Liabilities Payable from Revenue Fund	26,313	29,126
Deferred Credits and Other Long-Term Liabilities		
Unamortized gain on refunded debt	78,822	82,062
Other deferred credits and long-term liabilities	2,824	12,443
Total Deferred Credits and Other Long-term Liabilities	81,646	94,505
Commitments and Contingencies		
Total Capitalization and Liabilities	$ 1,905,005	$ 1,898,949

The accompanying notes are an integral part of these financial statements.

Statements Of Operations

	Year Ended June 30, 1991	1990
	(Thousands of Dollars)	
Operating Revenues		
Sales of electricity	$ 314,899	$ 297,441
Water and irrigation	9,102	7,503
Natural gas	10,936	7,848
Other	18,731	6,763
Total Operating Revenues	353,668	319,555
Operating Expenses		
Fuel	117,985	118,411
Purchased power	1,660	2,296
Operation	61,337	53,929
Maintenance	29,990	29,287
Depreciation	38,331	36,905
Total Operating Expenses	249,303	240,828
Operating Income	104,365	78,727
Interest and Other Income	22,451	25,181
Income Before Interest Charges	126,816	103,908
Interest Charges		
Interest expense	105,824	108,717
Interest during construction	(6,203)	(20,069)
Net Interest Charges	99,621	88,648
Income After Interest Charges	27,195	15,260
Gains/(Losses) from Disposition of Cummins Creek	558	(200,600)
Costs to be Recovered from Future Revenues	4,294	208,216
Net Income	$ 32,047	$ 22,876

The accompanying notes are an integral part of these financial statements.

Statements Of Cash Flows

	Year Ended June 30, 1991	1990
	(Thousands of Dollars)	
Cash Flows from Operating Activities:		
Operating income	$ 104,365	$ 78,727
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	47,385	48,941
Amortization of Bond Related Expenses	3,291	1,008
Changes in assets and liabilities:		
Accounts Receivable, net	2,136	(2,196)
Inventories - fuel, materials and supplies	(8,131)	3,331
Other current assets	(3,423)	(3,237)
Liabilities payable from revenue fund /restricted funds	(1,845)	(2,057)
Additions to other deferred charges	(2,503)	(3,772)
Deferred credits and other long-term liabilities	(9,619)	(193)
Net Cash Provided by Operating Activities	131,656	120,552
Cash Flows Used in Noncapital Financing Activities - Interest Paid	(581)	(741)
Cash Flows from Capital and Related Financing Activities:		
Expenditures and contributions for property, plant and equipment	(20,818)	(63,519)
Proceeds from long-term debt	719,801	458,485
Principal payments of long-term debt	(731,117)	(472,992)
Interest paid	(105,212)	(107,627)
Loss on bond refunding and related debt issuance costs	(16,749)	
Net Cash Used for Capital and Related Financing Activities	(154,095)	(185,653)
Cash Flows from Investing Activities:		
Sale and maturity of investment securities	356,210	188,867
Purchase of investment securities	(369,267)	(201,792)
Interest received	18,770	20,798
Net Cash Provided by Investing Activities	5,713	7,873
Net Decrease in Cash and Cash Equivalents	(17,307)	(57,969)
Cash and Cash Equivalents, Beginning of Year	73,599	131,568
Cash and Cash Equivalents, End of Year	$ 56,292	$ 73,599

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

1. General

The Lower Colorado River Authority (LCRA) is an agency of the State of Texas created to control, store, and preserve the waters of the Colorado River within its reservoirs, regulate the flow of water to develop hydroelectric energy, provide water for irrigation and other useful purposes, aid in the prevention of flood damage, conserve and protect the soil and forests within its watershed, and construct and operate steam generating plants.

The LCRA electric generating facilities are comprised of six dams with installed hydroelectric net generating capacity of 239 MW, four gas-fired units having an aggregate net capacity of 1,050 MW, a fifty percent undivided ownership interest in two coal-fired units having an aggregate net capacity of 1,100 MW and a wholly-owned 405 MW coal fired unit. The LCRA also has two irrigation systems with approximately 640 miles of canal.

The coal-fired units are located at a site known as the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the City of Austin (Austin) which designates the LCRA as project manager. Each party is entitled to fifty percent of the generating capacity of FPP Units I and II, and FPP Unit III is entirely owned by the LCRA. The LCRA's investment is financed with LCRA funds, and its pro-rata share of operations is accounted for in the same manner as its wholly-owned facilities.

The LCRA's capital has been provided by accumulated earnings and various grants from federal and state agencies including Public Works Administration, the Bureau of Reclamation and the State of Texas classified as contributions in aid of construction.

At June 30, 1991, the LCRA had power supply contracts with forty-four wholesale electric customers: four expire in June 1999 and forty expire in June 2016 corresponding to the retirement of the LCRA's long-term debt. Subsequently, one of the LCRA's customers extended their power supply contract from June 1999 to June 2016. Approximately ninety-four percent of the LCRA's operating revenues are derived from its electric utility business. Of the forty-four wholesale customers, two wholesale customers represent ten percent or more of the LCRA's total electric sales revenue. Sales of electricity to these two wholesale customers represent approximately twenty-three percent and ten percent, respectively.

2. Significant Accounting Policies

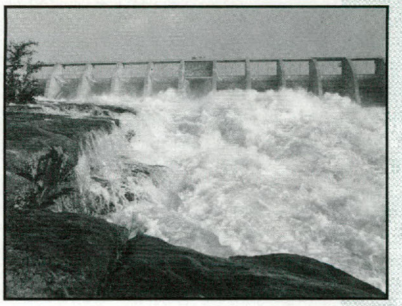
Basis of Accounting: The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as set forth by the Governmental Accounting Standards Board (GASB) and, where applicable, the Financial Accounting Standards Board (FASB). The LCRA's accounts are maintained substantially in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission.

Revenue and Restricted Funds: Pursuant to the LCRA's Bond Resolution, separate funds have been established for designated purposes. The Revenue Fund consists of electric and water system revenues collected and available for operating and other Board designated purposes. The Restricted Funds are the debt service, debt service reserve, construction, contingency and general improvement funds.

Utility Plant: Utility plant consists of generating plants, electric transmission and distribution facilities, dams, reservoir land, natural gas production and development (see paragraph below), irrigation systems and related projects under construction. These assets are recorded at cost which includes materials, labor, overhead and interest during construction. The costs of repairs and minor

BUCHANAN DAM

Location: Burnet and Llano counties
Construction: 1935-37
Height: 145.5 feet
Length: 10,897.55 feet
Generating capacity: 36 MW
Named for U.S. Representative J. P. Buchanan, who helped secure federal funds for construction.



replacements are charged to operating expense as appropriate. Costs of asset replacements and betterments are capitalized. The cost of depreciable plant retired is eliminated from the plant accounts, and such cost plus removal expense less salvage value is charged to accumulated depreciation.

Inventories: Coal is stated at cost determined on the last-in, first-out basis, which approximates market value. Fuel oil and materials and supplies are stated at average cost.

Revenues: Revenues from the sale of electricity, including amounts resulting from application of a fixed fuel factor, are recorded based on billings to customers. Under rules established by the Public Utility Commission of Texas (PUC), the LCRA also records over or under-recoveries of fuel costs which are periodically reconciled through adjustment of the fixed fuel factor. Over-recoveries may result in refunds to customers and correspondingly, under-recoveries may result in additional assessments to customers.

