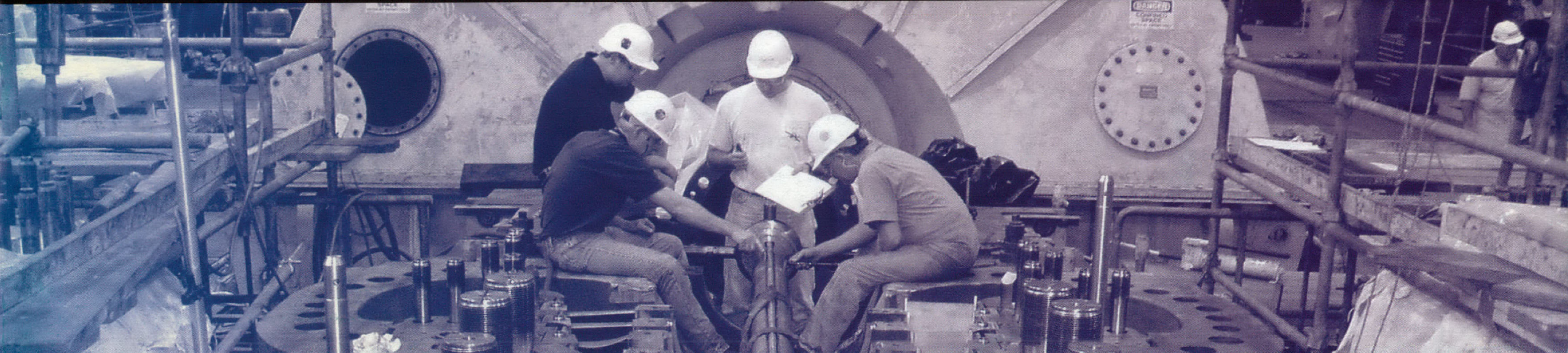
FY 2005 Annual Report

Lower Colorado River Authority



lcra mission statement

The mission of the Lower Colorado River Authority (LCRA) is to provide reliable, low-cost utility and public services in partnership with our customers and communities and to use our leadership role and environmental authority to ensure the protection and constructive use of the area's natural resources.

LCRA is a Texas conservation and reclamation district operating with no taxing authority.

Board of Directors

Ray A. Wilkerson, Chair
G. Hughes Abell, Vice Chair
Connie Granberg, Secretary
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Ida A. Carter
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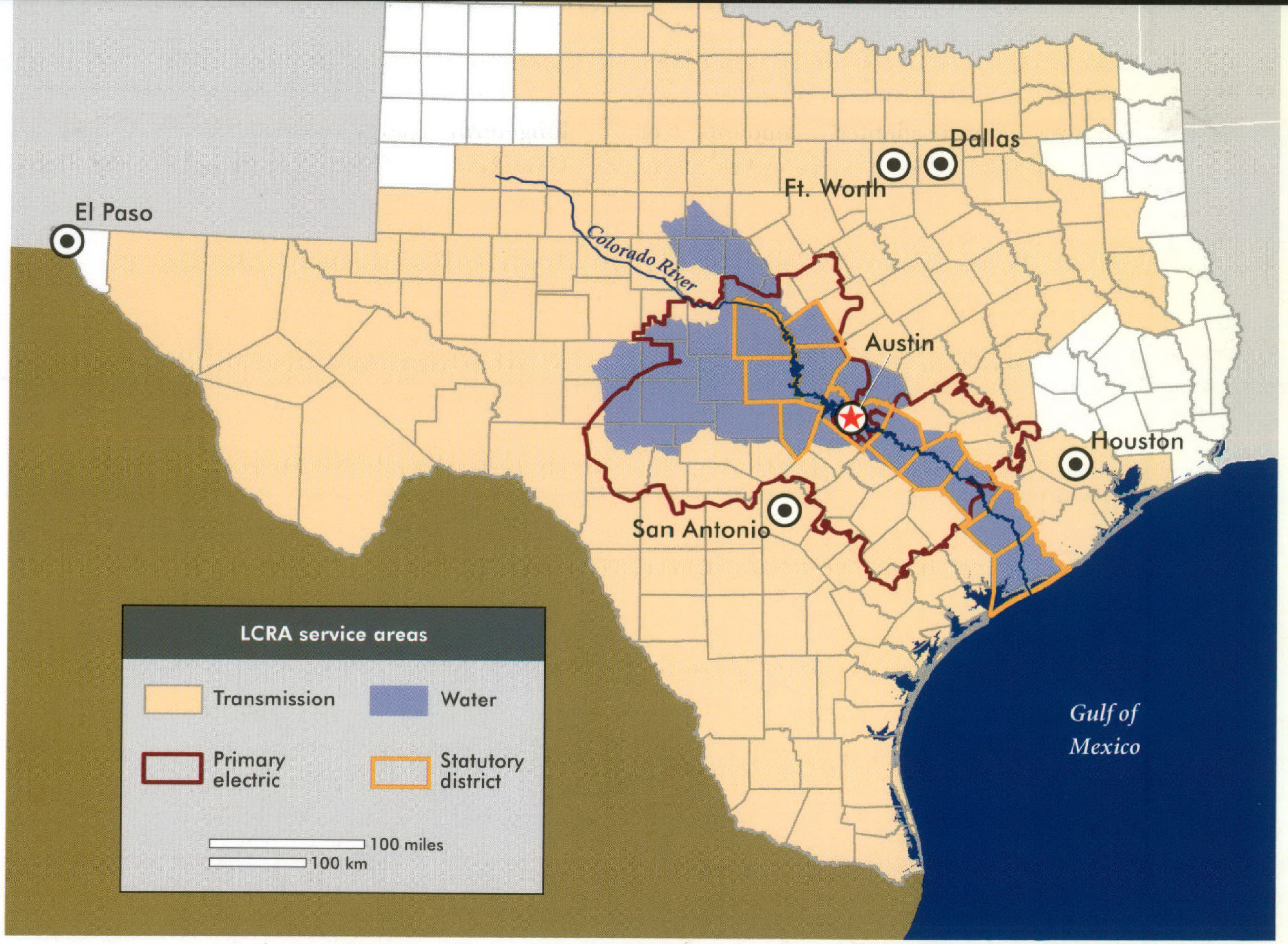
Linda C. Raun
B.R. Skipper Wallace

The Board of Directors is composed of 15 members appointed by the governor, who also appoints the Board chair. Directors represent counties in the electric and water service areas. The directors meet regularly to set overall strategic direction for the general manager and the staff, to approve projects and large expenditures, and to review progress on major activities and industry issues.

Joseph J. Beal, P.E., General Manager



From Our Leadership

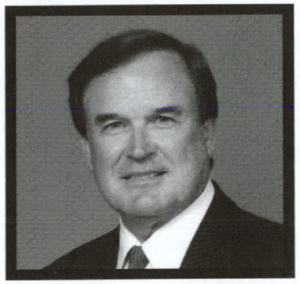
'05 As Central Texas continues to attract new residents and businesses, the region requires unprecedented amounts of energy and water. LCRA is staying ahead of this growth, developing the infrastructure to provide water, wastewater service, energy generation and transmission. At the same time, people in this region want to protect the natural resources that make this area desirable, and LCRA is working just as hard to protect the quality of the lower Colorado River and to provide opportunities to enjoy public lands and water.

In this environment of growth, LCRA remained financially strong during FY 2005. Electric, water and community services operations generated $802.6 million in operating revenues, up nearly 16 percent from FY 2004 operating revenues of $693.6 million, and $680.5 million in operating expenses, compared to $598.3 million in FY 2004. LCRA and its affiliates ended the year with debt service coverage of 1.42, a very favorable result compared to a healthy 1.37 in FY 2004. Meanwhile, net capital assets grew by $129.6 million.

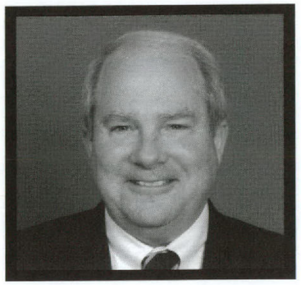
LCRA this year worked closely with our wholesale electric customers to provide affordable, environmentally responsible power and launched discussions with those customers about their long-term energy needs. LCRA's wholly owned transmission affiliate continued to add lines and other facilities to help improve electric reliability in Texas. We acted quickly to help ensure ample, clean water supplies for future generations, and we continued to expand and improve water and wastewater facilities in a carefully planned manner.

LCRA's mission of making life better in the region reaches beyond its role as a utility provider. We continue to act as steward of the lower Colorado River and its resources, from managing floods to providing public safety, from encouraging economic development to offering conservation education and outdoor recreation. This year we continued to develop Matagorda Bay Nature Park, which will provide a valuable economic and educational resource for the coastal region and its visitors.

For more than 70 years, LCRA has worked to fulfill the varied responsibilities given to us by the State of Texas. As you will see in this annual report, we continue to serve the people of the region with utility infrastructure and to protect the river for current and future generations of Texans.



Ray A. Wilkerson,
Board Chair



Joseph J. Beal, P.E.,
General Manager

2005

LCRA continued to thrive in FY 2005, serving growing needs for ENERGY, WATER and COMMUNITY SERVICES in a Central and South Texas region that includes some of the fastest growing counties in the country. Throughout the year, LCRA added significant infrastructure, including water lines and wastewater treatment facilities, and its nonprofit transmission affiliate, LCRA Transmission Services Corporation, added significant electric transmission facilities. This infrastructure will help LCRA continue providing services that help preserve or improve the quality of life in these growing communities and other parts of Texas. LCRA also continued its commitment to conservation, balancing the needs of the lower Colorado River with those of the people who rely on its resources.

Following are some of LCRA's major achievements and accomplishments during the fiscal year, which ended June 30, 2005.

Energy

producing and providing electric power

FOCUSING ON RELATIONSHIPS

LCRA focused heavily in FY 2005 on the long-term relationships with its 42 wholesale electric customers. Discussions with customers centered on serving growing and changing needs, maintaining long-term relationships and extending wholesale power contracts. By year's end, many customers had amended their wholesale power contracts, extending their relationships with LCRA through 2041, and discussions with other customers continued to progress.

The Generation Advisory Board, formed in FY 2004, proved to be an effective communications forum among customers, LCRA Board members and staff. LCRA also remained active in the Association of Wholesale Customers, the Texas Public Power Association and Texas Electric Cooperatives.

Eighteen customers continued to promote their relationships with LCRA in their communities through a Cobranding Program that began in 2002. This program tells the story of these partnerships through paid advertising, city newsletters, and various community events, activities and media.

ENERGY PRICES AND EFFICIENT PRODUCTION

LCRA returned more than $57 million to wholesale electric customers through a series of price reductions and credits during FY 2005, in spite of climbing natural gas prices. The savings resulted from efficient power plant operations, a well-executed fuel purchasing and generation management program, hydroelectric benefits that exceeded forecasts, and added generation from Lost Pines 1 Power Project.

While all LCRA power plants played important roles in this success, Power Magazine in its July/August 2004 edition recognized the Fayette Power Project (FPP), a coal-fired power plant near La Grange, for having the lowest production costs of any coal-fired power plant in Texas and 17th lowest in the nation. This plant completed significant efficiency improvements to its two older units this year, further enhancing its value to LCRA customers. Lost Pines 1 Power Project also was recognized in a November/December 2004 Electric Light and Power report as one of the top 25 most efficient combined cycle plants in the nation. This power plant, owned by GenTex Power Corporation, serves LCRA's wholesale electric customers under long-term contracts.

Producing power cleanly

LCRA's power plants continued to reduce their impact on the environment, and all plants performed better than required by state and federal regulations.

All power plants completed a series of nitrogen oxide reduction projects, including an innovative project at FPP that will reduce by about 70 percent the emissions of this gas, which contributes to formation of ground-level ozone. The U.S. Environmental Protection Agency (EPA) recognized the plant for recycling nearly all the coal ash products produced during the coal combustion process.

