**EXCERPT OF COUNCIL MINUTES OF**
**JULY 21, 2009**

**PRESENTATION BY RON ASCHE, CEO OF NPPD**

**Ron Asche:** Thank you Mayor Shelton and members of the Council for letting me be here this evening to talk about some things going on in our industry that are of interest I think to all of you as well. Uh, first of all, I'd like to thank Lowell Johnson and his staff also for the fine support and cooperation that we get. We've had a great relationship over the years, and Lowell is very instrumental in that, along with Gene Hansen and the rest of the utility staff up here, and we appreciate that. Uh, I want to start off and please, please feel free to ask any questions at any time. Probably the thing that our industry is most focused on right now is the federal legislation regarding climate change, what we refer to as Cap and Trade, uh, legislation. Uh, there was a bill that was just passed here a few weeks ago out of the House of Representatives referred to as the Waxman-Markey Bill. It set some new goals, uh, for reduction of CO2 emissions. Uh, the electric industry that uses fossil fuels, like coal and natural gas and oil, we do emit CO2 into the air, and we're one of the larger industries in this country that is an emitter of CO2. NPPD just does, by way of example, about 60% of the energy that we generate to serve our customers is from fossil fuel, primarily coal. So whatever happens with that legislation is of key interest to you and to us because it could have some significant effects on the cost of providing electric service. So, we're watching that with interest. That bill is now being looked at in the Senate. We think it's going to be an uphill battle in the Senate for them to pass a bill comparable to what was approved by the House. Some of the key provisions of that House bill is to reduce our CO2 emissions. The goals are to have a 3% reduction by the year 2012, using 2005 as the base level, so 3% below 2005 by 2012, 17% below 2005 by 2020, about 43% below 2005 by 2030, and 83% below 2005 by 2050. And quite frankly, by 2050, we will be out of the business of burning coal to produce electricity if that's the target that we have to achieve, getting down to 83% below 2005 levels. We've been analyzing that bill and what the impact may be on NPPD and our electric rates and the electric rates for our customers. It is potentially significant. We emit between 10 and 11 million tons of CO2 from our fossil fuel plants every year. The way this bill has been structured, if we have to get our emissions down by 2012, then again by 2020, we are going to have to reduce the amount of generation that we get out of our fossil plants and look for other resources, whether it's nuclear resources, renewable energy sources, like wind, and we'll have to do more energy efficiency and conservation. All of that is expected to have some impact on electric rates, putting upward pressure on that. But more importantly is the caps and trying to reduce our CO2 emissions themselves. The way the bill is structured, if we have to get our emissions down to about 10 million tons by 2012, the bill, as we understand it, would provide free emission allowances for about 40-50% of that. So we'd get a free pass, if you will, at no cost for about 4 or 5 million tons of the emissions we put out. We would have to buy allowances then to cover the remainder of the emissions that would be in the 5-6 million tons a year. The way that the bill is structured you'd have to buy those in some kind of an open market setting, and depending on the price of those allowances, we're estimating anywhere from $20 a ton to $60 a ton initially. So the math is pretty easy, if you have to buy 5 or 6 million

allowances at $20 or $60 a ton, you're talking significant dollars or 100 million to 120 million dollars a year. You layer that on top of our existing wholesale rates, you're looking at anywhere from a 15-45% increase potentially by the year or in the year 2012, if that's the way the bill remains through the Senate and signed by the President. We've been working with our Congressional delegation along with the other public power utilities in the state. The three members in the House of Representatives from Nebraska all voted against the bill that was in the House of Representatives. Both of our Senators, Senator Nelson and Senator Johannes, have indicated their opposition to the bill that was passed in the House. So we're working very diligently on that. We are concerned that with that type of aggressive restrictions and without any technology out there today to capture and store CO2, there's going to be a huge cost penalty that we are going to have to pay. We're really pushing to protect or wait until we put these heavy restrictions on us until the technology is out there to allow us to capture and store CO2 or find some other type of technology and use that CO2, rather than penalizing us to that degree. There are some states in the nation that get as much of their energy as high as 90+% from coal, and they will have even further impacts then what we might have here in Nebraska. There are other areas of the country that use very little coal, out in California, and Washington and Oregon, and some parts of the northeast where they have lots of hydro power or nuclear power, they will be very little impacted. In the mid-section of the country that uses lots of coal, we could see some very significant increases in our electric rates, potentially. And we're very concerned about that, from an economic development standpoint and what it does to business and industry and what it does to small businesses and the residential customers, in just the affordability of electricity that is so essential to all of our daily lives. So that is probably the thing that's getting most of our attention right now, and we're working very closely with our Congressional delegation to make sure that our voices are heard as that legislation moves through the Senate and see what happens with it from there.

