



ANNUAL FINANCIAL REPORT

Fiscal Years Ended September 30, 2019 and 2018



...securing the future



Lubbock Power & Light
The power is yours.

Annual Financial Report
For the Fiscal Years Ended September 30, 2019 and 2018



Annual Financial Report

Elected, Appointed and Principal Officials

City Council

Daniel M. Pope	Mayor
Jeff Griffith	Mayor Pro Tem – District 3
Juan A. Chadis	Council Member – District 1
Shelia Patterson Harris	Council Member – District 2
Steve Massengale	Council Member – District 4
Randy Christian	Council Member – District 5
Latrelle Joy	Council Member – District 6

Electric Utility Board

Daniel L. Odom	Chair
Don Boatman	Vice Chair
Greg Taylor	Secretary
Edwin E. “Butch” Davis	Board Member
Jane U. Henry	Board Member
Kevin McMahon	Board Member
Edwin Schulz	Board Member
Kelly Turner	Board Member
Gwen Stafford	Board Member
Daniel M. Pope	Ex-Officio Member

Principal Officials and Financial Management

David McCalla	Director of Electric Utilities
Richard Casner	General Counsel – LP&L
Andy Burcham	Assistant Director of Electric Utilities/CFO
Blair McGinnis	Chief Operating Officer
Ranu Manik, CPA	Financial Services Manager
Joe Jimenez	Financial Planning and Analysis Manager

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Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Introduction
September 30, 2019 and 2018

Lubbock Power and Light (LP&L) is pleased to present its Basic Financial Statements for the fiscal years ended September 30, 2019 and 2018. This report is published to provide the Electric Utility Board (Board), City of Lubbock (City), bondholders, rating agencies, representatives of financial institutions, and other interested parties detailed information concerning the financial condition of LP&L. The accompanying financial statements present only LP&L, and are not intended to fairly present the financial position or results of operations of the City.

LP&L operates the municipally owned electric utility and is an enterprise activity of the City. The Board, established on November 2, 2004, is appointed by the City Council and is empowered with the custody and management of LP&L operations. The City Council retains authority for approval of the annual budget, rates for electric service, eminent domain, and approval of debt financing.

LP&L management has prepared, and is responsible for, the financial statements and related information included in this report. Management believes that its policies and procedures provide guidance and reasonable assurance that LP&L operations are conducted according to management's intentions, and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the net position, changes in net position, and cash flows of LP&L in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report

Board of Directors
Lubbock Power & Light
City of Lubbock, Texas

Report on the Financial Statements

We have audited the accompanying basic financial statements of Lubbock Power & Light, an enterprise fund of the City of Lubbock, Texas, as of September 30, 2019 and 2018, and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lubbock Power & Light, an enterprise fund of the City of Lubbock, Texas as of September 30, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1-A to the basic financial statements, the financial statements present only Lubbock Power & Light, and do not purport to, and do not, present fairly the financial position of the City of Lubbock, Texas, as of September 30, 2019 and 2018, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1-B to the basic financial statements, Lubbock Power & Light implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* in 2018. Beginning net position was restated to reflect the change in accounting principle resulting from this statement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and pension and other post-employment benefits information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 11, 2020

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed
in Accordance With Government Auditing Standards**

Members of the Board of Directors
Lubbock Power and Light
City of Lubbock, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lubbock Power and Light, an enterprise fund of the City of Lubbock, Texas, as of and for the year ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Lubbock Power and Light's basic financial statements, and have issued our report thereon dated February 11, 2020, which included emphasis of matter paragraphs regarding the implementation of new accounting standards during 2018 and presentation relating to only the enterprise fund of the City of Lubbock.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lubbock Power and Light's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lubbock Power and Light's internal control. Accordingly, we do not express an opinion on the effectiveness of Lubbock Power and Light's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lubbock Power and Light's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Members of the Board of Directors
Lubbock Power and Light

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 11, 2020

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Management's Discussion and Analysis
September 30, 2019 and 2018

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements of Lubbock Power & Light (LP&L). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the fiscal year ended September 30, 2019 (FY 2019), compared to the fiscal year ended September 30, 2018 (FY 2018). This MD&A has been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and should be read in conjunction with the audited financial statements and accompanying notes that follow.

BASIC FINANCIAL STATEMENTS

The financial statements report information about LP&L as a whole and are prepared using accrual accounting methods utilized by similar business activities in the private sector. LP&L's annual reporting period ends September 30th of each year.

Statement of Net Position: This statement includes LP&L's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. It also provides information about the nature and amount of assets and obligations (liabilities) of LP&L and provides the basis for the evaluation of LP&L's capital structure, liquidity, financial flexibility, and overall financial health.

Assets are separated into current and noncurrent categories and are reported in the order of liquidity. Current assets include unrestricted cash and cash equivalents, investments, net accounts receivable, interest receivable, prepaid expenses, and inventories. Noncurrent assets include investments that have been restricted (by state laws, ordinances, or contracts), prepaid expenses, and net capital assets.

Deferred outflows of resources are a consumption of net assets by LP&L that are applicable to a future reporting period and are reported as a separate section following assets in the Statement of Net Position. LP&L's deferred outflows of resources include deferred charges on bond refundings, deferred outflows from goodwill, deferred outflows from pensions (contribution and investment expense) and deferred outflows from other postemployment benefits (OPEB).

Consistent with the reporting of assets, liabilities are segregated into current and noncurrent categories. Current liabilities include net accounts payable, accrued liabilities, accrued interest payable, due to related party (West Texas Municipal Power Agency, or WTMPA), customer deposits, compensated absences, notes payable, and bonds payable. Noncurrent liabilities include the SPS hold harmless payment, compensated absences, OPEB, net pension liability, and bonds payable.

Deferred inflows of resources are an acquisition of net assets by LP&L that are applicable to a future reporting period and are reported as a separate section following liabilities in the Statement of Net Position. LP&L's deferred inflows of resources include deferred inflows from pension and OPEB. Both the deferred inflows and deferred outflows are reported in accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

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The components of net position are classified as net investment in capital assets, restricted for debt service, and unrestricted. An unrestricted designation indicates the net funds are available for operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Statement of Revenues, Expenses, and Changes in Net Position: This statement presents the results of the business activities (revenues and expenses) over the course of the fiscal year and provides information about LP&L's recovery of costs. Operating revenues include charges for services, less a provision for bad debts. Operating expenses are presented by major cost categories, including personal services, supplies, maintenance, purchase of fuel and power, other services and charges, and depreciation and amortization. The remaining operating income is available to service debt, to fulfill City payment commitments, to finance capital expenditures, and to cover contingencies. Non-operating activities, which primarily relate to financing and investing, are reported separately. Other payments to the City and contributed capital are also reported separately as components of the change in net position.

Statement of Cash Flows: This statement presents cash receipts, cash disbursements, and net changes in cash resulting from operations, non-capital and related financing, capital and related financing, and investing activities.

Notes to the Financial Statements: The notes provide required disclosures and other detailed information that is essential to a full understanding of material data provided in the financial statements. The notes present information about LP&L's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events.

FINANCIAL HIGHLIGHTS

June 2019 Purchased Power Contract Changes – On May 31, 2019, the total requirements power service agreement with SPS (SPS Power Agreement) terminated. Effective June 1, 2019 several new purchased power contracts commenced, including a 400 megawatt (MW) Capacity and Energy Scheduling Contract (Capacity Agreement); a heat rate call option (Call Option); a 170 MW SPS partial requirements power purchase agreement (SPS Partial Requirements); and a 100.8 MW wind resource power purchase agreement (Wind PPA).

The Capacity Agreement was approved in March 2017, providing LP&L with 400 MW of capacity and energy scheduling beginning in June 2019 and extending through May 2021.

The Call Option was approved in March 2017, providing LP&L with a price ceiling for energy purchases by implementing a heat rate call option should Southwest Power Pool (SPP) Integrated Marketplace (IM) prices exceed the Call Option heat rate price. The price of energy can be calculated by multiplying the million British Thermal Units (MMBtu) price of natural gas by the heat rate of any given unit. Thus, the Call Option provides a dynamic ceiling that will fluctuate with the price of natural gas. In the event that prices do exceed the call option, the counterparty will reimburse LP&L for the full amount of energy purchased from the SPP IM above the call option price.

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The SPS Partial Requirements agreement was approved in October 2010, providing LP&L with 170 MW of wholesale power at an average fuel cost, determined on the basis of a Federal Energy Regulatory Commission (FERC)-approved formula base rate. The agreement commenced in June 2019 and runs through May 2044, unless terminated earlier as provided in the agreement.

The Wind PPA was approved in November 2012, and amended in April 2018, providing WTMPA, of which the City was a member until September 30, 2019, with 100.8 MW of energy from the aggregate nameplate wind generation facility located in Roger Mills and Beckham Counties, Oklahoma. The initial term of this agreement was June 2019 through May 2032. Effective September 30, 2019, 85 percent of that agreement was directly assigned to LP&L by WTMPA.

The main impacts of the new power agreements include: 1) as of June 1, 2019, LP&L no longer pays for fuel costs directly to SPS, but instead purchases energy through the SPP IM and through the Wind PPA. The energy costs in the SPP IM have fuel costs embedded in the locational marginal prices and LP&L pays for fuel indirectly through purchased energy in the market; 2) LP&L pays a lower per-kW rate on the 400 MW Capacity Agreement than it paid for capacity under the full-requirements contract; and 3) LP&L's generating units no longer serve as merchant or contracted units, but serve the native LP&L load as needed, when prices in the SPP IM exceed the cost to generate power locally. Collectively, these changes reduced purchased power costs for LP&L in FY 2019, and are expected to continue to provide savings on a going forward basis.

Purchased Power Pass-Through Rate Stability – Since December 2013, LP&L's Electric Rate/Tariff Schedule (Tariff) has provided for the recovery of all purchased power costs incurred by LP&L in serving system demand and energy requirements. The Tariff incorporates a seasonal purchased power recovery factor (PPRF), which may be adjusted a minimum of two times per year: once at the beginning of the summer season on June 1, and once at the beginning of the non-summer season on October 1.

The PPRF was established with the intent to match the pass-through revenues with actual purchased power costs over the course of a fiscal year, giving consideration to seasonal fluctuations in load and in purchased power prices. The Tariff allows for the PPRF to be adjusted more frequently if any over- or under-recovery exceeds the pre-defined maximum variance.

A PPRF cap totaling five percent of total annual forecasted purchased power costs is required by the Tariff to manage any monthly over-recovery of purchased power costs. However, during FY 2019, the cap was increased to \$24 million to provide the ability for LP&L to collect the required funds for a \$24 million hold-harmless payment due to SPS upon integration to the Electric Reliability Council of Texas (ERCOT) (see *Currently Known Facts - Hold-Harmless Payments*). If at any time the cumulative over-recovery balance is greater than the balancing account cap, a downward adjustment may be made to the PPRF rates with the intention of refunding the over-recovered amount.

Additionally, a rate stabilization fund totaling \$3.5 million is required to cushion any monthly under-recovery of purchased power costs. If at any time the cumulative under-recovered balance draws down the rate stabilization fund, an upward adjustment may be made to the PPRF rates with the intention of replenishing the rate stabilization fund.

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LP&L tracks actual revenues collected from the PPRF and compares these revenues to the actual purchased power costs incurred each month. The cumulative balance is reported to the Electric Utility Board (Board) on a monthly basis. The financial statements recognize the over-recovery as a deferred revenue in the accounts payable section on the Statement of Net Position and do not incorporate the associated revenue on the Statement of Revenues, Expenses, and Changes in Net Position. These revenues will be recognized in FY 2020-21 at the time the SPS hold-harmless payment is due, resulting in no net impact to the income statement. For more details on the PPRF over- or under-recovery changes by month (see *Table 1*):

Table 1 - PPRF Recovery by Month

PPRF Fund (in millions)	09/18	10/18	11/18	12/18	01/19	02/19	03/19	04/19	05/19	06/19	07/19	08/19	09/19
Monthly Over/(Under)	\$ -	\$ 1.6	\$ 0.6	\$ 2.3	\$ 2.8	\$ 2.6	\$ 1.4	\$ (0.7)	\$ 2.1	\$ 1.7	\$ 6.0	\$ (0.2)	\$ 1.3
Less: SPS Hold Harmless	-	-	-	-	-	-	-	-	-	(24.0)	(24.0)	(24.0)	(24.0)
Cumulative Over/(Under)	\$ 13.2	\$ 14.8	\$ 15.4	\$ 17.7	\$ 20.5	\$ 23.1	\$ 24.5	\$ 23.8	\$ 25.9	\$ 3.6	\$ 9.6	\$ 9.4	\$ 10.7

As of September 30, 2018, revenues collected from the PPRF portion of rates exceeded purchased power costs in the amount of \$13.2 million. The over-recovery continued to grow throughout FY 2019 and exceeded \$24.0 million as of May 2019, resulting in the full collection of funds for the SPS hold-harmless payment.

The original plan for collecting the funds for the SPS hold-harmless payment was to utilize the energy and capacity savings afforded by the 24-month Capacity Agreement and Call Option and to reserve the savings from June 2019 through June 2021 in order to make the one-time payment in 2021. However, due to extremely low localized natural gas prices, the over-recovery occurred much sooner than anticipated. Even with rate reductions on the PPRF (five consecutive rate reductions since the summer of 2017), purchased power costs continued to be much lower than anticipated, resulting in continued over-recovery.

PPRF rates for the months of October 2018 through May 2019 (non-summer season) were initially set to under-recover approximately \$2.6 million. Even with lower PPRF rates set for the non-summer season, the over-recovery continued to expand. A major factor was that local natural gas prices in West Texas, as measured by the Waha index, dropped due to limited pipeline capacity to transport gas out of the region. For the first eight months of calendar year 2019, Waha spot prices, which touched a record low of negative \$9 in April, averaged 73 cents, compared to \$2.10 in 2018 and \$2.80 for the past five years (2014-2018)¹. However, beginning in August 2019, the \$1.75 billion Gulf Coast Express began providing takeaway capacity, which resulted in higher next-day prices at Waha.

PPRF rates for the months of June through September 2019 (summer season) were lowered twice during this period to a level that was expected to under-recover for the remaining four months of the fiscal year. However, despite setting lower PPRF rates, the over-recovery continued to expand through the summer season. In addition to the low commodity prices and savings from entering into

¹ "Texas Waha NatGas Prices Rise Ahead of Gulf Coast Pipeline Start-Up", Sept 6, 2019: <https://www.reuters.com/article/us-usa-texas-permian-prices/texas-waha-natgas-prices-rise-ahead-of-gulf-coast-pipeline-start-up-idUSKCN1VR27U>

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new purchased power contracts on June 1, 2019, another contributing factor to the over-recovery was the annual production formula true-up from SPS that occurs annually each July. The calendar year 2018 true-up was a credit of \$4.5 million, when LP&L had anticipated a \$2.5 million charge. True-ups are allowed under a FERC form template and are provided for in the total requirements contract between SPS and WTMPA and the partial requirements contract between SPS and LP&L. Historic true-ups totaled \$2.5 million and \$0.06 million in FY 2017 and FY 2018 respectively. Both prior true-ups were a result of higher than expected costs from SPS and lower than expected energy sales volumes to spread those costs. Based on historical true-ups, management felt it was prudent to include a conservative estimate for the FY 2018-19 true-up.

As of September 30, 2019, the PPRF revenues exceed purchased power costs in the amount of \$34.7 million. Per the FY 2020 tariff that was approved by the City Council on September 10, 2019, \$24.0 million of the over-recovery is to be reserved in anticipation of the hold-harmless payment. Therefore, the \$24.0 million was moved to noncurrent liabilities in a new line item labeled "Hold harmless payment", leaving a PPRF over-recovery of \$10.7 million that is expected to be returned to customers between October 2019 and May 2020.

Unit Contingent / Power Marketing – Prior to June 30, 2019, LP&L operated the Cooke Station under a unit contingent agreement (UCA) with SPS and contracted with a power marketing company (PMC) to register the Brandon and Massengale stations in the PMC's portfolio.

The terms of the UCA required SPS to make demand payments totaling \$2,120 per MW each month and energy payments totaling \$3.50 per megawatt hour (MWh) for the Cooke Station Gas Turbines #2 (GT2) and #3 (GT3). However, no demand or energy payments were made to LP&L during the fiscal year due to unplanned outages on both units for the entirety of the fiscal year, therefore, revenues were down \$0.5 million from FY 2018.

The PMC agreement allowed the PMC to manage and procure the natural gas needed to operate the Brandon and Massengale units and allowed the PMC to bid the units into the SPP IM on LP&L's behalf since LP&L is not a registered member of SPP. In FY 2019, the total revenue produced through the PMC agreement was \$3.1 million, compared to \$4.5 million in FY 2018. Power marketing revenues decreased \$1.4 million primarily due to seven months of sales in FY 2019 compared to a full year of sales in FY 2018. Beginning on June 1, 2019, the units were used to provide capacity and energy for the LP&L load and became a part of purchased power costs. The PMC continued to manage and procure the natural gas needed to operate the Brandon and Massengale units and bid those units into the SPP IM.

Capital Program – A total of 20 new capital projects and 35 existing capital projects were funded during FY 2019, totaling \$160.0 million. The blend of funding sources used for these projects was composed of 10 percent equity and 90 percent debt. The targeted blend of financing is set at 35 percent equity and 65 percent debt in the financial model. Due to the large amount of debt funding for significant transmission upgrades related to the upgrade of a portion of the system from 69 kilovolts (kV) to 115 kV, the equity/debt target for the planning horizon has shifted to be more heavily weighted with debt through FY 2020. Beginning in FY 2021, the capital program will be largely funded with cash to offset the debt funding through FY 2020.

