

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, noncapital financing, 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 833,000 in a 13-county, 5,000-square-mile service area in southeast Nebraska.

FINANCIAL POSITION

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

Condensed Statements of Net Position	2017	2016
Current Assets	\$ 995,921	\$ 921,231
Other Long-Term Assets and Special Purpose Funds	1,674,979	1,692,455
Capital Assets	<u>2,531,348</u>	<u>2,561,394</u>
Total Assets	5,202,248	5,175,080
Deferred Outflows of Resources	<u>294,319</u>	<u>265,988</u>
Total Assets and Deferred Outflows	<u>\$ 5,496,567</u>	<u>\$ 5,441,068</u>
Current Liabilities	\$ 489,434	\$ 371,957
Long-Term Liabilities	<u>3,829,185</u>	<u>4,013,641</u>
Total Liabilities	4,318,619	4,385,598
Deferred Inflows of Resources	87,423	42,141
Net Position	<u>1,090,525</u>	<u>1,013,329</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 5,496,567</u>	<u>\$ 5,441,068</u>

Total Assets and Deferred Outflows

Total Assets in 2017 increased \$27,168,000 or 0.5% over 2016, primarily due to an increase in Current Assets. The change in Current Assets resulted from increased investment purchases.

Deferred Outflows of Resources in 2017 increased \$28,331,000 or 10.7% over 2016, primarily due to the change in the expected earnings on the pension plan and increases to the ash landfill liability.

Total Liabilities, Deferred Inflows and Net Position

Total liabilities in 2017 decreased \$66,979,000 or 1.5% from 2016, primarily due to the advanced refunding of long-term bonds.

Deferred Inflows of Resources in 2017 increased \$45,282,000 or 107.5% over 2016, primarily due to increases in the Rate Stabilization Reserve and the newly established Decommissioning and Benefits Reserve. The Rate Stabilization Reserve increased \$8,000,000 over 2016. The Decommissioning and Benefits Reserve increased \$34,500,000 over 2016.

Net Position in 2017 increased \$77,196,000 or 7.6% over 2016 based on results of operations.

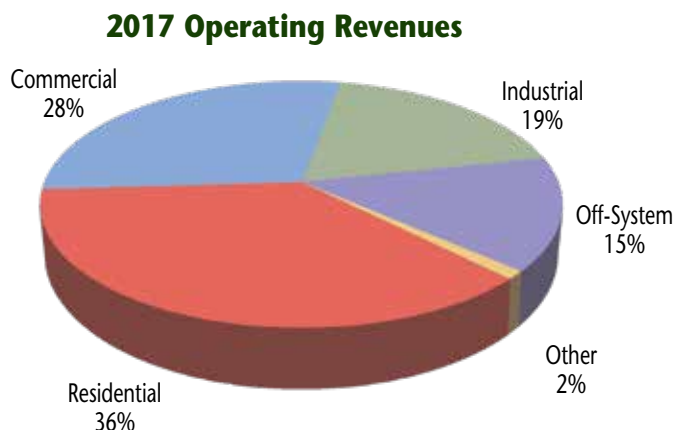
RESULTS OF OPERATIONS

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

Operating Results	2017	2016
Operating Revenues	\$ 1,104,301	\$ 1,126,476
Operating Expenses	(975,386)	(1,025,117)
Operating Income	128,915	101,359
Other Income	34,506	12,305
Interest Expense	(84,253)	(87,914)
Net Income Before Special Item	79,168	25,750
Special Item	(1,972)	(959,575)
Net Income (Loss)	<u>\$ 77,196</u>	<u>\$ (933,825)</u>

Operating Revenues

The following chart illustrates 2017 operating revenues by category and percentage of the total.



