1995 Annual Report

KANSAS ELECTRIC POWER COOPERATIVE INCORPORATED

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About KEPCo

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 twenty-three distribution rural electric cooperative members at a reasonable cost. KEPCo is governed by a Board of Trustees representing each of its twenty-three members which collectively serve more than 95,000 electric meters in two-thirds of rural Kansas (see map pages 10-11).

The KEPCo Board of Trustees meets regularly to establish policies and act on issues that often include recommendations from working committees of the Board and KEPCo staff. The Board also elects a seven-person Executive Committee which includes the President, Vice President, Secretary, Treasurer, and three additional Executive Committee members.

KEPCo is under the jurisdiction of the Kansas Corporation Commission (KCC) and was granted a limited certificate of convenience and authority in 1980 to act as a G&T public utility.

In 1995, KEPCo's power supply resources consisted of: 70 MW of owned generation; 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 Staff

Stephen E. Parr
Executive Vice President
and Chief Executive Officer

Robert Bowser
Director, Analytic Services

Gary Dockham
Director Corporate Services
and Assistant General Manager

Jerry Haahr
Director, Engineering

Harold Hann
General Counsel

Rick Tyler
Director, Finance and Accounting

Mindi Atchison
Receptionist

Barbara Bounds
Secretary/Data Entry

Michael H. Bradshaw
Operations Engineer

Sam DeLap
Data Analyst

Lois Gerhardt
Executive Secretary
Manager, Office Services

Bruce Graham
Corporate Relations Coordinator

[illegible]
Planning Engineer

[illegible]
Accounting Assistant

[illegible]
Research Economist

[illegible]
Engineering Aide

[illegible]
Economic Development Coordinator

[illegible]
Marketing Coordinator

[illegible]
Manager, Administrative Services

Paul Stone
Operations Technician

Charles Vaughn
Meter Technician

1995 Summary – A Turning Point

A landmark, a milestone, one for the record books, all could be used to characterize 1995 for KEPCo. Perhaps the most appropriate description would be...a turning point.

KEPCo celebrated its twentieth anniversary in 1995 without a lot of fanfare. Except for a regular feature in the *Newsmaker* recalling some significant history, it would be hard to know that KEPCo has marked two decades of success.

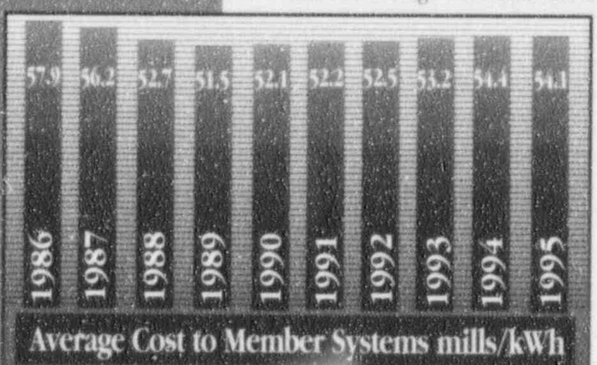
"For those of us who have witnessed the evolution of KEPCo, that isn't surprising," said KEPCo President Leon Eck during remarks at the 1995 Annual Meeting. "Sure, there are plenty of accomplishments we can be proud of but it's kind of like the farm—there is always something to do and talking about it doesn't get the chores done."

Besides that, given the new competitive environment of the utility business, KEPCo is focused on the future rather than its history. Nevertheless, a quick look back at 1995 presents several significant events which are worthy of reflection.

Out of the Red

KEPCo has been steadily climbing toward a healthier financial position. This is the sixth year KEPCo has finished with a positive margin since becoming an operational utility and, for the first time in its history, KEPCo has recorded positive equity. KEPCo began 1995 with negative equity of $1,433,125 on the books and ended the year with a record margin of $5,892,753. That margin created positive equity of $4,459,628 and, as a result, the KEPCo Board of Trustees approved the allocation of capital credits to its member cooperatives.

The $5.8 million margin was achieved while KEPCo maintained another year of stable rates to its members. In fact, KEPCo's average wholesale rate has declined by 6.6 percent over the past decade—savings which can be credited to a significant reduction in interest costs and other expenses, re-negotiation of power supply contracts, and a leveling of operations and maintenance expense at the Wolf Creek Generating Station.



Average Cost to Member Systems mills/kWh

In 1995, KEPCo continued its ambitious debt refinancing program and took advantage of lower interest rates available late in the year. KEPCo rolled over $20 million in high interest FFB debt in November which will save more than $108,000 a year and approximately $2.5 million over the life of the loans. The Board of Trustees also approved parameters to enable continued refinancing if interest rates remain favorable.

Efficient Generation a Plus

The Wolf Creek Generating Station, a nuclear fueled power plant located near Burlington, Kansas, supplied 42 percent of KEPCo's power supply resources in 1995. The plant marked its tenth year of operation in 1995 by setting a new single year generation record, surpassing its previous best mark set in 1989. That performance also ranked Wolf Creek number one among all American nuclear units in 1995 for total generation (see page 8 for more details).

While Wolf Creek has a proud history of setting generation records, the plant's paramount objective is safety. In November, that dual drive for safe and efficient operation was recognized by the Nuclear Regulatory Commission's Standardized Assessment of Licensee Performance (SALP) report.

Wolf Creek earned a Category 1 rating in both operations and plant support. A Category 2 rating was assigned to maintenance and engineering. In the last report, Wolf Creek had Category 2 ratings across the board.

KEPCo also relies on two Power Marketing Administrations (PMAs) for about 25 percent of its generation resources. Access to and affordability of these hydropower allocations from the Southwestern Power Administration (SWPA) in Tulsa and the Western Area Power Administration (WAPA) in Loveland, Colorado, were threatened this year by a movement in Washington D.C. to privatize government assets. KEPCo worked hard to protect its PMA invest-

ment (see page 7) and at the end of the year, the battle appeared to be settled in our favor. However, the war is not won...KEPCo fully expects the shots to start ringing again in 1996.

Essential Services

Through their combined resources, KEPCo members support a wide range of services such as power quality investigations, rural economic development projects, marketing and diversification opportunities, power requirement studies, plus rate design and other regulatory matters.

Marketing–KEPCo's marketing efforts continue to promote the value of electricity and boost awareness of the electric cooperative network in Kansas. In its displays, KEPCo features the ground-source heat pump, lifetime electric water-heaters, efficient electric appliances, electrotechnology information and some of the latest cordless electric gadgets.

KEPCo member cooperatives support the marketing activities by volunteering to staff displays at appearances across the state. CMS Electric Cooperative employees Kent Davis and Nelda Hoselton worked the KEPCo booth at the 3I show in Garden City, April 27-29, 1995

During the year, KEPCo exhibited at five different farm shows, the ten-day Kansas State Fair and at thirteen member cooperative Annual Meetings. KEPCo staff and equipment were also useful in local education and marketing opportunities such as heating and cooling contractor meetings, home shows and building seminars.

Economic Development–KEPCo's economic development activities focus on projects and services which will improve job growth and retain wealth in rural Kansas. KEPCo has been very successful in identifying projects which are good candidates for Rural Business and Cooperative Development Service (RBCDS) zero interest loans.

