Nebraska Public Power District

Always there when you need us

NLS2003065 50.71(b)

May 28, 2003

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

Subject: Nebraska Public Power District
2002 Annual Financial Report
NRC Docket No. 50-298, DPR-46

Gentlemen:

The purpose of this correspondence is to transmit the Nebraska Public Power District Annual Financial Report for calendar year 2002 in accordance with the requirements of 10CFR50.71(b). Copies of this report are being distributed in accordance with 10CFR50.4.

Should you have any questions or require additional information, please contact me at 402-825-2774.

Sincerely,

Paul V. Fleming
Licensing and Regulatory Affairs Manager

/nr
Enclosure

cc: Regional Administrator w/enclosure
USNRC - Region IV

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

Senior Resident Inspector w/enclosure
USNRC

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www.nppd.com

ATTACHMENT 3	LIST OF REGULATORY COMMITMENTS

Correspondence Number: NLS2003065

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

COMMITMENT	COMMITTED DATE OR OUTAGE
None	

For the people.

Nebraska Public Power District
2002 Annual Report

2002 YEAR AT A GLANCE

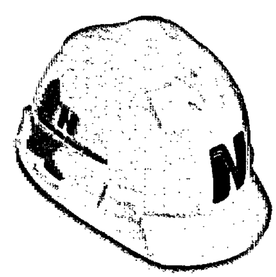
Kilowatt-hour Sales	18.8 Billion
Operating Revenues	$634.6 Million
Cost of Power Purchased and Production	$309.5 Million
Other Operating Expenses	$281.0 Million
Increase in Fund Equity	$32.9 Million
Debt Service Coverage	1.57

Message from President & CEO Bill Mayben and Board Chairman Wayne Boyd.

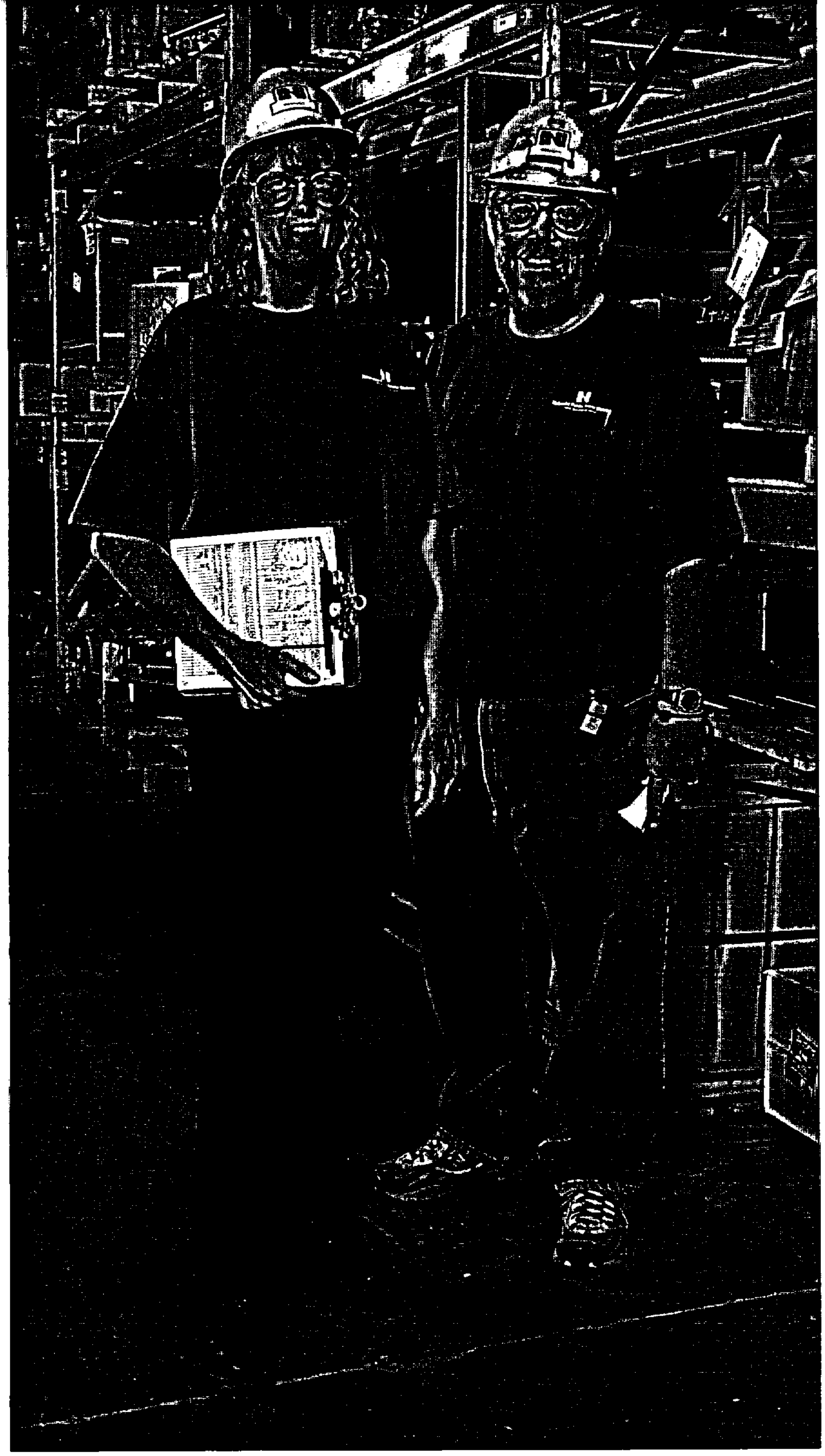
Who do you work for? The question is asked most often in casual conversation; yet its answer, at least for public power employees, is the underlying principle of our existence. We work for the people we serve. ¶ During 2002, Nebraska Public Power District employees—from the Board Chairman, the CEO, to field, plant and support staff—were reminded of the servant role we perform. We lived our brand daily to be "Always there when you need us," in terms of reliability, customer service and cost. ¶ We settled lawsuits with MidAmerican Energy Company and Lincoln Electric System, and we saved more than $20 million in costs by reengineering our processes and reducing staff, fuel and debt service costs. We turned the pages of our long-term Energy Supply Strategy by investing in the construction of a new combined-cycle generation facility near Beatrice, Neb., and we approved a retention plan for Cooper Nuclear Station employees to keep highly skilled workers at the plant. ¶ Though a wholesale rate increase in 2003 is needed to support the financial requirements of our nuclear facility, a solid financial performance in 2002 resulted from higher-than-expected revenues of firm and off-systems sales, increased generation availability and lower-than-expected costs. In addition, open dialogue with our wholesale customers helped reduce the increase to only four percent by year's end. ¶ One major issue that will carry over into 2003 is the lack of water due to one of the worst droughts in Nebraska's history. Yet, despite the lower levels in our system's reservoirs, we still managed to meet customers' energy and irrigation water demands, even setting a new all-time peak load of 2,370 megawatts in July. We also invested in our transmission system with a new 40-mile transmission line from Broken Bow to just outside of Lexington. Next year, we will continue to reap the benefits of other upgrades made to NPPD's transmission and distribution lines and substations across the state. ¶ Finally, we opened a new chapter on our future with the Board's selection of Bill Fehrman, vice president of energy supply, to replace Bill Mayben as NPPD's president and chief executive officer, starting Jan. 1, 2003. Fehrman will carry forward the "Back-to-the-Basics" philosophy management adopted after California's deregulation and Enron's trading troubles made it plain to see that end-use customers had been left out of the equation of service, reliability and control—three elements on which public power prides itself. ¶ Therefore, as we close out 2002 and enter 2003, NPPD will pursue excellence in doing what it does best: safely and reliably generating and delivering electricity at the lowest possible cost for the people we serve. ¶ After all, we work for them.

Energy Supply. Long before a single kilowatt is generated, before a light switch is flipped, NPPD thinks of its customers. The power we produce is the result of careful planning, analysis and evaluation to produce the right amount of power at the lowest possible cost. We call it our Energy Supply Strategy, and we follow it—for the people. ¶ In 2002, our generation numbers were high, while our production costs were low. Even during a record-breaking summer of heat, wind and drought, we managed to meet our customers' load demands. Gerald Gentleman Station received acclaim as the second lowest cost coal-fired plant for 1999-2001 from *Platts Power* magazine and helped NPPD keep its system average cost per megawatt-hour low. ¶ Routine maintenance and the investment and installation of our particulate-removal systems (or bag houses) at our coal-fired generating stations paid off this year. ¶ Our generation facilities broke several new records including a new annual generation record at Gerald Gentleman Station of 9,549,816 megawatt-hours. This beats its 2001 record of 9,337,182 megawatt-hours. Sheldon Station also exceeded its previous annual record by generating 1,442,114 megawatt-hours, 55,064 more megawatt-hours

Utility Technician Linda Tacey and Training Specialist Gene Tacey have worked at Gerald Gentleman Station for more than



40 collective years. Their commitment to the company is representative of the strong work ethic NPPD employees exhibit every day.

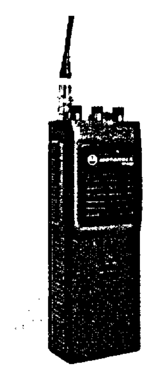


than produced for its previous record in 2000. Collectively, we reached a new, all-time peak load of 2,370 megawatts in July. ¶ In April, NPPD's Board of Directors approved funding to build a new, natural gas-fired, combined-cycle 229-megawatt power plant near Beatrice, Neb. The facility—an intermediate plant—will help meet future native load growth, add fuel diversity to NPPD's generation mix and provide a hedge against an unforeseen outage at one of our other plants. Groundbreaking for this facility—the Beatrice Power Station—is anticipated for the spring of 2003 with expectations to be online in 2005. It is the first major generation plant to be built by NPPD since Gerald Gentleman Station Unit 2 in the early 1980s. ¶ Plans are also underway to add at least five megawatts of wind power to NPPD's generation portfolio. A study to identify locations with the best wind potential concluded in May 2002, and a project team selected the most beneficial sites for future installations. NPPD's Board of Directors is expected to work with management in 2003 to finalize the utility's future commitment and investment into this type of renewable energy. ¶ Finally, NPPD continues to evaluate Cooper Nuclear Station's (CNS) performance to

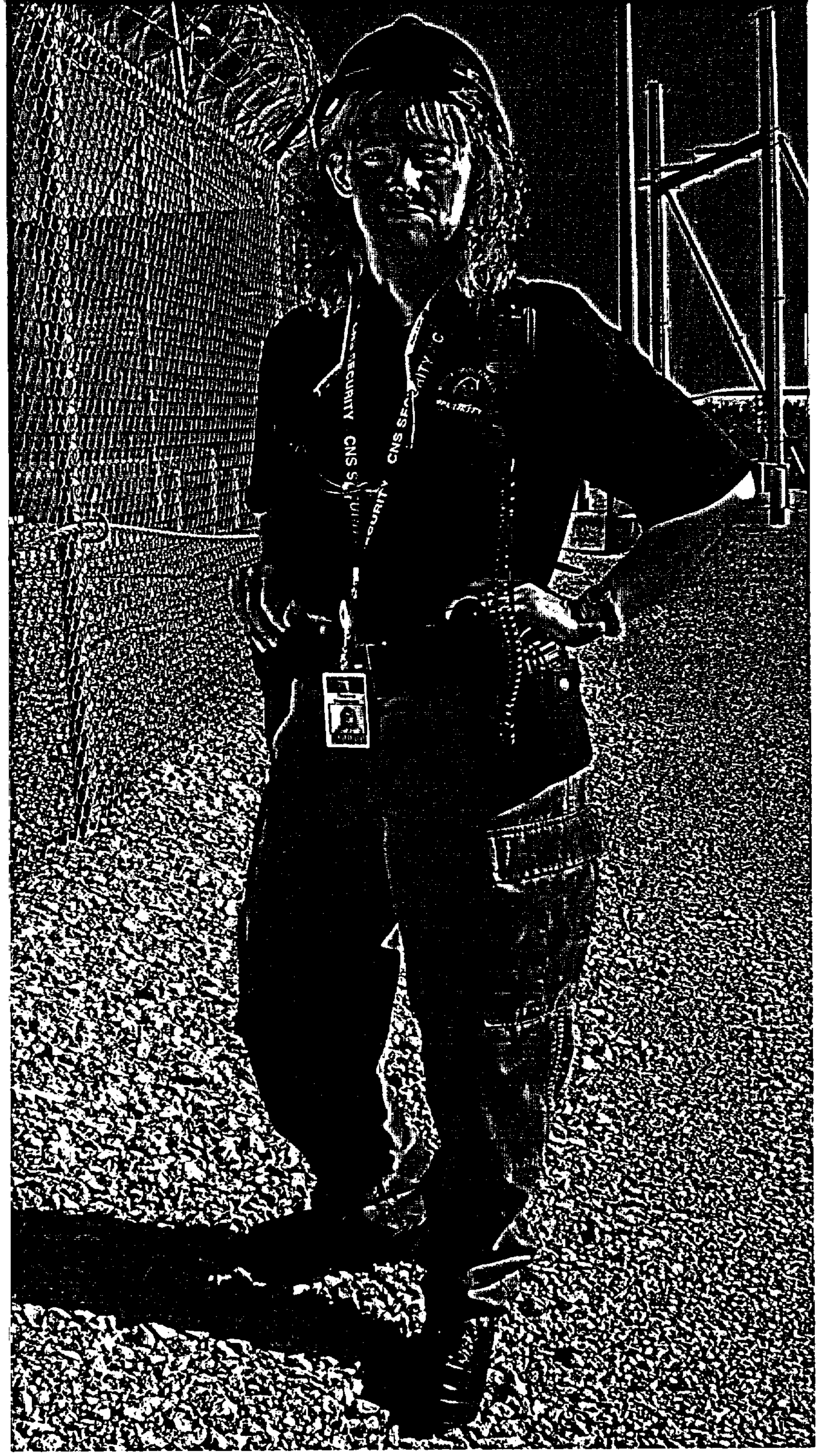
The Taceys are also committed to the youth in their community of Sutherland, Neb. As joint leaders for Boy Scout Troop #265, Gene and Linda promote the values of integrity, honesty and trust, patriotism and self-reliance.

