Nebraska Public Power District

NEBRASKA PUBLIC POWER DISTRICT
P. O. BOX 499
1414 - 15TH STREET
COLUMBUS, NE 68602-0499

GUY R. HORN
Vice-President, Nuclear
(402) 563-5518

NLS950114
May 10, 1995

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

Subject: Nebraska Public Power District
1994 Annual Financial Report
NRC Docket No. 50-298, DPR-46

Gentlemen:

In accordance with the requirements of 10CFR50.71(b), the Nebraska Public Power District submits its Annual Financial Report for calendar year 1994. Copies of this report are being distributed in accordance with 10CFR50.4.

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

Sincerely,

G. R. Horn
Vice-President, Nuclear

/tja:94afr
Enclosure (4)

cc: Regional Administrator
USNRC - Region IV

NRC Resident Inspector
Cooper Nuclear Station

R. Hall (NRC) w/encl.
J. T. Gilliland (NRC) w/encl.
R. J. Singer w/encl.
R. B. Abernethy w/encl.
NPG Distribution w/o encl.

M004 1/4

Correspondence No: NLS950114

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

COMMITMENT	COMMITTED DATE OR OUTAGE
None	

STRATEGIC DIRECTION IN A CHANGING INDUSTRY

[illegible] NEBRASKA PUBLIC POWER DISTRICT ANNUAL REPORT

STRATEGIC DIRECTION IN A CHANGING INDUSTRY

1994 NEBRASKA PUBLIC POWER DISTRICT ANNUAL REPORT

CELEBRATING 25 YEARS

Nebraska Public Power District was formed on January 1, 1970, as a result of a merger between the former Consumers Public Power District, Platte Valley Public Power and Irrigation District and Nebraska Public Power System. The existence of those entities dates back to the 1930s. NPPD has now completed its 25th year of operation, and the District has emerged as Nebraska's largest electric utility. The population of the chartered territory is estimated at one million.

Nebraska Public Power District

Powerful Pride in Nebraska

General Office, 1414 15th Street
P.O. Box 499, Columbus, NE 68602

Board of Directors

Bruce W. Gustafson - *Chairman, Farmer/Rancher, Holdrege, serving since January 1983*
Ralph E. Holzfaster - *First Vice Chairman, Agribusinessman/Farmer, Paxton, serving since January 1981*
Doralene E. Weed - *Second Vice Chairman, Businesswoman/Homemaker, Kearney, serving since January 1993*
Darrell J. Nelson - *Secretary, Farmer/Rancher, Oconto, serving since January 1985*

Wayne E. Boyd - *Member, Attorney, South Sioux City, serving since March 1982*
Warren R. Cook - *Member, Businessman, Norfolk, serving since January 1987*
David L. Duren - *Member, CPA, Columbus, serving since January 1973*
John D. Hamilton - *Member, Railroad Employee, Lincoln, serving since January 1991*

Ralph D. Johnson - *Member, Economist, Lincoln, serving since January 1985*
Les S. Taylor - *Member, Businessman, York, serving since January 1979*
Gary G. Thompson - *Member, Attorney, Beatrice, serving since January 1993*

Senior Management

Ronald W. Watkins - *President and Chief Executive Officer,* Robert L. Gangel - *Vice President, Finance & Administration*
William A. Merrill - *Vice President, Operations,* Guy R. Horn - *Vice President, Nuclear*
John R. McPhail - *General Counsel*

Board Staff

Ronald W. Watkins - *President and Chief Executive Officer,* John R. McPhail - *General Counsel,* Ronald D. Asche - *Treasurer and Controller*
Ronda F. Travers - *Assistant Secretary,* T. Eugene Trouba - *Assistant Treasurer*

Gene Watson *retired during 1994 as General Counsel. Board Chairman Bruce Gustafson has expressed gratitude for Mr. Watson's contributions to the District and his many years of service to the Board and management.*

($1.2 million), issuance costs ($0.3 million) and call premium ($2.4 million) has been presented in the Statements of Revenues and Costs under "Operating Expenses - Operation and maintenance." If this transaction had been recorded under generally accepted accounting principles, the charge in 1992 would have been $5.6 million. The issuance of the 1992 Series Bonds will result in approximately $12.5 million of gross debt service savings and the District will realize an economic gain (difference between present value of debt service on old and new bonds) of approximately $9.8 million over the life of the bonds.

The fair value of existing debt at December 31, 1994, is determined using rates currently available to the District. The fair value is estimated to be $249.5 million.

10. GENERAL CONDITIONS

On January 27, 1994, at a public meeting, the NRC identified CNS as a plant with performance trending downward. On May 25, 1994, CNS was voluntarily shut down by the District due to concerns with plant equipment. On June 23, 1994, at another public meeting, the NRC updated the status of nuclear power plants under their jurisdiction. CNS was identified as one of three plants which received a follow-up "trending" letter from senior NRC management discussing the continuing need to make improvements to resolve NRC concerns about declining performance trends. On February 22, 1995, CNS returned to commercial generation of electricity with the NRC's concurrence.

During the shut down period, the District incurred certain non-budgeted, extraordinary operations and maintenance costs in responding to operating and regulatory concerns. In accordance with the Nuclear Resolution, these extraordinary costs can be funded by amounts in the Reserve and Contingency fund. Accordingly, the total costs reflected in the Statement of Revenues and Costs for the period ended December 31, 1994, do not include $6.1 million of extraordinary costs associated with the shut down. These costs were charged to Operating Reserves in the Statement of Assets and Liabilities. These costs were originally paid with Operating funds. These amounts were reimbursed to the Operating fund from the Reserve and Contingency fund subsequent to year-end.

1,056 assemblies results in certain additional costs to GE then the District shall be responsible for such costs. Such costs would be collected through revenues of the Nuclear Facility as part of fuel costs.

7. LOW-LEVEL RADIOACTIVE WASTE DISPOSAL:

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

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

The District is a party to an agreement under which partial funding for the prelicensing costs of a proposed disposal facility (approximately $60.6 million through February 1995) has been provided by the owners/operators of nuclear plants within the Central Interstate Compact. The District's share of such costs is 16.51%.

Numerous obstacles exist regarding the proposed facility, including, among other things, strong local opposition to the site, and lawsuits filed by the State of Nebraska. The State's first lawsuit was filed in January 1993 in the U.S. District Court for the District of Nebraska (the U.S. District Court), and alleged that the developer had not obtained "community consent" for the project. The suit was dismissed by the U.S. District Court; the dismissal was affirmed by the U.S. Eighth Circuit Court of Appeals; and review was denied by the U.S. Supreme Court. After the applicant later reconfigured the proposed site to reduce its size from approximately 320 acres to approximately 110 acres, the State filed a second lawsuit in January 1994, contending the applicant had not obtained community consent for the reconfigured site. Such lawsuit was subsequently dismissed and has not been appealed. In February 1995 the State filed two additional lawsuits in the U.S. District Court in connection with the disposal facility project: One of the suits seeks a declaratory judgment that Nebraska, as the host state of the Central Interstate Compact, is entitled to be represented by two additional commissioners on the Compact Commission; the other suit seeks a declaratory judgment that rebate funds provided to the Compact Commission by the U.S. Department of Energy be made available to the host state. The District is unable to predict what effect these lawsuits would have on the disposal facility project.

There are currently no disposal facilities in the United States accepting low-level radioactive waste from states in the Central Interstate Compact. The District has constructed an on-site temporary storage facility which consists of concrete storage modules placed on a reinforced concrete pad. The temporary storage facility is designed to provide approximately five years of storage capacity. The cost to construct the facility was approximately $1.2 million. Annual operating costs, including the purchase of additional concrete storage modules, are expected to be approximately $1.5 million.

8. DEPARTMENT OF ENERGY FACILITIES ASSESSMENT:

Under the provisions of the National Energy Policy Act adopted in 1992, the District is subject to assessments estimated to be $1.67 million per year (to be adjusted for inflation) for a period up to 15 years for the purpose of paying the costs of decontaminating and decommissioning Department of Energy operated uranium enrichment facilities. Such assessments commenced in 1993 with two scheduled payments made in 1994. The present value for such annual assessments for the 12 remaining years is approximately $19.8 million. The District has recorded on the Nuclear Facility financial statements, the present value of such annual assessments by recording a liability and a matching deferred charge of approximately $19.8 million as of December 31, 1994, and $23.4 million as of December 31, 1993.

9. LONG-TERM DEBT:

On October 8, 1992, the District issued $176.9 million in Nuclear Facility Revenue Bonds, 1992 Series, to refund the outstanding Nuclear Facility Bonds, 1970 Series, 1974 Series, 1975 Series, and 1983 Series.

The refunding cost of $4.6 million, which includes original issue discount ($0.7 million), underwriters fees

semi-annually at January 1 and July 1 at the lower of cost or market in accordance with requirements of the Nuclear Resolution. Gains or losses on valuations are included in investment income.

2. RATE COVENANT:

The District is required under the Nuclear Resolution to charge rates for electric power and energy from the Nuclear Facility so that revenues will be at least sufficient to pay operating expenses, aggregate debt service on the Nuclear Facility Revenue Bonds, amounts to be paid into the Debt Reserve Account and Reserve and Contingency Fund, and all other charges or liens payable out of revenues of the Nuclear Facility. The debt service payments of the Nuclear Facility Revenue Bonds are $35.1 million per year for the years 1995 through 1998 and $35.0 million for the year 1999 and principal payments, as a component of debt service payments, are $22.4 million, $23.4 million, $24.5 million, $25.7 million and $26.9 million for each of the years 1995 through 1999, respectively.

3. POWER SALES CONTRACTS:

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

The District has also agreed to make available, through its Electric System, 12.5% of the output of CNS to the City of Lincoln, Nebraska.

4. PLANT DECOMMISSIONING COSTS:

Pursuant to regulations promulgated by the Nuclear Regulatory Commission (NRC), the District established in July 1990, an external trust fund segregated from the District's assets in which amounts accumulated to pay the decommissioning costs of CNS are to be deposited. The NRC prescribed minimum amount to be accumulated by the District in said fund for decommissioning costs, in 1994 dollars, is approximately $383.6 million. This amount does not include the cost of removal and disposal of spent fuel or of nonradioactive structures and materials beyond that necessary to terminate the District's operating license. For purpose of accumulating amounts for complete dismantlement and site restoration of CNS, the District is estimating the total decommissioning costs, in 1993 dollars, to be approximately $424 million.

It is expected that the costs of decommissioning will be funded from revenues, certain reserve funds established under the Nuclear Resolution, and surplus funds derived from the ownership and operation of the Nuclear Facility. The District anticipates sufficient funds will be available in accordance with the NRC decommissioning rules to decommission CNS at the end of its useful life. The District intends to periodically review the costs and methods of funding as a result of changing conditions and requirements for decommissioning. The next review is scheduled to be performed in 1996.

5. CAPITAL ADDITIONS:

The Nuclear Facility construction plan includes authorization for estimated expenditures of $4.9 million for 1995. These expenditures will be billed to participants as "Provisions for operating reserves" on the basis of estimated cash flow requirements.

6. CONTINGENCIES:

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

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

Depreciation is not recorded as a cost. Had the District provided straight-line depreciation over a 30-year life rather than including amortization of debt principal over the same period, costs would have decreased $8.0 million in 1994, decreased $6.1 million in 1993, and increased $1.7 million in 1992. Accumulated depreciation through December 31, 1994, would have increased costs approximately $25.8 million. The reserve for depreciation shown on the Statements of Assets and Liabilities was provided by recording amounts equal to repayment of debt. Upon retirement of property subject to depreciation, the cost of property is removed from plant accounts and charged to the reserve for depreciation, along with the removal costs, net of salvage.

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

(iii) Interest income on construction fund investments is credited to utility plant. Under generally accepted accounting principles, such income would have increased revenues $0.1 million in 1994, $0.2 million in 1993, and $0.3 million in 1992.

(iv) Investment securities are classified as being available-for-sale and are recorded at cost. Interest income on these investments is recognized ratably over the term of the securities. Under generally accepted accounting principles, the difference between the carrying value of the securities and the fair value is to be recognized as a net amount in equity. Had this method been followed, Cash and Investments as of December 31, 1994, would have decreased by $0.7 million and Accounts Receivable would have increased by $0.7 million as the Nuclear Facility has no equity as stated above. Additionally, the External Decommissioning Fund would have decreased by $3.1 million had this method been followed.

