



1040 O Street, P.O. Box 80869  
Lincoln, NE 68501-0869

**COPY**  
updated: 10/27/16

October 25, 2016

Teresa Meier, City Clerk  
City-County Building  
555 South 10<sup>th</sup> Street  
Lincoln, NE 68508

Dear Teresa:

Please find enclosed a request for resolution, fact sheet, and draft resolution for the City Council's consideration of the proposed Lincoln Electric System (LES) Operating and Capital Budget for calendar year 2017, as well as the proposed Rate Schedules, to be effective January 1, 2017. LES is proposing a system-wide average rate increase of 3% for 2017, and we are also proposing changes in how we allocate costs to residential Customer and Facility charges. The 2017 LES Budget and Rate Schedules were approved by the LES Administrative Board on October 21, 2016 and are recommended for approval by the City Council.

Also enclosed are the budget materials and the proposed Rate Schedules. We have proposed the following schedule for your consideration of the 2017 LES Budget and Rate Schedules:

- Monday, November 7 - Introduction of LES budget resolution and rate schedules resolution.
- Monday, November 21 - Public Hearing on LES budget resolution and rate schedules resolution at City Council meeting.
- Monday, December 5 - City Council action on the LES budget resolution and rate schedules resolution.

If you have any questions, please e-mail me at [ssahling@les.com](mailto:ssahling@les.com) or call me at 473-3204.

Sincerely,

Shelley R. Sahling-Zart  
Vice President & General Counsel

SRS:cls  
Enclosures

c: Mary Meyer



# 2017 Proposed Budget & Rates

Laura Kapustka  
VP & Chief Financial Officer



# 2017 Budget Assumptions

Financial Targets & Other Assumptions		
Financial Metric	Target	Comments
Debt Service Coverage	2.0X (Minimum)	Targeting 50% cash funding of routine capital costs
Debt to Equity Ratio	60%	With continued progress to align with LES Peer Group
Fixed Charge Coverage	1.55	With continued alignment with LES Peer Group
Days Cash on Hand	Minimum of 74 days in any month	
Rate Stabilization Fund (RSF)	\$28.5M	
Budget Inputs		
Retail Energy Sales	3,203 GWh	Energy Sales are budgeted 44 GWh/1.4% less than the 2016 Budget.
Demand	749 MW	Demand is forecasted 5 MW/0.7% greater than the 2016 Budget.
Financings	No long-term financings are planned for 2017. Continued low interest rates could provide an opportunity to refund existing bonds at lower rates.	

# 2017 Proposed Budget and Rate Adjustment

Rate Adjustment Factors	2017 Increase/ (Decrease)
Transmission Expense & Power Cost (net of Wholesale Revenue)	\$ 25.8 M
Debt Service & Coverage Reduction (2016 bond refinancing)	(\$17.0 M)
Reduced Retail Sales	\$ 1.9 M
Other Miscellaneous Changes	<u>(\$ 0.3 M)</u>
<b>Total Additional 2017 Revenue Required</b>	<b>\$ 10.4 M</b>

## Rate Mitigation:

Use of Rate Stabilization Funds (\$2.9 M)

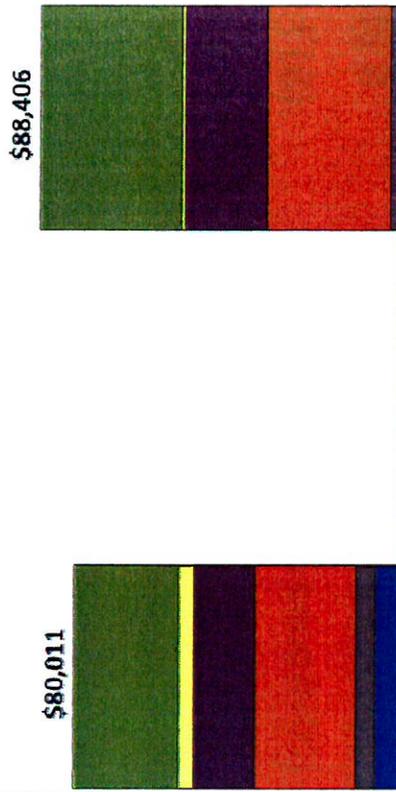
## Resulting Revenue Requirement to meet system requirements:

**3% System Average Rate Adjustment \$ 7.5 M**

# 2017 Budget – Capital Budget

Major Programs/Projects	2017 Budget
Laramie River Station	\$22.5M
LES Operations Center	\$19.9M
SE Lincoln Reliability Program	\$11.2M
Duct Installation Program	\$4.2M
Underground Rebuilds	\$4.1M