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The significant projects funded during the fiscal year included substation rebuild - Holly, totaling \$7.2 million; substation rebuild - Oliver, totaling \$7.6 million; future substations – New Oliver 345 kV, North Addition 345 kV, and New Wadsworth 345 kV, totaling \$6.89 million each; 115 kV line construction from the Northwest substation to the North Sub substation, totaling \$9.8 million; 115 kV line construction from the Chalker substation to the New Oliver substation, totaling \$14.7 million; 115 kV line construction from the Oliver substation to the New Oliver substation, totaling \$8.9 million; ERCOT Interconnection 345 kV Line Construction, totaling \$22.9 million; 115 kV line construction from the Northwest substation to the Mackenzie substation, totaling \$5.7 million; 115 kV line construction from the Erskine substation to the Mackenzie substation, totaling \$3.2 million; and Red Raider substation distribution feeders, totaling \$5.0 million.

A total of 18 capital projects, totaling \$15.0 million, were completed and closed in FY 2019 and were moved from construction in progress to appropriate capital asset categories. The appropriation for these projects totaled \$18.7 million; therefore, these projects were completed under budget by \$3.7 million. The significant projects completed in FY 2019 included:

- 2017-18 Underground Distribution (\$2.9 million expended, under budget \$0.2 million) – the installation of underground primary and secondary lines used to provide electric service to new and existing customers.
- 2017-18 Distribution Transformers (\$2.8 million expended, under budget \$0.02 million) – the purchase of overhead transformers, pad mount transformers, switches and enclosures used to upgrade capacity and to serve new customers.
- 2017-18 Overhead Lines (\$1.8 million expended) – the purchase of materials and the installation or extension of new overhead distribution lines to serve new and existing customers.
- 2016-17 Vehicles and Equipment (\$1.4 million expended, under budget \$0.2 million) – the purchase of new vehicles and equipment to replace existing items in the fleet that exceeded the useful life.
- T&D Grid Information Systems (\$1.3 million expended, under budget \$1.8 million) – software for Geographic Information Systems (GIS) applications, Outage Management System (OMS), Distribution Management System, and Energy Management System, and upgrades for current systems and applications. This project was completed under budget, as remaining costs were incorporated into two other capital projects that were created to handle additional GIS and supervisory control and data acquisition/OMS capital costs. These projects are 92537 – “GIS Software Upgrades and Interfaces” and 92605 – “Operation System Upgrades”, and are active projects for FY 2019-20.
- Other notable projects included T&D Center Renovations (\$1.0 million expended, under budget \$0.1 million), New Slide Road Feeders Lines (\$0.9 million expended), and FY 2019 Distribution System Upgrade (\$0.8 million expended).

Bank of America Direct Purchase Revolving Note Program – On April 23, 2019, the City Council approved the Electric Light and Power System Revenue Revolving Note Program (Program) in an aggregate principal amount not to exceed \$300 million. The City selected Bank of America, N.A. as the counterparty. The Program consists of revolving notes (Notes) that are issued on a subordinate basis to LP&L's outstanding debt. The ordinance authorizing the Program is a “parameters ordinance” that delegates authority to the Mayor, City Manager, the Chief Financial Officer of the

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City, the Director of Electric Utilities, or the Chief Financial Officer of LP&L (each an Authorized Officer) to approve the principal amount, the interest rate, the number of series, the price and the other terms of the Notes and to otherwise take such actions as are necessary and appropriate to effect the sale of the Notes.

The proceeds of Notes will mainly fund transmission and distribution facilities in the LP&L system. The facilities represent a significant investment in new power lines and substation construction related to a 69kV inner transmission loop, a 115kV outer transmission loop, and a 345kV interconnection to ERCOT. The Program is expected to be utilized through December 2021 to provide the interim financing, including the capitalization of interest during and after the period of construction of the facilities.

The Notes carry a maximum maturity date for individual notes of 364 days from the purchase date, with a rate price equivalent to 80 percent of the London Interbank Offered Rate plus a fixed spread of 34 basis points (bps). Additionally, LP&L is required to pay an "undrawn rate" (the fee paid on the balance of the Program not outstanding) of 25 bps. The undrawn fee is eliminated during any time that LP&L has at least 50 percent of the full Program amount outstanding. At the conclusion of the Program, LP&L intends to issue long-term financing to convert all outstanding principal and interest amounts.

As of September 30, 2019, LP&L had \$2.0 million outstanding in the Notes.

Debt Issuance – In FY 2019, the City issued \$12,270,000 million in General Obligation Refunding Bonds, with LP&L's share being \$4,050,000 million. The refunding bonds were issued at a premium, totaling \$519,077, and incurred issuance costs totaling \$45,743. The refunding transaction resulted in decreased total debt service requirements with over 11.7 percent savings on the refunded bonds. The true interest cost for this issuance was 3.03 percent.

Meter Growth – LP&L's meter base totaled 107,240 and 106,555 meters at September 30, 2019 and 2018, respectively. The 2019 meter increase of 0.64 percent is in line with normal growth levels within the LP&L certificated area. Approximately 74 percent of the growth was attributable to new residential meters and the remaining 26 percent was related to new commercial meters.

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RESULTS OF OPERATIONS

Table 2 - Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Program revenues			
Charges for services	\$ 211,188,949	\$ 239,178,553	\$ 243,928,151
General revenues			
Investment earnings	5,963,641	1,710,341	625,337
Other revenues (expenses)	<u>(18,252)</u>	<u>878,596</u>	<u>(1,522,772)</u>
Total revenues	<u>217,134,338</u>	<u>241,767,490</u>	<u>243,030,716</u>
 Program expenses (including interest)	 <u>187,616,615</u>	 <u>210,045,820</u>	 <u>215,207,837</u>
 Contributions	 <u>174,130</u>	 <u>300,281</u>	 <u>28,879</u>
 Excess before transfers	 29,691,852	 32,021,951	 27,851,758
Transfers	<u>(13,658,064)</u>	<u>(17,041,225)</u>	<u>(15,886,361)</u>
 Change in net position	 16,033,789	 14,980,726	 11,965,397
Net position, beginning of year *	<u>196,033,538</u>	<u>181,052,812</u>	<u>176,627,535</u>
Net position, end of year	<u><u>\$ 212,067,327</u></u>	<u><u>\$ 196,033,538</u></u>	<u><u>\$ 188,592,932</u></u>

*Restated beginning net position for FY 2018 due to change in GASB pronouncements. See Change in Net Position in the Management Discussion and Analysis.

Total Revenues

FY 2019 – Program revenues totaled \$211.2 million, representing an 11.7 percent decrease from FY 2018 (see *Table 3* below for a breakdown of program revenues by major category):

Table 3 – 2019 Program Revenues

Program Revenues	2019	2018	Change
General Consumers Metered	\$ 205,822,646	\$ 231,871,491	\$ (26,048,845)
Power Mkt / Unit Contingent	3,001,980	4,942,840	(1,940,860)
Fees, Charges, and Other	3,494,643	3,338,423	156,220
Uncollectible Accounts	<u>(1,130,320)</u>	<u>(974,201)</u>	<u>(156,119)</u>
Total	<u><u>\$ 211,188,949</u></u>	<u><u>\$ 239,178,553</u></u>	<u><u>\$ (27,989,604)</u></u>

The primary driver of reduced program revenues was a decrease, totaling \$26.0 million, in general consumers metered revenues (metered revenues). Metered revenues were down due to lower PPRF rates as a result of reduced purchased power costs throughout the fiscal year. PPRF rates were lowered on October 1, June 1, and August 1 to return a portion of over-recoveries to LP&L customers. For more detail on the breakdown of metered revenues, see *Table 4*, as follows:

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Table 4 – 2019 Metered Revenues

Metered Revenues	2019	2018	Change
Base Rates	\$ 67,524,201	\$ 68,163,375	\$ (639,174)
Purchased Power	128,960,928	153,068,258	(24,107,330)
Franchise Fee Equivalent	9,337,517	10,639,858	(1,302,341)
Total	\$ 205,822,646	\$ 231,871,491	\$ (26,048,845)

Base rate revenues were also down due to lower consumption. In FY 2019, 2,588 megawatt hours (MWh) were consumed, compared to 2,610 MWh in FY 2018. Additionally, franchise fees were down as a result of the lower base rate and PPRF rate revenues.

Program revenues were also driven lower due to a \$1.9 million reduction in power marketing/unit contingent revenues (see *Table 3* and also *Financial Highlights – Unit Contingent / Power Marketing*); an increase in uncollectible accounts (reduced revenue) as a result of an increase in past due balances greater than 90 days; offset by an increase in the “Fees, Charges and Other” category, which was driven by higher street light installations and increased work orders related to growth in LP&L’s certificated area.

General revenues, comprised mainly of investment earnings, increased from \$1.7 million in FY 2018 to \$6.0 million in FY 2019 (see *Table 2*). The large increase was a result of higher investment balances, coupled with increases to the fed funds target rate by 25bps on December 19, 2018. Rates remained elevated prior to the Federal Reserve’s moves to decrease interest rates by 25bps on July 31, 2019 and again on September 18, 2019 due to slowing national economic growth.

Other revenues changed from a net income totaling \$0.9 million in FY 2018 to a net expense totaling \$18K in FY 2019. The FY 2019 expense was mainly associated with write-offs for various substation equipment and for the Slaton transmission line that is being replaced in current capital program.

FY 2018 – Program revenues totaled \$239.2 million, representing a 1.95 percent decrease from FY 2017. See *Table 5* for a breakdown of program revenues by major category:

Table 5 - 2018 Program Revenues

Revenues	2018	2017	Change
General Consumers Metered	\$ 231,871,491	\$ 235,914,771	\$ (4,043,280)
Power Mkt / Unit Contingent	4,942,840	4,617,475	325,365
Fees, Charges, and Other	3,338,423	4,286,726	(948,302)
Uncollectible Accounts	(974,201)	(890,821)	(83,380)
Total	\$ 239,178,553	\$ 243,928,151	\$ (4,749,597)

The primary driver of reduced program revenues was a decrease totaling \$4.0 million in metered revenues. These revenues were down due to lower PPRF rates related to reduced purchased power costs, and were partially offset by the five percent base rate adjustment that became effective October

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1, 2017, totaling roughly \$3.5 million. For more detail on the breakdown of metered revenues, see *Table 6* below:

Table 6 - 2018 Metered Revenues

Metered Revenues	2018	2017	Change
Base Rates	\$ 68,163,375	\$ 64,581,198	\$ 3,582,177
Purchased Power	153,068,258	160,688,685	(7,620,427)
Franchise Fee Equivalent	10,639,858	10,644,888	(5,030)
Total	\$ 231,871,491	\$ 235,914,771	\$ (4,043,280)

Program revenues were also down due to a decrease in fees and charges, totaling \$0.9 million (see *Table 5*). The decrease was related to less revenue from reconnect fees; payment arrangement fees due to the waiver of these fees related to the unavailability of online payment arrangement setup throughout a majority of the fiscal year; and, a lower volume of outside work orders related to new construction. Uncollectible accounts increased \$0.1 million as a result of an increase in past due balances greater than 90 days. Offsetting the decreases was an increase in power marketing/unit contingent revenues, totaling \$0.3 million.

General revenues, comprised mainly of investment earnings, increased from \$0.6 million in FY 2017 to \$1.7 million in FY 2018 as a result of the Federal Reserve raising the fed funds target rate by 100 basis points (1.0 percent) during FY 2018, coupled with higher investment balances (see *Table 2*).

Other revenues changed from a net expense totaling \$1.5 million in FY 2017 to a net revenue totaling \$0.9 million in FY 2018 (see *Table 2*). The FY 2018 revenue was mainly associated with the recovery of expenditures from insurance proceeds related to the failure of gas turbine #3 (GT3) at Cooke Station. FY 2017 contrasts with FY 2018 as greater losses occurred in the disposition of assets and an accrued expense was recorded in relation to Texas Tech University System (TTUS) contract negotiations during that fiscal year.

Program Expenses

FY 2019 – Program expenses, excluding interest expense, totaled \$182.1 million, representing an 11.6 percent decrease from FY 2018 (see *Table 2*). The cost of purchased fuel and power, totaling \$129.3 million, represented 68.9 percent of total program expenses and decreased \$25.7 million from FY 2018. The breakdown of purchased power costs are shown in *Table 7*, as follows:

Table 7 - 2019 Purchased Power Costs

Purchased Power Costs	2019	2018	Change	% Change
Energy	\$ 66,742,055	\$ 80,063,004	\$ (13,320,949)	-16.6%
Demand	62,526,914	74,861,031	(12,334,117)	-16.5%
Total	\$ 129,268,969	\$ 154,924,035	\$ (25,655,066)	-16.6%

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- Energy costs decreased \$13.3 million, or 16.6 percent, due to much lower natural gas prices in the region compared to the prior year. The average price of Waha natural gas in FY 2018 was \$1.90/MMBtu and the average in FY 2019 was \$0.99/MMBtu, a 48.2 percent decrease. Natural gas prices are highly correlated to the price of energy in the SPP IM day-ahead and real-time markets as more than 25 percent of energy comes from electric generation from natural gas-fired power plants. Additional information regarding energy pricing in FY 2019 is discussed above in *Financial Highlights – Purchased Power Pass-Through Rate Stability*.
- Demand costs include capacity and transmission charges, which decreased \$12.3 million due to a significant decline in demand charges (down 24.2 percent) and a slight decrease in transmission costs (down 4.0 percent). Demand/capacity costs were down \$11.2 million in FY 2019. In FY 2018, LP&L paid an average of \$7.86 per kilowatt (kW), and in FY 2019 paid an average of \$6.78/kW. The reason for the decrease was the new contracts for demand/capacity that began in June 2019. Through the end of May 2019, LP&L paid an average of \$7.69/kW under the existing SPS Power Agreement. For June-September 2019, LP&L paid an average of \$5.32/kW under the new SPS Partial Requirements and Capacity Contract. Transmission costs were \$1.1 million lower in FY 2019. Decreased regional and zonal transmission costs to SPP were down \$3.3 million due to LP&L's lower load ratio share in SPP (based on the 2018 coincident peak demand average). Additionally, the SPP wholesale distribution service charge was down \$0.5 million related to the Federal Energy Regulatory Commission (FERC) suspending the charge due to a pending case at FERC (ER19-675-000). Offsetting these decreases was an increase in SPP Network services fees, totaling \$0.5 million, mainly due to the addition of GridLiance High Plains, a transmission-only utility, who is now operating in SPP. The revenue requirement related to the addition of GridLiance increased LP&L's network service fees. Additionally, a reduction in credits from auction revenue rights (ARRs) and transmission congestion rights (TCRs) associated with SPP transmission network costs occurred, causing an approximate \$2.2 million increase to transmission costs. ARR/TCR credits are related to TCRs associated with firm transmission rights and hedging load. In general, the net credits associated with ARR/TCR's have been trending down, as significant additional transmission has been completed and put into service. Additional transmission built in areas or regions with congestion tends to reduce congestion, and impact the cumulative net economic payback of TCR's and hedging activity.

Program expenses, excluding purchased power costs and interest expense, totaled \$52.8 million, an increase of \$1.9 million, or 3.7 percent, compared to FY 2018. The increase was mainly driven by increases in personal services and maintenance, offset by a reduction in other services and charges. The breakdown of program expenses is shown in *Table 8* below:

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Table 8 – Program Expenses, Excluding Purchased Power Costs and Interest Expense

Select Program Expenses	2019	2018	Change
Personal services	\$ 21,246,554	\$ 19,606,822	\$ 1,639,732
Supplies	1,199,646	1,014,137	185,509
Maintenance	2,972,963	2,399,163	573,800
Other services and charges	9,239,464	10,321,429	(1,081,965)
Depreciation and amortization	18,162,939	17,608,182	554,757
Select Program Expenses	\$ 52,821,566	\$ 50,949,733	\$ 1,871,833

Personal services increased \$1.6 million in FY 2019. Expenses related to pensions increased \$1.7 million (see *Note 8: Retirement Plan*) offset by a slight reduction in payroll-related personnel costs totaling just under \$0.1 million.

Supplies increased \$0.2 million primarily due to increased diesel fuel costs and supplies, such as tools and automated external defibrillators to stock every LP&L vehicle.

Maintenance increased \$0.6 million due to an increase in general maintenance of distribution lines in order to create a proactive preventive maintenance program to extend the life of the overhead distribution system. Maintenance and repairs costs also increased due to repair costs of aging vehicles.

Other Services and Charges decreased \$1.1 million in FY 2019. This decrease was largely a result of an ERCOT phase II study that was completed in FY 2018, which totaled \$1.2 million. Additionally, costs from the City decreased \$0.6 million for insurance. Offsetting the decreases was a \$0.5 million increase in information technology charges, water charges associated with running the Massengale plant more frequently, and the relocation of an aged transformer.

Depreciation and amortization expense increased \$0.6 million in FY 2019 as a result of increased depreciable capital assets relative to FY 2018.

