

**MINUTES OF JOINT CITY COUNCIL AND LES STAFF PRESESSION MEETING
LINCOLN CITY COUNCIL
MONDAY, NOVEMBER 13, 2006
COUNTY-CITY BUILDING
555 SOUTH 10TH STREET
LINCOLN, NEBRASKA 68508**

CITY COUNCIL MEMBERS PRESENT: Patte Newman, Ken Svoboda, Annette McRoy, Robin Eschliman, Dan Marvin, Jonathan Cook

CITY COUNCIL MEMBERS ABSENT: Jon Camp

LES STAFF & COUNSEL PRESENT: Terry Bundy, Keith Brown, Shelley Sahling-Zart

OTHERS PRESENT: Don Herz, Steve Hubka, Coby Mach

Council Chair Patte Newman welcomed LES to the City Council pre-session meeting at approximately 10:30 a.m. LES Administrator and CEO, Terry Bundy, introduced LES staff and proceeded to provide an overview of the 2007 LES Operating and Capital Budget that had been unanimously recommended for City Council approval by the LES Administrative Board.

2007 LES Budget

Bundy provided an overview of the 2007 LES Budget. (Exhibit I) He noted that the budget calls for a total appropriation of \$313 million and assumes no rate increases in 2007. The operating budget is nearly \$11 million lower than the 2006 budget, primarily due to lower power costs which make up about 59% of LES' budget. He noted that one of the key components of the lowered power costs is the anticipated 2007 commercial operation of the Council Bluffs #4 (CB#4) coal-fired generating plant that will be an additional low-cost resource and will reduce LES' reliance on natural gas fired resources. In addition, there is not a scheduled maintenance outage at Laramie River Station in 2007, which avoids having to purchase more expensive energy and operating higher cost resources.

Bundy noted that the power cost situation has settled down a great deal from a year ago, but there continue to be challenges in managing power costs due to continued drought conditions, increased rates for rail transportation of coal, and fluctuating natural gas costs. He indicated that LES could see additional relief in power costs if the federal Surface Transportation Board (STB) issues a favorable decision in a rail rate overcharge case filed by the participants in Laramie River Station. Another significant variable in 2007 is the startup of the new CB#4 power plant. The plant is scheduled for commercial operation by June 1, 2007, but staff is allowing for some slip in that date and have assumed a commercial startup of July 1, 2007, in the operating budget. A later startup could result in higher energy costs if CB#4 is not available.

The LES capital budget of \$113.9 million is up about \$39 million from the 2006 capital budget. Bundy noted that capital costs tend to fluctuate from year to year, depending on the need for large generation and transmission projects. The increase in 2007 reflects the addition of the CB#4 power plant as well as significant transmission projects to assure continued high levels of service reliability. He indicated that capital costs are expected to be back in the \$50 million dollar range in 2008 and 2009.

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

Councilwoman Eschliman noted that earlier in the year LES and the Council had worked to implement a rate increase as well as a number of new fees. She asked how implementation of those changes has gone. Bundy responded that while there was initially some negative reaction from customers, that overall implementation of the rate changes and fees has gone better than expected. He noted that revenue from fees is at or a little better than what was expected and that it is still early to determine whether the fees are having an impact on customer behavior.

Councilman Marvin noted that the budget assumes no rate increase in 2007, but he asked about rate increases in 2008. Bundy responded that there are a number of factors that could impact the need for a rate increase in 2008. A favorable STB decision in the Laramie rail rate case could help, while the recent notification from Nebraska Public Power District regarding increases in fuel costs at Gerald Gentleman Station would be detrimental. He noted that staff will be completing analysis for the annual rating agency updates and that he should have a better idea of the financial projections for 2008 in the first quarter of 2007. He indicated that he will share those projections with the Council when they are complete.

Councilman Svoboda asked about the already delayed STB decision and whether LES expects to get a decision in 2007. Bundy noted that there will likely be a decision in 2007, but it may not be a favorable one. The railroads have a high success rate at the STB. Svoboda also asked about the power cost adjustment (PCA) that LES had sought approval for a year ago. He asked if LES has calculated what the impact to customers would have been if the PCA had been approved. Bundy noted that staff had not done a detailed analysis. He noted, however, that year-to-date LES' bottom line is about \$3 million better than expected which would have flowed through to customers with a PCA in place.

Councilman Marvin asked about the status of the research coalition formed earlier this year between the University of Nebraska-Lincoln, the University of Nebraska-Omaha, LES, Omaha Public Power District, and Nebraska Public Power District. Bundy noted that a number of research concepts were being evaluated, but no projects have been initiated to date.

Councilman Svoboda noted his understanding that the 2007 LES budget does not include the \$25,000 for the City's economic development position that LES had been funding for several years. Bundy responded that he believes it is time for the responsibility for that position to rest fully with the City. He noted that LES remains strongly committed to economic development through its contributions to the Lincoln Partnership for Economic Development and the Lincoln Chamber of Commerce and that he believes it's a better fit for LES to work directly with those organizations on economic development activities.

Chair Newman excused LES from the meeting at approximately 10:56 a.m.

