

Central Plains Energy Project
Accountants' Report and Financial Statements
June 30, 2007



Central Plains Energy Project
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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Central Plains Energy Project
Lincoln, Nebraska

We have audited the accompanying balance sheet of Central Plains Energy Project as of June 30, 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the period August 15, 2006 (inception) to June 30, 2007. These financial statements are the responsibility of Central Plains Energy Project's management. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Plains Energy Project as of June 30, 2007, and its changes in financial position and cash flows for the period August 15, 2006 (inception) to June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

December 7, 2007

A handwritten signature in black ink that reads 'BKD LLP'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Central Plains Energy Project's ("CPEP's") financial performance provides an overview of CPEP's financial activities for the year ended June 30, 2007. Please read this information in conjunction with the accompanying financial highlights, the basic financial statements and the accompanying notes to the financial statements.

CPEP was created in August 2006 pursuant to an Interlocal Cooperation Agreement for the purpose of, among other things, securing reliable and economical supplies of natural gas for the benefit of municipal utilities. CPEP's current members include the Metropolitan Utilities District of Omaha, Nebraska ("MUD"), the City of Hastings, Nebraska ("Hastings"), and the Municipal Gas Utility of the City of Cedar Falls, Iowa ("CFU").

Central Plains Energy Project, Gas Project Revenue Bonds (Project No. 1) – Series 2007A and Series 2007B ("Project No. 1") were issued on February 21, 2007. Project No. 1 provided for the acquisition by CPEP of the right to receive approximately 100 billion cubic feet of natural gas from J. Aron. This gas is to be delivered to CPEP at designated delivery points in specified daily quantities each month over the approximately 20-year (238-month) term of the Prepaid Natural Gas Sales Agreement.

Financial Analysis

The following condensed financial statements summarize CPEP's financial position and operating results for the period ended June 30, 2007.

Condensed Balance Sheet

	<u>June 30, 2007</u>
Assets	
Current assets	\$ 52,025,319
Prepaid gas supply, long-term	461,376,429
Restricted investments	37,960,000
Other long-term assets	<u>4,792,522</u>
Total assets	<u>\$ 556,154,270</u>
Liabilities and Net Assets	
Current liabilities	\$ 21,374,788
Deferred costs to be recovered in future periods	259,730
Long-term debt	<u>534,514,416</u>
Total liabilities	<u>556,148,934</u>
Unrestricted net assets	<u>5,336</u>
Total net assets	<u>5,336</u>
Total liabilities and net assets	<u>\$ 556,154,270</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	August 15, 2006 to <u>June 30, 2007</u>
Operating Revenues	\$ 22,912,102
Operating expenses	<u>(15,243,524)</u>
Operating income	<u>7,668,578</u>
Non operating revenues (expenses)	
Net costs to be recovered in future periods	(259,730)
Investment income	966,361
Interest expense	(8,092,972)
Other	<u>(276,901)</u>
Total nonoperating expenses	<u>(7,663,242)</u>
Increase in net assets	<u>\$ 5,336</u>

2007 Financial Highlights

Balance Sheet

- Total assets and liabilities result from the issuance of revenue bonds related to Project No. 1.

Operating Revenues:

- Operating revenues consist of the gas deliveries beginning in January 2007 to MUD and CFU. The monthly revenue is based on a specified index less a discount from such index price. The discount is adjusted by an administrative fee that is used to cover administrative expenses and is approved by the CPEP Board of Directors.

Operating Expenses:

- Operating expenses consist primarily of the amortization of the gas supplies in connection with Project No. 1.

Nonoperating Revenues and (Expenses)

- Nonoperating revenues consist primarily of interest income on restricted assets held in connection with Project No. 1.
- Non operating expenses consist primarily of interest expense related to Project No. 1. Other expenses include net costs to be recovered in the future periods. Under SFAS 71, certain income and expense items are deferred and not included in the determination of net income until such costs are recoverable.

General Trends and Significant Events

There has been a great deal of activity nationally involving the use of tax-exempt bond proceeds to pre-pay for natural gas supplies by public entities. This is a result of the development of favorable federal rules and regulations regarding this use of tax-exempt bond proceeds and market conditions which have resulted in significant economic benefits for public entities who have participated. The presence of several interested and competitive supply sources combined with favorable interest rate and capital market conditions have led to the issuance of well over \$17 billion of tax-exempt bonds in the U.S. since early 2006.

