



# 2009 Annual Report

Kansas Electric Power  
Cooperative, Inc.

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## KEPCo Staff

Stephen Parr .....	Executive Vice President & Chief Executive Officer
Les Evans .....	Senior Vice President & Chief Operating Officer
Mark Barbee .....	Vice President of Engineering, KSI Vice President of Engineering
Bob Bowser .....	Vice President of Technical Services
J. Michael Peters .....	Vice President of Administration & General Counsel
Coleen Wells .....	Vice President & Chief Financial Officer
Laura Armstrong .....	Administrative Assistant
Marc Doljac .....	Director of Rates & Regulation
Terry Deutscher .....	EMS/SCADA System Specialist
Carol Gardner .....	Operations Analyst

Robert Hammersmith ...	SCADA/Metering Technician 2
Shari Koch ...	Accounting, Payroll & Benefits Specialist
Elizabeth Lesline .....	Administrative Assistant/ Receptionist
Mitch Long .....	Sr. SCADA/Metering Technician
Michael Morris .....	Sr. SCADA/Metering Technician
Erika Old .....	Finance & Benefits Analyst 2
Matt Ottman .....	Engineer 3
John Payne .....	Senior Engineer
Robert Peterson .....	Sr. Engineering Technician
Rita Petty .....	Executive Assistant & Manager of Office Services
Paul Stone .....	System Operator
Phil Wages .....	Director of Member Services, Government Affairs & Business Development

# Organization & Resources

Kansas Electric Power Cooperative, Inc. (KEPCo), headquartered at Topeka, Kansas, was incorporated in 1975 as a not-for-profit generation and transmission cooperative (G&T). It is KEPCo's responsibility to procure an adequate and reliable power supply for its nineteen distribution Rural Electric Cooperative Members at a reasonable cost.

Through their combined resources, KEPCo Members support a wide range of other services such as rural economic development, marketing and diversification opportunities, power requirement and engineering studies, rate design, etc.

KEPCo is governed by a Board of Trustees representing each of its nineteen Members which collectively serve more than 120,000 electric meters in two-thirds of rural Kansas. The KEPCo Board of Trustees meets regularly to establish policies and act 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 Executive Committee members.

KEPCo was granted a limited certificate of convenience and authority by the Kansas Corporation Commission in 1980 to act as a G&T public utility. KEPCo's power supply resources consist of: 70 MW of owned generation from the Wolf Creek Generating Station; the 20 MW Sharpe Generating Station located in Coffey County; hydropower purchases of an equivalent 100 MW from the Southwestern Power Administration, and 14 MW from the Western Area Power Administration; plus partial requirement power purchases from regional utilities.

KEPCo is a Touchstone Energy® Cooperative. Touchstone Energy® is a nationwide alliance of more than 650 cooperatives committed to promoting the core strengths of electric cooperatives – integrity, accountability, innovation, personal service and a legacy of community commitment. The national program is anchored by the motto "The Power of Human Connections."

**Kansas Electric  
Power Cooperative, Inc.**  
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600 SW Corporate View Topeka, KS 66615  
(785) 273-7010 [www.kepco.org](http://www.kepco.org)

A Touchstone Energy® Cooperative 



# 2009 Message

*from*

*Kirk Thompson  
KEPCo President*

*Stephen E. Parr  
Executive Vice President  
& Chief Executive Officer*

Energy policy and climate change continue to encapsulate the utility industry in regulatory uncertainty. Important questions remain unanswered. Will there be a constraint placed on carbon? What will be the economic impact? What resources will be legislated obsolete? For the utility industry to plan and operate with foresight, a defined and stable regulatory framework needs to be established. In 2009, this framework was achieved in Kansas at the state level.



In May, an agreement was reached between Governor Mark Parkinson and Sunflower Electric Corporation regarding Sunflower's Holcomb coal-fired generating plant expansion. The governor agreed to the issuance of an air permit for the facility, in exchange for expanded renewable energy initiatives by the utility industry, which included the implementation of net metering by investor-owned utilities and the implementation of a Renewable Portfolio Standard (RPS) for all utilities.

