

New Issue - Full Book Entry

**Ratings: Moody's: Aa2
Standard & Poor's: AA
Fitch: AA
(See "RATINGS" herein)**

In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended, the interest on the Series 2003 Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Bonds have not been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS" herein.

\$126,310,000

CITY OF LINCOLN, NEBRASKA



Lincoln Electric System Revenue and Refunding Bonds, Series 2003

Dated: October 1, 2003

Due: As set forth on the inside cover

The Series 2003 Bonds (the "2003 Bonds") are issuable as fully registered securities and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2003 Bonds. Purchases of beneficial ownership interests in the 2003 Bonds will be made in book-entry form only, in \$5,000 principal amounts or integral multiples thereof. Beneficial Owners of the 2003 Bonds will not receive physical delivery of bond certificates evidencing their ownership interest in the 2003 Bonds so long as DTC or a successor securities depository acts as the securities depository with respect to the 2003 Bonds. So long as DTC or its nominee is the registered owner of the 2003 Bonds, payments of the principal, premium, if any, and interest on the 2003 Bonds will be made directly to DTC. Disbursements of such payments to DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC Participants (see "Description of the 2003 Bonds—Book-Entry Only System" herein). Union Bank & Trust Company is Registrar and Paying Agent for the 2003 Bonds under the Ordinance. Wells Fargo Bank Nebraska, National Association is trustee under the Prior Lien Bond Ordinances described herein.

The 2003 Bonds will be dated October 1, 2003. The 2003 Bonds will bear interest at the rates shown on the inside cover, payable each March 1 and September 1, commencing on March 1, 2004.

Certain of the 2003 Bonds are subject to redemption prior to maturity as more fully described herein.

The obligation of the City to pay the principal of, premium, if any, and interest on the 2003 Bonds is a limited obligation of the City, payable exclusively from and secured by a pledge of the Revenues of the Lincoln Electric System, subject to the prior payment from such Revenues of operating and maintenance expenses, certain power costs of the System, the principal of and interest on the City's outstanding Electric System Revenue Bonds issued under the Prior Lien Bond Ordinances and certain other deposits and payments required by said Prior Lien Bond Ordinances, all as more fully described herein. See "PLAN OF FINANCING" and "SECURITY" herein.

The 2003 Bonds shall not be obligations of the State of Nebraska or any of its political subdivisions, other than the City, and neither the faith and credit nor the taxing power of the State of Nebraska or any political subdivision thereof, including the City, is pledged for the payment of the 2003 Bonds.

MATURITIES, AMOUNTS, RATES AND PRICES OR YIELD – See Inside Cover

The 2003 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel. Certain legal matters will be passed on for the City by the Lincoln City Attorney and for the Lincoln Electric System by its General Counsel, Douglas Curry, Esq. Public Financial Management is serving as Financial Advisor to the Lincoln Electric System in connection with the issuance of the 2003 Bonds. It is expected that the 2003 Bonds will be available for delivery to DTC in New York, New York on or about October 7, 2003.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read this entire official statement to obtain information essential to making an informed investment decision.

GOLDMAN, SACHS & CO.

Dated: September 18, 2003.

MATURITY SCHEDULE

\$126,310,000

CITY OF LINCOLN, NEBRASKA

LINCOLN ELECTRIC SYSTEM REVENUE AND REFUNDING BONDS, SERIES 2003

<u>Due September 1</u>	<u>Amount Due</u>	<u>Interest Rate</u>	<u>Yield</u>
2004	2,850,000	5.000%	1.050%
2007	2,845,000	3.000%	2.000%
2008	2,935,000	4.000%	2.350%
2009	3,045,000	4.000%	2.700%
2010	3,170,000	4.000%	3.080%
2011	3,295,000	5.000%	3.360%
2012	3,405,000	5.000%	3.570%
2013	3,570,000	5.000%	3.690%
2014	3,830,000	4.250%	3.850%
2015	1,780,000	4.500%	3.950%
2021	8,520,000	4.750%	4.550%
2022	8,925,000	4.750%	4.650%
2023	9,350,000	4.750%	4.750%
2024	9,795,000	4.750%	4.830%
2025	10,255,000	5.000%	4.830%
2026	15,475,000	5.000%	4.860%

\$33,265,000 4.75% Term Series 2003 Bond due September 1, 2028 to yield 4.90%

CITY OF LINCOLN, NEBRASKA

CITY ADMINISTRATION

COLEEN J. SENG
DON HERZ

Mayor
Finance Director

LINCOLN ELECTRIC SYSTEM

ADMINISTRATIVE BOARD

RON ECKLUND	Chair
MARK HESSER	Vice Chair
TOM SCHLEICH	Secretary
MICHAEL AYARS	Member
BEATTY BRASCH	Member
PATRICIA MCMANUS	Member
RON MELBYE	Member
JERRY SHOECRAFT	Member
JEANIE WATSON	Member

MANAGEMENT

TERRILL L. BUNDY	Administrator and CEO
KEITH C. BROWN	Division Manager-Financial Services
DOUGLAS D. BANTAM	Division Manager-Power Supply
DOUGLAS L. CURRY	General Counsel
NEIL ENGELMAN	Division Manager-Operations
J. TODD HALL	Division Manager-Consumer Services
DAVE MANNERING	Director Information Technology
DEBBRA L. HOY	Director Human Resources
DANNY L. PUDENZ	Division Manager-Engineering Services
SHELLEY SAHLING	Policy Analysis Director and Assistant Counsel

BOND COUNSEL

Gilmore & Bell, P.C.
Lincoln, Nebraska

FINANCIAL ADVISOR

Public Financial Management
Philadelphia, Pennsylvania
and Orlando, Florida

No dealer, broker, salesman or other person has been authorized by the City of Lincoln (the "City"), Lincoln Electric System ("LES") or the Underwriters to give any information or to make any representations, other than as contained in this Official Statement, and if given or made such other information or representations must not be relied upon as having been authorized by the City, LES, or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2003 Bonds by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2003 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been furnished by the City and LES and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or LES since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2003 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE 2003 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES OR "BLUE SKY" LAWS. THE SECURITIES ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION.

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OFFICIAL STATEMENT

\$126,310,000

CITY OF LINCOLN, NEBRASKA

Lincoln Electric System Revenue and Refunding Bonds Series 2003

INTRODUCTION

This Official Statement (which includes the cover page hereof and the Appendices attached hereto) is furnished by the City of Lincoln, Nebraska (the "City"), a municipal corporation existing pursuant to its home rule Charter and under the laws of the State of Nebraska (the "State"), to provide information concerning: (i) the City; (ii) the City's electric system (which is hereinafter referred to as the "Lincoln Electric System," "LES" or the "System" and which is defined in the General Ordinance described below to include all property and assets of the City used for or pertaining to the generation, transmission, distribution and sale of electric power and energy); and (iii) the \$126,310,000 aggregate principal amount of the City's Lincoln Electric System Revenue and Refunding Bonds, Series 2003 (the "2003 Bonds").

The 2003 Bonds are being issued pursuant to Nebraska law, particularly Sections 15-244 and 18-1803, Reissue Revised Statutes of Nebraska, as amended, and Section 44 of Article IX of the Charter of the City, and a basic bond ordinance passed by the City Council of the City on July 23, 2001 (Ordinance No. 17879, the "General Ordinance"), as supplemented by a series ordinance passed by such City Council on August 25, 2003 (Ordinance No. 18234 the "2003 Ordinance"). The General Ordinance as amended and supplemented from time to time, including, but not limited to, the 2003 Ordinance, is herein referred to as the "Ordinance."

The City has outstanding under the General Ordinance (i) \$141,150,000 aggregate principal amount of its Lincoln Electric System Revenue Bonds, Series 2001 (the "2001 Bonds") and (ii) \$148,190,000 aggregate principal amount of its Lincoln Electric System Revenue and Refunding Bonds, Series 2002 (the "2002 Bonds").

The General Ordinance provides for the issuance by the City from time to time of Lincoln Electric System Revenue Bonds (including bonds, notes or other obligations or other evidences of indebtedness, as the case may be, as provided in the General Ordinance, the "Bonds") (a) to finance properties and assets, and interest in properties and assets, real and personal and tangible and intangible (i) for the generation, transmission, distribution and sale of electric power and energy or (ii) such other activities and transactions as the LES Administrative Board (the "Board") and the City shall from time to time determine and (b) to refund outstanding bonds issued under the Ordinance and the Prior Lien Bond Ordinances (as hereinafter defined). Pursuant to the General Ordinance, the Bonds are payable from and secured by a pledge of the revenues of LES and certain other moneys as described herein, subject to a prior charge on such revenues for the costs of operation and maintenance of LES, including all administration expenses, variable costs of operation and maintenance incurred for power supply facilities (including LES's ownership interest in electric plants and properties co-owned with others), variable costs associated with power purchase contracts and, in certain circumstances, fixed power supply costs of LES. Payment of the principal of and interest on the Bonds is further subject to the payment of all debt service on the City's outstanding Electric System Revenue Bonds (the "Prior Lien Bonds") previously issued pursuant to Ordinance No. 16416 and certain series ordinances adopted thereunder (collectively, the "Prior Lien Bond Ordinances") and payments required by the Prior Lien Bond Ordinances to be made into the reserve funds established for the Prior Lien Bonds in the event of any withdrawals or deficiency therein as required by the Prior Lien Bond Ordinances. Upon the issuance of the 2003 Bonds, \$36,555,000 outstanding principal amount of the City's Electric System Revenue Bonds, 1998 Series A (the "1998 Series A Bonds") will be the only Prior Lien Bonds outstanding. Additional Bonds or Parity Obligations (which, except as provided in the Ordinance, will be on a parity with the 2003 Bonds) may be issued from time to time upon the approval of the Mayor and City Council under the terms and conditions set forth in the Ordinance.

No additional debt may be issued under the Prior Lien Bond Ordinances.

This Official Statement includes summaries of the terms of the 2003 Bonds, the Ordinance and certain contracts and other arrangements relating to LES. The summaries of and references to all documents, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each such summary and reference is qualified in its entirety by references to each such document, report or instrument, copies of which may be obtained, upon request, from Lincoln Electric System, 1040 "O" Street, Lincoln, Nebraska 68508, Attention: Division Manager-Financial Services. Email inquiries should be addressed to kbrown@les.com, or call 402-475-4211.

PURPOSE OF ISSUE AND REFUNDING PLAN

LES will use a portion of the proceeds of the 2003 Bonds to provide funds, which together with certain other available funds, will be used for the payment and redemption of all of the \$34,520,000 outstanding aggregate principal amount of the City's Electric System Revenue Refunding Bonds, 1993 Series A, dated as of July 1, 1993 (the "Refunded Bonds") issued pursuant to Ordinance No. 16416 and constituting Prior Lien Bonds. Such payment and redemption will reduce the City's debt service on its outstanding obligations issued for Lincoln Electric System. The remaining proceeds of the 2003 Bonds will be used to pay the costs of capital improvements to the System (see the caption "THE PROJECT" herein), to fund a deposit to the 2003 Debt Service Reserve Fund and to pay certain costs and expenses of issuing the 2003 Bonds.

On the date of issuance of the 2003 Bonds, a sufficient portion of the net proceeds thereof, together with certain other funds of the City set aside in a separate, segregated account and used to redeem on October 8, 2003 all of the Refunded Bonds at a redemption price equal to 102% of the principal amount thereof plus accrued interest thereon to the date of redemption.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the 2003 Bonds. Accrued interest received upon the delivery of the 2003 Bonds will be deposited into the Bond Fund.

Sources of Funds

Par Amount of 2003 Bonds	\$126,310,000.00
Net Original Issue Premium	1,843,105.75
Accrued Interest	99,247.29
Other Legally Available Funds ⁽¹⁾	<u>2,736,066.30</u>
Total	<u>\$130,988,419.34</u>

Uses of Funds

Deposit to Construction Fund	\$90,000,000.00
Refunding of 1993 Bonds	35,394,149.97
Underwriters' Discount and Costs of Issuance	890,409.58
Deposit to Series 2003 Debt Service Reserve Fund	4,604,612.50
Accrued Interest	<u>99,247.29</u>
Total	<u>\$130,988,419.34</u>

(1) Represent other funds of the City set aside for the benefit of the Refunded Bonds bondholders.

DESCRIPTION OF THE 2003 BONDS

General

The 2003 Bonds will be issued in the aggregate principal amount of \$126,310,000 and will consist of serial and term bonds as set forth on the inside cover of this Official Statement. The 2003 Bonds will be issued in book-entry form only.

The 2003 Bonds will be dated as of October 1, 2003, will bear interest from that date payable on each March 1 and September 1, beginning March 1, 2004, and will mature on September 1 in the years and the principal amounts, and bear interest at the respective rates, as set forth on the inside cover of this Official Statement. The 2003 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof.

Union Bank & Trust Company has been appointed as Registrar and Paying Agent for the 2003 Bonds.

Interchangeability and Transfer

The 2003 Bonds, upon surrender thereof to the Registrar, with a written instrument of transfer satisfactory to the Registrar, duly executed by the registered owner or his or her duly authorized attorney, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of 2003 Bonds in registered form of the same series, maturity and of any other authorized denomination.

In all cases in which the privilege of exchanging or transferring the 2003 Bonds is exercised, the City shall execute and the Registrar shall deliver the 2003 Bonds in accordance with the Ordinance. For every such exchange or transfer of 2003 Bonds, the Registrar shall require the payment by the registered owner requesting such transfer or exchange of any tax or other governmental charges payable with respect thereto and may charge a sum not exceeding the actual cost for each new 2003 Bond.

No exchange or transfer of any 2003 Bond shall be required to be made during the 15 days next preceding an interest payment date for the 2003 Bonds, nor during the 45 days next preceding the date fixed for the redemption of such 2003 Bond.

Mandatory Redemption of Term Bonds Maturing September 1, 2028

The Bonds maturing September 1, 2028 are subject to redemption prior to maturity in part by lot by operation of a mandatory sinking fund on September 1 in each of the following years and in the following amounts, upon payment of the principal amount thereof plus accrued interest to such date of redemption, but without premium. Selection of any Bonds maturing September 1, 2028, or portions thereof to be redeemed shall be in the sole discretion of the Registrar.

Optional Redemption

The 2003 Bonds maturing on and before September 1, 2013, are not redeemable prior to their stated dates of maturity. The 2003 Bonds or portions thereof maturing on September 1, 2014, and thereafter, are redeemable prior to their stated dates of maturity, at the option of the City, as a whole at any time or in part from time to time on or after September 1, 2013, from such maturities and in such amounts as the City and LES in their discretion shall select and by lot within a maturity if less than a full maturity, from moneys which may be available for such purpose and deposited with the Paying Agent on or before the date fixed for redemption, at a redemption price equal to the principal amount thereof, together with accrued interest on such principal amount to the redemption date.

Mandatory Redemption

The Series 2003 Bonds maturing September 1, 2028 shall be subject to mandatory redemption at par plus accrued interest to the redemption date in the respective principal amounts on September 1 of each year set forth below:

<u>September 1, 2028 Term Bond</u>	
<u>Year</u>	<u>Principal Amount</u>
2027	\$16,245,000
2028	17,020,000

Selection of Bonds for Redemption

If less than all the 2003 Bonds of a particular maturity shall be called for prior redemption, the portion of any such 2003 Bond of a denomination of more than \$5,000 principal amount shall be redeemed in the principal amount of \$5,000 or an integral multiple thereof and, in selecting the portions of such 2003 Bonds for redemption, the City shall treat each such 2003 Bond as representing that number of such 2003 Bonds of \$5,000 principal amount which is obtained by dividing the principal amount of such 2003 Bonds to be redeemed in part by \$5,000.

Notice of Redemption

If the City elects to redeem 2003 Bonds, the Registrar shall give notice of such redemption to the Owners of the 2003 Bonds called for redemption, certain securities depositories and one or more information services. Such notice shall be given by first class mail to the Owners of the 2003 Bonds designated for redemption at their addresses appearing on the bond registration books, not less than 30 days nor more than 60 days prior to the redemption date. The actual receipt by the Owner of any 2002 Bond, the securities depositories and one or more information services of notice of redemption shall not be a condition precedent to redemption, and failure to receive such notice or any defects in such notice shall not affect the sufficiency of the proceedings for the redemption of 2003 Bonds.

Notice of redemption having been given, the 2003 Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the applicable redemption price, plus interest accrued and unpaid to the redemption date and, if presentation and surrender thereof are required by the Ordinance, upon presentation and surrender thereof at the office specified in such notice, such 2003 Bonds, or portions thereof and shall be paid at the redemption price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption a portion of a 2003 Bond, if presentation and surrender thereof are required, the City shall execute and the Registrar shall authenticate and deliver, upon the surrender of such 2003 Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the 2003 Bond so surrendered, a 2003 Bond of like maturity in any authorized denomination. If, on the redemption date, moneys for the redemption of all the 2003 Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the 2003 Bonds or portion thereof called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such 2003 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

For so long as the book-entry only system is in effect with respect to the 2003 Bonds, the Registrar will mail notices of redemption to DTC or its nominee or its successor and, if less than all of the 2003 Bonds of a maturity are to be redeemed, DTC or its successor and DTC Participants and Indirect Participants will determine the particular ownership interests of 2003 Bonds of such maturity to be redeemed. Any failure of DTC or its successor or a DTC Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a 2003 Bond of any redemption will not affect the sufficiency or the validity of the redemption of 2003 Bonds. See "Description of the 2003 Bonds—Book-Entry Only System." The City, the Registrar, the Paying Agent and the Underwriters cannot make any assurance that DTC, the DTC Participants or the Indirect Participants will distribute such redemption notices to the Beneficial Owners of the 2003 Bonds, or that they will do so on a timely basis.

Book-Entry Only System

The 2003 Bonds will be available only in book-entry only form in the principal amount of \$5,000 or any integral multiple thereof.

The following description of the procedures and record keeping with respect to beneficial ownership interest in the 2003 Bonds, payment of interest and other payments on the 2003 Bonds to Participants (as hereinafter defined), Indirect Participants (as hereinafter defined) or Beneficial Owners (as hereinafter defined) of the 2003 Bonds, confirmation and transfer of beneficial ownership interest in the 2003 Bonds and other bond-related transactions by and between DTC, Participants, Indirect Participants and Beneficial Owners of the 2003 Bonds, is based solely on information furnished by DTC to the City for inclusion in this Official Statement. Accordingly, the City, the Registrar, the Paying Agent and the Underwriters do not and cannot make any representations concerning these matters, and Beneficial Owners of the 2003 Bonds should not rely on the following information with respect to such matters, but should instead confirm the same with Participants or Indirect Participants from whom they purchased the 2003 Bonds.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2003 Bonds. The 2003 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered 2003 Bond certificate will be issued for each maturity of the 2003 Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants (the "Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing

Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants;" Direct Participants and Indirect Participants are herein referred to together as "DTC Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchase of 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2003 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2003 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2003 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2003 Bonds, except in the event that use of the book-entry system for the 2003 Bonds is discontinued.

4. To facilitate subsequent transfers, all 2003 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee; Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2003 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2003 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2003 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Redemption notices shall be sent to Cede & Co. If less than all of the 2003 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. will consent or vote with respect to the 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal and interest payments on the 2003 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, its nominee, the Registrar, the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City, the Registrar or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the 2003 Bonds at any time by giving reasonable notice to the City, the Registrar or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, 2003 Bond certificates are required to be printed and delivered.

10. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2003 Bond certificates will be printed and delivered.

11. The information in this section concerning DTC and DTC's book-entry system has been provided by DTC. No representation is made by the City, the Registrar, the Paying Agent or the Underwriters as to the accuracy or adequacy of such information provided by DTC or as to the absence of material adverse changes in such information subsequent to the date hereof.

NEITHER THE CITY, THE REGISTRAR, THE PAYING AGENT NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2003 BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO HOLDERS OF THE 2003 BONDS; (IV) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS HOLDER OF THE 2003 BONDS; OR (V) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2003 BONDS.

SECURITY FOR THE 2003 BONDS

The Pledge and Security Interest Under the Ordinance

The 2003 Bonds, together with the 2001 Bonds and the 2002 Bonds and all other series of Bonds issued pursuant to the General Ordinance, will be payable from and secured by a pledge of and security interest in (1) the Revenues of the System subject to the lien of the Prior Lien Bonds (consisting of the 1998 Series A Bonds described under the caption "OUTSTANDING BONDS" below), and (2) certain Funds established by the Ordinance (including the Electric Revenue Fund and the Bond Fund), subject to the prior payment and lien of the Prior Lien Bonds under the Prior Lien Bond Ordinances which will be outstanding after the issuance of the 2003 Bonds and to the provisions of the Ordinance permitting the application thereof for the purposes and on the terms and conditions set forth in the Ordinance. For a description of the Funds established under the Ordinance and other provisions of the Ordinance, see "SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE" in Appendix III hereto.

A 2003 Debt Service Reserve Fund has been established for the 2003 Bonds, into which an amount equal to the Reserve Fund Requirement (as hereinafter defined) will be deposited. The "Reserve Fund Requirement" is defined to be as of any date of calculation, as the maximum amount of interest accruing on the 2003 Bonds in any period of twelve consecutive months. For a more complete description of the provisions relating to the 2003 Debt Service Reserve Fund, see "SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - 2003 Debt Service Reserve Fund" in Appendix III to this Official Statement.

Pursuant to the Ordinance, the Bonds of any series hereafter issued are not required to be additionally secured by amounts on deposit in any Debt Service Reserve Fund. The City, however, may provide, at its option, in the Series Ordinance authorizing the Bonds of any series hereafter issued that the Bonds of such series will be additionally secured by amounts on deposit in any Debt Service Reserve Fund to be designated therefor.

The Bonds will be payable solely from the Net Revenues and the other funds, assets and security described in the Ordinance, and neither the State nor any political subdivision (other than the City) shall be obligated to pay the principal or redemption price thereof or interest thereon and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal or redemption price of, or interest on, the Bonds. No Bondholder or receiver or trustee in connection with the payment of the Bonds shall have any right to compel the State or any political subdivision thereof (including the City) to exercise its appropriation or taxing powers.

The City has covenanted with the Owners of the 2003 Bonds that it will not issue any additional debt under the Prior Lien Bond Ordinances.

Rate Covenant and Coverage Under the Ordinance

The City has agreed under the Ordinance to fix, establish, maintain, and collect such rates, charges and fees for electric power and energy and services furnished by the Electric System and to the extent legally permissible, revise such rates, charges and fees to produce Revenues each Fiscal Year sufficient (i) to pay all Operation and Maintenance Expenses, (ii) to produce Net Revenues, after deducting amounts expended during the Fiscal Year from the Net Revenues for the payment of debt service requirements of the Prior Lien Bonds, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Bonds and Parity Obligations; and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric System reasonably anticipated to be paid from Revenues. See "SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Covenant as to Rates, Fees and Other Charges" in Appendix III hereto.

Limits on Additional Debt

The City may issue additional Bonds or Parity Obligations provided (a) the Net Revenues for the Fiscal Year immediately preceding the Fiscal Year in which such additional Bonds or Parity Obligations are issued are not less than 100% of the average annual Debt Service on all Bonds and Parity Obligations to be Outstanding upon the issuance of such additional Bonds or Parity Obligations, (b) neither the City nor LES shall be in default under the terms of the Ordinance, (c) the issuance of such additional Bonds or Parity Obligations not cause either the City or LES to be in default under the terms of the Ordinance.

OUTSTANDING BONDS

The following Bonds will be outstanding upon the issuance of the 2003 Bonds:

<u>Description</u>	<u>Final Maturity</u>	<u>Outstanding Amount</u>
<u>Prior Lien Bonds:</u>		
1998 Series A	September 1, 2018	\$36,555,000
<u>Prior Commercial Paper Notes:</u>		
Series 1995	Variable	\$90,173,000
<u>Bond Issued Pursuant to the General Ordinance:</u>		
2001 Bonds	September 1, 2020	\$141,150,000
2002 Bonds	September 1, 2025	\$148,190,000
2003 Bonds	September 1, 2028	\$126,310,000

Upon the issuance of the 2003 Bonds, the 1998 Series A Bonds (the "Prior Lien Bonds") will constitute all of the Prior Lien Bonds issued pursuant to the Prior Lien Bond Ordinances. All of the principal of and interest on the Prior Lien Bonds will be paid from, and secured by, the sources provided for under the Prior Lien Bond Ordinances in accordance with the terms thereof. The payment of the 1995 Notes will be subordinate to the payment of the principal of and interest on the 2001 Bonds, 2002 Bonds and 2003 Bonds. The payment of the 2003 Bonds is subject to the prior lien and payment of the Prior Lien Bonds for so long as any of the Prior Lien Bonds remain outstanding.

No additional debt may be issued under the Prior Lien Bond Ordinances.

BOND DEBT SERVICE SCHEDULE

Set forth below is a schedule of the debt service requirements for the 1998, 2001, 2002 and 2003 Bonds which will be outstanding after the delivery of the 2003 Bonds. Debt Service on the 1993 Refunded Bonds is not included.