KEPCo Member Rural Economic Development Approved Loans and Grant Projects

Sponsoring KEPCo member and Project Name	Type of project/ Use of Funds	Total Project Cost	RBCDS Loan	Jobs Created
Butler Butler Community College ($80,000 Revolving Loan Fund started & repayment of $400,000 will expand the fund) 12/94	Construction of additional classrooms at Rosehill High School	$625,000	$400,000 (Grant)	40
MidWest Electric Transformer 8/91	Remanufacture electric transformers	$180,000	$100,000	5
Caney Valley Bellar Farms 10/93	Nursery building for swine production	$320,000	$120,000	4
CMS Prairie Pig Feeders 2/93	Finishing floors for swine production	$434,316	$347,000	10
Flint Hills Marion Manufacturing 1/94	Building construction & equipment purchase	$452,000	$318,000	4
Custom Manufacturing 4/95	Equipment purchase	$1,189,000	$325,000	23
Leavenworth-Jefferson Ernest-Spencer Metals 9/93	Site prep. building construction & equipment	$1,541,012	$499,000	22
Smoky Hill Moly Manufacturing 1/94	Building & equipment purchase	$227,443	$181,000	10
Kansas Originals 3/93	Building & equipment purchase	$76,651	$41,000	20
City of Ellsworth ($80,000 Revolving Loan Fund started and $400,000 repayment will expand the loan fund) 4/95	Building construction & lease to manufacturing company	$1,141,000	$400,000 (Grant)	100
Victory Cimarron Dairy 10/94	Site prep. building & equipment purchase	$5,565,000	$400,000	80
TOTALS		$11,751,421	$3,132,000	318

During 1995, KEPCo members secured four RBCDS loans bringing the total of zero interest economic development funds generated by KEPCo and its member cooperatives to $3.13 million.

One of the most exciting loans this year was approved in October to establish a revolving loan fund for a project identified by Smoky Hill REC. Initially, the money will fund the establishment of a steel fabrication company in Ellsworth. Then, as money is repaid, it will be credited to an economic development loan fund for reinvestment into other local projects for Smoky Hill area entrepreneurs.

The zero interest loans which KEPCo and its members have supported are listed in the accompanying table.

Rate design work–KEPCo also adjusted and refined several rate designs during 1995. Early in the year, a new rate option was approved by the KEPCo Board of Trustees and the Kansas Corporation Commission (KCC). It was an option specifically designed to reduce the need to call peak alerts, provide additional flexibility to meet a more competitive retail market, and come as close to revenue neutral as possible for KEPCo.

At the end of the year, KEPCo filed with the KCC for approval of a new economic development rider. KEPCo's former economic development rate design was implemented in 1988 and has since been modified several times. However, it was based on coincident peak demand and proved difficult for prospects to understand. KEPCo Staff

and the Board's Engineering Committee made several changes to simplify the rate and build in greater incentives. The streamlined version applies to loads which have a demand of 50 kilowatts or more, meet a load factor of 50 percent or higher, and are new loads as defined in the rider.

The work has not stopped there. With the Board's direction, KEPCo is working on other rate incentives designed to increase competitiveness and attract smaller new loads. In addition, KEPCo member cooperatives have become increasingly aware of opportunities to grow through acquisition of service territory deemed less than attractive by investor owned utilities in Kansas. The IOUs may not admit it publicly, but significant reductions in rural crews and manpower demonstrates their lack of interest in providing adequate and timely service to these areas. Eventually, such decisions will create consumer unrest and force a decision to restore adequate service, or ideally, to divest the territory.

A Competitive Future

While it's more of a trend than an event, KEPCo is focused on the new environment in the utility industry. After two decades where forces in the utility industry required building, growing and adjusting to increased regulation, KEPCo and the rest of the utility industry now face a shift to a leaner, more aggressive and less regulated environment.

Whether Kansas sees full-scale deregulation or retail wheeling very soon is being debated in private and public policy arenas across the state. At this point, nearly everyone agrees that there is time to study the potential impact of retail wheeling. Meanwhile, the anticipation alone is bringing about change and increased efficiency. Each and every electric utility is examining its bottom line, developing ways to do the work more efficiently and distinguish themselves, through rates and/or services, from potential competitors.

In order to address these and other challenges, KEPCo is part of an established network of affiliated organizations in Kansas and across the nation. All are committed to the same essential goals of quality service and excellence in operations. KEPCo values the work of KEC, its statewide association, along with NRECA, CFC, RUS and trade groups like the Southwestern Power Resources Association, Loveland Area Customer Group, and the Western Power Producers. In addition, KEPCo has begun a dialogue with other G&T Cooperatives in the region to determine if there is value in establishing alliances of technological and professional resources.

KEPCo and its member cooperatives are working on these and other opportunities to mold the future in our favor. KEPCo believes that challenging times should be viewed as opportunities which may never come again—and that the rural electric program is uniquely poised to take advantage of such opportunities.

Executive Search

Charles W. Terrill resigned his position as KEPCo Executive Vice President and CEO in May to accept a job as head of the state offices of the Carolina Electric Cooperatives. Mr. Terrill had been with KEPCo since 1988, the first four years as KEPCo's Director of Power Supply and Engineering.

Following a nationwide search, the KEPCo Board of Trustees selected Stephen E. Parr as KEPCo's Executive Vice President and CEO. Mr. Parr was formerly Senior Vice President and Chief Operating Officer for Cajun Electric Power Cooperative in Baton Rouge. He has 22 years of experience in electric utility operations and more than half his career has been with the rural electric cooperative industry. Mr. Parr began his duties March 18, 1996.

PMA Battle

KEPCo spent a good part of the year working to protect its investment in the Federal Power Marketing Administrations (PMAs) and, in turn, its preference power allocation.

The PMA battle lines were drawn early in the year when a new Congress began work to fulfill its pledge to cut the size and scope of the federal government. Combine that with a call for new money to balance the budget and the federal power marketing administrations were clearly in Capitol Hill's cross hairs.

From the beginning, KEPCo participated in the coordinated efforts of hydropower customer groups such as the Southwestern Power Resources Association to educate the Congress and the Administration about the history and the value of the PMAs. KEPCo also contacted each member of the Kansas Congressional delegation and worked with the Kansas Electric Cooperatives (KEC) to have a letter of opposition signed by representatives of each electric cooperative in Kansas.

Tenkiller Ferry Lake in Cookson, Oklahoma is a federal hydro project which produces preference power for KEPCo member cooperatives.

"This issue comes up almost every year and we have always been able to explain the history of preference power and how the PMAs benefit both the customers and the federal government. However, this year it was a new pitch. President Clinton called for a sale of the PMAs in his 1995 budget message. Add to that mix the drive by a new Congress to privatize government functions and we were concerned that the PMAs would be victimized by a campaign promise rather than a rational and prudent decision," said Bruce Graham, KEPCo Corporate Relations Coordinator.

Some of the key points KEPCo makes in its PMA calls include:

–PMA customers agreed to repay the cost of the electric production facilities and a portion of the common dam costs in return for the generation resource. As a result of that large investment, PMA customers purchased the power in the early years at a rate that was higher than the market because they could foresee the long-term potential. Over the years, the investment has begun to return a benefit with the power currently being one of the lower cost resources available.

–Reforming the repayment methods, accelerated principal payment, or increasing the interest rate, parallels a bank unilaterally changing the terms of a mortgage when the lender needs additional funds.

–Proposals to sell the PMAs are not the same as cutting the budget. A sale would simply be a reckless accounting of the value of this electric resource, bringing in a one-time payment to the Treasury in order to boost the current budget. A sale now would revoke an excellent financial arrangement and investment at a time when the PMA customers and the U.S. Government are both beginning to realize the expected long-term benefits.

As the effort proceeded during the year, KEPCo succeeded in communicating its message to most of the Kansas delegation. While firmly opposed to liquidating the PMA assets, KEPCo noted that if there has to be a sale, that it be to the customers rather than in the form of an auction.

"Electric cooperatives are non-profit utilities, owned and operated by our customers, and do not have the resources to prevail in a bidding war. A sale to the highest bidder would be destructive and would guarantee higher electric rates to all electric consumers, not only rural and municipal consumers," said KEPCo in a delegation letter. KEPCo also pointed out repeatedly that a sale to the highest bidder will be nothing more than a back-door tax increase on electric consumers, including IOU customers.