FY 2018 - Program expenses, excluding interest expense, totaled \$205.9 million, representing a 3.1 percent decrease from FY 2017. The cost of purchased fuel and power, totaling \$154.9 million, represented 73.8 percent of total program expenses and decreased \$7.4 million from FY 2017. The breakdown of purchased power costs are shown in *Table 9*, as follows:

Table 9 – 2018 Purchased Power Costs

Purchased Power Costs	2018	2017	Change
Energy	\$ 80,063,004	\$ 91,866,161	\$ (11,803,157)
Demand	74,861,031	70,470,246	4,390,785
Total	\$ 154,924,035	\$ 162,336,407	\$ (7,412,372)

- Energy costs were \$0.2 million higher in FY 2018. LP&L's energy costs were \$0.2 million lower as a result of the tax savings mentioned above; offsetting these savings was a \$0.4 million increase in SPS' production expenses. Fuel costs decreased \$12.0 million due to the high

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correlation to natural gas prices. New York Mercantile Exchange (NYMEX) natural gas prices averaged \$2.94 per MMBtu during FY 2018 and \$3.13 per MMBtu during FY 2017. Regional prices also diverged from the NYMEX index significantly during FY 2018 as discussed above in *Financial Highlights – Purchased Power Pass-Through Rate Stability*.

- Demand costs were \$0.2 million higher in FY 2018. In FY 2017, LP&L paid an average of \$7.86 per kilowatt (kW) including the True-Up, and anticipated paying an average of \$8.14/kW in FY 2018. However, SPS paid a lower corporate tax rate in 2018 as a result of the Tax Cuts and Jobs Act of 2017 and that tax savings was passed along to SPS' wholesale customers through a reduced demand charge. LP&L ultimately paid an average of \$7.94/kW in FY 2018, mainly as a result of SPS' lower tax rate. Transmission costs were \$4.2 million higher during FY 2018. \$2.1 million of the \$4.2 million increase was attributable to increased regional and zonal transmission costs paid to SPP. \$1.3 million of the increase was explained by lower credits from auction revenue rights and transmission congestion credits associated with SPP transmission network costs. \$0.5 million of the \$4.2 million increase was related to higher SPP wholesale distribution service charges. The remaining \$0.3 million increase was related to higher SPP ancillary charges and fees.

Program expenses, excluding purchased power costs and interest expense, totaled \$50.9 million, an increase of \$0.8 million, or 1.6 percent, compared to FY 2017. The increase was mainly driven by increases in other services and charges and depreciation and amortization.

Contributions

FY 2019 – Contributions totaled \$174,130 million in FY 2019 due to right-of-way acquisitions associated with transmission construction related to the 69kV to 115kV transmission upgrade project. Contributions were down from \$300,281 million in FY 2018, but remained at elevated levels on a historical basis.

FY 2018 – Contributions increased from \$28,879 in FY 2017 to \$300,281 in FY 2018 as a result of increased right-of-way acquisitions associated with the increase in transmission construction related to the 69kV to 115kV transmission upgrade project.

Transfers

FY 2019 – Net transfers totaled \$13.7 million, down from \$17.0 million in FY 2018. The transfers were comprised of a payment to the City in lieu of property tax (PILOT), totaling \$2.0 million; a payment to the City as a franchise fee equivalent (FFE), totaling \$9.8 million; an indirect cost allocation transfer to the City to cover certain administrative costs, totaling \$1.2 million; payments to WTMPA for management and administrative services, totaling \$0.4 million; a payment to the City's Debt Service Fund to fund LP&L's portion of the Citizen's Tower debt service, totaling \$1.1 million; a payment to the City's General Fund for LP&L's participation in an asset management system, totaling 0.5 million; offset by a transfer-in totaling \$1.3 million from the Water, Wastewater, Storm Water and Solid Waste funds constituting those utilities' share of the Citizen's Tower debt service related to the City of Lubbock Utilities. The overall decrease in transfers was primarily due to lower PILOT and FFE transfers, as a result of lower metered revenues; a reduced transfer to the City's Debt Service Fund for Citizen's Tower debt service as the transfer in FY 2018 was a true-up for all past Citizen's Tower

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debt service payments; a reduced transfer to WTMPA as that relationship concludes; offset by a one-time transfer to the City's General Fund for the asset management system.

FY 2018 – Net transfers totaled \$17.0 million, up from \$15.9 million in FY 2017. The transfers were comprised of a PILOT, totaling \$2.2 million; an FFE payment, totaling \$11.0 million; an indirect cost allocation transfer to the City to cover certain administrative costs, totaling \$1.1 million; payments to WTMPA for management and administrative services, totaling \$1.5 million; a payment to the City's Debt Service Fund to fund LP&L's portion of the Citizen's Tower debt service, totaling \$2.5 million; offset by a transfer-in totaling \$1.3 million from the Water, Wastewater, Storm Water and Solid Waste funds constituting those utilities' share of the Citizen's Tower debt service related to the City of Lubbock Utilities. The overall increase in transfers is primarily due to the Citizen's Tower debt service.

Change in Net Position

FY 2019 – Net position for FY 2019 and FY 2018 was \$212.1 million and \$196.0 million, respectively.

FY 2019 income before transfers, totaling \$29.7 million, was \$2.3 million lower than the FY 2018 income due to a \$24.6 million decrease in total revenues, a \$0.1 million decrease in capital contributions (easements), and a \$22.4 million decrease in program expenses. Additionally, transfers decreased \$3.3 million from \$17.0 million in FY 2018 to \$13.7 million in FY 2019. Overall, LP&L's change in net position was a gain totaling \$16.0 million in FY 2019 compared to a gain totaling \$15.0 million in FY 2018, reflecting a year-to-year change in net position, totaling \$1.0 million.

FY 2018 - Net position for FY 2018 and FY 2017 was \$196.0 million and \$181.1 million (as restated), respectively. Due to the adoption of GASB 75, the FY 2017 net position was restated as required by first eliminating the existing OPEB liability totaling \$9.4 million and then recording a prior period adjustment to recognize the current OPEB liability totaling \$16.9 million. Both of these adjustments were netted against Net Position, resulting in a downward restatement of previously reported net position, totaling \$7.5 million.

FY 2018 income before transfers, totaling \$32.0 million, was \$4.2 million higher than the FY 2017 income due to a \$1.3 million decrease in total revenues, a \$0.3 million increase in capital contributions (easements), and a \$5.2 million decrease in program expenses. Additionally, transfers increased \$1.2 million from \$15.9 million in FY 2017 to \$17.0 million in FY 2018. Overall, LP&L's change in net position was a gain totaling \$15.0 million in FY 2018 compared to a gain totaling \$12.0 million in FY 2017 (before restatement), reflecting a year-to-year change in net position, totaling \$3.0 million.

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FINANCIAL POSITION

Condensed Statements of Net Position

Table 10 - Condensed Statements of Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets:			
Current assets	\$ 143,738,843	\$ 119,993,463	\$ 102,917,610
Capital assets, net	291,810,384	232,985,627	221,115,360
Noncurrent investments	81,667,434	135,717,814	46,994,423
Prepaid Expenses	1,344,442	1,477,776	1,611,109
Total assets	<u>518,561,103</u>	<u>490,174,680</u>	<u>372,638,502</u>
Deferred outflows of resources	<u>10,730,633</u>	<u>5,264,975</u>	<u>8,961,138</u>
Liabilities:			
Current liabilities	68,173,186	61,828,870	46,561,417
Noncurrent liabilities	247,164,661	234,121,088	145,839,744
Total liabilities	<u>315,337,847</u>	<u>295,949,958</u>	<u>192,401,161</u>
Deferred inflows of resources	<u>1,886,562</u>	<u>3,456,159</u>	<u>605,547</u>
Net position:			
Invested in capital assets, net of related debt	150,712,020	128,869,898	129,981,725
Restricted	17,745,364	20,372,130	10,354,109
Unrestricted	43,609,943	46,791,510	48,257,098
Total net position	<u><u>\$ 212,067,327</u></u>	<u><u>\$ 196,033,538</u></u>	<u><u>\$ 188,592,932</u></u>

Current Assets

FY 2019 – Current assets at September 30, 2019, totaling \$143.7 million were \$23.7 million higher than the balance at September 30, 2018, mainly due to a \$27.8 million increase in pooled cash and cash equivalents. The increase was offset by a decrease totaling \$4.1 million in receivables.

Pooled cash and cash equivalents increased mainly due to increased cash inflows related to the over-recovery of purchased power costs, the inflow of cash related to investing activities, and lower transfers-out, all offset by higher cash outflows related to capital investment.

The \$4.1 million decrease in accounts receivable was due primarily to lower metered revenues because of reduced power costs. Compared to the prior fiscal year, metered revenues were down 14.6% in the June to September 2019 timeframe, which corresponds to the 13.4% reduction in receivables between fiscal years. For more detail on Receivables, see *Table 11* as follows:

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Table 11 – 2019 Receivables

Receivables	2019	2018	Change
Change in Non-PPRF Receivables	\$ 26,379,590	\$ 30,471,794	\$ (4,092,204)

FY 2018 - Current assets at September 30, 2018, totaling \$120.0 million were \$17.1 million higher than the balance at September 30, 2017, mainly due to a \$20.9 million increase in investments and a \$0.1 million increase in inventory. The increases were offset by a decrease totaling \$0.5 million in cash and cash equivalents and due to a decrease totaling \$3.4 million in accounts receivables.

Cash and cash equivalents and investments collectively increased \$20.4 million mainly as a result of the October 1, 2017 base rate adjustment, totaling \$3.5 million, and the over-recovery of PPRF revenues as discussed in the Financial Highlights section, totaling \$18.0 million.

The \$3.4 million decrease in accounts receivable was due primarily to eliminating the PPRF receivable (under-recovery of PPRF) through the over-recovery of purchased power expenses during FY 2018 as further discussed in the Financial Highlights section. For more detail on Receivables, see *Table 12* as follows:

Table 12 - 2018 Receivables

Receivables	2018	2017	Change
PPRF Receivables	\$ -	\$ 4,781,760	\$ (4,781,760)
Non-PPRF Receivables	30,471,794	29,155,894	1,315,900
Change in Non-PPRF Receivables	\$ 30,471,794	\$ 33,937,654	\$ (3,465,860)

Capital Assets, Net

FY 2019 - At September 30, 2019, net capital assets, totaling \$291.8 million, increased \$58.8 million – from \$233.0 million at September 30, 2018 – due to capital spending outpacing depreciation for the acquisition and development of capital assets. The largest increases were found in the Distribution Plant, Transmission Plant, and Construction in Progress line items. The changes in Transmission Plant and Construction in Progress were largely related to the work associated with LP&L's completed and/or ongoing 69kV to 115kV upgrade projects.

FY 2018 – At September 30, 2018, net capital assets, totaling \$233.0 million, increased \$11.9 million from \$221.1 million at September 30, 2017, due to capital spending outpacing depreciation for the acquisition and development of capital assets. Net capital assets were relatively constant due to the stability of LP&L's certificated area and were mainly comprised of generating units, substations, electric meters, and distribution and transmission lines. The largest increases were found in the Distribution Plant line item and in the Construction in progress line item. Construction in progress was largely comprised of work associated with LP&L's transmission and distribution upgrades.

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Noncurrent Assets

FY 2019 – Noncurrent restricted assets (including restricted investments and prepaid expenses) totaled \$83.0 million at September 30, 2019, a decrease totaling \$54.2 million compared to September 30, 2018. The decrease was mainly attributable to the expenditure of bond proceeds, totaling \$54.1 million, of which 72.6 percent was expended from the 2018 Series of Electric Light & Power Revenue Bonds.

FY 2018 - Noncurrent restricted assets (including restricted investments and prepaid expenses) totaled \$137.2 million at September 30, 2018, an increase totaling \$88.6 million compared to September 30, 2017. The increase was attributable to the bond issuance in July 2018, with a par amount totaling \$93.9 million, offset by bond fund expenditures throughout the fiscal year.

Current Liabilities

FY 2019 – Excluding current maturities of debt totaling \$20.5 million, current liabilities increased \$4.4 million, from \$43.2 million at September 30, 2018, to \$47.6 million at September 30, 2019. The increase was primarily related to an increase in accounts payable associated with third-party purchased power invoices, an increase in customer deposits, and an increase in bonds/notes payable, offset by a reduction in Due to Related Party line item (WTMPA) due to the termination of the full-requirements contract with SPS.

Accounts payable increased \$14.1 million, with a \$15.6 million increase related to purchased power. Historically, all payables related to purchased power were recorded in the Due to Related Party line item. The historical payments were made to WTMPA, which is a component unit of the City, and therefore a related party. As of June 1, 2019, all purchased power payments were made to third parties, and those amounts were recorded in accounts payable. The Due to Related Party liability decreased \$10.2 million due to a smaller amount owed to WTMPA as a result of lower purchased power costs in September 2019, compared to September 2018.

Additionally, FFE revenues collected from customers but not yet earned as a result of the PPRF over-recovery increased accounts payable approximately \$1.0 million. Offsetting the increases from accounts payable and FFE payable, PPRF payables decreased \$2.5 million due to a lower amount of over-recoveries recorded at fiscal year-end (see *Financial Highlights – Purchased Power Pass-Through Rate Stability*). For more detail on Payables, see *Table 13* below:

Table 13 - 2018 Accounts Payable

Accounts Payable	2019	2018	Change
PPRF Payable	\$ 10,705,678	\$ 13,203,141	\$ (2,497,463)
FFE Payable	1,655,795	660,157	995,638
Accounts Payable	20,709,147	5,098,815	15,610,333
Total Accounts Payable	\$ 33,070,620	\$ 18,962,113	\$ 14,108,507

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Accrued interest payable increased \$1.0 million, with the majority of the increase related to the 2018 debt issuance. Accrued liabilities decreased \$1.8 million, related to the payment of accrued customer account credits due to TTUS during FY 2019.

The increase in customer deposits was due to a new deposit requirement in the Tariff, effective October 1, 2018, that increased residential deposits from \$135 to 2 months of the reasonable and good-faith estimate of annual billings of the premise (whichever is greater). Offsetting the increase of residential deposits, were deposit refunds, totaling \$0.8 million, which were related to the deposit refund program that became effective in October 2015. The deposit refund program automatically refunds customers their initial deposit if they meet certain requirements, such as excellent credit, current account status, and a minimum one-year customer status. Under the terms of the deposit refund program, LP&L refunded 5,995 deposits in FY 2019.

The notes payable category was created this year related to the issuance of \$2 million in short-term notes (see *Financial Highlights – Bank of America Direct Purchase Revolving Note Program*).

FY 2018 - Excluding current maturities of debt totaling \$18.6 million, current liabilities increased \$12.6 million, from \$30.6 million at September 30, 2017, to \$43.2 million at September 30, 2018. The increase was primarily related to an increase in accounts payable associated with the PPRF over-recovery, in addition to routine accounts payable and increased accrued interest, offset by lower due to related party, accrued liabilities, and customer deposits.

Accounts payable increased \$17.4 million, with \$13.2 million of that amount related to the PPRF over-recovery as discussed in the *Financial Highlights – Purchased Power Pass-Through Rate Stability* section. Additionally, \$0.7 million of the increase was associated with FFE revenue collected from customers but not yet earned as a result of the PPRF over-recovery. The remaining \$3.6 million of increase was mainly related to capital expenditures in FY 2018.

Accrued interest payable increased \$1.0 million, with the majority of the increase related to the 2018 debt issuance.

The due to related party liability decreased \$3.3 million due to a smaller amount owed to WTMPA as a result of lower purchased power costs in September 2018, compared to September 2017. Accrued liabilities decreased \$2.5 million, with \$2.2 million of the decrease related to the payment of customer account credits to TTUS during FY 2018. The remaining \$0.3 million was comprised of a \$0.2 million decrease for environmental remediation at Cooke Station and \$0.1 million in decreased accrued liabilities for routine payables related to wages and sales tax.

The decrease in customer deposits was due to deposit refunds, totaling \$0.8 million, related to the deposit refund program that became effective in October 2015, offset by deposits from new customers totaling \$0.7 million. The deposit refund program automatically refunds customers their initial deposit if they meet certain requirements, such as excellent credit, current account status, and a minimum one-year customer status. Under the terms of the deposit refund program, LP&L refunded 5,967 deposits in FY 2018.

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Other Noncurrent Liabilities

FY 2019 – Excluding the noncurrent portion of debt totaling \$177.3 million, long-term liabilities increased \$34.4 million to \$69.9 million at September 30, 2019. This increase was driven by a \$24.0 million reserve for the SPS hold harmless payment (see *Currently Known Facts - Hold-Harmless Payments*), a \$0.2 million increase in OPEB, a \$10.0 million increase in net pension liability and a \$0.2 million increase in long-term compensated absences.

The net pension liability increased \$10.0, driven mainly by negative investment returns in plan year 2018. Investment income totaled \$14.5 million, a return of 13.78 percent, in plan year 2017 and investment losses totaled \$3.6 million, a loss of 2.1 percent, in plan year 2018. The negative return in plan year 2018 was well below TMRS' investment return assumption of 6.75 percent (see *Note 8: Retirement Plan* in the Notes to the Financial Statements for more details).

FY 2018 - Excluding the noncurrent portion of debt totaling \$198.6 million, long-term liabilities increased \$2.3 million to \$35.6 million at September 30, 2018. This increase was driven by a \$10.0 million increase in other postemployment benefits (OPEB) offset by a \$7.5 million decrease in net pension obligation and a \$0.2 million decrease in long-term compensated absences.

OPEB increased \$10.0 million as a result of the implementation of *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 requires that government entities report the full balance of the OPEB liability on the face of the financial statements, whereas the full balances were historically reported in the Required Supplementary Information section of the Annual Financial Report.

For calendar year 2018, the following changes to the health benefits plan were implemented: post-65 retirees were no longer included in the health benefit plan but were given a \$150/month stipend to supplement the cost of choosing a Medicare plan; employees began paying \$20/month toward their healthcare premiums; deductibles and co-pays increased; and the City's health benefit plan was no longer grandfathered under the Affordable Care Act.

