

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1997

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

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

(Address of Principal Executive Offices)

67201

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Indicate the number of shares outstanding of each of the registrant's classes of common stock.

Common Stock, No par value
(Title of each class)

1,000 Shares
(Outstanding at March 30, 1998)

Indicated 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

Registrant meets the conditions of General Instruction J(1)(a) and (b) to Form 10-K for certain wholly-owned subsidiaries and is therefore filing an abbreviated form.

KANSAS GAS AND ELECTRIC COMPANY
FORM 10-K
December 31, 1997

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PART I

ITEM 1. BUSINESS

GENERAL

The company is an electric public utility engaged in the generation, transmission, distribution and sale of electric energy in the southeastern quarter of Kansas including the Wichita metropolitan area. The company is a wholly-owned subsidiary of Western Resources, Inc. The company owns 47% of Wolf Creek Nuclear Operating Corporation, the operating company for Wolf Creek Generating Station (Wolf Creek). Corporate headquarters of the company is located in Wichita, Kansas. The company has no gas properties. At December 31, 1997, the company had no employees. All employees are provided by the company's parent, Western Resources.

On February 7, 1997, the Western Resources signed a merger agreement with Kansas City Power & Light Company (KCPL) by which KCPL would be merged with and into Western Resources in exchange for Western Resources common stock. In December 1997, representatives of the Western Resources' financial advisor indicated that they believed it was unlikely that they would be in a position to issue a fairness opinion required for the merger on the basis of the previously announced terms.

On March 18, 1998, Western Resources and Kansas City Power & Light Company (KCPL) announced a restructuring of their February 7, 1997, merger agreement which will result in the formation of Westar Energy, a new electric company. Under the terms of the merger agreement, the electric utility operations of Western Resources will be transferred to the company, and KCPL and the company will be merged into NKC, Inc., a subsidiary of Western Resources. NKC, Inc. will be renamed Westar Energy. In addition, under the merger agreement, KCPL shareowners will receive \$23.50 of Western Resources common stock per KCPL share, subject to a collar mechanism, and one share of Westar Energy common stock per KCPL share. Upon consummation of the combination, Western Resources will own approximately 80.1% of the outstanding equity of Westar Energy and KCPL shareowners will own approximately 19.9%. As part of the combination, Westar Energy will assume all of the electric utility related assets and liabilities of Western Resources, KCPL, and the company.

Westar Energy will assume \$2.7 billion in debt, consisting of \$1.9 billion of indebtedness²³ for borrowed money of Western Resources and the company, and \$800 million of debt of KCPL. Long-term debt of Western Resources and the company was \$2.1 billion at December 31, 1997. Under the terms of the merger agreement, it is intended that the company will be released from its obligations with respect to the company's debt to be assumed by Westar Energy.

For additional information concerning the company's long-term debt and obligations under the La Cygne sale leaseback arrangements which will become obligations of Westar Energy, see Note 5 and Note 6 of "Notes to Financial Statements".

Consummation of the merger is subject to customary conditions including obtaining the approval of Western Resources' and KCPL's shareowners and various regulatory agencies. Western Resources estimates the transaction to close by mid-1999, subject to receipt of all necessary approvals.

KCPL is a public utility company engaged in the generation, transmission, distribution, and sale of electricity to customers in western Missouri and eastern Kansas. KCPL, Western Resources, and the company have joint interests in certain electric generating assets, including Wolf Creek. For additional information, see "Financing" below, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 14 of "Notes to Financial Statements".

The United States electric utility industry is evolving from a regulated monopolistic market to a competitive marketplace. The 1992 Energy Policy Act began deregulating the electricity industry. The Energy Policy Act permitted the Federal Energy Regulatory Commission (FERC) to order electric utilities to allow third parties the use of their transmission systems to sell electric power to wholesale customers. A wholesale sale is defined as a utility selling electricity to a "middleman", usually a city or its utility company, to resell to the ultimate retail customer. As part of the 1992 acquisition of the company by Western Resources, we agreed to open access of our transmission system for wholesale transactions. FERC also requires us to provide transmission services to others under terms comparable to those we provide to ourselves. For discussion regarding competition in the electric utility industry and the potential impact on the company, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Discussion of other factors affecting the company are set forth in the Notes to Financial Statements and Management's Discussion and Analysis included herein.

ELECTRIC OPERATIONS

General

The company supplies electric energy at retail to approximately 280,000 customers in 139 communities in Kansas. The company also supplies electric energy to 27 communities and 1 rural electric cooperative, and has contracts for the sale, purchase or exchange of electricity with other utilities at wholesale.

The company's electric sales volumes for the last five years were as follows:

| | 1997 | 1996 | 1995 | 1994 | 1993 |
|---------------------------|--------------------|--------|-------|-------|-------|
| | (Thousands of MWH) | | | | |
| Residential | 2,490 | 2,503 | 2,385 | 2,384 | 2,386 |
| Commercial | 2,211 | 2,186 | 2,095 | 2,068 | 1,991 |
| Industrial | 3,518 | 3,501 | 3,542 | 3,371 | 3,323 |
| Wholesale and Interchange | 2,101 | 2,706 | 1,292 | 1,590 | 2,004 |
| Other | 45 | 45 | 45 | 45 | 45 |
| Total | 10,365 | 10,941 | 9,359 | 9,458 | 9,749 |

The company's electric sales for the last five years were as follows:

| | 1997(1) | 1996 | 1995 | 1994 | 1993 |
|---------------------------|------------------------|-----------|-----------|-----------|-----------|
| | (Dollars in Thousands) | | | | |
| Residential | \$214,719 | \$226,456 | \$221,628 | \$220,067 | \$219,069 |
| Commercial | 162,913 | 176,963 | 171,654 | 167,499 | 162,858 |
| Industrial | 165,614 | 175,420 | 182,930 | 181,119 | 179,256 |
| Wholesale and Interchange | 53,343 | 57,242 | 31,143 | 38,750 | 45,843 |
| Other | 17,856 | 18,489 | 16,813 | 12,458 | 9,981 |
| Total | \$614,445 | \$654,570 | \$624,168 | \$619,893 | \$617,007 |

(1) Electric sales decreased primarily due to electric rate decrease implemented on February 1, 1997.

Capacity

The aggregate net generating capacity of the company's system is presently 2,530 megawatts (MW). The system comprises interests in twelve fossil fueled steam generating units, one nuclear generating unit (47% interest) and one

diesel generator, located at seven generating stations. One of the twelve fossil fueled units (70 MW capacity) has been "mothballed" for future use (See Item 2. Properties).

The company's 1997 peak system net load occurred on July 24, 1997 and amounted to 1,868 MW. The company's net generating capacity together with power available from firm interchange and purchase contracts, provided a capacity margin of approximately 19% above system peak responsibility at the time of the peak.

The company and twelve companies in Kansas and western Missouri have agreed to provide capacity (including margin), emergency and economy services for each other. This arrangement is called the MOKAN Power Pool. The pool participants also coordinate the planning of electric generating and transmission facilities.

The company is one of 54 members of the Southwest Power Pool (SPP). SPP's responsibility is to maintain system reliability on a regional basis. The region encompasses areas within the eight states of Kansas, Missouri, Oklahoma, New Mexico, Texas, Louisiana, Arkansas, and Mississippi.

In 1994, the company joined the Western Systems Power Pool (WSPP). Under this arrangement, over 172 electric utilities and marketers throughout the western United States have agreed to market energy and to provide transmission services. WSPP's intent is to increase the efficiency of the interconnected power systems operations over and above existing operations. Services available include short-term and long-term economy energy transactions, unit commitment service, firm capacity and energy sales, energy exchanges, and transmission service by intermediate systems.

During 1994, the company entered into an agreement with Midwest Energy, Inc. (MWE), whereby the company will provide MWE with peaking capacity of 61 MW through the year 2008. The company also entered into an agreement with Empire District Electric Company (Empire), whereby the company will provide Empire with peaking and base load capacity (20 MW in 1994 increasing to 80 MW in 2000) through the year 2000.

Future Capacity

The company does not contemplate any significant expenditures in connection with construction of any major generating facilities for the next five years. (See Item 7. Management's Discussion and Analysis, Liquidity and Capital Resources). The company has capacity available which may not be fully utilized by growth in customer demand for at least 5 years. The company continues to market this capacity and energy to other utilities.

Fuel Mix

The company's coal-fired units comprise 1,115 MW of the total 2,530 MW of generating capacity and the company's nuclear unit provides 547 MW of capacity. Of the remaining 868 MW of generating capacity, units that can burn either natural gas or oil account for 865 MW, and the remaining unit which burns only diesel fuel accounts for 3 MW (See Item 2. Properties).

During 1997, low sulfur coal was used to produce 56% of the company's electricity. Nuclear produced 35% and the remainder was produced from natural gas, oil, or diesel fuel. During 1998, based on the company's estimate of the availability of fuel, coal will to be used to produce approximately 56% of the company's electricity and nuclear will be used to produce 36%.

The company's fuel mix fluctuates with the operation of nuclear powered Wolf Creek which has an 18-month refueling and maintenance schedule. The 18-month schedule permits uninterrupted operation every third calendar year. Wolf Creek was taken off-line on October 4, 1997 for its ninth refueling and maintenance outage. The outage lasted approximately 58 days during which time electric demand was met primarily by the company's coal-fired generating units.

Nuclear

The owners of Wolf Creek have on hand or under contract 100% of their uranium needs for 1998 and 59% of the uranium required to operate Wolf Creek through September 2003. The balance is expected to be obtained through spot market and contract purchases. The company has three active contracts with the following companies for uranium: Cameco Corporation, Geomex Minerals, Inc., and Power Resources, Inc.

A contractual arrangement is in place with Cameco Corporation for the conversion of uranium to uranium hexafluoride sufficient for the operation of Wolf Creek through the year 2001.

The company has two active contracts for uranium enrichment performed by Urenco and USEC. Contracted arrangements cover 80% of Wolf Creek's uranium enrichment requirements for operation of Wolf Creek through March 2005. The balance is expected to be obtained through spot market and term contract purchases.

The company has entered into all of its uranium, uranium hexafluoride and uranium enrichment arrangements during the ordinary course of business and is not substantially dependent upon these agreements. The company believes there are other suppliers available at reasonable prices to replace, if necessary, these contracts. In the event that the company were required to replace these contracts, it would not anticipate a substantial disruption of its business.

Nuclear fuel is amortized to cost of sales based on the quantity of heat produced for the generation of electricity. Under the Nuclear Waste Policy Act of 1982, the Department of Energy (DOE) is responsible for the permanent disposal of spent nuclear fuel. The company pays the DOE a quarterly fee of one-tenth of a cent for each kilowatt-hour of net nuclear generation delivered and sold for future disposal of spent nuclear fuel. These disposal costs are charged to cost of sales and currently recovered through rates.

In 1996, a U.S. Court of Appeals issued a decision that the Nuclear Waste Act unconditionally obligated the DOE to begin accepting spent fuel for disposal in 1998. In late 1997, the same court issued another decision precluding the DOE from concluding that its delay in accepting spent fuel is "unavoidable" under its contracts with utilities due to lack of a repository or interim storage authority. By the end of 1997, the company and other utilities had petitioned the DOE for authority to suspend payments of their quarterly fees until such time as the DOE begins accepting spent fuel. In January 1998, the DOE denied the petition of the utilities. The company is considering its response to the DOE's action.

A permanent disposal site may not be available for the industry until 2010 or later, although an interim facility may be available earlier. Under current DOE policy, once a permanent site is available, the DOE will accept spent nuclear fuel on a priority basis; the owners of the oldest spent fuel will be given the highest priority. As a result, disposal services for Wolf Creek may not be available prior to 2016. Wolf Creek has on-site temporary storage for spent nuclear fuel. Under current regulatory guidelines, this facility can provide storage space until about 2005. Wolf Creek has started plans to increase its on-site spent fuel storage capacity. That project, expected to be completed by 2000, should provide storage capacity for all spent fuel expected to be generated by Wolf Creek through the end of its licensed life in 2025.

The Low-Level Radioactive Waste Policy Amendments Act of 1985 mandated that the various states, individually or through interstate compacts, develop alternative low-level radioactive waste disposal facilities. The states of Kansas, Nebraska, Arkansas, Louisiana and Oklahoma formed the Central Interstate Low-Level Radioactive Waste Compact and selected a site in northern Nebraska to locate a disposal facility. The present estimate of the cost for such a facility is about \$154 million. WCNOC and the owners of the other five nuclear units in the compact have provided most of the pre-construction financing for this project.

There is uncertainty as to whether this project will be completed. Significant opposition to the project has been raised by Nebraska officials and residents in the area of the proposed facility, and attempts have been made through litigation and proposed legislation in Nebraska to slow down or stop development of the facility.

Additional information with respect to insurance coverage applicable to the operations of the company's nuclear generating facility is set forth in Note 2 of the Notes to Consolidated Financial Statements.

Coal

The three coal-fired units at Jeffrey Energy Center (JEC) have an aggregate capacity of 438 MW (KGE's 20% share) (See Item 2. Properties).

Western Resources, the operator of JEC, and KGE have a long-term coal supply contract with Amax Coal West, Inc. (AMAX), a subsidiary of Cyprus Amax Coal Company, to supply low sulfur coal to JEC from AMAX's Eagle Butte Mine or an alternate mine source of AMAX's Belle Ayr Mine, both located in the Powder River Basin in Campbell County, Wyoming. The contract expires December 31, 2020. The contract contains a schedule of minimum annual delivery quantities based on MMBtu provisions. The coal to be supplied is surface mined and has an average Btu content of approximately 8,300 Btu per pound and an average sulfur content of .43 lbs/MMBtu (See Environmental Matters). The average delivered cost of coal for JEC was approximately \$1.13 per MMBtu or \$18.92 per ton during 1997.

Coal is transported by Western Resources from Wyoming under a long-term rail transportation contract with Burlington Northern Santa Fe and Union Pacific railroads to JEC through December 31, 2013. Rates are based on net

load carrying capabilities of each rail car. Western Resources provides 868 aluminum rail cars, under a 20 year lease, to transport coal to JEC.

The two coal-fired units at La Cygne Station have an aggregate generating capacity of 677 MW (KGE's 50% share) (See Item 2. Properties). The operator, Kansas City Power & Light Company (KCPL), maintains coal contracts as discussed in the following paragraphs.

La Cygne 1 uses low sulfur Powder River Basin coal which is supplied under a variety of spot market transactions, discussed below. High Btu Kansas/Missouri coal is blended with the Powder River Basin coal and is secured from time to time under spot market arrangements. La Cygne 1 uses a blended fuel mix containing approximately 85% Powder River Basin coal.

La Cygne 2 and additional La Cygne 1 Powder River Basin coal is supplied through several contracts, expiring at various times through 1999. This low sulfur coal had an average Btu content of approximately 8,500 Btu per pound and a maximum sulfur content of .50 lbs/MMBtu (See Environmental Matters). Transportation is covered by KCPL through its Omnibus Rail Transportation Agreement with Burlington Northern Santa Fe Railroad and Kansas City Southern Railroad through December 31, 2000.

During 1997, the average delivered cost of all local and Powder River Basin coal procured for La Cygne 1 was approximately \$0.70 per MMBtu or \$12.31 per ton and the average delivered cost of Powder River Basin coal for La Cygne 2 was approximately \$0.67 per MMBtu or \$11.32 per ton.

The company has entered into all of its coal contracts during the ordinary course of business and is not substantially dependent upon these contracts. The company believes there are other suppliers for and plentiful sources of coal available at reasonable prices to replace, if necessary, fuel to be supplied pursuant to these contracts. In the event that the company were required to replace its coal agreements, it would not anticipate a substantial disruption of the company's business.

The company has entered into all of its transportation contracts during the ordinary course of business. At the time of entering into these contracts, the company was not substantially dependent upon these contracts due to the availability of competitive rail options. Due to recent rail consolidation, there are now only two rail carriers capable of serving the company's origin coal mines and its generating stations. In the event one of these carriers became unable to provide reliable service, the company could

experience a short-term disruption of its business. However, due to the obligation of the remaining carriers to provide service under the Interstate Commerce Act, the company does not anticipate any substantial long-term disruption of its business.

Natural Gas

The company uses natural gas as a primary fuel in its Gordon Evans and Murray Gill Energy Centers. Natural gas for these generating stations is supplied by readily available gas from the spot market. Short-term economical spot market purchases will supply the system with the flexible natural gas supply to meet operational needs.

Oil

The company uses oil as an alternate fuel when economical or when interruptions to natural gas make it necessary. Oil is also used as a supplemental fuel at JEC and La Cygne generating stations. All oil burned by the company during the past several years has been obtained by spot market purchases. At December 31, 1997, the company had approximately one million gallons of No. 2 oil and eleven million gallons of No. 6 oil which is believed to be sufficient to meet emergency requirements and protect against lack of availability of natural gas and/or the loss of a large generating unit.

Other Fuel Matters

The company's contracts to supply fuel for its coal and natural gas-fired generating units, with the exception of JEC, do not provide full fuel requirements at the various stations. Supplemental fuel is procured on the spot market to provide operational flexibility and, when the price is favorable, to take advantage of economic opportunities.

Set forth in the table below is information relating to the weighted

average cost of fuel used by the company.

| | 1997 | 1996 | 1995 | 1994 | 1993 |
|--------------------------|--------|--------|--------|--------|--------|
| Per Million Btu: | | | | | |
| Nuclear | \$0.51 | \$0.50 | \$0.40 | \$0.36 | \$0.35 |
| Coal | 0.89 | 0.88 | 0.91 | 0.90 | 0.96 |
| Gas | 2.56 | 2.30 | 1.68 | 1.98 | 2.37 |
| Oil | 3.32 | 2.74 | 4.00 | 3.90 | 3.15 |
| Cents per KWH Generation | 1.00 | 0.93 | 0.82 | 0.89 | 0.93 |

Environmental Matters

The company currently holds all Federal and State environmental approvals required for the operation of its generating units. The company believes it is presently in substantial compliance with all air quality regulations (including those pertaining to particulate matter, sulfur dioxide and nitrogen oxides (NOx)) promulgated by the State of Kansas and the Environmental Protection Agency (EPA).

The Federal sulfur dioxide standards applicable to the company's JEC and La Cygne 2 units, prohibit the emission of more than 1.2 pounds of sulfur dioxide per million Btu of heat input. Federal particulate matter emission standards applicable to these units prohibit: (1) the emission of more than 0.1 pounds of particulate matter per million Btu of heat input and (2) an opacity greater than 20%. Federal NOx emission standards applicable to these units prohibit the emission of more than 0.7 pounds of NOx per million Btu of heat input.

The JEC and La Cygne 2 units have met: (1) the sulfur dioxide standards through the use of low sulfur coal (See Coal); (2) the particulate matter standards through the use of electrostatic precipitators; and (3) the NOx standards through boiler design and operating procedures. The JEC units are also equipped with flue gas scrubbers providing additional sulfur dioxide and particulate matter emission reduction capability when needed to meet permit limits.

The Kansas Department of Health and Environment (KDHE) regulations, applicable to the company's other generating facilities, prohibit the emission of more than 3.0 pounds of sulfur dioxide per million Btu of heat input at the company's generating units. The company has sufficient low sulfur coal under contract (See Coal) to allow compliance with such limits at La Cygne 1 for the life of the contract. All facilities burning coal are equipped with flue gas scrubbers and/or electrostatic precipitators.

The company must comply with the provisions of The Clean Air Act Amendments of 1990 that require a two-phase reduction in certain emissions. The company has installed continuous monitoring and reporting equipment to meet the acid rain requirements. The company does not expect material capital expenditures to be required to meet Phase II sulfur dioxide and nitrogen oxide requirements.

All of the company's generating facilities are in substantial compliance with the Best Practicable Technology and Best Available Technology regulations issued by the EPA pursuant to the Clean Water Act of 1977. Most EPA regulations are administered in Kansas by the KDHE.

Additional information with respect to Environmental Matters is discussed in Note 2 of the "Notes to Financial Statements".

FINANCING

The company's ability to issue additional debt is restricted under limitations imposed by the Mortgage and Deed of Trust of the company.

The company's mortgage prohibits additional first mortgage bonds from being issued (except in connection with certain refundings) unless the company's net earnings before income taxes and before provision for retirement and depreciation of property for a period of 12 consecutive months within 15 months preceding the issuance are not less than two and one-half times the annual interest charges on, or 10% of the principal amount of, all first mortgage bonds outstanding after giving effect to the proposed issuance. Based on the company's results for the 12 months ended December 31, 1997, approximately \$935 million principal amount of additional first mortgage bonds could be issued (7.25% interest rate assumed).

KGE bonds may be issued, subject to the restrictions in the preceding paragraph, on the basis of property additions not subject to an unfunded prior lien and on the basis of bonds which have been retired. As of December 31, 1997, the company had approximately \$1.4 billion of net bondable property additions not subject to an unfunded prior lien entitling the company to issue

up to \$961 million principal amount of additional bonds. As of December 31, 1997, \$17 million in additional bonds could be issued on the basis of retired bonds.

In connection with the combination of the electric utility operations of Western Resources, KCPL and the company, Westar Energy will assume \$1.9

billion of indebtedness for borrowed money of Western Resources and the company comprised primarily of the companies' outstanding long-term debt. Pursuant to the amended and restated agreement and plan of merger, the company's mortgage, by operation of law, will be assumed by Westar Energy. See, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 14 of "Notes to Financial Statements".

REGULATION AND RATES

The company is subject as an operating electric utility to the jurisdiction of the KCC which has general regulatory authority over the company's rates, extensions and abandonments of service and facilities, valuation of property, the classification of accounts and various other matters. The company is also subject to the jurisdiction of the FERC and the KCC with respect to the issuance of the company's securities.

Additionally, the company is subject to the jurisdiction of the FERC, including jurisdiction as to rates with respect to sales of electricity for resale, and the Nuclear Regulatory Commission as to nuclear plant operations and safety.

Additional information with respect to Regulation and Rates is discussed in Notes 1 and 3 of the "Notes to Financial Statements" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

EXECUTIVE OFFICERS OF THE COMPANY

| Name | Age | Present Office | Other Offices or Positions Held During Past Five Years |
|--------------------|-----|---|--|
| William B. Moore | 45 | Chairman of the Board and President (since June 1995) | Vice President, Finance - Western Resources, Inc. |
| Richard D. Terrill | 43 | Secretary, Treasurer and General Counsel | |

Executive officers serve at the pleasure of the Board of Directors. There are no family relationships among any of the officers, nor any arrangements or understandings between any officer and other persons pursuant to which he was appointed as an officer.

ITEM 2. PROPERTIES

The company owns or leases and operates an electric generation, transmission, and distribution system in Kansas.

ELECTRIC FACILITIES

| Name | Unit No. | Year Installed | Principal Fuel | Unit Capacity (MW) (1) |
|----------------------------------|----------|----------------|----------------|------------------------|
| Gordon Evans Energy Center: | | | | |
| Steam Turbines | 1 | 1961 | Gas--Oil | 152 |
| | 2 | 1967 | Gas--Oil | 382 |
| Jeffrey Energy Center (20%) (2): | | | | |
| Steam Turbines | 1 | 1978 | Coal | 147 |
| | 2 | 1980 | Coal | 147 |
| | 3 | 1983 | Coal | 144 |
| La Cygne Station (50%) (2): | | | | |
| Steam Turbines | 1 | 1973 | Coal | 343 |
| | 2 | 1977 | Coal | 334 |
| Murray Gill Energy Center: | | | | |
| Steam Turbines | 1 | 1952 | Gas--Oil | 44 |
| | 2 | 1954 | Gas--Oil | 74 |
| | 3 | 1956 | Gas--Oil | 107 |
| | 4 | 1959 | Gas--Oil | 106 |
| Neosho Energy Center: | | | | |

| | | | | |
|-------------------------------|---|------|----------|-------|
| Steam Turbine | 3 | 1954 | Gas--Oil | 0 (3) |
| Wichita Plant: | | | | |
| Diesel Generator | 5 | 1969 | Diesel | 3 |
| Wolf Creek | | | | |
| Generating Station (47%) (2): | | | | |
| Nuclear | 1 | 1985 | Uranium | 547 |
| Total | | | | 2,530 |

(1) Based on MOKAN rating.

(2) The company jointly owns Jeffrey Energy Center (20%), La Cygne Station (50%) and Wolf Creek Generating Station (47%). Western Resources jointly owns 64% of Jeffrey Energy Center. KCPL jointly owns 50% of La Cygne Station and 47% of Wolf Creek Generating Station.

(3) This unit has been "mothballed" for future use.

ITEM 3. LEGAL PROCEEDINGS

Information on legal proceedings involving the company is set forth in Notes 2, 3, and 8 of Notes to Financial Statements included herein. See also Item 1. Business, Environmental Matters, and Regulation and Rates.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Information required by Item 4 is omitted pursuant to General Instruction J(2)(c) to Form 10-K.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The company's common stock is owned by Western Resources and is not traded on an established public trading market. See Note 14 of "Notes to Financial Statements" for information concerning the effect on the ownership of the company's common stock caused by the pending transaction with KCPL.

ITEM 6. SELECTED FINANCIAL DATA

| | 1997 | 1996 | 1995 | 1994 | 1993 |
|--|------------------------|------------|------------|------------|------------|
| | (Dollars in Thousands) | | | | |
| Income Statement Data: | | | | | |
| Sales | \$ 614,445 | \$ 654,570 | \$ 624,168 | \$ 619,893 | \$ 617,007 |
| Income from operations | 124,008 | 186,961 | 209,739 | 211,248 | 196,365 |
| Net income | 52,128 | 96,274 | 110,873 | 104,526 | 108,103 |
| Balance Sheet Data: | | | | | |
| Total assets | 3,117,108 | 3,318,887 | 3,203,414 | 3,237,684 | 3,187,479 |
| Long-term debt | 684,128 | 684,068 | 684,082 | 699,992 | 653,543 |
| Interest coverage ratio (before income taxes, including AFUDC) | 2.38 | 3.28 | 4.11 | 4.02 | 3.58 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

In Management's Discussion and Analysis we explain the general financial condition and the operating results for the company. We explain:

- What factors impact our business

- What our earnings and costs were in 1997 and 1996
- Why these earnings and costs differed from year to year
- How our earnings and costs affect our overall financial condition
- What our capital expenditures were for 1997
- What we expect our capital expenditures to be for the years 1998 through 2000
- How we plan to pay for these future capital expenditures
- Any other items that particularly affect our financial condition or earnings

As you read Management's Discussion and Analysis, please refer to our Statements of Income on page 26. These statements show our operating results for 1997, 1996 and 1995. In Management's Discussion and Analysis, we analyze and explain the significant annual changes of specific line items in the Statements of Income.

FORWARD-LOOKING STATEMENTS: Certain matters discussed here and elsewhere in this Annual Report are "forward-looking statements." The Private Securities Litigation Reform Act of 1995 has established that these statements qualify for safe harbors from liability. Forward-looking statements may include words like we "believe," "anticipate," "expect" or words of similar meaning. Forward-looking statements describe our future plans, objectives, expectations or goals. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rate and other regulatory matters, possible corporate restructurings, mergers, acquisitions, dispositions liquidity and capital resources, interest and dividend rates, environmental matters, changing weather, nuclear operations and accounting matters. What happens in each case could vary materially from what we expect because of such things as electric utility deregulation, including ongoing state and federal activities; future economic conditions; legislative developments; our regulatory and competitive markets; and other circumstances affecting anticipated operations, sales and costs.

1997 HIGHLIGHTS

WESTERN RESOURCES MERGER AGREEMENT WITH KANSAS CITY POWER & LIGHT COMPANY: On February 7, 1997, the Western Resources signed a merger agreement with KCPL by which KCPL would be merged with and into Western Resources in exchange for Western Resources common stock. In December 1997, representatives of the Western Resources' financial advisor indicated that they believed it was unlikely that they would be in a position to issue a fairness opinion required for the merger on the basis of the previously announced terms.

On March 18, 1998, Western Resources and KCPL announced a restructuring of their February 7, 1997, merger agreement which will result in the formation of

Westar Energy, a new electric company. Under the terms of the merger agreement, the electric utility operations of Western Resources will be transferred to the company, and KCPL and the company will be merged into NKC, Inc., a subsidiary of Western Resources. NKC, Inc. will be renamed Westar Energy. In addition, under the merger agreement, KCPL shareowners will receive \$23.50 of Western Resources common stock per KCPL share, subject to a collar mechanism, and one share of Westar Energy common stock per KCPL share. Upon consummation of the combination, Western Resources will own approximately 80.1% of the outstanding equity of Westar Energy and KCPL shareowners will own approximately 19.9%. As part of the combination Westar Energy will assume all of the electric utility related assets and liabilities of Western Resources, KCPL, and the company.

Westar Energy will assume \$2.7 billion in debt, consisting of \$1.9 billion of indebtedness for borrowed money of Western Resources and the company, and \$800 million of debt of KCPL. Long-term debt of Western Resources and the company was \$2.1 billion at December 31, 1997. Under the terms of the merger agreement, it is intended that the company will be released from its obligations with respect to the company's debt to be assumed by Westar Energy. For additional information concerning the company's long-term debt and obligations under the La Cygne sale leaseback arrangements which will become obligations of Westar Energy, see Note 5 and Note 6 of "Notes to Financial Statements".

Consummation of the merger is subject to customary conditions including obtaining the approval of Western Resources' and KCPL's shareowners and various regulatory agencies. Western Resources estimates the transaction to close by mid-1999, subject to receipt of all necessary approvals.

KCPL is a public utility company engaged in the generation, transmission, distribution, and sale of electricity to customers in western Missouri and eastern Kansas. We, KCPL and KGE have joint interests in certain electric generating assets, including Wolf Creek. Following the closing of the combination Westar Energy is expected to have approximately one million

electric utility customers in Kansas and Missouri, approximately \$8.2 billion in assets and the ability to generate more than 8,000 megawatts of electricity. For additional information, see "Financing in Item 1. Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 14 of "Notes to Financial Statements".

