Management's Discussion and Analysis (Unaudited)

USING THIS FINANCIAL REPORT

The Financial Report for the Omaha Public Power District (OPPD or Company) includes the Management's Discussion and Analysis, Financial Statements, Notes to Financial Statements, Required Supplementary Information and Notes to Required Supplementary Information. The Financial Statements consist of the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The Financial Statements have been prepared in accordance with generally accepted accounting principles (GAAP) for proprietary funds of governmental entities. Questions concerning any of the information provided in this report should be directed to Investor Relations, 402-636-3286.

Management's Discussion and Analysis (MD&A) – This unaudited information provides an objective and easily readable analysis of OPPD's financial activities based on currently known facts, decisions or conditions. In the MD&A, financial managers present both short-term and long-term analyses of the Company's activities. The MD&A should be read in conjunction with the Financial Statements, Required Supplementary Information and related Notes. This document contains forward-looking statements based on current plans.

Statement of Net Position – This statement reports resources with service capacity (assets) and obligations to sacrifice resources (liabilities). Deferrals result from outflows and inflows of resources that have already taken place but are not recognized in the financial statements as expenses and revenues because they relate to future periods. Net Position is the residual interest in the Company. On the Statement of Net Position, the sum of assets and deferred outflows equals the sum of liabilities, deferred inflows and net position. This statement facilitates the assessment and evaluation of liquidity, financial flexibility and capital structure.

Statement of Revenues, Expenses and Changes in Net Position – All revenues and expenses are accounted for in this statement. This statement measures the activities for the year and can be used to determine whether the revenues, rates, fees and other charges are adequate to recover expenses.

Statement of Cash Flows – This statement reports all cash receipts and payments summarized by net changes in cash from operating, capital and related financing, and investing activities.

***Notes to Financial Statements* (Notes)** – These notes provide additional detailed information to support the Financial Statements.

Required Supplementary Information and Notes to Required Supplementary Information – This information provides additional detailed disclosures as required by the Governmental Accounting Standards Board.

ORGANIZATION

OPPD is a fully integrated, publicly owned electric utility governed by an elected board of eight directors. The Company serves an estimated population of 820,000 in a 13-county, 5,000-square-mile service area in southeast Nebraska.

FINANCIAL POSITION

As discussed in Note 3 to the financial statements, in 2016 OPPD elected to change its method of accounting related to ash landfills and the closure and postclosure care costs to be incurred in the future. This resulted in the application of GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs* (GASB 18), by recognizing the cumulative effect of adoption as of January 1, 2015.

The following table summarizes the financial position as of December 31 (in thousands).

Condensed Statements of Net Position	2016	2015
Current Assets	$ 921,231	$ 839,274
Other Long-Term Assets and Special-Purpose Funds	1,692,455	1,007,537
Capital Assets	2,561,394	3,389,679
Total Assets	5,175,080	5,236,490
Deferred Outflows of Resources	265,988	192,677
Total Assets and Deferred Outflows	$ 5,441,068	$ 5,429,167
Current Liabilities	$ 371,957	$ 257,466
Long-Term Liabilities	4,013,641	3,208,379
Total Liabilities	4,385,598	3,465,845
Deferred Inflows of Resources	42,141	16,168
Net Position	1,013,329	1,947,154
Total Liabilities, Deferred Inflows and Net Position	$ 5,441,068	$ 5,429,167

Total Assets and Deferred Outflows

Total Assets in 2016 decreased $61,410,000 or 1.2% from 2015, primarily due to a decision by the Board of Directors in June 2016 to cease operations at the Fort Calhoun Station (FCS). Capital assets decreased $828,285,000 or 24.4% from 2015 due to the FCS decision, which resulted in an impairment of the FCS-related assets. Other Long-Term Assets and Special Purpose Funds increased $684,918,000 or 68.0% over 2015, primarily due to the addition of a Board-approved regulatory asset for decommissioning costs.

Deferred Outflows of Resources in 2016 increased $73,311,000 or 38.0% over 2015, primarily due to the change in the expected earnings on the pension plan.

Total Liabilities, Deferred Inflows and Net Position

Total liabilities in 2016 increased $919,753,000 or 26.5% over 2015, primarily due to the additional decommissioning cost liability related to the decision to cease operations at FCS.

Deferred Inflows of Resources in 2016 increased $25,973,000 or 160.6% over 2015, primarily due to an increase in the Rate Stabilization Reserve.

Net Position in 2016 decreased $933,825,000 or 48.0% from 2015, primarily due to the decision to cease operations at FCS, which resulted in an impairment of the FCS-related assets.