(v) As part of a 1989 settlement agreement with General Electric Company (GE), the District will receive discounts on future purchases of certain equipment and services for Cooper Nuclear Station (CNS) and will receive credits and discounts under an amendment to the fuel fabrication contract. The District amortized over a two-year period ending in 1991 the entire amount of the benefits allocated to operations. Under generally accepted accounting principles, such benefits would be recognized when received which in the case of the settlement would be over the next 16 years. This difference results in an increase in revenues during the two-year amortization period and increased costs thereafter. Negotiations held with GE to determine the extension of discounts for future purchases of certain equipment and services that were to expire in 1994 resulted in a portion of the discounts being extended beyond 1994 and a write down of the related receivable for a portion of the unused discounts that expired in 1994. The agreement stipulates that the dollar value of the settlement should not be disclosed.

C. *Nuclear Fuel—*

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

D. *Cash and Investments—*

Funds consist of $118.0 million of investment securities and $11.0 million of cash deposits at December 31, 1994, and $128.1 million of investment securities and $17.0 million of cash deposits at December 31, 1993.

Cash deposits, primarily interest bearing, at December 31, 1994, and throughout much of the year, were covered by federal depository insurance or unregistered U.S. Government and municipal securities held by various depositories. Investments at December 31, 1994, were in unregistered U.S. Government securities and Federal Agency obligations held in the District's name by the custodial banks.

The Debt Reserve Account and the Reserve Account in the Reserve and Contingency Fund are valued

Statements of Revenues and Costs for each of the Three Years in the Period Ended December 31, 1994. Prepared Pursuant to Requirements of the Nuclear Facility Revenue Bond Resolution	1994	1993	1992
		(Thousands)	
Revenues (Notes 1 and 2):			
Sales—			
Electric System	$ 82,720	$ 85,569	$ 85,095
Midwest Power Systems Inc.	82,719	85,568	85,090
Investment and other income	6,067	5,302	14,870
Total revenues	$ 171,506	$ 176,439	$ 185,055
Costs (Note 1):			
Operating expenses—			
Production—			
Fuel (Note 1)	$ 11,067	$ 18,914	$ 32,161
Operation and maintenance (Note 9)	83,061	83,360	68,962
Provisions for operating reserves (Note 1)	28,693	26,615	40,878
General and administrative	13,308	13,334	12,731
	$ 136,129	$ 142,223	$ 154,732
Debt service—			
Principal (Note 1)	21,660	19,722	11,708
Interest	13,717	14,494	18,615
Total costs	$ 171,506	$ 176,439	$ 185,055

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

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. *Organization—*

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

Electric System
Power Supply System
Nuclear Facility

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

B. *Basis of Accounting—*

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

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

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

Statements of Assets and Liabilities December 31, 1994 and 1993
Prepared Pursuant to Requirements of the Nuclear Facility Revenue Bond Resolution

	1994	1993
	(Thousands)	
ASSETS		
Utility Plant, at Cost	$ 694,382	$ 679,346
Less—		
Reserve for depreciation (Note 1)	230,239	209,129
Amounts funded from revenue (Note 1)	284,757	270,675
	$ 179,386	$ 199,542
Nuclear Fuel—Net of Amortization (Note 1)	$ 97,290	$ 77,026
Cash and Investments (Note 1):		
Debt service fund	$ 6,140	$ 5,925
Debt reserve account	19,631	19,852
Reserve and contingency fund	22,956	22,790
Additions and improvements account	1,471	5,651
General reserve fund	1,654	—
Construction fund	3,470	4,006
Fuel reserve account	35,494	52,892
Operating fund	10,492	7,512
Revenue fund	387	209
Decommissioning fund (Note 4)	27,264	26,244
	$ 128,959	$ 145,081
Accounts Receivable	$ 19,851	$ 26,695
Interest Receivable	$ 1,436	$ 1.133
Deferred Charges and Other Assets	$ 20,809	$ 25,239
External Decommissioning Fund (Note 1 and 4)	$ 48,306	$ 28,295
	$ 496,037	$ 503,011
LIABILITIES		
Revenue Bonds (Note 9):		
1992 Series Serial 1994-2003 3.60% - 5.70%	$ 158,070	$ 169,920
1968 Series Term 1994-2002 5.10%	96,655	106,250
	$ 254,725	$ 276,170
Operating Reserves (Note 1)	$ 154,357	$ 163,796
Accounts Payable and Other Accrued Liabilities (Note 1)	$ 18,859	$ 11,377
External Decommissioning Fund (Note 1 and 4)	$ 48,306	$ 28,295
DOE Facilities Decommissioning Assessment (Note 8)	$ 19,790	$ 23,373
	$ 496,037	$ 503,011

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

Report of Independent Accountants

To the Board of Directors
Nebraska Public Power District:

We have audited the accompanying special-purpose statements of assets and liabilities of the Nuclear Facility of Nebraska Public Power District (a public corporation and political subdivision of the State of Nebraska) as of December 31, 1994 and 1993, and the related special-purpose statements of revenues and costs for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The accompanying special-purpose financial statements referred to above have been prepared for the purpose of complying with, and on the basis of, accounting requirements specified in the Nuclear Facility Revenue Bond Resolution adopted by the District on August 22, 1968, as supplemented, as described in Note 1B, and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the accompanying special-purpose financial statements of the Nuclear Facility of Nebraska Public Power District present fairly, in all material respects, the assets and liabilities as of December 31, 1994 and 1993, and its revenues and costs for each of the three years in the period ended December 31, 1994, on the basis of accounting described in Note 1B.

Coopers & Lybrand L.L.P.

Omaha, Nebraska
March 13, 1995

term ending December 31, 1996. The agreement provides for the District to purchase a minimum of 2,700,000 tons per year through 1996, and all requirements up to a maximum of 3,800,000 tons per year during the calendar years 1994 through 1996. The District also has in existence two agreements which provide for, among other things, transportation of coal to Gerald Gentleman Station. One contract expires December 31, 1996, and the other expires December 31, 2002. Both transportation contract rates are escalated or de-escalated pursuant to an index promulgated by the Interstate Commerce Commission.

8. SUBSEQUENT EVENTS:

The District and the Central Board of Directors approved at their March 1995 board meetings new agreements between the parties to provide for the dismissal of arbitration proceedings and settlement of claims resulting under existing contracts. Approval was obtained by the District's Board to purchase Central's 107 MW fossil fuel plant for approximately $8.8 million. Such purchase will be financed and accounted for in the Power Supply System. Also approved were amendments to existing agreements to provide for continued purchase of power by the District from Central's existing hydro generating facilities and for the coordination and cost allocation of relicensing activity prior to and after issuance of new licenses by the FERC.

3. PREPAID CAPITAL COSTS:

Prepaid capital costs are associated with the purchase of the capacity of a 50 MW hydroelectric generating facility owned and operated by The Central Nebraska Public Power and Irrigation District (Central). The prepayment is being amortized over the life of the bonds, the proceeds of which were used to pay these costs. The amortization is included as part of debt service cost. As mentioned in Note 4, certain costs were incurred during 1993 to refund Power Supply System Revenue Bonds. A portion of these bond issuance costs ($9.1 million) which were associated with the refunding of the original bonds used for the prepayment of capacity were capitalized. These costs will be amortized over the remaining life of the bonds as a component of debt service.

The District has an agreement whereby Central makes available all of the production of the facility and the District pays all costs of operating and maintaining the facility plus a charge based on the amount of energy delivered to the District. Costs of $0.8 million in 1994, $1.0 million in 1993, and $0.9 million in 1992 are included in "Production—Operation and maintenance."

4. LONG-TERM DEBT:

In January 1993, the District issued Power Supply System Revenue Bonds, 1993 Series in the amount of $346.4 million for the purpose of refunding Power Supply System Revenue Bonds, 1978 Series A and advance refunding Power Supply System Revenue Bonds, 1986 Series. In March 1993, the District issued Power Supply System Revenue Bonds, 1993 Series B in the amount of $132.6 million for the purpose of refunding the Power Supply System Revenue Bonds, 1976 Series B. In addition, in September 1993, the District issued Power Supply System Revenue Bonds, 1993 Series C in the amount of $331.4 million to refund Power Supply System Revenue Bonds, 1972 Series and 1977 Series A.

Bond issuance costs for all issues totaled $36.2 million consisting of $16.0 million for original issue discount, $6.0 million for underwriting fees, $1.0 million for issuance costs, and $13.2 million for call premiums. Of this amount $8.6 million has been presented in the Statements of Revenues and Costs under "Operating Expenses - Production - Operation and maintenance." If this transaction had been recorded under generally accepted accounting principles, the charge in 1993 would have been $30.3 million. The issuance of the bonds will result in cumulative gross debt service savings of approximately $86.8 million and the District will obtain an economic gain (difference between the present value of the debt service of the refunded and refunding bonds) of approximately $47.2 million.

The fair value of existing debt at December 31, 1994, is determined using rates currently available to the District. The fair value is estimated to be $740.7 million.

5. DEFEASANCE OF DEBT:

The Power Supply System Revenue Bonds, 1986 Series, were defeased by placing a portion of the proceeds from the 1993 Series Bonds in an irrevocable trust account with an escrow agent. Such funds were used to purchase direct obligations of the United States Government, the principal of and interest on which is sufficient to pay for all future debt service payments on the old bonds. The defeased bonds are treated as extinguished debt for financial reporting purposes and have been removed from the Statements of Assets and Liabilities. The remaining principal balance of such defeased bonds at December 31, 1994, was $69.6 million.

The Power Supply System Revenue Bonds, 1986 Series were issued to advance refund the outstanding Power Supply System Revenue Bonds, 1985 Series. The 1985 Bonds were defeased by placing the proceeds from the 1986 Bonds in an irrevocable trust account with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The remaining principal balance of the defeased bonds at December 31, 1994, was $60.6 million.

6. CAPITAL ADDITIONS:

The Power Supply System construction plan includes authorization for estimated expenditures of $18.6 million for 1995. These expenditures will be funded from existing bond proceeds that have been transferred to the General Reserve Fund and proceeds from an anticipated 1995 bond issue.

7. COAL SUPPLY AND TRANSPORTATION AGREEMENTS:

The District has in existence a coal supply agreement which permits the District to purchase coal for an initial

and accumulated depreciation through December 31, 1994, would have increased costs approximately $78.4 million. The reserve for depreciation shown on the Statements of Assets and Liabilities was provided by recording amounts equal to repayment of debt. Upon retirement of property subject to depreciation, the cost of property is removed from plant accounts and charged to the reserve for depreciation, along with the removal costs, net of salvage.

(ii) Previous billings to provide capital for renewals and replacements of property and capital additions are included in the accompanying statements as "Operating Reserves" and "Provisions for operating reserves." Under generally accepted accounting principles, capital additions and provisions for renewals and replacements are not expenses but (exclusive of minor items of property) are charged to utility plant. Renewals and replacements of property and capital additions funded from revenues are fully reserved. Renewals and replacements and capital additions are currently being funded from existing bond proceeds that have been transferred to the General Reserve Fund.

(iii) Interest income on construction fund investments is credited to utility plant. Under generally accepted accounting principles, such income would have increased revenues $0 in 1994, $0.7 million in 1993, and $2.3 million in 1992.

(iv) Investment securities are classified as being available-for-sale and are recorded at cost. Interest income on these investments is recognized ratably over the term of the securities. Under generally accepted accounting principles, the difference between the carrying value of the securities and the fair value is to be recognized as a net amount in equity. Had this method been followed, Cash and Investments as of December 31, 1994, would have decreased by $0.1 million and Accounts Receivable would have increased by $0.1 million as the Power Supply System has no equity as stated above.

C. *Utility Plant—*

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

D. *Cash and Investments—*

Funds consist of $103.0 million of investment securities and $15.5 million of cash deposits at December 31, 1994, and $125.8 million of investment securities and $10.2 million of cash deposits at December 31, 1993.

Cash deposits, primarily interest bearing, at December 31, 1994, and throughout much of the year, were covered by federal depository insurance or unregistered U.S. Government and municipal securities held by various depositories. Investments at December 31, 1994, were in unregistered U.S. Government securities and Federal Agency obligations held in the District's name by the custodial banks.

The Debt Reserve Account and the Reserve Account in the Reserve and Contingency Fund are valued semi-annually at January 1 and July 1 at the lower of cost or market in accordance with requirements of the Power Supply Resolution. Gains or losses on valuations are included in investment income.