ELECTRIC RATE DECREASE: On May 23, 1996, we reduced our electric rates by \$8.7 million annually on an interim basis. On October 22, 1996, the KCC Staff, the City of Wichita, the Citizens Utility Ratepayer Board and we filed an agreement asking the KCC to reduce our retail electric rates. The KCC approved this agreement on January 15, 1997. Per the agreement:

- We made permanent the May 1996 interim \$8.7 million decrease in our annual rates on February 1, 1997
- We reduced our annual rates by \$36 million on February 1, 1997
- We rebated \$2.3 million to our customers in January 1998
- We will reduce our annual rates by an additional \$10 million on June 1, 1998
- We will rebate an additional \$2.3 million to our customers in January 1999
- We will reduce our annual rates by an additional \$10 million on June 1, 1999

All rate decreases are cumulative. Rebates are one-time events and do not influence future rates. See "Financial Condition" below and Note 3.

FINANCIAL CONDITION

1997 compared to 1996: Net income of \$52.1 million for 1997 decreased substantially from \$96.3 million for 1996. The decrease in net income is primarily attributable to the implementation of a \$36 million rate reduction on February 1, 1997, and an \$8.7 million interim rate reduction which became permanent on January 15, 1997.

1996 compared to 1995: Net income for 1996 decreased to \$96.3 million or \$14.6 million from \$110.9 million for 1995. The amortization of the acquisition adjustment as a result of the Merger and a \$8.7 million interim rate reduction implemented on May 23, 1996, were primary reasons for the decline in net income. Abnormally cool summer weather during the third quarter of 1996 also adversely affected earnings.

OPERATING RESULTS

In our "1997 Highlights", we discussed factors that most significantly changed our operating results for 1997 compared to 1996.

The following explains significant changes from prior year results in sales, cost of sales, operating expenses, other income (expense), interest expense and income taxes.

SALES: Sales are based on sales volumes and rates authorized by the Kansas Corporation Commission (KCC) and the Federal Energy Regulatory Commission (FERC). Rates charged for the sale and delivery of electricity are designed to recover the cost of service and allow investors a fair rate of return. Our sales vary with levels of sales volume. Changing weather affects the amount of energy our customers use. Very hot summers and very cold winters prompt more demand, especially among our residential customers. Mild weather reduces demand.

Many things will affect our future sales. They include:

- The weather
- Our electric rates
- Competitive forces
- Customer conservation efforts
- Wholesale demand
- The overall economy of our service area

1997 compared to 1996: Sales decreased \$40.1 million or six percent because of lower electric rates which were implemented on February 1, 1997. Reduced electric rates lowered 1997 sales by an estimated \$36.8 million compared to 1996. The rate decreases we have agreed to make will impact future sales. Sales volumes to our retail customers remained virtually unchanged for 1997.

1996 compared to 1995: Sales increased five percent primarily due to higher wholesale and interchange sales volume as a result of an increase in customers. Increased residential and commercial sales also contributed to the increase as a result of colder winter and warmer spring temperatures. Our

service territory experienced a 17% increase in heating degree days during the first quarter and cooling degree days more than doubled during the second quarter of 1996 compared to the same periods in 1995. Partially offsetting this increase was the \$8.7 million electric rate reduction implemented on an interim basis on May 23, 1996 and made permanent on February 1, 1997.

COST OF SALES: Items included in energy cost of sales are fuel expense and purchased power expense (electricity we purchase from others for resale).

Electric fuel costs are included in base rates. Therefore, if we wished to recover an increase in fuel costs, we would have to file a request for recovery in a rate filing with the KCC which could be denied in whole or in part. Any increase in fuel costs from the projected average which the company did not recover through rates would reduce our earnings. The degree of any such impact would be affected by a variety of factors, however, and thus cannot be predicted.

1997 compared to 1996: Actual cost of fuel to generate electricity (coal, nuclear fuel, natural gas or oil) and the amount of power purchased from other utilities were \$6.3 million higher in 1997 than in 1996. Our Wolf Creek nuclear generating station was off-line in the fourth quarter of 1997 for scheduled maintenance and our La Cygne coal generation station was off-line during 1997 for an extended maintenance outage. As a result, we purchased more power from other utilities and burned more natural gas to generate electricity at our facilities. Natural gas is more costly to burn than coal and nuclear fuel for generating electricity.

1996 compared to 1995: Cost of sales for 1996 was \$18.7 million or 18% higher than 1995. We purchased more power from other utilities because our Wolf Creek nuclear generating station was off-line in the first quarter of 1996 for a planned refueling outage. Higher net generation due to increased interchange sales also contributed to the higher fuel and purchased power expenses.

OPERATING EXPENSES

Operating and Maintenance Expense: Operating and maintenance expense increased \$4.0 million in 1997 compared to 1996. An extended maintenance outage at our La Cygne generating station accounted for most of this increase. Operating and maintenance expense for 1996 of \$176 million increased \$23.8 million over 1995. This increase is attributable to an increase in KGE's portion of costs shared between Western Resources and KGE which are associated with the dispatching of electric power.

Depreciation and Amortization Expense: Depreciation and amortization expense increased \$9.6 million in 1997 from 1996 due to the additional amortization of \$8.8 million we recorded relating to phase-in revenues. A full year of amortization of the acquisition adjustment relating to the Merger increased our depreciation and amortization expense for 1996 compared to 1995 by approximately \$14 million.

Selling, General and Administrative Expense: Selling, general and administrative expense has increased \$2.9 million from 1996 to 1997. Most of this increase is attributable to higher employee benefit costs.

OTHER INCOME (EXPENSE): Other income (expense) includes miscellaneous income and expenses not directly related to our operations. Other income (expense) for 1997 declined \$7.7 million from 1996. The decrease is primarily due to income and expenses relating to our corporate-owned life insurance policies. Other income (expense) decreased in 1996 from 1995 as a result of a gain on the sale of utility plant which we recognized in the first quarter of 1995.

INTEREST EXPENSE: Interest expense includes the interest we paid on outstanding debt. We recognized a \$7.4 million decrease in short-term debt interest in 1997 compared to 1996. During 1997 we held a smaller average short-term debt balance than in 1996. Proceeds from the repayment of advances to parent company were used to repay current outstanding short-term debt. The proceeds we received are reflected in the decrease in current assets, advances to parent company (net) on the Balance Sheets. From 1996 to 1995, interest recorded on short-term debt increased \$6.6 million due to the higher short-term debt balances we held during 1996.

INCOME TAXES: Income taxes decreased \$18.9 million in 1997 and \$15.5 million in 1996. These substantial decreases are primarily due to the decreases we have recognized in net income for the last two years.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW: The company's liquidity is a function of its ongoing construction and maintenance program designed to improve facilities which provide electric service and meet future customer service requirements. Our ability to provide the cash or debt to fund our capital expenditures depends upon many things, including available resources, our financial condition and current market conditions.

Other than operations, our primary source of short-term cash is from short-term bank loans and unsecured lines of credit. At December 31, 1997, we had approximately \$45 million of short-term debt outstanding. An additional \$100 million of short-term debt was available from committed credit arrangements.

Other funds are available to us from the sale of securities we register for sale with the Securities and Exchange Commission (SEC). As of December 31, 1997, \$50 million of KGE first mortgage bonds were registered.

The embedded cost of long-term debt was 7.3% at December 31, 1997 and 1996.

The company's capital structure at December 31, 1997 and 1996, was 62% and 63% common stock equity and 38% and 37% long-term debt, respectively.

SECURITY RATINGS: Standard & Poor's Ratings Group (S&P), Fitch Investors Service (Fitch) and Moody's Investors Service (Moody's) are independent credit-rating agencies. These agencies rate our debt securities. These ratings indicate the agencies' assessment of our ability to pay interest, dividends and principal on these securities. These ratings affect how much we will have to pay as interest or dividends on securities we sell to obtain additional capital. The better the rating, the less we will have to pay on debt securities we sell.

At December 31, 1997, ratings with these agencies were as follows:

| Rating Agency | Mortgage Bond Rating |
|---------------|----------------------------|
| S&P | BBB+ |
| Fitch | A- |
| Moody's | A3 |

Following the announcement of Western Resources restructured merger agreement with KCPL, S&P placed its ratings of Western Resources and the company on CreditWatch with positive implications.

FUTURE CASH REQUIREMENTS: We believe that internally generated funds and new and existing credit agreements will be sufficient to meet our operating and capital expenditure requirements and debt service payments through the year 2000. Uncertainties affecting our ability to meet these requirements with internally generated funds include the effect of competition and inflation on operating expenses, sales volume, regulatory actions, compliance with future environmental regulations, the availability of generating units and weather. The amount of these requirements and our ability to fund them will also be significantly impacted by the pending combination of Western Resources electric utility operations, KCPL and the company.

We believe that we will meet the needs of our electric utility customers without adding any major generation facilities in the next five years.

During 1997, construction expenditures for the company's electric system were approximately \$69 million and nuclear fuel expenditures were approximately \$19 million. The construction program is focused on providing service to new customers and improving present electric facilities.

Capital expenditures for 1998 through 2000 are anticipated to be as follows:

| | Electric | Nuclear Fuel |
|---------------|------------------------|--------------|
| | (Dollars in Thousands) | |
| 1998. | \$55,456 | \$22,711 |
| 1999. | 54,519 | 4,040 |
| 2000. | 53,429 | 22,803 |

These expenditures are estimates prepared for planning purposes and may be revised and do not take into account the pending combination of Western Resources electric utility operations, KCPL and the company.

ACQUISITION ADJUSTMENT IMPLEMENTATION: In accordance with the 1992 KCC merger order relating to the acquisition of Kansas Gas and Electric Company by Western Resources, amortization of the acquisition adjustment commenced August

1995. The amortization will amount to approximately \$20 million (pre-tax) per year for 40 years. We and Western Resources (combined companies) are recovering the amortization of the acquisition adjustment through cost savings under a sharing mechanism approved by the KCC.

Based on the order issued by the KCC, with regard to the recovery of the acquisition premium, the combined companies must achieve a level of savings on an annual basis (considering sharing provisions) of approximately \$27 million in order to recover the entire acquisition premium.

On January 15, 1997, the KCC fixed the annual merger savings level at \$40 million which provides complete recovery of the acquisition premium amortization expense and a return on the acquisition premium. See Note 3 for further information relating to rate matters and regulation.

As Western Resources' management presently expects to continue this level of savings, the amount is expected to be sufficient to allow for the full recovery of the acquisition premium.

OTHER INFORMATION

COMPETITION AND ENHANCED BUSINESS OPPORTUNITIES: The United States electric utility industry is evolving from a regulated monopolistic market to a competitive marketplace. The 1992 Energy Policy Act began deregulating the electricity industry. The Energy Policy Act permitted the FERC to order electric utilities to allow third parties the use of their transmission systems to sell electric power to wholesale customers. A wholesale sale is defined as a utility selling electricity to a "middleman", usually a city or its utility company, to resell to the ultimate retail customer. As part of the 1992 merger, we agreed to open access of our transmission system for wholesale transactions. FERC also requires us to provide transmission services to others under terms comparable to those we provide to ourselves. During 1997, wholesale electric revenues represented approximately 9% of total electric revenues.

Various states have taken steps to allow retail customers to purchase electric power from providers other than their local utility company. The Kansas Legislature has created a Retail Wheeling Task Force (the Task Force) to study the effects of a deregulated and competitive market for electric services. Legislators, regulators, consumer advocates and representatives from the electric industry make up the Task Force. The Task Force submitted a bill to the Kansas Legislature without recommendation. This bill seeks competitive retail electric service on July 1, 2001. The bill was introduced to the Kansas Legislature in the opening days of the 1998 legislative session, but is not expected to come to a vote this year. The Task Force also is evaluating how to recover certain investments in generation and related facilities which were approved and incurred under the existing regulatory model. Some of these investments may not be recoverable in a competitive marketplace. We have opposed the Task Force's bill for this reason. These unrecovered investments are commonly called "stranded costs." See "Stranded Costs" below for further discussion. Until a bill is passed by the Kansas Legislature, we cannot predict its impact on our company, but the impact could be material.

Increased competition for retail electricity sales may reduce future electric utility earnings compared to our historical electric utility earnings. After all electric rate decreases are implemented, our rates will be at 91% of the national average for retail customers. Because of these reduced rates, we expect to retain a substantial part of our current sales volume in a competitive environment. Finally, we believe the deregulated energy market may prove beneficial to us.

While operating in this competitive environment may place pressure on our profit margins and credit ratings, we expect it to create opportunities. Wholesale and industrial customers may pursue cogeneration, self-generation,

retail wheeling, municipalization or relocation to other service territories in an attempt to cut their energy costs. Credit rating agencies are applying more stringent guidelines when rating utility companies due to increasing competition.

We offer competitive electric rates for industrial improvement projects and economic development projects in an effort to maintain and increase electric load.

STRANDED COSTS: The definition of stranded costs for a utility business is the investment in and carrying costs on property, plant and equipment and other regulatory assets which exceed the amount that can be recovered in a competitive market. We currently apply accounting standards that recognize the

economic effects of rate regulation and record regulatory assets and liabilities related to our generation, transmission and distribution operations. If we determine that we no longer meet the criteria of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71), we may have a material extraordinary non-cash charge to operations. Reasons for discontinuing SFAS 71 accounting treatment include increasing competition that restricts our ability to charge prices needed to recover costs already incurred and a significant change by regulators from a cost-based rate regulation to another form of rate regulation. We periodically review SFAS 71 criteria and believe our net regulatory assets, including those related to generation, are probable of future recovery. If we discontinue SFAS 71 accounting treatment based upon competition or other events, we may significantly impact the value of our net regulatory assets and our utility plant investments, particularly the Wolf Creek facility. See "Competition and Enhanced Business Opportunities" above for initiatives taken to restructure the electric industry in Kansas.

Regulatory changes, including competition, could adversely impact our ability to recover our investment in these assets. As of December 31, 1997, we have recorded regulatory assets which are currently subject to recovery in future rates of approximately \$279 million. Of this amount, \$188 million is a receivable for income tax benefits previously passed on to customers. The remainder of the regulatory assets are items that may give rise to stranded costs that include coal contract settlement costs, deferred plant costs and debt issuance costs.

In a competitive environment, we may not be able to fully recover our entire investment in Wolf Creek. We presently own 47% of Wolf Creek. We may also have stranded costs from an inability to recover our environmental remediation costs and long-term fuel contract costs in a competitive environment. If we determine that we have stranded costs and we cannot recover our investment in these assets, our future net income will be lower than our historical net income has been unless we compensate for the loss of such income with other measures.

YEAR 2000 ISSUE: The company is currently addressing the effect of the Year 2000 Issue on our reporting systems and operations. We face the Year 2000 Issue because many computer systems and applications abbreviate dates by eliminating the first two digits of the year, assuming that these two digits are always "19". On January 1, 2000, some computer programs may incorrectly recognize the date as January 1, 1900. Some computer systems may incorrectly process critical financial and operational information, or stop processing altogether because of the date abbreviation. Calculations using the year 2000 will affect computer applications before January 1, 2000.

We plan to have our Year 2000 readiness efforts substantially completed by the end of 1998. We expect no significant operational impact on our ability to serve our customers, pay suppliers, or operate other areas of our business.

Western Resources currently estimates that the total cost to update all of its and our systems for Year 2000 compliance will be approximately \$7 million. In 1997, Western Resources expensed approximately \$3 million of these costs. Western Resources has allocated a portion of these costs to our company.

There can be no assurance however, that our suppliers will not be affected by the Year 2000 issue which could affect our operations.

DECOMMISSIONING: Decommissioning is a nuclear industry term for the permanent shut-down of a nuclear power plant when the plant's license expires. The Nuclear Regulatory Commission (NRC) will terminate a plant's license and release the property for unrestricted use when a company has reduced the residual radioactivity of a nuclear plant to a level mandated by the NRC. The NRC requires companies with nuclear power plants to prepare formal financial plans. These plans ensure that funds required for decommissioning will be accumulated during the estimated remaining life of the related nuclear power plant.

The SEC staff has questioned the way electric utilities recognize, measure and classify decommissioning costs for nuclear electric generating stations in their financial statements. In response to the SEC's questions, the Financial Accounting Standards Board is reviewing the accounting for closure and removal costs, including decommissioning of nuclear power plants. If current accounting practices for nuclear power plant decommissioning are changed, the following could occur:

- Our annual decommissioning expense could be higher than in 1997
- The estimated cost for decommissioning could be recorded as a liability (rather than as accumulated depreciation)
- The increased costs could be recorded as additional investment in the Wolf Creek plant

We do not believe that such changes, if required, would adversely affect our operating results due to our current ability to recover decommissioning costs through rates.

PRONOUNCEMENT ISSUED BUT NOT YET EFFECTIVE: In January 1998, the company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). This statement establishes standards for public business enterprises to report information about operating segments in interim and annual financial statements. Interim disclosure requirements are not required until 1999. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. Adoption of the disclosure requirements of SFAS 131 will affect our presentation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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SCHEDULES OMITTED

The following schedules are omitted because of the absence of the conditions under which they are required or the information is included in the financial statements and schedules presented:

I, II, III, IV, and V.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Kansas Gas and Electric Company:

We have audited the accompanying balance sheets of Kansas Gas and Electric Company (a wholly-owned subsidiary of Western Resources, Inc.) as of December 31, 1997 and 1996, and the related statements of income, cash flows and common shareowners' equity for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kansas Gas and Electric Company as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Kansas City, Missouri,
 January 29, 1998
 (March 24, 1998 with
 respect to Note 14 of the
 Notes to Financial Statements.)

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

| | December 31, | |
|--|--------------------|--------------------|
| | 1997 | 1996 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 43 | \$ 44 |
| Accounts receivable, net. | 66,654 | 75,671 |
| Advances to parent company (net). | 72,558 | 250,733 |
| Inventories and supplies, at average cost | 41,019 | 43,646 |
| Prepaid expenses and other. | 17,165 | 16,991 |
| Total Current Assets. | 197,439 | 387,085 |
| PROPERTY, PLANT AND EQUIPMENT (net) | 2,565,175 | 2,584,632 |
| OTHER ASSETS: | | |
| Regulatory assets | 278,568 | 286,908 |
| Other | 75,926 | 60,262 |
| Total Other Assets. | 354,494 | 347,170 |
| TOTAL ASSETS. | \$3,117,108 | \$3,318,887 |
| LIABILITIES AND SHAREOWNERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Short-term debt | \$ 45,000 | \$ 222,300 |
| Accounts payable. | 81,986 | 48,819 |
| Accrued liabilities | 32,745 | 36,455 |
| Accrued income taxes. | 4,212 | 11,228 |
| Other | 4,032 | 3,846 |
| Total Current Liabilities | 167,975 | 322,648 |
| LONG-TERM LIABILITIES: | | |
| Long-term debt (net). | 684,128 | 684,068 |
| Deferred income taxes and investment tax credits. | 820,838 | 823,233 |
| Deferred gain from sale-leaseback | 221,779 | 233,060 |
| Other | 87,909 | 73,527 |
| Total Long-term Liabilities | 1,814,654 | 1,813,888 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREOWNERS' EQUITY (See Statements): | | |
| Common stock, without par value, authorized and issued 1,000 shares | 1,065,634 | 1,065,634 |
| Retained earnings | 68,845 | 116,717 |
| Total Shareowners' Equity | 1,134,479 | 1,182,351 |
| TOTAL LIABILITIES AND SHAREOWNERS' EQUITY | \$3,117,108 | \$3,318,887 |

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

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

| | Year Ended December 31, | | |
|-------------------------|-------------------------|------------|------------|
| | 1997 | 1996 | 1995 |
| SALES | \$ 614,445 | \$ 654,570 | \$ 624,168 |
| COST OF SALES | 129,594 | 123,269 | 104,594 |

| | | | |
|---|-----------|-----------|------------|
| GROSS PROFIT. | 484,851 | 531,301 | 519,574 |
| OPERATING EXPENSES: | | | |
| Operating and maintenance expense | 180,153 | 176,113 | 152,321 |
| Depreciation and amortization | 123,423 | 113,853 | 97,224 |
| Selling, general and administrative expense | 57,267 | 54,374 | 60,290 |
| Total Operating Expenses. | 360,843 | 344,340 | 309,835 |
| INCOME FROM OPERATIONS. | 124,008 | 186,961 | 209,739 |
| OTHER INCOME (EXPENSE). | (4,022) | 3,633 | 5,184 |
| INCOME BEFORE INTEREST AND TAXES. | 119,986 | 190,594 | 214,923 |
| INTEREST EXPENSE: | | | |
| Interest expense on long-term debt. | 46,062 | 46,304 | 47,073 |
| Interest expense on short-term debt and other | 4,388 | 11,758 | 5,190 |
| Total Interest Expense. | 50,450 | 58,062 | 52,263 |
| INCOME BEFORE INCOME TAXES. | 69,536 | 132,532 | 162,660 |
| INCOME TAXES. | 17,408 | 36,258 | 51,787 |
| NET INCOME. | \$ 52,128 | \$ 96,274 | \$ 110,873 |

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

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

| | Year Ended December 31, | | |
|--|-------------------------|-----------|------------|
| | 1997 | 1996 | 1995 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income. | \$ 52,128 | \$ 96,274 | \$ 110,873 |
| Depreciation and amortization | 123,423 | 113,853 | 97,224 |
| Amortization of deferred gain from sale-leaseback | (11,281) | (9,640) | (9,640) |
| Changes in working capital items: | | | |
| Accounts receivable, (net). | 9,017 | 819 | (8,657) |
| Inventories and supplies. | 2,627 | 5,333 | (4,306) |
| Prepaid expenses and other. | (174) | 138 | (467) |
| Accounts payable. | 33,167 | (1,964) | 1,690 |
| Accrued liabilities | (3,710) | 17,744 | (11,591) |
| Accrued income taxes. | (7,016) | 1,555 | 9,472 |
| Other | 186 | (47) | (838) |
| Changes in other assets and liabilities | (11,013) | 3,641 | 30,525 |
| Net cash flows from operating activities. | 187,354 | 227,706 | 214,285 |
| CASH FLOWS USED IN INVESTING ACTIVITIES: | | | |
| Additions to property, plant and equipment, (net) | 88,165 | 68,095 | 93,699 |
| Net cash flows used in investing activities | 88,165 | 68,095 | 93,699 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Short-term debt (net) | (177,300) | 172,300 | - |
| Advances to parent company (net). | 178,175 | (215,785) | 29,445 |
| Retirements of long-term debt | (65) | (16,135) | (25) |
| Dividends to parent company | (100,000) | (100,000) | (150,000) |
| Net cash flows (used in) financing activities. | (99,190) | (159,620) | (120,580) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS. | (1) | (9) | 6 |
| CASH AND CASH EQUIVALENTS: | | | |
| Beginning of period | 44 | 53 | 47 |
| End of period | \$ 43 | \$ 44 | \$ 53 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | |
| CASH PAID FOR: | | | |
| Interest on financing activities (net of amount capitalized) | \$ 74,418 | \$ 78,712 | \$ 71,808 |
| Income taxes | 52,100 | 32,100 | 42,100 |

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

KANSAS GAS AND ELECTRIC COMPANY
 STATEMENTS OF COMMON SHAREOWNERS' EQUITY
 (Dollars in Thousands)

| | Common Stock | Retained Earnings |
|--|-----------------|----------------------|
| BALANCE DECEMBER 31, 1994, 1,000 shares. | \$1,065,634 | \$ 159,570 |
| Net Income | | 110,873 |
| Dividend to parent company | | (150,000) |
| Balance December 30, 1995, 1,000 shares. | 1,065,634 | 120,443 |
| Net Income | | 96,274 |
| Dividend to parent company | | (100,000) |
| Balance December 31, 1996, 1,000 shares. | 1,065,634 | 116,717 |
| Net Income | | 52,128 |
| Dividend to parent company | | (100,000) |
| Balance December 31, 1997, 1,000 shares. | \$1,065,634 | \$ 68,845 |

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

KANSAS GAS AND ELECTRIC COMPANY
 NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business: Kansas Gas and Electric Company (the company, KGE) is a rate-regulated electric utility and wholly-owned subsidiary of Western Resources, Inc. (Western Resources). The company is engaged principally in the production, purchase, transmission, distribution, and sale of electricity. The company serves approximately 280,000 electric customers in southeastern Kansas. At December 31, 1997, the company had no employees. All employees are provided by the company's parent, Western Resources which allocates costs related to the employees of the company.

The Company owns 47% of Wolf Creek Nuclear Operating Corporation (WCNOC), the operating company for 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 company prepares its financial statements in conformity with generally accepted accounting principles. The accounting and rates of the company are subject to requirements of the Kansas Corporation Commission (KCC) and the Federal Energy Regulatory Commission (FERC). The financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, to disclose contingent assets and liabilities at the balance sheet date, and to report amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The company currently applies accounting standards for its rate regulated electric business that recognize the economic effects of rate regulation in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation", (SFAS 71) and, accordingly, has recorded regulatory assets and liabilities when required by a regulatory order or when it is probable, based on regulatory precedent, that future rates will allow for recovery of a regulatory asset.

Property, Plant and Equipment: Property, plant and equipment is stated at cost that includes: contracted services, direct labor and materials, indirect charges for engineering, supervision, general and administrative costs, and an allowance for funds used during construction (AFUDC). The AFUDC rate was 5.86% for 1997, 5.71% for 1996, and 6.39% for 1995. The cost of additions and replacement units of property is capitalized. Maintenance costs and replacement of minor items of property are charged to expense as incurred. When units of depreciable property are retired, they are removed from the

plant accounts and the original cost plus removal charges less salvage are charged to accumulated depreciation.

In accordance with regulatory decisions made by the KCC, the acquisition premium of approximately \$801 million resulting from the KGE acquisition in 1992 is being amortized over 40 years. The acquisition premium is classified as property, plant and equipment. Accumulated amortization through December 31, 1997 totaled \$47.9 million.

Depreciation: Property, plant and equipment is depreciated on the straight-line method at rates approved by regulatory authorities. Property,

plant and equipment is depreciated on an average annual composite basis using group rates that approximated 2.76% during 1997, 2.81% during 1996, and 2.72% during 1995. The company periodically evaluates its depreciation rates considering the past and expected future experience in the operation of its facilities.

Fuel Costs: The cost of nuclear fuel in process of refinement, conversion, enrichment, and fabrication is recorded as an asset at original cost and is amortized to expense based upon the quantity of heat produced for the generation of electricity. The accumulated amortization of nuclear fuel in the reactor at December 31, 1997 and 1996, was \$20.9 and \$25.3 million, respectively.

Regulatory Assets and Liabilities: Regulatory assets represent probable future sales associated with certain costs that will be recovered from customers through the ratemaking process. The company has recorded these regulatory assets in accordance with SFAS 71. If the company was required to terminate application of that statement for all of its regulated operations, the company would have to record the amounts of all regulatory assets and liabilities in its Consolidated Statements of Income at that time. The company's earnings would be reduced by the total below, net of applicable income taxes. Regulatory assets reflected in the consolidated financial statements at December 31, 1997 are as follows:

| December 31, | 1997 | 1996 |
|--|------------------------|-----------|
| | (Dollars in Thousands) | |
| Recoverable taxes | \$187,801 | \$164,520 |
| Debt issuance costs | 43,045 | 45,989 |
| Deferred plant costs | 30,979 | 31,272 |
| Coal contract settlement costs | 10,035 | 11,655 |
| Other regulatory assets | 6,708 | 7,155 |
| Phase-in revenues | - | 26,317 |
| Total regulatory assets | \$278,568 | \$286,908 |

Recoverable income taxes: Recoverable income taxes represent amounts due from customers for accelerated tax benefits which have been flowed through to customers and are expected to be recovered when the accelerated tax benefits reverse.

Debt issuance costs: Debt reacquisition expenses are amortized over the remaining term of the reacquired debt or, if refinanced, the term of the new debt. Debt issuance costs are amortized over the term of the associated debt.

Deferred plant costs: Disallowances related to the Wolf Creek nuclear generating facility.

Coal contract settlement costs: The company deferred costs associated with the termination of certain coal purchase contracts. These costs are being amortized through the year 2002.

The company expects to recover all of the above regulatory assets in rates. The regulatory assets noted above, with the exception of some coal contract settlement costs and debt issuance costs, other than the refinancing of the La Cygne 2 lease, are not included in rate base and, therefore, do not earn a return. Phase-in revenues were fully amortized in 1997.

Cash and Cash Equivalents: The company considers highly liquid collateralized debt instruments purchased with a maturity of three months or less to be cash equivalents.

Income Taxes: Deferred tax assets and liabilities are recognized for temporary differences in amounts recorded for financial reporting purposes and their respective tax bases. Investment tax credits previously deferred are being amortized to income over the life of the property which gave rise to the credits.

Sales: Sales are recognized as services are rendered and include

estimated amounts for energy delivered but unbilled at the end of each year. Unbilled sales of \$21.5 million and \$23.5 million are recorded as a component of accounts receivable (net) on the Balance Sheets as of December 31, 1997 and 1996, respectively.

The company's allowance for doubtful accounts receivable totaled \$1.7 million and \$1.9 million at December 31, 1997 and 1996, respectively.

New Pronouncements: Effective January 1, 1997, the company adopted the provisions of Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities". This statement provides authoritative guidance for recognition, measurement, display and disclosure of environmental remediation liabilities in financial statements. Adoption of this statement did not have a material adverse effect upon the company's overall financial position or results of operations.

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

2. COMMITMENTS AND CONTINGENCIES

Manufactured Gas Sites: The company has been associated with three 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) entered into a consent agreement governing all future work at the three sites. The terms of the consent agreement will allow the company to investigate these sites and set remediation priorities based upon the results of the investigations and risk analyses. At December 31, 1997, the costs incurred from preliminary site investigation and risk assessment have been minimal.

Clean Air Act: The company must comply with the provisions of The Clean Air Act Amendments of 1990 that require a two-phase reduction in certain emissions. The company has installed continuous monitoring and reporting equipment to meet the acid rain requirements. The company does not expect material capital expenditures to be required to meet Phase II sulfur dioxide and nitrogen oxide requirements.

Decommissioning: The company accrues decommissioning costs over the expected life of the Wolf Creek generating facility. The accrual is based on estimated unrecovered decommissioning costs which consider inflation over the remaining estimated life of the generating facility and are net of expected earnings on amounts recovered from customers and deposited in an external trust fund.

In February 1997, the KCC approved the 1996 Decommissioning Cost Study. Based on the study, the company's share of WCNOC's decommissioning costs, under the immediate dismantlement method, is estimated to be approximately

\$624 million during the period 2025 through 2033, or approximately \$192 million in 1996 dollars. These costs were calculated using an assumed inflation rate of 3.6% over the remaining service life from 1996 of 29 years.

