ANNUAL FINANCIAL REPORT

Fiscal Years Ended September 30, 2023 and 2022

...securing the future

Lubbock Power & Light

The power is yours.

Annual Financial Report

For the Fiscal Years Ended September 30, 2023 and 2022

Annual Financial Report

Elected, Appointed and Principal Officials

City Council

Tray Payne	Mayor
Shelia Patterson Harris	Mayor Pro Tem – District 2
Christy Martinez-Garcia	Council Member – District 1
Mark W. McBrayer	Council Member – District 3
Steve Massengale	Council Member – District 4
Dr. Jennifer Wilson	Council Member – District 5
Latrelle Joy	Council Member – District 6

Electric Utility Board

Gwen Stafford	Chair
Edwin E. “Butch” Davis	Vice Chair
Edwin Schulz	Secretary
Solomon Fields	Board Member
Lewis Harvill	Board Member
Daniel L. Odom	Board Member
Gonzalo Ramirez	Board Member
Craig Rhyne	Board Member
Dan Wilson	Board Member
Mayor Tray Payne	Ex-Officio Member

Principal Officials and Financial Management

Joel Ivy	Chief Administrative Officer
Harvey Hall	Chief Financial Officer
Carolyn Shellman	Interim General Counsel – LP&L
Keli Swan	General Counsel – LP&L
Blair McGinnis	Chief Operating Officer
Joe Jimenez	Director of Financial Planning and Analysis
Kacey Sylvia	Director of Finance

Annual Financial Report

For the Fiscal Years Ended September 30, 2023 and 2022

Table of Contents

Introduction	1
Independent Auditor's Reports	3
Management's Discussion and Analysis	9
Statement of Net Position	37
Statement of Revenues, Expenses, and Changes in Net Position	39
Statement of Cash Flows	40
Notes to Basic Financial Statements	
Note 1: Summary of Significant Accounting Policies	41
Note 2: Deposits and Investments	46
Note 3: Interfund Transactions	53
Note 4: Inventory	54
Note 5: Prepaid Expenses	54
Note 6: Capital Assets	55
Note 7: Retirement Plan	57
Note 8: Other Postemployment Benefits	64
Note 9: Deferred Compensation	66
Note 10: Long-Term Liabilities	67
Note 11: Short-Term Liabilities	71
Note 12: Early Termination of Partial Requirement Agreement	71
Note 13: Risk Management	72
Note 14: Health Insurance	73
Note 15: Litigation	74
Required Supplementary Information	75
Glossary	79
Acknowledgements	81

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Introduction
September 30, 2023 and 2022

Lubbock Power and Light (LP&L) is pleased to present its Basic Financial Statements for the fiscal years ended September 30, 2023 and 2022. 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*

To the Members of the Electric Utilities Board
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, 2023 and 2022, 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 16, 2024, 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 the 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 the Lubbock Power & Light's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Lubbock Power & Light'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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Lubbock Power & Light's internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Members of the Electric Utilities Board
Lubbock Power & Light
City of Lubbock, Texas

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.

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 16, 2024

Independent Auditor's Report

To the Members of the Electric Utility Board
Lubbock Power & Light
City of Lubbock, Texas

Report on the Audit of the Financial Statements

Opinion

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, 2023 and 2022, and the related notes to the basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Lubbock Power & Light, as of September 30, 2023 and 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lubbock Power & Light and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Mater

As discussed in Note 1-A, 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, 2023 and 2022, 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.

As discussed in Note 1-B. to the basic financial statements, during the year ended September 30, 2023, Lubbock Power & Light implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinions are not modified with respect to this matter.

Weaver and Tidwell, L.L.P.
2300 North Field Street, Suite 1000 | Dallas, Texas 75201
Main: 972.490.1970

The Members of the Electric Utility Board
Lubbock Power & Light
City of Lubbock, Texas

Responsibilities of Management for the Financial Statements

Lubbock Power & Light's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lubbock Power & Light's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lubbock Power & Light's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lubbock Power & Light's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

The Members of the Electric Utility Board
Lubbock Power & Light
City of Lubbock, Texas

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as 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 is the responsibility of management and, 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 16, 2024 on our consideration of Lubbock Power & Light's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Lubbock Power & Light's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 16, 2024

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Management's Discussion and Analysis
September 30, 2023 and 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, 2023 (FY 2023), compared to the fiscal year ended September 30, 2022 (FY 2022). 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.

<u>Statement of Revenues, Expenses, and Changes in Net Position</u>: 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.

<u>Statement of Cash Flows</u>: 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.

<u>Notes to the Financial Statements</u>: 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 anticipation of moving the remaining load of approximately 30 percent into ERCOT by December 2023, City Council approved an ordinance, on June 28, 2022, providing for the issuance of Electric Light and Power System Revenue Bonds in the amount of $160 million. Of that amount, $63.6 million was issued in September 2022, and was used to fund the acquisition, construction and system capital improvements to complete the integration of the remaining load of the electric system into ERCOT. 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 5 new capital projects and 15 existing capital projects were funded during FY 2023, totaling $44.3 million. The blend of funding sources used for these projects was composed of 48 percent equity and 52 percent debt. Beginning in FY 2024 the capital program will utilize cash funding with no debt forecasted to be issued in future years, to offset the debt issued through FY 2022 mainly due to the significant transmission upgrades.

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

- ERCOT Transmission/Distribution Service Provider System, totaling - $15.2 million
- FY 2020-23 Underground Distribution, totaling - $4.6 million
- FY 2020-23 Distribution Transformers, totaling - $4.4 million
- FY 2020-23 Overhead Lines, totaling - $3.9 million
- FY 2022-23 Vehicles and Equipment, totaling - $3.7 million
- FY 2020-23 Distribution System Upgrade, totaling - $2.3 million
- Substation Capacity Upgrade - Northeast, totaling - $2.0 million
- Distribution System Upgrade-Improvements-Expansion, totaling - $2.0 million
- 4kV Distribution Conversion, totaling - $1.7 million
- Yellowhouse Substation Capacity upgrade, totaling - $1.0 million
- McDonald Substation Capacity upgrade, totaling - $1.0 million

LP&L's depreciable and non-depreciable capital assets increased $54.3 million, due to a $59.1 million increase in capitalized assets, offset by $4.8 million of removed and retired assets. This increase is due to a significant amount of completed work related to the upgrade of the transmission system/lines, substation upgrade work, distribution and capacity upgrades, and annual projects

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

- 345 kV Transmission projects required to transfer a portion of the LP&L system to ERCOT, totaling $5.2 million
- Annual projects for the purchase of vehicles and equipment along with the purchase and installation of overhead and underground distribution lines, totaling $13.9 million
- Distribution projects for upgrades, improvements, expansion, totaling $11.7 million
- Other projects including the customer information system, the Broadway street light conversion, and fleet projects, totaling $1.1 million
- Capacity projects for substation upgrades, totaling $26.8 million
- Subscription Based Information Technology Assets, totaling $2.0 million

15 capital projects, totaling $208.7 million, were completed and closed in FY 2023 and were moved from construction in progress to appropriate capital asset categories. The appropriation for these projects totaled $212.4 million; therefore, these projects were completed under budget by $3.7 million. The significant projects completed in FY 2022 included:

- Cooke GT3 Control System Replacement ($0.5 million expended) – to design, build, and install a new turbine and generator control system for Cooke Gas Turbine #3
- Massengale Station Gas Turbine 8 Repairs ($7.7 million expended) – to repair and restore Gas Turbine #8 at Massengale Station

- FY 20-21 Vehicles and Equipment ($2.6 million expended) - to purchase and replace vehicles and equipment for LP&L departments
- Double Mountain to Fiddlewood 345kV Line ($22.5 million expended) – to construct a new 115kV transmission line, approximately nine (9) miles in length, from Double Mountain to Fiddlewood substation
- Blackwater Draw to Folsom Point 345kV ($39.4 million expended) - to construct a new 115kV transmission line, approximately 23 miles in length, from Blackwater Draw to Folsom Point substation
- Fiddlewood to Farmland 345kV Transmission Line ($4.5 million expended) – for LP&L's costs of a portion of the Fiddlewood to Farmland 345kV transmission line
- Posey Substation ($19.8 million expended) – to purchase and install two (2) autotransformer and breakers and other equipment to accommodate lines and establish the 345/115V substation
- Posey to Oliver 115kV Line ($14.9 million expended) – to construct a new 115kV transmission line, from Posey to Oliver substation
- Blackwater Draw to Double Mountain 345kV Line ($53.4 million expended) - to construct a new 345kV transmission line, approximately 34 miles in length, from Blackwater Draw to Double Mountain substation
- Posey to Southeast 115kV line ($6.6 million expended) - to construct a new 115kV transmission line, from Posey to Southeast substation
- South Plains Mall Expansion ($1.0 million expended) - to upgrade, re-route, replace, and install new distribution facilities as needed at the South Plains Mall
- Feeder Circuits - Northwest ($1.1 million expended) – to construct six (6) new distribution feeders exiting the Northwest substation
- Customer Service Information & Workforce Management Systems ($34.2 million expended) – to integrate technologies and innovative services such as advanced meters, communication networks, and data management systems that produce a more efficient, sustainable, economic, and secure supply of utility services.

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 deferred 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	10/22	11/22	12/22	01/23	02/23	03/23	04/23	05/23	06/23	07/23	08/23	09/23
Monthly Over/(Under)	$ -	$ 8.7	$ 4.2	$ (0.1)	$ 2.1	$ 3.9	$ 4.4	$ 4.4	$ 4.6	$ (0.7)	$ (2.8)	$ 5.9	$ 9.4
Cumulative Over/(Under)	$ (21.2)	$ (12.5)	$ (8.3)	$ (8.4)	$ (6.3)	$ (2.4)	$ 2.0	$ 6.4	$ 11.0	$ 10.3	$ 7.5	$ 13.4	$ 22.8

As of September 30, 2022, revenues collected from the PCRF portion were at an under collected amount of $21.2 million. By September 30, 2023, the PCRF over-recovery increased approximately $44.1 million to a net position amount of $22.9 million. The increase was mainly due to a decreased pricing of natural gas and lower market costs for Summer 2023. The average price of Waha natural gas in FY 2022 was $5.43 per one million British Thermal Units (MMBtu) and the average in FY 2023 was $1.98/MMBtu.

PCRF rates for the months of October 2022 through April 2023 (non-summer season) were set to over collect to recover to an under collected $21.2 million position ending in September 2022.

PCRF rates for the months of May 2023 through September 2023 (summer season) were lowered to minimize higher customer costs related to increased demand during the summer months. As of September 30, 2023, the PCRF revenues are higher than the power costs in the amount of $22.9 million. This increase was due to natural gas prices coming in lower than expected along with strategically hedging blocks of Firm LD power for Summer 2023 at a discounted price and the sale of any net load position back to the market at higher pricing.

Going forward, rates are set to evenly collect power costs throughout the FY 2023-24 non-summer season with the anticipation of transitioning to the retail market in March 2024.

Power Marketing – For FY 2023 (October 2022 – September 2023), the Brandon, Massengale, and Ty Cooke units were used to provide capacity and price hedging for the LP&L load and were part of the utility's overall purchased power costs for LP&L load in the ERCOT market. LP&L is contracted with a power marketing company (PMC) and they managed and procured the natural gas needed to operate the 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 $2.5 million, were netted against the revenues, totaling $1.7 million, from the SPP IM market and were included in the PCRF calculation.

Purchased Power Agreements, Generating Assets, and Renewable Energy Resources
ERCOT Energy Procurement - LP&L implemented an energy procurement process to cover its load in the ERCOT Market. This process includes a hedge program, in coordination with a third-party PMC.

The PMC utilizes 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.

