ARTHUR ANDERSEN

Kansas Electric Power Cooperative, Inc.

Financial Statements
As of December 31, 1999 and 1998
Together With Auditors' Report

ARTHUR ANDERSEN

Report of Independent Public Accountants

To the Board of Trustees of
Kansas Electric Power Cooperative, Inc.:

We have audited the accompanying balance sheets of Kansas Electric Power Cooperative, Inc., as of December 31, 1999 and 1998, and the related statements of revenues and expenses, cash flows, changes in patronage capital, and comprehensive income for the years then ended. These financial statements are the responsibility of KEPCo's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 4 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 accounting principles generally accepted in the United States.

In our opinion, except for the effects on the financial statements of the matters referred to in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of KEPCo as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with **Government Auditing Standards**, we have also issued a report dated February 29, 2000, on our consideration of KEPCo's internal control structure and a report dated February 29, 2000, on its compliance with laws and regulations.

Arthur Andersen LLP

Kansas City, Missouri,
February 29, 2000

ARTHUR ANDERSEN

Report of Independent Public Accountants on Compliance With Applicable Laws and Regulations

To the Board of Trustees of
Kansas Electric Power Cooperative, Inc.:

We have audited the financial statements of Kansas Electric Power Cooperative, Inc., as of and for the years ended December 31, 1999 and 1998, and have issued our report thereon dated February 29, 2000.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations and contracts applicable to KEPCo is the responsibility of KEPCo's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of KEPCo's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audits of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under **Government Auditing Standards**.

This report is intended solely for the information of the board of trustees, management, the Rural Utilities Service (RUS), and supplemental lenders. However, upon receipt by the RUS, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

Kansas City, Missouri,
February 29, 2000

ARTHUR ANDERSEN

Report of Independent Public Accountants on Internal Control Structure

To the Board of Trustees of
Kansas Electric Power Cooperative, Inc.:

We have audited the financial statements of Kansas Electric Power Cooperative, Inc., as of and for the years ended December 31, 1999 and 1998, and have issued our report thereon dated February 29, 2000.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of KEPCo is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audits of the financial statements of KEPCo for the years ended December 31, 1999 and 1998, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information of the board of trustees, management, the Rural Utilities Service (RUS), and supplemental lenders. However, upon receipt by the RUS, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

Kansas City, Missouri,
February 29, 2000

Kansas Electric Power Cooperatives, Inc.

Balance Sheets
December 31, 1999 and 1998

ASSETS

	1999	1998
UTILITY PLANT:		
In-service	$ 203,289,044	$ 203,392,429
Less- Allowances for depreciation	(46,455,267)	(42,345,132)
	156,833,777	161,047,297
Construction work in progress	2,901,221	761,307
Nuclear fuel, net of amortization	3,456,267	4,857,027
	163,191,265	166,665,631
RESTRICTED ASSETS:		
Investments in the National Rural Utilities Cooperative Finance Corporation	2,604,133	2,613,261
Bond fund reserve	4,113,090	4,088,788
Decommissioning fund	4,047,262	3,927,828
Investments in associated organizations	121,748	122,049
	10,886,233	10,751,926
CURRENT ASSETS:		
Cash and cash equivalents	4,893,273	5,548,140
Short-term investments	-	3,426,212
Member accounts receivable	5,720,143	5,336,610
Materials and supplies, at average cost	2,195,483	2,196,896
Other assets and prepaid expenses	618,028	541,327
	13,426,927	17,049,185
OTHER LONG-TERM ASSETS:		
Deferred charges-		
Wolf Creek disallowed costs (less accumulated amortization of $5,954,226 and $5,339,056 for 1999 and 1998, respectively)	20,028,694	20,643,864
Deferred Department of Energy decommissioning costs	632,686	698,508
Deferred incremental outage costs	994,700	532,814
Other deferred charges (less accumulated amortization of $378,085 and $190,704 for 1999 and 1998, respectively)	2,119,606	2,306,987
Unamortized debt issue costs	4,744,081	5,170,695
Wolf Creek nuclear operating investments	3,315,757	3,602,367
Other investments	8,889,514	9,309,848
	40,725,038	42,265,083
	$ 228,229,463	$ 236,731,825

(continued)

Kansas Electric Power Cooperatives, Inc.

