Management's Discussion and Analysis (Unaudited)

USING THIS FINANCIAL REPORT

The Financial Report for the Omaha Public Power District (OPPD or Company) includes this Management's Discussion and Analysis, Financial Statements and Notes to the Financial Statements. The basic 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 for proprietary funds of governmental entities.

Management's Discussion and Analysis (MD&A) – This 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 unaudited MD&A should be read in conjunction with the Financial Statements 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). Based on new requirements from the Governmental Accounting Standards Board (GASB), reclassifications were made for certain items previously reported as assets and liabilities to deferred outflows and deferred inflows of resources, respectively. These 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 the 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 rates, fees and other charges are adequate to recover expenses.

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

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

OVERVIEW

OPPD is a fully integrated electric utility serving a 5,000-square-mile, 13-county region in southeast Nebraska. Corporate headquarters is located in Omaha, Nebraska, with generating stations, service centers and customer service offices strategically located throughout the service territory. The Company is governed by an eight member Board of Directors representing areas of the service territory. Revenues are generated from a combination of retail sales, off-system sales and other electric products and services.

OPPD has a history of providing safe, reliable electric service to its customers and that tradition continued in 2012 amid operational and financial challenges. The most significant efforts were related to the ongoing outage of the Fort Calhoun Station (FCS). FCS remains under increased oversight by the Nuclear Regulatory Commission (NRC). The station is in an extended outage that began in 2011 due to issues related to Missouri River flooding and other performance deficiencies.

In an effort to resolve the extended outage challenges and performance deficiencies on a long-term basis, OPPD contracted with Exelon Generation Company, LLC (Exelon), the largest operator of nuclear stations in the United States. Exelon will provide oversight of day-to-day operations of FCS. OPPD expects to benefit from Exelon's extensive knowledge and experience in nuclear operations.

Returning FCS to service continues to be a high priority as the carbon-free energy source supports OPPD's diverse energy portfolio. Activities identified by the NRC for restart are nearing completion and are being reviewed by the NRC. FCS is expected to return to service in 2013; however, the extended outage caused OPPD to incur significant unplanned operations and maintenance costs (Recovery Costs).

Recovery Costs have been incurred to address performance deficiency concerns and enhance current and future FCS operations. OPPD's Board of Directors authorized the use of regulatory accounting to defer $70,627,000 of these costs in 2012. The Recovery Costs will be amortized over a 10-year period after FCS operations resume and the station's regulatory rating is reclassified and increased to a more favorable NRC regulatory category. Fuel and purchased power costs are not included in Recovery Costs but have increased as a result of the extended FCS outage.

OPPD mitigated a considerable portion of the increased fuel and purchased power expense with an outage insurance policy. The Company recognized $36,643,000 of insurance recoveries from this policy in 2012. These recoveries were used to reduce the Fuel and Purchased Power Adjustment (FPPA) for customer-owners. Rate Stabilization Funds were used in 2011 to help fund the additional costs of the extended FCS outage. Outage insurance proceeds and 2012 FPPA recoveries for prior years were used to fully restore this fund balance to $32,000,000 in January 2013.

Internal cost reductions, risk-management practices, and the use of regulatory accounting contributed to improved financial results in 2012. Outage insurance proceeds and the deferral of Recovery Costs lessened the financial impact from the extended FCS outage. Reserves were also utilized to maintain a strong financial position. The 2012 Corporate Operating and Capital Expenditure Plan provided for the use of $30,000,000 of the Debt Retirement Reserve (Reserve) in 2012. After a review of OPPD's financial results, only $17,000,000 of this Reserve was used in 2012, leaving additional Reserves for use in future years.

A general rate adjustment of 7.3% and an FPPA decrease of 0.4% were implemented in 2013. These adjustments resulted from increased operating costs, while several cost-reduction and risk-management measures, as well as lower fuel costs, limited the increase to a net adjustment of 6.9%. The revenue increases from these adjustments will help maintain the Company's strong financial position.

OPPD continues to demonstrate strength and stability when facing industry and other challenges, consistent with its reputation and success in managing similar situations in the past. The Company will continue to plan and innovate to meet the needs of customer-owners. A new Corporate Strategic Plan was developed in 2012. The new plan provides direction through strategic initiatives and facilitates organizational alignment to achieve the vision of being a fully engaged organization that achieves competitive rates, while maintaining financial stability and high satisfaction. At OPPD, the commitment to the customer-owners and the value of public power remains clear.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following summarizes OPPD's financial position as of December 31 (in thousands).

Condensed Statements of Net Position	2012	2011
Current Assets	$ 809,696	$ 627,163
Other Long-Term Assets and Special Purpose Funds	683,886	601,392
Capital Assets	3,342,731	3,285,897
Total Assets	4,836,313	4,514,452
Deferred Outflows of Resources	33,502	22,264
Total Assets and Deferred Outflows	$4,869,815	$4,536,716
Current Liabilities	$ 385,947	$ 225,272
Long-Term Liabilities	2,615,556	2,480,961
Total Liabilities	3,001,503	2,706,233
Deferred Inflows of Resources	54,000	71,000
Net Position	1,814,312	1,759,483
Total Liabilities, Deferred Inflows and Net Position	$4,869,815	$4,536,716

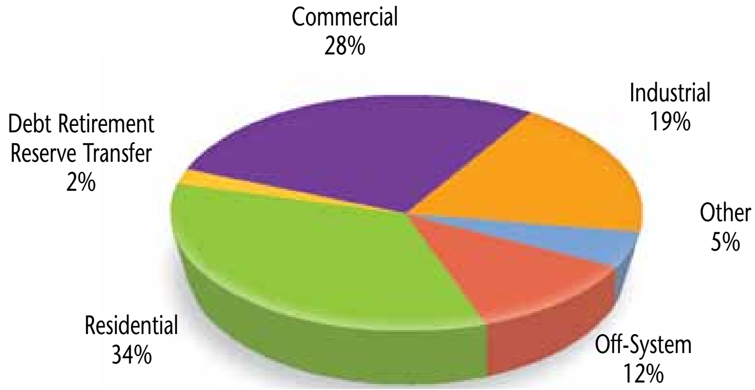
The following summarizes OPPD's operating results for the years ended December 31 (in thousands).

