ANNUAL FINANCIAL REPORT

Fiscal Years Ended September 30, 2021 and 2020

...securing the future

Lubbock Power & Light

The power is yours.

Annual Financial Report

For the Fiscal Years Ended September 30, 2021 and 2020

Annual Financial Report

Elected, Appointed and Principal Officials

City Council

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

Electric Utility Board

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

Principal Officials and Financial Management

David McCalla	Director of Electric Utilities
Jenny Smith	General Counsel – LP&L
Blair McGinnis	Chief Operating Officer
Joe Jimenez	Interim CFO/Financial Planning and Analysis Manager
Kacey Ortiz	Accounting Supervisor

Annual Financial Report

For the Fiscal Years Ended September 30, 2021 and 2020

Table of Contents

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Introduction
September 30, 2021 and 2020

Lubbock Power and Light (LP&L) is pleased to present its Basic Financial Statements for the fiscal years ended September 30, 2021 and 2020. 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 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 & 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 & Light, an enterprise fund the City of Lubbock, Texas, as of and for the year ended September 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Lubbock Power & Light's basic financial statements, and have issued our report thereon dated February 24, 2022, which included emphasis of matter paragraphs regarding the 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 & 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 & Light's internal control. Accordingly, we do not express an opinion on the effectiveness of Lubbock Power & 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 & 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.

Weaver and Tidwell, L.L.P.
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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 24, 2022

Independent Auditor's Report

Member of the 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, 2021 and 2020, 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, 2021 and 2020, 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.

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Board of Directors
Lubbock Power & Light

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, 2021 and 2020, 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 these matters.

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 24, 2022

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements of Lubbock Power and 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, 2021 (FY 2021), compared to the fiscal year ended September 30, 2020 (FY 2020). 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 refunding, 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, customer deposits, compensated absences, notes payable, and bonds payable. Noncurrent liabilities include the Southwestern Public Service Company (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.*

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 of Lubbock (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

Capital Assets – ERCOT Integration and Transmission & Distribution Upgrades - On March 8, 2018, the Public Utility Commission of Texas (PUCT) approved LP&L's application to join the Electric Reliability Council of Texas (ERCOT). LP&L worked with Oncor Electric Delivery Company LLC (Oncor) to build the transmission facilities needed to interconnect LP&L's system to the ERCOT grid. Construction of these facilities was completed on time and on May 30, 2021, LP&L completed the integration with ERCOT for approximately 70 percent of its load.

In addition to the ongoing investment in transmission interconnection facilities with ERCOT, significant additions to the system's capital assets were initiated and/or completed in FY 2021. These capital additions were related to an outer 115-kilovolt (kV) loop surrounding an inner 69-kV loop that were completed prior to the ERCOT integration. These upgrades represented the most cost-effective approach to ensure a continued reliable and robust internal LP&L system that is not part of the ERCOT transmission system.

Related to these capital additions, a total of 18 new capital projects and 10 existing capital projects were funded during FY 2021, totaling $36.3 million. The blend of funding sources used for these projects was composed of 61 percent equity and 39 percent debt. The targeted blend of financing is set at 35 percent equity and 65 percent debt in the utility's financial model. For FY 2021 and future fiscal years, the capital program is largely funded with cash to offset the debt issued through FY 2020 mainly due to the significant transmission upgrades.

The significant projects funded during the fiscal year included the following:

- Posey to Southeast 115kV Line, totaling $1.5 million
- Double Mountain to Fiddlewood 345kV Line, totaling $7.1 million
- Fiddlewood - Farmland 345kV Transmission Line, totaling $8.0 million
- Program 69-115 Voltage Conversion, totaling $1.1 million
- Distribution System Upgrade-Improvements-Expansion, totaling $4.9 million
- Substation 25kV Capacity Upgrades, totaling $4.0 million
- FY 2020-21 Distribution Transformers, totaling $3.5 million
- FY 2020-21 Distribution System Upgrade, totaling $5.6 million
- FY 2020-21 Overhead Lines, totaling $2.4 million
- FY 2020-21 Underground Distribution, totaling $2.9 million
- ERCOT Transmission/Distribution Service Provider System, totaling $2.7 million
- FY 2020-21 Vehicles and Equipment, totaling $2.7 million
- FY 2020-21 Transmission Crew Vehicles & Equipment, totaling $2.2 million

LP&L's depreciable and non-depreciable capital assets increased $250.3 million in FY 2021 due to a significant amount of completed work related to the upgrade of the transmission system/lines, substation upgrade work, and autotransformer projects needed to interconnect with ERCOT. Of the $250.3 million increase in capital assets, a total of $198.8 million was related to current ongoing project costs that have been partially capitalized and a total of $51.5 million was related to capital projects that were completed and closed in FY 2021.

The following asset categories drove the increase in total capital asset balances:

- 345kV ERCOT Interconnection projects required to transfer a portion of the LP&L system to ERCOT, totaling $183.2 million
- Customer Service Information Systems (CSIS) project upgrades, totaling $18.4 million
- Transmission projects to install and rebuild 69/115-kV transmission lines, totaling $13.5 million
- Yellowhouse Canyon Substation project to accommodate the 115-kV system conversion, totaling $13.4 million
- Annual projects for the purchase of vehicles and equipment along with the purchase and installation of overhead and underground distribution lines, totaling $12.2 million
- Autotransformer projects for the installation of autotransformers at the Co-op Substation to connect the 69-kV system to the 115-kV system, totaling $5.1 million
- Distribution projects to rebuild the Northeast Substation distribution and provide underground distribution for downtown redevelopment, totaling $3.9 million

23 capital projects, totaling $51.5 million, were completed and closed in FY 2021 and were moved from construction in progress to appropriate capital asset categories. The appropriation for these

projects totaled $54.1 million; therefore, these projects were completed under budget by $2.6 million. The significant projects completed in FY 2021 included:

- 2019-20 Distribution Transformers ($2.6 million expended, under budget $0.4 million) - the purchase of overhead transformers, pad mounted transformers, switches and enclosures, transformers, and related equipment
- 2019-20 Distribution System Upgrade ($2.4 million expended) – to upgrade the distribution system by reconductoring or rebuilding existing lines that require capacity upgrades or lines that have exceeded their life expectancy
- 2019-20 Underground Distribution ($2.6 million expended) – the installation of underground primary and secondary lines used to provide electric service to new and existing customers
- Downtown Redevelopment Underground ($4.8 million expended) – to reroute/install new underground feeders, switchgear and sub-feeders in downtown Lubbock to upgrade infrastructure, improve system reliability, minimize overhead and facilitate development within the five phases of downtown redevelopment
- 2019-20 Vehicles and Equipment ($2.4 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 or needed costly repairs
- Cooke Station Gas Turbine #2 (GT-2) Repairs - ($1.3 million expended, under budget $0.5 million) – to replace the expander on GT-2 at Cooke Station
- Cooke Station Gas Turbine #3 (GT-3) Repairs ($2.8 million expended, under budget $0.2 million) – the restoration and complete overhaul of GT-3 at Cooke Station
- Dispatch Control Center - Emergency Operations Center (EOC) - ($1.5 million expended, under budget $0.3 million) – the Construction of a primary dispatch control center within the EOC
- Substation Capacity Upgrade - Chalker ($9.1 million expended) - to purchase and install two (2) new 30/40/50 MVA substation power transformers, rebuild the substation to a ring bus configuration, and install a new control enclosure to house all of the controls, relay protection, SCADA system, fiber optic connections, and systems required to operate the entire substation
- Substation Capacity Upgrade - McDonald ($6.8 million expended, under budget $0.1 million) - to purchase and install two (2) new 30/40/50 MVA substation power transformers and replace the existing switchgear, upgrade the relay protection, replace the SCADA remote terminal unit (RTU), and add a second battery bank and charger
- Substation Rebuild - Slaton ($10.1 million expended, under budget $0.4 million) – to upgrade the substation capacity and build a new 115kV substation to replace the existing 69kV station at Slaton
- Distribution Capacitor Banks ($1.7 million expended) – to install approximately 60 capacitor banks, 60 controller units, and 60 distribution poles on the 15kV distribution system

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

A PCRF cap totaling five percent of total annual forecasted power costs is required by the Tariff to manage any monthly over-recovery of power costs. If at any time the cumulative over-recovery balance is greater than the balancing account cap, a downward adjustment may be made to the PCRF 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 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 PCRF with the intention of replenishing the rate stabilization fund.

LP&L tracks actual revenues collected from the PCRF and compares these revenues to the actual power costs incurred each month. The cumulative balance is reported to the Electric Utility Board ("EUB") on a monthly basis. The financial statements recognize the over-recovery as a deferred revenue in the accounts payable section and recognize an under-recovery position as a deffered expense in the accounts receivable 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. For more details on the PCRF over- or under-recovery changes by month, see *Table 1*:

Table 1 - PCRF Recovery by Month

PCRF Fund (in millions)	Beg. Bal	10/20	11/20	12/20	01/21	02/21	03/21	04/21	05/21	06/21	07/21	08/21	09/21
Monthly Over/(Under)	$ -	$ 0.9	$ 0.4	$ 0.1	$ 1.1	$ (13.2)	$ 1.8	$ (2.5)	$ (0.0)	$ (0.4)	$ (3.3)	$ (2.4)	$ 3.7
Cumulative Over/(Under)	$ 10.8	$ 11.7	$ 12.1	$ 12.2	$ 13.3	$ 0.1	$ 1.9	$ (0.7)	$ (0.7)	$ (1.1)	$ (4.4)	$ (6.8)	$ (3.2)

As of September 30, 2020, revenues collected from the PCRF portion of rates exceeded power costs in the amount of $10.8 million. By September 30, 2021, the PCRF over-recovery decreased approximately $14 million to an under collected amount of $3.2 million.

PCRF rates for the months of October 2020 through May 2021 (non-summer season) were initially set to evenly collect to insulate the utility from unexpected power cost impacts related to the ERCOT integration. However, by the end of February, 2021, that over-recovery was mostly eliminated due to the high power costs associated with the winter storm as further described in the ensuing February 2021 Winter Weather Event section.

PCRF rates for the months of June through September 2020 (summer season) were lowered to a level that was expected to under-recover for the remaining four months of the fiscal year to minimize higher customer costs related to increased demand during the summer months. As of September 30, 2021, the PCRF revenues are lower than the power costs in the amount of $3.2 million but within the approved PCRF lower bound.

Going forward, rates are set to over recover power costs throughout the FY 2021-22 non-summer season to gradually bring the PCRF to an evenly collection total position.

2021 Winter Weather Event ("WWE") - From February 14, 2021 through February 19, 2021, the continental United States experienced a severe winter storm resulting from the southern migration of a polar vortex that meteorologists characterize as the most significant in terms of scope and duration since monitoring of these weather phenomena began in the 1950s. As a result of the WWE, record breaking cold weather invaded the entire State of Texas, during which time the City experienced three consecutive days of record low temperatures and 86 consecutive hours below freezing. In anticipation of the winter storm, the Texas Governor, on February 12, 2021, declared a state of disaster for all 254 counties within the State, certifying in that declaration that severe winter weather posed an imminent threat of widespread and severe property damage, injury, and loss of life due to the prolonged freezing temperatures, heavy snow, and freezing rain statewide. In response to that declaration, and on the same date, the Texas Railroad Commission issued an Emergency Order approving a utilities curtailment program relating to and specifying an essential prioritization of the transportation, delivery and / or sale of natural gas in the State. On February 19, 2021, the President of the United States also declared that a major disaster existed in the State.

LP&L's energy and fuel costs came in higher than normal for February 2021 due to increases in natural gas prices. Fortunately, a Heat Rate Call Option "HRCO" which was a separate, but related agreement provided a price ceiling for energy purchases by implementing a 16 HRCO should the SPP Integrated Market ("IM") prices exceed a 16 heat rate price. Having this HRCO in place protected the utility from the high Waha natural gas prices experienced during the event. The HRCO, along with energy settlement amounts for generation utilized during the WWE, helped alleviate some of the large costs related to purchased power invoices.

The impacts of the WWE were minimal to LP&L. The Massengale unit performed very well during the event and only experienced a short, forced outage due to a gas curtailment. Even though the unit performed well during the WWE, additional weatherization measures were immediately taken to improve the units in areas identified as a potential future issue.

Power Marketing – For a period in FY 2021 (October 2020 – May 2021), the Brandon and Massengale units were used to provide capacity and energy for the LP&L load and were part of the utility's overall purchased power costs while in the Southwest Power Pool (SPP). LP&L contracted with a power marketing company (PMC) to register the Brandon and Massengale stations in the PMC's portfolio. The PMC managed and procured the natural gas needed to operate the Brandon and Massengale units and bid those units into the SPP IM. These production units were used to produce power for the City in times where the SPP IM market energy prices were higher than the utility's production costs. As a result, the fuel costs to operate the production units, totaling $19.1 million, were netted against the revenues, totaling $10.4 million, from the SPP IM market and were included in the PCRF calculation.

As of June 2021, the Brandon and Massengale units were moved over to the ERCOT market as LP&L made the transition for a portion of its load in May 2021. Going forward, LP&L will continue to use these units to provide capacity and energy for its load or sell to the market when prices are profitable. For the period between June 2021 and September 2021, fuel costs to operate the production units, totaled $1.1 million, were netted against the revenues, totaling $1.0 million, from the ERCOT market and were included in the PCRF calculation.

Purchased Power Agreements, Generating Assets, and Renewable Energy Resources
ERCOT Energy Procurement - Prior to the expiration of the SPS Capacity Agreement and HRCO on May 31, 2021, LP&L began structuring an energy procurement process in anticipation of the June 1, 2021 entry into ERCOT. This process included the development of a hedge program, in coordination with a third-party PMC.

The PMC developed hourly load forecasts for planning and financial analysis. The load forecasts model both Lubbock temperatures and the corresponding hourly load, based on several years of observed data, and use inputs provided by LP&L's weather forecasting consultant for overall seasonality and long-term growth rates. It allows for differences in temperature and load relationships across different seasons, days of the week, and times of day. In this way, the load is modeled with the appropriate potential hourly variation in different months, and across numerous simulations consistent with 30-year normal weather conditions. The load forecast is one part of a larger stochastic portfolio model that LP&L's PMC completed with 2,000+ simulations of how future load, generation, and prices for LP&L may vary, in order to understand the most probable range of outcomes and the potential for unusual events.