Based on model data, risk strategies, and load forecasts, LP&L purchases blocks of Firm LD power to manage price exposure. The PMC assists 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 along with winter months of December through February, LP&L adopted a low-risk strategy with the intention of covering 100 percent of the load in ERCOT to manage the summer months and winter peak's volatile energy prices. This provides the utility with full protection from market price exposure. For the remaining months of October through May (excluding December through February), LP&L has adopted a medium-risk strategy, with hedges covering a percentage of the load. This strategy provides LP&L with the opportunity to purchase energy in the day-ahead or real-time markets for the unhedged load when favorable pricing occurs. The non-winter peak energy pricing is typically less volatile, and the medium-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 that was 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 remained in SPP and was electrically isolated from LP&L's transmission and distribution system in ERCOT up till December 2023. Regulatory approval was granted on September 28, 2023, to move the remaining "unaffected load" into ERCOT and the integration was completed on December 11, 2023, resulting in an early termination of the PR Agreement.

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 further identified December 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 paid a lump sum, totaling $65.7 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). 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 paid over $17.0 million per year for capacity in SPP. With a 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 $65.7 million was funded with 20-Year bonds. Therefore, the termination of the agreement will trade an annual capacity charge with a much lower annual debt service payment.

<u>Renewable Energy Resources</u> – 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. Since the May 2021 transition of 70% of LP&L customer load to ERCOT, LP&L's share of Elk City II Wind energy is no longer eligible to serve LP&L energy needs and is currently being sold on the energy market.

<u>LP&L Generating Assets</u> – In FY 2023, LP&L utilized approximately 106 MW of dependable natural gas fired generation to serve its load in ERCOT when market prices were higher than production costs. September 28, 2023 was the last date of operating the generation assets prior to initiating the process of divesting the assets as part of the plan to enter retail market competition.

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 endeavored to gain regulatory approval to move the remaining load from SPP to ERCOT, and obtained that final approval from the PUCT on September 28, 2023. The integration of the "unaffected load" into ERCOT was completed on December 11, 2023.

<u>The Electric Reliability Council of Texas</u>: 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 52,700 miles of transmission lines and more than 1,100+ 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.

<u>ERCOT Integration Request Process</u>: 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.

<u>ERCOT Transmission Assets and Approval Process</u>: 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.

Participation Agreement: 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.

ERCOT Infrastructure Cost and Financing: 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.

<u>ERCOT Power Supply:</u> 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*).

<u>Transmission Cost of Service Revenues (TCOS)</u>: 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 anticipated 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. In July of 2021, the Revolving Note Program with Bank of America, NA was extended to December of 2023. The total aggregate principal amount available under this agreement was not to exceed $60 million. The Revolving Note Program was intended as a short-term funding for system capital improvements to complete the integration of the remaining 30% of the electric system into ERCOT. With yield changes in the Municipal Bond market, LP&L moved to fund the $60 million with the issuance of the $56,480,000 Electric Light and Power System Revenue Bonds, Series 2022. On August 30, 2022, the Revolving Note Program with Bank of America, NA was terminated.

<u>Meter Growth</u> – LP&L's meter base totaled 111,230 and 110,533 meters at September 30, 2023 and 2022, respectively. The FY 2023 meter increase of 0.6 percent is in line with normal growth levels within the LP&L certificated area. Residential meters increased by 512 meters, while commercial meters increased by 185 meters.

RESULTS OF OPERATIONS

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

	2023	2022	2021
Program revenues			
Charges for services	$ 332,150,988	$ 339,022,016	$ 273,843,064
General revenues			
Investment earnings (losses)	7,615,812	(3,040,961)	487,744
Other revenues (expenses)	(85,690,011)	(20,124,475)	(19,329,417)
Total revenues	254,076,788	315,856,532	255,001,391
Program expenses (including interest)	300,402,255	289,120,635	247,306,737
Contributions	48,464	662,600	261,513
Excess before transfers	(46,277,003)	27,398,544	7,956,167
Transfers	(2,041,853)	(1,322,948)	(82,358)
Change in net position	(48,318,856)	26,075,597	7,873,809
Net position, beginning of year, as restated	262,188,891	237,720,021	229,846,212
Net position, end of year	**213,870,035**	**$ 263,795,618**	**$ 237,720,021**

Total Revenues

FY 2023 – Program revenues totaled $332.2 million, representing a 2.0 percent decrease from FY 2022. (See *Table 3* below for a breakdown of program revenues by major category):

Table 3 – 2023 Program Revenues

Program Revenues	2023	2022	Change
General Consumers Metered	$ 304,035,774	$ 316,221,654	$ (12,185,880)
TCOS Revenue	43,351,214	33,877,729	9,473,484
ERCOT Hold Harmless	(21,875,055)	(14,636,305)	(7,238,750)
Fees, Charges, and Other	9,166,644	5,061,973	4,104,671
Bad Debt Expense	(2,527,589)	(1,503,083)	(1,024,506)
Total	$ 332,150,988	$ 339,021,968	$ (6,870,980)

The primary driver of lower program revenues was a decrease, totaling $12.1 million, in general consumers metered revenues (Metered Revenues). These revenues were down mainly due to being at an undercollected position of $21.2 million, increasing $44.1 million, to an over-recovery position of $22.9 million. For more detail on the breakdown of Metered Revenues, see *Table 4*. Additionally, the ERCOT Hold Harmless payment which is an offset to TCOS revenues increased $7.2 million as FY 2022 only captured 8 months of the $22 million annual payment, offsetting the decreases TCOS revenues increased $9.5 million in FY 2023 due to only 4 months of revenue recognized from the initial filing of $15.9 million and the remaining 8 months at the approved $40.9 million, and electric consumption was comparable to FY 2022 with 2.547 million MWh consumed, compared to 2.564 million MWh in the prior year.

Table 4 – 2023 Metered Revenues

Metered Revenues	2023	2022	Change
Base Rates	$ 69,932,127	$ 70,770,983	$ (838,856)
Power Cost Recovery Factor	220,337,730	231,285,846	(10,948,116)
Franchise Fee Equivalent	13,765,917	14,164,825	(398,908)
Total	$ 304,035,774	$ 316,221,654	$ (12,185,880)

PCRF revenues decreased mainly due to the over recovery of $44.1 million in the PCRF, which is an offset of to this revenue stream. This large increase in the PCRF is due to the increase in the PCRF rates. For example, a Residential Rate 1 customer's PCRF rates averaged $0.08785/kWh in FY 2022 compared to an average of $0.11433/kWh in FY 2023, representing a 30.1 percent increase. The increase was related to higher energy prices in FY 2023 than in FY 2022.

General revenues, comprised mainly of investment earnings (expenses), increased from a net expense of $3.0 million in FY 2022 to a net income totaling $7.62 million in FY 2023 (see *Table 2*). The large increase in investment earnings is mainly due to a larger than normal adjustment in FY 2022 for the market value of our security investments which resulted in a net expense in the investment earnings revenue line item.

FY 2022 – Program revenues totaled $339 million, representing a 23.8 percent increase from FY 2021. (See Table *5* below for a breakdown of program revenues by major category):

Table 5 - 2022 Program Revenues

Program Revenues	2022	2021	Change
General Consumers Metered	$ 316,221,654	$ 264,072,534	$ 52,149,120
TCOS Revenue	33,877,729	5,541,501	28,336,228
ERCOT Hold Harmless	(14,636,305)	-	(14,636,305)
Fees, Charges, and Other	5,062,021	5,948,314	(886,293)
Bad Debt Expense	(1,503,083)	(1,719,285)	216,202
Total	$ 339,022,016	$ 273,843,064	$ 65,178,952

The primary driver of higher program revenues was an increase, totaling $52.1 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 6*. Additionally, TCOS revenues increased $28.3 million in FY 2022 due to only 4 months of revenue was recognized in FY 2021, LP&L added a new revenue line item for the ERCOT Hold Harmless payment which is an offset to TCOS revenues, and electric consumption was comparable to FY 2021 with 2.564 million MWh consumed, compared to 2.552 million MWh in the prior year.

Table 6 - 2022 Metered Revenues

Metered Revenues	2022	2021	Change
Base Rates	$ 70,770,983	$ 70,338,992	$ 431,991
Power Cost Recovery Factor	231,285,846	181,826,347	49,459,499
Franchise Fee Equivalent	14,164,825	11,907,195	2,257,630
Total	$ 316,221,654	$ 264,072,534	$ 52,149,120

PCRF revenues increased due to higher PCRF rates in FY 2022 than in FY 2021, causing this revenue stream to increase approximately 27.2 percent. For example, a Residential Rate 1 customer's PCRF rates averaged $0.08785/kWh in FY 2022 compared to an average of $0.06978/kWh in FY 2021, representing a 25.9 percent increase. The increase was related to higher energy prices in FY 2022 than in FY 2021.

General revenues, comprised mainly of investment earnings (expenses), decreased from $0.5 million in FY 2021 to a net expense totaling $3.0 million in FY 2022 (see *Table 2*). The large decrease in investment earnings was a result of a larger than normal adjustment for the market value of our security investments which resulted in a net expense in the investment earnings revenue line item.

Other revenues (expenses) changed from a net expense totaling $19.3 million in FY 2021 to a net expense totaling $20.1 million in FY 2022 (see *Table 2*). The increase in FY 2022 was due to a $3.0 million increase in the Franchise Fee Equivalent (FFE) and Payment in Lieu of Property Taxes (PILOT) expenses, a decrease in pole rental revenue of $0.3 million due to a decrease in the pole rental rates, offset by a decrease of transmission inventory expenses of $1.2 million and a decrease on the loss of assets of $1.5 million.

Program Expenses

FY 2023 – Program expenses, excluding interest expense of $15.2 million, totaled $285.1 million, representing a 3.67 percent increase from FY 2022 (see *Table 2*). The cost of purchased fuel and power, totaling $212.6 million, represented 74.6 percent of total program expenses and decreased $0.8 million from FY 2022. The breakdown of purchased power costs are shown in *Table 7*, as follows:

Table 7 - 2023 Power Costs

Power Costs	2023	2022	Change
Energy	$ 167,897,674	$ 164,087,506	$ 3,810,168
Demand	44,716,238	49,334,075	(4,617,836)
Total	$ 212,613,912	$ 213,421,581	$ (807,669)

- Energy costs increased $3.8 million, or 2.3 percent, mainly due to increased pricing of natural gas and higher market costs. The average price of Waha natural gas in FY 2022 was $5.43 per one million British Thermal Units (MMBtu) and the average in FY 2023 was $1.98/MMBtu.
- Demand costs include capacity, transmission, and internal production-related operating and maintenance (O&M) costs. Demand costs decreased $4.6 million due to a decrease in

transmission charges (down $3.6 million, or 11.2 percent) and a decrease in capacity charges (down $1.0 million, or 5.9 percent).