Operating Results	2012	2011	2010
Operating Revenues	$1,047,997	$1,041,762	$ 986,350
Operating Expenses	(928,961)	(943,810)	(872,001)
Operating Income	119,036	97,952	114,349
Other Income	28,418	37,257	21,255
Interest Expense	(92,625)	(89,149)	(87,177)
Net Income Before Special Item	54,829	46,060	48,427
Special Item	-	8,380	(8,380)
Net Income	$ 54,829	$ 54,440	$ 40,047

Operating Revenues

The following chart illustrates 2012 operating revenues by category and percentage of the total. Other electric revenues include connection charges, late payment charges, rent from electric property, wheeling fees, insurance recoveries for prior years and miscellaneous revenues.

Operating Revenues - 2012



2012 Compared to 2011

Total operating revenues were $1,047,997,000 for 2012, an increase of $6,235,000 or 0.6% over 2011 operating revenues of $1,041,762,000.

- The change in 2012 total operating revenues compared to 2011 was mainly due to increased retail energy sales, higher retail energy prices and insurance recoveries, which were partially offset by lower off-system sales revenues.
- Revenues from retail sales, excluding Debt Retirement Reserve transfers, were $852,906,000 for 2012, an increase of $24,228,000 or 2.9% over 2011 revenues of $828,678,000. The change in retail revenues was due to increased energy sales and higher energy prices.
- Revenues from retail sales includes $17,000,000 in transfers from the Debt Retirement Reserve for 2012, which was $7,000,000 less than the transfer from the Debt Retirement Reserve of $24,000,000 for 2011.
- Revenues from off-system sales were $123,191,000 for 2012, a decrease of $36,541,000 or 22.9% from 2011 revenues of $159,732,000. The decrease was due to the extended outage at FCS, which resulted in less energy available for sale to the off-system market.
- Other electric revenues were $54,900,000 for 2012, an increase of $25,548,000 or 87% over 2011 revenues of $29,352,000. The increase was primarily due to outage insurance recoveries.

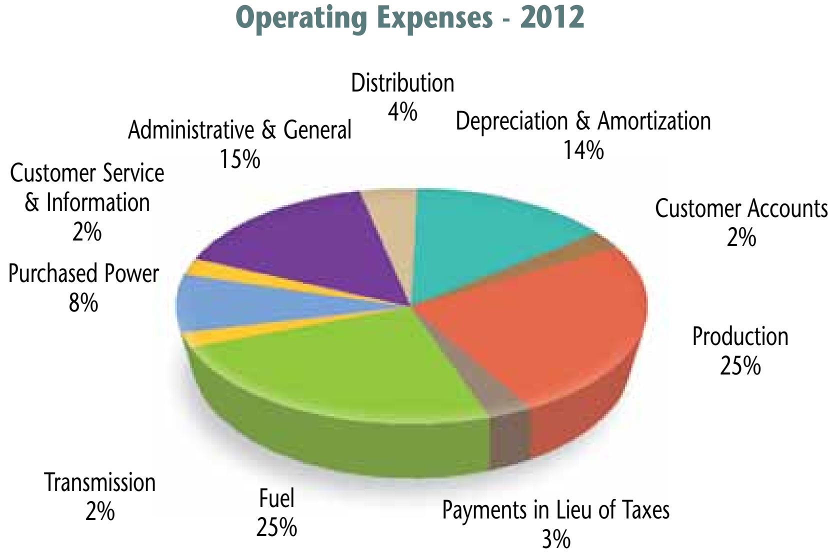
2011 Compared to 2010

Total operating revenues were $1,041,762,000 for 2011, an increase of $55,412,000 or 5.6% over 2010 operating revenues of $986,350,000.

- The change in 2011 total operating revenues compared to 2010 was mainly due to transfers from the Debt Retirement Reserve and the recognition of additional revenues for the under-recovery of FPPA.
- Revenues from retail sales, excluding Debt Retirement Reserve transfers, were $828,678,000 for 2011, an increase of $42,862,000 or 5.5% over 2010 revenues of $785,816,000. The change in retail revenues was primarily due to the revenue adjustment for the under-recovery of fuel and purchased power expenses of $35,345,000.
- Revenues from retail sales includes $24,000,000 in transfers from the Debt Retirement Reserve for 2011. Revenues were decreased $13,000,000 in 2010 for transfers to the Debt Retirement Reserve in 2010. The net change in revenues for 2011 was $37,000,000 more than in 2010.
- Revenues from off-system sales were $159,732,000 for 2011, a decrease of $24,642,000 or 13.4% from 2010 revenues of $184,374,000. The decrease was due to the extended outage at FCS, which resulted in less energy available for sale to the off-system market.

Operating Expenses

The following chart illustrates 2012 operating expenses by expense classification and percentage of the total.



2012 Compared to 2011

Total operating expenses were $928,961,000 for 2012, a decrease of $14,849,000 or 1.6% from 2011 operating expenses of $943,810,000.

- Fuel expense decreased $39,473,000 from 2011, primarily due to reduced generation from the FCS outage and lower fossil-fuel prices.
- Purchased Power expense increased $9,887,000 over 2011 due to the extended outage at FCS and additional renewable energy purchases.
- Production expense decreased $6,445,000 from 2011, primarily due to the deferral of FCS Recovery Costs.
- Transmission expense increased $3,645,000 over 2011, primarily due to higher transmission and regulatory expenses.
- Distribution expense increased $1,108,000 over 2011, primarily due to the return to normal operating activites after the 2011 Missouri River Flood Event (Flood Event).
- Customer Service and Information expense increased $2,823,000 over 2011 due to increased expenses for sustainable energy incentive programs.
- Administrative and General expense increased $9,087,000 over 2011, primarily due to higher employee benefit costs.
- Depreciation and Amortization increased $2,717,000 over 2011 due to additional depreciation for capital additions.
- Payments in Lieu of Taxes expense increased $1,877,000 over 2011, primarily due to higher retail revenues.

2011 Compared to 2010

Total operating expenses were $943,810,000 for 2011, an increase of $71,809,000 or 8.2% over 2010 operating expenses of $872,001,000.

