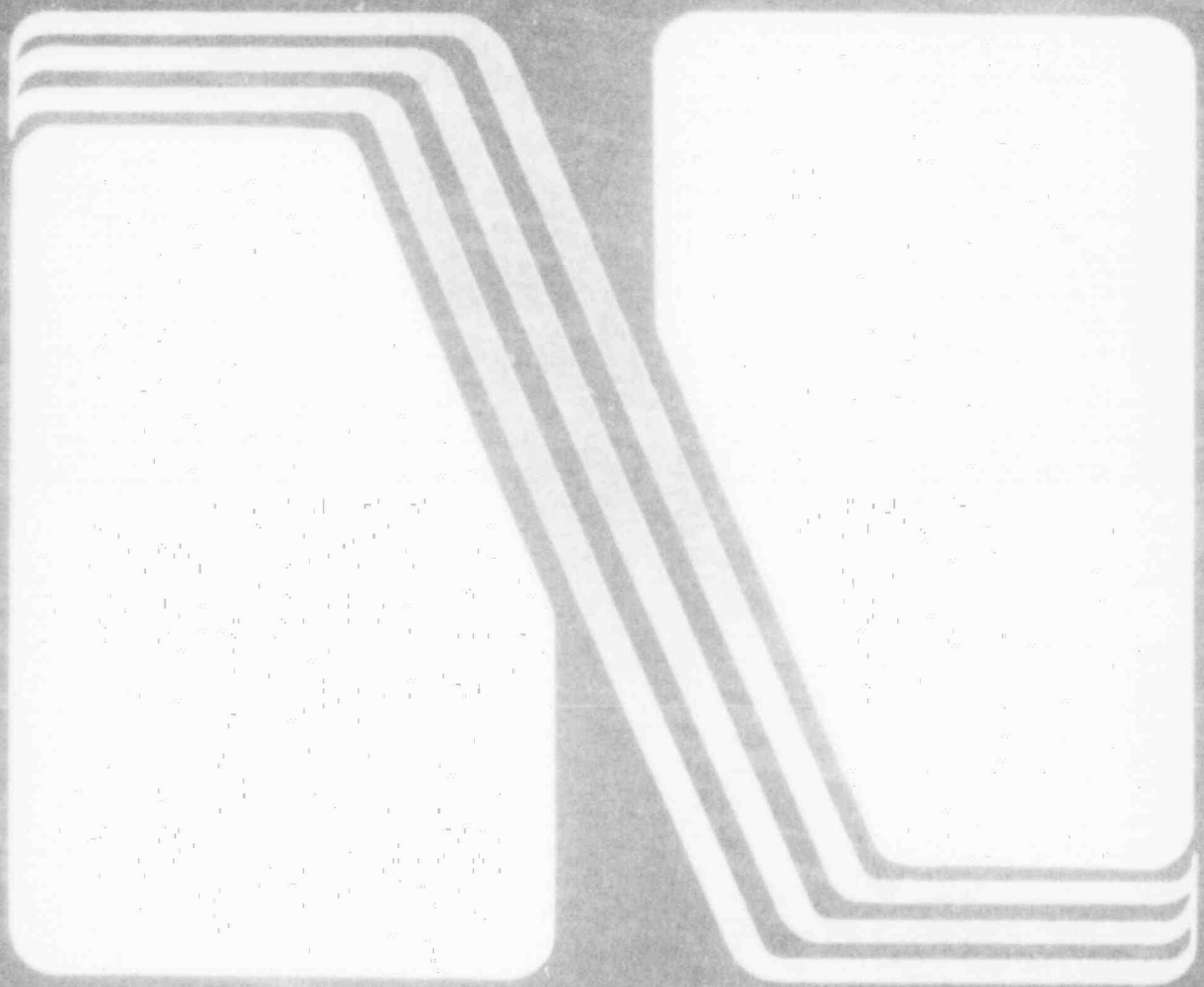
Nebraska Public Power District

1985 annual report



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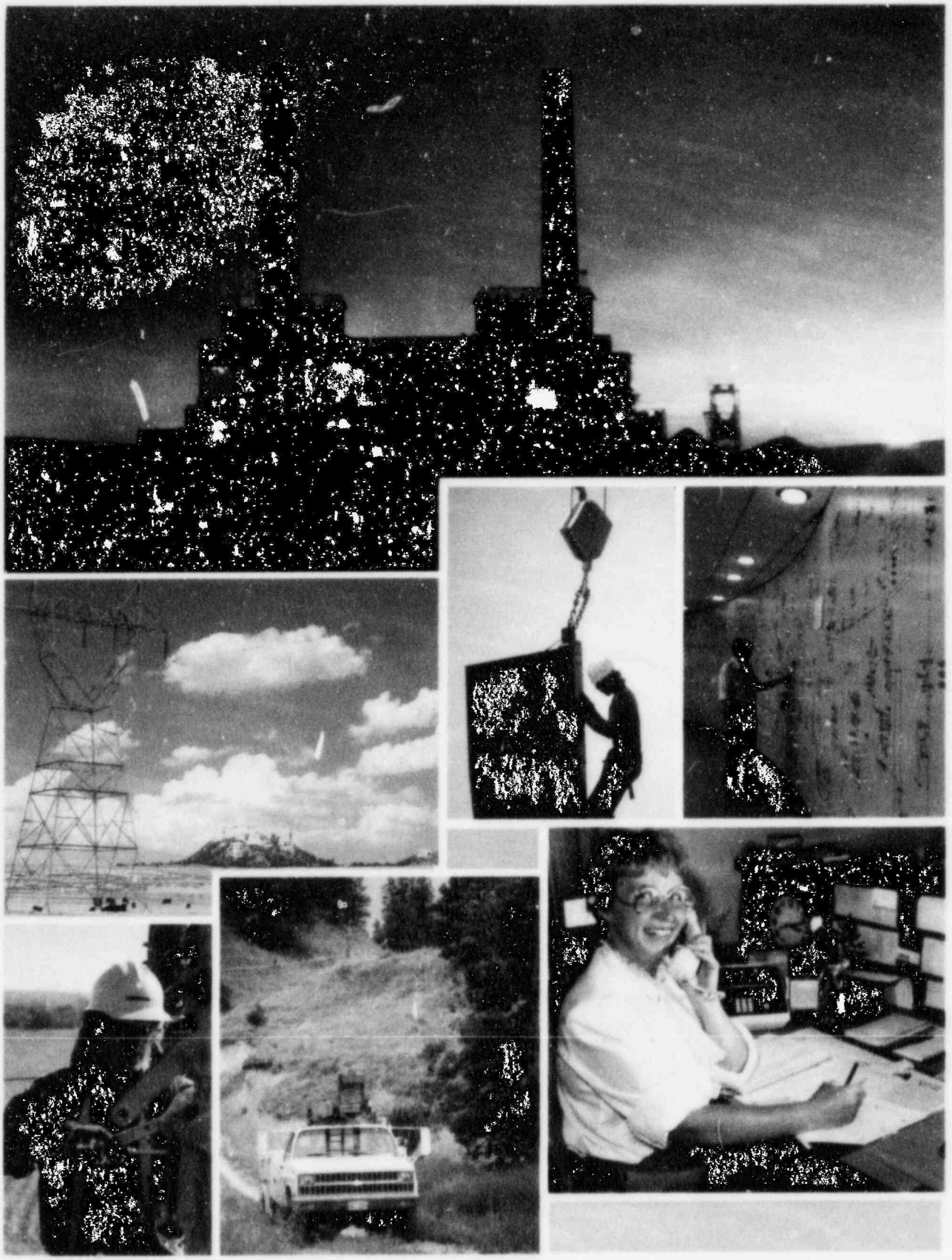


Year At A Glance – Electric System

Kilowatt-hour Sales	8.06 Billion
Operating Revenues	$329.1 Million
Cost of Power Purchased and Generated (Including Nuclear and Power Supply Systems)	$240.7 Million
Other Operating Expenses	$ 68.7 Million
Net Revenues	$ 9.8 Million
Debt Service Coverage	1.73

Reference Guide

Nebraska Public Power District **Statement of Purpose**

Nebraska Public Power District is a public corporation and political subdivision of the State of Nebraska. Control of the District and its operations is vested in a Board of Directors, consisting of 11 members popularly elected from districts comprising subdivisions of the District's chartered territory. These districts encompass 85 of the state's 93 counties and portions of two other counties. The District has the power, among other things, to acquire, construct, and operate generating plants, transmission lines, substations, and distribution systems, and to purchase, generate, distribute, transmit, and sell electric energy, both at wholesale and retail, for lighting, power, heating and other purposes. Management and operation of the District is accomplished with a staff of approximately 2,000 persons.

1985 OFFICERS OF THE BOARD OF DIRECTORS

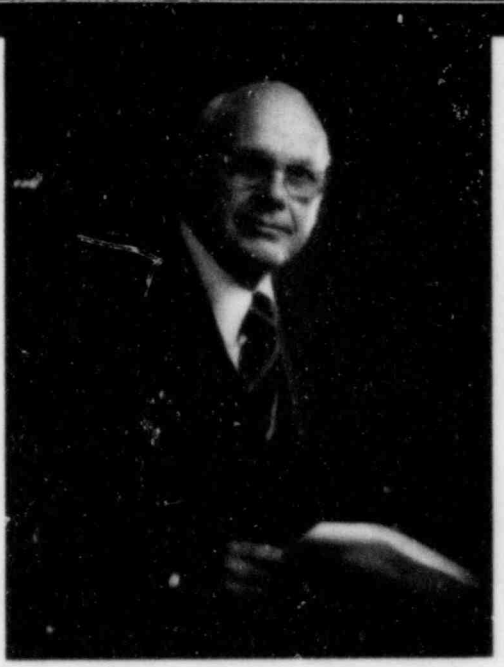
Ralph E. Holzfaster, ***Chairman***
David L. Duren, ***First Vice Chairman***
Bernard M. DeLay, ***Second Vice Chairman***
Thomas O. Michels, ***Secretary***
Wayne E. Boyd, ***Treasurer***

SENIOR MANAGEMENT

Donald E. Schaufelberger, ***President***
Dilworth A. Blatchford, ***Vice President***
Cecil R. Jones, ***Vice President***
Lawrence G. Kuncl, ***Vice President***
Theodore M. Kyster, ***Vice President and Assistant Treasurer***
William A. Merrill, ***Vice President***

GENERAL COUNSEL
Gene D. Watson

CONTROLLER
Robert D. Malmstrom



A Report From The **PRESIDENT**

Our utility, during 1985, continued in the cycle of reduced activity both in terms of growth and construction, but this condition gives us the opportunity to fine tune the organization to meet the needs and expectations of our customers both now and in the future.

There are positive signs that our continuing efforts to maintain a utility that can adjust to this trend, while retaining our responsiveness to our customers, have been successful.

Despite the sluggish economic conditions in our service area, and for that matter throughout much of the Midlands, we ended 1985 with net revenues totaling $9.8 million.

Retail and wholesale rate increases for the year were below the rate of inflation and this trend should continue in 1986 and beyond.

Weather, of course, plays an important role in our annual kilowatt-hour sales. Irrigation and air conditioning loads in the summer months account for a major portion of our energy sales and traditionally July and August are our peak usage months. Although the summer of 1985 was cooler than normal, it was also generally drier than normal. These conditions resulted in a peak demand of 1,587 megawatts during the summer of 1985, which was slightly higher than the 1984 peak but still well below the record peak system demand of 1,720 megawatts set in 1980.

Wholesale customers' load management systems for irrigation load have also had a significant impact on system demand with only modest impact on energy consumption.

An early winter cold spell that resulted in several record-breaking low temperatures contributed to the highest November peak on record of 1,215 megawatts. The December peak was 1,218 megawatts, which was 3 percent above the December, 1984, peak but about 5.4 percent below the record system winter peak of 1,288 megawatts set in December of 1983.

The sustained period of cold temperatures during November and December were instrumental in improving the District's kilowatt-hour sales and revenue condition for the year.

In our continuing efforts to control expenses, which allows us to maintain a more stable rate base, it was necessary to make some tough management decisions during the year.

