Final Report

2007 COMPREHENSIVE ENGINEERING REPORT

LAFAYETTE CONSOLIDATED GOVERNMENT, LOUISIANA
LAFAYETTE UTILITIES SYSTEM

Year Ended October 31, 2007

April 29, 2008

R·W·BECK

April 30, 2008

Mr. Terry Huval
Director of Utilities
Lafayette Utilities System
1314 Walker Road
Lafayette, LA 70502

Subject: **2007 Comprehensive Engineering Report - FINAL**

Dear Terry:

Enclosed please find 15 copies of R. W. Beck's final 2007 Comprehensive Engineering Report. This Report is based on field reviews and interviews conducted during the week of February 25, 2008.

It was a pleasure working with you and your staff on this project. If you have any questions, please feel free to contact me directly at (303) 299-5327.

Sincerely,

R. W. BECK, INC.

Jill Sangster

Jill A. Sangster
Project Manager

JAS/jh

Enclosure

cc. Kerney Simoneaux, LCG

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LAFAYETTE UTILITIES SYSTEM
2007 COMPREHENSIVE ENGINEERING REPORT

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EXECUTIVE SUMMARY

R·W·BECK

Section 1
EXECUTIVE SUMMARY

The City of Lafayette (the City) operates with Lafayette Parish Government (the Parish) as a consolidated government known as the Lafayette City-Parish Consolidated Government (referred to as Lafayette Consolidated Government or LCG). The Lafayette City-Parish Council (the Council) and Lafayette Public Utilities Authority (LPUA) are the governing authorities of the Lafayette Utilities System (LUS). The City issued the Utilities Revenue Bonds, Series 2004 and the Communications System Revenue Bonds, Series 2007. As required by the bond ordinances in each of these official statements, this 2007 Comprehensive Engineering Report (Report) has been prepared in accordance with the requirements of the General Bond Ordinance dated June 29, 2004 (the 2004 Bond Ordinance), General Bond Ordinance dated June 12, 2007 (the 2007 Bond Ordinance) (collectively the Bond Ordinances) and in accordance with subsequent pari passu indebtedness. Pari passu refers to the requirement that the covenants on these bonds are identical to all other revenue bonds issued by the City. This Report covers the fiscal year 2007 (November 1, 2006 to October 31, 2007) period. Unless otherwise stated, financial data and operational data were reported on a fiscal year basis. The bond covenants and recommendations are addressed below.

Utilities Revenue Bond, Series 2004 Bond Covenants

Article VII of the 2004 Bond Ordinance puts forward a number of covenants for LUS. The following discussion addresses compliance with each such covenant.

Section 7.1 Operations Covenant

Verbal and written reports provided by LUS staff indicate that during fiscal year 2007, the Utilities System had been operated in a business-like manner, was adequately maintained, and maintained the necessary staff to properly operate and protect the system.

Section 7.2 Maintenance of Utilities System: Disposition

Verbal and written reports provided by LUS staff indicate that the Utilities System had been maintained in good condition and operated in an efficient and economical manner during fiscal year 2007.

Section 7.3 No Competitive Facilities

Section 7.3 of the 2004 Bond Ordinance states that the government should not voluntarily grant a franchise to any entity or construct or operate any competing facility providing the same services as provided by the Utilities System. No such franchise was granted during the current reporting period and no such franchise now exists.

A joint pole attachment agreement with the Bell South Telephone Company (BSTC) specifies that LCG will pay to BSTC a rate of $8.00 per pole per year for use of BSTC poles; BSTC will pay LCG $6.00 per pole per year for the use of LUS' poles. The rate difference is based on use per pole. LCG also has an agreement with Cox Communications (Cox) for pole rental of LCG's poles to Cox at $7.00 per pole per year.

Section 7.4 Obligation to Connect Sewerage Users

Verbal and written reports provided by LCG and LUS staff indicate that LUS has met the requirements of this covenant. LUS has initiated a pretreatment, user permit, and fee program for the purpose of issuing wastewater discharge permits and pretreatment standards to industrial, commercial and non residential customers who discharge wastewater to the wastewater collection system. LUS performs this service as a benefit to its customers, as its treatment program is more cost effective than treatment facilities and programs that individual customers would need to develop and implement. LUS has established a rate for industrial users to recover a portion of program costs. The remaining costs are recovered through wastewater and electric system revenues.

Section 7.5 No Free Service

Verbal and written reports provided by LCG and LUS staff indicate that no free service had been supplied by the Utilities System during fiscal year 2007.

Section 7.6 Operating Budget

Written reports provided by LCG show that an operating budget for fiscal year 2007 was adopted September 28, 2006.

Section 7.7 Rate Covenant

The 2004 Bond Ordinance contains a rate covenant in Section 7.7 stating that LUS will charge and collect rates and fees for the use of services. The rates should produce sufficient revenues to fund the costs of operations and maintenance (O&M), Bond Reserve Requirement, Subordinated Indebtedness and Subordinated Contract Obligations, and the Reserve Fund.

The revenues and other receipts of LUS considered revenues for this purpose were sufficient for the 12 months ended October 31, 2007 to pay the costs of operating and

maintaining LUS, and to pay the required principal and interest of all outstanding revenue bonds. Accordingly, LUS has complied with all elements of the above-rate covenant of the 2004 Bond Ordinance for this reporting period and all previous reporting periods.

Section 7.8 Books and Records

The Consulting Engineer is of the opinion that the basic accounting principles and requirements with respect to the Utilities System, as contained under the respective bond resolution, have been complied with by the City for the period ended October 31, 2007.

Section 7.9 Reports and Annual Audits

Section 7.9 of the 2004 Bond Ordinance requires an annual audit of the Utilities System by a qualified independent Certified Public Accountant. Accordingly, the firm of Broussard, Poché, Lewis & Breaux, Certified Public Accountants of Lafayette, Louisiana, was chosen by LCG to audit the books of accounts and records of the Utilities System for the Sinking Fund Year ended October 31, 2007. The Certified Public Accountant's audit of the books of accounts and records of the Utilities System is filed by LCG with the Depository, the Consulting Engineer and the original purchasers of the bonds.

Section 7.10 Insurance and Condemnation Awards

Verbal reports provided by LCG staff indicate that LUS maintained insurance from five external sources and self insurance during fiscal year 2007.

The amount of insurance appears to be adequate for LUS. The allocation of total LUS insurance expense to LUS and verification that such insurance is adequate for the communications network is on-going.

Section 7.11 Enforcement of Collections

Verbal and written reports provided by LCG and LUS staff indicate that the collection of fees associated with the use of the Utilities System has been diligently enforced during fiscal year 2007.

Section 7.12 Additions to Utilities System

LCG issued the Communications System Bonds, Series 2007. As required in the ordinance, LCG consulted with the Bond Attorney and obtained a written report from a Qualified Independent Consultant.

Summary

Based on R. W. Beck's review of the bond covenants and verbal and written reports provided by LCG and LUS staff, no events of material default have been identified.

Communications System Revenue Bond, Series 2007 Bond Covenants

Article VIII of the Communications System Bond Ordinance puts forward a number of covenants for LUS Fiber. The following discussion addresses compliance with each such covenant.

Section 8.1 Operations Covenant

Verbal and written reports provided by LUS Fiber staff indicate that during fiscal year 2007 the network had been operated in a business-like manner, was adequately maintained, and the necessary staff are being hired to properly operate and protect the system. Staff additions are on-going and LUS Fiber expects to hire approximately 40 full time employees during 2008.

Section 8.2 Maintenance of Communications Systems

Verbal and written reports provided by LUS Fiber staff indicate that the network had been maintained in good condition and operated in an efficient and economical manner during fiscal year 2007.

Section 8.3 Operating Budget

Written reports provided by LCG and LUS Fiber staff indicate that an operating budget for the 2008 fiscal year was developed during 2007 and approved in September 2007.

Section 8.4 Rate Covenant

The 2007 Bond Ordinance contains a rate covenant in Section 8.4 stating that LUS Fiber will charge and collect rates and fees for the use of services. The rates should produce sufficient revenues to fund the costs of O&M, Bond Reserve Requirement, Subordinated Indebtedness and Subordinated Contract Obligations, and the Reserve Fund. This covenant is not applicable for fiscal year 2007 as there were no customers during fiscal year 2007.

Section 8.5 Books and Records

Verbal and written reports provided by LCG and LUS Fiber staff indicate that it has maintained separately identifiable financial books, records accounts, and data

concerning the operation of LUS Fiber. LUS Fiber was also investigating the acquisition of a new accounting software package that could be implemented in 2008.

Section 8.6 Reports and Annual Audits

Section 8.6 of the 2007 Bond Ordinance requires an annual audit of the Utilities System by a qualified independent Certified Public Accountant. Accordingly, the firm of Broussard, Poché, Lewis & Breaux, Certified Public Accountants of Lafayette, Louisiana, was chosen by LCG to audit the books of accounts and records of the Utilities System for the Sinking Fund Year ended October 31, 2007.

Section 8.7 Insurance and Condemnation Awards

Verbal reports provided by LCG staff indicate that LUS maintained insurance from five external sources and self insurance during fiscal year 2007. The amount of insurance appears to be adequate for LUS Fiber. The allocation of total LUS insurance expense to LUS Fiber and verification that such insurance is adequate for the communications network is on-going.

Section 8.8 Enforcement of Collections

Verbal and written reports provided by LCG and LUS Fiber staff indicate that the collection of fees associated with the use of the communications network has been diligently enforced during fiscal year 2007.

Section 8.9 No Free Service

Verbal and written reports provided by LCG and LUS Fiber staff indicate that no free service had been supplied by the communications network during fiscal year 2007.

Summary

Based on R. W. Beck's review of the Communications Bond covenants and verbal and written reports provided by LCG and LUS Fiber staff, no events of material default have been identified.

Recommendations

Definitions

In order to help LUS focus on the different recommendations, R. W. Beck has devised a categorical priority system as follows:

Highest Priority

Recommendations with this priority designation should receive maximum focus from LUS. Lack of adequate attention to these items may contribute to a significantly weakened LUS in the future. It is anticipated that by the next review period, these Highest Priority recommendations should have already been acted upon.

High Priority

Recommendations with the priority designation should receive a high level of focus by LUS. Without adequate attention to these recommendations with the next review period, High Priority recommendations could be elevated to Highest Priority. It is anticipated that solution implementation be completed or a clear strategy or plan be in place by the next review period.

Normal Priority

Recommendations with this priority designation should receive normal focus from LUS. The LUS strategic plan should include these items and LUS should assign adequate resources to implement these recommendations within a reasonable period of time.

Recommendation Summary

A summary of the recommendations from this Report follows.

Section 2 – Introduction

Introduction	Priority	Status
LUS should continue to review necessary security actions to ensure employee security and asset preservation	High	In Progress
LUS should establish a formalized Enterprise Risk Management Program to reduce operational and financial risk exposure	High	In Progress

Section 3 – Organization and Management

Organization and Management	Priority	Status
LUS should update and review its Strategic Plan consistently. LUS should review the measurable goals throughout the year to determine LUS' status with regards to the Strategic Plan	High	In Progress
LUS should continue to investigate appropriate actions to attract and maintain qualified employees, thus reducing the turnover rate.	High	In Progress
LUS should continue its preparation for the succession of key management positions due to potential retirements in these areas in the next 3-5 years.	High	In Progress
LUS should consider performing a full review of employee pay scale and benefits given staffing issues.	High	In Progress

Section 4 – Finance and Accounting

Finance and Accounting	Priority	Status
LUS should conduct a Combined Utilities cost of service study including Electric, Water and Wastewater Utilities. The overhead costs shared by the Utilities System and Communications System should be allocated properly based on accepted accounting standards and industry practice. This analysis is important in that LUS must understand the cost structure associated with the new capital and operating requirements of the Combined Utilities	Highest	No Progress Seen
LUS should continue to actively conduct financial planning, particularly as LUS increases Utilities System debt	Highest	In Progress
LUS should continue to pursue a strategy of increasing water and wastewater rates over the next several years	Highest	In Progress
LUS should continue to explore ways of improving the timeliness of financial reporting, including the implementation of new financial management tools	Highest	In Progress
LUS should increase the water and wastewater systems debt to equity ratio and continue to work towards financing a considerable portion of future capital improvement projects with debt	High	In Progress
LUS should continue to improve the five-year capital budgetary process (cash-needs capital budget). The process should include some form of activity-based analysis and costing. The current CIP should be reviewed and each project checked for correct priority, schedule and estimate	High	No Progress Seen
LUS should modernize and streamline human resource systems in order to accommodate current and future staffing and management needs of the utilities	High	No Progress Seen
LUS should review and evaluate the accuracy of accounting policies related to booking transmission and distribution investment and related O&M expense	Normal	No Progress Seen
LUS should continue its efforts to identify opportunities for wholesale power sales	High	In Progress

Section 5 – Electric Utility

Electric Utility	Priority	Status
LUS should continue its efforts to investigate new power supply additions for the future	High	Complete
LUS should continue the development of a comprehensive operator training program NERC certification	High	In Progress
LUS should provide succession planning to replace retiring staff and provide the necessary transfer of knowledge	High	In Progress
LUS should continue to evaluate T&D staffing levels and compensation plans	High	In Progress
LUS should continue to evaluate power plant staffing levels and compensation plans	High	In Progress
LUS should continue to review and improve the management of the CIP, including the cost and schedule estimate and control processes	High	Investigating
LUS should perform a System Impact Study due to the addition of Rodemacher Unit 3 that reflects current operating practices.	High	Investigating

Electric Utility	Priority	Status
LUS should continue T&D personnel training and develop training for substation relay testing	Normal	In Progress
LUS should continue to install microprocessor relays for new construction and continue the replacement of existing electromechanical relays with microprocessor relays	Normal	In Progress
LUS should continue efforts to update and enhance the CityWorks	Normal	In Progress
LUS should continue efforts to update and enhance the GIS mapping system and integration with CityWorks	Normal	In Progress
LUS should continue testing generator and other equipment electro-mechanical protective relays at the Doc Bonin Plant through coordination between plant personnel and the LUS T&D section personnel	Normal	In Progress
LUS should continue the implementation and maintenance of a spare parts and inventory control system, with particular emphasis on the spare parts needs of the new generation projects and other major system components	Normal	In Progress
LUS should continue the tree trimming program based on current practices and continue to look at bidding out specific tree trimming projects	Normal	In Progress
LUS should continue its implementation and expansion of the preventative and predictive maintenance programs currently in place	Normal	In Progress
LUS should investigate the use of pole butt wraps on new wood poles especially in hard to access areas	Normal	Investigating
LUS should determine the actual heat rate versus output relationship for each of its generating units. The Doc Bonin Plant reports that the project to install energy metering/upgraded gas yard controls of the incoming gas supply is complete. The metering and controls, which is connected to input signals from unit specific fuel flow and generation signals, will provide the actual heat rate versus output relationships forming the basis for economic dispatch and allow the on-line measurement of individual unit heat rates	Normal	In Progress
In the T&D functions, LUS should continue to review Occupational Safety & Health Administration (OSHA) requirements and/or APPA safety guidelines and pursue ongoing training programs for linemen and foremen	Normal	In Progress
LUS should continue to work to implement both internal and external processes to mitigate the impacts of fuel price volatility, including further development of the relationship with a power marketer and development of internal best practices-based Energy Risk Management Policy and associated procedures to set acceptable risk levels related to power and fuel transactions	Normal	Investigating
LUS should expand the 5-Year Planning Report to include a 10-year planning horizon	Normal	Investigating
LUS should proceed with plans to repaint the externals of the Doc Bonin Plant Units 2-3	Normal	Investigating
LUS should continue to monitor electric deregulation events on the state and national level	Normal	In Progress

Section 6 – Water Utility

Water Utility Recommendations	Priority	Status
LUS should give priority to constructing ground storage and booster pumping systems in low pressure areas of system to improve system pressure	Highest	In Progress
LUS should continue to develop in-house expertise with use of the water system model and acquire a system capable of modeling time of travel and concentration of introduced pollutants	Highest	In Progress
LUS should give high priority to completing removal of the "Galbestos" building siding at the North Water Plant	High	Complete
LUS should integrate the distribution SCADA system within the plant control system	Highest	In-Progress
LUS should implement a backflow prevention program including documentation of backflow preventers and testing requirements	Normal	In-Progress
LUS should initiate a succession planning program for senior water system management staff	Normal	Investigating
LUS should coordinate planning of water improvements with wholesale water customers	High	Investigating
LUS should develop a long-term capital planning process (20-50 years) for improvements to the water system	Normal	Investigating
LUS should implement a certification/recertification training program for Water Plant Operation staff	Normal	Investigating

Section 7 – Wastewater Utility

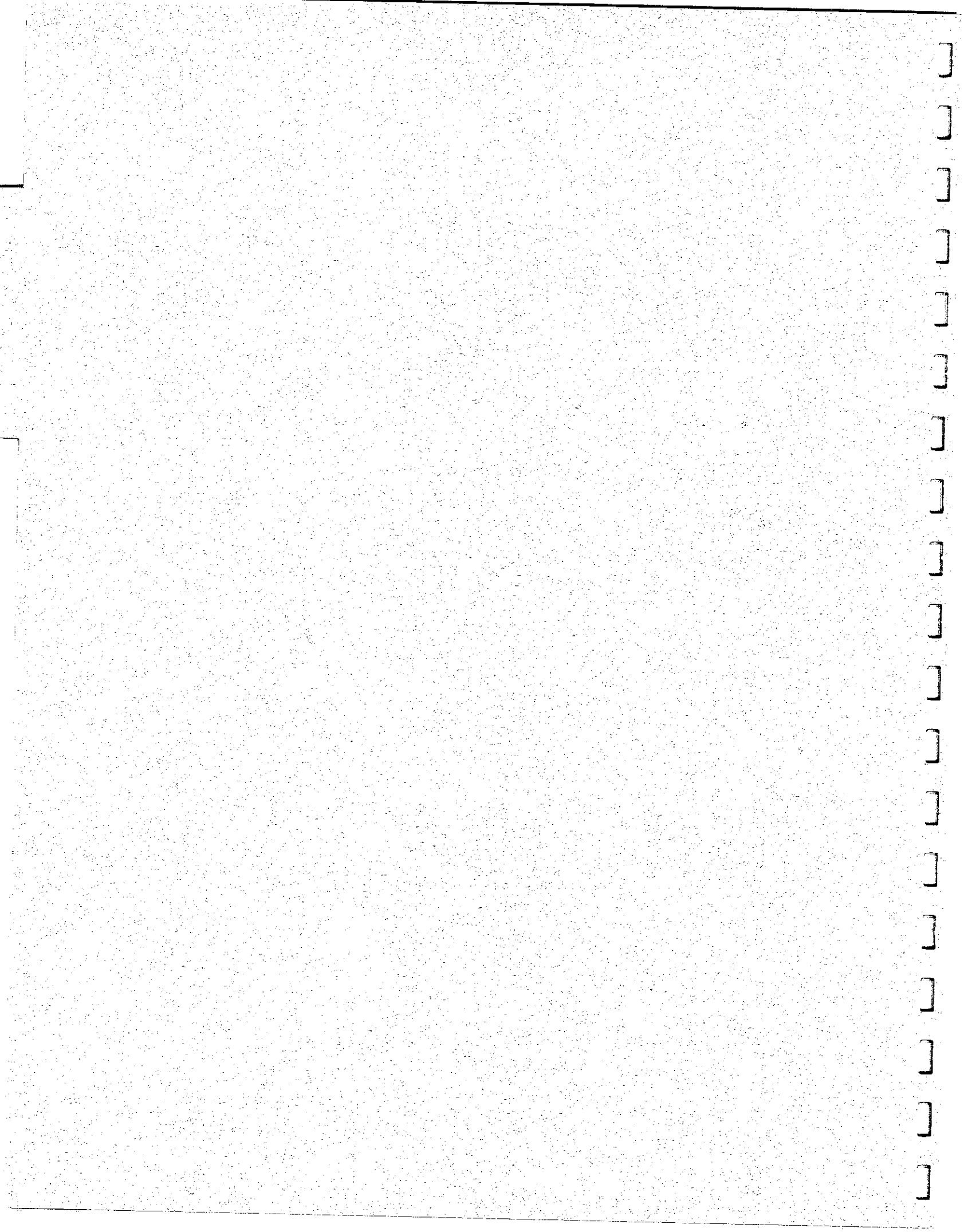
Wastewater Utility	Priority	Status
LUS should continue to develop the wastewater hydraulic model of the system and complete a wastewater master plan	Highest	In Progress
LUS should continue evaluating alternatives for reallocating flows from existing treatment facilities to other treatment facilities	High	In Progress
LUS should complete final strategy for sludge processing (Class A/B) and disposal	High	In Progress
LUS should develop a strategy for reducing the number of lift stations within the wastewater collection system	High	In Progress
LUS should implement a certification and recertification training program for staff	Normal	Investigating
LUS should develop policy/strategy for implementing wastewater service Parish-wide	Normal	In Progress
LUS should develop and implement CMOM program to meet anticipated permit requirements	Normal	In Progress
LUS should evaluate treatment plant processes for future nitrogen and phosphorus effluent discharge limits	Normal	In Progress

Section 8 – Communications System

Telecommunications Issues	Priority	Status
LUS should focus on hiring additional staff to serve the LUS Fiber Utility customers. Each year the Fiber Utility experiences significant growth and requires staff dedicated to serving the Fiber Utility. The dedicated staff would assist in marketing, billing, and other required services	Highest	In Progress (during fiscal year 2007, 10 full time employees (FTE) were transferred from LUS to LUS fiber. During 2008, LUS Fiber expects to hire 42 additional FTE).
LUS should develop incremental and full-embedded cost financial reports and pricing analyses to evaluate the short-term and long-term profitability of the Fiber Utility business and specific service offerings	Highest	In Progress
LUS should continue to evaluate how to market their wholesale and retail services within the telecommunications business in recognition that telecommunications is significantly different from a traditional municipal utility. Telecommunications requires head-to-head competition with other service providers that invest heavily in marketing and promotional development	High	In Progress (LUS Fiber expects to hire additional sales and marketing staff during 2008).
LUS must improve the flexibility and sophistication of its billing function and the interface of such function with the accounting system. Current limitations in the billing system result in a competitive disadvantage, particularly when pursuing other Tier 1 wholesale customers	High	In Progress (after fiscal year 2007, LUS Fiber will prepare an RFP for a new billing system).
LUS should continue reviewing how common costs are allocated to the Fiber Utility. The allocation methodology should consider cost causation	Normal	In Progress (LUS in the process of developing a Cost Allocation Manual)

Section 9 – Environmental Issues

Environmental Issues	Priority	Status
LUS should continue dialog with LDEQ regarding Doc Bonin Plant Unit 3 NO_x emissions compliance and evaluate the proposed compliance strategy, as operations allow, to bring this issue to a conclusion.	High	In Progress
LUS should continue to develop and implement a plan to clean and decommission the No. 6 fuel oil sludge aboveground storage tanks located at the Doc Bonin Plant.	Normal	In Progress
LUS should continue to develop and implement a plan to drain, clean, inspect, decommission and/or reconstruct the No. 2 fuel oil aboveground storage tanks and associated piping located at the Doc Bonin Plant.	Normal	In Progress
LUS should monitor the monetary implications of the RPS2 environmental compliance obligations.	Normal	In Progress
LUS should continue to evaluate and update its environmental plans, including its SPCC plans, Facility Response Plan, Stormwater Pollution Prevention Plan, etc, to ensure that they include the latest changes to the respective regulations and facility infrastructure.	Normal	In Progress
LUS should monitor the development and implementation of the CAIR, regulations to control mercury and/or future MACT standards, and the potential for future green house gas regulations to ensure compliance strategies are implemented for all affected power plants.	Normal	In Progress



Section 2
INTRODUCTION

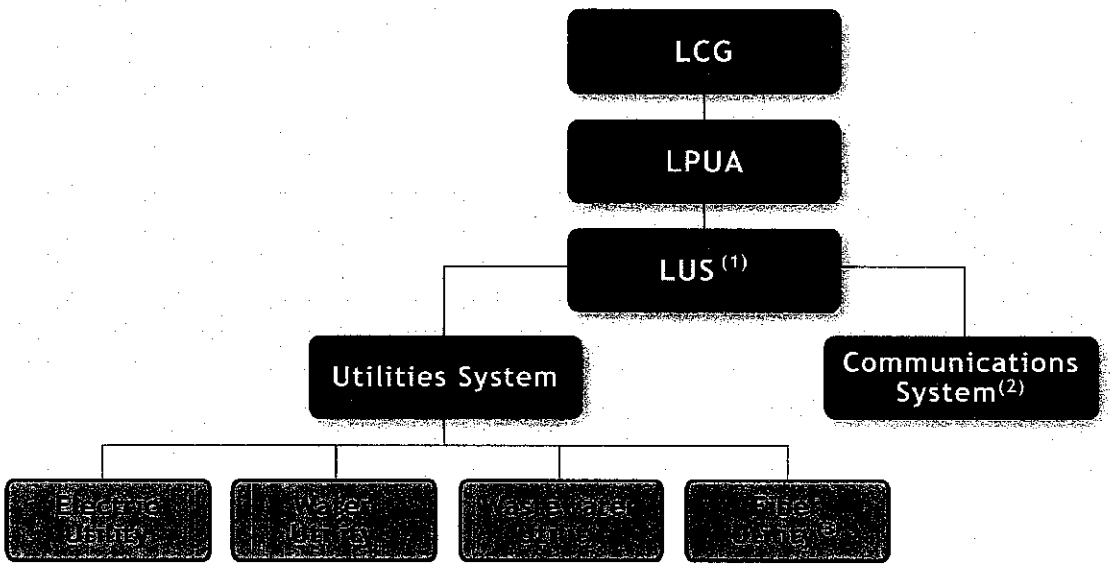
Section 2
INTRODUCTION

Authority

The City of Lafayette operates with Lafayette Parish Government as a consolidated government known as the Lafayette City-Parish Consolidated Government. The Council and LPUA are the governing authorities of LUS. The Council is the governing authority of the Lafayette Public Power Authority (LPPA). The Chief Executive Officer of LPPA is the President of the LCG. The Director of Utilities is also the Managing Director of LPPA.

LPPA was created January 11, 1977 for the purpose of planning, financing, constructing, acquiring, improving, operating, maintaining and managing public power projects or improvements singly or jointly with other public or private corporations, and for the purpose of purchasing and selling wholesale electric power to, or exchanging electric power with, the City and others.

LUS is a department of LCG and consists of the Utilities System and the Communications System. LUS' properties and assets, controlled and operated by the LCG, are designated by existing bond ordinances as the Utilities System and Communications System. The Utilities System is comprised of an electric system (including generation, transmission and distribution facilities), a water system (including supply, treatment, transmission, distribution and storage facilities) and a wastewater system (including wastewater collection and treatment facilities). The Communications System is comprised of a fiber optic loop that runs throughout the City. Currently, the Communications System is under expansion to provide retail telephone, cable television, and internet services to the City. The relationship between these entities is shown below in Figure 2-1.



(1) From an operational perspective the Utilities System and the Communications System both fall under LUS.
(2) From an accounting perspective, the Utilities System and Commutations System are separate.
(3) For fiscal year 2007, the Fiber Utility, providing wholesale fiber services, is under the Utilities System. On November 1, 2007, fiscal year 2008, the wholesale fiber services were transferred to the Communications System.

Figure 2-1 LCG and LUS Structure

Requirements of Report

The City issued the Utilities Revenue Bonds, Series 2004 and the Communications System Revenue Bonds, Series 2007. As required by the bond ordinances in each of these official statements, this Report has been prepared in accordance with the Bond Ordinances. This Report covers the fiscal year 2007 (November 1, 2006 to October 31, 2007) period. Unless otherwise stated, financial data and operational data were reported on a fiscal year basis.

2004 Bond Ordinance

This Report is prepared in accordance with the provisions of Sections 8.1 and 8.2 of the 2004 Bond Ordinance that states in part:

> *"...The Issuer shall retain Consulting Engineer for the purpose of providing the Issuer immediate and continuous counsel and advise regarding the Utilities System...The Consulting Engineer shall prepare within one hundred eighty (180) days after the close of each fiscal year a comprehensive report... upon the operations of the Utilities System during the preceding year, the maintenance of the properties, the efficiency of the management of the property, the proper and adequate keeping of books of account and record, the adherence to budget and budgetary control provisions, the adherence to all the provisions of the Ordinance, and all other things having a bearing upon the efficient and*

profitable operations of the Utilities System, and shall include whatever criticism of any phase of the operation of the Utilities System the Consulting Engineer may deem proper and such recommendation as to changes in operation and the making of repairs, renewals, replacements, extensions, betterments and improvements as the Consulting Engineer may deem proper including recommended changes in organization, pay scales and risk management practices..."

2007 Bond Ordinance

This Report is also prepared in accordance with the provisions of Sections 9.1 and 9.2 of the 2007 Bond Ordinance that states in part:

"...The Issuer shall retain Consulting Engineer for the purpose of providing the Issuer immediate and continuous counsel and advise regarding the Utilities System...The Consulting Engineer shall prepare within one hundred eighty (180) days after the close of each fiscal year a comprehensive report... upon the operations of the Communications System and the Utilities System during the preceding year, the maintenance of the properties, the efficiency of the management of the property, the proper and adequate keeping of books of account and record, the adherence to budget and budgetary control provisions, the adherence to all the provisions of the Ordinance, and all other things having a bearing upon the efficient and profitable operations of the Communications System and the Utilities System, and shall include whatever criticism of any phase of the operation of the Communications System and the Utilities System the Consulting Engineer may deem proper, and such recommendation as to changes in operation and the making of repairs, renewals, replacements, extensions, betterments and improvements as the Consulting Engineer may deem proper including recommended changes in organization, pay scales and risk management practices..."

Report Purpose

In addition to the requirements of the bond covenants described above, this Report has several purposes. These include the following:

- Provide an annual review of the physical operations of the Utilities System and Communications System
- Provide an annual review of financial operation of the Utilities System and Communications System
- Provide a reference document for LUS, which includes historical analysis and data
- Provide recommendations to LUS concerning various aspects of its Utilities System and Communications System

Consulting Engineer

The firm of R. W. Beck, Inc. is presently retained by LCG as its Consulting Engineer (Consulting Engineer or R. W. Beck), and has been so retained since the inception of LUS' revenue bond program.

The duties of the Consulting Engineer, which are specifically defined in the Bond Ordinances, include advising LUS on its appointment of Chief Operating Officer, providing continuous engineering counsel to LCG in connection with the operations of the Utilities System and Communications System, advising on rate revisions, and preparing an annual comprehensive report (specifically, this Report) on the operations of LUS after the close of each fiscal year.

This Report includes our opinions and suggestions on the following issues:

- Operations of LUS
- Maintenance of the properties
- Efficiency of management of the properties
- Proper and adequate keeping of books of account and record
- Adherence to budget and budgetary control provisions
- Adherence to all the provisions of the Bond Ordinances
- Other items having a bearing on efficient and profitable operations

In addition, the Consulting Engineer may make recommendations regarding changes in operations, making of repairs, renewals, replacements, extension, betterments, improvements, organization, pay scales, and risk management practices.

Field interviews were initiated as part of this Report during February 2008. The Consulting Engineer interviewed LUS staff regarding utility operations and performed analyses of operating statistics that are indicative of the general operating condition of LUS' facilities.

R. W. Beck visited and made general field observations of the Utilities System and Communications System, which were visual, above-ground examinations of selected areas which were deemed adequate to comment. Other than as expressly stated herein, the observations and examinations were not in the necessary detail to reveal conditions with respect to safety, the internal physical condition of any facilities, or conformance with agreements, codes, permits, rules, or regulations of any party having jurisdiction with respect to the operation and maintenance of the Utilities System and Communications System.

Revenue Bond Program

Utilities Revenue Bonds have been an important source of capital for additions and improvements to the Utilities System.

Utilities Revenue Bonds, Series 2004

Prior to the issuance of the Utility Revenue Bonds, Series 2004 (the 2004 Bonds), the proceeds from two prior bond issues remained outstanding. Specifically, the prior bond balances included $6,020,000 from the Revenue Refunding Bond Series 1993 (the 1993 Bonds) and $13,520,000 from the Utilities Revenue Bond Series 1996 (the 1996 Bonds). With the issuance of the 2004 Bonds, the City defeased the 1993 Bonds. The Louisiana Department of Environmental Quality (LDEQ), the sole owner of the 1996 Bonds, agreed that the 2004 Bonds issued will be on parity with the 1996 Bonds and will become Outstanding Parity Bonds.

The 2004 Bonds were issued for the purpose of financing the construction of the North and South Generation Projects (subsequently renamed the T. J. Labbé and Hargis-Hébert Electric Generation Station Projects, respectively), Electric Utility Transmission and Distribution Improvements, and Wastewater Utility Capital Improvement Projects. The total amount of the debt issued under the 2004 Bonds was approximately $183,990,000.

Table 2-1 provides an estimate of the consolidated amortization schedule for the outstanding long-term debt for the Utilities System.

Table 2-1
Projected Lafayette Utility Revenue Bonds
Bond Amortization Schedule

Payment Date	Interest Payment ($)	Principal Payment ($)	Total Payment ($)	Bonds Outstanding ($)
2007	9,860,655	860,000	10,720,655	195,005,000
2008	9,835,285	890,000	10,725,285	194,145,000
2009	9,809,030	915,000	10,724,030	193,255,000
2010	9,782,038	940,000	10,722,038	192,340,000
2011	9,754,308	970,000	10,724,308	191,400,000
2012	9,725,693	1,575,000	11,300,693	190,430,000
2013	9,673,140	8,625,000	18,298,140	188,855,000
2014	9,243,903	9,055,000	18,298,903	180,230,000
2015	8,792,780	9,510,000	18,302,780	171,175,000
2016	8,318,575	9,985,000	18,303,575	161,665,000
2017	7,820,123	10,485,000	18,305,123	151,680,000
2018	7,296,225	9,820,000	17,116,225	141,195,000
2019	6,780,675	10,335,000	17,115,675	131,375,000
2020	6,238,088	10,875,000	17,113,088	121,040,000
2021	5,667,150	11,445,000	17,112,150	110,165,000
2022	5,066,288	12,045,000	17,111,288	98,720,000
2023	4,433,925	12,680,000	17,113,925	86,675,000
2024	3,768,225	13,345,000	17,113,225	73,995,000
2025	3,067,613	14,045,000	17,112,613	60,650,000
2026	2,330,250	14,785,000	17,115,250	46,605,000
2027	1,591,000	15,520,000	17,111,000	31,820,000
2028	815,000	16,300,000	17,115,000	16,300,000

Source: 2004 Bonds, Official Statement. Amortization schedule includes 2004 Bonds and 1996 Bonds.

Communications System Revenue Bonds, Series 2007

The Communications System Revenue Bonds, Series 2007 were issued for the purpose of constructing, acquiring, extending and improving the Communications System. In addition to funding capital, the bonds also funded a Reserve Account for payments of capitalized interest through June 1, 2010. Specifically, the bonds were issued to develop a communications system that offers retail telephone, cable television and internet services to the residents of the City. The total amount of the debt issued under the 2007 Bonds was approximately $110,405,000.

Table 2-2 provides an estimate of the consolidated amortization schedule for the outstanding long-term debt for the 2007 Bonds.

Table 2-2
Projected Lafayette Communications System Revenue Bonds
Bond Amortization Schedule

Maturity Date	Principal Payment ($)	Interest Payment ($)	Total Debt Payment ($)	Bonds Outstanding ($)
2007	0	1,877,230	1,877,230	110,405,000
2008	0	5,494,331	5,494,331	110,405,000
2009	0	5,494,331	5,494,331	110,405,000
2010	0	5,494,331	5,494,331	110,405,000
2011	3,190,000	5,494,331	8,684,331	107,215,000
2012	3,320,000	5,366,731	8,686,731	103,895,000
2013	3,450,000	5,233,931	8,683,931	100,445,000
2014	3,590,000	5,095,931	8,685,931	96,855,000
2015	3,755,000	4,927,238	8,682,238	93,100,000
2016	3,940,000	4,743,950	8,683,950	89,160,000
2017	4,125,000	4,561,169	8,686,169	85,035,000
2018	4,320,000	4,362,831	8,682,831	80,715,000
2019	4,535,000	4,146,831	8,681,831	76,180,000
2020	4,765,000	3,920,081	8,685,081	71,415,000
2021	5,015,000	3,669,919	8,684,919	66,400,000
2022	5,275,000	3,406,631	8,681,631	61,125,000
2023	5,515,000	3,169,256	8,684,256	55,610,000
2024	5,805,000	2,879,719	8,684,719	49,805,000
2025	6,075,000	2,611,238	8,686,238	43,730,000
2026	6,390,000	2,292,300	8,682,300	37,340,000
2027	6,725,000	1,956,825	8,681,825	30,615,000
2028	7,075,000	1,607,288	8,682,288	23,540,000
2029	7,450,000	1,235,850	8,685,850	16,090,000
2030	7,840,000	844,725	8,684,725	8,250,000
2031	8,250,000	433,125	8,683,125	0
	110,405,000	90,320,124	200,725,124	

Source: 2007 Bonds, Official Statement.

History of Revenue Bond Program

Bond authorization programs and associated expenditures of bond proceeds follow a predetermined plan of facility additions and improvements based upon an engineering planning and feasibility study. A summary of the issuance of authorized and issued revenue bonds as of October 31, 2007 is provided in Table 2-3 below.

Table 2-3
Utilities System Bonds Summary

Date Issued	Authorized Amount ($)	Application of Proceeds
1949 – 1958	18,000,000	Steam-electric generating plant and improvements and extensions to the electric, water and wastewater systems
1962 –1965	12,500,000	Improvements and extensions to the electric, water and wastewater systems
1966 – 1969	19,800,000	Addition to electric generation, water and wastewater treatment capacity, and extensions and improvements
1973 – 1976	39,000,000	Addition to electric generation capacity and extensions, additions and improvements to the electric, water and wastewater systems
1978 – 1981	26,000,000	Additions to the electric transmission system and extensions and improvements to the electric, water distribution and wastewater collection systems
1983 – 1996	40,400,000	Additions, extensions and improvements to the electric, water and wastewater system and acquisition of electric distribution customers
2004	190,000,000	Addition to electric generation capacity and extensions, and wastewater improvements
2007	110,405,000	Creation of the Communications System to provide retail telephone, cable television and internet service to the residents of the City

Source: Official Statements.

This section provides a summary of the recommendations as they are presented at the end of each section within the Report.

Security Issues

Following the terrorist attacks of September 11, 2001, increased emphasis has been placed on addressing security measures for the infrastructure systems and facilities in the United States. Terrorist activities aimed at the Utilities System could impact the operation of the Utilities System and interfere with the ability of LUS to provide service and generate revenues. Additionally, terrorist activities have the potential to affect organizations other than LUS, the continued performance of which is critical to

continued operation of the Utilities System. These other organizations may be located either upstream or downstream of LUS.

On June 12, 2002, President Bush signed the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (Bioterrorism Act) into Law (PL 107-188). The Bioterrorism Act amends the Safe Drinking Water Act by adding Section 1433. Section 1433(a) requires that certain community water systems conduct Vulnerability Assessments, certify to the United States Environmental Protection Agency (USEPA) that the Vulnerability Assessments were conducted, and submit a copy of the Vulnerability Assessments to the USEPA. Section 1433(b) requires that certain community water systems prepare or revise Emergency Response Plans and certify to the USEPA that an Emergency Response Plan has been completed.

LUS is subject to the Bioterrorism Act. LUS attained full compliance with the Bioterrorism Act early in 2003. LUS is using the results of its Vulnerability Assessment to plan for and implement improvements to its water system to enhance security.

According to LUS representatives, Sheriff Department personnel are stationed at the Bonin Power Plant, and the North and South Water Treatment Plants, seven days a week, 24 hours per day, to provide additional security at each facility. LUS has installed additional security equipment and established operating procedures to further enhance security at its water treatment facilities. Although the Hargis-Hébert and T. J. Labbé Plants are not staffed with security personnel, the plants are staffed by a plant operator when the plants are running. The Hargis-Hébert and T. J. Labbé Plants are fully gated and have surveillance cameras for added security. LUS staff has been trained in emergency planning and reaction that is integrated with ongoing programs for hurricane emergency response.

Evaluation by the Consulting Engineer of the security of LUS, as well as other entities with which the LUS has business or operational relations, relative to security issues, is beyond the scope of this Report. We have not been engaged to conduct, and have not conducted, any independent evaluations or on-site review in any way to ascertain the effectiveness of the measures LUS has undertaken to address security issues for its Utilities System. In the event that currently unknown shortcomings in security should arise which lead to significant operational problems, such problems could have an adverse impact on LUS. We recommend that LUS conduct all necessary security studies to ensure employee security and asset preservation.

Financial and Statistical Data Relative to the City of Lafayette and the Parish of Lafayette, State of Louisiana

Location and Area of the City

The City is located on the Vermilion River, approximately 30 miles from the Gulf of Mexico. The City is the Parish seat, which was created on January 17, 1823, and covers a total area of approximately 277 square miles. The area of the City is approximately 50 square miles.

Table 2-4
City of Lafayette Population

Year	Population
1940	19,210
1950	33,541
1960	40,400
1970	68,908
1980	81,961
1990	94,440
2000	110,257
2006	119,485

Source: U.S. Census
Source: Louisiana Tech University

The trend in the assessed valuation of the City appears in the following table.

Table 2-5
Assessed Value of Taxable Property

Fiscal Year	Assessed Value ($1,000)	Fiscal Year	Assessed Value ($1,000)
1995	370,153	2002	673,318
1996	388,979	2003	692,626
1997	471,750	2004	716,544
1998	503,704	2005	785,937
1999	542,680	2006	826,075
2000	552,896	2007	864,797
2001	584,023	2008	905,005

Sources: City of Lafayette Comprehensive Annual Financial Report and Lafayette Parish Assessor.

A breakdown of the City's 2007 assessed valuation by classification of property follows:

Table 2-6
Property Assessed Valuation

Classification of Property	2007 Assessed Valuation ($)
Real Estate	619,641,963
Personal Property	261,375,280
Public Service Property	23,987,750
Total	905,004,993

Source: Lafayette Parish Assessor's Office

Millage Rates

The recent trend in the ad valorem tax rates levied within the boundaries of the City as follows:

Table 2-7
Millage Rates

	2002	2003	2004	2005	2006	2007
Parish wide Taxes:						
Schools	4.59	4.59	4.59	4.59	4.59	4.59
School District No. 1	0.80	0.76	0.72	0.69	0.52	0.19
Special	7.27	7.27	7.27	7.27	7.27	7.27
Special School Improvements	5.00	5.00	5.00	5.00	5.00	5.00
School 1985 Operation	16.70	16.70	16.70	16.70	16.70	16.70
Courthouse & Hail Maintenance	2.25	2.25	2.25	2.25	2.25	2.25
Library(1987-1996) (1997-2006)	2.80	2.80	2.80	2.80	2.80	2.91
Library(1979-1998) (1999-2008)	1.55	1.55	1.55	1.55	1.55	1.55
Library (2003-2013)	0.00	1.63	1.64	2.00	2.00	2.00
Health Unit Maintenance	1.00	1.00	0.99	0.99	0.99	0.99
Juvenile Detention Maintenance	1.13	1.13	1.13	1.13	1.13	1.13
Lafayette Economic Development Authority	1.92	1.92	1.79	1.92	1.92	1.92
Assessment District	1.56	1.56	1.56	1.56	1.56	1.56
Law Enforcement	16.79	16.79	16.79	16.79	16.79	16.79
Airport Maintenance	1.41	1.71	1.71	1.71	1.71	1.71
Minimum Security Maintenance	1.98	1.98	1.98	1.98	1.98	1.98
Bridges and Maintenance	4.01	4.01	4.01	4.01	4.01	4.17
Lafayette Parish Bayou Vermillion - Bond & Interest	0.45	0.45	0.20	0.20	0.20	0.20

	2002	2003	2004	2005	2006	2007
Maintenance	0.75	0.75	0.75	0.75	0.75	0.75
Drainage Maintenance	2.74	3.34	3.34	3.34	3.34	3.34
Public Improvement Bonds	3.10	2.50	2.50	2.90	3.50	3.50
Teche-Vermillion Water District	1.00	1.00	1.00	1.00	1.00	1.48
Mosquito Abatement & Control	1.50	1.50	1.50	1.50	1.50	1.50
Other Parish and Municipal Taxes:						
Parish Tax (Inside Municipalities)	1.52	1.52	1.52	1.52	1.52	1.52
Parish Tax (Outside Municipalities)	3.05	3.05	3.05	3.05	3.05	3.05
Lafayette Centre Development District	10.36	10.36	10.15	10.91	10.91	10.91
City of Lafayette	12.81	17.81	17.81	17.81	17.81	17.81

Sources: Lafayette Parish Assessor and Lafayette Consolidated Government

Leading Taxpayers

The ten largest property taxpayers of the City and their 2007 assessed valuation follow:

Table 2-8
Ten Largest Property Taxpayers

Name of Taxpayer	Type of Business	2007 Assessed Valuation ($)
Stuller Inc/Platinum Business Property	Jewelry Manufacturer	20,122,140
Bellsouth Telecommunications Inc & Subside	Telecommunications	17,864,440
Iberia Bank	Bank	12,237,730
Walmart/Sams	Retail	10,178,800
Columbia Hospitals	Hospital	9,538,760
JP Morgan Chase Bank	Bank	7,699,210
Capital One/Hibernia National Bank	Bank	5,482,570
BJ Services CO USA	Oil and Gas	5,155,820
Weatherford Inc.	Oil and Gas	5,042,600
Whitney National Bank	Bank	4,798,230
		98,120,300(1)

(1) Approximately 10.8 percent of the 2007 assessed valuation of the City.
Source: Lafayette Parish Assessor's Office

Short term Indebtedness

According to the Chief Financial Officer, the Lafayette City–Parish Consolidated Government has no short term indebtedness, other than normal accounts payable or as otherwise disclosed in this Official Statement.

Default Record

According to the Chief Financial Officer, the Lafayette City-Parish Consolidated Government has never defaulted in the payment of its outstanding bonds or obligations.

Bank Balances

The Governing Authority reported the following balances in its various funds as of October 31, 2007:

Table 2-9
Bank Balances

General Operating Funds		Cash and Investments ($)
101	GENERAL FUND-CITY	26,274,683
102	PROPERTY TAX ESCROW FUND	21,229
105	GENERAL FUND-PARISH	7,794,543
152	FHWA PLANNING GRANT FUND 7/05-6/06	(338)
153	T&T-MPO-SAFE COMMUNITY GRANT 10/06-9/07	(20,145)
159	ACADIANA RECOVERY CENTER NON-GRANT FUND	283,755
167	LA SUPREME COURT DRUG CRT OFFICE GRT 7/07-6/08	(47,434)
170	SAFE & DRUG FREE SCHOOLS GRT FD FY 7/07-6/08	(1,701)
171	SAFE & DRUG FREE SCHOOLS GRT FD FY 7/06-6/07	(38)
173	WIA-TITLE IB ADULT GRANT 7/07-6/08	(183,844)
174	WIA-TITLE IB YOUTH GRANT 7/07-6/08	(26,565)
175	WIA-TITLE IB DISLOCATED WORKER GRT 7/07-6/08	(16,284)
176	WIA-NR GRANT-DISLOCATED WORKER GRT 7/07-6/08	(12,622)
178	WIA-STEP GRANT FUND 7/07-6/08	(6,574)
180	URBAN INFILL HOME PROGRAM FUND	207,465
181	DHH-GOVERNOR'S INITIATIVE HEALTH GRT 8/07-6/08	(13,656)
188	WIA-STEP GRANT 7/06-6/07	(271)
190	FTA PLANNING GRANT FUND 7/07-6/08	(3,448)
191	FHWA PLANNING GRANT FUND 7/07-6/08	(96,612)
192	FHWA-FRONTAGE ROAD STUDY	(311)
194	FHWA I49/MPO (STP-2805-502)GRANT	(42,349)
195	WIA-TITLE IB ADULT GRANT 7/06-6/07	295
197	WIA-TITLE IB DISLOCATED WORKER GRT 7/06-6/07	215
198	FTA PLANNING GRANT FUND 7/06-6/07	(21,641)
199	FHWA PLANNING GRANT FUND 7/06-6/07	(94,157)
203	MUNICIPAL TRANSIT SYSTEM FUND	(1,578,658)
206	ANIMAL CONTROL SHELTER FUND	220,045
210	HOME PROGRAM FUND FY 99/00	1,484
211	HOME PROGRAM FUND FY 00/01	(22,120)
213	HOME PROGRAM FUND FY 01/02	(10,427)
214	HOME PROGRAM FUND FY 02/03	16,355
216	HOME PROGRAM FUND FY 03/04	(1,633)
217	HOME PROGRAM FUND FY 04/05	(31,400)

General Operating Funds		Cash and Investments ($)
218	HOME PROGRAM FUND FY 05/06	(37,332)
219	HOME PROGRAM FUND FY 06/07	(66,840)
220	HOME PROGRAM FUND FY 07/08	(4,682)
224	EMERGENCY SHELTER GRANT FUND	(6,220)
230	COMMUNITY DEVELOPMENT FUND FY 07/08	(60,112)
231	COMMUNITY DEVELOPMENT FUND FY 03/04	10,219
232	FHWA COMPREHENSIVE LAND USE PLAN GRANT FY 98/99	54
233	COMMUNITY DEVELOPMENT FUND FY 00/01	(58,262)
234	COMMUNITY DEVELOPMENT FUND FY 01/02	(23,229)
235	COMMUNITY DEVELOPMENT FUND FY 02/03	(7,734)
236	COMMUNITY DEVELOPMENT FUND FY 99/00	(19,103)
237	COMMUNITY DEVELOPMENT FUND FY 96/97	(8,329)
238	COMMUNITY DEVELOPMENT FUND FY 97/98	329
239	COMMUNITY DEVELOPMENT FUND FY 98/99	(9,559)
240	URBAN DEVELOPMENT ACTION GRANT FUND	39
241	HUD HOUSING LOAN PROGRAM FUND	681,422
242	COMMUNITY DEVELOPMENT FUND FY 04/05	2,240
243	COMMUNITY DEVELOPMENT FUND FY 05/06	(24,965)
244	COMMUNITY DEVELOPMENT FUND FY 06/07	(50,295)
252	STATE SEIZED/FORFEITED PROPERTY FUND	15,398
253	FEDERAL NARCOTICS SEIZED/FORFEITED PROPERTY FUND	9,490
255	CRIMINAL NON-SUPPORT FUND	(88,120)
260	ROAD & BRIDGE MAINTENANCE FUND	3,500,043
261	DRAINAGE MAINTENANCE FUND	3,687,083
263	LIBRARY FUND	12,347,468
264	COURTHOUSE COMPLEX FUND	689,516
265	JUVENILE DETENTION FACILITY FUND	481,912
266	PUBLIC HEALTH UNIT MAINTENANCE FUND	1,687,697
268	CRIMINAL COURT FUND	(1,493,471)
271	MOSQUITO ABATEMENT & CONTROL FUND-PARISHWIDE	2,143,642
272	JUSTICE DEPARTMENT FEDERAL EQUITABLE SHARING FUND	32,471
275	DHH ACADIANA RECOVERY INPATIENT FUND 7/06-6/07	83,790
277	CRIMINAL JUSTICE SUPPORT SERVICES FUND	11,054
280	HUD SECTION 8 HOUSING FUND FY 99	7,926
281	DHH ACADIANA RECOVERY INPATIENT FUND 7/07-6/08	(291)
282	ARC-US PROBATION OUTPATIENT 10/07-09/08	(1,658)
283	ARC-US PROBATION OUTPATIENT 10/06-9/07	55,935
285	ARC-US PROBATION OUTPATIENT 10/05-09/06	(5)
297	PARKING PROGRAM FUND	305,549
298	ENVIRONMENTAL SERVICES FUND	(1,030,924)
299	CODES & PERMITS FUND	3,150,940
599	COMBINED GOLF COURSES FUND	55,498
601	PAYROLL FUND	840,763
605	UNEMPLOYMENT COMPENSATION FUND	5,458
606	METRO CODE RETIREMENT FUND	(299)
607	GROUP HOSPITALIZATION FUND	8,313,123
610	HURRICANE KATRINA FUND	2,706,671

General Operating Funds		Cash and Investments ($)
611	HURRICANE RITA FUND	288,750
701	CENTRAL PRINTING FUND	(7,817)
702	CENTRAL VEHICLE MAINTENANCE FUND	2,967,478
Total General Operating Funds		73,670,552
General Operating Funds:		
Debt Service Funds:		
215	CITY SALES TAX TRUST FUND-1961	933
222	CITY SALES TAX TRUST FUND-1985	0
302	SALES TAX BOND SINKING FUND-1961	7,681,426
303	SALES TAX BOND RESERVE FUND-1961	16,678,810
304	SALES TAX BOND SINKING FUND-1985	3,769,387
305	SALES TAX BOND RESERVE FUND-1985	14,397,426
306	CONTINGENCY SINKING FUND-PARISH	996,748
310	PARISH CERTIFICATES OF INDEBT SINKING FD-1999	98,568
801	CONSOLIDATED SEWER CERTIFICATES SINKING FUND	535,098
821	CONSOLIDATED PAVING CERTIFICATES SINKING FUND	382,844
Total Debt Service Funds		44,541,240
Construction Funds:		
401	SALES TAX CAPITAL IMPROVEMENT FUND-CITY	27,777,391
402	2003 PARISH LIBRARY GOB CONSTRUCTION FUND	5,245,852
403	1999 PARISH CERTIFICATES OF INDEBTEDNESS FD	179,489
404	2001 PARISH GOB CONSTRUCTION FUND	4,871,098
405	2003 PARISH GOB CONSTRUCTION FUND	7,378,899
406	2005 PARISH GOB CONSTRUCTION FUND	11,836,034
417	1993 SALES TAX BOND CONSTRUCTION FUND	67,803
419	1997A SALES TAX BOND CONSTRUCTION FUND	335,046
420	1997B SALES TAX BOND CONSTRUCTION FUND	1,110,394
421	1998 SALES TAX BOND CONSTRUCTION FUND	764,051
422	1999B SALES TAX BOND CONSTRUCTION FUND	1,658,431
423	1999A SALES TAX BOND CONSTRUCTION FUND	78,983
424	2000B SALES TAX BOND CONSTRUCTION FUND	569,318
425	2000A SALES TAX BOND CONSTRUCTION FUND	598,167
426	2001A SALES TAX BOND CONSTRUCTION FUND	3,681,299
427	2001B SALES TAX BOND CONSTRUCTION FUND	5,846,507
428	2003A SALES TAX BOND CONSTRUCTION FUND	1,844,851
429	2003B SALES TAX BOND CONSTRUCTION FUND	5,370,827
430	2003C SALES TAX BOND CONSTRUCTION FUND	443,687
431	2003D SALES TAX BOND CONSTRUCTION FUND	8,894,880
432	2005B SALES TAX BOND CONSTRUCTION FUND	9,430,438
433	2005C SALES TAX BOND CONSTRUCTION FUND	1,871,795

General Operating Funds		Cash and Investments ($)
434	2007A SALES TAX BOND CONSTRUCTION FUND	15,587,501
435	2007B SALES TAX BOND CONSTRUCTION FUND	1,824,648
Total Construction Funds:		117,267,389
Other:		
602	FIREMEN'S PENSION & RELIEF FUND	1,622,249
603	POLICEMEN'S PENSION AND RELIEF FUND	326,659
604	RISK MANAGEMENT FUND	108,394
Total Other		2,057,302
General Operating Funds:		
Utilities System Funds:		
501	RECEIPTS FUND	496,196
502	OPERATION AND MAINTENANCE FUND	8,044,606
503	BOND & INTEREST REDEMPTION FUND	0
504	CAPITAL ADDITIONS FUND	80,841,073
505	SECURITY DEPOSIT FUND	5,466,033
506	BOND RESERVE FUND	18,623,841
529	2004 BOND CONSTRUCTION FUND	20,893,130
Total Utilities System Fund		134,364,879
General Operating Funds:		
LUS Communications System Accounts:		
531	COMMUNICATIONS - RECEIPTS ACCOUNT	0
532	COMMUNICATIONS SYSTEM OPERATING ACCOUNT	5,720,557
533	COMMUNICATIONS - DEBT SERVICE ACCOUNT	14,225,814
537	COMMUNICATIONS - CAPITAL ADDITIONS ACCOUNT	274,732
539	COMMUNICATIONS - 2007 BOND CONSTRUCTION ACCOUNT	91,529,904
Total LUS Communications System Accounts		111,751,007
TOTAL ALL FUNDS		483,652,369

Economic Indicators

A comprehensive revision of the estimates of Per Capita Personal Income by State was published in April 2007 by the Bureau of Economic Analysis of the U.S. Department

of Commerce. The recent trends in revised per capita personal income fro Lafayette Parish, Louisiana, and the Nation are indicated in the following table:

Table 2-10
Per Capita Personal Income

	2001	2002	2003	2004	2005
Lafayette Parish ($)	28,951	29,192	29,934	31,279	32,892
Louisiana ($)	24,702	25,219	25,819	27,088	24,664
United States ($)	30,562	30,795	31,466	33,090	34,471

Source: U.S. Department of Commerce, Bureau of Economic Analysis. April, 2007.

(The personal income level for the United States is derived as the sum of the county estimates; it differs from the national income and product accounts (NIPA) estimate of personal income because by definition, it omits the earnings of Federal civilian and military personnel stationed abroad and others. It can also differ from the NIPA estimate because of different data sources and revision schedules.)

Effective Buying Income

Table 2-11
Median Household Effective Buying Income

Year	Lafayette Parish	City of Lafayette	Louisiana	Nation
2004	$36,854	$35,580	$32,993	$39,324

Source: 2005 Survey of Buying Power, Sales and Marketing Management, 770 Broadway, New York, New York 10003.

Employment

The Louisiana Department of Labor has issued revised not seasonally adjusted annual average statistics for various employment areas within Louisiana. The revised not seasonally adjusted annual average figures for Lafayette Parish and the State were reported as follows:

Table 2-12
Lafayette Parish Labor Statistics

Year	Labor Force	Employment	Unemployment	Parish Rate	State Rate
2000	97,296	93,576	3,720	3.80	5.00
2001	99,779	95,858	3,921	3.90	5.40
2002	98,724	94,269	4,455	4.50	5.90
2003	98,798	94,035	4,763	4.80	6.30
2004	99,691	95,371	4,320	4.30	5.70
2005	104,920	99,431	5,489	5.20	7.10
2006	107,748	104,830	2,918	2.70	4.00
2007	108,205	105,276	2,929	2.70	3.80
2008 (1)	108,205	105,276	2,929	2.70	3.80

(1) Preliminary figures as of February 2008.

Source: Louisiana Department of Labor

The following table shows the composition of the employed work force in the Lafayette MSA.

Table 2-13
Non-Farm Wage and Salary
Employment by Major Industry
(Employees in thousands)

	March 2006	February 2007	March 2007	February 2008
Mining	14.50	15.70	15.70	16.40
Construction	6.70	6.60	6.60	6.50
Manufacturing	9.30	9.00	9.20	10.50
Trade, Transportation, & Utilities	28.30	28.80	28.90	28.60
Information	3.20	2.80	2.80	3.40
Financial Activities	8.50	8.90	8.90	9.50
Professional And Business Services	15.80	17.40	17.60	17.50
Educational and health Services	20.10	21.00	21.10	20.80
Leisure and Hospitality	15.00	14.80	14.90	14.90
Other Services	4.60	4.90	5.00	4.90
Government	17.00	16.20	16.30	16.80
Total	143.00	146.10	147.00	149.80

Source: Louisiana Department of Labor

Table 2-15
Annual Average Lafayette Parish Concurrent Economic Indicators, 2003 – 2006 and 3rd Quarter 2007
(All data not seasonally adjusted)

	2003	2004	2005	2006	2007:3
EMPLOYMENT					
Total	**119,322**	**118,579**	**122,975**	**129,748**	**135,136**
Agriculture, Forestry, Fishing, and Hunting	148	143	144	135	143
Mining	14,303	12,488	13,076	14,793	15,969
Utilities	426	467	467	475	497
Construction	6,302	5,846	5,990	6,071	6,060
Manufacturing	6,957	6,826	7,437	8,108	9,281
Wholesale Trade	5,739	5,691	6,146	6,244	7,003
Retail Trade	15,578	14,790	15,302	15,799	15,570
Transportation & Warehousing.	4,344	3,985	3,994	4,392	4,236
Information	2,665	2,977	3,233	3,201	3,443
Finance & Insurance	3,266	3,279	3,266	3,365	3,266
Real Estate and Rental and Leasing	3,943	3,949	4,097	4,338	4,845
Professional & Technical Services	6,205	6,493	6,644	7,086	7,518
Management of Companies and Enterprises	2,281	2,410	2,447	2,844	3,089
Administrative and Waste Services	5,811	5,259	5,467	6,201	6,662
Educational Services	6,293	6,823	7,296	7,624	7,759
Health Care and Social Services	16,387	17,710	18,195	18,603	18,790
Arts, Entertainment, and Recreation	1,934	1,996	1,761	1,866	2,021
Accommodation and Food Services	10,253	10,874	11,544	12,068	12,258
Other Services, except Public Administration	3,116	3,199	3,078	3,143	3,101
Public Administration	3,260	3,249	3,284	3,256	3,405
EARNINGS ($1,000)	**Annual**	**Annual**	**Annual**	**Annual**	**Quarterly**
Total	3,952,416	4,021,835	4,384,564	5,068,989	1,367,250
Agriculture, Forestry, Fishing, and Hunting	4,005	3,735	3,268	3,223	812
Mining	814,735	767,409	856,034	1,063,767	287,512
Utilities	15,920	17,926	19,168	18,891	5,551
Construction	209,789	197,486	215,421	255,701	60,890
Manufacturing	242,990	253,780	274,202	326,812	102,462
Wholesale Trade	238,457	248,543	284,550	310,736	86,094
Retail Trade	324,344	317,563	350,468	378,298	93,244
Transportation & Warehousing.	158,030	152,894	152,709	175,980	41,916
Information	80,155	93,825	106,637	106,787	31,844
Finance & Insurance	141,203	148,178	160,803	168,855	41,994
Real Estate and Rental and Leasing	158,526	164,844	178,778	223,164	65,396
Professional & Technical Services	270,176	296,370	320,247	371,149	96,403
Management of Companies and Enterprises	95,090	109,244	130,010	179,303	50,706
Administrative and Waste Services	150,824	122,942	140,129	182,918	49,813
Educational Services	221,058	234,401	241,487	260,206	71,114
Health Care and Social Services	504,632	548,844	584,985	634,529	169,720
Arts, Entertainment, and Recreation	24,076	24,968	24,538	24,278	7,225
Accommodation and Food Services	116,794	124,165	140,961	167,913	44,870
Other Services, except Public Administration	65,094	70,340	71,454	84,072	21,741
Public Administration	113,067	120,565	124,953	126,387	35,469

Source: Louisiana Department of Labor

The names of several of the largest employers located in City of Lafayette are as follows:

Table 2-16
Largest Employers in the City of Lafayette

Name of Employer	Type of Business	Approximate No. of Employees
School Board Lafayette Parish	Education	4,250
Lafayette Consolidated Government	Public Administration	2,008
Univ of LA Lafayette	Education	1,900
Lafayette General Medical Ctr	Healthcare	1,757
Wal-Mart Stores, Inc.	Retail Trade	1,664
Island Operating Company	Oil and Gas	1,500
Stuller Inc.	Manufacturing	1,471
Hallburton Energy Svc	Oil and Gas	1,371
Our Lady of Lourdes Reg Med Ct	Healthcare	1,310

Source: Lafayette Economic Development Authority

There can be no assurance that any employer listed will continue to locate in the City or continue employment at the level stated.