Thomas C. Ferguson Power Plant, a single-unit gas-fired plant near Marble Falls, received the highest level of environmental recognition given to industries by the Texas Commission on Environmental Quality (TCEQ). The plant became the first power plant in Texas recommended for immediate designation as a "Lone Star Leader" in TCEQ's Clean Texas, Cleaner World program, which recognizes industries for superior environmental compliance and positive environmental impacts. One of the plant's Clean Texas programs, a natural science learning trail project at a local elementary school, received the Texas Environmental Excellence Award for 2005 and earned a Texas Forestry Award.

Growing transmission business

Since it was formed in 2002, LCRA Transmission Services Corporation (TSC) has built more than half the new miles of transmission infrastructure constructed in the Electric Reliability Council of Texas (ERCOT) region. This nonprofit corporation, wholly owned by LCRA, is adding lines to eliminate bottlenecks in the state's power grid, improve system reliability and enable power plants and wind farms to deliver electricity across the state. These improvements also are supporting the competitive retail electric market.

During FY 2005, the nonprofit corporation completed projects totaling $62 million in its traditional service territory and expansion projects totaling $102 million in other areas of the state. These projects included completion of 56 miles of new transmission lines, 290 miles of transmission upgrades and the completion of 14 major substation upgrades. Projects that were completed and energized included two major lines that will help export wind generation from West Texas to other parts of the state where the power is needed.

LCRA TSC in FY 2005 also completed a major rate case, which was filed at the Public Utility Commission of Texas in November 2003. The resulting rates, sufficient to allow LCRA TSC to recover its annual revenue requirement of $144 million, will enable LCRA TSC to continue providing transmission services and help solve transmission challenges in Texas. By the end of the fiscal year, the nonprofit corporation was positioned well to receive affirmation of its positive bond ratings.

Now LCRA TSC is moving forward with a five-year, $759 million capital plan that focuses on helping ERCOT by continuing to provide reliable transmission service in growing regions of Texas.

Working with landowners

LCRA TSC also developed a collaborative process to involve neighboring residents in transmission construction and maintenance projects that affect them. The process involves residents early in the planning stage so they understand the need for the project and LCRA TSC understands their needs and interests. This process is improving communications and is helping identify and resolve public concerns and potential problems.

Water

QUENCHING GROWING THIRST

SERVING MULTIPLE NEEDS

Among the most critical needs created by rapid growth in the Central Texas region is the need for a safe, reliable, clean water supply.

LCRA manages a 600-mile segment of the Texas Colorado River, including six dams that form the Highland Lakes above Austin. Numerous users rely on water from the lower Colorado River. A $252 million rice industry relies on it to sustain crops and local and regional economies. Communities throughout the basin rely on it for drinking water, and industries rely on it for uses ranging from power production to computer chip manufacturing. Tourism and recreational businesses also rely on it to attract visitors.

LCRA is taking steps to help ensure that the communities it serves have reliable water supplies in the coming decades.

ENSURING AMPLE SUPPLIES

To help facilitate a regional water planning effort consistent with state requirements, LCRA continued in FY 2005 to provide technical and administrative support within the Region K Water Planning Group. LCRA also worked with advisory groups in the coastal region on irrigation water supply issues and projects.

A key piece of the water supply puzzle for the future of the lower Colorado River Basin likely will be the LCRA-SAWS Water Project, which is designed to provide additional water resources for the lower Colorado River basin while helping the San Antonio region meet its long-term water needs. LCRA and the San Antonio Water System (SAWS) are in the midst of a six-year study period to determine the project's viability.

TAKING A CLOSER LOOK AT THE UTILITY BUSINESS

LCRA's water and wastewater utility business expects to serve as many as 500,000 new residents by 2030 due to ongoing growth in its service area.

The LCRA Board in FY 2005 reviewed a 30-year plan for water and wastewater utility services and initiated discussion on key policy matters related to the plan. A clear vision will help LCRA plan more effectively and invest more strategically in its water and wastewater utility business.

The Board this year approved expansion of the Sandy Creek Water Treatment Plant in northwestern Travis County and the Brushy Creek Regional Wastewater System in Williamson County. It also authorized water service to new areas in western Travis County.

Covering rising costs

Staff in FY 2005 closely reviewed each of LCRA's 38 water and wastewater systems. LCRA has invested considerably in some of these systems and has begun to implement rate increases to recover those costs.

LCRA this year adopted its first raw water rate increase in 12 years to cover rising costs of flood management, water supply and other water services. It also adopted a three-year schedule of irrigation rate increases, to begin in 2006, to cover the cost of maintaining and operating three irrigation districts. One of those districts, the Lakeside Irrigation District, in spring 2005 began operating a new pump station, a $3.2 million project that replaces an 80-year-old facility and can deliver river water to Eagle Lake area farms at up to 200,000 gallons a minute.

Protecting life and property

As the entity responsible for managing floods, LCRA also strives to prevent loss of life and property along this sometimes turbulent river.

The Thanksgiving Flood in November 2004 became one of the most significant floods to occur in the basin in more than a decade, and floodgate operations occurred several times during the year to manage floods in the lower Colorado River basin.

To help ensure safety and stability should the worst possible flood hit the region, LCRA in FY 2005 completed a 10-year, $52 million project to modernize the Highland Lakes dams. LCRA and the Texas Colorado River Floodplain Coalition in FY 2005 also developed the nation's first Federal Emergency Management Agency-approved regional hazard mitigation plan.

The Board approved the addition of 46 new automated weather and river flow gauges in the next three years, a $1.8 million project that will complete a 10-year, $11.6 million program to help LCRA anticipate and manage floods more effectively.

Keeping water clean, using it wisely

The lower Colorado River continued in FY 2005 to enjoy good to excellent water quality. LCRA monitored water quality at 70 sites and tracked water quality trends and aquatic habitat health throughout the Colorado River basin.

A cooperative aquatic vegetation plan reduced the spread of hydrilla, an invasive aquatic weed, to nine acres in Lake Austin compared to 201 in 2004. The plant also appears to be under control along Lake LBJ and Lake Bastrop.

LCRA's Environmental Laboratory Services continued to help maintain water quality by providing analysis, sampling and technical services for LCRA and the public and private sectors. The nationally accredited and certified laboratories processed more than 50,000 samples in FY 2005 and received adequate revenues to fund operations.

The Texas Hill Country Landscape Option program received two awards from the American Water Works Association for its efforts to educate and encourage developers, builders and homeowners to use less water for landscaping.

Community

IMPROVING QUALITY OF LIFE

Supporting the mission

LCRA's mission reaches beyond utility services and river management. Many other services, provided in partnership with communities, help protect the area's natural resources and enhance the quality of life in LCRA's service area.

Most of these services are funded by a small portion of LCRA's electric and water revenues. The community services that LCRA provides include public safety on the Highland Lakes and LCRA lands, natural resource conservation, outdoor education and recreation programs, parks, and community and economic planning, including tourism and development.

Developing economies, communities and leaders

LCRA completed 106 projects in FY 2005 to help encourage economic growth in communities it serves. For example, one project helped a rural community recruit a mattress company, adding 140 new jobs and about $950,000 in property and school tax revenues in the next 10 years.

LCRA spent more than $295 million on nonfuel services and supplies from U.S. companies in FY 2005. Of that, nearly $123 million went to Texas businesses, helping support local economies across the state.

LCRA and its electric and water customers also awarded 59 Community Development Partnership Program grants totaling nearly $1.1 million. These grants helped recipients raise $4.6 million more for local capital projects such as emergency services equipment, libraries, playgrounds and historic preservation.

More than 1,250 elected officials, community leaders, volunteers and others from rural and suburban communities attended 46 leadership training courses offered in FY 2005 by the Texas Leadership Institute. LCRA is a founding member of this nonprofit education consortium and provides support and facilities for training in grant writing, leadership and economic and community development.

LCRA also sponsored 16 student leadership forums with wholesale electric customers and water service communities, providing an opportunity for about 1,300 students to learn from leaders in their own communities.

Providing natural classrooms, outdoor escapes

Nearly 1 million visitors enjoyed LCRA parks and recreation areas in FY 2005. About 21,000 Texas children learned about water, wildlife, archaeology and other natural science topics through LCRA's outdoor education programs. Community educational programs included land and wildlife management training, farm safety training and team-building.

LCRA also continued progress on the Matagorda Bay Nature Park, which will draw new visitors to the area while providing a valuable economic and educational resource for the surrounding community. The LCRA Board approved a $4 million contract to add facilities, including a natural science center, recreational vehicle park, trails and wildlife viewing pavilions.

LCRA awarded matching grants totaling $950,000 through Partnerships In Parks to help five communities raise $3.4 million more for local parks.

Protecting the public

LCRA's Public Safety provided homeland security at LCRA's facilities and worked with other agencies to maintain safety on the Highland Lakes. LCRA also provided emergency response and rescue services and training to local, county and state law enforcement agencies, as well as public safety education programs for area residents.

LCRA also provides access to its regional radio system to 49 entities that represent electric customers, public safety, emergency services, school districts and transportation. The system, which improves communication and emergency response coordination in and among Central Texas communities, received a "Best of Texas" Award from the Government Technology Council of Texas.

After extensive public input, LCRA improved public safety on the Highland Lakes with updated marina regulations and new residential dock standards.

Conserving land, air and water

The EPA awarded, through the Texas State Soil and Water Conservation Board, a three-year, $507,300 grant to LCRA's Creekside Conservation Program. The program helps private landowners reduce sedimentation and nonpoint-source pollution in 11 counties. The grant targets six of these counties.

LCRA distributed 15,733 trees to nonprofit organizations in 32 counties in the service area. The forestation program, called Clean 'n' Green, supports local revegetation, natural science education and community improvement projects.

LCRA also sponsored several community-based cleanup events. The 10th Annual Lake Travis Underwater Cleanup collected more than 10 tons of trash from the lake and shoreline. Additionally, residents brought in more than 64 tons of materials during household hazardous waste collection and recycling events in Blanco and Wharton counties.

People serving people

LCRA supports employee contributions of time and donations to charities, nonprofits, schools and other causes. LCRA Employees' United Charities, a voluntary employee organization, donated $428,000 to 550 nonprofit, educational and charitable organizations. LCRA employees also volunteered about 80,000 hours in their communities, and a program that recognizes employee volunteer efforts with donations to nonprofits provided an additional $21,000 to about 88 organizations.

Five-Year Financial Summary

(Dollars in Thousands)

	Fiscal Year ended June 30, 2005	2004	2003	2002	2001[2]
Debt Service Coverage					
Revenues as adjusted for Debt Service Coverage[1]	$ 810,677	$ 699,355	$ 652,819	$ 570,257	$ 693,367
Expenses as adjusted for Debt Service Coverage[1][3]	582,746	516,061	480,648	400,660	498,041
Net Revenues Available for Debt Service	$ 227,931	$ 183,294	$ 172,171	$ 169,597	$ 195,326
Debt Service Requirements	$ 160,073	$ 134,205	$ 120,438	$ 91,615	$ 79,707
Debt Service Coverage Ratio	1.42x	1.37x	1.43x	1.85x	2.45x
Key Financial Data					
Utility plant at cost[4]	$ 3,309,140	$ 3,089,615	$ 2,657,942	$ 2,346,050	$ 2,141,434
Accumulated depreciation[4]	$ 1,074,952	$ 984,209	$ 905,487	$ 834,490	$ 775,909
Long-term debt	$ 1,825,598	$ 1,695,413	$ 1,393,810	$ 1,407,020	$ 925,747
Equity as a percentage of Total Assets	22%	22%	25%	25%	28%
Statistics					
Electric Energy Sales in Megawatt-Hours (MWH)					
Wholesale	13,207,603	12,890,547	13,193,923	12,971,239	12,606,527
Retail	-	-	-	7,871	57,784
Total MWH Sales	13,207,603	12,890,547	13,193,923	12,979,110	12,664,311
MWH Generation and Purchased Power					
Hydraulic	579,526	287,601	367,766	233,318	342,748
Fossil	11,547,246	11,633,444	11,922,306	11,530,871	11,118,742
Purchased power	1,497,667	1,408,290	1,262,661	1,392,680	1,709,241
Total MWH Generation and Purchased Power	13,624,439	13,329,335	13,552,733	13,156,869	13,170,731
Number of Electric Generation Customers					
Wholesale	42	42	42	42	43
Other	-	-	-	-	2
Total Electric Customers	42	42	42	42	45

(1) Excludes GenTex Power Corporation (see Note 2 of Notes to the Financial Statements). The net revenues of this nonobligated affiliate are not available for debt service.
(2) Restated to reflect the adoption of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments."
(3) Reflects operating expenses adjusted to include other interest and exclude depreciation, depletion, amortization and other miscellaneous expenses.
(4) FY 2003 is restated to reflect adjustments related to the depreciation of certain completed capital projects.