Implemented during the year was a staff reduction in the Transmission and Distribution Projects Division primarily due to lower than anticipated

demand for power and energy and an accompanying decline in the need for new transmission facilities. Factors responsible for the staff reduction include the cancellation of the MANDAN Project and cancellation or deferral of several other major projects. The revised 1985 and the 1986 construction budgets for the Electric System were significantly reduced.

In our 1984 Annual Report, we discussed the rationale behind our decision to cancel the MANDAN Project early in 1985. Although we believe that the concept of the MANDAN Project has merit, the Project's cancellation resulted in some immediate cost savings to our customers.

We continued our program of consolidating, where practical, certain local retail offices. Cost saving is an important consideration to office consolidation, but we are also dedicated to maintaining reliable service to these communities and areas. Since 1983, 13 offices have been closed and have been consolidated with other facilities. Implementation of our modern Customer Information System, which incorporates computerized billing, will enable us to continue our review of the need for certain retail billing offices.

Other programs are also being implemented with the intent of improving the efficiency of our utility.

Designed during 1985 and implemented in early 1986 is the new Payroll/Human Resources System (PHRS). The District's payroll system was developed about 20 years ago and did not have the flexibility needed to meet the changing governmental and management reporting needs. The Human Resources System was developed in 1979 but was not integrated with the payroll system.

The new PHRS will enable the District to meet its present and future needs for calculation of taxable wages and for governmental and management reporting. It will improve the efficiency of payroll processing with reduced risk of failure to meet payroll and associated reporting requirements. The PHRS is a foundation system which will provide improved information for other computerized accounting functions.

There is an ongoing effort to promote off-peak use of electricity and control demand during periods of peak usage. A combined advertising and marketing program encourages consideration of electric heat — primarily the heat pump — for both new construction and replacement of existing systems in residential and commercial markets. Extensive research into the feasibility of a system-wide, summer load control program continues. Efficient use of existing generation and transmission facilities will allow us to delay construction of new facilities to meet peak demand and results in lower costs for our customers.

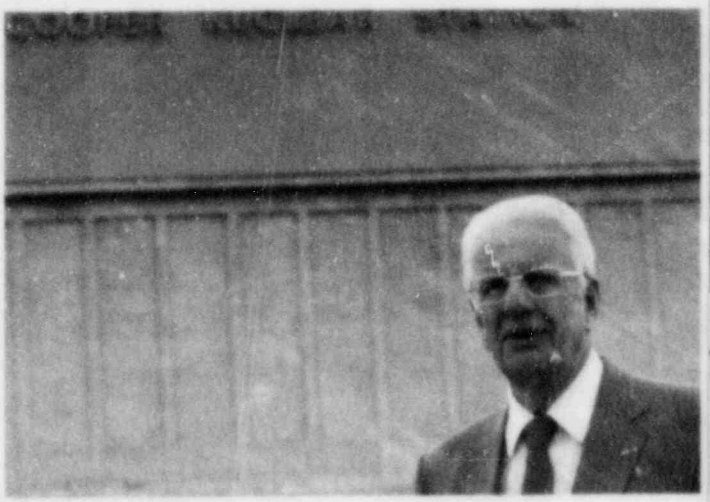
To develop and implement these programs and concepts requires committed and dedicated employees. At NPPD we feel strongly that our people are our most important asset. A positive attitude and cooperative spirit are essential during periods of economic uncertainty.

The employees' continued support of senior management is essential if the District is to meet the present and future needs of its customers. We have a collective responsibility to do everything we can to provide power and energy at a cost as low as practical. We must continue to be innovative in our efforts to reduce costs and increase sales. The net effect of our collective efforts will be a successful 1986 for the District.

Don E. Schenzelberger

The Nebraska Public Power District's

BOARD OF DIRECTORS



George H. Barber *Beatrice, Electrical Engineer*

David L. Duren *Columbus, Certified Public Accountant*

Bruce W. Gustafson *Holdrege, Farmer/Rancher*

Ralph D. Johnson *Lincoln, Economics Consultant*

Thomas O. Michels *Kearney, Professional Engineer*

Wayne E. Boyd *South Sioux City, Attorney*

Bernard M. DeLay *Norfolk, Banker*

Fred A. Herrington *Lincoln, Businessman*

Ralph E. Holzfaster *Paxton, Farmer/Agribusinessman*

Darrell J. Nelson *Oconto, Farmer/Cattle Producer*

Les S. Taylor *York, Salesman*

Message From The **CHAIRMAN OF THE BOARD**

We have experienced a disappointing farm economy for several years, and these economic conditions have filtered to the businesses and industries in the small communities and retail centers that depend on the agricultural sector for their livelihood. Several Nebraska banks were closed during the year.

This utility's chartered territory primarily encompasses rural Nebraska. Thus, it is important for this Board to make policy decisions with a full recognition of these economically uncertain times in an effort to maintain electric rates at as low a level as we can.

Agriculture's problems include declining farmland values and commodity prices, surpluses of grain, heavy debt loads and shrinking export markets. Few economists see any national economic surge to sweep the Midland's economy forward, but some economists contend that farmers have examined and come to grips with reality and are realigning and adjusting to operating in the current environment.

The American farmer is of hardy stock. Despite the foreclosures and bankruptcies that have attracted national attention, rural America will survive. In the meantime, we in the Midlands must concentrate our efforts on hastening the cycle of an improved economy. Wishing it to be will not suffice.

Nebraska electric energy rates continue to be among the lowest in the nation. This utility is among the leaders in efforts to expand the state's economy by attracting non-agriculture-related industry. We have an adequate supply of electricity available which will delay the rate shock associated with new construction when the economy does rebound.

Our air is pure, our land fertile, and our work ethic is widely acclaimed.

We must take advantage of our virtues to improve our economic condition. This Board, in concert with management, has been able to keep electric rates for our customers competitive with the cost of other available energy while maintaining an aggressive and dedicated organization.

We enthusiastically invite you to look us over — both our human elements and our financial condition — through the pages of this report. We feel we have a solid foundation on which to enter the second half of the decade of the 80s.

Ralph Holtzclaw

Pursuant to enabling state legislation passed in 1984, titles of District senior management personnel and officers of the Board of Directors have been changed to more closely match titles used in private industry, corporations and investor-owned utilities.

The title of General Manager has been changed to President. The Assistant General Managers' titles have been changed to Vice Presidents.

The title of President of the Board of Directors has been changed to Chairman of the Board. The Board's two Vice Presidents' titles were changed to Vice Chairman.

These titles should reduce the confusion as to corporate responsibility for individuals and organizations outside of Nebraska who have need to establish contact within the District. The title changes do not alter the responsibilities of the positions affected.

Cecil Jones Larry Kuncl Ted Kyster

William A. Merrill Dil Blatchford Gene D. Watson

Year in Review

Total kilowatt-hour sales in 1985 were 8.06 billion compared to 9.16 billion in 1984. Kilowatt-hour sales in 1985 were 12 percent below the 1984 sales.

Sales from non-firm transactions, excluding participation sales, decreased 56.9 percent in 1985 compared to 1984 and there was a 31.7 percent decrease in participation power sales between the two years. Decreases in both of these categories of non-firm transactions to other utilities and participation power sales were largely due to the Cooper Nuclear Station and one of the units of Gerald Gentleman Station being out of service much of the year. The substantial decreases in these two categories accounted for the decrease in total kilowatt-hour sales.

Firm wholesale deliveries to other public power districts and rural cooperatives decreased 0.8 percent in 1985 compared to 1984. Firm wholesale sales to municipalities increased 0.8 percent in 1985 compared to 1984.

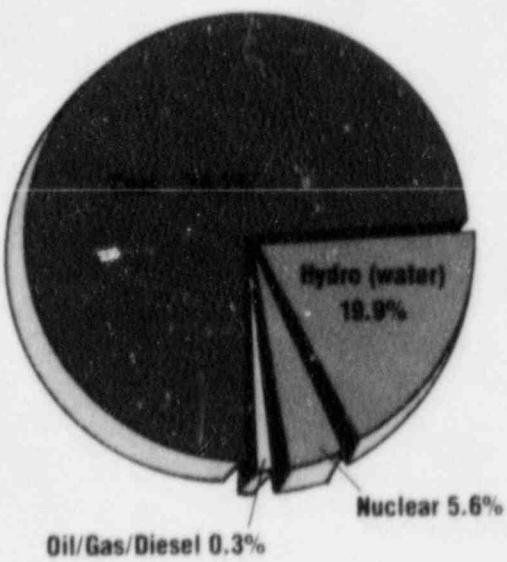
Retail customers used 2 percent more electricity during 1985 than 1984.

Electric System operating revenues in 1985 rose to a new high of $329.1 million which is 0.4 percent higher than the 1984 operating revenues. Operating expenses for 1985 was $309.4 million which is 2.8 percent below the 1984 operating expenses. Operations of the Electric System resulted in net revenues of $9.8 million for 1985 which is an increase of $8.3 million over 1984. These net revenues, when adjusted for non-cash items as provided in the District's Electric System Bond Resolution, resulted in a debt service coverage of 1.73.

The District served an average of 106,752 retail customers during 1985. The District serves the total requirements of 52 municipalities and 26 other public power districts and rural cooperatives at wholesale. In addition, the partial requirements of 19 municipalities are served at wholesale.

Approximately 72.1 percent of NPPD's kilowatt-hour sales is to wholesale customers and 27.9 percent to retail customers.

How NPPD Supplied its Customers with Electricity During 1985



For the fifth consecutive year, the District's firm wholesale and retail customers did not set a new summer peak demand on the system. This generally reflects summer weather patterns, load control efforts, and the state of the agricultural and industrial economy in our service area.

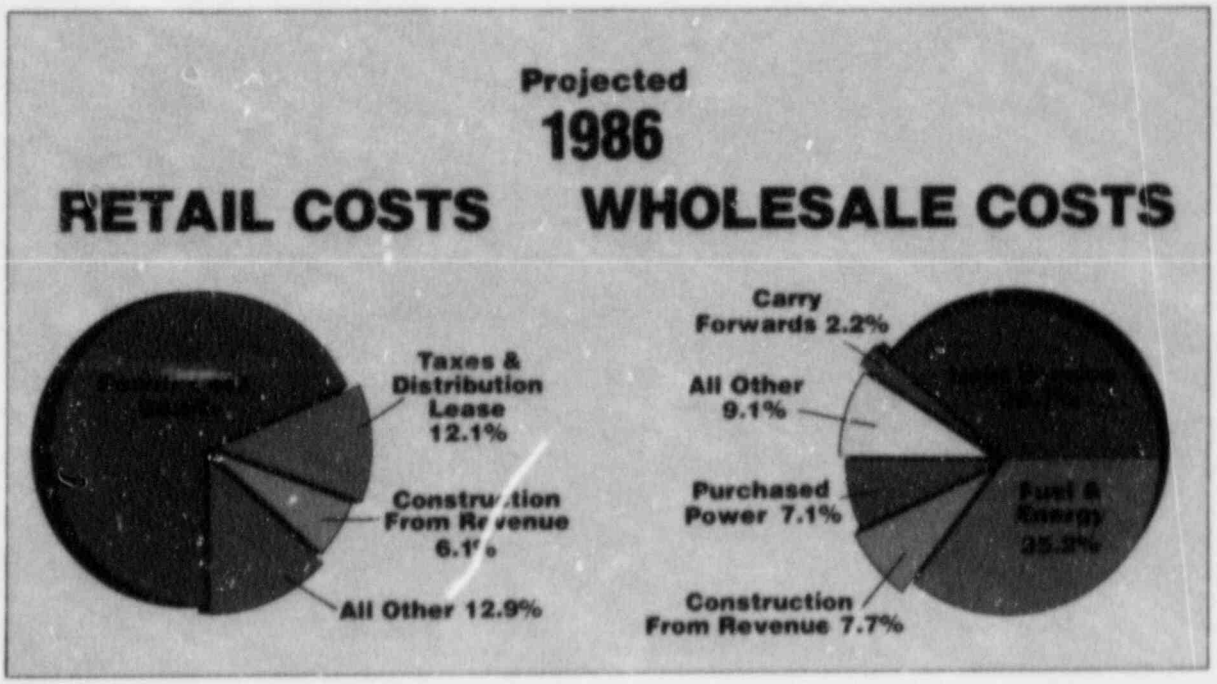
The District's 1985 summer firm power demand of 1,587 megawatts is approximately 7.7 percent below the comparable record peak demand of 1,720 megawatts set in 1980. The highest winter peak of the year was 1,218 megawatts. The record system winter peak of 1,288 megawatts was set in 1983.