- Fuel expense increased $23,752,000 over 2010, primarily due to a greater utilization of higher priced fossil fuels, resulting from the extended outage at FCS.
- Purchased Power expense increased $23,797,000 over 2010 due to the extended outage at FCS and additional renewable energy purchases.
- Production expense increased $11,954,000 over 2010, primarily due to the utilization of additional resources related to the Flood Event.
- Transmission expense increased $4,126,000 over 2010, primarily due to the utilization of additional resources related to the Flood Event and higher transmission fees for energy purchases.
- Distribution expense decreased $3,392,000 from 2010, primarily due to the diversion of resources from routine operations and maintenance activities to the Flood Event. Many of the expenditures for the Flood Event were offset by estimated insurance recoveries.
- Customer Service and Information expense decreased $2,478,000 from 2010 due to fewer expenses for heat pump incentives and other sustainable energy programs.

- Administrative and General expense increased $10,989,000 over 2010, primarily due to higher employee benefit costs.
- Depreciation and Amortization increased $2,884,000 over 2010 due to additional depreciation for capital additions.

Other Income (Expenses)

Other income (expenses) totaled $28,418,000 in 2012, a decrease of $8,839,000 from 2011 other income of $37,257,000. Other - net was $10,191,000 lower, primarily due to the significant grants from the Federal Emergency Management Agency (FEMA) in 2011 for the Flood Event. This decrease was partially offset by the change in allowances for funds used during construction (AFUDC), which was $2,049,000 higher than 2011 primarily due to capital expenditures at FCS.

In 2012, contributions in aid of construction (CIAC) and the related offsetting expense, reduction of plant costs recovered through CIAC, were $5,596,000 higher than in 2011 primarily due to reimbursements from Offutt Air Force Base, Nebraska City Station Unit 2 (NC2) participants and insurance companies.

Other income (expenses) totaled $37,257,000 in 2011, an increase of $16,002,000 over 2010 other income of $21,255,000. Other - net was $12,034,000 higher, primarily due to estimated FEMA grants for certain costs incurred for the Flood Event and federal subsidies for retiree health care and interest on Build America Bonds. AFUDC was $3,486,000 higher than 2010, primarily for capital expenditures at FCS.

In 2011, CIAC and the related offsetting expense, reduction of plant costs recovered through CIAC, were $3,603,000 higher than in 2010, primarily due to reimbursements from NC2 participants.

OPPD offers a variety of products and services, which provide value both to the customer and the Company. These products include Residential and Commercial Surge Protection, In-Home Electrical Protection Plan, ECO 24/7, Energy Information Services and Geothermal Loop Heat Exchangers. Offering these products and services provides opportunities to build strong relationships with customers by helping them efficiently and economically meet their energy needs.

- Income from products and services was $3,279,000 for 2012, an increase of $383,000 over 2011 income of $2,896,000. This increase was primarily due to greater income from sales of the ECO 24/7 and Geothermal Heat Loop Exchange products.
- Income from products and services was $2,896,000 for 2011, an increase of $176,000 over 2010 income of $2,720,000. This increase was primarily due to greater income from sales of the In-Home Electrical Protection Plan and ECO 24/7 products.

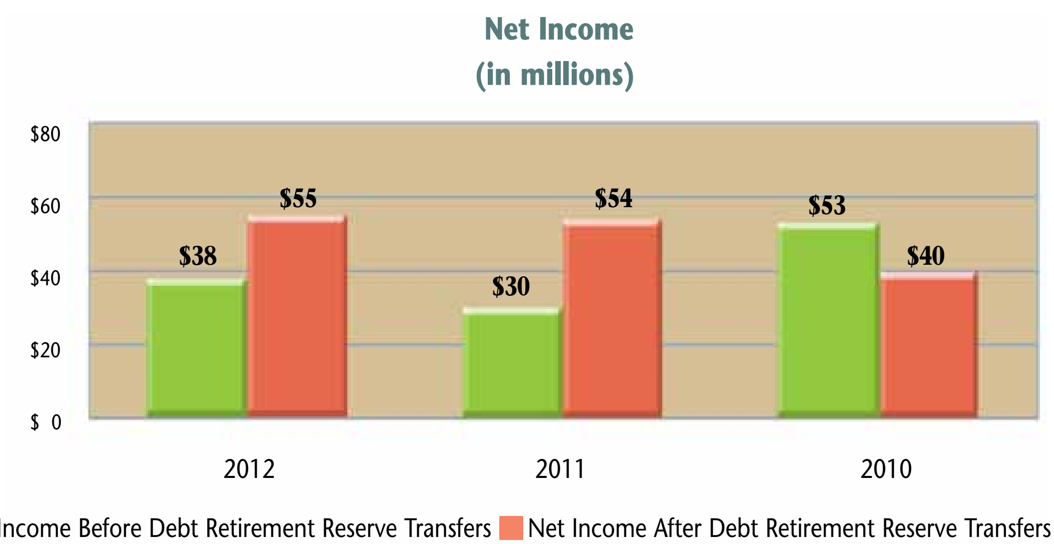
Interest Expense

Interest expense was $92,625,000 for 2012, an increase of $3,476,000 over 2011 interest expense of $89,149,000. Interest expense was $89,149,000 for 2011, an increase of $1,972,000 over 2010 interest expense of $87,177,000. Both of these increases were due to interest associated with new bond issues.

Net Income

Net income, after revenue adjustments for changes to the Debt Retirement Reserve, was $54,829,000, $54,440,000 and $40,047,000 for 2012, 2011 and 2010, respectively. Changes to the Debt Retirement Reserve resulted in operating revenues and net income increasing by $17,000,000 and $24,000,000 in 2012 and 2011, respectively, and decreasing by $13,000,000 in 2010.

The following chart illustrates net income (in millions) for the past three years.



Number of Customers

OPPD has a stable, diverse customer base that continues to increase at a modest rate of growth.

- The average number of customers served was 352,350 in 2012, an increase of 127 over the average number of customers for 2011 of 352,223.
- The average number of customers served was 352,223 in 2011, an increase of 5,432 or 1.6% over the average number of customers for 2010 of 346,791.

The following table shows the average number of customers by customer class.