**Mayor Shelton:** So, you talked about 10-11 million tons a year currently that we're

**Mr. Asche:** That's what NPPD emits today.

**Mayor Shelton:** Okay, so how does that compare to 2005?

**Mr. Asche:** In 2005, we were just below 10 million. We were about 9.8, and because of load growth and stuff, we've had to generate more from coal, so we're up there a little bit more then what we were back then in 2005.

**Mayor Shelton:** So it's not really that much of a difference

**Mr. Asche:** It's not that much. And from a generation mix standpoint, the challenge is not going to be reducing our emissions by 3% by 2012 or 17% by 2020. I think we can do that in a reasonable manner. The big uncertainty for us is how much allowances we will have to buy on the market and at what price. And that's the significant challenge. Obviously the other thing we could do is try and alter our generation mix significantly to get our control emissions down to a much lower level, but doing that between now and

2012 is virtually impossible, and it even represents some significant challenges getting that done by the year 2020. So that's probably our biggest thing from an industry standpoint. More locally, here in the state, I think we're all hearing a lot about the mobile energy, and in particular wind energy. The natural resources committee of the state legislature this year passed a legislative resolution wanting to examine building as much as 7,800 megawatts of wind generation in the State of Nebraska, with the expectation that maybe about a third of that would be used in state and two-thirds would be exported to other areas of the country. And to put that in prospective, 7,800 megawatts of wind generation, that is almost equivalent to all of the generation we have today in the state, nuclear, coal, gas, oil, hydro, etc. So we would be basically doubling the main plate capacity of the generation resources in the state. We can't absorb that much wind generation into our system because of the intermittent and variable measure of wind, we just can't do it. It would have a significant impact on the reliability of our transmission structure and the service that we provide to all of our customers. So, the thought or, or at least the concept is that a lot of that would be exported out of state, but the big issue there is there is no transmission in the structure in this state, nor in surrounding states to move that kind of quantity of power from Nebraska or other states like South Dakota or North Dakota, to the population centers of the country, like New York City, Chicago, Boston, what have you, Atlanta, GA. So that's a real challenge. To build 7,800 megawatts of wind generation in Nebraska, the capital investment just for the wind turbines is estimated to be about $16 billion dollars. And the associated transmission to get that power out of state just to the border, assuming that there is transmission in the other states surrounding Nebraska, another $4 billion dollars for that, so we're looking at potentially a $20 billion dollar price tag to build that level of wind generation in the state. And the big question that we have for the policy makers is who's going to pay for that? Should the Nebraska rate payers and customers we serve be put on the hook for that; should the developers pay for that, or should the ultimate users in other parts of the country pay for that? Not everybody else in the rest of the country wants our wind power from the Midwest. There was letters sent by the governors of 10 northeast states, New York, Maine, Vermont, New Hampshire, and those in that area, sent a letter to the senior leadership in the House of Representatives and US Senate politely declining wanting any wind energy from the Midwest part of the county. They think they can do it better. They can do it on their own. They don't want to pay the transmission that would be required to move that energy from this part of the county to the far northeast part of the country, so lots of issues there. NPPD is still pursuing the more renewable energies. Our Board of Directors in early 2008 established a goal of having 10% of our energy requirements for all of our customers in the state of Nebraska to come from new renewable energy resources by the year 2020. To do that, we're going to have to build about 550 megawatts of wind generation, and to put that in perspective, each wind turbine produces about 2 megawatts of energy, so we'd have to have about 225 wind powered, wind turbines if you will, at 2 megawatts each would get us to our goal. We've started on that process. We built our first large scale wind farm at Ainsworth back in 2005. That's a 60 megawatt wind farm with 36 turbines up there. We buy half of the output and sell half of it to other public power entities in the state. We've signed an agreement with a private developer for an 80 megawatt wind farm up near Bloomfield that began operating this year. Again, we buy half of the output and sell the other half to