**Capital Authorization**  
(thousands)

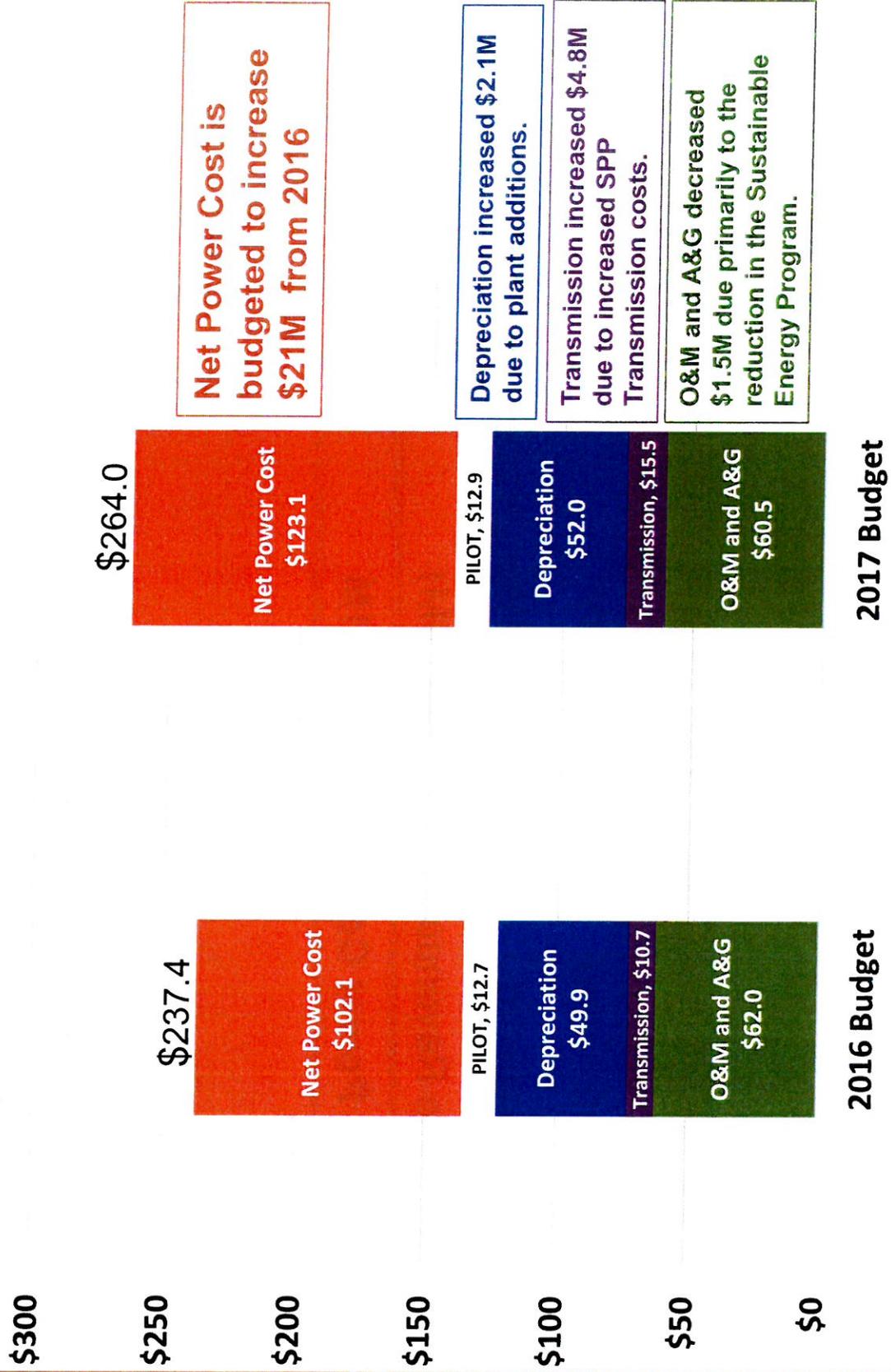


	2016 Budget	2017 Budget
Transmission & Distribution	\$25,419	\$34,363
Communications & Customer Services (Meters)	\$3,718	\$754
Facilities	\$14,772	\$19,906
Power Supply	\$24,602	\$29,774
General & Transportation Equipment	\$4,466	\$3,610
Indirect Overhead Costs*	\$7,035	\$-
<b>Total</b>	<b>\$80,011</b>	<b>\$88,406</b>

\*2017 Budget includes indirect costs in each category.