The net pension liability decreased \$7.5 million as a result of improved net investment income within the pension fund, offset slightly by higher benefit payments.

Net Position

FY 2019 – Total net position increased \$16.0 million, from the FY 2018 net position of \$196.0 to \$212.0 million in FY 2019. The subcomponents of net position changed as follows: (i) net investment in capital assets increased \$21.8 million mainly due to a \$58.8 million increase in net capital assets, a \$19.3 million reduction in bonds payable, and a \$2.6 million reduction in the debt service reserve fund, offset by a \$58.1 million decrease in bond proceeds, a \$0.4 million charge on refunding, and \$0.4 million in retainage; (ii) restricted for debt service decreased in the amount of \$2.6 million as described in the next paragraph; and (iii) unrestricted net position decreased \$3.2 million.

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The \$17.7 million balance in restricted for debt service is related to the capitalized interest fund established as a result of the 2017 and 2018 revenue bond issuances, totaling \$7.8 million; the debt service reserve fund, totaling \$8.1 million; and the interest and sinking fund, totaling \$1.9 million. The amount of capitalized interest remaining at September 30, 2019 was \$1.6 million for the 2017 Revenue Bonds and \$6.1 million for the 2018 Revenue Bonds. These funds are established by bond covenants in order to make principal and interest payments on these bond issuances until LP&L enters ERCOT and begins receiving transmission cost of service (TCOS) revenues to cover the annual debt service requirements.

FY 2018 – Total net position increased \$15.0 million, from a restated FY 2017 net position of \$181.0 to \$196.0 million in FY 2018. The subcomponents of net position changed as follows: (i) net investment in capital assets decreased \$1.1 million mainly due to a \$76.3 million increase in bond proceeds and a \$11.9 million increase in net capital assets, offset by an \$88.7 million increase in principal amounts owed to bondholders; (ii) restricted for debt service increased in the amount of \$10.0 million as described in the next paragraph; (iii) unrestricted net position decreased \$1.5 million; and (iv) the restatement of beginning net position related to the GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions pronouncement, reduced the prior year net position in the amount of \$7.5 million.

The \$20.3 million balance in restricted for debt service is related to the capitalized interest fund established as a result of the 2017 and 2018 revenue bond issuances, totaling \$10.0 million; the debt service reserve fund, totaling \$8.5 million; and the interest and sinking fund, totaling \$1.8 million. The amount of capitalized interest remaining at September 30, 2018 for each bond series was \$2.3 million for the 2017 Revenue Bonds and \$7.7 million for the 2018 Revenue Bonds.

LONG-TERM DEBT

FY 2019 – As of September 30, 2019, LP&L's total outstanding debt was \$197.8 million. Bonds payable was comprised of \$25.1 million in certificates of obligation, \$151.6 million in revenue bonds, \$2.0 million in short-term notes payable, and \$19.2 million in bond premiums. All outstanding debt is comprised of fixed interest rate instruments.

Advance Refunding – In April 2019, the City issued \$12.27 million General Obligation Refunding Bonds, Series 2019, with LP&L's portion being \$4.05 million. This refunding transaction resulted in decreased total debt service requirements and a 11.72 percent savings on the refunded bonds. The true interest cost for this issue, which consists of serial bonds with maturities in 2020 through 2030, is 3.03 percent.

Reductions – In addition to the refunding described above, that resulted in a reduction in long-term debt outstanding, LP&L made principal payments totaling \$15.5 million on its revenue bonds and \$3.5 million on its certificates of obligation.

FY 2018 – As of September 30, 2018, LP&L's total outstanding debt was \$217.1 million. Bonds payable was comprised of \$28.5 million in certificates of obligation, \$167.1 million in revenue bonds,

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and \$21.5 million in bond premiums. All outstanding debt is comprised of fixed interest rate instruments.

New Issuance – In July 2018, LP&L issued the par amount of \$93.9 million in Electric Light and Power Revenue Bonds, Series 2018. The true interest cost for this issuance, which has maturities in 2018 through 2048, was 3.64 percent. Bond proceeds were issued for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, and/or equipping property, buildings, structures, facilities, and/or related infrastructure for LP&L's system.

Advance Refunding – In April 2018, the City issued approximately \$96.2 million General Obligation Refunding Bonds, Tax-Exempt Series 2018, with LP&L's portion being approximately \$0.5 million. This refunding transaction resulted in decreased total debt service requirements and a 4.01 percent savings on the refunded bonds. The true interest cost for this issue, which consists of serial bonds with maturities in 2018 through 2030, is 2.76 percent.

Reductions – In addition to the refunding described above, that resulted in a reduction in long-term debt outstanding, LP&L made principal payments totaling \$11.5 million on its revenue bonds and \$4.4 million on its certificates of obligation.

CURRENTLY KNOWN FACTS

Future Power Supply – On October 20, 2015, the Board and the City Council both took formal action to authorize LP&L to seek interconnection of 470 MW of LP&L's load (Affected Load) with ERCOT. LP&L did not seek to connect the remaining, approximately 170 MW of electric load to ERCOT (Unaffected Load). Since that time, LP&L has endeavored to gain regulatory approval to move the Affected Load from SPP to ERCOT, and has obtained that approval from the Public Utility Commission (PUC). The reasoning for this move, and steps that LP&L and regulatory authorities have taken to facilitate this move, are described in the following sections:

Expiration of SPS Power Agreement and Future Power Supply: Through May 31, 2019, LP&L was served by the SPS Power Agreement, which was executed in 2004 between WTMPA and SPS. Prior to the termination of the SPS Power Agreement in 2019, LP&L completed (from 2013 to 2015) thorough reviews of its operations and finances, focusing on the future. Based on its studies, LP&L anticipated that the City would require approximately 640 MW of total generation by June 2019 to supply its projected customers.

LP&L explored all options for a future power supply beyond the expiration of the SPS Power Agreement, including the possibility of new power purchase agreements, tolling agreements, new generation, partnerships with other utilities, or a combination of each. LP&L's consultant, Black & Veatch Corporation (Consultant), completed evaluations to enable central decisions as to whether the power supply should be from a power purchase/tolling agreement or self-built generation. The scope of work with the Consultant included a site selection study, electrical interconnect assessment, water/wastewater assessment, natural gas supply assessment, analysis on participation in the SPP IM, self-build cost and performance estimates, operations and maintenance assessments, licensing and

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permitting assessment, technology selection, assistance regarding a request for proposal (Power Supply RFP) for power supply, and negotiation support with a potential proposer.

In July 2014, LP&L issued the Power Supply RFP for capacity and energy supply services for the purchase of some or all of the capacity needed in 2019. Responses to the Power Supply RFP were due on October 7, 2014. After a methodical and purposeful examination of all proposals and options, LP&L decided to take down the Power Supply RFP on August 11, 2015 and announced on September 24, 2015 the intent to join ERCOT.

LP&L estimated that a possible interconnection with ERCOT would not be possible by June 2019; therefore, the utility endeavored to identify a capacity and energy supply after the expiration of the SPS Power Agreement on May 31, 2019. Ultimately, the Board and City Council approved the Capacity Agreement in March 2017, providing LP&L with 400 MW of capacity and energy scheduling beginning in June 2019 and extending through May 2021. A separate agreement provided a price ceiling for energy purchases by implementing a heat rate call option should SPP IM prices exceed the contract heat rate price. The City believes that the signing of these contracts secured affordable and reliable power for the transition period between the expiration of the SPS Power Agreement and the interconnection with ERCOT.

The Electric Reliability Council of Texas: Founded in 1970, ERCOT became the primary overseer of Texas' power grid and the independent system operator for a region that serves 90 percent of the state's electric load, or approximately 25 million customers. Since not all of Texas is deregulated, including the City of Lubbock, ERCOT manages the areas both where residents have the power to choose a retail electric provider, and other areas what are not open to retail electric choice, including municipalities and cooperatives that retain the local option to deregulate. ERCOT schedules power on an electric grid that connects more than 46,500 miles of transmission lines and more than 650 generating units.

ERCOT Integration Request Process: The formal process related to LP&L's integration of the Affected Load into ERCOT included integration studies, a PUC project to identify issues pertaining to LP&L's proposal to become part of ERCOT, cost-benefit studies, a public interest determination and a Certificate of Convenience and Necessity (CCN) case. ERCOT's integration study determined that a configuration of transmission projects with three connection points between the ERCOT grid and the LP&L system—designated as Option 4ow—would present the lowest societal costs once capital costs and production cost effects were considered.

In September 2017, LP&L filed its application in PUC Docket No. 47576, *Application of the City of Lubbock through Lubbock Power and Light for Authority to Connect a Portion of Its System with the Electric Reliability Council of Texas* (Application). Through the Application, LP&L sought PUC authority to disconnect the Affected Load from SPP and to connect to ERCOT, along with related findings that would facilitate LP&L's integration into the ERCOT system, consistent with the public interest.

In March 2018, the PUC approved the integration of the Affected Load to the ERCOT system through an Order in PUC Docket No. 47576. With approval by the PUC, LP&L then moved into the next phase of the ERCOT integration project, which was comprised of four CCN cases necessary to identify transmission line routes and substation locations necessary for the ERCOT integration.

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The four CCN cases have either been approved or are in the final stages of PUC consideration. Following the approval of the CCNs, engineering, right-of-way acquisition and construction will commence. Assuming the timely completion of construction of such transmission assets, the integration of the Affected Load is expected to take place on June 1, 2021.

ERCOT Transmission Assets and Approval Process: New transmission line routes and substation locations necessary for the ERCOT integration are identified in the CCN cases that are presented to the PUC. There are four different CCN's associated with the ERCOT interconnection:

- PUC Docket No. 48625 - Ogallala to Abernathy—final order signed on September 26, 2019
- PUC Docket No. 48668 - Abernathy to Wadsworth—final order signed on December 13, 2019
- PUC Docket No. 48909 - Wadsworth to Farmland—final order signed on January 23, 2020
- PUC Docket No. 49151 - Abernathy to North—pending PUC approval

Construction cannot begin until the CCN applications are approved. After approval, easements are expected to be secured within a three to six month period. Additionally, after the routes are determined, engineering work can begin, which will take approximately six months to complete (some engineering has been completed in advance of CCN approvals). Certain long-lead materials such as steel, conductor, and autotransformers have been ordered prior to approval of the CCN applications to facilitate the expedited construction schedule.

LP&L currently estimates the cost of additional infrastructure necessary for LP&L to integrate into ERCOT at approximately \$400 million, of which approximately one half will be owned by LP&L and the other half to be owned by Oncor Electric Delivery Company, LLC (Oncor). LP&L's cost to fund the needed additional infrastructure will be funded through short-term financing during the construction phase and converted to long-term financing upon substantial completion. Additionally, capital projects currently included in LP&L's existing long-term capital improvement plan are related to reliability and will cover a portion of system improvements necessary prior to a final transition.

Participation Agreement: On August 21, 2018, LP&L and Sharyland Utilities, LLC (Sharyland) approved a Participation Agreement that sets forth the rights, responsibilities, and expectations of Sharyland and LP&L in connection with the LP&L integration to ERCOT and memorializes the terms and conditions regarding, (i) the ownership allocation between LP&L and Sharyland, (ii) the CCN applications, (iii) the engineering, design, and construction of the facilities, (iv) LP&L's payment obligations to Sharyland for their services for the construction of the LP&L's transmission assets, and the LP&L integration to ERCOT, (v) the coordination necessary to ensure successful completion of the LP&L integration, and (vi) the subsequent transfer of LP&L's transmission assets and, to the extent applicable, the LP&L CCN rights from Sharyland to LP&L. Effective May 16, 2019, Oncor became the successor, by merger and acquisition of Sharyland, to the Participation Agreement. As a result, Oncor has begun acquiring real property interests necessary for the ERCOT integration and will shortly begin construction activities.

Transmission Cost of Service Revenues: LP&L intends to file a TCOS rate application with the PUC in 2020 in order to earn a rate of return on its transmission assets. These revenues (to be collected from all load serving entities in ERCOT) are anticipated to approximate at least 1.5x the annual debt service on obligations issued to finance transmission assets that are constructed in or transferred into

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ERCOT. This new revenue stream will commence upon LP&L's entry to ERCOT. The TCOS revenues are anticipated to begin in FY 2020-21.

Hold Harmless Payments: PUC Docket No. 47576 requires that upon integration to ERCOT on June 1, 2021, LP&L will make a one-time payment totaling \$24.0 million to SPS to indemnify SPS and its customers for LP&L's integration into ERCOT. LP&L utilized the energy and capacity savings afforded by very low natural gas prices and the Capacity Agreement and reserved \$24.0 million from this savings prior to the end of FY 2018-19.

In addition to the SPS Hold Harmless Payment, the PUC ordered LP&L to pay \$22 million each year for the first five years upon integration into the ERCOT market. The funds will be credited to ERCOT wholesale transmission customers to mitigate integration costs. This amount will be netted against the TCOS revenues received from ERCOT.

Opt-In to Retail Competition: In January 2018, the Lubbock City Council and the Board announced their intent to study the feasibility of opting-in to retail customer choice for the Affected Load. Pending the results of an opt-in study, it was anticipated that LP&L could potentially opt-in to the ERCOT competitive retail market as early as shortly after integration of the Affected Load into ERCOT. The feasibility study is currently underway.

Portion of LP&L's Load Remains in SPP: The Unaffected Load is expected to remain in SPP after the Affected Load transfer has been effectuated. The Unaffected Load is expected to be served by the SPS Partial Requirements agreement, and the Wind PPA. LP&L intends to honor the terms of the SPS Partial Requirements agreement.

The acquisition of SPS' distribution system in 2010 included 19 delivery points that are served off SPS' transmission system. LP&L acquired only distribution assets and SPS retained ownership of its transmission system. The acquired system will remain in SPP and will be electrically isolated from LP&L's transmission and distribution system that will move to ERCOT.

Deletion of Lubbock from the West Texas Municipal Power Agency (WTMPA) – Effective October 1, 2019, at the request of Lubbock and as a result of concurrent ordinances enacted by all members of WTMPA, Lubbock was deleted as a member public entity of WTMPA.

Since 1983, LP&L was a member of WTMPA, a municipal power agency formed under Article 1435a, Vernon's Annotated Texas Civil Statutes, as amended (now codified as Chapter 163, Texas Utilities Code) by concurrent ordinances adopted by the governing bodies of the City, the City of Brownfield, the City of Tulia, and the City of Floydada (the "Member Cities"). WTMPA is a separate municipal corporation, a political subdivision of Texas and body politic and corporate.

Prior to its deletion, the City's percentage of rights and liabilities in WTMPA was 85.21%. WTMPA was the contract purchaser of power under (i) a total requirements power purchase agreement with SPS; and (ii) a wind energy power purchase agreement. The total requirements power purchase contract expired at the end of May 2019. The wind energy power purchase agreement commenced on June 1, 2019 and expires on May 31, 2032. Lubbock's portion of the wind energy power purchase agreement (85%) was assigned by WTMPA to Lubbock, effective September 30, 2019.

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Due to the termination of the total requirements power purchase agreement with SPS and the assignment of the wind energy power purchase agreement, there were no obligations that impeded the deletion of Lubbock from WTMPA.

Concurrent ordinances enacted by all members of WTMPA were required by law to complete the deletion of Lubbock as a member of WTMPA. The concurrent ordinance presented to the Lubbock City Council for consideration provided (i) for the deletion of Lubbock as a member of WTMPA; and (ii) for several other matters that pertained to the re-creation of the “new” WTMPA (i.e., without Lubbock as a member) and organization of the re-created WTMPA, which were not applicable to Lubbock. The concurrent ordinances were effective on October 1, 2019.

LP&L worked with WTMPA's accountant and the City's external auditors, to expedite the year-end review and financial audit of WTMPA. The concurrent ordinance contemplated the completion of the external audit on or before ninety days after the effective date of the re-created WTMPA. Upon completion of that audit, the re-created WTMPA is required to remit to the City 85.21% of all applicable assets, less any current liability obligations. True-ups to these remittances are expected to occur throughout a prescribed 24-month period after the effective date of the re-created WTMPA.

Customer Service Information Systems – LP&L manages and operates the customer service department (City of Lubbock Utilities) for the utility in addition to performing customer service and billing services for the other city-owned utilities, including water, wastewater, storm water and solid waste. The City of Lubbock Utilities is included in LP&L's budget with 48.38% of all costs reimbursed from the other city-owned utilities. The City of Lubbock Utilities currently utilizes an aged computer information system (CIS) for its billing and customer service platform. The current system is outdated, inflexible, and does not allow for new or innovative rate structures without expensive custom coding and time-consuming workarounds. In FY 2016, a capital project was created to replace the CIS system. In the process of studying the potential CIS upgrades, it became clear that more than just a CIS system was needed if the utilities were going to offer the types of services and benefits that customer's demand in an increasingly digital world. At that time, the process began to define the scope of the utilities' needs, to write the request for proposal (CIS RFP), to evaluate the CIS RFP responses and ensure a smooth implementation process.

