Building Stronger Communities · Nebraska Public Power District

1997 Annual Report

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Year at a Glance

Kilowatt hour Sales (Electric System)	14.7 Billion
Kilowatt hour Sales to MidAmerican Energy Company (Nuclear Facility)	2.7 Billion
Operating Revenues (Electric System)	$485.2 Million
Operating Revenues from Sales to MidAmerican Energy Company (Nuclear Facility)	$103.1 Million
Cost of Power Purchased and Generated (Including Nuclear Facility and Power Supply System)	$346.6 Million
Other Operating Expenses	$118.4 Million
Net Revenues	$8.6 Million
Debt Service Coverage	1.83

Nebraska Public Power District

Nebraska Public Power District (NPPD) is a public corporation and political subdivision of the State of Nebraska. Control of NPPD and its operations is vested in an 11-member Board of Directors popularly elected from subdivisions within NPPD's chartered territory, which includes all or parts of 91 of the state's 93 counties. NPPD operates an integrated electric utility system, including facilities for generation, transmission and distribution of electric power and energy for sale at wholesale and retail, and a surface water irrigation system.

Message from the Chairman of the Board

From towns such as Chadron in the northwest part of Nebraska to Beatrice in the southeast, Nebraska Public Power District's (NPPD) employees live and work in the communities they serve, giving back time and energy to causes which benefit education, charities, local businesses, and economic development. When the end of the workday comes, these employees head out to help with the Girl Scouts, coach soccer teams, and work with local leaders to attract new business to the area. Activism by NPPD employees contributes to strong communities in all of Nebraska, in turn, building a foundation for future economic growth.

Members of the Board of Directors identify with that spirit and embrace it by representing the citizens of Nebraska on this elected body. We, and the employees of NPPD, know that each person's effort to improve the quality of life in his or her own community through volunteer service adds up to building strong communities in the entire state. As Board members, we are committed to setting policies that help NPPD remain a leader in the industry and a pivotal part of our state's continued growth.

With competition looming on the horizon for the electric utility industry, NPPD's Board is approaching its business with a "no regrets" approach. No matter what the future holds, we are making changes to our operation that will allow NPPD to serve our wholesale and retail customers in the best manner possible. In that vein, this Board reaffirmed its opposition to any federal mandate of retail competition. We believe that the Nebraska Legislature is in a much better position to decide what operating scenario would be in the best interest of Nebraskans. As the only totally public power state in the nation, the Nebraska utility industry is a tremendous asset for the state, and its elected representatives should decide its fate. That being said, some issues involved in this debate, such as a long-term solution to the private-use tax issue will need to be resolved at the federal level. Private use involves the potential taxation of tax-exempt debt, if competition forces public utilities to do business with private utilities over and above the Internal Revenue Service rule limits. We will continue to work with our congressional delegation and others to seek a solution on this issue.

From a customer perspective, we were pleased to lower rates to our wholesale customers by an average of 3.6 percent for the 1998-99 rate period. Additionally, we made adjustments to our retail rates to better reflect the cost of serving different classes of customers. Urban residential rates increased 2.4 percent, while rural residential and irrigation rates went up 4 percent. Early in 1998, we added an additional temporary rate option for our largest retail customer, NUCOR Steel. With its recent plant expansion and our addition of a new substation to serve it, we modified our large industrial rate to offer greater flexibility for the customer during the project. As the industry continues to change, we will work toward creating more options for our customers and lowering rates whenever possible.

These progressive changes wouldn't be possible without the 2,200 dedicated employees of NPPD. If we are to expect and encourage innovation and efficient operation of this organization, we need to have a compensation system that rewards those values. In February of 1998, NPPD employees were rewarded for exceptional 1997 performance with their individual share of gainshare funds. The gainshare program sets target financial goals for the organization, and the savings that occur as a result of meeting or exceeding these targets are split between our customers, in the form of lower rates, and our employees. The Board is supporting the pay-for-performance concept by continuing gainshare in 1998 and evaluating incentive compensation.

Finally, the Board continued to carefully monitor several issues relating to the operation of our nuclear power plant. Our Board stands firmly behind management's improvement efforts at Cooper Nuclear Station, and we will continue to authorize the resources necessary to allow us to operate this facility safely and efficiently.

Coupled with improving our operation of Cooper Nuclear Station comes the Board's responsibility to continually consider the expenditures related to the disposal of radioactive waste. Nebraska is the host state of the planned storage facility for the Central Interstate Low-Level Radioactive Waste Compact Commission, and the process to license this facility has been fraught with difficulties and slow progress. Our Board is so concerned with this issue that we consider our financial support of this project on a month-to-month basis. We fully realize that we will need a facility to dispose of our low-level radioactive waste, but have to carefully contemplate continued support of this project, considering its lack of progress toward its goals.

In this time of change, many issues will warrant thoughtful consideration. This Board takes seriously its responsibility to serve the citizens and customers it represents. We know our decisions guiding the future of NPPD affect the organization and the strength and vitality of the communities of this great state.

Warren R. Cook

Warren R. Cook
Chairman of the Board

Message from the President and CEO

Building stronger communities is how we fulfill our mission to improve the quality of life in Nebraska. From finding new and better ways to serve our customers to volunteering to help local causes, Nebraska Public Power District's (NPPD) employees recorded one of the best years of operation in our history. On the pages of this annual report, you will read about our operational successes as well as see the commitment, character, and strength our employees bring to communities throughout Nebraska.

As you will see, we are interested in the long-term success of each and every community we serve, as well as the state as a whole. We are public power and proud that our primary focus is serving our customers with low rates and excellent service. As the electric utility industry continues its transformation to an openly competitive marketplace, NPPD will be a voice of the customers in rural America. The needs and interests of our customers are foremost in our minds as public and private debates accelerate on this complex issue.

At the state level, the Nebraska Legislature, a unicameral body, is in the middle of a three-year study of the electric utility industry and its future. At the turn of the century, that body will decide how the only totally public power-served state in the nation should be structured. The group is focused on protecting the advantages that public power brings to Nebraska, such as rates 22 percent below the national average, and allowing consumers to take advantage of more choices, including products and services. I, personally, serve on the Advisory Committee to the Legislature's Natural Resources Committee conducting this study, and another NPPD staff member works on the study's Task Force. Through the American Public Power Association the National Rural Electric Cooperative Association, and the Large Public Power Council, the nation's 21 largest public utilities, we carry the voice of our customers to the federal level.

Knowing our customers' needs allows us to operate NPPD in a manner that better serves them. In light of the new products and services we intend to offer and the additional options our customers desire, we need to rebuild some of our internal technology systems to support that part of our business. For the past year, a project team has been working toward development of an integrated customer support system that will handle billing as well as customer information. Additionally, another team is developing a business system to consolidate and improve our internal accounting and information systems. Both of these tools are necessary for us to make a smooth transition to a more competitive environment.

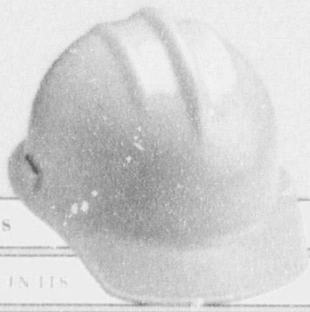
The first sign of our future success in a competitive environment can be seen in our energy supply business. Our generation facilities operated extremely well during 1997, breaking record after record along the way. While we will continue to optimize the use and value of our current resources, we are also looking toward the future generation needs of the area. We are in the midst of a baseline study on Cooper Nuclear Station in cooperation with MidAmerican Energy Company and the Lincoln Electric System, our two partners in the plant. Our power supply contracts with these two entities end by 2004, but the facility is licensed to operate until 2014. The preliminary results look promising for continued operation as long as the improvements in the operation of the plant continue.

Later in the report, you will read about other resource planning issues including our research and evaluation of renewables. While low-cost electricity is important to our customers, the protection of the environment is as well. It is important that industry leaders work with the federal government to balance the needs of the environment with economics. To that end, I was invited by the Clinton Administration and attended a Global Climate Challenge conference at the White House. As one of 10 electric utility industry C.E.O.s in attendance, I expressed the industry's concern that any restrictions mandated should apply to all countries and that emission trading should be a part of any greenhouse gas reduction program. This issue could drastically affect every generating utility and the economy of the nation.

On a final note, I want to express my pride in the performance of NPPD's employees. During these challenging times, our employees continue to impress me with their willingness and desire to make positive changes that will benefit our customers. We've been working hard on improving the way we do business, which is leading to savings in our operating budgets and more customer-focused business processes. In the case of the procurement of goods and services, we expect to save $3.2 million in the first year of implementation of a newly designed process. They are also gaining advantages in new marketplaces with bold and creative thinking. I am confident that through our collective efforts, we will improve the past and invent a future that will ultimately build a stronger Nebraska.

William R Mayben

William R. Mayben
President and Chief Executive Officer



Building stronger communities sometimes means rebuilding them. In 1997, eastern Nebraska endured one of the worst snowstorms in its history, downing power lines and destroying decades of tree growth. Once NPPD had its customers' power restored, employees spent the next few weeks helping other Nebraska utility customers get their lights back o[illegible], working together for the betterment of everyone.

"A growing economy...Increasing needs for electricity...Low unemployment...Steady expansion of housing starts...Low electric rates...Quality education...Reliable electric service..." These factors indicate the strength of communities in Nebraska.

Throughout 1997, the state continued its strong economic showing of the 1990s. As the electric utility serving the largest part of Nebraska, NPPD contributed to this success. Working together with our municipal and rural wholesale and retail partners to build strong communities, meet customer needs and serve citizens throughout the state, NPPD demonstrated it is Nebraska's energy leader.

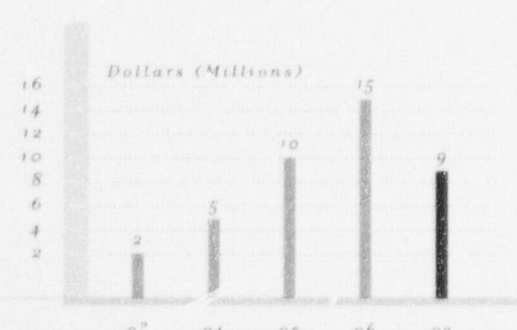
NPPD's strong financial picture reflected these successes with net revenues of $8.6 million for the year and a debt service coverage ratio, which reflects the amount of Electric System net revenues available to meet the annual debt service payments on outstanding revenue bonds, of 1.83:1. The credit ratings by Standard & Poor's (S&P) and Moody's on our outstanding revenue bonds remained A+ and A1, respectively.

NPPD reduced total outstanding revenue bond debt to $1.3 billion by retiring $71 million of revenue bonds during 1997. The $184.5 million of Nuclear Facility revenue bonds that remain outstanding will be retired by January 1, 2004.

