MINUTES OF JOINT CITY COUNCIL AND LES STAFF PRESESSION MEETING
LINCOLN CITY COUNCIL
MONDAY, NOVEMBER 2, 2009
COUNTY-CITY BUILDING
555 SOUTH 10TH STREET
LINCOLN, NEBRASKA 68508

City Council Members Present:	Doug Emery, John Spatz, Eugene Carroll, Jayne Snyder, Jonathan Cook, Jon Camp
City Council Members Absent:	Adam Hornung
LES Staff Present:	Doug Curry, Doug Bantam, Todd Hall, Doug Friendt, Shelley Sahling-Zart
News Media Present:	Deena Winter - Lincoln Journal Star
Others Present:	Rick Hoppe, Coby Mach, Andre Mick, Trish Owen, Rod Confer, Kyle Fischer

Council Chair Doug Emery welcomed LES to the City Council pre-session meeting at approximately 1:15 p.m.

Doug Curry, LES Administrator and CEO, briefly reviewed the process for developing the LES budget and rates proposals which began in June. He noted that LES had held a number of meetings to receive public input on the budget and rates. LES staff held two briefings for businesses as well as a briefing at LES' regular Business Advisory Council meeting. A total of 24 individuals attended these briefings. LES also held a public meeting regarding the 2010 budget and rate adjustment on October 6. There were nine members of the public in attendance at that meeting.

Following these public meetings, the LES Budget & Rates Committee met again with staff to review all public input and make a recommendation to the full Board regarding the 2010 LES budget and proposed rate increase. The recommendation of the Budget & Rates Committee is to lower the proposed 2010 LES Operating Budget by $2.3 million, with specific cuts to be determined by LES management. The effect of this additional reduction was to lower the proposed rate increase from 3.9 percent to 2.9 percent. This recommendation was approved by the LES Administrative Board on October 16, 2009.

Doug Bantam, LES Chief Operating Officer, provided an overview of the 2010 LES Operating and Capital Budget as well as the proposed 2.9 percent rate adjustment for 2010. (Exhibit I) He noted the key challenges facing LES, such as federal cap-and-trade legislation, additional renewable energy development, aging work force, and infrastructure improvements to allow customer interface for load control and energy management. The proposed 2010 Operating Budget is $207.8 million, which is about 3.4

percent greater than the 2009 Operating Budget. The 2010 Capital Budget is $50.8 million, which is about 14 percent higher than the 2009 budget.

Bantam noted that 2010 power costs are relatively flat compared to the 2009 budget, primarily due to lower variable energy costs at generating units and lower than expected wholesale purchase prices. However, he noted that the 2010 budget reflects higher fixed costs for our base load resources. Depreciation is also higher due to the addition of utility plant. Other operating costs are driving the rate increase and are up due to fixed transmission service charges, system operation and maintenance cost increases, and customer program initiatives. Bantam noted two key projects in this area. One is a backup data center which is necessary due to the fact that the existing LES data center is now located in a flood plain following changes to the flood plain maps. The second is replacement of the LES Customer Information System which currently resides on a 1967 vintage mainframe.

Todd Hall, Vice President Consumer Services, reviewed the proposed 2.9 percent system average increase in electric rates to be effective January 1, 2010. He noted that LES utilizes a cost of service methodology for developing rates and that LES strives to have rates for each customer class that are within 5 percent of cost of service. While the 2.9 percent increase is a system average, the increase for the different customer classifications is Residential at 2.5 percent, General Service at 3.2 percent, Large Light and Power at 3.4 percent, and Large Power Contract at 3.2 percent.

Doug Bantam summarized the 2010 operating plan that includes a contribution of $2 million into the rate stabilization fund and increasing the Sustainable Energy Program by nearly $1 million. The plan assumes a 2.9 percent system average increase in electric rates effective January 1, 2010. The plan helps LES to improve its financial metrics with a debt service coverage of 1.90 and reducing the debt-to-equity ratio to just under 70 percent.

Doug Curry noted that the LES Administrative Board approved the 2010 LES Operating and Capital Budget and 2010 rate proposal and recommends it to the City Council for approval. Questions from City Council members followed.