Electric System Revenue Bonds

Period Ending	Series 2003	Series 2002	Series 2001	Series 1998	Aggregate Debt Service
9/1/2004	8,308,601.04	15,623,450.00	7,163,050.00	3,479,212.50	34,574,313.54
9/1/2005	5,812,337.50	15,623,050.00	7,163,050.00	3,480,687.50	32,079,125.00
9/1/2006	5,812,337.50	14,694,250.00	8,163,050.00	3,483,562.50	32,153,200.00
9/1/2007	8,657,337.50	15,737,250.00	7,123,050.00	3,482,612.50	35,000,250.00
9/1/2008	8,661,987.50	15,732,750.00	7,123,050.00	3,482,837.50	35,000,625.00
9/1/2009	8,654,587.50	15,724,500.00	7,123,050.00	3,479,012.50	34,981,150.00
9/1/2010	8,657,787.50	15,706,500.00	8,703,050.00	3,481,137.50	36,548,475.00
9/1/2011	8,655,987.50	15,703,000.00	7,059,850.00	3,483,762.50	34,902,600.00
9/1/2012	8,601,237.50	15,502,000.00	7,059,850.00	3,479,282.50	34,642,370.00
9/1/2013	8,595,987.50	15,477,000.00	7,059,850.00	3,482,487.50	34,615,325.00
9/1/2014	8,677,487.50	15,783,250.00	9,429,850.00	3,483,750.00	37,374,337.50
9/1/2015	6,464,712.50	13,192,750.00	18,376,162.50	3,482,250.00	41,515,875.00
9/1/2016	4,604,612.50	1,018,000.00	27,730,162.50	3,479,000.00	36,831,775.00
9/1/2017	4,604,612.50	1,018,000.00	27,634,550.00	3,483,750.00	36,740,912.50
9/1/2018	4,604,612.50	1,018,000.00	27,555,125.00	3,480,750.00	36,658,487.50
9/1/2019	4,604,612.50	1,018,000.00	31,016,875.00		36,639,487.50
9/1/2020	4,604,612.50	1,018,000.00	31,011,875.00		36,634,487.50
9/1/2021	13,124,612.50	4,703,000.00			17,827,612.50
9/1/2022	13,124,912.50	4,703,750.00			17,828,662.50
9/1/2023	13,125,975.00	4,700,250.00			17,826,225.00
9/1/2024	13,126,850.00	4,702,250.00			17,829,100.00
9/1/2025	13,121,587.50	4,704,000.00			17,825,587.50
9/1/2026	17,828,837.50				17,828,837.50
9/1/2027	17,825,087.50				17,825,087.50
9/1/2028	17,828,450.00				17,828,450.00
TOTAL:	<u>\$237,689,763.54</u>	<u>\$213,103,000.00</u>	<u>\$246,495,500.00</u>	<u>\$52,224,095.00</u>	<u>\$749,512,358.54</u>

CITY OF LINCOLN

Lincoln, the capital of Nebraska (the "City"), is located in southeastern Nebraska near the center of population of the State. The City is a municipal corporation and a city of the primary class under Nebraska law. It operates under a home rule Charter and has an elected full-time chief executive ("Mayor") and elected legislative body ("City Council"). Lincoln's government has a broad range of responsibilities, including operation and maintenance of electric, water, and sanitary sewer systems. The Charter grants the City power to purchase, construct and otherwise acquire, own, maintain and operate public utility plants, property and facilities within and without the limits of the City. The administration of City government operates under the direction of the Mayor by administrative departments.

The City's general obligation indebtedness recently was upgraded by Moody's and now carries a "Aaa" rating from Moody's and a "AAA" rating from Standard & Poor's. Lincoln is one of the few cities in the United States having such ratings from both Moody's and Standard & Poor's.

The City is authorized under the Constitution and laws of the State and its home rule Charter to issue revenue bonds. The Finance Director is appointed by the Mayor with the approval of the City Council. Among other duties imposed by the City Charter, the Finance Director is responsible for the issuance and sale of bonds, for depositing the proceeds therefrom and for other acts relating to bonds. Don Herz has held the position of Finance Director since June 1999. Selected demographic information with respect to the City and the LES service area is included in Appendix II to this Official Statement.

LINCOLN ELECTRIC SYSTEM

Organization

Since 1913, the City has owned and operated at least a partial electric system. In 1966, the City purchased the properties serving Lincoln from Consumers Public Power District and combined them with City property to form Lincoln Electric System. In 1971, following a referendum, the Administrative Board for LES was created. It is responsible for day-to-day administration of the electric system. The City, through the City Council, retained the right to approve rates and charges, the annual budget and debt financing for LES capital requirements. Historically, such approvals have been granted by the City Council based on the actions approved and recommended by LES management and the LES Administrative Board.

Service Area

The LES service area includes the corporate area of the City and an area outside the City's corporate limits. The service area covers approximately 200 square miles, of which approximately 80 square miles are within the City limits. Approximately 4% of LES's customers are located outside the City's corporate limits. To the extent that the corporate limits of the City are expanded in the future, Nebraska law provides that the service area of LES may likewise be expanded. The LES service area is totally surrounded by Norris Public Power District. LES and Norris have an agreement providing a mechanism for orderly expansion of the LES service area as the City expands. LES holds an exclusive franchise to serve customers within its service area. Nebraska law contains certain provisions pertaining to the rights of municipalities within the State to acquire the electric distribution systems associated with providing service to residents of the municipality. Only one municipality, the City of Waverly, with a population less than 2,000, is located within the LES service area and is served under a ten year franchise agreement dated November 1, 1986. In 1996, Waverly, through a ten year automatic renewal of the Agreement, extended the term through November 1, 2006. LES's financial results would not be materially adversely affected by the loss of the Waverly energy sales and revenues.

LES served 116,974 customers as of December 31, 2002, of which 87% were residential, 12% were commercial and industrial and the balance, approximately 1%, was governmental and other. The total number of customers increased 2.1% in 1998, 2.1% in 1999, 1.7% in 2000, 1.9% in 2001 and 2.3% in 2002.

Administration

The LES Administrative Board consists of nine members who are appointed by the Mayor and confirmed by the City Council. Each Board member is eligible for three terms of three years each and must be a ratepayer of LES. The present members and their occupations are:

<u>Member</u>	<u>Term Expires December</u>	<u>Occupation</u>
RON ECKLUND Chair	2004	Partner Hanigan Bjorkman Ecklund, CPA's
MARK HESSER Vice Chair	2004	President Pinnacle Bank
TOM SCHLEICH Secretary	2005	CEO HOME Real Estate
MIKE AYARS	2003	President Ayars & Ayars, Inc.
BEATTY BRASCH	2004	Executive Director Center For People in Need
PATRICIA MCMANUS	2005	Executive Vice President Olsson Associates
RON MELBYE	2005	Account Executive Siemens Building Technologies, Inc.
JERRY SHOECRAFT	2003	Property Manager/Leasing Agent Commercial Investment Properties
JEANIE WATSON	2003	President Nebraska Wesleyan University

The executive team of LES, their areas of responsibility and their utility related experience are described below.

Administrator & CEO - Terrill L. Bundy, age 54, has held this position since August 1997. The Administrator & CEO has full authority within approved budgets and policies of LES, as directed by the Administrative Board, to administer, manage, plan and direct the operations of LES. From 1990 to 1997, Mr. Bundy was Manager of Power Supply. Prior to that he was Chief Engineer of System Development. Mr. Bundy has been employed by LES for 31 years, has an MS in Electrical Engineering from the University of Nebraska-Lincoln and is a Registered Professional Engineer. Mr. Bundy serves on the Management Committee of MAPP and is a Board member of the Nebraska Municipal Power Pool and the Nebraska Power Association. He is the current President of the Nebraska Utility Corporation, a joint utility venture of LES and the University of Nebraska-Lincoln. He has served on the North American Electric Reliability Council Engineering Committee and is a past chairman of the MAPP Engineering Committee, the American Public Power Association System Planning Committee and the Missouri Basin Systems Group Planning Committee.

Division Manager of Financial Services - Keith C. Brown, age 56, has been a Division Manager since 1985. Prior to that, he was employed by the Central Nebraska Public Power and Irrigation District, Becton-Dickinson and Company and George A. Hormel and Company. Mr. Brown has been employed by LES for 18 years, has a BS in Business Administration from Midland College and a Master's in Public Administration from the University of Nebraska-Omaha. Mr. Brown's responsibilities include: accounting and financial reporting, debt management, investments, purchasing, risk management and audit. Mr. Brown is a member of the Executive Board of the Government Finance Officers' Association and has testified before the Internal Revenue Service on behalf of the American Public Power Association.

Division Manager of Power Supply - Douglas D. Bantam, age 52, has been a Division Manager since March 2000, having previously held positions at LES as Chief Engineer of Generation Engineering, Supervising Engineer and Senior Engineer in Generation Engineering. Prior to that, Mr. Bantam had been employed by Burns and McDonnell Engineering. Mr. Bantam has been employed by LES for 25 years, has a BS in Electrical Engineering from the University of Nebraska-Lincoln and is a Registered Professional Engineer. He directs the preparation and execution of plans for the acquisition, sale and optimization of bulk power supply resources to meet LES customer electrical demand.

General Counsel - Douglas L. Curry, age 58, has been LES's General Counsel since 1978. In 1997, he became a full time member of the LES executive staff. Prior to that, Mr. Curry was a shareholder in the Lincoln law firm of Erickson & Sederstrom, P.C. He has both a BA in English and a Juris Doctorate from the University of Nebraska-Lincoln. He is a member of the American Bar Association, Nebraska State Bar Association, American Corporate Counsel Association and the Legal Section of the American Public Power Association. He represents LES and the Board on all general legal matters, is responsible for procuring outside counsel services as necessary, and supervises all litigation.

Division Manager of Operations - Neil G. Engelman, age 50, has been Division Manager of Operations since August 2000. Prior to that, he served as Assistant Manager of Operations since 1997. Mr. Engelman has been employed at LES for 30 years, has a BS in Electrical Engineering from the University of Nebraska-Lincoln, and is a Registered Professional Engineer. His duties include oversight of the Construction, Maintenance, Control, and Operation of the transmission, substation, distribution and communications systems as well as managing the Fleet, Buildings, and Grounds.

Division Manager of Consumer Services - J. Todd Hall, age 43, has been Division Manager of Consumer Services since April 2002. Prior to that he served as the chief executive officer for Nebraska Energy Services Company. Mr. Hall has a bachelor's degree in business administration from the University of Phoenix. His duties include managing LES' Energy Services Sales and Marketing; Consumer Accounting, Billing, Credit, and Consumer Services; New Products and Services; Rates and Load Forecasting; and Community Economic Development.

Director Information Technology - David Mannering, age 53, has been Information Technology Director since 1998. Prior to that he was Associate Vice President for Information Technology at Emporia State University in Kansas. Dr. Mannering has a Ph.D. in Higher Education Administration, and a Bachelors and a Masters degree in Philosophy from the University of Kansas. The Information Technology Department oversees LES computing systems and facilities including business information systems, engineering and control information systems, enterprise resource and planning systems, desktop systems, and networks.

Director, Human Resources - Debra L. Hoy, age 51, has been Human Resources Director since 1988. Ms. Hoy has been employed by LES for 23 years. She has a BS in Political Science from Nebraska Wesleyan University and a Juris Doctorate from the University of Nebraska-Lincoln College of Law. She is a member of the American Bar Association and the Nebraska State Bar Association. She is responsible for employment services, performance management, compensation and

benefits, safety, environmental services, and training and organizational development, along with special projects as requested by key staff or the Administrator and CEO.

Division Manager of Engineering Services - Danny L. Pudenz, age 48, has been a Division Manager of Engineering Services since August 2000. Prior to that, he served as Division Manager of Operations since 1997. Mr. Pudenz has been employed at LES for 26 years, has a B.S. in Civil Engineering from Iowa State University and is a Registered Professional Engineer. His duties include oversight of the planning, design and budgeting for capital improvements in the transmission, substation, distribution and communications systems as well as property management and Geographical Information Systems (GIS) coordination.

Policy Analysis Director and Assistant Counsel- Shelley R. Sahling, age 41, has been a Policy Analysis Director and Assistant Counsel since 1999 and prior to that, was Executive Assistant. Ms. Sahling has been employed by LES for 15 years, has a BA in Political Science from Doane College and a Juris Doctorate from the University of Nebraska-Lincoln College of Law. She is a member of the American Bar Association and the Nebraska State Bar Association. Ms. Sahling was elected in June 2003 to a second three-year term on the Board of Directors of the American Public Power Association. She also serves on the Research Advisory Committee of the Electric Power Research Institute (EPRI). Ms. Sahling is responsible for government relations, strategic planning, customer and corporate communication, corporate policy analysis, LES Administrative Board coordination, and is a primary liaison to the Lincoln City Council.

Employee Relations and Pension Program

LES has approximately 457 employees. It maintains competitive compensation and fringe benefit programs and supports continuing education and training. Approximately 122 employees in the trades and crafts categories are represented by a local bargaining unit of the International Brotherhood of Electrical Workers. LES' three year contract expires December 31, 2004. In the opinion of management, LES maintains a good working relationship with this bargaining unit. The overall turn-over rate for the past three years has been approximately 4% annually.

LES has a contributory retirement plan covering all employees who have been employed for a continuous period of six months. The plan is a straight money purchase plan. The total retirement contribution, including the employee contribution but net of employee forfeitures, was \$3,565,600 and \$3,260,300 for the years ended December 31, 2002 and 2001, respectively. LES's contribution is equal to 200% of the employees' contributions, which range from 2% to 5% of gross wages. Vesting of LES contributions occurs over a five-year period. Employee forfeitures are used to reduce employer contributions. Vested benefits are fully funded.

Payments in Lieu of Taxes

The City Charter requires that 5% of the total gross revenues received from the sale of electricity within the City's corporate limits and any incorporated city or village within which LES sells electricity at retail be paid annually in lieu of taxes and divided among the City and certain other local political subdivisions of the State. The amount of any such annual payment is reduced to the extent of other payments in lieu of taxes required to be made by LES with respect to its property or operations. Upon the adoption of a charter amendment in 1996, in lieu of tax payments are made after debt service on the Prior Lien Bonds, the 1993 Bonds, the 2003 Bonds and all future series of Bonds issued pursuant to the General Ordinance.

In 2002, \$7,135,000 of LES's revenues were accrued pursuant to this provision of the City Charter, a 4.9% increase from 2001 resulting from higher retail sales. The estimated amount for 2003 is \$7.6 million. Over the past 37 years, LES has paid \$126.7 million in lieu of taxes.

Nebraska Power Review Board

The Nebraska Power Review Board ("NPRB") was created in 1963 and consists of five members appointed by the Governor, subject to approval by the Legislature. The duties and jurisdiction of the NPRB are limited to those matters specifically granted by State statute including jurisdiction over the retail service areas of the electric utilities in the State. As a municipality, the City is not required to obtain approval from the NPRB for establishing the retail rates of LES which are established by resolution adopted by the City Council. See "RATES."

Nebraska law provides that, under certain circumstances, the NPRB may render advisory opinions concerning wholesale rate disputes which are not binding on the parties. The statutes further provide that, with certain exceptions, before any electric generation facilities or any transmission lines or related facilities carrying more than 700 volts are constructed by any supplier of electricity, approval of the NPRB must be obtained.

The NPRB has taken an active role in the Organization of MISO States Inc. ("OMS"), designating one of its members to represent Nebraska as a director. The OMS is a non-profit, self-governing organization of representatives from each state with jurisdiction over entities participating in the MISO. The purpose of the OMS is to coordinate regulatory oversight among the states, including recommendations to MISO, the MISO Board of Directors, the FERC, other relevant government entities, and state commissions as appropriate.

Nebraska law also provides for the filing with the NPRB by the Nebraska Power Association (which represents Nebraska utilities) of certain information, including a coordinated long-range power supply report, a twenty-year annual load and capability report, and a research and conservation report.

RATES

General

There are no investor-owned electric utilities serving customers in Nebraska. State residents are served exclusively by public power districts, municipally-owned utilities, such as LES, and not-for-profit rural electric cooperatives. The Nebraska Public Service Commission retains only very limited jurisdiction over the operation of electric utilities in the State, with no jurisdiction over electric rates. The City Council has exclusive jurisdiction for establishing rates for LES's retail customers. In the opinion of the General Counsel to LES, no other State or Federal regulatory body has any authority to determine or review the retail rates set by the City Council.

The retail electric rates charged by LES are not subject to Federal regulation. Pursuant to the National Energy Policy Act of 1992, however, LES could come under the jurisdiction of the Federal Energy Regulatory Commission ("FERC") with regard to certain matters relating to providing wholesale transmission services (see "Electric Utility Deregulation and Competition"). In addition, as described above under "LINCOLN ELECTRIC SYSTEM-Nebraska Power Review Board," the NPRB is empowered by Nebraska law to render advisory opinions concerning wholesale rate disputes, which are not binding upon the parties.

Rate Design

LES's rates are designed by the LES staff using cost of service principles and do not include any automatic fuel cost adjustment. Rates are adopted by the LES Administrative Board after a public hearing and then submitted to the City Council for approval. The table set forth below under the subcaption "History of Rate Changes" lists average retail rate changes since 1987; rate changes for individual customer classes have been lower and higher than the average rates.

History of Rate Changes

Over the last five years, LES retail sales have represented 89.6% of LES's operating revenues. The average retail rate changes since 1987 are as follows:

<u>Effective Date</u>	<u>Average % Change</u>
May 1, 1987	-3.0
December 1, 1987	-7.0
October 1, 1992	3.0
January 1, 1994	4.0
April 1, 2003	5.0

For 2002, LES's average billed retail revenue was \$.0498 per kilowatt-hour ("kWh") and for 2003 is budgeted at \$.0514 per kWh.

Independent Rate Survey

An independent survey of rates in effect January 1, 2003, conducted for LES by KPMG LLP("KPMG"), independent certified public accountants, and based, in part, on certain published data (the "2003 KPMG Survey"), indicated that the typical electric bills of LES customers for various kWh usage categories for both residential and industrial rates were in line with, or less than, the charges for electric service in other surveyed areas. The 2003 KPMG Survey of 106 major United States cities showed LES to be among the lowest 10% of electric rates in the majority of the survey categories.

The following table shows a comparison of industrial bills for selected cities from the 2003 KPMG Survey:

National Electric Rate Survey
KPMG LLP
 January 2003

<u>State</u>	<u>City ⁽¹⁾</u>	Residential ⁽²⁾ <u>1,000 kWh w/o Water Heater</u>	Commercial & Industrial ⁽²⁾ <u>1,000 Kw & 400,000 Kwh</u>
Nebraska	Lincoln	\$53	\$16,185
	Omaha	\$65	\$15,250
Iowa	Des Moines	\$90	\$18,275
South Dakota	Sioux Falls	\$78	\$20,065
Wyoming	Cheyenne	\$95	\$30,735
Colorado	Denver	\$80	\$24,911
Kansas	Wichita	\$78	\$22,246
Missouri	Kansas City	\$62	\$20,026
California	San Francisco	\$166	\$45,194
New York	New York City	\$157	\$49,252

(1) Selected cities included in the 2003 KPMG Survey of 106 United States cities.

(2) Typical bill based on January 2003 rates for sample of loads and customer class reported in the 2003 KPMG Survey.

POWER SUPPLY

Summary of Resources

LES satisfies its capacity and energy requirements from the following resources:

LES-owned generation facilities comprised of (i) output associated with LES's undivided ownership interest, as a tenant in common, in the Missouri Basin Power Project and its Laramie River Generating Station ("LRS") operated and maintained by Basin Electric Power Cooperative ("BASIN"), and (ii) generation from four LES-owned combustion turbines located in or near the LES service area (see "LES-Owned Generation");

Purchases from Nebraska Public Power District ("NPPD"), under separate participation contracts, of a portion of the output of the Gerald Gentleman Station, and the Sheldon Generating Station (see "Participation Contracts with Nebraska Public Power District"); and

Other power purchase arrangements including (i) purchases from the United States Department of Energy, Western Area Power Administration ("WAPA"), (ii) purchases through the Mid-Continent Area Power Pool ("MAPP") and (iii) System Purchase from NPPD.

Total resources available during 2003 (net after sales of capacity) are projected by LES to be 940 megawatts ("MW").

Lincoln Electric System Resources - 2002

<u>Unit Name</u>	<u>Fuel Type</u>	<u>Lead Owner</u>	<u>Commercial Operation Date</u>	<u>Net Capacity (MW)</u>	<u>LES Share</u>	
					<u>%</u>	<u>(MW)</u>
Owned Units						
Laramie River (Net to LES)	Coal	BEPC	1982	1,710.0	10.50	179.1
J Street Combustion Turbine	Oil/Gas	LES	1972	30.3	100.00	30.3
Salt Valley Generation Station ⁽¹⁾	Oil/Gas	LES	2003	66.0	100.00	66.0
Rokeby 1 Combustion Turbine	Oil/Gas	LES	1975	74.5	100.00	74.5
Rokeby 2 Combustion Turbine	Oil/Gas	LES	1997	88.3	100.00	88.3
Rokeby Black Start Diesel	Oil/Gas	LES	1997	3.0	100.00	3.0
Rokeby 3 Combustion Turbine	Oil/Gas	LES	2001	99.9	100.00	99.9
Wind Turbines 1&2 ⁽²⁾	Wind	LES	2000	1.3	100.00	0.0
Participation Units						
Gerald Gentleman	Coal	NPPD	1982	1,365.0	8.00	109.0
Sheldon	Coal	NPPD	1968	225.0	30.00	68.0
Firm Contracts						
Western Area Power Administration	Hydro	WAPA	1974			127.0
Nebraska Public Power District ⁽³⁾	System	NPPD	2002			95.0
						<u>940.1</u>

(1) The Salt Valley Generating Stations began operation during 2003. The remaining 100 MW of capacity at the sight will reach commercial operation in 2004.

(2) Available for energy production but capacity not accredited with MAPP.

(3) This contract, which replaces a firm unit participation, will expire September 30, 2003. See "Cooper Nuclear Station."

The following sections provide a summary description of each of the above-mentioned resources and related contractual arrangements.

LES-Owned Generation

Missouri Basin Power Project

General. LES is one of six participants (the "MBPP Participants") in the Missouri Basin Power Project ("MBPP"). MBPP includes (i) the Laramie River Generating Station ("LRS"), (ii) the Grayrocks Dam and Reservoir, (iii) certain transmission and transformation facilities, and (iv) rights under a 60-year transmission service contract with NPPD.

The MBPP Participants have entered into a participation agreement (as amended to the date hereof, the "MBPP Participation Agreement") which provides for the disposition of the LRS output and use of transmission facilities for service to the MBPP Participants under various conditions of operation, and the payment of costs associated with MBPP. The MBPP Participation Agreement became effective in 1977, and extends for 50 years. The MBPP Participation Agreement provides that the administration, construction, completion, operation and maintenance of MBPP shall be the responsibility of a Management Committee, consisting of one representative of each MBPP Participant, with each representative having one vote.

The MBPP Participation Agreement provides that certain costs of operation and maintenance directly related to kWh output shall be shared and paid for by the MBPP Participants as a function of net energy generation scheduled and produced for them. Remaining costs are shared and paid for in proportion to the MBPP Participants' respective entitlement shares.

The MBPP Participation Agreement further provides for an Operating Agent to be responsible for the operation and maintenance under the general supervision of the Management Committee, and subject to removal by the Management Committee under certain circumstances. Basin Electric is the Operating Agent.

The percentage entitlements of each of the MBPP Participants with respect to MBPP output are set forth in the following table:

	Percentage Entitlement in MBPP
Electric Cooperatives:	
Basin Electric	42.27 %
Tri-State	24.13
Public Bodies:	
LES (1)	12.76
Western Minnesota	16.47
Heartland	3.00
Wyoming Municipal	<u>1.37</u>
Total	<u><u>100.00 %</u></u>

(1) Includes all capacity sold to non-participants Municipal Energy Agency of Nebraska ("MEAN"), approximately 28MW (1.67%) and Los Alamos, approximately 10MW (.61%).

LES made sales from LRS to non-participants of approximately 1.67% to the Municipal Energy Agency of Nebraska ("MEAN") and .61% to the Department of Public Utilities, County of Los Alamos, New Mexico. After these sales, LES currently has for its own use approximately 10.5% of MBPP capacity amounting to 179 MW.

Laramie River Station. LRS, located on a 2,400-acre site five miles northeast of Wheatland in Platte County, Wyoming, consists of three generating units, a substation, coal handling and storage facilities, a unit-train loop track, cooling towers, ash handling and disposal facilities and pollution control facilities for sulfur dioxide and particulate removal. Unit No. 1 commenced commercial operation in 1980, Unit No. 2 in 1981 and Unit No. 3 in 1982.

Historical operating statistics and energy costs for LRS Units are summarized in the following table:

	LES Share of Laramie River Station				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Net capability (MW) ⁽¹⁾	213	179	179	179	179
Net Generation (MWh)	1,378,193	1,294,262	1,157,917	1,403,358	1,451,015
Plant Capacity Factor (%)	73.70	82.48	73.86	89.50	92.50
Energy Cost (\$)	7,955,207	7,342,732	6,321,235	8,380,288	8,286,309
Energy Rate (\$/MWh)	5.77	5.67	5.46	5.97	5.71

(1) 35MW of Seasonal Exchange for 1997-1998

Transmission Facilities. The transmission grid in the United States has been synchronously separated, although physically connected, along a line extending south from Great Falls, Montana, through Stegall, Nebraska, to the Texas-New Mexico border, resulting in an eastern interconnected system and a western interconnected system. Because of this east-west separation, Units No. 2 and 3 of the LRS are currently connected to the western interconnected system and Unit No. 1 is currently connected to the eastern interconnected system.

LES is on the east side of the east-west separation and would be affected by a forced or scheduled outage of the single unit (Unit No. 1) of the LRS connected to the east side. The MBPP Participation Agreement, however, gives each MBPP Participant the certain rights to power and energy produced by the entire facility. Basin Electric, as MBPP Operating Agent, is required to use its best efforts to schedule each MBPP Participant's entitlement share to the extent available. In the event that the east side Unit No. 1 is not available for energy production, LES and the other east side MBPP Participants must replace such energy either from their own resources or purchases from other utilities. Replacement energy costs after the first 145 hours of a major forced outage or unit derating are shared by all MBPP Participants.

MBPP transmission lines and a transmission service contract with NPPD are used for delivery of power and energy beyond the LRS switching station to LES and other east side MBPP Participants.

