



DEDICATED
to serving rural
KANSAS

2014

Annual Report

Kansas Electric Power Cooperative, Inc.

Contents

	<i>Page</i>	Financial Statements	<i>Page</i>
Organization and Resources.....	1	Balance Sheets.....	14-15
Leadership Message.....	2-5	Statements of Margin.....	16
2014 Highlights.....	6-7	Statements of Patronage Capital.....	17
KEPCo Trustees and Managers.....	8-11	Statements of Cash Flows.....	18
Operating Statistics.....	12	Notes to Financial Statements.....	19-40
Report of Independent Public Accountants.....	13	Mission & Vision Statement / Area Map.....	41

KEPCo Staff

Marcus Harris.....	Executive Vice President & Chief Executive Officer	Maurice Hall.....	Sr. SCADA/Metering Technician
Les Evans.....	Senior Vice President & Chief Operating Officer	Robert Hammersmith.....	Sr. SCADA/ Metering Technician
William Riggins.....	Senior Vice President, Chief Strategic Officer & General Counsel	Shari Koch.....	Finance & Accounts Payable/Payroll Specialist
Coleen Wells.....	Vice President & Chief Financial Officer	Elizabeth Lesline.....	Administrative Assistant/ Receptionist
Stephanie Anderson.....	Finance & Benefits Analyst	Mitch Long.....	Sr. SCADA/ Metering Technician
Mark Barbee.....	Vice President of Engineering, KSI Vice President of Engineering	Matt Ottman.....	Information System Specialist 2
Chris Davidson.....	Engineer 3	John Payne.....	Senior Engineer
Terry Deutscher.....	Manager, SCADA & Meter Maintenance	Rita Petty.....	Executive Assistant & Manager of Office Services
Mark Doljac.....	Director of Rates & Regulation	Kelsey Schrempp.....	Administrative Assistant & Benefits Specialist
Carol Gardner.....	Operations Analyst	Paul Stone.....	System Operator
Shawn Geil.....	Director of Information Systems	Jill Taggart.....	Director of Forecasting & Planning
		Phil Wages.....	Director of Member Services, Government Affairs & Business Development

Organization and 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 



2014 Message

from
Scott Whittington
KEPCo President
&
Marcus Harris
Executive Vice President
& Chief Executive Officer



2014 was highlighted by the selection of Marcus Harris as the new Executive Vice President and Chief Executive Officer of KEPCo. Harris replaces Charles "Chuck" Terrill who retired in December. Harris comes to KEPCo from South Carolina Electric and Gas Company (SCE&G), where he amassed over twenty-three years of leadership experience in various roles within the utility, including wholesale power marketing, operations planning, transmission and distribution operations, power origination and most recently, directing the renewable and demand side management activities of SCE&G.

The costs associated with the production and transmission of electricity are of utmost concern for every electric utility. In today's regulatory-laden environment, these concerns have been augmented even more. Efforts to control costs are of paramount importance to KEPCo, as our core responsibility is to provide economic and reliable wholesale power to our nineteen Member electric cooperatives. Reflective of this responsibility was the decision made to refinance KEPCo's debt associated with the Wolf Creek Nuclear Generating Station (Wolf Creek), which included the refinancing of KEPCo's Grantor Trust Series and pollution control revenue bonds, and the method in

which KEPCo's wholesale rate adjusters are calculated.

Nationwide, the cost to produce electricity continues to rise. Cost drivers such as labor, materials, maintenance, and ever-increasing regulatory compliance costs have caused rates to increase. In an effort to slow this trend, a strategic decision was made in 2013 to refinance the debt instruments associated with Wolf Creek. By doing so, KEPCo is able to more closely match the debt payment with the useful life of Wolf Creek, which, a few years ago, received an operating license extension to 2045. Completed in 2014, the refinancing of the debt instruments resulted in a four mill, or nearly five percent, reduction in wholesale rates.

In July, KEPCo staff presented to the KEPCo Board of Trustees a plan to change the method in which several wholesale rate adjustments are calculated and applied to the Member's rates. Later in the year, the Board unanimously approved the new rate adjustment method, which was implemented on January 1, 2015. By implementing the change, the basic wholesale rate structure remains unchanged, a better timing of revenue and expenses are realized, and KEPCo will have a more accurate picture of its financial position, since KEPCo will use budgeted cost figures rather than historical costs. KEPCo's Margin Stabilization Adjustment will flow back any over-recovery or collect any under-recovery, in aggregate, while maintaining KEPCo's margin to meet its minimum financial requirements.

