



2008 Annual Report

KEPCo

Kansas Electric Power Cooperative, Inc.

A Touchstone Energy® Cooperative 

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KEPCo Staff

Stephen Parr	Executive Vice President & Chief Executive Officer	Shari Koch ...	Accounting, Payroll & Benefits Specialist
Mark Barbee	Vice President of Engineering, KSI Vice President of Engineering	Elizabeth Lesline	Administrative Assistant/ Receptionist
Bob Bowser	Vice President of Regulatory & Technical Services	Mitch Long	Sr. SCADA/Metering Technician
Les Evans.....	Vice President of Power Supply	Michael Morris	Sr. SCADA/Metering Technician
J. Michael Peters	Vice President of Administration & General Counsel	Erika Old.....	Finance & Benefits Analyst 2
Coleen Wells ...	Vice President of Finance & Controller	Matt Ottman.....	Engineer 3
Laura Armstrong	Administrative Assistant	John Payne.....	Senior Engineer
Sam Delap.....	Information System Specialist	Robert Peterson	Sr. Engineering Technician
Terry Deutscher	EMS/SCADA System Specialist	Rita Petty	Executive Assistant & Manager of Office Services
Carol Gardner	Operations Analyst	Paul Stone	System Operator
Robert Hammersmith ...	SCADA/Metering Technician 2	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 115,000 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 is under the jurisdiction of the Kansas Corporation Commission (KCC) and was granted a limited certificate of convenience and authority 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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(785) 273-7010 www.kepc.org

A Touchstone Energy® Cooperative 



2008 Message

from

*Kenneth J. Maginley
KEPCo President*

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



A probable consensus of industry and individuals alike would be that 2008 was a year that is best forgotten, but unfortunately, will be remembered for decades to come. Climate concerns, stock market decline, credit tightening, rising unemployment, housing crisis, and bailouts were issues that enveloped our great country in a cloak of fear and despair.

The new administration in Washington, D.C. has a daunting task over the next four years to chart a course that leads the nation back to prosperity. Measures were taken by Congress to shore-up several companies whose financial failure could have precipitated a global economic catastrophe. However, the other maladies plaguing the U.S. and global economies appear to be deeply entrenched and from all indications, will continue to be so for a protracted period of time.

KEPCo has been able to shield itself from the hardships facing many companies and industries. The availability of credit has substantially tightened and the cost of capital has dramatically increased, causing pause for companies considering capital investment projects. In addition, the valuations of many publicly-traded companies have been adversely impacted as well, thus making it even more difficult to access capital. As a not-for-profit membership corporation, KEPCo does not have stockholders or a relationship with Wall Street. KEPCo continues to have access to affordable capital through Rural Utilities Service (RUS) and the National Rural Utilities Cooperative Finance Corporation. The access to affordable capital has been a key component in KEPCo's ability to keep rates stable for over two decades.

A carbon constrained world appears to be the future. Much speculation and anxiety surrounds the enactment of a cap and trade policy by Congress as an effort to reduce carbon dioxide and other greenhouse gas emissions. The enactment of such a policy has the potential to raise energy prices substantially. Many utilities have an eighty-five to one hundred percent exposure to greenhouse gas emitting resources, comprised primarily of coal and natural gas. KEPCo is in a unique position regarding efforts to reduce carbon emissions. Approximately fifty percent of KEPCo's generation resources, Wolf Creek and hydroelectric power through SWPA and WAPA, do not emit any greenhouse gases. As such, KEPCo's greenhouse gas exposure will only be on the purchase power agreements it has with area utilities, thus substantially softening the economic impact of any cap and trade or carbon tax policy to KEPCo's Member Cooperatives and their respective Members.

Increases in purchased power costs, as well as operations and maintenance costs, predicated the need for

KEPCo to file for a rate increase in late 2007. In June 2008, KEPCo reached a settlement with the Kansas Corporation Commission (KCC), without a formal hearing. The KCC granted KEPCo a 5.2% increase which will enable KEPCo to continue to meet its mortgage obligations with RUS and to remain in a solid financial state.