Balance Sheets
December 31, 1999 and 1998
(continued)

PATRONAGE CAPITAL AND LIABILITIES

	1999	1998
PATRONAGE CAPITAL:		
Memberships	$ 3,100	$ 3,000
Patronage capital (payment restricted as indicated)	11,801,741	10,759,339
	11,804,841	10,762,339
UNREALIZED GAIN IN MARKET VALUE OF INVESTMENTS	-	962,577
LONG-TERM DEBT:		
Federal Financing Bank	110,055,271	114,667,212
Cooperative Finance Corporation	55,290,000	56,390,000
Pollution control revenue bonds	36,500,000	37,500,000
	201,845,271	208,557,212
Less- Current maturities of long-term debt	(5,761,378)	(6,774,705)
	196,083,893	201,782,507
OTHER LONG-TERM LIABILITIES:		
Deferred Department of Energy decommissioning costs	571,458	638,636
Wolf Creek decommissioning liability	4,047,262	3,927,828
Wolf Creek nuclear operating liabilities	1,679,888	2,310,841
Arbitrage rebate long-term liability	-	563,483
	6,298,608	7,440,788
CURRENT LIABILITIES:		
Current maturities of long-term debt	5,761,378	6,774,705
Arbitrage rebate short-term liability	707,280	-
Accounts payable	5,446,055	5,783,509
Payroll and payroll related liabilities	202,637	155,984
Accrued property taxes	1,155,946	1,165,509
Accrued interest payable	768,825	499,264
Patronage capital distributions payable	-	1,404,643
	14,042,121	15,783,614
	$ 228,229,463	$ 236,731,825

The accompanying notes are an integral part of these balance sheets.

Kansas Electric Power Cooperatives, Inc.

Statements of Revenues and Expenses
For the Years Ended December 31, 1999 and 1998

	1999	1998
OPERATING REVENUES:		
Sales of electric energy	$ 70,857,545	$ 75,949,647
Other	565,544	665,188
	71,423,089	76,614,835
OPERATING EXPENSES:		
Power purchased	35,830,779	36,028,125
Nuclear fuel	2,480,452	2,908,466
Nuclear plant operations	6,385,792	6,242,869
Nuclear plant maintenance	2,260,278	2,491,909
Nuclear plant administrative and general	1,166,444	1,467,153
Administrative and general	4,076,890	3,594,895
Amortization of deferred charges	802,551	843,240
Depreciation and decommissioning	5,543,593	5,301,023
	58,546,779	58,877,680
Net operating revenues	12,876,310	17,737,155
INTEREST AND OTHER DEDUCTIONS:		
Interest on long-term debt	13,563,764	14,050,051
Amortization of debt issue costs	421,614	431,536
Other interest expense	68,533	154,294
	14,053,911	14,635,881
Net operating (loss) margin	(1,177,601)	3,101,274
OTHER INCOME AND EXPENSE:		
Interest income	1,308,203	1,585,473
Gain on sale of Homestead funds	833,877	-
Other income, net	77,923	45,347
	2,220,003	1,630,820
Net margin	$ 1,042,402	$ 4,732,094

The accompanying notes are an integral part of these financial statements.

Kansas Electric Power Cooperatives, Inc.

Statements of Cash Flows
For the Years Ended December 31, 1999 and 1998

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	$ 1,042,402	$ 4,732,094
Adjustments to reconcile net margin to net cash provided by operations-		
Depreciation and amortization	5,330,137	5,087,567
Amortization of nuclear fuel	1,882,179	2,250,364
Amortization of deferred charges	868,373	910,682
Amortization of deferred incremental outage costs	1,527,515	2,128,906
Gain on sale of Homestead funds	(833,877)	-
Payment to Department of Energy for decommissioning	(67,178)	(135,837)
Increase in deferred incremental outage costs	(1,989,401)	-
Increase in decommissioning liability	119,434	460,473
Increase in arbitrage rebate payable	143,797	133,981
Change in other long-term liabilities	(57,879)	118,545
Changes in current assets and liabilities-		
Member accounts receivable	(383,533)	930,290
Materials and supplies inventory	1,413	(33,787)
Other assets and prepaid expenses	(76,701)	82,046
Accounts payable	(337,454)	(586,685)
Payroll and payroll-related liabilities	46,653	59,592
Accrued property taxes	(9,563)	(123,906)
Accrued interest payable	269,561	193,536
Net cash provided by operating activities	7,475,878	16,207,861
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to electric plant, net	(3,256,531)	(1,233,398)
Additions to nuclear fuel	(481,419)	(2,187,250)
Wolf Creek nuclear operating investment	(286,464)	(395,741)
Increase in decommissioning fund assets	(119,434)	(460,473)
Net change in unrealized gain in market value of investments	(128,700)	163,092
Cash received on sale of Homestead funds	2,011,772	-
Increase in other restricted investments	(14,873)	(1,819)
Sales (net purchases) of short-term investments	1,414,440	1,038,393
Sales (net purchases) of other investments	420,334	(2,321,304)
Net cash used in investing activities	(440,875)	(5,398,500)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(6,711,941)	(7,561,890)
Amortization of debt issue costs	426,614	422,536
Deferred patronage dividends paid	(1,404,643)	(2,591,872)
Membership fees received	100	-
Net cash used in financing activities	(7,689,870)	(9,731,226)
Net increase (decrease) in cash and cash equivalents	(654,867)	1,078,135
CASH AND CASH EQUIVALENTS AT:		
Beginning of year	5,548,140	4,470,005
End of year	$ 4,893,273	$ 5,548,140

The accompanying notes are an integral part of these financial statements.

