Final Report

2003 COMPREHENSIVE ENGINEERING REPORT

LAFAYETTE CONSOLIDATED GOVERNMENT, LOUISIANA
LAFAYETTE UTILITIES SYSTEM

Year Ended October 31, 2003

June 17, 2004

R·W·BECK

June 17, 2004

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

Subject: **2003 Comprehensive Engineering Report**

Dear Terry:

Enclosed please find 30 copies of R. W. Beck's Final 2003 Comprehensive Engineering Report. This report is based on field reviews and interviews conducted during the week of February 9, 2004.

It was pleasure working with you and your staff on this project. If you have any questions, please feel free to contact me directly at (303) 299-5342.

Sincerely,

R. W. BECK, INC.

Scott H. Burnham
Project Manager

SHB/jao

Enclosure

02-00382-06000-1000/83825 | G:\002900\02-00382\20101-03CER\REPORT\R0704-FNL LTR.DOC

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LAFAYETTE UTILITIES SYSTEM
2003 COMPREHENSIVE ENGINEERING REPORT

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Section 1
INTRODUCTION

Requirements of Report

This Comprehensive Engineering Report ("Report") is prepared in accordance with the provisions of Sections 6.1 and 6.2 of the 1993 Bond Resolution that states in part:

> *"...The City...covenants and agrees that so long as any of the bonds remain outstanding it will retain a nationally known consulting utility engineer or a firm of consulting utility engineers on a continuing basis for the purpose of providing to the Issuer immediately and continuously utility engineering council in its operation of the utilities system... The consulting engineer shall prepare within ninety days after the close of each sinking fund year a comprehensive report... upon the operations of the Utilities System during the preceding year, the maintenance of the properties, the efficiency of the management of the property, the proper and adequate keeping of books of account and record, the adherence to budget and budgetary control provisions, the adherence to all the provisions of the Bond Ordinance, and all other things having a bearing upon the efficient and profitable operations of the Utilities System..."*

This Report covers the 2003 period. Financial data and most operational data is reported for the fiscal year (November, 2002 to October 31, 2003). Some electric generation plant and water system operating data is on a calendar year basis. The Report has been prepared in accordance with the requirements of the City of Lafayette (the "City") Bond Resolution dated March 12, 1963 (the "Bond Resolution"), and in accordance with subsequent pari passu indebtedness including the 1993 Board Resolution as referenced above. Pari passu means that the covenants on these bonds are identical to all other revenue bonds issued by the City.

Authority

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

LUS' properties and assets, controlled and operated by the LCG, are designated by the Bond Resolution as the Utilities System. The Utilities System is comprised of an electric system (including generation, transmission and distribution facilities), a telecommunications system (including a fiber optic loop throughout the City), a water system (including supply, treatment, transmission, distribution and storage facilities), and a wastewater system (including wastewater collection and treatment facilities).

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

Report Purpose

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

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

Consulting Engineer

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

The duties of the Consulting Engineer, which are specifically defined in the Bond Resolution, include providing continuous engineering counsel to LCG in connection with the operations of the Utilities System, the preparation of analyses of LUS' monthly financial reports, and the preparation of an annual comprehensive report (specifically, this Report) on the operations of LUS after the close of each fiscal year.

The Bond Resolution contains certain covenants that pertain to the assets of LUS. These covenants state that the LCG:

- Will not expend Utilities System revenues for any extensions, betterments or improvements which are not economically sound;
- Will issue no other bonds or obligations of any kind or nature payable from or enjoying a lien on the Utilities System revenues and having priority over or parity with the bonds authorized under the existing Bond Resolution; however, bonds

may hereafter be issued on a parity with the existing authorized bonds under conditions as set forth in the Bond Resolution;

- Will not sell, lease, or in any manner, dispose of the Utilities System or any substantial part thereof, except in accordance with specific conditions set forth in Section 10F of the March 12, 1963 Bond Resolution; and
- Will maintain the Utilities System in good repair and working order and will make all reasonable and necessary repairs, renewals, and replacements thereto.

The Consulting Engineer is required to approve LUS' budget, and is also required to advise LCG with respect to the system of budgetary control used by LUS. The Consulting Engineer must review and comment on the economic soundness and feasibility of extensions, betterments, improvements, expenditures or purchases of equipment and materials or supplies which will involve the expenditure of more than $1,000, or such greater amount as may be established in writing by the Consulting Engineer. The Consulting Engineer's budget approval includes all such expenditures except those from the Director's reserve, which are approved individually.

A certification by the Consulting Engineer is required with respect to certain activities which may be carried out by LUS, including: the sale of additional Utilities System Revenue Bonds and the use of proceeds from claims received from private insurance companies as settlements for losses. The sale of any properties of LUS must have the prior written approval of the Consulting Engineer and the revision of rates and charges for utility service must also be approved by the Consulting Engineer.

Field interviews were initiated as part of this Report in February, 2004. The Consulting Engineer interviewed LUS staff regarding utility operations and performed analyses of operating statistics that are indicative of the general operating condition of LUS' plant facilities.

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

Utilities System Revenue Bonds

Utilities System Revenue Bonds have been an important source of capital for additions and improvements to the Utilities System. On August 1, 1996, LUS issued Revenue Bonds Series 1996 exclusively for sewer facilities in the amount of $18,400,000. With the issuance of the Series 1996 Bonds, the existing voter authorization for the issuance of Utility System Revenue Bonds amounting to $40,400,000 became fully issued.

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

Table 1-1
Projected Lafayette Utilities Revenue Bonds
Bond Amortization Schedule

Payment Date	Interest Payment	Principal Payment	Total Payment	Bonds Outstanding
2003	$967,225	$6,520,000	$7,487,225	$26,000,000
2004	680,010	6,810,000	7,490,010	19,480,000
2005	373,765	815,000	1,188,765	12,670,000
2006	349,723	840,000	1,189,723	11,855,000
2007	324,943	860,000	1,184,943	11,015,000
2008	299,573	890,000	1,189,573	10,155,000
2009	273,318	915,000	1,188,318	9,265,000
2010	246,325	940,000	1,186,325	8,350,000
2011	218,595	970,000	1,188,595	7,410,000
2012	189,980	995,000	1,184,980	6,440,000
2013	160,628	1,025,000	1,185,628	5,445,000
2014	130,390	1,055,000	1,185,390	4,420,000
2015	99,268	1,090,000	1,189,268	3,365,000
2016	67,113	1,120,000	1,187,113	2,275,000
2017	34,073	1,155,000	1,189,073	1,155,000
TOTAL	$4,414,929	$26,000,000	$30,414,929	$0

Source: Joan Parish, LUS, 2/1/04

Bond authorization programs and associated expenditures of bond proceeds follow a predetermined plan of facility additions and improvements based upon an engineering planning and feasibility study. The above table shows that most of LUS' existing revenue bonds will be retired in 2004. Bonds remaining after 2004 relate exclusively to the Wastewater Utility. A summary of the issuance of authorized and issued revenue bonds as of October 31, 2003 is provided in Table 1-2 below.

Table 1-2
Utilities System Revenue Bonds Summary

Date Issued	Authorized Amount		Application of Proceeds
11-09-49	$ 7,000,000	(1)	Steam-electric generating plant and improvements and extensions to the electric, water and wastewater systems.
10-26-54	3,000,000	(1)	
05-01-58	8,000,000	(1)	
Total Authorization	$18,000,000		
10-01-62	$ 3,500,000		Improvements and extensions to the electric, water and wastewater systems.
06-01-63	6,600,000		
05-01-65	2,400,000		
Total Authorization	$12,500,000		
06-01-66	$ 3,300,000		Addition to electric generation capacity, extensions and improvements to the electric, water and wastewater systems and additional water and wastewater treatment capacity.
04-01-67	6,200,000		
06-01-68	4,500,000		
06-01-69	5,800,000	(2)	
Total Authorization	$19,800,000		
10-01-73	10,000,000		Addition to electric generation capacity and extensions, additions and improvements to the electric, water and wastewater systems.
11-01-74	15,000,000	(2)	
09-01-75	5,000,000	(2)	
03-01-76	6,000,000	(2)	
11-01-76	3,000,000		
Total Authorization	$39,000,000		
05-01-78	$6,000,000	(2)	Additions to the electric transmission system and extensions and improvements to the electric, water distribution and wastewater collection systems.
08-01-80	7,000,000	(3)	
11-01-81	13,000,000	(4)	
Total Authorization	$26,000,000		
04-01-83	$10,000,000	(3)	Additions, extensions and improvements to the electric, water and wastewater system and acquisition of electric distribution customers.
06-01-84	12,000,000	(3)	
08-01-96	18,400,000	(5)	
Total Authorization	$40,400,000		

(1) Utilities System Revenue Refunding Bonds were issued April 1, 1963 in the amount of $18,485,000 for the purpose of refunding the outstanding balances of the then outstanding revenue bonds.

(2) These bonds were refunded by the Utilities System Refunding Bonds, Series 1993.

(3) These bonds were refunded by the Utilities System Refunding Bonds, Series 1987.

(4) Utilities System Revenue Refunding Bonds were issued May 1, 1983 in the amount of $10,510,000 to refund the then outstanding balance of the Utilities System Revenue Bonds, series 1981, dated November 1, 1981 and originally issued in the total amount of $13,000,000.

(5) The Series 1996 Revenue Bond Issue is the most recent issuance of bonds for system improvements pursuant to the Utilities System Revenue Bond Authorization approved by the City Council in Resolution No. 3241. With this issue, all bonds authorized have been issued.

Source: R. W. Beck, Previous CER.

Security Issues

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

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

LUS began work on the required Vulnerability Assessment late in 2002 and completed it in early 2003. Full compliance with the Bioterrorism Act was attained early in 2003. LUS is using the results of its Vulnerability Assessment to plan for, and implement, improvements to its water system to enhance security.

We have reviewed security-related matters with representatives of LUS who advised that security was increased at all facilities. Sheriff's Department personnel are stationed at the Bonin Power Plant, the North Water Treatment Plant and the South Water Treatment Plant seven days a week and 24 hours per day to provide additional security at each facility. LUS has installed additional security equipment and established operating procedures to further enhance security at its water treatment facilities. LUS staff has been provided training in emergency planning and reaction that is integrated with ongoing programs for hurricane emergency response.

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

Changing Utility Environment

Deregulation of the electric utility industry at the retail level is currently not an issue of significance in the state of Louisiana. Although retail deregulation is currently in place in neighboring Texas and in other states across the country, the movement has lost much political and public interest in the last several years. Crises in the California market, as well as a significant weakening in the financial condition of the electric utilities across the country, have caused regulators and consumers to rethink the benefits of retail deregulation. However, at the wholesale level, as provisions in the Energy Policy Act of 1992 are implemented by the FERC Orders 888 and 889, LUS is facing new challenges resulting from increased competition in the wholesale power market. The LUS generating facilities have become a commodity that competes in the market against other similar resources. These changes pressure LUS to reexamine, and in some cases, alter certain practices to be competitive. Utility management must make timely business decisions regarding plant dispatch, operations and maintenance, purchasing power, selling power, pricing power, plant capital improvements, plant upgrades, etc. There may be significant opportunities for LUS to take advantage of these changes in the utility environment. Capitalizing on these opportunities will be extremely difficult if the decision-making process is not quick and efficient. Although the current process is consistent with other municipal utilities, it will not provide the flexibility to compete with other participants in the industry, such as independent power producers, investor-owned utilities, non-regulated subsidiaries of utility holding companies, and power marketers.

Recommendations

Recommendations and their status are provided in Table 1-3 below. We have indicated the priority of the recommendation as either highest, high or normal.

Table 1-3
Recommendations

Introduction	Priority	Status
We recommend LUS continue to review necessary security actions to ensure employee security and asset preservation.	High	Investigating
We recommend that LUS continue its efforts to identify opportunities for wholesale power sales.	High	Ongoing
We recommend that LUS' management continue to monitor electric deregulation events on the state and national level.	Normal	Ongoing

Section 2
RECOMMENDATIONS

Recommendations

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

Definitions

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

Highest Priority

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

High Priority

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

Normal Priority

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

Section 1 – Introduction

Introduction	Priority	Status
We recommend LUS continue to review necessary security actions to ensure employee security and asset preservation.	High	Investigating
We recommend that LUS continue its efforts to identify opportunities for wholesale power sales.	High	Ongoing
We recommend that LUS' management continue to monitor electric deregulation events on the state and national level.	Normal	Ongoing

Section 3 – Organization and Management

Organization and Management	Priority	Status
We recommend LUS investigate the succession of key management positions due to potential retirements in these areas in the next 3-5 years.	High	Ongoing
We recommend LUS continue to investigate appropriate actions to attract and maintain qualified employees, thus reducing the turnover rate.	High	Ongoing

Section 4 – Finance and Accounting

Finance and Accounting	Priority	Status
LUS should increase the water and wastewater systems debt to equity ratio and consider financing a considerable portion of future capital improvement projects with debt.	Highest	New
Although LUS recently raised wastewater rates by 10 percent in 2003, we recommend LUS continue to pursue a strategy of increasing wastewater rates over the next several years.	Highest	Ongoing progress
We recommend LUS continue to actively conduct financial planning, particularly as LUS adds new generation resources and increases combined system debt.	Highest	Ongoing progress
We recommend that LCG identify methods or procedures that shorten the purchasing and procurement process. The time interval needed to obtain services or equipment is critical to reliable services to both wholesale and retail utility customers who may shop elsewhere if not satisfied.	Highest	Ongoing progress

Finance and Accounting	Priority	Status
Under the current financial constraints placed on the combined system, LUS cannot continue to absorb significant increases in the ILOT without jeopardizing the funding of important future capital projects. Therefore LUS should examine ways to meet ILOT obligations without adversely impacting the utilities competitive position or financial integrity.	Highest	Ongoing
Upon finalization of the 2004 bond issue, we recommend that LUS conduct a combined system cost of service study including electric, water, wastewater and telecom systems. This analysis is important in that LUS must understand the cost structure associated with the new capital and operating requirement of the combined system.	Highest	New Recommend ation
We recommend LUS continue to explore ways of improving financial reporting.	High	No progress seen
We recommend LUS continue to improve the five-year capital budgetary process (cash-needs capital budget).	High	No progress seen

Section 5 – Electric Utility

Electric Utility	Priority	Status
We recommend LUS continue its efforts to investigate new power supply additions for the future.	High	In Progress
We recommend LUS continue the development of a comprehensive operator training program.	High	In Progress
We recommend LUS continue to evaluate plant-staffing levels and compensation plans.	Normal	In Progress
We suggest that LUS continue transmission and distribution personnel training and retention efforts.	Normal	In Progress
LUS should continue use of microprocessor relays in lieu of electromechanical relays.	Normal	In Progress
LUS should continue its 2003 progress of testing generator and other equipment electro-mechanical protective relays at the Bonin plant through coordination between plant personnel and the LUS transmission and distribution section personnel.	Normal	In Progress
We suggest LUS continue the implementation and maintenance of a spare parts and inventory control system.	Normal	In Progress
LUS should continue its implementation and expansion of the preventative and predictive maintenance programs currently in place.	Normal	In Progress
We recommend implementation of an equipment specific performance monitoring program.	Normal	Investigating
We recommend LUS determine the actual heat rate versus output relationship for each unit. The Bonin Plant reports that the project to install energy metering/upgraded gas yard controls of the incoming gas supply is almost complete. This metering and controls, which is connected to input signals from unit specific fuel flow and generation signals, will provide the	Normal	In Progress

Electric Utility	Priority	Status
actual heat rate versus output relationships forming the basis for economic dispatch and allow the on-line measurement of individual unit heat rates.		
LUS should proceed with plans to repaint the externals of the Bonin Plant Units 2-3.	Normal	Investigating
We recommend LUS continue frequent monitoring of the 138/230-kV CLECO tie transformer T5.	Normal	In Progress
We recommend that in the transmission and distribution functions, LUS should continue to review OSHA requirements and or APPA safety guidelines and pursue ongoing training programs for linemen and foremen.	Normal	In Progress

Section 6 – Water Utility

Water Utility	Priority	Status
We recommend LUS give priority to constructing booster wells in northwest and south areas of system to improve system pressure.	Highest	Investigating
We recommend LUS continue to develop in-house expertise with use of water system model and acquire a system capable of modeling time of travel and concentration of introduced pollutants.	Highest	Investigating
LUS should consider the following additions to its system to increase system reliability and integrity: ■ Install additional emergency electric generators at the North Plant, ■ Install emergency electric generators at all water supply wells ■ Install piping at the North and South Plants to allow emergency bypass of treatment units, ■ Install roofing and covers over the North Treatment Plant treatment units, sludge tanks, backwash tanks and meter pit ■ Construct building enclosures of all off-site water wells	Highest	In Progress
We recommend LUS give high priority to completing removal of the "Galbestos" building siding at the North Plant	High	In Progress
LUS should consider developing an operator certification (and re-certification) program.	Normal	Investigating
LUS should initiate succession planning for senior water system management staff	Normal	Investigating

Section 7 – Wastewater Utility

Wastewater Utility	Priority	Status
LUS should continue to develop the wastewater hydraulic model of the system.	Highest	Ongoing
Continue planning for a new wastewater treatment plant site.	High	Ongoing
We recommend LUS develop a certification (and re-certification) program for wastewater utility employees.	Normal	Ongoing

Section 8 – Environmental Issues

Environmental Issues	Priority	Status
LUS should complete a cost-benefit assessment of the Inflow and Infiltration (I&I) expenditures to determine the amount of I&I reduction relating to the amount of I&I remediation expenditures.	Highest	Investigating
LUS should continue to evaluate alternatives for its biosolid disposal program.	High	On Going
LUS should continue to update its environmental plans, including its SPCC plan, to ensure that they include the latest changes to the appropriate requirements.	High	Investigating

Section 9 – Telecommunications

Telecommunications Issues	Priority	Status
LUS should determine a process that accurately allocates joint/ common costs to the Telecommunications Business Unit. The allocation methodology should consider cost causation and should not be based on revenue allocation methodology.	Highest	New
LUS should develop incremental and full-embedded cost financial reports and pricing analyses to evaluate the short term and long-term profitability of the Telecommunications business and specific service offerings.	Highest	New

Telecommunications Issues	Priority	Status
LUS should increase funding for marketing within the telecommunications business in recognition that telecommunications is significantly different from a traditional municipal utility. Telecommunications requires head to head competition with other service providers that invest heavily in marketing and promotional development.	Normal	New
LUS must improve the flexibility and sophistication of its billing function and the interface of such function with the accounting system. Current limitations in the billing system result in a competitive disadvantage, particularly when pursuing other Tier 1 wholesale customers.	Normal	New

Section 3
ORGANIZATION AND MANAGEMENT

Government Organization

Organization

The current form of government includes both the City and the Parish and is referred to as the Lafayette Consolidated Government ("LCG"). This city-parish form of government includes the President and nine Council members who are elected by the citizens of the Lafayette Parish to four-year terms of office. The name of each of the officials and the offices held by each during the period reported on herein are shown in the Table 3-1 below:

Table 3-1
President and Council Members
(2003)

Name	Office
Walter Comeaux, Jr.	President
Bobby Badeaux	District 1 Member
Bobby Castille	District 2 Member - Vice Chair
Christopher Williams	District 3 Member
Louis C. Benjamin, Jr.	District 4 Member
Lenwood Broussard	District 5 Member
Jerry Trumps	District 6 Member - Chair
Marc F. Mouton	District 7 Member
Rob Stevenson	District 8 Member
Randal L. Menard	District 9 Member

Source: Norma Dugas, LCG. 2/1/04

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

Home Rule Charter

In the fall of 1992, the electorate of the Parish, including the City, adopted a Home Rule Charter establishing LCG for the purposes of consolidating the governmental functions of the City and the Parish. The new government became operative on June 3, 1996 when LCG officials took office pursuant to the Charter.

Lafayette Utilities System

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

The governing authority of LUS is the Lafayette Public Utilities Authority ("LPUA"). LPUA consists of those members of the Council whose districts include 60 percent or more of persons residing within the boundaries of the City as they existed on the effective date of the Charter. They may be changed in the future if the boundaries of the City are changed. The latest census reports of the United States Bureau of the Census are the basis for determining the council districts including 60 percent or more of persons residing within the City.

LPUA members for the period reported herein are provided in Table 3-2 below.

Table 3-2
LPUA Members
(2003)

Name	Office
Rob Stevenson	Chair
Marc F. Mouton	Vice Chair
Jerry Trumps	Member
Louis C. Benjamin, Jr.	Member
Christopher Williams	Member

Source: Norma Dugas, LCG. 2/1/04

The Director of the Utilities Department is appointed by the President, subject to approval by LPUA, in accordance with provisions included in current or future bond resolutions and covenants. Nothing in the Charter in any manner affects franchises and contracts in existence at the time the Charter becomes effective for the remaining life of these franchises and contracts.

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

The Utilities Department functions in accordance with conditions included in current bond resolutions and covenants except that references in these documents to "city" are now intended to refer to LPUA. Funds paid by LUS to LCG for in-lieu-of taxes must be used only for programs and services within the City. LPUA fixes rates, incurs indebtedness, approves LUS' budget, and approves proposals for the improvement and extension of the utilities, subject to approval by the President and Council.

A person residing in an area served by LUS may appeal to LPUA any proposed rate increases or issuance of bonds. The decision of LPUA is final, subject to appeal to the appropriate courts. LPUA must submit an annual report to the President and Council on the operations of LUS and projections for the future.

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

LUS Management, Organization and Personnel

Management of the Utilities System

The President, Walter S. Comeaux, Jr., who is the Chief Executive Officer of LCG, and his Chief Administrative Officer, Mr. Glenn Weber, direct and supervise the administration of various departments of LCG. The non utility departments of LCG involved in day-to-day management and operation of LUS are the Department of Administrative Services and the Department of Finance.

Administrative Services provide the following functions to the Utilities System: personnel services, training and safety, printing, communications, information services, and risk management. The Department of Finance is responsible for accounting, budget management and procurement. The Chief Administrative Officer supervises all departments, offices, and agencies of LCG under the direction and supervision of the President, except the legal department.

Organization

The Director of Utilities is responsible for the operations of the electric, telecommunications, water and wastewater systems in all areas of activity not otherwise provided for by the Departments of Administrative Services or Finance. As outlined in the Charter, the duties of the Director of Utilities are as follows:

- Electricity production and distribution;

- Telecommunication operations, maintenance and planning;
- Water production, treatment and distribution;
- Sewage collection, treatment and disposal;
- Utility engineering services;
- Supervision of contract construction work for LUS;
- Maintenance of utility equipment in cooperation with the central garage;
- Revenue collection;
- Reading of utility meters; and
- Other such activities as may be directed by the President as necessary or incidental to the operation of LUS.

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

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

Table 3-3
LUS Division Managers

Division	Manager
Water Operations	Don Broussard
Wastewater Operations	Craig Gautreaux
Electric Operations	Ronald Landry
Engineering and Power Production	Frank Ledoux
Customer Service and Utilities Support Services	Andrew Duhon
Environmental Compliance	Allyson Pellerin

Source: Joan Parish, LUS, 2/7/03

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

The **Wastewater Operations Division** responsibilities include operation and maintenance of the treatment and collection facilities. Also included is the management of wastewater discharge quality.

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

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

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

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

Customer Service Division collects and processes utility customer deposits and bills daily. This division also provides utility customers with service and responses to billing questions. This division uses microfiche for billing register report retention to reduce storage and printing costs. Customer bill paying and other business facilities are located in the LCG building, including a drive-up window. The cashier function includes receiving all payments delivered by mail or by hand.

LUS developed a Request for Proposal for the procurement of an automated telephone Automatic Call Distribution system. This system will enable the utility to route calls to proper personnel, provide automatic responses when necessary, allow customers to retrieve account information, and track items such as call duration, number and type of call.

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

The **Meter Services Division** is responsible for meter reading, replacement, testing and repair, and customer connects and disconnects. The Meter Services Division is comprised of 28 staff members. The automatic meter reading and on-site meter reading (AMR/OMR) Pilot Project has continued through 2003.

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

Engineering Division

This major division of LUS provides technical engineering support to all four Utilities (Electric, Water, Wastewater and Telecommunications). Department organization includes the following major sections including Civil Engineering, Utility Marketing,

System Engineering and System Construction. The Engineering and Power Production Division Manager is responsible for the following sections.

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

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

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

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

- Graphical Information System ("GIS") development to provide infrastructure locations and system mapping;
- Information Systems – computer network installations and maintenance for the LUS offices;
- Drafting function; and
- Acquisition of real property rights including easements and property ownership needed for infrastructure expansions.

The **System Construction Section** responsibilities are as follows:

- Electric substation design and planning;
- Transmission line design;
- Electric system planning;
- Fiber construction and installation;
- Management of the electric system communication system; and
- Electric system training.

Personnel

The average salary per LUS employee during 2003 and prior years is shown in the Table 3-4. Changes in the average annual salary from year to year reflect salary administration and alterations to the total employee mix relating to both longevity and the proportion of senior and junior positions (supervisory employees, senior employees, and new hires).

Table 3-4
LUS Annual Salaries

Year	Average Annual Salary
1994	$24,379
1995	$23,577
1996	$25,272
1997	$27,142
1998	$27,167
1999	$28,139
2000	$29,354
2001	$29,631
2002	$29,632
2003	$31,600

Source: Heather Albritton, LUS, 2/1/04

Approximately 8 percent of LUS' total budgeted positions were unfilled at the end of fiscal year 2003 (36 employees out of 438 positions). Employee turnover for the fiscal year was reported to be approximately 9 percent of the total number of permanent employees. The level of compensation for technical and professional staff continues to be a problem for LUS. The turnover rate is, in part, indicative of salaries that are not sufficiently competitive to retain qualified staff in many areas. The number of people employed by LUS as of October 31, 2003 and the number of employees included in the budget for the same fiscal year, by Division, are shown in the Table 3-5.

Table 3-5
LUS Employees as of October 2003

Division	2003 Actual	2003 Budget	Change
Director's Office	2	2	0
Water Operations (Prod & Dist)	59	62	3
Wastewater Operations	87	93	6
Electric Operations	85	89	4
Engineering	60	62	2
Power Production	22	36	14
Utilities Support Services	37	37	0
Customer Service	31	33	2
Environmental Compliance	19	20	1
Telecommunications	0	4	4
TOTAL	402	438	36

Source: Permanent Employees. Heather Albritton, LUS, 2/1/04

Employment Practices and Employee Benefits

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

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

A group life and medical insurance program for employees is provided through the LCG self-insurance program. LCG pays 78 percent of employee health insurance, 100 percent of life insurance premiums, and 67 percent of the cost for dependent medical coverage. The group life insurance plan provides coverage equal to two times the employees' annual salary.

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

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

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

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

Insurance

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

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

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

The current balance in the Risk Management Fund is approximately $3,000,000. Insurance related expenditures and recoveries from the Risk Management Fund for LUS are provided in Table 3-6 below.

Table 3-6
LUS Insurance Transactions[1]

Year	Payments	Recovery	Effective Payments
1996	$650,573	($35,995)	$614,579
1997	$2,442,900	($648,049)	$1,794,851
1998	$2,208,028	($362,228)	$1,845,800
1999	$2,849,497	($2,905,410)	($55,914)
2000	$1,696,533	($241,856)	$1,454,677
2001	$1,073,430	($1,831,889)	($758,459)
2002	$866,393	($1,804,635)	($938,242)
2003	$1,015,923	($498,752)	$517,161

[1] Cash basis. Expenditures incurred, recoveries collected during year, not necessary at time of claim.
Source: Lewana Shearer, LUS, 2/1/04

Governmental Functions Supporting LUS

Department of Finance

Financial responsibilities are handled by the Department of Finance. These duties include:

- Assistance to the President in the preparation of the annual operating budget and the capital improvement budget;
- Maintenance of a record of indebtedness and the payment of the principal and interest on such indebtedness;
- Ascertaining that funds are available for payment of all contracts, purchase orders and any other documents that incur a financial obligation for LCG, and that such documents are in accordance with established procedures;
- Disbursement of LCG funds;
- Administration of a uniform central accounting system for all LCG departments, offices and agencies, using nationally accepted standards where applicable;
- Preparation of a monthly statement of revenues and expenditures which shall be completed and made available for public inspection not later than 20 days after the end of each month;
- Procurement of all personal property, materials, supplies and services required by LCG under a central purchasing system for all departments, offices and agencies in accordance with applicable state law, council policy and administrative requirements; and
- Investment of idle funds, as permitted by law, so as to receive the maximum rate of return.

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

Ms. Rebecca Lalumia serves as the Associate Chief Administrative Officer ("CAO") for the Department of Finance. Key division managers under this office are provided in Table 3-7 below.

Table 3-7
Department of Finance
Associate CAO – Finance and Management

Division	Manager
Accounting	Melinda Felps
Budget Management	Karen Hover
Purchasing & Property Management	Jody Williamson

Source: Joan Parish, LUS, 1/20/04

A description of the functions of the divisions in Table 3-7 are provided below.

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

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

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

Department of Administrative Services

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

- Personnel matters for employees including personnel policies, employee relations, employee counseling, and unemployment and worker's compensation reports and hearings;
- Data processing, records management, microfilming, printing, copier services and related administrative services;

- Developing and implementing a communications system;
- Risk management, insurance and safety programs; and
- The Department of Administrative Services provides personnel services other than those performed by Civil Service through its Human Resources Section. The Division also provides printing and communications services to LUS.

The Director of the Department of Administrative Services is Mr. Benny Soulier. Mr. Soulier oversees information systems (data processing), communication systems, and risk management. The Information Systems Division provides staff support to LUS through the following programs:"on-line" input to property assessment accounts relative to wastewater collection facilities constructed pursuant to improvement districts, and "on-line" utility inventory actions.

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

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

Counsel

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

Meter Services

The Meter Services section is responsible for meter reading, replacement, and customer connects and disconnects. The Meter Services Division is comprised of 28 staff members. The automatic meter reading and on-site meter reading (AMR/OMR) Pilot Project has continued through 2003.