E. *Deferred Charges—*

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

2. RATE COVENANT:

The District is required under the Power Supply Resolution to charge rates for electric power and energy from the Power Supply System so that revenues will be at least sufficient to pay operating expenses, aggregate debt service on the Power Supply System Revenue Bonds, amounts to be paid into the Debt Reserve Account and Reserve and Contingency Fund, and all other charges or liens payable out of revenues of the Power Supply System. The debt service payments of the Power Supply System Revenue Bonds are $67.8 million per year through 1999 and principal payments, as a component of debt service payments, are $25.3 million, $26.3 million, $27.4 million, $28.5 million, and $29.7 million for each of the years 1995 through 1999, respectively.

Statements of Revenues and Costs for each of the Three Years in the Period Ended December 31, 1994. Prepared Pursuant to Requirements of the Power Supply System Revenue Bond Resolution	1994	1993	1992
		(Thousands)	
Revenues (Notes 1 and 2):			
Sales to the Electric System	$ 161,184	$ 142,782	$ 150,469
Investment and other income	6,387	14,371	9,503
Total revenues	$ 167,571	$ 157,153	$ 159,972
Costs (Note 1):			
Operating expenses—			
Production—			
Fuel (Note 7)	$ 62,574	$ 62,922	$ 55,751
Operation and maintenance (Note 3)	30,693	25,656	25,161
Provisions for operating reserves (Note 1)	—	—	—
General and administrative	6,500	14,929	7,206
	$ 99,767	$ 103,507	$ 88,118
Debt service—			
Principal (Note 1)	24,470	5,130	17,420
Interest	43,334	48,516	54,434
Total costs	$ 167,571	$ 157,153	$ 159,972

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

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. *Organization—*

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

Electric System
Power Supply System
Nuclear Facility

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

B. *Basis of Accounting—*

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

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

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

Depreciation is not recorded as a cost. Had the District provided straight-line depreciation over a 40-year life rather than including amortization of debt principal over the same period, costs would have decreased $4.5 million in 1994, increased $13.6 million in 1993, increased $1.2 million in 1992,

Statements of Assets and Liabilities December 31, 1994 and 1993
Prepared Pursuant to Requirements of the Power Supply System Revenue Bond Resolution

	1994	1993
	(Thousands)	
ASSETS		
Utility Plant, at Cost (Note 1)	$ 765,542	$ 748,906
Less—		
Reserve for depreciation (Note 1)	131,195	109,860
Amounts funded from revenue (Note 1)	18,687	16,038
	$ 615,660	$ 623,008
Prepaid Capital Costs (Note 3)	$ 73,119	$ 74,613
Cash and Investments (Note 1):		
Debt reserve account	$ 43,486	$ 43,589
Reserve and contingency fund	16,032	19,003
Additions and improvements account	10,634	9,426
Construction funds	—	—
Revenue fund	694	219
Operating fund	22,113	19,788
General reserve fund	25,499	43,964
	$ 118,458	$ 135,989
Accounts Receivable	$ 1,644	$ 62
Interest Receivable	$ 1,488	$ 1,681
Fuel Inventory, at average cost	$ 6,906	$ 8,463
Deferred Charges and Other Assets (Note 1)	$ 38,239	$ 39,015
	$ 855,514	$ 882,831

					1994	1993
LIABILITIES						
Revenue Bonds (Notes 4 and 5):						
1993 Series	Serial	1994-2009	3.90% - 6.10%		$ 180,385	$ 188,380
	Term	2010-2014	6.125%		96,080	96,080
		2015-2019	5.75%		58,890	58,890
1993 Series B	Serial	1994-2007	3.25% - 5.30%		80,160	84,725
	Term	2008-2013	5.25%		47,120	47,120
1993 Series C	Serial	1994-2009	3.30% - 5.00%		248,435	260,345
	Term	2010-2016	5.00%		119,695	119,695
					$ 830,765	$ 855,235
Accounts Payable and Other Accrued Liabilities					$ 10,727	$ 14,391
Operating Reserves (Note 1)					$ 14,022	$ 13,205
					$ 855,514	$ 882,831

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

Report of Independent Accountants

To the Board of Directors
Nebraska Public Power District:

We have audited the accompanying special-purpose statements of assets and liabilities of the Power Supply System of Nebraska Public Power District (a public corporation and political subdivision of the State of Nebraska) as of December 31, 1994 and 1993, and the related special-purpose statements of revenues and costs for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The accompanying special-purpose financial statements referred to above have been prepared for the purpose of complying with, and on the basis of, accounting requirements specified in the Power Supply System Revenue Bond Resolution adopted by the District on September 29, 1972, as supplemented, as described in Note 1B, and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the accompanying special-purpose financial statements of the Power Supply System of Nebraska Public Power District present fairly, in all material respects, the assets and liabilities as of December 31, 1994 and 1993, and its revenues and costs for each of the three years in the period ended December 31, 1994, on the basis of accounting described in Note 1B.

Coopers & Lybrand L.L.P.

Omaha, Nebraska
March 13, 1995

facilities for $4.2 million. Such purchase will be financed and accounted for in the Electric System. New agreements and amendments to existing agreements provide for continued purchase of power by the District from Central's existing hydro generating facilities and for the coordination and cost allocation of relicensing activity prior to and after issuance of new licenses by the FERC.

Pursuant to contract, the District notified wholesale customers in August 1993 of proposed rate increases for transmission and wholesale power service to be adopted for 1994. In November 1993, the Municipal Energy Agency of Nebraska (MEAN), a transmission service customer of the District, as provided for under the contracts, requested and was granted a rate hearing with the District Board of Directors. Such hearing was requested to object to certain allocations and other methodologies used in establishing the proposed rates. Recognizing the complexities of the issues involved, the the District Board of Directors in January 1994 adopted the rate increases as proposed and directed Management to perform a definitive study of the issues raised by MEAN and any related issues deemed appropriate.

In January 1995 MEAN filed an application with the FERC under the Federal Power Act requesting FERC to take jurisdiction over the dispute and establish the transmission services to be provided by the District and the rates for such services. The District is contesting MEAN's FERC application on jurisdictional, procedural and substantive grounds based on federal constitutional and statutory provisions. The District has filed an action in Lancaster County District Court seeking a declaratory judgement that MEAN does not have authority under state law to proceed against the District at FERC. The District has also filed a complaint against MEAN with the Nebraska Power Review Board seeking to have the Power Review Board take jurisdiction of the matter and rule on the transmission services aspect of the dispute, except as to rates. The FERC, State Court, and Power Review Board proceedings are all pending at this time. There have been no rulings on the merits in these actions and there is no schedule for their conclusion or resolution.

charged-off to expense totaled approximately $4.8 million.

8. CAPITAL ADDITIONS:

The Electric System construction plan includes authorization for estimated expenditures of $63.5 million for 1995. These expenditures will be funded from revenues, proceeds from an anticipated 1995 bond issue and other available funds.

9. FERC HYDROELECTRIC PROJECT LICENSES:

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

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

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

As of December 31, 1994, $17.6 million of costs incurred related to obtaining the new long-term license for Project No. 1835 are being capitalized. When the license is obtained these costs will be amortized over the life of the license.

10. EXTRAORDINARY CHARGES DUE TO EARLY EXTINGUISHMENT OF DEBT:

The District issued $140.0 million of Electric System Revenue Bonds, 1992 Series A, on January 22, 1992. The 1992 Series A Bonds were issued to refund the District's outstanding $71.4 million Electric System Revenue Bonds, 1976 Series A, and retire $13.0 million of commercial paper notes. The remaining $55.6 million was used, in part, to fund 1992 and 1993 capital projects. Generally accepted accounting principles require calculating the net carrying amount and reacquisition price of the 1976 Series A debt. The difference between the reacquisition price and the net carrying amount of the extinguished debt of $2.3 million was recognized as an extraordinary charge in 1992. The components of this charge consist mainly of the call premium ($1.4 million), unamortized discount ($.5 million), and issuance expenses ($.4 million) associated with the 1976 Series A debt. The refunding portion of the 1992 Series A Bonds will result in gross debt service savings of approximately $4.8 million and the District will realize an economic gain (difference between the present value of the debt service of the old and new bonds) of approximately $3.2 million.

The District issued $116.6 million of Electric System Revenue Bonds, 1993 Series A, on March 1, 1993. The 1993 Series A Bonds were issued to refund the District's outstanding Electric System Revenue Bonds, 1970 Series, 1977 Series A and 1979 Series A. The difference between the reacquisition price and the net carrying amount of the extinguished debt of $3.2 million was recognized as an extraordinary charge in 1993. The components of this charge consist primarily of the call premium on the bonds being refunded ($1.7 million), unamortized discounts, and issuance costs associated with the refunded debt ($1.5 million). The issuance of the 1993 Series A Bonds will result in gross debt service savings of approximately $10.2 million and the District will realize an economic benefit of approximately $6.9 million.

11. SUBSEQUENT EVENTS:

The District and the Central Board of Directors approved at their March 1995 board meetings new agreements between the parties to provide for the dismissal of arbitration proceedings and settlement of claims resulting under existing contracts. In connection with the dismissal and settlement, the District recorded in the first quarter of 1995 the receipt of approximately $3.0 million from Central. Also involved is the District's purchase of certain Central assets, including approximately 350 miles of transmission lines and related

$20.0 million, $21.0 million, and $22.0 million for each of the years 1995 through 1999, respectively

The fair value of existing debt at December 31, 1994, is determined using rates currently available to the District. The fair value is estimated to be $291.9 million.

4. RETIREMENT PLAN:

The District has a retirement income plan covering its regular full-time employees, substantially all of whom have elected to participate. Employee's contributions to the plan are based on salary, and the District's contributions are allocated to each employee's trust account based on the employee's contributions to the plan. The plan provides for retirement income equal to the total of the employee's trust account, including trust earnings. The District's contribution was $7.8 million for 1994, $7.6 million for 1993, and $7.3 million for 1992.

5. POSTRETIREMENT BENEFITS:

The District, for employees hired on or prior to December 31, 1992, pays the entire cost of certain hospital-medical and life insurance premiums for these employees when they retire. Substantially all of the District's retired and active employees are eligible for such benefits. Currently, the cost of these benefits is recognized as expense as the premiums are paid. The total cost of postretirement hospital-medical and life insurance benefits was $2.0 million for 1994; $2.4 million for 1993, and $2.2 million for 1992.

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

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

6. DEFERRED COMPENSATION PLAN:

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

7. LITIGATION:

A large industrial customer filed several lawsuits against the District and members of its Board of Directors, both in federal and state court, requesting judgements for alleged overcharges since 1972 and for alleged violation of various legal rights of the customer. In addition, the customer refused to make full payment of billings for electric service provided to it during the period of January 1988 through March 1992, withholding approximately $7.1 million, exclusive of interest. By reason of a settlement agreement that was concluded by the parties, the customer's federal and state lawsuits and the District's counterclaim were dismissed with prejudice in May 1994. As part of the settlement agreement, the customer agreed to pay $4.0 million of the amount previously withheld. The District charged-off to expense in March 1994 the remaining amount withheld by the customer, together with accrued interest on the withholdings, which amounts

requirements for future rate periods. Such treatment of wholesale revenues is stipulated by the District's long-term wholesale power supply contracts.

The surpluses and deficits which arose in current and prior years from the PCA, wholesale, and retail service have been accounted for in these financial statements by either a deferral or an accrual of revenue. In addition, unrealized gains and losses related to investments held for sale are included in deferred revenues. The cumulative surplus at December 31, 1994, to be reflected in future revenue requirements is approximately $8.3 million.

I. *Revenue Recognition*—

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

J. *Accumulated Net Revenues*—

Accumulated net revenues consist primarily of cumulative operating revenues collected for utility plant additions net of related accumulated depreciation. The remaining accumulated net revenues will be fully offset by future depreciation expense. In addition, accumulated net revenues include cumulative interest income earned on Construction Funds which is not subject to the deferred revenue accounting described in Note 1H. This interest income was $.7 million in 1994, $1.3 million in 1993, and $1.2 million in 1992.

2. COMMERCIAL PAPER NOTES:

The District is authorized to issue up to $75.0 million of commercial paper notes. A credit agreement is maintained with a bank to support the sale of the commercial paper notes. This credit agreement expires in September 1997. The effective interest rates on outstanding notes for 1994 and 1993 were 2.8% and 2.4%, respectively.

