



Annual Report 2012

**KANSAS ELECTRIC POWER
COOPERATIVE, INC.**

In Memory

No farewell words were spoken, no time to say goodbye, you were gone before we knew it, and only God knows why.

Mr. Stephen E. Parr, Kansas Electric Power Cooperative, Inc. (KEPCo) Executive Vice President & Chief Executive Officer passed away on February 16, 2013 after a courageous battle with Amyotrophic Lateral Sclerosis (ALS). Mr. Parr served as EVP & CEO at KEPCo from 1996 until the time of his passing. Mr. Parr was a member of the Wolf Creek Nuclear Operating Company Board of Directors and the Southwest Power Pool Member's Committee.

Mr. Parr was the architect of many of the achievements attained by KEPCo during his tenure, several which will continue to be valued by KEPCo Members for decades to come, such as construction of KEPCo's headquarter building; installation of KEPCo's SCADA system; construction of the Sharpe Generating Station; the execution of a cost-based formula rate purchase power agreement with Westar Energy; and KEPCo's ownership-interest in latan 2, to name just a few.

Mr. Parr's dedication to KEPCo and KEPCo's Member Cooperatives was unparalleled. His tireless determination and resolve were examples of the cooperative principles he lived every day. Our friend is gone, but will never be forgotten.



Stephen E. Parr

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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 725 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 



2012 Message

from

*Kirk Thompson
KEPCo President*

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

Challenges and opportunities are the very nature of every business. Addressing challenges and adapting to change is essential to business success, as well as seizing upon opportunities when presented. For KEPCo, 2012 presented both challenges and opportunities, and strategic decisions were made to capitalize on both.

Periodic assessment of a business is essential to success. Every company, even the largest ones in their markets, has a finite supply of manpower, production capacity and capital. Evaluating a company's strengths helps it determine how to allocate resources in a manner that will result in the highest possible potential for growth and profitability. The management team examines where the company can compete most effectively and often discovers it has competitive strengths that have not been fully utilized in the past.

In January, the KEPCo Board of Trustees enlisted the services of Luecal Consulting to assist with the development of a strategic planning exercise. KEPCo's mission and vision statements were reviewed, in addition to an in-depth analysis of KEPCo's strengths, weaknesses, opportunities and threats. A report was finalized and action items were developed to work toward meeting specific goals as outlined in the report. By performing this analysis, KEPCo will be able to better leverage its strengths, minimize its weaknesses, capitalize on opportunities, and deter potential threats.

KEPCo's fundamental responsibility is to procure a reliable and economical supply of electricity for its Members. Over the past few years, KEPCo has made significant advances in fulfilling this responsibility, most notably with its 38-year cost-based formula rate purchase power agreement with Westar Energy and with its ownership-interest in the Iatan 2 facility. In addition, KEPCo's hydropower resources, 100 MW from the Southwestern Power Administration (SWPA) and 14 MW from the Western Area Power Administration (WAPA) continue to be its least-cost resources. In August, KEPCo executed a 15-year contract extension with SWPA. The new contract will run to 2031 and provides KEPCo and its Members the security of firm, low-cost energy for the next 18 years.

Nationwide, the electric utility industry has invested billions of dollars in environmental controls to comply with the myriad of Environmental Protection Agency (EPA) emission regulations. Subsequently, utilities pass along the costs associated with compliance to ratepayers. U.S. carbon dioxide emissions have fallen since



the beginning of the century. True, global emissions have risen by approximately one-third this century, but the United States has had a minute part in that global increase. Global carbon dioxide emissions have continued to rise because nations such as China and India continue to ramp up their industrialization. China, for example, emits more carbon dioxide than the entire Western Hemisphere and is increasing its carbon dioxide emissions by an average of 10 percent per year. Even if the United States theoretically eliminated all of its emissions today, such action would be rendered moot in less than a decade merely by the corresponding increase from China.

As a product of KEPCo's diverse power supply, KEPCo has been able to shield its Members from EPA regulatory compliance capital expenditures on over 40 percent of its power supply. Over the past five years, KEPCo's hydropower allocations have accounted, on average, for 18.5 percent of energy requirements and Wolf Creek has averaged 25 percent. Neither resource emits any greenhouse gas. This attribute will continue to be an economic advantage that only a few utilities in the United States can claim.

Several factors can influence the price of electricity, one of which is extreme weather. In 2012, the lack of rain, excessive heat, and protracted drought impacted rates.

