

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-7324

KANSAS GAS AND ELECTRIC COMPANY
(Exact name of registrant as specified in its charter)

KANSAS
(State or other jurisdiction of
incorporation or organization)

48-1093840
(I.R.S. Employer
identification No.)

P.O. Box 208
Wichita, Kansas 67201
(Address of principal executive offices)

(316) 261-6611
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at November 10, 1994 |
|-----------------------------|----------------------------------|
| Common Stock (No par value) | 1,000 |

Registrant meets the conditions of General Instruction H(1)(a) and (b) to Form 10-Q and is therefore filing this form with a reduced disclosure format.

KANSAS GAS AND ELECTRIC COMPANY
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KANSAS GAS AND ELECTRIC COMPANY
BALANCE SHEETS
(Thousands of Dollars)

| | September 30, 1994 (Unaudited) | December 31, 1993 |
|-------------------------------------------------------------------|--------------------------------------|----------------------|
| ASSETS | | |
| UTILITY PLANT: | | |
| Electric plant in service | \$3,381,637 | \$3,339,832 |
| Less - Accumulated depreciation | 847,431 | 790,843 |
| | 2,534,206 | 2,548,989 |
| Construction work in progress | 32,052 | 28,436 |
| Nuclear fuel (net) | 37,909 | 29,271 |
| Net utility plant | 2,604,167 | 2,606,696 |
| OTHER PROPERTY AND INVESTMENTS: | | |
| Decommissioning trust | 15,951 | 13,204 |
| Other | 12,344 | 10,941 |
| | 28,295 | 24,145 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 57 | 63 |
| Accounts receivable and unbilled revenues (net) (Note 8). | 59,168 | 11,112 |
| Advances to parent company. | 195,552 | 192,792 |
| Fossil fuel, at average cost, | 13,652 | 7,594 |
| Materials and supplies, at average cost | 30,730 | 29,933 |
| Prepayments and other current assets. | 19,049 | 14,995 |
| | 318,208 | 256,489 |
| DEFERRED CHARGES AND OTHER ASSETS: | | |
| Deferred future income taxes. | 102,766 | 102,789 |
| Deferred coal contract settlement costs | 18,773 | 21,247 |
| Phase-in revenues | 65,792 | 78,950 |
| Other deferred plant costs. | 31,840 | 32,008 |
| Corporate-owned life insurance (net) | 8,830 | 45 |
| Unamortized debt expense. | 28,317 | 27,365 |
| Other | 43,186 | 37,745 |
| | 299,504 | 300,149 |
| TOTAL ASSETS | \$3,250,174 | \$3,187,479 |
| CAPITALIZATION AND LIABILITIES | | |
| CAPITALIZATION (see statement). | \$2,027,955 | \$1,899,221 |
| CURRENT LIABILITIES: | | |
| Short-term debt | 42,300 | 155,800 |
| Long-term debt due within one year. | - | 238 |
| Accounts payable. | 48,366 | 51,095 |
| Accrued taxes | 48,290 | 12,185 |
| Accrued interest. | 14,147 | 7,381 |
| Other | 10,434 | 9,427 |
| | 163,537 | 236,126 |
| DEFERRED CREDITS AND OTHER LIABILITIES: | | |
| Deferred income taxes | 648,997 | 646,159 |
| Deferred investment tax credits | 75,643 | 78,048 |
| Deferred gain from sale-leaseback | 254,751 | 261,981 |
| Other | 79,291 | 65,944 |
| | 1,058,682 | 1,052,132 |
| COMMITMENTS AND CONTINGENCIES (Notes 3 and 4) | | |
| TOTAL CAPITALIZATION AND LIABILITIES | \$3,250,174 | \$3,187,479 |

The NOTES TO CONSOLIDATED FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF INCOME
(Thousands of Dollars)
(Unaudited)

| | Three Months Ended September 30, | |
|-----------------------------------------------------------------------------|-------------------------------------|------------|
| | 1994 | 1993 |
| OPERATING REVENUES. | \$ 189,202 | \$ 191,941 |
| OPERATING EXPENSES: | | |
| Fuel used for generation: | | |
| Fossil fuel | 27,727 | 28,590 |
| Nuclear fuel. | 3,638 | 4,179 |
| Power purchased | 1,376 | 5,674 |
| Other operations. | 26,092 | 29,918 |
| Maintenance | 9,957 | 11,606 |
| Depreciation and amortization | 19,141 | 18,837 |
| Amortization of phase-in revenues | 4,386 | 4,386 |
| Taxes: | | |
| Federal income. | 23,521 | 19,534 |
| State income. | 5,575 | 4,477 |
| General | 10,811 | 11,866 |
| Total operating expenses. | 132,224 | 139,067 |
| OPERATING INCOME. | 56,978 | 52,874 |
| OTHER INCOME AND DEDUCTIONS: | | |
| Corporate-owned life insurance (net). | (1,728) | 5,969 |
| Miscellaneous (net) | 833 | 864 |
| Income taxes (net). | 2,137 | 1,357 |
| Total other income and deductions | 1,242 | 8,190 |
| INCOME BEFORE INTEREST CHARGES. | 58,220 | 61,064 |
| INTEREST CHARGES: | | |
| Long-term debt. | 11,934 | 13,752 |
| Other | 1,249 | 1,247 |
| Allowance for borrowed funds used during construction (credit) | (444) | (341) |
| Total interest charges. | 12,739 | 14,658 |
| NET INCOME. | \$ 45,481 | \$ 46,406 |