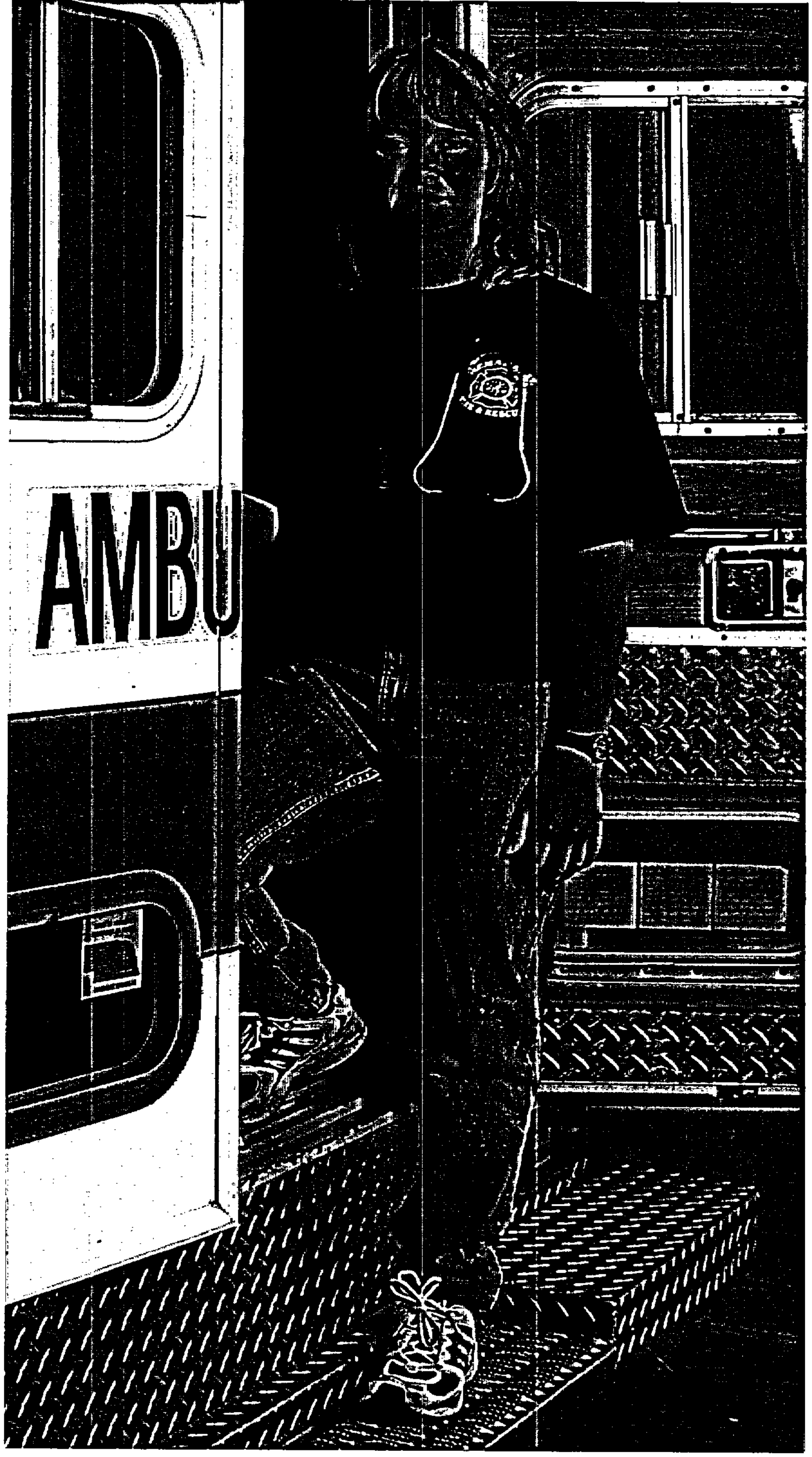
determine where the plant fits in NPPD's overall long-term Energy Supply Strategy. Significant events in 2002 cleared the way for NPPD to perform this evaluation based on the plant's current and projected performance against other alternatives and market value. ¶ All ongoing litigation between NPPD and its Cooper participants, MidAmerican Energy Company (MEC) and Lincoln Electric System (LES), was settled effective Aug. 1, 2002. MidAmerican will continue to purchase power until December 2004, while LES will continue to purchase power until September 2003. The settlements ended all past, present and future litigation. Concurrent with the settlements, the remaining CNS debt was paid. ¶ Except for a payment of $39.1 million to MEC as part of the settlement agreement, NPPD retained all decommissioning and other nuclear facility funds totaling $440 million, as of the Aug. 1 settlement date. MEC and LES will no longer pay a specific percentage of Cooper's actual expenses. Instead, the energy provided to MEC and LES from CNS is sold at fixed prices. NPPD has initiated an effort to seek customers for the 380 megawatts MEC will no longer buy after 2004. LES's portion of CNS's output

Cooper Nuclear Station Security Officer Deanna Stevenson is one of 98 individuals who are vigilant in protecting



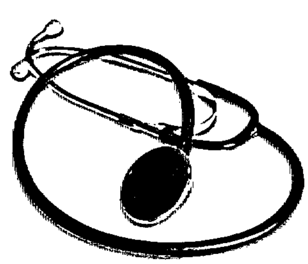
the plant against intruders, suspicious activity and, most recently, threats of terrorism.


CNS SECURITY


AMBU

will be used by NPPD. Numerous marketing proposals were received and an evaluation of the offers will continue into 2003. ¶ CNS was listed this year in the Nuclear Regulatory Commission's (NRC) Multiple Repetitive Degraded Category. However, after performing a comprehensive on-site inspection, the NRC concluded that the plant is being operated in a safe manner. NPPD has developed an improvement plan that will return the plant to acceptable performance. This plan and a letter confirming NPPD's intent to make needed improvements at CNS were sent to the NRC in November. ¶ Negotiations with the Nuclear Management Company (NMC) of Hudson, Wis., to operate CNS for NPPD were delayed in the fall of 2002 when an issue relating to indemnification was identified. NPPD will be asking the 2003 Nebraska state legislature to modify public power statutes to address this issue. At the end of the year, an NPPD team was formed to lead an options analysis study regarding the future of CNS. The team will investigate the issues and alternatives for the best operation and management of the nuclear plant. A recommendation for CNS will be presented to the NPPD Board of Directors in 2003.

Residents in and around the Nemaha community also receive Deanna Stevenson's protection and care as an emergency medical

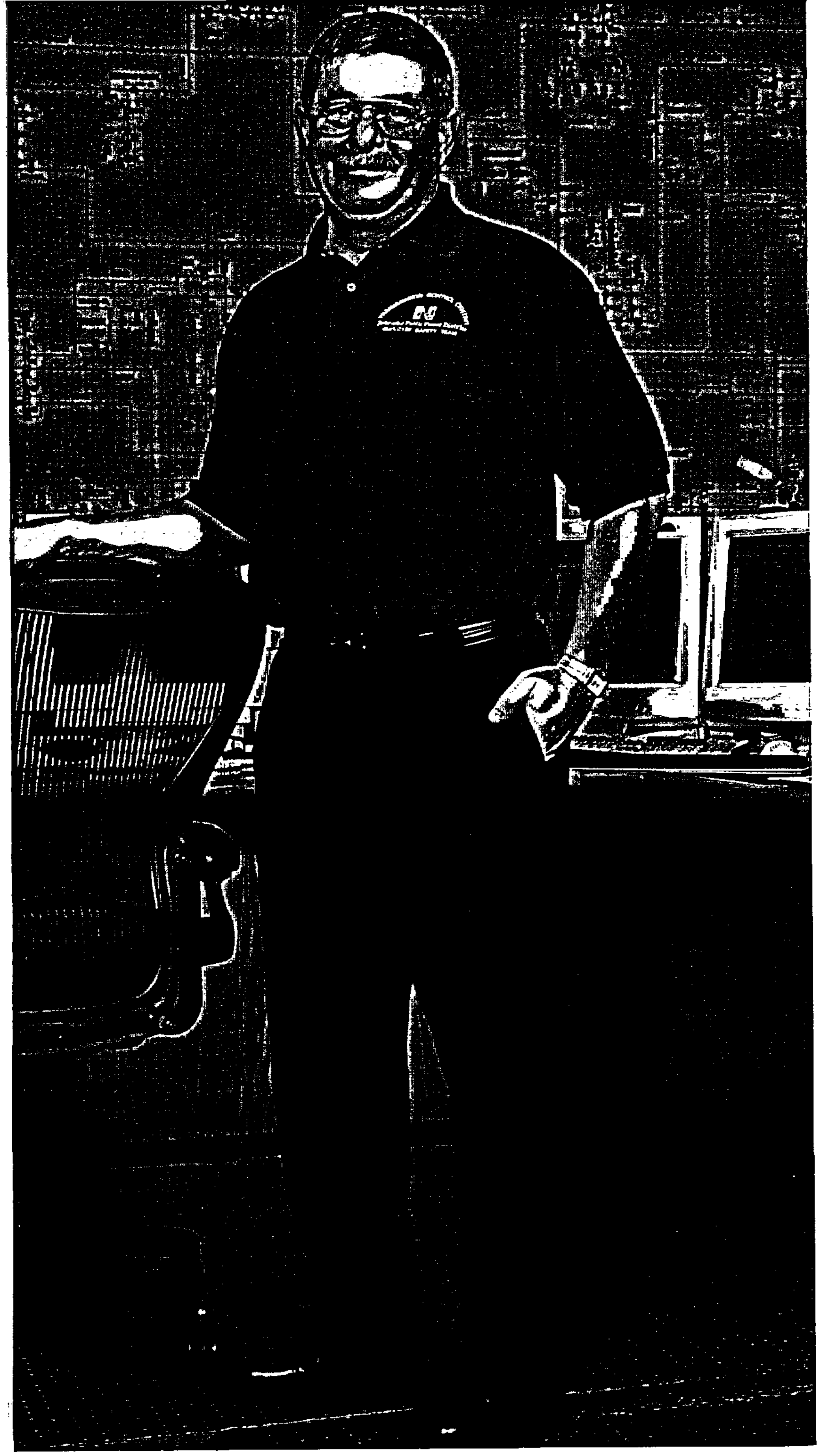


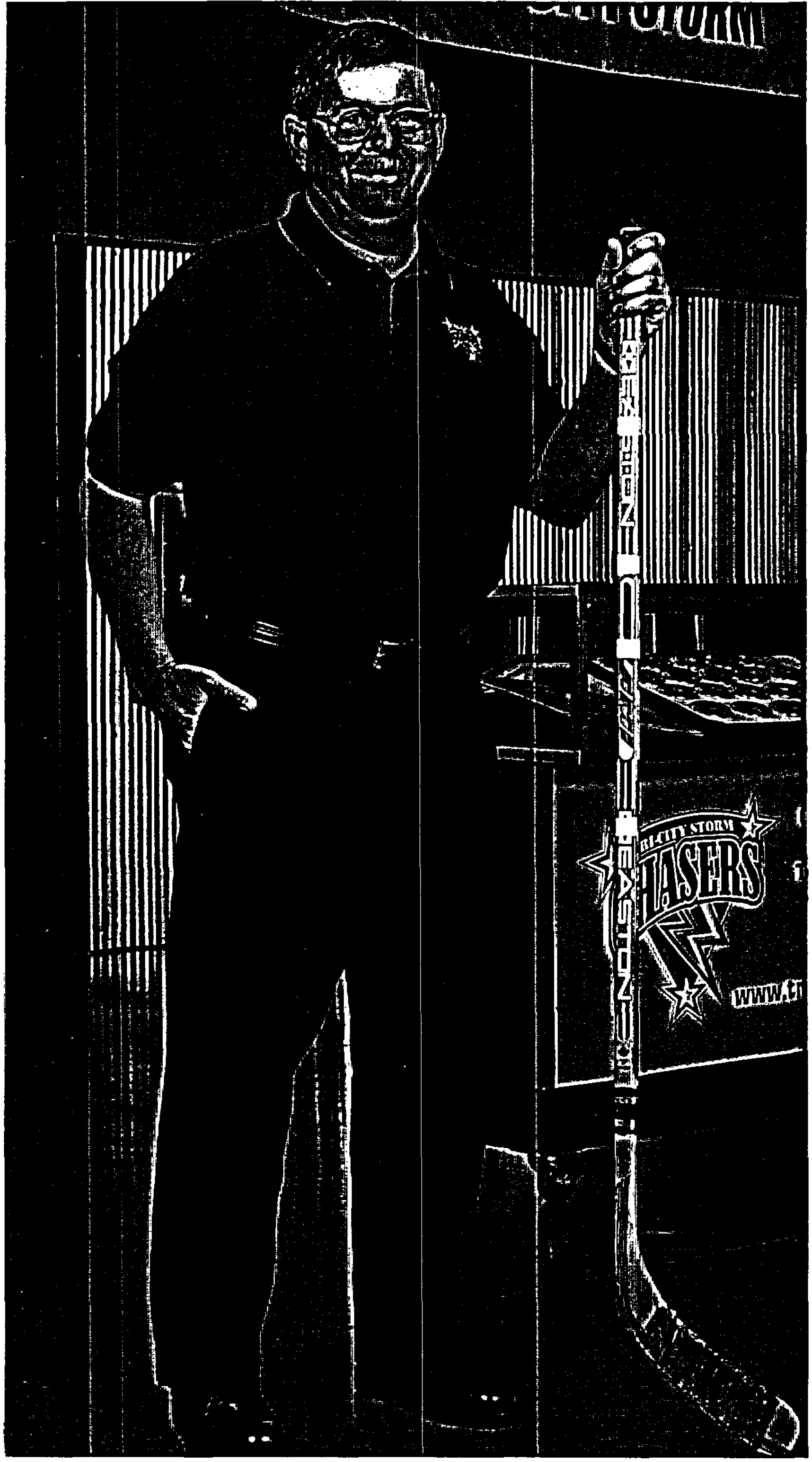
technician. In more ways than one, NPPD employees, like Deanna, are "Always there when you need us."

Transmission Services. The year 2002 will be remembered for the many weather and load records set as Transmission Services worked to fulfill its mission of safely and reliably delivering electric power. During peak load periods in June and July, nine 115-kV transformers exceeded their nameplate capabilities, sending a clear signal that NPPD will need to invest in additional transformer capacity. In response, we are developing a plan to add capacity in a manner which minimizes the impact these investments will have on rates. ¶ Still, NPPD's transmission system performed well for the people. Our high-voltage transmission system achieved an availability average of 98.74 percent. This performance exceeded the 98.08 percent 10-year composite average for the Mid-Continent Area Power Pool region. NPPD's 345-, 230- and 115-kV transmission line system experienced 82 unplanned outages, compared to 73 unplanned outages in 2001, and transported approximately 26.640 million megawatt-hours, similar to the 26.743 megawatt-hours transported in 2001. ¶ Construction of a new 40-mile, 115-kV line from Lexington to Broken Bow began in June. By October, the poles had been placed and the conductor was being strung. Work in two substations, Crooked Creek at the south end of the line and Broken Bow at the north, will be

Transmission Services Training Supervisor Pat Budler works at NPPD's Transmission Control Center in Doniphan, Neb., the heart of

more than 5,000 miles of transmission lines that provide continuous, reliable electricity to Nebraskans.