Interest rates, in particular the spread between taxable and tax-exempt rates, drive the majority of the economic benefit of these transactions. While these market driven relationships may not be predictable, we believe that interest rate relationships will be favorable for continued activity well into FY2007/08. Based upon this assumption, we anticipate that interest for and activity within this municipal gas supply market segment will continue in the near term.

CPEP is not solely focused on the development of projects involving the issuance of bonds by the entity. CPEP also intends to consider participation in projects developed and issued by other joint action groups who are willing to include non-member participants. CPEP is also continually evaluating supply options not related to the use of tax-exempt bond proceeds. However, the use of tax-exempt bonds for the prepayment of natural gas is anticipated to be a primary focus of the public gas supply market during FY2007/08.

Summary of the Financial Statements

The financial statements, related notes and management's discussion and analysis provide information about CPEP's financial position and activities. The balance sheet presents CPEP's assets, liabilities and net assets as of June 30, 2007. The statement of revenues, expenses and changes in net assets presents CPEP's operating results and changes in net assets for the period ended August 15, 2006 to June 30, 2007. The statement of cash flow provides information about the flow of cash within CPEP by activities for the period ended August 15, 2006 to June 30, 2007. The notes to the financial statements provide additional disclosures and information that is essential to a full understanding of the data provided in the statements.

Report of Management

CPEP has prepared and is responsible for the financial statements and related information included in this report. Management believes that its policies and procedures provide guidance and reasonable assurance that CPEP's operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of CPEP in conformity with accounting principles generally accepted in the United States of America. If you have questions about this report or need additional financial information, contact our Project Manager at the address shown below.

Central Plains Energy Project
P.O. Box 98949
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Evan Ward
Project Manager

Central Plains Energy Project
Balance Sheet
June 30, 2007

	2007
Assets	
Current Assets	
Cash	\$ 76,942
Accounts receivable	1,556,392
Accrued interest receivable	10,747
Prepaid expenses	5,000
Restricted short-term investments	22,358,318
Prepaid gas supply, current	28,017,920
Total current assets	52,025,319
Noncurrent Assets	
Restricted investments	37,960,000
Prepaid gas supply, long-term	461,376,429
Deferred bond issue costs	4,792,522
Total noncurrent assets	504,128,951
Total assets	\$ 556,154,270
Liabilities	
Current Liabilities	
Accounts payable and accrued expenses	\$ 168,127
Accrued interest payable	8,761,661
Current maturities of long-term debt	12,445,000
Total current liabilities	21,374,788
Costs refundable from future billings	259,730
Long-term Debt	534,514,416
Net Assets	
Unrestricted	5,336
Total net assets	5,336
Total liabilities and net assets	\$ 556,154,270

Central Plains Energy Project
Statement of Revenues, Expenses and
Changes in Net Assets
For the Period August 15, 2006 to June 30, 2007

	2007
Operating Revenues	
Gas supply	\$22,912,102
Operating Expenses	
Cost of gas sold	15,114,904
Administrative and general	128,620
Total operating expenses	15,243,524
Operating Income	7,668,578
Nonoperating Revenues (Expenses)	
Investment income	966,361
Net costs to be recovered in future periods	(259,730)
Interest expense	(8,092,972)
Amortization of debt issuance costs	(148,017)
Arbitrage rebates and bond fees	(128,884)
Net nonoperating expenses	(7,663,242)
Increase in Net Assets	5,336
Net Assets, Beginning of Period	-
Net Assets, End of Period	\$ 5,336

Central Plains Energy Project
Statement of Cash Flows
For the Period August 15, 2006 to June 30, 2007

	2007
Operating Activities	
Cash received from customers	\$ 21,355,710
Cash paid to other suppliers of goods and services	(94,377)
Payment to gas supplier	(504,509,253)
Net cash used in operating activities	(483,247,920)
Noncapital Financing Activities	
Proceeds from issuance long-term debt	547,628,105
Payment of bond issue costs	(4,940,539)
Net cash provided by noncapital financing activities	542,687,566
Investing Activities	
Interest received on investment securities	955,614
Purchases of investments	(60,318,318)
Net cash used in investing activities	(59,362,704)
Increase in Cash	76,942
Cash, Beginning of Period	-
Cash, End of Period	\$ 76,942
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 7,668,578
Changes in operating assets and liabilities	
Accounts receivable	(1,556,392)
Prepaid expenses	(5,000)
Prepaid gas supply	(489,394,379)
Accounts payable	39,243
Net Cash Used in Operating Activities	\$ (483,247,950)