Kansas Electric Power Cooperatives, Inc.

Statements of Changes in Patronage Capital
For the Years Ended December 31, 1999 and 1998

	Memberships	Patronage Capital	Total
BALANCE, December 31, 1997	$ 3,000	$ 7,431,888	$ 7,434,888
Unrealized gain in market value of investments	-	-	-
Net margin	-	4,732,094	4,732,094
Patronage capital distributions	-	(1,404,643)	(1,404,643)
BALANCE, December 31, 1998	3,000	10,759,339	10,762,339
Unrealized gain in market value of investments	-	-	-
Net margin	-	1,042,402	1,042,402
Membership fees received	100	-	100
Patronage capital distributions	-	-	-
BALANCE, December 31, 1999	$ 3,100	$11,801,741	$11,804,841

Kansas Electric Power Cooperatives, Inc.

Statements of Comprehensive Income
For the Years Ended December 31, 1999 and 1998

	1999	1998
NET MARGIN	$ 1,042,402	$ 4,732,094
CHANGE IN UNREALIZED GAIN IN MARKET VALUE OF INVESTMENTS	(128,700)	163,092
COMPREHENSIVE INCOME	$ 913,702	$ 4,895,186

The accompanying notes are an integral part of these 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 21 distribution rural electric cooperative members pursuant to all requirements of its power supply contracts. KEPCo is governed by a board of trustees representing each of its 21 members, which collectively serves more than 100,000 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. 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 cost of repairs and minor replacements are charged to operating expenses 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 an electric plant-in-service was computed on the straight-line method at a 3.44 percent 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. Pursuant to a KCC rate order dated December 30, 1998, the depreciable life was extended to reflect a full 30-year plant life. The composite rates for the years ended December 31, 1999 and 1998, were 2.62 percent and 2.50 percent, respectively. Pursuant to a KCC rate order dated March 27, 1992, all additions, betterments and improvements after January 1, 1992, are depreciated over the remaining life of the utility plant on a straight-line basis. The provision for depreciation computed on a straight-line basis for electric and other components of a utility plant is as follows:

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

Nuclear Fuel

The cost of nuclear fuel in process of refinement, conversion, enrichment and fabrication is recorded as utility plant asset at original cost and is amortized to nuclear fuel expenses 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.

Cash and 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 value.

Short-Term and Other Investments

Investments in equity securities are classified as available-for-sale in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities", 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 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 in debt securities 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 investments.

Materials and Supplies Inventory

Materials and supplies inventory for Wolf Creek Nuclear Generating Station (Wolf Creek) are stated at cost determined by the average cost method.

Unamortized Debt Issue Costs

Unamortized debt issue costs relate to the issuance of the floating/fixed rate pollution control revenue bonds, mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (CFC) and fees for repricing the Federal Financing Bank (FFB) debt. These costs are being amortized using the interest method over the remaining life of the bonds.

Decommissioning Fund Assets/Decommissioning Liability

As of December 31, 1999 and 1998, $4,047,262 and $3,927,828, 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 trustee invests the decommissioning funds primarily in U.S. government and agency obligations, which are carried at cost, and mutual funds, which are carried at estimated fair market value. During 1989, the KCC extended the estimated useful life of Wolf Creek to 40 years from the original estimates of 30 years only for the determination of decommissioning costs to be recognized for ratemaking purposes. Additionally, on March 3, 1997, the KCC approved a 1996 Wolf Creek decommissioning cost study which increased the estimate of total decommissioning costs to $409 million in 1996 dollars. Using a 4.4 percent real rate of return and 3.60 percent for the rate of inflation, the total cost of decommissioning is approximately $1.3 billion in 1996 dollars. KEPCo is responsible for 6 percent of the decommissioning costs for Wolf Creek or about $79 million. KEPCo's current provision for decommissioning, based on the 1996 decommissioning study, is being charged to operations over the life of the plant. Such provision totaled $213,456 for 1999 and 1998.

In addition, the Financial Accounting Standards Board (FASB) is currently deliberating the accounting for obligations associated with the retirement of long-lived assets, including decommissioning, which is currently expected to become effective on January 1, 2002. KEPCo is not able to predict what effect such changes would have on its results of operations, financial position or related regulatory practices until the final issuance of the revised accounting guidance, but such effect could be material. The annual provision for decommissioning could increase as a result of this accounting rule change.

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 included in Wolf Creek nuclear operating investments on the balance sheets:

	1999	1998
Cash surrender value of contracts	$2,724,952	$2,451,949
Borrowings against contracts	358,587	358,587
Net	$2,366,365	$2,093,362

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. 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.

