MINUTES OF JOINT CITY COUNCIL AND LES STAFF PRESESSION MEETING
LINCOLN CITY COUNCIL
MONDAY, NOVEMBER 5, 2007
COUNTY-CITY BUILDING
555 SOUTH 10TH STREET
LINCOLN, NEBRASKA 68508

CITY COUNCIL MEMBERS PRESENT:	Dan Marvin, Ken Svoboda, Robin Eschliman, John Spatz, Doug Emery, Jon Camp
CITY COUNCIL MEMBERS ABSENT:	Jonathan Cook
LES STAFF & COUNSEL PRESENT:	Terry Bundy, Keith Brown, Shelley Sahling-Zart
OTHERS PRESENT:	Dana Roper, Kyle Fischer, Deena Winter

Council Chair Dan Marvin welcomed LES to the City Council pre-session meeting at approximately 10:00 a.m. LES Administrator and CEO, Terry Bundy, introduced LES staff and proceeded to provide an overview of the 2008 LES Operating and Capital Budget that had been recommended for City Council approval by the LES Administrative Board.

Bundy reviewed LES performance for 2007. He noted that one of the most significant activities of the year was the late December 2006 ice storm that caused major damage to a large portion of the high voltage transmission system in central Nebraska. The transmission damage prevented LES from receiving its full allocation of power from the Gerald Gentleman and Laramie River Stations. Consequently LES faced increased power costs due to having to buy higher cost power to replace the power that would have been received from those two low-cost plants. The City Council approved LES' request for a temporary surcharge on electric bills to cover the increased power costs. Bundy noted that while the surcharge revenue had not yet covered all of the increased power costs incurred, the LES Administrative Board had approved ending the surcharge at the end of the October 2007 billing cycle due to the fact that other positive things had occurred through the year to help improve LES' financial position and outlook for the remainder of 2007.

One of the positive things that had occurred was that the new Walter Scott, Jr. Energy Center Unit 4 (WS4) coal-fired power plant came on line as scheduled and on budget. LES is a participant in the new plant. Bundy noted that the WS4 plant is performing at a lower cost than the Laramie River Station and it will be a very important low-cost resource for LES.

Continuing challenges for LES include the continuing drought conditions at Laramie River Station as well as the increase in freight rates to deliver coal to the plant. The water levels at the reservoir near Laramie are at record lows. Cooling water for the plant is essentially all being provided by buying water rights from area ranchers. With regard to freight rates, LES and the Laramie partners recently received a negative ruling from the federal Surface Transportation Board (STB). The STB ruled that the Laramie participants had not proved that the freight rate charged by Burlington Northern Santa Fe (BNSF) was unreasonable and

denied any rate relief. The participants are pursuing reconsideration and appeal options. Bundy noted that one of the things that significantly hurt the case was that the STB had changed the rules for analyzing the rate at the end of the Laramie case. Final briefs had already been submitted at the time the STB changed its methodology for evaluating freight rate cases. An appeal of the STB's ability to retroactively apply the rules change is pending in the D.C. Circuit Court.

Bundy noted that LES is also considering various proposals to become a market participant in the wholesale market administered by the Midwest Independent System Operator (MISO). He noted this would be the most significant, fundamental change in the way LES operates since the late 1970's. The market operates under an approach called Locational Marginal Pricing (LMP). Under LMP, LES would no longer run its generation to meet load. Rather the load would be served from the market at market prices, and LES' generation would run and receive payment only when it is able to produce at a cost that is at or below the LMP. There was considerable discussion about this concept and LES was encouraged to schedule another Council pre-session to discuss this issue in further detail.

Councilman Jon Camp asked how much LES stood to gain from the rate case. Bundy indicated that the doubling of the freight rate that BNSF implemented in 2005 is costing LES customers about $3-$4 million per year. Because BNSF is a major employer in Lincoln, Camp encouraged LES to continue to look for opportunities to mediate the freight rate dispute with BNSF.