Number of Customers	2012	2011	2010
Residential	308,516	308,412	303,374
Commercial	43,589	43,564	43,225
Industrial	210	206	154
Off-System	35	41	38
Total	352,350	352,223	346,791

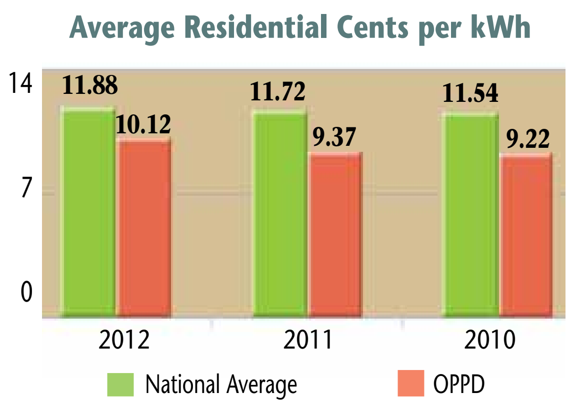
There was a reclassification of customers between Commercial and Industrial due to changes in annual energy usage in 2011.

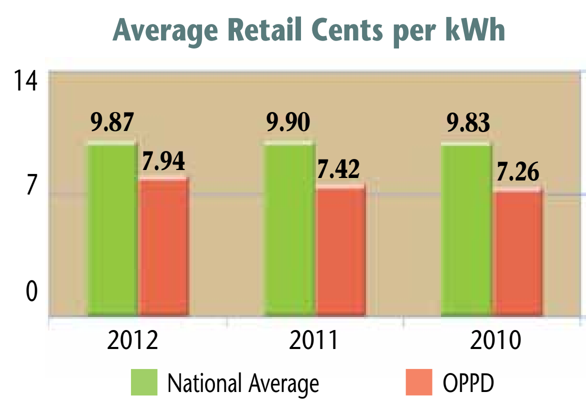
Cents per kWh

The Company strives to manage costs and maximize the public power advantage of low-cost energy and reliable service.

- Residential customers paid an average of 10.12, 9.37 and 9.22 cents per kilowatt-hour (kWh) in 2012, 2011 and 2010, respectively. The national average residential cents per kWh according to the Energy Information Administration (EIA), U.S. Department of Energy, was 11.88 for 2012 (preliminary year-to-date December 2012) and 11.72 and 11.54 cents per kWh for 2011 and 2010, respectively. Based on the preliminary EIA data for 2012, OPPD residential rates were 14.8% below the national average.
- Retail customers paid an average of 7.94, 7.42 and 7.26 cents per kWh in 2012, 2011 and 2010, respectively. The national average retail cents per kWh according to EIA was 9.87 for 2012 (preliminary year-to-date December 2012) and 9.90 and 9.83 cents per kWh for 2011 and 2010, respectively. Based on the preliminary EIA data for 2012, OPPD retail rates were 19.6% below the national average.

The following charts illustrate the Company's average residential and retail cents per kWh compared to the national average.





General rate adjustments of 7.3% and 4.5% were implemented in 2013 and 2012, respectively, due to increased operating costs. There was no general rate adjustment in 2011. The adjustments to FPPA were a decrease of 0.4% for 2013 and increases of 1.4% and 2% for 2012 and 2011, respectively. Cost-containment and risk-management efforts were utilized to limit the rate adjustments.

CASH AND LIQUIDITY

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.

Financing

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 Company has been able to achieve significant interest cost savings for customer-owners by refinancing bonds at lower rates. Certain subordinated bond issues are being reviewed for potential refunding opportunities in 2013.

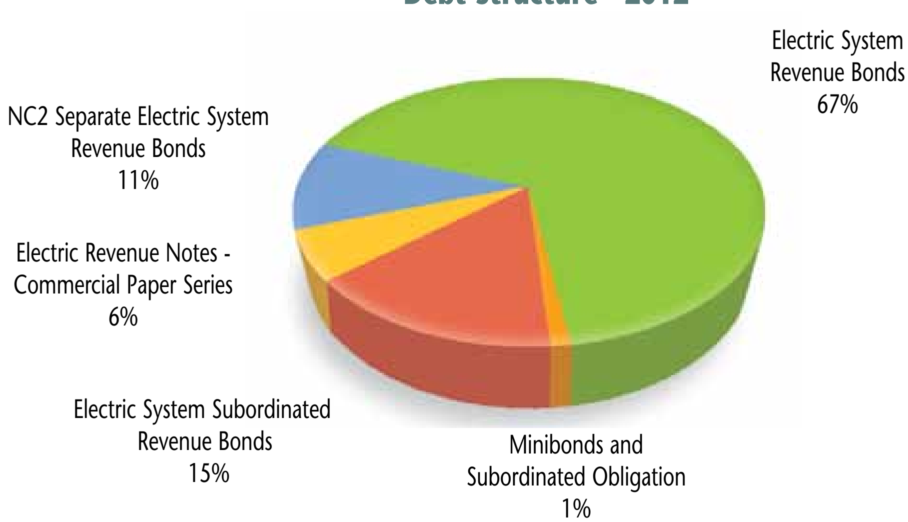
Two Electric System Revenue Bond issues totaling $499,370,000 were completed during 2012. An issue totaling $226,715,000 was used to refund outstanding bonds with higher interest rates, and a second issue totaling $272,655,000 was used to finance capital expenditures. In addition, repayments of $52,460,000 of Electric System Revenue Bonds, $460,000 of Electric System Subordinated Revenue Bonds and $143,000 of Minibonds were made in 2012. Repayments for the Electric System Revenue Bonds included principal payments of $8,850,000 for the early call of a portion of the 1993 Series C term bonds due February 1, 2013, and $13,990,000 for the early redemption of the 2002 Series B serial bonds due February 1, 2013.

Three Electric System Revenue Bond issues totaling $421,770,000 were completed during 2011. Issues totaling $283,840,000 were used to refund outstanding bonds with higher interest rates, and $137,930,000 was used to finance capital expenditures. Repayments of $36,815,000 of Electric System Revenue Bonds, $920,000 of Electric System Subordinated Revenue Bonds and $242,000 of Minibonds were made in 2011. Repayments for the Electric System Revenue Bonds included a principal payment of $8,350,000 for the early call of a portion of the 1993 Series C term bonds due February 1, 2012.

An existing Credit Agreement totaling $250,000,000 will expire on October 1, 2013. There were no amounts outstanding under this credit agreement as of December 31, 2012 or 2011.

The following chart illustrates the debt structure as of December 31, 2012.