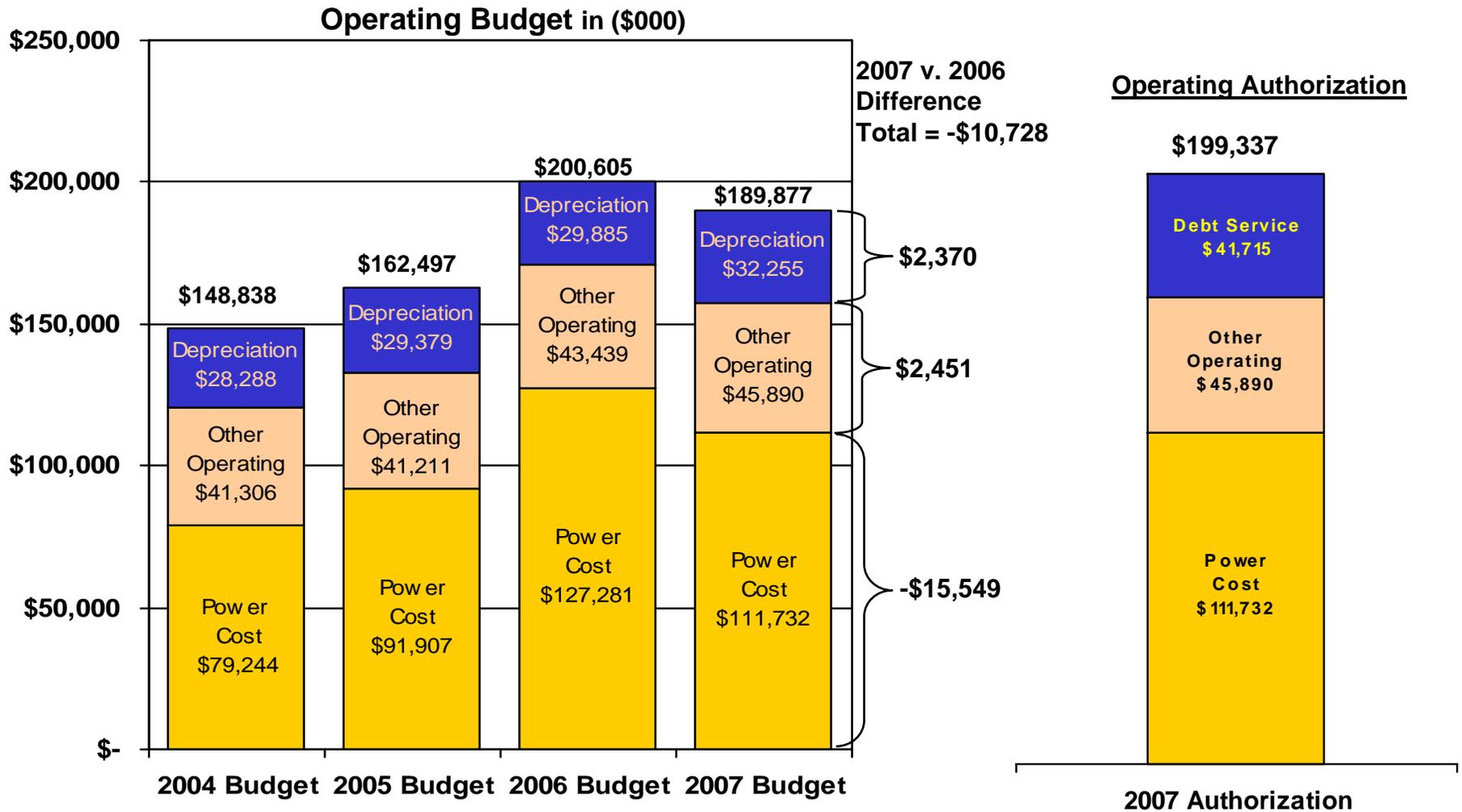
Respectfully Submitted,

BY: S/Shelley R. Sahling-Zart

Shelley R. Sahling-Zart
Assistant Secretary
LES Administrative Board

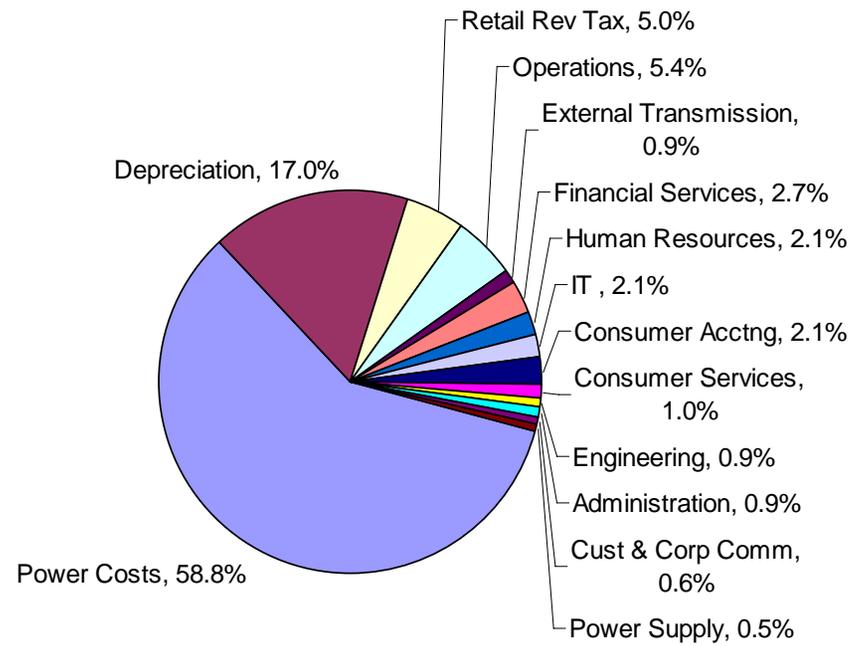
Exhibit I

2007 Operating Budget Changes (In Thousands)





LES 2007 Operating Budget



2007 Capital Budget Changes (In Thousands)