# 2017 Budget – Operating Budget

## Net of Wholesale Revenues - \$ in Millions

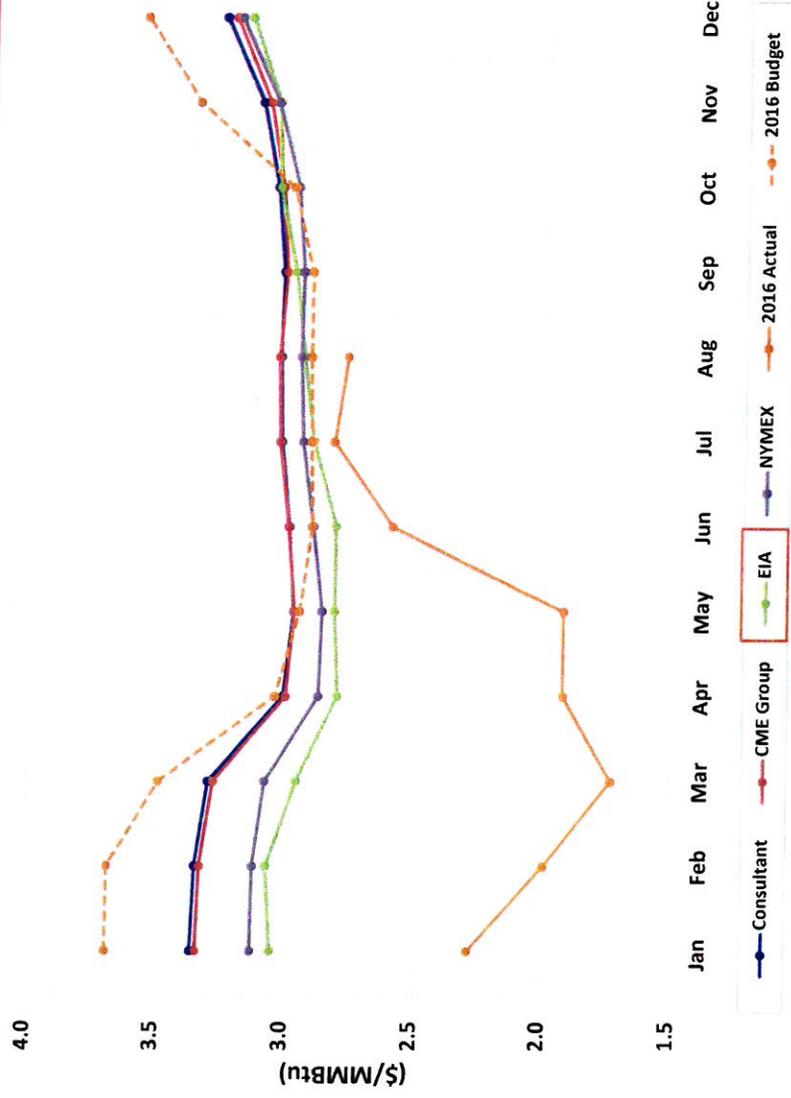


# 2017 Net Power Costs Budget

Budget Category	2016 Budget	2017 Budget
Power Purchased	\$93.0M	\$87.6M
Power Produced	\$70.5M	\$75.3M
Wholesale Revenue	(\$61.4M)	(\$39.8M)
<b>Total Net Power Cost</b>	<b>\$102.1M</b>	<b>\$123.1M</b>

# 2017 Natural Gas Price Assumptions

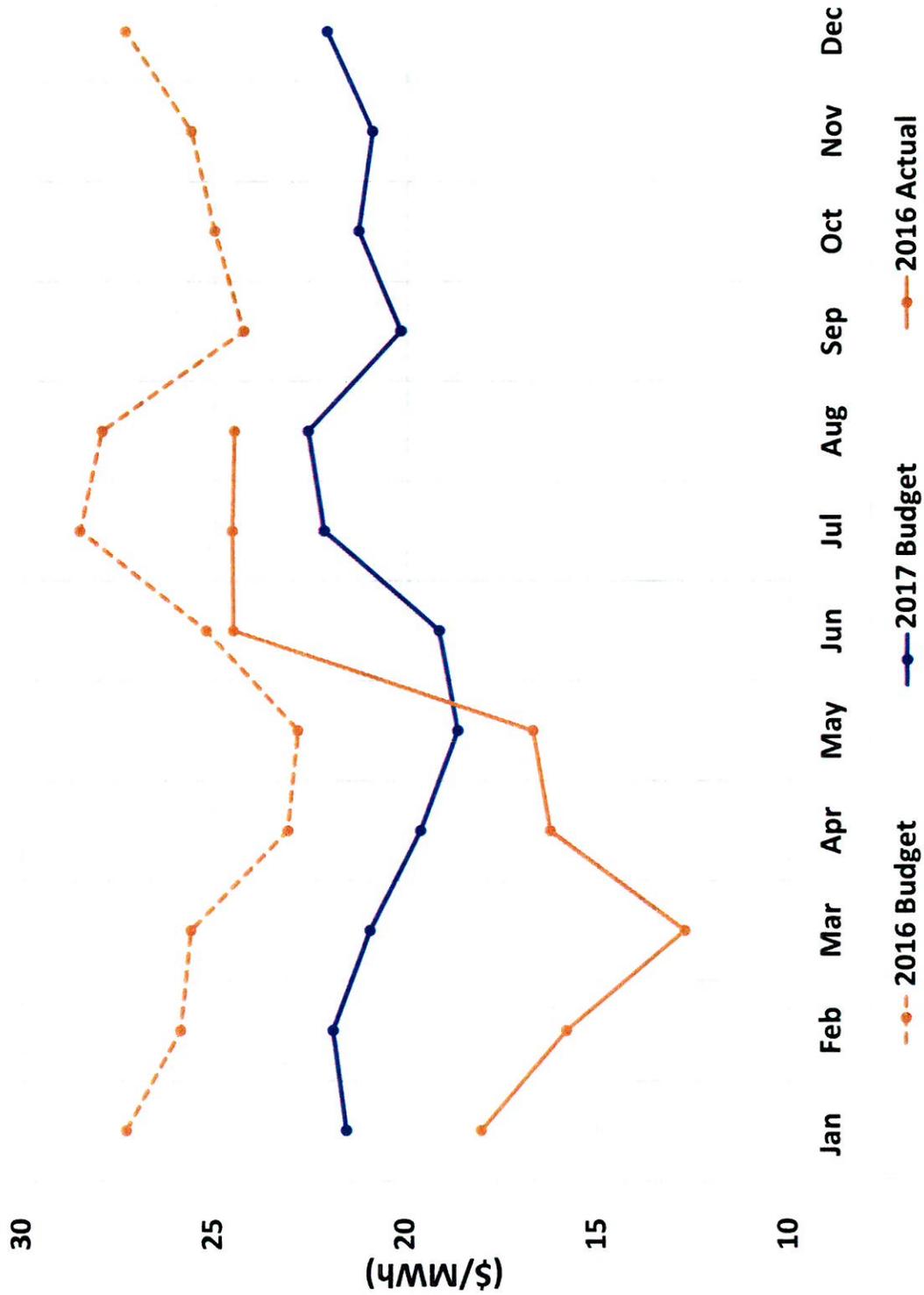
- Looked at 4 potential sources for Henry Hub pricing (June, 2016):
- Consultant
- CME Group
- New York Mercantile Exchange (NYMEX)
- **US Energy Information Administration's (EIA) Short Term Energy Outlook (STEO)**



