your energy partner®

OPPD

Omaha Public Power District

444 South 16th Street Mall
Omaha NE 68102-2247

April 3, 2008
LIC-08-0039

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

Reference: Docket No. 50-285

**SUBJECT: 2007 Annual Financial Report**

In accordance with 10 CFR 50.71(b), enclosed please find one copy of the Omaha Public Power District's (OPPD) 2007 Annual Report.

If you should have any questions, please contact Tom Matthews at (402) 533-6938. No commitments are made to the NRC in this letter.

Sincerely,

R. P. Clemens
Division Manager - Nuclear Engineering

RPC/mle

Enclosure: OPPD Annual Report

c: E. E. Collins, NRC Regional Administrator, Region IV
M. T. Markley, NRC Senior Project Manager
J. D. Hanna, NRC Senior Resident Inspector

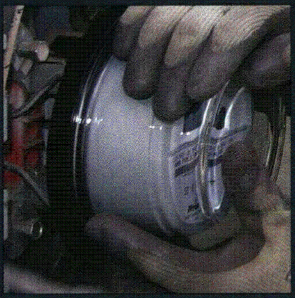
M004
NRR

2007 Annual Report

Omaha Public Power District

# Making a Difference

in the home



in the community

in the region

in the world

your energy partner...

OPPD

Omaha Public Power District

# highlights

- Reported operating revenues of $750.3 million and energy sales of 12,927,699 megawatt-hours.
- Created the Sustainable Energy & Environmental Stewardship Division.
- Received bond rating upgrade from Moody's Investors Service: Aa2 to Aa1 for Electric System Revenue Bonds. (Upgrade announced February 2008.)
- Progressed on schedule and within budget on the construction of Nebraska City Station Unit 2 (NC2), a 663-megawatt baseload coal plant.
- Completed the conversion of nearly 324,000 electric service meters to automated meters that are read remotely via radio signal.
- Achieved a new annual power generation record of 4,370,284 megawatt-hours at the Fort Calhoun Station.
- For the seventh consecutive year, received the highest in customer satisfaction with residential electric service ranking by J.D. Power and Associates in the 2007 Electric Utility Residential Customer Satisfaction Study.
- Honored by the National Arbor Day Foundation as a Tree Line USA Utility, the only Nebraska utility to be so honored for seven consecutive years.


OPPD is a publicly owned electric utility in eastern Nebraska that serves a population of 747,000 people, more than any other electric utility in the state.

North Omaha Station and Nebraska City Station, both coal-fired plants, and Fort Calhoun Station, a nuclear plant, provide the majority of the power used in OPPD's 5,000-square-mile service territory.

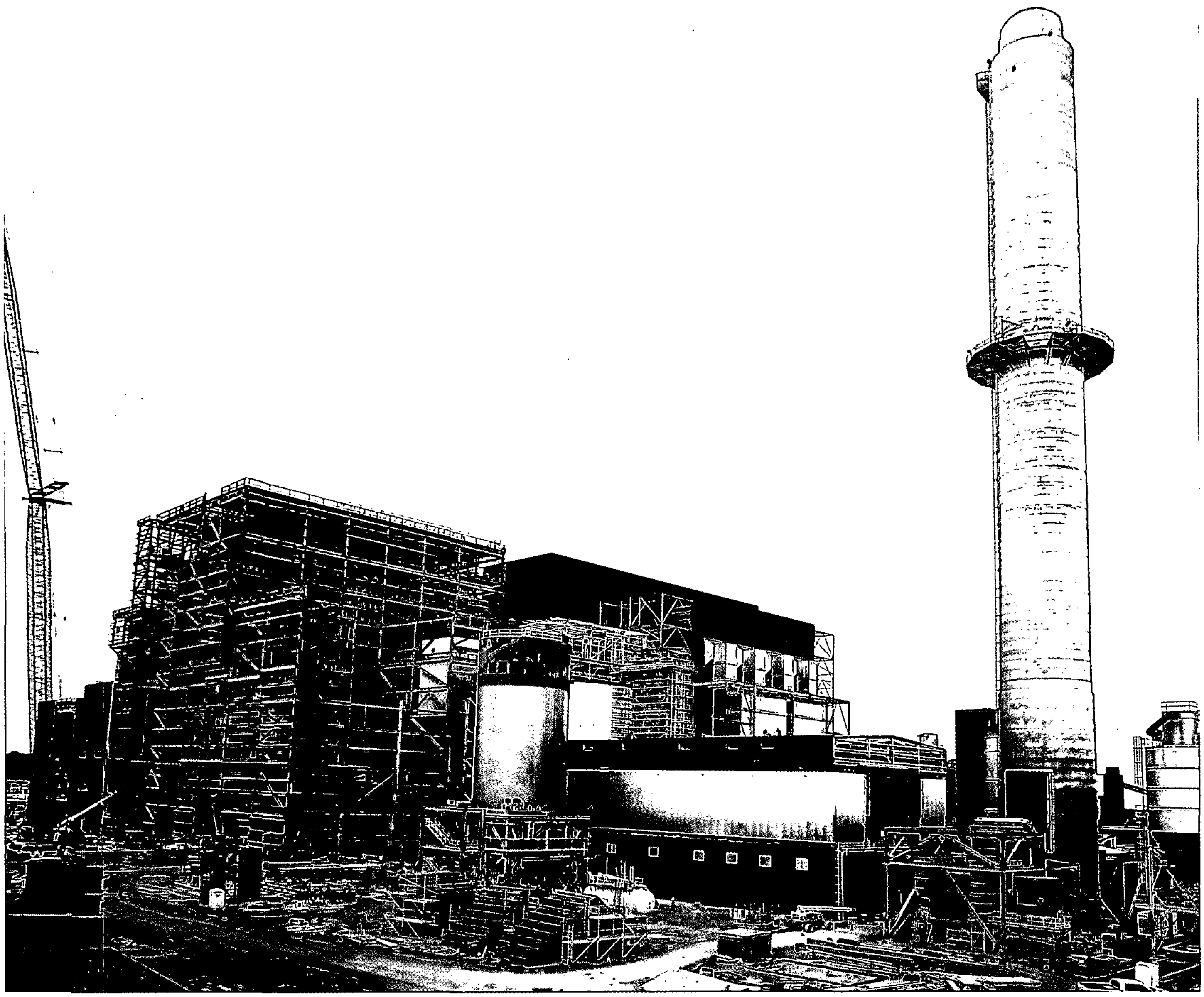
OPPD's three baseload plants are augmented by three peaking plants and renewable energy resources, including landfill gas and wind turbines.

Currently under construction is Nebraska City Station Unit 2, a 663-megawatt coal-fired plant expected to begin operations in 2009.

At right, construction of Nebraska City Station Unit 2 continued on schedule and within budget.

# Contents





# message

W. Gary Gates and Frederick J. Ulrich

When customers think about Omaha Public Power District, they tend to think of field crews and power plant personnel, who keep energy flowing to their home, or customer service representatives, who help them manage their account.

Most customers don't interact with OPPD's many other fine workers, around 2,400 strong, whose efforts may be less noticeable, but are no less important.

Our employees' actions make a difference in the daily life of every customer in every community we serve. But, as this year's annual report theme states, OPPD also shines a wider light, making a difference not just at home and in communities, but also in the region and the world.

For example, OPPD's regional impact is demonstrated by the construction of Nebraska City Station Unit 2, a new coal plant that incorporates advanced environmental engineering concepts. When it comes online in 2009, half the power produced will be purchased by utilities in Nebraska, Minnesota and Missouri to meet their customers' growing demand. Similarly, OPPD is buying wind-generated power from another Nebraska utility to expand our renewable energy portfolio in a fiscally and environmentally responsible manner.

OPPD was proud in 2007 to announce the creation of the Sustainable Energy & Environmental Stewardship Division. This new division will enhance global environmental efforts by incorporating "Aim Green" innovation in every business endeavor, from generating electricity to helping customers improve their energy-efficiency, while leading the way with our own facilities and processes.

Literally hundreds of examples can be cited to highlight OPPD's difference-making activities. We invite you to read about a few of them in the following pages.

As humble stewards, we thank you for your interest in OPPD, which we believe is one of the finest utilities in the nation. Our past achievements are a source of pride; our current goals, a source of excitement. And in the future, just as in the past, you can be assured that Omaha Public Power District will be making a difference.

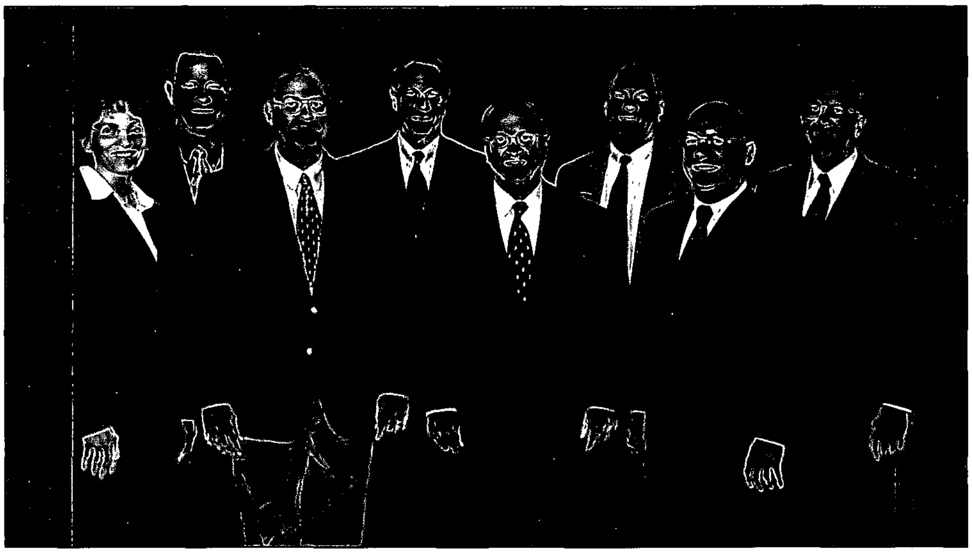
W. Gary Gates

W. Gary Gates
President and Chief Executive Officer

Fred J. Ulrich

Frederick J. Ulrich
Chairman of the Board

# directors



The OPPD Board of Directors includes, from the left: Anne L. McGuire, Michael J. Cavanaugh, John R. Thompson, N.P. Dodge Jr., Del D. Weber, Geoffrey C. Hall, John K. Green and Frederick J. Ulrich.

**Frederick J. Ulrich**
Chairman of the Board
Farmer, Cattle Feeder

**John K. Green**
Vice Chairman of the Board
Attorney at Law

**John R. Thompson**
Secretary
Land Developer

**N.P. Dodge Jr.**
Treasurer
President, N.P. Dodge Company

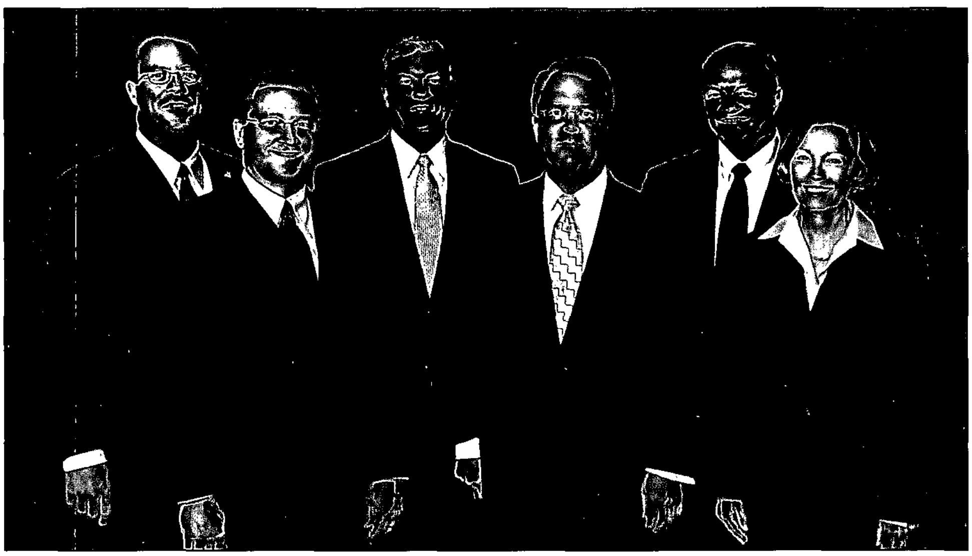
**Michael J. Cavanaugh**
Board Member
Police Lieutenant,
City of Omaha (Retired);
Real Estate Investor - Manager

**Geoffrey C. Hall**
Board Member
Attorney at Law

**Anne L. McGuire**
Board Member
Nurse Educator (Retired)

**Del D. Weber**
Board Member
Chancellor Emeritus,
University of Nebraska at Omaha

# management



The OPPD senior management team includes, from the left: Timothy J. Burke, David J. Bannister, W. Gary Gates, Dale F. Widoe, Charles P. Moriarty and Adrian J. Minks.

**W. Gary Gates**
President,
Chief Executive Officer

**Charles P. Moriarty**
Vice President, Corporate Services - Financial
Chief Financial Officer
*Assistant Treasurer, Assistant Secretary*

**David J. Bannister**
Vice President, Nuclear
Chief Nuclear Officer
*Assistant Secretary*

**Timothy J. Burke**
Vice President, Employee and Customer Relations
*Assistant Secretary*

**Adrian J. Minks**
Vice President, Essential Services
*Assistant Secretary*

**Dale F. Widoe**
Vice President, Operations
*Assistant Secretary*

# in the home

The farmer. The artist. The executive. All end their day the same way. They return home, where they devote energy to the projects and people they care about most.

Residential customers like these comprise 87 percent of OPPD's total customers, and meeting their home energy needs is one of the things we care about most.

## Automated Meter Reading

Deciding to convert OPPD's inventory of electric service meters, which had to be read on foot, to new meters, which are read safely and accurately from a vehicle, was easy.

From a business perspective, the cost of converting the meters would be recovered in seven years, after which time OPPD would realize an estimated annual savings of $3.5 million.

Meeting the human resource and customer service challenges, however, was more difficult: What could we offer to the dedicated meter reading employee whose job would soon become obsolete? How could we communicate to more than 300,000 residential and business customers that soon someone would be knocking on their door, requesting to replace their service meter?

With a long-standing tradition of caring for its employees, OPPD is proud to report that many meter readers chose to continue their service with OPPD and transfer to new positions within the company.

Through an integrated communication plan that included letters, automated phone notifications, door hangers, vehicle signs and regularly updated website maps, customers were kept well-informed as the massive switch to automated meters took place.

As of November 2007, six months ahead of schedule, almost all of the meters had been replaced and were transmitting accurate information with vastly improved efficiency.

Sadly, technological advances come at the expense of an iconic figure, the utility meter reader. The sight of a meter reader bustling down the sidewalk will be missed by nostalgic individuals. And canines.

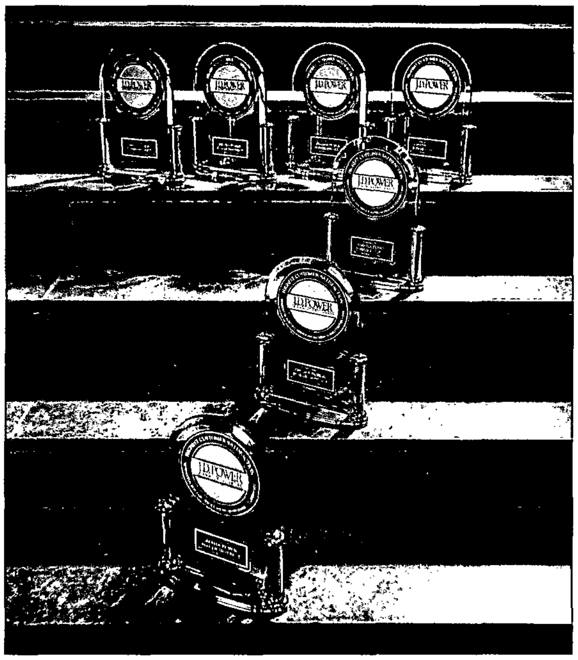
## The "R" Word

Politicians fear it. Media members wield it. The "R" word receiving so much recent attention is *recession.*

While TV pundits and just plain folks debate the validity, degree and length of a national economic recession, OPPD remains focused on two other "R" words: *reliability* and *rates.*

For decades, Omaha Public Power District has held rates well below the national average. In 2007, OPPD's average retail cost of electricity was more than 35 percent below the national average[1]. With reliability ratings in the top quartile[2] and a bond rating[3] that places OPPD among the top public utilities in the nation, OPPD customers are free to consider another "R" word: *relax.*

1. Energy Information Administration, U.S. Department of Energy.
2. System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI).
3. Moody's Investors Service rating in February 2008.



## Lucky Seven?

After receiving its seventh consecutive award from J.D. Power & Associates for ranking Highest in Customer Satisfaction with Residential Electric Service, you might think luck was involved.

However, since the source for the ranking is random customer surveys, we credit not luck, but rather OPPD's employees and the relationships they create with our customer-owners.

At right, AMR Installer John Perea is pictured on his last day of installations. John works for Itron, the contractor hired by OPPD to install nearly 324,000 electric meters.


OPPD

# in the community

The 13 counties in OPPD's service territory are home to more than 100 cities and towns, each with unique people, features and sources of pride. In getting to know the folks in every corner of the territory and by helping them manage important matters in their lives, our employees help create a genuine sense of community.

## Nurturing Nature

OPPD's arboretum, a 26-acre jewel in northwest Omaha, made history when it was created in 1990. Few, if any, utilities at the time had dedicated such energy and resources to providing educational green space for its customers.

After evolving through the years and expanding its offerings - from a formal garden to an outdoor classroom to a Nebraska Natives collection - the arboretum once again can be considered *historic.*

The newest arboretum exhibit features historic trees. Here visitors can stroll by a cherry tree from the White House, a white oak from Abe Lincoln's tomb site, even an apple tree said to be a descendant of the trees planted by Johnny Appleseed.

One of the educational goals of the arboretum is to instruct the public on choosing the right trees and the right places to plant them. The more informed customers are, the less likely they are inclined to plant trees that may interfere with power lines, causing costly tree-trimming or outage-restoration expenses.

With more than 450,000 trees in OPPD's 13-county territory and plenty of ice, wind and storms to cause havoc, controlling tree growth is imperative.

For its efforts in all facets of tree management, the National Arbor Day Foundation designated OPPD as a Tree Line USA Utility for the seventh consecutive year.

Vice Presidents Ross Ridenoure, Tim Burke, Adrian Minks and Manager Rick Shaneyfelt compete in an EAP fundraiser.

## Fundraising on the Fast Track

Nothing builds team spirit like seeing the vice president of your business unit putting the pedal to the metal and screaming down the straightaway.

Before the company picnic, OPPD employees became honorary pit crew members. They cheered on senior managers, who raced go-karts to raise funds for the Energy Assistance Program that helps families in need pay energy-related expenses.

In any event like this, it's obvious who finishes first.

## EAP Assistance

Can we do more? That's the question concerned OPPD employees asked regarding the Energy Assistance Program (EAP). The program, created and sponsored by OPPD and administered by the American Red Cross Heartland Regional Chapter, helps customers in need pay energy-related expenses.

For years, the EAP has been funded by employee and customer contributions. Customers can check a box on their service bill to donate to EAP, or visit OPPD's website to donate to the program or learn how to receive assistance. More than 900 families received assistance in 2007. But can we do more?