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

The Meter Services Division continues to compile monthly statistics related to meter reading accuracy, read rates and customer connects and disconnects in a continuous effort to identify trends and evaluate opportunities to improve the section's effectiveness. Due to changes resulting from the new Customer Information System ("CIS"), statistics have now been narrowed to tracking "skips". Tracking the number of "skips" reflects the overall efficiency of a meter reader, of a crew, and of Meter Services in general.

In 2003, the Meter Services section was required to re-read approximately 13,300 meters. The number of "skips" handled in 2002 was approximately 14,500.

LUS continues to explore opportunities for improving meter reading efficiency. LUS' pilot test has advanced sufficiently to where one of their meter reading employees, with guidance from one of their in-house engineers, has been installing radio-read technology at numerous meter sites for the purpose of downloading readings. To date, 3,852 meters have been converted to this technology. Other technologies are being explored as well to help us with commercial and industrial ("C&I") accounts who may need hourly profiling data or other value added services available from LUS though the meter.

LUS Organizational Goals

During 2003, LUS updated its Strategic Plan. Various employee committees crafted goals in five areas consistent with LUS' vision and added specific tasks to these goals. Specific key areas and goals are provided in Table 3-8. The Strategic Plan includes specific action items assigned to specific LUS individuals for the key areas identified below.

Table 3-8
Key Areas and Goals

Goals	Key Areas
Customer Focus	Improve Customer Service
	Customer Expansion & Retention
	Maintain Community Partnerships
Employee Focus	Continuous Improvement
	Pay for Performance
	Employee Development
	Safety & Health
Legislative Focus	Legislative Issues
Environmental Focus	Eliminate/Prevent Administrative Orders
Operational Efficiency Focus	Performance Measurement
	Cost Containment
	Information Systems
	General Fund

Source: Strategic Plan FY 2002-2003

LUS has re-examined the goals and key areas summarized in the above table in light of the current market environment in the power industry. Specific goals in key areas such as operational efficiency have been reinforced and reprioritized.

Recommendations

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

Table 3-9
Recommendations

Organization and Management	Priority	Status
We recommend LUS investigate the succession of key management positions due to potential retirements in these areas in the next 3-5 years.	High	Ongoing
We recommend LUS continue to investigate appropriate actions to attract and maintain qualified employees, thus reducing the turnover rate.	High	Ongoing

Section 4
FINANCE AND ACCOUNTING

LUS Operating Results

LUS, which consists of electric, water, wastewater and telecom utilities, provides services to customers located both inside and outside the City limits. The business of LUS is directed by the President and regulated by the Council with regard to utility service pricing and revenue bond financing.

The data included in this section of the Report is based on audited reports generated by LUS and LCG.

During 2003, LUS' net revenues before debt service decreased by approximately 10.4 percent or approximately $3.9 million from 2002 as shown in Table 4-1.

Table 4-1
Comparison of Combined System Net Operating Results for Years 2002 and 2003

	2003	2002	% Change
Revenues:			
Electric Revenues	$136,468,895	$115,101,332	18.6%
Water Revenues	11,725,104	11,494,918	2.0%
Wastewater Revenues	14,290,555	12,977,483	10.1%
Fiber Revenues	485,651	188,990	157.0%
Combined System Revenues	$162,970,205	$139,762,723	16.6%
Expenses:			
Electric Fuel & Purchase Power Expense	$90,351,286	$67,420,027	34.0%
Electric Other Operating Expense	21,889,518	19,501,193	12.2%
Water and Wastewater Operating Expense	14,405,445	13,099,328	10.0%
Water and Wastewater Maintenance Expense	2,274,924	2,013,069	13.0%
Subtotal - Non fuel and power costs	$38,569,886	$34,613,590	11.4%
Fiber Expenses	568,599	364,965	55.8%
Combined System Expenses	129,489,772	102,398,582	26.5%
Net Operating Results[1]	$33,480,433	$37,364,141	-10.4%

(1) Before Depreciation and Debt Service.
Source: LCG Financial and Operating Statement October 2003, 4/04.

In summary, the principal amounts leading to this decrease in net operating revenues are:

- Overall, the Combined System Revenues increased by $23.2 million in 2003 from 2002 and operating expenses increased by $27.1 million. This resulted in a decrease in Net Operating Results of approximately $3.9 million.

- Revenues:
  - As shown in Table 4-1, Electric Revenues increased 18.6 percent or $21.4 million over year 2002. A major contributing factor was the increased revenue from the pass through of higher fuel costs as seen in Table 4-2;
  - Off-system sales reduced slightly and generally lower wholesale market prices;
  - Water revenues increased 2 percent (or approximately $230,000); and
  - Wastewater revenues increased 10.1 percent or approximately $1.3 million.
- Expenses:
  - The Electric Fuel & Purchased Power Costs increased approximately 34 percent (or $22.9 million) over year 2002 as shown in Table 4-1;
  - Nearly all of the Electric Fuel & Purchased Power Costs consist of variable costs;
  - Purchased power expenses increased by $16.2 million (or 30 percent) over fiscal year 2002. The average unit price of purchased power increased 27.0 percent over the year 2002 as shown below in Table 4-2;
  - The average price of self-generation increased 59.4 percent. Table 4-2 displays the rate increase for Total Supply expenses (including production and purchased power) of 33.0 percent over the year 2002; and
  - Water and wastewater expenses increased approximately $1.6 million.

Table 4-2
Average Energy Costs (Mills/kWh)[1]

	2003	2002	% Change
Self Generation:			
Fuel	$60.27	$36.83	63.6%
Other	9.10	6.68	36.2%
Total	$69.38	$43.51	59.4%
Purchases:			
LPPA	$35.39	$29.55	19.7%
Other Supplies	45.11	32.87	37.3%
Total	$38.39	$30.23	27.0%
Total Supply	$43.38	$32.61	33.0%

[1] Developed in Exhibit 4-3.
Source: LCG Financial and Operating Statement October 2003, 4/04.

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

Adequacy of Revenues

The Bond Resolution contains the following covenants as to the adequacy of revenues.

> *"...The City will fix, establish and maintain such rates and collect such fees, rents or other charges for all water, electric and wastewater services and facilities furnished by the Utilities System, after making due allowances for delinquencies in collection, as shall be sufficient to provide for the payment of all reasonable and necessary expenses of administering, operating and maintaining the Utilities System, to provide for the payment of interest on and principal of all bonds or other obligations payable therefrom, including the bonds herein authorized, as and when the same shall become due and payable, including the creation of a reserve therefore, and to make the payments into the Bond Reserve and Capital Additions Fund hereinabove required..."*

> *"...The City will not permit free water, electricity or wastewater service to be supplied by the Utilities System to the City or any department thereof or to any person, firm or corporation, public or private, or to any public agency or instrumentality. The reasonable cost and value of all water, electricity and wastewater service rendered to the City and its various departments, except interdepartmental charges within the Utilities System, by the Utilities System, including a minimum fire hydrant rental of twenty-five dollars ($25.00) per hydrant per year, will be charged against the City and will be paid for as the service accrues, from the City's current funds, including the proceeds of taxes which will be levied in an amount sufficient for that purpose. All payments so made shall be considered revenues of the Utilities System and shall be deposited in the Receipts Fund in the manner hereinabove provided..."*

LUS' revenues have met the above covenants for the reporting period and all previous reporting periods.

Rates and Franchises

The Bond Resolution contains covenants to the effect that rates and charges:

> *"...shall in no event in the future be reduced to an extent which will prevent the revenues derived from the operation of the Utilities System being fully sufficient to pay all expenses of operation and maintenance, to pay principal of and interest on the bonds and make possible the retirement of all of the bonds on or prior to their maturity, and to carry out all the provisions of this resolution..."*

The revenues and other receipts of LUS considered revenues for this purpose were sufficient for the 12 months ended October 31, 2003 to pay the costs of operating and maintaining LUS and to pay the required principal and interest of all outstanding revenue bonds. Accordingly, LUS has complied with all elements of the above rate

covenant of the Bond Resolution for this reporting period and all previous reporting periods.

The Council and LPUA have the exclusive right to regulate LUS' rates and charges for services within and outside the corporate limits of the City.

Covenants in the Bond Resolution also state that the government:

> *"...will not grant a franchise to any competing water, electric or wastewater system or service for operation within the boundaries of the City..."*

No such franchise was granted during the current reporting period and no such franchise now exists.

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

Rate Comparison

During FY 2003, LUS modified the wastewater service rates as follows:

- Residential, Commercial, Institutional, and Industrial Wastewater Service was increased by 10 percent effective November of 2002. Residential, Commercial, Institutional, and Industrial Wastewater Service will see an increase by 10 percent effective November of 2003.

The existing wastewater rates, although recently increased, are insufficient to fully fund wastewater system operation on a stand-alone basis. The wastewater system is partially subsidized by the electric revenues. The wastewater system will be faced with continued rate increases over the next several years before the system will be financially self-sufficient.

The existing water rates are sufficient to fully fund the water system operation on a stand-alone basis. However, the water rates should be monitored closely to ensure rates continue to support the water system. The water utility rate is expected to increase in the future.

Table 4-3 shows the average revenue by rate class for the electric, water, and wastewater systems.

Table 4-3
Average Retail Base Rates for Years 2002 and 2003

System	Class		October 2003	October 2002	% Change
Electric	Residential	$/kWh	$0.0341	$0.0340	0.2%
Electric	Small Commercial-No Demand	$/kWh	0.0473	0.0465	1.7%
Electric	Large Commercial-Demand	$/kWh	0.0333	0.0314	6.0%
Water	Residential	$/1000 gallons	1.84	1.82	1.3%
Water	Commercial	$/1000 gallons	1.45	1.44	0.7%
Wastewater	Residential	$/1000 gallons	3.00	2.71	10.6%
Wastewater	Commercial	$/1000 gallons	$2.95	$2.80	5.3%

Source: LCG Financial and Operating Statement October 2003, 4/04.

Figures 4-1 through 4-2 graphically compare the average electric residential and commercial retail rates for LUS and other selected Louisiana utilities for year 2002. Values for selected Louisiana utilities were not available for 2003 at the time of this report. Figure 4-1 displays the rate benefit LUS residential customers experience compared to surrounding utilities in Louisiana. LUS' residential rates are some of the lowest in Louisiana along with multiple cooperative utilities.

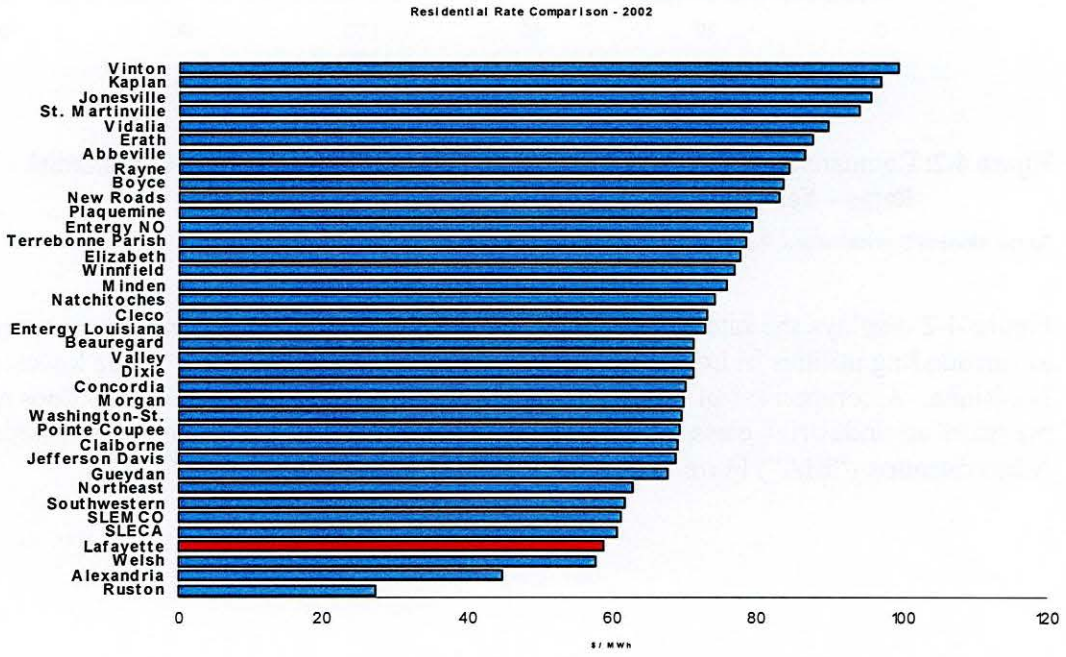

Figure 4-1: Comparison of LUS and Selected Louisiana Utilities Average Residential Rates – Year 2002

Source: Research Data International, PowerDAT

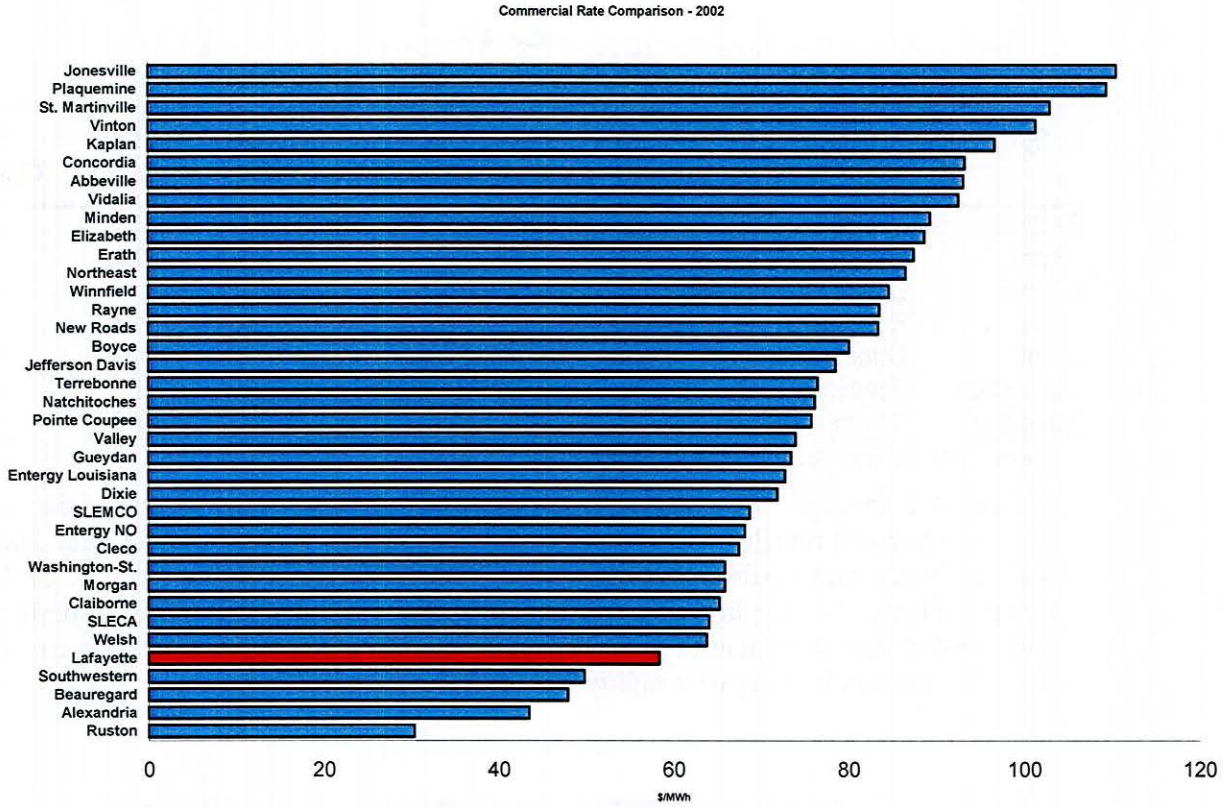

Figure 4-2: Comparison of LUS and Selected Louisiana Utilities Average Commercial Rates – Year 2002

Source: Research Data International, PowerDAT

Figure 4-2 displays the rate benefit LUS commercial customers experience compared to surrounding utilities in Louisiana. LUS' commercial rates are some of the lowest in Louisiana. A comparison of industrial rates was not performed because LUS does not maintain an industrial class of rates in its preparation of the Energy Information Administration ("EIA") Form 861.

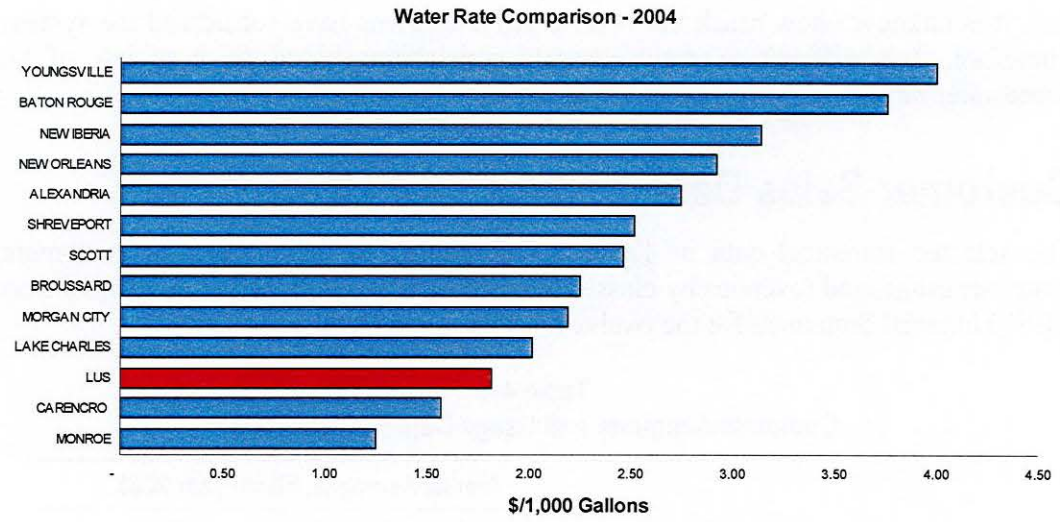

Figure 4-3: Comparison of LUS and Selected Louisiana Utilities Average Water Rates – Year 2004

Source: LUS, Based on a monthly bill with 7,000 gallons consumption.

Figure 4-3 displays the rate benefit LUS water customers experience compared to surrounding utilities in Louisiana. LUS' water rates are some of the lowest in Louisiana.

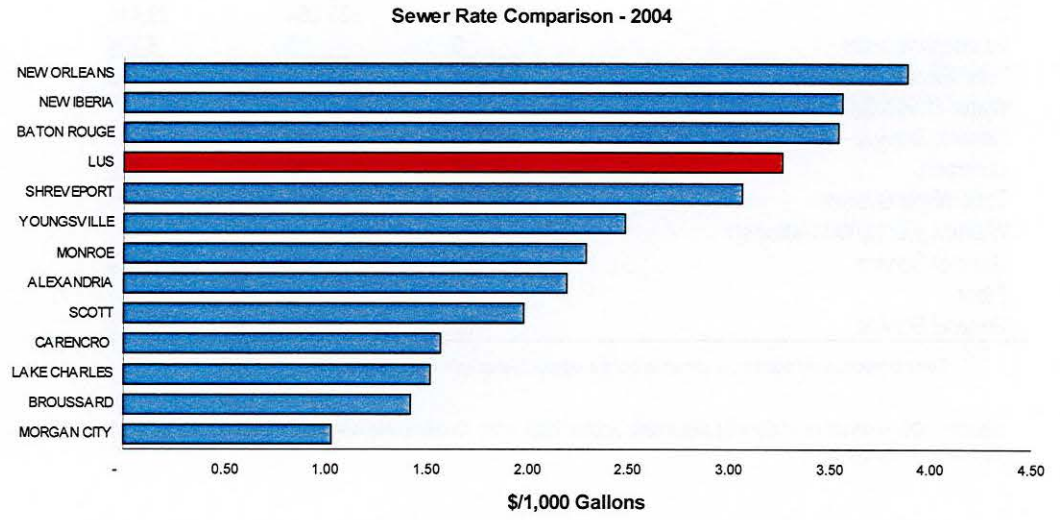

Figure 4-4: Comparison of LUS and Selected Louisiana Utilities Average Water Rates – Year 2004

Source: LUS, Based on a monthly bill with 7,000 gallons consumption.

Figure 4-4 displays the wastewater rates for LUS and surrounding utilities in Louisiana. Wastewater rates are difficult to compare because many cities and towns subsidize the wastewater system with taxes. Although LUS may appear to have a high

rate, it is unknown how much the other cities and towns have subsidized the system. Therefore, it is difficult to draw accurate conclusions based on a review of the wastewater rates.

Customer Sales Data

The selected statistical data in Table 4-4 pertaining to the number of customers, customer usage, and revenues by classes of customers was obtained or developed from LUS' Financial Statement for the twelve months ended October 31, 2003.

Table 4-4
Customer Accounts and Usage Data for Year 2003

Utility Service	Annual Averages, Fiscal Year 2003		
	Average No. of Accounts	Usage per Account	Revenue per Account ($)
Electric: (kWh)[1]:			
Residential	46,779	16,059	$549
Commercial Non-Demand	6,431	25,859	1,246
Commercial Demand Metered	1,194	21,513	21,513
Private Security Lighting	1,772	1,242	189
Traffic Lighting	0	0	0
Street Lighting	1	15,432,472	696,467
Schools, Churches, Other	368	115,363	4,410
Municipal - General Fund	4	1,183,610	55,330
UL	56	935,064	23,416
Interdepartmental	0	0	5,734
Total Electric System	56,604	31,918	$1,119
Water (1,000 Gallons):			
General Service	41,749	143	$237
Contracts	3,977	289	420
Total Water System	45,726	156	$258
Wastewater (1,000 Gallons):			
General Service	37,680	N/A	$388
Fiber			
General Service	22	N/A	$22,075

(1) Electric revenue per account is shown in dollars without fuel adjustment charges.

Source: LCG Financial and Operating Statement October 2003, 4/04. Certain sales revenue and related data for 2003 and 2002 are compared in Table 4-5.

Table 4-5
Selected Statistical Sales Revenue and Related Data for Years 2002 and 2003

	2003	2002	% Change
Number of Accounts (Average):			
Electric	$56,604	$55,244	2.5%
Water	45,726	44,448	2.9%
Wastewater	37,680	37,073	1.6%
Fiber	22	11	
Sales Volumes:			
Electricity Sales (MWh):			
Retail	1,806,694	1,755,595	2.9%
For Resale	268,379	281,280	-4.6%
Total Sales	$2,075,073	$2,036,875	1.9%
Water Sales (1,000 Gallons)	$7,111,918	$7,000,293	1.6%
Wastewater Intake (1,000 Gallons)	$6,446,588	$6,128,633	5.2%
Sales Revenues:			
Electric Sales Revenues:			
Electric – Retail[1]	$122,845,356	$103,442,565	18.8%
Electric – Resale	12,232,000	10,520,237	16.3%
Electric – Other	1,391,538	1,138,529	22.2%
Total Electric Sales Revenues:	$136,468,895	$115,101,332	18.6%
Water Sales Revenue	11,725,104	11,494,918	2.0%
Wastewater Sales Revenue	14,290,555	12,977,483	10.1%
Fiber Sales Revenue	485,651	188,990	157.0%
Total Sales Revenues	$162,970,205	$139,762,723	16.6%
Electric Statistics:			
Annual Energy Usage per Meter (kWh)	31,918	31,779	0.4%
Annual Revenue per Account with Fuel Adjustment Revenues	$2,195	$1,752	25.3%
Annual Revenue per Account without Fuel Adjustment Revenues	$1,119	$1,091	2.6%
Average Revenue per kWh Account with Fuel Adjustment Revenues	$0.0702	$0.0594	18.1%
Average Revenue per kWh Account without Fuel Adjustment Revenues	$0.0351	$0.0343	2.1%
Water Statistics:			
Annual Usage per Account (1,000 gallons)	156	157	-1.2%
Annual Revenue per Account	257.92	$257	0.3%
Average Sales Revenue (1,000 gallons)	$1.66	$1.63	1.5%
Wastewater Statistics:			
Annual Intake per Account (1,000 gallons)	171	165	3.5%
Annual Revenue per Account	387.51	$353	9.8%
Average Sales Revenue (1,000 gallons intake)	$2.22	$2.12	4.7%
Fiber Statistics:			
Annual Revenue per Account	$22,075	$17,181	28.5%

(1) Includes Fuel Adjustment Clause Revenues: 2003 - $62,237,799.84; 2002 - $43,858,179.95

Source: LCG Financial and Operating Statement October 2003, 4/04.

Compared to the prior year, the average electric usage per customer in fiscal year 2003 increased by approximately 0.4 percent from 31,779 kWh to 31,918 kWh. The average electric revenue per customer, including fuel cost adjustment charges

increased significantly (25.3 percent) in 2003 compared to 2002 due to the pass through of higher fuel costs ($0.0702 in 2003 and $0.0594 in 2002).

In-Lieu-Of Tax

On August 19, 2003, the City adopted the following change to the computation of taxable receipts for purposes of calculating the in-lieu-of tax payment to the City's General Fund. The Ordinance (No. O-195-2003) authorizing this change reads as follows:

In computing the annual in-lieu-of-tax payment to the City of Lafayette General Fund by the system pursuant to the bond resolution adopted by the City of Lafayette Board of Trustees on March 12, 1963 (Ordinance No. O-1523, Section 3, adopted August 9, 1977):

(1) The cost of fuel shall be excluded from "receipts fund deposits" for such computation. Except that for the purpose of yielding additional in-lieu-of-tax, there shall be a partial amount of fuel cost restored to "receipts fund deposits" for the fiscal year 2002-2003 (for payment to the General Fund during FY 2003-2004). This "fuel restoration" shall be $41,666,667 and shall be applied as herein adopted. The cost of fuel shall include all component costs of fuel burned to deliver energy to retail and wholesale electric customers, including all component costs of power purchased to offset or supplement generation owned by Lafayette and the Lafayette Public Power Authority (LPPA).

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

(3) The additional $5,000,000 of in-lieu-of-tax payment generated through the fuel restoration of $41,666,667 is made up of two components. The first $25,000,000 of fuel restoration implemented prior to fiscal year 2000-2001 and generating $3,000,000 of in-lieu-of-tax is not subject to any of the considerations listed below. However, it is confirmed that $1,000,000 of this amount was implemented at the same time that approximately $1,000,000 of street lighting costs were transferred to the City of Lafayette general fund. The second component of the fuel restoration equal to $16,666,667, generating $2,000,000 of in-lieu-of-tax, and implemented for the first time in fiscal year 2000-2001 shall be applied as credit for utility relocation costs owed by the City of Lafayette Utilities System to the City of Lafayette's general and/or capital funds. For the purposes of this exchange of relocation costs for in-lieu-of-tax, and for as long as the $2,000,000 amount is in effect, the credit will be granted annually, and cumulatively. The annual credit will be equal to the additional in-lieu-of-tax generated when the fuel restoration exceeds the first $25,000,000 component. In years when cumulative relocation costs exceed the cumulative credit, the Utilities System will owe the balance...Public works will be responsible for compiling the total relocation costs, including any documentation necessary for the Utilities Department to verify said costs, due

by the Utilities Department annually, and retroactive to the effective date of Utilities taking over such responsibility. The first year of accounting will be the first year of this formula change, fiscal year beginning November 1, 2000 through October 31, 2001. The calculated amount developed by Public Works will be verified and, once approved by LUS, forwarded to the Office of Finance and Management. Public works will provide projected utility relocation costs to the Utilities Department seven months prior to the beginning of the fiscal year when funding will be necessary for payment to Public Works for said relocation costs.

The in-lieu-of tax payment to the general fund is based on the previous year's revenues. The amount paid in 2003 (based on 2002 LUS revenues) was $16,139,625. This represented a decrease from the amount paid in 2002 (based on 2001 LUS revenues) of $17,293,176. Based on the new ordinance and revenues in 2003, the amount projected to be paid in 2004 is $16,634,286. These in-lieu-of tax payments as a percent of the prior year's combined operating revenues were 10.21 percent and 11.55 percent as shown in Table 4-6. By comparison, American Public Power Association's ("APPA") survey (published April 2002) of 549 public power systems shows that the median payments and contributions to their community's general fund was 5.8 percent of electric operating revenues. LUS' average payment rate (based on the four years) was approximately 66.7 percent higher than the nation's median.

Table 4-6
Historical ILOT Payments ($1,000s)

	2003	2002	2001	1999	1998	Average
LUS Operating Revenues	$162,970	$139,763	$163,174	$156,568	$142,970	
LUS Calculated ILOT	16,634	16,140	17,293	14,200	14,828	
ILOT Percentage	10.21%	11.55%	10.60%	9.07%	10.37%	10.36%
Electric Operating Revenues	136,469	115,101	139,609	133,337	121,020	
Electric Calculated ILOT	$13,412	$12,332	$13,214	$10,850	$11,330	
ILOT Percentage	9.83%	10.71%	9.46%	8.14%	9.36%	9.50%

Source: 2003-04: LCG Annual Budget Document 2003-2004, 2/04

Source: LCG Financial and Operating Statements.

Financial and Operating Ratios

Figure 4-5 shows the production O&M expense per MWh produced with self-generation. LUS is higher than the neighboring utilities because the production O&M for LUS is based on Bonin, a gas fired steam boiler plant. The production O&M for Cleco, Entergy, Southwestern Electric and Terrebonne Parish is lower because these utilities include inexpensive coal fired or nuclear baseload generation. The production O&M for Alexandria is very low and atypical of gas fired steam boiler plants.