The City of Lubbock Utilities determined that in addition to the CIS upgrade, the following items were needed to provide the type of information and customer service that customers demand:

- Advanced Metering Infrastructure (AMI) – an integrated system of meters and communications networks that involves the ability to record consumption of electric and water services in intervals of an hour or less and communicates that information at least daily to the utility for monitoring and billing
- Meter Data Management (MDM) – long-term data storage and management for large quantities of data delivered by AMI – the data consists primarily of interval data and meter events

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- Mobile Workforce Management (MWFM) – a category of software and related services used to manage employees working outside the company premises; the term is often used in reference to field teams

Requirements gathering for the CIS/MDM and AMI systems, project planning, and scope were finalized in FY 2017. In FY 2018, Itron was selected as the AMI vendor to install and utilize its OpenWay Riva metering technology to meet the needs of the City's future electric and water utilities. Additionally, Oracle was selected as the CIS/MDM vendor to utilize its Customer Cloud Solution (CCS) to upgrade the City's utility billing system.

Beginning in April 2019, Itron actively deployed electric and water meters throughout the entire service territory. As of September 30, 2019, deployment was 50% complete, with electric at 65% and water at 32%. City of Lubbock Utilities expects to be substantially complete with AMI installations by the second quarter of FY 2020.

City of Lubbock Utilities began billing customers in May 2019, taking advantage of the AMI meter data. Measurement of the impact to operations through reduced reading exceptions, high/low investigations, and re-reads began in October 2019. At end of calendar year 2019, the primary focus shifted to the CIS/MDM project and overall change management. The CIS Project, which includes MDM and MWFM components, will go live in FY 2020. Once live, there is expected to be over 300 internal end users spanning eight City departments.

Base Rate Adjustment – Rates are set by the Board and approved by the Lubbock City Council. On September 10, 2019, the City Council approved a tariff to become effective on October 1, 2019 that did not include a base rate increase. The long-term financial model does not anticipate a base rate adjustment in the near future.

Economic Factors – The Department of Energy, via the U.S. Energy Information Administration (EIA), forecasts key energy economic indicators in the United States. Key economic factors that will play a role in operations for FY 2020 as reported by the EIA are as follows:

- Natural Gas Prices – The EIA expects the NYMEX natural gas spot price to average \$2.45 per MMBtu in calendar year 2020, compared with \$2.59 per MMBtu in calendar year 2019.
 - Although NYMEX prices are projected to slightly decrease in 2020, natural gas prices in West Texas as measured by the Waha index are expected to remain much lower than, and disconnected from, NYMEX through late-2020. The disconnect is related to the limited export capacity for natural gas coming out of the Permian Basin.
 - High natural gas production and lack of takeaway infrastructure has led to negative pricing and gas flaring in the Permian. The basin-wide flaring began to ease as the 2 billion cubic feet per day (BCFD) Gulf Coast Express pipeline entered service in September 2019 and will ease further with the addition of the 2-BCFD Permian Highway, which is scheduled to come online in late 2020. As the pipelines enter service, gas prices are expected to normalize to their historical relationship levels with NYMEX pricing.

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- Natural gas is a by-product of crude oil production and the excess supply of natural gas could slow dramatically should the price of crude oil drop below expectations. EIA forecasts that West Texas Intermediate prices will average \$55.50 per barrel in 2020. EIA expects crude oil prices will be lower on average in 2020 than in 2019 because of forecast rising global oil inventories, particularly in the first half of the calendar year.
- It remains to be seen how oil prices will affect the excess supply of natural gas in the Permian Basin, but LP&L management will continue to monitor any new developments and will continue to budget conservatively as it relates to setting rates for purchased power recovery.
- Coal Prices –The EIA expects coal production to decrease 14% between 2019 and 2020 reflecting continued idling and closures of mines as a result of declining domestic demand. The EIA also expects the delivered coal price to average \$2.10/MMBtu in 2020, compared to \$2.07/MMBtu in 2019.
- Electricity Generation – The EIA expects the share of U.S. total utility-scale electricity generation from natural gas-fired power plants to rise from 37% in 2019 to 39% in 2020 and electricity generation from coal to decrease from 25% in 2019 to 22% in 2020.
- Electricity Retail Prices – The continued shift in the national generation portfolio from coal to natural gas in 2020 is the primary factor for a projected rise in the price of electricity. The EIA expects electricity prices to average 13.1 cents per kWh for calendar year 2020, which is a 0.9 percent increase over 2019.
- Generation Mix – LP&L is in the SPP which maintained the following generation mix in each of the following time periods:

Table 14 - SPP Generation Portfolio

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Natural Gas	25.9%	23.5%	19.5%
Coal	34.8%	42.2%	46.3%
Wind	27.4%	23.6%	22.7%
Nuclear	6.0%	5.4%	6.8%
Hydro	5.6%	4.9%	4.2%
Solar	0.2%	0.2%	0.2%
Fuel Oil	0.0%	0.1%	0.2%
Other	0.1%	0.1%	0.2%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Legislation and Regulations – There are several pending federal environmental regulations that pertain to power plant and air pollution controls addressing emission allowances. If these regulations become enforceable for existing facilities, the ability to operate LP&L's electric generation facilities could be restricted, unless additional allowances are acquired or LP&L chooses to limit the operating hours of the facilities.

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Federal electric reliability regulations or standards pertaining to high voltage electric transmission lines and equipment change periodically. These standards will impact LP&L, and will to a greater extent, as planned new construction and upgrades to the high voltage electric transmission lines and equipment are completed.

As applicable regulations change, LP&L is continually monitoring the regulatory agencies that enforce the regulations to assess the impact on LP&L operations. In addition to acquiring vendor support to perform gap analysis and regulatory review as needed, LP&L has dedicated regulatory compliance specialists on staff to coordinate compliance efforts. Management is committed to maintaining a culture of regulatory compliance at LP&L.

REQUESTS FOR INFORMATION

Questions concerning any of the information found in this report, or requests for additional information should be directed to Finance Department, Lubbock Power and Light, P.O. Box 2000, Lubbock, TX 79457.

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	<u>FY 18-19</u>	<u>FY 17-18</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,001,695	\$ 3,644,488
Investments	112,241,171	83,796,278
Accounts receivable, net	26,379,590	30,471,794
Interest receivable	174,038	71,840
Prepaid expenses	25,000	25,000
Inventories	1,917,349	1,984,063
Total current assets	<u>143,738,843</u>	<u>119,993,463</u>
Noncurrent assets:		
Restricted investments	81,667,434	135,717,814
Prepaid expenses	1,344,442	1,477,776
	<u>83,011,876</u>	<u>137,195,590</u>
Capital assets:		
Non-Depreciable	18,047,692	17,068,722
Construction in progress	43,818,507	24,601,082
Depreciable	492,319,639	445,456,430
Less accumulated depreciation	<u>(262,375,454)</u>	<u>(254,140,607)</u>
Total capital assets	<u>291,810,384</u>	<u>232,985,627</u>
Total noncurrent assets	<u>374,822,260</u>	<u>370,181,217</u>
Total assets	<u>\$ 518,561,103</u>	<u>\$ 490,174,680</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	\$ 607,903	\$ 1,003,318
Deferred Outflow Goodwill	265,416	531,114
Deferred outflows from pensions	8,685,534	2,488,886
Deferred outflows from OPEB	<u>1,171,780</u>	<u>1,241,657</u>
Total deferred outflows of resources	<u>\$ 10,730,633</u>	<u>\$ 5,264,975</u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Net Position
September 30, 2019 and 2018

	<u>FY 18-19</u>	<u>FY 17-18</u>
LIABILITIES		
Current liabilities:		
Accounts payable, net	\$ 33,070,620	\$ 18,962,113
Accrued liabilities	1,836,502	3,622,312
Accrued interest payable	3,441,090	2,471,041
Due to related party	1,256,754	11,486,904
Customer deposits	5,806,225	4,552,464
Compensated absences	2,221,995	2,179,036
Notes Payable	2,000,000	-
Bonds payable	18,540,000	18,555,000
Total current liabilities	<u>68,173,186</u>	<u>61,828,870</u>
Noncurrent liabilities:		
Hold Harmless Payment	\$ 24,000,000	-
Compensated absences	796,829	629,202
Post employment benefits	19,562,120	19,348,418
Net pension liability	25,524,306	15,554,807
Bonds payable	177,281,406	198,588,661
Total noncurrent liabilities	<u>247,164,661</u>	<u>234,121,088</u>
Total liabilities	<u>\$ 315,337,847</u>	<u>\$ 295,949,958</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions	\$ 1,019,082	\$ 3,456,159
Deferred inflows from OPEB	867,480	-
Total deferred inflows of resources	<u>\$ 1,886,562</u>	<u>\$ 3,456,159</u>
NET POSITION		
Net investment in capital assets	150,712,020	128,869,898
Restricted for:		
Debt service	17,745,364	20,372,130
Unrestricted	<u>43,609,943</u>	<u>46,791,510</u>
Total net position	<u>\$ 212,067,327</u>	<u>\$ 196,033,538</u>

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Revenues, Expenses, and Changes in Net Position
September 30, 2019 and 2018

	FY 18-19	FY 17-18
OPERATING REVENUES		
Charges for services	\$ 211,188,949	\$ 239,178,553
OPERATING EXPENSES		
Personal services	21,246,554	19,606,822
Supplies	1,199,646	1,014,137
Maintenance	2,972,963	2,399,163
Purchase of fuel and power	129,268,969	154,924,035
Other services and charges	9,239,464	10,321,429
Depreciation and amortization	18,162,939	17,608,182
Total operating expenses	182,090,535	205,873,768
Operating income	29,098,414	33,304,785
NON-OPERATING REVENUES (EXPENSES)		
Interest income	5,963,641	1,710,341
Disposition of assets	(896,400)	43,941
Miscellaneous	878,148	827,644
IRS Build America Bond subsidy	-	7,011
Interest expense on bonds	(5,526,080)	(4,172,052)
Total non-operating revenues (expenses)	419,309	(1,583,115)
Income before contributions and transfers	29,517,723	31,721,670
Capital contributions	174,130	300,281
Transfers, net	(13,658,064)	(17,041,225)
Change in net position	16,033,789	14,980,726
Net position - beginning	196,033,538	188,592,932
Change in accounting principle	-	(7,540,120)
Net position - beginning, as restated	196,033,538	181,052,812
Net position - ending	\$ 212,067,327	\$ 196,033,538

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Cash Flows
September 30, 2019 and 2018

	FY 18-19	FY 17-18
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 237,779,327	\$ 242,644,414
Payments to suppliers	(135,068,775)	(156,862,815)
Payments to employees	(21,246,554)	(19,606,821)
Other receipts (payments)	878,148	1,764,800
Net cash provided (used) by operating activities	82,342,146	67,939,578
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers in from other funds	1,315,028	1,306,808
Transfers out to other funds	(14,973,092)	(18,348,033)
Net cash provided (used) by noncapital and related financing activities	(13,658,064)	(17,041,225)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(77,398,115)	(29,380,699)
Sale of capital assets	87,181	246,471
Principal paid on bonds	(18,555,000)	(15,917,078)
Issuance of bonds and notes	1,841,827	106,807,292
Bond issuance costs	206,001	(20,055)
Interest paid on bonds and capital leases	(6,975,699)	(5,193,389)
Net cash provided (used) by capital and related financing activities	(100,793,805)	56,542,542
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	54,147,103	-
Purchase of investments	(28,541,616)	(109,624,117)
Interest earnings on cash and investments	5,861,443	1,678,979
Net cash provided (used) by investing activities	31,466,930	(107,945,138)
Net increase (decrease) in cash and cash equivalents	(642,793)	(504,243)
Cash and cash equivalents - beginning of year	3,644,488	4,148,731
Cash and cash equivalents - end of year	3,001,695	3,644,488
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	29,098,414	33,304,785
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,162,939	17,608,182
Other income (expense)	878,148	1,764,800
Change in current assets and liabilities:		
Accounts receivable	4,092,204	(1,315,901)
Deferred Expenses	-	4,781,762
Inventory	66,714	(113,868)
Accounts payable	15,610,333	4,227,364
Deferred Revenues	22,498,174	13,203,141
Due to related party	(10,230,150)	(3,335,975)
Accrued liabilities	(1,785,810)	(2,539,983)
Customer deposits	1,253,761	(110,899)
Compensated absences and retirement benefits	2,697,419	466,170
Net cash provided (used) by operating activities	82,342,146	67,939,578
Supplemental cash flow information:		
Noncash capital contributions and other changes	\$ 174,130	\$ -

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Matters

The accompanying financial statements include only LP&L, an enterprise fund of the City of Lubbock, Texas (City). The results of operations and cash flows are in conformity with generally accepted accounting principles. LP&L's financial statements are not intended to present fairly the financial position of the City, and are included as an enterprise fund in the City's Comprehensive Annual Financial Report (CAFR); LP&L has no component units in its reporting entity.

In 1916, the citizens of Lubbock voted to establish a municipal electric company, which was organized to manage the energy needs of the City. Therefore, for the past 102 years, LP&L has served the majority of citizens in this community. On November 2, 2004, Lubbock voters elected to amend the City Charter to provide for an Electric Utility Board composed of nine Lubbock citizens and eligible voters appointed by the City Council to govern, manage and operate LP&L. The Electric Utility Board is responsible for the governance and management of LP&L in providing dependable and reliable electric service at reasonable and competitive rates to the citizens of Lubbock while being financially self-sustaining.

At the present time, LP&L's product is the generation, distribution, and service of electricity. The market in which it operates is located within the confines of its certificated areas as established by the Texas PUC. The PUC regulates certain utility rates, operations, and services within the State, however, LP&L is not considered a public utility and is therefore not subject to the jurisdiction of the PUC, except for its certificated areas of operation and certain reporting requirements under the Texas Public Utility Regulatory Act. LP&L is authorized to charge and collect reasonable rates necessary to produce revenues sufficient to pay operational and maintenance expenses, debt service requirements, and other contractual commitments.

Throughout FY 2018 and FY 2019, LP&L was a member of WTMPA. In 1983, the Texas cities of Lubbock, Brownfield, Floydada, and Tulia (Cities) created WTMPA as a joint power agency to enhance the negotiating strength of the individual Cities in obtaining favorable firm electric power contracts and in coordinating joint planning for additional generation. An eight-member board of directors governs WTMPA. The board consists of two directors from each of the Cities. WTMPA is shown as a blended component unit in the City's CAFR. Effective October 1, 2019, at the request of Lubbock and as a result of concurrent ordinances enacted by all members of the West Texas Municipal Power Agency, Lubbock was deleted as a member public entity of WTMPA. An overview of the deletion is included at the beginning of this report in the *Deletion of Lubbock from WTMPA* section of the MD&A.

LP&L is currently in the process of filing CCNs at the PUC in an effort to identify the transmission line specifications and segment locations in order to connect the LP&L system to the ERCOT power grid by June 1, 2021. An overview of the integration is included at the beginning of this report in the *Currently Known Facts* section of the MD&A. The ERCOT integration will have a substantial impact on the asset structure and the Statement of Revenues, Expenses, and Changes in Net Position in future fiscal years. Capital projects currently included in LP&L's existing long-term capital

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improvement plan are largely related to reliability and will cover a portion of system improvements necessary prior to the final integration to ERCOT.

B. Significant Accounting Policies

The financial statements are presented on an accrual basis and are in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental enterprise funds. LP&L has adopted the principles promulgated by GASB.

The financial statements are prepared using the economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Operating revenues are defined as revenues received from the sale of electricity and associated services. Revenues from capital and related financing and investment activities are defined as non-operating revenues. Restricted net position represents constraints on resources that are imposed by bond indentures and may be utilized only for the purposes established by the bond indentures. Unrestricted net position may be utilized for any purpose approved by the Board and by the City Council through the budget process. When both restricted and unrestricted net position might be used to meet an obligation, LP&L first uses the restricted net position.

Equity in Cash and Investments

The City pools the resources of the various funds, including LP&L, to facilitate the management of cash and enhance investment earnings. Records are maintained that reflect each fund's equity in the pooled investments. Government agency bonds and municipal bonds are stated at fair value; while the TexSTAR, LOGIC, and Texas CLASS state pools are stated at net asset value. Money market mutual funds (MMMFs) and the TexPool state pool are stated at amortized cost.

Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less when purchased, which presents an insignificant risk of changes in value because of changes in interest rates.

Investments

Investments include State Investment Pools and securities in the Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Farm Credit Bank (FFCB), Federal Agricultural Mortgage Corporation (FAMCA), Municipal Bonds, Commercial Paper, and MMMFs. Restricted investments include investments that have been restricted for bond financed capital projects and funds that have been restricted by bond covenants for debt service requirements.

Accounts Receivable

Accounts receivable balances represent amounts due primarily from metered customers. Metered revenues for the first fifteen days of every month are attributable to billing cycles in the prior month; therefore, metered revenues for the first fifteen days of the first month after the fiscal year-end are accrued and reported in accounts receivable. LP&L does not require collateral to support its accounts receivable. Management believes the recorded receivables, net of allowances totaling \$3,090,962 are collectible.

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Inventories

Inventories consist of expendable supplies held for consumption. Inventories are valued using the average cost method of valuation and are accounted for using the consumption method of accounting, e.g., inventory is expensed when used rather than when purchased.

Capital Assets and Depreciation

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. All expenses associated with the development and construction of LP&L's ownership interests in the electric system have been recorded at original cost and are being depreciated on a straight-line basis over the estimated useful life of each asset.

LP&L utilizes FERC Uniform System of Accounts to classify fixed assets. The useful life of each asset is estimated as follows:

Intangible Plant	6-45 years	Production Plant	1-50 years
Transmission Plant	30-60 years	Distribution Plant	6-50 years
Regional Transmission and Market Operation Plant	5 years	General Plant	2-45 years

Major outlays for capital assets and improvements are capitalized as the projects are constructed. The cost of normal maintenance and repairs that do not increase the value of the asset or materially extend the useful life, are expensed when incurred.

