

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended March 31, 1995

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

For the transition period from to

Commission file number 1-7324

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

KANSAS	48-1093840
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P.O. BOX 208  
WICHITA, KANSAS 67201  
(Address of Principal Executive Offices)

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

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    X        No

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

Class	Outstanding at May 8, 1995
Common Stock (No par value)	1,000 Shares

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

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

	March 31, 1995 (Unaudited)	December 31, 1994
<b>ASSETS</b>		
<b>UTILITY PLANT:</b>		
Electric plant in service . . . . .	\$3,407,455	\$3,390,406
Less - Accumulated depreciation . . . . .	851,335	833,953
	-----	-----
Construction work in progress . . . . .	2,556,120	2,556,453
Nuclear fuel (net) . . . . .	30,979	32,874
	42,263	39,890
	-----	-----
Net utility plant . . . . .	2,629,362	2,629,217
	-----	-----
<b>OTHER PROPERTY AND INVESTMENTS:</b>		
Decommissioning trust . . . . .	17,827	16,944
Other . . . . .	8,628	11,561
	-----	-----
	26,455	28,505
	-----	-----
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents . . . . .	57	47
Accounts receivable and unbilled revenues (net) . . . . .	61,439	67,833
Advances to parent company . . . . .	72,442	64,393
Fossil fuel, at average cost . . . . .	14,344	13,752
Materials and supplies, at average cost . . . . .	30,465	30,921
Prepayments and other current assets . . . . .	10,574	16,662
	-----	-----
	189,321	193,608
	-----	-----
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>		
Deferred future income taxes . . . . .	102,789	102,789
Deferred coal contract settlement costs . . . . .	17,114	17,944
Phase-in revenues . . . . .	57,020	61,406
Other deferred plant costs . . . . .	31,723	31,784
Corporate-owned life insurance (net) . . . . .	9,592	9,350
Unamortized debt expense . . . . .	27,230	27,777
Other . . . . .	38,140	40,430
	-----	-----
	283,608	291,480
	-----	-----
<b>TOTAL ASSETS</b> . . . . .	<b>\$3,128,746</b>	<b>\$3,142,810</b>
	=====	=====
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CAPITALIZATION</b> (see Statements) . . . . .	<b>\$1,943,072</b>	<b>\$1,925,196</b>
	-----	-----
<b>CURRENT LIABILITIES:</b>		
Short-term debt . . . . .	10,000	50,000
Accounts payable . . . . .	39,530	49,093
Accrued taxes . . . . .	37,886	15,737
Accrued interest . . . . .	13,787	8,337
Other . . . . .	10,186	11,160
	-----	-----
	111,389	134,327
	-----	-----

DEFERRED CREDITS AND OTHER LIABILITIES:		
Deferred income taxes . . . . .	684,763	689,169
Deferred investment tax credits . . . . .	75,408	74,841
Deferred gain from sale-leaseback . . . . .	249,931	252,341
Other . . . . .	64,183	66,936
	-----	-----
	1,074,285	1,083,287
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 2)		
TOTAL CAPITALIZATION AND LIABILITIES . . . . .	\$3,128,746	\$3,142,810
	=====	=====

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

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

	Three Months Ended	
	March 31,	
	1995	1994
OPERATING REVENUES. . . . .	\$ 138,557	\$ 136,604
	-----	-----
OPERATING EXPENSES:		
Fuel used for generation:		
Fossil fuel . . . . .	18,229	20,839
Nuclear fuel. . . . .	4,688	3,863
Power purchased . . . . .	683	1,252
Other operations. . . . .	30,405	30,631
Maintenance . . . . .	12,267	11,340
Depreciation and amortization . . . . .	18,353	19,119
Amortization of phase-in revenues . . . . .	4,386	4,386
Taxes (see Statements):		
Federal income. . . . .	7,270	6,469
State income . . . . .	2,075	1,710
General . . . . .	11,634	12,117
	-----	-----
Total operating expenses. . . . .	109,990	111,726
	-----	-----
OPERATING INCOME. . . . .	28,567	24,878
	-----	-----
OTHER INCOME AND DEDUCTIONS:		
Corporate-owned life insurance (net). . . . .	(1,716)	(1,235)
Miscellaneous (net) . . . . .	2,099	858
Income taxes (net) (see Statements) . . . . .	1,635	1,787
	-----	-----
Total other income and deductions . . . . .	2,018	1,410
	-----	-----
INCOME BEFORE INTEREST CHARGES. . . . .	30,585	26,288
	-----	-----
INTEREST CHARGES:		
Long-term debt. . . . .	11,768	12,093
Other . . . . .	1,505	1,353
Allowance for borrowed funds used during construction (credit). . . . .	(560)	(368)
	-----	-----
Total interest charges. . . . .	12,713	13,078
	-----	-----
NET INCOME. . . . .	\$ 17,872	\$ 13,210
	=====	=====