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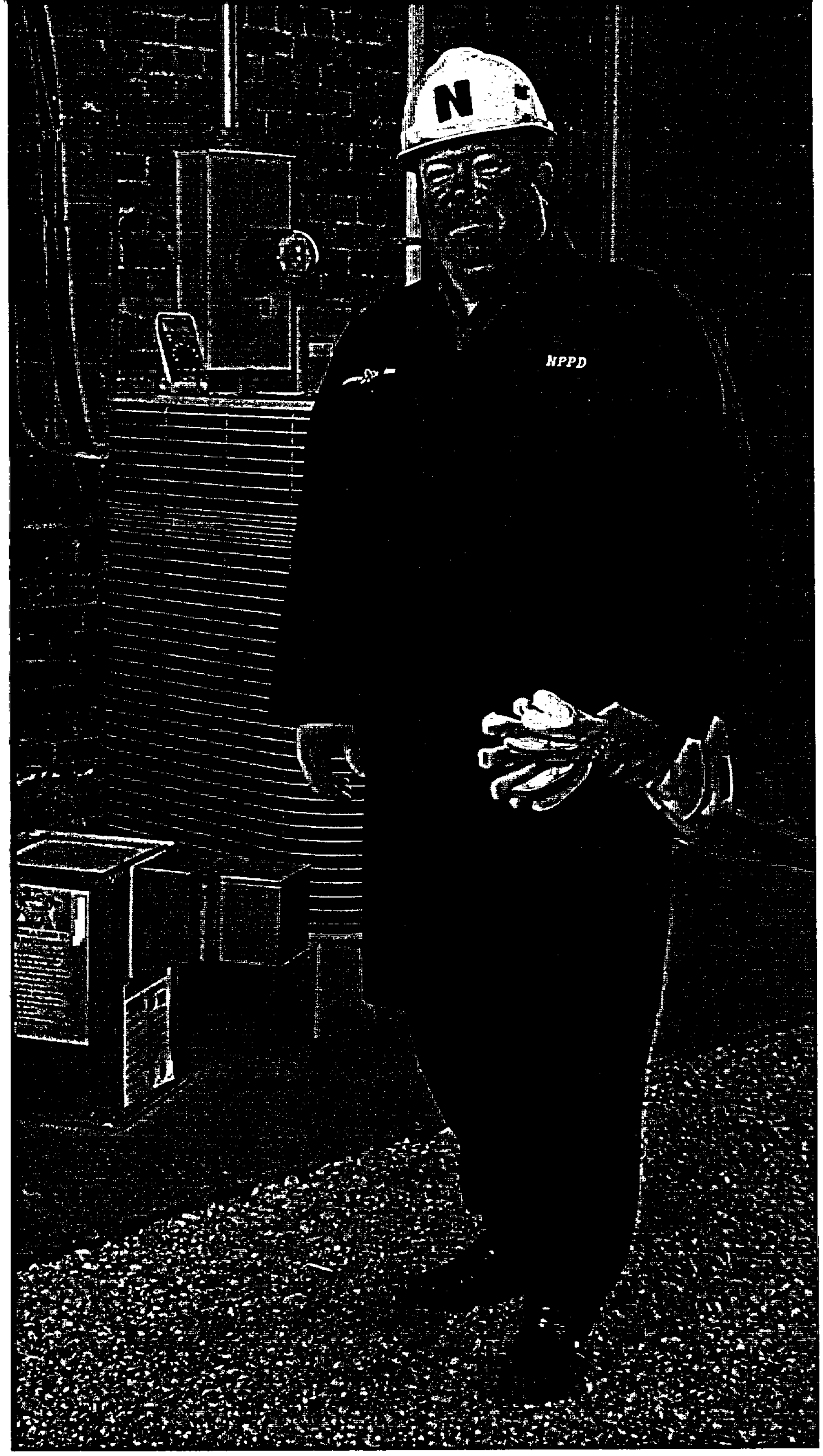
completed during the spring of 2003. ¶ At year-end, the Federal Energy Regulatory Commission conditionally accepted transmission rate schedules for TRANSLink to operate under the Midwest Independent System Operator (MISO) transmission tariff. TRANSLink is a transmission company made up of Alliant Energy, Corn Belt Power Cooperative, MidAmerican Energy Company, Xcel Energy, Nebraska Public Power District, Omaha Public Power District, Great River Energy, Rochester Public Utilities, Southern Minnesota Municipal Power Agency and Dairyland Power Cooperative. The order, along with several others, allows for transmission service under a single MISO tariff over a 20-state region and one Canadian province. TRANSLink has targeted the third quarter of 2003 for commencing operations, while NPPD anticipates making its final decision on TRANSLink participation during the first half of 2003. ¶ Finally, NPPD made a deposit of $29,334 to the Nebraska Internet Enhancement Fund. The fund was developed as part of state legislation allowing public utilities to lease fiber optic lines to private companies while splitting the profit to provide financial assistance to counties or municipalities that install or improve telecommunications services. NPPD is leasing two unused (dark) fiber optic lines to Frontier Communications, Inc. for long-distance learning in and around Columbus.

After hours, Pat Budler gives his time to the Tri-City Storm Chasers, a nonprofit fan organization that supports the Tri-City Storm Junior A hockey team, plans fan events and makes the Storm players feel welcome in the heartland.

Wholesale Services. NPPD's unwavering commitment for providing customers with the necessary venues to share ideas and opinions grew stronger in 2002. From formalized committees to an increase in face-to-face meetings, NPPD provided more ways for its wholesale customers to become engaged on key issues and process changes. ¶ For 73 of NPPD's 78 wholesale municipal and rural power district customers, beginning the year under NPPD's new 20-year contract for wholesale power was one example of this evolving line of communication. While the contract offers the security of long-term, cost-based power and added flexibility in a changing electric market, it also includes a formalized communication process through two, 12-member customer committees. ¶ The Power Resources Advisory Board and the Rate Review Committee provide opportunities for NPPD and its wholesale customers under the new contract to share feedback on a variety of issues ranging from NPPD's rate structure and special power products to new generation and future resource decisions. ¶ Another way wholesale customers provided input this year was through the formalized, demand waiver (load control) program. Marking its 20th year in 2002,

Residential Business Account Consultant Roger Hunt is a problem solver. His enthusiasm is apparent in the energy solution

workshops he offers both businesses and homeowners, leaving a lasting impression that NPPD enjoys serving it customers.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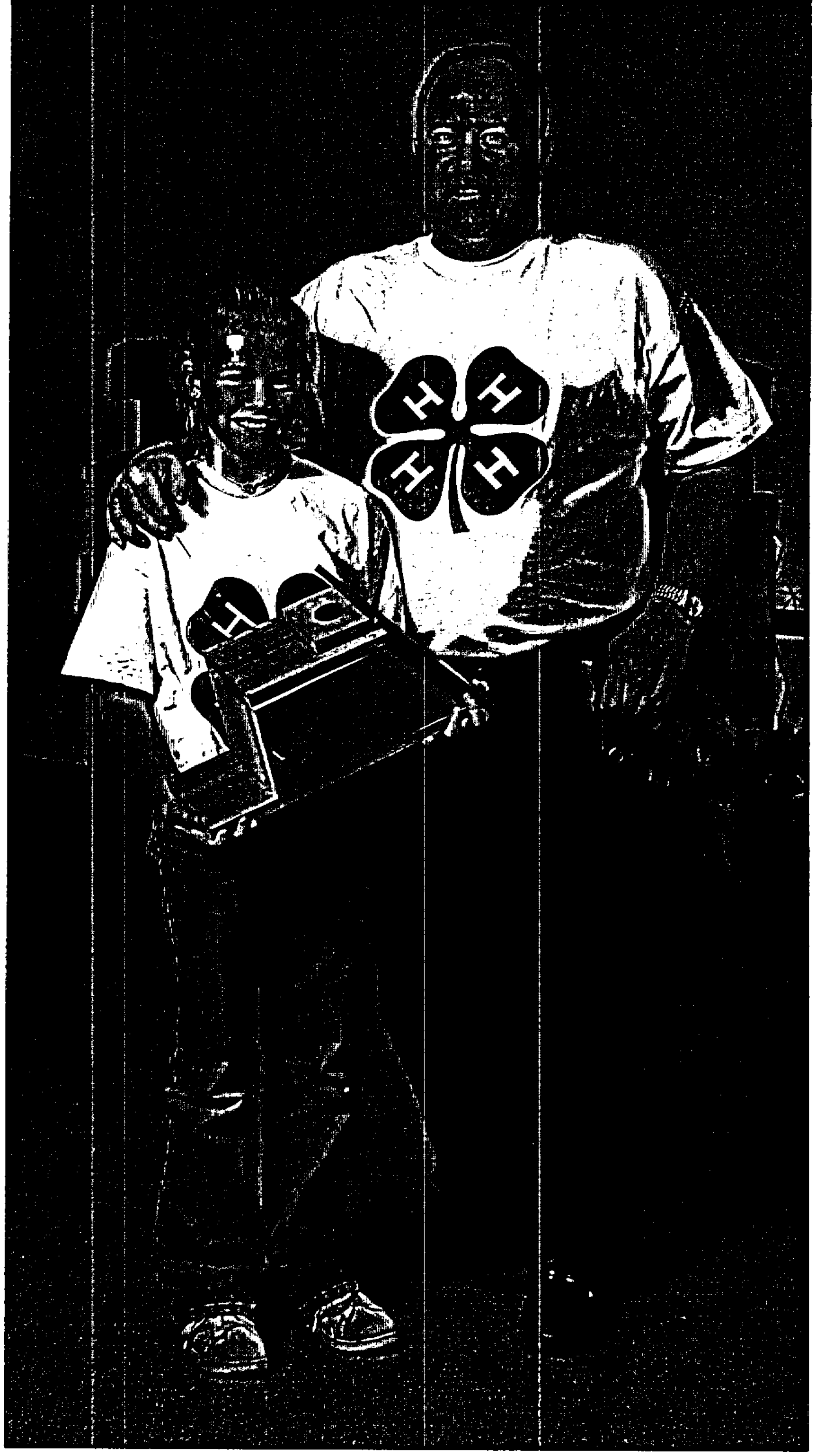
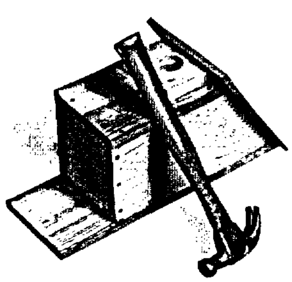
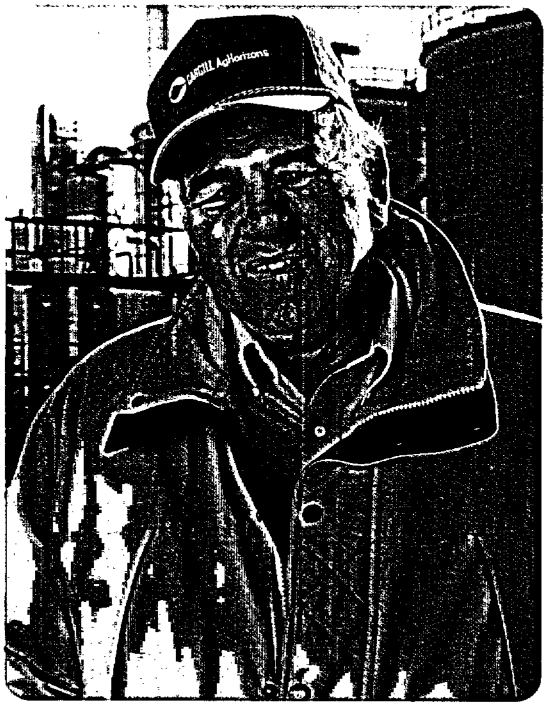


the program continued its tradition of relying on effective communication to maximize the value of NPPD's resources to its customers. ¶ And, though drought conditions drove customers to control less load this summer, a total of 432 megawatts were controlled on July 31, NPPD's highest billable peak day with a record-setting 2,211 megawatts of firm load recorded. On Sunday, July 21, when load control was not in effect, NPPD's firm load jumped to an all-time record of 2,370 megawatts. ¶ The difference between NPPD's highest off-peak load and its highest on-peak load continues to grow each year. As a result, NPPD began looking for ways in 2002 to recoup costs incurred during the off-peak hours, when the demand charge is not in effect. One proposed solution included adding an off-peak demand charge. However, while wholesale customers agreed with the need to address the concern, this methodology was not widely accepted. ¶ In response, NPPD decided to delay the item and continue to work closely with the Rate Review Committee in 2003 to develop mutually beneficial rate solutions that better reflect the cost of doing business. Reaching this level of understanding is the kind of relationship that puts people first.

Roger Hunt shares his energy and enthusiasm with his community as a 4-H leader. For more than 13 years, he has



served the youth and residents of Sterling, Neb., reaching the heads, hearts, hands and health of club members, in numerous project activities and events.



For the people.

Photo 1: *Fred Knievel, board member for the Husker Ag Processing facility near Plainview, Neb., knows the momentum ethanol projects gained in Nebraska during 2002.* Photo 2: *NPPD works with elected officials like U.S. Congressman Tom Osborne to enhance the quality of life in Nebraska.* Photo 3: *Key account customers, like General Manager Deb VanMatre of the Nebraska Turkey Growers Cooperative in Gibbon, Neb., are important contributors to NPPD's load and their communities.*

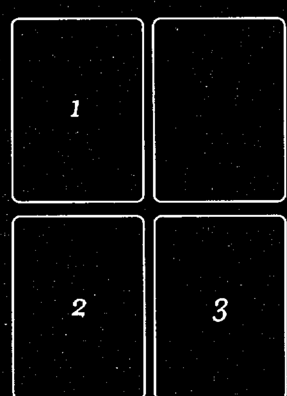
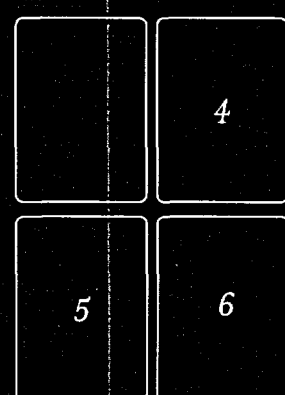
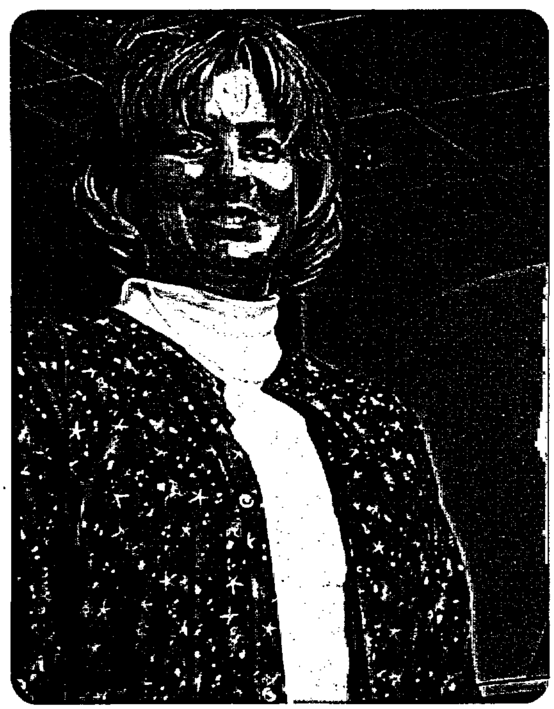


Photo 4: *Energy education begins with Nebraska's youth. Cherie Oaklund, for instance, may one day be a ratepayer or even an NPPD employee.* Photo 5: *Satisfaction from our wholesale customers, such as North Platte Municipal Light & Water Utility Manager Larry Linstrom, is fundamental to NPPD's existence.* Photo 6: *NPPD's reliability is extremely important to customers like Beth White, MRI nurse at Good Samaritan Hospital in Kearney, Neb. Her customers depend on it too.*



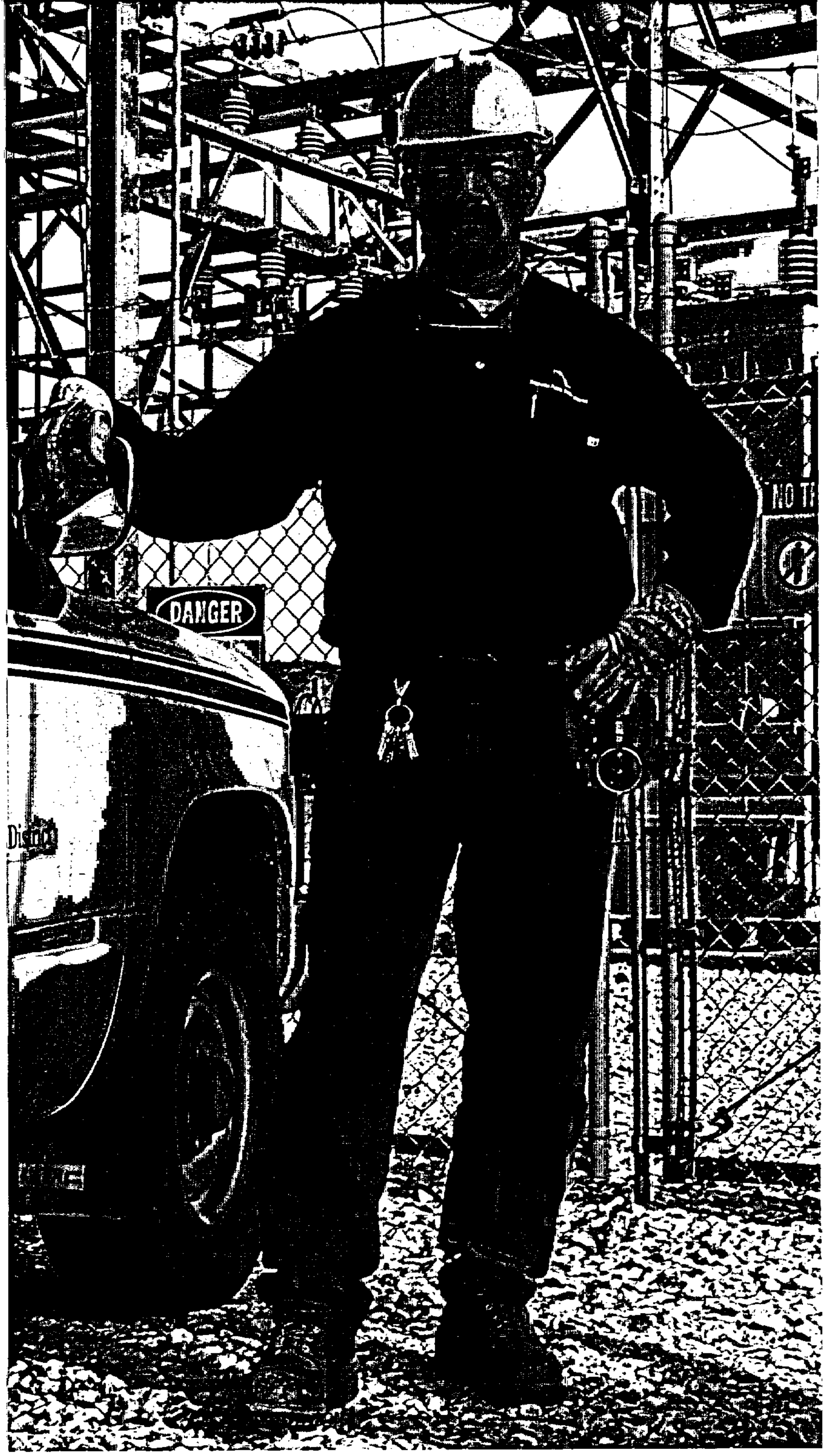
For the people.