Councilman Eugene Carroll asked about the costs of the ice storm in 2007 and how much of the rate stabilization fund was used to cover those costs. Curry noted that the costs were about $9.5 million and that the costs were paid through emergency enactment of a 5.5 percent temporary surcharge on electric rates. The surcharge was canceled later when enough revenue had been collected to cover the ice storm costs. No rate stabilization funds were used for the ice storm costs due to the fact that the balance in the fund was insufficient at that time to cover the costs. Curry noted that this is a good illustration of why it is necessary to increase the balance of the rate stabilization fund in order to be in a position to cover extraordinary and unplanned costs such as the ice storm. He noted that a fund balance around $18 million would be a minimum target.

Councilman Jon Camp asked if the rate adjustments were energy adjustments. Todd Hall responded that the majority of the adjustment is a fixed cost adjustment, rather than a variable (energy) cost adjustment. He noted that there was also some increase in the customer charges.

Councilwoman Jayne Snyder asked about the goal of having a rate stabilization fund balance around $18 million. She asked if this was feasible or necessary. Doug Bantam responded that it is both feasible and necessary. He noted that the target in LES' financial plan is actually 15 percent of operating revenues which would be significantly higher than $18 million. He noted that a major negative event for LES, such as loss of a base load generating resource in the summer, could easily cost LES as much as $1 million.

Councilwoman Snyder asked if LES' credit ratings would be lowered if the balance is not increased. Bantam responded that the rating agencies are expecting improvement in LES' financial metrics, specifically debt service coverage and the debt-to-equity ratio. He noted that LES has the lowest debt service coverage and highest debt-to-equity ratio of any AA rate utility in the country. This is largely because LES has historically demonstrated that LES and the City Council are willing to adjust rates as necessary to meet financial targets. Todd Hall added that in the absence of the rate stabilization fund, LES would need a tool, such as a power cost adjustment, in order to be able to effectively manage risk.

Councilwoman Snyder asked about the current status of the rate stabilization fund. Todd Hall noted that the fund balance is currently about $4 million. Due to sound financial performance in 2009, LES hopes to have the LES Administrative Board approve in December a $4 million contribution to the fund which would bring the year-end balance to about $8 million. With a $2 million contribution in 2010 as proposed in the budget, the year-end balance in 2010 would be about $10 million.

Councilman Jonathan Cook asked for a clarification about the use of the rate stabilization fund in 2007. Doug Curry noted that he was correct in his understanding that rate stabilization funds were used in 2007 to make debt service coverage targets rather than to cover the ice storm costs.

Councilman Cook also asked about the Sustainable Energy Program for 2010. Todd Hall reviewed the programs planned for 2010. (Exhibit II) Hall noted that passage of federal climate change legislation will require greater energy efficiency by LES' customers. Councilman Cook asked if communication improvements would be necessary for greater efficiency measures. Todd Hall responded that LES is pursuing "smart grid" investments in infrastructure that will allow for customer interaction and more efficient energy consumption. Replacement of the customer information system is one of the first steps. He noted that LES did not receive a federal Smart Grid Investment Grant. Consequently, it will take LES about 10 years to implement a smart grid plan rather than three years as it would have been if a grant had been received.

Councilman Camp noted the per capita increase in energy consumption. He asked why it is not decreasing with greater utilization of Energy Star appliances and other efficiencies. Todd Hall noted that consumers are using more technology at a greater rate than the efficiency gains. He noted that LES conducts periodic load surveys to identify customer trends. These surveys indicate that customers are adding greater amounts of technology, such as more televisions, appliances, and computers.

Councilman Camp suggested that rather than doubling the Sustainable Energy Program, LES could accomplish the same objective by partnering with the City to use the federal stimulus dollars the City is receiving for sustainability programs. Todd Hall noted that both programs are necessary to achieve the greatest amount of efficiency improvements.

LES was dismissed from the meeting at approximately 2:05 p.m.