Report of Management

The management's discussion and analysis, the financial statements and related footnotes included herein are the responsibility of LCRA's management as is other information contained in this annual report. The financial statements are prepared in conformity with generally accepted accounting principles applied on a consistent basis and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management has developed and maintains a system of accounting and controls, including an internal audit program, designed to provide reasonable assurance that LCRA's assets are protected from improper use and that accounting records provide a reliable basis for the preparation of financial statements. This system is continually reviewed, improved and modified in response to changing business conditions and operations and to recommendations made by the independent auditors and the internal auditors. Due to the inherent limitations of the effectiveness of internal controls, no internal control system can provide absolute assurance that errors and irregularities will not occur. However, management strives to maintain a balance, recognizing that the cost of such a system should not exceed the benefits derived.

LCRA's Board of Directors, appointed by the governor of Texas, oversees LCRA's financial reporting activities through the Audit Committee and Finance and Administration Committee, which are comprised wholly of Board members. The duties of these committees include keeping informed of the financial condition of LCRA and reviewing its financial policies and procedures, its internal accounting controls, and the objectivity of its financial reporting. Both LCRA's independent and internal auditors may meet directly with the Audit Committee without management concurrence.

The Independent Auditors' Report, included herein, does not limit the responsibility of management for information in the financial statements and elsewhere in the annual report.

John M. Meismer Deputy General Manager Chief Financial Officer	James D. Travis Controller	Joseph J. Beal, P.E. General Manager

Management's Discussion and Analysis

Condensed Balance Sheets

	June 30, 2005	June 30, 2004
	(Dollars in Thousands)	
Current assets	$ 320,935	$ 319,204
Capital assets, net	2,276,623	2,147,019
Other long-term assets	523,687	476,068
Total Assets	$ 3,121,245	$ 2,942,291
Current liabilities	$ 442,994	$ 398,237
Long-term liabilities	1,980,167	1,887,402
Total Liabilities	2,423,161	2,285,639
Equity - Invested in capital assets, net of related debt	533,645	501,613
Equity - Restricted other	36,467	25,315
Equity - Unrestricted	127,972	129,724
Total Equity	698,084	656,652
Total Liabilities and Equity	$ 3,121,245	$ 2,942,291

Condensed Statements of Revenues, Expenses and Changes in Equity

	Year Ended June 30, 2005	2004
	(Dollars in Thousands)	
Operating revenues	$ 802,624	$ 693,632
Operating expenses	(680,470)	(598,253)
Operating income	122,154	95,379
Interest and other income	14,360	4,858
Interest and other expenses	(120,217)	(100,386)
Costs to be recovered from revenues	17,923	29,715
Income before capital contributions	34,220	29,566
Capital contributions	7,212	4,789
Change in equity	41,432	34,355
Equity, Beginning of Year	656,652	622,297
Equity, End of Year	$ 698,084	$ 656,652

Financial Highlights

Net capital assets increased by $130 million or 6 percent for fiscal year (FY) 2005. The increase is due to construction of generation, transmission, and water and wastewater facilities to meet increasing demand for these services.

Other long-term assets increased by $48 million or 10 percent due to an increase in construction funds and an increase in the balance of cost to be recovered from future revenues that are related to the recent rapid expansion of capital assets.

Current liabilities increased $45 million or 11 percent due to issuance of tax-exempt commercial paper to fund construction projects.

Long-term liabilities for FY 2005 increased by $93 million or 5 percent primarily due to the issuance of several revenue bonds to refund commercial paper.

Operating revenues for FY 2005 increased by $109 million or 16 percent due to higher fuel revenues resulting from passing on increases in the cost of fuel to customers and higher transmission revenues due to a rate increase.

Operating expenses for FY 2005 increased by $82 million or 14 percent due primarily to higher fuel and purchased power cost and depreciation and amortization expense related to an increase in capital assets.

Interest and other income increased by $9.5 million or 196 percent primarily due to favorable changes in the fair value of investments and higher average investment balances in FY 2005.

Interest and other expenses increased by $19.8 million or 20 percent primarily due to an increase in outstanding debt and a decrease in capitalized interest in FY 2005. The decrease in capitalized interest relates to reduced construction in FY 2005 compared to FY 2004.

Costs to be recovered from revenues for FY 2005 decreased by $12 million due to decrease in costs deferred in FY 2005 compared to FY 2004.

Overview of the Financial Statements

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

Management's Discussion and Analysis

The purpose is to provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions or conditions.

Balance Sheet

Assets and liabilities of proprietary funds should be presented to distinguish between current and long-term assets and liabilities.

Statement of Revenues, Expenses and Changes in Equity

This statement provides the operating results broken into the categories of operating revenues and expenses, nonoperating revenues and expenses, and capital contributions.

Notes to the Financial Statements

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

Competition

Senate Bill 7 (SB 7) provided for retail electric competition to open Jan. 1, 2002. Retail customers of investor-owned utilities and retail customers of municipally owned utilities and electric cooperatives that elect to participate in retail competition now can choose their electric provider.

Regulatory Matters

LCRA Transmission Services Corporation

In order to promote electric competition, SB 7 requires all transmission system owners to make their transmission systems available for use by others at prices and terms comparable to each respective owner's use of its system for its own wholesale transactions. Pursuant to the requirements of SB 7, in January 2002 LCRA transferred its existing electric transmission and transformation facilities to LCRA Transmission Services Corporation (LCRA TSC), a component unit of LCRA for accounting purposes. LCRA TSC owns and operates all of LCRA's regulated electric transmission and transformation assets. In accordance with accounting and financial reporting requirements, the assets, liabilities and transactions of LCRA TSC are included in the financial statements of LCRA.

Transmission Cost of Service Rates

FY 2004 transmission revenues of $110.6 million are the result of various rates authorized throughout the fiscal year. The predominant rate of $2.11 per kW was in place from Sept. 26, 2003 through May 31, 2004.

FY 2005 transmission revenues of $142.7 million resulted from a rate of $2.55 per kW as a result of the Public Utility Commission of Texas (PUC) Commissioners approving an LCRA TSC rate case on May 15, 2005. This rate was effective for all of FY 2005.

On July 25, 2005, LCRA TSC filed an interim update of wholesale transmission rates with the PUC with approval expected in October 2005.

Capital Expansion and Improvement Program

LCRA's capital improvement program for FY 2006 through FY 2010 is $1.4 billion, with $973 million or 69 percent to be debt funded. The majority of forecasted capital expenditures is for expansion of transmission services, water and wastewater services and generation improvements as well as additional corporate infrastructure and facilities. LCRA TSC continues to increase its transmission system investment due to the need for additional electric transmission capability statewide. LCRA will continue its water and wastewater services capital expansion due to the region's growing population.

The capital budget is expected to be applied as follows:

(1) $759 million for transmission projects, including $185 million for transmission projects in South and West Texas under a joint development agreement with an external party.
(2) $289 million for generation and system improvements.
(3) $231 million for dam improvements and modernization, and acquisition and construction of water and wastewater utilities and facilities.
(4) $128 million for parks and corporate facilities.

The forecasted capital program includes $307 million for the total cost of SO_2 scrubbers for two coal-fired generating units jointly owned by LCRA and the City of Austin. The cost of the scrubbers is subject to revision upon the completion of technology evaluations and detailed engineering studies. The scrubbers must be installed by October 2012, under the provisions of a flexible air quality permit received from the Texas Commission on Environmental Quality in 2002.

The capital program will be funded by cash provided by operating activities and proceeds from long-term bond (including LCRA bonds and LCRA bonds issued on behalf of LCRA TSC) and commercial paper issuances.

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

Capital Asset Activity

- $239 million was charged to construction activities in FY 2005. The majority of these expenditures were for acquisition and construction of generation, transmission, and water and wastewater facilities to meet increasing demand for these services.

- $109 million of depreciation expense and asset retirements were recorded in FY 2005 on plant in service.

- For additional detail, see Capital Asset Activity table in Note 7 of the Notes to the Financial Statements.

Debt Activity

- On Dec. 16, 2004, LCRA issued $51.3 million of Refunding and Improvement Bonds, Series 2004D. The proceeds were used to refund $51.1 million of tax-exempt commercial paper. In addition, LCRA on behalf of LCRA TSC issued $125.5 million of Transmission Contract Refunding Revenue Bonds, Series 2004. The proceeds were used to refund $120.5 million of tax-exempt commercial paper.

- On Dec. 16, 2004, LCRA received a note payable of $6.6 million in Texas Water Development Board funds to be used for capital project funding.

- During FY 2005, LCRA issued $227.5 million of tax-exempt commercial paper, of which $171.7 million was on behalf of LCRA TSC. In addition, LCRA issued $5.9 million of taxable commercial paper to fund various capital projects.

- In FY 2005, LCRA made scheduled principal payments in the amount of $62.9 million.

- LCRA repaid $13.3 million of tax-exempt commercial paper and $1.4 million of taxable commercial paper in FY 2005.

- On Aug. 16, 2005, LCRA, on behalf of LCRA TSC, issued $126.1 million of Transmission Contract Refunding Revenue Bonds, Series 2005. The proceeds were used to refund $120 million of tax-exempt commercial paper.

- For additional detail, see Note 4 of the Notes to the Financial Statements.

Deloitte.

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USA

Tel: +1 214 840 7000
www.deloitte.com

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lower Colorado River Authority
Austin, Texas

We have audited the accompanying balance sheets of the Lower Colorado River Authority ("LCRA") as of June 30, 2005 and 2004 and the related statements of revenues, expenses and changes in equity, and of cash flows for the years then ended. These financial statements are the responsibility of LCRA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LCRA's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures of the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LCRA as of June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

October 25, 2005

Member of
Deloitte Touche Tohmatsu

Lower Colorado River Authority
Balance Sheets
(Dollars in Thousands)

	June 30, 2005	June 30, 2004
Assets		
Current Assets:		
Cash and cash equivalents	$ 48,828	$ 56,950
Investments	79,436	56,857
Receivables, net	107,193	123,459
Accrued interest receivable	981	696
Inventories	82,192	73,339
Other	2,305	7,903
Total current assets	320,935	319,204
Long-Term Assets:		
Restricted cash and cash equivalents	28,697	7,520
Restricted investments	55,582	41,644
Unrestricted investments	56,146	70,902
Capital assets:		
Utility plant in service	3,072,798	2,778,083
Construction work in progress	208,184	283,374
Oil and gas property	28,158	28,158
Other physical property	42,435	41,613
Less accumulated depreciation	(1,074,952)	(984,209)
Capital assets, net	2,276,623	2,147,019
Water rights, net	86,387	86,381
Other	9,383	10,672
Deferred charges:		
Costs to be recovered from future revenues	226,122	203,316
Unamortized debt expense	28,424	26,907
Contract extension settlement with major customers	8,907	9,681
Other	24,039	19,045
Deferred charges, net	287,492	258,949
Total long-term assets	2,800,310	2,623,087
Total Assets	$ 3,121,245	$ 2,942,291

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

Lower Colorado River Authority
Balance Sheets
(Dollars in Thousands)

	June 30, 2005	June 30, 2004
Liabilities		
Current Liabilities:		
Accounts payable and other accrued liabilities	$ 137,030	$ 138,820
Compensated absences	8,120	7,299
Bonds, notes and loans payable	297,844	252,118
Total current liabilities	442,994	398,237
Long-Term Liabilities:		
Accounts payable from restricted assets	33,309	60,179
Bonds, notes and loans payable	1,825,598	1,695,413
Deferred credits	121,260	131,810
Total long-term liabilities	1,980,167	1,887,402
Total liabilities	2,423,161	2,285,639
Equity		
Invested in capital assets, net of related debt	533,645	501,613
Restricted other	36,467	25,315
Unrestricted	127,972	129,724
Total equity	698,084	656,652
Total Liabilities and Equity	$ 3,121,245	$ 2,942,291