Once the models were built, risk strategies identified, and load forecasts complete, LP&L began to purchase blocks of Firm LD power to manage price exposure. The PMC assisted and continues to assist LP&L by running hundreds of simulations in the load forecast models to project necessary block purchases to cover loads based on low- and medium-risk hedging strategies. For the summer months of June through September, LP&L has adopted a low-risk strategy with the intention of covering 100 percent of the load in ERCOT to manage the summer month's volatile energy prices and to fully protect the utility from market price exposure. For the winter months of October through May, LP&L has adopted a medium to low-risk strategy, with hedges covering a percentage of the load. This strategy allows LP&L the opportunity to purchase energy in the day-ahead or real-time markets for the unhedged load when favorable pricing occurs. Winter energy pricing is typically less volatile, and the medium to low-risk strategy allows LP&L to take advantage of current market conditions to cover the remaining unhedged load. However, LP&L management and the PMC meet at least weekly, and on a daily basis if needed, to discuss market conditions to monitor any changes or potential threats that arise, with the ability to adjust the hedging strategies at any time, if necessary.

Portion of LP&L's Load Currently Remains in SPP ("Unaffected Load") - The acquisition of SPS' distribution system in 2010 included 19 delivery points that are served off of 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 in ERCOT until May 2023. The Unaffected Load is expected to remain in SPP until May 31, 2023. This Unaffected Load is expected to be served by the Partial Requirements (PR) Agreement with SPS until the integration of the Unaffected Load into ERCOT occurs.

Early Termination of the PR Agreement - In anticipation of the full integration to ERCOT, LP&L and SPS approved a Settlement Agreement on May 27, 2021 to terminate the PR Agreement, and identified May 31, 2023 as the estimate of the full ERCOT integration and resulting early termination of the PR Agreement. Under the terms of the Settlement Agreement, LP&L agreed to pay a lump sum, totaling $77.5 million, to SPS as compensation for power- and transmission-related shifted costs under the PR Agreement. LP&L also agreed to continue paying SPP charges that are assessed to SPS under the LP&L Network Integration Transmission Service ("NITS") Agreement, for up to 24 months, that are attributable to service to LP&L's load after LP&L departs the SPP system (because SPP uses lagging billing determinants for certain charges). Additionally, LP&L agreed that the Settlement Agreement will not become effective unless and until it is approved or accepted by the Federal Energy Regulatory Commission (FERC) and the PUC. Following the termination date, the contractual relationship between LP&L and SPS will be limited to the Settlement Agreement and certain easements and crossing agreements necessary for the operation of each respective system. For clarity, the existing water use agreement and the existing franchise agreement pertaining to SPS' retail service territory in Lubbock will continue under the existing terms of each respective agreement.

Under the PR Agreement, LP&L pays over $17.0 million per year for capacity in SPP. With the 1.2 percent annual increase in service, in addition to inflationary impacts, the annual payments will grow well in excess of $17 million per year into the future. The lump sum termination payment of $77.5 million will be funded with long-term bonds. Therefore, the termination of the agreement will trade an annual capacity charge with a much lower annual debt service payment, with expected savings exceeding $12 million per year.

Renewable Energy Resources – The City of Lubbock has an agreement with Elk City II Wind, LLC for the purchase of energy from the 106.9 MW aggregate nameplate wind generation facility located in Roger Mills and Beckham Counties, Oklahoma. LP&L's receives 85% of the output from this resource. The initial term of this agreement is June 1, 2019 through May 31, 2032, unless extended. The term may be renewed or extended by mutual consent of City of Lubbock and Elk City II Wind, LLC, upon terms and conditions and for a price upon which must mutually be agreed upon in connection with such extension or renewal.

LP&L Generating Assets - LP&L currently has approximately 106 MW of dependable natural gas fired generation and uses that generation to serve its load in ERCOT when market prices are higher than productions costs.

ERCOT Transition

On October 20, 2015, the EUB and the City Council both took formal action to authorize LP&L to seek interconnection of 470 MW of LP&L's load with ERCOT. LP&L did not seek to connect the remaining, approximately 170 MW of electric load to ERCOT. Since that time, LP&L has endeavored to gain regulatory approval to move the remaining load from SPP to ERCOT, and has obtained that approval from the PUCT.

The Electric Reliability Council of Texas: Founded in 1970, ERCOT became the primary overseer of Texas' power grid and the independent system operator ("ISO") for a region that serves 90 percent of the state's electric load, or approximately 26 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 ("REP"), and other areas that 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

710+ generating units. Governed by a board of directors and subject to oversight by the PUC and the Texas Legislature, ERCOT is a membership-based 501(c) (4) nonprofit corporation that manages and ensures the reliability of electric service to its customers. Under Senate Bill 2, effective June 8, 2021, the ERCOT Board of Directors consists of (1) the Chairman of the PUC; (2) the Counsellor for the Office of Public Utility Counsel; (3) the ERCOT CEO; and (4) eight members selected by a "selection committee" who have executive level experience in finance, business, engineering, trading, risk management, law, or electric market design. All members of the ERCOT Board must be Texas residents. In 2020, loads within the ERCOT region used 382 billion kilowatt-hours ("kWh") worth of energy, which is a 0.6 percent decrease from 2019.

ERCOT Integration Request Process: The formal process related to LP&L's integration of the Affected Load into ERCOT included integration studies, a PUCT 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 PUCT 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 PUCT 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 PUCT approved the integration of the Affected Load to the ERCOT system through an Order in PUCT Docket No. 47576. With approval by the PUCT, 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.

ERCOT Transmission Assets and Approval Process: New transmission line routes and substation locations necessary for the ERCOT integration were identified in the CCN cases that were presented to the PUCT. There were four different CCNs and five orders associated with the ERCOT interconnection:

- PUCT Docket No. 48625 - Ogallala to Abernathy–final order signed on September 26, 2019
- PUCT Docket No. 48668 - Abernathy to Wadsworth–final order signed on December 13, 2019
- PUCT Docket No. 48909 - Wadsworth to Farmland–final order signed on January 23, 2020
- PUCT Docket No. 48909 - Southeast to Oliver–final order signed on January 23, 2020
- PUCT Docket No. 49151 - Abernathy to North– final order signed on March 12, 2020

After approval of the CCNs, all the easements were secured in a timely manner. This allowed LP&L to complete the Engineering, right-of-way acquisition and construction prior to the targeted integration date of June 1, 2021.

<u>Participation Agreement</u>: One of the findings within the PUC Order stated that Sharyland Utilities, L.P. ("Sharyland") and LP&L were the only utilities that own the endpoints included in Option 4ow, and therefore it was appropriate that LP&L and Sharyland provide the Option 4ow transmission facilities. On August 21, 2018, LP&L and Sharyland entered into a Participation Agreement, as amended, that set forth the rights, responsibilities, and expectations of Sharyland and LP&L in connection with the LP&L integration to ERCOT and memorialized 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 its 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. Through an Agreement and Plan of Merger, dated October 18, 2018, Oncor became the successor, by merger and acquisition of Sharyland, to the Participation Agreement. As a result, Oncor acquired real property interests and completed construction activities necessary for the ERCOT integration and transferred those assets to LP&L on May 25, 2021.

<u>ERCOT Infrastructure Cost and Financing</u>: The approximate cost of the infrastructure necessary for LP&L to integrate into ERCOT was $381.1 million, of which approximately one half is owned by LP&L and the other half is owned by Oncor. LP&L's cost to fund the needed additional infrastructure was funded through short-term financing during the construction phase and is being converted to long-term financing with the issuance of the Bonds.

The short-term financing was provided through an Electric Light and Power System Revenue Revolving Note Program ("Note Program") which was utilized to issue program obligations ("Notes"), from time to time, in an aggregate principal amount not to exceed $300 million outstanding at any one time. The Notes were issued on a subordinate basis to LP&L's outstanding debt and were issued after the City Council approval of a Note Purchase Agreement with Bank of America on April 23, 2019.

The ordinance authorizing the issuance of the Notes was a "parameters ordinance" delegating authority to the Mayor, City Manager, the Chief Financial Officer of the 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 such Notes. The proceeds of Notes were used for the acquisition, purchase, construction, improvement, renovation, enlargement, and/or equipment of property, buildings, structures, facilities, equipment and/or related infrastructure for LP&L, including capital assets and facilities incident and related to the operation, maintenance and administration thereof.

The facility was utilized to provide interim financing for the majority of LP&L's capital program, including the transition costs of entering ERCOT and including capitalized interest during and after the period of construction of the facilities (See *Bank of America Direct Purchase Revolving Note Program*).

Integration - The integration of approximately 70 percent of LP&L's load took place over the 2021 Memorial Day weekend, on May 29 and May 30. LP&L received its certification as a Transmission System Operator and subsequently energized all six 345/115kV autotransformers. On May 30, 2021, the LP&L integration with ERCOT was completed. LP&L owns three 345 kV transmission lines that total sixty-nine miles in length. LP&L owns 115,000 Volt ("115 kV") and 69,000 Volt ("69 kV") transmission loop systems, with eighty-one miles operated at 115 kV and twenty miles operated at 69 kV. LP&L owns two 345/115 kV switching stations (*Dunbar, Posey*), one 345/115 kV substation (*Yellow House Canyon*), one 115/69 kV switching station (*Holly*), three 115/69 kV substations (*McKenzie, Vicksburg, Co-op*), nine 115 kV substations (*Thompson, Chalker, Oliver, Southeast, Slaton, Wadsworth, Northeast, Northwest, McDonald*), and four 69 kV substations (*Erskine, Brandon, Red Raider, McCullough*). LP&L also owns distribution assets at eighteen substations acquired from SPS in 2010 and also has four distribution delivery points from SPS. The LP&L distribution system includes over 4,314 miles of distribution lines, with approximately 39 percent being underground. Upon LP&L's acquisition of SPS's distribution assets within the City, both distribution systems have been utilized to ensure adequate capacity for the total load and for enhancing system reliability.

The construction of an outer 115 kV loop surrounding an inner 69 kV LP&L loop was completed in April 2021. These upgrades represent the most cost-effective approach to ensure a reliable and robust internal LP&L system to fully leverage the benefits of the ERCOT integration.

ERCOT 2021 Power Supply: LP&L secured services to facilitate its power supply upon its entry to ERCOT. In addition to power supply, LP&L secured Qualified Scheduling Entity (QSE) and Load Serving Entity (LSE) services, which are explained below:

- QSE Services: A QSE is required to submit offers to sell and/or bid to buy energy in the Day-Ahead Market and Real-Time Markets in ERCOT. The QSE is also responsible for submitting a Current Operating Plan for all resources it represents and offering or procuring Ancillary Services as needed to serve its represented load.

- LSE Services: An LSE manages physical, financial, and commercial transactions for scheduling Energy, Capacity, and Ancillary Services through the bilateral wholesale market and the markets operated by ERCOT.

ERCOT current energy purchases are transacted through blocks of Firm LD power, Day-Ahead and Real-Time market purchases dependent on market conditions (See *ERCOT Energy Procurement*).

Transmission Cost of Service Revenues (TCOS): The new TCOS revenue stream commenced in June 2021 and initially totaled roughly $15.9 million on an annualized basis. The Interim TCOS filing from September 1, 2021 eventually increased the TCOS revenue stream to $40.9 million on an annualized basis, while also beginning application of the $22 million hold harmless payment effective January 31, 2022. The financial model incorporates the calculation of TCOS revenues to fund the upgrades and interconnection of LP&L's transmission system, plus any existing debt service functionalized to transmission. Additionally, operations and maintenance costs that can be recovered in transmission rates have been quantified and included as part of the revenue stream.

The PUCT Order issued January 31, 2022, which resolved all issues in the proceeding, included terms in which LP&L will:

- increase the TCOS revenue stream from $15.9M to $40.9M and rates will be based on the ERCOT 2021 Matrix using the 2020 4CP load;
- receive a good cause exception to allow for the recovery of general plant allocated to transmission plant which is not typically included in an interim filing;
- begin paying the $22 million hold harmless payment aligned with the new interim rate implementation; and
- continue earning a rate of return of 8.27 percent.

Hold Harmless Payments - PUC Docket No. 47576 required that, upon integration to ERCOT on June 1, 2021, LP&L would 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 SPS Capacity Contract and reserved $24.0 million from this savings prior to the end of FY 2018-19. The payment was made to SPS on June 1, 2021.

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.

Bank of America Direct Purchase Revolving Note Program – On April 23, 2019, the City Council approved the Note Program in an aggregate principal amount not to exceed $300 million. The City selected Bank of America, N.A. as the counterparty. The Note Program consisted of Notes that were issued on a subordinate basis to LP&L's outstanding debt. The ordinance authorizing the Note Program is a "parameters ordinance" that delegates authority to the Mayor, City Manager, the Chief Financial Officer of the 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 mainly funded 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 69-kV inner transmission loop, a 115-kV outer transmission loop, and a 345-kV interconnection to ERCOT. The Note Program was utilized through September 2021 to provide the interim financing, including the capitalization of interest during and after the period of construction of the facilities.

On August 10, 2021, to convert the interim obligations to long-term bonds, the City Council passed a resolution authorizing the publication of a Notice of Intention to issue Electric Light and Power System Revenue Bonds, Series 2021. The proceeds of the bonds were used to pay off the principal and interest of the notes issued through the Note Program with Bank of America, N.A. The Revenue Bonds were priced on August 12, 2021 and then delivered on September 9, 2021.

As part of the integration of the remaining load into the ERCOT system, LP&L anticipates a sizeable capital improvement project for distribution projects that will improve its reliability and move customers from the legacy SPP system to the ERCOT system. An extension to the Note Program and an additional not to exceed amount of $75 million was requested. The City submitted a "Notice of

Extension" to Bank of America on July 19, 2021. The request is to extend the note for three years and to decrease the amount from $300 million to $60 million to fund additional distribution and annual capital needs for the next two fiscal years. The majority of the distribution projects are necessary to transition the remaining load from SPP to ERCOT by late 2023.

On August 10, 2021, the City Council approved an ordinance authorizing the issuance of the Notes is a "parameters ordinance" delegating authority to the Mayor, City Manager, the Chief Financial Officer of the 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 such Notes. The proceeds of Notes will be used for the acquisition, purchase, construction, improvement, renovation, enlargement, and/or equipment of property, buildings, structures, facilities, equipment and/or related infrastructure for LP&L, including capital assets and facilities incident and related to the operation, maintenance and administration thereof.

The Note Program is expected to be utilized through December 31, 2024, to provide interim financing for LP&L's capital program, including the transition costs of the remaining load from SPP to ERCOT and including capitalized interest during and after the period of construction of the facilities.