Respectfully Submitted,

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

Exhibit I

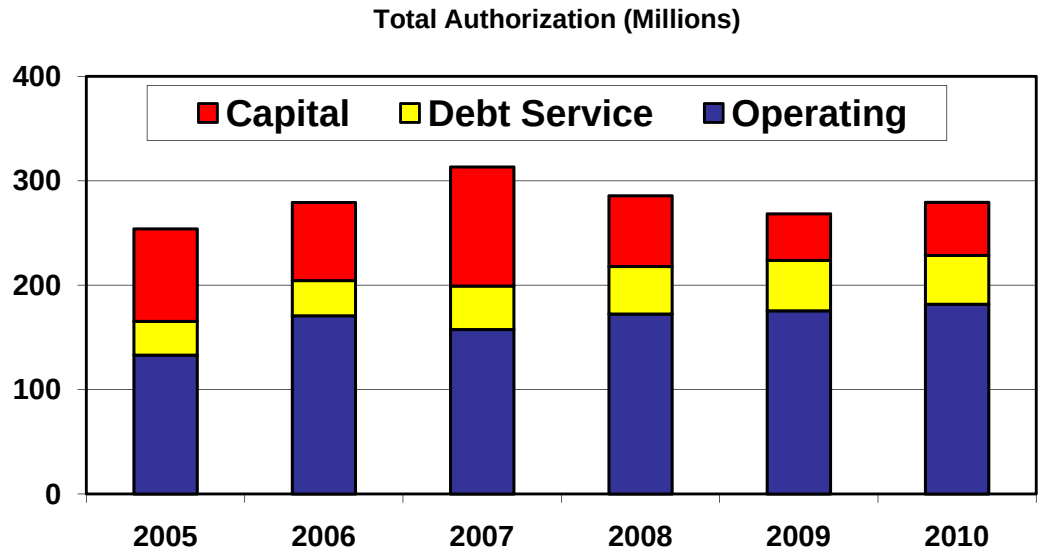
2010 Budget and Rates Presentation

Lincoln City Council

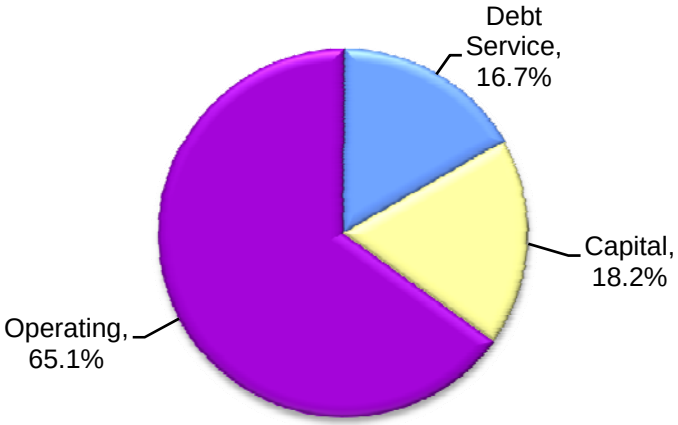
As recommended by Lincoln Electric System Administrative Board

