KANSAS ELECTRIC POWER COOPERATIVE, INC.

NEWSMAKER

A Touchstone Energy® Cooperative

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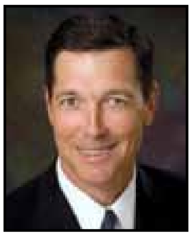

President's Remarks

from the KEPCo Annual Meeting

BY KIRK THOMPSON
President, KEPCo Board of Trustees

Friends, colleagues, and guests, welcome to KEPCo's 37th Annual Meeting. Thank you for attending tonight and taking the time to participate in the business of your power supply cooperative.

Never has the old adage—the only certainty is uncertainty—been more appropriate. Three years ago, after the election of President Obama, the outlook for the power industry seemed fairly clear: carbon cap-and-trade, a federal renewal portfolio standard (RPS), and aggressive investment in and subsidization of alternative renewable technologies, as well as energy-efficiency expansion. However, since the inauguration, the political and economic realities have shifted dramatically. The failure of cap and trade to net legislative success inspired the Obama Administration to pivot to the EPA to pursue its environmental agenda.Over the past year, the utility industry has experienced significant angst over pending updates to utility environmental regulations. Of particular concern is the question of whether to invest in plant updates to comply with these regulations, or to retire generating plants all together and replace them with new (and most likely natural-gas fueled) power plants. Many inside and outside the utility industry have painted this situation as a crisis in the making. These effects will likely be felt most acutely in a crescent from the Great Plains through the Midwest and down the Appalachians, where utilities rely heavily on coal to generate electricity. Utilities are indicating that they will need to invest billions of dollars in supply-side assets, resulting in significant increases in electric rates for customers.

The EPA has paved a very rocky road ahead for electric reliability, price and supply in the United States for the next decade. During this decade we will see greenhouse gas rules hit, specifically permitting obligations associated with greenhouse gases. We will see new source performance standards, new National Ambient Air Quality standards for ozone and new standards for particulate matter as well. The two most immediate EPA regulations are the Cross-State Air Pollution Rule and the Maximum Available Control Technology (MACT) rule.

Beginning January 2012, the Cross-State Air Pollution Rule will require 27 states, including Kansas, to significantly reduce sulfur dioxide ($SO2$) and nitrogen oxide (NOx), common fossil fueled power plant emissions, which cross state lines and allegedly contribute to ozone and fine particulate pollution in other states. The cost-prohibitive nature of implementing the necessary changes in order to be in compliance with the rule threatens not only jobs, as some plants will be forced to choose between reducing output, shutting down the power plant or implementing the costly changes, but reliability and stability of the U.S. power system and grid as well, as a significant loss in generating capacity will be a likely result.

This rule affects plants that provide 40% of U.S. base load capacity

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KEPCo Elects Officers

The KEPCo Board of Trustees elected Officers and an Executive Committee during its meeting on November 17.

Re-elected as Officers were Kirk Thompson, President, CMS Electric Cooperative, Inc.; Scott Whittington, Vice President, Lyon-Coffey Electric Cooperative, Inc.; Kevin Compton, Treasurer, Brown-Atchison Electric Cooperative Association, Inc.; and Dale Short, Secretary, Butler Rural Electric Cooperative Association, Inc.

In addition to those listed above, Kenneth Maginley, Manager of Bluestem Electric Cooperative, Inc.; Robert Reece, Manager of Flint Hills Rural Electric Cooperative Assn., Inc.; and Larry Stevens, Trustee, LJEC were elected to the Executive Committee.

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in the U.S., and almost half of U.S. net generation. The Federal Energy Regulatory Commission (FERC), which is charged with ensuring the integrity of the power supply, reported in August in a letter to the Senate that 81 gigawatts of generating capacity is "very likely" or "likely" to be subtracted by 2018 amid coal plant retirements and downgrades. That's about 8% of all U.S. generating capacity. Merely losing 56 gigawatts—a midrange scenario in line with FERC and industry estimates—is the equivalent of wiping out all power generation for Florida and Mississippi.

Next on the EPA's hit parade is the Maximum Achievable Control Technology (MACT) rule, which requires coal and oil-fired power plants to reduce emissions of mercury, other metallic toxics, acid gases, and organic air toxics. Manufacturers use one third of our nation's energy supply, making access to affordable sources of energy essential for manufacturers to be able to stay competitive in the growing global market. Manufacturers have asked President Obama numerous times to stop the EPA from overreaching and destroying jobs. With so much uncertainty facing our economy, manufacturers simply cannot afford additional costly regulations which will dampen their ability to create jobs. Plus there are water rules, and waste rules dealing with ash, all of which hits together at one time. The EPA has not done a single analysis, not one, that attempts to estimate the overlapping impact of all of these rules hitting at once. Neither has FERC.

The goal for these rules should be reasonable regulation that protects public health and the environment while also preserving economic growth. Unfortunately, the unprecedented pace at which the administration is issuing major new rules that impose new costs and regulatory requirements on states, employers, and consumers fails that basic test. By issuing multiple regulations for energy and other sectors at such an accelerated rate, the EPA has turned regulation from a manageable tool into an unpredictable moving target that makes it difficult for companies to invest and create jobs.

Environmental extremists cheer the new rules because closing "dirty" coal plants is part of their fantasy of "clean energy" and green jobs. But the reality is otherwise. Even backed by stimulus funds, "green" business after business has flopped or folded, costing taxpayers millions.

Solar start-up company Solyndra LLC announced in August it was filing for bankruptcy, just 15 months after receiving $535 million in federal loan money. Incidentally, nobody knows where the money has gone, or can account for it.

Now, a $737 million loan to Crescent Dunes Solar Energy Project in Nevada has been announced. The Energy Department said the project will result in 600 temporary construction jobs and 45 permanent jobs.