Through the efforts of OPPD's community support coordinator and others, the resounding answer in 2007 was "Yes, we can!" With renewed vigor, OPPD implemented unique fundraising events: an online auction, a riverboat cruise, employee "jeans days," a go-kart race and more.

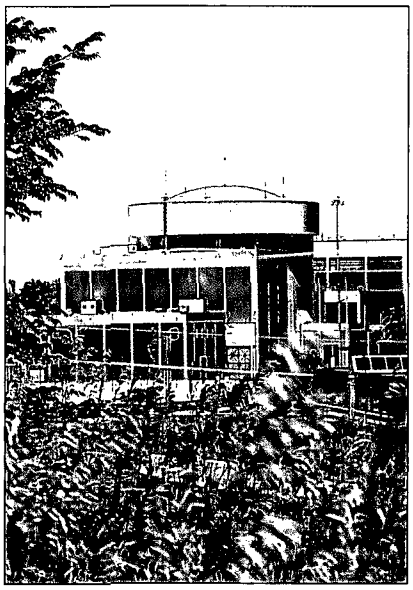
The result was a new EAP fundraising record. In 2007, the EAP received approximately $250,000 - approximately $40,000 contributed directly by employees. Just goes to show what a can-do attitude really can do.

At right, Kim Barnes, Cindy Munchrath and Chris Ritz were among more than 50 employees who participated in the Winners Circle mentoring program with local schoolkids.


The Winners Circle Educational Foundation
TAC-Career Center Room 404
3215 Cuming Street
Omaha, NE 68131
Date
PAY TO THE ORDER OF Winners Circle Class Room #
$50.00
Fifty Dollars and 00/100 DOLLARS

# in the region

National headlines regularly draw attention to out-of-touch utilities and out-of-control energy costs. Those notions are foreign in Nebraska, where people still celebrate the good life, and OPPD and the other utilities in the nation's only all-public power state provide reliable, affordable energy.



Fort Calhoun Station set a power-generation record in 2007.

## Nuclear News

The 2006 annual report devoted a lot of ink to the historic refueling and refurbishment outage at Fort Calhoun Station (FCS), OPPD's nuclear generation facility. The scale of the project amounted to a complete overhaul, which essentially provided OPPD customers with a new plant.

FCS set a record in 2007 for the most power produced by the plant in a single year. FCS also ranked in the top 10 percent within the nuclear industry in terms of the lowest online collective radiation exposure and achieved the top performance in the nuclear industry for Nuclear Regulatory Commission initial license examinations.

## Doubly Good

When something works well, you stick with it. And if you can expand upon previous success, all the better.

Case in point: Nebraska City Station Unit 1 (NC1) generates approximately 35 percent of OPPD's total energy output and consistently ranks as one of the most cost-effective coal plants in the U.S.

When faced with growing energy demand in the 1990s, OPPD management parlayed the success of NC1 into construction plans for Nebraska City Station Unit 2 (NC2), which is scheduled to begin producing as much as 663 megawatts of energy in the spring of 2009.

The plant will provide employment for approximately 60 full-time employees, and will be equipped with state-of-the-art emission-reduction and monitoring systems. Construction reached the midway point at the close of 2007, on time and within budget.

Seven utilities in Nebraska, Minnesota and Missouri have long-term contracts to purchase half the power produced by NC2.

When you have a doubly good thing going, others recognize it.

## T&D Tested

Mother Nature made it a year for the record books, and a year that employees in OPPD's Transmission & Distribution (T&D) Operations Division were glad to see come to an end.

Within the first few days of 2007, OPPD had dispatched 19 field workers to do battle with fellow restoration workers in central Nebraska. Days later, 11 more joined the original 19, restoring power following the aftermath of one of the worst snow and ice storms in Nebraska's history. Before the ordeal had ended, 40 OPPD employees had contributed their skills to the cause.

February offered no respite for the weary. An ice storm knocked out power to more than 250,000 Iowans, so across the Missouri River streamed 27 OPPD crew members, ready for round two.

OPPD's seasoned storm veterans began the final month of 2007 by responding to an ice storm at home. This time, four Nebraska utilities, along with contracted crews, pitched in to help OPPD with its restoration efforts.

By the time Dec. 31 appeared on the calendar, OPPD workers had weathered 14 storms, twice the number encountered in a typical year.

The assistance provided to and by neighboring utilities is made possible through mutual aid agreements, which streamline storm-restoration efforts through a network of utilities.

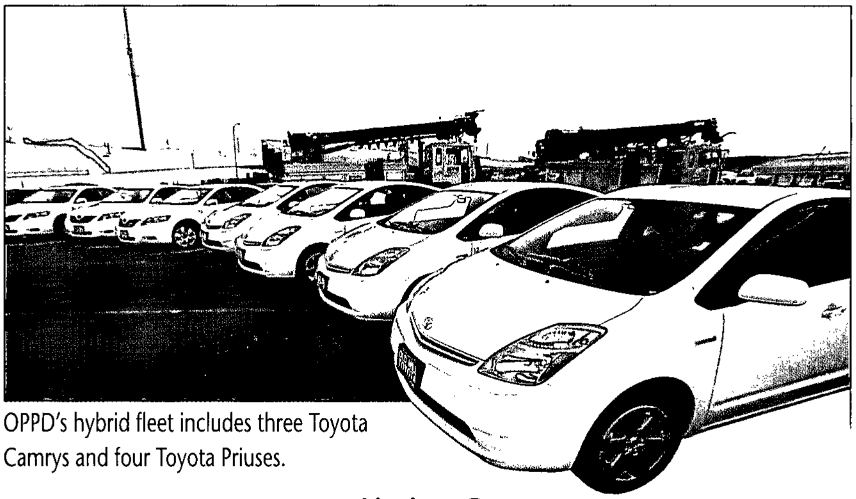
When weather becomes the enemy, there's no better feeling than knowing you've got friends.

At right, a tree weighted down by icy branches blankets a stop sign after a Dec. 11, 2007, ice storm.


STOP

# in the world

Nearly every company these days is "going green," placing greater emphasis on environmental stewardship and energy savings. With a new division created in 2007 dedicated to advancing those lofty ideals, you can count OPPD among them. Not to keep up with the Joneses, but to take care of them.



OPPD's hybrid fleet includes three Toyota Camrys and four Toyota Priuses.

## Fleeting Recognition

Transportation Department workers are enjoying a higher profile lately.

OPPD's vehicle fleet, previously recognized for its use of alternative fuels, has upped the ante with the addition of seven new alternative-fuel vehicles (pictured above).

For the record, all of OPPD's diesel-powered equipment runs on B20 (20 percent soydiesel, 80 percent petroleum diesel) for about one-third of the year. That equates to 81 vehicles running on soydiesel all year long. OPPD operates another 50 flexible fuel vehicles on a mixture of 85 percent ethanol and 15 percent gasoline.

That's good news for OPPD, the environment, and, being based in agriculture-rich Nebraska, the state economy, too.

## Aiming Green

By the time the 2008 annual report is published, OPPD hopes to be a standard-bearer for "green" public utilities.

In June of 2007, OPPD officially launched the Sustainable Energy & Environmental Stewardship Division.

The new division will focus on four core areas:

- Incorporation of environmentally friendly generating resources into our generation mix
- Promotion of energy-efficiency efforts for residential and commercial customers
- Determination of the potential for internal energy efficiency within OPPD facilities
- Consideration of the overall environmental impact of all OPPD business operations, including continued assessments of activities, such as our recycling efforts, supply chain and use of biofuels.

According to OPPD President and CEO Gary Gates, "The goal of this green approach is not only to help the environment, but also to help delay construction of major new power plants."

## Solid and Secure

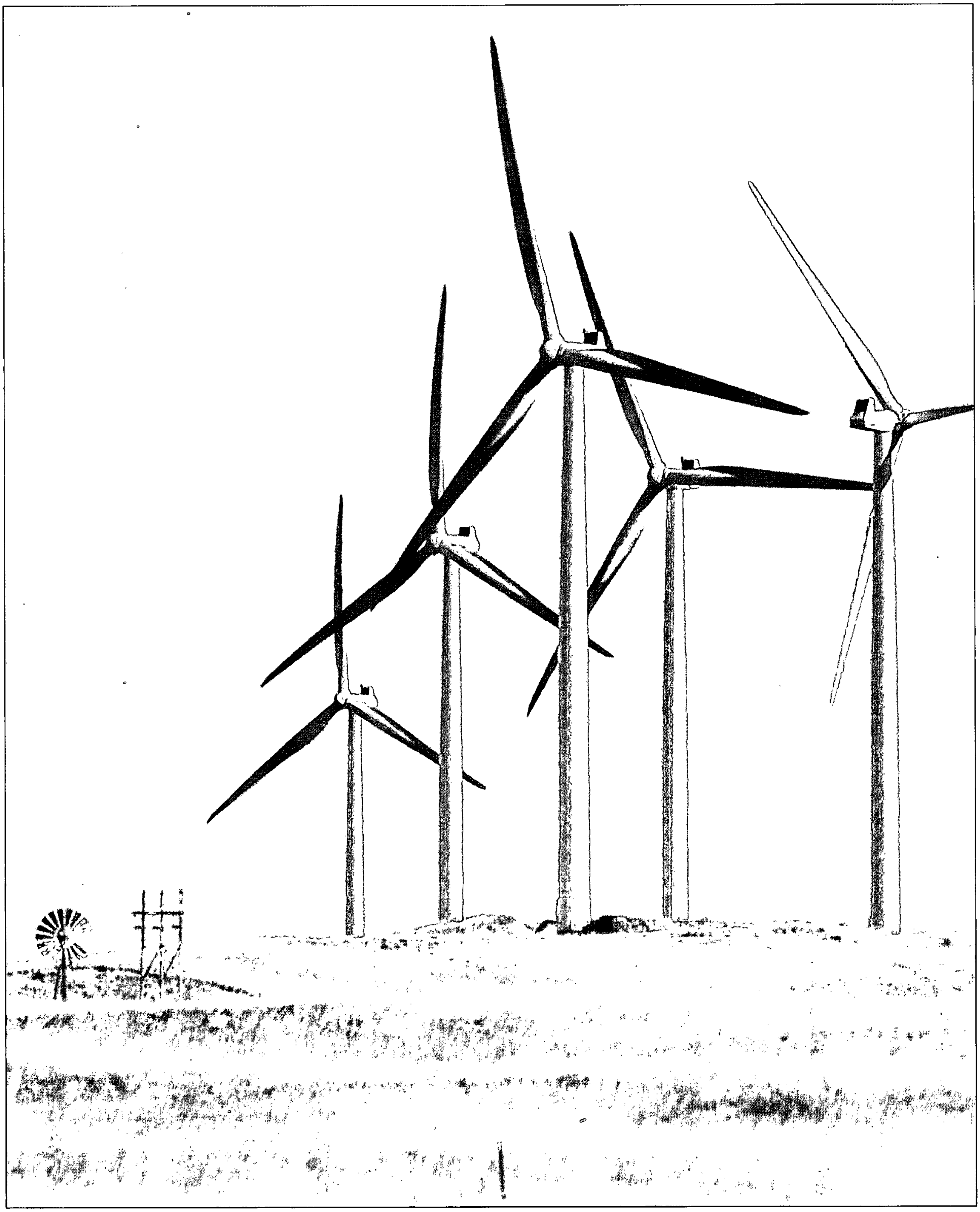
As a public entity that provides essential service to each individual and business it serves, OPPD strives to earn the trust of its customer-owners. This is achieved by committing daily to being a customer-focused institution.

In 2007, OPPD remained customer-focused through a combination of efforts:

- Trimming healthcare expenses, but not at the expense of employee well-being
- Emphasizing operational and employee improvement through efforts such as the High-Performance Organization initiative
- Emphasizing employee wellness and safety
- Following conservative, prudent money and asset management that included maintaining OPPD's excellent bond ratings
- Forecasting growing energy demand and investing in the resources needed to meet that demand
- Seeking constant improvement in all areas of customer service.

The energy industry faces many exciting challenges and opportunities in 2008 and beyond. OPPD is prepared to respond to those challenges and opportunities in a manner that will make a difference at home, in the communities it serves, regionally and globally.

At right, OPPD purchases renewable energy from a wind farm near Ainsworth, Neb.



# Statistics

| | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Utility Plant** | | | | | | | | | | |
| (at year end) | | | | | | | | | | |
| (in thousands of dollars) | **4,259,501** | 4,166,997 | 3,656,433 | 3,363,909 | 3,224,851 | 3,081,073 | 2,876,799 | 2,735,437 | 2,621,444 | 2,455,004 |
| **Total Indebtedness** | | | | | | | | | | |
| (at year end) | | | | | | | | | | |
| (in thousands of dollars) | **1,866,472** | 1,565,807 | 1,133,171 | 894,020 | 939,972 | 844,141 | 739,290 | 774,049 | 832,650 | 831,918 |
| **Operating Revenues** | | | | | | | | | | |
| (in thousands of dollars) | | | | | | | | | | |
| Residential | **267,042** | 249,174 | 237,798 | 211,913 | 208,426 | 214,447 | 202,984 | 196,923 | 188,187 | 192,481 |
| Commercial | **228,060** | 213,314 | 204,314 | 194,684 | 189,820 | 189,786 | 188,734 | 178,711 | 173,837 | 171,531 |
| Industrial | **100,239** | 94,109 | 90,344 | 90,987 | 85,406 | 75,946 | 76,197 | 75,976 | 76,513 | 79,359 |
| Off-System Sales | **110,399** | 96,500 | 120,030 | 109,523 | 108,795 | 65,885 | 91,045 | 110,300 | 78,741 | 62,550 |
| Unbilled Revenues | **1,742** | 2,527 | 630 | (1,134) | 4,086 | (1,268) | 104 | 2,541 | 1,650 | 282 |
| Provision for Rate Stabilization | **—** | — | — | — | — | (10,500) | (5,000) | (11,500) | (5,000) | — |
| Provision for Debt Retirement | **27,000** | (15,000) | — | (55,000) | (35,000) | — | — | — | — | — |
| Other Electric Revenues | **15,771** | 36,204 | 13,436 | 15,342 | 11,541 | 11,357 | 14,731 | 14,238 | 9,802 | 8,747 |
| Total | **750,253** | 676,828 | 666,552 | 566,315 | 573,074 | 545,653 | 568,795 | 567,189 | 523,730 | 514,950 |
| **Operations & Maintenance Expenses** | | | | | | | | | | |
| (in thousands of dollars) | **508,524** | 461,101 | 447,270 | 401,778 | 404,040 | 339,750 | 353,767 | 345,378 | 329,323 | 306,864 |
| **Payments in Lieu of Taxes** | | | | | | | | | | |
| (in thousands of dollars) | **21,398** | 20,241 | 19,693 | 18,591 | 18,067 | 18,553 | 18,234 | 17,645 | 16,852 | 16,638 |
| **Net Operating Revenues before Depreciation, Amortization and Decommissioning** | | | | | | | | | | |
| (in thousands of dollars) | **220,331** | 195,486 | 199,589 | 145,946 | 150,967 | 187,350 | 196,794 | 204,166 | 177,555 | 191,448 |
| **Net Income** | | | | | | | | | | |
| (in thousands of dollars) | **89,489** | 84,290 | 82,171 | 24,844 | 25,878 | 80,621 | 69,867 | 70,850 | 49,014 | 63,993 |
| **Energy Sales** | | | | | | | | | | |
| (in megawatt-hours) | | | | | | | | | | |
| Residential | **3,546,116** | 3,374,053 | 3,356,196 | 3,054,576 | 3,079,589 | 3,151,895 | 3,065,377 | 2,880,289 | 2,718,585 | 2,796,585 |
| Commercial | **3,750,634** | 3,577,436 | 3,535,036 | 3,369,713 | 3,347,214 | 3,353,621 | 3,362,665 | 3,179,103 | 3,095,070 | 3,051,676 |
| Industrial | **2,759,087** | 2,664,743 | 2,644,634 | 2,630,038 | 2,561,569 | 2,290,368 | 2,302,311 | 2,287,966 | 2,304,441 | 2,443,625 |
| Off-System Sales | **2,858,004** | 2,486,483 | 2,502,433 | 3,646,043 | 3,775,362 | 3,273,359 | 3,952,632 | 4,208,943 | 3,318,409 | 3,105,942 |
| Unbilled Sales | **13,858** | 9,628 | 21,285 | 6,890 | 61,165 | (23,697) | (5,268) | 52,739 | 23,168 | 9,369 |
| Total | **12,927,699** | 12,112,343 | 12,059,584 | 12,707,260 | 12,824,899 | 12,045,546 | 12,677,717 | 12,609,040 | 11,459,673 | 11,407,197 |
| **Number of Customers** | | | | | | | | | | |
| (average per year) | | | | | | | | | | |
| Residential | **293,642** | 289,713 | 282,310 | 275,854 | 270,579 | 266,464 | 261,286 | 256,541 | 251,057 | 245,890 |
| Commercial | **42,214** | 41,488 | 40,665 | 39,834 | 38,961 | 38,401 | 37,563 | 36,631 | 36,113 | 35,499 |
| Industrial | **134** | 132 | 133 | 135 | 127 | 117 | 116 | 110 | 105 | 103 |
| Off-System | **35** | 37 | 39 | 45 | 48 | 54 | 49 | 49 | 45 | 40 |
| Total | **336,025** | 331,370 | 323,147 | 315,868 | 309,715 | 305,036 | 299,014 | 293,331 | 287,320 | 281,532 |
| **Cents Per kWh** (average) | | | | | | | | | | |
| Residential | **7.51** | 7.40 | 7.07 | 6.95 | 6.73 | 6.81 | 6.63 | 6.84 | 6.94 | 6.89 |
| Commercial | **6.07** | 5.99 | 5.77 | 5.76 | 5.69 | 5.41 | 5.38 | 5.37 | 5.37 | 5.38 |
| Industrial | **3.64** | 3.55 | 3.46 | 3.40 | 3.39 | 3.32 | 3.32 | 3.32 | 3.32 | 3.24 |
| Retail | **5.93** | 5.81 | 5.58 | 5.48 | 5.39 | 5.46 | 5.36 | 5.41 | 5.40 | 5.34 |
| **Generating Capability** | | | | | | | | | | |
| (at year end) | | | | | | | | | | |
| (in megawatts) | **2,548.8** | 2,544.1 | 2,542.5 | 2,540.5 | 2,540.5 | 2,220.5 | 2,205.0 | 2,203.0 | 2,093.4 | 2,082.9 |
| **System Peak Load** | | | | | | | | | | |
| (in megawatts) | **2,197.4** | 2,271.9 | 2,223.3 | 2,143.8 | 2,144.8 | 2,037.4 | 1,994.1 | 1,976.9 | 1,965.6 | 1,914.0 |
| **Net System Requirements** | | | | | | | | | | |
| (in megawatt-hours) | | | | | | | | | | |
| Generated | **12,274,660** | 11,341,827 | 11,180,808 | 12,235,044 | 12,000,873 | 11,428,893 | 11,516,924 | 11,760,938 | 10,724,976 | 10,679,310 |
| Purchased and Net Interchanged | **(1,738,833)** | (1,268,780) | (1,148,903) | (2,716,242) | (2,557,981) | (2,122,701) | (2,557,704) | (2,833,243) | (2,190,252) | (1,960,844) |
| Net | **10,535,827** | 10,073,047 | 10,031,905 | 9,518,802 | 9,442,892 | 9,306,192 | 8,959,220 | 8,927,695 | 8,534,724 | 8,718,466 |