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
 STATEMENTS OF INCOME
 (Thousands of Dollars)
 (Unaudited)

| | Nine Months Ended September 30, | |
|-----------------------------------------------------------------------------|------------------------------------|------------|
| | 1994 | 1993 |
| OPERATING REVENUES. | \$ 480,793 | \$ 480,900 |
| OPERATING EXPENSES: | | |
| Fuel used for generation: | | |
| Fossil fuel | 71,662 | 70,607 |
| Nuclear fuel. | 11,733 | 9,028 |
| Power purchased | 4,869 | 9,043 |
| Other operations. | 84,677 | 92,627 |
| Maintenance | 35,187 | 33,572 |
| Depreciation and amortization | 57,402 | 56,512 |
| Amortization of phase-in revenues | 13,158 | 13,158 |
| Taxes: | | |
| Federal income. | 41,594 | 32,786 |
| State income. | 10,160 | 7,692 |
| General | 34,947 | 34,682 |
| Total operating expenses. | 365,389 | 359,707 |
| OPERATING INCOME. | 115,404 | 121,193 |
| OTHER INCOME AND DEDUCTIONS: | | |
| Corporate-owned life insurance (net). | (3,721) | 9,337 |
| Miscellaneous (net) | 3,641 | 8,382 |
| Income taxes (net). | 5,375 | 314 |
| Total other income and deductions | 5,295 | 18,033 |
| INCOME BEFORE INTEREST CHARGES. | 120,699 | 139,226 |
| INTEREST CHARGES: | | |
| Long-term debt. | 36,032 | 41,753 |
| Other | 3,721 | 4,211 |
| Allowance for borrowed funds used during construction (credit) | (1,368) | (1,149) |
| Total interest charges. | 38,385 | 44,815 |
| NET INCOME. | \$ 82,314 | \$ 94,411 |

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF INCOME
(Thousands of Dollars)
(Unaudited)

Twelve Months Ended
September 30,
1994 1993

| | | |
|-----------------------------------------------------------------------------|------------|------------|
| OPERATING REVENUES. | \$ 616,890 | \$ 607,958 |
| OPERATING EXPENSES: | | |
| Fuel used for generation: | | |
| Fossil fuel | 94,443 | 86,776 |
| Nuclear fuel. | 15,980 | 12,966 |
| Power purchased | 5,690 | 10,397 |
| Other operations. | 110,998 | 121,436 |
| Maintenance | 48,355 | 47,569 |
| Depreciation and amortization | 76,420 | 74,443 |
| Amortization of phase-in revenues | 17,545 | 17,544 |
| Taxes: | | |
| Federal income. | 48,361 | 33,995 |
| State income. | 12,038 | 7,939 |
| General | 45,468 | 44,418 |
| Total operating expenses. | 475,298 | 457,483 |
| OPERATING INCOME. | 141,592 | 150,475 |
| OTHER INCOME AND DEDUCTIONS: | | |
| Corporate-owned life insurance (net). | (5,217) | 11,748 |
| Miscellaneous (net) | 4,530 | 10,747 |
| Income taxes (net). | 7,288 | (416) |
| Total other income and deductions | 6,601 | 22,079 |
| INCOME BEFORE INTEREST CHARGES. | 148,193 | 172,554 |
| INTEREST CHARGES: | | |
| Long-term debt. | 48,187 | 55,910 |
| Other | 5,585 | 8,164 |
| Allowance for borrowed funds used during construction (credit) | (1,585) | (1,459) |
| Total interest charges. | 52,187 | 62,615 |
| NET INCOME. | \$ 96,006 | \$ 109,939 |

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(Thousands of Dollars)
(Unaudited)

Nine Months Ended
September 30,
1994 1993

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|-------------------------------------------------------------------|-----------|-----------|
| Net income. | \$ 82,314 | \$ 94,411 |
| Depreciation and amortization | 57,402 | 56,512 |
| Other amortization (including nuclear fuel) | 8,390 | 8,208 |
| Deferred income taxes and investment tax credits (net). | 14,442 | 5,515 |
| Amortization of phase-in revenues | 13,158 | 13,158 |
| Corporate-owned life insurance. | (13,600) | (18,586) |
| Amortization of gain from sale-leaseback. | (7,230) | (7,230) |
| Changes in working capital items: | | |
| Accounts receivable and unbilled revenues (net) (Note 8). | (48,056) | (39,849) |
| Fossil fuel | (6,058) | 4,645 |
| Accounts payable. | (2,729) | (4,578) |
| Interest and taxes accrued. | 42,871 | 36,171 |
| Other | (3,844) | (4,006) |
| Changes in other assets and liabilities | (18,165) | (10,738) |
| Net cash flows from operating activities | 118,895 | 133,633 |