Rates and Regulations: The PUC has exclusive original jurisdiction over wholesale electric rates and other services which comprise approximately eighty-six percent of the LCRA's operating revenues. The determination of the LCRA's electric rates is based on the LCRA's cost of operations, debt service and debt service coverage requirements. It is the opinion of bond counsel to the LCRA that a Texas court applying Texas law would ultimately conclude that the LCRA has the authority under Texas law to establish and collect such fees and charges as will produce revenues sufficient to pay the LCRA's reasonable and necessary operating expenses, including the payment of the principal and interest of all outstanding bonds and to fulfill the terms of any agreements made with the owners of the outstanding bonds. Furthermore, bond counsel is of the opinion that the power and authority granted to the PUC cannot be exercised in a manner that prejudices the rights and remedies of owners of the outstanding bonds.

In March 1990, the LCRA filed a request for an electric rate increase of approximately twelve percent. In October 1990, the LCRA reached a stipulated agreement with ninety-five percent of its customers to increase electric rates by approximately $18.5 million, or approximately five percent. At that time, the LCRA began charging its customers the new rates under bond with the approval of the PUC. In April 1991, the PUC issued a final order approving the stipulated agreement.

Water rates are approved by the LCRA's Board of Directors. This is the third year of a four year plan to increase water rates to recover the full cost of service. On January 1, 1991, the LCRA implemented a rate increase of twenty-two percent for its water and irrigation customers. Customers may appeal the LCRA's water rates to the Texas Water Commission.

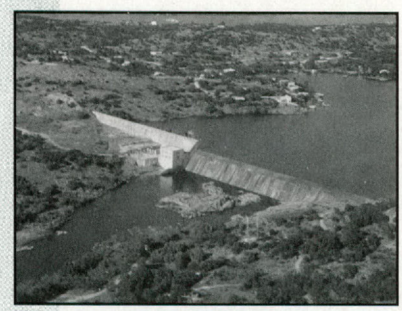
Interest During Construction: Interest is capitalized as part of the cost of property under construction that is financed with debt proceeds. The amount capitalized is equivalent to interest paid from debt proceeds net of interest earnings on construction fund investments.

Lignite Exploration, Evaluation and Mine Development Costs: The LCRA has lignite mining operations in Bastrop County, Texas. The LCRA contracts with Pittsburg & Midway Coal Mining to mine lignite. All costs associated with exploration, evaluation and development are capitalized as incurred and amortized on the units-of-production method based on the estimated tons to be recovered.

During fiscal year 1991, the Board of Directors decided to expand the Powell Bend Mining operations by approving an expansion contract with the Pittsburg &

INKS DAM

Location: Burnet County
Construction: 1936-38
Height: 96.5 feet
Length: 1,547.5 feet
Generating capacity: 12 MW
Named for Roy B. Inks, a member of the first LCRA Board of Directors.



Notes to Financial Statements

Midway Coal Co. (PMCC). The mine plan permit process data is being compiled by PMCC.

At June 30, 1991 and 1990, lignite mine amortization totalled $4,537,000 and $3,350,000, respectively.

Natural Gas Production and Development: The LCRA has adopted the full cost method of accounting for natural gas exploration. Under this method, all costs directly associated with acquisition, exploration and development are capitalized and amortized to expense over the life of proved reserves on a units-of-production method. As of June 30, 1991 and 1990, amortization totalled $7,416,059 and $5,839,000, respectively. In accordance with approved ratemaking treatment, current operating revenues and expenses are deferred through the initial years of the exploration program and will be amortized in future periods.

Contract Extension Settlement With Major Customers: According to the terms of a 1987 settlement with two major customers, their wholesale power contracts were extended to 2016 and, in return, the LCRA reimbursed the customers for their costs incurred in planning generating facilities. These costs will be amortized over the period affected by the contract extension, beginning in 1993.

Coal Contract Settlement: On January 18, 1988, the LCRA settled a coal supply contract lawsuit with Decker Coal Company. The agreement called for a net payment by the LCRA to settle all matters and litigation relating to the coal supply contract. These costs are being amortized on a straight line basis until the year 2003, the last year the LCRA was to have taken coal under the contract.

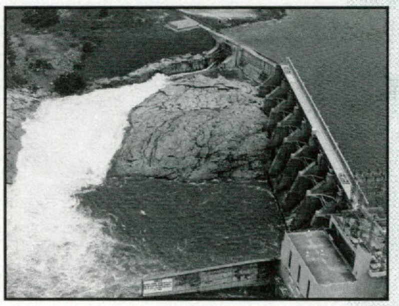
Customer Transmission Leases: In fiscal year 1991, the LCRA entered into lease agreements with twenty-one of its wholesale customers and with the University of Texas-Balcones Research Center. The agreements require the LCRA to lease and operate all transmission facilities and equipment owned by these customers. The leases were executed to resolve cost allocation and rate design issues. In the past, the LCRA provided power at different voltages to different customers. The leases are the basis for the LCRA to provide the same service to all of its customers, and for the cost of such service to be shared by all customers on a consistent basis.

Payments for leased facilities are based on the depreciated value of the facilities per the records of the lessors. The lease payments are to be updated annually to reflect additions, retirements and further depreciation. The terms of the leases are perpetual, but may be terminated by the LCRA or the lessors upon five years written notice. The LCRA's cost for the lease agreements for fiscal year 1991 totalled $6.1 million.

Costs to be Recovered from Future Revenues: In accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," certain expenses included in net income by an unregulated enterprise are recovered by the LCRA through inclusion of debt service in rates established by the PUC. To the extent that those expenses will be recovered through rates charged in subsequent years, the LCRA defers those expenses. Likewise, certain revenues are deferred until such time as they will be matched with expenses in the rate-making process.

WIRTZ DAM

Location: Burnet County
Construction: 1949-50
Height: 118.3 feet
Length: 5,491.4 feet
Generating capacity: 52 MW
Named for Alvin Wirtz, considered the "father" of the LCRA and the agency's first general counsel. Wirtz is the control center for automated hydrogeneration at the six LCRA dams.



Thus, the reported results of operations better reflect the economic effects of regulation. Costs and revenues deferred in the twelve months ended June 30, 1991 and 1990 are as follows:

	1991	1990
	(Thousands of Dollars)	
Depreciation and Amortization:		
Depreciation of debt-funded plant	$ 28,381	$ 27,561
Amortization of debt discount and expense	3,190	3,210
Amortization of gain on refunding	(3,240)	(3,602)
Amortization of loss on refunding	868	1,085
Other amortization	2,032	2,886
Losses/(gains) from disposition of Cummins Creek (see note 8)	(558)	200,600
	30,673	231,740
Less: Revenues collected for debt service	26,355	22,095
Interest income to be applied against future costs net of interest income used for debt service	24	1,429
Costs to be recovered from future revenues	$ 4,294	$208,216

Depreciation and Amortization: Depreciation is provided using the straight-line method over the estimated useful lives of the various classes of plant. Annual depreciation expenses, expressed as a percentage of average depreciable utility plant, were approximately 3.0 percent for 1991 and 3.1 percent for 1990.

Gains and losses on debt refundings are amortized using the bonds outstanding method over the remaining terms of the related bond issues. Amortization of debt discount and expense are computed on the interest and straight line methods, respectively, over the life of the related bond issues.

Statement of Cash Flows: GASB Statement Number Nine, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting," requires the presentation of a statement of cash flows. The LCRA has elected to present this statement using the indirect method. For purposes of the statement of cash flows, the LCRA considers all highly liquid investments (including investments in restricted funds) with a maturity of three months or less when purchased to be cash equivalents.

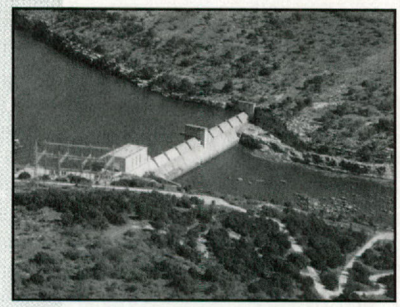
Reclassifications: Certain reclassifications have been made in the 1990 financial statements to conform to the classifications used in the 1991 financial statements.