*Certain amounts have been reclassified to conform with the 2007 presentation.*

# Investor Relations and Corporate Information

**Corporate Headquarters**
*Energy Plaza*
*444 South 16th Street Mall*
*Omaha, Nebraska 68102-2247*
*402-636-2000*
*www.oppd.com*

**General Counsel**
*Fraser Stryker PC LLO*
*Omaha, Nebraska*

**Financial Advisor**
*Lehman Brothers*
*New York, New York*

**Consulting Engineer**
*R.W. Beck, Inc.*
*Seattle, Washington*

**Independent Auditors**
*Deloitte & Touche LLP*
*Omaha, Nebraska*

**Bond Counsel**
*Kutak Rock LLP*
*Omaha, Nebraska*

## Commercial Paper Issuing and Paying Agent

*The Bank of New York Trust Company, N.A.*
*New York, New York*

## Senior and Subordinate Bondholders

You may contact OPPD with questions about OPPD debt at:

*Finance & Investor Relations*
*Omaha Public Power District*
*444 South 16th Street Mall*
*Omaha, NE 68102-2247*
*e-mail: finfo@oppd.com*
*402-636-3286*

**Senior and Subordinate Debt Trustee**

*The Bank of New York Trust Company, N.A.*
*New York, New York*

**Senior and Subordinate Debt Paying Agents**
*The Bank of New York Trust Company, N.A.*
*Chicago, Illinois*
*New York, New York*

*Wells Fargo Bank, N.A.*
*Omaha, Nebraska*

The Trustee and Paying Agent on OPPD's Senior Lien Debt, Subordinated Revenue Bonds and Separate System Revenue Bonds is The Bank of New York Trust Company, N.A. You may contact The Bank of New York Trust Company, N.A. directly at:

*The Bank of New York Trust Company, N.A.*
*Corporate Trust Division*
*2 North LaSalle Street, 7th Floor*
*Chicago, Illinois 60602*
*Email: corporate.bond.research@bankofny.com*
*Bondholder Relations: 800-275-2048*

## OPPD Minibond Holders

OPPD is the Paying Agent, Transfer Agent and Registrar on OPPD's Minibonds. OPPD Minibond Administration provides information and assistance to Minibond holders regarding:

- *Interest Payments*
  Interest on Current Interest-Bearing Minibonds is paid on April 1 and October 1 of each year.
- *Ownership Transfer*
  Minibond Transfer Information Forms can be obtained via www.oppd.com or by contacting the Minibond Administrator, listed below.
- *Optional Early Redemption*
- *Replacement of Lost Minibond Certificate*

**Minibond Administrator**
You may contact the Minibond Administrator at:

*Finance & Investor Relations*
*Omaha Public Power District*
*444 South 16th Street Mall*
*Omaha, NE 68102-2247*
*Email: minibonds@oppd.com*
*Omaha, Nebraska area*
*402-636-3286*
*Outstate Nebraska*
*800-428-5584*

## Available Financial Information

In compliance with Securities and Exchange Commission Rule 15c2-12, information regarding OPPD is available at any nationally recognized municipal security information repository. Copies of its most recent annual reports, interim reports and official statements also are available upon request at finfo@oppd.com or through the following address:
*Finance Division*
*Omaha Public Power District*
*444 South 16th Street Mall*
*Omaha, NE 68102-2247*

Financial information in the annual report also is available at www.oppd.com

OPPD
Omaha Public Power District

Energy Plaza
444 South 16th Street Mall
Omaha, Nebraska 68102

**www.oppd.com**
A business-managed, publicly owned electric utility
An Equal Opportunity Employer

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2007 Annual Report
Omaha Public Power District

# Financial Report

## Contents



your energy partner®

OPPD
Omaha Public Power District

# Report of Management

The management of OPPD is responsible for the preparation of the following financial statements and for their integrity and objectivity. These financial statements conform to generally accepted accounting principles and, where required, include amounts which represent management's best judgments and estimates. OPPD's management also prepared the other information in this Annual Report and is responsible for its accuracy and consistency with the financial statements.

To fulfill its responsibility, management maintains strong internal controls, supported by formal policies and procedures that are communicated throughout OPPD. Management also maintains a staff of internal auditors who evaluate the adequacy of and investigate the adherence to these controls, policies and procedures. OPPD is deeply committed to conducting business with integrity, in accordance with the highest ethical standards, and in compliance with all applicable laws, rules and regulations. OPPD has adopted a Code of Ethics for the Senior Executive and Financial Officers and the Controller, stating our responsibilities and standards for professional and ethical conduct.

Our independent auditors have audited the financial statements and have rendered an unqualified opinion as to the statements' fairness of presentation, in all material respects, in conformity with accounting principles generally accepted in the United States of America. During the audit, they considered OPPD's internal controls over financial reporting and performed tests and other procedures to the extent required by generally accepted auditing standards.

The Board of Directors pursues its oversight with respect to OPPD's financial statements through the Audit Committee, which is comprised solely of non-management directors. The committee meets periodically with the independent auditors, internal auditors and management to ensure that all are properly discharging their responsibilities. The committee approves the scope of the annual audit and reviews the recommendations the independent auditors have for improving the internal control structure. The Board of Directors, on the recommendation of the Audit Committee, engages the independent auditors who have unrestricted access to the Audit Committee.

W. Gary Gates

W. Gary Gates
President and Chief Executive Officer

Charles P. Moriarty
Vice President and Chief Financial Officer

# Independent Auditors' Report

Board of Directors
Omaha Public Power District
Omaha, Nebraska

We have audited the accompanying balance sheets of the Omaha Public Power District (OPPD) as of December 31, 2007 and 2006, and the related statements of revenues, expenses, and changes in equity and of cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of OPPD'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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPPD's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, 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 OPPD as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the financial statements, in 2007 OPPD changed its method of accounting for post employment benefits other than pensions to conform to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.*

The Management's Discussion and Analysis on pages 4 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of OPPD's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our report dated March 13, 2008, on our consideration of OPPD's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Omaha, Nebraska
March 13, 2008

## OVERVIEW

OPPD is a fully integrated electric utility serving a 5,000-square-mile, 13-county region in eastern Nebraska. All corporate powers of OPPD are vested in a Board of Directors consisting of eight members representing specific areas of the service territory. OPPD's revenues are from retail sales, off-system sales and other electric products and services. The economy of the service territory is expanding, and the latest report to the Governor and Legislature does not support deregulation of the electric industry in Nebraska. Corporate headquarters is located in Omaha, Nebraska, with generating plants, service centers and customer service offices strategically located throughout the service territory.

OPPD is making a difference. The District provides reliable, low-cost energy with the highest commitment to serve its customer-owners. OPPD is directly accountable to the people it serves, not to private stockholders. To ensure OPPD's customers realize the numerous benefits of public power, OPPD emphasizes strong strategic planning, effective risk management practices and sound financial policies and business practices.

Management focuses on the efficient utilization of resources to achieve OPPD's mission of delivering high-value electricity and other essential services to our customers. Public power is built on the premise of lower electric rates. Customers expect OPPD to keep electric rates below the regional and national average, and OPPD has met these expectations with effective planning and cost-control efforts.

OPPD takes a leadership role in developing energy solutions that are advantageous to its customers and the environment. The Sustainable Energy and Environmental Stewardship Program supports OPPD's responsibility to the community, state and nation. This Program consists of projects related to the conservation of energy, the production of energy through renewable resources and the responsibility of OPPD to protect the environment. OPPD is committed to preserving natural resources while maintaining its commitment to its customer-owners.

OPPD is nearing the end of an unprecedented period of capital improvements to meet future customer needs for power supply. Construction continues as planned on the Nebraska City Station Unit 2 (NC2), a 663-megawatt fossil fuel facility adjacent to the Nebraska City Station Unit 1, which is scheduled for completion in 2009. The District will use half of the output for its customers and has executed long-term Participation Power Agreements with seven public power and municipal utilities in Nebraska, Missouri and Minnesota for the remaining half of the output. In December 2006, OPPD completed a major life-extension outage at the Fort Calhoun Station. The Station has operated reliably since the completion of this outage and in 2007 broke a 13-year-old record for generation.

For the past several years, OPPD has worked to secure its future power supply. Now, the focus is turning to replacing and upgrading the transmission and distribution infrastructure. These expenditures over the next few years will not only improve the system of delivering electricity but will also include new technologies to ensure reliability and efficiency while providing important operational information.

For financing capital programs, OPPD uses a conservative strategy to ensure an appropriate mix of financing and rate adjustments. OPPD's history of financial strength is a distinct advantage when borrowing for significant financial needs. This strength has enabled OPPD to borrow funds at low market rates while limiting the need for large rate adjustments. In addition, increased productivity, efficient asset utilization and cost reductions have enhanced OPPD's financial position.

OPPD has a history of excellent bond ratings, and these ratings improved in February 2008. Moody's Investors Service announced that it has upgraded the rating on OPPD's Electric System Revenue Bonds to Aa1 from Aa2 and the underlying rating on OPPD's Electric System Subordinated Revenue Bonds to Aa2 from Aa3. The District is amongst a select group of public power utilities that has received this high rating.

OPPD's success is built on a foundation of core values: safety, accountability, commitment to customers, excellence, teamwork and family orientation. To achieve successful operating and financial results, specific performance measures are used to align employees around a consistent, clear vision. OPPD recognizes that its product is essential to the health and well-being of its customers and the community and remains committed to exceeding customer expectations for reliability, cost, service and citizenship.

The following unaudited Management's Discussion and Analysis should be read in conjunction with the financial statements and related notes. This document contains forward-looking statements based on OPPD's current plans.

## FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following summarizes OPPD's financial position at December 31 (in thousands).

| Condensed Balance Sheets | 2007 | 2006 |
|---|---|---|
| Current Assets | $ 682,234 | $ 561,411 |
| Capital Assets | 2,839,431 | 2,655,755 |
| Other Long-Term Assets | 530,781 | 586,299 |
| Total Assets | $4,052,446 | $3,803,465 |
| | | |
| Current Liabilities | $ 251,496 | $ 413,766 |
| Long-Term Liabilities | 2,261,022 | 1,939,260 |
| Total Liabilities | 2,512,518 | 2,353,026 |
| Equity | 1,539,928 | 1,450,439 |
| Total Liabilities and Equity | $4,052,446 | $3,803,465 |

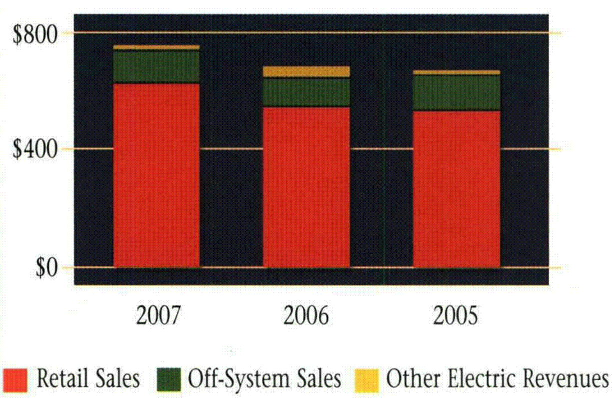
The following summarizes OPPD's operating results for the years ended December 31 (in thousands).

| Operating Results | 2007 | 2006 | 2005 |
|---|---|---|---|
| Operating Revenues | $750,253 | $676,828 | $666,552 |
| Operating Expenses | 632,675 | 574,098 | 554,995 |
| Operating Income | 117,578 | 102,730 | 111,557 |
| Other Income | 55,280 | 47,755 | 21,313 |
| Interest Expense | 83,369 | 66,195 | 50,699 |
| Net Income | $ 89,489 | $ 84,290 | $ 82,171 |

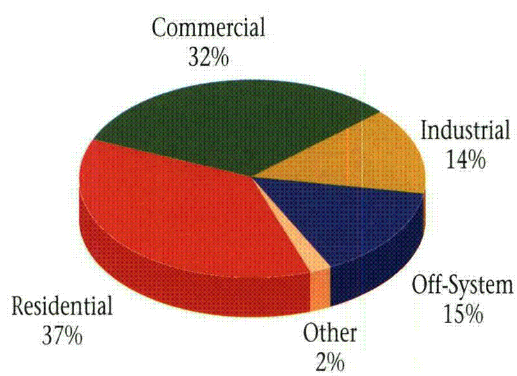
### Operating Revenues

The following chart, left, illustrates the composition of OPPD's operating revenues (in millions) for the past three years. The following chart, right, illustrates the percentage share of revenues by customer class for 2007. Other electric revenues include proceeds from the sale of sulfur dioxide allowances, connection charges, customers' forfeited discounts, rent from electric property, transmission wheeling fees and miscellaneous revenues.

**Operating Revenues**




**Operating Revenues - 2007**




**2007 Compared to 2006**

Total operating revenues were $750,253,000 for 2007, an increase of $73,425,000 or 10.8% over 2006 operating revenues of $676,828,000.

- The increase in 2007 total operating revenues compared to 2006 was mainly due to higher retail and off-system sales volume and changes related to the Debt Retirement Reserve. These increases were offset by a decrease in Other Electric Revenues of $20,433,000.
- Prior to the increase from the Debt Retirement Reserve, revenues from retail sales were $597,083,000 for 2007, an increase of $37,959,000 or 6.8% over 2006 revenues of $559,124,000. This increase in retail revenues was primarily due to the implementation of a rate adjustment on April 1, 2007, and increased energy sales in 2007 compared to 2006.

- Revenues from off-system sales were $110,399,000 for 2007, an increase of $13,899,000 or 14.4% over 2006 revenues of $96,500,000. The increase was primarily due to the increased availability of energy in 2007 from the Fort Calhoun Station. In 2006, a major planned production outage at the Fort Calhoun Station resulted in less energy available for off-system sales. There was no outage at the Fort Calhoun Station in 2007.
- Other electric revenues were $15,771,000 for 2007, a decrease of $20,433,000 or 56.4% from 2006 revenues of $36,204,000. The decrease was primarily due to the $18,555,000 gain on the sale of sulfur dioxide allowances realized in 2006.

### 2006 Compared to 2005

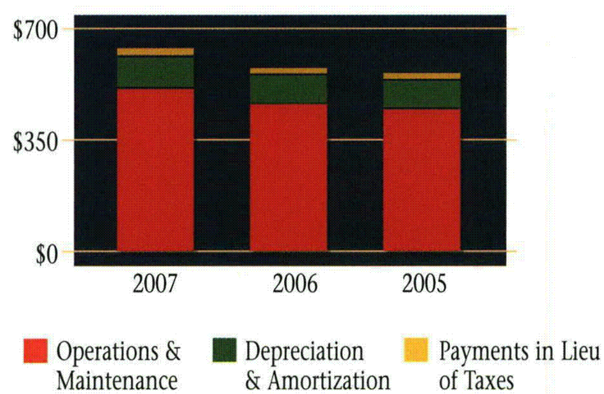
Total operating revenues were $676,828,000 for 2006, an increase of $10,276,000 or 1.5% over 2005 operating revenues of $666,552,000.

- The increase in 2006 total operating revenues compared to 2005 was mainly due to the increase in other electric revenues. The increase was partly offset by an addition in 2006 to the Debt Retirement Reserve of $15,000,000 which reduced operating revenues for 2006.
- Prior to the reduction for the Debt Retirement Reserve, revenues from retail sales were $559,124,000 for 2006, an increase of $26,038,000 or 4.9% over 2005 revenues of $533,086,000. The increase in retail revenues was primarily due to the implementation of a rate adjustment on April 1, 2006, and increased energy sales from warmer weather in 2006 compared to 2005.
- Revenues from off-system sales were $96,500,000 for 2006, a decrease of $23,530,000 or 19.6% from 2005 revenues of $120,030,000. The decrease was primarily due to lower energy prices in 2006 compared to 2005.
- Other electric revenues were $36,204,000 for 2006, an increase of $22,768,000 over 2005 revenues of $13,436,000. The increase was primarily due to the $18,555,000 gain realized on the sale of sulfur dioxide allowances.

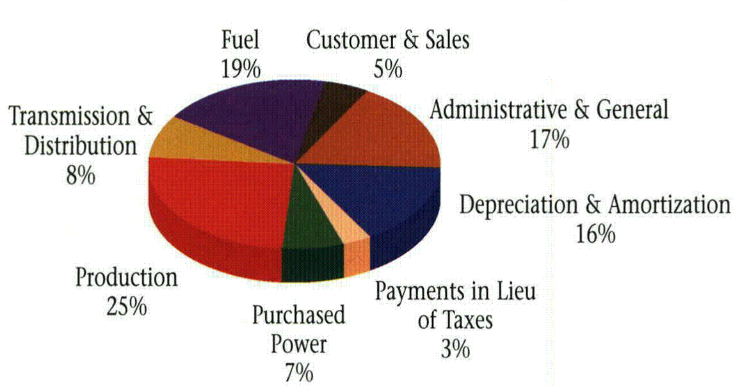
## Operating Expenses

The following chart, top, illustrates the composition of OPPD's operating expenses (in millions) for the past three years. The following chart, bottom, illustrates the percentage share of operating expenses by expense classification for 2007.

### Operating Expenses




### Operating Expenses - 2007



### 2007 Compared to 2006

Total operating expenses were $632,675,000 for 2007, an increase of $58,577,000 or 10.2% over 2006 operating expenses of $574,098,000.

- Production expense increased $21,227,000 over 2006 primarily due to higher expenses at the power stations for outage-related activities.
- Administrative and general expense was $20,569,000 higher than in 2006 primarily due to additional costs for other post employment benefits as a result of the implementation of a new accounting standard.
- Depreciation and amortization expense was $9,997,000 higher than in 2006 due to an increase in plant assets.

### 2006 Compared to 2005

Total operating expenses were $574,098,000 for 2006, an increase of $19,103,000 or 3.4% over 2005 operating expenses of $554,995,000.

- Fuel expense increased $15,377,000 over 2005 primarily due to the higher prices of fossil fuels and greater utilization of gas-fired peaking stations.
- Purchased power expense decreased $7,726,000 from 2005 primarily due to fewer energy purchases and lower energy prices.
- Customer service and information expense decreased $4,710,000 from 2005 due mainly to the completion of the amortization of the customer energy conservation costs in 2005.
- Administrative and general expense was $7,114,000 higher than in 2005 due mainly to increased costs of employee benefits.
- Depreciation and amortization expense was $4,724,000 higher than in 2005 due to an increase in plant assets.

## Other Income

Other income was $55,280,000 in 2007, an increase of $7,525,000 over 2006 other income of $47,755,000. Investment income was $6,254,000 higher in 2007 due to the increase in funds invested from bond proceeds.

In 2007, contributions in aid of construction (CIAC) and the related offsetting expense, reduction of plant costs recovered through contributions in aid of construction, were $15,751,000 lower than in 2006 primarily due to a settlement in 2006 from the Department of Energy (DOE) for the reimbursement of construction costs for the dry-cask storage facility at the Fort Calhoun Station.