2012 was recorded as the seventh driest year on record, as all

Kansas counties were under a drought emergency. Droughts cause a host of problems for many industries, including agriculture, recreation, fish and wildlife, municipalities, and yes, utilities. Streams and rivers that feed into reservoirs within the SWPA footprint are at or near record lows. Reduced inflow has caused a drop in the reservoir water levels and operating efficiencies at the SWPA hydropower facilities. Water levels in the reservoirs were average for the first two months of the year and increased to well above average through April. Beginning in May, the levels declined dramatically. In December, energy storage in the reservoirs was at 66 percent, compared to the average level for December of 95 percent. The reduced availability of hydroelectric power negatively affected KEPCo's energy costs.

Extreme weather conditions also affected energy consumption and peak demand. KEPCo recorded a peak demand of 452 MW, just 3 MW shy of the record peak set in 2011. Kansas experienced a very mild and dry winter and summer arrived early. The result was an increase in irrigation and air conditioner load. Beginning in April and continuing through September, peak demand was higher than forecasted, and energy sales were higher than forecasted as well, just two percent less than the record amount set in 2011. High demand, along with high energy sales, impacted rates.



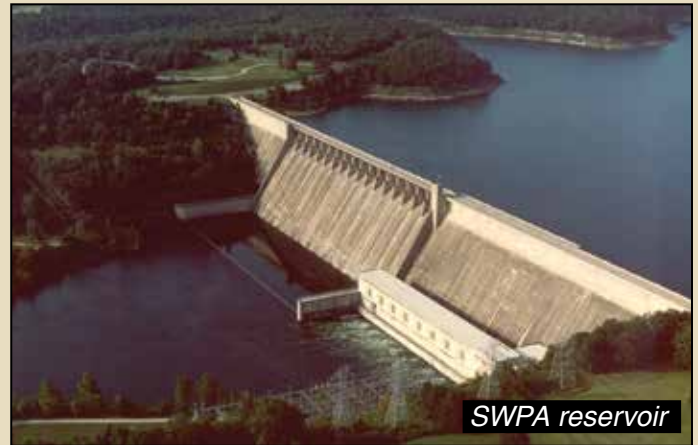
2011-12 KEPCo Executive Committee (seated): Kenneth Maginley; Larry Stevens; Robert Reece; (standing) Stephen Parr, Executive Vice President & CEO; Kevin Compton, Treasurer; Scott Whittington, Vice President; Kirk Thompson, President; and Dale Short, Secretary.

Continued on page 11

2012 KEPCo Highlights

The KEPCo Board of Trustees participated in the development of a new KEPCo Strategic Plan which will provide guidance for KEPCo staff in providing a reliable, economic power supply for the Members.

A new Purchase Power Agreement was executed with the Southwestern Power Administration (SWPA) which will provide for the continued availability of 100 MW of hydroelectric capacity and the associated clean energy until 2031.



KEPCo worked with Members (Ark Valley, CMS, Ninescah, Sumner-Cowley and Victory) in the south central and southwestern part of the state to secure new delivery points, transmission service and generation resources to serve significant load growth expected in the next few years due to oil exploration in the Mississippi Lime formation.

KEPCo oversaw the installation of Diesel Oxidation Catalysts and a monitoring system on each of the 10 diesel generators at the Sharpe Generating Station to comply with the EPA's RICE NESHAP rule.

KEPCo obtained Southwest Power Pool (SPP) approval to change the designated resource (power supply) for the KEPCo delivery points in the KCPL area to Westar Fleet. As a part of this transition, KEPCo assumes responsibility for the metering at these delivery points.

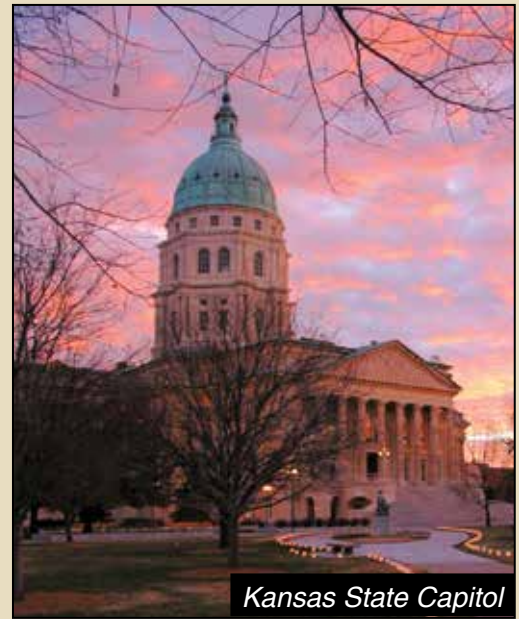


KEPCo obtained network integration transmission service from the SPP for the CMS and Victory delivery points that allows the designated resource to be either Sunflower Fleet or Westar Fleet. KEPCo now has long term firm transmission service from the SPP for all of its delivery points.