- Transmission costs in SPP decreased approximately $9.8 million in FY 2023. The primary driver of the transmission decrease was due to the shift of 70% of LP&L's load to ERCOT on June 1, 2021. Transmission costs are charged on a one-year lag in SPP so in FY 2022 only eight months from the periods of October 2021 through May 2022 were costs recognized in SPP which eliminated the large transmission cost realized in the summer months. Additionally, in October 2022 LP&L received a Gridliance refund of $4.3 million.
- ERCOT transmission charges increased $3.0 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 increased $2.0 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.
- Credits from auction revenue rights (ARRs) and transmission congestion rights (TCRs) associated with SPP transmission network costs increased in FY 2022, causing an approximate $2.0 million decrease to transmission costs. ARR/TCR credits are related to TCRs associated with firm transmission rights and hedging load.
- Congestion Revenue Rights (CRRs) increased $1.2 million and is an offset to transmission expenses.
- Capacity payments were lower in FY 2023. The reason for the decrease was mainly due to a $1.1 million Production true up LP&L received in July 2023 from SPP. 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 $72.5 million, an increase of $10.9 million, or 17.7 percent, compared to FY 2022. The increase was mainly driven by increases in personal services, and depreciation and amortization, and in other services and charges. 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	2023	2022	Change
Personal services	$ 25,455,603	$ 22,355,409	$ 3,100,194
Supplies	1,701,172	1,527,156	174,015
Maintenance	4,679,239	3,888,777	790,463
Other services and charges	16,409,456	13,460,719	2,948,737
Depreciation and amortization	24,262,239	20,384,551	3,877,687
Select Program Expenses	$ 72,507,709	$ 61,616,612	$ 10,891,097

Personnel services increased $3.1 million in FY 2023. Pension expenses increased (see Note 7: Retirement Plan), totaling $6.3 million, and a decrease in expenses related to OPEB, totaling $2.4 million, and payroll and benefits costs decreased $0.8 million,

Supplies increased $0.2 million mainly due to increases in safety supplies of $0.1 million in FY 2023.

The $0.8 million increase in maintenance charges was mainly due to increased maintenance of overhead lines, underground lines, streetlights, and equipment necessary to ensure a safe and reliable distribution system.

Other Services and Charges increased $2.9 million due to an increase in charges related to property and liability insurance, totaling $3.2 million, offsetting these increases was mainly a decrease of $0.4 million in professional contracted services related to planning and support for ERCOT integration in FY 2022.

Depreciation and amortization expense increased $3.8 million in FY 2023 as a result of adding $1.7 million related to Subscription Based Information Technology Asset (SBITA) as well as increases the following assets added during the fiscal year: AMI Secondary Meters, and Massengale Unit 8.

FY 2022 – Program expenses, excluding interest expense of $14.1 million, totaled $275.0 million, representing a 14.6 percent increase from FY 2021 (see *Table 2*). The cost of purchased fuel and power, totaling $213.4 million, represented 77.6 percent of total program expenses and increased $28.7 million from FY 2021. The breakdown of purchased power costs are shown in *Table 9*, as follows:

Table 9 – 2022 Purchased Power Costs

Power Costs	2022	2021	Change
Energy	$ 164,087,506	$ 115,546,196	$ 48,541,310
Demand	49,334,075	69,145,593	(19,811,518)
Total	$ 213,421,581	$ 184,691,789	$ 28,729,792

- Energy costs increased $48.5 million, or 42.0 percent, mainly due to increased pricing of natural gas and high market costs associated with abnormally high temperatures for Summer 2022. The average price of Waha natural gas in FY 2021 was $2.69 (excluding the February Winter Storm pricing of $34.64/MMBtu during that particular month) per one million British Thermal Units (MMBtu) and the average in FY 2022 was $5.55/MMBtu.
- Demand costs include capacity, transmission, and internal production-related operating and maintenance (O&M) costs. Demand costs decreased $19.8 million due to a decrease in transmission charges (down $7.0 million, or 17.8 percent) and a decrease in capacity charges (down $12.9 million, or 42.8 percent).
  - Transmission costs in SPP decreased approximately $13.2 million in FY 2022. The primary driver of the transmission decrease was due to the shift of 70% of LP&L's load to ERCOT on June 1, 2021. Transmission costs are charged on a one-year lag in SPP so in FY 2022 only eight months from the periods of October 2021 through May 2022 were costs recognized in SPP which eliminated the large transmission cost realized in the summer months. Offsetting these decreases was an increase of $5.6 million increased costs in ERCOT as a total of twelve required payments were made in FY 2022 as compared to the four Summer months in FY 2021.
  - ERCOT transmission charges increased $5.6 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 increased $17.7 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 $5.8 million and $0.5 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 2022, causing an approximate $1.6 million decrease to transmission costs. ARR/TCR credits are related to TCRs associated with firm transmission rights and hedging load.
- Congestion Revenue Rights (CRRs) increased $16.7 million and is an offset to transmission expenses.
- Capacity payments were lower in FY 2022. 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 $61.6 million, an increase of $6.3 million, or 1.1 percent, compared to FY 2021. The increase was mainly driven by increases in personal services, and depreciation and amortization, offset by a decrease in other services and charges.

Contributions

FY 2023 – Contributions decreased from $662,600 in FY 2022 to $48,464 in FY 2023 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, additionally in FY 2022 assets were donated by the Lubbock Economic Development Alliance (LEDA).

FY 2022 – Contributions increased from $261,513 in FY 2021 to $662,600 in FY 2022 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, in addition to, assets donated by the Lubbock Economic Development Alliance (LEDA).

Transfers

FY 2023 – Net transfers-out for FY 2023 totaled $2.0 million, compared to net transfers-out totaling $1.3 million in FY 2022. The difference in transfers in is mainly due to a $0.6 million increase in the indirect cost allocation due to increased expenses in City administrative cost centers. In FY 2023, 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 $0.2 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 $1.3 million, and (iii) transfers out from the City Utility Funds for their share of purchases for vehicles, totaling $0.1 million; offset by (i) General Fund indirect cost allocations, totaling $2.5 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 2022 – Net transfers-out for FY 2022 totaled $1.3 million, compared to net transfers-out totaling $0.1 million in FY 2021. The difference in transfers in is mainly due to an increase in the indirect cost allocation due to a new cost in FY 2022 for LP&L's portion of Citizen's Tower maintenance costs (building use charge) and increased expenses in City administrative cost centers. In FY 2022, 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 $0.05 million; offset by (i) General Fund indirect cost allocations, totaling $1.8 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 2023 – Net position for FY 2023 and FY 2022 was $213.9 and $263.8 million, respectively. Overall, LP&L's change in net position was a decrease totaling $49.9 million in FY 2023 compared to a gain totaling $26.1 million in FY 2022, reflecting a year-to-year decrease in net position, totaling $76.0 million. The drivers that affected net position are highlighted below:

- FY 2023 expenses before transfers, totaling $46.3 million, was $73.7 million lower than FY 2022 income due to: (a) the $65.6 million increase in other expenses, mainly related to the $65.6 million SPP settlement recognized in FY 2023 and (b) the $6.9 million decrease in program revenues; (c) the $11.3 million increase in program expenses (c) offset by the $10.6 million increase in interest earnings.
- FY 2023 net transfers-out, totaling $2.0 million, was $0.7 million higher than the FY 2022 net transfers out mainly due to a $0.6 million increase in the indirect cost allocation due to increased expenses in City administrative cost centers.

FY 2022 – Net position for FY 2022 and FY 2021 was $263.8 and $237.7 million, respectively. Overall, LP&L's change in net position was a gain totaling $26.1 million in FY 2022 compared to a gain totaling $7.9 million in FY 2021, reflecting a year-to-year increase in net position, totaling $18.2 million. The drivers that affected net position are highlighted below:

- FY 2022 income before transfers, totaling $27.4 million, was $19.4 million higher than FY 2021 income due to: (a) the $0.7 million increase in other expenses, mainly related to decreased losses related to disposition of assets and (b) the $3.5 million decrease in interest earnings; and (c) the $65.2 million increase in program revenues; offset by the $41.8 million increase in program expenses.
- FY 2022 net transfers-out, totaling $1.3 million, was $1.2 million higher than the FY 2021 net transfers out due to the elimination of a transfer-in from the Water fund for its portion of Lake 7 re-route costs for the Double Mountain to Fiddlewood 345kV Line capital project.

FINANCIAL POSITION

Condensed Statements of Net Position

Table 10 - Condensed Statements of Net Position

	2023	2022	2021
Program revenues			
Charges for services	$ 332,150,988	$ 339,022,016	$ 273,843,064
General revenues			
Investment earnings (losses)	7,615,812	(3,040,961)	487,744
Other revenues (expenses)	(85,690,011)	(20,124,475)	(19,329,417)
Total revenues	254,076,788	315,856,532	255,001,391
Program expenses (including interest)	300,402,255	289,120,635	247,306,737
Contributions	48,464	662,600	261,513
Excess before transfers	(46,277,003)	27,398,544	7,956,167
Transfers	(2,041,853)	(1,322,948)	(82,358)
Change in net position	(48,318,856)	26,075,597	7,873,809
Net position, beginning of year, as restated	262,188,891	237,720,021	229,846,212
Net position, end of year	**213,870,035**	**$ 263,795,618**	**$ 237,720,021**

Current Assets

FY 2023 – Current assets at September 30, 2023, totaling $167.6 million were $41.0 million higher than the balance at September 30, 2022, mainly due to a $57.1 million increase cash, a $3.8 million increase in investments, and a $1.1 million increase in inventories, offset by a $21.0 million decrease in deferred expenses for PPRF.

.

FY 2022 – Current assets at September 30, 2022, totaling $126.6 million were $10.9 million higher than the balance at September 30, 2021, mainly due to a $18.8 million increase in deferred expenses for PPRF, offset by a $6.4 million decrease in investments, and a $1.5 million decrease in receivables.

Capital Assets, Net

FY 2023 - At September 30, 2023, net capital assets, totaling $640.1 million, increased $39.3 million due primarily to expanded CIPs and investment in distribution and transmission infrastructure. The largest increases were found in the Distribution Plant and Transmission Plant line items. The changes significant amount of completed work related to the upgrade of the transmission system/lines, substation upgrade work, distribution and capacity upgrades, and annual projects (see *Financial Highlights – Capital Assets – ERCOT Integration and Transmission & Distribution Upgrades*).

FY 2022 - At September 30, 2022, net capital assets, totaling $600.9 million, increased $29.3 million due primarily to expanded CIPs and investment in distribution and transmission infrastructure. The largest increases were found in the Distribution Plant and Transmission 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*).

Noncurrent Assets

FY 2023 – Noncurrent assets (including restricted investments and prepaid expenses) totaled $68.8 million at September 30, 2023, a decrease totaling $69.1 million from the prior year. The decrease was mainly attributable to a $67.9 million decrease in the expenditure of the 2018, 2021, and 2022 Series LP&L Revenue Bonds, and a $1.2 million decrease in Cash Reserves.

FY 2022 – Noncurrent assets (including restricted investments and prepaid expenses) totaled $137.9 million at September 30, 2022, an increase totaling $23.1 million from the prior year. The increase was mainly attributable to the expenditure of 2022 Series LP&L Revenue Bonds, totaling $51.0 million, and a $2.7 million increase in Cash Reserves, offset by (i) a drawdown of $17.1 million in the 2021 Series LP&L Revenue Bonds, (ii) the completed drawdown of the 2019 Series LP&L Revenue Bond, totaling $6.8 million, (iii) a decrease of $2.0 million in the escrow account held jointly by LP&L and Oncor to advance-fund transmission-related capital project expenditures, and (iv) a $4.7 million drawdown on 2018 Series LP&L Revenue Bond.

Current Liabilities

FY 2023 – Excluding current maturities of debt totaling $17.7 million, current liabilities increased $84.2 million, from $49.8 million in FY 2022 to $134.0 million in FY 2023 (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 accounts payable category increased $83.3 million, which was mainly due to the $65.6 million SPP settlement recognized in FY 2023.

As of September 30, 2022, revenues collected from the PCRF portion were at an under collected amount of $21.2 million. By September 30, 2023, the PCRF under-recovery increased approximately $44.1 million to a net position of $22.9 million due to increased PCRF rates.

Table 11 - 2023 Accounts Payable

Accounts Payable / Due to	2023	2022	Change	% Change
Accounts Payable	$ (115,880,604)	$ (32,625,486)	$ (83,255,118)	255.2%
Total Accounts Payable	$ (115,880,604)	$ (32,625,488)	$ (83,255,118)	255.2%

The decrease in customer deposits totaled $1.0 million due to a decrease of $1.2 million in unapplied cash due increased excess credits in service agreements, and a net increase of $0.2 million in customer deposits. 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 9,030 deposits in

FY 2023 totaling $2.1 million. Offsetting refunds were customer deposits totaling $1.0 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 2022 – Excluding current maturities of debt totaling $19.5 million, current liabilities decreased $0.2 million, from $49.6 million in FY 2021 to $49.8 million in FY 2022 (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 accounts payable category increased $0.7 million, which was largely affected by purchased power accruals.

