
# 2023 Annual Report

# HISTORICAL FINANCIAL SUMMARY

(dollars in thousands)

LINCOLN ELECTRIC SYSTEM

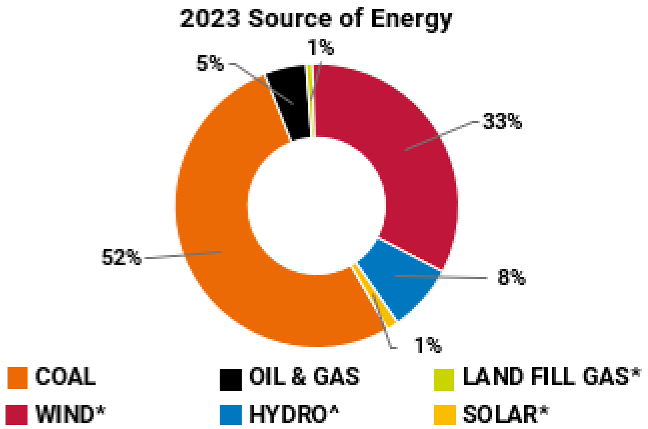
(Unaudited)

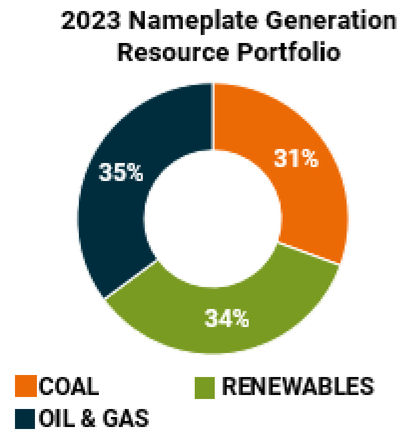
| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| **Operating Revenues** | | | | | |
| Electric retail | $ 290,674 | $ 275,492 | $ 273,557 | $ 262,878 | $ 268,656 |
| Electric wholesale | 38,713 | 65,330 | 74,594 | 30,104 | 32,323 |
| Other revenue [1] | 20,642 | 20,561 | 20,747 | 18,231 | 16,231 |
| **Total Operating Revenues** | **350,029** | **361,383** | **368,898** | **311,213** | **317,210** |
| **Operating Expenses** | | | | | |
| Purchased power | 76,378 | 90,005 | 94,240 | 75,192 | 73,028 |
| Produced power | 61,048 | 74,377 | 73,983 | 43,875 | 48,773 |
| Operations | 25,565 | 16,797 | 15,022 | 18,021 | 18,306 |
| Maintenance | 12,437 | 9,815 | 8,070 | 8,296 | 8,368 |
| Administration and general | 59,032 | 56,643 | 51,111 | 50,474 | 44,828 |
| Depreciation and amortization | 35,555 | 34,495 | 35,926 | 39,211 | 52,913 |
| **Total Operating Expenses** | **270,015** | **282,132** | **278,352** | **235,069** | **246,216** |
| **Operating Income** | **80,014** | **79,251** | **90,546** | **76,144** | **70,994** |
| **Nonoperating Expenses (Net)** | **31,606** | **37,627** | **41,307** | **40,901** | **40,073** |
| **Income Before Capital Contributions** | **48,408** | **41,624** | **49,239** | **35,243** | **30,921** |
| Net capital contributions | - | - | - | - | - |
| **Change in Net Position** | **48,408** | **41,624** | **49,239** | **35,243** | **30,921** |
| **Total Capital Assets (Net)** | **$ 1,011,884** | **$ 995,864** | **$ 980,496** | **$ 971,143** | **$ 947,361** |
| **Peak Hour Use (KW)** | **819,000** | **763,000** | **769,000** | **715,000** | **767,000** |
| **Megawatt-Hour Sales (MWh)** | | | | | |
| Residential | 1,347,649 | 1,345,068 | 1,310,455 | 1,284,674 | 1,275,179 |
| Commercial [2] & street/highway lighting | 1,481,761 | 1,475,289 | 1,443,632 | 1,367,406 | 1,461,763 |
| Industrial | 466,063 | 455,298 | 477,804 | 433,624 | 450,062 |
| Subtotal retail | 3,295,473 | 3,275,655 | 3,231,891 | 3,085,704 | 3,187,004 |
| Wholesale | 740,216 | 968,125 | 832,831 | 978,747 | 1,195,990 |
| **Total Megawatt-Hour Sales (MWh)** | **4,035,689** | **4,243,780** | **4,064,722** | **4,064,451** | **4,382,994** |
| **Revenue from Electric Sales** | | | | | |
| Residential | $ 137,735 | $ 130,691 | $ 127,733 | $ 125,672 | $ 124,380 |
| Commercial [2] & street/highway lighting | 121,124 | 114,501 | 113,358 | 107,709 | 113,505 |
| Industrial | 31,815 | 30,300 | 32,467 | 29,497 | 30,770 |
| Subtotal retail | 290,674 | 275,492 | 273,557 | 262,878 | 268,656 |
| Wholesale | 38,713 | 65,330 | 74,594 | 30,105 | 32,323 |
| **Total Revenue from Electric Sales** | **$ 329,387** | **$ 340,822** | **$ 348,151** | **$ 292,983** | **$ 300,979** |
| **Average Number of Customers** | | | | | |
| Residential | 132,338 | 130,067 | 128,256 | 126,411 | 124,460 |
| Commercial [2] & street/highway lighting | 17,751 | 17,539 | 17,345 | 17,197 | 17,014 |
| Industrial | 233 | 231 | 233 | 180 | 176 |
| Total Retail Customers | 150,322 | 147,837 | 145,834 | 143,788 | 141,650 |
| Wholesale | 7 | 7 | 8 | 9 | 8 |
| **Total Average Number of Customers** | **150,329** | **147,844** | **145,842** | **143,797** | **141,658** |
| **Retail (12-Month Average Basis)** | | | | | |
| Average kWh/customer | 21,923 | 22,157 | 22,161 | 21,460 | 22,499 |
| Cents/kWh | $ 0.0882 | $ 0.0841 | $ 0.0846 | $ 0.0852 | $ 0.0843 |

[1] Other revenue includes City Dividend for Utility Ownership (CDFUO)

[2] Public Authority customers are reported in the Commercial classification.

# RESOURCES




Sources of energy serve wholesale and retail loads.

* LES is selling the Renewable Energy Certificates (RECs) and the renewable attributes are transferred to the REC recipient.

^ Western Area Power Administration contract purchases, including a small portion of nonhydro, supplemental energy.

LES' resource portfolio includes the following:

# RENEWABLE RESOURCES

**Western Area Power Administration:** LES purchases approximately 54 megawatts (MW) of firm power, 72 MW of summer firm peaking and 22 MW of winter firm peaking power from this hydropower resource.

**LES Wind Turbines:** LES has two wind turbines on the northeast side of Lincoln. The first wind turbine was completed in 1998 and the second in 1999. At full output, the turbines can generate a combined total of 1 MW of power.

**Elkhorn Ridge Wind Farm:** LES began receiving energy from a share of the Elkhorn Ridge Wind Farm in 2009, located 5 miles north of Bloomfield in northeast Nebraska. LES entered into a power purchase agreement for 6 MW of the total 80-MW wind project, which consists of 27 wind turbines. This power purchase agreement expires in 2029.

**Laredo Ridge Wind Farm:** LES began receiving energy from a share of the Laredo Ridge Wind Farm in 2011, located northeast of Petersburg, Nebraska, in Boone County. LES entered into a power purchase agreement for 10 MW of the total 80-MW wind project, which consists of 54 wind turbines. This power purchase agreement expires in 2031.

**Crofton Bluffs Wind Farm:** In 2012, LES began receiving energy from a share of the Crofton Bluffs Wind Farm located southwest of Crofton in northeast Nebraska. LES entered into a power purchase agreement for 3 MW of the total 42-MW wind project, which consists of 22 wind turbines. This power purchase agreement expires in 2032.

**Broken Bow Wind Farm:** LES began receiving energy from a share of the Broken Bow Wind Farm in 2012. LES entered into a power purchase agreement for 10 MW of the total 80-MW wind project, which consists of 50 wind turbines. The project is located just east of Broken Bow, in central Nebraska. This power purchase agreement expires in 2032.

**Bluff Road Landfill Gas to Energy Plant:** LES completed construction of a 5-MW landfill gas-generated facility in 2014. The methane fuel is supplied by the Bluff Road Landfill.

**Arbuckle Mountain Wind Farm:** LES began receiving energy from the Arbuckle Mountain Wind Farm in 2015. LES entered into a power purchase agreement for the full 100-MW project, which consists of 50 wind turbines. The project is in south-central Oklahoma, about 80 miles south of Oklahoma City. This power purchase agreement expires in 2035.

**Buckeye Wind Energy Center:** LES began receiving energy from the Buckeye Wind Energy Center in 2015. LES entered into a power purchase agreement for the full 100-MW project, which consists of 56 wind turbines. The project is in north-central Kansas, about 5 miles north of Hays, Kansas. This power purchase agreement expires in 2040.

**Prairie Breeze II Wind Energy Center:** LES began receiving energy from the Prairie Breeze II Wind Energy Center in 2015. LES entered into a power purchase agreement for the full 73-MW project, which consists of 41 wind turbines. The project is in northeast Nebraska, about 5 miles east of Elgin, Nebraska. This power purchase agreement expires in 2040.

**Community Solar Project:** In 2016, LES began receiving energy from the Community Solar Project, located on the west edge of Lincoln, Nebraska. LES entered into a power purchase agreement for the full facility of approximately 5-$MW_{DC}$/4-$MW_{AC}$. The project represents the first utility-scale solar facility in Nebraska and is one of the largest in the region. This power purchase agreement expires in 2036.

# NATURAL GAS/OIL RESOURCES

**J Street Generating Station:** LES' oil or natural gas-fired power plant, with one simple-cycle combustion turbine totaling 30 MW, was installed in 1972.

**Terry Bundy Generating Station (TBGS):** LES' oil or natural gas-fired, 164-MW plant uses waste heat from two aeroderivative combustion turbines to create steam, which is used to operate a steam turbine and generate additional power in a combined-cycle configuration. A third aeroderivative combustion turbine is operated in a simple-cycle configuration. The plant also has a 2-MW "Black Start" unit on-site. The combustion turbines were placed in commercial operation in 2003, with the steam turbine following in 2004.

**Rokeby Generation Station:** LES' power station with three oil or natural gas-fired simple-cycle combustion turbines, totaling 255 MW, including a 3-MW diesel gen-set. The combustion turbines were installed in 1975, 1996 and 2001.

# COAL RESOURCES

**Laramie River Station (LRS):** LES owns 12.76% of this coal-fired power plant, with approximately 10.50%, or 178 MW, available after ownership and participation sales. Construction was completed in 1982 on the three-unit, 1,710-MW plant.

**Walter Scott Energy Center (WSEC) #4:** LES owns 12.66% of WSEC Unit 4 along with MidAmerican Energy Company (MEC) and 12 other companies. The coal-fired plant was completed in 2007 and provides LES approximately 104 MW. To further diversify generation, in January 2008, LES executed an agreement with MEC to exchange energy derived from 50 MW of Unit 4 with 50 MW of Unit 3.

