Nebraska Public Power District
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50.71(b)

NLS2007050
June 13, 2007

U.S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, DC 20555-0001

Subject: Nebraska Public Power District 2006 Annual Financial Report
Cooper Nuclear Station, Docket No. 50-298, DPR-46

Dear Sir or Madam,

The purpose of this letter is to transmit the Nebraska Public Power District Annual Financial Report for the calendar year 2006 in accordance with the requirements of 10 CFR 50.71(b). Copies of this report are being distributed in accordance with 10 CFR 50.4.

Should you have any questions or require additional information, please contact Paul Fleming, Licensing Manager, at (402) 825-2774.

Sincerely,

Paul V. Fleming
Licensing Manager

/jk
Enclosure

cc: Regional Administrator w/enclosure
USNRC - Region IV

Cooper Project Manager w/enclosure
USNRC - NRR Project Directorate IV-1

Senior Resident Inspector w/enclosure
USNRC - CNS

NPG Distribution w/o enclosure

CNS Records w/enclosure

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ATTACHMENT 3 LIST OF REGULATORY COMMITMENTS©

Correspondence Number: NLS2007050

The following table identifies those actions committed to by Nebraska Public Power District (NPPD) in this document. Any other actions discussed in the submittal represent intended or planned actions by NPPD. They are described for information only and are not regulatory commitments. Please notify the Licensing Manager at Cooper Nuclear Station of any questions regarding this document or any associated regulatory commitments.

COMMITMENT	COMMITMENT NUMBER	COMMITTED DATE OR OUTAGE
None		

2006 FINANCIAL REPORT

2006 YEAR AT A GLANCE

KILOWATT-HOUR SALES	**18.4 BILLION**
OPERATING REVENUES	**752.4 MILLION**
COST OF POWER PURCHASED AND GENERATED	**422.9 MILLION**
OTHER OPERATING EXPENSES	**270.8 MILLION**
INCREASE IN FUND EQUITY	**25.4 MILLION**
DEBT SERVICE COVERAGE	**1.61**

SALES	Average Number of Customers	Electric Energy MWH Sales Amount	%	Revenues from Electric Sales (000's) Amount	%	Revenue Per KWH
Retail:						
Residential	68,010	763,166	4.1	$ 70,470	9.4	9.23¢
Rural & Farm	2,978	69,257	0.4	5,364	0.7	7.75¢
Commercial	14,882	852,147	4.6	57,187	7.6	6.71¢
Industrial	54	1,276,929	6.9	46,108	6.1	3.61¢
Public Lighting	193	18,390	0.1	2,044	0.3	11.11¢
Municipal Power	180	29,559	0.2	1,958	0.2	6.62¢
Miscellaneous Municipal	1,927	123,308	0.7	5,906	0.8	4.79¢
Total Retail Sales	88,224	3,132,756	17.0	189,037	25.1	6.03¢
Wholesale:						
52 Municipalities (Total Requirements)		1,931,309	10.5	75,889	10.1	3.93¢
24 Public Power Districts & Cooperatives (Total Requirements)		6,201,194	33.7	228,551	30.4	3.69¢
Total Wholesale Sales (Excluding Sales to LES, MEC and Other Utilities)		8,132,503	44.2	304,440	40.5	3.74¢
Total Retail and Wholesale Sales (Excluding Sales to LES, MEC and Other Utilities)		11,265,259	61.2	493,477	65.6	4.38¢
Sales to LES and MEC (1)		3,244,915	17.6	82,246	10.9	2.53¢
Other Utilities (Nonfirm and Other Sales)		3,910,745	21.2	131,674	17.5	3.37¢
Total Electric Energy Sales		18,420,919	100.0	707,397	94.0	3.84¢
Other Operating Revenues (Net of Deferred)				44,975	6.0	
Total Operating Revenues				$ 752,372	100.0	

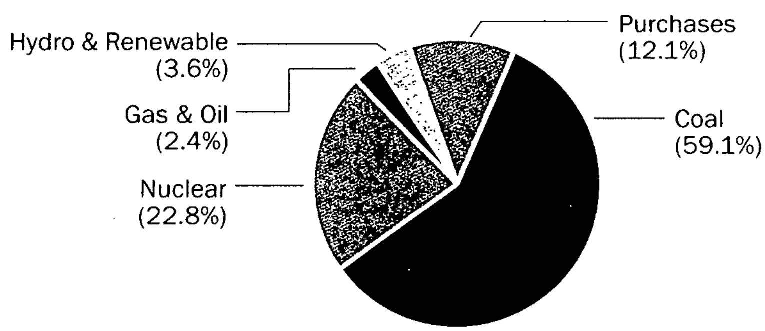
GENERATION	MWH Amount	%	Production Costs (000's) Amount	%
Production (Including Interchange)	17,376,066	91.0	$ 350,735	82.9
Power Purchased	1,715,211	9.0	72,142	17.1
Total Power Produced and Purchased	19,091,277	100.0	$ 422,877	100.0

(1) Sales to Lincoln Electric System ("LES") include power and energy produced at Nebraska Public Power District's Gerald Gentleman Station and Sheldon Station. Sales to MidAmerican Energy Company ("MEC") are for power and energy produced at Cooper Nuclear Station.

Miles of Transmission Line in Service	5,031
Number of Employees	2,128
2006 Contractual and Tax Payments (000's):	
Payments to Retail Communities	$ 17,480
Payments in Lieu of Taxes	$ 6,589

SOURCES OF ENERGY— 2006

For service to retail and total requirements wholesale customers (excludes sales to Other Utilities and Sales to LES and MEC).



The following Management's Discussion and Analysis should be read in conjunction with the audited Financial Statements and Notes to Financial Statements beginning on page 10.

OVERVIEW OF BUSINESS

Nebraska Public Power District (the "District") operates an integrated electric utility system including facilities for generation, transmission and distribution of electric power and energy for sales at wholesale and retail. The District is a summer peaking utility. An all-time system summer anytime peak of 2,671 MW was established in July 2006 for the District's firm requirements customers. The District's all-time winter peak is 1,958 MW, which was established in February 2007. The District owns or has operating control over 37 generating plants, which had a combined accredited capacity during the summer of 2006 of 3,133.5 MW.

GENERATION PLANTS

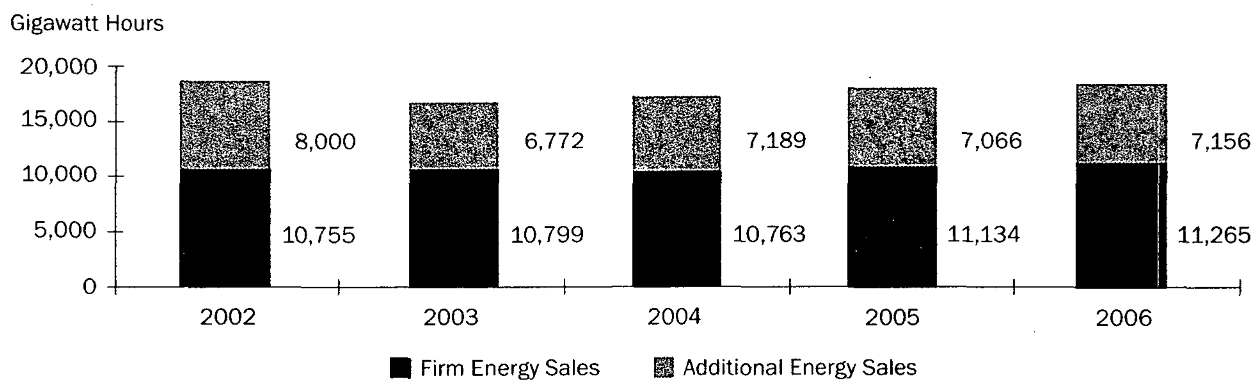
Type:	Number of Plants (1)	Accredited Capability (MW)	Percent of Total
Coal - Gerald Gentleman Station	1	1,365.0	43.5
Coal - Sheldon Station	1	225.0	7.2
Gas - Beatrice Power Station	1	237.0	7.5
Gas/Oil - Canaday Station	1	118.0	3.8
Nuclear - Cooper Nuclear Station	1	760.3	24.3
Hydro	9	160.6	5.1
Diesel	19	105.5	3.4
Combustion Turbine	3	153.0	4.9
Wind	1	9.1	0.3
	37	3,133.5	100.0

(1) Includes six hydro plants and 17 diesel plants under contract to the District

In addition to the above generating plants, the District purchases 450.5 MW of firm power from the Western Area Power Administration and other capacity and energy on both a short-term and non-firm basis in the wholesale energy market. The District also owns and operates 5,031 miles of transmission and subtransmission lines, encompassing the entire State of Nebraska.

The District's customer base for firm energy sales consists of approximately 88,200 retail customers plus 76 municipalities, public power districts, and cooperatives that are total requirements wholesale customers of the District. In addition, the District has several participation sale contracts in place with other utilities for the sale of power and energy at wholesale from specific generating plants. The District also sells energy on a non-firm basis in the wholesale energy market.

ENERGY SALES[1]



(1) All years include the sale of energy to MidAmerican Energy Company from Cooper Nuclear Station

CONDENSED BALANCE SHEETS

	2006	2005	2004
Condensed Balance Sheets (000's):			
Utility Plant, net	$ 1,739,161	$ 1,715,339	$ 1,652,915
Special Purpose Funds	576,041	566,546	554,358
Current Assets	312,884	369,070	328,848
Deferred Charges and Other Assets	487,837	392,077	309,827
Total Assets	$ 3,115,923	$ 3,043,032	$ 2,845,948
Fund Equity	$ 811,432	$ 786,042	$ 744,598
Long-Term Debt	1,413,092	1,339,617	1,184,656
Current Liabilities	151,768	188,886	254,362
Deferred Credits and Other Liabilities	739,631	728,487	662,332
Total Fund Equity and Liabilities	$ 3,115,923	$ 3,043,032	$ 2,845,948