As of September 30, 2021, revenues collected from the PCRF portion were at an under collected amount of $3.2 million. By September 30, 2022, the PCRF over-recovery decreased approximately $18 million to an under collected amount of $21.2 million due to increased purchased power costs.

The decrease in customer deposits totaled $2.4 million due to a decrease of $0.8 million in unapplied cash due increased excess credits in service agreements, and a net decrease of $1.6 million in customer deposits. 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 13,108 deposits in FY 2022 totaling $2.5 million. Offsetting refunds were customer deposits totaling $0.9 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).

Other Noncurrent Liabilities

FY 2023 – Excluding the noncurrent portion of debt, totaling $473.5 million, noncurrent liabilities increased $19.2 million to $48.7 million at September 30, 2023. This increase was driven by a $22.5 million increase in net pension liability, offset by a $4.9 million decrease in OPEB.

The net pension liability increased $22.5 million, driven mainly by positive investment returns in plan year 2021. Investment income totaled $17.7 million, a return of 12.86 percent in plan year 2021 and investment expense totaled $10.9 million, a loss of 7.35 percent, in plan year 2022. The negative return in plan year 2022 was below 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 2022 – Excluding the noncurrent portion of debt, totaling $495.9 million, noncurrent liabilities decreased $8.0 million to $29.5 million at September 30, 2022. This decrease was driven by (i) a $6.1 million decrease in net pension liability, and (ii) a $2.4 million decrease in OPEB, offset by an increase of $0.5 million in leases for Doble test equipment and Red Raider Station.

The net pension liability decreased $6.1 million, driven mainly by positive investment returns in plan year 2021. Investment income totaled $9.7 million, a return of 7.65 percent in plan year 2020 and investment income totaled $17.7 million, a return of 12.86 percent, in plan year 2021. The positive return in plan year 2021 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).

Net Position

FY 2023 – Total net position decreased $49.9 million, from the FY 2022 net position of $263.8 to $213.9 million in FY 2023. The subcomponents of net position changed as follows:

- The net investment in capital assets decreased $5.1 million mainly due to the following: (a) a $69.0 million decrease in restricted investment (b) a $1.7 million decrease in bonds payable; (c) offset by a $39.3 million increase in net capital assets.
- restricted for debt service decreased in the amount of $1.2 million as described in the next paragraph; and,
- unrestricted net position decreased $43.6 million mainly due to the $65.6 million recognized for the SPP Settlement.

The $25.5 million balance in restricted for debt service is related to the debt service reserve fund, totaling $24.1 million; and the interest and sinking fund, totaling $1.4 million. These funds were 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 2022 – Total net position increased $26.1 million, from the FY 2021 net position of $237.7 to $263.8 million in FY 2022. The subcomponents of net position changed as follows:

- The net investment in capital assets increased $12.9 million mainly due to the following: (a) a $29.3 million increase in net capital assets; (b) a $23.3 million increase in restricted investment, offset by (c) a $39.8 million increase in bonds payable.
- restricted for debt service increased in the amount of $1.7 million as described in the next paragraph; and,
- unrestricted net position decreased $11.5 million.

The $26.7 million balance in restricted for debt service is related to the debt service reserve fund, totaling $24.4 million; and the interest and sinking fund, totaling $2.3 million. These funds were 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 2023 – As of September 30, 2023, LP&L's total outstanding debt was $491.3 million. Bonds and Notes Payable were comprised of $12.3 million in certificates of obligation, $419.0 million in revenue bonds, and $60.9 million in bond premiums. All outstanding debt was comprised of fixed interest rate instruments.

Reductions – LP&L made principal payments totaling $16.2 million on its revenue bonds and $3.2 million on its certificates of obligation.

<u>FY 2022</u> – As of September 30, 2022, LP&L's total outstanding debt was $515.4 million. Bonds and Notes Payable were comprised of $15.6 million in certificates of obligation, $435.3 million in revenue bonds, and $64.5 million in bond premiums. All outstanding debt was comprised of fixed interest rate instruments.

Reductions – LP&L made principal payments totaling $17.2 million on its revenue bonds and $3.1 million on its certificates of obligation.

CURRENTLY KNOWN FACTS

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. The transition to the Retail Market is expected to occur on March 2024.

Base Rate Adjustment – Rates are set by the EUB and approved by the City Council. On September 13, 2023, the City Council approved a tariff to become effective on October 1, 2023 that did not include a base rate increase. These rates are intended to be in effect up to the date we transition our customers to the retail market which is anticipated to be March 2024.

Distribution System Revenue: A new "cost of service" (COS) was completed in March 2023 to establish the newly implemented Distribution System Rates 'DSR'. The revenue requirement for operational costs shifted significantly as the Utility transitions to a delivery only provider once it opts into the retail market. The costs for power supply (energy) moving forward will be handled by a third party (Retail Electric Providers "REPs"). These DSRs will recover the Utility's revenue requirements focused on operational costs related to transmission and distribution system reliability. It is anticipated that these rates will commence in March 2024 once the transition to the retail market is complete.

LP&L Generating Assets: LP&L owns approximately 106 MW of dependable natural gas fired generation which was utilized to serve a portion of its load. The decision was made to end operations on the three generation units (Massengale, Cooke, and Brandon) as the utility's role in the retail market moving forward will be to operate as a poles and wires company similar to a Transmission and Distribution Utilities (TDUs). September 28, 2023 was the last date of operating the generation assets prior to initiating the process of divesting the assets as part of the plan to enter retail market 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.

The completed installation of advanced metering infrastructure ('AMI') occurred in February 2021, with only a minimal amount of meters needed to be converted after that date. AMI provides the utility with an integrated system of meters and communication networks with the ability to record consumption of electric services in intervals of 15 minutes. That information is then communicated daily to the utility for monitoring and billing. Along with that infrastructure, the utility also installed a new billing system that includes a Meter Data Management System ('MDM'). The MDM 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.

Market Transaction Manager/Move to Market (MTM) - LP&L created two different CIS divisions within the Oracle CCS Product. *Division I*, consists of City of Lubbock Utility services except for Electric (water, storm water, solid waste, and sewer). *Division 2* will maintain electric services only. The following software programs are crucial for the implementation of CIS Division 2 to ensure the efficient transfer of data and information to ERCOT as customers are transitioned to the retail market.

- 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.

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 2024 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 $2.70 per MMBtu in calendar year 2024.
    - Dry natural gas production has been increasing throughout 2023 and reached an all-time monthly high of 105.5 billion cubic feet per day (Bcf/d) in December 2023. The EIA expects dry natural gas production to continue to grow as the dry natural gas production increased 3.7% (3.6 Bcf/d) from 2022 to 2023.
    - The EIA expects liquefied natural gas (LNG) demand to continue increasing. The addition of new LNG import facilities—both fixed terminal facilities and floating storage regasification units that convert LNG into pipeline-ready gaseous supplies—have increased regional LNG import capacity, especially in Europe. Europe's natural gas storage inventories are full at the start of the 2023–24 winter season. If normal weather conditions prevail, we expect less natural gas demand for heating in Europe and limited growth in demand from Asia compared with prior years. Under these conditions, the market should remain balanced during the upcoming winter season.
    - Natural gas prices at the Waha pricing point in West Texas continues to offer an attractive long-term option for offtakers, according to an analysis from the EIA. Since late 2021, there has been a marginal difference between the natural gas price

at Waha and the Henry Hub. Continued increases in crude oil and associated natural gas production in the Permian region—the second-largest natural gas-producing region in the United States—grew its natural gas production by 3.7% in 2023 compared to 2022.

- Coal Prices – The EIA expects coal production to decrease 16 percent 2024. Although cheaper on an energy basis than natural gas coal is more expensive when accounting for the greater thermal efficiency of natural gas.
- Electricity Generation – The EIA expect solar power to be the leading source of growth in electricity generation in 2024 as 36 gigawatts (GW) of new solar capacity come on line. The new capacity will boost the solar share of total generation to 6% in 2024, up from 4% in 2023. Driven by the forecast of rising generation from solar and to a lesser extent wind, the EIA expects that electricity generation from coal will decline by 9% in 2024, due to a combination of higher costs compared with renewables and another 12 GW of coal-fired capacity retiring over the next two years. The electricity generation from natural gas will be unchanged in 2024 compared with 2023.
- Electricity Generation (ERCOT) - The ERCOT region has witnessed significant changes in its resource mix and regulatory environment. One notable trend has been the evolution of the types and numbers of participants that ERCOT interacts with. Over the last decade, wind and solar generation has increased as well as the development of energy storage. The participants have grown and evolved as well and now include large flexible loads and distributed energy resources. In terms of regulations, ERCOT has undergone reforms aimed at improving grid reliability and resilience, particularly in response to extreme weather events. These changes have focused on enhancing communication, strengthening weatherization standards, and implementing measures to ensure system stability. Overall, the ERCOT region has experienced a dynamic transformation, embracing new energy sources while striving to enhance the reliability of its power infrastructure.
- Electricity Retail Prices – The EIA expects residential electricity prices to average 15.7 cents per kWh for calendar year 2029, which is a 0.9 percent decrease over 2023.
- 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

	2023	**2022**	**2021**
Natural Gas	26.7%	20.1%	19.9%
Coal	27.7%	33.5%	35.9%
Wind	36.3%	37.9%	34.5%
Nudear	6.0%	5.2%	5.8%
Hydro	3.0%	2.9%	3.6%
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

	2023	2022	2021
Gas	8.1%	7.1%	6.7%
Gas-CC	36.8%	35.9%	35.3%
Coal	13.9%	16.7%	19.1%
Wind	24.3%	24.7%	24.4%
Nudear	9.2%	9.5%	10.3%
Hydro	0.1%	0.1%	0.1%
Solar	7.3%	6.0%	4.0%
Biomass	0.1%	0.2%	0.1%
Other	0.2%	0.0%	0.0%
	100.0%	**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, 2023 and 2022

	FY 22-23	FY 21-22
ASSETS		
Current assets:		
Cash and cash equivalents	$ 752,937	$ 568,011
Investments	114,733,322	57,842,139
Accounts receivable, net	48,198,085	65,440,486
Interest receivable	571,756	568,478
Prepaid expenses	25,000	25,000
Inventories	3,339,461	2,204,632
Total current assets	167,620,561	126,648,746
Noncurrent assets:		
Restricted investments	68,021,315	136,993,891
Prepaid expenses	811,109	944,442
	68,832,424	137,938,333
Capital assets:		
Non-Depreciable	50,458,282	49,348,480
Construction in progress	30,372,518	23,809,349
Depreciable	869,933,965	816,962,916
Right to Use Assets	463,210	488,714
Subscription Assets, Net	317,804	-
Less accumulated depreciation	(311,414,028)	(289,756,309)
Total capital assets	640,131,751	600,853,150
Total noncurrent assets	708,964,175	738,791,483
Total assets	$ 876,584,736	$ 865,440,229

DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	$ 145,490	$ 220,225
Deferred outflows from pensions	16,186,613	4,634,730
Deferred outflows from OPEB	2,027,363	2,635,979
Total deferred outflows of resources	$ 18,359,466	$ 7,490,934

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Net Position
September 30, 2023 and 2022