For 15 years, KSI has provided valuable engineering services for KEPCo Members while covering its expenses and contributing to KEPCo overheads. This

year, KSI was involved in over 51 projects for 12 KEPCo Members and two non-members.

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 2012 and tracked numerous pieces of legislation. In Washington, D.C., Staff participated in the NRECA Legislative Conference.



Kansas State Capitol



Wind turbine on Kansas prairie

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 issues 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 Change Working Group, and the Transmission Working Group.

KEPCo continued to fund and assist Members in the promotion of KEPCo's Energy Efficiency Rebate Program. Since its inception, KEPCo has issued more than 16,000 water heater rebates and nearly 8,000 heating system rebates.



KEPCo SCADA Technicians

Safety of our employees is essential to the continued success of KEPCo. Safety meetings are conducted throughout the year, not only for KEPCo's SCADA Technicians, but for administrative personnel as well. KEPCo is proud to report there were no lost time accidents recorded in 2012.

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. -- Robert Perry
Manager -- Robert Perry



Robert Perry



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. -- Riley Walters
Manager -- Dale Short



Riley Walters



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



Dean Allison

DS&O Electric Cooperative, Inc.
PO Box 286, Solomon, KS 67480 785-655-2011
Trustee Rep. -- Dean Allison
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. -- William Hein
Manager -- Robert E. Reece



William Hein



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. -- Teresa Miller
 Manager -- Teresa Miller



Teresa Miller



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. -- Dave Childers
 Manager -- Dave Childers



