KEPCo

ANNUAL REPORT

KANSAS ELECTRIC POWER COOPERATIVE

2020

2020 DETERMINATION TEAM PERSEVERANCE
RESILIENCE DEDICATION ENGAGEMENT
ENDURANCE **KEPCO** PERSISTENCE
PURPOSE ENERGY POWER STABILITY
STEADY **STRONGER** SOLID STABLE
DECISION STRENGTH UNPRECEDENTED
TOGETHER CHALLENGE INNOVATIVE
DISCIPLINE TOOLS OPPORTUNITY
SUPPORT **COOPERATIVE** ENHANCEMENTS
ACCOMPLISHMENTS ADVOCATE TENACITY
FORTITUDE RESOLVE UNCHARTED

GUIDING PRINCIPLES

- **SAFETY:** We are devoted to a culture of safety to assure an accident-free, secure, and healthy work environment.
- **INNOVATION:** We promote continuous learning, development, and creative thinking to encourage innovative, proactive, cost-effective, and technologically relevant business and energy solutions.
- **ENGAGEMENT:** We strive to provide a positive, professional, and respectful work environment for our employees and Members, and we are committed to building relationships based on genuine caring and understanding.
- **INTEGRITY:** We expect our team to be completely transparent, open to new ideas, honest, trustworthy, fully accountable, ethical, and to do the right thing for our Members, our industry partners, the general public, and each other.
- **FINANCIAL RESPONSIBILITY:** We strive to provide power supply, support, and services to our Members at the lowest possible cost, consistent with sound business practices, Board policies, and cooperative principles.

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OUR PURPOSE

KEPCo strives for excellence in providing safe, reliable, economical, and environmentally responsible power supply, exceptional support, and innovative services to our Members and the Kansans they serve.

OUR STAFF

Suzanne Lane
Executive Vice President & CEO

Mark Barbee
Senior Vice President, Engineering & Operations

Susan Cunningham
Senior Vice President, Regulatory & Government Affairs, and General Counsel

Coleen Wells
Senior Vice President & CFO

Stephanie Anderson
Finance & Benefits Analyst 2

Jared Crotinger
Senior Operations Technician

Chris Davidson
Engineer 3

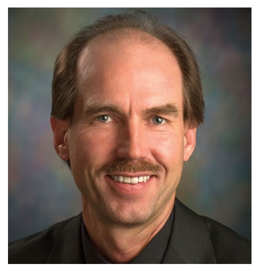
Terry Deutscher
Manager, SCADA & Meter Maintenance

Mark Doljac
Executive Director, Regulatory Affairs & Planning

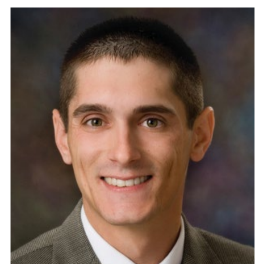
Rebecca Fowler
Manager, Regulatory Affairs

Carol Gardner
Operations Analyst 2

Shawn Geil
Executive Director, Technical & Energy Services



Maurice Hall
Senior SCADA/Metering Technician - Wichita

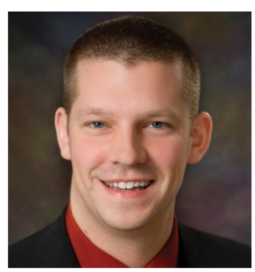


Robert Hammersmith
Senior SCADA/Metering Technician - Salina

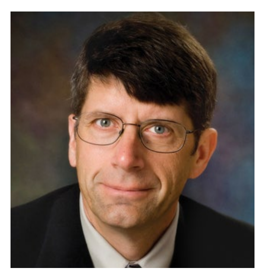
Rick Johnson
Executive Director, Engineering

Shari Koch
Finance & Accounts Payable/Payroll Specialist 2

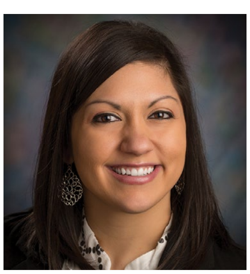
Adam Lee
SCADA/Metering Technician II



Matt Ottman
Information Systems Specialist 3



John Payne
Senior Engineer

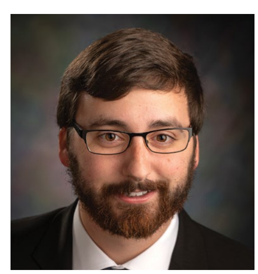


Kelsey Schrempp
Executive Assistant & Manager of Office Services

Paul Stone
Operations Specialist

Missy Tew
Administrative Assistant

Phil Wages
Director, Member Services, Government Affairs & Business Development



Luke Zahner
Engineer 1

LETTER FROM THE BOARD PRESIDENT AND EXECUTIVE VICE PRESIDENT/CEO

Suzanne Lane
Executive Vice President & CEO

Doug Jackson
Board President

STRONGER TOGETHER

So many words have been used to describe 2020. Unprecedented. Historic. Surreal. At KEPCo, we prefer to describe 2020 with words and phrases like "resilience," "perseverance," "stronger together," and "innovative." In a year when concepts like working from home, mandatory masking, and social distancing became constant and crucial reminders of the current state of affairs, our G&T cooperative was still able to remain resilient, persevere through adversity, and come out successful and stronger as a result.

Not only do we have many things for which to be thankful regarding the health and safety of our team, our Members, and our families, but we are also thankful for the many accomplishments fulfilled on behalf of and for our Member-Owners this year. While certain electric loads decreased as a result of the COVID-19 pandemic, a majority of KEPCo's Members' loads are residential consumer-based and, therefore, KEPCo's peak demand only decreased about 4.4% from the 2020 budgeted demand and only 5.0% from the 2020 actual demand. The mild weather also contributed, as Kansas did not see the extreme, sustained summer heat to which we are often accustomed.

Although the decrease in Member sales impacted our 2020 year-end margin, we were proud to maintain stable average rates for our Members. In fact, we ended the year with a similar average Member rate as 2020, and the second lowest average rate in over a decade. Many activities contributed to maintaining stable rates, including the successful implementation of a Member-focused revision to our tariff, whereby our Member billing mechanisms are more aligned with the way we are billed by our suppliers. In addition, we successfully implemented amendments to our Member load management program, focusing on enhanced communications and distributed generation reimbursement practices, which optimized cost savings opportunities for our Members.

With regard to our power supply, our owned and purchased resources once again performed in a very safe, reliable, and cost-effective manner. Our jointly-owned Wolf Creek Generating Station experienced another tremendous operational year, highlighted by the plant's inaugural implementation of a flexible power operations program. As for our other resources, the Iatan 2 coal plant performed well overall, continuing to be a valuable, reliable asset for the Southwest Power Pool (SPP) market. Our Southwest Power Administration and Western Area Power Administration hydro resources continued to be low-cost, reliable power supply sources; a continued benefit to our Members was that low-cost, supplemental energy was available, which provided our Members additional, cost-effective energy supply. KEPCo's solar farm, Prairie Sky, continued to produce as expected, and our diesel-fueled Sharpe Generating Station was called to operate even more hours than the record-setting prior year to help the SPP. Also on the topic of power supply, in 2020 we entered a new, cost-reducing power purchase agreement for the years 2021-2026, which will

continue our ever-present efforts of finding cost-savings opportunities for our Members.

As for additional member-focused activities and advocacy efforts, we are proud to have many to report in 2020. For the first time in over 20 years, we were able to retire about $700,000 in capital credits, which offered timely assistance to our Members during the pandemic. We supported our Members' additional distributed generation projects by providing guidance, process enhancements, technical assistance, and amending policies and practices. We advocated for our Members in legislative and congressional fronts, with key components involving the Kansas Senate Bill No. 69 electric rate study and the need for Rural Utilities Service debt refinancing. These proud advocacy efforts also earned us status as an NRECA 5-Star Co-op. We completed KEPCo's first all-inclusive risk identification and assessment process, which paves the way for a robust, crucial risk management policy. We continued our advocacy and engagement at SPP, the Southwestern Power Resources Association, and the Loveland Area Customer Association. We were a key player in generation and transmission cost-related cases before the Federal Energy Regulatory Commission, collaboratively reaching or attempting to reach results that are in the best interest of KEPCo and our Members. And we were proud to facilitate our first member survey, receiving meaningful feedback that will help us grow and assure we are providing our Members with the best experience possible.

KEPCo's many successes in 2020 were only possible because of the support, guidance, and oversight of the Board of Trustees, and the dedication, hard work, member-focus, and team spirit of KEPCo employees. With regard to our team, there are many key accomplishments to highlight in this report. First and foremost, we completed 2020 with a stellar safety and cybersecurity record, completing our 11th consecutive year without a lost-time injury. Every employee had a new, customized goal plan that assured we were all aligned with the strategic plan and focus areas desired by our Members. We proposed and received approval from the Board to have a new purpose statement and guiding principles, as depicted in this annual report. In a time when remote working was essential to assure safety, we remained engaged and connected by having a multitude of creative, innovative employee events, training sessions, and informational meetings. We established KEPCo's first Safety Committee, which led the effort to completely revamp our Safety Manual in 2020. We completed our first employee survey in 2020, learning how we can provide our employees with an optimal work experience, and we held our first supervisors' summit to assure all of our front-line supervisors have the support and tools they need to lead successfully.

Our engineering services company, KEPCo Services, Inc. (KSI), is fully staffed and completed a significant amount of engineering and technical work in 2020 on behalf of the Members who utilize these engineering services. And last but not least, while exhibiting the cooperative principle associated with concern for community, we proudly supported our local community by volunteering for organizations and contributing over $27,000 (including CoBank's matching funds) to local charities.

While we had unparalleled challenges and experienced uncharted territory in 2020, our resilience, perseverance, and dedication to our Members helped drive us to many successes. We are honored and blessed to be part of this amazing cooperative family and to serve each of our Members, our Members' teams, and the nearly 300,000 rural Kansans our Members serve.

Thank you to the entire Board for the support and dedication to KEPCo, and to the KEPCo team for going above and beyond each and every day to serve our Members.

... our G&T cooperative was still able to remain resilient, persevere through adversity, and come out successful and stronger ...

2020 KEPCo **BOARD OF TRUSTEES**

Executive Committee Members

- **DOUGLAS JACKSON**
  President
- **STEVEN FOSS**
  Vice President
- **LARRY FROESE**
  Secretary
- **BRYAN COOVER**
  Treasurer
- **CHARLES GOECKEL**
  Executive Committee Member
- **MICHAEL MORTON**
  Executive Committee Member
- **KIRK THOMPSON**
  Executive Committee Member


EXECUTIVE COMMITTEE

Michael Morton, Trustee, Manager
Bluestem Electric Cooperative, Inc.

Gary Buss, Alternate
Bluestem Electric Cooperative, Inc.

Kevin Compton, Trustee
Brown-Atchison Electric Cooperative Assn., Inc.

Jim Currie, Alternate, Manager
Brown-Atchison Electric Cooperative Assn., Inc.


EXECUTIVE COMMITTEE

Kirk Thompson, Trustee, Manager
CMS Electric Cooperative, Inc.

Linda Tomlinson, Alternate
CMS Electric Cooperative, Inc.

Dean Allison, Trustee
DSO Electric Cooperative, Inc.

Tim Power, Alternate, Manager
DSO Electric Cooperative, Inc.

Mark Scheibe, Trustee, Manager
Heartland Rural Electric Cooperative, Inc.

H.H. Stockebrand, Alternate
Heartland Rural Electric Cooperative, Inc.

Paul Unruh, Trustee
Ninnescah Rural Electric Cooperative Assn., Inc.

Teresa Miller, Alternate, Manager
Ninnescah Rural Electric Cooperative Assn., Inc.

Donald Metzen, Trustee
Sedgwick County Electric Cooperative Assn., Inc.