Construction in Progress

All expenses related to capital additions are capitalized as construction in progress until they are completed. Depreciation expense is recognized on these items after the projects are completed. LP&L capitalizes interest costs according to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. LP&L capitalized interest totaling approximately \$1,221,386, net of interest earned during FY 2019, and \$561,723 net of interest earned during FY 2018.

Hold Harmless Payment

PUC Docket No. 47576 requires that upon integration to ERCOT on June 1, 2021, LP&L will make a one-time payment totaling \$24.0 million to SPS to indemnify SPS and its customers for LP&L's integration into ERCOT. LP&L utilized the energy and capacity savings afforded by very low natural gas prices and the Capacity Agreement and reserved \$24.0 million from this savings prior to the end of FY 2018-19. For additional information, refer to the *Currently Known Facts - Hold-Harmless Payment* section of the MD&A.

Net Position

Total net position includes net investment in capital assets, along with restricted and unrestricted net assets. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position includes noncapital assets that must be used for a

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particular purpose as specified by creditors, grantors or donors external to LP&L and the City, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position includes remaining assets and deferred outflows, less remaining liabilities and deferred inflows that do not meet the definition of net investment in capital assets, restricted expendable, or restricted nonexpendable.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows, and 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.

Interfund Transactions

Interfund transactions are accounted for as revenues or expenses on the Statements of Revenues, Expenses, and Changes in Net Position. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from that fund that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. In addition, transfers are made between funds to shift resources from a fund legally authorized to receive revenue to a fund authorized to expend the revenue. For additional information on interfund transactions, reference Note 3: Interfund Transactions.

GASB Pronouncements Effective in FY 2019

In November 2016, GASB issued Statement No. 83 (GASB 83), Certain Asset Retirement Obligations (ARO). GASB 83 establishes uniform criteria for governments to recognize and measure certain asset retirement obligations, defined as a legally enforceable liability associated with the retirement of a tangible capital asset. An ARO is recognized when the liability is incurred, which is manifested by the occurrence of both an external obligating event (such as a legally binding contract or a court judgment) and an internal obligating event (such as placing a tangible capital asset into service). A government also recognizes a deferred outflow of resources when it recognizes an ARO liability. The ARO is measured at the best estimate of the current value of outlays expected to be incurred. Additional note disclosures are required. GASB 83 is effective for the fiscal period ending September 30, 2019. The implementation had no material impact on LP&L.

In June 2018, GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements (GASB 88). GASB 88 specifies disclosures that should be made in the financial statements related to debt. It also provides a definition of debt so that governments know which types of liabilities should be included in those disclosures. If a government has direct borrowings or direct placements, disclosures related to these should be provided separately from disclosures related to other types of debt. GASB 88 was effective for the fiscal period ending September 30, 2019. The implementation had no impact on LP&L.

In December 2019, GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period (GASB 89). GASB 89 requires that interest costs incurred before the end of a construction period be recognized as expenses in the period in which the costs are incurred.

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As a result, the interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 is effective for reporting periods beginning after December 31, 2019, but earlier application is encouraged. GASB 89 will be applied prospectively to interest incurred after the date of adoption. LP&L is exempt from this standard as it operates in a regulated industry.

GASB Pronouncements Effective in FY 2018

GASB Statement No. 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, requires governmental entities to report a liability related to OPEB plans on the face of the financial statements and requires extensive note disclosures and required supplementary information. Restatement of the 2017 financial statements was not practical because prior year information calculated under the provisions of GASB was not available.

GASB Statement No. 85 (GASB 85), “Omnibus 2017”, addresses practice issues that have arisen during implementation of other GASB standards. Implementation of GASB 85 required LP&L to reclassify its goodwill from a previous acquisition to a deferred outflow of resources.

GASB Statement No. 86 (GASB 86), “Certain Debt Extinguishment Issues”, eliminates an inconsistency in the literature related to in-substance defeasance of debt. Under previous guidance, debt could only be considered defeased if there was a refunding. GASB 86 now allows defeasance treatment even if the government uses existing assets and does not issue new debt. Implementation of GASB 86 had no impact on the financial statements.

GASB Pronouncements Issued but not Yet Effective

In January 2017, GASB issued Statement No. 84 (GASB 84), Fiduciary Activities. GASB 84 establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. GASB 84 is effective for the fiscal period ending September 30, 2020, however implementation will have no impact on LP&L.

In June 2017, GASB issued Statement No. 87 (GASB 87), Leases. GASB 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 86 is effective for the fiscal period ending September 30, 2021. The impact of implementation has not yet been determined.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. LP&L has deferred charges on debt refunding. A deferred charge is the difference in the carrying value of refunded bonds and the reacquisition price and is deferred or amortized over the shorter of the life of the refunded bonds or the refunding bonds. LP&L has deferred outflows for pensions related to contributions, changes in actuarial assumptions and investment experience and for OPEB related to benefit payments and changes in actuarial assumptions. LP&L has deferred outflows for goodwill due to GASB Statement No. 85, *Omnibus 2017*, which required goodwill from acquisitions under GASB

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Statement No. 69, *Government Combinations and Disposals of Government Operations*, to be reported as deferred outflow.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows include pension actuarial differences in expected and actual experience, per GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. For additional information on deferred outflows/inflows related to pensions, reference “Note 8: Retirement Plan”.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) Plan and additions to/deductions from the TMRS’ fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City’s total pension liability is obtained from TMRS through a report prepared for the City by TMRS’ consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. For additional information on deferred outflows/inflows related to pensions, reference “Note 8: Retirement Plan”.

NOTE 2: DEPOSITS AND INVESTMENTS

On September 30, 2019, the bank balance of LP&L’s deposits was \$3,117,188, with a carrying value of \$3,001,695. All of the bank balances are covered by federal depository insurance or are fully collateralized.

Custodial Credit Risk – Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government’s deposits may not be returned. The City’s investment policy related to custodial credit risk requires compliance with the provisions of the Texas Public Funds Investment Act.

State law requires collateralization of all deposits with federal depository insurance, eligible securities, or a surety bond having an aggregate value at least equal to the amount of the deposits. LP&L pools its monies with the City, and the City oversees and administers LP&L’s investments. The City’s investment policy requires the minimum collateral level to be 102% of market value of principal and accrued interest.

At September 30, 2019, City bank balances were not exposed to custodial credit risk as follows:

Insured	\$ 91,775
Uninsured and collateral held by a third party financial institution in the City’s name	<u>3,025,413</u>
Total	<u>\$ 3,117,188</u>

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Custodial Credit Risk - Securities

Securities with FNMA, FAMCA, FFCB, FHLMC, FHLB and municipal bonds are held in the City's name in third party safekeeping by a Federal Reserve member financial institution designated as a City depository. The City shall maintain a list of authorized broker/dealers and financial institutions, which are approved by the City's Audit and Investment Committee for investment purposes.

At September 30, 2019, LP&L had the following investments and maturities:

Type	Fair Value	30-Sep-19	
		Maturities in Years	
		Less Than 1	1-5
Federal Farm Credit Bank (FFCB)	\$ 5,127,293	\$ 2,954,380	\$ 2,172,913
Farmer Mac (FAMCA)	933,252	308,139	625,113
Federal Home Loan Banks (FHLB)	4,648,351	1,240,595	3,407,756
Federal Home Loan Mortgage Corporation (FHLMC)	3,240,396	1,078,488	2,161,908
Federal National Mortgage Association (FNMA)	4,570,043	1,541,095	3,028,948
Municipal Bonds	34,531,161	7,298,052	27,233,109
Commercial Paper	1,997,825	1,997,825	-
Money market mutual funds	7,504,879	7,504,879	-
State Investment Pools *	131,355,405	131,355,405	-
Total	\$ 193,908,605	\$ 155,278,858	\$ 38,629,747

* State Investment Pools are considered investments for financial reporting purposes.

At September 30, 2018, LP&L had the following investments and maturities:

Type	Fair Value	30-Sep-18	
		Maturities in Years	
		Less Than 1	1-5
Federal Farm Credit Bank (FFCB)	\$ 5,694,258	\$ 1,499,754	\$ 4,194,504
Farmer Mac (FAMCA)	1,119,521	-	1,119,521
Federal Home Loan Banks (FHLB)	7,371,069	2,242,546	5,128,523
Federal Home Loan Mortgage Corporation (FHLMC)	4,225,276	747,634	3,477,642
Federal National Mortgage Association (FNMA)	4,131,669	-	4,131,669
Municipal Bonds	24,181,183	5,515,919	18,665,264
Commercial Paper	752,115	752,115	-
Money market mutual funds	1,710,527	1,710,527	-
State Investment Pools *	170,328,474	170,328,474	-
Total	\$ 219,514,092	\$ 182,796,969	\$ 36,717,123

* State Investment Pools are considered investments for financial reporting purposes.

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Investment in State Investment Pools

The City utilizes four state local government investment pools (LGIPs) that include: TexPool Local Government Investment Pool (TexPool), Texas Short Term Asset Reserve (TexSTAR), Local Government Investment Cooperative (LOGIC) and Texas Cooperative Liquid Assets Securities System (Texas CLASS).

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The TexPool advisory board members review the investment policy and management fee structure. Finally, TexPool is rated AAAm by Standard & Poor's. TexPool is not registered with the Securities and Exchange Commission as an investment company. The pool offers same day access to its funds.

TexSTAR's governing body is a five-member board of directors. Three directors are officers or employees of participants; one member is employed by J.P. Morgan Investment Management Inc. (JPMIM), or an affiliate; and one member is employed by Hilltop Securities Inc., or an affiliate. TexSTAR's bylaws also require the TexSTAR board to appoint an advisory board.

The TexSTAR advisory board currently consists of six members, each of whom is either (i) a representative of a participant or (ii) a person who has no business relationship with TexSTAR. The primary investment objectives of TexSTAR, in order of priority, are (i) the preservation of capital and protection of principal, (ii) the maintenance of sufficient liquidity, and (iii) yield. TexSTAR is rated AAAm by Standard & Poor's. The pool offers same day access to investment funds.

LOGIC was established pursuant to an interlocal agreement, which was subsequently amended and is now entitled Participation Agreement and Trust Instrument between participating government entities. Participation in the pool is limited to those eligible government entities who have become parties to the participation agreement. Assets in the pool are represented by units of beneficial interest, which are issued in discrete series (each a Portfolio), as authorized from time to time by the LOGIC board. Assets invested in any Portfolio will be managed separately, and segregated from, the assets of every other Portfolio. Since September 2005, JPMIM has served as investment manager to LOGIC. Day to day administration of the pool is performed by Hilltop Securities Inc, and JPMIM. JPMIM or its affiliates provide investment management, custody and fund accounting services. The investment objectives of the pool are to seek preservation of principal, liquidity in accordance with the operating requirements of the participants, and a competitive rate of return. LOGIC is rated AAAm by Standard & Poor's. The pool offers same day access to investment funds.

Texas CLASS was created specifically for the use of Texas local government entities and seeks to provide safety, liquidity, convenience, and competitive rates of return. Public Trust Advisors, LLC serves as the pool's administrator and investment adviser. The marketing and operation functions of the portfolio are also performed by Public Trust Advisors, LLC. The pool is subject to the general supervision of its board of trustees and its advisory board, both of which are elected by the Texas CLASS participants. Wells Fargo Bank, N.A. serves as custodian for the pool. The investment

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objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. Texas CLASS is rated AAAm by Standard and Poor's. The pool offers same day access to investment funds.

Interest Rate Risk

As a means of limiting its exposure to fair value losses due to rising interest rates, the City's investment policy limits investments to those that can be held to maturity and limits final maturity to no more than five (5) years. The City uses the specific identification method for positions in fixed-rate securities. The LGIPs utilized by the City have laddered maturities within their funds, yet are redeemable in full within one day to the governments investing in the pooled funds.

Credit Risk

Credit risk is the risk that the issuer or counterparty to an investment will not fulfill its obligations. The City's investment policy allows investment in direct obligations of and other obligations guaranteed as to principal of the U.S. Treasury and U.S. agencies and instrumentalities, with the exception of mortgage backed securities. It allows investment in obligations of the State of Texas or its agencies and obligations of states, agencies, counties, cities, and other political subdivisions rated not less than A or its equivalent. The City may also invest in collateralized certificates of deposit, AAA-rated, no-load MMMFs regulated by the Securities and Exchange Commission and AAA-rated constant-dollar LGIPs authorized by the City Council. On September 30, 2019, Standard & Poor's rated the LGIPs AAAm. The senior unsecured debt for investments in the FNMA, FAMCA, FFCB, FHLMC, and FHLB are rated AA+ by Standard & Poor's (S&P) and Aaa by Moody's Investors Service (Moody's). The municipal bond investments are rated between AAA and A- by S&P and between Aaa and A1 by Moody's.

Concentration of Credit Risk

The City places limits on the amount that may be invested in any one issuer with the exception of United States Treasury obligations and State Investment Pools. As of September 30, 2019, LP&L's investments constituted the following percentages of total investments: State Investment Pools – 67.7%, Municipal Bonds – 17.8%, FHLB – 2.4%, FFCB – 2.6%, FHLMC – 1.7%, FNMA – 2.4%, MMMFs – 3.9%, FAMCA - 0.5%, and Commercial Paper – 1.0%.

Foreign Currency Risk

This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The City has no foreign currency risk.

Disclosures about Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

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There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of LP&L's assets and liabilities recognized in the accompanying financial statements, measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019:

September 30, 2019	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Federal Farm Credit Bank (FFCB)	\$ 5,127,293	\$ -	\$ 5,127,293	\$ -
Farmers Mac (FAMCA)	933,252	-	933,252	-
Federal Home Loan Bank (FHLB)	4,648,351	-	4,648,351	-
Federal Home Loan Mortgage Corporation (FHLMC)	3,240,396	-	3,240,396	-
Federal National Mortgage Association (FNMA)	4,570,043	-	4,570,043	-
Municipal Bonds	34,531,161	-	34,531,161	-
Commercial Paper	1,997,825	1,997,825	-	-
Total investments by fair value level	<u>\$ 55,048,321</u>	<u>\$ 1,997,825</u>	<u>\$ 53,050,496</u>	<u>\$ -</u>
Investments measured at the net asset value				
TexStar	\$ 60,736,934			
LOGIC	31,555,411			
Texas Class	38,146,951			
Total investments measured at the NAV	<u>\$ 130,439,296</u>			
Investments measured at amortized cost				
TexPool	\$ 916,109			
Money Markets	7,504,879			
Total investments at amortized cost	<u>\$ 8,420,988</u>			
Total Investments	<u><u>\$ 193,908,605</u></u>			

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The following table presents the fair value measurements of LP&L's assets and liabilities recognized in the accompanying financial statements, measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2018:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Investments by fair value level				
Federal Farm Credit Bank (FFCB)	\$ 5,694,258	\$ -	\$ 5,694,258	\$ -
Farmers Mac (FAMCA)	1,119,521	-	1,119,521	-
Federal Home Loan Bank (FHLB)	7,371,069	-	7,371,069	-
Federal Home Loan Mortgage Corporation (FHLMC)	4,225,276	-	4,225,276	-
Federal National Mortgage Association (FNMA)	4,131,669	-	4,131,669	-
Municipal Bonds	24,181,183	-	24,181,183	-
Commercial Paper	752,115	752,115	-	-
Total investments by fair value level	<u>\$ 47,475,091</u>	<u>\$ 752,115</u>	<u>\$ 46,722,976</u>	<u>\$ -</u>
Investments measured at the net asset value				
TexStar	\$ 91,752,301			
LOGIC	6,255,673			
Texas Class	<u>65,413,723</u>			
Total investments measured at the NAV	<u>\$ 163,421,697</u>			
Investments measured at amortized cost				
TexPool	\$ 6,906,777			
Money Markets	<u>1,710,527</u>			
Total investments at amortized cost	<u>\$ 8,617,304</u>			
Total Investments	<u><u>\$ 219,514,092</u></u>			

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for all related external investment pool balances.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

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NOTE 3: INTERFUND TRANSACTIONS

The due to related party balance is a short-term payable due to WTMPA, which was \$1,256,754 and \$11,486,904 at September 30, 2019 and 2018, respectively. This outstanding balance will be repaid within one month.

At September 30, 2019 and 2018, LP&L had no internal financing.

Net transfers out totaling \$13,658,064, for FY 2019 from LP&L to other City funds were the result of (i) General Fund indirect cost allocations, totaling \$1,155,378; (ii) payments to WTMPA for management and administration, totaling \$404,918; (iii) City franchise fee equivalents totaling \$9,818,831; (iv) Payment in lieu of taxes totaling \$1,963,766; (v) a payment to the City's Debt Service Fund to fund LP&L's portion of the Citizen's Tower debt service totaling \$1,140,199; (vi) a payment to the City's General Fund for LP&L's participation in an asset management system totaling \$490,000; offset by a transfer in from the City's Water, Wastewater, Storm Water, and Solid Waste funds totaling \$1,315,028.

Net transfers out totaling \$17,041,225 for FY 2018 from LP&L to other City funds were the result of (i) General Fund indirect cost allocations, totaling \$1,135,647; (ii) payments to WTMPA for management and administration, totaling \$1,461,701; (iii) City franchise fee equivalents totaling \$11,060,010; (iv) Payment in lieu of taxes totaling \$2,212,002; (v) a payment to the City's Debt Service Fund to fund LP&L's portion of the Citizen's Tower debt service totaling \$2,478,673; offset by a transfer in from the City's Water, Wastewater, Storm Water, and Solid Waste funds totaling \$1,306,808.