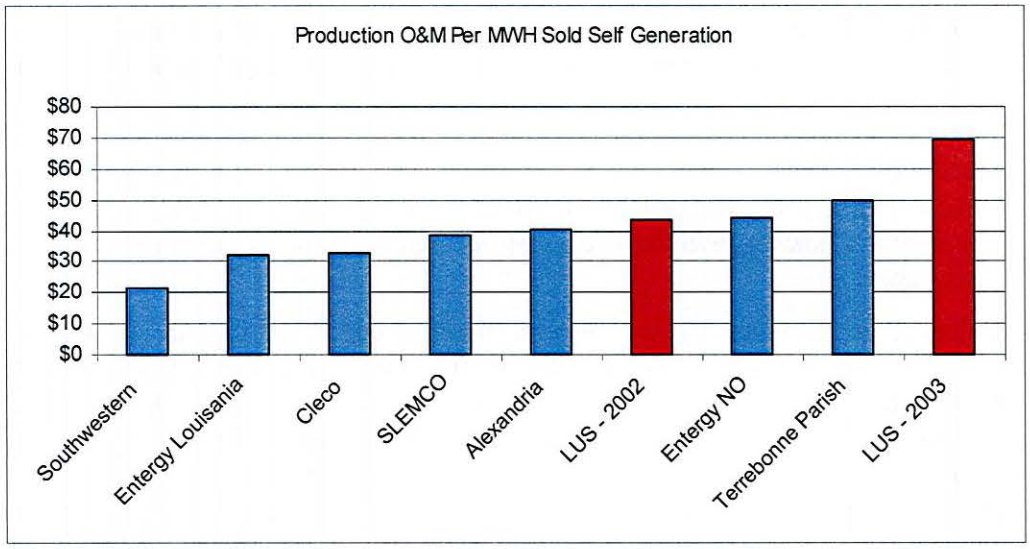

Figure 4-5: Production O&M per MWh (Self Generation) – 2002

Source: Research Data International, PowerDAT

Figure 4-6 displays the production O&M expense on a Total Resource basis (including self-generation and purchased power) for LUS and other selected utilities. LUS' production O&M now appears higher on a per MWh basis with other utilities.

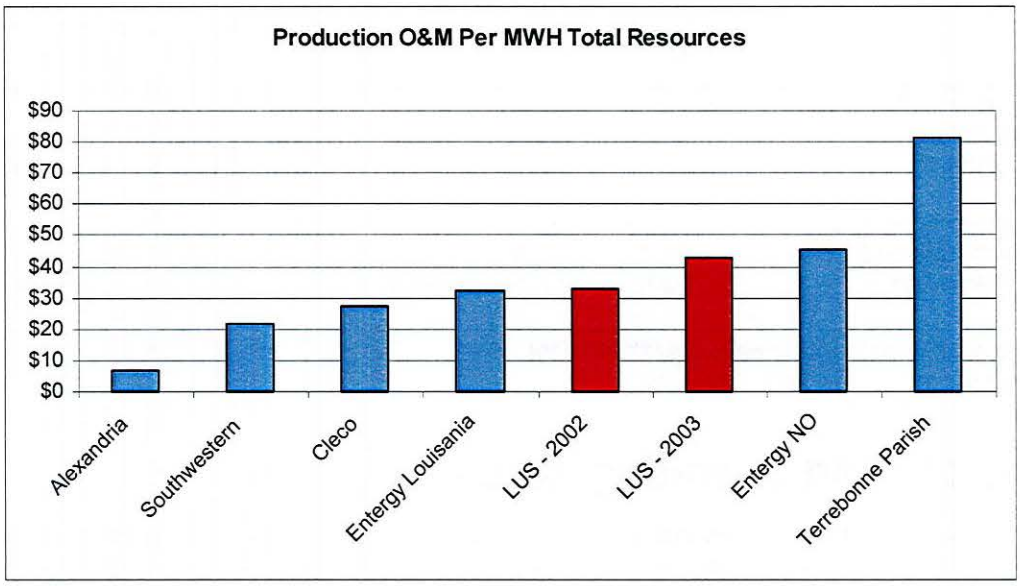

Figure 4-6: Production O&M per MWh (Total Resources) – 2002

Source: Research Data International, PowerDAT

Figure 4-7 shows the transmission O&M expense on a per MWh sold basis for LUS and other selected utilities. LUS' is the highest compared to other selected utilities when wheeling charges (transmission of electricity by others) are included. If wheeling charges are not included, LUS values are the lowest compared to other utilities. This may be attributed to the fact that LUS only has approximately 40 miles of transmission line as compared to Cleco with approximately 2,700 miles and Southwestern Electric with approximately 3,500 miles. LUS' high value may reflect that it is not benefiting from economies of scale that the other utilities experience.

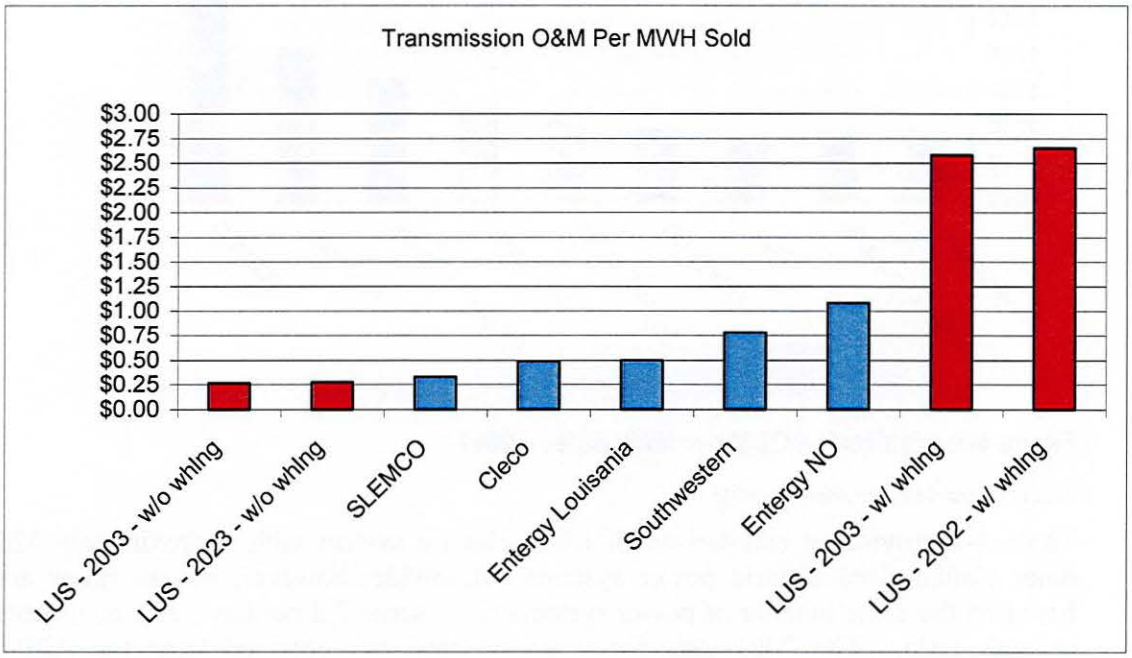

Figure 4-7: Transmission O&M per MWh Sales – 2002

Source: Research Data International, PowerDAT

Figure 4-8 displays the distribution O&M expense on a per MWh sales basis (including retail sales only) for LUS and other selected utilities. LUS' distribution O&M on a per MWh basis is in the middle of the range with respect to other utilities.

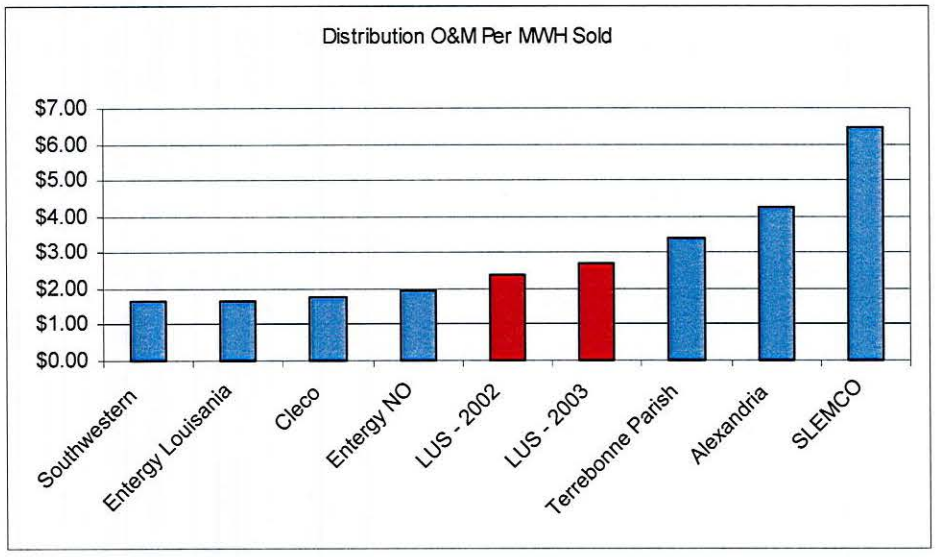

Figure 4-8: Distribution O&M per MWh Sales – 2002

Source: Research Data International, PowerDAT

Table 4-7 provides a comparison of LUS' electric system with approximately 425 other similar-sized electric power systems nationwide; however, not all ratios are based on the same number of power systems since some did not have data applicable to each ratio. The 2001 data for these systems was obtained from the APPA publication dated April 2003. This may significantly impact the comparisons that are based on fuel costs as fuel costs have changed dramatically in recent years.

Table 4-7
Financial & Operating Ratios - Public Power Systems
2002 Median Values by Class Size and Region Compared with LUS

Ratio[1][3]	20,000 to 50,000 Customer[1]	50,000 to 100,000 Customer[1]	Southwest[2]	LUS Fiscal Year 2003
1. Revenue per kWh of Retail Customers	$0.063	$0.074	$0.064	$0.070
2. Debt to Total Assets	0.275	0.338	0.278	0.054
3. Operating Ratio (Electric)	0.856	0.844	0.829	0.822
4. Current Ratio	2.48	3.11	3.33	1.040
5a. Times Interest Earned	4.81	2.54	3.81	37.2
5b. Debt Service Coverage	4.64	3.56	5.79	4.76
6. Net Income per Revenue Dollar	0.057	0.050	0.090	0.021
7. Uncollectible Accounts per Revenue Dollar	0.0022	0.0027	0.0035	0.0028
8. Retail Customers per Non-Power-Generation Employee	322	328	336	271
9. Total O&M Expenses per kWh Sold	$0.056	$0.065	$0.053	$0.062
10. Total O&M Expense (Excluding Power Supply Exp.) per Retail Customer	$220	$302	$280	$331
11. Total Power Supply Expense per kWh Sold	$0.049	$0.052	$0.043	$0.045
12. Purchased Power Cost per kWh	$0.047	$0.049	$0.038	$0.038
13. Retail Customers per Meter Reader	5,282	8,214	3,930	N/A
14. Distribution O&M Expense per Retail Customer	93	112	123	86
15. Distribution O&M Expense per Circuit Mile	4,296	5,559	4,955	6,200
16. Customer Accounting, Service and Sales Expense per Retail Customer	43	48	44	43
17. Administrative and General Expense per Retail Customer	$70	$108	$97	$118

(1) Ratios from April 2003 APPA Selected Financial and Operating Ratios of Public Power Systems, 2002 Data.

(2) Southwest Region = Southwest Power Pool and ERCOT.

(3) For comments on the ratios, see notes A- D below.

Note A (regarding lines 2, 5a, and 5b): The three ratios referenced here pertain to the general financial position of LUS. The financial ratios include: debt to total asset, times interest earned, and debt service coverage. All of these ratios indicate that LUS has a comparatively low debt level and high-retained earnings. Times interest earned is notably high because the debt is mature, resulting in a lower interest component of the debt service. Utility managers, in general, struggle with the problem of the optimum mix of capital sources (debt or retained earnings in LUS' case).

Note B (regarding line 6): LUS earned 6.1 cents on every dollar of revenue. This strong financial result provides for a major part of the capital needed for the Five-year Capital Budget, as well as significant financial transfers to the General Fund of the LCG.

Note C (regarding line 11): The LUS power supply costs per kWh are approximately 5 percent higher and 15 percent lower than the average for the two national categories (20,000 to 50,000 customers and 50,000 to 100,000 customers respectively).

Note D The definition for the above financial and operating ratios can be found in Exhibit 4-4.

Balance Sheet

To determine the extent and character of the changes in assets and liabilities for 2003, a Comparative Balance Sheet is shown on Exhibit 4-4. The comparison shows no significant areas of major change.

Audit

Revenue bond covenants relative to the Consulting Engineer's responsibility regarding accounting, financial reporting and budgeting matters are as follows:

> *"The Issuer will cause such books to be audited annually by an independent certified public accountant or firm of accountants and will annually, within sixty days after the close of each sinking fund year, file with the Depository, the Consulting Engineer and the original purchasers of the Bonds, copies of said report accompanied by a certificate by said accountant or firm of accountants showing, in reasonable detail, the revenues and expenditures of the Utilities System for such year and the amounts in the hands of the Depository. A summary of such statement shall be published in a newspaper having general circulation in the Issuer. Said statement shall be available at any reasonable time to the holders of any of the Bonds or any consumer of the services rendered by the Utilities System. Within twenty (20) days after the close of each month, a statement of the revenues and expenses of the Utilities System for such month, and a balance sheet certified by the manager or superintendent of the Utilities System and the Mayor of the Issuer, shall be prepared and filed with the Depository, the Consulting Engineer and the original purchasers of the Bonds."*

Accordingly, the Firm of Broussard, Poché, Lewis & Breaux, Certified Public Accountants of Lafayette, Louisiana, was chosen by LCG to audit the books of accounts and records of the Utilities System for the Sinking Fund Year ended October 31, 2003. The Certified Public Accountant's audit of the books of accounts and records of the Utilities System is filed by LCG with the Depository, the Consulting Engineer and the original purchasers of the bonds.

Operating Budget

The Operating Budget ("Budget") for the Year ended October 31, 2003 was adopted by Council. Included in the Ordinance is the five-year capital plan beginning in 2003. The Operating Budget was approved by the Consulting Engineer both as to content and form in accordance with requirements of the Bond Resolution.

A comparison of the project operations in the Amended Budget with actual operating results is shown below.

Table 4-8
Comparison of Actual Combined System
Operating Results to the 2002-2003 Amended Budget

	Actual	Amended Budget	Difference	% Difference
Revenues	$200,684,783	$173,166,743	$27,518,040	15.9%
O&M	131,792,815	139,745,856	(7,953,041)	-5.7%
Balance after O&M	68,891,968	33,420,887	35,471,081	106.1%
Debt Service	7,476,997	7,476,997	0	0.0%
Balance after D.S	61,414,971	25,943,890	35,471,081	136.7%
Capital Expenditures	50,038,370	11,323,570	38,714,800	341.9%
In-Lieu-of Tax	16,139,625	16,139,625	0	0.0%
Balance of Revenues	($4,763,024)	($1,519,305)	($3,243,719)	213.5%

Source: LCG Financial and Operating Statement October 2003, 4/04.
Source: LCG Annual Budget Document 2003-2004, 2/04

The comparisons shown in Table 4-8 are on a cash basis and therefore will not necessarily agree with audited amounts that are on an accrual basis.

Under Section 9 of the 1963 Bond Resolution and Section 6.6 of the 1993 Revenue Refunding Bond Resolution, the City covenants cause the manager or superintendent to prepare and submit a "proposed budget" to the City not less than 75 days prior to the beginning of each Sinking Fund Year. With regard to the annual operating budget, the Bond Resolution states:

> *"...covering the anticipated revenues and balances in various funds and accounts including surpluses and anticipated expenditures of such revenues, funds, accounts and surpluses for all purposes including operation, maintenance, rehabilitation, renewals, replacements, construction and purchase of materials, supplies and equipment and the hiring of employees and services for the ensuing year, said proposed budget to be prepared in the form prescribed by the Consulting Engineer and to bear the approval or recommendation of the Consulting Engineer as to content as well as form before same is submitted to this Governing Authority. Simultaneously with submitting such budget to this Governing Authority a copy of said budget shall be filed by the Mayor or the manager or superintendent with the original purchasers of the bonds and a copy shall be mailed to any holder of revenue bonds who may have so requested in writing..."*

The LCG's 2004 budget (November 1, 2003 through October 31, 2004), including LUS' budget, was submitted by the President to the Council and approved by the Council by Ordinance No. 0-184-2003. LUS' budget for the fiscal year ending October 31, 2004 as adopted by the LCG and approved by the Consulting Engineer is as summarized in Table 4-9.

Table 4-9
Utilities System Budget
November 1, 2003 - October 31, 2004

Estimated Fund Balances as of November 1, 2003		$28,114,068
Proposed Receipts:		
Retail Electric, Water & Wastewater Revenues	$152,252,181	
Interdepartmental Sales	500,000	
Wholesale Electric Revenues	16,730,564	
Telecommunications	600,000	
Interest – Operating Funds	2,814,000	
Contributions in Aid of Construction	0	
Accounts Receivable & Other	2,250,000	
Non Operating Receipts and InterFund Transfers	19,133,094	
Total Receipts		$194,279,839
Total Proposed Revenues & Fund Balance		$222,393,907
Operating & Maintenance (O&M)		
Fuel Costs	$24,458,000	
Purchase Power (LPPA)	49,660,000	
Purchased Power Other	24,458,000	
Transmission Charge	4,800,000	
Other O&M	54,107,095	
Total Operation and Maintenance		$157,483,095
Interest & Principal Amounts		
Existing Debt	$7,479,782	
Proposed New Debt	0	
Total Principal and Interest Payments		$7,479,782
Capital Renewals and Replacements		
Normal Renewals & Special Equipment	$11,910,294	
Retained Earnings Capital Improvement	922,512	
Reserve Requirement Reduction	6,300,288	
Bond & Interest Fund	0	
Total Capital Expenditures		$19,133,094
In-Lieu-of Tax Payments		$16,634,286
Total Expenditures		$200,730,257
Revenue Less Expenditures		($6,450,418)
Fund Balances as of 10/31/04		$21,663,650

Source: LCG Annual Budget Document 2003-2004, 2/04

The above balance of all Utilities System Funds ($21,663,650) anticipates the specific fund balances presented in Table 4-10.

Table 4-10
Projected Utilities System Fund Balances
As of October 31, 2004

Receipts Fund Balance	$0
Operating and Maintenance Fund Balance	4,000,000
Bond and Interest Redemption Fund Balance	0
Fund Balance and Interest to be Transferred Next Year	
Capital Additions Fund Balance(1):	16,484,456
Bond Reserve Fund Balance	1,179,494
Provisions for Future Capital	0
Total Bond Reserve and Future Capital Additions	$17,663,650
Fund Balances as of October 31, 2004	$21,663,650

(1) Since the adoption of the 2004 budget, LUS has accelerated the timing of an anticipated **$182.3** million revenue bond issue from FY 2005 to FY 2004.. Therefore the Capital Addition Fund ending balance as shown reflects the adopted budget and omits bond proceeds except for the 2004 bond issue.

Source: LCG Annual Budget Document 2003-2004, 2/04

Source: LCG Flow of Funds, 2/04

The above operating budget anticipates a decrease of approximately $6,450,418 in cash balances during the 2003-2004 period. LUS continues to review and adjust the current budgeting system to increase financial and accounting controls and meet changing operating requirements.

Summary: Utilities System Capital Program

The combined estimated requirements for improvements to the electric, water and wastewater departments through October 31, 2007 are summarized in Table 4-11. Each year, as the City revises its five-year CIP for the Utilities System and the priorities for each of the work items are re-examined. This review process needs to be improved in order that priorities and costs are established which are more manageable.

Table 4–11
Summary Budget - System Capital Resources & Requirements
Capital Improvement Plan 2004 – 2008 ($1,000)

Fiscal Year Ending	2004	2005	2006	2007	2008	Total Appropriations
Beginning Balance	$8,000	$24,801	$1,243	$7,253	$3,173	$8,000
Revenues						
From Retained Earnings	923	284	295	40	0	1,542
Bond Proceeds	200,000	0	22,000	0	0	222,000
Bond Proceeds for Issue Costs	0	0	0	0	0	0
Total	$200,923	$284	$22,295	$40	$0	$223,542
Appropriations						
Electric	$137,698	$6,717	$1,450	$970	$340	$147,174
Water	3,925	1,325	275	550	200	6,275
Wastewater	24,800	15,400	12,400	2,300	2,300	57,200
Fiber	1,700	400	400	300	300	3,100
Bond Issuance Costs	16,000	0	1,760	0	0	17,760
Total	184,123	23,842	16,285	4,120	3,140	231,509
Ending Balance	$24,801	$1,243	$7,253	$3,173	$33	$33

Source: LCG Annual Budget Document 2003-2004, 2/04

Capital Improvement Program

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

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

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

- Is the process improvement periodically reviewed?
- Is there clear accountability for process implementation?

Other criteria are more specific to the CIP:

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

Table 4-12 shows that many of the planned capital projects have not been accomplished within the scheduled time frame. LUS needs to improve project budgeting and/or improve the accomplishment of the planned activities. The lack of precision in budgeting and scheduling affects cash flow planning, planning for the sale of bonds and service rate changes. To adjust for this difference between budget and actual expenditures, the total budget expenditure amounts for each utility are arbitrarily reduced for cash flow planning. This reduction is based on the fact that historically the actual expenditures are significantly less than the budgeted expenditures.

Table 4-12
Comparison of Budgeted and Actual Retained Earnings Capital Expenditures for 1999-2003 ($000)

Year		Electric	Water	Wastewater	Fiber	Total
FY 2003	Budgeted (1)	$12,149	$3,277	$14,658	$915	$30,999
	Actual (2) (3)	6,990	2,830	7,090	419	17,329
	Unspent	$5,160	$447	$7,567	$496	$13,670
	Unspent Percentage	42%	14%	52%	54%	44%
FY 2002	Budgeted	$14,040	$4,240	$17,975	$2,100	$38,355
	Actual (3)	6,143	1,954	4,477	1,608	14,182
	Unspent	$7,897	$2,286	$13,498	$492	$24,173
	Unspent Percentage	56%	54%	75%	23%	63%
FY 2001	Budgeted	$16,563	$6,350	$23,829		$46,742
	Actual (3)	10,530	2,642	5,173		18,345
	Unspent	$6,033	$3,708	$18,656		$28,397
	Unspent Percentage	36%	58%	78%		61%
FY 2000	Budgeted	$9,929	$5,125	$17,135		$32,189
	Actual (3)	19,213	2,510	4,176		25,899
	Unspent	($9,284)	$2,615	$12,959		$6,290
	Unspent Percentage	-94%	51%	76%		20%
FY 1999	Budgeted	$21,098	$4,182	$11,594		$36,874
	Actual (3)	10,023	3,882	7,494		21,399
	Unspent	$11,075	$300	$4,100		$15,475
	Unspent Percentage	52%	7%	35%		42%

(1) Budget five-year CIP

(2) Status of Construction Workorders (RE only)

(3) Actual includes budgeted and previous year's carryovers.

Source: LCG Annual Budget Document 2003-2004, 2/04

Over the above five-year period, the total budget expenditures amounted to approximately $185 million compared with actual expenditures amounting to approximately $97 million. Historically, approximately 52.5 percent of the budget is actually spent. This lack of precision influences the accuracy of financial projection and decisions. Financial areas that are influenced include service rates, bond financing and cash management. We recommend that the capital budgetary process be altered so that the estimated capital needs are more accurately developed.

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

Fund Balances

The Utilities System will likely experience an increase in retained earnings over the next several years largely due to the financing of future capital projects with new debt in 2004.

Accounting

The City covenants and agrees under the respective bond resolutions that so long as any of the bonds remain outstanding and unpaid as to either principal or interest:

> *"The City will cause to be kept proper books of record and account covering the operation of the Utilities System. As to the electric division such books shall be kept in accordance with the laws of the State of Louisiana and the Uniform System of Accounts prescribed by the Federal Power Commission, and as to the water and wastewater division, such books shall be kept in accordance with the procedure prescribed by the Uniform System of Accounts for Water Utilities, Classes A and B, as prescribed by the National Association of Railroad and Utilities Commissioners..."*

The Charter, Section 7-16, Utility System Financing, states: "The finances, bonded debt, receipts and disbursements of the City's Utilities shall be subject to the provisions of the bond resolution of the City adopted March 12, 1963, as amended or revised." These provisions under the bond resolution have been adhered to and Utilities System funds have been accounted for in a manner consistent with these provisions.

LCG currently prepares monthly financial statements that include important operating financial and managerial data. Except for several months following the close of a fiscal year, these internal statements are scheduled to be issued by the 20th day of the month following the period of reporting.

However, the above exception extends from the first several monthly financial statements following the close of a fiscal year. These statements in final form for the new fiscal year are not completed until the prior year's independent auditor's report is received by the City. The audit for the fiscal year ending in October is not available until approximately May in the following year.

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

The Consulting Engineer is of the opinion that the basic accounting principles and requirements with respect to the Utilities System, as contained under the respective bond resolutions, have been complied with by the City for the period ended October 31, 2003.

Restricted Asset Transactions and Balances

The Bond Resolution contains certain provisions and covenants pertaining to the separation and maintenance of funds as follows:

> *"... Said income and revenues be and they (sic) are hereby irrevocably and irreparably pledged in an amount sufficient for the payment of the bonds herein authorized in principal and interest. Said income and revenues shall be set aside in separate funds and shall be and remain so pledged for the security and payment of said bonds and interest, and for all of the other payments and purposes provided for in the resolutions until said bonds have been fully paid and discharged..."*

The Bond Ordinance established the following funds: *(i)* Receipts Fund; *(ii)* Operation and Maintenance Fund; *(iii)* Bond and Interest Fund; and *(iv)* Bond Reserve and Capital Additions Fund. Transactions in the latter two funds for the current reporting year are analyzed below.

Bond and Interest Fund

The Bond and Interest Fund transactions during the fiscal year are presented in Table 4-13.

Table 4-13
Bonds and Interest Fund
Fiscal Year 2003

CASH BALANCE as of November 1, 2002	$0
RECEIPTS during the Period:	
Transfer from Receipts Fund	$7,476,997
Transfer from Capital Additions Fund	0
Transfer from DEQ 96 Construction Fund	0
Interest Earnings	43,929
Total Receipts	$7,520,926
Total Receipts and Cash Balance	$7,520,926
DISBURSEMENTS during the Period:	
Principal and Interest Payment-Existing	$7,476,997
Principal & Interest Payment-New Bond Issue	0
Transfer to Receipts Fund (Interest Received)	43,929
Total Disbursements	$7,520,926
CASH BALANCE as of October 31, 2003	0
Plus Investments (at face value)	0
FUND BALANCE as of October 31, 2003	$0

Source: Prepared by LCG and LUS 2/04.

Bond Reserve Fund

The Bond Reserve Fund transactions during the fiscal year are presented in Table 4-14.

Table 4-14
Bond Reserve Fund
Fiscal Year 2003

CASH BALANCE as of November 1, 2002	$7,479,782
RECEIPTS during the Period:	$0
Transferred from Receipts Fund	0
Interest Earned on Fund	141,823
Total Receipts	$141,823
Total Receipts and Cash Balance	$7,621,605
DISBURSEMENTS during the Period:	
Interest Earnings Transferred to Receipts	$141,823
Transfer to Capital Additions Fund -Reserve Reduction	0
Transfer to O&M Fund - Reserve Reduction	0
Total Disbursements	$141,823
CASH BALANCE as of October 31, 2003	
Plus Investments (at face value)	
FUND BALANCE as of October 31, 2003	$7,479,782

Source: Prepared by LCG and LUS 2/04.

Bond Reserve and Capital Additions Fund

In compliance with the requirements of the Bond Resolution concerning receipts and disbursements of the Bond Reserve and Capital Additions Fund, the transactions during the fiscal year are presented in Table 4-15. Required transfers of principal and interest were made in a timely fashion to the City's paying agent.

Table 4-15
Capital Additions Fund
Fiscal Year 2003

CASH BALANCE as of November 1, 2002	$83,746,349
RECEIPTS during the Period:	
Transfer from Receipts Fund	32,780,000
Transfer from Bond Construction Fund	0
Contribution in aid of Construction	0
Miscellaneous Revenues	154,739
Interest Earnings	1,789,434
Transfer from Bond Reserve Fund	0
Transfer from Cons Sewer Cert Sinking Fund	25,070
Transfer from Street Lighting Assessment Fund	1,157
Total Receipts	$34,750,400
Total Receipts and Cash Balance	$118,496,749
DISBURSEMENTS during the Period:	
In Lieu-of-Tax Payment to the City	$16,139,625
Transfer to Bond Reserve – Reserve Adj for New Debt	0
Transfer to Bond & Interest Fund – Int on St. Rev Loan	0
Transfer to O&M for Spec Capital Improvements	5,561
Transfer to O&M for Ret Earn Cap Improve – Prior Year	15,265,353
Transfer to O&M for Ret Earn Cap Improv – Current Year	2,551,274
Transfer to O&M for Nor. Cap & Spec Equip – Current Year	7,996,214
Transfer to O&M for Nor. Cap & Spec Equip – Prior Year	0
Transfer to Receipts Fund	1,789,434
Total Disbursements	$43,747,461
CASH BALANCE as of October 31, 2003	$74,749,288
Plus Investments (at face value)	$0
FUND BALANCE as of October 31, 2003	$74,749,288
The above balance is available for the 2002-2003 fiscal year requirements	
Payment of In-Lieu-of Tax	$16,331,779
Fund Balance not Specifically Committed	58,417,509
BALANCE in Fund as of October 31, 2003	$74,759,288

Source: Prepared by LCG and LUS 2/04.

Construction Fund

The following Construction Fund identified in Table 4-16, was established in August of 1996 for purposes of financing major wastewater construction projects. Bonds for these projects were sold to the LDEQ and total $18,400,000. Proceeds from these bonds are drawn down from LDEQ when needed by LUS. Interest is charged only on the cumulative amounts drawn. Drawdowns through October 31, 2003 total $18,053,278. For this period, the Construction Fund has a zero balance since the drawdowns requested were all expended by the end of their reporting period.

Table 4-16
Construction Fund
Fiscal Year 2003

CASH BALANCE as of November 1, 2002	$0
RECEIPTS during the Period:	
Reimbursement from DEQ	$0
Interest Earned on Fund	0
Miscellaneous	0
Total Receipts	$0
Total Receipts and Cash Balance	$0
DISBURSEMENTS during the Period:	
Transfer to Capital Additions Fund	$0
Other Transfers	0
Total Disbursements	$0
CASH BALANCE as of October 31, 2003	$0
Plus Investments (at face value)	0
FUND BALANCE as of October 31, 2003	$0

Source: Prepared by LCG and LUS 2/04.