Scott Ayres, Alternate, Manager
Sedgwick County Electric Cooperative Assn., Inc.

Coni Adams, Trustee, Manager
Sumner-Cowley Electric Cooperative, Inc.

John Schon, Alternate
Sumner-Cowley Electric Cooperative, Inc.

Dennis Svanes, Trustee, Manager
4 Rivers Electric Cooperative, Inc.

Tom Ayers, Alternate
4 Rivers Electric Cooperative, Inc.

SECRETARY

Larry Froese, Trustee
Ark Valley Electric Cooperative Assn., Inc.

Jackie Holmberg, Alternate, Manager
Ark Valley Electric Cooperative Assn., Inc.

Dale Short, Trustee, Manager
Butler Rural Electric Cooperative Assn., Inc.

Ron Oelkers, Alternate
Butler Rural Electric Cooperative Assn., Inc.

Dan Hubert, Trustee
Caney Valley Electric Cooperative Assn., Inc.

Allen Zadorozny, Alternate, Manager
Caney Valley Electric Cooperative Assn., Inc.

EXECUTIVE COMMITTEE

Charles Goeckel, Trustee, Manager
Flint Hills Rural Electric Cooperative Assn., Inc.

Terry Olsen, Alternate
Flint Hills Rural Electric Cooperative Assn., Inc.

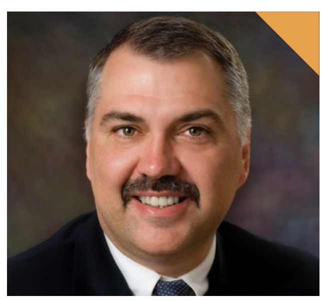
VICE PRESIDENT

Steven Foss, Trustee, Manager
FreeState Electric Cooperative, Inc.

Harlan Hunt, Alternate
FreeState Electric Cooperative, Inc.

William Peterson, Trustee
Prairie Land Electric Cooperative, Inc.

Chuck Look, Alternate, Manager
Prairie Land Electric Cooperative, Inc.



PRESIDENT

Douglas Jackson, Trustee, Manager
Rolling Hills Electric Cooperative, Inc.

Paul Wilson, Alternate
Rolling Hills Electric Cooperative, Inc.

TREASURER

Bryan Coover, Trustee
Twin Valley Electric Cooperative, Inc.

Angie Erickson, Alternate, Manager
Twin Valley Electric Cooperative, Inc.

Shane Laws, Trustee, Manager
The Victory Electric Cooperative Assn., Inc.

Daryl Tieben, Alternate
The Victory Electric Cooperative Assn., Inc.

LEGISLATIVE **REVIEW**

The 2020 legislative session was not immune to the effects of COVID-19. The session was dramatically shortened, with the first adjournment occurring in mid-March, which proved to be the last time the legislature would meet, other than one final day of debating bills and formal adjournment in late May.

The session was anticipated to be busy with several utility-related bills and initiatives to be examined. One topic expected to be discussed was Kansas electric rates. For the past few years, considerable attention has been given to the view that electric rates in Kansas are unfavorable in comparison

to neighboring and regional states, thus making it difficult to attract and retain businesses in Kansas. In the 2019 session, advocates of this viewpoint introduced legislation, which authorized an independent rate study to be conducted to assist legislative and regulatory efforts in reviewing and crafting energy policies that lead to regionally competitive electric rates while maintaining reliable electric service.

Through a request for proposal process, London Economics International (LEI) was selected to complete the first phase of the two-phase, 29-topic study. Early in the 2020 session, LEI presented its study results to the Senate and House utilities committees, reviewing topics that included rate-making principles, performance-based rates, integrated resource planning, renewable generation, the development of a state energy plan, energy efficiency, and securitization, to name a few. Subsequent to the LEI presentations, Kansas utilities and other interested stakeholder groups provided testimony to both committees on their respective opinions of the study.

Phase 2 of the study was awarded to AECOM, an engineering firm specializing in utility infrastructure, and its partner, Energeia USA (AECOM). AECOM focused its review on such topics as electric vehicles, advanced energy solutions, battery storage, transmission investments, economic development, cybersecurity, and generation fuel costs. AECOM submitted its report to the Kansas Corporation Commission in July, which also included policy recommendations related to the study topics.

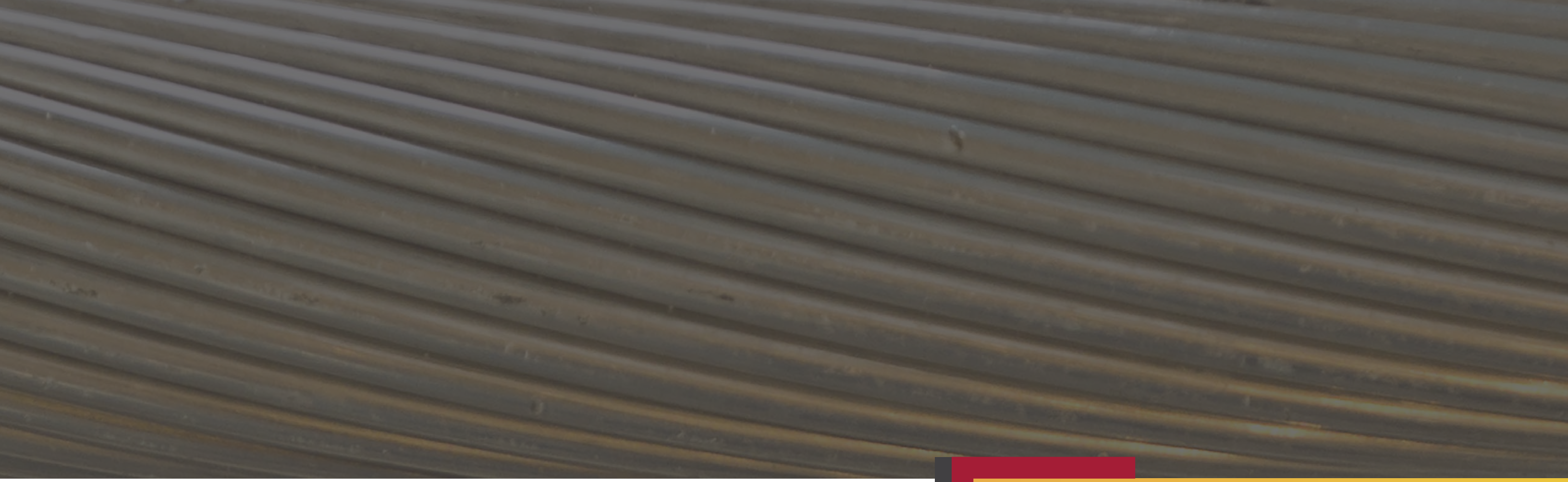
In early March, in anticipation of a shortened session, bills were prioritized for debate by the full bodies of the legislature. Only one utility bill was considered, Senate Substitute for House Bill No. 2585, a bill that eliminates the collection of state income tax from consumers by investor-owned electric and natural gas utility companies. Another provision in the bill allows the KCC to approve certain electric contract rates and associated cost recovery from all rate classes outside the context of a general rate proceeding. The bill was passed by the Senate early in the final day of the session and, after a lengthy and heated debate, was concurred by the House.

At the national level, the traditional in-person meetings of Kansas cooperative representatives with the Kansas congressional delegation in Washington, D.C., were held virtually due to COVID-19. In September, a virtual meeting was held at KEPCo's headquarters, where KEPCo managers, Board of Trustees members, and staff — along with other cooperative representatives and the government relations team at Kansas Electric Cooperatives, Inc. (KEC) — discussed with the delegation a variety of issues, including COVID-19 response efforts to protect electric cooperative employees and communities, broadband deployment, rural economic development, and the need for USDA Rural Utilities Service loan repricing.

As part of our advocacy efforts, KEPCo participated in the Co-ops Vote events organized by KEC and sponsored by our Member cooperatives. Each event was attended by cooperative employees, city and county officials, state legislators, and congressional candidates. These events allow electric cooperatives the opportunity to meet with elected officials and educate them on issues of importance to electric cooperatives and the communities they serve.

"The opportunity to interact with local, state, and national elected officials, in an informal but informative setting, is an invaluable asset as issues are debated at the state and national levels," said Susan Cunningham, KEPCo SVP of Regulatory and Government Affairs & General Counsel.

Co-ops Vote is a nonpartisan program that strives to inform both cooperative Members and the candidates about issues important to America's electric cooperatives and the communities they serve, from the continued need for affordable and reliable electricity to broadband access and other rural economic development issues. Through participation in Co-ops Vote events and other advocacy efforts, KEPCo earned the "5-Star Co-op" designation from NRECA.



KEPCo SERVICES, INC. COMPLETES 23 YEARS OF OPERATIONS

KEPCo Services, Inc. (KSI), a wholly owned subsidiary of KEPCo, completed its 23rd year of operations. KSI offers a diverse array of technical and engineering services for KEPCo Members and non-member electric cooperatives. KSI provides value-added engineering services while creatively finding solutions that facilitate the goals and objectives of its clients. KSI places paramount importance on integrity, transparency, innovation, servant leadership, and commitment to excellence.

In 2020, KSI was involved in over 49 projects for 15 KEPCo Members and two non-member cooperatives. KSI persevered through the uncertainty of the COVID-19 pandemic and continued to provide its services without interruption. Some of the more substantive projects included: project management activities for the CMS Jupiter Project and the Brown-Atchison 75 Highway line relocation project; sectionalizing studies for DSO and Rolling Hills; construction work plans for Rolling Hills and Flint Hills; FEMA M1901 application support for Bluestem; Pony Meadows relay/control upgrade project for Butler; and arc-flash assessments for Sedgwick and Heartland. A description of KSI's current services is available on KEPCo's website.

Late in the year, Senior Engineer John Payne announced his retirement after 15 years of service, effective January 2021. In addition to his significant contributions at KEPCo in the areas of transmission service and NERC compliance, John also supported projects for KSI and provided expertise to the KSI team, specifically in the relay and control discipline.

KEPCo BOARD ELECTS NEW PRESIDENT

At its November meeting, the KEPCo Board of Trustees unanimously elected **MR. DOUGLAS JACKSON** as Board President. Jackson is Manager of Rolling Hills Electric Cooperative, Inc. in Beloit. Prior to his election as President, Jackson served as KEPCo's Secretary in 2017 and 2018 and Vice President in 2019.

Jackson has 40 years of experience in the electric utility industry. His career began in 1981 with the City of Belleville municipal utility. In 1987, he joined NCK Electric Cooperative, Inc. (NCK) in Belleville and became manager of NCK in 1992. NCK merged with Jewell-Mitchell Cooperative Electric Company, Inc. (Mankato) and Smoky Hill Electric Cooperative Association, Inc. (Ellsworth) in 2002, resulting in the formation of Rolling Hills Electric Cooperative, Inc., which Jackson has managed since the merger.

"I am honored by the KEPCo Board of Trustees to have the confidence and trust in me to lead such a wonderful organization. Affordable, safe, and reliable electricity is crucial to the economic vitality in rural Kansas, and I look forward to working with the other KEPCo member cooperatives and KEPCo staff in continuing to provide such a valued service," said Jackson.

Jackson succeeds Dale Short, former manager of Butler Rural Electric Cooperative Assn., Inc.

RURAL DEVELOPMENT **PROVIDES RESILIENCE FOR COMMUNITIES**

Committed to the future of rural communities.

Economic development is vital to the continued prosperity and resilience of rural Kansas, with the goal of improving the quality of life and economic well-being of people living in rural areas. The economic well-being of rural communities is also necessary to stimulate the overall economic expansion of the nation. Small-scale entrepreneurship is the one economic development strategy that consistently works in rural communities, as over half of all new jobs created in most rural areas come from small, off-farm business ventures.