Debt Structure - 2012



Ratings

High credit ratings allow the Company to borrow funds at reduced interest rates. Both quantitative (financial strength) and qualitative (business and operating characteristics) factors are considered by the credit rating agencies in establishing a company's credit rating. The ratings received from Standard & Poor's Ratings Services (S&P) and Moody's Investors Service (Moody's), independent bond rating agencies for the latest bond issues, were among the highest ratings granted to electric utilities and confirm the agencies' assessment of the Company's strong ability to meet its debt service requirements. Moody's changed its outlook for OPPD from stable to negative in 2012, primarily due to FCS challenges and environmental compliance costs for the coal-fired stations.

The following credit ratings in effect on December 31, 2012, are indicative of OPPD's financial strength.

	S&P	Moody's
Electric System Revenue Bonds	AA	Aa1
Electric System Subordinated Revenue Bonds (including PIBs) *	AA-	Aa2
Electric Revenue Notes - Commercial Paper Series	A-1+	P-1
Minibonds *	AA-	Aa2
NC2 Separate Electric System Revenue Bonds (2005A, 2006A) *	A	A1
NC2 Separate Electric System Revenue Bonds (2008A)	A	A1

* *Payment of the principal and interest on the Electric System Subordinated Revenue Bonds, Minibonds and NC2 Separate Electric System Revenue Bonds 2005 Series A and 2006 Series A, when due, is insured by financial guaranty bond insurance policies. PIBs are Periodically Issued Bonds, which are another type of Electric System Subordinated Revenue Bond.*

Cash Flows

There was an increase in cash of $29,825,000 during 2012, a decrease in cash of $4,844,000 during 2011 and an increase in cash of $14,522,000 during 2010.

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

Cash Flows	2012	2011	2010
Cash Flows from Operating Activities	$151,733	$ 153,493	$ 267,156
Cash Flows from Capital and Related Financing Activities	(8,072)	(192,443)	(222,256)
Cash Flows from Investing Activities	(113,836)	34,106	(30,348)
Change in Cash and Cash Equivalents	$ 29,825	$ (4,844)	$ 14,552

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 2012 decreased $1,760,000 from 2011, primarily due to a decrease in cash received from off-system counterparties and increases in cash paid to off-system counterparties and employees, which were partially offset by increases in cash received from retail customers and insurance companies. Cash paid for the regulatory asset for FCS Recovery Costs was reported in operating activities.
- Cash flows for 2011 decreased $113,663,000 from 2010, primarily due to an increase in cash paid to operations and maintenance suppliers and off-system counterparties for flood-related and energy expenses.

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 2012 decreased $184,371,000 from 2011, primarily due to additional proceeds from long-term borrowings, reduced principal payments on debt and a decrease in capital expenditures.
- Cash flows used for 2011 decreased $29,813,000 from 2010, primarily due to the issuance of debt and fewer nuclear fuel expenditures, which was partially offset by a principal reduction of debt through defeasances and higher capital expenditures.

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

- Cash flows for 2012 decreased $147,942,000 from 2011, primarily due to an increase in the amount of cash paid for purchases of investments.
- Cash flows for 2011 increased $64,454,000 over 2010, primarily due to an increase in the difference in the amount of cash received from maturities and sales of investments over the cash paid for purchases of investments.

Debt Service Coverage for Electric System Revenue Bonds

Debt service coverage for the Electric System Revenue Bonds was 2.21, 2.18 and 2.47 in 2012, 2011 and 2010, 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 2012, 2011 and 2010 for the NC2 Separate Electric System were not included in the calculation because the Electric System Revenue Bonds are not secured by the Separate System.

Debt Ratio

The debt ratio is a measure of financial solvency and represents the share of debt to total capitalization (debt and net position). This ratio does not include the NC2 Separate Electric System Revenue Bonds since this debt is secured by revenues of the NC2 Participation Power Agreements. The debt ratio was 53.1% and 51.1% as of December 31, 2012 and 2011, respectively.

Retirement Plan and Other Post Employment Benefits

The Company provides retirement and other post employment benefits (OPEB) as full-time employees are not covered by Social Security. Actions have been taken to help offset the increase in these costs with plan design changes. Plan changes have impacted most employees, including an increase in the minimum age for retirement eligibility from 50 to 55 effective in 2013, a mandatory Cash Balance Retirement provision for employees hired after December 31, 2012, and the establishment of a separate OPEB Plan for employees hired after December 31, 2007.

The annual required contributions (ARC) for the defined employee benefit plans are calculated using actuarial valuations and are fully funded to ensure the Company is able to meet its obligations to plan members. The ARC for the defined benefit Retirement Plan was $53,463,000, $47,585,000 and $42,045,000 for the years 2012, 2011 and 2010, respectively. The employees' contribution percentage of pay was 6.2% for each of the three years in the period ended December 31, 2012. Employee contributions to the Retirement Plan were $11,517,000, $11,369,000 and $11,313,000 for the years 2012, 2011 and 2010, respectively. The ARC for the two OPEB plans totaled $30,698,000, $29,511,000 and $25,751,000 for the years 2012, 2011 and 2010, respectively. The increase in 2012 costs for benefit plans was primarily due to lower than expected investment returns on plan assets.

The Retirement Plan's funded status was reported in two different ways – the actuarial value of assets as a percentage of the present value of accrued plan benefits (PVAPB) and the actuarial value of assets as a percentage of the actuarial accrued liability (AAL). The PVAPB is the present value of benefits based on compensation and service to the date of the actuarial valuation. The PVAPB is the amount the Retirement Plan would owe participants if the Retirement Plan were frozen on the valuation date. The AAL is the present value of retirement benefits adjusted for assumptions for future increases in compensation and service attributable to past accounting periods, which is more representative of the expected benefit obligations. The Retirement Plan's funded status for the actuarial valuations was 81.8% 83% and 85.8% using PVAPB and 69.7%, 70.5% and 72% using AAL, as of January 1, 2012, 2011 and 2010, respectively.

Risk Management Practices

An Enterprise Risk Management (ERM) program is used to identify, quantify, prioritize and manage risks throughout the Company. As part of the ERM program, specific risk-mitigation plans and procedures are maintained to provide for focused and consistent efforts to mitigate various risk exposures. Several cross-functional risk committees are utilized to discuss and analyze potential risks that could hinder the achievement of OPPD's strategic objectives. Additionally, an Executive ERM Committee has been established to specifically discuss risk-related issues at the senior management level of the Company. An overview of the ERM program is provided to the Board of Directors annually.