Central Plains Energy Project

Notes to Financial Statements

June 30, 2007

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Central Plains Energy Project (CPEP) is a governmental agency formed under the provisions of the Nebraska Interlocal Cooperation Act and Nebraska non-profit corporation statutes. CPEP was formed to:

- Seek out and secure supplies of long-term, reliable natural gas at below market prices;
- Create economies of scale through aggregation of participant volumes;
- Adopt a “portfolio” strategy of natural gas purchasing to attain diversification of supply and suppliers;
- Minimize the costs and risks of natural gas acquisition to individual participants through joint action; and
- Form supportive long-term business relationships with similarly situated public entities.

CPEP was formed on August 15, 2006 and began the administrative process to secure a gas prepayment project and associated revenue bonds to finance it. The Company executed the various project agreements and bond indenture documents and began supplying natural gas to customers in January, 2007.

Reporting Entity

In evaluating how to define a governmental entity, for financial reporting purposes, management must consider all potential component units for which financial accountability may exist. The determination of financial accountability pursuant to GASB No. 14, *The Financial Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units* includes consideration of a number of criteria, including: (1) the ability to appoint a voting majority of another entity’s governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on others, and (3) the entity’s fiscal dependency on others. CPEP has determined that it has no reportable component units.

Accounting Method

CPEP’s funds are accounted for on the accrual basis of accounting. CPEP’s accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts for Public Utilities and License prescribed by the Federal Energy Regulatory Commission (FERC). CPEP prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, CPEP has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, to the extent they do not conflict with or contradict GASB pronouncements.

Central Plains Energy Project

Notes to Financial Statements

June 30, 2007

Note 1: Organization and Summary of Significant Accounting Policies - Continued

Accounting Method - Continued

Under the provisions of Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, CPEP prescribes rate making recovery for certain transactions. This method includes the standard that debt service requirements, as opposed to interest expense and amortization, are a cost for rate making purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Investments

Investments in debt securities are carried at fair value. Fair value is determined using quoted market prices. Guaranteed investment contracts with financial services companies are carried at cost.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 20 days after the issuance of the invoice. Management does not believe an allowance for doubtful accounts is necessary at June 30, 2007.

Deferred Bond Issue Costs

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the straight-line method (average).

Prepaid Gas Supply

CPEP prepays for deliveries of natural gas supplies with the proceeds from revenue bonds. Prepaid gas supplies are stated at average cost, as determined by each prepay contract.

Central Plains Energy Project
Notes to Financial Statements
June 30, 2007

Note 1: Organization and Summary of Significant Accounting Policies - Continued

Costs Recoverable/Refundable from Future Billings

The Natural Gas Supply Agreements for the project establishes a pricing mechanism outlining the methods for billing customers for the natural gas supply. Expenses in excess of amounts currently billable to customers under the pricing mechanism will be recovered from future billings to customers and are classified as a deferred debit. Current billings in excess of expenses will be returned in future billings or rebates to customers. These amounts are principally related to long-term supply and include interest expense, amortization, and other project costs that are realized at different times than they are billed to customers.

Net Asset Classification

Net assets are required to be classified into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues, and unamortized debt expense reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.

Restricted - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Classification of Revenues

CPEP has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- Operating revenues include those derived from delivery of gas supplies to customers.
- Nonoperating revenues include those derived from capital and related financing, noncapital financing and investing activities such as net costs to be recovered in future periods and investment income.

Central Plains Energy Project

Notes to Financial Statements

June 30, 2007

Note 1: Organization and Summary of Significant Accounting Policies - Continued

Derivative Instruments

Derivative instruments are utilized by CPEP to manage market risk and, reduce its exposure resulting from fluctuations in prices of natural gas in order to meet debt service requirements. These instruments include a commodity swap agreement which convert index-priced natural gas revenues to fixed prices for servicing outstanding debt obligations and an interest rate swap agreement which effectively change CPEP's variable interest rate to a synthetic fixed rate. The financial statements do not reflect any of these instruments as assets or liabilities, and changes in fair value are not reflected in changes in net assets. Gas supply revenues in each operating period include the netting adjustments of the commodity swap agreement. Interest expense in each operating period include the netting adjustments of the interest rate swap agreement.

