



MINUTES OF DISTRICT ENERGY CORPORATION

Minutes of the meeting of the District Energy Corporation (DEC), April 19, 2022, held at the Lincoln Electric System Operations Center, 9445 Rokeby Road, Lincoln, Nebraska. Notice of the meeting was published in the Journal Star on April 12, 2022.

Board Members Present: Deb Schorr, Tammy Ward, Layne Sup, Sean Flowerday

Board Members Absent: Miki Esposito

Others Present: David Levy, Emily Koenig, Jason Fortik, Dan Dixon, Tom Davlin, Larry Balm, Julie Ryan, Brian Chaffin, Nick Menefee

Chair Deb Schorr called the meeting to order at approximately 12:00 noon. She noted that DEC conducts its meetings in compliance with the Nebraska Open Meetings Act and noted that a copy of the act is located near the entrance of the Board room. **Call to Order**

Jason Fortik, LES Vice President of Power Supply and DEC Administrator, presented the Safety Briefing. **Safety Briefing**

Chair Schorr asked for approval of the January 18, 2022, meeting minutes. Layne Sup made the motion for approval. Ward seconded the motion. The vote to approve the minutes was: **Approval of January 18, 2022, Minutes**

Aye: Schorr, Ward, Sup

Nay: None

Absent: Esposito

Abstain: Flowerday

Dan Dixon, LES Supervisor of Inter-Local Projects, and DEC Project Manager, requested the Board to review the fuels and operations report in the Board Packet and to contact him with any questions. Dixon presented to the Board the capital projects update. Dixon started by explaining that the County/City cooling tower project is not necessary because it was recently determined the objective of providing cooling during intermittent shoulder periods could be met by the thermal energy storage/ice capacity expansion (ICE) project. This is because the new thermal storage tanks can have ice in them all winter, as opposed to the existing tanks that need to be drained beforehand. He went on to explain that the State Boiler Plant's deaerator upgrade and roof upgrade projects, and the central Cyber Security system project were currently under budget and on schedule. **Management Report**

Dixon then moved on to the County/City ICE project. He reminded the board that the catalyst for this project was the expanded use of the 605 building but pointed out that the plant ran out of ice on two separate occasions last summer. Dixon went on to explain that only two installation bids were received, and they were much higher than expected. Factors that contributed in the high bids were related to inflated market pricing on materials being experienced locally and nationwide, a tight labor market, and supply chain issues. If DEC waits on this project, there is no guarantee that market conditions would improve, and DEC would risk losing significant electric demand expense savings. Funds for the project from 2021 that were not used can be carried over to the 2022 budget year. Since the cooling tower project is no longer necessary because of the ICE project, its \$102,000 in funds are shifting to the budget for the ICE Project. In addition, to compensate for the extraordinarily high bids that were received, the budget will need to be amended by \$745,000 to bring the total ICE project budget to \$1.5M. Flowerday asked if the recommendation was for the high or low bid. Dixon said the low bid is recommended. The low bidder is the same contractor that did the C/C boiler project a few years ago that came in \$800k under budget. Schorr asked for clarification that they were amending the budget for an addition \$750K for a total of \$1.4M and Dixon stated the amendment to the budget would be for \$745K for a total project of \$1.5 M.

Sup made a motion to approved Resolution 22-01 to authorize an increase in funding the County/City Plant Thermal Storage Expansion. Flowerday seconded the motion.

Resolution 22-01

Aye: Schorr, Ward, Sup, Flowerday
Nay: None
Absent: Esposito
Abstain: None

Dixon discussed the need for DEC to have the area expanded to the south of the County/City plant to put the ice tanks. To the east there would be four parking stalls lost. Schorr asked if those parking stalls were used for maintenance purposes. Dixon said County/City employees use them. On the west end of the lot, where the ice tanks will be located, there are three or four parking stalls that will also be lost. Ward asked how many parking stalls would be lost and Dixon state seven to eight. DEC has a resolution to amend the current lease. David Levy said this amendment is drafted, but it has not yet been sent to City or the County and that what will be voting on here, is authorizing the

Chair to execute a lease that is substantially the same as what is in the packet. If there are any major changes, it would be brought back to the Board. Schorr mentioned that the County and City attorneys' offices may have some minor changes.