<u>Meter Growth</u> – LP&L's meter base totaled 108,557 and 107,899 meters at September 30, 2021 and 2020, respectively. The FY 2021 meter increase of 0.61 percent is in line with normal growth levels within the LP&L certificated area. Residential meters increased by 710 meters, while commercial meters decreased by 52 meters due to E99X (Electric Non-Billable) commercial meters being eliminated and/or converted from the meter count upon completion of the conversion of the new billing system.

RESULTS OF OPERATIONS

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

	2021	2020	2019
Program revenues			
Charges for services	$ 273,843,064	$ 213,061,262	$ 211,188,949
General revenues			
Investment earnings	487,744	3,195,923	5,963,641
Other revenues (expenses)	(19,329,417)	(14,437,868)	(18,252)
Total revenues	255,001,391	201,819,317	217,134,338
Program expenses (including interest)	247,306,737	184,416,877	187,616,615
Contributions	261,513	85,860	174,130
Excess before transfers	7,956,167	17,488,300	29,691,852
Transfers	(82,358)	290,585	(13,658,064)
Change in net position	7,873,809	17,778,885	16,033,789
Net position, beginning of year	229,846,212	212,067,327	196,033,538
Net position, end of year	**$ 237,720,021**	**$ 229,846,212**	**$ 212,067,327**

Total Revenues

<u>**FY 2021**</u> – Program revenues totaled $273.8 million, representing a 28.5 percent increase from FY 2020. (See *Table 3* below for a breakdown of program revenues by major category.):

Table 3 – 2021 Program Revenues

Program Revenues	**2021**	**2020**	**Change**
General Consumers Metered	$ 264,072,533	$ 210,927,561	$ 53,144,972
TCOS Revenue	5,541,501	-	5,541,501
Unit Contingent	-	121	(121)
Fees, Charges, and Other	5,948,314	3,128,838	2,819,476
Bad Debt Expense	(1,719,284)	(995,258)	(724,026)
Total	$ 273,843,064	$ 213,061,262	$ 60,781,802

The primary driver of higher program revenues was an increase, totaling $53.1 million, in general consumers metered revenues (Metered Revenues). These revenues were up due to increased PCRF rates related to increased purchase power costs. For more detail on the breakdown of Metered Revenues, see *Table 4*. Additionally, LP&L added a new revenue line item for TCOS In FY 2021, electric consumption was comparable to FY 2020 with 2.552 million MWh consumed, compared to 2.556 million MWh in the prior year. Additionally, franchise fees were up as a result of increased PCRF rate revenues.

Table 4 – 2021 Metered Revenues

Metered Revenues	2021	2020	Change
Base Rates	$ 70,338,992	$ 70,337,904	$ 1,088
Power Cost Recovery Factor	181,826,347	131,064,840	50,761,507
Franchise Fee Equivalent	11,907,195	9,524,817	2,382,378
Total	$ 264,072,534	$ 210,927,561	$ 53,144,973

PCRF revenues increased due to higher PCRF rates in FY 2021 than in FY 2020, causing this revenue stream to increase approximately 38.7 percent. For example, a Residential Rate 1 customer's PCRF rates averaged $0.06978/kWh in FY 2021 compared to an average of $0.05718/kWh in FY 2020, representing a 22.0 percent increase. The increase was related to higher energy prices in FY 2021 combined with below-cost rates in FY 2020 used to return a portion of past PCRF over-recoveries to LP&L customers.

General revenues, comprised mainly of investment earnings, decreased from $3.2 million in FY 2020 to $0.5 million in FY 2021 (see *Table 2*). The large decrease in investment earnings was a result of the majority of funds being held in State Investment Pools which accrue significantly reduced interest due to the historically low rate environment created by the COVID-19 Pandemic.

Other revenues (expenses) changed from a net expense totaling $14.4 million in FY 2020 to a net expense totaling $19.3 million in FY 2021 (see *Table 2*). The increase in FY 2021 was due to a $3.0 million increase in the Franchise Fee Equivalent (FFE) and Payment in Lieu of Property Taxes (PILOT) expenses. Residual equity transfers also increased $1.4 million.

FY 2020 – Program revenues totaled $213.1 million, representing a 0.9 percent increase from FY 2019. (See *Table* 5 for a breakdown of program revenues by major category.):

Table 5 - 2020 Program Revenues

Program Revenues	2020	2019	Change
General Consumers Metered	$ 210,927,561	$ 205,822,646	$ 5,104,915
Unit Contingent	121	3,001,980	(3,001,859)
Fees, Charges, and Other	3,128,838	3,494,643	(365,805)
Bad Debt Expense	(995,258)	(1,130,320)	135,062
Total	$ 213,061,262	$ 211,188,949	$ 1,872,313

The primary driver of higher program revenues was an increase, totaling $5.1 million, in Metered Revenues. Metered Revenues increased mainly due to a shift in consumption from commercial rates classes to residential rate classes as the global pandemic changed consumer behavior (For more detail on the breakdown of Metered Revenues, see Table 6). The increase in Metered Revenues was offset by a decrease of $3.0 million in Unit Contingent revenues due to the expiration of the unit contingent agreement (UCA) with SPS on June 30, 2019 and lower fees and charges due to the discontinuation of disconnect, reconnect, and late fees that occurred during the height of the pandemic. Additionally, a higher level of recoveries in the allowance for uncollectable accounts led to a decrease in bad debt expense for FY 2020.

Table 6 - 2020 Metered Revenues

Metered Revenues	2020	2019	Change
Base Rates	$ 70,337,904	$ 67,524,201	$ 2,813,703
Power Cost Recovery Factor	131,064,840	128,960,928	2,103,912
Franchise Fee Equivalent	9,524,817	9,337,517	187,300
Total	$ 210,927,561	$ 205,822,646	$ 5,104,915

In FY 2020, electric consumption was comparable to FY 2019 with 2.556 million MWh consumed, compared to 2.588 million MWh in the prior year. However, there was a shift in rate class consumption with an approximate nine percent increase in residential rate classes, offset by decreases in commercial, school, and church rate classes. This shift was directly attributed to the COVID-19 pandemic, which resulted in decreased commercial usage and increased residential usage as the public was urged to remain at home. This resulted in higher revenues as the rates in residential rate classes are typically higher per-kilowatt hour (kWh) than in commercial rate classes.

PCRF revenues also increased due to the shift in consumption patterns between commercial and residential rate classes. PCRF rates were actually lower in FY 2020 than in FY 2019, however, the shift between rate classes caused this revenue stream to increase approximately 1.6 percent. For example, a Residential Rate 1 customer's PCRF rates averaged $0.05718/kWh in FY 2020 compared to an average of $0.06492/kWh in FY 2019, representing an 11.9 percent decrease. The decrease was related too much lower energy prices in FY 2020 combined with below-cost rates in order to return a portion of past PCRF over-recoveries to LP&L customers.

General revenues, comprised mainly of investment earnings, decreased from $6.0 million in FY 2019 to $3.2 million in FY 2020 (see *Table 2*). The large decrease in investment earnings was a result of decreases in the fed funds target rate by 50 basis points (bps) on March 3, 2020 and a decrease of 100 bps on March 16, 2020 due to slowing national economic growth caused by the COVID-19 pandemic.

Other revenues (expenses) changed from a net expense totaling $18,252 in FY 2019 to a net expense totaling $14.4 million in FY 2020. The substantial increase in FY 2020 was largely due to a change in the recording of the Franchise Fee Equivalent (FFE) and Payment in Lieu of Property Taxes (PILOT) as expenses rather than transfers out; write-offs, totaling $1.4 million, for various substation equipment; offset by the $1.0 million remittance from WTMPA for the City's 85.21 percent share of WTMPA's applicable assets, less current liability obligations that existed as of September 30, 2019. This increase in expense was offset by a large decrease in the transfer's line item.

Program Expenses

<u>**FY 2021**</u> – Program expenses, excluding interest expense, totaled $240.0 million, representing a 34.4 percent increase from FY 2020 (see *Table 2*). The cost of purchased fuel and power, totaling $184.7 million, represented 74.7 percent of total program expenses and increased $58.8 million from FY 2020. The breakdown of purchased power costs are shown in *Table 7*, as follows:

Table 7 - 2021 Power Costs

Power Costs	2021	2020	Change
Energy	$ 115,546,196	$ 60,067,543	$ 55,478,653
Demand	69,145,593	65,802,334	3,343,259
Total	$ 184,691,789	$ 125,869,877	$ 58,821,912

- Energy costs increased $55.5 million, or 92.4 percent, mainly due to increased pricing of natural gas and high market costs associated with the February 2021 Winter Storm. The average price of Waha natural gas in FY 2020 was $0.98 per one million British Thermal Units (MMBtu) and the average in FY 2021 was $5.36/MMBtu. The February Winter Storm significantly increased the average costs for the year as prices averaged $34.64/MMBtu during that particular month.
- Demand costs include capacity, transmission, and internal production-related operating and maintenance (O&M) costs. Demand costs increased $3.3 million due to an increase in transmission charges (up $6.2 million, or 18.9 percent) offset by a decrease in capacity charges (down $2.9 million, or 8.7 percent).
    - Transmission costs increased $0.8 million in FY 2021. The primary drivers of the transmission increases were as follows: (a) a $5.2 or 2.74 percent increase in O&M; (b) a $5.6 million or 29.42 percent increase in "Taxes Other Than Income Taxes" due to an increase in property taxes from the increased plant-in-service and general increases in property tax rate. Offsetting the increases was a decrease in transmission plant in service of $9.4 million or 2.58 percent. The decrease was mostly due to lesser than expected plant additions, as well as the associated decrease in depreciation expense and a lower percentage return on rate base due to higher portion of debt in the capital structure and a decrease in the average cost of debt.
    - ERCOT transmission charges is a new expense line item in FY 2021 that resulted in a total of $2.1 million of the total increase in transmission. These are the transmission costs related to ERCOT as a portion of our load is split between the SPP and ERCOT market.
    - Transmission access fees are also a new expense line item in FY 2021 that resulted in an increase of $8.7 million for transmission costs. These fees are related to the service costs the utility must pay each transmission service provider (TSP) for transmission service delivered within ERCOT.
    - Network services fees and SPP's administration fees decreased $3.7 million and $0.8 million respectively, mainly due to the transition of 70 percent of the load to the ERCOT market in June 2021.
    - Credits from auction revenue rights (ARRs) and transmission congestion rights (TCRs) associated with SPP transmission network costs increased in FY 2021, causing an approximate $0.6 million decrease to transmission costs. ARR/TCR credits are related to TCRs associated with firm transmission rights and hedging load.
    - Capacity payments were lower in FY 2021, resulting in $2.9 million in reduced costs. The reason for the decrease was the transition to ERCOT in May 2021. Being that ERCOT is an energy only market, LP&L's capacity expenses have decreased and are only being charged for the capacity expenses related to the Unaffected Load remaining in SPP.

Program expenses, excluding purchased power costs and interest expense, totaled $55.3 million, an increase of $2.6 million, or 4.9 percent, compared to FY 2020. The increase was mainly driven by increases in other services and charges and depreciation and amortization, offset by decreases in supplies, maintenance, and personal services. The breakdown of program expenses is shown in *Table 8* below:

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

Select Program Expenses	2021	2020	Change
Personal services	$ 19,156,149	$ 21,015,714	$ (1,859,565)
Supplies	1,201,773	1,307,478	(105,705)
Maintenance	3,057,183	3,618,461	(561,278)
Other services and charges	13,804,754	10,747,548	3,057,206
Depreciation and amortization	18,063,182	16,029,599	2,033,583
Select Program Expenses	$ 55,283,041	$ 52,718,800	$ 2,564,241

Personal services decreased $1.9 million in FY 2021. Expenses related to pensions decreased $2.5 million (see *Note 7: Retirement Plan*), which was offset by increases in payroll and benefits costs, totaling $0.2 million and an increase in expenses related to OPEB, totaling $0.2 million. Additionally, the business allocation transfer from the city decreased $0.4 million due to the decrease in personal services from the Customer Service department.

Supplies decreased $0.1 million due to decreases in charges related to machinery and equipment supplies used in carrying out the functions of the production, distribution, and transmission departments. Fuel expenses also contributed to the decrease due to decreased fuel usage for FY 2021.

The $0.6 million decrease in maintenance charges was mainly due to decreased maintenance of overhead lines, underground lines, and heavy equipment necessary to ensure a safe and reliable distribution system.

Other Services and Charges rose $3.1 million due to increases in professional services, including: (a) charges related to property and liability insurance, totaling $1.2 million; (b) charges related to the implementation of the Customer Information System (CIS) and Oracle software, totaling $0.9 million (c) charges for services related to the repair for the turbine engine at the Brandon station, totaling $0.4 million; (d) professional services related to the SCADA Vendor Hardware/Software Support Agreement and the cost for Principle Service Staffing in the transmission load dispatching department, totaling $0.3 million; and (e) an increase caused by a decrease in the transfer for data processing charges due to a decrease in charges from the customer service department, totaling $0.3 million.

Depreciation and amortization expense increased $2.0 million in FY 2021 as a result the following new assets added during the fiscal year: Customer Information Systems, AMI Secondary Meters, 2 - Steel Tangent Poles, 3 - Auto Transformers, and Gas Turbine #2 Overhaul.