Bundy and Keith Brown provided an overview of the 2008 LES Budget. (Exhibit I) He noted that the budget calls for a total appropriation of $286 million, down about $28 million from the 2007 budget. The operating budget is $17.8 million higher than the 2007 budget. Power costs are up about $11.5 million from the 2007 budget, accounting for the biggest share of the overall budget increase. Other components of the increase include $2 million that is included to begin rebuilding the Rate Stabilization Fund and $1 million to develop a Sustainable Energy Technologies Program. The Rate Stabilization Fund was once at about $12 million, but the use of the fund over the past few years has dropped the current balance to a little over $4 million. The Sustainable Energy Technologies Program would dedicate funds to the development and implementation of renewable energy and energy conservation and efficiency programs. Depreciation is also up about $3.6 million.

The LES capital budget of $67.7 million is down about $46.2 million from the 2007 capital budget. Bundy noted that capital costs tend to fluctuate from year to year, depending on the need for large generation and transmission projects. With the completion of the Walter Scott, Jr. Energy Center Unit 4 power plant, as well as several major transmission projects, the capital budget is significantly reduced. Bundy indicated that the 2009 capital budget could be even lower with no major generation or transmission projects planned in the near term.

Bundy also discussed how this budget request translates to rates. He indicated that current revenue is not sufficient to cover the 2008 budget request. He noted that LES would be back at a

later date with a formal rate proposal, but that the budget request would require about a 5.5 percent rate increase if effective by March 1, 2008. Of the 5.5 percent, 4 percent would cover increased power costs, including the amount added back into the budget with the negative STB decision; 1 percent for rebuilding the Rate Stabilization Fund; and 0.5 percent for the Sustainable Energy Technologies Program.

Bundy noted that the budget had been reviewed in detail with the LES Board's Budget and Rates Committee and adopted by the full LES Administrative Board.

Councilwoman Eschliman asked what happens if a contingency occurs that exceeds the balance in the Rate Stabilization Fund. Bundy responded that we could utilize the short-term commercial paper program, but would have to cover those costs in rates at some point. The other alternative is to seek a temporary surcharge as LES did to respond to the ice storm damage this year. He noted that LES would like to rebuild the fund to the $15-$17 million range.

Chair Marvin excused LES from the meeting at approximately 11:05 a.m.

Respectfully Submitted,

BY: *S/Shelley R. Sahling-Zart*
Shelley R. Sahling-Zart
Assistant Secretary
LES Administrative Board

Exhibit I

2008 Budget Review

Lincoln City Council
November 5, 2007

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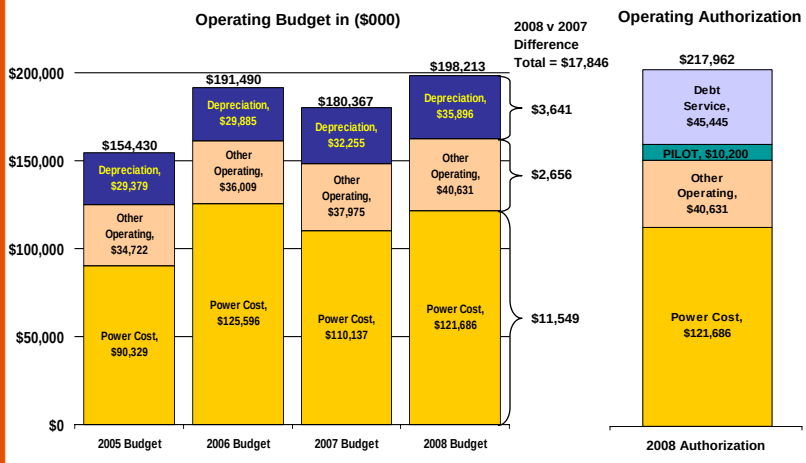