MBPP Transmission Facilities. The transmission facilities constructed and operated as a part of MBPP consist of approximately 742 miles of 345 kV and 230 kV transmission lines and various substation and switching facilities. Basin Electric is the Operating Agent for both the east side and the west side transmission facilities, but has delegated such responsibility for the west side transmission facilities to Tri-State. Although the MBPP transmission facilities are identified as "west side" and "east side" facilities, the cost of all the transmission facilities are shared by the MBPP Participants on an entitlement shares basis.

NPPD Transmission Service. Basin Electric entered into a transmission service contract with NPPD on behalf of MBPP dated April 29, 1977, which extends to December 31, 2040, and under which NPPD receives up to 575 MW of LRS power at Sidney, Nebraska, and delivers such power and associated energy, less losses, to LES and certain other MBPP Participants. MBPP has compensated NPPD for this transmission service by a payment of about \$54.5 million for the cost of construction of certain designated transmission facilities added to that portion of the NPPD transmission grid designated to operate at 345 kV or higher (the "NPPD Bulk Transmission System"). MBPP also provides monthly payments for MBPP's share of NPPD's renewal and replacement expenditures, operating and maintenance expenses and administration and general expenses attributed to the NPPD Bulk Transmission System. The transmission facilities financed by MBPP are the sole property of NPPD. MBPP's share of such costs are based on a ratio of cost of construction payment by MBPP to the amount of NPPD's investment in utility plant attributable to the NPPD Bulk Transmission System. It is anticipated that the NPPD transmission agreement will be a "Grandfathered" arrangement under LES' MISO membership.

Water Supply. LRS's water requirements are supplied from four sources as follows: (i) water rights in the Boughton Ditch, located about 100 miles upstream from the Grayrocks Dam and Reservoir, (ii) water rights associated with land acquired for the LRS that is inundated by waters stored in the Grayrocks Reservoir, (iii) the unused and unappropriated flows of the Laramie River stored in the Grayrocks Reservoir, and (iv) ground water pumped directly to the plant site from wells on property known as the Johnson Ranch, located about two miles northwest of the LRS.

Grayrocks Dam and Reservoir is the primary water supply for MBPP and is located on the main stem of the Laramie River. The dam was completed in July 1980 with a reservoir storage capacity of approximately 104,000 acre-feet and a surcharge capacity of 42,700 acre-feet. The principal spillway was designed with the capacity to pass the largest flood experienced during the 57 years of record for the Laramie River. Water for cooling is pumped from Grayrocks Reservoir by pipeline to LRS.

Fuel Supply. Coal for LRS is supplied pursuant to a coal purchase contract (the "Coal Purchase Contract") between Basin Electric, as MBPP Project Manager, and Western Fuels Association, Inc. ("Western Fuels"). Western Fuels is a non-profit Wyoming corporation created by Basin Electric and Tri-State for the purpose of acquiring and developing economical fuel resources for Western Fuels members, consisting of electric cooperative associations and municipal electric systems, as well as other not-for-profit utilities. Western Fuels supplies coal through purchases from other companies and from the Dry Fork Mine, a mine in the Powder River Basin owned and operated by a Western Fuels wholly-owned subsidiary. The MBPP Participants have loaned capital construction funds to Western Fuels which Western Fuels has in turn loaned to its subsidiary to finance the development of the mine.

Under the terms of the Coal Purchase Contract, Western Fuels will supply and deliver the total coal requirements of LRS through the year 2034. Western Fuels will either renew current contracts as they expire, or contract for additional coal or increase production at the Dry Fork Mine to provide all the coal requirements for LRS.

The cost of coal under the Coal Purchase Contract is a reason why LRS continues to rank as one of the lowest cost power producers in the United States.

Environmental and Other Permits and Approvals. Basin Electric is operating the LRS in accord with all federal, state and local permits.

Combustion Turbines

General. LES owns four combustion turbines, which are referred to as the "J Street Station" and the "Rokeby Station Unit 1, Unit 2 and Unit 3." Although the combustion turbines provide 31% of LES's projected 2003 resource capabilities, it is anticipated that they will be utilized on a limited basis in peaking service in meeting LES's 2003 energy requirements. The historical operation of LES' local generation resources is shown below.

LES Local Generation

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Net capability (MW)	187	181	195	290	293
Net Generation (MWh)	41,891	33,372	46,045	35,695	38,111
Plant Capacity Factor (%)	2.56	2.11	2.7	1.41	1.48
Energy Cost (\$)	1,364,164	800,257	262,209	2,913,752	1,841,897
Energy Rate (\$/MWh) ⁽¹⁾	32.56	23.98	56.95	81.63	48.32

(1) 2001 Combustion Turbine energy costs reflect significant fuel oil use for commissioning of Rokeby Unit 3 and high volatility in natural gas prices.

The latest Rokeby site expansion projects included the installation of new ABB/Alstom 11N1 and 11NM simple cycle combustion turbines. All Rokeby turbine generators have been equipped with the required inlet structure to allow for inlet air cooling so that the summer capacity is significantly increased through inlet air cooling. The inlet cooling system was pioneered by LES in 1991 with the Rokeby Unit 1 Capacity Enhancement Project and has proven to be a significant benefit to the summer ratings of these machines. In addition to the new ABB/Alstom turbine generators, the Rokeby project included the construction of a new 115 kV substation which provides the high voltage interconnection of the Rokeby units to the LES system, a new LES Back Up Control Center and Turbine Operations Building, and a 3 MW Black Start generator. These new

buildings and facilities provide the support for all LES-owned peaking generation operations and maintenance functions. The lower level of the operation structure at Rokeby is equipped to support system emergency operations in the event of a loss in the existing LES Service Center.

Fuel Supply. The Rokeby Station utilizes natural gas with number 2 fuel oil as a backup. Natural gas is delivered from the interstate pipeline to the site through an 11 mile high pressure line constructed specifically for the Rokeby site. Provisions are in place to perform online switching to fuel oil. The oil is supplied from a 5 million gallon oil tank at Rokeby Station. Oil from the Rokeby Station tank is hauled by truck to the J Street Station if gas is not available or oil is cheaper for the operation of that unit. LES currently has approximately 1.5 million gallons of fuel oil in storage at Rokeby Station.

Environmental and Other Permits and Approvals. LES combustion turbines operate under federally enforceable air pollution permits issued by the Lincoln Lancaster County Health Department ("LLCHD"). In 1997, LES filed the appropriate Title V permit applications with LLCHD. Rokeby Units 2 and 3 are subject to acid rain regulations and LES maintains sufficient SO₂ allowances for each year of operation. LES also maintains a National Pollutant Discharge Elimination System (NPDES) permit covering all water discharges from the Rokeby site.

Contracts with Nebraska Public Power District

Cooper Nuclear Station

The Cooper Nuclear Station is an approximately 800 megawatt nuclear generating plant that is owned and operated by NPPD. From 1973 through July 2002, LES received energy from CNS while contributing fixed and variable expenses equivalent to ownership costs and fuel costs pursuant to a power sales contract with NPPD which was the subject of long-standing litigation.

On July 31, 2002 the LES Administrative Board approved the settlement with NPPD resolving all pending litigation between NPPD and LES regarding CNS and executed the "Settlement Agreement, Mutual Release and Indemnity" outlining all terms and conditions of the settlement.

The settlement included:

A new Power Sales Agreement (PSA) with NPPD effective August 1, 2002, through September 30, 2003, for 95 megawatts of accredited capacity and energy from NPPD.

An amendment to the agreement for Gerald Gentleman Station relating to LES' entitlement to fully schedule an additional 7 megawatts from the Station.

All CNS related litigation was dismissed.

A significant and key factor in the overall settlement is the provision whereby NPPD agrees not only to release LES from any future decommissioning obligation, but also to indemnify and hold LES harmless from any claim of any nature from any person or entity (including government agencies) that arises from or relates to the PSC or the operation of CNS.

The following technical information has been provided by the Nebraska Public Power District ("NPPD"), the owner and operator of Gerald Gentleman Station and Shelton Stations. LES has no reason to believe that any of the information contained in these statements is incorrect.

Gerald Gentleman Station

General. LES purchases power and energy from NPPD's Gerald Gentleman Station ("Gentleman Station"), pursuant to the Gentleman Station Participation Power Sales Agreement between NPPD and LES, (as amended to the date hereof, the "Gentleman Participation Agreement"). LES is entitled, pursuant to the Gentleman Participation Agreement, to 8% (approximately 109 MW) of the power and energy of the two units. Gerald Gentleman Station is located at a site near the Sutherland Reservoir, approximately 22 miles west of North Platte, Nebraska. Sutherland Reservoir is a part of a canal system and water storage facilities that NPPD owns and operates between Ogallala and North Platte, Nebraska. Gerald Gentleman Station is a coal-fired, steam-electric generating station, consisting of Gerald Gentleman Station Unit No. 1 and Unit No. 2, each having a single coal-fired steam generating boiler and a turbine-generator unit having a nominal rating of 650 MW. Based on MAPP accreditation criteria, Gerald Gentleman Station Unit No. 1 had a summer 2003 accredited net capability of 665 MW. Gerald Gentleman Station Unit No. 2 had a summer 2003 accredited net capability of 700 MW. Each boiler is designed to burn low sulfur coal with a range of characteristics representative of coal available in the Gillette, Wyoming, region. Gerald Gentleman Station Unit No. 1 began supplying power and energy to the System in February 1979 and was declared to be in commercial operation in April 1979. Gerald Gentleman Station Unit No. 2 began supplying power and energy in July 1981 and was declared to be in commercial operation in January 1982.

Fixed cost payments for participation in Gentleman Station are allocated in proportion to entitlement share and on a take-or-pay basis, that is, payable whether or not the station is operating. The cost of fuel to LES is based on the amount of energy scheduled by LES pursuant to the Gentleman Participation Agreement.

The Gentleman Participation Agreement terminates on the later of (i) the last maturity of the debt attributable to Gentleman Station, or (ii) the date on which NPPD retires Gentleman Station from commercial operation. LES will be responsible for decommissioning costs based on its 8% entitlement share. The historical operation of the LES share of Gentleman Station is summarized in the following table.

	LES Share of Gerald Gentleman Station				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Net capability (MW)	109	109	109	109	109
Net Generation (MWh)	735,094	692,544	657,590	769,515	797,107
Plant Capacity Factor (%)	76.85	72.40	68.74	80.59	83.48
Energy Cost (\$)	3,986,990	3,856,246	3,674,821	4,488,541	4,647,641
Energy Rate (\$/MWh)	5.42	5.57	5.59	5.83	5.83

Fuel Supply. Coal for Gerald Gentleman Station is supplied under a coal sales contract with the Arch Coal Sales Company, Inc., agent for the independent operating subsidiaries of Arch Coal, Inc. The contract permits NPPD to purchase between a designated minimum and maximum number of tons annually through December 31, 2003. NPPD also has a coal sales contract with RAG Coal West, Inc., a wholly-owned subsidiary of RAG American Coal Company, which is a wholly-owned subsidiary of RAG American Coal Holding, Inc., which in turn is a wholly-owned subsidiary of RAG International Mining GmbH. This contract permits NPPD to purchase between a certain minimum and maximum number of tons annually through the term of the contract which ends December 31, 2009. NPPD has a contract with Peabody Coal Sales Company, as agent for Caballo Coal Company, for the period of January 1, 2003 through December 31, 2004 for the purchase of a fixed quantity of coal.

NPPD has a master coal purchase and sale agreement with Kennecott Coal Sales Company, agent for several Powder River Basin coal mines owned by Kennecott Energy Company, which has a term from December 4, 2003 through December 31, 2009, subject to the right of either party to terminate upon 60 days notice, that allows through the life of the contract for spot market purchases of coal at prices and quantities that are agreed to at the time of the purchase. There are no set minimums or obligations to purchase coal under the contract, but purchases cannot exceed specified annual quantities which vary depending on the year of the contract.

Coal supplied pursuant to the coal sales contracts is mined near Gillette, Wyoming, and is loaded into rail cars owned or leased by NPPD for unit train delivery by Burlington Northern and Santa Fe Railroad Company (the "BNSF") or Union Pacific Railroad Company (the "UP") to Gerald Gentleman Station. NPPD's operating practice is to schedule deliveries of coal to Gerald Gentleman Station so as to meet the operating requirements of Gerald Gentleman Station, and to maintain a minimum inventory of coal projected to be sufficient to meet Gerald Gentleman Station's firm load requirements for a minimum of 45 days at annual average peak load in the event scheduled deliveries of coal are interrupted. The quantity of coal NPPD has the right to purchase under its coal sales contracts is sufficient to meet the operating and coal supply inventory requirements at Gerald Gentleman Station until December 31, 2004 and partial requirements until December 31, 2009.

NPPD has a railroad spur track which connects Gerald Gentleman Station with the BNSF and a railroad spur track which connects Gerald Gentleman Station with the UP. NPPD has a coal transportation contract with BNSF under which BNSF will transport coal for Gerald Gentleman Station until December 31, 2007. NPPD has a coal transportation contract with UP under which UP will transport coal to Gerald Gentleman Station through December 31, 2011. The quantity of coal which NPPD has the right to ship under the UP coal transportation contract alone, or in combination with the BNSF coal transportation contract, is sufficient to obtain deliveries of coal to meet the operating and coal supply inventory requirements of Gerald Gentleman Station.

The Sterling Branch Line to Wallace, Nebraska, is required for BNSF's coal transportation to Gerald Gentleman Station. On December 19, 1996, BNSF announced publicly that it had completed the sale of 225 miles of rail line from Sterling, Colorado to Holdrege, Nebraska and that the trains thereon would be operated by a new carrier called Nebraska, Kansas & Colorado RailNet Inc. ("RailNet"). BNSF further stated it retained pricing and routing authority over the route. Since NPPD entered into the coal transportation contract with BNSF, the parties executed an amendment to contractually recognize that RailNet can provide train crews and other services over the Sterling Branch Line to Gerald Gentleman Station. NPPD does not have a contract with RailNet and, at the present time, does not anticipate entering into a contract with RailNet. BNSF is currently using RailNet to provide train crews on the Sterling to Gerald Gentleman Station portion of the route.

NPPD management has been authorized to negotiate and execute new or amended coal supply contracts with coal companies that operate coal mines in the Powder River Basin near Gillette, Wyoming, and contracts with other coal sellers and brokers in the over-the-counter coal market, for the supply of coal for Gerald Gentleman Station and Sheldon Station through 2009. The coal supply contracts described above resulted from that authorization and other contracts will be entered into as needed.

Sheldon Station

General. LES entered the Sheldon Station Power Sales Participation Agreement ("Sheldon Participation Agreement"), August 7, 1980, with NPPD, for 30% (approximately 68 MW) of the power and energy of NPPD's Sheldon Generating Station ("Sheldon"). Sheldon Station is located approximately 22 miles southwest of Lincoln, Nebraska, in Lancaster County, Nebraska. Sheldon Station is a coal-fired, steam-electric generating station, consisting of Unit No. 1 and Unit No. 2, each having a single coal-fired steam generating boiler and a turbine-generator unit with nominal ratings of 105 and 120 MW, respectively. Based on MAPP accreditation criteria, Sheldon Station had a total summer 2003 accreditation net capability of 225 MW.

Pursuant to the Sheldon Participation Agreement, LES is required to pay 30% of all costs (excluding fuel costs) attributable to Sheldon whether or not it is operating. The cost of fuel to LES is based on the amount of energy scheduled by LES. In addition, NPPD is required to provide substitute energy to LES under certain circumstances. The Sheldon Participation Agreement terminates December 31 of the year which occurs on the later of (i) the last maturity of the debt attributable to Sheldon or (ii) the date on which NPPD retires Sheldon from commercial operation. LES will be responsible for decommissioning costs based on its 30% entitlement share of Sheldon. The historical operation of the LES share of Sheldon is shown below.

LES Share of Sheldon Station

	1998	1999	2000	2001	2002
Net capability (MW)	68	68	68	68	68
Net Generation (MWh)	423,919	442,402	458,393	469,519	474,787
Plant Capacity Factor (%)	71.69	74.82	77.52	78.82	79.71
Energy Cost (\$)	3,143,552	3,335,472	3,740,013	4,009,035	4,151,812
Energy Rate (\$/MWh)	7.42	7.54	8.16	8.53	8.74

Fuel Supply. The Sheldon Station coal supply is provided under the same RAG Coal West, Inc. contract as Gerald Gentleman Station which permits NPPD to purchase between a designated minimum and maximum number of tons annually for Sheldon Station through the contract's term which ends December 31, 2009. NPPD's operating practice is to schedule deliveries of coal to Sheldon Station so as to meet the operating requirements of Sheldon Station, and to maintain a minimum inventory of coal projected to be sufficient to meet Sheldon Station firm load requirements for a minimum m of 45 days at the annual average peak load in the event scheduled deliveries of coal are interrupted. The quantity of coal NPPD has the right to purchase under its coal sales contract is sufficient to meet the operating and coal supply inventory requirements at Sheldon Station until December 31, 2004 and partial requirements until December 31, 2009.

UP is the only railroad that can serve Sheldon Station and NPPD has a rail transportation contract with UP under which UP will transport coal for Sheldon Station until December 31, 2011. The quantity of coal which NPPD has the right to ship under the UP coal transportation contract for Sheldon Station is sufficient to obtain deliveries of coal to meet the operating and coal supply inventory requirements of Sheldon Station.

Gentleman and Sheldon Station Environmental and Other Permits and Approvals

Federal Clean Air Acts and Federal Clean Water Act Requirements

Congress enacted the Clean Air Act Amendments of 1990 ("Clean Air Act Amendments") with the intent of improving ambient air quality throughout the United States. One objective of these amendments is to reduce emissions of sulfur dioxide ("SO₂") and nitrogen oxide ("NO_x"), two gaseous pollutants formed during the combustion of coal, by coal-burning power plants.

NPPD's Sheldon Station Units No. 1 and 2 and Gerald Gentleman Station Unit No. 1 and Unit No. 2 burn low sulfur Wyoming coal. Each of these generating units operates at emission rate levels below currently applicable regulatory limits for SO₂. Beginning in the year 2000, Sheldon Station and Gerald Gentleman Station became subject to the Clean Air Act Amendments' SO₂ emission allowance system. An "allowance" is an authorization to emit one ton of SO₂ during or after a specified year. Under the emission allowance system, each affected generating unit will be issued, annually, a number of allowances, based upon a variety of factors. Under this system some utilities, including NPPD, will be issued bonus allowances for certain affected units through 2009. No utility may emit more tons of SO₂ in a year than is authorized by its total allowances. Allowances issued to one generating unit may be used by a utility to offset the emissions of another generating unit. Allowances not needed by the recipient utility for its current emissions may be banked for future use, or they may be sold or otherwise transferred to others. NPPD anticipates that the number of SO₂ allowances it will be issued will be sufficient to provide for the projected energy generation requirements of Sheldon Station and Gerald Gentleman Station through 2009, but may not be sufficient during years after 2009 due to the statutory discontinuance of bonus allowances after that year. If allowances issued to NPPD are not sufficient to provide for the energy generation requirements, it may be necessary to purchase additional allowances, or to reduce its SO₂ emissions. Phase II Acid Rain Permits for SO₂ were issued for Sheldon Station in 1997 and are effective through December 31, 2004. A modified Phase II Acid Rain Permit was issued to Gerald Gentleman Station in 1998 and was effective January 1, 2000 and will expire December 31, 2004. The operation covered by this permit consists of operating Gerald Gentleman Station in accordance with the SO₂ and NO_x requirements in the Clean Air Act. The SO₂ requirements of the Acid Rain Permits requires the sources to hold allowances, as of the allowance transfer deadline, in the unit's compliance subaccount in an amount not less than the total annual emissions of SO₂ for the previous calendar year from the unit. The NO_x requirements for Gerald Gentleman Station require Units No. 1 and 2 to each operate at emission rate levels below applicable regulatory limits. Gerald Gentleman Station Units currently operate below these NO_x limits. There are no emission regulations under the Clean Air Act Amendments governing NO_x at Sheldon Station.

The Lincoln-Lancaster County Health Department ("LLCHD") issued an amended operating permit for Sheldon Station on January 6, 1994. This permit requires that (i) any and all air pollution control equipment or combustion processes, must be operated and maintained as necessary for continued compliance with applicable regulations and standards and (ii) the facility must demonstrate compliance with any new or amended air pollution control regulations and standards applicable to such facility. The Clean Air Act Amendments Title V Operating Permit Application was submitted to LLCHD in November 1996 for Sheldon Station. An updated Title V Operating Permit Application was submitted to LLCDH in 2002, along with a draft Title V Operating Permit. The Title V Operating Permit for Sheldon Station was placed on public notice on July 1, 2003 to undergo the 30-day public comment period. The permit will be issued sometime following the public comment period.

In July 1997, the Environmental Protection Agency ("EPA") finalized the National Ambient Air Quality Standards for ozone and particulate matter. It is unknown if implementation of these standards will result in additional reductions being required for SO₂, NO_x, and particulate matter at Sheldon Station and Gerald Gentleman Station.

The EPA issued final regulations for a Regional Haze Program in June 1999. The purpose of the regulations is to improve visibility in the form of reducing regional haze in 156 national parks and wilderness areas across the country. Haze is formed, in part, from emissions of sulfur dioxide and nitrogen oxides. Because these pollutants can be transported over long distances, all 50 states, including those that do not have Class I areas, will have to participate in planning, analysis, and in many cases, emission control programs under the regional haze rule. Regional planning organizations will be used to determine the impact of facilities on the visibility in Class I areas. Nebraska is a member of the Central States Regional Air Planning Association. If it is determined that the generating units at Sheldon Station and Gerald Gentleman Station adversely impact a Class I area, additional reductions of SO₂ and NO_x may be required which could have a significant financial impact depending on the amount of reductions required. Facilities which may need to further reduce emissions are expected to be identified by 2005.

Several new pieces of legislation have been introduced to the U.S. Congress that would require the reduction of air emissions from power plants. The air emissions targeted are nitrogen oxide, sulfur dioxide, mercury and in some cases carbon dioxide. If such legislation becomes law, it would most likely mean NPPD would need to install additional pollution control equipment on these power plants.

The EPA announced on December 14, 2000, that it will regulate mercury emissions from power plants and do so through Maximum Achievable Control Technology Standards. Future regulations for mercury emission reductions could impact the operation of Sheldon Station and Gerald Gentleman Station. The EPA is scheduled to propose a draft regulation by December 15, 2003, and issue its final rule for mercury emissions by December 15, 2004. The compliance date for the sources is December 15, 2007.

The NDEQ issued an operating permit for Gerald Gentleman Station Unit No. 1 and Unit No. 2 in August 1981 and in February 1983, respectively. Both operating permits are subject to (i) all air pollution control equipment being operated and maintained pursuant to Nebraska Air Pollution Control Rules and Regulations and (ii) compliance with any new or amended applicable Rules and Regulations within the time period specified by such Rules and Regulations or by the NDEQ. The Clean Air Act Amendments Title V Operating Permit Program established the requirement for each affected facility having to obtain a Title V operating permit. The Title V Operating Permit Applications were submitted to the NDEQ in November 1996 for Gerald Gentleman Station. A Title V Operating Permit for Gerald Gentleman Station was issued by the NDEQ on August 26, 2002.

Currently, Sheldon Station is operating under an extended 1993 NPDES permit. A letter from NDEQ dated July 28, 1993, delayed reissuance of a new permit and informed NPPD that the conditions of the expired permit would remain in effect until the issuance of a new permit. The new permit is expected to be based on existing regulations and new water quality based standards and is expected to impose additional and more stringent wastewater discharge limits than those in the current NPDES permit. To meet the expected NPDES permit conditions, NPPD may be required to make plant modifications and changes in the current plant operation.

The NDEQ has issued permits and permit renewals to NPPD to establish and operate disposal areas for solid waste and ash at Sheldon Station and Gerald Gentleman Station. The permit for the Sheldon Station current ash disposal area expires on September 26, 2007. The permit for the Gerald Gentleman Station's current ash disposal area will expire on January 28, 2005. The Gerald Gentleman Station's permit for disposal of construction or demolition solid waste will expire on July 7, 2007.

The Federal Clean Water Act contains requirements with respect to effluent limitations relating to the discharge of any pollutant and to the environmental impact of cooling water intake structures. These requirements include, among other things, that with certain exceptions, new and existing sources shall not, after certain specified dates, discharge heated water into the

waters of the United States in excess of state water quality standards. Pursuant to Section 316(a) of this act, less stringent limitations on thermal discharges may be imposed by the NDEQ if there is adequate demonstration that the requirements proposed for the control of thermal discharge are more stringent than necessary to assure protection and propagation of fish and wildlife. On September 12, 1996, a memorandum of understanding was signed between NPPD and the Nebraska Game and Parks Commission which allowed NPPD to receive their 316(a) waiver. The NDEQ issued a NPDES permit for Gerald Gentleman Station on September 5, 2000 with an allowed discharge temperature of 94°F. The NPDES permit for Gerald Gentleman Station expires in 2005.

As part of EPA's nationwide investigation and enforcement program for coal-fired power plants' compliance with Clean Air Act including new source review requirements, on December 4, 2002, the Region VII office of the EPA sent a letter to NPPD and three other electric utilities pursuant to Section 114(a) of the federal Clean Air Act requesting documents and information pertaining to Gerald Gentleman Station and Sheldon Station. On April 10, 2003, Region VII of the EPA sent a supplemental request for documents and information to NPPD and the other three electric utilities. These EPA requests for information are part of an EPA investigation to determine the Clean Air Act compliance status of Gerald Gentleman and Sheldon Stations, including the potential application of new source review requirements. NPPD provided the documents and information requested to the EPA within the time allowed. In general, a finding by EPA of NPPD noncompliance with Clean Air Act requirements, if upheld after court review, can result in the requirement to install air pollution control equipment that is the best available control technology and the imposition of monetary penalties.