other public power entities in the state. We've signed an agreement for another 40 megawatt wind farm to be built up near Crofton, NE. They expect to complete that one next year. So all of those combined, if they get built, if this last project gets built, will provide about 1 1/2% of our 10% goal that we have by the year 2020. We've also gone out for requests for proposals for some more wind projects at a site near Petersburg, NEm and a second site near Broken Bow. Each of those we've asked for proposals for 80 megawatts at each of those facilities, so that would take us another increment closer to our goal of 10% by 2020. And our plan is to do about 80 megawatts of new wind about every other year. And following that path, we think we can get our goal in 2020 without having any significant impact on electric rates by adding these new resources and without effecting the reliability of our transmission grid and reliability of service to our customers. But that's the big issue down in Lincoln, is wind for export. But, it is not without its issues, just sighting and building the wind farms along with sighting and building transmission is not easy. We're building a large transmission line from north of Columbus down to Lincoln, a 345,000 Kv volt line. That project, we started that in the fall of 2006, and we should be done by Christmas time this year, so it's about a 2 ½-3 year project. You can build wind farms in about a year, but building transmission is very difficult, in particular if you want to build a lot of transmission to export out of the state. There's many hurdles that would have to be addressed to make that happen. So those are probably a couple of the key issues that are going on both at a national level and a state level. More specific to NPPD and probably of interest to you is what's happening to the electric rates, and what's our outlook for the future, cause you probably can recall the last several years we've had some larger rate increases. I think if I go back and add up the last three years, the aggregate accumulates at about a 20% increase in our wholesale electric rates. Probably one of the biggest drivers of that is the increase in fuel costs. Since we are such a heavy user of coal, we used to be able to buy, up until a few years ago, coal from the Wyoming coal fields at a price of about $4 - 4.50 a ton. Today, that same coal is costing $12-14 a ton. That's 2 ½-3 times higher. Fuel for our nuclear plant, we refuel about one-fourth to one-third of our fuel in our nuclear plant every 18 months. The last refueling outage that we did was in the spring of 2008. That new reload batch of fuel that we put into our reactor at that point in time cost $92 million. The previous reload batch 18 months prior to that one, which would have been in the fall of 2006, cost about $45 million. So, just in a short 18-month time period, we saw the cost of a reload batch of fuel for our nuclear plant double. The prices for nuclear fuel have stabilized and have actually come down a little bit, so we think that our future refueling costs aren't going to be near that $92 million. But those were the type of pressures that we're seeing impacting on our electric rates, and that's been one of the key drivers for some of the increases we've had in recent years. Another thing that we're addressing, as I mentioned, we're building a new 345 Kv line from Columbus to Lincoln. That's 80 miles. That project is going to cost about $150 million dollars that was needed for reliability of the electric grid. We came very close in the summer of 2006 to losing our transmission system in the northeast-north central part of the state because of overloads on our facility. With everything 100% in tact, we were over the limits on some of our system. We came very close to running into some significant problems. This transmission line will help alleviate that, but it does cost money. So next year, when we have to start paying for it, it

will go into service this fall, so that will be putting some further upward pressure on our electric rates.