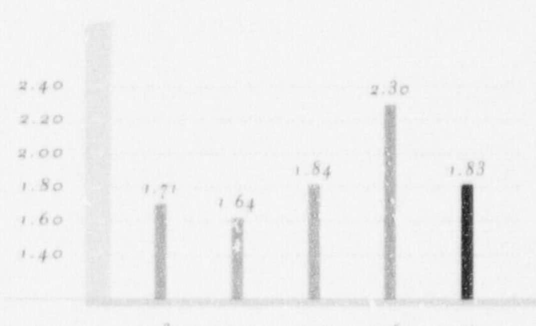
During 1997, NPPD completed a tax-exempt commercial paper offering which authorizes us from time-to-time to issue up to $150 million of Commercial Paper Notes for financing certain costs relating to the Electric System. NPPD had approximately $63 million of the notes outstanding at year end.

As a testament to the economic growth in Nebraska, and NPPD's role in contributing to this growth, an all-time electric-generating record was set in 1997. Overall, NPPD's generating facilities produced 15.84 million megawatt-hours (MWhs) of electricity,

Net Revenues
(Electric System)



Debt Service Coverage
(Electric System)



breaking the previous record set in 1996 by more than a half-million MWhs.

Three facilities set individual generating records in 1997: Gerald Gentleman Station (GGS), a coal-fired plant south of Sutherland; Sheldon Station, a coal-fired facility near Hallam; and the North Platte Hydro. The records resulted from a combination of power plant availability, greater availability of transmission lines and growing power sales. GGS was on track to be one of the lowest cost coal-fired power plants in the country for 1997, if not the lowest. Rankings on specific facilities are scheduled to come out later this year.

Greater efficiencies in running NPPD's coal-fired plants contributed to our success in maintaining low-cost electricity for customers. In 1998, NPPD plans to continue finding ways to reduce costs and operate generating facilities more efficiently to offer more competitive rates to customers.

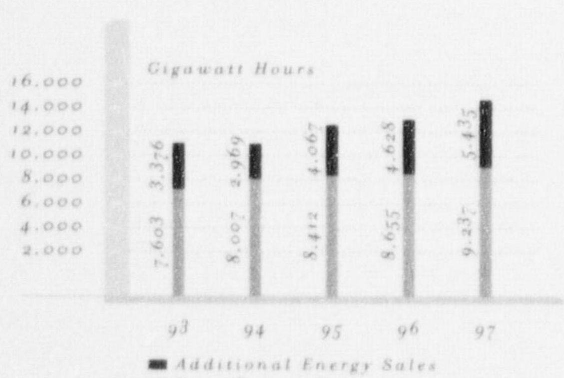
Additionally, Cooper Nuclear Station (CNS) reached a cumulative milestone of 100 million MWhs of electric generation since its startup in 1974. The nuclear facility hourly generates approximately 800 megawatts gross. CNS was honored in November by General Electric (GE) for achieving a 93.2 percent "capacity factor" during 1996, which shows how effectively a nuclear facility uses its resources on average during the entire year. It is the fifth year GE has recognized CNS with this award.

In 1997, CNS generation was the fourth highest year in its history. However, this was the highest generation ever during a year that included a refueling outage. CNS's goal is to continue improving operations to retain its role as part of NPPD's diversified generating mix, and operate through its 2014 licensed period.

In addition to generation records, NPPD set a record in 1997 for the amount of electricity it transported across its transmission system. The transfer of 28.82 million MWhs broke the previous record of 26.93 million MWhs set in 1996. The transmission figures include electricity transported from NPPD's and neighboring utilities' generation facilities. Record generation by the Western Area Power Administration also contributed to NPPD's success in this area. Sales were up due to higher native loads and aggressive efforts by NPPD power marketers.

NPPD's transmission figures have risen every year since 1994, and increased nearly 50 percent since 1990. By aligning maintenance and power plant outage schedules instead of reducing generation, and by doing "bare hand" work on energized lines, crews kept transmission lines available an average of 98 percent of the time.

ENERGY SALES
(Electric System)



Some small towns in Nebraska don't have the benefit of emergency medical personnel. However, communities in southeast Nebraska now do. NPPD's Lisa Holmes and Duane Anno were trained to serve as emergency medical technicians if the need arose at work. For these two, it wasn't enough. The needs of their neighbors motivated them to volunteer their talents serving others.

Unplanned transmission outages to wholesale customers are measured against a nine-year industry average on a per month basis. The industry average is .17 unplanned outages per month, and NPPD bettered the industry average at .14 unplanned outages per month. Another accomplishment in the transmission area during 1997 was the refurbishment of almost 280 miles of 115 kilovolt lines, including structures, hardware and installation of over 1,000 new poles, while maintaining high reliability for the system. Along with these refurbishments, more than 100 miles of fiber optic cable were installed on these lines to support internal communication needs. In 1998, NPPD will continue to look for opportunities to market power and maintain a high level of transmission reliability to serve customers.

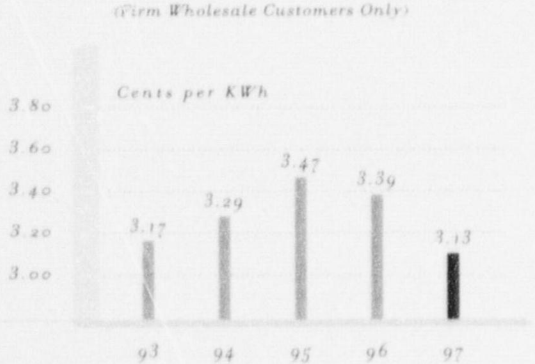
The increased revenues from generation and transmission, along with a number of other cost savings allowed NPPD to reduce prices to its wholesale customers as previously mentioned in Warren Cook's column. For the 10-year period 1988-1997, NPPD's wholesale customers' rates rose only two percent cumulatively, for an average yearly increase of 0.2 percent. In contrast, the Consumer Price Index during the same 10-year period rose 42 percent cumulatively, or 4.2 percent annually.

Efforts to reduce wholesale rates were but one part of the equation in 1997 as NPPD sought new ways to interact with customers and lay a foundation for stronger communities. In the retail area, NPPD restructured its organization to emphasize greater customer contact and services, and focus on our distribution system. The changes reduced levels of management and stressed more frequent meetings with customers to get feedback on what services work best for them. Combined with this strategic change, the retail reorganization placed greater reliance on self-directed employee teams.

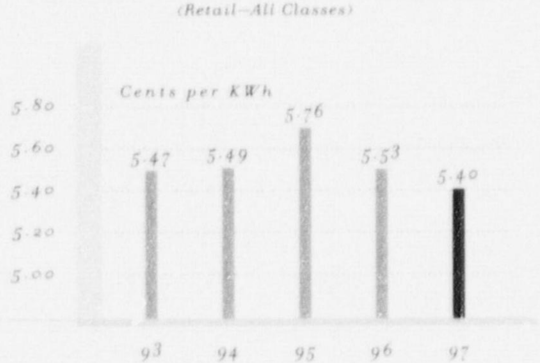
NPPD's success depends on its employees. By asking employees to take more responsibility on business decisions facing them daily, we will react more quickly to market changes and be capable of responding to new demands rapidly. As a result, our employees worked to streamline a number of billing and collection services that improved retail service. Our new retail structure is designed to maintain community presence by keeping customer service offices open and responding to the needs of local customers, which helps build stronger communities throughout the state and enhance our role as Nebraska's energy leader.

These business and strategic moves in our customer service area strengthened ties

AVERAGE REVENUE PER KWH SOLD
(Firm Wholesale Customers Only)



AVERAGE REVENUE PER KWH SOLD
(Retail—All Classes)



with our customers and the communities we serve. Also this year, a new Corporate Development and Marketing business unit got up and running. Research and development of new products and services is integral to this area, but 1997 saw some critical breakthroughs in applications and partnering with others to strengthen NPPD's bond with its customers.

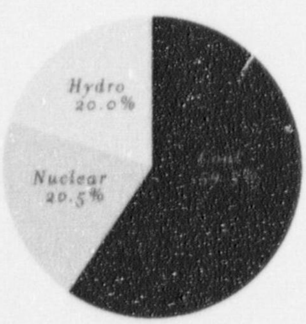
A unique product was a new technology developed by NPPD employees and patented in October. The product, a Nitrogen Oxide Lance (NOx Lance), reduces nitrogen oxide emissions from coal-fired generating plants by roughly 50 percent. The significance of this invention puts NPPD on the cutting edge of pollution control technologies. NPPD is aggressively seeking opportunities to provide this technology to other utilities throughout the United States, and is pursuing a patent application in 18 European countries.

As part of its efforts to continue diversifying its generating mix, NPPD joined with a group of Nebraska utilities to construct two 750-kilowatt wind turbines in north central Nebraska near Springview. Negotiations are ongoing to finalize terms with the manufacturer of the two wind turbines so construction may begin later this year. The goal of the project is to verify the performance of the latest designs of commercial wind turbines and evaluate power generation by small-distributed wind power facilities for use in Nebraska.

NPPD also took another step in the direction of renewable electric-generating resources in 1997, when it partnered with a number of organizations to place transportable and stationary solar panels on a ranch south of Ainsworth. The panels generate electricity to pump groundwater for cattle and allow the rancher to protect land from overgrazing as herds are moved to different pastures along with the transportable solar arrays. Called the "Pinney Ranch Project," NPPD paid for the purchase and installation of materials to operate the two sets of panels.

These three new products—the NOx Lance, wind turbines and solar panels—are examples of NPPD's leadership in meeting and exceeding customer needs. But we have not stopped there; NPPD has also taken steps to enter into an alliance to explore ways to bring other new services to customers. Near the end of 1997, NPPD began carefully evaluating a new marketing alliance. This alliance will be a network of utilities which may give us additional options to research and develop new products and services to bring to the marketplace. It will allow us to maintain our identity while delivering cost-effective products and services to our customers.

SOURCES OF ENERGY
(1997)



Staying in touch with those who built our towns is a fundamental part of our commitment to the communities we serve. Duane Lauritsen embodies that spirit of community service by delivering hot food to old friends such as Charles Pecena through the Meals on Wheels program. NPPD's mission includes serving others to enhance the quality of life in Nebraska.

NPPD is also piloting two new products to gauge customer needs and market demand. We are currently developing business plans on both for our wholesale and retail customers.