3. Deposits and Investments

Texas law and the LCRA Board's policy require that deposits be placed in Texas domiciled banks and that demand deposits be collateralized with securities or surety bonds to the extent not insured by the Federal Deposit Insurance Corporation (FDIC). Securities that may be pledged as collateral are those authorized by the Public Funds Collateral Act. Accordingly, these are limited to obligations of the United States and its agencies, obligations of Government-sponsored corporations, obligations of the state or any political subdivision thereof, or any general or special obligation issued by a public agency of the State of Texas approved by the Attorney General of Texas payable from taxes, revenues, either or

STARCKE DAM

Location: Burnet County
Construction: 1949-51
Height: 98.8 feet
Length: 859.5 feet
Generating capacity: 32 MW
Named for Max Starcke, the LCRA's second general manager from 1940-55.



Notes to Financial Statements

both, and are rated for investment purposes not less than "A" by Moody's Investors Service, Incorporated or Standard and Poor's Corporation. At June 30, 1991, the LCRA had pledged as collateral only direct obligations of the United States, its agencies, or obligations of Government-sponsored corporations.

The LCRA's demand deposits at June 30, 1991 and 1990 were entirely insured by federal depository insurance or collateralized with securities held at the Federal Reserve Bank in the LCRA's name separate and apart from the assets of the depository banks. The LCRA has additional collateral of $10 million which is held by a third party safekeeping institution. The LCRA's investment activities are governed by state statutes, bond resolutions, the LCRA Board policy and internal operating procedures. Priority reserve funds may be invested in obligations of the U. S. Treasury, federal agencies and instrumentalities, State of Texas bonds and other state obligations. Priority bond funds and other funds may be invested in the same types of securities as well as in collateralized certificates of deposit, repurchase agreements and commercial paper.

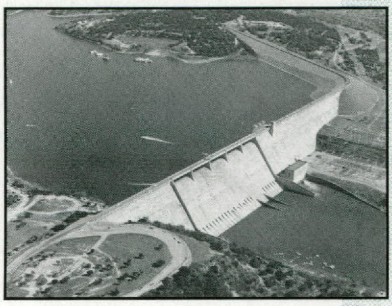
GASB Statement Number Three, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," requires state authorities to categorize their investments into one of three credit risk categories. Category one includes investments that are insured or registered or are held by the LCRA or by the LCRA's agent in the LCRA's name; category two includes uninsured and unregistered investments for which the securities are held by the counterparty, trust department or agent in the LCRA's name; category three includes uninsured and unregistered investments for which securities are held by its trust department or agent but not in the LCRA's name.

The LCRA's investments, including cash equivalents, at June 30, 1991 and 1990 were classified as category one and are summarized as follows:

	June 30, 1991		June 30, 1990	
Type of Investment	Carrying Value	Market Value	Carrying Value	Market Value
	(Thousands of Dollars)			
U.S. Government Securities	$204,645	$204,241	$183,703	$182,277
Certificates of Deposits	16	16	24	24
Repurchase Agreements	30,602	30,602	27,526	27,526
Commercial Paper	20,977	20,977	–	–
	$256,240	$255,836	$211,253	$209,827

MANSFIELD DAM

Location: Travis County
Construction: 1937-41
Height: 266.41 feet
Length: 7,098.39 feet
Generating capacity: 93 MW
Named for U.S. Representative J. J. Mansfield, who assisted in development of the project. The dam is the major flood control structure among the six LCRA dams.



4. Long-term Liabilities

The principal amount and maturity amount of long-term debt outstanding at June 30, 1991 and 1990 consisted of the LCRA Revenue Bonds and Tax-Exempt Commercial Paper as follows:

Description	Maturity Date January 1, From	To	Interest Rates From	To	June 30, 1991	1990
					(Thousands of Dollars)	
Priority Bonds:						
Series 1991 Refunding Revenue Bonds *	1992	2015	4.800%	7.125%	$181,360	–
Series 1988 Refunding Revenue Bonds **	1992	2016	6.400	7.750	138,500	141,275
Series 1987 Refunding Revenue Bonds	1992	2014	5.000	7.100	498,900	502,365
Series 1986 Revenue Bonds	1992	2016	6.500	7.900	88,040	200,000
Series 1985 Refunding Revenue Bonds	1992	2013	7.000	9.000	47,030	48,025
Series 1985 Revenue Bonds	1992	2015	7.000	8.600	46,265	75,290
Series 1984 Revenue Bonds	1992	1996	9.250	10.250	29,000	32,000
Junior Lien Bonds:						
Series 1983 Refunding Revenue Bonds	1992	2007	9.500	10.750	259,375	271,910
					1,288,470	1,270,865
Less: Unamortized discount					(107,062)	(82,058)
Sub-total					1,181,408	1,188,807
Subordinate Lien Debt:						
Adjustable Rate Revenue Bonds	1992	2017	Variable		67,000	67,000
Commercial Paper	–	–	Variable		78,600	77,550
Sub-total					145,600	144,550
Total					$1,327,008	$1,333,357

* Includes Serial Capital Appreciation Bonds with maturity amount of $33,530,000 of which original principal totals $14,019,000.

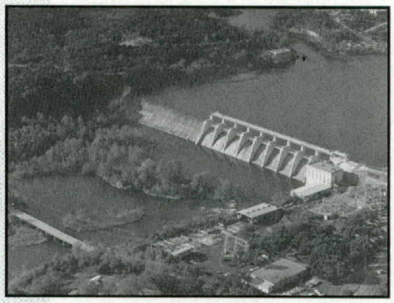
** Includes Serial Capital Appreciation Bonds with maturity amount of $52,550,000 of which original principal totals $16,002,000.

The LCRA's debt has been rated by Moody's and Standard & Poor's, respectively, as of April 1991, as follows:

Priority Bonds:	A1 and A+
Junior Lien Bonds:	A1 and A
Adjustable Rate Revenue Bonds:	Aaa/VMIG-1 and AA/A-1+
Commercial Paper:	P-1 and A-1

TOM MILLER DAM

Location: Travis County
Construction: 1938-40
Height: 100.5 feet
Length: 1,590 feet
Generating capacity: 14 MW
The third dam built on the site; two were destroyed by floods. Named for Austin Mayor Tom Miller, who was instrumental in promotion of the reconstruction of the dam.



Notes to Financial Statements

Debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal ***	Interest ****	Total
		(Thousands of Dollars)	
1992	$ 29,675	$ 88,667	$ 118,342
1993	29,895	88,781	118,676
1994	32,310	86,428	118,738
1995	34,865	83,795	118,660
1996	40,610	80,806	121,416
1997 - 2017	1,168,604	795,400	1,964,004
Total	$1,335,959	$1,223,877	$2,559,836

***Excludes principal amount of commercial paper.

****Excludes variable-rate interest on commercial paper and Adjustable Rate Revenue Bonds. Interest on Series 1988 and Series 1991capital Appreciation Bonds is scheduled as principal in the year of maturity.

Refunding Bonds: In April 1991, the LCRA received proceeds of $149,886,000 from the sale of Series 1991 Refunding Revenue Bonds to refund $27,530,000 of 1985 Priority Revenue Bonds and $111,960,000 of 1986 Priority Revenue Bonds. The transaction resulted in a net reduction of $10,446,000 in debt service payments over the life of the Refunding Revenue Bonds, a present value savings of $9,537,000. The refunding resulted in a $13,909,000 accounting loss which represents the difference between the net carrying value of the refunded bonds and reacquisition price. The loss has been capitalized and will be amortized over the life of the refunding issue.