General Remarks

Hurricanes Katrina and Rita

Hurricane Katrina made landfall on the eastern Louisiana Gulf Coast on August 29, 2005.

Lafayette Parish was not in the storm path and did not sustain any damage to its infrastructure. Lafayette Parish did serve as a shelter for evacuees, for special needs patients and for animals. These shelters remained open until end of October 2005. Expenses of the special needs shelter totaled approximately $200,000 and was 100 percent reimbursed by the State of Louisiana. The cost of operating the evacuee and animal shelters, including police and fire protection and other emergency support, as well as post sheltering repairs and remediation to the facility was estimated at $8.2 million and advanced by FEMA in September, 2005 because the federal government authorized 100 percent expedited funding. As of April 30, 2007, $5.5 million has been expended, leaving a positive balance from the FEMA advance of $2.7 million. The Lafayette Consolidated Government is not expected to incur any un-reimbursed expenses in Hurricane Katrina.

Hurricane Rita made landfall on the western Louisiana Gulf Coast on September 23, 2005. Lafayette Parish, while not in the direct path of the storm, did sustain minor damage to some of its facilities and equipment due to high winds. Further, high winds created an estimated 250,000 cubic yards of debris throughout the Parish. Eighty percent of the Utilities System's customers experienced power outages,

but all services were restored within a 48-hour time period. The FEMA reimbursed rate for all eligible expenses is 100 percent. No expedited funding was received from FEMA for this event. As of April 30, 2007, the Lafayette City Parish Consolidated Government filed claims with FEMA totaling $3.5 million for expenses such as power restoration, emergency police and fire operations, debris removal, and facilities and equipment damage, and has received reimbursements totaling $3.1 million. The remainder of the reimbursements is expected to be received in the next 60 to 90 days. All restoration work is expected to be complete by the end of 2007. Sufficient reserves are available to cover the cost until the FEMA reimbursements are received.

Although it is believed that Lafayette Parish has experienced an increase in population post Katrina/Rita due to the number of evacuees staying in the area, it is difficult to estimate the actual number at this time. The U.S. Census Bureau currently estimates a 3.6 percent increase in population in Lafayette Parish between April 1, 2000 and July 1, 2005. Analysis of various indicators reveals increases in water usage, traffic flow, school attendance, etc. Water production statistics indicate a 4.3 percent increase for the three-month period of December 2006 through February 2007 compared to the same period last year. While City sales tax collections have decreased slightly (a four percent decrease for the five-month period of November 2006 through March 2007 compared to the same period last year), it is noteworthy that this decrease represents a 21 percent increase when compared to the same period two years ago (November 2004 through March 2005). Although some additional demand for services is realized due to the increased population, LCG does not expect any significant adverse financial impacts due to the increased population in the Parish.

The City

The City is located in the heart of Acadiana, an eight parish area in the center of southern Louisiana, between New Orleans and Houston. The region was settled in 1763 by exiled Acadians from Nova Scotia. The Acadian area has become a cultural melting pot for various cultures locating there including Spanish, African, German, Irish, English, and French settlers. Cultural-based handwork and traditions are very much in evidence in and around the City and both French and English languages are still spoken.

City-Parish Government

On November 2, 1992, the voters of the Parish approved a charter that merged the governing authorities of the City of Lafayette and the Parish of Lafayette effective June 3, 1996. *There was no change in the corporate status of the City nor any change in the revenues providing the security for the Bonds that are the subject of this Official Statement.*

Section 4-17 of the Lafayette City-Parish Consolidated Government Home Rule Charter (the "Charter") provides for administrative reorganization whereby the City-Parish President proposes and the City-Parish Consolidated Council (the "Council") approves various organizational changes. In May 1998, the Council adopted an ordinance providing for the reorganization of certain functions and departments under the Charter.

The Governing Authority of the Lafayette City-Parish Consolidated Government is the Council, consisting of nine members elected from nine single member districts. The Charter further provides that the City-Parish President succeeds to all powers of the Mayor of the City. The names of the incumbent City-Parish and Council members are listed on the title page to this Official Statement.

The Home Rule Charter of the Lafayette City-Parish Consolidated Government (the Charter) provides that the governing authority of the Utilities Department of the Issuer shall be the Authority. Five members of the Council also serve as members of the Authority. The Authority consists of those City-Parish Council members whose districts include 60 percent or more persons living within the City. The Authority will fix rates, incur indebtedness, approve the utility budget, and approve proposals for the improvement and extension of the utilities, although the City-Parish Council is the governing authority of the Issuer, and as such, also has powers and responsibilities regarding the matters discussed above.

Industry, Commerce and Agriculture

The City is the natural economic, commercial, agricultural, retail, and cultural center of the region because of its location as the geographic center of Acadiana. Interstate Highways 10 and 49 intersect within the City. The City's location between New Orleans and Houston and its proximity to the largest and richest oilfields in Louisiana and the Gulf of Mexico make the oil industry a factor in the City's economy. A relatively high percentage of persons in the City's oil industry are employed in higher-income service rather than production related positions. A relatively low percentage of persons are employed in manufacturing positions. Also, the City's economy is largely driven by its position as a major regional trade and retail center. A third significant factor in the City's economy are the medical and educational facilities located within its boundaries. The University of Louisiana at Lafayette (ULL), the second largest institution of higher education in the State, is located in the City. ULL had a 2005 (Fall Semester) enrollment of approximately 16,345 full-time and part-time students. There are five acute care hospitals located in the City which serve the entire region, including Lafayette General Hospital, Our Lady of Lourdes Hospital, University Medical Center, Hamilton Medical Group and Woman's Hospital of Acadiana.

With its excellent climate and soil, Lafayette Parish is a major agricultural area in the State. A large portion of land area in the Parish is devoted to some type of farming. The main crops are soy beans, rice, cotton, sweet potatoes, sugar cane, corn, and other vegetables. Dairy and beef cattle, sheep and hogs are raised extensively throughout the Parish. Horse racing is a major sport in the area and quarter horses are bred for their speed on farms located in the area.

The Acadian and Creole cultures draw thousands of visitors to Lafayette. The "Acadian Village" off Johnston Street, near Acadiana Mall, is a replica of a Cajun settlement, with homes and buildings, their furnishings, all reflecting the Cajun living conditions of yore. Vermilionville is another tourist attraction located close to the airport in a park setting. Lafayette also hosts the second largest Mardi Gras celebrations in the country, second only to New Orleans. Millions of dollars of tourist

revenues are derived in the City due to these cultural events. Although the City of Lafayette is modern in most respects, there is a strong interest in preserving the flavor and customs of the past. These would include, just to name a few, eating crawfish, catfish, gumbo, French and garlic breads, boudin and sausage for breakfast, dancing to Cajun and zydeco music, and telling stories about alligators, birds, and the fish that got away!.

Table 2-17
Summary Debt Statement as of May 2, 2007

	Type of Obligation	Principal Outstanding ($)
A.	Direct Debt of the City of Lafayette	
	Sales Tax Bonds	277,770,000
	Utilities Revenue Bonds	195,005,000
	Taxable Revenue Bonds	44,465,000
B.	Overlapping Debt of the Parish of Lafayette	
	Unlimited Ad Valorem Tax Bonds	49,115,000
	Certificates of Indebtedness	1,150,000
C.	Overlapping Debt of the Lafayette Parish School Board (1)	
	Sales Tax Bonds	75,475,000
	Certificates of Indebtedness	8,170,000
D.	Overlapping District Bonded Debt	
	Unlimited Ad Valorem Tax Bonds	
	1. Consolidated School District No. 1	1,175,000
	2. Lafayette Parish Bayou Vermilion District	1,815,000
E.	Overlapping Debt of the Lafayette Public Power Authority	
	Electric Revenue Refunding Bonds	63,115,000
F.	Partially Underlying Debt of Lafayette Parish Waterworks	
	Water Revenue Bonds	6,317,727
G.	Partially Underlying Debt of Lafayette Parish Waterworks	
	Water Revenue Bonds	4,437,000

(1) Excludes LCDA QZAB loan in the original principal amount of $3,001,060, with a final maturity date of November 15, 2015, payable from available funds of the Lafayette Parish School Board.

Note: *(The above statement excludes the outstanding indebtedness of the Lafayette Airport Commission, certain Mortgage Revenue Bonds of the Parish, certain Industrial Development Revenue Bonds of the Lafayette Economic Development Authority (formerly the Lafayette Harbor, Terminal and Industrial Development District) and certain mortgage revenue bonds of Lafayette Parish Public Trust Financing Authority.)*

Table 2-18
Statement of Direct, Overlapping and Underlying Bonded Debt as of May 2, 2007
(The accompanying notes are an integral part of this statement.)

Notes	Name of Issuer & Issue	Interest Rates (%)	Dated Date	Final Maturity Date	Principal Outstanding	Principal Amount Due Within One Year
(1)	Direct Debt of the City of Lafayette					
(2)	Public Improvement Sales Tax Bonds, Series 1999B	7.0	09/01/99	03/01/09	2,540,000	1,235,000
(2)	Public Improvement Sales Tax Bonds, Series 2000A	5.3-7.0	11/01/00	03/01/10	1,265,000	395,000
(2)	Public Improvement Sales Tax Bonds, Series 2001A	4.0-5.75	12/01/01	03/01/26	19,870,000	615,000
(2)	Public Improvement Sales Tax Refunding Bonds, Series 2002	4.0	12/01/02	03/01/09	12,925,000	6,335,000
(2)	Public Improvement Sales Tax Bonds, Series 2003A	4.25-6.25	01/01/03	03/01/27	9,505,000	110,000
(2)	Public Improvement Sales Tax Refunding Bonds, Series 2003	3.0-4.3	02/20/03	03/01/18	11,360,000	785,000
(2)	Public Improvement Sales Tax Bonds, Series 2003C	4.0-6.0	11/01/03	03/01/28	6,840,000	95,000
(2)	Public Improvement Sales Tax Refunding Bonds, Series 2005	3.25-5.0	03/22/05	03/01/24	40,460,000	0
(2)	Public Improvement Sales Tax Bonds, Series 2005B	4.0-6.0	06/01/05	03/01/30	23,315,000	110,000
(2)	Public Improvement Sales Tax Refunding Bonds, Series 2006B	4.0-4.35	09/09/06	03/01/25	10,305,000	55,000
(3)	Public Improvement Sales Tax Bonds, Series 1998A	6.6	07/01/98	05/01/08	1,455,000	1,455,000
(3)	Public Improvement Sales Tax Bonds, Series 1999A	7.0	09/01/99	05/01/09	915,000	445,000
(3)	Public Improvement Sales Tax Bonds, Series 2000B	5.75-7.0	11/01/00	05/01/10	1,585,000	485,000
(3)	Public Improvement Sales Tax Bonds, Series 2001B	4.0-5.75	12/01/01	05/01/26	13,885,000	435,000
(3)	Public Improvement Sales Tax Bonds, Series 2003B	4.25-6.25	01/01/03	05/01/27	13,170,000	240,000
(3)	Public Improvement Sales Tax Bonds, Series 2003D	4.0-5.75	11/01/03	05/01/28	15,670,000	110,000
(3)	Public Improvement Sales Tax Refunding Bonds, Series 2004	3.0-5.0	02/03/04	05/01/15	19,585,000	3,645,000
(3)	Public Improvement Sales Tax Refunding Bonds, Series 2004A	2.375-4.3	05/01/04	05/01/20	3,060,000	180,000
(3)	Public Improvement Sales Tax Refunding Bonds, Series 2005A	3.0-5.0	03/22/05	05/01/24	21,575,000	300,000
(3)	Public Improvement Sales Tax Bonds, Series 2005C	4.0-5.5	06/01/05	05/01/30	2,295,000	50,000
(3)	Public Improvement Sales Tax Refunding Bonds, Series 2006A	4.0-4.35	09/07/06	05/01/25	13,275,000	70,000
(3)	Public Improvement Sales Tax Refunding Bonds, Series 2006C	4.0-5.0	11/30/06	05/01/23	32,915,000	0

Notes	Name of Issuer & Issue	Interest Rates (%)	Dated Date	Final Maturity Date	Principal Outstanding	Principal Amount Due Within One Year
(4)	Utilities Revenue Bonds, Series 1996	2.95	08/22/96	11/01/17	11,015,000	860,000
(4)	Utilities Revenue Bonds, Series 2004	4.0-5.25	08/10/04	11/01/28	83,990,000	0
(5)	Taxable Refunding Bonds, Series 2002	3.85-5.75	11/07/02	05/01/28	44,465,000	1,240,000
(6)	Overlapping Debt of the Parish of Lafayette					
(7)	General Obligation Bonds, Series 2001 (a) (Roads)	4.0-5.75	12/01/01	03/01/26	8,845,000	270,000
(7)	General Obligation Bonds, Series 2001 (b) (Drainage)	4.0-5.75	12/01/01	03/01/26	2,860,000	85,000
(7)	General Obligation Bonds, Series 2001 (c) (Fire Protection)	4.0-5.75	12/01/01	03/01/26	440,000	15,000
(7)	General Obligation Bonds, Series 2001 (d) (Jail)	4.0-5.75	12/01/01	03/01/26	1,815,000	55,000
(7)	General Obligation Bonds, Series 2001 (e) (Courthouse)	4.0-5.75	12/01/01	03/01/26	435,000	15,000
(7)	General Obligation Bonds, Series 2001 (f) (Recreation)	4.0-5.75	12/01/01	03/01/26	345,000	10,000
(7)	General Obligation Bonds, Series 2003 (a) (Roads)	3.125-5.0	12/01/03	03/01/28	5,760,000	155,000
(7)	General Obligation Bonds, Series 2003 (b) (Drainage)	3.125-5.0	12/01/03	03/01/28	3,605,000	95,000
(7)	General Obligation Bonds, Series 2003 (c) (Fire Protection)	3.125-5.0	12/01/03	03/01/28	180,000	5,000
(7)	General Obligation Bonds, Series 2003 (d) (Jail)	3.125-5.0	12/01/03	03/01/28	2,650,000	70,000
(7)	General Obligation Bonds, Series 2003 (e) (Courthouse)	3.125-5.0	12/01/03	03/01/28	915,000	25,000
(7)	General Obligation Bonds, Series 2003 (f) (Recreation)	3.125-5.0	12/01/03	03/01/28	590,000	15,000
(7)	General Obligation Bonds, Series 2003 (g) (Library)	3.125-5.0	12/01/03	03/01/28	6,670,000	180,000
(7)	General Obligation Bonds, Series 2005	4.0-5.0	06/01/05	03/01/30	14,005,000	320,000
(5)	Certificates of Indebtedness, Series 1999	5.75	12/14/99	12/01/19	1,150,000	60,000
(8)	Overlapping Debt of Lafayette Parish School Board*					
(5)	Certificates of Indebtedness, Series 2002	3.75	11/26/02	11/01/10	2,425,000	575,000
(5)	Certificates of Indebtedness, Series 2003	3.68	12/15/03	11/01/13	2,415,000	305,000
(5)	Certificates of Indebtedness, Series 2005	3.25-3.95	03/02/05	03/01/15	3,330,000	350,000
(9)	Public School Bonds, Series 1995B	5.0	10/01/95	04/01/15	4,485,000	455,000
(9)	Public School Bonds, Series 1998	4.4-6.0	04/01/98	04/01/18	44,625,000	3,075,000
(9)	Public School Bonds, Series 1999	4.7-5.0	09/01/99	04/01/19	7,460,000	605,000
(9)	Public School Bonds, Series 2001	4.7-5.5	08/01/01	04/01/21	9,870,000	495,000
(9)	Public School Refunding Bonds, Series 2004	2.5-4.0	03/01/04	04/01/13	9,035,000	1,365,000
(10)	**Overlapping Debt of Consolidated School District No. 1 of the Parish of**					

* Excludes LCDA QZAB loan in the original principal amount of $3,001,060, with a final maturity date of November 15, 2015, payable from available funds of the Lafayette Parish School Board.

Notes	Name of Issuer & Issue	Interest Rates (%)	Dated Date	Final Maturity Date	Principal Outstanding	Principal Amount Due Within One Year
	Lafayette					
(7)	General Obligation School Refunding Bonds, Series 2004	2.375-2.625	03/01/04	03/01/09	1,175,000	580,000
(11)	**Overlapping Debt of Lafayette Parish Bayou Vermilion District**					
(7)	General Obligation Bonds, Series 2004	1.0-4.5	05/01/04	03/01/24	1,815,000	70,000
(12)	**Underlying Debt of Lafayette Public Power Authority**					
(13)	Electric Revenue Refunding Bonds, Series 2002	2.85-3.9	09/01/02	11/01/12	11,110,000	5,235,000
(13)	Electric Revenue Refunding Bonds, Series 2003A	5.0	08/04/03	11/01/12	39,010,000	3,735,000
(13)	Electric Revenue Refunding Bonds, Series 2003B	5.0	08/04/03	11/01/12	12,995,000	1,245,000
(14)	**Partially Underlying Debt of Lafayette Parish Waterworks District North**					
(15)	Water Revenue Bonds	5.625	06/30/93	10/27/32	803,176	14,610
(15)	Water Revenue Bonds, Series 1998	4.75	05/05/98	10/27/37	1,509,551	22,639
(15)	Water Revenue Bonds, Series 2004	3.45	06/03/04	10/01/25	2,657,000	79,000
(15)	Water Revenue Refunding Bonds, Series 2005	4.3	06/02/05	10/01/20	1,348,000	78,000
(16)	**Partially Underlying Debt of Lafayette Parish Waterworks District South**					
(15)	Water Revenue Bonds, Series 2002	5.1	04/23/02	08/12/21	1,559,000	67,000
(15)	Water Revenue Refunding Bonds, Series 2004	4.25	12/21/04	08/12/19	875,000	58,000
(15)	Water Revenue Refunding Bonds, Series 2006A	4.58	08/15/06	08/12/21	97,000	5,000

Notes

(1) The 2007 total assessed valuation of City of Lafayette is approximately $905,004,993, all of which is taxable for municipal purposes.

(2) Payable solely from and secured by an irrevocable pledge and dedication of the net avails or proceeds of the one percent (1%) sales and use tax being levied and collected by the City of Lafayette, pursuant to elections held therein on May 13, 1961, November 20, 1965, March 22, 1977, and July 21, 2001.

(3) Payable solely from and secured by an irrevocable pledge and dedication of the net avails or proceeds of the one percent (1%) sales and use tax being levied and collected by the City of Lafayette, pursuant to elections held therein on May 4, 1985, November 15, 1997, and July 21, 2001.

(4) Payable from revenues of the Lafayette Utilities System.

(5) Secured by and payable solely from an irrevocable pledge and dedication of the excess of annual revenues of the issuer above statutory, necessary and usual charges in each of the fiscal years during which the obligations are outstanding.

(6) The 2007 total assess valuation of the Parish of Lafayette is approximately $1,470,636,507, of which approximately $1,159,403,530 is taxable.

(7) Secured by and payable from unlimited ad valorem taxation.

(8) The 2007 total assessed valuation of the Lafayette Parish School Board is approximately $1,470,636,507, of which approximately $1,159,403,530 is taxable.

(9) Payable solely from and secured by an irrevocable pledge and dedication of the net avails or proceeds of the one percent (1%) sales and use tax being levied and collected by the Lafayette Parish School Board, authorized in an election held on September 18, 1965.

(10) Consolidated School District No. 1 of the Parish of Lafayette is parish wide and has the same assessed valuation as the Lafayette Parish School Board (See Note 8).

Notes	Name of Issuer & Issue	Interest Rates (%)	Dated Date	Final Maturity Date	Principal Outstanding	Principal Amount Due Within One Year
(11)	The 2007 total assessed valuation of Lafayette Parish Bayou Vermilion District is approximately $1,470,636,507, of which approximately $1,159,403,530 is taxable.					
(12)	The Lafayette Public Power Authority has no assessed valuation.					
(13)	Secured by a pledge of project power revenues of the Lafayette Public Power Authority attributable to the project after payment of operating expenses.					
(14)	Lafayette Parish Waterworks District North includes an area lying to the North of the Township line between Township 9 South and Township 10 South, except those areas included in any municipality or other water district, and except certain areas adjacent to the City of Lafayette.					
(15)	Payable from revenues of the waterworks system.					
(16)	Lafayette Parish Waterworks District South includes an area lying to the South of the Township line between Township 9 South and Township 10 South, except those areas included in any municipality or other water district and/or certain water systems, and except certain areas adjacent to the City of Lafayette.					

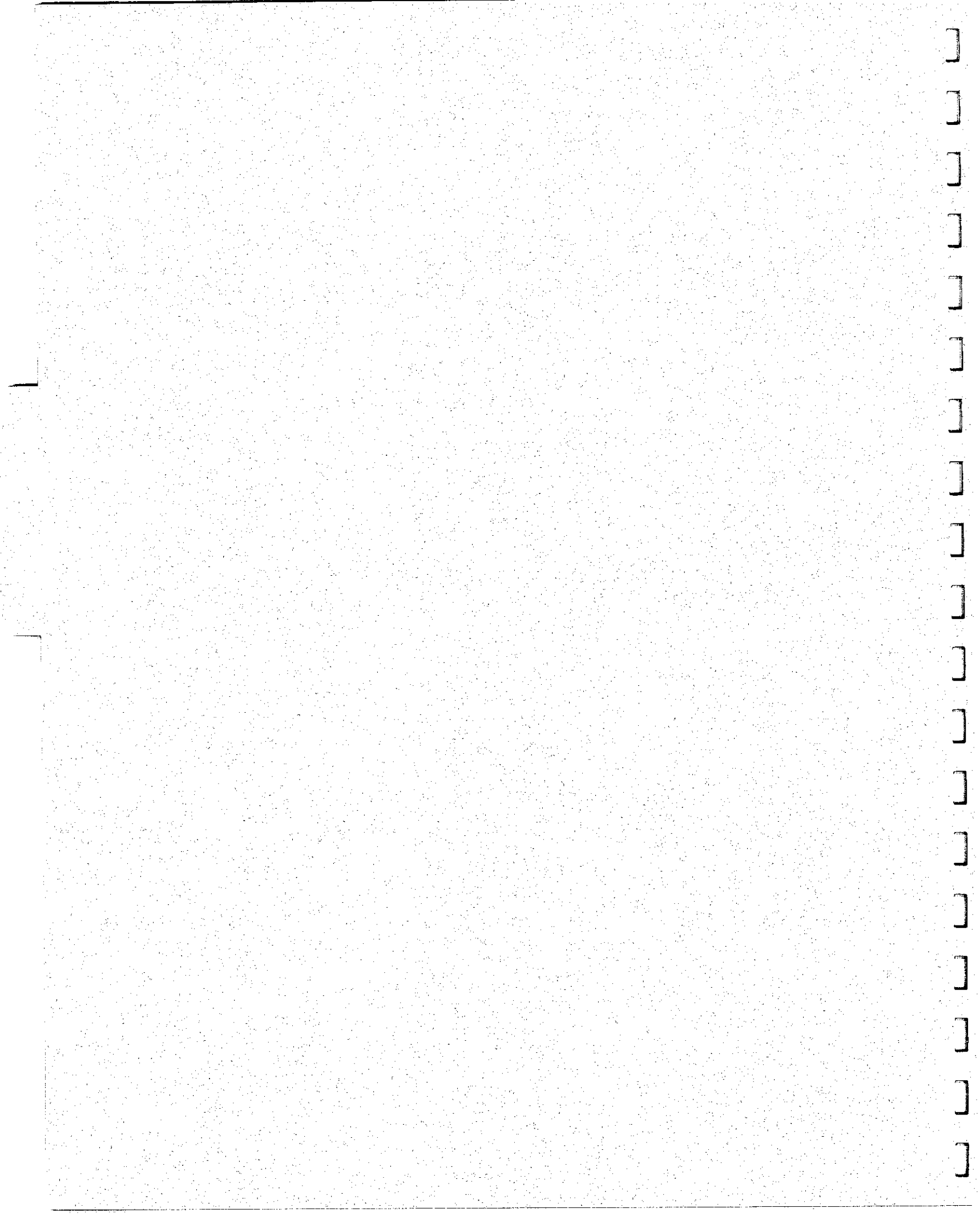
(The above statement excludes the outstanding indebtedness of the Lafayette Airport Commission, the Lafayette Economic Development Authority [formerly the Lafayette Harbor, Terminal and Industrial Development District], the Lafayette Parish Public Trust Financing Authority, and the Lafayette Industrial Development Board.)

Recommendations

Recommendations and status thereof are provided in Table 2-4. The priorities of these recommendations are High and Normal, as defined in Section 1 of this Report.

Table 2-4
Recommendations

Introduction	Priority	Status
LUS should continue to review necessary security actions to ensure employee security and asset preservation	High	In Progress
LUS should establish a formalized Enterprise Risk Management Program to reduce operational and financial risk exposure	High	In Progress



Section 3
ORGANIZATION AND MANAGEMENT

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Section 3
ORGANIZATION AND MANAGEMENT

LCG Organization and Management

The current form of government includes both the City and certain areas of the Parish and is referred to as LCG. This City-Parish form of government includes the President and nine Council members who are elected by the citizens of the Lafayette Parish to four-year terms of office. Names of each official and offices held by each during the reporting period are shown in the Table 3-1.

Table 3-1
President and Council Members

Office	2007	2008
President	L. J. Durel, Jr.	L. J. Durel, Jr.
District 1 Member	Bobby Badeaux	Purvis Morrison
District 2 Member	Dale Bourgeois	Jay Castille
District 3 Member	Christopher J. Williams, Ph.D.	Brandon Shelvin.
District 4 Member	Louis C. Benjamin, Jr.	Kenneth P. Boudreaux
District 5 Member	Lenwood Broussard	Jared Bellard
District 6 Member	Bruce Conque	Bruce Conque
District 7 Member	Marc F. Mouton	Donald L. Bertrand
District 8 Member	Rob Stevenson	Keith Patin
District 9 Member	Randal L. Menard	William G. Theriot

Source: LCG,02/2008

The President and his Chief Administrative Officer (CAO), Mr. Dee Stanley, direct and supervise the administration of all departments, offices, and agencies of LCG, except as may otherwise be provided by the Home Rule Charter (Charter) or by law.

Home Rule Charter

In the fall of 1992, the electorate of the Parish, including the City, adopted a Charter establishing LCG for the purpose of consolidating the governmental functions of the City and the Parish. The new government became operative on June 3, 1996 when LCG officials took office pursuant to the Charter. The Charter set up the LCG departments and defined the responsibilities of each department. The following described departments provide services to LUS.

Department of Finance and Management

Financial responsibilities are handled by the Department of Finance and Management. These duties as outlined on pages 20-21 in the Charter include:

- Collection (except where specifically otherwise provided for by law) and custody of all monies of LCG from whatever source
- Assistance to the President in the preparation of the annual operating budget and the capital improvement budget
- Maintenance of a record of indebtedness and payment of the principal and interest on such indebtedness
- Ascertaining that funds are available for payment of all contracts, purchase orders and any other documents that incur a financial obligation for LCG, and that such documents are in accordance with established procedures
- Disbursement of LCG funds
- Administration of a uniform central accounting system for all LCG departments, offices and agencies, using nationally accepted standards where applicable
- Preparation of a monthly statement of revenues and expenditures, which shall be completed and made available for public inspection not later than 31 days after the end of each month
- Procurement of all personal property, materials, supplies and services required by LCG under a central purchasing system for all departments, offices and agencies in accordance with applicable state law, council policy and administrative requirements
- Investment of idle funds, as permitted by law, so as to receive the maximum rate of return
- Maintenance of an inventory of all property, real and personal

Duties of utility billing and revenue collection are handled by the Department of Utilities.

Ms. Rebecca Lalumia serves as the Chief Financial Officer (CFO) for the Department of Finance and Management. Key division managers under this office are provided in Table 3-2.

Table 3-2
Department of Finance and Management

Division	Manager
Accounting	Melinda Felps
Controller	Terri Dixon (1)
Financial System & Reporting Supervisor (Accounting Functions for LUS)	Kerney Simoneaux
Budget Management	Sharon Borel
Purchasing and Property Management	Jody Williamson

(1) Terri Dixon resigned after the close of the fiscal year. The position is currently open.
Source: www.lafayettela.gov 02/08.

Descriptions of the functions performed by the divisions listed in Table 3-2 are provided below.

Accounting Division

The Accounting Division is responsible for: (*i*) processing invoices, payroll and other accounts payable transactions; (*ii*) maintaining accounts receivable records and associated management reports; and (*iii*) managing and maintaining the entire accounting system including the general ledger, completion of periodic financial statements, payroll, management reports and special accounting assignments, including those for LUS.

Budget Management Division

The Budget Management Division employs a municipal budget management system. The concepts embodied in this management tool initially require recognition of financial and operational goals by the department managers. Based on these goals, the management of each department determines dollar amounts necessary to reach the goals. Budgeting for utility capital needs and facility addition and renewal projects is the responsibility of LUS.

Purchasing and Property Management Division

The Purchasing and Property Management Division is responsible for all LCG purchasing and control of the fixed assets. The management of central receiving, central warehousing and distribution of inventory for the operations of the Utilities System are the responsibility of the Electric Operations Division of LUS.

Department of Administrative Services

As described on page 21 in the Charter, the Director of the Department of Administrative Services shall direct and be responsible for:

- Personnel matters for employees other than those under the jurisdiction of the civil service director and civil service board. Responsibilities shall include but

not be limited to personnel policies, employee relations, employee counseling and unemployment and worker's compensation reports and hearings

- Developing and implementing a communications system
- Risk management, insurance and safety programs
- The Division also provides printing and communications services to LUS

The Director of the Department of Administrative Services is Ms. Gail Smith. Ms. Smith oversees information systems (data processing), communication systems, and risk management.

Operations Division

The Operations Division consists of three sections: Human Resources, Communications and Printing.

The **Human Resources** section provides employee and payroll records, employee relations, and compensation services as well as policy administration on such matters as attendance, conditions of employment, performance evaluation, anti-harassment and related matters for a work census of 2,000.

The **Communications** section provides telephone answering and call directing services for the City-Parish government, including a substantial utility billing function.

The **Printing** section uses digital photo-imaging and printing in addition to traditional offset presses to serve all printing, binding and related needs of the City-Parish Government.

Records Management Division

The Records Management Division provides inventory, storage, retention schedules, protection and disaster recovery planning. The Records Management Division was created to: control records creation and growth, reduce operating expenses, improve efficiency and productivity, assimilate new records management technologies, ensure regulatory compliance, minimize litigation risks, identify and protect vital information, support better management decision making, and preserve the corporate memory.

Risk Management Division

The Risk Management Division provides certain risk coverage for the operation of LUS. A Safety Officer assists in the safety-related matters of LUS, including loss prevention programs for assisting all divisions of LUS to comply with federal, state, and local regulations regarding safety matters.

The program implemented by this Division includes the establishment of an uninsured loss reserve fund designed and administered by the Risk Management Division. The Division is composed of a Risk Manager, a self-administered property and casualty claims section, a safety and loss prevention section, a full time registered nurse and a self-administered and self-insured group health/life claims section.

The cost of finance and administrative services are allocated to all LCG Departments, including the operation of the Utilities System on the basis of allocation procedures adopted by LCG.

Department of Information Services Technology

In 2004, LCG created the Information Services and Technology Department (IS&T) and appointed Mr. Keith Thibodeaux as the Chief Information Officer (CIO). The IS&T Department is responsible for managing the coordinated development of an integrated information technology system for LCG and external organizations who contract with LCG for computer services.

Software Services Division

The Software Services Division is responsible for developing, maintaining, and supporting computer applications, Database Administration, and the Internet website.

Technical Services Division

The Technical Services Division is responsible for planning, designing, and supporting the data and telecommunications infrastructure of LCG to include hardware, software, and help desk support. Also responsible for daily computer operations including running applications, generating reports and checks, such as Payroll, Accounts Payable, Utility Billing, etc., performing system backups and restores, and handling end-user special requests.

Geographic Information Systems Division

The Geographic Information Systems (GIS) Division is responsible for developing, maintaining, and supporting the enterprise GIS system. GIS is a system of computer software, computer hardware, data, and personnel to help manipulate, analyze and present the information that is tied to a geographic location (map).

Office of the Director Division

The fourth division is the Office of the Director, CIO.

Legal Department

Mr. Patrick S. Ottinger is retained as the City-Parish Attorney to render legal opinions and to counsel and advise LCG and LUS. Various Assistant City Attorneys have also been appointed and serve under the direction, and at the discretion, of the City-Parish Attorney.

LUS Organization and Management

The duties, responsibilities, management and organization of LUS under LCG are taken from the Charter.

The governing authority of LUS is the LPUA. LPUA consists of those members of the Council whose districts include 60 percent or more of persons residing within the

boundaries of the City as they existed on the effective date of the Charter. They may be changed in the future if the boundaries of the City change. The latest census reports of the United States Census Bureau were the basis for determining the council districts including 60 percent or more of persons residing within the City.

LPUA members for the period reported herein are provided in Table 3-3.

Table 3-3
LPUA Members

Name	Office
Marc F. Mouton	Chair
Bruce Conque	Vice Chair
Rob Stevenson	Member
Louis C. Benjamin, Jr.	Member
Christopher J. Williams, Ph.D.	Member

(Source: LCG, 2/08.

The Director of the Utilities Department is appointed by the President, subject to approval by LPUA, in accordance with provisions included in current or future bond resolutions and covenants. The Charter does not affect franchises and contracts in existence at the time the Charter became effective for the remaining life of these franchises and contracts.

LPUA, subject to approval by the President and the Council by ordinance, may expand the area of end-user electric service only into areas authorized by R. S. 45:123, or other controlling State law, or into areas annexed into the City by LCG. Nevertheless, LPUA may enter into contracts with governmental bodies, exclusive of LCG, and other public or private utilities for other than end-user services.

The Utilities Department functions in accordance with conditions included in current bond resolutions and covenants. Funds paid by LUS to LCG for in-lieu-of taxes must be used only for programs and services within the City. LPUA fixes rates, incurs indebtedness, approves the LUS budget, and approves proposals for the improvement and extension of LUS, subject to approval by the President and Council.

A person residing in an area served by LUS may appeal to LPUA any proposed rate increases or issuance of bonds. The decision of LPUA is final, subject to appeal to the appropriate courts.

LPUA must not sell, lease or, in any manner, dispose of the LUS, or any substantial part thereof, without approval by majority vote of the qualified electors residing within the boundaries of the City voting in an election called for that purpose. This may not be construed to prevent the disposal of property that has become obsolete, unserviceable and not necessary for the efficient operation of the LUS. The proceeds of the sale of such property must be used to purchase or construct other capital improvements for the LUS. In the event of the sale or lease of the entire LUS, the proceeds are to be used for capital improvements in the entire City.

Management of the Utilities System

The President, who is the Chief Executive Officer of LCG, and his Chief Administrative Officer direct and supervise the administration of various departments of LCG. The LCG departments involved in day-to-day management and operation of LUS are the Department of Administrative Services, the Department of Finance and Management, the Department of Information Services Technology and the Legal Department.

The Administrative Services Department provides the following functions to the LUS: personnel services, training and safety, printing, communications, information services, and risk management. The Department of Finance and Management is responsible for accounting, budget management and procurement. The Department of Information Services Technology is responsible for software, hardware, help desk support, daily computer operations, and the GIS.

The CAO supervises all departments, offices, and agencies of LCG under the direction and supervision of the President, except the Legal Department. The Legal Department is headed by the City-Parish Attorney.

Organization

The Director of the Utilities Department is responsible for the operations of the LUS in all areas of activity not otherwise provided for by the Departments of Administrative Services, Finance, or Information Services Technology. As outlined in the Charter, the duties of the Director of Utilities are as follows:

- Production and distribution of electricity
- Water production, treatment and distribution
- Sewerage collection, treatment and disposal
- Utility engineering services
- Supervision of contract construction work for the Utilities System
- Maintaining utility equipment in cooperation with the central garage
- Reading of utility meters
- Other such activities as may be directed by the President as necessary or incidental to the operation of the Utilities System

The Managing Director of LPPA and the City's Director of Utilities is Mr. Terry Huval. Mr. Huval is a graduate of the University of Southwestern Louisiana with a B.S. in Electrical Engineering. He has been employed in the utility industry throughout his career and has served in various management positions with Entergy-Gulf States Utilities, until his appointment as LUS' Director of Utilities on December 5, 1994.

The personnel serving as managers of the divisions within LUS are shown in Table 3-4.

Table 3-4
LUS Division Managers, Fiscal Year 2007

Division	Manager
Utilities System	
Engineering	Frank Ledoux
Water Operations	Don Broussard
Wastewater Operations	Craig Gautreaux
Electric Operations	Mike Boustany
Power Production	Frank Ledoux
Utilities Support Services	Andrew Duhon
Customer Service	Andrew Duhon
Environmental Compliance	Allyson Pellerin
Telecommunications Operation	Frank Ledoux
Communications System	Frank Ledoux

Source: LUS, 2/08.

Engineering Division

The Engineering Division is responsible for all engineering activities necessary to operate and maintain the Utilities System. The functional activities of this division include forecasting, system planning, system design, contract administration, construction management, and engineering analysis in support of other operating divisions. The Engineering Division manager is responsible for the four sections described below.

The **Civil Engineering Section** focuses on the Water and Wastewater Utilities. Services include design, planning and construction of major water and wastewater infrastructure projects that are scheduled and budgeted with a system of work orders.

The **Power Marketing Section** responsibilities include the following areas:

- Special contracts
- Wholesale electric purchases and sales contracts and negotiations (including the LUS involvement with The Energy Authority, as described in Section 5 of this report)
- Fuel supply contract management (coal, gas and transportation)
- Transmission and interconnection contract management
- Federal Energy Regulatory Commission (FERC) related issues and compliance reporting
- Work with developers to meet special electric service expansion needs

- Wholesale water and contract administration
- LUS representative on SPP Markets & Operation Policy Committee
- SPP participation on various working groups
- Electric distribution for commercial services, residential services, Street Lighting and Private Lighting

The **System Engineering Section** areas of focus include:

- GIS development to provide infrastructure locations and system mapping
- Network Engineering
  - Design and installation of Ethernet and wireless networks
  - Oversight of the entire LUS information technology budget
  - Operation and maintenance of the computer network hardware for all LUS facilities
  - Installation and support for applications
  - Technical support for the Supervisory Control and Data Acquisition (SCADA) system and fiber networks
- Drafting functions
- Acquisition of real property rights including easements and property ownership required for infrastructure expansions
- Material specifications for Electric, Water, Wastewater, and Fiber Utilities
- Annual material purchase contracts through warehouse
- Document management for record center and water distribution
- Special projects including generation plants, building expansion and remediation

The **System Construction Section** responsibilities include:

- Electric substation design and planning
- Transmission line design
- Electric system planning
- Fiber construction and installation
- Electric system communications
- Electric system personnel training

Water Operations Division

The Water Operations Division is responsible for the water supply, production, storage, and distribution facilities. This includes maintenance as well as operations and water quality.

Wastewater Operations Division

The Wastewater Operations Division responsibilities include O&M of the treatment and collection facilities. Also included is the management of wastewater discharge quality.

Electric Operations Division

The Electric Operations Division is responsible for the field activities associated with operating and maintaining the electrical transmission and distribution facilities. The functional activities include service calls, system construction, system control, meter shop, security, and substation operations.

Power Production Division

The Power Production Division is responsible for the O&M of the electric power production facilities. This division is also responsible for the project management, engineering, procurement, construction, etc., for its capital and O&M project budget.

Utilities Support Services Division

The Utilities Support Services Division is responsible for certain administrative duties associated with operating the Utilities System. These activities include employee training and safety, public information, utility service rates, facilities management, financial planning, and meter reading.

The Meter Services Section uses an electronic meter reading system that consists of hand-held remote data collection devices carried by meter readers, as well as computer-based translation and processing equipment at the meter services office, to provide meter data for the customer billing function.

The Meter Services Section compiles monthly statistics related to meter reading accuracy, read rates, and customer connects and disconnects in a continuous effort to identify trends and evaluate opportunities to improve the section's effectiveness. The Customer Information System (CIS) provides tracking "re-reads" of customer accounts. Tracking the number of re-reads reflects the overall efficiency of a meter reader, of a crew, and of Meter Services in general. In 2007, the Meter Services section was required to re-read approximately 9,888 electric and water meters.

LUS is exploring opportunities for improving meter reading efficiency. To date 4,836 electric and water meters have been converted to automatic meter reading (AMR) technology. Other technologies are being explored to assist with commercial and industrial (C&I) accounts that may need hourly profiling data or other value-added services available from LUS through the meter. With the inception of the Communications System, efficiencies can be realized between the Utilities System and the Communications System. Installing Advanced Metering Infrastructure would aid the Utilities System.

Customer Service Division

The Customer Service Division collects and processes utility customer deposits and bills daily. This division also provides utility customers with service and responses to billing questions. Customer bill paying and other business facilities, including a drive-up window, are located in the LCG building. The cashier function includes receiving all payments delivered by mail or by hand. LUS plans to build a new customer service facility near the current administrative building within the next five years.

Revenue collection service is an important and financially critical function for any utility. It is the "cash register" of the business, as well as an excellent opportunity to communicate directly with customers. As competition moves into the electric business, an effective customer-oriented, revenue collection division will become essential to the success of LUS.

In 2005, LUS added the option for bill payments over the Internet. Approximately 5,000 customers were registered with the website to utilize this option during 2007. LUS is working on improving the user friendliness and aesthetics of the online bill payment option. During fiscal year 2008, LUS plans to migrate to a new CIS system which will aid in the further advancement of providing this web based customer service. In 2007, LUS introduced an integrated voice response system (IVR) that allows automated handling of customer calls and customer payments. During 2007, approximately 3,000 bills were paid over the telephone.

Environmental Compliance Division

The Environmental Compliance Division was added to the Utilities Department in 1991 as part of the LUS commitment to employees, customers, and the environment. This division was established to oversee the LUS environmental regulatory requirements, including management of industrial discharge permits and fees.

Telecommunications Operation Division

The Telecommunications Division is responsible for the O&M of the wholesale fiber system throughout the City. The fiber system was built in 1999 and provides internal communications capabilities that are critical to the operation and reliability of LUS.

The fiber system offers wholesale broadband services to providers who may then use the infrastructure to offer services to the public. It also provides broadband and Internet service to most LCG facilities, schools and libraries. The Telecommunications Division is also responsible for development and implementation of telecommunication contracts for vendors and wholesale customers. It is expected that the Telecommunications Operation Division will launch its retail business during 2008.

LUS Personnel

Staffing Levels

Approximately 14.5 percent of the LUS total budgeted positions were unfilled at the end of 2007 (66 vacancies out of 456 positions). The average annual vacancy rate was approximately 12.7 percent or 58 vacant positions per month. The approximate employee turnover for during 2007 was reported as an approximate turnover rate of 15.3 percent (58 departures, transfers, retirements, etc.). The number of people employed by LUS as of October 31, 2007 and the number of employees included in the budget for the same fiscal year are shown in Table 3-5.

Table 3-5
LUS Employees as of October 31, 2007

Division	2006-2007 Budget	2007 Actual Full Time	Difference	Percent Vacancy
Director's Office	2	2	0	0.0%
Support Services				
Admin & Support	10	9	1	10.0%
Training	1	1	0	0.0%
Meter Services	27	26	1	3.7%
Total Support Services	38	36	2	5.3%
Customer Service	31	28	3	9.7%
Environmental Compliance	21	17	4	19.0%
Power Production (1)	41	28	13	31.7%
Electric Operations			0	
Admin & Support	4	3	1	25.0%
Transmission & Distribution (1)	48	45	3	6.3%
Energy Control (1)	16	15	1	6.3%
Substation & Communication (1)	6	5	1	16.7%
Facilities Management	15	13	2	13.3%
Total Electric Operations	89	81	8	9.0%
Water Operations				
Production	23	20	3	13.0%
Distribution	39	35	4	10.3%
Total Water Operations	62	55	7	11.3%
Wastewater Operations				
Treatment	61	60	1	1.6%
Collection	39	19	20	51.3%

Division	2006-2007 Budget	2007 Actual Full Time	Difference	Percent Vacancy
Total Wastewater Operations	100	79	21	21.0%
Engineering				
Civil	18	14	4	22.2%
Administration	11	11	0	0.0%
Power Marketing	8	8	0	0.0%
System Engineering	20	18	2	10.0%
Electric System Construction	5	3	2	40.0%
Total Engineering	62	54	8	12.9%
Telecommunications	10	10	0	0.0%
Total	456	390	66	14.5%

(1) Market based salaries have been implemented in these divisions.

Source: LUS, 'Personnel Strength Monthly Report,' 02/08.

Succession Planning

LUS has a large number of highly qualified staff approaching retirement or eligible to retire. LUS acknowledges the importance of training and hiring staff to replace those that have or will be retiring in the next few years. Although LUS struggles to fill vacant positions with qualified personnel and has difficulty retaining staff, LUS has been proactive within their pay scale constraints. LUS has been proactive by identifying key staff members to be mentored and working to fill vacant positions. LUS should continue these activities and maintain their proactive approach to succession planning.

Compensation

Utilities System

Section 8.2 of the 2004 Bond Ordinance requires the Consulting Engineer to review and make necessary recommendations related to the pay scales of LUS employees.

The average LUS employee salary during 2007 and prior years is shown in Table 3-6. Changes in the average annual salary from year to year reflect salary administration and alterations to the total employee mix relating to both longevity and the proportion of senior and junior positions (supervisory employees, senior employees, and new hires).

Table 3-6
LUS Average Annual Salaries

	2003	2004	2005	2006	2007
Average Annual Salary ($)	31,600	33,578	34,469	35,899	37,789

Source: LUS, 2/08.

Pay Scale Review

Regional market data was collected to examine the pay ranges for numerous positions within LUS. The positions chosen were based on key positions at LUS, the availability of data for positions comparable to those at LUS, and positions covering the Electric, Water and Wastewater Utilities.

A comparison to market and utility-specific data for similar positions was performed. For this comparison, the following activities were conducted:

- LUS job descriptions were compared to the descriptions available from global data sources. Where an exact match in title or job description was not evident, R. W. Beck determined how to align the various positions. A general correlation was made between the positions based on job titles, education, and experience requirements.
- The salary comparison was based on annual median salary ranges for January 2008. The review includes minimum, midpoint, and maximum salary ranges from Louisiana. The salary data obtained from the Dietrich Associates is from fall 2007.
- 2006 readily available data from the Bureau of Labor Statistics (BLS) was escalated to 2007 using a 2.9 percent factor. The 2.9 percent factor is based on the annual CPI increase for the South Urban area of the nation as published by the BLS. Data obtained from the American Water Works Association 2006 Compensation Survey was also escalated at a 2.9 percent factor.

The comparative analysis between the LUS median salary ranges for the defined positions and the median salary obtained from market sources suggests that the LUS median salary ranges are on average 30 percent below market for most positions within the Electric Utility. However, median salary ranges reviewed within the Water and Wastewater Utilities appear to be less than 10 percent below market. The level of compensation for technical and professional staff continues to be an issue for LUS. The turnover rate is, in part, indicative of salaries that are not sufficiently competitive to retain qualified staff in many areas. LUS has made progress in some divisions by implementing market-based pay.

The pay scale review only includes the salaries of employees and does not consider the combination of employees' salaries and benefits. A full review of salaries and benefits is beyond the scope of this report; however, a full-scale review should be considered by management given the continuing staffing issues.

Employment Practices and Employee Benefits

LCG employees, except for a few exempt employees and employees of the Police and Fire Departments, are under a Civil Service System. The result of the Civil Service System is that the ranges for wages and salaries of employees of LUS are often influenced by the overall financial position of LCG. This places restraints on LUS' ability to employ and retain well-qualified applicants for positions requiring special technical skills and experience. As of February 2008, LCG has begun to investigate

what may be involved with implementing market based rates for positions across LCG.

The procedure for filling personnel vacancies in LUS begins with a list of eligible applicants. The applicable appointing authority makes the final selection for the specific position. An applicant hired for a permanent position must then serve an initial probationary period of six months. The career advancement process includes an employee evaluation program, which is used to assist management in determining which employees have potential for promotion.

A group life and medical insurance program for employees is provided through the LCG self-insurance program. LCG pays approximately 81 percent of employee health insurance, 100 percent of life insurance premiums, and 59 percent of the cost for dependent medical coverage. The group life insurance plan provides coverage equal to two times the employees' annual salary.

Paid vacation (annual leave) up to a maximum of 24 working days per year is earned and provided to employees. The maximum annual level is reached after 20 years of service. Sick leave with pay is credited at the rate of one day per month of employment, with no limit to the amount of sick leave an employee may accumulate. Provisions are established for payment of accumulated unused sick leave upon retirement.

LCG employees are enrolled in the supplementary plan of either the Louisiana Municipal Employees' Retirement System (MERS) or the Louisiana Parochial Employees' Retirement System (PERS), although all new employees are enrolled into PERS. Disability and survivor benefits are also provided.

LUS has a drug-free workplace policy for the purpose of deterring or detecting illegal drugs and unauthorized substances in the workplace. It established a random testing program, as well as testing procedures, for reasonable suspicion or probable cause. It also provided employees with an employee assistance program comprised of counseling and rehabilitation programs.

LUS encourages its personnel to attend numerous technical short courses and seminars to keep abreast of changing technology and procedures in the utility industry. Examples of training courses taken by management include computer training; management training; and technical courses, such as water quality, wastewater treatment, electric relay, system protection, and electric distribution system design. Clerical staff skills are also enhanced with course topics such as office management and writing skills.

Insurance

Insurance is handled by LCG's Risk Management Division. LCG maintains a self-insurance fund for property and casualty claims. LCG fully self-insures general liability, auto liability, fleet collision/fleet fire, and directors' and officers' liability. LCG also self-insures the group health plan and administers a flex-funded life insurance plan. Excess policies are carried for fire and extended coverage, boiler, machinery, and worker's compensation. Coverage values for existing generation

assets are based on previous appraisals and conversations with appropriate LUS personnel.

According to LCG's financial report for 2007, LCG is in compliance with Governmental Accounting Standards Board 10, Reporting for Risk Financing and Related Issues, for public entities.

The balance in the Risk Management Fund at the end of 2007 was approximately $337,977. Insurance related expenditures and recoveries from the Risk Management Fund for LUS for 2007 and the previous five years are provided in Table 3-7.

Table 3-7
LUS Insurance Transactions (1)

	2003	2004	2005	2006	2007
Payments ($)	1,015,923	1,065,232	740,476	1,172,068	1,783.006
Recovery ($)	(498,752)	(350,584)	(267,976)	(159,023)	(612,087)
Effective Payments ($)	517,171	714,648	472,500	1,013,045	1,170,919

(1) Cash basis. Expenditures incurred, recoveries collected during year, not necessarily at time of claim.
Source: LCG, 2/08.

LUS Organizational Goals

LUS updated its Strategic Plan in 2007 and anticipates updating the plan annually. Various employee committees developed goals in five areas consistent with LUS' vision, mission, values, and departments. Specific key areas and goals are provided in Table 3-8. The Strategic Plan includes specific action items assigned to specific LUS individuals for the key areas identified below.

Electric, Water and Wastewater Utilities' objectives include supporting the customer focus and include promotion of customer growth and creation of a customer-focused culture, in addition to the specific key areas listed in Table 3-8.

Table 3-8
Strategic Plan Goals

Focus	Key Areas
Customer Focus (Main Focus)	Improve customer service. Retain and expand Customer base. Maintain community partnerships. Keep abreast of legal issues.
Employee Focus	Reinforce LUS core values. Develop appropriate training. Provide career development. Benchmark for system improvements.
Electric Focus	Ensure adequate self-generation capacity. Maintain supply of competitively-priced fuel. Operate and maintain generating and transmission and distribution facilities using best practices. Ensure adequate transmission system capacity with M-1 reliability criteria. Explore initiatives to promote customer sales growth. Create and nurture a customer focused culture.
Water Focus	Ensure adequate supply, treatment, and distribution capacity. Operate and maintain systems using best practices. Develop strategies and methodologies to extend service to our customers. Create and nurture a customer focused culture.
Wastewater Focus	Ensure adequate treatment and collection capacity. Operate and maintain systems using best practices. Explore initiatives to promote customer growth. Create and nurture a customer focused culture.
Telecom Focus	Ensure adequate telecommunication facilities. Operate and maintain telecom facilities using best practice. Explore initiatives to promote customer sales growth. Create and nurture a customer focused culture. Deploy fiber-to-the-home and business communication system. Engage in state, regional, and national activities that have a direct impact on the provision of telecommunication services. Use proven technologies and methodologies for O&M. Develop strategies and methodologies to extend service to our customers.
Technology Focus	Ensure adequate network facilities and equipment. Use proven technologies and methodologies for operation and maintenance.

Focus	Key Areas
	Develop strategies and methodologies to extend services to employees.
	Identify and respond to internal technology needs and concerns.

Source: LUS, Strategic Plan FY 2007.

The plan sets measurable goals that LUS can use to determine how well LUS is progressing towards the goals of the Strategic Plan. In addition, LUS expects to use the plan in conjunction with their budgeting procedures.

Recommendations

Recommendations and their status are provided in Table 3-9. We have indicated the priority of the recommendation as either highest, high or normal.

Table 3-9
Recommendations

Organization and Management	Priority	Status
LUS should update and review its Strategic Plan consistently. LUS should review the measurable goals throughout the year to determine LUS' status with regards to the Strategic Plan	High	In Progress
LUS should continue to investigate appropriate actions to attract and maintain qualified employees, thus reducing the turnover rate.	High	In Progress
LUS should continue its preparation for the succession of key management positions due to potential retirements in these areas in the next 3-5 years.	High	In Progress
LUS should consider performing a full review of employee pay scale and benefits given staffing issues.	High	In Progress

4

Section 4
FINANCE AND ACCOUNTING

R·W·BECK

Section 4
FINANCE AND ACCOUNTING

LUS provides electric, water, wastewater, and wholesale fiber services to customers located both inside and outside the City limits. LUS is directed by the President and regulated by the Council with regard to utility service pricing and revenue bond financing.

The following discussion summarizes the findings of the Consulting Engineer with respect to the financial condition of LUS based upon discussions with and information supplied by LUS and LCG personnel. This section of the report has two parts: Utilities System and Communications System. The Utilities System includes the Electric, Water, Wastewater and Fiber Systems. Due to the 2007 Bond Ordinance, the Communications System maintains a separate budget and financial and operating statements. The Utilities System will be discussed first, followed by the Communications System.

Utilities System

The Utilities System includes the Electric, Water, Wastewater and Fiber Systems. The fiber system includes only wholesale telecommunications. Retail telecommunications falls under the Communications System.

Accounting

Section 7.8 of the 2004 Bond Ordinance requires that the City of Lafayette keep separate identifiable financial books, records, accounts and data regarding the Utilities System.

The Home Rule Charter, Section 4-07, 'Utilities Department,' states: *"The utility department shall function in accordance with conditions included in current or future bond resolutions and covenants except that reference to "city" therein shall refer to the Lafayette Public Utilities Authority."*

LCG currently prepares monthly financial statements that include important operating financial and managerial data. Except for several months following the close of a fiscal year, these internal statements are scheduled to be issued by the 20th day of the month following the reporting period. However, the final statements for the first several months of the new fiscal year are delayed by several months because they cannot be completed until the prior year's independent auditor's report is received by the City. This audit for the fiscal year ending in October is not available until approximately April of the following year.

The Consulting Engineer is particularly concerned about this delay in the availability of important financial information necessary for informed management of LUS. This is particularly critical for the telecommunications business. Timely information is essential for all LUS business, particularly as margins diminish. Additionally, the new management of business ventures such as telecommunications is extremely difficult when current financial initiatives may exist. Basic financial and operating results including costs, revenue and performance measurements should be available from two to four weeks after the end of a given month if the utility is to be responsive to the dynamics of the rapidly changing utility industry.

LCG is in the process of choosing a new financial management system. This system is anticipated to be in place by November 1, 2008. One of the goals of the new system is to provide timely and accurate reports to LUS.

Rate Revisions

The Council and LPUA have the exclusive right to regulate LUS' rates and charges for services within and outside the corporate limits of the City. The 2004 Bond Ordinance, Section 8.3, states that it is the duty of the Consulting Engineer to advise on any revisions of rates and charges except fuel adjustment charges. Historical rate changes are shown below in Table 4-1.

Table 4-1
Historical Rate Changes approved by LPUA (1)

	2003	2004	2005	2006	2007
Electric					
Retail (%) (2)	0.0	0.0	0.0	7.0	0.0
Water					
Retail (%)	0.0	0.0	0.0	0.0	5.0
Wholesale (%)	0.0	0.0	0.0	0.0	0.0
Wastewater					
Retail (%) (3)(4)	9-20	8-16	0.0	25.0	12.5

(1) Rate changes shown took effect on November 1 of each year.

(2) Rate increase applied to base rate. Fuel adjustment charge not included in table.

(3) For fiscal year 2003, the residential customer charge increased by 19.4 percent and the volumetric charge increased by 8.4 percent. For fiscal year 2003, the commercial customer charge decreased by 2.3 percent and the volumetric charge increased by 12.4 percent.

(4) For fiscal year 2004, the residential customer charge increased by 16.0 percent and the volumetric charge increased by 7.4 percent. For fiscal year 2004, the commercial customer charge decreased by 2.4 percent and the volumetric charge increased by 11.0 percent.

In the near future, LUS will need to conduct a comprehensive cost-of-service study to examine the adequacy and equity of existing rates. LUS should conduct a combined system cost of service study including Electric, Water and Wastewater Utilities. In addition, the overhead costs shared by the Utilities System and the Communications System should be allocated properly based on accepted accounting standards and

industry practice. This analysis is important in that LUS must understand the cost structure associated with the new capital and operating requirements of LUS.

In-Lieu-of Tax

On August 19, 2003 the City adopted the following change to the computation of taxable receipts for purposes of calculating the in-lieu-of tax (ILOT) payment to the City's General Fund. The Ordinance (No. O-185-2004) authorizing this change reads as follows:

In computing the annual in-lieu-of-tax payment to the City of Lafayette General Fund by the system pursuant to the bond resolution adopted by the Lafayette City-Parish Council and the Lafayette Public Utilities Authority on June 29, 2004 (Ordinance No. O-12-2004, Section 5.1 (e)(iv)):

(1) The cost of fuel shall be excluded from "receipts fund deposits" for such computation. Except that for the purpose of yielding additional in-lieu-of-tax, there shall be a partial amount of fuel cost restored to "receipts fund deposits" for the Fiscal Year 2003-2004 (for payment to the General Fund during FY 2004-2005). This "fuel restoration" shall be $41,666,667 and shall be applied as herein adopted. The cost of fuel shall include all component costs of fuel burned to deliver energy to retail and wholesale electric customers, including all component costs of power purchased to offset or supplement generation owned by Lafayette and the Lafayette Public Power Authority (LPPA).

(2) Revenues derived from the sale of unused capacity and energy from Rodemacher Power Station No. 2 to the other owners shall be excluded from the "receipts fund deposits" for such computation.

(3) The additional $5,000,000 of in-lieu-of-tax payment generated through the fuel restoration of $41,666,667 is made up of two components. The first $25,000,000 of fuel restoration implemented prior to Fiscal Year 2000-2001 and generating $3,000,000 of in-lieu-of-tax is not subject to any of the considerations listed below...The second component of the fuel restoration equal to $16,666,667, generating $2,000,000 of in-lieu-of-tax, and implemented for the first time in Fiscal Year 2000-2001 shall be applied as credit for utility relocation costs owed by the City of Lafayette Utilities System to the City of Lafayette's general and/or capital funds...

The ILOT payment to the general fund is based on the previous year's revenues. As shown in Table 4-2, the amount paid in each year was calculated according to the Bond Resolution using the previous year's revenues. Based on revenues in 2006, the amount paid in 2007 was $18.8 million. This is equal to 9.0 percent of LUS 2006 revenues. The budgeted amount to be paid in 2008 is $18.6 million, or 8.4 percent of LUS 2007 revenues.

By comparison, APPA's survey (published June 2006 containing 2004 data) of 343 public power systems shows that the median payments and contributions to their community's general fund were 5.3 percent of electric operating revenues. LUS'

payment in 2007 of 9.0 percent of LUS 2007 revenues was approximately 62 percent higher than APPA's median value.

Table 4-2
Historical ILOT Payments

	2003	2004	2005	2006	2007	Average
LUS Operating Revenues ($)	162,970,000	173,121,000	217,628,000	209,501,000	206,987,000	
LUS Calculated ILOT ($)	16,332,000	16,317,000	16,654,000	18,831,000	18,606,000	
ILOT as a percent of Revenues (%)	10.02	9.42	7.65	9.99	8.99	8.94
Electric Operating Revenues ($)	136,469,000	145,273,000	187,848,000	175,050,000	169,696,000	
Electric Calculated ILOT ($)	13,412,000	13,331,000	14,612,000	14,550,000	15,295,000	
ILOT as a percent of Revenues (%)	9.83	9.18	7.78	8.31	9.01	8.74

Source: LCG Annual Budget Document 2007-2008.
LUS Financial and Operating Statements 2003-2007, audited
Note: The 2007 ILOT was taken from the Budget until actual data can be provided

Utilities System Disposition of Unpledged Cash

Table 4-3 summarizes the Utilities System revenues and expenses for the Electric, Water, Wastewater and Fiber Utilities over the most recent five years. Overall in 2007, the Combined Utilities total revenues (including retail sales, wholesale sales and other sources of income) decreased by $2.5 million (1.2 percent), and operating expenses increased by $2.8 million (1.8 percent). This resulted in a decrease in Net Operating Revenue of approximately 3.4 percent, or $21.0 million. A major factor contributing to the decrease in revenues was the reduced electric wholesale sales.

The debt service payment for the 2004 bonds increased to $9.9 million in 2007 according to the 2004 Official Statement. Normal capital expenditures for additions to plant paid from cash, not including retained earnings, increased by 56 percent.

Table 4-3
Utilities System Disposition of Unpledged Cash

	2003	2004	2005	2006	2007
Utilities System Operating Revenues ($)	162,970,204	173,121,340	217,628,071	209,501,392	206,987,370
Utilities System Operating Expenses ($)	129,489,771	136,463,280	177,901,032	153,561,453	156,329,581
Utilities System Other Revenues (Expenses) ($)	1,744,702	1,129,051	3,356,667	5,404,907	8,626,426
Net Operating Revenues ($)	35,225,135	37,787,111	43,083,706	61,344,845	59,284,215
Debt Service					
Interest ($)	956,997	$656,367	3,745,587	7,041,490	9,043,138
Principal ($)	6,270,000	12,213,278	815,000	840,000	860,000
Total Debt Service($)	7,226,997	12,869,645	4,560,587	7,881,490	9,903,138
Balance After Debt Service ($)	27,998,138	24,917,466	38,523,119	53,463,355	49,381,077

	2003	2004	2005	2006	2007
Less Expenditures for Normal Additions to Plant Considered Payable from Operating Revenues ($)	8,144,540	9,385,964	6,486,719	9,136,459	14,300,895
Change in Cash due to Operations ($)	19,853,598	15,531,502	32,036,400	44,326,896	35,080,182
Less In-Lieu-of-Tax Payment ($)	14,190,874	16,332,000	16,316,608	16,653,751	18,831,929
Changes in Balance Sheet Accounts affecting Cash ($)	(932,909)	4,732,794	20,711,295	33,445,388	20,704,169
Resulting Change in 'Unpledged Cash' ($)	(6,595,633)	5,533,292	4,991,503	5,772,243	4,455,916

Source: LUS Financial and Operating Statements 2003-2007, audited
LUS Status of Construction Work Orders

Financial and Operating Ratio Comparison

Table 4-4 provides a comparison of LUS' Electric Utility with other large electric power systems nationwide; however, not all ratios are based on the same number of power systems since some did not have data applicable to each ratio. The 2005 data for these systems was obtained from the American Public Power Association (APPA) website[1]. This may significantly impact the comparisons that are based on fuel costs as fuel costs have changed dramatically in recent years.