NPPD Retail. In 2002, NPPD Retail continued its relentless drive toward improved customer service. "For the people" was not just lip service; Retail invested in technology to better respond to customer needs. The Geospatial Information System/Outage Management System/Graphical Work Design project continued in 2002. When implemented in 2004, the benefits of the project will be many. ¶ The project includes a Web-based data and mapping system; a Web-based, detailed map of NPPD's larger Retail communities that will pinpoint outage locations and manage outage responses; and a Web-based mapping/design program to streamline the design process. ¶ NPPD Retail customers tapped into NPPD's wealth of expertise in 2002. Communities such as Minden and South Sioux City are benefiting from new agreements, which they signed with NPPD in 2001, calling for Retail to operate their electric systems. Retail has expanded utilization of its Centralized Customer Care Center by providing after-hours phone and dispatch support for 11 other utilities. ¶ NPPD Retail began a process to take new Professional Retail Operating Agreements to Retail's 75 lease communities, seeking to extend their contracts. To promote this project,

Journey Line Technician Ray Diaz works for the people in and around Ogallala, Neb. His routine

responsibilities involve answering service calls, conducting line maintenance and upgrading NPPD Retail's distribution system.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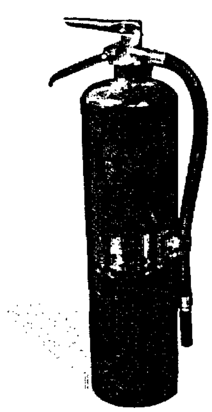
Retail has increased its already-notable efforts to build relationships with customers. As a part of this outreach effort, Retail management and account executives are promoting sound customer communications via a new brochure, "The Retail Advantage." The brochure details the many benefits—beyond electric power—that NPPD Retail offers. ¶ NPPD Retail also completed modifications to its customer information system to allow upgraded Web-based customer service. Customers can review accounts, pay bills and learn about additional customer service offerings via the Internet. With the new, enhanced Web access, and highly trained customer service representatives only a phone call away (1-877-ASK-NPPD), Retail has raised the bar on its ability to offer state-of-the-art customer service. ¶ Delivering power and energy (and top-notch customer service) from Tekamah to Terrytown is not easy, nor inexpensive. In order to minimize cost increases, which at times are necessary, NPPD Retail continues to implement reasonable cost-cutting measures. For example, NPPD Retail began the consolidation of its Scottsbluff office and operations facilities in 2002, and the customer care team was restructured—resulting in greater efficiency and lower costs.

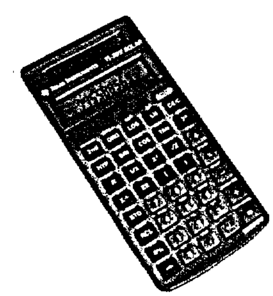
Ray Diaz also works for the people of his community as a volunteer firefighter.



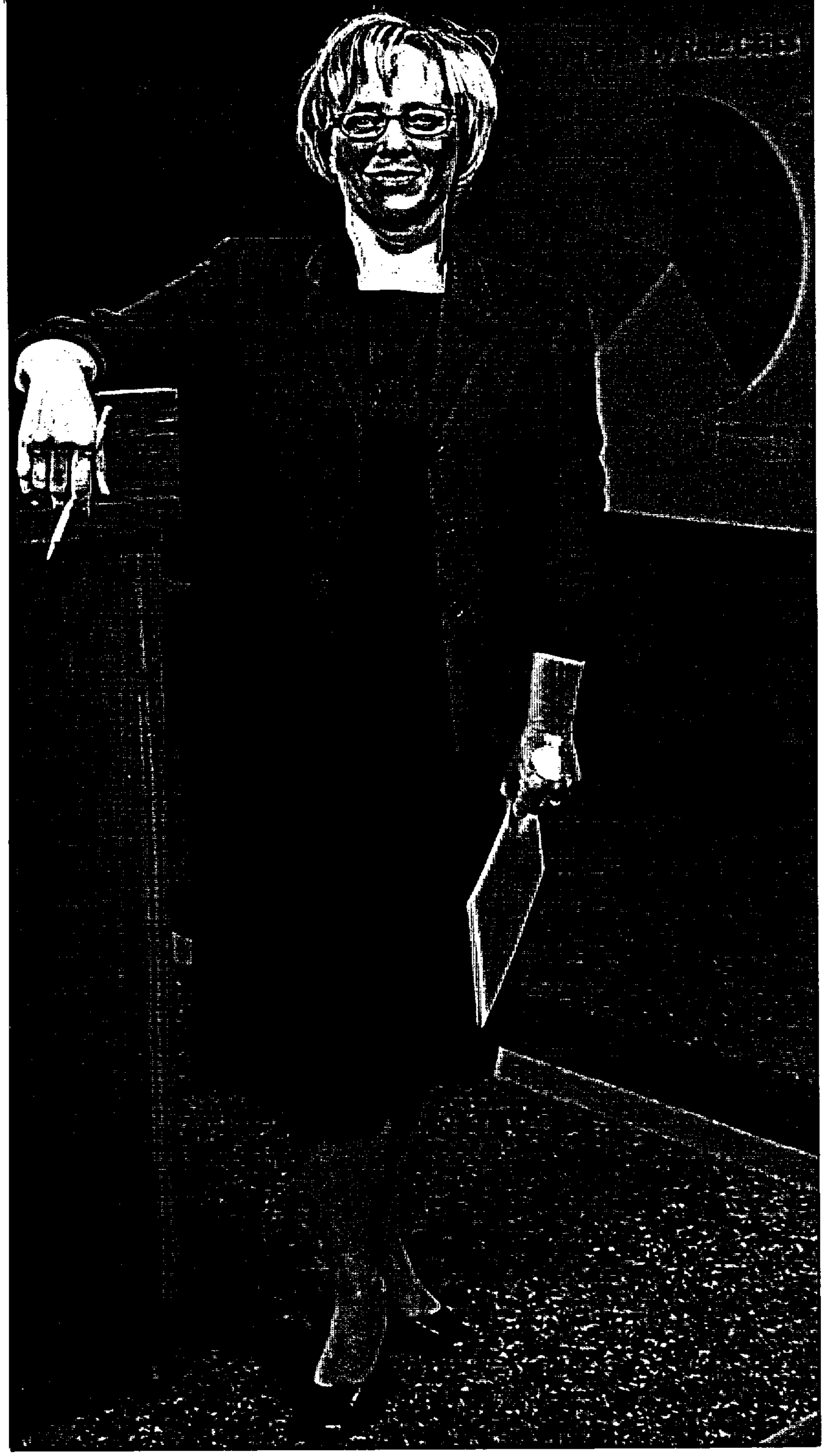
As Sr. Captain of the Ogallala Fire Department, Ray personifies confidence, professionalism and dedication.

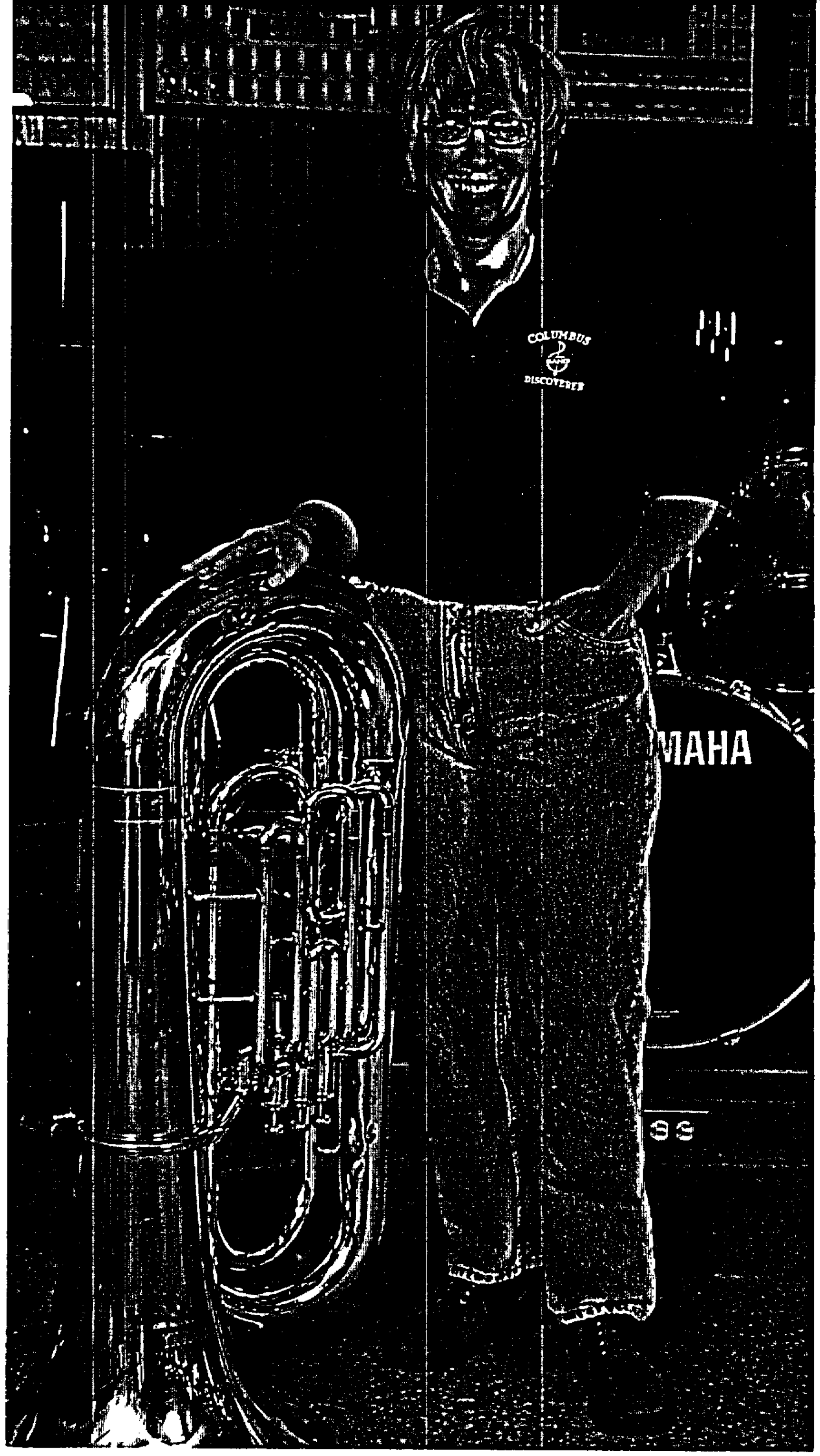
Rates & Costs. NPPD's financial performance ran the gamut in 2002. We had $634.6 million of operating revenue and $590.5 million of operating expenses. Increased revenues from both firm and off-system sales, lower interest costs on short-term debt and lower-than-expected operation and maintenance costs contributed to our solid financial performance. On the other hand, our expenses increased as NPPD took on all of the Cooper Nuclear Station decommissioning costs after settling the MidAmerican Energy Company and Lincoln Electric System lawsuits. These costs—as well as all of our nuclear system financials—are now consolidated into one set of financial statements found for the first time in this annual report. ¶ As a result of the litigation settlements, NPPD can now focus on running the plant more effectively and efficiently. Therefore, NPPD employees are working hard to improve the plant's performance. Cooper's higher-than-average employee turnover demanded that we create a retention plan to keep employees at the plant while improving performance. That plan costs money and, because of it, we will implement a 4 percent wholesale rate increase and a

Pricing and Rates Manager Dawn Petrus puts pencil to paper and revenue to rates on a daily basis. Her job is to focus on the bottom line



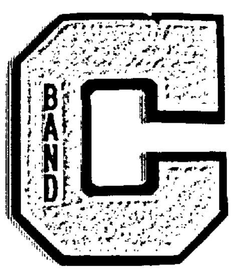
while developing rates that keep NPPD true to its promise of providing customers with low-cost electricity.




COLUMBUS
DISCOVERER
MAHA

3 percent retail rate increase effective Feb. 1, 2003. ¶ Raising rates was a last resort for NPPD. The company cut costs by improving its business processes. Employees looked at the way work was being done and asked themselves, their teammates and their customers how processes could be improved. Many times it was the employees themselves who made the tough choices to cut positions—even their own—in order to save money. These people kept customers at the forefront of their decisions. Beginning next year, NPPD will have reduced its annual costs by nearly $20 million through cost-containment processes and by lowering energy/fuel and debt service costs. ¶ The effects of Sept. 11, 2001, lingered into 2002 and raised the awareness to better protect our employees and assets. Our facilities now have heightened security measures in place. In addition, NPPD began investing in the future by funding the Beatrice Power Station, a transmission line upgrade and securing a tract of land for a possible coal plant. These investments will be an important part of NPPD's financial future and an integral part of our overall stability for our customers.

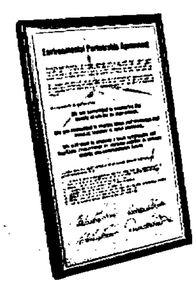
Dawn Petrus is instrumental after hours as president of the Columbus High School Band Booster Club.