The electric cooperatives of Kansas have had a long history of supporting the development of renewable energy in Kansas. Based upon this support, the electric cooperatives began to voluntarily discuss implementing net metering tariffs in 2009. A few cooperatives implemented such a tariff in 2009 and many more are expected to do the same in 2010. This voluntary act is evidence of the commitment of the electric cooperatives in renewable energy development.

The RPS provision requires utilities to have ten percent renewable energy by 2011, fifteen percent by 2016, and twenty percent by 2020. KEPCo receives approximately twenty percent of its energy from hydroelectricity, a resource that is considered renewable under Kansas law. KEPCo's hydro allocations are its least cost resource and now will provide an extra dividend by enabling KEPCo to already meet the state's upper tier RPS requirement.

At KEPCo's November Board of Trustees meeting, Mr. Kirk Thompson, manager of CMS Electric Cooperative, Inc, was elected President of KEPCo. Mr. Thompson succeeds Mr. Kenneth Maginley, manager of Bluestem Electric Cooperative, Inc, who served five years as KEPCo's president. Mr. Thompson has served



on the KEPCo Board of Trustees since 1991 and has held various offices during his tenure. Mr. Thompson's knowledge of the electric cooperative industry, and of KEPCo, will be an asset to KEPCo's continued success.

On August 21<sup>st</sup>, a culmination of over four years of work and negotiations came to realization as the Federal Energy Regulatory Commission (FERC) approved the 36-year cost-based formula rate agreement for full-requirements electric service between KEPCo and Westar Energy. The agreement will enable KEPCo and its Members access to Westar's existing generating resources and mitigate the risk of being vulnerable to price fluctuations in the open market.

Under the agreement, KEPCo will purchase electricity based on Westar's cost to produce the power and combine it with KEPCo's own resources to meet much of its Members' energy needs. KEPCo and its Members will also benefit by having Westar help manage KEPCo's resources and by participating in joint power supply planning. The agreement allows for KEPCo and Westar to "pool" their respective loads and generating capabilities to make the most efficient use of both companies' resources. KEPCo will also receive additional nuclear energy and credit for wind energy purchased from Westar under the agreement, thus increasing KEPCo's percentage of non-greenhouse gas emitting resources.



*2009-10 KEPCo Executive Committee (seated): Dwane Kessinger; Kenneth Maginley; Larry Stevens; (standing) Stephen Parr, Executive Vice President & CEO; Kirk Thompson, President; Scott Whittington, Vice President; Dale Short, Secretary; and Kevin Compton, Treasurer.*

Throughout 2009, KEPCo staff actively participated with NRECA staff working to shape proposed cap and trade legislation. KEPCo staff also worked with several staff members of the Kansas delegation, offering input on energy legislation, such as a small utility exemption from the proposed Federal Renewable Energy Standard. KEPCo will continue to work with NRECA and our Kansas delegation on ways to soften the impact of any proposed climate change legislation to KEPCo's Members.

At its September Board Meeting, the KEPCo Board of Trustees voted unanimously to deregulate from rate regulation under the Kansas Corporation Commission (KCC). By voting to be rate deregulated, KEPCo will save its Member Cooperatives the costs associated with filing and conducting a rate case proceeding with the KCC, in addition to being able to make rate changes in a more expeditious manner. If a rate change is proposed in the future, KEPCo will conduct a rate review with the Members and the Board of Trustees and any rate change will continue to be approved by the Board of Trustees.

KEPCo's latest investment in a generation resource, Iatan 2, is scheduled to be commercially available in December of 2010. Iatan 2 is an 850 MW, state-of-the-art pulverized coal plant located north of Kansas City.

*Continued on page 12*

# 2009 KEPCo Highlights

On August 21st, the Westar cost-based generation formula rate long-term Power Supply Agreement was approved by the FERC. The Agreement, which was implemented September 1st, has a term of thirty-six years, and will provide KEPCo Members access to the Westar fleet of generation on a cost-based basis until 2045.



*KEPCo's Board of Trustees annual strategic planning retreat focused on energy efficiency, conservation and smart-grid technology. The retreat was very timely given the escalating interest in the efficient use of energy.*



Wolf Creek had a 350-day continuous run since refuel 16. The unit was forced off-line due to lightning strikes to the transmission system serving the plant.

