



POWERING PARTNERSHIPS

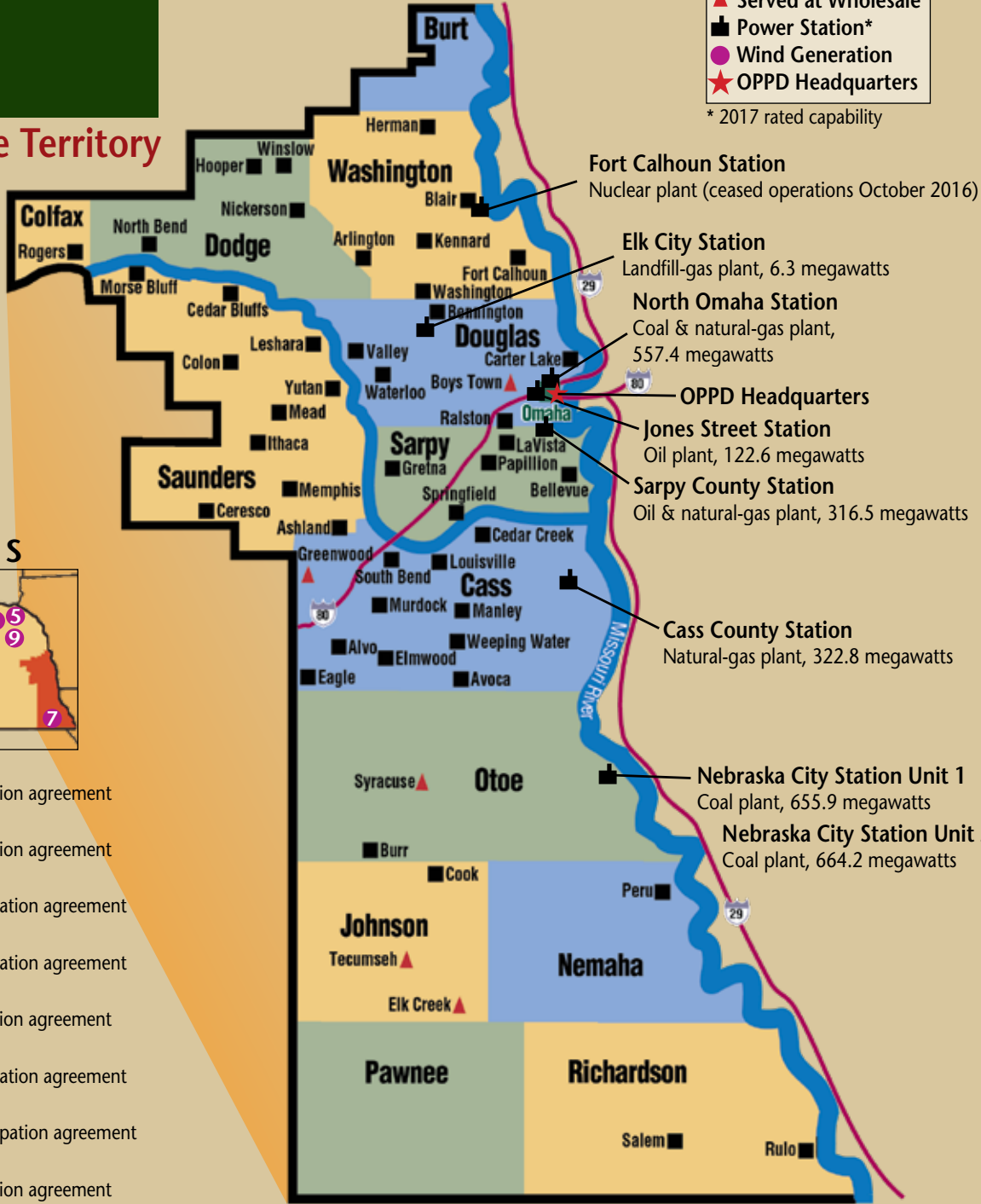
2017 ANNUAL REPORT



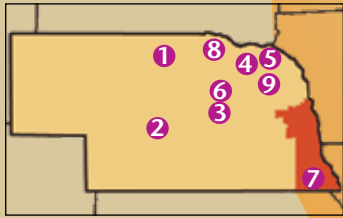
OPPD Service Territory

- Served at Retail
- ▲ Served at Wholesale
- ⬛ Power Station*
- Wind Generation
- ★ OPPD Headquarters

* 2017 rated capability



WIND FARMS



1. **Ainsworth**
10-megawatt participation agreement
2. **Broken Bow I**
18-megawatt participation agreement
3. **Broken Bow II**
43.9-megawatt participation agreement
4. **Petersburg**
40.5-megawatt participation agreement
5. **Elkhorn Ridge**
25-megawatt participation agreement
6. **Crofton Bluffs**
13.6-megawatt participation agreement
7. **Prairie Breeze**
200.6-megawatt participation agreement
8. **Flat Water**
60-megawatt participation agreement
9. **Grande Prairie**
400-megawatt participation agreement
9. **Sholes**
160-megawatt participation agreement (2019)

About OPPD

Omaha Public Power District is a publicly owned electric utility that serves an estimated population of 833,000 people, more than any other electric utility in the state. Operating since 1946, the public utility is governed by an elected board of eight directors. While its headquarters is located in Omaha, Neb., OPPD has several other locations in its 13-county, 5,000-square-mile service area in southeast Nebraska. OPPD utilizes baseload power facilities fueled by coal and natural gas, peaking units fueled by natural gas and oil, and renewable energy, including wind, landfill-gas and hydropower.



Emily Judevine works as an assistant unit operator at Nebraska City Station.

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On the cover

The old Jones Street Power Station has been converted into The Breakers, a unique apartment complex that preserves much of the historical plant’s charm.



Board Chair and CEO Message



President and CEO Timothy J. Burke (left)
and Board Chair Michael J. Cavanaugh

At Omaha Public Power District, we pride ourselves in providing affordable, reliable and environmentally sensitive energy services to our customers. But something else we do, and do as well as any electric utility in the nation, is powering partnerships.

Each day, we partner with customer-owners, business owners, homeowners, community leaders, special interest groups and other stakeholders, even other utilities, to carry out our mission.

Such partnerships have led us to pledge the unprecedented move of having no general rate increase through 2021.

Those partnerships take place within OPPD, as well. Inside our utility, various areas have been collaborating to safely and economically decommission Fort Calhoun Nuclear Station. That work has gone smoothly and will continue in the coming years. At Nebraska City Station, our engineers and plant operators have teamed up to make our largest generating station more efficient than ever to keep customers' rates low. And at North Omaha Station, three units have been retrofitted to run on natural gas to serve as "peaking stations," called upon at times of peak demand for energy.

With the energy landscape changing, we continue down the path of adding more renewables to our generation portfolio. In 2017, renewables represented about 30 percent of our retail sales. The recently announced Sholes Wind Energy Center in Wayne County, Neb., will put us closer to our goal of at least 50 percent of retail sales coming from renewables. This year, we will develop plans around a community solar project with input from our stakeholders, another example of our valuable partnerships.

We are proud of our public power heritage and the fact that we answer to our customer-owners, providing them with cost-effective and reliable energy. When that reliability is put to the test, employees respond. In June, our team showcased extreme dedication and commitment in response to one of our most destructive storms ever. Within two days, OPPD had restored service to 90 percent of the 76,500 customers who lost power.

That same spirit of teamwork is evident on the economic development front. Our Economic Development team partners with organizations and businesses across the state and country to bolster our region's economy. This past year, more than \$1 billion in capital investment projects for OPPD's service territory were announced. The biggest was a new data center for Facebook, located just outside the Omaha metro area. A big part of their decision was because of the development of our innovative new rate – 261M – for large customers seeking more renewable energy. The momentum continues for the coming years, with new projects in development.

As this report shows, OPPD remains in a strong financial position.

We will keep powering partnerships just as we will continue leading the way we power the future.

Handwritten signature of Timothy J. Burke in black ink.

Timothy J. Burke
President and CEO

Handwritten signature of Michael J. Cavanaugh in black ink.

Michael J. Cavanaugh
Chair of the Board

Board of Directors



Michael J. Cavanaugh
Chair of the Board
Omaha Police
Lieutenant (retired)
Real Estate Investor –
Manager



Anne L. McGuire
Vice Chair of the Board
Nurse Educator (retired)



Michael A. Mines
Treasurer
Governmental
Advisor



Craig C. Moody
Secretary
Business Owner



Thomas S. Barrett
Board Member
Attorney at Law



Tim W. Gay
Board Member
Governmental Advisor



Mark E. Treinen
Board Member
Business Executive
(retired)



Rick M. Yoder
Board Member
Consultant

Senior Management



Timothy J. Burke
President &
Chief Executive Officer



Kate W. Brown
Vice President –
Business Technology
& Building Services
Assistant Secretary



Juli A. Comstock
Vice President –
Customer Service
Assistant Secretary



Mohamad I. Doghman
Vice President – Energy
Delivery & Chief
Compliance Officer
Assistant Secretary



L. Javier Fernandez
Vice President –
Financial Services &
Chief Financial Officer
Assistant Secretary



Mary J. Fisher
Vice President –
Energy Production
& Nuclear
Decommissioning
Assistant Secretary



Lisa A. Olson
Vice President –
Public Affairs
Assistant Secretary



Martha L. Sedky
Vice President –
Human Capital
Assistant Secretary



Scott M. Focht
Senior Director –
Business Strategy &
Deployment

OPERATIONS REVIEW

At OPPD, we've long been proud of our motto, "your energy partner." That's how we see ourselves, and it's a good description of our relationship with our customer-owners. They are farmers in the countryside irrigating fields. They are staples of Omaha's business community looking to add more load. They are families enjoying a dinner together at home.

As a public power utility, we give our customers and community a voice and keep their interests at the forefront as we deliver affordable, reliable and environmentally sensitive energy services.



OPPD's 54.6 mile Arbor Rail Line is one of only a handful of Nebraska locations with ready-rail access to both Union Pacific and Burlington Northern Santa Fe railroads. That access attracted Midwest Farmers Co-op to locate along the line in Syracuse, Neb. The co-op welcomed its first 110-car shuttle last spring.



Bolstering businesses

A healthy business climate means good things for those living and working in the community, and energy plays a big role.

OPPD collaborates with community groups, such as area chambers of commerce and economic development organizations, to serve businesses' needs. Last year, this partnership identified large pieces of "shovel-ready" land for potential development. That effort helped produce the area's biggest project of 2017: a new Facebook data center located just outside Omaha in Sarpy County.

A big reason for Facebook's decision was having OPPD as a strong partner in the creation of the new 261M rate, which helps large customers meet their renewable energy goals.

OPPD doesn't just work with new businesses. Long-time customers like Rotella's Italian Bakery saw expansions and worked directly with OPPD. Rotella's, which ships its breads to clients across the U.S., is finishing a 56,000-square-foot facility to house

additional production lines to keep up with demand. The expansion brings a nearly 30 percent increase in energy demand.

Partnering with the world-renowned University of Nebraska Medical Center and Nebraska Medicine, OPPD helped them find ways to use less energy through energy conservation measures and targeted upgrades, despite an increase of 2 million square feet in the campus size.

OPPD's low rates and high reliability have also played a big role in drawing new businesses to the area, like Omaha-based tech company Flywheel, which hosts websites and relies on OPPD's electricity to be there when it needs it.

OPPD's service territory received national recognition this past year for a number of new developments and was one of 10 U.S. utilities named among *Site Selection* magazine's top utilities in the country. More than \$1 billion in new capital investment projects were announced for the area in 2017.

Facebook began construction of its new data center in Sarpy County last spring.



OPPD's Economic Development team played an integral role in attracting Facebook to Nebraska. Team members, from left, include Brook Aken, Jason Esser, Tim O'Brien and Devin Meisinger.



Innovation in our industry

OPPD sees the need to transform and embrace challenges by continuing to put an emphasis on innovation.

For the second year, a team of employees has developed creative ideas and solutions to address the rapidly changing utility landscape and push work groups outside their comfort zones. The team evaluated more than 250 ideas in 2017. In 2018, OPPD will launch an innovation lab to identify and explore breakthrough ideas that could generate new value for customers and employees.

For our customers and stakeholders, one of our biggest successes has been the impact to their budgets and bottom lines – through our commitment to no general rate increase through 2021. That commitment was made possible partly because of our difficult decision to cease operations at Fort Calhoun Nuclear Station (FCS), which is now being decommissioned. Over the past year, FCS employees worked to scrap, repurpose and recycle equipment from the plant, began work on the upcoming dry cask storage project and inspected hundreds of used nuclear fuel bundles.

Along with the FCS decision, our Lean efforts and cost and process initiatives factored into holding rates steady. From calculated reductions in operations and maintenance to capital spending, those combined efforts have helped the utility fulfill the commitment to our ratepayers.

In late 2017, OPPD unveiled its Thermostat Program, an innovative way for customers to help reduce demand at peak times. We partnered with Nest Labs for the new



OPPD's new Thermostat Program uses smart, Wi-Fi-enabled thermostats to help curb energy demand, like the Nest Thermostat E, shown here. The program is the company's latest Power Forward solution, part of a portfolio of demand-side management programs.



Among the decommissioning projects at Fort Calhoun Nuclear Station is an upcoming dry cask storage facility project.

demand-side management program. We will be evaluating adding more “smart,” Wi-Fi-enabled thermostat manufacturers in the future.

OPPD will continue to place an increased focus on renewable energy, working toward the goal of having at least 50 percent of retail sales come from renewables.

In 2017, renewables represented about 30 percent of retail sales and that number will only increase when Sholes Wind Energy Center begins operations.



OPPD continues to expand its renewable energy sources and is working toward having at least 50 percent of retail sales come from renewables.



Never resting on reliability

Having some of the lowest rates in the country is great, but if you're not there when your customers flip the switch, you're not being a true energy partner. We take every bit as much pride in our reliability as we do in our prices. We use a combination of routine maintenance, new infrastructure and emerging technologies to ensure reliability.

In late 2016, OPPD completed one of its largest projects in the last 10 years, the Midwest Transmission Project. A priority project for the Southwest Power Pool, the transmission line helps ease congestion and increase capacity in the region. Other transmission projects began construction this year, including the Elkhorn River Valley Transmission Project, which will improve reliability for both OPPD and the Fremont, Neb., area.

Customers in an area of north Omaha will see the benefits of new



Jake Farrell, supervisor of Land Management, Siting and Records, talks with customers and gathers feedback at an event about the Sarpy Transmission Project.

infrastructure as a result of OPPD's first phase of smart grid and distribution automation. With the infrastructure in place to support smart communication devices in that area, OPPD will monitor the project to understand the impacts this technology could have for customers in the coming years.

Aerial inspections, one routine process that keeps outages to a minimum, went high-tech in 2017 when OPPD began using its own drone to inspect transmission lines. Although OPPD still uses a helicopter at times,

drone inspections can be performed more frequently and at a lower cost, helping keep the system reliable and our customers' rates low.

In 2017, through the Transmission and Distribution Improvement Program, crews replaced more than 40 miles of cable on our distribution system. OPPD inspected and treated about 30,000 wood distribution poles to extend their life, and replaced more than 300 poles. Crews also replaced a number of components in our network and substation systems.



At right, Nebraska City Station workers perform maintenance at OPPD's largest generating station.



Caring for our community

In June, a destructive wind storm impacted a third of OPPD's 5,000-square-mile service territory. In two locations, tornadoes did major damage to transmission lines, even uprooting 100-year-old trees. It was the fourth-worst storm in terms of outages to ever hit our area. OPPD crews worked long hours, and mutual aid utilities came from near and far to help restore power. Assistance came from neighboring utilities, including Nebraska Public Power District, Lincoln Electric System, Loup River Public Power District and Southern Power, as well as out-of-state partners from Iowa, Colorado and Alabama.

In 2017, OPPD partnered with Omaha's Henry Doorly Zoo and Aquarium to provide tree trimmings from the district's reliability efforts to feed animals.



Mutual aid partnerships prove invaluable at times like these, and for that reason, OPPD has sent crews as far as New York City, Louisiana and Mississippi in the past.

In September, we again sent crews to Jacksonville and Tampa to help restore power to Florida customers after Hurricane Irma.

While natural disasters garner headlines, OPPD employees are out in the community every day, working to make a difference. Our annual Heat the Streets Run & Walk for Warmth, a partnership with other area utilities, raises money for the Energy Assistance Program,

which helps customers struggling to pay their energy bills.

In August, OPPD proudly became the first Omaha partner to start working with Legacy I3, a program designed to bring a

more diverse group of employees from areas of our service territory that have been underrepresented in the past. The students go through a rigorous curriculum and work with OPPD ambassadors before becoming interns when they start their post-high school education. This partnership benefits everyone involved, and it ultimately leads to the students becoming OPPD employees.

Hundreds of OPPD employees also regularly volunteer their time and talents in the community.

Our roles in the community are as important as our role of energy partner. Customers expect us to be there when they need us, whether they are restoring power or developing the leaders of tomorrow. That's what makes for a great partnership. And we look forward to powering those partnerships for years to come.





Account Executive Maurice Kimsey, center, speaks with students at OPPD's Energy Plaza headquarters.

OPPD crews make repairs to distribution lines damaged in a June storm that impacted one third of our service territory. It was OPPD's fourth-worst storm in terms of outages.



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.

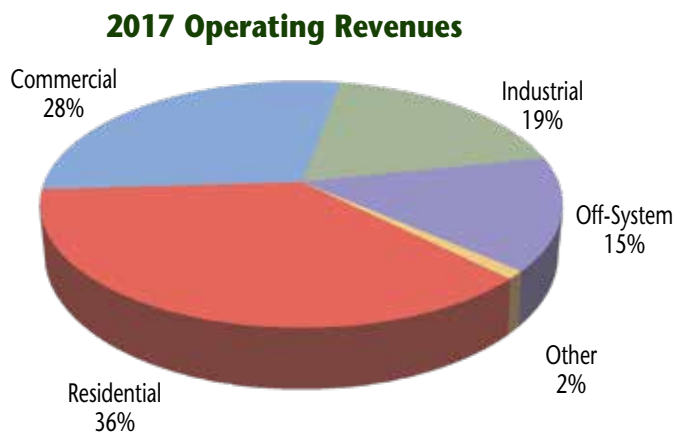
RESULTS OF OPERATIONS

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.