In 1998, KEPCo voluntarily proposed to apply a rate reduction of 8.65 percent to all KEPCo member cooperatives. As of December 30, 1998, the KCC subsequently granted an order for KEPCo to apply a rate reduction of 9.88 percent. The rate reduction was retroactively applied to KEPCo's revenues beginning July 13, 1998.

Revenues

Revenues from the sale of electricity are recorded based on usage by member cooperatives and customers, and on contracts and scheduled power usages, as appropriate.

Long-Lived Assets

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicating the carrying amount of an asset may not be recoverable. In the event a long-lived asset was determined to be impaired, such asset would be required to be written down to its fair value, with the loss recognized in the statement of revenues and expenses.

Interest Rate Swap Agreements

Financial derivatives transactions include interest rate swap agreements, which are contractual agreements to exchange, or "swap," a series of interest rate payments over a specified period, based on a common underlying notional amount but differing interest rate indices. KEPCo has entered into a forward interest rate swap agreement with an investment banker (the counterparty), whereby KEPCo swapped the variable interest rate on their CFC notes for a fixed interest rate with the counterparty over the life of the debt (Note 10).

Derivative Instruments

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133." SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset the related results on the hedged item in the income statement, and requires a company to formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. The effect of implementing SFAS 133 is still under evaluation and what, if any, impact the adoption of this new accounting standard will have on operating results or financial position is not known.

Reclassifications

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

3. FACTORS THAT COULD AFFECT FUTURE OPERATING RESULTS:

KEPCo currently applies accounting standards that recognize the economic effects of rate regulation pursuant to SFAS No. 71, "Accounting for the Effect of Certain Types of Regulation," and accordingly, has recorded regulatory assets and liabilities related to its generation, transmission and distribution operations. In the event KEPCo determines that it no longer meets the criteria of SFAS No. 71, the accounting impact could be a noncash charge to operations of an amount that would be material. Criteria that could give rise to the discontinuance of SFAS No. 71 include: (1) increasing competition that restricts KEPCo's ability to establish prices to recover specific costs, and (2) a significant change in the manner rates are set by regulators from a cost-based regulation to another form of regulation. KEPCo periodically reviews these criteria to ensure the continuing application of SFAS No. 71 is appropriate. Any changes that would require KEPCo to discontinue the application of SFAS No. 71 due to increased competition, regulatory changes or other events may significantly impact the valuation of KEPCo's only utility plant, its investment in Wolf Creek and necessitate the write-off of regulatory assets. At this time, the effect of competition and the amount of regulatory assets, which could be recovered in such an environment, cannot be predicted.

The electric utility industry in the U.S. is evolving from a historically regulated monopolistic market to a dynamic and competitive integrated marketplace. The 1992 Energy Policy Act began the process of restructuring the electric utility industry by permitting the Federal Energy Regulatory Commission to order electric utilities to allow third parties to sell electric power to wholesale customers over their transmission systems. Many states are currently moving toward opening the retail segment to competition.

In 1996, the Kansas Legislature established a Task Force to study and establish a framework of transition for the electric utility industry to competition in retail sales of generation service. The Task Force produced a comprehensive report and proposed legislation that would restructure the electric utility industry in Kansas. The Task Force bill was introduced during the 1998 Kansas Legislature as House Bill 2619, however, the bill did not receive a hearing in the House Utilities Committee and received no consideration during the Session. In addition, legislation to address utility tax inequities and other transition steps necessary to restructure the industry were introduced in 1998, but those bills also were not considered during the Session.

The 1999 and 2000 Sessions of the Kansas Legislature did not and have not taken action on industry restructuring. Only three bills were introduced in the Kansas House to address retail wheeling. None of these bills received formal consideration in the House Utilities Committee. No restructuring bills were introduced in the Senate. Key deadlines have passed in the 2000 Session and it appears that no restructuring measures will be passed. Management will continue to monitor deregulation initiatives, but does not presently expect any actions which would be unfavorable to KEPCo to be adopted within the next 12 months.

4. 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 5 and 9, such depreciation and amortization practices constitute phase-in plans which do not meet the requirements of SFAS No. 92, "Accounting for Phase-In Plans". The effect of these departures is to overstate the following items in the financial statements by the following amounts:

	1999	1998
Net utility plant	$45,902,782	$43,937,081
Deferred charges	6,080,973	5,824,410
Patronage capital	51,983,755	49,761,491
Net margin	2,222,264	2,546,243

5. WOLF CREEK NUCLEAR GENERATING STATION:

KEPCo owns 6 percent of Wolf Creek which is located near Burlington, Kansas. The remainder is owned by the Kansas City Power & Light Company (KCPL - 47 percent) and Kansas Gas & Electric Company (KGE – 47 percent). 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 percent 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 September 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 that does not conform with generally accepted accounting principles and which constitutes a phase-in plan that 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 $1,965,701 and $2,261,982 for the years ended December 31, 1999 and 1998, respectively. In addition, net utility plant would be decreased and patronage capital would be decreased by $45,902,782 and $43,937,081 as of December 31, 1999 and 1998, respectively.

