

"Perhaps the most important event of 1981 was a series of steps taken to reduce growth in our peak demand and construction program. As a result, we expect to need less outside financing in the next few years, and fewer, smaller rate increases after the middle of this decade."

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Renewal . . .

In nature it is a constant, ongoing process.

And nowhere can renewal be better seen than in the lush, tall grasses of the Flint Hills of Kansas.

The late R. A. Clymer, long editor of *The El Dorado Times*, wrote of the Hills:

In the bluestem pastures, there is always abiding peace and calm and compelling beauty at every season of the year.

June, with its gorgeous greens, brings out the peak points of their charm.

. . . Even in February or March, when the prairie grass is sere and brown . . . comes the period of quiet before the earth bursts into a renewal of its age-old functions.

Within brief days the sweet-scented bluestem - best pasturage for beef cattle to be found upon the continent - will be peering through the soil along with myriad prairie flowers of brightly twinkling hues. . .

Strangely, this annual renewal of the bluestem's beauty and wealth comes from Nature's harshness.

The year's briskest breezes scatter its seeds in the fall. Heavy snows and tempestuous thunderstorms feed and irrigate the grass. Fire sweeps the Hills, burning out the weeds and trees and other intruders.

In 1981 the bluestem was unusually bountiful. The grasses grew six feet tall, hiding thousands of the cattle grazing there. The renewing process was just right. Winds, fire, snow and rain all came when the need was greatest.

Now when our world struggles to maintain a healthful environment, to find energy for all people and, most of all, peace, we take comfort in Nature's constant renewal through adversity.

Our own industry also has been renewed, made stronger after drouth and depression, shortage and surplus, peace and emergency. Each test seems to have left behind greater resolve and capacity for growth; like the bluestem, an industry taller and stronger.

On the cover and at right are stalks of bluestem grass in the Flint Hills photographed against a late afternoon winter sky by KG&E staff photographer Richard Rietcheck.

Financial Highlights, Five-Year Comparison

(Dollars in thousands except per share data)

	1981	1980	1979	1978	1977
Operating Revenues	\$313,093	\$293,808	\$244,970	\$238,460	\$196,236
Net Income	\$65,975	\$52,395	\$29,220	\$28,964	\$24,650
Earnings Available for Common Stock	\$53,060	\$43,208	\$21,003	\$21,880	\$18,179
Average Shares of Common Stock Outstanding	18,631,479	14,562,746	11,400,916	9,615,051	7,990,579
Common Stock Per Share Data					
Earnings	\$2.85	\$2.97	\$1.84	\$2.28	\$2.28
Cash Dividends	\$2.06	\$1.965	\$1.91	\$1.825	\$1.77
Indicated Year-End Dividend Rate ..	\$2.12	\$2.04	\$1.94	\$1.90	\$1.80
Available Capacity (Kilowatts)	2,026,000	2,023,000	1,968,000	2,031,000	2,026,000
System Peak (Kilowatts)	1,681,100	1,727,100	1,473,400	1,532,600	1,423,400
Average Use Per Residential Customer (Kilowatthours)	9,433	10,708	9,496	10,136	9,413
Average Price Per Residential Kilowatthour	5.04¢	4.57¢	3.97¢	3.78¢	3.43¢
Number of Customers at End of Year	233,421	228,992	223,413	217,649	212,491
Long-Term Debt	\$607,256	\$451,608	\$386,519	\$374,071	\$295,392
Redemption Required Preferred Stock	\$82,000	\$53,000	\$54,000	\$30,000	\$20,000
Total Utility Plant (Net)	\$1,222,372	\$1,064,486	\$913,449	\$753,787	\$639,406
Total Assets	\$1,300,495	\$1,137,883	\$983,637	\$822,377	\$702,694



For KG&E 1981 was a year of action, accomplishment and planning.

Operating revenues and net income improved. While the number of outstanding common stock shares increased 28% during the year, earnings per share were \$2.85, just 4% under the 1980 record of \$2.97. The allowance for funds used during construction was \$3.23 per share in 1981.

For the 26th time in as many years the common stock dividend was increased. Effective with the final quarter, the annual dividend rate became \$2.12 per share. This compares to \$2.04 a year earlier.

A \$48.9 million a year increase in retail rates was granted the last day of 1981. This did not affect 1981 results. But it included a \$13.9 million annual interim increase in effect since June 1980 which was made permanent.

Perhaps the most important event of 1981 was a series of steps taken to reduce growth in our peak demand and construction program. As a result, we expect to need less outside financing in the next few years, and fewer, smaller rate increases after the middle of this decade. These are the steps we took:

- We and our partners indefinitely deferred completion of Jeffrey Energy Center Unit 4 of which we own 20%. It had been planned for use in 1986.
- We offered to sell our 20% interest in Unit 3 at Jeffrey. Negotiations were under way with

our partners at the end of the year.