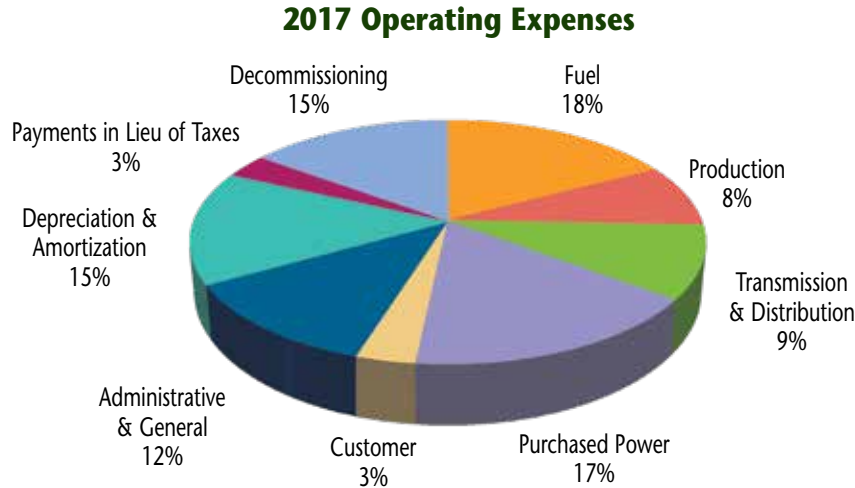
2017 Compared to 2016 – Total operating revenues were \$1,104,301,000 for 2017, a decrease of \$22,175,000 or 2.0% from 2016 operating revenues of \$1,126,476,000.

- 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.

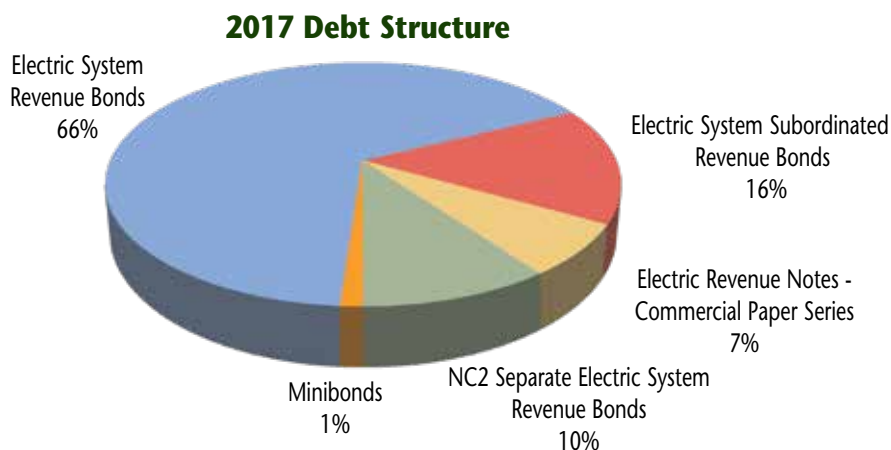
One Electric System Revenue Bond issue totaling \$220,195,000 was completed in 2017. The proceeds were used to refund previously issued Electric System Revenue Bonds. The lower interest rates on the new debt decreased the debt service payments. Repayments of \$45,595,000 of Electric System Revenue Bonds,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

Report of Management

The management of Omaha Public Power District (OPPD) is responsible for the preparation of the following financial statements and for their integrity and objectivity. These financial statements conform to generally accepted accounting principles and, where required, include amounts that represent management's best judgments and estimates. OPPD's management also prepared the other information in this Annual Report and is responsible for its accuracy and consistency with the financial statements.

To fulfill its responsibility, management maintains strong internal controls, supported by formal policies and procedures that are communicated throughout the company. Management also maintains a staff of internal auditors who evaluate the adequacy of and investigate the adherence to these controls, policies and procedures. OPPD is committed to conducting business with integrity, in accordance with the highest ethical standards, and in compliance with all applicable laws, rules and regulations. A Code of Ethics has been adopted for the Senior Executive and Financial Officers and the Controller, stating their responsibilities and standards for professional and ethical conduct.

Our independent auditors have audited the financial statements and have rendered an unmodified opinion as to the financial statements' fairness of presentation, in all material respects, in conformity with accounting principles generally accepted in the United States of America. During the audit, they considered internal controls over financial reporting as required by generally accepted auditing standards.

The Board of Directors pursues its oversight with respect to OPPD's financial statements through the Audit Subcommittee, which is comprised solely of non-management directors. The subcommittee meets periodically with the independent auditors, internal auditors and management to ensure that all are properly discharging their responsibilities. The subcommittee reviews the annual audit plan and any recommendations the independent auditors have related to the internal control structure. The Board of Directors, on the recommendation of the Audit Subcommittee, engages the independent auditors who have unrestricted access to the Audit Subcommittee.



Timothy J. Burke
President and Chief Executive Officer



L. Javier Fernandez
Vice President and Chief Financial Officer

Independent Auditors' Report

To the Board of Directors
Omaha Public Power District
Omaha, Nebraska

We have audited the accompanying financial statements of Omaha Public Power District (the "Company"), which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Company's financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 12 through 23 and the schedule of changes in total pension liability, net pension liability and related ratios, schedule of contributions, and related notes within the Required Supplementary Information section on pages 61 through 63 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Omaha, Nebraska
March 29, 2018

Omaha Public Power District Statements of Net Position

as of December 31, 2017 and 2016

| ASSETS | 2017 | 2016 |
|---|---------------------------|---------------------------|
| | (thousands) | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 10,054 | \$ 13,649 |
| Electric system revenue fund | 196,146 | 114,116 |
| Electric system revenue bond fund | 85,490 | 97,814 |
| Electric system subordinated revenue bond fund | 6,584 | 5,666 |
| Electric system construction fund | 222,858 | 221,247 |
| NC2 separate electric system revenue fund | 14,380 | 14,080 |
| NC2 separate electric system revenue bond fund | 17,896 | 18,013 |
| NC2 separate electric system capital costs fund | 6,738 | 9,486 |
| Accounts receivable – net | 130,511 | 131,425 |
| Fossil fuels – at average cost | 35,039 | 28,328 |
| Nuclear fuel held for sale | - | 12,453 |
| Materials and supplies – at average cost | 79,008 | 77,896 |
| Regulatory asset – FCS decommissioning | 156,000 | 147,000 |
| Other (Note 2) | 35,217 | 30,058 |
| Total current assets | <u>995,921</u> | <u>921,231</u> |
| SPECIAL PURPOSE FUNDS – at fair value | | |
| Electric system revenue bond fund – net of current | 47,519 | 41,083 |
| Segregated fund – rate stabilization (Note 3) | 50,000 | 33,000 |
| Segregated fund – other (Note 3) | 42,009 | 36,317 |
| Electric system construction fund – net of current | 20,260 | 20,481 |
| Decommissioning funds (Note 3) | 421,257 | 382,134 |
| Total special purpose funds | <u>581,045</u> | <u>513,015</u> |
| UTILITY PLANT – at cost | | |
| Electric plant | 4,350,603 | 4,305,055 |
| Less accumulated depreciation and amortization | 1,819,255 | 1,743,661 |
| Total utility plant – net | <u>2,531,348</u> | <u>2,561,394</u> |
| OTHER LONG-TERM ASSETS | | |
| Regulatory asset – FCS decommissioning – net of current | 534,068 | 717,093 |
| Regulatory assets (Note 2) | 483,716 | 456,560 |
| Other (Note 2) | 76,150 | 5,787 |
| Total other long-term assets | <u>1,093,934</u> | <u>1,179,440</u> |
| TOTAL ASSETS | 5,202,248 | 5,175,080 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Unamortized loss on refunded debt | 90,258 | 90,333 |
| Unrealized pension contributions and losses (Note 6) | 192,273 | 172,695 |
| Ash landfill | 11,788 | 2,960 |
| Total 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> |

See notes to financial statements

Omaha Public Power District Statements of Net Position

as of December 31, 2017 and 2016

| LIABILITIES | 2017 | 2016 |
|---|--------------------|--------------------|
| | (thousands) | |
| CURRENT LIABILITIES | | |
| Electric system revenue bonds (Note 5) | \$ 47,495 | \$ 45,595 |
| Electric system subordinated revenue bonds (Note 5) | 1,180 | 95 |
| Electric revenue notes – commercial paper series (Note 5) | 150,000 | - |
| NC2 separate electric system revenue bonds (Note 5) | 3,220 | 3,245 |
| Accounts payable | 84,934 | 82,624 |
| Accrued payments in lieu of taxes | 32,933 | 33,022 |
| Accrued interest | 34,708 | 39,376 |
| Accrued payroll | 25,062 | 25,471 |
| Decommissioning | 89,665 | 124,685 |
| Other (Note 2) | 20,237 | 17,844 |
| Total current liabilities | 489,434 | 371,957 |
| LIABILITIES PAYABLE FROM SEGREGATED FUNDS (Note 2) | 30,334 | 35,626 |
| LONG-TERM DEBT (Note 5) | | |
| Electric system revenue bonds – net of current | 1,352,150 | 1,412,770 |
| Electric system subordinated revenue bonds – net of current | 335,940 | 337,185 |
| Electric revenue notes – commercial paper series | - | 150,000 |
| Minibonds | 30,273 | 29,816 |
| NC2 separate electric system revenue bonds – net of current | 211,995 | 215,215 |
| Total long-term debt | 1,930,358 | 2,144,986 |
| Unamortized discounts and premiums | 195,838 | 193,225 |
| Total long-term debt – net | 2,126,196 | 2,338,211 |
| OTHER LIABILITIES | | |
| Decommissioning – net of current | 1,085,668 | 1,124,912 |
| Pension liability (Note 6) | 547,945 | 487,177 |
| Other (Note 2) | 39,042 | 27,715 |
| Total other liabilities | 1,672,655 | 1,639,804 |
| COMMITMENTS AND CONTINGENCIES (Note 13) | | |
| TOTAL LIABILITIES | 4,318,619 | 4,385,598 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Rate stabilization reserve (Note 7) | 50,000 | 42,000 |
| Decommissioning and benefits reserve (Note 7) | 34,500 | - |
| Unrealized pension gains (Note 6) | 2,810 | - |
| Unamortized gain on refunded debt | 113 | 141 |
| Total deferred inflows of resources | 87,423 | 42,141 |
| NET POSITION | | |
| Net investment in capital assets | 619,895 | 595,498 |
| Restricted | 66,014 | 50,183 |
| Unrestricted | 404,616 | 367,648 |
| Total net position | 1,090,525 | 1,013,329 |
| TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION | \$5,496,567 | \$5,441,068 |

Omaha Public Power District

Statements of Revenues, Expenses and Changes in Net Position

for the Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---------------------------|--------------------|
| | <i>(thousands)</i> | |
| OPERATING REVENUES | | |
| Retail sales | \$ 911,733 | \$ 921,052 |
| Off-system sales | 163,762 | 175,506 |
| Other electric revenues | 28,806 | 29,918 |
| Total operating revenues | <u>1,104,301</u> | <u>1,126,476</u> |
| OPERATING EXPENSES | | |
| Operations and maintenance | | |
| Fuel | 170,372 | 186,766 |
| Purchased power | 166,169 | 119,511 |
| Production | 79,103 | 252,312 |
| Transmission | 40,085 | 35,681 |
| Distribution | 49,947 | 44,750 |
| Customer accounts | 17,973 | 16,718 |
| Customer service and information | 14,035 | 15,205 |
| Administrative and general | 115,609 | 152,914 |
| Total operations and maintenance | <u>653,293</u> | <u>823,857</u> |
| Depreciation and amortization | 140,635 | 149,546 |
| Decommissioning | 147,469 | 17,576 |
| Payments in lieu of taxes | 33,989 | 34,138 |
| Total operating expenses | <u>975,386</u> | <u>1,025,117</u> |
| OPERATING INCOME | <u>128,915</u> | <u>101,359</u> |
| OTHER INCOME (EXPENSES) | | |
| Contributions in aid of construction | 31,064 | 17,918 |
| Reduction of plant costs recovered through contributions in aid of construction | (31,064) | (17,918) |
| Decommissioning funds – investment income | 11,382 | 9,374 |
| Decommissioning funds – reinvestment | - | (13,929) |
| Investment income | 5,420 | 3,512 |
| Allowances for funds used during construction | 2,988 | 7,380 |
| Products and services – net | 3,903 | 3,739 |
| Other – net (Note 10) | 10,813 | 2,229 |
| Total other income – net | <u>34,506</u> | <u>12,305</u> |
| INTEREST EXPENSE | <u>84,253</u> | <u>87,914</u> |
| NET INCOME BEFORE SPECIAL ITEM | 79,168 | 25,750 |
| SPECIAL ITEM (Note 12) | <u>(1,972)</u> | <u>(959,575)</u> |
| NET INCOME (LOSS) | <u>77,196</u> | <u>(933,825)</u> |
| NET POSITION, BEGINNING OF YEAR | <u>1,013,329</u> | <u>1,947,154</u> |
| NET POSITION, END OF YEAR | <u>\$1,090,525</u> | <u>\$1,013,329</u> |

See notes to financial statements

Omaha Public Power District

Statements of Cash Flows

for the Years Ended December 31, 2017 and 2016

| | 2017 <i>(thousands)</i> | 2016 |
|---|----------------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from retail customers | \$ 976,173 | \$ 972,986 |
| Cash received from off-system counterparties | 177,446 | 149,706 |
| Cash received from insurance companies | 2,008 | - |
| Cash received from sale of nuclear fuel | 15,200 | 787 |
| Cash received from other sources | 5,425 | 5,643 |
| Cash paid to operations and maintenance suppliers | (393,721) | (462,671) |
| Cash paid to off-system counterparties | (157,184) | (102,470) |
| Cash paid to employees | (142,088) | (155,658) |
| Cash paid to pension and OPEB obligations | (81,307) | (73,751) |
| Cash paid for in lieu of taxes and other taxes | (34,078) | (32,301) |
| Net cash provided from operating activities | <u>367,874</u> | <u>302,271</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Proceeds from federal and state agencies | - | 4,828 |
| Net cash provided from noncapital financing activities | <u>-</u> | <u>4,828</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from long-term borrowings | 428 | 5,760 |
| Principal reduction of debt | (49,125) | (46,477) |
| Interest paid on debt | (87,198) | (96,483) |
| Acquisition and construction of capital assets | (144,135) | (149,647) |
| Contributions in aid of construction and other reimbursements | 32,724 | 29,320 |
| Acquisition of nuclear fuel | - | (17,177) |
| Net cash used for capital and related financing activities | <u>(247,306)</u> | <u>(274,704)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (1,436,950) | (1,245,733) |
| Maturities and sales of investments | 1,335,139 | 1,216,074 |
| Purchases of investments for decommissioning funds | (373,190) | (308,730) |
| Maturities and sales of investments in decommissioning funds | 336,087 | 299,949 |
| Investment income | 14,751 | 11,847 |
| Net cash used for investing activities | <u>(124,163)</u> | <u>(26,593)</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS | (3,595) | 5,802 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 13,649 | 7,847 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 10,054 | \$ 13,649 |

See notes to financial statements

Omaha Public Power District

Statements of Cash Flows

for the Years Ended December 31, 2017 and 2016

The following table provides a reconciliation of the statements of cash flows from operating activities to operating income as of December 31.

| | 2017 | 2016 |
|---|--------------------------|--------------------------|
| | <i>(thousands)</i> | |
| Operating income | \$ 128,915 | \$ 101,359 |
| Adjustments to reconcile operating income to net cash provided from operating activities: | | |
| Depreciation, amortization and decommissioning | 125,799 | 147,691 |
| Amortization of nuclear fuel | - | 21,693 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 3,923 | (28,964) |
| Fossil fuels | (6,711) | 3,333 |
| Materials and supplies | 9,369 | 594 |
| Accounts payable | (10,273) | (17,237) |
| Accrued payments in lieu of taxes and other taxes | (89) | 1,837 |
| Accrued payroll | (409) | (1,125) |
| SPP and other special deposits | (28) | 1,000 |
| Rate stabilization reserve | 8,000 | 26,000 |
| Decommissioning and benefits reserve | 34,500 | - |
| Regulatory assets | 51,281 | 25,579 |
| Other | 23,597 | 20,511 |
| Net cash provided from operating activities | <u>\$ 367,874</u> | <u>\$ 302,271</u> |

The following table summarizes the supplemental disclosure of noncash capital, financing and investing activities as of December 31.

| | 2017 | 2016 |
|--|--------------------|------------|
| | <i>(thousands)</i> | |
| NONCASH CAPITAL, FINANCING AND INVESTING ACTIVITIES | | |
| Bond proceeds transferred directly to irrevocable trust to defease outstanding bonds | \$ 256,759 | \$ 336,699 |
| Utility plant additions from outstanding liabilities | 14,582 | 11,216 |
| Net amortization of debt related expenses, premiums and discounts | 9,818 | 8,209 |
| Allowances for funds used during construction | 2,988 | 7,380 |
| Unrealized gains/(losses) on investments | 1,016 | (118) |

See notes to financial statements

Notes to Financial Statements

as of and for the Years Ended December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business – The Omaha Public Power District (OPPD or Company), a political subdivision of the state of Nebraska, is a public utility engaged in the generation, transmission and distribution of electric power and energy and other related activities. The Board of Directors is authorized to establish rates. OPPD is generally not liable for federal and state income or ad valorem taxes on property; however, payments in lieu of taxes are made to various local governments.