CASH FLOWS USED IN INVESTING ACTIVITIES:

| | | |
|---------------------------------------------------------------------|--------|----------|
| Additions to utility plant. | 65,646 | 43,364 |
| Corporate-owned life insurance policies | 24,588 | 25,687 |
| Death proceeds of corporate-owned life insurance policies | - | (10,160) |
| Net cash flows used in investing activities. | 90,234 | 58,891 |

CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:

| | | |
|--------------------------------------------------------------|-----------|-----------|
| Short-term debt (net) | (113,500) | (31,500) |
| Advances to parent company (net). | (2,760) | (27,374) |
| Bonds issued. | 160,422 | 65,000 |
| Bonds retired | (46,440) | (65,000) |
| Revolving credit agreement (net). | - | (150,000) |
| Other long-term debt (net). | (67,893) | (46,870) |
| Borrowings against life insurance policies (net). | 41,504 | 182,079 |
| Net cash flows from (used in) financing activities | (28,667) | (73,665) |

NET INCREASE IN CASH AND CASH EQUIVALENTS (6) 1,077

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD. 63 892

CASH AND CASH EQUIVALENTS AT END OF PERIOD. \$ 57 \$ 1,969

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

CASH PAID FOR:

| | | |
|-----------------------------------------------------------------------|-----------|-----------|
| Interest on financing activities (net of amount capitalized). | \$ 50,157 | \$ 57,889 |
| Income taxes. | 21,658 | 13,417 |

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(Thousands of Dollars)
(Unaudited)

Twelve Months Ended
September 30,
1994 1993

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|-----------------------------------------------------------------|-----------|------------|
| Net income. | \$ 96,006 | \$ 109,939 |
| Depreciation and amortization | 76,420 | 74,443 |
| Other amortization (including nuclear fuel) | 11,436 | 11,160 |
| Deferred income taxes and investment tax credits (net). | 31,499 | 9,501 |
| Amortization of phase-in revenues | 17,545 | 17,544 |
| Corporate-owned life insurance. | (16,664) | (22,710) |
| Amortization of gain from sale-leaseback. | (9,640) | (9,640) |
| Changes in working capital items: | | |
| Accounts receivable and unbilled revenues (net) (Note 8). | (8,776) | (6,987) |
| Fossil fuel | (2,196) | 9,973 |
| Accounts payable. | (7,964) | 8,428 |
| Interest and taxes accrued. | (2,353) | 4,691 |
| Other | (2,029) | (8,453) |
| Changes in other assets and liabilities | (23,957) | (26,739) |
| Net cash flows from operating activities. | 159,327 | 171,150 |

CASH FLOWS USED IN INVESTING ACTIVITIES:

| | | |
|---------------------------------------------------------------------|---------|----------|
| Additions to utility plant. | 89,168 | 68,807 |
| Corporate-owned life insurance policies | 26,169 | 21,032 |
| Death proceeds of corporate-owned life insurance policies | - | (10,912) |
| Net cash flows used in investing activities. | 115,337 | 78,927 |

CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:

| | | |
|--------------------------------------------------------------|-----------|-----------|
| Short-term debt (net) | (19,700) | (40,900) |
| Advances to parent company (net). | (93,889) | (97,629) |
| Bonds issued. | 160,422 | 200,000 |
| Bonds retired | (121,440) | (190,000) |
| Other long-term debt (net). | (13,980) | (230) |
| Revolving credit agreement (net). | - | (150,000) |
| Borrowings against life insurance policies (net). | 42,685 | 176,713 |
| Net cash flows from (used in) financing activities | (45,902) | (102,046) |

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS. (1,912) (9,823)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD. 1,969 11,792

CASH AND CASH EQUIVALENTS AT END OF PERIOD. \$ 57 \$ 1,969

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

CASH PAID FOR:

| | | |
|-----------------------------------------------------------------------|-----------|-----------|
| Interest on financing activities (net of amount capitalized). | \$ 69,921 | \$ 81,573 |
| Income taxes. | 37,595 | 27,642 |