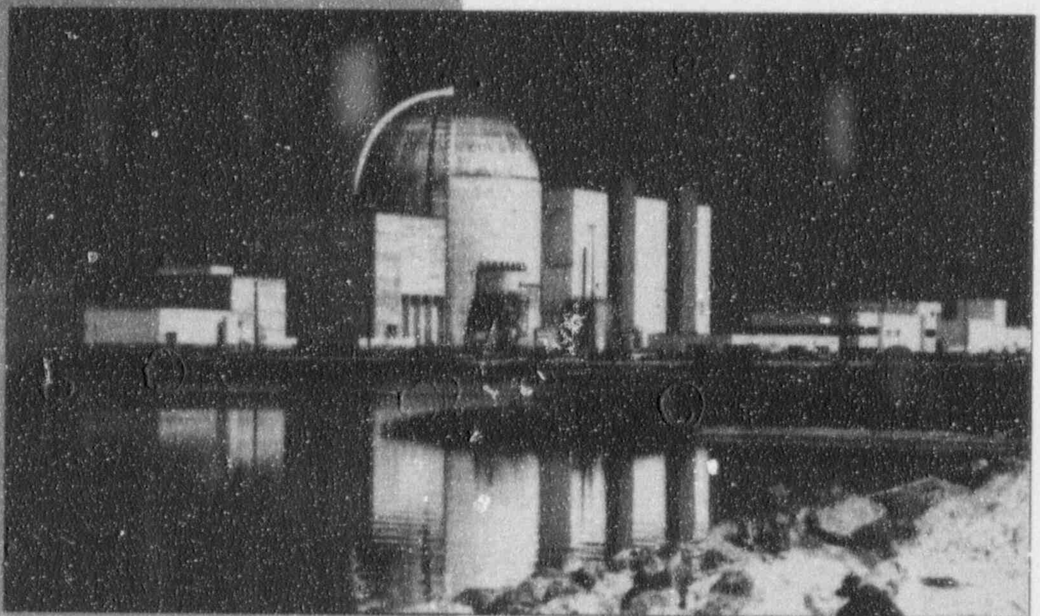
In September, the House Resources Committee called for the sale of the Southeastern Power Administration (SEPA) and all related assets such as water rights, land, and recreational control. The prospect of such control by a private company incensed southern voters so much that it became politically impossible to pass such a provision. At the end of the calendar year, the sale language had been abandoned. However, it is anticipated that the drive to balance the federal budget along with upcoming elections which may change the face of this country's political leadership, could intensify the campaign to privatize the PMAs. Furthermore, as the electric utility industry becomes more and more competitive, the IOUs will continue their call for all or part of the hydro generation.

No matter what happens, this is an issue which KEPCo has demonstrated leadership and foresight and will work to protect its investment in such an important power supply resource.

Wolf Creek

The Wolf Creek Generating Station is owned by KEPCo and two investor-owned utilities. KEPCo owns six percent, Kansas City Power and Light (KCP&L) owns 47 percent, and Western Resources, Topeka also owns 47 percent. Normal operations of the plant are managed by the Wolf Creek Nuclear Operating Corporation (WCNOC) and KEPCo has representatives on all management committees. Gary Dockham represents KEPCo on the WCNOC Board of Directors. Mr. Dockham and Harold Haun serve on the Owners Committee. Mr. Haun also chaired the Employee Benefits and Retirement Committee and serves on the Legal and Insurance Committee. Rick Tyler accounts for KEPCo's representation on the Finance and Audit Committee and Bruce Graham works with the Communications Committee.

As mentioned on page 4, Wolf Creek produced more electricity than any other nuclear unit in the United States during 1995. The plant finished the year with a 98.7 percent capacity factor and was on-line for all but six days in 1995.



Such outstanding operation is not unusual for the Wolf Creek Generating Station which celebrated its tenth anniversary of commercial operation on September 3, 1995. During the past decade, the plant has earned recognition as one of the nation's best. In its first year of operation, Wolf Creek set a record for electricity production by a commercial nuclear unit during an initial year. In 1989, the plant produced more electricity than any other single generating unit in the U.S. and was fifth in the world for total electricity production among nuclear units. Even more impressive, those 1989 marks were achieved at the lowest operating cost of any nuclear unit in the nation.

During 1991, Wolf Creek set a world record for continuous generation — 487 days — a mark which has since been broken. In 1992, Wolf Creek was the second lowest cost electricity producer among U.S. nuclear units. It was also the year which workers put in more than 10 million employee hours without a lost time accident.

Wolf Creek finished 1994 with the lowest fuel costs of any nuclear plant in the nation, a regularly earned distinction. In addition, Wolf Creek has the lowest operating costs (excluding fuel) of any nuclear unit in the nation over the past five year period.

Fishing Fever At Wolf Creek

Wolf Creek and the owner utilities worked throughout 1995 on their pledge to open the plant's cooling lake for public fishing.

The plans were announced at a Kansas Department of Wildlife & Parks Commission meeting by State Representative Doug Lawrence of Burlington.

"Many people have worked hard to make the lake opening a possibility," Rep. Lawrence said at a January 1995 meeting in Topeka. "This project requires cooperation among officials from the state of Kansas, Coffey County, Wolf Creek Nuclear Operating Corporation, and Wolf Creek's owner companies. Today's announcement is a credit to all those who have put a tremendous amount of time and energy into bringing this project one step closer to reality."

During the year, preparations began for construction of public facilities such as an access road, boat ramps, parking, and rest rooms. Both Coffey County and the Kansas Department of Wildlife & Parks were involved in construction projects and state participation in the project required legislative approval to address funding requirements and liability concerns.

Both were accomplished during the 1995 session of the Kansas Legislature. In ceremonies Thursday, May 18, at Wolf Creek's Eisenhower Learning Center, Governor Bill Graves signed the omnibus appropriations bill (House Sub. for SB 385) which included $600,000 to pay for the state's portion of opening the Wolf Creek Lake for public fishing. The $600,000 was to be reimbursed to the state from a federal excise tax charged on fishing and hunting equipment purchased within the United States. After the bill signing, the Governor and his wife, Linda, toured the control room simulator and viewed the eagles nested at the cooling lake.

Officials involved in the effort to open the plant's cooling lake to public fishing gathered around Kansas Governor Bill Graves at Wolf Creek's Eisenhower Learning Center for a ceremonial signing of the appropriations bill which enabled work to proceed. From left to right: Dan Haines and Warren Wood, Wolf Creek Nuclear Operating Corp. (WCNOC); Leonard Jirak, Kansas Department of Wildlife and Parks; Gene Merry, Coffey County Commissioner; Jon Hotaling, Coffey County Economic Development Director; Rep. Doug Lawrence of Burlington; and Buzz Carns, WCNOC CEO.

Wolf Creek is planning to allow fishing from boats and designated shoreline areas. The 5,090 acre lake will be managed to support the generation of electricity and provide recreational fishing opportunities for the foreseeable future. The waters have been stocked since 1982 with many species of fish including striper, wiper, large and small mouth bass, crappie, walleye, and catfish.

Several members of the sports media such as ESPN's Jimmy Houston and local sportsman Harold Ensley have been permitted to fish and film at the lake. Traditionally, such programs require long lead times for broadcast and the producers have pledged to delay airing the shows until an official opening date is established.

Fishing access will be provided on a limited basis by reservation. For more information on the lake opening and reservations, send a self-addressed, stamped envelope to: Fishing, P.O. Box 206, Burlington, Kansas 66839. Information will be sent out as it becomes available.