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

Lower Colorado River Authority Statements of Revenues, Expenses, and Changes in Equity

(Dollars in Thousands)

	Year Ended June 30, 2005	Year Ended June 30, 2004
Operating Revenues		
Electric	$ 724,282	$ 627,111
Water, wastewater and irrigation	44,312	44,768
Other	34,030	21,753
Total operating revenues	802,624	693,632
Operating Expenses		
Fuel	299,775	251,328
Purchased power	75,040	63,169
Operations	167,727	167,307
Maintenance	37,755	31,130
Depreciation, depletion and amortization	100,173	85,319
Total operating expenses	680,470	598,253
Operating income	122,154	95,379
Nonoperating Revenues (Expenses)		
Interest and other income	14,360	4,858
Interest and other expenses	(120,217)	(100,386)
Nonoperating revenues (expenses)	(105,857)	(95,528)
Income (loss) before costs to be recovered from revenues and capital contributions	16,297	(149)
Costs To Be Recovered from Revenues	17,923	29,715
Income before capital contributions	34,220	29,566
Capital Contributions	7,212	4,789
Change in Equity	41,432	34,355
Total Equity, Beginning of Year	656,652	622,297
Total Equity, End of Year	$ 698,084	$ 656,652

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

Lower Colorado River Authority
Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30, 2005	2004
Cash Flows From Operating Activities		
Received from customers	$ 828,409	$ 701,411
Payments for goods and services	(458,507)	(378,442)
Payments to employees	(155,524)	(135,535)
Other revenues	902	3,203
Net cash provided by operating activities	215,280	190,637
Cash Flows From Noncapital Financing Activities		
Grant proceeds received	1,629	986
Other expenses	(1,266)	(2,013)
Net cash provided by (used in) noncapital financing activities	363	(1,027)
Cash Flows From Capital and Related Financing Activities		
Expenditures for property, plant and equipment	(268,875)	(439,108)
Proceeds from sale of capital assets	2,565	3,244
Proceeds from installment sale of land	2,637	-
Contributed capital received for capital expenditures	5,797	4,775
Proceeds from bond issues and commercial paper	421,026	775,265
Debt principal payments and commercial paper redemptions	(76,943)	(56,622)
Interest paid	(97,887)	(82,486)
Payments to refund debt and related issue costs	(174,417)	(373,146)
Net cash used in capital and related financing activities	(186,097)	(168,078)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	261,802	160,351
Purchase of investment securities	(287,046)	(193,907)
Interest received	10,101	8,603
Infrastructure financial assistance activity	(1,348)	(36)
Net cash used in investing activities	(16,491)	(24,989)
Net Increase (Decrease) in Cash and Cash Equivalents	13,055	(3,457)
Cash and Cash Equivalents, Beginning of Year	64,470	67,927
Cash and Cash Equivalents, End of Year	$ 77,525	$ 64,470

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

Lower Colorado River Authority
Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30, 2005	Year Ended June 30, 2004
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 122,154	$ 95,379
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	100,173	85,319
Changes in assets and liabilities:		
Accounts receivable	17,835	(30,299)
Inventories	(8,853)	789
Other current assets	5,597	(4,295)
Current liabilities	(4,717)	21,300
Other deferred charges	(6,750)	(651)
Deferred credits and other long-term liabilities	(10,159)	23,095
Net cash provided by operating activities	$ 215,280	$ 190,637
Noncash Investing Activities		
Investment market adjustments	$ (3,483)	$ (5,547)
Noncash Financing for Property, Plant and Equipment Expenditures		
Purchase of equipment through short-term trade payables	$ 24,660	$ 23,457
Note receivable received in exchange for asset	$ -	$ 4,495

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

Notes to Financial Statements

1. General

The Lower Colorado River Authority (LCRA) is a conservation and reclamation district created by the Texas Legislature in 1934. It receives no state tax money and cannot levy taxes. It operates on revenues from the sale of wholesale electricity, water and other services. The LCRA Board of Directors (Board) is appointed by the governor of the state, with Senate approval, to serve six-year terms. The financial condition of LCRA is not controlled by or dependent on the State or any other political subdivision. Under the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," LCRA considers its relationship to the state to be that of a related organization.

LCRA's basic statutory boundaries include a 10-county district comprising the counties of San Saba, Burnet, Llano, Blanco, Travis, Bastrop, Fayette, Colorado, Wharton and Matagorda. LCRA's service area includes all or part of 58 Central Texas counties in which LCRA provides electric utility services, flood management, water and wastewater services, economic development programs, and other public services. LCRA is responsible for regulating the flow of water within its reservoirs for water supply and irrigation, flood management, hydroelectric generation and other useful purposes. LCRA aids in the prevention of flood damage, conserves and protects the forests within the Colorado River watershed, and operates and maintains electric generating plants and 3,922 miles of transmission lines. LCRA also has a comprehensive water quality program along the Colorado River within its 10-county statutory district and owns 40 parks, recreational areas and wildlife preserves adjacent to the Highland Lakes or the Colorado River. Twenty of these parks are leased to or operated by other entities.

LCRA has 2,869 megawatts (MW) of net generating capacity and power supply contracts through June 2016 with 42 wholesale customers. Hydroelectric net generating capacity of 286 MW is provided by five dams LCRA owns and one it leases. LCRA owns four gas-fired steam boiler generation units with 1,040 MW of net generation and one 500 MW gas-fired combined cycle generation unit. LCRA has full ownership of one coal-fired generating unit with a 445 net MW capacity and a 50 percent ownership interest in two coal-fired units with a combined net capacity of 1,196 MW.

Sales of electricity to LCRA's two largest electric customers represented approximately 32 percent of total electric revenues for fiscal year (FY) 2005 and 37 percent for FY 2004. Electric revenues represented approximately 90 percent of LCRA's operating revenues for both FY 2005 and 2004.

Senate Bill 7 (SB 7) allows LCRA to own, build and manage transmission infrastructure statewide with the approval of the Public Utility Commission of Texas. The LCRA Board authorized the creation of LCRA Transmission Services Corporation (LCRA TSC), a nonprofit corporation benefiting and accomplishing public purposes of LCRA. LCRA TSC is governed by a board of directors, which is composed in its entirety of the LCRA Board of Directors. LCRA TSC was created under provisions of Subchapter B of Chapter 152, Texas Water Code and the Texas Non-Profit Corporation Act. Effective Jan. 1, 2002, LCRA TSC began operations subsequent to the transfer of LCRA's transmission and transformation assets to LCRA TSC pursuant to the terms of an Electric Transmission Facilities Contract (the Initial Contractual Commitment) dated Oct. 1, 2001.

LCRA has ownership and operating arrangements for various water and wastewater systems. Some water and wastewater facilities are owned by LCRA and operated by another river authority in connection with an alliance agreement to address immediate and long-term water and wastewater needs in Williamson County and other areas. In addition, LCRA owns three irrigation systems consisting of 791 miles of canal and three low-head dams. The irrigation systems are located in Colorado, Wharton and Matagorda counties.

2. Significant Accounting Policies

Basis of Accounting: The accompanying financial statements of LCRA, a governmental entity, have been prepared utilizing proprietary fund and accrual basis accounting. LCRA implements all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) pronouncements that do not conflict with or contradict GASB pronouncements. LCRA's accounts are maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LCRA considers electric revenues and costs that are directly related to the generation, purchase, transmission and distribution of electricity to be operating revenues and expenses. Water and wastewater revenues and other services related to environmental laboratory operations, licensing, and recreation, and the costs directly related to these services, are also considered operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Newly Adopted Standards for FY 2005 and FY 2004: In FY 2005, LCRA implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3" (GASB No. 40). GASB No. 40 adds to existing disclosure requirements for cash and investments by adding information regarding certain risks associated with cash and investments. GASB No. 40 does not replace or eliminate in their entirety the disclosure requirements of existing pronouncements dealing with cash and investments. The implementation of GASB 40 did not have a material impact on LCRA's financial position or results of operations. GASB 40 disclosures are in Note 3.

In FY 2004, LCRA implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This statement establishes accounting and financial reporting standards for impairment of capital assets. For governmental entities, GASB 42 replaces FASB Statement of Financial Accounting Standards 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The provisions of this Statement are effective for fiscal periods beginning after Dec. 15, 2004. LCRA implemented the Statement prior to the required implementation date. GASB 42 states asset impairment is a significant, unexpected decline in the service utility of a capital asset. The service utility of a capital asset is the usable capacity that at acquisition was expected to be used to provide services. An impairment loss reflects the decline in service utility. The implementation of GASB 42 did not have a material impact on LCRA's financial position or results of operations.

Issued But Not Yet Effective Pronouncements: In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143" (Interpretation). The Interpretation clarifies the term, "conditional asset retirement obligation," as used in FASB Statement No. 143. The Interpretation mandates that an entity recognize the fair value of a legal obligation to perform an asset retirement activity in which the time and (or) the method of settlement are conditional on a future event that may or may not be within the control of the entity. LCRA will implement the Interpretation in FY 2006. LCRA is researching the Interpretation's impact on LCRA's financial position and results of operations.

GenTex Power Corporation: The GenTex Power Corporation (GenTex), a nonprofit corporation and wholly owned affiliate of LCRA, is governed by a nine-member board appointed by the LCRA Board. GenTex owns a 500-MW gas-fired combined cycle generating unit that began commercial operation in June 2001.

In FY 2000, LCRA entered into an agreement with a public company to jointly construct the generating unit. Each entity had an undivided 50 percent interest in the generating unit. In FY 2004, GenTex purchased the other entity's 50 percent share.

GenTex's share of the initial construction costs of the facility was entirely funded by an LCRA economic development grant. GenTex entered into contracts with LCRA's wholesale customers to sell energy to the customers at a price recovering only operating expenses, excluding depreciation, over the life of the plant. The contracts provide the customers the right of first refusal to purchase the facility and obtain full interest at a price of $975 per customer. Since the initial cost of the facility was funded by an economic development grant provided by LCRA, there is no debt service to recover, and the expected cash flows are intended to recover only the operating costs. The plant is included in the Balance Sheets at the contractual value plus the purchase price of the 50 percent interest acquired in 2004.

Although it is a separate legal entity, GenTex is reported as part of LCRA because its sole purpose is to provide assistance to LCRA's 42 long-term wholesale customers in meeting their demands and operating in a competitive market.

LCRA Transmission Services Corporation: The Corporation is a nonprofit corporation created by LCRA that began operations on Jan. 1, 2002, by engaging in the electric transmission and transformation business activities previously performed by LCRA. Although it is a separate legal entity, the Corporation is reported as part of LCRA because it is governed by a board of directors that is composed in its entirety of the LCRA Board of Directors.

Fayette Power Project: LCRA's coal-fired generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the City of Austin (Austin). LCRA has an undivided 50 percent interest in units 1 and 2 and wholly owns Unit 3. LCRA's investment is financed with LCRA funds, and its pro-rata share of operations is recorded as if wholly owned. The original cost of LCRA's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of LCRA in accordance with its accounting policies. The equity interest in FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within LCRA's financial statements.

Restricted Funds: Restricted funds consist of construction funds derived from debt issues and system revenues, which have been designated for specific purposes by the Board.

Utility Plant: Utility plant consists of generating plants, electric transmission and distribution facilities, dams, reservoir land, natural gas production and development, irrigation systems, water and wastewater treatment facilities, telecommunications facilities, and related projects under construction. These assets are recorded at cost, which includes materials, labor, overhead and interest capitalized during construction. The costs of repairs and minor replacements are charged to operating expense as incurred. Costs of asset replacements and betterments are capitalized. The cost of depreciable plant retired, along with removal expense less salvage value, is charged to nonoperating expense on the Statement of Revenues, Expenses and Changes in Equity. Gains and losses upon disposition are recorded in the period incurred.