November 2, 2009

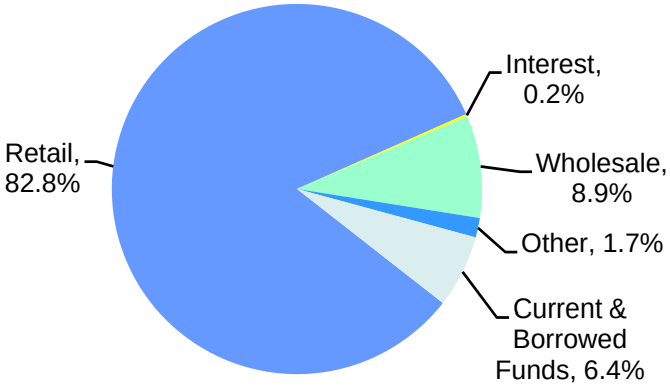
2010 Total Authorization - $279,412,700



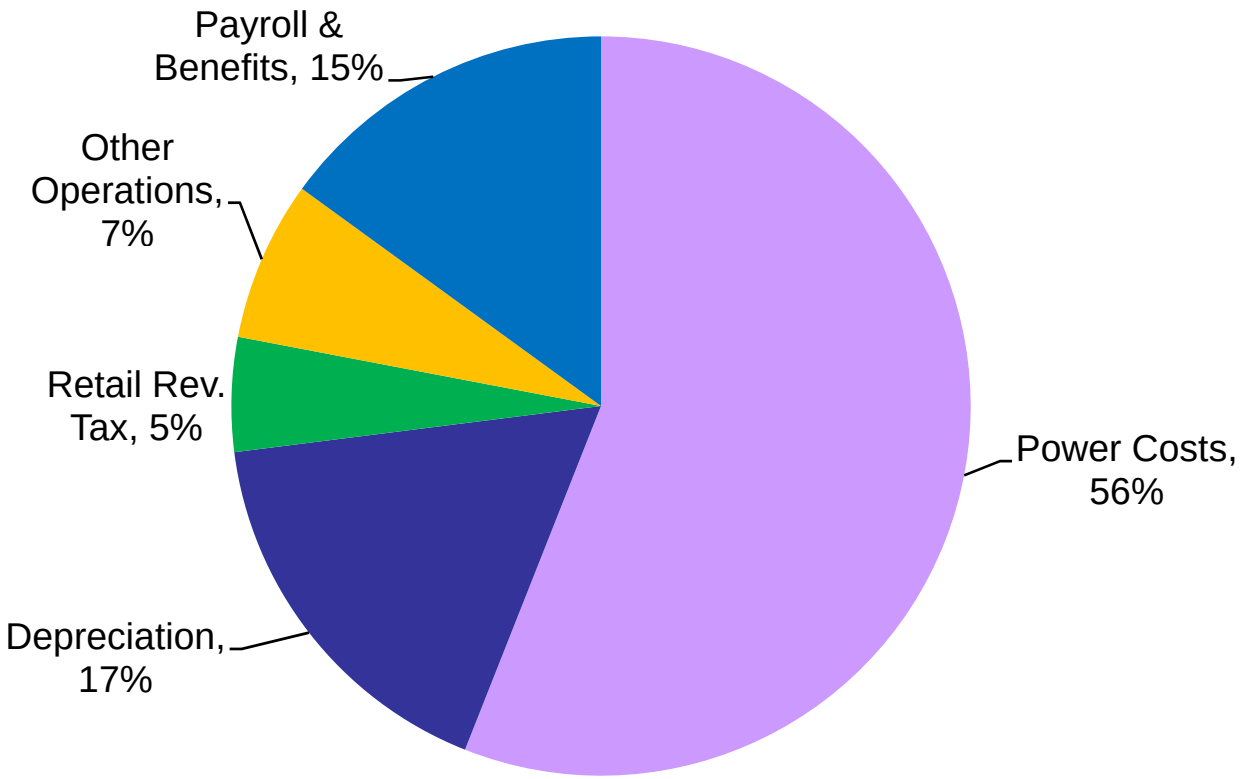
Uses of Funds