Heavy irrigation and air conditioning loads in the summer result in our utility being a summer peaking system.

We continued to rely heavily on coal to fuel our electric generating resources during 1985. Cooper Nuclear Station was out of service during most of the year due to replacement of piping in the steam system. During the year, approximately 74.2 percent of the District's energy supply was from coal-fired resources, 5.6 percent from nuclear resources, 19.9 percent from hydro (water) resources including our firm purchases from the Western Area Power Administration (WAPA), and the remaining 0.3 percent came from a variety of oil and gas fired resources.

Gerald Gentleman Station Units No. 1 and 2 accounted for 77.8 percent of the District's total internal generation during the year.

The Production Cost Adjustment (PCA) factor on retail and wholesale bills during 1985 continued to be a credit due to a surplus in the PCA account accumulated during portions of 1984 and 1985. On two occasions during 1985 the credit factor was increased when the PCA account accumulated funds in excess of $4 million.



When the account reaches plus or minus $4 million, an agreement with wholesale customers requires an adjustment in the factor to reflect a surplus or deficiency in collections.

We also began 1986 with a PCA credit to refund excess revenues collected during portions of 1985. Approximately $15.6 million was credited to customers from the PCA account during 1985 and approximately $7.1 million is to be credited during 1986 assuming there is no additional accumulation or shortfall in the account.

The credits result from the difference between estimates and actual fuel expenses and other production costs in the generation process.

Rates for wholesale customers were 3.11 percent higher and for retail customers 1.02 percent higher during 1985 compared to 1984. Included in these rates are operation and maintenance expenses, principal and interest on bonds, certain construction costs and the PCA.

NPPD paid $13.4 million to cities, villages, counties and school districts in its service area during 1985.

County treasurers in 70 counties received in-lieu-of-tax payments of $4.2 million. The in-lieu-of-tax payments are required under state law. Distribution is made by county treasurers to counties, cities, villages, and school districts according to a prescribed formula relating to mill levies.

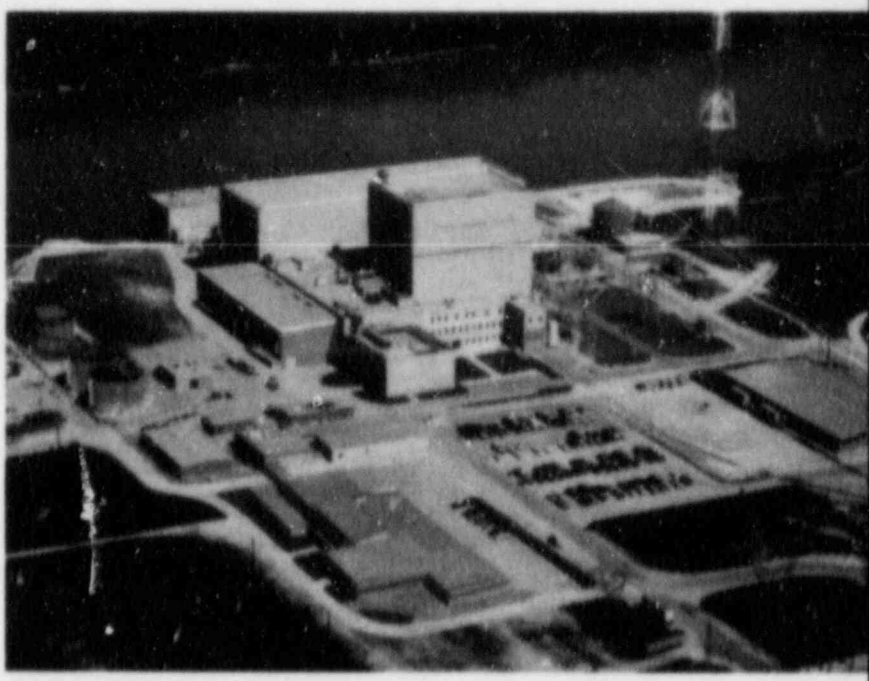
As a result of agreements leasing electrical distribution systems to the District, cities and villages with those agreements received approximately $9.2 million during 1985.

At year's end the District had lease agreements with 212 cities and villages.

Six electrical distribution systems within municipalities are owned by the District. Ten municipalities have a Capacity Purchase Agreement with the District whereby the District leases the output of the municipalities' generating plants and serves at wholesale the municipalities' firm electrical requirements.

New residential construction in our service area continued its downward trend in 1985, and thus our marketing campaign aimed at improving the system load factor by encouraging installation of electric heat was targeted toward the conversion and add-on markets.

Efforts to balance the winter load with the summer load resulted in the installation during 1985 on our retail system of 790 electric heat jobs representing approximately 11,900 kilowatts. At year's end, we had a total of 17,859 electric heat installations in our retail system representing approximately 321,400 kilowatts.



During 1985, the District issued $65 million in Power Supply System Revenue Bonds for the principal purpose of prepaying the capital cost associated with the purchase of capacity of the Kingsley Hydroelectric Project, a nominally rated 50 megawatt hydroelectric generating facility owned by the Central Nebraska Public Power and Irrigation District (Central). Proceeds from the bonds, together with other available funds, also will be used to increase the debt reserve account to an amount equal to maximum annual interest on all Power Supply System bonds outstanding.

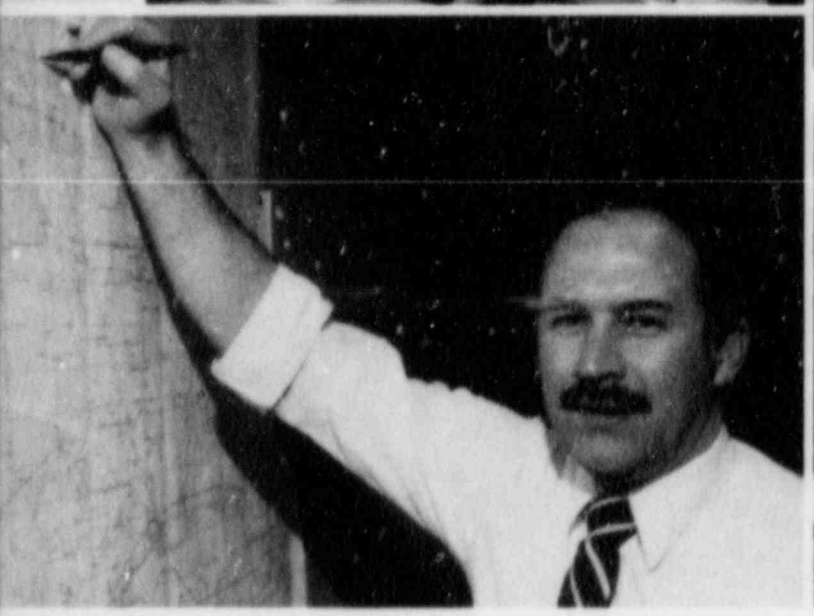
The First Boston Corporation and Associates was successful bidder with an effective net interest rate of 10.76 percent.

The entire electrical output of the Kingsley Project will be made available to

the District under terms of a contract between NPPD and Central. The expected average annual output is approximately 89,000 megawatt-hours. The facility began commercial operation in 1984.

In 1983, cracks were discovered in the stainless steel piping of the reactor recirculation, core spray and reactor water cleanup systems at the District's Cooper Nuclear Station. The nature of this cracking necessitated replacement of the affected piping during an extended outage from September, 1984, until August, 1985.

The extended outage at Cooper Station allowed several projects to be undertaken in addition to the pipe replacement. These projects included installation of a new plant management information system, replacement of extraction steam piping, upgrading the intake structure



and refurbishment and overhaul of the turbine-generator. Also undertaken during this outage was the general upgrading of the plant's electrical component configuration to meet safety standards recently imposed by the Nuclear Regulatory Commission. Numerous fire protection system improvements were also completed to comply with the latest changes to regulatory standards. The combined cost of all projects was approximately $75 million.

Due to the extensive scope of the outage, a start-up test program was undertaken once the outage work was completed to ensure the plant would operate as originally designed. Upon completion of required system level testing, the plant returned to operation.

On October 5, 1985, Cooper Station was forced to shut-down due to excessive turbine vibration. Inspection of both low pressure turbines indicated that both rotating and stationary blade damage had occurred. Necessary repairs were made to one low pressure rotor and the second rotor was replaced with a spare rotor. The unit returned to service on November 21, 1985, and operated for the remainder of the year.

In September, the District commenced the removal of irradiated hardware waste from the spent fuel pool at Cooper Station. This effort entailed eight rail shipments of radioactive waste material to a burial site at Hanford, Washington. In addition, 36 spent nuclear fuel bundles were shipped by rail during November to a General Electric storage facility near Morris, Illinois. Nine hundred sixty-six spent fuel bundles remain to be shipped to the Morris facility.

Ground was broken for a new training facility at Cooper Station which is expected to be completed in mid-1986 and work on a new control room simulator and an addition to the administrative building are expected to begin in 1986.

The Nuclear Regulatory Commission, during the year, cited the District for violations of NRC regulations at Cooper Station and fined the District $25,000 as a result of the violations. The violations were caused by the District's failure to conduct surveillance tests for the plant's unit batteries in a manner required by technical specifications. Unit batteries are sets of storage batteries that would provide power to vital instrumentation in the event all other power sources become inoperable.

NPPD customers will be the beneficiaries of a reduction in the scope of required environmental studies in the vicinity of Gerald Gentleman Station, which consists of two 650 megawatt coal-fired generating units.

The Nebraska Department of Environmental Control (NDEC) approved, during 1985, discontinuance of certain meteorological and air monitoring programs in the vicinity of Gentleman Station. The NDEC said that "almost 12 years of data have been collected from the monitoring system and continued monitoring would not improve statistical reliability of the data nor significantly alter statistical summaries already gathered."

The NDEC also said that monitoring data indicates the coal-fired station's two units "have not caused any applicable air standard to be exceeded." Gentleman Station burns low-sulfur coal and uses electrostatic precipitators to remove fly ash from the plant's emissions.

Under a stipulation entered into by the District and NDEC in 1981, the District has been conducting environmental studies and monitoring at Sutherland Reservoir and Lake Maloney. Gentleman Station is

located on Sutherland Reservoir and Lake Maloney is downstream. During the year, the District also received permission from NDEC to reduce the scope of that monitoring.

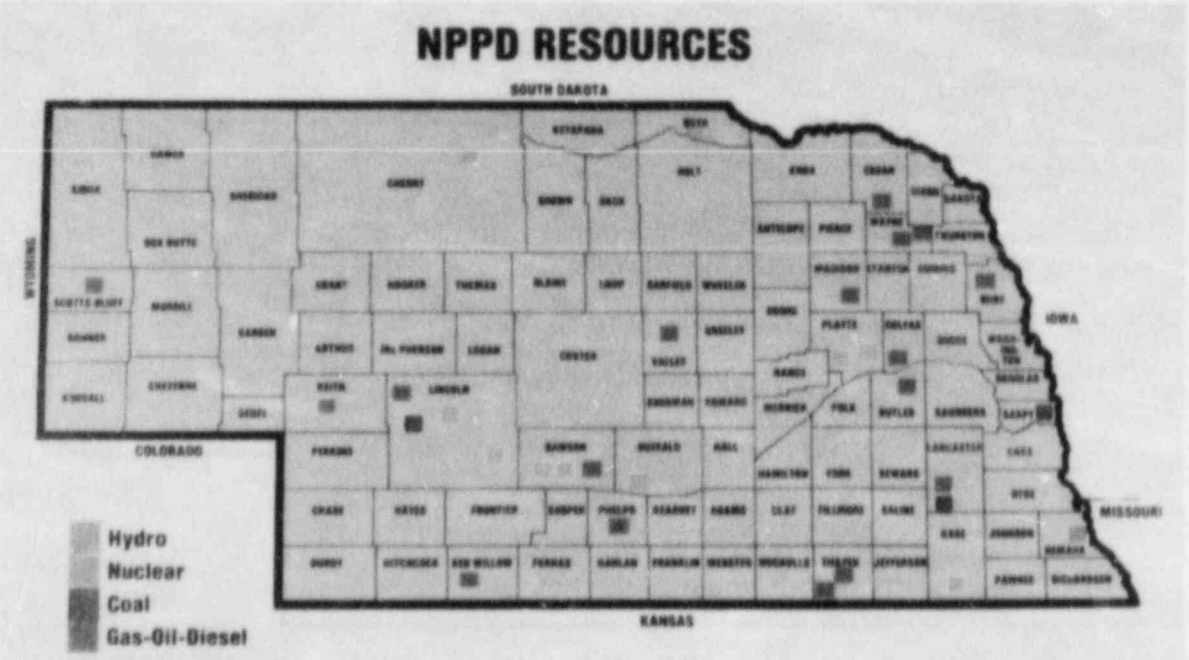
National recognition was received during the year when the District used wheat, one of Nebraska's major agricultural products, instead of sand to "grainblast" electrostatic precipitator components at Gentleman Station. The electrostatic precipitators use an electric charge on a system of wires and plates to attract fly ash to the plates and to keep the talcum-like ash from going out the exhaust stacks into the air.