*Construction on the Iatan 2 pulverized coal unit continues to progress and is scheduled for commercial operation in December of 2010. KEPCo owns 30 MW of the 850 MW unit, which will supply approximately 11% of KEPCo's Members' energy needs.*

KEPCo was privileged to honor at its 2009 Annual Meeting seven soldiers of the Second Brigade Combat Team, First Infantry Division stationed at Fort Riley that had recently returned from deployment in Iraq.

*Long-term firm transmission service was secured for serving load in the Empire District balancing authority with the Westar generation fleet.*

KEPCo also secured firm transmission for the delivery points in the Mid-Kansas Electric Company (MKEC) area presently served by Westar.



*KEPCo actively participated in NRECA's analysis and lobbying efforts to help minimize the impact of proposed climate change legislation to KEPCo's operations. Fifty percent of KEPCo's diverse power supply is*

*derived from hydroelectric and nuclear resources, which do not emit greenhouse gases.*

KEPCo invested \$2.5 million in National Rural Utilities Cooperative Finance Corporation (CFC) through the purchase of Member Capital Securities. This investment will aid in strengthening CFC's equity position, as CFC's viability is critical to KEPCo since CFC is one of KEPCo's primary financing sources for new capital.

*KEPCo continues to fund and assist Members in the promotion of an energy efficiency electric water heater and heating/cooling system rebate program. Since inception, KEPCo has issued over 6,200 heating/cooling rebates and over 15,000 water heater rebates.*

KEPCo Staff continues to work diligently with KEC and Sunflower on legislative issues in Kansas and in Washington, D.C. Staff testified on several bills in 2009 and tracked numerous pieces of legislation. In Washington, D.C., Staff participated in the NRECA Legislative Conference.

*KEPCo's Board of Trustees unanimously voted to be deregulated from rate making jurisdiction of the Kansas Corporation Commission. This strategic vote will enable KEPCo to implement rate changes in a more expeditious manner and save KEPCo's Members the costs associated with rate regulation.*

KEPCo supports the development of renewable resources. As such, KEPCo donated \$1,000 to the South-

east Kansas Education Service Center at Greenbush for the installation of a wind turbine to be used for educational purposes.



*Check presentation to Southeast Kansas Education Service Center*

*KEPCo Staff successfully completed its first NERC/SPP compliance audit which determined that KEPCo was fully meeting all the requirements of the applicable NERC reliability standards.*

KSI Engineering effectively supported Kansas cooperatives by working on critical issues with the

Federal Emergency Management Agency (FEMA) relating to reimbursements for storm damage, including completing damage assessments and engineering reports.

*KEPCo Staff continues to actively participate on many committees of the Southwest Power Pool (SPP) to assist the region in transmission development.*





# KEPCo Member Cooperatives

## Trustees, Alternates and Managers



Joseph Seiwert

---

Ark Valley Electric Cooperative Assn., Inc.  
PO Box 1246, Hutchinson, KS 67504  
620-662-6661  
Trustee Rep. -- Joseph Seiwert  
Alternate Trustee Rep. -- Bob Hall  
Manager -- Bob Hall



Bob Hall



Kenneth Maginley

---

Bluestem Electric Cooperative, Inc.  
PO Box 5, Wamego, KS 66547 785-456-2212  
PO Box 513, Clay Center, KS 67432 785-632-3111  
Trustee Rep. -- Kenneth J. Maginley  
Alternate Trustee Rep. -- Robert M. Ohlde  
Manager -- Kenneth J. Maginley



Bob Ohlde



Kevin Compton

---

Brown-Atchison Electric Cooperative Assn., Inc.  
PO Box 230, Horton, KS 66439 785-486-2117  
Trustee Rep. -- Kevin D. Compton  
Alternate Trustee Rep. -- Rodney V. Gerdes  
Manager -- Rodney V. Gerdes



Rod Gerdes



Dale Short

---

Butler Rural Electric Cooperative Assn., Inc.  
PO Box 1242, El Dorado, KS 67042 316-321-9600  
Trustee Rep. -- Dale Short  
Alternate Trustee Rep. -- Richard Pearson  
Manager -- Dale Short



Richard Pearson



Dwane Kessinger

---

Caney Valley Electric Cooperative Assn., Inc.  
PO Box 308, Cedar Vale, KS 67024 620-758-2262  
Trustee Rep. -- Dwane Kessinger  
Alternate Trustee Rep. -- Allen A. Zadorozny  
Manager -- Allen A. Zadorozny