RESULTS OF OPERATIONS

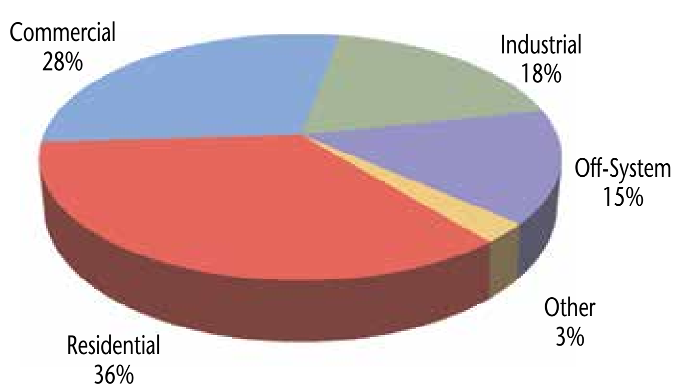
The following table summarizes the operating results for the years ended December 31 (in thousands).

Operating Results	2016	2015
Operating Revenues	$ 1,126,476	$ 1,131,235
Operating Expenses	(1,025,117)	(1,030,374)
Operating Income	101,359	100,861
Other Income	12,305	22,929
Interest Expense	(87,914)	(91,468)
Net Income Before Special Item	25,750	32,322
Special Item	(959,575)	-
Net Income (Loss)	$ (933,825)	$ 32,322

Operating Revenues

The following chart illustrates 2016 operating revenues by category and percentage of the total.

2016 Operating Revenues



2016 Compared to 2015 – Total operating revenues were $1,126,476,000 for 2016, a decrease of $4,759,000 or 0.4% from 2015 operating revenues of $1,131,235,000.

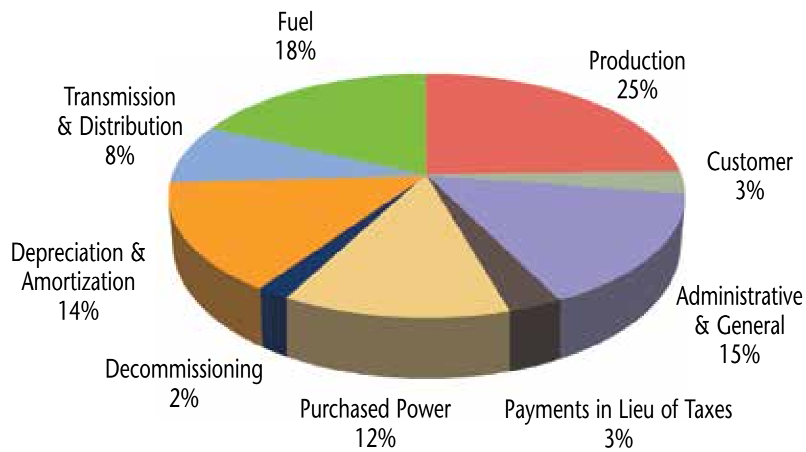
- Revenues from retail sales were $921,052,000 for 2016, an increase of $16,259,000 or 1.8% over 2015 revenues of $904,793,000. The increase in retail revenues was primarily due to warmer than normal summer weather, which was partially offset by a transfer to the Rate Stabilization Reserve.

- Revenues from off-system sales were $175,506,000 for 2016, a decrease of $20,006,000 or 10.2% from 2015 revenues of $195,512,000. The decrease was primarily due to lower sales volumes and prices in the off-system marketplace.
- Other Electric Revenues include connection charges, late payment charges, rent from electric property, wheeling fees and miscellaneous revenues. These revenues were $29,918,000 for 2016, a decrease of $1,012,000 or 3.3% from 2015 revenues of $30,930,000.

Operating Expenses

The following chart illustrates 2016 operating expenses by expense classification and percentage of the total.

2016 Operating Expenses



2016 Compared to 2015 – Total operating expenses were $1,025,117,000 for 2016, a decrease of $5,257,000 or 0.5% from 2015 operating expenses of $1,030,374,000.

- Fuel expense decreased $10,313,000 or 5.2% from 2015, primarily due to reduced generation at the North Omaha Station and Nebraska City Station Unit 1 (NC1), partially offset by increased generation at Nebraska City Station Unit 2 (NC2).
- Purchased Power expense increased $11,839,000 or 11.0% over 2015, primarily due to additional renewable energy purchases.
- Production expenses decreased $29,837,000 or 10.6% from 2015, due to reduced operations and maintenance expenses at FCS.
- Transmission expense increased $2,686,000 or 8.1% over 2015, primarily due to increased outside service costs and increased transmission fees.
- Distribution expense increased $1,835,000 or 4.3% over 2015, primarily due to increased payroll costs.
- Customer Accounts expense increased $1,329,000 or 8.6% over 2015, primarily due to adjustments for the provision for uncollectible accounts.
- Customer Service and Information decreased $1,191,000 or 7.3% from 2015, primarily due to decreased outside service costs.
- Administrative and General expense increased $5,570,000 or 3.8%, primarily due to the increased outside service costs and increased employee benefit costs.
- Depreciation and Amortization expense decreased $1,487,000 or 1.0%, primarily due to ceasing operations at FCS in October 2016.
- Decommissioning expense increased $12,415,000 or 240.6% due to the transitioning of FCS to decommissioning.
- Payments in Lieu of Taxes expense increased $1,897,000 or 5.9%, primarily due to higher retail revenues.