	FY 22-23	FY 21-22
LIABILITIES		
Current liabilities:		
Accounts payable, net	$ 115,880,604	$ 32,625,486
Accrued liabilities	2,916,785	1,713,398
Accrued interest payable	8,580,205	7,769,742
Customer deposits	4,578,558	5,596,444
Compensated absences	2,063,359	2,075,521
Notes Payable	-	-
Bonds payable	17,720,000	19,455,000
Total current liabilities	151,739,511	69,235,591
Noncurrent liabilities:		
Compensated absences	$ 1,501,637	$ 1,426,929
Post employment benefits	16,227,189	21,160,511
Net pension liability	28,980,668	6,437,317
Rebatable arbitrage	1,066,799	-
Leases Payable	474,232	494,400
Subscriptions payable	427,159	-
Bonds payable	473,538,366	495,896,847
Total noncurrent liabilities	522,216,050	525,416,004
Total liabilities	$ 673,955,561	$ 594,651,595
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions	$ 908,593	$ 10,053,768
Deferred inflows from OPEB	7,276,813	4,430,182
Total deferred inflows of resources	$ 8,185,406	$ 14,483,950
NET POSITION		
Net investment in capital assets	190,370,981	195,484,672
Restricted for:		
Debt service	25,553,992	26,736,347
Unrestricted	(2,054,938)	41,574,599
Total net position	$ 213,870,035	$ 263,795,618

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Revenues, Expenses, and Changes in Net Position
September 30, 2023 and 2022

	FY 22-23	FY 21-22
OPERATING REVENUES		
Charges for services	$ 332,150,988	$ 339,021,968
OPERATING EXPENSES		
Personal services	25,455,603	22,355,409
Supplies	1,701,172	1,527,156
Maintenance	4,679,239	3,888,777
Purchase of fuel and power	212,613,912	213,421,581
Other services and charges	16,409,456	13,460,719
Depreciation and amortization	24,262,239	20,384,551
Total operating expenses	285,121,621	275,038,193
Operating income	47,029,367	63,983,775
NON-OPERATING REVENUES (EXPENSES)		
Interest income	7,615,812	-
Disposition of assets	77,506	(407,035)
Miscellaneous	(85,767,518)	(19,717,440)
IRS Build America Bond subsidy	-	-
Interest expense on bonds	(15,280,634)	(17,123,355)
Total non-operating revenues (expenses)	(93,354,834)	(37,247,830)
Income before contributions and transfers	(46,325,467)	26,735,945
Capital contributions	48,464	662,600
Transfers, net	(2,041,853)	(1,322,948)
Change in net position	(48,318,856)	26,075,597
Net position - beginning, as restated	262,188,891	237,720,021
Net position - ending	$ 213,870,035	$ 263,795,618

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Statement of Cash Flows
September 30, 2023 and 2022

	FY 22-23	FY 21-22
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 349,393,389	$ 321,744,740
Payments to suppliers	(154,913,593)	(238,859,714)
Payments to employees	(25,455,603)	(22,355,409)
Other receipts (payments)	(85,767,518)	(19,717,440)
Net cash provided (used) by operating activities	83,256,675	40,812,177
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers in from other funds	1,591,773	1,713,786
Transfers out to other funds	(3,633,626)	(3,036,734)
Net cash provided (used) by noncapital and related financing activities	(2,041,853)	(1,322,948)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(63,281,537)	(49,272,402)
Prinicpal paid on leases	(20,168)	-
Principal paid on bonds	(19,455,000)	(20,275,000)
Issuance of Leases	-	494,400
Interest paid on bonds and leases	(19,033,917)	63,616,977
Payment of rebatable arbitrage	1,066,799	(14,115,778)
Net cash provided (used) by capital and related financing activities	(100,723,823)	(19,551,803)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	44,659,695	31,767,582
Purchase of investments	(32,578,302)	(48,554,853)
Interest earnings on cash and investments	7,612,535	(3,116,406)
Net cash provided by investing activities	19,693,928	(19,903,677)
Net increase (decrease) in cash and cash equivalents	184,926	33,749
Cash and cash equivalents - beginning of year	568,011	534,262
Cash and cash equivalents - end of year	752,937	568,011
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	47,029,367	63,983,775
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	24,262,239	20,384,551
Other income (expense)	(85,767,518)	(19,717,440)
Change in current assets and liabilities:		
Accounts receivable	(3,802,038)	(17,277,228)
Deferred Expenses	21,044,438	-
Inventory	(1,134,829)	(45,041)
Accounts payable	58,072,660	(709,884)
Deferred Revenues	25,182,458	-
Accrued liabilities	136,588	(954,739)
Customer deposits	(1,017,886)	(2,374,769)
Subscription liabilitiy	(1,179,568)	
Compensated absences and retirement benefits	430,764	(2,477,048)
Net cash provided (used) by operating activities	83,256,675	40,812,177
Supplemental cash flow information:		
Noncash capital contributions and other changes	$ 48,464	$ 662,600

See accompanying Notes to Basic Financial Statements

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 Financial Report (AFR); 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. Since then, 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.

Currently, 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 improved its distribution and transmission assets to provide for moving the remaining 30% of its load, currently procured through SPP, to the ERCOT market by end of year 2023.

In anticipation of moving the remaining load of approximately 30 percent into ERCOT by December of 2023, City Council approved an ordinance, on June 28, 2022, providing for the issuance of Electric Light and Power System Revenue Bonds in the amount of $63,616,977 million for the remaining integration capital work. A second parameters ordinance was approved by City Council on November 7, 2023 for the issuance of Electric Light and Power System Revenue Bonds to fund the Partial Requirements Settlement Lump Sum Payment of $65,666,000, which will be paid out on January 15, 2024.

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.

<u>GASB Pronouncements Effective in FY 2022</u>
In FY 2022 the City implemented GASB Statement No. 87, ("GASB 87"), Leases. GASB 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. See *Note 10-Long Term Liabilities* for more information.

<u>GASB Pronouncements Effective in FY 2023</u>
In FY 2023 the City implemented GASB Statement No. 96, ("GASB 96"), Leases. GASB 96 requires recognition of certain subscription-based information technology assets and liabilities that previously were classified as operating expenses and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. See *Note 10-Long Term Liabilities* for more information.

In May 2019, GASB issued GASB Statement No. 91, Conduit Debt Obligations ("GASB 91"). GASB 91 requires issuers disclose general information about their conduit debt obligations. Issuers that recognize liabilities related to supporting debt service of conduit debt obligations should disclose information about the amount recognized and how the liability changed during the reporting period. This statement is effective for fiscal years beginning after June 15, 2022 and reporting periods thereafter. The City has determined that GASB 91 did not have any impact on their financial statements.

In March 2020, GASB issued GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. This statement requires governments to report assets and liabilities related to PPP's consistently and disclose important information about PPP transactions. This statement is effective for fiscal years beginning after June 15, 2022 and all reporting periods thereafter. The City has determined that GASB 94 did not have any impact on their financial statements.

Implementation of New Pronouncement/Restatement of Net Position

In FY 2023 the City implemented GASB Statement No. 96, ("GASB 96"), Subscription Based Information Technology Arrangements (SBITA) and found it had no material impact on the City's financial statements. Throughout the analysis of assessing the effect of Statement No. 96, it became evident that a majority of the City's subscription arrangements are perpetual agreements. The City restated the current fiscal year beginning balance by the cumulative effect of $1.6 million which is a decrease of 0.61% from the net position ending balance in FY22 as follows:

	FY 2022-2023
Net Position- beginning of year, as previously stated	$ 263,795,618
Restatement due to implementation of new GASB	(1,606,727)
Net Position- beginning of year, as restated	$ 262,188,891

The new SBITA standard requires enhanced disclosures which includes the total amount of subscription assets and the related amortization, the amount of outflow recognized from SBITA contracts that are not included in the measurement of the liability, and the disclosure of the long-term effect of SBITA arrangements on a government's resources.

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 $5,705,735 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. Right-to-use lease assets are reported as a capital asset and is amortized on a straight-line basis over the shorter of the lease term or its useful life.

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 $1,006,911, net of interest earned during FY 2023, and $666,729 net of interest earned during FY 2022.

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 beginning in February of 2022 and ending in January of 2027. 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.

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*.

Leases Payable-Lessee

LP&L is a lessee for noncancelable leases of property and equipment. LP&L recognizes a lease liability, reported with long-term debt, and a right-to-use lease asset, reported with other capital assets, in the government-wide and proprietary fund financial statements.

At the commencement of a lease, LP&L measures the lease liability at the present value of payments expected to be made during the lease term. The lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. The lease asset is amortized on a straight-line basis over the shorter of the lease term or its useful life.

LP&L uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate.

LP&L monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and 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 7: Retirement Plan*.

NOTE 2: DEPOSITS AND INVESTMENTS

On September 30, 2023, the bank balance of LP&L's deposits was $684,323 with a carrying value of $752,937. 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, 2023, City bank balances were not exposed to custodial credit risk as follows:

Insured	$ 64,450
Uninsured and collateral held by a third party financial institution in the City's name	619,873
Total	$ 684,323

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 brokers/dealers and financial institutions, which are approved by the City's Audit and Investment Committee for investment purposes.
At September 30, 2023, LP&L had the following investments and maturities:

	30-Sep-23		
		Maturities in Years	
Type	Fair Value	Less Than 1	1-5
Federal Farm Credit Bank (FFCB)	$ 4,934,375	$ 1,954,880	$ 2,979,495
Farmer Mac (FAMCA)	1,644,792	813,392	831,400
Federal Home Loan Banks (FHLB)	26,499,422	7,145,162	19,354,260
Federal Home Loan Mortgage Corporation (FHLMC)	6,579,167	2,617,444	3,961,723
Treasury Bills	913,773	913,773	-
Municipal Bonds	39,292,247	14,173,356	25,118,891
Commercial Paper	8,589,467	8,589,467	-
Money Market Mutual Funds	6,030,903	6,030,903	-
State Investment Pools *	88,270,489	88,270,489	-
Total	$ 182,754,635	$ 130,508,866	$ 52,245,769

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

At September 30, 2022, LP&L had the following investments and maturities:

	30-Sep-22		
		Maturities in Years	
Type	**Fair Value**	**Less Than 1**	**1-5**
Federal Farm Credit Bank (FFCB)	$ 6,676,377	$ 3,087,963	$ 3,588,413
Farmer Mac (FAMCA)	900,751	-	900,751
Federal Home Loan Banks (FHLB)	26,063,646	-	26,063,646
Federal Home Loan Mortgage Corporation (FHLMC)	6,972,037	-	6,972,037
Federal National Mortgage Association (FNMA)	154,753	154,753	-
Municipal Bonds	46,104,499	22,650,045	23,454,455
Commercial Paper	4,654,368	4,654,368	-
Money Market Mutual Funds	90,963	90,963	-
State Investment Pools *	103,218,636	103,218,636	-
Total	$ 194,836,030	$ 133,856,728	$ 60,979,302

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

<u>Investment in State Investment Pools</u>
The City utilizes four state local government investment pools (LGIPs) that include: TexPool, TexSTAR, LOGIC and Texas CLASS.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the significant ability to influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. TexPool is not registered with the Securities and Exchange Commission (SEC) as an investment company. TexPool is rated AAAm by Standard & Poor's. The pool offers same day access to investment 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 (the "Board"). Three directors are officers or employees of Participants; one director is an officer or employee of J.P. Morgan Investment Management Inc. (JPMIM); and the final director is an officer or employee of Hilltop Securities Inc. (HTS), or an affiliate. TexSTAR's bylaws require the Board to appoint an advisory board. The Advisory Board currently consists of six members, each of whom is either (1) a representative of a participant or (2) a person who has no business relationship with TexSTAR. The primary investment objectives of TexSTAR, in order of priority, are (1) the preservation of capital and protection of principal, (2) the maintenance of sufficient liquidity, and (3) yield. TexSTAR is rated AAAm by Standard & Poor's. The pool offers same day access to investment funds.