Decommissioning costs are currently being charged to operating expenses in accordance with the prior KCC orders. Electric rates charged to customers provide for recovery of these decommissioning costs over the life of Wolf Creek. Amounts expensed approximated \$3.7 million in 1997 and will increase annually to \$5.6 million in 2024. These expenses are deposited in an external trust fund. The average after tax expected return on trust assets is 5.7%.

The company's investment in the decommissioning fund, including reinvested earnings approximated \$43.5 million and \$33.0 million at December 31, 1997 and December 31, 1996, respectively. Trust fund earnings accumulate in the fund balance and increase the recorded decommissioning liability.

The SEC staff has questioned the way electric utilities recognize, measure and classify decommissioning costs for nuclear electric generating stations in their financial statements. In response to the SEC's questions, the Financial Accounting Standards Board is reviewing the accounting for closure and removal costs, including decommissioning of nuclear power plants. If current accounting practices for nuclear power plant decommissioning are changed, the following could occur:

- The company's annual decommissioning expense could be higher than in 1997
- The estimated cost for decommissioning could be recorded as a liability (rather than as accumulated depreciation)
- The increased costs could be recorded as additional investment in the Wolf Creek plant

The company does not believe that such changes, if required, would adversely affect its operating results due to its current ability to recover decommissioning costs through rates.

Nuclear Insurance: The company carries premature decommissioning insurance which has several restrictions. One of these is that it can only be used if Wolf Creek incurs an accident exceeding \$500 million in expenses to safely stabilize the reactor, to decontaminate the reactor and reactor station site in accordance with a plan approved by the Nuclear Regulatory Commission (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.

The Price-Anderson Act limits the combined public liability of the owners of nuclear power plants to \$8.9 billion for a single nuclear incident. If this liability limitation is insufficient, the U.S. Congress will consider taking whatever action is necessary to compensate the public for valid claims. The Wolf Creek owners (owners) have purchased the maximum available private insurance of \$200 million. The remaining 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 major 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 totaling approximately \$2.8 billion (\$1.3 billion, company'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. The company's share of any remaining proceeds can be used for property damage or premature decommissioning costs. Premature decommissioning coverage applies only if an accident at WCNOE exceeds \$500 million in property damage and decommissioning expenses and only after trust funds have been exhausted.

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 under the current policies of approximately \$9 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 catastrophic accident or extended outage at Wolf Creek. Any substantial losses not covered by insurance, to the extent not recoverable through rates, would have a material adverse effect on the company's financial condition and results of operations.

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 and coal. Some of these contracts contain provisions for price escalation and minimum purchase commitments. At December 31, 1997, WCNOE's nuclear fuel commitments (company's share) were approximately \$9.9 million for uranium concentrates expiring at various times through 2001, \$35.1 million for enrichment expiring at various times through 2003 and \$67.4 million for fabrication through 2025.

At December 31, 1997, the company's coal contract commitments in 1997 dollars under the remaining terms of the contracts were approximately \$587.5 million. The largest coal contract expires in 2020, with the remaining coal contracts expiring at various times through 2013.

Energy Act: As part of the 1992 Energy Policy Act, a special assessment is being collected from utilities for a uranium enrichment decontamination and decommissioning fund. The company's portion of the assessment for Wolf Creek is approximately \$7 million, payable over 15 years. Management expects such costs to be recovered through the ratemaking process.

3. RATE MATTERS AND REGULATION

KCC Rate Proceedings: In January 1997, the KCC approved an agreement that reduced electric rates for the company. Significant terms of the agreement are as follows:

- The company made permanent an interim \$8.7 million rate reduction

implemented in May 1996. This reduction was effective February 1, 1997.

- The company reduced annual rates by \$36 million effective February 1, 1997.
- The company rebated \$2.3 million to its customers in January 1998.
- The company will reduce annual rates by an additional \$10 million on June 1, 1998.
- The company will rebate an additional \$2.3 million to its customers in January 1999.
- The company will reduce annual rates by an additional \$10 million on June 1, 1999.

All rate decreases are cumulative. Rebates are one-time events and do not influence future rates.

4. SHORT-TERM BORROWINGS

The company has arrangements with certain banks to provide unsecured short-term lines of credit on a committed basis totaling \$100 million. The agreements provide the company with the ability to borrow at different market-based interest rates. The company pays commitment or facility fees in support of these lines of credit. Under the terms of the agreements, the company is required, among other restrictions, to maintain a total debt to total capitalization ratio of not greater than 65% at all times. The unused portion of these lines of credit are used to provide support for commercial paper.

Information regarding the company's short-term borrowings, comprised of borrowings under the credit agreements and bank loans, is as follows:

| Year ended December 31, | 1997 | 1996 | 1995 |
|---|------------------------|-----------|-----------|
| | (Dollars in Thousands) | | |
| Borrowings outstanding at year end: | | | |
| Lines of credit | \$ - | \$200,000 | \$ - |
| Bank loans | 45,000 | 22,300 | 50,000 |
| Total | \$ 45,000 | \$222,300 | \$ 50,000 |
| Weighted average interest rate on debt outstanding at year end (including fees) | | | |
| | 6.44% | 5.93% | 6.03% |
| Weighted average short-term debt outstanding during the year | | | |
| | \$ 22,945 | \$147,556 | \$ 32,296 |
| Weighted daily average interest rates during the year (including fees) | | | |
| | 6.46% | 5.83% | 6.10% |

5. LONG-TERM DEBT

The amount of KGE's first mortgage bonds authorized by the KGE Mortgage and Deed of Trust (Mortgage) dated April 1, 1940, as supplemented, is limited to a maximum of \$2 billion. Amounts of additional bonds which may be issued are subject to property, earnings, and certain restrictive provisions of the Mortgage. Electric plant is subject to the lien of the Mortgage except for transportation equipment.

Debt discount and expenses are being amortized over the remaining lives of each issue. The improvement and maintenance fund requirements for certain first mortgage bond series can be met by bonding additional property. With the retirement of certain Company pollution control series bonds, there are no longer any bond sinking fund requirements. No bonds will mature during 1998.

Long-term debt outstanding is as follows at December 31:

| | 1997 | 1996 |
|---------------------------------|------------------------|------------|
| | (Dollars in Thousands) | |
| First mortgage bond series: | | |
| 7.6% due 2003 | \$ 135,000 | \$ 135,000 |
| 6-1/2% due 2005 | 65,000 | 65,000 |
| 6.20% due 2006 | 100,000 | 100,000 |
| | 300,000 | 300,000 |
| Pollution control bond series: | | |
| 5.10% due 2023 | 13,757 | 13,822 |
| Variable due 2027 (1) | 21,940 | 21,940 |
| 7.0% due 2031 | 327,500 | 327,500 |
| Variable due 2032 (2) | 14,500 | 14,500 |
| Variable due 2032 (3) | 10,000 | 10,000 |

| | | |
|--------------------------------|------------|------------|
| | 387,697 | 387,762 |
| Less: | | |
| Unamortized discount | 3,569 | 3,694 |
| Long-term debt (net) | \$ 684,128 | \$ 684,068 |

6. SALE-LEASEBACK OF LA CYGNE 2

In 1987, the company sold and leased back its 50% undivided interest in the La Cygne 2 generating unit. The La Cygne 2 lease has an initial term of 29 years, with various options to renew the lease or repurchase the 50% undivided interest. The company remains responsible for its share of operation and maintenance costs and other related operating costs of La Cygne 2. The lease is an operating lease for financial reporting purposes.

As permitted under the La Cygne 2 lease agreement, the company in 1992 requested the Trustee Lessor to refinance \$341.1 million of secured facility bonds of the Trustee and owner of La Cygne 2. The transaction was requested to reduce recurring future net lease expense. In connection with the refinancing on September 29, 1992, a one-time payment of approximately \$27 million was made by the company which has been deferred and is being amortized over the remaining life of the lease and included in operating expense as part of the future lease expense. At December 31, 1997, approximately \$21.4 million of this deferral remained in regulatory assets on the Balance Sheet.

Future minimum annual lease payments required under the La Cygne 2 lease agreement are approximately \$34.6 million for each year through 2002 and \$576.6 million over the remainder of the lease.

The gain realized at the date of the sale of La Cygne 2 has been deferred for financial reporting purposes, and is being amortized (\$9.7 million per year) over the initial lease term in proportion to the related lease expense. The company's lease expense, net of amortization of the deferred gain and refinancing costs, was approximately \$27.3 million for 1997 and \$22.5 million for 1996 and 1995.

In addition the company has future minimum annual lease payments of approximately \$970,000 for each year through 2002 and \$3.9 million over the remainder of the lease.

7. INCOME TAXES

Income tax expense is composed of the following components at December 31:

| | 1997 | 1996 | 1995 |
|--|------------------------|-----------|-----------|
| | (Dollars in Thousands) | | |
| Currently Payable: | | | |
| Federal | \$ 34,641 | \$ 31,135 | \$ 34,661 |
| State | 7,982 | 11,948 | 13,275 |
| Deferred: | | | |
| Federal | (18,503) | (218) | 9,528 |
| State | (3,467) | (3,358) | (2,363) |
| Amortization of Investment Tax Credits | (3,245) | (3,249) | (3,314) |
| Total Income Tax Expense | \$ 17,408 | \$ 36,258 | \$ 51,787 |

Temporary differences gave rise to deferred tax assets and deferred tax liabilities at December 31, 1997 and 1996, respectively, as follows:

| | 1997 | 1996 |
|--|------------------------|------------|
| | (Dollars in Thousands) | |
| Deferred Tax Assets: | | |
| Deferred gain on sale-leaseback | \$ 97,634 | \$ 99,466 |
| Other | 43,330 | 11,496 |
| Total Deferred Tax Assets | 140,964 | 110,962 |
| Deferred Tax Liabilities: | | |
| Accelerated depreciation & other | 386,382 | 363,647 |
| Acquisition premium | 298,582 | 306,662 |
| Deferred future income taxes | 187,801 | 164,520 |
| Other | 22,561 | 29,644 |
| Total Deferred Tax Liabilities | 895,326 | 864,473 |
| Investment tax credits | 66,476 | 69,722 |
| Accumulated Deferred Income Taxes, Net | \$ 820,838 | \$ 823,233 |

In accordance with various rate orders, the company has not yet collected through rates certain accelerated tax deductions which have been passed on to customers. As management believes it is probable that the net future

increases in income taxes payable will be recovered from customers, it has recorded a deferred asset for these amounts. These assets are also a temporary difference for which deferred income tax liabilities have been provided.

The effective income tax rates set forth below are computed by dividing total federal and state income taxes by the sum of such taxes and net income. The difference between the effective tax rates and the federal statutory income tax rates are as follows:

| Year Ended December 31, | 1997 | 1996 | 1995 |
|---|------------------------|------|------|
| | (Dollars in Thousands) | | |
| Effective Income Tax Rate | 25% | 27% | 32% |
| Effect of: | | | |
| State income taxes | (4) | (4) | (4) |
| Amortization of investment tax credits | 5 | 2 | 2 |
| Corporate-owned life insurance policies | 12 | 7 | 5 |
| Accelerated depreciation flow through and amortization, net | (4) | 2 | - |
| Other | 1 | 1 | - |
| Statutory Federal Income Tax Rate | 35% | 35% | 35% |

8. LEGAL PROCEEDINGS

The company is involved in various legal, environmental and regulatory proceedings. Management believes that adequate provision has been made and accordingly believes that the ultimate dispositions of these matters will not have a material adverse effect upon the company's overall financial position or results of operations.

9. 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 Statement of Financial Accounting Standards No. 107 "Disclosures about Fair Value of Financial Instruments".

Cash and cash equivalents, short-term borrowings and variable-rate debt are carried at cost which approximates fair value. The decommissioning trust is recorded at fair value and is based on the quoted market prices at December 31, 1997 and 1996. The fair value of fixed-rate debt is estimated based on quoted market prices for the same or similar issues or on the current rates offered for instruments of the same remaining maturities and redemption provisions.

The recorded amount of accounts receivable and other current financial instruments approximate fair value.

The fair value estimates presented herein are based on information available at December 31, 1997 and 1996. These fair value estimates have not been comprehensively revalued for the purpose of these financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein. Because the company's operations are regulated, the company believes that any gains or losses related to the retirement of debt or redemption of preferred securities would not have a material effect on the company's financial position or results of operations.

The carrying values and estimated fair values of the company's financial instruments are as follows:

| December 31, | Carrying Value | | Fair Value | |
|----------------------------|------------------------|-----------|------------|-----------|
| | 1997 | 1996 | 1997 | 1996 |
| | (Dollars in Thousands) | | | |
| Decommissioning trust. . . | \$ 43,514 | \$ 33,041 | \$ 43,514 | \$ 33,041 |
| Fixed-rate debt. | 641,257 | 641,322 | 660,266 | 665,300 |

10. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment at December 31:

1997 1996
(Dollars in Thousands)

| | | |
|---------------------------------|-------------|-------------|
| Electric plant in service | \$3,545,942 | \$3,487,213 |
| Less - Accumulated depreciation | 1,051,107 | 974,451 |
| | 2,494,835 | 2,512,762 |
| Construction work in progress | 29,432 | 33,197 |
| Nuclear fuel (net) | 40,696 | 38,461 |
| Net Utility Plant | 2,564,963 | 2,584,420 |
| Non-utility plant in service | 212 | 212 |
| Net Plant | \$2,565,175 | \$2,584,632 |

The carrying value of long-lived assets, including intangibles are reviewed for impairment whenever events or changes in circumstances indicate they may not be recoverable.

11. JOINT OWNERSHIP OF UTILITY PLANTS

Company's Ownership at December 31, 1997

| | In-Service Dates | Invest- ment (Dollars in Thousands) | Accumulated Depreciation (Dollars in Thousands) | Net (MW) | Per- cent |
|----------------|---------------------|---|---|-------------|--------------|
| La Cygne 1 (a) | Jun 1973 | \$ 162,400 | \$ 109,481 | 343 | 50 |
| Jeffrey 1 (b) | Jul 1978 | 69,651 | 30,691 | 147 | 20 |
| Jeffrey 2 (b) | May 1980 | 67,899 | 29,859 | 147 | 20 |
| Jeffrey 3 (b) | May 1983 | 100,368 | 39,560 | 144 | 20 |
| Wolf Creek (c) | Sep 1985 | 1,380,660 | 399,551 | 547 | 47 |

(a) Jointly owned with Kansas City Power & Light Company (KCPL) (which owns 50%)

(b) Jointly owned with Western Resources (which owns 64%) and UtiliCorp United Inc. (which owns 16%)

(c) Jointly owned with KCPL (which owns 47%) and Kansas Electric Power Cooperative, Inc. (which owns 6%)

Amounts and capacity represent the company's share. The company's share of operating expenses of the plants in service above, as well as such expenses for a 50% undivided interest in La Cygne 2 (representing 334 MW capacity) sold and leased back to the company in 1987, are included in operating expenses on

the Statements of Income. The company's share of other transactions associated with the plants is included in the appropriate classification in the company's financial statements.

12. QUARTERLY FINANCIAL STATISTICS (Unaudited)

The amounts in the table are unaudited but, in the opinion of management, contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of such periods. The business of the company is seasonal in nature and, in the opinion of management, comparisons between the quarters of a year do not give a true indication of overall trends and changes in operations.

| | 1997 | | | |
|-----------------------------|------------------------|-----------|-----------|-----------|
| | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | 4th Qtr. |
| | (Dollars in Thousands) | | | |
| Sales | \$143,791 | \$148,826 | \$191,066 | \$130,762 |
| Income from Operations. . . | 30,364 | 32,421 | 66,724 | (5,501) |
| Net income. | 11,172 | 15,492 | 31,775 | (6,311) |

| | 1996 | | | |
|-----------------------------|------------------------|-----------|-----------|-----------|
| | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | 4th Qtr. |
| | (Dollars in Thousands) | | | |
| Sales | \$145,034 | \$163,038 | \$193,198 | \$153,300 |
| Income from Operations. . . | 33,593 | 39,112 | 72,369 | 41,887 |
| Net income. | 15,700 | 17,253 | 40,736 | 22,585 |

13. RELATED PARTY TRANSACTIONS

The cash management function, including cash receipts and disbursements, for the company is performed by Western Resources. An intercompany account is used to record net receipts and disbursements handled by Western Resources. The net amount advanced by the company to Western Resources approximated \$73 million and \$251 million at December 31, 1997 and 1996, respectively. These amounts are recorded as advances to parent company in current assets on the Balance Sheets.

Certain operating expenses have been allocated to the company from Western Resources. These expenses are allocated, depending on the nature of the expense, based on allocation studies, net investment, number of customers,

and/or other appropriate allocators. Management believes such allocation procedures are reasonable. During 1997, the company declared dividends to Western Resources of \$100 million.

14. WESTERN RESOURCES AND KANSAS CITY POWER & LIGHT COMPANY MERGER AGREEMENT

On February 7, 1997, the Western Resources signed a merger agreement with KCPL by which KCPL would be merged with and into Western Resources in exchange for Western Resources common stock. In December 1997, representatives of the Western Resources' financial advisor indicated that they believed it was unlikely that they would be in a position to issue a fairness opinion required for the merger on the basis of the previously announced terms.

On March 18, 1998, Western Resources and KCPL announced a restructuring of their February 7, 1997, merger agreement which will result in the formation of Westar Energy, a new electric company. Under the terms of the merger agreement, the electric utility operations of Western Resources will be transferred to the company, and KCPL and the company will be merged into NKC, Inc., a subsidiary of Western Resources. NKC, Inc. will be renamed Westar Energy. In addition, under the merger agreement, KCPL shareowners will receive \$23.50 of Western Resources common stock per KCPL share, subject to a collar mechanism, and one share of Westar Energy common stock per KCPL share. Upon consummation of the combination, Western Resources will own approximately 80.1% of the outstanding equity of Westar Energy and KCPL shareowners will own approximately 19.9%. As part of the combination Westar Energy will assume all of the electric utility related assets and liabilities of Western Resources, KCPL, and the company.

Westar Energy will assume \$2.7 billion in debt, consisting of \$1.9 billion of indebtedness for borrowed money of Western Resources and the company, and \$800 million of debt of KCPL. Long-term debt of Western Resources and the company was \$2.1 billion at December 31, 1997. Under the terms of the merger agreement, it is intended that the company will be released from its obligations with respect to the company's debt to be assumed by Westar Energy. For additional information concerning the company's long-term debt and obligations under the La Cygne sale leaseback arrangements see Note 5 and Note 6.

Consummation of the merger is subject to customary conditions including obtaining the approval of Western Resources' and KCPL's shareowners and various regulatory agencies. Western Resources estimates the transaction to close by mid-1999, subject to receipt of all necessary approvals.

KCPL is a public utility company engaged in the generation, transmission, distribution, and sale of electricity to customers in western Missouri and eastern Kansas. We, KCPL and KGE have joint interests in certain electric generating assets, including Wolf Creek. Following the closing of the combination Westar Energy is expected to have approximately one million electric utility customers in Kansas and Missouri, approximately \$8.2 billion in assets and the ability to generate more than 8,000 megawatts of electricity. For additional information, see "Financing in Item 1. Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations".

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements with accountants on accounting and financial disclosure.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Western Resources, Inc. owns 100% of the Company's outstanding common stock.

| Name | Age | Business Experience Since 1993 and Other Directorships Other Than The Company | A Director Continuously Since |
|------------------|-----|--|-------------------------------|
| William B. Moore | 45 | Chairman of the Board and President (since June 1995), and prior to that Vice President, Finance, Western Resources, Inc. Directorships Intrust Bank | 1995 |

| | | | |
|----------------------------------|----|--|------|
| Anderson E. Jackson | 64 | President, Jackson Mortuary, Wichita, Kansas Directorships The National Business League | 1994 |
| Donald A. Johnston (1) (2) | 64 | Retired President and Chairman (Emeritus), Maupintour, Inc., Lawrence, Kansas, Consultant - Commerce Bank, Lawrence, Kansas (since July 1996) Directorships Commerce Bank, Lawrence, Kansas | 1992 |
| James A. Martin | 40 | Vice President, Finance (since July 1995) and Treasurer (since Nov. 1997), and prior to that Executive Director Regulatory and Rates (since Dec. 1994), and prior to that Director Revenue and Forecasting Western Resources, Inc. | 1997 |
| Marilyn B. Pauly (1) | 48 | President Wichita, NationsBank N.A. Wichita, Kansas (since October 1993) and prior to that Executive Vice President, Bank IV, N.A., Wichita, Kansas Directorships Farmers Mutual Alliance Insurance Company Bank IV Community Development Corporation | 1994 |
| Richard D. Smith | 64 | President, Range Oil Company Directorships NationsBank N.A. (Midwest), (Advisory) HCA Wesley Medical Center, Wichita, Kansas | 1993 |

- (1) Member of the Audit Committee of which Mr. Johnston is Chairman. The Audit Committee has responsibility for the investigation and review of the financial affairs of the Company and its relations with independent accountants.
- (2) Mr. Johnston was a director of the former Kansas Gas and Electric Company since 1980.

Outside Directors are paid \$3,750 per quarter retainer and are paid an attendance fee of \$600 for Directors' meetings (\$300 if attending by phone). A committee attendance fee of \$800 is paid to the outside Director Audit Committee Chairman, and \$500 to other outside Committee members. All outside Directors are reimbursed mileage and expenses while attending Directors' and Committee Meetings.

During 1997, the Board of Directors met five times and the Audit Committee met once. Each director attended at least 75% of the total number of Board and Committee meetings held while he/she served as a director or a member of the committee.

Other information required by Item 10 is omitted pursuant to General Instruction J(2)(c) to Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Information required by Item 11 is omitted pursuant to General Instruction J(2)(c) to Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by Item 12 is omitted pursuant to General Instruction J(2)(c) to Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by Item 13 is omitted pursuant to General Instruction J(2)(c) to Form 10-K.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The following financial statements are included herein under Item 8.

FINANCIAL STATEMENTS

Balance Sheets, December 31, 1997 and 1996
 Statements of Income for the years ended December 31, 1997, 1996 and 1995
 Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995
 Statements of Common Shareowners' Equity for the years ended December 31,
 1997, 1996, and 1995
 Notes to Financial Statements

REPORTS ON FORM 8-K

None

EXHIBIT INDEX

All exhibits marked "I" are incorporated herein by reference.

Description

- | | | |
|------|--|---|
| 2(a) | Amended and Restated Agreement and Plan of Merger dated March 18, 1998 (Filed electronically) | |
| 3(a) | Articles of Incorporation (Filed as Exhibit 3(a) to Form 10-K for the year ended December 31, 1992, File No. 1-7324) | I |
| 3(b) | Certificate of Merger of Kansas Gas and Electric Company into KCA Corporation (Filed as Exhibit 3(b) to Form 10-K for the year ended December 31, 1992, File No. 1-7324) | I |
| 3(c) | By-laws as amended (Filed as Exhibit 3(c) Form 10-K for the year ended December 31, 1992, File No. 1-7324) | I |
| 4(c) | Mortgage and Deed of Trust, dated as of April 1, 1940 to Guaranty Trust Company of New York (now Morgan Guaranty Trust Company of New York) and Henry A. Theis (to whom W. A. Spooner is successor), Trustees, as supplemented by thirty-eight Supplemental Indentures, dated as of June 1, 1942, March 1, 1948, December 1, 1949, June 1, 1952, October 1, 1953, March 1, 1955, February 1, 1956, January 1, 1961, May 1, 1966, March 1, 1970, May 1, 1971, March 1, 1972, May 31, 1973, July 1, 1975, December 1, 1975, September 1, 1976, March 1, 1977, May 1, 1977, August 1, 1977, March 15, 1978, January 1, 1979, April 1, 1980, July 1, 1980, August 1, 1980, June 1, 1981, December 1, 1981, May 1, 1982, March 15, 1984, September 1, 1984 (Twenty-ninth and Thirtieth), February 1, 1985, April 15, 1986, June 1, 1991 March 31, 1992, December 17, 1992, August 24, 1993, January 15, 1994 and March 1, 1994, (Filed, respectively, as Exhibit A-1 to Form U-1, File No. 70-23; Exhibits 7(b) and 7(c), File No. 2-7405; Exhibit 7(d), File No. 2-8242; Exhibit 4(c), File No. 2-9626; Exhibit 4(c), File No. 2-10465; Exhibit 4(c), File No. 2-12228; Exhibit 4(c), File No. 2-15851; Exhibit 2(b)-1, File No. 2-24680; Exhibit 2(c), File No. 2-36170; Exhibits 2 and 2(d), File No. 2-39975; Exhibit 2(d), File No. 2-43053; Exhibit 4(c)2 to Form 10-K, for December 31, 1989, File No. 1-7324; Exhibit 2(c), File No. 2-53765; Exhibit 2(e), File No. 2-55488; Exhibit 2(c), File No. 2-57013; Exhibit 2(c), File No. 2-58180; Exhibit 4(c)3 to Form 10-K for December 31, 1989, File No. 1-7324; Exhibit 2(e), File No. 2-60089; Exhibit 2(c), File No. 2-60777; Exhibit 2(g), File No. 2-64521; Exhibit 2(h), File No. 2-66758; Exhibits 2(d) and 2(e), File No. 2-69620; Exhibits 4(d) and 4(e), File No. 2-75634; Exhibit 4(d), File No. 2-78944; Exhibit 4(d), File No. 2-87532; Exhibits 4(c)4, 4(c)5 and 4(c)6 to Form 10-K for December 31, 1989, File No. 1-7324; Exhibits 4(c)2 and 4(c)3 to Form 10-K for | I |

Description

December 31, 1992, File No. 1-7324; Exhibit 4(b) to Form S-3, File No. 33-50075; Exhibits 4(c)2 and 4(c)3 to Form 10-K for December 31, 1993, File No. 1-7324; Exhibit 4(c)2 to Form 10-K for December 31, 1994, File No. 1-7324)

Instruments defining the rights of holders of other long-term debt not required to be filed as exhibits will be furnished to the Commission upon request.

- | | | |
|-------|--|---|
| 10(a) | La Cygne 2 Lease (Filed as Exhibit 10(a) to Form 10-K for the year ended December 31, 1988, File No. 1-7324) | I |
| 10(a) | Amendment No. 3 to La Cygne 2 Lease Agreement dated as of September | I |

29, 1992 (Filed as Exhibit 10(b)1 to Form 10-K for the year ended December 31, 1992, File No. 1-7324)

- 10(b) Outside Directors' Deferred Compensation Plan (Filed as Exhibit I
10 to the Form 10-K for the year ended December 31, 1993,
File No. 1-7324)
- 12 Computation of Ratio of Consolidated Earnings to Fixed Charges
(Filed electronically)
- 23 Consent of Independent Public Accountants, Arthur Andersen LLP
(Filed electronically)
- 27 Financial Data Schedule (Filed electronically)

SIGNATURE

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KANSAS GAS AND ELECTRIC COMPANY

March 30, 1998 By /s/ William B. Moore
William B. Moore,
Chairman of the Board
and President

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| Signature | Title | Date |
|--|---|----------------|
| /s/ WILLIAM B. MOORE (William B. Moore) | Chairman of the Board and President (Principal Executive Officer) | March 30, 1998 |
| /s/ RICHARD D. TERRILL (Richard D. Terrill) | Secretary, Treasurer and General Counsel (Principal Financial and Accounting Officer) | March 30, 1998 |
| /s/ ANDERSON E. JACKSON (Anderson E. Jackson) | | |
| /s/ DONALD A. JOHNSTON (Donald A. Johnston) | | |
| /s/ JAMES A. MARTIN (James A. Martin) | Directors | March 30, 1998 |
| /s/ MARILYN B. PAULY (Marilyn B. Pauly) | | |
| /s/ RICHARD D. SMITH (Richard D. Smith) | | |

KANSAS GAS AND ELECTRIC COMPANY
 Computations of Ratio of Earnings to Fixed Charges
 (Dollars in Thousands)

| | Year Ended December 31, | | | | |
|---|-------------------------|-----------|-----------|-----------|-----------|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| Net Income. | \$ 52,128 | \$ 96,274 | \$110,873 | \$104,526 | \$108,103 |
| Taxes on Income | 17,408 | 36,258 | 51,787 | 55,349 | 46,896 |
| Net Income Plus Taxes. | 69,536 | 132,532 | 162,660 | 159,875 | 154,999 |
| Fixed Charges: | | | | | |
| Interest on Long-Term Debt. | 46,062 | 46,304 | 47,073 | 47,827 | 53,908 |
| Interest on Other Indebtedness. | 4,388 | 11,758 | 5,190 | 5,183 | 6,075 |
| Interest on Corporate-owned | | | | | |
| Life Insurance Borrowings | 31,253 | 27,636 | 25,357 | 20,990 | 11,865 |
| Interest Applicable to Rentals. | 25,143 | 25,539 | 25,375 | 25,096 | 24,967 |
| Total Fixed Charges | 106,846 | 111,237 | 102,995 | 99,096 | 96,815 |
| Earnings (1). | \$176,382 | \$243,769 | \$265,655 | \$258,971 | \$251,814 |
| Ratio of Earnings to Fixed Charges. | 1.65 | 2.19 | 2.58 | 2.61 | 2.60 |

(1) Earnings are deemed to consist of net income to which has been added income taxes (including net deferred investment tax credit) and fixed charges. Fixed charges consist of all interest on indebtedness, amortization of debt discount and expense, and the portion of rental expense which represents an interest factor.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements File No. 33-50075 of Kansas Gas and Electric Company on Form S-3.

ARTHUR ANDERSEN LLP

Kansas City, Missouri,
January 29, 1998
(March 24, 1998 with
respect to Note 14 of the
Notes to Financial Statements.)

AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER

BY AND AMONG

WESTERN RESOURCES, INC.,

KANSAS GAS AND ELECTRIC COMPANY,

NKC, INC.,

AND

KANSAS CITY POWER & LIGHT COMPANY

Dated as of March 18, 1998

AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of March 18, 1998, by and among Western Resources, Inc., a Kansas corporation ("Western Resources"), Kansas Gas and Electric Company, a Kansas corporation and wholly owned subsidiary of Western Resources ("KGE"), and NKC, Inc., a newly formed Kansas corporation and wholly owned subsidiary of Western Resources ("New KC"), on the one hand, and Kansas City Power & Light Company, a Missouri corporation ("KCPL"), on the other hand.