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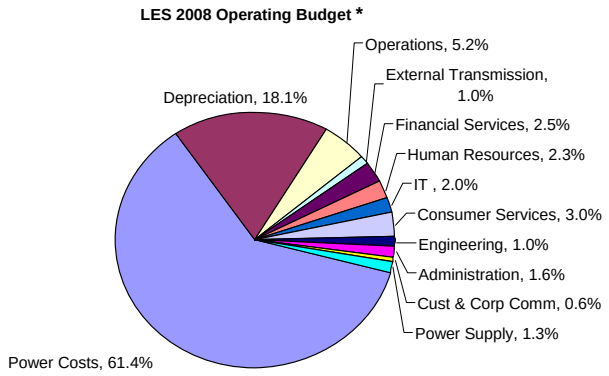

* PILOT (Payment in Lieu of Tax) of $10,200,000 is not included in operating expense, however is a required part of the budget request.

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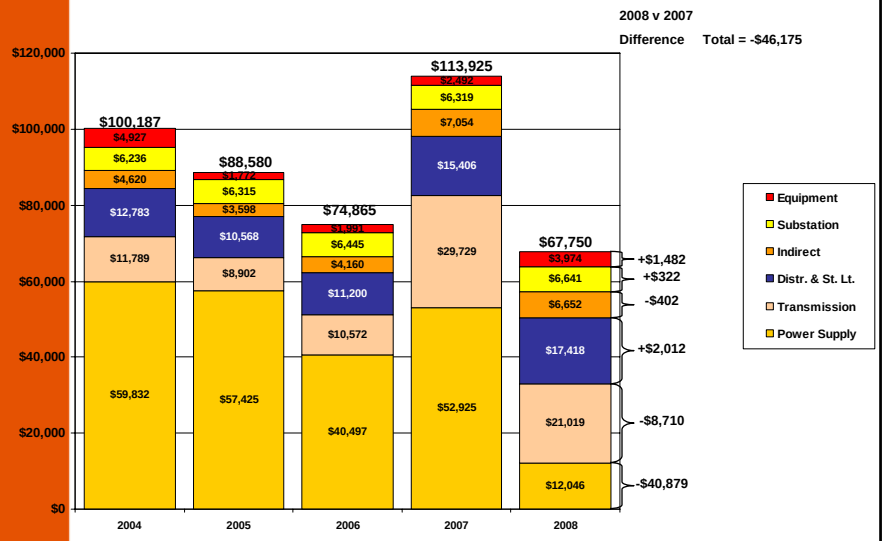
Capital Budget



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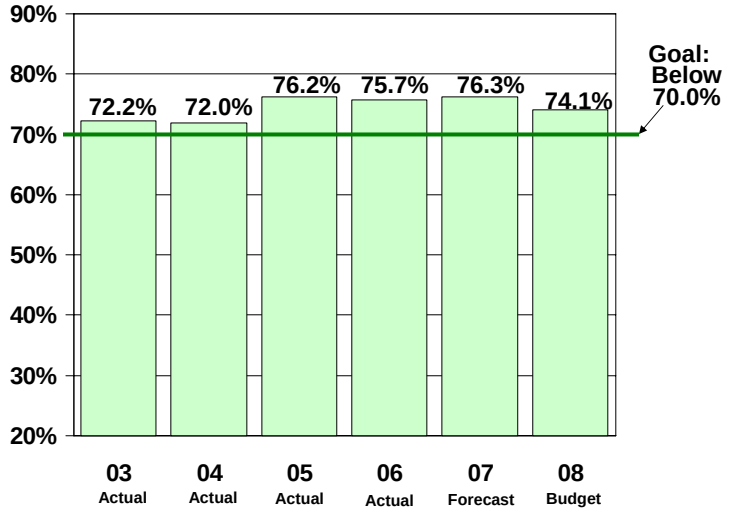
Debt to Equity Ratio