1 Dale O. Evans


2 Dale Bodenhausen


3 Kenneth Pike


4 DeWayne C. Barnett


5 Robert Ohlde


6 Kirk A. Thompson


7 Nadine Griffin


8 Robert E. Reece


9 Leon Eck


10 Robert Smith, Jr.


11 R.D. Speece


12 Melroy Kopsa

Trustee Representatives, Alternate T

1. Ark Valley Electric Cooperative Assn., Inc., Hutchinson
Trustee Rep. — Dale O. Evans
Alternate Trustee — Delbert E. Tyler Manager — Delbert E. Tyler

2. Brown-Atchison Electric Cooperative, Assn., Inc., Horton
Trustee Rep. — Dale Bodenhausen
Alternate Trustee — Harold D. Foley Manager — Rodney V. Gerdes

3. Butler Rural Electric Cooperative Assn., Inc., El Dorado
Trustee Rep. — Kenneth Pike
Alternate Trustee — Richard Turner Manager — Ernest J. Barker

4. Caney Valley Electric Cooperative Assn., Inc., Cedar Vale
Trustee Rep. — DeWayne C. Barnett
Alternate Trustee — David Vince Manager — David Vince

5. C&W Rural Electric Cooperative Assn., Inc., Clay Center
Alternate Trustee — Robert Ohlde Manager — Kenneth J. Maginley

6. CMS Electric Cooperative, Inc., Meade
Trustee Rep. — Kirk A. Thompson
Alternate Trustee — Clifford Friesen Manager — Kirk A. Thompson

7. DS&O Rural Electric Cooperative Assn., Inc., Solomon
Trustee Rep. — Nadine Griffin
Alternate Trustee — Jerry Rumbaugh Manager — Jerry Rumbaugh

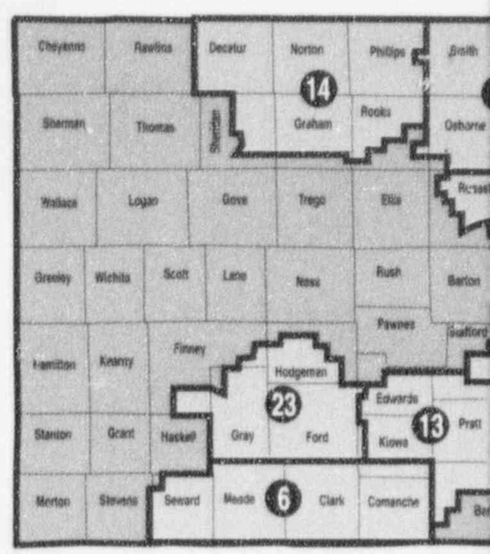
8. Flint Hills Rural Electric Cooperative Assn., Inc., Council Grove
Trustee Rep. — Robert E. Reece
Alternate Trustee — Gus Hamm Manager — Robert E. Reece

9. Jewell-Mitchell Cooperative Electric Co., Inc., Mankato
Trustee Rep. — Leon Eck
Alternate Trustee — Jim Gouldie Manager — Jim Gouldie

10. Leavenworth-Jefferson Electric Cooperative, Inc., McLouth
Trustee Rep. — Robert Smith, Jr.
Alternate Trustee — Shane L. Larson
Manager — Shane L. Larson

11. Lyon-Coffey Electric Cooperative, Inc., Burlington
Trustee Rep. — R.D. Speece
Alternate Trustee — Kenneth Hansell
Manager — Larry N. Scott

12. NCK Electric Cooperative, Inc., Belleville
Trustee Rep. — Melroy Kopsa
Alternate Trustee — Douglas J. Jackson
Manager — Douglas J. Jackson



ustee Representatives and Managers

13. Ninnescah Rural Electric Cooperative, Inc., Pratt
Trustee Rep. — C. Frederic Moore
Alternate Trustee — Walker Parris *Manager — Walker Parris*

14. Norton-Decatur Cooperative Electric Co., Inc., Norton
Trustee Rep. — Allan J. Miller
Alternate Trustee — Chrissie Drommer *Manager — Allan J. Miller*

15. PR&W Electric Cooperative Assn., Inc., Wamego
Trustee Rep. — Kenneth J. Maginley
Alternate Trustee — Delbert Eichman *Manager — Kenneth J. Maginley*

16. Radiant Electric Cooperative, Inc., Fredonia
Trustee Rep. — Dennis Duft
Alternate Trustee — Charles Thomas *Co-Managers — Leah Tindle & Dennis Duft*

17. Sedgwick County Electric Cooperative Assn., Inc., Cheney
Trustee Rep. — David Reichenberger
Alternate Trustee — Alan L. Henning *Manager — Alan L. Henning*

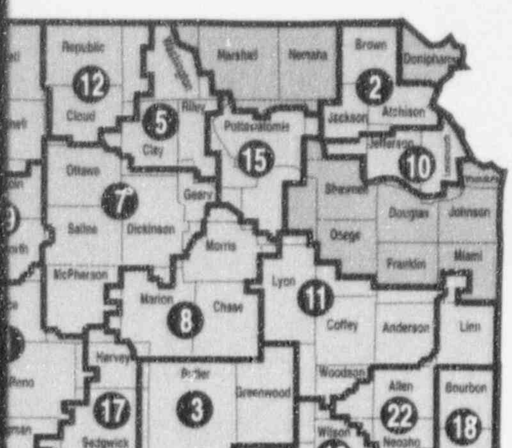
18. Sekan Electric Cooperative Assn., Inc., Girard
Trustee Rep. — Jack Wilkinson
Alternate Trustee — Dale Coomes *Manager — Dale Coomes*

19. Smoky Hill Electric Cooperative Assn., Inc., Ellsworth
Trustee Rep. — Donald R. Minard
Alternate Trustee — Dale Weinbold *Manager — Donald R. Minard*

20. Sumner-Cowley Electric Cooperative, Inc., Wellington
Trustee Rep. — Max Kolarik
Alternate Trustee — Kendall Beck *Manager — Kendall Beck*

21. Twin Valley Electric Cooperative, Inc., Altamont
Trustee Rep. — Donald E. Hellwig
Alternate Trustee — Merle Modesitt *Manager — Donald E. Hellwig*

22. United Electric Cooperative, Inc., Iola
Trustee Rep. — Dennis Peckman
Alternate Trustee — Dale Coomes *Manager — Dale Coomes*



23. Victory Electric Cooperative Assn., Inc., Dodge City
Trustee Rep. — Marvin Hampton
Alternate Trustee — John Durler
Manager — Jack Colgin

Executive Committee

Leon Eck - President
Kenneth Maginley - Vice President
Kirk Thompson - Secretary
David Reichenberger - Treasurer
Dale Evans
Robert Reece
R.D. Speece


13 C. Frederic Moore


14 Allan J. Miller


15 Kenneth J. Maginley


16 Dennis Duft


17 David Reichenberger


18 Jack Wilkinson


19 Donald R. Minard


20 Max Kolarik


21 Donald E. Hellwig


22 Dennis Peckman


23 Marvin Hampton

Kansas Electric Power Cooperative, Inc.
Balance Sheets December 31, 1995 and 1994

ASSETS	1995	1994
UTILITY PLANT:		
Electric plant in service	$201,952,238	$202,715,378
Less allowances for depreciation	29,902,719	27,346,781
Net utility plant	172,049,519	175,368,597
Construction work in process	968,568	686,013
Nuclear fuel, less accumulated amortization of $11,375,624 and $9,453,697 at December 31, 1995 and 1994, respectively	6,597,379	5,091,847
Total utility plant	179,615,466	181,146,457
RESTRICTED ASSETS:		
Investments in associated organizations	2,756,311	2,763,977
Bond fund reserve	3,930,341	3,928,086
Decommissioning fund assets	2,452,805	2,047,869
Total restricted assets	9,139,457	8,739,932
CURRENT ASSETS:		
Cash and cash equivalents	11,219,395	9,803,038
Short-term investments	3,816,550	1,018,451
Accounts receivable from members	6,084,087	5,798,921
Materials and supplies inventory	2,211,039	2,178,960
Other assets and prepaid expenses	556,672	589,621
Total current assets	23,887,743	19,388,991
OTHER LONG-TERM ASSETS:		
Deferred charges, less accumulated amortization of $5,134,914 and $4,368,744 at December 31, 1995 and 1994, respectively	23,661,120	24,455,349
Deferred incremental outage costs	328,712	1,681,644
Unamortized debt issue costs	4,106,353	2,023,720
Wolf Creek Nuclear Operating Corp. investments, at cost	2,392,102	1,997,168
Other investments	1,454,740	
Total other long-term assets	31,943,027	30,157,881
TOTAL ASSETS	$244,585,693	$239,433,261

See notes to financial statements.