- We sold for \$37 million a 3% interest in Wolf Creek Generating Station to the Kansas Electric Power Cooperative, Inc. KEPCo had planned to buy 8.5%. But after losing two members and encountering federal budget restraints, it could finance only 3% through the Rural Electrification Administration. Wolf Creek's completion is planned for 1984. Prior to this sale we owned 50% of the nuclear fueled plant.
- We have offered 4.5% interest in Wolf Creek and 2% interest in the existing La Cygne Generating Station to the Kansas Municipal Energy Agency representing a group of city-owned electric utilities.
- We began a plan to reduce by 100,000 kilowatts the growth in our summer peak during the 1980s. This reduces our need for new peaking capacity by a like amount.

In all, future generating plant needs will be reduced by 458,000 kilowatts. And, sale of Jeffrey Unit 3 and the purchase of generating capability by KMEA will lower construction spending in 1982-86 by \$47 million.

These plans to reduce originally planned generating capability became feasible with the repeal in 1981 of part of the Federal Energy Act which would have stopped electric utilities from burning gas in existing plants after January 1, 1990.

The anticipation of gas curtailment was an important reason our new coal and



nuclear-fueled plants had been planned. Before 1973 gas supplied almost 100% of our fuel needs.

But even with the ban repealed, gas is becoming too expensive to use except when coal or nuclear fuels are not available. Since 1973, our unit cost of gas has gone up 14-fold. The future rate of increase is expected to be well above the inflation rate, particularly with deregulation. Because of the high cost, we will minimize gas use.

Recent changes in the federal tax laws are favorable to utility stockholders. One change permits participants in qualified dividend reinvestment plans to exclude up to \$750 a year in dividends from taxable income. Couples who file joint returns can exclude up to \$1,500. The company believes that its plan is qualified.

About 61% of the common stock dividend in 1981 represented a return of capital and can be excluded by stockholders from income in determining 1981 income taxes. The cost basis of the stock will have to be reduced by a corresponding amount. We cannot predict to what extent, if any, dividends paid in the future will receive similar tax treatment.

What of our future?

Since the 1973 OPEC embargo it has become increasingly difficult and expensive to plan and develop energy facilities. Record high interest rates have added to the cost. Rate relief has trailed increased costs by months and even years.

For stockholders, these problems have meant lower earnings, often largely made up of required accounting credits, not cash from operations. Our stock price declined as more shares were issued to finance plants and other facilities.

While these problems have not ended they are being resolved. Our only major construction now is scheduled to be completed in 1984. We have no plans for new power plants after that time. While we will need significant financing in the next several years and while completion of new facilities will require rate increases, our plans are designed to minimize both.

One way to deal with these needs is to improve operating efficiency through renewed marketing. Promoting equipment like the efficient electric heat pump increases the potential for operating profitably, and minimizing rate increases while encouraging energy conservation.

Our goal is to continue to offer reasonable, sound earnings to people whose savings are invested in the company. This means providing quality service to customers at the lowest rates consistent with the full cost of providing service.

Change affected our board in 1981 as two valued and long-time directors retired. Gordon W. Evans, former chairman of the board, president and chief executive officer, became an advisory director, the first elected to this position. He had served as an active director since 1947.

Martin K. Eby, a director since 1957 and formerly chairman of the board of Martin K. Eby Construction Company, Inc., also retired.

Added to the board in 1981 were Robert T. Crain, a Fort Scott developer and realtor, and Frank J. Becker, board chairman for the Becker Corporation and president of the First National Bank & Trust Co. in El Dorado. We will miss the valuable contributions of our retired directors. Both new directors will, however, continue the tradition of wise counsel and leadership board members historically have provided.

We understand fully that a company such as ours is successful because of the unique contributions of many, including stockholders, other investors, directors, officers, and employees. To all of you we express our thanks. Your questions and comments are always welcome and helpful.



Fiebach



Cadman

Ralph P. Fiebach, Chairman of the Board

Wilson K. Cadman, President

Left: Even though the weak national economy curtailed new home and apartment construction, KG&E added 4,429 new customers in 1981, an increase of nearly 2%. Total served at year end was 233,421.

February 23, 1982

Financial Results

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Results generally were good in 1981.

Net income increased nearly \$14 million or 26% over 1980, totaling \$66 million.

For the 26th time in as many years the common stock dividend rate was increased. Effective with the final quarter, the annual rate became \$2.12 compared with \$2.04 at the end of 1980.

While the average number of outstanding common stock shares increased 28% during the year, earnings per share were \$2.85, just under the record of \$2.97 earned in 1980. The allowance for funds used during construction amounted to \$3.23 a share in 1981 compared with \$2.67 in 1980.