Access to low-cost capital through the Rural Utilities Service (RUS) is critical in keeping KEPCo's cost of borrowing as low as possible, which in turn keeps KEPCo's wholesale rate more economical. KEPCo completed a ten-year financial forecast as part of the requirement for a RUS Wolf Creek capital addition loan application, which was completed and filed late in the year. The forecast shows a modest increase in rates over the ten-year period, when compared to the previous ten-year period. The financial forecast illustrates the positive rate impact of the Wolf Creek debt restructuring and the change in rate adjuster calculations.

KEPCo had a strong financial performance in 2014. KEPCo's total assets, including those of its subsidiary, KEPCo Services Incorporated (KSI), were nearly \$281 million, an increase of over \$6 million from 2013. KEPCo achieved a net margin sufficient to meet all of its financial requirements, which provided the needed flexibility for the successful operation of the company. KEPCo's positive financial

performance was further illustrated with its equity-to-asset ratio improving to 21.2%.

In 2013, KEPCo implemented a Member Investment Program, which ended this year with a balance of over \$3 million. The program offers Members an alternative investment resource at a competitive rate of return, while providing KEPCo with an additional source of capital. KEPCo also allocated over \$3 million in patronage capital to its Members, and since 1995, KEPCo has allocated more than \$80 million in capital credits.

KEPCo's peak demand of 433 MW was virtually the same as last year, and is nearly five percent less than the all-time peak KEPCo set in 2011 of 455 MW. Energy sales to Members increased by four percent, which follows a two percent increase in 2013. Since 2010, KEPCo's energy sales have increased nearly eight percent. The increase in energy sales and the decline and flattening of demand reflects Member load management response to KEPCo's pricing signals, thereby shifting load from peak demand hours to other times of day, and also reflects somewhat milder temperatures in more recent years during the peaking summer season. In addition, a few Member cooperatives have installed peaking generators that are called upon during peak times, which have contributed to decreasing KEPCo's peak demand, and several more Member cooperatives are in the process of installing peaking generators that will be available for the 2015 summer season. KEPCo's Members benefit from the flattening of demand growth when energy consumption grows more rapidly, as capacities of generating, transmission and delivery systems are better utilized and costs per unit of energy are reduced because the associated fixed costs are spread over a greater quantity of energy consumption.

KEPCo's generation resources continue to be the cornerstone of KEPCo's ability to provide an economic and reliable power supply. In 2014, Matt Sunseri, CEO of the Wolf Creek Nuclear Operating Company, retired and Adam Heflin was selected as his successor. Prior to coming to Wolf Creek, Heflin was the Chief Nuclear Officer for Ameren Missouri, where he led the operations of the Callaway Energy Center, a plant nearly identical in design to Wolf Creek. Heflin's previous experience and responsibilities enabled a smooth transition into the responsibility of leading improvements in the efficiency and reliability at Wolf Creek while maintaining the plant's strong safety record.



Wolf Creek Nuclear Generating Station

For the past few years, the electric utility industry has had to react to several new EPA regulations by expending money and resources to retrofit existing coal-fired generating facilities with environmental controls to comply with the regulations. These mandated actions have contributed greatly to the rise in costs associated with the production of electricity. Completing its fourth year of operation in 2014, and since it became commercially operational in 2010, Iatan 2 has met or exceeded all EPA regulations without expending resources for any additional environmental control equipment, thus shielding KEPCo members from regulatory compliance costs on a resource

that, in 2014, provided KEPCo with nearly seven percent of its energy. This is less than the production level achieved in 2013 due to a scheduled 52-day maintenance outage.



Iatan 2

To provide further surety of KEPCo's diverse power supply, in December, KEPCo executed a contract extension for hydropower with the Western Area Power Administration (WAPA) to year 2054. Since 1989, KEPCo has received 14 MW of energy annually from WAPA and is one of KEPCo's least-cost resources. The contract extension will provide KEPCo and its members the security of firm, low-cost energy for the next 40 years.



Chuck Terrill

On behalf of the Board of Trustees and KEPCo staff, a well-deserved thank you is extended to Chuck Terrill for his service to KEPCo. Chuck served as EVP & CEO on two separate occasions; the first from 1988 to 1995 and the second from 2013 until his retirement in December of 2014. During both tenures, Chuck provided KEPCo with leadership and guidance, while orchestrating many accomplishments that will be long-lasting and appreciated by KEPCo Member cooperatives for many years to come. From your friends at KEPCo, thank you for your service and we wish you a long and healthy retirement.

A special thank you is also extended to the KEPCo Board of Trustees and KEPCo staff for their hard work and dedication during the past year. It is gratifying to have so many highly

skilled individuals working through the complexities of today's energy industry and showing the resolve to work on compound energy issues for the future of rural Kansas.