FY 2020 – Program expenses, excluding interest expense, totaled $178.6 million, representing a 1.9 percent decrease from FY 2019. The cost of purchased fuel and power, totaling $125.9 million, represented 68.3 percent of total program expenses and decreased $3.4 million from FY 2019. The breakdown of purchased power costs are shown in *Table 9*, as follows:

Table 9 – 2020 Purchased Power Costs

Power Costs	2020	2019	Change
Energy	$ 60,067,543	$ 66,742,055	$ (6,674,512)
Demand	65,802,334	62,526,914	3,275,420
Total	$ 125,869,877	$ 129,268,969	$ (3,399,092)

- Energy costs decreased $6.7 million, or 10.0 percent, mainly due to market purchases of energy in the SPP IM, coupled with a heat rate call option, that provided the majority of LP&L's energy needs throughout the fiscal year. The SPP IM energy purchases provided savings from the SPS Power Agreement that was in effect for eight of the 12 months in FY 2019. Lower locational marginal prices (LMPs) in the SPP IM, averaging $18.01 in FY 2020 compared to $23.44 in FY 2019, continued due to low natural gas prices in the region. The average price of Waha natural gas in FY 2019 was $0.99 per one million British Thermal Units (MMBtu) and the average in FY 2020 was $0.98/MMBtu, a 0.6 percent decrease.
- Demand costs include capacity, transmission, and internal production-related operating and maintenance (O&M) costs. Demand costs increased $3.3 million due to an increase in transmission charges (up $5.4 million, or 19.7 percent) offset by a decrease in capacity charges (down $2.1 million, or 6.1 percent).
    - Regional and zonal transmission costs increased $1.0 million in FY 2020, which was attributed to higher costs in SPP. The primary drivers of the large transmission increases were as follows: (a) a 19.3 percent increase in transmission plant in service, which increased the dollar return on rate base and related income taxes for transmission owners; (b) a 47.7 percent increase in depreciation expense, due to increases in the depreciation rate and the plant-in-service balances; (c) a 39.5 percent increase in "Taxes Other Than Income Taxes" due to an increase in property taxes from the increased plant-in-service and general increases in property tax rates; and (d) LP&L's higher load ratio share in SPP (based on the 2020 coincident peak demand average).
    - Network services fees increased $1.9 million, mainly due to the addition of GridLiance High Plains, a transmission-only utility, who operated for the full 12-months of the fiscal year in SPP. The revenue requirement related to the addition of GridLiance increased LP&L's network service fees.
    - Credits from ARR/TCR associated with SPP transmission network costs were reduced in FY 2020, causing an approximate $2.8 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.
    - SPP's distribution service charge and scheduled system control charges decreased $0.3M. The distribution service charge rate changed from $3.97/kW to a fixed fee of $4,799 per month on October 1, 2019, resulting in reduced costs for FY 2020. The decrease in the scheduled system control charges was attributed to a 20.0 percent reduction in the SPP

Schedule 1 rate for FY 2020. The Schedule 1 rate is based off of projected data comprised of Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) 561.1-531.3 and 561.5 with a true-up in the following year for any over/under recoveries. The FY 2020 rate included a refund that occurred as a result of a 2018 over recovery, which was the primary driver of the rate reduction.

- Capacity payments were lower in FY 2020, resulting in $2.1 million in reduced costs. In FY 2019, LP&L paid an average of $6.78 per kilowatt (kW), and in FY 2020 paid an average of $6.48/kW. The reason for the decrease was the 400 MW SPS Capacity and Energy Scheduling Contract (Capacity Contract) and the Partial Requirements Agreement that commenced in June 2019. Costs in FY 2020 reflected savings from a full 12 months of these contracts versus the four months of savings in FY 2019.

Program expenses, excluding purchased power costs and interest expense, totaled $52.7 million, a decrease of $0.1 million, or 0.2 percent, compared to FY 2019. The decrease was mainly driven by decreases in personal services and depreciation and amortization, offset by increases in supplies, maintenance, and other services and charges.

Contributions

FY 2021 – Contributions increased from $85,860 in FY 2020 to $261,513 in FY 2021 as a result of increased right-of-way acquisitions associated with the transmission construction related to the 69-kV to 115-kV transmission upgrade project.

FY 2020 – Contributions decreased from $174,130 in FY 2019 to $85,860 in FY 2020 as a result of decreased right-of-way acquisitions associated with the transmission construction related to the 69-kV to 115-kV transmission upgrade project.

Transfers

FY 2021 – Net transfers-out for FY 2021 totaled $0.1 million, compared to net transfers-in totaling $0.3 million in FY 2020. The difference in transfers in is mainly due to an increase in the indirect cost allocation due to a new cost in FY 2021 for LP&L's portion of Citizen's Tower maintenance costs (building use charge) and increased expenses in City administrative cost centers. In FY 2021, the net transfers-out consisted of (i) a transfer in from the Water Fund for its share of Advanced Metering Infrastructure (AMI) Debt Service, totaling $0.1 million, (ii) transfers in from the City's Water, Wastewater, Storm Water, and Solid Waste funds (City Utility Funds) for their share of the Citizen's Tower and CSIS Debt Service, totaling $1.4 million, and (iii) transfers in from the City Utility Funds for their share of purchases for vehicles, totaling $0.1 million; (iv) a transfer from the Water fund for its portion of Lake 7 re-route costs for the Double Mountain to Fiddlewood 345kV Line capital project, totaling $1.2 million; offset by (i) General Fund indirect cost allocations, totaling $1.7 million, and (ii) 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.

FY 2020 – Net transfers-in for FY 2020 totaled $0.3 million, compared to net transfers out totaling $13.7 million in FY 2019. The difference was a change in the recording of the FFE and PILOT as expenses rather than transfers out, as in prior years. The shift in net transfers is offset by a large increase in other expenses. In FY 2020, the net transfers-in consisted of (i) a transfer in from the Water Fund for its share of Advanced Metering Infrastructure (AMI) Debt Service, totaling $0.1 million, (ii) transfers in from the City's Water, Wastewater, Storm Water, and Solid Waste funds (City Utility Funds) for their share of the Citizen's Tower and CSIS Debt Service, totaling $1.2 million, and (iii) transfers in from the City Utility Funds for their share of purchases for vehicles and equipment, totaling $1.3 million; offset by (i) General Fund indirect cost allocations, totaling $1.3 million, and (ii) 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.

Change in Net Position

FY 2021 – Net position for FY 2021 and FY 2020 was $237.7 million and $229.8 million, respectively. Overall, LP&L's change in net position was a gain totaling $7.9 million in FY 2021 compared to a gain totaling $17.8 million in FY 2020, reflecting a year-to-year decrease in net position, totaling $9.9 million. The drivers that affected net position are highlighted below:

- FY 2021 income before transfers, totaling $8.0 million, was $9.5 million lower than FY 2020 income due to: (a) the $4.9 million increase in other expenses, mainly related to the increase in PILOT and FFE, and residual equity transfers; and (b) the $2.7 million decrease in interest earnings; and (c) the $60.8 million increase in program revenues; offset by the $62.9 million increase in program expenses.
- FY 2021 net transfers-out, totaling $0.1 million, was $0.4 million lower than the FY 2020 net transfers out due to the increase in the indirect costs allocation.

FY 2020 – Net position for FY 2020 and FY 2019 was $229.8 million and $212.1 million, respectively. Overall, LP&L's change in net position was a gain totaling $17.8 million in FY 2020 compared to a gain totaling $16.0 million in FY 2019, reflecting a year-to-year increase in net position, totaling $1.7 million. The drivers that affected net position are highlighted below:

- FY 2020 income before transfers, totaling $17.5 million, was $12.2 million lower than FY 2019 income due to: (a) the $14.4 million increase in other expenses, mainly related to the shift of PILOT and FFE payments from the transfer category; and (b) the $2.8 million decrease in general revenues; offset by (c) the $1.9 million increase in program revenues; and the $3.2 million decrease in program expenses.
- FY 2020 net transfers-in, totaling $0.3 million, was $13.9 million lower than the FY 2019 net transfers out due to the shift of PILOT and FFE payments to the other expense category.

FINANCIAL POSITION

Condensed Statements of Net Position

Table 10 - Condensed Statements of Net Position

	2021	2020	2019
Assets:			
Current assets	$ 115,704,438	$ 153,221,090	$ 143,738,843
Capital assets, net	571,576,401	418,382,929	291,810,384
Noncurrent investments	113,719,465	68,247,391	81,667,434
Prepaid Expenses	1,077,775	1,211,109	1,344,442
Total assets	802,078,079	641,062,519	518,561,103
Deferred outflows of resources	6,113,403	5,172,815	10,730,633
Liabilities:			
Current liabilities	69,904,231	183,405,978	68,173,186
Noncurrent liabilities	493,662,437	226,141,696	247,164,661
Total liabilities	563,566,668	409,547,674	315,337,847
Deferred inflows of resources	6,904,793	6,841,448	1,886,562
Net position:			
Invested in capital assets, net of related debt	182,574,119	176,054,976	150,712,020
Restricted	25,085,607	14,726,286	17,745,364
Unrestricted	30,060,295	39,064,949	43,609,943
Total net position	**$ 237,720,021**	**$ 229,846,212**	**$ 212,067,327**

Current Assets

FY 2021 – Current assets at September 30, 2021, totaling $115.7 million were $37.5 million lower than the balance at September 30, 2020, mainly due to a $60.2 million decrease in cash and investment balances, offset by a $20.0 million increase in receivables.

FY 2020 – Current assets at September 30, 2020, totaling $153.2 million were $9.5 million higher than the balance at September 30, 2019, mainly due to a $9.9 million increase in cash and investment balances, slightly offset by a $0.4 million decrease in receivables.

Capital Assets, Net

FY 2021 - At September 30, 2021, net capital assets, totaling $571.6 million, increased $153.2 million due to significant investment in transmission and distribution infrastructure. The largest increases were found in the Distribution Plant, Transmission Plant, and General Plant line items. The changes in Transmission Plant were largely related to the work associated with LP&L's completed and/or ongoing 69-kV to 115k-V upgrade project (see *Financial Highlights – Capital Assets – ERCOT Integration and Transmission & Distribution Upgrades*).

FY 2020 - At September 30, 2020, net capital assets, totaling $418.4 million, increased $126.6 million due to significant investment in transmission and distribution infrastructure. 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 69-kV to 115k-V upgrade project (see *Financial Highlights – Capital Assets – ERCOT Integration and Transmission & Distribution Upgrades*).

Noncurrent Assets

FY 2021 – Noncurrent assets (including restricted investments and prepaid expenses) totaled $114.8 million at September 30, 2021, an increase totaling $45.3 million from the prior year. The increase was mainly attributable to the expenditure of 2021 Series LP&L Revenue Bonds, totaling $66.0 million, and a $13.6 million increase in Cash Reserves, offset by a decrease of $32.7 million, in the escrow account held jointly by LP&L and Oncor to advance-fund transmission-related capital project expenditures.

FY 2020 – Noncurrent assets (including restricted investments and prepaid expenses) totaled $69.5 million at September 30, 2020, a decrease totaling $13.6 million from the prior year. The decrease was mainly attributable to the expenditure of bond proceeds, totaling $46.2 million, of which 96.0 percent was expended from the 2018 Series of Electric Light & Power Revenue Bonds, offset by an increase of $32.8 million, in the escrow account held jointly by LP&L and Oncor to advance-fund transmission-related capital project expenditures.

Current Liabilities

FY 2021 – Excluding current maturities of debt totaling $20.3 million, current liabilities decreased $2.9 million, from $52.5 million in FY 2020 to $49.6 million in FY 2021 (see the *Financial Highlights – Capital Assets – ERCOT Integration and Transmission & Distribution Upgrades* and *Outstanding Debt* sections for information related to notes and bonds payable). The decrease was primarily related to no deferred revenues for the PCRF and FFE recorded due to being under collected at the end of the fiscal year, offset by increases in accounts payable balances associated with increased capital project activity, customer deposits, accrued interest payable, and accrued liabilities.

The accounts payable category increased $6.5 million, with the majority of the increase related to increased capital project activity associated with the upgrade of the transmission system/lines, substation upgrade work, and autotransformers needed to interconnect with ERCOT.

As of September 30, 2020, revenues collected from the PCRF portion of rates exceeded power costs in the amount of $10.8 million. By September 30, 2021, the PCRF over-recovery decreased approximately $14.0 million to an under-recovery amount of $3.2 million due to increased purchased power costs and elevated pricing related to the WWE.

Table 11 - 2021 Accounts Payable

Accounts Payable / Due to	2021	2020	Change
PCRF Payable	$ -	$ 10,841,105	$ (10,841,105)
FFE Payable	-	1,666,522	(1,666,522)
Accounts Payable	33,335,370	26,794,660	6,540,710
Total Accounts Payable	$ 33,335,370	$ 39,302,287	$ (5,966,917)

The increase in customer deposits totaled $1.8 million due to unapplied cash increasing $1.9 due increased excess credits in service agreements. Offsetting the increase of unapplied cash, were customer deposits with a net decrease of $0.1 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 8,011 deposits in FY 2021 totaling $1.4 million. Offsetting refunds were customer deposits totaling $1.3 million due to the growth in the customer base as well as deposit requirements in the Tariff that required residential deposits equal to two months of the reasonable and good-faith estimate of annual billings of the premise (whichever is greater).

FY 2020 – Excluding current maturities of debt totaling $130.9 million, current liabilities increased $4.9 million, from $47.6 million in FY 2019 to $52.5 million (see the *Financial Highlights – Capital Assets – ERCOT Integration and Transmission & Distribution Upgrades* and *Outstanding Debt* sections for information related to notes and bonds payable). The increase was primarily related to higher accounts payable/due to related party balances associated with increased capital project activity, purchased power costs, and increases in customer deposits, offset by decreases in accrued interest payable and compensated absences.

The combined accounts payable and due to related party categories increased $5.0 million, with the majority of the increase related to increased capital project activity associated with the upgrade of the transmission system/lines, substation upgrade work, and autotransformers needed to interconnect with ERCOT. In FY 2019, the due to related party line item was made up of purchased power costs paid to SPS through WTMPA. For FY 2020, payables for purchased power were included in accounts payable due to the deletion of Lubbock from WTMPA.

As of September 30, 2019, revenues collected from the PCRF portion of rates exceeded power costs in the amount of $10.7 million. By September 30, 2020, the PCRF over-recovery increased approximately $0.1 million to $10.8 million. The over-recovery is recorded as a deferred revenue and included in the accounts payable liability category. Additionally, FFE revenues collected from customers but not yet earned as a result of the PCRF over-recovery are also recorded as a deferred revenue.

Accrued interest payable decreased $0.4 million, with the majority of the decrease related to the payoff of the 2010 debt issuance that was originally issued to purchase the SPS distribution assets.

The net increase in customer deposits totaled $0.3 million due to a $1.6 million increase related to growth in the customer base as well as deposit requirements in the Tariff that required residential deposits equal to two 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 $1.3 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 6,381 deposits in FY 2020.

Other Noncurrent Liabilities

FY 2021 – Excluding the noncurrent portion of debt, totaling $456.1 million, noncurrent liabilities decreased $23.8 million to $37.6 million at September 30, 2021. This decrease was driven by a $24.0 million decrease in the Hold Harmless Payment, and a $3.0 million decrease in net pension liability, offset by a $2.9 million increase in OPEB, and a $0.3 million increase in long-term compensated absences.

The net pension liability decreased $3.0 million, driven mainly by positive investment returns in plan year 2020. Investment income totaled $17.5 million, a return of 14.27 percent in plan year 2019 and investment income totaled $9.7 million, a return of 7.65 percent, in plan year 2020. The positive return in plan year 2020 was above the Texas Municipal Retirement System's (TMRS) investment return assumption of 6.75 percent (see *Note 7: Retirement Plan* in the Notes to the Financial Statements for more details).