For over two years, KEPCo worked diligently with Westar Energy, Inc. on a thirty-eight year Purchase Power Agreement (PPA). In August 2007, KEPCo and Westar agreed upon the terms of the contract and filed the contract with FERC for approval. Subsequent negotiations with numerous parties continued through September 2008 when a settlement was filed with FERC. The formula-based PPA follows the actual cost to supply energy rather than a market-based pricing of energy. Once approved, the new contract will enable KEPCo and its Members access to Westar's existing low-cost generating resources and mitigate the risk of being vulnerable to price fluctuations in the open market.

In November, the Wolf Creek Nuclear Operating Corporation received a twenty-year license extension to 2045 from the Nuclear Regulatory Commission for the continued operation of the Wolf Creek Nuclear Generating Station in Burlington, KS. Wolf Creek came on line in 1985 and has been a cornerstone in providing safe, reliable, economical energy for KEPCo's Member Cooperatives. This license extension is invaluable to KEPCo's continued mission of providing reliable energy at a reasonable price.



2008-09 KEPCo Executive Committee (seated): Scott Whittington; Larry Stevens; Robert Reece; (standing) Stephen Parr, Executive Vice President & CEO; Kenneth Maginley, President; Kirk Thompson, Vice President; Dale Short, Secretary; and Kevin Compton, Treasurer.

Construction of Iatan 2 continues to progress and is on schedule for commercial operation the summer of 2010. Iatan 2 will be a state of the art, high efficiency coal plant utilizing the latest clean coal technology for environmental controls. KEPCo's 30 MW ownership of the plant will be an additional resource in ensuring a continued reliable, economical, and diversified power supply portfolio for KEPCo's Members.

Sales and earnings for companies around the world continue to disappoint, as evidenced in the U.S. by poor GDP numbers. The economy in Kansas started to mirror the rest of the nation in the third and fourth quarters. KEPCo witnessed a slowing of ethanol production, a tightening of discretionary spending, and an impetus towards energy efficiency. Even with the economic and lifestyle changes that have been exhibited, KEPCo's energy sales continue to show an upward trend, increasing four percent over 2007. KEPCo attributes this trend to the continued demand of consumer electronic products, the change from natural gas as the fuel of choice for heating, both home and water, to electricity, and the change from natural gas-fired irrigation to electricity.

Another relatively mild summer, as was the case in 2007, caused peak demand to remain steady at 407.6

Continued on page 12

2008 KEPCo Highlights

After receiving a lien accommodation from RUS, KEPCo finalized a \$75 million long-term loan from CFC to finance KEPCo's 30 MW share of Iatan 2. The ownership participation in Iatan 2 is a key component in KEPCo's energy resource mix. In a time of market uncertainty and market-based energy prices, the opportunity to own an economical and reliable generation resource is of tremendous value.



North view of Iatan 2 under construction

In August, a settlement on KEPCo's new long-term power purchase agreement with Westar Energy was filed at FERC. Implementation of this new, cost-based contract is anticipated in 2009.

KEPCo received a record amount of hydroelectric power, saving Members an estimated \$4 million.



Kansas House of Representatives honors WC-NOC's license extension with House Resolution

In September, KEPCo implemented new rates, including a purchased power demand adjuster, through a successful rate case filing with the Kansas Corporation Commission (KCC).

Wolf Creek Nuclear Generating Station continues to be a safe and economical resource for KEPCo's Members and has run continuously since completing refueling outage 16 in the spring of 2008. In November, WCNOG received a twenty-year license extension to 2045 from the NRC.

KEPCo continues to actively support SPP's efforts to assure adequate transmission is available in Kansas and successfully obtained approval from the SPP for firm long-term transmission service for Member load in the Aquila North (MKEC) service territory.

KEPCo continues to fund and assist Members in the promotion of an energy efficient electric water heater and heating/cooling system rebate program. Since inception, KEPCo has issued over 5,500 heating/cooling rebates and over 14,000 water heater rebates.

KEPCo continues to work diligently with KEC and Sunflower on legislative issues in Kansas and in Washington, D.C. KEPCo testified on numerous pieces of legislation in 2008 and tracked several House and Senate bills. In Washington, D.C., KEPCo participated in the NRECA Legislative Conference.



KEPCo conducted a retreat for KEPCo Trustees that focused on the financial challenges facing the electric utility industry and KEPCo.