Kansas Electric Power Cooperative, Inc.
Balance Sheets December 31,1995 and 1994

CAPITALIZATION AND LIABILITIES	1995	1994
CAPITALIZATION:		
Patronage capital (deficit):		
Memberships	$ 2,900	$ 2,900
Unrealized gain on investments	230,670	
Patronage capital-allocated (deficit-unallocated)	4,459,628	(1,433,125)
Total patronage capital (deficit)	4,693,198	(1,430,225)
Long-term debt, less current portion:		
Federal Financing Bank	122,535,773	124,130,436
Cooperative Finance Corporation	58,391,787	59,287,978
Pollution Control Revenue Bonds	39,100,000	39,900,000
Total long-term debt	220,027,560	223,318,414
Total capitalization	224,720,758	221,888,189
LIABILITIES:		
Current liabilities:		
Accounts payable	4,246,658	3,931,834
Payroll and payroll related liabilities	60,391	68,896
Accrued property taxes	1,548,159	1,569,274
Accrued interest payable	2,695,632	3,084,302
Arbitrage rebate payable	719,300	631,161
Current portion of long-term debt	5,395,677	3,790,930
Total current liabilities	14,665,817	13,076,397
Other liabilities:		
Decommissioning liability	2,425,805	2,047,869
Wolf Creek Nuclear Operating Corp. liabilities	2,746,313	2,420,806
Total other liabilities	5,199,118	4,468,675
COMMITMENTS AND CONTINGENCIES		
TOTAL CAPITALIZATION AND LIABILITIES	$244,585,693	$239,433,261

See notes to financial statements.

Kansas Electric Power Cooperative, Inc.
Statements of Operations and Changes in Patronage Capital (Deficit) Years Ended December 31, 1995 and 1994

	1995	1994
OPERATING REVENUE:		
Member	$72,398,625	$71,519,705
Nonmember	577,581	565,938
Total operating revenue	72,976,206	72,085,643
OPERATING EXPENSES:		
Power purchased	31,003,099	31,853,553
Nuclear fuel	2,561,645	2,019,375
Nuclear plant operations	3,279,955	3,426,665
Nuclear plant maintenance	1,816,390	1,777,780
Nuclear plant administrative and general	5,321,997	5,450,718
Administrative and general	2,420,522	2,371,668
Amortization of deferred charges	766,170	709,831
Depreciation	4,223,012	3,878,270
Total operating expenses	51,392,790	51,487,860
Operating margin	21,583,416	20,597,783
INTEREST AND OTHER NONOPERATING INCOME	1,227,684	792,072
Income before interest expense	22,811,100	21,389,855
INTEREST EXPENSE ON LONG-TERM DEBT	16,918,347	16,875,773
Net margin	5,892,753	4,514,082
PATRONAGE CAPITAL (DEFICIT-UNALLOCATED), BEGINNING OF YEAR	(1,433,125)	(5,947,207)
PATRONAGE CAPITAL-ALLOCATED (DEFICIT-UNALLOCATED), END OF YEAR	$4,459,628	$(1,433,125)

See notes to financial statements.

Kansas Electric Power Cooperative, Inc.
Statement of Cash Flows Years Ended December 31,1995 and 1994

	1995	1994
CASH FLOWS FROM OPERATIONS:		
Cash received from member sales	$ 72,315,163	$ 71,824,160
Cash received from nonmember sales	617,383	597,638
Cash paid for purchased power	(30,321,711)	(32,110,186)
Cash paid for Wolf Creek operations	(6,745,283)	(8,836,919)
Cash paid for KEPCo operations	(2,363,555)	(2,318,719)
Interest paid	(17,202,258)	(16,899,177)
Property taxes paid	(3,131,294)	(2,991,557)
Interest received	1,253,101	962,008
Cash paid to decommissioning trust	(266,330)	(266,336)
Miscellaneous cash received		214,956
Net cash from operations	14,155,216	10,175,868
CASH FLOWS FROM INVESTING ACTIVITIES:		
Nuclear fuel purchases	(3,427,459)	(2,545,968)
Plant additions	(1,187,072)	(1,698,981)
Wolf Creek Nuclear Operating Corp. investments	(236,324)	(222,005)
Purchases of short-term investments	(2,567,429)	(1,018,451)
Purchases of other investments	(1,454,740)	
Increase (decrease) in investments in associated organizations	7,666	(92,509)
Net cash used by investing activities	(8,865,358)	(5,577,914)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(3,820,150)	(3,596,862)
Penalties paid for repricing long-term debt	(2,187,394)	(966,034)
Financed penalties for repricing long-term debt	2,134,043	
Net cash used by financing activities	(3,873,501)	(4,562,896)
INCREASE IN CASH AND CASH EQUIVALENTS	1,416,357	35,058
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,803,038	9,767,980
CASH AND CASH EQUIVALENTS, END OF YEAR	**$11,219,395**	**$9,803,038**

(Continued)

Kansas Electric Power Cooperative, Inc.
Statement of Cash Flows Years Ended December 31,1995 and 1994

	1995	1994
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net margin	$ 5,892,753	$ 4,514,082
Adjustments to reconcile net margin to net cash from operating activities:		
Depreciation	4,223,012	3,878,270
Amortization of nuclear fuel	1,921,927	1,453,045
Amortization of deferred charges	766,170	709,831
Amortization of deferred incremental outage costs	1,352,932	1,383,604
Amortization of bond issue costs	104,761	105,114
Accretion of discount/amortization of premium	(2,255)	(2,255)
Loss on sales of assets	583	15,760
Decrease in restricted cash and cash equivalents		214,956
(Increase) in Wolf Creek Nuclear Operating Corp. investments	(158,610)	(147,309)
(Increase) in decommissioning fund assets	(404,936)	(333,604)
Increase in decommissioning liability	404,936	333,604
(Increase) decrease in deferred charges	28,059	(21,387)
(Increase) in deferred incremental outage expense		(2,045,580)
Increase in arbitrage payable	88,139	184,923
Increase in Wolf Creek Nuclear Operating Corp. liabilities	325,507	278,719
Net change in current assets and liabilities:		
Accounts receivable from members	(285,166)	51,811
Materials and supplies inventory	(32,079)	(23,241)
Other assets and prepaid expenses	32,949	(114,579)
Accounts payable	314,824	(310,733)
Payroll and payroll related liabilities	(8,505)	5,372
Accrued property taxes	(21,115)	173,984
Accrued interest payable	(388,670)	(128,519)
Total adjustments	**8,262,463**	**5,661,786**
Total cash from operations	**$14,155,216**	**$10,175,868**

See notes to financial statements.

(Concluded)

Notes to Financial Statements

1. NATURE OF OPERATIONS

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 23 distribution rural electric cooperative members pursuant to all requirements power supply contracts. KEPCo is governed by a Board of Trustees representing each of its 23 members, which collectively serve more than 95,000 electric customers in two-thirds of rural Kansas. KEPCo is under the jurisdiction of the Kansas Corporation Commission (KCC) and was granted a limited certificate of convenience and authority in 1980 to act as a G&T public utility.

2. DEPARTURES FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Effective February 1, 1987, the KCC issued an order to KEPCo requiring the use of present worth (sinking fund) depreciation and amortization. As more fully described in Notes 4 and 8, such depreciation and amortization practices constitute phase-in plans which do not meet the requirements of Statement of Financial Accounting Standards (SFAS) No. 92, *Accounting for Phase-In Plans*. The effect of these departures on the financial statements is as follows:

Overstated (Understated)	1995	1994
Net utility plant	$35,948,946	$32,971,498
Deferred charges	4,831,201	4,413,315
Patronage capital	(40,780,147)	(37,384,813)
Net margin	(3,395,334)	(3,950,186)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

System of Accounts - KEPCo maintains its accounting records substantially in accordance with the Rural Utilities Service (RUS) Uniform System of Accounts and in accordance with accounting practices prescribed by the KCC.