Grain is softer than sand and is not expected to erode the metal plates and wires as sand would. Several thousand bushels of wheat were used in the process.

During the annual fall maintenance inspection of Gentleman Station Unit 1, it was found that a piece of metal shielding had broken away from the high pressure unit of the turbine generator and was presumed to be lodged in the cold reheat piping returning to the boiler. Three plant employees received training on the proper use of climbing gear from Alpine rescue trainers. Climbers then went through 1,100 feet of piping, three feet in diameter, which included one 68-foot vertical climb to remove the foreign material from the cold reheat header to prevent possible damage to the boiler. The men entered the pipe at the turbine and climbed to the 11th floor of the boiler building.

As a member of the Mid-Continent Area Power Pool (MAPP), the electric power grid for the upper Midwest, the District continues to sell electricity which is temporarily unneeded or buy from other power suppliers when their production costs are lower. Such transactions take place daily around the clock.

Through MAPP, we have the reserves of an entire region to call upon during emergencies and maintenance outages. This reduces our need for surplus capacity, saving millions of dollars annually, and increases the reliability of our power supply, the ultimate benefit of MAPP.



FINANCIAL COMMENTARY

In 1985 the District experienced a significant improvement in net revenues. The net revenues increased to $9.8 million from $1.5 million in 1984. These net revenues, when adjusted for noncash items as provided in the District's Electric System bond resolution, resulted in a debt service coverage of 1.73.

There were a number of reasons for this improvement; below are the primary reasons:
Operating Revenues total $329.1 million, an increase of $1.2 million over 1984. This increase was possible even with a decrease in kilowatt-hour sales of 12.0% from 1984. Sales to our retail customers and wholesale customers with firm contracts remained near the 1984 levels, however, sales to customers who participate in production from a specific power plant and non-firm sales created the decline in kilowatt-hour sales. These sales have an influence on total revenues, however, the impact on net revenues is minimal.
Operating Expenses for 1985 total $309.4 million and represent a decrease of $8.8 million which is primarily the result of a decrease in expenses associated with intradistrict production of $10.7 million. This reduction is attributable to a reduction in fuel costs at Cooper Nuclear Station which did not generate energy for approximately nine months while the plant was out of service.

During 1985, the District repaid $29.3 million of its outstanding commercial paper notes. In December 1985, an additional $25.5 million was issued to pay for certain capital requirements associated with Cooper Nuclear Station and Gerald Gentleman Station. At year-end the District had $76.2 million of commercial paper notes outstanding.

In February 1985, the District sold $65 million of Power Supply System Revenue Bonds for the principal purpose of prepaying the capital costs associated with the purchase of capacity of the Kingsley Project, which is a 50 megawatt hydroelectric generating facility owned by the Central Nebraska Public Power and Irrigation District.

The District's current requirements for capital additions do not require additional financing. It is also anticipated that rate increases will be minimal since capital requirements have been reduced.

T. M. Kyster
Vice President and Assistant Treasurer

Nebraska Public Power District
ELECTRIC SYSTEM

Report of Independent Public Accountants

To the Board of Directors
Nebraska Public Power District:

We have examined the balance sheets of the Electric System of Nebraska Public Power District (a public corporation and political subdivision of the State of Nebraska) as of December 31, 1985 and 1984, and the related statements of revenues and expenses and accumulated net revenues and changes in financial position for the years then ended. We have also examined the supplemental schedule of the calculation of the debt service ratio for the years ended December 31, 1985 and 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the Electric System of Nebraska Public Power District for the year ended December 31, 1983, were examined by other auditors, whose report, dated March 2, 1984, expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the financial position of the Electric System of Nebraska Public Power District as of December 31, 1985 and 1984, and the results of its operations and changes in its financial position for the years then ended, and the supplemental schedule of the calculation of the debt service ratio for the years ended December 31, 1985 and 1984, present fairly the information set forth therein, all in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

600 Woodman Tower
Omaha, Nebraska 68102
March 7, 1986, except for Note (10)
as to which the date is March 13, 1986.

Nebraska Public Power District

ELECTRIC SYSTEM

Balance Sheets
December 31, 1985 and 1984

ASSETS	1985	1984
	(Thousands of Dollars)	
Utility Plant, at Cost	$646,621	$628,120
Less–Reserve for depreciation and amortization (Note 1)	252,332	232,945
	$394,289	$395,175
Debt Reserve Account	$ 30,668	$ 30,732
Receivables:		
Advance to Power Supply System (Note 5)	$ 6,100	$ 30,000
Sale of property	1,449	1,649
	$ 7,549	$ 31,649
Current Assets:		
Cash and investment securities (Note 6)	$117,115	$115,733
Receivables, less reserves	33,678	40,563
Materials and supplies, at average cost	14,853	17,834
Prepayments and other assets	598	357
	$166,244	$174,487
Deferred Charges:		
Nuclear Facility billings (Note 1)	$ 37,900	$ 30,965
Power Supply System billings (Note 1)	2,060	—
Unamortized financing costs	2,525	2,727
Other	4,358	3,818
	$ 46,843	$ 37,510
	$645,593	$669,553

LIABILITIES AND CAPITAL		
Accumulated Net Revenues	$170,150	$160,398
Long-Term Debt (Note 4)	$349,772	$359,071
Notes Payable (Note 4):		
72½% of prime, due 1985 to 1986	6,000	12,000
67% of prime, due 1985 to 1989	9,232	12,480
Commercial paper notes (Note 5)	76,180	80,000
	$441,184	$463,551
Less–Current maturities (Notes 4 and 5)	34,896	26,832
	$406,288	$436,719
	$576,438	$597,117
Current Liabilities:		
Current maturities	$ 34,896	$ 26,832
Accounts payable	13,789	16,858
Accrued lease payments	6,233	8,669
Other	12,036	17,651
	$ 66,954	$ 70,010
Unamortized Payment Received for Refinancing Costs	$ 2,201	$ 2,426
	$645,593	$669,553

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

Nebraska Public Power District

ELECTRIC SYSTEM

Statements of Revenues and Expenses and Accumulated Net Revenues for each of the Three Years in the Period Ended December 31, 1985

	1985	1984	1983
	(Thousands of Dollars)		
Revenues and Expenses:			
Operating Revenues (Note 2)	$329,096	$327,931	$327,382
Operating Expenses:			
Power purchased–			
Nuclear Facility and Power Supply System (Note 1)	$185,140	$195,868	$179,940
Other	40,753	42,330	42,092
Production–			
Fuel	8,569	6,795	11,386
Operation and maintenance	6,241	6,116	6,019
Other operation	22,864	22,086	21,121
Other maintenance	7,262	6,961	6,564
Lease payments (Note 1)	9,227	8,940	8,610
Depreciation and amortization (Note 1)	22,832	22,759	19,631
Payroll taxes and payments in lieu of taxes	6,471	6,317	5,981
Total operating expenses	$309,359	$318,172	$301,344
Net operating revenues	$ 19,737	$ 9,759	$ 26,038
Interest and Other Revenues:			
Allowance for funds used during construction	$ 1,233	$ 1,180	$ 1,878
Interest and other	14,375	17,388	15,170
Total interest and other revenues	$ 15,608	$ 18,568	$ 17,048
Net revenues before other deductions	$ 35,345	$ 28,327	$ 43,086
Other Deductions:			
Bond interest	$ 21,348	$ 21,789	$ 22,199
Other interest	3,758	4,524	3,281
Miscellaneous, net	487	526	555
Total other deductions	$ 25,593	$ 26,839	$ 26,035
Net Revenues (Note 2)	$ 9,752	$ 1,488	$ 17,051
Accumulated Net Revenues:			
Beginning balance	160,398	158,910	141,859
Ending balance	$170,150	$160,398	$158,910

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

Nebraska Public Power District

ELECTRIC SYSTEM

Statements of Changes in Financial Position for each of the Three Years in the Period Ended December 31, 1985

	1985	1984	1983
	(Thousands of Dollars)		
Funds Provided by Operations:			
Net revenues	$ 9,752	$ 1,488	$17,051
Add items which require no current outlay of working capital –			
Depreciation and amortization (Note 1)	22,832	22,759	19,631
Amortization of deferred charges (Note 1)	13,324	12,769	6,514
Other	778	633	596
Total funds provided by operations	$ 46,686	$ 37,649	$43,792
Other Sources of Funds:			
Proceeds from commercial paper notes	25,500	80,000	—
Repayment of Advance to Power Supply System	23,900	—	—
(Increase) decrease in receivables	6,885	2,487	(2,726)
(Increase) decrease in materials and supplies	2,981	(7,939)	7,271
Total funds provided	$105,952	$112,197	$48,337
Funds Applied:			
Utility plant additions	$ 22,548	$ 23,170	$28,490
Repayment of commercial paper notes	29,320	—	—
Addition to deferred charges for Nuclear Facility	20,259	15,584	517
Retirements of long-term debt	9,432	8,998	8,766
Repayment of notes payable	9,248	9,014	17,688
Decrease in accounts payable	2,967	3,308	607
Addition to deferred charges for Power Supply System	2,060	—	—
Increase (decrease) in fund balances	1,318	22,036	(2,692)
Advance to Power Supply System	—	30,000	—
Other working capital changes	8,394	1,230	(21)
Other	406	(1,143)	(5,018)
Total funds applied	$105,952	$112,197	$48,337

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

Nebraska Public Power District
ELECTRIC SYSTEM

Supplemental Schedules – Calculation of Debt Service Ratios for each of the Three Years in the Period Ended December 31, 1985

	1985	1984	1983
	(Thousands of Dollars)		
Operating revenues	$329,096	$327,931	$327,382
Operating expenses, excluding depreciation and amortization of $23,610,000, $23,392,000, and $20,227,000	285,749	294,780	281,117
	$ 43,347	$ 33,151	$ 46,265
Interest and other revenues, excluding interest on construction funds of $5,084,000, $6,041,000, and $6,424,000	9,291	11,347	8,746
Net revenues available for debt service	$ 52,638	$ 44,498	$ 55,011
Amounts deposited in the Electric System Debt Service Account –			
Principal	$ 9,158	$ 8,727	$ 8,832
Interest	21,348	21,789	22,199
	$ 30,506	$ 30,516	$ 31,031
Ratio of net revenues available for debt service to debt service deposits	1.73	1.46	1.77

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

Nebraska Public Power District
ELECTRIC SYSTEM

Notes to Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. *Organization* –

The District has three separate divisions for accounting purposes as follows:

Electric System
Power Supply System
Nuclear Facility

As required by Bond Resolutions, separate records are maintained for each division. The Electric System financial statements exclude the Nuclear Facility and Power Supply System, for which financial statements are presented separately herein. The Electric System financial statements should be read in conjunction with such other financial statements.

B. *Depreciation, Amortization and Maintenance* –

The District records depreciation over the estimated useful life of the property. Depreciation on Utility Plant in Service was approximately 3.0% in each of the years 1985, 1984, and 1983.