Income Taxes

In accordance with certain provisions of the Interlocal Cooperation Act and non-profit corporation statutes of Nebraska and related governing laws and regulations, CPEP is exempt from federal and state income taxes.

Note 2: Deposits and Investments

Deposits

State statutes require banks either to give bond or to pledge government securities to CPEP in the amount of CPEP's deposits. At June 30, 2007, CPEP's deposits were fully insured by the Federal Deposit Insurance Corporation (FDIC).

Investments

CPEP's investing is performed in accordance with the trust indenture for the gas supply project discussed in Note 3. The trust indenture identifies qualified investments as direct obligations of the United States government or any of its agencies, obligations guaranteed by the United States government or any of its agencies, certificates of deposit, repurchase agreements, guaranteed investment contracts, and certain corporate and municipal bonds.

Central Plains Energy Project
Notes to Financial Statements
June 30, 2007

Note 2: Deposits, Investments and Investment Return – Continued

At June 30, 2007, CPEP had the following investments, maturities and credit ratings:

	Fair Value	Maturities in Years		Credit Rating
		Less Than 1	More Than 10	
June 30, 2007				
Money market mutual funds - US treasury	\$ 1,989,681	\$ 1,989,681	\$ -	N/A
Cash held at trustee	157,402	157,402	-	N/A
Guaranteed investment contracts	58,171,235	-	58,171,235	Unrated
	<u>\$60,318,318</u>	<u>\$ 2,147,083</u>	<u>\$58,171,235</u>	

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately. While maturities of the guaranteed investment contracts are reflected consistent with the contract maturity, the funds are available for specific uses as identified in the trust indentures.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The trust indenture requires corporate bonds to have credit ratings of AA – S & P or Aa3 – Moody's.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, CPEP would not be able to recover the value of its investment securities that are in the possession of an outside party. None of the underlying securities of CPEP's investments at June 30, 2007 are subject to custodial credit risk.

Central Plains Energy Project
Notes to Financial Statements
June 30, 2007

Note 2: Deposits, Investments and Investment Return – Continued

Concentration of Credit Risk

CPEP and the trust indenture place no limit on the amount that may be invested in any one issuer.

	<u>Portfolio Composition June 30, 2007</u>
Guaranteed investment contracts	
Transamerica Life Insurance Company	\$ 20,211,235
MBIA, Inc.	37,960,000

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at June 30, 2007 as follows:

	<u>2007</u>
Carrying Value	
Deposits	\$ 76,942
Investments	<u>60,318,318</u>
	<u>\$60,395,260</u>

Included in the following balance sheet captions:

	<u>2007</u>
Cash and cash equivalents	\$ 76,942
Restricted short-term investments	22,358,318
Restricted long-term investments	<u>37,960,000</u>
	<u>\$ 60,395,260</u>

Central Plains Energy Project
Notes to Financial Statements
June 30, 2007

Note 3: Gas Project Revenue Bonds

CPEP issued gas project revenue bonds to participate in a long-term natural gas prepayment transaction. The project includes the issuance of revenue bonds to finance a prepayment for natural gas supplies. A summary description of the gas prepayment project is as follows:

Project No. 1

In February 2007, CPEP issued \$529,130,000 of gas supply revenue bonds to fund the prepayment of 100,855,393 Mmbtus of gas from J. Aron & Company with deliveries beginning January 1, 2007 and ending October 31, 2026. Metropolitan Utilities District (MUD) and Municipal Gas Utility of the City of Cedar Falls, Iowa (CFU) will purchase the scheduled monthly gas at a specified index less a discount from such index price for the entire term of January 1, 2007 through October 31, 2026.

Note 4: Long-term Debt

Long-term debt at June 30, 2007 consisted of the following:

	2007
Revenue bonds	
2007 Series A (Fixed Rate), Gas Project Revenue Bonds (Project No. 1), 5.00% - 5.25%, due December 1, 2007 to 2021	\$240,255,000
2007 Series B (Index Rate), Gas Project Revenue Bonds (Project No. 1), due December 1, 2010 to 2026	<u>288,875,000</u>
	529,130,000
Plus premium	17,829,416
Less current maturities of long-term debt	<u>(12,445,000)</u>
Long-term debt	<u><u>\$534,514,416</u></u>

Long-term debt activity for 2007 includes the issuance of the above revenue bonds for \$529,130,000.