Table 4-4
Financial & Operating Ratios - Public Power Systems

Financial Ratios – 2006 Median Values	20,000 to 50,000 Customers (1)	50,000 to 100,000 Customers (2)	Southwest (3)	LUS 2006	LUS 2007
1. Revenue per kWh for Retail Customers ($)	0.076	0.078	0.077	0.088	0.087
2. Debt to Total Assets	0.290	0.317	0.310	0.342	0.335
3. Operating Ratio (Electric only)	0.860	0.819	0.848	0.755	0.784
4. Current Ratio	2.220	2.300	2.910	1.165	1.217
5. Times Interest Earned	5.190	3.310	5.560	7.594	5.338
6. Debt Service Coverage	5.190	3.100	3.820	5.891	3.961
7. Net Income per Revenue Dollar ($)	0.054	0.046	0.096	0.104	0.035
8. Uncollectible Accounts per Revenue Dollar ($)	0.003	0.004	0.003	0.003	0.003

(1) 20,000 – 50,000 Customers – 54 reporting utilities.
(2) 50,000 – 100,000 customers – 15 reporting utilities.
(3) Southwest Region = Southwest Power Pool and ERCOT – 23 reporting utilities.

Source:
Ratios from the 'Selected Financial and Operating Ratios of Public Power Systems' published in January 2008 by APPA, 2006 Data.
For description on ratios, see glossary following this table.
LUS Financial and Operating Statements 2006-2007, audited

[1] http://www.appanet.org/files/PDFs/selectedratios.pdf

LUS had 60,018 electric retail customers – hence the two columns for number of customers. The financial ratios (debt to total asset) indicate that LUS has a higher than average debt level but LUS can more than cover its debt obligations (debt service coverage). LUS' net earnings per dollar of revenue in 2006 were higher than the averages reported in the APPA study; however, LUS' 2007 net earnings per dollar of revenue were lower.

Glossary for Electric Financial and Operating Ratios

The following definitions and comments relate to the ratio input data and national ratio statistics and are excerpted from APPA's *Selected Financial and Operating Ratios of Public Power Systems* shown in Table 4-4.

Revenue per kWh (Line 1)

The ratio of total electric operating revenues from sales to ultimate customers to total kilowatt-hour sales measures the amount of revenue received for each kilowatt-hour of electricity sold to all classes of customers, including residential, commercial, industrial, public street and highway lighting and other customers.

Debt to Total Assets (Line 2)

The ratio of long-term debt, plus current and accrued liabilities, to total assets and other debits measures a utility's ability to meet its current and long-term liabilities based on the availability of assets.

Long-term debt includes bonds, advances from the municipality, other long-term debt, any unamortized premium on long-term debt and any unamortized discount on long-term debt. Current and accrued liabilities include warrants, notes and accounts payable, payables to the municipality, customer deposits, taxes accrued, interest accrued, and miscellaneous current and accrued liabilities. Total assets and other debits include utility plant, investments, and current and accrued assets and deferred debits.

This ratio may be influenced by the extent to which its components include information applicable to the non-electric portion of the utility, if any (e.g., gas, water or other). In addition, the ratio may be influenced by a utility's financial policies.

Operating Ratio (Line 3)

The ratio of total electric O&M expenses to total electric operating revenues measures the proportion of revenues received from electricity sales, rate adjustments and other electric activities required to cover the O&M costs associated with producing and selling electricity.

O&M expenses include the costs of power production, purchased power, transmission, distribution, customer accounting, customer service, sales, and administrative and general expenses. This ratio may be influenced by the availability of alternative power options and the costs of purchased power.

Current Ratio (Line 4)

The ratio of total current and accrued assets to total current and accrued liabilities is a measure of the utility's short-term liquidity (the ability to pay bills). The current ratio takes a snapshot of the utility's liquidity at a point in time and thus may vary considerably at other times of the year.

Total current and accrued assets include cash and working funds, temporary cash investments, notes and accounts receivable, receivables from the municipality, materials and supplies, prepayments and miscellaneous current and accrued assets. Total current and accrued liabilities include warrants, notes and accounts payable, payables to the municipality, customer deposits, taxes accrued, interest accrued and miscellaneous current and accrued liabilities.

Times Interest Earned (Line 5)

The ratio of net electric utility income, plus interest paid on long-term debt, to interest on long-term debt, measures the ability of a utility to cover interest charges and is indicative of the safety margin to lenders. Utilities that do not report any long-term debt are excluded from this ratio. This ratio may be influenced by a utility's financial policies.

Debt Service Charge (Line 6)

The ratio of net revenues available for debt service to total long-term debt service for the year measures the utility's ability to meet its annual long-term debt obligation.

Net revenues available for debt service equal net electric utility operating income (operating revenues minus operating expenses) plus net electric utility non-operating income, plus depreciation. Debt service includes principle and interest payments on long-term debt. This ratio may be influenced by a utility's financial policies.

Net Income per Revenue Dollar (Line 7)

The ratio of net electric utility income to total electric operating revenues measures the amount of income remaining—after accounting for O&M expenses, depreciation, taxes and tax equivalents—for every dollar received from sales of electricity.

The ratio may be influenced by the type and availability of power supply options and by the amount of taxes and tax equivalents that a utility transfers to the municipality or other governmental body. Financial policies and the amount of debt may also affect this ratio (e.g., how a utility finances capital investments).

Uncollectible Accounts per Revenue Dollar (Line 8)

The ratio of total uncollectible accounts to total electric utility operating revenues measures the portion of each revenue dollar that will not be collected by the utility. This ratio will be influenced by the financial and customer service policies of the utility.

Electric Utility

Operating Results

Table 4-5 summarizes the Electric Utility revenues and expenses for the most recent five years. In 2007, the Electric Utility operating revenues decreased by approximately 3.1 percent, or $5.4 million, from 2006. A major contributing factor to this revenue decrease was from the lower wholesale sales. Retail revenues remained relatively flat, while wholesale revenues decreased by approximately 83.4 percent from 2006 levels. Wholesale revenues decreased due to market conditions, including lower wholesale market prices.

During 2007, Electric Utility O&M expenses increased by less than 1 percent. The natural gas costs increased by 42.7 percent, or $8.3 million, due to higher natural gas prices and increased self generation. The purchased power costs decreased 12.0 percent, or $10.5 million, due to fewer market purchases. Other electric system O&M costs increased by about 12.3 percent, or $3.1 million dollars during 2007.

LUS passes fuel costs on to retail customers via a fuel adjustment factor. LUS reviews the fuel adjustment factor monthly and adjusts the calculation periodically in order to recover fuel and purchased power costs.

In 2007, the Net Margin decreased by approximately 9.1 percent, or $4.3 million from 2006 levels.

Table 4-5
Electric Utility Operating Results

	2003	2004	2005	2006	2007
Electric Operating Revenues ($)					
Retail	122,845,356	130,780,046	164,899,400	166,022,707	166,149,829
Wholesale	12,232,000	12,742,061	20,812,121	6,927,781	1,150,327
Other	1,391,538	1,751,337	2,136,070	2,100,012	2,395,985
Total Electric Operating Revenues ($)	136,468,894	145,273,444	187,847,591	175,050,499	169,696,141
Electric Operating Expenses ($)					
Operation Expenses					
Fuel – Gas	20,909,938	28,871,511	60,387,193	19,521,843	27,863,787
Purchased Power – LPPA	44,230,058	44,566,751	46,266,400	56,789,937	62,412,389
Purchased Power – Other	25,211,290	20,315,416	24,666,146	30,969,958	14,803,604
Other	16,898,665	17,773,657	18,985,504	19,073,385	20,426,428
Maintenance Expenses	4,990,853	6,702,630	6,958,327	5,759,089	7,470,080
Total Operating Expenses ($)	112,240,804	118,229,964	157,263,570	132,114,212	132,976,289
Electric Non Operating Revenues (Expenses) ($)					
Interest Revenues	1,633,993	1,613,012	4,199,950	5,014,681	5,415,927
LUS Fiber Start –up Reimbursement	0	0	0	0	1,059,598
Miscellaneous Non Operating Revenues	340,504	0	0	478	0

	2003	2004	2005	2006	2007
FTTH Start Up Project [1]	0	(306,984)	(929,271)	(501,721)	0
Interest on Customer Deposits	(13,935)	(1,413)	(15,316)	(9,496)	(9,538)
Loss on Extinguishment of Debt	(112,128)	(61,104)	0	0	0
Hurricanes Rita and Katrina [2]	0	0	(55,123)	90,375	0
Hurricane Lili [2]	(30,582)	0	0	0	0
Power Plant Decommissioning [3]	(887,594)	(298,643)	0	0	0
Miscellaneous Non Operating Expense	(14,935)	(8,217)	(2)	0	0
Total Non Operating Revenues (Expenses) ($)	915,323	936,650	3,200,239	4,594,317	6,465,987
Net Margin ($) [4]	25,143,413	$27,980,131	33,784,259	47,530,604	43,185,840

(1) Allocation pursuant to LUS proposed Cost Allocation Manual.

(2) Non-recurring O&M expenses associated with hurricanes.

(3) Decommissioning expenses associated with Curtis A. Rodemacher Generating Station.

(4) Before Depreciation and Debt Service.

Source: LUS Financial and Operating Statements 2003-2007, audited

Statistical Data

The selected statistical data in this section pertaining to the number of customers, customer usage, and revenues by class was obtained or developed from the LUS Financial and Operating Statements for years 2003 through 2007.

Revenues

Table 4-6 shows the Electric Utility statistics for the most recent five years. The total sales (MWh) decreased by 1.6 percent. The number of electric accounts increased by 2.2 percent over the last fiscal year.

In 2007, the average electric usage per retail customer decreased by less than 1.0 percent, from 32,066 kilowatt hours (kWh) to 31,955 kWh. The average electric revenue per retail customer, including fuel cost adjustment charges decreased by 2.1 percent in 2007 compared to 2006.

Wholesale sales decreased significantly from 2005 to 2006 primarily due to the expiration of the Louisiana Energy and Power Authority (LEPA) contract. Wholesale sales decreased by 66 percent during 2007 due to market conditions. The wholesale revenue on a per MWh basis decreased by 51 percent, indicating the low market prices seen during 2007.

Table 4-6
Electric Sales Revenue and Statistics

	2003	2004	2005	2006	2007
Electric Sales Revenues ($)					
Retail - Rate Base	60,607,556	62,038,819	64,125,021	69,066,474	70,333,804
Retail - Fuel Adjustment	62,237,800	68,741,227	100,774,379	96,956,233	95,816,026
Wholesale	12,232,000	12,742,061	20,812,121	6,927,781	1,150,327

	2003	2004	2005	2006	2007
Other	1,391,538	1,751,337	2,136,070	2,100,012	2,395,985
Total Electric Sales Revenues ($)	136,468,894	145,273,444	187,847,591	175,050,499	169,696,141
Electric Sales (MWh)					
Retail	1,755,595	1,803,558	1,869,428	1,883,007	1,917,891
Wholesale	268,379	284,095	423,524	101,846	34,661
Total Sales	2,023,974	2,087,653	2,292,952	1,984,853	1,952,552
Electric Number of Accounts (Average)					
Retail	56,604	57,489	57,906	58,722	60,018
Wholesale	8	12	12	12	13
Total Accounts	56,612	57,501	57,918	58,734	60,031
Electric Statistics – Retail					
Usage per Account (kWh)	31,015	31,372	32,284	32,066	31,955
Revenue per Account (with fuel)	$2,170	$2,275	$2,848	$2,827	$2,768
Revenue per Account (without fuel)	$1,071	$1,079	$1,107	$1,176	$1,172
Revenue per MWh (with fuel)	$69.97	$72.51	$88.21	$88.17	$86.63
Revenue per MWh (without fuel)	$34.52	$34.40	$34.30	$36.68	$36.67
Electric Statistics - Wholesale					
Usage per Account (kWh)	33,547,375	23,674,583	35,293,667	8,487,167	2,666,231
Revenue per Account (with fuel) ($)	1,529,000	1,061,838	1,734,343	577,315	88,487
Revenue per MWh (with fuel) ($)	45.58	44.85	49.14	68.02	33.19

Source: LUS Financial and Operating Statements 2003-2007, audited

Power Costs

Table 4-7 summarizes Electric Utility power costs for the most recent five years. As shown in this table, the total Electric Utility energy costs increased overall by 2.2 percent to $53.17 per MWh in 2007. Self-generation costs increased by 16.9 percent per MWh primarily due to increased fuel prices. On a unit basis, total purchased power costs decreased by 6.8 percent per MWh due to lower market prices. LPPA purchased power costs increased by 3.5 percent per MWh.

Table 4-7
Electric Utility Annual Power Costs

	2003	2004	2005	2006	2007
Expenses					
Self Generation ($)					
Fuel	20,909,938	28,871,511	60,387,193	19,521,843	27,863,787
Other	3,162,529	4,448,433	5,225,347	3,877,304	5,685,003
Total Self Generation ($)	24,072,467	33,319,945	65,612,540	23,399,147	33,548,790

	2003	2004	2005	2006	2007
Purchases ($)					
LPPA	44,230,058	44,566,751	46,266,400	56,789,937	62,412,389
Other Supplies	25,211,290	20,315,416	24,666,146	30,969,958	14,803,604
Total Purchased Power ($)	69,441,348	64,882,166	70,932,546	87,759,895	77,215,993
Total Supply ($)	93,513,815	98,202,111	136,545,087	111,159,042	110,764,782
Energy (MWh)					
Self Generation	346,912	463,145	632,728	230,855	283,191
Purchases					
LPPA	1,249,829	1,339,136	1,412,515	1,484,509	1,576,314
Other Supplies	558,829	412,996	354,414	421,554	223,593
Total Purchased Power	1,808,658	1,752,132	1,766,929	1,906,063	1,799,907
Total Supply	2,155,570	2,215,277	2,399,657	2,136,918	2,083,098
Average Costs ($/MWh)					
Self Generation ($)					
Fuel	60.27	62.34	95.44	84.56	$98.39
Other	9.12	9.60	8.26	16.80	20.07
Total Self Generation ($)	69.39	71.94	103.70	101.36	$118.47
Purchases ($)					
LPPA	$5.39	33.28	32.75	38.26	39.59
Other Supplies	45.11	49.19	69.60	73.47	66.21
Total Purchased Power ($)	38.39	37.03	40.14	46.04	42.90
Total Supply ($)	43.38	44.33	56.90	52.02	53.17

Source: LUS Financial and Operating Statements 2003-2007, audited

Detailed Expenses

As shown in Table 4-8, the compounded annual average changes in Electric Utility expenses over the last five years are as follows:

- Production Expense – Non-Fuel – 15.8 percent increase
- Transmission Expense – 2.7 percent decrease
- Distribution Expense – 9.4 percent increase
- Administrative Support – 4.8 percent increase

Administrative Support expenses include Customer Operations, Customer Services, and Administrative and General expense. The Electric, Water, Wastewater and Fiber Utilities have experienced a significant growth in Administrative and General Expense. This significant growth is a result of changes in accounting practices, employee health insurance rates, and credits for Administrative Expenses transferred.

Table 4-8
Electric Utility Detailed Expenses

	2003	2004	2005	2006	2007
Electric Production Expense ($)					
Operation – Fuel Expense	20,909,938	28,871,511	60,387,193	19,521,843	27,863,787
Operation – Non Fuel	1,221,658	1,544,458	1,851,350	1,955,089	2,135,202
Maintenance	1,940,871	2,903,976	3,373,997	1,922,215	3,549,801
Purchased Power – LPPA	44,230,058	44,566,751	46,266,400	56,789,937	62,412,389
Purchased Power – Other	25,211,290	20,315,416	24,666,146	30,969,958	14,803,604
Electric Transmission Expense ($)					
Operation	4,562,148	4,360,383	4,422,913	4,264,403	4,017,349
Maintenance	96,848	150,917	98,093	94,166	153,215
Electric Distribution Expense ($)					
Operation	1,890,682	2,103,120	1,967,032	1,652,025	3,160,416
Maintenance	2,953,134	3,647,737	3,486,237	3,742,709	3,767,064
Other Electric Expense ($)					
Customer Operations Expense	2,429,964	2,566,156	2,606,374	2,899,652	2,309,474
Customer Services	86,697	103,182	65,304	47,426	76,140
Administrative & General	6,707,516	7,096,358	8,072,532	8,254,790	8,727,846
Total Electric Expense ($)	112,240,804	118,229,964	157,263,570	132,114,212	132,976,289

Source: LUS Financial and Operating Statements 2003-2007, audited

Comparative Operation and Maintenance Expenses

Table 4-9 compares LUS O&M expenses with other public power systems across the United States. The data in Table 4-9 for the other public power systems are from the APPA *Selected Financial and Operating Ratios of Public Power Systems* survey report published January 2008. The survey included 214 public power systems. The APPA data represents 2006 operations.

Table 4-9
O&M Expense Comparison - Public Power Systems

Operating Ratios – 2006 Median Values	20,000 to 50,000 Customers [1]	50,000 to 100,000 Customers [2]	Southwest [3]	LUS 2006	LUS 2007
1. Total O&M Expenses per kWh Sold ($)	0.063	0.064	0.067	0.067	0.068
2. Total O&M Expense (excluding Power Supply) per Retail Customer ($)	262	304	317	357	370
3. Total Power Supply Expense per kWh Sold ($)	0.054	0.057	0.052	0.056	0.057
4. Purchased Power Cost per kWh ($)	0.053	0.052	0.049	0.046	0.043
5. Retail Customers per Meter Reader	5,571	7,527	4,318	3,091	2,858
6. Distribution O&M Expense per Retail Customer ($)	117	110	136	92	115
7. Distribution O&M Expense per Circuit Mile ($)	4,571	6,578	5,441	6,229	7,733

Operating Ratios – 2006 Median Values	20,000 to 50,000 Customers (1)	50,000 to 100,000 Customers (2)	Southwest (3)	LUS 2006	LUS 2007
8. Customer Accounting, Service and Sales Expense per Retail Customer ($)	50	51	52	50	40
9. Administrative & General Expense per Retail Customer ($)	94	127	129	141	145

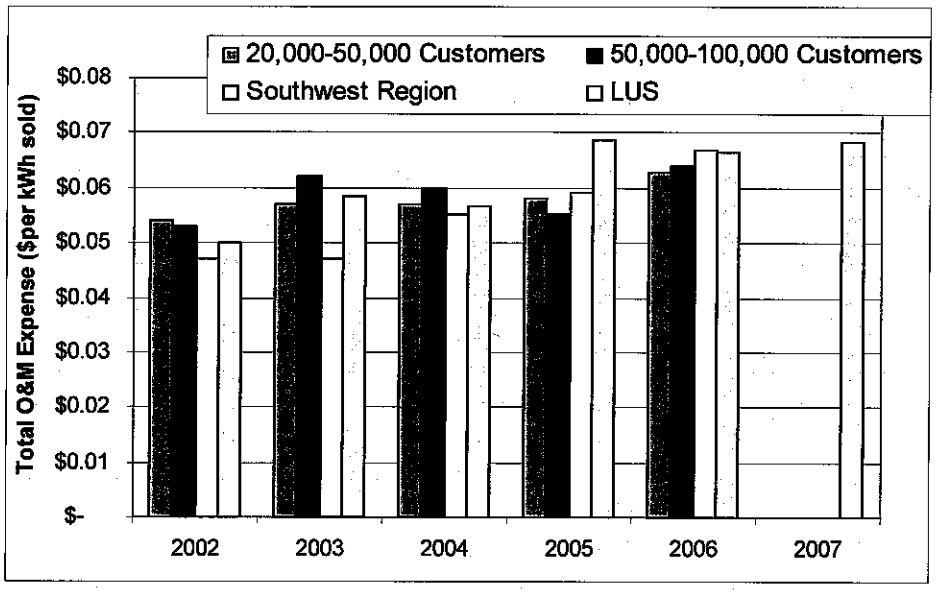
(1) 20,000-50,000 Customers – 54 reporting utilities.

(2) 50,000-100,000 Customers – 15 reporting utilities.

(3) Southwest Region - Southwest Power Pool & ERCOT– 23 reporting utilities.

Source: Ratios from 'Selected Financial and Operating Ratios of Public Power Systems' published by APPA in January 2008, 2006 Data.
For description on ratios, see glossary later in this section.
LUS Financial and Operating Statements 2006-2007, audited

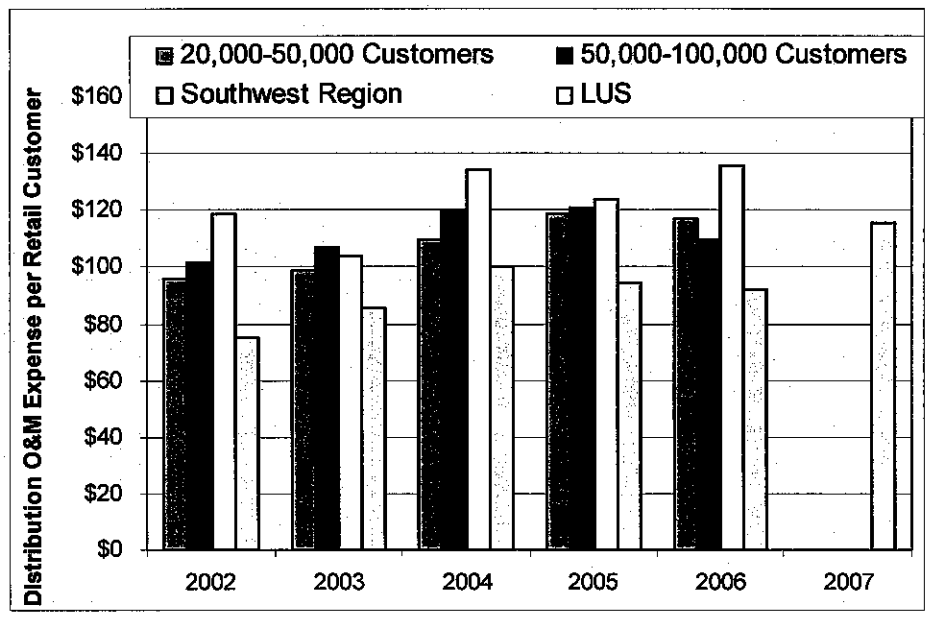
Because LUS had 60,018 electric retail customers, LUS would be comparable with utilities in the 20,000 to 50,000 customer range as well as utilities in the 50,000 to 100,000 customer range.



Note: 2007 APPA data not available at time of this Report.

Figure 4-1: Total O&M Expense on a per kWh Basis

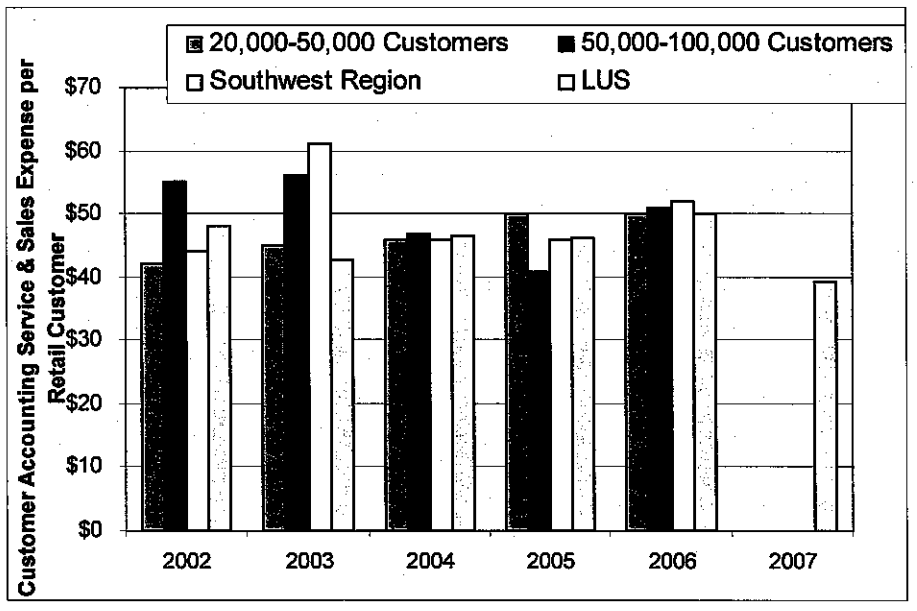
When comparing LUS' Total O&M expense on a unit basis to utilities in the APPA report, LUS' expenses generally appear to be on the slightly higher side in recent years as shown in Figure 4-1.



Note: 2007 APPA data not available at time of this Report.

Figure 4-2: Distribution O&M Expense per Retail Customer

As shown in Figure 4-2, LUS' Distribution O&M expense on a retail customer basis is generally lower when compared with other utilities in the APPA report. The same holds true when comparing Distribution O&M expense on a per circuit mile basis.



Note: 2007 APPA data not available at time of this Report.

Figure 4-3: Customer Accounting Service & Sales Expense per Retail Customer

As shown in Figure 4-3, LUS' customer-related expenses on a retail customer basis are average or slightly lower when compared with other utilities in the APPA report.

According to Table 4-9, LUS' purchased power costs on a unit basis for 2006 are slightly lower than the APPA averages. However, LUS' retail customers per meter reader are much lower than the APPA averages. The 2006 customer-related and A&G expenses appear to be somewhat higher than average when compared to the APPA data.

Glossary for Electric Operating Ratios

The following definitions and comments are excerpted from APPA's report entitled *Selected Financial and Operating Ratios of Public Power Systems* and related to the ratio input data and national ratio statistics shown in Table 4-9.

Total Operation and Maintenance Expense per Kilowatt-Hour Sold (Line 1)

The ratio of total electric utility O&M expenses, including the cost of generated and purchased power, to total kWh sales to ultimate and resale customers includes the cost of generated and purchased power and measures average total O&M expenses associated with each kilowatt-hour of electricity sold, either for resale or to ultimate customers.

Included in O&M costs are the expenses associated with power supply (generation and purchased power), transmission, distribution, customer accounting, customer services, sales, and administrative and general functions of the electric utility. Because power supply expenses typically comprise the largest component of total O&M expenses, this ratio may be influenced by the proportion of power generated by a utility and the availability of alternative power supplies. Kilowatt-hours of electricity produced but not sold (i.e., energy furnished without charge or energy used internally and energy losses) are not included in the denominator.

Total Operation and Maintenance Expense (Excluding Power Supply Expense) per Retail Customer (Line 2)

The ratio of total electric utility O&M expenses, excluding all costs of power supply, to the total number of ultimate customers, is the total O&M expense per retail customer.

O&M expenses include the costs of transmission, distribution, customer accounting, customer services, sales and administrative and general expenses. The cost of power supply (generation and purchased power) is excluded from the ratio. This ratio may be affected by population density and the mix of customers between various classes (residential, commercial, industrial or other). In addition, the extent that a utility services a large number of resale customers will influence the ratio.

Total Power Supply Expense per Kilowatt-Hour Sold (Line 3)

The ratio of the total costs of power supply to total sales to both ultimate and resale customers is the total power supply expense per kilowatt-hour sold. This ratio measures all power supply costs, including generation and purchased power, associated with the sale of each kilowatt-hour of electricity.

The ratio includes O&M costs arising from all generation types, including steam, nuclear, hydraulic and other types of generation. O&M expenses include the costs of

fuel, labor, supervision, engineering, materials and supplies, and also include the cost of purchased power. The ratio may be influenced by the geographic location of the utility, the availability of alternative power supplies, the degree to which the utility can generate its own power, and access to transmission. The ratio does not include kilowatt-hours produced but not sold (i.e., energy used internally, energy furnished without charge, or energy losses).

Purchased Power Cost per Kilowatt-Hour (Line 4)

The ratio of the cost of purchased power to the amount of kilowatt-hours purchased measures the purchased power component of power supply costs.

Purchased power includes purchases from investor-owned utilities, municipalities, cooperatives or other public authorities for subsequent distribution and sale to ultimate customers. It does not include power exchanges. Adjustments to the cost data were made in a small number of cases to eliminate power exchanges. The cost reflects the amount billed, including adjustments and other charges.

The ratio may be influenced by the geographic location of the utility, availability of alternative power supplies, access to transmission, and the type of purchase agreement, such as firm power, economy power or surplus sales.

Retail Customers per Meter Reader (Line 5)

The ratio of retail customers to the number of meter readers employed by the utility measures the average number of retail customers served by each meter reader.

The number of meter readers includes the total number of full-time meter readers plus half of all part-time meter readers. It is assumed that all part-time employees work half time (i.e., one full-time employee is equivalent to two part-time employees). Population density, frequency of meter readings, and the technology or method used to read meters will influence this ratio.

Distribution Operation and Maintenance Expenses per Retail Customer (Line 6)

The ratio of total distribution O&M expenses to the total number of retail customers measures the average distribution expense associated with delivering power to each retail customer.

Distribution costs include expenses associated with labor, supervision, engineering, materials and supplies used in the operation and maintenance of the distribution system. The ratio will be influenced by population density and the mix of customer classes served by the utility.

Distribution Operation and Maintenance Expenses per Circuit Mile (Line 7)

The ratio of total distribution O&M expenses to the total number of circuit miles of distribution line measures the total distribution costs associated with each circuit mile of distribution line used to deliver power to customers.

Distribution costs include expenses associated with labor, supervision, engineering, materials and supplies used in the O&M of the distribution system. The ratio will be affected by population density, the mix of customer classes served by the utility, the

dispersion of customers within the utility's service territory, and the proportion of underground and overhead distribution lines.

Customer Accounting, Customer Service and Sales Expenses per Retail Customer (Line 8)

The ratio of total customer accounting, service, and sales expenses to the total number of retail customers measures the average expenses incurred by the utility in handling each customer's account. This includes the costs of obtaining and servicing all retail customers. Uncollectible accounts and meter reading expenses are included in this ratio.

The ratio includes the cost of labor, materials, and other expenses associated with advertising, billing, collections, records and handling inquiries and complaints. It also includes the costs of promoting and providing customer service programs such as energy services or conservation programs. The ratio will be influenced by the degree to which the utility provides various energy services and other types of customer programs, and also by the mix of customer classes it serves.

Administrative and General Expenses per Retail Customer (Line 9)

The ratio of total electric utility administrative and general expenses to the total number of retail customers measures the average administrative and general expenses incurred by the utility on behalf of each retail customer.

Administrative and general expenses are those electric O&M expenses not allocable to the costs of power production (generation and power purchases), transmission, distribution, or customer accounting, service and sales. Items which may be included are compensation of officers and executives, office supplies, professional fees, property insurance and claims, pensions and benefits, and other expenses not provided for elsewhere.

Rate Revisions

For 2007, the existing Electric Utility rates were sufficient to fully fund the Electric Utility operation on a stand-alone basis. LUS Electric Utility rates consist of a base and fuel component. The base rate was not changed during fiscal year 2007. The base rate was last increased by 7 percent on November 1, 2005. During 2006, LUS began to realize fuel savings due to the operation of two new combustion turbine power plants. The fuel savings offset the increase in base electric rates during 2006.

LUS adjusted the Electric Utility fuel charge four times during 2007 due to fluctuating fuel costs. At the beginning of fiscal year 2007, the fuel cost was $0.046 per kWh. The rate increased to $0.047 in December of 2006, $0.049 in February of 2007, $0.051 in May of 2007 and $0.052 in August of 2007. When considering fuel costs, retail revenues per kWh decreased by 1.7 percent overall.

As shown in Table 4-10, Electric Utility average Residential, Small Commercial and Large Commercial base rates remained generally flat during 2007 compared to the prior year.

Since 2003, the average residential rates have increased by approximately 9.1 percent. The Small Commercial rates have increased by 9.4 percent since 2003, and the Large Commercial rates have increased by 8.8 percent. Minor fluctuations in base rates over the years can be attributable to changes in customer usage patterns, while more significant changes can be attributed to rate changes.

Table 4-10
Electric Retail Base Rate Revenue

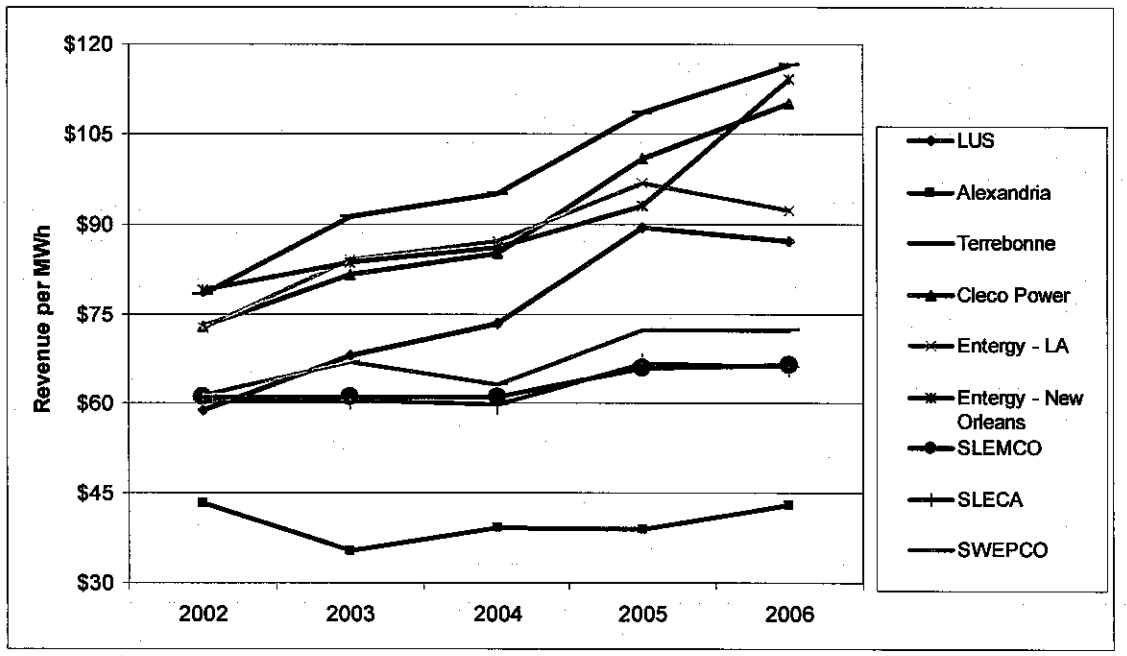
Class	2003	2004	2005	2006 (1)	2007
Residential ($/kWh)	0.0334	0.0341	0.0340	0.0364	0.0364
Small Commercial-No Demand ($/kWh)	0.0455	0.0466	0.0465	0.0498	0.0498
Large Commercial-Demand ($/kWh)	0.0309	0.0316	0.0315	0.0337	0.0336

(1) The Electric Utility experienced a 7 percent base rate increase on November 1, 2005.
Source: LUS Financial and Operating Statements 2003-2007, audited

Rate Comparison

Figures 4-4 and 4-5 graphically compare the average electric residential and commercial retail rates for LUS and other selected Louisiana utilities for years 2002 through 2006. The data shown was gathered from the Global Energy Decision's Velocity Suite database. As of the date of this Report, the 2007 data was not available.

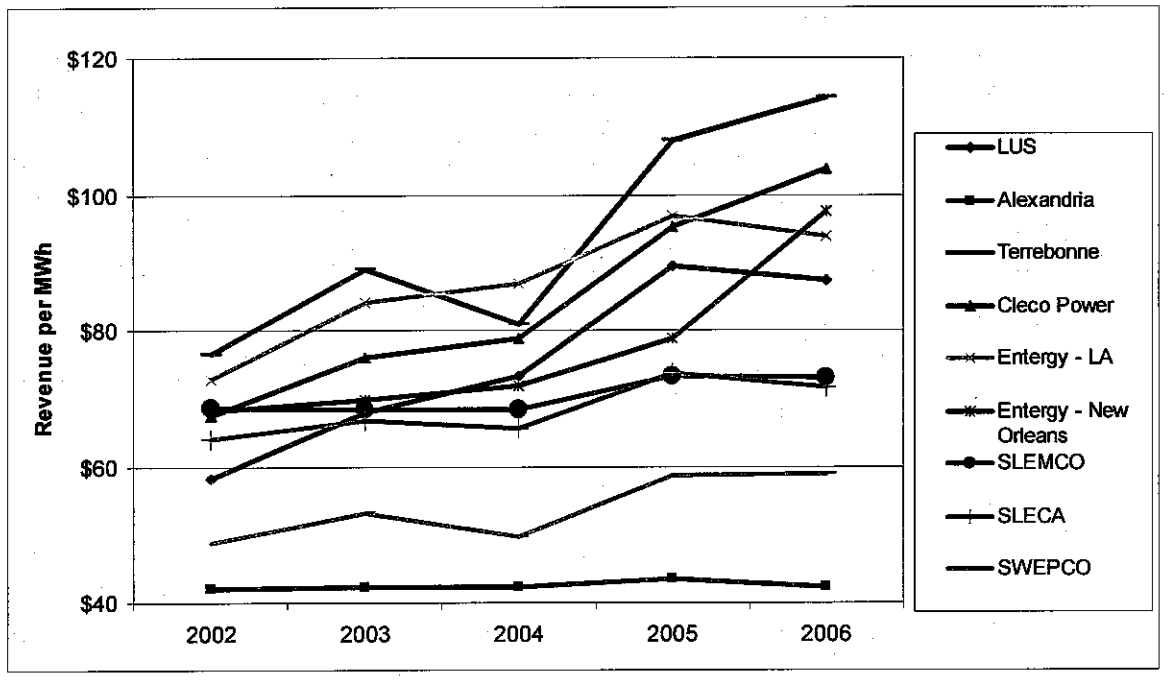
Figure 4-4 displays LUS residential customers' average costs compared to surrounding utilities in Louisiana. Overall, LUS' residential rates were average among the utilities reviewed.



Source: Global Energy Decisions

Figure 4-4: Residential Rates for LUS and Selected Louisiana Utilities

Figure 4-5 displays LUS commercial customers' average costs compared to surrounding utilities in Louisiana. Overall, LUS' commercial rates were average among the utilities reviewed.



Source: Global Energy Decisions

Figure 4-5: Commercial Rates for LUS and Selected Louisiana Utilities

Water Utility

Operating Results

Table 4-11 summarizes the Water Utility revenues and expenses for the most recent five years. In 2007, the Water Utility operating revenues increased by approximately 3.7 percent over 2006. Retail water revenues increased by 2.1 percent over the previous year. The wholesale revenues increased by 7.3 percent due to the increased sales. The Water Utility operating expenses increased approximately 5.0 percent over 2006.

On November 1, 2006, a 5 percent rate increase was applied to the retail water rates, not wholesale water rates. During fiscal year 2007, the retail water sales dropped by over 5 percent and the wholesale water sales increased by over 10 percent. Although there was a 5 percent retail rate increase, the combination of the above circumstances resulted in a 3.7 percent increase in revenues and 12.8 percent increase in operating margin.

Table 4-11
Water Utility Operating Results

	2003	2004	2005	2006	2007
Water Operating Revenues ($)					
Retail	9,875,508	9,885,284	10,196,348	10,455,314	10,677,248
Wholesale	1,669,941	1,715,164	1,895,433	1,938,108	2,078,985
Other	179,655	265,109	774,653	385,660	496,203
Total Water Operating Revenues ($)	11,725,104	11,865,556	12,866,433	12,779,083	13,252,435
Water Operating Expenses ($)					
Operation Expenses	2,971,923	3,237,792	3,618,283	3,997,746	3,454,424
Maintenance Expenses	1,091,875	1,115,341	1,080,016	1,239,624	1,092,949
Other Expenses	2,819,649	3,007,651	3,403,409	3,543,744	4675,183
Total Operating & Maintenance Expenses ($)	6,883,447	7,360,784	8,101,708	8,781,114	9,222,556
Water Non Operating Revenues (Expenses) ($)					
Interest Revenues	326,532	131,747	287,671	366,083	422,957
Water Tapping Fees	114,100	123,100	140,536	160,700	141,100
LUS Fiber Start-up Reimbursement	0	0	0	0	359,507
Miscellaneous Non Operating Revenues	68,045	0	0	35	0
FTTH Start Up Project (1)	0	(88,453)	(267,756)	(133,792)	0
Interest on Customer Deposits	(2,785)	(235)	(2,386)	(884)	(1,047)
Extinguishment of Debt	(16,445)	(8,962)	0	0	0
Miscellaneous Non Operating Expense	(1,211)	(2,368)	(1)	0	0
Total Non Operating Revenues (Expenses) ($)	488,236	154,829	158,064	392,142	922,517
Net Margin ($) (2)	5,329,893	4,659,601	4,922,789	4,390,110	4,952,397

(1) Water allocation of FTTH project start up cost. Allocation pursuant to LUS proposed Cost Allocation Manual.

(2) Before Depreciation and Debt Service.

Source: LUS Financial and Operating Statements 2003-2007, audited

Statistical Data

The selected statistical data in this section pertains to the number of customers, customer usage, and revenues by classes was obtained or developed from the LUS Financial and Operating Statements for years 2003 through 2007.

Revenues

Table 4-12 shows the Water Utility retail statistics for the most recent five years. During 2007, the total revenues increased 3.7 percent, the total volume sales decreased by 2.4 percent, and the number of accounts increased by 2.1 percent.

Compared to the prior year, the average water usage per retail customer decreased by 6.8 percent, from 138,000 gallons to 128,000 gallons. Retail water sales decreased in total volume by 5.2 percent. Correspondingly, average water usage per retail customer

has decreased by 10.0 percent from 2003 levels. The average water revenue per retail customer increased by 0.5 percent in 2007. The retail water revenue on a per gallon basis increased by 7.8 percent.

Compared to the prior year, the average water usage per wholesale customer increased by 4.1 percent from 292,000 gallons to 305,000 gallons. Wholesale water sales increased in total volume by 10.5 percent during 2007. The water revenue on a per gallon basis decreased by 2.9 percent during 2007. Since 2003, the wholesale water sales have increased by 27.4 percent and the wholesale revenues have increased by 24.5 percent for an overall revenue per gallon decreased of 2.3 percent.

Table 4-12
Water Sales Revenue and Statistics

	2003	2004	2005	2006	2007
Water Sales Revenues ($)					
Retail	9,875,508	9,885,284	10,196,348	10,455,314	10,677,248
Wholesale	1,669,941	1,715,164	1,895,433	1,938,108	2,078,985
Other	179,655	265,109	774,653	385,660	496,203
Total Water Sales Revenues ($)	11,725,104	11,865,556	12,866,433	12,779,083	13,252,435
Water Sales (1,000 gallons)					
Retail	5,961,809	5,745,371	5,939,361	6,075,782	5,757,205
Wholesale	1,150,109	1,171,125	1,304,080	1,326,594	1,465,618
Total Sales	7,111,918	6,916,496	7,243,441	7,402,376	7,222,823
Water Number of Accounts					
Retail	41,740	42,467	43,212	44,081	44,809
Wholesale	3,986	4,155	4,317	4,536	4,813
Total Accounts	45,726	46,622	47,529	48,617	49,622
Water Statistics Retail					
Usage per Account (1,000 gallons)	143	135	137	138	128
Revenue per Account ($)	236.60	232.78	235.96	237.18	238.28
Revenue per 1,000 gallons ($)	1.66	1.72	1.72	1.72	1.85
Water Statistics - Wholesale					
Usage per Account (1,000 gallons)	289	282	302	292	305
Revenue per Account ($)	418.95	412.80	439.06	427.27	431.95
Revenue per 1,000 gallons ($)	1.45	1.46	1.45	1.46	1.42

Source: LUS Financial and Operating Statements 2003-2007, audited

Detailed Expenses

As shown in Table 4-13, the compounded annual average increases in Water Utility expenses over the last five years are as follows:

- Supply Expense – 42.0 percent decrease
- Power and Pumping Expense – 12.0 percent increase
- Purification Expense – 0.4 percent decrease
- Distribution Expense – 3.4 percent increase
- Administrative Support – 13.5 percent increase

Table 4-13
Water Utility Detailed Expenses

	2003	2004	2005	2006	2007
Water Source of Supply Expense ($)					
Operation	29,359	11,428	82,691	13,830	2,970
Maintenance	1,230	1,392	1,341	15,063	499
Water Power & Pumping Expense ($)					
Operation	641,975	708,850	725,041	847,321	1,008,639
Maintenance	0	0	0	34,000	0
Water Purification Expense ($)					
Operation	1,718,453	1,770,445	1,958,553	2,236,692	1,653,192
Maintenance	421,106	438,916	464,143	530,149	453,006
Water Distribution Expense ($)					
Operation	582,136	747,069	851,998	899,904	789,623
Maintenance	669,539	675,033	614,533	660,411	639,443
Other Water Expense ($)					
Customer Operations	733,705	826,959	847,005	908,250	976,245
Customer Services	80,279	54,598	31,505	99,910	85,717
Administrative & General	2,005,666	2,126,093	2,524,899	2,535,583	3,613,222
Total Water Expense ($)	6,883,447	7,360,784	8,101,708	8,781,114	9,222,556

Source: LUS Financial and Operating Statements 2003-2007, audited

Rate Revisions

On November 1, 2006, the existing Water Utility rates were increased by 5.0 percent. Existing water rates, although recently increased, are not expected to be sufficient to fully fund the Water Utility operation on a stand-alone basis for an extended period. The Water Utility is partially subsidized by Electric Utility revenues due to capital and operating requirements of the Water Utility. On January 1, 2008, an inclining block rate was introduced to residential customers. This rate change is estimated to collect an addition $1 million of revenues. The Water Utility will be faced with continued rate increases over the next few years before it will be financially self-sufficient. The rates should continue to be monitored closely to ensure that rate revenue can support the Water Utility.

The Water Utility average residential rates increased by 10.3 percent during 2007. The Commercial average base rates increased by 5.3 percent during 2007 as shown in

Table 4-14. Since 2003, the average residential base rates have increased 13.1 percent and commercial base rates have increased 6.1 percent. For years 2003 through 2006, changes in average revenue per thousand gallons may be attributable to water usage levels as rainfall fluctuated each year.

Table 4-14
Water Retail Rates (Revenue/1,000 gallons)

Class	2003	2004	2005	2006	2007 (1)
Residential ($)	1.80	1.85	1.84	1.85	2.04
Commercial ($)	1.45	1.46	1.46	1.46	1.54

(1) Water retail customers experienced a rate increase of 5 percent on November 1, 2006.

Source: LUS Financial and Operating Statements 2003-2007, audited

Wastewater Utility

Operating Results

Table 4-15 summarizes the Wastewater Utility revenues and expenses for the most recent five years. The Wastewater Utility operating revenues increased approximately 11.3 percent, or approximately $2.2 million due to a 12.5 percent wastewater rate increase which took effect on November 1, 2006. Wastewater Utility operating expenses increased approximately 10.2 percent or approximately $1.2 million from 2006.

Due to the 12.5 percent wastewater rate increase on November 1, 2006, the Wastewater Utility operating margin increased by 21.7 percent in 2007.

Table 4-15
Wastewater Utility Operating Results

	2003	2004	2005	2006	2007
Wastewater Operating Revenues ($)					
Service	14,105,471	15,140,093	15,436,805	19,663,521	21,479,609
Other	185,084	79,990	204,602	264,150	692,444
Total Wastewater Operating Revenues ($)	14,290,555	15,220,083	15,641,408	19,927,672	22,172,054
Wastewater Operating Expenses ($)					
Operation Expenses	5,036,124	5,210,368	5,588,641	6,095,764	6,324,360
Maintenance Expenses	1,183,048	1,294,289	2,278,263	1,661,598	1,930,553
Other Expense	3,577,748	3,726,228	4,187,612	4,249,505	4,978,554
Total Operating Expenses ($)	9,796,920	10,230,885	12,054,516	12,006,867	13,233,467
Wastewater Non Operating Revenues (Expenses) ($)					
Interest Revenues	303,060	168,993	349,715	570,869	707,631

	2003	2004	2005	2006	2007
LUS Fiber Start-up Reimbursement	0	0	0	0	454,114
Miscellaneous Non Operating Revenues	63,154	0	0	54	0
FTTH Start Up Project (1)	0	(114,469)	(346,508)	(192,326)	0
Interest on Customer Deposits	(2,585)	(261)	(1,796)	(1,752)	(2,322)
Extinguishment of Debt	(20,931)	(11,406)	0	0	0
Miscellaneous Non Operating Expense	(1,555)	(3,064)	(1)	0	0
Total Non Operating Revenues (Expenses) ($)	341,143	39,793	$1,410	376,845	1,159,423
Net Margin ($) (2)	4,834,778	5,028,992	3,588,302	8,297,650	10,098,010

(1) Wastewater allocation of FTTH project start up cost. Allocation pursuant to LUS Cost Allocation Manual.

(2) Before Depreciation and Debt Service.

Source: LUS Financial and Operating Statements 2003-2007, audited

Statistical Data

The selected statistical data in this section pertaining to the number of customers, customer usage, and revenues by class was obtained or developed from the LUS Financial and Operating Statements for years 2003 through 2007.

Revenues

Table 4-16 shows the Wastewater Utility statistics for the most recent five years. Compared to the prior year, the average wastewater usage per customer in 2007 increased by approximately 5.9 percent, from 134,000 gallons to 142,000 gallons. Estimated wastewater usage per customer has decreased by 17.3 percent from 2003 levels. The average wastewater rate revenue per customer increased 9.2 percent in 2007 compared to 2006. The Wastewater Utility experienced a rate increase of 12.5 percent on November 1, 2006.

Table 4-16
Wastewater Sales Revenue and Statistics

	2003	2004	2005	2006	2007
Wastewater Sales Revenues ($)					
Retail Service	14,105,471	15,140,093	15,436,805	19,663,521	21,479,609
Other	185,084	79,990	204,602	264,150	692,444
Total Wastewater Sales Revenues ($)	14,290,555	15,220,083	15,641,408	19,927,672	22,172,054
Wastewater Intake (1,000 gallons)	6,446,588	6,601,199	5,638,655	5,319,763	5,711,781
Wastewater Number of Accounts	37,680	38,325	39,056	39,815	40,353
Wastewater Statistics					
Intake per Account (1,000 gallons)	171	172	144	134	142

	2003	2004	2005	2006	2007
Revenue per Account ($)	379.26	397.13	400.49	500.51	549.45
Revenue per 1,000 gallons ($)	2.22	2.31	2.77	3.75	3.88

Source: LUS Financial and Operating Statements 2003-2007, audited

Detailed Expenses

As shown in Table 4-17, the compounded annual average increases in Wastewater Utility expenses over the past five years are as follows:

- Collection Expense – 10.2 percent increase
- Treatment Expense – 5.9 percent increase
- Administrative Support – 8.6 percent increase

Table 4-17
Wastewater Utility Detailed Expenses

	2003	2004	2005	2006	2007
Wastewater Collection Expense ($)					
Operation	995,725	1,036,545	1,128,068	1,115,262	1,229,554
Maintenance	1,032,366	1,140,669	2,127,847	1,513,286	1,757,778
Wastewater Treatment Expense ($)					
Operation	4,040,399	4,173,823	4,460,572	4,980,502	5,094,806
Maintenance	150,682	153,619	150,416	148,313	172,775
Other Wastewater Expense ($)					
Customer Operations Expense	447,595	484,251	528,974	580,581	680,712
Customer Services ($)	397,131	360,200	333,743	342,385	361,978
Administrative & General	2,733,022	2,881,777	3,324,895	3,326,539	3,935,864
Total Wastewater Expense ($)	9,796,920	10,230,885	12,054,516	12,006,867	13,233,467

Source: LUS Financial and Operating Statements 2003-2007, audited

Rate Revisions

Wastewater Utility rates were increased by 12.5 percent on November 1, 2006. Existing wastewater rates, although recently increased, are not expected to be sufficient to fully fund the Wastewater Utility operation on a stand-alone basis for an extended period. The Wastewater Utility is partially subsidized by Electric Utility revenues due to capital and operating requirements of the Wastewater Utility. The Wastewater Utility will be faced with continued rate increases over the next few years before it will be financially self-sufficient. The rates should be monitored closely to ensure that rates support the Wastewater Utility.

The Wastewater Utility average residential rates increased by 6.5 percent during 2007. Since 2003, the average residential rates for the Wastewater Utility have significantly increased by 40.6 percent over the five-year period. The Wastewater Utility average commercial rates increased 10.3 percent during 2007 as shown in Table 4-18. The

commercial average rates steadily increased from 2003 by 46.1 percent. The Wastewater Utility rate increases are consistent with what we expect to see due to capital requirements.

Table 4-18
Wastewater Retail Rates (Revenue/1,000 gallons)

Class	2003 (1)	2004 (2)	2005	2006 (3)	2007 (4)
Residential ($)	232.95	246.97	247.62	307.50	327.53
Commercial ($)	1,270.46	1,339.24	1,327.87	1,681.82	1,855.70

(1) For fiscal year 2003, the residential customer charge increased by 19.4 percent and the volumetric charge increased by 8.4 percent. The commercial customer charge decreased by 2.3 percent and the volumetric charge increased by 12.4 percent.

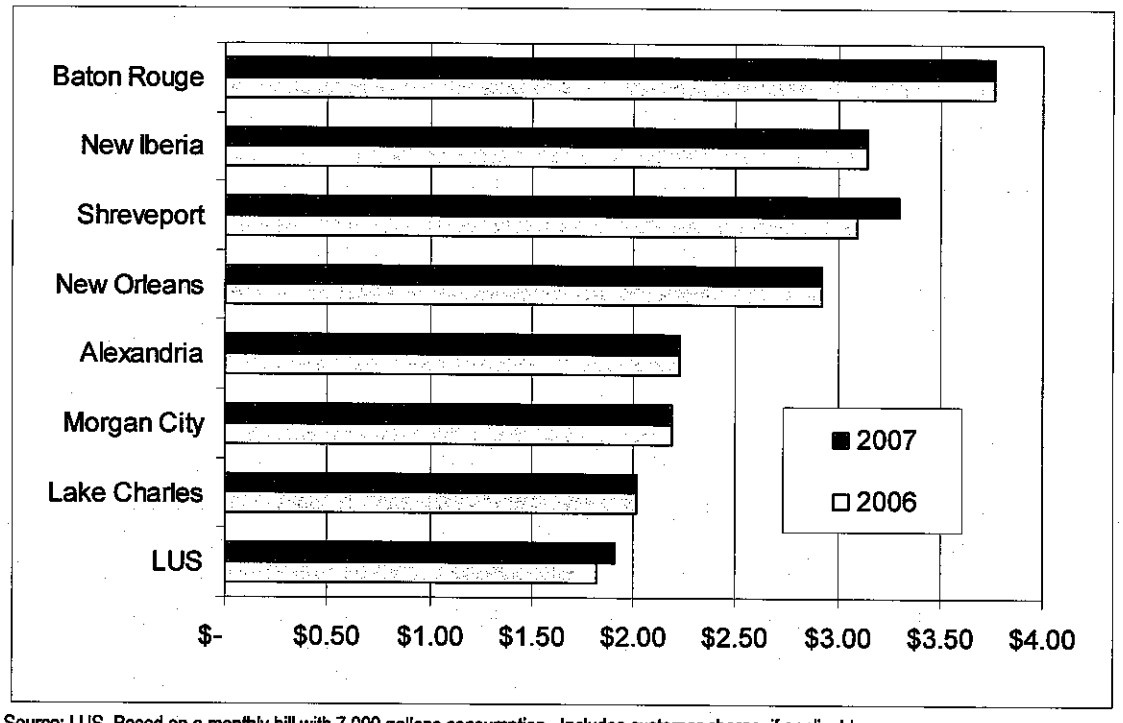
(2) For fiscal year 2004, the residential customer charge increased by 16.0 percent and the volumetric charge increased by 7.4 percent. The commercial customer charge decreased by 2.4 percent and the volumetric charge increased by 11.0 percent.

(3) The Wastewater Utility customers experienced a rate increase of 25 percent on November 1, 2005.

(4) The Wastewater Utility customers experienced a rate increase of 12.5 percent on November 1, 2006.

Source: LUS Financial and Operating Statements 2003-2007, audited

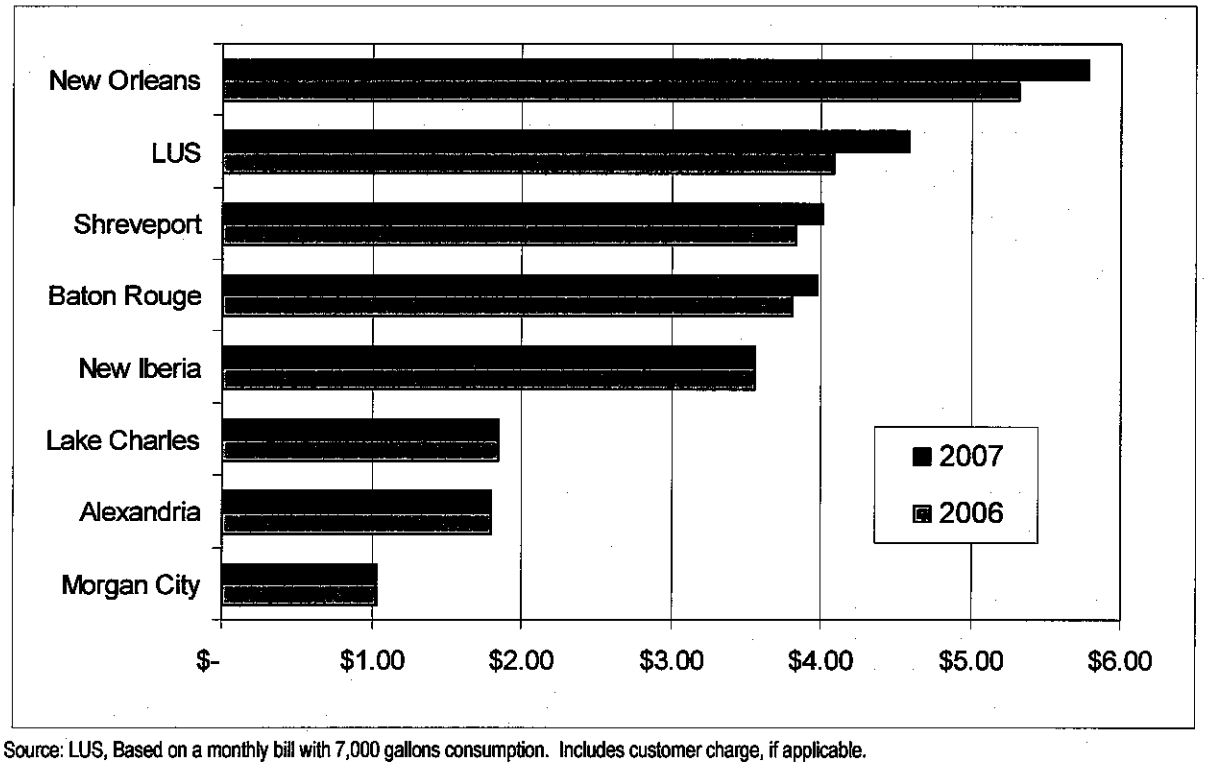
Figure 4-6 displays the rate benefit LUS water customers experience compared to surrounding utilities in Louisiana. LUS' water rates were the lowest among the utilities reviewed.



Source: LUS, Based on a monthly bill with 7,000 gallons consumption. Includes customer charge, if applicable.

Figure 4-6: Water Rates for LUS and Selected Louisiana Utilities ($/1000 gallons)

Figure 4-7 displays the wastewater rates for LUS and surrounding utilities in Louisiana. Wastewater rates are difficult to compare because many cities and towns subsidize wastewater systems with local taxes. The extent to which other cities and towns have subsidized their systems is unknown. Figure 4-7 shows LUS wastewater rates as the second highest of the utilities reviewed.



Source: LUS, Based on a monthly bill with 7,000 gallons consumption. Includes customer charge, if applicable.

Figure 4-7: Wastewater Rates for LUS and Selected Louisiana Utilities ($/1000 gallons)

Fiber Utility

Operating Results

Table 4-19 summarizes the Wholesale Fiber revenues and expenses for the most recent five years. The Fiber Utility operating revenues increased 7.0 percent over 2006. Fiber Utility operating expenses increased approximately 36.1 percent or approximately $239,766 over 2006. The majority of the expense increase was related to the Network and Operating expense. It should be noted that historical numbers do not reflect uniform treatment and application of LUS Combined Utilities administration, general, and other overhead costs to the Fiber Utility.

The Fiber Utility is a wholesale fiber business that is still in the start-up phase. The first year that the Net Margin was positive was in 2004. A 7.0 percent decrease in Net Margin occurred between 2006 and 2007.

Table 4-19
Wholesale Fiber Operating Results

	2003	2004	2005	2006	2007
Fiber Operating Revenues ($)					
Fiber Service and Access Revenues	413,512	762,143	1,264,928	1,741,647	1,856,789
Miscellaneous Fiber Revenues	72,139	113	7,711	2,492	9,950
Total Fiber Operating Revenues ($)	485,651	762,256	1,272,639	1,744,138	1,866,739
Fiber Operating Expenses ($)					
Operation Expenses	568,599	641,648	481,237	659,261	897,270
Fiber Maintenance Expenses	0	0	0	0	0
Total Operating Expenses ($)	568,599	641,648	481,237	659,261	897,270
Fiber Non Operating Revenues (Expenses) ($)					
Interest Revenues	0	8,464	28,454	49,964	59,578
LUS Fiber Start-up Reimbursement	0	0	0	0	18,921
FTTH Start-Up Project (1)	0	(10,406)	(31,500)	(8,362)	0
Miscellaneous Non Operating Expense	0	(279)	0	0	0
Total Non Operating Revenues (Expenses) ($)	$0	(2,221)	(3,046)	41,602	78,490
Net Margin ($) (2)	(82,949)	118,387	788,355	1,126,480	1,047,968

(1) Fiber allocation of FTTH project start up cost. Allocation pursuant to LUS proposed Cost Allocation Manual.

(2) Before Depreciation and Debt Service.

Source: LUS Financial and Operating Statements 2003-2007, audited

Statistical Data

The selected statistical data in this section pertaining to the number of customers, customer usage, and revenues by class was obtained or developed from the LUS Financial and Operating Statements for years 2003 through 2007.

Revenues

Table 4-20 shows the Fiber Utility statistics for the most recent five years. Compared to the prior year, the average fiber revenue per customer increased 3.6 percent in 2007 compared to 2006.

Table 4-20
Fiber Sales Revenue and Statistics

	2003	2004	2005	2006	2007
Fiber Sales Revenue($)s					
Service and Access Revenues	413,512	762,143	1,264,928	1,741,647	1,856,789
Total Fiber Sales Revenue ($)	413,512	762,143	1,264,928	1,741,647	1,856,789
Fiber Number of Accounts	22	31	35	35	36
Fiber Statistics					
Revenue per Account ($)	18,796	24,585	36,141	49,761	51,577

Source: LUS Financial and Operating Statements 2003-2007, audited

Detailed Expenses

As shown in Table 4-21, the compounded annual average increases in Fiber Utility expenses over the last five years are as follows:

- Network Support Services Expense – 14.9 percent decrease
- General Support Services Expense – 83.7 percent increase
- Operators System Expense – 22.7 percent decrease
- Network & Operations Expense – 20.3 percent increase
- Administrative Support – 6.2 percent increase

Table 4-21
Fiber Utility Detailed Expenses

	2003	2004	2005	2006	2007
Fiber Expenses ($)					
Network Support Services	123,393	61,774	115,378	82,699	64,582
General Support Services	2,312	241	1,931	26,369	26,327

General Office Switching Expense	0	0	0	0	356
Operators System Expense	4,654	1,021	1,293	649	1,662
Central Office Transmission Expense	0	13,657	0	4,097	39,724
Information on Origination/Termination Assets	0	0	1,417	0	6,679
Cable & Wire Facilities Assets	0	0	481	24,107	5,845
Materials & Supplies	0	361	7,695	10,577	9,828
Network & Operations Expense	147,297	163,774	88,991	82,073	307,965
Access Expense	0	0	949	0	0
Other Fiber Expense ($)					
Customer Operations Expense	352	0	1,995	77,149	64,829
Customer Services	944	1,325	31,800	201	14
Administrative & General	289,648	399,496	229,307	$351,340	369,459
Total Fiber Expense ($)	568,599	641,648	481,237	659,261	897,270

Source: LUS Financial and Operating Statements 2003-2007, audited

As shown in Table 4-17, the Fiber Utility expenses have significantly increased over the most recent five years. Because the Fiber Utility is a new business venture, trends in O&M costs are not yet meaningful.