**Gerald Gentleman Station (GGS):** Owned by Nebraska Public Power District (NPPD), LES participates under a life-of-plant contract by purchasing 8.0% of the output, or approximately 109 MW. The final phase of this coal-fired plant was completed in 1982.

| UNIT NAME | FUEL TYPE | COMMERCIAL OPERATION DATE | NET CAPABILITY (MW) | LES SHARE (%) | LES SHARE (MW) [1] |
|---|---|---|---|---|---|
| **OWNED UNITS** | | | | | |
| Laramie River Station (Net to LES)[2] | Coal | 1982 | 1,698 | 10.50 | 178 |
| Walter Scott Energy Center #4[3] | Coal | 2007 | 819 | 12.66 | 104 |
| J Street Generating Station | Gas/Oil | 1972 | 30 | 100.00 | 30 |
| Terry Bundy Generating Station[4] | Gas/Oil | 2003/2004 | 164 | 100.00 | 164 |
| Rokeby Generation Station[4] | Gas/Oil | 1975/1996/2001 | 255 | 100.00 | 255 |
| Local Wind Turbines | Wind | 1998/1999 | 1 | 100.00 | 1 |
| Bluff Road Landfill Gas to Energy Plant | Gas | 2014 | 5 | 100.00 | 5 |
| **PARTICIPATION UNITS** | | | | | |
| Gerald Gentleman Station | Coal | 1982 | 1,365 | 8.00 | 109 |
| Elkhorn Ridge Wind Farm[5] | Wind | 2009 | 80 | 7.50 | 6 |
| Laredo Ridge Wind Farm[5] | Wind | 2011 | 80 | 12.50 | 10 |
| Broken Bow Wind Farm[5] | Wind | 2012 | 80 | 12.50 | 10 |
| Crofton Bluffs Wind Farm[5] | Wind | 2012 | 42 | 7.50 | 3 |
| **FIRM CONTRACTS** | | | | | |
| Arbuckle Mountain Wind Farm[5] | Wind | 2015 | 100 | 100.00 | 100 |
| Buckeye Wind Energy Center [5] | Wind | 2015 | 100 | 100.00 | 100 |
| Prairie Breeze II Wind Energy Center[5] | Wind | 2015 | 73 | 100.00 | 73 |
| Western Area Power Administration | Hydro | 1974 | - | - | 126 |
| Community Solar | Solar | 2016 | 4 | 100.00 | 4 |
| **TOTAL** | | | | | **1,278** |

*[1] Summer net maximum rating.*
*[2] LES' share is listed after the deduction of participation sales.*
*[3] LES is a 12.66% joint owner of WSEC #4 operated by MEC. LES has an agreement with MEC whereby MEC will provide 50 MW of WSEC #3 in a swap for 50 MW of LES' share of WSEC #4.*
*[4] Does not include black start or diesel generators.*
*[5] LES is selling the Renewable Energy Certificates (REC) and the renewable attributes are transferred to the REC recipient.*

FORV/S

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## Independent Auditor's Report

Administrative Board
Lincoln Electric System
Lincoln, Nebraska

### *Opinion*

We have audited the financial statements of Lincoln Electric System, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Lincoln Electric System's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Electric System, as of December 31, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of Lincoln Electric System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Emphasis of Matter*

As discussed in Note 1, the financial statements present only Lincoln Electric System and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska as of December 31, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified in respect to this matter.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lincoln Electric System's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Management is responsible for the other information included in the annual report. The other information comprises the historical financial summary and other introductory information but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

FORVIS, LLP

Lincoln, Nebraska
April 11, 2024

# 2023 SIGNIFICANT EVENTS

- Kevin Wailes retired from LES at the end of 2023 after serving as the company's chief executive officer for more than 13 years. The LES Administrative Board and Lincoln City Council approved the appointment of Emeka Anyanwu to fill the CEO position starting on January 2, 2024. The LES Board also approved the renaming of the LES Operations Center to the Kevin Wailes Operations Center.

- LES responded to the Department of Energy's mutual aid request for circuit breakers. Working with the Electricity Subsector Coordinating Council, LES provided four 115-kV SF6 breakers to help with mutual aid efforts.

- LES crews provided mutual aid assistance in Florida after Hurricane Idalia left many communities without power. Two crews comprised of 20 employees worked for a week to help restore power to the communities impacted by the Category 3 storm.

- The LES Administrative Board approved signing a contract to provide electrical service to Project Agate (also announced as the Google Data Center) being constructed in North Lincoln.

- In February 2023, LES and the U.S. Department of Homeland Security Cybersecurity and Infrastructure Security Agency completed a weeklong training program on understanding, protecting and securing Industrial Control Systems from cyberattacks. Roughly 100 participants from multiple entities across Nebraska attended the training at the Kevin Wailes Operations Center.

- The American Public Power Association recognized LES as a Smart Energy Provider. The Smart Energy Provider designation, which lasts for two years, recognizes public power utilities for demonstrating leading practices in four key disciplines: smart energy program structure, energy efficiency and distributed energy resources programs, environmental and sustainability initiatives, and customer experience. LES joins more than 90 public power utilities nationwide that hold the SEP designation.

# FINANCIAL REPORT OVERVIEW

The information provided in the Management's Discussion and Analysis (MD&A) section of the Financial Report is provided to explain the activities, plans and events that impacted LES' financial position and operating results for the years ended December 31, 2023, and 2022. This overview from management is one of three components of the Financial Report. The other two components are the Financial Statements and Notes to the Financial Statements. The Financial Report should be read in its entirety to understand the events and conditions impacting LES.

LES' accounting records are maintained in accordance with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In 2020, GASB issued Statement No. 96, *Subscription-Based Information*

*Technology Arrangements (SBITA)*, which creates a single model for SBITA accounting by requiring entities to report assets and liabilities for agreements previously considered operating expenses. LES has adopted this new GASB standard, effective January 1, 2023, and all 2023 financial statements and figures contained herein reflect the new standard. However, comparative historical information, contained solely in the MD&A section of the Financial Report, has not been restated under the new guidance. This results in immaterial differences in certain year-over-year comparisons in the MD&A section of the Financial Report.

**Balance Sheet** — This statement presents assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Assets and liabilities are each divided to distinguish current and noncurrent. This statement reveals liquidity, financial flexibility and capital structure.

**Statement of Revenues, Expenses, and Changes in Net Position** — Operating results are separated into operating revenue and expense, nonoperating revenue and expense, and capital contribution revenue and expense. This statement is useful in analyzing financial health.

**Statement of Cash Flows** — This statement classifies sources and uses of cash summarized by operating, noncapital financing, capital and related financing, and investing activities.

**Notes to Financial Statements** — The notes provide additional information to support the Financial Statements.

# FINANCIAL POSITION AND OPERATING RESULTS

CONDENSED BALANCE SHEETS

| | 2023 | 2022 |
|---|---|---|
| | (Dollars in thousands) | |
| Current Assets | $ 269,276 | $ 266,487 |
| Noncurrent Assets | 36,570 | 20,763 |
| Capital Assets (Net) | 1,011,884 | 995,864 |
| Deferred Outflows of Resources | 13,317 | 12,601 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 1,331,047 | $ 1,295,715 |
| Current Liabilities | $ 170,585 | $ 154,424 |
| Noncurrent Liabilities | 547,101 | 576,275 |
| Deferred Inflows of Resources | 41,759 | 41,822 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | 759,445 | 772,521 |
| Net Investment in Capital Assets | 395,813 | 346,153 |
| Restricted for Debt Service | 15,586 | 13,105 |
| Unrestricted | 160,203 | 163,936 |
| NET POSITION | 571,602 | 523,194 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | $ 1,331,047 | $ 1,295,715 |

**Comparison of 2023 to 2022**

Total assets and deferred outflows of resources increased $35,332,000 in 2023, compared to 2022, or 2.7%. Current assets increased by $2,789,000, primarily due to an increase in inventory balances. Noncurrent assets increased $15,807,000 in 2023, compared to 2022, due to an increase in restricted cash balances. Capital assets increased by $16,020,000 due to increased capital spending. Deferred outflows of resources increased by $716,000 due to the deferred cost for the asset retirement obligation.

Current liabilities increased by $16,161,000 due to an increase in current maturities of long-term debt and contributed capital received in advance. Noncurrent liabilities decreased by $29,174,000, primarily due to payments of bond principal and premium amortization. Deferred inflows of resources decreased by $63,000 due to the amortization of deferred inflows from lease revenue.

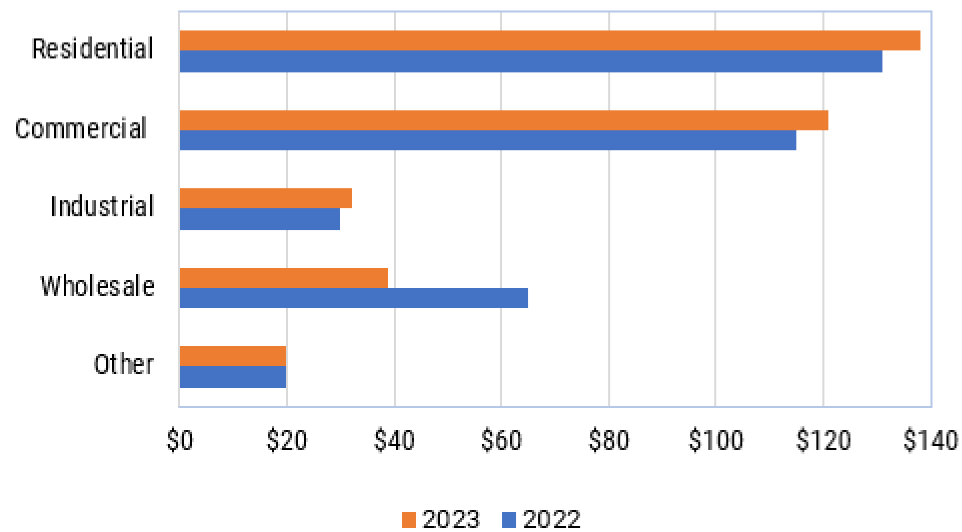
Net position increased by $48,408,000, primarily due to a balance of revenues and expenses which led to a favorable financial position throughout the year. The net investment in capital assets increased by $49,660,000 primarily due to additional capital expenditures and the reduction of revenue bond liabilities by principal payments.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | 2023 | 2022 |
|---|---|---|
| | (Dollars in thousands) | |
| Operating Revenues | $ 350,029 | $ 361,383 |
| Operating Expenses | 270,015 | 282,132 |
| OPERATING INCOME | 80,014 | 79,251 |
| Interest Expense | (17,429) | (18,382) |
| Other Nonoperating Revenues (Expenses) (net) | (14,177) | (19,245) |
| TOTAL NONOPERATING EXPENSES | (31,606) | (37,627) |
| CHANGE IN NET POSITION | $ 48,408 | $ 41,624 |