6. SHORT-TERM AND OTHER INVESTMENTS:

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

	1999		1998	
	Cost	Fair Value	Cost	Fair Value
Short-term investments-				
Available-for-sale-				
Homestead mutual funds	$ -	$ -	$ 1,162,180	$ 2,124,757
Held-to-maturity-				
U.S. government				
agency securities	-	-	1,301,455	1,301,455
	-	-	2,463,635	3,426,212
Other investments-				
Held-to-maturity-				
Split-dollar life				
insurance policy	29,514	29,514	-	-
U.S. government				
agency securities	8,860,000	8,036,149	9,309,848	9,287,785
	$8,889,514	$8,065,663	$11,773,483	$12,713,997

Included in the capitalization were $0 and $962,577 of unrealized gains on available-for-sale equity securities as of December 31, 1999 and 1998, respectively. KEPCo liquidated the available-for-sale investments in the Homestead mutual funds in December 1999 and reinvested funds in commercial paper, which as of December 31, 1999, are included in cash equivalents. The resulting gain from this liquidation was $833,877 as shown separately on the statements of revenues and expenses.

The amortized cost of United States government agency securities, not held as other investments, approximated fair values as of December 31, 1999 and 1998.

The contractual maturities of United States government agency debt securities classified as held-to-maturity as of December 31, 1999, are as follows:

	Cost
Due within five years	$ -
Due after five years through ten years	1,350,000
Due after ten years	7,510,000
	$8,860,000

7. BOND FUND RESERVE:

KEPCo has entered into a bond covenant whereby KEPCo is required to maintain, with a trustee, a Bond Fund Reserve of approximately $3.9 million. This stipulated amount is sufficient to satisfy certain future interest and principle 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 amortized cost.

8. 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 CFC.

At December 31, 1999 and 1998, investments in associated organizations consisted of the following:

	1999	1998
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	2,163	11,291
Other	121,748	122,049
	$2,725,881	$2,735,310

9. LONG-TERM DEBT:

Long-term debt consists of mortgage notes payable to the United States of America acting through the 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:

	1999	1998
Mortgage notes payable to the FFB at rates varying from 5.501% to 9.206%, payable in quarterly installments through 2018.	$110,055,271	$114,667,212
Mortgage notes payable to the CFC at a rate of 7.597%, payable semiannually, 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 7.597%, payable semiannually, principal payments commencing in 1989 and continuing annually through 2002.	3,950,000	5,050,000

	1999	1998
Floating/fixed rate pollution control revenue bonds, City of Burlington, Kansas, Pooled Series 1985C, variable interest rate (ranging from 3.55% to 3.80% at December 31, 1999) payable annually through 2015.	$ 36,500,000	$ 37,500,000
	201,845,271	208,557,212
Less- Current portion	5,761,378	6,774,705
	$196,083,893	$201,782,507

Aggregate maturities of mortgage notes payable to FFB, CFC and floating/fixed rate pollution control revenue bonds as of December 31, 1999, after the repricing of certain FFB mortgage notes payable as discussed below, are as follows:

Year	Amount
2000	$ 5,761,378
2001	6,348,870
2002	6,564,513
2003	7,399,310
2004	8,104,799
Thereafter	167,666,401
	$201,845,271

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 percent of total assets unless such distribution is approved by RUS (Note 16).

On December 18, 1997, KEPCo's mortgage notes payable to the CFC were refinanced by establishing a new Grantor Trust Series 1997 (the Series 1997 Trust), and issuing certificates of beneficial interest (the Series 1997 Certificates) in the Series 1997 Trust through a public offering. The refinancing allowed CFC to purchase the outstanding notes of the 1988 Grantor Trust (such notes had fixed interest rates ranging from 9.3 to 10 percent), amend them to reduce the guaranteed interest rate payable by KEPCo, and have the Trustee transfer the notes with the guarantees of RUS attached to a new grantor trust. KEPCo was required to pay an early call premium as a result of retiring the 1988 Grantor Trust certificates prior to their maturity. KEPCo simultaneously entered into a forward interest rate swap agreement (the Swap Agreement) with Morgan Guaranty Trust Company of New York (Morgan). The Swap Agreement allowed KEPCo to swap the variable interest rate on the modified notes for a fixed interest rate of 7.597 percent payable to Morgan over the life of the debt. Morgan will then pay the variable rate of interest to the Series 1997 Certificate Holders.