Marcus Harris
KEPCo EVP & CEO



Scott Whittington
KEPCo President



Back row, left to right: Scott Whittington - President; Kevin Compton - Vice President; Dean Allison - Secretary. Front row, left to right; Bryan Coover - Executive Committee; Kirk Thompson - Executive Committee. Not pictured: Dale Short - Treasurer; Larry Stevens - Executive Committee.

2014 KEPCo Highlights



Marcus Harris

Mr. Marcus Harris was selected by the KEPCo Board of Trustees as the Executive Vice-President & CEO of KEPCo. Mr. Harris succeeds Mr. Charles “Chuck” Terrill who retired in December.

The KEPCo Board of Trustees unanimously approved a change in the method in which wholesale rate adjustments are calculated. The change will facilitate a better timing of revenue and expenses, which will allow KEPCo to have a more accurate picture of its financial position.

Beginning in 2013 and finalized in 2014, KEPCo refinanced the debt instruments associated with the Wolf Creek Nuclear Generating Station. This action resulted in a cumulative wholesale rate reduction of approximately five percent.



Wolf Creek Nuclear Generating Station

KEPCo completed a ten-year financial forecast that was unanimously approved by the KEPCo Board of Trustees.

KEPCo successfully appealed its Kansas property valuation tax assessment, resulting in a significant savings for KEPCo and its Member cooperatives.



Chuck Terrill addresses the Board during the retreat

At the May Board meeting, KEPCo conducted a business retreat at which various aspects of distributed generation were discussed. Representatives from several renewable and distributed generation companies gave presentations to the Board, discussing topics which included solar panel design and performance, optimal solar array configuration, cost and financing structures, marketing strategies, and utility rate design.

KEPCo negotiated with Sunflower to restructure terms of its Wholesale Power Agreement, resulting in a savings for KEPCo and its Member cooperatives over the remainder of the contract, which expires in 2020.

KSI conducted Arc Flash Hazard Assessments for 13 member electric cooperatives and two non-member electric cooperatives. The assessments were prepared as a guide to assist cooperatives in selecting appropriate clothing for workers that could be exposed to hazards from flames or electric arcs. In addition, KSI completed Construction Work Plans for four Member electric cooperatives.



Kansas State Capitol, Topeka, Kansas

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 2014 and tracked numerous pieces of legislation. In Washington, D.C., KEPCo staff participated in the NRECA Legislative Conference.

KEPCo executed the documents to extend its Western Area Power Administration (WAPA) contract to 2054. KEPCo receives 14MW of energy from WAPA and is one of KEPCo's least-cost energy resources.



Parker Dam - Lake Havasu



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.

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 2014.

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



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 -- 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

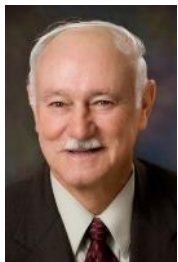


Curtis Durall

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

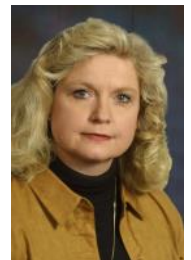


Dennis Duft

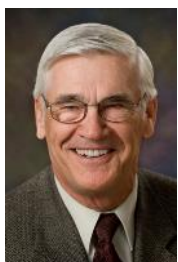
Radiant Electric Cooperative, Inc.
 PO Box 390, Fredonia, KS 66736 620-378-2161
 Trustee Rep. -- Dennis Duft
 Alternate Trustee -- Tom Ayers
 Administrative Manager -- Leah Tindle
 Operations Manager -- Dennis Duft