Utility Plant and Depreciation - Utility plant is stated at cost. The costs of repairs and minor replacements are charged to operating expense as appropriate. Costs of renewals and betterments are capitalized. The original cost of utility plant retired and the cost of removal, less salvage, are charged to accumulated depreciation. Through January 31, 1987, the provision for depreciation for electric plant in service was computed on the straight-line method at a 3.44% annual composite rate. Effective February 1, 1987, in accordance with an order issued by the KCC, the provision for depreciation is computed on a present worth (sinking fund) method which provides for increasing annual provisions over 27.736 years. The composite rates for the years ended December 31, 1995 and 1994 were 2.2% and 2.03%, respectively. Pursuant to a KCC rate order dated March 27, 1992, beginning January 1, 1992, all additions, betterments and improvements are depreciated over the remaining life of the plant. The provision for depreciation, computed on a straight-line basis, of other components of utility plant are as follows:

Transportation and equipment	25 to 33%
Office furniture and fixtures	10 to 20%
Leasehold improvements	20%
Transmission equipment	10%

Nuclear Fuel - The cost of nuclear fuel in process of refinement, conversion, enrichment and fabrication is recorded as an asset at original cost and is amortized to nuclear fuel expense based upon the quantity of heat produced for the generation of electric power. The permanent disposal of spent fuel is the responsibility of the Department of Energy (DOE). KEPCo pays one mill per net kWh of nuclear generation to the DOE for the future disposal service. These disposal costs are charged to nuclear fuel expense.

Investments in Associated Organizations - Investments in associated organizations are carried at cost and consist principally of patronage capital certificates, capital term certificates and subordinated term certificates of the National Rural Utilities Cooperative Finance Corp. (CFC).

Cash Equivalents - All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents and are stated at cost which approximates market.

Short-Term and Other Investments - Investments in equity securities are classified as available-for-sale in accordance with SFAS No. 115, based on KEPCo's intended use of such securities. Equity securities are carried at fair value based on quoted market prices for those or similar securities, with the unrealized gain/loss included as a separate component of capitalization. Investments in debt securities are classified as held-to-maturity in accordance with SFAS No. 115, based on KEPCo's positive intent to hold such securities to maturity and its ability to do so. Debt securities are carried at amortized cost. In the balance sheet, investments with an original maturity greater than three months and a remaining maturity less than one year are presented as current assets, and investments with a remaining maturity greater than one year are presented as long-term other investments.

Materials and Supplies Inventory - Materials and supplies inventory for the Wolf Creek Generating Station (Wolf Creek) is stated at cost determined by the average cost method.

Unamortized Debt Issue Costs - Unamortized debt issue costs related to the issuance of the floating/fixed rate pollution control revenue bonds, mortgage notes payable to the CFC and fees for repricing debt are being amortized using the interest method over the remaining life of the bonds.

Decommissioning Fund Assets/Decommissioning Liability - As of December 31, 1995 and 1994, $2,425,805 and $2,047,869, respectively, has been collected and is being retained in an interest-bearing trust fund to be used for the physical decommissioning of Wolf Creek. The decommissioning funds have been invested by the trustee primarily in U.S. government and agency obligations and Homestead mutual funds, which are carried at cost. During 1989, the KCC extended the estimated useful life of Wolf Creek to 40 years from the original estimate of 30 years only for the determination of decommissioning costs. Additionally, on October 14, 1994, the KCC approved a 1993 Wolf Creek Decommissioning Cost Study which increased the estimate of total decommissioning costs to $370 million in 1993 dollars. KEPCo is responsible for a 6% share of the decommissioning costs for Wolf Creek. Management expects such increases in cost to be recovered through the ratemaking process. KEPCo's current provision for decommissioning is being recovered and charged to operations over the life of the plant.

KEPCo's provision for decommissioning totaled $266,336 in 1995 and 1994, respectively.

Cash Surrender Value of Life Insurance Contracts - The following amounts related to Wolf Creek Nuclear Operating Corporation (WCNOC) corporate-owned life insurance contracts, primarily with one highly-rated major insurance company, are recorded on the balance sheets in WCNOC investments:

	1995	1994
Cash surrender value of contracts	$ 1,732,363	$ 1,503,641
Borrowings against contracts	358,587	358,587
Net	$1,373,776	$1,145,054

Income Taxes - As a tax-exempt cooperative, KEPCo is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code of 1986, as amended. It is management's opinion that KEPCo has met the requirements of this section and will continue to do so for the foreseeable future. Accordingly, provisions for income taxes have not been reflected in the accompanying financial statements.

Rates - The KCC has authority to establish KEPCo's electric rates to meet the times interest earned ratio and debt service coverage set forth by the RUS.

KEPCo believes it is probable that future rates, as established by the KCC, will allow the recovery of deferred charges (see Note 8). If subsequent recovery is not permitted, the unrecovered deferred balances would be charged to expense at that time.

Revenues - Revenues from the sale of electricity are recorded based on billings to customers and on contracts and scheduled power usages, as appropriate.

Reclassifications - KEPCo has reclassified the presentation of certain prior year information to conform with the current presentation.

4. WOLF CREEK GENERATING STATION

KEPCo owns 6% of Wolf Creek near Burlington, Kansas. The remainder is owned by the Kansas City Power & Light Company (KCPL - 47%) and Kansas Gas & Electric Company (KGE - 47%). KGE is a wholly owned subsidiary of Western Resources, Inc. Substantially all of KEPCo's utility plant consists of its share of Wolf Creek. KEPCo is entitled to a proportionate share of the capacity and energy from Wolf Creek which is used to supply a portion of KEPCo's members' requirements. KEPCo is billed for 6% of the operations, maintenance, administrative and general costs and cost of plant additions related to Wolf Creek. All operations are accounted for in the same manner as would be a wholly owned facility.

The KCC declared Wolf Creek commercially operable on Sept. 3, 1985. KEPCo's total investment includes interest and administrative costs during construction.

Effective February 1, 1987, the KCC issued an order to KEPCo to utilize a present worth (sinking fund) depreciation method which does not conform with generally accepted accounting principles and which constitutes a phase-in plan which does not meet the requirements of SFAS No. 92. If depreciation on electric plant in service was calculated using a method in accordance with generally accepted accounting principles, depreciation expense would be increased and KEPCo's operating margin would be decreased by $2,977,448 and $3,494,143 for the years ended December 31, 1995 and 1994, respectively. In addition, net utility plant would be decreased and patronage capital would be decreased by $35,948,946 and $32,971,498 as of December 31, 1995 and 1994, respectively.

5. SHORT-TERM AND OTHER INVESTMENTS

Short-term and other investments consist of the following as of December 31, 1995:

	1995		1994	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Short-term investments:				
Available-for-sale - Homestead mutual funds	$1,082,099	$1,312,769	$1,018,451	$1,018,451
Held-to-maturity - U.S. government agency securities	2,503,781	2,503,781		
	3,585,880	3,816,550	1,018,451	1,018,451
Other investments - Held-to-maturity - U.S. governement agency securities	1,454,740	1,454,740		
	$5,040,620	$5,271,290	$1,018,451	$1,018,451

Included in capitalization is $230,670 of unrealized gains on available-for-sale equity securities as of December 31, 1995. The amortized cost of available-for-sale equity securities approximated fair value as of December 31, 1994.

The contractual maturities of debt securities classified as held-to-maturity as of December 31, 1995 are as follows:

	Amortized Cost	**Fair Value**
Due within one year	$2,503,781	$2,503,781
Due after one year through five years		
Due after five years through ten years	500,000	500,000
Due after ten years	954,740	954,740
	$3,958,521	$3,958,521

6. BOND FUND RESERVE

KEPCo has entered into a bond covenant whereby the Cooperative is required to maintain, with a trustee, a Bond Fund Reserve of a stipulated amount of approximately $3.9 million, sufficient to satisfy certain future interest and principal obligations. The amount held in the Bond Fund Reserve is invested by the trustee in tax-exempt municipal securities, pursuant to the restrictions of the indenture agreement, which are carried at cost.