In addition to the Series 1991 Refunding Revenue Bonds, the LCRA has four other refunding bond issues outstanding. These include the Series 1983 Revenue Bonds, Series 1985 Revenue Bonds, Series 1987 Revenue Bonds, and the Series 1988 Revenue Bonds. Proceeds from the refunding bond issues are used to purchase U.S. Government obligations which will mature at such time and yield interest at such amounts so that sufficient monies are available for payment of principal and interest on the refunded bonds when due. None of the refunded bonds are included in the LCRA outstanding long-term debt at June 30, 1991 or 1990. As of June 30, 1991, the bonds refunded by the Series 1988 Refunding Revenue Bonds had been entirely defeased. The amounts of other refunded bonds outstanding were:

Bonds Related To	Amount
1983 Refunding	$309,200,000
1985 Refunding	$217,000,000
1987 Refunding	$421,215,000
1991 Refunding	$139,490,000

Priority and Junior Lien Bonds: Under terms of the Bond Resolutions, the Bonds are limited obligations of the LCRA payable solely from and secured by an irrevocable lien on the LCRA's net revenues. The Resolutions provide that the Bonds maturing on and after January 1, 1994, are subject to optional redemption prior to their scheduled maturity dates beginning in 1993 at prices from one-hundred and three percent to one-hundred percent.

The Bond Resolutions contain certain restrictions and covenants including the LCRA's agreement to establish and maintain rates and other charges to produce revenues sufficient to pay operating and maintenance expenses, to produce net revenues sufficient to pay the amounts required to be deposited in the debt service

FAYETTE POWER PROJECT

Location: Fayette County
Construction: Unit #1, 1975-79; #2, 1975-80; #3, 1984-88
Generating capacity: 1,505 MW (See Notes, p. 22.)
(The City of Austin owns a 50% share of Units 1 and 2.)
Fuel: Coal in Units 1 and 2; coal and lignite in Unit 3
Production: 76.99% of net megawatt hours for sale by the LCRA in FY 1991

funds, to produce net revenues equal to at least the sum of (a) 1.20 times the annual debt service to be paid for the then outstanding priority bonds and (b) 1.10 times the annual debt service to be paid for the then outstanding junior lien bonds, and to pay any and every other indebtedness, liability or obligation whether arising out of contract or otherwise, including any obligation arising out of a monetary judgment or order entered against the LCRA by a court of competent jurisdiction.

The net revenues referred to in the preceding paragraph are defined in the Bond Resolution to include operating revenues plus interest income (excluding interest income on Construction Fund investments and any proceeds derived from the sale of capital assets) less operating expenses excluding depreciation and certain amortizations.

Commercial Paper: In fiscal year 1988 the LCRA's Board of Directors adopted resolutions authorizing the issuance of short-term obligations in the amount of $100,000,000 [Series B] to provide system improvements, acquisition of fuel reserves and facilities, refunding of outstanding debt, funding of conservation programs and the payment of interest on outstanding debt. In August 1991, the LCRA's Board of Directors authorized the issuance of an additional $50,000,000 [Series C] of short-term obligations to fund projects which were previously to be funded from the Revenue Fund. Short-term obligations in the amount of $78,600,000 and $77,550,000 had been issued at June 30, 1991 and 1990, respectively, as tax-exempt commercial paper notes (Notes) in denominations of $100,000 or more with maturities not to exceed 270 days from their respective issuance dates. The maximum maturity date of notes to be issued under the commercial paper program is January 1, 2018.

Under the Resolution authorizing issuance of the Notes, the LCRA pledges to the payment of the Notes (i) the proceeds from the sale of bonds and other short-term obligations (as provided in the Resolution), (ii) commercial paper proceeds until expended, and (iii) the Net Revenues of the system, such pledge of Net Revenues being subordinate to the pledge thereof securing the payment of Priority and Junior Lien Revenue Bonds.

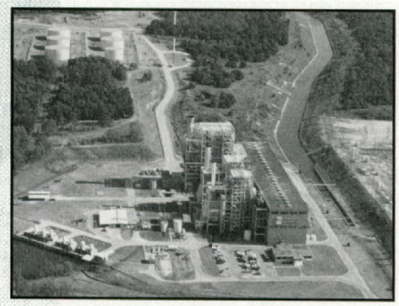
Pursuant to the commercial paper agreement described above, the LCRA has agreed to maintain a credit facility with a bank which, at all times, would provide available borrowings sufficient to pay the principal of the Series B Notes. The LCRA has entered into a revolving credit agreement with this bank which is obligated to lend the LCRA aggregate amounts of up to $100 million through May 1993. There were no borrowings under these agreements through June 30, 1991. Under the agreement the LCRA pays a fee of .12 of one percent per annum on such bank's available loan commitment and is obligated to pay interest on any borrowings. The LCRA is in the process of securing a similar line of credit for the Series C commercial paper.

Adjustable Rate Revenue Bonds: In July 1986, the Board of Directors of the LCRA authorized the issuance of $167,000,000 Adjustable Rate Revenue Bonds of which $67,000,000 were outstanding at June 30, 1991 and 1990. These bonds have been issued in a mode in which the interest rate changes weekly. So long as these bonds remain in a short term mode, they may be redeemed in whole or in part, at the option of the LCRA, on any interest payment date at 100%. Failure by the LCRA to meet restrictive covenants similar to those contained in the Bond Resolutions could result in withdrawal of the bank's commitment for the unused line of credit.

The Bond Resolution authorizing the issuance requires that the principal and interest payments be secured by an irrevocable direct-pay letter of credit. The LCRA has entered into an agreement with a bank to provide an irrevocable letter of credit in the amount of $72,782,000. This agreement may be utilized to make

SIM GIDEON STEAM PLANT

Location: Bastrop County
Construction: Unit #1, 1963-65; #2, 1965-68; #3, 1968-71
Generating capacity: 620 MW
Fuel: Natural gas
Production: 11.73% of net megawatt hours for sale by the LCRA in FY 1991
Named for Sim Gideon, the LCRA's third general manager from 1955-73.



Notes to Financial Statements

payments for principal of $67 million and interest of up to $5,782,000 on Adjustable Rate Revenue Bonds and will expire the earlier of May 1, 1993, or upon complete retirement of the Bonds, with extensions available for additional one-year periods from the expiration date. The LCRA pays an annual rate of .28 percent on the letter of credit amount for its availability as well as interest on any borrowings at the bank's prime rate plus one and one-half percent per annum. As of June 30, 1991, the LCRA had not borrowed funds under the agreement.

Reimbursement of Capital to U.S. Government

Under a 1948 contract with the U. S. Bureau of Reclamation, the LCRA agreed to reimburse the United States government $5,510,000, which was expended on the Mansfield dam. The facilities were employed in the generation of electric power and energy. The amount is being repaid in equal annual installments of $158,000 bearing no interest. Payments are made on June 1 of each year through the year 2019. The outstanding balance at June 30, 1991 and 1990 was $4,408,000 and $4,566,000, respectively.

5. Employee Benefits

Retirement Plan and Incentive Retirement Program:

A. Plan Description: The LCRA contributes to the Lower Colorado River Authority Retirement Plan (Plan) which is an agent multiple-employer defined benefit pension plan. The Retirement Benefits Committee (composed of the LCRA employees and members of the Board of Directors) functions as an investment and administrative agent for the LCRA with respect to the Plan.

For the plan years ended March 31, 1991 and 1990, the LCRA's total payroll for all employees was $63,357,000 and $59,384,000, respectively, and the LCRA's total covered payroll was an annualized amount at April 1, 1991 and 1990 of $63,266,000 and $57,239,000, respectively.