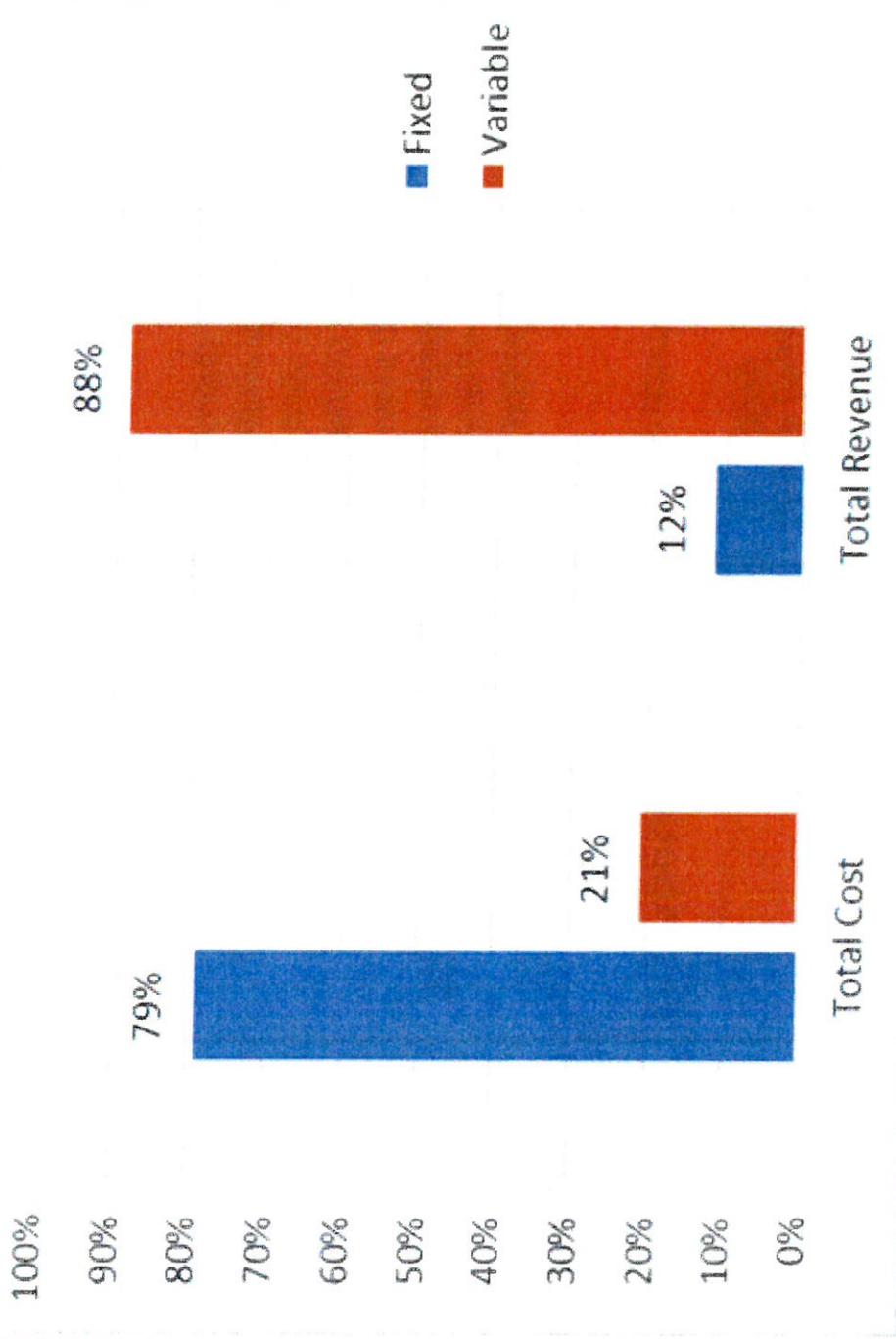
Selected EIA's forecast as it is largely most conservative, then reduced it by 15%.

Leveraging the "expert's" knowledge in developing a natural gas forecast, while at the same time acknowledging that recent forecasts from these same "experts" have routinely been too high.