LOGIC was established pursuant to an Interlocal Agreement, which was subsequently amended and is now entitled Participation Agreement and Trust Instrument (the "Agreement") between participating Government Entities. Participation in the Pool is limited to those eligible Government Entities that have become parties to the Agreement ("Participants"). Participants' assets in the Pool are represented by units of beneficial interest ("Units"), which are issued in discrete series (each a "Portfolio"), as authorized from time to time by the Board. Assets invested in any Portfolio are managed separately and segregated from the assets of every other Portfolio. Since September 2005, J.P. Morgan Investment Management Inc. (JPMIM) has served as investment adviser to LOGIC. Hilltop Securities and JPMIM serve as co-administrators to LOGIC. JPMIM or its affiliates provide investment management, custody, and fund accounting services. The investment objectives of the pool is to seek preservation of principal, liquidity in accordance with the operating requirements of the Participants, and a competitive rate of return. LOGIC is rated AAAm by Standard & Poor's. The pool offers same day access to investment funds.

Texas Cooperative Liquid Assets Securities System (Texas CLASS) was created specifically for use by 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. Public Trust Advisors, LLC also performs all marketing and operation functions of the portfolio. The pool is subject to the general supervision of a Board of Trustees and its Advisory Board, both of which are elected by the Texas CLASS Participants. Wells Fargo Bank, N.A. serves as custodian for the pool. The investment objective and strategy of the pool is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. Texas CLASS is rated AAAm by Standard and Poor's. The pool offers same day access to investment funds.

Interest Rate Risk

As a means of limiting its exposure to fair value losses due to rising interest rates, the City's investment policy limits investments to those that can be held to maturity and limits final maturity to no more than five 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, 2023, Standard & Poor's rated the investment pools AAAm. The senior unsecured debt for investments in FHLB, FAMCA, FFCB, FHLMC, and FNMA are rated AA+ by Standard & Poor's 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, 2023, LP&L's investments constituted the following percentages of total investments:

Investment	Percentage	WAM (Days)	Rating	Rating Agency
State Investment Pools	48.3%	1	AAAm	S&P
Municipal Bonds	21.5%	633	AA/Aa2	S&P/Moody's
Money Market	3.3%	1	AAAm/Aaa-mf	S&P/Moody's
FFCB	2.7%	492	AA+/Aaa	S&P/Moody's
FHLB	14.5%	679	AA+/Aaa	S&P/Moody's
FNMA	0.0%	0	AA+/Aaa	S&P/Moody's
FHLMC	3.6%	607	AA+/Aaa	S&P/Moody's
Commercial Paper	4.7%	148	A-1+/P-1	S&P/Moody's
Treasury Bills	0.5%	131	AA+/Aaa	S&P/Moody's
FAMCA	0.9%	1058	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, 2023:

Lubbock Power and Light
An Enterprise Fund of the City of Lubbock
Notes to Basic Financial Statements
September 30, 2023 and 2022

September 30, 2023	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)	$ 4,934,375	$ -	$ 4,934,375	$ -
Farmers Mac (FAMCA)	1,644,792	-	1,644,792	-
Federal Home Loan Bank (FHLB)	26,499,422	-	26,499,422	-
Federal Home Loan Mortgage Corporation (FHLMC)	6,579,167	-	6,579,167	-
Treasury Bills	913,773	-	913,773	-
Municipal Bonds	39,292,247	-	39,292,247	-
Commercial Paper	8,589,467	8,589,467	-	
Total investments by fair value level	$ 88,453,243	$ 8,589,467	$ 79,863,776	$ -
Investments measured at the net asset value				
TexStar	$ 9,361,581			
LOGIC	8,954,807			
Texas CLASS	69,934,736			
Total investments measured at the NAV	$ 88,251,124			
Investments measured at amortized cost				
TexPool	$ 19,365			
Money Markets	6,030,903			
Total investments at amortized cost	$ 6,050,268			
Total Investments	$ 182,754,635			

LP&L has the following recurring fair value measurements based on the hierarchy above as of September 30, 2022:

September 30, 2022	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)	$ 6,676,377	$ -	$ 6,676,377	$ -
Farmers Mac (FAMCA)	900,751	-	900,751	-
Federal Home Loan Bank (FHLB)	26,063,646	-	26,063,646	-
Federal Home Loan Mortgage Corporation (FHLMC)	6,972,037	-	6,972,037	-
Federal National Mortgage Association (FNMA)	154,753	-	154,753	-
Municipal Bonds	46,104,499	-	46,104,499	-
Commercial Paper	4,654,368	4,654,368	-	
Total investments by fair value level	$ 91,526,431	$ 4,654,368	$ 86,872,063	$ -
Investments measured at the net asset value				
TexStar	$ 20,063,530			
LOGIC	886,254			
Texas CLASS	82,152,188			
Total investments measured at the NAV	$ 103,101,972			
Investments measured at amortized cost				
TexPool	$ 116,664			
Money Markets	90,963			
Total investments at amortized cost	$ 207,627			
Total Investments	$ 194,836,030			

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, 2023 and 2022, LP&L had no internal financing.

FY 2023 net transfers-in from other City Funds to LP&L, totaling $(2,041,853), were the result of (i) a transfer in from the Water Fund for its share of AMI Debt Service, totaling $180,238, (ii) transfers in from the City Utility Funds for their share of the Citizen's Tower and CSIS Debt Service, totaling $1,334,083, and (iii) transfers in from the City Utility Funds for their share of purchases for vehicles and equipment, totaling $77,452; offset by (i) General Fund indirect cost allocations, totaling

$2,493,965, 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 $1,139,661 million. For additional information on transfers, refer to the *Results of Operations - Transfers* section of the MD&A.

FY 2022 net transfers-in from other City Funds to LP&L, totaling $(1,322,948), were the result of (i) a transfer in from the Water Fund for its share of AMI Debt Service, totaling $178,836, (ii) transfers in from the City Utility Funds for their share of the Citizen's Tower and CSIS Debt Service, totaling $1,461,748, and (iii) transfers in from the City Utility Funds for their share of purchases for vehicles and equipment, totaling $73,202; offset by (i) General Fund indirect cost allocations, totaling $1,895,328, 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 $1,141,406 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, 2023 and 2022 was $3,339,461 and $2,204,632, 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 $811,109 in 2023 and $944,442 in 2022 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, 2023 and 2022

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2023:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Not Depreciated:				
Construction in Progress	$ 23,809,349	$ 65,302,645	$ 58,739,476	$ 30,372,518
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	30,858,404	1,058,355	-	31,916,759
Electric Distribution Plant	18,096,713	51,446	-	18,148,159
Electric General Plant	317,953	-	-	317,953
Total Capital Assets, Not Depreciated	73,157,829	66,412,446	58,739,476	80,830,799
Capital Assets, Depreciated:				
Electric Production Plant	89,158,408	-	26,294	89,132,114
Electric Transmission Plant	298,074,996	10,863,839	-	308,938,835
Electric Distribution Plant	369,928,188	43,417,237	403,160	412,942,265
Electric Reional Trans Mkt Oper Plant	2,767,780	-	-	2,767,780
Electric General Plant	57,033,544	1,881,566	2,762,137	56,152,973
Total Capital Assets, Depreciated	816,962,916	56,162,642	3,191,591	869,933,967
Less Accumulated Depreciation:				
Electric Production Plant	60,355,532	3,431,119	37,041	63,749,610
Electric Transmission Plant	18,517,396	6,408,595	-	24,925,991
Electric Distribution Plant	182,116,328	8,728,828	403,160	190,441,996
Electric Reional Trans Mkt Oper Plant	2,317,144	241,257	-	2,558,401
Electric General Plant	26,449,909	3,625,143	337,022	29,738,030
Total Accumulated Depreciation:	289,756,309	22,434,942	777,223	311,414,028
Total Capital Assets Depreciated, Net	527,206,607	33,727,700	2,414,368	558,519,939
Capital Assets, Net	$ 600,364,436	$ 100,140,146	$ 61,153,844	$ 639,350,738

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Amortized:				
Right of Use Assets-Leases	$ 488,714	-	25,504	$ 463,210
Subscription Based Information Technology Arrangements	$ -	317,803	-	$ 317,803

Capital asset activity for the year ended September 30, 2022:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Not Depreciated:				
Construction in Progress	$ 8,630,661	$ 50,203,019	$ 35,024,331	$ 23,809,349
Electric Production Plant	75,410	-	-	75,410
Electric Transmission Plant	28,814,818	2,043,586	-	30,858,404
Electric Distribution Plant	17,599,523	497,190	-	18,096,713
Electric General Plant	317,953	-	-	317,953
Total Capital Assets, Not Depreciated	55,438,365	52,743,795	35,024,331	73,157,829
Capital Assets, Depreciated:				
Electric Production Plant	87,067,681	7,806,800	5,716,073	89,158,408
Electric Transmission Plant	294,852,330	3,222,666	-	298,074,996
Electric Distribution Plant	355,175,707	15,107,459	354,978	369,928,188
Electric Reional Trans Mkt Oper Plant	2,767,780	-	-	2,767,780
Electric General Plant	54,911,232	7,124,779	5,002,467	57,033,544
Total Capital Assets, Depreciated	794,774,731	33,261,704	11,073,518	816,962,916
Less Accumulated Depreciation:				
Electric Production Plant	62,866,213	2,843,580	5,354,261	60,355,532
Electric Transmission Plant	13,276,189	5,241,207	-	18,517,396
Electric Distribution Plant	174,550,086	7,921,220	354,978	182,116,328
Electric Reional Trans Mkt Oper Plant	1,909,561	407,583	-	2,317,144
Electric General Plant	26,034,646	3,816,929	3,401,666	26,449,909
Total Accumulated Depreciation:	278,636,695	20,230,519	9,110,905	289,756,309
Total Capital Assets Depreciated, Net	516,138,036	13,031,185	1,962,613	527,206,607
Capital Assets, Net	$ 571,576,401	$ 65,774,980	$ 36,986,944	$ 600,364,436

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets, Amortized:				
Right of Use Assets-Leases	$ -	488,714	-	$ 488,714

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, 2023 were as follows:

Original Commitments	Spent-to-Date	Remaining Commitments
$ 323,236,303	$ 264,402,843	$ 58,833,460

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, 2023 and 2022, and the pension expense for the years then ended are as follows:

	TMRS 2023	TMRS 2022
Net pension liability:	$ 28,980,668	$ 6,437,317
Deferred outflows of resources:	16,186,613	4,634,730
Deferred inflows of resources:	908,593	10,053,768
Pension expense/income:	6,021,865	(285,326)

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 901 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 2022 and 2021 measurement periods, the allocation percentages were 19.11% and 19.16%, 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 plan provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS. Plan provisions for the LP&L were as follows:

	Plan Year 2022
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 17.01% and 16.66% in calendar years 2023 and 2022, respectively. LP&L's contributions to TMRS for the years ended September 30, 2023 and 2022, were $4,166,554 and $3,986,353 respectively, and were equal to the required contributions.