The District has long-term lease agreements with 212 municipalities. These lease agreements obligate the District to make lease payments and pay for normal property additions during the term of the lease. The District has

recorded provisions for amortization of $3.6 million in 1985, $4.0 million in 1984, and $3.9 million in 1983. Leased plant additions, which are fully reserved, totaled $39.2 million at December 31, 1985, and $36.2 million at December 31, 1984.

Certain municipal lease agreements included an obligation requiring the District to make property additions associated with the electric service being provided to such municipalities in an amount equal to a percentage of revenues of the respective leased systems. The District has completed negotiations with all but one of the municipalities which resulted in, among other things, the modification of the obligation to make such improvements. During 1985, the District paid these municipalities $1.9 million which was charged to depreciation and amortization. The balance of $1.5 million will be paid during the years 1986 and 1987. Negotiations are continuing with the other municipality.

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

C. *Allowance for Funds Used During Construction* –

This allowance, representing the cost of funds used to finance construction, is capitalized as a component of the cost of utility plant and is credited to Interest and Other Revenues. The capitalization rates for construction financed with revenue bonds are based on the interest cost of each issue less interest income. The rate for construction financed by revenues is based on a projected rate of borrowing. For the periods presented herein, the rates vary from 6.1% to 10.0%.

D. *Deferred Charges* –

Deferred charges are as follows:

Description	Balance December 31, 1985
	(Thousands of Dollars)
Nuclear Facility billings:	
Fuel cost	$ 9,277
Replacement rotors	1,938
Plant management information system	4,717
Pipe replacement	17,953
Renewals and replacements	4,015
	$37,900
Power Supply System billings:	
Renewals and replacements	$ 2,060

These deferred charges are expected to be amortized as follows: 1986 — $14.7 million; 1987 — $8.1 million; 1988 — $6.2 million; 1989 — $4.3 million; 1990 — $4.0 million; 1991 — $2.7 million.

The carrying costs of the nuclear fuel advances are included in the above amounts. The District included amortization of $13.3 million in 1985, $12.8 million in 1984, and $6.5 million in 1983 in power purchased expense.

E. *Unamortized Financing Costs* –

These costs represent issuance expenses on all bonds and the premium to retire the Electric System Revenue Bonds, 1975 Series, prior to their maturity date and are being amortized over the life of the respective bonds using the bonds outstanding method.

F. *Unamortized Payment Received for Refinancing Costs* –

This reimbursement from the Nuclear Facility was for certain refinancing costs of the Electric System incurred in 1968 and is being amortized over the life of the 1968 Revenue Bond issue using the bonds outstanding method.

G. *Investment Securities* –

Investments are made in U.S. Government securities, Federal Agency obligations, repurchase agreements collateralized with the U.S. Government securities, and bank certificates of deposit. The Debt Reserve Account in the Debt Service Fund is valued semi-annually at January 1 and July 1 at the lower of cost or market in accordance with requirements of the Electric System Revenue Bond Resolution (Electric Resolution). The securities in the remaining funds are valued at the lower of cost or principal amount in accordance with requirements of the Electric Resolution.

H. *Deferred Production Costs* –

Actual energy (fuel) costs in excess of those included in the basic rates are recovered by a Production Cost Adjustment (PCA) which is billed to all customers except non-firm and participation customers. When the basic rates do not provide sufficient revenues to recover the energy costs, the excess cost is deferred. When the basic rates provide revenues in excess of the energy costs, the excess is excluded from revenues. Present District policy requires that billings for the PCA be made using rates adjusted from time to time so that the variations in actual energy costs from energy revenues to be derived from the basic rates are recovered by PCA billings either in the current rate period or future rate periods.

I. *Revenue Recognition* –

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

(2) RATES:

The District designs its wholesale and retail electric service rates to cover cost of service, including; 1) operating expenses other than depreciation, 2) debt service, and 3) certain capital additions. In the event the District's rates for wholesale and retail service result in a surplus or deficiency in net revenues during a rate period, such surplus or deficiency is taken into account in projecting estimated revenue requirements for future rate periods. The following table illustrates the effect of these adjustments in revenue requirements on the Statements of Revenues and Expenses.

Adjustments in Revenue Requirements

	Rate Period		
	1980-1981	1982-1983	1984-1985 (Estimated)
	(Millions of Dollars)		
Surplus or (Deficit) in Rate Period	$(10.7)	$(7.3)	$(6.3)
Adjustment in Subsequent Rate Periods:			
1982-1983	10.7	—	—
1984-1985	—	2.9	—
1986-1987 (Projected)	—	4.4	16.7
1988-1989 (Projected)	—	—	(10.4)

As provided in the Electric Resolution, the District covenants to charge rates for electric and other services so that revenues will be sufficient to pay annual operating expenses, including Nuclear Facility and Power Supply System charges, debt service and other charges payable out of Electric System revenues.

New rates for firm wholesale and retail service, including the PCA, which were placed in effect in 1986, are expected to increase electric revenues by approximately $12.0 million for the year.

(3) RETIREMENT PLAN AND POSTRETIREMENT BENEFITS:

The District has a retirement income plan covering its permanent full-time employees, substantially all of whom have elected to participate. Employee's contributions to the plan are based on salary, and the District's contributions are allocated to each employee's trust account based on the employee's contributions to the plan. The plan provides for retirement income equal to the total of the employee's trust account, including trust earnings. The District's contribution was $4.5 million for 1985, $4.2 million for 1984, and $3.7 million for 1983.

The District also provides certain health care, accident and life insurance benefits for retired employees. Substantially all of the District's retired employees are eligible for such benefits. The cost of providing these benefits was $412,000 for 1985, $654,000 for 1984, and $764,000 for 1983.

(4) LONG-TERM DEBT AND NOTES PAYABLE:

	December 31, 1985	1984
	(Thousands of Dollars)	
Revenue Bonds:		
Serial Bonds –		
2.00%, due 1985 to 1990	$ 2,580	$ 3,270
4.75%-6.00%, due 1985	—	8,460
4.75%-6.30%, due 1986 to 1990	44,465	44,465
4.90%-6.40%, due 1991 to 1995	34,010	34,010
5.00%-6.10%, due 1996 to 2000	39,850	39,850
5.00%-6.30%, due 2001 to 2005	49,740	49,740
5.75%-6.40%, due 2006 to 2009	27,820	27,820
Term Bonds, with annual sinking fund requirements –		
5.10%, due 1987 to 2002	41,000	41,000
6.60%, due 1993 to 2003	33,200	33,200
6.75%, due 1991 to 1995	17,100	17,100
7.00%, due 1996 to 2005	57,250	57,250
	$347,015	$356,165
Lease Purchase Payables –		
2.00%, due 1985 to 2005	4,433	4,716
Unamortized Bond Discount	(1,676)	(1,810)
	$349,772	$359,071

Principal payments of Electric System Long-Term Debt and Notes Payable for the next five years are: 1986 — $19.1 million; 1987 — $13.7 million; 1988 — $13.1 million; 1989 — $12.0 million; 1990 — $12.3 million.

(5) COMMERCIAL PAPER NOTES:

The District is authorized to issue up to $100 million of commercial paper notes. A credit agreement is maintained with a bank to support the sale of the commercial paper notes. This credit agreement expires in March, 1987. The effective interest rates on outstanding notes for 1985 and 1984 were 5.2% and 5.9% respectively. The District expects to repay $15.8 million of commercial paper notes in 1986.

The proceeds of this issue are being used (1) to finance a portion of the costs relating to a plant management information system, repairs and replacement of piping, and certain other renewals and replacements of the Nuclear Facility, (2) to finance certain renewals and replacements of the Power Supply System, and (3) for other lawful purposes of the District.

The notes are anticipated to be retired from repayment of the Advance to the Power Supply System and from Electric System revenues.

(6) CASH AND INVESTMENT SECURITIES:

	December 31, 1985	1984
	(Thousands of Dollars)	
Revenue Fund	$ 13,997	$ 16,211
Operating Fund	4,286	6,975
Construction Funds	48,289	51,882
Commercial Paper Account	27,402	19,953
Debt Service Account	353	345
Reserve and Contingency Fund	1,236	1,236
General Reserve Fund	21,552	19,131
	$117,115	$115,733

Funds consist of $103.8 million of investment securities and $13.3 million of cash at December 31, 1985, and $98.8 million of investment securities and $16.9 million of cash at December 31, 1984.

(7) LONG-TERM OBLIGATIONS:

The District has an agreement for the purchase of the entire output of a 100 MW steam electric generating plant through 1991. Under the agreement, the District must (with limited exceptions) make minimum payments monthly. The annual aggregate amount of such required payments will be $968,000, less an amount associated with the principal amount of outstanding bonds which will be retired from existing reserve funds of the owner, for each of the years 1986 through 1991. In addition, the District is required to pay the variable operating expenses of the plant. The District's total payments under the agreement were $2.7 million in 1985, $3.0 million in 1984, and $2.6 million in 1983.

(8) LITIGATION:

On August 14, 1985, NUCOR Corporation (NUCOR), a large industrial customer, filed a lawsuit in the United States District Court of Nebraska alleging overcharges from August 1, 1972, to January 1, 1980, in an undetermined amount and $10 million from January 1980, through December 1984. The District's answer, among other things, denied that the District's rates charged NUCOR were unfair, unreasonable and discriminatory and further denied that NUCOR had been damaged as alleged, and asserted various affirmative defenses. The lawsuit is currently in the discovery stages, and the District is not able to determine the liability, if any, at this time.

(9) CONSTRUCTION AND FINANCING:

The 1986 construction plan for the Electric System includes authorization for estimated expenditures of $24.6 million for 1986. These expenditures will not require the issuance of long-term debt in 1986.

(10) SUBSEQUENT EVENT:

On March 13, 1986, the Board of Directors authorized the sale of Power Supply System Revenue Bonds, 1986 Series. See Note (7) of notes to the financial statements of the Power Supply System.

Nebraska Public Power District
POWER SUPPLY SYSTEM

Report of Independent Public Accountants

To the Board of Directors
Nebraska Public Power District:

We have examined the special-purpose statements of assets and liabilities of the Power Supply System of Nebraska Public Power District (a public corporation and political subdivision of the State of Nebraska) as of December 31, 1985 and 1984, and the related special-purpose statements of revenues and costs for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The special-purpose financial statements of the Power Supply System of Nebraska Public Power District for the year ended December 31, 1983, were examined by other auditors, whose report, dated March 2, 1984, expressed an unqualified opinion on those special-purpose statements.

The special-purpose financial statements referred to above have been prepared for the purpose of complying with, and on the basis of, accounting requirements specified in the Power Supply System Revenue Bond Resolution adopted by the District on September 29, 1972, as supplemented, securing the revenue bonds issued thereunder. As described in Note 1(B), these requirements differ from generally accepted accounting principles. Accordingly, the special-purpose financial statements are not intended to present and do not present fairly the financial position, results of operations, and changes in financial position of the Power Supply System of Nebraska Public Power District in conformity with generally accepted accounting principles.

In our opinion, however, the aforementioned special-purpose financial statements of the Power Supply System of Nebraska Public Power District are presented fairly pursuant to the requirements of the Power Supply System Revenue Bond Resolution described in Note 1(B), applied in a consistent manner.