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

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

Twelve Months Ended  
March 31,

	1995	1994
OPERATING REVENUES. . . . .	\$ 621,833	\$ 615,120
	-----	-----
OPERATING EXPENSES:		
Fuel used for generation:		
Fossil fuel . . . . .	87,773	92,998
Nuclear fuel . . . . .	14,387	14,431
Power purchased . . . . .	6,575	9,109
Other operations . . . . .	114,834	122,041
Maintenance . . . . .	48,915	47,215
Depreciation and amortization . . . . .	70,691	75,811
Amortization of phase-in revenues . . . . .	17,544	17,545
Taxes (see Statements):		
Federal income . . . . .	51,013	40,805
State income . . . . .	12,792	9,863
General . . . . .	44,609	45,817
	-----	-----
Total operating expenses . . . . .	469,133	475,635
	-----	-----
OPERATING INCOME. . . . .	152,700	139,485
	-----	-----
OTHER INCOME AND DEDUCTIONS:		
Corporate-owned life insurance (net) . . . . .	(5,835)	5,137
Miscellaneous (net) . . . . .	6,320	3,853
Income taxes (net) (see Statements) . . . . .	7,138	5,568
	-----	-----
Total other income and deductions . . . . .	7,623	14,558
	-----	-----
INCOME BEFORE INTEREST CHARGES. . . . .	160,323	154,043
	-----	-----
INTEREST CHARGES:		
Long-term debt . . . . .	47,502	51,897
Other . . . . .	5,335	5,871
Allowance for borrowed funds used during construction (credit) . . . . .	(1,702)	(1,307)
	-----	-----
Total interest charges . . . . .	51,135	56,461
	-----	-----
NET INCOME. . . . .	\$ 109,188	\$ 97,582
	=====	=====

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

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

	Three Months Ended	
	March 31,	
	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income . . . . .	\$ 17,872	\$ 13,210
Depreciation and amortization . . . . .	18,353	19,119
Other amortization (including nuclear fuel) . . . . .	3,534	2,806
Gain on sales of utility plant (net of tax) . . . . .	(940)	-
Deferred taxes and investment tax credits (net) . . . . .	(5,282)	1,907
Amortization of phase-in revenues . . . . .	4,386	4,386
Corporate-owned life insurance . . . . .	(4,976)	(4,519)
Amortization of gain from sale-leaseback . . . . .	(2,410)	(2,410)
Changes in working capital items:		
Accounts receivable and unbilled revenues (net) . . . . .	6,394	(26,956)
Fossil fuel . . . . .	(592)	(4,662)
Accounts payable . . . . .	(9,563)	(4,891)
Interest and taxes accrued . . . . .	27,599	36,519
Other . . . . .	5,570	4,891
Changes in other assets and liabilities . . . . .	7,480	(4,998)
	-----	-----
Net cash flows from operating activities . . . . .	67,425	34,402
	-----	-----
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Additions to utility plant . . . . .	21,240	18,500
Sales of Utility plant . . . . .	(1,583)	-
Corporate-owned life insurance policies . . . . .	417	281

