

2013 Annual Report



Dedicated to serving rural Kansas



**Kansas Electric
Power Cooperative, Inc.**

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KEPCo Staff

Charles Terrill.....	Executive Vice President & Chief Executive Officer	Shari Koch.....	Finance & Accounts Payable/Payroll Specialist
Les Evans.....	Senior Vice President & Chief Operating Officer	Elizabeth Lesline.....	Administrative Assistant/ Receptionist
William Riggins.....	Senior Vice President, Chief Strategic Officer & General Counsel	Mitch Long.....	Sr. SCADA/ Metering Technician
Coleen Wells.....	Vice President & Chief Financial Officer	Matt Ottman.....	Information System Specialist 2
Mark Barbee.....	Vice President of Engineering, KSI Vice President of Engineering	John Payne.....	Senior Engineer
Chris Davidson.....	Engineer 2	Rita Petty.....	Executive Assistant & Manager of Office Services
Terry Deutscher.....	Manager, SCADA & Meter Maintenance	Kelsey Schrempp.....	Administrative Assistant & Benefits Specialist
Mark Doljac.....	Director of Rates & Regulation	Paul Stone.....	System Operator
Carol Gardner.....	Operations Analyst	Jill Taggart.....	Director of Forecasting & Planning
Shawn Geil.....	Director of Information Systems	Phil Wages.....	Director of Member Services, Government Affairs & Business Development
Maurice Hall.....	Sr. SCADA/Metering Technician	Stephanie Worthington.....	Finance & Benefits Analyst
Robert Hammersmith.....	Sr. SCADA/ Metering Technician		

Organization & Resources

Kansas Electric Power Cooperative, Inc. (KEPCo), headquartered in 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, and rate design, among others.

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 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 700 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.
P.O. Box 4877 Topeka, KS 66604
600 SW Corporate View Topeka, KS 66615
(785) 273-7010

A Touchstone Energy® Cooperative 



2013 Message

from

Scott Whittington
KEPCo President



Charles Terrill
Executive Vice President
& Chief Executive Officer



In March, Mr. Charles “Chuck” Terrill was announced as KEPCo’s fourth Executive Vice President & Chief Executive Officer (EVP & CEO). Mr. Terrill is not new to KEPCo. Prior to serving as the EVP & CEO of the North Carolina Association of Electric Cooperatives and the North Carolina Electric Membership Corporation from 1995 to 2007, Mr. Terrill served eight years as KEPCo’s second EVP & CEO. Mr. Terrill has over thirty-five years of experience in the electric utility industry, primarily with electric cooperatives.

2013 was not only bookended by changes in leadership, both within KEPCo and with the KEPCo Board of Trustees, but change is occurring in the utility industry as well. Early in 2014, electric utilities that are members of the Southwest Power Pool (SPP), of which KEPCo is a member, will undergo a fundamental change in how electricity is dispatched. The SPP Integrated Marketplace will be implemented as the latest incremental step in SPP’s evolutionary approach to improving service to SPP members and the region. The Integrated Marketplace will determine which generating units should run the next day for maximum cost effectiveness, provide participants with greater access to reserve electricity, improve regional balancing of supply and demand, and facilitate the integration of renewable resources. By working closely with SPP members, market participants, vendors, and customers, the SPP can focus collective energies on improving grid reliability and greater cost savings and efficiencies.

In order to accommodate the SPP Integrated Marketplace, KEPCo successfully completed negotiations with Westar Energy to formalize modifications to the existing Westar Generation Formula Rate Agreement. The modifications were necessary to adjust the methodology for billing KEPCo’s usage and the crediting of KEPCo’s generation resources. In addition, KEPCo negotiated agreeable terms with Westar Energy for an Energy Management Agreement (EMA). The EMA is a service agreement which allows

Westar, as the SPP Market Participant, to act as KEPCo's agent for the purposes of bidding, scheduling and settling KEPCo's generation resources in the SPP Integrated Marketplace.