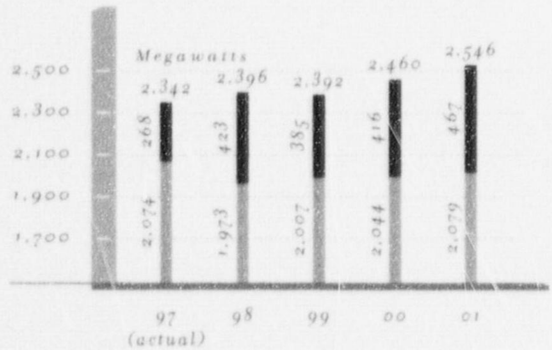
One of the pilots, termed "TeCom," monitors electrical, water and gas usage for customers. The system allows customers to verify their utility bill, monitor their usage real-time, aggregate load for multiple sites, look at estimated monthly bills and notify the customer of a power outage, among other things. NPPD has about 25 of the TeCom systems in place, and we are gathering information to determine the value of the product to our customers. The attributes of the product vary depending on the type of customer.

The other pilot is a geothermal heating and cooling system. Sixteen schools in NPPD's service territory currently use the system, which utilizes heat from the ground to warm buildings in the winter, while reversing this process to cool the buildings in the summer by circulating air through an underground well field. NPPD is responsible for designing, constructing and maintaining the well field, and the Central City School Board recently voted to accept a proposal to install this system for its elementary school. In addition to yearly cost savings through its operation, the system benefits customers by drawing 70 percent of its energy from the ground—a free resource that the customer owns. The system helps conserve long-term fuel resources and reduces emissions to the air.

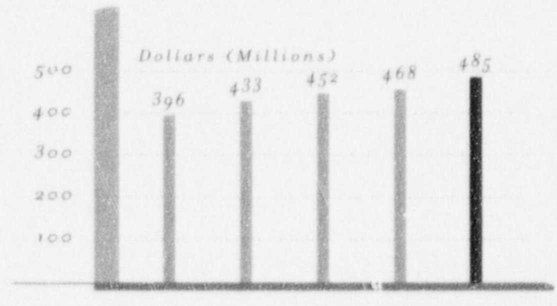
NPPD's push to strengthen communities throughout the state doesn't stop with new products and services. It extends to partnering efforts with businesses, schools and local officials. During 1997, NPPD rededicated its Kearney Hydro facility in partnership with the city, the University of Nebraska–Kearney and a local group working to preserve and enhance the historical significance of the facility, which first delivered electricity to the surrounding area in 1888. Through the Kearney Canal, NPPD delivers water to the city for irrigation and recreation, while driving the hydro to produce low-cost, reliable electricity.

This type of partnering not only builds strong communities, but also enhances ties with other groups important to Nebraska's future. For example, NPPD Water Resources personnel worked diligently for years with officials from Wyoming and Colorado, as well as environmental groups, water users and Nebraska officials, to develop a cooperative agreement for management of the Platte River. In 1997, the governors of Wyoming, Colorado and Nebraska signed an agreement, along with the U.S. Secretary of the Interior, to continue

Estimated Firm Loads and Resources
(Summer Season)



Operating Revenues
(Electric System)



efforts toward producing a basin-wide recovery program for endangered and threatened species in the Central Platte River basin.

In 1998, efforts by Water Resources personnel to work with parties holding diverse interests and resolve other complex issues concerning Platte River water use will continue. Together with several parties, NPPD submitted an agreement to the Federal Energy Regulatory Commission (FERC) concerning long-term operating licenses for the Sutherland Project. NPPD hopes to see FERC accept the terms of the agreement in 1998. The agreement produces benefits for all those involved—from NPPD and the states of Nebraska, Colorado and Wyoming, to the local farmers, businesses, communities and the environment relying on the water. This "cooperative" effort among the parties reduces long-term uncertainty about water used for cooling purposes at GGS, for farmers' irrigation and to drive the North Platte Hydro.

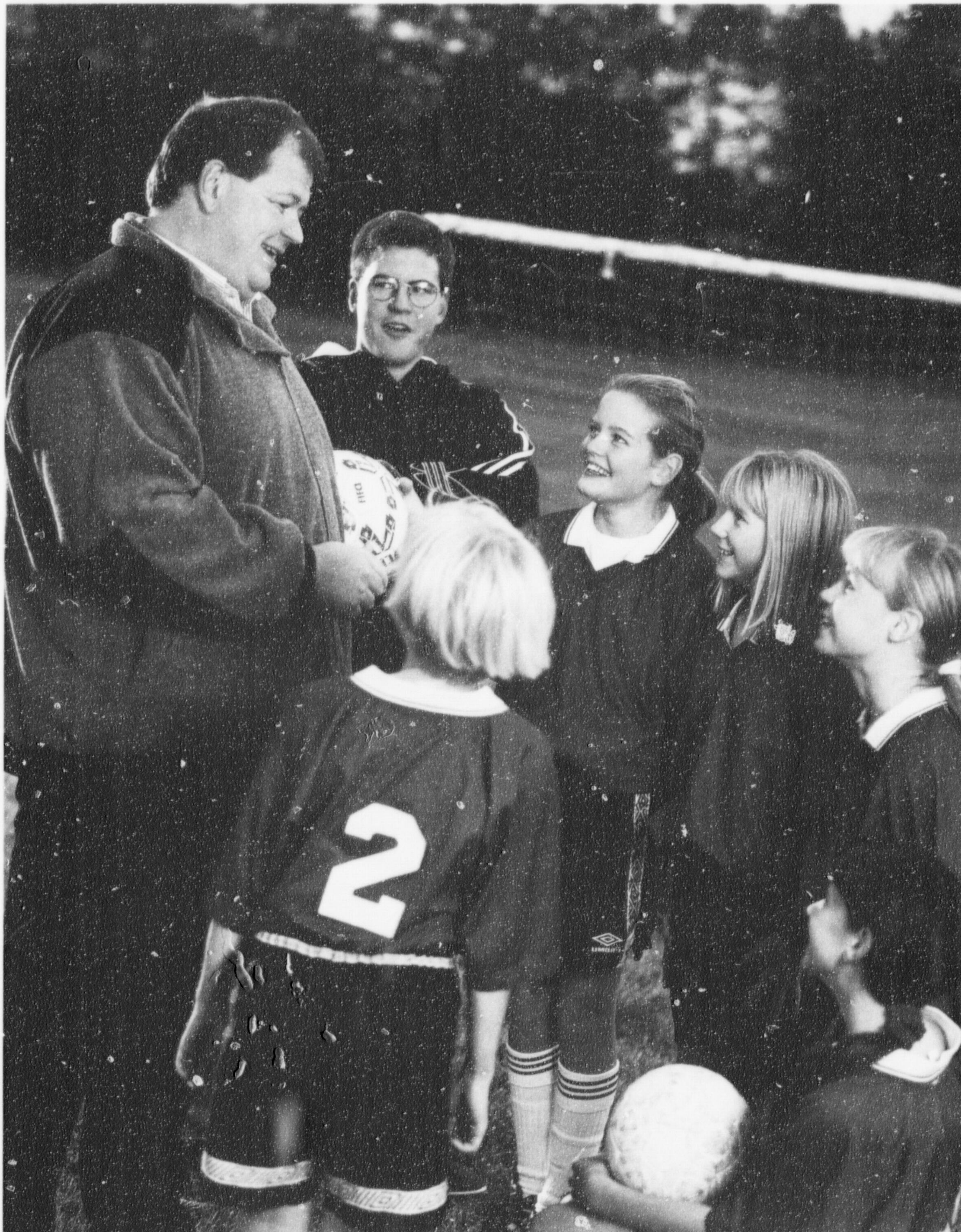
During 1998, the Environmental Department will spearhead a group to examine global warming implications for NPPD and the state as a whole. This group is expected to develop a series of options to determine the economic and environmental costs and benefits stemming from the global warming issue. Our goal will be to make economic and environmental decisions which are in the best interests of all Nebraskans.

NPPD's Legislative Affairs Office proactively pursued six initiatives in 1997 designed to enhance our competitive position; two passed and two carried over to the 1998 Legislative session. Of the two initiatives passed, one allows public utilities such as NPPD to offer expanded services to communities. NPPD is now authorized to combine meter reading (gas, electric and sewer, for example) and send them on one bill to the customer. One community is already using this new service and others are discussing the potential for applying it in their towns. The other initiative passed in 1997 allows NPPD to lease and sell facilities and/or assets to private entities not engaged in the electric business. These are two more examples of NPPD working with local leaders to build strong communities and offer new services which meet the demands of customers.

In 1997, NPPD also pursued state legislation which would have allowed public utilities to utilize excess capacity on fiber optic cable. We saw this as a public service. While this legislation did not pass, NPPD remains committed to working with any other parties in the state who would like this service. We do not plan to introduce legislation on this issue in 1998, but will offer support if groups come forward to sponsor legislation.

During 1998, we will work on our legislative initiatives carried over from the 1997 session, which are designed to make procurement more efficient and reduce costs in the purchasing area. NPPD will also support a legislative initiative which increases competitive bidding thresholds and exempts used equipment from the competitive bidding process.

NPPD took a number of strides into new terrain during 1997, from introducing legislation to marketing new products. With the demands of an increasingly competitive electric utility market evident, NPPD brought to its customers the benefits of this exploration into new business areas. In the coming years, NPPD pledges to continue this exploration, building strong communities with its wholesale and retail partners throughout the state while fulfilling its vision as "Nebraska's Energy Leader."



Rich Albright gets a kick out of ensuring a strong future for his hometown. As a youth soccer coach, he

Rich and a group of other youth soccer enthusiasts also spearheaded an effort to finance and build the new Wilderness Park

Electric System, Power Supply System and Nuclear Facility Combined

SALES	Average Number of Customers	Electric Energy MWH Sales Amount	%	Revenues from Electric Sales (Thousands) Amount	%
Retail:					
Residential	86,096	949,187	6.5	$ 69,769	14.4
Rural & Farm	3,187	60,352	0.4	4,600	1.0
Commercial	19,296	843,962	5.8	49,229	10.1
Industrial	68	1,044,315	7.1	32,709	6.7
Public Lighting	248	25,362	0.2	2,390	0.5
Municipal Power	196	45,243	0.3	2,656	0.6
Miscellaneous Municipal	2,784	123,496	0.8	5,667	1.2
Total Retail	111,875	3,091,917	21.1	$ 167,020	34.5
Wholesale:					
48 Municipalities (Total Requirements)		1,468,154	10.0	$ 50,950	10.5
21 Municipalities (Interconnections & Partial Requirements)		50,769	0.4	1,518	0.3
25 Public Power Districts & Cooperatives (Total Requirements)		4,609,939	31.4	139,867	28.8
Total Wholesale Sales (Excluding Nonfirm and Participation Sales)		6,128,862	41.8	$ 192,335	39.6
Total Retail and Wholesale Sales (Excluding Nonfirm and Participation Sales)		9,220,779	62.9	$ 359,355	74.1
Other Utilities (Firm and Nonfirm)		2,794,989	19.0	42,072	8.7
Participation Sales (1)		2,656,308	18.1	61,680	12.7
Total Revenues from Electric Energy Sales		14,672,076	100.0	$ 463,107	95.5
Other Operating Revenues (Net of Deferred)				$ 22,049	4.5
Total Electric System Operating Revenues				$ 485,156	100.0

GENERATION	MWH Amount	%	Production Costs (Thousands) Amount	%
Production:				
Electric System (Including Interchange)	1,599,550	10.4	$ 43,626	12.6
Purchased:				
Power Supply System (1)	8,961,437	58.2	$ 140,686	40.6
Nuclear Facility (1)	2,728,009	17.7	111,651	32.2
Other	2,110,155	13.7	50,651	14.6
Total Power Purchased	13,799,601	89.6	$ 302,988	87.4
Total Power Produced and Purchased	15,399,151	100.0	$ 346,614	100.0

(1) The Electric System purchases 100% of the net generation and power purchases of the Power Supply System and 50% of the Nuclear Facility based upon the total costs of the respective systems. Pursuant to the Power Sales Contract, MidAmerican Energy Company purchased 2,727,688 MWH from the Nuclear Facility. MidAmerican Energy Company participation is not included in the table.