Basis of Accounting – The financial statements are presented in accordance with generally accepted accounting principles (GAAP) for proprietary funds of governmental entities. Accounting records are maintained generally in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

OPPD applies the accounting policies established in the GASB Codification Section Re10, *Regulated Operations*. This guidance permits an entity with cost-based rates to include costs in a period other than the period in which the costs would be charged to expense by an unregulated entity if it is probable that these costs will be recovered through rates charged to customers. This guidance also permits an entity to defer revenues by recognizing liabilities to cover future expenditures. The guidance applies to OPPD because the rates of the Company's regulated operations are established and approved by the governing board.

If, as a result of changes in regulation or competition, the ability to recover these assets and to satisfy these liabilities would not be assured, OPPD would be required to write off or write down such regulatory assets and liabilities unless some form of transition cost recovery continues through established rates. In addition, any impairment to the carrying costs of deregulated plant and inventory assets would be determined. There were no write-downs of regulatory assets for the year ended December 31, 2017. As a result of the Board decision in June 2016 to cease operations at Fort Calhoun Station (FCS), the related assets were determined to be impaired and the regulatory assets for outage and depreciation costs were written off. There were no other write-downs of remaining regulatory assets for the year ended December 31, 2016. See Utility Plant and Regulatory Assets and Liabilities sections of Note 1 and Note 12.

Classification of Revenues and Expenses – Revenues and expenses related to providing energy services in connection with the Company's principal ongoing operations are classified as operating. All other revenues and expenses are classified as non-operating and reported as other income (expenses) on the Statements of Revenues, Expenses and Changes in Net Position.

Revenue Recognition – Electric operating revenues are recognized as earned. Meters are read and bills are rendered on a cycle basis. Revenues earned after meters are read are estimated and accrued as unbilled revenues at the end of each accounting period.

Cash and Cash Equivalents – The operating fund account is called the Electric System Revenue Fund (Note 3). Highly liquid investments for the Electric System Revenue Fund with an original maturity of three months or less are considered cash equivalents. Restricted cash and cash equivalents, if any, are included in the Special Purpose Fund balances.

Accounts Receivable – Accounts Receivable includes outstanding amounts from customers and an estimate for unbilled revenues. An estimate is made for the Reserve for Uncollectible Accounts for retail customers based on an analysis of Accounts Receivable, economic conditions affecting customers and historical write-offs net of recoveries. Additional amounts may be included based on the credit risks of significant parties. Accounts Receivable includes \$48,832,000 and \$49,881,000 in unbilled revenues as of December 31, 2017 and 2016, respectively. Accounts Receivable was reported net of the Reserve for Uncollectible Accounts of \$1,505,000 and \$1,500,000 as of December 31, 2017 and 2016, respectively.

Nuclear Fuel Held for Sale – The Company maintained nuclear fuel held for sale, which was valued at fair value until October 2017 when it was sold (Note 12).

Materials and Supplies – The Company maintains inventories that are valued at average cost. FCS materials and supplies are valued at the lower of cost or fair value (Note 12).

Utility Plant – Utility plant is stated at cost, which includes property additions, replacements of property units and betterments. Maintenance and replacement of minor items are charged to operating expenses. Costs of depreciable units of electric plant retirements are eliminated from electric plant accounts by charges, less salvage plus removal expenses, to the accumulated depreciation account. Electric plant includes both tangible and intangible assets. Intangible assets include costs related to regulatory licenses, software licenses and other rights to use property. Electric plant includes construction work in progress of \$39,738,000 and \$25,617,000 as of December 31, 2017 and 2016, respectively.

Notes to Financial Statements

as of and for the Years Ended December 31, 2017 and 2016

The following table summarizes electric plant balances as of December 31, 2016, activity for 2017 and balances as of December 31, 2017, (in thousands).

| | 2016 | Additions | Retirements | 2017 |
|--|---------------------|--------------------|-------------|---------------------|
| Electric plant | \$ 4,305,055 | \$ 97,571 | \$(52,023) | \$ 4,350,603 |
| Less accumulated depreciation and amortization | 1,743,661 | 127,617 | (52,023) | 1,819,255 |
| Electric plant – net | <u>\$ 2,561,394</u> | <u>\$ (30,046)</u> | <u>\$ -</u> | <u>\$ 2,531,348</u> |

Long-lived assets, such as property, plant and equipment, are periodically reviewed for impairment or whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the magnitude of the decline in service utility is significant and not part of the asset's normal life cycle, the asset is considered impaired.

As a result of the Board decision in June 2016 to cease operations at FCS, the Electric Plant in Service in the amount of \$852,237,000 and the Accumulated Depreciation Reserve in the amount of \$564,002,000 were written off as of December 31, 2016, in accordance with GAAP, and recorded to the Special Item on the Statements of Revenues, Expenses and Changes in Net Position (Note 12). There were no other write-downs for impairments to utility plant for the years ended December 31, 2017 and 2016.

Allowances for funds used during construction (AFUDC) approximates OPPD's current weighted average cost of debt. AFUDC was capitalized as a component of the cost of utility plant. The allowance for construction work in progress was computed at 3.3% and 3.4% for years ended December 31, 2017 and 2016, respectively. There was no AFUDC for nuclear fuel for the year ended December 31, 2017, due to the impairment of nuclear fuel in 2016 (Note 12). The allowance for nuclear fuel was 3.4% for the year ended December 31, 2016.

Contributions in Aid of Construction (CIAC) – Payments are received from customers for construction costs, primarily relating to the expansion of the electric system. FERC guidelines are followed in recording CIAC. These guidelines direct the reduction of utility plant assets by the amount of contributions received toward the construction of utility plant. CIAC is recorded as other income and offset by an expense in the same amount representing the recovery of plant costs. CIAC primarily includes payments for transmission, distribution and generating station assets. This allows for compliance with GASB Codification Section N50, *Nonexchange Transactions*, while continuing to follow FERC guidelines.

The following table summarizes the sources of CIAC as of December 31 (in thousands).

| | 2017 | 2016 |
|---|------------------|-----------------|
| Transmission and distribution | \$ 21,021 | \$14,678 |
| Nebraska City Station Unit 2 (NC2) participants | 6,678 | 1,495 |
| NC2 turbine replacement | 3,365 | 1,769 |
| FCS dry cask storage | - | (24) |
| Total | <u>\$ 31,064</u> | <u>\$17,918</u> |

Depreciation and Amortization – Depreciation for assets is computed on the straight-line basis at rates based on the estimated useful lives of the various classes of property. Depreciation expense for depreciable property averaged approximately 3.0% and 3.3% for the years ended December 31, 2017 and 2016, respectively. Depreciation is calculated using the following estimated lives:

- Generation 40 to 70 years
- Transmission and Distribution 15 to 75 years
- General 6 to 25 years

Amortization of nuclear fuel was based on the cost thereof, and was recorded as nuclear fuel expense of \$21,771,000 for the year ended December 31, 2016. Amortization was prorated by fuel assembly in accordance with the thermal energy that each assembly produced through October 2016 when FCS ceased operations (Note 12).

The FCS regulatory asset for recovery costs incurred in 2012 and 2013 were deferred as a regulatory asset based on Board approval. These recovery costs were not included in the impairment, but will continue to be amortized (and collected through retail rates) through 2023 as these costs benefit current and future ratepayers. The amortization was \$14,836,000 and \$1,854,000 for the years ended December 31, 2017 and 2016, respectively. Prior to the transition to decommission FCS in November 2016, this expense was amortized as an operating expense (Note 12).

Intangible assets are amortized over their expected useful life. Amortization of intangible assets is included with depreciation and amortization expense in these financial statements. The amortization was \$4,509,000 and \$5,855,000 for the years ended December 31, 2017 and 2016, respectively.

NC2 was placed in commercial operation in 2009. Half of the unit's output is sold under 40-year Participation Power Agreements (PPAs). Certain participants funded their share of construction costs with NC2 Separate Electric System Revenue Bonds. These participants are billed for the debt service related to these bonds. The amounts recovered for debt service for the electric plant construction and other costs are included in off-system sales revenues. The revenues related to principal repayment will equal related depreciation and other deferred NC2 expenses over the 40-year term of the PPAs. A regulatory asset was established to equate expenses and the amount included in off-system sales revenues for principal repayment in order to maintain revenue neutrality in the interim years. This regulatory asset will increase annually until 2030 when principal repayments begin exceeding depreciation and other deferred expenses. After 2030, the regulatory asset will be reduced annually by recognizing deferred depreciation and other deferred expenses until its elimination in 2049, which is the end of the initial term of the PPAs.

In 2004, the Board of Directors approved a change in the depreciation estimate for FCS production plant assets to 2043. This estimate was 10 years beyond the term of FCS's operating license. A regulatory asset was established for the difference in depreciation expense resulting from the use of the estimated economic life of the asset versus the license term. The reduction in depreciation expense was recorded each year as a regulatory asset in deferred charges until June 30, 2016. The Regulatory Asset for FCS Deferred Depreciation in the amount of \$79,793,000 was written off as of December 31, 2016, as a result of the Board decision to cease operations at FCS and recorded to the Special Item on the Statements of Revenues, Expenses and Changes in Net Position (Note 12).

Also as a result of the Board decision in June 2016 to cease operations at FCS, there was a write-off of the accumulated depreciation reserve related to FCS assets. The write-off was \$564,002,000 as of December 31, 2016, and recorded to the Special Item on the Statements of Revenues, Expenses and Changes in Net Position (Note 12).

The Board of Directors approved a resolution in June 2014 for the Future Power Generation Plan (Plan). The Plan included changes to the generation portfolio, including the retirement in 2016 of North Omaha Station Units 1, 2 and 3 (NO1, NO2 and NO3), to comply with existing and future environmental regulations. The estimated useful lives of NO1, NO2 and NO3 were reduced as a result of the planned future retirement. NO1 and NO2 were fully depreciated as of April 2016. As a result of the June 2016 Board resolution to cease operations at FCS, a decision was made to retain NO1, NO2 and NO3 using natural gas for capacity purposes through at least 2018. The useful life of NO3 was extended through 2018 beginning in July 2016. Subsequent to the FCS resolution, OPPD completed its 2016 Integrated Resource Plan. This plan, filed with the Western Area Power Administration in late February 2017, reflects the retention of NO1, NO2 and NO3 on natural gas through December 31, 2021. The useful life of NO3 was extended through 2021 beginning in March 2017. Depreciation expense for NO3 was \$646,000 and \$3,506,000 for the years ended December 31, 2017 and 2016, respectively.

Nuclear Fuel Disposal Costs – Permanent disposal of spent nuclear fuel is the responsibility of the federal government under an agreement entered into with the Department of Energy (DOE). Under the agreement, there was a fee of one mill per kilowatt-hour on net electricity generated and sold from FCS. The collection of this fee was suspended in May 2014 until the DOE completes a fee adequacy study that complies with the Nuclear Waste Policy Act or until Congress enacts an alternative fuel-management plan. As a result of the suspension, there were no nuclear fuel disposal fees paid in 2017 or 2016.

The agreement required the federal government to begin accepting high-level nuclear waste by January 1998; however, the DOE does not have a storage facility. In May 1998, the United States Court of Appeals confirmed the DOE's statutory obligation to accept spent fuel by 1998, but rejected the request that a move-fuel order be issued. In March 2001, OPPD, along with a number of other utilities, filed suit against the DOE in the United States Court of Federal Claims, alleging breach of contract.

In 2006, the DOE agreed to reimburse OPPD for allowable costs for managing and storing spent nuclear fuel and high-level waste incurred due to the DOE's delay in accepting waste. Applications are submitted periodically to the DOE for reimbursement of costs incurred for the storage of high-level nuclear waste.

Nuclear Decommissioning – Based on the decommissioning plan established in 1983, the Board of Directors approved the collection of nuclear decommissioning costs using an independent engineering study of the costs to decommission FCS. The Company established a Decommissioning Funding Plan for FCS in 1990 in compliance with Nuclear Regulatory Commission (NRC) regulations. Its purpose is to accumulate funds to decommission the radiated portions of FCS as defined by the NRC. The NRC's funding requirement is based on a defined cost formula and adjusted annually. The Company established a Supplemental Decommissioning Funding Plan for FCS in 1992 to accumulate funds to fully decommission FCS. This includes funds for additional costs beyond the NRC minimum that are needed to decommission the radiated plant, the fuel facility and the non-radiated plant.

Notes to Financial Statements

as of and for the Years Ended December 31, 2017 and 2016

Based on cost estimates, inflation rates and fund earnings projections, no funding was necessary from 2001 through 2013 for either plan. However, an analysis by the Company and an outside consultant determined that additional funding was needed for the Supplemental Decommissioning Trust Fund beginning in 2014 to meet the estimated cost to fully decommission FCS. OPPD temporarily suspended funding for the Supplemental Decommissioning Trust Fund in September 2015 to reduce expenditures and the related impact on rates. In December 2015, the Board of Directors authorized the use of regulatory accounting to match the decommissioning expense to the amount funded. Funding resumed in January 2017. The annual funding amount was \$147,469,000 and \$0 for the years ended December 31, 2017 and 2016, respectively (Note 12). The Supplemental Decommissioning Trust Fund was reduced by \$119,727,000 and \$575,000 for the years ended December 31, 2017 and 2016, for expenditures incurred after ceasing operations and beginning the decommissioning process at FCS.

The estimated current cost to decommission the plant for the NRC-required obligations is \$1,175,333,000 and \$1,249,597,000 as of December 31, 2017 and 2016, respectively. These estimated costs are based upon a third-party, site-specific cost study (Note 12). The decommissioning cost liability, which includes a current and long-term portion on the Statements of Net Position, is adjusted annually for inflation and any significant changes in the cost estimate.

Decommissioning Trust Funds are reported at fair value. Investment income was \$9,699,000 and \$9,275,000 for the years ended December 31, 2017 and 2016, respectively. The fair value of the Decommissioning Trust Funds increased \$1,683,000 and \$99,000 for the years ended December 31, 2017 and 2016, respectively.

Pension – Information about the fiduciary net position of the OPPD Retirement Plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported for purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense. Benefit payments are recognized when distributed in accordance with the benefit terms. Investments are reported at fair value (Note 6).

Regulatory Assets and Liabilities – Rates for regulated operations are established and approved by the Board of Directors. The provisions of GASB Codification Section Re10, *Regulated Operations*, are applied. This guidance provides that regulatory assets are rights to additional revenues or deferred expenses, which are expected to be recovered through customer rates over some future period. Regulatory liabilities are reductions in earnings (or costs recovered) to cover future expenditures.

The Company adopted the GASB accounting standards for the financial accounting and reporting of pension plans in 2015. These standards required the Company to recognize a liability for the net pension obligation on the Statement of Net Position. In December 2014, the Board of Directors authorized the use of regulatory accounting for pension costs to establish a regulatory asset to match the pension expense to the amounts funded and the cost recovery through rates.

The Board of Directors authorized the use of regulatory accounting in 2012 for significant, unplanned operations and maintenance costs at FCS incurred to address concerns from the NRC and enhance operations. These recovery costs are being amortized over a 10-year period that commenced in 2013 with FCS's return to service, as they continue to benefit future ratepayers (Note 12).

As previously noted, an NC2 regulatory asset was established to maintain revenue neutrality for transactions with participants who funded their share of construction costs with NC2 Separate Electric System Revenue Bonds. NC2 depreciation and other deferred expenses will equal the amount included in off-system sales revenue for principal repayments.

The Board of Directors also authorized the use of regulatory accounting for debt issuance costs in 2012 because of new accounting standards that would have required these costs to be expensed in the period incurred. These costs are amortized over the life of the associated bond issues consistent with the rate methodology.

A Fuel and Purchased Power Adjustment (FPPA) was implemented in the retail rate structure in 2010. The Board of Directors authorized the use of regulatory accounting to maintain revenue neutrality by matching retail revenues attributed to fuel and purchased power costs with the actual costs incurred. This regulatory asset represents the rights to additional revenues based on incurred expenses due to under-recoveries of fuel and purchased power costs. This regulatory asset or FPPA, included in Other Current Assets, was \$8,826,000 and \$2,118,000 as of December 31, 2017 and 2016, respectively (Note 2). The FPPA regulatory assets were reduced for customer collections of \$2,118,000 and \$8,233,000 for the years ended December 31, 2017 and 2016, respectively.

The Board of Directors authorized the use of regulatory accounting for the unfunded supplemental decommissioning costs in December 2015. The use of regulatory accounting allows the matching of decommissioning expense to the amounts funded. The unfunded portion of the liability based on NRC-required obligations was recorded as a Deferred Decommissioning Regulatory Asset (Note 12).

The Company adopted the GASB accounting standards for the financial accounting and reporting of supplemental pension plans in 2017. These standards required the Company to recognize a liability for the total supplemental pension obligation on the Statement of Net Position. In October 2017, the Board of Directors authorized the use of regulatory accounting for supplemental pension costs to establish a regulatory asset to match the supplemental pension expense to the amounts funded and the cost recovery through rates (Note 6).

The following table summarizes the balances of regulatory assets as of December 31, 2016, activity for 2017 and balances as of December 31, 2017, (in thousands).

| | 2016 | Additions | Reductions | 2017 |
|----------------------|---------------------|------------------|---------------------|---------------------|
| FCS decommissioning | \$ 864,093 | \$ - | \$ (174,025) | \$ 690,068 |
| Pension | 314,482 | 40,901 | - | 355,383 |
| FCS recovery costs | 102,614 | - | (14,836) | 87,778 |
| NC2 | 45,930 | 4,462 | (4,252) | 46,140 |
| Financing costs | 8,972 | 824 | (1,312) | 8,484 |
| FPPA | 2,118 | 8,826 | (2,118) | 8,826 |
| Supplemental pension | - | 2,062 | (714) | 1,348 |
| Total | <u>\$ 1,338,209</u> | <u>\$ 57,075</u> | <u>\$ (197,257)</u> | <u>\$ 1,198,027</u> |

Regulatory liabilities are deferred inflows of resources and include the Rate Stabilization Reserve and the Decommissioning and Benefits Reserve. The Rate Stabilization Reserve was established to help maintain stability in OPPD's long-term rate structure (Note 7). There was a transfer of \$8,000,000 and \$26,000,000 to the reserve for the years ended December 31, 2017 and 2016, respectively. The balance of the Rate Stabilization Reserve was \$50,000,000 and \$42,000,000 as of December 31, 2017 and 2016, respectively.