The cost of electricity and regulatory uncertainty continue to be concerns. Over the past few years, electric utilities, particularly in the Midwest, have seen measurable increases in costs, driven substantially by the cost of environmental regulatory compliance. Controlling costs to keep wholesale rates as economic as possible is a principle responsibility and objective of KEPCo. In an effort to slow this upward cost trend, the KEPCo Board of Trustees approved the restructuring and refinancing of the original debt associated with the Wolf Creek Nuclear Generating Station (Wolf Creek). The debt has been extended to more closely match the useful life of the plant, which was granted an operating license extension to 2045. In December, as an immediate result of the restructuring, KEPCo, through its Margin Stabilization Adjustment, was able to apply a credit to the Member's December energy bill that reduced the average Member rate by four mills for the year. Over the life of the restructuring, KEPCo will be able to lower the principal payments on Wolf Creek, thus stabilizing, or potentially reducing, Wolf Creek's impact on wholesale rates.

At a time when the utility industry could use some certainty regarding the future of fossil fuel generation, particularly coal, the current administration seems to be moving in the opposite direction. Regulatory uncertainty hampers investment in generation resources, not only with new plants, but existing plants as well. Utilities across the nation are being forced to decide whether to invest millions of dollars in equipment to retrofit existing plants to comply with new, more stringent EPA regulations or to close plants and invest in other generation resources, which may also face new regulations in the future. Utilities cannot develop long-term generation resource plans when the regulations governing generation resources are constantly in flux.

In November, at KEPCo's Annual Meeting, Mr. Scott Whittington, manager of Lyon-Coffey Electric Cooperative, Inc., was unanimously elected as President of KEPCo, succeeding Mr. Kirk Thompson, manager of CMS Electric Cooperative, Inc. Mr. Thompson elected not to seek a fifth term. In addition to having over 15 years of electric cooperative experience, Mr. Whittington also serves on the CoBank Board and is a member of the CoBank Governance Committee, is a trustee for KEPCo, is an alternate trustee for Kansas Electric Cooperatives, and is an executive council member for Kansas Touchstone Energy Cooperatives.



Bull Shoals Dam

KEPCo is not immune to EPA regulations and associated costs. KEPCo's wholesale rate is impacted by EPA compliance expenditures by utilities from which KEPCo purchases energy. Even though KEPCo has exposure to these expenditures, KEPCo

has been able to shield its Members from substantial regulatory compliance costs through its partial ownership in Iatan 2, an 850 megawatt super-critical coal-fired plant, its six percent ownership of Wolf Creek, and its federal hydropower allocations. These three resources account for nearly 44 percent of KEPCo's energy supply.



Iatan 2

This year, the Iatan Generating Station was awarded the prestigious 2012 Power Plant Operational Excellence & Stewardship Award from GP Strategies. Iatan 2 achieved the best heat rate for a coal plant in the U.S. in 2012, and the entire Iatan Generating Station was the most efficient Powder River Basin coal-fired plant in the nation. The award recognizes efficiency and environmental stewardship, in addition to recognizing the efforts to restore 106 acres of Missouri River wetlands, which house rare wildlife, like peregrine falcons and bald eagles. As of December 31, Iatan 2 had run continuously for 289 days, and since commencing commercial operation in late 2010, Iatan 2 has met all EPA regulations without additional environmental controls.

Re-fuel 19 was completed at Wolf Creek this year, which will provide the unit with enough fuel until the spring of 2015. During the outage, several upgrades and modifications were completed, which will improve the overall operation of the plant. Wolf Creek does not emit any flue gas or greenhouse gas, thus shielding KEPCo Members from the costs associated with EPA air emission regulations.



Wolf Creek Nuclear Generating Station

Looking ahead, strategic analysis has shown where KEPCo can further improve its power supply program and processes. In 2014, KEPCo will focus upon the implementation and operation of the SPP Integrated Marketplace, study demand-side management opportunities, study the options for the availability for future financing, simplify KEPCo's cost adjustment factors in the Member tariff, and develop additional financial and rate forecasting tools. By focusing on these areas, KEPCo will be able to further enhance its operations and continue to provide an economic and reliable power supply, as it has for nearly four decades.