As necessary, NPPD will make application to the appropriate federal and state authorities for any permits, certifications and renewals required by federal and state law and regulations for the operations of Sheldon Station, and Gerald Gentleman Station, and the construction of capital additions and improvements thereto.

Other Power Purchase Arrangements

Western Area Power Administration

LES has an allocation from the United States Department of Energy, through WAPA, of firm power under contract from Upper Missouri Basin hydroelectric plants of approximately 54 MW. LES has also received an allocation of firm peaking power of WAPA, 72 MW for five months and 21 MW for the remaining months. The majority of the energy which LES receives associated with the firm peaking power is repaid to WAPA during non-peak periods. Payments for WAPA power are at the standard WAPA wholesale rates. The average cost of WAPA power in 2002 was \$.0215/kWh. The WAPA contract expires December 31, 2020. In 2006 and 2011 WAPA can adjust the contract amounts by reducing LES' share of marketable capacity by 1% in each year.

Transmission, Distribution and Interconnections

Lincoln Area Facilities

LES owns a network of transmission lines which interconnect its generating plants to transmission lines of adjacent utilities and to various transmission and distribution substations serving the loads of LES. The LES transmission lines are physically interconnected with the transmission systems of Omaha Public Power District ("OPPD") and NPPD.

A summary of the LES transmission lines is as follows:

<u>Circuit Voltage</u>	<u>Circuit Miles</u>
345 kV	55
161 kV	12
115 kV	<u>161</u>
Total	<u><u>228</u></u>

LES owns two 345/115 kV substations, a 161/115 kV substation and 40 substations which reduce transmission voltage to distribution voltage. LES has entered into an agreement with NPPD under which NPPD maintains LES's 345 kV transmission lines. The distribution system is operated at two primary voltage levels, 12.5 kV and 35 kV. The system includes

approximately 1,785, miles of primary distribution lines (1,069 circuit miles of underground lines and 716 circuit miles of overhead lines) that interconnect the distribution substations to the lower voltage transformers serving retail customers.

New distribution systems for developments, subdivisions, shopping centers and apartment complexes are generally served by underground 12.5 KV facilities. In the interest of upgrading electric service to some of the older parts of the City, a portion of the older overhead distribution system has been replaced with underground lines. Consequently, as of December 31, 2002, more than 64% of LES 116,974 retail customers were served by underground facilities.

LES is also one of seven participants in a project referred to as the Missouri-Iowa-Nebraska Transmission ("MINT") Project which consists of 105 miles of 345 KV transmission extending from the substation at CNS to Fairport, Missouri and then to St. Joseph, Missouri.

Mid-Continent Area Power Pool

LES is a participant in MAPP, which was created pursuant to the Mid-Continent Area Power Pool Agreement, dated March 31, 1972 (the "MAPP Agreement"). The participant members of MAPP consist of municipal utilities, investor-owned utilities, generation and transmission cooperatives, rural electric cooperatives, public power districts, municipal joint action agencies, WAPA, state regulating bodies, and power marketers. MAPP's participants are engaged in the electric utility business in the upper Midwest and Manitoba, Canada.

MAPP was established and continues to operate as a Regional Reliability Council and Power Pool to realize and further the reliability and benefits of interconnected operations. MAPP also provides for the coordination of the installation and operation of generation and transmission facilities pursuant to its contract with MISO, MAPP continues to provide the coordinated sharing of generation reserves. MAPP will continue to provide NERC-related reliability functions, power and energy market functions to its members, plus transmission functions to MAPP members who elect not to join the MISO.

Midwest Independent Transmission System Operator (MISO)

The Midwest Independent Transmission System Operator, Inc. ("MISO") is the nation's first Regional Transmission Organization (RTO) approved by the Federal Energy Regulatory Commission (FERC). MISO is based in Carmel, Indiana, and is responsible for monitoring the electric transmission system that delivers power from generating plants to wholesale power transmitters. MISO's role is to ensure equal access to the transmission system, to serve as the platform for a wholesale electricity market and to maintain or improve electric system reliability in the Midwest.

The MISO was founded on February 12, 1996, and began selling transmission service under its tariff on February 1, 2002. Utilities with more than 100,000 miles of transmission lines covering 1.1 million square miles from Manitoba, Canada, to Kentucky have committed to participate in the MISO.

LES has full transmission owning member status in MISO effective February 28, 2001. While LES is recognized as a transmission owning member of the MISO, due to the delay by utilities adjacent to LES in transfer of transmission functional control to MISO, LES has not yet come under the active MISO tariff administration. As the MISO memberships are resolved and the physical footprint is established, LES will begin taking service under applicable MISO tariffs. In the meantime, it continues to receive transmission service from MAPP.

Future Power Supply and System Improvements

Future Power Supply

General. As part of a continual planning process, LES reviews its load and resources and participates in statewide and regional planning efforts to determine the most economical way to meet the needs of its customers. LES utilizes an integrated resource planning methodology to evaluate demand side management ("DSM"), purchases and construction alternatives. LES expects to meet its future resource needs after 2003 with a mix of alternatives which may include DSM, purchases from MAPP or MINT participants, the new Salt Valley Generating Station (SVGS) and the participation in Council Bluffs No. 4, a regional base load resource.

Salt Valley Generating Station (SVGS). During 1999, a feasibility study was completed for the installation of a local intermediate load combined cycle generating unit. LES committed to the construction of this new local generating resource as a result of that study.

The SVGS will be configured as a combination of combustion turbines and steam turbine generators. Combining of these two cycles will provide a significantly higher efficiency when compared to LES' other simple cycle turbines. The project site is located in the northeast quadrant of LES' service territory, with ready access to fuel, water and transmission resources. The commercial operation dates for the first phase of this project are July 2003 for the simple cycle components of the combined cycle facility, and first quarter of 2004 for the combined cycle steam unit. Construction of this initial project will provide LES with approximately 165 MW of additional generating capacity.

LES is developing this entirely new site in order to provide generating facility infrastructure such as fuel, water and transmission for an ultimate site capacity of 600 MW. This strategy will allow LES to stage the installation of additional generating resources coincident with customer load growth. The strategy of maintaining a local incremental resource option has already proven valuable in that LES has shifted future combustion turbine additions to later years. This shift in long-range resource plans provides for the more economic option of the Council Bluffs 4 resource in the 2007 and 2009 time frame. Options for additional combustion turbines have been secured, and based on regional base load resource options, the installation of local resources can be carried out as economics dictate.

Council Bluffs No. 4 (CB4). During 2002, LES initiated work with MidAmerican Energy Company ("MEC") to become a joint owner in the planned CB4 coal fired generator project. LES received LES Administrative Board approval, Nebraska Power Review Board ("NPRB") approval and Lincoln City Council approval to purchase a nominal 100 MW ownership interest in the project which was approved by the NRPB on June 21, 2002. LES has executed the Joint Ownership Agreement for the Council Bluffs No. 4 project, and a Power Purchase Agreement ("PPA") with MEC which provides that the 100 MW capacity be split with the first 50 MW block delivered starting in 2007 and the second 50 MW block starting in 2009. The PPA provides significant benefits to LES by staging the CB4 base load capacity to more closely match the system load growth. The Council Bluffs facility is scheduled for a May 2007 commercial date.

The CB4 project consists of the fourth unit to be constructed at the MEC Council Bluffs generating station site. This new 750 MW coal fired unit will utilize high efficiency super critical boiler technology with state of the art emission control facilities. The CB4 site is served by dual rail carriers and fuel for the project will be acquired by the MEC corporate fuel purchasing structure. MEC will act as project manager for CB4 construction and as the operating agent for the fifteen joint owner utilities.

Other System Improvements. LES is considering various system additions and improvements to upgrade and expand transmission and distribution systems including the following:

1. Reconstruction of a 115 KV transmission line from Sheldon Station to Rokeby.
2. Construction of a 115 KV transmission line from NW 12th and Arbor to NW 68th and Holdrege.
3. Construction of a 345 KV transmission line from Wagener Substation to NW 68th and Holdrege.
4. Add a second 345-115 KV, 336 MVA transformer to the NW 68th and Holdrege substation.
5. Initiate the replacement of underground distribution cable.

Historical Resource Summary

The following tables show historical summer season loads (including MAPP reserve requirements), resource capabilities and the total energy production for 1998 through 2002.

	Load & Generating Capability (Megawatts)				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
LES Load	736	787	789	808	834
Owned Units					
LRS	213	179	179	179	179
LES Local	186	180	194	291	293
Participation Units					
NPPD - CNS/System	97	97	95	95	95
NPPD - GGS	109	109	109	109	109
NPPD - Sheldon	68	68	68	68	68
Firm Contracts					
WAPA Purchases	109	131	131	125	127
Firm Sale	-30				
Purchases	<u>10</u>	<u>35</u>	<u>59</u>	<u>0</u>	<u>0</u>
Total Resource Capability	762	799	835	867	871
Surplus or Deficit (-)	26	12	46	59	37

	Energy (Megawatt-hours)				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Owned Units					
LRS	1,378,193	1,294,262	1,157,917	1,403,358	1,451,015
LES Local	41,891	33,372	46,045	38,325	41,205
Participation Units					
NPPD - CNS/System	608,798	813,697	591,476	650,564	769,070
NPPD - GGS	735,094	692,544	657,590	769,515	797,107
NPPD - Sheldon	423,919	442,402	458,393	469,519	474,787
Firm Contracts					
WAPA Purchases	143,829	260,183	260,688	249,297	248,010
Purchases	87,121	131,117	373,292	201,872	189,208
Net Total Purchased and Generated	3,418,845	3,667,577	3,545,401	3,782,450	3,970,402
Wholesale Sales and Losses	569,944	696,730	387,996	590,703	746,740
LES System Energy	<u>2,848,901</u>	<u>2,970,847</u>	<u>3,157,405</u>	<u>3,191,747</u>	<u>3,223,662</u>

FACTORS AFFECTING LES AND THE ELECTRIC UTILITY INDUSTRY

General. The electric utility industry, in general, has been, and in the future may be, affected by a number of factors which could impact the financial condition and competitiveness of an electric utility and the level of utilization of generating facilities, such as those of LES. Such factors include, but are not limited to, (i) increases in costs of operation and construction of generating units, (ii) uncertainties in predicting future load requirements, (iii) cost and availability of fuel, (iv) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (v) changes that might result from a national energy policy, (vi) self-generation by commercial and industrial customers, (vii) changes resulting from conservation and demand side management programs on the timing and use of electric energy, (viii) increased competition from independent power producers, marketers and brokers, (ix) issues relating to the ability to issue tax exempt obligations, (x) restrictions on the ability to sell to nongovernmental entities electricity from generation projects financed with outstanding tax exempt obligations and (xi) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and strategic alliances of competing electric (and gas) utilities from competitors transmitting less expensive energy from much greater distances over an interconnected system) and new methods of producing low cost electricity. Any of these factors could have an effect on the financial condition of any given electric utility and will likely affect individual utilities in different ways.

LES cannot predict what effects such factors will have on its business operations and financial condition of LES, but the effects could be significant. The following sections provide a brief discussion of certain of these factors. However, this discussion does not purport to be comprehensive or definitive, and these matters are subject to change subject change after the date of this POS. Extensive information on the electric utility industry is, and is expected to be, available from legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the securities of LES should obtain and review such information.

Energy Policy Act of 1992. The Energy Policy Act of 1992 (the “Energy Policy Act”) made fundamental changes in the Federal regulation of the electric utility industry, particularly in the area of transmission access. The purpose of these changes, in part, was to bring about increased competition in the wholesale electric power supply market. In particular, the Energy Policy Act provides FERC with the authority, upon application by an electric utility, federal power marketing agency, or other power generator, to require the transmitting utility to provide transmission services to the applicant on a cost-of-service basis. Municipally-owned electric utilities are “transmitting utilities” for the purposes of these provisions of the Energy Policy Act. However, the Energy Policy Act specifically denied FERC the authority to mandate “retail wheeling,” that is, the transmission and distribution by an electric utility to retail customers within its service territory of energy produced by another entity.

FERC initiatives under the Energy Policy Act. On April 24, 1996, FERC issued two Final Rules (Order No. 888 and order No. 889) to address and implement the requirements of the Energy Policy Act. These rules significantly changed the regulation of transmission services provided by public utilities (as defined by the Federal Policy Act (the “FPA”) that own, operate or control interstate transmission facilities and which are subject to the FERC’s jurisdiction over tariffs (“jurisdictional utilities”). LES is not a jurisdictional utility.

One of the Final Rules, Order No. 888, as modified on rehearing, requires, among other things, open-access, nondiscriminatory transmission tariffs be placed in effect for all jurisdictional utilities. The goal of Order No. 888, according to FERC, is to remove impediments to competition in the wholesale power market and to bring more efficient lower cost power to the nation’s electricity consumers by denying to a generator of electric energy any unfair advantage over its competitors that exists by ownership of its transmission system. Order No. 888 also requires non-jurisdictional utilities including municipal and consumer-owned utilities) that receive open-access transmission service to, in turn, provide open-access service to the transmitting utility under terms that are comparable to the service that the non-jurisdictional utility provides itself. Order No. 888 also includes provisions which, in effect, would permit a utility to recover stranded costs for generating and other facilities from wholesale customers of such utility who opt to purchase from other power providers.

The other Final Rule, Order No. 889, as modified on rehearing, implements standards of conduct for utilities that offer open access transmission services to ensure that transmission owners and affiliates do not have an unfair competitive advantage in using transmission to sell power. To this end, Order No. 889 requires those utilities to establish an electronic “Open-Access Same-time Information System” (OASIS) to share transmission-related information on a real-time basis and requires those utilities to obtain information about their transmission systems for their own wholesale power transactions in the same way that their competitors do---via an OASIS. Order No. 889 also promulgates standards of conduct to ensure that utilities functionally separate their transmission and wholesale power merchant functions to prevent self-dealing.

In 1999 and 2000, respectively, FERC issued Order Nos. 2000 and 2000-A to encourage all transmission owners, including non-jurisdictional entities, to voluntarily place their transmission facilities in the hands of a regional transmission organization (RTO). The establishment of RTOs is intended to address remaining transmission-related impediments to a competitive wholesale electricity market. Order Nos. 2000 and 2000-A set minimum characteristics and functions that RTOs must meet and required FERC jurisdictional utilities to submit filings to FERC setting forth RTO proposals.

In 2002, FERC issued a Notice of Proposed Rulemaking (the "2002 NOPR") that proposes wide-ranging changes to the nation's wholesale electric industry. Through the 2002 NOPR, FERC proposes to (i) mandate a Standard Market Design (SMD), which provides a framework for wholesale electric markets in order to remedy undue discrimination in the use of the interstate transmission system; (ii) exercise jurisdiction over the transmission component of bundled retail transactions; and (iii) establish a new form of universal transmission service. The new transmission service, which is called Network Access Service, applies consistent transmission rules for all transmission customers.

On April 28, 2003, FERC issued a "White Paper" that describes how FERC plans to significantly modify the proposal described in the 2002 NOPR in response to strong criticism by state regulators, industry interests and members of congress. The White Paper describes in skeletal form a new "Wholesale Market Platform."

Although LES is not directly subject to the new rules, the provisions of Order No. 888 have had a significant impact on the LES and other non-jurisdictional utilities, as well as marketplace as a whole. Additionally, LES is subject to the reciprocity provision of Order No. 888, as described above. The provisions of Order No. 888 were part of the impetus of LES's participation in MISO.

Proposed Federal Energy Legislation. On April 11, 2003, the U.S. House of Representatives passed H.R. 6, the "Energy Policy Act of 2003." Unlike the previous energy bill approved by the House, H.R. 6 contains an electricity title addressing a number of transmission and wholesale market issues, as well as providing incentives for energy production and including funding for conservation and alternative energy sources. The electricity title of the bill repeals the Public Utility Holding Company Act (PUHCA), removes the Federal Energy Regulatory Commission's (FERC) authority to review mergers, requires FERC to adopt incentive transmission pricing rules, provide FERC with federal siting authority for transmission facilities, and increase FERC jurisdiction over spot market power sales made by public power.

The U.S. Senate slowly continues debate over its version of federal energy legislation, S. 14, also titled the "Energy Policy Act of 2003." One of the primary points of contention in the Senate is the inclusion of an electricity title in the bill. Transmission rights, PUHCA repeal, and renewable energy issues are among the most contentious points.

If the Senate passes an energy bill, a conference committee will be called to reconcile the House and Senate versions of energy legislation. It is uncertain whether federal energy legislation will be enacted into law in this congressional session.

Federal Tax Issues. In September 2002, the U.S. Department of Treasury issued final private use regulations that provide guidance to issues of tax-exempt bonds for electric output facilities. The regulations took effect November 22, 2002, replacing temporary and proposed regulations released in January 2001. The final regulations provide that tax-exempt bonds may be issued to finance costs attributable to the government use portion of a mixed-use output facility without the bonds being characterized as private activity bonds. Operation of transmission facilities of public power utilities that participate in independent transmission operations approved by the Federal Energy Regulatory Commission will generally not result in private use. In addition, providing ancillary services that are required as part of an open access transmission tariff under FERC rules does not result in private business use.

State of Nebraska Utility Industry Restructuring. Currently, Nebraska is the only state in the U.S. to be served exclusively by public power districts, municipal utilities and rural electric cooperatives. In early 1996, the Nebraska Legislature approved Legislative Resolution 455 ("LR 455") providing for a study of the electric utility industry in Nebraska. The results of the LR 455 study recommended that Nebraska base any future restructuring or electric utility deregulation effort on the occurrence of certain conditions. Following completion of the LR 455 study, the Nebraska Legislature adopted LB 901, an additional legislative bill: LB 901 which requires the Nebraska Power Review Board to annually monitor and report the specific conditions to prepare the state for retail competition. Nebraska has chosen to follow a "condition certain" approach to competition. Those preconditions include: (a) a viable wholesale market in place; (b) a regional ISO/RTO in place; (c) legislative solutions for revenue neutral state and local tax impacts; (d) opt-in choice by local utilities; and (e) wholesale electricity costs in adjoining states be equal to or less than costs in Nebraska, a condition which does not appear to be imminent.

Presently, LES has the exclusive right to serve retail electric customers within its service area. However, as part of ongoing proposals and initiatives to achieve deregulation of the electric utility industry (see discussion above), it is possible that “retail wheeling” will be permitted in the future. If this were to occur, LES, as well as other utilities, could face retail price competition. LES is currently assessing the potential competition from other suppliers for certain of its retail loads, and has completed cost of service “unbundling” studies.

Environmental

General. Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory, and judicial action regarding such standards and procedures. Consequently, there is no assurance that LES’s facilities will remain subject to the regulations currently in effect, will always be in compliance with future regulations, or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels or the complete shutdown of individual units not in compliance.

Air Quality. In 1990, Congress enacted amendments to the Clean Air Act (CAAA) with the intent of improving ambient air quality throughout the United States. One objective of these amendments is to reduce emissions of sulfur dioxide (SO₂) and nitrogen oxide (NO_x) by power plants. All generating units in which LES has an ownership or “Life of Plant” contractual interest (LRS, Rokeby Units 2 and 3, Sheldon and Gentleman) operate at emission rate levels below the regulatory limits for SO₂ and NO_x currently applicable to the units.

Beginning in 2000, LRS, Rokeby Units 2 and 3, Sheldon and Gentleman Stations became subject to the Act's SO₂ emission allowance system. Under the emission allowance system, each affected generating unit will be issued, annually, a number of allowances, based upon license and operating factors established in 1985-1987. Under this system, some utilities, including MBPP and NPPD, have been issued bonus allowances for certain affected units from 2000 through 2009. No utility may emit more tons of SO₂ in a year than is authorized by the total allowances it holds. The use of allowances is not restricted to a specific unit or plant. Allowances not needed by a utility for its own emissions may be banked for future use, or they may be sold or otherwise transferred. The CAAA provides that where a utility purchases power from an affected unit under life-of-the-unit, firm power contractual arrangements, allowances and the proceeds of transactions involving allowances will be deemed to be held or distributed in proportion to each holder's contractual reservation or entitlement, or in accordance with the provisions of a contract between the parties which expressly provides for a different distribution of allowances. LES has been receiving its pro rata share of allowances issued for generating units in which it has entitlements.

In November 1995, the State of Nebraska was included in the Ozone Transport Assessment Group (“OTAG”). OTAG is a group of state air quality control agencies formed pursuant to direction by the United States Environmental Protection Agency (“EPA”) that consists of 37 states of the continental United States. OTAG studied ozone formation, transport and methods of ozone reduction to arrive at a consensus on how to reduce high ozone levels in certain areas of the eastern United States. The authority of OTAG is supported by the EPA and comes under Title I of the Clean Air Act Amendments. In June 1997, OTAG made recommendations to the EPA regarding NO_x reductions in the 37-state OTAG region. Based on these recommendations to the EPA, it is not anticipated that the EPA will require any additional NO_x reductions in Nebraska.

Hazardous Substances and Wastes. Since the enactment of the Resource Conservation and Recovery Act, the Toxic Substances Control Act, and the Comprehensive Environmental Response Compensation and Liability Act, the electric utility industry has found ever increasing environmental regulations and requirements for dealing with hazardous materials and wastes. LES programs dealing with hazardous materials include audits of all disposal facilities, environmental audits of all properties bought or sold by LES, the issuance of oil and hazardous materials spill plans, and employee education on the proper handling of hazardous materials.

HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	(Dollars in Thousands)				
Operating Revenues					
Electric	\$142,421	\$145,443	\$151,242	\$155,702	\$161,112
Other	<u>2,906</u>	<u>3,064</u>	<u>3,514</u>	<u>3,713</u>	<u>3,862</u>
Total Operating Revenues	<u>145,327</u>	<u>148,507</u>	<u>154,756</u>	<u>159,415</u>	<u>164,974</u>
Operating Expenses ^{(1) (2)}					
Power Purchased ⁽³⁾	53,754	56,534	67,275	64,302	58,688
Power Production	16,388	16,839	19,035	19,151	19,180
Operations	19,209	20,728	22,762	29,908	27,403
Maintenance	<u>3,649</u>	<u>3,364</u>	<u>3,039</u>	<u>3,804</u>	<u>4,077</u>
Total Operating Expenses	<u>93,000</u>	<u>97,465</u>	<u>112,111</u>	<u>117,165</u>	<u>109,348</u>
Net Operating Revenues ⁽⁴⁾	52,327	51,042	42,645	42,250	55,626
Interest and Other Revenues	<u>3,465</u>	<u>3,027</u>	<u>3,294</u>	<u>3,467</u>	<u>3,305</u>
Available for Debt Service	<u>\$55,792</u>	<u>\$54,069</u>	<u>\$45,939</u>	<u>\$45,717</u>	<u>\$58,931</u>
Bond Debt Service					
Prior Lien Bonds-Principal	\$1,657	\$1,738	\$1,825	\$1,257	\$0
Prior Lien Bonds-Interest	<u>2,355</u>	<u>2,275</u>	<u>2,188</u>	<u>1,419</u>	<u>0</u>
Subtotal	<u>4,012</u>	<u>4,013</u>	<u>4,013</u>	<u>2,676</u>	<u>0</u>
1993 Bonds-Principal (Senior Lien)	7,230	7,527	7,852	8,195	9,217
1993 Bonds-Interest (Senior Lien)	<u>10,957</u>	<u>10,657</u>	<u>10,333</u>	<u>9,985</u>	<u>7,849</u>
Subtotal	<u>18,187</u>	<u>18,184</u>	<u>18,185</u>	<u>18,180</u>	<u>17,066</u>
1998 Bonds-Principal (Senior Lien)	1,807	1,422	1,487	1,553	1,623
1998 Bonds-Interest (Senior Lien)	<u>1,858</u>	<u>2,058</u>	<u>1,994</u>	<u>1,927</u>	<u>1,857</u>
Subtotal	<u>3,665</u>	<u>3,480</u>	<u>3,481</u>	<u>3,480</u>	<u>3,480</u>
2001 Bonds-Principal	----	----	----	----	----
2001 Bonds-Interest	----	----	----	2,494	7,163
Subtotal	----	----	----	<u>2,494</u>	<u>7,163</u>
2002 Bonds-Principal	----	----	----	----	----
2002 Bonds-Interest	----	----	----	----	1,810
Subtotal	----	----	----	----	<u>1,810</u>
Total Bond-Principal	10,694	10,687	11,164	11,025	10,840
Total Bond-Interest	<u>15,170</u>	<u>14,990</u>	<u>14,515</u>	<u>15,779</u>	<u>18,679</u>
Grand Total Debt Service	<u>\$25,864</u>	<u>\$25,677</u>	<u>\$25,679</u>	<u>\$26,804</u>	<u>\$29,519</u>
Coverage:					
Prior Lien Bonds	13.91	13.47	11.45	17.08	2.86
Total Bonds	2.16	2.11	1.79	1.71	2.00
Net Revenues	\$15,327	\$13,603	\$4,509	\$733	\$11,609
Accumulated Net Revenues	\$172,158	\$185,761	\$190,270	\$191,003	\$202,612

(1) The Operating Expenses excludes depreciation for the fiscal years shown and were \$16,146, \$16,517, \$17,126, \$18,625, and \$19,566, respectively.

(2) The Operating Expenses excludes In Lieu of Tax payments for the fiscal years shown and were \$6,381, \$6,307, \$6,688, \$6,803, and \$7,135, respectively.

(3) The Power Purchased expenses includes fuel costs and fixed costs related to debt service.

(4) The Net Operating Revenues exclude depreciation, amortization, interest expense and in lieu of tax.

MANAGEMENT DISCUSSION OF OPERATIONS

General

LES is a summer peaking utility and experiences varying weather conditions. The peak loads were 650 MW, 688 MW, 691 MW, 704 MW, and 726 MW (including losses, but excluding reserve requirements) in 1998, 1999, 2000, 2001, and 2002 respectively.