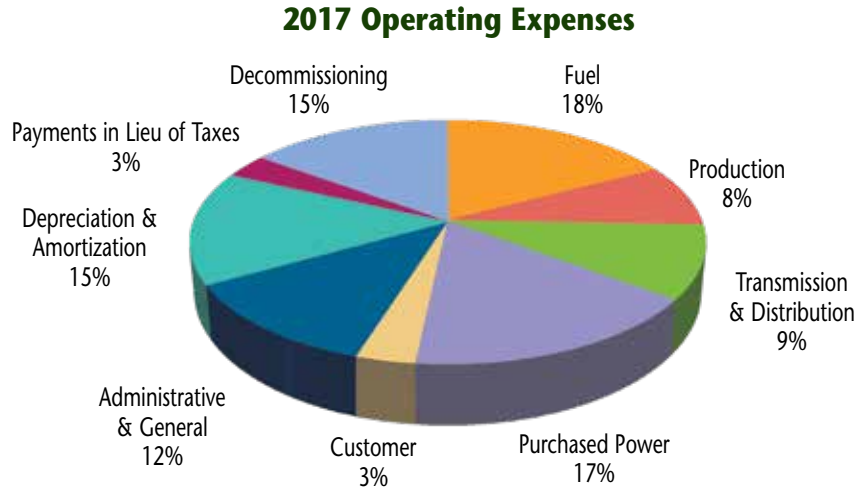
2017 Compared to 2016 – Total operating revenues were \$1,104,301,000 for 2017, a decrease of \$22,175,000 or 2.0% from 2016 operating revenues of \$1,126,476,000.

- Revenues from retail sales were \$911,733,000 for 2017, a decrease of \$9,319,000 or 1.0% from 2016 revenues of \$921,052,000. The decrease in retail revenues was primarily due to a transfer to the Decommissioning and Benefits Reserve and a decrease in unbilled revenues, which was partially offset by an increase in revenues for the Fuel and Purchased Power Adjustment and a lower transfer to the Rate Stabilization Reserve.
- Revenues from off-system sales were \$163,762,000 for 2017, a decrease of \$11,744,000 or 6.7% from 2016 revenues of \$175,506,000. The decrease was primarily due to lower sales volumes 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 \$28,806,000 for 2017, a decrease of \$1,112,000 or 3.7% from 2016 revenues of \$29,918,000.

Operating Expenses

The following chart illustrates 2017 operating expenses by expense classification and percentage of the total.



2017 Compared to 2016 – Total operating expenses were \$975,386,000 for 2017, a decrease of \$49,731,000 or 4.9% from 2016 operating expenses of \$1,025,117,000.

- Fuel expense decreased \$16,394,000 or 8.8% from 2016, primarily due to the decision to cease operations at Fort Calhoun Station (FCS) and decreased generation at Nebraska City Station Unit 2 (NC2), partially offset by increased generation at Nebraska City Station Unit 1 (NC1).
- Purchased Power expense increased \$46,658,000 or 39.0% over 2016, primarily due to additional renewable energy purchases.
- Production expense decreased \$173,209,000 or 68.6% from 2016, due to reduced operations and maintenance expense at FCS as the station transitioned to decommissioning in late 2016.
- Transmission expense increased \$4,404,000 or 12.3% over 2016, primarily due to increased outside service costs, increased transmission fees and costs associated with storm events.
- Distribution expense increased \$5,197,000 or 11.6% over 2016, primarily due to increased outside service costs and payroll costs associated with storm events.
- Customer Accounts expense increased \$1,255,000 or 7.5% over 2016, primarily due to increased outside service costs and payment processing fees.
- Customer Service and Information expense decreased \$1,170,000 or 7.7% from 2016, primarily due to decreased outside service costs and customer incentive payments.
- Administrative and General expense decreased \$37,305,000 or 24.4% from 2016, primarily due to decreased employee benefit costs and outside service costs.
- Depreciation and Amortization expense decreased \$8,911,000 or 6.0% from 2016, primarily due to ceasing operations at FCS.
- Decommissioning expense increased \$129,893,000 or 739.0% over 2016, due to increased funding of the Decommissioning Trust.
- Payments in Lieu of Taxes expense decreased \$149,000 or 0.4% from 2016, primarily due to lower retail revenues.

Other Income (Expenses)

Other income (expenses) totaled \$34,506,000 in 2017, an increase of \$22,201,000 over 2016 income (expenses) of \$12,305,000.

Other – Net totaled \$10,813,000 in 2017, an increase of \$8,584,000 over 2016, primarily due to an increase in insurance proceeds and grants from the Federal Emergency Management Agency to be received in future years.