Water Rights: Water rights are stated at cost, net of accumulated amortization of $7.4 million as of June 30, 2005 and 2004. Beginning in FY 2003, in accordance with accounting and reporting requirements, water rights are no longer being amortized but are evaluated annually to determine whether they are impaired and whether an indefinite life is reasonable.

Inventories: Coal is recorded at cost using the last-in, first-out method. Stored natural gas, fuel oil, and materials and supplies are stated at average cost. All nonfuel inventories are stated at the lower of cost or market.

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

Refunding and Defeasance of Debt: For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction from or an addition to the debt liability. For debt defeasances, the difference between the carrying amount of the debt and the amount of funds needed to retire the debt is recognized immediately in the Statements of Revenues, Expenses and Changes in Equity as a special item.

Compensated Absences: LCRA records earned vacation leave as a liability and accrues for certain salary-related expenses associated with the payment of compensated absences.

Rates and Regulations: LCRA's electric, water and wastewater rates are set by LCRA's Board at a level sufficient to recover its operating costs, debt service and debt service coverage requirements. LCRA's bond counsel is of the opinion that a Texas court applying Texas law would ultimately conclude that LCRA's Board has the authority to establish and collect such fees and charges. LCRA's transmission service rates remain regulated by the Public Utility Commission of Texas (PUC). While the LCRA Board has original jurisdiction over its water and wastewater rates, the Texas Commission on Environmental Quality has appellate jurisdiction.

SB 7, passed by the Texas Legislature in 1999, provided for retail electric open competition to begin in January 2002, continued electric transmission open access, and fundamentally redefined and restructured the Texas electric industry. SB 7 directly and indirectly impacts LCRA and its wholesale electric customers. Under SB 7, LCRA has structurally unbundled its electric generation business and assets from its electric transmission business and assets. SB 7 also allows retail customers of investor owned utilities, as well as the retail customers of those municipally owned utilities and electric cooperatives that elect to participate in retail competition, to choose their electric supplier.

Transmission rates within the Electric Reliability Council of Texas (ERCOT) system are determined pursuant to a universal 100 percent "postage stamp" rate that spreads the total annual costs of transmission services among distribution service providers (DSPs) according to their electric loads. The transmission costs are determined pursuant to transmission cost of service (TCOS) rate proceedings required to be filed by all transmission service providers (TSPs), including LCRA TSC. Every electric end-use consumer in the ERCOT system pays a portion of the total cost of maintaining a reliable statewide transmission system. Transmission charges are calculated by multiplying a DSP's share of the statewide electric load by the statewide "postage stamp" rate. The load shares and rates are determined by the PUC through its TCOS regulatory process. Additionally, pursuant to a tariff approved by the PUC, the Corporation collects revenues for transformation services, providing transformers that "step down" voltage from levels appropriate for transmission to lower levels for distribution. A monthly charge for each transformation delivery point is also authorized under the transformation tariff.

FY 2004 transmission revenues of $110.6 million are the result of various rates authorized throughout the fiscal year. The predominant rate of $2.11 per kW was in place from Sept. 26, 2003 through May 31, 2004.

FY 2005 transmission revenues of $142.7 million resulted from a rate of $2.55 per kW as a result of PUC commissioners approving an LCRA TSC rate case on May 15, 2005. This rate was effective for all of FY 2005.

Only July 25, 2005, LCRA TSC filed an interim update of wholesale transmission rates with the PUC with approval expected in October 2005.

The greatest potential impact on LCRA from SB 7 could result from actions of its wholesale electric customers. If LCRA's larger wholesale electric customers open their territories to retail competition, there is a potential that such customers could lose end-user customers to other retail electric providers resulting in a reduced electric load, thus reducing the requirements served by LCRA under the existing wholesale power agreements. On the other hand, if LCRA's wholesale electric customers are successful in retaining existing customers and in growing their customer base, requirements served by LCRA under the existing wholesale power agreements could increase.

Regulatory Assets and Liabilities: LCRA applies the accounting requirements of FASB Statement of Financial Accounting Standards No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulation." Accordingly, certain costs may be capitalized as a regulatory asset that would otherwise be charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will result from inclusion of those costs in future rates. In addition, rate actions of the regulator may impose a liability on LCRA. A regulatory liability occurs when a regulator requires refunds to customers or provides current rates intended to recover costs that are expected to be incurred in the future. Any regulatory asset is amortized over the life of LCRA's outstanding long-term debt, while a regulatory liability is recognized and charged to income when the associated costs are incurred. LCRA's regulatory assets amounted to $240 million and $219 million at June 30, 2005 and 2004, respectively. Regulatory liabilities amounted to $2.1 million and $2.4 million at June 30, 2005 and 2004, respectively. The regulatory assets, which are included under deferred charges, consist of depreciation of debt-funded assets and costs related to outstanding debt. Debt-funded costs are deferred pending future recovery through the inclusion of the related debt service in rates. Regulatory liabilities are included in deferred credits and other long-term liabilities.

LCRA has reviewed and will continue to monitor the relevance of SFAS 71 in light of SB 7 and future changes in the Texas electric industry. As of June 30, 2005, and for the foreseeable future, management believes that SFAS 71 will continue to apply and anticipates no material losses from the write-off of regulatory assets.

Capitalized Interest: Interest which is financed by debt proceeds is capitalized as part of the cost of capital assets and deferred charges. During FY 2005 and 2004, LCRA capitalized $12.9 million and $20.5 million of interest, respectively.

Gas Price Management: LCRA enters into futures contracts, swaps and options for energy price risk management purposes. Derivative instruments are recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings. LCRA is using mark to market accounting as a component of the fuel factor for its derivatives, and gains and losses related to the financial contracts are recognized in current earnings.

Fuel Factor: Revenues from the sale of electricity include amounts collected through the fuel factor. LCRA records over- or under-recoveries of fuel costs, including unrealized gains or losses on financial contracts entered into as part of its gas price management program, as a deferred asset or liability. These costs are a component of the fuel factor. Over-recoveries may result in refunds to customers and, correspondingly, under-recoveries may result in additional assessments to customers.

Natural Gas Development and Production: LCRA has adopted the full-cost method of accounting for natural gas development and production. Under this method, all costs directly associated with acquisition and development of oil and gas properties are capitalized and depleted to expense over the life of proved reserves on a units-of-production method. For the years ended June 30, 2005 and 2004, depletion expense totaled approximately $0.4 million and $0.4 million, respectively.

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, LCRA reimbursed the customers for their costs incurred in planning generating facilities. These costs are amortized over the period affected by the contract extension.

Impairment: LCRA evaluates the carrying value of its property, plant and equipment, and other long-lived assets when major events or changes in circumstances indicate a decline in an asset's service capacity. In accordance with GASB 42, impairment is measured using methods that isolate the asset's service capacity that has been rendered unusable.

Depreciation, Depletion and Amortization: LCRA depreciates its utility plant in service on a straight-line basis over the estimated useful lives of the various classes of these assets. Annual depreciation expense, expressed as a percentage of average depreciable utility plant, was approximately 3 percent for FY 2005 and 2004. Depreciation, depletion and amortization expense for FY 2005 and 2004 was approximately $100 million and $85 million, respectively.

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

Hydraulic Production Plant	55 - 100 years
Steam Production Plant	35 - 40 years
Transmission Plant	35 - 65 years
General Plant	4 - 45 years
Irrigation Plant	15 - 100 years
Sewage and Water Treatment Plant	10 - 50 years
Telecommunication Facilities	10 - 25 years

Water rights are not amortized but are evaluated annually to determine whether they are impaired and whether an indefinite life is reasonable. Gains or losses created by refunding transactions are amortized over the shorter of the remaining terms of the new issues or the refunded bonds. Amortization of debt discount and premium is computed using the interest method over the life of the related bond issues. Amortization of debt issue cost is computed on the straight-line method over the life of the related bond issues, which approximates the interest method. Other deferred charges are amortized on a straight-line basis ranging from 20 to 40 years.

Statements of Cash Flows: All highly liquid investments (including investments in restricted funds) with an original maturity of three months or less are considered cash equivalents.

Reclassifications: Certain amounts in the prior year's financial statements have been reclassified to conform to current year presentation.

3. Financial Instruments

As of June 30, 2005 and 2004, LCRA had the following investments and maturities:

Type of Investment	June 30, 2005 Market Value[1]	June 30, 2005 WAM (Years)[2]	June 30, 2004 Market Value[1]	June 30, 2004 WAM (Years)[2]
Investments				
U.S. Government Securities	$ 145,368	1.24	$ 125,965	1.30
U.S. Government Agencies	33,796	0.19	43,438	0.86
Commercial Paper	12,000	0.25		
Cash Equivalents				
Commercial Paper	38,000	0.14	25,500	0.12
Money Market Fund	41,430	0.07	38,059	0.12
Total	$ 270,594	0.73	$ 232,962	0.90

[1]Dollars in Thousands
[2]Weighted Average Maturity

External Investments Pool: LCRA investments included a money market fund with TexPool at June 30, 2005 and 2004. The State Comptroller of Public Accounts oversees TexPool, and the pool seeks to maintain a $1 value per share as required by the Texas Public Fund Investment Act. There are no minimum balance requirements for TexPool participants, and there is no limit on the number of accounts per participants.

Interest Risk: LCRA has no formal policy to address exposure to fair value losses resulting from changes in interest rates. However, in accordance with management policy, LCRA manages its exposure to rising interest rates by investing a majority of its investment portfolio in securities with short-term maturities and holding investments to maturity.

Credit Risk: LCRA investment activities are governed by state statute (Public Fund Investment Act) which specifies the type and ratings of investments governmental entities are allowed to purchase. In addition, LCRA Board policy, internal operating procedures and applicable bond resolutions further restrict investment activity. At June 30, 2005 and 2004, LCRA investment in the investment pool (money market) was rated AAAm by Standard & Poor's. Investments in commercial paper were rated A-1+ by Standard & Poor's and P-1 by Fitch Ratings.

Estimation of Fair Value: The carrying amounts of receivables and certain other liabilities approximate market value due to the short maturity of these instruments. The estimated market value of long-term debt, based on current market yields was $2.5 billion and $2.3 billion at June 30, 2005 and 2004, respectively.

Hedging Instruments: LCRA's gas activities subject LCRA's earnings to variability based on fluctuations in the market price of natural gas, as measured by changes in the delivered price of natural gas at various points in the system's natural gas grid. In an effort to mitigate the financial and market risk associated with these activities for the customers, LCRA routinely enters into natural gas swaps, futures contracts and options for other than trading purposes. This use of these types of transactions for the purpose of reducing exposure to price risk is generally referred to as hedging, with the results matching the financial impact of these transactions with the cash impact resulting from consummation of the transaction being hedged. These contracts are commitments to either purchase or sell designated quantities of a commodity at a specified price and at a specified date. These contracts may be settled in cash or through delivery of the specified commodity; however, in general, LCRA settles futures contracts in cash. LCRA holds highly liquid contracts with terms ranging up to 18 months. Initial margin requirements, which are flat fees per contract, and daily margin calls are met in cash or short-term liquid government securities. The financial impact of these futures contracts, the effects of which were substantially offset by the physical gas purchases, was to recognize a gain of approximately $1.2 million during 2005 and a loss of approximately $1.8 million during 2004. Net income is not affected because this activity is a component of the fuel costs passed through to the customers and is included in the balance sheet fuel over- or under-recovery account.

All derivative instruments are recorded on the balance sheet at their fair value, which generally reflects the estimated amounts that LCRA would receive or pay to terminate the contracts. At June 30, 2005, the fair value of LCRA's hedging assets and liabilities were $0.7 million and $2.3 million, respectively. Changes in the fair value of the derivatives are recorded in current earnings as a component of the fixed-fuel factor. LCRA has not designated any of the derivatives as hedging instruments, as allowed by FASB 133.

Counterparties expose LCRA to credit-related losses in the event of nonperformance, but LCRA does not expect any counterparties to fail to meet their obligations, given their high credit ratings.