Other income was $47,755,000 in 2006, an increase of $26,442,000 over 2005 other income of $21,313,000. Investment income was $15,930,000 higher than in 2005 due to the increase in funds invested from participants and bond proceeds for the Nebraska City Station Unit 2. Allowances for funds used during construction increased $9,079,000 primarily due to significant construction expenditures for the Nebraska City Station Unit 2 and the Fort Calhoun Station. There was no impact on net income from the participants' share of the Nebraska City Station Unit 2 because allowances for funds used during construction were the actual interest cost of their funds.

In 2006, CIAC and the related offsetting expense, reduction of plant costs recovered through contributions in aid of construction, were $37,745,000 higher than in 2005 primarily due to capital contributions from the Nebraska City Station Unit 2 participants and a settlement from the DOE for the reimbursement of construction costs for the dry-cask storage facility at the Fort Calhoun Station.

OPPD offers a variety of products and services, which provide value both to the customer and OPPD. These products include Performance Contracting, Energy Information Services, Residential and Commercial Surge Protection, Uninterruptible Power Supply and Energy Solutions. Offering these products and services provides opportunities to build strong relationships with customers by helping them efficiently and economically meet their energy needs.

- Income from products and services was $2,058,000 for 2007, an increase of $172,000 over 2006 income of $1,886,000. This increase was primarily due to greater income from sales of the Residential Surge Protection product.
- Income from products and services was $1,886,000 for 2006, an increase of $917,000 over 2005 income of $969,000. This increase was primarily due to greater income from sales of the Energy Solutions and Residential Surge Protection products.

## Interest Expense

Interest expense was $83,369,000 for 2007, an increase of $17,174,000 over 2006 interest expense of $66,195,000. This increase was due to interest on additional borrowings.

Interest expense was $66,195,000 for 2006, an increase of $15,496,000 over 2005 interest expense of $50,699,000. This increase was due to interest on additional borrowings for capital projects and interest accrued on construction deposits received from the Nebraska City Station Unit 2 participants. The interest expense accrued on these construction deposits was equivalent to the interest income earned on these funds, resulting in no impact on net income. In addition, there was no impact on net income from the participants' share of interest expense for the Nebraska City Station Unit 2 because allowances for funds used during construction was the actual interest cost of their funds.

## Net Income

Net income, after revenue adjustments for changes to the Debt Retirement Reserve, was $89,489,000, $84,290,000 and $82,171,000 for 2007, 2006 and 2005, respectively. Operating revenues and net income were increased by $27,000,000 and reduced by $15,000,000 for changes made to the Debt Retirement Reserve in 2007 and 2006, respectively. There was no change in the Debt Retirement Reserve in 2005.

## Number of Customers

OPPD has a stable, diverse customer base which continues to grow at a steady rate. The economy of OPPD's service territory is expanding, which is expected to support continued growth of OPPD's customer base and load requirements.

- OPPD served an average of 336,025 customers in 2007, an increase of 4,655 or 1.4% over the average number of customers for 2006 of 331,370.
- OPPD served an average of 331,370 customers in 2006, an increase of 8,223 or 2.5% over the average number of customers for 2005 of 323,147.

The following table shows the average number of customers by customer class.

| Number of Customers | 2007 | 2006 | 2005 |
|---|---|---|---|
| Residential | 293,642 | 289,713 | 282,310 |
| Commercial | 42,214 | 41,488 | 40,665 |
| Industrial | 134 | 132 | 133 |
| Off-System | 35 | 37 | 39 |
| Total | 336,025 | 331,370 | 323,147 |

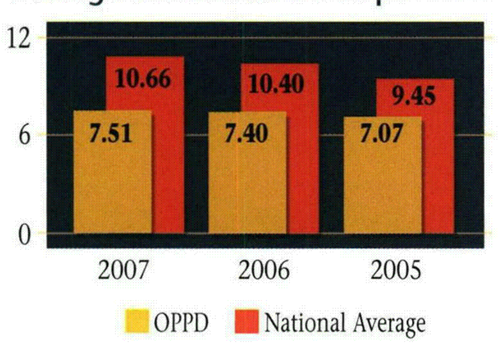
## Cents per kWh

OPPD is sensitive to the rates it charges and strives to maximize the public power advantage of low-cost energy for its customers.

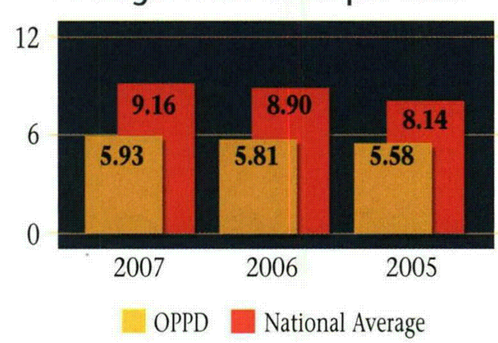
- Residential customers paid an average of 7.51, 7.40 and 7.07 cents per kWh in 2007, 2006 and 2005, respectively. The national average residential cents per kWh according to the Energy Information Administration (EIA), U.S. Department of Energy, was 10.66 for 2007 (preliminary year-to-date November 2007) and 10.40 and 9.45 cents per kWh for 2006 and 2005, respectively. Based on the preliminary EIA data for 2007, OPPD residential rates were 29.5% below the national average.
- Retail customers paid an average of 5.93, 5.81 and 5.58 cents per kWh in 2007, 2006 and 2005, respectively. The national average retail cents per kWh according to the EIA, was 9.16 for 2007 (preliminary year-to-date November 2007) and 8.90 and 8.14 cents per kWh for 2006 and 2005, respectively. Based on the preliminary EIA data for 2007, OPPD retail rates were 35.3% below the national average.

The following charts illustrate OPPD's average residential and retail cents per kWh compared to the national average.

### Average Residential Cents per kWh




### Average Retail Cents per kWh




OPPD implemented general rate adjustments of 2.8% and 3.0% in 2007 and 2006, respectively. The general rate adjustments were part of a revenue strategy to provide additional revenues for capital financings. A general rate adjustment of 3.0% was implemented effective January 1, 2008, consistent with the revenue strategy. An additional 1.0% rate adjustment was added to provide funding for the Sustainable Energy and Environmental Stewardship Program for projects related to renewable energy, energy conservation and environmental stewardship. Even with these adjustments, OPPD's rates are well below the national average.

## CASH AND LIQUIDITY

OPPD has a high degree of liquidity as a result of maintaining strong credit ratings, utilizing its Commercial Paper Program, executing additional credit agreements, implementing cost-containment programs and investing in projects that provide returns in excess of OPPD's cost of capital.

OPPD relies on bond offerings as a significant source of liquidity for capital requirements not provided by cash from operations. OPPD's ability to obtain required capital at the lowest possible rates has been a key reason for the success of its overall business plan for capital expenditures.

### Financing

OPPD's financing plan included the issuance of additional debt in 2007 for capital expenditures. The plan optimizes the debt mix to ensure liquidity needs are met and OPPD's strong financial position is maintained by utilizing the lowest cost debt possible.

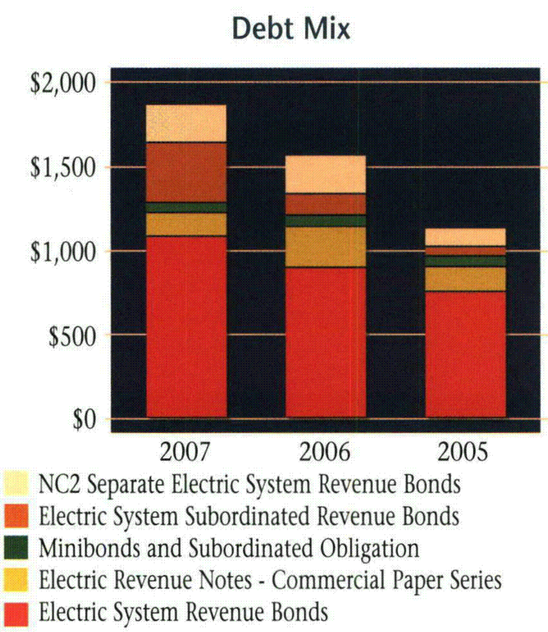
In 2007, OPPD issued $245,000,000 of Electric System Revenue Bonds, $25,000,000 of Periodically Issued Bonds (PIBs), and $200,000,000 of Electric System Subordinated Revenue Bonds to finance capital expenditures. OPPD repaid $100,000,000 of Commercial Paper, $57,140,000 of Electric System Revenue Bonds and $9,062,000 of Minibonds in 2007. In addition, OPPD reduced the amount available to borrow under its Revolving Credit Agreement (RCA) from $200,000,000 to $100,000,000. There were no amounts outstanding under the RCA at December 31, 2007.

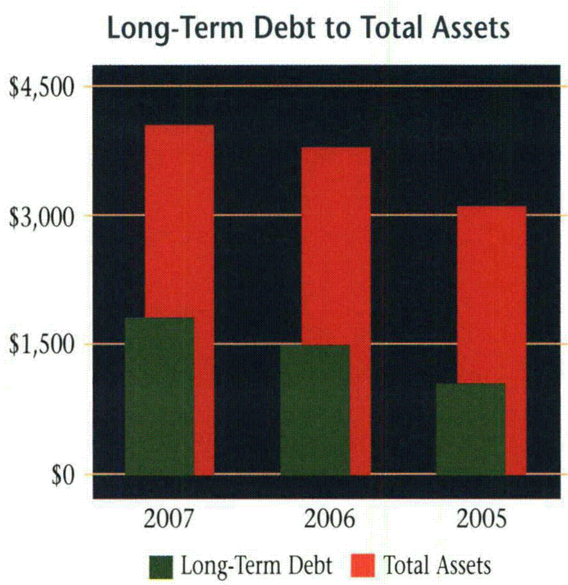
In 2006, OPPD issued $200,000,000 of Electric System Revenue Bonds, $75,000,000 of PIBs and $100,000,000 of Commercial Paper to finance capital expenditures. OPPD repaid $58,200,000 of Electric System Revenue Bonds and reduced the amount available to borrow under its RCA from $350,000,000 to $200,000,000. There were no amounts outstanding under the RCA at December 31, 2006.

In 2006, OPPD issued $115,000,000 of NC2 Separate Electric System Revenue Bonds. The NC2 Separate Electric System is a half interest in the output of Nebraska City Station Unit 2, secured by revenues from Participation Agreements with seven public power and municipal utilities. Participants were given the choice to provide their own funds or to finance their respective funding requirements with separate system bonds issued by OPPD. The proceeds from the issuance of the NC2 Separate Electric System Revenue Bonds, together with additional funds provided by the participants, are used to pay the participants' portion of the construction costs of the Nebraska City Station Unit 2.

The 2008 financing plan for OPPD includes an additional issue of Electric System Revenue Bonds and a defeasance of a portion of the 2005 Series B, Electric System Revenue Bonds.

The following chart, left, illustrates OPPD's debt mix (in millions) for the past three years. The following chart, right, illustrates OPPD's amount of Long-Term Debt compared to Total Assets (in millions).



## Ratings

OPPD's excellent bond ratings allow it to borrow funds at low rates. Both quantitative (financial strength) and qualitative (business and operating characteristics) factors are considered by the bond rating agencies in establishing a company's credit rating. The ratings received from Standard & Poor's Ratings Services (S&P) and Moody's Investors Service (Moody's), independent bond rating agencies for the latest Bond issues, were among the highest ratings given to public power districts and confirm the agencies' assessment of OPPD's strong ability to meet its debt service requirements.

The following ratings at December 31, 2007, are indicative of OPPD's solid financial strength.

| | S&P | Moody's |
|---|---|---|
| Electric System Revenue Bonds | AA | Aa2 |
| Electric System Subordinated Revenue Bonds (including PIBs) * | AAA | Aaa |
| Electric Revenue Notes - Commercial Paper Series | A-1+ | P-1 |
| Minibonds * | AAA | Aaa |
| NC2 Separate Electric System Revenue Bonds * | AAA | Aaa |

* *Payment of the principal and interest on the Electric System Subordinated Revenue Bonds, Minibonds and NC2 Separate Electric System Revenue Bonds, when due, is insured by financial guaranty bond insurance policies. In 2008, rating agencies reduced the ratings of certain financial guaranty bond insurance companies. This has not affected OPPD's underlying rating on the obligations.*

On February 1, 2008, Moody's raised the rating on the Electric System Revenue Bonds to Aa1 and raised the underlying rating on the Electric System Subordinated Revenue Bonds to Aa2. Among the reasons cited by Moody's for the upgrade was OPPD's completion of the life-extension activities for the Fort Calhoun Station and the pending completion of the Nebraska City Station Unit 2 while meeting budgeting and scheduling forecasts. Moody's noted that the plant upgrades positioned OPPD to meet future energy needs at competitive costs. Additional factors for the new rating included OPPD's relatively low debt, strong management team, stable financial and risk management practices, continued growth in the customer base and strong service area economy. The District is amongst a select group of public power utilities that has received this high rating.

## Cash Flows

OPPD experienced a net decrease in cash of $5,633,000 for 2007 and $11,371,000 for 2006. The following table illustrates the cash flows by activities for the years ended December 31 (in thousands).

| Cash Flows | 2007 | 2006 | 2005 |
|---|---|---|---|
| Cash Flows from Operating Activities | $182,070 | $203,999 | $189,697 |
| Cash Flows from Capital and Financing Activities | (178,683) | (36,802) | (34,865) |
| Cash Flows from Investing Activities | (9,020) | (178,568) | (126,669) |
| Change in Cash and Cash Equivalents | $ (5,633) | $ (11,371) | $ 28,163 |

Cash flows from operating activities consist of transactions involving changes in current assets, current liabilities and other transactions that affect operating income.

- Cash flows for 2007 decreased $21,929,000 from 2006 primarily due to higher payments for operating expenses. The decrease was partially offset by an increase in cash received from retail customers.
- Cash flows for 2006 increased $14,302,000 over 2005 primarily due to an increase in cash received from the sale of sulfur dioxide allowances and retail customers. The increase was partially offset by higher payments for operating expenses.

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

- Cash flows used for 2007 increased $141,881,000 over 2006 primarily due to the larger principal and interest repayments for long-term debt. Cash flows used for 2006 increased $1,937,000 over 2005 primarily due to greater capital expenditures.

Cash flows from investing activities consist of transactions involving purchases and maturities of investment securities and investment income.

- Cash flows used for 2007 decreased $169,548,000 from 2006 primarily due to an increase in the maturities and sales of investments. Cash flows used for 2006 increased $51,899,000 over 2005 due to more purchases of investment securities.

## Debt Service Coverage

OPPD's bond indenture provides that additional bonds may not be issued unless estimated net receipts for each future year shall equal or exceed 1.4 times the debt service on all bonds outstanding, including the additional bonds being issued. The following table reflects the calculation of debt service coverage, indicating OPPD's solid ability to make required debt service payments on Electric System Revenue Bonds (in thousands).

| Debt Service Coverage | 2007 | 2006 | 2005 |
|---|---|---|---|
| Operating revenues [1] | $750,253 | $676,828 | $666,552 |
| Operations and maintenance expenses | (508,524) | (461,101) | (447,270) |
| Payments in lieu of taxes | (21,398) | (20,241) | (19,693) |
| Net operating revenues | 220,331 | 195,486 | 199,589 |
| Investment income of related reserve fund | 1,922 | 1,612 | 1,110 |
| Net receipts | $222,253 | $197,098 | $200,699 |
| Total debt service [2] | $ 97,821 | $ 95,237 | $ 91,021 |
| Debt service coverage | 2.27 | 2.06 | 2.20 |

[1] *Operating revenues were increased by $27,000,000 and reduced by $15,000,000 for changes to the Debt Retirement Reserve for 2007 and 2006, respectively.*

[2] *Total debt service for Resolution No. 1788 Bonds is accrued on a calendar-year basis similar to the computation of net receipts. Interest funded from bond proceeds, when applicable, is not included in total debt service.*

## Debt Ratio

The debt ratio is a measure of financial solvency and represents the share of OPPD's debt to its total capitalization (debt and equity). This ratio does not include the NC2 Separate Electric System Debt since it is secured by revenues of the separate system. OPPD's debt ratio was 51.6% and 48.0% as of December 31, 2007 and 2006, respectively. The 2007 debt ratio was higher than 2006 due to an increase in debt from additional issuances of bonds.

## Retirement Plan

OPPD has a defined benefit Retirement Plan (Plan). Under this type of plan, the employee's benefit payments are calculated using a specific formula outlined in the Plan and are based on an employee's age, length of service and covered payroll.

To ensure funds will be available to pay future benefits, the retirement plan actuary projects Plan assets and the liability for future benefits. Actuarial assumptions are reviewed annually and changed, when appropriate. The investment return (discount rate) assumption was 8.2% in 2007 and 2006 and 8.4% for 2005. The actuary uses this information to determine the current annual amount that must be contributed by employees and OPPD in order to meet projected Plan benefits.

OPPD contributed $32,016,000, $32,361,000 and $25,934,000 to the Plan for the years 2007, 2006 and 2005, respectively. OPPD's contributions are estimated at $30,500,000 and $30,200,000 for 2008 and 2009, respectively. The estimated employer contributions for 2008 and 2009 are lower than the contributions for 2007 because of the implementation of Plan design changes. Participating OPPD employees contributed 4.0% of their covered annual payroll to the Plan, which was $6,462,000, $6,270,000 and $6,072,000 for the years 2007, 2006 and 2005, respectively. The contribution by OPPD employees will increase to 4.8%, 5.6% and 6.2% of their covered payroll for 2008, 2009 and 2010, respectively.

The Plan's funded status, based on the actuarial value of assets to the present value of accrued plan benefits was 100.4% for 2007 and 2006 and 104.4% for 2005. The net assets of the Plan available for benefits increased to $659,738,000 at December 31, 2007, from $635,020,000 at December 31, 2006, due to additional contributions and favorable market conditions.

## Other Post Employment Benefits (OPEB)

Prior to 2007, OPPD recognized the cost of other post employment benefits on a pay-as-you-go basis. Because of a new accounting standard, OPPD was required in 2007 to recognize OPEB costs using an actuarial approach similar to OPPD's Retirement Plan. An actuarial valuation was completed by an independent actuary in 2007 using 2006 demographic data. The valuation indicated that OPPD's actuarial accrued liability (AAL) as of January 1, 2007, decreased from $305,428,000 to $287,104,000 due to design changes that were approved in June 2007.

In 2007, OPPD fully funded the annual required contribution (ARC) to reduce OPEB costs, avoid the recognition of a liability on the financial statements and address its obligations to employees. The ARC was $27,304,000 for 2007 and is estimated at $27,100,000 and $27,700,000 for 2008 and 2009, respectively. The accounting standard requires recognition of an OPEB liability on the balance sheet only for unfunded ARC. An irrevocable grantor trust for the OPEB costs was established in 2006. The market value of the Plan's investments was $15,265,000 at December 31, 2007.

## Risk Management Practices

OPPD has an Enterprise Risk Management (ERM) program for identifying, quantifying, prioritizing and managing the risks of the entire company. As part of the ERM program, specific risk mitigation plans and procedures are maintained to provide for concentrated, consistent efforts for various risk exposures which require specific forms of mitigation strategies.

Negotiating power marketing and fuel purchase activities are within the normal course of OPPD's business. Risks associated with power marketing and fuel contracting are managed within the risk management control framework that is consistent with OPPD's overall tolerance for risk. Fuel expense represents a significant portion of OPPD's generation costs and affects its ability to market competitively priced power. A Risk Management Committee is responsible for identifying, measuring and mitigating various risk exposures related to power marketing and fuel purchase activities. Periodic reports are made to the Board of Directors regarding these activities.