# Lincoln Day-Ahead Location Marginal Price (LMP) Comparison



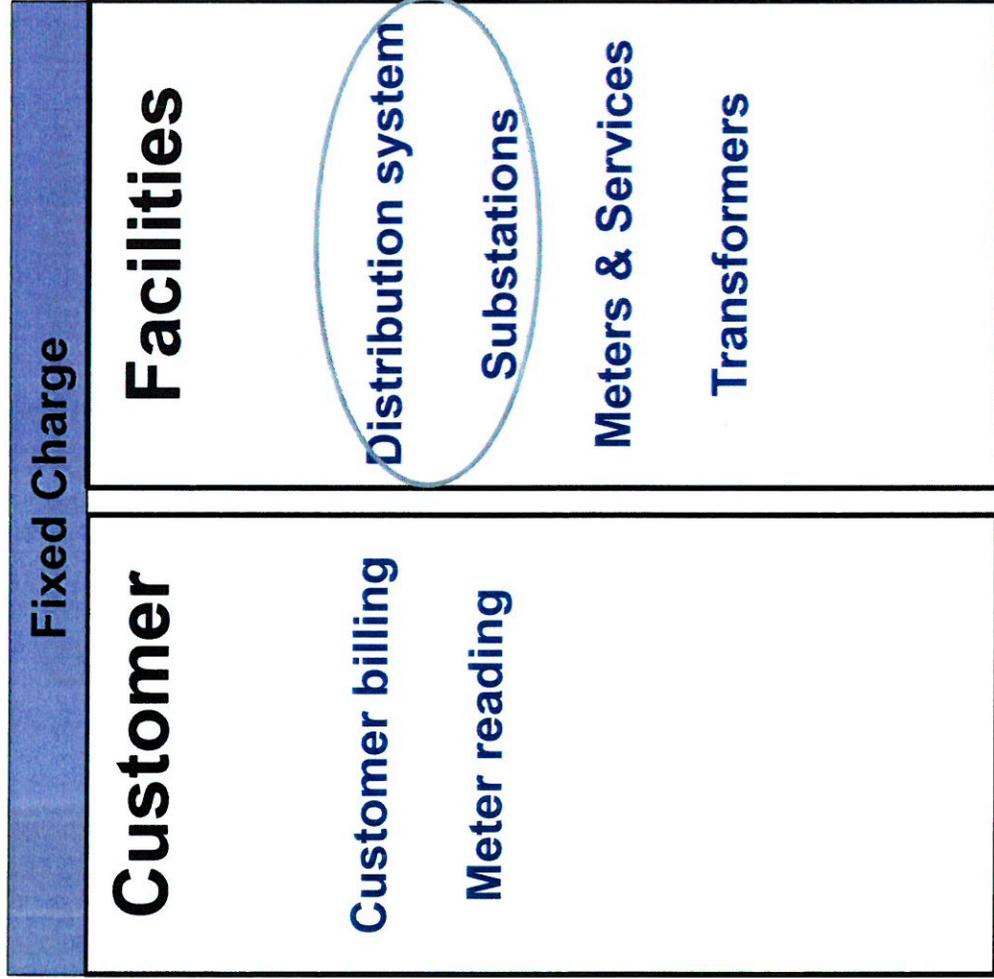
# Rate Restructuring: Why?



For non-demand customers, about 80% of the costs to serve them are fixed, however, only 12% are collected through a fixed charge

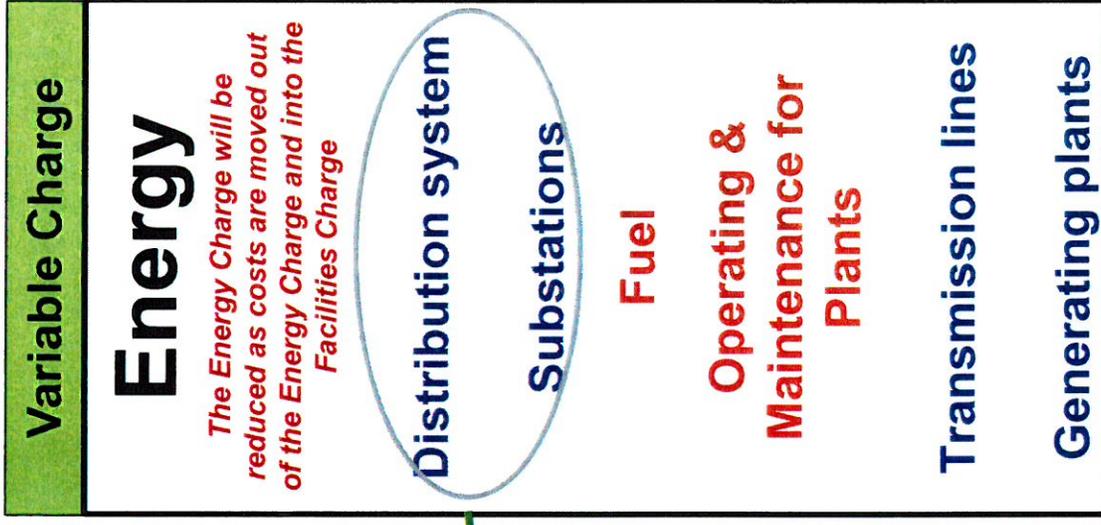
Changes from restructuring are revenue neutral to LES

# Rate Restructuring: How?



*Movement of these costs out of the Energy Charge began in 2016*

*The proposed 2017 change does not complete the movement of the distribution and substation costs (nor other fixed costs)*



**Applies only to: Residential, Heating Service and General Service Rate Classes**

# Proposed Residential Customer and Facilities Charge

Levels are new in 2017



	2017 Proposed Facilities Charge	2017 Proposed Customer Charge	Total
<b>Level 1</b> Less than 800 kWh/month	\$10.50	\$5.00	\$15.50
<b>Level 2</b> Between 800 and 1,500 kWh/month	\$14.50	\$5.00	\$19.50
<b>Level 3</b> Greater than 1,500 kWh/month	\$19.50	\$5.00	\$24.50