**OPERATING REVENUES**

*(DOLLARS IN MILLIONS)*

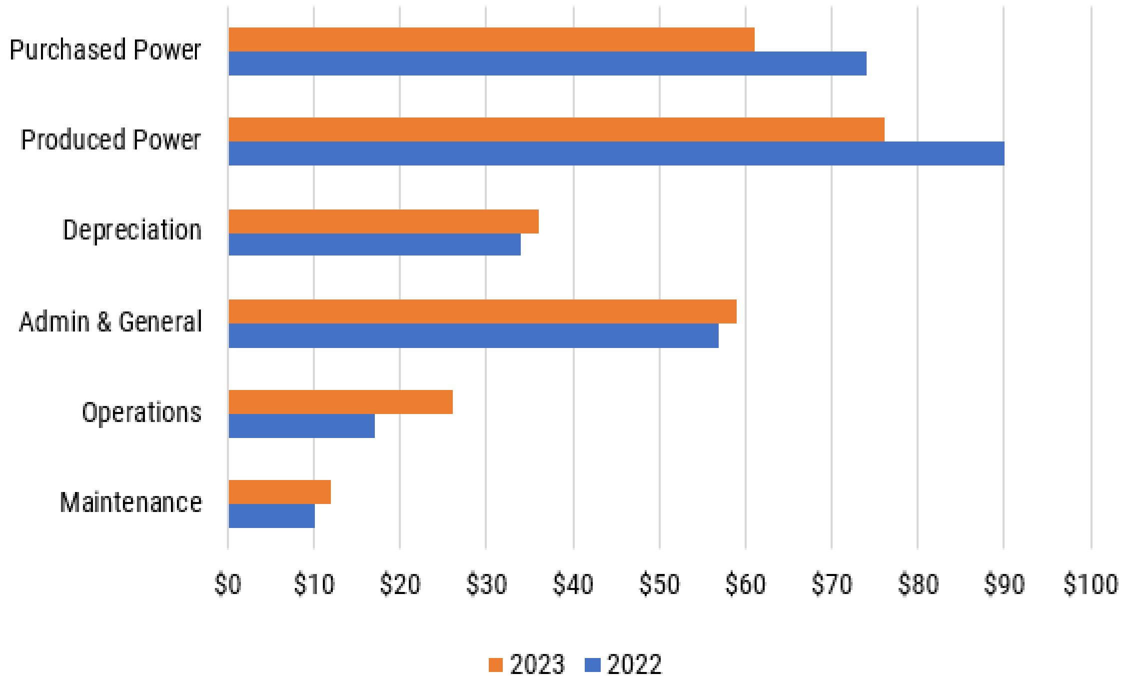



**Comparison of 2023 to 2022**

Operating revenues in 2023 were $350,029,000, down 3.1% from 2022. Retail revenue was $290,674,000, which was 5.5% higher than the 2022 revenue of $275,492,000, due to higher energy rates. Wholesale revenue was $38,713,000, down 40.7% from 2022 revenue of $65,330,000, due primarily to lower local marginal prices in the SPP IM market and lower generation output.

## OPERATING EXPENSES

*(DOLLARS IN MILLIONS)*



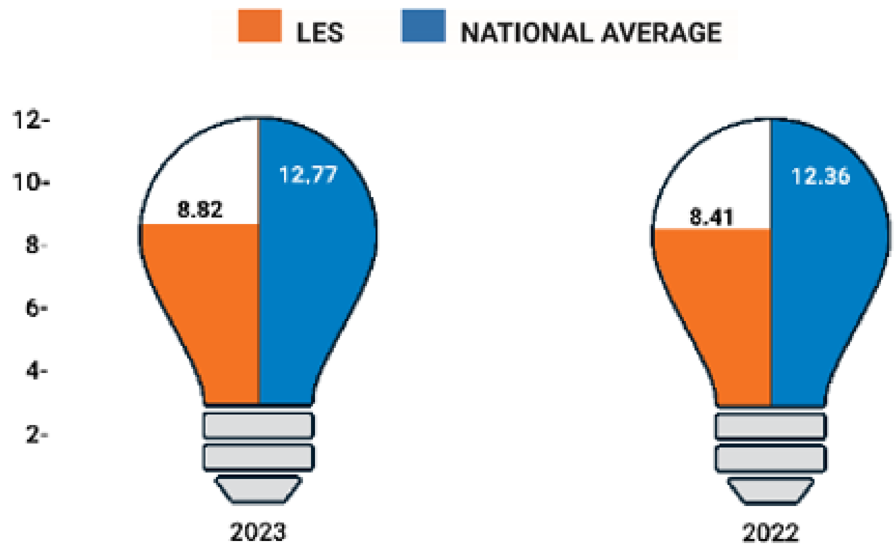

**Comparison of 2023 to 2022**

Operating expenses in 2023 were $270,015,000, a decrease of 4.3% from 2022 expenses of $282,132,000. Purchased power and produced power expenses were $137,426,000, down 16.4% from 2022 expenses of $164,382,000. This is primarily due to lower market prices in the SPP IM, resulting in reduced purchased and produced energy costs. Depreciation and amortization expenses were $35,555,000, up 3.1% from 2022 expenses of $34,495,000, primarily due to an increase in utility plant assets being depreciated. Administrative and general expenses were $59,032,000, up 4.2% from 2022 expenses of $56,643,000, primarily due to increased payroll-related costs and increased Sustainable Energy Program incentives in 2023. Operations and maintenance expenses were $38,002,000, up 42.8% from 2022 expenses of $26,612,000, as a result of higher transmission expenses due to the expiration of the SPP Balanced Portfolio credit.

# RATES

AVERAGE RETAIL RATES

*(CENTS PER kWH)*




*LES' average retail rates per kWh remain competitive as compared to the national average for retail rates (2023 is preliminary) according to the Energy Information Administration (EIA), U.S. Department of Energy. Based on the preliminary EIA data for 2023, LES' retail rates were 31% below the national average.*

# RATES COMPARISON

In 2023, LES implemented a system-wide retail rate increase of 4.8%. A six-state regional rate comparison (prepared by LES) shows LES' residential rates are among the least expensive when ranked among regional utilities. The study showed LES' annual rates for all customer classes remain among the lowest in the region. The regional rate comparison includes cities from Colorado, Iowa, Kansas, Minnesota, Missouri and Nebraska.

# CASH AND FINANCING ACTIVITIES

CASH FLOWS

| | 2023 | 2022 |
|---|---|---|
| | (Dollars in thousands) | |
| Cash Flows from Operating Activities | $ 113,113 | $ 109,166 |
| Cash Flows from Noncapital Financing Activities | (24,298) | (23,008) |
| Cash Flows from Capital and Related Financing Activities | (88,101) | (105,007) |
| Cash Flows from Investing Activities | 13,515 | 12,232 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | $ 14,229 | $ (6,617) |

**Cash flows from operating activities** contain transactions involving customers, suppliers and employees.

**Cash flows from noncapital financing activities** primarily include transactions related to the payment in lieu of tax and City Dividend for Utility Ownership.

**Cash flows from capital and related financing activities** contain transactions involving the acquisition and construction of capital assets and the long-term debt related to those assets.

**Cash flows from investing activities** contain transactions related to security purchases and maturities and investment income.

**Comparison of 2023 to 2022**
Cash inflows from operating activities were $113,113,000, up $3,947,000 from 2022, primarily due to decreased payments to suppliers for goods and services. Cash outflows from noncapital financing activities in 2023 increased by $1,290,000 due to a higher payment for the City Dividend for Utility Ownership. In 2023, cash outflows from capital and related financing activities decreased by $16,906,000 from 2022, due to capital contributions received in advance. Cash inflows from investing activities were $13,515,000 in 2023, an increase of $1,283,000 from 2022, primarily due to higher interest income in 2023.

# FINANCING

No bonds were issued in 2023.

LES uses its Commercial Paper Program to provide liquidity between long-term financings. LES' Commercial Paper Program is authorized for $150,000,000. The commercial paper outstanding amount was $65,500,000 as of December 31, 2023.

In 2018, LES entered into a revolving credit agreement with JPMorgan Chase Bank, National Association. The agreement was amended in 2021, extending the expiration date to August 19, 2024. The revolving credit agreement supports the Commercial Paper Program. No advances were outstanding under the revolving credit agreement as of December 31, 2023.

Simultaneous to entering into the revolving credit agreement with JPMorgan Chase Bank, National Association, LES entered into a Note Purchase Agreement. The Note Purchase Agreement was amended in 2021, extending the expiration date to August 19, 2024. The 2021 amendment to the Note Purchase Agreement allows LES to issue both Taxable and Tax-Exempt notes. Amounts outstanding under the Note Purchase Agreement reduce the amount available under the revolving credit agreement which supports the Commercial Paper Program. There were no amounts outstanding under the Note Purchase Agreement as of December 31, 2023.

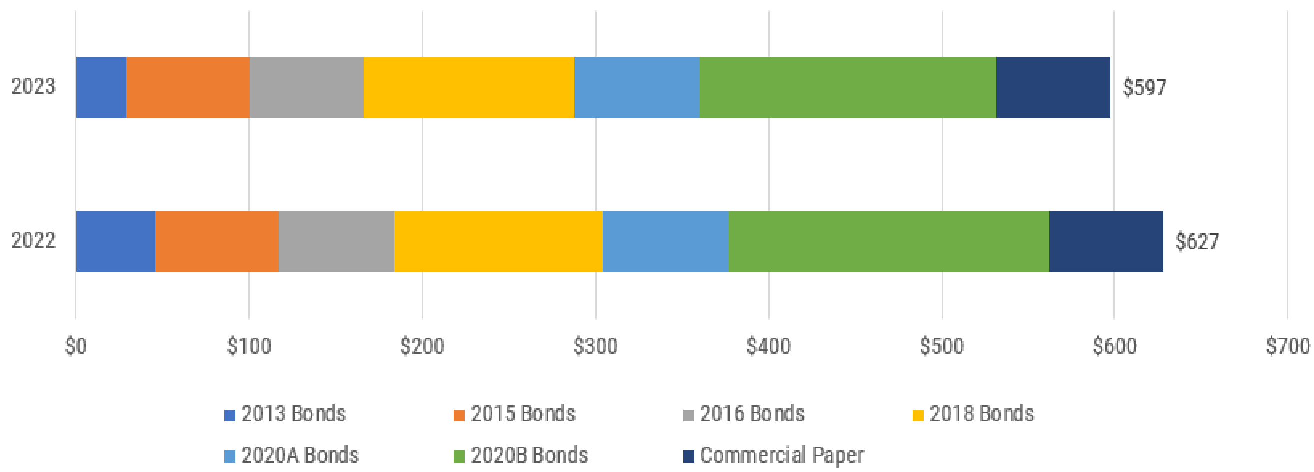
In 2023, LES entered into a revolving credit agreement with Bank of America National Association. The agreement allows LES to draw up to $50,000,000 on a variable rate basis. The agreement was executed on April 6, 2023, and it replaced a similar agreement with U.S. Bank National Association that expired on March 17, 2023. The revolving credit agreement with Bank of America National Association will expire in April 2026. Electric revenues secure the agreement. There were no amounts outstanding on the agreement as of December 31, 2023.

Also, in 2023, LES entered into a $50,000,000 revolving credit agreement with Union Bank and Trust Company. The agreement was executed on July 12, 2023, and will expire in August 2026. The agreement is secured by electric revenues and is subordinate to the Bank of America National Association revolving credit agreement. There were no amounts outstanding on the agreement as of December 31, 2023.

The following chart shows outstanding debt as of December 31, 2023, and 2022:

**OUTSTANDING DEBT**

*(DOLLARS IN MILLIONS)*




# RATINGS

Among other factors, the bond rating agencies assess an entity's operations, stability of customer base, and financial profile when determining an entity's bond rating. Standard & Poor's Global Ratings (S&P) and Fitch Ratings (Fitch) have assigned ratings to LES that are among the highest granted to electric utilities. Bond covenants require LES to have ratings from two rating agencies. The following table provides the current ratings for outstanding debt. LES' ratings have remained unchanged for more than 20 years.

| | S&P | Fitch |
|---|---|---|
| **Revenue Bonds** | AA | AA |
| **Commercial Paper** | A-1+ | F1+ |

# DEBT SERVICE COVERAGE FOR REVENUE BONDS

**2.41**

2023

**2.32**

2022

*LES' bond ordinance establishes a Debt Service Coverage requirement of 1.0.*
*LES generally targets a minimum year-end Debt Service Coverage of 2.0.*

The following table reflects the calculation of the debt service coverage ratio. The ratio reflects LES' year-end funds available to pay its debt service.