WHEREAS, Western Resources and KCPL entered into an agreement and plan of merger (the "Original Agreement"), dated as of February 7, 1997 (the "Original Execution Date"), and wish to amend and restate the Original Agreement as specified herein;

WHEREAS, Western Resources' rate-regulated electric division ("KPL") is engaged in the production, purchase, transmission, distribution and sale of electricity (the "KPL Business");

WHEREAS, immediately prior to the KCPL Effective Time (as defined in Section 3.3), Western Resources will contribute to KGE all of the KPL Assets (as defined in Section 1.1) and KGE will assume all of the Assumed Liabilities (as defined in Section 1.2, such contribution and assumption, the "Asset Contribution"), upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, immediately prior to the KGE Effective Time, Western Resources will contribute to KGE shares of Western Resources Common Stock (as defined in Section 1.6 (the "Stock Contribution")), upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the boards of directors of each of Western Resources and KGE have approved the Asset Contribution and the Stock Contribution, upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the respective boards of directors of each of KCPL and New KC have approved the merger of KCPL with and into New KC with New KC being the surviving corporation (the "KCPL Merger"), upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the respective boards of directors of each of New KC, Western Resources and KGE have approved the merger of KGE with and into New KC with New KC being the surviving corporation (the "KGE Merger"), upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, it is intended that, for federal income tax purposes the KGE Merger and the KCPL Merger shall qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code");

WHEREAS, for purposes of Section 354(a) of the Code, the Western Resources Common Stock distributed pursuant to the Western

Resources Stock Distribution (as defined in Section 4.1 hereof) shall be treated as stock of Western Resources, a party to the reorganization, distributed in pursuance of the plan of reorganization;

WHEREAS, Western Resources, KGE, KCPL and New KC desire to make certain representations, warranties, covenants and agreements in connection with this Agreement; and

WHEREAS, KCPL and UtiliCorp United, Inc., a Delaware corporation ("UtiliCorp"), were parties to that certain Amended and Restated Agreement and Plan of Merger among KCPL, KC Merger Sub, Inc., a Delaware corporation, UtiliCorp and KC United Corp., a Delaware corporation, dated as of January 19, 1996, as amended and restated as of May 20, 1996 (the "UtiliCorp Agreement"), which KCPL has terminated in accordance with the terms thereof.

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements contained herein, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I

THE CONTRIBUTIONS

Section 1.1 The Asset Contribution.

(a) Contribution. Immediately prior to the KCPL Effective Time and as a condition precedent to the KGE Merger, Western Resources shall contribute, or cause to be contributed, to KGE, and KGE shall acquire, all of the right, title and interest of Western Resources in, to and under the assets, property and interests owned by Western Resources that are used in, or related to or generated by, the KPL Business, of every type, character and description, tangible and intangible, real, personal and mixed, accrued, contingent or otherwise, wherever located and whether or not reflected on the books and records of Western Resources as of the Closing Date (as defined in Section 5.1) (the "KPL Assets"), other than securities, the corporate headquarters of Western Resources and those assets necessary for the operation of Western Resources as a holding company after the Closing Date, the categories of which are described in Section 1.1(b) of the Western Resources Disclosure Schedule (as defined in Section 7.2 hereof) (the "Non-KPL Assets").

(b) KPL Balance Sheet; Non-KPL Assets. Section 1.1(b) of the Western Resources Disclosure Schedule sets forth (i) an unaudited pro forma balance sheet that represents in all material respects, as of December 31, 1997, the assets and liabilities of KPL, as though the Asset Contribution had been made on such date (the "KPL Balance Sheet"), and (ii) a list, as of the date hereof, of the Non-KPL Assets which are not reflected in such balance sheet. The KPL Assets shall include such assets, properties and interests as are necessary to enable New KC to operate the KPL Business in accordance with past practice. The Non-KPL Assets shall not include any asset, property or interest as is necessary to operate the KPL Business in accordance with past practice.

(c) KPL Business and KGE at Closing. At the Closing, the KPL Business and KGE will contain substantially the same assets and liabilities as they did as of December 31, 1997, subject to modifications that reflect ordinary course operation of the KPL Business and KGE in accordance with past practice prior to the date hereof. Western Resources shall not make or permit to be made any changes in the accounting methods used with respect to the KPL Business or KGE, except as required by applicable law, rule, regulation or GAAP.

Section 1.2 Liabilities Assumed. Concurrently with the Asset Contribution contemplated in Section 1.1, KGE shall assume and agree to pay, perform and discharge when due all debts, claims, losses, liabilities, leases and obligations whatsoever, including, without limitation, debts, indebtedness for borrowed money, guaranties, liabilities, obligations, and claims with respect to any contracts included in the KPL Business, that arise out of, or relate to or are generated by, the KPL Assets or the operations of the KPL Business, whether arising before or after the Asset Contribution and whether known or unknown, fixed or contingent (the "Assumed Liabilities"). The Assumed Liabilities shall also include an aggregate principal amount of indebtedness for borrowed money of Western Resources so that aggregate total indebtedness for borrowed money (including preferred stock) of KGE equals \$1.9 billion immediately prior to the KGE Effective Time; provided, however, that the Assumed Liabilities shall not include indebtedness for borrowed money of Western Resources if KGE immediately

prior to the KGE Effective Time already has indebtedness for borrowed money (including preferred stock) of \$1.9 billion, it being understood that in no case shall the indebtedness for borrowed money (including preferred stock) of KGE exceed \$1.9 billion immediately prior to the KGE Effective Time.

Section 1.3 Retained Liabilities. Except for the Assumed Liabilities, Western Resources shall retain and have full responsibility for and obligation with respect to all debts, claims, losses, indebtedness for borrowed money, guaranties, liabilities, leases and obligations whatsoever of Western Resources and its Affiliates (as defined in Section 6.17 hereof) and Subsidiaries (as defined in Section 6.1 hereof) (other than New KC after the KGE Effective Time (as defined herein)).

Section 1.4 Instruments of Transfer. The conveyance, transfer, assignment and delivery of the KPL Assets to KGE and the assumption of the Assumed Liabilities by KGE shall be effected by one or more assignments, assumption agreements, regulatory orders and any other transfer documents, as may be necessary, or as KCPL may reasonably request. As to the real property interests held in fee included in the KPL Assets, the conveyances shall be by special warranty deed, subject to Permitted Liens (as defined in Section 7.20).

Section 1.5 Assignment or Assumption of Contract Rights. Anything in this Agreement to the contrary notwithstanding, this Agreement shall not constitute an agreement to assign or assume any claim, contract, lease, commitment or any claim or right or any benefit arising thereunder or resulting therefrom if an attempted assignment or assumption thereof, without the consent of a third party thereto, would constitute a breach thereof. If such consent is not obtained, or if an attempted assignment thereof would be ineffective or would affect the rights of Western Resources thereunder so that KGE or New KC would not in fact receive all such rights, Western Resources will cooperate with New KC in arrangements reasonably designed to provide for New KC, at the expense of New KC, the benefits under any such claims, contracts, licenses, leases or commitments including, without limitation, enforcement for the benefit of New KC of any and all rights of Western Resources against a third party thereto arising out of the breach or cancellation by such third party or otherwise; and any transfer or assignment to New KC by Western Resources of any property or property rights or any contract or agreement which shall require the consent or approval of any third party shall be made subject to such consent or approval being obtained; provided, however, that any third party consents to the assignment of such contracts shall provide that Western Resources shall be released in full from its obligations under such contracts.

Section 1.6 The Stock Contribution.

Immediately prior to the KGE Effective Time and as a condition precedent to the KGE Merger, Western Resources shall contribute, or cause to be contributed, to KGE, shares of partly paid Western Resources Common Stock, par value \$5.00 per share (the "Western Resources Common Stock"). The amount of Western Resources Common Stock to be contributed to KGE pursuant to this Section shall be equal to the product of (x) the number of shares of Common Stock, without par value, of KCPL ("KCPL Common Stock") (other than shares of KCPL Common Stock beneficially owned by Western Resources or KCPL, Dissenting Shares (as defined in Section 2.4(a)) and shares (or any portion thereof) of KCPL Common Stock in respect of which cash is to be paid in lieu of fractional shares pursuant to Section 4.1) issued and outstanding immediately prior to the Stock Contribution times (y) the Conversion Ratio. The term "Conversion Ratio" means the quotient (rounded to the nearest 1/100,000) determined by dividing \$23.50 by the Western Resources Index Price (as defined below); provided, however, that if the Western Resources Index Price (i) is greater than \$58.46, the Conversion Ratio shall be fixed at 0.449, provided that if 0.449 multiplied by the Western Resources Index Price exceeds \$30.00, the Conversion Ratio shall mean the quotient (rounded to the nearest 1/100,000) obtained by dividing \$30.00 by the Western Resources Index Price, (ii) is greater than \$55.03 but less than or equal to \$58.46, the Conversion Ratio shall mean the quotient (rounded to the nearest 1/100,000) obtained by dividing \$26.25 by the Western Resources Index Price, (iii) is greater than \$52.41 but less than or equal to \$55.03, the Conversion Ratio shall be fixed at 0.477, (iv) is greater than \$50.00 but less than or equal to \$52.41, the Conversion Ratio shall mean the quotient (rounded to the nearest 1/100,000) determined by dividing \$25.00 by the Western Resources Index Price, (v) is greater than \$47.00 but less than or equal to \$50.00, the Conversion Ratio shall be fixed at 0.500, (vi) is greater than \$35.01 but less than or equal to \$38.27, the Conversion Ratio shall be fixed at 0.614, (vii)

is greater than \$29.78 but less than or equal to \$35.01, the Conversion Ratio shall mean the quotient (rounded to the nearest 1/100,000 obtained by dividing \$21.50 by the Western Resources Index Price or (viii) is less than or equal to \$29.78, the Conversion Ratio shall be fixed at 0.722. The term "Western Resources Index Price" means the aggregate of the average of the high and low sales prices of Western Resources Common Stock (as reported on the New York Stock Exchange (the "NYSE") Composite Transactions reporting system as published in The Wall Street Journal or, if not published therein, in another authoritative source) on each of the twenty consecutive NYSE trading days ending the tenth NYSE trading day immediately preceding the KGE Effective Time, divided by 20. Notwithstanding the foregoing, no certificates or scrip representing fractional shares of Western Resources Common Stock shall be contributed to KGE in the Stock Contribution.

Section 1.7 Certain Taxes. Each of New KC (after the KGE Merger) and Western Resources shall pay one half of the total of (i) all transfer, stamp, sales or use Taxes (as defined in Section 6.9) and any filing, recording, regulatory or similar fees or assessments payable or determined to be payable in connection with the execution, delivery or performance of this Agreement or the transactions contemplated hereby and (ii) all costs and expenses incurred by Western Resources or KGE arising out of or relating to obtaining any third party consents and approvals in connection with the Asset Contribution and the KGE Merger.

ARTICLE II

MERGER OF KCPL WITH AND INTO NEW KC

Section 2.1 The KCPL Merger. Upon the terms and subject to the conditions of this Agreement, at the KCPL Effective Time (as defined in Section 2.3), KCPL shall be merged with and into New KC in accordance with the laws of the States of Missouri and Kansas. New KC shall be the surviving corporation in the KCPL Merger and shall continue its corporate existence under the laws of the State of Kansas. The effects and the consequences of the KCPL Merger shall be as set forth in Section 2.2.

Section 2.2 Effects of the KCPL Merger. At the KCPL Effective Time, (i) the Articles of Incorporation of New KC, as in effect immediately prior to the KCPL Effective Time, shall be the articles of incorporation of New KC (the "New KC Articles") until thereafter amended as provided by law and the New KC Articles, and (ii) the by-laws of New KC, as in effect immediately prior to the KCPL Effective Time, shall be the by-laws of New KC (the "New KC By-Laws") until thereafter amended as provided by law, the New KC Articles, and such by-laws. Subject to the foregoing, the additional effects of the KCPL Merger shall be as provided in the applicable provisions of the General and Business Corporation Law of Missouri (the "MGBCL") and the General Corporation Code of the State of Kansas (the "KGCC").

Section 2.3 Effective Time of the KCPL Merger. On the Closing Date, a certificate of merger shall be executed and filed by New KC and KCPL with the Secretary of State of the State of Kansas pursuant to the KGCC and articles of merger shall be executed and filed with the Secretary of State of the State of Missouri pursuant to the MGBCL. The KCPL Merger shall become effective upon the certification by the Secretary of State of the State of Kansas that the certificate of merger relating to the KCPL Merger has been duly filed (the "KCPL Effective Time").

Section 2.4 Effect of the KCPL Merger on KCPL and New KC Capital Stock.

(a) Capital Stock of KCPL. As of the KCPL Effective Time, by virtue of the KCPL Merger and upon surrender by any holder of shares of KCPL Common Stock of such shares, subject to Section 2.4(b) and Section 2.4(d), each issued and outstanding share of KCPL Common Stock (other than shares of KCPL Common Stock beneficially owned by KCPL either directly or through a wholly owned Subsidiary and shares of KCPL Common Stock ("Dissenting Shares") that are owned by shareholders ("Dissenting Shareholders") exercising appraisal rights pursuant to Section 351.455 of the MGBCL), shall represent one fully paid and nonassessable share of Series A Common Stock, without par value, of New KC ("New KC Series A Common Stock"). As of the KCPL Effective Time, by virtue of the KCPL Merger and without any action on the part of Western Resources, each share of New KC Series A Common Stock previously owned by Western Resources shall be cancelled.

(b) Cancellation of Certain KCPL Common Stock and New KC Common

Stock. As of the KCPL Effective Time, by virtue of the KCPL Merger and without any action on the part of any holder of any capital stock of KCPL or New KC, any shares of KCPL Common Stock or New KC Common Stock that are owned by KCPL as treasury stock or otherwise or by New KC or by any wholly owned Subsidiary of New KC or KCPL shall be canceled and retired and shall cease to exist and no stock of New KC or other consideration shall be issued or delivered in exchange therefor.

(c) Redemption of KCPL Preferred Stock. Prior to the KCPL Effective Time, the Board of Directors of KCPL shall call for redemption all outstanding shares of KCPL Preferred Stock (as defined in Section 6.3) at a redemption price equal to the amount set forth in the Restated Articles of Consolidation of KCPL, together with all dividends accrued and unpaid to the date of such redemption and take all other required actions so that all shares of KCPL Preferred Stock shall be redeemed and no such shares shall be deemed to be outstanding at the KCPL Effective Time or entitled to vote on the approval of this Agreement and the transactions contemplated hereby.

(d) Dissenters' Rights. No Dissenting Shareholder shall be entitled to shares of New KC Series A Common Stock or cash in lieu of fractional shares thereof or any distributions pursuant to this Article II or Section 4.1 unless and until the holder thereof shall have failed to perfect or shall have effectively withdrawn or lost such holder's right to dissent from the KCPL Merger under the MGBCL, and any Dissenting Shareholder shall be entitled to receive only the payment provided by Section 351.455 of the MGBCL with respect to shares of KCPL Common Stock owned by such Dissenting Shareholder. If any Person who otherwise would be deemed a Dissenting Shareholder shall have failed to perfect properly or shall have effectively withdrawn or lost the right to dissent with respect to any shares of KCPL Common Stock, such shares of KCPL Common Stock shall thereupon be treated as though such shares of KCPL Common Stock had been converted into shares of New KC Series A Common Stock pursuant to Section 2.4(a) hereof, and, to the extent such failure, withdrawal or loss occurs subsequent to the Closing Date, Western Resources and New KC shall issue shares of Western Resources Common Stock and New KC Series A Common Stock in accordance with Sections 1.6 and 2.4(a), respectively, of this Agreement. KCPL shall give Western Resources and New KC (i) prompt notice of any written demands for appraisal, attempted withdrawals of such demands, and any other instruments served pursuant to applicable law received by KCPL relating to shareholders' rights of appraisal and (ii) the opportunity to direct all negotiations and proceedings with respect to demand for appraisal under the MGBCL. KCPL shall not, except with the prior written consent of Western Resources and New KC, voluntarily make any payment with respect to any demands for appraisals of Dissenting Shares, offer to settle or settle any such demands or approve any withdrawal of any such demands.

Section 2.5 Debt of New KC. Immediately after the KCPL Effective Time but prior to the KGE Effective Time (as defined in Section 3.3), New KC shall cause KLT, Inc., a wholly owned subsidiary of New KC as a result of the KCPL Merger ("KLT"), to assume any indebtedness for borrowed money of New KC in excess of \$800 million aggregate principal amount (including preferred stock).

Section 2.6 Name of New KC. Prior to the KCPL Effective Time, Western Resources and KCPL shall agree as to a new name for New KC and shall take all actions necessary to change its name.

ARTICLE III

MERGER OF KGE WITH AND INTO NEW KC

Section 3.1 The KGE Merger. Upon the terms and subject to the conditions of this Agreement, at the KGE Effective Time, KGE shall be merged with and into New KC in accordance with the laws of the State of Kansas. New KC shall be the surviving corporation in the KGE Merger and shall continue its corporate existence under the laws of the State of Kansas. New KC after the KGE Effective Time is sometimes referred to herein as the "Surviving Corporation." The effects and the consequences of the KGE Merger shall be as set forth in Section 3.2.

Section 3.2 Effects of the KGE Merger.

(a) New KC Articles and By-Laws. At the KGE Effective Time, (i) the articles of incorporation of New KC, as in effect immediately prior to the KGE Effective Time, shall be the articles of incorporation of the Surviving Corporation, until thereafter amended as provided by law and the New KC Articles, and (ii) the by-laws of New KC as in effect

immediately prior to the KGE Effective Time, shall be the by-laws of the Surviving Corporation, until thereafter amended as provided by law, the New KC Articles, and such by-laws. Subject to the foregoing, the additional effects of the KGE Merger shall be as provided in the applicable provisions of the KGCC.

(b) Dissenters' Rights. Western Resources shall not exercise dissenters' rights under the KGCC with respect to the KGE Merger.

Section 3.3 Effective Time of the KGE Merger. On the Closing Date, a certificate of merger shall be executed and filed by New KC and KGE with the Secretary of State of the State of Kansas pursuant to the KGCC. The KGE Merger shall become effective upon the certification by the Secretary of State of the State of Kansas that the certificate of merger relating to the KGE Merger has been duly filed (the "KGE Effective Time"), provided, that, the KGE Effective Time shall occur after the KCPL Effective Time.

Section 3.4 Effect of the KGE Merger on KGE Capital Stock. As of the KGE Effective Time, by virtue of the KGE Merger and without any action on the part of Western Resources all of the issued and outstanding shares of Common Stock, without par value, of KGE ("KGE Common Stock"), shall be converted into and become such number of shares of Series B Common Stock, without par value, of New KC ("New KC Series B Common Stock"), representing, assuming there are no Dissenting Shares, 80.1% of the fully diluted outstanding shares of New KC. Immediately after consummation of the KCPL Merger and the KGE Merger, assuming there are no Dissenting Shares, the outstanding shares of New KC Series A Common Stock to be issued pursuant to Section 2.4(a) shall constitute 19.9% of the fully diluted outstanding shares of New KC.

Section 3.5 Effect of the KGE Merger on Certain Western Resources Common Stock. As of the KGE Effective Time, by virtue of the KGE Merger the Western Resources Common Stock contributed to KGE pursuant to Section 1.6 hereof shall become fully paid and nonassessable.

ARTICLE IV

ADDITIONAL TRANSACTIONS

Section 4.1 Distribution of Western Resources Common Stock. Immediately after the KGE Effective Time, New KC shall, in connection with the KGE Merger, distribute to holders of New KC Series A Common Stock the Western Resources Common Stock contributed to KGE pursuant to the Stock Contribution to each holder of New KC Series A Common Stock (including any shares of Western Resources Common Stock issued pursuant to Section 2.4(d), the "Western Resources Stock Distribution"). Each share of New KC Series A Common Stock shall be entitled to receive a distribution of that number of shares of Western Resources Common Stock equal to the product of (a) the number of shares of Western Resources Common Stock contributed to KGE pursuant to the Stock Contribution times (b) a quotient, the numerator of which is 1 and the denominator of which is the total number of shares of New KC Series A Common Stock issued and outstanding immediately after the KCPL Effective Time. The number of shares of New KC Series A Common Stock and the number of shares of Western Resources Common Stock, respectively, to be issued in the KCPL Merger to holders of KCPL Common Stock and distributed in the Western Resources Stock Distribution to holders (other than Western Resources) of New KC Series A Common Stock are together sometimes referred to herein as the "Aggregate Consideration." Notwithstanding the foregoing, no certificates or scrip representing fractional shares of Western Resources Common Stock shall be distributed pursuant to this Section 4.1. A holder of New KC Series A Common Stock who would otherwise have been entitled to a fractional share of Western Resources Common Stock shall be entitled to receive a cash payment in lieu of such fractional share in an amount equal to the product of such fraction multiplied by the Western Resources Index Price, without any interest thereon.

Section 4.2 Distribution of KLT Capital Stock to Western Resources. Immediately after the KGE Effective Time, New KC shall distribute to Western Resources all of the outstanding shares of capital stock of KLT (the "KLT Stock Distribution").

Section 4.3 Conversion of New KC Series B Common Stock Owned by Western Resources. Immediately after the Western Resources Stock Distribution, without any action on the part of Western Resources, each share of New KC Series B Common Stock owned by Western Resources shall automatically represent one fully paid and nonassessable share of New KC Series A Common Stock (the "Series B Conversion").

ARTICLE V

THE CLOSING

Section 5.1 Closing. The closing of the transactions contemplated hereby (the "Closing") shall take place at the offices of Sullivan & Cromwell, 125 Broad Street, New York, New York 10004 at 10:00 A.M., local time, on the tenth NYSE trading day immediately following the date on which the last of the conditions set forth in Article X hereof is fulfilled or has been waived or at such other time, date and place as Western Resources and KCPL shall mutually agree (the "Closing Date").

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF KCPL

KCPL makes the following representations and warranties to Western Resources, KGE and New KC:

Section 6.1 Organization and Qualification. KCPL and each of the KCPL Subsidiaries (as defined below) is a corporation or other entity duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority, and has been duly authorized by all necessary approvals and orders to own, lease and operate its assets and properties to the extent owned, leased and operated and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its assets and properties makes such qualification necessary other than in such jurisdictions where the failure so to qualify would not have a KCPL Material Adverse Effect (as defined in Section 6.6). As used in this Agreement, the term "Subsidiary" of a person shall mean any corporation or other entity (including partnerships and other business associations) of which at least a majority of the voting power represented by the outstanding capital stock or other voting securities or interests having voting power under ordinary circumstances to elect a majority of the directors or similar members of the governing body of such corporation or entity shall at the time be held, directly or indirectly, by such person. The term "KCPL Subsidiary" shall mean a Subsidiary of KCPL in which KCPL's equity investment exceeds \$25 million.

Section 6.2 Subsidiaries. Section 6.2 of the schedule delivered by KCPL to Western Resources on the date hereof (the "KCPL Disclosure Schedule") sets forth a list as of the date hereof of all the KCPL Subsidiaries. Neither KCPL nor any of the KCPL Subsidiaries is a "holding company," a "subsidiary company" or an "affiliate" of any public utility company within the meaning of Section 2(a)(7), 2(a)(8) or 2(a)(11) of the Public Utility Holding Company Act of 1935, as amended (the "1935 Act"), respectively, and none of the KCPL Subsidiaries is a "public utility company" within the meaning of Section 2(a)(5) of the 1935 Act. Except as set forth in Section 6.2 of the KCPL Disclosure Schedule all of the issued and outstanding shares of capital stock of each KCPL Subsidiary are validly issued, fully paid, nonassessable and free of preemptive rights, and are owned, directly or indirectly, by KCPL free and clear of any liens, claims, encumbrances, security interests, charges and options of any nature whatsoever and there are no outstanding subscriptions, options, calls, contracts, voting trusts, proxies or other commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement, obligating any such KCPL Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of its capital stock or obligating it to grant, extend or enter into any such agreement or commitment.

Section 6.3 Capitalization. As of the date hereof, the authorized capital stock of KCPL consists of 150,000,000 shares of KCPL Common Stock, without par value, 401,157 shares of Cumulative Preferred Stock, par value \$100.00 per share ("KCPL Cumulative Preferred"), 1,572,000 shares of Cumulative No Par Preferred Stock, without par value ("KCPL No Par Preferred"), and 11,000,000 shares of Preference Stock, without par value ("KCPL Preference Stock") (KCPL Cumulative Preferred, KCPL No Par Preferred and KCPL Preference Stock hereinafter collectively referred to as the "KCPL Preferred Stock"). At the close of business on March 17, 1998, (i) 61,908,726 shares of KCPL Common Stock were issued, not more than 10,000,000 shares of KCPL Common Stock were reserved for issuance pursuant to KCPL's Long Term Incentive Plan and Employee

Savings Plus Plan (401(k) Plan) and Dividend Reinvestment Plan (such Plans, collectively, the "KCPL Stock Plans"), (ii) 35,811 shares of KCPL Common Stock were held by KCPL in its treasury or by its wholly owned Subsidiaries, (iii) 399,557 shares of KCPL Cumulative Preferred were issued and of such issued shares, 8,934 were held by KCPL in its treasury or by its wholly owned Subsidiaries, (iv) 500,000 shares of KCPL No Par Preferred were outstanding and none were held by KCPL or its Subsidiaries in its treasury, (v) no shares of KCPL Preference Stock were outstanding, (vi) \$150,000,000 of Company-Obligated Mandatorily Redeemable Preferred Securities of a subsidiary trust holding solely KCPL Subordinated Debentures, and (vii) no bonds, debentures, notes or other indebtedness having the right to vote (or convertible into securities having the right to vote) on any matters on which shareholders may vote ("Voting Debt"), were issued or outstanding. All outstanding shares of KCPL Common Stock and KCPL Preferred Stock are validly issued, fully paid and nonassessable and are not subject to preemptive rights. As of the date hereof, except as set forth in Section 6.3 of the KCPL Disclosure Schedule or pursuant to this Agreement and the KCPL Stock Plans, there are no options, warrants, calls, rights, commitments or agreements of any character to which KCPL or any Subsidiary of KCPL is a party or by which any of them are bound obligating KCPL or any Subsidiary of KCPL to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or any Voting Debt securities of KCPL or any Subsidiary of KCPL or obligating KCPL or any Subsidiary of KCPL to grant, extend or enter into any such option, warrant, call, right, commitment or agreement. Except as set forth in Section 6.3 of the KCPL Disclosure Schedule, or other than in connection with the KCPL Stock Plans, after the KGE Effective Time, there will be no option, warrant, call, right, commitment or agreement obligating KCPL or any Subsidiary of KCPL to issue, deliver or sell, or cause to be issued, delivered or sold, any shares of capital stock or any Voting Debt of KCPL or any Subsidiary of KCPL or obligating KCPL or any Subsidiary of KCPL to grant, extend or enter into any such option, warrant, call, right, commitment or agreement.

Section 6.4 Authority; Non-Contravention; Statutory Approvals; Compliance.

(a) Authority. KCPL has all requisite power and authority to enter into this Agreement and, subject to the receipt of the applicable KCPL Shareholders' Approval (as defined in Section 6.13) and the applicable KCPL Required Statutory Approvals (as defined in Section 6.4(c)), to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation by KCPL of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of KCPL, subject to obtaining the applicable KCPL Shareholders' Approval. This Agreement has been duly and validly executed and delivered by KCPL and, assuming the due authorization, execution and delivery hereof by Western Resources and KGE, constitutes the valid and binding obligation of KCPL enforceable against it in accordance with the terms of this Agreement.

(b) Non-Contravention. Except as set forth in Section 6.4(b) of the KCPL Disclosure Schedule, the execution and delivery of this Agreement by KCPL does not, and the consummation of the transactions contemplated hereby will not, in any respect, violate, conflict with or result in a material breach of any provision of, or constitute a material default (with or without notice or lapse of time or both) under, or result in the termination or modification of, or accelerate the performance required by, or result in a right of termination, cancellation or acceleration of any obligation or the loss of a material benefit under, or result in the creation of any material lien, security interest, charge or encumbrance upon any of the properties or assets of KCPL or any of the KCPL Subsidiaries (any such violation, conflict, breach, default, right of termination, modification, cancellation or acceleration, loss or creation, is referred to herein as a "Violation" with respect to KCPL and such term when used in Article VII having a correlative meaning with respect to Western Resources and KGE) pursuant to any provisions of (i) the Restated Articles of Consolidation, by-laws or similar governing documents of KCPL or any of the KCPL Subsidiaries, (ii) subject to obtaining the KCPL Required Statutory Approvals and the receipt of the KCPL Shareholders' Approval, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any Governmental Authority (as defined in Section 6.4(c)) applicable to KCPL or any of the KCPL Subsidiaries or any of their respective properties or assets or (iii) subject to obtaining the third-party consents set forth in Section 6.4(b) of the KCPL Disclosure Schedule (the "KCPL Required Consents"), any material note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind to which KCPL or any of the KCPL Subsidiaries is a party or

by which it or any of its properties or assets may be bound or affected, except in the case of clause (ii) or (iii) for any such Violation which would not have a KCPL Material Adverse Effect.

(c) Statutory Approvals. No declaration, filing or registration with, or notice to or authorization, consent or approval of, any court, federal, state, local or foreign governmental or regulatory body (including a stock exchange or other self-regulatory body) or authority (each, a "Governmental Authority") is necessary for the execution and delivery of this Agreement by KCPL or the consummation by KCPL of the transactions contemplated hereby except as described in Section 6.4(c) of the KCPL Disclosure Schedule or the failure of which to obtain would not result in a KCPL Material Adverse Effect (the "KCPL Required Statutory Approvals," it being understood that references in this Agreement to "obtaining" such KCPL Required Statutory Approvals shall mean making such declarations, filings or registrations; giving such notices; obtaining such authorizations, consents or approvals; and having such waiting periods expire as are necessary to avoid a violation of law).