OPPD competes in the wholesale marketplace with other electric utilities and power marketers for off-system sales. To successfully compete, OPPD must be able to offer energy at competitive prices and obtain transmission services. Energy market prices may fluctuate substantially in a short period of time due to changes in the demand and supply of electricity. In the energy trading and marketing business, it is anticipated that these operations will continue to experience competition. In addition, there are other risks, such as counterparty credit risks, which are monitored closely on an ongoing basis.

A Debt Retirement Reserve was established in 2003 to help manage the long-term risks associated with significant capital expenditures and related debt issuances. OPPD uses this reserve to meet challenges in retiring debt and maintaining adequate debt service coverage ratios. In 2007, OPPD used $27,000,000 of the reserve to provide additional revenues and funding for capital expenditures and debt retirements. The balance of the reserve was $78,000,000 and $105,000,000 at December 31, 2007 and 2006, respectively.

A Rate Stabilization Reserve was established in 1999 to help OPPD maintain stable customer electric rates. This reserve is intended to minimize the impact on rates from significant unforeseen occurrences, such as major storm damage or the unscheduled outage of a major generating unit during a period of high replacement power costs. The balance of the reserve was $32,000,000 at December 31, 2007 and 2006.

OPPD promotes solid, ethical business practices and the highest standards in the reporting and disclosure of financial information. The Sarbanes-Oxley Act (Act) is intended to strengthen corporate governance of publicly traded companies. As a public utility, OPPD is not required to comply with the Act, but the application of these requirements, where appropriate, ensures the continued public trust in OPPD, protects the interest of its stakeholders and is a sound business practice. One of the most significant requirements of the Act pertains to management's documentation and assessment of internal controls. OPPD's management assesses internal controls for significant business processes that impact financial reporting. This assessment includes documenting procedures, risks and controls for these processes and assessing the effectiveness and operation of the internal controls. In addition, OPPD contracts with a third-party vendor to provide a process for the receipt and retention of employee concerns regarding business and financial practices.

## Other Reserves

OPPD also maintains other reserves to recognize potential liabilities that arise in the normal course of business.

- The Uncollectible Accounts Reserve is established for estimated uncollectible accounts from both retail and off-system sales. Accounts receivable is reported net of this reserve.
- The Workers' Compensation and Public Liability Reserves are established for the estimated liability for current workers' compensation and public liability cases.
- The Incurred but not Presented Reserve is an insurance reserve that is required by state law since OPPD is self-insured for healthcare costs. The reserve is based on health insurance claims that have been incurred but not yet presented for payment.

# CAPITAL RESOURCES

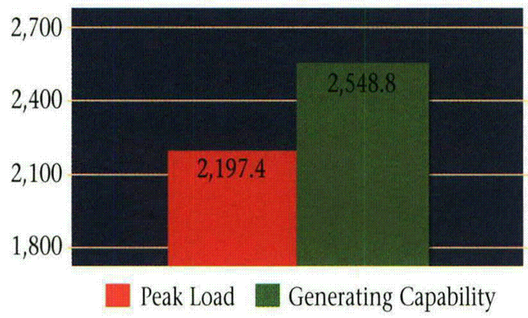
## Generating Capability

OPPD's power requirements are provided from its generating stations, leased generation and purchases of power. OPPD owns and operates seven generating stations that are accredited which have a maximum summer net capability of 2,548.8 MW. (The net capability of the Valley Station wind turbine and the Henry Doorly Zoo fuel cell is not accredited.) Additionally, OPPD has power purchase contracts with the Western Area Power Administration for 82 MW (hydro), the Nebraska Public Power District for approximately 10 MW (wind) and the City of Tecumseh for 6.6 MW (natural gas/oil). The following table illustrates the diverse fuel mix and maximum summer net accredited capability (in MW) of OPPD's generating facilities for 2007.

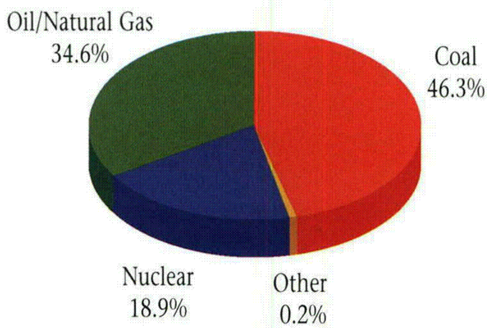
| | | Capability | % of Total |
|---|---|---|---|
| **Coal** | Nebraska City Station | 646.0 | |
| | North Omaha Station | 534.2 | |
| | Subtotal Coal | 1,180.2 | 46.3 |
| **Nuclear** | Fort Calhoun Station | 482.0 | 18.9 |
| **Oil/Natural Gas** | Cass County Station | 320.0 | |
| | Jones Street Station | 118.4 | |
| | North Omaha Station | 128.6 | |
| | Sarpy County Station | 314.3 | |
| | Subtotal Oil/Natural Gas | 881.3 | 34.6 |
| **Other** | Elk City Station (landfill-gas) | 5.3 | 0.2 |
| **Total Owned Generation** | | 2,548.8 | 100.0 |

The following chart, left, illustrates OPPD's generating capability and system peak load for 2007 (in MW), indicating that peak loads can be met by current generating capability. The following chart, right, illustrates the diversity of OPPD's 2007 generating capability by fuel type.

## Generating Capability and System Peak Load - 2007




## Generation Fuel Mix - 2007




## Capital Program

OPPD continually evaluates electric system requirements and makes long-range recommendations for capital expenditures necessary to serve the growing load requirements with a reliable and economical power supply. OPPD finances its capital program with revenues from operations, financing proceeds, investment income and cash on hand. The following table shows OPPD's actual capital program expenditures for the last three years and projected expenditures for 2008 and 2009 (in millions).

| | Projected | | Actual | | |
|---|---|---|---|---|---|
| Capital Program | 2009 | 2008 | 2007 | 2006 | 2005 |
| Production | $108.3 | $194.4 | $158.5 | $417.4 | $252.7 |
| Transmission and distribution | 109.8 | 76.1 | 118.9 | 69.7 | 52.4 |
| General | 33.8 | 24.2 | 5.8 | 11.0 | 13.4 |
| Total | $251.9 | $294.7 | $283.2 | $498.1 | $318.5 |

Production plant includes expenditures for the Nebraska City Station Unit 2, the life-extension capital projects at the Fort Calhoun Station and the expansion of the Elk City Station.

- Construction of the Nebraska City Station Unit 2 is progressing as planned. The project is on schedule and within budget, with construction scheduled to be completed by May 2009. The Nebraska City Station Unit 2 is expected to have a net capacity of approximately 663 MW. OPPD plans to utilize half of the plant's capacity and has secured 40-year contracts with seven public power and municipal utilities for the remaining half of the output. OPPD will own the entire plant and will build, operate and maintain the plant. Construction costs will be recovered from the participants for their portion of the plant's capacity. The capital program amounts were reduced by CIAC from participants who have provided their own funds for the construction of Nebraska City Station Unit 2.

- OPPD completed work in 2006 on several major modifications related to the life-extension capital projects for the Fort Calhoun Station, including the replacement of the steam generators and several related projects.
- The Elk City Station landfill-gas facility expansion increased the Station capacity to 5.3 MW of power. In 2009, the landfill is expected to generate sufficient methane gas for the Station to reach its full capacity of 6.1 MW.

For the last few years, OPPD has worked to secure its future power supply. OPPD will shift its focus over the next few years to its aging infrastructure by replacing and upgrading the transmission and distribution system. This project is scheduled to improve the system of delivering electricity and include new technologies to ensure reliability and efficiency while providing important operational information.

OPPD purchased the distribution system for the Offutt Air Force Base from the Department of Defense for $3,009,000 in January 2007. Offutt will be paid for the system over a 15-year period through the contract rate.

General plant projections for 2008 and 2009 include an increase for the purchase of vehicles for the transportation fleet that had been postponed for several years due to the emphasis on the power supply projects. In addition, $5,000,000 was projected annually in general plant for capital expenditures for the Sustainable Energy and Environmental Stewardship initiatives.

## FACTORS AFFECTING OPPD AND THE ELECTRIC UTILITY INDUSTRY GENERALLY

OPPD and the electric industry continue to be affected by a number of factors which could impact the competitiveness and financial condition of all electric utilities.

### High-Level Nuclear Waste Repository

Under the federal Nuclear Waste Disposal Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. The Department of Energy (DOE) facility is not expected to be operational until after 2017. OPPD remains responsible for the safe storage of spent nuclear fuel until the federal government takes delivery of this waste. Construction of a dry-cask storage facility was completed in 2006. This facility can be expanded to provide adequate spent-fuel storage capacity for continued operation of the Fort Calhoun Station through the end of its operating life. A settlement agreement was reached in 2006 between OPPD and the DOE. The DOE has agreed to reimburse OPPD for allowable costs incurred for managing and storing spent nuclear fuel and high-level waste due to the DOE's delay in accepting waste. OPPD received $15,063,000 and $4,948,000 from the DOE in 2007 and 2006, respectively.

### Competitive Environment in Nebraska

During the 2000 session, the Nebraska Legislature enacted Legislative Bill 901 (L.B. 901), which implemented recommendations to determine whether retail competition would be beneficial for Nebraska ratepayers. L.B. 901 directs the preparation of an annual report for the Governor and Legislature which monitors the conditions in the electric industry that may indicate whether retail competition would be beneficial for Nebraska's citizens. These conditions are as follows:

- Whether a viable regional transmission organization and adequate transmission exist in Nebraska or in a region that includes Nebraska.
- Whether a viable wholesale electricity market exists in a region that includes Nebraska.
- To what extent retail rates have been unbundled in Nebraska.
- A comparison of Nebraska's wholesale electricity prices to the prices in the region.
- Any other information the Nebraska Power Review Board believes to be beneficial to the Governor, the Legislature and Nebraska's citizens when considering whether retail electric competition would be beneficial.

The conditions have not been met based on the findings from the latest annual report published in October 2007. Six states have suspended, repealed or delayed retail choice since January 2001.

### Transmission Access Issues

OPPD is a participant on a Transmission Services Coordinator (TSC) Managing Committee under a Memorandum of Understanding between 13 Mid-Continent Area Power Pool utilities that did not join the Midwest Independent Transmission System Operator (MISO). The TSC Managing Committee's mission was to investigate options regarding the formation of a regional tariff and to negotiate for Tariff Administration and Reliability Coordination services to replace services provided by MISO that were set to expire in February 2008. The TSC Managing Committee transferred Tariff Administration services from MISO to Transerv and negotiated a new Reliability Coordination Agreement with MISO. Efforts to develop a regional tariff were put on hold when MISO proposed options to the TSC members that would allow participation in MISO under a contract for services approach rather than joining as a full member. TSC members are investigating MISO's proposal or a similar proposal from the Southwest Power Pool (SPP). Development of a regional tariff is on hold until participation by the TSC members in either MISO or SPP is determined.

### Environmental Issues

OPPD and other electric utilities are subject to numerous environmental regulations in the normal course of their business. OPPD individually and collectively through industry organizations and research continues to monitor and influence, to the extent possible, the impacts of proposed federal, state and local legislation and regulations, some of which could have a material financial effect on OPPD and most electric utilities.

### Critical Accounting Policies

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 as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results could differ from those estimates.

These judgments could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment may have a significant effect on the operation of the business and on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies has not changed.

The following is a list of accounting policies that are significant to OPPD's financial condition and results of operation, and require management's most difficult, subjective or complex judgments. Each of these has a higher likelihood of resulting in materially different reported amounts under different conditions or using different assumptions.

| *Accounting Policies* | *Judgments/Uncertainties Affecting Application* |
|---|---|
| Environmental Issues and Pollution Remediation Obligations | • Approved methods for cleanup<br>• Governmental regulations and standards<br>• Cost estimates for future remediation |
| Nuclear Plant Decommissioning | • Costs of future decommissioning<br>• Availability of facilities for waste disposal<br>• Approved methods for waste disposal<br>• Useful life of nuclear power plant |
| Regulatory Mechanisms and Cost Recovery - (SFAS No. 71) | • External regulatory requirements<br>• Anticipated future regulatory decisions and their impact |
| Retirement Plan and Other Post Employment Benefits | • Changes due to assumptions used in computing the actuarial liability, including expected rate of return on Plan assets<br>• Changes in Plan design |
| Reserves | • Economic conditions affecting customers<br>• Changes due to assumptions used in computing the liabilities |
| Unbilled Revenue | • Estimates for customer energy use and prices |

## SUMMARY OF THE FINANCIAL STATEMENTS

The financial statements, related notes and Management's Discussion and Analysis provide information regarding OPPD's financial position and activities. The Balance Sheets present OPPD's assets, liabilities and equity as of December 31, 2007 and 2006, with the current and long-term portions of assets and liabilities separately identified. The Statements of Revenues, Expenses and Changes in Equity present OPPD's operating results and changes in equity for each of the three years in the period ended December 31, 2007. The Statements of Cash Flows provide information about the flow of cash within OPPD by activities for each of the three years in the period ended December 31, 2007. The Notes to Financial Statements provide additional detailed information to support the financial statements. The basic financial statements, notes, and Management's Discussion and Analysis are designed to provide a general overview of OPPD's financial position. Questions concerning any of the information provided in this report should be directed to Investor Relations, 402-636-3286.

# Balance Sheets
## as of December 31, 2007 and 2006

| ASSETS | **2007** | 2006 |
|---|---|---|
| | *(thousands)* | |
| **UTILITY PLANT** - at cost (Notes 13, 20 and 22) | | |
| Electric plant | **$4,235,428** | $4,133,718 |
| Less accumulated depreciation and amortization | **1,420,070** | 1,511,242 |
| Electric plant - net | **2,815,358** | 2,622,476 |
| Nuclear fuel - at amortized cost | **24,073** | 33,279 |
| Total utility plant - net | **2,839,431** | 2,655,755 |
| **SPECIAL PURPOSE FUNDS** - at fair value (Notes 3 and 4) | | |
| Electric system revenue bond fund - net of current | **51,916** | 41,757 |
| Segregated fund - debt retirement | **73,000** | 105,000 |
| Segregated fund - rate stabilization | **32,000** | 32,000 |
| Segregated fund - other | **27,948** | 25,566 |
| Decommissioning funds | **281,363** | 268,098 |
| NC2 separate electric system revenue bond fund - net of current | **7,711** | 19,699 |
| NC2 separate system construction fund - net of current | **-** | 51,552 |
| Total special purpose funds | **473,938** | 543,672 |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents (Note 4) | **39,219** | 44,852 |
| Electric system revenue bond fund - current (Notes 3 and 4) | **71,435** | 71,116 |
| Electric system subordinated revenue bond fund (Notes 3 and 4) | **6,482** | 2,354 |
| Electric system construction fund (Notes 3 and 4) | **255,792** | 64,600 |
| NC2 separate electric system revenue bond fund - current (Notes 3 and 4) | **13,272** | 9,748 |
| NC2 separate system construction fund - current (Notes 3 and 4) | **90,202** | 166,374 |
| Accounts receivable - net | **90,925** | 96,280 |
| Fossil fuels - at average cost | **29,862** | 25,857 |
| Materials and supplies - at average cost | **77,364** | 72,435 |
| Other (Note 5) | **7,681** | 7,795 |
| Total current assets | **682,234** | 561,411 |
| **DEFERRED CHARGES** (Note 6) | **56,843** | 42,627 |
| **TOTAL** | **$4,052,446** | $3,803,465 |

*See notes to financial statements*

## LIABILITIES

| | 2007 | 2006 |
|---|---|---|
| | (thousands) | |
| **LONG-TERM DEBT** (Note 2) | | |
| Electric system revenue bonds - net of current | **$1,028,750** | $ 840,370 |
| Electric system subordinated revenue bonds | **350,000** | 125,000 |
| Electric revenue notes - commercial paper series | **150,000** | 250,000 |
| Minibonds - net of currrent | **39,576** | 50,879 |
| Subordinated obligation - net of currrent | **2,161** | 2,425 |
| NC2 separate electric system revenue bonds | **227,000** | 227,000 |
| Total long-term debt | **1,797,487** | 1,495,674 |
| Unamortized discounts and premiums | **12,398** | 9,345 |
| Unamortized loss on refunded debt | **(13,711)** | (15,297) |
| Total long-term debt - net | **1,796,174** | 1,489,722 |
| **COMMITMENTS AND CONTINGENCIES** (Notes 13 and 14) | | |
| **LIABILITIES PAYABLE FROM SEGREGATED FUNDS** (Notes 3, 9 and 15) | **133,996** | 159,567 |
| **CURRENT LIABILITIES** | | |
| Electric system revenue bonds - current (Note 2) | **56,620** | 57,140 |
| Minibonds - current (Note 2) | **12,101** | 12,751 |
| Subordinated obligation - current (Note 2) | **264** | 242 |
| Accounts payable | **51,007** | 167,401 |
| Accrued payments in lieu of taxes | **20,340** | 19,185 |
| Accrued interest | **31,526** | 26,387 |
| Accrued payroll | **19,667** | 19,249 |
| Accrued production outage costs | **13,888** | - |
| Construction deposits (Note 16) | **38,370** | 102,019 |
| Other (Note 11) | **7,713** | 9,392 |
| Total current liabilities | **251,496** | 413,766 |
| **OTHER LIABILITIES** | | |
| Decommissioning costs | **281,363** | 268,098 |
| Other (Note 12) | **49,489** | 21,873 |
| Total other liabilities | **330,852** | 289,971 |

## EQUITY

| | 2007 | 2006 |
|---|---|---|
| Invested in capital assets, net of related debt | **1,350,311** | 1,343,991 |
| Restricted | **57,193** | 56,761 |
| Unrestricted | **132,424** | 49,687 |
| Total equity | **1,539,928** | 1,450,439 |
| **TOTAL** | **$4,052,446** | $3,803,465 |

## Statements of Revenues, Expenses and Changes in Equity
### for each of the Three Years in the Period Ended December 31, 2007

| | **2007** | 2006 *(thousands)* | 2005 |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Retail sales (Note 17) | **$ 624,083** | $ 544,124 | $ 533,086 |
| Off-system sales | **110,399** | 96,500 | 120,030 |
| Other electric revenues (Notes 18 and 19) | **15,771** | 36,204 | 13,436 |
| Total operating revenues | **750,253** | 676,828 | 666,552 |
| **OPERATING EXPENSES** | | | |
| Operations and maintenance | | | |
| Fuel | **117,573** | 114,137 | 98,760 |
| Purchased power | **42,403** | 45,178 | 52,904 |
| Production | **160,274** | 139,047 | 140,359 |
| Transmission | **7,713** | 7,033 | 6,597 |
| Distribution | **44,925** | 41,119 | 37,482 |
| Customer accounts | **16,712** | 17,265 | 16,250 |
| Customer service and information | **12,636** | 11,603 | 16,313 |
| Administrative and general | **106,288** | 85,719 | 78,605 |
| Total operations and maintenance | **508,524** | 461,101 | 447,270 |
| Depreciation and amortization | **102,753** | 92,756 | 88,032 |
| Payments in lieu of taxes | **21,398** | 20,241 | 19,693 |
| Total operating expenses | **632,675** | 574,098 | 554,995 |
| **OPERATING INCOME** | **117,578** | 102,730 | 111,557 |
| **OTHER INCOME (EXPENSES)** | | | |
| Contributions in aid of construction (Note 20) | **64,533** | 80,284 | 42,539 |
| Reduction of plant costs recovered through contributions in aid of construction (Note 20) | **(64,533)** | (80,284) | (42,539) |
| Decommissioning funds - investment income | **13,265** | 13,354 | 5,445 |
| Decommissioning funds - reinvestment | **(13,265)** | (13,354) | (5,445) |
| Investment income | **29,686** | 23,432 | 7,502 |
| Allowances for funds used during construction | **22,347** | 22,057 | 12,978 |
| Products and services - net | **2,058** | 1,886 | 969 |
| Other - net (Note 21) | **1,189** | 380 | (136) |
| Total other income - net | **55,280** | 47,755 | 21,313 |
| **INTEREST EXPENSE** | **83,369** | 66,195 | 50,699 |
| **NET INCOME** | **89,489** | 84,290 | 82,171 |
| **EQUITY, BEGINNING OF YEAR** | **1,450,439** | 1,366,149 | 1,283,978 |
| **EQUITY, END OF YEAR** | **$ 1,539,928** | $ 1,450,439 | $ 1,366,149 |