In closing, the electric utility industry today is far different than that of just ten years ago. To say these are challenging times is an understatement. The ability to act and react in an ever-changing industry is critical for continued viability. KEPCo is fortunate to have a Board of Trustees and staff that have the vision and experience to perform and excel in such an environment. Through their combined leadership, KEPCo will continue to provide rural Kansas with a resource necessary for a quality way of life and economic vitality.

2013 KEPCo Highlights



Charles "Chuck" Terrill

Chuck Terrill was named Executive Vice President and Chief Executive Officer of KEPCo. Chuck returned to KEPCo, where he was previously the EVP & CEO from 1988 to 1995, after retiring as EVP & CEO of North Carolina Association of Electric Cooperatives and the North Carolina Electric Membership Corporation.

Iatan was recognized as the nation's most efficient coal-fired plant, as it was presented the 2012 Power Plant Operational Excellence & Stewardship Award by GP Strategies Corporation. The award is in recognition of the overall commitment to plant thermal efficiency and environmental stewardship.



Les Evans accepting Iatan award



Wolf Creek Nuclear Generating Station

KEPCo refinanced and restructured the debt associated with Wolf Creek. As such, KEPCo was able to lower the debt service on Wolf Creek, thus reducing the wholesale rate to Member Cooperatives in 2013 by four mills.

Re-fuel 19 was completed at Wolf Creek, which will provide the unit with enough fuel until the spring of 2015. Several upgrades and modifications were completed during the outage which will improve the overall operation of the plant.

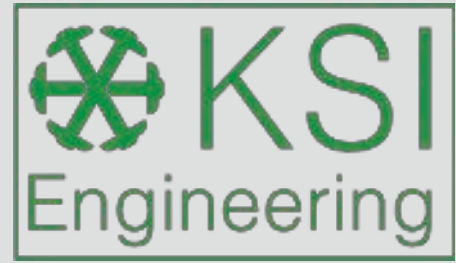
In May, KEPCo successfully appealed the Department of Revenue's notice of property valuation. In June, KEPCo worked with KEC to further appeal the appraisal before the Court of Tax Appeals (COTA). In September, COTA issued an order, resulting in additional tax savings for KEPCo.

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



Member-owned wind generation

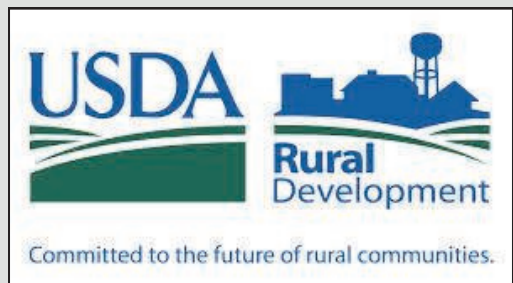
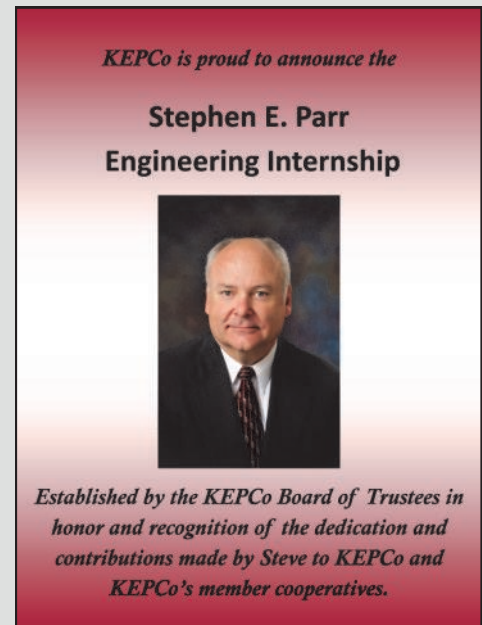
For 16 years, KSI has provided valuable engineering services for KEPCo Members, while covering its expenses and contributing to KEPCo overheads. Over the past year, KSI has been involved in over 60 projects for 12 KEPCo Members and two non-members.