Central Plains Energy Project
Notes to Financial Statements
June 30, 2007

Note 4: Long-term Debt – Continued

Future principal and interest payments required to be made in accordance with all of the long-term debt agreements at June 30, 2007, are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 12,445,000	\$ 30,691,675	\$ 43,136,675
2009	19,410,000	23,155,561	42,565,561
2010	18,370,000	22,323,210	40,693,210
2011	17,350,000	21,648,280	38,998,280
2012	18,015,000	20,870,077	38,885,077
2013-2017	105,165,000	89,583,811	194,748,811
2018-2022	132,525,000	61,556,479	194,081,479
2023-2026	205,850,000	25,619,444	231,469,444
	<u>\$ 529,130,000</u>	<u>\$ 295,448,537</u>	<u>\$ 824,578,537</u>

The interest payments reflected in the table above for the Series 2007B variable rate bonds, were calculated based on the interest rate swap agreement (See Note 8) which convert this issue to an effective fixed rate of approximately 3.78% to 4.25%.

Note 5: Related Party Transactions

All of CPEP's natural gas sales have been to members, including those project financing transactions described in Note 3.

Note 6: Derivative Instruments

GASB Technical Bulletin No. 2003-1 provides guidance for derivative instrument disclosures. The bulletin applies only to derivatives that are not reported at fair value in the financial statements. Those disclosures are as follows:

Commodity Swap Agreements

Objective of Swaps: CPEP has entered into floating to fixed commodity swap (a "Commodity Swap") in connection with the natural gas prepay transaction. The purpose of the Commodity Swap is to correlate gas sales revenue CPEP receives based on floating natural gas indices to a fixed stream of payments necessary to make debt service payments on its Bonds.

Central Plains Energy Project
Notes to Financial Statements
June 30, 2007

Note 6: Derivative Instruments – Continued

Terms: The Commodity Swap extends to the date of the final maturity of the related Natural Gas Supply Agreement. The Commodity Swap requires monthly payments based on a notional quantity of natural gas that corresponds to the volume of natural gas sold pursuant to the related Natural Gas Supply Agreement. Payments under the Commodity Swap are based on a nationally published gas indices at the gas delivery points.

Fair Value: As of June 30, 2007, the Commodity Swap had the following approximate negative fair value:

Commodity Swaps	Fair Value
Project No. 1	<u>\$ (27,477,000)</u>

The fair value presented above represent the present value of the differences of the monthly fixed prices in the related Commodity Swap, less the forward price curve at the gas delivery points based on market consensus, adjusted for basis differential and multiplied by the corresponding monthly gas volume using a forward interest rate curve as a discount rate.

As furthered discussed in Note 7, CPEP has recorded the long term prepaid gas supply contract asset at cost. Notwithstanding the fact that the swap agreement and the prepaid gas contract are controlled by terms of the bond resolution, on a stand-alone basis the long-term prepaid gas contract has a fair value at June 30, 2007, that exceeds carrying value by a positive amount which approximates and offsets the negative value of the commodity swap. This valuation is based upon the same pricing methodology as discussed above for the Commodity Swap.

Termination Risk: The Commodity Swap terminates in the event of a "triggering event" under the related Prepaid Natural Gas Sales Agreement, in the event of CPEP or counterparty nonperformance, and in connection with other specified events. Under the Commodity Swap entered into in connection with Project No. 1, no payment, in the amount of the fair value or otherwise, is to be made by either party in connection with an early termination of such swap.

Credit Risk: The Commodity Swap terminates in the event of a "triggering event" under the related Prepaid Natural Gas Sales Agreement, in the event of CPEP or Swap Counterparty nonperformance, and in connection with other specified events. Generally, the only amounts due upon termination of the CPEP Commodity Swap would be previously accrued but unpaid amounts. However, if the CPEP Commodity Swap is terminated as a result of CPEP's default or as a result of the termination of the Prepaid Natural Gas Sales Agreement, CPEP would be obligated to pay a termination payment to the Swap Counterparty based on the net present value of the remaining notional quantities of gas during the remaining term multiplied by a fixed amount. If the Swap Counterparty is rated below "A2" by Moody's Investors Service, Inc. or "A" by Standard & Poor's Ratings Services, the Swap Counterparty, within five Local Business Days, must provide CPEP adequate assurances of Swap Counterparty's ability to continue performing under all Transactions, which adequate assurances must be satisfactory to CPEP.