RESULTS OF OPERATIONS

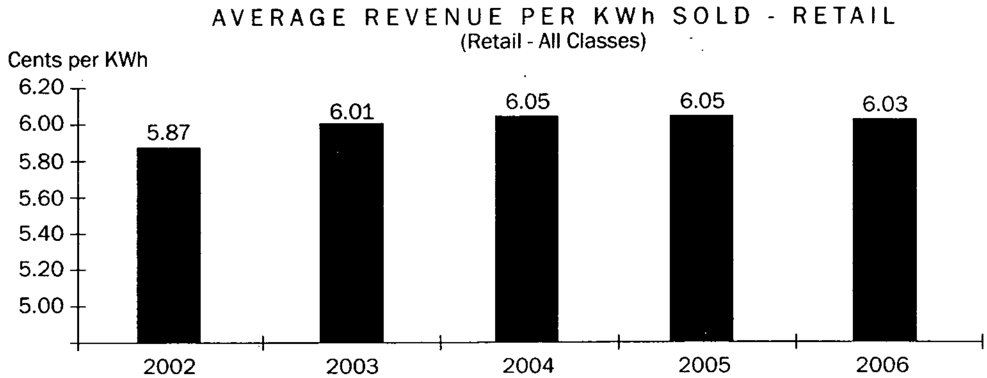
	2006	2005	2004
Condensed Statements of Revenues, Expenses, and Changes in Fund Equity (000's):			
Operating Revenues	$ 752,372	$ 726,783	$ 644,562
Operating Expenses	(693,746)	(643,255)	(590,510)
Operating Income	58,626	83,528	54,052
Investment and Other Income	34,467	21,416	25,604
Debt and Other Expenses	(67,703)	(63,500)	(55,612)
Increase in Fund Equity	$ 25,390	$ 41,444	$ 24,044

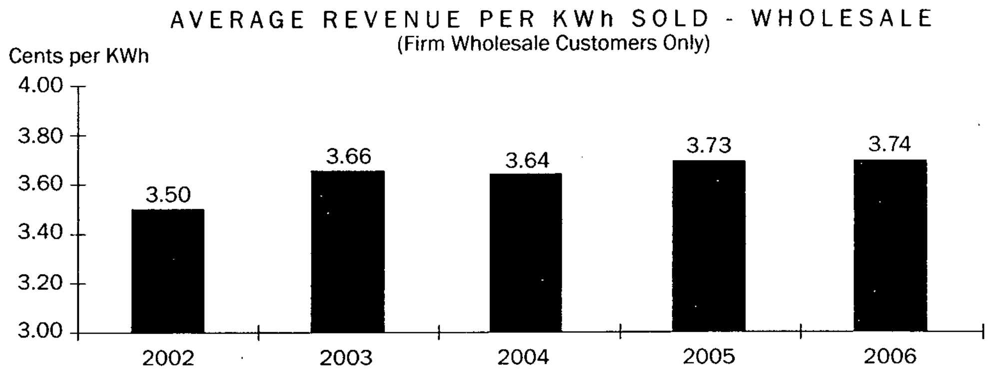
Total operating revenues were $752.4 million in 2006, $726.8 million in 2005, and $644.6 million in 2004. The sources of operating revenues were as follows (000's):

	2006	2005	2004
Firm Sales - Wholesale & Retail	$ 493,477	$ 487,142	$ 464,327
Participation Sales to LES & MEC	82,246	85,920	105,954
Sales to Other Utilities	131,674	135,163	78,819
Other Operating Revenue	25,818	45,982	21,309
Deferred Revenue	19,157	(27,424)	(25,847)
Total Operating Revenue	$ 752,372	$ 726,783	$ 644,562

Revenues From Firm Sales - Wholesale & Retail

Revenue from firm sales increased $6.4 million, or 1.3% from $487.1 million in 2005 to $493.5 million in 2006. This increase is due primarily to an increase in Kilowatt-hour energy sales of 1.1%. Revenue from firm sales increased $22.8 million, or 4.9%, from $464.3 million in 2004 to $487.1 million in 2005. This increase is due primarily to an increase in Kilowatt-hour energy sales of 3.4% and a 2.5% increase in the District's wholesale rates.





Revenues From Participation Sales to LES & MEC and Sales to Other Utilities

During 2006, the District made participation sales to Lincoln Electric System ("LES") from the capacity and energy produced at Gerald Gentleman Station ("GGS") and Sheldon Station; to MidAmerican Energy Company ("MEC") from Cooper Nuclear Station ("CNS"); to Aquila Inc. ("Aquila") from GGS and CNS; to Heartland Consumers Power District ("Heartland") from CNS; and to the Municipal Energy Agency of Nebraska ("MEAN") from GGS and CNS. The District also engaged in sales of energy with other utilities on a non-firm basis.

Revenue from such participation sales to LES and MEC decreased from $85.9 million in 2005 to $82.2 million in 2006, a decrease of $3.7 million. The decrease was due primarily to LES's share of capital costs related to Sheldon Station being less in 2006 than in 2005. The remaining decrease is related to the reduction in contracted demand charges from CNS participation sales to MEC in 2006 from 2005. Revenue from participation sales to LES and MEC decreased from $106.0 million in 2004 to $85.9 million in 2005, a decrease of $20.1 million. The decrease was due primarily to the termination of the original MEC power sales contract for 380 MW from CNS on December 31, 2004. A new MEC power sales contract for 250 MW from CNS went into effect on January 1, 2005.

Sales to other utilities consist of the participation sales to Aquila, Heartland, and MEAN and non-firm off-system sales. The Energy Authority ("TEA"), of which the District is a member, has energy marketing responsibilities for the District's non-firm off-system sales and the related management of credit risks. Sales to other utilities decreased from $135.2 million in 2005 to $131.7 million in 2006, a decrease of $3.5 million. This decrease is due primarily to a reduction in revenues realized from non-firm off-system sales as the result of lower market prices at the time that the District had available excess generation to sell on the open market. Sales to other utilities increased from $78.8 million in 2004 to $135.2 million in 2005, an increase of $56.4 million. This increase is due primarily to having more capacity and energy available for sale in 2005 as a result of the net decrease of 130 MWs between the two MEC power sales contracts from CNS, fewer planned and unplanned outage days in 2005 at the District's major base load generating facilities (CNS, GGS, and Sheldon Station), and favorable market prices on sales.

Other Operating Revenue

Other operating revenue consists primarily of transmission wheeling revenues and revenue from work for other utilities. These revenues were $25.8 million, $46.0 million and $21.3 million in 2006, 2005 and 2004, respectively. The increase in 2005 is due primarily to an $18.4 million settlement with the Central Interstate Low-Level Radioactive Waste Commission ("Commission") on August 1, 2005. A final settlement payment of $1.6 million was received on April 3, 2006.

Deferred Revenue

The District's wholesale and retail electric rates are established on a prospective basis. The estimated revenue requirements used to establish rates include operating expenses, excluding depreciation and amortization; debt service requirements on revenue bonds; payments of principal and interest on subordinated debt; amounts for capital projects to be paid from current revenues; and amounts for reserves to pay future costs, such as future nuclear facility decommissioning costs.

Under the provisions of the District's wholesale power contracts, if the rates for wholesale power service in any year result in a surplus or deficiency in revenues necessary to meet revenue requirements, such surplus or deficiency, within certain limits set forth in the wholesale power contracts, may be retained in a rate stabilization account. Any amounts in excess of the limits will be included as an adjustment to revenue requirements in future rate periods. A similar process is followed in accounting for any surplus or deficiency in revenues necessary to meet revenue requirements for retail electric service. Under generally accepted accounting principles for regulated electric utilities, such surpluses or deficiencies are accounted for as "regulatory assets or liabilities." The District follows this accounting treatment.

The District recognizes all revenues in excess of revenue requirements in any year as a deferral or reduction of revenues. Such surplus revenues are excluded from the net revenues available under the General Resolution to meet debt service requirements for such year. Surplus revenues are included in the determination of net revenues available under the General Resolution to meet debt service requirements in the year that such surplus revenues are taken into account in setting rates. During the years 2006, 2005 and 2004, respectively, revenues from firm wholesale and retail sales exceeded actual revenue requirements in each such year.

The District recognized or increased revenues a net amount of $19.1 million in 2006. The District's revenues in 2006 from firm wholesale and retail electric sales resulted in a surplus, or over collection of costs, of $6.6 million, which surplus amount was deferred (decrease in revenues). In addition, the wholesale and retail rates that were adopted for 2006 included a refund of $25.7 million of surplus net revenues from past years. Such surplus had previously been accounted for as a reduction in revenue in the year(s) the surplus occurred. Accordingly, the 2006 revenues from electric rates, which reflect the surplus being refunded, are offset by the revenue adjustment (increase in revenues) for such amount.

The District deferred or reduced revenues a net amount of $27.4 million in 2005. The District's revenues in 2005 from firm wholesale and retail electric sales resulted in a surplus, or over collection of costs, of $31.2 million, which surplus amount was deferred (decrease in revenues). In addition, the wholesale and retail rates that were in place for 2005 included a refund of $3.8 million of surplus net revenues from past rate periods. Such surplus had previously been accounted for as a reduction in revenue in the year(s) the surplus occurred. Accordingly, the 2005 revenues from electric rates, which reflect the surplus being refunded, are offset by a revenue adjustment (increase in revenues) for such amount.

The District deferred or reduced revenues a net amount of $25.8 million in 2004. The District's revenues in 2004 from firm wholesale and retail electric sales resulted in a surplus, or over collection of costs, of $41.1 million, which surplus amount was deferred (decrease in revenues). In addition, the wholesale rates that were in place for 2004 included a refund of $15.3 million of surplus net revenues from past rate periods. Such surplus had previously been accounted for as a reduction in revenue in the year(s) the surplus occurred. Accordingly, the 2004 revenues from electric rates, which reflect the surplus being refunded, are offset by a revenue adjustment (increase in revenues) for such amount.

As of December 31, 2006, 2005 and 2004, the District had $74.6 million, $93.7 million and $66.3 million, respectively, of surplus deferred revenues yet to be applied as credits against revenue requirements in future rate periods. The District's wholesale and retail electric rates for 2007 include a refund of $28.8 million of surplus deferred revenues.

Operating Expenses

Total operating expenses in 2006 were $693.7 million, an increase of $50.4 million from 2005. Total operating expenses in 2005 were $643.3 million, an increase of $52.8 million from 2004. The changes were due to the following:

Purchased power and production fuel expenses were $209.9 million, $186.9 million and $161.0 million in 2006, 2005 and 2004, respectively. These expenses increased $23.0 million in 2006 compared to 2005, due primarily to increased native load sales, increased average non-firm energy market prices, and higher fuel costs as a result of price increases in both coal and nuclear fuel, and related transportation costs. The increase of $25.9 million in 2005 compared to 2004 is due primarily to fuel associated with the District's new 250 MW gas-fired Beatrice Power Station coming on-line in January 2005.

Production operation and maintenance expenses were $213.0 million, $192.7 million and $200.3 million in 2006, 2005 and 2004, respectively. These costs increased $20.3 million in 2006 compared to 2005 due primarily to increases in materials and outside contractor costs associated with planned and unplanned outages at the District's major base load generation facilities. These costs decreased $7.6 million in 2005 compared to 2004 due primarily to the accrual of $13.0 million for certain stay benefits to employees at CNS paid out in late 2004. There was no such accrual for stay benefits in 2005. This decrease is partially offset by costs associated with a planned refueling and maintenance outage at CNS in 2005. No such refueling outage occurred in 2004.