Source of Funds

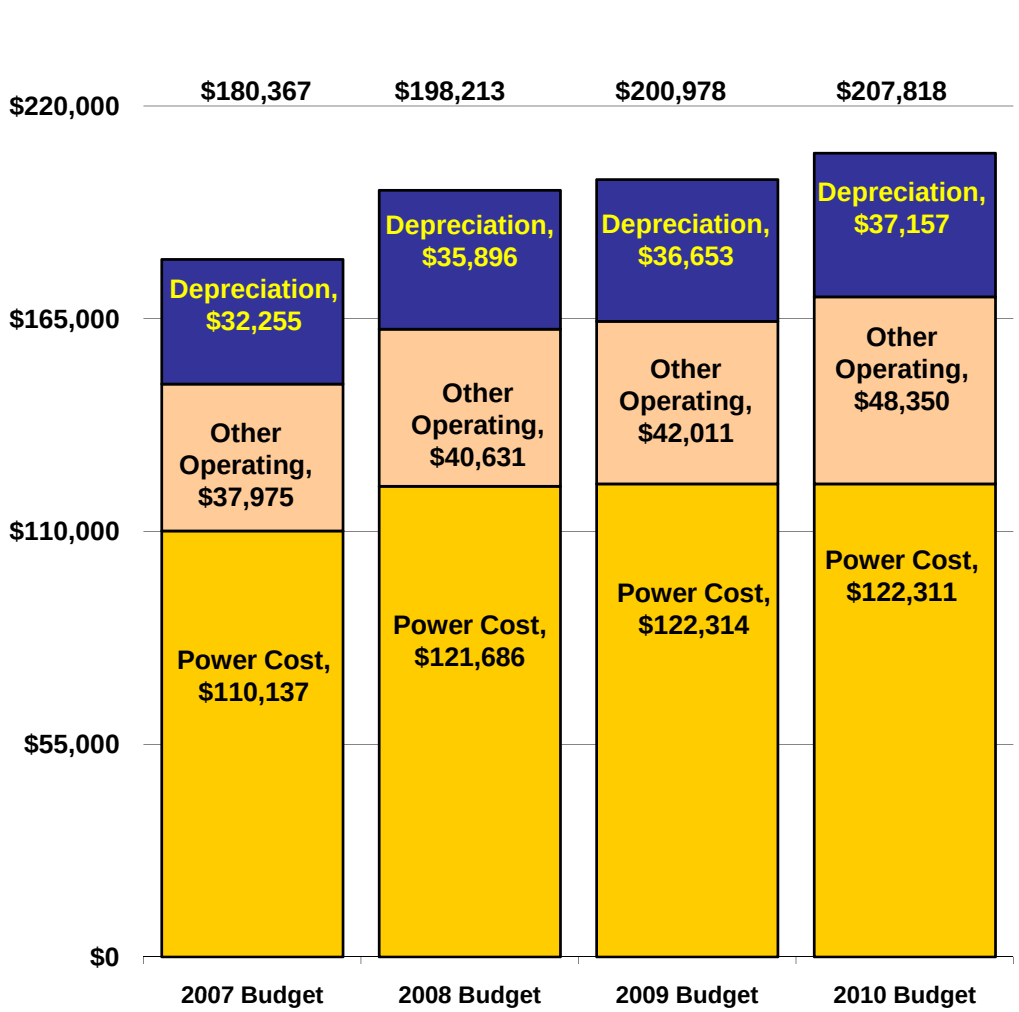


2010 Components of Operating Expense



2010 Operating Budget Changes

Operating Budget in ($000)