U.S. Capitol, Washington, D.C.

KEPCo Staff continues to work diligently with KEC and Sunflower on legislative issues in Kansas and Washington, D.C. Staff testified on several bills in 2013 and tracked numerous pieces of legislation. In Washington, D.C., Staff participated in the NRECA Legislative Conference.

In memory and honor of Mr. Stephen Parr, KEPCo's EVP & CEO from 1996 to 2013, the KEPCo Board of Trustees unanimously approved the establishment of the Stephen E. Parr Engineering Internship, an electric engineering summer internship for students attending Kansas universities.



KEPCo continues to work with its Member Cooperatives in an aggressive rural development program that has successfully created rural jobs and wealth retention in Kansas. The USDA Rural Economic Development Loan & Grant (REDLG) program provides zero interest loans to worthy projects.

KEPCo settled a long-standing issue with Sunflower, MKEC, Victory and Prairie Land regarding power supply to areas previously served by Aquila.

Safety of our employees is essential to the continued operational success of KEPCo. Several safety meetings are conducted throughout the year for KEPCo's SCADA Technicians and administrative personnel. KEPCo is proud to report there were no lost time accidents recorded in 2013.

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 -- 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 -- Robert 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 Compton
Alternate Trustee -- James Currie
Manager -- James Currie

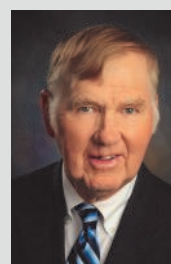


Jim Currie



Dale Short

Butler Rural Electric Cooperative Assn., Inc.
PO Box 1242, El Dorado, KS 67402 316-321-9600
Trustee Rep. -- Dale Short
Alternate Trustee -- Riley Walters
Manager -- Dale Short



Riley Walters



Dwane Kessinger

Caney Valley Electric Cooperative Assn., Inc.
PO Box 308, Cedar Vale, KS 67204 620-758-2262
Trustee Rep. -- Dwane Kessinger
Alternate Trustee -- 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 -- 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 -- Donald Hellwig
 Manager -- Donald Hellwig



Don Hellwig



Bob Reece

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



Dale Coomes



Larry Stevens

LJEC
 PO Box 70, McLouth, KS 66054 913-796-6111
 Trustee Rep. -- Larry Stevens
 Alternate Trustee -- Steven O. Foss
 Manager -- Steven O. 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 -- Donna Williams
 Manager -- Scott Whittington



Donna Williams

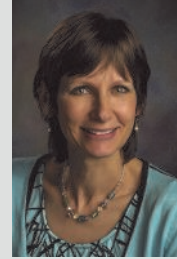
KEPCo Member Cooperatives

Trustees, Alternates and Managers



Curtis Durall

Ninnescah Electric Cooperative Assn., Inc.
PO Box 967, Pratt, KS 67124 620-672-5538
Trustee Rep. -- Curtis Durall
Alternate Trustee -- 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 -- Allan J. Miller
Manager -- Allan J. Miller



Allan Miller



Dennis Duft

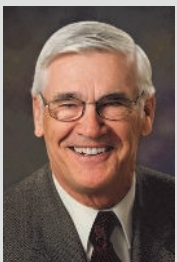
Radiant Electric Cooperative, Inc.
PO Box 390, Fredonia, KS 66736 620-378-2161
Trustee Rep. -- Dennis Duft
Alternate Trustee -- Donald Songer
Administrative Manager -- Leah Tindle
Operations Manager -- Dennis Duft



Don Songer



Leah Tindle



Leon Eck

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. -- Leon Eck
Alternate Trustee -- Douglas J. Jackson
Manager -- Douglas J. Jackson



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 -- David Childers
Manager -- David Childers