NOTE 4: INVENTORY

The inventory at September 30, 2019 and 2018 was \$1,917,349 and \$1,984,063, respectively and was comprised of equipment and repair parts used in the maintenance and operations of the utility.

NOTE 5: PREPAID EXPENSES

The total prepaid expenses included in noncurrent assets, totaling \$1,344,442 in 2019 and \$1,477,776 in 2018, represent an advertising contract with Texas Tech University. The amortization began when the United Supermarkets Arena opened in FY 2000 and is for a total of thirty years.

NOTE 6: GOODWILL

The deferred outflow for goodwill totals \$265,416 in FY 2019 and represents the unamortized excess purchase price over the estimated value of capital assets related to the purchase of Southwestern Public Services Company (SPS) in 2011. The goodwill is being amortized over a 10-year period.

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NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Not Depreciated:				
Construction in Progress	\$ 24,601,082	\$ 77,717,065	\$ 58,499,640	\$ 43,818,507
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	35,046	386,015	-	421,061
Electric Distribution Plant	16,655,745	577,523	-	17,233,268
Electric General Plant	302,521	15,432	-	317,953
Total Capital Assets, Not Depreciated	41,669,804	78,696,035	58,499,640	61,866,199
Capital Assets, Depreciated:				
Electric Production Plant	89,510,463	2,150,246	-	91,660,709
Electric Transmission Plant	44,027,557	17,000,509	3,928,955	57,099,111
Electric Distribution Plant	277,606,212	34,368,854	6,398,144	305,576,922
Electric Regional Trans Mkt Oper Plant	1,383,386	1,384,394	-	2,767,780
Electric General Plant	32,928,812	2,898,216	611,911	35,215,117
Total Capital Assets, Depreciated	445,456,430	57,802,219	10,939,010	492,319,639
Less Accumulated Depreciation:				
Electric Production Plant	58,929,017	3,563,638	-	62,492,655
Electric Transmission Plant	16,060,554	675,441	3,563,225	13,172,770
Electric Distribution Plant	157,649,211	11,298,668	5,839,528	163,108,351
Electric Regional Trans Mkt Oper Plant	406,222	386,845	-	793,067
Electric General Plant	21,095,603	1,839,315	126,307	22,808,611
Total Accumulated Depreciation:	254,140,607	17,763,907	9,529,060	262,375,454
Total Capital Assets Depreciated, Net	191,315,823	40,038,312	1,409,950	229,944,185
Capital Assets, Net	<u>\$ 232,985,627</u>	<u>\$ 118,734,347</u>	<u>\$ 59,909,590</u>	<u>\$ 291,810,384</u>

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Capital asset activity for the year ended September 30, 2018:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Not Depreciated:				
Construction in Progress	\$ 7,849,483	\$ 29,084,259	\$ 12,332,660	\$ 24,601,082
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	35,046	-	-	35,046
Electric Distribution Plant	16,394,512	261,233	-	16,655,745
Electric General Plant	302,521	-	-	302,521
Total Capital Assets, Not Depreciated	24,656,972	29,345,492	12,332,660	41,669,804
Capital Assets, Depreciated:				
Electric Production Plant	89,377,886	345,673	213,096	89,510,463
Electric Transmission Plant	44,970,712	41,715	984,870	44,027,557
Electric Distribution Plant	270,393,714	9,884,376	2,671,878	277,606,212
Electric Regional Trans Mkt Oper Plant	1,193,702	189,684	-	1,383,386
Electric General Plant	31,529,119	2,129,667	729,974	32,928,812
Total Capital Assets, Depreciated	437,465,133	12,591,115	4,599,818	445,456,430
Less Accumulated Depreciation:				
Electric Production Plant	55,586,540	3,515,128	172,651	58,929,017
Electric Transmission Plant	16,434,969	610,455	984,870	16,060,554
Electric Distribution Plant	149,436,329	10,870,823	2,657,941	157,649,211
Electric Regional Trans Mkt Oper Plant	158,092	248,130	-	406,222
Electric General Plant	19,390,815	2,006,270	301,482	21,095,603
Total Accumulated Depreciation:	241,006,745	17,250,806	4,116,944	254,140,607
Total Capital Assets Depreciated, Net	196,458,388	(4,659,691)	482,874	191,315,823
Capital Assets, Net	\$ 221,115,360	\$ 24,685,801	\$ 12,815,534	\$ 232,985,627

Construction Commitments

LP&L had active construction projects at fiscal year-end. Projects included the continued construction of transmission lines, distribution lines, substation expansions, power plant upgrades, and electric system improvements.

Construction Commitments at September 30, 2019 were as follows:

Original Commitments	Spent-to-Date	Remaining Commitments
\$ 304,752,377	\$ 101,579,704	\$ 203,172,673

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NOTE 8: RETIREMENT PLAN

The City participates in TMRS for its retirement plan. All eligible employees are required to participate in TMRS. Neither the City, nor LP&L, maintains the accounting records, holds the investments, or administers the retirement plan.

The total of LP&L's net pension liabilities, deferred outflows of resources, and deferred inflows of resources related to pensions as of September 30, 2019 and 2018, and the pension expense for the years then ended are as follows:

	TMRS 2019	TMRS 2018
Net pension liability:	\$ 25,524,306	\$ 15,554,807
Deferred outflows of resources:	8,685,534	2,488,886
Deferred inflows of resources:	1,019,082	3,456,159
Pension expense:	4,941,896	3,221,311

Plan Description

LP&L provides pension benefits for all of its full-time employees through the City's pension benefits plan. The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. Allocation of pension items to LP&L is done on the basis of payroll of LP&L participant employees in relation to total City employees. For 2019 and 2018 measurement periods, the allocation percentages were 19.30% and 18.84%, respectively. TMRS issues a publicly available CAFR that can be obtained at www.TMRS.com.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the City Council, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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The adopted plan provisions for plan years 2018 and 2017 were as follows:

	Plan Year
Employee Deposit Rate	7.0%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5
Service Retirement Eligibility (Expressed as Age/Years of Service)	60/5, 0/20

Contributions

The contribution rate for employees is 7% of employee gross earnings, and the matching percentage is 200%, both as adopted by the City Council. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The employer contribution rates were 17.71% and 18.05% in calendar years 2019 and 2018, respectively. LP&L's contributions to TMRS for the years ended September 30, 2019 and 2018, were \$3,546,906 and \$3,351,716, respectively, and were equal to the required contributions.

Net Pension Liability

LP&L's net pension liability (NPL) was measured as of December 31, 2018 and 2017, and the total pension liability (TPL) used to calculate the NPL was determined by actuarial valuations as of these dates.

Actuarial Assumptions

The TPL in the December 31, 2018 and 2017 actuarial valuations was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct Retirement Plan 2000 (RP2000) Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by mortality improvement scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for

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younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

Actuarial assumptions used in the December 31, 2018 and December 31, 2017 valuations were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. Those assumptions were first used in the December 31, 2013 valuation, along with a change to EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2018 or 2017 valuations.

Plan assets are managed on a total return basis, with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining the best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, Gabriel, Roeder, Smith & Company focused on the area between (i) arithmetic mean (aggressive) without an adjustment for time (conservative) and (ii) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class in FY 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
Total	100.0%	

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Discount Rate

The discount rate used to measure the TPL was 6.75% for both the December 2018 and 2017 actuarial valuations. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 9/30/2018	\$ 128,992,621	\$ 113,437,814	\$ 15,554,807
Changes for the year:			
Service cost	3,250,256	-	3,250,256
Interest	9,077,328	-	9,077,328
Change of benefit terms	-	-	-
Difference between expected and actual experience	(1,199,095)	-	(1,199,095)
Contributions – employer	-	3,469,374	(3,469,374)
Contributions – employee	-	1,345,605	(1,345,605)
Net investment income	-	(3,583,095)	3,583,095
Benefit payments, including refunds of employee contributions	(6,984,288)	(6,984,288)	-
Administrative expense	-	(69,275)	69,275
Other changes	-	(3,619)	3,619
Net changes	\$ 4,144,201	\$ (5,825,298)	\$ 9,969,499
Balance at 9/30/19	\$ 133,136,822	\$ 107,612,516	\$ 25,524,306

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Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 9/30/2017	\$ 124,151,664	\$ 101,135,750	\$ 23,015,914
Changes for the year:			
Service cost	3,094,041	-	3,094,041
Interest	8,538,646	-	8,538,646
Change of benefit terms	-	-	-
Difference between expected and actual experience	(133,708)	-	(133,708)
Contributions – employer	-	3,276,308	(3,276,308)
Contributions – employee	-	1,277,854	(1,277,854)
Net investment income	-	14,484,811	(14,484,811)
Benefit payments, including refunds of employee contributions	(6,658,022)	(6,658,022)	-
Administrative expense	-	(75,081)	75,081
Other changes	-	(3,806)	3,806
Net changes	\$ 4,840,957	\$ 12,302,064	\$ (7,461,107)
Balance at 9/30/18	\$ 128,992,621	\$ 113,437,814	\$ 15,554,807

Sensitivity of the NPL to Changes in the Discount Rate

The following represents the NPL of LP&L at September 30, 2019, calculated using the discount rate of 6.75%, as well as what LP&L's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
LP&L Net Pension Liability	\$ 43,618,804	\$ 25,524,306	\$ 10,638,265

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report, which can be obtained on TMRS' website at www.TMRS.com.

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Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources (Related to Pensions)

For the years ended September 30, 2019 and 2018, LP&L recognized pension expense of \$4,941,896 and \$3,211,311 respectively. At September 30, 2019 and 2018, LP&L reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Balance at September 30, 2019

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 19,034	\$ -
Difference in expected and actual experience	-	1,019,082
Difference between projected and actual investment	6,106,161	-
Contributions subsequent to the measurement date	2,560,339	-
Total	\$ 8,685,534	\$ 1,019,082

Balance at September 30, 2018

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 65,295	\$ -
Difference in expected and actual experience	-	382,532
Difference between projected and actual investment	-	3,073,627
Contributions subsequent to the measurement date	2,423,591	-
Total	\$ 2,488,886	\$ 3,456,159

At September 30, 2019, the amount totaling \$2,560,339 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability as of September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:

2020	\$ 1,871,827
2021	494,310
2022	517,048
2023	2,222,928
Total	\$ 5,106,113

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NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

LP&L participates in the City's OPEB, described as follows: The City sponsors and administers an informal single-employer health/dental plan. Texas statute provides that retirees from a municipality with a population equal to, or greater than, 25,000 and that receive retirement benefits from a municipal retirement plan are entitled to purchase continued health benefits coverage for the person and the person's dependents unless the person is eligible for group health benefits coverage through another employer. The State of Texas has the authority to establish and amend the requirements of this statute. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. Neither the City, nor LP&L, issue stand-alone financial statements for the health/dental plan, but all required information is presented in the City's CAFR.

Benefits Provided

The contribution requirements of plan members are established by the City and may be amended as needed. Retiree medical/dental coverage levels are the same as coverage provided to active City employees in accordance with the terms and conditions of the current City Benefit Plan. Employees who retire with 15 or more years of service that retire who have a balance in excess of 90 days sick leave are eligible to continue receiving medical coverage in full 30 day periods for the term of their sick leave balance. Plan members may purchase retiree health/dental care coverage for eligible spouses and dependents at their own expense and receive a benefit from the blended premium rate from all of the employees participating in the City's health insurance plans. The City is not required to make contributions to the plan on behalf of the retirees and funds the plan on a projected pay-as-you-go financing method. The plan has 2,147 active participants who pay monthly premiums of \$380/\$23 (medical/dental) for single coverage and \$868/\$51 (medical/dental) for family coverage, pre-65.

Actuarial Methods and Assumptions

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate	2.5% per annum
Actuarial cost method	Individual Entry Age
Discount rate	3.71%
Healthcare cost trend rate	Initial rate of 7.5% declining to an ultimate rate of 4.75% after 13 years
Salary increases	TMRS: 3.5% to 10.5%, including inflation

Demographic assumptions were based on the experience study covering the four year period ending December 31, 2014 as conducted for TMRS.

Mortality rates for TMRS: for healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on fully generational basis by mortality improvement scale BB to account for future mortality improvements.

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Discount Rate

For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For purposes of the most recent OPEB valuation, the municipal bond rate is 3.71% (based on the daily rate closest to but no later than the measurement date of the Fidelity “20-Year Municipal GO AA Index”). The discount rate was 3.31% as of the prior measurement date.

Change in the Total OPEB Liability

	Total OPEB Liability
Balance at September 30, 2018	\$ 19,348,418
Changes for the year:	
Service cost	1,071,285
Interest	645,635
Difference between expected and actual experience	(158,630)
Changes of assumptions	(843,145)
Benefit payments	(501,443)
Net changes	<u>\$ 213,702</u>
Balance at September 30, 2019	<u>\$ 19,562,120</u>

Sensitivity of the total OPEB Liability to Changes in the Discount Rate

	1% Decrease in Discount Rate (2.71%)	Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
City's Total OPEB Liability	\$ 21,570,948	\$ 19,562,120	\$ 17,457,790

Sensitivity of the total OPEB Liability to Change in the Healthcare Cost Trend Rate

	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate Assumption	1% Increase in Healthcare Cost Trend Rate
City's Total OPEB Liability	\$ 17,516,695	\$ 19,562,120	\$ 21,599,999

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OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB
For the year ended September 30, 2019 the LP&L recognized total OPEB expense of \$1,716,743.

At September 30, 2019, LP&L reported deferred outflows of resources and deferred inflows of resources related to OPEB for the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ -	\$ 137,364
Changes in assumptions	737,981	730,116
Contributions subsequent to the measurement date	433,799	-
Total	\$ 1,171,780	\$ 867,480

Deferred outflows of resources (related to OPEB resulting from benefit payments subsequent to the measurement date), totaling \$433,799, will be recognized as a reduction of the total OPEB liability as of September 30, 2019. Changes in assumptions within the OPEB deferred outflows and inflows of resources will be recognized in OPEB expense as follows:

<u>Year ending September 30:</u>	
2020	\$ (169)
2021	(169)
2022	(169)
2023	(169)
2024	(169)
Thereafter	(128,654)
Total	\$ (129,499)

NOTE 10: DEFERRED COMPENSATION

LP&L participates in the City's deferred compensation program and offers its employees five deferred compensation plans in accordance with Internal Revenue Code Section 457. The plans are available to all LP&L's employees, and the plans permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plans' assets are held in trust for the exclusive benefits of the participants and their beneficiaries. Neither the City, nor LP&L, provide administrative services or have any fiduciary responsibilities for these plans; therefore, they are not presented in the financial statements.

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NOTE 11: LONG-TERM LIABILITIES

General Obligation Bonds and Certificates of Obligation

The City issued General Obligation Bonds and Certificates of Obligation on behalf of LP&L. The amounts of all outstanding balances are as follows:

Average Interest Rate	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-19*	Balance Outstanding 9-30-18**
4.53	03/01/09	08/15/29	\$ 6,936,647	\$ -	\$ 1,425,000
2.70	02/15/10	02/15/30	5,410,997	-	3,670,000
1.61	04/15/13	04/15/21	5,990,000	570,000	850,000
1.76	04/15/13	04/15/24	2,585,000	1,335,000	1,825,000
2.63	05/01/14	04/15/26	4,515,000	2,535,000	2,535,000
2.37	04/15/15	04/15/28	12,840,000	10,885,000	12,040,000
2.41	04/15/16	02/15/34	3,060,000	3,060,000	3,060,000
2.47	11/01/16	02/15/34	36,780,000	2,180,000	2,670,000
2.76	04/04/18	02/15/30	480,000	445,000	475,000
2.13	04/04/19	02/15/30	4,050,000	4,050,000	-
Total			\$ 82,647,644	\$ 25,060,000	\$ 28,550,000

* Balance outstanding excludes \$2,598,253 of net bond premiums and discounts.

** Balance outstanding excludes \$2,840,207 of net bond premiums and discounts.

At September 30, 2019, the City and LP&L management believes it was in compliance with all financial bond covenants on outstanding general obligation bonded debt and certificates of obligation.

Electric Revenue Bonds

Average Interest Rate	Issue Date	Final Maturity Date	Amount Issued	Balance Outstanding 9-30-19*	Balance Outstanding 9-30-18**
2.45	10/15/10	04/15/20	\$ 73,295,000	\$ 8,655,000	\$ 16,970,000
1.90	05/21/13	04/15/24	14,960,000	6,910,000	8,580,000
3.09	05/01/14	04/15/34	16,245,000	11,635,000	12,610,000
3.41	04/15/15	04/15/35	11,865,000	10,185,000	10,630,000
3.04	04/15/16	04/15/46	8,155,750	6,585,000	6,915,000
3.60	08/15/17	02/15/47	17,760,000	17,200,000	17,460,000
3.64	07/12/18	04/15/48	93,925,000	90,380,000	93,925,000
Total			\$ 236,205,750	\$ 151,550,000	\$ 167,090,000

* Balance outstanding excludes \$16,613,153 of net bond premiums and discounts.