GENERAL	1997	1996	1995	1994	1993
			(Thousands)		
Utility Plant (at cost): (1)					
Electric System	$ 993,288	$ 943,107	$ 892,069	$ 857,762	$ 820,498
Power Supply System	847,553	842,248	817,689	765,542	748,906
Nuclear Facility	743,097	731,381	717,273	694,382	679,346
Total Utility Plant	$ 2,583,938	$ 2,516,736	$ 2,427,031	$ 2,317,686	$ 2,248,750
Outstanding Debt:					
Electric System (2)	$ 350,502	$ 361,399	$ 390,889	$ 363,023	$ 370,284
Power Supply System	827,105	855,465	881,765	830,765	855,235
Nuclear Facility	184,520	208,985	232,360	254,725	276,170
Total Outstanding Debt	$ 1,362,127	$ 1,425,849	$ 1 505,014	$ 1,448,513	$ 1,501,689

Production Plant Facilities:	Number of Plants (3)	Accredited Capability (MW)	Percent of Total
Steam - Conventional	2	1,590.0	58.5 %
Steam - Nuclear (4)	1	769.0	28.3
Hydro	9	158.8	5.9
Diesel	9	46.7	1.7
Combustion Turbine	3	152.0	5.6
Total Production Plant Facilities	24	2,716.5	100.0 %

(1) Net of retirements
(2) Includes Tax-Exempt Commercial Paper
(3) Includes six hydro plants and nine diesel plants under contract to the District
(4) Includes 50% of MW contracted to MidAmerican Energy Company

Miles of Transmission Line in Service		6,343
Number of Permanent Employees		2,139
1997 Contractual and Tax Payments (Thousands):		
Lease Payments to Retail Towns	$	15,951
5% Gross Revenue Tax	$	5,728
In Lieu of Tax Payments	$	207

How NPPD's Dollar Works for You—1997

1. Cost of Production–*Power Supply System*	29.0%
2. Cost of Production–*Nuclear Facility*	23.0%
3. Cost of Other Operation and Maintenance Expenses	14.9%
4. Cost of Purchased Power–*Other*	11.3%
5. Bond Retirements, Construction From Revenues, Etc.	9.1%
6. Cost of Production–*Other*	9.0%
7. Interest, Other Income Deductions and Taxes *(net of interest income and other revenues)*	3.7%

Report of Independent Accountants

To the Board of Directors
Nebraska Public Power District:

We have audited the accompanying 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, 1997 and 1996, and the related statements of revenues and expenses and accumulated net revenues, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric System of Nebraska Public Power District as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of the calculation of the debt service ratios in accordance with the Electric System Bond Resolution for each of the three years in the period ended December 31, 1997, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 16, 1998 on our consideration of Nebraska Public Power District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Coopers & Lybrand L.L.P.

Omaha, Nebraska
March 16, 1998

NPPD Electric System

Balance Sheets — December 31, 1997 and 1996	1997	1996
	(Thousands)	
ASSETS		
Utility Plant, at Cost	$ 993,288	$ 943,107
Less—Reserve for depreciation and amortization (Note 1)	508,425	474,038
	$ 484,863	$ 469,069
Debt Reserve Account (Note 1)	$ 35,795	$ 35,690
Receivables from Sale of Property	$ 1,998	$ 2,694
Current Assets:		
Cash and investments (Note 1)	$ 87,692	$ 85,932
Receivables, less reserves	51,684	56,475
Materials and supplies, at average cost	9,381	10,502
Prepayments and other assets	1,038	1,445
	$ 149,795	$ 154,354
Deferred Compensation Plan Assets (Note 6)	$ 15,159	$ 14,638
Deferred Charges:		
Nuclear Facility billings (Note 1)	$ —	$ 7,039
Unamortized financing costs (Note 1)	2,181	2,445
Other	1,829	1,155
	$ 4,010	$ 10,639
TOTAL ASSETS	$ 691,620	$ 687,084
LIABILITIES AND CAPITAL		
Accumulated Net Revenues (Note 1)	$ 264,154	$ 255,576
Long-Term Debt (Note 3)	$ 287,527	$ 305,484
Commercial Paper Notes (Note 2)	62,975	55,915
	$ 350,502	$ 361,399
Less—Current maturities of long-term debt (Note 3)	19,115	18,271
	$ 331,387	$ 343,128
Current Liabilities:		
Current maturities of long-term debt	$ 19,115	$ 18,271
Accounts payable	34,638	25,195
Accrued lease payments	3,654	3,540
Other	10,264	9,374
	$ 67,671	$ 56,380
Deferred Compensation Plan Liabilities (Note 6)	$ 15,159	$ 14,638
Deferred Revenues (Note 1)	$ 12,990	$ 17,006
Unamortized Payment Received for Refinancing Costs (Note 1)	$ 259	$ 356
TOTAL LIABILITIES AND CAPITAL	$ 691,620	$ 687,084

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

NPPD Electric System

Statements of Revenues and Expenses and Accumulated Net Revenues for each of the Three Years in the Period Ended December 31, 1997

	1997	1996	1995
		(Thousands)	
Revenues and Expenses:			
Operating Revenues (Note 1)	$ 485,156	$ 467,871	$ 452,402
Operating Expenses:			
Power purchased—			
Nuclear Facility and Power Supply System (Note 1)	$ 252,337	$ 258,914	$ 266,607
Other	50,651	43,470	33,851
Production—			
Fuel	11,279	12,414	12,888
Operation and maintenance	32,347	20,070	16,376
Other operation and maintenance	60,656	50,602	46,059
Lease payments (Note 1)	16,065	15,555	15,235
Depreciation and amortization (Note 1)	35,558	37,426	35,624
Payments in lieu of taxes	6,127	5,971	5,935
Total operating expenses	$ 465,020	$ 444,422	$ 432,575
Net operating revenues	$ 20,136	$ 23,449	$ 19,827
Interest and Other Revenues:			
Allowance for funds used during construction	$ 913	$ 782	$ 1,742
Interest and other	7,219	6,885	7,159
Total interest and other revenues	$ 8,132	$ 7,667	$ 8,901
Net revenues before other deductions	$ 28,268	$ 31,116	$ 28,728
Other Deductions:			
Bond interest	$ 16,496	$ 13,288	$ 16,382
Other interest	3,194	3,000	2,235
Total other deductions	$ 19,690	$ 16,288	$ 18,617
Net Revenues (Note 1)	$ 8,578	$ 14,828	$ 10,111
Accumulated Net Revenues (Note 1):			
Beginning balance	255,576	240,748	230,637
Ending balance	$ 264,154	$ 255,576	$ 240,748

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

Statements of Cash Flows for each of the Three Years in the Period Ended December 31, 1997	1997	1996	1995
		(Thousands)	
Cash flows provided by (used in) operating activities:			
Net operating revenues	$ 20,136	$ 23,449	$ 19,827
Adjustments to reconcile net operating revenues to net cash provided by operating activities:			
Depreciation and amortization	35,558	37,426	35,624
Vehicle depreciation charged to operations and capital	1,320	1,358	1,331
Reduction of deferred charges—Nuclear Facility	7,039	14,688	15,708
Changes in assets and liabilities:			
Receivables, less reserves	4,791	(8,918)	(3,505)
Materials and supplies	1,121	(324)	82
Prepayments and other assets	(563)	27	109
Addition to deferred charges—Nuclear Facility	—	(4,796)	(10,418)
Other deferred charges	(674)	(782)	968
Accounts payable and accrued leased payments	9,557	9,844	(3,176)
Deferred revenues	(4,016)	(1,656)	10,324
Other liabilities	2,027	(844)	669
Net cash flows provided by operating activities	$ 76,296	$ 69,472	$ 67,543
Cash flows provided by (used in) capital and related financing activities:			
Utility plant additions	$ (51,642)	$ (52,829)	$ (38,404)
Other non-operating revenues	606	590	1,432
Proceeds from notes receivable for sale of property	696	744	691
Repayment of long-term debt - principal	(18,271)	(59,984)	(18,385)
Payment of interest on long-term debt	(16,184)	(12,794)	(16,121)
Repayment of notes payable - principal	—	—	(30,000)
Payment of interest on notes payable	(3,194)	(3,000)	(2,235)
Net change in Debt Reserve Account	(105)	6,135	(6,995)
Issuance of long-term debt	—	—	75,[illegible]79
Issuance of notes payable	7,060	30,000	—
Net cash flows (used in) capital and related financing activities	$ (81,034)	$ (91,138)	$ (34,138)
Cash flows provided by (used in) investing activities:			
Interest on cash and cash equivalents	$ 182	$ 232	$ 408
Interest from investments	6,432	6,063	5,320
Sale of available-for-sale securities	216,251	259,823	329,768
Purchase of available-for-sale securities	(207,870)	(228,321)	(376,579)
Amortization of accrued interest	—	—	(666)
Net change in gross unrealized gains on available-for-sale securities	(235)	119	(279)
Net change in gross unrealized losses on available-for-sale securities	(214)	252	(1)
Net cash flows provided by (used in) investing activities	$ 14,546	$ 38,168	$ (42,029)
Net increase (decrease) in cash	$ 9,808	$ 16,502	$ (8,624)
Cash beginning of year	33,966	17,464	26,088
Cash end of year	$ 43,774	$ 33,966	$ 17,464