Other Income (Expenses)

Other income (expenses) totaled $12,305,000 in 2016, a decrease of $10,624,000 from 2015 income (expenses) of $22,929,000.

Other – Net totaled $2,229,000 in 2016, a decrease of $6,113,000 from 2015, primarily due to a reduction of grants from the Federal Emergency Management Agency.

Allowances for Funds Used During Construction (AFUDC) totaled $7,380,000 in 2016, a decrease of $1,094,000 from 2015, due to lower construction balances subject to AFUDC.

A variety of products and services are offered to provide value both to the customer and the Company. These products and services totaled $3,739,000 in 2016, a decrease of $548,000 from 2015. These products include Geothermal Loop Heat Exchangers, ECO 24/7 services and Residential Surge Protection.

Interest Expense

Interest expense was $87,914,000 for 2016, a decrease of $3,554,000 from 2015, primarily due to lower interest payments related to debt refunding activity in 2016 and 2015.

Net Income Before Special Item

Net income before the Special Item was $25,750,000 or $6,572,000 lower than 2015, primarily due to Rate Stabilization Reserve adjustments. Changes to the Rate Stabilization Reserve resulted in operating revenues and net income decreasing $26,000,000 in 2016 and increasing $25,000,000 in 2015.

Special Item

The Board decision to cease operations at FCS resulted in an impairment and the recognition of a Special Item. This includes the write-off of FCS-related assets and related contract termination fees in the amount of $959,575,000.

Net Income (Loss)

Net loss after the Special Item was $933,825,000, primarily due to the Board decision to cease operations at FCS.

CAPITAL PROGRAM

The Company's utility plant assets include production, transmission and distribution (T&D), and general plant facilities. As a result of the Board of Directors' decision in June 2016 to cease operations at FCS, the related assets were determined to be impaired as of June 30, 2016. The following table summarizes the balance of capital assets as of December 31 (in thousands).

Capital Assets	2016	2015
Electric plant	$ 4,305,055	$ 5,487,554
Nuclear fuel – at amortized cost	-	87,387
Accumulated depreciation and amortization	(1,743,661)	(2,185,262)
Total utility plant – net	$ 2,561,394	$ 3,389,679

Electric system requirements, including the identification of future capital investments, are reviewed annually to ensure current and future load requirements are serviced by a reliable and diverse power supply. Capital investments are financed with revenues from operations, bond proceeds, investment income and cash on hand.

The following table shows actual capital program expenditures, including allowances for funds used during construction, for the last two years and budgeted expenditures for 2017 (in thousands).

	Budget	Actual	
Capital Program	2017	2016	2015
Transmission and distribution	$ 80,000	$ 82,145	$ 80,862
Production	35,000	48,723	115,398
General	20,000	11,782	12,509
Total	$135,000	$142,650	$ 208,769

Actual and budgeted expenditures for 2015 through 2017 include the following:

- Transmission and distribution expenditures include a new 345-kilovolt transmission line from a substation near the Nebraska City Station to the Nebraska border as part of the Midwest Transmission Project. In addition, expenditures include a transmission system upgrade as part of the Elkhorn River Valley Transmission Project. T&D expenditures also include the installation of substation and distribution facilities to maintain system reliability, enhance efficiency and respond to load growth.
- Production expenditures include equipment to maintain reliability, enhance efficiency and comply with increasing environmental regulations. Budgeted expenditures include additional ash disposal facilities at the Nebraska City Station and replacement of the turbine rotor at NC2. Production expenditures at FCS through June 2016 include reinforcing beams that support equipment inside the reactor containment building and equipment for remote monitoring of the spent fuel pool. Due to the impairment of capital assets and the transition to decommissioning FCS beginning in November 2016, no additional FCS expenditures will be eligible for capitalization at FCS.

- General plant expenditures include facility upgrades and fleet vehicle purchases. Additional budgeted expenditures include telecommunications equipment and information technology upgrades for cyber security and the outage and field service management systems.

Details of the Company's capital asset balances and activity are included in Note 1 in the Notes to Financial Statements.

CASH AND LIQUIDITY

Cash Flows

There was an increase in cash and cash equivalents of $5,802,000 during 2016 and a decrease of $6,062,000 during 2015.

The following table illustrates the cash flows by activities for the years ended December 31 (in thousands).

Cash Flows	2016	2015
Cash flows from Operating Activities	$301,851	$262,088
Cash flows from Capital and Related Financing Activities	(271,220)	(226,865)
Cash flows from Investing Activities	(24,829)	(41,285)
Change in Cash and Cash Equivalents	$ 5,802	$ (6,062)

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

- Cash flows for 2016 increased $39,763,000 over 2015, primarily as the result of an increase in cash received from retail customers.

