

*KANSAS ELECTRIC POWER
COOPERATIVE, INC.*



Annual Report 2010

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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

J. Michael Peters Vice President of Administration
& General Counsel

Coleen Wells Vice President
& Chief Financial Officer

Laura Armstrong Administrative Assistant

Mark Doljac..... Director of Rates & Regulation

Terry Deutscher EMS/SCADA System Specialist

Carol Gardner..... Operations Analyst

Shawn Geil Director of Information Systems

Robert Hammersmith Sr. SCADA/
Metering Technician

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; 30 MW of owned generation from the Iatan 2 Generating Unit; 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."

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A Touchstone Energy® Cooperative 



2010 Message

from

*Kirk Thompson
KEPCo President*

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



After 18 months of a stutter-step recovery, the economy seems to be gathering steam. Many companies that survived the recession are lean and profitable, and there's a good chance they'll begin hiring again in 2011. However, to sustain the recovery, economic growth must occur. Energy is the ultimate enabler of growth. Industrial expansion throughout the past two centuries has in every instance been based on increased energy consumption. More specifically, industrialism has been inextricably tied to the availability and consumption of low cost energy from fossil fuels. Electricity and fossil fuels are integral to economic development and trade and underpin agriculture, industry, transportation, and commercial enterprises. Though energy is not sufficient on its own to achieve economic growth, it is a necessary prerequisite. Economic growth that creates jobs and enhances incomes relies on the expanded use of energy.

However, the Environmental Protection Agency (EPA) has introduced a myriad of new regulations targeted at reducing greenhouse gas (GHG) emissions, primarily carbon dioxide, which may very well derail any chance of a sustained economic recovery. The regulations have been coined "the EPA train wreck," and it could ruin your budget. The phrase is shorthand for the maze of regulations the EPA wants to impose on coal-fired power plants over the next five years. It's a long, expensive list. The regulations will force many coal-fired power plants to either be retrofitted with equipment that reduces GHG or be retired. The regulations will require utilities to incur billions and billions of dollars in costs, in which those costs are in turn, passed on to the end consumer.

Ultimately, the new EPA regulations will force consumers to pay more for energy as well as for all other goods and services. The increased regulations and subsequent high energy prices throw a monkey wrench into the production side of the economy. Contrary to claims of an economic boost from "green investment" and "green collar" job creation, more EPA regulation will reduce economic growth, GDP, and employment opportunities. Furthermore, because the economic effect of the proposed regulations will resemble the economic effect of an energy tax, the increase in costs creates a correspondingly large loss of jobs and income.

Generally, the greater and more effective the investment, the greater the increase in future income.

Since income, as measured by GDP, drops as a result of new regulation, it is clear that more capital is destroyed than created. Those who say we must not utilize our least expensive fuel sources are putting small and hypothetical risks ahead of better understood costs and benefits. While the other economic powers in the world, notably China and India, are ignoring GHG issues and strengthening their economies, the U.S. is moving to do just the opposite. Congress should block EPA from issuing short-sighted and poorly thought out greenhouse gas regulations for power plants and energy-related industries. Only new technology will allow us to grow our economy, while managing emissions.

If there is a bright side to an impending train wreck, it is that KEPCo's exposure to the new EPA regulations will be considerably less when compared to other utilities. KEPCo's partial ownership of the Wolf Creek Nuclear Generating Station and the federal hydropower allocations KEPCo receives account for over 50 percent of KEPCo's energy mix. The generation facilities that produce this energy are not subject to GHG regulations from the EPA, since the facilities do not have any GHG emissions. As the utility industry begins to operate under the new regulations, KEPCo's diverse energy mix will save its Members millions of dollars in avoided GHG regulation costs.



2010-11 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.