4. Long-Term Debt

Changes during FY 2005 and balances at June 30, 2005 and 2004, of long-term debt, including current portions are as follows (in thousands):

Series	May 15, From	To	Balance June 30, 2004	Increases	(Decreases)	Balance June 30, 2005	Amount Due in FY 2006
Series 2003A (Auction Rate) (1)	2030	2032	$ 50,000	$	$	$ 50,000	$
Series 2003B (5.00%-5.375%)	2006	2031	254,985		(3,010)	251,975	7,195
Series 2003C (5.00%-5.25%)	2006	2033	134,310		(3,110)	131,200	3,630
Series 2004 (3.00%-5.00%)	2007	2034	-	125,490		125,490	
2004 (4.00%-5.00%)	2006	2029	105,550		(2,400)	103,150	2,850
2004A (3.50%-3.50%) (2)	2006	2007	211	36		247	157
2004B (3.50%-3.50%) (2)	2006	2006	42	7	(39)	10	10
2004C (3.50%-3.50%) (2)	2005	2005	54	8	(62)	-	
2004D (2.50%-5.00%)	2006	2034	-	51,340	(460)	50,880	860
2003 (3.25%-5.25%)	2006	2033	99,940		(3,690)	96,250	3,940
2002 (3.50%-5.00%)	2006	2031	119,135		(1,065)	118,070	1,360
2001A (5.00%-5.375%)	2006	2032	151,820		(2,480)	149,340	4,240
2001 (5.00%-8.00%)	2006	2031	97,050		(620)	96,430	675
1999A (5.50%-5.875%)	2014	2020	347,540			347,540	
1999B (5.875%-6.00%)	2007	2014	348,520			348,520	
1999C (7.02%-7.02%)	2006	2006	72,270		(41,950)	30,320	30,320
1999E (5.00%-5.75%)	2006	2011	23,160		(1,200)	21,960	1,300
1999F (5.50%-5.75%)	2008	2012	97,930			97,930	
1999G (3.70%-4.85%) (2) (3)	2005	2016	41,625		(1,645)	39,980	1,875
1999H (2.95%-3.65%) (2) (4)	2006	2011	6,885		(1,120)	5,765	1,500
1999I (3.20%-4.15%) (4)	2006	2020	3,640		(95)	3,545	115
TWDB Note Payable (6.05%-6.10%)	2020	2034	10,500			10,500	
TWDB Note Payable (5.58%-5.83%)	2022	2038	7,455	6,585		14,040	
Add: Unamortized Net Premium			42,364	4,160	(6,772)	39,752	(2,783)
Subtotal			2,014,986	187,626	(69,718)	2,132,894	57,244
Unamortized Net Losses on Refunded Debt			(267,755)		10,903	(256,852)	(6,800)
Taxable Commercial Paper (Variable Rate)			7,000	5,900	(1,400)	11,500	11,500
Tax-Exempt Commercial Paper (Variable Rate)			193,300	227,500	(184,900)	235,900	235,900
Total			$ 1,947,531	$ 421,026	$ (245,115)	$ 2,123,442	$ 297,844

(1) Rate is reset at auction every 28 days (2.45 percent as of June 30, 2005).
(2) Represents yield rate of Capital Appreciation Bonds.
(3) Maturity Date is July 1.
(4) Maturity Date is Jan. 1.

LCRA's debt as of June 30, 2005, has been rated by Fitch, Moody's, and Standard & Poor's, respectively, as follows:

FITCH, MOODY'S, AND STANDARD & POOR'S

Refunding and Improvement Revenue Bonds: A+, A1 and A (Uninsured)
Commercial Paper: F-1+, P-1, A-1
LCRA Transmission Services Corporation Contract Refunding Revenue Bonds: A, A2, A (Uninsured)
LCRA Transmission Services Corporation Commercial Paper: F-1, P-1, A-1+

Bond and note debt payments, excluding commercial paper, are as follows (in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2006	$ 60,027	$ 109,275	$ 169,302
2007	81,850	110,004	191,854
2008	90,365	105,814	196,179
2009	91,745	100,987	192,732
2010	95,750	96,170	191,920
2011-2015	563,025	399,511	962,536
2016-2020	446,190	254,681	700,871
2021-2025	289,160	152,978	442,138
2026-2030	217,385	89,489	306,874
2031-2035	155,140	40,759	195,899
2036-2040	2,505	253	2,758
	2,093,142	1,459,921	3,553,063
Unamortized Net Premium	39,752	-	39,752
Total	$ 2,132,894	$ 1,459,921	$ 3,592,815

New and Refunding Bonds: During FY 2005, LCRA issued $5.9 million of taxable commercial paper and $55.8 million of tax exempt commercial paper. In addition, LCRA on behalf of LCRA TSC issued $171.7 million of tax-exempt commercial paper.

On Dec. 16, 2004, LCRA issued $51.3 million of tax exempt Refunding Revenue Bonds, Series 2004D. In addition, on Dec. 16, 2004, LCRA on behalf of LCRA TSC issued $125.5 million of Transmission Contract Refunding Revenue Bonds, Series 2004. The proceeds from these issues were used to refund tax-exempt commercial paper.

. On April 27, 2004, LCRA issued $105.6 million of tax-exempt Revenue Bonds, Series 2004. The proceeds from the bond issue were used to refund $20 million of taxable commercial paper and $89 million of tax-exempt commercial paper.

On Nov. 17, 2003, LCRA refunded $16.2 million of the Series 2000 Refunding Revenue Bonds, Series D with tax-exempt commercial paper.

On Oct. 16, 2003, LCRA issued $105 million of Refunding and Improvement Revenue Bonds, Series 2003. The proceeds from the bond issue were used to refund $104.6 million of tax-exempt commercial paper and to provide $4 million for capital project funding. In addition, on Oct. 16, 2003, LCRA on behalf of LCRA TSC issued $135.4 million of Transmission Contract Refunding Revenue Bonds, Series 2003C. The proceeds from the bond issue were used to refund $135 million of tax-exempt commercial paper.

During FY 2004, LCRA issued $211.2 million of tax-exempt commercial paper and $30.6 million of taxable commercial paper to fund various capital projects. In addition, LCRA on behalf of LCRA TSC issued $169.3 million of tax-exempt commercial paper to fund transmission related capital projects.

The principal associated with the bonds that have been previously refunded by LCRA but remain outstanding at June 30, 2005 and 2004, totals $379 million and $397 million, respectively. Proceeds from these refunding bond issues were escrowed to purchase U.S. government obligations that will mature at such time and yield interest as such amounts so that sufficient monies are available for payment of principal, premium, if any, and interest on the refunded bonds when due. None of these refunded bonds are included in LCRA's outstanding long-term debt at June 30, 2005 and 2004.

Optional Redemption: The Series 2004D bonds that mature on and after May 15, 2012, are redeemable at the option of LCRA, on May 15, 2011 or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The LCRA TSC Series 2004 bonds that mature on and after May 15, 2012, are redeemable at the option of LCRA, on May 15, 2011, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2004 bonds that mature on and after May 15, 2012, are redeemable at the option of LCRA, on May 15, 2011 or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2003 bonds that mature on and after May 15, 2014, are redeemable at the option of LCRA, on May 15, 2013, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The LCRA TSC Series 2003C bonds that mature on and after May 15, 2014, are redeemable at the option of LCRA, on May 15, 2013, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The LCRA TSC Series 2003A bonds are subject to optional redemption by LCRA, upon the written direction of LCRA TSC, in whole or in part, on any interest payment date immediately following an auction period, in authorized denominations at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date; provided, however, that in the event of a partial redemption of bonds, the aggregate principal amount of bonds that will remain outstanding must equal at least $10 million unless otherwise consented to by the related broker-dealers.

The LCRA TSC Series 2003B bonds that mature on and after May 15, 2013, are redeemable at the option of LCRA, on May 15, 2012, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2002 bonds maturing on and after May 15, 2014, are redeemable at the option of LCRA, on May 15, 2013, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2001A bonds maturing on and after May 15, 2012, are redeemable at the option of LCRA, on May 15, 2011, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2001 bonds maturing on or after May 15, 2011, are callable at the option of LCRA for a period of one year beginning on May 15, 2010, at the price of 101 percent plus accrued interest. These bonds are also callable at LCRA's option on May 15, 2011, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof at the price of 100 percent plus accrued interest.

The Series 1999A bonds, Series 1999B bonds, Series 1999E bonds and Series 1999F bonds maturing on or after May 15, 2010, are callable at the option of LCRA for a period of one year beginning on May 15, 2009, at the price of 101 percent plus accrued interest. These bonds are also callable at LCRA's option on May 15, 2010, or on any date thereafter, in whole of in part, in principal amounts of $5,000 or integral multiples thereof at the price of 100 percent plus accrued interest.

The LCRA bonds outstanding as of June 30, 2005 and 2004, are parity Debt under the Master Resolution and are collateralized by a lien on and pledge of the Pledged Revenues. Pledged Revenues are defined to include all amounts received pursuant to Contractual Commitments and all lawfully available funds of LCRA. The LCRA Transmission Contract Revenue Bonds Series 2003A, 2003B, 2003C and 2004 are solely secured by the obligation of LCRA TSC to make Installment Payments to LCRA from the Net Revenues of LCRA TSC (subordinate to first lien on Gross Revenues securing the Purchase Price Payments under the Initial Contractual Commitment). Net revenues are defined as Gross Revenues less any Purchase Price Payments due to LCRA and less the Operating and Maintenance Expenses during the period.

Commercial Paper: LCRA is authorized to issue up to $350 million in short-term tax exempt obligations and $350 million in short-term taxable obligations to provide system improvements, acquire fuel reserves and facilities, refund outstanding debt, and pay interest on outstanding debt. Outstanding notes were issued in denominations of $100,000 or more with maturities of 270 days or less from their respective issue dates. The Commercial Paper program expires May 15, 2020. It is management's intent to periodically renew outstanding commercial paper upon maturity.

LCRA maintains credit facilities with banks that provide available borrowings sufficient to pay the principal of the notes. LCRA has entered into a revolving credit agreement with a bank that is obligated to lend LCRA amounts of up to $187.5 million for the Tax Exempt Series. Of the $187.5 million, $112.5 million of this agreement expires on Oct. 13, 2008, and the remaining $75 million expires on June 27, 2008. LCRA has an additional revolving credit agreement with a bank that is obligated to lend LCRA aggregate amounts of up to $40 million for the Taxable Series. This agreement expires on Oct. 13, 2008. Failure by LCRA to meet certain restrictive covenants could result in the withdrawal of the banks' commitments for the unused lines of credit. There were no borrowings under any of the agreements as of June 30, 2005.

LCRA TSC is authorized to issue tax exempt commercial paper notes in an aggregate amount of principal and interest not to exceed $150 million in short-term tax-exempt obligations. Outstanding notes were issued in denominations of $100,000 or more with maturities of 270 days or less from their respective issue dates. The Commercial Paper program expires May 15, 2042. It is management's intent to periodically renew outstanding commercial paper upon maturity.

LCRA TSC maintains a $150 million credit facility with a bank that provides available borrowings to pay the principal and interest of the commercial paper notes. Of the $150 million total, $137 million is available to pay the principal of the notes, and $13 million is available to pay interest on the notes. The credit facility has an expiration date of April 29, 2006. Failure by LCRA or LCRA TSC to meet certain restrictive covenants could result in the withdrawal of the banks' commitments for the unused line of credit. There were no borrowings under the agreement as of June 30, 2005.

Conduit Debt: At June 30, 2005, there are two series of Pollution Control Revenue Bonds outstanding with an aggregate principal amount payable of $50 million. The bonds mature in April 2027 and 2030, $25 million each year. The bonds were issued to finance the costs of acquiring, constructing and improving certain solid waste and sewage disposal facilities of a private-sector entity. LCRA executed an installment sale agreement with the entity whereby the proceeds of the bonds were used to finance a portion of the project. In turn, the entity agreed to make payments sufficient to pay, when due, the principal and interest on the bonds. The bonds do not constitute a debt or pledge of LCRA, and accordingly, have not been reported in the accompanying financial statements.