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

- Cash flows used for 2016 increased $44,355,000 over 2015, primarily due to a decrease in proceeds from long-term borrowing, partially offset by decreased debt principal payments and a decrease in the cash used for acquisition and construction of capital assets.

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

- Cash flows used for 2016 decreased $16,456,000 over 2015, primarily due to decreased investment purchases and an increase in investment income.

Financing

Sufficient liquidity is maintained to ensure working capital is available for normal operational needs and unexpected but predictable risk events. OPPD's liquidity includes cash, marketable securities and a line of credit. Bond offerings also provide a significant source of liquidity for capital investments not funded by revenues from operations.

The financing plan optimizes the debt structure to ensure capital needs are financed, liquidity needs are achieved and the Company's strong financial position is maintained. The 2017 financing plan does not include any bond issues. The Company will continue to monitor refunding opportunities to achieve any potential interest cost savings for customer-owners.

One Electric System Revenue Bond issue totaling $183,340,000 was completed in 2016. The proceeds from the bond were used for the refunding of previously issued Electric System Revenue Bonds. The lower interest rates on the new debt decreased the debt service payments. Repayments of $43,065,000 of Electric System Revenue Bonds and $127,000 of Minibonds were made in 2016.

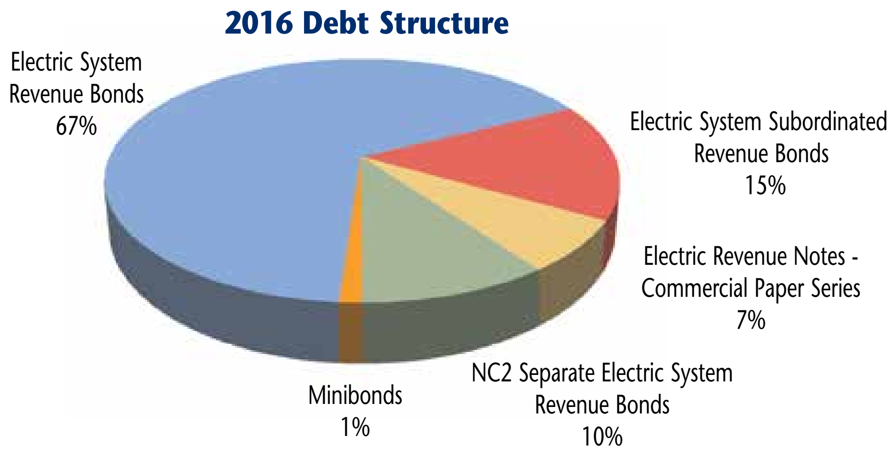
The Company issued $103,685,000 of NC2 Separate Electric System Revenue Bonds in 2016. The bonds were used for the refunding of previously issued NC2 Separate Electric Revenue Bonds. There was a principal payment of $3,190,000 made on February 1, 2016, for NC2 Separate Electric System Revenue Bonds.

Three Electric System Revenue Bond issues totaling $447,200,000 were completed in 2015. The proceeds from these bonds were used for refunding $364,840,000 of previously issued Electric System Revenue Bonds and financing $82,360,000 in new capital expenditures. Repayments of $40,465,000 of Electric System Revenue Bonds and $135,000 of Minibonds were made in 2015.

The Company issued $114,245,000 of NC2 Separate Electric System Revenue Bonds in 2015. The bonds were used for the refunding of previously issued NC2 Separate Electric System Revenue Bonds. There was a principal payment of $3,080,000 made on February 2, 2015, for NC2 Separate Electric System Revenue Bonds.

The Company renewed a Credit Agreement for $250,000,000 in 2015 that expires on October 1, 2018. The Credit Agreement supports the Commercial Paper Program in addition to providing another source of working capital, if needed. There were no amounts outstanding under this Credit Agreement as of December 31, 2016 or 2015. There was $150,000,000 of commercial paper outstanding as of December 31, 2016 and 2015.

The following chart illustrates the debt structure and percentage of the total as of December 31, 2016.



Details of the Company's debt balances and activity are included in Note 6 in the Notes to Financial Statements.

Debt Service Coverage for Electric System Revenue Bonds

Debt service coverage for the Electric System Revenue Bonds was 2.20 and 2.14 in 2016 and 2015, respectively. OPPD's senior lien bond indenture provides that additional bonds may not be issued unless estimated net receipts for each future year shall equal or exceed 1.4 times the debt service on all Electric System Revenue Bonds outstanding, including the additional bonds being issued. Transactions in 2016 and 2015 for the NC2 Separate Electric System were not included in the calculation because the Electric System Revenue Bonds are not secured by the revenues from the NC2 Separate System. The Company is in compliance with all debt covenants.