Years Ended December 31, 2002 and 2001

Operating revenues in 2002 saw a 3.5% increase with retail revenues up 4.2% and wholesale down 2.7% from 2001 results. Retail energy sales were above 2001 due to a continuing strong Lincoln economy and continued customer growth. The weather was a significant factor with cooling degree days 28.6% above normal and heating degree days 3% below normal. Wholesale energy sales were below 2001.

Operating expenses in 2002 were down over 4.6% primarily because of the settlement with NPPD of all litigation related to CNS and the use of decommissioning funds to offset current operating expenses. The balance of the operating expenses were down primarily reflecting the 2001 write off of CNS litigation expenses.

Net revenues, in 2002, were up over 2001 due to the litigation results related to CNS.

See Appendix II "LES Audited Financial Statements" for additional comments.

LITIGATION

There are no cases pending that will have a material adverse effect on LES.

CONTINUING DISCLOSURE

LES, on behalf of the City, has covenanted for the benefit of the holders and beneficial owners of the 2003 Bonds to provide certain financial information and operating data relating to the Registrar and Paying Agent by not later than five (5) months following the end of LES's fiscal year (presently December 31) (the "Annual Report"), commencing with the report for the 2003 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Registrar and Paying Agent on behalf of LES with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the Registrar and Paying Agent on behalf of LES with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events may be found in "APPENDIX IV - Proposed Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

FINANCIAL ADVISOR

Public Financial Management ("PFM"), Philadelphia, Pennsylvania and Orlando, Florida, is serving as financial advisor to LES with respect to the sale of the 2003 Bonds. The financial advisor assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the 2003 Bonds and provided other advice. PFM will not participate as an underwriter in any offer to purchase the 2003 Bonds.

RATINGS

Moody's Investors Service has assigned the 2003 Bonds the rating of "Aa2," Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, has assigned the 2003 Bonds the rating of "AA" and Fitch Investors Service, L.P. has assigned the 2003 Bonds the rating of "AA." Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from Moody's Investors Service, 99 Church Street, New York, New York 10007, telephone (212) 553-0300; Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041, telephone (212) 438-2124; and Fitch Investors Service, L.P., One State Street Plaza, New York, New York 10004, telephone (212) 908-0500.

There is no assurance that the above ratings will remain for any given period of time or that they may not be lowered, suspended or withdrawn entirely by any or all rating services if they deem circumstances are appropriate. Any downward change in, suspension or withdrawal of any or all ratings may have an adverse effect on the market price of the 2003 Bonds.

TAX MATTERS

Federal and Nebraska Tax Exemption. In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law, the interest on the 2003 Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2003 Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal and Nebraska income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the 2003 Bonds in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the 2003 Bonds. The 2003 Bonds have not been designated as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code.

Original Issue Discount Bonds. In the opinion of Bond Counsel, subject to the conditions set forth above, the original issue discount in the selling price of the 2003 Bond maturing September 1, 2004 and September 1, 2028 purchased in the original offering at a price less than the par amount thereof (hereinafter referred to as the "OID Bonds"), to the extent properly allocable to each owner of such Bond, is excludable from gross income for federal income tax purposes with respect to such owner. Original issue discount is the excess of the stated redemption price at maturity of an OID Bond over the initial offering price to the public (excluding underwriters and intermediaries) at which price a substantial amount of the OID Bonds were sold. Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. For an owner who acquires an OID Bond in this offering, the amount of original issue discount that accrues during any accrual period generally equals (i) the issue price of such OID Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity on such OID Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such OID Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such OID Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of an OID Bond would be treated as gain from the sale or exchange of such Bond. Owners of OID Bonds should consult with their individual tax advisors to determine whether the application of the proposed original issue discount federal regulations will require them to include, for State and local income tax purposes, an amount of interest on the OID Bonds as income even though no corresponding cash interest payment is actually received during the tax year.

Bonds Purchased at a Premium. 2003 Bonds maturing September 1 in the years 2004, 2007 to 2015, inclusive, 2021, 2022, 2025 and 2026 have an initial offering price which exceeds the stated redemption price of such 2003 Bonds at maturity. The excess of the purchase price of a 2003 Bond over its stated redemption price at maturity constitutes premium on such 2003 Bond. A purchaser of such a 2003 Bond must amortize any premium over such 2003 Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the amount of tax-exempt interest deemed received by the purchaser and the purchaser's basis in such 2003 Bond each are reduced by a corresponding amount. The adjustment to a purchaser's tax basis will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such 2003 Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

Purchasers of any 2003 Bonds at a premium, whether at the time of initial issuance or afterward, should consult with their own tax advisors as to the determination and treatment of premium for federal income tax purposes and state and local tax consequences of owning such 2003 Bonds.

Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the 2003 Bonds.

Other Tax Consequences

Prospective purchasers of the 2003 Bonds should be aware that there may be tax consequences of purchasing the 2003 Bonds other than those discussed under the caption "Opinion of Bond Counsel," including the following:

(1) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2003 Bonds or, in the case of a financial institution, that portion of such institution's interest expense allocable to interest on the 2003 Bonds;

(2) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the 2003 Bonds;

(3) interest on the 2003 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code;

(4) passive investment income, including interest on the 2003 Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year, if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; and

(5) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the 2003 Bonds.

Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of 2003 Bonds should consult their own tax advisors as to the applicability of these tax consequences.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization and issuance of the 2003 Bonds are subject to the approval of Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel, whose approving opinion in connection with the issuance of the 2003 Bonds in substantially the form attached hereto as Appendix V will be delivered to the City. Certain legal matters with respect to the City will be passed upon by the Lincoln City Attorney and certain matters with respect to LES will be passed upon by its General Counsel, Douglas Curry, Esq.

ACCOUNTANTS

The financial statements of LES included in Appendix II to the Official Statement have been audited by KPMG LLP, certified public accountants, to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of KPMG LLP.

The issuance of this Official Statement and the signing thereof by the City's Finance Director and LES's Administrator has been authorized by the City.

/s/ _____
City Finance Director

/s/ _____
Administrator and CEO of
Lincoln Electric System

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APPENDIX I

GENERAL INFORMATION ON THE CITY OF LINCOLN

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CITY OF LINCOLN

GENERAL INFORMATION

Lincoln, the capitol of Nebraska, is located in southeastern Nebraska near the center of population of the State, approximately midway between Chicago and Denver. Lincoln was originally incorporated in 1869. It has an area of 80 square miles, and in its growth and development has annexed five other municipalities so that Lincoln includes most of the urban area of Lancaster County. It enjoys a unique position in Nebraska as the center of state governmental and educational activities.

Population

The 1960 population of Lincoln was 128,500; the 1970 population was 149,500; and the 1980 population was 171,900. The 1990 population was 192,000, and the 2000 population of 225,600, an 18 percent increase over the 1990 count. The 2000 count represents approximately 90 percent of the population of Lancaster County. The estimate 2002 population is 231,800

City Government

Lincoln, operating under a home rule charter, has a mayor-council form of government with an elected full-time chief executive, the Mayor, and an elected legislative body, the City Council, composed of seven members. Three are elected at-large and four by district on a nonpartisan basis for a term of four years. The administration of City government is performed under the direction of the Mayor by administrative departments.

Lincoln's government has a broad range of responsibilities, including operating and maintaining electric, water and sanitary sewer systems; and an impressive park and playground system of over 5,460 acres, eleven public swimming pools, and five public golf courses. Lincoln has cooperated actively with the county government in several joint governmental buildings, and in other specific areas of responsibility, including health, planning, civil defense, data processing, tax collection, parks and jail facilities. There are cooperative agreements with the United States government on parks and flood control, with the University of Nebraska on planning, property transfer and utility operations, with the area watershed district on flood control, and with the Lincoln Public School District on recreation.

Transportation

The Lincoln metropolitan area is served by Interstate 80, U.S. Routes 6, 34, and 77, and State Highway 2.

Scheduled air service is provided by United Airlines, American Airlines, and Northwest/Mesaba Airlines. Lincoln's modern airport has three runways (one of which is 12,900 feet in length) that can accommodate any type of modern aircraft.

Railroad transportation facilities include those of the Burlington Northern and Santa Fe, Union Pacific, and AMTRAK, and bus transportation is furnished by one carrier.

Government Center

The State Capitol, an architectural achievement, is considered one of the most impressive in the 50 states. Other state governmental facilities in Lincoln include the Nebraska Educational Telecommunications facility, the Nebraska Game and Parks Commission headquarters, the Lincoln Regional Center (state hospital), the Nebraska State Fair and the Nebraska Penal Complex.

Federal agencies in Lincoln include regional offices of the United States Department of Agriculture (Mid-West Regional Technical Service Center), the Immigration and Naturalization Service and the Veterans Administration, as well as the state offices of other federal agencies. There is also a United States Veterans Medical Facility.

Lancaster County offices are also located in Lincoln, the County seat

Education

The University of Nebraska-Lincoln, with approximately 22,500 students, Nebraska Wesleyan University, with approximately 1,650 students, Union College, with approximately 860 students, and Southeast Community College, with a number of facilities for both full-time and part-time occupational training, are in Lincoln. Lincoln's school system, with an enrollment of over 31,900, is served by 5 senior high schools, 10 middle schools, and 37 elementary schools. There are also more than 31 private and parochial schools in Lincoln with an aggregate enrollment total of approximately 6,600 students.

Building Permits

**CITY OF LINCOLN
Property Value and Construction
Last Ten Years**

Fiscal Year	Number of Permits	Commercial Construction (1)	Residential Construction (1)	Property Value(2)		Totals	
		Value	Number of Permits	Value	Commercial		Residential
2002	1,013	\$245,476,376	3,405	\$262,293,941	\$3,094,988,486	\$7,255,640,292	\$10,350,628,778
2001	1,017	215,856,679	3,212	231,390,626	2,855,200,333	7,048,688,380	9,903,888,713
2000	1,069	181,983,107	3,385	225,622,611	2,540,905,431	6,273,610,610	8,814,516,041
1999	1,148	186,569,754	3,235	206,065,342	2,356,367,014	6,067,493,586	8,423,860,600
1998	1,093	119,532,867	3,109	185,894,741	2,132,780,337	5,726,511,673	7,859,292,010
1997	1,107	90,599,429	3,284	191,975,903	1,986,422,642	4,863,604,491	6,850,027,133
1996	1,212	148,033,633	2,976	167,561,114	1,840,136,792	4,676,645,258	6,516,782,050
1995	1,140	110,994,400	2,739	146,598,151	1,734,716,053	4,508,422,380	6,243,138,433
1994	1,117	136,104,897	3,114	156,183,375	1,703,370,467	4,336,950,337	6,040,320,804
1993	1,027	105,463,763	2,528	129,375,506	1,359,824,873	3,209,649,927	4,569,474,800

Sources:

- (1) City of Lincoln, Building & Safety Department.
- (2) Lancaster County Assessor.

Police and Fire Protection

Lincoln has 14 fire stations manned by approximately 240 fire fighters and two police stations with approximately 300 police officers.

Industrial and Business Activity

The industrial development statutes permit Nebraska counties and municipalities to issue revenue bonds to acquire sites and construct buildings for lease to industry seeking expansion and relocation. In addition to land and building costs, costs such as grading, utility lines, and trackage, may be included in the total cost financed by the bond issue.

Currently, there are more than 200 firms representing over 120 types of manufacturing, evidence of Lincoln's diversified industrial interests. These include printing and publishing, metal fabrication firms, grain storage and feed manufacturers, planing mills, fire protection systems, pharmaceuticals, electrical and electronic goods and many others. Lincoln is the home office of 20 insurance companies, whose combined assets are over \$2 billion. The financial interests of Lincoln are served by three national banks and eight state banks.

Lincoln has some of the nation's leading industrial companies as local employers, including Archer-Daniels-Midlands Company, Burlington Northern and Santa Fe Railroad, Goodyear Tire & Rubber Company, Kawasaki Motors Corporation U.S.A. and Square D Company.

**Selected Economic Indicators
Lincoln Standard Metropolitan Statistical Area (Lancaster County)
Nonagricultural Wage and Salary Employment**

	<u>December 31, 2002</u>	
	<u>Number</u>	<u>Percent</u>
	<u>Employed</u>	<u>of Total</u>
Industry Manufacturing:		
Durable Goods	9,174	5.7%
Nondurable Goods	<u>7,234</u>	<u>4.5</u>
Total Industry Manufacturing	<u>16,408</u>	<u>10.2</u>
Nonmanufacturing:		
Mining & Construction	8,017	5.0
Transportation, Communications & Utilities	6,599	4.1
Wholesale Trade	4,642	2.9
Retail Trade	17,487	10.8
Finance, Insurance & Real Estate	14,173	8.6
Services (except domestic)	57,394	35.5
Government	<u>37,075</u>	<u>22.9</u>
Total Nonmanufacturing	<u>145,387</u>	<u>89.8</u>
TOTAL	<u>161,795</u>	<u>100.0%</u>

Source: State of Nebraska, Department of Labor

**CITY OF LINCOLN
DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

Year	Population (1)	Per Capita Income (2)	School Enrollment (3)
2002	231,800	\$	31,867
2001	225,588		31,581
2000	218,497	28,752	31,354
1999	217,537	28,493	31,052
1998	215,000	27,487	31,000
1997	209,192	24,602	30,924
1996	206,100	23,591	30,779
1995	203,076	22,446	30,693
1994	199,350	21,169	30,041
1993	197,482	20,130	29,943

Sources:

1. Lincoln/Lancaster Planning Department.
2. University of Nebraska Bureau of Business Research - U.S. Department of Commerce, Bureau of Economic Analysis. Per Capita Income for 2001 and 2002 is unavailable.
3. Lincoln Public Schools.

**LINCOLN UTILITY CUSTOMERS
LAST TEN YEARS**

Year	Water Customers	Gas Customers	Electricity Customers
2002	67,704	89,085	116,974
2001	68,187	87,749	114,388
2000	66,956	86,501	112,247
1999	65,823	85,156	110,414
1998	64,423	80,770	108,194
1997	63,905	79,490	105,970
1996	62,828	78,488	103,616
1995	61,500	77,470	101,277
1994	61,047	76,400	99,693
1993	59,700	75,700	97,735

Sources: Indicated Utility Companies

**CITY OF LINCOLN
TAXABLE ASSESSED VALUATION
LAST TEN YEARS (1)**

Year	Real Estate	All Other	Motor Vehicle	Total
2002	\$10,350,628,778	\$779,959,380		\$11,130,558,167
2001	9,903,888,713	820,797,124		10,724,685,837
2000	8,814,516,041	806,431,814		9,620,947,855
1999	8,423,860,600	716,780,457		9,140,641,057
1998	7,859,292,010	660,609,204		8,519,901,214
1997	6,850,027,133	637,669,384		7,487,696,517
1996	6,516,782,050	525,762,951	706,470,078	7,749,015,079
1995	6,243,138,433	442,913,618	639,647,617	7,325,699,668
1994	6,040,320,804	431,628,371	598,259,561	7,070,208,736
1993	4,569,474,800	424,296,765	542,119,130	5,535,890,695

(1)Assessment is at 100% of actual. Effective in the 1997 tax year, Motor Vehicles are excluded from the taxable assessed valuation.

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APPENDIX II

**APPENDIX II-A
LINCOLN ELECTRIC SYSTEM
UNAUDITED FINANCIAL STATEMENTS FOR PERIOD ENDING
JULY 31, 2003 AND 2002**

**APPENDIX II-B
LINCOLN ELECTRIC SYSTEM
AUDITED FINANCIAL STATEMENTS FOR PERIOD ENDING
DECEMBER 31, 2002 AND 2001**

**LINCOLN ELECTRIC SYSTEM
UNAUDITED FINANCIAL STATEMENTS FOR PERIOD ENDING
JULY 31, 2003 AND 2002**

LINCOLN ELECTRIC SYSTEM

Balance Sheets

July 31, 2003 and 2002

(Dollars in thousands)

Assets	<u>2003</u>	<u>2002</u>
	(Unaudited)	
Utility plant	\$ 665,781	638,120
Construction work in progress (non-depreciable)	<u>164,333</u>	<u>83,213</u>
Subtotal utility plant	830,114	721,333
Less accumulated depreciation	<u>259,085</u>	<u>241,424</u>
Net utility plant	<u>571,029</u>	<u>479,909</u>
Restricted funds	<u>49,615</u>	<u>147,868</u>
Current assets:		
Funds:		
Operating	12,652	8,766
Designated	<u>12,000</u>	<u>10,000</u>
Total funds	24,652	18,766
Receivables	9,171	10,261
Unbilled revenues	12,779	12,300
Accrued interest receivable	188	1,188
Materials, supplies, and fuel inventories	6,147	5,623
Plant operation assets	3,925	3,611
Prepaid expenses	<u>1,095</u>	<u>967</u>
Total current assets	<u>57,957</u>	<u>52,716</u>
Deferred charges:		
Unamortized debt expense	25,466	9,323
Other	<u>11,496</u>	<u>13,936</u>
Total deferred charges	<u>36,962</u>	<u>23,259</u>
	<u>\$ 715,563</u>	<u>703,752</u>

See accompanying notes to financial statements.

LINCOLN ELECTRIC SYSTEM

Balance Sheets

July 31, 2003 and 2002

(Dollars in thousands)

Capitalization and Liabilities	2003	2002
	<u>(Unaudited)</u>	
Capitalization:		
Long-term debt, net	\$ 462,747	457,470
Equity	205,206	193,479
Total capitalization	<u>667,953</u>	<u>650,949</u>
Current liabilities:		
Liabilities payable from restricted funds:		
Current maturities of long-term debt	12,450	10,035
Construction payable	3,153	8,472
Accrued interest	7,875	8,051
Total liabilities payable from restricted funds	<u>23,478</u>	<u>26,558</u>
Other liabilities:		
Accounts payable	12,721	10,134
Accrual for payments in lieu of taxes	4,595	4,563
Other	6,696	6,587
Total other liabilities	<u>24,012</u>	<u>21,284</u>
Total current liabilities	<u>47,490</u>	<u>47,842</u>
Deferred credits and other liabilities	120	4,961
	<u>\$ 715,563</u>	<u>703,752</u>

LINCOLN ELECTRIC SYSTEM
Statements of Revenues, Expenses, and Equity
Seven-month period ending July 31, 2003 and 2002
(Dollars in thousands)

	January-July 2003	January-July 2002
	(Unaudited)	
Operating revenues:		
Electric retail	\$ 88,481	86,297
Electric wholesale	8,105	8,748
Other	2,138	2,152
Total operating revenues	98,724	97,197
Operating expenses:		
Purchased power	40,469	37,990
Production	11,354	12,987
Operation	4,140	4,097
Maintenance	2,614	2,055
Administrative and general	12,473	11,808
Depreciation	11,743	11,261
In lieu of taxes	4,328	4,218
Total operating expenses	87,121	84,416
Net operating revenues	11,603	12,781
Nonoperating expenses (revenues):		
Interest expense	11,388	11,985
Allowance for funds used during construction	(3,253)	(767)
Amortization of debt expense	1,793	1,169
Interest and other, net	(919)	(2,082)
Total nonoperating expenses	9,009	10,305
Net revenues before transfers	2,594	2,476
Equity, beginning of year	202,612	191,003
Equity, end of year	\$ 205,206	193,479

See accompanying notes to financial statements.

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LINCOLN ELECTRIC SYSTEM

Financial Statements

December 31, 2002 and 2001

(With Independent Auditors' Report Thereon)

LINCOLN ELECTRIC SYSTEM

December 31, 2002 and 2001

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Balance Sheets	5
Statements of Revenues, Expenses, and Equity	7
Statements of Cash Flows	8
Notes to Financial Statements	9
Schedule – Debt Service Coverage	22

LINCOLN ELECTRIC SYSTEM
Management's Discussion and Analysis

The management of Lincoln Electric System (LES) is providing the reader of its financial statements this narrative providing an overview of the financial activities completed in 2002. Please read the financial statements to understand the transactions, events and conditions reflected herein.

Results of Operation (dollars in millions)

	<u>2002</u>	<u>2001</u>	<u>Change</u>	<u>Percent of Change</u>
Operating Revenues	\$165.0	\$159.4	\$5.6	4%
Operating Expenses	\$134.9	\$141.5	\$(6.6)	(5%)
Non operating Expense	\$17.3	\$16.1	\$1.2	7%
PILOT – City of Lincoln	\$1.2	\$1.1	\$0.1	9%
Net Revenues	\$11.6	\$0.7	\$10.9	–

The Operating Revenues for 2002 were 4% above 2001 lead by residential and commercial revenues which were 6.5% and 3.3% above 2001 revenues. Cooling and heating degree days were above 2001. Growth in the city remains constant with 2% more customers in 2002, now totaling more than 116,000 customers. Wholesale revenue was below 2001, primarily because 2001 had exceptional resource availability and good wholesale markets. Wholesale revenue was reduced by 10% lower market prices.

The Operating Expenses for 2002 were 5% below 2001 with power costs and administrative and general expense providing most of the change. In July 2002, a settlement agreement between Nebraska Public Power District and LES related to the Power Sales Agreement for Cooper Nuclear Station (CNS) was completed and signed by company officials (See discussion in note 8 of the notes to the financial statements). The decommissioning fund liability established by LES was used to reduce power costs by \$4.8 million after the settlement and represents most of 2002 power cost reduction. Administrative and general expense was well below 2001 because the litigation cost written off in 2001 related to Cooper Nuclear Station inflated the 2001 expenses by \$4.8 million. Offsetting this expense was an increase in 2002 for health and risk insurance costs.

The increase in nonoperating expense comes from higher interest expense on debt for the construction of the Salt Valley Generating Station.

Net Revenues for 2002 were \$10.9 million above 2001 because of the litigation expenses charged to operations in 2001 and the reversal of the decommissioning liability reducing operation expenses. In addition, strong retail sales provided a contribution of over \$5 million.

Debt Service Coverage was 2.00 in 2002 and above the 1.71 in 2001 with a financial plan goal of 1.5 to 1.7 annually.

LINCOLN ELECTRIC SYSTEM
Management's Discussion and Analysis

Results of Capital Improvements (dollars in millions)

	<u>2002</u>	<u>2001</u>	<u>Change</u>	<u>Percent of Change</u>
Utility Plant	\$781.2	\$686.9	\$94.3	14%

Construction of the Salt Valley Generating Station (SVGS) provided \$71 million to the construction work in progress and in addition to local construction related to an expanding customer base. The SVGS project represents a total of 165 megawatts of peaking and base load generation utilizing natural gas, as the base fuel, in a simple cycle and combined cycle operation. The construction in simple cycle mode will be completed in early 2003 and the combined cycle operation should be completed in late 2003. The entire project will be completed ahead of schedule.

Although the expenditure in 2002 was insignificant to the balance sheet, an agreement with MidAmerican Energy Company for a 100 megawatt share of the 790 megawatt Council Bluffs #4 Unit slated to begin construction in 2004 and completed in 2007 was signed in mid-2002.

Results of Financing Activities (dollars in millions)

	<u>2002</u>	<u>2001</u>	<u>Change</u>	<u>Percent of Change</u>
Revenue Bonds	\$372.9	\$371.0	\$1.9	-
Commercial Paper	\$90.2	\$75.0	\$15.2	20%

In the continuing effort to reduce the borrowing costs for Lincoln Electric System, a refunding issue of \$148.0 million was completed in October 2002 to refund \$136 million of 1993 Revenue Bonds and convert \$20 million of commercial paper to long-term revenue bonds. With historically low interest rates, LES was able to obtain a true interest cost of 3.70% on the entire bond sale and total savings of \$23 million in interest costs over the life of the bonds. Other commercial paper activity included converting \$34 million taxable commercial paper to tax-exempt commercial paper. With \$35 million of commercial paper capacity available, most smaller projects can be initially funded with this capacity. A refunding issue as well as a new money issue is expected in 2003.

Independent Auditors' Report

Administrative Board
Lincoln Electric System:

We have audited the accompanying balance sheets of Lincoln Electric System as of December 31, 2002 and 2001, and the related statements of revenues, expenses, and equity, and cash flows for the years then ended. These financial statements are the responsibility of Lincoln Electric System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Electric System at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2003, on our consideration of Lincoln Electric System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Management's Discussion and Analysis on pages 1 and 2 is not a required part of the financial statements of Lincoln Electric System, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The supplementary information included in the schedule on Debt Service Coverage on page 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

/s/ KPMG LLP

February 21, 2003
Lincoln, Nebraska

LINCOLN ELECTRIC SYSTEM

Balance Sheets

December 31, 2002 and 2001

Assets	<u>2002</u>	<u>2001</u>
	(Dollars in thousands)	
Utility plant	\$ 654,127	628,316
Construction work in progress (non-depreciable)	127,068	58,567
Subtotal utility plant	781,195	686,883
Less accumulated depreciation	248,352	232,069
Net utility plant	532,843	454,814
Restricted funds	97,521	163,710
Current assets:		
Funds:		
Operating	12,514	11,215
Designated	10,000	13,195
Total funds	22,514	24,410
Receivables	8,943	8,293
Unbilled revenues	6,917	7,237
Accrued interest receivable	562	408
Materials, supplies, and fuel inventories	5,863	5,753
Plant operation assets	3,784	4,073
Prepaid expenses	678	543
Total current assets	49,261	50,717
Deferred charges:		
Unamortized debt expense	5,298	4,758
Other	13,019	14,462
Total deferred charges	18,317	19,220
	\$ 697,942	688,461

See accompanying notes to financial statements.