*See notes to financial statements*

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | | *(thousands)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash received from retail customers | **$609,427** | $562,958 | $537,172 |
| Cash received from the sale of sulfur dioxide allowances (Note 18) | **-** | 18,750 | - |
| Cash received from off-system customers | **112,901** | 114,522 | 117,678 |
| Cash paid to operations and maintenance suppliers | **(351,904)** | (296,024) | (277,954) |
| Cash paid to off-system suppliers | **(40,386)** | (48,972) | (56,872) |
| Cash paid to employees | **(127,726)** | (119,416) | (111,692) |
| Cash paid for the purchase of sulfur dioxide allowances (Note 18) | **-** | (8,125) | - |
| Cash paid for in lieu of taxes and other taxes | **(20,242)** | (19,694) | (18,635) |
| Net cash provided from operating activities | **182,070** | 203,999 | 189,697 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | |
| Proceeds from long-term borrowings | **470,000** | 490,000 | 362,000 |
| Principal reduction of long-term debt | **(166,790)** | (58,698) | (127,424) |
| Interest paid on long-term debt | **(77,221)** | (53,533) | (41,374) |
| Acquisition and construction of capital assets | **(425,207)** | (501,483) | (324,394) |
| Proceeds from NC2 participants (Note 16) | **-** | 95,030 | 84,061 |
| Contributions in aid of construction | **22,298** | 12,715 | 16,558 |
| Acquisition of nuclear fuel | **(1,763)** | (20,833) | (4,292) |
| Net cash used for capital and related financing activities | **(178,683)** | (36,802) | (34,865) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of investments | **(1,350,027)** | (1,187,970) | (883,743) |
| Maturities and sales of investments | **1,317,538** | 993,088 | 752,323 |
| Purchases of investments for decommissioning funds | **(100,868)** | (68,798) | (84,927) |
| Maturities and sales of investments in decommissioning funds | **100,868** | 68,798 | 84,927 |
| Investment income | **23,469** | 16,314 | 4,751 |
| Net cash used for investing activities | **(9,020)** | (178,568) | (126,669) |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | **(5,633)** | (11,371) | 28,163 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | **44,852** | 56,223 | 28,060 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **$ 39,219** | $ 44,852 | $ 56,223 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES** | | | |
| Operating income | **$117,578** | $102,730 | $111,557 |
| Adjustments to reconcile operating income to net cash provided from operating activities | | | |
| Depreciation and amortizaton | **102,753** | 92,756 | 88,032 |
| Amortization of nuclear fuel | **13,961** | 10,220 | 9,245 |
| Changes in assets and liabilities | | | |
| Accounts receivable | **5,355** | (6,817) | (16,556) |
| Fossil fuels | **(4,005)** | (6,620) | (244) |
| Materials and supplies | **(4,929)** | (7,487) | (4,538) |
| Accounts payable | **(21,878)** | 5,869 | 4,144 |
| Accrued payments in lieu of taxes | **1,155** | 547 | 1,059 |
| Accrued payroll | **418** | 1,790 | (219) |
| Accrued production outage costs | **13,888** | (6,978) | (10,438) |
| Debt retirement reserve | **(27,000)** | 15,000 | - |
| Other | **(15,226)** | 2,989 | 7,655 |
| Net cash provided from operating activities | **$182,070** | $203,999 | $189,697 |
| **NONCASH CAPITAL ACTIVITIES** | | | |
| Utility plant additions from outstanding liabilities | **$ 44,951** | $129,176 | $ 53,475 |

*See notes to financial statements*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Business** - The Omaha Public Power District (OPPD), a political subdivision of the state of Nebraska, is a public utility engaged in the generation, transmission and distribution of electric power and energy and other related activities. The Board of Directors is authorized to establish rates. OPPD is generally not liable for federal and state income or ad valorem taxes on property; however, payments in lieu of taxes are made to various local governments.

**Basis of Accounting** - The financial statements of OPPD are presented in accordance with generally accepted accounting principles for proprietary funds of governmental entities. Accounting records are maintained generally in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, OPPD has elected not to follow the pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

OPPD applies the accounting policies established in Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS No. 71). This guidance permits an entity with cost-based rates to include costs in a period other than the period in which the costs would be charged to expense by an unregulated entity if it is probable that these costs will be recovered through the rates charged to customers. SFAS No. 71 also permits an entity to defer revenues by recognizing liabilities to cover future expenditures.

If, as a result of changes in regulation or competition, OPPD's ability to recover these assets and liabilities would not be assured, then pursuant to SFAS No. 101, *Regulated Enterprises - Accounting for the Discontinuation of Application of SFAS No. 71* (SFAS No. 101) and SFAS No. 90, *Regulated Enterprises - Accounting for Abandonments and Disallowances of Plant Costs* (SFAS No. 90), OPPD would be required to write off or write down such regulatory assets and liabilities, unless some form of transition cost recovery continues through established rates. In addition, OPPD would be required to determine any impairment to the carrying costs of deregulated plant and inventory assets. There were no write-downs of regulatory assets for each of the three years in the period ended December 31, 2007.

**Revenue Recognition** - OPPD recognizes electric operating revenues as earned. Meters are read and bills are rendered on a cycle basis. Revenues earned after meters are read are estimated and accrued as unbilled revenues at the end of each accounting period. Accounts receivable includes $29,065,000 and $27,322,000 in unbilled revenues as of December 31, 2007 and 2006, respectively.

OPPD acts as an agent in the buying and selling of power for other public power utilities through joint marketing agreements and receives an agreed-upon percentage share of the net profits from the energy marketed under these agreements. The profit from joint marketing activities is reported in off-system sales revenues, and purchased power expense includes only power purchased for OPPD's operations.

**Cash and Cash Equivalents** - OPPD considers highly liquid investments of the Revenue Fund purchased with an original maturity of three months or less to be cash equivalents.

**Accounts Receivable** - An estimate is made for the Reserve for Uncollectible Accounts, based on an analysis of the aging of accounts receivable and historical write-offs net of recoveries, for retail customers. Additional amounts may be included based on the credit risks of significant parties. Included in the reserve is the greater of $5,000,000 or an estimate based on the previous year's accounts receivable for off-system sales customers. Accounts receivable was reported net of the Reserve for Uncollectible Accounts of $5,730,000 and $5,566,000 as of December 31, 2007 and 2006, respectively.

**Utility Plant** - Utility plant is stated at cost, which includes property additions, replacements of units of property and betterments. Maintenance and replacement of minor items are charged to operating expenses. Costs of depreciable units of electric plant retired are eliminated from electric plant accounts by charges, less salvage plus removal expenses, to the accumulated depreciation account. Electric plant includes both tangible and intangible assets. Intangible assets include the costs of software and licenses. Electric plant includes construction work in progress of $620,222,000 and $569,527,000 as of December 31, 2007 and 2006, respectively.

Electric plant activity for 2007 was as follows (in thousands):

| | 2006 | Additions | Retirements | 2007 |
|---|---|---|---|---|
| Electric plant | $ 4,133,718 | $ 221,515 | $(119,805) | $ 4,235,428 |
| Less accumulated depreciation and amortization | 1,511,242 | 28,630 | (119,802) | 1,420,070 |
| Electric plant - net | $ 2,622,476 | $ 192,885 | $ (3) | $ 2,815,358 |

Allowances for funds used during construction, approximating OPPD's current weighted average cost of debt, were capitalized as a component of the cost of utility plant. These allowances were computed at 4.5%, 4.4% and 4.3% for both construction work in progress and nuclear fuel for the years ended December 31, 2007, 2006 and 2005, respectively. Allowances for funds used during construction for the participants' share of Nebraska City Station Unit 2 were offset by the actual interest cost of their funds, resulting in no impact on net income.

OPPD periodically reviews the carrying amount of long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. There were no write-downs for impairments for each of the three years in the period ended December 31, 2007.

**Contributions in Aid of Construction (CIAC)** – OPPD receives payments from customers for construction costs primarily relating to the expansion of OPPD's electric system. OPPD follows FERC guidelines in the recording of CIAC, which directs the reduction of utility plant assets by the amount of contributions received toward the construction of utility plant. In order to comply with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, while continuing to follow FERC guidelines, CIAC is recorded as other income and offset by an expense in the same amount representing the recovery of plant costs. CIAC from participants for the construction of Nebraska City Station Unit 2 was $55,165,000 and $54,569,000 for the years ended December 31, 2007 and 2006, respectively. CIAC from the United States Department of Energy (DOE) for reimbursement of capital costs incurred for the construction of a dry-cask storage facility for high-level nuclear waste was $2,303,000 and $17,948,000 for the years ended December 31, 2007 and 2006, respectively.

**Depreciation and Amortization** – Depreciation for assets is computed on the straight-line basis at rates based on the estimated useful lives of the various classes of property. Depreciation expense has averaged approximately 2.9%, 2.8% and 2.9% of depreciable property for the years ended December 31, 2007, 2006 and 2005, respectively.

Amortization of nuclear fuel is based upon the cost thereof, which is prorated by fuel assembly in accordance with the thermal energy that each assembly produces.

Intangible assets are amortized over their expected useful life. Amortization of intangible assets included with depreciation and amortization expense in these financial statements was $4,616,000, $4,280,000 and $3,052,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

In 2004, OPPD's Board of Directors approved a change in the useful life for Fort Calhoun production plant assets to 2043, which is 10 years beyond the term of Fort Calhoun Station's current license. A regulatory asset was established for the difference in depreciation expense resulting from the use of the estimated economic life of the asset versus the license term. The reduction in depreciation expense will be recorded each year as a regulatory asset in deferred charges until 2033. The regulatory asset will be reduced through the recognition of depreciation expense over the assets' remaining economic life in the years 2034 through 2043. This regulatory asset was $22,308,000 and $14,228,000 as of December 31, 2007 and 2006, respectively, and was recorded in deferred charges on the balance sheet (Note 6).

**Nuclear Fuel Disposal Costs** – Permanent disposal of spent nuclear fuel is the responsibility of the Federal Government under an agreement entered into with the United States Department of Energy (DOE). Under the agreement, OPPD is subject to a fee of one mill per kilowatt-hour on net electricity generated and sold from the Fort Calhoun Station. The spent nuclear fuel disposal costs are included in OPPD's nuclear fuel amortization and are collected from customers as part of fuel costs. Nuclear fuel disposal costs were $3,386,000, $3,694,000 and $2,791,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

OPPD's contract required the Federal Government to begin accepting high-level nuclear waste by January 1998; however, the DOE's facility is not expected to be operational until after 2017. In May 1998, the U.S. Court of Appeals confirmed the DOE's statutory obligation to accept spent fuel by 1998, but rejected the request that a move-fuel order be issued. In March 2001, OPPD, along with a number of other utilities, filed suit against the DOE in the United States Court of Federal Claims alleging breach of contract.

In 2006, the DOE agreed to reimburse OPPD for allowable costs for managing and storing spent nuclear fuel and high-level waste that OPPD incurred due to the DOE's delay in accepting waste. Construction of a dry-cask storage facility and loading of the first storage canisters were completed in 2006. This facility, which is recorded in electric plant, includes modules to meet storage needs for approximately 10 years. The facility can be expanded and, along with the existing spent-fuel pool storage racks, will provide adequate spent-fuel storage capacity for continued operation of the Fort Calhoun Station through the end of its operating life. OPPD received $15,063,000 from the DOE in August 2007 as reimbursement for construction costs incurred for the facility from July 2005 through December 2006 and $4,948,000 in June 2006 for costs incurred through June 2005. The receivable from the DOE for costs incurred by OPPD for the dry-cask storage facility was $240,000 and $13,000,000 as of December 31, 2007 and 2006, respectively. OPPD will periodically submit applications to the DOE for reimbursement of costs incurred.

**Nuclear Decommissioning** - OPPD's Board of Directors has approved the collection of nuclear decommissioning costs based on an independent engineering study of the costs to decommission the Fort Calhoun Station. Based on cost estimates, inflation rates and fund earnings projections, no funding has been required since 2001. Decommissioning funds are reported at fair value. The decommissioning cost liability is adjusted for interest income and changes in fair value, resulting in no impact on net income. Interest income was $13,206,000, $11,573,000 and $9,779,000 for the years ended December 31, 2007, 2006 and 2005, respectively. The fair value of the decommissioning funds increased $59,000 and $1,781,000 for the years ended December 31, 2007 and 2006, respectively, and decreased $4,334,000 for the year ended December 31, 2005. The decommissioning estimates, which exceed the Nuclear Regulatory Commission's (NRC) minimum funding requirements, totaled $549,222,000 and $533,299,000 for the fiscal years ending June 30, 2008 and 2007, respectively.

**Regulatory Assets and Liabilities** - OPPD is a regulated utility and applies the provisions of SFAS No. 71. Under this guidance, regulatory assets are deferred expenses, which are expected to be recovered through customer rates over some future period, and regulatory liabilities are reductions in earnings (or costs recovered) to cover future expenditures.

The regulatory asset is included in deferred charges (Note 6) and consists of deferred depreciation expense for Fort Calhoun's production assets. In 2004, OPPD's Board of Directors approved a change in the useful life for Fort Calhoun production plant assets to 2043, which is 10 years beyond the term of the current license. The balance of deferred depreciation expense was $22,308,000 and $14,228,000 as of December 31, 2007 and 2006, respectively.

Regulatory liabilities, which are primarily included in liabilities payable from segregated funds, consist of reserves for debt retirement, rate stabilization and uncollectible accounts from off-system sales. The Debt Retirement Reserve was established for the retirement of outstanding debt and to help maintain debt service coverage ratios at appropriate levels (Note 17). The Rate Stabilization Reserve was established to help maintain stability in OPPD's long-term rate structure (Note 17). The Reserve for Uncollectible Accounts from off-system sales, which is included as a reduction to accounts receivable, was established to recognize a loss contingency for uncollectible accounts from off-system sales customers. The balance of the Debt Retirement Reserve was $78,000,000 and $105,000,000 as of December 31, 2007 and 2006, respectively. The balance of the Rate Stabilization Reserve was $32,000,000 as of December 31, 2007 and 2006. The balance of the Reserve for Uncollectible Accounts from off-system sales was $5,000,000 as of December 31, 2007 and 2006.

**Accrued Production Outage Costs** - For major planned production outages, estimated incremental operations and maintenance expenses of $5,000,000 or more are accrued prior to the outage. The Fort Calhoun Station completed a major refueling and maintenance outage in 2006. The next major planned production outage is scheduled to begin in April 2008 at the Fort Calhoun Station. The balance of accrued production outage costs was $13,888,000 short-term and $758,000 long-term as of December 31, 2007 and 2006, respectively.

**Natural Gas Inventories and Contracts** - Natural gas inventories are maintained for the Cass County Station. The weighted average cost of natural gas consumed is used to expense natural gas from inventories. OPPD is exposed to market price fluctuations on its purchases of natural gas. To ensure financial protection on these purchases, OPPD enters into futures contracts and purchases options to manage the risk of volatility in the market price of gas on anticipated purchase transactions.

OPPD had natural gas futures contracts with the New York Mercantile Exchange (NYMEX) based on the notional amount of 1,850,000 mmBtu as of December 31, 2007. The contracts will mature in the months of June, July and August of 2008 through 2010. OPPD had futures contracts based on the notional amount of 2,010,000 mmBtu as of December 31, 2006. These contracts had unrealized gains of $354,000 and unrealized losses of $1,630,000 as of December 31, 2007 and 2006, respectively.

As a result of hedging contracts and the exercise of options, there was an increase in fuel expense of $1,831,000, $1,802,000 and $111,000 for the years ended December 31, 2007, 2006 and 2005, respectively. In accordance with generally accepted accounting principles for proprietary funds of government entities, the futures contracts are not recorded on the balance sheet.

**Equity** - Equity is reported in three separate components on the Balance Sheets. Equity invested in capital assets, net of related debt, is the equity share attributable to net utility plant assets reduced by outstanding related debt. Restricted equity represents net assets with usage restraints imposed by law or through debt covenants. Unrestricted equity represents net assets that are neither restricted nor invested in capital assets.

**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.

**Recent Accounting Pronouncements** - In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Prior to 2007, OPPD recognized the cost of other post employment benefits (OPEB) on a pay-as-you-go basis. This statement requires the accounting for OPEB costs using an actuarial approach commencing in 2007. The annual required contribution (ARC) for OPEB was $27,304,000 for 2007. The amount in excess of the pay-as-you-go costs was $14,996,000 for 2007 (Note 8).

In June 2006, GASB issued Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Provisions of Medicare Part D*. This technical bulletin clarifies guidance for reporting payments received from the Federal Government under provisions of Medicare Part D. Payments from the Federal Government are recorded as revenues. Other electric revenues included $799,000 and $501,000 for Medicare Part D payments from the Federal Government for the years ended December 31, 2007 and 2006, respectively.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement requires the accounting for and disclosures of potential liabilities related to the cleanup and removal of pollution. The statement is effective for fiscal years beginning after December 15, 2007. OPPD has an estimated liability of $675,000 for pollution remediation obligations at January 1, 2008. In 2008, the liability was recorded with a corresponding reduction to beginning equity.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. In addition, the statement establishes guidance specific to intangible assets related to recognition and amortization. This statement is effective for financial statements for periods beginning after June 15, 2009. This statement is not expected to have a significant impact on the financial statements because OPPD's accounting policies for intangible assets are consistent with this statement.

**Reclassifications** - Certain amounts in the operating activities section of the Statement of Cash Flows for 2006 were reclassified to conform to the 2007 presentation. These reclassifications resulted in a decrease in the amount reported for cash received from retail customers and a decrease in the cash paid to operations and maintenance suppliers. The reclassifications had no effect on previously reported net cash provided from operating activities.