For nearly three decades, KEPCo and its Member cooperatives have been actively involved in the USDA Rural Economic Development Loan and Grant (REDLG) program. The REDLG program provides zero-interest loans for projects in rural areas that create or retain employment. For the 2019-2020 USDA fiscal year, $1.72 million in loan funds were brought into rural Kansas, resulting in 78 jobs either being added or saved.

"KEPCo is proud to work with and assist our Member cooperatives in obtaining REDLG loans that benefit rural Kansas communities," said Susan Cunningham, KEPCo SVP of Regulatory and Government Affairs & General Counsel. "Over the years, the types of businesses that have taken advantage of this program include dentists, manufacturing facilities, agriculture production, schools, hospitals, implement dealers, e-commerce, and retail establishments, just to name a few. Introducing business owners and entrepreneurs to a cost-effective method of financing has proven to be a successful formula in creating and retaining businesses and jobs in rural Kansas."

Economic development is also a top priority for Kansas Governor Laura Kelly and her administration. The state of Kansas has not had a comprehensive strategy for economic growth since 1986. This year, under the governor's leadership, the Department of Commerce convened a group of stakeholders, including business leaders and economic development professionals from across the state, along with members of academia and Department of Commerce staff, to develop the Kansas Framework for Growth, which is a comprehensive economic development plan that recognizes various industry sectors, geographic differences, changing demographics, and economic trends, with the goal of developing a strategy to spur economic growth in Kansas.

Creation of the Kansas Framework for Growth will occur in three phases: assessment and benchmarking, recommendations and best practices, and implementation planning. KEPCo applauds the development of this initiative, as the integration of this plan's development within state agencies, local government, and private interests is essential to develop a vision and strategic plan for Kansas.

Introducing business owners and entrepreneurs to a cost-effective method of financing has proven to be a successful formula in creating and retaining businesses and jobs in rural Kansas.

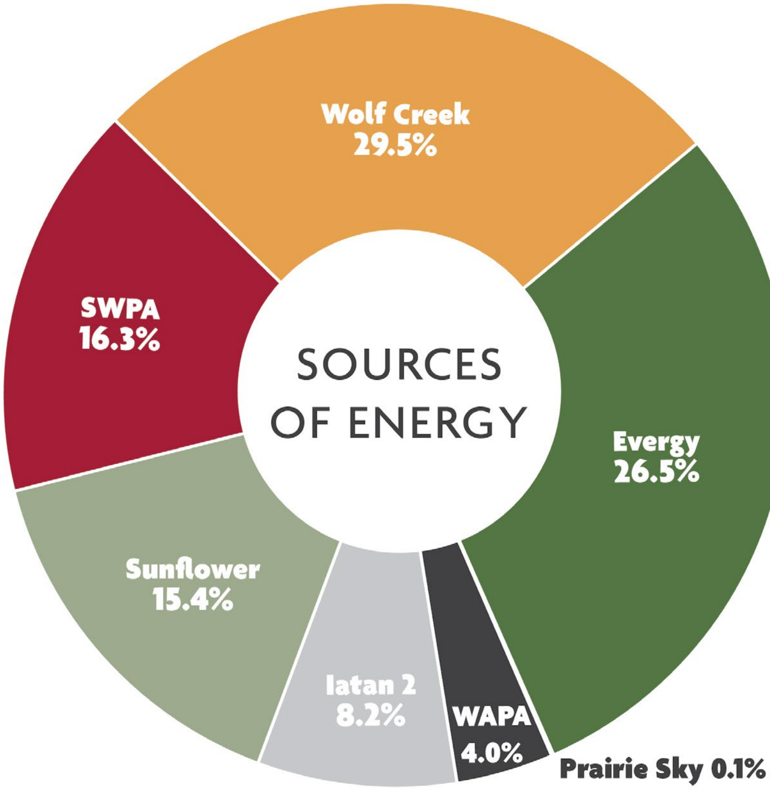
In an effort to create a long-term, reliable, economic power supply for its members, KEPCo has built a diverse power supply …

OUR DIVERSE **POWER SUPPLY**

In an effort to a create long-term, reliable, economic power supply for its Members, KEPCo has built a diverse power supply that includes nuclear, hydro, coal, wind, natural gas, diesel, and solar resources. As part of its power supply strategy, KEPCo seeks to maintain a diversified and balanced power supply, which includes a mix of owning generation when prudent, purchasing power using a combination of long- and short-term contracts, adding renewables when cost effective, and incorporating demand side technology in power supply planning processes through Member load management programs. Proudly, KEPCo's current portfolio minimizes greenhouse gas emissions with approximately 67% of its supply from non-greenhouse gas emitting sources.

In addition to its owned generation and long-term hydro allocations, KEPCo purchases its remaining requirements from regional utilities for base, intermediate, and peaking power supply. These contracts provide KEPCo with power from coal, natural gas, and wind resources.

- **100 MEGAWATTS** of hydropower purchases from the Southwestern Power Administration
- **70 MEGAWATTS** of owned generation from the Wolf Creek Generating Station
- **32 MEGAWATTS** of owned generation from the Iatan 2 Generating Plant
- **20 MEGAWATTS** of peaking power from the Sharpe Generating Station
- **13 MEGAWATTS** of hydropower purchases from the Western Area Power Administration
- **1 MEGAWATT** of solar power from the Prairie Sky Solar Farm



KEPCo RETIRES CAPITAL CREDITS

The sixth Cooperative Principle is Cooperation Among Cooperatives, which states that by working together through local, national, regional, and international structures, cooperatives improve services, bolster local economies, and deal more effectively with social and community needs. One significant way in which KEPCo was able to demonstrate its support for and cooperation with its Members was through a capital credit retirement.

6 COOPERATION AMONG COOPERATIVES

Co-ops serve their members most effectively and strengthen the co-op movement by working together through local, national, regional and international structures.

At its May meeting, the KEPCo Board of Trustees approved the retirement of approximately $700,000 in capital credits. The retirement was slated to occur in August, but KEPCo's strong financial position enabled the retirement to be distributed in June, which offered timely assistance to our Members during the pandemic.

"It's nice to be in a position to retire these capital credits sooner than expected and take some financial pressure off our Members," said Coleen Wells, KEPCo's Senior Vice President & CFO.

The retirement, the first in over 20 years, reflects a cash distribution based on 25% of KEPCo's 2019 net margin.

KEPCo STAFF SUPPORTS LOCAL CHARITIES

For many years, KEPCo and KEPCo staff have supported local charitable organizations in a variety of ways, from personal volunteerism to financial support. This involvement is an example of the seventh Cooperative Principle — Concern for Community, which states cooperatives work for the sustainable development of their communities through policies supported by the membership. The time, talent, goods and services, and financial resources that are donated to community organizations hold significant value to our employees, as well as the communities impacted. Through their support of local charities, KEPCo employees benefit from supporting community activities, expanding their social connections, and increasing their personal sense of well-being.

"KEPCo is proud to be an active participant in our local communities. It is fulfilling to be part of an organization that helps in bringing tangible and sustainable benefits to the communities in which we live and work," said Suzanne Lane, KEPCo Executive Vice President & CEO.

This year, unfortunately, the COVID-19 pandemic did not afford in-person community engagement activities as in prior years. Nonetheless, KEPCo employees, through KEPCo's Charitable Giving Program, donated nearly $16,000 to local charities. With Co-Bank's matching funds, KEPCo and its employees contributed over $27,000 in total in 2020. The charities chosen by KEPCo staff were TARC, Topeka Rescue Mission, Ronald McDonald House, CASA, Harvesters, and the Salvation Army. These charities perform a valuable service in our communities and KEPCo staff is proud to support their efforts.

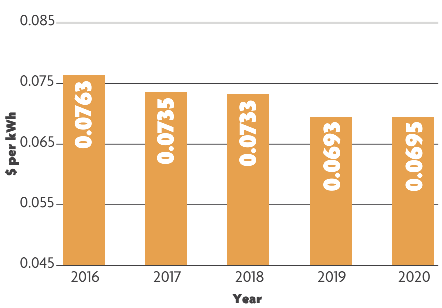
IN MEMORY OF PAUL STONE

PAUL A. STONE, KEPCo Operations Specialist, passed away on December 11 at the age of 67. Paul worked in the rural electric cooperative industry for 47 years, with 23 of those years spent dutifully serving KEPCo and its Member cooperatives. He worked in numerous capacities during his electric cooperative career, ranging from tree trimmer to engineering manager to load management and metering support. His experience and knowledge were respected at KEPCo and throughout the industry.

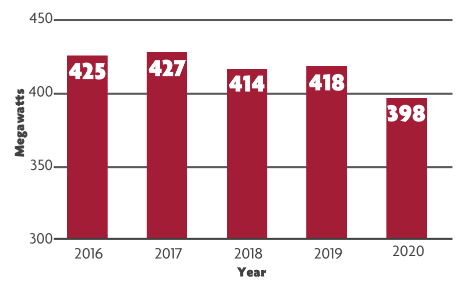
Originally from Meade, Kansas, Paul lived with his wife, Janice, in Ozawkie, Kansas, at the time of his passing. In addition to his wife, Paul is survived by one son, Jay D. (Mindy) Stone, Spring Hill, Kansas, and one daughter, Gretchyn Anne Messale, also of Ozawkie, seven grandchildren, and three great grandchildren. Paul is greatly missed by his KEPCo family.