Recommendations

Based on our review of the LUS financial and accounting records, we recommend the following:

Table 4-17
Recommendations

Finance and Accounting	Priority	Status
LUS should increase the water and wastewater systems debt to equity ratio and consider financing a considerable portion of future capital improvement projects with debt.	Highest	New
Although LUS recently raised wastewater rates by 10 percent in 2003, we recommend LUS continue to pursue a strategy of increasing wastewater rates over the next several years.	Highest	Ongoing progress
We recommend LUS continue to actively conduct financial planning, particularly as LUS adds new generation resources and increases combined system debt.	Highest	Ongoing progress
We recommend that LCG identify methods or procedures that shorten the purchasing and procurement process. The time interval needed to obtain services or equipment is critical to reliable services to both wholesale and retail utility customers who may shop elsewhere if not satisfied.	Highest	Ongoing progress

Finance and Accounting	Priority	Status
Under the current financial constraints placed on the combined system, LUS cannot continue to absorb significant increases in the ILOT without jeopardizing the funding of important future capital projects. Therefore LUS should examine ways to meet ILOT obligations without adversely impacting the utilities competitive position or financial integrity.	Highest	Ongoing
Upon finalization of the 2004 bond issue, we recommend that LUS conduct a combined system cost of service study including electric, water, wastewater and fiber systems. This analysis is important in that LUS must understand the cost structure associated with the new capital and operating requirement of the combined system.	Highest	New Recommendation
We recommend LUS continue to explore ways of improving financial reporting.	High	No progress seen
We recommend LUS continue to improve the five-year capital budgetary process (cash-needs capital budget).	High	No progress seen

Section 4

EXHIBITS

Exhibit 4-1 (A)
Disposition of Revenues (Fiscal Years 2002 and 2003)

	2003	2002	Percent Change
OPERATING REVENUE AND OTHER INCOME			
Electric:			
Sale of Electrical Energy	$122,845,356	$103,442,565	18.8%
Sale of Electricity to Other Utilities[1]	12,232,000	10,520,237	16.3%
Miscellaneous Electric Revenue	1,391,538	1,138,529	20.9%
Total Electric Operating Revenues	$136,468,895	$115,101,332	18.6%
Water:			
Sale of Water - Retail	$10,288,737	$9,967,927	3.2%
Sale of Water - Contracts	1,256,712	1,325,048	-5.2%
Miscellaneous Water Revenues	179,655	201,943	-11.0%
Total Water Operating Revenues	$11,725,104	$11,494,918	2.0%
Wastewater:			
Wastewater Service	$14,105,471	$12,814,793	10.1%
Miscellaneous Sewer Revenues	185,084	162,690	13.8%
Total Wastewater Operating Revenues	$14,290,555	$12,977,483	10.1%
Fiber			
Revenues	485,651	188,990	157.0%
Total Operating Revenues	$162,970,205	$139,762,723	16.6%
OPERATING AND MAINTENANCE EXPENSES:			
Operating Expenses:			
Electric - Fuel (gas)	$20,909,938	$14,169,879	47.6%
Electric - Purchased Power - LPPA	44,230,058	41,464,787	6.7%
Electric - Purchased Power - Other	25,211,290	11,785,361	113.9%
Electric – Other	16,893,570	15,970,462	5.8%
Subtotal Electric	$107,244,856	$83,390,489	28.6%
Water	5,791,573	5,179,088	11.8%
Wastewater	8,613,872	7,920,240	8.8%
Fiber	568,599	364,965	55.8%
Total Operating Expenses	$122,218,900	$96,854,782	26.2%
Maintenance Expenses:			
Electric	$4,995,948	$3,530,731	41.5%
Water	1,091,875	953,119	14.6%
Wastewater	1,183,048	1,059,951	11.6%
Fiber	0	0	
Total Maintenance Expenses	$7,270,871	$5,543,800	31.2%
Total Operating and Maintenance Expenses (Before Depreciation)	$129,489,772	$102,398,582	26.5%
Net Operating Revenues	33,480,433	37,364,141	-10.4%
Other Income and Expense			
Interest on Investments:			
Interest Revenues	2,263,585	3,006,810	-24.7%
Water Tapping Fees	114,100	245,634	-53.5%
Miscellaneous Non-Operating Revenue	471,704	269,421	75.1%
Interest On Customer Deposits	19,304	33,769	-42.8%
Hurricane Lili	(30,582)		
Power Plant Decommissioning	(887,594)		
Misc. Non-Operating Expense	17,702	75	23502.4%
Total Other Income	$1,968,219	$3,238,661	-39.2%
Net Revenue	$35,448,652	$40,602,802	-12.7%

[1] Includes "Miscellaneous Wholesale Revenue" from page 4 of the LUS Financial and Operating Statement 2002.

Source: LCG Financial and Operating Statement October 2003, 4/04. .

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Exhibit 4-1 (B)
Disposition of Revenues (Fiscal Years 2002 and 2003)

	2003	2002	Percent Change
Net Revenues (Brought Forward)	$35,448,652	$40,602,802	-12.7%
Debt Service:			
Interest	956,997	1,226,474	-22.0%
Principal	6,520,000	6,245,000	4.4%
Total Debt Service	$7,476,997	$7,471,474	0.1%
Balance after Debt Service	$27,971,655	$33,131,327	-15.6%
Less: Interest on Customer Deposits	19,304	33,769	-42.8%
Balance Available for Capital Expenditures, In-Lieu-of Taxes, Reserves and Other Lawful Purposes	$27,952,351	$33,097,559	-15.5%
Less: Expenditures for Normal Additions to Plant Considered Payable from Operating Revenues	$8,144,541	$7,508,352	8.5%
Increase in Cash Due to Operations	19,807,809	25,589,207	-22.6%
Less: In-Lieu-of Tax Payment	16,139,625	17,293,176	-6.7%
Changes in Balance Sheet Accounts Affecting Cash	($12,011,045)	($10,591,307)	13.4%
Resulting Change in "Unpledged Cash"	**($8,342,860)**	**($2,295,269)**	263.5%

Source: LCG Financial and Operating Statement October 2003, 4/04.

Source: City of Lafayette Utilities System Status of Construction Work Orders - October 2003

Exhibit 4-1 (C)
Reconciliation to Actual Change in "Unpledged Cash" (Fiscal Years 2002 and 2003)

	2003	2002
Change in Receipts Fund	($5,030)	$10,612
Change in Operation and Maintenance Fund	917,132	350,017
Change in Bond and Interest Redemption Fund	0	0
Change in Cash On Deposit With Paying Agent	126,250	113,308
Change In Bond Reserve Fund	(49,119)	90,975
Change in Capital Additions Fund	(8,692,587)	(2,030,810)
Change in Security Deposit Fund	632,658	(499,243)
Change in Risk Management Fund	(1,273,165)	(330,629)
Change in Cashier's Change	1,000	500
Actual Change in "Unpledged Cash"	**($8,342,860)**	**($2,295,269)**

Source: LCG Financial and Operating Statement October 2003, 4/04.

Exhibit 4-2 (A)
Details of Comparative Utility Operating Revenues (Fiscal Years 2002 and 2003)

	2003	2002	% Change
OPERATING REVENUES			
Electric:			
Residential	$25,143,108	$24,756,380	1.6%
Commercial	30,236,047	30,621,596	-1.3%
Private Security Lighting	320,933	319,547	0.4%
Municipality - Street & Traffic Lighting	653,648	730,057	-10.5%
Schools and Churches	1,582,667	1,499,562	5.5%
Municipality - Other	218,884	331,163	-33.9%
UL	1,311,300	1,118,850	17.2%
Interdepartmental Sales	1,140,970	207,230	450.6%
Subtotal Retail Sales	$60,607,556	$59,584,385	1.7%
Fuel Adjustment Clause	62,237,800	43,858,180	41.9%
Total Retail Sales	$122,845,356	$103,442,565	18.8%
Sales to Other Utilities	12,232,000	10,520,237	16.3%
Total Sales	$135,077,356	$113,962,803	18.5%
Other Electric Revenues	1,391,538	1,138,529	22.2%
Total Electric Operating Revenues	$136,468,895	$115,101,332	18.6%
Water:			
General Consumers	$9,729,943	$9,480,665	2.6%
Public Authorities	10,756	5,655	90.2%
Public Fire Protection	15,874	17,390	-8.7%
Municipality - Other	89,903	84,499	6.4%
Interdepartmental	29,031	36,275	-20.0%
Subtotal Retail Sales	$9,875,508	$9,624,484	2.6%
Wholesale Sales			
Town of Scott	335,133	343,443	-2.4%
Water District North	608,124	733,711	-17.1%
Town of Broussard	79,443	75,793	4.8%
Longbridge	0	0	N/A
Water District South	255,237	285,446	-10.6%
Milton	131,314	134,882	-2.6%
Water District North - Wholesale	182,594	95,216	91.8%
Youngsville	78,096	0	N/A
Subtotal Wholesale Sales	$1,669,941	$1,668,492	0.1%
Total Sales	$11,545,449	$11,292,975	2.2%
Miscellaneous	179,655	201,943	-11.0%
Total Water Operating Revenues	$11,725,104	$11,494,918	2.0%
Wastewater:			
Residential Inside	$7,410,991	$6,669,710	11.1%
Commercial Inside	5,675,165	5,245,544	8.2%
Schools, Churchs and Other Public Auth.	597,362	540,031	10.6%
Retail Service Outside City	421,953	359,509	17.4%
Total Sales	14,105,471	12,814,793	10.1%
Miscellaneous	185,084	162,690	13.8%
Total Wastewater Operating Revenues	$14,290,555	$12,977,483	10.1%
Fiber:			
Network Services Revenues	0	0	N/A
Network Access Revenues	413,512	119,772	245.3%
Miscellaneous Revenues	72,139	69,219	4.2%
Total Fiber Operating Revenues	$485,651	$188,990	
Total Operating Revenues	$162,970,205	$139,762,723	16.6%
Total Without Off-System Sales	**$150,728,205**	**$129,242,486**	16.6%

Numbers may not add due to rounding.
Source: LCG Financial and Operating Statement October 2003, 4/04.

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Exhibit 4-2 (B)
Details of Comparative Utility Operating Revenues (Fiscal Years 2002 and 2003)

	2003	2002	Percent Change
OPERATING EXPENSES			
Electric:			
Production			
Operation-Fuel	$20,909,938	$14,169,879	47.6%
Operation-Other	1,221,658	1,280,993	-4.6%
Maintenance	1,940,871	1,335,558	45.3%
Purchased Power	69,441,348	53,250,148	30.4%
Transmission			
Operation	4,562,148	4,587,399	-0.6%
Maintenance	96,848	69,417	39.5%
Distribution			
Operation	1,890,682	2,010,063	-5.9%
Maintenance	2,953,134	2,126,335	38.9%
Subtotal Electric	$103,016,627	$78,829,792	30.7%
Water			
Source of Supply			
Operation	$29,359	$488	5916.1%
Maintenance	1,230	1,035	18.9%
Power and Pumping			
Operation	641,975	582,811	10.2%
Maintenance	0	0	0.0%
Purification			
Operation	1,718,453	1,125,198	52.7%
Maintenance	421,106	383,809	9.7%
Distribution			
Operation	582,136	593,326	-1.9%
Maintenance	669,539	568,275	17.8%
Subtotal Water	$4,063,798	$3,254,942	24.9%
Wastewater			
Collection System			
Operation	$995,725	$970,139	2.6%
Maintenance	1,032,366	946,171	9.1%
Treatment			
Operation	4,040,399	3,816,224	5.9%
Maintenance	150,682	113,780	32.4%
Subtotal Wastewater	$6,219,173	$5,846,313	6.4%
Fiber			
Operation	$568,599	$364,965	55.8%
Subtotal Fiber	$568,599	$364,965	55.8%
Customer Accounting and Collecting	$4,091,086	$4,091,086	0.0%
Sales Promotion & Customer Service	145,602	145,602	0.0%
Administrative and General	9,865,882	9,865,882	0.0%
Total Operating and Maint. Expenses	$127,970,768	$102,398,582	25.0%

Source: LCG Financial and Operating Statement October 2003, 4/04.

Exhibit 4-3
Comparative Power Costs (Fiscal Years 2002 and 2003)

	2003	2002	Percent Change
Annual Costs			
Self-Generation			
Fuel	$20,909,938	$14,169,879	47.6%
Other	3,157,245	2,570,081	22.8%
Total Self-Generation	$24,067,183	$16,739,960	43.8%
Purchases			
LPPA	$44,230,058	$41,464,787	6.7%
Other	25,211,290	11,785,361	113.9%
Total Purchases	$69,441,348	$53,250,148	30.4%
Total Supply	$93,508,532	$69,990,108	33.6%
Energy (MWh)			
Self-Generation:	$346,912	$384,704	-9.8%
Purchases			
LPPA	1,249,829	1,403,069	-10.9%
Other	558,829	358,561	55.9%
Total Purchases	$1,808,658	$1,761,630	2.7%
Total Supply	$2,155,570	$2,146,334	0.4%
Average Costs (Mills/kWh)			
Self-Generation			
Fuel	60.27	36.83	63.6%
Other	9.10	6.68	36.2%
Total	69.38	43.51	59.4%
Purchases			
LPPA	35.39	29.55	19.7%
Other	45.11	32.87	37.3%
Total Purchases	38.39	30.23	27.0%
Total Supply	43.38	32.61	33.0%

Source LCG Financial and Operating Statement October 2003, 4/04.

Exhibit 4-4 (A)
Comparative Balance Sheet (Fiscal Years 2002 and 2003)

	2003	2002	Change	Percent Change
ASSETS AND OTHER DEBITS				
UTILITY PLANT				
Plant In Service	$557,247,646	$534,959,541	$22,288,104	4.2%
Less Accumulated Provision for Depreciation and Amortization	(217,690,932)	(205,240,038)	(12,450,894)	6.1%
Net Plant In Service	$339,556,714	$329,719,503	$9,837,211	3.0%
Construction Work In Progress	1,309,294	1,199,683	(109,611)	9.1%
Total Utility Plant	$340,866,008	$330,919,186	$9,946,822	3.0%
CURRENT ASSETS				
Receipts Fund	$12,805	$17,835	($5,030)	-28.2%
Operating and Maintenance Fund (Cash & Temp. Cash Investment)	4,732,033	3,814,902	917,132	24.0%
Revolving Cashier's Fund and Water District Operating Fund (Cash)	9,450	8,450	1,000	11.8%
Accounts Receivable:				
Utility Consumers (less Customer Uncollectibles of $474,828 in 2003)	14,087,633	12,455,599	1,632,034	13.1%
Other Utilities	929,008	1,011,552	(82,545)	-8.2%
Municipal. & Other Receivables (less Reserve for Uncollectible Misc. AR of $74,272 in 2003)	1,692,382	5,483,461	(3,791,080)	-69.1%
Total Accounts Receivable	$16,709,022	$18,500,612	($1,791,590)	-9.7%
Inventories - Fuel Oil for Electric Generation	$698,678	$698,678	$0	0.0%
Inventories - Other (Materials of $166,238 in 2003)	2,948,860	2,189,688	759,171	34.7%
Interest Receivable and Unamort Premiums	374,333	732,862	(358,529)	-48.9%
Prepayments	144,257	160,606	(16,349)	-10.2%
Total Current Inventories	$4,166,127	$3,781,834	$384,293	
Total Current Assets	$25,629,437	$26,123,633	($494,195)	-1.9%
RESTRICTED ASSETS				
Capital Additions Fund	$74,432,229	$83,124,816	($8,692,587)	-10.5%
Bond Reserve	7,529,184	7,578,303	(49,119)	-0.6%
Allowance for Market Value Adjustment	17,620	773,624	(756,003)	97.7%
Security Deposits Fund Investments	4,194,443	3,561,785	632,658	17.8%
Investment in Risk Management Fund	1,096,985	2,370,150	(1,273,165)	-53.7%
1996 Construction Fund - Cash	0	0	0	0.0%
Cash on Deposit With Paying Agent	6,023,720	5,897,470	126,250	2.1%
Total Restricted Assets	$93,294,181	$103,306,146	($10,011,966)	-9.7%
DEFERRED DEBITS				
Unamortized Debt Discount and Expense	$17,490	$50,834	(33,345)	-65.6%
Unamortized Loss on Refunded Debt	77,473	226,977	(149,504)	-65.9%
1997 Tornado Clean-up	0	0	0	N/A
Hurricane Lili	0	0	0	N/A
Clearing Accounts and other	12,061	12,233	(172)	-1.4%
Miscellaneous	5,682	30,929	(25,247)	-81.6%
Total Deferred Debts	$112,706	$320,974	($208,268)	-64.9%
TOTAL ASSETS AND OTHER DEBTS	**$459,902,332**	**$460,669,939**	($767,607)	-0.2%

Exhibit 4-4 (B)
Comparative Balance Sheet[1] (Fiscal Years 2002 and 2003)

	2003	2002	Change	Percent Change
LONG-TERM LIABILITIES				
Revenue Bonds (inclusive of current maturities)	$24,883,278	$31,153,278	($6,270,000)	-20.1%
CURRENT LIABILITIES (Payable from Current Assets)				
Accounts Payable (Fuel)	2,338,443	2,402,951	(64,509)	-2.7%
Accounts Payable (O&M Fund)	479,565	1,802,397	(1,322,832)	-73.4%
Accounts Payable (Payroll)	244,088	674,642	(430,554)	-63.8%
Accounts Payable (Miscellaneous)	4,749,027	5,665,588	(916,561)	-16.2%
Accounts Payable- Purchased Power (LPPA)	5,117,359	910,780	4,206,579	461.9%
Accounts Payable- Purchased Power (Other)	2,395,338	2,053,956	341,382	16.6%
Accounts Payable-Environmental Clean up "Grant Street"	1,750,000	1,750,000	0	0.0%
Miscellaneous Current and Accrued Liabilities	2,976,664	3,098,353	(121,689)	-3.9%
Accrued Interest on Security Deposits	16,185	22,479	(6,294)	-28.0%
A/P Water District North	115,562	249,055	(133,493)	-53.6%
Total Current Liabilities Payable from Current Assets	$20,182,231	$18,630,201	($1,552,030))	8.3%
OTHER LIABILITIES (Payable from Restricted Assets)				
Interest Accrued on Bonds (Due November 1)	$273,720	$397,470	($123,750)	-31.1%
Interest Accrued on Security Deposits WDN	40	191	(152)	-79.3%
Customer Deposits	4,185,684	3,531,824	653,860	18.5%
Arbitrage Liability	0	0	0	N/A
Total Other Liabilities Payable from Restricted Assets	$4,459,444	$3,929,485	$529,959	13.5%
RESERVES				
Reserve for Revenue Bond Debt Service [2]	$7,529,184	$7,578,303	($49,119)	-0.6%
Reserve for Capital Additions [2]	74,432,229	83,124,816	(8,692,587)	-10.5%
Reserve for Security Deposits	4,194,443	3,561,785	632,658	17.8%
Reserve for Risk Management	1,096,985	1,707,459	(610,747)	-35.8%
Total Reserves	$87,252,840	$95,972,362	($8,719,521)	-9.1%
CONTRIBUTIONS				
From Municipality	$0	$0	$0	N/A
From Others	0	0	0	N/A
Total Contributions	0	0	0	N/A
RETAINED EARNINGS	$323,124,538	$310,984,613	$12,139,925	3.9%
TOTAL LIABILITIES AND OTHER CREDITS	**$469,902,332**	**$460,669,939**	($767,607)	-0.2%

[1] The amounts used in preparation of this balance sheet were obtained from the City's internal financial report.

[2] Bond Debt Service Reserves and Capital Additions Reserve are accounted for jointly in a single fund but are separated above for presentation purposes. The amounts shown as available for capital additions are also available for payment of in-lieu-of tax within certain Bond Resolution limitations.

Glossary for Electric Financial and Operating Ratios

The following definitions and comments relate to the ratio input data and national ratio statistics and are excerpted from APPA's *Selected Financial and Operating Ratios of Public Power Systems* shown in Table 4-6.

Revenue per kWh (Line 1)

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

Debt to Total Assets (Line 2)

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

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

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

Operating Ratio (Line 3)

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

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

Current Ratio (Line 4)

The ratio of total current and accrued assets to total current and accrued liabilities is a measure of the utility's short-term liquidity (the ability to pay bills). The current ratio

takes a snapshot of the utility's liquidity at a point in time and thus may vary considerably at other times of the year.

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

Times Interest Earned (Line 5a)

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

This ratio may be influenced by a utility's financial policies.

Debt Service Charge (Line 5b)

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

Net revenues available for debt service equal net electric utility operating income (operating revenues minus operating expenses) plus net electric utility non-operating income, plus depreciation. Debt service includes principle and interest payments on long-term debt.

This ratio may be influenced by a utility's financial policies.

Net Income per Revenue Dollar (Line 6)

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

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

Uncollectible Accounts per Revenue Dollar (Line 7)

The ratio of total uncollectible accounts to total electric utility operating revenues measures the portion of each revenue dollar that will not be collected by the utility.

This ratio will be influenced by the financial and customer service policies of the utility.

Retail Consumers per Non-power Generation Employee (Line 8)

The ratio of the average number of retail consumers from all classes to the total number of full-time, part-time and contract employees not involved in the generation of power measures the average number of consumers served by each non-generation employee.

The ratio may be influenced by the mix of consumers and by population density. It will be influenced by the extent that employees shared with other (non-electric) departments are not properly prorated, or that employees involved in resale transactions are included. Part-time employees are assumed to work half-time (i.e., two part-time employees are counted as one full-time employee). To the extent that this assumption is violated, the ratio will be biased. Contract employees include only those individuals performing regular utility work on an ongoing basis.

Total Operation and Maintenance Expense per Kilowatt-Hour Sold (Line 9)

The ratio of total electric utility operation and maintenance expenses, including the cost of generated and purchased power, to total kilowatt-hour sales to ultimate and resale consumers, measures average total operation and maintenance expenses associated with each kilowatt-hour of electricity sold, either for resale or to ultimate consumers.

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

Total Operation and Maintenance Expense (Excluding Power Supply Expense) per Retail Customer (Line 10)

The ratio of total electric utility operation and maintenance expenses, excluding all costs of power supply, to the total number of ultimate consumers is the total operation and maintenance expense per retail customer.

Operation and maintenance expenses include the costs of transmission, distribution, customer accounting, customer services, sales and administrative and general expenses. The cost of power supply (generation and purchased power) are excluded from the ratio. This ratio may be affected by population density and the mix of consumers between various classes (residential, commercial, industrial or other).

Also, the extent that a utility services a large number of resale consumers will influence the ratio.

Total Power Supply Expense per Kilowatt-hour Sold (Line 11)

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

The ratio includes operation and maintenance costs arising from all generation types, including steam, nuclear, hydraulic and other types of generation. Operation and maintenance expenses include the costs of fuel, labor, supervision, engineering, materials and supplies, and also include the cost of purchased power. The ratio may be influenced by the geographic location of the utility, the availability of alternative power supplies, the degree to which the utility can generate its own power, and access to transmission. The ratio does not include kilowatt-hours produced but not sold (i.e., energy used internally, energy furnished without charge, or energy losses).

Purchased Power Cost per Kilowatt-hour (Line 12)

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

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

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

Production Expense per Net Kilowatt-hour (Line 13)

The ratio of total production expenses to net generation measures the power production component of power supply costs.

The ratio includes operation and maintenance costs and net generation for large steam-electric generating plants. Large plants are defined as 25,000 kilowatts or greater of nameplate capacity. Gas-turbine and internal combustion plants of 10,000 kilowatts or greater are also included in this category. Nuclear plants are excluded from this Report, as are all plants operating at less than 5 percent capacity. Joint action agencies and power wholesalers are included for this ratio. The 70 plants used here represent 46 utilities, as several utilities reported more than one plant.

The ratio may be influenced by plant type, fuel type and plant age.

Retail Customers per Meter Reader (Line 14)

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

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

Distribution Operation and Maintenance Expenses per Retail Customer (Line 15)

The ratio of total distribution operation and maintenance expenses to the total number of retail consumers measures the average distribution expense associated with delivering power to each retail customer.

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

Distribution Operation and Maintenance Expenses per Circuit Mile (Line 16)

The ratio of total distribution operation and maintenance expenses to the total number of circuit miles of distribution line measures the total distribution costs associated with each circuit mile of distribution line used to deliver power to consumers.

Distribution costs include expenses associated with labor, supervision, engineering, materials and supplies used in the operation and maintenance of the distribution system. The ratio will be affected by population density, the mix of customer classes served by the utility, the dispersion of consumers within the utility's service territory, and the proportion of underground and overhead distribution lines.

Customer Accounting, Customer Service and Sales Expenses per Retail Customer (Line 17)

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

The ratio includes the cost of labor, materials, and other expenses associated with advertising, billing, collections, records and handling inquiries and complaints. It also includes the costs of promoting and providing customer service programs such as

energy services or conservation programs. The ratio will be influenced by the degree to which the utility provides various energy services and other types of customer programs, and also by the mix of customer classes it serves.

Administrative and General Expenses per Retail Customer (Line 18)

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

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

Exhibit 4-5
Actual Receipts and Expenditures
Compared to Adopted Budget for Fiscal Year 2003

	Actual	Amended Budget	Over/Under Budget	Percent Change
FUND Balances as of 11/01/02	$94,985,097	$94,985,097	$0	0.0%
Receipts				
Retail Electric, Water, Sewer and Fiber Revenues	$151,437,003	$153,380,528	($1,943,525)	-1.3%
Interdepartmental Sales	1,176,442	500,000	676,442	135.3%
Wholesale Electric Revenues	12,286,772	14,320,215	(2,033,443)	-14.2%
Interest- Operating Funds	2,183,835	4,366,000	(2,182,165)	-50.0%
Miscellaneous Operating Receipts	583,256	600,000	(16,745)	-2.8%
Contributions in Aid of Construction	0	0	0	N/A
Accounts Receivable and Other	7,172,846	1,675,000	5,497,846	328.2%
Transfer from Street Lighting Assess Fund	1,157	0	1,157	N/A
Transfer from Cons Sewer Cert Sinking Fund	25,070	0	25,070	N/A
Transfer from Bond Res & Capl Add Fund	25,818,402	11,323,570	14,494,832	128.0%
Total Receipts	$200,684,783	$186,165,313	$14,519,470	7.8%
Operating and Maintenance (O&M)				
Fuel costs (gas)	$20,909,938	$14,169,879	$6,740,059	47.6%
Purchase Power (LPPA)	44,230,058	41,464,787	2,765,272	6.7%
Purchase Power Other	25,411,290	11,785,361	13,425,928	113.9%
Transmission Charges	4,658,996	4,656,816	2,180	0.0%
Other O&M	36,782,533	63,080,639	(26,298,106)	-41.7%
Total Operations and Maintenance	$131,792,815	$135,157,482	($3,364,667)	-2.5%
Interest & Principal Payments				
Existing Debt	$7,476,997	$7,476,997	$0	0%
Proposed New Debt	0	0	0	N/A
Total Principal and Interest Payments	$7,476,997	$7,476,997	$0	0.0%
Operating Revenue After Principal and Interest	61,414,971	43,530,834	17,884,137	41.1%
Other Expenditures				
Capital Renewals and Replacements	$6,228,523	$9,900,000	($3,671,477)	-37.1%
Special Equipment	1,557,019	1,423,570	133,449	9.4%
Expenditures from Retained Earnings	16,428,865	0	16,428,865	N/A
Special Capital	5,561	0	5,561	N/A
Total Capital Expenditures	$24,219,968	$11,323,570	$12,896,398	113.9%
Expenditures for Capital Additions Fund	25,818,402	78,930,294	(53,111,893)	-67.3%
In-Lieu of Tax Payments	16,139,625	16,139,625	0	0%
Allowance for Unexpected Appropriations	0	(899,957)	899,957	-100.0%
Transfer to State for Sales Tax	$3,321,582	$5,408,331	($2,086,749)	-38.6%
Total Other Expenditures	$69,499,577	$110,901,863	($41,402,287)	-37.3%
Total Expenditures	$208,769,389	$253,536,342	($44,766,954)	-17.7%
Revenues less Expenditures	(8,084,606)	(67,371,029)	59,286,423	-88.0%
Fund Balances as of 10/31/03	$86,900,491	$27,614,068	$59,286,423	214.7%

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Exhibit 4-6
Fund Balances
Compared to Adopted Budget for Fiscal Year 2003

	Actual	Adopted Budget	Over/Under Budget	Percent Change
INDIVIDUAL FUND BALANCES				
Receipts fund	$12,805	$0	$12,805	NA
Operation and Maintenance Fund	4,658,263	3,500,000	1,158,263	33.1%
Bond & Interest Redemption Fund	0	0	0	NA
Capital Additions Fund				
In-Lieu-of Tax Payment for 2003	16,139,625	16,139,625	0	0%
Unappropriated Cash for Future Capital	53,938,596	(3,005,339)	56,943,935	NA
Total Capital Additions Fund	$74,749,288	$16,634,286	$58,115,002	349.4%
Bond Reserve Fund	7,479,782	7,479,782	0	0.0%
TOTAL ALL FUNDS	$86,900,137	$27,614,068	$59,286,069	214.7%

Section 5
ELECTRIC UTILITY

Existing Utilities System

This section of the Report sets forth the changes which have occurred to the properties of LUS during fiscal year 2003. A description and discussion of existing facilities and resources, and summaries of historical service requirements, are presented in the following pages of this section.

From February 10–12, 2004, the Consulting Engineer interviewed LUS staff regarding electric utility operations and performed analyses of operating statistics that are indicative of the general operating condition of LUS' plant facilities.

Additions to Plant

Table 5-1 provides the fixed plant and equipment made during fiscal year 2003. LUS accounts for such expenditures by using a capital work order system. All extensions or improvements made to the Utilities System are considered economically sound or otherwise necessary for the profitable operation of LUS.