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF CAPITALIZATION
(Thousands of Dollars)

| | | September 30, 1994 (Unaudited) | | December 31, 1993 |
|--------------------------------------------------------|------|--------------------------------------|-------------|-------------------------|
| COMMON STOCK EQUITY: | | | | |
| (See Statements of Common Stock Equity) | | | | |
| Common stock, without par value, authorized and issued | | | | |
| 1,000 shares | | \$1,065,634 | | \$1,065,634 |
| Retained earnings | | 262,358 | | 180,044 |
| Total common stock equity | | 1,327,992 | 65% | 1,245,678 66% |
| LONG-TERM DEBT: | | | | |
| First Mortgage Bonds: | | | | |
| Series | Due | 1994 | | 1993 |
| 5-5/8% | 1996 | \$ 16,000 | | \$ 16,000 |
| 7.6% | 2003 | 135,000 | | 135,000 |
| 6-1/2% | 2005 | 65,000 | | 65,000 |
| 6.20% | 2006 | 100,000 | | - |
| | | | 316,000 | 216,000 |
| Pollution Control Bonds: | | | | |
| 6.80% | 2004 | - | | 14,500 |
| 5-7/8% | 2007 | - | | 21,940 |
| 6% | 2007 | - | | 10,000 |
| 5.10% | 2023 | 13,982 | | - |
| Variable (a) | 2027 | 21,940 | | - |
| 7% | 2031 | 327,500 | | 327,500 |
| Variable (a) | 2032 | 14,500 | | - |
| Variable (a) | 2032 | 10,000 | | - |
| | | | 387,922 | 373,940 |
| Total bonds | | | 703,922 | 589,940 |
| Other Long-Term Debt: | | | | |
| Pollution control obligations: | | | | |
| 5-3/4% series | 2003 | - | | 13,980 |
| Other long-term agreement | 1995 | - | | 53,913 |
| Total other long-term debt | | | - | 67,893 |
| Less: | | | | |
| Unamortized premium and discount (net) | | | 3,959 | 4,052 |
| Long-term debt due within one year | | | - | 238 |
| Total long-term debt | | | 699,963 | 653,543 |
| | | | 35% | 34% |
| TOTAL CAPITALIZATION | | \$2,027,955 | 100% | \$1,899,221 100% |

(a) Market-Adjusted Tax Exempt Securities (MATES). The interest rate is being reset periodically via an auction process. As of September 30, 1994, the rates ranged from 3.15% to 3.19% for these bonds.

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
 STATEMENTS OF COMMON STOCK EQUITY
 (Thousands of Dollars, Except Shares)
 (Unaudited)

| | Common Stock | | Other Paid-in Capital | Retained Earnings | Treasury Stock | | Total |
|---------------------------------------------|--------------|-------------|-----------------------------|----------------------|----------------|-----------|-------------|
| | Shares | Amount | | | Shares | Amount | |
| BALANCE DECEMBER 31, 1991. (Predecessor) | 40,997,745 | 637,003 | 284 | 170,598 | (9,996,426) | (199,255) | 608,630 |
| Net income | | | | 6,040 | | | 6,040 |
| Cash dividends: | | | | | | | |
| Common stock-\$0.43 per share | | | | (13,330) | | | (13,330) |
| Preferred stock | | | | (205) | | | (205) |
| Employee stock plans | | (12) | | | (966) | | (12) |
| Merger of KG&E with KCA. | (40,997,745) | (636,991) | (284) | (163,103) | 9,997,392 | 199,255 | (601,123) |
| MARCH 31, 1992 | | | | | | | |
| Subtotal-KG&E (Predecessor). | -0- | -0- | -0- | -0- | -0- | -0- | -0- |
| KCA common stock issued. | 1,000 | \$1,065,634 | - | - | - | - | \$1,065,634 |
| Net income | | | | \$ 71,941 | | | 71,941 |
| BALANCE DECEMBER 31, 1992. (Successor) | 1,000 | 1,065,634 | - | 71,941 | - | - | 1,137,575 |
| Net Income | | | | 108,103 | | | 108,103 |
| BALANCE DECEMBER 31, 1993. (Successor) | 1,000 | \$1,065,634 | \$ - | \$ 180,044 | - | \$ - | \$1,245,678 |
| Net Income | | | | 82,314 | | | 82,314 |
| BALANCE SEPTEMBER 30, 1994. (Successor) | 1,000 | \$1,065,634 | \$ - | \$ 262,358 | - | \$ - | \$1,327,992 |

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

1. ACCOUNTING POLICIES AND OTHER INFORMATION

General. On March 31, 1992, Western Resources, Inc., formerly The Kansas Power and Light Company, (Western Resources, Parent Company) through its wholly-owned subsidiary KCA Corporation (KCA), acquired all of the outstanding common and preferred stock of Kansas Gas and Electric Company (KG&E) for \$454 million in cash and 23,479,380 shares of Western Resources common stock (the Merger).

The Company owns 47% of the Wolf Creek Nuclear Operating Corporation (WCNOC), the operating company for the Wolf Creek Generating Station (Wolf Creek). The Company records its proportionate share of all transactions of WCNOC as it does other jointly-owned facilities.

The financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company, the accompanying condensed financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of September 30, 1994, and December 31, 1993, and the results of its operations for the three, nine and twelve month periods ended September 30, 1994 and 1993. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's 1993 Annual Report on Form 10-K.