Note: The 2016 combined Customer and Facilities charge was \$13.40

“Levels” are based upon an analysis of the cost to provide distribution and substation services to customers at different levels of usage

# 2017 Budget Resolution

1. Adopt 2017 Operating and Capital Budget and direct submission to City Council
  - Operating - \$290.9 million (expenses only, wholesale revenue not included)
  - Capital - \$88.4 million
  - Total - \$379.3 million
2. Provide LES the ability to reimburse itself for 2017 capital expenditures through the future issuance of bonds
3. Approval for use of GASB 62 to amortize:
  - Portion of the 2016 extended outage costs at Rokeby Generating Station over 4 years – not to exceed \$6.0 million
4. Provide continued eminent domain authority

## Proposed 2017 Operating and Capital Budget (\$ in thousands)

**\$379.3**

Capital  
\$88,406

Power Cost (not net)  
\$162,941

Other Operating  
\$75,958

Depreciation  
\$52,027

# 2016 Rate Resolution

1. Adopt the "Rate Schedules" and direct submission to City Council
  - 3% System-wide average rate adjustment effective January 1, 2017
2. Elimination of Declining Winter Energy Rate
3. Continued modification of Customer and Energy Charges
  - Residential, Heating Service & General Service
  - Implementation of 3 Levels of Residential Facility charges
4. Energy Assistance Program funding
5. Virtual Net Metering rate schedule
6. Minor "housekeeping" changes

## 2017 Proposed Rate Adjustment and Resulting Cost of Service

	Rate Increase	Cost of Service
<b>Residential</b>	<b>3.5%</b>	<b>97.0%</b>
<b>General Service</b>		
Small General Service	1.3%	102.4%
Heating Service	0.1%	104.5%
General Service - Demand	0.0%	106.0%
<b>Total General Service</b>	<b>0.7%</b>	<b>104.6%</b>
<b>LLP and LPC</b>		
Large Light and Power (LLP)	3.6%	102.1%
Large Power Contract (LPC)	5.5%	99.2%
<b>Total LLP &amp; LPC</b>	<b>4.0%</b>	<b>101.4%</b>
<b>Total Retail System</b>	<b>3.0%</b>	<b>100.0%</b>

Subsequent to implementation of the 2017 rate adjustment - LES projects its average Residential bill will remain the lowest in the region

# Customer Outreach

Channels used to communicate the Proposed 2016 Budget & Rates:

- LES.com
- LES statement stuffer
- LES Current newsletter
- Lincoln Journal Star
- Board & Customer Meetings
- News Releases
- Facebook
- Twitter

Opportunities for customers to provide feedback:

- LES.com
- Board email
- Direct mail and email
- Customer meetings
- Public meeting
- Customer contact center
- Key Account Representative
- Facebook
- Twitter

# 2017 Proposed Budget Upcoming Dates

Dates	Action Item
September 1-September 30	LES Bill Stuffer announcing Budget Public Meeting
September 27	LIABA
TBD	Lincoln Employers Coalition, Chamber briefing, and Rent Assistance Group
September 25 & October 2	Lincoln Journal Star Ad
October 4	Business Advisory Council budget & rates update
October 6, 7:00pm	Public Meeting on proposed 2017 Budget & Rates
October	Budget & Rates Committee reviews public comments
October 21	Board Meeting action on 2017 Budget and Rates
TBD	Individual meetings with City Council members
November 7	City Council first reading on Budget & Rates
November 21	City Council public hearing on Budget & Rates
December 5	City Council takes action on Budget & Rates

**Thank you.**

Laura Kapustka  
VP and Chief Financial Officer  
402-473-3300  
lkapustka@les.com

LES.com    

# Proposed 2017 operating & capital budget and rates

## LES proposes rate adjustment

After two years with no rate adjustment, LES is proposing an increase to retail electric rates. Residential customers will see an average rate adjustment of 3.5 percent, while the system average adjustment will be 3 percent. LES' rate philosophy is to equitably allocate costs to each class of customers with the goal of maintaining rates for each class within 5 percent of the cost to serve the customer class.

**THE AVERAGE MONTHLY LES RESIDENTIAL CUSTOMER BILL IS \$94, COMPARED TO THE NATIONAL AVERAGE OF \$132.**

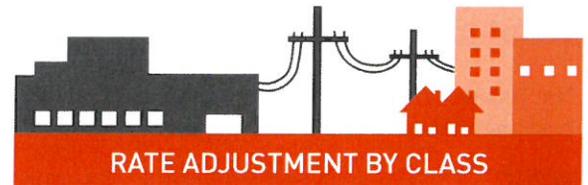
This means that while the system average rate adjustment is 3 percent, individual rate classes will see adjustments both above and below the average. Even with the proposed adjustment, LES electric rates are projected to

remain among the lowest in the country.

The rate adjustment is primarily due to increases in net power costs, which are related to decreased wholesale market revenues, driven by low natural gas prices. Power costs are typically the single largest driver of rates.

LES recently refinanced approximately \$120 million in revenue bonds which resulted in a net present value savings of approximately \$19 million. This refunding, combined with internal cost management measures, helped to significantly lower the rate adjustment.