Debt Ratio

The debt ratio is a measure of financial solvency and represents the share of debt to total capitalization (debt and net position). This ratio does not include the NC2 Separate Electric System Revenue Bonds since this debt is secured by revenues of the NC2 Participation Power Agreements. The debt ratio was 66.1% and 51.0% at December 31, 2016 and 2015, respectively. The increase in the debt ratio is attributable to the write-off of the FCS assets.

Ratings

High credit ratings allow the Company to borrow funds at more favorable interest rates. Both quantitative (financial strength) and qualitative (business and operating characteristics) factors are considered by the credit rating agencies in establishing a company's credit rating. The ratings received from Standard & Poor's Ratings Services (S&P) and Moody's Investors Service (Moody's), independent bond rating agencies for the latest bond issues, were among the highest ratings granted to electric utilities and confirm the agencies' assessment of the Company's strong ability to meet its debt service requirements. Moody's and S&P affirmed OPPD's senior lien debt and subordinated ratings, and both have stable outlooks for OPPD's credit ratings.

The following table summarizes credit ratings in effect on December 31, 2016.

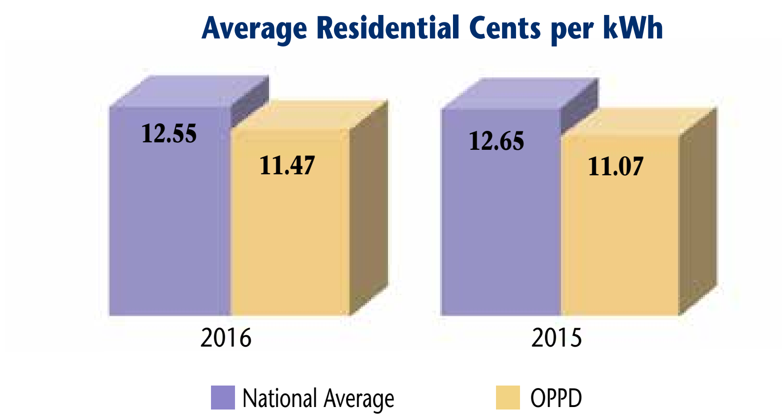
	S&P	**Moody's**
Electric System Revenue Bonds	AA	Aa2
Electric System Subordinated Revenue Bonds	AA–	Aa3
Electric System Revenue Notes – Commercial Paper Series	A–1+	P–1
Minibonds*	AA–	Aa3
NC2 Separate Electric System Revenue Bonds (2006A)*	A+	A1
NC2 Separate Electric System Revenue Bonds (2008A, 2015A, 2016A)	A+	A1

** Payment of the principal and interest on the Minibonds and the NC2 Separate Electric System Revenue Bonds 2006 Series A, when due, is insured by financial guaranty bond insurance policies.*

ELECTRIC RATES

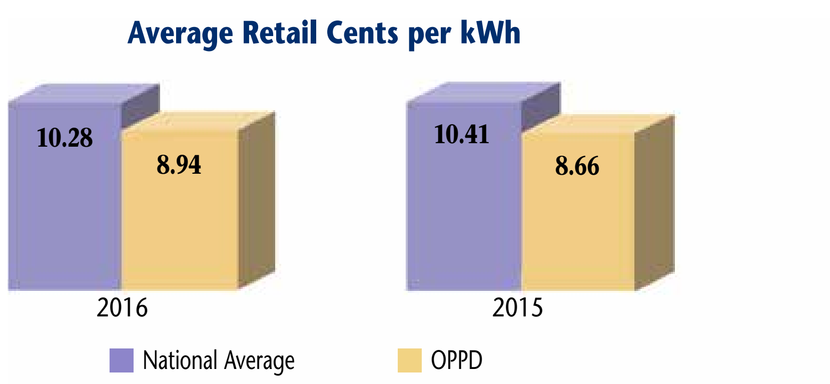
The Company strives to manage costs to align with the mission of providing affordable, reliable and environmentally sensitive energy services to our customers. Residential customers paid an average of 11.47 and 11.07 cents per kilowatt-hour (kWh) in 2016 and 2015, respectively. The national average residential cents per kWh according to the Energy Information Administration (EIA), U.S. Department of Energy, was 12.55 for 2016 (preliminary year-to-date December 2016) and 12.65 cents per kWh for 2015. Based on the preliminary EIA data for 2016, OPPD residential rates were 8.6% below the national average.

The following chart illustrates the Company's average residential cents per kWh compared to the national average.



Retail customers paid an average of 8.94 and 8.66 cents per kWh in 2016 and 2015, respectively. The national average retail cents per kWh, according to the EIA, was 10.28 for 2016 (preliminary year-to-date December 2016) and 10.41 cents per kWh for 2015. Based on the preliminary EIA data for 2016, OPPD retail rates were 13.0% below the national average.