OPERATING **STATISTICS**

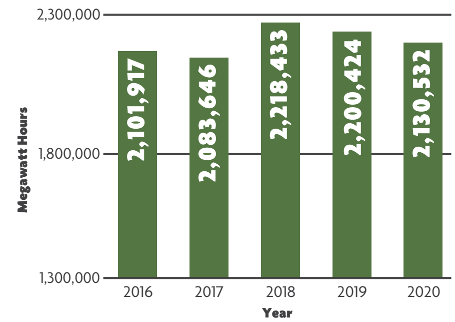
AVERAGE **MEMBER RATE**



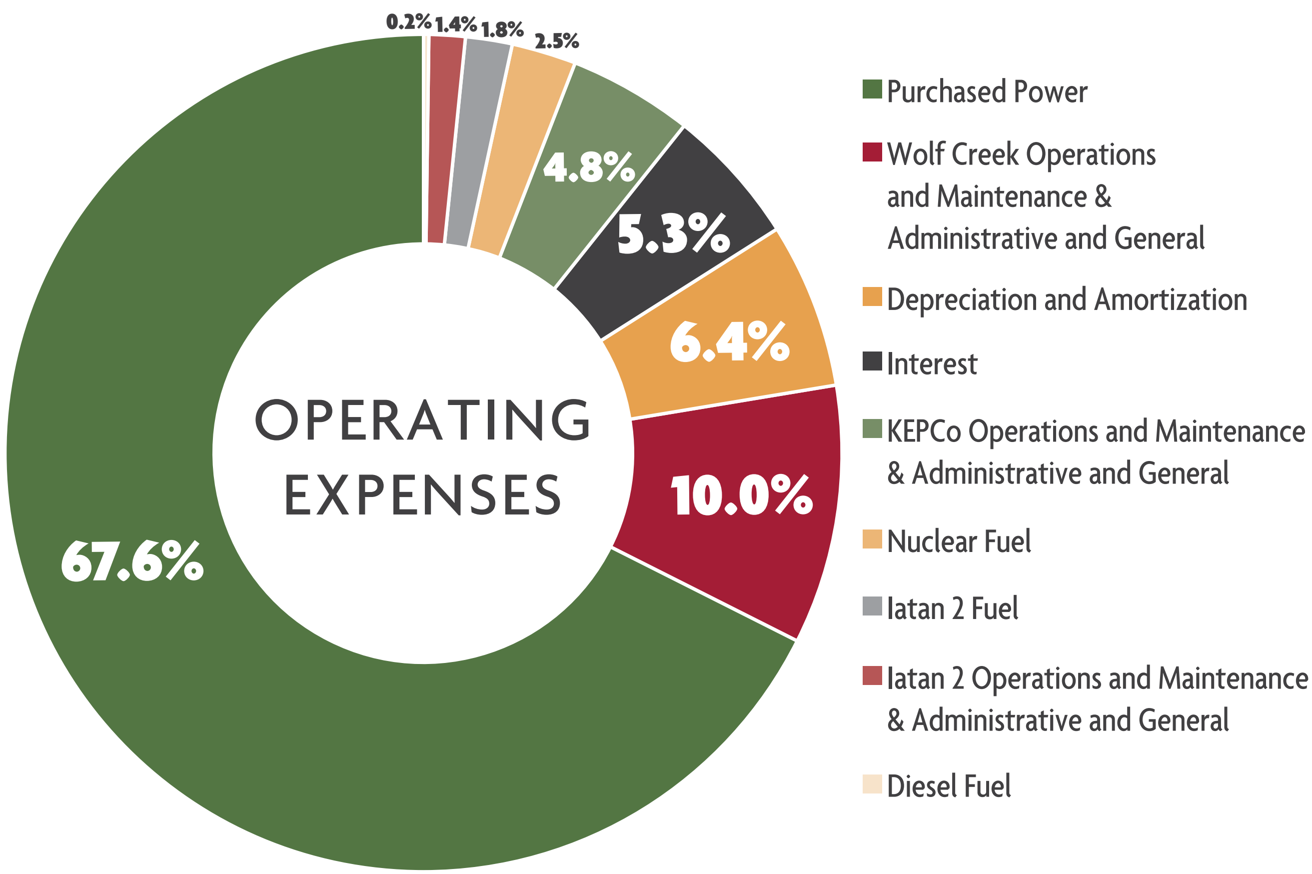
ANNUAL **COINCIDENT PEAK DEMAND**



ANNUAL **ENERGY SALES TO MEMBERS**



Proudly, KEPCo's current portfolio minimizes greenhouse gas emissions with approximately 60% of its supply from non-greenhouse gas emitting sources.



INDEPENDENT **AUDITOR'S REPORT**

BOARD OF TRUSTEES
KANSAS ELECTRIC POWER COOPERATIVE, INC. TOPEKA, KANSAS

BKD
CPAs & Advisors

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Kansas Electric Power Cooperative, Inc. (KEPCo) and its wholly owned subsidiary KEPCo Services, Inc. (KSI), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of margin and comprehensive income (loss), patronage capital, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conductedour audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KEPCo as of December 31, 2020 and 2019, and the resultsof their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated April 6, 2021,on our consideration of KEPCo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of KEPCo's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KEPCo's internal control over financial reporting and compliance.

BKD, LLP

OKLAHOMA CITY, OKLAHOMA
APRIL 6, 2021

Consolidated Balance Sheets
December 31, 2020 and 2019

Assets	2020	2019
UTILITY PLANT		
In-service	$367,179,511	$365,036,667
Less allowance for depreciation	(190,546,232)	(181,555,754)
Net in-service	176,633,279	183,480,913
Construction work in progress	10,408,117	8,515,002
Nuclear fuel (less accumulated amortization of $29,740,968 and $26,061,652 for 2020 and 2019, respectively)	9,840,540	8,075,506
Total utility plant	196,881,936	200,071,421
RESTRICTED ASSETS		
Investments in NRUCFC	11,042,120	11,316,855
Decommissioning fund	35,564,951	30,527,216
Investments in other associated organizations	320,561	284,225
Total restricted assets	46,927,632	42,128,296
CURRENT ASSETS		
Cash and cash equivalents	16,598,637	20,369,872
Short-term investments	13,000,000	-
Member accounts receivable	13,078,522	9,921,216
Materials and supplies inventory	7,119,212	6,802,071
Other assets and prepaid expenses	949,083	924,034
Total current assets	50,745,454	38,017,193
OTHER LONG-TERM ASSETS		
Deferred charges		
WCNOC disallowed costs (less accumulated amortization of $19,986,167 and $19,662,718 for 2020 and 2019, respectively)	5,999,066	6,322,515
Deferred incremental outage costs	506,726	1,841,056
Southwest Power Pool charges	366,373	854,871
Other deferred charges (less accumulated amortization of $180,942 and $177,877 for 2020 and 2019, respectively)	152,752	297,807
Other assets	1,266,040	1,310,059
Prepaid pension cost	284,759	416,186
Total long-term assets	8,575,716	11,042,494
Total assets	$303,130,738	$291,259,404

Patronage Capital and Liabilities

	2020	2019
PATRONAGE CAPITAL		
Memberships	$3,200	$3,200
Patronage capital	85,864,241	86,591,026
Accumulated other comprehensive loss	(9,407,007)	(8,468,072)
Total patronage capital	76,460,434	78,126,154
LONG-TERM DEBT	148,867,073	144,545,734
OTHER LONG-TERM LIABILITIES		
WCNOC decommissioning regulatory liability	11,770,366	7,633,876
WCNOC decommissioning liability	18,123,937	17,000,455
WCNOC pension and postretirement benefit plans	12,091,282	10,994,841
WCNOC provision for injuries	46,689	23,339
WCNOC deferred compensation	1,250,433	1,381,339
Other deferred credits	222,274	181,795
Total other long-term liabilities	43,504,981	37,215,645
CURRENT LIABILITIES		
Current maturities of long-term debt	8,698,761	9,251,502
Accounts payable	15,486,695	12,321,308
Payroll and payroll-related liabilities	337,757	322,596
Member investments	7,061,900	6,903,704
Accrued property taxes	824,342	947,749
Accrued interest payable	409,221	432,259
Current provision for pension and postretirement benefit plans	1,479,574	1,192,753
Total current liabilities	34,298,250	31,371,871
Total patronage capital and liabilities	$303,130,738	$291,259,404

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Consolidated Statements of Margin and Comprehensive Income (Loss)
Years Ended December 31, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Sale of electric energy	$148,382,873	$153,016,979
OPERATING EXPENSES		
Power purchased	101,312,388	102,408,677
Nuclear fuel	3,683,704	3,243,368
Plant operations	15,261,398	16,453,641
Plant maintenance	4,633,010	4,875,888
Administrative and general	6,159,875	6,243,466
Amortization of deferred charges	326,513	330,693
Depreciation and decommissioning	9,876,498	9,597,289
Total operating expenses	141,253,386	143,153,022
NET OPERATING REVENUES	7,129,487	9,863,957
INTEREST AND OTHER DEDUCTIONS		
Interest on long-term debt	7,584,356	7,878,690
Other deductions	384,347	159,366
Total interest and other deductions	7,968,703	8,038,056
OPERATING MARGIN	(839,216)	1,825,901
OTHER INCOME (EXPENSE)		
Interest income	951,063	1,345,913
Other income	519,402	294,124
Postretirement benefit expense	(658,920)	(669,479)
Total other income (expense)	811,545	970,558
NET MARGIN	(27,671)	2,796,459
Other Comprehensive Income (Loss)		
Net loss arising during the year on pension obligation	(1,275,966)	(422,520)
Plan amendments	(544,426)	
Amortization of prior year service costs and actuarial gains included in net periodic benefit costs	881,457	647,604
Comprehensive Income (Loss)	(966,606)	3,021,543

Consolidated Statements of Patronage Capital
Years Ended December 31, 2020 and 2019

	Memberships	Patronage Capital	Accumulated Other Comprehensive Loss	Total
BALANCE, JANUARY 1, 2019	$3,200	$83,794,567	$(8,693,156)	$75,104,611
Net margin	-	2,796,459	-	2,796,459
Defined benefit pension plans				
Net loss arising during the year on pension obligation	-	-	(422,520)	(422,520)
Amortization of prior year service costs and actuarial gains included in net periodic benefit costs	-	-	647,604	647,604
BALANCE, DECEMBER 31, 2019	3,200	86,591,026	(8,468,072)	78,126,154
Net margin	-	(27,671)	-	(27,671)
Patronage capital retirement				
Defined benefit pension plans	-	(699,114)	-	(699,114)
Net loss arising during the year on pension obligation	-	-	(1,275,966)	(1,275,966)
Plan amendments	-	-	(544,426)	(544,426)
Amortization of prior year service costs and actuarial gains included in net periodic benefit costs	-	-	881,457	881,457
BALANCE, DECEMBER 31, 2020	$3,200	$85,864,241	$(9,407,007)	$76,460,434

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
OPERATING ACTIVITIES		
Net margin		
Adjustments to reconcile net margin to net cash provided by operating activities	$(27,671)	$2,796,459
Depreciation	9,408,389	9,131,591
Amortization of nuclear fuel	3,679,316	3,219,404
Amortization of deferred charges	619,925	619,924
Amortization of deferred incremental outage costs	1,619,583	1,623,886
Net periodic benefit costs	1,630,862	1,617,453
Patronage capital credits allocated	(518,389)	(525,298)
Loss on sale of property and equipment	54,003	54,666
Changes in		
Member accounts receivable	(3,157,306)	1,372,186
Materials and supplies	(317,141)	304,937
Other long-term assets and prepaid expenses	1,304,804	(1,286,835)
Accounts payable	3,165,387	(890,768)
Payroll and payroll-related liabilities	15,161	54,707
Accrued property taxes	(123,407)	(86,910)
Accrued interest payable	(23,038)	(22,316)
Other long-term liabilities	(1,253,612)	(2,199,037)
Net cash provided by operating activities	16,076,866	15,784,049
INVESTING ACTIVITIES		
Additions to electrical plant	(3,962,186)	(5,065,919)
Additions to nuclear fuel	(5,444,350)	(2,941,349)
Purchases of investments	(13,000,000)	-
Proceeds from investments in decommissioning fund assets	1,399,479	103,332
Purchases of investments in decommissioning fund assets	(2,825,512)	(1,380,174)
Investments in associated organizations	756,788	779,720
Net cash used in investing activities	(23,075,781)	(8,504,390)
FINANCING ACTIVITIES		
Principal payments on long-term debt	(10,577,675)	(9,033,456)
Proceeds from issuance of long-term debt	10,183,249	4,110,126
Principal payments on NRUCFC line of credit	-	(1,205,000)
Proceeds from draw downs on NRUCFC line of credit	-	1,205,000
Retirement of capital credits	(699,114)	-
Change in cushion of credit	158,196	4,087,395
Change in member investments	4,163,024	1,968,243
Net cash provided by financing activities	3,227,680	1,132,308

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Increase (Decrease) in Cash and Cash Equivalents	$(3,771,235)	$8,411,967
Cash and Cash Equivalents, Beginning of Year	20,369,872	11,957,905
Cash and Cash Equivalents, End of Year	$16,598,637	$20,369,872
Supplemental Cash Flows Information		
Interest paid	$7,607,394	$7,901,006
Change in defined benefit pension plans – losses	$(1,275,966)	$(422,520)
Change in fair value of decommissioning trust	$3,611,702	$4,244,837

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Kansas Electric Power Cooperative, Inc. and its wholly owned subsidiary (KEPCo), headquartered in Topeka, Kansas, was incorporated in 1975 as a tax-exempt generation and transmission cooperative (G&T). KEPCo was granted a limited certificate of convenience and authority by the Kansas Corporation Commission (KCC) in 1980 to act as a G&T public utility. It is KEPCo's responsibility to procure an adequate and reliable power supply for its 18 distribution rural electric cooperative members pursuant to all requirements of contracts with its members. KEPCo is governed by a board of trustees representing each of its 18 members, which collectively serve approximately 120,000 electric meters in rural Kansas.

SYSTEM OF ACCOUNTS

KEPCo maintains its accounting records substantially in accordance with the Federal Energy Regulatory Commission's (FERC) uniform system of accounts as modified and adopted by the U.S. Department of Agriculture (USDA) Rural Utilities Service (RUS) and in accordance with accounting practices prescribed by the KCC.

