

Omaha Public Power District Nebraska City Station Unit 2

Special-Purpose Financial Statement for the
Year Ended December 31, 2017, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Omaha Public Power District
Omaha, Nebraska

We have audited the accompanying special-purpose financial statement of the Omaha Public Power District ("OPPD") Nebraska City Station Unit 2 ("NC2") for production facility operations costs for the year ended December 31, 2017, and the related notes to the financial statement (collectively, the "Special-Purpose Financial Statement").

Management's Responsibility for the Special-Purpose Financial Statement

Management is responsible for the preparation and fair presentation of this Special-Purpose Financial Statement in accordance with the basis of presentation referred to in Note 2 to the Special-Purpose Financial Statement; this includes determining that the basis of presentation is an acceptable basis for the preparation of the Special-Purpose Financial Statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Special-Purpose Financial Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Special-Purpose Financial Statement based on our audit. We conducted our audit 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 Special-Purpose Financial Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special-Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special-Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to OPPD's preparation and fair presentation of the Special-Purpose Financial Statement 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 OPPD's internal control over the Special-Purpose Financial Statement. 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 Special-Purpose Financial Statement.

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 Special-Purpose Financial Statement referred to above presents fairly, in all material respects, the production facility operations costs of NC2 for the year ended December 31, 2017, in accordance with the basis of presentation referred to in Note 2 to the Special-Purpose Financial Statement.

Basis of Presentation

We draw attention to Note 2 of the Special-Purpose Financial Statement, which describes the basis of accounting. The Special-Purpose Financial Statement is prepared for the purpose of complying with the Participation Power Agreements dated January 15, 2004, pursuant to the basis of presentation referred to in Note 2 to the Special-Purpose Financial Statement, which is a basis of accounting other than accounting principles generally accepted in the United States of America, and is not intended to be a complete presentation of NC2's assets and liabilities or its results of operations and cash flows. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of OPPD management, the OPPD Board of Directors, the OPPD Audit Subcommittee, and members of the management and boards of directors, as applicable, of the Participants of the Participation Power Agreements and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

June 8, 2018

**OMAHA PUBLIC POWER DISTRICT
NEBRASKA CITY STATION UNIT 2**

**SPECIAL-PURPOSE FINANCIAL STATEMENT
FOR PRODUCTION FACILITY OPERATIONS COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands)**

COSTS BY TYPE

VARIABLE ENERGY (Note 3)	<u>\$ 62,437</u>
OPERATING (Note 4)	
Operation	17,573
Maintenance	13,799
Administrative and general	12,862
Other	<u>543</u>
Total operating	<u>44,777</u>
PARTICIPANT (Note 5)	
NC2 capital costs	3,384
Terminal removal costs	156
Inventory carrying charge	130
Professional services and other business expenses	<u>60</u>
Total participant	<u>3,730</u>
INDIVIDUAL (Note 6)	
Debt service costs	13,773
Integrated Marketplace, overscheduled and station use energy charges	309
Bond administration costs	<u>15</u>
Total individual	<u>14,097</u>
TOTAL OPERATIONS COSTS	<u><u>\$ 125,041</u></u>

See notes to special-purpose financial statement.

OMAHA PUBLIC POWER DISTRICT NEBRASKA CITY STATION UNIT 2

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

1. GENERAL

Nebraska City Station Unit 2 (NC2) is a coal-fired electric generating facility adjacent to Nebraska City Station Unit 1 (NC1), located south of Nebraska City, Nebraska. The facility is wholly owned and operated by Omaha Public Power District (OPPD). On January 15, 2004, Participation Power Agreements (PPA) were executed with seven public power and municipal utilities (Participants) for the purchase of a combined 50% of the output of NC2 over a 40-year period.

On April 29, 2009, NC2 was declared commercially operational and made available for Participant scheduling as of May 1, 2009. Costs of operating and constructing the facility are being recovered from Participants for their share in accordance with the terms of the PPA. This Special-Purpose Financial Statement only includes the production facility operations costs for the NC2 Participants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The accompanying special-purpose financial statement has been prepared in accordance with the accounting basis outlined in the PPA, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accounting records are maintained generally in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission and all applicable pronouncements of the Governmental Accounting Standards Board.