Death proceeds of corporate-owned life insurance . . . . .	(250)	-
	-----	-----
Net cash flows used in investing activities . . . . .	19,824	18,781
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term debt (net) . . . . .	(40,000)	(124,200)
Advances to parent company (net) . . . . .	(8,049)	61,847
Bonds issued . . . . .	-	113,982
Bonds retired . . . . .	(25)	-
Other long-term debt (net) . . . . .	-	(67,893)
Borrowings against life insurance policies (net) . . . . .	483	645
	-----	-----
Net cash flows from (used in) financing activities . . . . .	(47,591)	(15,619)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .	10	2
CASH AND CASH EQUIVALENTS:		
BEGINNING OF PERIOD . . . . .	47	63
	-----	-----
END OF PERIOD . . . . .	\$ 57	\$ 65
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest on financing activities (net of amount capitalized) . . . . .	\$ 6,058	\$ 5,993
Income taxes . . . . .	-	-

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

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

	Twelve Months Ended	
	March 31,	
	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income . . . . .	\$ 109,188	\$ 97,582
Depreciation and amortization . . . . .	70,691	75,811
Other amortization (including nuclear fuel) . . . . .	11,633	12,184
Gain on sales of utility plant (net of tax) . . . . .	(940)	-
Deferred taxes and investment tax credits (net) . . . . .	18,160	22,115
Amortization of phase-in revenues . . . . .	17,544	17,545
Corporate-owned life insurance . . . . .	(17,703)	(22,015)
Amortization of gain from sale-leaseback . . . . .	(9,640)	(9,640)
Changes in working capital items:		
Accounts receivable and unbilled revenues (net) . . . . .	(23,371)	(706)
Fossil fuel . . . . .	(2,088)	419
Accounts payable . . . . .	(6,674)	2,447
Interest and taxes accrued . . . . .	(4,412)	6,490
Other . . . . .	(243)	(16,700)
Changes in other assets and liabilities . . . . .	1,297	(14,818)
	-----	-----
Net cash flows from operating activities . . . . .	163,442	170,714
	-----	-----
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Additions to utility plant . . . . .	92,620	69,851
Sales of Utility plant . . . . .	(1,583)	-
Corporate-owned life insurance policies . . . . .	26,554	27,119
Death proceeds of corporate-owned life insurance . . . . .	(250)	(10,157)
	-----	-----
Net cash flows used in investing activities . . . . .	117,341	86,813
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term debt (net) . . . . .	(21,600)	(90,200)
Advances to parent company (net) . . . . .	58,503	(52,771)
Bonds issued . . . . .	46,440	178,982
Bonds retired . . . . .	(46,465)	(140,000)
Other long-term debt (net) . . . . .	-	(13,980)
Borrowings against life insurance policies (net) . . . . .	42,013	183,284
Revolving credit agreement (net) . . . . .	-	(150,000)
Dividends to parent company . . . . .	(125,000)	-
	-----	-----

Net cash flows from (used in) financing activities . . .	(46,109)	(84,685)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS. . . . .	(8)	(784)
CASH AND CASH EQUIVALENTS:		
BEGINNING OF PERIOD . . . . .	65	849
	-----	-----
END OF PERIOD . . . . .	\$ 57	\$ 65
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest on financing activities (net of amount capitalized) . . . . .	\$ 68,609	\$ 72,660
Income taxes . . . . .	30,509	29,354

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

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

	March 31, 1995 (Unaudited)		December 31, 1994	
COMMON STOCK EQUITY (see Statements):				
Common stock, without par value, authorized and issued				
1,000 shares. . . . .	\$1,065,634		\$1,065,634	
Retained earnings . . . . .	177,442		159,570	
	-----		-----	
Total common stock equity . . . . .	1,243,076	64%	1,225,204	64%
	-----		-----	
LONG-TERM DEBT:				
First Mortgage Bonds:				
Series	Due	1995	1994	
5-5/8%	1996	\$ 16,000	\$ 16,000	
7.6%	2003	135,000	135,000	
6-1/2%	2005	65,000	65,000	
6.20%	2006	100,000	100,000	
		316,000	316,000	
Pollution Control Bonds:				
5.10%	2023	13,957	13,982	
Variable (a)	2027	21,940	21,940	
7.0%	2031	327,500	327,500	
Variable (a)	2032	14,500	14,500	
Variable (a)	2032	10,000	10,000	
		387,897	387,922	
		-----	-----	
Total bonds. . . . .		703,897	703,922	
Less:				
Unamortized premium and discount (net). . . . .		3,901	3,930	
		-----	-----	
Total long-term debt . . . . .		699,996	699,992	36%
		-----	-----	
TOTAL CAPITALIZATION. . . . .	\$1,943,072	100%	\$1,925,196	100%
	=====		=====	