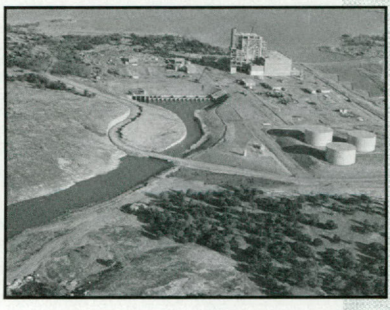
All employees with at least six months of service prior to April 1 who are working at least one thousand hours per year are covered by the Plan. Employees are not required to contribute to the Plan, although the Plan retains employee contributions and associated liabilities from years prior to April 1, 1984, when the Plan did require employee contributions.

Under the provisions of the Plan, retirement benefits become fully vested after five complete years of service. The retirement benefit for each year of service is 1.75 percent of the highest five year average monthly cash compensation plus 0.4 percent of that portion of the highest five year average monthly cash compensation in excess of the social security covered compensation. Employees may retire with full accrued benefits at age sixty-five with five years of participation or when the total of age and service equals ninety-two. The monthly benefit at retirement is payable in a ten year certain and life thereafter form of annuity, although other actuarially equivalent methods of payment may be elected with the approval of the Retirement Benefits Committee.

In May 1987, the Plan instituted an Incentive Retirement Program (IRP) which allowed participants who had attained age fifty and completed at least twenty years of service, or who were already eligible for normal retirement, to elect to retire between July 1, 1987 and August 31, 1987. The IRP provided increased retirement benefits reflecting a credit of three additional years of age and service in the basic retirement formula and a $500 monthly supplement, payable to age sixty-two. Approximately one-hundred, twenty-five employees were eligible for early retirement and sixty-three percent participated. The actuarially determined cost of the IRP is being paid by the LCRA in separately determined contributions reflecting a five year amortization of the increase to the unfunded actuarial liability resulting from the IRP.

THOMAS C. FERGUSON POWER PLANT

Location: Burnet County
Construction: 1971-74
Generating capacity: 430 MW
Fuel: Natural gas
Production: 7.76% of net megawatt hours for sale by the LCRA in FY 1991
Named for T. C. Ferguson, one of the original members of the LCRA Board of Directors.



B. Related Party Investments: The Plan held no securities of the LCRA or other related parties during the plan year or as of the close of the fiscal year.

C. Funding Status and Progress: Presented below is the total pension benefit obligation of the Plan. The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number five, "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers," that, with some exceptions, must be used by this type of plan. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases. A standardized measure of the pension benefit obligation was adopted by the GASB to enable financial statement users to (a) assess a plan's funding status on a going-concern basis, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among plans of this type.

Significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

> The present value of future pension payments was computed by using a discount rate of eight percent which is equal to the estimated long-term rate of return on current and future investments of the Plan.
>
> Future pension payments were based on age rated salary increases ranging from eight percent at age twenty to five percent at age sixty compounded annually attributable to inflation, merit, promotion and longevity.
>
> Future pension payments reflect no post-retirement benefit increases.

The standardized measure of the unfunded pension benefit obligation as of March 31, 1991 and 1990, the Plan year end, is as follows:

Unfunded Pension Benefit Obligation:	1991	1990
	(Thousands of Dollars)	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 9,155	$ 9,461
Current employees:		
Accumulated employee contributions including allocated investment income	5,293	5,119
Employer - financed vested	26,989	21,602
Employer - financed non-vested	25,913	23,398
Total pension benefit obligation	67,350	59,580
Net assets available for benefits, at market	$ 65,261	$ 50,926
Unfunded pension benefit obligation	$ 2,089	$ 8.654

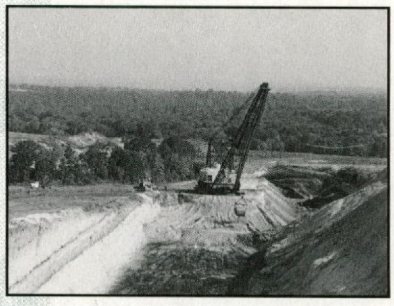
Changes in benefit provisions (but not actuarial assumptions) occurred during the 1990 Plan year. The benefit provision changes, primarily attributable to an ad hoc cost of living adjustment, combined to increase the pension benefit obligation by $1,623,000. No provision changes occurred during the 1991 plan year.

D. Contributions Required and Contributions Made: Periodic employer contributions to the Plan are determined on an actuarial basis using the entry age

Notes to Financial Statements

POWELL BEND MINE

Location: Bastrop County
Acres under lease (as of July 1, 1991): 956
No. acres mined in FY 1991: 35
No. acres reclaimed in FY 1991: 30
Grade of lignite: 6510 BTU
Annual tonnage: 208,000



Notes to Financial Statements

normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded using a rolling thirty year amortization period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method.

Total contributions to the Plan for the 1991 and 1990 plan years amounted to $6,449,000, and $6,027,000, respectively. The contributions represent funding for normal cost of $4,576,000 and $4,465,000 and the amortization of the unfunded actuarial accrued liability of $1,873,000 and $1,562,000 for the 1991 and 1990 plan years, respectively. The contributed amounts were based on an actuarial valuation as of April 1, 1990 and 1989, respectively.

Significant actuarial assumptions used to compute pension contribution requirements are the same as those used to determine the standardized measure of the pension benefit obligation.

The contributions necessary to fund the IRP were actuarially determined by calculating the change in the unfunded actuarial liability attributable to the implementation of the IRP and amortizing the increase in the unfunded actuarial liability with quarterly payments of $343,000, including interest, over a five year period commencing June 30, 1987. IRP contributions for the plan year ended March 31, 1991 and 1990 totalled $1,372,000 and $1,143,000, respectively. Included as a liability in the balance sheet at June 30, 1991 and 1990 is $990,000 and $2,225,000, respectively, relating to the IRP, of which $990,000 and $1,363,000, respectively, is included in Current Liabilities Payable from the Revenue Fund.

E. Trend Information: Historical trend data for the plan year ended March 31, is presented below:

	1991	1990	1989
Net assets available for benefits as a percentage of the pension benefit obligation applicable to the LCRA's employees	96.90%	85.47%	80.28%
Unfunded pension benefit obligation as a percentage of the LCRA's annual covered payroll	3.30%	14.62%	18.13%
The LCRA's contributions as a percentage of the LCRA'sannual covered payroll	10.19%	10.18%	9.55%

The required supplemental information relating to the Plan's historical trend data is available in a separately issued report. This information enables financial statement users to assess the progress made in accumulating sufficient assets to pay pension benefits as they become due.

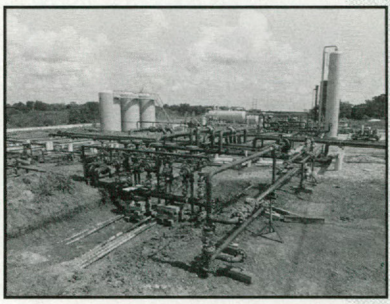
401(k) Plan:

The Lower Colorado River Authority 401(k) Plan was established April 1, 1984, and qualifies for tax-exempt status under Section 401(k) of the Internal Revenue Code. The Plan is a defined contribution pension plan in which the benefits a participant will receive depend solely on the amounts contributed to the participant's account and the returns earned on investments of those contributions.