Coopers & Lybrand

600 Woodman Tower
Omaha, Nebraska 68102
March 7, 1986, except for Note (7)
as to which the date is March 13, 1986.

Nebraska Public Power District

POWER SUPPLY SYSTEM

Statements of Assets and Liabilities
December 31, 1985 and 1984
Prepared Pursuant to Requirements of the
Power Supply System Revenue Bond Resolution

	1985	1984
	(Thousands of Dollars)	
ASSETS		
Utility Plant, at Cost (Note 4)	$759,856	$741,235
Less–		
Reserve for depreciation (Note 1)	52,293	41,155
Amounts funded from revenue (Note 1)	17,076	10,087
	$690,487	$689,993
Prepaid Capital Costs (Note 3)	$ 57,526	$ —
Special Funds:		
Debt reserve account	$ 62,262	$ 56,234
Reserve and contingency fund	11,471	16,066
Additions and improvements account	2,927	1,817
Construction funds	71,509	62,834
Development fund	—	31,080
Revenue fund	166	160
Operating fund	12,462	11,606
General reserve fund	18,442	28,844
	$179,239	$208,641
Accounts Receivable	$ 306	$ 445
Interest Receivable	$ 3,905	$ 6,449
Fuel Inventory, at average cost	$ 16,532	$ 17,037
Deferred Charges and Other Assets	$ 638	$ 980
	$948,633	$923,545
LIABILITIES		
Revenue Bonds:		
Serial Bonds–		
4.80%-5.60%, due 1985	$ —	$ 11,405
4.90%-8.00%, due 1986 to 1990	68,730	66,780
5.50%-9.00%, due 1991 to 1995	90,615	87,775
5.70%-9.60%, due 1996 to 2000	72,980	68,645
6.00%-9.80%, due 2001 to 2005	12,210	5,405
9.80%-10.00%, due 2006 to 2010	10,775	—
10.00%-10.125%, due 2011 to 2015	17,145	—
10.125%, due 2016 to 2019	20,830	—
Term Bonds, with annual sinking fund requirements–		
5.80%, due 1998 to 2012	168,930	168,930
6.125%, due 1999 to 2016	239,635	239,635
6.75%, due 1999 to 2001	23,025	23,025
6.90%, due 2002 to 2008	75,345	75,345
7.10%, due 2009 to 2016	129,005	129,005
	$929,225	$875,950
Advance from Electric System	6,100	30,000
Accounts Payable and Other Accrued Liabilities	6,723	8,147
Operating Reserves (Note 1)	6,585	9,448
	$948,633	$923,545

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

Nebraska Public Power District

POWER SUPPLY SYSTEM

Statements of Revenues and Costs for each of the Three Years in the Period Ended December 31, 1985 Prepared Pursuant to Requirements of the Power Supply System Revenue Bond Resolution

	1985	1984	1983
	(Thousands of Dollars)		
Revenues (Notes 1 and 2):			
Sales to the Electric System	$133,104	$131,785	$121,085
Investment and other income	20,644	11,129	19,445
Total revenues	$153,748	$142,914	$140,530
Costs:			
Operating expenses–			
Production–			
Fuel	$ 60,850	$ 60,850	$ 54,298
Operation and maintenance (Note 3)	16,241	14,407	15,298
Provisions for operating reserves (Note 1)	3,247	1,384	4,399
General and administrative	2,839	2,702	2,819
Insurance	973	828	757
	$ 84,150	$ 80,171	$ 77,571
Debt service–			
Principal (Note 1)	11,725	10,850	10,340
Interest	57,873	51,893	52,619
Total costs	$153,748	$142,914	$140,530

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

Nebraska Public Power District

POWER SUPPLY SYSTEM

Notes to Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. *Organization*–

The District has three separate divisions for accounting purposes as follows:

Electric System
Power Supply System
Nuclear Facility

As required by Bond Resolutions, separate records are maintained for each division. The Power Supply System financial statements exclude the Electric System and Nuclear Facility, for which financial statements are presented separately herein. The Power Supply System financial statements should be read in conjunction with such other financial statements.

B. *Basis of Accounting*–

Revenues are recognized and billed at an amount equal to costs as defined by the Power Supply System Revenue Bond Resolution (Power Supply Resolution) which include operating expenses (excluding depreciation), and debt service on the revenue bonds, less investment income. Revenues are computed and billed so that no equity is accumulated in the Power Supply System.

Revenues and costs as defined by the Power Supply Resolution differ in the following respects from generally accepted accounting principles:

(1) Amortization of the debt principal is included as a cost in the accompanying Statements of Revenues and Costs as "Debt service-Principal".

Depreciation is not recorded as a cost. Had the District provided straight-line depreciation over a 40-year life rather than including amortization of debt principal over the same period, costs would have increased $6.5 million in 1985, $6.3 million in 1984, and $6.9 million in 1983. Accumulated depreciation through December 31, 1985, would have increased costs approximately $43.0 million. The reserve for depreciation shown on the Statements of Assets and Liabilities was provided by recording amounts equal to repayment of debt. Upon retirement of property subject to depreciation, the cost of property is removed from plant accounts and charged to the reserve for depreciation, along with the removal costs, net of salvage.

(2) Billings to provide capital for renewals and replacements of property and capital additions are included in the accompanying statements as "Operating Reserves" and "Provisions for operating reserves". Under generally accepted accounting principles, capital additions and provisions for renewals and replacements are not expenses but (exclusive of minor items of property) are charged to utility plant. Renewals and replacements of property and capital additions funded from revenues are fully reserved.

(3) Interest income on construction fund investments is capitalized although the applicable projects have been placed in service. Under generally accepted accounting principles, revenues would have increased $7.7 million in 1985, $6.7 million in 1984, and $8.2 million in 1983.

C. *Utility Plant*–

Interest expense, less interest earned on investment securities, all financing costs and all other costs related to construction projects are capitalized.

D. *Special Funds*–

Special funds consist of $178.6 million of investment securities and $.6 million of cash at December 31, 1985, and $208.1 million of investment securities and $.5 million of cash as of December 31, 1984.

Investments are made in U.S. Government securities, Federal Agency obligations, repurchase agreements collateralized with U.S. Government securities, and bank certificates of deposit. The Debt Reserve Account in the Debt Service Fund and the Reserve Account in the Reserve and Contingency Fund are valued semi-annually at January 1 and July 1 at the lower of cost or market in accordance with requirements of the Power Supply Resolution. Gains or losses on valuations are included in investment income. The securities in the remaining funds are valued at the lower of cost or principal amount in accordance with requirements of the Power Supply Resolution.

(2) RATE COVENANT:

The District is required under the Power Supply Resolution to charge rates for electric power and energy from the Power Supply System so that revenues will be at least sufficient to pay operating expenses, aggregate debt service on the Power Supply System Revenue Bonds, amounts to be paid into the Debt Reserve Account and Reserve and Contingency Fund, and all other liens payable out of revenues of the Power Supply System. The debt service payments of the Power Supply System Revenue Bonds are $72.3 million per year through 1990 and principal payments, as a component of debt service payments, are $12.3 million, $13.0 million, $13.7 million, $14.5 million, and $15.3 million for each of the years 1986 through 1990 respectively.

(3) PREPAID CAPITAL COSTS:

The Power Supply System Revenue Bonds, 1985 Series, were issued for the principal purpose of prepaying the capital costs associated with the purchase of the capacity of the Kingsley Project, a 50 MW hydroelectric generating facility owned and operated by The Central Nebraska Public Power and Irrigation District (Central). The prepayment is being amortized to expense over the life of said bonds.

Under terms of the Kingsley Project Construction, Operation and Power Purchase Agreement, Central makes available all of the production of the Kingsley Project and the District pays all costs of operating and maintaining the facility plus a charge based on the amount of energy delivered to the District. Costs of $.4 million in 1985 are included in "Production-Operation and maintenance".

(4) MANDAN PROJECT:

On March 29, 1985, the Board of Directors of the District adopted a resolution which directed management to immediately terminate all work on the MANDAN Project, a high voltage transmission line, which, among other things, would have permitted the seasonal exchange of power and the sale of associated energy.

In May, 1985, the Board of Directors authorized the expended costs of $44.3 million for the MANDAN Project and certain costs of the previously terminated Comstock Project, which were funded from surplus Power Supply System bond proceeds, be amortized to expense over the life of the applicable bonds. These costs are included in Utility Plant.

(5) LITIGATION:

In 1980, the District filed suit to recover amounts totaling in excess of $50 million from National Industrial Constructors, Inc. (National), Austin Industries, Inc. (Austin) and Federal Insurance Company (Federal). During construction, National was merged with another company to form another wholly-owned subsidiary of Austin, named Austin Power, Inc. (Austin Power). The suit alleged damages from delays, cost overruns, and for other damages and expenses associated with the construction of Gerald Gentleman Station Unit No. 1. Austin Power counterclaimed against the District to recover amounts totaling in excess of $32 million as a result, among other things, of the alleged failure of the District to effectively coordinate and administer the construction of Unit No. 1. Prior to commencement of the trial, Austin Power amended its damage claim to $55 million.

On August 22, 1984, the jury rendered a verdict that the District was entitled to recover damages of $12,065,180 from Austin Power, Austin and Federal and that Austin Power was entitled to recover damages of $26,153,505 from the District. On the same day, judgment was entered in accordance with the verdict with interest thereon at the rate of 11.93%, and Austin Power was awarded its taxable costs of the action.

On October 4, 1985, after the judgments were affirmed by the United States Court of Appeals, a final settlement was made between the parties. The District recovered damages plus interest of $13,670,183, and the District made payment of $30,540,325 covering damages, court costs and interest thereon. The District's costs were paid out of excess Power Supply System bond proceeds and are included in the total cost of the Project.

(6) CAPITAL ADDITIONS:

The 1986 construction plan for the Power Supply System includes authorization for estimated expenditures of $4.5 million for 1986. These expenditures will be billed to the Electric System as "Provisions for operating reserves" on the basis of estimated cash flow requirements.

(7) SUBSEQUENT EVENT:

On March 13, 1986, the Board of Directors of the District authorized the sale of $76,335,000 Power Supply System Revenue Bonds, 1986 Series, for the principal purpose of advance refunding the outstanding $64,680,000 Power Supply System Revenue Bonds, 1985 Series.

Nebraska Public Power District
NUCLEAR FACILITY

Report of Independent Public Accountants

To the Board of Directors
Nebraska Public Power District:

We have examined the special-purpose statements of assets and liabilities of the Nuclear Facility of Nebraska Public Power District (a public corporation and political subdivision of the State of Nebraska) as of December 31, 1985 and 1984, and the related special-purpose statements of revenues and costs for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The special-purpose financial statements of the Nuclear Facility of Nebraska Public Power District for the year ended December 31, 1983, were examined by other auditors, whose report, dated March 2, 1984, expressed an unqualified opinion on those special-purpose statements.

The special-purpose financial statements referred to above have been prepared for the purpose of complying with, and on the basis of, accounting requirements specified in the Nuclear Facility Revenue Bond Resolution adopted by the District on August 22, 1968, as supplemented, securing the revenue bonds issued thereunder. As described in Note 1(B), these requirements differ from generally accepted accounting principles. Accordingly, the special-purpose financial statements are not intended to present and do not present fairly the financial position, results of operations, and changes in financial position of the Nuclear Facility of Nebraska Public Power District in conformity with generally accepted accounting principles.

In our opinion, however, the aforementioned special-purpose financial statements of the Nuclear Facility of Nebraska Public Power District are presented fairly pursuant to the requirements of the Nuclear Facility Revenue Bond Resolution described in Note 1(B), applied in a consistent manner.