KEPCo is pleased to report that construction of Iatan 2 was completed in the third quarter of the year and became commercially operation on December 31st. KEPCo owns a 30 MW share of Iatan 2, which will provide KEPCo's Members with approximately 12 percent of their energy requirements. Final construction costs were less than \$2,600 per kW, making Iatan 2 a very economical new resource. Iatan 2 is a highly efficient, super-critical, coal-fired plant that utilizes state-of-the-art emission control systems which exceed the EPA's new regulations, thus mitigating additional costs associated with the new regulations.

KEPCo's decision to participate in Iatan 2 was its first investment in base load generation in 30 years, when KEPCo invested in Wolf Creek. Adequate base load generation is essential for all utilities and Iatan 2 is an investment that will not only serve our current Member-Owners, but future ones as well. A modest increase in rates was implemented in 2010 in order to recover the costs associated with the construction of Iatan 2. KEPCo partnered with the National Rural Utilities Cooperative Finance Corporation (CFC) to provide its long-term financing needs for this project. Through this partnership, KEPCo successfully managed Iatan 2 loan funds and maximized savings through reduced interest payments during the period of construction.

Continued on page 12

2010 KEPCo Highlights

Construction of the Iatan Unit 2 project was completed and placed into commercial operation. KEPCo owns a 30 MW or 3.53% share of the unit which will provide approximately 12% of KEPCo's energy needs.

KEPCo obtained long-term, firm Network Integrated Transmission Service from the Southwest Power Pool for Member's load in the Mid-Kansas Electric Company area. This will allow the greatest flexibility to best utilize our generation resources to reliably and economically serve our Member load.



View of Iatan 2

Sharpe Generating Station successfully completed a required Southwest Power Pool capacity accreditation demonstration test. The station generated 20.2 MW.



Sharpe Generating Station

KEPCo completed its Long-Range Financial Forecast and conducted a rate study for the Board of Trustees, which recognizes the addition of the Iatan 2 project in KEPCo's power supply.

KEPCo staff provided on-going technical consultation to Members on renewable energy issues in areas such as generator interconnections, purchase power agreements, metering, regulatory and policy.

KEPCo continues to actively engage in developing transmission policy at the Southwest Power Pool through participation on key committees such as the Board of Directors/Members Committee, the Corporate Governance Committee, the Markets and Operation Policy Committee, the Strategic Planning Committee, the Regional Tariff Working Group and the Transmission Working Group.

KEPCo, along with other preference power customers, worked with the Western Area Power Administration to develop a program to recognize the environmental attributes of electricity generated from hydroelectric units and transfer the attributes to the customers purchasing the electricity through Renewable Energy Credits (REC's.)

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 6,500 heating/cooling rebates and over 15,500 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 2010 and tracked numerous pieces of legislation. In Washington, D.C., Staff participated in the NRECA Legislative Conference.

KSI completed damage assessments and engineering reports directly resulting in FEMA funding totaling over \$35 million for 3 KSI clients (Bluestem, Rolling Hills and Nemaha-Marshall) to permanently repair the damage associated with the severe winter storm of November 2009.



KSI worked with the KEC, Kansas Department of Emergency Management (KDEM) and FEMA to determine what level of environmental review is required for “improved projects” associated with FEMA disasters.

KSI assisted Rolling Hills, Flint Hills, and Bluestem with the development and submittal of applications to FEMA for more than \$7 million in mitigation funds to make proactive improvements to their distribution facilities to reduce the likelihood of future damage due to severe ice storms.

Staff continued to assist Members in deploying Automated Meter Reading (AMR) by assisting in designing the data communications methods and allowing Members to add their equipment to KEPCo’s existing communications system.

KEPCo completed 2010 without a lost-time accident.