Table 5-1
Capital Workorder Expenditures for Fiscal Year 2003

Source of Funds	Electric
Normal Capital/Special Equipment	$5,187,063
Special Capital	0
Retained Earnings	6,989,914
TOTAL	$12,176,977

Source: "Status of Construction Workorders" by Budgeting. Joan Parish, LUS, 2/1/04.

System Maintenance Expenditures

Historical maintenance expenditures from 1989 are shown in Table 5-2. The average annual percentage growth in the maintenance for the utility after leveling the variations between years (using a linear regression function) is 5.14 percent annually for the electric system during the 1989-2003 period. Both the amount of investment in facilities and inflation influence the amount of maintenance expense incurred. The

amounts expended for maintenance of the electric system for the fiscal years ended 1989 through 2003 are provided in Table 5-2.

Table 5-2
Annual System Maintenance Expense – Electric System

Year Ended October 31	Amount	% Change
1989	$2,361,025	20.2%
1990	$2,286,374	-3.2%
1991	$2,675,271	17.0%
1992	$2,857,068	6.8%
1993	$3,389,012	18.6%
1994	$2,982,171	-12.0%
1995	$2,485,217	-16.7%
1996	$2,771,051	11.5%
1997	$2,711,881	-2.1%
1998	$5,788,172	113.4%
1999	$3,500,362	-39.5%
2000	$3,838,419	9.7%
2001	$4,256,143	10.9%
2002	$3,530,731	-17.0%
2003	$4,995,948	41.5%

Source: LCG Financial and Operating Statement October 2003 P2 and previous CER Reports.

Existing Electric Utility System

The following discussions summarize the findings of the Consulting Engineer with respect to the general condition of the properties based upon discussions with utility supervisory personnel and information supplied by LUS' personnel.

Electric System Power Supply

Gas-fired Generation: Facilities Description

The gas-fired generating facilities which supply a portion of the demand and energy requirements of LUS include the Louis "Doc" Bonin Electric Generating Station ("Bonin Plant") and, in the past, included the Curtis A. Rodemacher Electric Generating Station, both located within the City. The Rodemacher Station has not operated since 1994 and LUS is in the process of determining the use of the space the station occupies. Gross operating parameters for each of the Bonin units are listed below:

Table 5-3
LUS Gas-Fired Generation

Unit	Gross Capacity (MW)[2]	Fuel	Boiler Manufacturer	Turbine Manufacturer
Bonin Unit 1	45	Gas/Oil[1]	Babcock and Wilcox	Westinghouse
Bonin Unit 2	80	Gas/Oil[1]	Combustion Engineering	General Electric
Bonin Unit 3	170	Gas/Oil[1]	Babcock and Wilcox	General Electric
TOTAL	**295**			

(1) Natural gas is the primary fuel for generation, with oil used as an alternative supply.

(2) Summer rating with AGC.

Source: Jamie Webb, LUS, 2/04.

Gas-Fired Generation: Condition of the Property

The electric power production facilities at the Bonin Station are generally being well maintained and LUS has continued to make capital improvements to the Bonin plant. In 2000, LUS replaced Unit 3's turbine and boiler control systems and Unit 2's economizer and primary superheater. In 2001, LUS completed condenser tube replacement on Unit 3. In 2002, LUS replaced Unit 2's turbine control system, installed a camera in Unit 1's Boiler, replaced Unit 2 Boiler corner tubes around the burners, replaced two instrument air dryers, and upgraded plant lighting. In 2003, LUS replaced Unit 1's generator step up transformer, replaced Unit 1 and Unit 2 flame scanner system, and purchased a reverse osmosis unit to be installed in 2004.

The Comprehensive Engineering Report for the Fiscal Year 1996 reported significant surface corrosion on the external boiler surfaces and structural steel. Painting of Unit No. 1 was accomplished in conjunction with the boiler repair contract. Plant personnel indicated that plans are in place to repaint the external facilities of Bonin Unit Nos. 2 and 3, but such work has not been initiated. We recommend proceeding with the plans to repaint the affected areas as soon as possible to prevent further degradation. The areas inside the facility are clean and well kept and the yard areas of the facility were generally neat and well maintained.

Gas-Fired Generation: Operations and Maintenance

Operations at the Bonin Plant are accomplished through the use of operational procedures incorporated in original OEM manuals. The Bonin Plant reports routine use of the boiler chemistry lab, start-up/shutdown checklist and the common practice of apprentice training of operations technicians, routine turbine over-speed trip tests, and the weekly functional test of the plant's diesel generator.

Predictive maintenance programs include vibration monitoring, lube oil analysis, meggar testing, ultrasonic leak detection (air systems), and boiler tube porosity and thickness testing. These programs can detect problems prior to catastrophic failure of the equipment. The repair of the equipment will typically have less of an adverse impact on operation, can be better planned, and may cost less to perform the repair.

Preventative maintenance includes routine lubrication, cleaning, and general inspection of equipment. LUS purchased new testing equipment in 2002 to upgrade the existing program for vibration monitoring.

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

The MP2 system also has the capability to maintain spare parts inventory control as well as cross-referencing parts inventory with maintenance tasks. This provides for more efficient job planning and scheduling along with monitoring inventory levels and ordering replacements. LUS personnel have assembled the available capital and consumable spare parts in the maintenance shop storage area. Consumable spares have been integrated in the MP2 system. However, the capital spare parts have not yet been incorporated in the MP2 inventory system.

In 2003, major repair/inspection/upgrade work included the following:

- Replaced Unit 1 and Unit 2 cooling tower expansion joints.
- Modified demineralized water neutralization system.
- Inspected Unit 1 forced draft fan and refurbished bearing.

Major turbine maintenance work in the past years has included five-year overhauls on Unit 1 and 3 in 1997 and Unit 2 in 1998. Unit 3 is undergoing a major overhaul in 2004 which includes rewinding the generator field windings, which was a recommendation from Unit 3's prior overhaul.

Day-to-day operational challenges include coordination of dispatch and generation requirements. The long-term challenge facing LUS Bonin Plant operations is a shortage of qualified labor. Key power plant positions not filled for a lengthy time includes the plant maintenance engineer, welder and instrument/control/electrical technicians. However, LUS has hired two instrument control/electrical technicians, and is in the process of hiring a plant maintenance engineer. Additionally, the welder position is in the process of being eliminated and replaced by two machinist positions, as it is more efficient to outsource this work, due to welding certification requirements. The labor shortage has not yet impacted plant reliability; however the shortage along with the longevity of the present workforce may impact operations in the future. The shortage of labor increases plant personnel overtime. In 2003, the weekly average overtime was 7 hours for operations personnel and 5 hours overall for the plant. To manage operations and maintenance with these shortages, LUS continues to utilize contract labor to perform the duties of the plant maintenance engineer.

LUS has implemented a formal training program for operations personnel, consisting of industry specific plant science and process training. Additionally, plant specific operating training materials are being developed by LUS.

Gas-Fired Generation: Operating Statistics

LUS personnel reported the following significant operating statistics for the units shown below.

Table 5-4
LUS Gas Fired Electric Generation
Operating Statistics

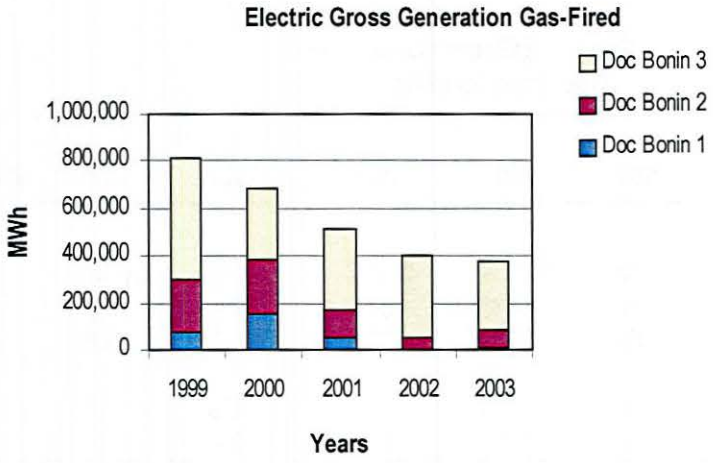
	1999	2000	2001	2002	2003	5-Year Average[1]
Doc Bonin – 1						
Gross Generation, MWh	77,252	149,668	49,737	4,116	10,879	58,330
Availability Factor	75%	100%	84%	67%	81%	81%
Forced Outage Rate	0.10%	0.20%	0.19%	42% [2]	0.00%	8.50%
Number of Starts	11	9	7	4	3	6.8
Gross Capacity Factor	17%	33%	11%	1%	2%	13%
Service Factor	39%	68%	29%	2%	6%	29%
Doc Bonin – 2						
Gross Generation, MWh	222,001	233,378	119,384	44,494	76,700	139,191
Availability Factor	88%	85%	92%	85%	90%	88%
Forced Outage Rate	2%	3%	1%	5%	0%	2%
Number of Starts	10	10	12	5	10	9.4
Gross Capacity Factor	28%	30%	15%	6%	10%	18%
Service Factor	64%	61%	42%	20%	28%	43%
Doc Bonin – 3						
Gross Generation, MWh	509,229	296,934	344,299	357,168	290,363	359,599
Availability Factor	97%	63%	81%	86%	93%	84%
Forced Outage Rate	2.70%	3.70%	0.09%	0.5%	0.00%	1.40%
Number of Starts	5	8	4	5	2	4.8
Gross Capacity Factor	31%	18%	21%	22%	18%	22%
Service Factor	65%	42%	56%	59%	49%	54%
Total Gross Gas Generation, MWh	808,482	679,980	513,420	405,778	377,942	541,670
Total Net Gas Generation, MWh	754,269	629,259	470,65 2	384,704	346,913	527,929
Total Gas Consumption, MMBtu	8,738,260	7,461,158	5,606,380	4,444,668	3,844,806	6,019,054
Net Heat Rate, Btu/kWh	11,585	11,857	11,912	11,554	11,083	11,401

(1) Availability Factor reflects the percent of the time the unit was capable of providing service.
Gross Capacity Factor is the actual electric generation divided by the maximum the unit is capable of generating.
Forced Outage Rate reflects the percent of time the unit was removed from service due to an unplanned failure.
Service Factor reflect the percent of time the unit was electrically connected to the transmission system.

(2) Unit 1's service hours were low in FY 2002.

Source: Jamie Webb/Jeff Stewart, LUS 2/1/04.

Figure 5-1 below shows the total generation from the gas-fired facilities and illustrates the amount contributed by each of the units.



Source: Jamie Webb, LUS 2/1/04

Figure 5-1: Total Generation Contribution by Gas-Fired Facilities

Historically, only one of the three active gas-fired generating units at Bonin was operated at one time. In this mode of operation, there were essentially "spare" generating units to ensure system reliability. The availability in 2003 for the Doc Bonin Plant, Unit Nos. 1-3, was 81 percent, 90 percent and 93 percent, respectively. It is noted that scheduled outages, as opposed to forced outages, had the biggest impact on availability for each Bonin unit in 2003. The Units are within the range of expected values for availability at gas-fired power plants of similar size and technology.

Coal-Fired Generation

LPPA supplies a significant portion (from 50 to 70 percent) of LUS' electric energy production. LPPA has a 50 percent ownership interest in a fossil-fuel steam-electric generating unit, Rodemacher Unit No. 2 (the Unit), located in northwest Rapides Parish near Boyce, Louisiana, approximately 100 miles northwest of Lafayette. The Unit, which is operated by CLECO, consists of a General Electric nominal 510,828 kW reheat steam turbine generator and a Foster-Wheeler steam boiler.

The Unit burns coal as its primary fuel and is capable of burning oil and natural gas. Provisions were made in the design of the Unit to allow the addition of the equipment needed for burning lignite. Coal for the Unit is purchased from Kennecot Coal Corporation and is transported from Campbell County, Wyoming by railroad. LPPA owns two unit trains that are operated by CLECO in coordination with CLECO's unit trains to bring LPPA's coal to the generation site.

The Unit is equipped with a hot electrostatic precipitator for fly ash removal at approximately 99.5 percent design efficiency when burning coal. The Unit is connected into CLECO's 230-kV transmission system. Transmission service for LPPA's portion of the power output from the Unit is provided pursuant to a transmission service agreement between CLECO and LCG.

In conjunction with our periodic report work for LPPA, we have reviewed certain unit performance measurements provided by CLECO, such as gross and net generation, station service, heat rate, and availability are included as indicators of plant performance. These performance measurements are provided in Table 5-5.

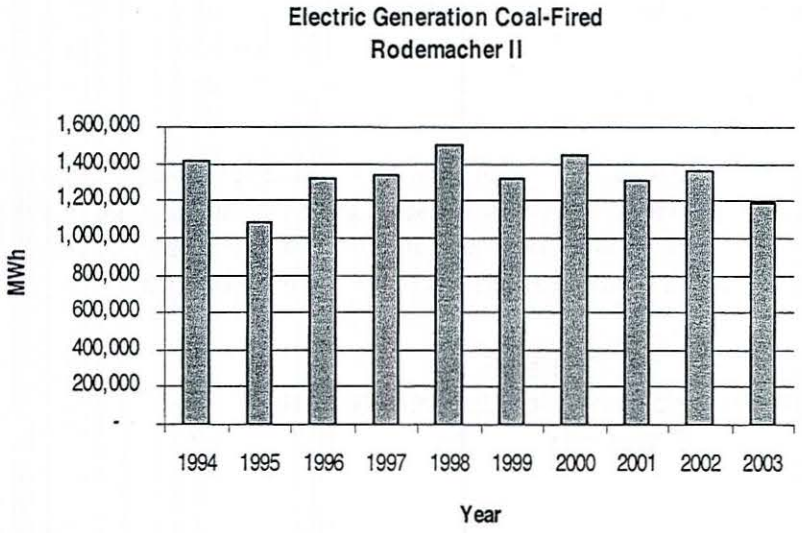
Table 5-5
LPPA Electric Generation Operating Statistics
Rodemacher Unit No. 2

	1999	2000	2001	2002	2003	5-Year Average
Gross Generation (MWh)	3,288,805	3,570,060	3,047,186	2,902,869	2,962,806	3,154,345
Station Service (MWh)	214,974	233,070	198,831	189,412	210,898	209,437
Net Generation (MWh)	3,073,831	3,336,990	2,848,355	2,713,457	2,751,908	2,944,908
Station Service (%)	6.5%	6.5%	6.5%	6.5%	7.1%	6.6%
Net Capacity Factor (%)	67.1%	72.6%	62.2%	59.2%	66.3%	65.48%
Hours Available	7,498	7,965	6,863	7,477	7,091	7,379
Net Unit Heat Rate (Btu/kWh)	10,437	10,736	10,869	10,800	10,800	10,728
Availability Factor (%)	85.6%	90.7%	78.0%	85.4%	81%	84.14%
Forced Outage Factor (%)	2.3%	2.4%	4.6%	1.5%	3.7%	2.9%
Scheduled Outage Factor (%)	12.1%	6.9%	17.4%	13.4%	15.5%	13.06%

Availability Factor reflects the percent of the time the unit was capable of providing service
Capacity Factor is the actual electric generation divided by the maximum the unit is capable of generating
The generation statistics shown above are for the entire Unit, not just LPPA's 50 percent ownership.
Forced Outage Factor reflects the percent of time the unit was removed from service due to an unplanned failure
Source: Jeff Stewart, LUS 2/1/04.

The generation statistics shown above are for the entire Unit, not just LPPA's 50 percent ownership.

Figure 5-2 shows the MWh delivered to LUS annually from the Unit.



Source: Jeff Stewart, LUS 2/1/04.

Figure 5-2: Annual Unit MWh Delivery to LUS

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

Electricity Dispatching Function

LUS dispatches electric power and energy from its dispatching control center to several neighboring municipalities and other off-system sales customers. In its dispatch function, LUS provides the following services:

- Production scheduling and costing;
- Off-system power sales billing;
- Fuel adjustment calculation;
- Financial planning and budgeting;
- Load analysis and forecasting;
- Data reporting for regulatory agencies; and
- Monitoring inadvertent power exchanges.

As discussed later in this section, The Energy Authority ("TEA") is utilized by LUS to negotiate and coordinate wholesale power transactions.

Electric Operations

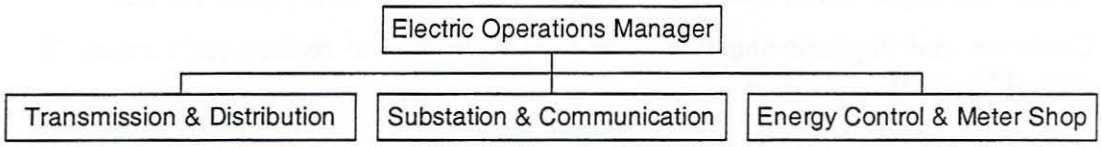
The Electric Operations Division of the LUS is responsible for the transmission, distribution, metering, and accounting of electrical power to consumers. The Electric Operations Division is also responsible for the Energy Control System ("ECS")

section which provides for the scheduling and dispatch of generating resources (including the purchase and sale of wholesale power) and the operation of the Supervisory Control and Data Acquisition ("SCADA") system. The SCADA system provides direct control of the electric transmission and distribution system, as well as control and monitoring of certain water and wastewater facilities and equipment, and the monitoring of the LUS Power Network System.

Organization

The Electric Operations Division consists of three discrete operating sections: Transmission and Distribution, Substation and Communications, and ECS & Meter Shop.

The Electric Operations Division is currently organized as follows:



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

System Characteristics

LCG's electric transmission system includes 230 kV transmission facilities and a 69 kV loop. Step-down transformation from the 230 kV and 69 kV systems to the 13.8 kV distribution service is located at 14 substations. All 2400 V facilities have been converted to 13.8 kV. The system still has a small amount of 2400 V service at Doc Bonin Plant. The service area covers approximately 40 square miles and is primarily residential and commercial customers.

Key Issues, Goals and Achievements

The following are some of the challenges or key issues that LUS have identified:

- The increasingly competitive labor market for skills within the Electric Operations Division and the ability to retain experienced personnel;
- Continuing to improve the capabilities and utilization of the SCADA system;
- Developing and maintaining relationships with power marketers and other utilities in addition to LUS' traditional business associates in the wholesale power market;
- Reducing tree-related outages; and
- Improving the communication and coordination between the Bonin power plant operations staff, ECS operations staff, neighboring utilities, and the Southwest Power Pool.

The Electric Operations Division continues working toward meeting these challenges by setting the following goals:

- Continue focusing on operational issues;
- Provide training to personnel as needed;
- Maintain adequate staffing and experience levels; and
- Continue monitoring of statistical operational data.

The Electric Operations Division during the past year achieved the following accomplishments:

- Continued with significant system improvements and upgrades consistent with the five-year capital improvement budget;
- Operated the system in a manner consistent with prudent utility practice; and
- Continued the implementation of a new EMS system to replace the current 12-year-old system.

Reliability and Performance

The electric operations manager monitors outages and categorizes them by three primary groups: tree-related, animal-related, and equipment-failure-related. It was reported that a 39 percent decrease in tree-related outages has occurred, along with an 48 percent decrease in animal outages and a 14 percent increase in equipment-failure related outages. Tree trimming activities through the use of outside contractors has been constant. Based on conversations between LUS staff and the Consulting Engineer, it appears that reliability continues to be acceptable and that LUS staff is committed to continuing existing tracking and prevention procedures.

Continuous recording of outage data allow staff to quickly identify changes in reliability. Recent historical indices for LUS are summarized in Table 5-6. Table 5-7 lists the values for a few energy providers also supplying similar services in Louisiana during the year 2003.

Table 5-6
LUS Reliability Index Summary

12 Months Ended October 31	System Average Interruption Duration Index (SAIDI) Minutes/Customer	System Average Interruption Frequency Index (SAIFI) Interruptions/Customer
1996	119.5	1.85
1997	153.9	2.34
1998	106.2	2.16
1999	102.9	2.52
2000	65.9	1.42
2001	86.1	2.10
2002	77.1	2.14
2003	84.1	1.23

Note: The LPSC does not set any minimum for municipally owned utilities. Source: Cynthia Thompson, Louisiana Public Service Commission.

Source: Ron Landry 02/04. LUS.

Table 5-7
2003 Reliability Index Summary Comparison

Energy Provider	SAIDI Hours/Customer	SAIFI Interruptions/Customer
Entergy	2.085	1.575
Valley Electric Cooperative	3.65	2.89
Claiborne Electric Cooperative	3.3	1.73

Source: Jessica Kayuha. Louisiana Public Service Commission. 3/04

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

Predictive and Preventative Maintenance

Predictive and preventative maintenance on the system, in connection with feeder, substation and equipment (as well as the full operation of the energy control center), continue to improve the reliability of the electric system.

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

The LUS Substation Section has implemented the CASCADE program software that was purchased in 2002. It is a Computerized Maintenance Management System (CMMS) for the scheduling and tracking of equipment maintenance. The program can

provide assistance with predictive and preventive maintenance items. It is also being utilized for the scheduling of major power equipment oil analysis. The program should allow LUS to extend the maintenance intervals as shown in Table 5-8. Maintenance may be initiated following a predetermined time interval or number of events that "trigger" the need.

Table 5-8
Maintenance and Equipment Schedule

	Old Frequency	New Frequency
Distribution Breakers	Annually	2 Years with triggers
Transmission Breakers	2 Years	3 Years with triggers
Power Transformers	2 Years	3 Years with triggers
Transformer Oil Analysis	Annually	Annually
Distribution Relays	Annually	18 Months
Transmission Relays	18 Months	24 Months
Batteries	Annually	Annually

Source: Ron Landry. 02/04. LUS

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

- Distribution feeders over 13.8 kV;
- Substation breakers;
- Substation bus;
- Substation transformer bushings, and
- Switches.

In previous years, several hot spots have been discovered in substations. In 2003, a few minor problems were identified in the substations. These were corrected when discovered. The transmission system and substations were surveyed. Minor problems were corrected as found. The distribution systems were not surveyed. Since 1999, the priority for conducting infrared surveys has been in the areas of transmission and substations. Each discovery reflects a case where an electric system outage may have been prevented.

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

The monitoring of the 230-138 kV CLECO-tie power transformer T5 continued in 2003 due to problems discovered in 2001. Repairs made in 2001 have improved the gassing problem, but the transformer is still not 100% due to the shifting of the core laminations.

Another type of reliability test is the visual inspection of all substations. LUS field crews visually inspect all substations on a periodic basis. This includes visual analyses of transformer bushings, the general substation environment, feeder voltages, battery water levels, alarms, and nitrogen bottle levels. Regular maintenance schedules have been extended somewhat due to a shortage of available manpower. LUS continues its efforts to recruit and retain highly qualified personnel but is hampered by a competitive labor market that pays higher wages for similar positions.

It is our opinion that the reliability related inspections discussed above are important and aid in controlling equipment failure and customer outages.

Electric Operations Division

The following summaries contain information pertaining to each of the operating sections within the Electric Operations Division. Each summary includes highlights and concerns for each of the sections as well as pertinent comments.

Transmission and Distribution

The Transmission and Distribution section ("T&D") dispatches all electric, water and wastewater field crews and performs operations and maintenance activities for the electric system. The total staffing level in this section is 48, including the Section Supervisor. Operation and maintenance activities include but are not limited to new line construction, line rebuilds, relocation projects, trouble-shooting, equipment installation and maintenance, and tree trimming. The T&D line crews are comprised of four overhead line crews, two underground crews, two streetlight crews, and two service crews. The T&D crews are currently staffed at approximately 95% of the available positions.

LUS staff report that the distribution system has been prudently planned and designed. The capacity of the transmission system is routinely analyzed and reported on in LUS' Five-Year Planning Report and One-Year Contingency Report. These reports conclude that there is sufficient capacity in the system to meet existing loads. A new 69 kV substation will be needed in 2004. The distribution system also undergoes an annual analysis of loads and capacities. According to LUS staff, continuing studies find no inadequacies in the distribution system. LUS has continued their efforts in standardizing construction, material specifications, and contract documents, along with close supervision of construction, to ensure that the distribution system operates in accordance with prudent industry practices.

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

Historically, LUS utilized a significant number of mercury vapor streetlights. Nearly all mercury vapor streetlights have since been converted to more efficient, high-pressure sodium lighting. These will be converted as work loads permit or as these fixtures fail over time. LUS currently replaces all failed mercury vapor streetlights with high-pressure sodium lights. Street lighting maintenance crews respond during normal business hours to street and private light outages and are generally able to replace reported light failures within three working days. LUS has one additional contract street light crew that provides assistance in achieving the three-day repair goal.

The T&D section's wood pole testing and maintenance program has been in place for several years and continues to aggressively address the integrity of wood poles. Approximately 2,000 wood poles have been identified for replacement. Of these, there are 429 poles remaining to be replaced. A significant number of these poles came from a single supplier. Replacing these deteriorated wood poles is expected to continue in future years. LUS continues to use an ultra-sound tester to facilitate this effort. Each year LUS utilizes an outside contractor to test the poles at two substations with the goal that the complete system will be tested on a 10 year cycle. In 2003, ninety poles were replaced and 2900 poles were treated on the LUS system.

Energy Control System & Meter Shop

Energy Control System

The Energy Control System ("ECS") section is responsible for generating unit commitment, dispatch, the purchase and sale of wholesale power and the operation of the SCADA system for all LUS facilities. The Energy Authority ("TEA") performs the wholesale power negotiations and transactions. ECS provides TEA with hourly/daily capacity and load requirement data.

A staff of five operators working 12-hour shifts operates the ECS. In addition, ECS has three engineers (two electrical and one water/wastewater) responsible for hardware and software systems, two technicians, and one supervisor. The ECS/Meter Shop Supervisor oversees the ECS and the Meter Shop sections. Two of the five operators have received Southwest Power Pool ("SPP") operator training and are SPP certified. Additionally, four of the five operators are North American Reliability Council ("NERC") certified. The fifth operator is currently in training and is anticipated to be certified during 2004. This commitment to training is highly advantageous and will assist LUS in positioning itself in a future environment of electric deregulation.

SCADA System

The SCADA system became operational in fiscal year 1992. In 1999, the system continued to mature as additional data-gathering points for water and wastewater systems came on line. No further progress has been made toward completion of fuel monitoring systems for the Bonin Plant.

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

In 2000, LUS began the pre-planning process to replace the SCADA system with a full-graphics system. LUS has engaged the services of an Energy Management System ("EMS")/SCADA consultant. It is anticipated that a new EMS/SCADA system will be designed, purchased, installed and fully operational by 2004. In order to better optimize efficiencies and increase LUS' understanding of operating costs, Economic Dispatch and Unit Commitment programs will be requirements of the new system. Implementation of this new system will assist both the Bonin Plant staff and ECS staff in strengthening their coordination and help gain an understanding of operating costs to aid future opportunities for power sales and purchases. It will also help in the refinement and verification of O&M costs, start-up costs, and real-time fuel monitoring data.

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

One attribute of participating in markets for electricity is the acceptance of risk. Under certain circumstances, non-traditional contracts for electricity have the potential to be unprofitable or to operate at a loss.

The ECS system collects data from 14 electric substations, 16 water well, 5 water towers, and 34 lift stations in the wastewater system. LUS intends to eventually install remote terminal units ("RTUs") at all 127 lift stations. Twenty additional wastewater lift stations are planned for SCADA integration in 2004. Implementation is based on priority, budget, and schedule.

In addition to providing system information and control, SCADA system software also maintains a listing of customer locations where life support systems are in place. When outages affect those locations, SCADA operators contact the customer via telephone and convey information regarding the status of the outage and expected system restoration. When service is restored, customers are contacted again to verify that their service is on. This pro-active and service-oriented customer focus is representative of LUS' mission statement, strategic plan, goals and policy, and is to be commended.

LUS utilizes load tap changers on each of the distribution power transformers to control the system voltage. The compactness of the LUS service area and general load characteristic has enabled LUS to avoid the use of down-line regulators and individual feeder regulation. The result is savings in material and maintenance cost that are typically incurred by most distribution systems. Capacitors are operated on seasonal settings with voltage and time of day over-rides to control power factors.

Expansion of the operational capabilities of the SCADA computer/control and processing equipment is in progress. ECS personnel continue to monitor the state of the industry in this regard so that prudent equipment upgrades can be made in the future. LUS also continues to upgrade the software to improve system graphics and improve its interface capability with the Lafayette Utilities Management Information System ("LUMIS"). The current focus of this effort is on updating databases. Information pertaining to the electric transmission, water, wastewater, and fiber are 100 percent complete. The electric distribution primary is 100 percent complete with minor adjustments remaining. The electric distribution secondary is 100 percent complete (these percents are based on existing data, new field verified data will be entered as collected).

Meter Shop

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

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

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

If a problem is detected through any of the aforementioned procedures, the meter is replaced and tested. If the meter is found to be out of tolerance, it is re-calibrated and re-furbished for future use. If necessary, the customer's bill is adjusted based on the findings of the meter test report and historical electrical consumption. Meter Services section issues a monthly report of the top commercial and industrial users. This list aids the identification of meters that require testing. We agree with the progress in meter testing and recommend its continued focus and expansion.

Substation and Communications

The Substation and Communications section includes eight employees responsible for 14 electric transmission / distribution substations. Three of these employees have been dedicated full time to the implementation of the fiber network. The LUS distribution system is tied to the electrical grid through 69 kV, 138 kV and 230 kV

transmission ties. The substation and communication section has highly trained personnel which has contributed to the achieved reliability.

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

- Installation of ABB DPU (Distribution Protection Unit) relays for distribution breakers for higher reliability;
- 3Flanders Substation capacity upgraded to 30/40/50 MVA.
- Acadiana Mall Substation capacity upgraded to 30/40/50 MVA.
- Gilman Substation was under construction and should be energized in 2004 (will replace the Grant Substation).
- New vacuum breakers were installed at Guilbeau, Pinhook, and Acadia Mall Substations.