### DEBT SERVICE COVERAGE RATIO

| | 2023 | 2022 |
|---|---|---|
| | (Dollars in thousands) | |
| OPERATING REVENUES | $350,029 | $361,383 |
| Power Costs | (137,426) | (164,382) |
| Operations & Maintenance | (38,002) | (26,612) |
| Administrative & General | (59,032) | (56,643) |
| TOTAL OPERATING EXPENSES (EXCLUDING DEPRECIATION) | (234,460) | (247,637) |
| Net Operating Revenue | $115,569 | $113,746 |
| Interest Income* | 8,472 | 2,968 |
| Other Income | 577 | - |
| AVAILABLE FOR DEBT SERVICE | $124,618 | $116,714 |
| DEBT SERVICE** | $51,691 | $50,226 |
| DEBT SERVICE COVERAGE RATIO | 2.41 | 2.32 |

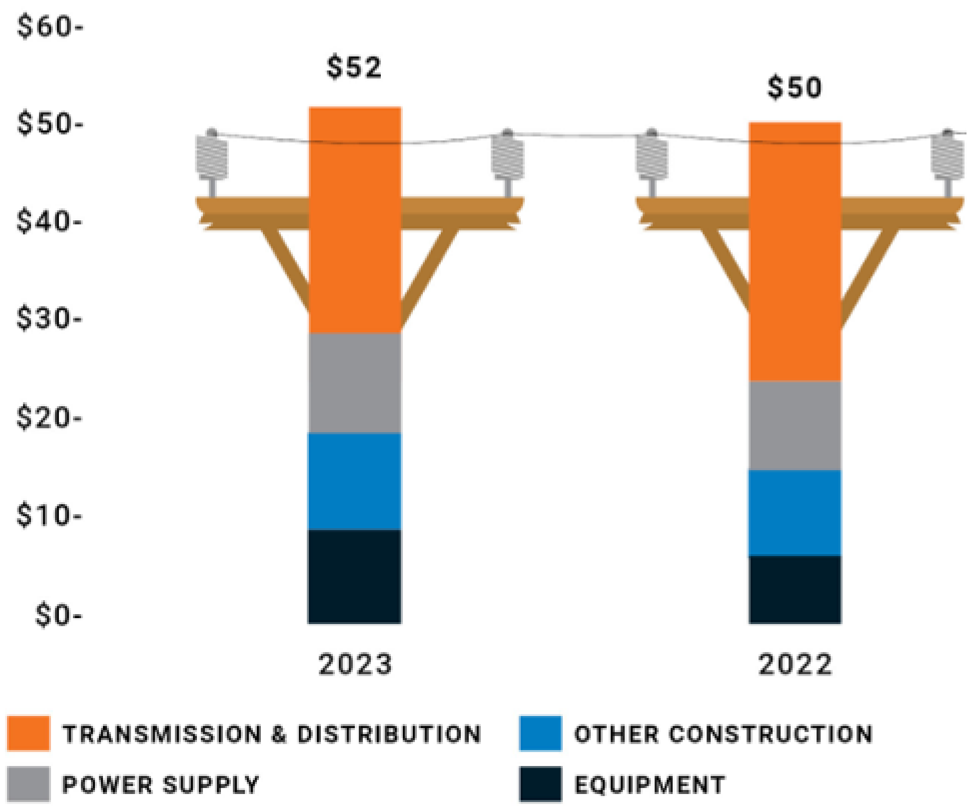
*Excludes interest from the Rate Stabilization Fund. Excludes Lease Revenue in 2022 only.
**The calculation of Debt Service Coverage includes only Debt Service on Revenue Bonds.

# CAPITAL EXPENDITURES

Capital expenditures for 2023 and 2022 are shown in the chart below.

CAPITAL EXPENDITURES

*(DOLLARS IN MILLIONS)*




**Significant capital projects during 2023 included the following:**

- Costs for Underground Residential Extensions and Development in 2023 totaled $4,611,000. This project installs primary and secondary extensions to new homes, residential developments and apartment complexes.

- Costs for Underground Relocations in 2023 totaled $3,742,000. This project relocates existing underground equipment in conflict with non-LES projects and converts existing overhead electrical facilities to underground.

- LES' share of capital improvements at Laramie River Station (LRS) and Walter Scott, Jr. Energy Center (WSEC), for 2023, were $3,506,000 and $1,415,000, respectively.

- Costs for Underground Rebuilds in 2023 totaled $3,133,000. This project rebuilds existing underground systems due to age, deterioration or other factors.

- Continued work on Terry Bundy Generating Stations' Units 3 and 4 resulted in $2,958,000 in capital costs in 2023. Work on Unit 1 will begin in 2024 once the other two units are back in service. The project is for the repairs and upgrades of the three combustion turbines and is expected to be completed in early 2025 with an estimated cost of $11,329,000.

- GASB Standard No. 96 changed the accounting for certain software subscription costs to be treated as capital expenses rather than operating expenses effective in 2023. The implementation of the standard resulted in $2,834,000 in new software costs being capitalized within utility plant.

- Costs for Overhead Rebuilds in 2023 totaled $2,871,000. This project is for the replacement or removal of deteriorated or obsolete facilities.

- Costs for Underground Commercial Extension/Development in 2023 totaled $2,238,000. This project installs primary and secondary extensions for new or existing commercial customers.

- Significant work on the Walter A. Canney Service Center's HVAC and electrical systems took place in 2023, totaling $2,137,000. The project is set to be completed in 2026, with the total project cost estimated to be $15,000,000.

- Capital costs for the replacement of the 8th & N transformer totaled $2,117,000 in 2023. This transformer serves downtown loads, is the only connection point for the 8th & J generator and has been identified as one of the top transformers for LES to replace. The project is expected to be completed in 2024 with an estimated cost of $5,003,000.

# FACTORS AFFECTING LES AND ELECTRIC UTILITY INDUSTRY

### SOUTHWEST POWER POOL (SPP)

LES became an active member of the SPP Regional Transmission Organization (RTO) on April 1, 2009. Through its representation on various committees, LES continues to work with the SPP Board of Directors, members and staff to identify ways to improve energy market operations and overall organizational effectiveness. LES' participation in SPP and its energy market continues to be successful. Recent winter storms are driving new regulatory expectations for SPP and other RTOs in North America. SPP is making system improvements to better address reliability during these types of events. SPP also continues to expand its footprint with new commitments by electric utilities west of the existing RTO footprint.

### CYBER AND PHYSICAL SECURITY

LES continues to be heavily involved in the utility industry's cyber and physical security activities. LES staff, including the chief executive officer, chief technology officer, vice president of Energy Delivery, and the vice president of Corporate Operations, actively participate in cyber and physical security-related industry groups, some of which involve classified briefings. In addition, they work with industry and government representatives to address incidents and best practices for protecting cyber and physical infrastructure, ensuring the electric system's reliability. In 2023 LES' CEO served as co-chair of the Electricity Subsector Coordinating Council (ESCC). The ESCC is a group of electric industry chief executive officers who meet regularly with their government counterparts to address policy-related activities and initiatives designed to improve the reliability and resilience of the electric grid, including cyber and physical security. The LES Administrative Board receives regular cyber and physical security updates.

### RENEWABLE RESOURCES AND DECARBONIZATION

Nebraska does not have a renewable portfolio standard. The electric utility industry continues to experience pressure from customers and regulators to incorporate additional renewable generating resources into generation portfolios. Although their intermittent production capability must be considered when assessing the system's reliability, renewable resources can serve as a hedge against future fossil fuel price volatility and/or environmental regulations. In 2023, LES sourced approximately 35% of its installed nameplate generating capacity from oil and natural gas, 31% from coal, and 34% from renewable resources, which includes hydro, landfill gas, wind, and solar. LES' 2023 energy production from renewable resources is equivalent to 39.6% of retail sales. In 2020, the LES Administrative Board adopted a 2040 goal to achieve net zero $CO_2$ production from the generation portfolio.

### ENVIRONMENTAL REGULATIONS

The electric utility industry has repeatedly faced new and proposed environmental regulations. The increase in legislation is a major issue facing LES and all-electric utility providers. LES continues to work diligently with industry groups and government representatives to help shape legislation and implement cost-effective means to comply with all regulations. Monitoring the rapidly changing requirements within environmental regulations is a priority for LES. The regulations monitored by LES include:

#### CARBON EMISSIONS FROM EXISTING POWER PLANTS

The Environmental Protection Agency (EPA) has issued several versions of a plan to reduce carbon emissions from existing power plants. In its original form, the rule would have a significant impact on LES and the industry, as Nebraska would be required to reduce its $CO_2$ emission rate by 40%.

On May 23, 2023, the EPA proposed technology-based requirements as a Best System of Emission Reduction (BSER). The technologies include carbon sequestration, co-firing of low-carbon fuels, and efficiency standards for large power plants. It is not yet known how a final rule will affect LES and partner facilities. However, LES maintains its ongoing practice of analyzing power supply resource options that provide long-term financial benefits to its customers and position LES for compliance with carbon regulations in the future.

#### PERFORMANCE STANDARDS FOR GREENHOUSE GAS EMISSIONS FROM NEW, MODIFIED AND/OR RECONSTRUCTED STATIONARY SOURCES

LES monitors this rule due to its impact on greenhouse gas emissions from new, modified, and/or reconstructed turbines. On January 13, 2021, the EPA published the Pollutant-Specific Significant Contribution Finding for greenhouse gases, which established an alternative framework for evaluating emissions from power plants. However, this rule was vacated and remanded on April 5, 2021, under President Biden's Executive Order 13990. On May 23, 2023, the EPA proposed updated standards. LES and partner facilities are not affected at this time.

## CROSS-STATE AIR POLLUTION

The Cross-State Air Pollution Rule (CSAPR) was initially issued in 2011, to assist states' compliance with ambient air quality standards by limiting downwind pollution. Under this rule, facilities must provide allowances for the emission of each ton of nitrogen oxide ($NO_x$) and sulfur dioxide ($SO_2$) emitted. Certain states, including Iowa, are also required to provide additional allowances for $NO_x$ emissions during ozone season. Recent revisions to the rule, including the latest Good Neighbor Plan, have not yet affected LES and partner facilities. The EPA is proposing to add Iowa to the Good Neighbor Plan requirements.

## REGIONAL HAZE RULE

The purpose of the regional haze regulations is to improve visibility by reducing regional haze in 156 national parks and wilderness areas (Class I areas) across the country. These regulations impact GGS and LRS. After analysis, by the State of Wyoming in 2021, it was determined that additional controls at LRS were unnecessary. GGS submitted additional air modeling data on $SO_2$ emissions, but no action was taken. The current draft of the State of Nebraska State Implementation Plan for Regional Haze does not include additional controls for GGS.

## ACID RAIN PROGRAM

Implemented in accordance with the Clean Air Act Amendments of 1990, the Acid Rain Program is intended to achieve environmental benefits through reductions in $SO_2$ and $NO_x$ emissions. All LES-owned and contracted resources operate within the acid rain regulations.

## MERCURY AND AIR TOXIC STANDARDS

In February 2012, the EPA issued the final Mercury and Air Toxic Standards (MATS) rule intended to reduce emissions of toxic air pollutants from power plants. The MATS rule does not apply to simple-cycle and combined-cycle stationary combustion turbines, so TBGS, RGS and J Street Generating Station are not impacted. GGS, LRS and WSEC have installed mercury controls to comply with MATS. Each affected facility must demonstrate ongoing compliance with MATS.