(a) Market-Adjusted Tax Exempt Securities (MATES). As of March 31, 1995, the rate on these bonds ranged from 4.05% to 4.08%.

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

KANSAS GAS AND ELECTRIC COMPANY  
STATEMENTS OF COMMON STOCK EQUITY  
(Dollars in Thousands)  
(Unaudited)

	Common Stock	Retained Earnings
BALANCE DECEMBER 31, 1992, 1,000 shares. . . . .	\$1,065,634	\$ 71,941
Net income . . . . .	-----	108,103
BALANCE DECEMBER 31, 1993, 1,000 shares. . . . .	1,065,634	180,044
Net income . . . . .	-----	104,526
Dividend to parent company . . . . .	-----	(125,000)
BALANCE DECEMBER 31, 1994, 1,000 shares. . . . .	1,065,634	159,570
Net Income . . . . .	-----	17,872
Balance March 31, 1995, 1,000 shares . . . . .	<u>\$1,065,634</u>	<u>\$ 177,442</u>

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

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

1. ACCOUNTING POLICIES AND OTHER INFORMATION

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

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

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

	March 31, 1995	December 31, 1994
	(Dollars in Millions)	
Cash surrender value of contracts. . . . .	\$321.3	\$320.6
Borrowings against contracts . . . . .	(311.7)	(311.2)
	-----	-----
COLI (net) . . . . .	\$ 9.6	\$ 9.4

COLI borrowings will be repaid upon receipt of proceeds from death benefits under contracts. Increases in the cash surrender value of contracts, resulting from premiums and investment earnings, are recognized as income on a tax free basis in Corporate-owned Life Insurance (net) on the Statements of Income. For the three and twelve months ended March 31, 1995, income from increases in cash surrender value, net of premium and administrative expenses, was \$3.9 million and \$16.1 million, respectively, compared to \$3.5 million and \$19.9 million for the three and twelve months ended March 31, 1994, respectively. Interest expense on COLI borrowings is recorded as a tax deductible expense in Corporate-owned Life Insurance (net) on the Statements of Income. For the three and twelve months ended March 31, 1995, interest expense on COLI borrowings was \$5.6 million and \$21.9 million, respectively, compared to \$4.7 million and \$14.8 million for the three and twelve months ended March 31, 1994, respectively.

Statements of Cash Flows: For purposes of the Statements of Cash Flows, cash and cash equivalents include cash on hand and highly liquid collateralized debt instruments purchased with maturities of three months or less.

2. COMMITMENTS AND CONTINGENCIES

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

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

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

The Company along with the other co-owners of Wolf Creek are among 14 companies that filed a lawsuit on June 20, 1994, seeking an interpretation of the DOE's obligation to begin accepting spent nuclear fuel for disposal in 1998. The Federal Nuclear Waste Policy Act requires DOE ultimately to accept and dispose of nuclear utilities' spent fuel. The DOE has filed a motion to have this case dismissed. The issue to be decided in this case is whether DOE must begin accepting spent fuel in 1998 or at a future date. Wolf Creek contains an on-site spent fuel storage facility which, under current regulatory guidelines, provides space for the storage of spent fuel through the year 2006 while still maintaining full core off-load capability. The Company believes adequate additional storage space can be obtained as necessary.