Flowerday made a motion to approve Resolution 22-02 to authorize the DEC Chair to execute a Lease Agreement with the County of Lancaster, NE and the City of Lincoln, NE for a site to install ice storage tanks. Ward seconded the motion.

Resolution 22-02

Aye: Schorr, Ward, Sup, Flowerday
Nay: None
Absent: Esposito
Abstain: None

Dixon gave an update on the feasibility study for providing heating service to the new Central Library Project from the State Boiler Plant (SBP). Though the project has been put on hold, DEC has continued to evaluate possible new customers in the immediate vicinity of the proposed location for the central library. DEC has conducted a feasibility study of these projects and will be reaching out to these entities to discuss the next steps. It was noted that on Monday, April 18, a Memorandum of Understanding was executed by Michelle Potts, the Director of the State Building Division, and Jason Fortik, stating that in good faith the State is going to work with DEC and is not opposed to the potential of connecting new customers to the State Boiler Plant.

Feasibility Studies Update

Dixon provided an update on the West Haymarket plant valve replacement project. Dixon emphasized that the objective is making sure there are no leaks that would interrupt service. The work to excavate, inspect, and make repairs will go out to bid, as this is not an emergency scenario as it was previously when a leak was discovered. Schorr questioned if we have seen an increase in prices. Dixon said that it is anticipated that prices will be higher than current estimates.

West Haymarket Plant Valve Replacement Project

Emily Koenig, LES Vice President, Financial Services & CFO and DEC CFO, presented the financials through March 2022. Sales were 4% over budget and there was a wide variation on actual versus budget per plant that is not directly related to weather. However, there is minimal impact to revenue because most of DEC's revenue is generated by fixed charges. Revenue was just \$13,000 over budget or 0.4%. Due to variations in sales, energy expense was over budget by about \$44,000 or 7%. O&M expense was greater than budget due primarily to a timing issue where a

Financial Report

- **Current Financial Statement**

\$30,000 expense came in earlier than was budgeted. Additionally, there were some increased costs for the State Plant feasibility study because the project was not known at the time the budget was established last year. Year to date Debt Service Coverage is at 1.20 which is slightly lagging the budget of 1.23, but the yearend forecast anticipates being closer to budget at 1.21 as compared to a year end budget of 1.22.

Koenig explained that for the capital costs the presentation materials assume that Resolution 22-01 was approved for the ICE Project. Capital spending is projected to be about \$1,000,000 over budget primarily due to the ICE Project.

Koenig then covered the audit report for 2021. The audit report was provided to the Board via e-mail early in April. DEC received an unmodified audit opinion from BKD, LLP. Koenig requested a motion for approval of the audit report.

2021 Audit Report

Chair Schorr asked for a motion to accept the 2021 Audit Report. Flowerday made the motion to accept the report. Ward seconded the motion.

Motion

Aye: Schorr, Ward, Sup, Flowerday
Nay: None
Absent: Esposito
Abstain: None

Ms. Koenig gave an update on Tax-Exempt Financing Compliance. Koenig noted that in her review, per the Tax-Exempt Compliance Policy approved by the DEC board, all required compliance activities have been performed and no deficiencies have occurred. An annual update on the status of tax-exempt bond compliance is required by the policy

Tax-Exempt Financing Compliance Update

Ms. Koenig addressed securing insurance for DEC. Most of DEC's insurance policies have a January 1st renewal date. However, one policy, that is a three-year policy, has an upcoming September 1st renewal date. This policy is for environmental liability, and pollution insurance. LES expects that bids for coverage will be received in mid-August. This timing doesn't provide for the 60-day notice of policy renewal information as required in the Management Agreement. DEC's broker indicates that a 10% increase in premiums could be expected. The annual premium for this policy is about \$16,000. There may also be some changes in coverage due to differences in communicable diseases, indoor air quality, and mold. LES plans to proceed with binding coverage

Notification of Insurance Policy Renewal

unless hearing differently from the board. Schorr asked if LES plans to go ahead and contract for this renewal assuming it's approximately 10% higher. Koenig said yes, but that it is still early and that more information will not be known until about 2 weeks before renewal. Under LES' responsibility for securing insurance, LES uses the same broker for LES and DEC. LES recently went through an RFP process for insurance brokers and is transitioning to Alliant. The contract with the current broker expires May 1. Alliant will be working with carriers to get DEC the best coverage possible. Alliant may have some new observations or tools to assist with the renewal process. Koenig will provide additional information regarding the environmental liability and pollution policy renewal in July if there is new information available.