Employees are eligible to participate in the Plan quarterly following the completion of three months of service. Eligible employees who elect to participate in the Plan must contribute a minimum of one percent and a maximum of nineteen percent of their compensation, not to exceed $8,475 in pre-tax contributions per calendar year. The LCRA provides matching contributions equal to one-fourth of

HILBIG GAS STORAGE FIELD

Estimated completion date of construction: March 1992
Location: Bastrop County
Constructed to address seasonal needs for natural gas for Sim Gideon and Thomas C. Ferguson power plants. Purchases are made when prices are low for natural gas.
Storage capacity: 6 billion cubic feet
Field can deliver natural gas to either or both power plants.



participant contributions up to the first four percent of wages contributed. Contributions made by both the employee and employer vest immediately.

Contributions by the LCRA and employees for the years ended June 30, 1991 and 1990 are presented below.

	1991	1990
	(Thousands of Dollars)	
Employer contributions	$ 386	$ 345
Employees' contributions	1,976	1,713

The plan held no securities of the LCRA or other related parties during the year or as of the close of the fiscal year.

Deferred Compensation:

The LCRA also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all the LCRA employees, permits deferral of a portion of the employees' salary to future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiaries) solely the property and rights of the Authority subject only to the claims of the Authority's creditors. The LCRA believes it is unlikely that it will use the plan assets to satisfy claims of general creditors. Moveover, participant's rights under the plan are equal to those of general creditors of the Authority in amounts equal to the fair market value of the deferred account for each participant.

The plan is administered by an independent trustee. The market value of the plan assets was $974,000 and $883,000 at June 30, 1991 and 1990, respectively. These amounts have been included on the balance sheet in contingency and other restricted funds and accounts payable from restricted funds.

6. Commitments

Construction: The LCRA's construction budget provides for capital improvement projects with remaining cash requirements through fiscal year 1996 of approximately $341,414,000 including $90,849,000 in 1992.

Fuel: The LCRA and Austin have one long-term coal contract to supply coal for FPP Units I and II. This contract extends through the year 2001. It provides for firm purchases through the year 1995 of approximately 1,625,000 tons annually along with seventy-five percent of any additional requirements. These purchases will be priced using a combination of fixed contract and prevailing market rates. the LCRA anticipates that approximately ninety-five percent of the fuel requirements for FPP Units I and II will be provided by this contract through December 31, 1995. Beginning in 1996, the contract provides for fixed purchases of approximately 1,250,000 tons at prevailing market rates. During fiscal years 1991 and 1990, the LCRA's purchases totalled $15,411,000 and $15,222,000, respectively, pursuant to this contract, the LCRA uses flexible spot coal bidding to meet the remaining annual coal requirements. For the periods ended June 30, 1991 and 1990, flexible spot coal purchases amounted to $292,000 and $3,839,000, respectively.

The LCRA has two contracts with the Pittsburg & Midway Coal Mining Company to mine lignite at the Powell Bend Mine in Bastrop County, Texas. The

SOCC CENTER

Location: Travis County with back-up center in another county.

Monitors and controls all transmission operations and designates production from three fossil-fuel power plants and six dams.

Electronic Networks: Links to all other utilities in Texas through the South Texas Interconnect System and Electric Reliability Council of Texas.

Savings from off-system purchases and sales in FY 1991: $1,358,274

Notes to Financial Statements

first contract calls for an estimated 200,000 tons of lignite to be mined annually until 1993. The total estimated contract price, including costs for reclamation and demobilization, is $7,287,000 and is subject to escalation. The second contract calls for mining an estimated 285,000 to 330,000 tons of lignite annually, beginning in late 1993 and continuing until the year 2000. The total estimated price of this contract, including costs for reclamation and demobilization, is $21,275,000 relating to the expansion.

On February 1, 1990, the LCRA entered into a five-year coal contract with Cordero Mining Company in Wyoming for FPP III fuel supply. Cordero supplies the greater of FPP III's requirements less Powell Bend deliveries which per the contract approximates one million tons per year. The initial price was four dollars per ton, adjusted semi-annually by certain indices. The LCRA had the exclusive option to terminate the contract after the first year on January 31, 1991. However, this option was not exercised and the contract remains in effect through 1994. In addition, the LCRA has the exclusive option to extend the contract an additional five years by written notice given no later than December 31, 1993. Pursuant to this contract, the LCRA's purchases totaled $7,685,000 and $2,817,000 for fiscal years 1991 and 1990, respectively.

The LCRA and Austin have entered into a multi-year rail transportation agreement with the Union Pacific Railroad Company and Western Railroad Properties, Incorporated, to ship Western coal to all three units at the Fayette Power Project. The LCRA incurred costs of $60,134,000 and $54,219,000 in 1991 and 1990, respectively, pursuant to these agreements.

The LCRA has contracts with five companies to provide firm and interruptible natural gas for the Sim Gideon and T.C. Ferguson power plants. The Sim Gideon power plant incurred $16,373,000 and $18,391,000 in expenses associated with fuel contracts during fiscal years 1991 and 1990, respectively. The T.C. Ferguson power plant incurred expenses of $9,672,000 and $10,837,000 in fiscal years 1991 and 1990, respectively, in association with its fuel contracts. Generally, the LCRA purchases fifty percent of its total fuel requirements under firm fuel contracts. The remaining fifty percent is provided by the contract suppliers through a monthly competitive bid process and by the LCRA's own natural gas production.

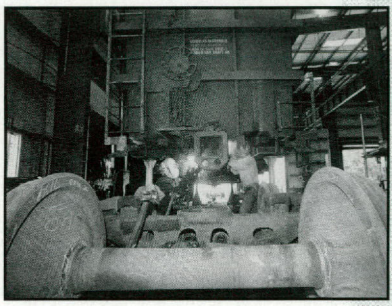
The LCRA has two firm supply contracts with Tenngasco Marketing Corporation and Enserch Gas Company, expiring September 1, 1992, to supply the Ferguson Power Plant with natural gas. The Tenngasco contract is for twenty-five percent of plant requirements and the Enserch contract is for twenty-five percent to fifty percent of plant requirements. Prices for these contracts are keyed to a monthly spot market index. The LCRA has also contracted with Reata Industrial Gas, L. P. and Panhandle Gas Company to provide monthly interruptible or firm supply for up to fifty percent of plant requirements through a competitive bid process.

The LCRA has two firm supply contracts with Reata Industrial Gas, L. P. and Tenngasco Marketing Corporation to supply natural gas to the Sim Gideon power plant through December 31, 1992. A minimum of fifty percent of the Gideon gas requirements are supplied under these contracts and up to one-hundred percent may be purchased. Prices for both of these contracts are keyed to the monthly change in the weighted average cost of gas for Electric Reliability Council of Texas members. Panhandle Gas Company is contracted on a month to month basis to provide interruptible supply for up to fifty percent of plant requirements through a competitive bid process.

The LCRA participates in two natural gas contracts which have allowed the LCRA to acquire and develop its own natural gas reserves. Production from these reserves should provide a reliable source of economical fuel for the LCRA's gas-fired generating facilities in the 1990's. The LCRA also expects to use a portion of the production to enter into exchange agreements as well as for short term sales on the

RAIL FLEET MAINTENANCE FACILITY

Location: Bastrop County
Construction: 1980
Fleet maintenance: 1,260 railcars with regular maintenance every 650,000 miles and inspection at each unloading at Fayette Power Project (FPP). Approximately 1,500 cars are overhauled or repaired each year.
Types of railcars: 966 steel and 250 aluminum cars for transporting coal; 44 steel cars for shipping lignite from Powell Bend Mine to FPP.



spot market. Additionally, natural gas may be stored for future use in leased storage or in a natural gas storage field currently under construction by the LCRA.