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

Decommissioning costs are being charged to operating expenses in accordance with the KCC order. Electric rates charged to customers provide for recovery of these decommissioning costs over the life of Wolf Creek. Amounts so expensed (\$3.5 million in 1994 increasing annually to \$5.5 million in 2024) and earnings on trust fund assets are deposited in an external trust fund. The assumed return on trust assets is 5.9%.

The Company's investment in the decommissioning fund, including reinvested earnings was \$17.8 million and \$16.9 million at March 31, 1995 and December 31, 1994, respectively. These amounts are reflected in Decommissioning Trust, and the related liability is included in Deferred Credits and Other Liabilities, Other, on the Balance Sheets.

The Company carries \$118 million in premature decommissioning insurance. The insurance coverage has several restrictions. One of these is that it can only be used if Wolf Creek incurs an accident exceeding \$500 million in expenses to safely stabilize the reactor, to decontaminate the reactor and reactor station site in accordance with a plan approved by the Nuclear Regulatory Commission (NRC), and to pay for on-site property damages. If the amount designated as decommissioning insurance is needed to implement the NRC-approved plan for stabilization and decontamination, it would not be available for decommissioning purposes.

**Nuclear Insurance:** The Price-Anderson Act limits the combined public liability of the owners of nuclear power plants to \$8.9 billion for a single nuclear incident. The Wolf Creek owners (Owners) have purchased the maximum available private insurance of \$200 million and the balance is provided by an



assessment plan mandated by the NRC. Under this plan, the Owners are jointly and severally subject to a retrospective assessment of up to \$79.3 million (\$37.3 million, Company's share) in the event there is a 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 totalling approximately \$2.8 billion (\$1.3 billion, Company's share). This insurance is provided by a combination of "nuclear insurance pools" (\$500 million) and Nuclear Electric Insurance Limited (NEIL) (\$2.3 billion). In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. The Company's share of any remaining proceeds can be used for property damage up to \$1.2 billion (Company's share) and premature decommissioning costs up to \$118 million (Company's share) in excess of funds previously collected for decommissioning (as discussed under "Decommissioning").

The Owners also carry additional insurance with NEIL to cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If losses incurred at any of the nuclear plants insured under the NEIL policies exceed premiums, reserves, and other NEIL resources, the Company may be subject to retrospective assessments of approximately \$13 million per year.

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

**Clean Air Act:** The Clean Air Act Amendments of 1990 (the Act) require a two-phase reduction in sulfur dioxide and oxides of nitrogen (NOx) emissions effective in 1995 and 2000 and a probable reduction in toxic emissions. To meet the monitoring and reporting requirements under the acid rain program, the Company installed continuous monitoring and reporting equipment at a total cost of approximately \$2.3 million. The Company does not expect additional equipment to reduce sulfur emissions to be necessary under Phase II. Although the Company has no units subject to Phase I regulations, the owners obtained an early substitution permit to bring the co-owned La Cygne Station under the Phase I regulations.

The NOx and air toxic limits, which were not set in the law, will be specified in future EPA regulations. The EPA's proposed NOx regulations were ruled invalid by the U.S. Court of Appeals for the District of Columbia Circuit and until such time as the EPA resubmits new proposed regulations, the Company will be unable to determine its compliance options or related compliance costs.

**Federal Income Taxes:** During 1991, the Internal Revenue Service (IRS) completed an examination of the Company's federal income tax returns for the years 1984 through 1988. In October 1993, the Company received another examination report for the years 1989 and 1990 covering the same issues identified in the previous examination report. In April 1995, after approximately four years of negotiations with the Appeals Office of the IRS, the Company reached agreement on the ultimate disposition of the issues raised in the examination reports. Based on the settlement agreement, management believes that adequate tax reserves have been provided and the settlement will have no effect on the Company's financial position or 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, coal, and natural gas. Some of these contracts contain provisions for price escalation and minimum purchase commitments. At December 31, 1994, WCNOC's nuclear fuel commitments (Company's share) were approximately \$12.6 million for uranium concentrates expiring at various times through 1997, \$122.9 million for enrichment expiring at various times through 2014, and \$56.5 million for fabrication through 2012. At December 31, 1994, the Company's coal and natural gas contract commitments in 1994 dollars under the remaining terms of the contracts were \$721 million and \$9 million, respectively. The largest coal contract was renegotiated in early 1993 and expires in 2020, with the remaining coal contracts expiring at various times through 2013. The majority of natural gas contracts expire in 1995 but have automatic one-year extension provisions. In the normal course of business, additional commitments and spot market purchases will be made to obtain

adequate fuel supplies.