Tom Ayers



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



Shane Laws

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

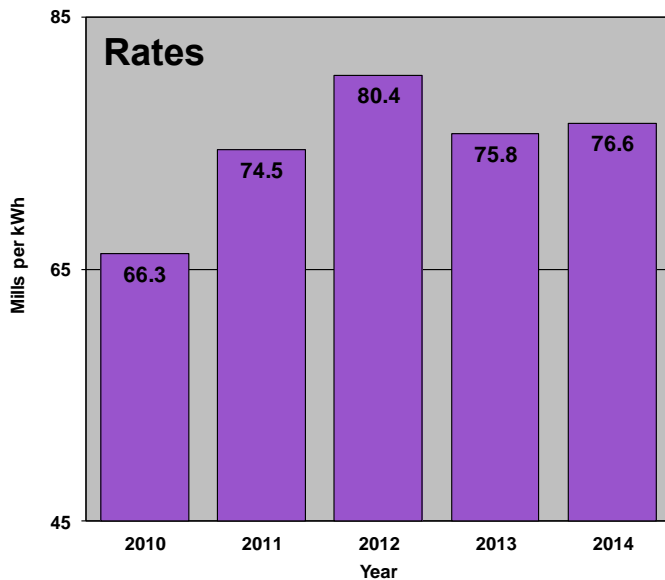
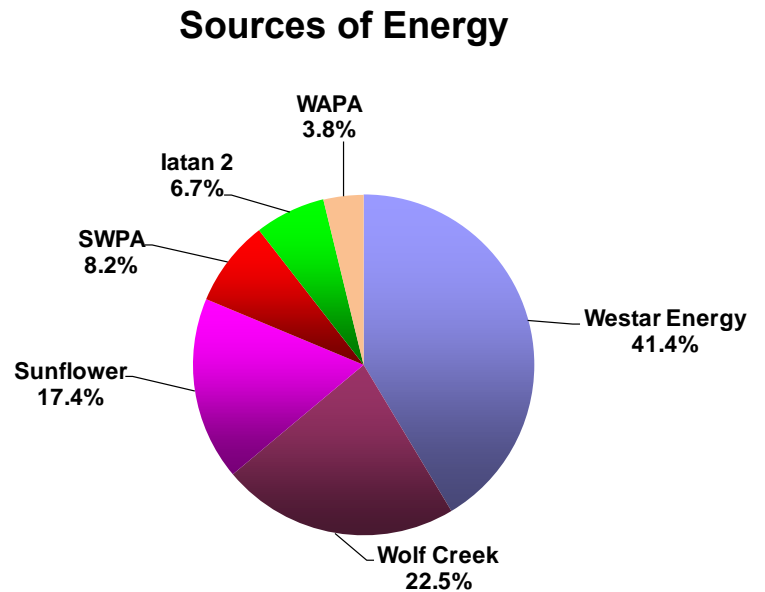
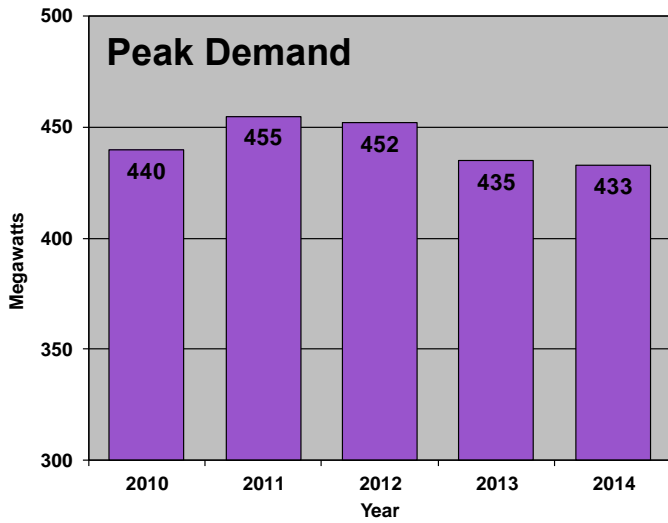
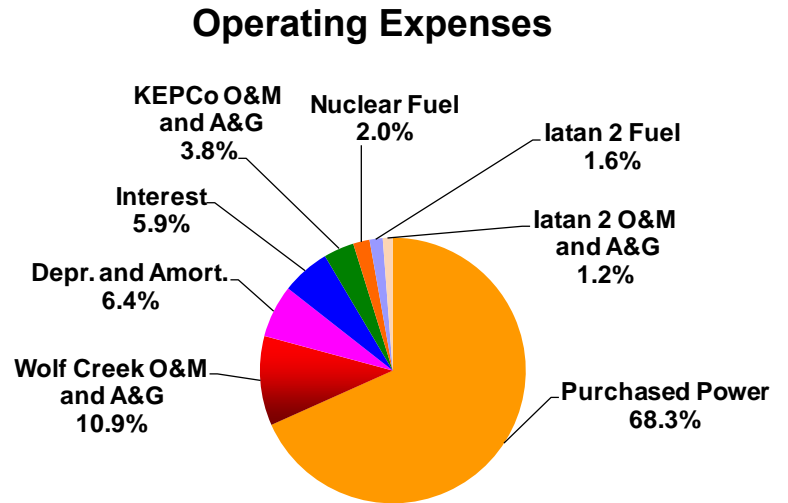
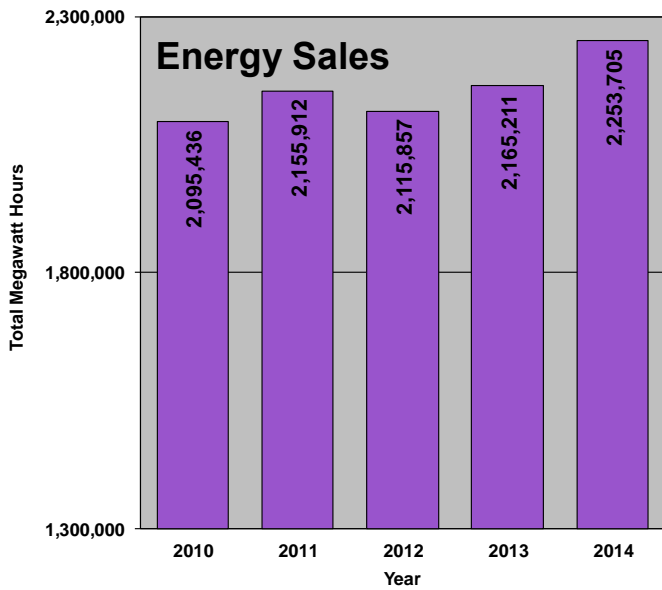