Operating Budget

The Operating Budget (Budget) for the year ended October 31, 2007 was adopted by Council. Included in the Ordinance is the five-year capital plan beginning in 2007.

A comparison of the project operations in the Amended Budget with actual operating results is shown in Table 4-22.

Table 4-22
Comparison of Actual Results to the Amended Budget

	Actual	Amended Budget	Difference	% Difference
Receipts ($)	206,987,000	204,554,000	2,433,000	1.2
O&M ($)	156,330,000	168,605,000	(12,276,000)	(7.3)
Balance After O&M ($)	50,658,000	35,949,000	14,709,000	40.9
Debt Service ($)	9,903,000	10,798,000	(894,000)	(8.3)
Balance After Debt Service ($)	40,755,000	25,152,000	15,603,000	62.0
Capital Expenditures ($)	14,301,000	13,879,000	422,000	3.0
In-Lieu-of-Tax ($)	18,832,000	18,606,000	226,000	1.2
Balance of Revenues ($)	7,722,000	(7,333,000)	14,955,000	(203.9)

Source: LCG Annual Budget Document 2006-2007.
LUS Financial and Operating Statement 2007, audited

The comparisons shown in Table 4-22 are on a cash basis and, therefore, will not necessarily agree with audited amounts that are on an accrual basis.

The LCG's fiscal year 2007-2008 budget (November 1, 2007 through October 31, 2008), including LUS' budget, was submitted by the President to the Council and approved by the Council by Ordinance No. O-170-2007. LUS' Utilities System budget for the fiscal year ending October 31, 2008 as adopted by the LCG is summarized in Table 4-23.

Table 4-23
Utilities System Budget

Estimated Fund Balances as of November 1, 2007	$48,709,250
Receipts	
Electric Retail Sales - Base Rate	$70,718,000
Electric Retail Sales - Fuel Adjustment Charge	111,761,418
Electric Wholesale Sales	245,972
Water Retail Sales	14,960,360
Water Wholesale Sales	0
Wastewater Retail Sales	24,422,220
Contributions in Aid of Construction	1,625,000
Interdepartmental Sales	4,100,000
Interest - Operating Funds	475,000
Miscellaneous	0
Accounts Receivable & Others	0
Total Receipts	$228,307,970
Total Receipts and Cash Balance	$277,017,220
Operating & Maintenance	
Fuel Costs	42,551,212
Purchased Power - LPPA	54,500,000
Purchased Power - Other	27,112,020
Electric O&M	36,542,235
Water O&M	9,113,981
Wastewater O&M	13,564,591
Total Operation & Maintenance	$183,384,039
Interest & Principal Amounts	10,725,285
Capital Renewals &replacements	
Normal Renewals & Special Equipment	14,396,469
Retained Earnings Capital Improvement	514,862
Reserve Requirement Reduction	0
Bond Capital Improvements	0
Total Capital Expenditures	$14,911,331
In-Lieu-of-Tax Payments	18,605,822
Total Expenditures	$227,626,477
Fund Balances as of October 31, 2008	$49,390,743

Source: LCG Annual Budget Document 2007-2008.

The end-of-year balance of all Utilities System Funds is budgeted at $49.4 million, as shown in Table 4-23. The above operating budget anticipates an increase of approximately $30 million in cash balances during the 2007-2008 period. LUS continues to review and adjust the current budgeting system to increase financial and accounting controls and meet changing operating requirements.

Capital Improvement Program

The combined estimated requirements for capital improvements to the Electric, Water, Wastewater, and Fiber Utilities through October 31, 2012 are summarized in Table 4-24. Each year, as the City revises its five-year Capital Improvement Program (CIP) for the Utilities System, the priorities for each of the work items are re-examined. This review process needs to be improved in order that priorities and costs are established which are more manageable.

Table 4-24
Capital Improvement Program 2008 – 2012

Year Ending	2008	2009	2010	2011	2012	Total
Revenues ($)						
Retained Earnings Capital	514,862	144,561	302,712	461,524	194,334	1,617,993
Bond Proceeds - Utilities Revenue	9,100,000	45,000,000	30,000,000	18,000,000	8,000,000	110,100,000
Proceeds - LDEQ	0	0	0	0	0	0
Prior Year Reserve Balance	7,834,589	306,851	569,946	2,907,658	2,159,182	7,834,589
Total Revenues ($)	17,449,451	45,451,412	30,872,658	21,369,182	10,353,516	119,552,582
Appropriations ($)						
Electric	9,250,000	10,550,000	17,745,000	13,072,000	3,712,000	54,329,000
Water	3,470,000	4,820,000	1,920,000	170,000	770,000	11,150,000
Wastewater	3,640,000	25,950,000	5,720,000	4,420,000	3,520,000	43,250,000
Reserve Fund / Capitalized Interest	782,600	3,561,466	2,580,000	1,548,000	688,000	9,160,066
Balance Available	306,851	569,946	2,907,658	2,159,182	1,663,516	1,663,516
Total Appropriations ($)	17,449,451	45,451,412	30,872,658	21,369,182	10,353,516	119,552,582

Source: LUS 5-Year Capital Outlay Program Summary, FY 2007-08 Adopted Budget, Combined Summary Retained Earnings and Bond Capital.

Capital Improvement Program

The current capital budgeting process requires LUS to fully appropriate a project before LUS can request bids. This process results in a skewing of projected capital expenditures toward the first year of the capital forecast. This prematurely escalates the projected capital needs and makes for difficult decision planning such as projected service rate charges, bond financing and resource planning. We recommend that LUS consider implementing a capital budgeting process that includes some form of activity-based analysis and costing. Matching available resources with the requirements necessary for completion of these capital projects will add practical realism to the capital appropriations budget.

The CIP in the utility business is generally the largest financial requirement. LCG's budgeting and accounting system does not offer LUS the degree of information and control needed to manage construction. Comprehensive changes to the CIP management process should consider the following questions:

- Does the process include a coherent, identifiable and relevant product useful to management of the construction activities and investment?
- Are the purposes and objectives of the process identified?
- Is the process clearly communicated to those responsible for carrying it out?
- Is the process supported by a reasonable activity-based allocation of resources?
- Is the process sufficiently detailed and scheduled?
- Does the process agree with mandated requirements and other administrative/ management plans?
- Is the process improvement periodically reviewed?
- Is there clear accountability for process implementation?

Other criteria are more specific to the CIP:

- Is it realistic; i.e., not a "wish list?"
- Does it extend over a sufficient period of time (normally, at least 10 years) with clearly identified and costed projects and does it contain detailed plans/schedules and costs for the short-term?
- Is it formulated and reviewed, particularly with input from the field and other concerned parties?
- Is it reviewed periodically (normally at least quarterly by a CIP committee with broad utility representation)?
- Is it clearly and effectively presented annually to the LUS administration to promote a continuous "buy-in?"
- What are the consequences to LUS operations of project slippage?

Table 4-25 shows that many of the planned capital projects have not been accomplished within the scheduled timeframe. LUS should improve project budgeting and/or improve the accomplishment of the planned activities. The lack of precision in budgeting and scheduling affects cash flow planning, planning for the sale of bonds and service rate changes. To adjust for this difference between budget and actual expenditures, the total budget expenditure amounts for each utility are arbitrarily reduced for cash flow planning. This reduction is based on the fact that historically the actual expenditures are significantly less than the budgeted expenditures.

Table 4-25
Comparison of Budget and Actual Capital Expenditures ($1,000)

	2003	2004	2005	2006	2007	Total
Electric Utility						
Budgeted	$12,149	$17,597	$12,427	$14,840	$10,594	$67,607
Actual	6,020	7,927	4,831	2,324	$2,030	$23,132
Unspent	$6,129	$9,670	$7,596	$12,516	$8,564	$44,475
Unspent Percentage	50%	55%	61%	84%	81%	66%
Water Utility						
Budgeted	$3,277	$3,925	$2,150	$3,750	$4,225	$17,327
Actual	2,830	1,489	738	1,442	$4,376	$10,874
Unspent	$447	$2,436	$1,412	$2,308	($151)	$6,453
Unspent Percentage	14%	62%	66%	62%	-4%	37%
Wastewater Utility						
Budgeted	$14,658	$24,800	$21,300	$28,170	$10,295	$99,223
Actual	7,090	5,896	5,787	2,889	$1,414	$23,074
Unspent	$7,568	$18,904	$15,513	$25,281	$8,881	$76,149
Unspent Percentage	52%	76%	73%	90%	86%	77%
Fiber Utility						
Budgeted	$915	$1,700	$400	$1,200	$900	$5,115
Actual	108	809	1,348	1,631	$1,663	$5,559
Unspent	$807	$891	($948)	($431)	($763)	($444)
Unspent Percentage	88%	52%	-237%	-36%	-85%	-9%
Total Utility						
Budgeted	$30,999	$48,022	$36,277	$47,960	$26,014	$189,272
Actual	$16,048	$16,121	$12,704	$8,286	$9,482	$62,639
Unspent	$14,951	$31,901	$23,573	$39,674	$16,532	$126,633
Unspent Percentage	48%	66%	65%	83%	64%	67%

Source: LCG Annual Budget Documents.
Source: Status of Construction Work Orders.
Note: 2004 and 2005 Electric Capital Expenditures exclude the generation project funded from the 2004 Series Bonds.
Note: Actual includes the budgeted plus the previous year's carryovers.

Over the above five-year period, the total budget expenditures amounted to approximately $189.3 million compared with actual expenditures amounting to approximately $62.6 million. Over the past five years, on average of 33 percent of the budget is actually spent. We recommend that the capital budgetary process be altered so that the estimated capital needs are more accurately developed.

We recommend the current CIP be reviewed and each project checked for correct priority, schedule and estimate. We suggest the schedule address the start of engineering, approval of engineering, finalization of estimate, purchase of material, approval of purchase and contracting, the start of construction and completion of project. The CIP should indicate if the engineering will be accomplished by LUS engineering or if it will be outsourced.

Restricted Asset Transactions and Fund Balances

The 2004 Bond Ordinance contains certain provisions and covenants pertaining to the separation and maintenance of funds. The 2004 Bond Ordinance established the following funds in Article V, Section 5.1:

(i) Receipts Fund

(ii) Operating Fund

(iii) Sinking Fund

(iv) Reserve Fund

(v) Capital Additions Fund

Fund requirements were impacted significantly in 2005 as a result of the Series 2004 bond issue.

Receipts & O&M Fund

The Receipts & O&M Fund transactions during the year are presented in Table 4-26.

Table 4-26
Receipts & O&M Fund ($1,000)

Cash Balance as of November 1, 2006	8,066
Receipts during the Period:	
Retail Sales	206,654
Wholesale Sales	194
Interest	5,350
Miscellaneous	3,353
Reimbursement – 2004 Const Fund	8,131
Reimbursement – Comm Fund	86
Total Receipts	223,768
Total Receipts and Cash Balance	231,834
Disbursements during the Period:	
Fuel & Purchased Power	102,804
Other O&M	56,426
Sales Tax	2,707
2004 Const Fund Expenditures	8,131
Normal Capital / Ret. Earn.	(2,771)
Transfer to Bond & Interest Fund	10,721
Transfer to Capital Additions Fund	45,221
Total Disbursements	223,239
Fund Balance as of October 31, 2007	8,595

Source: LUS Funds Flow Statement FY 06-07.

Sinking Fund

The Sinking Fund transactions during the year are presented in Table 4-27.

Table 4-27
Sinking Fund ($1,000)

Cash Balance as of November 1, 2006	0
Receipts during the Period:	
Transfer from Receipts Fund	10,721
Other	0
Total Receipts	10,721
Total Receipts and Cash Balance	10,721
Disbursements during the Period:	
Debt Service Payment	10,721
Total Disbursements	10,721
Fund Balance as of October 31, 2007	0

Source: LUS Funds Flow Statement FY 06-07.

Reserve Fund

The Reserve Fund transactions during the year are presented in Table 4-28.

Table 4-28
Reserve Fund ($1,000)

Cash Balance as of November 1, 2006	18,603
Receipts during the Period:	
Transfer from Capital Additions	0
Other	0
Total Receipts	0
Total Receipts and Cash Balance	18,603
Disbursements during the Period:	
Transfer to Receipts Fund	0
Other	0
Total Disbursements	0
Fund Balance as of October 31, 2007	18,603

Source: LUS Funds Flow Statement FY 06-07.

Capital Additions Fund

In compliance with the requirements of the 2004 Bond Ordinance concerning receipts and disbursements of the Capital Additions Fund, the transactions during the 2007 are presented in Table 4-29. Required transfers of principal and interest were made in a timely fashion to the City's paying agent.

Table 4-29
Capital Additions Fund ($1,000)

Cash Balance as of November 1, 2006	$77,357
Receipts during the Period:	
Transfer from Receipts Fund	$45,221
Transfer from Bond & Interest Fund	0
Transfer from Bond Construction Fund	0
Miscellaneous Revenues	274
Total Receipts	$45,495
Total Receipts and Cash Balance	$122,852
Disbursements during the Period:	
In Lieu-of-Tax Payment	$18,832
Transfer to Bond Reserve	0
Transfer to O&M	0
Normal Capital to O&M	14,041
Retained Earnings to O&M	9,146
Special Capital to O&M	0
Total Disbursements	$42,019
Fund Balance as of October 31, 2005	$80,833
The above balance is available for the 2005-2006 fiscal year requirements	
In Lieu-of-Tax Payment	$17,989
Fund Balance not specially committed	62,844
Fund Balance as of October 31, 2007	$80,833

Source: LUS Funds Flow Statement FY 06-07.

Construction Fund

The Construction Fund, identified in Table 4-30, was established as a result of the Series 2004 bond financing for major Electric and Wastewater Utility construction projects. The beginning balance of this fund in 2006 was $30.1 million. Subsequent

interest earnings of $1.5 million and construction and work order payments of $10.7 million resulted in an ending balance of $20.8 million.

Table 4-30
Construction Fund ($1,000) – 2004 Bonds

Cash Balance as of November 1, 2006	$30,066
Receipts during the Period:	
Bond Proceeds	$0
Interest Earnings	1,492
Miscellaneous	0
Total Receipts	$1,492
Total Receipts and Cash Balance	$31,558
Disbursements during the Period:	
Construction Wire Payments	$2,579
Work Orders Paid	8,121
MBIA Payments	10
Other	0
Total Disbursements	$10,710
Fund Balance as of October 31, 2007	$20,847

Source: LUS Funds Flow Statement FY 06-07.

A separate 1996 LDEQ Construction Fund was established for purposes of financing major wastewater construction projects. Bonds for these projects total $18,400,000. Proceeds from these bonds are drawn down from LDEQ when needed by LUS. Interest is charged only on the cumulative amounts drawn. Draw downs through October 31, 2007 total $18,053,278. For this period, the 1996 LDEQ Construction Fund has a zero balance since the draw-downs requested were all expended by the end of the reporting period.

Balance Sheet

To determine the extent and character of the changes in assets and liabilities for 2007, a Comparative Balance Sheet is shown on Table 4-31. The comparison shows a 1.0 percent increase in Total Assets and 1.6 percent increase in retained earnings. The significant changes in the restricted assets, deferred debits, and arbitrage liability between 2003 and 2004 are due to the sale of the 2004 Bonds.

Table 4-31
Comparative Balance Sheet

	2003	2004	2005	2006	2007
Assets & Other Debits					
Utility Plant					
Plant in Service	$557,247,646	$597,540,034	$708,880,107	$761,358,897	$792,979,794
Less Accumulated Depreciation & Amortization	(217,690,932)	(231,829,008)	(246,547,727)	(263,256,582)	(282,466,635)
Net Plant in Service	$339,556,714	$365,711,027	462,332,380	498,102,316	510,513,160
Construction Work in Progress	1,309,294	14,232,223	3,685,307	2,520,572	2,686,045
Total Utility Plant	$340,866,008	$379,943,250	$466,017,687	$500,622,888	$513,199,204
Current Assets					
Receipts Fund	$12,805	$145,959	$973,281	$56,282	$548,920
O&M Fund (Cash & Temp. Cash Investment)	$4,732,033	$3,666,462	$6,081,467	$8,085,446	$8,182,793
Revolving Cashier's Fund and Water District Operating Fund (Cash)	$9,450	$9,800	$9,800	$9,800	$12,200
Accounts Receivable					
Utility Consumers (less Uncollectible)	$14,087,633	$17,848,512	$23,081,798	$18,223,708	$19,376,564
Other Utilities	929,008	1,245,780	3,721,739	34,263	97,8960
Municipal & Other Receivables (less Reserve for Uncollectible Masc.)	1,692,382	1,898,346	3,028,312	3,492,130	2,141,382
Total Accounts Receivable	$16,709,023	$20,992,638	$29,831,849	$21,750,101	$21,615,806
Notes Receivable					
LUS Fiber Start-up Cost	0	0	0	0	$2,386,933
LUS Fiber 2007 Expenses	0	0	0	0	203,494
	0	0	0	0	$2,590,427
Inventories					
Inventories - Fuel Oil	$698,678	$698,678	$698,678	$698,678	$698,678
Inventories - Other	2,948,860	4,230,998	4,178,919	5,274,665	4,894,243
Interest Receivable and Enamor Premiums	374,333	53,673	425,296	599,313	744,051
Prepayments	144,257	114,027	81,538	33,523	80,376
Total Inventories	$4,166,128	$5,097,375	$5,384,431	$6,606,178	$6,417,348
Total Current Assets	$25,629,439	$29,912,234	$42,280,827	$36,507,808	$39,367,493
Restricted Assets					
Capital Additions Fund	$74,432,229	$64,134,899	$72,409,617	$77,413,551	$80,693,888
Bond Reserve	7,529,184	18,526,844	18,511,521	18,527,824	18,654,469
Bond and Interest Redemption Fund	0	9,645,973	0	0	0
Allowance for Market Value Adjustment	17,620	(202,941)	(783,872)	(131,564)	510,977
Security Deposits Fund Investments	4,194,443	4,237,143	4,609,871	5,129,150	5,497,347
Investment in Risk Management Fund	1,096,985	1,051,526	1,192,230	337,977	426,329
2004 Construction Fund - Cash & Investment		143,394,858	65,685,303	30,388,115	20,904,201
Expense Fund Escrow		0	0	0	0
Cash on Deposit with Paying Agent	6,023,720	2,145,535	4,767,856	4,767,856	4,767,856
Total Restricted Assets	$93,294,181	$242,933,836	$166,392,528	$136,432,910	$131,455,068

	2003	2004	2005	2006	2007
Assets & Other Debits					
Deferred Debits					
Unamortized Debt Discount and Expense	$17,490	$0	$3,070,967	$2,942,172	$2,806,855
Unamortized Loss of Refunded Debt	77,473	0	0	0	0
Communications Business Assessment	0	0	0	31,063	31,629
New Acquisitions	$0	$0	$0	$0	$0
Holiday Gardens	5,682	5,682	5,682	0	0
Communication Fund 06 Bond Issue Costs	0	0	2,694	5,897	0
2004 Revenue Bond Issuance Costs	0	3,220,823	0	0	3
Clearing Accounts & Other	12,061	93,647	1,428	(29)	0
Total Deferred Debits	$112,706	$3,320,152	$3,080,771	$2,979,103	$2,838,488
Total Assets & Other Debts	$459,902,334	$656,109,472	$677,771,813	$676,542,708	$686,860,254

Table 4-31 (continued)
Comparative Balance Sheet

	2003	2004	2005	2006	2007
Long Term Liabilities					
Revenue Bonds (inclusive of current maturities)	$24,883,278	$196,660,000	$195,845,000	$195,005,000	$194,145,000
Current Liabilities (payable from Current Assets)					
Accounts Payable (Fuel)	$2,338,443	$4,806,707	$12,505,006	$2,307,406	$2,734,049
Accounts Payable (O&M Fund)	479,565	400,814	1,317,136	621,122	1,276,821
Accounts Payable (Payroll)	244,088	254,330	480,611	553,105	536,739
Accounts Payable (Miscellaneous)	4,749,027	18,383,222	14,448,034	9,171,420	5,905,057
Accounts Payable (Purchased Power LPPA)	5,117,359	1,386,060	3,624,005	712,000	(216,136)
Accounts Payable (Purchased Power Other)	2,395,338	296,749	4,446,260	1,803,440	3,297,871
Accounts Payable (Environmental Clean Up 'Grant St')	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000
Miscellaneous Current and Accrued Liabilities	2,976,664	3,443,702	4,060,246	4,323,354	4,569,779
Accrued Interest on Security Deposits	16,185	0	9,146	(0)	(2)
A/P Water District North	115,562	206,840	232,674	224,349	228,604
Total Current Liabilities Payable from Current Assets	$20,182,231	$30,928,423	$42,873,118	$21,466,196	$20,082,782
Other Liabilities (payable from Restricted Assets)					
Interest Accrued on Bonds	$273,720	$2,145,535	$4,767,856	$4,767,856	$4,767,856
Interest Accrued on Security Deposits WDN	40	0	18	0	(0)
Customer Deposits	4,185,684	4,230,294	4,597,959	5,110,117	5,475,595
Arbitrage Liability	0	5,674,897	0	0	0
Total Other Liabilities Payable from Restricted Assets	$4,459,444	$12,050,727	$9,365,834	$9,877,973	$10,243,451
Long-Term Liabilities					
Unamortized Premium on 2004 Revenue Bonds	0	0	$5,410,860	$5,183,932	$4,945,511
Total Long-Term Liabilities	0	0	$5,410,860	$5,183,932	$4,945,511
Reserves					
Reserve for Revenue Bond Debt Service	$7,529,184	$18,526,844	$18,511,521	$18,527,824	$18,654,469
Reserve for Capital Additions	74,432,229	64,134,899	72,409,617	77,413,551	80,693,888
Reserve for Security Deposits	4,194,443	4,237,143	4,609,871	5,129,150	5,497,347
Reserve for Risk Management	1,096,985	1,051,526	1,192,230	337,977	426,329
Total Reserves	$87,252,841	$87,950,411	$96,723,240	$101,408,502	$105,272,034
Contributions					
Contributions from Municipality	$0	$0	$0	$0	$0
Contributions from Others	0	0	0	0	0
Total Contributions	$0	$0	$0	$0	$0
Retained Earnings (not including Reserves)	$323,124,540	$328,519,910	$327,553,762	$343,601,104	$352,171,476
Total Liabilities & Other Credits	$459,902,334	$656,109,472	$677,771,813	$676,542,708	$686,860,254

Source: LUS Financial and Operating Statements 2003-2007, audited

Communications System

Accounting

LCG currently prepares monthly financial statements that include important operating financial and managerial data. Except for several months following the close of a fiscal year, these internal statements are scheduled to be issued by the 20th day of the month following the reporting period. However, the final statements for the first several months of the new fiscal year are delayed because they cannot be completed until the prior year's independent auditor's report is received by the City. The audit for the fiscal year ending in October is not available until approximately April of the following year.

The Consulting Engineer is particularly concerned about the delay in the availability of important financial information necessary for informed management of LUS Fiber. Additionally, the management of a new business venture, such as telecommunications, is extremely difficult when current financial initiatives may exist. Basic financial and operating results including costs, revenue and performance measurements should be available from two to four weeks after the end of a given month if the utility is to be responsive to the dynamics of the rapidly changing utility industry.

LCG is in the process of choosing a new financial management system. This system is anticipated to be in place by November 1, 2008. One of the goals of the new system is to provide timely and accurate reports to LUS Fiber.

The Consulting Engineer is of the opinion that the basic accounting principles and requirements of LUS Fiber, as contained in the 2007 Bond Ordinance, have been complied with by the City for the period ended October 31, 2007.

Rate Revisions

The Council and LPUA have the exclusive right to regulate LUS' rates and charges for services within and outside the corporate limits of the City. The 2007 Bond Ordinance, Section 9.2 states that it is the duty of the Consulting Engineer to advise on any revisions of rates and charges.

In-Lieu-of Tax

The in-lieu-of tax payment to the general fund is based on the previous year's revenues. Since the wholesale telecommunications business was transferred from LUS to LUS Fiber on November 1, 2007 and there was no retail revenue during the reporting period, there are no ILOT requirements for the reporting period.

Table 4-32
ILOT Payments ($1,000)

	2007
Deposits into Receipts Account	N/A
Less Cost of Goods Sold	N/A
Total Net Deductions	N/A
Balance Available for Improvement and ILOT	N/A
ILOT Provision – Balance x 12%	N/A
Test of Adequacy of Flow of Funds	N/A
Total Flow Available – Receipts Account to Capital Additions	N/A
Less Provision for System Improvements at 7.5%	N/A
Adequacy or (Deficiency) of Flow	N/A
ILOT Amount Due	N/A

Source: LCG Annual Budget Document 2007-2008.
LUS Financial and Operating Statements 2003-2007, audited

Operating Results

The data included in this section is based on audited reports generated by LUS and LCG. Table 4-33 summarizes the LUS Fiber revenues and expenses for the most recent five years.

LUS Fiber service and access revenues increased by 6.6 percent over 2006. Fiber Utility operating expenses increased approximately 49.3 percent over 2006. The majority of the increase in expenses was related to retail operating expense. It should be noted that historical numbers do not reflect uniform treatment and application of LUS Combined Utilities administration, general, and other overhead costs to the Fiber Utility.

LUS' wholesale fiber business is still in its start-up phase. The first year that the Net Margin was positive was in 2004. While retail services were not being offered during fiscal year 2007, $87,008 of retail expense was realized. A 14.7 percent decrease in Net Margin occurred between 2006 and 2007.

Table 4-33
LUS Fiber Wholesale and Retail Net Operating Revenues ($)

	2,003	2,004	2,005	2,006	2,007
Fiber Operating Revenues					
Wholesale Revenues					
Fiber Service and Access Revenues	413,512	762,143	1,264,928	1,741,647	1,856,789
Miscellaneous Fiber Revenues	72,139	113	7,711	2,492	9,950
Total Wholesale Revenues	485,651	762,256	1,272,639	1,744,138	1,866,739
Retail Services	0	0	0	0	0
Total Fiber Operating Revenues	485,651	762,256	1,272,639	1,744,138	1,866,739
Fiber Operating Expenses					
Wholesale Expenses					
Operation Expenses	568,599	641,648	481,237	659,261	897,270
Fiber Maintenance Expenses	0	0	0	0	0
Total Wholesale Expense	568,599	641,648	481,237	659,261	897,270
Retail Expense	0	0	0	0	87,008
Total Operating Expenses	568,599	641,648	481,237	659,261	984,278
Fiber Non Operating Revenues (Expenses)					
Interest Revenues	0	8,464	28,454	49,964	59,578
FTTH Start-Up Project (1)	0	(10,406)	(31,500)	(8,362)	0
LUS Fiber Start up Cost Reimbursement	0	0	0	0	18,921
Miscellaneous Non Operating Expense	0	(279)	0	0	0
Total Non Operating Revenues (Expenses)	0	(2,221)	(3,046)	41,602	78,499
Net Margin (2)	(82,949)	118,387	788,355	1,126,480	960,961

(1) Fiber allocation of FTTH project start up cost. Allocation pursuant to LUS proposed Cost Allocation Manual.
(2) Before Depreciation and Debt Service.
Source: LUS Financial and Operating Statements 2003-2007, audited
Communications System Financial and Operating Statement 2007, audited

Statistical Data

The selected statistical data in Table 4-34 pertaining to the number of customers and revenues was obtained or developed from the LUS Financial and Operating Statements for years 2003 through 2007. The average fiber revenue per customer increased 3.6 percent in 2007 compared to 2006.

Table 4-34
Wholesale Fiber Sales Revenue and Statistics

	2003	2004	2005	2006	2007
Wholesale Fiber Sales Revenues					
Service and Access Revenues	$413,512	$762,143	$1,264,928	$1,741,647	$1,856,789
Total Fiber Sales Revenue	$413,512	$762,143	$1,264,928	$1,741,647	$1,856,789
Fiber Number of Accounts (Average)	22	31	35	35	36
Fiber Statistics					
Revenue per Account	$18,796	$24,585	$36,141	$49,761	$51,577

Source: LUS Financial and Operating Statements 2003-2007, audited

Operation & Maintenance Expenses

As shown in Table 4-35, LUS Fiber expenses have significantly increased over the most recent five years. Because the Fiber Utility is a new business venture, trends in O&M costs are not yet meaningful.

Table 4-35
Fiber Utility Detailed Expenses

	2003	2004	2005	2006	2007
Fiber Expenses (Wholesale)					
Network Support Services	$123,393	$61,774	$115,378	$82,699	$64,582
General Support Services	2,312	241	1,931	26,369	26,327
General Office Switching Expense	0	0	0	0	356
Operators System Expense	4,654	1,021	1,293	649	1,662
Central Office Transmission Expense	0	13,657	0	4,097	39,724
Information on Origination/Termination Assets	0	0	1,417	0	6,679
Cable & Wire Facilities Assets	0	0	481	24,107	5,845
Materials & Supplies	0	361	7,695	10,577	9,828
Network & Operations Expense	147,297	163,774	88,991	82,073	307,965
Access Expense	0	0	949	0	0
Other Fiber Expense					
Customer Operations Expense	352	0	1,995	77,149	64,829
Customer Services	944	1,325	31,800	201	14
Administrative & General	289,648	399,496	229,307	$351,340	369,459
Subtotal Fiber Expense	$568,599	$641,648	$481,237	$659,261	$897,270
Fiber Expense (Retail)	0	0	0	0	$87,008
Total Fiber Expense	$568,599	$641,648	$481,237	$659,261	$984,278

Source: LUS Financial and Operating Statements 2003-2007, audited

A review of retail operating expenses is not applicable at this time as LUS Fiber did not have any retail or wholesale customers during fiscal year 2007.

Operating Budget

The Operating Budget for the year ended October 31, 2007 was adopted by Council. Included in the Ordinance is the five-year capital plan beginning in 2007.

Since LUS Fiber was in its infancy during the reporting period, comparisons between actual and budgeted amounts are not meaningful.

Capital Improvement Program

The estimated requirements for capital improvements to LUS Fiber are summarized in Table 4-36. Each year, LUS Fiber is expected to revise its five-year CIP and prioritize each of the work items.

Table 4-36
Capital Improvement Program 2008 – 2012

Year Ending	2008	2009	2010	2011	2012	Total
LUS Fiber CIP	$10,985,000	$3,124,000	$2,236,000	$0	$0	$16,345,000

Source: LUS 5-Year Capital Outlay Program Summary, FY 2007-08 Adopted Budget, Combined Summary Retained Earnings and Bond Capital.

The current capital budgeting process requires LUS Fiber to fully appropriate a project before it can request bids. This process results in a skewing of projected capital expenditures toward the first year of the capital forecast. This prematurely escalates the projected capital needs and makes for difficult decision planning such as projected service rate charges, bond financing and resource planning. We recommend that LUS Fiber consider implementing a capital budgeting process that includes some form of activity-based analysis and costing. Matching available resources with the requirements necessary for completion of these capital projects will add practical realism to the capital appropriations budget.

Restricted Asset Transactions and Fund Balances

The 2007 Bond Ordinance contains certain provisions and covenants pertaining to the separation and maintenance of funds. The 2007 Bond Ordinance established the following funds in Article VI, Section 6.1:

(i) Receipts Account

(ii) Operating Account

(iii) Debt Service Account

(iv) Reserve Account

(vi) Capital Additions Account

Fund requirements were impacted significantly in 2007 as a result of the Series 2007 Bond.

Each of the above accounts is discussed below.

Receipts Account

The following table summarizes the Receipts Account, as required by the 2007 Bond Ordinance for the reporting year.

Table 4-37
Receipts Account ($1,000)

Cash Balance as of November 1, 2006	$0
Receipts during the Period	$274
Total Receipts and Cash Balance	$274
Disbursements during the Period	$274
Fund Balance as of October 31, 2007	$0

Source: LUS Funds Cash Flow Statement FY 06-07

Operating Account

The following table summarizes the Operating Account, as required by the 2007 Bond Ordinance for the reporting year.

Table 4-38
Operating Account ($1,000)

Cash Balance as of November 1, 2006	$0
Receipts during the Period	$6,181
Total Receipts and Cash Balance	$6,181
Disbursements during the Period	$510
Fund Balance as of October 31, 2007	$5,671

Source: LUS Funds Cash Flow Statement FY 06-07

Debt Service Account

The following table summarizes the Debt Service Account, as required by the 2007 Bond Ordinance for the reporting year.

Table 4-39
Debt Service Account ($1,000)

Cash Balance as of November 1, 2006	$0
Receipts during the Period	$16,252
Total Receipts and Cash Balance	$16,252
Disbursements during the Period	$2,058
Fund Balance as of October 31, 2007	$14,194

Source: LUS Funds Cash Flow Statement FY 06-07

Reserve Account

The following table summarizes the Reserve Account, as required by the 2007 Bond Ordinance for the reporting year.

Table 4-40
Reserve Account ($1,000)

Cash Balance as of November 1, 2006	$0
Receipts during the Period	$0
Total Receipts and Cash Balance	$0
Disbursements during the Period	$0
Fund Balance as of October 31, 2007	$0

Source: LUS Funds Cash Flow Statement FY 06-07

Capital Additions Account

In compliance with the requirements of the 2007 Bond Ordinance concerning receipts and disbursements of the Capital Additions Account, the transactions during the 2007 are presented in Table 4-41.

Table 4-41
Capital Additions Account ($1,000)

Cash Balance as of November 1, 2006	$0
Receipts during the Period	$274
Total Receipts and Cash Balance	$274
Disbursements during the Period	$0
Fund Balance as of October 31, 2007	$274

Source: LUS Funds Cash Flow Statement FY 06-07

2007 Construction Fund

In compliance with the requirements of the 2007 Bond Ordinance concerning receipts and disbursements of the Construction Fund Account, the transactions during the 2007 are presented in Table 4-42.

Table 4-42
2007 Construction Fund ($1,000)

Cash Balance as of November 1, 2006	$0
Receipts during the Period	$113,408
Total Receipts and Cash Balance	$113,408
Disbursements during the Period	$22,166
Fund Balance as of October 31, 2007	$91,242

Source: LUS Funds Cash Flow Statement FY 06-07

Balance Sheet

To determine the extent and character of the changes in assets and liabilities for 2007, a Balance Sheet is shown on Table 4-43.

Table 4-43
Balance Sheet

	October 31, 2007 Ending Balance
Assets	
Current Assets	
Cash and Cash Equivalents	
Receipts Account - Investments	0
Receipts Account - Cash	0
Operating Account - Investment	5,670,468
Operating Account - Cash	0
Debt Service Account - Investment	14,389,818
Debt Service Account - Cash	0
Unamort. Premium/Discounts - Investment	(968,361)
Consolidated Cash Reserve	50,000
Fair Value Adjustment - Cons. Cash Reserve	187
Petty Cash	0
Total Cash and Cash Equivalents	19,142,111
Accounts Receivable	
Customers	0
General Fund	0
LUS	0
Other	0
Interest Receivable - Bond Account & Others	655,013
Total Accounts Receivable	655,013
Less:	
Allowance for Uncollectibles	0
Allowance - Customers	0
Allowance - Others	0
Total Allowance for Uncollectibles	0
Inventories	
Materials Inventory	0
Total Inventory	0
Prepayments	
Prepaid ILOT	0
Prepaid Group Insurance Premiums	0
Prepaid Insurance	0
Prepaid Other	0
Total Prepayments	0
Total Current Assets	19,797,124
Bonds and Special Accounts	

	October 31, 2007 Ending Balance
Assets	
2007 Bond Account - Investment	92,334,261
2007 Bond Account Cash	0
Bond Reserve Account - Investment	0
Bond Reserve Account - Cash	0
Capital Additions Account - Investment	274,732
Capital Additions Account - Cash	0
Allowance for Market Value Adjustment	847,302
Investment in Risk Management Fund	0
Cash on Deposit with Paying Agent	1,877,230
Total Bonds and Special Accounts	95,333,525
Communications Plant	
Plant in Service	0
Construction Work in Progress	1,008,046
Plant Acquisition Adjustments	0
Depreciation Reserve (Plant in Service)	0
Construction Work in Progress - Accrued	(114,645)
Total Communications Plant	893,401
Deferred Debits	
2007 Revenue Bond Issue Cost	1,708,511
Deferred Start-up costs	2,386,933
Deferred Charges - LUS 2007 Expenses	203,494
Unamortized Debt Discount	0
Total Deferred Debits	4,298,938
Total Assets	120,322,989

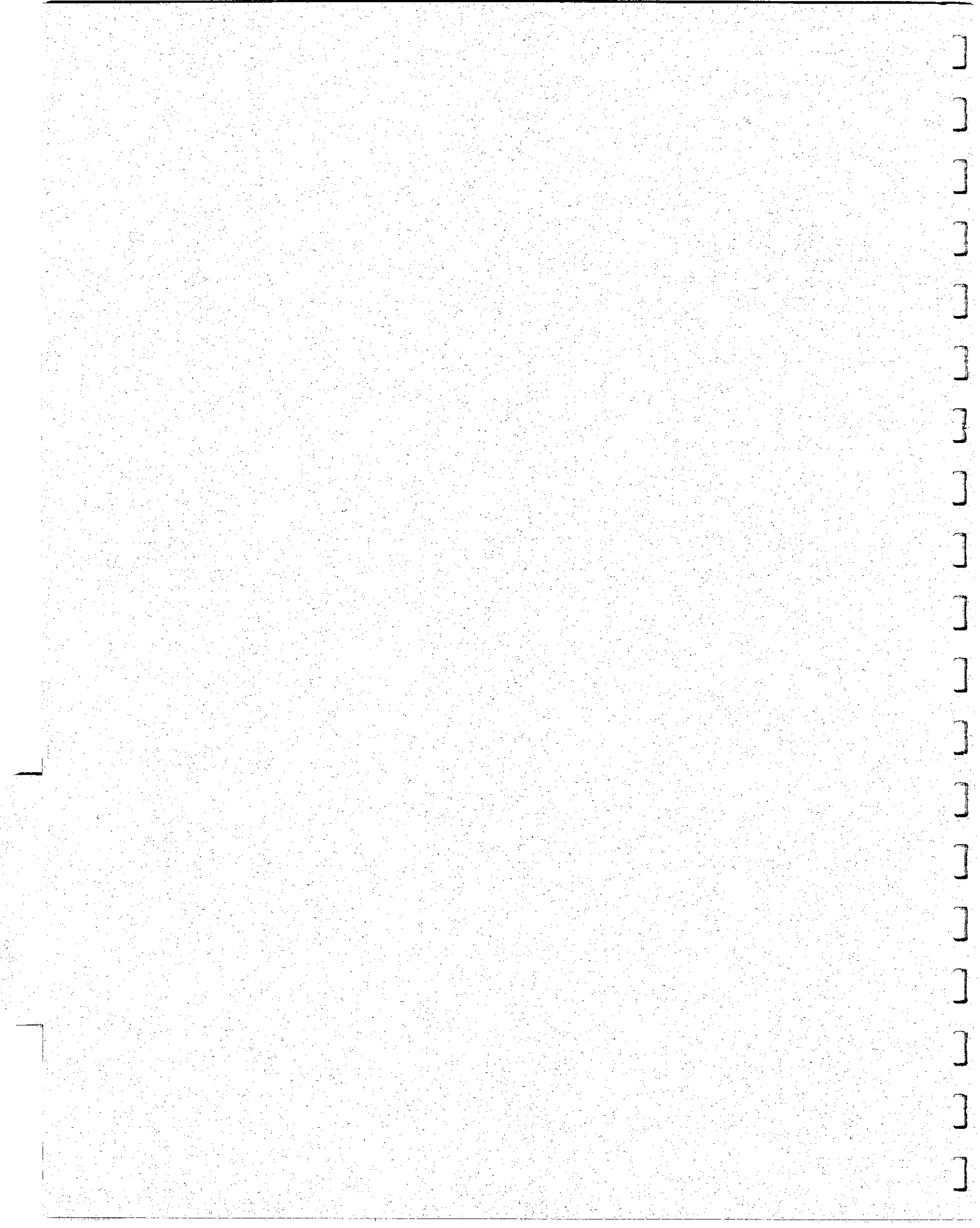
	October 31, 2007 Ending Balance
Liabilities and Equity	
Current Liabilities	
Accounts Payable - O&M Fund	22,545
Accounts Payable - Payroll	0
Accounts Payable - Employee Deductions	0
Accounts Payable - Miscellaneous	44,613
Accounts Payable - General Fund	35
Accounts Payable - LUS	40,171
Accounts Payable - Local Franchise Tax	0
Accounts Payable - 911 Tax	0
Accounts Payable - USF Fees	0
LUS Notes Payable - Current Portion	0
Misc. Current & Accrued Liabilities	0
Interest Accrued -Customer Deposits	0
Interest Accrued - 2007 Revenue Bonds	1,877,230
Interest Accrued - LUS Note Payable	0
Total Current Liabilities	1,984,593
Long-Term Liabilities	
LUS Note Payable - Start-up Costs	2,386,933
LUS Note Payable - LUS 2007 Expenses	203,494
LUS Note Payable - Fiber Assets	0
Unamortized Premium on 2007 Revenue Bonds	3,693,829
Capital Leases	0
Total Long-Term Liabilities	6,284,256
Long-Term Debt	
Series 2007 Revenue Bonds	110,405,000
Total Long-Term Debt	110,405,000
Retained Earnings	
Balance - Beginning of Fiscal Year	0
Earnings - Current Year	1,649,140
Total Retained Earnings	1,649,140
Total Liabilities and Equity	120,322,989

Recommendations

Based on our review of the LUS Fiber financial and accounting records, the Consulting Engineer recommends the following recommendations, as shown in Table 4-44.

Table 4-44
Recommendations

Finance and Accounting	Priority	Status
LUS should conduct a Combined Utilities cost of service study including Electric, Water and Wastewater Utilities. The overhead costs shared by the Utilities System and Communications System should be allocated properly based on accepted accounting standards and industry practice. This analysis is important in that LUS must understand the cost structure associated with the new capital and operating requirements of the Combined Utilities	Highest	No Progress Seen
LUS should continue to actively conduct financial planning, particularly as LUS increases Utilities System debt	Highest	In Progress
LUS should continue to pursue a strategy of increasing water and wastewater rates over the next several years	Highest	In Progress
LUS should continue to explore ways of improving the timeliness of financial reporting, including the implementation of new financial management tools	Highest	In Progress
LUS should increase the water and wastewater systems debt to equity ratio and continue to work towards financing a considerable portion of future capital improvement projects with debt	High	In Progress
LUS should continue to improve the five-year capital budgetary process (cash-needs capital budget). The process should include some form of activity-based analysis and costing. The current CIP should be reviewed and each project checked for correct priority, schedule and estimate	High	No Progress Seen
LUS should modernize and streamline human resource systems in order to accommodate current and future staffing and management needs of the utilities	High	No Progress Seen
LUS should review and evaluate the accuracy of accounting policies related to booking transmission and distribution investment and related O&M expense	Normal	No Progress Seen
LUS should continue its efforts to identify opportunities for wholesale power sales	High	In Progress



Section 5
ELECTRIC UTILITY

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Section 5
ELECTRIC UTILITY

During February 2008, the Consulting Engineer interviewed LUS staff regarding Electric Utility operations and performed analyses of operating statistics that are indicative of the general operating condition of LUS' Electric Utility facilities. The following discussion summarizes the findings of the Consulting Engineer with respect to the maintenance and management of the property based upon discussions with and information supplied by LUS' personnel.

A summary of the Electric Utility's historical capacity and energy requirements, load forecast projections, organizational structure, major contracts, generation, transmission and distribution facilities, O&M statistics and practices, historical expenditures, historical and projected capital expenses, key issues, goals and achievements, and the associated findings and recommendations of the Consulting Engineer are below. The information and findings of the Consulting Engineer are based upon general observations, discussions with utility supervisory personnel, and information supplied by LUS personnel.

Utility Organization

The Electric Utility is supported primarily by the Power Production Division and the Electric Operations Division of LUS. Other LUS Divisions, including Engineering, Customer Service, Utilities Support Services and Environmental Compliance, provide services to the Electric Utility.

The Power Production Division is charged with power production along with O&M of the wholly owned generation facilities of LUS, including capital planning and implementation. The Power Production Division is also responsible for O&M of a 10-inch natural gas pipeline owned by LUS.

The Electric Operations Division is responsible for transmission, distribution, metering, and delivery of electrical power to consumers; inventory management of electric, water and wastewater materials and LUS security. The Electric Operations Division is also responsible for the Energy Control System (ECS) section, which provides for the scheduling and dispatch of generating resources (including the purchase and sale of wholesale power), the operation of the SCADA system, and all line switching orders. The Supervisory Control and Data Acquisition (SCADA) system provides direct control and monitoring of the electric transmission and distribution system, as well as control and monitoring of certain water and wastewater facilities and equipment.

The Electric Operations Division consists of four discrete operating sections: Transmission and Distribution, Substation and Communications, ECS and Metering,

and Facilities Management. The Electric Operations Division is currently organized as follows:

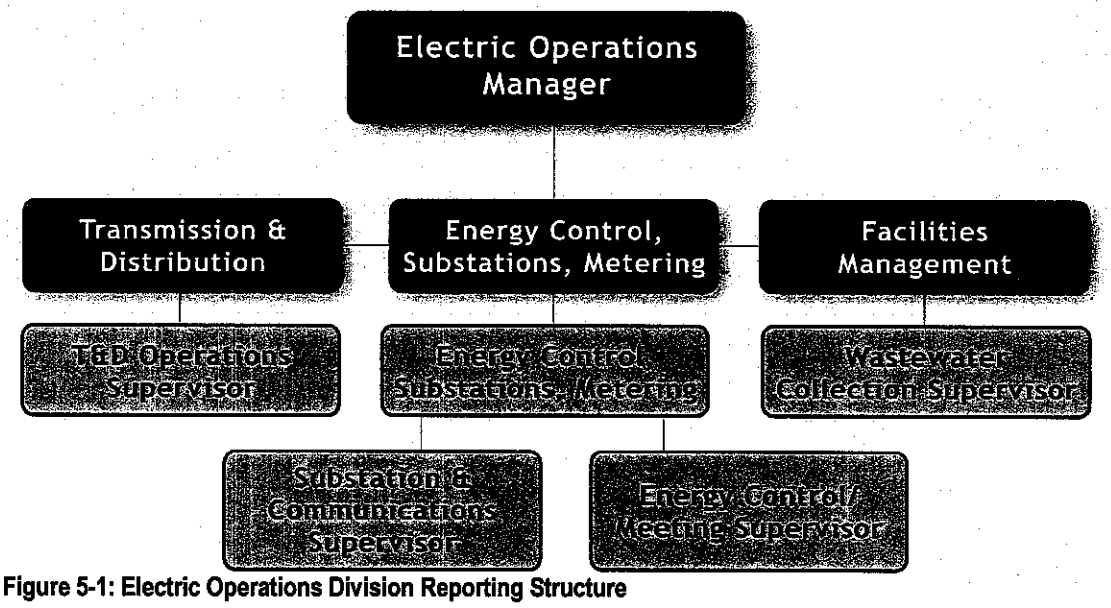


Figure 5-1: Electric Operations Division Reporting Structure

Additionally, significant support is provided to the Electric Utility from the Engineering Division. The Power Marketing section of the Engineering Division coordinates with ECS for fuel supply along with power purchases and sales to and from LUS. The Power Marketing Section serves as the primary interface with the coal-fired Rodemacher Unit No. 2 Power Station (RPS2), which is partially owned by LPPA, and coordinates with the ECS and Power Production Division for delivery of baseload energy from RPS2 to the Electric Utility as described in more detail below. The Power Marketing Section also coordinates with independent system operators and regional transmission operators on issues pertinent to the Electric Utility. The Administration Section of the Engineering Division administers various third party contracts for O&M materials and services required by the Electric Utility.

Each division plays a critical role in determining the degree of success LUS will have in meeting its Electric Utility customer expectations. Although each division has its own responsibilities, they interact extensively and operate in a cohesive manner.

Power Production

The production of power for the Electric Utility is primarily provided from three gas-fired generating facilities located in the City and one coal-fired generating facility (through purchases from LPPA). The discussion below provides a description of the facilities, the historical operating statistics for each facility, a summary of the O&M history and plans, and the condition of the facilities as observed by the Consulting Engineer.

Gas-fired Generation

The gas-fired generating facilities which supply a portion of the demand and energy requirements of LUS include the Louis "Doc" Bonin Electric Generating Station (Doc Bonin Plant), the T. J. Labbé Electric Generation Station (T. J. Labbé Plant), and the Hargis-Hébert Electric Generating Station (Hargis-Hébert Plant). The Curtis A. Rodemacher Electric Generating Station (Rodemacher Station) (also located in the city) has not operated since 1994 and LUS is in the process of decommissioning the plant (see Section 9). Construction and commissioning of the T. J. Labbé Plant was completed in 2005 and the Hargis-Hébert Plant in 2006.

Doc Bonin Plant

The Doc Bonin Plant, shown in Figure 5-2, is located in the northwest part of the City and consists of three natural gas-fired conventional utility boilers each with a dedicated steam turbine (ST). The units were installed in 1964, 1970, and 1976, respectively. Unit 1 generates steam at 1,250 pounds per square inch (psi) and includes a non-reheat, tandem compound, bottom exhaust ST. Unit 2 and Unit 3 generate steam at 1,800 psi and include tandem compound, bottom exhaust STs with reheat. Each unit has a dedicated cooling tower for heat rejection. Well water is utilized for cooling tower make-up and municipal potable water is supplied to the water treatment system. Each unit has a dedicated exhaust stack and none of the units have emission control equipment. Unit 1 and Unit 2 are electrically interconnected to the LUS system at the 69kV level and Unit 3 is connected at the 138kV level.

Typically, only one of the three active gas-fired generating units at the Bonin Plant is operated at one time. In this mode of operation, there are essentially "spare" generating units to ensure system reliability. The units are currently dispatched on the basis of load requirements and transmission system limitations.

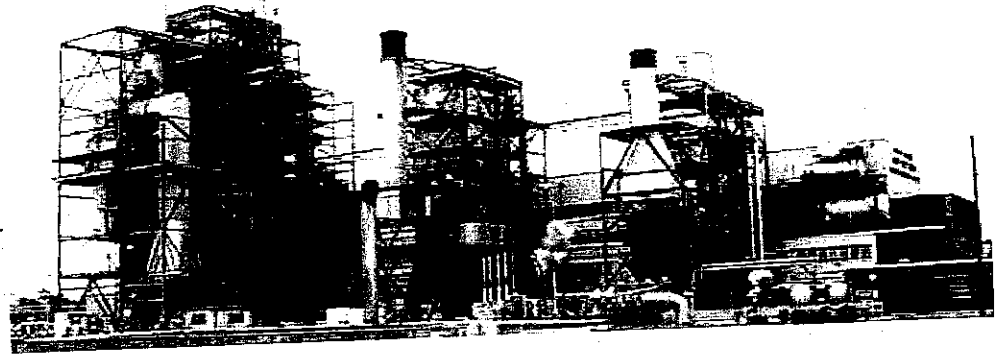


Figure 5-2: Doc Bonin Plant

T. J. Labbé and Hargis-Hébert Plants

The T. J. Labbé Plant, shown in Figure 5-3, is located toward the northern portion of the Parish, and consists of two natural gas-fired LM6000PC Sprint combustion turbines (CTs) with water injection for nitrogen oxides (NO_X) control and chillers for

inlet air cooling to enhance power production when operating at high ambient temperatures. The T. J. Labbé Plant is equipped with three 50 percent capacity gas compressors and is electrically connected by means of a looped 230kV interconnect to the existing Pont des Mouton to Doc Bonin 230kV line. The Industrial Company (TIC), the construction contractor achieved substantial completion in August 2005. The plant was placed into commercial operation August 19, 2005.

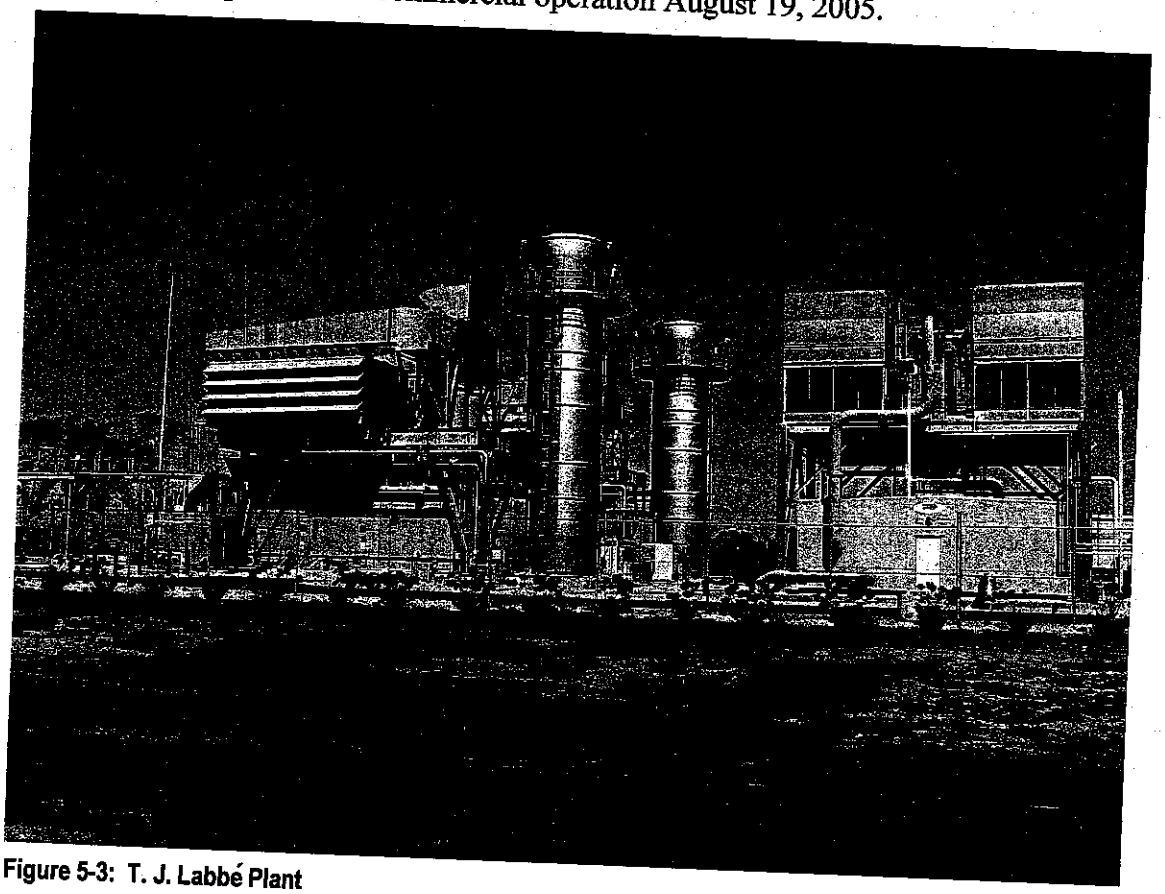


Figure 5-3: T. J. Labbé Plant

The Hargis-Hébert Plant, shown in Figure 5-4, is located toward the southern portion of the City, and consists of two natural gas-fired LM6000PC Sprint CTs with water injection for NO_X control and chillers for inlet air cooling to enhance power production when operating at high ambient temperatures. The Hargis-Hébert Plant has been designed with two 50 percent capacity natural gas heaters and is electrically connected to the existing Elks Substation by means of a new 1.2-mile 69kV transmission line. The Hargis-Hébert Plant has blackstart capability, allowing operation of the plant in the event of the loss of power from the transmission grid, and will be monitored and can be controlled from the Doc Bonin Plant. Furthermore, both CTs of the Hargis-Hébert Plant are to be equipped with synchronous condensers, or clutches, between the turbine and the generator to provide voltage support to the system. TIC the construction contractor achieved substantial completion in May 2006. The plant was placed into commercial operation on June 9, 2006.

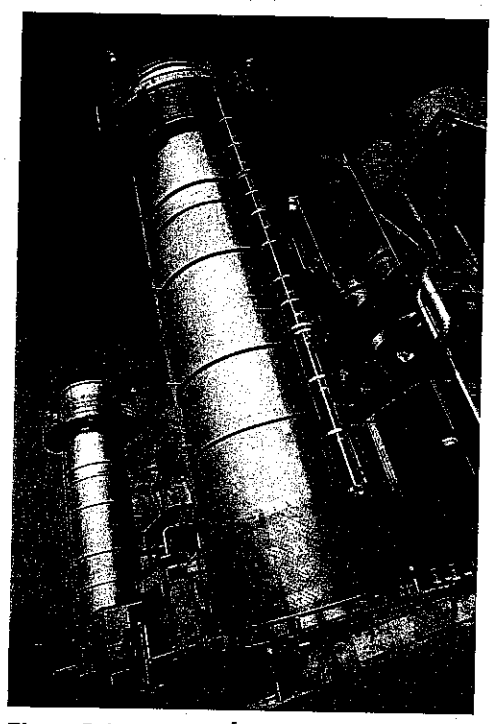


Figure 5-4: Hargis-Hébert Plant

General information including gross capacity for each unit at the Doc Bonin Plant, T. J. Labbé Plant and Hargis-Hébert plants are listed in Table 5-1.

Table 5-1
Gas-Fired Generation

Unit	Gross Capacity (MW)(2)	Fuel	Boiler Manufacturer	Turbine Manufacturer
Doc Bonin Unit 1	45	Gas/Oil(1)	Babcock and Wilcox	Westinghouse
Doc Bonin Unit 2	80	Gas/Oil(1)	Combustion Engineering	General Electric
Doc Bonin Unit 3	170	Gas/Oil(1)	Babcock and Wilcox	General Electric
Doc Bonin Plant Total	295			
T. J. Labbé Unit 1	50	Gas	N/A	General Electric
T. J. Labbé Unit 2	50	Gas	N/A	General Electric
T. J. Labbé Plant Total	100			
Hargis-Hébert, Unit 1	50	Gas	N/A	General Electric
Hargis-Hébert, Unit 2	50	Gas	N/A	General Electric
Hargis-Hébert Plant Total	100			
Total	495			

(1) Natural gas is the primary fuel for generation, with oil used as an alternative supply.
(2) Summer rating with Automatic Generation Control..
Source: Jamie Webb, LUS, 2/08

Operating Statistics

LUS personnel reported the following significant operating statistics for the gas-fired generating units.

Table 5-2 contains operating statistics for Doc Bonin for the last five years. Annual generation at the Bonin Plant has averaged approximately 312 gigawatt hours (GWh) (net) over the 2003 to 2007 period, the majority of which was provided by Unit 3. Annual natural gas consumption averaged 3,611,661 MMBtu over the same period. The annual average heat rate of the Bonin Plant was approximately 12,316 Btu/kWh.

Table 5-2
Doc Bonin Gas-Fired Generation Operating Statistics

	2003	2004	2005	2006	2007	5-Year Average
Doc Bonin – 1						
Gross Generation (MWh)	10,879	48,826	53,509	5,053	6,834	25,020
Gross Capacity Factor (%) (1)	2	11	12	1	2	6
Service Factor (%) (2)	6	26	30	3	3	14
Availability Factor (%) (3)	81	99	99	91	56	85
Forced Outage Rate (%) (4)	0.00	0.25	0.30	2.8	0.00	0.7
Number of Starts	3	5	4	2	3	3
Doc Bonin – 2						
Gross Generation (MWh)	76,700	135,825	161,212	90,823	53,984	103,709
Gross Capacity Factor (%) (1)	10	17	20	12	7	13
Service Factor (%) (2)	28	50	48	36	17	36
Availability Factor (%) (3)	90	93	66	89	96	87
Forced Outage Rate (%) (4)	0.10	1.20	0.00	4.6	12.8	3.7
Number of Starts	10	13	12	6	2	8.6
Doc Bonin – 3						
Gross Generation (MWh)	290,363	318,104	451,418	0	0	211,977
Gross Capacity Factor (%) (1)	18	19	28	0	0	13
Service Factor (%) (2)	49	47	71	0	0	33
Availability Factor (%) (3)	93	60	97	92	100	88
Forced Outage Rate (%) (4)	0.00	0.05	2.09	31.0	N/A	8.3
Number of Starts	2	6	7	0	0	3
Doc Bonin Totals						
Total Gross Generation (MWh)	377,942	502,755	666,139	95,876	60,818	340,706
Total Net Generation (MWh)	346,913	463,146	622,333	82,785	46,441	312,324
Total Gas Usage (MMBtu)	3,844,806	5,227,479	7,225,407	1,090,523	670,089	3,611,661
Net Heat Rate (Btu/kWh)	11,083	11,287	11,610	13,173	14,429	12,316

(1) Gross Capacity Factor is the actual electric generation divided by the maximum the unit is capable of generating.

(2) Service Factor reflects the percent of time the unit was electrically connected to the transmission system.

(3) Availability Factor reflects the percent of time the unit was capable of providing service.

(4) Forced Outage Rate reflects the percent of time the unit was removed from service due to an unplanned failure.

Source: Jamie Webb, LUS 2/08

Table 5-3 contains operating statistics for T. J. Labbé for the last five years. Annual generation at the T. J. Labbé Plant has averaged approximately 93 GWh (net) since 2006, with the electrical production generally split even between Unit 1 and Unit 2. Annual natural gas consumption averaged 1,127,304 MMBtu over the same period. The annual average heat rate of the T. J. Labbé Plant was approximately 12,069 Btu/kWh.

Table 5-3
T. J. Labbé Gas-Fired Generation Operating Statistics

	2003	2004	2005 (5) (6)	2006	2007	5-Year Average
T. J. Labbé - 1						
Gross Generation (MWh)	N/A	N/A	N/A	51,548	49,468	50,508
Gross Capacity Factor (%) (1)	N/A	N/A	N/A	12	11	12%
Service Factor (%) (2)	N/A	N/A	N/A	22	25	24%
Availability Factor (%) (3)	N/A	N/A	N/A	94	95	94%
Forced Outage Rate (%) (4)	N/A	N/A	N/A	5.1	4.4	4.7%
Number of Starts	N/A	N/A	N/A	122	60	91
T. J. Labbé - 2						
Gross Generation (MWh)	N/A	N/A	N/A	46,664	51,199	48,932
Gross Capacity Factor (%) (1)	N/A	N/A	N/A	11	12	11%
Service Factor (%) (2)	N/A	N/A	N/A	19	25	22%
Availability Factor (%) (3)	N/A	N/A	N/A	97	90	94%
Forced Outage Rate (%) (4)	N/A	N/A	N/A	1.6	22.4	12.0%
Number of Starts	N/A	N/A	N/A	114	60	87
T. J. Labbé Totals						
Total Gross Generation (MWh)	N/A	N/A	N/A	98,212	100,667	99,443
Total Net Generation (MWh)	N/A	N/A	N/A	92,501	94,209	93,355
Total Gas Usage (MMBtu)	N/A	N/A	N/A	1,051,884	1,202,723	1,127,304
Net Heat Rate (Btu/kWh)	N/A	N/A	N/A	11,372	12,767	12,069

(1) Gross Capacity Factor is the actual electric generation divided by the maximum the unit is capable of generating.