Under the first contract, a three year agreement with an effective date of April 1, 1988, the LCRA expected to invest with Energy Development Corporation (EDC, formerly Pelto Oil Company) an estimated $53 million for exploration and development of properties in the Gulf Coast Basin. The exploration portion of the agreement expired on April 1, 1991. The LCRA continues to develop producing properties with EDC under operating agreements on jointly owned properties. At June 30, 1991 and 1990, the LCRA had incurred capital costs of $45,145,000 and $33,716,000, respectively, related to this contract.

Pursuant to a second contract, dated March 7, 1989, with Gemini Exploration Company and other related parties, the LCRA acquired the production from certain natural gas leases located in the Rocky Creek Field in Fayette County, Texas. The LCRA anticipates that total costs for the acquired production and associated development will be $25 million. At June 30, 1991 and 1990, the LCRA had incurred capital costs of $23,752,000 and $22,450,000, respectively, related to this contract.

Based on an analysis as of July 1, 1991, by an independent engineering firm, the estimated risk adjusted reserves associated with the EDC and Rocky Creek programs are 300,192 barrels of oil and 33,962,786 thousand cubic feet of gas net to the LCRA's interest. This estimate includes proved reserves of 255,664 barrels of oil and 28,426,741 thousand cubic feet of gas. Production through June 30, 1991 is estimated to be 143,645 barrels of oil and 10,952,400 thousand cubic feet of gas, which brings the LCRA's estimated risk adjusted reserves generated by the programs as of July 1, 1991, to a total of 443,837 barrels of oil and 44,915,186 thousand cubic feet of gas.

In February, 1991, the LCRA and Clajon Gas Company entered into an agreement to purchase and construct additional pipeline and metering facilities to the Sim Gideon plant. The LCRA estimates that the total cost will be $3.7 million over the next five years. After the fifth year, the LCRA will pay 50% of the annual operating and maintenance costs of the pipeline for transportation rights based on its 50% share of the pipelines capacity.

7. Retail District Operating Agreements

During fiscal years 1987 and 1988, the LCRA executed five-year utility operating agreements with Kerrville, San Saba, and San Marcos retail districts in conjunction with the sale of those systems. As provided in the agreements, Kerrville, San Saba and San Marcos have elected to assume their operations, Kerrville in fiscal year 1989, San Saba on February 1, 1991. San Marcos is tentatively scheduled to assume their full operation in fiscal year 1992.

As a part of the utility operating agreement, the retail districts entered into wholesale power supply agreements with the LCRA under which each city will purchase substantially all of their power and energy from the LCRA.

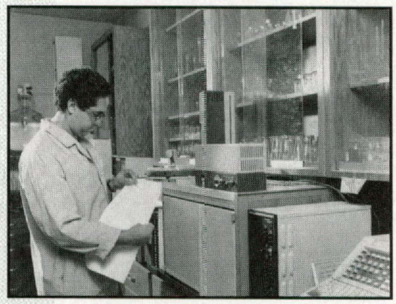
During fiscal year 1990, the LCRA received final payments from the sale of Kerrville and San Saba retail districts of $6,381,000 and $489,000, respectively. These retail districts were sold at their original cost.

8. Abandonment of Cummins Creek Mine

In November 1989, the LCRA's Board of Directors approved the termination of the Cummins Creek Mine Project. An unusual or infrequent loss of $200,600,000 was recorded in fiscal year 1990's statement of operations which represented direct costs, interest during construction, and other charges, net of amounts estimated to be recovered, associated with the project. The recovery of

ENVIRONMENTAL QUALITY LABORATORY

Location: Travis County
State certified to test drinking water
Nationally accredited to run environmental tests
Water samples tested in FY 1991: 3,700
Tests run on water samples: 24,500
Outside revenues for testing, FY 1991: $191,000



these costs incurred in the connection with the abandonment of Cummins Creek Mine Project through future rates was approved in the Final Order issued by the PUC in April 1991.

During fiscal years 1991 and 1990, interest during construction totalling $5,149,000 and $12,497,000, respectively, was capitalized as costs to be recovered through future rates. In April 1991, the LCRA's Board of Directors approved the sale of the three largest pieces of equipment from the Cummins Creek Mine Project. The LCRA received $29,096,000 for the equipment and recognized a gain on the sale of $5,710,000 which reduced costs to be recovered from future rates. The gain on the sale, offset by the additional interest during construction and miscellaneous demobilization costs, resulted in a net gain of $558,000 for fiscal year 1991.

9. General and Administrative Allocation Adjustment

During fiscal year 1990, the LCRA performed a study of general and administrative expenses for the test year ended March 31, 1990, to determine the appropriate amounts to be allocated to FPP operations and maintenance as provided for in the participation agreement between the LCRA and Austin. The study allocated general and administrative expenses using various allocation factors. Austin disputed the allocations of certain general and administrative expenses amounting to approximately $2 million for their share of FPP operations. An agreement was reached in December of 1990 and resulted in Austin paying the LCRA $700,000 related to fiscal year 1991 and $1.8 million related to fiscal year 1990, plus interest of $150,000 in January 1991.

10. Post-employment Health Care Benefits

In addition to the employee benefits described in Note 5, the LCRA provides post-employment health care benefits, in accordance with federal and state statutes, to retirees and terminated employees. The LCRA contributes a portion of the retirees' health plan premiums, excluding dental coverage, and makes no contributions for terminated employees. Such post-employment health care benefits are recognized currently as they are paid. During fiscal year 1991 and 1990, expenditures of $356,000 and $400,000, net of participants contributions, were recognized for post-retirement health care benefits, respectively.

11. Litigation

H. B. Zachry Co. & Morin Building Products, Inc.: In January 1989, the LCRA filed suit in District Court of Travis County, Texas against H. B. Zachry Co. (Zachry) and Morin Building Products, Inc. (Morin). The case involved a claim by the LCRA that siding manufactured by Morin and used in the construction of FPP Unit III was defective and failed to meet the requirements of the construction contract between the LCRA and Zachry. In December 1990, the trial court entered a judgment in favor of the LCRA on the issue of liability, but declined to award any damages. The LCRA and the defendants agreed to a settlement under which the LCRA dismissed its appeal of the trial court's ruling in exchange for the defendants' agreement to pay the LCRA $450,000. This payment was received in May, 1991.

Railroad Litigation: In July 1987, the Burlington Northern Railroad Company (BN) and the Missouri-Kansas-Texas Railroad Company (MKT) filed a suit against the LCRA and Austin. In July 1988, the LCRA and Austin approved a settlement agreement and a multi-year coal transportation agreement with Union Pacific Railroad Company (UP), which had merged with MKT, and Western Railroad

LAKESIDE WATER DIVISION

Location: Colorado County
Construction: Late 1800s; expanded in 1901; acquired by the LCRA in 1983
Pumping capacity: 700 cubic feet per second from the Colorado River
Miles of canals: 270
Number of acres irrigated: Maximum of 28,500 in a serviceable area of approximately 152,000 acres
Counties served: Colorado and Wharton

Properties, Incorporated. In fiscal year 1990, the LCRA recorded the settlements, net of litigation fees, in the amount of $9.8 million as a deferred credit. Following the PUC's final order issued in April 1991 the net settlement was recognized as other revenue.

San Marcos Lawsuit: The City of San Marcos (City) has sued the LCRA for damages arising from the 1986 Purchase Agreement relating to San Marcos' purchase of the electric distribution system from the LCRA. Pursuant to the Purchase Agreement and related agreements, the LCRA agreed to sell power and energy to San Marcos at a specified voltage rate. The PUC eliminated the separate rates for service at that rate and instead established a single rate for service at "Transmission" voltage.

The City alleges that the PUC's action resulted in higher rates and charges to the City, which constitutes a failure of consideration under the Purchase Agreement and related agreements. In September 1990, the State District Court in San Marcos ruled that there was a failure of consideration. San Marcos' damages, if any, will be determined in jury trial. The trial date has been tentatively set for December 1991.