(d) Compliance. Except as set forth in Section 6.7, Section 6.10, or Section 6.11 of the KCPL Disclosure Schedule, or as disclosed in the KCPL SEC Reports (as defined in Section 6.5) filed prior to the date hereof, neither KCPL nor any of the KCPL Subsidiaries is in violation of, is, to the knowledge of KCPL, under investigation with respect to any violation of, or has been given notice or been charged with any violation of, any law, statute, order, rule, regulation, ordinance or judgment (including, without limitation, any applicable environmental law, ordinance or regulation) of any Governmental Authority, except for possible violations which individually or in the aggregate would not have a KCPL Material Adverse Effect. Except as set forth in Sections 6.7, 6.10 and 6.11 of the KCPL Disclosure Schedule or as disclosed in the KCPL SEC Reports filed prior to the date hereof, KCPL and the KCPL Subsidiaries have all permits, licenses, franchises and other governmental authorizations, consents and approvals necessary to conduct their businesses as presently conducted which are material to the operation of the businesses of KCPL and the KCPL Subsidiaries. Neither KCPL nor any of the KCPL Subsidiaries is in breach or violation of or in default in the performance or observance of any term or provision of, and no event has occurred which, with lapse of time or action by a third party, could result in a default by KCPL or any KCPL Subsidiary under (i) its articles of incorporation or by-laws or (ii) any contract, commitment, agreement, indenture, mortgage, loan agreement, note, lease, bond, license, approval or other instrument to which it is a party or by which KCPL or any KCPL Subsidiary is bound or to which any of its property is subject, except for possible violations, breaches or defaults which individually or in the aggregate would not have a KCPL Material Adverse Effect.

Section 6.5 Reports and Financial Statements. The filings required to be made by KCPL and the KCPL Subsidiaries since January 1, 1994 under the Securities Act of 1933, as amended (the "Securities Act"); the Securities Exchange Act of 1934, as amended (the "Exchange Act"); the 1935 Act; the Federal Power Act (the "Power Act"); the Atomic Energy Act of 1954, as amended (the "Atomic Energy Act") and applicable state public utility laws and regulations have been filed with the Securities and Exchange Commission (the "SEC"), the Federal Energy Regulatory Commission (the "FERC"), the Nuclear Regulatory Commission ("NRC") or the appropriate state public utilities commission, as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, and complied, as of their respective dates, in all material respects with all applicable requirements of the appropriate statutes and the rules and regulations thereunder, except for such filings the failure of which to have been made or to so comply would not result in a KCPL Material Adverse Effect. "KCPL SEC Reports" shall mean each report, schedule, registration statement and definitive proxy statement filed with the SEC by KCPL pursuant to the requirements of the Securities Act or Exchange Act since January 1, 1994 (as such documents have since the time of their filing been amended). As of their respective dates, the KCPL SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of KCPL included in the KCPL SEC Reports (collectively, the "KCPL Financial Statements") have been prepared in accordance with generally accepted accounting principles applied on a consistent basis ("GAAP") (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q of the SEC) and fairly present the financial position of KCPL as of the dates thereof and the

results of its operations and cash flows for the periods then ended, subject, in the case of the unaudited interim financial statements, to normal, recurring audit adjustments. True, accurate and complete copies of the Restated Articles of Consolidation and by-laws of KCPL, as in effect on the date hereof, are included (or incorporated by reference) in the KCPL SEC Reports.

Section 6.6 Absence of Certain Changes or Events. Except as disclosed in Section 6.6 of the KCPL Disclosure Schedule and in the KCPL SEC Reports filed prior to the date hereof, since December 31, 1996, KCPL and each of the KCPL Subsidiaries have conducted their business only in the ordinary course of business consistent with past practice (except that the operations of KLT and KCPL's marketing business have been conducted in the ordinary course of business consistent with the KCPL Business Plan (as defined in Section 8.1)) and there has not been any KCPL Material Adverse Effect. For purposes of this Agreement, a "KCPL Material Adverse Effect" shall mean the existence of any fact or condition which has or is reasonably likely to have a material adverse effect on the business, assets, financial condition, results of operations or prospects of KCPL and the KCPL Subsidiaries taken as a whole.

Section 6.7 Litigation. Except as disclosed in the KCPL SEC Reports filed prior to the date hereof or as set forth in Sections 6.7, 6.9, 6.10 or 6.11 of the KCPL Disclosure Schedule, (a) there are no claims, suits, actions or proceedings by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator, pending or, to the knowledge of KCPL, threatened, nor are there, to the knowledge of KCPL, any investigations or reviews by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator pending or threatened against, relating to or affecting KCPL or any of the KCPL Subsidiaries which would have a KCPL Material Adverse Effect, (b) there have not been any significant developments since December 31, 1996 with respect to such disclosed claims, suits, actions, proceedings, investigations or reviews that would have a KCPL Material Adverse Effect and (c) there are no judgments, decrees, injunctions, rules or orders of any court, governmental department, commission, agency, instrumentality or authority or any arbitrator applicable to KCPL or any of the KCPL Subsidiaries, except for such that would not have a KCPL Material Adverse Effect.

Section 6.8 Registration Statement and Proxy Statement. None of the information supplied or to be supplied by or on behalf of KCPL for inclusion or incorporation by reference in (a) the registration statement on Form S-4 or any post-effective amendment to a registration statement on Form S-4 to be filed with the SEC by Western Resources and New KC in connection with the issuance of shares of Western Resources Common Stock and New KC Common Stock (as defined in Section 7.3) pursuant to the transactions contemplated hereby (the "Registration Statement") will, at the time the Registration Statement is filed with the SEC and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (b) the joint proxy statement, in definitive form, relating to the meetings of KCPL and Western Resources shareholders to be held in connection with the KCPL Merger and KGE Merger and the transactions related thereto (the "Proxy Statement") will, at the dates mailed to shareholders and at the times of the meetings of shareholders to be held in connection with the KCPL Merger and KGE Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Registration Statement and the Proxy Statement will comply as to form in all material respects with the provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder.

Section 6.9 Tax Matters. "Taxes," as used in this Agreement, means any federal, state, county, local or foreign taxes, charges, fees, levies or other assessments, including all net income, gross income, sales and use, ad valorem, transfer, gains, profits, excise, franchise, real and personal property, gross receipt, capital stock, production, business and occupation, disability, employment, payroll, license, estimated, stamp, custom duties, severance or withholding taxes or charges imposed by any governmental entity, and includes any interest and penalties (civil or criminal) on or additions to any such taxes. "Tax Return," as used in this Agreement, means a report, return or other information required to be supplied to a governmental entity with respect to Taxes including, where permitted or required, combined or consolidated returns for any group of entities that includes KCPL or any

KCPL Subsidiary or Western Resources, KGE or any Western Resources Subsidiary, as the case may be.

Except as set forth in Section 6.9 of the KCPL Disclosure Schedule and except as would not result in a KCPL Material Adverse Effect:

(a) Filing of Timely Tax Returns. KCPL and each of the KCPL Subsidiaries have filed (or there has been filed on its behalf) all Tax Returns required to be filed by each of them under applicable law. All such Tax Returns were and are in all material respects true, complete and correct and filed on a timely basis.

(b) Payment of Taxes. KCPL and each of the KCPL Subsidiaries have, within the time and in the manner prescribed by law, paid all Taxes that are currently due and payable, except for those contested in good faith and for which adequate reserves have been taken.

(c) Tax Reserves. KCPL and each of the KCPL Subsidiaries have established on their books and records reserves adequate to pay all Taxes and reserves for deferred income taxes in accordance with GAAP.

(d) Tax Liens. There are no Tax liens upon the assets of KCPL or any of the KCPL Subsidiaries except liens for Taxes not yet due.

(e) Withholding Taxes. KCPL and each of the KCPL Subsidiaries have complied in all material respects with the provisions of the Code relating to the withholding of Taxes, as well as similar provisions under any other laws, and have, within the time and in the manner prescribed by law, withheld and paid over to the proper governmental authorities all amounts required.

(f) Audit, Administrative and Court Proceedings. No audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes or Tax Returns of KCPL or any of the KCPL Subsidiaries.

(g) Tax Rulings. Neither KCPL nor any of the KCPL Subsidiaries has received a Tax Ruling (as defined below) or entered into a Closing Agreement (as defined below) with any taxing authority. "Tax Ruling," as used in this Agreement, shall mean a written ruling of a taxing authority relating to Taxes. "Closing Agreement," as used in this Agreement, shall mean a written and legally binding agreement with a taxing authority relating to Taxes.

(h) Tax Sharing Agreements. Except as between affiliates of KCPL as set forth in Sections 6.1 and 6.2 of the KCPL Disclosure Schedule, neither KCPL nor any KCPL Subsidiary is a party to any agreement relating to allocating or sharing of Taxes.

(i) Code Section 280G. Except for the KCPL Benefit Plans, neither KCPL, nor any of the KCPL Subsidiaries is a party to any agreement, contract or arrangement that could result in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code or any amount that would be non-deductible pursuant to Section 162(m) of the Code.

(j) Liability For Others. Neither KCPL nor any of the KCPL Subsidiaries has any liability for Taxes of any person other than KCPL and the KCPL Subsidiaries (i) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or foreign law), (ii) by contract, or (iii) otherwise.

(k) Section 341(f). Neither KCPL nor any of the KCPL Subsidiaries has, with regard to any assets or property held or acquired by any of them, filed a consent to the application of Section 341(f)(2) of the Code, or agreed to have Section 341(f)(2) of the Code apply to any disposition of a subsection (f) asset (as such term is defined in Section 341(f)(4) of the Code) owned by KCPL or any of the KCPL Subsidiaries.

Section 6.10 Employee Matters; ERISA. Except as set forth in Section 6.10 of the KCPL Disclosure Schedule:

(a) Benefit Plans. As of the date hereof, Section 6.10(a) of the KCPL Disclosure Schedule contains a true and complete list of each written or oral material employee benefit plan, policy or agreement covering employees, former employees or directors of KCPL and each of the KCPL Subsidiaries or their beneficiaries, or providing benefits to such persons in respect of services provided to any such entity, including, but not limited to, any employee benefit plans within the meaning of Section 3(3) of the Employee Retirement Income Security Act

of 1974, as amended ("ERISA") and any severance or change in control agreement (collectively, the "KCPL Benefit Plans"). Since January 1, 1996, there have been no new plans adopted nor changes, additions or modification to any existing plan.

(b) Contributions. All material contributions and other payments required to be made by KCPL or any of the KCPL Subsidiaries to any KCPL Benefit Plan (or to any person pursuant to the terms thereof) have been made or the amount of such payment or contribution obligation has been reflected in the KCPL Financial Statements.

(c) Qualification; Compliance. Each of the KCPL Benefit Plans intended to be "qualified" within the meaning of Section 401(a) of the Code has been determined by the Internal Revenue Service (the "IRS") to be so qualified, and, to the knowledge of KCPL, no circumstances exist that are reasonably expected by KCPL to result in the revocation of any such determination. KCPL is in compliance in all material respects with, and each of the KCPL Benefit Plans is and has been operated in all material respects in compliance with, all applicable laws, rules and regulations governing such plan, including, without limitation, ERISA and the Code. Each KCPL Benefit Plan intended to provide for the deferral of income, the reduction of salary or other compensation, or to afford other income tax benefits, complies with the requirements of the applicable provisions of the Code or other laws, rules and regulations required to provide such income tax benefits. No prohibited transactions (as defined in Section 406 or 407 of ERISA or Section 4975 of the Code) have occurred for which a statutory exemption is not available with respect to any KCPL Benefit Plan, and which could give rise to liability on the part of KCPL, any KCPL Benefit Plan, or any fiduciary, party in interest or disqualified person with respect thereto that would be material to KCPL or would be material to KCPL if it were KCPL's liability.

(d) Liabilities. With respect to the KCPL Benefit Plans, individually and in the aggregate, no event has occurred, and, to the knowledge of KCPL, there does not now exist any condition or set of circumstances, that could subject KCPL or any of the KCPL Subsidiaries to any material liability arising under the Code, ERISA or any other applicable law (including, without limitation, any liability to any such plan or the Pension Benefit Guaranty Corporation (the "PBGC")), or under any indemnity agreement to which KCPL or any of the KCPL Subsidiaries is a party, excluding liability for benefit claims and funding obligations payable in the ordinary course.

(e) Welfare Plans. None of the KCPL Benefit Plans that are "welfare plans," within the meaning of Section 3(1) of ERISA, provide for any benefits with respect to current or former employees for periods extending beyond their retirement or other termination of service, other than continuation coverage required to be provided under Section 4980B of the Code or Part 6 of Title I of ERISA.

(f) Payments Resulting from the KCPL Merger or KGE Merger. The consummation or announcement of any transaction contemplated by this Agreement will not (either alone or upon the occurrence of any additional or further acts or events, including, without limitation, the termination of employment of any officers, directors, employees or agents of KCPL or any of the KCPL Subsidiaries) result in any (i) payment (whether of severance pay or otherwise) becoming due from KCPL or any of the KCPL Subsidiaries to any officer, employee, former employee or director thereof or to the trustee under any "rabbi trust" or similar arrangement, or (ii) benefit under any KCPL Benefit Plan becoming accelerated, vested or payable.

(g) Labor Agreements. As of the date hereof, neither KCPL nor any of the KCPL Subsidiaries is a party to any collective bargaining agreement or other labor agreement with any union or labor organization. To the knowledge of KCPL, as of the date hereof, there is no current union representation question involving employees of KCPL or any of the KCPL Subsidiaries, nor does KCPL know of any activity or proceeding of any labor organization (or representative thereof) or employee group to organize any such employees. Except as disclosed in the KCPL SEC Reports filed prior to the date hereof or except to the extent such would not have a KCPL Material Adverse Effect, (i) there is no unfair labor practice, employment discrimination or other material complaint against KCPL, or any of the KCPL Subsidiaries pending, or to the knowledge of KCPL, threatened, (ii) there is no strike, lockout or material dispute, slowdown or work stoppage pending or, to the knowledge of KCPL, threatened against or involving KCPL, and (iii) there is no proceeding, claim, suit, action or governmental investigation pending or, to the knowledge of KCPL, threatened in respect of which any director, officer, employee or agent of KCPL or any of the KCPL Subsidiaries is or may be

entitled to claim indemnification from KCPL, or such KCPL Subsidiary pursuant to their respective articles of incorporation or by-laws or as provided in any indemnification agreements between such persons and KCPL or any KCPL Subsidiary.

Section 6.11 Environmental Protection.

(a) Except as set forth in Section 6.11 of the KCPL Disclosure Schedule or in the KCPL SEC Reports filed prior to the date hereof:

(i) Compliance. KCPL and each of the KCPL Subsidiaries are in compliance with all applicable Environmental Laws (as defined in Section 6.11(b)(ii)) and neither KCPL nor any of the KCPL Subsidiaries has received any communication (written or oral), from any person or Governmental Authority that alleges that KCPL or any of the KCPL Subsidiaries is not in such compliance with applicable Environmental Laws except in each foregoing case where the failure to so comply would not have a KCPL Material Adverse Effect. To the knowledge of KCPL, compliance with all applicable Environmental Laws, will not require KCPL or any KCPL Subsidiary to incur costs that will be reasonably likely to result in a KCPL Material Adverse Effect.

(ii) Environmental Permits. KCPL and each of the KCPL Subsidiaries has obtained or has applied for all environmental, health and safety permits and governmental authorizations (collectively, the "Environmental Permits") necessary for the construction of their facilities or the conduct of their operations except where the failure to so obtain would not have a KCPL Material Adverse Effect, and all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed and is pending agency approval, and KCPL and each of the KCPL Subsidiaries is in material compliance with all terms and conditions of the Environmental Permits.

(iii) Environmental Claims. There is no Environmental Claim (as defined in Section 6.11(b)(i)) which would have a KCPL Material Adverse Effect pending (A) against KCPL or any of the KCPL Subsidiaries, (B) to the knowledge of KCPL, against any person or entity whose liability for any Environmental Claim KCPL or any of the KCPL Subsidiaries has or may have retained or assumed either contractually or by operation of law, or (C) against any real or personal property or operations which KCPL or any of the KCPL Subsidiaries owns, leases or manages, in whole or in part.

(iv) Releases. KCPL has no knowledge of any Releases (as defined in Section 6.11(b)(iv)) of any Hazardous Material (as defined in Section 6.11(b)(iii)) that would be reasonably likely to form the basis of any Environmental Claim against KCPL or any of the KCPL Subsidiaries or against any person or entity whose liability for any Environmental Claim KCPL or any of the KCPL Subsidiaries has or may have retained or assumed either contractually or by operation of law except for any Environmental Claim which would not have a KCPL Material Adverse Effect.

(v) Predecessors. KCPL has no knowledge, with respect to any predecessor of KCPL or any of the KCPL Subsidiaries of any Environmental Claim which would have a KCPL Material Adverse Effect pending or threatened, or of any Release of Hazardous Materials that would be reasonably likely to form the basis of any Environmental Claim which would have a KCPL Material Adverse Effect.

(b) Definitions. As used in this Agreement:

(i) "Environmental Claim" means any and all administrative, regulatory or judicial actions, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation (written or oral) by any person or entity (including any Governmental Authority) alleging potential liability (including, without limitation, potential responsibility for or liability for enforcement, investigatory costs, cleanup costs, governmental response costs, removal costs, remedial costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from (A) the presence, Release or threatened Release into the environment of any Hazardous Materials at any location, whether or not owned, operated, leased or managed by KCPL or any of the KCPL Subsidiaries (for purposes of this Section 6.11) or by Western Resources, KGE or any of the Western Resources Subsidiaries (for purposes of Section 7.11); or (B) circumstances forming the basis of any violation or alleged violation of any Environmental Law or (C) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of any Hazardous Materials.

(ii) "Environmental Laws" means all federal, state and local laws, rules and regulations relating to pollution, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or protection of human health as it relates to the environment including, without limitation, laws and regulations relating to Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

(iii) "Hazardous Materials" means (A) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls ("PCBs"); (B) any chemicals, materials or substances which are now defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants," or words of similar import under any Environmental Law and (C) any other chemical, material, substance or waste, exposure to which is now prohibited, limited or regulated under any Environmental Law in a jurisdiction in which KCPL or any of the KCPL Subsidiaries operates (for purposes of this Section 6.11) or in which Western Resources, KGE or any of the Western Resources Subsidiaries operates (for purposes of Section 7.11).

(iv) "Release" means any release, spill, emission, leaking, injection, deposit, disposal, discharge, dispersal, leaching or migration into the atmosphere, soil, surface water, groundwater or property.

Section 6.12 Regulation as a Utility. KCPL is regulated as a public utility in the States of Kansas and Missouri and in no other state. Except as set forth in Section 6.12 of the KCPL Disclosure Schedule, neither KCPL nor any "subsidiary company" or "affiliate" (as each such term is defined in the 1935 Act) of KCPL is subject to regulation as a public utility or public service company (or similar designation) by any other state in the United States or any foreign country.

Section 6.13 Vote Required. Provided that the KCPL Preferred Stock has been redeemed pursuant to Section 2.4(c), the affirmative vote of two-thirds of the shares of KCPL Common Stock outstanding on the record date for the meeting at which such vote is taken is the only vote of the holders of any class or series of the capital stock of KCPL or any of its Subsidiaries that is required to approve this Agreement, the KCPL Merger, and (except for the KGE Merger, the Asset Contribution and the Stock Contribution) the other transactions contemplated hereby ("KCPL Shareholders' Approval").

Section 6.14 Article Twelfth of KCPL's Restated Articles of Consolidation. The provisions of Article Twelfth of KCPL's Restated Articles of Consolidation will not, prior to the termination of this Agreement, assuming the accuracy of the representation contained in Section 7.17 (without giving effect to the knowledge qualification thereof), apply to this Agreement, the Asset Contribution, the Stock Contribution, the KCPL Merger, the KGE Merger or to the other transactions contemplated hereby.

Section 6.15 Opinion of Financial Advisor. KCPL has received the opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), dated as of the date hereof, to the effect that, as of the date thereof, the consideration to be received by the holders of KCPL Common Stock (other than Western Resources and its Affiliates (as defined in Section 6.17)) in the KCPL Merger and the Western Resources Stock Distribution, taken as a whole, is fair to such holders from a financial point of view to the holders of KCPL Common Stock.

Section 6.16 Insurance. KCPL and each of the KCPL Subsidiaries is, and has been continuously since January 1, 1994, insured with financially responsible insurers in such amounts and against such risks and losses as are customary in all material respects for companies conducting the business as conducted by KCPL and the KCPL Subsidiaries during such time period. Except as set forth in Section 6.16 of the KCPL Disclosure Schedule, neither KCPL nor any of the KCPL Subsidiaries has received any notice of cancellation or termination with respect to any material insurance policy of KCPL or any of the KCPL Subsidiaries. The insurance policies of KCPL and each of the KCPL Subsidiaries are valid and enforceable policies in all material respects.

Section 6.17 KCPL not a Related Person. As of the date hereof,

none of KCPL or, to KCPL's reasonable knowledge, any of its Affiliates (as defined below), is an "Interested Shareholder" as such term is defined in Article XI of the Restated Articles of Incorporation of Western Resources (the "Western Resources Articles"). As used in this Agreement, the term "Affiliate," except where otherwise defined herein, shall mean, as to any person, any other person which directly or indirectly controls, or is under common control with, or is controlled by, such person. As used in this definition, "Control" (including, with its correlative meanings, "Controlled By" and "Under Common Control With") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise).

Section 6.18 Takeover Statutes. No "fair price," "moratorium," "control share acquisition" or other similar anti-takeover statute or regulation (including Sections 351.407 and 351.459 of the MGBCL or Article Twelfth of KCPL's Restated Articles of Consolidation) is, or at the KCPL Effective Time or the KGE Effective Time will be, applicable to KCPL, Western Resources, KGE, New KC, the KCPL Common Stock, the Asset Contribution, the Stock Contribution, the KCPL Merger, the KGE Merger or the other transactions contemplated by this Agreement.

Section 6.19 Termination of UtiliCorp Agreement. KCPL (i) has taken all corporate action necessary to terminate the UtiliCorp Agreement pursuant to the provisions of Section 9.1(d) thereof and except for provisions which survived the termination thereof, including the payment of any fees due to UtiliCorp thereunder, (ii) has no further obligation under the UtiliCorp Agreement or any other agreements executed in connection with any proposed transaction involving KCPL and UtiliCorp, other than continuing obligations under the Confidentiality Agreement, dated as of November 28, 1995 (the "UtiliCorp Confidentiality Agreement"), between KCPL and UtiliCorp. The aggregate amount of all fees and expenses paid or payable by KCPL to UtiliCorp as a result of such termination, whether pursuant to Section 9.2 of the UtiliCorp Agreement or otherwise, shall not exceed \$58 million. At all times KCPL has fully complied in all respects with each of its obligations under the UtiliCorp Agreement, including without limitation Sections 7.11 and 9.1 thereof. Until the KGE Effective Time, Western Resources shall not be bound by or subject to, in any respect, directly or indirectly, any agreement between KCPL and UtiliCorp, including without limitation the UtiliCorp Agreement and the UtiliCorp Confidentiality Agreement.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES OF WESTERN RESOURCES, KGE AND NEW KC

Each of Western Resources, KGE and New KC makes the following representations and warranties to KCPL:

Section 7.1 Organization and Qualification. Each of Western Resources, KGE and New KC and each of the Western Resources Subsidiaries (as defined below) is a corporation or other entity duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, and except for New KC which has not engaged in any business or activity other than as contemplated by this Agreement to effect the transactions contemplated hereby, each has all requisite power and authority, and has been duly authorized by all necessary approvals and orders to own, lease and operate its assets and properties to the extent owned, leased and operated and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its assets and properties makes such qualification necessary other than in such jurisdictions where the failure so to qualify would not have a Western Resources Material Adverse Effect (as defined in Section 7.6). As used in this Agreement, the term "Western Resources Subsidiary" shall mean a Subsidiary of Western Resources in which Western Resources' equity investment exceeds \$25 million.

Section 7.2 Subsidiaries. Section 7.2 of the schedule delivered by Western Resources to KCPL on the date hereof (the "Western Resources Disclosure Schedule") sets forth a list as of the date hereof of all the Western Resources Subsidiaries. KGE is a Western Resources Subsidiary. Except as set forth in Section 7.2 of the Western Resources Disclosure Schedule, all of the issued and outstanding shares of capital stock of each Western Resources Subsidiary and New KC are validly issued, fully paid, nonassessable and free of preemptive rights, and are owned, directly or indirectly, by Western Resources free and clear of any

liens, claims, encumbrances, security interests, charges and options of any nature whatsoever, and there are no outstanding subscriptions, options, calls, contracts, voting trusts, proxies or other commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement, obligating any such Western Resources Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of its capital stock or obligating it to grant, extend or enter into any such agreement or commitment.

Section 7.3 Capitalization. As of the date hereof, the authorized capital stock of Western Resources consists of (i) 85,000,000 shares of Western Resources Common Stock, par value \$5.00 per share, (ii) 600,000 shares of Preferred Stock par value \$100.00 per share (the "Western Resources \$100 Preferred" and 6,000,000 shares of Preferred Stock without par value (the "Western Resources No-Par Preferred"), and (iii) 4,000,000 shares of Preference Stock, without par value (the "Western Resources Preference Stock" and, together with the Western Resources \$100 Preferred and the Western Resources No-Par Preferred, the "Western Resources Preferred Stock"). At the close of business on March 17, 1998, (i) 64,773,828 shares of Western Resources Common Stock were issued and outstanding, (ii) no shares of Western Resources Common Stock were held by Western Resources in its treasury or by its wholly owned Subsidiaries, (iii) 138,576 shares of 4 1/2% Series Preferred Stock, par value \$100 per share (the "4 1/2% Western Resources \$100 Preferred"), 60,000 shares of 4 1/4% Series Preferred Stock, par value \$100 per share (the "4 1/4% Western Resources \$100 Preferred"), 50,000 shares of 5% Series Preferred Stock, par value \$100 per share (the "5% Western Resources \$100 Preferred"), and no shares of Western Resources No-Par Preferred Stock were issued and outstanding, and of such issued shares, none were held by Western Resources in its treasury or by its wholly owned Subsidiaries, (iv) 500,000 shares of 7.58% Series Preference Stock were issued and outstanding, and of such issued shares, none were held by Western Resources in its treasury or by its wholly owned Subsidiaries, (v) \$220,000,000 of Company-Obligated Mandatorily Redeemable Preferred Securities of a subsidiary trust holding solely Western Resources Subordinated Debentures and (vi) no Voting Debt was issued or outstanding. As of the date hereof, the authorized capital stock of KGE consists of 1,000 shares of KGE Common Stock. As of the date hereof, 1,000 shares of KGE Common Stock were issued or outstanding, all of which were owned by Western Resources. As of the date hereof, the authorized capital stock of New KC consists of 500,000,000 shares of New KC Series A Common Stock, 300,000,000 shares of New KC Series B Common Stock, in each case without par value (collectively, the "New KC Common Stock"), and 50,000,000 shares of Preferred Stock, without par value. As of the date hereof and immediately prior to the KCPL Effective Time, 100 shares of New KC Series A Common Stock were issued and outstanding, all of which were owned by Western Resources. All outstanding shares of Western Resources Common Stock, New KC Common Stock, Western Resources Preferred Stock and KGE Common Stock are validly issued, fully paid and nonassessable and are not subject to preemptive rights and at the Closing, upon consummation of the KGE Merger and the KCPL Merger, all outstanding shares of New KC Common Stock and the Western Resources Common Stock to be included in the Western Resources Stock Distribution will be validly issued, fully paid and nonassessable and not subject to any preemptive rights. As of the date hereof, except as disclosed in the Western Resources SEC Reports filed prior to the date hereof or as set forth in Section 7.3 of the Western Resources Disclosure Schedule or pursuant to this Agreement and the Western Resources Benefit Plans, there are no options, warrants, calls, rights, commitments or agreements of any character to which Western Resources, KGE, New KC or any Subsidiary of Western Resources or KGE is a party or by which any of them are bound obligating Western Resources, KGE, New KC or any Subsidiary of Western Resources or KGE to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or any Voting Debt securities of Western Resources, KGE, New KC or any Subsidiary of Western Resources or KGE or obligating Western Resources, KGE, New KC or any Subsidiary of Western Resources or KGE to grant, extend or enter into any such option, warrant, call, right, commitment or agreement.

Section 7.4 Authority; Non-Contravention; Statutory Approvals; Compliance.

(a) Authority. Each of Western Resources, New KC and KGE has all requisite power and authority to enter into this Agreement and, subject to the receipt of the applicable Western Resources Shareholders' Approval (as defined in Section 7.13) and the applicable Western Resources Required Statutory Approvals (as defined in Section 7.4(c)), to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation by Western Resources,

New KC and KGE of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Western Resources, KGE and New KC, subject to obtaining the applicable Western Resources Shareholders' Approval. This Agreement has been duly and validly executed and delivered by Western Resources, New KC and KGE and, assuming the due authorization, execution and delivery hereof by KCPL, constitutes the valid and binding obligation of Western Resources, New KC and KGE enforceable against each of them in accordance with the terms of this Agreement.

(b) Non-Contravention. Except as set forth in Section 7.4(b) of the Western Resources Disclosure Schedule, the execution and delivery of this Agreement by Western Resources, KGE and New KC do not, and the consummation of the transactions contemplated hereby will not, result in a Violation with respect to Western Resources, New KC, KGE or any of the Western Resources Subsidiaries pursuant to any provisions of (i) the certificate of incorporation, by-laws or similar governing documents of Western Resources, New KC, KGE or any of the Western Resources Subsidiaries, (ii) subject to obtaining the Western Resources Required Statutory Approvals and the receipt of the Western Resources Shareholders' Approval, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any Governmental Authority applicable to Western Resources, New KC, KGE or any of the Western Resources Subsidiaries or any of their respective properties or assets or (iii) subject to obtaining the third-party consents set forth in Section 7.4(b) of the Western Resources Disclosure Schedule (the "Western Resources Required Consents"), any material note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind to which Western Resources, KGE, New KC or any of the Western Resources Subsidiaries is a party or by which it or any of its properties or assets may be bound or affected, except in the case of clause (ii) or (iii) for any such Violation which would not have a Western Resources Material Adverse Effect.

(c) Statutory Approvals. No declaration, filing or registration with, or notice to or authorization, consent or approval of, any Governmental Authority is necessary for the execution and delivery of this Agreement by Western Resources, New KC, KGE or the consummation by Western Resources, KGE and New KC of the transactions contemplated hereby except as described in Section 7.4(c) of the Western Resources Disclosure Schedule or the failure of which to obtain would not result in a Western Resources Material Adverse Effect (the "Western Resources Required Statutory Approvals," it being understood that references in this Agreement to "obtaining" such Western Resources Required Statutory Approvals shall mean making such declarations, filings or registrations; giving such notices; obtaining such authorizations, consents or approvals; and having such waiting periods expire as are necessary to avoid a violation of law).