(2) Service Factor reflects the percent of time the unit was electrically connected to the transmission system.

(3) Availability Factor reflects the percent of time the unit was capable of providing service.

(4) Forced Outage Rate reflects the percent of time the unit was removed from service due to an unplanned failure.

(5) T. J. Labbé commenced operation August 19, 2005.

(6) Operating Statistics not available.

Source: Jamie Webb, LUS 2/08

Table 5-3 contains operating statistics for Hargis-Hebert for the last five years. Annual generation at the Hargis-Hebert Plant has averaged approximately 99 GWh (net) since 2006, with the electrical production generally split even between Unit 1 and Unit 2. Annual natural gas consumption averaged 1,205,087 MMBtu over the same period. The annual average heat rate of the Hargis-Hebert Plant was approximately 11,972 Btu/kWh.

Table 5-4
Hargis-Hebert Gas-Fired Generation Operating Statistics

	2003	2004	2005	2006 (5)	2007	5-Year Average
Hargis-Hebert - 1						
Gross Generation (MWh)	N/A	N/A	N/A	31,589	79,474	55,532
Gross Capacity Factor (%) (1)	N/A	N/A	N/A	7	18.1	9
Service Factor (%) (2)	N/A	N/A	N/A	13	36.91	19
Availability Factor (%) (3)	N/A	N/A	N/A	95	95.99	48
Forced Outage Rate (%) (4)	N/A	N/A	N/A	1.60	0.19	0
Number of Starts	N/A	N/A	N/A	38	72	55
Hargis-Hebert - 2						
Gross Generation (MWh)	N/A	N/A	N/A	27,418	71,263	49,341
Gross Capacity Factor (%) (1)	N/A	N/A	N/A	6	16.3	8
Service Factor (%) (2)	N/A	N/A	N/A	10	34.75	17
Availability Factor (%) (3)	N/A	N/A	N/A	95	94.14	48
Forced Outage Rate (%) (4)	N/A	N/A	N/A	1.10	5.3	3
Number of Starts	N/A	N/A	N/A	53	61	57
Hargis-Hebert Totals						
Total Gross Generation (MWh)	N/A	N/A	N/A	59,007	150,737	104,872
Total Net Generation (MWh)	N/A	N/A	N/A	55,573	142,547	99,060
Total Gas Usage (MMBtu)	N/A	N/A	N/A	640,913	1,769,260	1,205,087
Net Heat Rate (Btu/kWh)	N/A	N/A	N/A	11,533	12,412	11,973

(1) Gross Capacity Factor is the actual electric generation divided by the maximum the unit is capable of generating.

(2) Service Factor reflects the percent of time the unit was electrically connected to the transmission system.

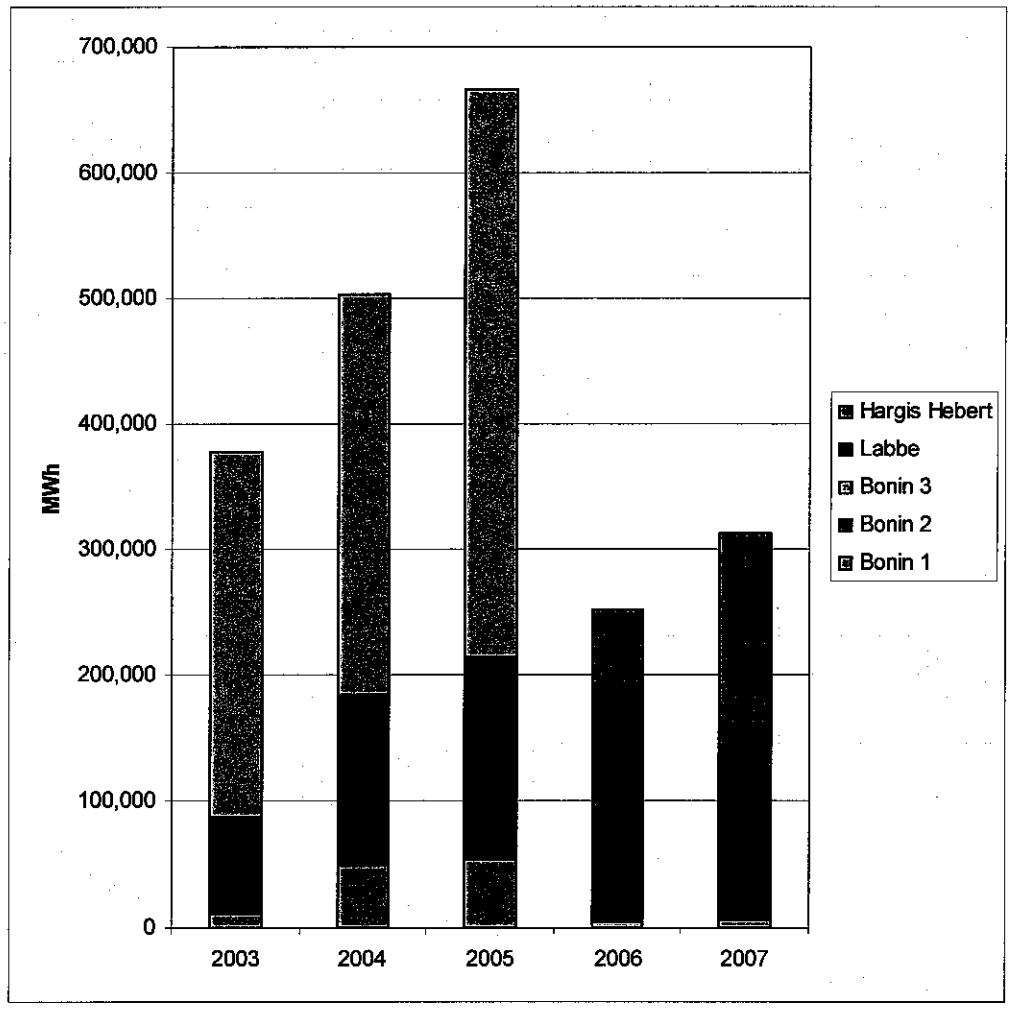
(3) Availability Factor reflects the percent of time the unit was capable of providing service.

(4) Forced Outage Rate reflects the percent of time the unit was removed from service due to an unplanned failure.

(5) Hargis-Hebert achieved commercial operation June 9, 2006 and the data presented is for a partial year.

Source: Jamie Webb, LUS 2/08

Figure 5-5 below shows the total energy production from the gas-fired generation facilities and illustrates the energy contributed by each of the units.



Source: Jamie Webb, LUS 2/08

Figure 5-5: Total Gas-Fired Generation Unit Contributions

LUS attempts to utilize their coal-fired capacity at RPS2 to provide as much energy as possible throughout the year. In the past delivery limitations from RPS2 due to transmission constraints occurred quickly and with limited warning. Therefore, because several hours are required to start-up one of the Doc Bonin units, one or more of the Doc Bonin units were kept on-line. However, the recent addition of the T. J. Labbé Plant and the Hargis-Hébert Plant, which have much quicker start-up times and are more efficient than the Doc Bonin units, has significantly altered the operating profile of the Doc Bonin units and the energy production of the gas-fired generation resources in general. Figure 5-2 clearly shows the decrease in gas-fired generation from 2005 to 2007 and also shows the decrease in generation from the Doc Bonin units. LUS reports that approximately 81 transmission loading relief calls, or constraint events impacted LUS in 2007, which is up from approximately 60 in 2006.

The 2007 availability of each of the Doc Bonin units was higher than we would expect the long-term average availability to be for units of similar, size, type and age, except for Unit 1 which was lower due to the major scheduled turbine overhaul. Additionally, the lower availability for Unit 2 in 2005 and Unit 3 in 2004 is attributable to an extensive major overhaul which included rewind of the generator field windings. Additionally, due to the nature of their operation, the Doc Bonin units are within the range of expected values for forced outage rate for units of similar size, type, and age.

The 2007 availability of the Unit 1 CT at the T. J. Labbé Plant and each of the CTs at the Hargis-Hébert Plant were similar to what we would expect the long-term average availability to be for units of similar, size, type and age. The 2007 availability for the Unit 2 CT at the T. J. Labbé Plant was lower than we would expect for units of similar, size, type and age. No major maintenance repairs of the CTs were performed in fiscal year 2007. The 2007 forced outage rate on the Unit 1 and Unit 2 CTs at the T. J. Labbé Plant and Unit 2 at the Hargis-Hebert Plant were similar or higher than we would expect the long-term average forced outage rate to be. However, it is not uncommon for newly installed CTs to have higher than normal forced outage rates as various issues encountered as the CTs go from construction to operation are addressed. The forced outage rate of Unit 1 at the Hargis-Hebert Plant was better than we would expect the long-term average forced outage rate to be for equipment of similar size, type, and age.

Fuel Infrastructure and Supply Contracts

LUS owns a ten mile, 10-inch gas supply pipeline, which connects to Texas Gas Transmission Corporation (Texas Gas) and Columbia Gulf Transmission Company (Columbia Gas) pipeline systems. The LUS-owned gas pipeline offers an alternative means of supplying gas to the LUS generation facilities in lieu of the gas supply contract with Crosstex. The LUS-owned gas pipeline also crosses (but is not interconnected with) two other gas pipelines, Florida Gas Transmission, a subsidiary of CrossCountry Energy, LLC, and Gulf South Pipeline Company, LP. (Gulf South).

Fuel supply to the T. J. Labbé Plant is provided via a pipeline expansion branch from the LUS-owned 10-inch gas supply pipeline that connects the Bonin Plant with Columbia Gulf and Texas Gas. The supply pipeline is a 10-inch line that follows a 2,250 foot westerly route parallel with Renaud Drive, then north for approximately 500 feet to the T. J. Labbé Plant.

Fuel supply for the Hargis-Hebert Plant is provided by interconnection with the east-west Gulf South system between Louisiana Highway 89 (Southpark Road) and Commission Boulevard, at the intersection of the Gulf South pipeline with American Boulevard. Gulf South owns, operates, and maintains a 10-inch, 2,500-foot supply lateral. Gulf South also operates and maintains a metering station at the Hargis-Hebert Plant site that is owned by LUS.

Operations and Maintenance

Day-to-day O&M of the three LUS wholly-owned generating facilities is to be accomplished by a plant staff of 41. As of the end of 2007, 12 positions were vacant, but eight contract employees were utilized to meet staffing needs in 2007. The 41 positions and those which are currently vacant are shown below. Some positions were filled in 2007 and some positions were also vacated. However, the net staffing level remained the same. LUS currently staffs the Doc Bonin Plant and the T. J. Labbé and Hargis-Hebert Plants with at least one staff member 24 hours a day seven days a week.

Table 5-5
Power Production Staffing Summary as of October 31, 2007

Position	2006-2007 Budget (1)	2007 ActualFull Time(2)	Difference
Plant Superintendent	1	1	0
Plant Operations Supervisor	1	1	0
Plant Machinist	3	0	(3)
Plant Technician	16	13	(3)
Plant Shift Foreman	6	5	(1)
Plant Maintenance Supervisor	1	0	(1)
Plant Maintenance Foreman	2	2	0
ICE Technician	4	1	(3)
Engineer	1	0	(1)
Engineering Aide	3	3	0
Stores Clerk	1	1	0
Secretary	1	1	0
Clerk	1	1	0
Total	41	29	(12)

(1) Source: LUS 5-Year Capital Outlay Program Summary, FY 2007-08 Adopted Budget

(2) Source: Jamie Webb, LUS,2/08

Day-to-day operational challenges include coordination of dispatch and generation requirements. The long-term challenge facing operations is a shortage of qualified labor. Key power plant positions remain vacant, but the plant has overcome this by outsourcing and hiring contract labor. The labor shortage has not yet impacted plant reliability; however, the shortage along with the longevity of the present workforce may impact operations in the future.

We previously noted that LUS raised the minimum load level of Unit 3 of the Doc Bonin Plant to approximately 75 MW in order to mitigate excessive NO_X emissions events relative to the air permit. In 2007, Unit 3 was not used to generate electrical power.

LUS has implemented a formal training program for operations personnel, consisting of industry specific plant science and process training. Also, LUS Operations utilizes power plant technician demonstration notebooks that require new operators to perform system checkouts with a Shift Foreman. Additionally, plant specific operating training materials are being developed by LUS. The Power Plant Operator Apprentice program, ICE Technician Apprentice program, and Power Plant Machinist Apprentice program are being revised to include power plant specific knowledge along with industry standard components for fossil plant operator and maintenance technicians.

Operations are accomplished through the use of operational procedures incorporated in Original Equipment Manufacturer (OEM) manuals. Power Production Division staff reports routine use of the boiler chemistry lab, start-up/shutdown checklist and the common practice of apprentice training of operations technicians, routine turbine over-speed trip tests, relief valve testing, piping hanger walkdowns and the weekly functional test of the Doc Bonin Plant's diesel generator.

Predictive maintenance programs include vibration monitoring, lube oil analysis, meggar testing, ultrasonic leak detection (air systems), and boiler tube porosity and thickness testing. These programs can detect problems prior to catastrophic failure of the equipment. The repair of the equipment will typically have less of an adverse impact on operation, can be better planned, and may cost less to perform the repair. Preventative maintenance includes routine lubrication, cleaning, and general inspection of equipment. LUS purchased new testing equipment in 2002 to upgrade the existing program for vibration monitoring and purchased new laser alignment equipment in 2005.

Both predictive and preventative maintenance tasks are generated and tracked by the existing maintenance management program, which employs the network version of the MP2 software package. Maintenance management systems such as the MP2 system are designed to track work orders from origination through completion. This allows plant personnel to monitor progress, identify backlog and produce planning and scheduling information.

The MP2 system also has the capability to maintain spare parts inventory control as well as cross-referencing parts inventory with maintenance tasks. This provides for more efficient job planning and scheduling along with monitoring inventory levels and ordering replacements. Consumable and capital spares have been integrated in the MP2 system. Minimum and maximum levels have been established in the system for the consumable spares. LUS personnel have assembled the available capital and consumable spare parts in three areas of the facilities in separate bins with assigned tag numbers. At the end of 2007, LUS started construction of maintenance buildings at the T. J. Labbé Plant and the Hargis-Hébert Plant for storage of plant spares. The maintenance buildings are expected to be completed in the 1st Quarter of 2008. Critical spares are presently being identified for the CTs, and purchasing of these spare parts is expected to start in the 1st Quarter of 2008.

Major steam turbine maintenance work in past years has included overhauls on Doc Bonin Plant Unit 2 in 2005, Unit 3 in 2004, and Unit 1 in 2007. Unit 1's major steam turbine outage, which began February 5, 2007 and lasted through July 3, 2007,

included inspection, disassembly, and re-assembly of the HP-LP turbine components and generator and other work such alignment checks of the HP-LP coupling and inspection of the main lube oil system and turning gear.

CT major maintenance will be driven by the manufacturers recommended maintenance schedule, which is based on equivalent baseload operating hours. The CTs of the Hargis-Hébert Plant had boroscope inspections completed in October 2006 and the CTs of the T. J. Labbé Plant were completed in November 2006 and planned again for November 2007. The boroscope inspections of the Hargis-Hébert Plant CTs indicated no unusual wear and tear on the CTs.

Condition of the Property

The electric power production facilities are generally being well maintained and LUS has continued to make capital improvements. In 2001, LUS completed condenser tube replacement on Unit 3. In 2002, LUS replaced Unit 2's turbine control system, installed a camera in Unit 1's boiler, replaced Unit 2 boiler corner tubes around the burners, replaced two instrument air dryers, and upgraded plant lighting. In 2003, LUS replaced Unit 1's generator step up transformer, and replaced Unit 1 and Unit 2 flame scanner system. In 2004, a reverse osmosis system was installed to increase the period between regenerations for the existing demineralizer trains. Also in 2004, an additional emergency diesel generator was installed to provide increased emergency power and the fuel gas controls were upgraded. In 2005, LUS installed a boiler camera on Unit 2. In 2007, material projects included work to construct a new oil and chemical storage building.

Plant personnel indicated that plans are in place to repaint the external facilities of Doc Bonin Unit Nos. 2 and 3 in the Fall 2009. We recommend proceeding with the plans to repaint the affected areas as soon as possible to prevent further degradation. The areas inside the three facilities are clean and well kept and the yard areas of the facilities are generally neat and well maintained.

Coal-Fired Generation

LPPA supplies a significant portion (from 50 to 70 percent) of LUS' electric energy production. LPPA has a 50 percent ownership interest in a fossil-fuel steam-electric generating unit, RPS2, located in northwest Rapides Parish near Boyce, Louisiana, approximately 100 miles northwest of Lafayette. RPS2, which is operated by Cleco, consists of a Foster-Wheeler steam boiler and a General Electric reheat steam turbine generator with a nominal rating of 510,828 kW.

The RPS2 is equipped with a hot-gas electrostatic precipitator to remove fly ash, and is designed to operate with an efficiency of 99.5 percent when burning high sulfur coal, and 95 percent when burning oil. The boiler is rated at 3,800,000 pounds of steam per hour. Design throttle pressure is 2,400 psig with five percent continuous over-pressure capability. Boiler main steam temperature is 1,005 degrees Fahrenheit (°F) with a reheat temperature of 1,005°F. The electric generator is rated at 620,000 kilovolt amperes (kVA) and operates at 3,600 revolutions per minute (rpm).

Circulating water for cooling and condensing the steam is supplied from Lake Rodemacher by circulating water pumps that are located in the screened water intake structure. Evaporation and water otherwise lost from the lake is replaced by rainfall runoff within the Lake Rodemacher's drainage area, which is approximately 34 square miles.

Figure 5-6: Rodemacher Power Station Unit No. 2

Transmission

There are five 230-kilovolt (kV) lines owned by Cleco out of the Rodemacher switching station. Four of the 230-kV lines extend to Clarence, Leesville, Rapides, and St. Landry (Cocodrie), while the fifth line from the Rodemacher Power Station extends to Sherwood. The existing Pineville-Rapides 138-kV line has been converted to 230 kV. Two new 230-kV lines have been constructed from Sherwood to the existing Pineville-Rapides line. Related substation facility additions were made by Cleco at the Station and at Pineville, Rapides, Forest Hill and Sherwood Substations.

Through these Cleco transmission facilities, the Rodemacher switching station is interconnected with the area transmission grid. The City is interconnected with the area transmission grid through its 138-kV and 230-kV ties to Cleco and Entergy. Interconnection facilities provide capability for the City to receive power and energy at rates of delivery up to 500,000 kW.

Coal for Rodemacher Unit No. 2

The principal fuel for RPS2 is coal and is supplied by Rio Tinto Energy America, formerly known as Kennecott Energy Company from coal properties in Campbell County, Wyoming. The coal is transported via UP from Wyoming to the Station in Boyce, Louisiana. The original contract was executed in 1973 and renegotiated several times.

LPPA owns two unit trains that are operated by Cleco in coordination with Cleco's unit trains to bring LPPA's coal to the Station. A portion of the proceeds from the Series 2007 LPPA Bonds was utilized by LPPA to replace the steel unit trains with higher capacity aluminum unit trains. As of the date of this report, both trains have been received.

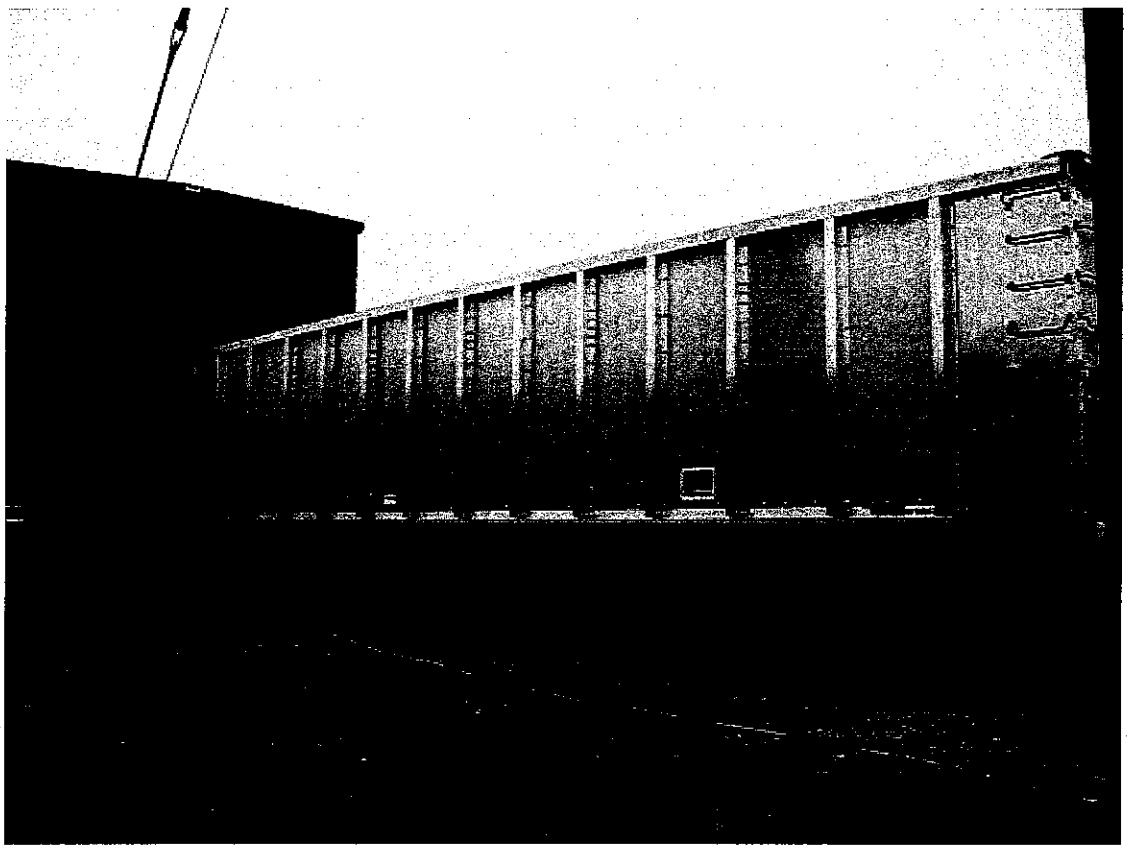


Figure 5-7: New Aluminum Rail Car purchased with proceeds of Series 2007 Bonds

We note that past rail transportation difficulties have resulted in the procurement of small amounts of coal from other mines to support the test burn of various coal blends in the event that coal deliveries become more problematic in the future.

We note that past rail transportation difficulties have resulted in the procurement of small amounts of coal from other mines to support the test burn of various coal blends in the event that coal deliveries become more problematic in the future. LUS indicates

that the results of the test burn of the various coals were successful and certain small quantities of coal from other sources were procured to supplement the coal pile.

Performance

In conjunction with our periodic report work for LPPA, we have reviewed certain unit performance measurements provided by Cleco, such as gross and net generation, station service, heat rate, and availability as indicators of plant performance. The heat rate is calculated by multiplying the average Btu content of the fuel (as reported from the mine's coal analysis) by fuel quantities taken from the plant's fuel weighting device (gravimetric stock feeder), and dividing by the energy in megawatt hours generated and delivered to the transmission grid. These performance measurements are provided in Table 5-6. The generation statistics shown above are for the entire RPS2 plant, not just LPPA's 50 percent ownership.

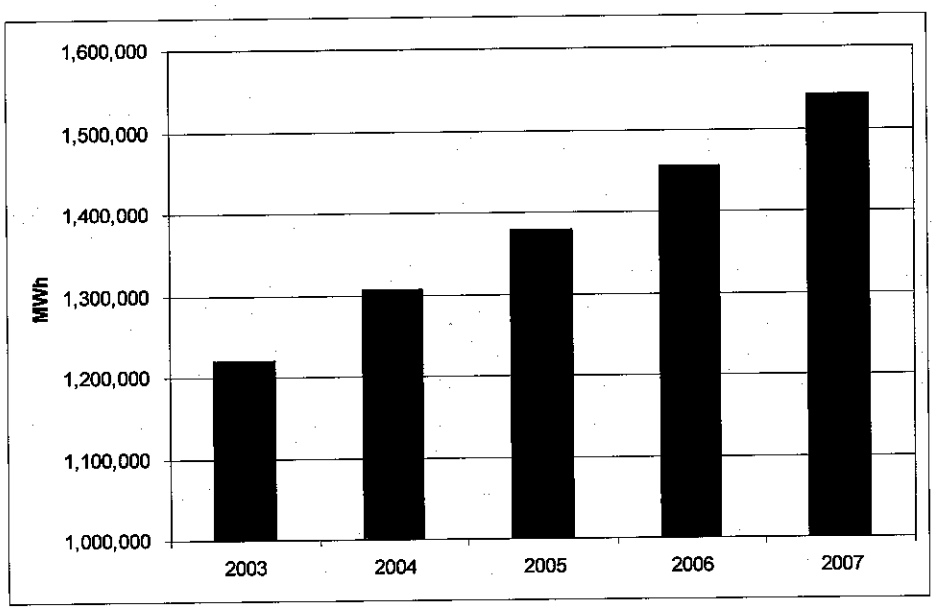
Table 5-6
RPS2 Operating Statistics

	2003	2004	2005	2006 (4)	2007	5-Year Average
Gross Generation (MWh)	2,962,806	3,209,806	3,454,019	3,395,693	3,730,004	3,350,466
Station Service (MWh)	210,898	225,587	240,478	234,014	253,045	232,804
Net Generation (MWh)	2,751,908	2,984,219	3,213,541	3,161,679	3,476,959	3,117,661
Station Service (%)	7.1	7.0	7.0	6.9	6.8	6.9
Net Capacity Factor (%) (1)	60.1	65.0	70.1	69.0	75.9	68.0
Hours Available	7,091	7,508	7,791	7,427	7,997	7,563
Net Unit Heat Rate (Btu/kWh)	10,800	11,053	11,171	11,043	10,928	10,999
Availability Factor (%)(2)	81.0	85.5	88.9	84.8	91.3	86.3
Forced Outage Factor (%)(3)	3.6	1.4	0.1	1.3	1.5	1.6
Scheduled Outage Factor (%)	15.4	13.2	11.0	13.9	7.2	12.1

(1) Net Capacity Factor is the actual electric generation divided by the maximum the unit is capable of generating.
(2) Availability Factor reflects the percent of the time the unit was capable of providing service.
(3) Forced Outage Factor reflects the percent of time the unit was removed from service due to an unplanned failure.
(4) The October 2007 LPPA Managers Monthly Report contains revised data for fiscal year 2006.
Source: LPPA Manager's Monthly Reports.

The five-year average availability of the Rodemacher Plant is within the range of expected values for availability at coal-fired power plants of similar size, type and age.

Figure 5-8 shows the MWh delivered to LUS annually from RPS2.



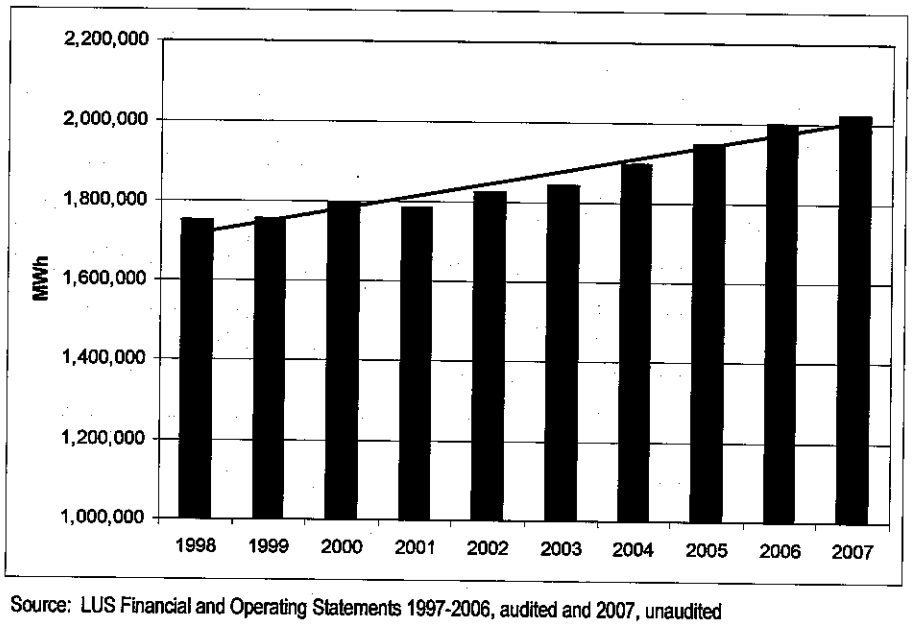
Source: LPPA Manager's Monthly Reports

Figure 5-8: Annual RPS2 MWh Delivery to LUS

Based upon this examination of RPS2, we found the facilities to be generally in good condition, and the buildings and grounds were well maintained. The general observations were visual examinations of selected areas which we deemed adequate to comment on the condition of the existing facilities and were not in the detail which would be necessary to reveal conditions with respect to safety; the internal physical conditions of the facility; or the conformance with codes, rules, permits or regulations of parties having jurisdiction over the operation of RPS2.

Historical Capacity and Energy Requirements

The Electric Utility of LUS has met customer demands for service, and provided its customers with adequate and reliable utility services during the period reported herein. The historical net power and energy requirements for the past 10 years are presented in Figure 5-9 and Table 5-7. A linear regression line was included in Figure 5-4 for the period 1998 through 2007, which indicates a normalized growth rate for the period of approximately 1.6 percent.



Source: LUS Financial and Operating Statements 1997-2006, audited and 2007, unaudited

Figure 5-9: Historical Energy Requirements

Table 5-7
Historical Capacity and Energy Requirements

	2003	2004	2005	2006	2007
Number of Customers	56,606	57,489	57,906	58,722	60,018
Peak Demand (MW) (1)	402	411	438	447	478
Energy Requirements (MWh) (1)	1,844,755	1,898,660	1,948,129	2,000,973	2,023,226
Change in Energy Requirements (%)	1.1	2.9	2.6	2.7	1.1
Annual Load Factor (%)	52.4	52.6	50.8	51.1	48.3

(1) Does not include sales to other utilities and associated losses.

Source: LUS Financial and Operating Statements 1997-2007, audited

Retail electric service has grown steadily over the period shown above. Customer growth has averaged 1.1 percent per year while average usage per customer has grown at 0.5 percent per year. These two influences have resulted in average annual energy growth of approximately 1.6 percent. Energy sales in 2007 were 16 percent higher than those in 1998.

LUS, through interconnection arrangements with other utilities, has also marketed surplus power and energy. For the 12 months ended October 31, 2007, surplus power and energy sales totaled 34,661 MWh and provided $1.1 million in revenues. Off-system sales decreased in 2007 and are expected to decrease in the future now that the LEPA Contract has expired.

Electric Operations

Scheduling and delivery of reliable energy to the Electric Utility customers is accomplished through a network of transmission and distribution lines monitored by an integrated communication system and the functions performed by the Electric Operations Division. The discussion below provides a description of the facilities, historical O&M statistics, a summary of the O&M history and plans, and the condition of the facilities as observed by the Consulting Engineer. Additionally, a summary of the major functions of the Electric Operations Division is provided, including energy control, metering, transmission, substation, and distribution O&M; inventory management; LUS security, and monitoring of the LUS fiber optic system.

Transmission and Distribution Overview

LCG's electric transmission system includes 230kV transmission facilities and a 69kV loop. Step-down transformation provides the connection between the 230kV, 138kV and the 69kV systems and from the 230kV, 69kV systems and the 13.8kV distribution service voltage at 14 distribution substations located throughout the City. The system still has a small amount of 2,400V service at Doc Bonin Plant that will remain in service for the life of the plant. The service area covers approximately 40 square miles and is primarily residential and commercial customers.

The 230kV transmission system is comprised of 14.6 miles of line with interconnections to Cleco at Pont Des Mount Substation in the north, two 138kV ties to Entergy at the Doc Bonin Plant Substation, a 138kV tie to Cleco at the Flanders Substation in the southern part of the City, and a quasi radial tap from the Flanders Substation to Beadle and Elks Substations. The Elks Substation has an autotransformer connecting the 230kV and 69kV systems. The 69kV system has 28.2 miles of line with multiple loops throughout the north and central parts of the City. There are 14 distribution substations typically consisting of two step-down transformers with two to three feeders each, and two new transmission/generation substations, T. J Labbé and Hargis-Hebert Plants. The distribution system has 79 13.8kV feeders with 459.6 miles of overhead lines and 436.2 miles of underground cable. The miles of lines are now being reported from the updated GIS mapping system. There was a noticeable increase in the total miles (60 miles) of underground distribution feeders from 2005. Records show that only about 25 miles of underground feeders were installed in 2007. The discrepancy is from the old way that the total number of feeder miles was determined compared to the more accurate GIS mapping system.

Operating Statistics

The Electric Operations Manager monitors customer outage minutes and categorizes them by three primary groups: tree-related, animal-related, and equipment-failure-related. It was reported that tree-related outages, both non-preventable and preventable, were up 16 percent from last year. Preventable tree-related outages were down by 38 percent from the previous year. Animal related outages were up 39 percent and equipment failure-related outages were up 34 percent from the

previous year. Reviewing the increase in customer minutes in two of the categories (tree-related and equipment-related), LUS has correlated the increase to increase in bad weather conditions. For example, lightning related outages were up 104 percent from last year. Both tree and equipment failures are consistent with weather related outages. The increase in animal-related (with squirrel guards) outages cannot be substantiated with the outage information that is currently being collected. It is LUS' opinion, that these outages are the result of the older type squirrel guard or installation without the insulated line jumper. The new LUS material and construction standard that is being used today has an improved squirrel guard and an insulated line jumper.

Tree trimming activities through the use of outside contractors has made continuous progress. The majority of the power lines have had tree trimming maintenance and the second pass through the system is underway based on the three year tree trimming cycle. This will be the first time in recent history that tree trimming has started the second cycle on time. Crews are testing alternative methods to resolving tree related outage such as applying Tree Growth Retardant to extend the frequency of tree trimming. Future plans to the tree trimming process include tracking information in CityWorks, which is an application that interfaces with the GIS mapping system. This will provide crews with historic tree trimming information including areas that have faster growing vegetation, progress of planned work, areas that require more frequent maintenance as well as other data related to customer issues in one location.

LUS has moved to bidding out of tree trimming by the 13.8kV circuit. LUS has just presently bid out two 13.8kV circuits. These bids came in 16 percent cheaper than what it cost LUS to trim under its maintenance contract. LUS will monitor the progress of these first two circuits and if it progresses well, we will bid additional circuits in the future. LUS has also overlaid the GIS map with the previous three years of tree trimming and has learned that it trims on average 100 circuit miles a year. At this rate, LUS is on a four year trim cycle. LUS will continue to monitor the tree trimming outages to ensure that the new tree trimming cycle is adequate.

Based on conversations between LUS staff and the Consulting Engineer, it appears that overall system reliability is improving. There will continue to be slight dips in the monitored indexes due to weather related conditions but all within acceptable parameters.

LUS is in the process of improving customer count per feeder and taps. This refinement is being implemented as sections of the GIS survey are completed. The record keeping and database for outages and reliability indexes are being maintained and updated by LUS personnel. LUS' plan for the 2008 budget year is to purchase an Outage Management Systems (OMS) and once the OMS is operational, it will record and provide the data and calculate the reliability indices in an automated and consistent manor.

Continuous recording of outage data allow staff to quickly identify changes in reliability. Recent historical indices for LUS are summarized in Table 5-8 and Table 5-9 summarizes the same metrics for similar electric systems in the region.

Table 5-8
LUS Reliability Index Summary

	2003	2004	2005	2006	2007 (1)
System Average Interruption During Index (SAIDI) Minutes/Customer	64.0	60.1	56.0	41.7	52.6
System Average Interruption Frequency Index (SAIFI) Interruptions/Customer	1.20	1.41	1.32	0.98	1.43

(1) The algorithm for calculating indices was changed in 2007.

Note: The LPSC does not set any minimum for municipally-owned utilities.

Source: Mike Boustany, Jr., LUS, 3/3/2008

Table 5-9
2007 Reliability Index for Similar Utilities

Energy Provider	SAIDI Minutes/Customer	SAIFI Interruptions/Customer
Entergy	142.8	1.49
Louisiana Valley Electric Cooperative	231.0	1.93
Claiborne Electric Cooperative	387.0	3.75

Note: The LPSC does not set any minimum for municipally owned utilities.

Source: Brian McManus, Louisiana Public Service Commission, 3/12/2008

In addition to the above reliability indices, LUS also monitors crew response time and trouble-shooter response time.

Trouble-shooter Response Time is defined as:

> The time recorded by crew dispatch from when an outage occurs (trouble-shooter is notified) and the trouble-shooter arriving at the outage site (trouble-shooter notifies crew dispatch of their arrival on site).

Crew Response Time is defined as:

> The time recorded by crew dispatch, from the time the Trouble-shooter requests a crew to the time that a crew arrives on site (crew notifies crew dispatch of arrival on site).

Crews responded to 1,457 outage calls in 2007, which is an increase of 43% from the 1,017 outage calls that crews responded to in 2006. The average Crew response time decreased from 2006 where as the average Trouble-shooters response time was up slightly from 2006. LUS' personnel for trouble-shooters tend to live further outside of town in 2007 as compared to 2006, which would explain the slight increase in Trouble-shooters response time. LUS has made changes in the algorithms that

calculate response times and these changes are reflected in the 2004 through 2007 numbers shown in Table 5-10 below.. The corrected response times are as follows:

Table 5-10
Response Time in Minutes

	2004 (1)	2005 (1)	2006 (1)	2007 (1)
Average Crew Response Time	18.8	21.8	21.5	18.6
Average Trouble-shooter Response Time	33.2	24.5	23.9	25.3

(1) The algorithm for calculating response time was changed in 2007 and is reflected in the historic data shown.

Source: Mike Boustany, Jr., LUS, 2/29/2008

Operations and Maintenance

General

Predictive and preventative maintenance on the system continue to improve the reliability of the electric system. One of the reasons that LUS has been able to demonstrate a high level of system reliability is due to their commitment to equipment monitoring. Infrared scanning, formal testing programs, and visual inspection continue to enhance the reliability of the electric system.

The LUS Substation Section is using the CASCADE (a propriety software system) which is a Computerized Maintenance Management System (CMMS), for the scheduling and tracking of equipment maintenance. The program can provide assistance with predictive and preventative maintenance items. The results of the oil analysis are also being utilized for the scheduling of major power equipment. Maintenance may be initiated following a predetermined time interval or number of events that "trigger" the need, where triggers could be gas levels, breaker operations, or tap operations to name a few. A Breaker Oil Analysis and Tap Changer Signature Analysis are also used in the predictive maintenance program. These programs are fully functional and are being used by LUS allowing LUS to better utilize resources.

Table 5-11
Maintenance and Equipment Schedule

Breakers
One (1) Year Breaker Oil Analysis (69kV and above)
Two (2) Year Preventative Maintenance for Distribution Class Oil Breakers
Three (3) Year Preventative Maintenance for Distribution Class Vacuum Breakers
Three (3) Year Preventative Maintenance for Transmission Class Oil Breakers
Five (5) Year Preventative Maintenance for Transmission Class SF6 Breakers
Five (5) Year Doble for Transmission Class Oil Breakers

Relays

Two (2) Year Electromechanical Relay Calibration

Three (3) Year Micro Processor Verification

Five (5) Year Micro Processor Calibration

Transformers

One (1) Year Transformer Oil Analysis (TOA)

One (1) Year Transformer LTC Tap Changer Signature Analysis (TASA)

Three (3) Year Transformer Preventative Maintenance

Three (3) Year LTC Transformer Preventative Maintenance

Five (5) Year Doble for Transformers

Source: LUS

LUS, using a hand-held infrared device, schedules the following equipment each year to be scanned to identify system weakness or potential overloading conditions:

- Transmission line 69kV and higher
- Substation breakers
- Substation bus
- Substation transformer bushings
- Substation Switches

Infrared testing was performed for all substations 2007. No items were identified as being of major concern.

In addition to infrared scanning, substation transformers are subjected to annual preventive maintenance and testing programs. Biannual tests on distribution breakers include oil filtering, oil dielectric tests, contact resistance tests, operational tests and protective relaying tests. Three year maintenance on transmission breakers entails the same testing as distribution equipment with additional maintenance and checks done on hydraulic pneumatic, SF6 systems, and motion analysis. Transformers 2500kVA and above are tested periodically. The transformer turns ratio (TTR) and sudden pressure relay testing are done on a three-year basis. Doble analysis is performed every five years and oil analysis is performed annually.

The oil gas analysis on the 230/138kV transformer (T5) remains stable for the past three years. This transformer has been returned to a regular preventative maintenance schedule.

Another type of reliability test is the visual inspection of all substations. LUS field crews visually inspect all substations on a weekly basis. This includes visual analyses of transformer bushings, the general substation environment, feeder voltages, battery water levels, alarms, and nitrogen bottle levels. In 2007, the regular visual inspections and maintenance have returned to a more typical schedule. All scheduled maintenance and test for year 2007 was completed on schedule and appropriated actions taken when warranted. Table 5-12 shows the list of equipment that was tested in 2007.

Table 5-12
Schedule of Equipment Tested During 2007

	Quantity	Test Cycle	Type
Breakers	10	2 year	OCB 13.8kV
	22	3 year	VCB 13.8kV
	8	3 year	OCB Transmission Class
	1	5 year	SF6 Transmission Class
	7	5 year	OCB Doble
	24	1 year	BOA
Transformers	43	1 year	TOA
	11	1 year	TASA
	2	3 year	Preventative Maintenance
	2	5 year	Doble
Relays	265	2 year	Electromechanical
	34	3 year	Microprocessor Verification
	35	5 year	Microprocessor
Battery Chargers Station	18	6 month	Equalize
	18	6 month	Infrared Inspections
	8	5 year	Battery Load Test

Source: Don Delahoussaye 02/07, LUS

Transmission and Distribution

The Transmission and Distribution section (T&D) dispatches all electric, water and wastewater field crews and performs O&M activities for the electric system. The total staffing level in this section was 48 as of October 31, 2007, including the Section Supervisor. Operation and maintenance activities include but are not limited to new line construction, line rebuilds, relocation projects, trouble-shooting, equipment installation and maintenance, and tree trimming. The T&D line crews are comprised of four overhead line crews, two underground crews, two streetlight crews, and two service crews. The T&D crews are currently staffed with only a few vacancies. Competing with neighboring utilities for qualified linemen has made recruiting efforts a major concern. Keeping up with the local market pay for these types of workers will be required to fill the vacant positions and turnover.

LUS staff report that the transmission and distribution systems have been prudently planned and designed. The capacity of the transmission and distribution systems are reviewed annually using PTI and ASPEN software analysis programs purchased in 2004 and the results are reported in LUS' Five-Year Planning Report and One-Year Contingency Report. These software programs provide compatibility with the SPP and other utilities interconnected to LUS' transmission system making it more efficient to exchange data and information as required. The analysis concludes that there is sufficient capacity in the transmission system to meet existing and future loads under normal conditions through 2009 and that no system component is loaded above 80 percent of maximum rating. Specific line sections could potentially exceed

100 percent loading under contingency conditions. For these overload conditions, system improvements have been identified and are in the capital improvement plans to resolve the issues.

One issue that staff is concerned about is the system impacts when Rodemacher Unit 3 comes on line. Although a system impact study was performed, staff questions the assumptions using the transmission flow analysis may not represent current operating practices.

The distribution system also undergoes an annual power flow analysis of loads and capacities. According to LUS staff, continuing studies find no inadequacies in the distribution system. LUS has continued their efforts in standardizing construction, material specifications, and contract documents, along with close supervision of construction, to ensure that the distribution system operates in accordance with prudent industry practices.

The T&D section conducts a variety of ongoing training classes for its staff including Troubleshooter training, underground systems training, technical training, and climbing labs.

LUS has successfully combined the street light crews and service crews to form four crews and organized the crews to service specific districts within the City in 2006. Three of the crews handle connection orders, private lighting maintenance, troubleshooting, and service request. The fourth crew does most of the arterial lighting maintenance. These changes continue to increase the overall efficiency of the crews by reducing travel times. The result has been a reduction in the service request response time of one to three days for street lights and typically next day for service connections. The T&D Section is also converting its present work management program over to CityWorks. The street light and tree trimming maintenance and trouble tickets have been converted to CityWorks in the 4th Quarter of 2007. At the present time, T&D is setting up an engineering request for LUS Fiber on CityWorks. Within the next two years, LUS will have its entire work requests on CityWorks.

The T&D section's wood pole testing and maintenance program has been in place for several years and continues to aggressively address the integrity of wood poles. Of the original 2,000 bad poles identified from a bad batch from a single supplier, T&D replaced 33 poles in 2007 leaving 168 poles yet to be replaced from the original survey. Replacing these deteriorated wood poles is expected to continue in future years. LUS continues to use an ultra-sound tester to facilitate this effort. Each year, LUS utilizes an outside contractor to test the poles with the goal that the complete system will be tested on a 10-year cycle. The cyclic pattern used by the contractor is to survey poles associated with a particular substation to better track progress and to assign a priority level for the condition of the pole. In 2007, LUS didn't test any poles with Osmose. At the present time, LUS is preparing to bid out a new contract to continue testing and treatment of poles.

For environmental issues regarding transformers, please see Section 9 of this Report.

Energy Control System

The ECS section is responsible for generating unit commitment, dispatch, the purchase and sale of wholesale power and the operation of the SCADA system for all LUS facilities. TEA performs the wholesale power negotiations and transactions. ECS provides TEA daily with capacity and load requirement data for a seven day resource plan. In addition, ECS is in continual communication with TEA regarding existing capacity and load requirements.

Presently, there are 16 staff positions in the ECS group. Four operators run the ECS working 12-hour shifts. A fifth operator works a regular 40-hour week assisting shift operators with checkouts, switching orders, coordinating and filling in while other ECS operators are in training. In addition, ECS has four electrical engineers (three are working primarily on electrical projects and the fourth working on water/wastewater projects), and two SCADA technicians. All ECS operators are North American Reliability Council (NERC) certified as mandated by NERC. NERC certified training for the ECS operators included emergency operations for the year 2007. The metering section is staffed by two electric metering technicians and one electric metering supervisor. A new electric meter technician will be added for the 2007-2008 budget year in order to meet metering section's work demands. The Supervisor position that would oversee the ECS section is still vacant.

The ECS division was audited by NERC in 2006 for compliance with standards and operating procedures and LUS was found to be compliant in all areas reviewed. LUS staff is continuing to monitor the NERC standards for full compliance. All NERC documentation is being reviewed by consulting firms to assure full compliance in preparation of SPP's Compliance Audit in 2008 and NERC's Readiness Evaluation in 2009

SCADA System

The SCADA system maintains control of all electric transmission and distribution substation breakers, feeder circuit breakers, and other equipment on the electric system. The SCADA system collects a wide range of electric system operating data and information regarding alarms, system energy flow, voltage, switch positions, protective equipment operations and transmission interchange status. The availability of this data positively affects system reliability, as system status information is instantly available to operations and engineering staff.

A full graphics system has been operational since June of 2005. Customization of system applications still ongoing and it is anticipated that additional customizations will be completed during 2008 in conjunction to the Environmental Management systems (EMS) factory upgrades. The EMS system is assisting both the Doc Bonin Plant staff and ECS staff in strengthening their coordination and help gain an understanding of operating costs to aid future opportunities for power sales and purchases. The EMS is also assisting in the refinement and verification of O&M costs, start-up costs, and real-time fuel monitoring data.

The SCADA system is designed for full redundancy including a back-up Master Station and parallel communications paths using dedicated fibers (the T-1 Fiber Optic

Network) arranged in a self-healing Token Ring configuration and Ethernet network. This provides an isolated network enhancing the security and the integrity of the system. In addition, the SCADA network is constantly monitored for security issues and will undergo periodic maintenance to ensure the integrity of the EMS and SCADA system based on NERC requirements. The SCADA entire network is isolated from all other system using dedicated hardware and software. A connection to the outside world is made through dedicated network switches and firewall devices. In addition, all computers connected to the SCADA network have virus protection software installed that is routinely updated.

During 2006, an 864 square foot Back-up Control Center (BCC) building was constructed at Beadle Substation and became operational during 2007. The BCC houses all EMS/SCADA and associated equipment required to fully operate the electric system in the even of the loss of the main ECS. The BCC has its own emergency power and UPS systems. This BCC facility is exercised 8 hours a month to test for functionality and is also used for training purposes.

Doc Bonin's Plant fuel monitoring system was completed and made operational on a local level in 2004. Final acceptance testing and SCADA connectivity was completed in 2006. This provides real time fuel flow data monitoring that is used to calculate unit efficiencies and allow economic dispatch of the generating.

LUS continues to provide notice to the SPP that they may terminate membership in that power pool in favor of joining a proposed regional transmission organization. The development of a favorable regional transmission organization has not yet developed and LUS continues to maintain its membership in the SPP.

The ECS system collects data from 16 electric substations, two (2) water wells, five (5) water towers, and thirty-six (36) lift stations in the wastewater system. LUS intends to eventually install remote terminal units (RTUs) at all 127 lift stations. Twenty additional wastewater lift stations are planned for SCADA integration 2007. This effort was originally planned for 2005, but the lift stations were not made ready to interface with the SCADA system.

Dispatch has incorporated software to generate a list of critical customers that are notified when they are affected by an outage. The dispatchers contact the customer via telephone and convey information regarding the status of the outage and expected system restoration. This feature, though somewhat manual, will be improved and automated with the installation of the new Interactive Voice Response system.

LUS utilizes load tap changers on each of the distribution power transformers to control the system voltage. The compactness of the LUS service area and general load characteristic has enabled LUS to avoid the use of down-line regulators and individual feeder regulation. The result is savings in material and maintenance cost that are typically incurred by most distribution systems. Load and phase balancing is performed on an ongoing basis and VAR management is achieved by installing fixed and switched capacitors on the distribution feeders to achieve an overall system power factor of approximately 98 percent lagging. Switched capacitors are operated on seasonal settings with voltage and time of day over-rides to control power factors. A

higher power factor and balanced load reduces system losses and help achieve lower electrical rates.

GIS

The Network Engineering Group is responsible for the GIS mapping and computer systems. LUS continues to upgrade software systems to improve system graphics and improve its interface capability with the GIS mapping system. The current focus of this effort is on updating databases and graphical information. Information pertaining to the electric transmission, water, and wastewater systems has been entered into the GIS system. The overhead electric distribution primary is 100 percent including field verification by GPS. The underground electric distribution has been mapped in GIS and the GPS field verification is 90 percent complete. Wastewater GIS mapping is 90 percent complete with the laterals (short taps to customers) still remaining. The water GIS mapping is about 95 percent complete and will be completed in 2008. Additional database fields are being populated where the data was non-existent. The Electric Utility started using field laptop computers to access the electric system maps in 2006 and the Water and Wastewater utilities have started using field laptops in 2007. The crews can now access GIS mapping and detailed information as well as access to CityWorks systems. The one issue that has hindered the GIS group from completing projects as scheduled is personnel resources. The Network Engineering group has lost 3 positions in 2007 and hired one new person, but at lower experience level. Each year the maintenance efforts and requests for new applications or additions to existing application are increasing where Network Engineering staff levels have been decreasing. In addition, the group has to support 50 planned new hires in the LUS Fiber group in 2008.

The GIS group has been working on other applications that tail coat on to the GIS mapping system including CityWorks, which is an asset management tool to track maintenance, and work management activities. This an application that runs on top of the GIS system and can be customized based on the needs of the users. The wastewater group has been using CityWorks for approximately 10 years and now street lighting and service connects have been incorporated into CityWorks in 4th quarter of 2007.

Other projects that the GIS group worked on in 2007 were the Microsoft Project initiative, the Disaster Recovery and Business Continuity for the network system, the wireless network, and Voice over Internet protocol. The Disaster Recovery and Business Continuity effort was completed in 2007 and involved setting up an outside vender to provide equipment and materials in a short order to replace any network system that is damaged or malfunctions either on a permanent or temporarily basis. In addition these services include setting up the network at another facility in the event that LCG's facilities can not be used. LUS is evaluating if purchasing additional hardware can be purchased to replace outsourcing to SunGaurd to provide back-up plans including mobile hardware.

Some progress was made in developing Microsoft Project as a tool to help schedule and resource load capital projects. Staff worked with outside consultants to develop an overall plan and outline of how this application would be developed and interface with

different groups. Several templates for different types of projects were developed. However, due to lack of resources, this effort has been put on hold until resources can be made available.

An additional responsibility was added to the GIS group for acquiring and maintaining easements for the electric, water, wastewater and LUS Fiber utilities. The easement group consists of one full time staff, 1 full time contract staff, and has used between two to five temporary staff to help met schedule demands.

Metering

Metering maintains high accuracy levels through a formal testing program. The program tests all commercial and industrial meters that fall under one of the following categories:

- For commercial and industrial customers, every meter is tested once every five years.
- Meters that reflect a deviation of 30 percent or more from the same month, one year-ago, are tested.
- Metering checks all active accounts with little or no electric consumption.
- Meters are tested whenever customers express concern about the accuracy of their bills.

In addition to these scenarios, LUS has in the past conducted random testing of residential meters to determine whether the program should be extended to residential meters. The testing has concluded that it would not be cost effective to extend the program to residential meters.

If a problem is detected through any of the aforementioned procedures, the meter is replaced and tested. If the meter is found to be out of tolerance, it is recalibrated and re-furbished for future use. If necessary, the customer's bill is adjusted based on the findings of the meter test report and historical electrical consumption. Meter Services section issues a monthly report of the top commercial and industrial users. This list aids the identification of meters that require testing. The Meter Shop also keeps abreast of the latest technology available in the meter industry by replacing older obsolete meters with new microprocessor digital meters that provide more accurate readings, thus maximizing revenues. We agree with the progress in meter testing and recommend its continued focus and expansion.

The metering section also provides power quality monitoring for LUS residential and commercial customers that have expressed concerns related to voltage, radio frequency interference (RFI), electric magnetic fields (EMF) and harmonics.

The metering section has formed a task force including outside consultants to evaluate the possibilities of incorporating Advanced Metering Infrastructure.

Substation and Communications

The Substation and Communications section includes six employees; two foremen, three technicians, and one supervisor. It is responsible for 14 electric transmission /

distribution substations. The substation and communication section has highly trained personnel, which has contributed to the achieved reliability.

LUS has also completed or initiated several substation and transmission projects to improve system reliability. Major projects include:

- Elks Reconfiguration – Phase IV was completed in the first quarter of 2007. These new improvements included the addition of one (1) 69kV breaker, one (1) 15kV but tie breaker, and the replacement of four (4) 15kV breakers (two of which where the older unsafe Westinghouse ESM breakers). These improvements were made to split the 15kV distribution bays and separate the relaying circuits of each. This provides for a better set of protection elements for each transformer. In the process, thirty-four (34) electromechanical relays were replaced with new microprocessor relays. This project was also part of the upgrade project for migrating to DPU relays on the LUS 13.8kV distribution feeders. Also included was the replacement of all control wiring to the 13.8kV breakers.
- Doc Bonin Ring Bus - Tie Line Improvements. This project was completed in the last quarter of 2007. It included the removal of three (3) relay panels in the Doc Bonin Switchyard control building and addition of two (2) new panels to handle the line relaying responsibilities for the east and west ties to the Entergy system. This is a two year project and will be completed in 2008. The portion completed in 2007 included the replacement of the line relaying for the west tie on the Bonin-Cecilia 138kV transmission line. In this initial phase of the project, twenty-eight (28) electromechanical relays were replaced with new microprocessor relays. Also included in this project was the replacement of all control wiring to the 138kV breakers and the installation of field fuse junction boxes for the 138kV potential transformers on both the east and west lines. This project is part of the ongoing project as previously defined of replacing older, electromechanical relays on LUS transmission lines with new microprocessor relays.
- Doc Bonin Switchyard – 230kV V switch replacement. This project was completed in the first quarter of 2007. The project called for the replacement of three (3) older Siemens-Allis V switches because of recurring hotspots found while the station was checked with the infrared system used by the S&C division. Also gained in this replacement was some additional ampacity rating of the switches from 1600A to 2000A.
- Doc Bonin Switchyard - Bonin-Labbé Primary Relaying Upgrade. This project was also completed in the first quarter of 2007. Included in the scope was the removal of twelve (12) electromechanical relays and their replacement with a new microprocessor relay. This project is part of the ongoing project as previously defined of replacing older, electromechanical relays on LUS transmission lines with new microprocessor relays.

Currently, substation loads are well within maximum capabilities. During 2007, LUS reports no substation was loaded above 80 percent of its rated capacity during normal operating conditions. Based on project load growth, all substations will be below 80 percent of capacity through 2009 under normal conditions. Under specific contingency conditions, system components could exceed 100 percent of the rated

capacity. System improvements have been identified and included in the capital improvement plans.

Spill prevention plans and formal spill procedures are in place for all substations. Some substations have berm walls for oil spill containment and all larger substations have oil spill cleanup materials on site (see Section 9).

Training was provided for the substation maintenance crews during the in various areas of equipment testing and maintenance. The 2007 budget funded new training for the substation crews on the ABB DPU relays and future plans call for in-house crews to start performing all the maintenance and testing for the DPU distribution feeder relays. However, due to limited resources and workload, no training for relay testing was completed. Outside contractors are currently being used to test all electro-mechanical and electronic relays related to transmission and substation facilities.

A dedicated fiber optic communications system links all substations. The fiber optic system has allowed LUS to keep pace with the increasing communication requirements of a sophisticated protection system. These improvements are recommended and consistent with the high level of customer service commitment made by LUS. The microwave communication system is in place and functioning to communicate with the Rodemacher Power Plant.

Condition of the Property

The electric transmission, substation, and distribution facilities are in good condition and are being well maintained. Older equipment is continually being reviewed for replacement based on maintenance costs and good utility practices. In general, capital improvements projects are being completed on time based on the 5-Year CIP in the LCG Adopted Budget fiscal year 2007-2008. LUS completed the installation of electrical service transfer switch for the operations center, breaker replacements at Elks substation, and relay upgrades, panel upgrades, and switch replacements at Doc Bonnie switchyard.

Facilities Management

The Facilities Management Division is responsible for inventory control of electric, water, wastewater, and LUS Fiber. Additionally, the Facilities Management Division is responsible for security at all LUS facilities, the maintenance of electrical and mechanical systems the Walker Road complex, grounds keeping for the 13 substations, and janitorial services for the Walker Road complex.

The security is comprised of a combination of in-house and contracted security staffing with the sheriff's department. There are 11 personnel assigned to the Facilities Management group, two positions of which are vacant. In addition, Facilities Management uses staff from other departments on a part-time basis. LUS has implemented certain aspects of a vulnerability assessment conducted in 2004 at the Walker Road complex. In 2006, LUS installed controlled access at the vehicle gates at Hebert Road, T. J. Labbé environmental side and at Hargis-Hebert. In January 2007 LUS installed access control on exterior doors at the water/wastewater and

environmental buildings. This allowed the elimination of contracted security guards after-hours at those locations. Implementation of restricted "card access" in conjunction with a newly instituted "ID Badge Policy" and enhanced security measures at the Doc Bonin Plant, has improved security at the Walker Road complex. In addition, three substations have video monitoring on a trial basis to determine if it is feasible to monitor additional sites.

Facilities Management is in the process of completely reorganizing the warehouses due to new facilities that are in construction or will be constructed in 2008. The warehouse additions include the new 40 ft x 112.5 ft storage facility at the Bowers Road site (to be completed 1st quarter of 2008) and the planned new LUS Fiber warehouse (to be constructed in 3rd quarter of 2008) across from the Bowers Road site.

Currently, space is limited at the Walker Road Complex. Seven (7) 8 ft. x 40 ft. storage containers were installed in 2007: five units for the Transmission and Distribution Section, one for the gas station, and one for civil engineering. These containers house different materials in the warehouse plus shelving to allow more reels to be stored inside the warehouse.

Future plans include expanding the loading dock to separate materials and equipment for contract crews from the job orders to be performed by LUS crews. This will provide for much needed space, allow for faster loading of materials and equipment and provide better control of inventory.

Major Contracts

LCG has many contracts and agreements in place related to the business of the Electric Utility. Principal Electric Utility contracts and agreements are summarized in the following paragraphs.

Power and Fuel Marketing

The Energy Authority

LUS signed a Resource Management Agreement (RMA) with TEA on November 28, 2000. The objective of this contract is for TEA to market LUS' electrical capacity and energy in excess of the requirements of its retail customers and to purchase power on behalf of LUS as needed.

An amendment to this RMA was executed on February 7, 2007 which modified Section 9 –Compensation to TEA. Section 9.1 was modified to provide for an increase in TEA's fixed monthly fee from $12,000 per month to $29,000 per month over a three year period beginning in January 2007. The monthly fixed fee for calendar years 2007, 2008 and 2009 are $17,667, $23,333 and $29,000, respectively. The monthly fixed fee will then be fixed at $29,000 from then on. Section 9.4, addressing compensation for Financial Transactions, was deleted and replaced with a new Section 9.4. The original RMA provided for TEA to be compensated (i) 10 percent of net margins on Forward Transactions and Futures Contracts and (ii) a

negotiated fee for Options and Swap Contracts. This new Section 9.4 will provide for TEA to be compensated $0.03/MWh for all Financial Transactions as long as these transactions are not taken to physical delivery and $0.50/MWh if they are taken to physical delivery.

Contractually, LUS provides the following information to TEA on a daily basis for a seven-day period:

- Hourly electric demand.
- Generating unit costs and availability.
- Quantities of capacity and energy that LUS has determined it is willing to sell or purchase.
- Hourly incremental and decremental costs.

TEA is responsible for:

- Reservation and verification of transmission paths.
- Confirmation of schedule with counterparties.
- Creation of tags.
- Timely and effective notification of all schedules.
- Performance of daily checkouts.
- Adhering to LUS' credit policy.
- Execution of all transactions in the wholesale market within the forward year.

On a day-to-day basis, LUS primarily uses their TEA arrangement to balance energy the hours when LUS has surplus power or is deficient. In recent years, LUS has purchased wholesale power to serve their native load when RPS2 was off-line and during the summer months (when demand is high). In 2007, LUS sold 30,633 MWh of energy to TEA and purchased 188,192 MWh of energy from TEA. Because of transmission constraints in the LUS region, buying and selling large amounts of wholesale power is not a viable alternative for most hours. However, TEA wholesale purchases decreased in 2007 as a result of the additional generation of the Hargis-Hebert Plant.

LUS signed Letter Agreement Number Two for Natural Gas Services, dated February 1, 2005 (the Letter Agreement) with TEA, which supersedes the previous agreements for natural gas services. The Letter Agreement authorizes TEA to provide resource management services, including but not limited to, purchasing natural gas and transportation on behalf of LUS, and marketing LUS' surplus natural gas and transportation. The Letter Agreement continues until either party provides 30 day written notice of termination to the other party.

TEA may also enter into financial transactions to manage risk associated with power and fuel for LUS. Financial transactions are not necessarily intended by the parties to go to physical delivery, but are used to manage risk exposure to market price volatility. Financial transactions include purchases or sales of futures, options, and

swaps. While these activities are currently limited in nature, they should nevertheless be governed by a best practices-based Energy Risk Management Policy and associated procedures. LUS has not yet developed such policies and procedures.

LUS' electric power and energy requirements are met through purchases from power suppliers, through its contract with TEA, LPPA and the Southwestern Power Administration (SPA), as well as by the locally installed generating capacity.

Power Purchases

Lafayette Public Power Authority

LCG, through LPPA, acquired a 50 percent ownership interest in RPS2. The primary fuel supply to the RPS2 is low-sulfur Wyoming coal and the output is sold by LPPA to LCG in accordance with a long-term power sales contract.