7. INVESTMENTS IN ASSOCIATED ORGANIZATIONS

At December 31, 1995 and 1994, investments in associated organizations consisted of the following:

	1995	**1994**
CFC:		
Membership	$ 1,000	$ 1,000
Capital term certificates	395,970	395,970
Subordinated term certificates	2,205,000	2,205,000
Patronage capital certificates	38,652	47,746
Other	115,689	114,261
	$2,756,311	$2,763,977

8. DEFERRED CHARGES

Disallowed Costs - Effective October 1, 1985, the KCC issued a rate order relating to KEPCo's investment in Wolf Creek which disallowed approximately $26.0 million of KEPCo's investment in Wolf Creek (approximately $22.5 million net of accumulated amortization as of December 31, 1995). A subsequent rate order, effective February 1, 1987, allows KEPCo to recover these disallowed costs and other costs related to the disallowed portion for the period from September 3, 1985 through January 31, 1987, over a 27.736 year period starting February 1, 1987. KEPCo is using present worth (sinking fund) amortization to recover the disallowed costs which enables it to meet the times interest earned ratio and debt service requirements in the KCC rate order dated January 30, 1987. The method used by KEPCo constitutes a phase-in plan which does not meet the requirements of SFAS No. 92. If amortization to recover the disallowed costs was calculated using a method in accordance with generally accepted accounting principles, amortization of deferred charges would be increased and KEPCo's operating margin would be decreased by $417,886 and $456,043 for the years ended December 31, 1995 and 1994, respectively. In addition, deferred charges would be decreased and patronage capital would be decreased by $4,831,201 and $4,413,315 as of December 31, 1995 and 1994, respectively.

Revenue and Expenses for the Period from September 3, 1985 through September 30, 1985 - Although Wolf Creek began commercial operations on September 3, 1985, the KCC ordered KEPCo to accumulate all revenues and expenses related to the operation of Wolf Creek for the period from September 3, 1985 through September 30, 1985 in deferred charges. The KCC issued an order on February 1, 1987 which allowed KEPCo to recover these costs over a ten year period. Annual amortization of such costs increases over the recovery period.

Decommissioning and Decontamination Assessments - The Energy Policy Act of 1992 established a fund to pay for the decontamination and decommissioning of nuclear enrichment facilities operated by the DOE. A portion of this fund not to exceed $2.25 billion is to be collected from utilities that have purchased enrichment services from the DOE. This portion is limited to no more than $150 million each year and will be in the form of annual assessments that will not be imposed for more than 15 years. KEPCo has also recorded its portion of this liability which is being paid over 15 years. KEPCo has also recorded a related deferred asset which is being amortized to nuclear fuel expense over the 15 year assessment period. Management expects to include these assessments in its next rate case to be filed with the KCC and believes it is reasonable to expect approval for recovery of these assessments.

Deferred Incremental Outage Costs - On April 9, 1991, the KCC issued an order that allowed KEPCo to defer its 6% share of the incremental maintenance and replacement power costs associated with refueling of Wolf Creek. Such costs are deferred during each outage and are being amortized over the operating cycle coincident with the recognition of the related revenues.

9. LONG-TERM DEBT

Long-term debt consists of mortgage notes payable to the United States of America acting through the Federal Financing Bank (FFB), the CFC and others. Substantially all of KEPCo's assets are pledged as collateral. The terms of the notes as of December 31 are as follows:

	1995	1994
Mortgage notes payable to the FFB at rates varying from 5.261% to 9.206%, payable in quarterly installments through 2018.	$126,235,259	$126,482,510
Mortgage notes payable to the CFC at a rate of 10.028% through December 1997 and 9.83% thereafter, payable semi-annually, principal payments commencing in 2003 and continuing annually through 2017.	51,340,000	51,340,000
Mortgage notes payable to the CFC at a rate of 9.5274% through December 1997 and 9.33% thereafter, payable semi-annually, principal payments commencing in 1989 and continuing annually through 2002.	7,947,978	8,786,834
Floating/fixed rate pollution control revenue bonds, City of Burlington, Kansas, Pooled Series 1985C, variable interest rate (3.75% at December 31, 1995) payable annually through 2015.	39,900,000	40,500,000
	225,423,237	227,109,344
Less current portion	5,395,677	3,790,930
	$220,027,560	**$223,318,414**

Aggregate maturities of mortgage notes payable to FFB and CFC and floating/fixed rate pollution control revenue bonds as of December 31, 1995 after the repricing of certain FFB mortgage notes payable as discussed below, are as follows:

Year	Amount
1996	$ 5,395,677
1997	4,857,236
1998	5,056,418
1999	5,571,812
2000	5,904,928
Thereafter	198,637,166
	$225,423,237

At December 31, 1995, KEPCo has FFB approved loans guaranteed by RUS with balances of $126,235,259. Of this amount, $4,574,759 currently has a maturity date of March 31, 1996. Upon maturity of each short-term advance, KEPCo may renew the advance for another two year period or elect to extend the maturity date on a long-term basis. The above schedule of long-term debt maturities assumes that the $4,574,759, which matures on March 31, 1996, will be extended based on the above options.

In addition, restrictive covenants require KEPCo to design rates that would enable it to maintain a times interest earned ratio and debt service coverage of at least one-to-one in at least two out of every three years and prohibits distributions of net patronage capital or margins until, after giving effect to any such distribution, total patronage capital equals or exceeds 20% of total assets.

On November 22, 1995, KEPCo repriced $20.4 million of mortgage notes payable to FFB. The new interest rates vary from 5.831% to 5.899% compared to the old rates of 7.581% to 7.705% and are projected to save KEPCo $2.5 million over the life of the notes.

On January 19, 1996, KEPCo repriced $11.5 million of mortgage notes payable to the Federal Financing Bank. The new interest rates vary from 5.501% to 5.507% compared to the old rates of 7.520% to 7.674% and is projected to save KEPCo $2 million over the life of the notes.

10. SHORT-TERM BORROWINGS

KEPCo has available a $12 million line of credit with the CFC which remained unused as of December 31, 1995.

11. OPERATING LEASE

KEPCo leases office space and equipment under noncancellable operating leases. The office space minimum lease payments can be increased to the extent that taxes and insurance paid by the lessor exceed 1987 levels.

Future minimum lease payments at December 31, 1995 are as follows:

Year	Amount
1996	$ 96,628
1997	108,753
1998	108,753
1999	108,753
2000	1,217
	$424,104

The related rental expense for 1995 and 1994 was $93,718 and $83,895, respectively.

12. BENEFIT PLANS

National Rural Electric Cooperative Association (NRECA) Retirement and Security Program - KEPCo participates in the NRECA retirement and security program for its employees. All employees of members of NRECA are eligible to participate in the program. A moratorium on contributions was in effect for the period July 1, 1987 through December 31, 1993 due to reaching the full funding limitation. However, during 1994, the moratorium ended and KEPCo resumed its contributions. In the master multiemployer plan which is available to all members of NRECA, the accumulated benefits and plan assets are not determined or allocated by individual employee. KEPCo's pension expense, under this program, was $49,528 and $23,319 for the years ended December 31, 1995 and 1994, respectively.

Substantially all employees of KEPCo also participate in the NRECA Savings Plan 401(k) option. Under the plan, KEPCo contributes amounts not to exceed 3%, dependent on the employee's level of participation, of the respective employee's base pay to provide additional retirement benefits. KEPCo contributed approximately $30,892 and $31,497 to the plan in 1995 and 1994, respectively.

Wolf Creek Nuclear Operating Corporation Retirement Plan - KEPCo has an obligation to the WCNOC Retirement Plan for its 6% ownership interest in Wolf Creek. This plan provides for benefits upon retirement, normally at age 65. In accordance with the Employee Retirement Income Security Act of 1974 (ERISA), KEPCo has satisfied at least its minimum funding requirements. Benefits under this plan reflect the employee's compensation, years of service and age at retirement.