Power marketing and fuel purchase activities are conducted within the normal course of business. Risks associated with power marketing and fuel contracting are managed within a risk-management control framework. Fuel expense represents a significant portion of generation costs and affects the ability to generate and market competitively priced power. A risk-management working group is responsible for identifying, measuring and mitigating various risk exposures related to power marketing and fuel purchase activities.

OPPD competes in the wholesale marketplace with other electric utilities and power marketers for off-system energy sales. To successfully compete in this market, the Company must be able to offer energy at competitive prices and obtain transmission services. Energy market prices may fluctuate substantially in a short period of time due to changes in the supply and demand of electricity. Counterparty credit risks are monitored closely on an ongoing basis. Significant changes in the Company's energy trading and marketing practices and processeses are anticipated with the implementation of the Integrated Marketplace by the Southwest Power Pool (SPP). The risks associated with these changes are being identified and plans are being established for their mitigation.

A Rate Stabilization Reserve was established in 1999 to assist in stabilizing retail electric rates. Funds from this reserve were used to help finance higher fuel costs and unexpected energy purchases in 2011 due to the extended outage at FCS to lessen the impact on customer-owners. The funds were partially replenished with FPPA recoveries and insurance proceeds in 2012. The balance of the fund was $24,612,000 and $0 as of December 31, 2012 and 2011, respectively. Additional proceeds from insurance recoveries were used to return the fund balance to $32,000,000 in January 2013. The balance of the reserve was maintained at $32,000,000 as of December 31, 2012 and 2011.

A Debt Retirement Reserve was established in 2003 to assist in managing the long-term risks associated with significant capital expenditures and related debt issuances. This reserve is used to meet challenges in retiring debt and maintaining adequate debt service coverage ratios. The reserve was used to provide additional revenues and funds of $17,000,000 and $24,000,000 in 2012 and 2011, respectively. With the strong financial results for 2010, $13,000,000 was added to the reserve to help meet economic challenges in future years. The balance of the fund was $14,000,000 and $48,000,000 as of December 31, 2012 and 2011, respectively. In 2013, $3,000,000 was transferred to the fund, which increased the fund to $17,000,000. The balance of the reserve was $17,000,000 and $34,000,000 as of December 31, 2012 and 2011, respectively.

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

Other Reserves

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

- The Uncollectible Accounts Reserve is established for estimated uncollectible accounts from both retail and off-system sales. Accounts Receivable is reported net of the reserve for retail sales. A $5,000,000 reserve for off-system sales was established by the Board of Directors. This reserve is separately reported as a deferred inflow on the Statement of Net Position.
- 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 due to the Company being self-insured for health care costs. The reserve is based on health insurance claims that have been incurred but not yet presented for payment.

CAPITAL RESOURCES

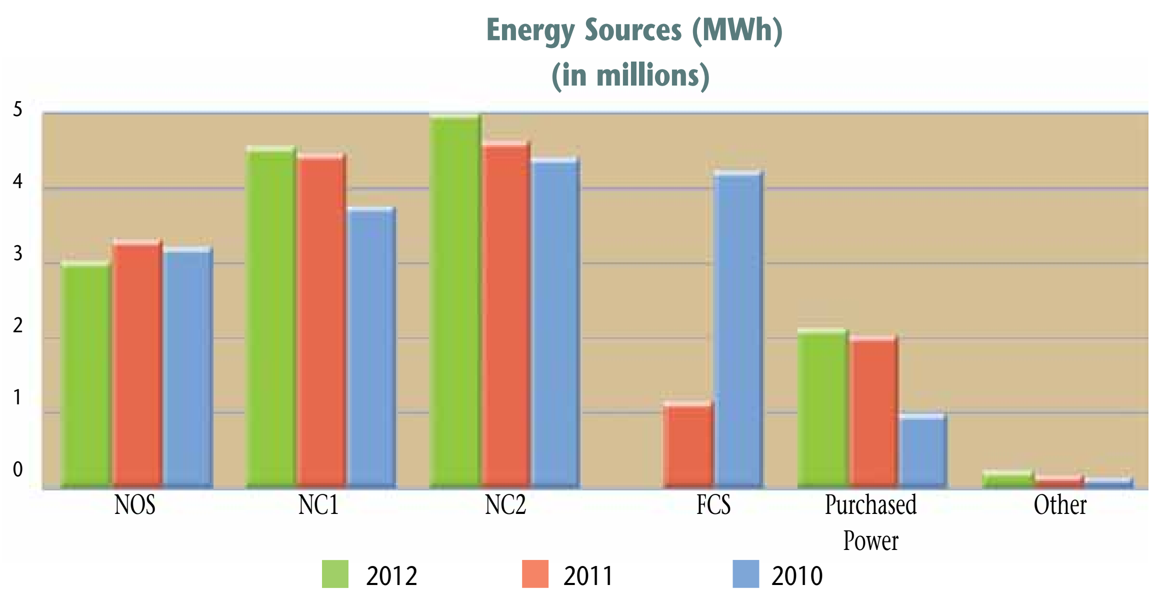
Generating Capability

Power requirements are supplied from the generating stations, leased generation and purchases of power. OPPD owns and operates eight generating stations, seven of which have a maximum summer net accredited capability of 3,208.8 megawatts (MW). (The net capability of the Valley Station wind turbine is not accredited.)

The following table lists owned generating units by fuel source and identifies the maximum summer net accredited capability (in MW) and percentage of the total for 2012.

		Capability	% of Total
Coal	Nebraska City Station Unit 1 (NC1)	651.5	
	Nebraska City Station Unit 2 (NC2)	684.6	
	North Omaha Station (NOS)	534.2	
	Subtotal Coal	1,870.3	58.3
Nuclear	Fort Calhoun Station (FCS)	478.6	14.9
Oil/Natural Gas	Cass County Station	323.2	
	Jones Street Station	122.7	
	North Omaha Station	92.5	
	Sarpy County Station	315.3	
	Subtotal Oil/Natural Gas	853.7	26.6
Other	Elk City Station (landfill-gas)	6.2	0.2
Total Owned Generation		3,208.8	100.0

The following chart shows the change in energy sources as compared to prior years due to the outage at FCS (in MWh).