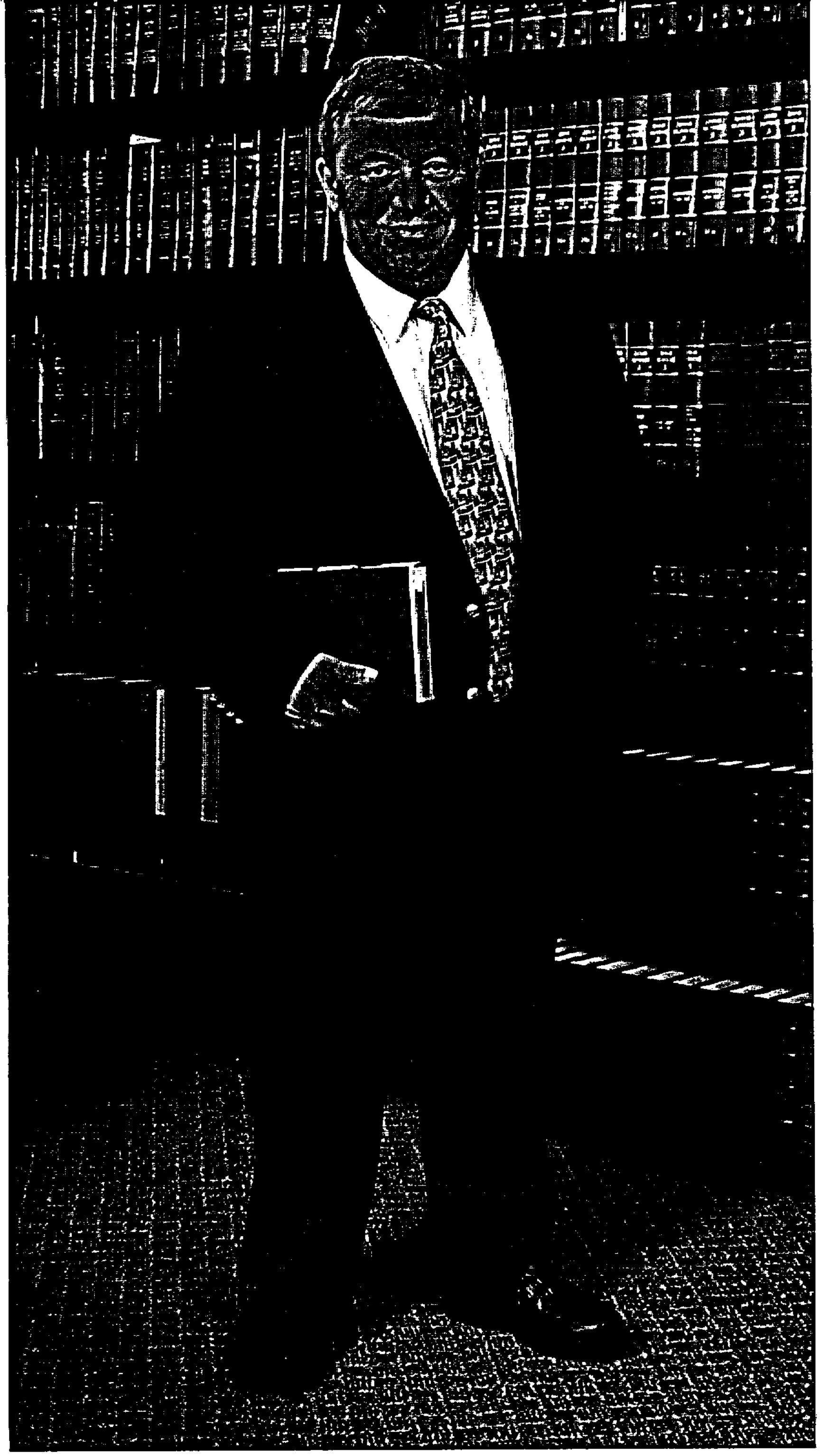
Whether it is a fundraiser or marching band competition, she actively supports the 150-member ensemble.

Economic Development. Ethanol definitely had Nebraska's attention in 2002. Accelerated development of ethanol projects was prompted by federal proposals and state legislation providing production incentives for new plants producing fuel-grade ethanol. Ten ethanol plants were in production or had received approval for construction across the state by year's end. New facilities supported by NPPD's Economic Development Team ranged from the 20-million gallon Husker Ag plant under construction near Plainview to the 40-million gallon plant to be built just east of Central City by Fagen, Inc. ¶ Just a few of our successful economic development efforts this year included assisting with the location of the First National Bank of Omaha call center facility in Bloomfield; Pipe Products, a manufacturer of concrete pipe in Plattsmouth; a new claims center for Employer's Unity in North Platte; and expansion of the Sara Lee Bakery Group bagel production facility in South Sioux City. These projects, along with other economic development successes during the year, will result in approximately 800 additional jobs. Environmental Issues. NPPD's partnership with the Nebraska Department of Environmental Quality, established in 2000, continued throughout 2002. The relationship was best depicted through

The environment plays a key role in NPPD's planning and production of electricity. Whether analyzing water supplies, seeking permits or



protecting habitats, Environmental Services Manager Joe Citta must anticipate and act on behalf of NPPD in both the federal and state arenas.



such interactions as a methane-recovery workshop with livestock producers, rural utility officials, regulators and zoning officials, as well as continued discussions, assistance and support regarding renewable energy, wind and water issues. ¶ Other environmental advances included the review and evaluation of multipollutant control legislation, renewing water quality permits and providing permitting support for the future combined-cycle power plant. ¶ Water supply issues, in particular, posed several challenges to NPPD this year. The drought caused a shortage of water for Lake McConaughy, the Platte River and our irrigation customers; and the political issues of tourism, environmental concerns and industry needs raised the visibility of sharing the Missouri River between South Dakota and upstream and downstream states. NPPD proactively developed a drought scenario strategy for our irrigation customers along the Platte River and gained approval to increase the temperature limit for water discharge at Cooper Nuclear Station, located on the Missouri River. ¶ Anticipating these issues, while keeping an eye on costs, we will improve our business operations through smart decisions, effective planning, sound management and quality customer service. This is our challenge and our promise—to and for the people we serve.

Serving as president of the Todd Valley Wetlands Foundation, among many other environmental

organizations, Joe Citta shares his love for nature, wildlife and Nebraska's outdoors.

SALES	Average Number of Customers	Electric Energy MWH Sales Amount	%	Revenues from Electric Sales (000's) Amount	%	Revenue Per KWH
Retail:						
Residential	67,747	767,967	4.1	$ 68,739	10.8	8.95¢
Rural & Farm	2,830	62,211	0.3	4,880	0.8	7.84¢
Commercial	14,633	834,606	4.5	53,845	8.5	6.45¢
Industrial	55	1,110,503	5.9	35,520	5.6	3.20¢
Public Lighting	193	18,604	0.1	2,015	0.3	10.83¢
Municipal Power	179	31,775	0.2	2,048	0.3	6.45¢
Miscellaneous Municipal	1,868	117,086	0.6	5,749	0.9	4.91¢
Total Retail Sales	87,505	2,942,752	15.7	172,796	27.2	5.87¢
Wholesale:						
52 Municipalities (Total Requirements)		1,790,049	9.5	67,521	10.7	3.77¢
2 Municipalities (Partial Requirements)		39,871	0.2	1,482	0.2	3.72¢
24 Public Power Districts & Cooperatives (Total Requirements)		5,982,110	31.9	204,147	32.2	3.41¢
Total Wholesale Sales (Excluding Nonfirm and Sales to LES and MEC)		7,812,030	41.6	273,150	43.1	3.50¢
Total Retail and Wholesale Sales (Excluding Nonfirm and Sales to LES and MEC)		10,754,782	57.3	445,946	70.3	4.15¢
Other Utilities (Firm and Nonfirm)		2,775,584	14.8	62,228	9.8	2.24¢
Sales to LES and MEC (1)		5,224,375	27.9	153,177	24.1	2.93¢
Total Revenues from Electric Energy Sales		18,754,741	100.0	661,351	104.2	3.53¢
Other Operating Revenues (Net of Deferred)				(26,721)	(4.2)	
Total Operating Revenues				$ 634,630	100.0	

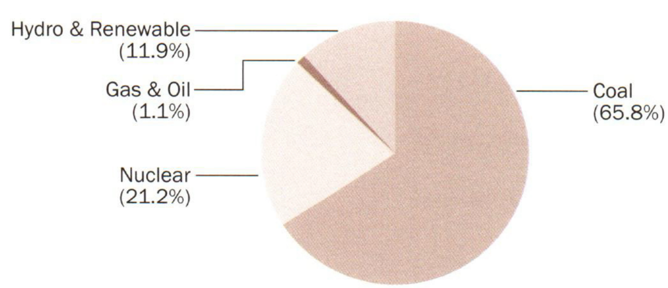
GENERATION	MWH Amount	%	Production Costs (000's) Amount	%
Production (Including Interchange)	17,479,880	90.7	$ 257,572	83.2
Power Purchased	1,795,365	9.3	51,897	16.8
Total Power Produced and Purchased	19,275,245	100.0	$ 309,469	100.0

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

Miles of Transmission Line in Service	5,141
Number of Employees	2,262
2002 Accrued Contractual and Tax Payments (000's):	
Lease Payments to Retail Towns	$ 16,269
Payments in Lieu of Taxes	$ 6,049

SOURCES OF ENERGY — 2002

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



C01

The following Management's Discussion and Analysis should be read in conjunction with the audited Financial Statements and Notes to Financial Statements beginning on page 24.

OVERVIEW OF BUSINESS

Nebraska Public Power District (the "District") operates an integrated electric utility system including facilities for generation, transmission and distribution of electric power and energy for sales at wholesale and retail. The District is a summer peaking utility. An all-time summer peak of 2,370 MW was established in July 2002 for the District's firm requirements customers. In contrast, the District's all-time winter peak is 1,737 MW, which was established in January 2003. The District owns or has operating control over 33 generating plants, which had a combined accredited capacity during the summer of 2002 of 2,883.7 MW.

GENERATION PLANTS

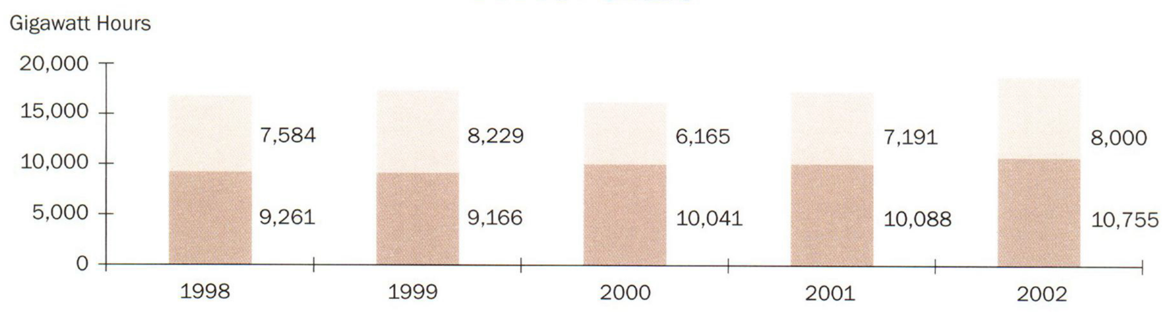
Type:	Number of Plants (1)	Accredited Capability (MW)	Percent of Total
Coal - Gerald Gentleman Station	1	1,365.0	47.3
Coal - Sheldon Station	1	225.0	7.8
Gas/Oil - Canaday Station	1	118.0	4.1
Nuclear - Cooper Nuclear Station	1	758.0	26.3
Hydro	9	162.2	5.6
Diesel	17	100.5	3.5
Combustion Turbine	3	155.0	5.4
	33	2,883.7	100.0

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

In addition to the above generating plants, the District purchases firm power from the Western Area Power Administration and non-firm energy on the wholesale energy market. The District also owns and operates 5,141 miles of transmission and subtransmission lines, encompassing the entire State of Nebraska.

The District's customer base for firm energy sales consists of approximately 87,500 retail customers plus 76 municipalities, public power districts, and cooperatives that are total requirements wholesale customers of the District. In addition, the District has several participation sale contracts in place with other utilities for the sale of power and energy at wholesale from specific generating plants. The District also sells energy on a non-firm basis in the wholesale energy market.

ENERGY SALES(1)



(1) All years include the sale of energy to MEC from Cooper Nuclear Station

Prior to 2002, the District had two accounting divisions as required by separate Bond Resolutions, the Nuclear Facility Revenue Bond Resolution and the General System Revenue Bond Resolution. The costs of the District's nuclear generating facility, Cooper Nuclear Station ("CNS"), were accounted for separately from the remainder of the District's operations. On August 1, 2002, the District defeased all outstanding nuclear facility debt and legally discharged its obligations under the Nuclear Facility Revenue Bond Resolution. This allowed for the financial consolidation of the two divisions. The financial statements reflect this transaction for all years presented.

C02

CONDENSED BALANCE SHEETS

	2002	2001
Condensed Balance Sheets (000's):		
Utility Plant, net	$ 1,475,440	$ 1,525,990
Special Purpose Funds	508,910	414,686
Current Assets	351,747	321,452
Deferred Charges and Other Assets	123,187	89,732
Total Assets	$ 2,459,284	$ 2,351,860
Fund Equity	$ 702,691	$ 669,761
Long-Term Debt	1,148,457	1,201,032
Current Liabilities	208,923	162,219
Deferred Credits and Other Liabilities	399,213	318,848
Total Fund Equity and Liabilities	$ 2,459,284	$ 2,351,860

RESULTS OF OPERATIONS

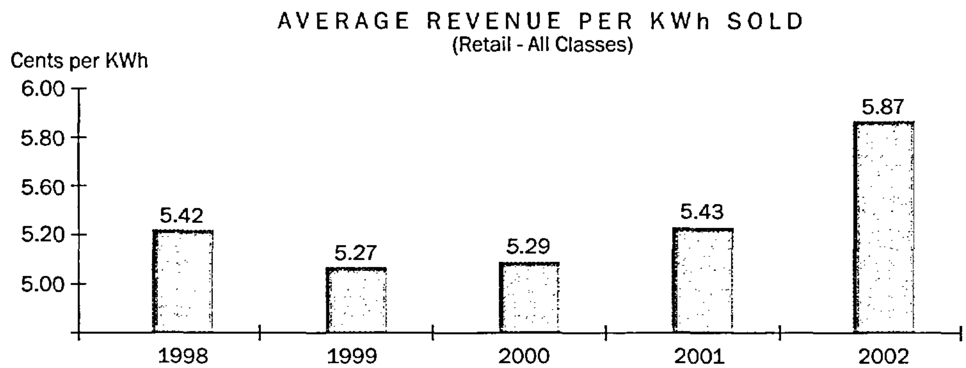
	2002	2001
Condensed Statements of Revenues, Expenses, and Changes in Fund Equity (000's):		
Operating Revenues	$ 634,630	$ 625,348
Operating Expenses	(590,521)	(598,644)
Operating Income	44,109	26,704
Investment and Other Income	48,621	48,620
Debt and Other Expenses	(59,800)	(63,085)
Increase in Fund Equity	$ 32,930	$ 12,239

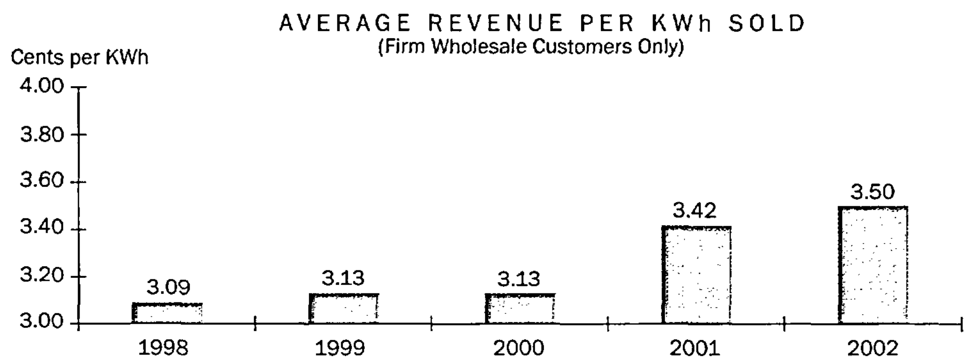
Total operating revenues were $634.6 million in 2002 compared to $625.3 million in 2001. The sources of operating revenues were as follows:

	($ Millions)	
	2002	2001
Firm Sales - Wholesale & Retail	$ 445.9	$ 403.1
Participation Sales	153.2	162.3
Sales to Other Utilities	62.2	60.9
Other Operating Revenue	18.6	18.9
Deferred Revenue	(45.3)	(19.9)
Total Operating Revenue	$ 634.6	$ 625.3

Revenues From Firm Sales

Firm sales increased $42.8 million, or 10.6%, in 2002 compared to 2001. This increase reflects increased energy sales of 6.6% and increases in both wholesale and retail electric rates of 4.0% and 8.4% respectively.