Provisions for pensions are determined under the rules prescribed by SFAS No. 87. The following sets forth KEPCo's share of the plan's actuarial present value and funded status as of November 30, 1995 and 1994 (the plan years) and a reconciliation of such status to the financial statements as of December 31:

	1995	1994
Accumulated benefit obligation:		
Vested	$ 939,288	$ 419,936
Nonvested	240,843	152,783
Total	**$1,180,131**	**$ 572,719**
Fair value of plan assets	$ 1,122,796	$ 778,781
Projected benefit obligation	2,173,576	1,230,407
Projected benefit obligation in excess of plan assets	(1,050,780)	(451,626)
Unamortized transition amount	116,121	123,379
Unrecognized net gain	(45,800)	(432,848)
Unrecognized prior service cost	48,273	51,392
Accrued pension liability	**$ 932,186**	**$ 709,703**

Plan assets are invested in insurance contracts, corporate bonds, equity securities, U.S. Government securities and short-term investments.

Actuarial assumptions:

	1995	1994
Discount rate	7.5%	8.5%
Annual salary increase rate	5.0%	5.0%
Long-term rate of return	8.5%	8.5%

KEPCo's share of the net periodic pension costs were as follows for the years ended December 31:

	1995	1994
Service cost	$147,914	$188,080
Interest cost on projected benefit obligation	124,630	115,402
Actual return on plan assets	(213,855)	56,637
Other	121,622	(107,636)
Total pension expense	**$180,311**	**$252,483**

13. COMMITMENTS AND CONTINGENCIES

Litigation - There is a provision in the Wolf Creek operating agreement whereby the owners treat certain claims and losses arising out of the operation of the Wolf Creek Generating Station as a cost to be born by the owners separately (but not jointly) in proportion to their ownership shares. Each of the owners has agreed to indemnify the others in such cases.

As is the case with other electric utilities, KEPCo, from time to time, is subject to various actions which occasionally include punitive damage claims. KEPCo maintains insurance providing liability coverage; however, the insurance companies generally reserve the right to challenge insurance coverage for punitive damage recoveries. In the opinion of the general counsel of KEPCo, there is not a significant probability that, as a result of pending or threatened personal injury actions, KEPCo will be liable for payment of actual or punitive damages in an amount material to the financial position of KEPCo.

Nuclear Liability and Insurance - The Price-Anderson Act and its amendments currently limit the public liability, including attorney costs, of nuclear reactor owners for claims that could arise from a nuclear incident to $8.92 billion. If this liability limitation is insufficient, Congress will take whatever action is necessary to compensate the public for valid claims. The Wolf Creek owners (Owners) have liability insurance coverage of this amount which consists of the maximum available private insurance of $200 million and the balance is provided by an assessment plan mandated by the Nuclear Regulatory Commission (NRC). Under this plan, the Owners are jointly and severally subject to a retrospective assessment of up to $79.28 million ($4.76 million - KEPCo's share), in the event there is a nuclear incident involving any of the nation's licensed reactors. This assessment is subject to an inflation adjustment based on the Consumer Price Index and applicable premium taxes. There is a limitation of $10 million ($600,000 - KEPCo's share) in retrospective assessments per incident per year.

The owners of Wolf Creek also have decontamination liability, premature decommissioning liability and property damage insurance for loss resulting from damage to the Wolf Creek facilities in the amount of $2.75 billion ($165 million - KEPCo's share). This insurance is provided by a combination of "nuclear insurance pools" which provide $.5 billion of coverage and Nuclear Electric Insurance Limited (NEIL) which provides $2.25 billion. In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. The remaining proceeds, if any, can be used for property damage or premature decommissioning costs up to $1.3 billion ($78 million - KEPCo's share).

The owners of Wolf Creek also carry additional insurance with NEIL to cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If losses incurred at any of the nuclear plants insured under the NEIL policies exceed premiums, reserves and other NEIL resources, KEPCo may be subject to retrospective assessments under the current policies of approximately $1.3 million.

Although KEPCo maintains various insurance policies to provide coverage for potential losses and liabilities resulting from an accident or an extended outage, KEPCo's insurance coverage may not be adequate to cover the costs that could result from a catastrophic accident or extended outage at Wolf Creek. Any substantial losses not covered by insurance, to the extent not recoverable through rates, could have a material adverse effect on KEPCo's financial position and results of operations.

Decommissioning - KEPCo carries premature decommissioning insurance which has several restrictions. One of these is that it can only be used if Wolf Creek incurs an accident exceeding $500 million in expenses to safely stabilize the reactor, to decontaminate the reactor and reactor station site in accordance with a plan approved by the NRC, and to pay for on-site property damages. This decommissioning insurance will only be available if the insurance funds are not needed to implement the NRC-approved plan for stabilization and decontamination.

Nuclear Fuel Commitments - At December 31, 1995, Wolf Creek's nuclear fuel commitments (KEPCo's share) were approximately $2.0 million for uranium concentrates through 2001, $15.4 million for enrichment through 2014 and $9.3 million for fabrication through 2025.

RUS Development - KEPCo has received notification from the RUS that, because KEPCo's financial statements are not in conformance with generally accepted accounting principles, as discussed in Note 2, the RUS will evaluate all requests for action on the basis of financial information prepared as if the straight-line method of depreciation and amortization had been used.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value as set forth in SFAS No. 107:

Cash and Cash Equivalents - The carrying amount approximates the fair value because of the short-term maturity of those investments.

Short-Term and Other Investments, Decommissioning Trust, Investments in Associated Organizations and Bond Fund Reserve - The fair value of these assets is based on quoted market prices as of December 31, 1995.

Variable-Rate Debt - The carrying amount approximates the fair value because of the short-term variable rates of those debt instruments.

Fixed-Rate Debt - The fair value of the fixed-rate debt is based on the sum of the estimated value of each issue, taking into consideration the current rates offered to KEPCo for debt of the same remaining maturities.

The estimated fair values of the Company's financial instruments are as follows:

	December 31, 1995	
	Carrying Value	Fair Value
Cash and cash equivalents	$ 11,219,395	$ 11,219,395
Short-term investments	3,816,550	3,816,550
Other investments	1,454,740	1,463,652
Investments in associated organizations (including restricted assets)	2,756,311	3,458,317
Bond fund reserve	3,930,341	4,302,664
Decommisisioning trust	2,452,805	2,357,919
Variable-rate debt	39,500,000	39,900,000
Fixed-rate debt	185,523,237	209,575,762

15. PATRONAGE CAPITAL

In accordance with KEPCo's by-laws, KEPCo's current margins are to be allocated to members. Upon affirmative vote of the membership, current margins may be used to offset prior years' losses. Of KEPCo's 1995 margin of $5,892,753, an amount of $1,433,125 was used to offset prior years' losses. The remaining $4,459,628 was allocated to members based on revenues collected from members as a percentage of total member revenues. If KEPCo's financial statements were adjusted to eliminate the exception to generally accepted accounting principles, then total patronage capital would have been a deficit. This would result in no allocation to members.

KEPCo

Deloitte & Touche LLP

Independent Auditors' Report

Board of Trustees Kansas Electric Power Cooperative, Inc.

We have audited the accompanying balance sheets of Kansas Electric Power Cooperative, Inc. as of December 31, 1995 and 1994, and the related statements of operations and changes in patronage capital (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 2 to the financial statements, certain depreciation and amortization methods have been used in the preparation of the financial statements which do not, in our opinion, conform to generally accepted accounting principles.

In our opinion, except for the effects on the financial statements of the matters referred to in the preceding paragraph, such financial statements present fairly, in all material respects, the financial position of Kansas Electric Power Cooperative, Inc. as of December 31, 1995 and 1994 and the results of its operations and changes in its patronage capital (deficit) and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 25, 1996 on our consideration of Kansas Electric Power Cooperative, Inc.'s internal control structure and a report dated January 25, 1996 on its compliance with laws and regulations.

Deloitte & Touche LLP

January 25, 1996

KEPCo

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