FY 2020 – Excluding the noncurrent portion of debt, totaling $164.7 million, noncurrent liabilities decreased $8.5 million to $61.4 million at September 30, 2020. This decrease was driven by a $10.0 million decrease in net pension liability, offset by a $1.1 million increase in OPEB, and a $0.4 million increase in long-term compensated absences.

The net pension liability decreased $10.0 million, driven mainly by positive investment returns in plan year 2019. Investment losses totaled $3.6 million, a loss 2.1 percent, in plan year 2018 and investment income totaled $17.5 million, a return of 14.27 percent, in plan year 2019. The positive return in plan year 2019 was well above the Texas Municipal Retirement System's (TMRS) investment return assumption of 6.75 percent.

Net Position

FY 2021 – Total net position increased $7.9 million, from the FY 2020 net position of $229.8 to $237.7 million in FY 2021. The subcomponents of net position changed as follows:

- The net investment in capital assets increased $6.5 million mainly due to the following: (a) a $153.2 million increase in net capital assets; (b) an increase of $45.5 million in restricted investments; (c) a $120.1 million reduction in notes payable, offset by (c) a $10.4 million increase in the debt service reserve fund; (d) and a $301.3 million increase in bonds payable;
- restricted for debt service increased in the amount of $10.4 million as described in the next paragraph; and,

- unrestricted net position decreased $9.0 million.

The $25.1 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 $1.6 million; the debt service reserve fund, totaling $21.7 million; and the interest and sinking fund, totaling $1.8 million. The amount of capitalized interest remaining at September 30, 2021 was $0.3 million for the 2017 Revenue Bonds and $1.2 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.

FY 2020 – Total net position increased $17.8 million, from the FY 2019 net position of $212.1 to $229.8 million in FY 2020. The subcomponents of net position changed as follows:

- The net investment in capital assets increased $25.3 million mainly due to the following: (a) a $126.6 million increase in net capital assets; (b) a $20.8 million reduction in bonds payable; (c) a $3.0 million reduction in the debt service reserve fund; (d) a $7.1 million increase in retainage, offset by (e) a $118.6 million increase in notes payable; (f) a $0.1 million decrease on refunding; and (g) a decrease of $13.4 million in restricted investments;
- restricted for debt service decreased in the amount of $3.0 million as described in the next paragraph; and,
- unrestricted net position decreased $4.5 million.

The $14.7 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 $4.7 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, 2020 was $1.0 million for the 2017 Revenue Bonds and $3.7 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.

OUTSTANDING DEBT

FY 2021 – As of September 30, 2021, LP&L's total outstanding debt was $476.4 million. Bonds and Notes Payable were comprised of $18.7 million in certificates of obligation, $396.0 million in revenue bonds, and $61.7 million in bond premiums. All outstanding debt was comprised of fixed interest rate instruments.

Reductions – LP&L made principal payments totaling $7.0 million on its revenue bonds and $3.3 million on its certificates of obligation.

FY 2020 – As of September 30, 2020, LP&L's total outstanding debt was $295.6 million. Bonds and Note Payable were comprised of $21.9 million in certificates of obligation, $136.1 million in revenue bonds, $120.6 million in short-term notes payable, and $17.0 million in bond premiums. All outstanding debt was comprised of fixed interest rate instruments.

Reductions – LP&L made principal payments totaling $15.4 million on its revenue bonds and $3.1 million on its certificates of obligation.

CURRENTLY KNOWN FACTS

SPP Purchased Power Contractual Risk - By partially tying its energy requirements to SPS through May 31, 2023, the City depends on SPS as a counterparty to agreements relating to the operation and financial condition of LP&L. Counterparty risk is risk associated with the counterparty's financial condition, credit ratings, changes in business strategies and other quantitative and qualitative measures that could affect the ability of the counterparty to perform its obligations to the City. The PR Agreement provides the City the right to demand certain adequate assurance of performance.

Opt-In to Retail Competition: On February 15, 2022, the EUB approved and recommended to City Council an irrevocable resolution opting into competition for retail electric service in Lubbock Power & Light's certificated area. On February 22, 2022, the City Council approved the opt-in resolution to transition to retail electric competition.

Customer Service Information Systems (CSIS) – 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 City Utility Funds. The City of Lubbock Utilities is included in LP&L's budget with 44.98 percent of all costs reimbursed from the City Utility Funds.

On May 29, 2018, Oracle Corporation (Oracle) and Itron, Inc. (Itron) were selected to provide the products and services necessary for a complete CSIS package, with the following components:

- Customer Cloud Service (CCS) – Oracle was selected to provide their utility meter-to-cash solution that delivers a platform for customer care and billing. The system connects customer care and billing with advanced metering; provides a complete view of customer accounts and activities; and outsources information technology support through Oracle's SaaS.
- Advanced Metering Infrastructure (AMI) – Itron was selected to provide 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) – Oracle's CCS includes an MDM that provides long-term data storage and management for the large quantities of data delivered by AMI – the data consists primarily of interval data and meter events.
- Mobile Workforce Management (MWFM) – Oracle's Field Service Cloud is a category of software and related services used to manage employees working outside the utility's premises.

Beginning in April 2019, Itron actively deployed electric and water meters throughout the entire service territory. As of September 30, 2021, deployment was substantially complete, with electric deployment at 99 percent and water deployment at 95 percent. City of Lubbock Utilities began billing customers in May 2019, taking advantage of the AMI meter data. At the end of calendar year 2019, the primary focus shifted to the CCS/MDM/MWFM projects and overall change management. The system went live on February 22, 2021, with over 300 internal end users spanning eight City departments.

Starting in the first quarter of 2022, LP&L will kick off the MTM (Market Transaction Manager/Move to Market) project. This project will be comprised of the following:

- Creation of two CIS divisions within the Oracle CCS Product. Division 1 will consist of City of Lubbock Utility services except for Electric (water, storm water, solid waste, and sewer). Division 2 will maintain electric services only.
- Oracle MTM (Market Transaction Manager) will be implemented in Division 2/electric only.
- EDI Gateway – (Electronic Data Interchange), presumably using the product provided by Electronic Submissions Gateway (ESG), will be implemented in Division 2 to ensure secure communication between LP&L and the ERCOT market.

Base Rate Adjustment – Rates are set by the EUB and approved by the City Council. On September 14, 2021, the City Council approved a tariff to become effective on October 1, 2021 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 2022 as reported by the EIA are as follows:

- Natural Gas Prices – The EIA expects the New York Mercantile Exchange (NYMEX) natural gas spot price to average $3.98 per MMBtu in calendar year 2022.
    - Natural gas production has been declining as producers had scaled back drilling in response to low commodity prices and weak demand caused by the COVID-19 pandemic. However, the EIA forecasts that production will increase in FY 2022. Recent increases in oil and domestic natural gas prices contribute to an overall increase in drilling activity in 2022 that will lead to production growth from 2Q22 onward.
    - The EIA expects liquefied natural gas (LNG) demand to continue increasing. A rising demand for LNG imports in Europe and Asia and the completion of planned projects that will bring new U.S. LNG export capacity online in 2022 supports growth in LNG exports in the forecast.
    - Although NYMEX prices over the past couple of years past were much higher than natural gas prices in West Texas as measured by Waha it is expected that Waha prices will stay on par with NYMEX through 2022. The congestion relief in the Waha area with addition of pipelines such as the Permian Highway Pipeline and Whistler Pipeline being put into service have normalized the Waha prices to their historical relationship levels with NYMEX pricing.
- Coal Prices – The EIA expects coal production to increase 6 percent between 2021 and 2022 because of increased coal demand from the electric power sector amid higher natural gas prices

in 2021. The EIA also expects the delivered coal price to average \$2.03/MMBtu in 2022, compared to \$1.98/MMBtu in 2021.

- Electricity Generation – The EIA expects the share of U.S. total utility-scale electricity generation from natural gas-fired power plants to decline from 37 percent in 2021 to 35 percent in 2022 and electricity generation from coal to slightly decrease from 23 percent in 2021 to 22 percent in 2022.

- Electricity Retail Prices – The EIA expects electricity prices to average 14.2 cents per kWh for calendar year 2022, which is a 3.8 percent increase over 2021. These higher prices are reflective of the increased costs of natural gas for power generation.

- Generation Mix – LP&L is in the SPP and ERCOT markets which maintained the following generation mix in each of the following time periods:

Table 12 - SPP Generation Portfolio

	2021	2020	2019
Natural Gas	19.9%	27.0%	25.9%
Coal	35.9%	30.7%	34.8%
Wind	34.5%	31.0%	27.4%
Nuclear	5.8%	6.4%	6.0%
Hydro	3.6%	4.5%	5.6%
Solar	0.2%	0.2%	0.2%
Fuel Oil	0.0%	0.0%	0.0%
Other	0.1%	0.1%	0.1%
	100.0%	**100.0%**	**100.0%**

Table 13 - ERCOT Generation Portfolio

	2021	2020
Gas	6.7%	5.9%
Gas-CC	35.3%	39.8%
Coal	19.1%	18.0%
Wind	24.4%	22.9%
Nuclear	10.3%	10.9%
Hydro	0.1%	0.2%
Solar	4.0%	2.3%
Biomass	0.1%	0.1%
Other	0.0%	0.0%
	100.0%	**100.0%**

Legislation and Regulations – There are several federal and state environmental regulations that pertain to power plant and air pollution controls addressing emission allowance and trading programs. The ability to operate LP&L's electric generation facilities could be restricted, unless additional allowances are acquired, when needed, or LP&L could choose to limit the operating hours of the facilities. These regulations include the federal Revised Cross-State Air Pollution Rule, the federal

Acid Rain Program and the state Electric Generating Facility Emissions Banking and Trading Program.

Federal and regional electric reliability standards apply to LP&L. LP&L is registered for the functional ownership and operation of a Radial Distribution System at voltages from 4-kV to 69-kV operating in the Eastern Interconnection's SPP, under the oversight of the Midwest Reliability Organization. Additionally, LP&L is also registered for the functional ownership and operation of a Network Distribution and Transmission System at voltages of 4-kV to 345-kV operating in the Texas Interconnection's ERCOT, under oversight of the Texas Reliability Entity.

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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Net Position
September 30, 2021 and 2020

	FY 20-21	FY 19-20
ASSETS		
Current assets:		
Cash and cash equivalents	$ 534,262	$ 3,281,115
Investments	64,329,294	121,826,606
Accounts receivable, net	48,163,258	25,932,868
Interest receivable	493,033	355,966
Prepaid expenses	25,000	25,000
Inventories	2,159,591	1,799,535
Total current assets	115,704,438	153,221,090
Noncurrent assets:		
Restricted investments	113,719,465	68,247,391
Prepaid expenses	1,077,775	1,211,109
	114,797,240	69,458,500
Capital assets:		
Non-Depreciable	46,807,704	20,090,580
Construction in progress	8,630,661	94,805,793
Depreciable	794,774,731	571,183,503
Less accumulated depreciation	(278,636,695)	(267,696,947)
Total capital assets	571,576,401	418,382,929
Total noncurrent assets	686,373,641	487,841,429
Total assets	$ 802,078,079	$ 641,062,519
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	$ 314,071	$ 458,924
Deferred outflows from pensions	2,780,601	2,898,488
Deferred outflows from OPEB	3,018,731	1,815,403
Total deferred outflows of resources	$ 6,113,403	$ 5,172,815

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Net Position
September 30, 2021 and 2020

	FY 20-21	FY 19-20
LIABILITIES		
Current liabilities:		
Accounts payable, net	$ 33,335,370	$ 39,302,286
Accrued liabilities	2,668,137	1,838,586
Accrued interest payable	3,554,735	3,085,945
Customer deposits	7,971,213	6,151,612
Compensated absences	2,099,776	2,122,549
Notes Payable	-	120,600,000
Bonds payable	20,275,000	10,305,000
Total current liabilities	69,904,231	183,405,978
Noncurrent liabilities:		
Hold Harmless Payment	$ -	$ 24,000,000
Compensated absences	1,458,466	1,170,405
Post employment benefits	23,551,149	20,661,185
Net pension liability	12,575,715	15,566,804
Bonds payable	456,077,107	164,743,302
Total noncurrent liabilities	493,662,437	226,141,696
Total liabilities	$ 563,566,668	$ 409,547,674
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions	$ 5,406,658	$ 5,123,839
Deferred inflows from OPEB	1,498,135	1,717,609
Total deferred inflows of resources	$ 6,904,793	$ 6,841,448
NET POSITION		
Net investment in capital assets	182,574,119	176,054,976
Restricted for:		
Debt service	25,085,607	14,726,286
Unrestricted	30,060,295	39,064,949
Total net position	$ 237,720,021	$ 229,846,212

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Revenues, Expenses, and Changes in Net Position
September 30, 2021 and 2020

	FY 20-21	FY 19-20
OPERATING REVENUES		
Charges for services	$ 273,843,064	$ 213,061,262
OPERATING EXPENSES		
Personal services	19,156,150	21,015,714
Supplies	1,201,773	1,307,477
Maintenance	3,057,183	3,618,461
Purchase of fuel and power	184,691,789	125,869,876
Other services and charges	13,804,754	10,747,548
Depreciation and amortization	18,063,182	16,029,599
Total operating expenses	239,974,831	178,588,675
Operating income	33,868,233	34,472,587
NON-OPERATING REVENUES (EXPENSES)		
Interest income	487,744	3,195,923
Disposition of assets	(1,826,016)	(1,603,310)
Miscellaneous	(17,503,401)	(12,834,558)
Interest expense on bonds	(7,331,906)	(5,828,202)
Total non-operating revenues (expenses)	(26,173,579)	(17,070,147)
Income before contributions and transfers	7,694,654	17,402,440
Capital contributions	261,513	85,860
Transfers, net	(82,358)	290,585
Change in net position	7,873,809	17,778,885
Net position - beginning	229,846,212	212,067,327
Net position - beginning, as restated	229,846,212	212,067,327
Net position - ending	$ 237,720,021	$ 229,846,212

See accompanying Notes to Basic Financial Statements

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Cash Flows
September 30, 2021 and 2020

	FY 20-21	FY 19-20
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 239,105,048	$ 213,654,138
Payments to suppliers	(194,783,626)	(135,850,571)
Payments to employees	(19,156,150)	(19,501,712)
Other receipts (payments)	(41,503,401)	(12,834,558)
Net cash provided (used) by operating activities	(16,338,129)	45,467,298
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers in from other funds	2,800,113	2,696,693
Transfers out to other funds	(2,882,471)	(2,406,108)
Net cash provided (used) by noncapital and related financing activities	(82,358)	290,585
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(172,949,336)	(144,696,352)
Sale of capital assets	-	576,758
Principal paid on bonds	(130,915,000)	(18,540,000)
Issuance of bonds and notes	313,682,141	118,600,000
Bond Issuance Costs	(24,593)	-
Interest paid on bonds and capital leases	(8,757,006)	(8,267,472)
Net cash provided (used) by capital and related financing activities	1,036,206	(52,327,066)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	60,359,221	34,153,468
Purchase of investments	(48,333,983)	(30,318,860)
Interest earnings on cash and investments	350,677	3,013,995
Net cash provided by investing activities	12,375,915	6,848,603
Net increase (decrease) in cash and cash equivalents	(2,746,853)	279,421
Cash and cash equivalents - beginning of year	3,281,115	3,001,695
Cash and cash equivalents - end of year	534,262	3,281,115
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	33,868,233	34,472,587
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	18,063,182	16,029,599
Other income (expense)	(41,503,401)	(12,834,558)
Change in current assets and liabilities:		
Accounts receivable	(22,230,390)	446,722
Inventory	(360,056)	117,814
Accounts payable	6,540,710	6,085,512
Deferred Revenues	(12,507,626)	146,154
Due to related party	-	(1,256,754)
Accrued liabilities	829,551	2,084
Customer deposits	1,819,601	345,387
Compensated absences and retirement benefits	(857,933)	1,514,002
Net cash provided (used) by operating activities	(16,338,129)	45,068,549
Supplemental cash flow information:		
Noncash capital contributions and other changes	$ 261,513	$ 85,860

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Matters

The accompanying financial statements include only LP&L, an enterprise fund of the 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 Annual Comprehensive Financial Report (ACFR); 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 103 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 a Board composed of nine Lubbock citizens and eligible voters appointed by the City Council to govern, manage and operate LP&L. The 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 procurement of energy, generation, distribution, and service of electricity. LP&L operates in both the ERCOT and SPP markets and serves customers within the confines of its certificated areas as established by the PUCT. The PUCT regulates certain utility rates, operations, and services within the State, however, the PUCT does not have general jurisdiction of LP&L because it is a municipally owned utility. The PUCT does have authority over transmission rates, 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.