Revenues From Participation Sales and Sales to Other Utilities

The District currently makes participation sales to Lincoln Electric System ("LES") from the power and energy produced at CNS, Gerald Gentleman Station and Sheldon Station; to MidAmerican Energy Company ("MEC") from CNS; and to Aquila, Inc. and Municipal Energy Agency of Nebraska from Gerald Gentleman Station. The District also engages in sales of energy with other utilities on a non-firm basis.

The decrease in participation sales revenue of $9.1 million in 2002 is primarily related to participation sales to LES and MEC from the District's nuclear facility. The decrease reflects new pricing arrangements for power and energy sold to LES and MEC pursuant to settlement agreements reached on July 31, 2002, between the respective parties concerning litigation related to CNS.

Sales to other utilities consist primarily of non-firm off-system sales. The Energy Authority ("TEA"), of which the District is a member, has energy marketing responsibilities for the District's off-system sales and the related management of credit risks.

Deferred Revenues

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

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

The District recognizes all revenues in excess of revenue requirements in any year as a deferral or reduction of revenues. Such surplus revenues are excluded from the net revenues available under the General Resolution to meet debt service requirements for such year. The District recognizes any deficiency in revenues needed to meet revenue requirements in any year as an accrual or increase in revenues, even though the revenue accrual will not be realized as "cash" until some future rate period. Such revenue deficiency is included, in the year accrued, in the net revenues available under the General Resolution to meet debt service requirements for such year.

Surplus revenues are included in the determination of net revenues available under the General Resolution to meet debt service requirements in the year that such surplus revenues are taken into account in setting rates. Revenue deficiencies are excluded in the determination of net revenues available under the General Resolution to meet debt service requirements in the year that such revenue deficit is taken into account in setting rates.

The District deferred or reduced revenues $45.3 million in 2002 compared to $19.9 million in 2001. The District's rates for firm wholesale and retail electric service resulted in surplus net revenues in 2002 of $43.3 million, which amount was deferred (decrease in revenues). In addition, the wholesale and retail rates recovered $2.0 million of deficit net revenues from past years. Such deficits had previously been accounted for as accrued revenue in the year the deficit occurred. Accordingly, the 2002 revenues from electric rates are offset by the revenue adjustment (decrease) for this deficit collected in the 2002 rates. For 2001, the $19.9 million represents a $17.6 million revenue adjustment (decrease) for deficits from prior years that were collected in revenues from electric sales in 2001 and a $2.3 million surplus net revenues in 2001 due to the unrealized gain attributed to the mark to market of the District's investment securities in 2001.

As of December 31, 2002, the District had $37.3 million of surplus deferred revenues yet to be applied as credits against revenue requirements in future rate periods, of which $20.0 million was utilized for such purposes in setting wholesale and retail electric rates for 2003. As of December 31, 2001, the District had a deficiency in net revenues of $8.0 million yet to be recovered in future rate periods.

Operating Expenses

As reflected in the audited financial statements, total operating expenses in 2002 were $590.5 million, a decrease of $8.1 million from 2001. Purchased power and production fuel expenses increased $12.9 million in 2002 compared to 2001 because of higher energy sales to the District's firm wholesale and retail customers that resulted from the hot-dry summer weather conditions. Production operation and maintenance costs decreased $23.4 million since there was not a planned refueling and maintenance outage at the District's nuclear facility in 2002, while there was such an outage in 2001. Customer service and information expenses increased $9.7 million in 2002. This increase is the net result from the write-off of $11.4 million of unpaid billings by LES and MEC from December 2000 through May 2002 for CNS decommissioning related costs and $1.7 million of other cost reductions. Administrative and general expenses decreased $3.5 million in 2002 as a result of cost reduction efforts achieved by the District.

Depreciation expenses decreased $13.7 million in 2002 due to the defeasance of the Nuclear Facility Revenue bonds. Prior to this, the depreciation method for the nuclear facility plant was based on the annual maturity of bond principal on the outstanding debt.

Increase in Fund Equity

Fund equity (net revenues) increased from $12.2 million in 2001 to $32.9 million in 2002 primarily as a result of the items noted above.

CAPITAL REQUIREMENTS

The District's Board of Director's authorized capital projects totaling approximately $312.8 million in 2002. Included in the authorization was $240.8 million for a new 229 MW combined-cycle natural gas fired generation plant and related facilities, which are scheduled to be operational by the summer of 2005. The remaining $72.0 million of capital projects included renewals and replacements to existing facilities and other additions and improvements. The District's authorized capital projects totalled $79.8 million in 2001. The District's Board approved budget for capital projects in 2003 is $76.4 million. The District's capital requirements are funded by a combination of monies generated from operations, issuance of revenue bonds, issuance of short-term debt, and other available reserve funds.

FINANCING ACTIVITIES

The District had $1.120 billion (par amount) of outstanding revenue bonds at December 31, 2002, as compared to $1.118 billion (par amount) at December 31, 2001. The revenue bonds outstanding are at fixed interest rates and were issued at premiums or discounts. In addition, the District had outstanding $77.9 million of tax-exempt commercial paper (TECP) notes at December 31, 2002 as compared to $108.0 million of TECP notes outstanding as of December 31, 2001. Taxable commercial paper (TCP) notes totalling $60.5 million were also outstanding on December 31, 2001. A bank credit agreement is maintained to support the sale of the commercial paper notes. The District had $75.0 million of construction notes outstanding at December 31, 2002.

The District issued the $75.0 million of construction notes in 2002 to fund the initial construction costs of the combined cycle generation plant. The District plans to issue additional tax-exempt debt in 2003 to refund the construction notes and provide for completion financing of this project. The District issued $48.4 million of revenue bonds at a premium in March 2002 to fund $29.9 million of authorized capital projects and to refund $19.0 million of TECP notes. Such TECP notes had previously been issued to pay the completion cost of environmental facilities constructed at the District's Gerald Gentleman Station coal-fired generating plant. In October 2002, the District issued $95.2 million of revenue bonds at a premium to refund the $60.5 million of outstanding TCP notes and to reimburse itself for a $39.1 million payment made to MEC in connection with the settlement of litigation related to the District's nuclear facility.

The District retired $69.0 million of General System Revenue Bonds and $17.0 million of Nuclear Facility Bonds in 2002. On August 1, 2002, the District legally defeased the remaining outstanding Nuclear Facility Revenue Bonds totaling $56.9 million. Such defeasance was funded with monies held in the Nuclear Facility debt service fund, debt service reserve fund, and other available funds on deposit under the Nuclear Facility Revenue Bond Resolution.

The District's credit ratings on its long-term debt as of December 31, 2002 were as follows:

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

Fitch's rating outlook of the District changed from stable to negative and S&P lowered their overall rating and outlook from A+ (negative outlook) to A (negative outlook). The changes were primarily related to Nuclear Regulatory Commission ("NRC") concerns with the District's nuclear facility as identified in the NRC's Reactor Oversight Process, CNS's increasing costs, and the uncertainty of CNS's future operation.

DEBT SERVICE COVERAGE

The District's debt service coverage increased from 1.47 in 2001 to 1.57 in 2002. The coverage is provided primarily by the amounts collected in operating revenues to fund the cost of utility plant additions, the amounts collected in operating revenues for principal and interest payments on the outstanding commercial paper notes, and the amounts collected in operating revenues to fund the cost of lease payments made to those municipalities that lease their electric distribution facilities to the District under long-term operating lease agreements. The District has established a goal in its planning process to target a minimum debt service coverage of approximately 1.5 times annual debt service.

CNS FUTURE OPERATION

The current power sale contracts with LES for the sale of 95 MW of power and energy from CNS and with MEC for the sale of 380 MW of power and energy from CNS end in September 2003 and December 2004, respectively. The District is presently evaluating various options regarding the future status of CNS, beyond December 2004. The plant, which has an accredited capacity of 758 MWs, is currently licensed to operate to January 2014. The options being considered include continuing to operate the plant, contracting for management services in operating the plant, transferring the operating license to a third party operator, creation of a public power nuclear operating company with one or more other utilities, or an early shut-down of CNS prior to the 2014 license expiration. The District's Board of Directors is expected to make a decision in the 3rd quarter of 2003 on the future operation of CNS.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Nebraska Public Power District

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and changes in fund equity and cash flows present fairly, in all material respects, the financial position of Nebraska Public Power District ("the District"), a public corporation and political subdivision of the State of Nebraska, at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, concurrent with the defeasance of the outstanding bonds of the Nuclear Facility, the District merged the operations of the Nuclear Facility into the General System. The financial statements referred to above reflect this transaction for all years presented.

As discussed in Note 2 to the financial statements, on January 1, 2002 the District adopted Governmental Accounting Standard No. 34 and changed the presentation of the financial statements. The management's discussion and analysis included on pages 19 through 23 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule, "Calculation of Debt Service Ratios in accordance with the General Revenue Bond Resolution for the years ended December 31, 2002 and 2001," is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2003 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended December 31, 2002. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

PricewaterhouseCoopers LLP

Kansas City, Missouri
March 21, 2003

Balance Sheets—December 31, 2002 and 2001 (000's)	2002	2001
ASSETS		
Utility Plant, at Cost:		
Utility plant in service	$ 2,958,976	$ 2,947,463
Less reserve for depreciation	1,639,634	1,601,569
	1,319,342	1,345,894
Construction work in progress	75,480	94,060
Nuclear fuel, at amortized cost	80,618	86,036
	1,475,440	1,525,990
Special Purpose Funds:		
Cash and cash equivalents:		
Construction funds	71,614	403
Debt reserve fund	3,968	825
Investments:		
Construction funds	29,549	26,726
Debt reserve fund	78,214	101,224
External decommissioning fund	325,565	285,508
	508,910	414,686
Current Assets:		
Cash and cash equivalents	50,538	30,067
Investments	155,994	151,678
Receivables, net	57,167	60,108
Fossil fuels, at average cost	20,277	17,028
Materials and supplies, at average cost	65,793	60,714
Prepayments and other current assets	1,978	1,857
	351,747	321,452
Deferred Charges and Other Assets:		
Prepaid capacity costs	48,864	50,930
Deferred settlement charges	39,100	—
Deferred charges	—	8,029
Accrued stay benefit costs	5,578	—
Unamortized financing costs	8,965	7,594
Investment in The Energy Authority	3,696	4,486
Receivables from sale of property	2,108	2,857
Other	14,876	15,836
	123,187	89,732
TOTAL ASSETS	$ 2,459,284	$ 2,351,860
FUND EQUITY AND LIABILITIES		
Fund Equity	$ 702,691	$ 669,761
Long-Term Debt:		
Revenue bonds, net	1,070,557	1,032,592
Commercial paper notes	77,900	168,440
	1,148,457	1,201,032
Current Liabilities:		
Current maturities of long-term debt	70,750	100,285
Construction notes	75,738	—
Accounts payable	38,579	37,979
Accrued in lieu of tax payments	6,145	5,394
Accrued lease payments	3,568	3,025
Other	14,143	15,536
	208,923	162,219
Deferred Credits and Other Liabilities:		
External decommissioning fund	325,565	285,508
Internal decommissioning fund	11,694	11,694
Deferred revenues	37,264	—
Other	24,690	21,646
	399,213	318,848
TOTAL FUND EQUITY AND LIABILITIES	$ 2,459,284	$ 2,351,860

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

Statements of Revenues, Expenses, and Changes in Fund Equity for the years ended December 31, (000's)	2002	2001
Operating Revenues	$ 634,630	$ 625,348
Operating Expenses:		
Power purchased	51,897	44,463
Production -		
Fuel	107,828	102,319
Operation and maintenance	149,744	173,158
Transmission and distribution operation and maintenance	32,974	31,997
Customer service and information	27,769	18,028
Administrative and general	47,504	50,970
Lease payments	16,269	14,646
Decommissioning	40,057	33,336
Depreciation and amortization	110,430	124,171
Payments in lieu of taxes	6,049	5,556
	590,521	598,644
Operating Income	44,109	26,704
Investment and Other Income:		
Investment income	46,297	45,409
Other income	2,324	3,211
	48,621	48,620
Increase in Fund Equity Before Debt and Other Expenses	92,730	75,324
Debt and Other Expenses:		
Interest on long-term debt	60,686	61,415
Allowance for funds used during construction	(1,120)	(2,208)
Other expenses	234	3,878
	59,800	63,085
Increase in Fund Equity	32,930	12,239
Fund Equity:		
Beginning balance	669,761	657,522
Ending balance	$ 702,691	$ 669,761

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

Statements of Cash Flows for the years ended December 31, (000's)	2002	2001
Cash Flows from Operating Activities:		
Receipts from customers	$ 734,431	$ 720,597
Payments to suppliers and employees	(524,134)	(523,590)
Net cash provided by operating activities	210,297	197,007
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	589,185	444,292
Purchase of investments	(568,991)	(470,047)
Income received on investments	12,924	15,073
Net cash provided by (used in) investing activities	33,118	(10,682)
Cash Flows from Capital and Related Financing Activities:		
Proceeds from issuance of bonds	150,489	—
Proceeds from issuance of notes	75,899	40,000
Proceeds from sale of plant under realignment	—	1,261
Proceeds from repayment of notes receivable	2,447	3,960
Capital expenditures for utility plant	(84,566)	(125,039)
Principal payments on bonds	(144,385)	(96,350)
Interest payments on bonds	(57,658)	(58,524)
Principal payments on notes	(90,540)	—
Interest payments on notes	(2,384)	(5,373)
Other non-operating revenues	2,108	2,844
Net cash used in capital and related financing activities	(148,590)	(237,221)
Net increase (decrease) in cash and cash equivalents	94,825	(50,896)
Cash and cash equivalents, beginning of year	31,295	82,191
Cash and cash equivalents, end of year	$ 126,120	$ 31,295
Reconciliation of Operating Income To Cash Provided By Operating Activities:		
Operating income	$ 44,109	$ 26,704
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expenses	110,430	124,171
Undistributed net revenue - The Energy Authority	790	(1,254)
Decommissioning	29,049	21,660
Amortization of nuclear fuel	26,384	20,170
Changes in assets and liabilities which provided (used) cash:		
Receivables, net	2,864	11,075
Materials and supplies	(5,079)	(683)
Fossil fuels	(3,249)	(2,286)
Prepayments and other current assets	(121)	262
Deferred settlement charges	(39,100)	—
Accrued stay benefit costs and other assets	(4,618)	(3,757)
Accounts payable and accrued lease payments	1,143	(22,028)
Deferred revenues	45,293	19,791
Other liabilities	2,402	3,182
Net cash provided by operating activities	$ 210,297	$ 197,007

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

Supplemental Schedule – Calculation of Debt Service Ratios in accordance with the General Revenue Bond Resolution for the years ended December 31, (000's)	2002	2001
Operating revenues	$ 634,630	$ 625,348
Operating expenses	(590,521)	(598,644)
Operating income	44,109	26,704
Investment and other income	48,621	48,620
Debt and other expenses	(59,800)	(63,085)
Increase (Decrease) in fund equity	32,930	12,239
Add:		
Debt and other expenses	59,800	63,085
Depreciation and amortization	110,430	124,171
Lease payments *	16,269	14,646
	186,499	201,902
Deduct:		
Gain on sale of property	183	61
Investment income retained in construction funds	2,036	1,405
Unrealized gain on investment securities	2,221	794
Nuclear facility debt service	21,943	35,393
	26,383	37,653
Fund equity available for debt service under the General Revenue Bond Resolution	$ 193,046	$ 176,488
Amounts deposited in the General System Debt Service Account:		
Principal	$ 70,495	$ 66,600
Interest	52,577	53,229
	$ 123,072	$ 119,829
Ratio of fund equity available for debt service to debt service deposits	1.57	1.47

* Under the provisions of the General Revenue Bond Resolution, the Lease payments required to be made by the District with respect to the lease of municipal retail electric distribution systems are to be made on the same basis as subordinated debt.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization -

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

Prior to 2002, the District had two separate divisions for accounting purposes consisting of the General System and the Nuclear Facility as was required by the respective Revenue Bond Resolutions. On August 1, 2002, the District defeased all remaining outstanding bonds of the Nuclear Facility allowing for the consolidation of the two divisions. Prior year amounts have been reclassified to conform to the consolidation of the two divisions as reported herein for the current year presentation. The financial statements are prepared in accordance with generally accepted accounting principles and follow accounting guidance 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.