Participants' Share — The output and costs are shared by OPPD and the Participants based on the following percentages as provided in the PPA.

Participants	Original Subscription Amount in Megawatts (MW)	NC2 Share (%)
City of Falls City, Nebraska	5	0.83
City of Grand Island, Nebraska	30	5.00
City of Independence, Missouri	50	8.33
Missouri Joint Municipal Electric Utility Commission	50	8.33
City of Nebraska City, Nebraska	10	1.67
Nebraska Public Power District	142	23.67
Central Minnesota Municipal Power Agency	<u>13</u>	<u>2.17</u>
Total	300	50.00
OPPD	<u>300</u>	<u>50.00</u>
Total	<u><u>600</u></u>	<u><u>100.00</u></u>

The PPA share percentages are based on the original subscription amount of 600 MW. The maximum summer net achievable output was 664.2 MW for 2017. The output is allocated among the Participants based on their PPA share percentages.

Construction Costs — The Participants were required to fund their share of estimated construction costs. They were given the option to provide their own funds (self-fund) or have Separate System Revenue Bonds issued by OPPD for their share for initial plant construction. Debt service and related administration expenses are individual costs for Participants who chose to fund their share with Separate System Revenue Bonds. The Participants' share of new construction costs since the plant was placed in service are paid from the NC2 Capital Costs Fund, which is funded on a monthly basis by the Participants.

Shared Facilities Costs — The costs of new facilities that provide benefits to both NC1 and NC2 are shared facilities costs. These costs include site rail improvements, storeroom improvements, shop facilities and the administration building addition. These costs are allocated based on the capacity of each unit. Shared facilities costs allocated to NC2 are shared equally between the Participants and OPPD.

Subsequent Events — Management evaluated subsequent events through the date the financial statements were issued and did not identify any subsequent events that would require recognition or disclosure in the special-purpose financial statement or related notes for the year ended December 31, 2017.

3. VARIABLE ENERGY COSTS

Variable energy costs are the fuel-related costs that include the costs of coal, ignition fuel oil, natural gas, fuel transportation, fuel handling and the maintenance of fuel handling facilities and equipment. In addition, ash hauling expense, and the portion of landfill closure and post closure costs attributable to the current period are included in variable energy costs.

4. OPERATING COSTS

Operating costs include all operation, maintenance, outage, administrative and general costs, exclusive of the variable energy costs, related to NC2 and the NC2 portion of shared facilities.

5. PARTICIPANT COSTS

Participant costs are the costs, exclusive of variable energy, operating costs and individual costs, solely attributable to the Participants.

NC2 Capital Costs — Participants are charged monthly for their share of NC2 ongoing capital expenditures. The funds collected are kept in the NC2 Capital Costs Fund and withdrawn to reimburse OPPD for the Participants' share of NC2 capital expenditures.

NC2 Capital Cost Fund balances as of December 31, 2016, activity for 2017 and balances as of December 31, 2017, were as follows (in thousands):

	2016	Collections	Expenditures	2017
NC2 Capital Costs Fund	<u>\$9,159</u>	<u>\$4,350</u>	<u>\$(6,770)</u>	<u>\$ 6,739</u>

Capital expenditures for 2017 were primarily for the replacement of the turbine and construction of cells 2 & 3 of the ash landfill.

Terminal Removal Costs — The Participants are charged for their share of estimated costs related to the removal and decommissioning of NC2 and the NC2 portion of shared facilities. The estimate is based on a study completed by an independent engineering firm. This study will be updated periodically and the amount billed to the Participants will be adjusted accordingly. Collections were \$156,000 for the year ended December 31, 2017, and the balance of the NC2 Terminal Removal Costs Fund was \$1,596,000 at December 31, 2017.

6. INDIVIDUAL COSTS

Individual costs are the costs, exclusive of variable energy, operating and participant costs, which are attributable to individual Participants.

Debt Service and Bond Administration Costs — These costs are for debt service and bond administration costs billed to the Participants who provided their share of estimated construction costs with the proceeds from Separate Electric System Revenue Bonds.

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