Allen Zadorozny





Kirk Thompson

CMS Electric Cooperative, Inc.  
PO Box 790, Meade, KS 67864 620-873-2184  
Trustee Rep. -- Kirk A. Thompson  
Alternate Trustee Rep. -- Clifford Friesen  
Manager -- Kirk A. Thompson



Cliff Friesen



Harlow Haney

DS&O Electric Cooperative, Inc.  
PO Box 286, Solomon, KS 67480 785-655-2011  
Trustee Rep. -- Harlow L. Haney  
Alternate Trustee Rep. -- Donald E. Hellwig  
Manager -- Donald E. Hellwig



Don Hellwig



Bob Reece

Flint Hills Rural Electric Cooperative Assn., Inc.  
PO Box B, Council Grove, KS 66846 620-767-5144  
Trustee Rep. -- Robert E. Reece  
Alternate Trustee Rep. -- Gus H. Hamm  
Manager -- Robert E. Reece



Gus Hamm



Dennis Peckman

Heartland Rural Electric Cooperative, Inc.  
PO Box 40, Girard, KS 66743 620-724-8251  
Trustee Rep. -- Dennis Peckman  
Alternate Trustee Rep. -- Dale Coomes  
Manager -- Dale Coomes



Dale Coomes



Larry Stevens

LJEC  
PO Box 70, McLouth, KS 66054 913-796-6111  
Trustee Rep. -- Larry H. Stevens  
Alternate Trustee Rep. -- Steven Foss  
Manager -- Steven Foss



Steven Foss



Scott Whittington

Lyon-Coffey Electric Cooperative, Inc.  
PO Box 229, Burlington, KS 66839 620-364-2116  
Trustee Rep. -- Scott Whittington  
Alternate Trustee Rep. -- Donna Williams  
Manager -- Scott Whittington



Donna Williams

# KEPCo Member Cooperatives

## Trustees, Alternates and Managers



Gordon Coulter

---

Ninnescah Electric Cooperative Assn., Inc.  
 PO Box 967, Pratt, KS 67124 620-672-5538  
 Trustee Rep. -- Gordon Coulter  
 Alternate Trustee Rep. -- Carla A. Bickel  
 Manager -- Carla A. Bickel  
 Manager -- Ed Wiltse (01/01/2010)



Carla Bickel



Ed Wiltse



Gilbert Berland

---

Prairie Land Electric Cooperative, Inc.  
 PO Box 360, Norton, KS 67654 785-877-3323  
 District Office, Bird City 785-734-2311  
 District Office, Concordia 785-243-1750  
 Trustee Rep. -- Gilbert Berland  
 Alternate Trustee Rep. -- Allan J. Miller  
 Manager -- Allan J. Miller



Allan Miller



Dennis Duft

---

Radiant Electric Cooperative, Inc.  
 PO Box 390, Fredonia, KS 66736 620-378-2161  
 Trustee Rep. -- Dennis Duft  
 Alternate Trustee Rep. -- Don Songer  
 Administrative Manager -- Leah Tindle  
 Operations Manager -- Dennis Duft



Don Songer



Leah Tindle



Melroy Kopsa

---

Rolling Hills Electric Cooperative, Inc.  
 PO Box 307, Mankato, KS 66956 785-378-3151  
 District Offices, Belleville 785-527-2251  
 Ellsworth 785-472-4021  
 Trustee Rep. -- Melroy Kopsa  
 Alternate Trustee Rep. -- Leon Eck  
 Manager -- Douglas J. Jackson



Leon Eck



Doug Jackson



Donald Metzen

---

Sedgwick County Electric Cooperative Assn., Inc.  
 PO Box 220, Cheney, KS 67025 316-542-3131  
 Trustee Rep. -- Donald Metzen  
 Alternate Trustee Rep. -- Alan L. Henning  
 Manager -- Alan L. Henning



Alan Henning



Charles Riggs

Sumner-Cowley Electric Cooperative, Inc.  
PO Box 220, Wellington, KS 67152 620-326-3356  
Trustee Rep. -- Charles Riggs  
Alternate Trustee Rep. -- Cletas Rains  
Manager -- Cletas Rains