Let me do something the Energy Department has never done, some third-grade arithmetic — $737 million divided by 645 total jobs results in over $1 million per job created.

And it doesn't get any better. Since the construction jobs will disappear after construction, only 45 permanent jobs will be created. This results in $16 million per job created.

In Seattle, a plan called Retrofit Ramp-Up was implemented in 2010 which sucked up $20 million in federal grants to make houses more energy efficient. As of August 2011, only three homes had been retrofitted and just 14 jobs "created." California received $186 million for a similar program and has spent just over half of it -- with just 538 new full-time jobs to show for it.

Costco recently announced that it is yanking out some 90 electric-car chargers at 64 of its stores, mostly in California -- because nobody uses them. The discount retailer also rejected the offer of a $2.3 million upgrade by the California Energy Commission.

Even closer to home was the program Efficiency Kansas, which Governor Brownback pulled the plug on this year due to limited interest and participation among Kansas homeowners.

So let's get this straight: At the same time it's spending millions of taxpayer dollars in pursuit of a fantasy, the Obama administration is attacking the wellsprings of U.S. prosperity, throwing people out of work and raising consumer costs. Albert Einstein said the definition of insanity was doing things over and over again and expecting different results. The U.S. continues to spend money it does not have and implement regulations that put strangleholds on business and consumers alike. I think it's high time we tried something different – maybe we'll see a different result.

President Richard Nixon created the EPA by executive order in 1970, in a hasty response to an oil spill near Santa Barbara. Nixon said the 1970s absolutely must be the years when America pays its debt to the past by reclaiming the purity of its air, its waters and our living environment.

That was 41 years ago. Yet the EPA continues to narrowly focus upon environmental quality as a complete measure of human well being, rather than incorporating the true costs of the economic damage caused by its regulatory prerogatives. Certain economic growth is foregone in the form of less disposable income among consumers and reduced production under restrictive environmental regulation. No measure of foregone economic growth is typically

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provided by EPA estimations; betraying, perhaps, the nature of the EPA's true agenda. The nation's air and water have noticeably improved since the 1970's -- but they'll never be clean enough to satisfy some. Their view is we just need to keep on paying, no matter what the cost, even if we have to borrow money or print it.

I want to point out that KEPCo is in a better position than most utilities in the U.S. in regards to the impact of current and future EPA regulations. Approximately 40 to 50 percent of KEPCo's energy resources are not subject to EPA emissions regulations. Wolf Creek and KEPCo's hydropower allocation do not produce carbon, SOx or NOx emissions. In addition, the Iatan 2 generating unit, which satisfies approximately 11 percent of KEPCo's energy requirements, was built with the latest, state-of-the-art pollution control equipment. If it is determined that Iatan 2 needs to be retrofitted with new or additional emission control equipment, the cost should be substantially less when compared to older coal-fired generating units. These three resources will save KEPCo and its Member Cooperatives millions of dollars in avoided EPA regulation compliance costs. However, KEPCo will be impacted through its purchase power agreements with Westar, KCP&L, and Sunflower. The costs that are incurred to comply with the EPA's regulatory cascade will flow through to KEPCo and its Member Cooperatives in the form of higher electric rates. It's ironic that during this time of out-of-control spending and economy-destroying regulations, the Administration has not figured out the single most important thing it can do for the economy does not cost a dime. All it takes is to get the out-of-control EPA to stop its assault on American jobs and the economy.

KEPCo Celebrates 37th Annual Meeting

Approximately 180 representatives from KEPCo Member Cooperatives, KEPCo Staff and guests attended the 37th Annual Membership Meeting, November 16 at the Prairie Band Hotel & Casino in Mayetta, KS.

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

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

NRECA Marks Launch of the International Year of Cooperatives

The United Nations has designated 2012 as the International Year of Cooperatives (IYC), the theme of which is "Cooperative Enterprises Build a Better World." At its official launch of the International Year of Cooperatives 2012 on October 31, members of the United Nations (U.N.) applauded the important role cooperatives play in society.

"The cooperative movement balances both economic viability and social responsibility," U.N. Deputy Secretary-General Asha-Rose Migiro said. "They make enormous contributions not only to their members, but to their communities and societies."

Co-ops have a more than 200 year history. In the United States, the first known co-op dates back to an insurance cooperative formed by Benjamin Franklin. And co-ops continue today to provide a tremendous service to people throughout the world. Cooperatives are a model of self-reliance and an example of people working together to improve their quality of life," said National Rural Electric Cooperative Association (NRECA) CEO Glenn English, who is a member of the National Cooperative Business Association Hall of Fame.

The nation's more than 900 not-for-profit consumer-owned electric cooperatives provide power to more than 42 million people in 47 states.

The International Year of Co-operatives coincides with the 50th anniversary of NRECA International Programs, a partnership among America's electric co-ops dedicated to bringing power and economic development to rural villages all over the world. Since its creation in 1962, NRECA International Programs has assisted with electrification efforts that have improved the quality of life for more than 100 million people in more than 40 nations.

KEPCo Hires Engineering Technician

Heath Robertson has been hired as an Engineering Technician. Heath will specialize in utilizing AutoCAD and ESRI for the drawing of maps, schematics, and various other drawings.


Heath Robertson

Heath is from Holton and attended Washburn Tech, graduating with a degree in Technical Drafting. Heath's interests include music and baseball.

Merry Christmas

from Your

KEPCo Staff

KANSAS ELECTRIC POWER COOPERATIVE, INC.
600 CORPORATE VIEW
PO BOX 4877
TOPEKA, KS 66604-0877
Phone: (785) 273-7010
www.kepco.org