On May 30, 2021, LP&L completed its connection to the ERCOT market, enabling the ability to procure electricity for 70% of its load. An overview of the integration is included at the beginning of this report in the ERCOT Transition section of the MD&A. LP&L is continuing to improve its distribution and transmission assets to provide for moving the remaining 30% of its load, currently procured through SPP, to the ERCOT market by late 2023. The costs and assets to connect to the ERCOT market began in FY 2018-19 and has had substantial impact on the following two years' Financial Statements. As the work continues to connect the remaining 30%, those increased costs will impact the coming fiscal years

B. Significant Accounting Policies

The financial statements are presented on an accrual basis and are in conformity with both Generally Accepted Accounting Principles (GAAP) and the Governmental Accounting Standards Board (GASB), as applicable.

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 Texas Short Term Asset Reserve (TexSTAR), Local Government Investment Cooperative (LOGIC), and Texas Cooperative Liquid Assets Securities System (Texas CLASS) state pools are stated at net asset value. Money market mutual funds (MMMFs) and the TexPool Local Government Investment Pool (TexPool) 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- and note-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 $4,006,982 are collectible.

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 costs 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 the FERC USOA 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 completed. 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 $1,659,131, net of interest earned during FY 2021, and $980,339 net of interest earned during FY 2020.

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 Contract and reserved $24.0 million from this savings. The payment is recorded in non-current liabilities. As of September 30, 2021 the note was paid in full and it no longer a current liability in FY 2020-21.

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 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 2021

In FY 2021 there were no GASB pronouncements issued that would impact LP&L.

GASB Pronouncements Effective in FY 2020

In FY 2020 there were no GASB pronouncements issued that would impact LP&L.

GASB Pronouncements Issued but not Yet Effective until Fiscal Year-22

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). 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 87 is effective for the fiscal period ending September 30, 2022; however, implementation will have no impact on LP&L.

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.

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 7: 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 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. For additional information on deferred outflows/inflows related to pensions, reference *Note 8: Retirement Plan.*

NOTE 2: DEPOSITS AND INVESTMENTS

On September 30, 2021, the bank balance of LP&L's deposits was $789,013 with a carrying value of $534,262. 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 (PFIA).

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, 2021, City bank balances were not exposed to custodial credit risk as follows:

Insured	$ 45,475
Uninsured and collateral held by a third party financial institution in the City's name	743,538
Total	$ 789,013

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, 2021, LP&L had the following investments and maturities:

	30-Sep-21		
		Maturities in Years	
Type	**Fair Value**	**Less Than 1**	**1-5**
Federal Farm Credit Bank (FFCB)	$ 1,349,461	$ 1,349,461	$ -
Farmer Mac (FAMCA)	-	-	-
Federal Home Loan Banks (FHLB)	2,767,743	2,767,743	-
Federal Home Loan Mortgage Corporation (FHLM	-	-	-
Federal National Mortgage Association (FNMA)	431,113	431,113	-
Municipal Bonds	61,335,275	22,203,175	39,132,100
Commercial Paper	8,247,993	8,247,993	-
Money Market Mutual Funds	7,885,880	7,885,880	-
State Investment Pools *	96,565,556	96,565,556	-
Total	$ 178,583,021	$ 139,450,921	$ 39,132,100

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

At September 30, 2020, LP&L had the following investments and maturities:

	30-Sep-20		
		Maturities in Years	
Type	**Fair Value**	**Less Than 1**	**1-5**
Federal Farm Credit Bank (FFCB)	$ 553,505	$ -	$ 553,505
Farmer Mac (FAMCA)	618,700	618,700	-
Federal Home Loan Banks (FHLB)	617,719	617,719	-
Federal Home Loan Mortgage Corporation (FHLM	-	-	-
Federal National Mortgage Association (FNMA)	470,593	-	470,593
Municipal Bonds	46,889,519	12,048,159	34,841,360
Commercial Paper	3,350,653	3,350,653	-
Money Market Mutual Funds	14,811,505	14,811,505	-
State Investment Pools *	122,761,803	122,761,803	-
Total	$ 190,073,997	$ 154,208,539	$ 35,865,458

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

Investment in State Investment Pools

The City utilizes four state local government investment pools (LGIPs) that include: TexPool, TexSTAR, LOGIC and Texas CLASS.

The Texas Comptroller of Public Accounts (Comptroller) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company (Trust Company), which is authorized to operate the TexPool Portfolios. Pursuant to the TexPool Participation Agreement, administrative and investment services to the TexPool Portfolios are provided by Federated Hermes, Inc. (Federated), under an agreement with the Comptroller, acting on behalf of the Trust Company.

The Comptroller maintains oversight of the services provided to the TexPool Portfolios by Federated. In addition, the TexPool Advisory Board advises on the investment policies for the TexPool Portfolios and approves any fee increases. As required by the PFIA, the Advisory Board is composed equally of participants in the TexPool Portfolios and other persons who do not have a business relationship with the TexPool Portfolios who are qualified to advise the TexPool Portfolios. TexPool is rated AAAm by Standard & Poor's (S&P). TexPool is not registered with the Securities and Exchange Commission (SEC) as an investment company. The pool offers same day access to its funds.

TexPool does not have any limitations or restrictions on participants' withdrawals that would have to be disclosed in the notes to the financial statements. All TexPool securities are reported within the highest category of credit ratings and are denominated in U.S. dollars. Per GASB Statement No. 40, *Deposit and Investment Risk Exposure*, TexPool is not exposed to custodial credit risk. Additionally, TexPool utilizes shadow pricing, which is consistently within 0.5% of amortized cost value per unit.

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. (HTS), 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 a representative of a participant or 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 S&P. 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, as authorized from time to time by the LOGIC board. Assets invested in any series will be managed separately, and segregated from, the assets of every other series. Since September 2005, JPMIM has served as investment manager to LOGIC. Day to day administration of the pool is performed by HTS, 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 S&P. 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. Public Trust Advisors, LLC serves as the program administrator and Wells Fargo Bank, N.A. serves as custodian for the pool. The investment 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 S&P. 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 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. The City only invests in government pools and funds that maintain a stable $1 net asset value. While the interest income derived from these particular types of investments fluctuates based on market movements and the characteristics of the pools and funds, the value of the principal is not affected.

Credit Risk

Credit risk is the risk that the issuer or other 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 and collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U.S. The City's policy also 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, banker's acceptances with stated maturities of 270 days or fewer, commercial paper rated at a minimum of A-1 or P-1 with stated maturities 270 days or fewer, no-load money market funds registered with the SEC, and constant dollar investment pools authorized by the City Council. On September 30, 2021, S&P rated the LGIPs AAAm. The senior unsecured debt for investments in FHLB, FAMCA, FFCB, FHLMC, and FNMA are rated AA+ by S&P and Aaa by Moody's. The municipal bond investments are rated between an AAA and A- by S&P and between an Aaa and A1 by Moody's.

Custodial Credit Risk

State statutes require that all City deposits in financial institutions be fully insured by the Federal Deposit Insurance Corporation, collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits, or by a Letter of Credit from a Federal Agency.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City requires that deposits and repurchase agreements be held in an institution that has a minimum collateral level of 102.0 percent of the market value. FNMA, FAMCA, FFCB, FHLMC, FHLB and Municipal Bond investments 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 Audit and Investment Committee for investment purposes.

Concentration of Credit Risk

The City places limits on the amount that may be invested in any one issuer, with the exception of U.S. Treasury obligations and LGIPs. As of September 30, 2021, LP&L's investments constituted the following percentages of total investments:

Investment	Percentage	WAM (Days)	Rating	Rating Agency
State Investment Pools	54.10%	1	AAAm	S&P
Municipal Bonds	34.40%	626	AA/Aa2	S&P/Moody's
Money Market	4.40%	1	AAAm/Aaa-mf	S&P/Moody's
FFCB	0.80%	994	AA+/Aaa	S&P/Moody's
FHLB	1.50%	1171	AA+/Aaa	S&P/Moody's
FNMA	0.20%	213	AA+/Aaa	S&P/Moody's
FHLMC	0.00%	0	AA+/Aaa	S&P/Moody's
Commercial Paper	4.60%	170	A-1+/P-1	S&P/Moody's
FAMCA	0.00%	0	AA+/Aaa	S&P/Moody's

The City's investment policy places the following limits on the amount the City can invest in any type of authorized investment. All securities are rated A-, or equivalent, or better.

Authorized Investment	Policy Limitation
U.S. Treasury Obligations	100%
Agency Bonds	80%
Municipal Bonds	50%
Investment Pools	100%
Certificates of Deposit	30%
No Load Mutual Fund	30%
Commercial Paper	10%
Banker's Acceptance	10%

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

The City categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. 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.

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

LP&L has the following recurring fair value measurements based on the hierarchy above as of September 30, 2021:

September 30, 2021	**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)	$ 1,349,461	$ -	$ 1,349,461	$ -
Farmers Mac (FAMCA)	0	-	0	-
Federal Home Loan Bank (FHLB)	2,767,743	-	2,767,743	-
Federal Home Loan Mortgage Corporation (FI	-	-	-	-
Federal National Mortgage Association (FNMA)	431,113	-	431,113	-
Municipal Bonds	61,335,275	-	61,335,275	-
Commercial Paper	8,247,993	3,350,654	-	
Total investments by fair value level	$ 74,131,585	$ 3,350,654	$ 65,883,592	$ -
Investments measured at the net asset value				
TexStar	$ 34,490,912			
LOGIC	3,179,122			
Texas CLASS	58,767,045			
Total investments measured at the NAV	$ 96,437,079			
Investments measured at amortized cost				
TexPool	$ 128,477			
Money Markets	7,885,880			
Total investments at amortized cost	$ 8,014,357			
Total Investments	$ 178,583,021			

LP&L has the following recurring fair value measurements based on the hierarchy above as of September 30, 2020:

September 30, 2020	**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)	$ 553,505	$ -	$ 553,505	$ -
Farmers Mac (FAMCA)	618,700	-	618,700	-
Federal Home Loan Bank (FHLB)	617,719	-	617,719	-
Federal Home Loan Mortgage Corporation (FH	-	-	-	-
Federal National Mortgage Association (FNMA)	470,593	-	470,593	-
Municipal Bonds	46,889,519	-	46,889,519	-
Commercial Paper	3,350,653	3,350,654	-	
Total investments by fair value level	$ 52,500,689	$ 3,350,654	$ 49,150,036	$ -
Investments measured at the net asset value				
TexStar	$ 51,612,736			
LOGIC	35,875,546			
Texas CLASS	32,823,451			
Total investments measured at the NAV	$ 120,311,733			
Investments measured at amortized cost				
TexPool	$ 2,450,070			
Money Markets	14,811,505			
Total investments at amortized cost	$ 17,261,575			
Total Investments	$ 190,073,997			

LP&L's investments in debt securities are valued using Level 2 by FTI Consulting using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Matrix prices are verified against investment reports from the City's Safekeeping Institution, Bank of New York Mellon.

NOTE 3: INTERFUND TRANSACTIONS

At September 30, 2021 and 2020, LP&L had no internal financing.

FY 2021 net transfers-in from other City Funds to LP&L, totaling $(82,358), were the result of (i) a transfer in from the Water Fund for its share of AMI Debt Service, totaling $147,872, (ii) transfers in from the City Utility Funds for their share of the Citizen's Tower and CSIS Debt Service, totaling $1,396,985, and (iii) transfers in from the City Utility Funds for their share of purchases for vehicles and equipment, totaling $1,255,256; offset by (i) General Fund indirect cost allocations, totaling $1,742,352, and (ii) a payment to the City's Debt Service Fund to fund LP&L's portion of the Citizen's Tower debt service totaling $1,140,119 million. For additional information on transfers, refer to the *Results of Operations - Transfers* section of the MD&A.

A change occurred in FY 2020 that recorded PILOT and FFE payments as expenses, rather than transfers-out. The offset for this change is recognized in Miscellaneous non-operating revenues (expenses). FY 2020 net transfers-in from other City Funds to LP&L, totaling $290,585, were the result of (i) a transfer in from the Water Fund for its share of AMI Debt Service, totaling $142,256, (ii) transfers in from the City Utility Funds for their share of the Citizen's Tower and CSIS Debt Service, totaling $1,222,871, and (iii) transfers in from the City Utility Funds for their share of purchases for vehicles and equipment, totaling $1,331,566; offset by (i) General Fund indirect cost allocations, totaling $1,266,838, and (ii) a payment to the City's Debt Service Fund to fund LP&L's portion of the Citizen's Tower debt service totaling $1,139,270 million. For additional information on transfers, refer to the *Results of Operations - Transfers* section of the MD&A.