The City and LPPA entered into the Power Sales Contract (PSC), whereby LPPA agreed to sell, and the City agreed to purchase, LPPA's share of the power and energy produced from the RPS2. The PSC originally expired on April 30, 2017. Ordinance O-172-2007 was adopted by the City on August 21, 2007 extending the PSC for forty years. The PSC was extended with the effective date of September 1, 2007 and expiring on August 31, 2047.

Under the PSC, payments are specified to be sufficient to pay all costs of LPPA in connection with RPS2, including LPPA's share of operation and maintenance of the RPS2, debt service requirements, and all other financial obligations of LPPA's share of the RPS2. The PSC provides that the obligations of the City to make such payments in each contract year shall constitute obligations payable as an operating expense of the LUS and payable solely from the revenues of such utilities system. Such payments are to be made whether or not RPS2 is operating or operable.

Southwestern Power Administration

LCG has a purchase agreement with SPA and a current capacity allocation of 18.6 MW and energy allocation of 1,200 kWh per kW per year. The contract with SPA has a term of 15 years, which ends on May 31, 2018. Typically, the total annual energy under this contract represents approximately two percent of LUS' total annual energy requirement. The cost of this power for the 2007 was $46.60 per MWh for peaking energy and $35.40 per MWh for the combination of both peaking and supplemental energy.

Due to weather conditions, SPA is expected to have a limited quantity of peaking capacity available for sale in the near term. Due to the future termination of a number of firm and peaking power contracts that supply SPA and new hydro capacity from two multipurpose projects under construction and not yet operational at the time, LCG and SPA amended the contract on June 28, 2006 to defer some of the peaking energy until future years at current costs to help mitigate the impacts of the energy availability shortfall being encountered by SPA. A total of 56,000 kWh was deferred in Contract Year 2006/2007. LCG received 18,000 kWh of replacement energy in June 2007 at

the lower cost rate of Summer 2006 per the terms of the agreement to defer. LCG expects to receive similar amounts of deferral energy in the Summer of 2008 and 2009.

Power Sales

Louisiana Energy and Power Authority

The LEPA Agreement for 61 MW of capacity plus losses expired in December 2005.

Electric Interconnection, Interchange, and Transmission

System interconnection refers to a connection between two electric systems permitting the transfer of electric energy in either direction. Interchange refers to kilowatt-hours delivered to, or received by, one electric utility or pooling system from another. Transmission access refers to the ability of third parties to make use of transmission facilities owned by others (wheeling utilities) to deliver power to another utility.

The various interconnection, interchange, and transmission agreements in effect between LCG and other electric utilities and agencies are with Entergy Gulf States, Cleco, Cajun Electric Cooperative Inc. (now Louisiana Generating LLC, Louisiana Generating), Entergy Louisiana (formerly Louisiana Power and Light), Southwestern Electric Power Company (SWEPCO), and SPA. These agreements provide various terms for the purchase and sale of emergency, replacement, and economy energy. The existing agreements appear to be working satisfactorily for LUS. Certain details of these agreements are presented below.

Entergy Gulf States

The City signed a long-term (31 years) Interconnection Agreement (Interconnection Agreement) with Entergy Gulf States (formerly Gulf States Utilities) in October 1984, which expires in 2015. LCG is recognized as a supplier to total requirements customers connected to the Entergy Gulf States system, and Entergy Gulf States has agreed to provide transmission service for delivery of the RPS2 power from the Cleco System to LCG if Cleco's System is unable to make direct deliveries to LCG. The Interconnection Agreement provides for certain service and rate schedules as applicable between the parties, or which may be negotiated and entered into by the parties in the future. Under the Interconnection Agreement with Entergy Gulf States, LCG provides for reserve capacity requirements consistent with the reserve capacity guide as adopted or recommended by the South Central Systems of the North American Power Systems Interconnection Committee, or any successor body. Reserves are to be consistent with the Utilities System's load responsibilities taking into account any firm purchases and sales.

Central Louisiana Electric Company

Cleco and LCG entered into an Electric System Interconnection Agreement (ESIA) in 1991. The term of the agreement is such that the ESIA shall not terminate sooner than

August 29, 2016, and thereafter shall continue in effect for five-year periods unless terminated by written notice given by one party to the other. The Cleco Interconnection Agreement has been amended to reflect expiration of LEPA Contract. The agreement provides the following:

- Identification of the Unit – a point where power may flow into Cleco facilities from an LCG power source, or an LCG-contracted power source.
- Identification of the following power delivery points and associated capacity effective with agreement modifications are presented in Table 5-13.

Table 5-13
Power Delivery Points

138kV and Above	Contract Demand – MW
Lafayette	221
LEPA	25

Source: Ron Gary, LUS, 2/08

Interchange

LUS has entered into interchange agreements with Louisiana Generating, SWEPCO, Entergy Louisiana, and the SPA. The expiration and extensions provisions of each of these agreements are provided in Table 5-14, however, all of these agreements are still in effect.

Table 5-14
Interchange Agreements

Entity	Term and Extension Provisions
Louisiana Generating	Any date after May 23, 1993 with three years notice
Entergy Louisiana	Automatically extends for three-year periods until terminated with 18 months notice
SWEPCO	January 1, 1996, or the first of any year following a four-year notice
SPA	May 2018

Source: R. W. Beck, Previous CER

Joint Ownership/Use

The Amended and Restated Agreement for Joint Ownership, Construction and Operation of the RPS2 between LPPA, Cleco, and LEPA was entered into in November 1982 and is to remain in effect throughout the useful life of RPS2. This agreement was amended in 1986 to provide for the transmission of LPPA's ownership percentage of generation from RPS2 to points of delivery other than the point of interconnection with LCG.

Fuel Supply

Coal for Rodemacher Unit No. 2

The principal fuel for LPPA's Rodemacher Plant is coal, which is supplied to the plant by Rio Tinto Energy America (formerly the Kennecott Energy Company) and mined in Campbell County, Wyoming. As operator of the RPS2, Cleco has the responsibility to represent the other Owners in connection with fuel supply and associated contracts. The original contract was executed in 1973 by Cleco and since that time has been renegotiated several times.

In December 2002, a new master coal purchase agreement was executed with Kennecott Coal Sales Company, now Rio Tinto Energy America, for purchase of coal in quantities as set forth in confirmation notices, the initial confirmation for supply in 2003 and 2004. A second confirmation contract sets the quantity of coal and price for the years 2005 and 2006. Under this confirmation, the annual quantity of coal for LPPA is 750,000 tons per year for both 2005 and 2006. The base price of $6.30 in 2005 and $6.70 in 2006 includes a provision for adjustment of the coal price based on changes in law, sulfur content and Btu content of coal. A third confirmation at pricing of $13.62 and $12.97 was executed for the annual quantity of 875,000 and 500,000 tons per year for 2007 and 2008, respectively.

In December 2005, a short-term contract was executed with CoalSales, LLC to purchase and deliver 219,866 tons of coal. In November 2006, a short-term contract was executed with Arch Coal Sales, Inc. to purchase and deliver 250,000 tons. Additional smaller purchases of solid fuel during the three years ended October 31, 2007 included supplemental lignite from the Red River Mine supplied by the Mississippi Lignite Mining Company, supplemental Venezuelan coal supplied by Coaltrade International, LLC, and Powder River Basin (PRB) coal supplied by Foundation Coal. LPPA will purchase the remainder of the coal supply required for 2008 in November 2007, including 350,000 tons supplied by CoalSales, LLC. The supplemental fuels were tested during the review period to establish alternatives in the event of PRB shortages. LPPA is currently working with L.E. Peabody & Associates regarding the timing to purchase additional coal beyond 2008.

Crosstex Gulf Coast Marketing, Ltd

Natural gas supply and delivery is provided from Crosstex Gulf Coast Marketing, Ltd. (Crosstex) for 1,000,000 MMBtu minimum annual requirement pursuant to a base contract between Crosstex and TEA dated September 1, 2002, which is backed by LUS, in conjunction with a confirmation between TEA and Crosstex dated January 1, 2007. The confirmation expires December 31, 2009. Contractually, there is a requirement for LUS to nominate daily requirements one week prior to the beginning of each month. Coupled with the nomination requirement is a daily true-up of the actual volumes purchased vs. nominated volumes. In the event LUS purchased less than the nominated volume of gas, Crosstex would sell the difference into the market at the current sales price. Delivery is to the Doc Bonin Plant on pipelines owned by Crosstex and is considered firm.

ATMOS Energy Marketing, LLC

Natural gas supply is also provided from ATMOS Energy Marketing, LLC (ATMOS) for up to 20,000 MMBtu per day pursuant to a base contract between ATMOS and TEA dated February 1, 2004, which is backed by LUS, in conjunction with a confirmation between TEA and ATMOS dated August 1, 2007. This confirmation will expire on June 30, 2008. Delivery to the Hargis-Hébert Plant is on pipelines owned by Gulf South. While delivery has not been curtailed the transportation is considered interruptible.

In addition to the "base" volumes purchased from Crosstex, TEA purchases natural gas on the spot market from Crosstex and multiple other suppliers for LUS in order to fulfill LUS' annual gas requirements.

Other Agreements

Southwestern Louisiana Electric Membership Co-op

In 1987, LUS entered into a non-competitive agreement with Southwestern Louisiana Electric Membership Co-op (SLEMCO) for certain electric customers outside of the City limits. This agreement expired in 2000 and until recently LUS had been successfully competing head to head with SLEMCO for customers. On September 10, 2004, LUS entered into a new 15-year non-competitive agreement with SLEMCO. The agreement allows for an orderly acquisition of customers from SLEMCO at pricing specified in the agreement.

CT Parts Agreement

LUS and TransCanada Turbines, Inc. entered into a combustion turbine Parts Agreement for the supply of parts for the CTs installed or being installed in the City. The CT Parts Agreement essentially gives LUS CT parts price certainty for the five year term.

CT Maintenance Agreement

LUS and GE Packaged Power, Inc. (GE) entered into a Services Agreement dated September 21, 2006 (executed on November 9, 2006) for maintenance activities relating to the four LM6000 CTs. Pursuant to the agreement, GE is to provide engineering, field supervision, and craft labor on an as needed basis at the request of LUS. The term of the agreement is through the later of completion of one major inspection on the covered units or six years.

Major Contract Summary

A summary of the contracts and agreements is provided in Table 5-15.

Table 5-15
Contracts and Agreements

Contracts & Agreements Between		Date Signed/Renewed	Termination Date	Provisions
LUS	TEA	November 28, 2000	Upon 30 days notice	Power and Fuel Marketing
LPPA	Cleco, LEPA	November 1, 1982	End of useful life	Joint ownership of RPS2.
LCG	LPPA	May 1, 1997	End of useful life	Purchase of power from LPPA's 50 percent share in Rodemacher Unit 2
LCG	SPA	January 1, 2004	December 31, 2018	Purchase of Power
LCG	Entergy Gulf States	October 1, 1984	October 1, 2015	Interconnection agreement for delivery of power
LCG	Cleco	1991	August 29, 2016	Interconnection agreement for delivery of power
LUS	Louisiana Generating	May 23, 1983	Upon 3 year notice	Interchange agreement for electric transmission
LUS	Entergy Louisiana	October 6, 1988	Upon 18 month notice	Interchange agreement for electric transmission
LUS	SWEPCO	May 1, 1994	Upon 45 days notice	Interchange agreement for electric transmission.
LUS	Kennecott Coal	May 31, 2006	December 2008	Purchase of coal for RPS2
LUS	Coal Sales LLC	December 29, 2005	December 31, 2006	Purchase of coal for RPS2
TEA	Crosstex	January 1, 2007	December 31, 2009	Supply of natural gas for LUS generating facilities
TEA	ATMOS	August 1, 2007	June 30, 2008	Supply of natural gas for LUS generating facilities
LUS	SLEMCO	September 10, 2004	September 10, 2019	Customer acquisition agreement
LUS	TransCanada	November 9, 2006	5 years	CT Parts
LUS	GE	November 9, 2006	6 years	CT Maintenance Services
LUS	TEA	February 7, 2007	Upon 30 days notice	Amended Section 9 – Compensation
LUS	Arch Coal Sales, Inc	November 29, 2006	December 31, 2007	Purchase of coal for RPS2

Source: Ron Gary, Randy David, Karen Hoyt, LUS 2/08

Capital Improvement Program

Fiscal Year 2007

Table 5-16 provides the fixed plant and equipment expenditures made during 2007. LUS accounts for such expenditures by using a capital work order system. All extensions or improvements made to the Utilities System are considered economically sound or otherwise necessary for the profitable operation of LUS.

Table 5-16
Capital Work Order Expenditures

Source of Funds	Electric
Normal Capital	
Bond Reserve & Capital Additions	$9,545,064
Special Equipment	1,442,918
2004 Revenue Bonds	2,489,568
Retained Earnings	2,029,928
Total	$15,507,477

Source: "Status of Construction Work Orders" 1/08

Five-Year Capital Plan

LUS established a system improvement program, CIP, in 1989. The program is a five-year "look ahead," and is revised annually to plan for and manage the major capital projects for the electric system.

We recommend that LUS review and continue to improve the management of the CIP, including the cost and schedule estimation and control processes. Schedules and the estimated costs of each project should be refined as the project moves from conceptual design to detailed construction design. This will allow a detailed budget and schedule to be established two to six months prior to commencing the project. There is a project identified to develop Microsoft Project enterprise to be used as a tool to manage capital project. However, due to limited resources the development of Microsoft Project has been put on hold.

The estimated requirements for improvements to the electric department through October 31, 2012 are summarized in Table 5-17 and were obtained from the 5-Year CIP in the LCG Adopted Budget fiscal year 2007-2008. Each year, as the City revises its five-year CIP for the Utilities System, the priorities for each of the work items are re-examined by the managers, giving consideration to improvements then in process, and to the developing patterns of growth in the area to be served by the City. This review process needs to be improved in order that priorities and costs are established which are more manageable, and therefore, budget planning becomes an accurate reflection of reality.

Table 5-17
Capital Improvement Programs 2008 – 2012

	2008	2009	2010	2011	2012	Total
Acquisitions ($)	200,000	550,000	200,000	1,500,000	1,500,000	3,950,000
Production ($)	2,040,000	1,190,000	360,000	260,000	260,000	4,110,000
Distribution ($)	1,095,000	1,120,000	810,000	760,000	1,922,000	5,707,000
Transmission ($)	3,590,000	5,120,000	11,720,000	2,460,000	10,000	22,900,000
Substation ($)	1,610,000	2,385,000	3,935,000	3,182,000	10,000	11,122,000
General ($)	715,000	185,000	720,000	4,910,000	10,000	6,540,000
Total ($)	9,250,000	10,550,000	17,745,000	13,072,000	3,712,000	54,329,000

Source: LUS 5-Year Capital Outlay Program Summary, FY 2007-08 Adopted Budget, Combined Summary Retained Earnings and Bond Capital

Acquisitions

LUS has planned for the acquisition of utility customers from SLEMCO. LUS entered into a 15-year contract with SLEMCO which allows for serving its 3,104 customers from 2004 thru 2019.

LUS is also acquiring approximately 400 customers who reside within the City limits and were previously served by Entergy. Where only minor work was required, which included about 50 percent of the customers, electric service has been transferred to LUS. Litigation over acquisition of these customers was resolved in the Appellate Courts in LUS' favor 2007. However, Entergy may appeal the decision, so plans for transferring the remaining customers where more extensive work is required are being approached with caution.

Distribution

LUS has planned for the re-conductoring of circuits, extensions, new feeders and feeder ties to extend service to new areas of the City in 2008. There has been an increasing trend in the number of customer plans that LUS has reviewed. Table 5-18 shows the number of plan reviews that were performed for the past 5-years.

Table 5-18
Number of Plan Reviews

	2003	2004	2005	2006	2007
Plan Reviews	325	293	281	323	406

Source: Keith Zerangue, 2/2008

Production

Production funds represent improvements to existing power plants, including improvements to boilers, turbines, cooling towers, control systems, fuel supply and environmental and safety controls.

Substation

Substation funds represent improvements, oil spill containment, software, breakers, and autotransformers improvements or additions. LUS plans to install and improve autotransformers at the Bonin Plant, Pont des Mouton Substation and Beadle substation, as well as construct the Northeast Substation and Southeast Substation and various upgrades and automation projects.

To accommodate the proposed second 230-kV circuit from Bonin substation to Pont des Mouton substations additional breakers and bus reconfiguration will be needed. This will help address the existing transmission congestion. This project is included in the 5-year capital budget.

Transmission

Transmission funds represent the planned building and improvement of transmission lines for the new Northeast, Pont des Mouton, Peck, Beadle, Southeast and Hargis-Hebert substations. The funds also include the re-conductoring of lines between the Bonin Substation and the Gilman and Luke Substations.

A project that has been recently identified includes adding a second 230kV transmission line from Bonin substation to Pont des Mount substation to relive transmission loading issues. This project is included in the five-year capital budget.

General Plant

General funds shown in the CIP are mostly for the new Customer Service and Operations Facility. Smaller projects include software and a property purchase.

Electric Utility O&M Expenditures

The amounts expended for maintenance of the electric system for the 2003 through 2007 are provided in Table 5-19.

Table 5-19
Electric System Annual Operation & Maintenance Expenses

	2003	2004	2005	2006	2007
Operations					
Power Production ($) (1)	1,177,524	1,498,175	1,638,471	1,829,043	2,080,789
% Change	(5.7)	27.2	9.4	11.6	13.8
Fuel & Purchased Power ($)	90,390,325	93,799,960	131,532,618	107,407,784	105,134,193
% Change	34.0	3.8	40.2	(18.3)	(2.1)
Transmission ($)	4,562,148	4,360,383	4,422,913	4,264,403	4,017,349
% Change	(0.6)	(4.4)	1.4	(3.6)	(5.8)
Distribution ($)	1,890,682	2,103,120	1,967,032	1,652,025	3,160,416
% Change	(5.9)	11.2	(6.5)	(16.0)	91.3
Total ($)	98,020,679	101,761,638	139,561,034	115,153,255	114,392,747
% Change	30.2	3.8	37.1	(17.5)	(0.7)
Maintenance					
Power Production ($)	1,945,965	2,903,976	3,365,237	1,642,985	2,846,572
% Change	45.8	49.2	15.9	(51.2)	73.3
Transmission ($)	96,848	150,917	98,093	94,166	153,215
% Change	39.5	55.8	(35.0)	(4.0)	62.7
Distribution ($)	2,953,134	3,647,737	3,486,237	3,742,709	3,767,064
% Change	38.9	23.5	(4.4)	7.4	0.7
Total ($)	4,995,948	6,702,630	6,949,567	5,479,859	6,766,852
% Change	41.5	34.2	3.7	(21.1)	23.5
Total O&M ($)	103,016,627	108,464,268	146,510,601	120,633,114	121,159,599
% Change	30.7	5.3	35.1	(17.7)	0.4

(1) Does not include fuel, fuel facilities charge, or purchased power costs.

Source: LUS Financial and Operating Statements 2003-2006, audited and 2007, unaudited

Note: Does not include Operations, Customer Accounting & Collection, Customer Service & Info or A&G

The annual operating expenses for the Power Production Division increased slightly in 2007 primarily due to increases in contract services and greater than expected maintenance of the T. J. Labbé Plant and Hargis-Hebert Plant.

The annual maintenance expenses for the Power Production Division were similar to the previous years cost. We expect maintenance expenses may increase going forward because many deferred projects at Doc Bonin are now proceeding since these units are seeing less utilization and there is more time available to schedule longer outages. Some of these projects include Unit 3 air heater basket replacement, expansion joints repairs on Units 2 and 3, painting of Units 2 and 3, maintenance to demolish and retire the oil storage and supply system on all three boilers, installing a booster station for raw water at the Hargis-Hebert Plant, upgrades to Unit 3 cooling tower chemical feed

system at the Bonin Plant, required continuous emissions monitors (CEMS) upgrades will have to be increased to meet updated EPA monitoring and reporting requirements, and upgrades to chemical feed systems at both the Hargis-Hebert Plant and T. J. Labbé Plant. Additionally, two unanticipated engine depot visits have increased projected maintenance cost by over $600,000 for fiscal year 2008. Partial funding is allocated for the larger scopes of these projects, but substantial maintenance expense will be incurred on pump repairs, piping rehab, MCC maintenance, etc. during these outage periods. The preliminary strategy is that when LUS load grows back into the capacity of the Doc Bonin plant it will be well maintained and reliable when called upon to run. However, LUS is planning further studies to determine how the Doc Bonin Plant will be utilized in the future.

The annual operations expenses for the transmission and distribution portion of the Electric Operation division increased 21.3 percent from 2006 where as the maintenance expenses increased 2.2 percent. The annual average over the past five years is 2.2 and 5.7 percent for operations and maintenance respectively. The operation and maintenance expenses for transmission decreased 4.3 percent from 2006 and the operation and maintenance expenses for distribution increased 28.3 percent from 2006. The annual average over the past five years is -2.1 and 8.6 percent for transmission and distribution expenses respectively. The total expenses for transmission and distribution operating expenses increased 13.8 percent from 2006 and the annually average over the past five years is 3.4 percent increase. The main reasons for the increase in distribution expenses is due to the accounting adjustment in 2006 for expenses related to hurricanes Rita and Katrina and increased tree trimming expenses that occurred in 2007.

Load Forecast

The actual electric quantities for 2007 and the forecasts of system, off-system and total electric power and energy requirements for 2008 through 2012 are shown in Tables 5-20. The forecasts reflect the current assessment of expected load growth for the period.

Table 5-20
Projected Energy Sales

	2007 (Actual)	2008	2009	2010	2011	2012
Peak Demand (MW)	478	456	463	470	477	484
Retail Sales (MWh) (1)	1,917,801	2,041,864	2,073,589	2,104,966	2,136,563	2,168,316
Wholesale Sales (MWh)	34,661	0	0	0	0	0
Total Sales (MWh)	1,952,552	2,041,864	2,073,589	2,104,966	2,136,563	2,168,316

(1) Retail sale projections provided by LUS.

Sources: LUS Financial and Operating Statements 2006-2007, audited
LUS 2007 load forecast results

Table 5-21 provides a comparison of LUS electric loads versus resources, expressed in megawatts. This reflects the demand requirements of retail sales, sales for resale, and a reserve requirement equal to 18 percent of demand.

Table 5-21
Total Demands and Resources Comparison

	2007 (Actual)	2008	2009	2010	2011	2012
Demands (MW)						
Total Demand	478	456	463	470	477	484
Demand Plus Reserves	564	538	546	555	563	571
Resources (MW) [1]						
Gas-Fired Generation	495	495	495	495	495	495
Coal-Fired Generation	246	246	246	246	246	246
SPA Peaking	19	19	19	19	19	19
Total Resources	760	760	760	760	760	760
Surplus/Deficit	196	222	213	205	197	188

(1) Resource capacities represent nominal nameplate ratings, percentages thereof, or contract amounts.

Source: Jeff Stewart, LUS, 2/08.

The table above indicates that available resources provide the Electric Utility with surplus capacity through 2012.

Changing Electric Utility Environment

Deregulation of the electric utility industry at the retail level is currently not an issue of significance in the state of Louisiana. Although retail deregulation is currently in place in neighboring Texas and in other states across the country, the movement has lost much political and public interest in the last several years. However, at the wholesale level, LUS is facing new challenges resulting from increased competition in the wholesale power market. Part of this challenge is being met by LUS' newly installed generation resources. This competition is pressing LUS management to make timely business decisions regarding plant dispatch, operations and maintenance, purchasing power, selling power, pricing power, plant capital improvements, plant upgrades, etc. There may be significant opportunities for LUS to take advantage of these changes in the utility environment. Capitalizing on these opportunities will be extremely difficult if the decision-making process is not quick and efficient. Although the current process is consistent with other municipal utilities, it will not provide the flexibility to compete with other participants in the industry, such as independent power producers, investor-owned utilities, non-regulated subsidiaries of utility holding companies, and power marketers.

Enterprise Risk Management

As with most utilities, LUS conducts a wide range of planning and coordination activities that serve to reduce operational and financial risk exposures. In keeping with current trends toward greater risk disclosure and control, LUS should establish a formalized Enterprise Risk Management Program. An Enterprise Risk Management Program incorporates such activities as electric power marketing, organizational and operational issues, and other concerns that potentially impact the financial integrity of the LUS as a whole.

Regional Reliability Councils

LUS is located in an area that is primarily served by two separate Investor Owned Utilities, Cleco and Entergy Gulf States, Inc. (Entergy-GSU). Cleco and LUS are members of the Southwest Power Pool (SPP), which is a FERC approved Regional Transmission Organization (RTO) and a NERC region. As an RTO, SPP has forty seven members across eight southwestern states that currently provide independent reliability coordination and tariff administration, planning, operating and reliability assessment studies. SPP provides regional transaction scheduling, and on February 1, 2007 SPP launched its Energy Imbalance Services (EIS) Market. The wholesale energy market is to allow for more efficient deployment of wholesale electricity generation across the SPP region through the establishment of an offer-based market for energy imbalance services. SPP, an independent, non-profit organization, is operating the EIS Market under a tariff approved by FERC. The SPP tariff is consistent with the mandate of FERC Order No. 2000, which requires RTOs to provide Real-Time energy imbalance services and a market-based mechanism for congestion management. Entergy, the parent of Entergy-GSU, is a member of the NERC Southeastern Electric Reliability Council (SERC) which does not operate as an RTO. In early 2007, the Louisiana Public Service Commission approved Entergy-GSU's proposal to divide itself into two separate operating companies in Louisiana and Texas. The separation must also be approved by the FERC and the Nuclear Regulatory Commission. The target date for completing the separation is estimated to be the end of 2007. The Entergy Operating Companies, which include Entergy-GSU, on November 1, 2006, transferred the responsibility for reliability coordination for Entergy's transmission system from the Entergy System Operations Center to the Independent Coordinator of Transmission (ICT), at Southwest Power Pool's offices in Little Rock. On November 17, 2006, the ICT took on the responsibility for administration of Entergy's Open Access Transmission Tariff and for planning expansion of the system to accommodate new generation. Entergy is also in the process of implementing a weekly procurement process, to be overseen by the ICT, intended to facilitate the granting of more transmission service and allow displacement of existing network resources in favor of cheaper resources.

The SPP region has a projected 2007 peak load of approximately 41,700 MW. It has approximately 55,600 MW of generating capacity, of which, slightly less than 25,000 MW are hydro, nuclear, coal and wind. Approximately 20,000 MW is coal-fired capacity. The remainder consists primarily of approximately 11,000 MW of

combined-cycle gas-fired generation installed after 1999 and 20,000 MW of other gas-fired generation[1].

The Entergy control area has a projected 2007 peak load of approximately 27,000 MW, which includes approximately 4,000 MW of Associated Electric Cooperative, Inc. (AECI) load. It has approximately 49,800 MW of generating capacity, which includes approximately 4,200 MW of AECI generation. Of the total control area generation approximately 15,000 MW are hydro, nuclear, and coal, 13,000 MW are combined-cycle gas-fired generation installed after 1999, and 21,800 MW are other gas-fired generation. The majority of the post 1999 gas-fired combined cycle generation is owned by independent entities, and is not under power purchase agreements.

Long-term firm sales or purchases of generating resources not utilizing existing firm transmission service arrangements may require substantial transmission upgrades to ensure firm delivery over either the SPP or Entergy systems. Currently, LUS uses the electric power market to purchase short-term energy when it is economically advantageous to do so. LUS will also sell into the market when it has excess generation and it is economical to do so. LUS has an agreement with TEA who performs the wholesale power negotiations and transactions.

Energy Policy Act of 2005

The Energy Policy Act of 2005 (EPAct 2005) covers many components that may affect LUS and related energy markets in the future. This legislation was signed into law in August 2005 and addresses, among other things, energy efficiency; renewable energy; nuclear energy; electricity related reforms; and provides incentives for oil and gas production and encourages the deployment of clean coal technology. A summary of the bill's reforms relating to electricity and renewable energy and certain relevant FERC actions related thereto is provided in the following section.

Electricity – Title XII

Title XII of EPAct 2005 covers electricity, with the majority of the provisions requiring implementation by FERC, some of which have already been acted on or are in process as discussed below.

EPAct 2005 creates a self-regulating reliability organization that is charged with developing electric reliability rules that are mandatory and subject to enforcement penalties for all market participants, including LUS, with FERC having oversight over the rules and their enforcement. FERC issued a final rule implementing the new organization titled "Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards" on November 16, 2006.

[1]Load and Resource values from: NERC, "NERC 2006 Long Term Reliability Assessment Summary Data Demand and Generation Resources," Table 1a Estimated 2007 Summer Resources and Demands(MW) and Margins (%), July 2006

EPAct 2005 grants FERC limited authority to site electric transmission facilities it determines to be in the national interest if the states cannot or will not act. EPAct 2005 contains a number of measures to streamline permitting, including establishing the U.S. Department of Energy as the lead agency for permit processing and also includes a number of incentives related to transmission rates and the disposition of transmission assets. FERC and other related federal organizations are in the process of issuing proposed rulemakings or are gathering comments related to the implementation of EPAct 2005. Such efforts to date have included, but are not limited to proposed guidelines for independent transmission organizations to follow in developing a framework for providing long-term firm transmission rights, proposed transmission pricing reforms and the request for industry input regarding the identification of transmission corridors with acute transmission constraints or congestion problems and the criteria for designating congested corridors as national interest corridors.

EPAct 2005 repeals the Public Utility Holding Company Act (PUHCA) and transfers consumer protection authorities from the Securities and Exchange Commission (SEC) to FERC and the states. FERC is given authority on electric utility merger reviews and additional enforcement authorities. The bill establishes market conditions necessary to eliminate the Public Utility Regulatory Policies Act's (PURPA) mandatory purchase obligation for new qualifying facilities (QF), and revises the definition for new QFs seeking to sell power under the mandatory purchase obligation. FERC has proposed changes to this mandatory purchase requirement that provides for termination of a utility's obligation to purchase electric energy from QFs and sell electric energy to QFs upon a finding that QFs have certain nondiscriminatory access. In a preliminary determination, FERC finds that electric utilities that are members of the Midwest Independent Transmission System Operator (MISO), PJM Interconnection, the Independent System Operator-New England (ISO-NE) and the New York Independent System Operator (NYISO) qualify for relief from the mandatory purchase obligation. FERC also revised regulations for cogeneration and small power production facilities to eliminate ownership restrictions for both new and existing facilities and ensures that the thermal output of cogeneration facilities is used in a productive and beneficial manner.

In March 2007, FERC issued Order No. 693 entitled "Mandatory Reliability Standards for the Bulk-Power System" or "Reliability Standards Order". In this order, FERC approved 83 of 107 proposed reliability standards developed by the NERC, which FERC has certified as the Electric Reliability Organization (ERO) responsible for developing and enforcing these mandatory reliability standards. The Reliability Standards Order applies to all users, owners and operators of the bulk-power system within the United States (other than Alaska or Hawaii). The mandatory standards took effect June 4, 2007. The ERO has delegated certain authority to eight regional entities to propose and enforce reliability standards within their applicable region.

In February 2007, FERC issued Order No. 890 reforming its pro forma Open Access Transmission Tariff (OATT) adopted in 1996 pursuant to Order Nos. 888 and 889. Order No. 890's reforms include: (i) greater consistency and transparency in available transmission capacity calculations; (ii) open, coordinated and transparent planning;

(iii) reforms of energy imbalance penalties; (iv) reform of rollover rights policy; (v) clarification of tariff ambiguities; and (vi) increased transparency and customer access to information. FERC reaffirmed many of the core elements of the Order No. 888 proforma OATT in Order No. 890 including: (i) the comparability requirement wherein third party users of the transmission system must receive service in a manner comparable to the transmission owner's use of the system; (ii) the continuance of protections for native load customer's transmission service rights; and (iii) FERC's approach to reciprocity for non-jurisdictional transmission owners. All public utilities, including RTOs (e.g., PJM and MISO) and Independent System Operators are required to file revisions to their OATT to conform to Order No. 890 pursuant to a compliance schedule established by FERC. Order No. 890 became effective May 17, 2007.

LUS' ECS section is responsible for generating unit commitment, dispatch, the purchase and sale of wholesale power and the operation of the SCADA system for all LUS facilities. All shift operators are NERC certified as mandated by NERC. NERC certified training for the shift operators included emergency operations for the year 2006. The metering section is staffed by two metering technicians and one metering supervisor. The Supervisor position that would oversee the ECS section is still vacant. The ECS division was audited by NERC in 2006 for compliance with standards and operating procedures and LUS was found to be compliant in all areas reviewed. LUS staff is monitoring the NERC requirement for 2007 and believes LUS will be in full compliance once NERC finalizes the reliability standards requirement.

Renewable Resources

EPAct 2005 did not include a federal requirement that utilities purchase a certain percentage of electricity from renewable sources, or a national Renewable Portfolio Standard. There is, however, a requirement that the federal government purchase an increasing portion of its power needs from renewable sources, three percent in fiscal year 2007 increasing to 7.5 percent in 2013 (Sec. 203).

EPAct 2005 provides an extension of Production Tax Credits (PTCs) for some renewable resource types and adds PTCs for other renewable resource types. Under EPAct 2005, PTCs for wind, biomass, geothermal, landfill gas, and small irrigation power facilities and municipal solid waste, which includes trash combustion and landfill gas facilities, apply to resources placed-in-service from execution of EPAct 2005 through December 31, 2007, unless PTCs previously applied. Solar facilities were treated separately and had a required in-service date by December 31, 2005 to qualify for the PTC. Currently FERC has no updates posted pertaining to solar. Refined coal facilities, will continue to qualify for the PTC if placed in service on or before December 31, 2008. Incremental generation from efficiency improvements at existing hydroelectric facilities and electrification of non-hydroelectric dams and coal produced on Indian lands are also added as new qualifying energy resources. The PTC applies to the first ten years of production and the level of PTC varies by resource type.

Time-Based Metering

EPAct 2005 requires electric utilities with retail sales in excess of 500 million kWh per year to consider offering time-based rates and metering to their customers. With Time of Use (TOU) rates, the rates charged vary during different time periods and reflect any variance in the utility's costs of generating or of purchasing electricity at the wholesale level. The retail electric sales of LUS are over 500 million kWh per year, thus it appears that LUS is subject to the TOU rates requirements.

Key Issues, Goals, and Achievements

The following are some of the challenges or key issues that LUS and R. W. Beck have identified:

- System impacts when Rodemacher Unit 3 is on line.
- Limit impact of fuel price volatility.
- Lack of staff resources, specifically in Network Engineering.
- Utilization of assets, facilities and properties.
- Enhancing the communication and coordination between the power plant operations staff, ECS operations staff, neighboring utilities, and the SPP.

The LUS continues working toward meeting these challenges by setting the following goals related to the Electric Utility:

- Attract and retain adequate staffing and experience levels.
- Balance staffing levels and workload by sharing staff between groups.
- Develop best practices-based Energy Risk Management Policy and associated procedures related to power and fuel transactions.
- Completing the customized programming for the GIS mapping system.
- Completing the integration of the field lap tops to provide electronic mapping for field crews in each of the three utilities.
- Developing and maintaining relationships with power marketers and other utilities in addition to LUS' traditional business associates in the wholesale power market.
- Maintaining tree trimming program in order to continue reducing tree-related outages and improve reliability.
- Develop succession planning to replace retiring staff.
- Provide training to personnel as needed.
- Track NERC reliability requirements and meet all mandatory standards as mandated by NERC.
- Hold monthly interdepartmental coordination meetings.

- Continue monitoring of statistical operational data and mapping of unit characteristics.
- Develop a plan to address the existing Microwave communication system.
- Develop a plan for addressing the oil storage tanks at the Doc Bonin Plant to better use the space.

During the past year LUS achieved the following accomplishments:

- Overhaul of Bonin Unit 1 steam turbine generator was completed in 2007.
- Construction of maintenance buildings at the T. J. Labbé Plant and Hargis-Hebert Plant for storage of combustion turbine parts.
- Completed initial effort for the customized programming for the GIS mapping system.
- Completed the integration of the field lap tops to provide electronic mapping for field crews in each of the three utilities.
- Completed documentation of NERC Reliability requirements.
- Outsourced specific tree trimming project using competitive bid process.
- Elks Reconfiguration Phase IV breaker replacements was completed in the first quarter of 2007.
- Doc Bonin Ring Bus - Tie line improvements including relay and panel replacements project was completed in the last quarter of 2007.
- Doc Bonin Switchyard – 230kV V switch replacements was completed in the first quarter of 2007.
- Doc Bonin Switchyard - Bonin-Labbé primary relaying upgrade was completed in the first quarter of 2007
- Replaced the automatic transfer switch for the operations center
- Added air conditioning units to the operations center network computer room

Key Strategies

LUS' Strategic Plan, updated in 2007 identifies the following strategies for electric:

- Ensure adequate self generation capacity.
- Maintain and adequate supply of competitively priced fuel and purchased power options.
- Operate and maintain generation and T&D facilities using best practices.
- Insure adequate transmission system capacity with M-1 reliability criteria.
- Explore initiatives to promote customer growth.

- Create and nurture a customer-focused culture.

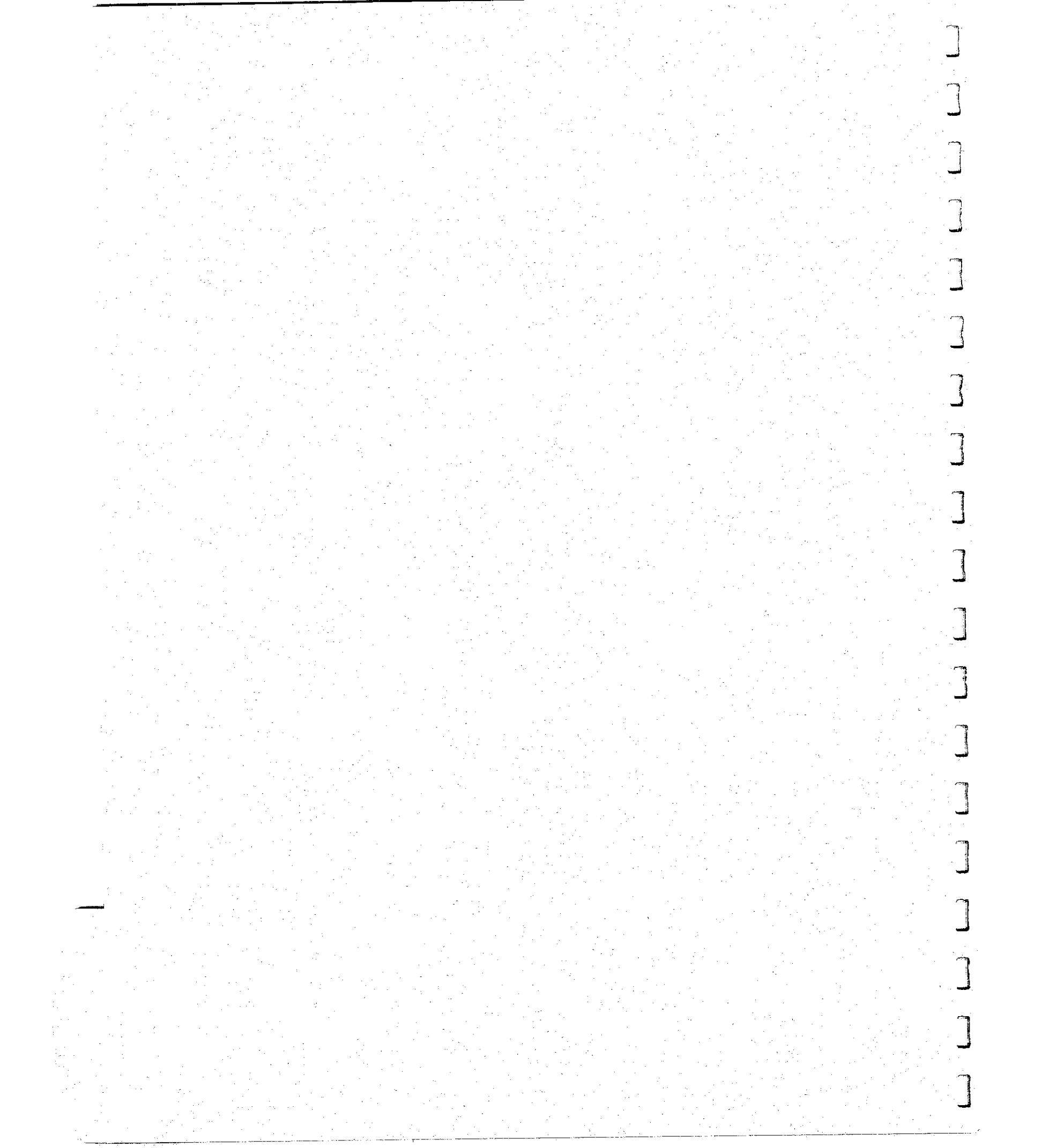
Recommendations

Recommendations and their status are provided in Table 5-22. We have indicated the priority of the recommendation as either highest, high or normal.

Table 5-22
Recommendations

Electric Utility	Priority	Status
LUS should continue its efforts to investigate new power supply additions for the future	High	Complete
LUS should continue the development of a comprehensive operator training program NERC certification	High	In Progress
LUS should provide succession planning to replace retiring staff and provide the necessary transfer of knowledge	High	In Progress
LUS should continue to evaluate T&D staffing levels and compensation plans	High	In Progress
LUS should continue to evaluate power plant staffing levels and compensation plans	High	In Progress
LUS should continue to review and improve the management of the CIP, including the cost and schedule estimate and control processes	High	Investigating
LUS should perform a System Impact Study due to the addition of Rodemacher Unit 3 that reflects current operating practices.	High	Investigating
LUS should continue T&D personnel training and develop training for substation relay testing	Normal	In Progress
LUS should continue to install microprocessor relays for new construction and continue the replacement of existing electromechanical relays with microprocessor relays	Normal	In Progress
LUS should continue efforts to update and enhance the CityWorks	Normal	In Progress
LUS should continue efforts to update and enhance the GIS mapping system and integration with CityWorks	Normal	In Progress
LUS should continue testing generator and other equipment electro-mechanical protective relays at the Doc Bonin Plant through coordination between plant personnel and the LUS T&D section personnel	Normal	In Progress
LUS should continue the implementation and maintenance of a spare parts and inventory control system, with particular emphasis on the spare parts needs of the new generation projects and other major system components	Normal	In Progress

Electric Utility	Priority	Status
LUS should continue the tree trimming program based on current practices and continue to look at bidding out specific tree trimming projects	Normal	In Progress
LUS should continue its implementation and expansion of the preventative and predictive maintenance programs currently in place	Normal	In Progress
LUS should investigate the use of pole butt wraps on new wood poles especially in hard to access areas	Normal	Investigating
LUS should determine the actual heat rate versus output relationship for each of its generating units. The Doc Bonin Plant reports that the project to install energy metering/upgraded gas yard controls of the incoming gas supply is complete. The metering and controls, which is connected to input signals from unit specific fuel flow and generation signals, will provide the actual heat rate versus output relationships forming the basis for economic dispatch and allow the on-line measurement of individual unit heat rates	Normal	In Progress
In the T&D functions, LUS should continue to review Occupational Safety & Health Administration (OSHA) requirements and/or APPA safety guidelines and pursue ongoing training programs for linemen and foremen	Normal	In Progress
LUS should continue to work to implement both internal and external processes to mitigate the impacts of fuel price volatility, including further development of the relationship with a power marketer and development of internal best practices-based Energy Risk Management Policy and associated procedures to set acceptable risk levels related to power and fuel transactions	Normal	Investigating
LUS should expand the 5-Year Planning Report to include a 10-year planning horizon	Normal	Investigating
LUS should proceed with plans to repaint the externals of the Doc Bonin Plant Units 2-3	Normal	Investigating
LUS should continue to monitor electric deregulation events on the state and national level	Normal	In Progress



Section 6
WATER UTILITY

R·W·BECK

Section 6
WATER UTILITY

During February 2008, the Consulting Engineer interviewed LUS staff regarding Water Utility operations and performed analyses of operating statistics that are indicative of the general operating condition of LUS' Water Utility facilities. The following discussion summarizes the findings of the Consulting Engineer with respect to the maintenance and management of the property based upon discussions with and information supplied by LUS' personnel.

Description

The Water System includes 18 wells, two water treatment facilities and a distribution system. The wells serve the system with a combined production capacity of 48.4 million gallons per day (mgd).

The Water Utility provided its customers with adequate and reliable utility service during the reporting period. During periods of high demand, however, low pressure complaints have been received in isolated areas of the distribution system as experienced during the summer of 2006. Similar complaints were not received in the summer of 2007 as higher than normal rainfall during this period reduced demand.

Organization

The Water Production Division is responsible for the supply of raw water and the production of potable water for distribution including O&M responsibilities of its wells, pumps and treatment facilities. The Water Distribution Division is responsible for the distribution of potable water to 50,000 residential, retail and industrial consumers, including O&M responsibilities of its distribution network infrastructure.

The Water Utility is supported primarily by the Water Production division and the Water Distribution Division of LUS. Other LUS Divisions, including Engineering, Customer Service, Utilities Support Services and Environmental Compliance provide services to the Water Utility as well.

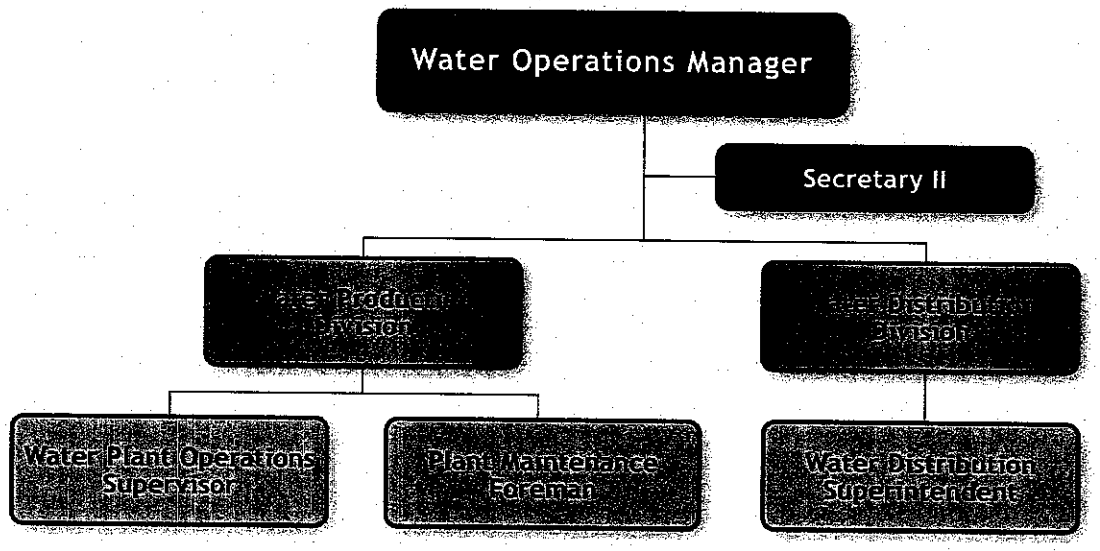


Figure 6-1: Water Utility Organization Chart

Water Supply

The Chicot underground aquifer is the sole source of water supply for LUS. Groundwater from the Chicot aquifer provides LUS with a reliable and abundant source of good quality water. The USEPA has designated the Chicot aquifer as a sole source aquifer thereby requiring special consideration for federal permitting of projects that could adversely affect it. The Water System has joined with the LDEQ to implement a wellhead protection program for the LUS water supply. Potential contamination sources within the wellhead protection areas have been identified by LUS and LDEQ has authority to take appropriate action to assure contamination is prevented.

During 2002, LUS completed construction of Well No. 23 located in the southern portion of the Water System, with production beginning January 1, 2003. The 1,000 gallons per minute (gpm) well provides peak demand in the weakest portion of the distribution system and reduces the occurrence of low pressures in the area it serves. Minimal water treatment is provided, consisting of chlorination and phosphate addition. A new facility in the northern portion of the water system, Well No. 24 began operation in June 2006. The project was similar in purpose, scope, production and treatment to Well No. 23.

Water Treatment

The Water System includes two water treatment facilities, the North Water Plant and the South Water Plant, which provide for removal of iron and manganese by coagulation, sedimentation and filtration; hardness reduction by a lime-softening process; and chlorination.

Figure 6-2 shows the pipe gallery at the South Plant.

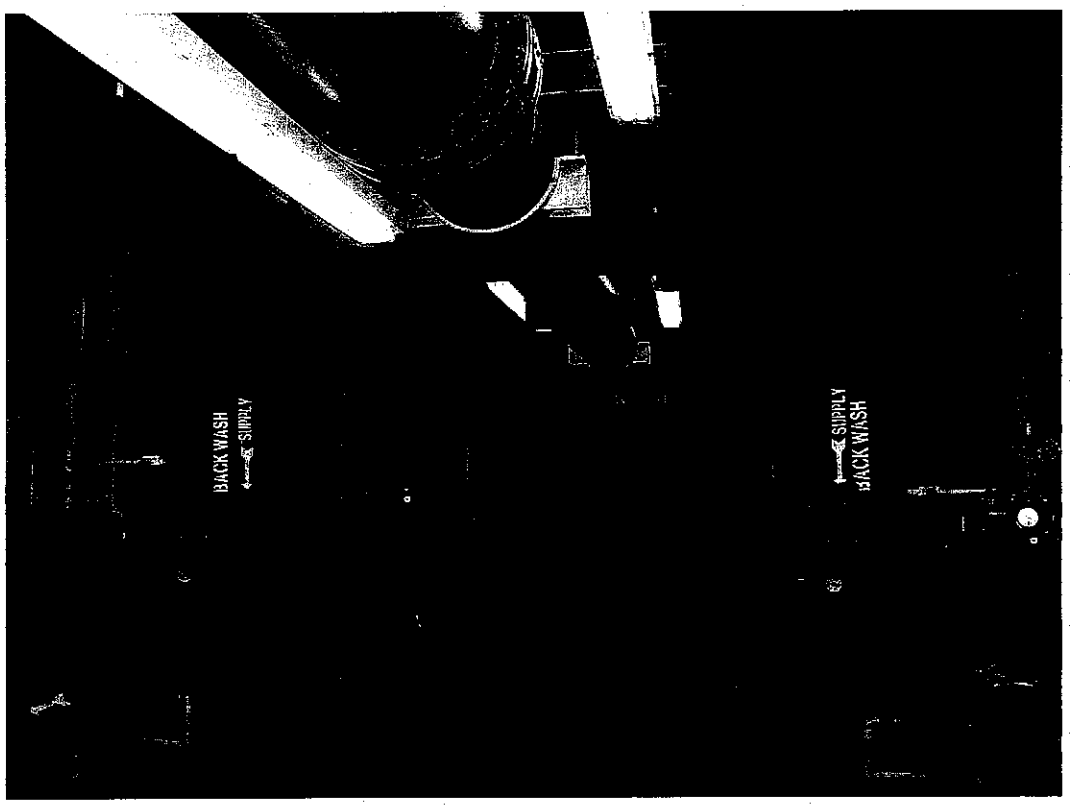


Figure 6-2: Pipe Gallery at South Plant

Well No. 23 (1.4 mgd) serves the southern portion of the distribution system, where the majority of growth is occurring. Minimal water treatment is provided at Well No. 23, consisting of chlorination and phosphate addition. Due to water quality concerns, Well No. 24 is not in continuous operation but can be placed into operation when needed. Improvements, including pressure filtration, are planned for Well No. 24 to eliminate the water quality issues. The present system treatment capacity (both plants and Well Nos. 23 and 24) is approximately 48.4 mgd.

The treatment capacities of the North Water Plant, South Water Plant, Well No. 23, and Well No. 24 are shown in Table 6-1. Although the two plants are each capable of producing over 20 mgd of treated water, the total amount of water that can effectively be delivered to customers is constrained by the capability of the distribution system to deliver the water at an acceptable pressure. The 5-year CIP includes improvements to the distribution system to reduce this constraint. At 90 psi, the total effective production capability is estimated by LUS to be 28.8 mgd.

Table 6-1
Plant Treatment Capacity (2)

	(mgd)
North Water Plant	21.5
South Water Plant	24.0
Well No. 23	1.4
Well No. 24	1.5
Total Plant Capacity	48.4
Total Effective Plant Capacity	28.8 (1)

(1) Highest recorded production. At this production some location specific pressure issues exist within the distribution system.

(2) Treatment Plant capacity is less than total well production capacity.

Source: Don Broussard, LUS, 2/08

The water production facilities use chlorine for disinfection of water before it is introduced into the water distribution system. The chlorine used at each treatment plant is supplied in the form of a gas that is stored on-site in several cylinders, each containing one ton of chlorine when full. LUS is also using sodium hypochlorite on a limited basis at certain wells.

The water production facilities have backup electric power generating facilities on site that are adequate to sustain a basic level of water production. The South Water Plant has full back up generation, however, the North Water Plant has enough back up generation to produce approximately 50 percent of its normal output.

The historical water production and growth is presented in Table 6-2. The growth rate in water production has been approximately 1.7 percent per year since 2003 while annual growth in the number of customers has been approximately 2.1 percent per year. In addition to annual requirements, peak day production requirements are also provided in Table 6-2.

Table 6-2
Historical Water System Production

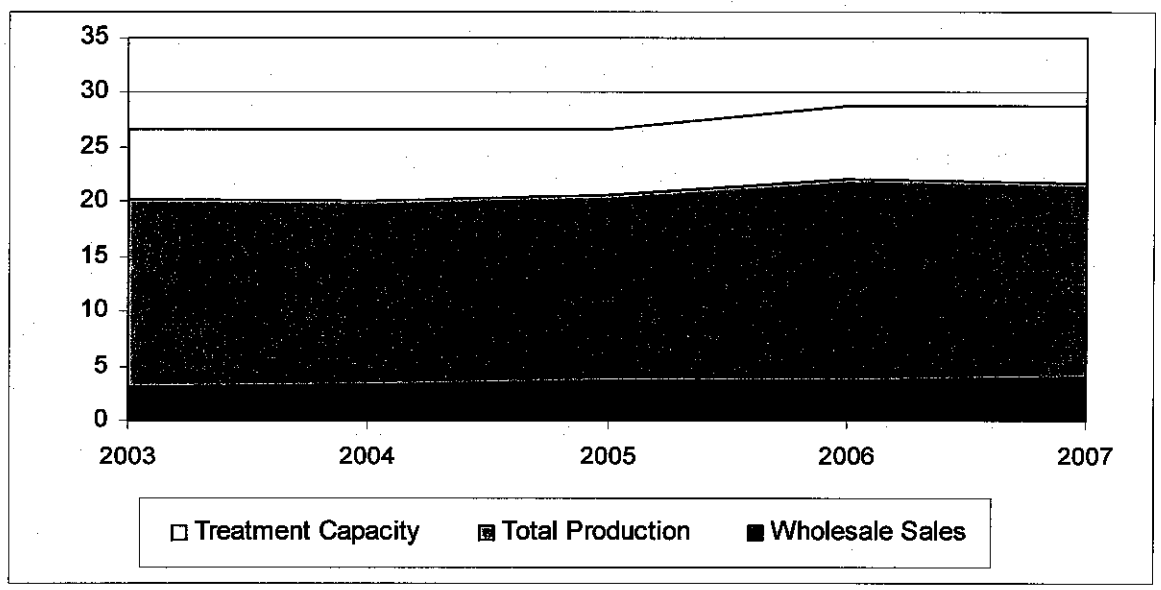
	2003	2004	2005	2006	2007
Number of Customers (1)	45,726	46,622	47,529	48,617	49,622
Annual (million gallons) (2)	7,392	7,326	7,545	8,051	7,904
Annual (mgd) (2)	20.3	20.0	20.7	22.1	21.7
Peak Day (million gallons)	25.7	23.0	26.3	28.8	25.5

(1) Number of meters in service.

(2) Based on water distributed.

Source: LUS Financial and Operating Statements 2003-2007 audited
Water Production Division

Total water production is shown in Figure 6-3.



Source: LUS Financial and Operating Statements 2003-2007, audited
Water Production Division

Figure 6-3: Water Production (mgd)

As shown in Figure 6-3, total water production since 2003 has increased at a rate less than the increase in wholesale sales. Total retail water sales volume (i.e., sales to retail customers) has increased slightly since 2003. Wholesale customers are requiring an increasing percentage of the total water produced. This trend is expected to continue, which will place continued pressure on the distribution system and could adversely affect LUS retail customers. Coordination with wholesale customers and adequate planning for improvements to the LUS system and the wholesale customer's systems is necessary to protect the interests of retail customers.

Treatment Plant Security

LUS has implemented a policy of stationing armed, uniformed Sheriff's Department personnel at each water plant 24 hours per day, seven days per week. Security cameras with recorders have been installed at the treatment plants. LUS staff has been provided training in emergency planning and reaction that is integrated with ongoing programs for hurricane emergency response. Standby generators have been installed at strategic locations within the production and treatment system. Portable generators have also been purchased and are available to connect to wells as needed. LUS staff report that 70 percent of production capacity could be met for four days without refueling generators in the event of a system-wide power outage.

LUS staff and managers are also involved in several association and/or agency programs related to safety and terrorism. Don Broussard is the Vice-Chair of Water Sector Coordinating Council (WSCC), which is a policy, strategy and coordination mechanism that recommends actions to reduce and eliminate significant security vulnerabilities to the water sector through interactions with the Federal Government

(primarily Department of Homeland Security and Environmental Protection Agency) and other critical infrastructure sectors.

LUS is also involved in the Louisiana Water Agency Response Network (LaWARN), which is a statewide group of water agencies that have jointly created a mutual response network. This organization is an outgrowth of cooperative efforts that were implemented in response to Hurricane Katrina. LUS staff assisted with those recovery efforts in 2005. LUS involvement in these organizations and other national trade organizations brings positive notoriety to LUS and serves as a conduit for current security and industry information.

Water Storage

Treated water storage totals approximately 12.2 million gallons. This includes 4.3 million gallons of elevated storage and 7.9 million gallons of ground storage, including pumping station wet wells.

LUS staff has noted that the LUS system is likely to experience difficulty in meeting peak demands of its wholesale customers without addition of water storage either in LUS' system or the wholesale customers' systems. LUS has budgeted to construct a million gallon ground storage and booster pumping facilities to improve the pressure conditions. The first of these facilities is in the planning stages for the southern portion of the service area. LUS should continue to investigate the use of these facilities along with other distribution system improvements to reduce the peak demand concerns.

Water Distribution

The Water System distribution network consists of 1,030 miles of pipe, most of which is in the 6-inch to 12-inch diameter range. The distribution system includes 20,314 valves and 6,016 fire hydrants. Table 6-3 illustrates the historical trends in key water distribution system statistics. Generally, the increase in miles of line, valves, and hydrants has paralleled or slightly lagged the increase in customers.

Table 6-3
Water Distribution System (1)

	2003	2004	2005	2006	2007
Miles of Main Lines	954	963	978	1,006	1,030
Number of Valves	18,495	18,807	19,139	19,732	20,314
Number of Hydrants	5,686	5,757	5,812	5,911	6,016

(1) Includes LUS contract service to Water District North
Source: Don Broussard, LUS, 2/08

In 2003, LUS completed the last phase of construction of large diameter (16-inch and 24-inch pipe) water pipe from the South Water Plant to the southern portion of the distribution system. This project improved distribution capability and reliability to this portion of the water distribution system. The water main also serves as a connection point for wholesale water sales and other potential extensions. LUS recognizes that its plant treatment and distribution pumping is limited by restrictions of the water distribution network, and the CIP addresses this with additional transmission and distribution improvements.

Staffing Levels

While the operations supervisor role was recently filled, there remain a number of current and anticipated vacancies within the Water Utility. Specifically, there were three retirements resulting in five current vacancies (out of a full staffing level of 40) within the distribution group and two retirement eligible staff (out of full staffing level of 12) within the operations group. Additionally, there are three long standing vacancies in the maintenance group including one intended to be the successor to a high level technical position. Staff currently in the high level technical position will retire by 2009 potentially resulting in another vacancy and no opportunity for knowledge transfer between personnel.

A succession plan should be implemented to identify key staff approaching retirement age/experience, identify possible successors and develop and implement a knowledge transfer process.

Contracts and Agreements

In addition to the facilities owned by LCG, LUS operates and maintains the water distribution facilities of certain water districts in accordance with contracts between LCG and the districts. Contractual arrangements between LCG and other entities (both water districts and municipalities), which own or operate water utility properties, currently represent 16.3 percent (by revenue) of LUS' annual water revenues. Features of these contracts are discussed below. LCG has executed agreements with two water districts: Water District North and South. Water service to Water District North customers is billed by LCG in the name of the Water District North consistent with the applicable rate schedules. The North and South Water District construct their own additions and extensions according to standards set by LUS. A summary of the contracts and agreements for the Water Utility is provided in Table 6-4 below.

Table 6-4
Contracts and Agreements for Wholesale Water Sales

Contracts and Agreements	Date Signed/Renewed	Termination Date
Water District North Consolidated Contract	October 17, 2002	October 17, 2032
Water District South	August 21, 1995	August 21, 2035
City of Scott	May 27, 1997	May 27, 2022
Town of Youngsville	December 24, 1998	December 24, 2038
City of Broussard	March 5, 1998	March 5, 2038
Milton Water District	April 28, 1997	April 28, 2037

Source: Ron Gary, LUS, 2/08

Water District North

This district serves the northern portion of Lafayette Parish, which is neither currently incorporated as a municipality nor included in another water district at the time of Water District North's formation. LCG and Lafayette Parish Water District North amended their existing water agreements by entering into a new water agreement (the Water District North Agreement) in October of 2002. Term of the agreement is 30 years with provisions for automatic five-year extensions upon concurrence by both parties. Water sales to Water District North amounted to 7.0 percent of total water sales revenue for 2007 (including wholesale).

The Water District North Agreement includes the following provisions.

- LCG shall furnish potable water to the entire district and operate and maintain all district water distribution facilities except those specifically excluded by the Water District North Agreement.
- LCG shall construct a water production facility (Well No. 24) in the northwest region of Lafayette Parish and place it in operation within 12 months of purchasing the site. Well No. 24 was placed into operation in June 2006 but taken offline very shortly thereafter due to water quality concerns.
- Plans and specifications for District facilities that LCG is obligated to operate and maintain must be approved by LCG as conforming to LCG material and construction standards.
- LCG shall provide meter reading services and customer billing services for all Water District North retail and wholesale meters in accordance with the rate schedule adopted by the Water District North.
- In the event that an area within the Water District North is annexed to LCG, the District properties within the new corporate boundaries shall be sold to LCG by the Water District North upon request by LCG. Calculation of the payment for acquiring the Water District North's properties is described in the Water District North Agreement.

Water District South

This district serves the southern portion of Lafayette Parish. The LUS water sales to the Water District South represent approximately 3.0 percent of the total LUS water revenues for 2007.

The wholesale service agreement with Water District South was signed in August 1995 and terminates in August 2035. The agreement provides for delivery of wholesale water to the Water District South's distribution system. Revenues for water service are billed and collected by the Water District South. LUS provides operational assistance.

Due to mechanical issues with its production facility, Water District South discontinued production operations in 2006. LUS is currently providing Water District South with sufficient water volume to meet its customer demand with the long term plan for Water District South to convert its existing production facility into a booster station.

Other Wholesale Water Contracts

LCG has also entered into contracts to provide wholesale water service to the following entities. Comparing 2006 to 2007 figures, the relative distribution in terms of both volume and revenue indicate these contractual demands have remained relatively constant.