The Swap Agreement has a total notional principal amount of approximately $57.3 million and will be in effect until the maturity of the Series 1997 Certificates. KEPCo and RUS have the right to prepay or purchase the outstanding notes and the Series 1997 Certificates at any time. There are no prepayment penalties attached to this right. However, any termination payment owing under the Swap Agreement, if any, must be paid by KEPCo or RUS prior to terminating the Swap Agreement. Consequently, depending on the market conditions in the future, KEPCo or RUS could be obligated to make a payment to Morgan or could be entitled to receive a payment from Morgan.

KEPCo is also exposed to possible credit loss in the event of noncompliance by Morgan to the Swap Agreement. However, KEPCo does not anticipate nonperformance by Morgan.

10. DEFERRED CHARGES:

Disallowed Costs

Effective October 1, 1985, the KCC issued a rate order relating to KEPCo's investment in Wolf Creek, which disallowed $25,982,921 of KEPCo's investment in Wolf Creek ($20,028,694 net of accumulated amortization as of December 31, 1999). A subsequent rate order, effective February 1, 1987, allows KEPCo to recover these disallowed costs and other costs related to the disallowed portion (recorded as deferred charges) for the period from September 3, 1985, through January 31, 1987, over a 27.736-year period starting February 1, 1987. Pursuant to a KCC rate order dated December 30, 1998, the disallowed portions recovery period was extended to a 30-year period. 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 $256,563 and $284,263 for the years ended December 31, 1999 and 1998, respectively. In addition, deferred charges would be decreased and patronage capital would be decreased by $6,080,973 and $5,824,410 as of December 31, 1999 and 1998, respectively.

Decommissioning and Decontamination Assessments

The Energy Policy Act of 1992 established a fund to pay for the decommissioning and decontamination 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 recorded its portion of this liability which is being paid over 15 years. KEPCo has recorded a related deferred asset of $632,686 and $698,508 as of December 31, 1999 and 1998, respectively, and is being amortized to nuclear fuel expense over the 15-year assessment period.

Deferred Incremental Outage Costs

In 1991, the KCC issued an order that allowed KEPCo to defer its 6 percent share of the incremental operating, maintenance and replacement power costs associated with the periodic refueling of Wolf Creek. Such costs are deferred during each refueling outage and are being amortized over the approximate 18-month operating cycle coincident with the recognition of the related revenues.

Other Deferred Charges

KEPCo includes in other deferred charges the early call premium resulting from refinancing the 1988 CFC Grantor Trust Certificates prior to maturity. This early call premium is amortized using the interest method over the remaining life of the new Grantor Trust Series 1997 certificates.

11. SHORT-TERM BORROWINGS:

In February 2000 and 1999, the CFC approved a $10 million line of credit for KEPCo for a term of 12 months, respectively. There were no outstanding borrowings at either December 31, 1999 or 1998.

12. OPERATING LEASE:

KEPCo leases office space and equipment under noncancellable operating leases. The office space lease expires March 31, 2000, resulting from the relocation of the company headquarters to a new office building.

Future minimum lease payments at December 31, 1999, are as follows:

Year	Amount
2000	$54,368
2001	12,948
2002	6,231
	$73,547

The related rental expense for 1999 and 1998 were $96,886 and $103,200.

13. 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. 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 employees. KEPCo's pension expense, under this program, was $108,249 and $91,427 for the years ended December 31, 1999 and 1998, respectively.

Substantially all employees of KEPCo also participate in the NRECA Savings Plan 401(k) option. Under the plan, KEPCo contributes an amount not to exceed 5 percent, dependent upon the employee's level of participation, of the respective employee's base pay to provide additional retirement benefits. KEPCo contributed $57,739 and $41,446 to the plan in 1999 and 1998, respectively.

Wolf Creek Nuclear Operating Corporation Retirement Plan

KEPCo has an obligation to the WCNOC retirement plan for its 6 percent 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, KEPCo has satisfied its minimum funding requirements. Benefits under this plan reflect the employee's compensation, years of service and age at retirement.

Disclosure for pensions is determined under the rules prescribed by SFAS No. 132. The following sets forth KEPCo's share of the plan's charges in benefit obligation, plan assets, and funded status, as of December 31:

	1999	1998
Changes in benefit obligation-		
Benefit obligation at beginning of year	$3,259,809	$2,626,890
Service cost	231,829	188,136
Interest cost	236,751	208,862
Actuarial (gain) loss	(657,142)	297,417
Benefits paid	(86,306)	(61,497)
Benefit obligation at end of year	$2,984,941	$3,259,808

Plan assets are invested in insurance contracts, corporate bonds, equity securities, United States government securities and short-term investments.