Liability

LP&L's net pension liability (NPL) was measured as of December 31, 2022 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, 2022 and 2021 actuarial valuations was determined using the following actuarial assumptions:

2022:

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

2021:

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 are 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) is 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 2023 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.55%
Core Fixed Income	6.0%	2.00%
Non-Core Fixed Income	20.0%	5.68%
Real Return	12.0%	7.22%
Real Estate	12.0%	6.85%
Absolute Return	5.0%	5.35%
Private Equity	10.0%	10.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the TPL was 6.75% for both the December 2022 and 2021 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 9/30/2022	$ 151,257,629	$ 144,820,312	$ 6,437,317
Changes for the year:			
Service cost	3,972,387	-	3,972,387
Interest	10,403,515	-	10,403,515
Change of benefit terms	-	-	-
Difference between expected and actual experience	2,784,142	-	2,784,142
Contributions – employer	-	3,890,651	(3,890,651)
Contributions – employee	-	1,634,865	(1,634,865)
Change in assumptions	-	-	-
Net investment income	-	(10,927,123)	10,927,123
Benefit payments, including refunds of employee contributions	(8,315,705)	(8,315,705)	-
Administrative expense	-	(94,672)	94,672
Other changes	-	112,972	(112,972)
Net changes	$ 8,844,339	$ (13,699,012)	$ 22,543,351
Balance at 9/30/2023	**$ 160,101,968**	**$ 131,121,300**	**$ 28,980,668**

Sensitivity of the NPL to Changes in the Discount Rate

The following represents the NPL of LP&L at September 30, 2023, 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	$ 50,940,373	$ 28,980,668	$ 10,897,098

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balance at 9/30/2021	$ 142,656,228	$ 130,080,513	$ 12,575,715
Changes for the year:			
Service cost	3,593,364	-	3,593,364
Interest	9,910,958	-	9,910,958
Change of benefit terms	-	-	-
Difference between expected and actual experience	3,102,427	-	3,102,427
Contributions – employer	-	3,692,713	(3,692,713)
Contributions – employee	-	1,479,621	(1,479,621)
Change in assumptions	-	-	-
Net investment income	-	17,654,000	(17,654,000)
Benefit payments, including refunds of employee contributions	(8,005,348)	(8,005,348)	-
Administrative expense	-	(81,747)	81,747
Other changes	-	560	(560)
Net changes	$ 8,601,401	$ 14,739,799	$ (6,138,398)
Balance at 9/30/2022	**$ 151,257,629**	**$ 144,820,312**	**$ 6,437,317**

Sensitivity of the NPL to Changes in the Discount Rate

The following represents the NPL of LP&L at September 30, 2022, 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	$ 23,350,355	$ 6,437,317	$ (9,200,388)

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, 2023 and 2022, LP&L recognized pension expense of $6,021,865 and a pension income of $285,326 respectively. At September 30, 2023 and 2022, LP&L reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Balance at September 30, 2023	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 3,691,640	$ 908,593
Difference in expected and actual experience	9,647	-
Difference between projected and actual investment earnings	9,299,359	-
Contributions subsequent to the measurement date	3,185,967	-
Total	**$ 16,186,613**	**$ 908,593**

Balance at September 30, 2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 87,206	$ -
Difference in expected and actual experience	1,629,884	955,210
Difference between projected and actual investment earnings	-	9,098,558
Contributions subsequent to the measurement date	2,917,640	-
Total	**$ 4,634,730**	**$ 10,053,768**

At September 30, 2023, the amount totaling $3,185,967 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, 2024. 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:	
2023	$ (1,256,358)
2024	(3,531,725)
2025	(3,104,759)
2026	(4,199,210)
Total	**$ (12,092,053)**

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 2,226 active participants who pay monthly premiums of $442/$23 (medical/dental) for single coverage and $1009/$51 (medical/dental) for family coverage, pre-65.

Actuarial Methods and Assumptions

The total OPEB liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate	2.5% per annum
Actuarial cost method	Individual Entry Age
Discount rate	4.05%
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 4.05% (based on the daily rate closest to but no later than the measurement date of the Fidelity "20-Year Municipal GO AA Index").

Change in the Total OPEB Liability

	Total OPEB Liability
Balance at September 30, 2022	**$ 21,160,511**
Changes for the year:	
Service cost	1,265,821
Interest	363,276
Difference between expected and actual experience	(25,757)
Changes of assumptions	(5,933,961)
Benefit payments	(602,701)
Net changes	$ (4,933,322)
Balance at September 30, 2023	**$ 16,227,189**

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

	1% Decrease in Discount Rate (3.05%)	Discount Rate (4.05%)	1% Increase in Discount Rate (5.05%)
Total OPEB Liability	$ 17,960,728	$ 16,227,189	$ 14,715,802

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	$ 14,814,188	$ 16,227,189	$ 17,921,577

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

For the year ended September 30, 2023 the LP&L recognized total OPEB expense of $771,037.

At September 30, 2023, 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	$ -	$ 2,573,678
Changes in assumptions	1,628,813	4,703,135
Contributions subsequent to the measurement date	398,550	-
Total	**$ 2,027,363**	**$ 7,276,813**

Deferred outflows of resources (related to OPEB resulting from benefit payments subsequent to the measurement date), totaling $398,550, will be recognized as a reduction of the total OPEB liability as of September 30, 2024. Changes in assumptions within the OPEB deferred outflows and inflows of resources will be recognized in OPEB expense as follows:

Year ending September 30:	
2023	$ (890,246)
2024	(959,301)
2025	(943,753)
2026	(914,336)
2027	(1,100,813)
Thereafter	(839,551)
Total	**$(5,648,000)**

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	2023 Amount Issued	Balance Outstanding 9-30-23*	Balance Outstanding 9-30-22**
1.61	04/15/13	04/15/21	$ 5,990,000	$ -	$ -
1.76	04/15/13	04/15/24	2,585,000	-	205,000
2.63	05/01/14	04/15/26	4,515,000	1,460,000	1,835,000
2.37	04/15/15	04/15/28	12,840,000	5,620,000	7,035,000
2.41	04/15/16	02/15/34	3,060,000	2,005,000	2,290,000
2.47	11/01/16	02/15/34	36,780,000	-	575,000
2.76	04/04/18	02/15/30	480,000	310,000	345,000
2.13	04/04/19	02/15/30	4,050,000	2,730,000	3,075,000
2.01	11/19/20	04/15/24	210,000	200,000	200,000
Total			**$ 70,510,000**	**$ 12,325,000**	**$ 15,560,000**

* Balance outstanding excludes $798,185 of net bond premiums and discounts.
** Balance outstanding excludes $1,134,842 of net bond premiums and discounts.

At September 30, 2023, the City and LP&L management believe LP&L 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	2023 Amount Issued	Balance Outstanding 9-30-23*	Balance Outstanding 9-30-22**
2.45	10/15/10	04/15/20	$ 73,295,000	$ -	$ -
1.9	05/21/13	04/15/24	14,960,000	785,000	2,175,000
3.09	05/01/14	04/15/34	16,245,000	7,235,000	8,415,000
3.41	04/15/15	04/15/35	11,865,000	8,195,000	8,720,000
3.04	04/15/16	04/15/46	8,155,750	5,105,000	5,505,000
3.6	08/15/17	02/15/47	17,760,000	15,415,000	16,045,000
3.64	07/12/18	04/15/48	93,925,000	75,630,000	80,050,000
2.76	08/12/21	04/15/51	266,870,000	252,930,000	257,875,000
	08/10/22	04/15/42	56,480,000	53,750,000	56,480,000
Total			**$ 559,555,750**	**$ 419,045,000**	**$ 435,265,000**

* Balance outstanding excludes $59,090,181 of net bond premiums and discounts.
** Balance outstanding excludes $63,392,005 of net bond premiums and discounts.

LP&L has entered into multiple lease agreements as lessee. The leases allow the right to use assets over the term of the lease. LP&L is required to make yearly payments at its incremental borrowing rate or the interest rate stated or implied within the leases. The lease rate, term and ending lease liability are as follows:

	Leases	
Fiscal	Business Type Activities	
Year	Principal	Interest
2024	34,437	8,643
2025	35,896	7,944
2026	37,403	7,217
2027	5,666	7,054
2028	5,779	6,941
2029-2033	30,663	32,937
2034-2038	33,834	29,766
2039-2043	37,334	31,068
2044-2048	41,195	17,603
2049-2053	45,456	18,144
2054-2058	50,157	13,443
2059-2063	55,344	8,256
2064-2068	61,068	2,532
	$ 474,232	$ 191,548

The value of right –to –use assets at the end of the current fiscal year was $538,924 and had accumulated amortization of $75,714.

LP&L has entered into multiple Subscription-Based Information Technology Arrangements (SBITA). These arrangements include cloud computing, and software as a service. The related obligations are presented in the amounts equal to the present value of subscription payments, payable during the remaining SBITA term.

Subscription Based Information Technology Arrangements

Interest Rate (%)	Final Maturity Date	Initial Liability	Balance Outstanding 9/30/2023
2.8	9/1/2024	65,631	34,150
2.8	9/1/2024	24,482	11,267
2.8	11/1/2023	1,878,778	381,742
		$ 1,968,891	$ 427,159

Subscription Based Information Technology Arrangements

Fiscal Year	Business-Type Activities Principal	Business-Type Activities Interest
2024	$ 427,159	$ 3,531

The value of Gross Subscription Assets at the end of the current fiscal year was $1,973,003 and had accumulated amortization of $1,655,199.

At September 30, 2023, 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	General Obligation Bonds		Revenue Bonds	
Year	Principal	Interest	Principal	Interest
2023-24	2,485,000	533,678	15,235,000	18,547,256
2024-25	2,610,000	414,857	14,375,000	17,798,881
2025-26	2,525,000	290,700	15,065,000	17,101,431
2026-27	2,180,000	173,262	15,585,000	16,358,119
2028-32	2,525,000	137,525	70,755,000	70,905,031
2033-37	-	-	79,930,000	53,368,688
2038-42	-	-	85,370,000	36,391,494
2043-47	-	-	70,175,000	19,742,026
2048-51	-	-	52,555,000	5,192,250
Total	**$ 12,325,000**	**$ 1,550,022**	**$ 419,045,000**	**$ 255,405,176**

Long-term obligations (net of discounts and premiums) for the fiscal years ended September 30, 2023 and 2022 are as follows:

Fiscal Year 2022	Balance 9/30/2022	Additions	Deletions	Balance 9/30/2023	Due in one year
LP&L activities:					
General Obligation Bonds	$ 15,560,000	$ -	$ 3,235,000	$ 12,325,000	$ 2,485,000
Revenue Bonds	435,265,000	-	16,220,000	419,045,000	15,235,000
Bond Premiums	64,526,847	-	4,638,481	59,888,366	-
Leases	494,400	427,159	20,168	901,391	-
Compensated Absences	3,502,450	2,294,572	2,232,026	3,564,996	2,063,359
Other Postemployment Benefits	21,160,511	1,629,097	6,562,419	16,227,189	-
Net Pension Obligation	6,437,317	28,181,839	5,638,488	28,980,668	-
Total LP&L activities	$ 546,946,525	$ 32,532,667	$ 38,546,582	$ 540,932,610	$ 19,783,359

Fiscal Year 2022	Balance 9/30/2021	Additions	Deletions	Balance 9/30/2022	Due in one year
LP&L activities:					
General Obligation Bonds	$ 18,670,000	$ -	$ 3,110,000	$ 15,560,000	$ 3,235,000
Revenue Bonds	395,950,000	56,480,000	17,165,000	435,265,000	16,220,000
Bond Premiums	61,732,107	7,136,977	4,342,237	64,526,847	-
Leases	-	494,400	-	494,400	-
Compensated Absences	3,558,242	2,213,764	2,269,556	3,502,450	2,075,521
Other Postemployment Benefits	23,551,149	1,920,762	4,311,400	21,160,511	-
Net Pension Obligation	12,575,715	16,688,496	22,826,894	6,437,317	-
Total LP&L activities	$ 516,037,213	$ 84,934,399	$ 54,025,087	$ 546,946,525	$ 21,530,521

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 2022, the City issued $56,480,000 Electric Light and Power System Revenue Bonds, Series 2022 (Bonds), with interest rates ranging from 4.0 percent to 5.0 percent. The Bonds were issued at a premium of $7,136,977 and incurred issuance cost of $247,526. The $63,369,452 proceeds from the sale of the Bonds will be used for (i) funding acquisition, purchasing, construction, improvement, renovation, enlarging and/or equipping of property, buildings, structures, facilities, and/or related infrastructure for the System, (ii) funding the reserve fund requirement for the Bonds, if necessary, and (iii) paying the costs of issuing the Bonds.