The accounting policies of the Company are in accordance with generally accepted accounting principles as applied to regulated public utilities. The accounting and rates of the Company are subject to requirements of the Kansas Corporation Commission (KCC) and the Federal Energy Regulatory Commission.

Cash Surrender Value of Life Insurance Contracts. The following amounts related to corporate-owned life insurance (COLI) contracts, primarily with one highly rated major insurance company, are recorded on the balance sheets (millions of dollars):

| | September 30, 1994 | December 31, 1993 |
|-----------------------------------|-----------------------|----------------------|
| Cash surrender value of contracts | \$319.3 | \$269.0 |
| Borrowings against contracts | (310.5) | (269.0) |
| COLI (net) | \$ 8.8 | \$ 0.0 |

Interest expense included in other income and deductions, net of taxes, related to COLI for the three, nine, and twelve months ended September 30, 1994, was \$5.6, \$15.4, and \$20.1 million, respectively. Interest expense for the three, nine, and twelve months ended September 30, 1993, was \$3.3, \$6.2, and \$7.9 million, respectively.

Statements of Cash Flows. For purposes of the statements of cash flows, the Company considers highly liquid collateralized debt instruments purchased with a maturity of three months or less to be cash equivalents.

Reclassifications. Certain amounts in prior years have been reclassified to conform with classifications used in the current year presentation.

2. SHORT-TERM DEBT

The Company's short-term financing requirements are satisfied through short-term bank loans and borrowings under unsecured lines of credit maintained with banks. At September 30, 1994, the Company had bank credit arrangements available of \$35 million. Effective October 1, 1994, the Company reduced its bank credit arrangements to \$24 million.

3. COMMITMENTS AND CONTINGENCIES

Environmental. The Company was previously associated with six former manufactured gas sites which may contain coal tar and other potentially harmful materials. The Company and the Kansas Department of Health and Environment (KDHE) conducted preliminary assessments of these sites at minimal cost. The results of the preliminary investigations determined the Company does not have a connection to two of the sites.

Under a consent agreement with the KDHE governing all future work at the four remaining sites, the Company will investigate these sites and set remediation priorities based upon the results of the investigations and risk analysis. The prioritized sites will be investigated over a 10 year period. The agreement will allow the Company to set mutual objectives with the KDHE in order to expedite effective response activities and to control costs and environmental impact. The Company is aware of other utilities in Region VII of the EPA (Kansas, Missouri, Nebraska, and Iowa) which have incurred remediation costs for such sites ranging between \$500,000 and \$10 million, depending on the site and that the KCC has issued an accounting order which will permit another Kansas utility to recover a portion of its remediation costs through rates. To the extent that such remediation costs are not recovered through rates, the costs could be material to the Company's financial position or results of operations depending on the degree of remediation required and number of years over which the remediation must be completed.

Spent Nuclear Fuel Disposal. Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy (DOE) is responsible for the ultimate storage and disposal of spent nuclear fuel removed from nuclear reactors. Under a contract with the DOE for disposal of spent nuclear fuel, the Company pays a quarterly fee to DOE of one mill per kilowatthour on net nuclear generation. These fees are included as part of nuclear fuel expense.

The Company along with the other co-owners of Wolf Creek are among 14 companies that filed a lawsuit June 20, 1994, seeking an interpretation of the DOE's obligation to begin accepting spent nuclear fuel for disposal in 1998. The Federal Nuclear Waste Policy Act requires DOE ultimately to accept and dispose of nuclear utilities' spent fuel. The DOE has filed a motion to have this case

dismissed. The issue to be decided in this case is whether DOE must begin accepting spent fuel in 1998 or at a future date.

Decommissioning. On June 9, 1994, the KCC issued an order approving the decommissioning cost of the 1993 Wolf Creek Decommissioning Cost Study which estimates the Company's share of Wolf Creek decommissioning costs, under the immediate dismantlement method, to be approximately \$595 million primarily during the period 2025 through 2033, or approximately \$174 million in 1993 dollars. These costs were calculated using an assumed inflation rate of 3.45% over the remaining service life, in 1993, of 32 years.

Decommissioning costs are being charged to operating expenses. Electric rates charged to customers provide for recovery of these decommissioning costs over the life of Wolf Creek. Amounts so expensed (\$3.5 million in 1993 increasing annually to \$5.5 million in 2024) and earnings on trust fund assets are deposited in an external trust fund. The assumed return on trust assets is 5.9%.

The Company's investment in the decommissioning fund, including reinvested earnings was \$16.0 and \$13.2 million at September 30, 1994 and December 31, 1993, respectively. These amounts are reflected in OTHER PROPERTY AND INVESTMENTS, Decommissioning Trust, and the related liability is included in DEFERRED CREDITS AND OTHER LIABILITIES, Other, on the balance sheets.

