



## KEPCo Implements Rate Adjustment Change

In July of this year, KEPCo staff presented to the KEPCo Board of Trustees a plan to change the method in which several wholesale rate adjustments are calculated and applied to the Member's rates. At the September Board of Trustees meeting, the Board voted and unanimously passed the new rate adjustment method, which will be implemented beginning January 1, 2015 under the M-11A Tariff.



Chuck Terrill addresses the Board regarding the M -11A Tariff.

Currently, rate adjusters such as the Demand Cost Adjustment (DCA), the Transmission Cost Adjustment (TCA) and the annual components to the Energy Cost Adjustment (ECA) are calculated using a mix of historic and expected costs and historic billing determinants, as well as a component to true-up the recovery to the actual costs for the previous year. By using these components, rather than budgeted costs, a significant delay occurs between the time when changes in costs are incurred and when the costs are reflected in rates. As a result of this delay, the

accuracy of the price signals conveyed by the annual rate adjustments is compromised when unit costs change significantly from the previous year.

In a recent G&T rate survey, 83% of the respondents indicated their rates are set based upon budgeted costs, which is the method KEPCo will implement on January 1, 2015. Using budgeted costs, rather than historical costs, should mitigate some of the timing issues and will likely reduce the difference between actual costs and the associated recovery under the wholesale rate. In addition, using budgeted costs will reduce the lag in cost recovery, and should reduce the magnitude of "true-up" adjustments required to match revenues to costs. Under the new rate method, KEPCo's Margin Stabilization Adjustment will be used to capture all variances in costs and revenues associated with purchased power, Wolf Creek and Iatan 2 operating and maintenance, and transmission incurred during the year to ensure that KEPCo will meet its debt covenants.

By making this change, the basic wholesale rate structure will remain unchanged, a better timing of revenue and expenses will be realized, and KEPCo will have a more accurate picture of its financial position.

## KEPCo ALS Ice Bucket Challenge

The ALS Ice Bucket Challenge is an activity involving dumping a bucket of ice water on a participants head to promote awareness of the disease amyotrophic lateral sclerosis (ALS) and encourage donations to research. The challenge dares nominated participants to be filmed having a bucket of ice water poured on their heads and challenging others to do the same. A common stipulation is that nominated people have 24 hours to comply or forfeit by way of a charitable financial donation.

After KEPCo's August Board Meeting, several KEPCo staff members and Board of Trustee members participated in the challenge in memory of Stephen E. Parr, KEPCo's EVP & CEO from 1996 to 2013. Mr. Parr passed away from ALS in 2013. The event raised nearly \$1,200 for ALS research.



Bob Reece, Manager of Flint Hills, taking the plunge.



All of the participants in the KEPCo ALS Ice Bucket Challenge.

## Wedding Bells Ring for KEPCo Employee

Stephanie Worthington, KEPCo Finance and Benefits Analyst, wed Trevor Anderson, a Chemist Technician at Wolf Creek, on July 26 in Lyndon, KS. After a honeymoon in Hawaii, Stephanie and Trevor reside in Lyndon. Congratulations Stephanie and Trevor!



Stephanie and Trevor Anderson

## KEPCo EVP/CEO Search

The KEPCo Board of Trustees continues to work through the search for an Executive Vice President & Chief Executive Officer to replace Chuck Terrill. The selection is anticipated in late October.

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## REDLG Loan Awarded

Schwinn Produce Farm located in Leavenworth, KS, a produce grower specializing in seasonal vegetables and fruits, in addition to offering facilities for hosting a variety of events, was recently awarded a loan through the USDA Rural Economic Development Loan & Grant program (REDLG). The loan will be used to construct a building that will act as a retail store for the sale of produce grown on the farm, in addition to providing a venue for private, community, and corporate events and agri-tourism opportunities.



Farm-grown tomatoes by Schwinn Produce Farm



Schwinn Produce Farm

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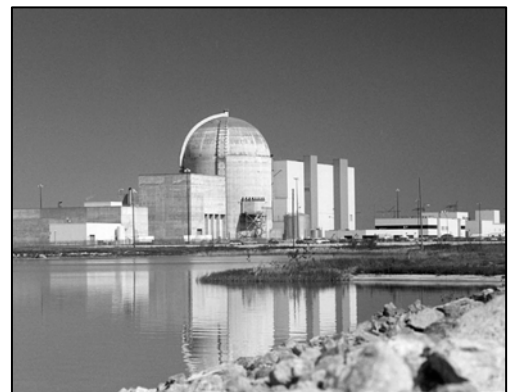
## KEPCo Files Loan Application

At its September meeting, the KEPCo Board of Trustees approved a resolution authorizing KEPCo to file an Amended Construction Work Plan and Capital Additions Loan Request with RUS, primarily for additional costs associated with the Essential Service Underground Water Pipe Replacement project at Wolf Creek.

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## KEPCo Appeals Tax Assessment

Last year, Ms. Coleen Wells, KEPCo Vice President & Chief Financial Officer, successfully argued that KEPCo's valuation was too high, due to the increasing difference between the depreciation expense and principal payments over the past few years. Since KEPCo's monthly debt service requirement was fairly constant, Ms. Wells illustrated that while KEPCo's depreciation expense had remained fairly constant, the principal payment had increased, necessitating an increase in margins, since the principal payment is not captured in rates and is not reflective of an accumulation of capital.



Wolf Creek Nuclear Generating Station

This year, Ms. Wells again successfully argued that since KEPCo has refinanced its debt associated with Wolf Creek, KEPCo's margin requirement is less than in previous years and that by using the average for the years with the elevated margin requirement, KEPCo's valuation is

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too high. Ms. Wells was successful in the appeal, resulting in a tax savings for KEPCo of \$250,000.

In addition, and on behalf of all Kansas electric cooperatives, a joint effort was made by Kansas Electric Cooperatives and MarksNelson, a CPA firm, to appeal the rate used by the Department of Revenue to impute state income tax. After an informal conference with the Property Valuation Division staff, the state income calculation was corrected, resulting in an estimated savings to KEPCo of \$33,000. MarksNelson is also appealing the capitalization rate that is used to establish KEPCo's property valuation. This particular appeal is still being argued at the Board of Tax Appeals.

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## **KSI To Perform Arc Hazard Assessments**

In late 2008 and early 2009, KSI developed Arc Flash Hazard Assessments for 14 electric cooperatives (12 members and two non-members). The Arc Hazard Assessments were prepared as a guide to assist cooperatives in selecting appropriate clothing for workers that could be exposed to hazards from flames or electric arcs and to meet NESC requirements.

In April of this year, OSHA published its final rule that addresses protective clothing; a directive to estimate an employee's exposure to incident heat energy; identify employees that are exposed to the hazards from flames or electric arcs; and ensure that employees who are exposed to hazards from electric arcs wear protective equipment with an arc rating greater than or equal to the estimated heat energy.



KSI has obtained a license for the Arc-Pro software and has training scheduled in mid-September. KSI is also working with Westar and Sunflower to update the delivery point system impedance to ensure KEPCo's current calculations are up-to-date.

To date, KSI has been requested to update Arc Hazard Assessments for 10 member cooperatives and two non-member cooperatives. The assessments are expected to be completed before year end.