LES also continues its restructuring of electric rates to properly allocate the fixed charges and variable energy charges associated with supplying power to customers.



	2014	2015	2016	Prop. 2017	4-yr Avg.
Residential	2.9%	0	0	3.5%	1.6%
General Service	1.2%	0	0	0.7%	0.5%
Large Light & Power	4.4%	0	0	4.0%	2.1%
System average	2.9%	0	0	3.0%	1.5%

As part of this process, LES is proposing to segment the residential rate class into three levels based on average monthly electric usage. This in turn provides a more equitable distribution of fixed costs between high- and low-use customers.

For more information about these changes, contact LES at **402.475.4211** or **finance@les.com**.

## Where your dollar goes

### 4¢ - PILOT

This is LES' annual in lieu of tax payment to local governments. It's our version of property taxes and fees.

### 6¢ - Equipment & Maintenance

This covers equipment costs, helps maintain poles and wires, and ensures our power plants meet environmental and reliability requirements.

### 15¢ - Payroll & Benefits

Offering competitive wages and benefits helps LES hire and keep the best and brightest employees.

### 15¢ - Construction Projects

Construction projects are essential investments to keep our community's power safe and reliable.

### 60¢ - Power Costs & Transmission

This pays for fuel and the power plants used to produce electricity, as well as the transmission lines and other facilities needed to deliver it to our customer-owners.



# LES proposes 2017 budget

LES is proposing a 2017 Total Budget of \$352 million. The Total Budget includes the operating (\$264 million) and capital (\$88 million) budgets.

## Budget highlights

- Net power costs are up \$21 million. LES' ability to impact these costs is limited.
- In 2017, LES forecasts reduced retail sales due primarily to customer energy efficiency efforts.
- LES will use the remaining \$2.9 million of the Burlington Northern Santa Fe settlement proceeds to offset expenses.
- Due to the bond refinancing in 2016, debt service and coverage will be reduced by \$17 million.
- Sustainable Energy Program funding will be at \$2 million for 2017.
- Other reductions in operating expenses helped reduce the overall rate adjustment.

Major Capital Programs/Projects	2017 Budget
Laramie River Station	\$22.5 M
LES Operations Center	\$19.9 M
Southeast Reliability Project	\$11.2 M
Duct Installation Project	\$4.2 M
Underground Rebuilds	\$4.1 M
All other projects <\$3.0 M each	\$26.5 M
<b>Total</b>	<b>\$88.4 M</b>

## Budget & Rates Public Meeting

LES will host the 2017 Budget & Rates Public Meeting on Thursday, Oct. 6, 7 p.m., at the LES Walter A. Canney Service Center, 2620 Fairfield Street.



### Finding ways to save energy?

Visit LES.com for ways to conserve energy and save money.

## LES by the numbers

28

LES' average customer outage time in 2016 was 28 minutes, compared to the national average of 120 minutes.



13

LES' overall rates are 13th lowest in the U.S., according to a recent rate study of 100 cities.

48

Electricity from renewable resources equivalent to 48% of retail energy.



94

The average monthly LES residential customer bill is \$94, compared to the national residential bill average of \$132.

80

Over 50 years, a total of 80 community members have volunteered about 85 hours per year to serve on the LES Administrative Board.



## Lincoln Electric System Regional Utility Bill Comparison

The following tables reflect the average monthly bill by rate class for cities in the region. The average bills are calculated (at the demand and energy levels identified) by LES using 2016 electric rates as shown on the utility's website for the respective city. Announced or proposed rate adjustments for 2017 are included where appropriate.

Residential (Monthly Average)			
Electric Bills using January 1, 2016 Rates, applicable Franchise Fees and LES' City Dividend		Electric Bills using 2016 Rates adjusted for changes since January 1, 2016, including proposed 2017 rate changes, and applicable Franchise Fees and LES' City Dividend	
City	Residential 1,000 kWh	City	Residential 1,000 kWh
Lincoln	\$94	Lincoln	\$96
Denver	\$103	Denton, NE	\$104
Denton, NE	\$104	Denver	\$106
Des Moines	\$113	Des Moines	\$114
Colorado Springs	\$116	Omaha	\$116
Omaha	\$117	Colorado Springs	\$117
Kansas City, KS	\$125	Kansas City, KS	\$122
Kearney, NE	\$130	Kearney, NE	\$130
Kansas City, MO	\$131	Kansas City, MO	\$136
Minneapolis	\$134	Wichita	\$137
Wichita	\$135	Minneapolis	\$141

Large Light & Power Commercial (Monthly Average)			
Electric Bills using January 1, 2016 Rates, applicable Franchise Fees and LES' City Dividend		Electric Bills using 2016 Rates adjusted for changes since January 1, 2016, including proposed 2017 rate changes, and applicable Franchise Fees and LES' City Dividend	
City	500 kW 180,000 kWh	City	500 kW 180,000 kWh
Des Moines	\$11,692	Des Moines	\$11,876
Omaha	\$14,036	Omaha	\$14,036
Denton, NE	\$14,127	Denton, NE	\$14,127
Denver	\$14,890	Lincoln	\$15,695
Lincoln	\$15,184	Colorado Springs	\$16,192
Colorado Springs	\$16,324	Denver	\$16,448
Kearney, NE	\$16,579	Kearney, NE	\$16,579
Minneapolis	\$17,632	Wichita	\$17,470
Wichita	\$17,833	Minneapolis	\$18,620
Kansas City, MO	\$19,129	Kansas City, KS	\$19,021
Kansas City, KS	\$19,643	Kansas City, MO	\$21,309