The transmission and distribution operation and maintenance expenses were $42.4 million, $39.1 million and $34.9 million in 2006, 2005 and 2004, respectively. These costs increased $3.3 million in 2006 as compared to 2005 and increased $4.2 million in 2005 as compared to 2004 due to increased contractor and material costs for maintenance work done in connection with the strategic asset management program.

Customer service and information expenses were $14.5 million, $14.7 million and $14.6 million in 2006, 2005 and 2004, respectively. These expenses did not vary significantly from year to year.

Administrative and general expenses were $55.4 million, $49.3 million and $46.4 million in 2006, 2005 and 2004, respectively. These expenses increased $6.1 million in 2006 as compared to 2005 due primarily to a major upgrade to the District's enterprise computer software system.

Decommissioning expenses represent the net amount accrued each year for the future decommissioning of CNS. Decommissioning expenses decreased by $10.4 million in 2006 as compared to 2005 due to the District designating an $18.4 million refund from the Commission in 2005 to be used for the eventual decommissioning of CNS. This decrease is partially offset by a $6.4 million net increase in investment earnings from 2005 along with a final Commission refund of $1.6 million received in 2006.

Decommissioning expenses increased by $13.8 million in 2005 as compared to 2004 due to the District designating an $18.4 million refund from the Commission to be used for the eventual decommissioning of CNS. This increase is partially offset by a $4.6 million net decrease in investment earnings from 2004.

To the extent that the accretion expense on the asset retirement obligation ("ARO") determined under SFAS No. 143 is different from the total of amounts collected in rates and investment earnings on monies accumulated in the decommissioning funds, the District will defer that difference as a regulatory asset or liability to be recovered or refunded in future periods. Accretion expense for 2006, 2005 and 2004 was $30.4 million, $29.0 million and $27.6 million, respectively, and decommissioning expense was $22.3 million, $32.7 million and 18.9 million, respectively.

Depreciation and amortization expenses were $112.2 million, $103.5 million and $91.5 million in 2006, 2005 and 2004, respectively. These expenses increased $8.7 million in 2006 as compared to 2005 and increased $12.0 million in 2005 as compared to 2004 because of new plant additions. Also, plant additions to CNS are being depreciated over its original operating license which ends in January 2014.

Increase in Fund Equity

The increase in fund equity (net revenues) was $25.4 million in 2006, $41.4 million in 2005 and $24.0 million in 2004. The decrease in fund equity of $16.0 million in 2006 as compared to 2005 reflects an increase in depreciation expenses and a decrease in revenue requirements used to establish rates for 2006 for the purpose of commercial paper principal payments offset, in part, by an increase in investment in facilities from current year revenues. The increase in fund equity of $17.4 million in 2005 as compared to 2004 reflects increases in revenue requirements used to establish rates in 2005 for the purpose of increased commercial paper payments and increased payments of principal amounts on outstanding revenue bonds.

CAPITAL REQUIREMENTS

The District's Board of Directors ("Board") authorized capital projects totaling approximately $142.2 million in 2006, $91.2 million in 2005 and $208.9 million in 2004. The amount for 2006 included $19.7 million for phase one of the installation of a dry cask fuel storage system and $11.2 million for a supplement to the generator refurbishment project, both at CNS. The amount for 2005 included $14.0 million for costs associated with the license renewal for CNS and $14.3 million for a low nitrogen oxide coal burner equipment replacement project at GGS. CNS is currently licensed to operate until January 2014. The District plans to seek a 20-year license extension from the Nuclear Regulatory Commission to operate the plant to 2034. The amount for 2004 included $81.3 million for the installation of 60 MW of wind generation that became operational in the fourth quarter of 2005, $20.3 million for a generator rewind at CNS, $10.7 million for a generator rewind at GGS, and $12.0 million for the installation of a well field to provide a supplemental source of cooling water for GGS. Drought-like conditions have existed in western Nebraska for the last six years, which could impact the future availability of cooling water for GGS from the Platte River system and Lake McConaughy. The well field was installed as part of the District's drought mitigation strategy to insure the continued availability of cooling water. The remaining capital projects authorized in 2006, 2005 and 2004, which totaled $111.3 million, $62.9 million and $84.6 million, respectively, were primarily for renewals and replacements to existing facilities and other minor additions and improvements. The District's Board-approved budget for capital projects in 2007 is $274.8 million, which includes $57.0 million for the reconstruction of transmission and distribution lines as the result of the severe year-end ice, wind and snow storms, $25.0 million for phase two of the installation of a dry cask fuel storage system at CNS, and $17.9 million for a reheater replacement at GGS. The District's capital requirements are funded by a combination of monies generated from operations, issuance of revenue bonds, issuance of short-term debt, and other available reserve funds.

FINANCING ACTIVITIES

The District had $1.397 billion (par amount) of outstanding revenue bonds at December 31, 2006, as compared to $1.354 billion (par amount) at December 31, 2005 and $1.242 billion (par amount) at December 31, 2004. The revenue bonds outstanding are at fixed interest rates, except for $53.1 million of 2004 Auction Rate Bonds with variable interest rates, and were issued at premiums or discounts. In addition, the District had outstanding $60.0 million of tax-exempt commercial paper ("TECP") notes at December 31, 2006, $70.0 million at December 31, 2005 and $83.9 million at December 31, 2004. A bank credit agreement is maintained to support the sale of the commercial paper notes.

In September 2006, the District issued $157.3 million of tax-exempt revenue bonds at a premium to fund its $93.4 million share of construction costs from 2007 through 2008 of the Omaha Public Power District ("OPPD") Nebraska City Station Unit 2 ("NC2") coal-fired generating plant and associated transmission facilities, to advance refund $40.4 million of revenue bonds, and to provide $13.0 million for certain generation and transmission capital additions. The District's remaining share of the NC2 construction costs after application of these bond proceeds is currently estimated to be approximately $25.0 million which is expected to be incurred over the next two years. The total plant construction costs are estimated to be $716.0 million. Under the terms of a power purchase agreement with OPPD, the District will receive 23.7% of the output of NC2, estimated to be 157 MWs when it commences operation, which is expected to be in May 2009. The refunded bonds represent a portion of the bonds issued in 2002 with a maturity of January 1, 2007.

In January 2005, the District issued $103.6 million of tax-exempt revenue bonds at a premium to fund a 60 MW wind generation facility, and a well field and generator rewind at the District's GGS coal-fired generating plant. In February 2005, the District issued $75.3 million of tax-exempt revenue bonds at a premium to advance refund $76.9 million of bonds, which amount represented a portion of the bonds issued in 1999 and 2003 with maturities from January 1, 2011 through January 1, 2016. The refunding is anticipated to result in total debt service savings to the District of $3.0 million during the period January 2005 through December 2015. In February 2005, the District issued $140.6 million of tax-exempt revenue bonds at a premium to advance refund a portion of the bonds issued in 1998 with maturities from January 1, 2009 through January 1, 2017. The refunding is anticipated to result in total debt service savings to the District of $6.5 million during the period February 2005 through December 2016. In October 2005, the District issued $131.9 million of tax-exempt revenue bonds at a premium to fund its $78.4 million share of construction costs through December 2006 of the OPPD NC2 plant and to advance refund $44.3 million of bonds. The refunded bonds represent a portion of the bonds issued in 1999 with maturities from January 1, 2017 through January 1, 2019. The refunding is anticipated to result in total debt service savings to the District of $2.2 million during the period October 2005 through December 2018.

In November 2004, the District issued $149.0 million of tax-exempt revenue bonds at a premium to advance refund $151.0 million of bonds, which amount represented a portion of the bonds issued in 1998 with maturities from January 1, 2011 through January 1, 2014. The refunding is anticipated to result in total debt service savings to the District of $6.1 million during the period November 2004 through December 2013. In April 2004, the District issued $53.1 million of taxable auction rate revenue bonds for the purpose of funding the cost of various capital projects at CNS.

The District retired $114.9 million, $76.8 million and $69.9 million of General System Revenue Bonds in 2006, 2005 and 2004, respectively.

The District's current credit ratings on its long-term debt are as follows:

Moody's Investors Service	A1	(stable outlook)
Fitch Ratings	A+	(stable outlook)
Standard & Poor's Ratings Services	A	(stable outlook)

DEBT SERVICE COVERAGE

The District's debt service coverage was 1.61 in 2006, 1.68 in 2005 and 1.58 in 2004. The coverage is provided primarily by the amounts collected in operating revenues to fund the cost of utility plant additions, the amounts collected in operating revenues for principal and interest payments on the outstanding commercial paper notes, and the amounts collected in operating revenues to fund the cost of payments made to those municipalities served by the District under long-term Professional Retail Operating Agreements. The District has established a goal in its planning process to maintain a debt service coverage of approximately 1.5 times annual debt service.

CNS FUTURE OPERATION

Cooper Nuclear Station is currently licensed to operate until January 2014. In August 2006, the Board approved a project to uprate station capacity by an amount up to 12 MWs. This additional capacity is scheduled to be available following the spring 2008 refueling and maintenance outage. The District is currently performing additional studies on CNS to consider an uprate of station capacity of an additional 60-120 MWs. A recommendation to the Board regarding the issues associated with power uprate options is expected later in 2007. In November 2004, the Board approved a recommendation by management to proceed with the process to seek approval from the Nuclear Regulatory Commission ("NRC") to extend the operating license of CNS to 2034. The application is currently scheduled to be submitted to the NRC in September 2008.

The District entered into an agreement for support services at CNS with Entergy Nuclear Nebraska, LLC, a wholly-owned indirect subsidiary of Entergy Corporation, in October 2003. The Entergy Agreement is for an initial term ending January 18, 2014. The agreement requires the District to reimburse Entergy's costs of providing services and to pay Entergy annual management fees. Beginning in 2007 and each year thereafter, Entergy could also earn additional incentive fees if CNS achieves identified safety and regulatory performance targets during each such year.

The District entered into a power sales contract with MEC to provide 250 MW of capacity and energy from January 1, 2005 until December 31, 2009. The District also entered into agreements for the sale of capacity and energy from CNS to Heartland, to Aquila, and to MEAN. The Heartland agreement provides for delivery of capacity and energy beginning on January 1, 2004 and terminating on December 31, 2013 in amounts ranging from 5 MW up to 45 MW. The Aquila agreement provides for delivery of 75 MW of capacity and energy from January 1, 2005 until January 18, 2014. The MEAN agreement, amended on May 1, 2006, provides for delivery of capacity and energy beginning May 1, 2006 and terminating on April 30, 2014 of 100 MW, of which 60% will be provided from CNS and 40% from GGS. If CNS is removed from commercial operation or off-line continuously for six months, the associated energy will be supplied from GGS.