Currently, substation loads are well within maximum capabilities. During 2003, LUS reports no substation was loaded above 80 percent of its rated capacity during normal operating conditions. There are plans to build two new substations in the future, the Gilman Substation and one substation will be built to support local load growth.

Spill prevention plans and a formal spill procedure are in place for all substations. Some substations have berm walls for oil spill containment and all larger substations have oil spill cleanup materials on site (see Section 8).

A fiber optic based communications system to link all substations and replace the aging microwave system is in place and functioning. Replacement of the microwave system with a fiber optic system has allowed LUS to keep pace with the increasing communication requirements of a sophisticated protection system. These improvements are recommended and consistent with the high level of customer service commitment made by LUS. The fiber communications system will also provide opportunities for LUS to provide other kinds of communication services using excess capacity in the system. During 2003, fiber was installed at additional sites bringing the total to 65 sites. These sites are a combination of LCG and commercial facilities.

Historical Utility Requirements

The electric facility of LUS has met customer demands for service, and provided its customers with adequate and reliable utility services during the period reported herein.

Electric System Requirements

The historical net power and energy requirements for the past ten years are presented in Figure 5-3 and Table 5-9. To calculate a more stable or normalized growth rate for the period, a linear regression line was included for the period 1990 through 2003.

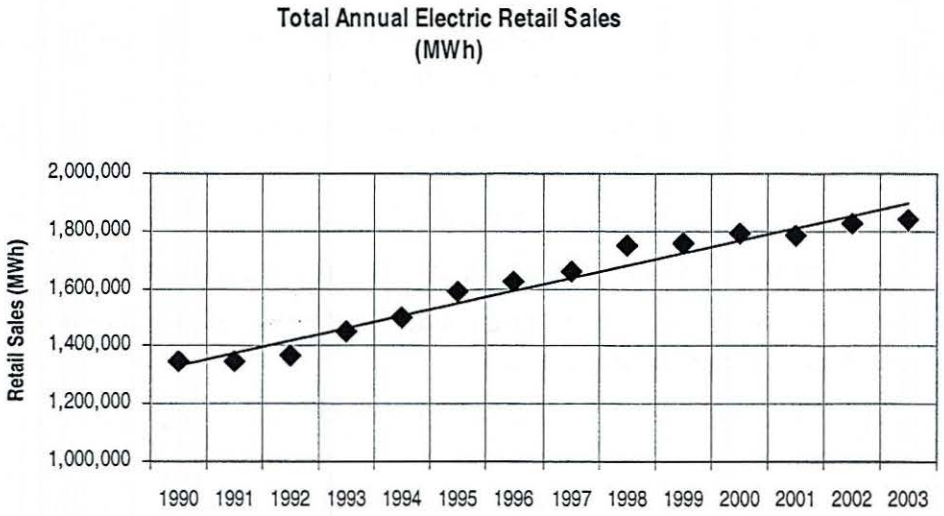


Figure 5-3: Total Annual Electric Retail Sales

Table 5-9
Electric System
Historical Power And Energy Requirements(1)

Fiscal Year	Number of Customers	Peak Demand MW	Energy Requirements MWh	Annual Change in Energy Requirements %	Annual Load Factor %
1990	45,343	316	1,344,540	7.3%	48.6%
1991	46,719	310	1,345,521	0.1%	49.5%
1992	48,009	318	1,371,271	1.9%	49.1%
1993	48,931	339	1,450,791	5.8%	48.9%
1994	50,107	350	1,499,424	3.4%	48.9%
1995	51,197	368	1,587,590	5.9%	49.2%
1996	52,366	358	1,623,350	2.3%	51.6%
1997	53,048	368	1,661,996	2.4%	51.6%
1998	54,154	391	1,749,782	5.3%	51.1%
1999	54,657	401	1,753,844	0.2%	49.9%
2000	55,027	428	1,794,268	2.3%	47.9%
2001	55,268	388	1,783,450	-0.6%	52.5%
2002	55,244	390	1,825,438	2.4%	53.4%
2003	56,363	402	1,841,914	0.9%	52.3%

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

Source: LUS Financial and Operating Statement, 2/1/04

Retail electric service has grown significantly and steadily over the period shown above. Customer growth has averaged 1.69 percent per year while usage per average customer has grown at 0.77 percent per year. These two influences have resulted in average annual energy growth of approximately 2.8 percent. Energy sales in 2003 were nearly 37 percent higher than those in 1990.

LUS, through interconnection arrangements with other utilities, has also marketed surplus power and energy. For the 12 months ended October 31, 2003, surplus power and energy sales totaled 268,379 MWh and provided $10.8 million (total sales to LUS) of gross revenues.

Electric Contracts and Agreements

LCG has many contracts and agreements in connection with the business of the Utilities System. Only LUS electric principal contracts and agreements are summarized in the following paragraphs.

Purchased Power and Energy Agreements

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

Lafayette Public Power Authority

LCG, through LPPA, acquired a 50 percent ownership interest in the Rodemacher Unit No. 2 ("Unit"). The primary fuel supply to the Unit is low-sulfur Wyoming coal and the output is sold by LPPA to LCG in accordance with a long-term power sales contract. LCG is obligated to make all payments required in connection with its 50 percent share of costs for operation and maintenance of, and renewals and replacements to the Unit, as well as for debt service, debt service reserves, and such other amounts which LPPA is required to pay or set aside into any other fund or account established by the Ordinance adopted by LCG (LPPA Bond Ordinance). LPPA's 50 percent ownership interest in the Unit, together with its 50 percent ownership of coal cars acquired by LPPA for transportation of fuel to the Unit.

Southwestern Power Administration

LCG has a purchase agreement with SPA and a current capacity allocation of 18.6 MW and energy allocation of 1,200 kWh per kW per year. The cost of this power for the 2002 fiscal year was $31.91 per MWh for peaking energy and $22.97 per MWh for the combination of both peaking and supplemental energy. The total annual energy under this contract represents approximately 2 percent of LUS' total annual energy requirement. The contract terminates December 31, 2003.

SPA will have a limited quantity of peaking capacity available for sale as a number of firm and peaking power sales contracts terminate in the future, and as new hydro capacity from two multipurpose projects under construction become operable.

Power and Energy Sales Agreements

As a result of LUS' marketing efforts for the sale of surplus power and energy, the following are principal agreements for sales to other entities.

Louisiana Energy and Power Authority

The State of Louisiana enacted legislation (Act No. 772 adding Chapter 10-A, Section 33:4545.1 et seq., to the Louisiana Revised Statutes of 1950) in 1979 to create LEPA as a political subdivision of the State of Louisiana to provide for joint ownership and cooperation in electric generation and transmission facilities. Such joint ownership may occur between such authority and municipally owned entities, investor-owned electric power companies and electric power cooperative associations or corporations within the State of Louisiana.

LEPA subsequently acquired a 20 percent undivided ownership interest from CLECO in the electric power generation facility called Rodemacher Unit No. 2. This is the same facility in which LPPA has a 50 percent ownership interest. LCG is a member of LEPA and contractually sells power and energy to LEPA, as discussed below.

On December 20, 2000, the City and LEPA entered into an Agreement for Purchase of Power and Energy and Coordination of Operations ("Agreement"). The Agreement stipulates the amounts of power and energy to be delivered by LCG during future time periods, and also provides for the sale to LEPA of additional capacity and energy above the contract amounts if required by LEPA and available from LCG. In addition, provisions for reserves and the sale of secondary energy are covered in the Agreement. The Agreement also contains provisions for LCG to sell supplemental, replacement, economy and emergency energy to LEPA. This Agreement is for a capacity of 61 MW plus losses and is effective through December 2005. There is a provision to reduce the purchased capacity further if certain member cities do not extend their contracts with LEPA.

Electric Interconnection, Interchange, and Transmission Access Agreements

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

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

Interconnection and Transmission Agreements

Entergy Gulf States

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

Central Louisiana Electric Company

CLECO and LCG entered into an Electric System Interconnection Agreement ("ESIA") in 1991. The term of the agreement is such that the ESIA shall not terminate sooner than August 29, 2016, and thereafter shall continue in effect for five-year periods unless terminated by written notice given by one party to the other. The agreement provides the following:

- Identification of the Unit – a point where power may flow into CLECO facilities from an LCG power source, or an LCG-contracted power source; and
- Identification of the following power delivery points and associated capacity effective with agreement modifications are presented in Table 5-10.

Table 5-10
Power Delivery Points

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

Source: LUS, Ron Gary 2/1/04

Interchange Agreements

LUS has entered into interchange agreements with Louisiana Generating, SWEPCO, Entergy Louisiana, and the SPA. The termination of each of these agreements is provided in Table 5-11.

Table 5-11
Interchange Agreements

Entity	Termination
Louisiana Generating	Any date after May 23, 1993 with three years notice.
Entergy Louisiana	Automatically extends for three-year periods until terminated with 18 months notice.
SWEPCO	January 1, 1996, or the first of any year following a four-year notice.
SPA	December 31, 2003.

Source: R. W. Beck, Previous CER.

Joint Ownership/Use Agreements

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

Other Agreements

Southern Louisiana Energy Membership Co-op

In 1987, LUS entered into a non-competitive agreement with Southern Louisiana Energy Membership Co-op ("SLEMCO") for certain electric customers outside of the City limits. This agreement expired in 2000 and LUS has been competing head to head with SLEMCO for customers. To date, LUS has been successful and has not lost any material load.

Coal for Rodemacher Unit No. 2

The principal fuel for LPPA's Rodemacher Plant is coal, which is supplied to the Project by the Kennecott Energy Company and mined in Campbell County, Wyoming. As operator of the Unit, CLECO has the responsibility to represent the other Owners in connection with fuel supply and associated contracts. The original contract was executed in 1973 by CLECO and since that time has been renegotiated several times, the most recent of which was signed in December 2002. The result of this latest renegotiation was confirmation of a new two-year letter agreement which terminates December 31, 2004.

Louisiana Intrastate Gas Corporation

Louisiana Interstate Gas ("LIG") is the supplier of natural gas for generation of electricity. The contract with this supplier has a one-year term with the option of automatic renewal. The contract was due to expire April 1, 2004, however, LUS exercised the option to extend the contract an additional year in order to lock gas volumes and prices beyond April 30, 2004. Therefore, the current contract is due to expire April 30, 2005. Contractually, there is a requirement for LUS to nominate daily

requirements one week prior to the beginning of each month. Coupled with the nomination requirement is a daily true-up of the actual volumes purchased vs. nominated volumes. In the event LUS purchased less than the nominated volume of gas, LIG would sell the difference into the market at the current sales price. The contract contains a 3,000,000 MMBtu minimum annual requirement that LUS must purchase.

Gas Pipeline

LUS owns one ten mile, 10-inch gas pipeline which connects to Texas Gas and Columbia Gulf pipeline systems. The LUS owned gas pipeline also crosses (but is not interconnected with) two other gas pipelines, Florida Gas and Gulf South. The LUS-owned gas pipeline offers an alternative means of supplying gas to the Bonin plant in lieu of the above gas supply contract with LIG.

A summary of the contracts and agreements is provided in Table 5-12.

Table 5-12
Contracts and Agreements

Contracts & Agreements Between		Date Signed/Renewed	Termination Date	Provisions
LCG	LPPA	May 1, 1997	End of useful life	Purchase of power from LPPA's 50 percent share in Rodemacher Unit 2.
LCG	SPA	January 1, 1994	December 31, 2003	
LCG	LEPA	June 28, 1985	December 31, 2005	LUS sells power and energy to LEPA.
LCG	Entergy Gulf States	October 1, 1984	October 1, 2015	Interconnection agreement for delivery of power.
LCG	CLECO	1991	August 29, 2016	Interconnection agreement for delivery of power.
LUS	Louisiana Generating	May 23, 1983	upon 3 year notice	Interchange agreement for electric transmission.
LUS	Entergy Louisiana	October 6, 1988	upon 18 month notice	Interchange agreement for electric transmission.
LUS	SWEPCO	May 1, 1994	upon 45 days notice	Interchange agreement for electric transmission.
LPPA	CLECO, LEPA	November 1, 1982	end of useful life	Joint ownership of Rodemacher Unit 2.
CLECO	Kennecott Coal	December 31, 2002	December 31, 2004	Purchase of coal for Rodemacher Unit 2.
LUS	LIG	July 25, 2003	April 30, 2005	Supply of natural gas for Bonin Units.

Source: R. W. Beck, Previous CER. Ron Gary, LUS 2/1/04.

Load Forecasts

Load forecasts for the electric system for the five-year period of 2003 through 2008 are presented below. The forecasts reflect the current assessment of expected load growth for the period. The actual electric quantities for fiscal year 2003 and the

forecasts of system, off-system and total electric power and energy requirements for 2003 through 2008 are shown in Tables 5-13 and 5-14 below.

Table 5-13
Electric System
Projected Energy Requirements

Fiscal Year Ending October 31	Total Retail Sales [1] (MWh)	Total Wholesale Sales [2] (MWh)	Total Requirements (MWh)
2003 (Actual)	1,740,094	268,379	2,008,473
2004	1,884,068	269,760	2,113,828
2005	1,883,113	269,760	2,152,873
2006	1,921,611	239,888	2,161,499
2007	1,959,154	0	1,959,154
2008	1,995,531	0	1,995,531

[1] Retail sale projections based on previous CER values.

[2] Based on wholesale contract requirements.

Source: FcstValues.xls, Steven Derouen, LUS 2/1/04

Table 5-14
Electric System
Projected Peak Power Requirements

Fiscal Year Ending October 31	LUS System (MW)	Off System[1],[2] (MW)	Total (MW)
2003 (Actual)	402	61	463
2004	413	61	474
2005	422	61	483
2006	431	0	431
2007	440	0	440
2008	449	0	449

[1] Off-System sale projections based on previous CER values.

[2] Based on wholesale contract requirements.

Table 5-15 provides a comparison of electric loads versus resources, expressed in megawatts, for LUS. This reflects the demand requirements of retail sales, sales for resale, and a reserve requirement equal to 18 percent of demand.

Table 5-15
Electric System Comparison
Total Demands and Resources (MW)

	REQUIREMENTS		RESOURCES [3]					
Year Ending October 31	Total Demand	Demand Plus Reserves[1]	Gas-Fired Generation	Coal-Fired Generation	Natchitoches Generation	SPA Peaking	Total	Surplus/ Deficit [2]
2003	463	546	302	246	0	18	566	20
2004	474	559	302	246	0	18	566	7
2005	483	570	302	246	0	18	566	(4)
2006	431	509	302	246	0	18	566	57
2007	440	519	302	246	0	18	566	47
2008	449	530	302	246	0	18	566	36

(1) Reserves are 18 percent of the demand.

(2) Capacity deficits are offset with purchased power as required.

(3) Resource projections based on previous CER values.

Source: FcstValues.xls, Steven Derouen. LUS 2/1/04

The above table indicates that projected electric requirements exceed resources beginning in 2003. Based on the electric integrated resource plan, LUS is formulating actions to address this and similar issues relating to capacity and energy production capabilities. LUS has indicated capacity deficits will be offset with purchased power.

System Improvement Program

LUS established a system improvement program called Capital Improvement Program ("CIP") in 1989. The program is a five-year "look ahead," and is revised annually to plan for and manage the major capital projects for the electric system.

We recommend that LUS review and continue to improve the management of the CIP, including the cost and schedule estimation and control processes. Schedules and the estimated costs of each project should be refined as the project moves from conceptual design to detailed construction design. This will allow a detailed budget and schedule to be established two to six months prior to commencing the project.

The estimated annual capital budget requirement amounts are shown in Table 5-16 and were obtained from LUS' capital budget October 2003.

Two major generation additions are planned for 2005. The new generation will consist of the installation of two LM6000 combustion turbines at both the North and South Sites. The total capacity to be added is nominally 100 MW at the South and 100 MW at the North sites.

Future improvements to the electric distribution system include upgrading of circuit protection, replacing poles, line extensions, re-conductoring, and construction of new circuits, feeders and ring buses.

Substation improvement projects include completion of the Gillman substation circuit ties. A new distribution substation is planned for the Luke Street area. Two new

switching stations are planned to coincide with the addition of generation to the system. This includes a 230 kV switchyard at the North site and a 69 kV switchyard at the South site.

The estimated requirements for improvements to the electric department through October 31, 2008 are summarized in the following table. Each year, as the City revises its five-year CIP for the Utilities System, the priorities for each of the work items are re-examined by the managers, giving consideration to improvements then in process, and to the developing patterns of growth in the area to be served by the City. This review process needs to be improved in order that priorities and costs are established that which are more manageable, and therefore, budget planning becomes an accurate reflection of reality.

Table 5-16
Estimated Annual Capital Requirement Appropriations
Electric System Improvements ($000)

Year Ending October 31	Production	Transmission	Substation/ Distribution	Distribution	General	Telecom	Total
2004	$123,330	$850	$1,925	$2,718	$7,375	$1,700	$139,398[1]
2005	$80	$343	$896	$1,343	$4,055	$400	$7,117
2006	$30	$870	$300	$200	$50	$400	$1,850
2007	$30	$580	$250	$100	$10	$300	$1,270
2008	$30	$100	$100	$100	$10	$300	$640
Total	$123,500	$2,743	$3,471	$4,460	$11,500	$3,100	$150,274[1]

[1] Total includes $1.4 million for acquisition in 2004. There are no anticipated capital improvements for the customer acquisitions department beyond 2004.

Source: LUS Capital Budget 2003.

Recommendations

Recommendations and their status are provided in Table 5-17 below. We have indicated the priority of the recommendation as either highest, high or normal.

Table 5-17
Recommendations

Electric Utility	Priority	Status
We recommend LUS continue its efforts to investigate new power supply additions for the future.	High	In Progress
We recommend LUS continue the development of a comprehensive operator training program.	High	In Progress
We recommend LUS continue to evaluate plant-staffing levels and compensation plans.	Normal	In Progress
We suggest that LUS continue transmission and distribution personnel training and retention efforts.	Normal	In Progress
LUS should continue use of microprocessor relays in lieu of electromechanical relays.	Normal	In Progress
LUS should continue its 2003 progress of testing generator and other equipment electro-mechanical protective relays at the Bonin plant through coordination between plant personnel and the LUS transmission and distribution section personnel.	Normal	In Progress
We suggest LUS continue the implementation and maintenance of a spare parts and inventory control system.	Normal	In Progress
LUS should continue its implementation and expansion of the preventative and predictive maintenance programs currently in place.	Normal	In Progress
We recommend implementation of an equipment specific performance monitoring program.	Normal	Investigating
We recommend LUS determine the actual heat rate versus output relationship for each unit. The Bonin Plant reports that the project to install energy metering/upgraded gas yard controls of the incoming gas supply is almost complete. This metering and controls, which is connected to input signals from unit specific fuel flow and generation signals, will provide the actual heat rate versus output relationships forming the basis for economic dispatch and allow the on-line measurement of individual unit heat rates.	Normal	In Progress
LUS should proceed with plans to repaint the externals of the Bonin Plant Units 2-3.	Normal	Investigating
We recommend LUS continue frequent monitoring of the 138/230-kV CLECO tie transformer T5.	Normal	In Progress
We recommend that in the transmission and distribution functions, LUS should continue to review OSHA requirements and or APPA safety guidelines and pursue ongoing training programs for linemen and foremen.	Normal	In Progress

Section 6
WATER UTILITY

Water Utility System

This section of the Report sets forth the changes that have occurred to the water system of LUS during fiscal year 2003. A description and discussion of existing facilities and resources, and summaries of historical service requirements, are presented in the following pages of this section.

During February 2004, the Consulting Engineer interviewed LUS staff regarding water utility operations and performed analyses of operating statistics that are indicative of the general operating condition of LUS' water utility facilities.

Key Challenges, Issues, and Goals

The following are challenges and key issues for the water utility that LUS has identified: they are related to security, new water quality regulations, new requirements for certification, succession planning and business continuity issues.

The water utility needs to construct capital improvements at water facilities to protect the water system against deliberate, targeted attacks as identified in an evaluation of the water utility system required by the Bioterrorism Act.

There is no immediate impact of water regulations already promulgated or under development. LUS continues to monitor legislative activities regarding water regulations both at the federal and state level.

The main issue relating to the new certification requirements is that candidates applying for Water Plant Operator vacancies must attain full certification within four years of appointment. A careful review of the certification requirements suggests that applicants must have two full years of college to meet this four year deadline. However, LUS' current pay scale does not appear attractive to candidates with two years of college. The LUS hiring rate for new Water Plant Operators may need to be adjusted to attract and retain skilled and certified operators. Further, the Civil Service position description must be changed to reflect these new requirements.

Coupled with the new certification requirements, the water utility has several key employees that are nearing retirement based on either years of service or age-eligibility.

Additions to Plant

The expenditures for fixed plant and equipment made during fiscal year 2003 are presented in Table 6-1. LUS accounts for such expenditures by using a capital work order system. All extensions or improvements made to the water system are considered economically sound or otherwise necessary for the profitable operation of LUS.

Table 6-1
Capital Workorder Expenditures
For Fiscal Year 2003

Source of Funds	Water Utility
Normal Capital/Special Equipment	$1,425,769
Special Capital	0
Retained Earnings	$ 2,829,768
TOTAL	$4,255,537

Source: "Status of Construction Workorders" by Acct. Dept. Oct. 2003
Joan Parish, LUS 2/04

System Operation and Maintenance Expenditures

Historical annual Operation and maintenance expenditures from 1994 through 2003 are shown in Table 6-2 and graphically on Figures 6-1 and 6-2. The average annual percentage growth in operation and maintenance expenses is 3.4 percent for operating costs and 5.2 percent for maintenance costs. Both the amount of investment in facilities and inflation influence the amount of operation and maintenance expense incurred.

Table 6-2
Annual Water System Operation and Maintenance Expense ($)

Year Ended October 31	Operation	Maintenance	Total
1994	$4,091,905	$658,408	$4,750,313
1995	4,421,704	780,350	5,202,053
1996	4,113,916	850,581	4,964,497
1997	4,420,246	772,946	5,193,192
1998	4,437,304	716,663	5,153,967
1999	4,650,505	779,141	5,429,646
2000	4,991,001	815,534	5,806,535
2001	4,889,916	879,604	5,769,520
2002	5,179,088	953,118	6,132,207
2003	$5,740,559	$1,091,875	$6,832,434

Source: LUS Financial and Operating Reports, 1994 through 2003

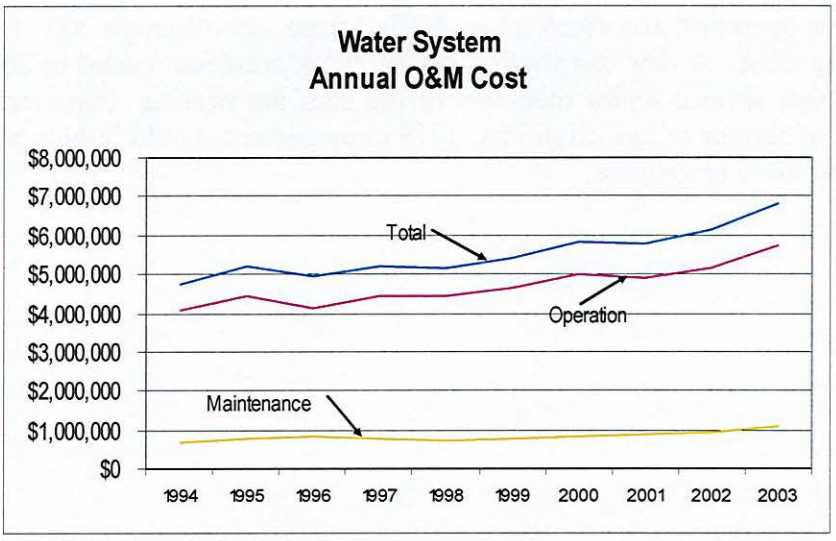


Figure 6-1: Water System Annual O&M Cost

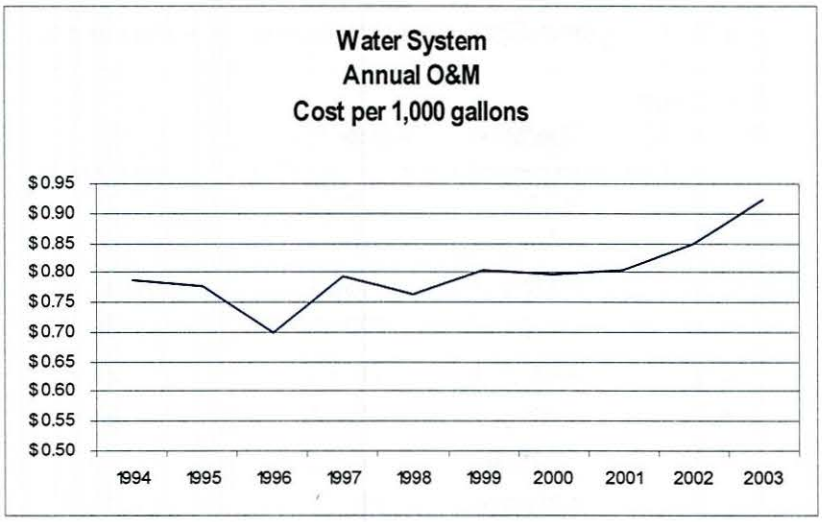


Figure 6-2: Water System Annual O&M (Cost per 1,000 gallons)

System Staffing

Water system operation and distribution staffing from 1994 through 2003 is shown on the following table. A new distribution system work crew was added in 2003. R. W. Beck notes that several senior members of the staff are nearing retirement based on either years of service or age-eligibility. LUS management should initiate planning for succession of these employees.

Table 6-3
Water System Personnel Authorization

Year	Operations	Distribution	Total
1994	25	38	63
1995	29	41	70
1996	25	40	65
1997	21	33	54
1998	21	34	55
1999	22	35	57
2000	22	32	54
2001	21	33	54
2002	22	35	57
2003	22	39	61

Source: LCG Personnel Authorization Table and Strength Report 1994-2003

Water System

The following discussion summarizes the findings of the Consulting Engineer with respect to the general condition of the property based upon discussions with utility supervisory personnel and information supplied by LUS' personnel.

The Chicot underground aquifer is the sole source of water supply for LUS. The LUS Water Operations Division has joined with the Louisiana Department of Environmental Quality ("LDEQ") to implement a wellhead protection program for the City's water supply. The LUS Water Operations Division has identified potential contamination sources within the wellhead protection areas and LDEQ is available to take appropriate action to assure contamination is prevented.

The Water System includes 17 wells serving the system with a combined production capacity of 47.7 million gallons per day (mgd). In addition, the water system includes two water treatment facilities (the North Plant and the South Plant) which provide for removal of iron and manganese by coagulation, sedimentation and filtration; hardness reduction by a lime-softening process; and chlorination. During 2002, LUS completed construction of Well No. 23 located in the southern portion of the water system. The 1,000 gpm well is intended to meet peak demand in the weakest portion of the distribution system and is anticipated to reduce the occurrence of low pressures in the area it serves. Minimal water treatment is provided; only chlorination and phosphate addition. Well No. 23 began production January 1, 2003.

The present treatment capacities of both plants and Well No. 23 are shown below in Table 6-4. Although the two plants alone are each capable of producing over 20 mgd of treated water, the total amount of water that can effectively be delivered to customers is constrained by the capability of the distribution system to deliver the

water at an acceptable pressure. At 90 pounds per square inch ("psi"), the total effective production capability is estimated by LUS to be 26.7 mgd.

In 2003, LUS completed the last phase of construction of large diameter (16" and 24" pipe) water pipe from the South Water Plant to the southern portion of the distribution system, connecting in the near vicinity to water well No. 23. This transmission project will further strengthen and provide reliability to this portion of the water distribution system. The water main will also serve as a connection point for wholesale water sales and other potential future extensions.

Table 6-4
Plant Treatment Capacity

	(mgd)
North Plant	21.5
South Plant	24.0
Well No. 23	1.4
Total Effective Production Capability	26.7 (1)

(1) at pressure of 90 psi

Treated water storage totals approximately 12.2 million gallons (mg); this includes 4.3 mg of elevated storage and 7.9 mg of ground storage, including pumping station wet wells.

LUS has increased the security of its water system by stationing armed, uniformed Sheriff's Department personnel at each water plant 24 hours per day, seven days per week. Security cameras with recorders have been installed at the treatment plants. LUS staff has been provided training in emergency planning and reaction that is integrated with ongoing programs for hurricane emergency response.

Wholesale Water Sales

In addition to the facilities owned by LCG, LUS operates and maintains the water distribution facilities of certain water districts in accordance with contracts between LCG and the districts. LUS also provides wholesale water service to several water districts and municipalities within the Parish. During 2003, water delivered to wholesale customers amounted to 16.2 percent of the water sold by LUS and 14.5 percent of the revenue. The difference is attributed to the difference between water rates for wholesale and retail service. Table 6-5 shows wholesale water sales by year for the last five years. Table 6-6 shows wholesale water revenue for the same years.

Table 6-5
Wholesale Water Sales Volumes (000 gallons)

	1999	2000	2001	2002	2003	% Increase [1]
Town of Scott	260,797	255,737	283,278	267,036	264,836	2.8%
Water District North	290,168	307,054	330,563	386,512	291,577	-3.1%
City of Broussard	51,754	66,090	89,482	61,997	63,555	7.8%
Longbridge	5,499	3,603	0	0	0	-
Water District South	160,386	226,881	227,199	229,469	210,295	7.8%
Milton Water System	9,935	5,742	99,313	104,944	109,700	5.1%
Town of Youngsville				0	62,478	-
Water District North – Wholesale	0	1,563	64,257	72,069	147,668	51.6%
Total Wholesale Water Sales	778,539	866,670	1,094,092	1,122,027	1,150,109	2.5%
Total Water Sales (Wholesale and Retail)	6,563,358	7,110,008	7,054,947	7,000,293	7,111,918	0.4%
% of Total Water Sales from Wholesale Sales	11.9%	12.2%	15.5%	16.0%	16.2%	

[1] Average based on representative years

Source: LUS Financial and Operating Statement , October 2002

Table 6-6
Wholesale Water Sales Revenue ($'s)

	1999	2000	2001	2002	2003
Town of Scott	$332,372	$326,310	$335,506	$343,443	$335,133
Water District North	600,073	706,213	680,289	733,711	608,124
City of Broussard	65,797	87,862	96,279	75,793	79,443
Longbridge	9,815	5,092	0	0	0
Water District South	204,313	272,342	281,174	285,446	255,237
Milton Water System	15,533	96,160	111,490	134,882	131,314
Town of Youngsville				0	78,096
Water District North-Wholesale	0	3,070	89,640	91,396	182,594
Total Wholesale Water Sales	$1,227,903	$1,497,049	$1,594,378	$1,664,671	$1,669,941
Total Water Sales	$10,647,109	$11,371,906	$10,891,026	$11,292,975	$11,545,449
% of Total Water Sales from Wholesale Sales	11.5%	13.2%	14.6%	14.7%	14.5%

Unbilled Water Volumes

During the past ten years, LUS' operating results have at times shown a significant amount of unaccounted-for water. Data for the period 1994 through 2003 are summarized in Table 6-7.