LINCOLN ELECTRIC SYSTEM

Balance Sheets

December 31, 2002 and 2001

Capitalization and Liabilities	2002	2001
	(Dollars in thousands)	
Capitalization:		
Long-term debt, net	\$ 441,059	416,760
Equity:		
Invested in capital assets, net of related debt	160,626	141,664
Restricted for debt service, net of related debt	21,527	20,113
Unrestricted	20,459	29,226
Total equity	202,612	191,003
Total capitalization	643,671	607,763
Current liabilities:		
Liabilities payable from restricted funds:		
Current maturities of long-term debt	12,450	10,035
Construction payable	14,662	3,375
Accrued interest	5,764	7,019
Total liabilities payable from restricted funds	32,876	20,429
Other liabilities:		
Taxable notes payable, net of unamortized discount of \$192 in 2001	—	34,710
Accounts payable	8,242	9,915
Accrual for payments in lieu of taxes	7,480	7,159
Other	5,554	5,211
Total other liabilities	21,276	56,995
Total current liabilities	54,152	77,424
Deferred credits and other liabilities	119	3,274
	\$ 697,942	688,461

LINCOLN ELECTRIC SYSTEM

Statements of Revenues, Expenses, and Equity

Years ended December 31, 2002 and 2001

	2002	2001
	(Dollars in thousands)	
Operating revenues:		
Electric retail	\$ 145,787	139,950
Electric wholesale	15,325	15,752
Other	3,862	3,713
	164,974	159,415
Operating expenses:		
Purchased power	58,688	64,302
Production	19,180	19,151
Operation	6,701	5,932
Maintenance	4,077	3,804
Administrative and general	20,702	23,976
Depreciation	19,566	18,625
In lieu of taxes	5,954	5,680
	134,868	141,470
Net operating revenues	30,106	17,945
Nonoperating expenses (revenues):		
Interest expense	20,305	18,404
Allowance for funds used during construction	(2,106)	(1,028)
Amortization of debt expense	2,422	2,180
Interest and other, net	(3,305)	(3,467)
	17,316	16,089
Net revenues before transfers	12,790	1,856
In lieu of taxes to the City of Lincoln	(1,181)	(1,123)
Net revenues	11,609	733
Equity, beginning of year	191,003	190,270
Equity, end of year	\$ 202,612	191,003

See accompanying notes to financial statements.

Statements of Cash Flows
Years ended December 31, 2002 and 2001

	2002	2001
	(Dollars in thousands)	
Cash flows from operating activities:		
Receipts from customers and users	\$ 178,163	173,486
Payments to suppliers	(118,334)	(109,425)
Payments to employees	(15,985)	(14,881)
Payments in lieu of taxes	(5,633)	(5,547)
Net cash provided by operating activities	38,211	43,633
Net cash flows used in noncapital financing activities:		
In lieu of taxes to the City of Lincoln	(1,181)	(1,123)
Cash flows from capital and related financing activities:		
Expenditures for utility plant	(83,549)	(38,039)
Net cost of retiring plant	(591)	(750)
Principal payments on long-term debt	(146,360)	(47,000)
Proceeds from bond issuance	162,158	141,150
Proceeds from taxable notes	271	34,902
Payments on taxable notes	(35,173)	—
Proceeds from commercial paper notes	35,173	10,000
Payments on commercial paper notes	(20,000)	—
Interest paid	(20,195)	(16,464)
Net cash provided by (used in) capital and related financing activities	(108,266)	83,799
Cash flows from investing activities:		
Proceeds from maturities and sales of investment securities	624,152	178,920
Purchases of investment securities	(556,299)	(309,328)
Interest and other revenues	4,023	3,591
Net cash provided by (used in) investing activities	71,876	(126,817)
Net increase (decrease) in cash	640	(508)
Cash, beginning of year	105	613
Cash, end of year	\$ 745	105
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenues	\$ 30,106	17,945
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation and amortization	21,831	20,881
Changes in assets and liabilities:		
Receivables	621	2,674
Unbilled revenues	320	237
Materials, supplies, and fuel inventories	(110)	(161)
Plant operation assets	289	(509)
Prepaid expenses	(135)	14
Other assets	(9,963)	(403)
Accounts payable	(2,257)	(3,454)
Accrual for payments in lieu of taxes	321	133
Other current liabilities	343	189
Deferred credits and other liabilities	(3,155)	6,087
Net cash provided by operating activities	\$ 38,211	43,633

See accompanying notes to financial statements.

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

(1) Organization and Accounting Policies

Lincoln Electric System (LES) is owned by the City of Lincoln, Nebraska (City). LES is operated under the direction of the Lincoln Electric System Administrative Board which is appointed by the Mayor and City Council. The City Council, as required by the City Charter, reserves authority to set the rates and charges, to adopt the annual budget and to incur debt.

The financial statements of LES are presented in conformity with accounting principles generally accepted in the United States of America and accounting practices prescribed by the Federal Energy Regulatory Commission. In reporting financial activity, LES applies all applicable Government Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Utility plant is stated at cost, including an allowance for funds used during construction of projects costing in excess of \$2 million. The allowance for funds used during construction consists of interest costs on proceeds of commercial paper notes/bonds, less net earnings on proceeds temporarily invested. The weighted average rate for 2002 was 4.9% and for 2001 was 3.9%. The provision for depreciation is computed at an overall straight-line rate of approximately 3%. Costs of labor, materials, supervision, and other expenses incurred in making repairs and minor replacements and in maintaining the plant in efficient operating condition are charged to expense. Plant accounts are charged with the costs of betterments and replacements of plant, except minor replacements, and the accumulated provision for depreciation is charged with retirements, together with removal costs, less salvage.

LES holds its investment securities until maturity. Investment securities are carried at cost, adjusted for amortization of premium and accretion of discount, which approximates fair market value.

Billings for electric revenues are rendered on a cycle basis monthly. Unbilled revenues, representing estimated consumer usage for the period between the last billing date and the end of the period, are accrued in the period of consumption.

Operating revenues, such as electric retail, result from exchange transactions associated with the principle activity of LES. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as interest, result from nonexchange transactions.

Materials, supplies, and fuel inventories are stated at cost which does not exceed market. Cost is generally determined on a weighted average basis.

Plant operation assets relate to the operation of Laramie River Station (LRS) and are comprised of operating assets, primarily fuel and supplies inventories and operating cash. These assets are managed by the operating agent of LRS. Operating expenses of LRS are included in the corresponding operating expense classifications in the statements of revenues, expenses, and equity.

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

LES is engaged in various studies relating to future power needs and sources, as well as transmission and distribution facility requirements. Costs of these studies are deferred pending completion of the studies as they are expected to result in the construction and/or acquisition of additional utility plant resulting in the capitalization of costs previously deferred.

Charges resulting from the issuance of revenue bonds are deferred and amortized over the repayment period of the bonds using the bonds outstanding method. Charges resulting from the establishment of a commercial paper note program are deferred and amortized on a straight-line basis over the expected life of the program.

Advances for mine development are payments made for the construction of the Dry Fork Coal Mine and are included in other deferred charges on the accompanying balance sheets. The mine is expected to provide lower cost fuel for LRS over the estimated 25 year life of the mine. The advances will be returned to LES over the estimated life of the mine.

Fixed cost payments under the power sales contract with Nebraska Public Power District (NPPD) and participation agreements are charged to purchased power.

Retirement plan costs are funded as accrued.

When both restricted and unrestricted resources are available for use, it is LES' policy to use restricted resources first, then unrestricted resources as they are needed.

Management of LES has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(2) Utility Plant

Utility plant activity for the years ended December 31, 2002 and 2001 were as follows (dollars in thousands):

	<u>December 31,</u> <u>2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u> <u>2002</u>
Utility plant	\$ 628,316	28,822	(3,011)	654,127
Construction work in progress	58,567	98,117	(29,616)	127,068
Less accumulated depreciation	232,069	20,088	(3,805)	248,352
	<u>\$ 454,814</u>	<u>106,851</u>	<u>(28,822)</u>	<u>532,843</u>

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

	December 31, 2000	Increases	Decreases	December 31, 2001
Utility plant	\$ 579,155	51,055	(1,894)	628,316
Construction work in progress	70,530	39,818	(51,781)	58,567
Less accumulated depreciation	215,550	19,139	(2,620)	232,069
	\$ 434,135	71,734	(51,055)	454,814

(3) Long-term and Other Debt

Long-term debt at December 31, 2002 and 2001 are presented on the balance sheets as shown below:

	2002	2001
	(Dollars in thousands)	
Revenue bonds outstanding at year end:		
Serial:		
1993 Revenue refunding, 4.70% – 5.40%, due from September 1, 2003 to 2011	\$ 32,770	128,055
1998 Electric revenue, 4.50% – 5.00%, due from September 1, 2003 to 2018	38,225	39,825
2001 Electric revenue, 4.00% – 5.25%, due from September 1, 2006 to 2020	141,150	141,150
2002 Electric revenue and refunding, 4.00% - 5.00%, due from September 1, 2004 to 2025	148,190	—
Term:		
1993 Revenue refunding, 5.25%, due September 1, 2015, with annual sinking requirements beginning 2012	12,530	62,005
Commercial paper notes	90,173	75,000
Long-term debt	463,038	446,035
Net unamortized bond discounts	(9,529)	(19,240)
Less current maturities of long-term debt	(12,450)	(10,035)
Long-term debt, net of unamortized premiums, discounts, and current maturities	\$ 441,059	416,760

The remaining 1993 serial and term revenue refunding bonds are eligible for redemption at the option of LES beginning in 2003. The redemption price is 102% of the matured value in the first year of eligibility with the price decreasing by 1% each year thereafter until the redemption price is equal to 100% of matured value.

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

The 1998 Electric revenue bonds are eligible for redemption at the option of LES beginning in 2008. The redemption price is 101% of the matured value in the first year of eligibility with the price decreasing by 1% each year thereafter until the redemption price is equal to 100% of matured value.

On August 15, 2001, LES issued \$141.2 million in electric revenue bonds with interest rates ranging from 4.00% to 5.25% and have annual maturities of \$1 million to \$29.5 million due from 2006 to 2020.

On August 15, 2001, LES issued \$34.7 million in taxable commercial paper notes with an interest rate of 3.575% to advance refund \$35.5 million in outstanding 1992 Series bonds with an average interest rate of 5.721%. LES advance refunded the 1992 bonds to restructure its debt and to provide for flexible covenants and business operations. The refunding resulted in an accounting loss of approximately \$6 million, which is deferred and is being amortized through 2016, the period over which LES expects to recover the costs. The net proceeds of \$34.4 million plus an additional \$2.4 million of the 1992 series reserve fund were used to purchase U.S. government securities and money market funds and were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 bonds. The defeased 1992 bonds have since been paid in full.

On October 1, 2002, LES issued \$148.2 million in electric revenue and refunding bonds with interest rates ranging from 4% to 5% and have annual maturities of \$3.7 million to \$13.5 million due from 2004 to 2025. These bonds were issued to advance refund \$136.3 million in outstanding 1993 Series bonds with an average interest rate of 5.2% and to pay down \$20 million in outstanding commercial paper notes with an average interest rate of 2%. LES advance refunded a portion of the 1993 bonds and paid down the commercial paper notes to restructure its debt and to provide for flexible covenants and business operations. The refunding resulted in an economic gain of \$9.7 million, and an accounting loss of approximately \$22 million, which is deferred and is being amortized through 2015, the period over which LES expects to recover the costs. The net proceeds of \$141.8 million plus an additional \$9.5 million of the 1993 series reserve fund were used to purchase U.S. government securities and money market funds and were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 bonds. As a result, the defeased portion of the 1993 bonds have been removed from the financial statements.

At December 31, 2002 and 2001, approximately \$136.3 million and \$76 million, respectively, of defeased debt remained outstanding.

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

Revenue bond debt service requirements to maturity are as follows (dollars in thousands):

	Principal	Interest	Total
Year ending December 31:			
2003	\$ 12,450	17,902	30,352
2004	12,440	17,924	30,364
2005	12,960	17,399	30,359
2006	13,585	16,849	30,434
2007	14,240	16,190	30,430
2008 – 2012	83,745	69,478	153,223
2013 – 2017	118,705	45,450	164,155
2018 – 2022	91,935	13,590	105,525
2023 – 2025	12,805	1,302	14,107
	\$ 372,865	216,084	588,949

Established by City Ordinance, LES may borrow up to \$125 million under a commercial paper note program. At December 31, 2002, LES had \$90.2 million of tax-exempt commercial paper notes outstanding. The notes mature at various dates but not more than 270 days after the date of issuance. The weighted average interest rate for the year ended December 31, 2002 was 1.4%. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to \$125 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement, LES refinances the commercial paper upon maturity.

Long-term debt activity for the years ended December 31, 2002 and 2001, were as follows (dollars in thousands):

	December 31, 2001	Increases	Decreases	December 31, 2002	Due within one year
Revenue bonds	\$ 371,035	148,190	(146,360)	372,865	12,450
Commercial paper notes	75,000	35,173	(20,000)	90,173	—
	\$ 446,035	183,363	(166,360)	463,038	12,450
	December 31, 2000	Increases	Decreases	December 31, 2001	Due within one year
Revenue bonds	\$ 276,885	141,150	(47,000)	371,035	10,035
Commercial paper notes	65,000	10,000	—	75,000	—
	\$ 341,885	151,150	(47,000)	446,035	10,035

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

(4) Taxable Notes Payable

LES issued short-term taxable commercial paper notes dated August 15, 2001, to advance refund the 1992 Series bonds, as described in note 3. The notes matured on July 1, 2002, and had an interest rate of 1.9% at the time of maturity.

Short-term debt activity for the years ended December 31, 2002 and 2001, were as follows (dollars in thousands):

		<u>December 31, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2002</u>
Taxable notes payable	\$	34,902	271	(35,173)	—
		<u>December 31, 2000</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2001</u>
Taxable notes payable	\$	—	34,902	—	34,902

(5) Payments in Lieu of Taxes

The City Charter provides that LES will make payments in lieu of taxes, aggregating 5% of its electric retail revenues derived from within the city limits of incorporated cities and towns served. Approximately 17% of the payments are transferred to the City of Lincoln. LES is exempt from Federal and state income taxes and local property taxes as it is owned by a municipality.

(6) Plant Construction

The 2003 construction and acquisition program is estimated at approximately \$108.3 million. An agreement signed in May 2002 provides for LES joint ownership in the Council Bluffs No. 4 coal-fired unit located south of Council Bluffs, Iowa in the amount of 100 megawatts. The plant is scheduled for commercial operation in May 2007 with MidAmerican Energy Company (MEC) acting as operating agent. In addition to joint ownership, LES would execute a Power Purchase Agreement with MEC which would sell 50 megawatts of the 100 megawatt commitment back to MEC for the first 19 months which optimizes the economics of LES' participation and better fits LES' anticipated load growth. The LES share of the total estimated cost of construction is \$150.4 million dollars, including approximately \$250,000, which was expensed in 2002 as start-up costs. LES anticipates financing this construction through operations, available funds, and short and long-term financing.

Plant under construction at December 31, 2002 and 2001, was approximately \$127.1 million and \$58.6 million, respectively.

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

(7) Funds

Deposits and investments at December 31, 2002 and 2001, is shown below:

	2002	2001
	(Dollars in thousands)	
Classified as restricted:		
Bond reserve funds, bond principal and interest funds, and construction funds	\$ 97,404	163,595
Deposit escrow fund	117	115
	97,521	163,710
Classified as current assets:		
Operating, revenue fund:		
Operation and maintenance	6,656	6,330
General reserve	5,858	4,885
	12,514	11,215
Designated:		
Rate stabilization fund	10,000	10,000
Decommissioning fund	—	3,195
	10,000	13,195
	\$ 120,035	188,120

A rate stabilization fund was established by the LES Administrative Board and approved by the Lincoln City Council in December 1998. The fund was established to pay for operation and maintenance expenses and extraordinary renewals and replacements or repairs. Funds can be budgeted and deposited monthly or at year-end from surplus revenues. The maximum balance in the fund is 15% of the operating budget and currently would equal approximately \$18 million.

LES established a decommissioning fund to allow LES to designate and account for the costs associated with decommissioning generation plants and electrical facilities. The LES Administrative Board administers this fund. As described in note 8, in 2002 LES was released from any future decommissioning obligation, thus it was no longer necessary to designate funds for this purpose.

LES is authorized under state law and city ordinance to invest in securities a prudent person would purchase, except for any equities not allowed by Nebraska Constitution. LES' investments are categorized to give an indication of the level of custodial risk assumed by LES at December 31, 2002 and 2001. Category 1 includes investments that are insured or registered or for which the securities are held by LES or its agent in LES' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in LES' name. Category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in LES' name. Deposits are carried at cost. The carrying amount of deposits is separately displayed on the statement of cash flows as "cash."

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

Cash and investments at December 31, 2002 is shown below:

	Category			Carrying amount	Market value
	1	2	3		
	(Dollars in thousands)				
Investments:					
U.S. Government securities	\$ 33,383	—	—	33,383	34,236
Government-backed money market funds	38,505	—	—	38,505	39,005
Commercial paper	47,402	—	—	47,402	47,332
Total investments				119,290	\$ 120,573
					Bank balance
Deposits:					
Insured (FDIC)				100	100
Uncollateralized				645	1,182
Total deposits				745	\$ 1,282
Total investments and deposits				\$ 120,035	

Cash and investments at December 31, 2001 is shown below:

	Category			Carrying amount	Market value
	1	2	3		
	(Dollars in thousands)				
Investments:					
U.S. Government securities	\$ 4,385	—	—	4,385	4,496
Government-backed money market funds	183,630	—	—	183,630	183,630
Total investments				188,015	\$ 188,126
					Bank balance
Deposits:					
Insured (FDIC)				100	100
Uncollateralized				5	613
Total deposits				105	\$ 713
Total investments and deposits				\$ 188,120	

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

(8) Participation Contract with NPPD for Cooper Nuclear Station

On May 21, 1968, LES and Consumers Public Power District, now known as Nebraska Public Power District (NPPD), entered into a Power Sales Contract (PSC) relating to the sale of capacity and energy from Cooper Nuclear Station (CNS). CNS is an approximately 800 megawatt nuclear generating plant located near Brownville, Nebraska, and is owned and operated by NPPD. The LES share under the original contract was 12.5% of the output of the facility. From 1973 through July 2002, LES received energy from the Cooper facility while contributing fixed and variable expenses equivalent to ownership costs and fuel costs. Fixed cost payments under the contract were on the same percentage basis whether or not the plant was operating or operable. LES recognized expense for its share of the total fixed demand costs of approximately \$8.4 million and \$26.5 million in 2002 and 2001, respectively.

LES and NPPD have each made allegations and brought claims against one another and have pursued related court actions and appeals against each other that are related to or arising from the PSC and CNS management and operating performance.

During 2002, LES and NPPD entered into settlement discussions that culminated in a settlement agreement to resolve all pending and threatened litigation related to CNS. This agreement includes power supply alternatives for LES that are advantageous for LES' future resource reliability and cost, including a 95MW energy contract from NPPD at an advantageous fixed cost that will replace energy previously received from CNS.

On July 31, 2002, the LES Administrative Board approved the settlement with NPPD and executed the "Settlement Agreement, Mutual Release and Indemnity" outlining all terms and conditions of the settlement. The settlement included:

- A new Power Sales Agreement (PSA) with NPPD effective August 1, 2002 through September 30, 2003, for 95MW of accredited capacity and energy from NPPD.
- An amendment to the agreement for Gerald Gentleman Station (GGS) relating to LES' entitlement to fully schedule an additional 7 MW from GGS.
- Authorization for the LES Administrator and CEO and LES legal counsel to prepare and file all documents necessary to effectuate the dismissal of all outstanding litigation with NPPD related to CNS.

A significant and key factor in the overall settlement is the provision whereby NPPD agrees not only to release LES from any future decommissioning obligation, but also to indemnify and hold LES harmless from any claim of any nature from any person or entity (including government agencies) that arises from or relates to the PSC or the operation of CNS.

The economic benefit of the settlement to LES includes an estimated \$5 million in immediately available decommissioning funds, \$3.5 million in savings in power costs due to the firm PSA, and approximately \$1 million per year in additional savings from the low cost GGS energy for so long as GGS continues to operate.

Upon expiration of the previous contract, if the nuclear facility was no longer in operation, LES would have been liable for no more than 12.5% of the costs of decommissioning the nuclear facility. LES

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

recognized expense for these potential costs of approximately \$4.8 million from the period of December 2000 to July 2002. As a result of the settlement, this reserve was reversed and purchased power expense was decreased by this amount.

Under the previous contract, LES was responsible for 12.5% of capital additions and improvements at the nuclear facility. Capital additions and improvements were billed to LES over periods ranging from six to eight years. LES recognized as purchased power approximately \$818,000 and \$1.3 million in 2002 and 2001, respectively, for its share of these costs.

(9) Other Participation Contracts with NPPD

LES has participating interests in the output of two existing NPPD power plants, a 30% (68 MW) and 8% (109 MW) entitlement to the output of the Sheldon Station Power Plant (nominally rated 225 MW coal plant) and Gerald Gentlemen Station Power Plant (nominally rated 1,268 MW coal plant), respectively.

LES is responsible for its respective participating interests in the two facilities' capital additions and improvements. LES' share of debt service payments necessary to retire the respective participating interests of principal and interest on bonds issued by NPPD for the facilities was approximately \$7.6 million and \$6.2 million in 2002 and 2001, respectively. LES recognizes its share of capital acquisition costs and debt service payments as power costs in the period the costs are billed. Fixed cost payments under the agreements are on a participation basis whether or not such plants are operating or operable. LES recognized expense for its share of the total fixed costs of approximately \$16.9 million and \$14.5 million in 2002 and 2001, respectively.

The participation contracts continue until the facilities are removed from commercial operation or the final maturity occurs on the related debt incurred by NPPD to finance the facilities, whichever occurs last. The expected fixed cost payments to NPPD under these contracts, including capital additions and improvements, debt service payments and fixed costs and credits aggregate approximately \$16.1 million; \$15.4 million; \$16.3 million; \$15.5 million; and \$15.8 million, respectively, in each of the five years subsequent to December 31, 2002.

(10) Laramie River Station (LRS)

LES is a 12.76% co-owner of the Basin Power Project which includes LRS, a three-unit, 1,650 MW coal-fired generating station in eastern Wyoming and a related transmission system. Costs, net of accumulated depreciation, associated with LRS of approximately \$62 million and \$67 million are reflected in utility plant at December 31, 2002 and 2001, respectively.

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

LES has a participation power sales agreement with the County of Los Alamos, New Mexico (the County) whereby the County purchases from LES 10 MW of LES' capacity interest in LRS. The agreement provides for the County to pay LES approximately \$118,000 per month through July 1, 2003 for demand charges. The amount is subject to change each July 1 based on debt costs of LES relative to the current market rates, until termination of the agreement. The agreement remains in effect until either the final maturity occurs on any LRS related debt, LRS is removed from commercial operation or the County gives LES six-months notice to terminate the agreement. LES billed the County approximately \$2.3 million and \$2.2 million in 2002 and 2001, respectively, for demand and energy charges.

(11) Jointly Governed Organizations

District Energy Corporation

LES, in conjunction with two other governmental entities, created the District Energy Corporation (DEC) in 1989 to own, operate, maintain, and finance the heating and cooling facilities utilized by certain city, county, and state buildings. The board of directors of DEC is comprised of five members: two appointed by the county board of commissioners, two by the mayor of Lincoln who must be confirmed by the City Council, and one by LES. No participant has any obligation, entitlement, or residual interest.

The DEC board of directors, under a 20-year management agreement, has appointed LES to supervise and manage the system and business affairs of DEC. LES is reimbursed for these management services based on the allocated actual costs of these services. LES also provides electric energy to DEC at an established interruptible commercial rate. The total amount of payments to LES for management, operations, and maintenance services was approximately \$118,000 and \$120,000 in 2002 and 2001, respectively. The total amount of payments to LES for energy was approximately \$67,000 and \$73,000 in 2002 and 2001, respectively.

Nebraska Utility Corporation

On May 17, 2001, LES, in conjunction with another governmental entity, created the Nebraska Utility Corporation (NUCorp) to purchase, lease, construct, and finance facilities and acquire services in order to furnish energy requirements, utility and infrastructure facilities, and all related energy, utility, and infrastructure services to counties, cities, villages, school districts, sanitary and improvement districts, or other municipal corporations or political subdivisions of the State of Nebraska or political subdivisions of another state. The board of directors of NUCorp is comprised of five members: three members appointed by the University of Nebraska and two members appointed by LES. No participant has any obligation, entitlement, or residual interest.

Operations commenced in January 2002. The NUCorp board of directors, under a twenty-year management agreement, have appointed LES to supervise and manage the system and business affairs of NUCorp. LES is reimbursed for these management services based on the allocated actual costs of these services. LES also provides electric energy to NUCorp on an established rate schedule. The total payment to LES for management, operations, and maintenance services was approximately \$136,000 in 2002. The total amount of payments to LES for energy was approximately \$4.8 million in 2002.

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

(12) Employee Benefit Plans

LES has a defined contribution retirement plan covering all employees upon employment; however, employees are not eligible to receive employer contributions until they have been employed six months. The plan is a straight-money purchase plan. LES' contribution is equal to 200% of the employees' contributions which range from 2-5% of gross wages. Vesting of LES contributions occurs over a five-year period. Employee forfeitures are used to reduce employer contributions. Vested benefits are fully funded. Approximate contribution information is shown below:

	<u>2002</u>	<u>2001</u>
Employer contribution	\$ 2,316,000	2,155,300
Employee contributions	<u>1,249,600</u>	<u>1,105,000</u>
	<u>\$ 3,565,600</u>	<u>3,260,300</u>

In addition, LES offers all full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits the employees to defer a portion of their salary until termination, retirement, or death.

(13) Disclosures About Fair Value of Financial Instruments

Operating, designated, and restricted funds, receivables, accrued interest receivable, other assets, accounts payable, accrued interest, accrual for payments in lieu of taxes, commercial paper notes, and other liabilities:

The carrying amount approximates fair value because of the short maturity of these instruments, except for certain operating, designated, and restricted funds whose fair value is presented in note 7.