Four projects were selected by USDA for REDLG funding. The total combined project costs equal \$8,030,102 with \$2,072,200 being zero interest financing. These four projects created sixty-one new jobs.

KEPCo continues to support critical energy issues in the state through appointments by the Governor to special working groups and boards such as the Kansas Electric Transmission Authority and the Kansas Wind Working Group.

KSI Engineering assisted several cooperatives with ice storm damage assessments and FEMA reporting procedures.

KEPCo Staff worked safely with no lost time or recordable accidents.



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



Ken 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

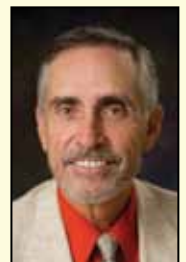


Kevin Compton

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



Dale Bodenhausen



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 Rural Electric Cooperative Assn., 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



Carla Bickel



Gilbert Berland

Prairie Land Electric Cooperative, Inc.
PO Box 360, Norton, KS 67654 785-877-3323
District Office, Bird City 785-734-2311
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. -- Tom Ayers
Administrative Manager -- Leah Tindle
Operations Manager -- Dennis Duft



Tom Ayers



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



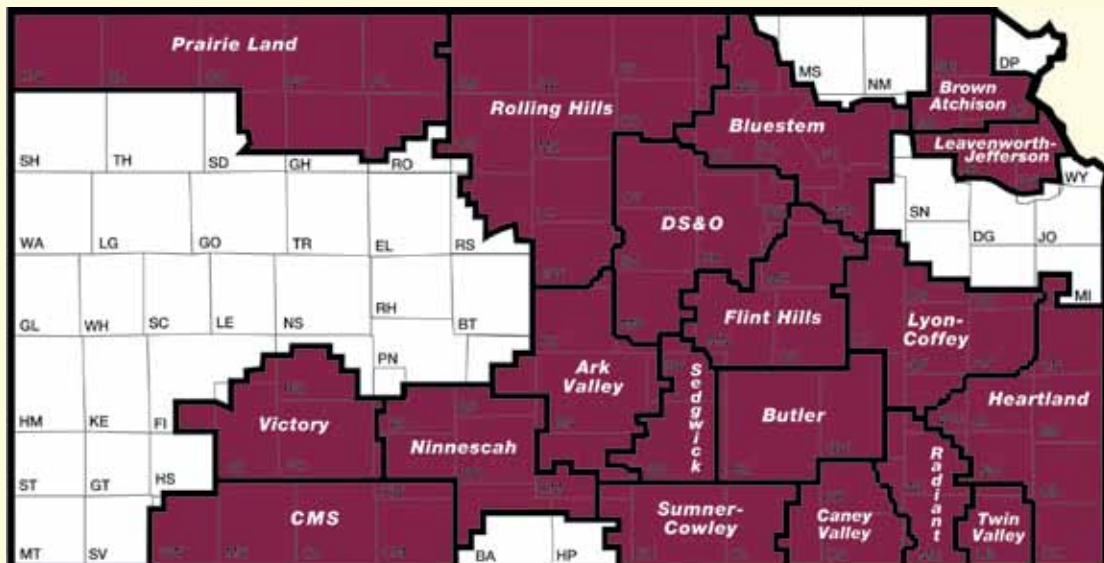
Marvin Hampton

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



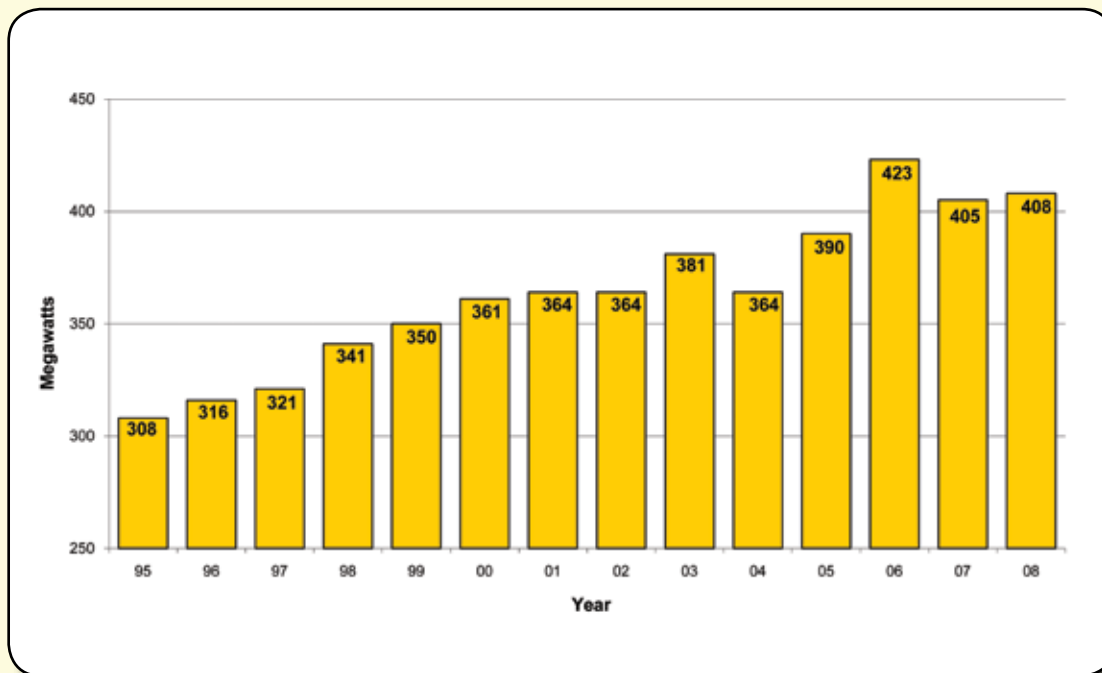
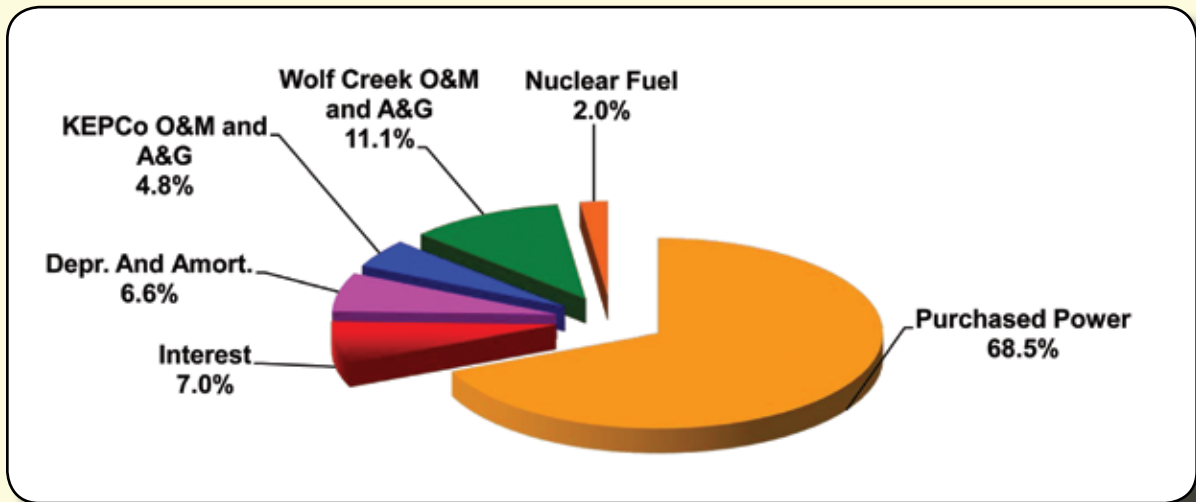
Terry Janson