	1999	1998
Changes in plan assets-		
Fair value of plan assets at beginning of year	$2,402,929	$1,903,344
Actual return on plan assets	357,647	280,545
Contributions during the year	276,140	280,536
Benefits paid	(86,306)	(61,497)
Fair value of plan assets at end of year	$2,950,410	$2,402,928
Funded status	$ (34,531)	$ (856,879)
Unrecognized net transition obligation	87,091	94,349
Unrecognized prior service cost	35,800	38,918
Unrecognized net gain	(1,025,523)	(218,557)
Accrued benefit cost	$ (937,163)	$ (942,169)

	1999	1998
Actuarial assumptions-		
Discount rate	7.75%	7.50%
Annual salary increase rate	5.00	5.00
Long-term rate of return	9.25	9.25

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

	1999	1998
Service cost	$231,829	$188,136
Interest cost on projected benefit obligation	236,751	208,862
Actual return on plan assets	(209,010)	(280,545)
Other	11,564	116,865
Total pension expense	$271,134	$233,318

KEPCo has an obligation to the WCNOC supplemental retirement plan for executives for its 6 percent ownership interest in Wolf Creek. This plan provides for benefits to Wolf Creek executives upon retirement. KEPCo expensed its 6 percent ownership share of $23,761 and $20,404 in 1999 and 1998, respectively, related to this plan.

14. 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 Wolf Creek 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. As of December 31, 1999, it is the opinion of the general counsel of KEPCo that 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 single nuclear incident to $9.5 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 $88.1 million ($5.3 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 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 $2.8 billion ($165 million – KEPCo's share). This insurance is provided by Nuclear Electric Insurance Limited (NEIL). In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination in accordance with a plan mandated by the NRC. The remaining proceeds, if any, can be used to pay for property damage or decontamination expenses or, if certain requirements are met including decommissioning the plant, toward a shortfall in the decommissioning trust fund.

The Owners 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 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 materially adverse effect on KEPCo's financial position and results of operations.

Decommissioning Insurances

KEPCo carries premature decommissioning insurance, which has several restrictions. One of which 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, 1999, KEPCo's share of Wolf Creek's nuclear fuel commitments were approximately $1.8 million for uranium concentrates and conversion expiring at various times through 2003, $3.3 million for enrichment expiring at various times through 2003, and $8.3 million for fabrication through 2025.

15. 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 these 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, 1999.

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 similar remaining maturities.

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

	December 31, 1999	
	Carrying Value	Fair Value
Cash and cash equivalents	$ 4,893,273	$ 4,893,273
Short-term investments	-	-
Other investments	8,889,514	8,065,663
Investments in associated organizations (including investments in NRUCFC)	2,725,881	3,399,580
Bond fund reserve	4,113,090	4,010,778
Decommissioning trust	4,047,262	4,047,262
Fixed-rate debt	165,345,271	162,602,523
Variable-rate debt	36,500,000	36,500,000

16. PATRONAGE CAPITAL:

In accordance with KEPCo's by-laws, KEPCo's current margins are to be allocated to members. KEPCo's current policy is to allocate margins to the members based on revenues collected from the members as a percentage of total revenues. If KEPCo's financial statements were adjusted to eliminate the exception to generally accepted accounting principles, total patronage capital would have been a deficit. This would result in no allocation to members. As noted in the statements of change in patronage capital, patronage capital distributions to members were $0 and $1,404,643 in 1999 and 1998, respectively.

ARTHUR ANDERSEN

February 29, 2000

Arthur Andersen LLP
Suite 400
2301 McGee Street
Kansas City MO 64108-2604
Tel 816 802 5200

Board of Trustees of
Kansas Electric Power Cooperative, Inc.
5990 Southwest 28th Street
Topeka, Kansas 66604-0877

Dear Sirs:

We have audited the financial statements of Kansas Electric Power Cooperative, Inc., for the year ended December 31, 1999, and have issued our report thereon dated February 29, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards for financial audits contained in **Government Auditing Standards** issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audit of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Kansas Electric Power Cooperative, Inc., for the year ended December 31, 1999, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

A description of the responsibility of management for establishing and maintaining the internal control structure and the objectives of and inherent limitations in such a structure is set forth in our Report of Independent Public Accountants on Internal Control Structure dated February 29, 2000, and should be read in conjunction with this report.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operation that we consider to be a material weakness as defined above.

7 CFR Part 1773.34 requires comments on specific aspects of the internal control structure, compliance with specific RUS loan and security instrument provisions and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control structure, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control structure, compliance with specific RUS loan and security instrument provisions and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.34(e)(1), related-party transactions and depreciation rates. The additional matters tested also include a schedule of deferred debits, upon which we express an opinion. In addition, our audit of the financial statements also included the

procedures specified in 7 CFR Part 1773.38-.45. Our objective was not to provide an opinion on these specific aspects of the internal control structure, compliance with specific RUS loan and security instrument provisions, or other additional matters, and accordingly, we express no opinion thereon.