Dave Childers



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



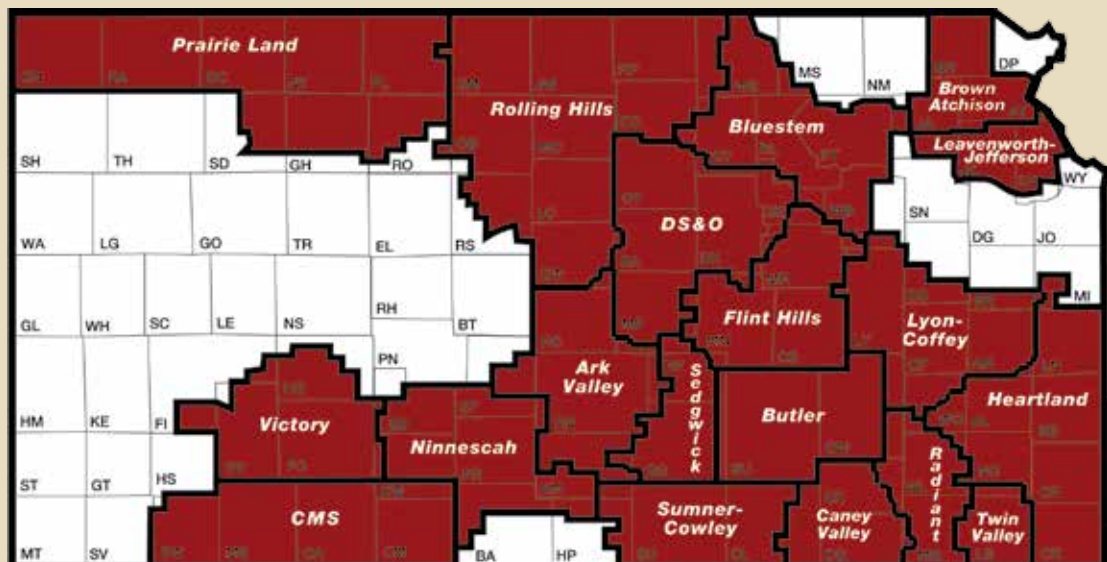
Terry Janson

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

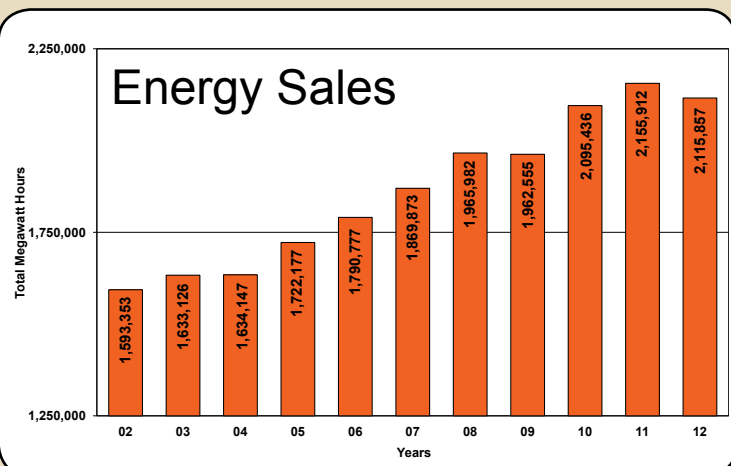
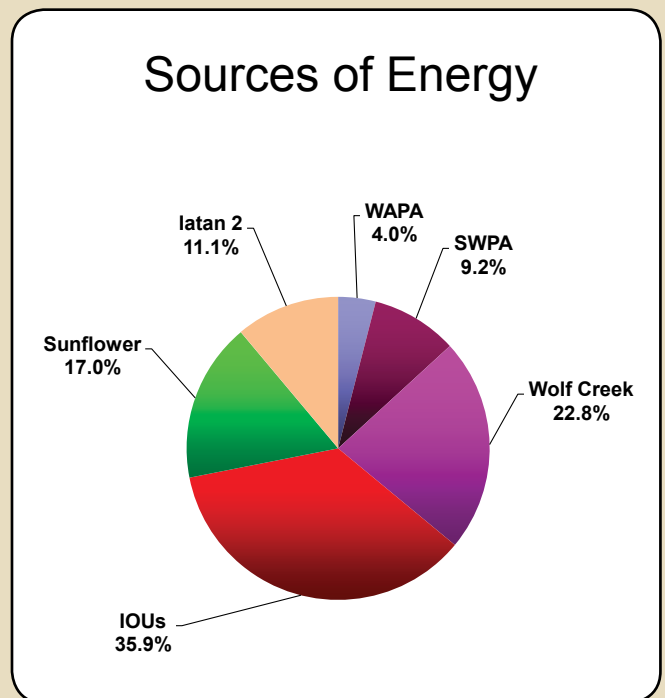
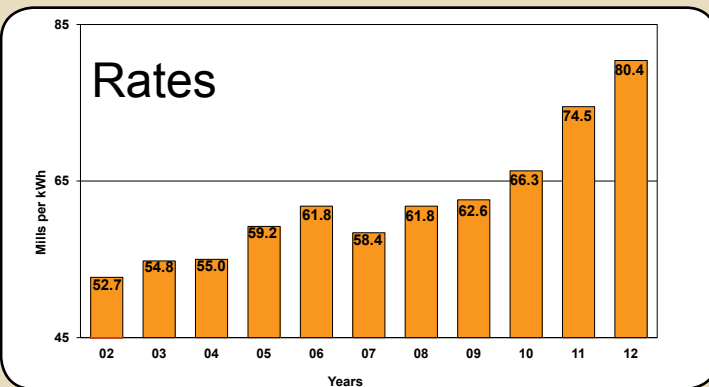
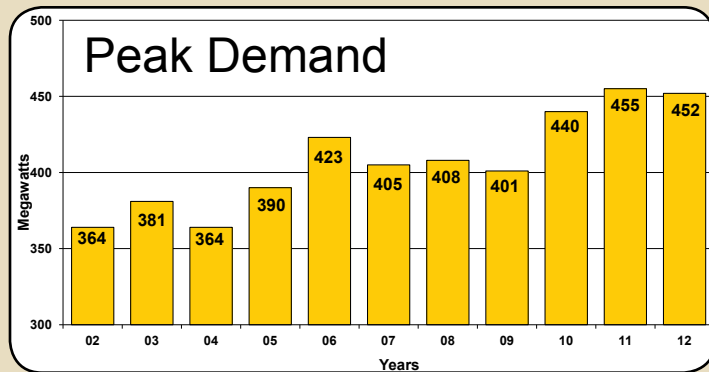
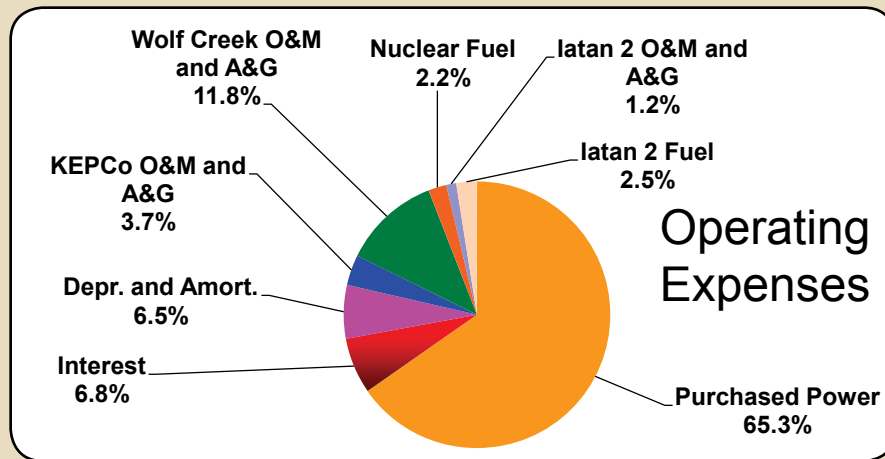