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.

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

In July of 2021, the Revolving Note Program with Bank of America, NA was extended to December of 2023. The total aggregate principal amount available under this agreement was not to exceed $60 million. The Revolving Note Program was intended as a short-term funding for system capital improvements to complete the integration of the remaining 30% of the electric system into ERCOT. With yield changes in the Municipal Bond market, LP&L moved to fund the $60 million with the issuance of the $56,480,000 Electric Light and Power System Revenue Bonds, Series 2022. On August 30, 2022, the Revolving Note Program with Bank of America, NA was terminated.

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. Regulatory approval was granted on September 28, 2023. The full ERCOT integration was completed on December 11, 2023, resulting in an early termination of the PR Agreement. Under the terms of the Settlement Agreement, LP&L will paid a lump sum, totaling $65.7 million on January 15, 2024 to SPS as compensation for power and transmission related shifted costs under the PR Agreement. This was recorded as an expense/liability as of September 20, 2023. The expense is included in the non-operating miscellaneous line item in the LP&L fund financial statement. The negotiated lump sum termination payment of $65.7 million will be funded with long-term bonds.

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, 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 was established to account for liability claims, workers' compensation claims, and premiums for property/casualty insurance coverage. The Risk Management Fund generates its revenue through charges to other departments, which are based on costs.

In April 1999, the City purchased workers' compensation coverage, with no deductible, from Texas Municipal League Intergovernmental Risk Pool (TML-IRP) with continuous coverage through September 30, 2009. Effective October 1, 2009 through September 30, 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 local government code and the terms of interlocal 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 interlocal agreement, TPS obtains specific excess of loss coverage over and above the self-insured retention stated in the agreement so that members will not have joint and several liabilities beyond their required contribution. Effective October 1, 2018 the City purchased workers' compensation insurance with no deductible from Texas Mutual Insurance Company. The City entered into an interlocal agreement with Texas Municipal League Intergovernmental Risk Pool effective October 1, 2019 in which the City pays a premium and there is a $25,000 deductible per claim. 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 was 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 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 $14 million annual aggregate limit and is subject to a $500,000 self-insured retention per claim.

For self-insured coverage, the Risk Management Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on complex factors such 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 an expense account in the period in which they are incurred.

Additionally, property and boiler coverage is accounted for in the Risk Management Fund. In FY 2018, the City of Lubbock separated Lubbock Power and Light's (LP&L) property and boiler and machinery as a cost savings measure. The City's property insurance policy, excluding LP&L, was purchased from an outside insurance carrier. The policy has a 3% of total values wind/hail deductible per occurrence and a $250,000 deductible for all other forms of loss. The City's boiler and machinery insurance policy, excluding LP&L, was purchased from an outside insurance carrier. The policy has a $25,000 deductible. Lubbock Power and Light purchases package property and boiler and machinery coverage from an outside carrier. The policy has various deductibles for both property and boiler and machinery ranging from $250,000 to 2.5% of location values. Premiums are charged to funds based upon estimated premiums for the upcoming year. Departments that sustain property damage in excess of $1,000 are eligible to request assistance from the Risk Management Fund for payment of those damages up to the policy deductible.

Other small insurance policies, such as surety bond coverage and miscellaneous floaters, are also accounted for in the Risk Management Fund. Funds are charged based on premium amounts and administrative charges.
The City accounts for all insurance activity in the 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 $2.05 million at September 30, 2022 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:

City of Lubbock, Texas v. Elk City Wind II, LLC, Cause No. CIV-23-232-G, proceeding in the United States District Court for the Western District of Oklahoma. LP&L filed its Original Complaint on March 3, 2023, asking the Court to declare that its Purchased Power Agreement with Elk City for wind power generated electricity is void under Texas law because it fails to satisfy appropriation requirements of the Texas Constitution, because it results in a gratuitous dissemination of public funds prohibited by the Texas Constitution and because performance is frustrated due to limitations on transmission capacity. The case is still in a pre-trial stage, so it is too soon to be able to express an opinion about the likely outcome; however, no material effect on LP&L's operations or financial condition is likely.

Chelsea Schumacher v. City of Lubbock, Cause No. 2020-541,386, which proceeded in the 72nd District Court of Lubbock County, Texas. This matter received an Order of Dismissal with prejudice on June 8, 2022, and has been resolved.

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.

LP&L's litigation notes do not reflect the claims against the City at large, or those being handled by the City of Lubbock's risk department and/or the City Attorney's Office. Those will be included in the City of Lubbock's litigation footnotes, as applicable.

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability									
Service Cost	3,972,387	3,593,364	3,541,721	3,401,281	3,250,256	3,094,041	2,944,598	2,875,400	2,528,145
Interest (on the total pension liability)	10,403,515	9,910,958	9,609,708	9,296,376	9,077,328	8,538,646	8,107,660	7,972,442	7,639,097
Difference between expected and actual experience	2,784,142	3,102,427	(1,388,028)	(645,102)	(1,199,095)	(133,708)	(21,609)	(424,313)	(1,012,979)
Change of assumptions	-	-	-	325,118	-	-	-	199,125	-
Benefit payments, including refunds of employee contributions	(8,315,705)	(8,005,348)	(7,589,769)	(7,031,899)	(6,984,288)	(6,658,022)	(5,962,200)	(5,926,334)	(5,266,488)
Net Change in Total Pension Liability	8,844,339	8,601,401	4,173,631	5,345,773	4,144,201	4,840,957	5,068,449	4,696,318	3,887,775
Total Pension Liability - Beginning	151,257,629	142,656,227	138,482,595	133,136,822	128,992,621	124,151,664	119,083,215	114,386,897	110,499,122
Total Pension Liability - Ending (a)	160,101,968	151,257,628	142,656,227	138,482,595	133,136,822	128,992,621	124,151,664	119,083,215	114,386,897
Plan Fiduciary Net Position									
Contributions - Employer	3,890,651	3,692,713	3,658,326	3,560,090	3,469,374	3,276,308	3,112,712	3,207,998	3,061,656
Contributions - Employee	1,634,865	1,479,621	1,457,670	1,407,267	1,345,605	1,277,854	1,213,195	1,209,360	1,127,051
Net Investment Income	(10,927,123)	17,654,000	9,703,780	17,469,554	(3,583,095)	14,484,811	6,642,534	145,404	5,346,027
Benefit payments, including refunds of employee contributions	(8,315,705)	(8,005,348)	(7,589,769)	(7,031,899)	(6,984,288)	(6,658,022)	(5,962,200)	(5,926,334)	(5,266,488)
Administrative Expense	(94,672)	(81,747)	(62,836)	(98,770)	(69,274)	(75,081)	(75,034)	(88,569)	(55,818)
Other	112,972	560	(2,451)	(2,967)	(3,619)	(3,806)	(4,042)	(4,374)	(4,589)
Net Change in Plan Fiduciary Net Position	(13,699,013)	14,739,799	7,164,720	15,303,276	(5,825,298)	12,302,064	4,927,165	(1,456,516)	4,207,839
Plan Fiduciary Net Position - Beginning	144,820,312	130,080,513	122,915,792	107,612,516	113,437,814	101,135,750	96,208,585	97,665,101	93,457,262
Plan Fiduciary Net Position - Ending (b)	131,121,299	144,820,312	130,080,513	122,915,792	107,612,516	113,437,814	101,135,750	96,208,585	97,665,101
City's Net Pension Liability - Ending (a) - (b)	28,980,668	6,437,317	12,575,715	15,566,803	25,524,306	15,554,807	23,015,914	22,874,630	16,721,796
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.90%	95.74%	91.18%	88.76%	80.83%	87.94%	81.46%	80.79%	85.38%
Covered Payroll	23,353,246	21,137,436	20,821,404	20,102,133	19,220,910	18,243,168	17,476,056	17,259,301	16,080,396
City's Net Pension Liability as a Percentage of Covered Payroll	124.10%	30.45%	60.40%	77.44%	132.79%	85.26%	131.70%	132.54%	103.99%

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.

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	$ 4,166,554	$ 3,986,353	$ 3,623,806	$ 3,673,229	$ 3,546,906	$ 3,351,716	$ 3,187,375	$ 3,090,958	$ 3,063,920
Contributions in relation to the actuarially determined contribution	$ 4,166,554	$ 3,986,353	$ 3,623,806	$ 3,673,229	$ 3,546,906	$ 3,351,716	$ 3,187,375	$ 3,090,958	$ 3,063,920
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-
Covered payroll	24,613,245	23,636,115	20,711,290	20,861,435	19,925,007	18,597,062	17,754,334	17,054,069	16,406,171
Contributions as a percentage of covered payroll	16.93%	16.87%	17.50%	17.61%	17.80%	18.02%	17.95%	18.12%	18.68%

Notes to Schedule of Contributions

Valuation Date:	December 31, 2022
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.

City of Lubbock, Texas
Required Supplementary Information
Schedule of Changes in Total OPEB Liability and Related Ratios

	2023	2022	2021	2020	2019	2018
Total OPEB liability						
Service Cost	$ 1,265,821	1,439,239	$ 1,162,014	$ 1,151,287	$ 1,071,285	$ 946,327
Interest (on the total OPEB liability)	363,276	481,523	566,957	694,564	645,634	669,214
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	(25,757)	(2,719,457)	(102,532)	(1,144,893)	(158,630)	
Change of assumptions	(5,933,961)	(1,084,104)	1,822,960	935,059	(843,145)	1,007,143
Benefit payments	(602,701)	(507,840)	(559,435)	(536,953)	(501,443)	(730,333)
Net Change in Total OPEB Liability	(4,933,322)	(2,390,638)	2,889,965	1,099,064	213,701	1,892,351
Total OPEB Liability - Beginning	21,160,511	23,551,149	20,661,185	19,562,120	19,348,418	17,456,127
Total OPEB Liability - Ending (a)	$ 16,227,189	$ 21,160,511	$ 23,551,149	$ 20,661,185	$ 19,562,120	$ 19,348,478
Covered Payroll	18,675,858	18,438,997	17,042,712	16,259,977	16,958,146	16,597,268
City's Total OPEB Liability as a Percentage of Covered Payroll	86.89%	114.76%	138.19%	127.07%	115.36%	116.58%

NOTE: The City implemented GASB Statement No. 75 in FY 2018. Information in this table has been determined as of the measurement date (December 31) of the total OPEB liability. 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 2.00% as of December 31, 2021 to 1.84% as of December 31, 2022. Additionally, the methodology for determining service cost was changed such that the attribution period for the accumulation of service costs is now based only on employment with the City of Lubbock.

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
AMI	Advanced Metering Infrastructure
APR	Annuity Purchase Rates
ARO	Asset Retirement Obligation
ARR	Auction Revenue Rights
bps	Basis Points
CAFR	Comprehensive Annual Financial Report
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
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

Acknowledgements

LP&L would like to thank the City of Lubbock Accounting Department for their assistance in preparing the FY 2023 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
Amber Magar, CPA	Capital Program Finance Manager
Amber Aguilar	Senior Accountant
Deborah Hansard	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 2023 LP&L Annual Financial Report. Preparation of this report would not have been possible without the efforts of the following individuals:

Ricky L. Rodriguez	Accountant II
Brian Atwood	Accountant I
Daniel Garcia	Electric Utility Financial Analyst
Crystal Brown	Utility Billing & CIS Supervisor

Lubbock Power & Light • 1314 Avenue K, 5th Floor • Lubbock, TX 79401
www.LPandL.com • (806) 775-2509