The following chart illustrates the Company's average retail cents per kWh compared to the national average.



There was a general rate adjustment of 4.0% implemented in January 2016 and 1.6% implemented in January 2015. There was a 0.6% decrease to the FPPA rate in January 2016 and no adjustment to the FPPA rate in 2015. The Board approved a rate restructuring plan that was implemented in June 2016. The restructuring plan included an increase to the fixed service charge and a reduction to the variable charge for energy usage. This plan is revenue neutral to OPPD. There were no general rate or FPPA adjustments in January 2017. The Company has committed to no general rate increases through 2021.

RISK MANAGEMENT

Risk-Management Practices

An Enterprise Risk Management (ERM) program ensures the Company's objectives are met by specifying risk-management standards, management responsibilities, and controls to help ensure risk exposures are properly identified and managed within agreed upon risk tolerance levels. Specific risk-mitigation plans and procedures are maintained and periodically reviewed to provide focused and consistent efforts to mitigate various risk exposures. Several cross-functional risk committees and an Executive ERM Committee, which includes the senior management team and legal counsel, are utilized to discuss and analyze the potential risks that could hinder the achievement of the Company's objectives. Additionally, the Company has established criteria for risk escalation and oversight. The risks are evaluated periodically and will be escalated to the appropriate oversight levels up to and including the Board of Directors, when applicable. An overview of the ERM program is provided to the Board of Directors on an annual basis.

OPPD participates in the wholesale marketplace with other electric utilities and power marketers. The Company must be able to offer energy at competitive prices and maintain reliability to successfully compete in this market. Energy market prices may fluctuate substantially in a short period of time due to changes in the supply and demand of electricity, fuel and environmental-related commodities. Policies provide guidelines for transacting in the marketplace with the intent to mitigate price changes. A Cross-Functional Risk Committee is responsible for identifying, measuring and mitigating various risk exposures related to power marketing and fuel purchase activities.

Fuel expense represents a significant cost and affects the ability to generate and market competitively priced power. To maintain a diverse portfolio of power supply, OPPD uses various fuel types for generation. Fuel policies were established to mitigate volumetric risk associated with the forecasted use of fuel for OPPD's generation. This also mitigates price fluctuations in the cost of fuels by having an adequate supply.

A Rate Stabilization Reserve was established in 1999 to assist in stabilizing retail electric rates. The Company added an additional $26,000,000 to the reserve in December 2016. The balance of the reserve was $42,000,000 and $16,000,000 as of December 31, 2016 and 2015, respectively. The balance of the fund was $33,000,000 and $16,000,000 as of December 31, 2016 and 2015, respectively.

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

Other Reserves

Other reserves are maintained to recognize potential liabilities that arise in the normal course of business. Additional information about other reserves follows.

- The Workers' Compensation and Public Liability Reserves are established for the estimated liability for current workers' compensation and public liability claims.
- The Incurred But Not Presented Reserve is an insurance reserve that is required by state law because the Company is self-insured for health care costs. The reserve is based on health insurance claims that have been incurred but not yet presented for payment.
- The Uncollectible Accounts Reserve was established for estimated uncollectible accounts from retail sales and property claims.

REGULATORY AND ENVIRONMENTAL UPDATES

Southwest Power Pool (SPP) Integrated Marketplace and Transmission Access

OPPD became a transmission-owning member of SPP on April 1, 2009, and all of the Company's transmission facilities were placed under the SPP Open Access Transmission Tariff (OATT). In addition to tariff administration services, SPP also provides reliability coordination services, generation reserve sharing, energy market services, balancing authority services and planning authority services.

The SPP Real-Time Energy Imbalance Market (Day 1 Market) was expanded into a Day 2 Market in 2014. The SPP Day 2 Market, also known as the Integrated Marketplace (IM), includes the Day-Ahead Market, Real-Time Market, Ancillary Services Market and Transmission Congestion Rights Market. OPPD actively participates in the IM. It provides a more transparent market by which load is served by the most efficient and economical generation while maintaining the reliability of the grid. The market mechanism rewards low-cost, flexible and reliable providers of electricity. OPPD's generation is in competition with other generation owners to serve load across the SPP footprint.

As the regional transmission expansion planning authority, SPP determines which transmission projects are needed in the footprint to meet the reliability, economic and public policy needs. One of SPP's regional transmission priority projects was the 180-mile, 345-kilovolt power line (Midwest Transmission Project) built by OPPD and Kansas City Power & Light that runs from an OPPD substation near the Nebraska City Station to Sibley, Missouri. This project is expected to relieve congestion on the region's transmission system, improve reliability on the nation's energy grid, and improve opportunities for wind energy interconnection. Construction was completed in December of 2016.

The Elkhorn River Valley Transmission Project is a joint effort between OPPD and the Fremont Department of Utilities to connect an OPPD substation in Blair with a substation in Fremont. The line route was announced in 2015 and will be in service by October 2018. The purpose of this SPP project is to support the growing demand for electricity and improve reliability. A portion of the project will receive funding under the SPP OATT.