Cletas Rains



Bryan Coover

Twin Valley Electric Cooperative, Inc.  
PO Box 368, Altamont, KS 67330 620-784-5500  
Trustee Rep. -- Bryan W. Coover  
Alternate Trustee Rep. -- Ron Holsteen  
Manager -- Ron Holsteen



Ron Holsteen



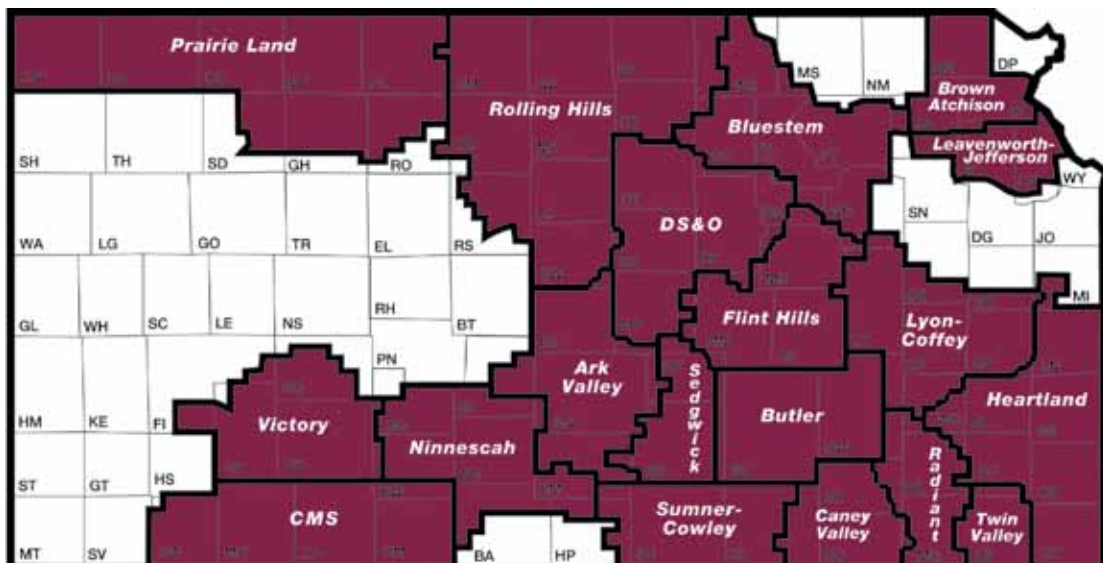
Terry Janson

Victory Electric Cooperative Assn., Inc.  
PO Box 1335, Dodge City, KS 67801 620-227-2139  
Trustee Rep. -- Terry Janson  
Alternate Trustee Rep. -- Milam Jones  
Manager -- Terry Janson