Daryl Tieben

2014 - 2015 KEPCo Executive Committee

Scott Whittington - President
Kevin Compton - Vice President
Dale Short - Treasurer
Dean Allison - Secretary
Bryan Coover - 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, 2014 and 2013, 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.

Auditors' 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 2014 and 2013 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, 2014 and 2013, 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 2, 2015, 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.

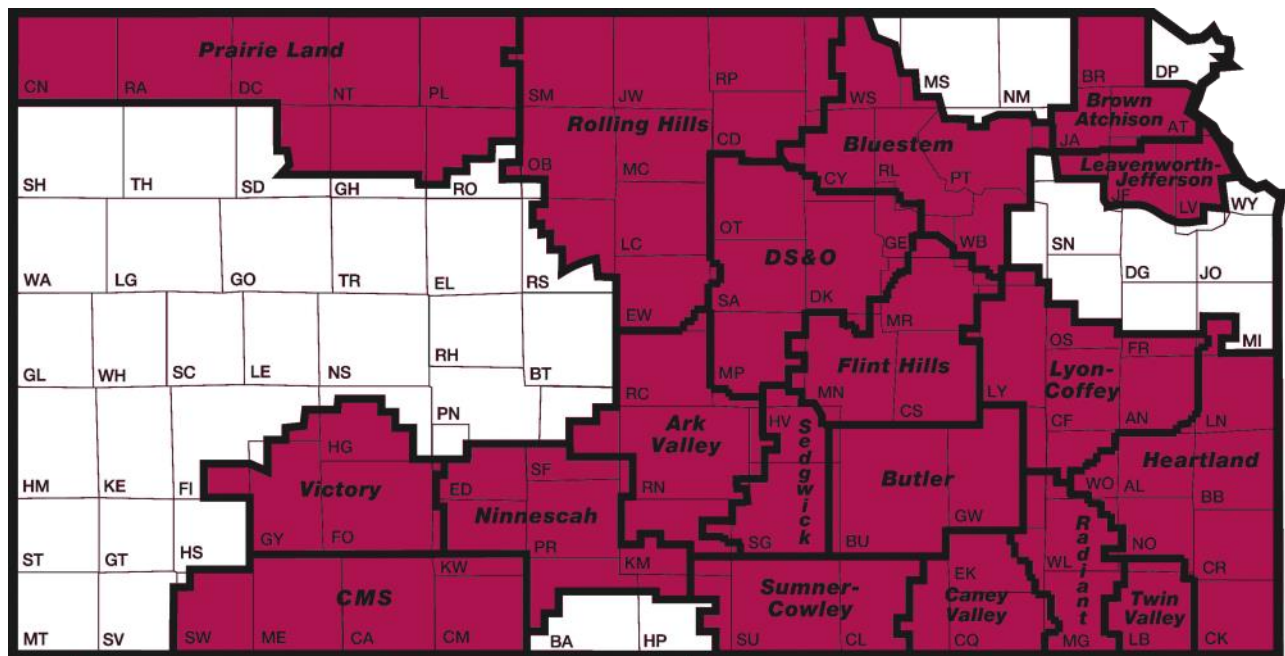


Mayer Hoffman McCann P.C.
Topeka, Kansas
April 2, 2015

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 

PO Box 4877 - Topeka, KS 66604
600 SW Corporate View - Topeka, KS 66615
(785)-273-7010
www.kepc.org