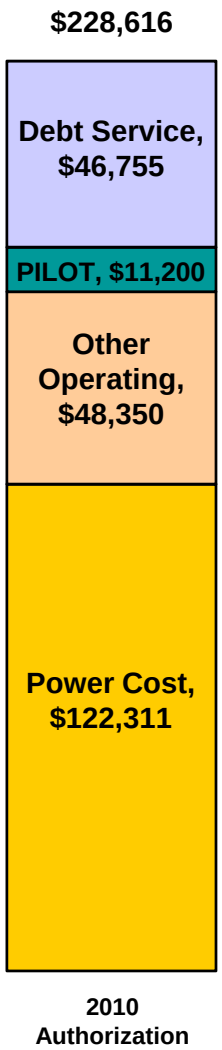
Operating Authorization

2010 v 2009 Difference Total = $6,840

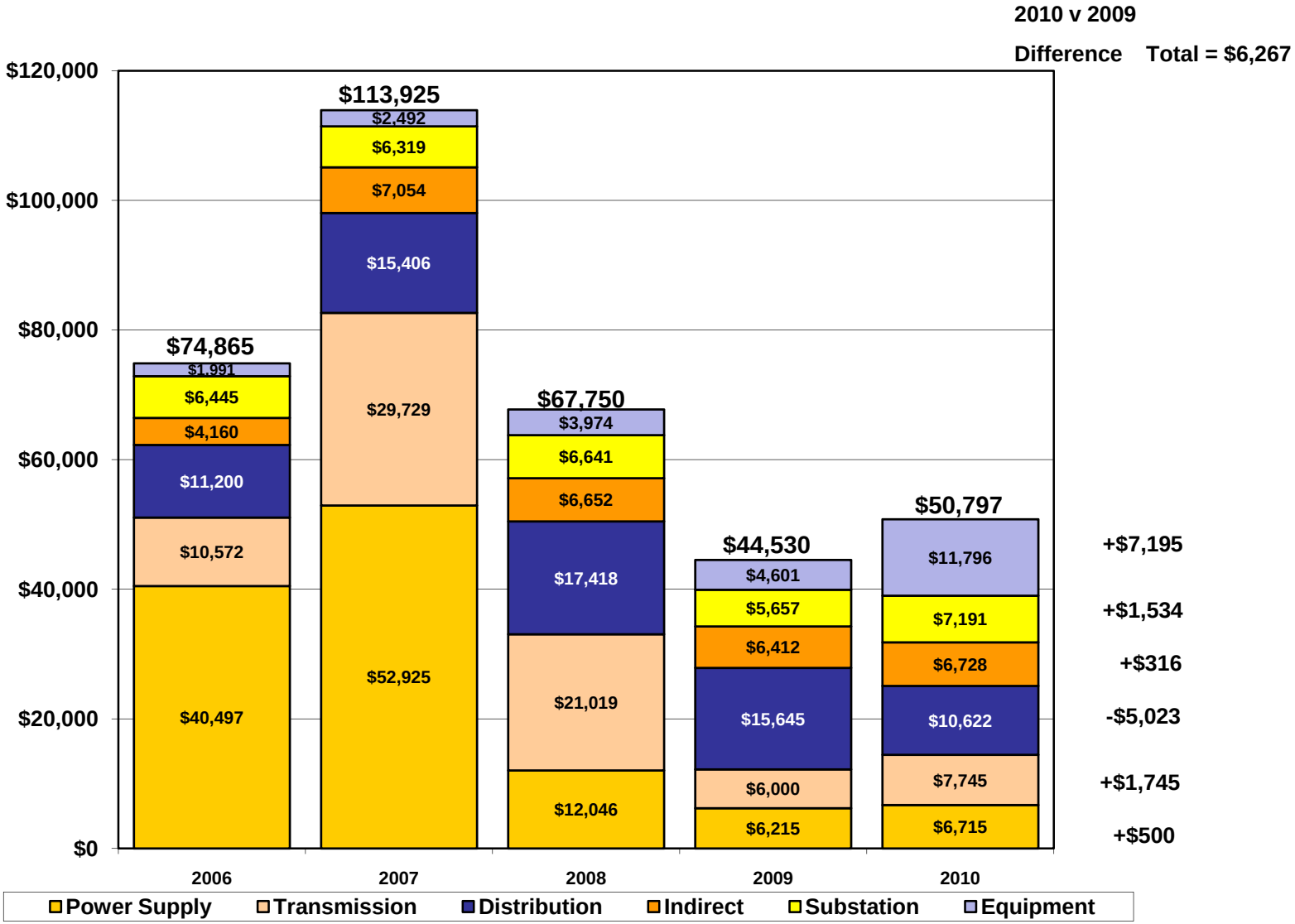
$504

$6,339

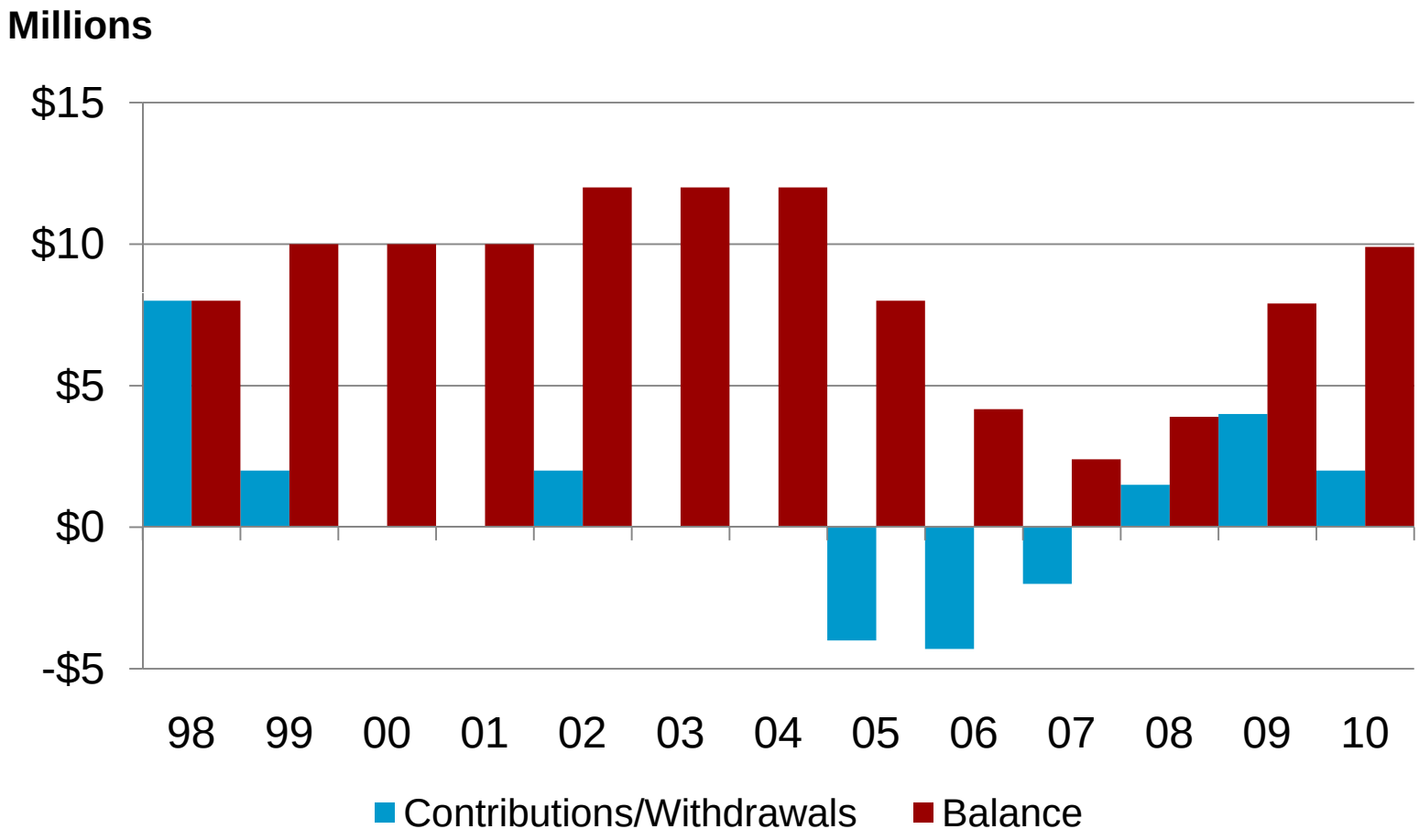
($3)



2010 Capital Budget



Rate Stabilization



System Average Increase 2.9%

Adjustment by Customer Class

Residential	2.5%
General Service	3.2%
Large Light & Power	3.4%
Large Power Contract	3.2%

<u>Average Residential Change $2.10/mo</u>

2010 Operating Plan

- Fund rate stabilization with $2 million.
- Maintain debt service coverage target of 1.90.
- Continue to improve on debt equity ratio target 70%.
- Increase Sustainable Energy Program funding by $1 million.
- No long-term borrowing for capital construction.
- Rate adjustment of 2.9% on January 1, 2010.
- No additional full time staff.

Exhibit II

2010 Sustainable Energy Program

Program	Market	Proposed Budget	Projected kW Reduction	Projected First-Year kWh Savings	*Projected First-Year Customer Savings
Whole House Insulation	Residential	$200,000	200	386,400	$149,800
High-Efficiency Heat Pump	Residential/Small Commercial	$750,000	1,124	1,004,850	$369,600
Commercial & Industrial Lighting Retrofit	Commercial	$300,000	925	4,050,000	$262,500
Industrial Energy-Efficiency Program	Large Commercial/ Industrial	$600,000	1,500	3,000,000	$364,500
Energy-Efficiency Innovation Grant	Large Commercial/ Industrial	$100,000	90	300,000	$24,786
Energy-Efficiency 4th Grade Education Program	Residential	$50,000	150	624,000	$33,072
Projected Totals		**$2,000,000**	**3,989**	**9,365,250**	**$1,204,258**

*Residential programs include combined savings for heating and cooling.