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

Supplemental Schedules—Calculation of Debt Service Ratios in accordance with the Electric System Bond Resolution for each of the Three Years in the Period Ended December 31, 1997	1997	1996	1995
		(Thousands)	
Operating revenues (Note 1)	$ 485,156	$ 467,871	$ 452,402
Operating expenses (Note 1)*	(465,020)	(444,422)	(432,575)
Net operating revenues	$ 20,136	$ 23,449	$ 19,827
Interest and other revenues	8,132	7,667	8,901
Interest deductions	(19,690)	(16,288)	(18,617)
Net revenues	$ 8,578	$ 14,828	$ 10,111
Add:			
Accrued revenues included in operating revenues (Note 1)	$ 7,449	$ 351	$ 8,303
Interest deductions	19,690	16,288	18,617
Depreciation and amortization	36,878	38,784	36,955
	$ 64,017	$ 55,423	$ 63,875
Deduct:			
Provision for operating expense reserve (Note 1)**	$ 7,449	$ 351	$ 8,303
Allowance for funds used during construction	913	782	1,742
Gain on sale of property	344	344	—
Investment income retained in construction funds	724	215	439
	$ 9,430	$ 1,692	$ 10,484
Net revenues available for debt service under the Electric System Bond Resolution (Note 1)*	$ 63,165	$ 68,559	$ 63,502
Amounts deposited in the Electric System Debt Service Account:			
Principal	$ 18,0[illegible]0	$ 16,519	$ 18,100
Interest	16,497	13,288	16,382
	$ 34,587	$ 29,807	$ 34,482
Ratio of net revenues available for debt service to debt service deposits (Note 1)	1.83	2.30	1.84

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

* *The reduction of deferred charges is reflected in these summary statements as Operating Expenses to avoid overstating Net Revenues. These deferred charges were funded by commercial paper notes and other matured short-term indebtedness, which constitute subordinated indebtedness under the Electric System Bond Resolution. The Electric Resolution requires subordinated indebtedness to be paid from the General Reserve Fund created under the Electric Resolution.*

** *The Electric Resolution defines Operating Expenses to include payments into reserves in the Operating Fund for the payment of future operating expenses. The provision for operating expense reserve represents the net change in the cumulative surplus revenues in each respective year from both wholesale and retail service.*

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.

Nebraska Public Power District, a public corporation and a political subdivision of the State of Nebraska, is an electric utility which sells electric energy to wholesale and retail customers in the Midwest. The District's contracts and rate schedules specify the time period in which billings are to be paid after services are rendered.

Accounting guidance followed in preparation of these financial statements is provided by the Governmental Accounting Standards Board (GASB). Absent GASB standards on any particular situation, the pronouncements of the Financial Accounting Standards Board (FASB) are presumed to apply.

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Certain prior year amounts have been reclassified to conform to current year presentation.

B. *Depreciation, Amortization and Maintenance*—

The District records depreciation over the estimated useful life of the property. Depreciation on Utility Plant was approximately 3% in each of the years ended December 31, 1997, 1996, and 1995.

The District has long-term lease agreements with 203 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, net of retirements, for amortization of leased plant additions of $8.3 million in 1997, $9.2 million in 1996, and $9.1 million in 1995. These leased plant additions, which are fully reserved, totaled $110.5 million at December 31, 1997 and $102.2 million at December 31, 1996.

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 (AFUDC)*—

This allowance, which represents 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 rate depends on the source of financing. The rate for construction financed with revenue bonds is based upon the interest cost of each bond issue less interest income. The rate for construction financed by revenues is based upon the weighted average rate of interest of the current outstanding borrowings. Construction financed on a short-term basis with tax-exempt commercial paper (TECP) is charged a rate based upon the weighted average of TECP outstanding. For the periods presented herein, the AFUDC rates for construction funded by revenue bonds or revenues vary from 5.1% to 6.2%. For construction financed on a short-term basis with TECP, the rate charged was 3.5% in 1997, 3.8% in 1996, and 3.9% in 1995.

D. *Deferred Charges*—

Deferred charges represent Nuclear Facility billings for certain capital additions. The District has written off deferred charges of $7.0 million in 1997, $14.7 million in

1996, and $15.7 million in 1995, and included such reductions in power purchased expense.

E. *Unamortized Financing Costs—*

These costs represent issuance expenses on all bonds and are being amortized over the life of the respective bonds using the bonds outstanding method.

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. *Cash and Investments—*

December 31,	1997	1996
	(Thousands)	
Debt Service Fund	$ —	$ 45
Revenue Fund	21,422	24,527
Operating Fund	22,265	9,235
Construction Funds	8,189	18,828
Commercial Paper Account	10,212	4,225
Reserve and Contingency Fund	1,282	1,278
General Reserve Fund	24,322	27,796
	$ 87,692	$ 85,932

Funds consist of $43.9 million of investment securities and $43.8 million of cash deposits at December 31, 1997, and $52.0 million of investment securities and $33.9 million of cash deposits at December 31, 1996.

Unrealized holding gains and losses for securities classified as available-for-sale are reported in Deferred Revenues until realized.

The carrying amounts and approximate market values of investment securities are summarized in the following tables. The specific identification method was used in computing realized gains or losses.

AVAILABLE-FOR-SALE SECURITIES

DEBT SECURITIES ISSUED BY THE
U.S. TREASURY AND OTHER
U.S. GOVERNMENT CORPORATIONS
AND AGENCIES

December 31, 1997	Investments	Debt Reserve Account
	(Thousands)	
Amortized Cost	$ 43,580	$ 35,144
Gross Unrealized Gains	412	765
Gross Unrealized Losses	74	122
Approximate Market Value	$ 43,916	$ 35,787

December 31, 1996	Investments	Debt Reserve Account
	(Thousands)	
Amortized Cost	$ 52,078	$ 35,106
Gross Unrealized Gains	177	679
Gross Unrealized Losses	288	107
Approximate Market Value	$ 51,967	$ 35,678

The U. S. Treasury and Government Agencies Securities, at December 31, 1997, have maturity ranges as shown below:

	Investments		Debt Reserve Account	
Maturity Range	Market Value	Amortized Cost	Market Value	Amortized Cost
	(Thousands)			
Less than 1 year	$ 40,662	$ 40,259	$ 13,579	$ 12,942
1 - 5 years	3,256	3,321	22,208	22,202
TOTAL	$ 43,918	$ 43,580	$ 35,787	$ 35,144

Cash deposits, primarily interest bearing, at December 31, 1997, and throughout much of the year, were covered by federal depository insurance or unregistered U.S. Government and municipal securities held by various depositories. Investments at December 31, 1997, were in unregistered U.S. Government securities and Federal Agency obligations held in the District's name by the custodial banks.

The Debt Reserve Account 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).

H. *Deferred Revenues*—

As provided in the Electric Resolution, the District covenants to charge rates for wholesale and retail electric service so that revenues will be sufficient to pay annual operating expenses including: 1) Nuclear Facility and Power Supply System charges, 2) operating expenses other than depreciation, 3) debt service, and 4) certain capital additions.

Variations between actual energy costs (primarily fuel) and the estimated energy costs included in the basic rates have been recovered by a Production Cost Adjustment (PCA). Billings for the PCA have provided for the recovery of the variation in energy costs either in current or future years.

In the event the District's rates for wholesale and retail service, excluding the PCA, result in a surplus or deficit in revenues during a rate period, such surplus or deficit is taken into account in projecting estimated revenue requirements for future rate periods. Such treatment of wholesale revenues is stipulated by the District's long-term wholesale power supply contracts.

The surpluses and deficits which arose in current and prior years from the PCA, wholesale, and retail service have been accounted for in these financial statements by either a deferral or an accrual of revenue. Beginning in 1998, the District will no longer compute and use a PCA to recover differences in energy costs. Instead, differences in energy costs will be accounted for the same as other surpluses and deficits in revenues during a rate period. Such surplus or deficit in energy costs will be taken into account in projecting estimated energy costs for future rate periods. In addition, unrealized gains and losses related to investments held for sale are included in deferred revenues. The cumulative surplus at December 31, 1997, to be reflected in future revenue requirements is approximately $13.0 million.

I. *Revenue Recognition*—

Wholesale revenues are recorded in the period in which service is rendered, and retail revenues are recorded in the month retail customers are billed. Consequently, revenues applicable to service rendered to retail customers from the period covered by the last billing in a year to the end of the year are not recorded as revenues until the following year. Operating revenues are also impacted by the surplus or deficit in revenues as described in Note 1H.

J. *Accumulated Net Revenues*—

Accumulated net revenues consist primarily of cumulative operating revenues collected for utility plant additions net of related accumulated depreciation. The remaining accumulated net revenues will be fully offset by future depreciation expense. In addition, accumulated net revenues include cumulative interest income earned on Construction Funds which is not subject to the deferred revenue accounting described in Note 1H. This interest income was $1.0 million in 1997, $2.1 million in 1996, and $0.8 million in 1995.

2. COMMERCIAL PAPER NOTES:

The District is authorized to issue up to $150.0 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 August 1998. The effective interest rates on outstanding notes for 1997 and 1996 were 3.6% and 3.4%, respectively.

The proceeds of these notes have been used (1) to finance certain capital additions of the Nuclear Facility, (2) to provide short-term financing for certain capital additions of the Electric System, and (3) for other lawful purposes of the District.

In 1996, the District issued $30.0 million of commercial paper notes. The proceeds from this issue, together with other available funds, were used to currently refund the Electric System Revenue Bonds, 1978 Series A.

The $63.0 million of commercial paper notes outstanding at December 31, 1997, are anticipated to be retired by future collections through electric rates and long-term borrowings. The carrying value of commercial paper notes approximates market.

3. LONG-TERM DEBT:

In March 1996, the District called the 1978 Series A Bonds as indicated in Note 2.

The debt service payments of the Electric System Revenue Bonds are $34.6 million for each of the years 1998 through 2001 and $34.7 million for 2002. Principal payments, as a component of debt service payments, are $19.1 million, $20.0 million, $21.1 million, $22.1 million, and $23.3 million for each of the years 1998 through 2002, respectively.

The fair value of existing debt at December 31, 1997, is determined using rates currently available to the District. The fair value is estimated to be $297.5 million.

December 31,		1997	1996
		(Thousands)	
Revenue Bonds:			
1995 Series A			
Serial Bonds			
1997-2009	4.10% - 6.00%	$ 17,700	$ 18,735
Term Bonds			
2010-2012	5.50%	6,475	6,475
2013-2014	5.40%	4,930	4,930
2015-2027	5.25%	47,935	47,935
1993 Series A			
Serial Bonds			
1997-2009	4.10% - 5.40%	82,355	90,075
1992 Series A			
Serial Bonds			
1997-2002	5.10% - 5.70%	34,675	40,605
Term Bonds			
2003-2005	6.00%	25,920	25,920
2006-2021	6.25%	49,450	49,450
1973 Series			
Serial Bonds			
1997-2002	5.00%	2,930	3,430
1968 Series			
Term Bonds			
1997-2002	5.10%	16,895	19,800
		$ 289,265	$ 307,355
Lease Purchase Payables—			
2.00%, due 1997 to 2005		1,532	1,710
Unamortized Bond Discount		(3,270)	(3,581)
		$ 287,527	$ 305,484

4. RETIREMENT PLAN:

The District's Employees' Retirement Plan (Plan) is a defined contribution pension plan established by the District to provide benefits at retirement to regular full-time or regular part-time employees of the District. At December 31, 1997, there were 2,223 Plan members. Plan members are required to contribute a minimum of 2%, up to a maximum of 5%, of covered salary. The District is required to contribute two times the Plan member's contribution based on covered salary up to $40,000. On covered salary greater than $40,000, the District is required to contribute one times the Plan member's contribution. Plan provisions and contribution requirements are established and may be amended by the District's Board of Directors.