Aging facilities - We have not built any major new power plants for NPPD for quiet a number of years. You really got to go back to the base load facility, our gentleman station coal units out between North Platte and Ogallala that were built in the late 70's and early 80's, or our nuclear plant down in the southeast part of Nebraska that was built in the late 60's or early 70's. Those facilities are all 30-35 plus years old. We want to continue to operate them, and we had to do some major replacements and upgrades of equipment down there to things that are just wearing out. So that is also putting some new pressure on us. And we very much want to continue to operate our nuclear plant into the future. With all this uncertainty on carbon legislation and climate change, nuclear power plants don't emit any CO2. It's a lot cleaner source of energy. Our current license at Cooper Station with the regulatory commission expires in 2014. In September of last year, we filed for a license extension of that, which if the NRC approves that would allow us to operate that plant out until 2034 or 20 more years beyond its current license. That's important. To operate that long, we would need to replace major pieces of equipment down there. We replaced what's referred to as a low pressure turbine motor here a couple of years ago at a cost about $25 million. We replaced the generator at the last outage. That was a $30 million project. We've got a high pressure turbine to replace in the next couple years. That's another $25 million. We've invested over $300 million dollars in our nuclear plant just in the last 4-5 years, with the intent that we need to continue to operate that for many more years to come. So, reinvesting in some of our older facilities is necessary to make sure that we maintain the resources that are reliable to meet our customer needs. OPPD built a second coal plant down in Nebraska City. We get 160 megawatts out of that. That plant went commercial May 1st of this year. We now have to start paying for that. So that's going into our rates as well. And that's putting some additional pressure on us. Then the economy. The economy has really impacted the market for surplus energy. We are a big seller of energy into the market. When our Nebraska customers don't need it, we'll take that energy out of the market, and sell it for a profit out there and use that margin to come back and help offset our costs to serving our Nebraska customers. Because of the economy and natural gas prices going down, that wholesale energy market price collapsed from what they were here in the last couple years. We're selling to date for about half the price what we were selling a year ago. And since we are sellers into the market, our margins and profits on those have gone down significantly. And those are profits or margins that we use to offset our costs that we have to recover from our Nebraska customers. So all of those things are putting upward pressure on and then with all the potential for these environmental regulations related to CO2 and other things we're dealing with, we don't see any abatement in the near future with upward pressures on electric rates, and we would expect that that's going to continue for several years. And we've met with Lowell and our other wholesale customers. We're looking for another increase next year. We haven't finalized that number. We hope to do that in the next couple months. But that's just the nature of our business, and we're not the only utility in that situation. There are many others that are faced with similar type things.

Maybe some good news, after all that, our nuclear plant is performing very well. Some of you may recall here about five years ago, we were very close to shutting our nuclear plant down because our operations down there weren't meeting the nuclear regulatory commission's requirements. I like to describe it as we had one foot in the grave and the other foot on the banana peel. I think we were that close. We brought in some outside entity to help us manage that plant, and our performance has improved dramatically. We hope within the next couple of months or in the third quarter of this year, the NRC, we're expecting we'll be in the top rated category of the NRC. They evaluate all 104 nuclear plants in the country and its going to be a very good feeling for all of us NPPD and particularly the people down at Cooper to achieve that. We've been working and they've been working very hard for the last several years to achieve that and get that plant back in operating status so that we feel that we can operate at and maintain that.

So, there are lots of things going on. I'd be happy to answer any questions that you might have. The electric utility industry is, we're in very interesting times. We are at the heart of the national energy policy discussions, primarily as it pertains to climate change legislation. And since we're such a heavy fossil fuel burner, that really has our attention. Our goal is still to provide electric service as low a cost as we possibly can and maintain high levels of reliability. I know that's what all of our customers expect. And again, we appreciate the cooperation from Lowell and his staff and our relationship with the community of Wayne over the years. We need to work together through all of these issues and still collectively provide the type of service that your customers here in Wayne expect, as well as the other customers that we serve throughout the state of Nebraska expect. I'd be happy to entertain any questions that you may have.

**Mayor Shelton:** I'm not seeing anybody else, so I will. You've been doing quite a bit as a company with encouraging conservation. Is that going to continue? Do you see more efforts in that regard?