RISK MANAGEMENT PRACTICES

The District has begun the process of developing a structured Enterprise-wide Risk Management process to assist it in being proactive in managing its critical business risks and support meeting its strategic goals and objectives.

The District builds or acquires resources to serve its firm total requirement wholesale and retail customers and not the wholesale non-firm market. However, there are times during the year when the District's resources are greater than that required to serve its firm load and the District sells energy in the non-firm market as the case may be. The District also buys energy in the non-firm market during periods of outages at its base load units or if it is more economical than generating energy from its own resources.

The exposure to volatility in electric energy and fuel prices, uncertainty in load and resource availability, the credit worthiness of counterparts and the operational risks associated with transacting in the wholesale energy markets are managed through the District's Energy Risk Management ("ERM") program and associated ERM Governing Policy (the "Policy").

The Policy, approved by the Board establishes guidelines and objectives and delegation of authorities necessary to govern activities related to the District's energy risk management program. The District conducts its ERM activities in a manner that supports the objectives stated in the policy. The District has developed the ERM program to identify and measure energy risk exposure, develop and implement strategies to proactively manage those risks, and to monitor and report on the effectiveness of those strategies.

The objective of the program is to increase fuel and energy price stability by hedging the risk of significant adverse impacts to cash flow. These adverse impacts could be caused by events such as natural gas or power price spikes or extended unplanned outages. The ERM program has been developed to provide assurance to the Board that the risks associated with the District's energy trading are being quantified and appropriately managed.

The District executes its ERM program in a non-speculative fashion with the objective of lowering the risk inherent in its physical production and trading activities. The District does not speculate in the energy markets, and any transaction designed to generate income based on expectations of market movements is prohibited.

The District also relies upon The Energy Authority, Inc. ("TEA") to both transact on its behalf in the wholesale energy markets and to develop and recommend strategies to manage the District's exposure to risks in the wholesale energy markets. TEA combines a strong knowledge of the District's system, an in-depth understanding of the wholesale energy markets, experienced people, and state-of-the-art technology to deliver a broad range of standard and customized energy products and services to the District.

SUBSEQUENT EVENTS

In late December 2006, the District experienced severe damage to portions of its transmission, subtransmission and distribution systems due to ice, wind and snow storms. The greatest damage was in central Nebraska and included approximately 600 miles of transmission lines, substation and distribution facilities with an estimated cost of repair or replacement to be approximately $140.0 million. The District expects to initially finance the construction and repairs of the storm-damaged facilities by using available proceeds of short-term indebtedness, including tax-exempt commercial paper. In April 2007, the District increased the $150.0 million tax-exempt commercial paper credit agreement to $250.0 million to provide interim financing for the storm damage. The District anticipates 60% to 70% of the construction and repair costs to be reimbursed by the Federal Emergency Management Agency ("FEMA") over the next two years. The District expects to issue long-term tax-exempt revenue bonds in 2008 to extinguish the short-term debt that remains after receiving reimbursement of eligible costs from FEMA.

In February 2007, the District issued $93.7 million of taxable auction rate revenue bonds for the purpose of funding the cost of various capital projects at CNS.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of the
Nebraska Public Power District:

We have audited the accompanying balance sheets of Nebraska Public Power District (the "District") as of December 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in fund equity and of cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis included on pages two through nine is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquires of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Governmental Auditing Standards,* we have also issued our report dated April 4, 2007 on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended December 31, 2006. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule, "Calculation of Debt Service Ratios in accordance with the General Revenue Bond Resolution for the years ended December 31, 2006 and 2005," is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

St. Louis, Missouri
April 4, 2007

Balance Sheets—December 31, 2006 and 2005 (000's)

	2006	2005
ASSETS		
Utility Plant, at Cost:		
Utility plant in service	$ 3,408,375	$ 3,374,138
Less reserve for depreciation	1,879,755	1,821,331
	1,528,620	1,552,807
Construction work in progress	121,390	98,093
Nuclear fuel, at amortized cost	89,151	64,439
	1,739,161	1,715,339
Special Purpose Funds:		
Cash and cash equivalents:		
Construction funds	1	5,027
Debt reserve fund	12,633	10
Employee benefit funds	2,005	1,248
Investments:		
Construction funds	60,402	71,487
Debt reserve fund	72,322	83,110
Employee benefit funds	3,509	2,838
Decommissioning funds	425,169	402,826
	576,041	566,546
Current Assets:		
Cash and cash equivalents	35,894	55,014
Investments	97,993	132,718
Receivables, less allowance for doubtful accounts of $526 and $592	66,137	72,345
Fossil fuels, at average cost	24,869	23,974
Materials and supplies, at average cost	85,110	82,627
Prepayments and other current assets	2,881	2,392
	312,884	369,070
Deferred Charges and Other Assets:		
Deferred asset retirement obligation	223,063	214,044
Long-term capacity contracts	212,425	121,062
Deferred settlement charges	27,849	31,751
Unamortized financing costs	14,611	14,300
Investment in The Energy Authority	6,413	5,856
Other	3,476	5,064
	487,837	392,077
TOTAL ASSETS	$ 3,115,923	$ 3,043,032
FUND EQUITY AND LIABILITIES		
Fund Equity:		
Invested in capital assets, net of related debt	$ 317,143	$ 349,364
Restricted	34,378	33,211
Unrestricted	459,911	403,467
	811,432	786,042
Long-Term Debt:		
Revenue bonds, net	1,353,092	1,269,617
Commercial paper notes	60,000	70,000
	1,413,092	1,339,617
Current Liabilities:		
Current maturities of long-term debt	76,788	114,861
Accounts payable and accrued liabilities	47,619	47,276
Accrued in lieu of tax payments	6,543	6,556
Accrued payments to retail communities	3,930	3,960
Accrued compensated absences	11,957	11,076
Other	4,931	5,157
	151,768	188,886
Deferred Credits and Other Liabilities:		
Asset retirement obligation	654,580	623,432
Deferred revenues	74,577	93,734
Other	10,474	11,321
	739,631	728,487
TOTAL FUND EQUITY AND LIABILITIES	$ 3,115,923	$ 3,043,032

The accompanying notes to financial statements are an integral part of these statements.

Statements of Revenues, Expenses, and Changes in Fund Equity for the years ended December 31, (000's)	2006	2005
Operating Revenues	$ 752,372	$ 726,783
Operating Expenses:		
Power purchased	72,142	54,973
Production -		
Fuel	137,750	131,941
Operation and maintenance	212,985	192,652
Transmission and distribution operation and maintenance	42,375	39,138
Customer service and information	14,504	14,709
Administrative and general	55,375	49,316
Payments to retail communities	17,480	17,622
Decommissioning	22,343	32,744
Depreciation and amortization	112,203	103,524
Payments in lieu of taxes	6,589	6,636
	693,746	643,255
Operating Income	58,626	83,528
Non-Operating Income:		
Investment income	33,704	21,018
Other income	763	398
	34,467	21,416
Increase in Fund Equity Before Debt and Other Expenses	93,093	104,944
Non-Operating Expenses:		
Interest on long-term debt	67,903	64,981
Allowance for funds used during construction	(1,085)	(1,740)
Other expenses (income)	885	259
	67,703	63,500
Increase in Fund Equity	25,390	41,444
Fund Equity:		
Beginning balance	786,042	744,598
Ending balance	$ 811,432	$ 786,042

The accompanying notes to financial statements are an integral part of these statements.

Statements of Cash Flows for the years ended December 31, (000's)	2006	2005
Cash Flows from Operating Activities:		
Receipts from customers and others	$ 761,973	$ 752,078
Receipt from legal settlement	1,606	18,428
Payments to suppliers	(370,508)	(366,488)
Payments to employees	(194,498)	(186,400)
Net cash provided by operating activities	198,573	217,618
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	597,056	702,624
Purchase of investments	(536,678)	(669,237)
Income received on investments	8,338	7,941
Net cash provided by investing activities	68,716	41,328
Cash Flows from Capital and Related Financing Activities:		
Proceeds from issuance of bonds	162,128	462,705
Proceeds from issuance of notes	90,000	—
Proceeds from repayment of notes receivable	117	506
Capital expenditures for utility plant	(151,549)	(176,403)
Purchase of capacity contract	(93,429)	(78,395)
Principal payments on long-term debt	(116,930)	(343,235)
Interest payments on long-term debt	(65,367)	(61,500)
Principal payments on notes	(100,000)	(13,900)
Interest payments on notes	(2,639)	(2,052)
Other non-operating revenues	(386)	(487)
Net cash used in capital and related financing activities	(278,055)	(212,761)
Net increase (decrease) in cash and cash equivalents	(10,766)	46,185
Cash and cash equivalents, beginning of year	61,299	15,114
Cash and cash equivalents, end of year	$ 50,533	$ 61,299
Reconciliation of Operating Income To Cash Provided By Operating Activities:		
Operating income	$ 58,626	$ 83,528
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	112,203	103,524
Undistributed net revenue - The Energy Authority	(557)	172
Decommissioning, net of customer contributions	22,342	14,316
Amortization of nuclear fuel	22,213	21,146
Changes in assets and liabilities which provided (used) cash:		
Receivables, net	6,208	767
Fossil fuels	(895)	(1,770)
Materials and supplies	(2,483)	(6,767)
Prepayments and other current assets	(489)	71
Deferred charges	160	(686)
Accounts payable and accrued payments to retail communities	313	(20,776)
Deferred revenues	(19,157)	27,423
Other liabilities	89	(3,330)
Net cash provided by operating activities	$ 198,573	$ 217,618

The accompanying notes to financial statements are an integral part of these statements.

Supplemental Schedule – Calculation of Debt Service Ratios in accordance with the General Revenue Bond Resolution for the years ended December 31, (000's)	2006	2005
Operating revenues	$ 752,372	$ 726,783
Operating expenses	(693,746)	(643,255)
Operating income	58,626	83,528
Investment and other income	34,467	21,416
Debt and other expenses	(67,703)	(63,500)
Increase in fund equity	25,390	41,444
Add:		
Debt and related expenses	66,886	62,755
Depreciation and amortization	112,203	103,524
Payments to retail communities *	17,480	17,622
Inventory price adjustment	—	3,006
	196,569	186,907
Deduct:		
Gain on sale of property	332	140
Investment income retained in construction funds	3,003	3,558
Unrealized gain (loss) on investment securities	2,246	(1,812)
	5,581	1,886
Fund equity available for debt service under the General Revenue Bond Resolution	$ 216,378	$ 226,465
Amounts deposited in the General System Debt Service Account:		
Principal	$ 80,370	$ 83,120
Interest	54,376	51,538
	$ 134,746	$ 134,658
Ratio of fund equity available for debt service to debt service deposits	1.61	1.68

* Under the provisions of the General Revenue Bond Resolution, the payments required to be made by the District with respect to the Professional Retail Operating Agreements are to be made on the same basis as subordinated debt.