The financial statements are prepared using the accrual basis of accounting. Employer and Plan member contributions are recognized in the period that the contributions are due. The District's contribution was $7.8 million for 1997, $7.9 million for 1996, and $7.8 million for 1995.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

Concentration of investments representing 5% or more of Plan net assets is as follows:

American Express Trust Money Market Fund II	27.5%
American Express Trust Equity Index Fund III	25.6%
PIMCO Total Return Fund	14.1%
T. Rowe Price Equity Income Fund	10.8%
IDS Growth Fund	10.1%
Franklin Small Cap Growth Fund I	5.8%

5. POSTRETIREMENT BENEFITS:

The District, for employees hired on or prior to December 31, 1992, pays the entire cost of certain hospital-medical and life insurance premiums for these employees when they retire. Substantially all of the District's retired and active employees are eligible for such benefits. Currently, the cost of these benefits is recognized as expense as the premiums are paid. The total cost of postretirement hospital-medical and life insurance benefits was $2.4 million for 1997, $2.3 million for 1996, and $2.0 million for 1995.

The District amended the plan effective January 1, 1993. Employees hired on or after that date must participate in the plan as an active employee the last five years of employment in order to qualify for these benefits. In addition, employees hired on or after January 1, 1993, are subject to a contribution cap that limits the District's portion of the cost of such coverage to the full premium the year the employee or retired employee reached age 65, or the year in which the employee retires if older than age 65. Any increases in the cost of such coverage in subsequent years would be paid by the retired employee.

Statement 12, Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employees (OPEB), issued by the GASB provides that entities should provide certain minimum disclosures regarding the OPEB provided. Additionally, Statement 12 provides for differing methods for financing OPEB. The District, as indicated above, currently funds OPEB on a "pay-as-you-go" basis and has not elected to fund OPEB through advance funding on an actuarially determined basis. The District does not contemplate any changes to the method for funding OPEB until results of the GASB's project on recognition and measurement of OPEB are available for analysis.

6. DEFERRED COMPENSATION PLAN:

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are (until made available to the employee or other beneficiary) solely the property and rights of the District (without being restricted to the provisions of benefits under the plan), subject only to the claims of the District's general creditors. The District has recorded the assets of its deferred compensation plan and the corresponding liability to reflect its fiduciary responsibility under the plan. In the past, the plan assets have been used for no purpose other than to pay benefits. The District believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future. The plan is administered by The Equitable Life Assurance Society of the United States.

7. LITIGATION:

On May 19, 1995, MidAmerican Energy Company (MEC), a 50 percent participant in the District's Cooper Nuclear Station, filed suit against the District alleging that the District failed to operate and maintain Cooper Nuclear Station in accordance with the Power Sales Contract. The District incurred costs of $11.7 million in 1997 related to the litigation and settlement of this suit with MEC. On May 23, 1995, Lincoln Electric System (LES), a 12.5 percent participant in the District's Cooper Nuclear Station, filed suit, making similar allegations. The District has been and intends to continue defending the LES case vigorously; however, no assurance can be given at this time as to the outcome of this case. The District has not accrued any amount for this claim, which could total $14 million.

A number of other claims and suits are pending against the District for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the District. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position, results of operations, and cash flows of the District as of December 31, 1997.

8. CAPITAL ADDITIONS:

The Electric System 1998 construction plan includes authorization for future expenditures of $70.9 million. These expenditures will be funded from existing bond proceeds, revenues, and other available funds.

9. FERC HYDROELECTRIC PROJECT LICENSES:

The District is currently seeking a new long-term license from the Federal Energy Regulatory Commission (FERC) for the District's hydroelectric Project No. 1835. Project No. 1835 includes the North Platte hydroelectric generating station and related facilities which are part of the Electric System. Lands and waters of Project No. 1835 are utilized by Gerald Gentleman Station for cooling water purposes. Gerald Gentleman Station is part of the Power Supply System.

The Central Nebraska Public Power & Irrigation District (Central) is currently seeking a new long term license for FERC Project No. 1417. Project No. 1417 includes the Kingsley Dam, Lake McConaughy, four hydroelectric generating plants and related facilities.

The relicensing of both projects is addressing numerous environmental issues including, among other things, species protected under the Endangered Species Act. In order to obtain these new long-term licenses, the District and Central could be required to meet certain terms and conditions which may adversely impact the operations of the project facilities and Gerald Gentleman Station. The District is unable to predict the terms and conditions that will be contained in the new licenses for the projects.

NPPD Electric System

As of December 31, 1997, $20.5 million of costs incurred related to obtaining the new long-term license for Project No. 1835 are being capitalized. When the license is obtained these costs will be amortized over the life of the license.

Report of Independent Accountants

To the Board of Directors
Nebraska Public Power District:

We have audited the accompanying 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, 1997 and 1996, and the related special-purpose statements of revenues and costs for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The accompanying 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, as described in Note 1B, and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the accompanying special-purpose financial statements of the Power Supply System of Nebraska Public Power District present fairly, in all material respects, the assets and liabilities as of December 31, 1997 and 1996, and its revenues and costs for each of the three years in the period ended December 31, 1997, on the basis of accounting described in Note 1B.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 16, 1998 on our consideration of Nebraska Public Power District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Coopers & Lybrand L.L.P.

Omaha, Nebraska
March 16, 1998

NPPD Power Supply System

Statements of Assets and Liabilities December 31, 1997 and 1996
Prepared Pursuant to Requirements of the Power Supply System
Revenue Bond Resolution

				1997	1996
				(Thousands)	
ASSETS					
Utility Plant, at Cost (Note 1)				$ 847,553	$ 842,248
Less—					
Reserve for depreciation (Note 1)				202,266	176,894
Amounts funded from revenue (Note 1)				16,114	16,114
				$ 629,173	$ 649,240
Prepaid Capital Costs (Note 3)				$ 68,234	$ 69,941
Cash and Investments (Note 1):					
Debt reserve account				$ 47,621	$ 47,539
Debt service fund				—	54
Reserve and contingency fund				15,039	16,353
Additions and improvements account				19,168	19,871
Construction funds				5,392	7,522
Revenue fund				880	1,048
Operating fund				22,023	22,199
General reserve fund				5,796	8,556
				$ 115,919	$ 123,142
Accounts Receivable				$ 281	$ 287
Interest Receivable				$ 1,558	$ 1,676
Fuel Inventory, at average cost				$ 7,932	$ 9,023
Deferred Charges and Other Assets (Note 1)				$ 36,387	$ 37,329
TOTAL ASSETS				$ 859,484	$ 890,638
LIABILITIES					
Revenue Bonds (Notes 4 and 5):					
1993 Series	Serial	1997-2009	4.60% - 6.10%	$ 154,320	$ 163,390
	Term	2010-2014	6.125%	96,080	96,080
		2015-2019	5.75%	58,890	58,890
1993 Series B	Serial	1997-2007	3.90% - 5.30%	65,485	70,560
	Term	2008-2013	5.25%	47,120	47,120
1993 Series C	Serial	1997-2009	3.70% - 5.00%	210,190	223,395
	Term	2010-2016	5.00%	119,695	119,695
1995 Series A	Serial	1998-2010	4.10% - 6.00%	17,315	18,325
	Term	2011-2012	5.50%	6,330	6,330
		2013-2014	5.375%	4,815	4,815
		2015-2021	5.25%	21,365	21,365
		2022-2027	5.25%	25,500	25,500
				$ 827,105	$ 855,465
Accounts Payable and Other Accrued Liabilities				$ 13,304	$ 19,915
Operating Reserves (Note 1)				$ 19,075	$ 15,258
TOTAL LIABILITIES				$ 859,484	$ 890,638

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

NPPD POWER SUPPLY SYSTEM

Statements of Revenues and Costs for each of the Three Years in the Period Ended December 31, 1997. Prepared Pursuant to Requirements of the Power Supply System Revenue Bond Resolution

	1997	1996	1995
		(Thousands)	
Revenues (Notes 1 and 2):			
Sales to the Electric System	$ 144,828	$ 154,528	$ 159,380
Investment and other income	8,364	8,595	7,970
Total revenues	$ 153,192	$ 163,123	$ 167,350
Costs (Note 1):			
Operating expenses—			
Production—			
Fuel (Note 7)	$ 49,798	$ 56,369	$ 70,673
Operation and maintenance (Note 3)	22,663	32,556	22,744
General and administrative	7,860	6,379	6,117
	$ 80,321	$ 95,304	$ 99,534
Debt service—			
Principal (Note 1)	28,360	26,300	25,335
Interest	44,511	41,519	42,481
Total costs	$ 153,192	$ 163,123	$ 167,350

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

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:

(i) 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 decreased $5.9 million in 1997, $4.3 million in 1996, $4.4 million in 1995, and accumulated depreciation through December 31, 1997, would have increased costs approximately \$63.8 million. The reserve for depreciation shown on the Statements of Assets and Liabilities was provided by recording amounts equal to repayment of debt principal. 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.

(ii) Previous billings to provide capital for renewals and replacements of property and capital additions are included in the Statement of Assets and Liabilities as 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. Renewals and replacements and capital additions are currently being funded from existing bond proceeds that have been transferred to the General Reserve Fund.

(iii) Interest income on construction fund investments is credited to utility plant. Under generally accepted accounting principles, such income would have increased revenues \$0.3 million in 1997, \$1.0 million in 1996, and \$0.8 million in 1995.

(iv) Investment securities are classified as being available-for-sale and are recorded at cost. Interest income on these investments is recognized ratably over the term of the securities. Under generally accepted accounting principles, the difference between the carrying value of the securities and the fair value is to be recognized as a net amount in equity. Had this method been followed, Cash and Investments as of December 31, 1997, would have increased by \$1.1 million and Accounts Receivable would have decreased by \$1.1 million as the Power Supply System has no equity as stated above.

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. *Cash and Investments—*

Funds consist of \$101.7 million of investment securities and \$14.2 million of cash deposits at December 31, 1997, and \$116.1 million of investment securities and \$7.0 million of cash deposits at December 31, 1996.

Cash deposits, primarily interest bearing, at December 31, 1997, and throughout much of the year, were covered by federal depository insurance or unregistered U.S. Government and municipal securities held by various depositories. Investments at December 31, 1997, were in unregistered U.S. Government securities and Federal Agency obligations held in the District's name by the custodial banks.