Renewable Capability including Purchased Power Contracts

Renewable portfolio standards are currently mandated in several states but not in Nebraska. The Board of Directors has established a proactive goal to provide 10% of retail energy from renewable sources by 2020. The percentage of renewable energy increased from 4% in 2011 to 5.3% in 2012 and is expected to increase 15.1% in 2014. A purchased power contract with the Western Area Power Administration for 82 MW of hydro power is excluded from the goal.

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

		Capability
OPPD Owned Generation		
	Elk City Station (landfill-gas)	6.2
	Valley Station (wind)	0.7
	Subtotal OPPD Owned Generation	6.9
Purchased Wind Generation		
	Ainsworth	10.0
	Elkhorn Ridge	25.0
	Flat Water	60.0
	Petersburg	40.5
	Broken Bow 1	18.0
	Crofton Bluffs	13.6
	Subtotal Purchased Wind Generation	167.1
Total Renewable Generation as of December 31, 2012		174.0
2014 Purchased Wind Generation		
	Broken Bow 2	45.0
	Prairie Breeze	200.6
	Subtotal 2014 Purchased Wind Generation	245.6
Total Expected Renewable Generation as of December 31, 2014		419.6

Capital Program

Electric system requirements, including the identification of future capital investments, are routinely evaluated to ensure current and future load requirements are served by a reliable, diverse and economical power supply. Capital investments are financed with revenues from operations, bond proceeds, investment income and cash on hand. Certain capital expenditures have been deferred, where possible, as a result of current FCS outage-related challenges. Capital expenditures were $17,027,000 under budget for 2012.

The following table shows actual capital program expenditures, including allowances for funds used during construction, for the last three years and projected expenditures for 2013 and 2014 (in millions).

	Projected		Actual		
Capital Program	**2014**	**2013**	**2012**	**2011**	**2010**
Production	$306.5	$ 79.7	$ 89.6	$103.3	$111.7
Transmission and Distribution	86.3	68.8	74.0	65.0	57.7
General	21.9	17.6	16.6	27.5	40.6
Total	$414.7	$166.1	$180.2	$195.8	$210.0

Production includes expenditures related to generating facilities. Additional information on significant expenditures follows.

- FCS expenditures include the extended power uprate and other plant improvement projects. The extended power uprate scheduled for completion in 2013 has been postponed to focus efforts on the restart and operations of FCS. Activities that were in progress will be completed, but no further related activities are forecasted prior to 2015.
- Production expenditures and projections include additional capital costs to comply with increasing environmental regulations.
- A natural gas pipeline and other equipment are being installed at the Nebraska City Station to use natural gas for a start-up and stabilization fuel source as an alternative to fuel oil.

Transmission and distribution system upgrades include the installation of new technologies and substation and distribution facilities to maintain system reliability, enhance efficiency and respond to load growth. The projected expenditures include the addition of transmission lines, new substations and equipment for increased system capacity.

General plant expenditures for 2012 and projected expenditures for 2013 and 2014 include the purchase of construction and transportation equipment and information technology upgrades.

Fort Calhoun Station Outage Update

FCS was taken out of service for a normal refueling outage in April 2011. Outage activities were suspended in June 2011 to protect facilities from rising river levels caused by the release of record amounts of water from dams along the Missouri River by the U.S. Army Corps of Engineers. The NRC placed FCS into a special category of their inspection manual, Chapter 0350, in December 2011. This Chapter is for nuclear power plants that are in extended shutdowns with performance issues. A Confirmatory Action Letter (CAL) with a restart checklist was issued by the NRC in June 2012 and revised on February 26, 2013. FCS will resume normal operations when all items on the NRC restart checklist are resolved.

Both the NRC's inspection and review process and OPPD's internal review process have proceeded more slowly than originally expected and have identified additional action items that will require more time than previously estimated. The most significant single action item identified was related to electrical penetrations in the containment building. After thorough analysis, it was determined that the replacement of selected electrical penetrations between the containment building and the general plant was the best long-term option for FCS. This project has an estimated cost of $10,000,000 and will delay the expected restart of normal FCS operations until late in the second quarter of 2013. Commercially reasonable efforts to restart FCS are being made as quickly as is prudently practicable, subject to NRC regulations and oversight. A precise restart date cannot be determined because of ongoing inspections and unfinished items on the restart checklist.

The extended outage has resulted in significant unplanned costs for OPPD. Internal cost reductions, outage insurance proceeds and the use of regulatory accounting have lessened the financial impact from these unexpected costs. The Board of Directors authorized the use of regulatory accounting to defer $70,627,000 of Recovery Costs (as previously defined) in 2012. The Recovery Costs will be amortized over a 10-year period after FCS operations resume and the station's regulatory rating is reclassified and increased to a more favorable NRC regulatory category. Any delay beyond the second quarter of 2013 will result in additional costs. The impact, if any, on OPPD's financial position due to any delays in the restart date beyond the second quarter of 2013 cannot be estimated at this time. Returning FCS to service continues to be a high priority as activities are being completed to resolve NRC concerns and restart normal operations.

GENERAL FACTORS AFFECTING OPPD AND THE ELECTRIC UTILITY INDUSTRY

OPPD and the electric industry continue to be affected by a number of factors that could impact the competitiveness and financial condition of all electric utilities.

Environmental Issues

The Cross-State Air Pollution Rule (CSAPR) was published on August 8, 2011, to improve air quality by reducing power plant emissions contributing to ozone and fine-particle pollution in other states. The final rule establishes a cap-and-trade system with state and unit specific allowance allocations to achieve desired emission reductions for nitrogen oxide and sulfur dioxide. Implementation of Phase I of the final rule was scheduled to begin in 2012, but the United States Court of Appeals for the District of Columbia issued an order on December 30, 2011, staying CSAPR pending judicial review. On August 21, 2012, the federal court vacated CSAPR stating the rule exceeds the statutory authority of the Environmental Protection Agency (EPA). The EPA will continue administering the Clean Air Interstate Rule (CAIR), the predecessor to CSAPR pending the promulgation of a valid replacement rule. The State of Nebraska is not covered by CAIR; therefore, OPPD remains unaffected at this time. However, the Company continues to prepare for stricter regulations with the execution, if necessary, of ultra low-sulfur coal purchase agreements, acquisition of additional renewable energy sources, continued implementation of sustainable energy and environmental stewardship initiatives and comprehensive studies on opportunities for older coal-fired generating units.