Allowances for Funds Used During Construction (AFUDC) totaled \$2,988,000 in 2017, a decrease of \$4,392,000 from 2016, 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 \$3,903,000 in 2017, an increase of \$164,000 over 2016. These products include Geothermal Loop Heat Exchangers, ECO 24/7 services and Residential Surge Protection.

Interest Expense

Interest expense was \$84,253,000 for 2017, a decrease of \$3,661,000 from 2016, primarily due to lower interest payments related to debt refunding activity in 2017 and 2016.

Net Income Before Special Item

Net income before the Special Item was \$79,168,000 or \$53,418,000 higher than 2016, primarily due to a decrease in operating expenses. Changes to the Rate Stabilization Reserve resulted in operating revenues and net income decreasing \$8,000,000 and \$26,000,000 in 2017 and 2016, respectively. Changes to the Decommissioning and Benefits Reserve resulted in operating revenues and net income decreasing \$34,500,000 and \$0 in 2017 and 2016, respectively.

Special Item

The Board decision to cease operations at FCS resulted in an impairment and the recognition of a Special Item. This included the fair value adjustments to the Nuclear Fuel Held for Sale in the amount of \$1,972,000 for 2017 and the write-off of FCS-related assets and related contract termination fees in the amount of \$959,575,000 for 2016.

Net Income (Loss)

Net income after the Special Item was \$77,196,000 for 2017 compared to a net loss of \$933,825,000 in 2016.

CAPITAL PROGRAM

The Company's utility plant assets include production, transmission and distribution, and general plant facilities. The following table summarizes the balance of capital assets as of December 31 (in thousands).

Capital Assets	2017	2016
Electric plant	\$ 4,350,603	\$ 4,305,055
Accumulated depreciation and amortization	(1,819,255)	(1,743,661)
Total utility plant – net	<u>\$ 2,531,348</u>	<u>\$ 2,561,394</u>

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 2018 (in thousands).

Capital Program	Budget		Actual	
	2018	2017	2017	2016
Transmission and distribution	\$ 94,000	\$ 62,280	\$ 62,280	\$ 82,145
Production	18,000	22,324	22,324	48,723
General	36,000	15,014	15,014	11,782
Total	<u>\$148,000</u>	<u>\$ 99,618</u>	<u>\$ 99,618</u>	<u>\$142,650</u>

Actual and budgeted expenditures for 2016 through 2018 include the following:

- Transmission and distribution expenditures include a new 345-kilovolt (kV) transmission line completed in 2017 as part of the Midwest Transmission Project and a new 161/69-kV transmission line currently under construction as part of the Elkhorn River Valley Transmission Project. Transmission and distribution 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 a lime optimization system for NC2.
- General plant expenditures include fleet vehicles, construction equipment and information technology equipment. Additional budgeted expenditures include vehicles, telecommunications equipment and information technology upgrades.

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 a decrease in cash and cash equivalents of \$3,595,000 during 2017 and an increase of \$5,802,000 during 2016.

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

Cash Flows	2017	2016
Cash flows from Operating Activities	\$367,874	\$ 302,271
Cash flows from Noncapital Financing Activities	-	4,828
Cash flows from Capital and Related Financing Activities	(247,306)	(274,704)
Cash flows from Investing Activities	(124,163)	(26,593)
Change in Cash and Cash Equivalents	<u>\$ (3,595)</u>	<u>\$ 5,802</u>

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 2017 increased \$65,603,000 over 2016, primarily due to a decrease in cash paid to operations and maintenance suppliers.

Cash flows from noncapital financing activities consist of transactions involving proceeds from federal and state agencies, such as grants.

- Cash flows for 2017 decreased \$4,828,000 from 2016, due to a decrease in cash received from federal and state agencies.

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 2017 decreased \$27,398,000 from 2016, primarily due to a decrease in cash paid for the acquisition of nuclear fuel and interest paid on debt.

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

- Cash flows used for 2017 increased \$97,570,000 over 2016, primarily due to increased purchases of investments partially offset by the increase in maturities and sales of investments.

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 2018 financing plan does not include any bond issues.