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. -- Graeme Glaser
Manager -- Robert E. Reece



Graeme Glaser



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. -- Ed Wiltse
 Manager -- Ed Wiltse



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



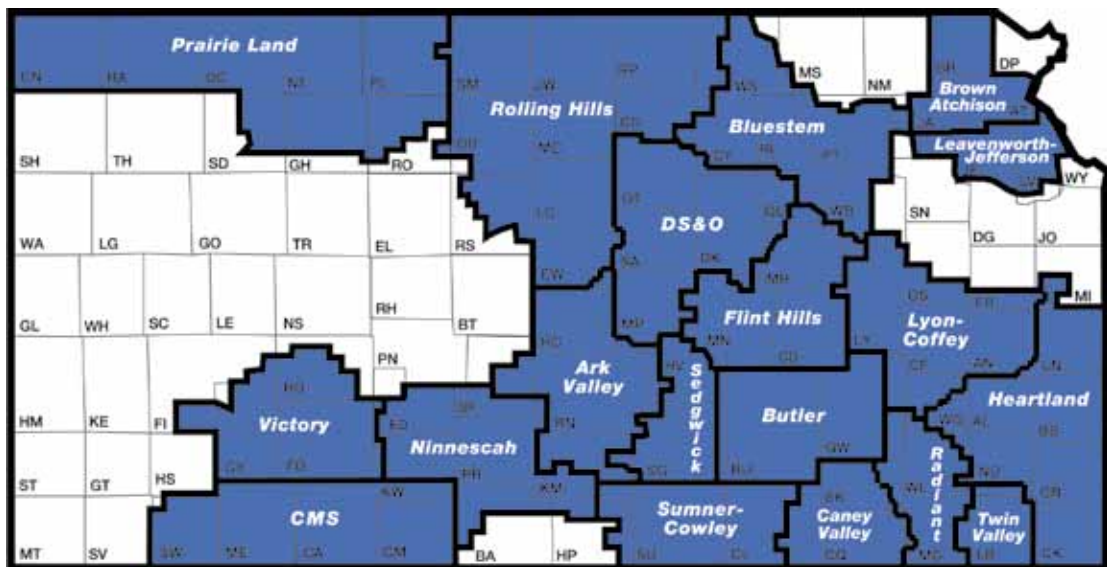
Terry Janson

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



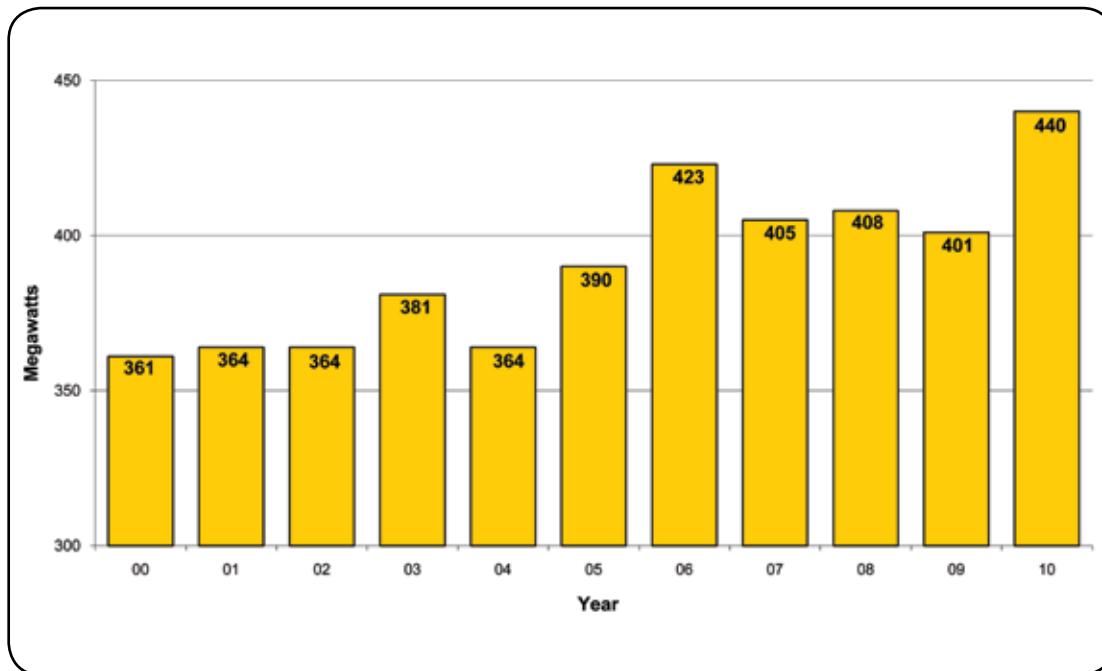
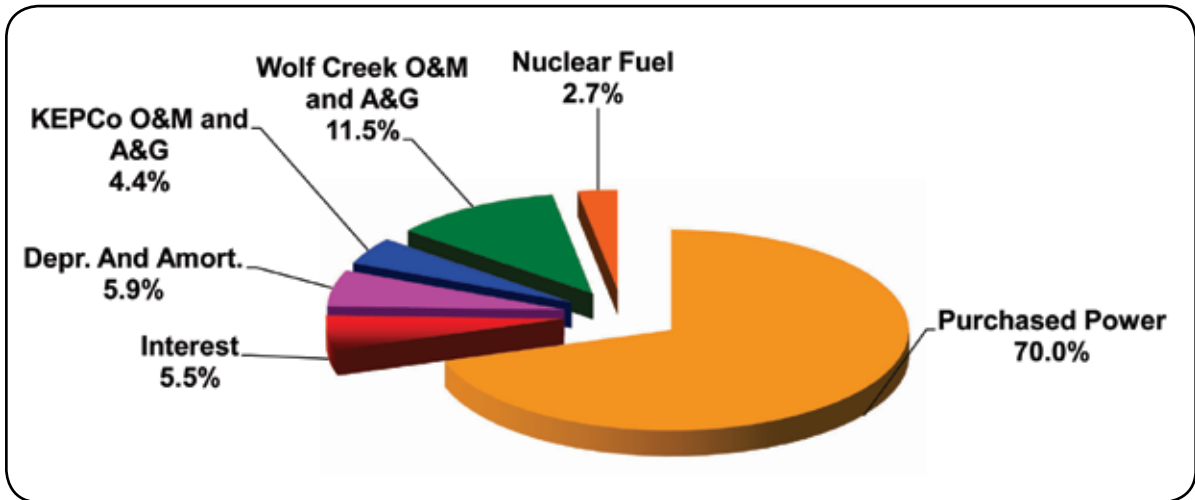
Milam Jones