The 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 (Note 7). The Company added \$34,500,000 and \$0 to the reserve in 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 will add \$34,500,000 to the fund in 2018.

The following table summarizes the balances of the regulatory liabilities as of December 31, 2016, activity for 2017 and balances as of December 31, 2017, (in thousands).

| | 2016 | Additions | Reductions | 2017 |
|--------------------------------------|-----------------|------------------|-------------------|-----------------|
| Rate stabilization reserve | \$42,000 | \$ 8,000 | \$ - | \$ 50,000 |
| Decommissioning and benefits reserve | - | 34,500 | - | 34,500 |
| Total | <u>\$42,000</u> | <u>\$42,500</u> | <u>\$ -</u> | <u>\$84,500</u> |

Special Item – As a result of the June 2016 Board decision to cease operations at FCS, the related assets were considered impaired and recorded as a Special Item. A Special Item is defined as a significant transaction or other event within the control of management that is either unusual in nature or infrequent in occurrence. This event qualified as a Special Item as the transaction was deemed infrequent in occurrence. Additional fair value adjustments of \$1,972,000 related to the Nuclear Fuel Held for Sale were recorded as a Special Item in 2017 (Note 12).

Net Position – Net position is reported in three separate components on the Statements of Net Position. Net Investment in Capital Assets is the net position share attributable to net utility plant assets reduced by outstanding related debt. Restricted is the share of net position that has usage restraints imposed by law or by debt covenants, such as certain revenue bond funds and segregated funds, net of related liabilities. Unrestricted is the share of net position that is neither restricted nor invested in capital assets.

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

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Environmental Matters – OPPD operates ash landfills at the North Omaha Station (NOS) and the Nebraska City Station (NCS) locations and an industrial waste landfill at FCS. State and federal laws and regulations require OPPD to place a final cover on its landfills at the NOS, NCS and FCS locations when they no longer receive ash/waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Closure and postclosure care financial assurance information is provided to the Nebraska Department of Environmental Quality on an annual basis as required by law. OPPD is not required to restrict any funds for closure and postclosure care costs.

The following table summarizes the current estimated landfill closure date and the percentage of capacity used for each landfill as of December 31. Actual closure dates may be earlier or later than estimated.

| Location | Estimated landfill closure date | Estimated percentage of capacity as of December 31, 2017 | Estimated percentage of capacity as of December 31, 2016 |
|----------------------|---------------------------------|--|--|
| FCS | closed | 100% | 100% |
| NOS | 2031 | 45 | 44 |
| NCS unit 1 | 2019 | 86 | 81 |
| NCS unit 2 cell 1 | closed | 100 | 100 |
| NCS unit 2 cells 2&3 | 2028 | 4 | N/A* |

* Landfill opened in 2017

There is no current or proposed GASB statement providing accounting treatment for closure and postclosure care costs of these landfills. In connection with the adoption of GASB Statement No. 76, *the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76), the Company reassessed its accounting treatment in 2016 related to landfills and closure and postclosure care costs to be incurred in the future. The Company concluded the application of analogous authoritative literature within GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs* (GASB 18), was appropriate to this situation as the accounting treatment for this situation is not specified in authoritative GAAP.

Although closure and postclosure care costs will be paid only near or after the date the landfills stop accepting ash/waste, OPPD reports a portion of these closure and postclosure care costs as an operating expense in each reporting period based on landfill capacity used as of each period end. The landfill closure and postclosure care liability represents the estimated liability to perform the required closure and postclosure care at the related landfills. The remaining amount to be amortized over the remaining capacity of the NOS and NCS locations is reported as a Deferred Outflow. These amounts on the Statements of Net Position are presented in current year dollars. Actual closure and postclosure care costs may be higher or lower than the estimated amounts due to inflation, changes in technology, or changes in regulations (Note 2).

There were no pollution remediation obligations identified as of December 31, 2017 and 2016.

Recent Accounting Pronouncements, adopted – GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73), in June 2015, effective for reporting periods beginning after June 15, 2016. The objective of this statement is to improve the usefulness of information about pensions included in the financial statements for making decisions and assessing accountability. The Company adopted GASB 73 in 2017. The implementation of this statement resulted in the recognition of a supplemental pension liability of \$7,546,000 as of December 31, 2017 on the Statements of Net Position. The Board of Directors authorized the use of regulatory accounting in October 2017 to establish a regulatory asset and levelize supplemental pension expenses to match the recovery of supplemental pension costs through rates. A regulatory asset of \$1,348,000 was recorded in 2017.

Recent Accounting Pronouncements, not yet adopted – GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in June 2015, effective for reporting periods beginning after June 15, 2017. The objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. This statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. OPPD will implement this statement in 2018. The impact to OPPD's financial statements is being evaluated.

GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83), in November 2016, effective for reporting periods beginning after June 15, 2018. The objective of this statement is to provide guidance on the recognition and measurement of certain Asset Retirement Obligations (AROs), including obligations that may not have been previously reported. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. GASB 83 excludes ash landfills from this guidance. This statement requires that recognition occur when the liability is both incurred and can be reasonably estimated. The impact to OPPD's financial statements is being evaluated.

GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017, effective for reporting periods beginning after December 15, 2018. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The impact to OPPD's financial statements is being evaluated.

GASB issued Statement No. 85, *Omnibus 2017*, in March 2017, effective for reporting periods beginning after June 15, 2017. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics that pertain to OPPD. The impact to OPPD's financial statements is being evaluated.

GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, in May 2017, effective for reporting periods beginning after June 15, 2017. The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. The impact to OPPD's financial statements is being evaluated.

GASB issued Statement No. 87, *Leases*, in June 2017, effective for reporting periods beginning after December 15, 2019. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments by creating a single model for leases. This statement increases the usefulness of the financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The impact to OPPD's financial statements is being evaluated.

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2. OTHER ASSETS AND OTHER LIABILITIES DETAIL BALANCES

Current Assets – Other

The composition as of December 31 was as follows (in thousands):

| | 2017 | 2016 |
|---|-----------------|-----------------|
| Regulatory asset – FCS recovery costs | \$14,836 | \$14,836 |
| Regulatory asset – FPPA | 8,826 | 2,118 |
| Prepayments | 6,101 | 8,779 |
| SPP and other special deposits | 3,028 | 3,000 |
| Interest receivable | 1,267 | 570 |
| Regulatory asset – financing costs | 581 | 602 |
| Transmission congestion rights (Note 8) | 529 | 19 |
| Sulfur dioxide allowance inventory | 49 | 134 |
| Total | <u>\$35,217</u> | <u>\$30,058</u> |

Other Long-Term Assets – Regulatory Assets

The composition as of December 31 was as follows (in thousands):

| | 2017 | 2016 |
|-------------------------------------|-------------------|-------------------|
| Pension and supplemental pension | \$ 356,731 | \$ 314,482 |
| FCS recovery costs (net of current) | 72,942 | 87,778 |
| NC2 | 46,140 | 45,930 |
| Financing costs (net of current) | 7,903 | 8,370 |
| Total | <u>\$ 483,716</u> | <u>\$ 456,560</u> |

Other Long-Term Assets – Other

The composition as of December 31 was as follows (in thousands):

| | 2017 | 2016 |
|---------------------------|-----------------|-----------------|
| Job and production orders | \$75,570 | \$ 5,312 |
| Other | 580 | 475 |
| Total | <u>\$76,150</u> | <u>\$ 5,787</u> |

Current Liabilities – Other

The composition as of December 31 was as follows (in thousands):

| | 2017 | 2016 |
|--|-----------------|-----------------|
| Unearned revenues | \$ 8,488 | \$ 2,278 |
| NC2 participant deposits | 6,777 | 9,343 |
| Auction revenue rights (Note 8) | 2,779 | 1,236 |
| Deposits – other | 486 | 572 |
| Payroll taxes and other employee liabilities | 356 | 338 |
| Ash landfill | - | 2,211 |
| Other | 1,351 | 1,866 |
| Total | <u>\$20,237</u> | <u>\$17,844</u> |

Liabilities Payable from Segregated Funds

The composition as of December 31 was as follows (in thousands):

| | 2017 | 2016 |
|---|-----------------|-----------------|
| Customer deposits | \$21,499 | \$21,608 |
| Customer advances for construction | 4,323 | 2,668 |
| Incurred but not presented (IBNP) reserve | 3,057 | 3,483 |
| Transmission project | 1,133 | 3,620 |
| Other | 322 | 4,247 |
| Total | <u>\$30,334</u> | <u>\$35,626</u> |

Other Liabilities – Other

The composition as of December 31 was as follows (in thousands):

| | 2017 | 2016 |
|------------------------------------|-----------------|-----------------|
| Ash landfill (net of current) | \$24,198 | \$ 7,884 |
| Unearned revenues (net of current) | 7,334 | 15,062 |
| Worker's compensation reserve | 5,384 | 1,399 |
| Capital purchase agreement | 935 | 1,209 |
| Public liability reserve | 420 | 308 |
| Other | 771 | 1,853 |
| Total | <u>\$39,042</u> | <u>\$27,715</u> |

3. FUNDS AND INVESTMENTS

Funds of OPPD were as follows:

Electric System Revenue Fund and NC2 Separate Electric System Revenue Fund – These funds are to be used for operating activities for their respective electric system. Cash and cash equivalents in the Electric System Revenue Fund are shown separately from investments on the Statements of Net Position.

Electric System Revenue Bond Fund, Electric System Subordinated Revenue Bond Fund and NC2 Separate Electric System Revenue Bond Fund – These funds are to be used for the retirement of their respective revenue bonds and the payment of the related interest and reserves as required. Investments with maturity dates within the next year are designated as current.

Electric System Construction Fund and NC2 Separate Electric System Capital Costs Fund – These funds are to be used for capital improvements, additions and betterments to and extensions of their respective electric system.

Segregated Fund – Rate Stabilization – This fund is to be used to help stabilize rates through the transfer of funds to operations as necessary. Since there is no funding requirement for the Rate Stabilization Reserve, this fund also may be used to provide additional liquidity for operations as necessary (Note 7).

Segregated Fund – Other – This fund represents assets held for payment of customer deposits, refundable advances, OPPD's self-insured health insurance plans (Note 6), and certain other liabilities.

The following table summarizes the balances of the Segregated Fund - Other as of December 31 (in thousands).

| | 2017 | 2016 |
|--------------------------------|-----------------|-----------------|
| Customer deposits and advances | \$31,595 | \$24,384 |
| Self-insurance | 6,321 | 6,711 |
| Other | 4,093 | 5,222 |
| Total | <u>\$42,009</u> | <u>\$36,317</u> |

Decommissioning Trust Funds – These funds are to be used for the costs to decommission FCS. The Decommissioning Trust Funds are held by an outside trustee in compliance with the decommissioning funding plans approved by the Board of Directors. The 1990 Plan was established in accordance with NRC regulations for the purpose of discharging the obligation to decommission FCS. The 1992 Plan was established to retain funds in excess of NRC minimum funding requirements based on an independent engineering study, which indicated that decommissioning costs would exceed the NRC-minimum requirements.

The following table summarizes the balances of the Decommissioning Trust Funds as of December 31 (in thousands).

| | 2017 | 2016 |
|-----------------------------------|------------------|------------------|
| Decommissioning Trust – 1990 Plan | \$294,459 | \$285,838 |
| Decommissioning Trust – 1992 Plan | 126,798 | 96,296 |
| Total | <u>\$421,257</u> | <u>\$382,134</u> |

The above table includes interest receivables for the Decommissioning Trust Plans of \$874,000 and \$536,000 for December 31, 2017 and 2016, respectively.

Notes to Financial Statements

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Fair Value of Investments – Fair values in most cases are externally provided by the trustees that manage the funds. The trustees frequently utilize third-party pricing services to assist in their valuations (Note 4). The fair value of investments was as follows as of December 31 (in thousands).

| Investment Type | 2017 | | 2016 | |
|--------------------------------------|--------------------|-----------------------------------|------------------|-----------------------------------|
| | Fair Value | Weighted Average Maturity (Years) | Fair Value | Weighted Average Maturity (Years) |
| Money market funds | \$ 68,501 | - | \$ 66,472 | - |
| U.S. government securities | 456,875 | 1.4 | 579,195 | 0.9 |
| Mutual funds | 215,856 | - | 207,444 | - |
| Commercial paper | 65,236 | 0.2 | 69,272 | 0.1 |
| Corporate bonds and other debentures | 323,795 | 1.8 | 70,518 | 1.7 |
| Total | <u>\$1,130,263</u> | | <u>\$992,901</u> | |
| Portfolio weighted average maturity | | 1.1 | | 0.7 |

The above table excludes interest receivables related to the Decommissioning Trusts of \$874,000 and \$536,000 for December 31, 2017 and 2016, respectively.

Interest Rate Risk – The investment in relatively short-term securities reduces interest rate risk, as evidenced by its portfolio weighted average maturity of 1.1 and 0.7 years as of December 31, 2017 and 2016, respectively. In addition, OPPD is generally a buy-and-hold investor, which minimizes interest rate risk.

Credit Risk – OPPD's investment policy complies with bond covenants and state statutes for governmental entities, which limit investments to investment-grade fixed income obligations. The Company was in full compliance with bond covenants and state statutes as of December 31, 2017 and 2016.

Custodial Credit Risk – Bank deposits were entirely insured or collateralized with securities held by OPPD or by its agent in OPPD's name at December 31, 2017 and 2016. All investment securities are delivered under contractual trust agreements.

4. FAIR VALUE MEASUREMENTS

OPPD accounts for fair value in accordance with GASB 72, which defines fair value, establishes methods for measuring fair value by applying one of three observable valuation approaches (market approach, income approach and cost approach) and establishes required disclosures about fair measurements.

Fair value is the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

GASB 72 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities and the lowest priority to unobservable inputs. Financial assets and liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement. The three levels of fair value hierarchy defined in GASB 72 are as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs are other than quoted market prices in the active markets included in Level 1, which are either directly or indirectly observable for the asset or liability as of the reporting date. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Pricing inputs include significant inputs that are unobservable and cannot be corroborated by market data. Level 3 assets and liabilities are valued based on internally developed models and assumptions or methodologies using significant unobservable inputs.

The fair value of investments in most cases is externally provided by the trustees that manage the funds. The trustees frequently utilize third-party pricing services to assist in their valuations.

The following tables summarize, in accordance with the fair value hierarchy, the Company's assets that are accounted for and reported at fair value on a recurring basis by level as of December 31, 2017 and 2016 (in thousands):

| | | 2017 | | |
|--|---------------------------|-------------------------|--------------------------|--------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Money market funds | \$ 68,501 | \$ - | \$ 68,501 | \$ - |
| Mutual funds | 113,155 | 113,155 | - | - |
| U.S. government securities | 456,875 | - | 456,875 | - |
| Corporate bonds and other debentures | 323,795 | - | 323,795 | - |
| Commercial paper | 65,236 | - | 65,236 | - |
| Total fair value measurement by level | <u>1,027,562</u> | <u>\$113,155</u> | <u>\$ 914,407</u> | <u>\$ -</u> |
| Investments measured at net asset value (NAV) | | | | |
| Mutual funds | 102,701 | | | |
| Total investments measured at fair value | <u>\$1,130,263</u> | | | |

| | | 2016 | | |
|---|--------------------------|-------------------------|--------------------------|--------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Money market funds | \$ 66,473 | \$ - | \$ 66,473 | \$ - |
| Mutual funds | 107,532 | 107,532 | - | - |
| U.S. government securities | 579,195 | - | 579,195 | - |
| Corporate bonds and other debentures | 70,518 | - | 70,518 | - |
| Commercial paper | 69,272 | - | 69,272 | - |
| Total fair value measurement by level | <u>892,990</u> | <u>\$107,532</u> | <u>\$ 785,458</u> | <u>\$ -</u> |
| Investments measured at NAV | | | | |
| Mutual funds | 99,911 | | | |
| Total investments measured at fair value | <u>\$ 992,901</u> | | | |

VALUATION METHODOLOGIES

Money Market Funds: The fair value of shares in money market funds are valued with an NAV of \$1, which approximates fair value. They are priced on inputs obtained from Bloomberg, a pricing service whose prices are obtained from direct feeds from exchanges that are either directly or indirectly observable. The fund's investment in money market are included as Level 2 assets.

Mutual Funds Measured at Fair Value: Mutual funds are priced using active market exchanges, and sources include Interactive Data Pricing and Reference Data LLC. The fair values of shares in mutual funds are based on inputs that are quoted prices in active markets for identical assets and; therefore, have been categorized as Level 1 assets.

U.S. Government Securities: The fair value of U.S. government securities is derived from quoted prices on similar assets in active or non-active markets, from other observable inputs such as interest rates, yield curves, or credit spreads, and inputs that are derived from or corroborated by observable market data. U.S. treasury and other federal agency securities are included as Level 2 assets.

Corporate Bonds and Other Debentures: For fixed-income securities, multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validation in addition to checks for unusual daily movements. The fair values of fixed-income securities are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences. Corporate bonds are included as Level 2 assets.

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Commercial Paper: The fair value of commercial paper is priced according to recent transactions, as the carrying value of the commercial paper approximated its fair value due to the short maturity. Commercial Paper is included as a Level 2 asset.

Investments Measured at NAV - The following tables summarize the fair value measurement of investments calculated at NAV per share (or its equivalent) as of December 31 (in thousands).

| | 2017 | | | |
|--|-------------------|-----------------------------|-----------------------------|---------------------------------|
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Mutual funds | \$ 100,204 | none | daily | N/A |
| Mutual funds | 2,497 | none | daily | 1 day |
| Total investments measured at NAV | <u>\$ 102,701</u> | | | |

| | 2016 | | | |
|--|-------------------|-----------------------------|-----------------------------|---------------------------------|
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Mutual funds | \$ 99,911 | none | daily | N/A |
| Total investments measured at NAV | <u>\$ 99,911</u> | | | |

Mutual Funds: These mutual funds invest in fixed income securities including treasuries, agencies, corporate debt, mortgage-backed securities and some non-U.S. debt. The fair value of these investments have been determined using the NAV per share (or its equivalent) of the investment.