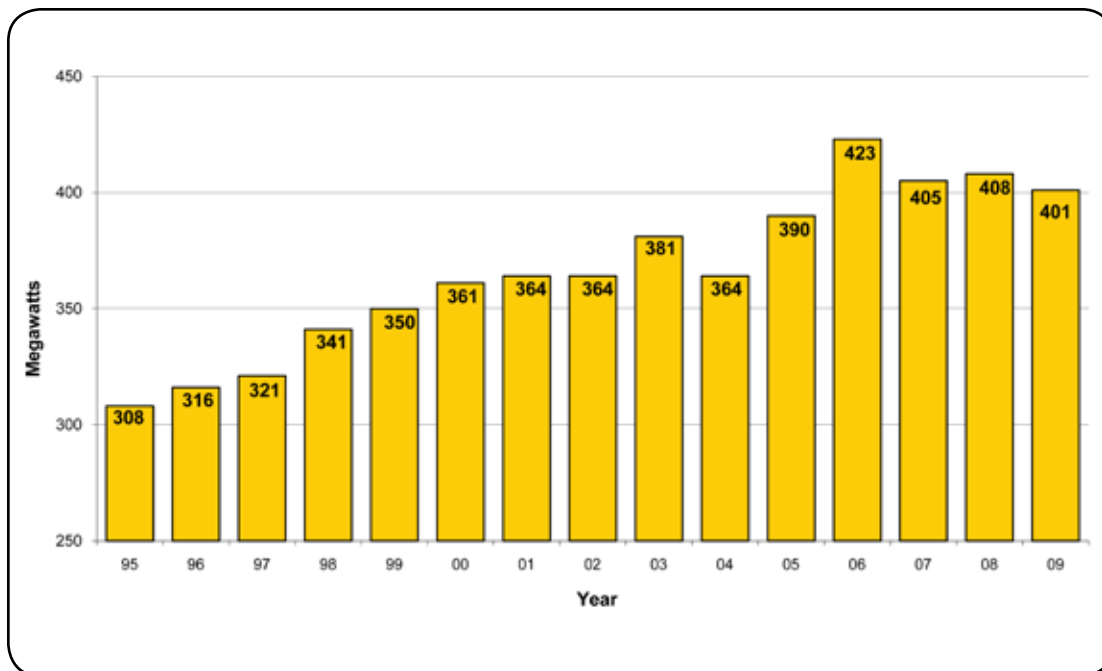
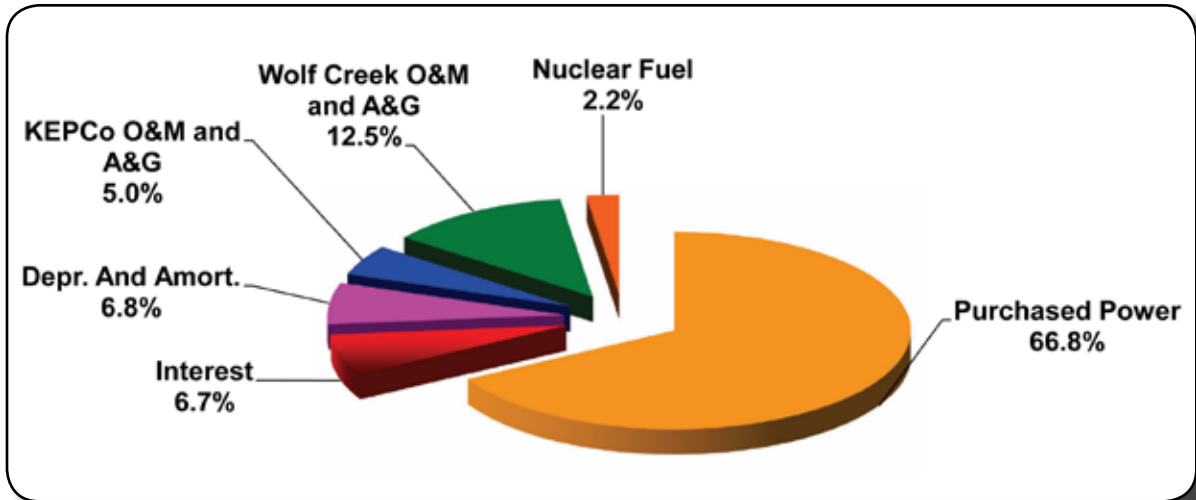
Milam Jones