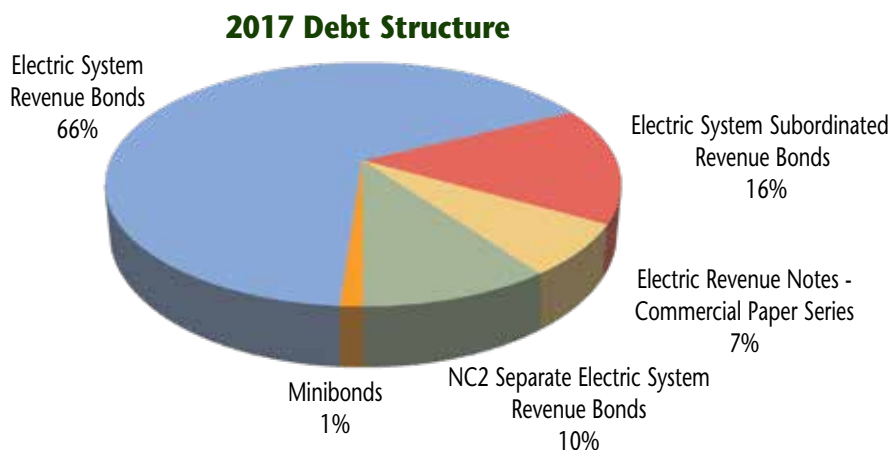
One Electric System Revenue Bond issue totaling \$220,195,000 was completed in 2017. The proceeds were used to refund previously issued Electric System Revenue Bonds. The lower interest rates on the new debt decreased the debt service payments. Repayments of \$45,595,000 of Electric System Revenue Bonds, \$160,000 of Electric System Subordinated Revenue Bonds, \$3,245,000 of NC2 Separate Electric System Revenue Bonds and \$125,000 of Minibonds were made in 2017.

One Electric System Revenue Bond issue totaling \$183,340,000 was completed in 2016. The proceeds were used to refund 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, \$95,000 of Electric System Subordinated 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 to refund previously issued NC2 Separate Electric System Revenue Bonds. There was a principal payment of \$3,190,000 made on February 1, 2016, for NC2 Separate Electric System Revenue Bonds.

The Company has in place a Credit Agreement for \$250,000,000 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, 2017 or 2016. There was \$150,000,000 of commercial paper outstanding as of December 31, 2017 and 2016.

The following chart illustrates the debt structure and percentage of the total as of December 31, 2017.



Details of the Company's debt balances and activity are included in Note 5 in the Notes to Financial Statements.

Debt Service Coverage for Electric System Revenue Bonds

Debt service coverage for the Electric System Revenue Bonds was 3.42 and 2.20 in 2017 and 2016, 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 2017 and 2016 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 Electric 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 Separate Electric System. The debt ratio was 63.7% and 66.1% at December 31, 2017 and 2016, respectively.

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. S&P and Moody's 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, 2017.

	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 (2008A, 2015A, 2016A)	A+	A1

* Payment of the principal and interest on the Minibonds, when due, is insured by a financial guaranty bond insurance policy.

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 11.49 and 11.47 cents per kilowatt-hour (kWh) in 2017 and 2016, respectively. The national average residential cents per kWh according to the Energy Information Administration (EIA), U.S. Department of Energy, was 12.90 for 2017 (preliminary year-to-date December 2017) and 12.55 cents per kWh for 2016. Based on the preliminary EIA data for 2017, OPPD residential rates were 10.9% and 8.6% below the national average for 2017 and 2016, respectively.

Retail customers paid an average of 8.92 and 8.94 cents per kWh in 2017 and 2016, respectively. The national average retail cents per kWh according to the EIA, was 10.54 for 2017 (preliminary year-to-date December 2017) and 10.27 cents per kWh for 2016. Based on the preliminary EIA data for 2017, OPPD retail rates were 15.4% and 13.0% below the national average for 2017 and 2016, respectively.

There were no general rate or FPPA adjustments in January 2017. There was a general rate adjustment of 4.0% and an FPPA rate decrease of 0.6% implemented in January 2016. The Board approved a 5-year 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 was designed to be revenue neutral to OPPD. There was an FPPA rate adjustment of 17.0% in January 2018 that amounted to an average increase of 0.3% to customers. There was no general rate adjustment implemented in January 2018. The Company has committed to no general rate adjustments through 2021.

RISK MANAGEMENT

Risk-Management Practices

The District maintains an Enterprise Risk Management (ERM) program to help ensure strategic objectives are achieved. The program specifies 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 annually.