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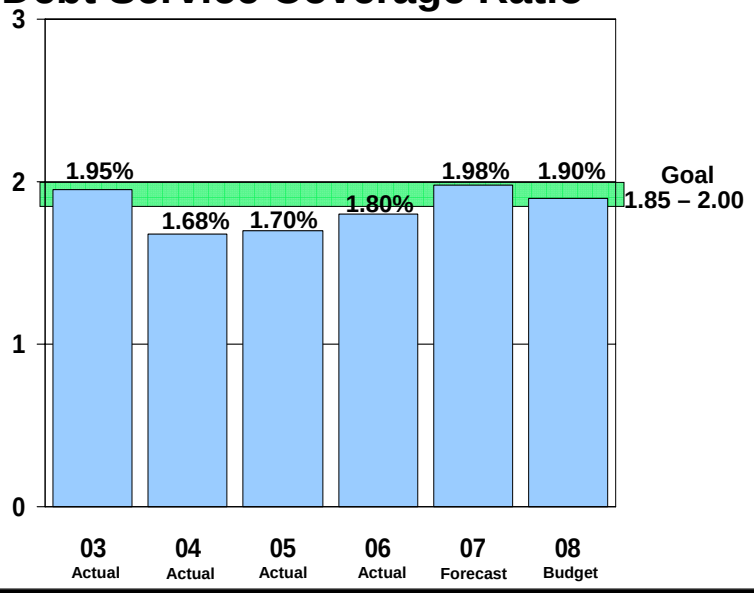
Debt Service Coverage Ratio



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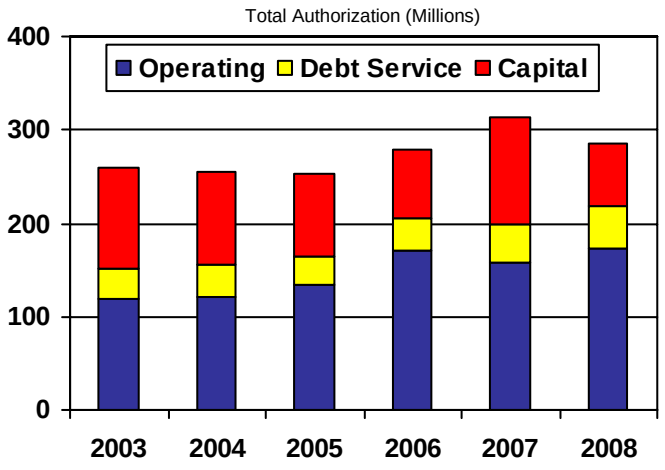
2008 Budget Information

Total Authorization - $285,712,000



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2008 Budget Request Summary

(Amounts in Thousands)

BUDGET REQUEST		
OPERATING BUDGET (including PILOT)	208,413.4	
Less Depreciation & Amortization	(35,896.6)	
		$172,516.8
DEBT SERVICE		45,445.4
CAPITAL BUDGET		67,749.7
TOTAL BUDGET REQUEST		$285,711.9
SOURCE OF FUNDS		
CASH RECEIPTS		
Operating Revenue	$245,559.0	
Interest & Other Income	4,968.3	
		$250,527.3
To be provided from current or borrowed funds		35,184.6
TOTAL SOURCE OF FUNDS		$285,711.9

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Comparative Revenue & Expense Statements