## KEPCo Member Area Map



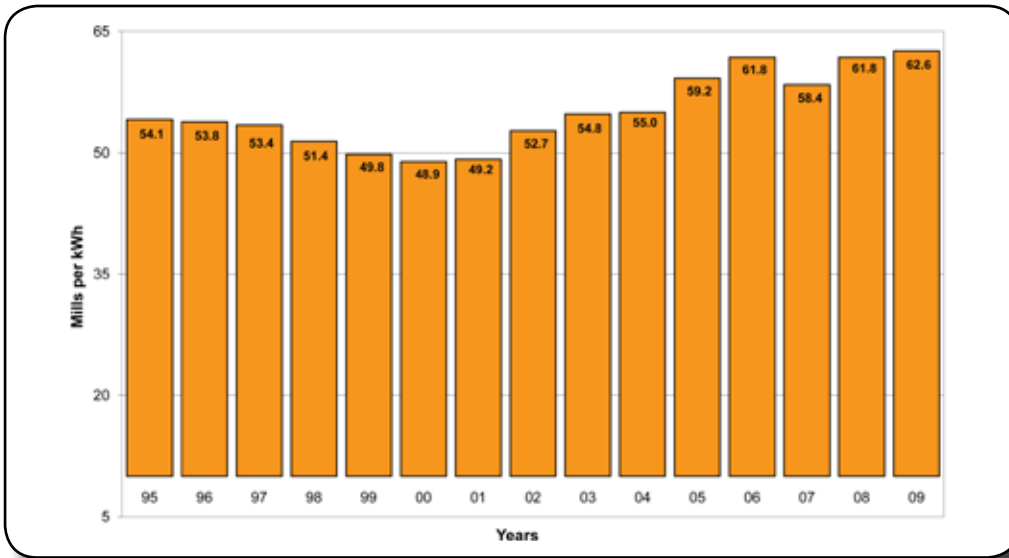
# Operating Statistics

## Operating Expenses



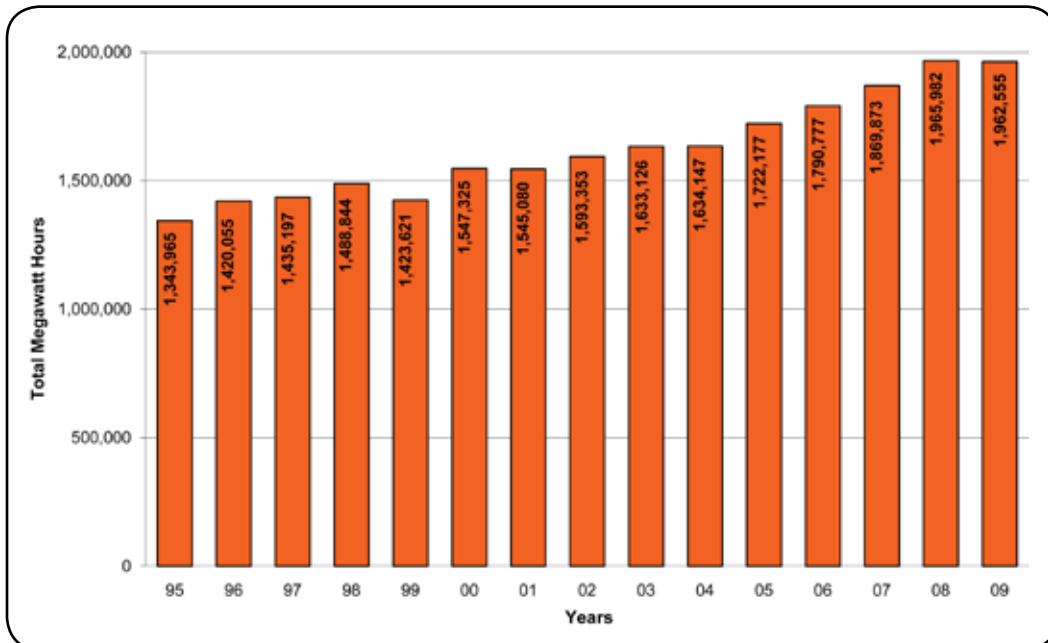
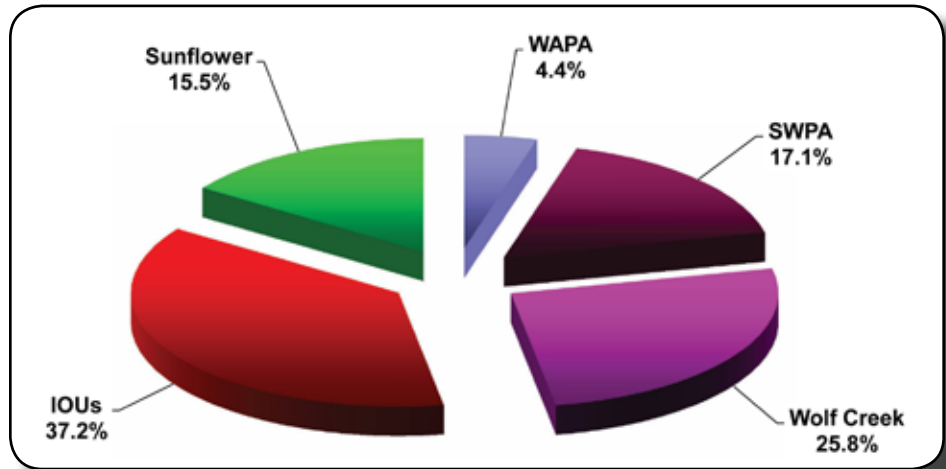
Peak Demand





Rates

Sources of Energy



Energy Sales

# 2009 Message

*Continued from page 3*

KEPCo will receive 30 MW of capacity and energy from Iatan 2. Iatan 2 will be a key component in KEPCo's resource mix by providing its Members with economical and reliable energy and mitigating exposure to volatile and high-priced electric markets and natural gas prices.