5. DEBT

The proceeds of debt issued are utilized primarily to finance the construction program. Favorable market conditions in 2017 and 2016 resulted in multiple refinancing activities. The Company is in compliance with all debt covenants.

The following table summarizes the debt balances as of December 31, 2016, activity for 2017 and balances as of December 31, 2017, (in thousands).

| | 2016 | Additions | Retirements | 2017 |
|--|---------------------|-------------------|---------------------|---------------------|
| Electric system revenue bonds | \$ 1,458,365 | \$ 220,195 | \$ (278,915) | \$ 1,399,645 |
| Electric system subordinated revenue bonds | 337,280 | - | (160) | 337,120 |
| Electric revenue notes – commercial paper series | 150,000 | - | - | 150,000 |
| Minibonds | 29,816 | 582 | (125) | 30,273 |
| NC2 separate electric system revenue bonds | 218,460 | - | (3,245) | 215,215 |
| Total | <u>\$ 2,193,921</u> | <u>\$ 220,777</u> | <u>\$ (282,445)</u> | <u>\$ 2,132,253</u> |

Lien Structure – In the event of a default, subject to the terms and conditions of debt covenants, OPPD is required to satisfy all Electric System Revenue Bond obligations before paying second-tier bonds and notes, which are Electric System Subordinated Revenue Bonds, Electric Revenue Notes – Commercial Paper Series and Minibonds.

Electric System Revenue Bonds – These bonds are payable from and secured by a pledge of and lien upon the revenues of the Electric System, subject to the prior payment therefrom of the operations and maintenance expenses of the Electric System. The Electric System Revenue Bonds are Senior Bonds.

Moody's Investors Service and Standard & Poor's Rating Services rated the Electric System Revenue Bonds as Aa2 and AA, respectively in both 2017 and 2016.

The following table summarizes outstanding Electric System Revenue Bonds as of December 31, 2017, (in thousands).

| Issue | Maturity Dates | Interest Rates | Amount |
|---------------|-----------------------|-----------------------|---------------------|
| 2008 Series A | 2018 | 4.6% | \$ 2,900 |
| 2010 Series A | 2022 - 2041 | 5.431% | 120,000 |
| 2011 Series A | 2018 - 2024 | 3.125% - 5.0% | 38,220 |
| 2011 Series B | 2029 - 2036 | 3.625% - 4.0% | 3,565 |
| 2011 Series C | 2018 - 2030 | 2.5% - 5.0% | 112,675 |
| 2012 Series A | 2030 - 2034 | 4.0% | 63,065 |
| 2012 Series B | 2018 - 2046 | 3.0% - 5.0% | 214,715 |
| 2015 Series A | 2022 - 2045 | 2.85% - 5.0% | 93,005 |
| 2015 Series B | 2018 - 2039 | 2.0% - 5.0% | 253,820 |
| 2015 Series C | 2032 - 2043 | 3.5% - 5.0% | 94,145 |
| 2016 Series A | 2023 - 2039 | 3.0% - 5.0% | 183,340 |
| 2017 Series A | 2030 - 2042 | 4.0% - 5.0% | 220,195 |
| Total | | | <u>\$ 1,399,645</u> |

The following table summarizes outstanding Electric System Revenue Bonds as of December 31, 2016, (in thousands).

| Issue | Maturity Dates | Interest Rates | Amount |
|---------------|-----------------------|-----------------------|---------------------|
| 2008 Series A | 2018 | 4.6% | \$ 2,900 |
| 2010 Series A | 2022 - 2041 | 5.431% | 120,000 |
| 2011 Series A | 2017 - 2024 | 3.125% - 5.0% | 59,095 |
| 2011 Series B | 2029 - 2042 | 3.625% - 5.0% | 103,710 |
| 2011 Series C | 2017 - 2030 | 2.5% - 5.0% | 119,165 |
| 2012 Series A | 2030 - 2042 | 4.0% - 5.0% | 196,240 |
| 2012 Series B | 2017 - 2046 | 3.0% - 5.0% | 226,715 |
| 2015 Series A | 2022 - 2045 | 2.85% - 5.0% | 93,005 |
| 2015 Series B | 2017 - 2039 | 2.0% - 5.0% | 260,050 |
| 2015 Series C | 2032 - 2043 | 3.5% - 5.0% | 94,145 |
| 2016 Series A | 2023 - 2039 | 3.0% - 5.0% | 183,340 |
| Total | | | <u>\$ 1,458,365</u> |

OPPD issued \$220,195,000 of Electric System Revenue Bonds, 2017 Series A on December 20, 2017. The 2017 Series A Bonds were used to refund a portion of the 2011 Series B Bonds and a portion of the 2012 Series A Bonds. The refunding reduced total debt service payments over the life of the bonds by \$34,099,000 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of \$20,174,000. A principal payment of \$45,595,000 was made on February 1, 2017, for the Electric System Revenue Bonds.

OPPD issued \$183,340,000 of Electric System Revenue Bonds, 2016 Series A on August 24, 2016. The 2016 Series A Bonds were used to refund all of the 2009 Series A Bonds, a portion of the 2011 Series B Bonds and a portion of the 2012 Series A Bonds. The refunding reduced total debt service payments over the life of the bonds by \$30,353,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$22,094,000. A principal payment of \$43,065,000 was made on February 1, 2016, for the Electric System Revenue Bonds.

Electric System Revenue Bonds from the following series, with outstanding principal in the amount of \$531,055,000 as of December 31, 2017, were legally defeased: 2008 Series A, 2009 Series A, 2011 Series B and 2012 Series A. Electric System Revenue Bonds from the following series, with outstanding principal in the amount of \$568,785,000 as of December 31, 2016, were legally defeased: 1992 Series B, 1993 Series B, 2005 Series B, 2007 Series A, 2008 Series A, 2009 Series A, 2011 Series B and 2012 Series A. Defeased bonds are funded by government securities in irrevocable escrow accounts. Accordingly, the bonds and the related government securities escrow accounts are not included on the Statements of Net Position.

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OPPD's bond indenture, amended effective February 6, 2015, provides for certain restrictions, the most significant of which are:

- Additional bonds may not be issued unless estimated net receipts (as defined) for each future year equal or exceed 1.4 times the debt service on all Electric System Revenue Bonds outstanding, including the additional bonds being issued or to be issued in the case of a power plant (as defined) being financed in increments.
- The Electric System is required to be maintained by the Company in good condition.

The following table summarizes Electric System Revenue Bond payments (in thousands)

| | Principal | Interest |
|-------------|--------------------|-------------------|
| 2018 | \$ 47,495 | \$ 60,172 |
| 2019 | 49,720 | 62,058 |
| 2020 | 51,980 | 59,676 |
| 2021 | 55,445 | 57,100 |
| 2022 | 20,475 | 55,339 |
| 2023 - 2027 | 236,475 | 245,168 |
| 2028 - 2032 | 278,565 | 184,541 |
| 2033 - 2037 | 257,620 | 121,929 |
| 2038 - 2042 | 301,595 | 50,448 |
| 2043 - 2046 | 100,275 | 7,597 |
| Total | <u>\$1,399,645</u> | <u>\$ 904,028</u> |

Electric System Subordinated Revenue Bonds – These bonds are payable from and secured by a pledge of revenues of the Electric System, subject to the prior payment of the operations and maintenance expenses of the Electric System and the prior payment of the Electric System Revenue Bonds.

Moody's Investors Service and Standard & Poor's Rating Services rated the Electric System Subordinated Revenue Bonds as Aa3 and AA-, respectively in both 2017 and 2016.

The following table summarizes outstanding Electric System Subordinated Revenue Bonds as of December 31, 2017, (in thousands).

| Issue | Maturity Dates | Interest Rates | Amount |
|----------------|-----------------------|-----------------------|------------------|
| 2014 Series AA | 2018 - 2036 | 2.25% - 5.25% | \$155,355 |
| 2014 Series BB | 2041 - 2042 | 4.0% | 49,180 |
| 2014 Series CC | 2031 - 2038 | 4.0% | 108,395 |
| 2014 Series DD | 2040 | 3.625% | 24,190 |
| Total | | | <u>\$337,120</u> |

The following table summarizes outstanding Electric System Subordinated Revenue Bonds as of December 31, 2016, (in thousands).

| Issue | Maturity Dates | Interest Rates | Amount |
|----------------|-----------------------|-----------------------|------------------|
| 2014 Series AA | 2017 - 2036 | 2.0% - 5.25% | \$155,450 |
| 2014 Series BB | 2041 - 2042 | 4.0% | 49,205 |
| 2014 Series CC | 2031 - 2038 | 4.0% | 108,395 |
| 2014 Series DD | 2040 | 3.625% | 24,230 |
| Total | | | <u>\$337,280</u> |

On February 1, 2017, a principal payment of \$120,000 was made for the Electric System Subordinated Revenue Bonds, which included a \$25,000 put payment on 2014 Series DD Bonds. On August 1, 2017, a principal payment of \$40,000 was made, including a put payment of \$25,000 for the 2014 Series BB Bonds and a put payment of \$15,000 for the 2014 Series DD Bonds. On February 1, 2016, a principal payment of \$95,000 was made for the Electric System Subordinated Revenue Bonds.

At December 31, 2017 and 2016, OPPD had no outstanding defeased Electric System Subordinated Revenue Bonds.

The following table summarizes Electric System Subordinated Revenue Bonds payments (in thousands).

| | Principal | Interest |
|-------------|-------------------|-------------------|
| 2018 | \$ 1,180 | \$ 13,364 |
| 2019 | 1,090 | 13,324 |
| 2020 | 825 | 13,828 |
| 2021 | - | 13,811 |
| 2022 | 2,550 | 13,748 |
| 2023 - 2027 | 31,735 | 65,931 |
| 2028 - 2032 | 55,380 | 55,963 |
| 2033 - 2037 | 154,915 | 35,212 |
| 2038 - 2042 | 89,445 | 10,378 |
| Total | <u>\$ 337,120</u> | <u>\$ 235,559</u> |

Electric Revenue Notes - Commercial Paper Series – The outstanding balance of Commercial Paper was \$150,000,000 as of December 31, 2017 and 2016. The average borrowing rate was 0.9% and 0.5% for the years ended December 31, 2017 and 2016, respectively. A Credit Agreement with Bank of America, N.A., includes a covenant to retain drawing capacity at least equal to the issued and outstanding amount of Commercial Paper Notes. The Credit Agreement will expire on October 1, 2018.

Minibonds – Minibonds consist of current interest-bearing and capital appreciation Minibonds. The Minibonds may be redeemed prior to their maturity dates at the request of a holder, subject to certain conditions as outlined in the Minibond Official Statement. There were no Minibond maturities in 2017 other than redemptions for the annual put option. The principal and interest on these bonds is insured by a municipal bond insurance policy.

The following table summarizes outstanding Minibond balances at December 31 (in thousands).

| Principal | 2017 | 2016 |
|---|-----------------|-----------------|
| 2001 Minibonds, due 2021 | \$22,930 | \$23,055 |
| Accreted interest on capital appreciation Minibonds | 7,343 | 6,761 |
| Total | <u>\$30,273</u> | <u>\$29,816</u> |

Credit Agreement – OPPD has a Credit Agreement with the Bank of America, N.A., for \$250,000,000 that will expire on October 1, 2018. The Credit Agreement includes a financial covenant to retain drawing capacity at least equal to the issued and outstanding amount of Commercial Paper Notes. There were no amounts outstanding under this Credit Agreement as of December 31, 2017 and 2016.

NC2 Separate Electric System Revenue Bonds – Participation Power Agreements were executed with seven public power and municipal utilities for half of the output of NC2. The participants' rights to receive, and obligations to pay costs related to, half of the output is the "Separate System."

Moody's Investors Service and Standard & Poor's Rating Services rated the NC2 Separate Electric System Revenue Bonds as A1 and A+, respectively in both 2017 and 2016.

The following table summarizes outstanding NC2 Separate Electric System Revenue Bonds as of December 31, 2017, (in thousands).

| Issue | Maturity Dates | Interest Rates | Amount |
|---------------|-----------------------|-----------------------|-------------------|
| 2008 Series A | 2018 | 4.45% | \$ 515 |
| 2015 Series A | 2018 - 2046 | 3.0% - 5.25% | 111,015 |
| 2016 Series A | 2018 - 2049 | 3.0% - 5.0% | <u>103,685</u> |
| Total | | | <u>\$ 215,215</u> |

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The following table summarizes outstanding NC2 Separate Electric System Revenue Bonds as of December 31, 2016, (in thousands).

| Issue | Maturity Dates | Interest Rates | Amount |
|---------------|----------------|----------------|-------------------|
| 2006 Series A | 2017 | 3.85% | \$ 1,130 |
| 2008 Series A | 2017 - 2018 | 4.25% - 4.45% | 1,020 |
| 2015 Series A | 2017 - 2046 | 2.0% - 5.25% | 112,625 |
| 2016 Series A | 2018 - 2049 | 3.0% - 5.0% | 103,685 |
| Total | | | <u>\$ 218,460</u> |

On February 1, 2017, a principal payment of \$3,245,000 was made for the NC2 Separate Electric System Revenue Bonds.

OPPD issued \$103,685,000 of NC2 Separate Electric System Revenue Bonds, 2016 Series A on April 13, 2016. These bonds were used to refund a portion of the 2006 Series A Bonds. The refunding reduced total debt service payments over the life of the bonds by \$8,076,000 and resulted in an economic gain of \$9,474,000. A principal payment of \$3,190,000 was made on February 1, 2016, for the NC2 Separate Electric System Revenue Bonds.

The NC2 Separate Electric System Revenue Bonds series 2008 A with outstanding principal in the amount of \$17,245,000 were legally defeased as of December 31, 2017. The NC2 Separate Electric System Revenue Bonds, 2006 Series A and 2008 Series A, with outstanding principal amounts of \$125,190,000 as of December 31, 2016, were legally defeased. Defeased bonds are funded by government securities in irrevocable escrow accounts. Accordingly, the bonds and the related government securities escrow accounts are not included on the Statements of Net Position.

The following table summarizes NC2 Separate Electric System Revenue Bond payments (in thousands).

| | Principal | Interest |
|-------------|-------------------|-------------------|
| 2018 | \$ 3,220 | \$ 10,493 |
| 2019 | 3,350 | 10,354 |
| 2020 | 3,495 | 10,199 |
| 2021 | 3,655 | 10,044 |
| 2022 | 3,815 | 9,869 |
| 2023 - 2027 | 22,105 | 46,213 |
| 2028 - 2032 | 28,200 | 40,005 |
| 2033 - 2037 | 35,310 | 32,769 |
| 2038 - 2042 | 40,670 | 23,320 |
| 2043 - 2047 | 49,595 | 12,050 |
| 2048 - 2049 | 21,800 | 1,046 |
| Total | <u>\$ 215,215</u> | <u>\$ 206,362</u> |

Fair Value Disclosure – The following table summarizes the aggregate carrying amount and fair value of long-term debt, including the current portion and excluding unamortized gain or loss on refunded debt at December 31 (in thousands).

| 2017 | | 2016 | |
|-----------------|-------------|-----------------|-------------|
| Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| \$2,328,091 | \$2,572,559 | \$2,387,146 | \$2,533,075 |

The estimated fair value amounts were determined using rates that are currently available for issuance of debt with similar credit ratings and maturities. As market interest rates decline in relation to the issuer's outstanding debt, the fair value of outstanding debt financial instruments with fixed interest rates and maturities will tend to rise. Conversely, as market interest rates increase, the fair value of outstanding debt financial instruments will tend to decline. Fair value will normally approximate carrying amount as the debt financial instrument nears its maturity date. The use of different market assumptions may have an effect on the estimated fair value amount. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that bondholders could realize in a current market exchange.

6. BENEFIT PLANS FOR EMPLOYEES AND RETIREES

RETIREMENT PLAN AND SUPPLEMENTAL RETIREMENT PLAN

The Company has adopted and implemented the provisions of GASB 73 in 2017, related to the Omaha Public Power District Supplemental Retirement Plan (Non-Qualified Plan). The prior period was not restated as the information was not readily available.

Plan Descriptions and Benefits Provided - The Omaha Public Power District Retirement Plan (Retirement Plan) is a single-employer, defined benefit plan, which provides retirement and death benefits to Plan members and their beneficiaries. The Retirement Plan covers all full-time employees as they are not covered by Social Security. The Retirement Plan was established and may be amended at the direction of OPPD's Board of Directors and is administered by the Company. Ad-hoc cost-of-living adjustments may be provided to retirees and beneficiaries at the discretion of the Board of Directors.

Generally, employees at the normal retirement age of 65 are entitled to annual pension benefits equal to 2.25% of their average compensation (as defined) times years of credited service (as defined) under the Traditional provision (as defined). Employees have the option to retire before the age of 65 if they meet eligibility requirements based on age and years of service. The Retirement Plan was amended as of January 1, 2008, to add a Cash Balance provision (as defined) to allow members the choice between the Traditional and Cash Balance provision for calculating benefits. Under the Cash Balance provision, members can receive the total vested value of their Cash Balance Account at separation from employment with OPPD. Employees were initially allowed to make a one-time irrevocable election to have benefits determined based on the Cash Balance provision instead of the Traditional provision. Effective January 1, 2013, all new employees are only eligible for the Cash Balance provision.

The Non-Qualified Plan is a single-employer, non-qualified defined benefit pension plan. The purpose of this plan is to allow certain current and former employees to retain the benefits to which they would have been entitled under the Retirement Plan, except for federally mandated limits. The benefits are derived from the Retirement Plan formula noted herein less amounts paid from the qualified Retirement Plan. The assets of this plan are held in an irrevocable trust but are not legally protected from creditors. Accordingly, the trust does not meet the criteria for GASB 68. Annuities are purchased in the participant's name at the time of retirement. The Non-Qualified Plan was established and may be amended at the direction of OPPD's Board of Directors and is administered by the Company.