Table 6-7
Unbilled Water Volumes

Year	Percent Unaccounted-For
1994	8
1995	12
1996	16
1997	7
1998	2
1999	2
2000	2
2001	2
2002	3
2003	4

Source: LUS Financial and Operating Statement, October 2003

LUS' operating statistics show that unaccounted-for water since 1998 has averaged approximately 2 percent annually which is well below the average for similar water systems. Discussion with LUS staff have concluded that the reason for the decrease in unaccounted for water compared with previously high values is not apparent and implies that the accuracy of the data may be suspect. An audit of water production, distribution and sales will be performed during the first half of 2004.

Drinking Water Quality

LUS, in response to the requirements of the Safe Drinking Water Act, must prepare and distribute an annual water quality report to its customers. The Water Quality Report includes results of periodic monitoring of the quality of water distributed to LUS customers. The following Table 6-8 summarizes monitoring results for the year 2002, which was the most recent report available at the time of this Report.

As shown on the table, all monitoring results show LUS water quality to be well within the regulatory limits. Biological water quality is also monitored throughout the system although it is not required to be reported in the annual report.

Table 6-8
Water Quality Results

Monitored At Customer's Tap

Substance	EPA Designated Action Level	LUS Test Results
Copper	1.3 parts per million (ppm)	0.1 ppm or less

Monitored in the Water Distribution System

Substance	Maximum Contaminant Level	Maximum Contaminant Level Goal	LUS Average	LUS Range Minimum - Maximum
Total Organic Halides	Not regulated	---	Less than detection limit	ND – 0.86 ppb
Total Chlorine Residual	Not regulated	---	1.09 ppm	0.7 - 1.39 ppm
Total Trihalomethanes	100 ppb	N/A	9.42 ppb	1.1 - 22 ppb
Haloacetic Acids	Not regulated	---	1.11 ppb	ND - 5.7 ppb
Haloacetilenitriles	Not regulated	---	1.21 ppb	ND - 2.4 ppb

Monitored Before Any Treatment

Substance	EPA Designated Contaminant Level	EPA Designated Maximum Contaminant Level Goal	LUS Average	LUS Range Minimum - Maximum
Fluoride	4.0 ppm	4.0 ppm	0.133 ppm	0.2 - 0.3 ppm
Antimony	6.0 ppb	6.0 ppb	Less than detection limit	ND - 2 ppb
Gross Alpha Activity	15 picocuries /L	0	1.50 picocuries /L	ND - 3 picocuries/L
Gross Beta Activity	50 picocuries /L	0	1.33 picocuries /L	ND - 4 picocuries/L
Thallium	2 ppm	0.5 ppb	Less then detection limit	ND - 2 ppb
Nitrates	10 ppm	10 ppm	0.02 ppm	ND - 1 ppm

Source: Water Quality Report 2002, LUS.

ND = not detected, ppm = parts per million, ppb = parts per billion, L = liter.

Historical Water Utility Requirements

LUS' water utility has met customer demands for service, and provided its customers with adequate and reliable utility service during the reporting period. The historical water production and growth is presented in Table 6-9.

Water System Production

The growth rate in water production has been approximately 2.0 percent per year while annual growth in the number of customers was 1.8 percent. In addition to annual requirements, peak day production requirements are also provided in Table 6-9.

LUS' water distribution system consists of 954.4 miles of pipe, most of which is in the 6-inch to12-inch diameter range. This represents an increase in total miles of pipe of

1.4 percent above the year 2002 amount. The distribution system includes 18,495 valves and 5,686 fire hydrants.

Table 6-9
Historical Water System Production

Fiscal Year Ended October 31	Number of Customers [1]	PRODUCTION		
		Annual (million gallons)	Annual (mgd)	Peak Day (million gallons)
1994	38,110	6,039	16.5	21.2
1995	39,293	6,698	18.4	24.9
1996	40,327	7,103	19.4	25.1
1997	41,016	6,536	17.9	26.2
1998	41,886	6,761	18.5	24.1
1999	42,673	6,754	18.5	25.1
2000	44,220	7,294	19.9	26.5
2001	44,339	7,159	19.6	23.2
2002	44,444	7,237	19.6	24.4
2003	45,720	7,392	20.3	25.7

(1) Number of meters in service

Source: LUS Financial and Operating Statements and LUS Water Production Division – 1994-2003

Total water production is shown in Figure 6-3.

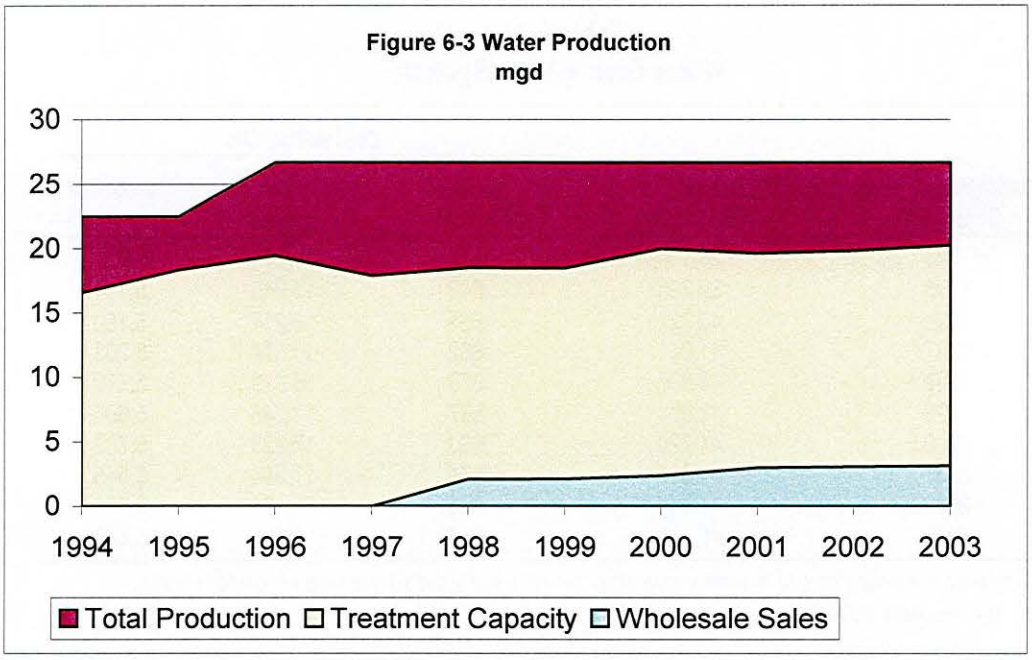


Figure 6-3: Water Production (million gallons per day)

As shown in Figure 6-3 above, total water production since 1997 has increased only slightly while wholesale sales have steadily increased its share of total water production. Total retail water sales volume (i.e. sales to retail customers) has increased slightly since 1997 but the volume of water sold per retail customer has declined from 371 gallons per day in 1999 to 357 gallons per day in 2003 which is a decrease of 3.7 percent.

Table 6-10 illustrates the historical trends in key water distribution system statistics. Generally, the increase in miles of line, valves, and hydrants has paralleled or slightly lagged the increase in customers. The rate of increase for these statistics has been 1.8 percent, 2.1 percent, 1.5 percent and 2.1 percent respectively.

Table 6-10
Water Distribution System

Fiscal Year Ended October 31	Number of Customers	DISTRIBUTION		
		Miles of Main Lines	Number of Valves	Number of Hydrants[1]
1994	38,110	832	15,679	5,056
1995	39.295	842	15,945	5,114
1996	40,327	851	16,216	5,150
1997	41,014	862	16,514	5,203
1998	41,886	873	16,919	5,579
1999	42,671	887	17,249	5,634
2000	44,220	930	17,623	5,702
2001	44,339	934	17,954	5,545
2002	44,444	941	18,161	5,605
2003	45,725	954	18,495	5,686

(1) Decrease is due to accounting for hydrants removed from service, primarily due to water system relocation projects.

Source: Don Broussard, LUS 2/5/03.

Contracts and Agreements

Contractual arrangements between LCG and other entities (both water districts and municipalities), which own or operate water utility properties, currently represent 14.5 percent of LUS' annual water revenues. Features of these contracts are discussed below. LCG has executed agreements with two water districts: Water District North and South. Water service to Water District North customers is billed by LCG in the name of the Water District North consistent with the applicable rate schedules. The North and South Water District construct their own additions and extensions according to standards set by LUS.

Water District North

LCG and Lafayette Parish Water District North amended their existing water agreements by entering into a new water agreement (the "Water District North Agreement") in October of 2002. The Water District North Agreement includes the following provisions. Water sales to Water District North amounted to 6.8 percent of total water sales revenue for the reporting period.

- LCG shall furnish potable water to the entire District and operate and maintain all District water distribution facilities except those specifically excluded by the Water District North Agreement;
- LCG shall construct a water production facility in the northwest region of Lafayette Parish and place it in operation within 12 months of purchasing the site;
- Plans and specifications for District facilities that LCG is obligated to operate and maintain must be approved by LCG as conforming with LCG material and construction standards;

- LCG shall provide meter reading services and customer billing services for all Water District North retail and wholesale meters in accordance with the rate schedule adopted by the Water District North;
- The Water District North Agreement establishes the rates to be charged to the Water District North for retail and wholesale water customers and provides that LCG rates are to be based upon generally accepted utility rate making principles and provides that the rates be recalculated biennially beginning in 2003 as described in the Agreement;
- In the event that an area within the Water District North is annexed to LCG, the District properties within the new corporate boundaries shall be sold to LCG by the Water District North upon request by LCG. Calculation of the payment for acquiring the Water District North's properties is described in the Water District North Agreement;
- The Water District North Agreement provides for resale of wholesale water by the Water District North to a third party including a requirement for a wholesale water agreement among the Water District North, LCG and the parties involved; and
- The Water District North may purchase wholesale water from third parties provided water supplied by the third party is supplied by LCG.

Term of the Agreement is 30 years with provisions for automatic five year extensions upon agreement by both parties.

Water District South

This district serves the southern portion of Lafayette Parish, which is neither currently incorporated as a municipality nor included in another water district. LUS' water sales to the Water District South represent approximately 2.2 percent of the total LUS water revenues for the reporting period.

The wholesale service agreement with Water District South was signed in August of 1995 and terminates in August 2035. The agreement provides for delivery of wholesale water to the Water District South's distribution system. Revenues for water service are billed and collected by the Water District South. LUS provides operational assistance.

Other Wholesale Water Contracts

LCG has also entered into contracts to provide wholesale water service to the following entities.

- LCG sells water to the City of Scott, Louisiana, for distribution and resale under a 25-year contract, which terminates May 27, 2022. Water is delivered to the City of Scott at several interconnection points. Water sales to the City of Scott represent approximately 2.9 percent of total LUS water sales revenues for the reporting period.

- LCG may sell water to the Town of Youngsville, Louisiana for distribution and resale under the provisions of a contract effective on December 24, 1998 with a term of 40 years. Water sales to the Town of Youngsville in 2003, the first year in which such sales occurred, represent 0.7 percent of LUS water sales revenue.
- LCG and the City of Broussard, Louisiana signed a forty-year water supply contract, which expires on March 5, 2038. Water sales to the City of Broussard represent approximately 0.7 percent of the total LUS water sales revenues for the reporting period.
- LCG serves the Milton Water District under a 40-year contract signed April 28, 1997. Water sales to Milton represent approximately 1.1 percent of the total LUS water sales revenues for the reporting period.

A summary of the contracts and agreements for the water utility is provided in Table 6-11 below.

Table 6-11
Contracts and Agreements
LUS Wholesale Water Sales

Contracts and Agreements	Date Signed/Renewed	Termination Date
Water District North Consolidated Contract	October 17 2002	October 17, 2032
Water District South	August 21, 1997	August 21, 2035
City of Scott	May 27, 1997	May 27, 2022
Milton Water District	April 28, 1997	April 28, 2037
City of Broussard	March 5, 1998	March 5, 2038
Town of Youngsville	December 24, 1998	December 24, 2038

Source: Ron Gary. LUS, 1/30/03

Forecasts

Forecasts of water use for the water system for the five-year period of 2004 through 2008 is presented below in Table 6-12. The forecasts reflect the current assessment of expected growth for the five year period.

Table 6-12
Water System
Projected Requirements

Fiscal Year Ending October 31	PRODUCTION REQUIREMENTS[1]	
	Daily mgd	Peak mgd
2003 (Actual)	20.3	26.3
2004	20.7	25.8
2005	21.1	26.0
2006	21.5	26.5
2007	22.0	26.9
2008	22.4	27.3

[1] Includes unaccounted-for volumes.

LUS has completed a System Development Plan that is intended to provide a basis for long term planning of the water utility system.

Although system growth is projected to grow incrementally, experience has shown that a block of new customers can be added to the system with little or no notice, resulting in a sudden increase in demand. This occurred recently when the Holiday Garden area was added to the LUS system following bankruptcy of the water system operator that was established by the real estate developer. There is a possibility that similar circumstances can occur in the future with similar results.

LCG has adopted a water ordinance to assist in reducing occurrence of low pressure in the water distribution system. The ordinance is directed at reducing peak system demand by restricting watering of lawns to the hours between midnight and 2 p.m. every other day. Enforcement of the ordinance began in August of 2001. LCG's ordinance requires wholesale customers to enact similar restrictions or be subject to restrictions on supply of water by LUS during the midnight to 2 p.m. time period. This ordinance is in effect from May 1 to September 30 of each year.

Bioterrorism Act

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

LUS began work on the required Vulnerability Assessment late in 2002 and completed it in early 2003. Full compliance with the Bioterrorism Act was attained early in 2003. LUS is using the results of its Vulnerability Assessment to plan for and implement improvements to its water system to enhance security.

Future Regulatory Requirements

The Safe Drinking Water Act ("SDWA"), passed in 1974 and amended in 1986 and 1996, gives the EPA the authority to set standards to protect drinking water. EPA has delegated responsibility for implementing drinking water standards to the Louisiana Department of Health and Hospitals.

There are two categories of drinking water standards: primary and secondary. Primary standards are legally enforceable standards that apply to public water systems. Primary standards protect drinking water quality by limiting the levels of specific contaminants that are known or anticipated to occur in water. Secondary standards are non-enforceable guidelines regarding contaminants that may cause cosmetic or aesthetic effects. Primary standards go into effect three years after they are finalized. If capital improvements are required, EPA's Administrator or a state may allow this period to be extended up to two additional years.

New and proposed rules and standards, listed below in Table 6-13, are in various stages of development and publication.

Table 6-13
New and Proposed Rules

Rule/Regulation	Compliance Date	Comments
Filter Backwash Recycling Rule	June 2005	Specifies provisions for recycling of filter backwash
Arsenic Rule	January 2006	Establishes maximum contaminant level of 0.01 mg/L for arsenic in drinking water

LUS is aware of these regulations and has or will incorporate the requirements into current and future operations. Compliance with the regulations is not anticipated to require major capital expenditures.

The EPA upgraded water treatment plant operator certification requirements on February 5, 1999 upon publication of "Federal Guidelines for the Certification and Re-certification of the Operators of Community and Non-transient Non-community Public Water Systems." The State of Louisiana in April of 2002 implemented these guidelines and changed the Louisiana Administrative Code Title 48; Chapter 73 entitled "Certification." The changes will require LUS to upgrade the qualifications of its water treatment plant operators by April of 2006. This could result in higher wages for operators although the magnitude of any increase is not known at this time. We recommend that LUS consider developing an operator certification (and re-certification) program.

System Improvement Program

LUS established a system improvement program called Capital Improvement Program ("CIP") in 1989. The program is a five-year "look ahead," which is revised annually and is a means to plan for, and manage, the major capital projects for all utility divisions, including water.

The estimated annual capital budget requirement amounts are presented in Table 6-15 and were obtained from LUS' Capital Outlay Plan adopted for fiscal year 2003-2004.

Major improvements and additions to the water system for the next five-year period include:

- North Plant Filter Modifications;
- Water Transmission System Improvements;
- New Booster Supply Well;
- Downtown Street Improvements; and
- Various line relocations.

The installation of additional wells and construction of piping improvements are intended to improve distribution of water into the system and reduce occurrences of low system pressure.

Table 6-14
Capital Outlay Plan
Water System Improvements ($000)

Year Ending October 31	Water Production Improvements	Water Distribution Improvements	Totals
2003	$2,600	$1,325	$3,925
2004	100	1,225	1,325
2005	175	100	275
2006	450	100	550
2007	100	100	200
Total	$3,425	$2,850	$6,275

Source: LUS 5 Year Capital Outlay Plan FY 02-03 Adopted Budget

Key Issues

LUS' Strategic Plan, updated in 2002, addresses the following areas;

- Vision, Values and Mission;
- Goals and Key Results Areas;
- Cost Containment;
- Customers and Community;
- Operations; and
- Performance.

Strategic planning elements for each of these areas that are specific to the water utility are listed below.

Cost Containment

- Continue Risk Management chlorine training for LUS personnel; and
- Review operation standards of other w/ww service providers for planning and feasibility.

Customers and Community

- Continue to pursue APPA/WEF/AWWA services: information, lobbyists.

Operations

- Develop a more interactive database for storing hydrant maintenance information;
- Install pressure limiting devices at master metered locations;

- Input meter and valve location data into GIS using a Global Positioning Device;
- Filter rehabilitation at North Water Treatment Plant;
- Implement safety and security upgrades;
- Develop additional water supply project in northwest Lafayette Parish;
- Maintain progress in implementing planned water utility capital projects;
- Maintain active involvement in water planning organizations and trade associations;
- Maintain active involvement in legislative development;
- Maintain compliance with drinking water regulations;
- Conduct a formal water loss audit;
- Plan and implement selected recommendations of RW Beck CER;
- Operate within approved budget; and
- Perform and document water distribution valve exercising program.

Performance Measurement

- Benchmark water/wastewater against AWWA/WEF indices;
- Investigate water/wastewater safety issues & establish benchmarks; and
- Benchmark water/wastewater against AWWA/WEF indices.

Recommendations

Recommendations and their status are provided in Table 6-15 below. We have indicated the priority of the recommendation as either highest, high or normal.

Table 6-15
Recommendations

Water Utility	Priority	Status
We recommend LUS give priority to constructing booster wells in low pressure areas of system to improve system pressure.	Highest	Investigating
We recommend LUS continue to develop in-house expertise with use of water system model and acquire a system capable of modeling time of travel and concentration of introduced pollutants.	Highest	Investigating
LUS should consider the following additions to its system to increase system reliability and integrity: ■ Install additional emergency electric generators at the North Plant, ■ Install emergency electric generators at all water supply wells ■ Install piping at the North and South Plants to allow emergency bypass of treatment units, ■ Install roofing and covers over the North Treatment Plant treatment units, sludge tanks, backwash tanks and meter pit ■ Construct building enclosures of all off-site water wells	Highest	In Progress
We recommend LUS give high priority to completing removal of the "Galbestos" building siding at the North Plant	High	In Progress
LUS should consider developing an operator certification (and re-certification) program.	Normal	Investigating
LUS should initiate succession planning for senior water system management staff	Normal	Investigating

Section 7
WASTEWATER UTILITY

Wastewater Utility System

This section of this Report sets forth the changes that have occurred to the wastewater system of LUS during fiscal year 2003. A description and discussion of existing facilities and resources, and summaries of historical service requirements, are presented in the following pages of this section.

During February of 2004, the Consulting Engineer interviewed LUS staff regarding wastewater operations and performed analyses of operating statistics that are indicative of the general operating condition of LUS' wastewater facilities.

Additions to Plant

Table 7-1 provides expenditures, for fixed plant and equipment were made during fiscal year 2003. LUS accounts for such expenditures by using a capital work order system. All extensions or improvements made to the wastewater system are considered economically sound or otherwise necessary for the profitable operation of LUS.

Table 7-1
Capital Workorder Expenditures for Fiscal Year 2002

Source of Funds	Wastewater Utility
Normal Capital/Special Equipment	$ 1,476,223
Special Capital	28,072
Retained Earning	$ 7,090,403
Total	$ 8,594,698

Source: Status of Construction Workorders, October 2003

Operation and Maintenance Expenditures

Historical total operation and maintenance expenditures from 1994 through 2003 are shown on Table 7-2. Operating expense as tabulated includes customer service, billing, and collecting and information services. Maintenance expenses for treatment plants increased by an average annual percentage growth rate of 14.5 percent while

collection system maintenance costs increased by an average of 2.7 percent. Total cost for operation and maintenance increased at an annual rate of 3.9 percent. Both the amount of investment in facilities and inflation influence the amount of maintenance expense incurred. Although the increase in maintenance costs for treatment plant was high, the dollar amount of the expenditures was low compared with collection system maintenance costs. At the same time, the total investment in treatment plant facilities has greatly increased over the last ten years.

Table 7-2
Annual Wastewater System Operation and Maintenance Expense

	Operation	Maintenance		
Fiscal Year Ended October 31	Collection and Treatment (1)	Collection	Treatment	Total
1995	$6,038,799	$814,734	$44,431	$6,897,964
1996	5,871,163	961,526	49,627	6,882,316
1997	6,279,011	947,445	58,283	7,284,739
1998	6,214,795	840,815	90,665	7,146,275
1999	6,549,154	931,017	105,296	7,585,467
2000	6,817,137	1,052,931	109,496	7,979,564
2001	7,461,224	1,068,892	123,465	8,653,581
2002	7,978,676	946,171	113,780	8,980,190
2003	$8,541,854	$1,032,366	$150,682	$9,724,902

Source: LUS Financial and Operating Statements 1995-2003

(1) Includes customer service, billing, collecting, information services

Wastewater System

The following discussions summarize the findings of the Consulting Engineer with respect to the general condition of the properties based upon discussions with utility supervisory personnel and information supplied by LUS personnel.

The four principal wastewater treatment facilities are the South Plant, the East Plant, the Ambassador Caffery Parkway Plant, and the Northeast Plant. The four treatment plants, the type of treatment, the permitted capacity, and the estimated capacity for each facility are shown in Table 7-3.

Table 7-3
Wastewater Treatment Plants

Facility	Treatment Facilities Type	Permitted Capability (mgd)
South Plant	Activated Sludge	7.0[1]
East Plant	Oxidation Ditch	4.0
Ambassador Caffery Plant	Rotating Biological Contractor (RBC) and Oxidation Ditch	6.0
Northeast Plant	Oxidation Ditch	1.5
TOTAL		18.5

[1] Hydraulic capacity is 9.0 mgd.

Source: Craig Gautreaux, LUS 2/04.

The wastewater collection system consists of gravity sewers, interceptors, manholes, pumping stations and force mains, as tabulated in Table 7-4.

Table 7-4
Collection System

Total miles of pipe	673
Manholes	10,089
Pumping Stations	131 [1]

[1] Includes 7 stations previously owned by Holiday Utilities

Source: Craig Gautreaux, LUS 2/04

The wastewater collection system has, in the past, experienced excessive wastewater flow resulting in treatment plant bypasses and overflows of the wastewater collection system. The excess flows are attributed to infiltration and inflow of surface and groundwater into the wastewater collection system during and after rainfall. These incidents occurred at various locations in the collection systems serving all four wastewater plants. LUS reported these incidents to the EPA as required by its wastewater discharge National Pollution Discharge Elimination System ("NPDES") permits. As a result of these reports, the EPA issued administrative orders requiring LUS to take immediate action to stop the overflows and to prepare a report identifying corrective action to prevent additional occurrences.

The administrative orders by the EPA require LUS to submit quarterly progress reports as construction of new facilities and repair of existing facilities proceeds. LUS has completed the treatment plant upgrades and expansions required by the administrative orders for the South Plant, East Plant and Northeast Plants. In June 2001, EPA officially transferred permitting authority for the NPDES to the LDEQ for the South, East and Northeast Plants. Administration of the NPDES permit for the Ambassador Caffery Plant has remained with EPA due to the AO for this plant. Based on discussions, meetings and correspondence with EPA, LUS has requested an

extension of the compliance date to March 31, 2007. and the compliance schedule for Ambassador Caffery Plant has been extended to June 2007.

LUS reports that the wastewater treatment plants are in material compliance with their NPDES permit conditions. There are times during or shortly after periods of heavy rainfall when they exceed their permit limits for suspended solids and occasionally biochemical oxygen demand and ammonia. These occurrences are reported to LDEQ by LUS, as required by the permits. The action required by the administrative order described above is intended to reduce flow throughout the system, thereby reducing overflows and bypasses and exceedances. However, there is no assurance the EPA or LDEQ may not issue future notices of violation in connection with these exceedances.

During December of 2003 LUS received a compliance order from LDEQ regarding discharge of sewage from an LUS sewage pumping station. The compliance order also stated that LUS had failed to perform wastewater sampling in accordance with the South Wastewater Plant permit and the compliance order noted the occurrence of sewage overflows that LUS had reported to LDEQ as required by its wastewater permits. The compliance order requires LUS to take action to comply with its wastewater permit in connection with elimination of sewage overflows.

LUS responded to the compliance order and to each issue raised by LDEQ by describing past or planned actions that have been or will be undertaken by LUS to eliminate the causes of sewage overflows.

LUS reports that the landfarming program continues to provide disposal of all LUS sewage and water plant sludge. LUS contracts with privately owned farms for use of their farmland for sludge disposal. Auditing of the program, as required by state and federal regulations, has met all applicable standards. LUS staff has noted that land use trends and future changes in land ownership are likely to make continued use by LUS of private farmland more difficult in the future.

LUS has initiated an engineering planning study of the collection system that will produce an engineering model that will be available for use by LUS engineering staff. It is anticipated to provide much needed capability to analyze the impacts of changes in the collection system, addition of new service areas and changes in pumping configuration.

The wastewater discharge permits for each of LUS four wastewater treatment plants (Ambassador Caffery, East, South and Northeast) were renewed in 2003 for a term of 5 years. The permits for each plant contain the same effluent limits for biological oxygen demand, total suspended solids, ammonia-nitrogen, dissolved oxygen, total residual chlorine and pH. Each plant must, among other things;

- Conduct whole effluent toxicity testing using bioassay methods,
- Perform an annual Environmental Audit Report including a resolution from the governing body,
- Operate an industrial pretreatment program,
- Submit monthly reports to LDEQ

Historical Wastewater Utility Requirements

The wastewater facility of LUS has met customer demands for service, and provided its customers with adequate and reliable utility services during the period reported herein. The historical loads and load growth as served by the wastewater system is presented in Table 7-5.

Table 7-5
Wastewater System Historical Hydraulic Loads

	AVERAGE DAY HYDRAULIC LOADS (mgd)[1]				
Fiscal Year Ending October 31	South Plant	East Plant	Ambassador Caffery Plant	Northeast Plant	Totals
1994	5.4	2.5	5.4	0.9	14.2
1995	5.3	2.2	5.1	0.9	13.5
1996	6.6	2.9	4.9	1.0	15.4
1997	6.8	3.1	5.2	1.1	16.2
1998	6.7	2.8	5.6	1.2	16.3
1999	6.4	2.3	5.5	1.1	15.3
2000	5.6	2.5	5.2	1.1	14.3
2001	6.9	3.2	5.5	1.2	16.8
2002	7.5	3.0	5.2	1.1	16.8
2003	8.2	3.2	5.2	1.1	17.7
Permitted Capacity	7.0[2]	4.0	6.0	1.5	18.5

(1) Average day hydraulic loads are not adjusted to dry weather conditions and therefore include infiltration.
(2) Hydraulic capacity is 9 mgd.

Source: Craig Gautreaux, LUS 2/04

Each year LUS must prepare an annual municipal water pollution prevention audit report for each wastewater plant. The report is submitted to the Parish Council and the LDEQ. The report compares the design hydraulic and biological treatment capacity of each plant with the actual conditions. (See Table 7-6.)

Table 7-6
Wastewater Load vs. Design

	Number of Months During Which Design Capacity was Exceeded			
	South Plant	East Plant	Northeast Plant	Ambassador Caffery Plant
Flow				
1998	3	0	1	2
1999	3	0	0	1
2000	2	0	0	1
2001	3	3	0	4
2002	8	1	0	2
2003	11	0	0	0
Biological Loading				
1998	1	0	0	3
1999	1	0	0	8
2000	1	0	0	2
2001	1	1	0	1
2002	1	0	1	14
2003	1	1	0	5

Source: Craig Gautreaux, LUS 2/04.

It is apparent that the South Plant and the Ambassador Caffery Plant are at or very near their design limits. As described below, both are being upgraded.

The South Plant has been upgraded to accept 9 mgd of influent but permitted capacity is limited to 7 mgd due to sludge digesting and processing limitations. LUS has purchased 18 acres of land adjacent to the South Plant that is available for future expansion and to maintain a buffer between the plant and nearby residences. LUS has also initiated engineering design of improvements to sludge processing to increase total capacity to 12 mgd. The Ambassador Caffery Plant is also nearing its design capacity. LUS is completing engineering design of additional storage capacity and replacement of the rotating biological contactors with sequential batch reactors. Construction will start in 2004 with completion scheduled for 2007.

Historical information describing the wastewater collection system is summarized in Table 7-7.