The Debt Reserve Account 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.

E. *Deferred Charges—*

Costs arising from the termination of incomplete generation and transmission projects are being amortized over the life of the bonds, the proceeds of which were used in part to pay these costs. This amortization is included as part of debt service cost.

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 charges or liens payable out of revenues of the Power Supply System. The debt service payments of the Power Supply System Revenue Bonds are \$72.9 million per year for the years 1998 through 2002 and principal payments, as a component of debt service payments, are \$29.6 million, \$30.8 million, \$32.2 million, \$33.7 million, and \$35.4 million for each of the years 1998 through 2002, respectively.

3. PREPAID CAPITAL COSTS:

Prepaid capital costs are associated with the purchase of the capacity of a 50 MW hydroelectric generating facility owned and operated by The Central Nebraska Public Power and Irrigation District (Central). The prepayment is being amortized over the life of the bonds, the proceeds of which were used to pay these costs. The amortization is included as part of debt service cost.

The District has an agreement whereby Central makes available all of the production of the facility and the District pays all costs of operating and maintaining the facility plus a charge based on the amount of energy delivered to the District. Costs of $0.7 million in 1997, $1.0 million in 1996, and $1.0 million in 1995 are included in Production—Operation and maintenance.

4. LONG-TERM DEBT:

In June 1995, the District issued Power Supply System Revenue Bonds, 1995 Series A, in the amount of $76.3 million. Proceeds from the bond issue were used for the purchase of the Canaday Station Steam Plant from Central and construction costs associated with the Pauline-Moore Transmission Line. Net interest expense through December 1996 and bond issuance costs of $2.7 million were treated as construction and acquisition costs. Proceeds of the 1995 Series A Bonds, together with other available funds, were used to increase the Debt Reserve Account to an amount equal to the maximum annual interest on all Power Supply System Bonds outstanding after issuance of the 1995 Series A Bonds.

The fair value of existing debt at December 31, 1997, is determined using rates currently available to the District. The fair value is estimated to be $841.8 million.

5. DEFEASANCE OF DEBT:

The Power Supply System Revenue Bonds, 1986 Series, were defeased by placing a portion of the proceeds from the 1993 Series Bonds in an irrevocable trust account with an escrow agent. Such funds were used to purchase direct obligations of the United States Government, the principal of and interest on which is sufficient to pay for all future debt service payments on the old bonds. The defeased bonds are treated as extinguished debt for financial reporting purposes and have been removed from the Statements of Assets and Liabilities. The defeased bonds were called and redeemed from proceeds in the irrevocable trust account on January 1, 1996.

6. CAPITAL ADDITIONS:

The Power Supply System 1998 construction plan includes authorization for future expenditures of $100.3 million. These expenditures will be funded from a future bond issue, revenues and other available funds.

7. COAL SUPPLY AND RAIL TRANSPORTATION AGREEMENTS:

The District has two coal supply agreements which permit the District to purchase certain quantities of coal. One agreement provides for purchase of a minimum of 3,000,000 tons and up to a maximum of 3,900,000 tons annually through 2000. The other agreement provides for purchase of a minimum of 850,000 tons and a maximum of 1,150,000 tons annually through 1999. The District also has two rail transportation agreements which provide for, among other things, transportation of coal to Gerald Gentleman Station. Both transportation agreements expire December 31, 2002 and both transportation agreement rates are escalated or de-escalated pursuant to an index promulgated by the Surface Transportation Board.

8. LITIGATION:

In 1996, a settlement was reached with Burlington Northern Railroad Company, the amount of which was used to decrease Production—Fuel expense.

A number of claims and suits are pending against the District for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the District. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position and results of operations of the District as of December 31, 1997.

Report of Independent Accountants

To the Board of Directors
Nebraska Public Power District:

We have audited the accompanying 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, 1997 and 1996, and the related special-purpose statements of revenues and costs for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The accompanying 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, as described in Note 1B, and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the accompanying special-purpose financial statements of the Nuclear Facility of Nebraska Public Power District present fairly, in all material respects, the assets and liabilities as of December 31, 1997 and 1996, and its revenues and costs for each of the three years in the period ended December 31, 1997, on the basis of accounting described in Note 1B.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 16, 1998 on our consideration of Nebraska Public Power District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Coopers & Lybrand L.L.P.

Omaha, Nebraska
March 16, 1998

Statements of Assets and Liabilities December 31, 1997 and 1996
Prepared Pursuant to Requirements of the Nuclear Facility Revenue Bond Resolution

		1997		1996
		(Thousands)		
ASSETS				
Utility Plant, at Cost	$	743,097	$	731,381
Less—				
Reserve for depreciation (Note 1)		292,285		276,126
Amounts funded from revenue (Note 1)		333,885		321,960
	$	116,927	$	133,295
Nuclear Fuel—Net of Amortization (Note 1)	$	79,085	$	95,553
Cash and Investments (Note 1):				
Debt service fund	$	6,972	$	6,663
Debt reserve account		19,725		19,788
Reserve and contingency fund		10,341		14,720
Additions and improvements account		1,063		1,629
General reserve fund		800		1,789
Construction fund		5,490		4,920
Fuel reserve account		63,662		43,941
Operating fund		16,106		20,498
Revenue fund		157		359
Decommissioning fund (Note 4)		19,318		19,292
	$	143,634	$	133,599
Accounts Receivable	$	16,461	$	17,348
Interest Receivable	$	1,782	$	1,625
Deferred Charges and Other Assets	$	18,351	$	16,538
External Decommissioning Fund (Note 1 and 4)	$	137,147	$	106,039
TOTAL ASSETS	$	513,387	$	503,997

LIABILITIES						
Revenue Bonds (Note 9):						
1992 Series Serial	1997-2003	4.60% - 5.70%	$	119,690	$	133,015
1968 Series Term	1997-2002	5.10%		64,830		75,970
			$	184,520	$	208,985
Operating Reserves (Note 1)			$	159,244	$	147,623
Accounts Payable and Other Accrued Liabilities (Note 1)			$	15,096	$	25,287
External Decommissioning Fund (Note 1 and 4)			$	137,147	$	106,039
DOE Facilities Decommissioning Assessment (Note 8)			$	17,380	$	16,063
TOTAL LIABILITIES			$	513,387	$	503,997

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

NPPD Nuclear Facility

Statements of Revenues and Costs for each of the Three Years in the Period Ended December 31, 1997. Prepared Pursuant to Requirements of the Nuclear Facility Revenue Bond Resolution	1997	1996	1995
		(Thousands)	
Revenues (Notes 1 and 2):			
Sales—			
Electric System	$ 103,126	$ 92,408	$ 101,290
MidAmerican Energy Company	103,125	92,410	101,290
Investment and other income	12,288	8,557	7,903
Total revenues	$ 218,539	$ 193,375	$ 210,483
Costs (Note 1):			
Operating expenses—			
Production—			
Fuel (Note 1)	$ 31,858	$ 35,295	$ 22,158
Operation and maintenance (Note 1)	102,375	75,434	98,403
Provisions for operating reserves (Note 1)	38,721	36,779	42,848
General and administrative	10,198	10,483	11,693
	$ 183,152	$ 157,991	$ 175,102
Debt service—			
Principal (Note 1)	24,775	23,650	22,613
Interest	10,612	11,734	12,768
Total costs	$ 218,539	$ 193,375	$ 210,483

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

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:

(i) 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 decreased $11.1 million in 1997, $10.0 million in 1996, and $9.0 million in 1995. Accumulated depreciation through December 31, 1997, would have decreased costs approximately $4.3 million. The reserve for depreciation shown on the Statements of Assets and Liabilities was provided by recording amounts equal to repayment of debt principal. 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.

(ii) 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.

(iii) Interest income on construction fund investments is credited to utility plant. Under generally accepted accounting principles, such income would have increased revenues $0.2 million in 1997, $0.3 million in 1996, and $0.2 million in 1995.

(iv) Investment securities are classified as being available-for-sale and are recorded at cost. Interest income on these investments is recognized ratably over the term of the securities. Under generally accepted accounting principles, the difference between the carrying value of the securities and the fair value is to be recognized as a net amount in equity. Had this method been followed, Cash and Investments as of December 31, 1997, would have decreased by $0.4 million and Accounts Receivable would have increased by $0.4 million as the Nuclear Facility has no equity as stated above. Additionally, the External Decommissioning Fund would have increased by $3.3 million had this method been followed.

(v) As part of a 1989 settlement agreement with General Electric Company (GE), the District will receive discounts on future purchases of certain equipment and services for Cooper Nuclear Station (CNS) and will receive credits and discounts under an amendment to the fuel fabrication contract. The District amortized over a two-year period ending in 1991 the entire amount of the benefits allocated to operations. Under generally accepted accounting principles, such benefits would be recognized when received which in the case of the settlement would be over the next 15 years. This difference results in an increase in revenues during the two-year amortization period and increased costs thereafter. Negotiations held with GE to determine the extension of discounts for future purchases of certain equipment and services that were to expire in 1994 resulted in a portion of the discounts being extended beyond 1994 and a write down of the related receivable for a portion of the unused discounts that expired in 1994. The agreement stipulates that the dollar value of the settlement should not be disclosed.

C. *Nuclear Fuel—*

The District has entered into several long term contracts for the various nuclear fuel components of uranium concentrates, conversion, enrichment, and fabrication. Nuclear fuel in the reactor is being amortized on the basis of energy produced as a percentage of total energy expected to be produced. Fees for disposal of fuel in the reactor are being provided as part of the fuel cost and collected through revenues of the Nuclear Facility.

D. *Cash and Investments—*

Funds consist of $127.1 million of investment securities and $16.5 million of cash deposits at December 31, 1997, and $127.3 million of investment securities and $6.3 million of cash deposits at December 31, 1996.

Cash deposits, primarily interest bearing, at December 31, 1997, and throughout much of the year, were covered by federal depository insurance or unregistered U.S. Government and municipal securities held by various depositories. Investments at December 31, 1997, were in unregistered

U.S. Government securities and Federal Agency obligations held in the District's name by the custodial banks.

The Debt Reserve Account 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 Nuclear Resolution. Gains or losses on valuations are included in investment income.

E. *Operation and Maintenance*—

Beginning in 1996, the annual excess nuclear property insurance premium was paid directly by the District's Electric System and MidAmerican Energy Company (MEC) with each paying one-half the cost as described in Note 3 under terms of a power sales contract. None of the premium is included in the Nuclear Facility's Statement of Revenues and Costs. Had the premium been included, Sales and Production—Operation and maintenance expense would have increased $2.9 million.