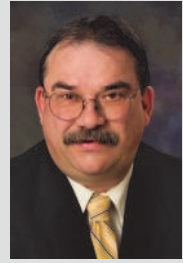


Dave Childers



Charles Riggs

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

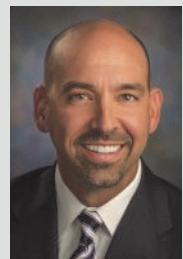


Ron Holsteen



Daryl Tieben

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

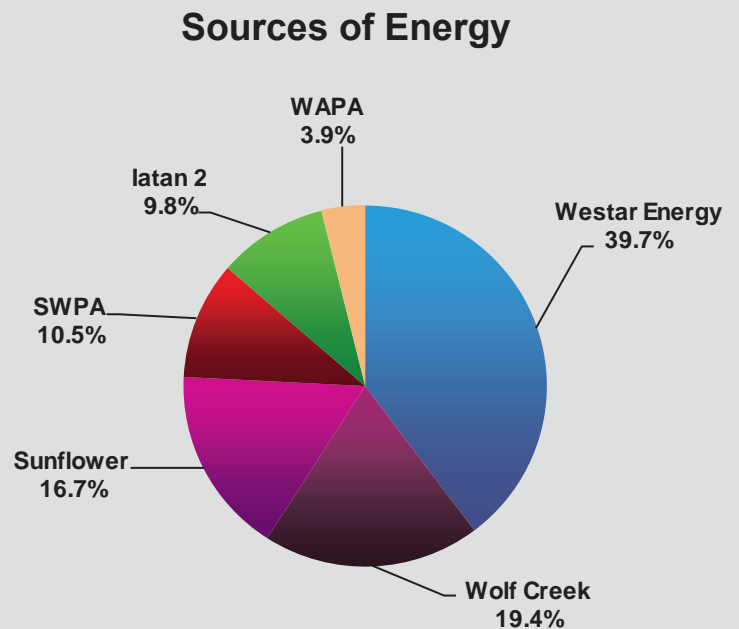
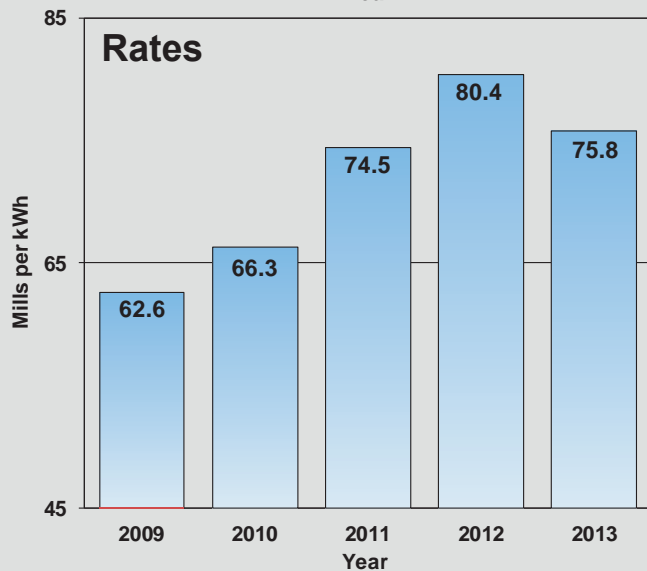
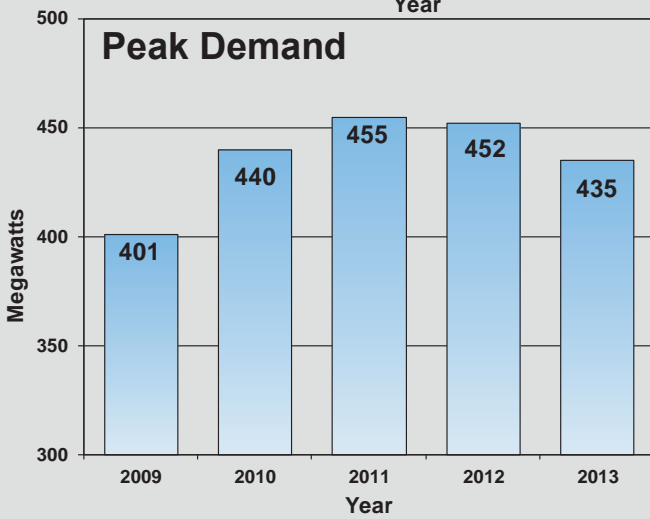
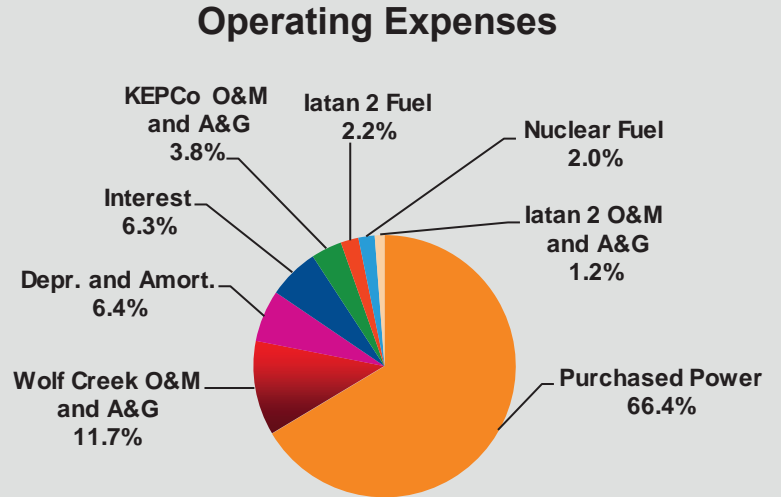
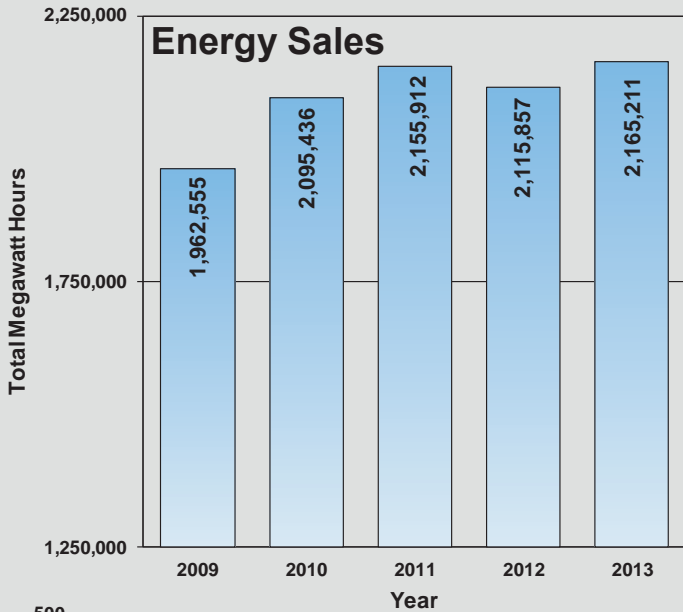