In accordance with generally accepted accounting principles (GAAP) and FERC guidelines, KEPCo also maintains its accounts in accordance with Accounting Standards Codification (ASC) 980, Regulated Operations.

RATES

Under a 2009 change in Kansas law, KEPCo has elected to be exempt from KCC regulation for most purposes, including the setting of rates. Rates are set by action of the Board of Trustees, subject only to statutory review by the KCC if requested by four or more members. KEPCo's rates were last set by the KCC by an order effective September 1, 2008. KEPCo's rates now include an Energy Cost Adjustment (ECA) mechanism and an annual Demand Cost Adjustment (DCA) mechanism allowing KEPCo to pass along increases and decreases in certain energy and demand costs to its member cooperatives. Additionally, KEPCo implemented a Margin Stabilization Adjustment (MSA) in 2011, which is a mechanism to refund (or collect) a portion of KEPCo's margin when the total margin exceeds (or falls short of) the amount necessary to cover KEPCo's financial obligations.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Kansas Electric Power Cooperative, Inc. and its wholly owned subsidiary, KEPCo Services, Inc. Undivided interests in jointly owned generation facilities are consolidated on a pro rata basis. All material intercompany accounts and transactions have been eliminated in consolidation.

IATAN 2

Iatan 2 is an 850 MW high efficiency coal-fired power plant utilizing state-of-the-art environmental controls that became commercially operational December 31, 2010. KEPCo owns a 3.53% share of Iatan 2, or 30 MW. Iatan 2, located in Weston, Missouri, is operated and majority owned by Evergy, Inc. KEPCo's undivided interest in Iatan 2 is consolidated on

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a pro rata basis. KEPCo is entitled to a proportionate share of the capacity and energy from Iatan 2, which is used to supplement a portion of KEPCo's members' requirements. KEPCo is billed on a daily basis for 3.53% of the operations, maintenance, administrative, and general costs, and cost of plant additions related to Iatan 2. Each owner is responsible for providing its own financing for all costs incurred at the plant.

KEPCo's utility plant in service for its 3.53% share of Iatan 2 was approximately $83,100,000 and $82,600,000 with an allowance for depreciation of approximately $21,400,000 and $19,000,000 and construction work in progress of approximately $600,000 and $300,000 at December 31, 2020 and 2019, respectively.

WOLF CREEK NUCLEAR OPERATING CORPORATION

KEPCo owns 6% of Wolf Creek Nuclear Operating Corporation (WCNOC), which is located near Burlington, Kansas. The remainder is owned by Evergy, Inc. KEPCo's undivided interest in WCNOC is consolidated on a pro rata basis. KEPCo is entitled to a proportionate share of the capacity and energy from WCNOC, which is used to supplement a portion of KEPCo's members' requirements. KEPCo is billed on a daily basis for 6% of the operations, maintenance, administrative, and general costs, and cost of plant additions related to WCNOC. Each owner is responsible for providing its own financing for all costs incurred at the plant.

KEPCo's utility plant in service for its 6% share of WCNOC was approximately $271,100,000 and $269,500,000 with an allowance for depreciation of approximately $155,400,000 and $149,100,000 and construction work in progress of approximately $9,700,000 and $8,100,000 at December 31, 2020 and 2019, respectively.

WCNOC's operating license expires in 2045. WCNOC is regulated by the Nuclear Regulatory Commission (NRC) with respect to licensing, operations, and safety-related requirements.

WCNOC disposes of all classes of its low-level radioactive waste at existing third-party repositories. Should disposal capability become unavailable, WCNOC is able to store its low-level radioactive waste in an on-site facility for up to three years under current regulations.

ESTIMATES

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

UTILITY PLANT AND DEPRECIATION

Utility plant is stated at cost. Costs and additions to utility plant include contractual work, direct labor, materials, and interest on funds used during construction. No interest has been capitalized in 2020 or 2019. The costs of repairs and minor replacements are charged to operating expenses as appropriate. The original cost of utility plant retired and the cost of removal less salvage are charged to accumulated depreciation.

The composite depreciation rate for electric generation plant for the years ended December 31, 2020 and 2019, is 4.67% and 4.45%, respectively.

The provision for depreciation computed on a straight-line basis for electric and other components of utility plant is as follows:

Transportation and equipment	25–33 years
Office furniture and fixtures	10–20 years
Leasehold improvements	20 years
Transmission equipment (metering, communication, and SCADA)	10 years

LONG-LIVED ASSET IMPAIRMENT

KEPCo evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2020 and 2019.

NUCLEAR FUEL

The cost of nuclear fuel in the process of refinement, conversion, enrichment, and fabrication is recorded as a utility plant asset at original cost and is amortized to nuclear fuel expenses based upon the quantity of heat produced for the generation of electric power.

NUCLEAR DECOMMISSIONING

Nuclear decommissioning is a nuclear industry term for the permanent shutdown of a nuclear power plant and the removal of radioactive components in accordance with NRC requirements. The NRC will terminate a plant's license and release the property for unrestricted use when a company has reduced the residual radioactivity of a nuclear plant to a level mandated by the NRC. The NRC requires companies with nuclear plants to prepare formal financial plans to fund nuclear decommissioning. These plans are designed so that sufficient funds required for nuclear decommissioning will be accumulated prior to the expiration of the license of the related nuclear power plant. WCNOC files a nuclear decommissioning site study with the KCC every three years.

The KCC reviews nuclear decommissioning plans in two phases. Phase one is the approval of the revised nuclear decommissioning study, including the estimated costs to decommission the plant. Phase two involves the review and approval of a funding schedule prepared by the owner of the plant detailing how it plans to fund the future-year dollar amount of its pro rata share of the decommissioning costs.

In 2017, the triennial nuclear decommissioning study was revised. Based on the study, KEPCo's share of decommissioning costs, including decontamination, dismantling, and site restoration, is estimated to be approximately $65,600,000. This amount does not compare to the prior site study estimate of $45,900,000 due to a KCC order requiring a new method of calculating the decommissioning costs. The new method, called SAFSTOR, requires long-term storage of spent fuel on-site for 60 years after the plant is decommissioned. The site study cost estimate represents the estimate to decommission WCNOC as of the site study year. The actual nuclear decommissioning costs may vary from the estimates because of changes in regulations and technologies as well as changes in costs for labor, materials, and equipment.

KEPCo is allowed to recover nuclear decommissioning costs in its prices over a period equal to the operating license of WCNOC, which is through 2045. The NRC requires that funds sufficient to meet nuclear decommissioning obligations be held in a trust. KEPCo believes that the KCC-approved funding level will also be sufficient to meet the NRC requirement. The consolidated financial results would be materially affected if KEPCo was not allowed to recover in its prices the full amount of the funding requirement.

KEPCo recovered in its prices and deposited in an external trust fund for nuclear decommissioning approximately $544,000 in 2020 and 2019. KEPCo records its investment in the nuclear decommissioning trust (NDT) at fair value, which approximated $35,565,000 and $30,527,000 at December 31, 2020 and 2019, respectively. The change in the fair value of investments in the NDT was approximately $3,612,000 and $4,245,000 for the years ended December 31, 2020 and 2019, respectively, and is included in WCNOC decommissioning regulatory liability on the accompanying consolidated balance sheets.

ASSET RETIREMENT OBLIGATION

KEPCo recognizes and estimates the legal obligation associated with the cost to decommission WCNOC. KEPCo initially recognized an asset retirement obligation at fair value for the estimated cost with a corresponding amount capitalized as part of the cost of the related long-lived asset and depreciated over the useful life.

A reconciliation of the asset retirement obligation for the years ended December 31 is as follows:

	2019	2020
Balance, beginning of year	$17,000,455	$15,945,308
Accretion	1,123,482	1,055,147
Balance, end of year	$18,123,937	17,000,455

Any net margin effects are deferred in the WCNOC decommissioning regulatory liability and will be collected from or returned to members in future electric rates.

CASH AND CASH EQUIVALENTS

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents and are stated at cost, which approximates fair value. At December 31, 2020 and 2019, cash equivalents consisted primarily of a repurchase agreement and commercial paper.

KEPCo has invested $0 and $19,000,000 in National Rural Utilities Cooperative Finance Corporation (NRUCFC), a related party, commercial paper with an original maturity of three months or less at December 31, 2020 and 2019, respectively. The commercial paper is exposed to credit risk and is not federally insured.

KEPCo's repurchase agreement has collateral pledged by a financial institution, which is securities that are backed by the federal government.

SHORT-TERM INVESTMENTS

Short-term investments are investments with an original maturity greater than three months, but less than 12 months, in select notes issued by NRUCFC maturing in April 2021 with interest at 0.4%. The select notes are exposed to credit risk. As of December 31, 2020, KEPCo has invested $13,000,000 in short-term investments.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at the amount of consideration from members and customers, of which KEPCo has an unconditional right to receive. KEPCo provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. No allowance was recorded at December 31, 2020 or 2019.

Accounts receivable are ordinarily due 15 days after the issuance of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the member or customer.

During the years ended December 31, 2020 and 2019, there were no impairment losses on doubtful accounts receivable where collectibility is not reasonably assured.

MATERIALS AND SUPPLIES INVENTORY

Materials and supplies inventory is valued at average cost.

CASH SURRENDER VALUE OF LIFE INSURANCE CONTRACTS

The following amounts related to WCNOC corporate-owned life insurance contracts, primarily with one highly rated major insurance company, are included in other long-term assets in the accompanying consolidated balance sheets:

	2020	2019
Cash surrender value of contracts	$8,536,464	$8,293,065
Borrowings against contracts	(8,241,381)	(8,006,818)
	$295,083	$286,247

Borrowings against contracts include a prepaid interest charge. KEPCo pays interest on these borrowings at a rate of 5.00% for the years ended December 31, 2020 and 2019.

MEMBER INVESTMENTS

KEPCo has a member investment program whereby members can invest funds with KEPCo. KEPCo pays interest on the balance of these funds. The member investments are payable back to the member upon demand or can be used to pay the balance due on the member's power bill.

REVENUE RECOGNITION

Revenue is recognized when control of the promised goods or services is transferred to KEPCo's members or customers in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. The amount and timing of revenue recognition varies based on the nature of the goods or services provided and the terms and conditions of the customer contract. See Note 7 for additional information about KEPCo's revenue.

INCOME TAXES

As a tax-exempt cooperative, KEPCo is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code of 1986, as amended. Accordingly, provisions for income taxes have not been reflected in the accompanying consolidated financial statements.

KEPCo Services, Inc., a subsidiary of KEPCo is not exempt from income taxes.

EQUITY INVESTMENTS

KEPCo measures equity securities, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in net margin. Under ASC 980, KEPCo has elected to defer changes to all unrealized gains and losses of equity investments with readily determinable fair market values. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Equity securities and equity investments without a readily determinable fair value are measured at cost, minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or a similar investment.

For equity securities and equity investments measured under the practicability exception, KEPCo performs a qualitative assessment for equity investments without readily determinable fair values considering impairment indicators to evaluate whether an impairment exists. If an impairment exists, KEPCo will recognize a loss based on the difference between carrying value and fair value.

INVESTMENTS IN ASSOCIATED ORGANIZATIONS

KEPCo has equity ownership in the form of patronage capital through various lenders and other associated organizations (see *Note 3*). Patronage capital equity is increased as patronage is allocated to KEPCo and decreased as patronage is retired and cash received.

These investments are considered equity investments without readily determinable fair values and are accounted for at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or a similar investment. No impairment or observable price changes were recorded during 2020 and 2019.