Long-term Debt

The fair value of long-term debt instruments are based on the amount of future cash flows associated with each instrument discounted using LES' current borrowing rate of similar debt instruments of comparable maturity.

The estimated fair value of LES' revenue bonds is \$398 million and \$377 million at December 31, 2002 and 2001, respectively.

The carrying amount of the commercial paper notes approximate fair value because of the short maturity and/or variable rate of interest associated with these financial instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

LINCOLN ELECTRIC SYSTEM

Notes to Financial Statements

December 31, 2002 and 2001

(14) Risk Management

LES is subject to various risks of loss related to general liability and property insurance. LES has purchased commercially available indemnity insurance to cover these risks. The deductible amounts for this insurance would be immaterial to LES. The amount of insurance settlements has not exceeded insurance coverage in the past three years.

LINCOLN ELECTRIC SYSTEM

Debt Service Coverage

Years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
	(Dollars in thousands)	
Operating revenues:		
Electric retail	\$ 145,787	139,950
Electric wholesale	15,325	15,752
Other	<u>3,862</u>	<u>3,713</u>
Total operating revenues	<u>164,974</u>	<u>159,415</u>
Operating expense:		
Purchased power	58,688	64,302
Production	19,180	19,151
Operation	6,701	5,932
Other maintenance	4,077	3,804
Administrative and general	<u>20,702</u>	<u>23,976</u>
Total operating expenses, excluding depreciation and in lieu of taxes	<u>109,348</u>	<u>117,165</u>
Net operating revenues, excluding depreciation and taxes	55,626	42,250
Interest income	<u>3,305</u>	<u>3,467</u>
Available for debt service	<u>\$ 58,931</u>	<u>45,717</u>
Debt service	\$ 29,519	26,804
Debt coverage	2.00	1.71

See accompanying independent auditors' report.

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APPENDIX III

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

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SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

The following is a summary of certain provisions of the Ordinance. Summaries of certain definitions contained in the Ordinance are set forth below. Other terms defined in the Ordinance for which summary definitions are not set forth are indicated by capitalization. The summary does not purport to be a complete description of the terms of the Ordinance and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Copies of the Ordinance may be obtained from Lincoln Electric System or its Financial Advisor.

Definitions

The following are summaries of certain definitions in the Ordinance.

“Accreted Value” means, with respect to any Capital Appreciation Bond or Capital Appreciation Parity Obligation, the principal amount thereof plus the interest accrued thereon from the date of original issuance thereof to the Periodic Compounding Date next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Capital Appreciation Bonds or Capital Appreciation Parity Obligation set forth in such Series Ordinance or Parity Instrument, respectively, compounded periodically on each Periodic Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Accreted Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Accreted Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in such Series Ordinance or Parity Instrument, Accreted Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months.

“Act” means Sections 15-244 and 18-1803 to 18-1805, inclusive, Reissue Revised Statutes of Nebraska, as amended, and Section 44 of Article IX of the Charter of the City, as each may be amended from time to time.

“Appreciated Value” means, with respect to any Deferred Income Bond, (i) as of any date of computation prior to the Current Interest Commencement Date with respect to such Deferred Income Bond, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from the date of original issuance of such Bond to the Periodic Compounding Date next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Deferred Income Bonds set forth in the Series Ordinance authorizing such Bonds, compounded periodically on each Periodic Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Appreciated Value as of the immediately preceding Periodic Compounding date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Appreciated Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in the Series Ordinance authorizing such Deferred Income Bonds, Appreciated Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months and (ii) as of any date of computation on and after the Current Interest Commencement Date, the Appreciated Value on the Current Interest Commencement Date.

“Authorized Investments” means any investments in which the City may legally invest sums subject to its control pursuant to the Constitution and statutes of the State of Nebraska and the Charter of the City (all amended from time to time).

“Board” means the Lincoln Electric System Administrative Board created and established pursuant to Chapter 4.24 of the Municipal Code of the City.

“Bond” or “Bonds” means any bonds, notes or other obligations or evidences of indebtedness, as the case may be, authenticated and delivered under and Outstanding pursuant to the Ordinance but shall not mean Parity Obligations or Subordinated Indebtedness.

“Bond Obligation” means, as of any date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date), and (3) with respect to any Outstanding Deferred Income Bond, the Appreciated Value thereof as of the date on which interest on such Deferred Income Bond is computed next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case as of such date).

“Capital Appreciation Bonds” means any Bonds the interest on which is (i) compounded periodically on dates that are specified in the Series Ordinance authorizing such Capital Appreciation Bonds and (ii) payable only at the maturity, earlier redemption or other payment thereof pursuant to the Ordinance or the Series Ordinance authorizing such Capital Appreciation Bonds.

“Capital Appreciation Parity Obligations” means any Parity Obligations the interest with respect to which is (i) compounded periodically on dates that are specified in such Parity Obligation or in the Parity Instrument authorizing such Parity Obligation and (ii) payable only at the maturity, earlier redemption or prepayment or other payment thereof pursuant to the Parity Instrument authorizing such Capital Appreciation Parity Obligation.

“Costs,” with respect to the Electric System or any part thereof, means the costs, expenses and liabilities paid or incurred or to be paid or incurred by the City in connection with the planning, engineering, designing, acquiring, constructing, installing, financing, operating, maintaining, repairing, extending, improving, reconstructing, retiring, decommissioning and disposing thereof and the obtaining of governmental approvals, certificates, permits and licenses with respect thereto, including, but not limited to, any good faith or other similar payment or deposits required in connection with the acquisition or construction of such part of the Electric System, the cost of acquisition by or for the City of real and personal property or any interests therein, costs of physical construction of such part of the Electric System and costs of the City incidental to such construction or acquisition, the cost of acquisition of fuel or fuel inventory or facilities for the production or transportation of fuel and for additional fuel inventories, all costs relating to injury and damage claims relating to such part of the System, preliminary investigation and development costs, engineering fees and expenses, contractors' fees and expenses, the costs of labor, materials, equipment and utility services and supplies, legal and financial advisory fees and expenses, interest and financing costs, including, without limitation, bank commitment and letter of credit fees and bond insurance and indemnity premiums, fees and expenses of the Fiduciaries, administration and general overhead expense and costs of keeping accounts and making reports required by the Ordinance prior to or in connection with the completion of acquisition or construction of such part of the Electric System, amounts, if any, required by the Ordinance to be paid into the Bond Fund to provide, among other things, for interest accruing on Bonds and to provide for such reserves, if any, as may be specified in a Series or Supplemental Ordinance or to be paid into the Revenue Fund for any of the respective purposes thereof, payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the City with respect to the Electric System and reserves therefor, and all federal, state and local taxes and payments in lieu of taxes in connection with any part of the Electric System and shall include reimbursements to the City for any of the above items theretofore paid by or on behalf of the City.

“Credit Facility” means a letter of credit, line of credit, liquidity facility or other credit facility issued by a financial institution or other form of credit enhancement, including, but not limited to, municipal bond insurance and guarantees, delivered to the Paying Agent for all or a portion of a Series of Bonds, which provides for payment, in accordance with the terms of such Credit Facility, of principal, Accreted Value, Appreciated Value, premium and/or interest of all or a portion of a Series of Bonds and/or the purchase price of such Series of Bonds or portion thereof. A Credit Facility may be comprised of one or more credit facilities issued by one or more financial institutions.

“Current Interest Commencement Date” means with respect to any particular Deferred Income Bonds, the date specified in the Series Ordinance authorizing such Deferred Income Bonds (which date must be prior to the maturity date for such Deferred Income Bonds) after which interest accruing on such Deferred Income Bonds shall be payable periodically on dates specified in such Series Ordinance, with the first such payment date being the first such periodic date immediately succeeding such Current Interest Commencement Date.

“Debt Service” for any period means, as of any date of calculation and with respect to any Series of Bonds or Parity Obligations, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series or such Parity Obligations, except to the extent that such interest is to be paid from deposits in the Bond Fund made from the proceeds of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City (including amounts, if any, transferred thereto from the Construction Fund) or from the proceeds of such Parity Obligations and (ii) that portion of each Principal Installment for such Series or Parity Obligation which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series or Parity Obligation (or, if (a) there shall be no such preceding Principal Installment due date or (b) such preceding Principal Installment due date is more than one year prior to the due date of such Principal Installment, then, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series or Parity Obligation, whichever date is later). Such interest and Principal Installments for such Series or Parity Obligations shall be calculated on the assumption that (x) no Bonds (except for Option Bonds actually tendered for payment prior to the stated maturity thereof) of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof, (y) the principal amount of Option Bonds tendered for payment before the stated maturity thereof shall be deemed to accrue on the date required to be paid pursuant to such tender, and (z) no Principal Installment with respect to any Parity Obligation will be paid except by reason of the payment of such Principal Installment on the due date thereof.

“Deferred Income Bonds” means any Bond issued under the Ordinance as to which interest accruing prior to the Current Interest Commencement Date is (i) compounded periodically on dates specified in the Series Ordinance authorizing such Deferred Income Bonds and (ii) payable only at the maturity, earlier redemption or other payment thereof pursuant to the Ordinance or the Series Ordinance authorizing such Deferred Income Bonds.

“Derivative Obligations” means, to the extent permitted by law, any financial arrangement entered into by the City for the purposes of moderating interest rate fluctuations or otherwise and may include any interest rate swap agreement, currency swap agreement, forward payment conversion agreement, future, or contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, or a contract to exchange cash flows or a series of payments, or any other exchange or rate protection transaction agreement, including, without limitation, interest rates floors, caps or collars, options, rates or call to a hedge payment, currency, rate, spread, or similar exposure or any similar contract (however designated).

“Derivative Payment” means any payment required to be made by the City with respect to a Derivative Obligation.

“Electric System” means all properties and assets, and interests in properties and assets, real and personal and tangible and intangible, of the City now or hereafter existing used for or pertaining to (a) the generation, transmission, distribution and sale of electric power and energy or (b) such other activities and transactions as the Board and the City shall from time to time determine, and shall be broadly construed to encompass and include all Projects, and all electric production, transmission, distribution, conservation, load management, general plant and other related facilities, equipment or property and any mine, well, pipeline, plant, structure or other facility for the development, production, manufacture, storage, fabrication or processing of fossil, nuclear or other fuel of any kind or any facility or rights with respect to the supply of water, in each case for use, in whole or in major part, in any of the City's electric generating plants, now existing and hereafter acquired by lease, contract, purchase or otherwise or constructed by the City, including any interest or participation of the City in any such facilities or any rights to the output or capacity thereof, together with all additions, betterments, extensions and improvements to said Electric System or any part thereof hereafter made and together with all lands, easements and rights of way of the City and all other works, property or structures of the City and contract rights and other tangible and intangible assets of the City used or useful in connection with or related to said Electric System, including without limitation a contract right or other contractual arrangement for the long-term or short-term interconnection, interchange, exchange, pooling, wheeling, transmission, purchase or sale of electric power and energy and other similar arrangements with entities having generation and transmission capabilities and located within or without the City or the State of Nebraska. Without limiting the generality of the foregoing, the term “Electric System” shall include (1) the properties and assets for the generation, transmission and distribution and sale of electric power and energy owned by the City on the date of passage of the Ordinance and (2) all additions, extensions, expansions, improvements, betterments and equipments hereafter made thereto. “Electric System” shall not include any properties or interests in properties of the City which the Board and the City, in accordance with the provisions of the Ordinance, determines shall not constitute a part of the Electric System.

“Federal Securities” means direct obligations of, or obligations the timely payment of which are unconditionally guaranteed by, the United States of America or the Treasury Department of the United States of America or securities or receipts evidencing direct ownership interests in the foregoing obligations or specific portions (such as principal or interest) of the foregoing obligations which are maintained under the book entry system operated by Federal Reserve Banks.

“Independent Consultant” means an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal electric light and power facilities and systems similar in size to the Electric System.

“Lincoln Electric System” means all assets, properties and employees under the jurisdiction and control of the Board as set forth in Chapter 4.24 of the Municipal Code.

“Municipal Obligations” means municipal obligations, rated in the highest Rating Category by any Rating Agency, meeting the following conditions:

- (a) the municipal obligations are not to be redeemable prior to maturity, or the trustee with respect to such obligations has been given irrevocable instructions concerning their calling and redemption;
- (b) the municipal obligations are secured by Federal Securities, which Federal Securities, except for provisions relating to surplus moneys not required for the payment of the municipal obligations and the substitution of such Federal Securities for other Federal Securities satisfying all criteria for Federal Securities, may be applied only to interest, principal and premium payments of such municipal obligations;

(c) the principal of and interest on the Federal Securities (plus any cash in the escrow fund) are sufficient, without reinvestment, to meet the liabilities of the municipal obligations; and

(d) the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee.

“Net Revenues” shall mean Revenues less Operation and Maintenance Expenses paid from Revenues.

“Operation and Maintenance Expenses” shall mean all of the costs and expenses for operation, maintenance, and ordinary repairs, renewals and replacements of the Electric System, including all costs of purchasing, producing and delivering electric power and energy from the Electric System and reserves for items of Operation and Maintenance Expenses the payment of which is not immediately required, and shall include, without limiting the generality of the foregoing, costs of purchased power, fuel costs, costs of transmission service, generating capacity reserve service, regulation, or other interchange and coordination services, rents, administrative and general expenses, engineering expenses, legal, accounting and financial advisory expenses, payments to pension, retirement, health and hospitalization funds, taxes, payments in-lieu-of taxes and other governmental charges, insurance and surety bond premiums including obligations to a stock mutual or reciprocal insurance company, and any other current expenses or obligations required to be paid by the City under the provisions of the Ordinance or by law or regulation, all to the extent properly allocable to the Electric System, and any fees and expenses incurred in the administration the Bonds, Parity Obligations and Derivative Payments to the extent the same are treated as operation and maintenance expenses pursuant to generally accepted accounting principles for electric utilities. Operation and Maintenance Expenses shall not include any allowance for depreciation.

“Option Bonds” shall mean Bonds which by their terms may or are required to be tendered by and at the option of the Owner thereof for payment by the City prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Owner thereof.

“Outstanding” means (1) when used as of any particular time with reference to Bonds, all Bonds theretofore, or thereupon being, authenticated and delivered by the Registrar under the Ordinance except (a) Bonds theretofore canceled by the Paying Agent or surrendered to the Paying Agent for cancellation (or in the case of Book Entry Bonds, to the extent provided in the Ordinance, portions thereof deemed to have been canceled); (b) Bonds (or in the case of Book Entry Bonds, to the extent provided in the Ordinance, portions thereof with respect to which all liability of the City shall have been discharged in accordance with the Ordinance; (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Registrar pursuant to the Ordinance; and (d) Bonds no longer deemed to be outstanding hereunder as provided in the Series Ordinance pursuant to which such Bonds were issued; (2) when used as of any particular time with reference to Prior Lien Bonds, all Prior Lien Bonds deemed outstanding within the meaning of the respective Prior Lien Bond Ordinances; and (3) when used as of any particular time with reference to Parity Obligations, all Parity Obligations deemed outstanding or not satisfied within the meaning of the Parity Instrument authorizing such Parity Obligations.

“Parity Instrument” means an instrument pursuant to which the City shall have provided for the issuance of Parity Obligations.

“Parity Obligations” means any indebtedness or other obligation of the City, including, but not limited to Derivative Payments, and all other payments or other obligation of the City, with respect to the Electric System and in each case having a lien and charge upon, or being payable from, the Net Revenues on a parity with the Bonds.

“Paying Agent” means the person or institution, which may include the City Treasurer or the Finance Director or his designee, or such other agent or official of the City as may be designated in a Series Ordinance to make payments of the principal of, Redemption Price and interest on the Series of Bonds authorized by such Series Ordinance to the registered owners thereof.

“Payment Date” means, with respect to a Series of Bonds or Parity Obligations, the date upon which any principal, Accreted Value, Appreciated Value or Redemption Price, and interest thereon is payable to the registered owners of such Series of Bonds or Parity Obligations.

“Principal Installment” means, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding or with respect to any Outstanding Parity Obligation, (i) the principal amount of Bonds (including the principal amount of any Option Bonds tendered for payment prior to the stated maturity thereof) of such Series or Parity Obligation due (or so tendered for payment) on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in the Ordinance) of any Sinking Fund Installments due on a certain future date for Bonds of such Series or Parity Obligation, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bond, or Parity Obligation on such future date in a principal amount

equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series and different Parity Obligations, the sum of such principal amount of Bonds and Parity Obligations and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

“Prior Lien Bonds” means the bonds issued and outstanding pursuant to the Prior Lien Bond Ordinances.

“Prior Lien Bond Ordinances” shall mean Ordinance Nos. 16416, 16417 and 17288 of the City.

“Project” means any electric generation, transmission, distribution and general plant facilities, together with any other property necessary, desirable or advisable for such activities as the Board is authorized to undertake, and all other property, real and personal, of every kind and nature material or pertinent thereto or necessary therefor, located within or without the City or the State of Nebraska, which may be used or useful in the generation, transmission, distribution, sale, purchase, exchange or interchange of electric power and energy, and in the supplying of electric power and energy to all those contracting with the City therefor and such other activities as the Board is authorized to undertake, as provided in the Act, including any interest therein or right to capacity thereof, and may include, without limitations, a divided or undivided interest in any electric generation, transmission, distribution or general plant facility in which the City shall participate as an owner in common with others, a contract right or other contractual arrangement for the short-term or long-term provision of electric power and energy, transmission and other services to the City on a prepaid basis and the acquisition of water and fuel of any kind for such purposes, including the acquisition of water rights, fuel deposits and facilities for the development, production, processing, manufacture, fabrication, transportation and storage of water and fuel.

“Prudent Utility Practice” means any of the practices, methods and acts which, in the exercise of reasonable judgment, in the light of the facts (including, but not limited to, any practices, methods and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) known at the time the decision was made, could have been expected to accomplish the desired result at reasonable cost consistent with reliability, safety and expediency. In applying the standard of Prudent Utility Practice to any matter under the Ordinance, equitable consideration shall be given to the circumstances, requirements and obligations of the City, and there shall be taken into account the fact that the City is a political subdivision of the State of Nebraska with prescribed statutory powers, duties and responsibilities. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at reasonable cost consistent with reliability, safety and expediency. Prudent Utility Practice includes due regard for manufactures' warranties and the requirements of governmental agencies which have jurisdiction.

“Registrar” means the person or institution, which may include the City Treasurer or the Finance Director or his designee, or such other agent or official of the City as may be designated in a Series Ordinance to maintain on behalf of the City books of record in which the registered owners of the Bonds authorized by such Series Ordinance and their registered addresses shall be duly recorded.

“Revenues” means (i) all revenues, income, rents and receipts derived by the City from or attributable to the ownership and operation of the Electric System, including all revenues attributable to the Electric System or to the payment of the costs thereof received by the City under any contract for the sale of power, energy, transmission or other service from the Electric System or any part thereof or any contractual arrangement with respect to the use of the Electric System or any portion thereof or the services, output or capacity thereof, (ii) the proceeds of any insurance covering business interruption loss relating to the Electric System and (iii) interest received on any moneys or securities held pursuant to the Ordinance; provided, however, that Revenues shall not include (i) any revenues, receipts, rents, money or funds in aid of construction and income to the City when acting in the capacity of project manager with respect to a Project, (ii) customer deposits, or (iii) amounts received upon the sale, exchange or disposition of assets pursuant to the provisions of the Ordinance.

“Sinking Fund Installment” shall mean an amount so designated which is established pursuant to a Series Ordinance authorizing a Series of Bonds and which is required by the Ordinance to be deposited in the Bond Fund for the payment of Term Bonds of such series and maturity.

“Subordinated Indebtedness” shall mean an evidence of indebtedness or obligation to pay money complying with the provisions of the Ordinance requiring that the payment of the principal of and interest on the same be payable, and shall be expressed to be, subordinated in all respects to the security interest in and pledge created by the Ordinance as security for the Bonds.

“Variable Rate Indebtedness” means any indebtedness or obligation the interest rate on, or amount of, which is not fixed at the time of incurrence of such indebtedness or obligation, and has not at some subsequent date been fixed, at a single numerical rate for the entire remaining term of the indebtedness or obligation.

Pledge

The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal, Accreted Value and Appreciated Value thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon (i) the Net Revenues, subordinate to the lien thereon of the Prior Lien Bonds pursuant to the Prior Lien Bond Ordinances, and (ii) the other funds, assets and security described under the Ordinance and under the Series Ordinance creating that Series. In the Ordinance, the City pledges and places a charge upon all Net Revenues, subordinate only to the lien thereon of the Prior Lien Bonds pursuant to the Prior Lien Bond Ordinances, to secure the payment of the principal, Accreted Value and Appreciated Value of, premium, if any, and interest on the Bonds and Parity Obligations in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Ordinance, permitting the application thereof for the purposes and on the terms and conditions set forth herein, and the Net Revenues constitute a trust for the security and payment of the interest and any premium on and principal, Accreted Value and Appreciated Value of the Bonds and Parity Obligations subordinate only to the lien thereon of the Prior Lien Bonds pursuant to the Prior Lien Bond Ordinances. The Ordinance pledges to secure the payment of the principal, Accreted Value and Appreciated Value of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the City in the Bond Fund, subject only to the provisions of the Ordinance permitting the application thereof for the purposes and on the terms and conditions set forth herein. The pledge of Net Revenues herein made shall remain in effect until there are no Bonds or Parity Obligations Outstanding.

Application of Revenues

Revenues are pledged by the Ordinance to secure the payment of principal of and interest and redemption premium on the Bonds of all series and Parity Obligations, subject to the provisions of the Ordinance permitting application for other purposes. For the application of Revenues, the Ordinance establishes a Revenue Fund, a Bond Fund and a Construction Fund held by the City.

The Ordinance establishes with the City the Electric Revenue Fund into which all Revenues of the Electric System shall be deposited; provided, however, that for so long as (1) any Prior Lien Bonds are Outstanding and (2) any Notes are Outstanding, the City shall (i) continue and maintain all funds and accounts established by the Prior Lien Bond Ordinances or the Note Ordinance, as appropriate, and (ii) except as provided in a Series Ordinance authorizing the issuance of a Series of Bonds and providing for the deposit of a portion of the proceeds of such Series of Bonds into one or more of the funds established by the Ordinance, deposit Revenues into the Electric Revenue Fund and make deposits to the funds and accounts as provided by the Ordinance only after the deposits and payments required to be made by the Prior Lien Bond Ordinances and the Note Ordinance, as appropriate, have been made.

Not less than three (3) Business Days prior to any Payment Date for a Series of Bonds the City shall pay from the Electric Revenue Fund into the Bond Fund the Debt Service due on such Series of Bonds on such Payment Date; provided that, for the purposes of computing the amount to be deposited in the Bond Fund, there shall be excluded from such deposit the amount, if any, set aside in the Bond Fund from the proceeds of Bonds, Parity Obligations, Subordinated Indebtedness or other evidences of indebtedness of the City (including amounts, if any, transferred thereto from the Construction Fund) for the payment of interest on such Series of Bonds; provided, however, that so long as there shall be held in the Bond Fund an amount sufficient to pay in full all Outstanding Bonds in accordance with their terms (including the maximum amount of principal, mandatory sinking fund payments, Accreted Value, Appreciated Value or applicable Redemption Price and all interest which could become payable thereon), no transfers shall be required to be made to the Bond Fund.

Construction Fund

The Ordinance establishes a Construction Fund to be held by the City. There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of the Ordinance and any Series Ordinance, and there may be paid into the Construction Fund, at the option of the City, any moneys received for or in connection with the Electric System by the City from any other source, unless required to be applied otherwise as provided by the Ordinance. Amounts in the Construction Fund shall be applied to the Costs of the Electric System in the manner provided in the Ordinance.

The Board shall make payments from the Construction Fund in the amounts, at the times, in the manner and on the other terms and conditions established by a resolution of the Board.

To the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds when due. Amounts credited to the Construction Fund which the City at any time determines to be in excess of the amounts required for the purposes thereof shall be transferred to the Electric Revenue Fund; provided, however, that the amount of any such credit to the Electric Revenue Fund shall not constitute or be deemed to constitute Revenues for any purpose of the Ordinance.

Bond Fund

The Board shall pay out of the Bond Fund to the respective Paying Agents not less than three (3) Business Days before (i) each Payment Date for any of the Bonds the amount required for the interest and principal; and (ii) before any redemption date for the Bonds, the amount required for the payment of interest on and the Redemption Price of the Bonds then to be redeemed.

Debt Service Reserve Fund

The City may, but shall not be required to, establish a debt service reserve fund or account for a Series of Bonds issued pursuant to the Ordinance, each of which shall be for the benefit and security of such Series of Bonds, in the manner and to the extent provided in the Series Ordinance establishing each such fund or account. The entity that shall hold any such account or fund, the amounts to be deposited therein, and any other matters and things relative to such account or fund which are not contrary to or inconsistent with the Ordinance as theretofore in effect, shall be set forth in such resolution or Supplemental Ordinance establishing such account or fund or any Supplemental Ordinance thereafter adopted in connection therewith.

Investment of Funds and Accounts

Unless limited by the provisions of a Series Ordinance, all amounts held in any fund or account established under the Ordinance may be invested and reinvested as shall be provided in the applicable policies established from time to time by the Board, which investments shall mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such funds and accounts. Any Paying Agent shall make all such investments of moneys held by it in accordance with written instructions received from any Authorized Representative. If any Paying Agent does not receive any such written instructions, such Paying Agent shall invest such fund in such Federal Securities as the Paying Agent shall determine.

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in any fund or account shall be paid into the respective fund or account in which such investment is held; provided, however, that at the direction of the Board, such interest earned on moneys or investments in any such fund or account or any portion thereof shall be paid into the Construction Fund. Interest earned on any moneys or investments in the Construction Fund shall be held in the Construction Fund for application as provided in the Ordinance or paid into the Electric Revenue Fund.