Shane Laws

2013 - 2014 KEPCo Executive Committee

Scott Whittington - President
Kevin Compton - Vice President
Dale Short - Treasurer
Dean Allison - Secretary
Kenneth Maginley - Committee Member
Larry Stevens - Committee Member
Kirk Thompson - Committee Member

Operating Statistics



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 sheets as of December 31, 2013 and 2012, 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 2013 and 2012 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, 2013 and 2012, 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 3, 2014, 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.

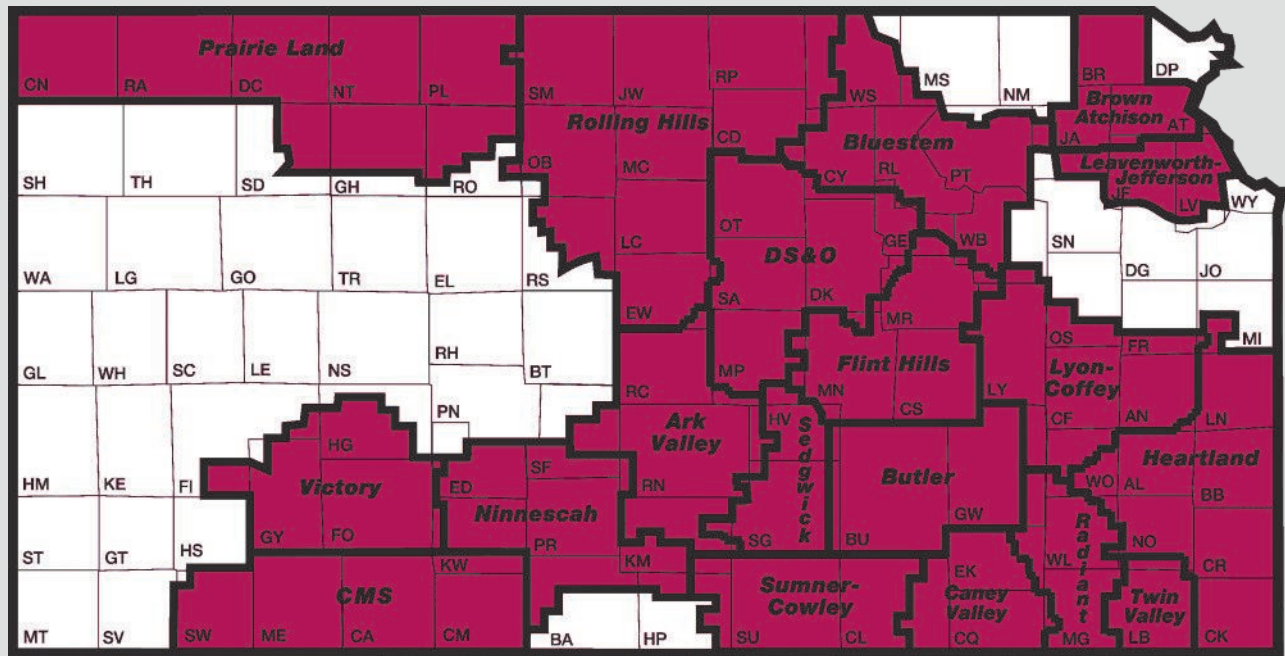


Mayer Hoffman McCann P.C.
Topeka, Kansas
April 3, 2014

KEPCo's Mission Statement

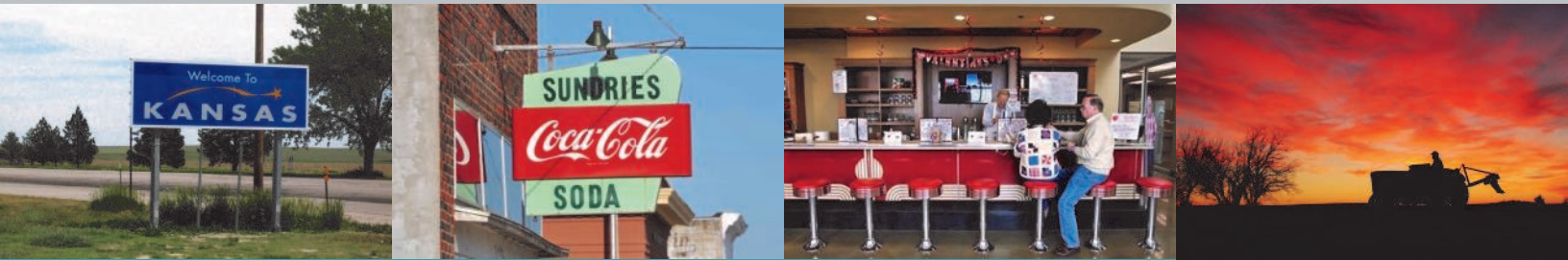
KEPCo exists on behalf of its Members to produce, procure, transmit, deliver and maintain a reliable supply of wholesale electricity within financial guidelines and risk tolerances established by the Board.

KEPCo Member Area Map



KEPCo's Vision Statement

KEPCo will work to provide Consumer-Members the best possible value in reliable electricity and to play an active role in helping improve the economy and quality of life.



Kansas Electric Power Cooperative, Inc.

A Touchstone Energy[®] Cooperative 

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600 SW Corporate View - Topeka, KS 66615

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