## COOLING WATER INTAKE STRUCTURES STANDARDS 316(b)

The EPA developed regulations, under Subsection 316(b) of the Clean Water Act, which affect facilities with cooling water intake structures. The regulations are intended to ensure location, design, construction, and capacity of the cooling water intake structures reflect the best technology available to minimize harmful impacts on aquatic life from impingement or entrainment.

Apart from GGS and WSEC #4, all units LES owns or contracts with meet the requirements of this rule. Currently the GGS National Pollutant Discharge Elimination System permit, which contains the installation schedule for the intake screens, was effective April 1, 2022. GGS will complete the construction of modified traveling screens in 2026 and advise the Nebraska Department of Environment & Energy (NDEE) of these activities. GGS will also complete a two-year Impingement Technology Performance Optimization Study in 2028 and submit the study results to NDEE the following year. WSEC will complete construction of modified traveling screens by January 1, 2024, and advise the Iowa Department of Natural Resources (IDNR) of these activities. Additionally, WSEC will submit an Impingement Technology Performance Optimization Study to IDNR in 2026.

### COAL COMBUSTION RESIDUALS PROPOSED RULE

The Coal Combustion Residuals Proposed Rule requires owners of unlined surface ponds to conduct initial monitoring to detect indicators that may signify a release of contaminants from a surface pond. If contamination is found, the rule mandates closure or retrofitting of unlined surface ponds if the contamination cannot be attributed to another source.

As the Operating Agent for LRS, Basin Electric Power Cooperative hired a consultant to conduct Coal Combustion Residual (CCR) detection monitoring in 2016 and 2017. The consultant detected a Statistically Significant Increase (SSI) in one or more of the indicator constituents from an LRS ash pond. A Corrective Measure Assessment was completed August 30, 2019, with a Groundwater Remedy Selection Report issued in July 2020. Between August 2020 and March 2021, all CCR material was removed, and a liner installed. While the hydraulic capture pumping system was designed and contracted, supply chain issues prevented its installation on schedule. LRS planned to install the pumping system in 2023. Detailed CCR-related activities for 2023 were not available at the time this report was completed.

GGS has two active CCR units. Nebraska Public Power District (NPPD) submitted a series of Alternative Source Demonstration (ASD) reports to the Nebraska Department of Environment & Energy in October 2022 to indicate groundwater contamination was not related to seepage from CCR units based on a lab analysis of upgrade and downgrade wells, as well as constituent levels in surrounding water sources. Detection monitoring will continue and an ASD will likely need to be performed semi-annually for chloride and sulfate SSI exceedances.

WSEC has three CCR units: a landfill, a North Surface Impoundment and a South Surface Impoundment. While SSI exceedances were noted at the landfill in 2021, ASDs were not required since previously conducted ASDs addressed the causes of the observations. The South Surface Impoundment was planned for closure in 2023 and the North Surface Impoundment is scheduled to close in 2024.

## CONTACT INFORMATION

This financial report is designed to provide a general overview of LES' financial status for 2023 and 2022. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the vice president of Financial Services and chief financial officer located at 9445 Rokeby Road in Lincoln, Nebraska, 68526-9788, or by email at finance@les.com.

LINCOLN ELECTRIC SYSTEM

# BALANCE SHEET

As of December 31, 2023

| | | |
|---|---|---|
| **Assets and Deferred Outflows of Resources** | | **(Dollars in thousands)** |
| **Current Assets** | | |
| Cash and cash equivalents | $ | 148,929 |
| Restricted cash, cash equivalents and investments | | 22,917 |
| Accounts receivable, net | | 23,097 |
| Lease receivable | | 359 |
| Unbilled revenues | | 17,618 |
| Accrued interest receivable | | 2,293 |
| Materials, supplies and fuel inventory | | 31,727 |
| Plant operation assets | | 17,790 |
| Other current assets | | 4,546 |
| Total current assets | | 269,276 |
| **Noncurrent Assets** | | |
| Restricted cash, cash equivalents and investments | | 26,005 |
| Lease receivable | | 6,843 |
| Accrued lease interest | | 86 |
| Other noncurrent assets | | 3,636 |
| Total noncurrent assets | | 36,570 |
| **Capital Assets** | | |
| Utility plant | | 1,842,990 |
| Accumulated depreciation | | (935,838) |
| Construction work in progress | | 104,732 |
| Total capital assets | | 1,011,884 |
| **Deferred Outflows of Resources** | | |
| Deferred loss on refunded debt | | 8,127 |
| Deferred costs for asset retirement obligations | | 5,190 |
| Total deferred outflows of resources | | 13,317 |
| Total assets and deferred outflows of resources | $ | 1,331,047 |
| **Liabilities and Deferred Inflows of Resources** | | |
| **Current Liabilities** | | |
| Accounts payable | $ | 21,640 |
| Accrual for payments in lieu of taxes | | 13,120 |
| Commercial paper | | 65,500 |
| Accrued software interest | | 26 |
| Accrued liabilities | | 25,645 |
| Current maturities of long-term debt | | 37,800 |
| Current maturities of software liabilities | | 479 |
| Accrued interest payable | | 6,375 |
| Total current liabilities | | 170,585 |
| **Noncurrent Liabilities** | | |
| Long-term debt, net | | 528,310 |
| Developer performance deposits | | 11,919 |
| Health and dental plan reserves | | 722 |
| Asset retirement obligation | | 5,190 |
| Software liabilities | | 960 |
| Total noncurrent liabilities | | 547,101 |
| **Deferred Inflows of Resources** | | |
| Reductions of future billings | | 34,932 |
| Leases | | 6,827 |
| Total deferred inflows of resources | | 41,759 |
| Total deferred inflows of resources | | 759,445 |
| **Net Position** | | |
| Net investment in capital assets | | 395,813 |
| Restricted for debt service | | 12,641 |
| Restricted for employee health insurance claims | | 2,945 |
| Unrestricted | | 160,203 |
| Total net position | | 571,602 |
| Total liabilities and net position | $ | 1,331,047 |

*See Notes to the Financial Statements.*

**LINCOLN ELECTRIC SYSTEM**

# STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2023

| | | (Dollars in thousands) |
|---|---|---|
| **Operating Revenues** | | |
| Electric retail | $ | 290,674 |
| Electric wholesale | | 38,713 |
| Other (includes City Dividend for Utility Ownership) | | 20,642 |
| Total operating revenues | | 350,029 |
| **Operating Expenses** | | |
| Purchased power | | 76,378 |
| Produced power | | 61,048 |
| Operations | | 25,565 |
| Maintenance | | 12,437 |
| Administration and general | | 59,032 |
| Depreciation and amortization | | 35,555 |
| Total operating expenses | | 270,015 |
| **Operating Income** | | 80,014 |
| **Nonoperating Revenues (Expenses)** | | |
| Interest expense | | (17,429) |
| Payment in lieu of taxes | | (13,354) |
| City Dividend for Utility Ownership | | (11,890) |
| Interest income | | 10,490 |
| Other income | | 577 |
| Total nonoperating expenses | | (31,606) |
| **Capital Contributions** | | 1,948 |
| **Plant Costs Recovered through Capital Contributions** | | (1,948) |
| **Change in Net Position** | | 48,408 |
| **Net Position - Beginning of Year** | | 523,194 |
| **Net Position - End of Year** | $ | 571,602 |

*See Notes to the Financial Statements.*

LINCOLN ELECTRIC SYSTEM

# STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2023

| | 2022 |
|---|---|
| | (Dollars in thousands) |
| **Operating Activities** | |
| Received from sales to customers and users | $ 355,748 |
| Sales tax receipts | 16,127 |
| Paid to suppliers for goods and services | (224,493) |
| Paid to employees for services | (18,100) |
| Payments for sales tax | (16,169) |
| Net cash provided by operating activities | 113,113 |
| **Noncapital Financing Activities** | |
| Payment in lieu of taxes | (12,740) |
| City Dividend for Utility Ownership payments | (11,558) |
| Net cash used in noncapital financing activities | (24,298) |
| **Capital and Related Financing Activities** | |
| Capital expenditures | (51,421) |
| Net cost/salvage value of retiring plant | (2,442) |
| Capital contributions | 1,470 |
| Capital contributions received in advance | 16,060 |
| Cash received from leases | 530 |
| Payments for software agreements | (784) |
| Principal payments on long-term debt | (30,535) |
| Interest payments on long-term debt | (20,979) |
| Net cash used in capital and related financing activities | (88,101) |
| **Investing Activities** | |
| Net sales of investments | 4,058 |
| Interest received | 9,457 |
| Net cash provided by investing activities | 13,515 |
| **Net Change in Cash and Cash Equivalents** | 14,229 |
| **Cash and Cash Equivalents - Beginning of Year** | 20,790 |
| **Cash and Cash Equivalents - End of Year** | $ 35,019 |
| **Reconciliation of Cash and Cash Equivalents to the Balance Sheet** | |
| Cash and cash equivalents | $ 148,929 |
| Restricted cash, cash equivalents and investments - current | 22,917 |
| Restricted cash, cash equivalents and investments - noncurrent | 26,005 |
| Total cash, cash equivalents and investments | 197,851 |
| Less: investments not classified as cash equivalents | (162,832) |
| Total cash and cash equivalents | $ 35,019 |

LINCOLN ELECTRIC SYSTEM

# STATEMENT OF CASH FLOWS – CONTINUED

For the Year Ended December 31, 2023

| | | (Dollars in thousands) |
|---|---|---|
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities** | | |
| Operating income | $ | 80,014 |
| Noncash items included in operating income | | |
| Depreciation charged to other accounts | | 1,067 |
| Depreciation and amortization | | 35,555 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | | 2,551 |
| Unbilled revenues | | (2,134) |
| Materials, supplies and fuel inventories | | (4,036) |
| Plant operation assets | | (4,040) |
| Other current assets | | 183 |
| Other noncurrent assets | | (279) |
| Accounts payable | | 4,994 |
| Sales tax payable | | (42) |
| Accrued expenses | | (734) |
| Health and dental plan reserve | | 14 |
| Net cash provided by operating activities | $ | 113,113 |
| | | |
| **Supplemental Non-cash Activities** | | |
| Adjustment of investments to fair value | $ | (1,766) |
| Capital asset acquisitions included in accounts payable | | 316 |
| Capital asset acquired through addition of software liabilities | | 1,471 |

*See Notes to the Financial Statements.*

# NOTES TO FINANCIAL STATEMENTS

## Note 1: Summary of Significant Accounting Policies

***Reporting Entity***

Lincoln Electric System (LES) is a municipal utility, owned by the City of Lincoln, Nebraska. LES is operated under the LES Administrative Board, appointed by the mayor, and confirmed by the Lincoln 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. LES' service area covers approximately 200 square miles, including the city of Lincoln and surrounding communities.

In evaluating how to define LES, for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of several criteria, including: (1) LES' ability to appoint a voting majority of another entity's governing body and to impose its will on that entity; (2) the potential for that entity to provide specific financial benefits to, or impose specific financial burdens on, LES; and (3) the entity's fiscal dependency on LES. Based upon the above criteria, LES has determined that it has no reportable component units.

The financial statements present only LES, and do not purport to fairly present the city's financial position as of December 31, 2023 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States (GAAP).

***Basis of Accounting and Presentation***

LES' activities are accounted for with an economic resources measurement focus and an accrual basis of accounting. LES' accounting records are maintained in accordance with all applicable pronouncements of the Governmental Accounting Standards Board (GASB) and generally follow the Uniform System of Accounts for Public Utilities and Licenses prescribed by the Federal Energy Regulatory Commission (FERC). LES prepares its financial statements as a business-type activity in conformity with GAAP.