** Balance outstanding excludes \$18,663,454 of net bond premiums and discounts.

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At September 30, 2019, the City and LP&L management believes it was in compliance with all financial bond covenants on outstanding revenue bonds. The annual requirements to amortize LP&L's outstanding debt are as follows:

Fiscal Year	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2019-20	\$ 3,115,000	\$ 1,111,773	\$ 15,425,000	\$ 7,152,944
2020-21	3,260,000	967,894	7,045,000	6,422,644
2021-22	3,110,000	821,588	8,170,000	6,104,494
2022-23	3,235,000	675,438	8,545,000	5,736,919
2023-24	2,500,000	538,388	8,275,000	5,324,106
2025-29	9,455,000	1,006,719	33,345,000	21,110,925
2030-34	385,000	9,625	22,140,000	14,606,069
2035-39	-	-	17,770,000	9,759,838
2040-44	-	-	16,090,000	5,942,738
2045-49	-	-	14,745,000	1,750,800
Total	\$25,060,000	\$ 5,131,425	\$ 151,550,000	\$ 83,911,477

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2019 and 2018 are as follows:

Fiscal Year 2019	Balance 9/30/2018	Additions	Deletions	Balance 9/30/2019	Due in one year
LP&L activities:					
General Obligation Bonds	\$ 28,550,000	\$ 4,050,000	\$ 7,540,000	\$ 25,060,000	\$ 3,115,000
Revenue Bonds	167,090,000	-	15,540,000	151,550,000	15,425,000
Bond Premiums	21,503,661	316,828	2,609,083	19,211,406	-
Compensated Absences	2,808,238	1,952,043	1,741,457	3,018,824	2,221,995
Other Postemployment Benefits	19,348,418	1,716,921	1,503,219	19,562,120	-
Net Pension Obligation	15,554,807	12,400,478	2,430,979	25,524,306	-
Total LP&L activities	\$ 254,855,124	\$ 20,436,270	\$ 31,364,738	\$ 243,926,656	\$ 20,761,995

Fiscal Year 2018	Balance 9/30/2017	Additions	Deletions	Balance 9/30/2018	Due in one year
LP&L activities:					
General Obligation Bonds	\$ 32,994,726	\$ 480,000	\$ 4,924,726	\$ 28,550,000	\$ 3,015,000
Revenue Bonds	84,680,000	93,925,000	11,515,000	167,090,000	15,540,000
Bond Premiums	10,807,999	12,924,940	2,229,278	21,503,661	-
Compensated Absences	2,834,060	1,741,619	1,767,441	2,808,238	2,179,036
Other Postemployment Benefits	17,456,127	2,622,601	730,310	19,348,418	-
Net Pension Obligation	23,015,914	11,711,574	19,172,681	15,554,807	-
Total LP&L activities	\$ 171,788,826	\$ 123,405,734	\$ 40,339,436	\$ 254,855,124	\$ 20,734,036

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Proceeds from the sale of bonds are used for the purpose of paying contractual obligations incurred for various electric system improvements and professional services rendered in connection therewith and costs associated with the issuance of the bonds. Proceeds from debt issuances are used primarily for capital related purposes and are included in net assets invested in capital assets, net of related debt.

In June 2019, the City issued \$12,270,000 General Obligation Refunding Bonds, Series 2019 (2019 Refunding Bonds), with interest rates ranging from 2.00% to 5.00%. LP&L's portion was \$4,050,000 with a premium totaling \$519,077 and a deferred gain totaling \$206,001. The premium and deferred gain totaled \$486,608 and \$193,115, respectively, at year-end. The proceeds were used to advance refund a portion of the LP&L's outstanding indebtedness for the purpose of achieving debt service savings. The net proceeds were deposited with the Escrow Agent in an amount necessary to accomplish, on their scheduled redemption date, the discharge and final payment on the refunded bonds. These funds will be held by the Escrow Agent in a special escrow fund and used to purchase direct obligations of the United States of America. Under the escrow agreements, between the City and the Escrow Agent, the escrow funds are irrevocably pledged to the payment of principal and interest on the refunded bonds. The 2019 Refunding Bonds refunded \$4,525,000 of outstanding debt associated with the Electric Light and Power System. As a result of the refunding, the City achieved a 11.72% savings on the refunded bonds.

General Obligation Bonds and Certificates of Obligation are payable from a combination of (i) the proceeds of continuing direct annual ad valorem tax, levied within the limits prescribed by law, on all taxable property within the City, and (ii) a pledge of surplus net revenues of the City's Waterworks System not to exceed \$1,000. Electric Light and Power System Revenue Bonds are secured by a first lien on and pledge of the Net Revenues of the City's Electric Light and Power System. The City has not covenanted nor obligated itself to pay the Revenue Bonds from monies raised or to be raised from taxation.

In prior years, the City defeased bonds by placing the proceeds of the refunding bonds in an irrevocable trust account to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government's financial statements. At September 30, 2019, LP&L has no outstanding defeased debt.

NOTE 12: SHORT-TERM LIABILITIES

LP&L entered into a note purchase agreement (direct borrowing) on April 23, 2019 with Bank of America, N.A. as part of the utility's Electric Light and Power System Revenue Revolving Note Program. Total aggregate principal amount available under this agreement is not to exceed \$300 million. Under this agreement, LP&L can issue revolving notes with a maximum maturity date of 364 days from the purchasing date. For notes issued by LP&L, the drawn rate pricing is 80 percent of the London Interbank Offered Rate plus a fixed spread of 34 basis points. For additional information on the program, refer to *Bank of America Direct Purchase Revolving Notes Program* section of the MD&A.

As of September 30, 2019, LP&L had one note outstanding, totaling \$2,000,000, with an interest rate of 1.96% and a maturity date of September 1, 2020.

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NOTE 13: RISK MANAGEMENT

The Risk Management Fund of the City accounts for liability and workers' compensation claims, and premiums for property/casualty insurance coverage. The Risk Management Fund generates its revenue through charges to other departments, including LP&L, which are based on costs.

Prior to April 1999 the City was self-insured for workers' compensation claims. Any claims outstanding prior to April 1999 continue to be the City's responsibility. In April 1999, the City purchased workers' compensation coverage, with no deductible, from the Texas Municipal League Intergovernmental Risk Pool with continuous coverage through September 30, 2009. Effective on October 1, 2009 through September 31, 2018 the City purchased workers' compensation coverage from Texas Political Subdivisions Joint Self-Insurance Fund (TPS). TPS operates as a self-insurance pool offering coverage to municipalities and other political subdivisions in accordance with the terms of inter-local agreements among members. The City obtains workers' compensation coverage through a guaranteed-cost plan. Guaranteed-cost members combine their contributions to cover pooled losses and expenses.

As required by an inter-local agreement, TPS obtains specific excess of loss coverage over and above the self-insured retention stated in the agreement so that members will not have joint and several liabilities beyond their required contribution.

Effective October 1, 2018 the City purchased workers' compensation insurance with no deductible from Texas Mutual Insurance Company.

The City's self-insurance liability program is funded on a cash flow basis, which means that the servicing contractor processes, adjusts, and pays claims from a deposit account provided by the City until October 1, 2017. After October 1, 2017 all self-insurance liability claims are being adjusted and paid through the use of an in-house claims adjuster who, with the assistance of Risk Manager, sets reserves. The City accounts for the liability program by charging premiums to replenish funds based upon losses, administrative fees, premiums, and reserve requirements. In order to control the risks associated with liability claims, the City purchases excess liability coverage with an \$18 million annual aggregate limit and is subject to a \$500,000 deductible per claim.

For self-insured coverage, the Risk Management Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount, particularly for liability coverage. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claim liabilities are charged or credited to expense in the period in which they are incurred.

Additionally, property and boiler coverage is accounted for in the Risk Management Fund. In FY 2018 LP&L's property and boiler and machinery coverage was separated from the City's coverage as a cost

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savings measure. LP&L purchases property coverage to include boiler and machinery coverage from an outside carrier. The policy has various deductibles for both property and boiler and machinery coverage. Premiums are charged based upon estimated premiums for the upcoming year.

Other small insurance policies, such as surety bond coverage and miscellaneous floaters, are also accounted for in the Risk Management Fund. LP&L is charged based on premium amounts and administrative charges.

The City accounts for all insurance activity in its Internal Service Funds.

NOTE 14: HEALTH INSURANCE

LP&L participates in the City's medical and dental insurance programs. LP&L provides medical and dental insurance for all full-time employees that are accounted for in the City's Health Benefits Fund. Revenue for the health insurance program is generated from each cost center based upon the number of active full-time employees. The City's plan is self-insured under an Administrative Services Only Agreement. The City purchases excess coverage totaling \$700,000 per covered individual annually. Beginning on January 1, 2012, the City discontinued coverage that included an aggregate cap. The insurance vendor, based on medical trends, claims history, and utilization, assists in the determination of the individual deductible. The actuarially determined calculation of the claim liability was \$1.76 million at September 30, 2019 for all health insurances including medical, prescription drugs, and dental. The City charges LP&L for health insurance, and LP&L reimburses the City through direct charges.

The City also provides full-time employees basic term life insurance. The life insurance policy has a face value totaling \$10,000 per employee.

Full-time employees may elect to purchase medical insurance for eligible dependents at a reduced rate. Employees may elect to purchase dental insurance for eligible dependents. Employees may also elect, at their cost, to participate in several voluntary insurance programs such as vision insurance, voluntary life, and personal accident insurance.

NOTE 15: LITIGATION

LP&L is involved in various legal proceedings. The following represents the significant litigation against the City that relates to LP&L during the time period covered by the financial statements:

Headrick et al.

On July 23, 2019, a bumper pull trailer being pulled by a Ford Expedition was struck by an LP&L truck, resulting in a fatality, multiple personal injuries and property damage. At the time the trailer was struck, it, along with the Expedition, were located in the outside through lane of traffic. Although multiple claims have been filed, a suit has not yet been filed.

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The claimants have been in negotiations for approximately two months and agreed upon on a resolution of this matter, completed after the conclusion of fiscal year 2018-19. The resolution includes all parties and all claims that could be brought related to the vehicle collision. The amount of the settlement is \$10,000,000, said amount being within the City's retained self-insurance amount, and the City's excess liability insurance limits.

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2019

LP&L's Schedule of Changes in Net Pension Liability and Related Ratios
Texas Municipal Retirement System (TMRS)

	2019	2018	2017	2016	2015
Total pension liability					
Service Cost	\$ 3,250,256	\$ 3,094,041	\$ 2,944,598	\$ 2,875,400	\$ 2,528,145
Interest (on the Total Pension Liability)	9,077,328	8,538,646	8,107,660	7,972,442	7,639,097
Changes of benefit terms	(1,199,095)	(133,708)	(21,609)	-	-
Difference between expected and actual experience	-	-	-	(424,313)	(1,012,979)
Change of assumptions	-	-	-	199,125	-
Benefit payments, including refunds of employee contributions	(6,984,288)	(6,658,022)	(5,962,200)	(5,926,334)	(5,266,488)
Net Change in Total Pension Liability	4,144,201	4,840,957	5,068,449	4,696,318	3,887,775
Total Pension Liability - Beginning	128,992,621	124,151,664	119,083,215	114,386,897	110,499,122
Total Pension Liability - Ending (a)	<u>\$ 133,136,822</u>	<u>\$ 128,992,621</u>	<u>\$ 124,151,664</u>	<u>\$ 119,083,215</u>	<u>\$ 114,386,897</u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ 3,469,374	\$ 3,276,308	\$ 3,112,712	\$ 3,207,998	\$ 3,061,656
Contributions - Employee	1,345,605	1,277,854	1,213,195	1,209,360	1,127,051
Net Investment Income	(3,583,095)	14,484,811	6,642,534	145,404	5,346,027
Benefit payments, including refunds of employee contributions	-	-	-	-	-
Administrative Expense	(69,275)	(75,081)	(75,034)	(88,569)	(55,818)
Other	(3,619)	(3,806)	(4,042)	(4,374)	(4,589)
Net Change in Plan Fiduciary Net Position	(5,825,298)	12,302,064	4,927,165	(1,456,516)	4,207,839
Plan Fiduciary Net Position - Beginning	113,437,814	101,135,750	96,208,585	97,665,101	93,457,262
Plan Fiduciary Net Position - Ending (b)	<u>\$ 107,612,516</u>	<u>\$ 113,437,814</u>	<u>\$ 101,135,750</u>	<u>\$ 96,208,585</u>	<u>\$ 97,665,101</u>
Net Pension Liability - Ending (a) - (b)	\$ 25,524,306	\$ 15,554,807	\$ 23,015,914	\$ 22,874,630	\$ 16,721,796
Plan Fiduciary Net Position as a Percentage					
of Total Pension Liability	80.83%	87.94%	81.46%	80.79%	85.38%
Covered Payroll	19,220,910	18,243,168	17,476,056	17,259,301	16,080,396
Net Pension Liability as a Percentage					
of Covered Payroll	132.79%	85.26%	131.70%	132.54%	103.99%

**Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2019**

**LP&L's Schedule of Contributions
Texas Municipal Retirement System (TMRS)**

	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 3,546,906	\$ 3,351,716	\$ 3,187,375	\$ 3,090,958	\$ 3,063,920
Contributions in relation to the actuarially determined contribution	<u>\$ 3,546,906</u>	<u>\$ 3,351,716</u>	<u>\$ 3,187,375</u>	<u>\$ 3,090,958</u>	<u>\$ 3,063,920</u>
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	19,925,007	18,597,062	17,754,334	17,054,069	16,406,171
Contributions as a percentage of covered payroll	<u>17.80%</u>	<u>18.02%</u>	<u>17.95%</u>	<u>18.12%</u>	<u>18.68%</u>

Notes to Schedule of Contributions

Valuation Date: December 31, 2018
Notes: Actuarially determined contribution rates are calculated as of December 31st and become effective in January, 12 months and one day later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 years
Asset Valuation Method	10 Year smoothed market, 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Contributed Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:
Notes: There were no benefit changes during the year.

NOTE: Information in this table has been determined as of the City's most recent fiscal year-end (September 30) and will ultimately contain information for ten years.

**Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2019**

LP&L's Schedule of Changes in Total OPEB Liability and Related Ratios

	<u>2019</u>	<u>2018</u>
Total OPEB liability		
Service Cost	\$ 1,071,285	\$ 946,297
Interest (on the Total OPEB Liability)	645,635	669,193
Changes of benefit terms	-	-
Difference between expected and actual experience	(158,630)	-
Change of assumptions	(843,145)	1,007,111
Benefit payments	<u>(501,443)</u>	<u>(730,310)</u>
Net Change in Total OPEB Liability	213,702	1,892,291
Total OPEB Liability - Beginning	<u>19,348,418</u>	<u>17,456,127</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 19,562,120</u></u>	<u><u>\$ 19,348,418</u></u>
 Covered Payroll	 16,958,146	 16,596,735
Net OPEB Liability as a Percentage		
of Covered Payroll	115.36%	116.58%

NOTE: The City implemented GASB Statement No. 75 in FY 2018. Information in this table has been determined as of the measurement date (December 31) of the total OPEB liability and will ultimately contain information for ten years.

Changes in assumptions: reflects a change in the discount rate from 3.31% as of December 31, 2017 to 3.71% as of December 31, 2018.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Lubbock Power and Light

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Glossary

AICPA	American Institute of Certified Public Accountants
AMI	Advanced Metering Infrastructure
ARO	Asset Retirement Obligation
BCFD	Billion Cubic Feet Per Day
Board	Electric Utility Board
bps	Basis Points
CAFR	Comprehensive Annual Financial Report
CCN	Certificate of Convenience and Necessity
CIS	Customer Information System
Cities	WTMPA Member Cities, including Lubbock, Brownfield, Floydada and Tulia
City of Lubbock Utilities	Customer Service Department that works on behalf of the LP&L, Solid Waste, Storm Water, and Water/Wastewater Utilities
EAN	Entry Age Normal
EIA	U.S. Energy Information Administration
ERCOT	Electric Reliability Council of Texas
FAMCA	Federal Agricultural Mortgage Corporation
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FFCB	Federal Farm Credit Bank
FFE	Franchise Fee Equivalent
FHLB	Federal Home Loan Banks
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GIS	Geographic Information Systems
GT2	Cooke Station Gas Turbine #2
GT3	Cooke Station Gas Turbine #3
IBNR	Incurred But Not Reported
IM	Integrated Marketplace (Southwest Power Pool)
JPMIM	J.P. Morgan Investment Management Inc.
kV	Kilovolt
LGIP	Local Government Investment Pools
LOGIC	Local Government Investment Cooperative
LP&L	Lubbock Power & Light
MD&A	Management's Discussion and Analysis
MDMS	Meter Data Management System
MMMF	Money Market Mutual Funds
Moody's	Moody's Investors Service
MWFM	Mobile Work Force Management
MWh	Megawatt-Hour
Notes	Revolving Notes issued under the Electric Light and Power System Revenue Revolving Note Program
NPL	Net Pension Liability
NYMEX	New York Mercantile Exchange
OMS	Outage Management System
Oncor	Oncor Electric Delivery Company, LLC
OPEB	Other Postemployment Benefits
PILOT	Payment in Lieu of Taxes
PMC	Power Marketing Company
PPRF	Purchased Power Recovery Factor
Program	Electric Light and Power System Revenue Revolving Note Program
PUC	Public Utility Commission
RP2000	Society of Actuaries Retirement Plan 2000 Mortality Table
S&P	Standard & Poor's
SCADA	Supervisory Control and Data Acquisition
Sharyland	Sharyland Utilities, LLC
SPP	Southwest Power Pool
SPS	Southwestern Public Service Company
Tariff	LP&L's Electric Rate/Tariff Schedule
TCOS	Transmission Cost of Service
Texas CLASS	Texas Cooperative Liquid Assets Securities System
TexPool	TexPool Local Government Investment Pool
TexSTAR	Texas Short Term Asset Reserve
TMRS	Texas Municipal Retirement System
TPL	Total Pension Liability
TPS	Texas Political Subdivisions
TTUS	Texas Tech University System
UCA	Unit Contingent Agreement
WTMPA	West Texas Municipal Power Agency

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