The following table summarizes the membership in the Retirement Plan as of January 1.

| | 2017 | 2016 |
|---|--------------|--------------|
| Retirees and beneficiaries receiving benefits | 2,086 | 1,992 |
| Terminated Retirement Plan members entitled to, but not receiving, benefits | 432 | 382 |
| Active Retirement Plan members* | 1,968 | 2,200 |
| Total | <u>4,486</u> | <u>4,574</u> |

*There were 358 and 341 members with the Cash Balance provision at January 1, 2017 and 2016, respectively.

The following table summarizes the membership in the Non-Qualified Plan as of January 1.

| | 2017 | 2016 |
|---|----------|----------|
| Retirees and beneficiaries who received an annuity | - | - |
| Terminated Retirement Plan members entitled to, but not receiving, benefits | 1 | 1 |
| Active Retirement Plan members | 3 | 3 |
| Total | <u>4</u> | <u>4</u> |

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Contributions - Employees contributed 6.2% of their covered payroll to the Retirement Plan for the years ended December 31, 2017 and 2016. The contribution rate for employees increased to 6.7% on January 1, 2018, and will gradually increase to 9.0% on January 1, 2022. Employee contributions are immediately 100% vested. An employee's deferred retirement allowance is 100% vested after five years of continuous service (as defined). The Company is obligated to contribute the balance of the funds needed on an actuarially determined basis and has met this funding requirement. The annual required contribution (ARC) was fully funded in the amount of \$53,073,000 and \$50,711,000 for the years ended December 31, 2017 and 2016, respectively.

Employees do not contribute to the Non-Qualified Plan. The Company contributes the funds needed on an actuarially determined basis and has met this funding requirement. The ARC was fully funded in the amount of \$1,809,000 and \$1,195,000 for the years ended December 31, 2017 and 2016, respectively. According to GASB 73, assets accumulated for non-qualified pension plan benefit payments are reported in OPPD's financial statements.

Actuarial Assumptions - The total pension liabilities in the January 1, 2017, actuarial valuation were determined using the following actuarial assumptions applied to all periods included in the measurement.

The total pension liabilities must be determined using the Entry Age Normal (Level Percent of Pay) cost method per GASB 68 and 73. Under this actuarial method, an allocation to past service and future service is made by spreading the costs over an employee's career as a level percentage of pay. The actuarial value of the Retirement Plan assets was determined using a method which smooths the effect of short-term volatility in the market value of investments over approximately five years. Ad-hoc cost-of-living adjustments are provided to retirees and beneficiaries of both plans at the discretion of the Board of Directors and are amortized in the year for which the increase is authorized. Except for the liability associated with cost-of-living adjustments, if any, the unfunded actuarial accrued liability was amortized on a level basis (closed group) over 20 years for 2017. The mortality table used for healthy participants was the RP-2014 Aggregate table projected back to 2006 using Scale MP-2014 and projected forward using Scale MP-2015 with generational projection.

The other actuarial assumptions for the valuations of both plans as of January 1, 2017 and 2016, were as follows:

- The average rate of compensation increase varies by age.
- There were no ad-hoc cost-of-living adjustments.
- The average rate of inflation was 3.0%.

The actuarial assumptions are based on a study of the experience of the covered group. The last actuarial experience study was performed during 2016.

Discount Rate - The discount rate used to determine the required funding contributions for the Retirement Plan was 7.0% for both 2017 and 2016. In accordance with the provisions of GASB 68, the discount rate used to measure the total pension liability was 7.0 % for 2017 and 7.75% for 2016. The discount rate is determined using the expected long-term rate of return of each asset class, including inflation and additional yields due to active investment management. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that OPPD contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In accordance with the provisions of GASB 73, OPPD elected to use the Bond Buyer General Obligation 20-Bond Municipal Bond Index as the discount rate used to measure the total pension liability of the Non-Qualified Plan. The discount rate was 3.78% for 2017.

The following table summarizes the Target Allocation and Long-Term Expected Real Rate of Return, presented in geometric means, for each major Asset Class in the Retirement Plan.

| Asset class | Target allocation | Long-term expected Real rate of return* |
|---|--------------------------|--|
| Domestic equity | 28.0% | 5.2% |
| International developed equity | 14.0 | 5.7 |
| Emerging markets equity | 10.0 | 7.2 |
| Domestic fixed income | 23.0 | 2.0 |
| Global fixed income | 7.5 | 1.1 |
| High yield | 3.0 | 4.1 |
| Treasury inflation protected securities | 2.0 | 1.6 |
| Emerging markets debt | 5.0 | 4.4 |
| Private real estate | 7.5 | 4.6 |
| Total | <u>100%</u> | |

*Based on 2017 forward looking capital market assumptions.

Total Pension Liability, Plan Fiduciary Net Position and Net Pension Liability - The total pension liabilities, plan fiduciary net position and net pension liability are determined in accordance with GASB 68 and 73, accordingly. The amounts are based on the results of an actuarial valuation measurement date of January 1, 2017.

The following table shows the Total Pension Liability, Plan Fiduciary Net Position, and Net Pension Liability for the Retirement Plan for the Measurement Period from January 1, 2016, to January 1, 2017, and the changes for the year ended December 31, 2017, (in thousands).

| | Increase (decrease) | | |
|---|--------------------------------|------------------------------------|------------------------------|
| | Total pension liability | Plan fiduciary net position | Net pension liability |
| | (a) | (b) | (c) |
| Balanced recognized at 12/31/2016 | \$ 1,356,666 | \$ 869,489 | \$ 487,177 |
| (Based on 1/1/2016 measurement date) | | | |
| Changes recognized for the fiscal year: | | | |
| Service cost | 23,406 | | 23,406 |
| Interest on total pension liability | 103,695 | | 103,695 |
| Changes in benefit terms | - | | - |
| Difference between expected and actual experience | 4,667 | | 4,667 |
| Changes of assumptions | 42,537 | | 42,537 |
| Contributions from employer | | 50,711 | (50,711) |
| Contributions from employee | | 11,957 | (11,957) |
| Net investment income | | 58,549 | (58,549) |
| Benefit payments, including refunds of employee contributions | (85,752) | (85,752) | |
| Administrative expense | | (134) | 134 |
| Net changes | <u>88,553</u> | <u>35,331</u> | <u>53,222</u> |
| Balanced recognized at 12/31/2017 | <u>\$ 1,445,219</u> | <u>\$ 904,820</u> | <u>\$ 540,399</u> |
| (Based on 1/1/2017 measurement date) | | | |

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| | 2017 | 2016 |
|--|-----------|-----------|
| Plan fiduciary net position as a percentage of the total pension liability | 62.61% | 64.09% |
| Actuarially determined contributions | \$ 53,073 | \$ 50,711 |

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued Retirement Plan financial report and can be reviewed by contacting the Pension Administrator at Corporate Headquarters.

The following table shows the Total Pension Liability for the Non-Qualified Plan for the Measurement Period from January 1, 2016, to January 1, 2017, and the changes for the year ended December 31, 2017, (in thousands).

| | Increase (Decrease) |
|---|----------------------------|
| Total Pension Liability | |
| Balance recognized at 12/31/2016 | \$ 5,857 |
| (Based on 1/1/2016 measurement date) | |
| Changes recognized for the fiscal year: | |
| Service cost | 252 |
| Interest on total pension liability | 211 |
| Changes in benefit terms | - |
| Difference between expected and actual experience | 765 |
| Changes in assumptions | 461 |
| Administrative expense | - |
| Net Changes | <u>1,689</u> |
| Balance recognized at 12/31/2017 | \$ 7,546 |
| (Based on 1/1/2017 measurement date) | |

Pension Liability – The following table shows the Pension Liability as reported on the Statements of Net Position for the years ended December 31 (in thousands).

| | 2017 | 2016 |
|---------------------------|-------------------|-------------------|
| Retirement Plan | | |
| Total pension liability | \$ 1,445,219 | \$ 1,356,666 |
| Net position | <u>904,820</u> | <u>869,489</u> |
| Net pension liability | 540,399 | 487,177 |
| Non-Qualified Plan | | |
| Total pension liability | <u>7,546</u> | - |
| Pension Liability | \$ 547,945 | \$ 487,177 |

Sensitivity – The following table illustrates the impact of interest rate sensitivity on the Total Pension Liability and Net Pension Liability for the year ended December 31, 2017, (in thousands). The information provided below is calculated based on the applicable governmental accounting standards, which require the presentation of the discount rate at the rate in effect as of the measurement date (1/1/2017).

| | 1% Decrease | Discount Rate | 1% Increase |
|-----------------------------|--------------------|----------------------|--------------------|
| | 6.0% | 7.0% | 8.0% |
| Retirement Plan | | | |
| Total pension liability | \$ 1,610,326 | \$ 1,445,219 | \$ 1,306,588 |
| Plan fiduciary net position | <u>904,820</u> | <u>904,820</u> | <u>904,820</u> |
| Net pension liability | <u>\$ 705,506</u> | <u>\$ 540,399</u> | <u>\$ 401,768</u> |
| Non-Qualified Plan | | | |
| Total pension liability | <u>\$ 8,702</u> | <u>\$ 7,546</u> | <u>\$ 6,600</u> |

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended December 31, 2017, OPPD recognized pension expense of \$53,073,000 and non-qualified pension expense of \$1,809,000.

The following table summarizes the reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources for the year ended December 31, 2017 (in thousands).

| | Deferred Outflows | Deferred Inflows |
|---|------------------------------|-----------------------------|
| Retirement Plan | | |
| Difference between actual and expected experience | \$ 4,850 | \$ 2,810 |
| Changes of assumptions | 60,714 | - |
| Net differences between expected and actual earnings on pension plan investment | 69,190 | - |
| Contribution made in fiscal year ending December 31, 2017 | 53,073 | - |
| Total | <u>\$ 187,827</u> | <u>\$ 2,810</u> |
| Non-Qualified Plan | | |
| Difference between actual and expected experience | \$ 371 | \$ - |
| Changes of assumptions | 223 | - |
| Benefits paid in fiscal year ending December 31, 2017 | 3,852 | - |
| Total | <u>\$ 4,446</u> | <u>\$ -</u> |
| Total deferred outflows/inflows of resources | <u>\$ 192,273</u> | <u>\$ 2,810</u> |

The Company reported \$53,073,000 as deferred outflows of resources related to pensions resulting from the contributions made to the Retirement Plan subsequent to the measurement date. The Company also reported \$3,852,000 as deferred outflows of resources related to pensions for benefits paid from the Non-Qualified Plan subsequent to the measurement date. These amounts will be recognized as pension expense in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense or as a reduction of the Pension Liability as follows (in thousands):

| Year | Qualified Plan | Non-Qualified Plan |
|-------------|---------------------------|-------------------------------|
| 2018 | \$ 45,198 | \$ 594 |
| 2019 | 45,198 | - |
| 2020 | 37,235 | - |
| 2021 | 4,313 | - |
| 2022 | - | - |
| Thereafter | - | - |

Additional information is available in the Required Supplementary Information section following the notes.

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DEFINED CONTRIBUTION RETIREMENT SAVINGS PLAN – 401(k)/457

OPPD sponsors a Defined Contribution Retirement Savings Plan – 401(k) (401k Plan) and a Defined Contribution Retirement Savings Plan – 457 (457 Plan). Both the 401k Plan and 457 Plan cover all full-time employees and allow contributions by employees that are partially matched by the Company. The Defined Contribution plans were established and may be amended at the direction of OPPD's Board of Directors and is administered by the Company. The 401k Plan's and 457 Plan's assets and income are held in an external trust account in each employee's name. The matching share of contributions was \$5,400,000 and \$5,989,000 for the years ended December 31, 2017 and 2016, respectively. The employer maximum annual match on employee contributions was \$3,500 per employee for the years ended December 31, 2017 and 2016. Beginning in 2018, the employer maximum annual match will increase to \$4,000 per employee.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

There are two separate plans for Other Postemployment Benefits (OPEB). OPEB Plan A provides postemployment health care and life insurance benefits to qualifying members. OPEB Plan B provides postemployment health care premium coverage for the Company's share to qualifying members who were hired after December 31, 2007. The OPEB Plans were established and may be amended at the direction of OPPD's Board of Directors and is administered by the Company.

Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

OPEB Plan A

Plan Description – OPEB Plan A (Plan A) provides postemployment health care benefits to retirees, surviving spouses, and employees on long-term disability and their dependents and life insurance benefits to retirees and employees on long-term disability. Health care benefits are based on the coverage elected by Plan A members. When members are retired and eligible for Medicare benefits, coverage moves from OPPD's Medical Plans to OPPD's Group Medicare Supplement and Part D Plans. As of January 1, 2017, 1,956 of the 3,924 total members were receiving benefits.

Funded Status and Funding Progress – Plan A members are required to pay a monthly premium based on the elected coverage and the respective premium cost share. The Company contributes the balance of the funds needed on an actuarially determined basis.

The Actuarial Accrued Liability (AAL) is the present value of benefits attributable to past accounting periods.

The following table summarizes AAL and other OPEB Plan A information based on the actuarial valuation as of January 1 (in thousands).

| | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Accrued Liability (UAL) | Funded Ratio | Covered Payroll | UAL Percentage of Covered Payroll |
|------|------------------------------|--------------------------------------|--|--------------|-----------------|---|
| | (a) | (b) | (b-a) | (a/b) | (c) | ((b-a)/c) |
| 2017 | \$135,826 | \$405,999 | \$270,173 | 33.5% | \$187,605 | 144.0% |
| 2016 | \$125,241 | \$389,489 | \$264,248 | 32.2% | \$200,905 | 131.5% |
| 2015 | \$114,122 | \$372,894 | \$258,772 | 30.6% | \$196,344 | 131.8% |

Annual OPEB Cost and Actuarial Assumptions – The annual OPEB cost and ARC for OPEB Plan A was \$22,568,000, \$21,842,000 and \$23,228,000 for the years ended December 31, 2017, 2016 and 2015, respectively. The increase in 2017 was due to higher trending health care costs. The decrease in 2016 was due to changes in assumptions. Accounting standards require recognition of an OPEB liability on the Statements of Net Position for the amount of any unfunded ARC. Since the entire ARC was funded, there was no net OPEB obligation as of December 31, 2017, 2016 and 2015. Contributions by Plan A members were \$4,141,000, \$3,709,000 and \$3,439,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

The actuarial assumptions and methods used for the valuations on January 1, 2017, 2016 and 2015, were as follows:

- The pre-Medicare health care trend rates ranged from 7.4% immediate to 4.5% ultimate in 2017, from 7.5% immediate to 4.5% ultimate in 2016, from 7.25% immediate to 5.0% ultimate in 2015.

- The post-Medicare health care trend rates ranged from 8.6% immediate to 4.5% ultimate in 2017, 8.4% immediate to 4.5% ultimate in 2016, and from 6.5% immediate to 5.0% ultimate in 2015.
- The investment return (discount rate) used was 7.0% in 2017 and 2016 and 7.5% in 2015, which was based on OPPD's expected long-term return on assets used to finance the payment of plan benefits.
- The average rate of compensation increase used varies by age.
- The actuarial cost method used was the Projected Unit Credit.
- Amortization for the initial unfunded AAL and OPEB Plan changes was determined using a period of 30 years and the increasing method at a rate of 3.0% per year.
- Amortization for all changes (including gains/losses, assumption and plan provisions) after the initial year were determined using a closed period of 15 years and the level-dollar method.
- The mortality table used for healthy participants was the RP-2014 Aggregate table projected back to 2006 using Scale MP-2014 and projected forward using Scale MP-2016 with generational projection for 2017, the RP-2014 Aggregate table projected back to 2006 using Scale MP-2014 and projected forward using Scale MP-2015 with generational projection for 2016, and the RP-2014 Aggregate table with generational projection using Scale MP-2014 for 2015.

OPEB Plan B

Plan Description – OPEB Plan B (Plan B) provides postemployment health care premium coverage for the Company's share for retirees and surviving spouses and their dependents to qualifying members who were hired after December 31, 2007. Benefits are based on the coverage elected by the Plan B members and the balance in the member's hypothetical account, which is a bookkeeping account. The hypothetical accounts are credited with \$10,000 upon commencement of full-time employment, \$1,000 annually on the member's anniversary date and interest income at 5.0% annually. Plan B benefits are for the payment of OPPD's share of the members' health care premiums. Plan benefits will continue until the member and eligible spouse cease to be covered under the Company's medical plan, the member's hypothetical account is depleted or Plan B terminates, whichever occurs first. Benefits are forfeited for any member who fails to retire or who retires but does not immediately commence payments. As of January 1, 2017, only one of the 725 Plan B members was receiving benefits.

Funded Status and Funding Progress – Funds are contributed, as needed, on an actuarially determined basis. Members do not contribute to Plan B.

The following table summarizes AAL and other OPEB Plan B information based on the actuarial valuations as of January 1 (in thousands).

| | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Overfunded Accrued Liability (OAL) | Funded Ratio | Covered Payroll | OAL Percentage of Covered Payroll |
|------|------------------------------|--------------------------------------|--|--------------|-----------------|---|
| | (a) | (b) | (a-b) | (a/b) | (c) | ((a-b)/c) |
| 2017 | \$3,735 | \$2,153 | \$1,582 | 173.5% | \$60,619 | 2.6% |
| 2016 | \$3,614 | \$1,544 | \$2,070 | 234.1% | \$61,761 | 3.4% |
| 2015 | \$3,670 | \$2,244 | \$1,426 | 163.5% | \$63,914 | 2.2% |

Annual OPEB Cost and Actuarial Assumptions – The OPEB Plan B ARC was \$123,000, \$29,000, and \$297,000 for the years ended December 31, 2017, 2016 and 2015, respectively. The annual OPEB cost was \$224,000, \$127,000, and \$402,000 for the years ended December 31, 2017, 2016 and 2015, respectively. There was an OPEB net asset of \$515,000, \$740,000, and \$867,000 as of December 31, 2017, 2016 and 2015, respectively. Company contributions were \$0 for the years ended December 31, 2017, 2016 and 2015.