The proceeds of these notes are being used (1) to finance certain capital additions of the Nuclear Facility, (2) to provide short-term financing for certain capital additions of the Electric System, (3) for other lawful purposes of the District, and (4) for an Advance to the Power Supply System of which $6.1 million was outstanding at December 31, 1992. During 1993 the Power Supply System repaid the $6.1 million to the Electric System.

In 1994, no commercial paper notes were retired. The $55.9 million of commercial paper notes outstanding at December 31, 1994, are anticipated to be retired by future collections through electric rates and long-term borrowings. The carrying value of commercial paper notes approximates market.

3. LONG-TERM DEBT:

December 31,		1994	1993
		(Thousands)	
Revenue Bonds:			
1993 Series A			
Serial Bonds			
1994-2009	3.25% - 5.40%	$104,635	$111,555
1992 Series A			
Serial Bonds			
1994-2002	4.50% - 5.70%	51,645	56,805
Term Bonds			
2003-2005	6.00%	25,920	25,920
2006-2021	6.25%	49,450	49,450
1978 Series A			
Serial Bonds			
1994-2007	5.40% - 5.75%	45,990	48,345
1973 Series			
Serial Bonds			
1994-2002	5.00%	4,350	4,780
1968 Series			
Term Bonds			
1994-2002	5.10%	25,195	27,695
		$307,185	$324,550
Lease Purchase Payables—			
2.00%, due 1994 to 2005		2,064	2,236
Unamortized Bond Discount		(2,141)	(2,417)
		$307,108	$324,369

The debt service payments of the Electric System Revenue Bonds are $34.5 million per year through 1999 and principal payments, as a component of debt service payments, are $18.3 million, $19.1 million,

System Revenue Bonds, 1975 Series was also included in these costs.

F. *Unamortized Payment Received for Refinancing Costs—*

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

G. *Cash and Investments—*

December 31,	1994	1993
	(Thousands)	
Revenue Fund	$ 21,085	$ 17,658
Operating Fund	4,706	11,616
Construction Funds	12,679	20,858
Commercial Paper Account	8,870	7,062
Reserve and Contingency Fund	1,267	1,236
General Reserve Fund	13,746	18,581
	$ 62,353	$ 77,011

Funds consist of $36.3 million of investment securities and $26.1 million of cash deposits at December 31, 1994, and $47.4 million of investment securities and $29.6 million of cash deposits at December 31, 1993.

On January 1, 1994, the District adopted the provisions of Statement of Financial Accounting Standards No. 115 (FAS 115), "Accounting for Certain Investments in Debt and Equity Securities." In accordance with the Statement, prior period financial statements have not been restated to reflect this change in accounting principle. The cumulative effect of adopting this Statement was considered immaterial and there was no impact on Net Revenues for the year.

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

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

AVAILABLE-FOR-SALE SECURITIES

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

December 31, 1994	Investments	Debt Reserve Fund
	(Thousands)	
Amoritized Cost	$ 36,304	$ 34,627
Gross Unrealized Gains	26	312
Gross Unrealized Losses	46	116
Approximate Market Value	$ 36,284	$ 34,823

The U. S. Treasury and Government Agencies Securities have maturity dates ranging from less than one year to four years.

Cash deposits, primarily interest bearing, at December 31, 1994, and throughout much of the year, were covered by federal depository insurance or unregistered U.S. Government and municipal securities held by various depositories. Investments at December 31, 1994, were in unregistered U.S. Government securities and Federal Agency obligations held in the District's name by the custodial banks.

The Debt Reserve Account is valued semi-annually at January 1 and July 1 at the lower of cost or market in accordance with requirements of the Electric System Revenue Bond Resolution (Electric Resolution).

H. *Deferred Revenues—*

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

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

In the event the District's rates for wholesale and retail service, excluding the PCA, result in a surplus or deficit in revenues during a rate period, such surplus or deficit is taken into account in projecting estimated revenue

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. *Organization—*

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

Electric System
Power Supply System
Nuclear Facility

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

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

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

B. *Depreciation, Amortization and Maintenance—*

The District records depreciation over the estimated useful life of the property. Depreciation on Utility Plant was approximately 3% in each of the years ended December 31, 1994, 1993, and 1992.

The District has long-term lease agreements with 293 municipalities. These lease agreements obligate the District to make lease payments and pay for normal property additions during the term of the lease. The District has recorded provisions, net of retirements, for amortization of leased plant additions of $8.1 million in 1994, $7.2 million in 1993, and $7.2 million in 1992. These leased plant additions, which are fully reserved, totaled $83.3 million at December 31, 1994, and $76.1 million at December 31, 1993.

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

C. *Allowance for Funds Used During Construction (AFUDC)—*

This allowance, which represents the cost of funds used to finance construction, is capitalized as a component of the cost of utility plant and is credited to Interest and other revenues. The capitalization rate depends on the source of financing. The rate for construction financed with revenue bonds is based upon the interest cost of each bond issue less interest income. The rate for construction financed by revenues is based upon the weighted average rate of interest of the current outstanding borrowings. Construction financed on a short-term basis with tax-exempt commercial paper (TECP) is charged a rate based upon the weighted average of TECP outstanding. For the periods presented herein, the AFUDC rates for construction funded by revenue bonds or revenues vary from 5.1% to 6.8%. For construction financed on a short-term basis with TECP, the rate charged in 1994 and 1993 was less than 3%.

D. *Deferred Charges—*

Deferred charges as of December 31, 1994, represents $22.2 million of Nuclear Facility billings for certain capital additions. The District has written off deferred charges of $1.3 million in 1994, $0 in 1993, and $16.0 million in 1992 and included such reductions in power purchased expense. Future write-off of deferred charges are expected to be as follows: 1995-$12.0 million; 1996-$4.5 million; 1997-$4.5 million; 1998-$0.6 million; 1999-$0.6 million.

E. *Unamortized Financing Costs—*

These costs represent issuance expenses on all bonds and are being amortized over the life of the respective bonds using the bonds outstanding method. As of December 31, 1992, the premium to retire the Electric

Supplemental Schedules—Calculation of Debt Service Ratios in accordance with the Electric System Bond Resolution for each of the Three Years in the Period Ended December 31, 1994	1994	1993	1992
		(Thousands)	
Operating revenues (Note 1)	$ 433,253	$ 396,012	$ 408,745
Operating expenses (Note 1)*	(416,032)	(379,783)	(391,742)
Net operating revenues	$ 17,221	$ 16,229	$ 17,003
Interest and other revenues	7,224	8,776	10,076
Interest deductions	(18,960)	(19,856)	(22,157)
Extraordinary charges due to early extinguishment of debt	—	(3,169)	(2,268)
Net revenues	$ 5,485	$ 1,980	$ 2,654
Add:			
Accrued revenues included in operating revenues (Note 1)	$ (19,775)	$ (3,315)	$ (18,319)
Interest deductions	18,960	19,856	22,157
Depreciation and amortization	34,536	33,047	32,781
Extraordinary charges due to early extinguishment of debt	—	3,169	2,268
	$ 33,721	$ 52,757	$ 38,887
Deduct:			
Provision for operating expense reserve (Note 1)**	$ (19,775)	$ (3,315)	$ (18,319)
Allowance for funds used during construction	1,574	1,587	1,445
Investment income retained in construction funds	717	1,274	1,152
	$ (17,484)	$ (454)	$ (15,722)
Net revenues available for debt service under the Electric System Bond Resolution (Note 1)*	$ 56,690	$ 55,191	$ 57,263
Amounts deposited in the Electric System Debt Service Account:			
Principal	$ 17,365	$ 14,045	$ 13,815
Interest	17,115	18,172	20,102
	$ 34,480	$ 32,217	$ 33,917
Ratio of net revenues available for debt service to debt service deposits (Note 1)	1.64	1.71	1.69

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

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

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

Statements of Cash Flows for each of the Three Years in the Period Ended December 31, 1994	1994	1993	1992
		(Thousands)	
Cash flows provided by (used in) operating activities:			
Net operating revenues	$ 17,221	$ 16,229	$ 17,003
Adjustments to reconcile net operating revenues to net cash provided by operating activities:			
Depreciation and amortization	33,173	31,920	31,647
Vehicle depreciation charged to operations and capital	1,363	1,127	1,134
Reduction of deferred charges— Nuclear Facility	1,333	—	15,975
Changes in assets and liabilities:			
Advance to Power Supply System	—	6,100	—
Receivables, less reserves	26,090	(19,192)	3,804
Materials and supplies	1,463	(1,527)	1,040
Prepayments and other assets	2	(8)	(90)
Addition to deferred charges— Nuclear Facility	(3,905)	(3,123)	(9,491)
Other deferred charges	(48)	(753)	(1,290)
Accounts payable and accrued leased payments	(1,099)	1,040	401
Deferred revenues	(20,489)	(3,315)	(18,319)
Other liabilities	(420)	(462)	(345)
Net cash flows provided by operating activities	$ 54,684	$ 28,036	$ 41,469
Cash flows provided by (used in) capital and related financing activities:			
Utility plant additions	$(49,800)	$ (41,336)	$ (57,270)
Other non-operating revenues	1,343	1,700	822
Proceeds from notes receivable for sale of property	885	905	1,530
Repayment of long-term debt - principal	(17,537)	(14,213)	(14,548)
Payment of interest on long-term debt	(16,839)	(17,883)	(20,102)
Repayment of notes payable - principal	—	—	(13,000)
Payment of interest on notes payable	(1,845)	(1,684)	(2,055)
Net change in Debt Reserve Account	(63)	421	(5,017)
Issuance of long-term debt	—	115,491	138,649
Issuance of notes payable	10,000		
Early extinguishment of long-term debt	—	(116,798)	(73,628)
Net cash flows (used in) capital and related financing activities	$(73,856)	$ (73,397)	$ (44,619)
Cash flows provided by (used in) investing activities:			
Interest on cash and cash equivalents	$ 369	$ 829	$ 956
Interest from investments	3,938	4,660	6,853
Sale of investment securities	192,411	179,491	300,090
Purchase of investment securities	(181,093)	(153,321)	(302,825)
Net cash flows provided by investing activities	$ 15,625	$ 31,659	$ 5,074
Net increase (decrease) in cash	$ (3,547)	$ (13,702)	$ 1,924
Cash beginning of year	29,635	43,337	41,413
Cash end of year	$ 26,088	$ 29,635	$ 43,337

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

Statements of Revenues and Expenses and Accumulated Net Revenues for each of the Three Years in the Period Ended December 31, 1994	1994	1993	1992
		(Thousands)	
Revenues and Expenses:			
Operating Revenues (Note 1)	$ 433,253	$ 396,012	$ 408,745
Operating Expenses:			
Power purchased—			
Nuclear Facility and Power Supply System (Note 1)	$ 241,669	$ 225,517	$ 240,833
Other	47,740	35,583	35,416
Production—			
Fuel	13,050	10,529	10,528
Operation and maintenance	15,274	14,677	16,295
Other operation and maintenance	44,775	42,126	38,907
Lease payments (Note 1)	14,771	14,071	13,080
Depreciation and amortization (Note 1)	33,173	31,920	31,647
Payments in lieu of taxes	5,580	5,360	5,036
Total operating expenses	$ 416,032	$ 379,783	$ 391,742
Net operating revenues	$ 17,221	$ 16,229	$ 17,003
Interest and Other Revenues:			
Allowance for funds used during construction	$ 1,574	$ 1,587	$ 1,445
Interest and other	5,650	7,189	8,631
Total interest and other revenues	$ 7,224	$ 8,776	$ 10,076
Net revenues before other deductions	$ 24,445	$ 25,005	$ 27,079
Other Deductions:			
Bond interest	$ 17,115	$ 18,172	$ 20,102
Other interest	1,845	1,684	2,055
Total other deductions	$ 18,960	$ 19,856	$ 22,157
Net Revenues Before Extraordinary Charges (Note 1)	$ 5,485	$ 5,149	$ 4,922
Extraordinary Charges Due to Early Extinguishment of Debt (Note 10)	—	3,169	2,268
Net Revenues	$ 5,485	$ 1,980	$ 2,654
Accumulated Net Revenues (Note 1):			
Beginning balance	225,152	223,172	220,518
Ending balance	$ 230,637	$ 225,152	$ 223,172