Daryl Tieben

KEPCo Member Area Map



Operating Statistics



2012 Message

Continued from page 3

Iatan 2 performed exceptionally well in 2012, providing KEPCo and its Members with 11 percent of their energy requirements. The decision in 2005 to invest in the ownership of Iatan 2 has proven to be advantageous for KEPCo and its Members, both in owning firm, economical generation and in reducing exposure to EPA regulatory compliance capital expenditures. Iatan 2 became operational in December 2010, and was constructed with the latest, state-of-the-art environmental controls. As the industry continues to invest capital in order to comply with EPA emission regulations, Iatan 2 currently meets all EPA emission requirements.

Access to affordable capital is essential to the operations of KEPCo. Many companies throughout the U.S. have been hindered from considering capital investment projects due to tightened lending practices resulting from economic and regulatory uncertainty. KEPCo continues to have access to affordable capital through Rural Utilities Service (RUS) and the National Rural Utilities Cooperative Finance Corporation (CFC). This year, KEPCo received a loan guarantee from RUS for capital addition projects at Wolf Creek. Financing projects through RUS saves our Members a significant amount of money, due to interest rates being considerably less than those offered by commercial lenders. Low-cost capital for future capital expenditures will continue to be accessed in order to reduce KEPCo's debt service.

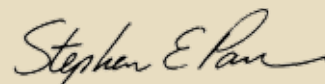
Rate economy and stability is of utmost importance to KEPCo. A culture was established long ago to continually seek out opportunities to improve efficiency and control costs. Implemented in 1990, KEPCo's load management program enables Members to save energy and reduce peak demand. This year, KEPCo was able to shed 38 MW, or nearly eight percent of its peak load.

The KEPCo Board of Trustees deserves a special thank you for their hard work and solid leadership during the past year. In addition, it has been a challenging year for KEPCo staff, who have done a remarkable job meeting the special project demands of 2012 while fulfilling the responsibilities necessary to operate an electric utility. Several of their joint accomplishments are detailed in this report.

Going forward, the electric utility industry is saddled with regulatory and economic uncertainty. The U.S. continues to lack a comprehensive energy policy, and appears unlikely to adopt one in the foreseeable future. Utility regulation in its present form remains burdensome and expensive, and has collared the industry with indecision. The sheer volume of regulatory rulemaking that is being contemplated as utilities develop strategic and operational plans is unprecedented. Wise and sensible regulation based on scientific and economic facts and greater reliance on cost-benefit analysis, along with risk versus risk analysis, should replace the present belief that regulation enables policy. Utilities cannot be certain of making the best decisions on critical infrastructure investments designed to last for decades based on rules that continually change. Until certainty is achieved and a comprehensive energy plan is adopted at the federal level, utilities will continue to be tested to supply affordable, reliable energy.



Kirk A. Thompson



Stephen E. Parr

Financial Statements

December 31, 2012 and 2011



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 financial statements of Kansas Electric Power Cooperative, Inc. and subsidiary ("KEPCo"), which comprise the consolidated balance sheet as of December 31, 2012 and 2011, and the related consolidated statements of margin, patronage capital, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As more fully described in Note 3 to the financial statements, certain depreciation and amortization methods have been used in the preparation of the 2012 and 2011 consolidated 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 consolidated financial statements of the aforementioned departure are explained in Note 3.

Qualified Opinion

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 in the first paragraph present fairly, in all material respects, the financial position of KEPCo as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we also have issued our report dated April 8, 2013, 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 in considering KEPCo's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Mayer Hoffman McCann P.C.
Topeka, Kansas
April 8, 2013

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