- LCG sells water to the City of Scott, Louisiana, for distribution and resale under a 25-year contract, which terminates May 27, 2022. Water is delivered to the City of Scott at several interconnection points. Water sales to the City of Scott represent approximately 3.0 percent of total LUS water sales revenues and 4.1 percent of water sales volume for 2007.
- Under the provisions of a contract effective on December 24, 1998 with a term of 40 years, LCG may sell water to the Town of Youngsville, Louisiana for distribution and resale. Water sales to the Town of Youngsville first occurred in 2003 and represent 1.2 percent of LUS water sales revenues and 1.7 percent of water sales volume for 2007.
- LCG and the City of Broussard, Louisiana signed a 40-year water supply contract, which expires on March 5, 2038. Water sales to the City of Broussard represent approximately 1.0 percent of the total LUS water sales revenues and 1.4 percent of water sales volume for 2007.
- LCG serves the Milton Water District under a 40-year contract signed April 28, 1997. Water sales to Milton represent approximately 1.1 percent of the total LUS water sales revenues and 1.5 percent of water sales volume for 2007.

During 2007, water delivered to wholesale customers amounted to 20.3 percent of the water sold by LUS and 16.3 percent of the revenue. The difference is attributed to the difference between water rates for wholesale and retail service. LUS should consider performing a cost-of-service study to evaluate the current rates and/or set appropriate rates for retail and wholesale customers. Additionally, the study should consider the

impacts of customer service issues such as recovering fuel charges associated with customer requested services which the Water Utility does not currently charge any fee.

Table 6-5 shows wholesale water sales by year for the last five years. Table 6-6 shows wholesale water revenue for the same years.

Table 6-5
Wholesale Water Sales Volumes (1,000 gallons)

Customer	2003	2004	2005	2006	2007
City of Scott	264,836	271,704	285,683	238,149	298,098
Water District North	291,577	286,737	316,156	327,149	352.441
City of Broussard	63,555	69,216	111,663	103,501	99,734
Water District South	210,295	228,603	243,106	270,856	310,003
Milton Water System	109,700	79,065	60,631	92,743	106,946
Town of Youngsville	62,478	78,208	130,184	116,032	123,665
Water District North – Wholesale	147,668	157,592	156,657	178,164	174,731
Total Wholesale Water Sales	1,150,109	1,171,125	1,304,080	1,326,594	1,465,618
Total Water Sales (Wholesale and Retail)	7,111,918	6,916,496	7,243,441	7,400,526	7,222,823
Percent of Total Water Sales from Wholesale Sales (%)	16.2	16.9	18.0	17.9	20.3

Source: LUS Financial and Operating Statements 2003-2007, audited

Table 6-6
Wholesale Water Sales Revenue

Customer	2003	2004	2005	2006	2007
City of Scott ($)	335,133	350,499	368,531	307,210	384,549
Water District North ($)	608,124	598,741	647,539	677,721	673,156
City of Broussard ($)	79,443	86,519	139,576	129,378	124,666
Water District South ($)	255,237	285,755	303,884	338,569	387,504
Milton Water System ($)	131,314	97,325	75,787	115,926	133,684
Town of Youngsville ($)	78,096	97,758	162,729	145,044	154,582
Water District North-Wholesale ($)	182,594	198,567	197,386	224,260	220,843
Total Wholesale Water Sales ($)	1,669,941	1,715,164	1,895,433	1,938,108	2,078,985
Total Water Sales ($)	11,545,449	11,600,448	12,091,780	12,393,422	12,756,232
Percent of Total Water Sales from Wholesale Sales (%)	14.5	14.8	15.7	15.6	16.3

Source: LUS Financial and Operating Statements 2003-2007, audited

Capital Improvement Program

Fiscal Year 2007

The expenditures for fixed plant and equipment made during 2007 are presented in Table 6-7. LUS accounts for such expenditures by using a capital work order system. All extensions or improvements made to the water system are considered economically sound or otherwise necessary for the profitable operation of LUS.

Table 6-7
Capital Work Order Expenditures

Source of Funds	Water ($)
Normal Capital	
Bond Reserve & Capital Additions	1,224,433
Special Equipment	333,381
2004 Revenue Bonds	367,505
Retained Earnings	1,413,957
Total	3,339,276

Source: "Status of Construction Work Orders," LCG, 1/08

Five-Year Capital Plan

LUS established a system improvement program in 1989. The program is a five-year "look ahead," and is revised annually to plan for and manage the major capital projects for the water system. LUS should consider longer planning horizons (at least 20 years) allowing for improved financial planning to mitigate any major effects on water rates. The estimated annual capital budget requirement amounts are presented in the following table and were obtained from 5-Year CIP in the LCG Adopted Budget for fiscal year 2007-2008.

Table 6-8
Capital Improvement Program 2008 – 2012

	2008	2009	2010	2011	2012	Total
Production ($)	160,000	885,000	1,210,000	10,000	10,000	2,275,000
Distribution ($)	3,310,000	3,935,000	710,000	16,0000	760,000	8,875,000
Totals ($)	3,470,000	4,820,000	1,920,000	170,000	770,000	11,150,000

(1) Includes LUS contract service to Water District North

Source: Don Broussard, LUS, 2/08

Production Improvements

Water production funds include increased treatment at the Commission Blvd. facilities, South Plant filter rehabilitation, additional back up generation, a Master Plan Update, increased facility security in addition to typical renewals and replacements.

Distribution Improvements

Water distribution funds include the design and construction of two ground storage booster stations, main installation, main replacements and main improvements as well as typical renewals and replacements.

Operations and Maintenance Expenditures

Historical annual O&M expenditures from 2003 through 2007 are shown in Table 6-9 and are graphically displayed in Figures 6-4 and 6-5.

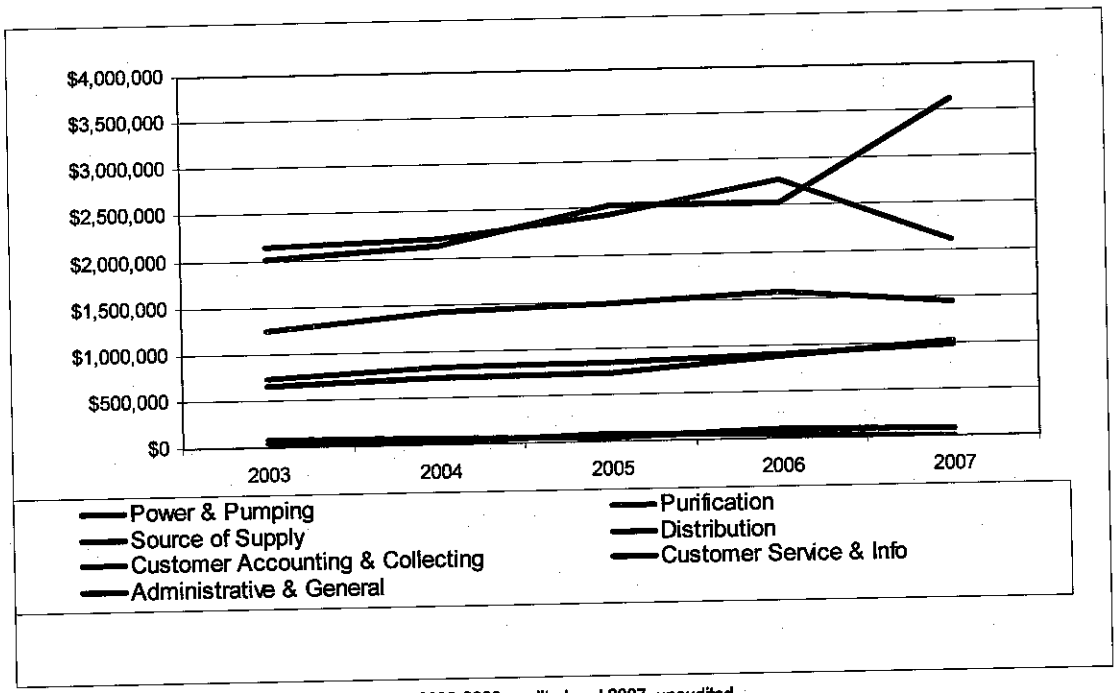
- The source of supply expenses decreased 88 percent from year 2006 to 2007. While this represents a dramatic change in terms of percentages, the values ranged from less than $29,000 to approximately $3,500 which does not represent significant budget items relative to the other expenditures. Also, reviewing this line item over the past five-year period reveals this expenditure historically fluctuates dramatically.
- The power and pumping expense increased 14 percent (due to increased energy costs and greater usage), the purification expense decreased 24 percent and the distribution expense decreased 8 percent.
- Overall, the combined source and supply, power and pumping, purification and distribution expense decreased 13 percent.
- The customer accounting and collecting increased 8 percent, the customer service and information decreased 14 percent, and the administrative and general expenses increased by 43 percent. The increase in the administrative and general was due to a change in the allocation based on the auditor's recommendation.

Table 6-9
Water System Operations and Maintenance Expense

	2003	2004	2005	2006	2007
Source of Supply					
Operations ($)	29,359	11,428	82,691	13,830	2,970
Maintenance ($)	1,230	1,392	1,341	15,063	499
Total ($)	30,589	12,820	84,032	28,894	3,469

	2003	2004	2005	2006	2007
Power & Pumping					
Operations ($)	641,975	708,850	725,041	847,321	1,008,639
Maintenance ($)	0	0	0	34,000	0
Total ($)	641,975	708,850	725,041	881,321	1,008,639
Purification					
Operations ($)	1,718,453	1,770,445	1,958,553	2,236,692	1,653,192
Maintenance ($)	421,106	438,916	464,143	530,149	453,006
Total ($)	2,139,559	2,209,361	2,422,695	2,766,841	2,106,198
Distribution					
Operations ($)	582,136	747,069	$851,998	899,904	789,623
Maintenance ($)	669,539	675,033	614,533	660,411	639,443
Total ($)	1,251,675	1,422,102	1,466,531	1,560,315	1,429,066
Customer Accounting & Collecting ($)	733,705	826,959	847,005	908,250	976,245
Customer Service & Info ($)	80,279	54,598	31,505	99,910	85,717
Administrative & General ($)	2,005,666	2,126,093	2,524,899	2,535,583	3,613,222
Total ($)	6,883,448	7,360,784	8,101,708	8,781,114	9,222,556

Source: LUS Financial and Operating Statements 2003-2007, audited

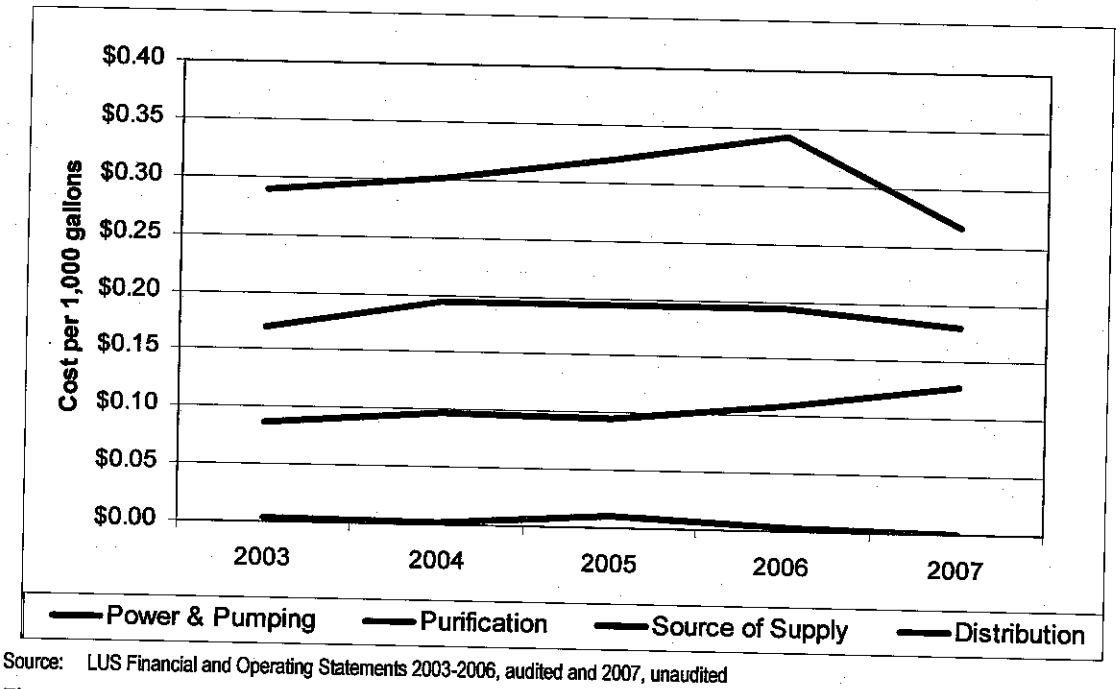


Source: LUS Financial and Operating Statements 2003-2006, audited and 2007, unaudited

Figure 6-4: Water System Annual O&M Cost

As shown in Figure 6-5, on a unit basis, the purification, distribution, and source and supply costs decreased from year 2006 to 2007. The power and pumping increased by

17 percent. The purification unit costs decreased 23 percent and source of supply unit costs decreased by 88 percent.



Source: LUS Financial and Operating Statements 2003-2006, audited and 2007, unaudited

Figure 6-5: Water System Annual O&M ($/1,000 gallons)

Unbilled Water Volumes

During the 2005 – 2006 timeframe the Water Utility embarked upon a citywide effort to repair/replace large meters. Through 2007, over 90 percent of the large (3-inch or greater) meters have been repaired or replaced. This results in more accurate measurements but also makes direct comparisons between years pre- and post-replacement difficult and potentially misleading.

Given that, the statistics in Table 6-10 indicate an average 6.0 percent of water volumes annually that are not accounted for and a general increasing trend. Taking into account the meter replacement initiative and using 2006 as a baseline, the 2007 estimate represents a modest 6.6 percent increase. Even at the higher rates the unaccounted for volumes are well below the generally accepted range of 12-15 percent for similar water systems. Data for the period 2003 through 2007 are summarized in Table 6-10.

Table 6-10
Water Volumes Not Accounted For

	2003	2004	2005	2006	2007
Not Accounted For (%)	3.79	5.59	4.00	8.08	8.62

Source: LUS Financial and Operating Statements 2003-2007, audited

Drinking Water Quality

LUS, in response to the requirements of the Safe Drinking Water Act (SDWA), must prepare and distribute an annual water quality report to its customers. The Water Quality Report includes results of periodic monitoring of the quality of water distributed to LUS customers. The following Table 6-11 summarizes monitoring results for the latest year for which this data is available.

As shown on the table, all monitoring results show LUS water quality to be well within the regulatory limits. Biological water quality is also monitored throughout the system although it is not required to be reported in the annual report.

Table 6-11
Water Quality Results (1) (2)

Monitored Before Any Treatment

Substance	Major Source in Drinking Water	USEPA Designated Contaminant Level	USEPA Designated Maximum Contaminant Level Goal	LUS Range in Minimum to Maximum
Atrazine	Run off from herbicide used on row crops	3 ppb	3 ppb	0.281 ppb
Barium	Discharge from drilling wastes Discharge from metal refineries Erosion of natural deposits	2 ppm	2ppm	0.297 ppm
Fluoride	Erosion of natural deposits	4 ppb	4 ppb	0.26 ppb

Monitored in the Water Distribution System

Substance	Major Source in Drinking Water	Maximum Contaminant Level	Maximum Contaminant Level Goal	LUS Range
Total Trihalomethanes (TTHM)	By-Product of drinking water chlorination	80 ppb	--	12.3 ppb
Haloacetic Acids (HAA5)	By-Product of drinking water chlorination	60 ppb	--	6.4 ppb

Monitored At Customer's Tap

Substance	Major Source in Drinking Water	USEPA Designated Action Level (requires treatment) at 90th Percentile	LUS Results at 90th Percentile Testing
Copper	Corrosion of household plumbing	1.3 ppm	0.028 ppm or less*
Lead	Corrosion of household plumbing	15 ppb	0.302 ppb or less*

(1) ppb is parts per billion.

(2) ppm is parts per million.

Source: 2006 Water Quality Report, LUS.

* No individual sample exceeded the Action Level.

Forecasts

Forecasts of water use for the five-year period of 2008 through 2012 are presented below in Table 6-12. The forecasts reflect the current assessment of expected growth for the five-year period. LUS previously anticipated an initial decrease in water demand during the current period due to relief from transient population from Hurricanes Katrina and Rita. Anecdotal and utility data suggest those that intend to leave the LUS service area have already left and those that remain have likely permanently relocated. The result is the Water Utility no longer anticipates any decrease in demand over the next five years.

Table 6-12
Water System Projected Requirements (1) (2)

	2007 (Actual)	2008	2009	2010	2011	2012
Daily mgd	21.7	22.0	22.4	22.8	23.2	23.5
Peak mgd	25.5	25.9	26.3	26.8	27.2	27.7

(1) Includes unaccounted-for volumes.

(2) Projections based on five year historical growth rate.

Source: Don Broussard, 2/08

LUS has completed a System Development Plan that is intended to provide a basis for long term planning of the Water Utility system. LUS should begin discussing options for the future including possible consolidation of water districts, parish-wide water system service and water system service beyond the parish boundaries.

One of the challenges to LUS faced in the recent past was blocks of new customers being added to the system with little or no notice resulting in a sudden increase in demand. Staff do not see a likely scenario of this upcoming but there remains a possibility that similar circumstances can occur in the future with similar results. As a result staff is sensitive to unplanned annexations.

LCG has adopted a water ordinance to assist in reducing the occurrence of low pressure in the water distribution system. The ordinance is directed at reducing peak

system demand by restricting watering of lawns to the hours between midnight and 2 p.m. and enforcement of the ordinance began in August of 2001. LCG's ordinance requires wholesale customers to enact similar restrictions or be subject to restrictions on supply of water by LUS during the period from May 1 to September 30 of each year. These efforts have not been as successful as hoped (as evidenced by the high usage and resulting low pressure complaints during the summer of 2006). In an effort to further promote conservation a more recent ordinance establishing an increasing block rate structure was adopted. At the time of this report it is too soon to determine the effectiveness of this ordinance.

Future Regulatory Requirements

The SDWA passed in 1974 and amended in 1986 and 1996, gives the USEPA the authority to set standards to protect drinking water. USEPA has delegated responsibility for implementing drinking water standards to the Louisiana Department of Health and Hospitals.

There are two categories of drinking water standards: primary and secondary. Primary standards are legally enforceable standards that apply to public water systems. Primary standards protect drinking water quality by limiting the levels of specific contaminants that are known or anticipated to occur in water. Secondary standards are non-enforceable guidelines regarding contaminants that may cause cosmetic or aesthetic effects. Primary standards go into effect three years after they are finalized. If capital improvements are required, USEPA's Administrator or a state may allow this period to be extended up to two additional years.

New and proposed rules and standards, listed below in Table 6-13, are in various stages of development and publication.

Table 6-13
New and Proposed Rules

Rule/Regulation	Compliance Date	Comments
Arsenic Rule	Effective	Establishes maximum contaminant level of 0.01 mg/L for arsenic in drinking water
Groundwater Rule	Promulgated	Requires monitoring for fecal contamination in distribution system and corrective action as needed
Chemical Facility Anti-Terrorism Standards	Interim Final Rule	Establishes risk-based performance standards and requires certain chemical facilities to prepare Security Vulnerability Assessments and develop and implement Site Security Plans
Stage 2 Disinfectants and Disinfection Byproducts Rule	Effective	Requires assessment/monitoring of system for byproducts of disinfection

LUS is aware of these regulations and has or will incorporate the requirements into current and future operations. Compliance with the regulations is not anticipated to require major capital expenditures.

The USEPA upgraded water treatment plant operator certification requirements on February 5, 1999 upon publication of "Federal Guidelines for the Certification and Re-certification of the Operators of Community and Non-transient Non-community Public Water Systems." In April 2002, the State of Louisiana implemented these guidelines and changed the Louisiana Administrative Code Title 48; Chapter 73 entitled "Certification." The changes required LUS to upgrade the qualifications of its water treatment plant operators by April 2006. LUS complied with this deadline. We recommend that LUS consider developing an operator certification (and recertification) program.

Key Challenges, Issues and Goals

Challenges and key issues that LUS has identified for the Water Utility include: succession planning and employee hiring and retention issues, distribution system capacity, integration of SCADA and plant controls, backflow prevention, capital planning, and security.

The Water Utility has staff members throughout the organization that are approaching retirement. In addition, the utility struggles to fill vacant positions with qualified personnel and has difficulty retaining staff.

The capacity of the production and treatment facilities far exceeds the capacity that can be distributed to water customers. This is due to constraints within the water distribution system. During periods of high demand during 2007 some customers experienced low pressure conditions. LUS experienced an all-time high maximum day water production rate of 28.8 mgd in 2006.

The main issue relating to the new certification requirements is that candidates applying for Water Plant Operator vacancies must attain full certification within six years of appointment. A careful review of the certification requirements suggests that applicants must have two full years of college to meet this six year deadline. Despite Civil Service rule changes to allow increased hiring pay scales the current pay scale at LUS appears to be unattractive to candidates with this level of education. The LUS pay rate for new Water Plant Operators may need to be adjusted to attract and retain skilled and certified operators. Further, the Civil Service position description must be changed to reflect these new requirements.

Currently water utility operators have no operational control access to the distribution system SCADA system. This system needs to be fully integrated into the plant controls (Wonderware) system. This would allow for real-time monitoring and control of the distribution system. In addition, additional pressure monitoring should be placed within the distribution system.

LUS began assessing and documenting backflow prevention facilities of its customers in 2006 and anticipates completion in 2008 (estimated at 70 percent complete to date).

The first step in implementing a backflow prevention program is field inventory and surveying via global positioning satellite technology. Devices already located are being integrated into the geographic information system and training of certified testers and education of customers will follow in 2009.

The full implementation of a working hydraulic model of the water distribution system and a long-range capital planning process would increase the ability of the Water Utility to plan for development and to maximize the existing water distribution system. It is anticipated the water model will be complete in March 2008.

LUS has improved the security and reliability of its water production, treatment and distribution systems. Security remains a high priority for the utility.

Key Strategies

LUS' Strategic Plan, updated in 2007 identifies the following strategies for water:

- Ensure adequate supply treatment and distribution capacity.
- Operate and maintain systems using best practices.
- Develop strategies and methodologies to extend service to customers.
- Explore initiatives to promote customer growth.
- Create and nurture a customer focused culture.

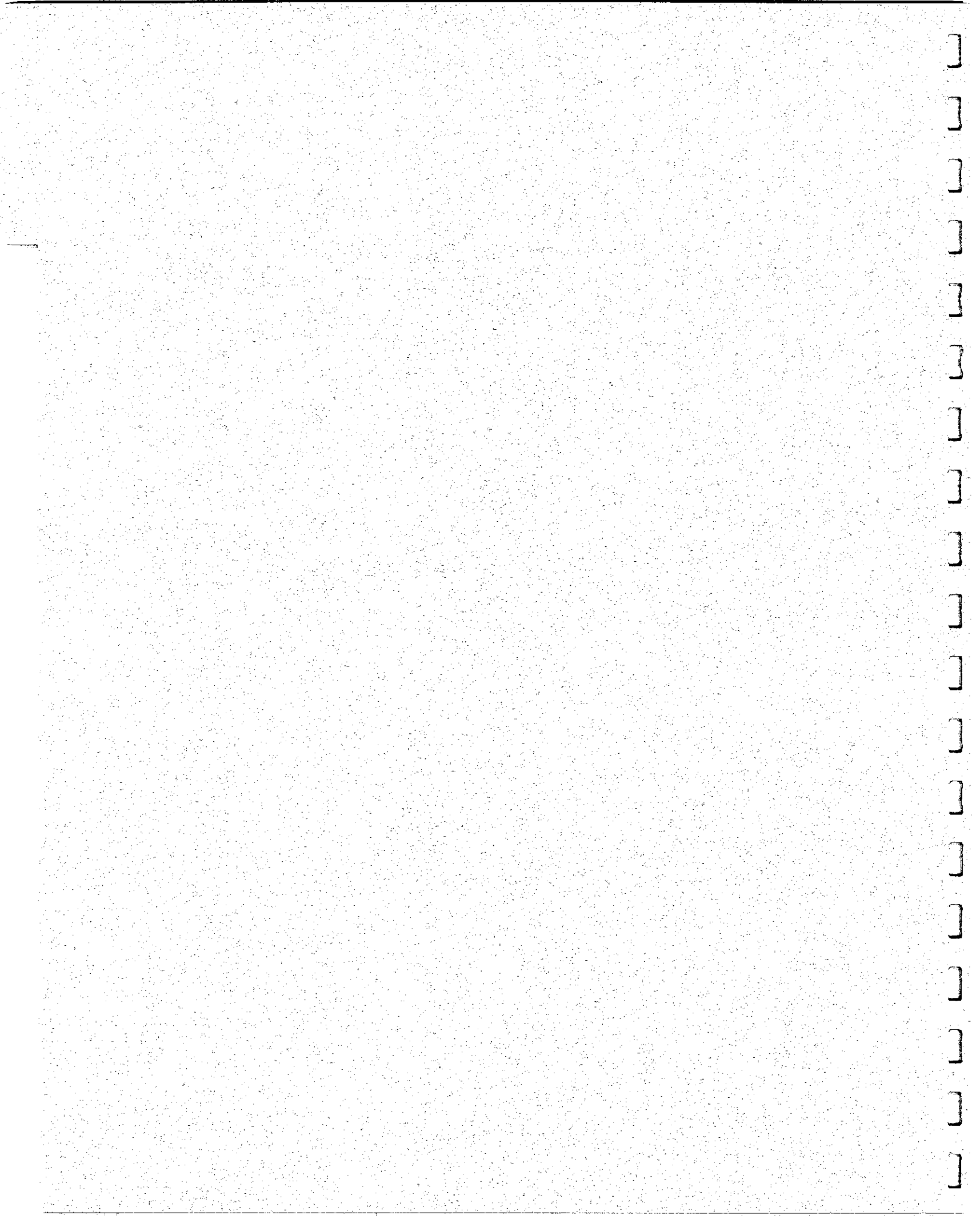
Recommendations

Recommendations and their status are provided in Table 6-14 below. We have indicated the priority of the recommendation as either highest, high or normal.

Table 6-14
Recommendations

Water Utility Recommendations	Priority	Status
LUS should give priority to constructing ground storage and booster pumping systems in low pressure areas of system to improve system pressure	Highest	In Progress
LUS should continue to develop in-house expertise with use of the water system model and acquire a system capable of modeling time of travel and concentration of introduced pollutants	Highest	In Progress
LUS should give high priority to completing removal of the "Galbestos" building siding at the North Water Plant	High	Complete
LUS should integrate the distribution SCADA system within the plant control system	Highest	In-Progress
LUS should implement a backflow prevention program including documentation of backflow preventers and testing requirements	Normal	In-Progress

Water Utility Recommendations	Priority	Status
LUS should initiate a succession planning program for senior water system management staff	Normal	Investigating
LUS should coordinate planning of water improvements with wholesale water customers	High	Investigating
LUS should develop a long-term capital planning process (20-50 years) for improvements to the water system	Normal	Investigating
LUS should implement a certification/recertification training program for Water Plant Operation staff	Normal	Investigating



Section 7
WASTEWATER UTILITY

R·W·BECK

Section 7
WASTEWATER UTILITY

During February 2008, the Consulting Engineer interviewed LUS staff regarding wastewater operations and performed analyses of operating statistics that are indicative of the general operating condition of LUS' Wastewater Utility facilities. The following discussion summarizes the findings of the Consulting Engineer with respect to the maintenance and management of the property based upon discussions with and information supplied by LUS' personnel.

Description

The Wastewater System includes four treatment plants and a collection system comprised of over 550 miles of pipe (excluding service lines), more than 11,000 manholes and nearly 150 lift stations. This system reliably serves 40,000 retail customers with a total permitted treatment capacity of 18.5 mgd.

Organization

The Wastewater Utility is comprised of three Sections: (1) Plant operations, (2) Wastewater Collection, and (3) Plant Maintenance responsible for treatment of raw wastewater, collection and delivery of wastewater to the treatment facilities and O&M responsibilities, respectively.

The Wastewater Utility is supported primarily by the Plant Maintenance Section, Plant Operations Section, and the Wastewater Collection Division. Other LUS Divisions, including Engineering, Customer Service, Utilities Support Services and Environmental Compliance provide services to the Wastewater Utility as well.

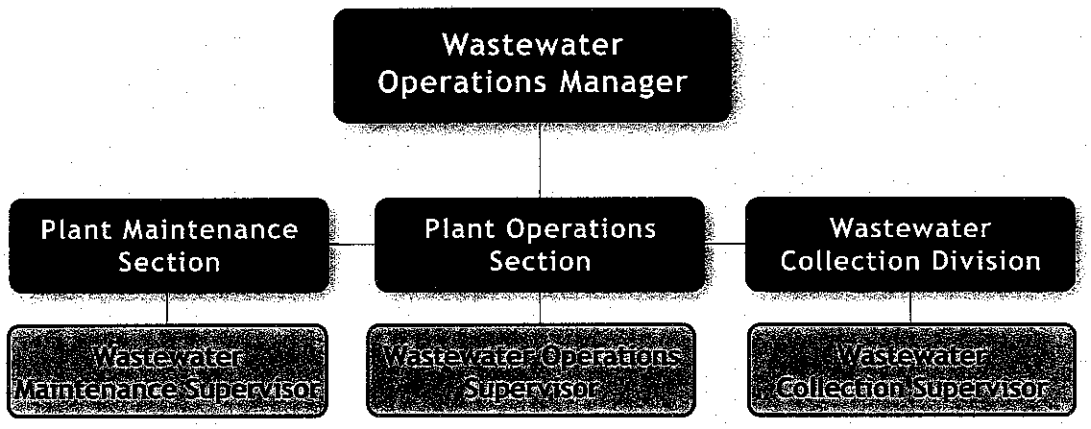


Figure 7-1: Wastewater Utility Organization Chart

Wastewater Treatment

The four wastewater treatment plants are the South Plant, the East Plant, the Ambassador Caffery Parkway Plant, and the Northeast Plant. The total permitted capacity for these plants is 18.5 mgd. The South Plant is an activated sludge facility with a permitted capacity of 7.0 mgd. The East Plant and Northeast Plant are oxidation ditch facilities with permitted capacities of 4.0 and 1.5 mgd, respectively. The Ambassador Caffery Parkway Plant treatment system formerly included a rotating biological contactor (RBC) and oxidation ditch but is currently undergoing improvements to replace the RBC with sequencing batch reactors. Although the treatment capacity will be increased, the permitted capacity will effectively remain at 6.0 mgd. The permitted plant capacities are shown in Table 7-1.

The LUS wastewater facilities have met customer demands for service, and provided its customers with adequate and reliable utility services during the period reported herein. The historical loads and load growth as served by the Wastewater Utility is presented in Table 7-1.

Table 7-1
Wastewater Utility Average Day Hydraulic Loads (mgd)(1)

	2003	2004	2005	2006	2007	Permitted Capacity
South Plant	8.2	8.0	6.5	6.3	6.7	7.0
East Plant	3.2	3.3	2.9	2.8	3.1	4.0
Ambassador Caffery Plant	5.2	5.4	5.1	4.6	4.7	6.0 (2)
Northeast Plant	1.1	1.3	1.1	1.0	1.2	1.5
Totals	17.7	18.0	15.6	14.7	15.7	18.5

(1) Average day hydraulic loads are not adjusted to dry weather conditions and therefore include infiltration.

(2) Permitted capacity will likely increase to 9.25 mgd but waste load allocation will not be increased.

Source: Craig Gautreaux, LUS, 1/23/08.

Figures 7-2 through 7-5 provide a view of each treatment plant.

Figure 7-2: South Plant

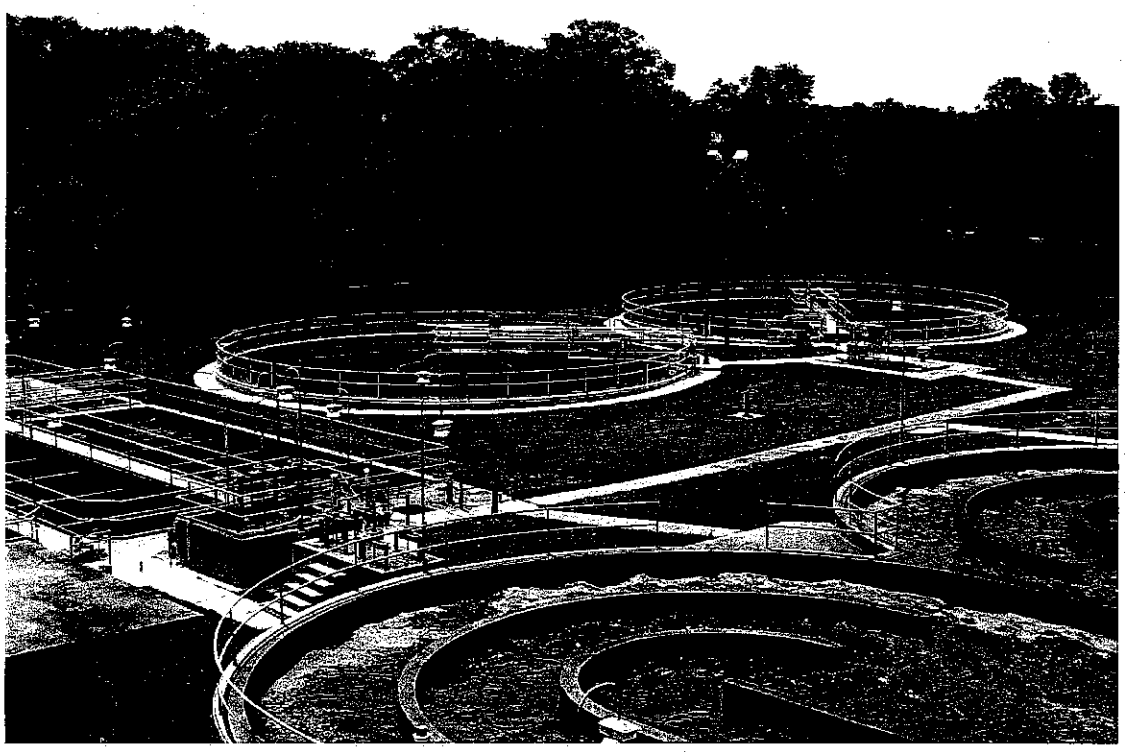


Figure 7-3: East Plant

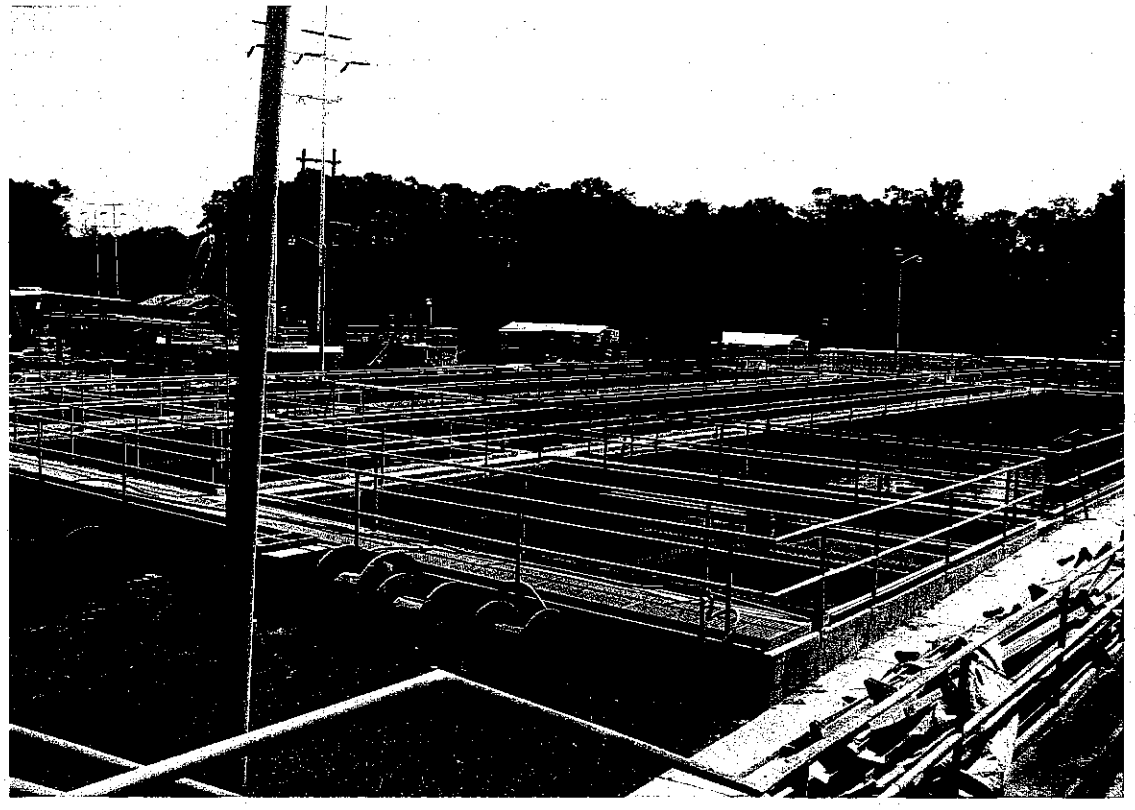


Figure 7-4: Ambassador Caffery Plant

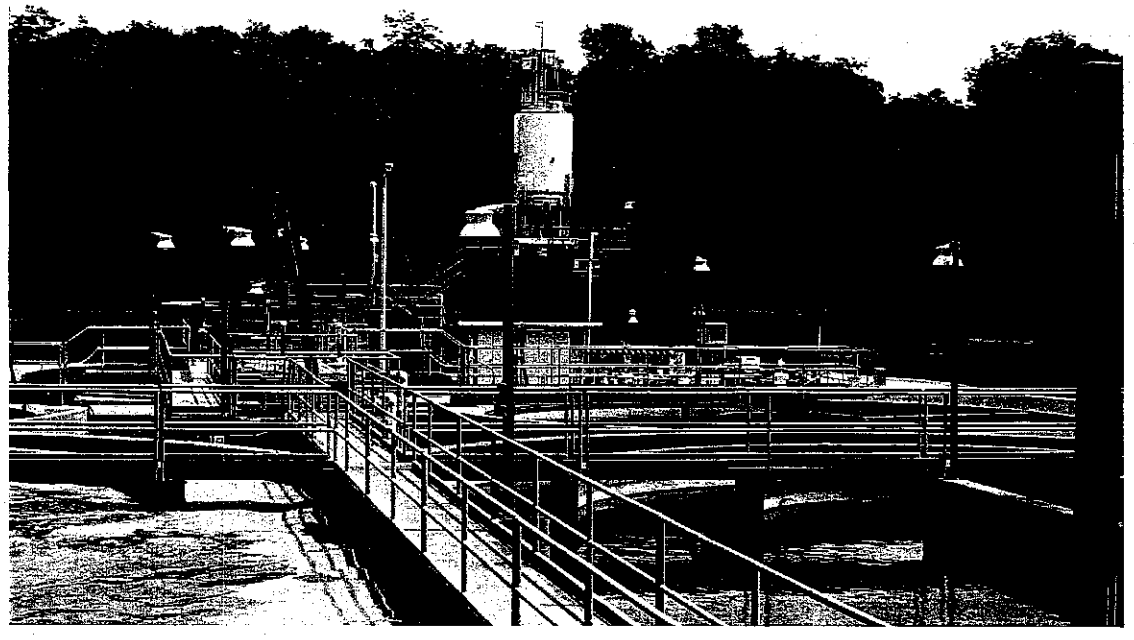


Figure 7-5: Northeast Plant

Each year, LUS must prepare an annual municipal water pollution prevention audit report for each wastewater plant. The report is submitted to the Council and the LDEQ. The report compares the design hydraulic and biological treatment capacity of each plant with the actual conditions. Table 7-2 outlines the number of months during which the design capacity of each plant was exceeded.

Table 7-2
Wastewater Number of Months During Which Design Capacity was Exceeded

	2003	2004	2005	2006	2007
Flow					
South Plant	11	10	3	1	2
East Plant	0	3	1	0	1
Ambassador Caffery Plant	0	3	1	0	1
Northeast Plant	0	1	0	0	0
Biological Loading					
South Plant	1	1	0	0	0
East Plant	1	0	0	0	0
Ambassador Caffery Plant	5	6	3	6	12
Northeast Plant	0	0	0	0	0

Source: Craig Gautreaux, LUS 1/23/08

It is apparent that the South Plant and the Ambassador Caffery Plant are approaching their design limits. As described below, both plants are being upgraded.

Design is underway for plans to expand the South Plant from 7 mgd to 12 mgd. Improvements included in the expansion are the construction of additional sequencing batch reactors, additional aerobic digestion capacity, sludge thickening and dewatering, and a new headworks facility to treat a portion of the incoming flow. The design engineering consultant estimates preliminary plans at 40 percent completion at the time of this report.

LUS has completed engineering design of additional storage capacity and replacement of the rotating biological contactors with sequencing batch reactors at the Ambassador Caffery Plant. Construction started in 2005 with completion of components needed for permit compliance scheduled for 2008. The upgraded capacity will be 9.25 mgd including construction of a 7 million gallon retention /equalization basin.

A long-term plan for sludge stabilization and disposal is needed. An investigation of this issue will be included in the wastewater master planning activities.

Wastewater Collection

The wastewater collection system consists of gravity sewers, interceptors, manholes, pumping stations and force mains, as tabulated in Table 7-3.

Table 7-3
Wastewater Collection System

	2003	2004	2005	2006	2007
Number of Customers	37,680	38,325	39,056	39,815	40,353
Miles of Pipe (1)	673	678	538 (3)	546	556
Number of Manholes	10,089	10,365	10,646	10,805	11,041
Number of Lift Stations (2)	131	138	141	145	147

(1) Not including service lines.
(2) Includes seven lift stations from Holiday Utilities bankruptcy.
(3) Corrected for program calculation problem
Source: Craig Gautreaux, LUS 1/23/08

The above statistics show that the total pipe in the wastewater collection system has increased at the same rate as the number of customers, while the number of lift stations has increased at a greater rate. The flat topography of the service area means that additional lift stations will be needed as the system expands unless major interceptors are constructed. LUS is making efforts to slow the increase in the number of lift stations. The wastewater master plan and associated hydraulic modeling will investigate alternatives for eliminating lift stations. In addition, LUS is working with developers on alternatives to adding lift stations as development occurs.

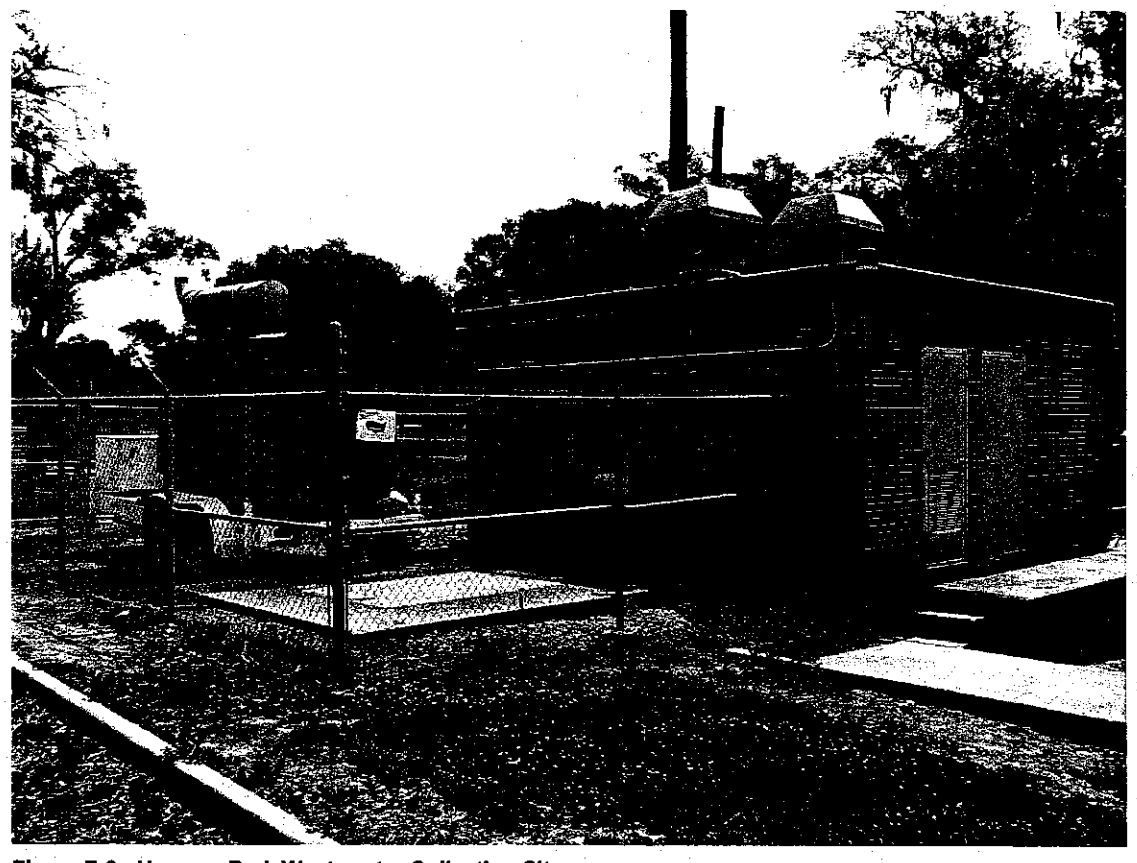


Figure 7-6: Heyman Park Wastewater Collection Site

Inflow and Infiltration

The wastewater collection system has, in the past, experienced excessive wastewater flow resulting in treatment plant bypasses and overflows of the wastewater collection system. The excess flows are due to infiltration and inflow of surface and groundwater into the wastewater collection system during and after rainfall events. As a result of these continuing events, USEPA issued administrative orders (AO) requiring treatment plant upgrades and expansions. The AO issued by the USEPA requires LUS to submit quarterly progress reports as construction of new facilities and repair of existing facilities proceeds. LUS has completed requirements for the South Plant, East Plant and Northeast Plant. In June 2001, USEPA officially transferred permitting authority for the National Pollution Discharge Elimination System (NPDES) to the LDEQ for the South, East and Northeast Plants. Administration of the NPDES permit for the Ambassador Caffery Plant has remained with USEPA due to the AO for this plant. The compliance schedule for Ambassador Caffery Parkway Plant was scheduled for June 2007 but has been delayed due to a subcontractor default. The expected completion date is now June of 2008.

During December of 2003, LUS received a compliance order from LDEQ regarding discharge of sewage from a LUS sewage pumping station. LUS responded to the compliance order and to each issue raised by LDEQ by describing past or planned actions that have been or will be undertaken by LUS to eliminate the causes of sewage overflows. Actions taken include the upgrade of the cited lift station to its maximum pumping capacity and modifications to the South Plant to handle excess flows.

The wastewater collection division recorded the number and type of overflows that have occurred in the system. The information is summarized in Table 7-4. LUS staff actively seek rain-related problems during periods of rainfall when normal work assignments are interrupted.

Table 7-4
Wastewater Collection System Overflows

	2003	2004	2005	2006	2007
Rain Related	4	141	33	21	51
Lift Station Equipment Failure	5	4	4	2	9
Main Line Stoppage	2	1	8	13	12
Broken Pipe	3	3	4	4	5
Total	50	149 (1)	49 (2)	40	77
Total Annual Precipitation	58	91	56	55	67

(1) Includes three large rain events over 10 inches; does not include occurrences during one 17 inch rain event.

(2) Does not include overflows caused by electrical outages due to Hurricane Rita.

Source: Craig Gautreaux, LUS 1/23/08

The number of lift station equipment failures rose significantly in 2007 and the number of main line stoppages also increased in recent years. The lift station failure

phenomenon may be attributable to the recent transition to electronic controls. On the other hand, the stoppages were a result of blockages resulting from rags within the pipe system.

An inflow/infiltration reduction program is ongoing and includes manhole repair, pipe point repair, smoke testing, television inspection, and pipe lining. Some of these activities began in response to AO's but the program will continue as a normal maintenance activity. Additional activities being implemented are Capacity, Management, Operations and Maintenance (CMOM), Fats, Oils and Greases (FOG) and Sewer Overflow Reporting (SORP) programs. USEPA staff have been very complimentary of efforts undertaken and accomplishments by the Wastewater Utility.

In compliance with regulations and administrative orders by USEPA, LUS has initiated a pretreatment, user permit, and fee program for the purpose of issuing wastewater discharge permits and pretreatment standards to industrial, commercial and non-residential customers who discharge wastewater to the wastewater collection system. LUS performs this service as a benefit to its customers. If LUS did not have an approved program, these customers could not discharge to the sewer system and would have to construct their own treatment facilities which would very likely be considerably more expensive than discharging to the LUS sewer system. LUS has established a rate for industrial users to recover a portion of program costs. The remaining costs are recovered through wastewater and electric system revenues.

Wastewater Discharge Permits

The wastewater discharge permits for each of the LUS wastewater treatment plants were renewed in 2003 for a term of five years. The permits for each plant contain identical effluent limits for biological oxygen demand, total suspended solids, ammonia-nitrogen, dissolved oxygen, total residual chlorine and pH. Each plant must, among other things:

- Conduct whole effluent toxicity testing using bioassay methods (quarterly)
- Perform an annual Environmental Audit Report including a resolution from the governing body
- Operate an industrial pretreatment program
- Submit monthly reports to LDEQ

R. W. Beck's review of certain wastewater discharge permits indicates that the wastewater treatment plants are in material compliance with their permit conditions. There are times during or shortly after periods of heavy rainfall when the permit limits for suspended solids and occasionally biochemical oxygen demand and ammonia are exceeded. LUS has indicated that it is current with its reporting requirements for exceedances to the regulatory agencies, as required by their permit conditions.

The discharge permits will be renewed in calendar year 2008. LUS staff expects mercury requirements will be added to the permits at that time. It is anticipated the plants will be required to report mercury effluent levels and implement best management practices to address the metal if detected. CMOM is the next likely

permitting change but it is not know if it will be incorporated into the upcoming permit renewals (refer to Future Regulatory Requirement section for more information). Total nitrogen is believed to be the third potential permitting change and would likely only require monitoring effluent levels.

Abandonment of the Driftwood Subdivision wastewater treatment plant and subsequent bankruptcy proceedings against the owner resulted in assignment by court order of operation and maintenance of this wastewater treatment plant to LUS. An NPDES permit was issued in 2004 along with an administrative order to bring the facility into compliance with the permit conditions within three years. LUS has completed construction of improvements to tie the Driftwood Subdivision into the LUS Wastewater Utility.

LUS has also taken over a system operated by Holiday Utilities. LUS is constructing improvements to eliminate most of the lift stations and to tie the system into the LUS system.

Bio-solids Reuse

LUS reports that the bio-solids reuse program continues to provide for disposal of all LUS wastewater treatment sludge. LUS contracts with privately owned farms for use of their farmland for bio-solids application. LUS staff has noted that land use trends and potential changes in land ownership are likely to make continued use by LUS of private farmland more difficult in the future. LUS staff is investigating alternative methods of sludge management including improvement in sludge treatment to generate a marketable product. The cost of the conversion to more advanced treatment could be substantial.

Historical Wastewater Flows

Total retail wastewater flows decreased at a rate of approximately 3.0 percent per year on average between 2003 and 2007 as provided in Table 7-5 below.

Wastewater flows are measured at the intake of the treatment facility and vary annually depending on rainfall events. Based on projected growth in the number of customers, with intake per customer remaining steady, LUS expects an average annual growth rate of approximately one percent in terms of projected retail wastewater flows through 2012. LUS has completed engineering design of improvements and expansions to the Ambassador Caffery Parkway Plant to meet anticipated growth. LUS is continuing the planning and design work on the South Plant. It is expected that when completed in 2010, these improvements will provide sufficient capacity for the foreseeable future.

Table 7-5
Historical Wastewater System Intake Flow

	2003	2004	2005	2006	2007	Growth Rate (2)
Retail Intake Flow (1) (1,000 gallons)	6,446,588	6,601,199	5,638,655	5,319,763	5,711,781	(2.98%)

(1) The Retail Intake Flow is measured at intake to treatment facilities and will vary annually depending on rainfall events.

(2) The Growth Rate is the compounded average annual growth rate for the period 2003-2007.

Source: LUS Financial and Operating Statements 2003-2007, audited

Contracts and Agreements

Principal contracts and agreements for wastewater services are summarized in the following paragraphs and are listed in Table 7-6.

On June 16, 1975, the City entered into an agreement with Sewerage District No. 6 (District) to provide treatment and disposal of all sewage collected and to provide the operation and maintenance for the District's sewer system. The term of the agreement is for a period of time until more than 50 percent of the District's customers are located within the City limits.

In August of 1995, LUS entered into a wastewater operation and maintenance agreement with an area known as the Grossie Avenue Area. This area is served by a system that is separately located and owned and consists of a very small number of customers (approximately 50). The 40-year agreement expires in August 2035.

Table 7-6
Contracts and Agreements

Contracts and Agreements between		Date Signed/Renewed	Termination Date	Provisions
LCG	Sewerage District 6	June 16, 1975	until 50% served	Wastewater treatment by LUS
LUS	Grossie Ave Area	August 21, 1995	August 21, 2035	Wastewater treatment by LUS

Source: Craig Gautreaux, LUS 1/23/08

Capital Improvement Program

Fiscal Year 2007

Table 7-7 provides expenditures for fixed plant and equipment that were made during 2007. LUS accounts for such expenditures by using a capital work order system. All extensions or improvements made to the Wastewater Utility are considered economically sound or otherwise necessary for the profitable operation of LUS.

Table 7-7
Capital Workorder Expenditures

Source of Funds	Wastewater Utility ($)
Normal Capital	
Bond Reserve & Capital Additions	1,169,471
Special Equipment	450,637
2004 Revenue Bonds	6,183,747
Retained Earnings	4,375,719
Total	12,179,574

Source: "Status of Construction Work Orders," LCG, 1/08

Five-Year Capital Plan

LUS established a system improvement program, CIP, in 1989. The program is a five-year "look ahead," and is revised annually to plan for and manage the major capital projects for the Wastewater Utility.

The estimated annual capital budget requirement amounts are presented in the following table and were obtained from the 5-Year CIP in the LCG Adopted Budget for fiscal year 2007-2008. The substantially higher value associated for 2009 accounts for the planned improvements to South Plant anticipated to be completed in 2010. Currently, the estimated cost of these improvements is $20 million and represents the last anticipated major plant upgrade in the foreseeable future.

Table 7-8
Capital Improvement Program 2008 – 2012

	2008	2009	2010	2011	2012	Total
Collection ($)	1,880,000	5,290,000	3,060,000	2,860,000	2,760,000	15,850,000
Treatment ($)	1,760,000	20,660,000	2,660,000	1,560,000	760,000	27,400,000
Total ($)	3,640,000	25,950,000	5,720,000	4,420,000	3,520,000	43,250,000

Source: LUS 5-Year Capital Outlay Program Summary, FY 2007-08 Adopted Budget, Combined Summary Retained Earnings and Bond Capital

Wastewater Treatment Plant Improvements

South Plant improvements include construction of a sludge treatment facility. Previously the intent was to treat sludge from all of the plants centrally at South Plant but this is not necessarily the intent anymore. The Sewer Master Plan underway will evaluate alternatives for sludge treatment. Other improvements for the South Plant include facilities that will allow diversion of wet weather inflows from the South Plant to the Ambassador Caffery Parkway Plant, thereby reducing risk of bypass and overflow.

Wastewater Collection System Improvements

Proposed improvements to the wastewater collection system include installation of a new sewer interceptor and improvements to the existing interceptors located in Pont des Mouton corridor and those located parallel to Ambassador Caffery Parkway and Kaliste Saloom Road, complete the installation of emergency power generators for use at lift stations, telemetry equipment and odor control.

Operations and Maintenance Expenditures

Historical total O&M expenditures from 2003 through 2007 are shown on Table 7-9. The expenditures are graphically depicted in Figures 7-7 and 7-8.

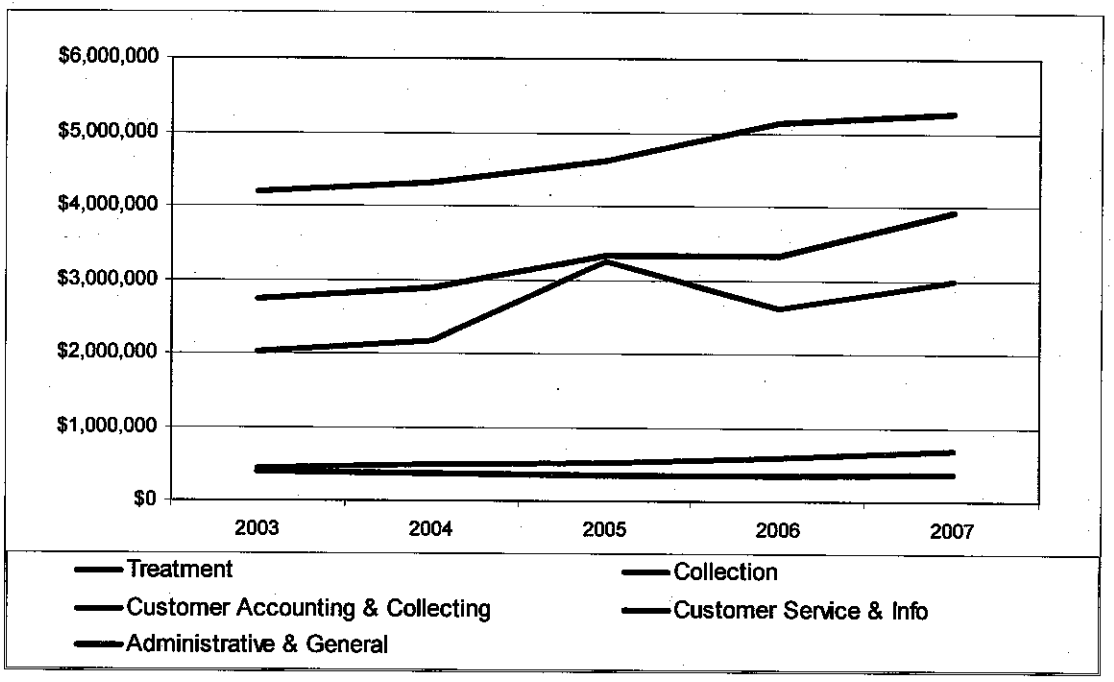
- The collection expenses increased 13.6 percent from year 2006 to 2007.
- The treatment expenses increased by 2.7 percent.
- The customer accounting and collecting increased 17.2 percent;
- The customer service and info increased 5.7 percent.
- The administrative and general expenses increased by 18.3 percent.

Table 7-9
Wastewater Utility Operations and Maintenance Expense

	2003	2004	2005	2006	2007
Collection					
Operations ($)	995,725	1,036,545	1,128,068	1,115,262	1,229,554
Maintenance ($)	1,032,366	1,140,669	2,127,847	1,513,286	1,757,778
Total ($)	2,028,092	2,177,214	3,255,915	2,628,547	2,987,332
Treatment					
Operations ($)	4,040,399	4,173,823	4,460,572	4,980,502	5,094,806
Maintenance ($)	150,682	153,619	150,416	148,313	172,775
Total ($)	4,191,081	4,327,442	4,610,988	5,128,815	5,267,581
Customer Accounting & Collecting ($)	447,595	484,251	528,974	580,581	680,712
Customer Service & Info ($)	397,131	360,200	333,743	342,385	361,978
Administrative & General ($)	2,733,022	2,881,777	3,324,895	3,326,539	3,935,864
Total ($)	9,796,920	10,230,885	12,054,516	12,006,867	13,233,467

Source: LUS Financial and Operating Statements 2003-2007, audited

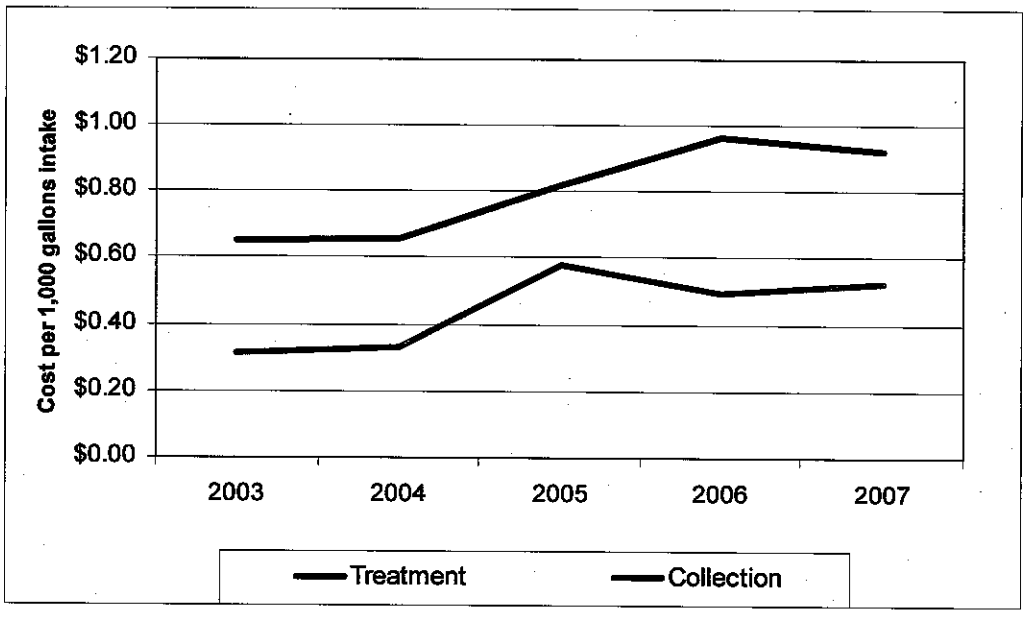
Generally, expenditures exhibited modest increases with the exception of administration and general line item. Collection maintenance experienced a significant increase between 2004 and 2005 and, subsequently, decreased to a level more in line with 2004 values in 2006. This short-lived increase is attributable to a very active period of point line repairs. Overall, looking forward expenditures may continue to be less than anticipated due to lack of staff.



Source: LUS Financial and Operating Statements 2003-2007, audited

Figure 7-7: Wastewater System Annual O&M Cost

As shown in Figure 7-8 on a unit basis, the collection costs increased by 5.8 percent from year 2006 to 2007. The treatment cost decreased by 4.3 percent.



Source: LUS Financial and Operating Statements 2003-2006, audited and 2007, unaudited

Figure 7-8: Wastewater System Annual Treatment and Collection Cost ($ per 1,000 gallons)

Forecasts

Load forecasts for the wastewater utility system for the five-year period of 2008 through 2012 are presented below. The forecasts reflect the current assessment of expected load growth for the period. The five-year projection of average-day inflow to the wastewater treatment plants is represented in Table 7-10.

Table 7-10
Wastewater Utility
Projected Average Day Hydraulic Loads (mgd) (1)

	2007 (Actual)	2008	2009	2010	2011	2012	Permitted Capacity
South Plant	6.7	6.0	6.0	6.2	6.3	6.4	7.0
East Plant	3.1	3.0	3.1	3.2	3.2	3.3	4.0
Ambassador Caffery Plant	4.7	5.7	5.7	5.8	6.0	6.0	6.0 (2)
Northeast Plant	1.2	1.2	1.2	1.2	1.2	1.3	1.5
Totals	15.7	15.9	16.0	16.4	16.7	17.0	18.5

(1) Average day hydraulic loads are not adjusted to dry weather conditions and, therefore, include infiltration.

(2) Permitted capacity will likely increase to 9.25 mgd but waste load allocation will not be increased.