The actuarial assumptions and methods used for the valuations on January 1, 2017, 2016 and 2015 were as follows:

- The investment return (discount rate) used was 5.25% in 2017 and 2016, and 5.5% in 2015, which was based on OPPD's expected long-term return on assets used to finance the payment of plan benefits.
- The actuarial cost method used was Projected Unit Credit.
- Amortization for gains/losses was determined using a closed period of 15 years and the level-dollar method.

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- The mortality table for healthy participants was the RP-2014 Aggregate table projected back to 2006 using Scale MP-2014 and projected forward using Scale MP-2016 with generational projection for 2017, the RP-2014 Aggregate table projected back to 2006 using Scale MP-2014 and projected forward using Scale MP-2015 with generational projection for 2016, and the RP-2014 Aggregate table with generational projection using Scale MP-2014 for 2015.

SELF-INSURANCE HEALTH PROGRAM

Employee health care and life insurance benefits are provided to substantially all employees. There were 1,691 and 1,824 employees with medical coverage as of December 31, 2017 and 2016, respectively. An Administrative Services Only (ASO) Health Insurance Program is used to account for the health insurance claims. With respect to the ASO program, reserves sufficient to satisfy both statutory and OPPD-directed requirements have been established to provide risk protection in the Segregated Fund – Other (Note 3). Additionally, private insurance has been purchased to cover claims in excess of 125% of expected aggregate levels and \$450,000 per member.

Health care expenses for employees were \$28,980,000 and \$27,315,000 for the years ended December 31, 2017 and 2016, respectively.

The total cost of life and long-term disability insurance for full-time employees was \$1,416,000 and \$1,550,000 for the years ended December 31, 2017 and 2016, respectively.

The balance of the Incurred but Not Presented Reserve was \$3,057,000 and \$3,483,000 as of December 31, 2017 and 2016, respectively (Note 2).

Audited financial statements for the Defined Contribution Retirement Savings Plans and OPEB Plans may be reviewed by contacting the Pension Administrator at Corporate Headquarters.

7. ADDITIONS TO AND UTILIZATIONS OF RESERVES

The Rate Stabilization Reserve was increased by \$8,000,000 and \$26,000,000 for the years ended December 31, 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 Decommissioning and Benefits Reserve was increased by \$34,500,000 and \$0 for the years ended December 31, 2017 and 2016, respectively. The balance of the reserve was \$34,500,000 and \$0 as of December 31, 2017 and 2016, respectively.

8. DERIVATIVES AND FINANCIAL INSTRUMENTS

Auction Revenue Rights (ARRs) – ARRs are financial instruments that entitle the owner to a share of the revenues generated in the applicable Transmission Congestion Rights (TCR) auctions. ARRs are allocated during annual and/or incremental monthly auctions and have the option of being converted into a TCR. OPPD is entitled to these financial payments as a substitute for firm (physical) transmission service. ARRs are accounted for at cost as they are not readily convertible to cash and therefore do not meet the definition of a derivative. The balance of ARRs, reported in current liabilities – other, was \$2,779,000 and \$1,236,000 as of December 31, 2017 and 2016, respectively (Note 2).

Transmission Congestion Rights – TCRs are financial instruments that entitle the holder to an offset to congestion charges on the transmission grid that take place in the day-ahead market. The Company utilizes TCRs to hedge against congestion differentials between OPPD generators and OPPD load in the SPP Integrated Marketplace (IM).

TCRs qualify for the normal purchases and sales exception under GASB guidance and are reported on a cost basis on the Statements of Net Position. The total notional amount of TCRs outstanding as of December 31, 2017, was 4,962,614 megawatt-hours. The balance of TCRs reported in other current assets was \$529,000 and \$19,000 as of December 31, 2017 and 2016, respectively (Note 2).

9. REGIONAL TRANSMISSION ORGANIZATION

OPPD became a transmission-owning member of SPP, and all of the Company's transmission facilities were placed under the SPP open access transmission tariff (OATT), on April 1, 2009. 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 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. The Elkhorn River Valley Transmission Project 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.

10. OTHER – NET

The following table summarizes the composition of Other – Net for the years ended December 31 (in thousands).

| | 2017 | 2016 |
|--|-----------------|----------------|
| Grants from FEMA | \$ 6,461 | \$ 245 |
| Interest subsidies from the federal government | 2,169 | 2,040 |
| Insurance recoveries | 1,062 | - |
| Other | 1,121 | (56) |
| Total | <u>\$10,813</u> | <u>\$2,229</u> |

11. RISK MITIGATION AND RECOVERIES

OPPD is exposed to various risks of loss related to general liability and property damage. The company procures property and liability insurance, subject to certain limits and deductibles, to reduce the adverse effect on its financial position or operational capabilities from claims caused by such matters. In 2017, OPPD purchased cyber liability insurance to mitigate the risk of loss due to a cyber occurrence. There have been no significant changes to the Company's insurance portfolio. Claims have not exceeded the limits of property or liability insurance in any of the three preceding years.

The following table summarizes the total claims liability, comprising claims received and medical claims, incurred but not presented, at December 31, 2017, 2016 and 2015 (in thousands).

| | 2017 | 2016 | 2015 |
|-------------------------------|-----------------|-----------------|-----------------|
| IBNP reserve | \$ 3,057 | \$ 3,483 | \$ 3,574 |
| Workers' compensation reserve | 5,384 | 1,399 | 1,545 |
| Public liability reserve | 420 | 308 | 121 |
| Total | <u>\$ 8,861</u> | <u>\$ 5,190</u> | <u>\$ 5,240</u> |

The following table summarizes the changes in the total claims liability during 2017, 2016 and 2015 (in thousands).

| | 2017 | 2016 | 2015 |
|-------------------------------------|-----------------|-----------------|-----------------|
| Claims liability, beginning of year | \$ 5,190 | \$ 5,240 | \$ 4,569 |
| Payments on claims | (2,406) | (2,046) | (2,001) |
| Provision for claims | 6,077 | 1,996 | 2,672 |
| Claims liability, end of year | <u>\$ 8,861</u> | <u>\$ 5,190</u> | <u>\$ 5,240</u> |

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OPPD is eligible for disaster assistance from the Federal Emergency Management Agency (FEMA) when a disaster is declared for damage in the Company's service area. FEMA declared disasters for storms during 2017, 2015 and 2014. The receivable for those disasters was \$8,526,000 and \$2,579,000 at December 31, 2017 and 2016, respectively.

The Company was entitled to insurance recoveries in connection with a turbine outage at NC2. The outage began in November 2014 and continued until March 2015. The Company filed a damage claim with its insurance carrier and proceeds were received in 2017. The turbine was replaced in April 2017 during a planned outage. The Company had an outstanding receivable of \$0 and \$3,281,000 at December 31, 2017 and 2016, respectively.

12. FORT CALHOUN STATION

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

As a result of the Board decision to cease operations, the FCS assets were impaired as of June 30, 2016. The write-offs of FCS-related assets and the related contract termination fees were \$959,575,000 for the year ended December 31, 2016. The write-off was recorded to the Special Item on the Statements of Revenues, Expenses and Changes in Net Position.

A portion of the nuclear fuel inventory was not included in the 2016 impairment amount as it was anticipated to be sold in 2017. In 2016, it was reclassified as Nuclear Fuel Held for Sale and reported at fair value in Current Assets on the Statements of Net Position. The nuclear fuel inventory was sold in October 2017 for \$15,200,000 and resulted in additional write-off to the Special Item for \$1,972,000.

The following table summarizes the write-offs associated with the Special Item as of December 31 (in thousands).

| | 2017 | 2016 |
|----------------------------|------------------------|--------------------------|
| Nuclear fuel held for sale | \$ 1,972 | \$ - |
| Net electric plant | - | 728,674 |
| Regulatory assets | - | 79,793 |
| Net nuclear fuel | - | 70,419 |
| Materials and supplies | - | 64,597 |
| Contract termination fees | - | 15,216 |
| Other | - | 876 |
| Total | <u>\$ 1,972</u> | <u>\$ 959,575</u> |

A portion of the materials and supplies inventory was not included in the impairment as it is anticipated to be used or sold. As a result, it was reported at fair value in Current Assets on the Statements of Net Position. The balance was \$3,748,000 as of December 31, 2017 and 2016.

The FCS regulatory asset for recovery costs incurred in 2012 and 2013 were deferred as a regulatory asset based on Board approval. The deferral of the costs related to recovery was not included in the impairment, but will continue to be amortized (and collected through retail rates) through 2023, as these costs benefit current and future ratepayers.

FCS will utilize the SAFSTOR method of decommissioning, as described by the NRC, which allows a period of up to 60 years to fully decommission the facility. The total estimated cost in current year dollars to decommission FCS using the SAFSTOR methodology was \$1,241,032,000 and \$1,348,897,000 as of December 31, 2017 and 2016, respectively. The estimated cost to decommission the station in current year dollars for the NRC-required obligations was \$1,175,333,000 and \$1,249,597,000 as of December 31, 2017 and 2016, respectively. This included \$89,665,000 in Current Liabilities and \$1,085,668,000 in Other Liabilities as of December 31, 2017, and

\$124,685,000 in Current Liabilities and \$1,124,912,000 in Other Liabilities as of December 31, 2016, on the Statements of Net Position. The estimated costs were based on a third-party, site-specific cost study.

The major assumptions used in the cost estimate as the basis for the decommissioning liability for December 31, 2017 and 2016, were as follows:

- Costs are provided in current year dollars.
- Personnel costs are based on a single average salary for security and non-security staff, adjusted for headcount reductions.
- Site facilities are based on a 2013 analysis and updated to include a new security building.
- Overhead costs for site and corporate support.
- Recurring non-labor costs are derived from the 2018 site budget and adjusted for near-term or one-time costs.
- Design conditions are related to the vessel, internal components, control element assemblies, containment building structure and other miscellaneous equipment and material.

A regulatory asset was approved to match the recovery of decommissioning expenses with the decommissioning funding amounts collected through retail rates. The balance of the regulatory asset was \$690,068,000 and \$864,093,000 as of December 31, 2017 and 2016, respectively. This included \$156,000,000 in Current Assets and \$534,068,000 in Other Long-Term Assets as of December 31, 2017, and \$147,000,000 in Current Assets and \$717,093,000 in Other Long-Term Assets as of December 31, 2016, on the Statements of Net Position. In 2017, a long-term asset of \$65,546,000 was recorded for the estimated recovery from the DOE for costs related to spent fuel management activities. The DOE recovery amount was based on the low-end range of the potential reimbursement in accordance with accounting standards. The balance of the decommissioning trust assets was \$421,257,000 and \$382,134,000 as of December 31, 2017 and 2016, respectively, and includes interest receivables of \$874,000 and \$536,000 as of December 31, 2017 and 2016, respectively.

As a result of the Board decision to cease operations at FCS, the Company incurred costs to terminate contracts with vendors and recorded these costs as part of the Special Item in 2016. Nuclear fuel contract termination fees of \$0 and \$9,450,000 were paid for the years ended December 31, 2017 and 2016, respectively. The cancellation of the Operating Services Agreement with Exelon required OPPD to make a payment of \$5,000,000 to terminate the agreement. The \$5,000,000 was written off to the Special Item in 2016 as part of the decision to cease operations and was paid in February 2017. Other vendor contracts were also terminated as a result of this decision, and these termination costs were included in the write-off noted above.

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.

Employees located at FCS or other locations, and terminated as a result of the decision to cease operations, are eligible for an employee severance package. The package includes a lump-sum payment to eligible employees with a base of 12 weeks of pay based on current salary, plus an additional week of pay for each year of service up to a maximum of 52 weeks. Employees enrolled in the Company's medical benefit plans are also eligible for a lump-sum payment of medical, dental and vision insurance coverage costs based on the number of weeks used in the severance calculation (as noted above). Retiring employees are only eligible for payment related to dental coverage. Employees received severance payments totaling \$2,508,000 and \$3,220,000 in 2017 and 2016, respectively. The number of employees who received these payments was 32 and 57 in 2017 and 2016, respectively.

Severance costs are accrued as the benefits are earned and recognized ratably over the future service period. Future severance costs beyond December 31, 2017, are estimated to be paid to approximately 311 employees in various waves of reductions through 2022. Severance costs of \$4,232,000 and \$7,708,000 were recorded as of December 31, 2017 and 2016, respectively.

In 2016, OPPD established a Key Employee Performance Plan (KEPP) to help ensure that key positions remained staffed for continued safe operations. As part of the KEPP, certain key positions at FCS are eligible for a performance incentive. Performance incentives are paid to employees based on attainment of certain milestone dates which extend to 2019. In 2017, 133 employees received performance incentive payments totaling \$6,696,000. In 2016, 82 employees received performance incentive payments totaling \$1,775,000. Future performance incentive costs beyond December 31, 2017, are estimated to be paid to approximately 85 employees. Performance incentive costs of \$7,024,000 and \$3,196,000 were recorded as of December 31, 2017 and 2016, respectively.

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as of and for the Years Ended December 31, 2017 and 2016

13. COMMITMENTS AND CONTINGENCIES

Commitments for the uncompleted portion of construction contracts were approximately \$39,714,000 at December 31, 2017.

Power sales commitments that extend through 2027 were \$31,800,000 as of December 31, 2017. Power purchase commitments, including capacity contracts, that extend through 2022 were \$35,465,000 as of December 31, 2017. These amounts do not include the Participation Power Agreements (PPAs) for OPPD's commitments for wind energy purchases or NC2, which are separately disclosed below.

The following table summarizes OPPD's commitments for wind purchase agreements as of December 31, 2017.

| | Total Capacity (in MW) | OPPD Share (in MW) | Commitment Through | Amount (in thousands) |
|-----------------|-----------------------------------|-------------------------------|-------------------------------|----------------------------------|
| Ainsworth* | 59.4 | 10.0 | 2025 | \$ 16,186 |
| Elkhorn Ridge** | 80.0 | 25.0 | 2029 | 11,323 |
| Total | <u>139.4</u> | <u>35.0</u> | | <u>\$ 27,509</u> |

* This PPA is on a "take-or-pay" basis and the Company is obligated to make payments for purchased power even if the power is not available, delivered or taken by OPPD. In addition, the Company is obligated, through a step-up provision, to pay a share of any deficit in funds resulting from a default at the Ainsworth facility. Included in this amount is OPPD's expected share of decommissioning costs.

**This PPA is on a "take-and-pay" basis and requires payments when the power is made available to OPPD. The commitment amount includes monthly fixed demand charges.

There are no commitments for Crofton Bluffs, Broken Bow I and II, Flat Water, Petersburg, Prairie Breeze and Grande Prairie.

There are 40-year PPAs with seven public power and municipal utilities (the Participants) for the sale of half of the net capacity of NC2. The Participants have agreed to purchase their respective shares of the output on a "take-or-pay" basis even if the power is not available, delivered to or taken by the Participants. The Participants are subject to a step-up provision, whereby in the event of a Participant default, the remaining Participants are obligated to pay a share of any deficit in funds resulting from the default. There is an NC2 Transmission Facilities Cost Agreement with the Participants that addresses the cost allocation, payment and cost recovery for delivery of their respective power.

OPPD has coal supply contracts that extend through 2020 with minimum future payments of \$135,713,000 at December 31, 2017. The Company also has coal-transportation contracts that extend through 2020, with minimum future payments of \$253,025,000 as of December 31, 2017. These contracts are subject to price adjustments.

Under the provisions of the Price-Anderson Act as of December 31, 2017, OPPD and all other licensed nuclear power plant operators could each be assessed for claims and legal costs in the event of a nuclear incident in amounts not to exceed a total of \$127,318,000 per reactor, per incident, with a maximum of \$18,963,000 per incident in any one calendar year. These amounts are subject to adjustment every five years in accordance with the Consumer Price Index.

OPPD has received and responded to requests for information from the Environmental Protection Agency (EPA) relating to compliance with the Clean Air Act at the North Omaha and Nebraska City Station Unit 1 (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, which could be 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.

The Company is engaged in routine litigation incidental to the conduct of its business and, in the opinion of Management, based upon the advice of General Counsel, the aggregate amounts recoverable or payable, taking into account amounts provided in the financial statements, are not significant.

14. STATEMENT OF CASH FLOWS CORRECTIONS AND RECLASSIFICATIONS

The Company conducted a comprehensive review of the Statements of Cash Flows in 2017. As a result, certain amounts in the 2016 Statement of Cash Flows have been corrected or reclassified to conform to the 2017 presentation in accordance with GASB Codification Section 2450: *Cash Flow Statements*. These corrections and reclassifications had no effect on cash and cash equivalents, the Company's Statements of Net Position, the Company's Statements of Revenues, Expenses and Changes in Net Position, or the Company's Notes to Financial Statements.