LES follows the provisions of GASB Codification Section Re10, *Regulated Operations*, which permits an entity with cost-based rates and board authorization to include certain revenues or costs in a period other than the period in which revenues or costs would be reported by an unregulated entity, to the extent that the rate-regulated entity is recovering, or expects to recover, such amounts in rates charged to its customers. This guidance applies to LES because rates for LES' regulated operations are established and approved by the LES Administrative Board and City Council.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP, requires management to make estimates, and assumptions, that affect the reported amounts of assets, liabilities, deferred inflows and outflows of resources, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, and other changes in net position during the reporting period. Actual results may differ from those estimates.

***Revenue Recognition***
Electric revenues are recorded based on the related period of customer usage. Billings for electric revenues are rendered monthly on a cycle basis. 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.

***Cash Equivalents***
LES considers all highly liquid investments with an original maturity of three months or less at the date of purchase, to be cash equivalents. On December 31, 2023, cash equivalents consisted of money market funds, United States Government agencies and commercial paper.

***Investments and Investment Income***
LES maintains various designated and restricted accounts (see Note 2) which are held for debt service obligations, future health claims and other items. Investments in money market mutual funds are carried at cost, which approximates fair value. Investments in U.S. Treasury securities, U.S. agency obligations, and commercial paper are carried at fair value. Fair value is determined based on quoted market prices, or yields currently available, on comparable securities of issuers with similar credit ratings.

Investment income includes interest income and the net change for the year in the fair value of investments.

***Accounts Receivable***
Accounts receivable are reported, net of the allowance for uncollectible accounts of $2,681,000 on December 31, 2023.

***Inventory***
Materials, supplies and fuel inventories are stated at the lower of cost or market. Cost is generally determined on a weighted-average basis.

***Jointly Owned Facilities***
Plant operation assets related to the operation of Laramie River Station (LRS) and Walter Scott Energy Center (WSEC) #4 (see Note 9) are comprised of operating assets, primarily fuel and supplies inventories, and operating cash. These assets are managed by the operating agents of LRS and WSEC #4 and are stated at cost. Operating expenses of LRS and WSEC #4 are included in the corresponding operating expense classifications in the Statement of Revenues, Expenses and Changes in Net Position.

***Capital Assets***
The costs of additions and betterments to the system are capitalized. Costs include material, labor, vehicle and equipment usage, related overhead costs and certain administrative and general costs. LES' capitalization threshold was $5,000 in 2023.

Costs of labor, materials, supervision and other costs incurred in making repairs and minor replacements, and in maintaining the plant in efficient operating condition, are charged to expense. When plant assets are retired, the original cost, and removal cost less salvage are charged to accumulated depreciation. Depreciation is computed on a straight-line basis using composite rates, ranging between 0.6% and 20.0%, depending on the respective asset type.

***Leases***

Leases are contracts that convey control of the right to use another entity's nonfinancial asset for a specified period of time in an exchange or exchange-like transaction, without the transfer of ownership of the asset. LES leases communication tower space throughout the service area. LES is considered the lessor in these arrangements.

For lessor contracts, lease receivables and deferred inflows of resources are established at present value utilizing LES' estimated incremental borrowing rate on the date the contract is signed, unless otherwise stated in the contract terms. Amortization of the lease receivable discount results in interest income, and amortization of the deferred inflows of resources, results in other income in the nonoperating section of the Statement of Revenues, Expenses and Changes in Net Position. LES monitors changes in circumstances, that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

***Subscription-Based Information Technology Arrangements (SBITA)***

In 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements, which creates a single model for SBITA accounting by requiring entities to begin reporting assets and liabilities for agreements previously considered operating expenses. This guidance applies to contracts that convey control of the right to use another party's information technology software for a specified period of time in an exchange or exchange-like transaction, without the transfer of ownership of the asset. The subscription term is the period that LES has a noncancellable right to use the underlying asset.  LES has identified various arrangements that qualify for the new accounting treatment, under GASB Statement No. 96, which were implemented effective January 1, 2023. SBITA assets and liabilities are reported at present value using LES' incremental borrowing rate unless otherwise noted in the contract terms. SBITA assets are reported in utility plant and SBITA liabilities are reported as software liabilities on the Balance Sheet.

***Deferred Loss on Refunded Debt***

Costs incurred in connection with the refinancing of various bond issuances are being amortized over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter. Amortization is recorded as a component of interest expense within nonoperating expenses. The deferred loss on the refunded debt balance was $8,127,000 as of December 31, 2023.

***Recovery of Plant Costs***

Capital contributions are received from customers and other third parties, primarily to offset the costs associated with an expansion of LES' electrical system. LES follows FERC guidelines for recording capital contributions. These guidelines direct the reduction of utility plant by the amount of these contributions. In order to comply with GASB Codification Section N50, *Non-exchange Transactions*, while continuing to follow FERC guidelines, capital contributions are recorded as income and offset by an expense, in the same amount, representing the recovery of plant costs.

***Net Position Classification***

Net position is required to be classified into three components: net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

***Net investment in capital assets*** — This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or related debt, are included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

***Restricted*** — This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as debt covenants), contributors, the law or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. Revenue bond funds and health insurance funds, net of any related liabilities, are included in this classification.

***Unrestricted*** — This component of net position consists of the net amount of assets and liabilities that do not meet the definition of "restricted" or "net investment in capital assets."

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

***Classification of Revenues and Expenses***

Operating revenues and expenses generally result from providing services in connection with the ongoing operation of the electric system. The principal operating revenues are charges to customers for electric service. Operating expenses include operation and maintenance, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

***Payment In Lieu of Taxes***

LES makes a payment in lieu of taxes, equal to 5% of its electric retail revenues derived within the city limits of incorporated cities and towns served. In 2023, LES transferred a total of $12,740,000 to the City of Lincoln, Lancaster County, Lincoln Public Schools and the City of Waverly for payment in lieu of taxes. As of December 31, 2023, $13,120,000 was accrued for the next payment in lieu of taxes.

***City Dividend for Utility Ownership (CDFUO)***

In 2011, the Lincoln City Council approved an ordinance requiring LES to pay an annual dividend to the City of Lincoln for the city's ownership of LES. As amended in 2020, the ordinance states that LES shall remit to the city a dividend for utility ownership in an amount equivalent to 2.4% of the Total Net Position (Net Assets) of LES, as of December 31, based upon the most recent audited year-end financial statements. The dividend is remitted to the city semiannually on the 20th day of February and August each year. Each payment represents 50% of the annual dividend payment. In 2023, LES submitted CDFUO payments totaling $11,558,000.

The CDFUO is assessed on all retail customer billings and is treated as operating revenue on the Statement of Revenues, Expenses and Changes in Net Position. LES records the estimated liability for the CDFUO as a nonoperating expense on the Statement of Revenues, Expenses and Changes in Net Position. As of December 31, 2023, $4,186,000 was included in the accrued liabilities for the next CDFUO payment.

**Note 2: Deposits and Investments**

***Deposits***

State statute requires banks to issue a bond, or pledge government securities, to LES for the amount of utility deposits. The statute allows pledged securities to be reduced by the amount of the deposit insured by the Federal Deposit Insurance Corporation (FDIC). LES' cash deposits are insured up to $250,000 by the FDIC.

***Investments***

LES may invest in U.S. government securities and agencies, U.S. instrumentalities, instrumentalities of the United States, repurchase agreements, corporate issues, money market mutual funds, interest-bearing time deposits or savings accounts, state and/or local government taxable and/or tax-exempt debt, and other fixed term investments, as designated in the LES investment policy.

***Fair Value Measurements***

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction among market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. A hierarchy of three levels of inputs may be used to measure fair value:

**Level 1** – Quoted prices in active markets for identical assets or liabilities.

**Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable, or can be corroborated by observable market data, for the full term of the assets or liabilities.

**Level 3** – Unobservable inputs, supported by little or no market activity, and are significant to the fair value of the assets or liabilities.

Money market mutual funds are carried at cost and thus are not included within the fair value hierarchy.

The table below presents the fair value measurement of LES' assets recognized in the accompanying financial statements, measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurement falls at year-end.

As of December 31, 2023, LES had the following investments (dollars in thousands):

| | | Maturities in Years | | | |
|---|---|---|---|---|---|
| | **Carrying Value** | **Less Than 1** | **1-5** | **Credit Ratings Moody's / S&P** | **Fair Value Hierarchy Level** |
| Money market mutual funds | $ 23,295 | $ 23,295 | $ - | Aaa | N/A |
| U.S. Treasury securities | 43,028 | 43,028 | - | Aaa/AA+ | 2 |
| U.S. agency obligations | 59,376 | 56,456 | 2,920 | P-1/A-1+ | 2 |
| Corp. Issues (Commercial Paper) | 72,152 | 72,152 | - | P-1/A-1 | 2 |
| | $ 197,851 | $ 194,931 | $ 2,920 | | |

**Interest *Rate Risk***

Interest rate risk is the risk in which interest rate changes will adversely affect an investment's fair value. It is LES' principal investment strategy to buy and hold securities to maturity, which reduces interest rate risk.

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Corporate issues, state and/or local government taxable and/or tax-exempt debt, and money market funds are the only current investment types that require a minimum specific rating. All such investments held as of December 31, 2023, meet the minimum credit rating required by LES' investment policy at the time of purchase. Any investment that falls below the minimum credit rating requirement held in LES' investment portfolio, will follow pre-approved guidelines set forth within the investment policy.

***Custodial Credit Risk***

For an investment, custodial credit risk is a risk that, in the event of a failure of the counterparty, LES would be unable to recover the value of its investment securities in possession of an outside party. LES manages this risk by holding all investments in LES' name, as required by LES' investment policy.

***Concentration of Credit Risk***

Concentration of credit risk is the risk associated with the amount of investments LES has with any one issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from this requirement. LES' investment policy places the following limits on the amount that may be invested in any one type of investment and/or issuer.

| Investment Type | Portfolio Composition | Limits of Individual Issuers | Maturity Limitations |
|---|---|---|---|
| U.S. government securities | 100% | None | 10 years |
| U.S. government agencies | 100% | None | 10 years |
| Federal instrumentalities | 100% | None | 10 years |
| Instrumentalities of the U.S. | 20% | 5% | 10 years |
| Interest-bearing time deposit or savings accounts | 100% | 15% | 5 years |
| Repurchase agreements | 50% | 15% | 90 days |
| Corporate issues | 50% | 5% | - |
| Banker's acceptances | - | - | 180 days |
| Commercial paper | - | - | 270 days |
| Corporate notes | - | - | 5 years |
| Money market mutual funds | 100% | 25% | N/A |
| State and/or local government taxable and/or tax-exempt taxable and/or tax exempt debt | 30% | 5% | 3 years |
| Other fixed term investments | 25% | 25% | 5 years |

On December 31, 2023, LES had the following investment concentrations:

| | |
|---|---|
| U.S. sponsored agency obligations | |
| Federal Home Loan Bank | 27.97% |

***Summary of Carrying Values***

Deposits and investments were included in the following Balance Sheet captions on December 31, 2023:

| | | (Dollars in thousands) |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | | |
| Operating cash and cash equivalents | $ | 109,685 |
| Rate stabilization fund | | 39,244 |
| Total cash and cash equivalents | | 148,929 |
| Restricted cash, cash equivalents and investments | | |
| Bond principal and interest funds | | 18,810 |
| Segregated funds - customer deposits | | 1,215 |
| Health and dental claims funds | | 2,892 |
| Total restricted cash, cash equivalents and investments | | 22,917 |
| **Noncurrent Assets** | | |
| Restricted cash and investments | | |
| Bond reserve funds | | 9,399 |
| Segregated funds - developer deposits | | 15,832 |
| Health and dental claims reserve funds | | 774 |
| Total restricted cash and investments | | 26,005 |
| | $ | 197,851 |

***Rate Stabilization Fund***

LES maintains a Rate Stabilization Fund (RSF) to provide a method of mitigating risks that may result from unforeseen, or one-time events, and may have a significant financial impact on LES. It is not the intent to fund routine rate adjustments with funds from the RSF. Deposits to and withdrawals from the RSF are subject to approval by the LES Administrative Board. An annual liquidity study determines the target RSF balance, which evaluates the probability and financial impact of LES’ risks, as determined via the Enterprise Risk Management program.