**Mr. Asche:** That will continue, particularly if there's going to be climate change legislation enacted, then you're not going to be able to rely upon fossil fuels as much. You know, your alternatives then become nuclear power, renewable energy and energy efficiency through conservation. So, we think that we need continue those efforts at this time. It takes lots of years to change customer's usage behaviors and patterns, so we're starting now, and it takes 15 or 20 years to really get the penetration out there or the buy in from end use customers to conserve and do the things to be more energy efficient and more energy conscious. So I see that as continuing. It's a long process and not something you can just turn on and off with a switch like you can a light switch to change those types of behaviors. So that's going to be continuing. And the question becomes what's the future for the power generation business. Fortunately, the good news for NPPD right now is we have plenty of generation on our system that we aren't looking at adding any more new generation other than wind, probably out until 2020 or 2025 time period, and that's really good news. There are other utilities that are very short of the capacity to generate. And that will allow us some time to see how the climate change legislation works out and then how we can adapt our generation mix going forward. There's a lot of discussion across the country about a new nuclear renaissance as a result

of this. And quiet frankly, I haven't bought into the new nuclear renaissance yet, in part because new nuclear plants are extremely expensive for a 1000 or 1200 megawatt facility you're looking at $6-7 billion dollars as a minimum. More likely it's going to be $8-10 billion to build one of those, and the time period is so long from the time you decide to build a plant, it takes 2-3 years just to put your application together that you submit to the Nuclear Regulatory Commission, it takes them 2-3 years to review it, so 5-6 years has passed and then you're looking at 4-5 years to build it. So when things go well, 8-10 years is about the earliest that you could get a new plant built and putting that type of money at risk, you know, what if you get close and something happens that you're never able to complete that and operate the plant, you have a huge, huge investment there that's maybe not recoverable. And so most utilities are very reluctant to go down that path unless the Federal Government steps up with some more loan guarantees and other financial incentives to help back the construction. NPPD, we're not looking at doing nuclear right now. We want to wait and see what the rest of the industry does, let some of the bigger boys out there, if you will, go first that have deeper pockets than we do and more financial resources and see how it goes. We can learn from them. Maybe sometime in the future, we may look at a nuclear plant more seriously.

Our renewable energy, for us that would be primarily wind, and again, because of its variable nature and intermittent nature, you can't rely upon that as a reliable power source. It has a role to play in all 12 generation mix, but you'll never replace the base load unit with wind, because the wind just doesn't always blow. It runs out of fuel too often. And energy efficiency and conservation, that's not the entire answer either. It's something you have to do to help reduce the amount of energy that's utilized in this country and minimize the amount of generation that has to be built, but that's not going to solve all the issues either. So most utilities right now are looking at new natural gas plants, it's at least the answer in the interim. With gas prices having come down from highs of about $14 a million BTU here just a year or two ago and now down to about $3.50 a million BTU, it makes gas really effective, even as a base load resource, you can do that. But the real question is what's going to be the long term availability of natural gas, along with the price of that. Are we going to get back to lots of volatility and lots of high prices like it was a couple years ago, or will it stay more stable as to where it's here most recently?

**Administrator Johnson:** I'd like to just make a comment. Gene and Ken Curry have been putting a lot of time in on this smart grid proposal that NPPD is doing. That's looking really good. I've been impressed with your staff and their alertness on it.

**Mr. Asche:** Well, they're very engaged in that. Ken Curry is a real champion for energy efficiency and conservation, and he's leading our group there at NPPD working together with the City of Wayne and other wholesale customers, trying to put some infrastructure in. We're applying for federal grants as part of the stimulus package that would allow us to put some of that backbone infrastructure in, a communications network, database, accumulating all this in the computer systems that's set to handle all this data and be able to communicate with end use customers. You just can't put in all that stuff without having any infrastructure behind it, so that's really what our focus is now - trying to get

that and then get some stimulus money to help us at least kick that off and going forward in the future. That area is going to get a lot more emphasis moving forward across the entire country.

**Councilmember Ley:** So, in general, we're probably never going to be completely free from these fossil fuels. You're just trying to get the emissions down slowly, but never totally, it's not possible.