WCNOC DISALLOWED COSTS

Effective October 1, 1985, the KCC issued a rate order relating to KEPCo's investment in WCNOC, which disallowed $26,000,000 of KEPCo's investment in WCNOC. A subsequent rate order, effective February 1, 1987, allows KEPCo to recover these disallowed costs and other costs related to the disallowed portion (recorded as deferred charges) for the period from September 3, 1985 through January 31, 1987, over a 27.736-year period starting February 1, 1987. Pursuant to a KCC rate order dated December 30, 1998, the disallowed portion's recovery period was extended to a 37-year period. The disallowed costs are being recovered through the use of straight-line amortization over the period required by the KCC.

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of net margin and other comprehensive income (loss). Other comprehensive income (loss) includes plan amendments and changes in the funded status of the WCNOC pension and postretirement plans (see *Note 8*).

NOTE 2: FACTORS THAT COULD AFFECT FUTURE OPERATING RESULTS

KEPCo currently applies accounting standards that recognize the economic effects of

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rate regulation and, accordingly, has recorded regulatory assets and liabilities related to its G&T operations in accordance with ASC 980. In the event KEPCo determines that it no longer meets the criteria of ASC 980, the accounting impact could be a noncash charge to operations in an amount that would be material. Criteria that could give rise to the discontinuance of ASC 980 include: 1) increasing competition that restricts KEPCo's ability to establish prices to recover specific costs and 2) a significant change in the manner in which rates are set by regulators from a cost-based regulation to another form of regulation. KEPCo periodically reviews these criteria to ensure the continuing application of ASC 980 is appropriate. Any changes that would require KEPCo to discontinue the application of ASC 980 due to increased competition, regulatory changes, or other events may significantly impact the valuation of KEPCo's investment in utility plant, WCNOC, and Iatan 2 and necessitate the write-off of regulatory assets. At this time, the effect of competition and the amount of regulatory assets that could be recovered in such an environment cannot be predicted.

The *1992 Energy Policy Act* began the process of restructuring the United States electric utility industry by permitting FERC to order electric utilities to allow third parties to sell electric power to wholesale customers over their transmission systems. KEPCo has elected to deregulate its rate-making for sales to its members under recent statutory amendments.

Subject to the possibility of KCC review, KEPCo's member rates are now set by action of the Board of Trustees. KEPCo's ability to timely recover its costs is enhanced by this change.

NOTE 3: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

At December 31, investments in associated organizations consisted of the following:

	2020	2019
NRUCFC		
Memberships	$1,000	$1,000
Capital term certificates, bearing interest of 5.0% and maturing in 2080 (A)	395,970	395,970
Patronage capital certificates	2,847,674	2,613,206
Equity term certificates, bearing interest of 3.16% to 6.0% and maturing from 2021 through 2045 (A)	7,797,476	8,306,679
Total NRUCFC	11,042,120	11,316,855
Other	320,561	284,225
Total investments in associated organizations	$11,362,681	$11,601,080

(A) KEPCo is required to maintain these investments pursuant to certain loan agreements.

NOTE 4: DEFERRED CHARGES

DEFERRED INCREMENTAL OUTAGE COSTS

In 1991, the KCC issued an order that allowed KEPCo to defer its 6% share of the incremental operating, maintenance, and replacement power costs associated with the periodic refueling of WCNOC. Operating and maintenance costs are being amortized over the approximate 18-month operating cycle coinciding with the recognition of the related revenues. Additions to the deferred incremental outage costs were approximately $300,000 and $2,200,000 in 2020 and 2019, respectively. The current year amortization of the deferred incremental outage costs was approximately $1,600,000 for the years ended December 31, 2020 and 2019.

SOUTHWEST POWER POOL CHARGES

During 2016, KEPCo was assessed historical charges in the amount of approximately $2,442,000 from Southwest Power Pool related to a Z2 billing issue for generation system upgrades from 2008 through 2016. The total amount of historical charges was paid in October 2016 and will be amortized over a five-year period ending October 2021. The balance as of December 31, 2020 and 2019, was approximately $400,000 and $900,000, respectively. Accumulated amortization as of December 31, 2020 and 2019, was approximately $2,100,000 and $1,500,000, respectively.

NOTE 5: LINES OF CREDIT

At December 31, 2020 and 2019, KEPCo has a $10,000,000 line of credit available with CoBank, ACB. There were no funds borrowed against the line of credit at December 31, 2020 or 2019. Interest rate options, as selected by KEPCo, are a weekly quoted variable rate in which CoBank establishes a rate on the first business day of each week or a London InterBank Offered Rate (LIBOR) option at a fixed rate equal to LIBOR plus 1.6%. This line of credit expires January 2021 and was subsequently renewed through July 2021 and is secured by substantially all of KEPCo's assets.

KEPCo has two lines of credit available from the NRUCFC totaling $20,000,000, of which no funds were borrowed against at December 31, 2020 and 2019. One line is for $10,000,000 and matures March 2023. Interest varies as determined by the lender and was 2.45% and 3.25% at December 31, 2020 and 2019, respectively. The line requires an annual pay-down of the line or it becomes immediately callable at the discretion of the NRUCFC. The other line is for $10,000,000 and matures December 2049. Interest varies as determined by the lender and was 2.25% and 2.85% at December 31, 2020 and 2019, respectively. The lines are collateralized by substantially all of KEPCo's assets.

NOTE 6: LONG-TERM DEBT

Long-term debt consists of mortgage notes payable to the United States of America acting through the Federal Financing Bank (FFB), NRUCFC, and others. Substantially all of KEPCo's assets are pledged as collateral. The terms of the notes as of December 31 are as follows:

	2020	2019
Mortgage notes payable to the FFB at fixed rates varying from 0.759% to 4.46%, payable in quarterly installments through 2043	$84,823,634	$79,645,170
RUS cushion of credit (A)	(3,004,187)	(7,167,211)
FFB mortgage notes payable, net of cushion of credit	81,819,447	72,477,959
Note payable to CoBank at a rate of 3.03%, payable in quarterly installments through 2023	330,851	470,904
Mortgage notes payable, equity certificate loans, and member capital security notes to NRUCFC at fixed rates of 3.80% to 7.50%, payable quarterly through 2045	75,415,536	80,848,373
	157,565,834	153,797,236
Less current maturities	(8,698,761)	(9,251,502)
	$148,867,073	$144,545,734

(A) RUS cushion of credit funds are required to be applied to the debt service requirements of the FFB mortgage notes payable and are, therefore, reflected net in the related balances in the accompanying consolidated balance sheets. The RUS cushion of credit is offered by the USDA and earns interest annually at a rate approved by the USDA.

KEPCo has approximately $11,300,000 of unadvanced loan funds with the FFB as of December 31, 2020.

Aggregate maturities of long-term debt are as follows:

2021	$8,698,761
2022	8,854,436
2023	8,888,280
2024	7,969,628
2025	7,449,654
Thereafter	115,705,075
	$157,565,834

Restrictive covenants related to the NRUCFC and FFB debt require KEPCo to design rates that would enable it to maintain a times-interest earned ratio of at least 1.05 and debt service coverage ratio of at least 1.0, on average, in the two best years out of the three most recent calendar years. The covenants also prohibit distribution of net patronage capital or margins until, after giving effect to any such distribution, total patronage capital equals or exceeds 20% of total assets, unless such distribution is approved by the RUS or NRUCFC. KEPCo was in compliance with such restrictive covenants as of December 31, 2020 and 2019.

The RUS cushion of credit account is an interest-bearing account and is restricted for the debt service of RUS-guaranteed debt and cannot be withdrawn. During 2020 and 2019, KEPCo made principal and interest payments to FFB and RUS with funds held in the RUS cushion of credit account of $4,460,688 and $4,565,724, respectively. The balance in this account at December 31, 2020 and 2019, was $3,004,187 and $7,167,211, respectively.

Restrictive covenants related to the CoBank debt require KEPCo to design rates that would enable it to maintain a debt service coverage ratio, as defined by CoBank, of at least 1.10. KEPCo was in compliance with the restrictive covenants as of December 31, 2020 and 2019.

NOTE 7: REVENUE FROM CONTRACTS WITH CUSTOMERS

PERFORMANCE OBLIGATIONS – OPERATING REVENUES

The majority of KEPCo's revenues are derived primarily from the sale of electric power to members. Members consist of distribution cooperatives within dedicated territories in Kansas.

Rates charged for electric power sales to members are established at least annually by the Board. KEPCo provides energy and demand to members as one stand-ready performance obligation. Electric power revenue is recognized by KEPCo upon transfer of control of the promised services to members in an amount that reflects the consideration KEPCo expects to receive in exchange for those services. KEPCo transfers control of the electric power to members at each member's meter point and the members simultaneously receive and consume the benefits of the energy provided. Electric power provided to members is accounted for as a series of performance obligations. Progress toward completion is measured using the output method. Meter readings are taken at the end of each month for billing purposes, and the quantity of energy transferred is determined after the meter readings. Customers are billed monthly and KEPCo accrues for unbilled amounts. Payments from members are received in accordance with each member's contract, which is less than 30 days from the invoice date.

Revenue associated with the electric power performance obligation to members is recorded as sales of electric energy in the accompanying consolidated statements of margin and comprehensive income (loss).

KEPCo has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are not materially affected by any factors, such as the geography of the service location, customer type, or service line.

ACCOUNTING POLICIES AND PRACTICAL EXPEDIENTS ELECTED

KEPCo has applied an accounting policy election that allows an entity to exclude from revenue any amounts collected from customers on behalf of third parties, such as sales taxes and other similar taxes KEPCo collects concurrent with revenue-producing activities. Therefore, revenue is presented net of sales taxes and similar revenue-based taxes.

KEPCo has also elected to use the right to invoice practical expedient. This practical expedient allows an entity to recognize revenue in the amount of consideration to which the entity has the right to invoice when the amount that the entity has the right to invoice corresponds directly to the value transferred to the customer.

NOTE 8: BENEFIT PLANS

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION (NRECA) RETIREMENT AND SECURITY PROGRAM

KEPCo participates in the NRECA Retirement and Security Program (RS Plan) for its employees. The NRECA RS Plan is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single-employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

KEPCo's contributions to the NRECA RS Plan in 2020 and 2019 represented less than 5% of the total contributions made to the plan by all participating employers. KEPCo made contributions to the NRECA RS Plan of approximately $570,000 and $470,000 for the years ended December 31, 2020 and 2019, respectively. There have been no significant changes that affect the comparability of 2020 and 2019 contributions.

For the NRECA RS Plan, a "zone status" determination is not required, and thus not determined, under the *Pension Protection Act* (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the NRECA RS Plan was more than 80% funded at January 1, 2020 and 2019, based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the NRECA RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

In 2012, NRECA approved an option to allow participating cooperatives in the NRECA RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the NRECA RS Plan's unfunded value of benefits earned to date using NRECA RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual NRECA RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives, the billing rate is reduced by approximately 25%, retroactive to January 1 of the year in which the amount is paid to the NRECA RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, changes in interest rates, asset returns, and other plan experiences different from expected; plan assumption changes; and other factors may have an impact on the differential in billing rates and the 15-year period. KEPCo participated in the prepayment program and is amortizing the $1,314,273 over a 10-year period through 2023. This balance is included in prepaid pension cost in other long-term assets on the accompanying consolidated balance sheets.

NRECA SAVINGS 401(K) PLAN

All employees of KEPCo are eligible to participate in the NRECA Savings 401(k) Plan. Under the plan, KEPCo contributes an amount not to exceed 5%, dependent upon each employee's level of participation and completion of one year of service, of the respective employee's base pay to provide additional retirement benefits. KEPCo contributed approximately $135,000 and $121,000 to the NRECA Savings 401(k) Plan for the years ended December 31, 2020 and 2019, respectively.