KEPCo realized a peak demand of 401 MW in 2009, which is nearly two percent less than 2008 and five percent less than 2006. This decrease can be attributed to a mild summer, the economic downturn, and KEPCo's continued success with its Demand Side Management (DSM) program. This year, KEPCo was able to shed an estimated 20 MW of peak demand. Energy sales for 2009 were nearly equal to that of 2008, thus again illustrating the mild summer, poor economy, and the continued interest and implementation of energy efficiency measures.

Before closing, KEPCo would like to offer its appreciation and gratitude to Mr. Kenneth Maginley for his dedicated service as President of the KEPCo Board of Trustees for the past five years. During his tenure, Mr. Maginley guided the Board of Trustees through many important issues: including extending most of the Member contracts to 2045; negotiating KEPCo's new Westar contract; ownership in Iatan 2; unanimously voting to deregulate; extending the SWPA contract to 2016; Wolf Creek's operating license extension; and making strategic financial decisions that increased GAAP equity by 13.5%. This increase in GAAP equity enabled KEPCo to end 2009 with positive equity for the first time in many years.

Appreciation also needs to be extended to the Board of Trustees and KEPCo Staff for their hard work and dedication. Many of their collective accomplishments are detailed in this annual report.

In the coming months and years, the most important factor facing the utility industry will be an effective regulatory framework that provides the long-term certainty necessary for utilities to operate. Past cycles of one-off, short-term solutions must be broken and give way to a long-term planning horizon. An energy policy that fosters the investment needed over the long-term cannot be fully effective unless there is a clearly defined approach to carbon reduction requirements. There will need to be a collaboration between policy makers and utilities alike that embraces a multi-resource mindset in order to promote increased supply and reduced demand. Of equal importance will be the need on behalf of policy makers to balance the environmental need and the economic impact of proposed programs. KEPCo vows to continue to work diligently with policy makers, both at the state and federal level, to achieve such a balance.

  
Kirk A. Thompson

  
Stephen E. Parr

# Kansas Electric Power Cooperative, Inc.

## Financial Statements

December 31, 2009 and 2008



Two Leadership Square  
211 N. Robinson, Suite 600  
Oklahoma City, OK 73102-9421  
405.842.7977 Fax 405.600.9799 www.bkd.com

### Independent Accountants' Report on Financial Statements

Board of Trustees  
Kansas Electric Power Cooperative, Inc.  
Topeka, Kansas

We have audited the accompanying consolidated balance sheets of Kansas Electric Power Cooperative, Inc. (KEPCo) as of December 31, 2009 and 2008, and the related consolidated statements of margin, patronage capital and cash flows for the years then ended. These financial statements are the responsibility of KEPCo's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 3, certain depreciation and amortization methods have been used in the preparation of the 2009 and 2008 financial statements which, in our opinion, are not in accordance with accounting principles generally accepted in the United States of America. The effects on the financial statements of the aforementioned departure are explained in Note 3.

In our opinion, except for the effects of using the aforementioned depreciation and amortization methods as discussed in Note 3, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas Electric Power Cooperative, Inc., as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we also have issued our report dated April 12, 2010, on our consideration of KEPCo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

April 12, 2010

*BKD LLP*

experience **BKD**



# KEPCo Generation Resources

KEPCo power resources include the generation facilities pictured below, as well as long term power supply agreements with investor-owned utilities.



Wolf Creek Nuclear Generating Station  
Nuclear Base Load  
Came On-Line in October, 1985  
70 MW (6% Ownership)



Iatan-2 (Artist's Rendering)  
Coal-Fired Base Load  
Expected Operational in December, 2010  
30 MW (3% Ownership)



Participation in Federal Hydro Electric Power Projects  
Southwest Power Administration, 100 MW Peaking  
Western Area Power Administration, 14 MW



Sharpe Generating Station  
Diesel Peaking  
In Service, June, 2002  
20 MW







## **Kansas Electric Power Cooperative, Inc.**

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A Touchstone Energy<sup>®</sup> Cooperative