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 market risk. 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 and price risk associated with the forecasted use of fuel for OPPD's generation.

A Rate Stabilization Reserve was established in 1999 to assist in stabilizing retail electric rates. The Company added an additional \$8,000,000 and \$26,000,000 to the reserve in December 2017 and 2016, respectively. The balance of the reserve was \$50,000,000 and \$42,000,000 as of December 31, 2017 and 2016, respectively. The balance of the fund was \$50,000,000 and \$33,000,000 as of December 31, 2017 and 2016, respectively.

A Decommissioning and Benefits Reserve was established in 2016 to assist in funding future decommissioning expenses beyond what was established in the current funding plan in any given year and future pension liabilities above the annual required contribution. The Company added \$34,500,000 and \$0 to the reserve in December 2017 and 2016, respectively. The balance of the reserve was \$34,500,000 and \$0 as of December 31, 2017 and 2016, respectively. The balance of the fund was \$0 as of December 31, 2017 and 2016. The Company added \$34,500,000 to the fund in 2018.

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 events that arise in the normal course of business. Additional information about other reserves follows.

- The Electric System Revenue Bond Fund contains a reserve in accordance with OPPD's bond indenture to maintain an amount in reserve equal to the maximum amount required to be paid in interest in any calendar year.
- 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 Planning

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, or 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 works with its members and stakeholders to develop transmission projects needed in the footprint to meet the reliability, economic, and public policy needs. One of SPP's regional transmission projects is the Elkhorn River Valley Transmission Project, which is a joint effort between OPPD and the City of Fremont to connect an OPPD substation in Blair with a substation in Fremont. The 23-mile line, consisting of a 161-kV segment and a 69-kV segment, is under construction and is planned to be in service by the fourth quarter of 2018. Once complete, the line will be owned by the Company. This project is intended to support the growing demand for electricity and improve reliability. OPPD and the City of Fremont will share the costs of the project, with the Company paying 40% of the total costs. Additionally, a portion of the project will receive regional funding under the SPP OATT.

The SPP planning process also identified the need for a 345-kV power line that was built by the Company and Kansas City Power and Light. This transmission project connects a substation at the Nebraska City Station to Sibley, Missouri. The new line was completed and energized in December 2016. The project will receive regional 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 that contribute to ozone and fine particle pollution in other states. Specifically, the rule requires significant reductions in sulfur dioxide (SO₂) 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 SO₂ and NO_x. Implementation of Phase I of the final rule began in 2015, and implementation of Phase II began in 2017. As a result of North Omaha Station Units 1, 2 and 3 (NO1, NO2, and NO3) ceasing coal-fired generation, the Company will likely not need to purchase additional allowances in the future to comply with CSAPR.

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 Company commenced Entrainment Characterization Studies at FCS, North Omaha Station (NOS), and Nebraska City Station (NCS) in April 2016. OPPD commenced Comprehensive Technical Feasibility and Cost Evaluation Studies and Non-Water Quality Environmental Impacts Studies in January 2017. Additional studies necessary to determine the Best Technology Available will occur over the next year, and cost for compliance is not expected to be material at this time.

On April 17, 2015, the EPA promulgated technical requirements for the Coal Combustion Residuals (CCR) Regulations that impacted landfills and surface impoundments for the safe disposal of coal combustion residuals under Subtitle D of the Resource Conservation and Recovery Act. The regulations provide design criteria, operating criteria, groundwater monitoring requirements, closure requirements, and recordkeeping and notification requirements associated with CCR landfills and surface impoundments. The regulation became effective on October 19, 2015, and the Company is in compliance with the requirements. The Company continues to assess and implement compliance strategies associated with this regulation by required dates. On September 14, 2017, the EPA granted two petitions for the reconsideration of the CCR rule stating that it will review the existing rule and consider improvements that may help states tailor their CCR permitting programs. On March 15, 2018, the EPA proposed to amend the regulations for the disposal of CCR from electric utilities. The proposed rule establishes risk-based alternatives for implementing the CCR requirements, flexibility in meeting key prescriptive CCR requirements, and relief on uppermost aquifer location restrictions. The public has until April 30, 2018 to submit comments. The cost of compliance with this regulation is not expected to be material.