The following table summarizes the corrections and reclassifications on each of the affected Statement of Cash Flows line items for the year ended December 31, 2016 (in thousands).

| | AS ORIGINALLY REPORTED | ADJUSTMENTS | AS CURRENTLY REPORTED |
|---|---------------------------|-----------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from retail customers | \$ 984,598 | \$ (11,612) D | \$ 972,986 |
| Cash received from other sources | - | 5,643 D | 5,643 |
| Cash paid to operations and maintenance suppliers | (542,825) | 80,154 A,D | (462,671) |
| Cash paid to employees | (155,644) | (14) E | (155,658) |
| Cash paid to pension and OPEB obligations | - | (73,751) A | (73,751) |
| Net cash provided from operating activities | 301,851 | 420 | 302,271 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Proceeds from federal and state agencies | \$ - | \$ 4,828 C | \$ 4,828 |
| Net cash provided from noncapital financing activities | - | 4,828 | 4,828 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Proceeds from long-term borrowings | \$ 343,220 | \$ (337,460) B | \$ 5,760 |
| Principal reduction of debt | (350,057) | 303,580 B | (46,477) |
| Interest paid on debt | (132,127) | 35,644 B,C | (96,483) |
| Acquisition and construction of capital assets | (145,451) | (4,196) D | (149,647) |
| Proceeds from NC2 participants | 10,400 | (10,400) D | - |
| Contributions in aid of construction and other reimbursements | 19,973 | 9,347 C,D | 29,320 |
| Acquisition of nuclear fuel | (17,178) | 1 E | (17,177) |
| Net cash used for capital and related financing activities | (271,220) | (3,484) | (274,704) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of investments | \$(1,245,734) | \$ 1 E | \$(1,245,733) |
| Maturities and sales of investments | 1,217,839 | (1,765) B | 1,216,074 |
| Net cash used for investing activities | (24,829) | (1,764) | (26,593) |

| | AS ORIGINALLY REPORTED | ADJUSTMENTS | AS CURRENTLY REPORTED |
|--|-----------------------------------|--------------------|----------------------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES | | | |
| Accounts receivable | \$ (33,233) | \$ 4,269 E | \$ (28,964) |
| Regulatory assets | - | 25,579 E | 25,579 |
| Regulatory assets – FPPA | 6,115 | (6,115) E | - |
| Regulatory assets – FCS decommissioning | (4,985) | 4,985 E | - |
| Regulatory assets – FCS recovery costs | 12,363 | (12,363) E | - |
| Regulatory assets – FCS outage costs | 12,087 | (12,087) E | - |
| Other | 24,359 | (3,848) D,E | 20,511 |
| Net cash provided from operating activities | 301,851 | 420 | 302,271 |

NONCASH CAPITAL, FINANCING AND INVESTING ACTIVITIES

| | | | |
|---|------|---------------------|------------|
| Bond proceeds transferred directly to irrevocable trust to defease outstanding bonds | \$ - | \$ 336,699 B | \$ 336,699 |
| Net amortization of debt related expenses, premiums and discounts | - | 8,209 C | 8,209 |
| Allowances for funds used during construction | - | 7,380 C | 7,380 |
| Unrealized gains/(losses) on investments | - | (118) C | (118) |

Explanation of Adjustments:

- A** - Amount was reclassified to separately present cash outlays for pension and OPEB obligations consistent with current year presentation.
- B** - Line item was added or adjusted to correct the presentation in accordance with the requirements of GASB Codification 2450 for noncash capital, financing and investing activities, which requires bond proceeds from the issuance of new bonds in connection with the defeasance of existing bonds be presented within the Noncash Capital, Financing and Investing Activities section as one line item. These corrections are not material to the Statement of Cash Flows.
- C** - Line item was added or adjusted to correct the presentation in accordance with the requirements of GASB Codification 2450 for noncapital financing activities and noncash capital, financing and investing activities. These corrections are not material to the Statement of Cash Flows.
- D** - Line item was added or adjusted to correct the presentation in accordance with the requirements of GASB codification 2450. These corrections are not material to the Statement of Cash Flows.
- E** - Reclassification was made to conform to the 2017 presentation.

15. SUBSEQUENT EVENTS

Management evaluated subsequent events through the date the financial statements were available to be issued and did not identify any subsequent events that would require recognition or disclosure as of and for the year ended December 31, 2017.

Required Supplementary Information

Schedule of Changes in Total Pension Liability, Net Pension Liability and Related Ratios

The following schedules show the history of changes in Total Pension Liability and Net Pension Liability as of December 31, using a January 1 measurement date (in thousands).

| Retirement Plan | 2017 | 2016 | 2015 |
|--|----------------------------|----------------------------|----------------------------|
| Total Pension Liability | | | |
| Service cost | \$ 23,406 | \$ 23,224 | \$ 22,492 |
| Interest on total pension liability | 103,695 | 100,285 | 93,643 |
| Changes of benefit terms | - | 1,268 | - |
| Difference between expected and actual experience | 4,667 | 2,593 | (5,328) |
| Changes of assumptions | 42,537 | - | 54,712 |
| Benefit payments, including refunds of employee contributions | (85,752) | (81,441) | (79,681) |
| Net change in total pension liability | 88,553 | 45,929 | 85,838 |
| Total pension liability (beginning) | 1,356,666 | 1,310,737 | 1,224,899 |
| Total pension liability (ending) (a) | <u>\$ 1,445,219</u> | <u>\$ 1,356,666</u> | <u>\$ 1,310,737</u> |
| Plan Fiduciary Net Position | | | |
| Contributions from employer | \$ 50,711 | \$ 46,568 | \$ 53,008 |
| Contributions from employee | 11,957 | 12,375 | 11,720 |
| Net investment income | 58,549 | (11,465) | 32,020 |
| Benefit payments, including refunds of employee contributions | (85,752) | (81,441) | (79,681) |
| Administrative expense | (134) | (111) | (193) |
| Net change in plan fiduciary net position | 35,331 | (34,074) | 16,874 |
| Plan fiduciary net position (beginning) | 869,489 | 903,563 | 886,689 |
| Plan fiduciary net position (ending) (b) | <u>\$ 904,820</u> | <u>\$ 869,489</u> | <u>\$ 903,563</u> |
| Net pension liability (ending) (a)-(b) | <u>\$ 540,399</u> | <u>\$ 487,177</u> | <u>\$ 407,174</u> |
| Plan fiduciary net position as a percentage of total pension liability | 62.61% | 64.09% | 68.94% |
| Covered-employee payroll | \$ 187,605 | \$ 200,905 | \$ 196,344 |
| Net pension liability as a percentage of covered-employee payroll | 288.05% | 242.49% | 207.38% |
| Non-Qualified Plan | | | |
| Total Pension Liability | | | |
| | 2017 | | |
| Service cost | \$ 252 | | |
| Interest on total pension liability | 211 | | |
| Changes of benefit terms | - | | |
| Difference between expected and actual experience | 765 | | |
| Changes of assumptions | 461 | | |
| Benefits payments | - | | |
| Net change in total pension liability | 1,689 | | |
| Total pension liability (beginning) | 5,857 | | |
| Total pension liability (ending) | <u>\$ 7,546</u> | | |
| Covered-employee payroll | \$ 1,305 | | |
| Total pension liability as a percentage of covered-employee payroll | 578.24% | | |

Schedule is intended to show information for 10 years. Additional years will be displayed when available.

See notes to required supplementary information

Required Supplementary Information

Schedule of Contributions

The following table shows the history of Contributions for the Retirement Plan as of December 31, using a January 1 measurement date (in thousands).

| | 2017 | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|-------------|
| Actuarially determined contribution | \$ 53,073 | \$ 50,711 | \$ 46,568 | \$ 53,008 |
| Contribution made in relation to the actuarially determined contribution | 53,073 | 50,711 | 46,568 | 53,008 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered-employee payroll | \$ 187,605 | \$ 200,905 | \$ 196,344 | \$ 194,100 |
| Contributions as a percentage of payroll | 28.29% | 25.24% | 23.72% | 27.31% |

Schedule is intended to show information for 10 years. Additional years will be displayed when available.

Notes to Required Supplementary Information

Retirement Plan

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions used to Determined Contribution Rates

Actuarial Cost Method: Entry Age Normal with 20-year closed amortization period for unfunded liability

Asset Valuation Method: 5-year smoothing

Salary Increases: Varies by age

Investment Rate of Return: 7.00% for 2017 and 2016, 7.75% for 2015 and earlier

Retirement Rates: Varies by age and service

Mortality Rates: RP-2014 Aggregate mortality table with generational projection using Scale MP-2014

Non-Qualified Plan

OPPD contributes to a fund for the Non-Qualified Plan on an actuarially determined basis. The fund will be used to pay related benefits; however, it does not meet the criteria for GASB 68 as the assets are not legally protected from creditors. As such, assets were reported in the Company's financial statements and were not netted against the total pension liability. The Company has adopted and implemented the provisions of GASB 73 in 2017.

Valuation Date: Actuarially determined calculations are as of January 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions used to Determined Contribution Rates

Actuarial Cost Method: Entry Age Normal

Salary Increases: Varies by age

Retirement Rates: Varies by age and service

Mortality Rates: RP-2014 Aggregate mortality table with generational projection using Scale MP-2014

Statistics (Unaudited)

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Utility Plant (at year end) (in thousands of dollars)..... | 4,350,603 | 4,305,055 | 5,574,941 | 5,395,489 | 5,288,168 | 5,187,395 | 5,027,093 | 4,865,417 | 4,678,449 | 4,561,815 |
| Total Indebtedness (at year end) (in thousands of dollars)..... | 2,132,253 | 2,193,921 | 2,256,348 | 2,224,843 | 2,267,277 | 2,296,305 | 2,085,540 | 2,011,969 | 1,937,704 | 1,902,403 |
| Operating Revenues (in thousands of dollars) | | | | | | | | | | |
| Residential..... | 409,272 | 410,957 | 383,051 | 379,986 | 385,171 | 362,105 | 337,053 | 335,294 | 292,887 | 271,935 |
| Commercial..... | 324,723 | 324,545 | 315,079 | 311,917 | 306,719 | 292,296 | 274,102 | 284,400 | 265,668 | 238,496 |
| Industrial..... | 214,580 | 210,912 | 201,805 | 207,649 | 213,742 | 197,225 | 186,417 | 164,621 | 139,865 | 109,827 |
| Off-System Sales..... | 163,761 | 175,506 | 195,512 | 223,055 | 118,268 | 123,191 | 159,732 | 184,374 | 158,354 | 127,676 |
| FPPA Revenue..... | 6,708 | (6,115) | (19,166) | (20,147) | 15,169 | (3,237) | 35,345 | 269 | — | — |
| Unbilled Revenues..... | (1,049) | 6,753 | (976) | (1,800) | 4,490 | 4,517 | (4,239) | 1,232 | 7,449 | 3,391 |
| Provision for Rate Stabilization | (8,000) | (26,000) | 25,000 | (4,000) | — | — | — | — | — | — |
| Provision for Debt Retirement | — | — | — | — | 17,000 | 17,000 | 24,000 | (13,000) | 13,000 | 20,000 |
| Provision for Decommissioning & Benefits Reserve..... | (34,500) | — | — | — | — | — | — | — | — | — |
| Other Electric Revenues..... | 28,806 | 29,918 | 30,930 | 29,798 | 29,654 | 54,900 | 29,352 | 29,160 | 22,743 | 16,648 |
| Total..... | 1,104,301 | 1,126,476 | 1,131,235 | 1,126,458 | 1,090,213 | 1,047,997 | 1,041,762 | 986,350 | 899,966 | 787,973 |
| Operations & Maintenance Expenses (in thousands of dollars)..... | 653,293 | 823,857 | 841,939 | 832,519 | 796,104 | 770,073 | 789,516 | 720,957 | 653,993 | 561,396 |
| Payments in Lieu of Taxes (in thousands of dollars)..... | 33,989 | 34,138 | 32,241 | 31,651 | 31,827 | 30,094 | 28,217 | 27,851 | 24,810 | 22,426 |
| Net Operating Revenues before Depreciation, Amortization and Decommissioning (in thousands of dollars)..... | 417,019 | 268,481 | 257,055 | 262,288 | 262,282 | 247,830 | 224,029 | 237,542 | 221,163 | 204,151 |
| Net Income Before Special Item (in thousands of dollars)..... | 79,168 | 25,750 | 32,322 | 51,925 | 55,276 | 54,829 | 54,440 | 40,047 | 46,557 | 79,186 |
| Special Item (in thousands of dollars)..... | 1,972 | (959,575) | — | — | — | — | — | — | — | — |
| Net Income (Loss) (in thousands of dollars)..... | 77,196 | (933,825) | 32,322 | 51,925 | 55,276 | 54,829 | 54,440 | 40,047 | 46,557 | 79,186 |
| Energy Sales (in megawatt-hours) | | | | | | | | | | |
| Residential..... | 3,568,164 | 3,588,933 | 3,470,523 | 3,559,978 | 3,607,439 | 3,595,316 | 3,602,973 | 3,644,400 | 3,361,672 | 3,486,858 |
| Commercial..... | 3,675,829 | 3,683,821 | 3,630,557 | 3,638,193 | 3,561,707 | 3,492,745 | 3,481,459 | 3,777,092 | 3,672,982 | 3,758,853 |
| Industrial..... | 3,394,003 | 3,328,290 | 3,301,175 | 3,500,977 | 3,606,611 | 3,670,346 | 3,698,719 | 3,427,710 | 3,039,396 | 2,877,282 |
| Off-System Sales..... | 5,701,008 | 7,238,266 | 7,840,683 | 7,694,203 | 3,925,574 | 3,671,978 | 4,631,175 | 5,552,645 | 5,534,803 | 3,003,888 |
| Unbilled Sales..... | (19,868) | 63,638 | (26,640) | (39,493) | 26,221 | 28,558 | (85,917) | (24,109) | 74,416 | 50,374 |
| Total..... | 16,319,136 | 17,902,948 | 18,216,298 | 18,353,858 | 14,727,552 | 14,458,943 | 15,328,409 | 16,377,738 | 15,683,269 | 13,177,255 |
| Number of Customers (average per year) | | | | | | | | | | |
| Residential..... | 328,576 | 323,784 | 319,501 | 315,705 | 311,921 | 308,516 | 308,412 | 303,374 | 299,813 | 296,648 |
| Commercial..... | 46,084 | 45,537 | 45,104 | 44,785 | 44,221 | 43,589 | 43,564 | 43,225 | 43,134 | 42,867 |
| Industrial..... | 157 | 164 | 174 | 177 | 193 | 210 | 206 | 154 | 151 | 142 |
| Off-System..... | 14 | 15 | 11 | 15 | 33 | 35 | 41 | 38 | 34 | 32 |
| Total..... | 374,831 | 369,500 | 364,790 | 360,682 | 356,368 | 352,350 | 352,223 | 346,791 | 343,132 | 339,689 |
| Cents Per kWh (average) | | | | | | | | | | |
| Residential..... | 11.49 | 11.47 | 11.07 | 10.68 | 10.68 | 10.12 | 9.37 | 9.22 | 8.77 | 7.82 |
| Commercial..... | 8.83 | 8.81 | 8.69 | 8.57 | 8.61 | 8.40 | 7.89 | 7.54 | 7.29 | 6.36 |
| Industrial..... | 6.32 | 6.35 | 6.12 | 5.94 | 5.96 | 5.38 | 5.05 | 4.83 | 4.62 | 3.82 |
| Retail..... | 8.92 | 8.94 | 8.66 | 8.42 | 8.43 | 7.94 | 7.42 | 7.26 | 6.96 | 6.13 |
| Generating Capability (at year end) (in megawatts)..... | 2,645.7 | 2,490.1 | 3,080.3 | 3,232.1 | 3,237.0 | 3,208.8 | 3,222.7 | 3,224.7 | 3,223.9 | 2,548.8 |
| System Peak Load (in megawatts)..... | 2,426.9 | 2,354.4 | 2,315.1 | 2,291.1 | 2,339.4 | 2,451.6 | 2,468.3 | 2,402.8 | 2,316.4 | 2,181.1 |
| Net System Requirements (in megawatt-hours) | | | | | | | | | | |
| Generated..... | 10,760,108 | 14,689,524 | 15,399,002 | 16,212,801 | 13,209,542 | 12,855,389 | 13,807,712 | 15,870,513 | 15,263,983 | 12,477,032 |
| Purchased and Net Interchanged..... | 395,288 | (3,502,796) | (4,488,016) | (5,026,318) | (1,819,871) | (1,529,643) | (2,576,167) | (4,428,059) | (4,627,627) | (1,864,214) |
| Net..... | 11,155,396 | 11,186,728 | 10,910,986 | 11,186,483 | 11,389,671 | 11,325,746 | 11,231,545 | 11,442,454 | 10,636,356 | 10,612,818 |

Investor Relations and Corporate Information

Corporate Headquarters

Energy Plaza
444 South 16th Street Mall
Omaha, Nebraska 68102-2247
402-536-4131
oppd.com

General Counsel

Fraser Stryker PC LLO
Omaha, Nebraska

Financial Advisor

Barclays Capital Inc.
New York, New York

Consulting Engineer

NewGen Strategies & Solutions, LLC
Lakewood, Colorado

Independent Auditors

Deloitte & Touche LLP
Omaha, Nebraska

Bond Counsel

Kutak Rock LLP
Omaha, Nebraska

Commercial Paper Holders

Issuing and Paying Agent
The Bank of New York Mellon Trust
Company, N.A.
New York, New York

Senior, Subordinate and Separate System Bondholders

You may contact OPPD with questions about OPPD debt at:

Finance & Investor Relations
Omaha Public Power District
444 South 16th Street Mall
Omaha, Nebraska 68102-2247
Email: finfo@oppd.com
402-636-3286

The Trustee and Paying Agent on OPPD's Senior Lien Debt, Subordinated Revenue Bonds and Separate System Revenue Bonds is The Bank of New York Mellon Trust Company, N.A. You may contact The Bank of New York Mellon Trust Company, N.A. directly at:

The Bank of New York Mellon
Trust Company, N.A.
Global Corporate Trust
2 North LaSalle Street, Suite 1020
Chicago, Illinois 60602
Email: corporate.bond.research@bnymellon.com
Bondholder Communications: 800-254-2826

OPPD Minibond Holders

OPPD is the Paying Agent, Transfer Agent and Registrar on OPPD's Minibonds. OPPD Minibond Administration provides information and assistance to Minibond holders regarding:

- *Interest Payments*
Interest on Current Interest-Bearing Minibonds is paid on April 1 and October 1 each year.
- *Ownership Transfer*
Minibond Transfer Information Forms can be obtained via oppd.com or by contacting the Minibond Administrator. (See below.)
- *Annual Optional Early Redemption*

Minibond Administrator

You may contact the Minibond Administrator at:

Minibond Administrator
Omaha Public Power District
444 South 16th Street Mall
Omaha, Nebraska 68102-2247
Email: minibonds@oppd.com
Omaha, Nebraska, area: 402-636-3286
Outstate Nebraska: 800-428-5584

Available Financial Information

In compliance with Securities and Exchange Commission Rule 15c2-12, information regarding OPPD is available through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System. Copies of its most recent annual reports, interim reports and official statements also are available upon request at finfo@oppd.com or at the following address:

Finance Division
Omaha Public Power District
444 South 16th Street Mall
Omaha, Nebraska 68102-2247

Financial information in the annual report also is available at oppd.com



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