No reports (other than our Report of Independent Public Accountants, our Report of Independent Public Accountants on Compliance with Applicable Laws and Regulations and our Report of Independent Public Accountants on Internal Control Structure, all dated February 29, 2000) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control structure, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.34 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS
OF THE INTERNAL CONTROL STRUCTURE

We noted no matters regarding Kansas Electric Power Cooperative, Inc.'s, internal control structure and its operation that we consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records.
- The process of accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts.
- The fuel inventory and other materials control.

COMMENTS ON COMPLIANCE WITH SPECIFIC
RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

Management's responsibility for compliance with laws, regulations, contracts, and grants is set forth in our Report of Independent Public Accountants on Compliance with Applicable Laws and Regulations dated February 29, 2000, and should be read in conjunction with this report. At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations and contracts. The procedures we performed are summarized as follows:

- Procedure performed with respect to the requirement to maintain all funds in institutions whose accounts are insured by an agency of the Federal government:
  - Obtained information from financial institutions with which Kansas Electric Power Cooperative, Inc., maintains funds that indicated that the institutions are insured by an agency of the Federal government.
- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended December 31, 1999, of Kansas Electric Power Cooperative, Inc.:
  - Obtained a statement from the borrower which indicated that no new written contracts were entered into during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 7 CFR Part 1773.34(e)(1)(ii).

- Reviewed Board of Trustee's minutes to ascertain whether there were board-approved written contracts entered into during the year for the operation or maintenance of all or any part of the borrower's property, or for the use of its property by others.

- Procedure performed with respect to the requirement to submit RUS Form 12 to the RUS:
  - Agreed amounts reported in Form 12 to Kansas Electric Power Cooperative, Inc.'s, records.

The results of our tests indicate that, with respect to the items tested, Kansas Electric Power Cooperative, Inc., complied, in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to our attention that caused us to believe that Kansas Electric Power Cooperative, Inc., had not complied, in all material respects, with those provisions. The specific provisions tested include the requirements that:

- The borrower maintains all funds in institutions whose accounts are insured by an agency of the Federal government.
- The borrower has obtained written approval of the RUS to enter into any contract for the operation or maintenance of property, or for the use by others of its mortgaged property as defined in 7 CFR Part 1773.34(e)(1)(ii).
- The borrower has submitted its Form 12 to the RUS and the Form 12, Financial and Statistical Report as of December 31, 1999, represented by the borrower as having been submitted to RUS is in agreement with Kansas Electric Power Cooperative, Inc.'s audited records in all material respects.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of Kansas Electric Power Cooperative, Inc., nothing came to our attention that caused us to believe that Kansas Electric Power Cooperative, Inc., failed to comply with respect to:

- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.34(c)(1).
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.34(c)(2).
- The retirement of plant addressed at 7 CFR Part 1773.34(c)(3) and (4).
- Sales of plant, material or scrap addressed at 7 CFR Part 1773.34(c)(5).
- The disclosure of material related-party transactions, in accordance with Statement of Financial Accounting Standards No. 57, "Related-Party Transactions," for the year ended December 31, 1999, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.34(f).
- Depreciation rates addressed at 7 CFR Part 1773.34(g), except that Kansas Electric Power Cooperative, Inc., utilizes depreciation rates based on a present worth (sinking fund) methodology ordered by the regulatory body having jurisdiction over Kansas Electric Power Cooperative, Inc.'s, rates. The sinking fund method of depreciation constitutes a departure from accounting principles generally accepted in the United States, and as such, is not approved by the RUS.

DETAILED SCHEDULE OF DEFERRED CHARGES

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits required by 7 CFR Part 1773.34(h) and provided below is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of certain amortization methods Kansas Electric Power Cooperative, Inc., utilizes based on a present worth (sinking) fund) methodology ordered by the regulatory body having jurisdiction over its rates which do not, in our opinion, conform to accounting principles generally accepted in the United States, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

	As of December 31, 1999
Deferred charges-	
Wolf Creek disallowed costs (less accumulated amortization of $5,954,226)	$20,028,694
Deferred Department of Energy decommissioning costs	632,686
Deferred incremental outage costs	994,700
Other deferred charges (less accumulated amortization of $378,085)	2,119,606
	$23,775,686

Written approval for the above deferrals has not been received from the RUS, however, such deferrals have been approved by the regulatory body having jurisdiction over Kansas Electric Power Cooperative, Inc.'s, rates.

This report is intended solely for the information and use of the board of trustees, management and the RUS and supplemental lenders. However, upon receipt by the RUS, this report is a matter of public record and its distribution is not limited.

Very truly yours,

Arthur Andersen LLP

ARTHUR ANDERSEN LLP
Kansas City, Missouri
February 29, 2000