	2006 Actual	2007 Budget	Proposed 2008 Budget	Var. Amt. 08 v. 07 Budget	Var. % 08 v. 07 Budget
REVENUE					
Retail	$187,101,845	$196,862,000	$211,211,000	$14,349,000	7.3%
Wholesale	15,937,668	17,820,770	31,215,594	13,394,824	75.2%
Wheeling/Other	1,486,683	3,103,450	3,132,399	28,949	0.9%
Total Revenue	204,526,196	217,786,220	245,558,993	27,772,773	12.8%
OPERATING EXPENSE					
Purchased Power	74,630,313	64,167,927	61,449,347	(2,718,580)	-4.2%
Production Power	40,420,644	45,968,507	60,236,443	14,267,936	31.0%
A&G / Other	32,310,497	37,975,066	40,630,939	2,655,873	7.0%
Depreciation	29,745,017	32,255,624	35,896,627	3,641,003	11.3%
Total Oper. Exp.	177,106,471	180,367,124	198,213,356	17,846,232	9.9%
NET OPERATING REVENUE	27,419,725	37,419,096	47,345,637	9,926,541	26.5%
OTHER EXPENSE/INCOME					
Total Other Expense	34,240,622	37,347,911	41,361,009	4,013,098	10.7%
Total Other Income	9,360,353	11,098,793	11,875,330	776,537	7.0%
Total Other Expense/Income	24,880,269	26,249,118	29,485,679	3,236,561	12.3%
NET REVENUE	$2,539,456	$11,169,978	$17,859,958	$6,689,980	59.9%
Other Information:					
Peak Load (Mwh)	779	793	799	6	0.8%
Purchased Power (Mwh)	2,321,239	1,997,000	2,286,000	289,000	14.5%
Produced Power (Mwh)	1,432,624	1,867,500	2,550,600	683,100	36.6%
Total Power	3,753,863	3,864,500	4,836,600	972,100	25.2%
Retail Energy Sales (Mwh)	3,056,537	3,252,011	3,325,338	73,327	2.3%
Wholesale Energy (Mwh)	467,471	374,090	1,268,451	894,361	239.1%
Total Energy Sales	3,524,008	3,626,101	4,593,789	967,688	26.7%
Customers	124,887	127,050	128,792	1,742	1.4%

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Comparative Revenue & Expense Statements

(by Expenditure Type)

	2007 BUDGET	2008 BUDGET	VARIANCE AMOUNT	PERCENT
Power Cost (w/o payroll, travel, etc.)	**107,454,453**	**118,722,978**	**11,268,525**	**10.5%**
Depreciation (including vehicle)	**31,533,124**	**36,456,627**	**4,923,503**	**15.6%**
Employee Cost	**29,421,166**	**30,620,094**	**1,198,928**	**4.1%**
Other Operation Cost	**11,958,381**	**12,413,657**	**455,276**	**3.8%**
Total	**180,367,124**	**198,213,356**	**17,846,232**	**9.9%**

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Comparative Operating Statements

	2006 Actual	2007 Budget	Proposed 2008 Budget	Var. Amt. 08 v. 07 Budget	Var. % 08 v. 07 Budget
OPERATIONS					
Operations	9,492,169	10,485,244	10,732,367	247,123	2.4%
Engineering	1,616,732	1,831,571	1,859,625	28,054	1.5%
TMSIC/Transmission	527,268	1,475,272	1,759,144	283,872	19.2%
Total Operating Expense	11,636,169	13,792,087	14,351,136	559,049	4.1%
POWER COST					
Purchased Power	74,630,313	64,167,927	61,449,347	(2,718,580)	-4.2%
Production Power	40,420,644	45,968,507	60,236,443	14,267,936	31.0%
Total Power Cost	115,050,957	110,136,434	121,685,790	11,549,356	10.5%
ADMIN. & GENERAL					
Administration	8,130,203	10,664,362	12,966,214	2,301,852	21.6%
Consumer Services	5,335,036	5,897,234	5,953,951	56,717	1.0%
Financial Services	4,757,802	5,175,883	4,899,631	(276,252)	-5.3%
Power Supply	2,451,290	2,445,500	2,460,007	14,507	0.6%
Total A&G Expense	20,674,328	24,182,979	26,279,803	2,096,824	8.7%
DEPRECIATION	29,745,017	32,255,624	35,896,627	3,641,003	11.3%
TOTAL OPERATING EXPENSE	$177,106,471	$180,367,124	$198,213,356	17,846,232	9.9%

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2008 Budget
Debt Service Coverage

	2006 Actual	2007 Budget	Proposed 2008 Budget
Revenue	$204,526,196	$217,786,220	$245,558,993
Oper. Exp. (a)	147,361,454	148,111,500	162,316,729
Sub-Total	57,164,741	69,674,720	83,242,264
Interest & Other Income	4,468,414	4,910,793	4,968,330
Available for Debt Service from Operations	61,633,155	74,585,513	88,210,594
Rate Stabilization Fund Use	4,300,000	2,000,000	(2,000,000)
Total Available for Debt Service	65,933,155	76,585,513	86,210,594
Bond and Other Interest (b)	24,529,969	27,067,163	31,112,037
Bond Principal	12,176,664	14,648,333	14,333,332
Debt Service	$36,706,633	$41,715,496	$45,445,369
Debt Coverage	1.80	1.84	1.90

(a) Excludes Depreciation

(b) Includes Bond Interest, Commerical Paper Interest and Allowance for Funds used During Construction.