NOTE 4: INVENTORY

The inventory at September 30, 2021 and 2020 was $2,159,591 and $1,799,535, respectively and was comprised of equipment and repair parts used in the maintenance, operations, and capital projects of the utility.

NOTE 5: PREPAID EXPENSES

The total prepaid expenses included in noncurrent assets, totaling $1,077,775 in 2021 and $1,211,109 in 2020 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.

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2021 and 2020

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2021:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Not Depreciated:				
Construction in Progress	$ 94,805,793	$ 174,082,281	$ 260,257,413	$ 8,630,661
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	2,376,386	26,438,432	-	28,814,818
Electric Distribution Plant	17,320,831	278,692	-	17,599,523
Electric General Plant	317,953	-	-	317,953
Total Capital Assets, Not Depreciated	114,896,373	200,799,405	260,257,413	55,438,365
Capital Assets, Depreciated:				
Electric Production Plant	86,285,297	1,317,374	534,990	87,067,681
Electric Transmission Plant	109,836,057	190,844,908	5,828,635	294,852,330
Electric Distribution Plant	334,506,361	21,342,499	673,153	355,175,707
Electric Reional Trans Mkt Oper Plant	2,767,781	-	-	2,767,781
Electric General Plant	37,788,007	20,387,799	3,264,574	54,911,232
Total Capital Assets, Depreciated	571,183,503	233,892,580	10,301,352	794,774,731
Less Accumulated Depreciation:				
Electric Production Plant	60,365,207	3,035,996	534,990	62,866,213
Electric Transmission Plant	13,627,984	3,495,378	3,847,173	13,276,189
Electric Distribution Plant	167,544,598	7,493,519	488,031	174,550,086
Electric Reional Trans Mkt Oper Plant	1,363,551	546,010	-	1,909,561
Electric General Plant	24,795,608	3,358,946	2,119,908	26,034,646
Total Accumulated Depreciation:	267,696,948	17,929,849	6,990,102	278,636,695
Total Capital Assets Depreciated, Net	303,486,555	215,962,731	3,311,250	516,138,036
Capital Assets, Net	$ 418,382,928	$ 416,762,136	$ 263,568,663	$ 571,576,401

Capital asset activity for the year ended September 30, 2020:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Not Depreciated:				
Construction in Progress	$ 43,818,507	$ 144,480,796	$ 93,493,510	$ 94,805,793
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	421,061	1,955,325	-	2,376,386
Electric Distribution Plant	17,233,268	87,563	-	17,320,831
Electric General Plant	317,953	-	-	317,953
Total Capital Assets, Not Depreciated	61,866,199	146,523,684	93,493,510	114,896,373
Capital Assets, Depreciated:				
Electric Production Plant	91,660,709	-	5,375,413	86,285,296
Electric Transmission Plant	57,099,111	53,751,500	1,014,553	109,836,058
Electric Distribution Plant	308,344,702	34,324,675	5,395,236	337,274,141
Electric General Plant	35,215,117	3,277,111	704,220	37,788,008
Total Capital Assets, Depreciated	492,319,639	91,353,286	12,489,422	571,183,503
Less Accumulated Depreciation:				
Electric Production Plant	62,492,655	3,247,963	5,375,413	60,365,205
Electric Transmission Plant	13,172,770	1,276,698	821,485	13,627,983
Electric Distribution Plant	163,901,418	8,938,212	3,931,483	168,908,147
Electric General Plant	22,808,611	2,167,973	180,972	24,795,612
Total Accumulated Depreciation:	262,375,454	15,630,846	10,309,353	267,696,947
Total Capital Assets Depreciated, Net	229,944,185	75,722,440	2,180,069	303,486,556
Capital Assets, Net	$ 291,810,384	$ 222,246,124	$ 95,673,579	$ 418,382,929

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, 2021 were as follows:

Original Commitments	Spent-to-Date	Remaining Commitments
$ 442,246,094	$ 372,159,443	$ 70,086,651

NOTE 7: 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, 2021 and 2020, and the pension expense for the years then ended are as follows:

	TMRS 2021	TMRS 2020
Net pension liability:	$ 12,575,715	$ 15,566,804
Deferred outflows of re	2,780,601	2,898,488
Deferred inflows of res	5,406,658	5,123,839
Pension expense:	1,027,570	3,590,063

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 895 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 2021 and 2020 measurement periods, the allocation percentages were 19.10% and 19.17%, respectively. TMRS issues a publicly available ACFR 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.

The adopted plan provisions for plan years 2020 and 2019 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 17.47% and 17.57% in calendar years 2021 and 2020, respectively. LP&L's contributions to TMRS for the years ended September 30, 2021 and 2020, were $3,627,101 and $3,673,229 respectively, and were equal to the required contributions.

Liability

LP&L's net pension liability (NPL) was measured as of December 31, 2020 and 2019, 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, 2020 and 2019 actuarial valuations was determined using the following actuarial assumptions:

2020:	
Inflation	2.5% per year
Overall payroll growth	2.75% per year
Investment Rate of Return	6.75%, net of pension investment expense, including inflation

2019:	
Inflation	2.5% per year
Overall payroll growth	2.75% 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 are based on the PUB(10) mortality tables with Public Safety table used for males and the General Employees table used for females. Mortality rates for healthy retirees and beneficiaries are based on the gender-distinct 2019 Municipal Retiree of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the Society of Actuaries' ultimate mortality improvement scale (UMP scale) to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013.

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 (GRS) 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 fiscal year 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the TPL was 6.75% for both the December 2020 and 2019 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 (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balance at 9/30/2020	$ 138,482,596	$ 122,915,791	$ 15,566,805
Changes for the year:			
Service cost	3,541,721	-	3,541,721
Interest	9,609,708	-	9,609,708
Change of benefit terms	-	-	-
Difference between expected and actual experience	(1,388,028)	-	(1,388,028)
Contributions – employer	-	3,658,328	(3,658,328)
Contributions – employee	-	1,457,670	(1,457,670)
Change in assumptions	-	-	-
Net investment income	-	9,703,780	(9,703,780)
Benefit payments, including refunds of employee contributions	(7,589,769)	(7,589,769)	-
Administrative expense	-	(62,836)	62,836
Other changes	-	(2,451)	2,451
Net changes	$ 4,173,632	$ 7,164,722	$ (2,991,090)
Balance at 9/30/2021	**$ 142,656,228**	**$ 130,080,513**	**$ 12,575,715**

Sensitivity of the NPL to Changes in the Discount Rate

The following represents the NPL of LP&L at September 30, 2021, 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	$ 31,215,129	$ 12,575,715	$ (2,775,352)

Changes in the Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balance at 9/30/2019	$ 133,136,822	$ 107,612,516	$ 25,524,306
Changes for the year:			
Service cost	3,401,281	-	3,401,281
Interest	9,296,376	-	9,296,376
Change of benefit terms	-	-	-
Difference between expected and actual experience	(645,102)	-	(645,102)
Contributions – employer	-	3,560,090	(3,560,090)
Contributions – employee	-	1,407,267	(1,407,267)
Change in assumptions	325,118	-	325,118
Net investment income	-	17,469,554	(17,469,554)
Benefit payments, including refunds of employee contributions	(7,031,899)	(7,031,899)	-
Administrative expense	-	(98,770)	98,770
Other changes	-	(2,967)	2,967
Net changes	$ 5,345,774	$ 15,303,275	$ (9,957,501)
Balance at 9/30/2020	**$ 138,482,596**	**$ 122,915,791**	**$ 15,566,805**

Sensitivity of the NPL to Changes in the Discount Rate

The following represents the NPL of LP&L at September 30, 2020, 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	$ 33,924,315	$ 15,566,805	$ 440,016

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.

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

For the years ended September 30, 2021 and 2020, LP&L recognized pension expense of $1,027,570 and $3,590,063 respectively. At September 30, 2021 and 2020, LP&L reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Balance at September 30, 2021	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 164,965	$ -
Difference in expected and actual experience	-	1,736,181
Difference between projected and actual investment earnings	-	3,670,477
Contributions subsequent to the measurement date	2,615,636	-
Total	**$ 2,780,601**	**$ 5,406,658**

Balance at September 30, 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 242,479	$ -
Difference in expected and actual experience	-	1,147,955
Difference between projected and actual investment earnings	-	3,975,884
Contributions subsequent to the measurement date	2,656,009	-
Total	**$ 2,898,488**	**$ 5,123,839**

At September 30, 2021, the amount totaling $2,615,636 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, 2022. 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:	
2022	$ (2,082,398)
2023	(373,003)
2024	(2,537,683)
2025	(248,609)
Total	**$ (5,241,693)**

NOTE 8: 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 four 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 ACFR.

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 2,233 active participants who pay monthly premiums of $409/$23 (medical/dental) for single coverage and $777/$39 (medical/dental) for family coverage, pre-65.

Actuarial Methods and Assumptions

The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate	2.5% per annum
Actuarial cost method	Individual Entry Age
Discount rate	2.75%
Healthcare cost trend rate	Initial rate of 7.0% declining to an ultimate rate of 4.15% after 15 years
Salary increases	TMRS: 3.5% to 11.5%, including inflation

Demographic assumptions were updated to reflect the 2019 TMRS Experience Study as of December 31, 2018.

Mortality rates for TMRS: for healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas Mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the mortality tables to account for future mortality improvements.

The healthcare trend rates were updated to better reflect the plan's anticipated experience and the repeal of the excise tax on high-cost employer health plans.

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 2.00% (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 2.75% as of the prior measurement date.

Change in the Total OPEB Liability

	Total OPEB Liability
Balance at September 30, 2020	**$ 20,661,185**
Changes for the year:	
Service cost	1,161,989
Interest	566,945
Difference between expected and actual experience	(102,530)
Changes of assumptions	1,822,922
Benefit payments	(559,362)
Net changes	$ 2,889,964
Balance at September 30, 2021	**$ 23,551,149**

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

	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
Total OPEB Liability	$ 25,968,228	$ 23,551,149	$ 20,816,618

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
Total OPEB Liability	$ 20,996,941	$ 23,551,149	$ 25,872,687

OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2021 the LP&L recognized total OPEB expense of $1,950,722.

At September 30, 2021, 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	$ -	$ 986,612
Changes in assumptions	2,688,277	511,523
Contributions subsequent to the measurement date	330,454	-
Total	**$ 3,018,731**	**$ 1,498,135**

Deferred outflows of resources (related to OPEB resulting from benefit payments subsequent to the measurement date), totaling $330, 454, will be recognized as a reduction of the total OPEB liability as of September 30, 2022. Changes in assumptions within the OPEB deferred outflows and inflows of resources will be recognized in OPEB expense as follows:

Year ending September 30:	
2022	$ 223,909
2023	223,909
2024	223,909
2025	151,717
2026	167,972
Thereafter	198,726
Total	**$ 1,190,142**

NOTE 9: 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.

NOTE 10: 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 9-30-21*	Balance Outstanding 9-30-20**
1.61	04/15/13	04/15/21	$ 5,990,000	$ -	$ 285,000
1.76	04/15/13	04/15/24	2,585,000	410,000	820,000
2.63	05/01/14	04/15/26	4,515,000	2,195,000	2,535,000
2.37	04/15/15	04/15/28	12,840,000	8,380,000	9,665,000
2.41	04/15/16	02/15/34	3,060,000	2,560,000	2,815,000
2.47	11/01/16	02/15/34	36,780,000	1,135,000	1,670,000
2.76	04/04/18	02/15/30	480,000	380,000	415,000
2.13	04/04/19	02/15/30	4,050,000	3,410,000	3,740,000
2.01	11/19/20	04/15/24	210,000	200,000	-
Total			**$ 70,510,000**	**$ 18,670,000**	**$ 21,945,000**

* Balance outstanding excludes $2,030,042 of net bond premiums and discounts.
** Balance outstanding excludes $2,047,304 of net bond premiums and discounts.

At September 30, 2021, 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 9-30-21*	Balance Outstanding 9-30-20**
2.45	10/15/10	04/15/20	$ 73,295,000	$ -	$ -
1.9	05/21/13	04/15/24	14,960,000	3,520,000	5,225,000
3.09	05/01/14	04/15/34	16,245,000	9,540,000	10,615,000
3.41	04/15/15	04/15/35	11,865,000	9,230,000	9,720,000
3.04	04/15/16	04/15/46	8,155,750	5,885,000	6,240,000
3.6	08/15/17	02/15/47	17,760,000	16,645,000	16,930,000
3.64	07/12/18	04/15/48	93,925,000	84,260,000	87,395,000
2.76	08/12/21	04/15/51	266,870,000	266,870,000	0
Total			503,075,750	395,950,000	136,125,000.00

* Balance outstanding excludes $61,715,915 of net bond premiums and discounts.
** Balance outstanding excludes $14,930,998 of net bond premiums and discounts.