Mandatory Redemption: The following term bonds will be subject to mandatory sinking fund redemption prior to maturity on May 15 in each of the following years and in the following amounts at the redemption price equal to the principal amount thereof plus accrued interest to the redemption date, with the particular Bonds or portions thereof to be redeemed, to be selected and designated by LCRA (provided that a portion of a Bond may be redeemed only in an integral multiple of $5,000):

Series 2004D
Term Bond Maturing May 15, 2029

Redemption Date		Amount
May 15, 2026	$	2,250,000
May 15, 2027		2,570,000
May 15, 2028		2,695,000
May 15, 2029		2,825,000

Series 2004D
Term Bond Maturing May 15, 2034

Redemption Date		Amount
May 15, 2030	$	2,900,000
May 15, 2031		3,050,000
May 15, 2032		2,550,000
May 15, 2033		2,670,000
May 15, 2034		2,795,000

LCRA Transmission Services Corporation
Series 2004
Term Bond Maturing May 15, 2029

Redemption Date		Amount
May 15, 2026	$	4,185,000
May 15, 2027		4,185,000
May 15, 2028		4,185,000
May 15, 2029		4,185,000

LCRA Transmission Services Corporation
Series 2004
Term Bond Maturing May 15, 2033

Redemption Date		Amount
May 15, 2030	$	4,185,000
May 15, 2031		4,185,000
May 15, 2032		4,185,000
May 15, 2033		4,185,000

Series 2004
Term Bond Maturing May 15, 2024

Redemption Date		Amount
May 15, 2023	$	5,120,000
May 15, 2024		5,120,000

Series 2004
Term Bond Maturing May 15, 2029

Redemption Date		Amount
May 15, 2027	$	5,190,000
May 15, 2028		5,190,000
May 15, 2029		5,200,000

LCRA Transmission Services Corporation
Series 2003C
Term Bond Maturing May 15, 2028

Redemption Date		Amount
May 15, 2026	$	4,515,000
May 15, 2027		4,515,000
May 15, 2028		4,515,000

LCRA Transmission Services Corporation
Series 2003C
Term Bond Maturing May 15, 2032

Redemption Date		Amount
May 15, 2030	$	3,675,000
May 15, 2031		12,325,000
May 15, 2032		34,000,000

Series 2004
Term Bond Maturing May 15, 2026

Redemption Date		Amount
May 15, 2025	$	5,120,000
May 15, 2026		5,120,000

LCRA Transmission Services Corporation
Series 2003C
Term Bond Maturing May 15, 2033

Redemption Date		Amount
May 15, 2029	$	4,515,000
May 15, 2030		4,515,000
May 15, 2031		4,515,000
May 15, 2032		4,515,000
May 15, 2033		11,165,000

LCRA Transmission Services Corporation
Series 2003B
Term Bond Maturing May 15, 2031

Redemption Date		Amount
May 15, 2026	$	10,985,000
May 15, 2027		10,985,000
May 15, 2028		10,985,000
May 15, 2029		10,985,000
May 15, 2030		7,310,000
May 15, 2031		8,040,000

Series 2003
Term Bond Maturing May 15, 2028

Redemption Date		Amount
May 15, 2026	$	3,795,000
May 15, 2027		3,985,000
May 15, 2028		4,185,000

Series 2003
Term Bond Maturing May 15, 2033

Redemption Date		Amount
May 15, 2029	$	4,395,000
May 15, 2030		4,615,000
May 15, 2031		4,845,000
May 15, 2032		5,090,000
May 15, 2033		5,345,000

Series 2001A
Term Bond Maturing May 15, 2032

Redemption Date		Amount
May 15, 2029	$	4,500,000
May 15, 2030		4,500,000
May 15, 2031		4,500,000
May 15, 2032		4,505,000

Series 2001
Term Bond Maturing May 15, 2026

Redemption Date		Amount
May 15, 2024	$	10,885,000
May 15, 2025		11,210,000
May 15, 2026		3,330,000

Series 1999A
Term Bond Maturing May 15, 2021

Redemption Date		Amount
May 15, 2020	$	47,535,000
May 15, 2021		27,430,000

Series 2002
Term Bond Maturing May 15, 2031

Redemption Date		Amount
May 15, 2025	$	780,000
May 15, 2026		815,000
May 15, 2027		6,425,000
May 15, 2028		6,460,000
May 15, 2029		6,545,000
May 15, 2030		8,630,000
May 15, 2031		8,665,000

Series 2001A
Term Bond Maturing May 15, 2026

Redemption Date		Amount
May 15, 2022	$	7,380,000
May 15, 2023		6,315,000
May 15, 2024		6,635,000
May 15, 2025		6,975,000
May 15, 2026		7,320,000

Series 2001
Term Bond Maturing May 15, 2031

Redemption Date		Amount
May 15, 2027	$	1,810,000
May 15, 2028		1,900,000
May 15, 2029		2,000,000
May 15, 2030		2,100,000
May 15, 2031		2,210,000

5. Retirement and 401(k) Plans, Deferred Compensation, and Post-Employment Benefits

Retirement Plan: The Lower Colorado River Authority Retirement Plan (Plan) is a single-employer defined benefit pension plan and is administered by the LCRA Retirement Plan Board of Trustees. The Plan issues a stand-alone financial report that is available from the Board of Trustees. As a result of the amendments and restatements of the Plan during FY 2002, the Plan has submitted an application for a determination concerning the qualification of the Plan to the Internal Revenue Service. The previous Plan had received a favorable determination letter from the Internal Revenue Service and was exempt from federal income taxes, under the appropriate section of the Internal Revenue Code. LCRA anticipates that the restated Plan also will qualify for tax-exempt status.

The Plan provides retirement, death and disability benefits. Employees are not required to contribute to the Plan although the Plan retains employee contributions and associated liabilities for years prior to April 1, 1984, when the plan did require employee contributions. Amendments to the Plan are made only with the authority of the LCRA Board of Directors.

Effective Jan. 1, 2002, the Plan was amended to provide cash balance benefit features. Active employees as of Dec. 31, 2001, were given the opportunity to remain participants under the pension provisions (Retirement Program A) or to elect to become participants under the cash balance provisions (Retirement Program B). Employees hired prior to Jan. 1, 2002, who elected Program A and who worked at least 1,000 hours per annum were eligible plan participants in the plan upon completion of six months of service and become 100 percent vested after three complete years of service. Any employee that was employed by LCRA prior to Jan. 1, 2002, and who elected Program B were eligible to participate in the cash balance benefit plan as of Jan 1, 2002, and will be 100 percent vested after three complete years of service. Any employee hired after Jan. 1, 2002, who works at least 1,000 hours per annum will automatically be enrolled in Program B, will be eligible to participate in the plan after three consecutive months of service and will be 100 percent vested after three complete years of service.

Under Program A, employees may retire with unreduced accrued benefits at age 65 with five years of service, or when the total of their age and service equals 80. Retirement benefits are based on years of service and salary levels at retirement. Under Program B, the value of the employee's account will be adjusted by increasing the balance by 4 percent of the employee's compensation paid per year. The value of the account earns an annual interest rate of 7 percent. The retirement benefit for an employee who has reached his or her normal retirement date is a single lump sum payment equal to the participant's accrued balance or monthly payments as provided by the Plan.

The LCRA makes annual contributions to the Plan that are actuarially determined as of each valuation date and consist of a normal cost contribution and an amortization of unfunded actuarial accrued liability contribution using the entry age normal actuarial cost method. Unfunded actuarial accrued liability contributions are determined using a 15- to 30-year level percentage of payroll open amortization methodology. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll over a period of 15 years on an open basis.

The required employer contribution for FY 2005 was 8.15 percent of total employee payroll. The current recommended employer contributions for FY 2006 are 8.40 percent of total employee payroll. The costs of administering the Plan are paid by the Plan and are considered in the determination of the required employer contribution rate.

The required contribution was determined as of the April 1, 2004, actuarial valuation using the entry age normal actuarial cost method. The original actuarial assumptions included (a) an 8 percent investment rate of return, net of administrative expenses and (b) projected salary increases of 4.5 to 12.5 percent varying by entry age group and attained age. Both (a) and (b) reflect an inflation component of 4.0 percent.

Changes in plan provisions that impacted funding were an ad hoc cost of living adjustment to retirees effective Jan 1, 2002, an increase in maximum benefits and compensation limitations imposed under the Internal Revenue Code, and revised assumptions for withdrawal and retirement due to cash balance benefits. Effective April 1, 2004, the amortization period for the recommended contribution amount was increased by one year, from 16 years to 17 years of the unfunded actuarial accrued liability. There were no recommended changes to the plan provisions in the actuarial valuation effective April 1, 2005.

Schedule of Funding Progress

Actuarial Valuation Date	(1) Actuarial Value of Assets[1]	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll[2]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
April 1, 2003	$225,914,808	$303,162,298	74.5	$77,247,490	$124,210,361	62.2
April 1, 2004	239,289,653	319,622,320	74.9	80,332,667	128,454,336	62.5
April 1, 2005	253,994,422	346,643,812	73.3	92,649,390	136,103,586	68.1

[1] Actuarial value approximates market value.
[2] Based on projected payroll as of valuation date.

Three-Year Annual Pension Cost (APC) Trend Information

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation (NPO)[1]
June 30, 2003	$ 10,472,737	100%	$ -
June 30, 2004	10,962,373	100	-
June 30, 2005	12,206,319	100	-

[1] NPO is zero since employer contributions have been equivalent to actuarially determined funding requirements for all fiscal years beginning Dec 15, 1986.

401(k) Plan: LCRA's Retirement Benefits Board of Trustees administers this single-employer defined contribution plan. The Plan is accounted for on the accrual basis and all assets are recorded at fair value. The Plan has received a favorable determination letter from the Internal Revenue Service and is exempt from federal income taxes, under the appropriate section of the Internal Revenue Code.

Employees are eligible to participate in the Plan following the completion of three months of service. Eligible employees who elect to participate in the Plan may contribute a minimum of 1 percent and a maximum of 100 percent of their annual compensation, not to exceed $14,000 in 2005. Employees age 50 or over may contribute an additional $4,000 in 2005. Effective Jan. 1, 2002, employees under Program A of the Pension Plan receive an LCRA matching contribution equal to 25 percent of the first 4 percent of compensation that the employee had elected to contribute to the plan. Under Program B of the Pension Plan, LCRA provides matching contributions equal to 100 percent of the first 4 percent of compensation and 50 percent of the next 2 percent of compensation that the employee has elected to contribute to the plan. Contributions made by both the employer and employee are vested immediately. Amendments to the Plan are made only with the authority of the LCRA Board.

Contributions by the LCRA and the employees for the years ended June 30, 2005 and 2004, are presented below:

	2005	2004
	(Dollars in Thousands)	
Employer contributions	$ 1,954	$ 1,652
Employee contributions	$ 7,886	$ 6,968

Post-Employment Benefits: LCRA provides post-employment health care benefits to retirees and to terminated employees eligible for such benefits. LCRA contributes approximately 73 percent of the retirees' health plan premiums but makes no contributions for terminated employees. These contributions are recognized currently as premiums are paid and totaled approximately $4.2 million and $4.0 million for FY 2005 and 2004, respectively. At June 30, 2005, there were 561 retirees and 15 terminated employees eligible for such benefits.

6. Commitments and Contingencies

Construction: LCRA's construction budget provides for capital improvement projects with cash requirements through FY 2010 of approximately $1.4 billion, including $380.0 million in FY 2006.

Customer Transmission Leases: LCRA leases and operates certain transmission facilities and equipment owned by 12 customers. The leases are the basis for 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 the leased facilities vary from year to year and are based on the original cost of the facilities, adjusted for depreciation, and are updated annually to reflect additions, retirements and depreciation. The terms of the leases are perpetual but may be terminated by LCRA or the lessors upon five years written notice. Lease expenses for FY 2005 and 2004 totaled $10.9 million and $10.3 million, respectively.