Small Commercial (Monthly Average)			
Electric Bills using January 1, 2016 Rates, applicable Franchise Fees and LES' City Dividend		Electric Bills using 2016 Rates adjusted for changes since January 1, 2016, including proposed 2017 rate changes, and applicable Franchise Fees and LES' City Dividend	
City	40 kW 10,000 kWh	City	40 kW 10,000 kWh
Lincoln	\$773	Lincoln	\$774
Colorado Springs	\$837	Omaha	\$841
Omaha	\$870	Colorado Springs	\$846
Des Moines	\$909	Denton, NE	\$914
Denton, NE	\$914	Des Moines	\$919
Denver	\$1,079	Kearney, NE	\$1,132
Kearney, NE	\$1,132	Wichita	\$1,183
Minneapolis	\$1,200	Kansas City, KS	\$1,209
Wichita	\$1,238	Denver	\$1,211
Kansas City, KS	\$1,243	Minneapolis	\$1,255
Kansas City, MO	\$1,275	Kansas City, MO	\$1,396

Large Light & Power Industrial (Monthly Average)			
Electric Bills using January 1, 2016 Rates, applicable Franchise Fees and LES' City Dividend		Electric Bills using 2016 Rates adjusted for changes since January 1, 2016, including proposed 2017 rate changes, and applicable Franchise Fees and LES' City Dividend	
City	1,000 kW 650,000 kWh	City	1,000 kW 650,000 kWh
Des Moines	\$35,609	Des Moines	\$36,117
Lincoln	\$36,622	Colorado Springs	\$36,652
Colorado Springs	\$37,207	Denver	\$37,271
Denton, NE	\$38,065	Lincoln	\$37,794
Omaha	\$39,389	Denton, NE	\$38,065
Denver	\$41,905	Omaha	\$39,389
Kearney, NE	\$45,849	Wichita	\$45,545
Wichita	\$46,848	Kearney, NE	\$45,849
Kansas City, MO	\$49,310	Kansas City, KS	\$51,538
Minneapolis	\$51,069	Kansas City, MO	\$57,183
Kansas City, KS	\$53,786	Minneapolis	\$57,289

General Service Demand Commercial (Monthly Average)			
Electric Bills using January 1, 2016 Rates, applicable Franchise Fees and LES' City Dividend		Electric Bills using 2016 Rates adjusted for changes since January 1, 2016, including proposed 2017 rate changes, and applicable Franchise Fees and LES' City Dividend	
City	75 kW 50,000 kWh	City	75 kW 50,000 kWh
Lincoln	\$2,667	Lincoln	\$2,661
Denton, NE	\$2,897	Denton, NE	\$2,897
Denver	\$3,055	Omaha	\$3,117
Omaha	\$3,117	Denver	\$3,221
Des Moines	\$3,312	Des Moines	\$3,317
Colorado Springs	\$3,355	Colorado Springs	\$3,360
Kearney, NE	\$3,696	Kearney, NE	\$3,696
Minneapolis	\$3,874	Kansas City, KS	\$4,051
Kansas City, MO	\$4,090	Minneapolis	\$4,087
Kansas City, KS	\$4,224	Kansas City, MO	\$4,695
Wichita	\$5,237	Wichita	\$4,961

See reverse for additional information.



## Lincoln Electric System Regional Utility Rate Comparison

- The first column lists bills using 2016 Rates. Bills in the second column use January 2016 rates with adjustments since January and proposed 2017 adjustments as available for the following cities:

- Colorado Springs (CSU) Electric Cost Adjustment
- Denver (Xcel) Electric Commodity, Transmission Cost, Demand Side Management Cost Adjustments, Clean Air-Clean Jobs Act Rider
- Des Moines (MEC) Transmission, Energy, Energy Efficiency Cost, and scheduled 2017 Equalization Adjustment
- Kansas City, KS Energy Rate Component Adjustment
- Kansas City, MO added a Demand Side Management Rider and Fuel Adjustment Rider
- Lincoln (LES) City Dividend and 3% system average rate increase
- Minneapolis (Xcel) Transmission and Fuel Adjustments
- Omaha (OPPD) Energy Charge and Service Charge Adjustments
- Wichita (Westar) Fuel Cost and Transmission Delivery Adjustments

- Seasonal rates are factored into the bills.

- Lincoln bills use an average determined from four summer bills and eight winter bills. Other utilities may have different monthly weights for their bills.

- The following utilities include franchise fees:

- Denver (Xcel)	- Kansas City, MO (KCP&L)	- Minneapolis (Xcel)
- Des Moines (MEC)	- Keamey (NPPD)	- Wichita (Westar)

The first column lists bills using 2016 rates (LES' 1/1/2016 City Dividend). Bills in the second column use 2017 rates (LES' 1/1/2017 City Dividend). Keamey (NPPD), Des Moines (MEC), Denver (Xcel), Kansas City, MO (KCP&L), Wichita (Westar) and Minneapolis (Xcel) bills include franchise fees.

Seasonal rates are factored into the bills using the same energy and demand for each month. Lincoln bills average four summer bills and eight winter bills.