**Mr. Asche:** Well, the ultimate goal is, there's a goal of getting emissions down to 83% below 2005 levels by the year 2050. At least for NPPD, I don't think we can just burn coal under that type of a regulatory environment. We may still burn natural gas. Natural gas would be the type of resource that you use to help back up your wind generation resources when the wind isn't blowing. You can then operate the natural gas plants, and that's where I see a role with the cost of fuels like natural gas of going forward. The base load coal plants, it's just getting very difficult to get those new plants sited and permitted and the old plants, you know, with those restrictions, are going to have to be shut down if there's no new technology out there for carbon capture of storage or clean coal technology. That's really what the industry has been advocating is for the federal government to put more dollars into research and development. This country has a very abundant supply of coal, hundreds of year's worth of coal supply, and we think it's worth investing in our need to find a way that we can deal with some of the environmental issues associated with using coal because we do have that as an abundant fuel resource. A lot, I think, is going to be dependent on the technology developed as to whether you can continue to use or coal or not.

**Councilmember Sturm:** Okay, I got a quick couple of questions. You were talking earlier about the wind power that you were buying. Now, are you guys involved in helping the different areas build that wind power? You say, cause you're buying 100% and then what you don't use, you turn around and sell. I'm sure you're selling it for a higher price than what you're…

**Mr. Asche:** What we're selling to the other public power entities in the state is at cost – what we are buying it from the private developers, we're selling it at that same cost. Now, we have some development costs that we have in putting all of these deals together, we'll add that on, but there's not a profit margin in there, if you will.

**Councilmember Sturm:** And then, this smart grid that you just talked about. Was that what we talked about before when using power during the off season or during the off time like 10:00 or 8:00 at night until some time in the morning? I'm going to need somebody to explain that a little more to me cause there are going to be businesses that are going to have to be using that power during the day when it's going to be fairly high, and I don't see how that won't then have to turn around and drive those peoples' product or prices up because they're going to – you know, it seems like we're saving over here, but then we're going to double things that we need

**Mr. Asche:** Businesses will be required, under those types of scenarios - that it would in their best interest to become as energy efficient as possible. New lighting, highly efficient lighting systems, highly efficient pumps and motors, highly efficient air compressor systems, highly efficient refrigeration systems. All of those things that small businesses or small commercial type customers will probably want to do to try and get their usage down during their normal operating hours which will typically be daytime hours. And there's some opportunity there, I think, for some processes to be shifted to nighttime that businesses can do. Residential customers, you know, there's things that - more efficient heating and air conditioning systems, making sure those things are tuned up. More insulation in your homes, shifting some usage from daytime hours to nighttime, you know, doing laundry, washing dishes, taking your showers at 1:00 in the morning. But, there's lots of things that, you know, we can all probably do, and I'm guilty as many are, you know when I leave a room, I don't turn off the lights. I got my tv's plugged in, and even though the tv is off, it's still drawing power yet to keep hot or whatever they do. So, there's lots of things that we can probably do. There's a lot of things in each of our homes, computers, for example, even if you're not operating them or using your computer and have them plugged in, it's still utilizing electricity. There's lots of things that I think is really difficult to change people's behavior and patterns. It has become something new for all of us. It's probably more easy for our children and grandchildren than for some of us that are older.

**Mayor Shelton:** Is that it Council?

**Councilmember Sturm:** For now.

**Mayor Shelton:** Well, it's now or

**Mr. Asche:** I certainly can come up -- I'd be happy to come up some time Doug and have our energy efficiency people come up if you have more questions on, you know, the smart grid and what that might look like in the future. We would be happy to have some people come up and visit with you.

**Mayor Shelton:** Well, I would love to have more of a conversation on nuclear too, but, we're not going to bore everybody with it. Okay. Thank you.

**Mr. Asche:** Again, Mayor and members of the Council, I appreciate the opportunity to be here again this evening. I always enjoy talking about the business that I'm in and have been in for 33 plus years. This is an exciting and interesting time. It's very challenging to say the least, and I enjoy working together with our wholesale customers like the City of Wayne, Lowell Johnson, and Gene Hansen and the rest of the staff and trying to work through these tough issues, and they are tough issues. We appreciate and understand the need to try and keep our costs and rates as low as possible and our service reliability as high as possible. Again, thank you for the opportunity to be here this evening.

**Mayor Shelton:** Thank you for coming.