(d) Compliance. Except as set forth in Sections 7.4(d), 7.5, 7.9 and 7.11 of the Western Resources Disclosure Schedule or as disclosed in the Western Resources SEC Reports (as defined in Section 7.5) filed prior to the date hereof, none of Western Resources, KGE or any of the Western Resources Subsidiaries is in violation of, is, to the knowledge of Western Resources, under investigation with respect to any violation of, or has been given notice or been charged with any violation of, any law, statute, order, rule, regulation, ordinance or judgment (including, without limitation, any applicable environmental law, ordinance or regulation) of any Governmental Authority, except for possible violations which individually or in the aggregate would not have a Western Resources Material Adverse Effect. Except as disclosed in the Western Resources SEC Reports filed prior to the date hereof, or in Sections 7.7, 7.10 or 7.11 of the Western Resources Disclosure Schedule, Western Resources, KGE and the Western Resources Subsidiaries have all permits, licenses, franchises and other governmental authorizations, consents and approvals necessary to conduct their businesses as presently conducted which are material to the operation of the businesses of Western Resources and the Western Resources Subsidiaries. None of Western Resources, KGE or any of the Western Resources Subsidiaries is in breach or violation of or in default in the performance or observance of any term or provision of, and no event has occurred which, with lapse of time or action by a third party, could result in a default by Western Resources, KGE or any Western Resources Subsidiary under (i) its certificate of incorporation or by-laws or (ii) any contract, commitment, agreement, indenture, mortgage, loan agreement, note, lease, bond, license, approval or other instrument to which it is a party or by which Western Resources or any Western Resources Subsidiary is bound or to which any of its property is subject, except for possible violations, breaches or defaults which individually or in the aggregate would not have a Western Resources

Material Adverse Effect.

Section 7.5 Reports and Financial Statements. Except as set forth in Section 7.5 of the Western Resources Disclosure Schedule, the filings required to be made by Western Resources, KGE and the Western Resources Subsidiaries since January 1, 1994 under the Securities Act, the Exchange Act, the 1935 Act, the Power Act, the Atomic Energy Act, and applicable state public utility laws and regulations have been filed with the SEC, the FERC, the NRC or the appropriate state public utilities commission, as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, and complied, as of their respective dates, in all material respects with all applicable requirements of the appropriate statutes and the rules and regulations thereunder, except for such filings the failure of which to have been made or to so comply would not result in a Western Resources Material Adverse Effect. "Western Resources SEC Reports" shall mean each report, schedule, registration statement and definitive proxy statement filed with the SEC by Western Resources and KGE pursuant to the requirements of the Securities Act or Exchange Act since January 1, 1994, as such documents have since the time of their filing been amended. As of their respective dates, the Western Resources SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of Western Resources included in the Western Resources SEC Reports (collectively, the "Western Resources Financial Statements") have been prepared in accordance with GAAP (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q of the SEC) and fairly present the financial position of Western Resources and KGE as of the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of the unaudited interim financial statements, to normal, recurring audit adjustments. True, accurate and complete copies of the Western Resources Articles, Western Resources' By-Laws, the articles of incorporation of KGE and the by-laws of KGE, as in effect on the date hereof, are included (or incorporated by reference) in the Western Resources SEC Reports.

Section 7.6 Absence of Certain Changes or Events. Except as disclosed in Section 7.6 of the Western Resources Disclosure Schedule and in the Western Resources SEC Reports filed prior to the date hereof, since December 31, 1996, Western Resources, KGE and each of the Western Resources Subsidiaries have conducted their business only in the ordinary course of business (except for acquisitions and dispositions) and there has not been any Western Resources Material Adverse Effect. For purposes of this Agreement, a "Western Resources Material Adverse Effect" shall mean the existence of any fact or condition which has or is reasonably likely to have a material adverse effect on the business, assets, financial condition, results of operations or prospects of Western Resources, KGE and the Western Resources Subsidiaries taken as a whole.

Section 7.7 Litigation. Except as disclosed in the Western Resources SEC Reports filed prior to the date hereof or as disclosed in Section 7.7, 7.9, 7.10 or 7.11 of the Western Resources Disclosure Schedule, (a) there are no claims, suits, actions or proceedings by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator, pending or, to the knowledge of Western Resources, threatened, nor are there, to the knowledge of Western Resources, any investigations or reviews by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator pending or threatened against, relating to or affecting Western Resources, KGE, New KC or any of the Western Resources Subsidiaries which would have a Western Resources Material Adverse Effect, (b) there have not been any significant developments since December 31, 1996 with respect to such disclosed claims, suits, actions, proceedings, investigations or reviews that would have a Western Resources Material Adverse Effect and (c) there are no judgments, decrees, injunctions, rules or orders of any court, governmental department, commission, agency, instrumentality or authority or any arbitrator applicable to Western Resources, KGE, New KC or any of the Western Resources Subsidiaries, except for such that would not have a Western Resources Material Adverse Effect.

Section 7.8 Registration Statement and Proxy Statement. None of the information supplied or to be supplied by or on behalf of Western Resources, New KC or KGE for inclusion or incorporation by reference in (a) the Registration Statement will, at the time the Registration Statement is filed by Western Resources and New KC with the SEC and at

the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (b) the Proxy Statement will, at the dates mailed to shareholders and at the times of the meetings of shareholders to be held in connection with the KCPL Merger and the KGE Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Registration Statement and the Proxy Statement will comply as to form in all material respects with the provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder.

Section 7.9 Tax Matters. Except as set forth in Section 7.9 of the Western Resources Disclosure Schedule and except as would not result in a Western Resources Material Adverse Effect:

(a) Filing of Timely Tax Returns. Western Resources, KGE and each of the Western Resources Subsidiaries have filed (or there has been filed on its behalf) all Tax Returns required to be filed by each of them under applicable law. All such Tax Returns were and are in all material respects true, complete and correct and filed on a timely basis.

(b) Payment of Taxes. Western Resources, KGE and each of the Western Resources Subsidiaries have, within the time and in the manner prescribed by law, paid all Taxes that are currently due and payable, except for those contested in good faith and for which adequate reserves have been taken.

(c) Tax Reserves. Western Resources, KGE and each of the Western Resources Subsidiaries have established on their books and records reserves adequate to pay all Taxes and reserves for deferred income taxes in accordance with GAAP.

(d) Tax Liens. There are no Tax liens upon the assets of Western Resources, KGE or any of the Western Resources Subsidiaries except liens for Taxes not yet due.

(e) Withholding Taxes. Western Resources, KGE and each of the Western Resources Subsidiaries have complied in all material respects with the provisions of the Code relating to the withholding of Taxes, as well as similar provisions under any other laws, and have, within the time and in the manner prescribed by law, withheld and paid over to the proper governmental authorities all amounts required.

(f) Audit, Administrative and Court Proceedings. No audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes or Tax Returns of Western Resources, KGE or any of the Western Resources Subsidiaries.

(g) Tax Rulings. None of Western Resources, KGE or any of the Western Resources Subsidiaries has received a Tax Ruling or entered into a Closing Agreement with any taxing authority.

(h) Tax Sharing Agreements. Except as between affiliates of Western Resources as set forth in Sections 7.1 and 7.2 of the Western Resources Disclosure Schedule, none of Western Resources, KGE or any Western Resources Subsidiary is a party to any agreement relating to allocating or sharing of Taxes.

(i) Code Section 280G. Except for the Western Resources Benefit Plans, none of Western Resources, KGE or any of the Western Resources Subsidiaries is a party to any agreement, contract or arrangement that could result in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code or any amount that would be non-deductible pursuant to Section 162(m) of the Code.

(j) Liability for Others. None of Western Resources, KGE or any of the Western Resources Subsidiaries has any liability for Taxes of any person other than Western Resources, KGE and the Western Resources Subsidiaries (i) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or foreign law), (ii) by contract, or (iii) otherwise.

(k) Section 341(f). None of Western Resources, KGE or any of the Western Resources Subsidiaries has, with regard to any assets or property held or acquired by any of them, filed a consent to the application of Section 341(f)(2) of the Code, or agreed to have Section 341(f)(2) of the Code apply to any disposition of a

subsection (f) asset (as such term is defined in Section 341(f)(4) of the Code) owned by Western Resources, KGE or any of the Western Resources Subsidiaries.

Section 7.10 Employee Matters; ERISA. Except as set forth in Section 7.10 of the Western Resources Disclosure Schedule:

(a) Benefit Plans. Section 7.10(a) of the Western Resources Disclosure Schedule contains a true and complete list as of the date hereof of each written or oral material employee benefit plan, policy or agreement covering employees, former employees or directors of Western Resources, KGE and each of the Western Resources Subsidiaries or their beneficiaries, or providing benefits to such persons in respect of services provided to any such entity, including, but not limited to, any employee benefit plans within the meaning of Section 3(3) of ERISA and any severance or change in control agreement (collectively, the "Western Resources Benefit Plans").

(b) Contributions. All material contributions and other payments required to be made by Western Resources, KGE or any of the Western Resources Subsidiaries to any Western Resources Benefit Plan (or to any person pursuant to the terms thereof) have been made or the amount of such payment or contribution obligation has been reflected in the Western Resources Financial Statements (other than those related to Protection One, Inc.).

(c) Qualification; Compliance. Each of the Western Resources Benefit Plans intended to be "qualified" within the meaning of Section 401(a) of the Code has been determined by the IRS to be so qualified, or to the knowledge of Western Resources, no circumstances exist that are reasonably expected by Western Resources to result in the revocation of any such determination or prevent any such plans from being qualified. Western Resources is in compliance in all material respects with, and each of the Western Resources Benefit Plans is and has been operated in all material respects in compliance with, all applicable laws, rules and regulations governing such plan, including, without limitation, ERISA and the Code. Each Western Resources Benefit Plan intended to provide for the deferral of income, the reduction of salary or other compensation, or to afford other income tax benefits, complies with the requirements of the applicable provisions of the Code or other laws, rules and regulations required to provide such income tax benefits. No prohibited transactions (as defined in Section 406 or 407 of ERISA or Section 4975 of the Code) have occurred for which a statutory exemption is not available with respect to any Western Resources Benefit Plan, and which could give rise to liability on the part of Western Resources, KGE, any Western Resources Benefit Plan, or any fiduciary, party in interest or disqualified person with respect thereto that would be material to Western Resources, KGE or would be material to Western Resources or KGE if it were Western Resources' or KGE's liability.

(d) Liabilities. With respect to the Western Resources Benefit Plans, individually and in the aggregate, no event has occurred, and, to the knowledge of Western Resources, there does not now exist any condition or set of circumstances, that could subject Western Resources, KGE or any of the Western Resources Subsidiaries to any material liability arising under the Code, ERISA or any other applicable law (including, without limitation, any liability to any such plan or the PBGC), or under any indemnity agreement to which Western Resources, KGE or any of the Western Resources Subsidiaries is a party, excluding liability for benefit claims and funding obligations payable in the ordinary course.

(e) Payments Resulting from the KCPL Merger or KGE Merger. Except as disclosed in the Western Resources SEC Reports filed prior to the date hereof, the consummation or announcement of any transaction contemplated by this Agreement will not (either alone or upon the occurrence of any additional or further acts or events, including, without limitation, the termination of employment of officers, directors, employees or agents of Western Resources, KGE or any of the Western Resources Subsidiaries) result in any (i) payment (whether of severance pay or otherwise) becoming due from Western Resources, KGE or any of the Western Resources Subsidiaries to any officer, employee, former employee or director thereof or to the trustee under any "rabbi trust" or similar arrangement, or (ii) benefit under any Western Resources Benefit Plan becoming accelerated, vested or payable.

(f) Labor Agreements. As of the date hereof, (i) none of Western Resources, KGE or any of the Western Resources Subsidiaries is a party to any collective bargaining agreement or other labor agreement with any union or labor organization and (ii) to the knowledge of Western

Resources, there is no current union representation question involving employees of Western Resources, KGE or any of the Western Resources Subsidiaries, nor does Western Resources know of any activity or proceeding of any labor organization (or representative thereof) or employee group to organize any such employees. Except as disclosed in the Western Resources SEC Reports filed prior to the date hereof or except to the extent such would not have a Western Resources Material Adverse Effect, (i) there is no unfair labor practice, employment discrimination or other material complaint against Western Resources, KGE or any of the Western Resources Subsidiaries pending, or to the knowledge of Western Resources, threatened, (ii) there is no strike, lockout or material dispute, slowdown or work stoppage pending or, to the knowledge of Western Resources, threatened against or involving Western Resources or KGE, and (iii) there is no proceeding, claim, suit, action or governmental investigation pending or, to the knowledge of Western Resources, threatened in respect of which any director, officer, employee or agent of Western Resources, KGE or any of the Western Resources Subsidiaries is or may be entitled to claim indemnification from Western Resources or such Western Resources Subsidiary pursuant to their respective articles of incorporation or by-laws or as provided in any indemnification agreements between such persons and Western Resources, KGE or any Western Resources Subsidiary.

Section 7.11 Environmental Protection.

(a) Except as set forth in the Western Resources SEC Reports filed prior to the date hereof or in Section 7.11 of the Western Resources Disclosure Schedule:

(i) Compliance. Western Resources, KGE and each of the Western Resources Subsidiaries is in compliance with all applicable Environmental Laws and none of Western Resources, KGE or any of the Western Resources Subsidiaries has received any communication (written or oral) from any person or Governmental Authority that alleges that Western Resources, KGE or any of the Western Resources Subsidiaries is not in such compliance with applicable Environmental Laws, except in each foregoing case where the failure to so comply would not have a Western Resources Material Adverse Effect. To the knowledge of Western Resources, compliance with all applicable Environmental Laws will not require Western Resources, KGE or any Western Resources Subsidiary to incur costs that will be reasonably likely to result in a Western Resources Material Adverse Effect.

(ii) Environmental Permits. Western Resources, KGE and each of the Western Resources Subsidiaries has obtained or has applied for all the Environmental Permits necessary for the construction of their facilities or the conduct of their operations, except where the failure to so obtain would not have a Western Resources Material Adverse Effect, and all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed and is pending agency approval, and Western Resources, KGE and each of the Western Resources Subsidiaries are in material compliance with all terms and conditions of the Environmental Permits.

(iii) Environmental Claims. There is no Environmental Claim which would have a Western Resources Material Adverse Effect pending (A) against Western Resources, KGE or any of the Western Resources Subsidiaries (B) to the knowledge of Western Resources, against any person or entity whose liability for any Environmental Claim Western Resources, KGE or any of the Western Resources Subsidiaries has or may have retained or assumed either contractually or by operation of law, or (C) against any real or personal property or operations which Western Resources, KGE or any of the Western Resources Subsidiaries owns, leases or manages, in whole or in part.

(iv) Releases. Western Resources has no knowledge of any Releases of any Hazardous Material that would be reasonably likely to form the basis of any Environmental Claim against Western Resources, KGE or any of the Western Resources Subsidiaries or against any person or entity whose liability for any Environmental Claim Western Resources, KGE or any of the Western Resources Subsidiaries has or may have retained or assumed either contractually or by operation of law except for any Environmental Claim which would not have a Western Resources Material Adverse Effect.

(v) Predecessors. Western Resources has no knowledge, with respect to any predecessor of Western Resources, KGE or any of the Western Resources Subsidiaries, of any Environmental Claim which would have a Western Resources Material Adverse Effect pending or threatened, or of any Release of Hazardous Materials that would be reasonably likely to form the basis of any Environmental Claim which would have a Western

Resources Material Adverse Effect.

Section 7.12 Regulation as a Utility. As of the date hereof, (1) Western Resources and KGE are each regulated as a public utility in the State of Kansas and in no other state, and (2) Western Resources is an exempt Holding Company under the 1935 Act. Section 7.12 of the Western Resources Disclosure Schedule sets forth certain entities in which Western Resources has an ownership interest that may be subject to regulation as a public utility or public service company (or similar designation) in certain foreign countries.

Section 7.13 Vote Required. (i) Provided that the Western Resources \$100 Preferred has been redeemed pursuant to Section 9.19, the approval of this Agreement, the Asset Contribution, the Stock Contribution, and amendments to the Western Resources Articles, including, without limitation, increasing the number of shares of Western Resources Common Stock authorized, by a majority of the shares of Western Resources Common Stock outstanding on the record date for such vote is the only vote of the holders of any class or series of the capital stock of Western Resources or any of its Subsidiaries (other than KGE and New KC) required to approve this Agreement, the Asset Contribution, the Stock Contribution and the issuance of shares of Western Resources Common Stock to be contributed to KGE pursuant to the Stock Contribution and (ii) Western Resources, in its capacity as sole stockholder of New KC and KGE, has approved this Agreement, the Asset Contribution, the Stock Contribution and the KCPL Merger and KGE Merger, respectively, and the other transactions contemplated hereby (collectively, the "Western Resources Shareholders' Approval").

Section 7.14 Article XI (Business Combination with Interested Shareholder) of Western Resources' Articles of Incorporation. The provisions of Article XI (business combination with interested shareholder) of the Western Resources Articles will not, prior to the termination of this Agreement, assuming the accuracy of the representation contained in Section 6.17 (without giving effect to the knowledge qualification thereof), apply to this Agreement, the Asset Contribution, the Stock Contribution, the KCPL Merger, the KGE Merger or to the transactions contemplated hereby.

Section 7.15 Opinion of Financial Advisor. Western Resources has received the opinion of Salomon Smith Barney ("Salomon"), dated as of the date hereof, to the effect that, as of such date, the Aggregate Consideration is fair from a financial point of view to Western Resources.

Section 7.16 Insurance. Except as set forth in Section 7.16 of the Western Resources Disclosure Schedule, Western Resources, KGE and each of the Western Resources Subsidiaries is, and has been continuously since January 1, 1994 (and, with respect to any Western Resources Subsidiary, if later than January 1, 1994, its date of acquisition by Western Resources), and New KC at the Closing will be, insured with financially responsible insurers in such amounts and against such risks and losses as are customary in all material respects for companies conducting the business as conducted by Western Resources, KGE and the Western Resources Subsidiaries during such time period and, as contemplated by this Agreement, the business to be conducted by New KC after the Closing. None of Western Resources, KGE or any of the Western Resources Subsidiaries has received any notice of cancellation or termination with respect to any material insurance policy of Western Resources, KGE or any of the Western Resources Subsidiaries or New KC. The insurance policies of Western Resources, KGE and each of the Western Resources Subsidiaries are, and the insurance policies of New KC at the Closing will be, valid and enforceable policies in all material respects.

Section 7.17 Western Resources not an Interested Shareholder. As of the date hereof, none of Western Resources, KGE or, to its reasonable knowledge, any of its Affiliates is an "Interested Shareholder" as such term is defined in Article Twelfth of KCPL's Restated Articles of Consolidation.

Section 7.18 Takeover Statutes. No "fair price," "moratorium," "control share acquisition" or other similar anti-takeover statute or regulation (including Sections 17-1286 et seq. and 17-12,100, et seq. of the KGCC or Article XVII of the Western Resources Articles) is, or at the KCPL Effective Time or the KGE Effective Time will be, applicable to KCPL, New KC, Western Resources, KGE, the New KC Common Stock, the KCPL Common Stock, the Asset Contribution, the Stock Contribution, the KCPL Merger, the KGE Merger or the other transactions contemplated by this Agreement.

Section 7.19 No Prior Operations of New KC. New KC is a corporation formed solely for the purpose of effecting the transactions contemplated by this Agreement and prior to the date hereof New KC has not and prior to the Closing will not have engaged in any business or other activity other than as contemplated by this Agreement.

Section 7.20 Title to Properties. (a) Title. Western Resources has good and sufficient title to all of the KPL Assets, including all of the properties and assets reflected in the KPL Balance Sheet and all properties and assets purchased or otherwise acquired since December 31, 1997. Such assets are sufficient to enable Western Resources to conduct the KPL Business as currently conducted without material interference, and, as of the date hereof, are free and clear of Liens other than Permitted Liens (in each case as defined below). Western Resources holds under valid lease agreements certain real and personal properties which constitute part of the KPL Assets or are reflected in the KPL Balance Sheet, and enjoys peaceful and undisturbed possession of such properties under such leases, other than any properties as to which such leases will have terminated in the ordinary course of business since the date of such filing. As of the date hereof, with respect to the KPL Business, neither Western Resources nor any of its predecessors has received any written notice of any adverse claim to the title to any properties owned by them or with respect to any lease under which any properties are held by them, other than any claims that, individually or in the aggregate, would not have a material adverse effect on the KPL Business. For the purposes of this Section 7.20, the term "Lien" shall mean any mortgage, pledge, security interest, encumbrance, lien, claim, condition, equity interest, option, right of first refusal, charge or restriction of any kind (including any agreement to give any of the foregoing), any conditional sale or other title retention agreement, any lease in the nature thereof or the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction. For purposes of this Section 7.20, the term "Permitted Liens" shall mean (i) Liens for taxes and assessments, general and special, not yet due and payable, and (ii) Liens, encumbrances and other defects existing on the properties on the date hereof or which arise in the ordinary course of the KPL Business or which, individually or in the aggregate, do not and will not materially interfere with or impair the continued ownership, possession, use or operation of the KPL Assets.

(b) Easements. With respect to the KPL Business, Western Resources is not in violation of the terms of any Easement (as defined below) except any such violations that individually or in the aggregate, would not have a material adverse effect on the KPL Business. Except as would not have a material adverse effect on the KPL Business, all Easements in favor of the KPL Business are valid and enforceable and grant the rights purported to be granted thereby and all rights necessary thereunder for the operation of the KPL Business. For purposes of this Section 7.20, "Easements" shall mean all easements, rights-of-way, permits, licenses, franchises, leases, surface leases, prescriptive rights and ways of necessity, whether or not of record.

Section 7.21 Condition of Assets. To the knowledge of Western Resources, except as would not have a material adverse effect on the KPL Business, the buildings, plants, structures, and equipment of Western Resources relating to the KPL Business are structurally sound, are in good operating condition and repair, and are adequate for the uses to which they are being put, and none of such buildings, plants, structures, or equipment is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are not material in nature or cost.

Section 7.22 Accounts Receivable. All Accounts Receivable (as defined below) with respect to the KPL Business, represent or will represent, as of the Closing, obligations arising from sales actually made or services actually performed in the ordinary course of business of Western Resources with respect to the KPL Business, subject to customary provisions for uncollectible accounts. To the knowledge of Western Resources, there is no contest, claim or right of set-off, under any contract or with any obligor of an Account Receivable relating to the KPL Business relating to the amount or validity of such Account Receivable which would have a material adverse effect on the KPL Business. For purposes of this Section 7.22, "Accounts Receivable" shall mean the accounts and other receivables, including unbilled revenues, of Western Resources to the extent arising primarily out of the KPL Business.

Section 8.1 Covenants of KCPL. KCPL agrees, as to itself and as to each of its Subsidiaries, that after the date hereof and prior to the KGE Effective Time or earlier termination of this Agreement, (i) except as expressly contemplated or permitted in this Agreement, (ii) except as Western Resources may otherwise agree in writing (which decision regarding agreement shall be made as soon as reasonably practicable), (iii) except as otherwise provided in the business plan of KCPL in the form previously disclosed to Western Resources and attached hereto as Section 8.1 of the KCPL Disclosure Schedule (the "KCPL Business Plan"); provided, however, that for purposes of the preceding clause (iii) KCPL shall obtain Western Resources' written agreement (which decision regarding agreement shall be made as soon as reasonably practicable) prior to making or committing to make any acquisitions or capital expenditures or incurring or committing to incur any indebtedness, including guarantees but not including the cost of routine regulated utility capital expenditures (such acquisitions, capital expenditures and indebtedness, collectively, "Investments") subsequent to the time when the aggregate value of the Investments made or committed to be made by KCPL as permitted by this Section 8.1 exceeds in the aggregate \$150,000,000 during the period January 1, 1997 through December 31, 1997 and which aggregate limits for each subsequent six-month period commencing January 1, 1998 through the Closing shall be \$75,000,000 (\$25,000,000 of which during each such six-month period may be expended or committed on items not included in the KCPL Business Plan), it being agreed that to the extent any such \$150,000,000 or \$75,000,000 aggregate amount is not made, committed or incurred during such one-year or any such six-month period, as the case may be, such amount or amounts shall be added to, and cumulated with, the amount or amounts available during subsequent time periods until the Closing (such aggregate limits to exclude the cost of routine regulated utility capital expenditures); and provided further that, KCPL shall be permitted to use the proceeds obtained from any disposition of assets for Investments in accordance with the KCPL Business Plan; provided, further, however, that KCPL shall confer on a regular and frequent basis with representatives of Western Resources in the course of KCPL's implementation of the KCPL Business Plan and any expenditures referred to in this Section 8.1:

(a) Ordinary Course of Business. KCPL shall, and shall cause its respective Subsidiaries to, carry on their respective businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and use all commercially reasonable efforts to preserve intact their present business organizations and goodwill, preserve the goodwill and relationships with customers, suppliers and others having business dealings with them and, subject to prudent management of work force needs and ongoing programs currently in force, keep available the services of their present officers and employees, provided, however, that nothing shall prohibit KCPL or any of its Subsidiaries from transferring operations to KCPL or any of its wholly owned Subsidiaries. KCPL shall not, nor shall KCPL permit any of its Subsidiaries to, enter into a new line of business involving any material investment of assets or resources or any material exposure to liability or loss to KCPL and the KCPL Subsidiaries taken as a whole.

(b) Dividends. KCPL shall not, nor shall it permit any of its Subsidiaries to, (i) declare or pay any dividends on or make other distributions in respect of any of their capital stock other than to KCPL or KCPL Subsidiaries and other than (A) dividends required to be paid on any KCPL Preferred Stock in accordance with the terms thereof and (B) regular quarterly dividends on KCPL Common Stock with usual record and payment dates not, during any period of any fiscal year, in excess (except to the extent consistent with good business judgment and KCPL's past dividend practice) of the quarterly dividend most recently declared on such stock as of the date hereof, (ii) split, combine or reclassify any of their capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of, or in substitution for, shares of their capital stock or (iii) except as set forth in Section 8.1(b) of the KCPL Disclosure Schedule, redeem, repurchase or otherwise acquire any shares of their capital stock, other than (A) redemptions, purchases or acquisitions required by the terms of any series of KCPL Preferred Stock or (B) for the purpose of funding employee stock ownership plans in accordance with past practice. Notwithstanding the foregoing, KCPL may redeem the KCPL Preferred Stock pursuant to the provisions of Section 2.4(c).

(c) Issuance of Securities. Except as set forth in Section 8.1(c) of the KCPL Disclosure Schedule, since the Original Execution Date KCPL shall not, nor shall it permit any of its Subsidiaries to, issue, agree to issue, deliver, sell, award, pledge, dispose of or otherwise encumber or authorize or propose the issuance, delivery, sale, award, pledge,

disposal or other encumbrance of, any shares of their capital stock of any class or any securities convertible into or exchangeable for, or any rights, warrants or options to acquire, any such shares or convertible or exchangeable securities, other than (i) intercompany issuances of capital stock and (ii) issuances in the ordinary course of business consistent with past practice of up to 2,000,000 shares of KCPL Common Stock during any fiscal year to be issued pursuant to employee benefit plans, stock option and other incentive compensation plans, director plans and stock purchase plans and dividend reinvestment plans existing prior to the date hereof and heretofore disclosed to Western Resources or pursuant to plans adopted after the date hereof which shall be reasonably acceptable to Western Resources. The parties shall promptly furnish to each other such information as may be reasonably requested including financial information and take such action as may be reasonably necessary and otherwise fully cooperate with each other in the preparation of any registration statement under the Securities Act and other documents necessary in connection with the issuance of securities as contemplated by this Section 8.1(c), subject to obtaining customary indemnities.

(d) Charter Documents. KCPL shall not amend or propose to amend its charter, by-laws or regulations, or similar organic documents, except as contemplated herein.

(e) No Acquisitions. KCPL shall not, nor shall it permit any of its Subsidiaries to, acquire, or publicly propose to acquire, or agree to acquire, by merger or consolidation with, or by purchase or otherwise, an equity interest in or a substantial portion of the assets of, any business or any corporation, partnership, association or other business organization or division thereof, nor shall KCPL acquire or agree to acquire a material amount of assets other than in the ordinary course of business consistent with past practice.

(f) Capital Expenditures. KCPL shall not, nor shall it permit any of its Subsidiaries to, make capital expenditures during any fiscal year in excess of the amount budgeted for capital expenditures for such fiscal year in the KCPL Business Plan.

(g) No Dispositions. Except as set forth in Section 8.1(g) of the KCPL Disclosure Schedule, KCPL shall not, nor shall it permit any of its Subsidiaries to, sell or dispose of any of their assets other than dispositions in the ordinary course of business consistent with past practice.

(h) Indebtedness. KCPL shall not, nor shall it permit any of its Subsidiaries to, incur or guarantee any indebtedness (including any debt borrowed or guaranteed or otherwise assumed including, without limitation, the issuance of debt securities or warrants or rights to acquire debt) or enter into any "keep well" or other agreement to maintain any financial statement condition of another person or entity or enter into any arrangement having the economic effect of any of the foregoing other than (i) indebtedness or guarantees or "keep well" or other agreements in the ordinary course of business consistent with past practice (such as the issuance of commercial paper, the use of existing credit facilities or hedging activities), (ii) other indebtedness or "keep well" or other agreements not aggregating more than \$250 million, (iii) arrangements between KCPL and its Subsidiaries or among its Subsidiaries, (iv) except as set forth in Section 8.1(h) of the KCPL Disclosure Schedule, (v) in connection with the refunding of existing indebtedness, (vi) in connection with the redemption of the KCPL Preferred Stock as set forth in Section 2.4(c), or (vii) as may be necessary in connection with acquisitions or capital expenditures provided for in the KCPL Business Plan. Notwithstanding anything contained herein to the contrary, the aggregate total indebtedness for borrowed money (including preferred stock) of KCPL and its Subsidiaries shall not exceed \$1.4 billion at the KCPL Effective Time.