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. INCOME TAXES

Total income tax expense included in the Statements of Income reflects the Federal statutory rate of 35 percent. The Federal statutory rate produces effective income tax rates of 30.1% and 32.6% for the three month periods and 34.2% and 31.6% for the twelve month periods ended March 31, 1995 and 1994, respectively. The effective income tax rates vary from the Federal statutory rate due to the permanent differences, including the amortization of investment tax credits, and accelerated amortization of certain deferred income taxes.

## KANSAS GAS AND ELECTRIC COMPANY

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Item 7 of the Company's Annual Report on Form 10-K for 1994.

The following updates the information provided in the 1994 Form 10-K, and analyzes the changes in the results of operations between the three and twelve month periods ended March 31, 1995 and comparable periods of 1994.

#### FINANCIAL CONDITION

General: The Company had net income of \$17.9 million for the first quarter of 1995 compared to \$13.2 million for the first quarter in 1994. The increase in net income was primarily due to higher revenues, resulting from increased commercial and industrial sales, and lower fuel and purchased power expenses. Also contributing to the increase was a \$1.6 million gain from the sale of rail cars.

Net income for the twelve months ended March 31, 1995, of \$109.2 million, increased from net income of \$97.6 million for the comparable period of 1994. The increase was primarily due to increased sales to all retail customer classes. Also contributing to the increase in net income were lower fuel and purchase power expenses, and reduced other operations expenses.

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

The Company's short-term financing requirements are satisfied through short-term bank loans and borrowings under unsecured lines of credit maintained with banks. At March 31, 1995, short-term borrowing amounted to \$10 million compared to \$50 million at December 31, 1994.

#### OPERATING RESULTS

The following discussion explains variances for the three and twelve months ended March 31, 1995, to the comparable periods of 1994.

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

Increase (decrease) in electric sales volumes:

	3 Months Ended	12 Months Ended
Residential	(3.2)%	1.4%
Commercial	1.5%	3.6%
Industrial	9.8%	5.2%

Total Retail	3.6%	3.6%
Wholesale & Interchange	(42.5)%	(44.1)%
Total electric sales	(8.4)%	(7.7)%

Revenues for the first quarter of 1995 increased approximately one percent to \$138.6 million, compared to first quarter 1994 revenues of \$136.6 million, primarily due to increases in commercial and industrial sales as a result of customer growth. Partially offsetting these increases were decreases in residential and wholesale and interchange sales due to the milder winter temperatures experienced during the first quarter of 1995 compared to last year. Also offsetting the increase was an additional \$1 million (Company's share) of amortization of the final merger refund for the three months ended March 31, 1995 compared to 1994.

Revenues for the twelve months ended March 31, 1995, increased approximately one percent to \$621.8 million from revenues of \$615.1 million for the comparable period of 1994. The increase can be attributed to increased sales in all retail customer classes as a result of customer growth. Partially offsetting these increases in retail sales was a decrease in wholesale and interchange sales. The decrease was primarily due to the higher sales during the twelve months ended March 31, 1994, to other utilities while their generating units were down due to the 1993 floods. Also offsetting the increase for the twelve months ended March 31, 1995, was an additional \$2.8 million (Company's share) of amortization of the final merger refund.

Operating Expenses: Total operating expenses decreased approximately two percent for the first quarter and approximately one percent for the twelve months ended March 31, 1995 compared to the same periods of 1994. These decreases can be attributed to decreases in fuel and purchase power expenses. As discussed previously, the decrease is primarily due to lower sales to wholesale and interchange customers.