Coopers & Lybrand

600 Woodman Tower
Omaha, Nebraska 68102
March 7, 1986.

Nebraska Public Power District

NUCLEAR FACILITY

Statements of Assets and Liabilities
December 31, 1985 and 1984
Prepared Pursuant to Requirements of the
Nuclear Facility Revenue Bond Resolution

ASSETS	1985	1984
	(Thousands of Dollars)	
Utility Plant, at Cost	$533,248	$487,133
Less–		
Reserve for depreciation (Note 1)	97,744	85,874
Amounts funded from revenue (Note 1)	124,903	76,716
	$310,601	$324,543
Nuclear Fuel–Net of Amortization (Note 1)	$117,761	$113,085
Special Funds:		
Debt reserve account	$ 28,322	$ 28,342
Reserve and contingency fund	9,608	13,104
Additions and improvements account	8,522	10,119
Construction fund	14,512	12,253
Fuel reserve account	10,443	14,944
Fuel disposal fund (Note 3)	2,546	39,394
Operating fund	5,915	7,568
Revenue fund	803	778
Decommissioning fund (Note 4)	3,790	1,879
	$ 84,461	$128,381
Accounts Receivable	$ 6,667	$ 4,490
Interest Receivable	$ 1,870	$ 3,346
Deferred Charges and Other Assets	$ 2,606	$ 1,567
	$523,966	$575,412

LIABILITIES		
Revenue Bonds:		
Serial Bonds–		
4.75%-7.20%, due 1985	$ —	$ 12,185
4.80%-7.50%, due 1986 to 1990	49,090	49,090
6.00%-8.80%, due 1991 to 1995	24,020	24,020
7.375%-9.20%, due 1996 to 2003	26,600	26,600
Term Bonds, with annual sinking fund requirements–		
5.10%, due 1987 to 2002	155,000	155,000
6.30%, due 1993 to 2003	68,430	68,430
6.60%, due 1992 to 2003	67,200	67,200
	$390,340	$402,525
Operating Reserves (Note 1)	116,598	117,465
Nuclear Fuel Disposal Costs (Note 3)	733	40,455
Accounts Payable and Other Accrued Liabilities (Note 3)	16,295	14,967
	$523,966	$575,412

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

Nebraska Public Power District
NUCLEAR FACILITY

Statements of Revenues and Costs for each of the Three Years in the Period Ended December 31, 1985 Prepared Pursuant to Requirements of the Nuclear Facility Revenue Bond Resolution

	1985	1984	1983
	(Thousands of Dollars)		
Revenues (Notes 1 and 2):			
Sales–			
Electric System	$ 60,479	$ 66,114	$ 52,348
Iowa Power and Light Company	60,477	66,116	52,351
Investment income	12,590	13,340	10,187
Total revenues	$133,546	$145,570	$114,886
Costs:			
Operating expenses–			
Production–			
Fuel	$ 7,177	$ 21,876	$ 28,740
Operation and maintenance	31,783	23,620	28,756
Provisions for operating reserves (Note 1)	49,870	52,477	13,489
Technical and administrative	5,506	7,748	4,925
Insurance	3,016	3,668	3,788
	$ 97,352	$109,389	$ 79,698
Debt service–			
Principal (Note 1)	12,185	11,575	10,565
Interest	24,009	24,606	24,623
Total costs	$133,546	$145,570	$114,886

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

Nebraska Public Power District
NUCLEAR FACILITY

Notes to Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. *Organization*–

The District has three separate divisions for accounting purposes as follows:

Electric System
Power Supply System
Nuclear Facility

As required by Bond Resolutions, separate records are maintained for each division. The Nuclear Facility financial statements exclude the Electric System and Power Supply System, for which financial statements are presented separately herein. The Nuclear Facility financial statements should be read in conjunction with such other financial statements.

B. *Basis of Accounting*–

Revenues are recognized and billed at an amount equal to costs as defined by the Nuclear Facility Revenue Bond Resolution (Nuclear Resolution) which include operating expenses (excluding depreciation), and debt service on the revenue bonds, less investment income. Revenues are computed and billed so that no equity is accumulated in the Nuclear Facility.

Revenues and costs as defined by the Nuclear Resolution differ in the following respects from generally accepted accounting principles:

(1) Amortization of the debt principal is included as a cost in the accompanying Statements of Revenues and Costs as "Debt service-Principal".

Depreciation is not recorded as a cost. Had the District provided straight-line depreciation over a 30-year life rather than including amortization of debt principal over the same period, costs would have increased $1.5 million for 1985, $1.8 million for 1984, and $2.5 million for 1983. Accumulated depreciation through December 31, 1985, would have increased costs approximately $45.7 million. The reserve for depreciation shown on the Statements of Assets and Liabilities was provided by recording amounts equal to repayment of debt. Upon retirement of property subject to depreciation, the cost of property is removed from plant accounts and charged to the reserve for depreciation, along with the removal costs, net of salvage.

(2) Billings to provide capital for renewals and replacements of property, capital additions, and nuclear fuel are included in the accompanying statements as "Operating Reserves" and "Provisions for Operating Reserves". Under generally accepted accounting principles, capital additions and provisions for renewals and replacements are not expenses but (exclusive of minor items of property) are charged to utility plant. Provisions for working capital for nuclear fuel are not expenses under generally accepted accounting principles until the fuel is used.

Renewals and replacements of property and capital additions funded from revenues are fully reserved.

(3) Interest income on construction fund investments is capitalized although the facility has been placed in service. Under generally accepted acounting principles, revenues would have increased $1.2 million for 1985, $1.2 million for 1984, and $.8 million for 1983. Such income would be included in income of the period under generally accepted accounting principles.

C. *Nuclear Fuel*–

Nuclear fuel in the reactor is being amortized on the basis of energy produced as a percentage of total energy expected to be produced.

D. *Special Funds*–

Special funds consist of $83.4 million of investment securities and $1.1 million of cash as of December 31, 1985, and $127.3 million of investment securities and $1.1 million of cash as of December 31, 1984.

Investments are made in U.S. Government securities, Federal Agency obligations, repurchase agreements collateralized with U.S. Government securities, and bank certificates of deposit. The Debt Reserve Account in the Debt Service Fund and the Reserve Account in the Reserve and Contingency Fund are valued semi-annually at January 1 and July 1 at the lower of the cost or market in accordance with requirements of the Nuclear Resolution. Gains or losses on valuations are included in investment income. The securities in the remaining funds are valued at the lower of cost or principal amount in accordance with requirements of the Nuclear Resolution.

(2) RATE COVENANT AND POWER SALES CONTRACT:

The District is required under the Nuclear Resolution to charge rates for electric power and energy from the Nuclear Facility so that revenues will be at least sufficient to pay operating expenses, aggregate debt service on the Nuclear Facility Revenue Bonds, amounts to be paid into the Debt Reserve Account and Reserve and Contingency Fund, and all other charges or liens payable out of revenues of the Nuclear Facility. The debt service payments of the Nuclear Facility Revenue Bonds are $36.3 million per year through 1990 and principal payments, as a component of debt service payments, are $12.8 million, $13.5 million, $14.3 million, $15.1 million, and $16.0 million for each of the years 1986 through 1990 respectively.

Under terms of a power sales contract with Iowa Power and Light Company (Iowa Power), the District makes available one-half of the production to Iowa Power with the balance available to the District's Electric System. Iowa Power and the District's Electric System each pay a proportionate share of the nuclear fuel costs (based on energy actually delivered) plus one-half of all other costs of the facility.

The District has also agreed to make available, through its Electric System, 12½% of the output of the Cooper Nuclear Station to the City of Lincoln (Lincoln).

(3) NUCLEAR FUEL:

The District has entered into contracts for various nuclear fuel components for fuel loadings as follows:

Nuclear Fuel Component	Suppliers	Year Through Which Requirements Are Provided
Uranium Concentrates	Various	1989 (Est.)
Conversion	Allied Corp.	1989
Enrichment	U.S. Dept. of Energy	2014
Fabrication	General Electric	1994

The fees for disposal of spent fuel and fuel in the reactor are being provided as part of the fuel cost and collected through revenues of the Nuclear Facility. The fuel disposal fee for fuel burned prior to April 7, 1983, of $40.5 million was paid in June, 1985, under provisions of the Nuclear Waste Policy Act of 1982. The disposal fees for fuel burned after April 6, 1983, are paid quarterly to the Department of Energy. Some of these fees may ultimately be the responsibility of General Electric Company (GE) under the nuclear fuel supply contract for the initial fuel for the Nuclear Facility.

The District and GE have entered into an agreement setting out certain rights and responsibilities relating to the shipment from Cooper Nuclear Station to Morris, Illinois, of spent fuel associated with the initial fuel supplied by GE under the nuclear fuel supply contract. The initial shipment of spent fuel was accomplished in August, 1984. Each party has a full reservation of rights with respect to buyback payments, all shared costs, and ultimate responsibility for disposition of the spent fuel and attendant costs. Buyback payments of $6.4 million for 1985, and $5.6 million for 1984 have been included in "Accounts Payable and Other Accrued Liabilities".

(4) PLANT DECOMMISSIONING COSTS:

The District has estimated the cost of funding the eventual decommissioning of Cooper Nuclear Station. It is expected that the costs of decommissioning will be funded from (1) revenues developed by a component included in firm wholesale and retail rates of the Electric System, including revenues from Lincoln for its purchase of power and energy from Cooper Nuclear Station; (2) revenues from Iowa Power, pursuant to its contract for the purchase of power and energy from Cooper Nuclear Station; (3) certain reserve funds established under the Nuclear Resolution; and (4) surplus funds derived from the ownership and operation of the Nuclear Facility. The District will continue to review such costs and methods of funding as a result of changing conditions and requirements for decommissioning.

(5) CAPITAL ADDITIONS:

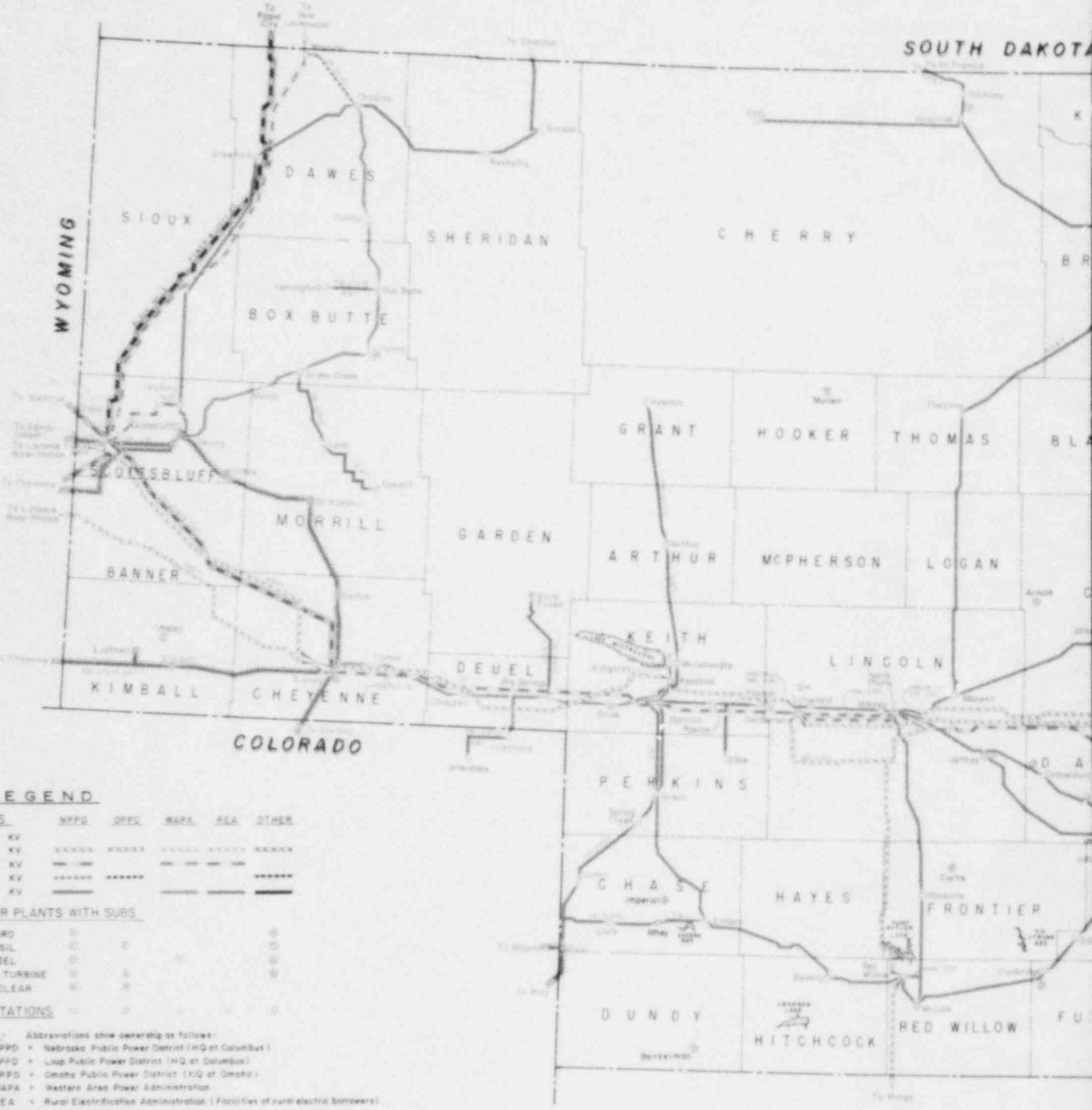
The 1986 construction plan for the Nuclear Facility includes authorization for estimated expenditures of $36.0 million for 1986. These expenditures will be billed to the participants as "Provisions for operating reserves" on the basis of estimated cash flow requirements.