KEPCo Member Area Map

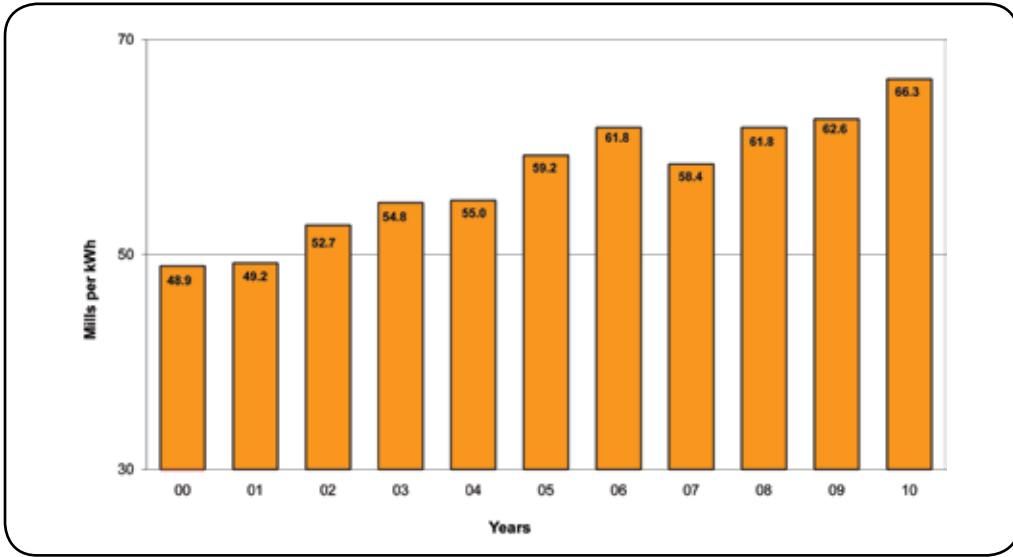


Operating Statistics

Operating Expenses

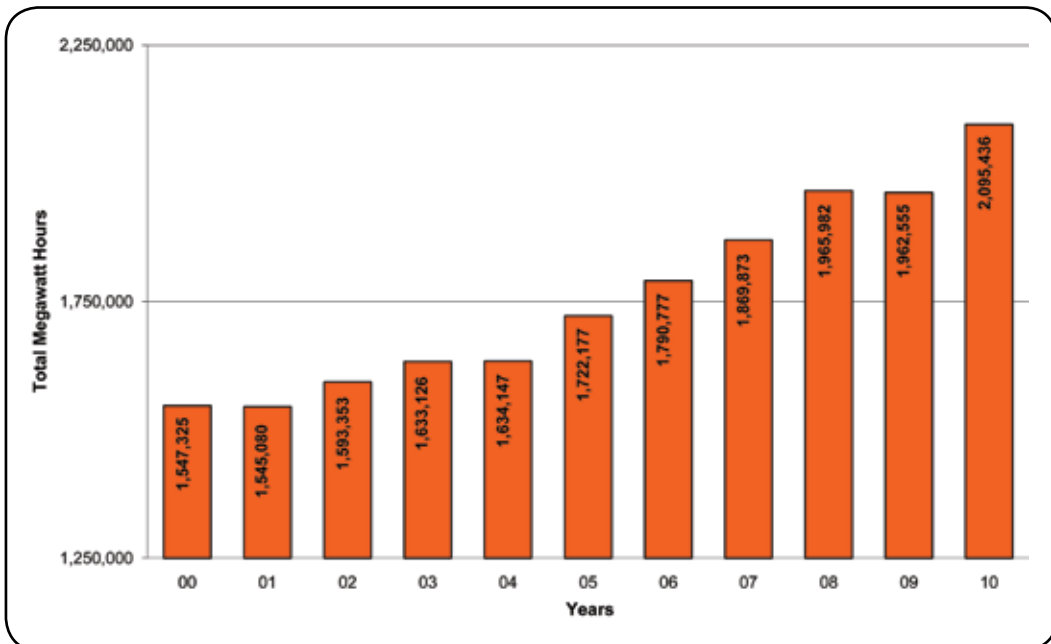
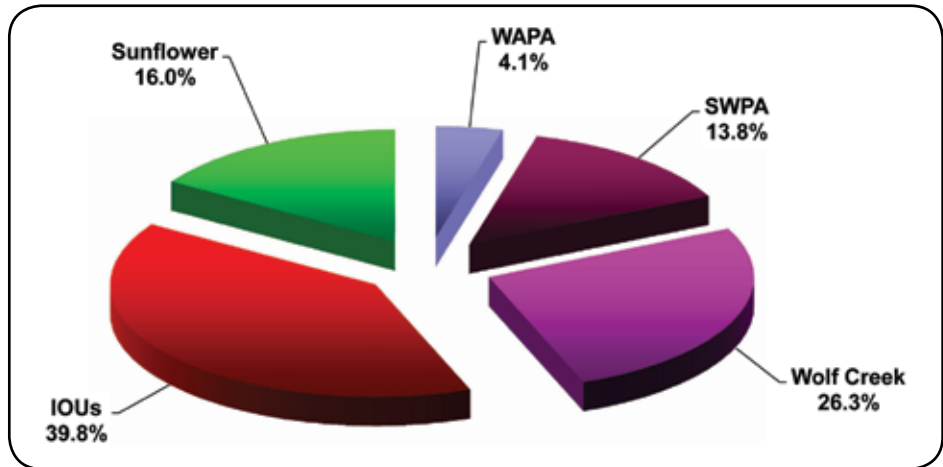