WCNOC PENSION AND POSTRETIREMENT PLANS

KEPCo has an obligation to the WCNOC retirement plan, supplemental retirement plan, and postretirement medical plan (collectively, the Plans) for its 6% ownership interest in WCNOC. The Plans provide for benefits upon retirement, normally at age 65. In accordance with the *Employee Retirement Income Security Act of 1974,* KEPCo has satisfied its minimum funding requirements. Benefits under the Plans reflect the employee's compensation, years of service, and age at retirement.

WCNOC uses a measurement date of December 31 for the Plans.

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Information about KEPCo's 6% share of the Plans' funded status follows

	Pension Benefits		Postretirement Benefits	
	2020	2019	2020	2019
Change in benefit obligation				
Beginning of year	$35,905,327	$32,123,209	$904,303	$883,170
Service cost	953,320	931,676	18,622	16,298
Interest cost	1,299,924	1,406,986	29,957	35,839
Plan participants' contributions	-	-	188,011	195,382
Plan amendments	484,292	-	60,134	-
Benefits paid	(2,940,010)	(1,968,736)	(325,379)	(399,263)
Actuarial losses	3,622,476	3,412,192	60,816	172,877
End of year	39,325,329	35,905,327	936,464	904,303
Change in fair value of plan assets				
Beginning of year	24,593,562	19,916,182	51,813	35,225
Actual return on plan assets	3,959,744	4,583,499	-	-
Employer contributions	1,092,000	2,028,000	61,182	213,000
Plan participants' contributions	-	-	159,564	191,140
Benefits paid	(2,905,392)	(1,934,119)	(272,559)	(387,552)
End of year	26,739,914	24,593,562	-	51,813
Funded status, end of year	$(12,585,415)	$(11,311,765)	$(936,464)	$(852,490)

Amounts recognized in the accompanying consolidated balance sheets:

	2020	2019
Other long-term liabilities		
WCNOC pension and postretirement benefit plans	$12,091,282	$10,994,841
WCNOC provision for injuries	$46,689	$23,339
Current liabilities		
Current provision for pension and postretirement benefit plans	$1,479,574	$1,192,753

Amounts recognized in accumulated other comprehensive loss not yet recognized as components of net periodic benefit costs consist of:

	Pension Benefits		Postretirement Benefits	
	2020	2019	2020	2019
Net loss	$(8,616,167)	$(8,264,153)	$(217,160)	$(167,941)
Prior service cost	(513,546)	(35,978)	(60,134)	-
	$(9,129,713)	$(8,300,131)	$(277,294)	$(167,941)

Information for the pension and postretirement benefit plans with an accumulated benefit obligation in excess of plan assets:

	Pension Benefits		Postretirement Benefits	
	2020	2019	2020	2019
Projected benefit obligation	$39,325,329	$35,905,327	$936,464	$904,303
Fair value of plan assets	$26,739,914	$24,593,562	$-	$51,813

Weighted-average actuarial assumptions used to determine the net periodic benefit obligation:

	Pension Benefits		Postretirement Benefits	
	2020	2019	2020	2019
Discount rate	3.61%	4.34%	2.76%	3.42%
Annual salary increase rate	3.75%	4.14%	N/A	N/A

WCNOC uses a measurement date of December 31 for its pension and postretirement benefit plans. The discount rate to determine the current year pension obligation and the following year's pension expense is based on a bond selection-settlement portfolio approach. This approach develops a discount rate by selecting a portfolio of high quality, non-callable corporate bonds that generate a sufficient cash flow to provide for the projected benefit payments of the plan. After the bond portfolio is selected, a single interest rate is determined that equates the present value of the plan's projected benefit payments discounted at this rate with the market value of the bonds selected.

	Pension Benefits		Postretirement Benefits	
	2020	2019	2020	2019
Components of net periodic benefit costs				
Service cost	$953,320	$931,676	$18,622	$16,298
Interest cost	1,299,924	1,406,986	29,957	35,839
Expected return on plan assets	(1,552,419)	(1,420,950)	-	-
Prior service cost amortization	6,722	6,807	-	-
Actuarial loss amortization	863,139	641,205	11,597	(408)
Net periodic benefit costs	1,570,686	1,565,724	60,176	51,729
Other changes in plan obligations recognized in other comprehensive income (loss)				
Current year actuarial loss	1,215,151	249,643	60,815	172,877
Amortization of actuarial loss (gain)	(863,138)	(641,205)	(11,597)	408
Amortization of prior service cost	(6,722)	(6,807)	60,134	-
Total recognized in other comprehensive income (loss)	345,291	(398,369)	109,352	173,285
Total recognized in net periodic benefit costs and other comprehensive income (loss)	$1,915,977	$1,167,355	$169,528	$225,014
Weighted-average actuarial assumptions used to determine net periodic benefit costs				
Discount rate	3.48%	3.61%	2.76%	3.42%
Expected long-term return on plan assets	6.70%	6.70%	N/A	N/A
Compensation rate increase	3.75%	3.75%	N/A	N/A

KEPCo estimates it will amortize the following amounts into net periodic benefit costs in 2021:

	Pension Benefits	Postretirement Benefits
Actuarial loss	$993,333	$14,822
Prior service cost	49,515	4,661
Total	$1,042,848	$19,483

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset classes in the plans' investment portfolios. Assumed projected rates of return for each asset class were selected after analyzing long-term historical experience and future expectations of the volatility of the various asset classes. Based on target asset allocations for each asset class, the overall expected rate of return for the portfolios was developed, adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

For measurement purposes, the assumed annual health care cost trend rates were as follows:

	2020	2019
Health care cost trend rate assumed for next year	6.25%	6.25%
Rate to which the health care cost trend rate is assumed to decline	4.50%	4.50%
Year the health care cost trend rate reaches the ultimate trend rate	2027	2027

WCNOC's pension plan investment strategy is to manage assets in a prudent manner with regard to preserving principal while providing reasonable returns. It has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. Part of its strategy includes managing interest rate sensitivity of plan assets relative to the associated liabilities. The primary objective of the pension plan is to provide a source of retirement income for its participants and beneficiaries, and the primary financial objective of the plan is to improve its funded status. The primary objective of the postretirement benefit plan is growth in assets and preservation of principal, while minimizing interim volatility, to meet anticipated claims of plan participants. WCNOC delegates the management of its pension benefit plan assets to independent investment advisors who hire and dismiss investment managers based upon various factors. The investment advisors are instructed to diversify investments across asset classes, sectors, and manager styles to minimize the risk of large losses, based upon objectives and risk tolerance specified by WCNOC, which include allowable and/or prohibited investment types. It measures and monitors investment risk on an ongoing basis through quarterly investment portfolio reviews and annual liability measurements.

The target allocations for WCNOC's pension plan assets are 31% to international equity securities, 25% to domestic equity securities, 25% to debt securities, 5% to commodity investments, and 14% to other investments. The investments in both international and domestic equity include investments in large-, mid-, and small-cap companies and investment funds with underlying investments similar to those previously mentioned. The investments in debt include core and high-yield bonds. Core bonds include funds invested in investment grade debt securities of corporate entities, obligations of U.S. and foreign governments and their agencies, and private debt securities. High-yield bonds include a fund with underlying investments in non-investment grade debt securities of corporate entities, private placements, and bank debt. Real estate securities include funds invested in commercial and residential real estate properties while commodity investments include funds invested in commodity-related instruments.

PENSION PLAN ASSETS

All of WCNOC's pension plan assets are recorded at fair value using daily net asset values as reported by the trustee.

Similar to other assets measured at fair value, GAAP establishes a hierarchal framework for disclosing the transparency of the inputs utilized in measuring pension and postretirement benefit plan assets at fair value. From time to time, the WCNOC pension trust may buy and sell investments resulting in changes within the hierarchy. Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash equivalents. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics, or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. Significant inputs and valuation techniques used in measuring Level 3 fair values include market discount rates, projected cash flows, and the estimated value into perpetuity. Investments that do not have a readily determinable fair value are measured at net asset value (NAV). These investments do not consider the observability of inputs; therefore, they are not included within the fair value hierarchy. WCNOC includes investments in private equity, real estate, and alternative investment funds that do not have a readily determinable fair value in this category. The underlying alternative investments include collateralized debt obligations, mezzanine debt, and a variety of other investments.

The following table provides the fair value of KEPCo's 6% share of WCNOC's pension plan assets and the corresponding level within the fair hierarchy as of December 31:

	Fair Value Measurements Using				
	Fair Value	Level 1	Level 2	Level 3	NAV
2020					
Cash equivalents	$182,152	$182,152	$-	$-	$-
Equity securities					
U.S.	7,084,961	-	-	-	7,084,961
International	8,605,847	-	-	-	8,605,847
Debt securities					
Core bonds	3,761,131	-	-	-	3,761,131
Alternative investments	7,105,823	-	-	-	7,105,823
Total investments	$26,739,914	$182,152	$-	$-	$26,557,762
2019					
Cash equivalents Equity securities	$135,489	$135,489	$-	$-	$-
U.S.	6,314,393	-	-	-	6,314,393
International	7,778,190	-	-	-	7,778,190
Debt securities					
Core bonds	6,211,176	-	-	-	6,211,176
Alternative investments	4,154,314	-	-	-	4,154,314
Total investments	$24,593,562	$135,489	$-	$-	$24,458,073

Estimated future benefit payments as of December 31, 2020, for the Plans, which reflect expected future services, are as follows:

	Pension Benefits	Other Postretirement Benefits
EXPECTED CONTRIBUTIONS		
2021	$1,398,000	$81,574
EXPECTED BENEFIT PAYMENTS		
2021	$2,188,775	$81,574
2022	$2,243,006	$77,146
2023	$2,356,310	$70,259
2024	$2,321,966	$66,557
2025	$2,316,938	$60,044
2026–2030	$11,852,936	$255,465

NOTE 9: COMMITMENTS AND CONTINGENCIES

CURRENT ECONOMIC CONDITIONS

KEPCo considers current economic conditions when planning for future power supply and liquidity needs. The current economic climate may also affect KEPCo's ability to obtain financing.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying consolidated financial statements could change rapidly, resulting in material future adjustments that could negatively impact KEPCo's ability to meet debt covenants or maintain sufficient liquidity. Currently under state statutes, KEPCo's rate-making is deregulated and, therefore, KEPCo expects to be able to recover any economic losses through future rates.

LETTER OF CREDIT

KEPCo has an open letter of credit with NRUCFC in the amount of $1,500,000 that automatically renews every year. The letter of credit is intended to provide financial security to Southwest Power Pool pursuant to its credit policy.

NUCLEAR LIABILITY INSURANCE

Pursuant to the *Price-Anderson Act*, liability insurance includes coverage against public nuclear liability claims resulting from nuclear incidents to the required limit of public liability, which is approximately $13,800,000,000. This limit of liability consists of the

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maximum available commercial insurance of $500,000,000, and the remaining $13,300,000,000 is provided through mandatory participation in an industry-wide retrospective assessment program. Under this retrospective assessment program, the owners of WCNOC are jointly and severally subject to an assessment of up to $137,600,000 (KEPCo's share is $8,300,000), payable at no more than$20,500,000 (KEPCo's share is $1,200,000) per incident per year per reactor for any commercial U.S. nuclear reactor qualifying incident. Both the total and yearly assessments are subject to an inflationary adjustment based on the Consumer Price Index and applicable premium taxes. In addition, Congress could impose additional revenue-raising measures to pay claims.

The owners of WCNOC carry nuclear accident decontamination liability, premature nuclear decommissioning liability, and property damage insurance for WCNOC totaling approximately$2,800,000,000 (KEPCo's share is $168,000,000). In the event of a nuclear accident, insurance proceeds must first be used for reactor stabilization and site decontamination in accordance with a plan mandated by the NRC. The owners' share of any remaining proceeds can be used to pay for property damage or, if certain requirements are met, including decommissioning the plant, toward a shortfall in the NDT.