The accompanying notes to financial statements are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. *Organization –*

Nebraska Public Power District (the "District"), a public corporation and a political subdivision of the State of Nebraska, operates an integrated electric utility system which includes facilities for the generation, transmission and distribution of electric power and energy to its wholesale and retail customers. The control of the District and its operations is vested in a Board of Directors consisting of 11 members popularly elected from districts comprising subdivisions of the District's chartered territory. The Board of Directors is authorized to establish rates.

B. *Basis of Accounting –*

The financial statements are prepared in accordance with generally accepted accounting principles and follow accounting guidance provided by the Governmental Accounting Standards Board ("GASB"). The District elected the option permitted by GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*" to implement all Financial Accounting Standards Board ("FASB") pronouncements that do not conflict or contradict GASB pronouncements.

The District follows the provisions of SFAS No. 71, "*Accounting for the Effects of Certain Types of Regulation*" (SFAS No. 71). In general, SFAS No. 71 permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to its customers.

C. *Use of Estimates –*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. *Revenue –*

Wholesale revenues are recorded in the period in which service is rendered, and retail revenues are recorded in the month retail customers are billed. Consequently, revenues applicable to service rendered to retail customers from the period covered by the last billing in a year to the end of the year are not recorded as revenues until the following year.

In August 2005, the District received an $18.4 million settlement from the Central Interstate Low-Level Radioactive Waste Commission ("Commission") which was recorded in Operating Revenues. A final settlement payment of $1.6 million was received on April 3, 2006.

The District is required under the General Revenue Bond Resolution (the "Resolution") to charge rates for electric power and energy so that revenues will be at least sufficient to pay operating expenses, aggregate debt service on the General Revenue bonds, amounts to be paid into the Debt reserve fund, and all other charges or liens payable out of revenues. In the event the District's rates for wholesale service result in a surplus or deficit in revenues during a rate period, such surplus or deficit within certain limits may be retained in a rate stabilization account. Any amounts in excess of the limits will be taken into account in projecting revenue requirements and establishing rates in future rate periods. Such treatment of wholesale revenues is stipulated by the District's long-term wholesale power supply contracts. The District accounts for any surplus or deficit in revenues for retail service in a similar manner.

The surpluses and deficits from prior years have been accounted for in these financial statements by either a deferral of revenue or costs. During the years ended December 31, the District deferred net costs of $19.1 million in 2006 and deferred net revenues of $27.4 million in 2005. The cumulative surplus at December 31, 2006, to be reflected in future revenue requirements is approximately $74.6 million. The District's electric rates for 2007 include a refund of $28.8 million of the cumulative surplus.

E. *Depreciation, Amortization and Maintenance –*

The District records depreciation over the estimated useful life of the property primarily on a straight-line basis. The District's electric rates are established based upon debt service and operating fund requirements. Straight-line depreciation is not considered in the design of rates. As such, the District has provided for depreciation of utility plant funded from debt in its rate setting process by using the debt service principal requirements as the basis for depreciation as opposed to the straight-line basis of depreciation included in the financial statements of the District. Under the methodology employed in establishing rates, the excess of accumulated depreciation expense calculated using the debt service principal approach over the amount calculated using the straight-line method is $25.5 million and $26.0 million for the years ended December 31, 2006 and 2005, respectively. Annual depreciation expense calculated under the debt service principal approach exceeded straight-line depreciation by $0.9 million and $1.3 million for the years ended December 31, 2006 and 2005, respectively. Depreciation expense recorded on a straight-line basis on utility plant was $97.1 million and $90.0 million for the years ended December 31, 2006 and 2005, respectively. Depreciation on utility plant was approximately 3% in each of the years ended December 31, 2006 and 2005. The District has fully depreciated utility plant that is still in-service of $599.0 million and $583.2 million at December 31, 2006 and 2005, respectively, primarily relating to CNS.

Current rates for electric service provide for a portion of plant additions to be funded from revenues. These plant additions are capitalized and depreciated over their estimated useful life. At December 31, 2006 and 2005, $421.5 million and $437.3 million, respectively, of net utility plant was funded from revenues. Provision for depreciation of utility plant funded from revenues is computed using the straight-line method.

The District owns and operates the electric distribution system in one of the 80 municipalities that it serves at retail. In addition, the District has long-term Professional Retail Operating ("PRO") Agreements with 79 municipalities for certain retail electric distribution systems. These PRO Agreements obligate the District to make payments based on gross revenues from the municipalities and pay for normal property additions during the term of the agreements. The District has recorded provisions, net of retirements, for amortization of these plant additions of $8.8 million in 2006 and $7.4 million in 2005 which is included in Depreciation and amortization expense. These plant additions, which are fully depreciated, totaled $118.0 million at December 31, 2006 and $110.5 million at December 31, 2005.

The District charges maintenance and repairs, including the cost of renewals and replacements of minor items of property, to maintenance expense accounts. Renewals and replacements of property (exclusive of minor items of property, as set forth above) are charged to utility plant accounts. Upon retirement of property subject to depreciation, the cost of property is removed from the plant accounts and charged to the reserve for depreciation, net of salvage.

F. *Cash and Investments -*

The District follows GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*" (GASB No. 31). GASB No.31 requires the District's investments to be recorded at market value with the changes in the market value of investments reported as Investment income in the Statement of Revenues, Expenses, and Changes in Fund Equity. Investments are recorded at market value as determined by quoted market prices. The District had an unrealized net gain of $2.2 million as of December 31, 2006 and an unrealized net loss of $1.8 million as of December 31, 2005.

Cash deposits, primarily interest bearing, are covered by federal depository insurance or pledged collateral of unregistered U.S. Government securities held by various depositories. Investments were in unregistered U.S. Government securities and Federal Agency obligations held in the District's name by the custodial banks. Cash and investments totaled $709.9 million and $754.3 million at December 31, 2006 and 2005, respectively.

The District considers highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

G. *Fossil Fuel and Materials and Supplies -*

The District maintains inventories for fossil fuels, and materials and supplies which are valued at average cost. Due provision is made for slow moving or obsolete items.

H. *Nuclear Fuel -*

The District has entered into two long-term contracts for the various nuclear fuel components of uranium concentrates, conversion, enrichment, and fabrication. These contracts do not obligate the District to purchase fuel components in excess of the requirements of operations. Nuclear fuel in the reactor is being amortized on the basis of energy produced as a percentage of total energy expected to be produced. Fees for disposal of fuel in the reactor are being provided as part of the fuel cost.

I. *Unamortized Financing Costs -*

These costs represent issuance expenses on all bonds and are being amortized over the life of the respective bonds using the bonds outstanding method. Deferred unamortized financing costs associated with bonds refunded are amortized using the bonds outstanding method over the shorter of the original or refunded life of the respective bonds in accordance with GASB Statement No. 23, "*Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities.*"

J. *Allowance for Funds Used During Construction ("AFUDC") -*

This allowance, which represents the cost of funds used to finance construction, is capitalized as a component of the cost of the utility plant and is credited to Non Operating Expenses. The capitalization rate depends on the source of financing. The rate for construction financed with revenue bonds is based upon the interest cost of each bond issue less interest income. Construction financed on a short-term basis with tax-exempt commercial paper ("TECP") is charged a rate based upon the projected average interest cost of TECP outstanding. For the periods presented herein, the AFUDC rates for construction funded by revenue bonds vary from 3.8% to 5.0%. For construction financed on a short-term basis with TECP, the rate charged was 4.0% in 2006 and 3.6% in 2005.

K. *Fund Equity -*

Fund equity consists primarily of cumulative operating revenues collected to finance capital additions through current earnings, to repay debt issued to fund capital additions, and to provide for working capital to fund fuel and inventory requirements. Such fund equity accumulated for utility plant additions is net of accumulated depreciation on such utility plant assets.

L. *Asset Retirement Obligations -*

Asset retirement obligations represent the fair value of the District's legal liability associated with the retirement of Cooper Nuclear Station ("CNS"), various ash landfills at its two coal-fired power stations and the removal of asbestos at its various generating facilities among other things. In March 2005, the FASB issued FASB Interpretation No. 47, "*Accounting for Conditional Asset Retirement Obligations*" (FIN 47) and is an interpretation of FASB Statement No. 143, "*Accounting for Asset Retirement Obligations*" (SFAS No. 143). FIN 47 clarifies the term "conditional" asset retirement obligation as used in SFAS No. 143 to refer to the recognition of a liability for the fair value of a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. As discussed in Note 11, the District adopted FIN 47 as of December 31, 2005.

M. Recent Accounting Pronouncements –

In June 2004, the GASB issued Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"* (GASB No. 45). As allowed under current accounting standards, the District has been recognizing other postemployment benefits ("OPEB") on a pay-as-you-go basis. Beginning in 2007, the implementation of GASB No. 45 will require the District to measure and recognize postemployment benefits other than pensions during the periods when employees render the service. An actuarial valuation of the District's OPEB obligation has been completed. The adoption of GASB No. 45 will result in additional expense and increased liability. However, there is no requirement under GASB No. 45 for cash outlays to fund OPEB expenses accrued in the current year for future year benefit payments. The District will continue to pay the current year costs for other postretirement benefits for retirees. The District is preparing a plan which will address the future obligations while minimizing an adverse impact on electric rates. Components of the plan include deferring some of future years' expenses through a regulatory asset combined with a long-term funding strategy to address its postemployment benefit obligations.

In December 2006, the GASB issued Statement No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations"* (GASB No. 49). This standard provides accounting and financial reporting guidance to governments for liabilities connected with obligations to clean up pollution or contamination. Specifically, GASB No. 49 explains when pollution remediation-related obligations should be reported, how those obligations' costs and liabilities should be determined, and the required footnote disclosures. GASB No. 49 is effective for financial statement periods beginning after December 15, 2007. The District is currently engaged in studies to assess the impact of this new accounting pronouncement.