Partially offsetting these decreases for the twelve months ended March 31, 1995, was increased federal income taxes due to the completion at December 31, 1993, of the accelerated amortization of deferred income tax reserves relating to the allowance for borrowed funds used during construction capitalized for Wolf Creek. The completion of the amortization of these deferred income tax reserves increased income taxes and thereby reduced net income by approximately \$9 million for the twelve months ended March 31, 1995 compared to 1994.

Other Income and Deductions: Other income and deductions, net of taxes, increased in the first quarter of 1995 compared to the first quarter of 1994 primarily as a result of a \$1.6 million gain realized from the sale of rail cars.

Other income and deductions, net of taxes, decreased to \$7.6 million for the twelve months ended March 31, 1995 from \$14.6 million for the twelve months ended March 31, 1994. The decrease was primarily due to additional interest expense on increased COLI borrowings. Also contributing to the decrease was the receipt of death benefit proceeds from COLI policies during the twelve months ended March 31, 1994.

Interest Expense: Interest expense decreased approximately three percent for the first quarter and approximately nine percent for the twelve months ended March 31, 1995 compared to the same periods of 1994. These decreases resulted primarily from lower interest rates on variable-rate debt due to refinancing of higher cost fixed-rate debt. Also accounting for the decrease was the impact of increased COLI borrowings which reduce the need for other long-term debt and thereby reduced interest expense. COLI interest is reflected in Other Income and Deductions on the Income Statement.

#### OTHER INFORMATION

Merger Implementation: In accordance with the KCC Merger order, amortization of the acquisition adjustment will commence August 1995. The amortization will amount to approximately \$20 million (pre-tax) per year for 40 years. Western Resources and the Company (combined companies) can recover the amortization of the acquisition adjustment through cost savings under a sharing mechanism approved by the KCC. While the combined companies have achieved savings from the Merger, there is no assurance that the savings achieved will be sufficient to, or the cost savings sharing mechanism will operate as to, fully offset the amortization of the acquisition adjustment.

Early Retirement: In April 1995, Western Resources announced a voluntary early retirement program for employees 55 years of age and older with a minimum of 10 years of service as of July 1, 1995. Approximately 420 employees are eligible for the voluntary retirement program. Although Western

Resources is not able to predict the cost of the early retirement program at this time, the total cost, assuming all 420 eligible employees accept early retirement, would be approximately \$9 million in the second quarter of 1995 with cost savings estimated to be approximately \$12 million for 1995. Western Resources anticipates approximately 50 percent of the eligible employees will accept early retirement. Although the Company has no employees, costs of the early retirement program along with any cost savings realized by Western Resources would be allocated to the Company.

KANSAS GAS AND ELECTRIC COMPANY  
Part II Other Information

Item 4. Submission of Matters to a Vote of Security Holders

Information required by Item 4 is omitted pursuant to General Instruction H(2)(b) to Form 10-Q.

Item 5. Other Information

Rate Plan: In April 1995, the Company announced it intends to file a proposal with the KCC in the summer of 1995 to increase the depreciation on the assets of Wolf Creek Generating Station by \$56 million annually for seven years beginning in 1996. As a result, the Company will also seek to reduce electric rates by approximately \$9 million annually for the same seven year period.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 27 - Financial Data Schedule

(b) Reports on Form 8-K:

None

SIGNATURE

Pursuant to the requirements 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

May 8, 1995

By Richard D. Terrill  
Richard D. Terrill  
Secretary, Treasurer and  
General Counsel

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AT MARCH 31, 1995 AND THE STATEMENT OF INCOME AND THE STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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3-MOS	DEC-31-1995	MAR-31-1995	PER-BOOK
	2,629,362		
	26,455		
	189,321		
	283,608		
		0	
		3,128,746	
		1,065,634	
		0	
		177,442	
1,243,076			
		0	
		0	
		699,996	
		10,000	
		0	
		0	
		0	
		871	
		701	
1,174,102			
3,128,746			
		138,557	
		7,710	
		100,645	
		109,990	
		28,567	
		2,018	
30,585			
		12,713	
		17,872	
		0	
17,872			
		0	
		11,768	
		69,008	
		0	
		0	