The above forecast of wastewater treatment inflows is based upon recent historical trends for each wastewater plant and taking into account the capability to shift flow between treatment plants. These projections are subject to change depending upon the success of the inflow and infiltration program in controlling or reducing rain-related effects. It should be noted that there are a number of small package type treatment plants scattered throughout the Parish that serve a total of 2,500 to 3,000 customers. These systems could, if emergency circumstances dictate, be quickly connected to the LUS system. A sudden increase in wastewater inflow could result. The projections shown herein should be used with prudence and frequently updated based on results of the infiltration and inflow program and additions to the system. LUS plans to re-route wastewater flows among the Ambassador Caffery Plant, the South Plant and the East Plant to avoid overloads and to accommodate construction at Ambassador Caffery. As discussed above, LUS has begun engineering design of improvements and expansions to the South Plant and is completing construction of improvements to the Ambassador Caffery Plant. Through the wastewater master planning process, LUS should investigate methods for reallocating flows where treatment capacity is available and/or alternative treatment locations.

LUS is also discussing expanding wastewater service within Lafayette Parish. A committee has been formed to investigate the possibilities and ramifications of expansion of the Wastewater Utility. The wastewater master planning process will also consider expansion of the Wastewater Utility into Lafayette Parish.

Future Regulatory Requirements

The Federal Water Pollution Control Act Amendments of 1972 and 1977, commonly known as the Clean Water Act, established the basic structure for regulating discharges of pollutants into the waters of the United States. It gives the USEPA the authority to implement pollution control programs such as setting wastewater discharge standards and water quality standards for all contaminants in surface waters. In many instances the USEPA has delegated program administration to the states and in the case of the State of Louisiana, LDEQ has assumed responsibility for administering the NPDES program.

USEPA also funded the construction of sewage treatment plants under the construction grants program and recognized the need for planning to address the critical problems posed by non-point source pollution. Programs implemented by the USEPA that directly affect municipal systems include:

- NPDES Permit Program, including stormwater management, and control of combined sewer and sanitary sewer overflows
- The National Pretreatment Program, emphasizing control and prevention of water pollution from industrial facilities
- Biosolids (sewage sludge) management program promoting compliance with the Federal biosolids rule and practices for managing biosolids
- Administration of the Clean Water State Revolving Fund (CWSRF)
- Capacity, Management, Operations and Maintenance program addressing sanitary sewer overflows

A recent Department of Homeland Security initiative will potentially affect municipal treatment facilities, also. This program is the:

- Chemical Facility Anti-Terrorism Standards (CFAS) Interim Final Rule establishing risk-based performance standards and requiring certain chemical facilities to prepare Security Vulnerability Assessments and develop and implement Site Security Plans

Sanitary Sewer Overflow Control Policy

In 2003, the USEPA proposed a policy addressing NPDES permit requirements for municipal wastewater treatment plants (serving sanitary sewers) during wet weather conditions. The 2003 proposed policy was intended to provide clarity about managing peak wastewater flows that are sometimes diverted from secondary treatment unit processes during significant wet weather events. USEPA received more than 98,000 public comments and stopped working on the proposal in May 2005 in order to review different approaches and new information. In October 2005, the Natural Resources Defense Council (NRDC) and the National Association of Clean Water Agencies (NACWA) developed joint recommendations to address peak wet weather flow diversions at wastewater treatment plants that are serving sanitary sewer collection systems. USEPA, in December 2005, proposed a policy incorporating those joint

recommendations. The policy provides that in limited situations, an NPDES permitting agency can approve anticipated diversions around biological treatment units as a "bypass" in a permit under certain conditions. USEPA has since abandoned this wet weather policy but is in the process of implementing its CMOM program.

As discussed in sections above Wastewater Utility staff anticipate CMOM requirements to be incorporated into upcoming discharge permitting. This program will likely include the following steps:

(1) identification and inventory of infrastructure

(2) prioritization of needs and actions

(3) performance of repair and rehabilitation efforts.

Vermilion River Water Quality Standards

Section 303(d) of the 1972 Clean Water Act requires all states to develop a list of their state's impaired water bodies that do not meet state regulatory water quality standards even with the current pollution controls in place. The Clean Water Act requires all states to develop Total Maximum Daily Loads for these waters based on priority ranking. A Total Maximum Daily Loads is a pollution budget for a specific water body (river, lake, stream, etc.) and is the maximum amount of a pollutant from point and non-point sources that it can receive without causing it to violate state water quality standards. Once the Total Maximum Daily Loads are established, they are then translated into requirements to reduce the contributions of pollutants by point sources such as municipal wastewater treatment plants, industrial wastewater discharges and by non-point sources such as stormwater runoff from agricultural fields. If water quality monitoring shows that the water body is no longer impaired, no further reductions are needed. However, if pollution levels are still unacceptable at the end of a reasonable time period, LDEQ must revise the Total Maximum Daily Loads and implement additional control measures.

The current discharge permits for LUS wastewater plants reflect the Total Maximum Daily Load that were established for the Vermilion watershed after water quality monitoring that occurred in 2003. Requirements to establish stricter wastewater discharge limits did not occur after results of the monitoring were analyzed.

LDEQ adopted Total Maximum Daily Load standards for sulfate for the Vermilion River similar to those for the Atchafalaya River and which are not expected to require LUS to upgrade its wastewater plants to remove sulfate. LDEQ has informed LUS that it will establish Total Maximum Daily Load limits on discharge of mercury to the Vermilion River and has required LUS to conduct mercury sampling in the effluent from the wastewater treatment plants in 2006. Based on test results, LDEQ could require LUS to implement Best Management Practices for reduction of mercury in its wastewater.

Because the Vermilion River is considered oxygen deficient, maximum waste load allocations have been established for carbonaceous biological oxygen demand and ammonia nitrogen. These allocations limit the quantity of these pollutants that can be

discharged to the river. Due to these limitations and based on discussions with LDEQ it is highly unlikely LUS will receive any increase in its present waste load allocations. This implies that future growth in the wastewater service area will require more efficient wastewater treatment in order to stay within existing allocations. Presently, LDEQ and USEPA are considering a trading program for pollutant discharge allocations. If this occurs it could ease or delay the need for upgrades at the LUS wastewater plants. LUS staff is monitoring these regulatory developments and will incorporate the requirements into planning and capital requirements as they become more definite.

It is also a possibility that nutrient limits for nitrate and phosphorus could be added to the LUS wastewater permits within the next 10 years. LUS is currently evaluating alternatives for converting existing treatment facilities to accommodate nutrient reduction.

LUS is aware of these regulations and has or will incorporate the requirements into current and future operations. Compliance with the regulations is not anticipated to require major capital expenditures.

Key Strategies

The LUS Strategic Plan, updated for 2007 identifies the following strategies for wastewater:

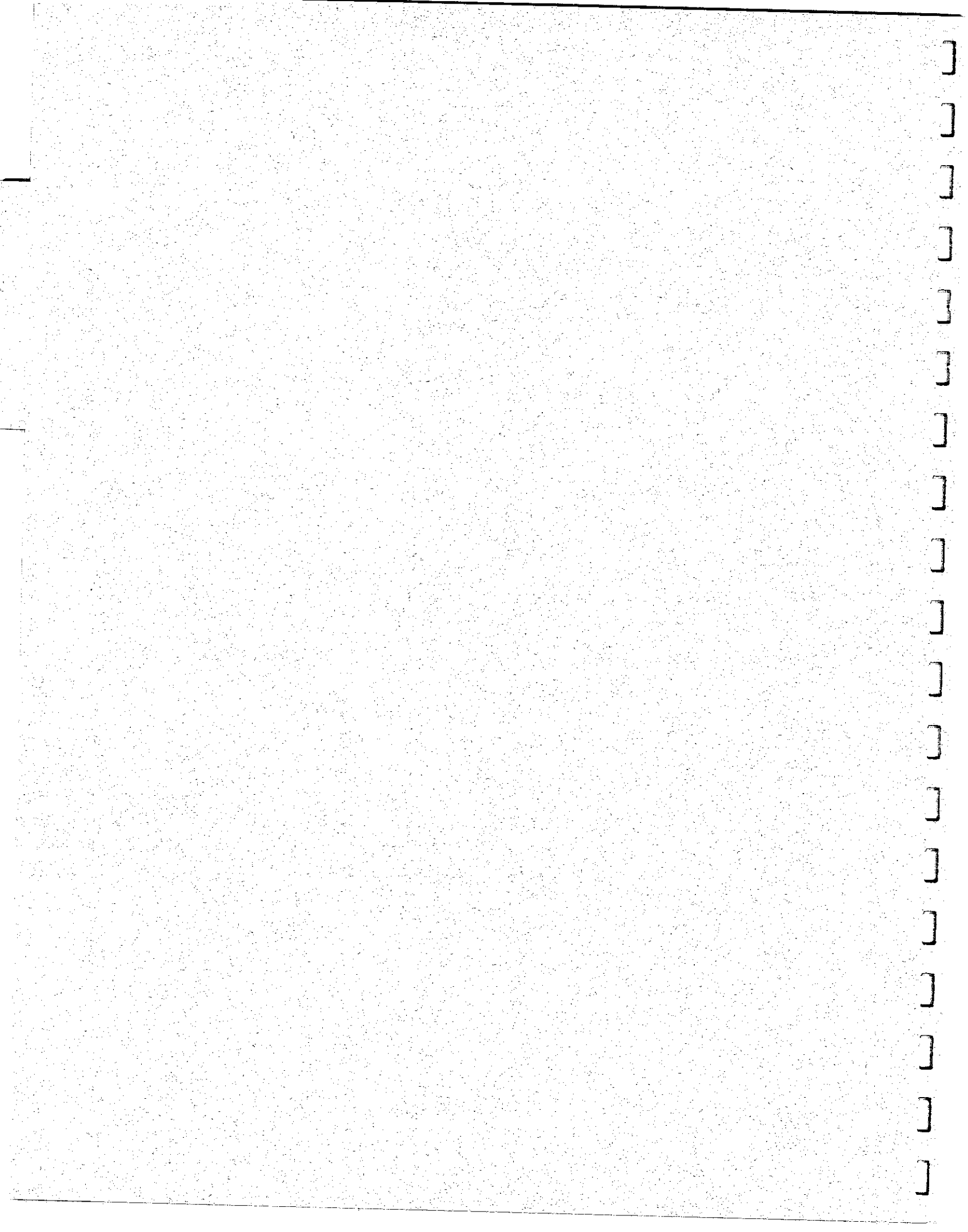
- Ensure adequate treatment and collection capacity.
- Operate and maintain systems using best practices.
- Explore initiatives to promote customer growth.
- Create and nurture a customer focused culture.

Recommendations

Recommendations and their status are provided in Table 7-11 below. We have indicated the priority of the recommendation as either highest, high or normal.

Table 7-11
Recommendations

Wastewater Utility	Priority	Status
LUS should continue to develop the wastewater hydraulic model of the system and complete a wastewater master plan	Highest	In Progress
LUS should continue evaluating alternatives for reallocating flows from existing treatment facilities to other treatment facilities	High	In Progress
LUS should complete final strategy for sludge processing (Class A/B) and disposal	High	In Progress
LUS should develop a strategy for reducing the number of lift stations within the wastewater collection system	High	In Progress
LUS should implement a certification and recertification training program for staff	Normal	Investigating
LUS should develop policy/strategy for implementing wastewater service Parish-wide	Normal	In Progress
LUS should develop and implement CMOM program to meet anticipated permit requirements	Normal	In Progress
LUS should evaluate treatment plant processes for future nitrogen and phosphorus effluent discharge limits	Normal	In Progress



Section 8
COMMUNICATIONS SYSTEM

R·W·BECK

Section 8
COMMUNICATIONS SYSTEM

In 1997, LPUA and the Council approved funding to upgrade LUS' telecommunications capabilities using retained earnings. The initial purpose of the project was to replace an aging and increasingly costly LUS microwave communication system, which was providing internal communications capabilities critical to the operation and reliability of LUS. The LPUA and the Council approved the installation of a fiber optic system to replace the LUS microwave system functions. LUS was also authorized to provide enhanced services to LCG and other local, state, and federal governmental entities, as well as third party wholesale customers in the LUS service area. Today, the network has been branded as "LUS Fiber" And is preparing to provision retail services in 2008.

Description

LUS Fiber is a 65-mile, 96-strand SONET-based fiber backbone infrastructure providing wholesale broadband and high-speed Internet access with direct connections to major carriers with broadband backbone facilities that span the country, called Tier 1 providers. As of October 31, 2007, LUS Fiber also included approximately 90 miles of distribution fiber that is used to connect wholesale providers to their customer premise locations throughout Lafayette. LUS Fiber offers Internet connectivity and transport to wholesale providers, who may then use the broadband Internet connectivity to offer services to the public. It also provides broadband and Internet access to most of LCG's facilities, many other local government facilities, 35 schools, and four libraries.

Communications products include broadband service on the LUS backbone, dedicated and shared services, direct Internet access, customer premise equipment, lease space for wireless applications on its towers, and last mile loop service connecting carriers to customer premises in the City.

The fiber backbone passes within approximately one mile of every home and business in the City. The fiber network has been extended to businesses on an as requested basis by wholesale customers. LUS Fiber reached approximately 220 premise locations by October 31, 2007.

Organization

Figure 8-1 depicts the organizational structure that LUS Fiber has been working toward.

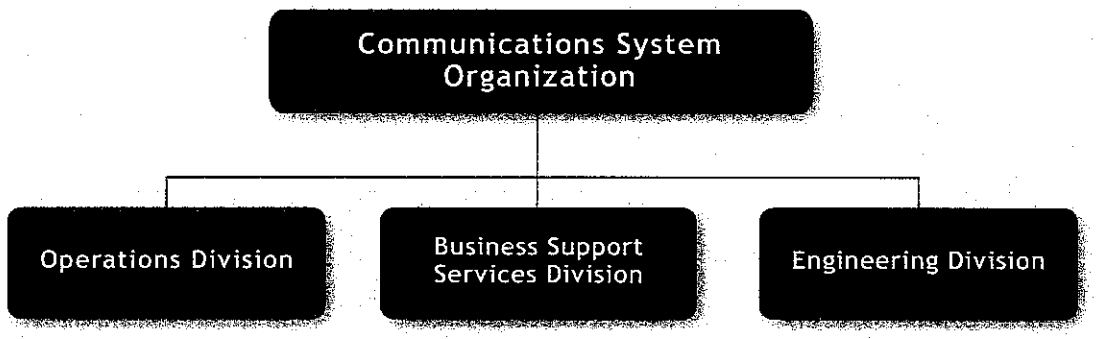


Figure 8-1: Communications Division Organizational Chart

Wholesale Services

The surplus fiber laid the groundwork for high-bandwidth availability of multi-service network connections for use by wholesale customers, including Competitive Local Exchange Carriers, Internet Service Providers, and wireless carriers. Each wholesale customer requires specialized applications to promote their business model. LUS Fiber team works individually with each wholesale customer to determine their telecommunications needs/speeds/applications in order for them to implement their technological ideas while making the most of their financial resources.

LUS Fiber offers the following wholesale services:

- Broadband Service – offers broadband access on the LUS backbone at speeds from 1.544 (T1) megabits per second (Mbps) up to Optical Carrier Level 48 (OC 48) which is 2.4 gigabits per second (Gbps)
- Last Mile Service – extends major carrier services to the customer premise at symmetrical speeds between 1.544 Mbps to 2.4 Gbps
- Packet Services – sends data in packets at speeds between 10 Mbps and 1 Gbps, using either a dedicated or shared packet service
- Direct Internet Access – provides Internet access at speeds from 1.5 Mbps to 155 Mbps
- Customer Premise Equipment Service – offers the necessary equipment to connect customers to the Internet and the LUS fiber network along with monitoring and maintenance services for these routers, switches and transceivers
- Tower Lease Packages – leases space on up to 15 tower locations throughout the City for wireless applications

In 2007, LUS provided wholesale fiber service to 16 governmental, 14 wholesale, and 5 other customers, including tower lease and dark fiber leases.

LUS hired an external marketing firm to help develop marketing materials targeting multi-tenant commercial buildings. This marketing effort is expected to attract new customers.

Retail Service

With the issuance of the Communications System Revenue Bonds, Series 2007 (Communications Bond) in June of 2007, LUS Fiber obtained the financing to launch a retail communications utility which will provide telephone, cable TV (analog and advanced IP television) and Internet service. The communications fiber network expansion will include extending new fiber and distribution equipment off of the existing fiber ring along every street and alley within the LUS service area. Additionally, as each new communications customer requests service, a fiber service drop will be constructed from the main fiber network at the street to the residence or business.

Although the Communications Division is financially separate from the Utilities System, if the Communications Division defaults on the Communications Bonds, the Utilities System Residual Revenues will be used to cover any debt service shortfalls.

LUS Fiber will purchase the fiber backbone and inventory from LUS and will reimburse the Utilities System for startup costs. The network was transferred to LUS Fiber on November 1, 2007. LUS Fiber will fund the purchase of the existing assets and startup costs by establishing an internal loan from the Utilities System with terms that generally match the Communications Bonds. The net book value of the existing fiber network has been estimated by LCG to be approximately $8,364,388, with inventory value estimated at $868,238 as of October 31, 2007. Startup costs to be repaid are estimated to be approximately $2,386,933.

Personnel

Staffing levels continue to be a major concern as LUS Fiber continues to grow. As mentioned above, personnel were transferred into LUS Fiber to assist with the operations and maintenance of the network. However, LUS Fiber has been working to increase staff levels for functions related to engineering, operations, marketing, customer service, billing, and general clerical work, as current staffing levels do not appear to be sufficient. Beginning in 2005, three personnel were transferred into LUS Fiber and seven additional personnel were transferred from other divisions during 2007 (ten total). The project will further stress current staffing levels and LUS Fiber will need to attract and keep personnel. LUS Fiber staff verbally report that it needs and expects to hire roughly 40 new full time employees during 2008. It is R. W. Beck's opinion that accomplishing this task is aggressive.

Billing System

As the number of Fiber Utility wholesale customers continues to increase, the billing system should be re-evaluated to ensure it can handle the demands and specifics related to the fiber wholesale and retail businesses. The current billing system requires manual handling to enter new customer information and review the monthly bills. The staff time required for this manual review of customer billing could be used more efficiently towards improving the system or working towards gaining new customers. With the addition of retail services, it is apparent that the existing billing

system will not be able to meet the needs of the business. LUS Fiber has been investigating the implementation of a new billing software system and expects to issue a Request for Proposals during the first quarter of 2008.

Contracts and Pricing

LUS Fiber contracts with customers under a comprehensive standard service agreement for periods of 12 to 60 months. The agreements are flexible and allow customers to add or modify services within the broader terms and conditions set forth in the agreement.

Wholesale pricing is market based and designed to attract new customers. LUS routinely monitors competitor service offerings and prices to ensure its cost competitiveness and strives to offer the lowest priced service for equivalent broadband and Internet services within the City. Customers may receive discounts based on the volume of fiber leased and the length of the contract term. These incentives enhance the attractiveness of LUS products and services.

Financial Performance

The composition of wholesale revenue by service category for years 2004 through 2007 are shown in Table 8-1. Retail revenue during this period did not exist.

Table 8-1
Wholesale Revenue Composition by Service Category

Service Category	2004	2005	2006	2007
Broadband (%)	32.0	26.9	28.6	30.3
Internet (%)	19.0	15.7	15.7	16.4
Local Loop (%)	23.0	21.7	25.7	28.4
Other-Tower Lease (%)	13.5	9.4	6.4	6.8
Customer Premises Equipment (%)	6.1	7.8	11.1	14.2
Non-Reoccurring Connection Fees (%)	2.9	15.1	8.7	2.3
Other-Dark Fiber (%)	2.3	1.6	1.0	1.0
Other (%)	1.2	1.8	2.8	0.6
Total (%)	100.0	100.0	100.0	100.0

The above table indicates that broadband and local loop services have consistently been LUS Fiber's most significant sources of revenue, accounting for nearly 60 percent of total revenues during fiscal year 2007.

Fiber wholesale revenues have been indicative of a start-up business with early high growth rates, as shown in Table 8-2. LUS Fiber reports that wholesale revenues have consistently exceeded its revenue projections.

Table 8-2
Wholesale Annual Revenues

	2003	2004	2005	2006	2007
Annual Revenues ($)	485,651	762,256	1,272,639	1,744,139	1,866,739
Percent Change (%)	157	57	67	37	7

Source: LUS Financial and Operating Statements 2003-2007, audited.

In 2001, LCG began separately recording financial information related to the Fiber Utility. During 2007, LUS Fiber continued to work toward gaining the capability to access accounting data in a timely manner. Timely financial data is important, as the wholesale fiber business is competitive and steadily growing. During previous years, LUS Fiber prepared its own draft financial and operating reports until more timely statements could be provided by LCG. Although duplication of financial reporting still exists, the reports are now accurate and available in a timely manner which is an improvement.

Operating and Maintenance Expense

Operating and maintenance expense during the past five fiscal years are shown in Table 8-3 below.

Table 8-3
Operating and Maintenance Expense

	2003	2004	2005	2006	2007 (1)
Retail ($)	0	0	0	0	98,525
Wholesale ($)	568,599	641,648	481,237	659,261	897,270
Total ($)	568,599	641,648	481,237	659,261	995,796
Percent Change (%)	-	13	(25)	37	51

(1) Does not add due to rounding.
Source: LUS Financial and Operating Statements 2003-2007, audited.

During fiscal year 2007, the most significant sources of wholesale expense were classified as Network and Operations and Administrative and General (A&G). These two categories accounted for approximately 76 percent of total annual expense.

Overhead Cost Allocation

The allocation of a share of total overhead A&G costs to LUS Fiber has varied over the last five years. Currently the A&G costs are allocated based on each utility's share of O&M expenses (less fuel and purchased power for the Electric Utility). LUS continues to investigate how to best allocate overhead costs to LUS Fiber and a draft Allocation Manual has been developed.

LUS continues to work toward compliance with the Local Government Fair Competition Act, No. 736 (effective July 6, 2004).

System Condition and Capital Requirements

Fiscal Year 2007

LUS built the fiber optic network in 1999 and began transmitting working traffic in December 2000 for its own internal purposes. Service to wholesale customers began in May 2002 and to date, has exhibited high reliability. For example, during Hurricane Lili (2002) and Hurricane Rita (2005), which traveled in close proximity to Lafayette, the system remained in operation throughout the storms.

In 2007, LUS continued its evaluation of a retail telecommunications business model that contemplates providing cable TV, Internet, and telephone services to customers within the LUS electric system service territory known as the "Fiber to the Home" project. In February of 2007, the Louisiana Supreme Court ruled in LUS' favor permitting the sale of bonds to finance building this retail fiber system.

Capital expenditures for fiscal year 2007 are shown in Table 8-4 below.

Table 8-4
2006-2007 Capital Workorder Expenditure

Description	Capital Expenditure ($)
Customer Premise Equipment (Set Top Boxes)	2,935,154
Customer Premise Equipment (ONT)	12,145,457
Customer Premise Equipment (Wholesale)	40,457
Commercial Service Drops	85,004
Overhead Outside Plant	16,598,874
Underground Outside Plant	20,343,707
OLT Hub Electronics	8,400,624
OLT Hub Buildings	354,200
Headend Property and Site Work	556,666
Headend Building	1,416,984
Headend Operating Systems and Software	11,133,404
Operating Support System Software and Equipment	2,024,289
Office Furniture	35,457
Vehicles	61,730
Office Equipment	14,183
Computer Equipment and Software	75,913
Total	76,222,103

Capital was appropriated in 2007 for extensions to the fiber distribution system and circuit installations required to connect customers and purchase telecommunications equipment necessary to offer telephone, cable, and Internet service to consumers in the City.

Proposed Communications Facilities

The following is a description of the Communications Project based on the CCG Report and Analysis. The estimated capital costs related to the telecommunications expansion include costs for communications technology and the construction of a network connection from the existing fiber backbone ring to each home or business that purchases telecommunications services from LUS. These estimated capital costs were prepared by CCG and were reviewed by R. W. Beck. These costs were prepared consistent with industry standards and do not appear to be unreasonable.

LUS Fiber facilities that are necessary to provide retail services, as funded by the Communications Bond are listed in Table 8-5 below.

Table 8-5
Proposed Communications System Facilities (2007 -2011) (1)

Communications Project Description	Amount
Fiber Plant Backbone (2)	$38,601,680
Capitalized Fiber Drops to Premise	10,011,672
Network Electronics	9,466,619
Customer Premise Electronics	16,094,237
Cable TV Head-end and Equipment	11,271,898
Voice Switch	2,097,390
Internet Equipment and Other Assets	4,007,119
Inventory	2,000,000
Software	2,000,000
Construction Contingency	9,500,000
Total (3)	$105,050,615

(1) Source: CCG Report and Analysis.
(2) Does not include transfer of the existing fiber network scheduled to occur in 2007.
(3) The Series 2007 Bonds do not fund 100 percent of the costs of the Communications System. The remainder is expected to be funded by Communications System Revenues.

Fiber Backbone and Capitalized Fiber Drops

The communications fiber network expansion will include extending new fiber and distribution equipment off of the existing fiber ring along every street and alley within the LUS service area. Additionally, as each new communications customer requests service, a fiber service drop will be constructed from the main fiber network at the street to the residence or business.

It is assumed that LUS Fiber will purchase the existing communication system network and inventory from LUS and also reimburse LUS for startup costs. LUS Fiber would fund these purchases through two loans (assets and start-up costs) with terms generally based on the terms of the Communications Bonds.

FTTH Network and Customer Premise Electronics

The Communications System's FTTH electronics consist of two components, the base network electronics and the electronics at each customer location. The base network electronics are the devices that integrate signals onto the fiber system and deliver high-speed data, video, and voice services throughout the fiber network. The electronics at the customer premise consist of a device referred to as an ONT that converts the light signal from the network to electrical signals that provide telephone service, cable TV service, and high-speed Internet service.

Cable TV Head-end and Equipment

The cable TV head-end consists of numerous devices needed to receive and disseminate cable TV signals. It includes the dishes required to receive signals from satellites, a tower used to mount antennas to receive over-the-air channels such as local network stations, and electronics used to decode cable TV signals and reformat the signal to be used by the FTTH network equipment. Cable TV equipment also includes customer premise set top boxes for customers who subscribe to digital cable TV service.

Telephone Switch

The telephone switch will provide carrier-grade, traditional telephone services to business and residential customers. Services will include local dial tone, and local calling features such as caller ID, call waiting, and access to long distance services. The switch will also support state-of-the-art Voice over Internet Protocol (VoIP) telephone sets and services.

Internet Equipment and Other Assets

Other assets include a hub for providing Internet and data services to customers, vehicles, computers, tools, and work equipment. This category also includes a new building to house the telephone switch, the cable TV head-end, and Internet equipment.

Inventory

The Communications System will maintain a significant inventory that will include fiber, spare parts to back up all electronics systems and customer electronics, and set top boxes.

Software

The Communications System will require software to provide an operational support system for maintaining customer records and for billing.

Rate Structure

The proposed Communications Project infrastructure will allow LUS to offer what is commonly referred to as a triple-play of communications services at the retail level, as well as continuing to serve wholesale customers. LUS will own the facilities necessary to directly offer voice telephone service, cable TV service, and high-speed Internet access to both residential and small commercial customers. Additionally, LUS will buy long distance minutes from a wholesale provider and offer low-cost long distance packages to its customers.

The CCG Report and Analysis rate structure for telecommunications services is based on an average price for retail telephone, cable TV, and high-speed Internet access services that are 20 percent below the normal market prices of incumbent service providers.

Environmental Issues

The proposed Communications Project is expected to have minimal environmental impact, although it will involve considerable activity around the City. Since the fiber optic cable will be primarily installed on existing overhead electric utility structures and along existing underground electric lines, the added physical and aesthetic impacts will be minimal. The impacts of installing new overhead lines will likely be limited to temporary local vehicle traffic flow interruptions. For those portions installed underground, impacts associated with site disturbance will be incurred at various locations where directional boring machines will be positioned. The acquisition of new property for the proposed project is also expected to be limited. Any required acquisition will be made only after completing an environmental site assessment to ensure that potential environmental liabilities have been appropriately mitigated.

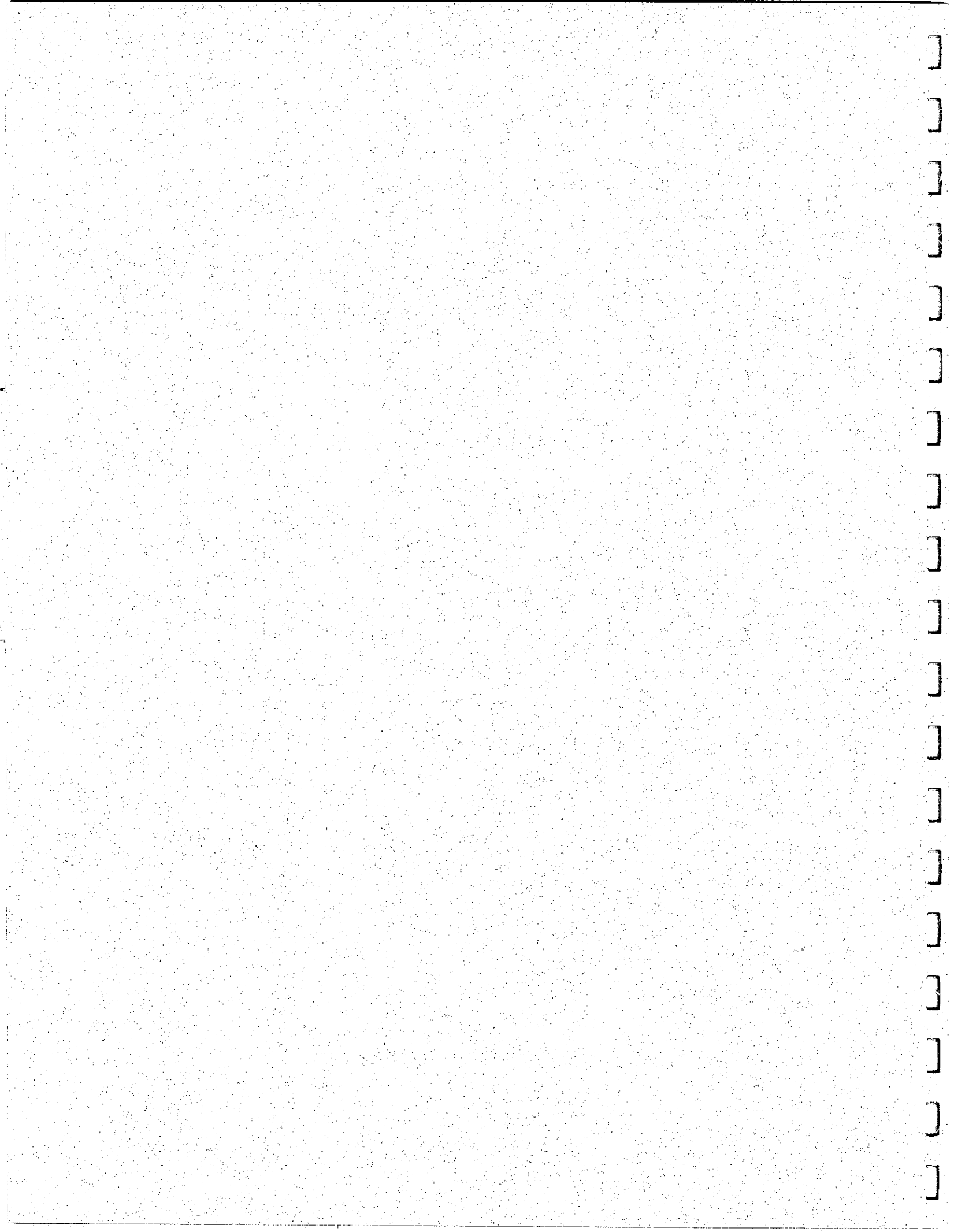
Recommendations

Recommendations and their status are provided in Table 8-6 below. The priority of such recommendations has been identified as being highest, high or normal. During fiscal year 2007, progress was being made on all recommendations that were noted in the previous CER.

While the recommendations noted in the following table are based on fiscal year 2007, one additional recommendation should be noted that pertains to fiscal year 2008. LUS Fiber anticipates aggressively expanding its network during the near future, including plans to build-out 105 Local Convergence Points (LCP) and a new head-end. Completing these tasks in a timely manner is aggressive and a formal project management approach, including the development of project schedules (e.g., Gantt Chart) is recommended.

Table 8-6
Recommendations

Telecommunications Issues	Priority	Status
LUS should focus on hiring additional staff to serve the LUS Fiber Utility customers. Each year the Fiber Utility experiences significant growth and requires staff dedicated to serving the Fiber Utility. The dedicated staff would assist in marketing, billing, and other required services	Highest	In Progress (during fiscal year 2007, 10 full time employees (FTE) were transferred from LUS to LUS fiber. During 2008, LUS Fiber expects to hire 42 additional FTE).
LUS should develop incremental and full-embedded cost financial reports and pricing analyses to evaluate the short-term and long-term profitability of the Fiber Utility business and specific service offerings	Highest	In Progress
LUS should continue to evaluate how to market their wholesale and retail services within the telecommunications business in recognition that telecommunications is significantly different from a traditional municipal utility. Telecommunications requires head-to-head competition with other service providers that invest heavily in marketing and promotional development	High	In Progress (LUS Fiber expects to hire additional sales and marketing staff during 2008).
LUS must improve the flexibility and sophistication of its billing function and the interface of such function with the accounting system. Current limitations in the billing system result in a competitive disadvantage, particularly when pursuing other Tier 1 wholesale customers	High	In Progress (after fiscal year 2007, LUS Fiber will prepare an RFP for a new billing system).
LUS should continue reviewing how common costs are allocated to the Fiber Utility. The allocation methodology should consider cost causation	Normal	In Progress (LUS in the process of developing a Cost Allocation Manual)



Section 9
ENVIRONMENTAL ISSUES

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Section 9
ENVIRONMENTAL ISSUES

Introduction

The LUS Electric, Water and Wastewater Utilities are subject to various environmental permits, approvals, laws, rules, and regulations. This section provides a discussion of the current status of major environmental permits and potentially significant environmental liabilities for the Utilities System. This section is not meant to provide a comprehensive environmental compliance assessment of the system. The intent is to provide a description of our understanding of the status of the Utilities System with respect to requirements set forth in its permits and approvals, and applicable environmental laws and regulations. The information provided is based on review of documents provided by, and discussions with, persons providing information on behalf of the Utilities System and primarily addresses the major requirements that affect the electric, water and wastewater systems including: the Clean Air Act and the Clean Air Act Amendments of 1990 (CAA), the Clean Water Act (CWA), and the SDWA. Requirements of the CAA are addressed through a permit program administered by LDEQ and USEPA. Requirements of the CWA are administered through a permit process whereby any discharge into surface waters requires an NPDES permit (administered by the LDEQ under the Louisiana Pollutant Discharge Elimination System (LPDES) permit program.) The SDWA establishes standards for public water systems, whereby tap water must meet certain quality standards for different chemicals as established by the USEPA.

In addition to the regulations discussed above, LUS facilities, operations and associated activities are subject to regulations that cover the following areas: waste storage and disposal, superfund liability, groundwater, underground and aboveground petroleum storage tanks, oil spills, emergency planning and community right-to-know, management of polychlorinated biphenyl compounds (PCB or PCBs), used oil, pesticides, wood poles, and asbestos.

Environmental Compliance Division

The Environmental Compliance Division is managed by the Environmental Compliance Manager, Ms. Allyson Pellerin, who reports directly to the Director of Utilities. The Environmental Compliance Division supports the Utilities System in the following areas:

- Regulatory compliance for the electric, water, and wastewater divisions
- Administration of the Industrial Pretreatment Program

- Analytical services relative to analyses of drinking water, wastewater analysis and biosolids reuse

In 2007, the Environmental Compliance Division consisted of seventeen full time employees. Although the required workload demands have been met, it should be noted that the addition of the two electric generation stations during 2005 and 2006, and the additional regulatory obligations created by new Part 70 Operating Permits for each of the generation stations, has expanded the workload and breadth of responsibility of the Division in recent years. With the potential implementation of a mercury minimization program and compliance with Capacity Management Operations and Maintenance (CMOM) requirements under the wastewater treatment plant LPDES permits (both possibly beginning in FY 2009), as well as the requirements for Clean Air Interstate Rule (CAIR) implementation and compliance, additional staff are needed to cover the additional workload. During the past few years, there has been considerable difficulty attracting and retaining qualified employees to help meet the expanded workload.

LUS has contracted with an environmental management system software supplier to help maintain and improve upon the existing programs under the Environmental Compliance Division. An environmental management system is currently being developed and implementation is in progress. Implementation may not be completed until after 2008.

Electric Generating Stations

LUS operates the Doc Bonin Plant, T. J. Labbé Plant, Hargis-Hébert Plant, and owns an interest in RPS2 in Boyce, Louisiana. Another LUS facility, the Curtis Rodemacher Station in Lafayette, is no longer in operation and is being decommissioned. A brief discussion of environmental compliance and environmental issues at each facility is provided in the sections below and a list of the major permits for each of the plants operated by LUS is provided in Table 9-1.

Table 9-1
List of Major Permits for LUS Electric Generating Stations

Permit	Responsible Agency	Expiration Date	Comments/Description
Doc Bonin Electric Generating Station			
Part 70 Operating Permit Number 1520-00002-V1 (Title V Air Permit)	LDEQ	March 24, 2011	Allows for the discharge of air pollutants from the turbine stacks and other emissions sources located at the site. Sets forth monitoring, recordkeeping, and reporting requirements.
Acid Rain Program Permit Number 1520-00002-IV1 (Title IV Air Permit)	USEPA	March 24, 2011	Allows for discharge of acid rain constituents from the turbine stacks and requires the owner to hold annual emissions allowances equal to applicable emissions.

Permit	Responsible Agency	Expiration Date	Comments/Description
Louisiana Pollution Discharge Elimination System Permit Number LA0005711	LDEQ	October 1, 2008	Allows for the discharge of boiler blowdown, cooling tower blowdown, low volume wastewater, and stormwater runoff to the Vermilion River via local drainage. Sets forth monitoring, recordkeeping, and reporting requirements.
T. J. Labbé Electric Generating Station			
Part 70 Operating Permit Number 1520-00128-V0 (Title V Air Permit)	LDEQ	July 20, 2009	Allows for the discharge of air pollutants from the turbine stacks and other emissions sources located at the site. Sets forth monitoring, recordkeeping, and reporting requirements.
Acid Rain Program Permit Number 1520-00128-IV0 (Title IV Air Permit)	USEPA	July 20, 2009	Allows for discharge of acid rain constituents from the turbine stacks and requires the owner to hold annual emissions allowances equal to applicable emissions.
Hargis-Hébert Electric Generating Station			
Part 70 Operating Permit Number 1520-00131-V0 (Title V Air Permit)	LDEQ	September 7, 2009	Allows for the discharge of air pollutants from the turbine stacks and other emissions sources located at the site. Sets forth monitoring, recordkeeping, and reporting requirements.
Acid Rain Program Permit Number 1520-00131-IV0 (Title IV Air Permit)	USEPA	September 7, 2009	Allows for discharge of acid rain constituents from the turbine stacks and requires the owner to hold annual emissions allowances equal to applicable emissions.

Source: LDEQ Permits

Doc Bonin Electric Generating Station

As discussed in detail in Section 5 of this Report, the Doc Bonin Plant is comprised of three steam electric generating units capable of firing natural gas and No. 2 fuel oil. Permits issued to the Doc Bonin Plant generally include all activities of the Walker Road Complex, which encompasses the Doc Bonin Plant, LUS administrative offices, warehouses, an automobile service station, and a waste collection facility.

NPDES Permit

As indicated in Table 9-1, the Doc Bonin Plant is subject to the requirements of an LPDES permit. LUS reports that a Stormwater Pollution Prevention Plan has been prepared and implemented pursuant to LPDES requirements. There was one exceedance of the total iron limit in the LPDES permit reported on the Discharge Monitoring Report (DMR) for September 2007. However, no notices of violation were issued by LDEQ in 2007.

Air Permit

A final Part 70 Operating Permit was received during March 2006 for the Doc Bonin Plant. The permit allows for Unit 1 and Unit 2 to fire either natural gas or No. 2 fuel

oil with little restrictions on emissions levels. For Unit 3, the permit allows for unlimited use of natural gas and continued restricted use of No. 2 fuel oil for periods when the natural gas supply is interrupted (not to exceed 150 hours per year). Historically, the units at the Doc Bonin Plant have rarely operated on No. 2 fuel oil.

The Part 70 Operating Permit contained a provision to perform emissions testing on each of the boiler units within 180 days of the issuance of the permit. Due to the infrequent operations of the units at the Doc Bonin Plant, LUS requested, and LDEQ approved, certain amendments to the Part 70 Operating Permit allowing LUS to perform these emissions tests at a later date. LUS successfully tested and demonstrated compliance for boiler Unit 1 in 2007. Testing on Unit 2 was completed the previous year and testing on Unit 3 will be completed in the future as unit operations allow.

Due to the construction date and size of Unit 3, emissions must also meet the requirements of the New Source Performance Standards (NSPS) under the CAA. During 2005, it was observed that the NO_x emissions from Unit 3 were not consistently meeting NSPS requirements. After identification and confirmation of this issue, LUS personnel provided a notification to LDEQ. Since that time, LUS personnel have provided LDEQ with an initial evaluation of potential operational or equipment changes and the results of operational evaluation tests performed by Babcock and Wilcox (the boiler manufacturer). The test results suggest that increasing the minimum operating load level of the unit to approximately 75 MW will resolve this issue. LUS has submitted these suggestions to LDEQ. LDEQ has not provided an official response nor addressed the possibility of issuing LUS a Notice of Violation and monetary penalty for historic NO_x exceedances. We note that Unit 3 did not operate during 2007.

Pursuant to the requirements of Acid Rain Program under the CAA, all three units at the Doc Bonin Plant were equipped with continuous emissions monitoring systems (CEMS) prior to 1996. LUS personnel report that during 2007 the CEMS have complied with the applicable performance specifications for relative accuracy and quality assurance, the required quarterly CEMS reports were submitted to USEPA, and the applicable emissions allowance accounts were covered as necessary.

Pursuant to state requirements, an annual emissions inventory for the Doc Bonin Plant was submitted to LDEQ during 2007. Additionally, all necessary quarterly, semi-annual, and annual emissions compliance reports were submitted during 2007.

Oil Storage

The Doc Bonin Plant includes four large fuel storage tanks, which currently contain limited quantities of No. 6 fuel oil sludge and diesel fuel, as shown in Table 9-2 below. LUS indicated that fuel from these storage tanks was not used during 2007.

Table 9-2
Fuel Oil Storage Tanks

Tank	Type	Capacity (Gallons)	Contents (Gallons)
Tank No. 1	No. 2 Fuel Oil	440,000	324,360
Tank No. 2	No. 2 Fuel Oil	1,443,000	775,476
No. 2 Fuel Oil Total		1,883,000	1,100,000
Tank No. 3	No. 6 Fuel Oil	2,538,000	101,000 (1)
Tank No. 4	No. 6 Fuel Oil	2,538,000	87,000 (1)
No. 6 Fuel Oil Total		5,076,000	188,000 (1)

(1) No. 6 Fuel Oil Sludge.
Source: Tank level test results 2006 and SPCC Plan and Facility Response Plan, 2005.

LUS is reviewing options regarding the use of the No. 2 fuel oil and the retention or removal of the storage tanks. Due to the age of the contents of each tank, the fuel in Tank Nos. 1 and 2 will be removed during 2008. Due to the condition of the tanks and associated piping, the tanks must be cleaned, inspected, and likely retrofitted with new piping and other associated peripheral equipment prior to future use.

The contents of Tank Nos. 3 and 4 were sold in 1999 (all that remains is sludge), and the Part 70 Operating Permit does not allow for the use of No. 6 fuel oil. LUS is in the process of removing the sludge and decommissioning of these tanks.

LUS has prepared and implemented a Spill Prevention Control and Countermeasure (SPCC) Plan and a Facility Response Plan for the Walker Road Complex and has indicated that no reportable spills occurred during 2007. It is noted that some aspects of the Facility Response Plan, including training, are currently in the implementation process.

T. J. Labbé Plant

As discussed in detail in Section 5 of this Report, the T. J. Labbé Plant is comprised of two natural gas fired simple-cycle combustion turbines. Construction was completed during 2005.

Air Permit

As indicated in Table 9-1 above, the T. J. Labbé Plant must maintain compliance with the requirements of its Part 70 Operating Permit and Acid Rain Program Permit. Due to recent federal regulatory changes applicable to combustion turbine units, LUS applied for several permit modifications in 2006 to provide clarity to the existing permit requirements. A modified permit has not yet been issued by LDEQ. Compliance during operations is demonstrated by monitoring fuel usage and quality, operating time, and NO_x emissions with a certified CEMS. LUS personnel report that during 2007 the CEMS have complied with the applicable performance specifications

for relative accuracy and quality assurance, the required quarterly CEMS reports were submitted to USEPA, and the applicable emissions allowance accounts were covered as necessary.

Pursuant to state requirements, an annual emissions inventory for the T. J. Labbé Plant was submitted to LDEQ during 2007. Additionally, quarterly, semi-annual, and annual emissions compliance reports were submitted during 2007.

Wastewater Discharge

Process wastewater from the T. J. Labbé Plant, including cooling tower blow down and sanitary wastes, is discharged to the City's sewer system. The facility is not subject to the requirements of an Industrial Wastewater Discharge permit. Turbine water-wash wastes are collected in the water-wash drain tank, sampled and evaluated, and pumped to the City sewer system or picked up and disposed of by an outside contractor.

Oil Storage

Pursuant to recent regulatory changes and further changes during 2006, LUS must comply with certain SPCC planning requirements for the T. J. Labbé Plant by July 1, 2009. A plan is currently being developed and is scheduled to be completed in the second quarter of 2008. LUS personnel indicated that no reportable spills occurred during 2007.

Hargis-Hébert Plant

As discussed in detail in Section 5 of this Report, the Hargis-Hébert Plant is comprised of two natural gas fired simple-cycle combustion turbines. Construction was completed during 2006.

Air Permit

As indicated in Table 9-1 above, the Hargis-Hébert Plant must maintain compliance with the requirements of its Part 70 Operating Permit and Acid Rain Program Permit. Due to recent federal regulatory changes applicable to combustion turbine units, LUS applied for several permit modifications in 2006 to provide clarity to the existing permit requirements. A modified permit has not yet been issued by LDEQ. Compliance during operations is demonstrated by monitoring fuel usage and quality, operating time, and NO_x emissions with a certified CEMS. LUS personnel report that during 2007 the CEMS have complied with the applicable performance specifications for relative accuracy and quality assurance, the required quarterly CEMS reports were submitted to USEPA, and the applicable emissions allowance accounts were covered as necessary.

Pursuant to state requirements, an annual emissions inventory for the Hargis-Hébert Plant was submitted to LDEQ during 2007. Necessary quarterly, semi-annual, and annual emissions compliance reports were submitted during 2007.

Wastewater Discharge

Process wastewater from the Hargis-Hébert Plant, including cooling tower blow down and sanitary wastes, is discharged to the City's sewer system. The facility is not subject to the requirements of an Industrial Wastewater Discharge permit. Turbine water-wash wastes are collected in the water-wash drain tank, sampled and evaluated, and pumped to the city sewer system or picked up and disposed of by an outside contractor.

Oil Storage

Pursuant to recent regulatory changes and further changes during 2006, LUS must comply with certain SPCC planning requirements for the Hargis-Hébert Plant by July 1, 2009. A plan is currently being developed and is scheduled to be finalized in the second quarter of 2008. LUS personnel indicated that no reportable spills occurred during 2007.

RPS2 in Boyce, LA

As discussed in detail in Section 5, LUS has an interest in the coal-fired steam electric generating Unit 2 at the RPS through their interests in LPPA. Since the beginning of 2007, we are aware of the following developments at RPS:

- CLECO has begun construction of a new wholly owned coal-fired electric steam generating boiler unit, Unit 3, at RPS.
- During February 2006, LDEQ issued a renewed final NPDES permit (LAR10D337) allowing the continued disposal of wastewater and stormwater to the Red River Basin. CLECO personnel report that the contents of the draft permit represent a compromise between USEPA and LDEQ with regard to CWA 316(b) applicability. The compromise involves performing an impingement study of the cooling water intake structure. This study was performed during 2007 and submitted to LDEQ in January 2008. The renewed permit continues to reflect that the man-made discharge reservoir will not be classified as "Waters of the State." We are of the understanding that this compromise does not represent a final resolution as to the applicability of 316(b). We note that the 316(b) regulations were stayed in 2007. It is not known at the present time whether the rules will be implemented as written or undergo revisions. As discussed in past reports, in the event that at some time in the future it is found that RPS2 must comply with 316(b) regulations, the cost to comply is likely to be substantial.
- CAIR was finalized by USEPA in March 2005. The details are discussed below. As a result of rule implementation, additional costs will likely be incurred by the Unit 2 owners (including LUS) to manage future emissions allowance programs for NO_x and a tightened availability of existing sulfur dioxide (SO_2) allowances. We are of the understanding that the Unit 2 owners have agreed to install new low-NOx burners during 2008 to reduce the costs of compliance with the NOx emissions trading program.

PCB Transformers

The electrical transmission and distribution system includes oil filled electrical equipment. Occasionally, replacements and repairs can require disposal of the oil filled contents. A portion of this equipment contains trace amounts of PCBs, which are regulated under the Toxic Substance Control Act. LUS manages their PCB-containing equipment as required by federal and state regulations. LUS indicated that there were no PCB transformers (transformers containing >500 ppm PCBs in the oil) in its inventory, and they have a program to systematically remove and replace transformers with PCB contamination (transformers with >51 ppm PCBs in the oil). As mentioned earlier, LUS manages the disposal of regulated and non-regulated wastes, including PCB contaminated wastes, from a facility at the Walker Road Complex.

Groundwater and/or Soil Contaminated Sites

Following is a review of environmental compliance activities and known instances of soil and/or groundwater contamination at facilities owned by LUS.

Grant Street Substation

In September of 1991, LUS undertook a project to install and upgrade the electrical capabilities of Grant Street Substation No. 2. During the course of the construction activities, visible traces of petroleum products were discovered in the shallow ground water. Construction was halted and the upgrade plan was suspended.

Subsequent investigations at the site revealed petroleum contamination in the groundwater at the site, under adjoining property not owned by LUS, and at the nearby Grant Street Substation No. 1. In 2000, LUS submitted a Risk Evaluation Corrective Action Plan (RECAP) to LDEQ. LUS submitted a RECAP sampling and analysis plan to LDEQ in early 2005 and the plan was approved in late 2005. Sampling performed during late 2005 indicated that the extent of the contamination plume had not yet been determined, so additional sampling and analysis is required. As part of the settlement, LUS purchased property adjacent to the Grant Street site. A building on the property was dismantled in 2007. However, the slab is still in place. LUS is waiting on an LDEQ determination before removal of the slab and underlying soil. LUS continues to work with LDEQ to resolve the issue and future costs associated with soil remediation of this site (Grant Street Substation No. 1 and Grant Street Substation No. 2) could be significant.

Curtis Rodemacher Decommissioning

The Curtis Rodemacher Power Plant has been retired and most of the facility is in the process of decommissioning. Thus far, a new fence has been installed and additional security measures have been implemented. Fuel oil tanks, small buildings, above ground piping, boilers, and cooling towers have been removed from the site. LUS is continuing to perform air monitoring at the site. Remaining tasks for

decommissioning include: remediation of existing PCB contamination, asbestos, bio-hazards created from pigeons, and lead-based paint in the power plant building; demolition of the warehouse and power plant building; and removal of underground piping. Based on current knowledge of the environmental conditions at the site, the process of removing underground piping may identify contamination issues and trigger further remediation requirements. The decommissioning schedule and long-term plan for the site is still being evaluated and the future costs associated with remediation of the site could be significant.

Flanders Substation

On April 26, 2007, a reportable spill of approximately 500 gallons of non-PCB transformer oil occurred at the Flanders Substation when a gasket sealing the manway hatch of a transformer failed. The spill was completely contained on-site. Contaminated soil, shell, and limestone was excavated and removed from the site, along with five 55-gallon drums containing transformer oil, water, and used absorbent. LUS reports that all necessary regulatory obligations have been fulfilled and a verbal "No Further Action" has been communicated from LDEQ. However, no written confirmation has been received.

Water Production and Distribution System

LUS reports that the North and South Water Treatment Plants are currently complying with their operating permits and meeting all applicable drinking water standards of the SDWA. The South Water Treatment Plant is permitted to discharge wastewater from the treatment of potable water, stormwater and sanitary wastewater under LPDES Permit LA0079278 with an effective date of June 1, 2003 and a term of five years.

The North Water Treatment Plant is permitted to discharge wastewater associated with the treatment of potable water under NPDES permit LAG380000 with an effective date of January 1, 2005 and a term of five years.

A discussion of the drinking water quality, plant operation, and future regulatory requirements is provided in Section 6 of this Report.

Wastewater Collection and Treatment

The wastewater discharge permits for each of the four LUS wastewater treatment plants (Ambassador Caffery, East, South, and Northeast) require LUS to regularly test for compliance with permit conditions and report any violations or exceedances of permit limits, including bypass or overflow of wastewater. A discussion of the plant operation is provided in Section 7. A summary listing of the treatment plant permits is included in Table 9-3.

Table 9-3
List of Major Permits

Permit	Responsible Agency	Expiration Date	Comments/Description
Ambassador Caffery Wastewater Treatment Facility			
Louisiana Pollution Discharge Elimination System Permit Number LA0042561	LDEQ	November 1, 2008	Allows the discharge of treated sanitary wastewater into the Vermilion River. Sets forth monitoring, recordkeeping, and reporting requirements.
East Wastewater Treatment Facility			
Louisiana Pollution Discharge Elimination System Permit Number LA0036382	LDEQ	November 1, 2008	Allows the discharge of treated sanitary wastewater into the Vermilion River. Sets forth monitoring, recordkeeping, and reporting requirements.
South Wastewater Treatment Facility			
Louisiana Pollution Discharge Elimination System Permit Number LA0036374	LDEQ	November 1, 2008	Allows the discharge of treated sanitary wastewater into the Vermilion River. Sets forth monitoring, recordkeeping, and reporting requirements.
Northeast Wastewater Treatment Facility			
Louisiana Pollution Discharge Elimination System Permit Number LA0036391	LDEQ	November 1, 2008	Allows the discharge of treated sanitary wastewater into Bayou St. Claire thence to the Vermilion River. Sets forth monitoring, recordkeeping, and reporting requirements.
Driftwood Subdivision Wastewater Treatment Facility			
Louisiana Pollution Discharge Elimination System Permit Number LA0103764	LDEQ	October 1, 2009	Allows discharge of treated sanitary wastewater into un-named ditch, then to Vermilion River. Sets forth monitoring, recordkeeping, and reporting requirements.

Industrial Pretreatment

The Industrial Pretreatment Program (Pretreatment Program) was implemented in 1984 and is mandated by LDEQ through the LPDES permits issued to the wastewater treatment plants. LUS manages and enforces the Pretreatment Program to protect the integrity of the wastewater treatment plants and fulfill the following objectives:

- Prevention of the introduction of pollutants into the Publicly Owned Treatment Works (POTW) which will interfere with the operation of the plants, including interference with its use or disposal of municipal sludge
- Prevention of the introduction of pollutants into the POTW, which will pass through the treatment works and enter waters of the state
- Reduction of the risk of exposure of workers to chemical hazards
- Improving opportunities to recycle and reclaim municipal and industrial wastewaters and sludge

The Pretreatment Program provides a service to the community by allowing industry to discharge pretreated wastewater, to be further treated at the wastewater treatment plants, in lieu of meeting water quality regulations required for direct dischargers to the waters of the state. The Pretreatment Program regulates significant industrial users with a Wastewater Discharge Permit program, which requires monthly reporting requirements and permit fees. Less significant users are regulated under a Best Management Practices program, which enforces a set of guidelines on specified types of industrial activity. With the potential requirements of a mercury minimization program under Wastewater Treatment Plant (WWTP) LPDES permits, the Pretreatment Program would need to adopt such requirements.

As required by the conditions of the LPDES permits, the 2006 Annual Pretreatment Report was submitted in early 2007.

Biosolids Beneficial Reuse Land Application Program

LUS utilizes a land farming program to use biosolids that are produced as a result of its wastewater operations and lime sludge from its water treatment plant operations. This program is operated under a Sewage Sludge Landfarming / Beneficial Reuse Operation Permit (number P-0147R1) issued by the LDEQ. Compliance with the permit is demonstrated through the sampling, analysis, recordkeeping, and reporting. As required by the conditions of the permit, LUS reports that the necessary quarterly, semiannual and annual application and soil and sludge testing reports were submitted to LDEQ during 2007.

LUS has land applied wastewater treatment plant sludge since the 1950s, and has operated under a permitted land application program since 1987. The program is reported to utilize a total of six permitted land application properties totaling 1,767 acres, which is considered to be in excess of the requirements for the program. It is noted that the land owner agreements must be renewed every ten years and contain provisions to allow for termination with 90 days notice two years from the effective date of the agreement. Some land owners have dropped out of the program over the years and the area of other properties has been reduced due to development. The issue regarding a potentially dwindling base of eligible land application property is being evaluated by LUS.

Spill Prevention Control and Countermeasure Plans

Electric generation facilities, electric substations, and water and wastewater treatment facilities that are located where oil (or fuel) from a spill could reach navigable waters, and have a storage capacity of more than 1,320 gallons at a single facility, must have an SPCC plan prepared in accordance with federal regulations. SPCC plans must also be consistent with the Spill Prevention and Control (SPC) Planning regulations of the state. Recent modifications, and proposed modifications, to the federal regulations include a requirement to review, revise, and implement SPCC plans for existing

facilities and develop and implement SPCC plans for new facilities (constructed after July 2002) in accordance with the modified regulation by July 1, 2009. An important requirement of the revised SPCC regulation will be the implementation of a recognized engineering standard for inspection and maintenance of the large fuel storage tanks at the Doc Bonin Plant. Such a standard will require tanks to be drained, cleaned, and internally inspected on occasion.

Certain capital improvements related to hazardous material storage and containment at each generation station are in progress and are scheduled for completion in 2008 . For the T. J. Labbe Plant and the Hargis-Hebert Plant, containment structures will be constructed to ensure that spare totes of water treatment chemicals are stored within adequate secondary containment. For the Doc Bonin Plant, a fireproof hazardous materials shelter will be erected.

Future Environmental Regulatory Obligations

During early 2005 the USEPA finalized CAIR and Clean Air Mercury Rule (CAMR), two rules intended to reduce emissions from power generations. The CAIR rule will affect all LUS power plants and impose a regional cap-and-trade program for NO_x emissions and reduce the pool of SO_2 allowances currently available under the Acid Rain Program (ARP). The CAMR rule established standards of performance for new and existing coal-fired electric utility steam generating units and established a national cap-and-trade program for mercury emissions. However, the CAMR was vacated by the United States Court of Appeals for the District of Columbia Circuit on February 8, 2008.

The CAIR rule applies to electric generating units that are currently subject to Title IV of the CAA (known as the Acid Rain Program, or ARP), which includes the RPS, Doc Bonin Plant, T. J. Labbé Plant, and the Hargis-Hébert Plant are all subject to the CAIR. The rule will be implemented in two phases. Phase 1 NO_x reductions begin in 2009, while Phase 1 SO_2 reductions begin in 2010. Phase 2 reductions begin in 2015. Under the cap-and-trade program, existing sources will be allocated SO_2 allowances in proportion to the existing SO_2 allowances that were allocated under the ARP. The rule specifies a 50 percent reduction in allowances when compared to the ARP for 2010 and a 65 percent reduction for 2015. NO_x allowances are distributed to states which, in turn, distribute the allowances to the pool of affected emissions source owners. The method of allocating NO_x allowances to affected emissions source owners in Louisiana was proposed by LDEQ January 20, 2007 and will likely be modified prior to finalization. Overall, the allocations of NO_x or SO_2 allowances to LUS plants, including RPS2, may not cover all emissions during future years. Under such circumstances, LUS will be required to purchase allowances to cover facility emissions. Alternatively, LUS could modify equipment, install emissions controls, and sell excess emission allowances, if any, on the open market.

Petitions for review of two final rules promulgated by the USEPA were heard before a three judge panel of the United States Court of Appeals for the District of Columbia Circuit on December 6, 2007. The first rule removed coal and oil-fired electric

generating units (EGUs) from the list of sources whose emissions are regulated under Section 112 of the Clean Air Act (CAA). The second rule set performance standards pursuant to Section 111 of the CAA for new coal-fired EGUs and established total mercury emission limits for states and certain tribal areas, along with a cap-and-trade program for new and existing coal-fired EGUs. This second rule was known as the CAMR. On February 8, 2008, the Court recommended that these two rules be vacated. A mandate was issued by the Court on March 14, 2008, formally overturning the CAMR. Thus, the CAMR no longer exists and will not be addressed. The regulation of mercury emissions from coal-fired EGUs now falls under the requirements of Section 112, Maximum Available Control Technology (MACT) standards. It is noted that there are no MACT standards in place at the current time and the timeframe for rule development is currently unknown.

Due to the fact that RPS2 is controlled only with a hot-side electrostatic precipitator and is fired with Powder River Basin coal, it is possible that emission controls, such as a baghouse and activated carbon injection, could be required to comply with requirements of the rule. Also, if the MACT standards are implemented for electric generating units, oil-fired units could also be affected. This would potentially make Doc Bonin Units 1, 2, and 3 subject to new regulations.

Control of greenhouse gases such as carbon dioxide (CO_2) is receiving a great deal of attention within the United States Congress and many state legislatures. The predominant sentiment is that regulation is inevitable and only the timing and method of regulation is unknown. The two primary methods of regulation are either a tax imposed on emissions or some form of a cap and trade system comparable to what presently exists for SO_2 and NO_X emissions. While the specific details are not presently known, and the financial impacts to specific EGUs cannot be determined without the benefit of such details, the cost impacts could be significant.

We note that it is far too early to determine the implications resulting from the vacation of CAMR and potential CO_2 legislation to LUS and the RPS2 stakeholders (including LPPA). However, the costs for compliance, particularly for RPS2, a coal-fired unit, could be significant.

Key Challenges, Issues, and Goals

The following is a list of current challenges, issues, and goals of the Environmental Compliance Division:

- Attraction and retention of qualified employees.
- Training of new employees to achieve proficiency in required environmental compliance monitoring and reporting activities.
- Implementation of additional obligations due to currently known and potential future regulatory changes.
- Implementation of the environmental information management system.

Recommendations

Recommendations and their status are provided in Table 9-4 below. We have indicated the priority of the recommendation as either highest, high or normal.

Table 9-4
Recommendations

Environmental Issues	Priority	Status
LUS should continue dialog with LDEQ regarding Doc Bonin Plant Unit 3 NO_x emissions compliance and evaluate the proposed compliance strategy, as operations allow, to bring this issue to a conclusion.	High	In Progress
LUS should continue to develop and implement a plan to clean and decommission the No. 6 fuel oil sludge aboveground storage tanks located at the Doc Bonin Plant.	Normal	In Progress
LUS should continue to develop and implement a plan to drain, clean, inspect, decommission and/or reconstruct the No. 2 fuel oil aboveground storage tanks and associated piping located at the Doc Bonin Plant.	Normal	In Progress
LUS should monitor the monetary implications of the RPS2 environmental compliance obligations.	Normal	In Progress
LUS should continue to evaluate and update its environmental plans, including its SPCC plans, Facility Response Plan, Stormwater Pollution Prevention Plan, etc, to ensure that they include the latest changes to the respective regulations and facility infrastructure.	Normal	In Progress
LUS should monitor the development and implementation of the CAIR, regulations to control mercury and/or future MACT standards, and the potential for future green house gas regulations to ensure compliance strategies are implemented for all affected power plants.	Normal	In Progress