On December 16, 2011, the EPA finalized the Mercury and Air Toxics Standard (MATS). Compliance with this rule will be necessary by April 16, 2015. An additional year may be granted by local permitting agencies to facilitate installation of pollution control equipment. In October 2012, the Company requested a one-year extension for Nebraska City Station Unit 1 and North Omaha Station Units 1-5. In November 2012, these extensions were granted by the Nebraska Department of Environmental Quality and the City of Omaha, respectively. Studies are being conducted to determine optimal generating options for OPPD as a result of these and other environmental regulations.

Federal Energy Legislation

As a result of the 2012 elections, the 113th Congress will likely have a very similar position on energy issues to the previous Congress. Republicans continue to control the House of Representatives which greatly decreases the probability of legislation for a carbon cap-and-trade program for the electric utility industry being passed into law through the end of 2014. In 2011, the House of Representatives passed legislation that would block efforts by the EPA to regulate greenhouse gas emissions under the Clean Air Act. In 2012, the House of Representatives also passed legislation to block or delay other EPA regulatory proposals that are aimed primarily at fossil-fired electric generation facilities. The Democratic-controlled Senate did not pass similar legislation and, given the same Senate leadership in the 113th Congress, would likely continue to block any similar legislation passed by the House in 2013 and 2014.

Efforts on energy legislation are likely to be very limited and would focus on market-based approaches that will help create jobs and grow the economy, as well as possibly addressing the issue of long-term storage of high-level nuclear waste. While provisions like carbon cap-and-trade and a Renewable Energy Standard or a Clean Energy Standard could result in substantial rate increases if enacted into law, neither is considered likely during the two-year legislative session of the 113th Congress. OPPD will continue to monitor the status of energy and climate-change legislation in Congress and continue to provide input through public power industry groups and the Nebraska Congressional Delegation.

State of Nebraska Energy Legislation

During the 2012 session, the Nebraska Legislature did not enact any major changes affecting the electric utility industry. No major changes are expected in 2013.

Legislative Bill 388 (L.B. 388), Change Provisions Relating to Public Power and Provide for Construction of Certain Transmission Lines, was introduced in the Nebraska Legislature in January 2013. L.B. 388 would provide electric transmission owners, who belong to a Regional Transmission Organization (RTO), the right of first refusal to complete transmission projects in Nebraska that have been approved by the RTO. The purpose is to clarify that public power entities in Nebraska have the first right to construct, own, and maintain approved transmission lines.

During the 2010 session, the Nebraska Legislature enacted Legislative Bill 1048 (L.B. 1048), Wind for Export. L.B. 1048 provides new requirements to allow developers to build wind generation facilities for the purpose of exporting power outside the state of Nebraska, subject to certain requirements that protect the ratepayers of customer-owned utilities.

During the 2000 session, the Nebraska Legislature enacted Legislative Bill 901, which implemented recommendations to determine whether retail competition would be beneficial for Nebraska ratepayers. Reports for the Governor and Legislature on the conditions in the electric industry indicating whether retail competition would be beneficial for Nebraska's citizens are prepared at the request of the Power Review Board. All of the conditions for retail competition have not been met, based on the findings from the latest report, dated October 2010.

Transmission Access

On April 1, 2009, 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. In addition to tariff administration services, SPP also provides reliability coordination services, generation reserve sharing, energy imbalance market services and transmission planning services to OPPD and SPP's other transmission-owning members.

SPP is expected to change to an Integrated Marketplace on March 1, 2014. The Integrated Marketplace is a centrally cleared energy market where OPPD generation assets will be dispatched and load obligations served accordingly based on inputs to the clearinghouse from all SPP market participants. Concurrently, OPPD's current Balancing Authority will be replaced by SPP's Consolidated Balancing Authority.

A 345-kilovolt power line being built by OPPD and Kansas City Power and Light (Midwest Transmission Project) will run from a substation at the Nebraska City Station to Sibley, Missouri. This project is one of several priority projects as determined by SPP and is expected to relieve congestion on the region's transmission system; improve reliability on the nation's energy grid; provide an additional gateway for renewable energy to reach utility customers across eastern Nebraska, northwest Missouri and the surrounding region; and improve opportunities for wind energy distribution once it becomes available. The project is currently in the transmission route selection phase, which includes input from the public and key stakeholders and is planned to be in service in 2017.

OPPD is a member of the Midwest Reliability Organization reliability region of the North American Electric Reliability Corporation. A reliability region is responsible for reliability standards and compliance for the interconnected utilities.

High-Level Nuclear Waste Repository

Under the Federal Nuclear Waste Disposal Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. The Department of Energy (DOE) currently does not have a federal government facility available for the long-term storage of spent nuclear fuel. OPPD remains responsible for the safe storage of spent nuclear fuel until the federal government takes delivery of this waste. The DOE has agreed to reimburse the Company for allowable costs incurred for managing and storing spent nuclear fuel and high-level waste due to the DOE's delay in accepting waste. No reimbursements were received in 2012. OPPD received $295,000 and $5,811,000 from the DOE in 2011 and 2010, respectively.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires management to make estimates and assumptions that 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.

Those judgments could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment may have a significant effect on the operation of the business and on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies has not changed.

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

Accounting Policies	Judgments/Uncertainties Affecting Application
Environmental Issues and Pollution-Remediation Obligations	• Approved methods for cleanup • Governmental regulations and standards • Cost estimates for future remediation options
Nuclear Plant Decommissioning	• Cost estimates for future decommissioning • Availability of facilities for waste disposal • Approved methods for waste disposal • Useful life of Fort Calhoun Station
Regulatory Mechanisms and Cost Recovery	• External regulatory requirements • Anticipated future regulatory decisions and their impact
Retirement Plan and Other Post Employment Benefits	• Assumptions used in computing the actuarial liability, including expected rate of return on Plan assets • Plan design
Self-Insurance Reserves for Claims for Employee-related Healthcare 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 liabilities
Unbilled Revenue	• Estimates for customer energy use and prices

SUMMARY OF THE FINANCIAL STATEMENTS

The basic Financial Statements, Notes and Management's Discussion and Analysis are designed to provide a general overview of OPPD's financial position. Questions concerning any of the information provided in this report should be directed to Investor Relations, 402-636-3286.