Peak Demand



Rates

Sources of Energy



Energy Sales

2010 Message

Continued from page 3

An extraordinarily warm and protracted summer led KEPCo to achieve an all-time record peak demand of 438 MW. This was a 9.2% increase over 2009, with accompanying energy sales of 2.1 million megawatt hours, which also was an increase of 6.8% over 2009, and an all-time record high as well. KEPCo's Demand Side Management program once again played a key role in reducing the financial impact of the record year to KEPCo's Members, by shedding 49.7 MW of demand, resulting in a savings of nearly \$4 million to KEPCo's Member Cooperatives.

KEPCo's Energy Efficiency Rebate Program also set record numbers. The continued growth of this program is indicative of the emphasis that our Member Cooperatives have placed on energy efficiency and the receptiveness of employing energy efficiency measures from consumers.

In December, after thirty-one years of dedicated service, Dr. Robert D. Bowser, Vice President of Technical Services, retired from KEPCo. Dr. Bowser was an invaluable asset to KEPCo and was instrumental in many of KEPCo's milestones. Thank you, Bob, for a job well done.

Recognition and thanks needs to be extended to the KEPCo Board of Trustees, KEPCo Members, and KEPCo Staff for their hard work and dedication during the past year. These are challenging times and it is gratifying to have so many willing to work on solutions for the future.

In closing, the United States has seen different trends for new electric generation technologies in the last 50 years; coal in the 1950's to present, nuclear in the 1970s and 1980s, natural gas in the 1990s, and most recently, renewables. A new set of regulatory policies, public interest factors, technology advancements, and economic drivers make the future for new generation potentially very different than recent experience. The biggest challenges will be fashioning climate change policies that protect the environment and electricity customers without damaging the U.S. economy.

Developing and deploying all of the technologies needed to sharply reduce greenhouse gas (GHG) emissions is a long-term proposition, and the price tag will be hefty. Electric companies will need to implement a variety of solutions to get the job done; changes in generation portfolios, transmission system improvements, and 'smart' delivery meters and grids that will involve consumers in the changes. All of these changes must occur while allowing utilities to continue to deliver an affordable and reliable supply of electricity to meet the nation's growing demand for power. A successful and sustainable national energy portfolio can only be achieved through a concerted and coordinated effort among traditional, alternative, and innovative sources while aligning political, regulatory, and financial opportunities and interests. Thankfully, KEPCo has assembled such a resource portfolio through the vision and efforts of its Members. For our nation's economy to restore the millions of jobs needed for economic revitalization, environmental protection and economic growth must be considered together.


Kirk A. Thompson


Stephen E. Parr

Kansas Electric Power Cooperative, Inc.

Financial Statements

December 31, 2010 and 2009



Mayer Hoffman McCann P.C.

An Independent CPA Firm

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kansas Electric Power Cooperative, Inc.
Topeka, Kansas

We have audited the accompanying consolidated balance sheet of Kansas Electric Power Cooperative, Inc. and subsidiary ("KEPCo") as of December 31, 2010, and the related consolidated statements of margin, patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of Kansas Electric Power Cooperative, Inc. as of December 31, 2009 were audited by other auditors whose opinion dated April 12, 2010 on those statements was qualified because of the departure from U.S. generally accepted accounting principles described in the third paragraph.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audit provides a reasonable basis for our opinion.

As explained in *Note 3*, certain depreciation and amortization methods have been used in the preparation of the 2010 and 2009 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 KEPCo as of December 31, 2010, and the results of its operations and its cash flows for the year 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 15, 2011, 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.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive style.

Mayer Hoffman McCann P.C.
Topeka, Kansas April 15, 2011

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
Coal-Fired Base Load
Became Operational in December, 2010
30 MW (3.5% 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

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