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2008 Capital Budget Summary

(Dollars in thousands)

DESCRIPTION	BUDGET AMOUNT
DIRECT COST:	
Transmission & Distribution:	
Transmission	$21,019.0
Substation	6,641.0
Distribution Overhead	6,907.0
Distribution Underground	10,217.0
Waverly	188.0
Street Light	106.0
Subtotal Transmission & Distribution	$45,078.0
Power Supply	
Power Supply	12,046.0
Subtotal Construction	**$57,124.0**
General Equipment	$2,704.1
Transportation Equipment	1,269.5
Subtotal Equipment	**$3,973.6**
Total Direct Cost	**$61,097.6**
INDIRECT COST:	
Adminstrative & General	$214.5
Operations	2,322.2
Engineering Cost	4,115.4
Subtotal Indirect Cost	**$6,652.1**
TOTAL	**$67,749.7**
Estimated Contributed Capital	(6,907)

2008 Budget Review
Lincoln City Council
November 5, 2008
($000's)

Budget Request –

A) Operating Budget - $ 14,895.3 increase, 9.5%
The operating budget is up primarily with power costs related to a full year's production at Walter A Scott; $ 9.3, the increased freight and water costs at Laramie River Station; $ 3.2, and the addition of $ 1.0 for Sustainable Energy Programs.

B) Capital - $ 46,175.5 decrease, 40.5%
The capital budget is down dramatically because of the completion of Walter A Scott without major generation planned for several years. The final stages of major transmission and substation work, some of which was carried over from 2007, will be completed in 2008.

C) Total Budget Request - $ 27,550.3 decrease, 8.8%
The increase in power costs is offset by the large reduction in capital costs for the 2008 budget.

Comparative Revenue and Expense Statement-

D) Retail Revenue - $ 14,349 increase, 7%
The revenue is expected to increase because of 2.3% increase in energy and a proposed 5.5% rate change which includes 3% for power costs, O&M and A&G, 1% for rail freight after the STB decision, 1% to rebuild the rate stabilization fund and .5% for the sustainable energy program.

E) Wholesale Revenue - $13,394 increase, 75%
The wholesale revenue will increase because of the planned sale to MidAmerican Energy (MEC) of 19 months of Walter A Scott production at which time the generation will be required

by LES for its load. The rest of the wholesale sales are similar to the past years.

F) Production Power - $ 14,268 increase, 31%
The increase comes from the entire year's operation of Walter A Scott which represents $ 9.3 million and the increased freight and water costs for the Laramie River Station which represents $ 3.2 million. The required accounting for the sale to MEC has all of the expense in power costs and the receipts in wholesale revenue.

G) A&G/Other - $ 2,656 increase, 7%
The cost of the sustainable energy program of $ 1 million is the cause of over half of the increase with other costs rising on inflation and unexpected cost of copper, aluminum, and other raw materials vital to the electric industry.

H) Depreciation - $ 3,641 increase, 11%
This increase represents the cost of the Walter A Scott plant which became operational in the summer of 2007.

I) Other Expense - $ 4,013 increase, 11%
The increased interest cost for the debt associated with the construction of the Walter A Scott added to this expense, along with the cost of issuance.

J) Rate Stabilization Fund Use –
The rate stabilization fund was needed in the amount of $4.3 million to obtain a debt service coverage of 1.80 but the fund was reduced to $4.5 million. We had planned to use $ 2.0 million but with the performance in 2007, nothing was needed. It is planned to add $ 2.0 million to the fund in 2008 and continue to budget additions until the appropriate level is reached in the near future.