



KANSAS ELECTRIC POWER COOPERATIVE, INC.

NEWSMAKER

A Touchstone Energy® Cooperative 

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President's Remarks from the KEPCo Annual Meeting

BY KIRK THOMPSON
President, KEPCo Board of Trustees

Friends, colleagues, and guests, welcome to KEPCo's 36th Annual Meeting. Thank you for attending tonight and taking the time to participate in the business of your power supply cooperative.

A generation ago, the three most feared letters in the federal government were IRS. Today, it's EPA. KEPCo, and the electric utility industry, continue to be confronted by what seems to be a never ending agenda.....green house gas (GHG) regulation. For the past four years, the Kansas Legislature has debated several bills, most of which were defeated or molded into a form we could live with. Today, the Obama administration appears committed, through onerous regulations, to making fossil fuel energy too expensive to produce and consume. Affordable and reliable electricity is essential to the health, safety, quality of life and economic vitality of our communities. However, this is being challenged by the current political agenda. Time will only tell if the new Congress will delay or alter this direction.

In September, a hearing was conducted by the Kansas Joint Committee on Energy and Environment regarding two new EPA regulations, specifically, the Tailoring Rule and the Transport Rule. The Tailoring Rule will affect stationary sources, such as new power plants, cement and asphalt plants, refineries, and landfills, to name a few, which emit 100,000 tons or more of GHG's per year. If a new plant is

constructed or modifications are made to an existing facility emitting 75,000 tons or more of GHG's, Best Available Control Technology must be utilized. This rule is effective January 2, 2011 and will substantially increase the cost of energy production. These costs will ultimately be borne by residential and commercial customers through higher electric rates. The President said the current economic crisis contributed to the Senate's inability earlier this year to pass a comprehensive bill to cap carbon dioxide emissions and create renewable power standards. Are we still not in an economic crisis that many economists believe will be protracted for several more years? Political agenda has supplanted the need for our country's economic vitality. Not long ago, the U.S. was a manufacturing nation. Made in the U.S.A. meant quality. Today, if agendas such as this are allowed to continue, the U.S. will soon become a service industry nation due to operating costs that cannot be

competitively sustained.

The EPA is also proposing a regulation to reduce Sulfur Dioxide (SO₂) and Nitrous Oxide (NO_x) emissions, called the Transport Rule, employing the "good neighbor" provision of the Clean Air Act to reduce interstate transport of upwind state emissions from power generation that contribute to air quality problems in downwind states. The good neighbor provision prohibits each state from significantly contributing to air quality problems in another state. According to the EPA, SO₂ and NO_x react in the atmosphere to form fine particles and ground-level ozone and are transported long distances, making it difficult for other states to achieve national clean air standards. Kansas is one of thirty-one states that have been included under the Transport Rule. Under the Transport Rule, EPA sets an emissions "budget" for each state to which the rule applies, which is based on an analysis of each state's contribution to downwind exceedences. The required reductions will be phased in, with SO₂ reductions beginning on January 1, 2012 with full reductions to the "budget" level required by January 1, 2014 and NO_x reductions beginning on May 1, 2012 with full reductions to the "budget"

(continued on page 2)



Members attend KEPCo Annual Meeting. See page 4 for more photo highlights.

President's Remarks

(continued from page 1)

level required by May 1, 2014.

Kansas utilities, including KEPCo, provided joint testimony before the Kansas Joint Energy and Environment Committee. Several points were offered in the testimony. First, commercially available, utility-scale technology to control GHG emissions does not exist. Regulatory deadlines and available technology are not congruous. Second, the EPA used emissions data from 2005 through 2007 to determine Kansas' impact for the Transport Rule. This modeling, used as the basis for this rule, does not reflect current, 2010 emission rates by Kansas utilities, either by permit or by agreement. Third, it was stressed to the committee that because of ongoing control technology upgrades, the supply chain queue for further enhancements is full. There is not enough labor force or manufacturing capacity to meet the EPA's timeline for both rules.

In Congress, Senator Jay Rockefeller from West Virginia has introduced a bill that would place a moratorium on the EPA regulating stationary source emissions for two years. The cumulative cost exposure of the two rules raises significant concerns about the economic viability of a large number of existing coal-fired units, as well as potential impacts to grid reliability and imposition of substantial increases in retail electricity prices to consumers and businesses alike. The two-year moratorium would be used to quantify the impact.