Coal and Rail Contracts: For FY 2005, approximately 60 percent of the fuel requirements for the Fayette Power Project units 1 and 2 (FPP 1 & 2) were supplied by two multiyear contracts with mines in Wyoming's Powder River Basin. One contract, which ended in the second quarter of fiscal year 2005, had a fixed price per calendar year and was for a volume that was subject to LCRA's discretion within a specified range. The second contract has a fixed price for its entire term. The annual volume under this contract doubled starting with the third quarter of fiscal year 2005. Further, the annual volume is subject to adjustment based upon railroad performance. In FY 2006, the one multiyear contract will supply approximately 58 percent of FPP 1 & 2's coal needs. During FY 2005 and 2004, LCRA's purchases totaled $9.7 million and $9.3 million, respectively, under the multiyear contracts.

For FY 2005 approximately 82 percent of the fuel requirements for Fayette Power Project Unit 3 (FPP 3) were supplied by three multiyear contracts with mines in Wyoming's Powder River Basin. The first contract, which ended in the second quarter of FY 2005, was for a fixed volume at a fixed price. The second contract has a fixed price for its entire term. The annual volume under that contract is subject to LCRA's discretion, within a specified range. The third contract has a base price dependent on where the coal is mined and the volume is fixed for each calendar year. In FY 2006, these contracts will supply approximately 66 percent of FPP 3's coal needs. LCRA's purchases under these contracts totaled $8.2 and $5.0 million for FY 2005 and 2004, respectively.

LCRA and Austin Energy have a multiyear transportation agreement with one rail carrier to ship Powder River Basin coal to all three units at FPP. For fiscal year 2004 and the first half of fiscal year 2005, LCRA and Austin Energy had another multiyear transportation agreement with another rail carrier to ship Powder River Basin coal to all three units at FPP. Costs incurred for LCRA under these agreements were approximately $41.9 million and $48.3 million in FY 2005 and FY 2004, respectively.

Natural Gas: LCRA has several long-term contracts to provide a portion of the natural gas requirements to its gas-fired generation units through April 2014. LCRA is committed to buy a fixed amount of gas annually. LCRA's gas purchases under these contracts totaled $108.6 million for FY 2005 and $91.6 million for FY 2004, based on price indices. LCRA also pays approximately $2 million per year for firm transportation rights on intrastate pipelines that deliver gas from other supply points.

Purchased Power: LCRA has four contracts with power marketers who provide 300 MW of firm electric energy, per month, for the period June 1 through Sept. 30, 2005. The total minimum commitment from these contracts is more than $2.6 million plus energy payments.

Wind Power: LCRA is committed to purchase 35 MW of wind power capacity from Texas' first commercial wind power plant, the Texas Wind Power Project. LCRA in turn sells 10 MW of this capacity to Austin Energy. During FY 2005, LCRA purchased 30 MW of wind power capacity from the Delaware Mountain Wind Farm. In FY 2005, LCRA also purchased 51 MW of wind power capacity from the Indian Mesa Wind Farm. Total wind power capacity is 116 MW, of which 106 MW is for LCRA and its customers. LCRA expects to pay approximately $9.1 million in FY 2006 for purchases from all wind power plants, increasing to approximately $11.9 million in FY 2014.

Water Project Study: LCRA has entered into an agreement with the San Antonio Water System (SAWS) to study the feasibility of developing 330,000 acre-feet of water through the development of alternative water supplies and conservation measures. LCRA has committed to sell up to 150,000 acre-feet per year of this additional water to San Antonio, with the remainder used to eliminate water shortages in the lower Colorado basin. The study phase, estimated to be completed by March 2010 at a total cost of approximately $43 million, includes engineering feasibility and environmental studies and costs to obtain necessary permits for development and transfer of water. LCRA, in its role as project manager, receives advances from SAWS to fund this study. SAWS has the option to cancel the study, with a 100 percent refund of unexpended funds and a 50 percent refund of expended funds due to SAWS when cancelled. As of June 30, 2005, LCRA has received $12.7 million from SAWS and has expended $8.5 million in study costs.

Insurance Self-Funding: In addition to the purchase of commercial insurance, LCRA has established a self-insurance program to finance risk of loss. LCRA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. LCRA self-funds each worker's compensation claim up to $300,000, and each general liability claim up to a maximum of $2 million dependent on the insurance policy deductible. Self-funding of property damage varies from $100,000 to $2.5 million depending on the insurance deductible. Any claims or damages above self-funded amounts are covered by commercial general insurance. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. Based on an insurance risk analysis, LCRA carries no commercial insurance on transmission lines.

Accrued Liability: The accrued liability presented in the table below is associated with obligations resulting from environmental regulations established by federal, state and local authorities. Although the effect of future environmental regulations upon existing and proposed facilities and operations cannot be determined, LCRA monitors proposed changes and takes actions necessary to mitigate adverse impacts to its operations. At the present, no materially adverse impacts are anticipated.

Changes in the accrued liability amount for FY 2004 and 2005 were as follows:

	Balance Beginning of Year	Changes in Estimates	Payments	Balance End of Year
FY 2004	$2,791,000	–	$368,000	$2,423,000
FY 2005	$2,423,000	–	$437,000	$1,986,000

Capital Program: LCRA's forecasted capital program includes $307 million for the total cost of SO_2 scrubbers for two coal-fired generating units jointly owned by LCRA and the City of Austin. The cost of the scrubbers is subject to revision upon the completion of technology evaluations and detailed engineering studies. The scrubbers must be installed by October 2012, under the provisions of a flexible air quality permit received from the Texas Commission on Environmental Quality in 2002.

Litigation: There are various lawsuits in which LCRA is involved. LCRA's management, including its general counsel, estimates that the potential claims against LCRA not covered by insurance resulting from such litigation would not materially affect LCRA's financial position, results of operations and cash flows.

7. Capital Activity

Capital asset activity for the year ended June 30, 2005, was as follows:

(Dollars in Thousands)

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation/Depletion	Ending Balance
Utility plant in service:						
Depreciable assets	$ 2,751,839	$	$ 315,852	$ (25,236)		$ 3,042,455
Nondepreciable assets	26,244		3,889	210		30,343
Total Utility plant in service	2,778,083	-	319,741	(25,026)		3,072,798
Construction work in progress:						
Nondepreciable assets	283,374	238,799	(319,974)	5,985		208,184
Oil and gas property:						
Depletable assets	28,158					28,158
Other physical property:						
Depreciable assets	21,519		881	(38)		22,362
Nondepreciable assets	20,094		-	(21)		20,073
Total Other physical property	41,613	-	881	(59)		42,435
Less accumulated depreciation	(984,209)	-	(648)	8,034	(98,129)	(1,074,952)
Capital assets, net	$ 2,147,019	$ 238,799	$ -	$ (11,066)	$ (98,129)	$ 2,276,623

8. Segment

Governments that use enterprise fund accounting and reporting standards to report their activities are required to present segment information. A segment is an identifiable activity reported as or within an enterprise fund or another stand-alone entity that has one or more bonds outstanding with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required to be accounted for separately. An external party should impose the requirements for separate accounting. LCRA TSC qualifies as a segment.

LCRA TSC was created by LCRA to comply with the requirements of SB 7. LCRA transferred all of the assets of its regulated electric transmission and transformation businesses to LCRA TSC effective on Jan. 1, 2002.

Segment information for LCRA TSC:

LCRA Transmission Services Corporation – Segment Information
Balance Sheets

(Dollars in Thousands)

	June 30, 2005	June 30, 2004
Assets		
Current Assets	$ 54,354	$ 59,264
Long-Term Assets		
Restricted cash and cash equivalents	20,344	1,528
Restricted Investments	220	21
Accounts receivable from LCRA - restricted	25,289	18,199
Capital assets:		
Utility plant in service	1,048,100	897,313
Construction work in progress	58,718	75,814
Less accumulated depreciation	(188,349)	(166,024)
Capital assets, net	918,469	807,103
Deferred charges:		
Costs to be recovered from future revenues	40,149	28,720
Issue costs	13,607	12,280
Deferred charges, net	53,756	41,000
Total long-term assets	1,018,078	867,851
Total Assets	$ 1,072,432	$ 927,115
Liabilities		
Current Liabilities	$ 165,863	$ 117,278
Long-Term Liabilities		
Accounts payable to LCRA from Construction Fund	22,584	12,880
Accounts payable from restricted assets	29,040	55,409
Bonds, notes, and loans payable	736,551	631,276
Deferred Credits	-	13,270
Total long-term liabilities	788,175	712,835
Total liabilities	954,038	830,113
Equity		
Invested in capital assets, net of related debt	74,536	67,968
Unrestricted	43,858	29,034
Total equity	118,394	97,002
Total Liabilities and Equity	$ 1,072,432	$ 927,115

LCRA Transmission Services Corporation – Segment Information
Statements of Revenues, Expenses, and Changes in Equity

(Dollars in Thousands)

	Year Ended June 30, 2005	2004
Operating Revenues		
Transmission	$ 142,707	$ 110,639
Transformation	8,524	8,581
Other	131	42
Total operating revenues	151,362	119,262
Operating Expenses		
Operations	57,528	52,665
Maintenance	8,805	9,459
Depreciation and amortization	25,581	21,432
Total operating expenses	91,914	83,556
Operating income	59,448	35,706
Nonoperating Revenues (Expenses)		
Interest and other income	2,730	543
Loss on disposition of property	(10,848)	(3,041)
Interest on debt	(38,082)	(27,934)
Other expenses	(3,660)	(3,570)
Total nonoperating revenues (expenses)	(49,860)	(34,002)
Income before costs to be recovered from revenues, capital contributions, and transfers in	9,588	1,704
Cost To Be Recovered from Revenues	11,429	10,572
Capital Contributions	99	2
Income before transfers in	21,116	12,278
Transfers In	276	806
Change in Equity	21,392	13,084
Total Equity, Beginning of Year	97,002	83,918
Total Equity, End of Year	$ 118,394	$ 97,002

LCRA Transmission Services Corporation – Segment Information
Statements of Cash Flows

(Dollars in Thousands)

	Year Ended June 30,	
	2005	2004
Cash Flows From Operating Activities		
Cash received from customers	$ 160,412	$ 100,823
Cash payments for goods and services	(79,242)	(49,215)
Net cash provided by operating activities	81,170	51,608
Cash Flows From Noncapital Financing Activities		
Other income and expenses	(3,660)	(3,570)
Net cash used in noncapital financing activities	(3,660)	(3,570)
Cash Flows From Capital and Related Financing Activities		
Expenditures for property, plant and equipment	(163,368)	(187,356)
Issuance costs	(1,897)	(2,653)
Proceeds from long-term debt issues	128,998	143,330
Proceeds from commercial paper	171,700	169,300
Principal payments on long-term debt	(38,282)	(32,704)
Interest paid	(16,881)	(6,233)
Cash received on sale of assets	92	907
Accounts receivable from LCRA	(16,939)	1,324
Capital contributions	99	2
Payment to defease and refund debt and related issue costs	(120,500)	(135,000)
Net cash used in capital and related financing activities	(56,978)	(49,083)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	34,984	15,517
Purchase of investment securities	(46,937)	(19,421)
Interest received	1,319	620
Net cash used in investing activities	(10,634)	(3,284)
Net Increase (Decrease) in Cash and Cash Equivalents	9,898	(4,329)
Cash and Cash Equivalents, Beginning of Year	21,710	26,039
Cash and Cash Equivalents, End of Year	$ 31,608	$ 21,710

LCRA Transmission Services Corporation – Segment Information
Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30, 2005	2004
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:		
Operating income	$ 59,448	$ 35,706
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	25,581	21,432
Changes in assets and liabilities:		
Accounts receivable - trade	9,050	(18,439)
Inventories	(1,096)	(401)
Current liabilities	1,636	86
Other deferred charges and long-term liabilities	(13,449)	13,224
Net cash provided by operating activities	$ 81,170	$ 51,608
Noncash Investing Activities		
Investment market adjustments	$ 111	$ (21)
Noncash Financing for Property, Plant and Equipment Expenditures		
Transfer of net property, plant and equipment and other assets related to the contractual commitment with LCRA	$ -	$ 630
Capital assets financed through short-term payables	$ -	$ 15,579

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LCRA Management Team

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Deputy General Manager, External Affairs

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Deputy General Manager, Community Services

John M. Meismer
Deputy General Manager and Chief Financial Officer

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Executive Manager, Safety Services

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Executive Manager, Human Resources

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