## 2. DEBT

OPPD utilizes the proceeds of debt issued primarily to finance its construction program. Debt activity for 2007 was as follows (in thousands):

| | 2006 | Additions | Retirements | 2007 |
|---|---|---|---|---|
| Electric system revenue bonds | $ 897,510 | $ 245,000 | $ (57,140) | $ 1,085,370 |
| Electric system subordinated revenue bonds | 125,000 | 225,000 | - | 350,000 |
| Electric revenue notes - commercial paper series | 250,000 | - | (100,000) | 150,000 |
| Minibonds | 63,630 | 1,352 | (13,305) | 51,677 |
| Subordinated obligation | 2,667 | - | (242) | 2,425 |
| NC2 separate electric system revenue bonds | 227,000 | - | - | 227,000 |
| Total | $1,565,807 | $ 471,352 | $(170,687) | $ 1,866,472 |

**Electric System Revenue Bonds** - These bonds are payable from and secured by a pledge of and lien upon the revenues of the Electric System, subject to the prior payment therefrom of the operations and maintenance expenses of the Electric System. The Electric System Revenue Bonds are OPPD's Senior Bonds.

On February 1, 2007, a principal payment of $57,140,000 was made for the Electric System Revenue Bonds. On November 1, 2007, OPPD issued 2007 Series A Electric System Revenue Bonds for $245,000,000. This issue consists of serial bonds of $108,705,000, with maturity dates between 2018 and 2027, with interest rates between 4.0% and 5.0%, and term bonds of $136,295,000, with maturity dates between 2029 and 2043, with interest rates between 4.75% and 5.0%.

On February 1, 2006, a principal payment of $58,200,000 was made for the Electric System Revenue Bonds. On May 24, 2006, OPPD issued 2006 Series A Electric System Revenue Bonds for $200,000,000. This issue consists of serial bonds of $62,000,000, with maturity dates between 2018 and 2044, with interest rates between 4.25% and 4.75%, and term bonds of $138,000,000, with maturity dates between 2029 and 2046, with interest rates between 4.65% and 5.0%.

At December 31, 2007, Electric System Revenue Bonds consisted of $688,155,000 of serial bonds, with interest rates between 2.65% and 5.5%, due annually from 2008 to 2044, and $397,215,000 of term bonds, with interest rates between 4.25% and 5.5%, due annually from 2011 to 2046.

At December 31, 2006, Electric System Revenue Bonds consisted of $636,590,000 of serial bonds, with interest rates between 2.25% and 5.5%, due annually from 2007 to 2044, and $260,920,000 of term bonds, with interest rates between 4.25% and 5.5%, due annually from 2011 to 2046.

The following Electric System Revenue Bonds, with outstanding principal amounts of $277,700,000 and $285,440,000 as of December 31, 2007 and 2006, respectively, were legally defeased: 1986 Series A, 1992 Series B, 1993 Series B Term Bonds and 2002 Series A maturing in 2012, 2017 and 2022. Defeased bonds are funded by Government securities deposited by OPPD in irrevocable escrow accounts. Accordingly, the bonds and the related Government securities escrow accounts have been removed from OPPD's balance sheets.

OPPD's bond indenture provides for certain restrictions, the most significant of which are:

- Additional bonds may not be issued unless estimated net receipts (as defined) for each future year will equal or exceed 1.4 times the debt service on all bonds outstanding, including the additional bonds being issued or to be issued in the case of a power plant (as defined) being financed in increments.
- In any three-year period, at least 7.5% of general business income (as defined) must be spent for replacements, renewals or additions to the electric system. Any deficiency is to be spent within two years thereafter for such purposes or, if not so spent, is to be used for bond retirements in advance of maturity.

Electric System Revenue Bond payments are as follows (in thousands):

| | Principal | Interest |
|---|---|---|
| 2008 | $ 56,620 | $ 46,279 |
| 2009 | 35,450 | 47,013 |
| 2010 | 36,830 | 45,387 |
| 2011 | 36,340 | 43,689 |
| 2012 | 51,310 | 41,693 |
| 2013-2017 | 226,820 | 177,815 |
| 2018-2022 | 218,530 | 124,494 |
| 2023-2027 | 98,175 | 90,263 |
| 2028-2032 | 106,535 | 67,219 |
| 2033-2037 | 46,965 | 46,492 |
| 2038-2042 | 86,940 | 26,929 |
| 2043-2046 | 84,855 | 8,058 |
| Total | $1,085,370 | $765,331 |

The average interest rates for Electric System Revenue Bonds were 4.7% and 4.6% for the years ended December 31, 2007 and 2006, respectively.

In February 2008, OPPD defeased a portion of the 2005 Series B Electric System Revenue Bonds. The defeased 2005 Series B issue consists of serial bonds of $13,340,000, with a maturity date of February 1, 2012, with an interest rate of 3.5%, and serial bonds of $8,000,000, with a maturity date of February 1, 2017, with an interest rate of 5.0%.

**Electric System Subordinated Revenue Bonds** – These bonds are payable from and secured by a pledge of revenues of the Electric System, subject to the prior payment of the operations and maintenance expenses of the Electric System and the prior payment of the Electric System Revenue Bonds. The payment of the principal and interest on these bonds is insured by municipal bond insurance policies.

The Electric System Subordinated Revenue Bonds include Periodically Issued Bonds (PIBs). OPPD is authorized to offer up to $300,000,000 of PIBs on a series-by-series basis through August 1, 2009.

On March 6, 2007, OPPD issued 2007 Series A PIBs for $25,000,000. The 2007 Series A issue consists of serial bonds due 2037, with an interest rate of 4.3%.

On February 24, 2006, OPPD issued 2006 Series A PIBs for $25,000,000. The 2006 Series A issue consists of serial bonds due 2040, with an interest rate of 4.375%. On March 23, 2006, OPPD issued 2006 Series B PIBs for $25,000,000. The 2006 Series B issue consists of serial bonds due 2036, with an interest rate of 4.75%. On July 26, 2006, OPPD issued 2006 Series C PIBs for $25,000,000. The 2006 Series C issue consists of serial bonds due 2042, with an interest rate of 4.65%.

Electric System Subordinated Revenue Bonds (PIBs) payments are as follows (in thousands):

| | Principal | Interest |
|---|---|---|
| 2008 | $ - | $ 6,706 |
| 2009 | - | 6,706 |
| 2010 | - | 6,706 |
| 2011 | - | 6,706 |
| 2012 | - | 6,706 |
| 2013-2017 | - | 33,531 |
| 2018-2022 | - | 33,531 |
| 2023-2027 | - | 33,531 |
| 2028-2032 | - | 33,531 |
| 2033-2037 | 75,000 | 28,556 |
| 2038-2042 | 75,000 | 11,906 |
| Total | $150,000 | $208,116 |

On April 3, 2007, OPPD issued 2007 Series AA Electric System Subordinated Revenue Bonds for $200,000,000. This issue consists of serial bonds of $78,000,000, with maturity dates between 2018 and 2031, with interest rates between 3.8% and 4.5%, and term bonds of $122,000,000, with maturity dates between 2032 and 2038, with an interest rate of 4.5%.

Electric System Subordinated Revenue Bond payments for the 2007 Series AA are as follows (in thousands):

| | Principal | Interest |
|---|---|---|
| 2008 | $ - | $ 8,902 |
| 2009 | - | 8,902 |
| 2010 | - | 8,902 |
| 2011 | - | 8,902 |
| 2012 | - | 8,902 |
| 2013-2017 | - | 44,508 |
| 2018-2022 | 6,000 | 44,042 |
| 2023-2027 | 34,000 | 40,658 |
| 2028-2032 | 58,000 | 29,971 |
| 2033-2037 | 85,000 | 12,713 |
| 2038 | 17,000 | 379 |
| Total | $200,000 | $216,781 |

The average interest rates for the Electric System Subordinated Revenue Bonds (PIBs and the 2007 Series AA) were 4.5% for the years ended December 31, 2007 and 2006.

**Electric Revenue Notes - Commercial Paper Series** - OPPD has a Commercial Paper Program supported by a credit agreement for $150,000,000 which expires on October 1, 2010. In June 2007, OPPD repaid $100,000,000 of Commercial Paper with proceeds from the issuance of the 2007 Series AA Electric System Subordinated Revenue Bonds. The average borrowing rates were 3.6% and 3.5% for the years ended December 31, 2007 and 2006, respectively. The outstanding balances were $150,000,000 and $250,000,000 as of December 31, 2007 and 2006, respectively.

**Minibonds** - Minibonds consist of current interest-bearing and capital appreciation minibonds, which are payable on a parity with OPPD's Electric System Subordinated Revenue Bonds and Electric Revenue Notes - Commercial Paper Series, all of which are subordinated to the Electric System Revenue Bonds. Minibonds may be redeemed prior to their maturity dates at the request of a holder, subject to certain conditions as outlined in the Minibond Official Statements. On October 1, 2007, the 1992 minibonds matured with a payment of $12,966,000 for principal and interest. The balance of the current portion at December 31, 2007, was $12,101,000, which was principal and accreted interest for the 1993 minibonds. The average borrowing rates were 5.3% and 5.4% for the years ended December 31, 2007 and 2006, respectively. The payment of the principal and interest on these bonds is insured by municipal bond insurance policies.

The outstanding balances at December 31 were as follows (in thousands):

| Principal | 2007 | 2006 |
|---|---|---|
| 1992 minibonds, due 2007 (6.00%) | $ - | $ 9,102 |
| 1993 minibonds, due 2008 (5.35%) | 9,180 | 9,215 |
| 1994 minibonds, due 2009 (5.95%) | 9,440 | 9,473 |
| 2001 minibonds, due 2021 (5.05%) | 24,403 | 24,563 |
| Subtotal | 43,023 | 52,353 |
| Accreted interest on capital appreciation minibonds | 8,654 | 11,277 |
| Total | $51,677 | $63,630 |

**Subordinated Obligation** - The subordinated obligation is payable in annual installments of $481,815, including interest at 9.0%, through 2014.

**Revolving Credit Agreement** - In January 2005, OPPD executed a $350,000,000 Revolving Credit Agreement (RCA) with JPMorgan Chase Bank, N.A., as Agent. The RCA is a facility that allows for revolving loans during a five-year period from January 3, 2005, through December 31, 2009, which may be converted to term loans of up to three years. The facility allows OPPD to draw, as needed, subject to customary conditions, to support its capital program. A total of six banks (including three banks with offices in Omaha) are part of the facility. In December 2006, OPPD reduced the amount available to borrow under the RCA to $200,000,000. During 2007, OPPD reduced the amount available to borrow under the RCA to $100,000,000. There were no amounts outstanding under the RCA at December 31, 2007 and 2006.

**Promissory Note** - This was a $100,000,000 Fixed Rate Promissory Note (Note) with JPMorgan Chase Bank, N.A., that OPPD could access as needed to support its capital program. This Note was not used and was allowed to expire in February 2007.

**NC2 Separate Electric System Revenue Bonds** - OPPD executed Participation Power Agreements with seven public power and municipal utilities for half of the output of Nebraska City Station Unit 2 (NC2). The Participants' rights to receive, and obligations to pay costs related to, this half of the output is the "Separate System."

There were no NC2 Separate Electric System Revenue Bonds issued in 2007.

On September 28, 2006, OPPD issued $115,000,000 of NC2 Separate Electric System Revenue Bonds. The issue consists of $19,890,000 of serial bonds, with maturity dates between 2011 and 2026, with interest rates between 3.55% and 4.2% and $95,110,000 of term bonds, with maturity dates between 2027 and 2049, with interest rates between 4.25% and 5.0%.

NC2 Separate Electric System Revenue Bond payments are as follows (in thousands):

| | Principal | Interest |
|---|---|---|
| 2008 | $ - | $ 10,761 |
| 2009 | - | 10,761 |
| 2010 | - | 10,761 |
| 2011 | 2,245 | 10,721 |
| 2012 | 2,325 | 10,639 |
| 2013-2017 | 13,075 | 51,767 |
| 2018-2022 | 16,040 | 48,835 |
| 2023-2027 | 19,965 | 44,934 |
| 2028-2032 | 25,280 | 39,725 |
| 2033-2037 | 32,230 | 33,003 |
| 2038-2042 | 41,140 | 24,018 |
| 2043-2047 | 52,450 | 12,370 |
| 2048-2049 | 22,250 | 1,069 |
| Total | $227,000 | $309,364 |

The payment of the principal and interest on these bonds is insured by municipal bond insurance policies. The average borrowing rates were 4.7% for the years ended December 31, 2007 and 2006.

**Fair Value Disclosure** - The aggregate carrying amount and fair value of OPPD's long-term debt, including current portion and excluding unamortized loss on refunded debt, at December 31 were as follows (in thousands):

| 2007 | | 2006 | |
|---|---|---|---|
| Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| $1,878,870 | $1,925,057 | $1,575,152 | $1,623,832 |

The estimated fair value amounts were determined using rates that are currently available for issuance of debt with similar credit ratings and maturities. As market interest rates decline in relation to the issuer's outstanding debt, the fair value of outstanding debt financial instruments with fixed interest rates and maturities will tend to rise. Conversely, as market interest rates increase, the fair value of outstanding debt financial instruments will tend to decline. Fair value will normally approximate carrying amount as the debt financial instrument nears its maturity date. The use of different market assumptions may have an effect on the estimated fair value amount. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that bondholders could realize in a current market exchange.

## 3. SPECIAL PURPOSE FUNDS

Special purpose funds of OPPD are as follows:

**Electric System Revenue Bond Fund, Electric System Subordinated Revenue Bond Fund and NC2 Separate Electric System Revenue Bond Fund** - These funds are to be used for the retirement of their respective revenue bonds and the payment of the related interest and reserves as required.

**Electric System Construction Fund and NC2 Separate System Construction Fund** - These funds are to be used for capital improvements, additions and betterments to and extensions of their respective electric system.

**Segregated Fund - Debt Retirement** - This fund is to be used for the retirement of outstanding debt and to help maintain debt service coverage ratios at appropriate levels. As there is no funding requirement for the Debt Retirement Reserve, this fund also may be used to provide additional liquidity for operations as necessary. The balance of the Debt Retirement Fund was $73,000,000 and $105,000,000 as of December 31, 2007 and 2006, respectively. In January 2008, there was an increase of $5,000,000 to the fund for the addition made to the Debt Retirement Reserve in December 2007 (Note 17).

**Segregated Fund - Rate Stabilization** - This fund is to be used to help stabilize rates over future periods through the transfer of funds to operations as necessary for significant unforeseen occurrences, such as major storm damage or unscheduled outages. As there is no funding requirement for the Rate Stabilization Reserve, this fund also may be used to provide additional liquidity for operations as necessary. The balance of the Rate Stabilization Fund was $32,000,000 as of December 31, 2007 and 2006.

**Segregated Fund - Other** - This fund represents assets held for payment of customer deposits, refundable advances, certain other liabilities and funds set aside as part of OPPD's self-insured health insurance plans (Notes 9 and 15). The balances of the funds at December 31 were as follows (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Segregated Fund - self-insurance | $ 5,554 | $ 5,832 |
| Segregated Fund - other | 22,394 | 19,734 |
| Total | $27,948 | $25,566 |

**Decommissioning Funds** - These funds are for the costs to decommission the Fort Calhoun Station when its operating license expires. The Decommissioning Funds are held by outside trustees in compliance with the decommissioning funding plans approved by OPPD's Board of Directors (Note 1). The 1990 Plan was established in accordance with NRC regulations, for the purpose of discharging OPPD's obligation to decommission the Fort Calhoun Station. The 1992 Plan was established to retain funds in excess of NRC minimum funding requirements based on an independent engineering study, which indicated that decommissioning costs would exceed the NRC minimum requirements. The balances of the funds at December 31 were as follows (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Decommissioning Trust - 1990 Plan | $215,592 | $205,536 |
| Decommissioning Trust - 1992 Plan | 65,771 | 62,562 |
| Total | $281,363 | $268,098 |

## 4. DEPOSITS AND INVESTMENTS

**Investments** - OPPD has investments in cash equivalents and special purpose funds. Fair values were determined based on quotes received from the trustees' market valuation service. The weighted average maturity was based on the face value for investments. As of December 31, 2007 and 2006, OPPD investments were as follows (dollars in thousands):

| | 2007 | | 2006 | |
|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Weighted Average Maturity (Years)** | **Fair Value** | **Weighted Average Maturity (Years)** |
| Money markets | $ 1,095 | - | $ 970 | - |
| U.S. agencies | 829,441 | 1.3 | 782,843 | 1.1 |
| Corporate bonds | 1,569 | 1.0 | 1,564 | 2.0 |
| Mutual funds | 114,072 | - | 111,958 | - |
| Total | $946,177 | | $897,335 | |
| Portfolio weighted average maturity | | 1.1 | | 1.0 |

**Interest Rate Risk** - OPPD's investment in relatively short-term securities reduces interest rate risk, as evidenced by its portfolio weighted average maturity of 1.1 years and 1.0 year as of December 31, 2007 and 2006, respectively. In addition, OPPD is a buy-and-hold investor, which minimizes interest rate risk.

**Credit Risk** - OPPD's investment policy is to comply with OPPD's bond covenants and state statutes for governmental entities, which limit investments to investment grade fixed income obligations. The weighted average credit quality of the investments held by OPPD was rated AAA by Standard & Poor's Ratings Services and Aaa by Moody's Investors Service at December 31, 2007 and 2006.

**Custodial Credit Risk** - OPPD's bank deposits were entirely insured or collateralized with securities held by OPPD or by its agent in OPPD's name at December 31, 2007 and 2006. OPPD delivers all of its investment securities under contractual trust agreements.

## 5. OTHER CURRENT ASSETS

The composition of other current assets at December 31 was as follows (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Interest receivable | $3,852 | $4,333 |
| Prepayments | 3,787 | 3,360 |
| Other | 42 | 102 |
| Total | $7,681 | $7,795 |

## 6. DEFERRED CHARGES

The composition of deferred charges at December 31 was as follows (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Deferred depreciation expense | $22,308 | $14,228 |
| Deferred financing costs | 19,607 | 15,274 |
| Sulfur dioxide allowance inventory - long-term | 8,125 | 8,125 |
| Other | 6,803 | 5,000 |
| Total | $56,843 | $42,627 |

## 7. RETIREMENT PLAN

**Plan Description** - Substantially all employees are covered by OPPD's Retirement Plan (Retirement Plan). It is a single-employer, defined benefit plan, which provides retirement and death benefits to Plan members and beneficiaries. As of January 1, 2007, 1,307 of the 4,088 total participants were receiving benefits. Generally, employees at the normal retirement age of 65 are entitled to annual pension benefits equal to 2.25% of their average compensation (as defined) times years of credited service (as defined). The Retirement Plan was established and may be amended under the direction of OPPD's Board of Directors and is administered by OPPD. Employees hired on or after January 1, 2008, will have the option of joining this Retirement Plan or a new Cash Balance Plan. Employees hired before January 1, 2008, have the option until December 31, 2009, to transfer to the Cash Balance Plan.

**Funding Policy** – Employees contributed 4.0% of their covered payroll to the Retirement Plan in 2007 and 2006. The contribution rate for employees will increase to 4.8%, 5.6% and 6.2% for 2008, 2009 and 2010, respectively. Contribution rates for employees after 2010 will be based on the Retirement Plan's funded ratio. OPPD is obligated to contribute the balance of the funds needed on an actuarially determined basis.

GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, requires employers to follow an actuarial approach for the accounting and reporting of the annual cost of pension benefits and the related outstanding liability. This approach requires paying to a pension plan an amount that is expected to be sufficient, if invested now, to finance the benefits of employees during their retirement. Pension benefits are a part of the compensation that employees earn each year, even though these benefits are not paid until after employment has ended. Therefore, the cost of these future benefits is recognized while the employee is still working.