Obligations purchased as an investment of moneys in any fund or account created under the provisions of the Ordinance shall be deemed at all times to be a part of such fund or account and any profit realized from the liquidation of such investment shall be credited to such fund or account and any loss resulting from the liquidation of such investment shall be charged to such fund or account.

In computing the amount in any fund or account created under the provisions of the Ordinance for any purpose provided in the Ordinance, obligations purchased as an investment of moneys therein shall be valued as provided in the applicable policies established by the Board from time to time.

Covenant as to Rates, Fees and Charges

Subject to any rate regulation by any state or federal regulatory authority, the City and the Board will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric System and to the extent legally permissible, revise such rates, charges and fees to produce Revenues each Fiscal Year sufficient:

- (i) to pay all Operation and Maintenance Expenses;
- (ii) to produce Net Revenues, after deducting amounts expended during the Fiscal Year from the Net Revenues for the payment of debt service requirements of the Prior Lien Bonds, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Bonds and Parity Obligations; and
- (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric System reasonably anticipated to be paid from Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified in (i), (ii) and (iii) above the City and the Board shall within sixty (60) days from the date of receipt of the annual audit for such Fiscal Year either (a) cause such rates and charges to be revised and adjusted to comply with the requirements set forth in this paragraph or (b) obtain a written

report from an Independent Consultant after a review and study of the operations of the Electric System has been made concluding that, in their opinion, the rates and charges then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates and charges to comply with the provisions set forth under the heading "Covenant as to Rates, Fees and Charges" and such adjustments and revisions to electric rates and charges are promptly implemented and enacted in accordance with such Independent Consultant's report.

Certain Other Covenants

Creation of Liens; Sale and Lease of Property. (a) The City shall not issue any bonds, notes, debentures, or other evidences of indebtedness of similar nature, other than the Bonds or Parity Obligations, payable out of or secured by a security interest in or pledge or assignment of the Net Revenues or other moneys, securities or funds held or set aside by the City, the Board or by any Paying Agent under the Ordinance and shall not create or cause to be created any lien or charge on the Net Revenues or such moneys, securities or funds; provided, however, that nothing contained in the Ordinance shall prevent the City from issuing, if and to the extent permitted by law (i) evidences of indebtedness (A) payable out of moneys in the Construction Fund as part of the costs of the Electric System, or (B) payable out of, or secured by a security interest in or pledge or assignment of, Net Revenues to be received on and after such date as the pledge of the Net Revenues provided in the Ordinance shall be discharged and satisfied as provided in the Ordinance, or (ii) Subordinated Indebtedness.

(b) To the extent and in the manner provided by law, the Board may sell, exchange or otherwise dispose of property, facilities and assets of the Electric System at any time and from time to time having a fair market value not to exceed \$5,000,000 annually, as such amount shall be indexed based on the Consumer Price Index for All Urban Consumer (CPI-U) for the U.S. City Average for All Items, 1982-84 = 100 (the "CPI") in effect on the date of adoption of the Basic Ordinance. Furthermore, the Board, to the extent and in the manner provided by law, may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the Electric System. The proceeds of any such sale, exchange or disposal of property or facilities shall be used (i) to provide for the payment and redemption of Bonds or Parity Obligations or (ii) to acquire capital assets for any Electric System purpose.

Maintenance of Insurance. (a) The Board shall at all times use its best efforts to keep or cause to be kept the properties of the Electric System which are of an insurable nature and of the character usually insured by those operating properties similar to the Electric System insured against loss or damage by fire and from other causes customarily insured against and in such relative amounts as are usually obtained. The Board shall at all times use its best efforts to maintain or cause to be maintained insurance or reserves against loss or damage from such hazards and risks to the person and property of others as are usually insured or reserved against by those operating properties similar to the properties of the Electric System. The Board shall only be required to obtain such insurance if the same is available at reasonable rates and upon reasonable terms and conditions.

In lieu of obtaining policies for insurance as provided above, the Board may self-insure against risks, accidents, claims or casualties described above, or such risks, accidents, claims or casualties may be covered under one or more blanket insurance policies maintained by the City or the Board.

Reconstruction; Application of Insurance Proceeds. If any useful portion of the Electric System shall be damaged or destroyed, the Board shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the Board. The proceeds of insurance covering such property, together with any other funds available for such purpose as the Board in its sole discretion shall determine, shall be used to repair the property damaged or replace the property destroyed; provided, however, if the insurance proceeds and other funds that might be lawfully appropriated therefore are insufficient to repair or replace the damaged property, then such insurance proceeds received for the damaged or destroyed property shall be deposited to the credit of a special insurance account or fund until other funds become available which, together with funds on deposit to the credit of such special insurance account, will be sufficient to make the repairs or replacements to the property damaged or destroyed that resulted in such insurance proceeds or make other improvements to the Electric System.

Records and Accounts. The Board shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Electric System and each fund and account established under the Ordinance, and which, together with all other books and papers of the Board or the City, including insurance policies, relating to the Electric System, shall upon reasonable advance notice and during regular business hours, be subject to the inspection of the Owners of an aggregate of not less than 5% in principal amount of the Bonds and Parity Obligations then Outstanding or their representatives duly authorized in writing.

Amendment of Ordinance

The Ordinance and the rights and obligations of the City and of the Owners of the bonds may be amended by a Supplemental Ordinance with the written consent (1) of the Owners of a majority in principal amount of the Bonds affected by

such modification or amendment and (2) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the Owners of a majority in principal amount of the Bonds of the particular series and maturity entitled to the benefit of such Sinking Fund Installment. No such modification or amendment may (1) permit a change in the terms of redemption or maturity of the principal of any Bond or any installment of interest or a reduction in the principal, Redemption Price or rate of interest thereon without consent of each affected Owner, or (2) reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment. For purposes of the foregoing, Owners of Bonds may include the initial Owners thereof regardless of whether such Bonds are being held for resale.

The Ordinance may be amended without the consent of Bondholders, (1) to cure any ambiguity, omission, defect or inconsistent provision in the Ordinance; (2) to insert provisions clarifying the Ordinance; or (3) to make any other modification or amendment of the Resolution which the Board, in its sole discretion, determines will not have a materially adverse effect on the interests of the Ordinance.

Without the consent of the Bondholders, the City may adopt a Supplemental Ordinance which (1) closes the Ordinance against, or provides additional conditions to, the issuance of Bonds or other evidences of indebtedness; (2) adds covenants and agreements of the City or the Board; (3) adds limitations and restrictions to be observed by the City or the Board; (4) authorizes Bonds of an additional series; (5) confirms any security interest, pledge or assignment of the Revenues or of any other moneys, securities or funds; (6) makes any modification which is to be effective only after all Bonds of each series Outstanding as of the date of the adoption of such Supplemental Ordinance cease to be Outstanding; or (7) authorizes Subordinated Indebtedness.

Defeasance

Except as may be provided in any Series Ordinance creating a Series of Bonds, Bonds of any Series may be paid by the City in any of the following ways:

- (a) by paying or causing to be paid the Bond Obligation of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;
- (b) by depositing with the Paying Agent, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Ordinance) to pay or redeem all Bonds Outstanding of the Series; or
- (c) by delivering to the Paying Agent, for cancellation by it, all Bonds then Outstanding of the Series.

Upon the deposit with the Paying Agent, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Ordinance) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, irrevocable notice of such redemption shall have been given as provided in the Ordinance or provision satisfactory to the Registrar and Paying Agent shall have been made for the giving of such notice, all liability of the City in respect of such Bond shall cease, terminate and be completely discharged; provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and the City shall remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the provisions of the Ordinance and the continuing duties of the Registrar and Paying Agent.

Whenever in the Ordinance it is provided or permitted that there be deposited with or held in trust by the Paying Agent, an escrow agent or other fiduciary, money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Paying Agent in the funds and accounts established pursuant to the Ordinance and shall be one or more of the following:

- (i) lawful money of the United States of America in an amount equal to the Bond Obligation of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Ordinance or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, the amount to be deposited or held shall be the Bond Obligation or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(ii) non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Paying Agent for which payment is being made (upon which opinion the Paying Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Ordinance or provision satisfactory to the shall have been made for the giving of such notice.

Events of Default; Remedies

Events of Default. Each of the following events shall be an “Event of Default”:

(a) Default by the City or the Board in the due and punctual payment of the principal, Accreted Value or Appreciated Value of, or premium, if any, on any Bond (whether at maturity, by acceleration, call for redemption or otherwise);

(b) Default by the City or the Board in the due and punctual payment of the interest on any Bond and such default shall continue for a period of thirty (30) days after the due date for the payment of such interest;

(c) Failure of the City or the Board to observe and perform any of its other covenants, conditions or agreements under the Ordinance or in the Bonds for a period of 90 days after written notice from the Owners of 25% in aggregate amount of Bond Obligation of the Bonds then outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the City to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;

(d) (1) Failure of the Board generally to pay its debts as the same become due, (2) commencement by the Board of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by the Board to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the Board, the Electric System or any substantial part of the Board's property, or to the taking possession by any such official of the Electric System or any substantial part of the Board's property, (4) making by the Board of any assignment for the benefit of creditors, or (5) taking of corporate action by the Board in furtherance of any of the foregoing;

(e) The entry of any (1) decree or order for relief by a court having jurisdiction over the Board or its property in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the Board, the Electric System or any substantial part of the Board's property, or (3) order for the termination or liquidation of the City, the Board, the Electric System or affairs of any of them;

(f) Failure of the City or the Board within 90 days after the commencement of any proceedings against either of them under the Federal bankruptcy laws prior any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed; or

(g) Any Event of Default under the Prior Lien Bond Ordinances shall occur and shall not be cured as provided by the Prior Lien Bond Ordinances.

Remedies Upon Occurrence of an Event of Default. Upon the happening and continuance of any event of default, then and in every such case the Owners of not less than twenty-five percent (25%) of the Bond Obligation may appoint any state bank, national bank, trust company or national banking association qualified to transact business in the State of Nebraska to serve as trustee for the benefit of the Owners of all Bonds then outstanding (the “Receiver”). Notice of such appointment, together with evidence of the requisite signatures of the Owners of twenty-five percent (25%) of the Bond Obligation and the trust instrument under which the Receiver shall have agreed to serve shall be filed with the City and the Board with a copy to the Receiver and notice of such appointment shall be mailed to the Owners of the Bonds. After the appointment of a Receiver hereunder, no further Receivers may be appointed; however, the Owners of a majority of the Bond Obligation may remove the Receiver initially appointed and appoint a successor and subsequent successors at any time. If the default for which the Receiver was appointed is cured or waived pursuant to the Ordinance, the appointment of the Receiver shall terminate with respect to such default.

After a Receiver has been appointed pursuant to the foregoing, the Receiver may proceed, and upon the written request of Owners of twenty-five percent (25%) of the Bond Obligation shall proceed, to protect and enforce the rights of the Owners under the laws of the State of Nebraska, including the Act, and under the Ordinance, by such suits, actions or special proceedings in equity or at law, or by regulatory or administrative proceedings in the office of any board, body or officer

having jurisdiction, either for the specific performance of any covenant or agreement contained herein or in aid of execution of any power herein granted or for the enforcement of any proper legal or equitable remedy, all as the Receiver, being advised by counsel, shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy against the City or the Board, under the Ordinance the Receiver shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due from the City or the Board, for principal, interest or other sums due under any provisions of the Ordinance or of such Bonds and unpaid, with interest on overdue payments of principal and, if permitted by law, at the rate or rates of interest specified in such Bonds, together with any and all reasonable costs and expenses of collection and of all proceedings hereunder and under such Bonds without prejudice to any other right or remedy of the Receiver or of the Owners, and to recover and enforce any judgment or decree against the City or the Board, but solely as provided herein and in such Bonds, for any portion of such amounts remaining unpaid and interest, costs and expenses as above provided, and to collect (but solely from moneys in the Electric Revenue Fund, as the case may be, and any other moneys available for such purpose) in any manner provided by law, the moneys adjudged or decreed to be payable.

Directions to Receiver as to Remedial Proceedings. Anything in the Ordinance to the contrary notwithstanding, the Owners of a majority of the Bond Obligation shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Receiver, to direct the method and place of conducting all remedial proceedings to be taken by the Receiver hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Ordinance, and that the Receiver shall have the right to decline to follow any such direction which in the opinion of the Receiver would be unjustly prejudicial to Owners not parties to such direction.

Pro Rata Application of Funds. (a) Anything in the Ordinance to the contrary notwithstanding, if at any time the moneys in the Electric Revenue Fund, shall not be sufficient to pay the principal Accreted Value, Appreciated Value or Redemption Price of or the interest on the Bonds as the same become due and payable, such moneys, together with any moneys then available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for in the Ordinance or otherwise, shall be applied as follows:

(i) Unless the principal of all the Bonds and Parity Obligations shall have become due and payable, all such moneys shall be applied (A) to the payment of all installments of interest then due on the bonds and the interest component of Parity Obligations then due, in the order of the maturity of the installments of such interest, to the persons entitled thereto, ratable, without any discrimination or preference, and (B) to the payment of all installments of principal of Bonds and Parity Obligations then due.

(ii) If the principal of all the Bonds and Parity Obligations shall have become due and payable, all such moneys shall be applied to the payment of the principal Accreted Value, Appreciated Value or Redemption Price or interest then due and unpaid upon the Parity Obligations, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bonds or Parity Obligations over any other Bonds or Parity Obligations, ratable, according to the amounts due, respectively, for principal or interest to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bond and Parity Obligations.

(b) Whenever moneys are to be applied by the Receiver pursuant to the provisions stated above, such moneys shall be applied by the Receiver at such times, and from time to time, as the Receiver in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future; the setting aside of such moneys, in trust for the proper purpose, shall constitute proper application by the Receiver; and the Receiver shall incur no liability whatsoever to the City, to the Board, to any Owner or to any other person for any delay in applying any such moneys, so long as the Receiver acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Ordinance as may be applicable at the time of application by the Receiver. Whenever the receiver shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an interest payment date unless the Receiver shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue, the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of any Deferred Income Bond shall cease to accrete. The Receiver shall give such notice as it may deem appropriate of the fixing of any such date, and shall not be required to make payment to the Owner of any Bond unless such Bond shall be presented to the Receiver for appropriate endorsement or for cancellation if fully paid.

Restrictions on Actions by Individual Owners. No Owner shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Ordinance or for any other remedy hereunder unless such Owner previously shall have given to the Receiver written notice of the event of default on account of which such suit, action or proceeding is to be taken, and unless the Owners of not less than twenty-five percent (25%) of the Bond Obligation shall have made written request of the Receiver after the right to exercise such powers or right of action, as the case may be, shall

have accrued and shall have afforded the Receiver a reasonable opportunity either to proceed to exercise the powers granted in the Ordinance or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Receiver reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, including the reasonable fees of its attorneys (including fees on appeal), and the Receiver shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Receiver, to be conditions precedent to the execution of the powers and trusts of the Ordinance or for any other remedy hereunder. It is understood and intended that no one or more Owners of the Bonds secured by the Ordinance shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Ordinance, or to enforce any right hereunder, except in the manner provided in the Ordinance, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Ordinance and for the benefit of all Owners, and that any individual rights of action or any other right given to one or more of such Owners by law are restricted by the Ordinance to the rights and remedies provided in the Ordinance.

Nothing contained in the Ordinance, however, shall affect or impair the right of any Owner individually, to enforce the payment of the principal of and interest on his Bond or Bonds at and after the maturity thereof, at the time, place, from the source and in the manner provided in the Ordinance.

THIRD SERIES ORDINANCE

Tax Covenants. (a) In order to maintain the exclusion from gross income for Federal income tax purposes of interest on the 2003 Bonds, and for no other purpose, the City covenants in the First Series Ordinance to comply with each applicable requirement of the Internal Revenue Code of 1986, as amended (the "Code"). In furtherance of the covenant contained in the preceding sentence, the City agrees to comply with the Federal Tax Certificate (the "Tax Certificate") executed by the City on the date of the issuance and delivery of the 2003 Bonds, as such Tax Certificate may be amended from time to time.

(b) The City covenants and agrees with the Registrar and Paying Agent and the Owners of the 2003 Bonds that the City shall not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the 2003 Bonds, would cause any of the 2003 Bonds to be "private, activity bonds" or "arbitrage bonds" within the meaning of Sections 141(a) and 148(a), respectively, of the Code, or any successor provisions.

(c) The City shall make any and all payments required to be made to the United States Department of Treasury in connection with the 2003 Bonds pursuant to Section 148(f) of the Code from amounts on deposit in the funds and accounts established under the Ordinance and available therefor.

(d) Upon the authentication and delivery of the 2003 Bonds, the City shall furnish to the Registrar and Paying Agent a certificate of an Authorized Officer of the City to the effect that, on the basis of the facts, estimates and circumstances in existence on the date of such authentication and delivery, it is not expected that the proceeds of the 2003 Bonds will be used in a manner that would cause such 2003 Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code and the Treasury Regulations thereunder and such certificate shall set forth such facts and circumstances which may be in brief and summary terms, and shall state that to the best of the knowledge and belief of such Authorized Officer, there are no other facts or circumstances that would materially change the expectations expressed in such certificate.

(e) Notwithstanding any other provisions of the Ordinance to the contrary, so long as necessary in order to maintain the exclusion from gross income for Federal income tax purposes under Section 103 (a) of the Code of interest on the 2003 Bonds, the covenants contained under the heading "Tax Covenants" shall survive the payment of the 2003 Bonds and the interest thereon, including any payment or defeasance thereof pursuant to the General Ordinance.

2003 Debt Service Reserve Fund. (a) The City shall establish a 2003 Debt Service Reserve Fund to be held by the Board into which an amount equal to \$4,604,612.50 shall be deposited upon the issuance of the 2003 Bonds. All amounts deposited into the 2003 Debt Service Reserve Fund shall be held and administered in accordance with the provisions set forth below.

(b) If any withdrawal from the 2003 Debt Service Reserve Fund is made for the purpose of subsection (d)(i) below, the amount of such withdrawal shall be restored by the Board in no more than 12 substantially equal, consecutive, monthly installments, each payable on the last Business Day of the month, commencing with the month in which the withdrawal is made; provided that, if any withdrawal is made and if, prior to the restoration of the amount withdrawn, an additional withdrawal is made, such additional withdrawal shall be restored in equal monthly installments over the remainder of the restoration period for the initial withdrawal.

(c) Any money on deposit in the 2003 Debt Service Reserve Fund shall be applied as follows:

(i) On the date of each required payment from the Bond Fund, moneys in the 2003 Debt Service Reserve Fund shall be applied to cure any deficiency in the Bond Fund with respect to the 2003 Bonds;

(ii) Any amount in the 2003 Debt Service Reserve Fund in excess of the Reserve Fund Requirement on all Outstanding 2003 Bonds shall be transferred to the Bond Fund and credited against the payments of the principal and interest next becoming due on the 2003 Bonds.

(iii) On the interest payment date immediately preceding the final maturity date of 2003 Bonds, money held in the 2003 Debt Service Reserve Fund shall be deposited into the Bond Fund and credited against the deposits required to be made into the Bond Fund with respect to the 2003 Bonds but only to the extent that, immediately following such crediting and transfer, the amount on deposit in the 2003 Debt Service Reserve Fund is equal to the lesser of (A) the Reserve Fund Requirement and (B) the amount of principal and interest due in respect of the 2003 Bonds on such final maturity date.

(d) The City and the Board shall be permitted to substitute a letter of credit, surety bond or other credit enhancement (each, a "credit facility") for funds on deposit in the 2003 Debt Service Reserve Fund, provided that:

(i) the credit facility (including any replacement credit facility) is issued by a bank, trust company, national banking association or insurance company whose unsecured long term debt obligations (in the case of a bank, trust company or national banking association) or whose claims paying abilities (in the case of an insurance company) are rated not lower than the "AAA" Rating Category by a Rating Agency at the time the credit facility is issued and at the time of each extension or renewal thereof;

(ii) the issuer of the credit facility does receive as security for any reimbursement obligation in respect of the credit facility a lien solely on the Net Revenues on a parity with any Bonds or Parity Obligations then Outstanding; and

(iii) the credit facility (including any replacement credit facility, if provided by a different issuer) has an initial term of not less than one year and any extension, renewal or replacement (if provided by the same issuer) thereof has a term of not less than one year;

Upon such substitution, funds on deposit in the 2003 Debt Service Reserve Fund which, when added to the face amount of the credit facility, exceed the Reserve Fund Requirement on the Outstanding 2003 Bonds, shall be applied as provided in subsection (d)(ii) above. Thereafter, the credit facility shall be considered a part of the 2003 Debt Service Reserve Fund and the amount available thereunder shall be included in any calculations of the amount required to be retained in the 2003 Debt Service Reserve Fund; provided that, (A) if the sum of the amount available under the credit facility and the amount of moneys on deposit in the 2003 Debt Service Reserve Fund exceed the amount required to be on deposit pursuant to subsection (a) above, the Board shall be permitted (i) to cause the amount available under the credit facility to be reduced by an amount equal to such excess, or (ii) to direct that the excess money be applied as permitted under subsection (d)(ii) above, and (B) if the credit facility is not extended, renewed or replaced at least six months prior to its scheduled expiration or termination date, unless the Debt Service Reserve Fund is otherwise terminated in accordance with the provisions set forth under heading "2003 Debt Service Reserve Fund," the Board shall be obligated to restore the difference between the Reserve Fund Requirement and the value of the 2003 Debt Service Reserve Fund computed without regard to the credit facility prior to the expiration or termination date of such credit facility.

(e) The Board shall have the option to terminate the 2003 Debt Service Reserve Fund and to have transferred to the Bond Fund all amounts held therein if the Net Revenues for each of the three preceding Fiscal Years are not less than 140% of Debt Service in such Fiscal Year on all Bond and Parity Obligations then Outstanding, based on the audited financial statements for such Fiscal Year. Upon receipt of the audits described in the preceding sentence, the Board shall transfer all amounts held in the 2003 Debt Service Reserve Fund to the Bond Fund and use the same to pay debt service on the 2003 Bonds.

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APPENDIX IV

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Lincoln, Nebraska (the “City”), acting by and through Lincoln Electric System (“LES”), in connection with the issuance of \$126,310,000 City of Lincoln, Nebraska Lincoln Electric System Revenue Bonds, Series 2003 (the “Bonds”). The Bonds are being issued pursuant to Ordinance Nos. 17879 and 18234 adopted July 23, 2001 and August 25, 2003, respectively by the City Council and approved by the Mayor on July 26, 2001 and August 28, 2003 (collectively, the “Ordinance”). LES covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by LES for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) (the “Rule”) promulgated by the Securities and Exchange Commission (“SEC”).

SECTION 2. Nature of the Undertaking. LES, in accordance with the Rule, hereby covenants to provide or cause to be provided.

(a) to each nationally recognized securities information repository designated from time to time by the SEC (each a “Repository”) and to any state information depository with which filings are required to be made by LES in accordance with the Rule (the “SID”), (i) annual financial information and operating data of the type described under “Annual Report” below for each fiscal year ending on or after December 31, 2003, not later than the following May 31, and (ii) when and if available, audited financial statements of LES for each fiscal year ending on or after December 31, 2003.

(b) to each Repository or to the Municipal Securities Rulemaking Board established by the SEC (the “MSRB”), and to the SID, in a timely manner, notice of (i) any event described in the section entitled “Reporting of Significant Events” if that event is material, and (ii) LES’ failure to provide the Annual Report on or prior to the date specified above, and (iii) any change in the accounting principles applied in the preparation of its annual financial statements, any change in its fiscal year, and the terms of LES’ continuing disclosure obligations.

SECTION 3. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

1. The audited financial statements of LES for the prior fiscal year, prepared in accordance with generally accepted accounting principles and accounting practices prescribed by the Federal Energy Regulatory Commission. If LES’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. LES statistical and operating data consisting of the following information:

- a. Rating Agency Update Report
- b. FERC 412 Report
- c. Long Range Forecast of Energy, Sales, Demand and Number of Customers (most recent edition, not prepared annually)

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of LES or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. LES shall clearly identify each such other document so included by reference.

SECTION 4. Reporting of Significant Events. LES shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds.

SECTION 5. As of the date of issuance of the Bonds, the Repositories to which LES shall provide the information described in Sections 3 and 4 above, to the extent required, shall be the following organizations, their successors and assigns:

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, N.J. 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/muni_contactinfo.html
E-mail: Munis@Bloomberg.com

DPC Data Inc.

One Executive Drive
Fort Lee, N.J. 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
<http://www.dpcdata.com>
E-Mail: nrmsir@dpcdata.com

FT Interactive Data

Attn: NRMSIR
100 William Street
New York, N.Y. 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
<http://www.interactivedata.com>
E-mail: NRMSIR@FTID.com

Standard & Poor's J. J. Kenny Repository

55 Water Street, 45th Floor
New York, N.Y. 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
E-mail: nrmsir_repository@sandp.com

SECTION 6. Termination of Reporting Obligation. The obligations of LES under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. LES may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, LES may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived as may be necessary or appropriate to achieve compliance with any applicable federal securities law or rule, to cure any ambiguity, inconsistency or formal defect or omission, and to address any change in circumstances arising from a change in legal requirements, change in law, or change in the identity, nature, or status of LES, or type of business conducted by LES. Any such amendment shall be made only in a manner consistent with the Rule and any amendments and interpretations thereof by the SEC. In the event of any amendment or waiver of a provision of this Disclosure Certificate, LES shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by LES. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent LES from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If LES chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, LES shall not have any obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of LES to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause LES to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Ordinance, and the sole remedy under this Disclosure Certificate in the event of any failure of LES to comply with this Disclosure Certificate shall be an action to compel performance.

Date: October 7, 2003.

LINCOLN ELECTRIC SYSTEM

By: _____
Administrator and CEO