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

Balance Sheets — December 31, 1994 and 1993	1994	1993
	(Thousands)	
ASSETS		
Utility Plant, at Cost	$ 857,762	$ 820,498
Less—Reserve for depreciation and amortization (Note 1)	405,667	385,034
	$ 452,095	$ 435,464
Debt Reserve Account (Note 1)	$ 34,830	$ 34,767
Receivables from sale of property	$ 4,129	$ 5,014
Current Assets:		
Cash and investments (Note 1)	$ 62,353	$ 77,011
Receivables, less reserves	44,052	70,142
Materials and supplies, at average cost	10,260	11,723
Prepayments and other assets	611	613
	$ 117,276	$ 159,489
Deferred Compensation Plan Assets (Note 6)	$ 13,028	$ 13,322
Deferred Charges:		
Nuclear Facility billings (Note 1)	$ 22,221	$ 19,649
Unamortized financing costs (Note 1)	2,062	2,336
Other	1,341	1,293
	$ 25,624	$ 23,278
	$ 646,982	$ 671,334
LIABILITIES AND CAPITAL		
Accumulated Net Revenues (Note 1)	$ 230,637	$ 225,152
Long-Term Debt (Note 3)	$ 307,108	$ 324,369
Commercial Paper Notes (Note 2)	55,915	45,915
	$ 363,023	$ 370,284
Less—Current maturities (Note 3)	18,274	17,536
	$ 344,749	$ 352,748
Current Liabilities:		
Current maturities	$ 18,274	$ 17,536
Accounts payable	18,739	19,959
Accrued lease payments	3,327	3,206
Other	9,298	9,856
	$ 49,638	$ 50,557
Deferred Compensation Plan Liabilities (Note 6)	$ 13,028	$ 13,322
Deferred Revenues (Note 1)	$ 8,338	$ 28,827
Unamortized Payment Received for Refinancing Costs (Note 1)	$ 592	$ 728
	$ 646,982	$ 671,334

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

Report of Independent Accountants

To the Board of Directors
Nebraska Public Power District:

We have audited the accompanying balance sheets of the Electric System of Nebraska Public Power District (a public corporation and political subdivision of the State of Nebraska) as of December 31, 1994 and 1993, and the related statements of revenues and expenses and accumulated net revenues, and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric System of Nebraska Public Power District as of December 31, 1994 and 1993, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of the calculation of the debt service ratios in accordance with the Electric System Bond Resolution for each of the three years in the period ended December 31, 1994, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Coopers & Lybrand L.L.P.

Omaha, Nebraska
March 13, 1995

GENERAL		1994		1993		Increase (Decrease)
				(Thousands)		
Utility Plant (at cost): (1)						
Electric System	$	857,762	$	820,498	$	37,264
Power Supply System		765,542		748,906		16,636
Nuclear Facility		694,382		679,346		15,036
Total Utility Plant	$	2,317,686	$	2,248,750	$	68,936
Outstanding Debt:						
Electric System (2)	$	363,023	$	370,284	$	(7,261)
Power Supply System		830,765		855,235		(24,470)
Nuclear Facility		254,725		276,170		(21,445)
Total Outstanding Debt	$	1,448,513	$	1,501,689	$	(53,176)

	Number of Plants (3)	Accredited Capability (MW)	Percent of Total
Production Plant Facilities:			
Steam—Conventional	3	1,506.3	57.4 %
Steam—Nuclear (4)	1	778.0	29.6
Hydro	10	158.8	6.1
Diesel	9	38.1	1.5
Peaking Turbine	3	143.0	5.4
Total Production Plant Facilities	26	2,624.2	100.0 %

(1) Net of retirements
(2) Includes Tax-Exempt Commercial Paper
(3) Includes six hydro plants and nine diesel plants under contract to the District
(4) Includes 389 MW contracted to Midwest Power Systems Inc.

Miles of Transmission Line in Service	6,231
Number of Permanent Employees	2,252
1994 Contractual and Tax Payments (Thousands):	
Lease Payments to Retail Towns	$14,649
5% Gross Revenue Tax	$5,128
In Lieu of Tax Payments	$207

HOW NPPD'S DOLLAR WORKS FOR YOU—1994

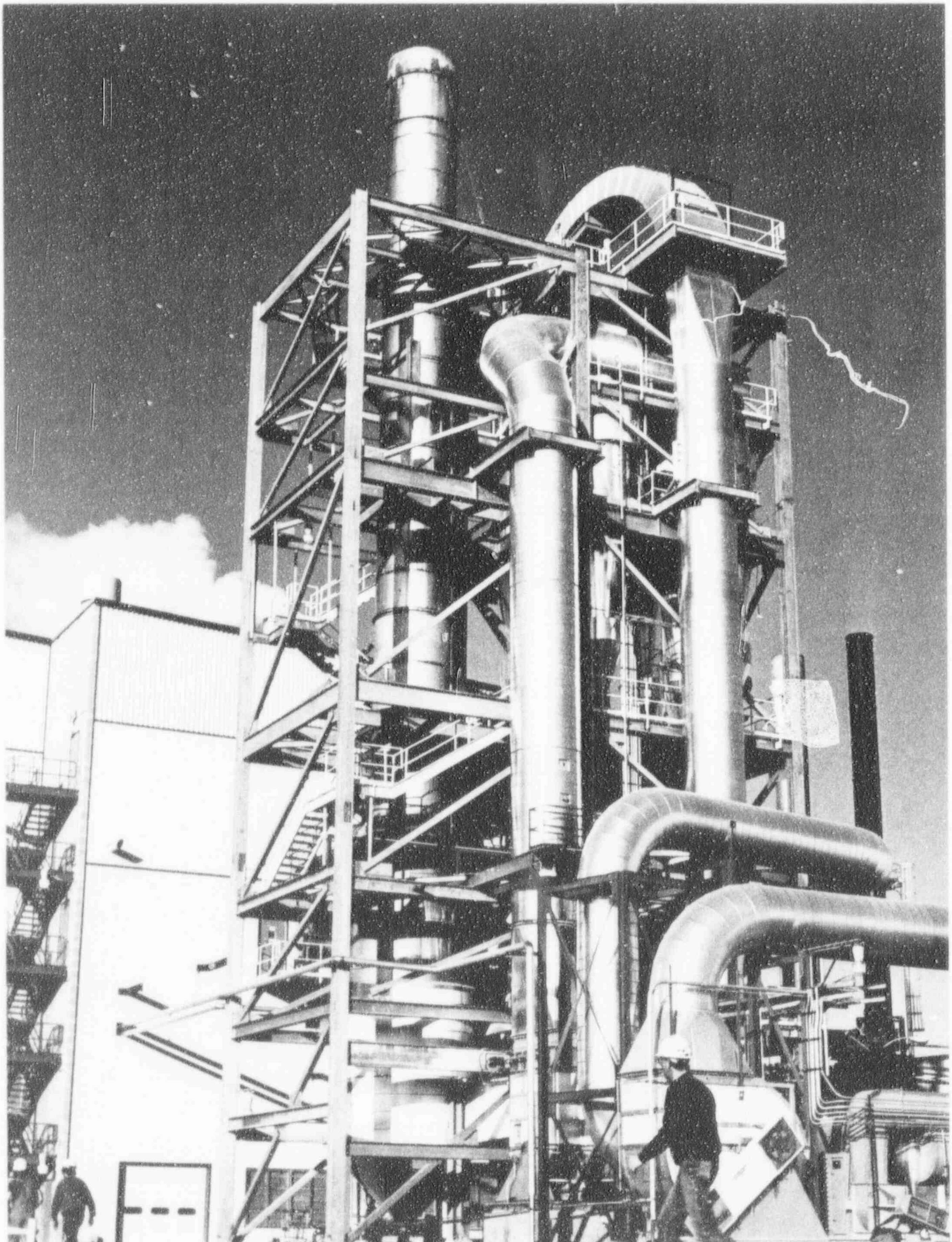
1. Cost of Production—Power Supply System 37.2%
2. Cost of Production—Nuclear Facility 18.6%
3. Cost of Other Operation and Maintenance Expenses 13.7%
4. Cost of Purchased Power—Other 11.0
5. Bond Retirements, Construction From Revenues, Etc. 8.9%
6. Cost of Production—Other 6.5%
7. Interest, Other Income Deductions and Taxes (net of interest income and other revenues) 4.1%

Electric System, Nuclear Facility, and Power Supply System Combined

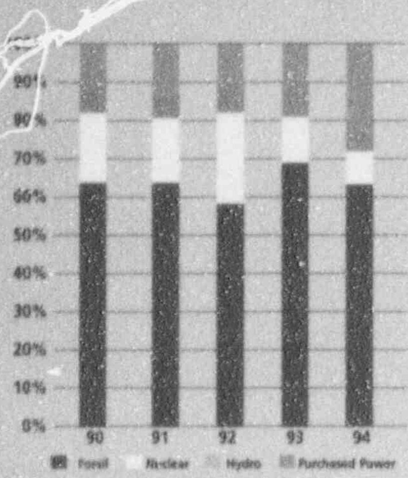
SALES	Average Number of Customers	MWh Sales AMOUNT	MWh Sales %		Revenues from Electric Sales (Thousands) AMOUNT	Revenues %
Retail:						
Residential	83,804	880,605	8.0	$	60,688	14.0
Rural & Farm	3,250	57,637	0.5		4,194	1.0
Commercial	18,793	763,495	7.0		46,585	10.8
Industrial	68	903,500	8.2		31,238	7.2
Public Lighting	251	25,259	0.2		2,352	0.5
Municipal Power	193	41,104	0.4		2,456	0.6
Miscellaneous Municipal	2,746	106,687	1.0		5,123	1.2
Total Retail	109,105	2,778,287	25.3	$	152,636	35.3
Wholesale:						
48 Municipalities (Total Requirements)		1,360,922	12.4	$	48,640	11.2
21 Municipalities (Interconnections & Partial Requirements)		50,757	0.5		1,696	0.4
25 Public Power Districts & Cooperatives (Total Requirements)		3,816,594	34.8		121,914	28.1
Total Wholesale Sales (Excluding Nonfirm and Participation Sales)		5,228,273	47.7	$	172,250	39.7
Total Retail and Wholesale Sales (Excluding Nonfirm and Participation Sales)		8,006,560	73.0	$	324,886	75.0
Other Utilities (Firm and Nonfirm)		1,070,815	9.7		16,628	3.8
Participation Sales (1)		1,898,497	17.3		60,433	14.0
Total Revenues from Electric Energy Sales		10,975,872	100.0	$	401,947	92.8
Other Operating Revenues (Net of Deferred)				$	31,306	7.2
Total Electric System Operating Revenues				$	433,253	100.0

GENERATION	MWh AMOUNT	MWh %		Production Costs (Thousands) AMOUNT	Production Costs %
Production:					
Electric System (Including Interchange)	1,463,492	12.6	$	28,324	8.9
Purchased:					
Power Supply System (1)	6,871,237	59.0	$	161,184	50.7
Nuclear Facility (1)	1,113,715	9.5		80,485	25.4
Other	2,204,775	18.9		47,740	15.0
Total Power Purchased	10,189,727	87.4	$	289,409	91.1
Total Power Produced and Purchased	11,653,219	100.0	$	317,733	100.0

(1) The Electric System purchases 100% of the net generation and power purchases of the Power Supply System and 50% of the Nuclear Facility based upon the total costs of the respective systems. Pursuant to the Power Sales Contract, Midwest Power Systems Inc. purchased 1,113,545 MWh from the Nuclear Facility. Midwest Power Systems Inc. participation is not included in the table.

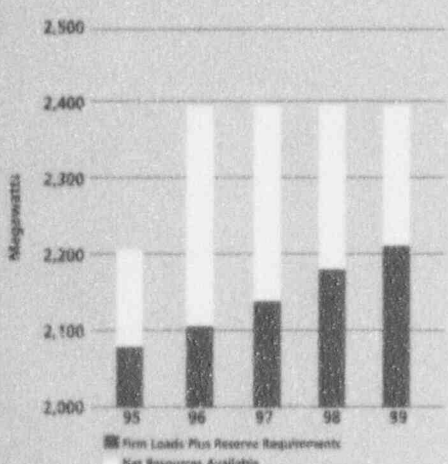


Sources of Energy Supply



The source of the energy used to supply the energy requirements of NPPD's customers. The energy resources utilized are a factor of availability and cost.

Estimated Loads and Resources (Summer Season)



Resources of NPPD, including purchases, available to meet the projected power requirements of NPPD's firm requirements customers, including an amount for reserves. The surplus is available for off-system sales. The increase in net resources available during 1996 results from an anticipated increase in the accredited capacity of Gerald Gentleman Station along with termination of a combustion turbine participation sale.

air conditioners.