Table 7-7
Wastewater Collection System

Fiscal Year Ended October 31	Number of Customers	COLLECTION	
		Total Miles of Pipe [1]	Total Number of Lift Stations
1994	33,476	624.8	106
1995	33,955	628.5	106
1996	34,475	633.0	106
1997	34,835	621.7	112
1998	35,261	636.8	115
1999	35,695	640.4	116
2000	35,902	647.3	118
2001	35,914	650.9	120
2002	37,420	671.0	128 [2]
2003	37,680	67.3	131

[1] Not including service lines.

[2] Includes 7 lift stations from Holiday Utilities bankruptcy.

Source: Craig Gautreaux, LUS 2/5/03.

The above statistics show that the total pipe in the wastewater collection system has increased at the same rate as the number of customers, while the number of lift stations has increased at a significantly greater rate. The flat topography of the service area means that additional lift stations will be needed as the system expands unless major interceptors are constructed.

The wastewater collection division recorded the number and type of overflows that have occurred in the system since 1993. The information is summarized in Table 7-8. LUS staff reports that the efforts to collect data on overflows were increased beginning in 1995 when wastewater collection personnel began to actively seek rain-related problems during periods of rainfall when normal work assignments were interrupted. Prior to 1995, incidents were recorded when reported but were not actively sought out.

Table 7-8
Wastewater Collection System Overflows

Fiscal Year Ended October 31	Rain Related	Lift Station Equipment Failure	Main Line Stoppage	Broken Pipe	Total	Total Annual Precipitation
1993	58	19	15	3	95	81
1994	59	26	6	0	91	62
1995	70	43	21	4	138	77
1996	51	25	19	5	100	67
1997	69	21	10	4	104	52
1998	60	16	44	6	126	73
1999	34	13	44	11	102	53
2000	6	14	36	9	65	44
2001	39	12	16	2	69	94
2002	40	5	4	4	53 [1]	79
2003	40	5	2	3	50	58

Source: Craig Gautreaux, LUS 2/04

[1] Does not include occurrences during category II hurricane event.

In compliance with regulations and administrative orders by EPA, LUS has initiated a pretreatment, user permit and fee program for the purpose of issuing wastewater discharge permits and pretreatment standards to industrial, commercial and non-residential customers who discharge wastewater to the wastewater collection system. LUS performs this service as a benefit to its customers. If LUS did not have an approved program, these customers could not discharge to the sewer system and would have to construct their own treatment facilities which would very likely be considerably more expensive than discharging to LUS' sewer system. LUS has established a rate for industrial users to recover a portion of program costs. The remaining costs are recovered through wastewater revenues.

Contracts and Agreements

Principal contracts and agreements for wastewater services are summarized in the following paragraphs and are listed in Table 7-9.

On June 16, 1975, the City entered into an agreement with Sewerage District No. 6 ("District") to provide treatment and disposal of all sewage collected and to provide the operation and maintenance for the District's sewer system. The term of the agreement is for a period of time until more than 50 percent of the District's customers are located within the City limits.

In August of 1995, LUS entered into a wastewater operation and maintenance agreement with an area known as the Grossie Avenue Area. This area is served by a

system that is separately located and owned and consists of a very small number of customers (approximately 50). The 40-year agreement expires in August, 2035.

Table 7-9
Contracts and Agreements

Contracts and Agreements between		Date Signed/Renewed	Termination Date	Provisions
LCG	Sewerage District 6	June 16, 1975	until 50% served	Wastewater treatment by LUS
LUS	Grossie Ave Area	August 21, 1995	August 21, 2035	Wastewater treatment by LUS

Source: Craig Gautreaux, LUS 2/04.

Load Forecasts

Load forecasts for the wastewater utility system for the five-year period of 2003 through 2008 are presented below. The forecasts reflect the current assessment of expected load growth for the period. The five-year projection of average-day inflow to the wastewater treatment plants is represented in Table 7-10.

Table 7-10
Wastewater System
Projected Hydraulic Loads

	AVERAGE DAY HYDRAULIC LOADS (mgd)				
Fiscal Year Ending October 31	South Plant	East Plant	Ambassador Caffery Plant	Northeast Plant	Totals
2003 (Actual)	8.2	3.2	5.2	1.1	17.7
2004	8.3	3.3	5.3	1.1	18.0
2005	8.5	3.3	5.4	1.1	18.3
2006	8.5	3.4	5.5	1.2	18.6
2007	8.7	3.4	5.6	1.2	18.9
2008	8.9	3.5	5.7	1.2	19.3
Permitted Capacity	7.0 (1)	4.0	6.0	1.5	18.5

(1) Hydraulic capacity is 9.0 mgd.
Source: Craig Gautreaux, 2/04, LUS.

The above forecast of wastewater treatment inflows is based upon recent historical trends for each wastewater plant and taking into account the capability to shift inflow between treatment plants. These projections are subject to change depending upon the success of the inflow and infiltration program in controlling or reducing rain-related effects. It should be noted that there are a number of small package type treatment plants scattered throughout the Parish that serve a total of 2,500 to 3,000 customers. These systems could, if emergency circumstances dictate, be quickly connected to the LUS system, as was the case with the Holiday Gardens development. A sudden increase in wastewater inflow could result. The projections shown herein should be

used with prudence and frequently updated based on results of the infiltration and inflow program and additions to the system. Note that LUS plans to re-route wastewater flows among the Ambassador Caffery Plant, the South Plant and the East Plant to avoid overloads and to accommodate construction at Ambassador Caffery. As discussed above, LUS is initiating engineering design of improvements and expansions to the South Plant and is currently completion design of improvements and expansion to the Ambassador Caffery Plant. Upon completion of these projects, neither site will be able to accommodate further increase in treatment capacity due to lack of space. LUS should begin engineering planning for a future treatment plant or plants to provide adequate treatment capacity for areas within Lafayette Parish where future growth is anticipated to occur.

Future Regulatory Requirements

The Federal Water Pollution Control Act Amendments of 1972 and 1977, commonly known as the Clean Water Act, established the basic structure for regulating discharges of pollutants into the waters of the United States. It gives the EPA the authority to implement pollution control programs such as setting wastewater discharge standards and water quality standards for all contaminants in surface waters. It also funded the construction of sewage treatment plants under the construction grants program and recognized the need for planning to address the critical problems posed by non-point source pollution. Programs implemented by the EPA that directly affect municipal systems include;

- NPDES Permit Program, including stormwater management, and control of combined sewer and sanitary sewer overflows;
- The National Pretreatment Program, emphasizing control and prevention of water pollution from industrial facilities;
- Biosolids (sewage sludge) management program promoting compliance with the Federal biosolids rule and practices for managing biosolids; and
- Administration of the Clean Water State Revolving Fund ("CWSRF").

The EPA has delegated responsibility for implementing NPDES Permits and setting water quality standards to the LDEQ.

New and existing regulations that may have a future impact on LUS' wastewater treatment plants and related operations are discussed below.

Sanitary Sewer Overflow Control Policy

In May through October of 1999, EPA issued five draft documents on sanitary sewer overflows that outlined proposed regulations. The EPA is currently working with Office of Management and Budget on the preamble language and guidance related to the capacity, management, operations, and maintenance requirements of the proposal. The EPA plans to have a final rule completed two years after publication of the proposal.

Section 303(d) of the 1972 Clean Water Act requires all states to develop a list of their state's impaired water bodies that do not meet state regulatory water quality standards even with the current pollution controls in place. The Clean Water Act requires all states to develop Total Maximum Daily Loads for these waters based on priority ranking. A Total Maximum Daily Loads is a pollution budget for a specific water body (river, lake, stream, etc.) and is the maximum amount of a pollutant from point and non-point sources that it can receive without causing it to violate state water quality standards. Once the Total Maximum Daily Loads are established, they are then translated into requirements to reduce the contributions of pollutants by point sources such as municipal wastewater treatment plants, industrial wastewater discharges and by non-point sources such as stormwater runoff from agricultural fields.

If future water quality monitoring shows that the water body is no longer impaired, no further reductions are needed. However, if pollution levels are still unacceptable at the end of a reasonable time period, LDEQ must revise the Total Maximum Daily Loads and implement additional control measures. The current discharge permits for LUS wastewater plants reflect the Total Maximum Daily Loads that were established for the Vermilion watershed after water quality monitoring that occurred in 2003. Requirements to establish stricter wastewater discharge limits did not occur after results of the monitoring were analyzed.

LUS is aware of these regulations and has or will incorporate the requirements into current and future operations. Compliance with the regulations is not anticipated to require major capital expenditures.

System Improvement Program

LUS established a system improvement program called CIP in 1989. The program is a five-year "look ahead," which is revised annually and is a means to plan for and manage the major capital projects for all utility divisions including wastewater.

The estimated annual capital budget requirement amounts are shown in Table 7-11 and were obtained from LUS' Five Year Capital Improvement Program dated December 2002.

Table 7-11
Estimated Annual Capital Budget Requirements
($000)

	Collection	Treatment	Total
2004	$18,450	$6,350	$24,800
2004	11,550	3,850	15,400
2005	4,300	8,100	12,400
2006	100	2,200	2,300
2008	100	2,200	2,300
Total	$34,500	$22,700	$57,200

Source: LUS 5-Year Capital Outlay Program FY 2003-04 Adopted Budget

Wastewater System

The wastewater program has seen the greatest growth in the total cost of CIP projects. This is driven by EPA mandates to eliminate overflows and bypass of wastewater and to reduce inflow and infiltration. Projects planned for the next five years are summarized as follows:

- Rehabilitation of manholes, lift stations, and mainline sewers;
- Television inspection and repair of sewer lines;
- Extension of sewer service;
- Addition of equalization basins and treatment modifications at Ambassador Caffery Plant; and
- Improvements to South Plant sludge handling and treatment.

Two of the existing treatment plants, the South Plant and the Ambassador Caffery Plant, are both near capacity even with the planned upgrades and additions. LUS has begun evaluating options for providing additional capacity including expanding the South Plant or constructing a new plant or some combination. In addition to the CIP projects, we recommend that LUS implement a certification (and re-certification) training program for its wastewater utility employees.

Key Issues

LUS' Strategic Plan, updated for 2002, addresses the following areas;

- Vision, Values and Mission;
- Goals and Key Results Areas;
- Cost Containment;
- Customers and Community;
- Operations; and

- Performance.

Strategic planning elements for each of these areas that are specific to the wastewater utility are listed below.

Cost Containment

- Continue Risk Management chlorine training for LUS personnel;
- Review operation standards of other w/ww service providers for planning and feasibility;
- Replace/upgrade sludge dewatering equipment at SSTP; and
- Standardize pump and control equipment preferences for vendors.

Customers and Community

- Continue to pursue APPA/WEF/AWWA services: information, lobbyists.

Operations

- Evaluate plan to treat grease; invest in grease digester; evaluate disposal options;
- Implement Environmental Information System (EIS);
- NELAP and LELAP accreditation for wastewater lab;
- Implement pretreatment information management database (GERMS);
- Implement Integrated Contingency Plan;
- Evaluate use of compost facility for Class A sludge management;
- Recommend/Implement/analyze odor scrubber system for ACTP;
- Continuous collection system rehabs CIP;
- Complete SCADA upgrades in all lift stations;
- Complete SCADA upgrades at ACTP;
- Implement the I/I component of the Master Wastewater Plan;
- Establish an internal system of environmental auditing;
- Establish sewer system cleaning/PM program: Phase I-complete strategy for large lines;
- Maintain NPDES/LWDPS permits for water/ww/power plants;
- Maintain state certification of EPA standards for QA/QC in laboratories;
- Continuous preparation of facilities and documents for DEQ inspections;
- Continue Municipal Water Pollution Prevention (MWPP) program for DEQ compliance;
- Change specifications on sewer force main pipe;

- Install electric generators at Heymann, Beaver, Acacia, Brown Park lift stations; and
- Continue "monthly system min/max load report."

Performance Measurement

- Benchmark water/wastewater against AWWA/WEF indices;
- Investigate water/wastewater safety issues & establish benchmarks; and
- Benchmark water/wastewater against AWWA/WEF indices.

Recommendations

Recommendations and their status are provided in Table 7-12 below. We have indicated the priority of the recommendation as either highest, high or normal.

Table 7-12
Recommendations

Wastewater Utility	Priority	Status
LUS should continue to develop the wastewater hydraulic model of the system.	Highest	Ongoing
Continue planning for a new wastewater treatment plant site.	High	Ongoing
We recommend LUS develop a certification (and re-certification) program for wastewater utility employees.	Normal	Ongoing

Section 8
ENVIRONMENTAL ISSUES

Introduction

LUS' electric, water and wastewater utilities are subject to numerous environmental laws and regulations. This section provides a discussion of the current status of major environmental permits for the Utilities System. This section is not meant to provide a comprehensive compliance audit of the system and addresses only the major laws that affect the electric, water and wastewater systems including: the Clean Air Act Amendments of 1990 ("CAAA"), the Clean Water Act, and the Safe Drinking Water Act ("SDWA"). Requirements of the CAAA are administered through a permit program administered by LDEQ and EPA. Requirements of the Clean Water Act are administered through a permit process whereby any discharge into surface waters requires a NPDES permit. The SDWA establishes standards for public water systems, whereby tap water must meet certain quality standards for different chemicals as established by the EPA.

LUS facilities, operations and associated activities are subject to regulations that cover the following areas: storage and disposal of hazardous waste, superfund liability, used oil, pesticides, wastewater discharges, PCBs, underground tanks, oil spills, asbestos, wood poles, emergency planning and community right-to-know, stormwater discharges, air emissions, solid waste disposal, waterways permitting, federal lands, groundwater, and emergency notification.

Environmental Compliance

The Environmental Compliance Division is managed by the Environmental Compliance Manager, whom reports directly to the Director of Utilities. The Environmental Compliance Manager is Ms. Allyson Pellerin. The Environmental Compliance Division supports the Utilities System in the following areas:

- Regulatory compliance for electric production/distribution;
- Industrial pretreatment;
- Wastewater analysis and land-farming; and
- Water analysis.

Electric Production

LUS operates one natural gas electric generating facility, the Doc Bonin Plant located in the City. Another LUS facility, the Curtis Rodemacher Station, is no longer in operation.

Bonin Plant Unit Nos. 1 and 2 boilers were constructed before 1969, and therefore do not require a LDEQ air emissions operating permit. Bonin Unit No. 3 was either constructed or modified after 1969 and, therefore, has an air emissions certificate for operation. The LDEQ issued a variance that allows LUS to burn diesel fuel (or No. 2 fuel oil) in Boiler No. 3 for up to four days per year. The purpose of this variance is to allow LUS to burn fuel oil if their natural gas supply is temporarily interrupted.

The Bonin Plant includes four fuel storage tanks, which currently contain some No. 6 fuel oil and diesel fuel, as described in Table 8-1 below.

Table 8-1
Fuel Oil Storage Tanks

Tank	Type	Capacity (Gallons)	Contents (Gallons)
Tank No. 1	Diesel Fuel	440,000	324,360
Tank No. 2	Diesel Fuel	1,443,000	773,473
Tank No. 3	Fuel Oil No. 6	2,538,000	99,043
Tank No. 4	Fuel Oil No. 6	2,538,000	88,432

Source: George Stelly, LUS 1/22/04.

Since LUS does not have a permit to burn No. 6 fuel oil in any of its facilities, the contents of Tank Nos. 3 and 4 were sold in 1999 (all that remains is sludge). LUS intends to have the remaining sludge removed from these tanks and is investigating its options. After removal of this sludge, Tanks 3 and 4 will be cleaned and filled with the diesel fuel currently in Tanks 1 and 2. Tanks 1 and 2 will be assessed for future use.

The Oil Pollution Control Act requires that oil spill response plans be prepared for facilities that exceed certain requirements. Briefly, if the facility's total oil storage capacity is greater than or equal to 1,000,000 gallons, an oil spill response plan must be prepared. LUS reports that they have prepared an oil spill response plan that meets the requirements of the regulation, and are currently updating that plan.

LUS installed continuous emission monitors ("CEMs") at the Bonin Plant prior to January 1, 1996 as required by CAAA regulations issued by EPA (40 CFR75). Combustion gas flow, NO_x emissions, and CO_2 emissions are monitored and reported quarterly to the State and EPA. SO_2 emissions are monitored through gas fuel flow monitoring and low sulfur content in the gas fuel. LUS did not experience any exceedances of its permitted emissions from the Bonin Plant in 2003.

The CAAA requires LUS to obtain new air emissions operating permits for the Bonin Plant. Application for this new "Title V" operating permit was submitted on October 15, 1996, to the LDEQ. The LDEQ issued a letter of completeness dated December 17, 1996, which extends the effective date of all operating permits until the Title V permit is issued. The timing for the issuance of the final permit is unknown at the time of this report.

The Bonin Plant operates under a new NPDES wastewater discharge permit issued by the LDEQ (Permit #LA 0005711) issued in October 2003. The current permit provides for the discharge of cooling tower blowdown and plant site stormwater drainage. No violations of this permit were issued in 2003, however, one exceedance of iron concentrations in water discharge was reported. Investigations by LUS staff focused on a rusting metal grate near the outfall location where the water sample was collected. This grate was subsequently replaced.

Spill Prevention Control and Countermeasure Plan

Electric substations that are located where oil from a spill could reach navigable waters and have more than 1,320 gallons at a single facility, must have a Spill Prevention Control and Countermeasure ("SPCC") Plan in accordance with 40 CFR 112. Recent changes in these regulations include the requirement for secondary containment at the applicable facilities. LUS reports that they have 16 applicable substations and have prepared SPCC plans for all of them. LUS indicated that these plans are currently being updated with regard to the revised regulations. No reportable spills occurred in 2003.

Other Environmental Plans

Other environmental plans required by LUS include the Emergency Response Plan (also Risk Management Plan) and Stormwater Pollution Prevention Plan. LUS indicated they were in compliance with the requirements for these plans.

PCB Transformers

LUS reports that they manage PCB-containing equipment as required by federal and state law and regulations. LUS has PCB-containing equipment in service and they also store, inspect and keep records of all PCB-containing equipment and fluids before sending them off-site for disposal. LUS indicated that there were no PCB transformers (>500 ppm) in its inventory. LUS has a program in which they systematically remove transformers with any concentrations of PCBs (>51ppm) as time permits. These transformers are replaced with PCB-free transformers.

Grant Street Substation

In September of 1991, LUS undertook a project to install and upgrade the electrical capabilities of Grant Street Substation No. 2. During the course of the construction

activities, visible traces of petroleum products were discovered in the shallow ground water.

Subsequent investigations at the site revealed petroleum contamination in the groundwater at the site, under the adjoining property owners' sites and at the nearby Grant Street Substation No. 1. In 2000, LUS submitted a Risk Evaluation Corrective Action Plan ("RECAP") to LDEQ. In 2003, LUS continued its previous work with LDEQ to address outstanding issues at the site, as well as conducted semi-annual monitoring requirements.

Curtis Rodemacher Decommissioning

As mentioned in Section 5 of this Report, the Curtis Rodemacher Plant has been retired and the facility is in the process of decommissioning. In 2003, LUS removed the boilers at the site, as well as installed wooden fencing around the site. LUS is phasing in a decommissioning process for this plant, which includes removal of above ground piping and values (expected 2004) and an environment assessment of the site (2005). The extent of future environmental issues associated with this site will depend on LUS' long-term plan for the site. However, based on current knowledge of the environmental conditions at the site, the future costs associated with remediation, if any, are not expected to be significant.

Beadle Road Substation

In 2000, LUS began preparing an existing site for a new substation located at Beadle Road. During this process, evidence of subsurface contamination was discovered. LUS removed the sources of contamination from the site and submitted a RECAP to LDEQ in September 2000. In 2003, LUS conducted additional soil sampling at this site and is currently waiting on closure documentation from LDEQ. According to LUS, there is only a small risk to the environment or human health associated with this site and cost estimates to complete work at this site (if necessary) are not expected to be significant.

Industrial Pretreatment

The Industrial Pretreatment program is mandated by the EPA through the NPDES permits issued to the wastewater treatment plants. The Pretreatment Program protects the integrity of the wastewater treatment plants by fulfilling four objectives:

- Preventing the introduction of pollutants into the Publicly Owned Treatment Works ("POTW") which will interfere with the operation of the plants, including interference with its use or disposal of municipal sludge;
- Preventing the introduction of pollutants into the POTW which will pass through the treatment works and enter stream waters;
- Reducing the risk of exposure of workers to chemical hazards; and

- Improving opportunities to recycle and reclaim municipal and industrial wastewaters and sludge.

The Pretreatment Program provides a service to the community by allowing industry to discharge pretreated wastewater, to be further treated at the wastewater treatment plants, in lieu of meeting water quality regulations required for direct dischargers to the waters of the state.

Pretreatment community outreach efforts have included dissemination of environmental information during Public Power Week activities, Household Hazardous Waste bill stuffers to commercial and residential customers and participation in Career Day activities at elementary schools.

In 2003, the Pretreatment Program issued its revised technically based local limits for the wastewater treatment plants and updated the Pretreatment Procedures Manual. The Pretreatment Program has identified six significant industrial users that discharge to the treatment plants, three categorical industrial users and three noncategorical significant industrial users. There are ten other regulated non-significant industrial users.

The Pretreatment Program initiated efforts in 2003 to institute a Best Management Practices (BMP) program for its industrial users. The BMP program allows small volume discharges to reduce the amount of pollution entering the sanitary sewer system through means other than a formal Wastewater Discharge Permit. BMP customers have certain guidelines that must be followed and are exempt from monthly reporting requirements and monthly permitting charges. LUS reports that there are currently 20 wash rack type operations and one medium entity utilizing the BMP program.

Wastewater Collection and Treatment

The wastewater discharge permits for each of LUS four wastewater treatment plants (Ambassador Caffery, East, South and Northeast) were renewed in 2003 for a term of 5 years. The permit conditions require LUS to regularly test for compliance with permit conditions, and report any violations or exceeds of permit limits, including bypass or overflow of wastewater. Historically, notices of overflows primarily associated with heavy rainfall have been reported to the LDEQ.

LUS has responded to reported bypasses with the development of a long-term program of corrective actions to eliminate overflows and bypasses and to reduce infiltration and inflow. The corrective action includes repairs and modifications to pumping stations, construction of retention basins, flow metering, sewer system evaluation, repair and rehabilitation of manholes, service connections, and sewer pipes throughout the system. LUS and EPA agreed to a compliance schedule that identifies the corrective actions to be taken by LUS to eliminate the causes of overflows and bypasses. The Ambassador Caffery Treatment Plant is still under an EPA Administrative Order to address issues related to unpermitted discharges.

In December 2003, LUS was issued a compliance order by LDEQ for violations of its NPDES permits for the South Sewage Treatment Plant. The compliance order also stated that LUS had failed to perform wastewater sampling in accordance with the South Wastewater Plant permit and the compliance order noted the occurrence of sewage overflows that LUS had reported to LDEQ as required by its wastewater permits. The compliance order requires LUS to take action to comply with its permit in connection with elimination of sewage overflows.

Additional planned work for control of infiltration and inflow is identified in Section 7 of this Report.

Previously identified changes in water quality standards with regard to sulfate levels in the Vermilion River have been recalculated. Therefore, concerns over impacts to LUS' wastewater discharge permit to the Vermilion River regarding sulfate no longer exist.

In 2003, LUS received accreditation from LDEQ for its wastewater laboratory. This is a benefit to LUS because sampling procedures can be done in house, as compared to sending them to commercial laboratories. As a result of this certification, in house LUS reports submitted to LDEQ will be accredited.

Wastewater Analysis and Land Farming

LUS currently utilizes a land farming program to dispose of it biosolids that are a result of its wastewater operations. This program is operated under a permit from the LDEQ. As an alternative to land farming, LUS is considering improving the quality of its biosolids to Class A which would allow for its use as commercial compost. This alternative may increase the costs associated with sludge disposal, however, this alternative may increase LUS' ability to manage is disposal needs.

Water Production and Distribution System

LUS reports that the water production facilities are currently complying with their operating permits, and they report that they currently meet all applicable drinking water standards of the Safe Drinking Water Act.

Recommendations

Recommendations and their status are provided in Table 8-2 below. We have indicated the priority of the recommendation as either highest, high or normal.

Table 8-2
Recommendations

Environmental Issues	Priority	Status
LUS should complete a cost-benefit assessment of the Inflow and Infiltration (I&I) expenditures to determine the amount of I&I reduction relating to the amount of I&I remediation expenditures.	Highest	Investigating
LUS should continue to evaluate alternatives for its biosolid disposal program.	High	On Going
LUS should continue to update its environmental plans, including its SPCC plan, to ensure that they include the latest changes to the appropriate requirements.	High	Investigating

Section 9
TELECOMMUNICATIONS

Introduction

'The LUS Powered Network' is a 65-mile, 96-strand SONET-based fiber infrastructure providing wholesale broadband and high-speed Internet access with direct connections to Tier 1 providers. In 1997, LPUA and the Council approved funding using retained earnings from the electric operations to upgrade LUS' telecommunications capabilities. The initial purpose of the project was to replace aging and increasingly costly LUS microwave communication system, which from an operational and reliability point of view was critical for the distribution system.

The LPUA and the Council approved the installation of a 96-strand fiber optic cable to replace the LUS microwave system functions. LUS was also authorized to provide enhanced services to LCG and other local, state, and federal governmental entities in LUS service area. LUS agreed to provide dark fiber to the University of Louisiana at Lafayette in order to connect the main campus and the research park.

The surplus fiber laid the ground work for high-bandwidth availability of multi-service network connections for use by wholesale customers including CLECs, ISPs, and CAPs. Each wholesale customer requires specialized applications to promote their business model. LUS Powered Network Team works individually with each wholesale customer to determine their telecommunications needs/speeds/applications in order for them to implement their technological ideas while making the most of their financial resources.

The current network has excellent coverage as the fiber backbone passes approximately one mile from every home and business in the City.

System Condition and Capital Requirements

The system is relatively new (built in 1999) and in excellent condition. The system began transmitting working traffic in December of 2000 and began servicing wholesale customers in January of 2002. To date, the system has exhibited high reliability. During Hurricane Lili (2002), the LUS network remained in operation throughout the storm. Historical capital requirements are listed in Table 9-1 as follows:

Table 9-1
Historical Capital Requirements

Fiscal Year	Description	Amount
2003	Normal Capital	$418,000
2004	Normal Capital	$300,000
	Municipal Area Network	$100,000
	Telecommunications Network Switch	$1,300,000
2005	Normal Capital	$300,000
	Municipal Area Network	$100,000

2003 capital expenditures were a result of equipment purchases for new customer sites (including the labor to install).

The above table indicates that a significant capital addition is anticipated in 2004 related to a telecommunications network switch. LUS is anticipating providing local phone service to LUS and LCG facilities.

Customer and Service Offerings

Currently, the LUS Powered Network offers the following services:

- DS-1, DS-3, OC-12 & OC48 Broadband Service on LUS backbone
- DS-1, DS-3, OC-3, OC-12, OC48, 10Mbps & 100 Mbps Last Mile Service
- 10M and 100M Shared or Dedicated Packet Service
- Direct Internet Access from 1.5 Mbps to 45 Mbps
- Customer Premise Equipment Service
- Tower Lease Packages
- Network Monitoring

In 2003, LUS had 9 governmental customers and 12 wholesale customers. This includes tower lease and dark fiber customers.

Services provided to customers and associated revenue in 2003 were in the following areas:

Table 9-2
Revenue Composition by Service Category

Service Category	Percent of Total
Broadband	30.6%
Internet	25.0%
Other-Tower Lease	20.0%
Local Loop	17.3%
Other-Dark Fiber	3.4%
CPE	1.9%
Deposit/NRC	1.1%
Other	0.8%
Total	100%

Contracts and Pricing

The LUS Powered Network contracts with customers under a comprehensive standard service agreements for periods of 12 to 60 months. The agreements are flexible by allowing customers to add or modify services through separate Service Orders within the broader terms and conditions set forth in the agreement.

Pricing is market based and designed to attract new customers. Currently LUS offers the lowest priced Broadband and Internet services within the City. Customers are offered volume discounts and other incentives to enhance the attractiveness of LUS products and services.

LUS routinely monitors competitor service offerings and prices to ensure its cost competitiveness.

Financial Performance

Revenue growth for the telecommunications business has been indicative of a start-up business. Revenues, although small, compared to the combined system have shown steady growth as shown in the following table.

Table 9-3
LUS Powered Network Historical Annual Revenues

Fiscal Year	Annual Revenues	Percent Change
2002	$188,990	N/A
2003	$485,651	157%

Currently LUS does not prepare financial evaluations for the telecom utility that consider the start up nature of the business. Financial information developed by the City is not timely and provides utility management little useful information as to the financial health and viability of this business. As such, telecommunications personnel developed their own financial and operating statements.

Current cost accounts do not properly reflect labor costs directly related to the telecommunications business. Additionally there is no clear understanding of the appropriate methodology with respect to allocating joint or common costs.

The end result is that there is no accurate financial summary on either an incremental or full cost basis that evaluates the performance of the telecommunications business unit.

Recommendations

Recommendations and their status are provided in Table 9-5 below. We have indicated the priority of the recommendation as either highest, high or normal.

Table 9-4
Recommendations

Telecommunications Issues	Priority	Status
LUS should determine a process that accurately allocates joint/ common costs to the Telecommunications Business Unit. The allocation methodology should consider cost causation and should not be based on revenue allocation methodology.	Highest	New
LUS should develop incremental and full-embedded cost financial reports and pricing analyses to evaluate the short term and long-term profitability of the Telecommunications business and specific service offerings.	Highest	New
LUS should increase funding for marketing within the telecommunications business in recognition that telecommunications is significantly different from a traditional municipal utility. Telecommunications requires head to head competition with other service providers that invest heavily in marketing and promotional development.	Normal	New
LUS must improve the flexibility and sophistication of its billing function and the interface of such function with the accounting system. Current limitations in the billing system result in a competitive disadvantage, particularly when pursuing other Tier 1 wholesale customers.	Normal	New