B. Use of Estimates -

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

C. Revenue -

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

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

The surpluses and deficits from prior years have been accounted for in these financial statements by either a deferral or an accrual of revenue. The cumulative surplus at December 31, 2002, to be reflected in future revenue requirements is approximately $37.3 million.

D. Depreciation, Amortization and Maintenance -

The District records depreciation over the estimated useful life of the property primarily on a straight line basis. The District's electric rates are established based upon debt service and operating fund requirements. Straight-line depreciation is not considered in the design of rates. As such, the District has provided for depreciation of utility plant funded from debt in their rate settling process by using the debt service principal requirements as the basis for depreciation as opposed to the straight line basis of depreciation included in the financial statements of the District. Under the methodology employed in establishing rates, the cumulative excess of depreciation expense calculated using the debt service principal approach over the amount calculated using the straight-line method is $49.1 million at December 31, 2002 and the cumulative excess of depreciation expense calculated using straight-line method over the amount calculated using the debt service principal approach is $18.1 million at December 31, 2001. Depreciation expense calculated under the debt service principal approach exceeded straight-line depreciation by $67.2 million and $19.2 million for the years ended December 31, 2002 and 2001 respectively. Depreciation on utility plant was approximately 3% in each of the years ended December 31, 2002 and 2001.

Current rates allow for a portion of plant additions to be funded from revenues. These plant additions are capitalized and depreciated over their estimated useful life. At December 31, 2002 and 2001, $263.8 million and $242.8 million, respectively, of net utility plant was funded from revenues. Provision for depreciation of utility plant funded from revenues is computed using the straight-line method.

The District has long-term operating lease agreements with 75 municipalities for certain retail electric distribution systems. These lease agreements obligate the District to make lease payments based on gross revenues from the municipalities and pay for normal property additions during the term of the leases. The District has recorded provisions, net of retirements, for amortization of leased plant additions of $6.8 million in 2002 and $6.1 million in 2001. These leased plant additions, which are fully reserved, totaled $71.2 million at December 31, 2002 and $73.5 million at December 31, 2001.

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.

E. Cash and Investments -

The District follows GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools."* GASB 31 requires the District's investments to be recorded at market value with the changes in the market value of investments reported as Investment income in the Statement of Revenues, Expenses, and Changes in Fund Equity. Investments are recorded at market value as determined by quoted market prices.

Cash deposits, primarily interest bearing, are covered by federal depository insurance or pledged collateral of unregistered U.S. Government securities held by various depositories. Investments at December 31, 2002 and 2001, were in unregistered U.S. Government securities and Federal Agency obligations held in the District's name by the custodial banks.

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

F. Nuclear Fuel -

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

G. Deferred Costs -

The District has deferred the cost of a $39.1 million payment to MidAmerican Energy Company ("MEC") in conjunction with the settlement of litigation with respect to the operation of the District's Cooper Nuclear Station ("CNS"). The District has also deferred $5.6 million representing accrued stay benefits to CNS employees that remain employed at CNS through September 21, 2004. The deferred costs will be recognized as expense in future rate periods when such costs are included in the revenue requirements used to establish electric rates.

H. 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.

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

This allowance, which represents the cost of funds used to finance construction, is capitalized as a component of the cost of the utility plant and is credited to Debt and Other Expenses. The capitalization rate depends on the source of financing. The rate for construction financed with revenue bonds is based upon the interest cost of each bond issue less interest income. The rate for construction financed by revenues is based upon the weighted average rate of interest of the current outstanding revenue bonds. Construction financed on a short-term basis with tax-exempt commercial paper ("TECP') is charged a rate based upon the projected average interest cost of TECP outstanding. For the periods presented herein, the AFUDC rates for construction funded by revenue bonds or revenues vary from 4.9% to 5.6%. For construction financed on a short-term basis with TECP, the rate charged was 4.5% in 2002 and 4.4% in 2001.

J. Fund Equity -

Fund equity consists primarily of cumulative operating revenues collected for utility plant additions, net of related accumulated depreciation, and debt service principal payments. The remaining fund equity will be fully offset by future depreciation expense. In addition, fund equity includes cumulative interest income received on construction funds.

K. Recent Accounting Pronouncements -

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, *"Accounting for Asset Retirement Obligations."* This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement became effective for the District beginning in fiscal 2003. The District has not yet determined the financial statement impact of adopting the new statement.

2. ACCOUNTING CHANGES:

The District has adopted the provisions of GASB Statement No. 34, *"Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,"* as of January 1, 2002. As a result of adopting this statement, the basic financial statement presentation was significantly changed, including adding management's discussion and analysis of operating and financing activities and the Statement of Revenues and Expenses and Accumulated Net Revenue was renamed the Statement of Revenues, Expenses, and Changes in Fund Equity. The Statement of Cash Flows is required to be presented using the direct method (including a reconciliation of operating cash flows to operating income) and additional footnote disclosures have been added.

3. PREPAID CAPACITY COSTS:

Prepaid capacity 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 District is recording amortization on a straight-line basis over the 40 year estimated useful life of the facility. Accumulated amortization was $33.8 million in 2002 and $31.7 million in 2001.

The District has an agreement whereby Central makes available all the production of the facility and the District pays all costs of operating and maintaining the facility plus a charge based on the amount of energy delivered to the District. Costs of $0.8 million in 2002 and $1.1 million in 2001, respectively, are included in Power purchased.

4. UTILITY PLANT:

Utility plant activity for the year ended December 31, 2002 was as follows (000's):

	December 31, 2001	Increases	Decreases	December 31, 2002
Nondepreciable utility plant:				
Land and improvements	$ 37,298	$ 552	$ (45)	$ 37,805
Construction in progress	94,060	59,906	(78,486)	75,480
Nuclear fuel*	86,036	20,966	(26,384)	80,618
Total nondepreciable utility plant	217,394	81,424	(104,915)	193,903
Depreciable utility plant:				
Generation - Fossil	1,139,361	18,700	(58,598)	1,099,463
Generation - Nuclear	826,021	11,397	(1,779)	835,639
Transmission	562,682	29,538	(2,737)	589,483
Distribution	118,802	4,912	(74)	123,640
General	263,299	13,828	(4,181)	272,946
Total depreciable utility plant	2,910,165	78,375	(67,369)	2,921,171
Less reserve for depreciation:	(1,601,569)	(105,434)	67,369	(1,639,634)
Depreciable utility plant, net	1,308,596	(27,059)	—	1,281,537
Utility plant activity, net	$1,525,990	$54,365	$(104,915)	$1,475,440

*Nuclear fuel decreases represent amortization.

The 2003 construction plan includes authorization for future expenditures of $76.4 million. These expenditures will be funded from existing bond proceeds, revenues, other available funds and additional financings as deemed appropriate.

5. CAPITAL LEASE:

The District entered into a capital lease in June 2000 with the City of Norfolk, Nebraska for a new centralized retail customer call center. At the expiration of the capital lease in 2010, the District assumes ownership of the call center.

Future capital lease payments as of December 31, 2002 are as follows (000's):

Year	Payments
2003	$ 134
2004	134
2005	134
2006	134
2007	134
2008	134
2009	134
2010	67
Total payments	1,005
Less amounts representing interest	(215)
Net principal payments	$ 790

6. INVESTMENT IN THE ENERGY AUTHORITY:

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

The table below contains the condensed unaudited financial information for TEA as of December 31, 2002 (000's):

Condensed Balance Sheet		
Current Assets	$	97,209
Noncurrent and Restricted Assets		12,779
Total Assets	$	109,988
Current Liabilities	$	76,578
Noncurrent Liabilities		10,163
Members' Equity		23,247
Total Liabilities and Equity	$	109,988
Condensed Statement of Operations		
Revenues	$	498,111
Energy Costs		(407,433)
Gross Margin		90,678
Operating Expenses		(14,554)
Operating Revenues		76,124
Non-Operating Income		313
Net Revenues	$	76,437

As of December 31, 2002 and 2001, the District had a 21.4% ownership interest in TEA. Generally, the member's share of net revenue generated by TEA is not based on ownership percentage, rather each member's share of net revenue is based on their purchased power and power sales with TEA. The Energy Authority revenue generated from non-member transactions is distributed to members based on ownership percentage. The District's power purchases and sales are reflected in Power purchased and Operating Revenues, respectively, on the Statements of Revenues, Expenses, and Changes in Fund Equity. The District recorded power purchases and sales with TEA of $16.4 million and $31.2 million, respectively, during 2002, and $7.3 million and $31.8 million, respectively, during 2001. Included in Receivables is $3.9 million and $1.6 million due from TEA as of December 31, 2002 and 2001, respectively, related to December sales to TEA. Additionally, included in Accounts payable is $1.2 million and $1.0 million due to TEA as of December 31, 2002 and 2001, respectively, related to December purchases from TEA. Investment in The Energy Authority includes $3.2 million of contributed capital and TEA net revenue attributable to the District that has been retained by TEA for working capital purposes. Such amounts retained by TEA totaled $0.5 million and $1.3 million at December 31, 2002 and 2001, respectively. The net change in undistributed net revenue reported in the Statements of Cash Flows of $0.8 million and $1.3 million for the years ended December 31, 2002 and 2001, respectively, have been recognized in Operating Revenues.

In addition to the contributed capital, the District is providing certain guarantees not exceeding $28.9 million as credit support for electric trading by TEA. The District also paid a membership fee of $2.6 million in 1999 which is being amortized over a five-year period.

7. SPECIAL PURPOSE FUNDS:

Special purpose funds of the District are as follows:

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

The Debt reserve fund, as established under the Resolution, consists of a Primary account and a Secondary account. The District is required by the Resolution to maintain an amount equal to fifty percent of the maximum amount of interest accrued in the current or any future year in the Primary account. Such amount totaled $29.7 million and $29.5 million as of December 31, 2002 and 2001, respectively. The Secondary account can be established at such amounts and can be utilized for any lawful purpose as determined by the District's Board of Directors. Such account totaled $52.5 million and $52.0 million as of December 31, 2002 and 2001, respectively.

Prior to the defeasance of the remaining outstanding Nuclear Facility bonds, a Debt reserve fund, as established under the Nuclear Facility Revenue Bond Resolution, was required to be maintained by the District in an amount equal to the maximum aggregate annual interest requirement on all bonds of each series for which bonds were outstanding, calculated as of the dates of original issuance. Such amount totaled $20.5 million as of December 31, 2001.

The External decommissioning fund is utilized to account for the investments held to fund the estimated cost of decommissioning the CNS when its operating license expires. The External decommissioning fund is held by an outside trustee in compliance with the decommissioning funding plans approved by the District's Board of Directors.

8. REVENUE BONDS:

In March 2002, the District issued General Revenue Bonds, 2002 Series A, in the amount of $48,390,000 to refund a portion of the outstanding tax-exempt commercial paper notes and to pay for the costs of acquisition and construction of various improvements and additions to the District's infrastructure.

On August 1, 2002, the District defeased all outstanding nuclear facility debt and legally discharged its obligations under the Nuclear Facility Revenue Bond Resolution.

In October 2002, the District issued General Revenue Bonds, 2002 Series B, in the amount of $95,205,000 for the principal purpose of refunding all the outstanding taxable commercial paper notes and to reimburse itself for a payment made to MEC in settlement of litigation.

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

December 31,	Interest Rate	2002	2001
General Revenue Bonds:			
1998 Series A:			
Serial Bonds			
2002 - 2016	4.20% - 5.25%	$ 505,135	$ 548,345
Term Bonds			
2017 - 2027	5.00%	13,485	13,485
Capital Appreciation Bonds			
2005	4.65% *	21,448	20,485
2006	4.70% *	22,110	21,106
2007	4.75% *	23,146	22,085
1998 Series B:			
Serial Bonds			
2002 - 2017	4.25% - 5.25%	132,635	151,010
Term Bonds			
2018 - 2027	5.00%	83,570	83,570
1999 Series A Serial Bonds 2002 -2018	4.00% - 5.125%	176,545	183,925
2002 Series A Serial Bonds 2002 - 2006	3.00% - 5.00%	46,860	—
2002 Series B:			
Serial Bonds			
2002 - 2025	4.00% - 5.00%	72,320	—
Term Bonds			
2026 - 2032	5.00%	22,885	—
Nuclear Facility Revenue Bonds:			
1968 Series Term Bonds 2002	5.10%	—	14,285
1992 Series Serial Bonds 2002 - 2003	5.50% - 5.70%	—	59,605
Total par amount of revenue bonds		1,120,139	1,117,901
Unamortized premium net of discount		21,168	14,976
		1,141,307	1,132,877
Less - current maturities of revenue bonds		(70,750)	(100,285)
Total revenue bonds		$1,070,557	$1,032,592

*Approximates yield to maturity.

Debt service payments and principal payments of the General Revenue Bonds as of December 31, 2002 are as follows (000's):

Year	Debt Service Payments	Principal Payments
2003	$ 124,315	$ 70,750
2004	119,969	69,945
2005	119,535	73,073
2006	148,447**	104,520**
2007	102,406	62,551
2008-2012	530,180	378,665
2013-2017	274,583	208,670
2018-2022	106,321	77,810
2023-2027	70,144	57,030
2028-2032	19,777	17,125
Total Payments	$1,615,677	$1,120,139

**Includes $39,170,000 of $40,365,000 principal amount of the 2002 Series A Bonds maturing in 2006 which the District expects to refinance with General Revenue Bonds.

The fair value of outstanding revenue bonds is determined using rates currently available to the District. The fair value is estimated to be $1,208.7 million and $1,151.1 million at December 31, 2002 and December 31, 2001, respectively.

9. COMMERCIAL PAPER NOTES:

The District is authorized to issue up to $150.0 million of tax-exempt commercial paper ("TECP") notes and had authorization to issue up to $80.0 million of taxable commercial paper ("TCP") notes until November 1, 2002. A credit agreement, which expires November 1, 2005, is maintained with a bank to support the sale of the TECP commercial paper notes. The credit agreement to support the sale of the TCP notes was terminated effective November 1, 2002. The District has outstanding as of December 31, 2002, $77.9 million of TECP. The proceeds of the TECP notes have been used to provide short-term financing for certain capital additions and for other lawful purposes of the District. The effective interest rates on outstanding TECP notes for 2002 and 2001 were 1.5% and 2.8%, respectively.