The RSF balance was $39,244,000 as of December 31, 2023.

**Note 3: Capital Assets**

Capital asset activity for the year ended December 31, 2023 was as follows (dollars in thousands):

| | January 1, 2023 (as Restated) | Increases | Decreases | Transfers | December 31, 2023 |
|---|---|---|---|---|---|
| Construction work in progress (not depreciated) | $ 91,931 | $ 51,890 | $ (2,442) | $ (36,647) | $ 104,732 |
| Utility plant | 1,811,395 | - | (5,052) | 36,647 | 1,842,990 |
| Less: Accumulated depreciation | (906,710) | (36,622) | 7,494 | - | (935,838) |
| Totals | $ 996,616 | $ 15,268 | $ - | $ - | $ 1,011,884 |

**Note 4: Leases**

LES leases communication tower space to third parties, the terms of which expire in 2050. The leases were measured at lease commencement. The lease receivables balance for these agreements was $7,202,000 on December 31, 2023, of which $359,000 is presented as current, and $6,843,000 as long-term on the Balance Sheet. Total revenue recognized in 2023 was $759,000, which was reported as other income and interest income on the Statement of Revenues, Expenses and Changes in Net Position.

The following table summarizes future lease principal and interest payments as of December 31, 2023 (dollars in thousands):

| Year Ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 359 | $ 137 | $ 496 |
| 2025 | 320 | 130 | 450 |
| 2026 | 302 | 125 | 427 |
| 2027 | 301 | 146 | 447 |
| 2028 | 237 | 167 | 403 |
| 2029-2033 | 1,065 | 888 | 1,953 |
| 2034-2038 | 1,701 | 582 | 2,283 |
| 2039-2043 | 1,752 | 287 | 2,039 |
| 2044-2048 | 1,041 | 92 | 1,133 |
| 2049-2050 | 124 | 5 | 128 |
| Total | $ 7,202 | $ 2,559 | $ 9,759 |

**Note 5: Subscription Based Information Technology Agreements (SBITAs)**

LES has SBITAs with contract terms ranging from one to five years, when including applicable extension terms. SBITA assets totaling $2,223,000, and associated accumulated amortization of $477,000 as of December 31, 2023 is included in utility plant and accumulated depreciation, respectively, on the Balance Sheet. There were no payments recorded in the current period that were not included in the measurement of the SBITA liability and no SBITA impairments as of December 31, 2023.

The following table summarizes future SBITA principal and interest payments as of December 31, 2023 (dollars in thousands):

| Year Ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 479 | $ 61 | $ 540 |
| 2025 | 243 | 40 | 283 |
| 2026 | 222 | 30 | 252 |
| 2027 | 239 | 21 | 260 |
| 2028 | 256 | 11 | 267 |
| Total | $ 1,439 | $ 163 | $ 1,602 |

**Note 6: Long-Term Debt and Liabilities**

Long-term debt on December 31, 2023, was presented on the Balance Sheet as shown below:

| | Date Callable | (Dollars in thousands) |
|---|---|---|
| **Serial Bonds** | | |
| 2013 Electric revenue and refunding, 2.70% - 5.00%, due from Sep. 1, 2021 to 2025 | 2023 | $ 29,065 |
| 2015 Electric revenue and refunding, 3.00% - 5.00%, due from Sep. 1, 2019 to 2036; partially refunded in 2020 | 2025 | 30,690 |
| 2016 Electric revenue and refunding, 3.00% - 5.00%, due from Sep. 1, 2017 to 2034 | 2027 | 65,960 |
| 2018 Electric revenue, 3.00% - 5.00%, due from Sep. 1, 2025 to 2034 | 2027 | 121,205 |
| 2020A Electric revenue, 5.00%, due from Sep. 1, 2025 to 2033 | 2030 | 72,200 |
| 2020B Electric revenue refunding, taxable, 0.40% - 2.10%, due from Sep 1, 2023 to 2037 | N/A | 171,625 |
| **Term Bonds** | | |
| 2015 Electric revenue and refunding, 4.00%, due Sep. 1, 2040 | 2025 | 40,710 |
| Long-term debt | | 531,455 |
| Bond issuance premiums | | 34,655 |
| Less: current maturities of long-term debt | | (37,800) |
| Long-term debt, net | | $ 528,310 |

Long-term debt and liability activity for the year ended December 31, 2023, was as follows (dollars in thousands).

| | 2023 (as Restated) | Increase | Decrease | December 31, 2023 | Due Within One Year |
|---|---|---|---|---|---|
| Revenue bonds | $ 561,990 | $ - | $ (30,535) | $ 531,455 | $ 37,800 |
| Bond issuance premiums | 40,682 | - | (6,027) | 34,655 | - |
| Developer performance deposits | 250 | 16,060 | (478) | 15,832 | 3,913 |
| Health and dental plan reserve | 708 | 14 | - | 722 | - |
| Software liabilities | 752 | 1,471 | (784) | 1,439 | 479 |
| Totals | $ 604,382 | $ 17,545 | $ (37,824) | $ 584,103 | $ 42,192 |

Debt service requirements for LES' revenue bonds as of December 31, 2023 was as follows (dollars in thousands):

| Bond Year Ending August 31 | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 37,800 | $ 18,385 | $ 56,185 |
| 2025 | 35,740 | 17,730 | 53,470 |
| 2026 | 37,580 | 16,807 | 54,387 |
| 2027 | 39,325 | 15,063 | 54,388 |
| 2028 | 40,915 | 13,458 | 54,373 |
| 2029-2033 | 223,480 | 43,887 | 267,367 |
| 2034-2038 | 88,945 | 12,330 | 101,275 |
| 2039-2040 | 27,670 | 1,671 | 29,341 |
| Totals | $ 531,455 | $ 139,332 | $ 670,787 |

All long-term debt is issued for the construction of additional utility plants, refunding of existing debt, or to reimburse LES for prior capital expenditures. All utility revenues after payment of operation and maintenance expenses are pledged for revenue bonds until the bonds are paid or defeased.

Debt Service for 2023 was $51,691,000. Total gross revenues as defined for the same period were $350,029,000.

***Revenue and Refunding Bonds***

There were no bond issuances in 2023.

As a result of refundings, the assets and related liabilities for certain defeased bonds are not included in LES' financial statements.

Bond reserves are set in accordance with terms stated upon issuance. All reserves are fully funded.

***Revolving Credit Agreement***

In 2023, LES entered into a revolving credit agreement with Bank of America National Association. The agreement allows LES to draw up to $50,000,000 on a variable rate basis. The agreement was executed on April 6, 2023, and it replaced a similar agreement with U.S. Bank National Association that expired on March 17, 2023. The revolving credit agreement with Bank of America National Association will expire in April 2026. Electric revenues secure the agreement. There were no amounts outstanding on the agreement as of December 31, 2023.

Also in 2023, LES entered a revolving credit agreement with Union Bank and Trust Company. The revolving credit agreement allows LES to draw up to $50,000,000 on a variable rate basis. The agreement was executed on July 12, 2023, and will expire on August 12, 2026. The Union Bank and Trust Company revolving credit agreement is secured by electric revenues and is subordinate to the Bank of America National Association revolving credit agreement. There were no amounts outstanding on the agreement as of December 31, 2023.

## Note 7: Short-Term Obligations

***Commercial Paper***

Established by city ordinance, LES may borrow up to $150,000,000 under a Commercial Paper Program. The payment of the Commercial Paper Notes is subordinated to the payment of the principal of, and interest, on the outstanding bonds. The commercial paper outstanding amount was $65,500,000 on December 31, 2023. The notes mature at various dates, but no more than 270 days after the date of issuance. The weighted average interest rate was 3.35% for the year ended December 31, 2023. The outstanding commercial paper notes are secured by a revolving credit agreement with JPMorgan Chase Bank, National Association, that expires on August 19, 2024. No advances were outstanding under the revolving credit agreement as of December 31, 2023. The revolving credit agreement, which secures LES' Commercial Paper Program, also includes a Note Purchase Agreement that provides LES the ability to borrow monies on a short-term basis. There were no amounts outstanding under the Note Purchase Agreement as of December 31, 2023. Amounts outstanding under the Note Purchase Agreement reduce the amount available under the revolving credit agreement.

LES uses Commercial Paper Notes as part of its long-term financing strategy. As such, commercial paper is typically renewed as it matures. The weighted average length of maturity of Commercial Paper for 2023 was 69 days.

Commercial Paper activity for the year ended December 31, 2023, was as follows (dollars in thousands):

| | January 1, 2023 | Increase | Decrease | December 31, 2023 | Due Within One Year |
|---|---|---|---|---|---|
| Commercial Paper Notes | $ 65,500 | $ 359,000 | $ (359,000) | $ 65,500 | $ 65,500 |

## Note 8: Regulatory Assets and Liabilities

Rates for LES' regulated operations are established and approved by the LES Administrative Board and Lincoln City Council. LES applies the regulated operations provision of GASB Codification Section Re10, *Regulated Operations*, which provides for the deferral of expenses that are expected to be recovered via customer rates over a future period (regulatory assets), and reductions in earnings to cover future expenditures (regulatory liabilities).

Regulatory assets are included in other noncurrent assets on the Balance Sheet. They are amortized in future rate periods when such costs are included in the revenue requirements to establish electric rates.

The composition of regulatory assets on December 31, 2023, was as follows:

| | (Dollars in thousands) | |
|---|---|---|
| Improvement costs on projects in which LES participates | $ | 1,555 |
| Bond issuance costs | | 2,081 |
| Totals | $ | 3,636 |

Regulatory liabilities are recorded as a deferred inflow of resources (reductions of future billings) on the Balance Sheet, representing revenues related to the outcomes of Winter Storm Uri. These liabilities will be recognized in future rate periods when such revenues are included in the revenue requirements to establish electric rates.

## Note 9: Jointly Owned Facilities

***Laramie River Station (LRS)***

LES owns a 12.76% share of the Missouri Basin Power Project (MBPP) including LRS, a three-unit, 1,710-MW coal-fired generating station, in eastern Wyoming, and a related transmission system. LES has sold approximately 28 MW, or 13%, of its ownership in LRS to the Municipal Energy Agency of Nebraska (MEAN). Costs, net of accumulated depreciation, and excluding costs allocated to MEAN, for its ownership share associated with LRS of $46,762,000, are reflected in utility plant on the Balance Sheet on December 31, 2023.

LES has a participation power sales agreement with the County of Los Alamos, New Mexico (the County), whereby the County purchases from LES, approximately 10 MW or 5% of LES' capacity interest in LRS. The section of the agreement that provides for the County to pay LES monthly payments for the capital budget, processing and dispatch costs, was amended in September 2016. The monthly payments are subject to true-up, each January 1, based on actual costs (as compared to budget) of LRS. The agreement remains in effect until the final maturity occurs on any LRS-related debt or LRS is removed from commercial operation. LES billed the County $2,206,000 in 2023 for demand and energy charges.