The Company carries \$117 million in premature decommissioning insurance. The insurance coverage 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 Nuclear Regulatory Commission (NRC), and to pay for on-site property damages. If the amount designated as decommissioning insurance is needed to implement the NRC-approved plan for stabilization and decontamination, it would not be available for decommissioning purposes.

Nuclear Insurance. The Price-Anderson Act limits the combined public liability of the owners of nuclear power plants to \$9.0 billion for a single nuclear incident. The Wolf Creek owners (Owners) have purchased the maximum available private insurance of \$200 million and the balance is provided by an assessment plan mandated by the NRC. Under this plan, the Owners are jointly and severally subject to a retrospective assessment of up to \$79.3 million (\$37.3 million, Company'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 (\$4.7 million, Company's share) in retrospective assessments per incident per year.

The Owners carry decontamination liability, premature decommissioning liability, and property damage insurance for Wolf Creek totalling approximately \$2.8 billion (\$1.3 billion, Company's share). This insurance is provided by a combination of "nuclear insurance pools" (\$500 million) and Nuclear Electric Insurance Limited (NEIL) (\$2.3 billion). In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. The remaining proceeds from the \$2.8 billion insurance coverage (\$1.3 billion, Company's share), if any, can be used for property damage up to \$1.2 billion

(Company's share) and premature decommissioning costs up to \$117 million (Company's share) in excess of funds previously collected for decommissioning (as discussed under "Decommissioning").

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, the Company may be subject to retrospective assessments of approximately \$13 million per year.

Although the Company maintains various insurance policies to provide coverage for potential losses and liabilities resulting from an accident or an extended outage, the Company's insurance coverage may not be adequate to cover the costs that could result from a major 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 the Company's financial condition and results of operations.

Clean Air Act. The Clean Air Act Amendments of 1990 (the Act) require a two-phase reduction in sulfur dioxide and oxides of nitrogen (NOx) emissions effective in 1995 and 2000 and a probable reduction in toxic emissions. To meet the monitoring and reporting requirements under the acid rain program, the Company is installing continuous emission monitoring and reporting equipment at a total cost of approximately \$2.3 million. At December 31, 1993, the Company had completed approximately \$850 thousand of these capital expenditures with the remaining \$1.4 million of capital expenditures to be completed in 1994. The Company does not expect additional equipment to reduce sulfur emissions to be necessary under Phase II. Although the Company currently has no Phase I affected units, the Company applied for an early substitution permit to bring the co-owned La Cygne Generating Station under the Phase I guidelines.

The NOx and toxic limits, which were not set in the law, will be specified in future EPA regulations. Until such time as the Phase I group 1 NOx regulations are final, the Company will be unable to determine its compliance options or related compliance costs.

Fuel Commitments. To supply a portion of the fuel requirements for its generating plants, the Company has entered into various commitments to obtain nuclear fuel, coal and natural gas. Some of these contracts contain provisions for price escalation and minimum purchase commitments. At December 31, 1993, WCNO's nuclear fuel commitments (Company's share) were approximately \$18.0 million for uranium concentrates expiring at various times through 1997, \$123.6 million for enrichment expiring at various times through 2014 and \$45.5 million for fabrication through 2012. At December 31, 1993, the Company's coal and natural gas contract commitments in 1993 dollars under the remaining term of the contracts were \$666 million and \$20.4 million, respectively. The largest coal contract was renegotiated early in 1993 and expires in 2020 with the remaining coal contracts expiring at various times through 2013. The majority of natural gas contracts expire in 1995 with automatic one-year extension provisions. In the normal course of business, additional commitments and spot market purchase will be made to obtain adequate fuel supplies.

For additional information with respect to Commitments and Contingencies see

Note 3, COMMITMENTS AND CONTINGENCIES of the Notes to Financial Statements in the Company's 1993 Annual Report on Form 10-K.

4. LEGAL PROCEEDINGS

For information with respect to Legal Proceedings see Note 10, LEGAL PROCEEDINGS of the Notes to Financial Statements in the Company's 1993 Annual Report on Form 10-K.

5. RATE MATTERS AND REGULATION

For information with respect to Rate Matters and Regulation see Note 4 RATE MATTERS AND REGULATION of the Notes to Financial Statements in the Company's 1993 Annual Report on Form 10-K.

6. INCOME TAXES

Total income tax expense included in the Statements of Income reflects the Federal statutory rate of 35% since January 1, 1993 and 34% for all prior periods. The Federal statutory rate produces effective income tax rates of 37.2% and 32.8% for the three month periods, and 36.0% and 29.8% for the nine month periods and 35.6% and 27.8% for the twelve month periods ended September 30, 1994 and 1993, respectively. The effective income tax rates vary from the Federal statutory rate due to the permanent differences, including the amortization of investment tax credits.

For additional information with respect to Income Taxes see Note 9, INCOME TAXES of the Notes to Financial Statements in the Company's 1993 Annual Report on Form 10-K.