2. UTILITY PLANT:

Utility plant activity for the year ended December 31, 2006 was as follows (000's):

	December 31, 2005	Increases	Decreases	December 31, 2006
Nondepreciable utility plant:				
Land and improvements	$ 43,561	$ 58	$ (605)	$ 43,014
Construction in progress	98,093	94,737	(71,440)	121,390
Total nondepreciable utility plant	141,654	94,795	(72,045)	164,404
Nuclear fuel*	64,439	46,925	(22,213)	89,151
Depreciable utility plant:				
Generation - Fossil	1,330,691	21,972	(12,603)	1,340,060
Generation - Nuclear	993,350	21,150	(4,293)	1,010,207
Transmission	620,522	20,313	(19,868)	620,967
Distribution	142,278	9,114	(1,610)	149,782
General	243,736	7,598	(6,988)	244,346
Total depreciable utility plant	3,330,577	80,147	(45,362)	3,365,362
Less reserve for depreciation	(1,821,331)	(103,787)	45,362	(1,879,756)
Depreciable utility plant, net	1,509,246	(23,640)	—	1,485,606
Utility plant activity, net	$1,715,339	$118,080	$(94,258)	$1,739,161

*Nuclear fuel decreases represent amortization of $22.2 million.

The 2007 construction plan includes authorization for future expenditures of $274.8 million. These expenditures will be funded from existing bond proceeds, revenues, other available funds and additional financings as deemed appropriate.

3. SPECIAL PURPOSE FUNDS:

Special purpose funds of the District as of December 31 are as follows (000's):

The Construction funds are used for capital improvements, additions and betterments to and extensions of the District's system. The sources of monies for deposits to the construction funds are from revenue bond proceeds and issuance of short-term debt.

	2006	2005
Construction funds - Cash and cash equivalents	$ 1	$ 5,027
Construction funds - Investments	60,402	71,487
	$ 60,403	$ 76,514

The Debt reserve fund, as established under the Resolution, consists of a Primary account and a Secondary account. The District is required by the Resolution to maintain an amount equal to 50% of the maximum amount of interest accrued in the current or any future year in the Primary account. Such amount totaled $34.4 million and $33.2 million as of December 31, 2006 and 2005, respectively. The Secondary account can be established at such amounts and can be utilized for any lawful purpose as determined by the District's Board of Directors. Such account totaled $50.6 million and $49.9 million as of December 31, 2006 and 2005, respectively.

	2006	2005
Debt reserve fund - Cash and cash equivalents	$ 12,633	$ 10
Debt reserve fund - Investments	72,322	83,110
	$ 84,955	$ 83,120

The Employee benefit funds consist of a self funded hospital-medical benefit plan and a retired employee life insurance benefit plan. The District pays 80% of the hospital-medical premiums with the employees paying the remaining 20% of the cost of such coverage. The plan had contributed funds of $3.7 million and $2.5 million at December 31, 2006 and 2005, respectively. The District pays the total cost of the employee life insurance benefit once the employee retires. The plan had contributed funds of $1.8 million and $1.6 million at December 31, 2006 and 2005, respectively. Both funds are held by outside trustees in compliance with the funding plans approved by the District's Board of Directors.

	2006	2005
Employee benefit funds - Cash and cash equivalents	$ 2,005	$ 1,248
Employee benefit funds - Investments	3,509	2,838
	$ 5,514	$ 4,086

The Decommissioning funds are utilized to account for the investments held to fund the estimated cost of decommissioning CNS when its operating license expires. The Decommissioning funds are held by outside trustees or custodians in compliance with the decommissioning funding plans approved by the District's Board of Directors which are invested primarily in fixed income governmental securities.

	2006	2005
Decommissioning funds	$ 425,169	$ 402,826

4. LONG-TERM CAPACITY CONTRACTS:

Long-term capacity contracts include the District's $171.8 million share of the estimated construction costs through December 2008 of Omaha Public Power District's ("OPPD") 663 MW Nebraska City Station Unit 2 ("NC2") coal-fired power plant and associated transmission facilities. The total plant construction costs are estimated to be $716.0 million. The District has entered into a participation power agreement with OPPD for a 23.7% share of the power from this plant. The District's remaining share of the plant construction costs and associated transmission facilities is estimated to be $25.0 million which will be incurred over the next two years. The District expects to begin amortizing this capacity contract in July 2009 on a straight-line basis through December 31, 2040.

Long-term capacity contracts also include the District's purchase of the capacity of a 50 MW hydroelectric generating facility owned and operated by The Central Nebraska Public Power and Irrigation District ("Central"). The District is recording amortization on a straight-line basis over the 40-year estimated useful life of the facility. Accumulated amortization was $42.0 million in 2006 and $40.0 million in 2005. The unamortized amount of the Central capacity contract is $40.6 million and $42.7 million as of December 31, 2006 and 2005, respectively.

The District has an agreement whereby Central makes available all the production of the facility and the District pays all costs of operating and maintaining the facility plus a charge based on the amount of energy delivered to the District. Costs of $1.4 million in 2006 and $1.3 million in 2005 are included in Power purchased.

5. DEFERRED SETTLEMENT CHARGES:

The District deferred the cost of a $39.1 million payment to MidAmerican Energy Company ("MEC") in 2002 in conjunction with the settlement of litigation with respect to the operation of CNS. The deferred costs of the MEC payment will be recognized as expense in future rate periods when such costs are included in the revenue requirements used to establish electric rates. The balance of such deferral was $31.8 million and $35.5 million as of December 31, 2006 and 2005, respectively, of which $3.9 million and $3.8 million was included in Receivables as of December 31, 2006 and 2005, respectively.

6. INVESTMENT IN THE ENERGY AUTHORITY:

The District is a member of The Energy Authority ("TEA"), a power marketing corporation. TEA assumes the wholesale power marketing responsibilities of its members with each member having ownership in the joint venture. TEA has access to approximately 14,000 megawatts of its members' generation located in Nebraska, Missouri, Florida, Georgia and South Carolina. TEA also provides its members with natural gas procurement or contract management services for gas used in the generation of electricity and for local distribution. TEA provides the District with gas contract management services.

In July 2006, TEA acquired substantially all of the assets of Power Resource Managers, a power resource management, trading and risk management firm headquartered in Bellevue, Washington. This acquisition will facilitate the expansion of TEA's service offerings to public power organizations in the West.

The table below contains the condensed financial information for TEA as of December 31, (000's):

Condensed Balance Sheet	2006	2005
Current Assets	$ 149,853	$ 163,902
Noncurrent and Restricted Assets	7,677	6,714
Total Assets	$ 157,530	$ 170,616
Current Liabilities	$ 123,382	$ 140,414
Noncurrent Liabilities	238	1,899
Net Assets	33,910	28,303
Total Liabilities and Net Assets	$ 157,530	$ 170,616
Condensed Statement of Operations		
Revenues	$ 1,587,147	$ 1,509,836
Energy Costs	(1,427,626)	(1,325,357)
Gross Profit	159,521	184,479
Operating Expenses	(26,464)	(20,917)
Operating Income	133,057	163,562
Non-Operating Income	2,363	1,418
Increase in Net Assets	$ 135,420	$ 164,980

At December 31, 2006 and 2005, the District had a 21.4% ownership interest in TEA. All of TEA's revenues and costs are allocated to the members. TEA's net revenues are allocated among the members based upon a combination of each respective member's purchased power and power sales transactions and natural gas transactions with TEA and each member's ownership interest.

The following table summarizes the transactions applicable to the District's investment in TEA as of December 31, (000's):

	2006	2005
Beginning Balance	$ 5,856	$ 6,028
Reductions to power costs and increase in electric revenues	46,314	50,403
Distributions from TEA	(42,714)	(48,511)
Other Expenses	(3,043)	(2,064)
Ending Balance	$ 6,413	$ 5,856

The District's power purchases and sales with TEA are reflected in the Statements of Revenues, Expenses and Changes in Fund Equity as Power purchased and Operating Revenues, respectively. For the years ended December 31, 2006 and 2005, the District recorded Operating Revenues of $53.6 million and $65.9 million, respectively, and Power purchased expenses of $30.3 million and $16.6 million, respectively.

At December 31, 2006 and 2005, $6.2 million and $8.3 million due from TEA was included in Receivables and $1.9 million and $0.8 million due to TEA was included in Accounts payable, respectively.

As of December 31, 2006, the District is obligated to guaranty, directly or indirectly, TEA's electric trading activities in an amount up to $28.9 million plus attorney's fees which any party claiming and prevailing under the guaranty might incur and be entitled to recover under its contract with TEA. The guaranty for gas trading was removed January 1, 2005. Generally, the District's guaranty obligations for electric trading would arise if TEA did not make the contractually required payment for energy, capacity or transmission which was delivered or made available or if TEA failed to deliver or provide energy, capacity or transmission as required under a contract.

The District's exposure relating to TEA is limited to the District's capital investment in TEA, any accounts receivable from TEA and trade guarantees provided to TEA by the District. These guarantees are within the scope of FASB Interpretation No. 45, *"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"* (FIN 45). Upon the District making any payments under its electric guaranty, it has certain contribution rights with the other members of TEA in order that payments made under the TEA member guaranties would be equalized ratably, based upon each member's equity ownership interest in TEA. After such contributions have been effected, the District would only have recourse against TEA to recover amounts paid under the guaranty. The term of this guaranty is generally indefinite, but the District has the ability to terminate its guaranty obligations by causing to be provided advance notice to the beneficiaries thereof. Such termination of its guaranty obligations only applies to TEA transactions not yet entered into at the time the termination takes effect. As of December 31, 2006 and 2005, the District has not recorded a liability related to these guaranties.

7. COMMERCIAL PAPER NOTES:

The District is authorized to issue up to $150.0 million of tax-exempt commercial paper ("TECP") notes. A $150.0 million credit agreement, which expires August 1, 2008, is maintained with a bank to support the sale of the TECP notes. The District had $60.0 million and $70.0 million of TECP notes outstanding at December 31, 2006 and 2005, respectively. The proceeds of the TECP notes have been used to provide short-term financing for certain capital additions and for other lawful purposes of the District. The effective interest rates on outstanding TECP notes for 2006 and 2005 were 3.2% and 2.5%, respectively.

The $60.0 million of TECP notes outstanding at December 31, 2006, are anticipated to be retired by future collections through electric rates and issuance of revenue bonds. The carrying value of commercial paper notes approximates market due to the short-term nature of the notes.

8. LINE OF CREDIT ARRANGEMENTS:

The District has a $150.0 million bank line of credit agreement that supports the payment of the principal outstanding of the tax-exempt commercial paper notes. See Note 7 for additional information. The District also has a $15.0 million bank line of credit to satisfy the payment guarantee requirements established by the Federal Price-Anderson Act. At December 31, 2006 and 2005, no amounts have been drawn on either line of credit.

9. REVENUE BONDS:

In September 2006, the District issued General Revenue Bonds, 2006 Series A, in the amount of $157.3 million to finance the District's share of the cost of construction of OPPD's NC2 coal-fired power plant and associated transmission facilities from 2007 through 2008, to advance refund the remaining General Revenue Bonds, 2002 Series A, and to finance certain generation and transmission capital additions.