With the EPA adding new regulations, and the continued discussion in Congress of a cap and trade bill, it appears that a regulatory thunderstorm is forecast for the utility industry. We are very fortunate that KEPCo has provided its nineteen Member Cooperatives with a storm shelter. Fifty-percent of KEPCo's resource mix does not emit any GHG's, SO₂, or NO_x. The energy KEPCo receives from Wolf Creek and federal hydropower allocations will significantly reduce the economic impact of climate change regulations, perhaps in excess of fifty percent. In addition,

Iatan 2, an 850 MW coal-fired generating unit of which KEPCo owns a 30 MW share, has been declared operational. Iatan 2 employs state-of-the-art emission controls. Modifications should not have to be made to this plant for many years, once again shielding the KEPCo Members from additional cost increases.

Ultimately, the most challenging question the utility industry faces today is whether we can afford the current haphazard course of action. The temptation to "just say no" and put our heads in the sand is strong. But the climate change agenda will not go away, and the ad hoc solutions will continue. As an industry, we know we will be mandated to develop cleaner forms of energy. But what will be the chosen course? Renewables? Nuclear? Cleaner coal? A combination of the three? No one argues that we need to become less dependent on the oil and gas-rich politically unstable parts of the world and more dependent on the energy sources available to us here at home. We know we need a policy that gives us durable, sustainable jobs. And we know we need to do all these things at the lowest possible cost to avoid harm to the economy. We know a lot about what we want. Unfortunately, as a nation, we know little on how we get there in a reliable, sustainable, and economic manner. KEPCo is not alone in our efforts to achieve our goals.

At this time, I would like to recognize two companies vitally important to the continued success of KEPCo..... Wolf Creek and Westar Energy. With us tonight from Wolf Creek are Mr. Matt Sunseri, President and CEO of Wolf Creek and Mr. Terry Garrett, Vice President of Engineering. I would like to recognize and thank them and all of the Wolf Creek staff for Wolf Creek's success and our appreciation of a job well done.

Westar has been an integral part of KEPCo's success since 1983. Last year our thirty-eight year purchase power agreement with Westar was approved by FERC. The agreement enables KEPCo and its Members access to Westar's existing generating resources and mitigates the risk of being vulnerable to

price fluctuations in the open market. This long-term commitment illustrates the value of KEPCo's continued relationship with Westar and the mutual respect that exists between our companies. In attendance tonight from Westar Energy are Mr. Bill Moore, President and CEO, Mr. David Shupe, Manager, Wholesale Business and Ms. Suzanne Lane, Manager, Transmission Customer Service. On behalf of the member cooperatives, thank you for the support and commitment to KEPCo.

It is also my privilege to recognize the talented KEPCo employees in attendance tonight. Several of Staff's accomplishments throughout the year are listed in the annual meeting program. The list is impressive and exemplifies the talent at KEPCo.

I want to thank the Board of Trustees for their vision, hard work and for support this past year. It has been a challenging year but one that I am certain will enable KEPCo to continue its leadership role as a provider of energy and other services to rural Kansas. Thank you.

New Employee at KEPCo

Shawn Geil has been hired as the new Director of Information Services. Shawn is replacing the soon-to-be retiring Bob Bowser.

Shawn is from Butler County and attended Washburn University where he earned two degrees, a Bachelor of Business Administration and a Bachelor of Administration in Computer Information Systems. Shawn will also be completing his MBA from Washburn this December.

Prior to joining KEPCo, Shawn worked for 14 years in Washburn University's IT Department.

Shawn is married to his wife Robin and they have a daughter, Makayla. Shawn's hobbies include reading and swimming.



Shawn Geil



Electric Co-ops Offer More Than Electricity

STEPHEN E. PARR
Executive Vice President and CEO

This past year, three problems have affected our economy; a general economic downturn, a dramatic rise in unemployment, and escalating healthcare costs. You may be wondering why these subjects are being discussed in a newsletter of an electric cooperative. It's because the electric cooperatives of Kansas provide value-added services that positively influence each of these problems.