Environmental Matters

Environmental matters can have a significant impact on operations and financial results. OPPD complies with all applicable local, state and federal environmental rules and regulations. The items mentioned below include proposed, enacted or enforceable laws, rules and regulations.

The Environmental Protection Agency (EPA) published the Cross-State Air Pollution Rule (CSAPR) requiring designated states, including Nebraska, to significantly improve air quality by reducing generating station emissions contributing to ozone and fine particle pollution in other states. Specifically, the rule requires significant reductions in sulfur dioxide (SO_2) and nitrous oxide (NO_X) emissions crossing state lines.

The final CSAPR rule established a cap-and-trade system with state- and unit-specific allowance allocations to achieve the desired emission reductions for SO_2 and NO_X. Implementation of Phase I of the final rule began in 2015, and implementation of Phase II begins in 2017. In June 2014, the Board of Directors approved changes to its generation portfolio to comply with existing and future environmental regulations. This included the retirement of the coal-fired generation at North Omaha Station Units 1, 2, and 3 (NO1, NO2 and NO3). The Board of Directors' authorization in June 2016 to cease operations at FCS resulted in the decision to continue to utilize NO1, NO2 and NO3 on natural gas for capacity purposes. In 2016, OPPD complied with the CSAPR rule with allocated allowances and did not have to purchase any additional allowances. The CSAPR Phase II that becomes effective in 2017 will not impact OPPD.

The EPA issued regulations under Section 316(b) Rule of the Clean Water Act (316(b) Rule). The 316(b) Rule is designed to reduce fish mortality associated with the use of once-through cooling by power generating stations. Facilities are required to choose one of seven options to reduce fish impingement. The cost impact of the final rule is being assessed. Facilities will need to study the effects of entrainment and develop compliance strategies. OPPD has begun various studies; however, the cost in not expected to be material at this time.

The EPA issued the Mercury and Air Toxics Standard (MATS), which places strict limitations on emissions of mercury, non-mercury metallic hazardous air pollutants and acid gases. Compliance with the new rule was necessary by April 16, 2015, for NC2 and April 16, 2016, for North Omaha Station Units 4 and 5 (NO4 and NO5) and NC1. NO1, NO2, and NO3 were repurposed from coal to natural gas prior to April 16, 2016, which results in this standard no longer applying to these units. No new emissions-control equipment was required to comply with the new requirements for NC2 although a new mercury-monitoring system was installed. OPPD retrofitted NO4, NO5 and NC1 with basic emission controls. Dry Sorbent Injection (DSI) and Activated Carbon Injection (ACI) are being used on all of these units to comply with the MATS rule.

In October 2015, the EPA published two final rules regulating the emission of carbon dioxide (CO_2) from new, modified, reconstructed or existing fossil-fuel-fired electric generating units under section 111 of the Clean Air Act. These regulations are known as the Clean Power Plan (CPP). The CPP requires states to meet interim and final emissions targets on a state-wide basis starting in 2022. The goal is to reduce CO_2 emissions from electric generating units by 32% below 2005 levels by the year 2030. Numerous legal challenges to the CPP have been filed and consolidated in the United States Court of Appeals for the District of Columbia Circuit. On February 9, 2016, the U.S. Supreme Court entered an order staying the implementation of the CPP pending further proceedings. On March 28, 2017, the President issued an Executive Order directing the EPA to start the process of re-evaluating and rewriting the CPP. On April 3, 2017, the EPA published in the Federal register a notice that stated it is withdrawing proposed rules it issued in 2015 in conjunction with the CPP. The EPA explained that it was withdrawing the proposed rules in light of the March 28 Executive Order. The cost of compliance will not be known until judicial proceedings have been concluded and OPPD can evaluate the final regulatory requirements and its options related thereto.

OPPD has received and responded to requests for information from the EPA relating to compliance with the Clean Air Act at the North Omaha and NC1 stations. OPPD received a Notice of Violation (NOV) from the EPA in August 2014 alleging a violation of the Clean Air Act by undertaking certain projects at NC1. The Company believes it has complied with all regulations relative to the projects in question and has discussed the matters with the EPA. The EPA would have to establish the allegations in the NOV in court. If the EPA establishes a Clean Air Act violation in court, and subject to possible appellate court review, remedies can include civil penalties and a requirement to install pollution-control equipment. OPPD cannot determine at this time whether it will have any future financial obligation with respect to the NOV.

Renewable Capability including Purchased Power Contracts

Renewable portfolio standards are currently mandated in several states but not in Nebraska. The Board of Directors established a long-term goal of providing at least 30 percent of retail energy sales from renewable energy sources. The addition of the Grande Prairie wind facility in 2017 will add an additional 400 megawatts (MW) of capability and will further the progress of meeting this goal by 2018.