7. EMPLOYEE BENEFIT PLANS

Postemployment. The Company adopted the provisions of Statement of Financial Accounting Standards No. 112 (SFAS 112), in the first quarter of 1994. This statement requires the Company to recognize the liability to provide postemployment benefits when the liability has been incurred. To mitigate the impact adopting SFAS 112 will have on rate increases, the Company received an order from the KCC permitting the initial deferral of SFAS 112 transition costs and expenses and its inclusion in the future computation of cost of service net of and income stream generated from corporate-owned life insurance. At September 30, 1994, the Company's SFAS 112 liability recorded on the balance sheet was approximately \$594,000.

8. LONG-TERM DEBT

The Company had a long-term debt agreement which contained provisions for the sale of accounts receivable and unbilled revenues (receivables) and phase-in revenues up to a total of \$180 million. This agreement was terminated on November 1, 1994. Amounts related to receivables were accounted for as sales

while those related to phase-in revenues were accounted for as collateralized borrowings. Additional receivables were continually sold to replace those collected. At September 30, 1994 and December 31, 1993, outstanding receivables amounting to \$20.1 million and \$56.8 million, respectively, were considered sold under the agreement.

For additional information with respect to Long-Term Debt see Note 6, LONG-TERM DEBT of the Notes to Financial Statements in the Company's 1993 Annual Report on Form 10-K.

KANSAS GAS AND ELECTRIC COMPANY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Item 7 of the Company's Annual Report on Form 10-K for 1993.

The following updates the information provided in the 1993 Form 10-K, and analyzes the changes in the results of operations between the three, nine and twelve month periods ended September 30, 1994 and comparable periods of 1993.

FINANCIAL CONDITION

General. Net income for the third quarter of 1994 was \$45.5 million compared to \$46.4 million for the same period of 1993. The two percent decrease in net income can be attributed to decreased residential and wholesale and interchange sales and higher income tax expense. Residential sales decreased as a result of cooler temperatures in 1994 compared to 1993. Wholesale and interchange sales were lower because the third quarter 1993 reflected higher sales to other utilities that had generating units down due to the flooding of 1993.

Income tax expense increased as a result of the completion of the accelerated amortization of certain deferred income tax reserves. As of December 31, 1993, the Company had fully amortized these deferred income tax reserves related to the allowance for borrowed funds used during construction capitalized for Wolf Creek. The absence of the amortization of these deferred income tax reserves reduces net income by approximately \$3 million per quarter or approximately \$12 million per year.

Net income for the nine and twelve months ending September 30, 1994, of \$82.3 million and \$96.0 million, decreased from net income of \$94.4 and \$109.9 million for the comparable periods of 1993, respectively. The decrease in net income is primarily due to increases in income taxes as a result of the absence of the amortization of the above mentioned deferred income tax reserves and the receipt of death benefit proceeds from corporate-owned life insurance policies in the third quarter of 1993.

Liquidity and Capital Resources. The KG&E common and preferred stock was redeemed in connection with the Merger, leaving 1,000 shares of common stock held by Western Resources. The debt structure of the Company and available sources of funds were not affected by the Merger.

Effective October 1, 1994, the Company reduced its bank credit arrangements from \$35 million to \$24 million.

On April 28, 1994, three series of Market-Adjusted Tax Exempt Securities totalling \$46.4 million were sold on behalf of the Company at a rate of 2.95% for the initial auction period. The interest rate is being reset periodically via

an auction process. As of September 30, 1994, the rates on these bonds ranged from 3.15% to 3.19%. The net proceeds from the new issues, together with available cash, were used to refund three series of Pollution Control Bonds totalling \$46.4 million bearing interest rates between 5 7/8% and 6.8%.

In 1986 the Company purchased corporate-owned life insurance policies (COLI) on certain of its employees. For the nine months ended September 30, 1994, the Company increased its borrowings against the accumulated cash surrender values of the policies by \$39.9 million and received \$1.6 million from increased borrowings on Wolf Creek Nuclear Operating Company policies.

OPERATING RESULTS

The following discussion explains variances for the three, nine and twelve months ended September 30, 1994 to the comparable periods of 1993.

Revenues. The Company's revenues vary with levels of usage as a result of changing weather conditions during comparable periods and are sensitive to seasonal fluctuations between consecutive periods.

Increase (decrease) in electric sales volumes:

| | 3 Months Ended | 9 Months Ended | 12 Months Ended |
|-------------------------|-------------------|-------------------|--------------------|
| Residential | (8.8)% | (2.1)% | (1.0)% |
| Commercial | 4.8% | 2.6% | 1.0% |
| Industrial | 3.6% | 0.5% | (0.8)% |
| Total Retail | (0.5)% | 0.2% | (0.4)% |
| Wholesale & interchange | (53.9)% | (0.5)% | 17.2% |
| Total electric sales | (12.5)% | 0.1% | 2.8% |

Revenues for the third quarter of 1994 were \$189.2 million down one percent from the 1993 third quarter revenues of \$191.9 million. The decrease was due primarily to decreased residential sales as the Company's service territory experienced cooler summer temperatures during 1994 as compared to last year, reducing the customer demand for air conditioning load. Wholesale and interchange revenues were also lower because during the third quarter of 1993 the Company had higher sales to other utilities while their generating units were down due to the flooding of 1993.