- Sitel, an Omaha-based service business, announced new locations in two communities in our service area.
- Across the state, numerous firms added manufacturing and processing capacity and employment.

Total employment in nonmetropolitan Nebraska, which we principally serve, has experienced significant growth since 1986. Growth in manufacturing employment during the 1986-1994 period, which grew by 32.2 percent, has offset declines in agricultural employment. Unemployment rates in nonmetropolitan Nebraska are consistently lower than unemployment rates nationally. This pattern has continued to prevail with the November 1994 unemployment rate in nonmetropolitan Nebraska of less than 3 percent.

Improved conditions in the state's agricultural sector are reflected by recent trends in farm real estate values. After experiencing a continuous decline between 1982 and 1987, the value of farm real estate improved significantly during the 1987-1994 period. Personal income in the state grew by 46.5 percent between 1986 and 1993.

An unprecedented package of investment, employment and other tax incentives are now available to encourage business expansion and location in our state, and our service area has benefited significantly from the resulting economic growth and diversification. Since 1987, 70 expansions have been announced in our service area involving a projected investment of $1.3 billion and employment expansion of 6,047 jobs. We estimate the additional industrial electric sales to be 180.6 million kilowatt hours annually. Forty-three cities in Nebraska are locations for 56 of the Fortune 500 industrial corporations with 111 manufacturing plants. This certainly bodes well for the future of our utility.

The baseline projection for total system energy shows growth of 1.46 percent annually from 1995 to 2023. Our system load factor, or average load compared to the peak load is projected to rise from 54.2 percent in 1995 to 57.4 percent in 2023. Growth in residential customers is projected at 0.24 percent annually for the period 1995 to 2023, while the projection for commercial customers shows growth of 0.61 percent annually over the period.

After completing a survey of our service area, it appears that saturation rates for electric appliances will continue to increase. Central air-conditioning is projected to reach a 75 percent rate for residential customers by 2023, from 59 percent in 1994. Electric water heating saturation is projected to increase from 40 percent in 1994 to 47 percent in 2023. The projection for electric heat pump saturation reaches almost 20 percent in 2023, compared to the 1994 rate of 7 percent. Since 1988, our customers added 11,024 new electric heat installations which added a total of 203.7 megawatts of load to the system. We continue to sponsor an electric heat incentive program for our retail and wholesale customers which places emphasis on equipment efficiency.

The outlook concerning relative fuel prices is favorable for electricity. The projection for real electricity prices shows a decline of 1.01 percent annually, while the projection for residential natural gas increases at a real annual rate of 2.28 percent, a difference of 3.29 percent annually.

We will continue our traditional role of delivering low-cost, reliable, environmentally sound electricity to our customers. As the traditional economy diversifies, so will we to meet the needs and services our customers deserve.

Battelle Pacific Northwest and funded under a contract with the U.S. Department of Energy. We are also a participant in a Nebraska Power Association study that will look at eight sites in the state to determine wind generation potential.

We have established a core group to work toward compliance with the 1990 Clean Air Act Amendments which have had a profound impact on utilities. Several compliance projects are already underway, but the scope of the regulations and final cost of meeting them are still evolving. We are required to interpret the regulations to determine their effect on our operations and then implement appropriate action.

One project critical to our future is the Wide Area Network (WAN) which electronically connects our facilities throughout the state. The WAN allows personnel to exchange information via personal computer quickly and efficiently. Initially, it is being used for the new Materials Management Information System, but it is the foundation of other uses being explored that will bring many benefits during the next several years.

The Materials Management Information System is the largest and widest-reaching information system yet undertaken to address our expansive service territory. It will streamline processes, operations and communications in many areas of our organization.

A Metering Data Retrieval System (MDRS) is intended to replace our obsolete magnetic tape recorder data retrieval system installed in the 1970s. Our goal is to have all magnetic tape recorders upgraded to solid state meter/recorders by the end of 1995. MDRS will be used to collect interval data from some 700 metering points used for billing customers located throughout the state. Data will also be compiled from approximately 400 residential load research customers and approximately 500 commercial, industrial and irrigation load research customers which will be used in retail cost of service studies and rate development.

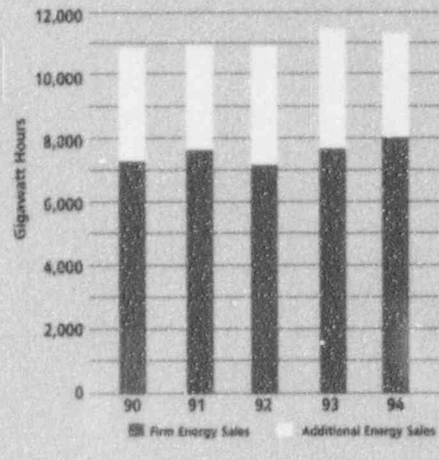
NPPD will promote sustained economic development in the communities and regions which we serve.

We are committed to developing and maintaining a program of area and industrial development to increase statewide employment and economic growth. Our goals are to increase electric sales, increase awareness of Nebraska's locational advantages, encourage new business investment in the state, and maintain the present load and business.

The area we serve continues to experience significant industrial expansion with existing firms adding electric load and employment as well as several new firms announcing new manufacturing and processing plants.

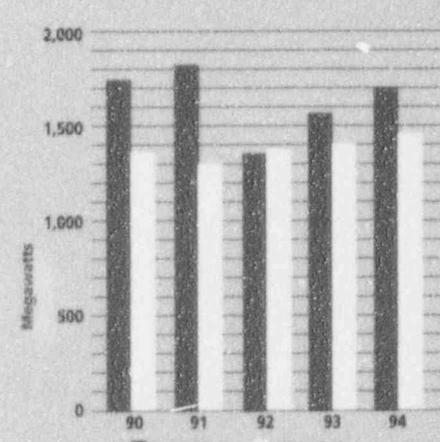
- Minnesota Corn Processors announced a $140 million expansion of its existing facility that converts corn into a variety of products.
- The Nebraska Energy Cooperative began work on a 25 million gallon ethanol plant.
- ACCUMA Corporation announced it would build a 52,000 square-foot plastics injection molding plant.
- Hudson Foods, a Fortune 500 company, began work on a plant to fabricate beef patties.
- Reliance Electric, another Fortune 500 company, announced it would build a 25,000 square-foot facility to assemble state-of-the-art motors for commercial

Electric System Energy Sales



Total annual sales of electric energy by the Electric System. Firm sales are total retail and wholesale sales, excluding nonfirm and participation sales. Sales are affected by many factors, including weather and economic conditions.

Summer & Winter Peak Firm Loads



Highest demand for electricity, in a one-hour period during the respective season, of NPPD's firm requirements customers. Summer weather conditions were unusual in 1992, 1993, and 1994. The cool, wet summer weather reduced the air-conditioning and irrigation load.

The first train reaches Gerald Gentlemen Station on the new spur linking the Union Pacific and Wyoming's Powder River Basin coal supplies.

We gained significant new knowledge as a result of this coal delivery crisis and will be in a better position in future negotiations for coal supply and transportation contracts.

NPPD will understand, utilize and encourage development of new and existing technologies which are cost-effective, increase productivity and enhance customer confidence and loyalty.

A total of 227 miles of 115 kV, 230 kV and 345 kV transmission lines in the east-central portion of Nebraska had to be restored following severe storms. Restoration work was completed in 54 days, thanks in a large part to organized efforts of our employees and the response of contractors. Reconstruction allowed improvements to be made in the system through use of enhanced line design techniques and structural materials.

An opportunity to replace a major portion of our old microwave communications system with fiber optics presented itself with the rebuild of 80 miles of a 345 kV transmission line. The line's reconstruction allowed for the installation of new shield wires containing fiber optics.

Fiber optics provides expanded capacity for voice communications, data transfer and higher data transfer speeds. There is capacity for base station control circuits, additional land-mobile radio system circuits, our energy management system and protective relaying. Future opportunities for use of fiber optics include video conferencing and imaging projects. Our goal is to replace the existing analog microwave system with digital microwave and fiber optics throughout the state to improve the overall reliability of our communications system.

A new railroad spur linking Gerald Gentleman Station with the Union Pacific railroad was completed three weeks ahead of schedule and $1 million under budget.

The 9.2-mile line provides a second means of delivering coal from Wyoming's Powder River Basin to the state's largest power plant. Gentleman Station had been served only by a connection to the Burlington Northern tracks, but the additional spur will allow for competition in the freight market for coal delivery. It is estimated that savings in coal transportation expenses could pay for the new spur before the year 2000.

We are participating in two wind generation studies in the state. One is a cooperative study with KBR Rural Public Power District, a wholesale customer, and Battelle Pacific Northwest Laboratories, which established a wind generation study site in Nebraska's Sandhills. This study will be performed by

under stressful situations—such as our storm repair efforts of the past couple of years or our efforts to trim budgets due to lower-than-projected sales—they develop an understanding and trust in those they work with.

For the third consecutive year, we were challenged to reduce budgets to meet lower revenue projections. This was again due to a summer season with above normal precipitation. We are very weather dependent and rely on irrigation pumping and air-conditioning loads to produce summer peak demands on our system. As a result, we were projecting a $12 to $15 million loss in revenue, but our employees responded by reducing and/or deferring expenses rather than raising rates to offset the entire deficit.

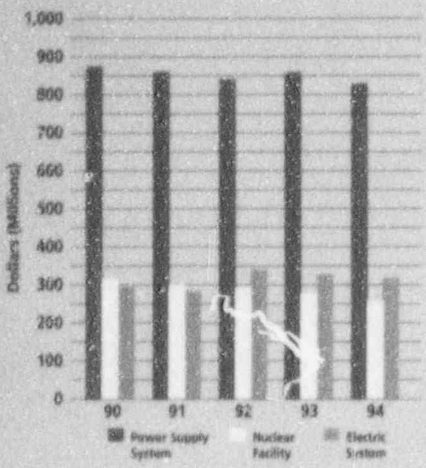
The employees at our Cooper Nuclear Station have set a new safety record by recording three million work-hours without a lost-time accident. This shattered the old mark of 1.5 million work-hours. Sheldon Station employees clearly demonstrated their proactive stance in the area of personal safety through their compliance with OSHA confined space regulations and lockout-tagout regulations. Rather than resist change, they embraced the new regulations with the attitude that, with careful planning and implementation, these regulations could significantly enhance the safety program without seriously impacting productivity.

Teamwork was never more evident than when various disciplines joined together to improve our seriously depleted coal supply at Gentleman and Sheldon Stations. We initiated several actions including a series of meetings with Burlington Northern, Union Pacific, and Chicago and Northwestern Railroads. We also leased additional train sets. Sales of electricity to other than contracted customers were terminated, off-peak generation from the coal plants was reduced and we purchased energy from other utilities. Additionally, we identified other mines in the Powder River Basin that could be used for alternate supply and also located interim supply outside this region served from less congested rail corridors.

These actions, along with the completion of additional double tracking in the Powder River Basin corridor in Wyoming, where we get most of the coal, improved deliveries and began to restock the piles. We will continue to lease some trains during 1995 to meet projected coal burns and completely rebuild the stockpile.

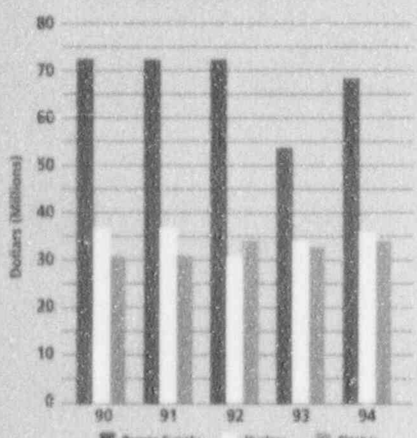
Environmental Specialist Hope Hasenkamp-Gibbs reviews data recorded at one of our wind generation study sites in Nebraska.

Long-Term Debt



Year-end balance of outstanding long-term debt. In addition to annual debt retirements, fluctuations in outstanding debt resulted from issuance of new debt in 1992 and refinancings of certain existing debt in 1992 and 1993.

Annual Debt Service



Accrued annual pri..ipal and interest on outstanding lon...rm debt. Fluctuations in 1992, 1993 and 1994 resulted from issuance of new debt in 1992 and refinancings of certain existing debt in 1992 and 1993.