(i) Compensation, Benefits. Except as may be required by applicable law or as set forth in Section 8.1(i) of the KCPL Disclosure Schedule, KCPL shall not, nor shall it permit any of its Subsidiaries to, (i) enter into, adopt or amend or increase the amount or accelerate the payment or vesting of any benefit or amount payable under, any employee benefit plan or other contract, agreement, commitment, arrangement, plan, trust, fund or policy maintained by, contributed to or entered into by KCPL or any of its Subsidiaries or increase, or enter into any contract, agreement, commitment or arrangement to increase in any manner, the compensation or fringe benefits, or otherwise to extend, expand or enhance the engagement, employment or any related rights, of any director, officer or other employee of KCPL or any of its Subsidiaries, except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not

result in a material increase in benefits or compensation expense to KCPL or any of its Subsidiaries; (ii) enter into or amend any employment, severance or special pay arrangement with respect to the termination of employment or other similar contract, agreement or arrangement with any director or officer or other employee other than in the ordinary course of business consistent with past practice; or (iii) deposit into any trust (including any "rabbi trust") amounts in respect of any employee benefit obligations or obligations to directors; provided that transfers into any trust, other than a rabbi or other trust with respect to any non-qualified deferred compensation, may be made in accordance with past practice.

(j) 1935 Act. KCPL shall not, nor shall KCPL permit any of its Subsidiaries to, except as required or contemplated by this Agreement, engage in any activities which would cause a change in KCPL's status, or that of its Subsidiaries, under the 1935 Act.

(k) Accounting. KCPL shall not, nor shall it permit any of its Subsidiaries to, make any changes in its accounting methods, except as required by law, rule, regulation or GAAP.

(l) Affiliate Transactions. Except as set forth in Section 8.1(l) of the KCPL Disclosure Schedule, KCPL shall not, nor shall it permit any of its Subsidiaries to, enter into any material agreement or arrangement with any of their Affiliates (other than wholly owned Subsidiaries) on terms materially less favorable to such party than could be reasonably expected to have been obtained with an unaffiliated third-party on an arm's length basis.

(m) Cooperation, Notification. KCPL shall (i) confer on a regular and frequent basis with one or more representatives of Western Resources to discuss, subject to applicable law, material operational matters and the general status of its ongoing operations, (ii) promptly notify Western Resources of any significant changes in its business, properties, assets, condition (financial or other), results of operations or prospects, and (iii) promptly provide Western Resources with copies of all filings made by KCPL or any of its Subsidiaries with any state or federal court, administrative agency, commission or other Governmental Authority in connection with this Agreement and the transactions contemplated hereby.

(n) Rate Matters. Subject to applicable law, KCPL shall, and shall cause its Subsidiaries to, discuss with Western Resources any changes in its or its Subsidiaries' rates or the services it provides or charges (other than pass-through fuel and gas rates or charges), standards of service or accounting from those in effect on the date hereof and consult with Western Resources prior to making any filing (or any amendment thereto), or effecting any agreement, commitment, arrangement or consent with governmental regulators, whether written or oral, formal or informal, with respect thereto, and KCPL will not make any filing to change its rates or the services it provides on file with the FERC that would have a material adverse effect on the benefits associated with the business combination provided for herein.

(o) Third-Party Consents. KCPL shall, and shall cause its Subsidiaries to, use all commercially reasonable efforts to obtain all KCPL Required Consents. KCPL shall promptly notify Western Resources of any failure or prospective failure to obtain any such consents and, if requested by Western Resources, shall provide copies of all KCPL Required Consents obtained by KCPL to Western Resources.

(p) No Breach, Etc. KCPL shall not, nor shall it permit any of its Subsidiaries to, willfully take any action that would or is reasonably likely to result in a material breach of any provision of this Agreement or in any of its representations and warranties set forth in this Agreement being untrue on and as of the Closing Date.

(q) Tax-Exempt Status. KCPL shall not, nor shall it permit any of its Subsidiaries to, take any action that would likely jeopardize the qualification of KCPL's or Western Resources' outstanding revenue bonds which qualify on the date hereof under Section 142(a) of the Code as "exempt facility bonds" or as tax-exempt industrial development bonds under Section 103(b)(4) of the Internal Revenue Code of 1954, as amended, prior to the Tax Reform Act of 1986.

(r) Contracts. KCPL shall not, nor shall KCPL permit any Subsidiary of KCPL to, except in the ordinary course of business consistent with past practice, modify, amend, terminate, renew or fail to use reasonable business efforts to renew any material contract or agreement to which KCPL or any Subsidiary of KCPL is a party or waive, release or assign any material rights or claims.

(s) Insurance. KCPL shall, and shall cause its Subsidiaries to, maintain with financially responsible insurance companies insurance in such amounts and against such risks and losses as are customary for companies engaged in the electric utility industry and employing methods of generating electric power and fuel sources similar to those methods employed and fuels used by KCPL or its Subsidiaries.

(t) Permits. KCPL shall, and shall cause its Subsidiaries to, use reasonable efforts to maintain in effect all existing governmental permits which are material to the operations of KCPL or its Subsidiaries.

(u) Tax Matters. KCPL shall not (i) make or rescind any material express or deemed election relating to taxes unless such election will have the effect of minimizing the tax liabilities of KCPL or any of its Subsidiaries, including elections for any and all joint ventures, partnerships, limited liability companies, working interests or other investments where KCPL has the capacity to make such binding elections, (ii) without the written consent of Western Resources, which consent will not be unreasonably withheld, settle or compromise any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to taxes unless such settlement or compromise results in (A) a change in taxable income or tax liability that will reverse in future periods and is therefore, by its nature, a timing difference or (B) a change in taxable income or tax liability that will not reverse in future periods and is therefore, by its nature, a permanent difference unless the tax liability resulting from the increase is less than \$5 million, or (iii) change in any material respect any of its methods of reporting income or deductions for federal income tax purposes from those employed in the preparation of its federal income tax return for the taxable year ending December 31, 1996, except as may be required by applicable law or except for such changes that would reduce consolidated federal taxable income or alternative minimum taxable income.

(v) Discharge of Liabilities. KCPL shall not, nor shall KCPL permit any of its Subsidiaries to, pay, discharge or satisfy any material claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice (which includes the payment of final and unappealable judgments) or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of KCPL included in KCPL's reports filed with the SEC, or incurred in the ordinary course of business consistent with past practice.

Section 8.2 Covenants of Western Resources, New KC and KGE. Western Resources agrees, as to itself, New KC and to each of its Subsidiaries, that after the date hereof and prior to the KGE Effective Time or earlier termination of this Agreement:

(a) Cooperation, Notification. Western Resources shall (i) confer on a regular and frequent basis with one or more representatives of KCPL to discuss, subject to applicable law, material operational matters and the general status of its ongoing operations, (ii) promptly notify KCPL of any significant changes in its business, properties, assets, condition (financial or other), results of operations or prospects, and (iii) promptly provide KCPL with copies of all filings made by Western Resources or any of its Subsidiaries with any state or federal court, administrative agency, commission or other Governmental Authority in connection with this Agreement and the transactions contemplated hereby.

(b) Third-Party Consents. Western Resources shall, and shall cause its Subsidiaries and New KC to, use all commercially reasonable efforts to obtain all Western Resources Required Consents. Western Resources shall promptly notify KCPL of any failure or prospective failure to obtain any such consents and, if requested by KCPL, shall provide copies of all Western Resources Required Consents obtained by Western Resources to KCPL.

(c) No Breach, Etc. Each of Western Resources, KGE and New KC shall not, nor shall they permit any of their respective Subsidiaries to, willfully take any action that would or is reasonably likely to result in a material breach of any provision of this Agreement or in any of its representations and warranties set forth in this Agreement being untrue on and as of the Closing Date.

(d) New KC Not to Engage in Operations. Prior to the KCPL and KGE Effective Times, Western Resources shall not permit New KC to engage in

any business or incur any liabilities or be a party to any contract or agreement, other than as contemplated by this Agreement or as specifically agreed to in writing by KCPL.

(e) Cash for Payment in Lieu of Fractional Shares. New KC as of the KGE Effective Time will have sufficient cash available to pay for all fractional share interests of New KC Common Stock which would otherwise be issued pursuant to the KCPL Merger.

(f) Insurance. Western Resources shall use reasonable efforts to obtain for New KC with financially responsible insurance companies insurance effective as of the Closing Date in such amounts and against such risks and losses as are customary for companies engaged in the electric utility industry and employing methods of generating electric power and fuel sources similar to those methods to be employed and fuels to be used by New KC.

ARTICLE IX

ADDITIONAL AGREEMENTS

Section 9.1 Access to Information. Upon reasonable notice, each party shall, and shall cause its Subsidiaries to, afford to the officers, directors, employees, accountants, counsel, investment bankers, financial advisors and other representatives of the other parties (collectively, "Representatives") reasonable access, during normal business hours throughout the period prior to the KGE Effective Time, to all of its properties, books, contracts, commitments and records (including, but not limited to, Tax Returns) and, during such period, each party shall, and shall cause its Subsidiaries to, furnish promptly to the other (i) access to each report, schedule and other document filed or received by it or any of its Subsidiaries pursuant to the requirements of federal or state securities laws or filed with or sent to the SEC, the FERC, the NRC, the Department of Justice, the Federal Trade Commission, or any other federal or state regulatory agency or commission and (ii) access to all information concerning themselves, their Subsidiaries, directors, officers and shareholders and such other matters as may be reasonably requested by the other party in connection with any filings, applications or approvals required or contemplated by this Agreement or for any other reason related to the transactions contemplated by this Agreement. All documents and information supplied by one party to the other pursuant to this Section 9.1 shall be deemed to be "Evaluation Material" as defined in the Confidentiality Agreement, dated December 20, 1996, between KCPL and Western Resources, as it may be amended from time to time (the "Confidentiality Agreement"), and shall be kept confidential in accordance with the terms of such Agreement.

Section 9.2 Joint Proxy Statement and Registration Statement.

(a) Preparation and Filing. The parties will prepare and file with the SEC as soon as reasonably practicable after the date hereof the Registration Statement and the Proxy Statement (together, the "Joint Proxy/Registration Statement"). The parties hereto shall each use reasonable efforts to (i) cause the Registration Statement to be declared effective under the Securities Act as promptly as practicable after such filing and (ii) respond as promptly as practicable to any comments made by the SEC. Each party hereto shall also take such action as may be reasonably required to cause the shares of (i) Western Resources Common Stock issuable in connection with the Stock Contribution and the Western Resources Stock Distribution to be registered or to obtain an exemption from registration under applicable state "blue sky" or securities laws and (ii) New KC Common Stock issuable in connection with the KGE Merger and the KCPL Merger to be registered or to obtain an exemption from registration under applicable state "blue sky" or securities laws; provided, however, that no party shall be required to register or qualify as a foreign corporation or to take other action which would subject it to service of process in any jurisdiction where the Surviving Corporation will not be, following the KGE Merger, so subject. Each of the parties hereto shall furnish all information concerning itself which is required or customary for inclusion in the Joint Proxy/Registration Statement. The parties shall use reasonable efforts to cause the shares of (i) Western Resources Common Stock issuable in the Stock Contribution and the Western Resources Stock Distribution and (ii) New KC Common Stock issuable in the KCPL Merger and the KGE Merger, to be approved for listing on the NYSE upon official notice of issuance. The information provided by any party hereto for use in the Joint Proxy/Registration Statement shall be true and correct in all material respects without omission of any

material fact which is required to make such information not false or misleading. No representation, covenant or agreement is made by any party hereto with respect to information supplied by any other party for inclusion in the Joint Proxy Statement/Registration Statement.

(b) Letter of KCPL's Accountants. KCPL shall use its best efforts to cause to be delivered to Western Resources letters of Coopers & Lybrand, dated a date within two business days before the date of the Joint Proxy/Registration Statement, and addressed to Western Resources, in form and substance reasonably satisfactory to Western Resources and customary in scope and substance for "cold comfort" letters delivered by independent public accountants in connection with registration statements on Form S-4.

(c) Letter of Western Resources' Accountants. Western Resources shall use its best efforts to cause to be delivered to KCPL a letter of Arthur Andersen LLP, dated a date within two business days before the date of the Joint Proxy/Registration Statement, and addressed to KCPL, in form and substance reasonably satisfactory to KCPL and customary in scope and substance for "cold comfort" letters delivered by independent public accountants in connection with registration statements on Form S-4.

(d) Fairness Opinions. It shall be a condition to the mailing of the Joint Proxy/Registration Statement to the shareholders of KCPL and Western Resources that (i) KCPL shall have received an opinion from Merrill Lynch, dated the date of the Joint Proxy/Registration Statement, to the effect that, as of the date thereof, the consideration to be received by the holders of KCPL Common Stock (other than Western Resources and its Affiliates) in the KCPL Merger and the Western Resources Stock Distribution, taken as a whole, is fair to such holders from a financial point of view and (ii) Western Resources shall have received an opinion from Salomon, dated the date of the Joint Proxy/Registration Statement, to the effect that, as of the date thereof the Aggregate Consideration is fair from a financial point of view to Western Resources.

Section 9.3 Regulatory Matters.

(a) HSR Filings. Each party hereto shall file or cause to be filed with the Federal Trade Commission and the Department of Justice any notifications required to be filed by its respective "ultimate parent" company under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the rules and regulations promulgated thereunder with respect to the transactions contemplated hereby. Such parties will use all commercially reasonable efforts to make such filings in a timely manner and to respond on a timely basis to any requests for additional information made by either of such agencies.

(b) Other Regulatory Approvals. Each party hereto shall cooperate and use its best efforts to promptly prepare and file all necessary documentation, to effect all necessary applications, notices, petitions, filings and other documents, and to use all commercially reasonable efforts to obtain all necessary permits, consents, approvals and authorizations of all Governmental Authorities necessary or advisable to obtain the KCPL Required Statutory Approvals and the Western Resources Required Statutory Approvals.

Section 9.4 Shareholder Approval.

(a) Approval of KCPL Shareholders. Subject to the provisions of Section 9.4(c) and Section 9.4(d), KCPL shall, as soon as reasonably practicable after the date hereof (i) take all steps necessary to duly call, give notice of, convene and hold a meeting of its shareholders (the "KCPL Meeting") for the purpose of securing the KCPL Shareholders' Approval, (ii) distribute to its shareholders the Proxy Statement in accordance with applicable federal and state law and with its Restated Articles of Consolidation and by-laws, (iii) subject to the fiduciary duties of its Board of Directors, recommend to its shareholders the approval of the KCPL Merger, this Agreement and the transactions contemplated hereby, and (iv) cooperate and consult with Western Resources with respect to each of the foregoing matters.

(b) Approval of Western Resources Shareholders. Subject to the provisions of Section 9.4(c) and Section 9.4(d), Western Resources shall, as soon as reasonably practicable after the date hereof (i) take all steps necessary to duly call, give notice of, convene and hold a meeting of its shareholders (the "Western Resources Meeting") for the purpose of securing the Western Resources Shareholders' Approval, (ii) distribute to its shareholders the Proxy Statement in accordance with applicable federal and state law and with the Western Resources Articles

and the by-laws of Western Resources (the "Western Resources By-Laws"), (iii) subject to the fiduciary duties of its Board of Directors, recommend to its shareholders the approval of this Agreement and the transactions contemplated hereby, including without limitation the Asset Contribution, the Stock Contribution and the issuance of shares of Western Resources Common Stock to be contributed to KGE pursuant to the Stock Contribution, and (iv) cooperate and consult with KCPL with respect to each of the foregoing matters.

(c) Meeting Date. The Western Resources Meeting for the purpose of securing the Western Resources Shareholders' Approval and the KCPL Meeting for the purpose of securing the KCPL Shareholders' Approval shall be held as soon as practicable, or at such other time as KCPL and Western Resources shall mutually determine in writing.

(d) Fairness Opinions Not Withdrawn. It shall be a condition to the obligation of KCPL to hold the KCPL Meeting that the opinion of Merrill Lynch, referred to in Section 9.2(d), shall not have been withdrawn, and it shall be a condition to the obligation of Western Resources to hold the Western Resources Meeting that the opinion of Salomon, referred to in Section 9.2(d), shall not have been withdrawn.

Section 9.5 Directors' and Officers' Indemnification.

(a) Indemnification. To the extent, if any, not provided by an existing right of indemnification or other agreement or policy, from and after the KGE Effective Time, the Surviving Corporation shall, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date hereof, or who becomes prior to the KGE Effective Time, an officer, director or employee of any of the parties hereto or their respective Subsidiaries (each an "Indemnified Party" and collectively, the "Indemnified Parties") against (i) all losses, expenses (including reasonable attorney's fees and expenses), claims, damages or liabilities or, subject to the proviso of the next succeeding sentence, amounts paid in settlement, arising out of actions or omissions occurring at or prior to the KGE Effective Time (and whether asserted or claimed prior to, at or after the KGE Effective Time) that are, in whole or in part, based on or arising out of the fact that such person is or was a director, officer or employee of such party (the "Indemnified Liabilities"), and (ii) all Indemnified Liabilities to the extent they are based on or arise out of or pertain to the transactions contemplated by this Agreement. In the event of any such loss, expense, claim, damage or liability (whether or not arising before the KGE Effective Time), (i) the Surviving Corporation shall pay the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel shall be reasonably satisfactory to the Surviving Corporation, promptly after statements therefor are received and otherwise advance to such Indemnified Party upon request reimbursement of documented expenses reasonably incurred, in either case to the extent not prohibited by the KGCC, (ii) the Surviving Corporation will cooperate in the defense of any such matter and (iii) any determination required to be made with respect to whether an Indemnified Party's conduct complies with the standards set forth under the KGCC and the certificate of incorporation or by-laws of the Surviving Corporation shall be made by independent counsel mutually acceptable to the Surviving Corporation and the Indemnified Party; provided, however, that the Surviving Corporation shall not be liable for any settlement effected without its written consent (which consent shall not be unreasonably withheld). The Indemnified Parties as a group may retain only one law firm with respect to each related matter except to the extent there is, in the opinion of counsel to an Indemnified Party, under applicable standards of professional conduct, a conflict on any significant issue between positions of such Indemnified Party and any other Indemnified Party or Indemnified Parties.

(b) Insurance. For a period of six years after the KGE Effective Time, the Surviving Corporation shall cause to be maintained in effect policies of directors and officers' liability insurance maintained by KCPL and Western Resources for the benefit of those persons who are currently covered by such policies on terms no less favorable than the terms of such current insurance coverage; provided, however, that the Surviving Corporation shall not be required to expend in any year an amount in excess of 150% of the annual aggregate premiums currently paid by KCPL and Western Resources for such insurance; and provided, further, that if the annual premiums of such insurance coverage exceed such amount, the Surviving Corporation shall be obligated to obtain a policy with the best coverage available, in the reasonable judgment of the Board of Directors of the Surviving Corporation, for a cost not exceeding such amount.

(c) Successors. In the event the Surviving Corporation or any of its successors or assigns (i) consolidates with or merges into any other person or entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any person or entity, then and in either such case, proper provisions shall be made so that the successors and assigns of the Surviving Corporation shall assume the obligations set forth in this Section 9.5.

(d) Survival of Indemnification. To the fullest extent permitted by law, from and after the KGE Effective Time, all rights to indemnification as of the date hereof in favor of the employees, agents, directors and officers of KCPL, New KC, Western Resources and KGE and their respective Subsidiaries with respect to their activities as such prior to the KGE Effective Time, as provided in their respective articles of incorporation and by-laws in effect on the date thereof, or otherwise in effect on the date hereof, shall survive the KGE Merger and shall continue in full force and effect for a period of not less than six years from the KGE Effective Time.

(e) Benefit. The provisions of this Section 9.5 are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party, his or her heirs and his or her representatives.

Section 9.6 Public Announcements. Subject to each party's disclosure obligations imposed by law, KCPL, New KC, Western Resources and KGE will cooperate with each other in the development and distribution of all news releases and other public information disclosures with respect to this Agreement or any of the transactions contemplated hereby and shall not issue any public announcement or statement with respect hereto or thereto without the consent of the other party (which consent shall not be unreasonably withheld).

Section 9.7 Rule 145 Affiliates. KCPL shall identify in a letter to Western Resources all persons who are, and to KCPL's knowledge who will be at the Closing Date, "affiliates" of KCPL as such term is used in Rule 145 under the Securities Act. KCPL shall use all reasonable efforts to cause its affiliates (including any person who may be deemed to have become such an affiliate after the date of the letter referred to in the prior sentence) to deliver to Western Resources on or prior to the Closing Date a written agreement substantially in the form attached as Exhibit 9.7 (each an "Affiliate Agreement").

Section 9.8 Employee Agreements and Workforce Matters.

(a) Certain Employee Agreements. Subject to Section 9.9 and Section 9.10, the Surviving Corporation and its Subsidiaries shall honor, without modification, all contracts, agreements, collective bargaining agreements, severance agreements between KCPL and certain of its officers and commitments of the parties prior to the date hereof that have previously been provided to Western Resources and that are disclosed in Section 6.10 of the KCPL Disclosure Schedule and that apply to any current or former employee or current or former director of the parties hereto; provided, however, that this undertaking is not intended to prevent the Surviving Corporation from enforcing such contracts, agreements, collective bargaining agreements and commitments in accordance with their terms, including, without limitation, any reserved right to amend, modify, suspend, revoke or terminate any such contract, agreement, collective bargaining agreement or commitment.

(b) Workforce Matters. Subject to applicable bargaining agreements, Western Resources shall treat the employees of the Surviving Corporation as a single workforce, and shall use its best effort to conduct its employee management practices on a fair and equitable basis, without regard to any employee's place of employment prior to the KGE Effective Time.

Section 9.9 Employee Benefit Plans.

(a) Company Plans. (i) From the KGE Effective Time until the first anniversary of the KGE Effective Time, New KC shall provide to employees of the Surviving Corporation who were employees of KCPL prior to the KGE Effective Time ("KCPL Employees") benefits which are no less favorable in the aggregate than the benefits provided to employees of KCPL as of the date hereof, (ii) between the first and second anniversaries of the KGE Effective Time, New KC may either provide KCPL Employees benefits which are no less favorable in the aggregate than the benefits provided to employees of KCPL as of the date hereof or provide to KCPL Employees benefits on the same terms as those applicable to other similarly situated former KGE employees, and (iii) after the second anniversary of the KGE Effective Time, New KC shall provide to

KCPL Employees benefits on the same terms as those applicable to other similarly situated former KGE employees. In the event New KC is unable to provide benefits to KCPL Employees on the same terms applicable to other similarly situated former KGE employees after the second anniversary of the KGE Effective Time, it shall continue to provide benefits which are no less favorable in the aggregate than the benefits provided to KCPL Employees as of the date hereof until such other benefits can be provided. For purposes of this Section 9.9(a), the term "benefits" shall not include the following plans of KCPL: the Long Term Incentive Plan for Executives, the Auto Allowance, the Financial/Tax Allowance, the Incentive Compensation Plan, the Executive Long-Term and Short-Term Incentive Plan, the RESULTS Incentive Compensation Plan, the KLT, Inc. Annual Incentive Pay Plan and Long Term Incentive Plan, the Ad Hoc Bonus Program, the Retention/Hiring Bonus Program, the Sales and Marketing Incentive Plans, and the Bulk Power Sales Incentive Plan.

(b) Effect of the KCPL Merger and the KGE Merger. The consummation of the KCPL Merger or the KGE Merger shall not be treated as a termination of employment for purposes of any Western Resources Benefit Plan or KCPL Benefit Plan.

(c) Credit for Past Service. Without limitation of the foregoing provisions of this Section 9.9, each participant in any benefit plan of the Surviving Corporation shall receive credit for service with KCPL, Western Resources or KGE, as the case may be, for purposes of (i) eligibility to participate, vesting and eligibility to receive benefits under any benefit plan of the Surviving Corporation or any of its Subsidiaries or affiliates and (ii) benefit accrual under any severance or vacation pay plan; provided, however, that such crediting of service shall not operate to duplicate any benefit to any such participant or the funding for any such benefit.

Section 9.10 Stock Options. Prior to the KCPL Effective Time, KCPL shall take such actions as may be necessary such that immediately prior to the KCPL Effective Time, each option to purchase shares of KCPL Common Stock and any accrued dividend rights granted on such KCPL Common Stock (collectively, the "KCPL Stock Options") which is outstanding, whether or not then exercisable, shall be canceled and entitle the holder of any then exercisable KCPL Stock Options, upon surrender of all outstanding KCPL Stock Options, to receive in consideration of such cancellation an amount in cash from KCPL equal to the result of multiplying the number of shares of KCPL Common Stock previously subject to such KCPL Stock Option by the difference between (i) the sum of (x) the fair market value of the number of shares of Western Resources Common Stock (as determined by the average closing price of the Western Resources Common Stock for the five (5) consecutive trading day period occurring immediately following the distribution contemplated by Section 4.1) that such optionee would have received pursuant to Section 4.1 if such optionee had exercised a KCPL Stock Option to purchase one (1) share of KCPL Common Stock immediately prior to the KCPL Effective Time and (y) the fair market value of the number of shares of New KC Series A Common Stock (as determined by the average closing price of the New KC Series A Common Stock for the five (5) consecutive trading day period occurring immediately following the distribution contemplated by Section 4.1) that such optionee would have received pursuant to Section 2.4(a) if such optionee had exercised a KCPL Stock Option to purchase one (1) share of KCPL Common Stock immediately prior to the KCPL Effective Time and (ii) the per share exercise price of such KCPL Stock Options.

Section 9.11 No Solicitations. From and after the date hereof, KCPL will not, and will not authorize or permit any of its Representatives to, directly or indirectly, solicit, initiate or encourage (including by way of furnishing information) or take any other action to facilitate knowingly any inquiries or the making of any proposal which constitutes or may reasonably be expected to lead to an Acquisition Proposal (as defined herein) from any person, or engage in any discussion or negotiations relating thereto or accept any Acquisition Proposal; provided, however, that notwithstanding any other provision hereof, KCPL may (i) at any time prior to the time KCPL's shareholders shall have voted to approve this Agreement, engage in discussions or negotiations with a third party who (without any solicitation, initiation, encouragement, discussion or negotiation, directly or indirectly, by or with KCPL or its Representatives after the date hereof) seeks to initiate such discussions or negotiations and may furnish such third party information concerning KCPL and its business, properties and assets if, and only to the extent that, (A) (x) the third party has first made an Acquisition Proposal that is financially superior to the transactions contemplated herein and has demonstrated that financing for the Acquisition Proposal is reasonably likely to be obtained (as determined in good faith by KCPL's Board of Directors after

consultation with its financial advisors) and (y) KCPL's Board of Directors shall conclude in good faith, after considering applicable provisions of state law, on the basis of oral or written advice of outside counsel that such action is necessary for the KCPL Board of Directors to act in a manner consistent with its fiduciary duties under applicable law and (B) prior to furnishing such information to or entering into discussions or negotiations with such person or entity, KCPL (x) provides prompt notice to Western Resources to the effect that it is planning to furnish information to or enter into discussions or negotiations with such person or entity and (y) receives from such person or entity an executed confidentiality agreement in reasonably customary form on terms not in the aggregate materially more favorable to such person or entity than the terms contained in the Confidentiality Agreement, (ii) comply with Rule 14e-2 promulgated under the Exchange Act with regard to a tender or exchange offer, and/or (iii) accept an Acquisition Proposal from a third party, provided KCPL first terminates this Agreement pursuant to Section 11.1(e). KCPL shall immediately cease and terminate any existing solicitation, initiation, encouragement, activity, discussion or negotiation with any parties conducted heretofore by KCPL or its Representatives with respect to the foregoing. KCPL shall notify Western Resources orally and in writing of any such inquiries, offers or proposals (including, without limitation, the terms and conditions of any such proposal and the identity of the person making it), within 24 hours of the receipt thereof, shall keep Western Resources informed of the status and details of any such inquiry, offer or proposal, and shall give Western Resources five days' advance notice of any agreement to be entered into with or any information to be supplied to any person making such inquiry, offer or proposal. As used herein, "Acquisition Proposal" shall mean a proposal or offer (other than by Western Resources, KGE or New KC) for a tender or exchange offer, merger, consolidation or other business combination involving KCPL or any KCPL Subsidiary or any proposal to acquire in any manner a substantial equity interest in or a substantial portion of the assets of KCPL or any KCPL Subsidiary.

Section 9.12 Board of Directors of New KC. At the KGE Effective Time, Western Resources shall cause the initial Board of Directors of New KC to be comprised of six persons designated by Western Resources, and four persons selected from the Board of Directors of KCPL, in office as of the date hereof, designated by KCPL. Thereafter, directors of New KC shall be nominated and elected in accordance with the procedures set forth in the New KC Articles and New KC By-Laws.

Section 9.13 Post-Merger Operations.

(a) Principal Corporate Offices. At the KGE Effective Time, (i) the executive headquarters of New KC shall be in Kansas City, Missouri, (ii) the customer service headquarters of New KC shall be in Wichita, Kansas, and (iii) the field operation headquarters of New KC shall be in Topeka, Kansas.

(b) Charities. After the KGE Effective Time, the Surviving Corporation currently intends to provide charitable contributions and community support within the service areas of KCPL and Western Resources and each of their respective Subsidiaries at annual levels substantially comparable to the annual levels of charitable contributions and community support provided by KCPL and Western Resources and their respective Subsidiaries within their service areas during 1994 and 1995.

(c) Board of Directors of Western Resources. At the KGE Effective Time, Western Resources shall cause to be nominated to the Board of Directors of Western Resources (to such class of directors as Western Resources shall determine in its sole discretion) the following persons: William H. Clark, Robert J. Dineen and Robert H. West. No persons shall be substituted for the foregoing persons if any such person is not qualified or declines to serve as a director of Western Resources pursuant to the Western Resources Articles or the Western Resources By-Laws.

(d) Termination of Litigation. The parties hereto shall immediately dismiss, with each party bearing its own costs and litigation expenses, all proceedings pending between themselves and their affiliates, including without limitation KCPL v. Western Resources, Inc. et al., Civ. Action No. 96-552-CV-W-5 (W.D. Mo.), and each shall thereafter sign and deliver such further instruments as may be necessary in connection with such dismissals.

(e) Dividends. Upon the KGE Effective Time, the dividend policy of New KC shall be set by the Board of Directors of New KC so as to achieve a payout ratio that is consistent with comparable electric utility companies.

Section 9.14 Expenses. Subject to Section 11.3, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses, except that those expenses incurred in connection with printing the Joint Proxy/Registration Statement, as well as the filing fee relating thereto, shall be shared equally by KCPL and Western Resources.