The Present Value of Accrued Plan Benefits (PVAPB) is the present value of benefits based on compensation and service to that date. This is the amount the Retirement Plan would owe participants if the Retirement Plan were frozen on the valuation date. The PVAPB is presented in the table below based on the actuarial valuation as of January 1 (dollars in thousands):

| | Actuarial Value of Assets | Present Value of Accrued Plan Benefits (PVAPB) | Over Funded PVAPB | Funded Ratio | Covered Payroll | Over Funded PVAPB as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| | (a) | (b) | (a-b) | (a/b) | (c) | ((a-b)/c) |
| 2007 | $656,474 | $653,802 | $2,672 | 100.4% | $163,124 | 1.6% |
| 2006 | $611,925 | $609,285 | $2,640 | 100.4% | $154,082 | 1.7% |
| 2005 | $577,885 | $553,592 | $24,293 | 104.4% | $148,682 | 16.3% |

The Actuarial Accrued Liability (AAL) is the present value of retirement benefits adjusted for assumptions for future increases in compensation and service attributable to past accounting periods. The funded ratio for the AAL was lower than the PVAPB because the AAL method assumes future compensation and service increases. The annual contributions to the Retirement Plan consist of the cost for the current period plus a portion of the unfunded accrued liability. The AAL is presented in the table below based on the actuarial valuation as of January 1 (dollars in thousands):

| | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Accrued Liability (UAL) | Funded Ratio | Covered Payroll | UAL Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| | (a) | (b) | (b-a) | (a/b) | (c) | ((b-a)/c) |
| 2007 | $656,474 | $819,314 | $162,840 | 80.1% | $163,124 | 99.8% |
| 2006 | $611,925 | $771,907 | $159,982 | 79.3% | $154,082 | 103.8% |
| 2005 | $577,885 | $702,300 | $124,415 | 82.3% | $148,682 | 83.7% |

**Annual Pension Cost and Actuarial Assumptions** – The annual pension cost and required contribution by OPPD was $32,016,000, $32,361,000 and $25,934,000 for the years ended December 31, 2007, 2006 and 2005, respectively. There was no net pension obligation as of December 31, 2007, 2006 and 2005. Retirement Plan contributions by OPPD employees for their covered annual payroll were $6,462,000, $6,270,000 and $6,072,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

The Entry Age Normal (Level Percent of Pay) cost method was used to determine contributions to the Retirement Plan. Under this actuarial method, an allocation to past service and future service is made by spreading the costs over an employee's career as a level percentage of pay. The actuarial value of Retirement Plan assets was determined using a method which smoothes the effect of short-term volatility in the market value of investments over approximately five years. Cost-of-living adjustments are provided to retirees and beneficiaries at the discretion of the Board of Directors. Ad-hoc cost-of-living increases granted to retirees and beneficiaries are amortized in the year for which the increase is authorized by the Board of Directors. Except for the liability associated with cost-of-living increases, the unfunded actuarial accrued liability is amortized on a level basis (closed group) over 15 years. The Board of Directors authorized a 1.0% cost-of-living adjustment effective January 1, 2008, for retirees and beneficiaries. Other actuarial assumptions are presented in the table below based on the actuarial valuation as of January 1:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Investment return (discount rate) | 8.20% | 8.20% | 8.40% |
| Average rate of compensation increase | 5.20% | 5.20% | 5.20% |
| Ad-hoc cost-of-living adjustment | 1.00% | 1.50% | 1.25% |

Audited financial statements for the Retirement Plan may be reviewed by contacting the Pension Administrator at OPPD's Corporate Headquarters.

OPPD provides for other employee benefit obligations to allow certain current and former employees to retain the benefits to which they would have been entitled under OPPD's Retirement Plan except for federally mandated limits and to provide supplemental pension benefits. The related pension expense, fund balance and employee benefit obligation were not material for each of the three years ended December 31, 2007.

## 8. OTHER POST EMPLOYMENT BENEFITS

**Plan Description** – OPPD's Other Post Employment Benefits Plan (OPEB Plan) provides health care and life insurance benefits to retirees, surviving spouses, former employees on long-term disability and their dependents. As of January 1, 2007, 1,215 of the 3,590 total participants were receiving benefits. There were several OPEB Plan design changes approved in 2007 to reduce the costs of these benefits, including the establishment of a separate funding policy for employees hired on or after January 1, 2008, who retire directly from active service with OPPD.

**Funding Policy** – Participants hired before January 1, 2008, pay a monthly premium for coverage and OPPD contributes the balance of the funds needed on an actuarially determined basis. For each employee hired on or after January 1, 2008, OPPD will fund $10,000 into a trust upon commencement of full-time employment and fund an additional $1,000 for each year of service completed.

Prior to 2007, OPPD recognized the cost of OPEB on a pay-as-you-go basis. GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, required OPPD to recognize OPEB costs in 2007 using an actuarial approach similar to OPPD's Retirement Plan (Note 7).

The Actuarial Accrued Liability (AAL) is the present value of benefits attributable to past accounting periods. The AAL was $305,428,000 as of January 1, 2007. After the approval of the design changes in June 2007, the AAL decreased $18,324,000 to $287,104,000. The annual contributions to the OPEB Plan consist of the cost for the current period plus a portion of the unfunded accrued liability. The AAL is presented in the table below based on the actuarial valuation as of January 1 (dollars in thousands):

| | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Accrued Liability (UAL) | Funded Ratio | Covered Payroll | UAL Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| | (a) | (b) | (b-a) | (a/b) | (c) | ((b-a)/c) |
| 2007 | $ - | $287,104 | $287,104 | 0.0% | $ 163,124 | 176.0% |

**Annual OPEB Cost and Actuarial Assumptions** – The annual required contribution (ARC) was $27,304,000 for the year ended December 31, 2007. The amount in excess of the pay-as-you-go costs was $14,996,000 for 2007. An irrevocable grantor trust for the OPEB costs was established in 2006. The accounting standard requires recognition of an OPEB liability on the balance sheet only for the amount of any unfunded ARC. Since OPPD funded the entire ARC, there was no net OPEB obligation as of December 31, 2007. Contributions by participants were $1,354,000 for the year ended December 31, 2007.

The pre-Medicare health care trend rates ranged from 9.5% initial to 5.0% ultimate. The post-Medicare health care trend rates ranged from 11.0% initial to 5.0% ultimate. The discount rate used was 7.85%, which was based on OPPD's expected long-term return on assets used to finance the payment of plan benefits. The average rate of compensation increase was 5.2%. The actuarial cost method used was the Projected Unit Credit. Amortization for the initial unfunded AAL and OPEB Plan changes was determined using a closed period of 30 years and the level percentage of projected payroll method assuming 3% payroll growth. Amortization for gains/losses was determined using a closed period of 15 years and the level dollar method.

Actuarial valuations for OPEB involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuations are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan (the Plan as understood by OPPD and Plan participants) and include the types of benefits provided at the time of each valuation and the sharing of benefit costs between the employer and Plan members. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**Market Value of Plan Investments** – The investments in the OPEB Plan consisted of mutual funds and the market value was $15,265,000 at December 31, 2007.

Audited financial statements for the OPEB Plan will be prepared for 2007 and may be reviewed by contacting the Pension Administrator at OPPD's corporate headquarters.

## 9. SELF-INSURANCE HEALTH PROGRAM

OPPD provides employee health care and life insurance benefits to substantially all active employees. There were 2,256 employees with medical coverage as of December 31, 2007. An Administrative Services Only (ASO) Health Insurance Program is used to account for the health insurance claims. With respect to the ASO program, reserves sufficient to satisfy both statutory and OPPD-directed requirements have been established to provide risk protection (Note 3). Additionally, private insurance has been purchased to cover aggregate claims in excess of 120% of expected levels.

Commencing in 2007, OPEB costs were accounted for and reported separately from active employees. Health care expenses for active employees (reduced by premium payments from participants) were $21,910,000 for the year ended December 31, 2007. Health care expenses for both OPEB and active employees (reduced by premium payments from participants) were $28,796,000 and $28,253,000 for the years ended December 31, 2006 and 2005, respectively.

The total cost of life and long-term disability insurance for active employees was $1,608,000 for the year ended December 31, 2007. The total cost of life and long-term disability insurance for both OPEB and active employees was $2,159,000 and $1,725,000 for the years ended December 31, 2006 and 2005, respectively.

Because of the funding for OPEB in a separate trust commencing in 2007, OPPD's Incurred but not Presented Reserve (IBNP) does not include a liability for retirees. The IBNP Reserve was $2,385,000 at December 31, 2007, which was a decrease from the IBNP Reserve of $2,702,000 at December 31, 2006. The IBNP Reserve was recorded in liabilities payable from segregated funds (Note 15).

## 10. DEFINED CONTRIBUTION RETIREMENT SAVINGS PLANS - 401(K)/457

OPPD sponsors a Defined Contribution Retirement Savings Plan - 401(k) and a Defined Contribution Retirement Savings Plan - 457. Both Plans cover all full-time employees and allow contributions by employees that are partially matched by OPPD. Each of these Plan's assets and income are held in an external trust account in the employee's name. OPPD's matching share of contributions was $5,809,000, $5,763,000, and $5,617,000 for the years ended December 31, 2007, 2006 and 2005, respectively. The employer maximum annual match on employee contributions was $3,000 for 2007 and 2006. The employer maximum annual match will be $3,500 and $4,000 for 2008 and 2009, respectively.

## 11. OTHER CURRENT LIABILITIES

The composition of other current liabilities at December 31 was as follows (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Payroll taxes and other employee liabilities | $ 3,961 | $ 5,443 |
| Deposits | 1,079 | 1,014 |
| Deferred revenue | 370 | 311 |
| Other | 2,303 | 2,624 |
| Total | $ 7,713 | $ 9,392 |

## 12. OTHER LIABILITIES

The composition of other long-term liabilities at December 31 was as follows (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Contractor's retention - long-term | $26,522 | $15,268 |
| Deferred revenues | 14,430 | 1,424 |
| Capital purchase agreement | 3,263 | - |
| Public liability reserve | 2,386 | 1,086 |
| Worker's compensation reserve | 2,288 | 2,727 |
| Accrued production outage costs - long-term | - | 758 |
| Other | 600 | 610 |
| Total | $49,489 | $21,873 |

## 13. COMMITMENTS

OPPD's obligation for the uncompleted portion of construction contracts was approximately $113,088,000 at December 31, 2007. Most of this obligation was for the engineering, procurement and construction contract for the Nebraska City Station Unit 2.

OPPD has power sales commitments which extend through 2027 of $95,338,000 at December 31, 2007. OPPD has power purchase commitments which extend through 2020 of $112,726,000 at December 31, 2007. These amounts do not include the Participation Power Agreements (PPAs) for the Nebraska City Station Unit 2 or OPPD's portion of the NPPD wind-turbine facility.

OPPD has 40-year PPAs with seven public power and municipal utilities (the Participants) for the sale of half of the 663-MW net capacity of the Nebraska City Station Unit 2. The Participants have agreed to purchase their respective shares of the output on a "take-or-pay" basis even if the power is not available, delivered to or taken by the Participant. The Participants are subject to a step-up provision, whereby in the event of a Participant default, the remaining Participants are obligated to pay a share of any deficit in funds resulting from the default. On September 7, 2006, OPPD executed a NC2 Transmission Facilities Cost Agreement with the Participants which addresses the cost allocation, payment and cost recovery for delivery of their respective power.

OPPD has a PPA with the Nebraska Public Power District (NPPD) for a 16.8% share, or approximately 10 MW, of a 59.4-MW wind-turbine facility near Ainsworth, Nebraska. OPPD is obligated, on a "take-or-pay" basis, under the PPA to make payments for purchased power even if the power is not available, delivered to or taken by OPPD. In the event another power purchaser defaults, OPPD is obligated, through a step-up provision, to pay a share of any deficit in funds resulting from the default. OPPD's commitment through 2025 under the PPA is $28,674,000 at December 31, 2007.

OPPD has coal supply contracts which extend through 2008 with minimum future payments of $40,920,000 at December 31, 2007. OPPD also has coal transportation contracts which extend through 2008 with minimum future payments of $31,220,000 at December 31, 2007. These contracts are subject to price adjustments.

Contracts for uranium concentrate and conversion services are in effect until 2016 with estimated future payments of $88,000,000 at December 31, 2007. Contracts for the enrichment of nuclear fuel are in effect through 2013 with estimated future payments of $90,000,000 at December 31, 2007. Additionally, OPPD has contracts through 2012 for the fabrication of nuclear fuel assemblies with estimated future payments of $21,100,000 at December 31, 2007.

In 2006, OPPD entered into an agreement with the University of Nebraska-Omaha (UNO) to fund an Energy Saving Potential program to be administered by UNO for five years. This program is designed to reduce energy usage by residential consumers through conservation. OPPD committed up to $500,000 per year for the five-year program.

In 2006, OPPD entered into a 50-year contract with the Department of Defense (DOD) to provide distribution services to Offutt Air Force Base (Offutt). The electricity for Offutt is provided by the Western Area Power Administration. OPPD took ownership of the distribution system in January 2007. The system was purchased from the DOD for $3,009,000, and it will be paid for over a 15-year period through contract rates.

## 14. CONTINGENCIES

Under the provisions of the Price-Anderson Act at December 31, 2007, OPPD and all other licensed nuclear power plant operators could each be assessed for claims and legal costs in the event of a nuclear incident in amounts not to exceed a total of $100,590,000 per reactor per incident with a maximum of $15,000,000 per incident in any one calendar year. These amounts are subject to adjustment every five years in accordance with the Consumer Price Index.

In May 2007, OPPD filed a lawsuit seeking damages related to rail transportation contractual obligations starting in 2005. This litigation is in the initial discovery stages and no resolution was made in 2007.

OPPD is engaged in routine litigation incidental to the conduct of its business and, in the opinion of Management, based upon the advice of its General Counsel, the aggregate amounts recoverable or payable from OPPD, taking into account amounts provided in the financial statements, are not significant.

## 15. LIABILITIES PAYABLE FROM SEGREGATED FUNDS

The composition of liabilities payable from segregated funds at December 31 was as follows (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Debt retirement reserve | $ 78,000 | $105,000 |
| Rate stabilization reserve | 32,000 | 32,000 |
| Customer deposits | 18,207 | 17,132 |
| Incurred but not presented reserve | 2,385 | 2,702 |
| Customer advances for construction | 1,724 | 1,950 |
| Other | 1,680 | 783 |
| Total | $133,996 | $159,567 |

## 16. CONSTRUCTION DEPOSITS

NC2 Participants were given the option to provide their own funds or to finance with OPPD separate electric system revenue bonds their share of the construction costs of Nebraska City Station Unit 2. This liability represents the amount the Participants' own funds, including interest, exceeded their share of the construction costs incurred to date. Construction deposits were $38,370,000 and $102,019,000 as of December 31, 2007 and 2006, respectively.

## 17. ADDITIONS TO AND UTILIZATIONS OF RESERVES

The Debt Retirement Reserve was used as planned in April and October 2007 to provide additional revenues and funding for capital expenditures and debt retirement in the amounts of $18,000,000 and $14,000,000, respectively. In December 2007, $5,000,000 was added to the Debt Retirement Reserve as a result of strong financial performance in 2007. The net impact on retail sales revenues and net income was an increase of $27,000,000 from changes to the Debt Retirement Reserve for the year ended December 31, 2007.

In May 2006, $5,000,000 of the Debt Retirement Reserve was used to provide additional revenues and funding for capital expenditures. In December 2006, $20,000,000 was added to the Debt Retirement Fund as a result of strong financial performance in 2006. The net impact on retail sales revenues and net income was a reduction of $15,000,000 for changes to the Debt Retirement Reserve for the year ended December 31, 2006.

## 18. SALE AND PURCHASE OF SULFUR DIOXIDE ALLOWANCES

OPPD is required to have sulfur dioxide allowances equal to its emission levels. One sulfur dioxide allowance must be owned for each ton of sulfur emitted by the plants. In April 2006, due to a surplus inventory of currently usable sulfur dioxide allowances, OPPD sold 25,000 current allowances and purchased 25,000 allowances usable between 2010 and 2014. This transaction increased other electric revenues by $18,555,000 for the year ended December 31, 2006. There were no sales and purchases of sulfur dioxide allowances in 2007.

## 19. LOW-LEVEL RADIOACTIVE WASTE SETTLEMENT

The Central Interstate Low-Level Radioactive Waste (LLRW) Commission was awarded damages in 2002 from a lawsuit against the State of Nebraska for the denial of a site-specific license application by the Nebraska Departments of Environmental Quality and Health. The Commission and the State entered into a settlement agreement for a single payment on August 1, 2005. The Major Generators (i.e., OPPD and other owners and operators of nuclear power generating units within the Compact region which have provided funding for the activities of the Commission) requested reimbursement from the Commission from the proceeds of the settlement payment. In July 2005, the Commission adopted a resolution to pay Major Generators $114,746,000 and to retain $15,000,000 to cover potential future expenses.

OPPD received its share, $15,468,000, on August 1, 2005. The settlement proceeds received by OPPD were returned to its customer-owners prior to the end of 2005 as authorized by the Board of Directors. Accordingly, there was no impact on net income from this settlement for the year ended December 31, 2005. In February 2006, the Commission voted to release $10,000,000 of the $15,000,000 previously retained as an additional settlement. OPPD's share, $1,348,000, was received in April 2006 and was included in other electric revenues for the year ended December 31, 2006. In January 2007, a court order was issued allowing the Commission to retain the remaining $5,000,000 of settlement funds.

## 20. HIGH-LEVEL RADIOACTIVE WASTE SETTLEMENT

In 2006, a settlement agreement was reached between OPPD and the Department of Energy (DOE) related to DOE's responsibilities under the terms of the Nuclear Waste Disposal Act. The DOE agreed to reimburse OPPD for allowable costs for managing and storing spent nuclear fuel and high-level waste incurred due to the DOE's delay in accepting waste. In August 2007, OPPD received a reimbursement of $15,063,000 from the DOE for capital expenditures incurred from July 2005 through December 2006 for the construction of the dry-cask storage facility at the Fort Calhoun Station. OPPD also received $4,948,000 in June 2006 for costs incurred through June 2005. The receivable from the DOE for costs incurred for the dry-cask storage facility was $240,000 and $13,000,000 as of December 31, 2007 and 2006, respectively. OPPD will periodically submit applications to the DOE for reimbursement of costs incurred. Utility plant assets were reduced by and contributions in aid of construction included $2,303,000 and $17,948,000 for the years ended December 31, 2007 and 2006, respectively, for these reimbursements.

## 21. OTHER - NET

For the year ended December 31, 2007, Other - net included $1,010,000 accrued for reimbursements from the Federal Emergency Management Agency for storm restoration efforts completed in December.

For the year ended December 31, 2005, $837,000 of costs related to a steam supply study for industrial use was expensed since the project was not implemented. In 2006, this study was resumed with an agreement by the customer to reimburse OPPD for $310,000 of expenses from 2005 as well as future expenses. The reimbursement for 2005 expenses was included in other income for the year ended December 31, 2006.

## 22. SUBSEQUENT EVENT

The Board of Directors of OPPD authorized management to negotiate an exchange of property with the University of Nebraska Medical Center (UNMC) in January 2008. In exchange for the property surrounding and including the Omaha Center, OPPD is expected to receive 13 acres of equivalent property near Eppley Airfield along with a new center to be paid for by the UNMC. The exchange is expected to take place by December 31, 2012.

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