In January 2005, the District issued General Revenue Bonds, 2005 Series A, in the amount of $103.6 million to finance the cost of a 60 MW wind generation facility, a GGS well field project and a generator rewind project at GGS.

In February 2005, the District issued General Revenue Bonds 2005 Series B-1 and B-2 in the amount of $215.9 million to advance refund a portion of the outstanding 1998 Series A, 1999 Series A, and 2003 Series A Bonds. The net proceeds of $234.9 million (after payment of $2.4 million in underwriting fees, insurance, and other issuance costs) plus an additional $0.9 million of debt service monies were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the 1998 Series A Bonds, 1999 Series A Bonds, and 2003 Series A Bonds. As a result, a portion of the 2008-2016 maturities of the 1998 Series A Bonds, 2010-2015 maturities of the 1999 Series A Bonds, and 2013-2014 maturities of the 2003 Series A Bonds are considered to be defeased and the liability for those bonds has been removed from the revenue bond long-term debt account group. The District advance refunded a portion of the 1998 Series A Bonds, 1999 Series A Bonds, and 2003 Series A Bonds to reduce its anticipated total debt service payments over the next 12 years by $9.5 million.

In October 2005, the District issued General Revenue Bonds, 2005 Series C, in the amount of $131.9 million to finance the District's initial share of the cost of construction of OPPD's NC2 coal-fired power plant through December 2006 and to advance refund a portion of the outstanding 1999 Series A Bonds. With respect to the refunded portion, net proceeds of $46.5 million (after payment of $0.6 million in underwriting fees, insurance, and other issuance costs) plus an additional $0.6 million of debt service monies were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the 1999 Series A Bonds. As a result, a portion of the 2016-2018 maturities of the 1999 Series A Bonds are considered to be defeased and the liability for those bonds has been removed from the revenue bond long-term debt account group. The District advance refunded a portion of the 1999 Series A Bonds to reduce its anticipated total debt service payments over the next 13 years by $2.2 million.

Revenue bonds consist of the following (000's):

December 31,	Interest Rate	2006	2005
General Revenue Bonds:			
1998 Series A:			
Serial Bonds			
2006 - 2016	4.50% - 5.25%	$ 77,045	$ 97,000
Term Bonds			
2017 - 2027	5.00%	13,485	13,485
Capital Appreciation Bonds			
2006	4.70% *	—	25,416
2007	4.75% *	27,928	26,647
1998 Series B:			
Serial Bonds			
2006 - 2017	4.50% - 5.25%	79,350	88,185
Term Bonds			
2018 - 2027	5.00%	83,570	83,570
1999 Series A Serial Bonds 2006 - 2011	4.25% - 5.00%	29,210	37,920
2002 Series A Serial Bonds 2006	5.00%	—	40,365
2002 Series B:			
Serial Bonds			
2006 - 2025	4.00% - 5.00%	63,410	67,955
Term Bonds			
2026 - 2032	5.00%	22,885	22,885
2003 Series A:			
Serial Bonds			
2006 - 2026	2.50% - 5.00%	107,150	110,670
Term Bonds			
2027 - 2034	5.00%	86,095	86,095
2004 Series A Auction Rate Bonds 2013	Variable	53,075	53,075
2004 Series B Serial Bonds 2010 - 2013	4.25% - 5.00%	149,030	149,030
2005 Series A Serial Bonds 2006 - 2025	2.50% - 5.25%	100,110	103,625
2005 Series B-1 Serial Bonds 2010 - 2015	5.00%	75,335	75,335
2005 Series B-2 Serial Bonds 2008 - 2016	4.00% - 5.00%	140,610	140,610
2005 Series C:			
Serial Bonds			
2010 - 2025, 2040	3.50% - 5.125%	74,385	74,385
Term Bonds			
2026 - 2029	5.00%	11,765	11,765
2030 - 2034	4.75%	18,240	18,240
2035 - 2040	5.00%	27,500	27,500
2006 Series A:			
Serial Bonds			
2006 - 2025	3.50% - 5.00%	83,505	—
Term Bonds			
2026 - 2030	5.00%	18,680	—
2031 - 2035	5.00%	23,840	—
2036 - 2040	4.375%	400	—
2036 - 2040	5.00%	30,020	—
Total par amount of revenue bonds		1,396,623	1,353,758
Unamortized premium net of discount		33,257	30,720
		1,429,880	1,384,478
Less - current maturities of revenue bonds		(76,788)	(114,861)
Total revenue bonds		$1,353,092	$1,269,617

*Approximate yield to maturity.

Debt service payments and principal payments of the General Revenue Bonds as of December 31, 2006 are as follows (000's):

Year	Debt Service Payments**	Principal Payments
2007	$ 141,472	$ 76,788
2008	142,706	80,300
2009	142,687	84,145
2010	139,566	85,185
2011	141,379	91,155
2012 - 2016	580,244	389,705
2017 - 2021	319,336	194,515
2022 - 2026	236,316	153,780
2027 - 2031	159,580	111,160
2032 - 2036	107,042	85,095
2037 - 2040	50,502	44,795
Total Payments	$2,160,830	$1,396,623

**Excludes interest on 2004 Series A Auction Rate Bonds which interest rate can change every 28 days on the Auction Date. The interest rate at issuance on April 28, 2004 was 1.10% and the interest rate on December 31, 2006 was 5.3%.

The fair value of outstanding revenue bonds is determined using currently published rates. The fair value is estimated to be $1,457.3 million and $1,413.2 million at December 31, 2006 and 2005, respectively.

10. LONG-TERM DEBT:

Long-term debt activity net of current activity for the year ended December 31, 2006 was as follows (000's):

	December 31, 2005	Increases	Decreases	December 31, 2006	Principal Amounts Due Within One Year
Revenue bonds	$1,269,617	$169,060	$(85,585)	$1,353,092	$76,788
Commercial paper notes	70,000	—	(10,000)	60,000	—
Total long-term debt activity	$1,339,617	$ 169,060	$(95,585)	$1,413,092	$76,788

11. ASSET RETIREMENT OBLIGATION:

The District has recorded an obligation for the fair value of its legal liability for asset retirement obligations associated with CNS and various ash landfills at its two coal-fired power stations. During 2005, the District adopted FIN 47 which resulted in additional asset retirement obligations related to the removal of asbestos at the District's various coal, gas and hydro generating facilities, polychlorinated biphenyls from substation and distribution equipment, and underground storage tanks as well as abandonment of water wells. The District has recorded a corresponding conditional asset retirement obligation of $14.2 million and $13.5 million as of December 31, 2006 and 2005, respectively. The total asset retirement obligation liability recorded by the District is $654.6 million and $623.4 million as of December 31, 2006 and 2005, respectively, and is included in Deferred Credits and Other Liabilities.

The following table shows costs as of January 1, and charges to the ARO that are included in Deferred Credits and Other Liabilities on the balance sheet as of December 31, (millions of dollars):

For the Year Ended December 31,	2006	2005
Balance, beginning of year	$623.4	$580.9
Accretion expense	31.2	29.0
Adoption of FIN 47	—	13.5
Balance, end of year	$654.6	$623.4

At the point the liability for the asset retirement is incurred, SFAS No. 143 requires capitalization of the costs to the related asset. For asset retirement obligations existing at the time of adoption, the statement requires capitalization of costs at the level that existed at the point of incurring the liability. These capitalized costs are depreciated over the same period as the related asset. At the date of adoption, the depreciation expense for past periods was recorded as a regulatory asset in accordance with SFAS No. 71 because the District will be able to recover these costs in future rates.

The initial liability is accreted to its present value each period. The District defers this accretion as a regulatory asset based on its determination that these costs can be collected from customers. Accretion was $31.2 million and $29.0 million for 2006 and 2005, respectively.

12. PAYMENTS IN LIEU OF TAXES:

The District is required to make payments in lieu of taxes, aggregating 5% of the gross revenue derived from electric retail sales within the city limits of incorporated cities and towns served directly by the District. Such payments totaled $6.6 million for the years ended December 31, 2006 and 2005.

13. LOW-LEVEL RADIOACTIVE WASTE DISPOSAL:

The District has access to the Barnwell, South Carolina low-level radioactive waste disposal facility and ships low-level radioactive waste generated as a result of operations at Cooper Nuclear Station to this facility on a routine basis. Legislation has been passed in South Carolina which would significantly reduce the amount of waste accepted from outside South Carolina and eliminate access after June 30, 2008. The District is also now utilizing the Energy Solutions facility in Clive, Utah for a portion of its low-level radioactive waste disposal needs. The District cannot predict future costs for the Barnwell and Energy Solutions facilities or whether the Barnwell and Energy Solutions facilities will remain open or available to the District.

14. RETIREMENT PLAN:

The District's Employees' Retirement Plan (the "Plan") is a defined contribution pension plan established by the District to provide benefits at retirement to regular full-time and part-time employees of the District. At December 31, 2006, there were 2,117 Plan members. Plan members are required to contribute a minimum of 2%, up to a maximum of 5%, of covered salary. The District is required to contribute two times the Plan member's contribution based on covered salary up to $40,000. On covered salary greater than $40,000, the District is required to contribute one times the Plan member's contribution. Plan provisions and contribution requirements are established and may be amended by the District's Board of Directors. The District's contribution was $10.3 million for 2006 and $10.0 million for 2005 of which $1.0 million and $0.9 million was accrued and in Accounts payable at December 31, 2006 and 2005 respectively.

15. POSTRETIREMENT BENEFITS:

The District, for employees hired on or prior to December 31, 1992, pays all or part of the cost (determined by retirement age) of certain hospital-medical premiums when these employees retire.

The District amended the plan effective January 1, 1993. Employees hired on or after January 1, 1993, are subject to a contribution cap that limits the District's portion of the cost of such coverage to the full premium the year the employee or retired employee reached age 65, or the year in which the employee retires if older than age 65. Any increases in the cost of such coverage in subsequent years would be paid by the retired employee.

The District further amended the plan effective January 1, 1999. Employees hired on or after January 1, 1999 are not eligible for postretirement hospital-medical benefits once they reach age 65 or Medicare eligibility. The District further amended the plan effective January 1, 2004, to provide that employees hired on or after that date will not be eligible for postretirement hospital-medical benefits once they retire.

The District also provides employees a life insurance benefit when they retire. Substantially all of the District's retired and active employees are eligible for such benefits. Currently, the cost of these benefits is recognized as expense as the premiums are paid. The total cost of postretirement hospital-medical and life insurance benefits was $8.3 million and $7.4 million for 2006 and 2005, respectively.