The City has advanced theories under which its damages would exceed $7.7 million. The LCRA denies that the City has suffered any damages. The LCRA has retained outside counsel to defend the lawsuit. Management and the LCRA's counsel estimate that the potential claim against the LCRA resulting from such litigation would not materially affect the LCRA's obligations under its bond resolutions or the LCRA's financial statements.

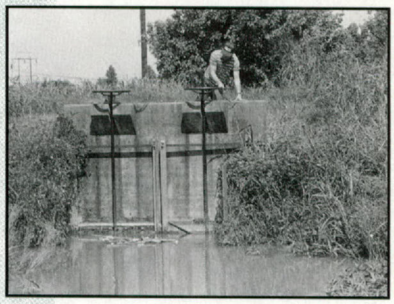
Guadalupe Valley Electric Cooperative Lawsuit: Guadalupe Valley Electric Cooperative (GVEC) has initiated litigation which seeks to invoke the uniform rate clause of its Wholesale Power Agreement as it relates to the cost of power sold to GVEC. In 1989, the LCRA paid Kerrville $3.9 million in settlement of a dispute substantially similar to the claims in the San Marcos lawsuit. GVEC contends that the LCRA's payment to Kerrville in 1989 and any damages which may be awarded to San Marcos constitute rate rebates which change the effective rate for electricity paid by San Marcos and Kerrville. GVEC contends that it is entitled to the same effective rate as paid by San Marcos and Kerrville. The LCRA believes this suit is without merit. Management and the LCRA's counsel estimates that the potential claim against the LCRA resulting from such litigation would not materially affect the LCRA's obligations under its bond resolutions or the LCRA's financial statements. Uniform rate clauses are contained in all of the LCRA's Wholesale Power Agreements.

Gabriel Mills Energy Company and Richard Box v. the LCRA: Gabriel Mills Energy Company (Gabriel Mills) is a Qualifying Facility (QF) under federal law and is entitled to sell capacity and energy to electric utilities at the utilities' "true avoided cost." Gabriel Mills and its owner, Richard Box (collectively, the Plaintiffs), allege that the LCRA interfered with Gabriel Mills' efforts to sell electricity to the City of Lampasas and Texas Lehigh Cement Company. Plaintiffs have yet to specify the damages they are seeking, and the LCRA is unable to estimate potential damages if Plaintiffs' suit is successful. Management does not believe the outcome of this matter will have a material adverse effect on the LCRA's financial statements.

Other: Additionally, there are other pending lawsuits in which the LCRA is involved. Management and the LCRA's legal counsel estimates that the potential claims against the LCRA not covered by insurance resulting from such litigation would not materially affect the LCRA's financial statement.

GULF COAST WATER DIVISION

Location: Matagorda County
Construction: Late 1800s; expanded in 1940s; acquired by the LCRA in 1961
Pumping capacity: 1200 cubic feet per second from pumping pool
Miles of canals: 370
Number of acres irrigated: Maximum of 44,000 in a serviceable area of approximately 400,000 acres
Counties served: Wharton and Matagorda
Two dams, located at Lane City and Bay City for a pumping pool.



Independent Auditor's Report

Price Waterhouse

The Board of Directors
The Lower Colorado River Authority

In our opinion, the accompanying balance sheets and the related statements of operations and of cash flows present fairly, in all material respects, the financial position of the Lower Colorado River Authority at June 30, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Austin, Texas
September 6, 1991

LCRA At a Glance

Water Service

Number of people depending on the lower Colorado River for drinking water: Approximately 500,000
Number of irrigation customers: Approximately 300 farms
Acreage irrigated in Calendar Year 1990: 55,530

Electric Service

Number of people served: 750,000
Residential meters served through retailers: 314,000
Businesses served through retailers: 42,100

Financial Highlights, FY 1991

Operating revenues: $353,668,000
Operating expenses (excluding depreciation and amortization): $201,231,000
Net revenues available for debt service: $172,345,000
Debt service coverage ratio: 1.39 x

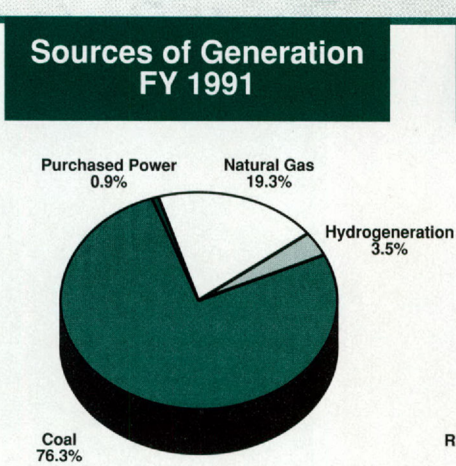
Power Production and Transmission

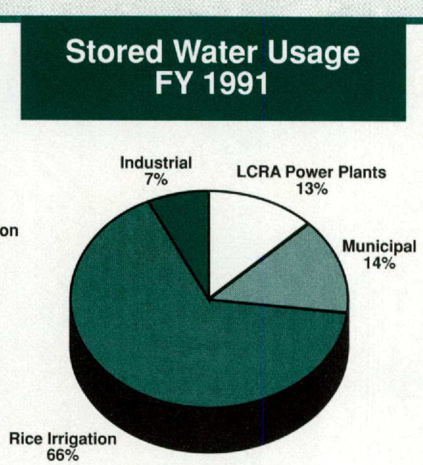
Total megawatt-hour sales: 7,956,740
Total net capacity of power plants: 2,244 MW
Net peak demand: 1,756, December 23, 1990
Miles of transmission lines:

69 kv	530.12
138 kv	1,503.54
345 kv	284.63
Total	2,318.29

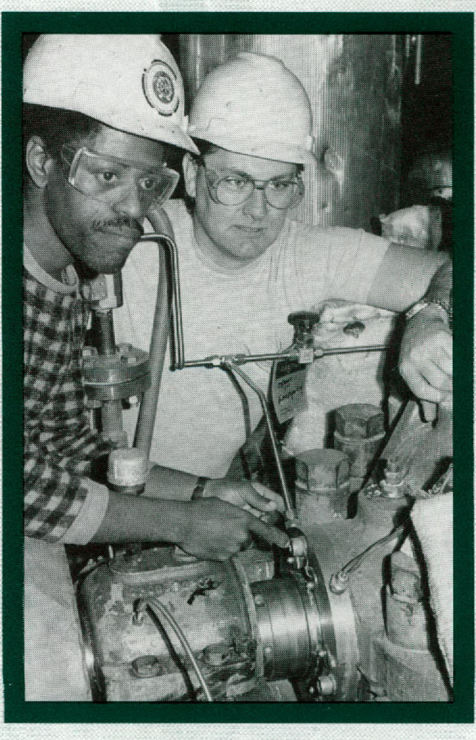
Number of substations solely owned by LCRA: 170

Number of Employees: 1,736





LCRA Corporate Goals



LCRA Corporate Goals

To be responsive to the people and communities which the LCRA serves.

To maintain a working environment at the LCRA that encourages high ethics and individual personal development and recognizes achievement to attain the LCRA's goals.

To set an example by leadership in environmental protection, economic development, recreational opportunities, and conservation of resources for future generations in conducting the LCRA's electric, water, and land operations.

To provide efficient electric services at the lowest rates in the state of Texas and among the lowest in the United States while maintaining reliability and an adequate supply.

To manage the water resources of the lower Colorado River basin by continuing to provide flood control, assuring an adequate supply of water for the growing needs of the communities which the LCRA serves, and leading in the efforts to protect the water quality of the Highland Lakes and the lower Colorado River watershed.

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