The District refunded the TCP notes with tax-exempt revenue bonds in October 2002. The effective interest rates on outstanding TCP notes for 2002 and 2001 were 2.0% and 4.2% respectively.

The $77.9 million of TECP commercial paper notes outstanding at December 31, 2002, are anticipated to be retired by future collections through electric rates and issuance of revenue bonds. The carrying value of commercial paper notes approximates market due to the short-term nature of the notes.

10. LONG-TERM DEBT:

Long-term debt activity net of current activity for the year ended December 31, 2002 was as follows (000's):

	December 31, 2001	Increases	Decreases	December 31, 2002	Principal Amounts Due Within One Year
Revenue bonds	$1,032,592	$155,711	($117,746)	$1,070,557	$ 70,750
Commercial paper notes	168,440	—	(90,540)	77,900	—
Total long-term debt activity	$1,201,032	$155,711	($208,286)	$1,148,457	$70,750

11. CONSTRUCTION NOTES:

In May 2002, the District issued Construction Notes, 2002 Series, in the amount of $75.0 million to finance a portion of the cost of construction of a combined cycle natural gas-fired electric generating plant and related facilities. The Construction Notes have an interest rate of 3.5% and are due December 1, 2003. The District expects to issue revenue bonds in 2003 for the purpose of refunding the construction notes and funding the completion costs of this project.

12. PAYMENTS IN LIEU OF TAXES:

The District is required to make payments in lieu of taxes, aggregating 5% of the gross revenue derived from electric retail sales within the city limits of incorporated cities and towns served directly by the District.

13. NUCLEAR PLANT DECOMMISSIONING:

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 to accumulate amounts to pay the future decommissioning costs of CNS. Investment earnings of the external trust fund stay in the fund. Until such time that the District provides written certification to the NRC that plant operations have permanently ceased, the District is restricted from withdrawing any moneys from the fund. The NRC requires funding sufficient for the dismantlement and disposal of radioactive structures and materials as necessary to terminate the District's operating license. The minimum amount to be accumulated by the District in said trust fund for decommissioning costs to meet the NRC's decommissioning requirements for DECON (prompt dismantlement), as calculated using the NRC's generic formula, is $413.8 million in 2002 dollars. The District's site-specific cost estimate for prompt dismantlement of CNS is $388.3 million in 2002 dollars. To fund these requirements, the District has accumulated $325.6 million in the external decommissioning fund as of December 31, 2002. The District plans to use the SAFSTOR (safe storage with delayed dismantlement) decommissioning methodology, which is also allowable under NRC regulations. The District's site specific cost estimate for dismantlement and disposal of radioactive structures and materials at CNS using the SAFSTOR methodology is approximately $255.0 million in 2002 dollars. The District, for decommissioning planning purposes, has assumed an annual escalation rate for decommissioning costs of 4% and a nominal rate of return of 6.75% on monies in the decommissioning fund.

The NRC requirements for decommissioning do not include the cost of interim storage of spent fuel, dismantlement of non-radioactive structures and materials beyond that necessary to terminate the District's applicable licenses, and certain post shutdown employee related costs (non-NRC required decommissioning related costs). For purposes of accumulating amounts for these additional non-NRC required decommissioning related costs, the District's Board of Directors has established an internal decommissioning fund. The estimated non-NRC required post shutdown decommissioning related costs are $234.0 million in 2002 dollars. To fund these

requirements the District has accumulated in the internal decommissioning fund, as of December 31, 2002 and 2001, $11.7 million. Funds accumulated in the external decommissioning fund that are expected to be excess of those required for SAFSTOR will be transferred to the internal decommissioning fund during plant decommissioning. In addition, the District's current funding plan estimates that approximately $3.9 million per year will need to be included in the District's wholesale and retail rates through January 1, 2014.

It is expected that the costs of decommissioning, to include non-NRC required decommissioning related costs, will be funded from revenues, accumulated investment earnings on the decommissioning funds, and other funds derived from the ownership and operation CNS. The District anticipates that sufficient funds will be available in accordance with the NRC decommissioning rules to decommission CNS at the end of the current operating license on January 18, 2014. The District intends to periodically review the costs and methods of funding as a result of changing conditions and requirements for decommissioning.

14. LOW-LEVEL RADIOACTIVE WASTE DISPOSAL:

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

15. DEPARTMENT OF ENERGY FACILITIES ASSESSMENT:

Under the provisions of the National Energy Policy Act adopted in 1992, the District is subject to assessments initially 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 ("DOE") operated uranium enrichment facilities. Such assessments commenced in 1993 and are to end in 2006. The District and a number of other utilities have filed legal proceedings to challenge DOE's past and future collections. The estimated aggregate amount for such annual assessments for the 4 remaining years is approximately $9.4 million, or $2.3 million per year. The District has recorded such annual assessments by reflecting a liability and a matching deferred charge of approximately $9.4 million as of December 31, 2002 and $11.6 million as of December 31, 2001.

16. RETIREMENT PLAN:

The District's Employees' Retirement Plan (the "Plan") is a defined contribution pension plan established by the District to provide benefits at retirement to regular full-time and part-time employees of the District. At December 31, 2002, there were 2,161 Plan members. Plan members are required to contribute a minimum of 2%, up to a maximum of 5%, of covered salary. The District is required to contribute two times the Plan member's contribution based on covered salary up to $40,000. On covered salary greater than $40,000, the District is required to contribute one times the Plan member's contribution. Plan provisions and contribution requirements are established and may be amended by the District's Board of Directors. The District's contribution was $9.9 million for 2002 and $9.8 million for 2001.

Plan investments are valued at fair value. Short-term investments are valued 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 valued at estimated fair values.

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

American Express Trust Investment Contracts	30.9%
American Express Trust Equity Index Fund III	17.0%
PIMCO Total Return Fund	12.2%
T. Rowe Price Equity Income Fund	11.1%
Franklin Small Cap Growth Fund A	8.6%
AXP Growth Fund Y	8.3%
Templeton Foreign Fund	5.0%

17. POSTRETIREMENT BENEFITS:

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

The District amended the plan effective January 1, 1993. Employees hired on or after 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.

The District amended the plan effective January 1, 1999. Employees hired on or after January 1, 1999 are not eligible for postretirement hospital-medical benefits once they reach age 65 or Medicare eligibility.

The District also provides employees a life insurance benefit when they retire.

Substantially all of the District's retired and active employees are eligible for such benefits. Currently, the cost of these benefits is recognized as expense as the premiums are paid. The total cost of postretirement hospital-medical and life insurance benefits was $5.2 million for 2002 and $4.8 million for 2001.

Statement 12, Disclosure of Information on Post-employment 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.

18. COMMITMENTS AND CONTINGENCIES:

The District has coal supply contracts with minimum future payments of $157.6 million for the various coal contracts which expire through 2009. The District also has transportation contracts with minimum future payments of $128.4 million for the various transportation contracts which expire through 2011. These contacts are subject to price escalation adjustments.

The District has wholesale power purchase commitments with the Western Area Power Administration through 2020 with annual minimum future payments of approximately $16.0 million dollars. This contract is subject to rate changes.

The District has a power sales contract with MEC for the delivery of 380 megawatts of the accredited capacity and associated energy from CNS through December 31, 2004 and a power sales contract with LES for the delivery of 95 megawatts of the accredited capacity and associated energy from CNS through September 30, 2003, at prices as set forth in the respective contracts.

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

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 $88.1 million per unit owned in the event of any nuclear incident involving any licensed facility in the nation, with a maximum assessment of $10.0 million per year per incident per unit owned. To satisfy the obligation, the District has obtained a $10.0 million line of credit.

As part of the 1989 settlement agreement between General Electric Company ("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 CNS core loadings at no cost to the District until May 2002, which is the expiration of the current license for the Morris facility. After that date, storage will be at no cost to the District so long as GE can maintain the NRC license for the Morris Facility for a period of 20 additional years on essentially the existing design and operating configuration. GE has advised that they have submitted a request to the NRC for renewal of the license. 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 included as part of fuel costs and collected for in the District's rates for electric service.

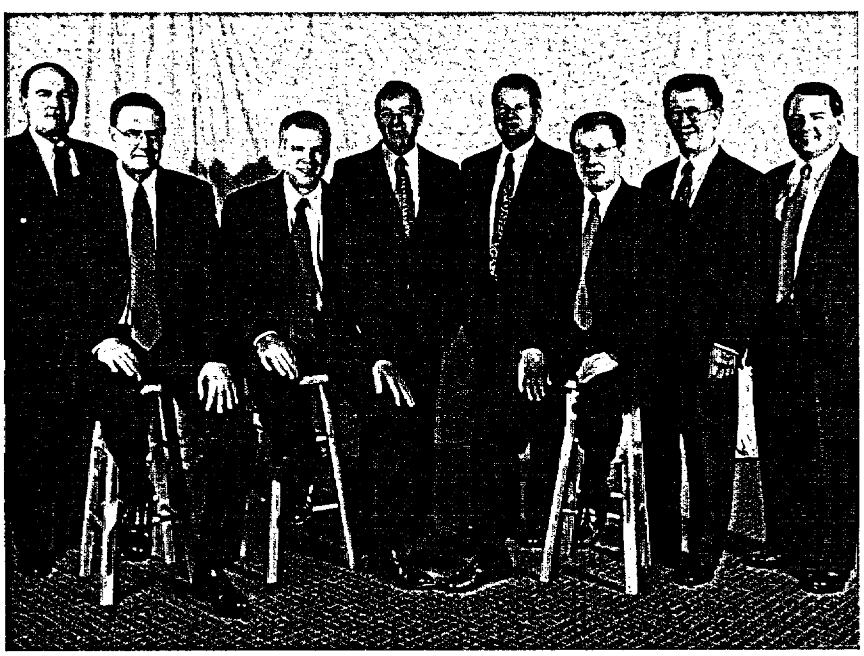
On December 4, 2002, Region VII of the Environmental Protection Agency sent a letter to the District, and three other utilities located within Region VII, requesting documents and certain information pursuant to Section 114(a) of the federal Clean Air Act. The letter requests pertain to the District's Gerald Gentleman Station and Sheldon Station. The EPA is interested in determining compliance with the Clean Air Act, Nebraska's implementation plan and potential application of federal new source review requirements. In general, a finding of non-compliance can require the installation of air pollution control equipment and the assessment of penalties. Although the District will do so, it has not yet completed responding to the letter requests nor has the District responded to a subsequent informal request from Region VII.

19. LITIGATION:

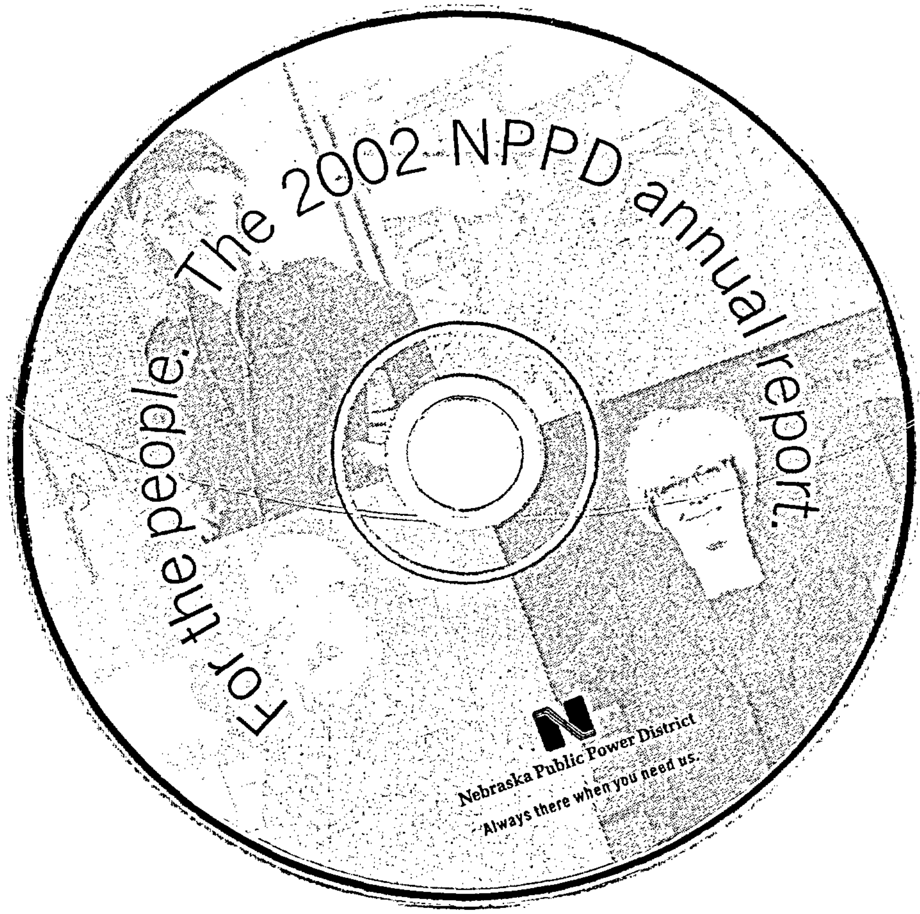
Litigation between the District and MEC and between the District and Lincoln Electric System ("LES") had occurred with respect to, among other things, the operation of CNS. On July 31, 2002, the District executed separate settlement agreements with MEC and LES which provided for the release and discharge by each party from any and all claims of any kind and nature whatsoever with respect to CNS and the agreement by the District to hold harmless and indemnify MEC and LES from and against any and all costs and expenses that the District has accrued, incurred or paid or will accrue, incur or pay with respect to CNS, including, without limitations, decommissioning costs, spent fuel costs, employee retention costs and post-retirement medical benefits. The settlement agreement with MEC also provided for the District to pay MEC $39.1 million. In addition, as part of the previous litigation between the District and MEC and between the District and LES, MEC and LES withheld payment of decomissioning costs billed to them by the District since December 2000. The withheld amount of $11.4 million was written off in 2002 as a customer service and information operating expense. Concurrently with such settlements, the District defeased all outstanding Nuclear Facility Revenue Bonds and satisfied and discharged the Nuclear Facility Revenue Bond Resolution as of August 1, 2002.

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 operation and cash flows of the District as of December 31, 2002.

BOARD OF DIRECTORS. *Front row, left to right:* Ralph D. Johnson; Les S. Taylor; Bruce W. Gustafson; Warren R. Cook. *Back row:* Gary G. Thompson; Dennis L. Rasmussen, Second Vice Chairman; Larry G. Kuncl, First Vice Chairman; Doralene E. Weed; Wayne E. Boyd, Chairman; Ralph E. Holzfaster; Darrell J. Nelson, Secretary. *Not pictured:* Mary Harding and Ken Schmieding who were elected to NPPD's Board of Directors in November, replacing Ralph Johnson and Les Taylor, respectively. They begin their terms January 1, 2003.



EXECUTIVE TEAM. *Left to right:* John McPhail, General Counsel; Dave Wilson, VP Nuclear; Bill Fehrman, VP Energy Supply; Bill Mayben, President & CEO; Dennis Grennan, VP Wholesale Services; Ron Asche, VP Corporate Support Services; Marv Rief, VP Retail Services; Pat Pope, VP Transmission Services. In November, Bill Fehrman was selected to replace Bill Mayben as NPPD President and CEO, effective January 1, 2003.



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 eleven-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.

1414 15th Street / P.O. Box 499 / Columbus, NE 68602-0499 / www.nppd.com

Nebraska Public Power District