2. RATE COVENANT:

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 $35.1 million for 1998, $35.0 million for the years 1999 through 2001 and $34.9 million for 2002. Principal payments, as a component of debt service payments, are $25.7 million, $26.9 million, $28.3 million, $29.8 million, and $31.3 million for each of the years 1998 through 2002, respectively.

3. POWER SALES CONTRACTS:

Under terms of a power sales contract with MidAmerican Energy Company (MEC), the District makes available one-half of the production of CNS to MEC with the balance available to the District's Electric System. MEC 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, 12.5% of the output of CNS to the City of Lincoln, Nebraska.

4. PLANT DECOMMISSIONING COSTS:

Pursuant to regulations promulgated by the Nuclear Regulatory Commission (NRC), the District established in July 1990, an external trust fund segregated from the District's assets in which amounts accumulated to pay the decommissioning costs of CNS are to be deposited. The NRC prescribed minimum amount to be accumulated by the District in said fund for decommissioning costs, in 1997 dollars, is approximately $522.8 million. This amount does not include the cost of removal and disposal of spent fuel or of nonradioactive structures and materials beyond that necessary to terminate the District's operating license. For purpose of accumulating amounts for complete dismantlement and site restoration of CNS, the District is estimating the total decommissioning costs, in 1997 dollars, to be approximately $493.0 million.

It is expected that the costs of decommissioning will be funded from revenues, certain reserve funds established under the Nuclear Resolution, and surplus funds derived from the ownership and operation of the Nuclear Facility. The District anticipates sufficient funds will be available in accordance with the NRC decommissioning rules to decommission CNS at the end of its useful life. The District intends to periodically review the costs and methods of funding as a result of changing conditions and requirements for decommissioning.

5. CAPITAL ADDITIONS:

The Nuclear Facility 1998 construction plan includes authorization for future expenditures of $18.3 million. These expenditures will be billed to participants as Provisions for operating reserves on the basis of estimated cash flow requirements.

6. CONTINGENCIES:

Under the provisions of the Federal Price-Anderson Act, the District and all other licensed nuclear power plant operators could each be assessed for claims in amounts up to $79.3 million per unit owned in the event of any nuclear incident involving any licensed facility in the nation, with a maximum of $10.0 million per year per incident per unit owned. MEC would be liable to the District for one-half of such assessment under the Power Sales Contract. To satisfy the obligation, the District has obtained a $5.0 million line of credit and MEC has demonstrated its financial integrity and responsibility for $5.0 million.

As part of the 1989 settlement agreement between GE and the District, GE has agreed to store at its facility at Morris, Illinois, the 1,056 spent nuclear fuel assemblies from the first two core loadings at no cost to the District until May 2002, which is the expiration of the current license for the GE facility. After that date, storage will be at no cost to the District so long as GE can maintain, without certain additional costs, the NRC license for the facility. If after May 2002, storage of the 1,056 assemblies results in certain additional costs to GE then the District shall be responsible for such costs. Such costs would be collected through revenues of the Nuclear Facility as part of fuel costs.

7. LOW-LEVEL RADIOACTIVE WASTE DISPOSAL:

The Low-Level Radioactive Waste Policy Amendments Act of 1985 (the "1985 Act") requires each state to be responsible for providing for the availability of capacity for the disposal of low-level radioactive wastes generated within its borders except for certain defense related radioactive wastes. Among other things, the 1985 Act authorizes and encourages states to enter into interstate compacts, subject to Congressional consent, to provide for the establishment and operation of regional disposal facilities for low-level radioactive waste generated within the states entering into a compact.

Pursuant to the 1985 Act, Nebraska has entered into the Central Interstate Low-Level Radioactive Waste Compact (the "Central Interstate Compact") with the states of Arkansas, Kansas, Louisiana, and Oklahoma. The Central Interstate Compact has been approved by each of said states and by Congress.

The District is a party to an agreement under which partial funding for the prelicensing costs of a proposed disposal facility has been provided by the owners/operators of nuclear plants within the Central Interstate Compact.

8. DEPARTMENT OF ENERGY FACILITIES ASSESSMENT:

Under the provisions of the National Energy Policy Act adopted in 1992, the District is subject to assessments estimated to be $1.67 million per year (to be adjusted for inflation) for a period up to 15 years for the purpose of paying the costs of decontaminating and decommissioning Department of Energy operated uranium enrichment facilities. Such assessments commenced in 1993. The present value for such annual assessments for the 9 remaining years is approximately $17.4 million. The District has recorded on the Nuclear Facility financial statements, the present value of such annual assessments by recording a liability and a matching deferred charge of approximately $17.4 million as of December 31, 1997, and $16.1 million as of December 31, 1996.

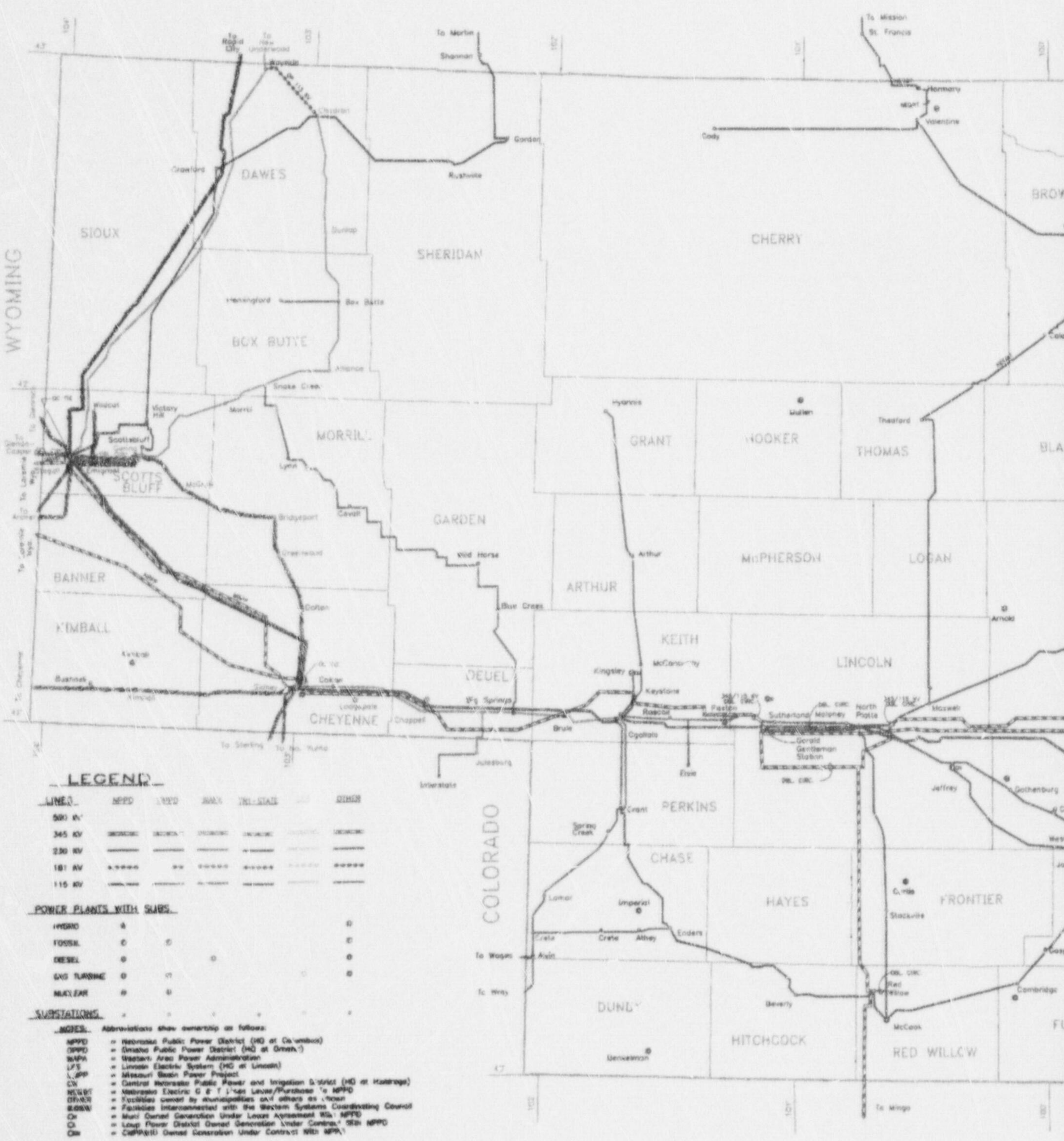
9. LONG-TERM DEBT:

The fair value of existing debt at December 31, 1997, is determined using rates currently available to the District. The fair value is estimated to be $189.1 million.

10. LITIGATION:

A number of claims and suits are pending against the District for alleged damages to persons and property and for other alleged liabilities arising out of matters usually incidental to the operation of a utility such as the District. In the opinion of management, the exposure under these claims and suits would not materially affect the financial position and results of operations of the District as of December 31, 1997.

Nebraska 115kv–345kv/Transmission Network–1998



Nebraska Public Power District

Nebraska's Energy Leader

MARCH 1998

Board of Directors:

left to right: **Bruce W. Gustafson**, Second Vice Chairman, Farmer/Rancher, Holdrege, serving since January 1983; **Ralph D. Johnson**, Economist, Lincoln, serving since January 1985; **Doralene Weed**, Businesswoman/Homemaker, Kearney, serving since January 1993; **Larry G. Kuncl**, Engineering Consultant, Columbus, serving since January 1997; **Dennis L. Rasmussen**, Legislative Consultant, Lincoln, serving since January 1997; **Wayne E. Boyd**, Attorney, South Sioux City, serving since March 1982; **Darrell J. Nelson**, Secretary, Farmer/Rancher, Oconto, serving since January 1985; **Warren R. Cook**, Chairman, Businessman, Norfolk, serving since January 1987; **Ralph E. Holzfaster**, Agribusinessman/Farmer, Paxton, serving since January 1981; **Gary G. Thompson**, First Vice Chairman, Attorney, Beatrice, serving since January 1993; seated: **Les S. Taylor**, Businessman, York, serving since January 1979

Executive Team:

back row, left to right: **John R. McPhail**, General Counsel; **Ronald D. Asche**, Vice President Business Support Services; **Gary S. Westphal**, Vice President Wholesale; **Dennis E. Gren-an**, Senior Vice President Customer Service; **Guy R. Horn**, Senior Vice President Energy Supply; **William J. Fehrman**, Vice President Fossil Energy; **Marvin L. Rief**, Vice President Retail; front row, left to right: **Angelo Muzzin**, Vice President Marketing & Corporate Development; **John H. Swailes**, Vice President Nuclear; **John C. McClure**, Corporate Planning & Development Manager; **William L. Podraza**, Vice President Human Resources & External Affairs; **William R. Mayben**, President & CEO

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GENERAL OFFICE
1414 15TH STREET
PO BOX 499
COLUMBUS, NE 68602-0499

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