KEPCo Member Area Map

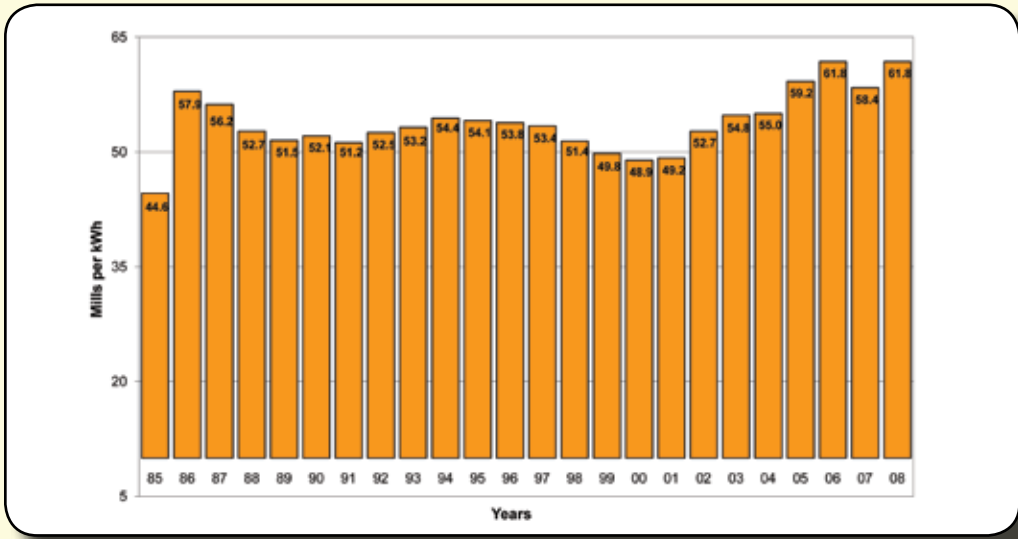


Operating Statistics

Operating Expenses

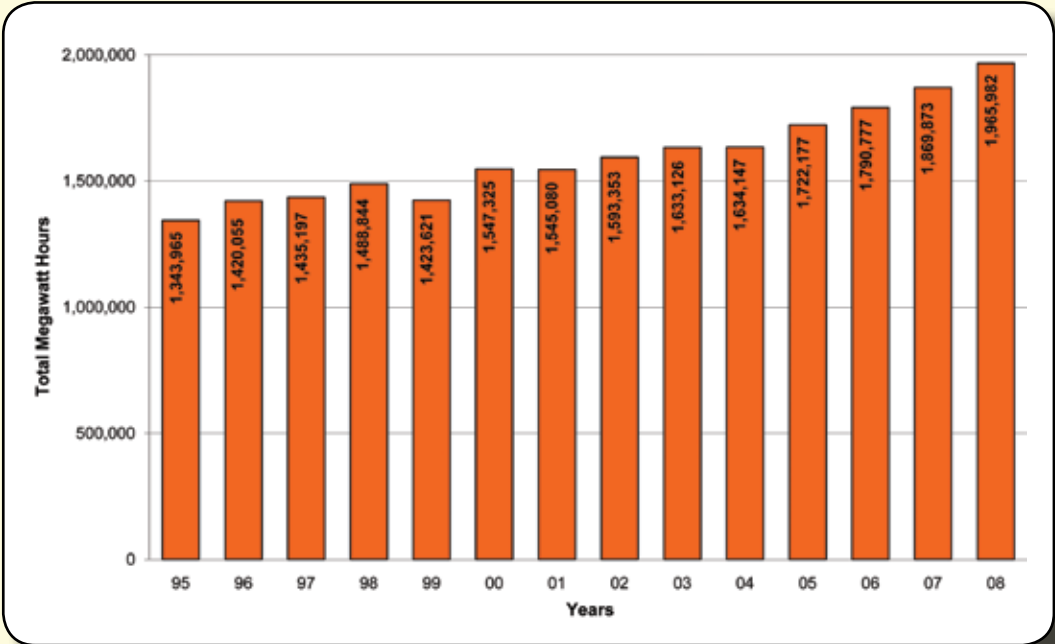
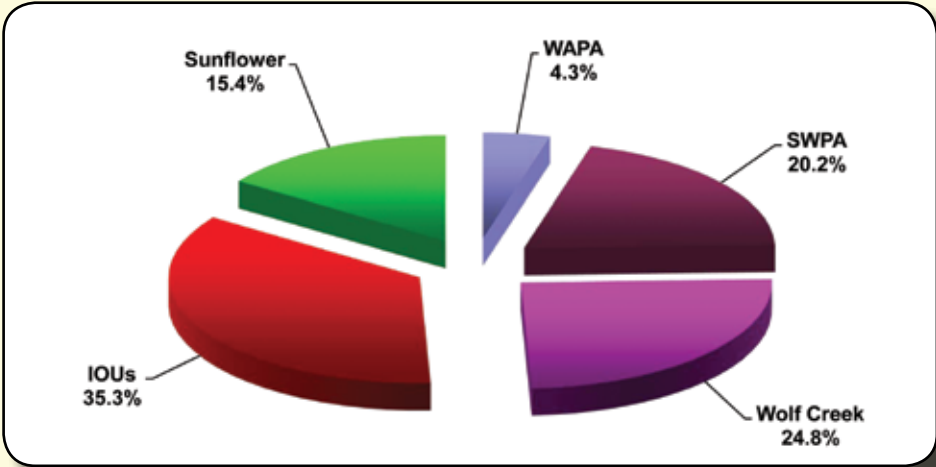