LRS has certain post-retirement obligations, which have not yet been billed to the owners, as these costs are not due and payable. Thus, LES has not reflected these costs in its financial statements. As a co-owner of LRS, LES' allocation of these post-retirement obligations was $1,336,000 on December 31, 2023.

GASB Statement No. 83, *Certain Asset Retirement Obligations* established accounting standards for recognition and measurement, of a liability for an asset retirement obligation, and associated asset retirement cost. In accordance with this standard, LES, as a participant in MBPP, recognizes asset retirement obligations for the reclamation of wells, landfills and ash ponds.

LES recorded the following amounts as asset retirement obligations, which are offset with a deferred outflow of resources on the Balance Sheet:

| | (Dollars in thousands) | |
|---|---|---|
| **Asset retirement obligations:** | | |
| Obligation, beginning of year | $ | 3,180 |
| Additional obligations | | 2,081 |
| Accretion | | 168 |
| Liabilities settled | | (239) |
| Obligation, end of year | $ | 5,190 |

***Walter Scott Energy Center #4***

MidAmerican Energy Company's (MEC) WSEC includes four coal-fired units. LES maintains an ownership interest of 12.66%, or 104 MW of WSEC #4. The 811-MW, coal-fired plant was completed in 2007. In order to minimize unit outage risk, LES executed a power purchase and sales agreement with MEC to "swap" capacity and energy from LES' WSEC #4 ownership with capacity and energy from WSEC #3. Under this agreement, LES schedules 50 MW of capacity and energy from WSEC #3 and 53 MW of capacity and energy from WSEC #4. This 20-year agreement can be extended through mutual agreement of the parties. LES is responsible for the operation and maintenance expenses and maintains a fuel inventory at the plant site. LES issued debt in conjunction with the construction of WSEC #4 and has capitalized these costs plus interest. Costs, net of accumulated depreciation, associated with WSEC #4 of $107,749,000, were reflected in utility plant on the Balance Sheet on December 31, 2023.

## Note 10: Jointly Governed Organizations

***District Energy Corporation (DEC)***

DEC was formed in 1989 by the City of Lincoln and Lancaster County to own, operate, maintain and finance the heating and cooling facilities utilized by certain city, county and state buildings. The DEC Board of Directors of DEC is comprised of five members: two appointed by the Lancaster County Board of Commissioners, two appointed by the mayor of Lincoln, whom the City Council must confirm, and one appointed by LES. No participant has any obligation, entitlement or residual interest.

Under a management agreement, the DEC Board of Directors has appointed LES to supervise and manage the system and business affairs of DEC. LES is reimbursed for these management services based on the actual allocated cost of these services. LES also provides electric energy to DEC on an established rate schedule. The total amount of payments to LES for management operations and maintenance services in 2023 was $2,537,000. The total amount of payments to LES for energy in 2023 was $940,000.

## Note 11: Employee Benefit Plans

***Retirement Plan***

LES has a Defined Contribution Retirement Savings Plan, created in accordance with Internal Revenue Code Section 401(k) (401k Plan). Vanguard Fiduciary Trust Company serves as the plan custodian for the 401k Plan. The LES Administrative Board established the 401k Plan under its authority and is responsible for approving all amendments to the 401k Plan. LES' contribution is equal to 200% of the employee contributions, up to 5% of applicable compensation for eligible employees hired prior to January 1, 2011. The contributory rate for eligible employees hired after that date is equal to 100% of the employee contribution, up to 10% of applicable compensation. Vesting of LES matching contributions occurs over a three-year period, with LES contributions being 100 percent vested after three years of service.

Employees who have not met the vesting criteria forfeit the employer matching contributions at termination, which are used to reduce LES' future matching contribution obligations. Forfeitures reduced LES' contributions by $97,000 in 2023. Vested benefits are fully funded. December participant contributions of $233,000 were accrued in accounts payable as of December 31, 2023.

Contribution information for 2023 is shown in the table below:

| | (Dollars in thousands) |
|---|---|
| Employer contributions | $ 5,504 |
| Employee contributions | 5,343 |
| Totals | $ 10,847 |

LES also offers all eligible employees a Deferred Compensation Plan created in accordance with the Internal Revenue Code Section 457(b) (457 Plan). LES' 457 Plan custodian, Vanguard Fiduciary Trust Company, manages the 457 Plan's assets. The 457 Plan permits the employees to defer a portion of their salary until termination, retirement, or death. LES does not match any employee contributions to the 457 Plan.

Assets and liabilities of the 401k Plan and 457 Plan are not included in the LES financial statements, as all plan assets are held, managed and administered by the plan custodian, and the 401k Plan and 457 Plan are not considered to be component units or fiduciary activities of LES under the applicable accounting guidance.

### *Employee Health and Dental Insurance*

LES has self-funded health and dental insurance programs with claims processed by a third-party administrator on behalf of the utility. A separate fund has been established into which accruals are made and from which actual claims and other program costs are paid. As part of the health plan, a reinsurance policy has been purchased that covers claims in excess of $150,000 per individual. Accruals to the self-insured account in excess of the claims, and other costs paid, are monitored by LES. Health care claims and fees incurred (prior to reduction for premium payments from participants) were $8,167,000 for the year ending December 31, 2023.

As required by Nebraska law, LES maintains an Incurred But Not Reported (IBNR) claims reserve, which is actuarially determined. The balance of the 2023 health portion of the IBNR reserve was estimated at 10% of the 2023 total claims due to the actuarial report being unavailable at the time of this report. The balance of the IBNR reserve was $693,000 on December 31, 2023. LES established two separate bank accounts for the self-funded employee health and dental insurance plan reserves to ensure compliance with statutory requirements. Although not required by the statute, LES maintains excess insurance that limits the total claims liability for each plan year to not exceed more than 125% of the expected claims liability, up to an annual aggregate maximum of $1,000,000.

## Note 12: Derivatives

LES utilizes Auction Revenue Rights (ARRs) and Transmission Congestion Rights (TCRs) to hedge against congestion costs in the Southwest Power Pool Integrated Market (SPP IM). Awarded ARRs provide a fixed revenue stream to offset congestion costs. TCRs can be acquired through the conversion of ARRs or purchases from SPP auctions. ARRs do not meet the definition of a derivative because, once awarded, they cannot be sold, or assigned, to another party. TCRs meet the definition of a derivative; however, LES' TCRs meet the normal purchases and sales scope exception, of the applicable accounting guidance, because they are used by LES as factors in the cost of transmission. As such, GASB guidance for derivative accounting does not apply. Accrued liabilities included $2,280,000 for ARRs on December 31, 2023.

## Note 13: Risk Management

### *Insurance*

LES is exposed to various risks of loss related to liability and property. LES carries commercially available insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this coverage in any of the three preceding years.

To protect against other risks, LES participates in the City of Lincoln's self-insurance program, administered by the City's Risk Management Division. Premium amounts are paid annually to the city's Risk Management Division. LES continues identifying, evaluating, and mitigating inherent business risks as part of its Enterprise Risk Management (ERM) Program. LES has implemented a formalized process to expand the scope of risk identification and awareness. Throughout the organization, divisions and departments are encouraged to participate in the identification of risks, implementation of controls, and mitigation assessment process.

In 2022, LES restructured the ERM program, disbanding the Risk Management Committee and transferring risk oversight to the LES Executive Team and assigned risk owners. Executive team members, risk owners and subject matter experts manage current risks and recommend new risks as needed. The LES Administrative Board maintains a high-level awareness of significant risks facing LES, potential impacts, and related controls and mitigation strategies. To guide employees in their decision-making, the LES Administrative Board has adopted the following as the risk appetite statement for LES:

> *Risks will be managed in a manner that will not materially jeopardize LES' ability to serve its customers, achieve its performance targets, and maintain its AA-bond rating. LES has high standards of safety, regulatory, legal, and ethical conduct.*

The active participation and engagement of the LES Administrative Board and executive management supports the success of LES' ERM Program. A report reflecting the status of LES' ERM Program is presented annually to the executive team and LES Administrative Board. Enhancements to the ERM Program are ongoing and will provide increased awareness of risks throughout the organization. The information gathered will improve risk control and mitigation efforts for strategic planning and decision-making purposes and eliminate duplicative efforts.

LES has a Commercial Risk Management Team (CRMT) to manage the risks associated with operating in the SPP IM. The CRMT provides general oversight of the financial, market and other risk exposures related to operating in the SPP IM. Members of the CRMT include the following LES employees: Energy and Environmental Operations manager (CRMT Chair), chief executive officer, Power Supply vice president, vice president & chief financial officer, vice president & general counsel, and Energy Management supervisor.

## Note 14: Commitments and Contingencies

### *Western Area Power Administration (WAPA)*

LES has an allocation from the U.S. Department of Energy, through WAPA, of firm power under contract from Upper Missouri Basin hydroelectric plants of approximately 54 MW. LES also receives an allocation of 72 MW of firm peaking power from WAPA for the six-month summer season and 22 MW for the remaining months. In 2017, LES signed an amendment which extends the contract from 2021 through 2051.

### *Participation Contracts with Nebraska Public Power District (NPPD)*

During 2023, LES had a participation contract in one existing NPPD coal-fired power plant that provided for an entitlement of 8% (109 MW) of the output of the GGS power plant (nominally rated 1,365-MW).

LES is responsible for its respective participating interests in GGS capital additions and improvements. LES recognizes its share of capital acquisition costs and debt service payments, as power costs in the period the costs are billed, except costs approved for deferral under GASB Codification Section Re10, *Regulated Operations*. Fixed cost payments under the agreement are on a participation basis whether the plant is operating or operable.

The participation contract for GGS continues 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 payments to NPPD under this contract, including capital additions and improvements, debt service payments, fixed costs and credits, were $8,005,000 in 2023. Through the participation contract, LES may be required to pay costs associated with compliance of environmental regulations for GGS.

***Other Power Purchase Agreements***

LES participates in three wind plants through direct Power Purchase Agreements with the plant developer/owner: 100-MW Arbuckle Mountain Wind Farm in Oklahoma, 100-MW Buckeye Wind Energy Center in Kansas, and 73-MW Prairie Breeze II Wind Energy Center in Nebraska. In 2015 these wind energy facilities were placed in commercial operation. LES also participates in four Nebraska-based wind plants through Power Sales Agreements with NPPD: Laredo Ridge (10 MW), Broken Bow (10 MW), Elkhorn Ridge (6 MW) and Crofton Bluffs (3 MW). NPPD has a direct Power Purchase Agreement for each of these plants with the wind plant developer/owner.

***Commitments for Contracts over One Million Dollars***

LES has outstanding contract commitments totaling $7,940,000 on December 31, 2023. These are primarily related to TBGS combustion turbine repairs, major equipment and structures related to the construction of new substations which includes a substation transformer, switchgear building and a control building.

***Claims and Judgments***

From time to time, LES is party to various claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel, that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the financial statements of LES.

## Note 15: Environmental Regulations

Electric utilities are subject to continued 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 LES' facilities will remain subject to the regulations currently in effect, will meet future regulations without retrofit, anticipate the outcome of current regulatory and legislative processes, or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital and operating expenditures, reduced operating levels, or the complete shutdown of individual units not in compliance. As necessary, LES will make applications to the appropriate federal and state authorities for any permits, certifications and renewals required by federal and state law; regulations for the operations of its existing plants and for the construction of capital additions and improvements.

Lincoln Electric System

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