At September 30, 2021, 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 Principal	General Obligation Bonds Interest	Revenue Bonds Principal	Revenue Bonds Interest
2021-22	$ 3,110,000	$ 812,169	$ 17,165,000	$ 12,864,064
2022-23	3,235,000	666,019	13,490,000	16,553,119
2023-24	2,485,000	533,679	13,465,000	15,893,056
2024-25	2,610,000	414,857	12,520,000	15,233,181
2025-26	2,525,000	290,700	13,115,000	14,628,481
2027-31	4,705,000	310,788	60,345,000	63,631,606
2032-36	-	-	63,930,000	49,229,819
2037-41	-	-	66,795,000	36,017,481
2042-46	-	-	67,430,000	22,576,850
2047-51	-	-	67,695,000	7,962,650
Total	**$ 18,670,000**	**$ 3,028,212**	**$ 395,950,000**	**$ 254,590,307**

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2021 and 2020 are as follows:

Fiscal Year 2020	Balance 9/30/2020	Additions	Deletions	Balance 9/30/2021	Due in one year
LP&L activities:					
General Obligation Bonds	$ 21,945,000	$ 210,000	$ 3,485,000	$ 18,670,000	$ 3,110,000
Revenue Bonds	136,125,000	266,870,000	7,045,000	395,950,000	17,165,000
Bond Premiums	16,978,302	46,563,343	1,809,539	61,732,107	-
Compensated Absences	3,292,854	2,047,831	1,782,443	3,558,242	2,099,776
Other Postemployment Benefits	20,661,184	1,728,935	(1,161,031)	23,551,149	-
Net Pension Obligation	15,566,805	13,216,716	16,207,807	12,575,715	-
Total LP&L activities	$ 214,569,145	$ 330,636,825	$ 29,168,758	$ 516,037,213	$ 22,374,776

Fiscal Year 2020	Balance 9/30/2019	Additions	Deletions	Balance 9/30/2020	Due in one year
LP&L activities:					
General Obligation Bonds	$ 25,060,000	$ -	$ 3,115,000	$ 21,945,000	$ 3,260,000
Revenue Bonds	151,550,000	-	15,425,000	136,125,000	7,045,000
Bond Premiums	19,211,406	-	2,233,104	16,978,302	-
Compensated Absences	3,018,824	2,159,738	1,885,608	3,292,854	2,122,549
Other Postemployment Benefits	19,562,120	1,845,852	746,788	20,661,184	-
Net Pension Obligation	25,524,306	12,799,394	22,756,895	15,566,805	-
Total LP&L activities	$ 243,926,656	$ 16,804,984	$ 46,162,395	$ 214,569,145	$ 12,427,549

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 September 2021, the City issued $266,870,000 Electric Light and Power System Revenue Bonds, Series 2021 (Bonds), with interest rates ranging from 3.0 percent to 5.0 percent. The Bonds were issued at a premium of $46,784,917 and incurred issuance cost of $1,296,118. The $313,654,917 bond proceeds were used to refund a portion of the City'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 Refunding 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 agreement between the City and the Escrow Agent, the escrow funds are irrevocably pledged to the payment of principal and interest on the Refunding Bonds. The bonds refunded $245.6 million of outstanding notes from direct borrowings. The refunding was done to provide long-term fixed rate financing for projects that were initially funded by the variable rate short-term note program.

In December 2020, the City issued $32,690,000 GO Refunding Bonds, Series 2020 (Bonds), with interest rates ranging from 0.26 percent to 2.104 percent. LP&L's portion was $210,000 with a premium totaling $37,926 and a deferred loss totaling $11,396 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.

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, 2021, LP&L has no outstanding defeased debt.

NOTE 11: 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. The total aggregate principal amount available under this agreement was not to exceed $300 million. On August 10, 2021, to convert the interim obligations to long-term bonds the City Council passed a resolution authorizing the publication of a Notice of Intention to issue Electric Light and Power System Revenue Bonds, Series 2021. The proceeds of the bonds were used to pay off the principal and interest of the notes issued through the Note Program.

On July 19, 2019 the City submitted a "Notice of Extension" to Bank of America. This request was to extend the note program for an additional three years and to reduce the not to exceed amount from $300M to $75 million. The Program is expected to be utilized through December 31, 2024, to provide interim financing for LP&L's capital program, including the transition costs of the remaining load from SPP to ERCOT and including capitalized interest during and after the period of construction of the facilities. For additional information on the program, refer to *Bank of America Direct Purchase Revolving Notes Program* section of the MD&A.

NOTE 12: EARLY TERMINATION OF PARTIAL REQUIREMENT AGREEMENT

In anticipation of the full integration to ERCOT, LP&L and SPS approved a Settlement Agreement on May 27, 2021 to terminate the PR Agreement, and identified May 31, 2023 as the estimate of the full ERCOT integration resulting in an early termination of the PR Agreement Under the terms of the Settlement Agreement, LP&L agreed to pay a lump sum, totaling $77.5 million, to SPS as compensation for power- and transmission-related shifted costs under the PR Agreement. The negotiated lump sum termination payment of $77.5 million will be funded with long-term bonds which will trade an estimated annual capacity charge of $17.0 million per year in SPP with a much lower annual debt service payment, with expected savings exceeding $12 million per year.

LP&L also agreed to continue paying SPP charges that are assessed to SPS under the LP&L Network Integration Transmission Service ("NITS") Agreement, for up to 24 months, that are attributable to service to LP&L's load after LP&L departs the SPP system (because SPP uses lagging billing determinants for certain charges). Additionally, LP&L agreed that the Settlement Agreement will not become effective unless and until it is approved or accepted by the Federal Energy Regulatory Commission (FERC) and the PUC. Following the termination date, the contractual relationship between LP&L and SPS will be limited to the Settlement Agreement and certain easements and crossing agreements necessary for the operation of each respective system. For clarity, the existing water use agreement and the existing franchise agreement pertaining to SPS' retail service territory in Lubbock will continue under the existing terms of each respective agreement.

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.

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. 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.

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 the City's 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 a $10 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. 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. Beginning in FY 2018, LP&L's property and boiler and machinery coverage was separated from the City's coverage as a cost savings measure. LP&L also 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 $1.87 million at September 30, 2021 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 and regulatory proceedings. The following represents the outstanding claims against the City that relate to LP&L during the time period covered by the financial statements:

Chelsea Schumacher v. City of Lubbock, Cause No. 2020-541,386, proceeding in the 72nd District Court of Lubbock County, Texas. Plaintiff Chelsea Schumacher has filed suit regarding alleged damages related to an alleged vehicle collision. Plaintiff's Original Petition alleges damages in the amount of monetary relief over $200,000, but not more than $250,000. The City of Lubbock, acting by and through Lubbock Power & Light ("LP&L"), denies all liability and damages alleged, and is defending the claims. On June 22, 2021, LP&L filed a Motion for Summary Judgment, and that motion remains pending.

Claims Related to Winter Storm Uri. LP&L has received multiple alleged claim letters purportedly related to Winter Storm Uri and the Electric Reliability Council of Texas ("ERCOT"), which occurred in February 2021. At this time, no litigation has been filed related to these allegations against LP&L. LP&L denies any liability or damages related to these claims and will defend any such claims.

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2021

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

	2021	2020	2019	2018	2017	2016
Total pension liability						
Service Cost	$ 3,541,721	$ 3,401,281	3,250,256	$ 3,094,041	$ 2,944,598	$ 2,875,400
Interest (on the total pension liability)	9,609,708	9,296,376	9,077,328	8,538,646	8,107,660	7,972,442
Difference between expected and actual experience	(1,388,028)	(645,102)	(1,199,095)	(133,708)	(21,609)	(424,313)
Change of assumptions	-	325,118	-	-	-	199,125
Benefit payments, including refunds of employee contributions	(7,589,769)	(7,031,899)	(6,984,288)	(6,658,022)	(5,962,200)	(5,926,334)
Net Change in Total Pension Liability	4,173,631	5,345,773	4,144,201	4,840,957	5,068,449	4,696,320
Total Pension Liability - Beginning	138,482,596	133,136,822	128,992,621	124,151,664	119,083,215	114,386,897
Total Pension Liability - Ending (a)	$ 142,656,227	$ 138,482,596	133,136,822	$ 128,992,621	$ 124,151,664	$ 119,083,217
Plan Fiduciary Net Position						
Contributions - Employer	$ 3,658,326	$ 3,560,090	3,469,374	$ 3,276,308	$ 3,112,712	$ 3,207,998
Contributions - Employee	1,457,670	1,407,267	1,345,605	1,277,854	1,213,195	1,209,360
Net Investment Income	9,703,780	17,469,554	(3,583,095)	14,484,811	6,642,534	145,404
Benefit payments, including refunds of employee contributions	(7,589,769)	(7,031,899)	(6,984,288)	(6,658,022)	(5,962,200)	(5,926,334)
Administrative Expense	(62,836)	(98,770)	(69,274)	(75,081)	(75,034)	(88,569)
Other	(2,451)	(2,967)	(3,619)	(3,806)	(4,042)	(4,374)
Net Change in Plan Fiduciary Net Position	7,164,720	15,303,276	(5,825,298)	12,302,064	4,927,165	(1,456,516)
Plan Fiduciary Net Position - Beginning	122,915,792	107,612,516	113,437,814	101,135,750	96,208,585	97,665,101
Plan Fiduciary Net Position - Ending (b)	$ 130,080,512	$ 122,915,792	107,612,516	$ 113,437,814	$ 101,135,750	$ 96,208,585
City's Net Pension Liability - Ending (a) - (b)	$ 12,575,715	$ 15,566,804	25,524,306	$ 15,554,807	$ 23,015,914	$ 22,874,630
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.18%	88.76%	80.83%	87.94%	81.46%	80.79%
Covered Payroll	20,821,404	20,102,133	19,220,910	18,243,168	17,476,056	17,259,301
City's Net Pension Liability as a Percentage of Covered Payroll	60.40%	77.44%	132.79%	85.26%	131.70%	132.54%

NOTE: The City implemented GASB Statement No. 68 in FY 2015. Information in this table has been determined as of the measurement date (December 31) of the net pension liability. This table is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

Changes in assumptions: In 2020, the payroll growth assumption was lowered from 3.0% to 2.75%. In 2016, the discount rate was lowered from 7.0% to 6.75%; the inflation rate was lowered from 3% to 2.5%; the experience study for retirement age was updated.

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2021

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

	2021	2020	2019	2018	2017	2016
Actuarially Determined Contribution	$ 3,623,806	$ 3,673,229	$ 3,546,906	$ 3,351,716	$ 3,187,375	$ 3,090,958
Contributions in relation to the actuarially determined contribution	$ 3,623,806	$ 3,673,229	$ 3,546,906	$ 3,351,716	$ 3,187,375	$ 3,090,958
Contribution deficiency (excess)	-	-	-	-	-	-
Covered payroll	20,711,290	20,861,435	19,925,007	18,597,062	17,754,334	17,054,069
Contributions as a percentage of covered payroll	17.50%	17.61%	17.80%	18.02%	17.95%	18.12%

Notes to Schedule of Contributions

Valuation Date:	December 31, 2020
Notes	Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months 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	25 years
Asset Valuation Method	10 Year smoothed market, 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5% 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 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB (10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information

Notes	There were no benefit changes during the year.

NOTE: The City implemented GASB Statement No. 68 in FY 2015. Information in this table has been determined as of the City's most recent fiscal year-end (September 30). This table is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

Lubbock Power and Light
Required Supplementary Information
For the Year Ended September 30, 2021

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

	2021	2020	2019
Total OPEB liability			
Service Cost	$ 1,162,014	$ 1,151,287	$ 1,071,285
Interest (on the total OPEB liability)	566,957	694,564	645,634
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(102,532)	(1,144,893)	(158,630)
Change of assumptions	1,822,960	935,059	(843,145)
Benefit payments	(559,435)	(536,953)	(501,443)
Net Change in Total OPEB Liability	2,889,965	1,099,064	213,701
Total OPEB Liability - Beginning	20,661,185	19,562,120	19,348,418
Total OPEB Liability - Ending (a)	$ 23,551,149	$ 20,661,185	$ 19,562,120
Covered Payroll	17,042,712	16,259,977	16,958,146
City's Total OPEB Liability as a Percentage of Covered Payroll	138.19%	127.07%	115.36%

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. This table is intended to show information for ten years. Additional years' information will be displayed as it becomes availabe.

Changes in assumptions: reflects a change in the discount rate from 2.75% as of December 31, 2019 to 2.00% as of December 31, 2020.

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

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Glossary

4CP	Four Concident Peak Calculation
ACFR	Annual Comprehensive Financial Report
AMI	Advanced Metering Infrastructure
APR	Annuity Purchase Rates
ARO	Asset Retirement Obligation
ARR	Auction Revenue Rights
bps	Basis Points
CCN	Certificate of Convenience and Necessity
CCS	Customer Cloud Service
CIS	Customer Information System
CSIS	Customer Service Information System
COVID-19	Coronavirus Disease 2019
CSIS	Customer Service Information Systems
EAN	Entry Age Normal
EIA	U.S. Energy Information Administration
EOC	Emergency Operations Center
ERCOT	Electric Reliability Council of Texas
ESG	Electronic Submissions Gateway
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
HTS	Hilltop Securities, Inc.
IM	Integrated Marketplace (Southwest Power Pool)
ISO	Independent System Operator
KW	Kilowatt
KWH	Kilowatt-hour
JPMIM	J.P. Morgan Investment Management Inc.
kV	Kilovolt
LGIP	Local Government Investment Pools
LMP	Locational Marginal Price
MD&A	Management’s Discussion and Analysis
MDM	Meter Data Management System
MMBTU	One million British Thermal Units
MMMF	Money Market Mutual Funds
MTM	Market Transaction Manager/Move to Market
MWFM	Mobile Work Force Management
MW	Megawatt
MWH	Megawatt-Hour
NERC	North American Electric Reliability Corporation
NPL	Net Pension Liability
NITS	Network Integration Transmission Service
NYMEX	New York Mercantile Exchange
O&M	Operations & Maintenance
OMS	Outage Management System
OPEB	Other Postemployment Benefits
PFIA	Public Funds Investment Act
PILOT	Payment in Lieu of Taxes
PMC	Power Marketing Company
PCRF	Power Cost Recovery Factor
PUCT	Public Utility Commission of Texas
QSE	Qualified Scheduling Entity
REP	Retail Electric Provider
RP2000	Society of Actuaries Retirement Plan 2000 Mortality Table
S&P	Standard & Poor's
SAAS	Software as a Service
SCADA	Supervisory Control and Data Acquisition
SEC	Securities & Exchange Commission
SPP	Southwest Power Pool
SPS	Southwestern Public Service Company
TCOS	Transmission Cost of Service
TCR	Transmission Congestion Rights
TMRS	Texas Municipal Retirement System
TPL	Total Pension Liability
TPS	Texas Political Subdivisions
TSP	Transmission Service Provider
TTUS	Texas Tech University System
UCA	Unit Contingent Agreement
USOA	Uniform System of Accounts

Acknowledgements

LP&L would like to thank the City of Lubbock Accounting Department for their assistance in preparing the FY 2021 LP&L Annual Financial Report. Preparation of this report would not have been possible without the timely cooperation and assistance of the following individuals:

D. Blu Kostelich	Chief Financial Officer
Linda Cuellar, CPA	Director of Accounting
Brack Bullock	Accounting Manager
Veronica Valderaz	Accounting Manager
Deborah Hansard	Senior Accountant
Amber Aguilar	Senior Accountant
Amber Painter, CPA	Senior Accountant
Meg Beverly	Senior Accountant

Additionally, employees of the LP&L Finance, Accounting and Customer Information Systems Departments have provided many hours of work in preparing the FY 2021 LP&L Annual Financial Report. Preparation of this report would not have been possible without the efforts of the following individuals:

Kacey Ortiz	Accounting Supervisor
Ricky L. Rodriguez	Accountant I
Daniel Garcia	Electric Utility Financial Analyst
Tonika Thomas	Financial Analyst I
Crystal Brown	Utility Billing & CIS Supervisor

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