Central Plains Energy Project
Notes to Financial Statements
June 30, 2007

Note 6: Derivative Instruments – Continued

Interest Rate Swap Agreement

Objective of Swaps: CPEP entered into an interest rate swap (the “Interest Rate Swap”) in connection with its Series 2007B Bonds, effective on or before the date of the initial issuance of such bonds, to correlate the fixed payments it receives under the related Commodity Swap with its variable rate debt service payment on these bonds.

Terms: The Interest Rate Swap extends to the date of the final maturity of these bonds and requires payments based on a notional amount equal to the scheduled outstanding principal amount of these bonds. Under the Interest Rate Swap, CPEP pays the counterparty a fixed payment of 3.779%, 4.032% and 4.248% on the notional amount and receives a variable payment equal to the rate actually borne by the Series 2007B Bonds.

Fair Value: As of June 30, 2007, the Interest Rate Swap had the following negative fair value:

Interest Rate Swap	Fair Value
Series 2007 B	<u><u>\$ (3,146,000)</u></u>

The fair value presented above represents observable market information for Treasury bonds and LIBOR spreads on a given day to construct a smooth yield curve for LIBOR swaps; from this yield curve, a path of future expected floating LIBOR interest rates for CPEP’s swap transaction was derived; the floating LIBOR rates were calculated to reflect CPEP’s specific LIBOR formulas; the path of the floating payments is then “averaged” together to determine a single fixed rate over the same time horizon. This calculated fixed rate represents the on-market rate as this specific valuation date for a transaction identical to CPEP’s swap transactions; the corresponding on-market fixed rate to each actual fixed rate of CPEP’s swaps was compared; the difference between the actual rate and the on-market swap rate is multiplied by the applicable notional amount outstanding on each future payment date and a hypothetical payment is generated; these payments are calculated at each future payment date and present-valued back to the valuation date using a zero coupon discount rate derived from the LIBOR swap curve; the sum total of these values is the swap’s fair value.

Termination Risk: The Interest Rate Swap terminates in the event of a “triggering event” under the related Prepaid Natural Gas Sales Agreement, in the event of CPEP or counterparty nonperformance, and in connection with other specified events. Under the Interest Rate Swap, no termination payment, in the amount of the fair value or otherwise, is to be made by either party in connection with an early termination of such swap.

Central Plains Energy Project
Notes to Financial Statements
June 30, 2007

Note 6: Derivative Instruments – Continued

Credit risk: The Interest Rate Swap terminates in the event of a "triggering event" under the related Prepaid Natural Gas Sales Agreement, in the event of CPEP or Swap Counterparty nonperformance, and in connection with other specified events. The only amounts due upon termination of the Interest Rate Swap would be previously accrued but unpaid amounts. No termination payment, market-based or otherwise, is to be made by either party in connection with an early termination of the Interest Rate Swap. If the Swap Counterparty's Credit Support Provider is rated below "Baa3" by Moody's Investors Service, Inc. or "BBB-" by Standard & Poor's Ratings Services, the Swap Counterparty, within five Local Business Days, must provide CPEP adequate assurances of Swap Counterparty's ability to continue performing under all Transactions, which adequate assurances must be satisfactory to CPEP.

Note 7: Significant Estimates and Concentrations

Generally accepted accounting principles require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Major Suppliers

CPEP purchases substantially all of its natural gas supply under Prepaid Natural Gas Sales Agreement from one national gas supplier. There are a limited number of national gas suppliers and any disruption of deliveries under the supply contracts could have an impact on CPEP operations.

Note 8: Litigation

CPEP has been named as a defendant in a lawsuit filed in Lancaster County District Court and captioned, *City of Falls City, Nebraska v. Nebraska Municipal Power Pool*, et al, Case No. CI 06-4309. The lawsuit was filed by one of the communities associated with Nebraska Municipal Power Pool and alleges breach of contract and fiduciary duties. CPEP denies any wrongdoing and are vigorously defending the lawsuit. The lawsuit is in the discovery phase and the likely outcome of the case or the estimated loss, if any, to CPEP cannot presently be determined.