The following table shows the renewable generation owned or purchased and future capability (in MW).

		Capability
OPPD-Owned Generation		
	Elk City Station (landfill-gas)	6.3
	Subtotal OPPD-Owned Generation	6.3
Purchased Wind Generation*		
	Ainsworth	10.0
	Elkhorn Ridge	25.0
	Flat Water	60.0
	Petersburg	40.5
	Crofton Bluffs	13.6
	Broken Bow I	18.0
	Broken Bow II	43.9
	Prairie Breeze	200.6
	Subtotal Purchased Wind Generation	411.6
Total Renewable Generation as of December 31, 2016		417.9
2017 Purchased Wind Generation		
	Grande Prairie	400.0
Total Expected Renewable Generation as of December 31, 2017		817.9

**Wind generation listed in ascending order of contract year signing.*

Federal Energy Legislation

The 114th Congress completed its two-year legislative session in December 2016, and some legislation important to the electric industry was enacted into law. Legislative language addressing cybersecurity information sharing was completed. This language provides a framework to facilitate timely and actionable information sharing, on a voluntary basis, between the federal government and electric utilities in regards to cyber threats. Additional language addressing the regulation of coal-combustion residuals (CCR) was included in the Water Infrastructure Improvements for the Nation Act. The Act's CCR provisions allow for implementation of the federal CCR rule through a state- or federal-based permit program instead of having enforcement by citizen suits.

Comprehensive energy legislation was also introduced, but it was not enacted. This included provisions that addressed energy efficiency, vegetation management, energy workforce, hydropower and various other areas. Congress also continued its oversight of the U.S. Environmental Protection Agency (EPA) and other federal agencies regarding energy and environmental issues.

Lastly, 2016 ended with the election of a new president, and both chambers of Congress kept their current majority party for another two years. There likely will be a focus on energy and environmental policy in 2017. OPPD continues to monitor the status of energy and environmental legislation in Congress and provides input through public power industry groups and the Nebraska Congressional Delegation.

State of Nebraska Energy Legislation

The Nebraska Legislature enacted Legislative Bill 824 (L.B. 824) during the 2016 session. This bill removes the requirements of a certified renewable export facility (CREF) and the power purchase agreement requirements. A privately developed renewable energy generation facility is exempt from the Power Review Board requirements and regulations. The private entity has no eminent domain rights, and the facility cannot be condemned by another entity under eminent domain. The private entity will comply with any decommissioning requirements by the local governmental entity having jurisdiction and all costs of decommissioning will be paid by the private entity.

Fort Calhoun Station Update

The Nuclear Regulatory Commission (NRC) placed FCS into a special category of its inspection manual, Chapter 0350, in December 2011. This Chapter is for nuclear stations that are in extended shutdowns with performance issues. OPPD contracted with Exelon Generation Company, LLC, (Exelon) to provide operating and managerial support services. Station operations resumed in December 2013, and the station was removed from Chapter 0350 status in March 2015. In June 2016, the OPPD Board of Directors approved a recommendation by management to cease operations at FCS by December 31, 2016, and begin the decommissioning process using the safe storage ("SAFSTOR") methodology. The decision was made after a review of the Company's generation resource portfolio and resulted in an impairment of FCS-related assets. The station ceased operations on October 24, 2016, and notice was provided to Exelon in December 2016 to terminate the Operating Services Agreement. Upon completion of a third-party, site-specific cost study, OPPD recorded an increase to the decommissioning liability. The Board of Directors also approved a regulatory asset to match the decommissioning expense with the decommissioning funding amounts collected through retail rates. Ceasing FCS operations will result in an improved competitive position, stable debt service coverage and reduced financial risks.

SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions could affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and the disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results could differ from those estimates.

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

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

Accounting Policies	Judgments/Uncertainties Affecting Application
Nuclear Decommissioning	• Cost estimates for future decommissioning • Availability of facilities for waste disposal • Approved methods for waste disposal
Environmental Matters	• Approved methods for cleanup • Governmental regulations and standards • Cost estimates for future remediation options
Regulatory Mechanisms and Cost Recovery	• External regulatory requirements • Anticipated future regulatory decisions and their impact
Retirement Plan and Other Postemployment Benefits (OPEB)	• Assumptions used in computing the Net Pension Liability and OPEB actuarial liability, including discount rate, health care trend rates and expected rate of return on Plan assets • Plan design
Self-Insurance Reserves for Claims for Employee-related Health Care Benefits, Workers' Compensation and Public Liability	• Cost estimates for claims • Assumptions used in computing the liabilities
Uncollectible Accounts Reserve	• Economic conditions affecting customers • Assumptions used in computing the reserve
Unbilled Revenue	• Estimates for customer energy use and prices
Depreciation and Amortization Rates of Assets	• Estimates for approximate useful lives