When money is tight, what is one of the worst things that can happen at home? A major appliance breaks. Since the 1980's KEPCo, and its Member Cooperatives, have offered rebates to electric cooperative members for the purchase and installation of electric water heaters and heat pumps. Since 1996, KEPCo has rebated nearly \$4 million to its Members. Money that is spent locally will turn-over within the community five to seven times. By putting money back into the pockets of rural Kansans, KEPCo and its Member

Cooperatives are helping to put money back into local communities.

Every community in Kansas has been adversely affected by unemployment. Unemployment not only has a personal affect, but also a community affect, decreasing several forms of tax revenue which are used to fund various community services. For over two decades, the electric cooperative community has offered a loan program, administered through the USDA, called the Rural Economic Development Loan & Grant Program (REDLG). This program offers zero-interest loans to start-up businesses and businesses wanting to expand. Over the years, the REDLG program has loaned or granted KEPCo Member projects more than \$18 million and, when combined with the \$43.1 million in private investment, results in a rural development impact exceeding \$61.5 million. In addition, these projects and subsequent loans increase the property tax base and the 963 new

jobs that have been created from these loans, and associated wages, improve local and regional prosperity.

The high cost of healthcare affects us all. Escalating healthcare costs results in less discretionary income, which adversely affects not only personal finances but also the prosperity of Main Street. Many of us are fortunate enough have insurance and prescription drug coverage. Many are not. Our national organization, NRECA, has provided cooperatives across the nation a method to reduce the high cost of prescription drugs, called the Co-op Connections Card. Since inception, which has not been that long, co-op Members in Kansas have used the card over five thousand times and saved in excess of \$65,000 on prescription drug costs. Again, money that was kept at home, in the pockets of cooperative members.

It seems the current administration's plan to turn the economy around, reduce unemployment and to make healthcare more affordable is to throw more and more money at the problem. This methodology has achieved little success. Perhaps our government could learn a lesson from rural Kansans, who happen to also sell electricity.

Bob Bowser to Retire from KEPCo

Dr. Bob Bowser, Vice President of Technical Services, with over 31 years of service, will retire from KEPCo on January 3, 2011.

When Bob began his career as a Systems Analyst at KEPCo in 1979, Jimmy Carter was president, the Dow was at 907, gasoline was \$0.86 per gallon, and a stamp cost \$0.15. As with the economy, things at KEPCo have changed over the years as well. "I remember when I started at KEPCo, there was little technology. It was pretty much pen and paper. We were not selling energy yet and we didn't establish a full rate until 1983. Prior to 1984, we were time-sharing computer services with General Electric. In 1984, I bought KEPCo's first mini-computer. And in the 1990's, we were one of the first



Bob Bowser

G&T's in the country, if not the first, to install a Local Area Network and put computers on everyone's desk. This is something I am very proud of", said Bowser.

During his tenure, Bob has worked

for every KEPCo CEO and all but one Board of Trustees President. "Bob has been a tremendously valuable asset to KEPCo. Bob has worked for KEPCo all but four years of its existence. His technical expertise, both in information systems and rate-making, has been integral in KEPCo achieving the success it has for over three decades", said Stephen Parr, KEPCo Executive Vice President and CEO. "You cannot replace the knowledge base acquired from thirty-one years of service. Bob will be missed. We wish he and Marilyn much happiness in retirement and thanks for a job well done," said Parr.

Bob and Marilyn will retire in Kansas City where Bob intends to teach mathematics and statistics on a part-time basis at a local university.

KEPCo Celebrates 36th Annual Meeting

Approximately 160 representatives from KEPCo Member Cooperatives, KEPCo Staff and guests attended the 36th Annual Membership Meeting, November 17, at the Marriott Hotel in Wichita, KS.

Guests were invited to attend a reception preceding the Annual Meeting, sponsored by GDS Associates, Inc., C.H. Guernsey & Co., Miller Balis & O'Neil, and Polsinelli Shughart.

In addition to the traditional business of the Annual Meeting, Kirk Thompson, KEPCo President, reviewed the year (his remarks are included with this *Newsmaker*). Stephen E. Parr, KEPCo Executive Vice President & CEO, welcomed the group, provided remarks about KEPCo's accomplishments and looks forward to working with the Members on future issues.