Section 9.15 Transition Management. The parties shall create a special transition management task force (the "Task Force") which shall be jointly headed by representatives appointed by and reasonably acceptable to the Chief Executive Officers of Western Resources and KCPL. The Task Force shall examine various alternatives regarding the manner in which to best organize and manage the business of the Surviving Corporation after the KGE Effective Time, subject to applicable law.

Section 9.16 Purchase Accounting and Tax-Free Status. Each party hereto agrees, as to itself and to each of its Subsidiaries, that after the date hereof and prior to the KGE Effective Time or earlier termination of this Agreement, except as expressly contemplated or permitted in this Agreement:

(a) Purchase Accounting. Western Resources and New KC shall account for the KGE Merger and the KCPL Merger under the purchase method of accounting in accordance with the provisions of Accounting Principles Board Opinion No. 16, "Business Combinations."

(b) Tax-Free Status. None of the parties hereto shall, nor shall any party hereto permit any of its Subsidiaries or any employees, officers or directors of such party or of any of its Subsidiaries to, take any actions which would, or would be reasonably likely to, adversely affect the ability of the KCPL Merger or the KGE Merger to qualify for tax-free treatment under the Code, both to the parties and their respective shareholders (except for any cash received in lieu of fractional shares), and each party hereto shall use all reasonable efforts to achieve such result.

Section 9.17 Further Assurances. Each party will, and will cause its Subsidiaries to, execute such further documents and instruments and take such further actions, including the application for any necessary regulatory approvals or exemptions, as may reasonably be requested by any other party in order to consummate the transactions contemplated hereby in accordance with the terms hereof.

Section 9.18 Interim Dividends. The last record date of each of KCPL and Western Resources on or prior to the KGE Effective Time which relates to a regular quarterly dividend on KCPL Common Stock or Western Resources Common Stock, as the case may be, shall be the same date and shall be prior to the KGE Effective Time.

Section 9.19 Redemption of Certain Western Resources \$100 Preferred. Prior to the KGE Effective Time, the Board of Directors of Western Resources shall call for redemption all outstanding shares of 4 1/2% Western Resources \$100 Preferred Stock, 4 1/4% Western Resources \$100 Preferred Stock and 5% Western Resources \$100 Preferred Stock at a redemption price equal to the amount set forth in the Western Resources Articles, together with all dividends accrued and unpaid to the date of such redemption and take all other required actions so that all shares of 4 1/2% Western Resources \$100 Preferred Stock, 4 1/4% Western Resources \$100 Preferred Stock and 5% Western Resources \$100 Preferred Stock shall be redeemed and no such shares shall be deemed to be outstanding at the KGE Effective Time or entitled to vote on the approval of this Agreement and the transactions contemplated hereby.

ARTICLE X

CONDITIONS

Section 10.1 Conditions to Each Party's Obligation to Effect the KGE Merger and the KCPL Merger. The respective obligations of each party to effect the KGE Merger or the KCPL Merger, as the case may be, shall be subject to the satisfaction on or prior to the Closing Date of the following conditions, except, to the extent permitted by applicable law, that such conditions may be waived in writing pursuant to Section 11.5 by the joint action of the parties hereto:

(a) Shareholder Approvals. The Western Resources Shareholders' Approval and the KCPL Shareholders' Approval shall have been obtained.

(b) No Injunction. No temporary restraining order or preliminary or permanent injunction or other order by any federal or state court preventing consummation of the KGE Merger or the KCPL Merger shall have been issued and be continuing in effect, and the KGE Merger, the KCPL Merger and the other transactions contemplated hereby shall not have been prohibited under any applicable federal or state law or regulation.

(c) Registration Statement. The Registration Statement shall have become effective in accordance with the provisions of the Securities Act, and no stop order suspending such effectiveness shall have been issued and remain in effect.

(d) Listing of Shares. The shares of Western Resources Common Stock issuable in the Stock Contribution and the Western Resources Stock Distribution and the shares of New KC Common Stock issuable in the KCPL Merger and the KGE Merger shall have been approved for listing on the NYSE upon official notice of issuance.

(e) Required Statutory Approvals. The KCPL Required Statutory Approvals and the Western Resources Required Statutory Approvals shall have been obtained at or prior to the KCPL Effective Time and such approvals shall have become Final Orders (as defined below). A "Final Order" means action by the relevant regulatory authority which has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by law before the transactions contemplated hereby may be consummated has expired, and as to which all conditions to the consummation of such transactions prescribed by law, regulation or order have been satisfied.

(f) Permits. To the extent that the continued lawful operations of the business of KCPL or any of its Subsidiaries after the KCPL Merger or to the extent that the continued lawful operations of the business of Western Resources, KGE, New KC, or any of their respective Subsidiaries after the KGE Merger require that any license, permit or other governmental approval be transferred to the Surviving Corporation or issued to the Surviving Corporation, such licenses, permits or other authorizations shall have been transferred or reissued to the Surviving Corporation at or before the Closing Date, except where the failure to transfer or reissue such licenses, permits or other authorizations would not have a material adverse effect on the business, assets, financial condition, results of operations or prospects of the Surviving Corporation and its Subsidiaries taken as a whole immediately after the KGE Effective Time.

(g) Tax Confirmation. Western Resources shall have received confirmation in form and substance reasonably satisfactory to Western Resources from the Kansas tax authorities that no sales or use tax is payable in connection with the Asset Contribution.

Section 10.2 Conditions to Obligation of Western Resources, KGE and New KC to Effect the KGE Merger. The obligation of Western Resources, KGE and New KC to effect the KGE Merger shall be further subject to the satisfaction, on or prior to the Closing Date, of the following conditions, except as may be waived by Western Resources, KGE and New KC in writing pursuant to Section 11.5:

(a) Performance of Obligations of KCPL. KCPL (and/or its appropriate Subsidiaries) will have performed in all material respects their agreements and covenants contained in or contemplated by this Agreement which are required to be performed by them at or prior to the KGE Effective Time including, without limitation, agreements and covenants contained in Section 2.4(c) hereof.

(b) Representations and Warranties. The representations and warranties of KCPL set forth in this Agreement shall be true and correct (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time which need only be true and correct as of such date or time) except in each of cases (i) and (ii) for such failures of representations or warranties to be true and correct (without giving effect to any materiality qualification or standard contained in any such representations and warranties) which, individually or in the aggregate, would not result in a KCPL Material Adverse Effect.

(c) Closing Certificates. Western Resources shall have received a certificate signed by the chief financial officer of KCPL, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Section 10.2(a) and Section 10.2(b) have been satisfied.

(d) KCPL Material Adverse Effect. No KCPL Material Adverse Effect shall have occurred.

(e) KCPL Required Consents. The KCPL Required Consents the failure of which to obtain would have a KCPL Material Adverse Effect, shall have been obtained.

(f) Affiliate Agreements. Western Resources shall have received Affiliate Agreements, duly executed by each "Affiliate" of KCPL, substantially in the form of Exhibit 9.7, as provided in Section 9.7.

(g) 1935 Act. Western Resources shall be reasonably satisfied that, following the KGE Effective Time, it shall be exempt from all provisions of the 1935 Act other than Section 9(a)(2) thereof.

(h) Statutory Approvals. Western Resources shall be reasonably satisfied that the Final Orders, other than any Final Order issued by FERC, with respect to the KCPL Required Statutory Approvals and the Western Resources Required Statutory Approvals shall not impose terms or conditions which, individually or in the aggregate, would have, or insofar as reasonably can be foreseen, are likely to have a material adverse effect on the business, assets, financial condition or results of operations of the Surviving Corporation or a material adverse effect on the benefits anticipated by Western Resources as a result of the consummation of the transactions contemplated by this Agreement.

(i) FERC Approval. Western Resources shall be reasonably satisfied that any Final Order issued by FERC with respect to the KCPL Required Statutory Approvals and the Western Resources Required Statutory Approvals shall not impose terms or conditions which, individually or in the aggregate, would have, or insofar as reasonably can be foreseen, are likely to have a material adverse effect on the business, assets, financial condition or results of operations of the Surviving Corporation or a material adverse effect on the benefits anticipated by Western Resources as a result of the consummation of the transactions contemplated by this Agreement.

(j) Tax Opinion. Western Resources shall have received an opinion from Sullivan & Cromwell, counsel to Western Resources, in form and substance reasonably satisfactory to Western Resources, dated as of the Closing, substantially to the effect that (i) the KCPL Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code and (ii) the KGE Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code and (iii) no gain or loss will be recognized by the shareholders of KGE or Western Resources as a result of the KGE Merger. In rendering such opinion, Sullivan & Cromwell may require and rely upon representations contained in certificates of officers of KCPL, Western Resources and others.

(k) Maximum Number of Dissenting Shares. The aggregate number of Dissenting Shares shall not be greater than 5.5% of the outstanding shares of KCPL Common Stock as of the KCPL Effective Time.

(l) KCPL Merger. The KCPL Merger shall have been consummated in accordance with the terms of this Agreement.

Section 10.3 Conditions to Obligation of KCPL to Effect the KCPL Merger. The obligation of KCPL to effect the KCPL Merger shall be further subject to the satisfaction, on or prior to the Closing Date, of the following conditions, except as may be waived by KCPL in writing pursuant to Section 11.5:

(a) Performance of Obligations of Western Resources, KGE and New KC. Western Resources, KGE and New KC (and/or their appropriate Subsidiaries) will have performed in all material respects their agreements and covenants contained in or contemplated by this Agreement which are required to be performed by them at or prior to the KGE Effective Time.

(b) Representations and Warranties. The representations and warranties of Western Resources, KGE and New KC set forth in this Agreement shall be true and correct (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time which need only be true and correct as of such date or time) except in each of cases (i) and (ii) for such failures of representations or warranties to be true and correct (without giving effect to any materiality qualification or standard contained in any such representations and warranties) which,

individually or in the aggregate, would not result in a Western Resources Material Adverse Effect.

(c) Closing Certificates. KCPL shall have received a certificate signed by the chief financial officer of Western Resources, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Section 10.3(a) and Section 10.3(b) have been satisfied.

(d) Western Resources Material Adverse Effect. No Western Resources Material Adverse Effect shall have occurred.

(e) Western Resources Required Consents. The Western Resources Required Consents the failure of which to obtain would have a Western Resources Material Adverse Effect shall have been obtained.

(f) Statutory Approvals. KCPL shall be reasonably satisfied that the Final Orders, other than any Final Order issued by FERC, with respect to the KCPL Required Statutory Approvals and the Western Resources Required Statutory Approvals shall not impose terms or conditions which, individually or in the aggregate, would have, or insofar as reasonably can be foreseen, are likely to have a material adverse effect on the business, assets, financial condition or results of operations of the Surviving Corporation.

(g) FERC Approval. KCPL shall be reasonably satisfied that any Final Order issued by FERC with respect to the KCPL Required Statutory Approvals and the Western Resources Required Statutory Approvals shall not impose terms or conditions which, individually or in the aggregate, would have, or insofar as reasonably can be foreseen, are likely to have a material adverse effect on the business, assets, financial condition or results of operations of the Surviving Corporation.

(h) Tax Opinion. KCPL shall have received an opinion from Skadden, Arps Slate, Meagher & Flom, LLP, counsel to KCPL, in form and substance reasonably satisfactory to KCPL, dated as of the Closing, substantially to the effect that (i) the KCPL Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code, (ii) the KGE Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code, and (iii) other than in respect of cash paid in lieu of fractional shares, no gain or loss will be recognized by the shareholders of New KC or KCPL as a result of either the KCPL Merger or the KGE Merger. In rendering such opinion, Skadden, Arps, Slate, Meagher & Flom, LLP may require and rely upon representations contained in certificates of officers of KCPL, Western Resources and others.

(i) Asset and Stock Contribution; KGE Merger. The Asset Contribution and the Stock Contribution shall have been consummated in accordance with the terms of this Agreement and all conditions to Western Resources' and New KC's obligations to effect the KGE Merger shall have been satisfied or waived.

ARTICLE XI

TERMINATION, AMENDMENT AND WAIVER

Section 11.1 Termination. For purposes of this Article XI, only Western Resources and KCPL shall have the right to terminate this Agreement. References to a party under this Article XI shall mean Western Resources, KGE and New KC, on the one hand, or KCPL, on the other hand. This Agreement may be terminated at any time prior to the Closing Date, whether before or after approval by the shareholders of the respective parties hereto contemplated by this Agreement:

(a) by mutual written consent of the Boards of Directors of KCPL and Western Resources;

(b) (i) by either party if there has been any breach of any representations, warranties, covenants or agreements on the part of the other set forth in this Agreement, which breaches individually or in the aggregate would result in a Western Resources Material Adverse Effect or a KCPL Material Adverse Effect, as the case may be, and, which breaches have not been cured within 20 business days following receipt by the breaching party of notice of such breach or adequate assurance of such cure shall not have been given by or on behalf of the breaching party within such 20 business-day period, (ii) by either party, if the KCPL Board of Directors or any committee thereof (A) shall withdraw or modify in any adverse manner its approval or recommendation of this Agreement or the transactions contemplated hereby, (B) shall fail to reaffirm such approval or recommendation upon Western Resources' request, (C) shall

approve or recommend any acquisition of KCPL or a material portion of its assets or any tender offer for shares of capital stock of KCPL, in each case, other than by Western Resources or an Affiliate thereof or (D) shall resolve to take any of the actions specified in clause (A), (B) or (C), or (iii) by either party, if any state or federal law, order, rule or regulation is adopted or issued, which has the effect, as supported by the written opinion of outside counsel for such party, of prohibiting the transactions contemplated hereby, or by any party hereto if any court of competent jurisdiction in the United States or any state shall have issued an order, judgment or decree permanently restraining, enjoining or otherwise prohibiting the transactions contemplated hereby, and such order, judgment or decree shall have become final and nonappealable;

(c) by either party hereto, by written notice to the other party, if the KCPL Effective Time shall not have occurred on or before December 31, 1999 (the "Termination Date"); provided, however, that the right to terminate the Agreement under this Section 11.1(c) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the KCPL Effective Time to occur on or before this date;

(d) by either party hereto, by written notice to the other party, if (i) the Western Resources Shareholders' Approval shall not have been obtained at a duly held Western Resources Meeting, including any adjournments thereof, or the KCPL Shareholders' Approval shall not have been obtained at a duly held KCPL Meeting, including any adjournments thereof or (ii) the Western Resources Shareholders' Approval and the KCPL Shareholders' Approval shall not have been obtained on or before August 31, 1998;

(e) by KCPL, prior to the approval of this Agreement by the shareholders of KCPL, upon five days' prior notice to Western Resources, if, as a result of an Acquisition Proposal by a party other than Western Resources or any of its Affiliates, the Board of Directors of KCPL determines in good faith, after considering applicable provisions of state law, on the basis of oral or written advice of outside counsel that acceptance of the Acquisition Proposal is necessary for the KCPL Board of Directors to act in a manner consistent with its fiduciary duties under applicable law; provided, however, that (i) the Board of Directors of KCPL shall have concluded in good faith, after considering applicable provisions of state law and after giving effect to all concessions which may be offered by Western Resources pursuant to clause (ii) below, on the basis of oral or written advice of outside counsel that such action is necessary for the Board of Directors to act in a manner consistent with its fiduciary duties under applicable law and (ii) prior to any such termination, KCPL shall, and shall cause its respective financial and legal advisors to, negotiate with Western Resources to make such adjustments in the terms and conditions of this Agreement as would enable KCPL to proceed with the transactions contemplated herein; or

(f) by either party hereto, by the delivery of written notice to the other party not later than 5:00 p.m., New York City time, on the fifth NYSE trading day prior to the scheduled KGE Effective Time (the parties agreeing that each party shall have at least ten NYSE trading days' notice of the KGE Effective Time), if the Western Resources Index Price is less than or equal to \$29.78.

Section 11.2 Effect of Termination. In the event of termination of this Agreement by either KCPL or Western Resources pursuant to Section 11.1 there shall be no liability on the part of any party hereto or their respective officers or directors hereunder, except that Section 9.14 and Section 11.3, the agreement contained in the last sentence of Section 9.1, Section 12.2 and Section 12.8 shall survive the termination.

Section 11.3 Termination Fee; Expenses.

(a) KCPL Termination Fee. If (i) this Agreement (A) is terminated by Western Resources pursuant to Section 11.1(b)(i), (B) is terminated by KCPL pursuant to Section 11.1(e), (C) is terminated as a result of KCPL's breach of Section 9.4, or (D) is terminated because the shareholders of KCPL do not approve the transactions contemplated hereby, (ii) at the time of such termination or prior to the meeting of KCPL's shareholders there shall have been made an Acquisition Proposal involving KCPL or any of its Affiliates (whether or not such Acquisition Proposal shall have been rejected or shall have been withdrawn prior to the time of such termination or of such meeting) and (iii) within two and one-half years of the termination of this Agreement KCPL or any of its Affiliates becomes a Subsidiary of the party which has made such

Acquisition Proposal or a Subsidiary of an Affiliate of such party or accepts a written offer to consummate or consummates an Acquisition Proposal with such party or an Affiliate thereof, then KCPL (jointly and severally with its Affiliates), upon the signing of a definitive agreement relating to such Acquisition Proposal, or, if no such agreement is signed, then at the closing (and as a condition to the closing) of KCPL becoming such a Subsidiary or of such Acquisition Proposal, KCPL shall pay to Western Resources a termination fee equal to \$50 million in cash. If on or before the Termination Date all of the conditions to Closing set forth in Sections 10.1, 10.2 and 10.3 hereof other than the condition set forth in Section 10.3(h) hereof shall have been fulfilled, and KCPL shall decline to waive such condition, then immediately following the Termination Date KCPL shall reimburse Western Resources for any and all expenses of Western Resources with respect to this Agreement and the transactions contemplated hereby, up to a maximum reimbursement of Western Resources by KCPL of \$5 million.

(b) Western Resources Fees. If on or before the Termination Date all of the conditions to the Closing set forth in Sections 10.1, 10.2 and 10.3 hereof other than any condition set forth in Sections 10.2(g), 10.2(h), 10.2(i) or 10.2(j) hereof shall have been fulfilled, and Western Resources shall decline to waive such condition, then immediately following the Termination Date Western Resources shall reimburse KCPL for any and all expenses of KCPL with respect to this Agreement and the transactions contemplated hereby, up to a maximum reimbursement of KCPL by Western Resources of \$5 million in the case of the conditions set forth in Section 10.2(h) or 10.2(j), \$25 million in the case of the conditions set forth in Section 10.2(i), and \$35 million in the case of Section 10.2(g); provided, however, that Western Resources shall be required to reimburse KCPL's expenses in respect of the failure of only one of the foregoing closing conditions to be satisfied.

(c) Expenses. The parties agree that the agreements contained in this Section 11.3 are an integral part of the transactions contemplated by this Agreement and constitute liquidated damages and not a penalty. Notwithstanding anything to the contrary contained in this Section 11.3, if one party fails to promptly pay to the other any fee due under Sections 11.3(a) or (b), in addition to any amounts paid or payable pursuant to such sections, the defaulting party shall pay the costs and expenses (including legal fees and expenses) in connection with any action, including the filing of any lawsuit or other legal action, taken to collect payment, together with interest on the amount of any unpaid fee at the publicly announced prime rate of Citibank, N.A. from the date such fee was required to be paid.

Section 11.4 Amendment. This Agreement may be amended by the Boards of Directors of the parties hereto, at any time before or after approval hereof by the shareholders of KCPL and Western Resources and prior to the KGE Effective Time, but after such approvals, no such amendment shall (a) alter or change the amount or kind of shares, rights or any of the proceedings of the treatment of shares under Article I, Article II, Article III and Article IV or (b) alter or change any of the terms and conditions of this Agreement if any of the alterations or changes, alone or in the aggregate, would materially adversely affect the rights of holders of KCPL Common Stock or Western Resources Common Stock, except for alterations or changes that could otherwise be adopted by the Board of Directors of the Surviving Corporation, without the further approval of such shareholders, as applicable. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

Section 11.5 Waiver. At any time prior to the KGE Effective Time, a party hereto may (a) extend the time for the performance of any of the obligations or other acts of the other party hereto, (b) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions of the other party contained herein, to the extent permitted by applicable law. Any agreement on the part of a party hereto to any such extension or waiver shall be valid if set forth in an instrument in writing signed on behalf of such party.

Section 11.6 Standstill Agreements.

(a) Upon Termination. If this Agreement is terminated pursuant to Section 11.1(a), 11.1(b), 11.1(c) or 11.1(d) hereof, other than for a termination (i) by Western Resources pursuant to Section 11.1(b)(i), (ii) by either party pursuant to Section 11.1(b)(ii), (iii) by either party pursuant to Section 11.1(d) as a result of the failure to obtain the KCPL Shareholder's Approval, and (iv) by either party pursuant to

Section 11.1(c) if one or more of the conditions set forth in Section 10.2(a), 10.2(b), 10.2(c), 10.2(d), 10.2(e) and 10.2(f) shall not have been fulfilled or waived by Western Resources, for a period of three years from and after the date of such termination Western Resources shall not, and shall not permit any of its Subsidiaries to, unless permitted in writing by KCPL (a) in any manner acquire, agree to acquire or make any proposal to acquire, directly or indirectly, any securities or property of KCPL or any of its Subsidiaries, (b) seek or propose to enter into directly or indirectly, any merger, business combination, tender offer, exchange offer, sale or purchase of assets or securities, dissolution, liquidation, recapitalization, restructuring or similar transaction of or involving KCPL or any of its Subsidiaries or to purchase, directly or indirectly, a material portion of the assets of KCPL or any of its Subsidiaries, (c) make, or in any way participate, directly or indirectly, in any "solicitation" of "proxies" (as such terms are used in the proxy rules of the SEC) or consents to vote, or seek to advise or influence any person with respect to the voting of, any voting securities of KCPL or any of its Subsidiaries, (d) form, join or in any way participate in a "group" (within the meaning of Section 13(d)(3) of the Exchange Act) with respect to any voting security of KCPL or any of its Subsidiaries, (e) otherwise act, alone or in concert with others, to seek to control or influence the management, Board of Directors or policies of KCPL, (f) have any discussions or enter into any arrangements, understandings or agreements (whether written or oral) with, or advise, finance, assist or encourage, any other persons in connection with any of the foregoing, or make any investment in any other person that engages, or offers or proposes to engage, in any of the foregoing (it being understood that, without limiting the generality of the foregoing, Western Resources shall not be permitted to act as a joint bidder or co-bidder with any other person with respect to KCPL or any of its Subsidiaries), or (g) make any publicly disclosed proposal regarding any of the foregoing. The provisions of this Section 11.6 shall cease to apply in the event that a third party, not acting in concert or affiliated with Western Resources, (i) makes a proposal to acquire or merge with KCPL or to acquire all or substantially all of the assets of KCPL or a KCPL Subsidiary or (ii) acquires 10% or more of the KCPL Common Stock.

(b) New KC. (i) For the purposes of this Section 11.6(b), each of the following terms shall have the following meaning:

"Western Resources Group" shall mean Western Resources, its Subsidiaries and Affiliates, and any person acting on behalf of Western Resources or any of such Subsidiaries or Affiliates.

"Voting Securities" shall mean the shares of New KC Common Stock and any other issued and outstanding securities of New KC generally entitled to vote for the election of directors of New KC and other matters for which the holders of New KC Common Stock are entitled to vote.

"Independent Director" shall mean any New KC director that is not an employee or director of Western Resources or an employee of New KC. Western Resources agrees that for so long as Western Resources shall own, directly or indirectly, more than 50 percent of the issued and outstanding Voting Securities of New KC, and in any case for not more than ten years from the Closing Date, Western Resources shall vote all shares of Voting Securities beneficially owned by Western Resources to elect, and New KC shall use its best efforts to cause to be elected, at least three Independent Directors to the board of directors of New KC.

(ii) Except as set forth in clauses (iii) and (iv) below, during the period beginning on, and ending on the tenth anniversary of, the Closing Date (unless earlier terminated pursuant to the provisions of this Agreement), Western Resources shall not, and shall cause the other members of the Western Resources Group not to, directly or indirectly, (A) in any manner acquire, agree to acquire, make any proposal to acquire or announce or disclose any intention to make a proposal to acquire, directly or indirectly, any Voting Securities, except pursuant to the KGE Merger in accordance with the terms and conditions of this Agreement or (B) propose to enter into, or announce or disclose any intention to propose to enter into, directly or indirectly, any merger or business combination involving New KC or to purchase, directly or indirectly, all or substantially all of the assets of New KC.

(iii) Notwithstanding the provisions of clause (ii) above, following the Closing Date Western Resources may in any manner acquire Voting Securities representing in the aggregate up to but not exceeding the greater of 85% of the Voting Securities on a fully diluted basis or 88.5% of the Voting Securities on a primary basis.

(iv) Notwithstanding the provisions of clause (ii) above, following the Closing Date, Western Resources may make a tender offer or exchange offer for all outstanding shares of New KC Common Stock or Voting Securities or take any of the actions described in clause (ii)(B) above; provided that any such action satisfies the following additional requirements (x) if a tender offer, the offer must be a "tender offer" for purposes of, and must be made in compliance with, Rules 14d-1 and 13e-3 under the Exchange Act (or any successor provisions thereto), and (y) any such action must be at a price and on terms that are fair to the stockholders of New KC (as determined by a majority of the Independent Directors after the receipt of a fairness opinion with respect to any such proposed transaction from a nationally recognized investment banking firm selected by a majority of the Independent Directors and reasonably acceptable to Western Resources), and must be approved by a majority of the Independent Directors.

ARTICLE XII

GENERAL PROVISIONS

Section 12.1 Non-Survival; Effect of Representations and Warranties. No representations or warranties in this Agreement shall survive the KGE Effective Time, except as otherwise provided in this Agreement.

Section 12.2 Brokers. KCPL represents and warrants that, except for Merrill Lynch whose fees have been disclosed to Western Resources prior to the date hereof, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the KGE Merger, the KCPL Merger or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of KCPL. Western Resources, New KC and KGE represent and warrant that, except for Salomon, whose fees have been disclosed to KCPL prior to the date hereof, and except for certain soliciting dealer arrangements the material terms and conditions of which have been publicly disclosed by Western Resources, New KC or KGE prior to the date hereof, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the KGE Merger or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Western Resources, New KC or KGE.

Section 12.3 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given (a) when delivered personally, (b) when sent by reputable overnight courier service, or (c) when telecopied (which is confirmed by copy sent within one business day by a reputable overnight courier service) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(i) If to KCPL, to:

Kansas City Power & Light Company
1201 Walnut
Kansas City, Missouri 64106
Attn: Chief Executive Officer
Telecopy: (816) 556-2418
Telephone: (816) 556-2200

with a copy to:

Skadden, Arps, Slate, Meagher & Flom, LLP
919 Third Avenue
New York, New York 10022
Attn: Nancy A. Lieberman, Esq.
Telecopy: (212) 735-2000
Telephone: (212) 735-3000

(ii) If to Western Resources, New KC or KGE, to:

Western Resources, Inc.
818 Kansas Ave.
Topeka, Kansas 66612
Attn. Chief Executive Officer

with a copy to:

John K. Rosenberg
Executive Vice President and General Counsel
818 Kansas Ave.
Topeka, Kansas 66612

and

Sullivan & Cromwell
125 Broad Street
New York, New York 10004
Attn: Francis J. Aquila, Esq.
Telecopy: (212) 558-3588
Telephone: (212) 558-4000

Section 12.4 Miscellaneous. This Agreement (including the documents and instruments referred to herein) (a) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof other than the Confidentiality Agreement, (b) shall not be assigned by either party and (c) shall be governed by and construed in accordance with the laws of the State of Kansas applicable to contracts executed in and to be fully performed in such State, without giving effect to its conflicts of law rules or principles and except to the extent the provisions of this Agreement (including the documents or instruments referred to herein) are expressly governed by or derive their authority from the KGCC.

Section 12.5 Interpretation. When a reference is made in this Agreement to Sections or Exhibits, such reference shall be to a Section or Exhibit of this Agreement, respectively, unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." When a reference is made in this Agreement to the "knowledge" of Western Resources, such reference shall also refer to the knowledge of New KC and KGE.

Section 12.6 Counterparts; Effect. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

Section 12.7 Parties' Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and, except for rights of Indemnified Parties as set forth in Section 9.5, nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

Section 12.8 Waiver of Jury Trial and Certain Damages. Each party to this Agreement waives, to the fullest extent permitted by applicable law, (a) any right it may have to a trial by jury in respect of any action, suit or proceeding arising out of or relating to this Agreement and (b) without limitation to Section 11.3, any right it may have to receive damages from any other party based on any theory of liability for any special, indirect, consequential (including lost profits) or punitive damages.

Section 12.9 Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of Kansas or in Kansas state court, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any federal court located in the State of Kansas or any Kansas state court in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a federal or state court sitting in the State of Kansas.

Section 12.10 Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any person or entity or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall

be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other persons, entities or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

Section 12.11 Anti-dilution. The Western Resources Index Price and the Conversion Ratio and any Western Resources share price referred to in this Agreement shall be appropriately adjusted in the case of any stock dividend, reclassification, recapitalization, split-up, combination or subdivision with respect to the common stock of Western Resources.

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This schedule contains summary financial information extracted from the Balance Sheet at December 31, 1997 and the Statement of Income for the year ended December 31, 1997 and is qualified in its entirety by reference to such financial statements.

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KANSAS GAS AND ELECTRIC COMPANY

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| YEAR | | |
|-----------|-------------|-----------|
| | DEC-31-1997 | |
| | DEC-31-1997 | 43 |
| | | 0 |
| | | 68,369 |
| | | 1,715 |
| | | 41,019 |
| | | 197,439 |
| | | 3,616,283 |
| | | 1,051,108 |
| | | 3,117,108 |
| | 167,975 | |
| | | 684,128 |
| | 0 | |
| | | 0 |
| | | 1,065,634 |
| | | 68,845 |
| 3,117,108 | | |
| | | 614,445 |
| | 614,445 | |
| | | 129,594 |
| | | 490,437 |
| | | 4,022 |
| | | 0 |
| | 50,450 | |
| | | 69,536 |
| | | 17,408 |
| | 52,128 | |
| | | 0 |
| | | 0 |
| | | 0 |
| | | 52,128 |
| | | 0 |
| | | 0 |