(6) OPERATIONS:

Replacement of the recirculation, core spray and reactor water clean-up system piping and associated connections was completed in August, 1985, at which time the plant resumed operation. The cost of such replacements and related multipurpose facility is approximately $54.0 million.

The District and Westinghouse are presently engaged in negotiations with respect to a settlement of the issue of damages to the turbine-generator and plant shutdown occurring subsequent to the maintenance overhaul of the turbine-generator by Westinghouse. Iowa Power and Lincoln have requested that the District study the recovery of consequential damages from Westinghouse resulting from the plant shutdown. In addition, Lincoln has submitted a claim to the District of $1.1 million for the cost of replacement energy and loss of gross revenue as a result of the plant shutdown.

The new plant management information system is currently being tested in parallel operation with existing systems. The final in-service date will be in conjunction with the October, 1986 scheduled outage. The total cost is estimated at $16.6 million.



LEGEND

LINES	NPPD	OPPD	WAPA	REA	OTHER
500 KV					
345 KV					
230 KV					
161 KV					
115 KV					

POWER PLANTS WITH SUBS

HYDRO					
FOSSIL					
DIESEL					
GAS TURBINE					
NUCLEAR					

SUBSTATIONS

Notes: Abbreviations show ownership as follows:

- NPPD = Nebraska Public Power District (HQ at Columbus)
- LPPD = Loup Public Power District (HQ at Columbus)
- OPPD = Omaha Public Power District (HQ at Omaha)
- WAPA = Western Area Power Administration
- REA = Rural Electrification Administration (Facilities of rural electric borrowers)
- MBPP = Missouri Basin Power Project
- CN = Central Nebraska Public Power and Irrigation District (HQ at Holdrege)
- NG&T = Nebraska G&T Lines Lease / Purchased To NPPD
- OTHER = Facilities owned by municipalities and others as shown
- 1000 = Facilities west of East - West Transmission Tie

ELECTRIC GENERATION AND TRANSMISSION FACILITIES

STATE OF NEBRASKA

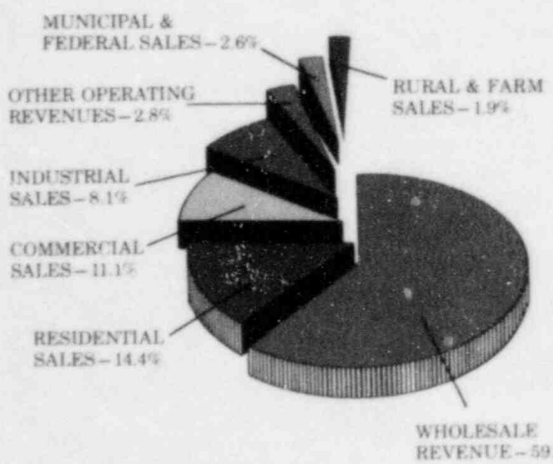
EXISTING JANUARY 1, 1986

	Average Number of Customers	KWH Sales (Thousands)	%	Revenue From Sales (Thousands)	%
SALES					
Retail:					
Residential	80,704	744,177	9.3	$ 47,278	14.3
Rural & Farm	5,490	89,543	1.1	6,242	1.9
Commercial	17,381	582,526	7.2	36,449	11.1
Industrial	86	683,500	8.5	26,607	8.1
Municipal & Federal	3,091	146,127	1.8	8,633	2.6
Total Retail	106,752	2,245,873	27.9	$125,209	38.0
Wholesale:					
52 Municipalities (Total Requirements)		1,099,580	13.6	$ 40,438	12.3
19 Municipalities (Interconnection – Partial Requirements)		95,680	1.2	2,756	.8
26 Public Power Districts & Cooperatives (Total Requirements)		3,250,667	40.3	110,088	33.5
Other Utilities – Non-Firm & Participation		1,370,931	17.0	41,095	12.5
Total Wholesale		5,816,858	72.1	$194,377	59.1
Total Electric Revenues		8,062,731	100.0	$319,586	97.1
Other Operating Revenues				9,510	2.9
Total Electric System Operating Revenues				$329,096	100.0

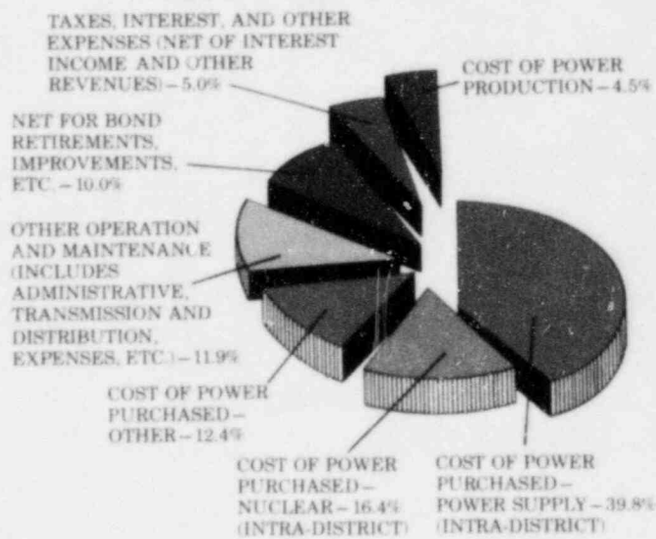
	KWH (Thousands)	%	Production Costs (Thousands)	%
GENERATION				
Production:				
Electric System (Including Interchange)	506,735	5.9	$ 14,810	6.2
Purchased:				
Power Supply System[1]	5,601,067	65.8	$131,044	54.4
Nuclear Facility[1]	534,054	6.3	54,096	22.5
Other	1,872,271	22.0	40,753	16.9
Total Power Purchased	8,007,392	94.1	$225,893	93.8
Total Power Produced and Purchased	8,514,127	100.0	$240,703	100.0

(1) The Electric System purchases 100% of the net generation and power purchases of the Power Supply System and 50% of the net generation of the Nuclear Facility based upon the total costs of the respective systems. Pursuant to the Power Sales Contract, Iowa Power and Light Company purchased 533,694,000 KWH. Iowa Power and Light participation is not included in the table.

NPPD's dollar came from



NPPD's dollar used for



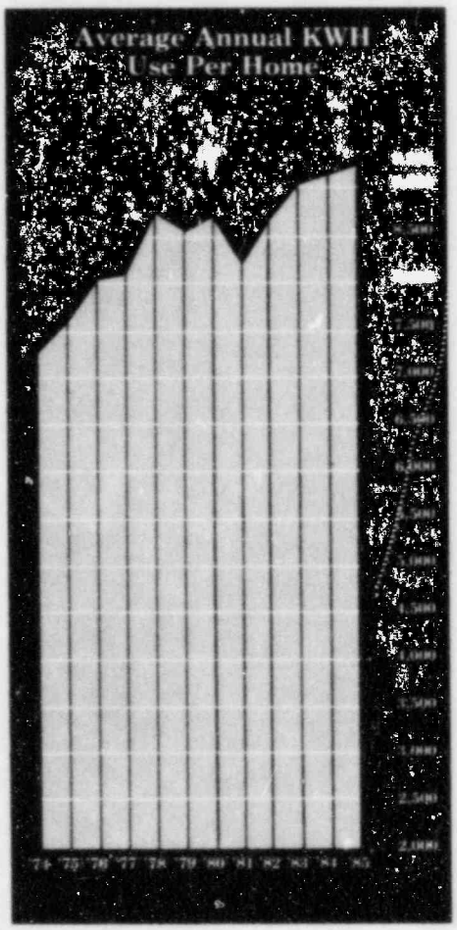
GENERAL	1985	1984	Increase (1)
	(Thousands of Dollars)		
Utility Plant (at cost):			
Electric System	$ 646,621	$ 628,120	$ 18,501
Power Supply System	759,856	741,235	18,621
Nuclear Facility	533,248	487,133	46,115
Total Utility Plant	$1,939,725	$1,856,488	$ 83,237

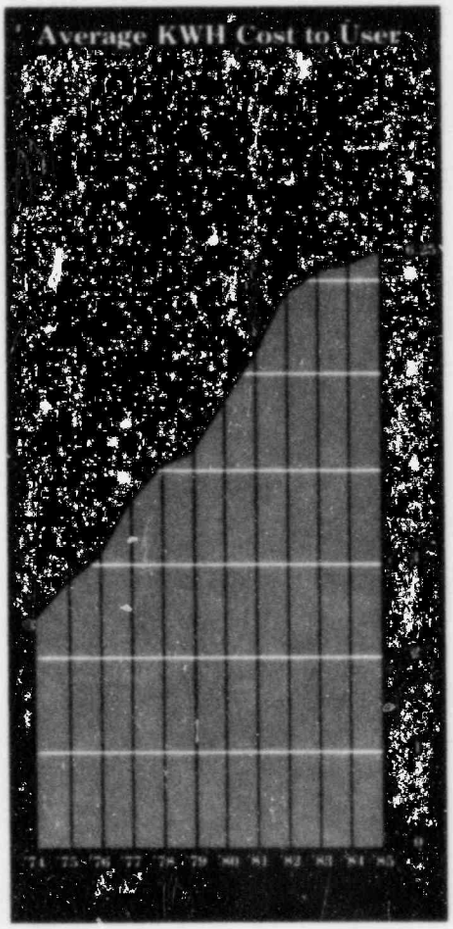
	Number of Plants (2)	Accredited Capability (KW)
Production Plant Facilities:		
Steam – Conventional	6	1,702,300
Steam – Nuclear	1	760,000(3)
Hydro	11	161,200
Diesel	10	36,300
Peaking Turbine	3	149,000
Total Production Plant Facilities	31	2,808,800

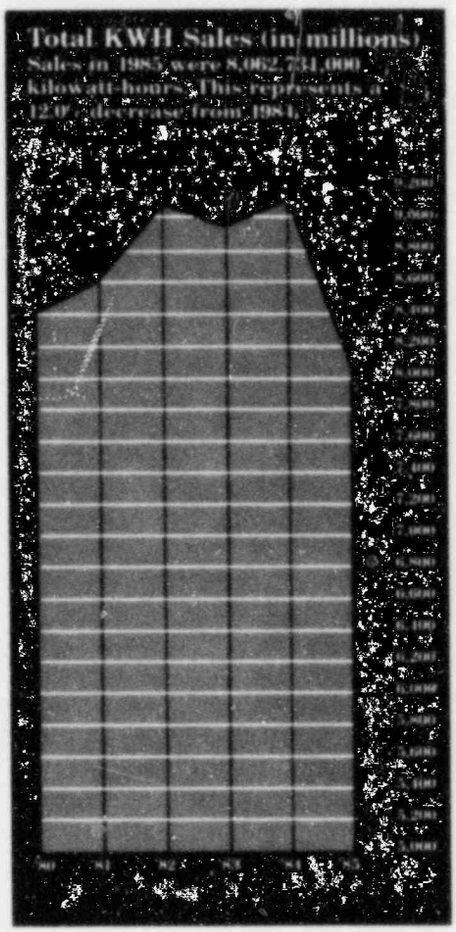
(1) Net of retirements
(2) Includes two steam plants, six hydro plants and ten diesel plants under contract to the District
(3) Includes 380,000 KW contracted to Iowa Power and Light

Transmission Facilities:
Miles of Transmission Line in Service 6,331

Personnel:
Number of Permanent Employees 1,993








Nebraska
Public
Power
District

Nebraska Public Power District

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NLS8600148

April 28, 1986

Director
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, DC 20555

ATTN: Document Control Desk

Subject: Nebraska Public Power District
1985 Annual Report
NRC Docket No. 50-298, DPR-46

Gentlemen:

In accordance with the requirements cited in 10 CFR Part 50.71(b), the Nebraska Public Power District submits its Annual Report for calendar year 1985. As specified in Regulatory Guide 10.1, we are enclosing ten (10) copies of the report.

Should you have any questions or require additional information, do not hesitate to contact me.

Sincerely,

Jay M. Pilant
Manager, Technical Staff
Nuclear Power Group

/rg

Enclosure (10)

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