Revenues for the nine months ended September 30, 1994, of \$480.8 million, were virtually unchanged from revenues of \$480.9 million for the comparable period of 1993.

Revenues for the twelve months ended September 30, 1994, increased approximately one percent to \$616.9 million, from revenues of \$608.0 million for the comparable period of 1993. The increase can be attributed to higher revenues in all customer classes.

Operating Expenses. Total operating expenses for the three months ended September 30, 1994, of \$132.2 million decreased approximately five percent from total operating expenses of \$139.1 million for the comparable period of 1993.

The decrease is primarily attributed to reduced operations and maintenance expense and a \$4.3 million decrease in purchased power expense as a result of lower sales resulting from the decrease in demand from residential and wholesale customers during the third quarter of 1994 as compared to 1993.

Total operating expenses increased approximately two percent for the nine months ended September 30, 1994 compared to the same period of 1993. The increase is primarily due to an increase of \$11.3 million in federal and state income taxes and a \$1.6 million increase in maintenance expense as a result of the major boiler overhaul of the Company's coal fired La Cygne 1 during the second quarter of 1994.

Total operating expenses increased approximately four percent for the twelve months ended September 30, 1994 compared to the same period of 1993. The increase is primarily the result of a \$10.7 million increase in fuel expense due to increased electric generation caused by the increase in customer demand and \$18.5 million increase in federal and state income taxes.

The increase in federal income taxes for the three, nine and twelve months ended September 30, 1994 was due to the completion at December 31, 1993, of the accelerated amortization of deferred income tax reserves relating to the allowance for borrowed funds used during construction capitalized for Wolf Creek. The completion of the amortization of these deferred income tax reserves increased income taxes and thereby reduced net income by approximately \$3 million and \$9 million for the quarter and nine months ended September 30, 1994, respectively.

Wolf Creek Generating Station (Wolf Creek) operates on an eighteen month refueling cycle. Wolf Creek began its seventh refueling and maintenance outage in mid September 1994. The outage took approximately 47 days. The operations and maintenance expenses associated with the refueling are being deferred and then amortized over eighteen months.

Other Income and Deductions. Other income and deductions, net of taxes, decreased significantly for the three, nine and twelve months ended September 30, 1994, compared to the same period in 1993 primarily as a result of increased interest expense on higher COLI borrowings. For the nine and twelve months ended September 30, 1994, interest on COLI borrowings has increased \$8.8 million and \$13.2 million compared to the same periods of 1993, respectively. Also contributing to the decrease was the receipt of death benefit proceeds from COLI policies in the third quarter of 1993.

Interest Expense. Interest expense decreased \$1.9 million, \$6.4 million and \$10.4 million for the three, nine and twelve months ended September 30, 1994 compared to the same periods of 1993, respectively. The decreases resulted primarily from lower interest rates on variable-rate debt and the refinancing of higher cost fixed-rate debt. Also accounting for the decrease in interest expense was the impact of increased COLI borrowings which reduce the need for other long-term debt and thereby reduced interest expense. COLI interest is reflected in Other Income and Deductions on the income statement.

KANSAS GAS AND ELECTRIC COMPANY
Part II Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 27 - Financial Data Schedule

(b) Reports on Form 8-K:

None

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AT SEPTEMBER 30, 1994 AND THE STATEMENT OF INCOME AND THE STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1994 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

| 9-MOS | DEC-31-1994 | SEP-30-1994 | PER-BOOK |
|-----------|-------------|-------------|----------|
| | 2,604,167 | | |
| | 28,295 | | |
| | 318,208 | | |
| | 299,504 | | |
| | | 0 | |
| | 3,250,174 | | |
| | | 1,065,634 | |
| | 0 | | |
| | 262,358 | | |
| 1,327,992 | | | |
| | 0 | | |
| | | 0 | |
| | 699,963 | | |
| | 42,300 | | |
| | 0 | | |
| 0 | | | |
| 0 | | | |
| | 0 | | |
| 1,221 | | | |
| | | 714 | |
| 1,177,984 | | | |
| 3,250,174 | | | |
| 480,793 | | | |
| | 57,129 | | |
| 313,635 | | | |
| 365,389 | | | |
| | 115,404 | | |
| | 5,295 | | |
| 120,699 | | | |
| | 38,385 | | |
| | | 82,314 | |
| | 0 | | |
| 82,314 | | | |
| | | 0 | |
| | 36,032 | | |
| | 118,895 | | |
| | | 0 | |
| | | 0 | |