15 percent reduction in freight rates for coal deliveries to Gentleman Station resulted in higher energy costs and triggered increases in our Production Cost Adjustment (PCA) factor due to a deficit balance in our PCA account. As a result, the PCA factor for wholesale and retail customers went from a credit to a charge which increased the cost of electricity. We are in litigation with Burlington Northern over the freight rate issue.

We provide not only the electricity product, but also service in the forms of reliability and responsiveness. We firmly believe that price, though very important, is not the sole criteria for choosing an energy supplier. The real costs associated with alternatives for energy supply must be communicated in terms of value parameters that our customers understand, such as service reliability, power quality, technical support and emergency service availability.

NPPD will attract and retain capable, accountable employees and encourage them to develop new skills and excel through training and career growth opportunities. Teamwork, innovation and the need for continuous improvement will be emphasized.

Developing future management is a complex task. We need effective leadership in order to be a successful organization.

Our Management Development Program provides employees with skills to carry out the many plans we are making today to meet the needs of tomorrow. The scope of the program emphasizes the big picture of developing skills for all supervisors and managers, as well as those who have the potential to become future leaders. The program focuses on training management candidates to assist others in developing their skills and their careers.

We have also devoted significant resources to ensure a highly skilled, well-trained work force. Our expansive training program covers all aspects of our operation from a technical standpoint. Where it had been lacking somewhat was in emphasizing the importance of management skills. A well-accepted fact in business today is that management requires a distinctively different set of skills than those required to do specialized work.

During 1994, we formally began a comprehensive review of our entire operation. The Competitive Positioning Strategy (CPS) project's goal is to perform a thorough functional analysis, and identify and recommend improved business practices. This goal fully supports our Vision to be recognized as a regional leader in achieving customer loyalty by providing reliable, competitively-priced electricity and related services.

The CPS will be carried out in a three-phase approach. The first is project design. During the second phase, there will be a complete functional analysis of what we do and how we do it, resulting in identification of what is not adding customer value and what needs to be added to increase value. The ongoing third phase is implementation.

A teamwork attitude encourages our employees to develop an appreciation and trust in the knowledge and expertise of fellow workers. The objective is to build a camaraderie so that the achievements of each become the accomplishments of all. By broadening this vision of teamwork, we can further improve service.

Nothing spawns teamwork like a crisis. When our people are brought together

NPPD will foster the confidence of our customers, regulators, bondholders, employees and the general public by openly, honestly, and effectively listening to and communicating with our stakeholders, and by emphasizing individual and corporate integrity in everything we do. NPPD will be timely, accurate and responsive in dealing with requests from customers and other stakeholders.

Although noting that Cooper Nuclear Station performance problems, while being addressed, remain a challenge, Standard and Poor's continued its A+ rating and Moody's Investors Service continued an A1 rating on our $1.4 billion of outstanding revenue bonds. Standard and Poor's rating did, however, assign a "negative outlook" to NPPD due primarily to the problems associated with Cooper Nuclear Station. To support its rating, Moody's cited, among other things:

- NPPD's service to a major portion of Nebraska on a retail and wholesale basis, with its extensive intrastate transmission network, makes it the state's dominant electric utility. NPPD's dominance is enhanced by substantial and diverse generation resources and its broad community support for its mission.
- Despite protection afforded by the statutorily derived exclusive role of public power in the state, NPPD is in a favorable competitive position with its low cost structure. NPPD's wholesale and retail rates remain competitive, including rates well below the regional average for large industrial users.
- NPPD's well-established power supply program with a diversified generating mix has given the utility sufficient capacity to meet projected loads for an extended period.

We and our customers are members of one team—the electric utility team in Nebraska. As such, we have formed service and communication alliances with these customers, fully realizing the importance of our customer base.

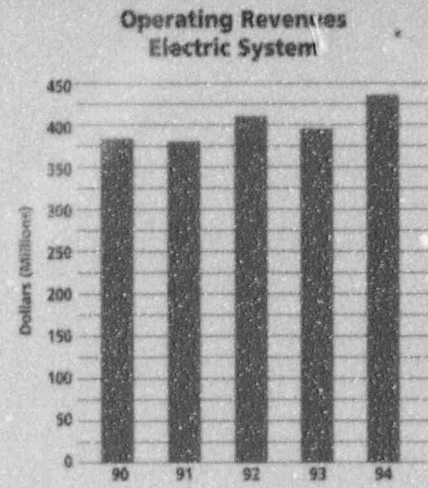
We have enhanced our large retail customer visitation program and continue to communicate with our wholesale, retail and irrigation customer representatives through appointed committees. Listening and seeking input is helping us provide the types of service they want.

Customer services is an area which we are expanding. Provision of supplementary services will enhance our basic product. At last count, we had 64 utility-related services available to our customers. We provide these services uncoupled so customers can choose only the ones that are valuable to them.

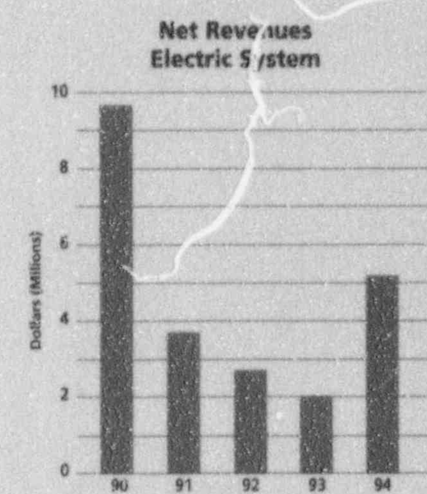
We have a firm commitment to actively respond to customer needs. Communication and sharing information are crucial in meeting that commitment.

We continue to be a low-cost provider of electricity. Rate increases, although sometimes necessary, are never easy. Mild summer weather in 1992 and 1993 resulted in lower than expected revenues and, despite extensive cost-cutting measures, a rate increase was unavoidable. We increased base rates an overall average of 2.4 percent for our retail customers and 3.4 percent for our wholesale customers in early 1994.

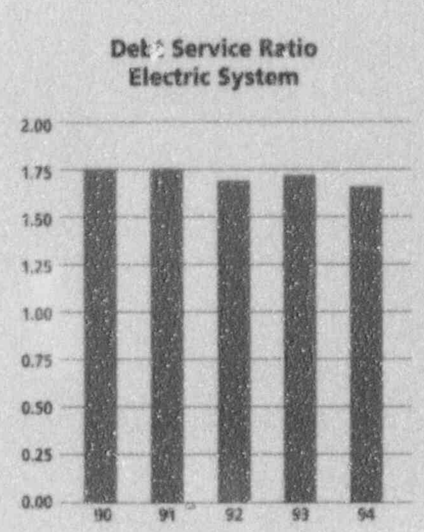
The long shutdown at Cooper Nuclear Station and the failure of Burlington Northern Railroad to enact an anticipated



Annual gross revenues from Electric System operations, including revenue from electric sales, rent and surface water irrigation sales.



Electric System revenues remaining after deducting all expenses and costs. Net revenues are calculated in accordance with Generally Accepted Accounting Principles. Net revenues for 1992 and 1993 include an extraordinary charge due to early extinguishment of long-term debt.



Ratio of Electric System net revenues, calculated in accordance with the Electric System Revenue Bond Resolution, to accrued annual debt service.

within the Platte River Basin can save a 100-car train of coal every six days. All customers will continue to benefit from these important resources.

Improved system reliability, safety and a positive impact on future costs are the driving forces behind our plans to construct an additional 345 kV transmission line. The line will connect our generation resources in the west with the larger population and rapidly growing areas in the eastern portion of our service area. The Pauline-Moore line will connect two major substations and relieve a serious transmission bottleneck that hinders providing reliable and economical service to our customers.

Construction of the line continues to be challenged by some of the affected property owners who do not agree that the line is needed.

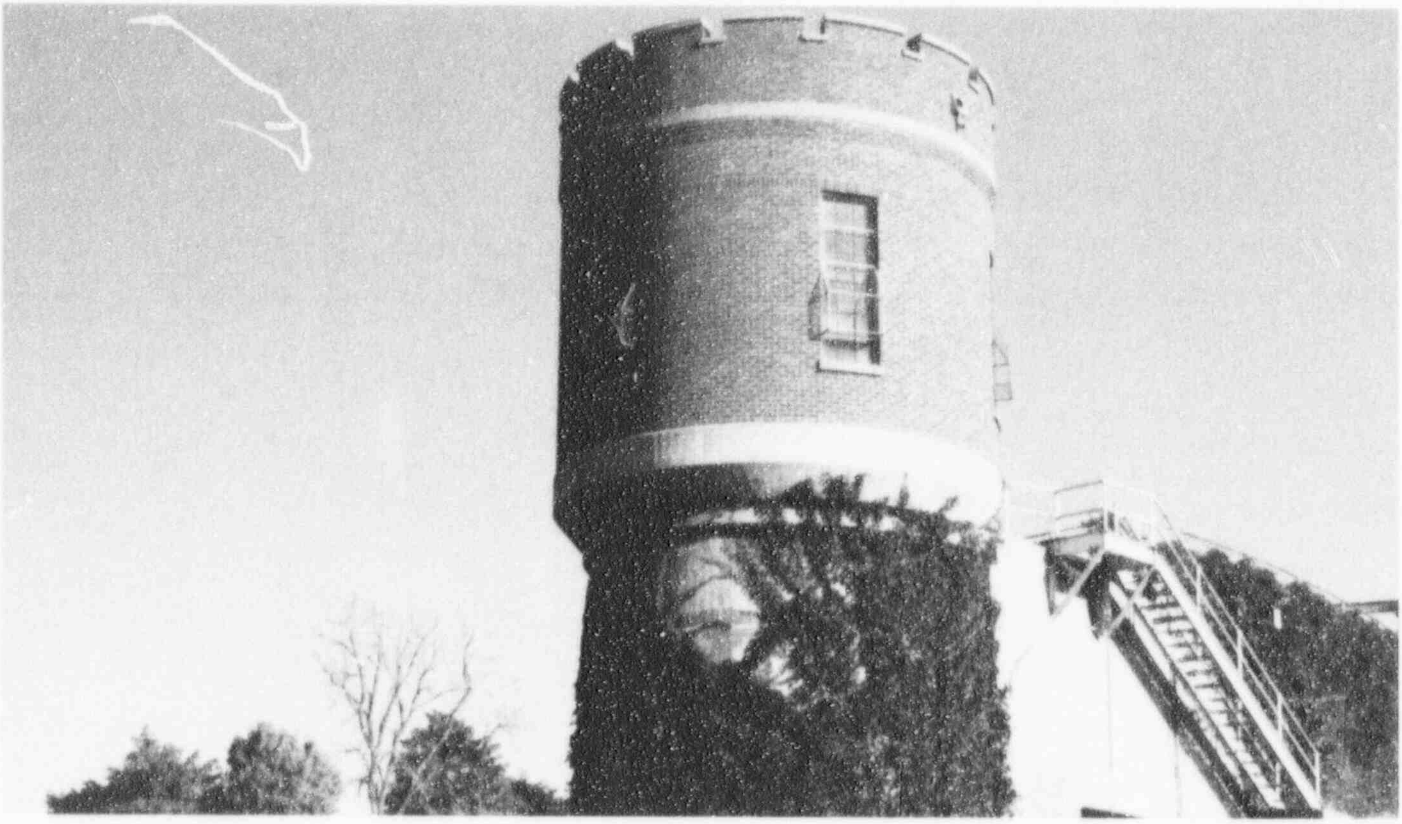
Reliability is key, but in addition, the line would be a financial benefit, allowing electric rates to be from 2.3 to 3.4 percent below what they would otherwise be. We have estimated total net benefits of $213 million over a 35-year period. Voluntary public meetings and state mandated hearings were held during 1994, several supply contracts were approved, and the process continues to be on schedule. Contracts are to be let in 1995 for the construction of the 96-mile, $57 million line.

Problems identified at our Cooper Nuclear Station during the year were associated with our voluntary shutdown of the facility in May. The NRC brought to our attention various operating deficiencies that were not consistent with our or the NRC's commitment to excellence. Many of these deficiencies were the result of program and process weaknesses, as well as inadequate independent oversight. As a result, we were identified by the NRC as having "declining performance."

Investing in our future, we performed an intensive self-assessment of our nuclear activities by industry peers. A new management team was brought in, and we took ownership of and began finding and fixing our problems. We are doing what we believe is necessary to become, once again, an above average performer in the industry. We learned that we cannot rest on our excellent record of past performance and become isolated from increasing industry expectations. We must strive for the highest performance possible.