Peak Demand



Rates

Sources of Energy



Energy Sales

2008 Message

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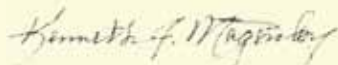
MW. KEPCo's load management program is critical in controlling peak demand. Implemented in 1990, KEPCo's load management program has saved its Membership millions of dollars since inception. This year was another successful year in that KEPCo was able to shed 30 MW of peak load, which saved its Members approximately \$1.78 million.

In late December 2007, the state of Kansas experienced a devastating ice storm, affecting sixteen of KEPCo's nineteen Member Cooperatives and causing \$300 million in damage. KSI Engineering (KSI), a wholly-owned subsidiary of KEPCo, assisted the affected cooperatives by assessing the damage to their facilities and preparing an engineering study that recommended appropriate repairs and/or replacements. As a result of difficulties in obtaining FEMA funding for the recommended permanent repairs, KSI's efforts transitioned to working with other stakeholders to educate FEMA on the extent of the damage, its impact on the electrical facilities, and developing a method to determine when electrical conductor is no longer suitable for continued service. KSI is confident these efforts will result in a national FEMA policy statement with regard to conductor repair/replacement as well as a revision to the FEMA project worksheets for the electric cooperatives affected by this disaster that is consistent with KSI's original repair/replacement recommendations.

The state of new base load generation in Kansas remains clouded. In mid-December, the Kansas Department of Health and Environment's decision to deny the issuance of an air permit to Sunflower Electric Power Corporation for the expansion of their Holcomb facility with two additional coal-fired generating units was upheld in an administrative appeal. Depending upon the outcome of potential judicial and legislative recourse, and the position the new administration in Washington, D.C. takes on coal-fired facilities, the future of new coal-fired generation in Kansas remains uncertain.

Before closing, the Board of Trustees deserves a special thank you for their vision and hard work during the past year. In addition, it has been a very challenging year for KEPCo staff who have done a remarkable job meeting the special project demands of 2008 while accomplishing the more familiar responsibilities necessary to run a utility.

KEPCo's long standing commitment to its Member Cooperatives and the communities they serve provides a solid foundation for meeting future challenges. The utility industry is in an era where energy decisions will be dictated more by environmental policy than by an integrated energy policy. Environmental regulation and the emphasis being placed upon renewable resources will shape the industry's generation and fuel choices in coming decades. Environmental regulation and subsequent standards will result in additional capital investment by the industry. KEPCo vows to work diligently to ensure that any climate change policy includes a well-considered strategy for electric-generating utilities and provides KEPCo as low a cost of carbon compliance possible.



Kenneth J. Maginley



Stephen E. Parr

Kansas Electric Power Cooperative, Inc.

Financial Statements

December 31, 2008 and 2007



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

Independent Accountants' Report

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, 2008 and 2007, 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 2008 and 2007 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, 2008 and 2007, 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.

As discussed in *Note 12*, in 2008 KEPCo changed its method for accounting for fair value measurement in accordance with Statement of Financial Accounting Standards No. 157.

As discussed in *Note 10*, KEPCo adopted Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of December 31, 2007.

In accordance with *Government Auditing Standards*, we also have issued our report dated April 8, 2009, 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.

BKD LLP

April 8, 2009

experience **BKD**





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