Chair Schorr announced that she did not have a Chair's report.

Chair's Report

Miscellaneous

Mr. Fortik addressed the long-standing philosophy between LES and DEC to try, wherever appropriate, to use LES programs, policies, and procedures to minimize administrative overhead and confusion for staff working on both LES and DEC projects. When the Management Agreement between LES and DEC was renegotiated, portions of LES' purchasing policy terms were included. LES recently revised its policy to increase the dollar amount thresholds for formal and informal bidding processes. Since these thresholds are codified into the Management Agreement, LES is proposing to modify the Management Agreement to match LES' revised policy thresholds. Resolution 22-03 would authorize that action. Schorr and Flowerday both said the County had made similar changes about two years ago. Fortik recalled that during negotiations for the Management Agreement, it was proposed to simply reference the LES policy, but General Counsel at the time preferred that the limits be codified into the Agreement.

Amendment to the Management Agreement

Chair Schorr asked for a motion for Resolution 22-03 to amend the Management Agreement with new purchasing Limits. Sup made the motion to accept the amendment. Flowerday seconded the motion.

Resolution 22-03

Aye: Schorr, Ward, Sup, Flowerday
Nay: None
Absent: Esposito
Abstain: None

Mr. Fortik led the discussion regarding the Board's preferences on a legislative strategy as bills are introduced during the Nebraska legislative sessions. LES monitors bill introductions for potential impacts to the electric utility industry, but also takes note of bills that may impact the DEC. David Levy also noted that his firm monitors bill introductions for any potential impacts to its clients. These reviews prompted the desire to seek the DEC Board's input regarding how legislative activity should be brought to the Board's attention. Levy opined that he does not recommend DEC become a legislative activist, but it should have a strategy to monitor legislative activity. After some discussion about the fact that the City and the County will also have representatives monitoring the legislative process, it was decided that it would be appropriate to delay the typical January DEC Board meeting dates by one week. This would provide enough time for the bill introduction period to end and allow staff to assemble a summary of any bills that might be impactful to the DEC to be shared at the January Board meeting.

Legislative Strategy

Mr. Levy brought up the discussion about DEC's Energy Service Agreement plant ownership provisions. The current State Plant customer expansion opportunity is an example of the type of issue that can arise if DEC looks to expand to serve other facilities and the Energy Services Agreement contains the plant ownership provisions. When the DEC was established, federal guidelines allowed it to issue tax-exempt debt as long as the customer had the option to take ownership of the plant once the debt was retired. Fortik said the history of the ownership provision dates back to the energy services agreement for the County City Plant and the provision was carried forward in energy service agreements for other plants. The master planning process conducted a few years ago identified this provision as a potential issue for the DEC if it committed to serve new customers from a DEC plant, but the original customer wanted to take ownership of the plant. This scenario could potentially leave the DEC with customer service commitments, but no rights to a thermal plant to use to serve the new customers. Levy proposed that any future energy service agreements would not contain the plant ownership provision and sought input on this proposal from the Board. Fortik also offered that the DEC is not proposing to renegotiate the existing energy service agreements to remove this provision, but that as potential new customer opportunities arise for existing plants, it may be necessary to seek the Board's input and revise the energy service agreement provisions. After open discussion, the Board generally

Energy Services Agreement Ownership Provision

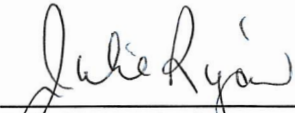
agreed to these concepts moving forward and asked that the Board be updated as these types of opportunities arise.

Mr. Fortik reminded the Board about the IDEA conference coming up in June. For those of you traveling, a packet was created for you about DEC's travel policies, contact information, and hotel reimbursement information. You received emails about your COVID requirements, vaccination cards, and anything else you may need to make your travel as smooth and seamless as possible. If you want help with your airfare and finalizing the travel, LES staff will be happy to help you. **IDEA2022 Conference**

Schorr reviewed the upcoming meeting dates - July 19, October 18, and January 24, 2023, based on previous discussion. Fortik may have a conflict with the July 19 meeting.

There being no further business to come before the Board, President Schorr declared the meeting adjourned at 1:11 p.m. **Adjournment**

Deb Schorr, Board Chair

By: 
Julie Ryan, Assistant Secretary