Cooper Nuclear Station returned to the commercial generation of electricity on February 22, 1995, and we are firmly determined to ensure that our standards of performance exceed the NRC's.

Youngsters participate in a habitat learning process during "cleanup day" at a least tern and piping plover habitat sandpit.



The picturesque Kearney Hydro - rehabilitation appears to be justified.

it would cost $3.3 million to dismantle the 1,000-kilowatt plant, while rehabilitating it to operate for at least another 30 years would result in benefits estimated at $3.8 million, or a total positive benefit of $7.1 million.

From our economic studies, the Kearney Hydro rehabilitation appears to be justified. Not only are there positive benefits over the life of the project, but the operating costs for the rehabilitated hydro are reasonable compared to our other baseload units. In addition, continued operation of the plant and its canal system will maintain the groundwater level, which means that the municipality of Kearney and other water users will not have to drill deeper wells. Abandoning the plant and canal would adversely affect the adjacent lake. The canal system also shields an estimated 14,000 acres from storm water runoff and serves 4,800 irrigated acres of farmland.

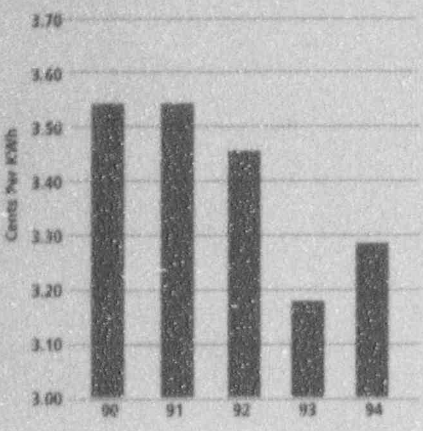
In 1990, the Federal Energy Regulatory Commission (FERC) ordered conditions for our annual license on the Sutherland Project that included the development and maintenance of eight island nesting sites for terns and plovers. We decided to develop and manage two sandpit sites adjacent to the river which were specifically designed for comparative evaluations with the islands.

For the fourth consecutive year, our sandpit nesting sites for endangered least terns and threatened piping plovers produced more birds than the artificial island habitats in the Central Platte River Basin. Not only have the pits produced more chicks, they have been less expensive to develop than the in-river islands, and experience managing these sites has demonstrated that the annual maintenance costs are relatively similar.

The FERC issued its Revised Draft Environmental Impact Statement (RDEIS) that was reviewed and commented on by all interested parties to the relicensing of the Sutherland Project. The RDEIS preferred alternative was the Nebraska Plan with some modifications. We continue to encourage support for the concept of the Nebraska Plan advanced by Gov. Ben Nelson. We will continue to seek support for a settlement that balances the benefits of the various water and wildlife interests in the Platte River region with electric generation, irrigation and other uses, while minimizing the amount of time and cost expended in the process.

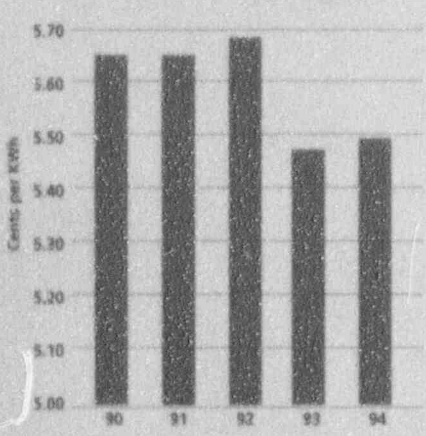
Agriculture is our service area's most important industry, and irrigation, from river water stored in the largest of several reservoirs, adds millions of dollars to the value of crops for our surface water irrigation customers. In addition, hydro power that we generate or purchase through contract

Average Revenue per KWh Sold (Firm Wholesale Customers Only)



These ratios measure the average amount of revenue received for each KWh of electricity used by wholesale and retail customers, respectively. The ratios reflect the stability of NPPD's rates.

Average Revenue per KWh Sold (Retail—All Classes)



NPPD will provide safe working conditions for our employees and construct and operate facilities in a manner which protects public health, safety and the environment.

With a more competitive environment on the horizon, the major emphasis during 1994 was on issues that will enable us to maintain our competitive position within the industry. We intend to continue to be a low-cost supplier, and provide additional related services to our customers by developing a well-trained and effective work force receptive to the myriad of changes that will be required.

We are participating in the U.S. Department of Energy's "Climate Challenge Program," thus committed to reducing carbon dioxide gas emissions from our coal-burning generating stations by more than 100,000 tons during the next five years. This will be brought about through increased efficiencies which reduce the amount of fuel burned, including converting streetlights in many towns we serve to energy-efficient, high-pressure sodium lamps, improving transformer and distribution systems, modifying hydro-electric generation to obtain greater output, and upgrading equipment at our coal-burning Gerald Gentleman and Sheldon Stations. Our customers are counting on us to meet their electrical needs through more imaginative and innovative technology.

Our two Gentleman Station coal-fired generating units had outstanding production and safety performance during 1994. The facility completed 1994 without a "days away from work" accident. Unit 1 at Gerald Gentleman Station generated 3.587 million megawatt hours, which set a new annual production record, while Unit 2 at the facility generated 3.202 million megawatt hours, which was the second highest annual production on record.

Together, the two units produced 6.789 million megawatt hours, which was the second highest annual production on record with the highest coming in 1993.

The smaller Sheldon Station also had an outstanding year. Generation totaled 1.294 million megawatt hours, second only to the 1973 record generation of 1.341 million megawatt hours.

Also at Sheldon Station, we received a permanent permit from the Lincoln-Lancaster County Health Department to burn, on a continuing basis, tire-derived fuel (TDF) as an additive to coal. Although the permit allows us to burn up to 5 percent TDF, we have been burning considerably less than this because of abnormal boiler slagging problems. Even with the lower blend rate, we still rid the state of approximately 600,000 discarded tires annually out of the 1.6 million scrap tires generated each year. We have also renewed the contract with our TDF supplier to provide approximately 6,000 tons during 1995. We have been using rubber as an additive to coal at Sheldon Station for three years while succeeding in not increasing the cost of generation to our customers. We have been presented the Lincoln and Lancaster County Environmental Award in the waste reduction and recycling category for converting scrap tires into electric energy.

Our decision to renovate the 106-year-old Kearney Hydro Station was based on cost considerations, area impact and economic benefits. The study determined that

- Completed a second coal delivery rail spur to Gerald Gentleman Station, ahead of schedule and under budget;
- Created a new Cooper Nuclear Station management team, developed improved operational procedures, forged a stronger relationship with the Nuclear Regulatory Commission (NRC), and was well on its way toward putting the station back on line; and
- Effectively dealt with the District's weather-induced budget crisis with minimal adverse impact on our customers.

All this bodes very well for the future of our utility.

While dealing with these problems, NPPD's management and staff completed development of our Strategic Plan, which has been presented to the Board of Directors for approval. And along this line, NPPD management and employees launched the first phase of our "Competitive Positioning Strategy" study. We formed a team which will be devoted full time to a comprehensive review of our organization to identify and recommend improved business practices.

Great competitive changes are coming to electric utilities. No longer will the industry enjoy the protection of monopolistic legislation. More than half of all new generating capacity is being built by nonutility generators. Large industrial customers, faced with global competition, expect to be able to choose their electric suppliers. The Energy Policy Act of 1992 mandates wholesale wheeling. Retail wheeling will give the end user a choice of power suppliers.

Because of the emerging emphasis on competition in the utility industry, NPPD's Strategic Plan, melded with the Competitive Positioning Strategy, will set the direction we will follow in the years to come.

We are already very well positioned to compete. Our strategic planning analysis shows that our generation is among the best and most economical in the Midwest. Our industrial customers enjoy rates that are among the lowest in the region. And we are dedicated to not only maintaining, but raising our status as Nebraska's premier electric utility.

Nebraska is fortunate to have a thriving economy. Our work ethic is high and our unemployment rate is low. New industries are discovering "The Good Life" of Nebraska that we have long enjoyed. Our economy is becoming a broad mix of industry and is less dependent on the vagaries of agriculture.

We hope you will read our Annual Report very closely. You will be impressed with how we addressed and overcame challenges.

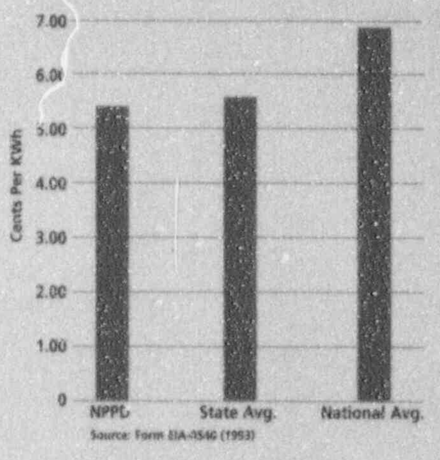
It is a story of strong people dedicated to making NPPD an even stronger utility.

Bruce Gustafson
Chairman

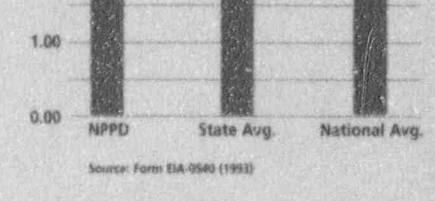
Ronald Watkins
President and C.E.O.

Ronald Watkins announced his resignation as President and C.E.O. on Feb. 14, 1995, to assume the position of President and C.E.O. of Old Dominion Electric Cooperative in Glen Allen, Va., and President of the Virginia-Maryland-Delaware Cooperative Association. His new position is effective April 1, 1995. The Board named Robert L. Gangel acting President and C.E.O.

Comparison of Rates
Average Revenue per KWh Sold, 1993
(Retail—All Classes)



Comparison of Rates
Average Revenue per KWh Sold, 1993
(Industrial)



President and CEO Ronald Watkins (left) and Board Chairman Bruce Goodson

Message from the Chairman and President

Adversity, especially adversity of some duration, is the ultimate test of people and organizations. It can make them stronger. Or it can irreparably damage them.

The past year was a time of adversity for NPPD. But we triumphantly answered the challenges and, as a result, NPPD has emerged a stronger utility.

Consider the challenges we faced in 1993:

A damaging storm last spring caused millions of dollars in transmission and distribution line damage.

Cooper Nuclear Station, which provides about 20 percent of our electricity, was out of service for seven months.

Our Gerald Gentleman Station coal supply was threatened by snarled rail deliveries.

And, as in the preceding two years, our revenues were adversely affected by abnormally cool, wet weather.

We were greatly impressed with the way our organization responded to adversity in 1993. Such turns in the problems noted above produce change in an organization. How it responds is indicative of whether the change will be positive or negative.

We believe 1994 will be a year we will look back on with satisfaction. It will be a landmark for NPPD during which major and very positive changes became apparent.

We responded admirably to all the problems we faced. And we are already seeing positive results.

By the close of 1993, NPPD:

- Was well on the way to solving its coal supply crisis.
- Recorded the District's second highest mark for combined generation, despite the coal shortage.

REFERENCE GUIDE

YEAR AT A GLANCE

Kilowatt hour Sales (Electric System)	11.0 Billion
Kilowatt hour Sales to Midwest Power Systems Inc. (Nuclear Facility)	1.1 Billion
Operating Revenues (Electric System)	$433.3 Million
Operating Revenues from Sales to Midwest Power Systems Inc. (Nuclear Facility)	$82.7 Million
Cost of Power Purchased and Generated (Including Nuclear Facility and Power Supply System)	$317.7 Million
Other Operating Expenses	$98.3 Million
Net Revenues	$5.5 Million
Debt Service Coverage	1.64

THE DISTRICT

Nebraska Public Power District is a public corporation and political subdivision of the State of Nebraska. Control of the District and its operations is vested in an 11-member Board of Directors popularly elected from subdivisions within the District's chartered territory, which includes all or parts of 91 of the state's 93 counties. The District 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.

Printed on recycled paper

VISION

NPPD will be recognized as a regional leader in achieving customer loyalty by providing reliable, competitively-priced electricity and related services.

MISSION STATEMENT

NPPD's mission is to enhance the quality of life for Nebraskans by safely providing electricity, irrigation, and related services, while balancing costs, reliability and protection of the environment.

Nebraska
Public
Power
District

Powerful Pride in Nebraska