The owners also carry additional insurance with Nuclear Electric Insurance Limited (NEIL) to help cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at WCNOC. If significant losses were incurred at any of the nuclear plants insured under the NEIL policies, the owners may be subject to retrospective assessments under the current policies of approximately $33,200,000 (KEPCo's share is$2,000,000) in 2020 and 2019.

Although KEPCo maintains various insurance policies to provide coverage for potential losses and liabilities resulting from an accident or an extended outage, KEPCo's insurance coverage may not be adequate to cover the costs that could result from a catastrophic accident or extended outage at WCNOC. Any substantial losses not covered by insurance, to the extent not recoverable in KEPCo's prices, would have a material effect on KEPCo's consolidated financial results.

DECOMMISSIONING INSURANCES

KEPCo carries premature decommissioning insurance that has several restrictions, one of which can only be used if WCNOC incurs an accident exceeding $500,000,000 in expenses to safely stabilize the reactor and decontaminate the reactor and reactor station site in accordance with a plan approved by the NRC and pay for on-site property damages.

Once the NRC property rule requiring insurance proceeds to be used first for stabilization and decontamination has been complied with, the premature decommissioning coverage could pay for the decommissioning fund shortfall in the event an accident at WCNOC exceeds $500,000,000 in covered damages and causes WCNOC to be prematurely decommissioned.

NUCLEAR FUEL COMMITMENTS

KEPCo owns a 6% undivided interest in WCNOC and provides its own financing for costs incurred by WCNOC. KEPCo's share of anticipated costs for ongoing nuclear fuel for WCNOC is estimated to be approximately $20,452,000 for the next five years. KEPCo has provided a letter of credit of approximately $2,068,000 in connection with nuclear fuel costs.

COAL COMMITMENTS

KEPCo owns a 3.53% undivided interest in Iatan 2 and provides its own financing for costs incurred by Iatan 2. KEPCo's share of anticipated costs for ongoing coal fuel for Iatan 2 is estimated to be approximately $13,600,000 for the next five years.

PURCHASE POWER COMMITMENTS

KEPCo has supply contracts with various utility companies to purchase power to supplement generation in given service areas. KEPCo has provided the Southwest Power Pool a letter of credit of $1.500,000 to help ensure power is available if needed.

NOTE 10: SIGNIFICANT ESTIMATES AND CONCENTRATIONS

GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

LITIGATION

KEPCo is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have an adverse effect on the consolidated financial position, results of operations, and cash flows of KEPCo.

There is a provision in the WCNOC operating agreement whereby the owners treat certain claims and losses arising out of the operations of WCNOC as a cost to be borne by the owners separately (but not jointly) in proportion to their ownership shares. Each of the owners has agreed to indemnify the others in such cases.

DEFERRED COMPENSATION AGREEMENT

The amount of annual expense accrued for deferred compensation is based on an estimate of the total amounts payable under the contract over the lifetimes of the beneficiaries.

ASSET RETIREMENT OBLIGATION

As described in **NOTE 1**, KEPCo has recorded a liability for its conditional asset retirement obligation related to the WCNOC plant decommissioning costs.

PENSION AND OTHER POSTRETIREMENT BENEFIT OBLIGATIONS

KEPCo, through its 6% share in WCNOC, has a noncontributory defined benefit pension and postretirement medical plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

INVESTMENTS

KEPCo invests in various investment securities in its NDT. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

NOTE 11: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

ASC 820, *Fair Value Measurements,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

LEVEL 1 – Quoted prices in active markets for identical assets or liabilities

LEVEL 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

LEVEL 3 – Unobservable inputs supported by little or no market activity and significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

DECOMMISSIONING FUND AND SHORT-TERM INVESTMENTS

The decommissioning fund consists of various mutual funds where fair value is determined by quoted market prices in an active market and, as such, are classified within Level 1 of the valuation hierarchy. Short-term investments are investments with an original maturity greater than three months, but less than 12 months, in commercial paper issued by NRUCFC maturing in April 2021 and are classified within Level 2 of the valuation hierarchy.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at December 31:

	Fair Value Measurements			
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2020 NUCLEAR DECOMMISSIONING TRUST				
Equity securities				
Domestic fund	$20,731,690	$20,731,690	$-	$-
International fund	2,195,993	2,195,993	-	-
Domestic bond fund	12,458,624	12,458,624	-	-
Money market	178,644	178,644	-	-
Total nuclear decommissioning trust	35,564,951	35,564,951	-	-
Internal Investments				
Short-term investments	13,000,000	-	13,000,000	-
Total Investments	$48,564,951	$35,564,951	$13,000,000	$-
2019 NUCLEAR DECOMMISSIONING TRUST				
Equity securities				
Domestic fund	$17,014,773	$17,014,773	$-	$-
International fund	1,981,101	1,981,101	-	-
Domestic bond fund	10,636,865	10,636,865	-	-
Money market	894,477	894,477	-	-
Total	$30,527,216	$30,527,216	-	-

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified within Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

The estimated fair values of KEPCo's other financial instruments at December 31 are as follows:

	2020		2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	$16,598,637	$16,598,637	$20,369,872	$20,369,872
Short-term investments	$13,000,000	$13,000,000	$-	$-
Investments in associated organizations	$11,362,681	$11,362,681	$11,601,080	$11,601,080

The following methods were used to estimate the fair value of all other financial instruments not recognized in the accompanying consolidated balance sheets.

CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The carrying amount approximates fair value.

INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Management was not able to estimate the fair value of investments that represent KEPCo's investment in memberships and other associated organizations and they remain at their cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

NOTE 12: PATRONAGE CAPITAL

In accordance with KEPCo's bylaws, KEPCo's current margins are to be allocated to members. KEPCo's current policy is to allocate to members based on revenues collected from the members as a percentage of total revenues. If KEPCo's consolidated financial statements were no longer prepared under the regulatory basis of accounting as prescribed by ASC 980, total patronage capital would be substantially less. Patronage capital distributions of $699,114 were made to members in 2020. No patronage capital distributions were made to members in 2019.

NOTE 13: SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 6, 2021, which is the date the consolidated financial statements were available to be issued.

WINTER STORM URI

In February 2021, the entire Southwest Power Pool region, which includes KEPCo's members' service territory, experienced a winter storm that resulted in record low temperatures, causing a substantial increase in energy and natural gas usage throughout the region. This high demand, coupled with strained natural gas supply and low wind generation availability, resulted in extraordinarily high natural gas and market energy prices. KEPCo's Board of Directors has elected to defer the excess costs of the winter storm and amortize them into its rates over two years.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

BOARD OF TRUSTEES, KANSAS ELECTRIC POWER COOPERATIVE, INC. TOPEKA, KANSAS

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **GOVERNMENT AUDITING STANDARDS**, issued by the Comptroller General of the United States, the consolidated financial statements of Kansas Electric Power Cooperative, Inc. and its wholly owned subsidiary (KEPCo), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of margin and comprehensive income (loss), patronage capital, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 6, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered KEPCo's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of KEPCo's internal control. Accordingly, we do not express an opinion on the effectiveness of KEPCo's internal control.

A **DEFICIENCY IN INTERNAL CONTROL** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A **MATERIAL WEAKNESS** is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A **SIGNIFICANT DEFICIENCY** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KEPCo's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under **GOVERNMENT AUDITING STANDARDS**.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with **GOVERNMENT AUDITING STANDARDS** in considering the entity's internal control and compliance.

Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

OKLAHOMA CITY, OKLAHOMA APRIL 6, 2021

ABOUT **KEPCo**

Kansas Electric Power Cooperative, Inc. (KEPCo), headquartered in Topeka, Kansas, was incorporated in 1975 as a not-for-profit generation and transmission cooperative (G&T). KEPCo strives for excellence in providing safe, reliable, economical and environmentally responsible power supply, exceptional support, and innovative services to our Members and the Kansans they serve.

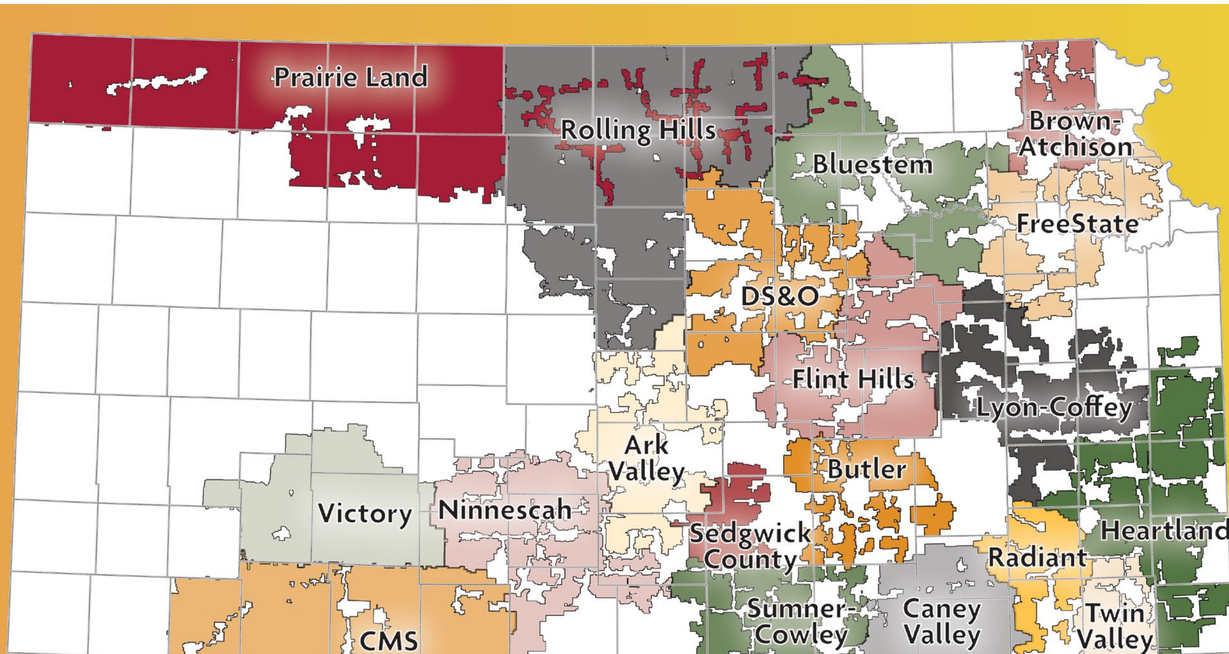
In addition to its core mission, KEPCo also assists our Member cooperatives on such important activities as rural economic development, electric appliance rebates, load and power cost forecasting, and system enhancement projects.

Governed by an 18-member Board of Trustees, KEPCo's Members collectively serve over 80,000 consumer-members in the eastern two-thirds of Kansas, which represents more than 200,000 rural Kansans. The Board of Trustees establishes policies and acts on issues that often include recommendations from working committees of the Board and KEPCo staff. The Board also elects a seven-person Executive Committee, which includes the president, vice president, secretary, treasurer, and three additional members.

KEPCo's power supply resources consist of: 70 MW of owned generation from Wolf Creek Generating Station; 32 MW of owned generation from Iatan 2 Generating Plant; 20 MW of owned generation from Sharpe Generating Station; hydro allocations consisting of 100 MW from the Southwestern Power Administration and 13 MW from the Western Area Power Administration; 1 MW of owned generation from Prairie Sky Solar Farm; and partial requirement power purchases from regional utilities.

KEPCo strives for excellence in providing safe, reliable, economical, and environmentally responsible power supply, exceptional support, and innovative services ...

KEPCo is a Touchstone Energy® Cooperative, a national network of electric cooperatives across 46 states that provides resources and leverages partnerships to engage and serve their members. By working together, Touchstone Energy cooperatives stand as a source of power and information to their 32 million consumer-members every day.



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