Statement 12, Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employees ("OPEB"), issued by the GASB provides that entities should provide certain minimum disclosures regarding the OPEB provided. Additionally, Statement 12 provides for differing methods for financing OPEB. The District, as indicated above, currently funds OPEB on a "pay-as-you-go" basis and has not elected to fund OPEB through advance funding on an actuarially determined basis. The District is analyzing alternative funding methods for OPEB in accordance with the adoption of GASB No. 45 effective for the District's year ending December 31, 2007.

16. COMMITMENTS AND CONTINGENCIES:

The District has coal supply and coal transportation contracts with minimum future payments of $248.5 million. The various coal contracts expire at the end of 2010. The various coal transportation contracts expire at the end of 2011. These contracts are subject to price escalation adjustments.

The District has wholesale power purchase commitments with the Western Area Power Administration through 2020 with annual minimum future payments of approximately $22.7 million. This contract is subject to rate changes.

The District has a power sales contract with MEC for 250 MW for a term beginning January 1, 2005 and ending on December 31, 2009. The power sales contract is for the delivery of 250 MW of the accredited capacity and associated energy from CNS at prices as set forth in the contract.

The District has entered into participation power agreements with OPPD, Municipal Energy Agency of Nebraska ("MEAN"), JEA (formerly the Jacksonville Electric Authority) and Grand Island Utilities for the sale of power from the 60 MW Ainsworth Wind Energy Facility. The participation power agreements are each for a term of 20 years and in the following amounts: OPPD for 16.8%; MEAN for 11.8%; JEA for 16.8%; and Grand Island Utilities for 1.7%.

The District has entered into long-term PRO Agreements having initial terms of 15, 20 or 25 years with 79 municipalities for the operation of certain retail electric distribution systems. These PRO agreements obligate the District to make payments based on gross revenues from the municipalities and pay for normal property additions during the term of the agreement.

The District has 20-year wholesale power contracts, with a term that expires December 31, 2021, with the majority of its firm requirements wholesale customers to provide them with their total power and energy requirements through 2007, after which the wholesale customer could level-off its power and energy purchases through 2010 and thereafter could reduce its power and energy purchases up to 10.0% per year with at least three years advance notice.

Effective January 2004, the District entered into a Participation Power Agreement (the "NC2 Agreement") with OPPD to receive 23.7% of the output of NC2, estimated to be 157 MW of the power from a 663 MW coal fired power plant to be constructed by OPPD. The plant is expected to be in service in May 2009. OPPD will retain 50.0% of the output for its own use and has entered into similar participation power sales agreements with other power purchasers. The District's obligation under the NC2 Agreement to make payments is an unconditional "take-or-pay" obligation, obligating the District to make such payments whether or not NC2 or any part thereof is completed, delayed, terminated, available, operable, operating or retired. The NC2 Agreement contains a step-up provision obligating the District to pay a share of the cost of any deficit in funds for operating expenses, debt service, other costs and reserves related to NC2 as a result of a defaulting power purchaser. The District's obligation pursuant to such step-up provision is limited to 160.0% of its original participation share (23.7%).

Under the provisions of the Federal Price-Anderson Act, the District and all other licensed nuclear power plant operators could each be assessed for claims in amounts up to $100.6 million per unit owned in the event of any nuclear incident involving any licensed facility in the nation, with a maximum assessment of $15.0 million per year per incident per unit owned. To satisfy the obligation, the District has obtained a $15.0 million line of credit.

The Nuclear Regulatory Commission ("NRC") evaluates nuclear plant performance as part of its reactor oversight process. The NRC has five performance categories. As a result of performance deficiencies identified during the period from October 2000 to April 2002 in the area of emergency preparedness, the District was placed in the second lowest of the five performance categories and was required to develop and implement a performance improvement plan at CNS with NRC oversight. The NRC also issued a Confirmatory Action Letter ("CAL") in January 2003 to assure completion by the District of its improvement plan.

Subsequent to the issuance of the CAL, the NRC conducted periodic inspections to assess whether sustained performance improvements were being achieved at CNS. In August 2004, the District informed the NRC that all of its commitments related to the CAL had been satisfactorily completed. In October 2004, the NRC conducted a CAL Closure Inspection to review the results of the District's improvement efforts. In January 2005, the NRC stated that the District had completed the improvement plan actions described in the CAL for CNS and the CAL was closed. With the closure of the CAL, and subsequent closure of a remaining Operator Requalification White Finding, CNS moved to the Licensee Response column, which is the highest or best rating of the five performance categories, in the first quarter of 2005. Subsequently, the level of NRC oversight has been reduced to that of other power plants in the Licensee Response column of the NRC's Action Matrix.

As part of a 1989 settlement of various disputed matters between General Electric Company ("GE") and the District, GE has agreed to continue to store at the Morris Facility the spent nuclear fuel assemblies from the first two full core loadings at CNS at no additional cost to the District until the expiration of the current NRC license in May 2022 for the Morris Facility. After that date, storage would continue to be at no cost to the District as long as GE can maintain the NRC license for the Morris Facility on essentially the existing design and operating configuration.

On December 4, 2002, Region VII of the Environmental Protection Agency ("EPA") sent a letter to the District, and three other utilities located within Region VII, requesting documents and certain information pursuant to Section 114(a) of the Federal Clean Air Act. On April 10, 2003, Region VII of the EPA sent a supplemental request for documents and information to the District and the other three electric utilities. The letters' requests pertain to the District's Gerald Gentleman Station and Sheldon Station. The EPA is interested in determining compliance with the Clean Air Act, Nebraska's implementation plan and potential application of federal new source review requirements. In general, a finding of non-compliance can require the installation of air pollution control equipment and the assessment of penalties. The District has provided the documents and information requested to the EPA. The District has not received any further written communications from the EPA regarding this inquiry.

On August 19, 2002, the District received notice from the EPA identifying the District as a Potentially Responsible Party ("PRP") for liability associated with a former Manufactured Gas Plant ("MGP") located in Norfolk, Nebraska. The District is identified as a current owner of property located adjacent to the Norfolk MGP operations. In 2002, the EPA asked identified PRPs to participate in negotiations for completing an Engineering Evaluation/Cost Analysis ("EE/CA"). The identified PRPs met with the EPA Region VII in October 2002 to discuss the site. No other activities between the District and the EPA had taken place related to this site from the time of the October 2002 meeting with the EPA until June 2004. On June 14, 2004, PRPs received notice from the EPA that the EPA was interested again in beginning efforts to complete an EE/CA to address this site. The District has denied that it has any liability as related to the MGP operations, but has indicated to the EPA willingness to cooperate with efforts to address the site. The District has reached an agreement in principal with the other PRPs to resolve its potential liability for the EE/CA by entering into a settlement agreement under which the District would contribute 10 percent of the costs of the EE/CA. The settlement agreement for the EE/CA has been signed by all parties and was ratified at the February 2007 Board of Directors meeting. The District is unable to predict what future costs may be incurred with respect to MGP.

In October 2003, the District entered into an agreement (the "Entergy Agreement") for support services at CNS with Entergy, a wholly-owned indirect subsidiary of Entergy Corporation. The Entergy Agreement is for an initial term ending January 18, 2014, subject to either party's right to terminate without cause by providing notice and paying a termination charge. The Entergy Agreement requires the District to reimburse Entergy's cost of providing services, and to pay Entergy annual management fees. These annual management fees were $13.0 million for 2005 and $14.0 million for 2006 and all years thereafter. Beginning in 2007, Entergy could also earn additional annual incentive fees in an amount not to exceed $6.0 million annually if CNS achieves identified safety and regulatory performance targets.

17. LITIGATION:

In December 2004 a resident of North Platte, Nebraska initiated an action in a Nebraska court against the District petitioning the court to void the agreement with Entergy (see Note 16), enjoining the District from entering into similar contracts and seeking reimbursement of the monies paid to Entergy pursuant to the Entergy Agreement. Said complaint (as amended) alleges that the Entergy Agreement violates Nebraska law since it is not at cost and improperly provides indemnification and the payment of certain additional fees. The District filed an answer to the complaint, and each amended complaint, denying that the Entergy Agreement is invalid in any respect and seeking dismissal of the complaint. In November 2005, the court overturned the District's motion for summary judgment. On August 15, 2006, the Court issued an order requiring the parties to show cause within 30 days why the case should not be dismissed for lack of action. In September the plaintiff filed a motion for summary judgment that was heard on October 30, 2006. The District also submitted a new motion for summary judgment. On December 19, 2006, the Court issued an order finding that the District had authority to enter into the Entergy Agreement and that said Agreement is valid except for the indemnification agreement which the Court found to be a violation of the lending of credit prohibition in the Nebraska Constitution. The Court also found that insofar as the contract involves alteration, repair, or maintenance, that it violates a statutory prohibition regarding indemnification for negligence. On December 29, 2006, the District filed a motion to alter or amend and/or for new trial. The District has filed its brief and the plaintiffs brief is due on April 20, 2007. It is expected that the Court will hear oral arguments at a later date. If the District is not successful with the motion, it expects to appeal to the Nebraska Supreme Court. The Entergy Agreement provides that if any term or provision should be declared invalid or unenforceable, the parties will, to the extent practical, renegotiate said Agreement in good faith to permit said Agreement to be performed. However, if such renegotiation is unsuccessful, either party may terminate said Agreement with at least 180 days written notice prior to the date selected for termination.

A number of other claims and suits are pending against the District for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the District. In the opinion of management, based upon the advice of its General Counsel, the aggregate amounts recoverable from the District, taking into account estimated amounts provided in the financial statements and insurance coverage, are not material as of December 31, 2006.

18. SUBSEQUENT EVENTS:

In late December 2006, the District experienced severe damage to portions of its transmission, substation and distribution systems due to ice, wind and snow storms. The greatest damage was in central Nebraska and included approximately 600 miles of transmission lines, substation and distribution facilities with an estimated cost of repair or replacement to be approximately $140.0 million. The District expects to initially finance the construction and repairs of the storm-damaged facilities by using available proceeds of short-term indebtedness, including tax-exempt commercial paper. In April 2007, the District increased the $150.0 million tax- exempt commercial paper credit agreement to $250.0 million to provide interim financing for the storm damage. The District anticipates 60% to 70% of the construction and repair costs to be reimbursed by the Federal Emergency Management Agency ("FEMA") over the next two years. The District expects to issue long-term tax-exempt revenue bonds in 2008 to extinguish the short-term debt that remains after receiving reimbursement of eligible costs from FEMA.

In February 2007, the District issued $93.7 million of taxable auction rate revenue bonds for the purpose of funding the cost of various capital projects at CNS.

Nebraska Public Power District

Always there when you need us

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