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 and Activated Carbon Injection are being used on all of these units to comply with the MATS rule.

On October 23, 2015, the EPA published a final rule regulating the emission of carbon dioxide (CO₂) from existing fossil-fuel fired electric generating units under section 111 of the Clean Air Act. On the same date, the EPA also published a final rule for new, modified, or reconstructed fossil fuel-fired electric utility generating units under section 111 of the Clean Air Act. These regulations in the aggregate are known as the Clean Power Plan (CPP). The CPP required states to meet interim and final emissions targets on a state-wide basis starting in 2022. The goal was to reduce CO₂ 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. Oral arguments were heard before the District of Columbia Circuit Court on September 27, 2016. On April 3, 2017, the EPA published in the Federal Register a notice that stated it is withdrawing the proposed rules it issued in 2015 in conjunction with the CPP. On October 10, 2017, the EPA issued a Notice of Proposed Rulemaking proposing to repeal the CPP. The public has until April 26, 2018, to submit comments. The EPA has indicated an intent to issue a replacement rule by publishing an Advanced Notice of Proposed Rulemaking, with the goal of seeking comment on whether it will promulgate a replacement rule for existing units and what elements the replacement rule would contain. The Company will continue to monitor the regulation and evaluate compliance options as new information is available.

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 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 Company established a goal of providing at least 50 percent of retail energy sales from renewable energy sources. The addition of the Grande Prairie wind facility in 2017 added an additional 400 megawatts (MW) of renewable capability and enabled the Company to meet the previous goal of 30 percent of retail energy sales from renewable energy sources. The addition of the Sholes Wind Energy Center in 2019 will add an additional 160 MW of renewable capability. In addition, the Company has a purchased power contract with the Western Area Power Administration for up to 81.3 MW of hydro power.

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

	Capability
OPPD-Owned Generation	
Elk City Station (landfill-gas)	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
Grande Prairie	<u>400.0</u>
Subtotal Purchased Wind Generation	<u>811.6</u>
Total Renewable Generation as of December 31, 2017	<u>817.9</u>
2019 Purchased Wind Generation	
Sholes	<u>160.0</u>
Total Expected Renewable Generation as of December 31, 2019	<u><u>977.9</u></u>

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

Federal Energy Legislation

The 115th Congress started its two-year legislative session in January 2017. The only major legislation enacted in 2017 was tax reform, which included a provision to repeal the tax-exempt status of advance refunding of bonds. This provision took effect on January 1, 2018.

Comprehensive energy legislation was reintroduced, but it was not enacted. This included legislation that addressed energy efficiency, spent nuclear fuel, cyber security, energy workforce, Public Utility Regulatory Policies Act reform, hydropower, and various other areas.

Lastly, there has been an emphasis in the House of Representatives to look into modernizing energy laws. Several hearings were convened in 2017 to start the process, but no legislation has been enacted. 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 introduced three energy-related legislative bills (LB) during the 2017 session. LB 547 allowed for the private development of generation and transmission resources. LB 657 required public power districts to unbundle their rates. LB 660 allowed for customer choice in selecting an energy provider. These bills did not make it to the floor for discussion and were indefinitely postponed. OPPD continues to monitor the status of energy and environmental legislation in the Legislature and provides input, as needed.

Fort Calhoun Station Update

In August 2012, the Board of Directors authorized management to enter into a long-term operating agreement with Exelon Generation Company, LLC, (Exelon) to provide operating and managerial support at FCS for 20 years. 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 the station ceased operations on October 24, 2016. 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.

The Operating Services Agreement with Exelon was terminated in June 2017, and the Licensing Agreement was terminated in December 2017. Ceasing FCS operations is expected to result in an improved competitive position, stable debt service coverage and reduced financial risks.

OPPD entered into an agreement with EnergySolutions Inc. (ESI) in February 2017 for decommissioning support services. OPPD retains the license and management responsibility for the facility, while benefitting from the advisory services provided by ESI. The agreement included both on-site and off-site support by personnel across multiple disciplines as needs are identified, including advice on the safe characterization, packaging, transportation and disposal of nuclear material.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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 estimates and assumptions has not changed.

The following is a list of accounting estimates and assumptions 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.

Significant Accounting Estimates and Assumptions

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