Kilowatthour sales in 1981 to customers we serve directly were 7.3 billion, down 3% from 1980 when weather was far more severe. The number of cooling degree days, a measure of how much electricity might be needed for air conditioning, was 25% less in 1981 than in 1980, the second hottest summer of record.

Total sales were 7.5 billion kilowatthours, down almost 5% from 1980. This was in part because of milder weather and partly because sales to other utilities were down 41%. This drop in sales to other utilities resulted when use of increasingly expensive natural gas pushed unit costs of power available for resale higher than power offered by other utilities with more coal and nuclear generation. Production from our coal plants,

which produce electricity for less than gas units because of the lower-cost fuel, were used as much as possible to meet needs of customers served directly.

Operating revenues for 1981 were \$313.1 million, an increase of \$19.3 million or 7% over 1980.

A \$48.9 million annual rate increase granted December 31 made permanent a \$13.9 million annual interim increase granted in June 1980.

A \$1.3 million annual increase in wholesale rates became effective in January, subject to refund.

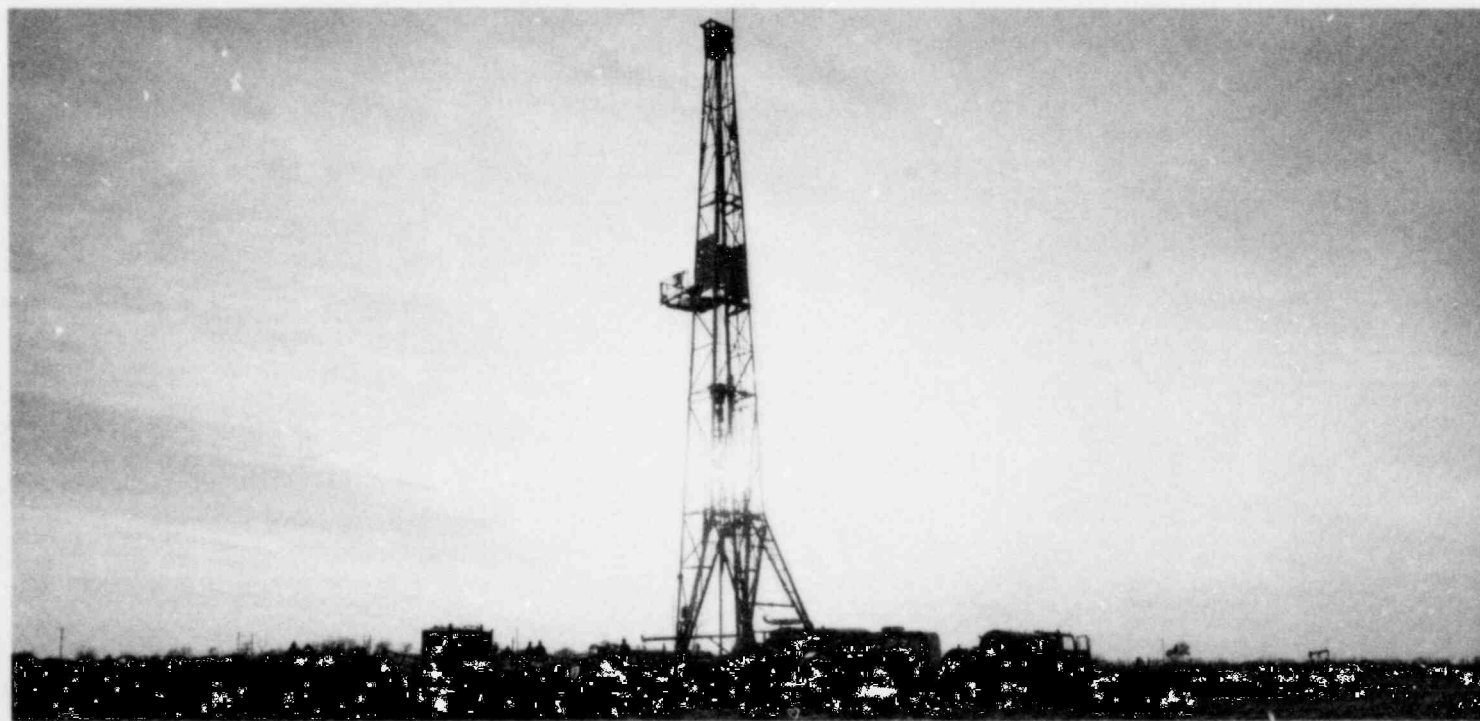
Residential revenues in 1981 were \$98.5 million, down less than 1% from 1980. Industrial revenues increased 13% to \$105.6 million. Commercial revenues were up 10% to \$73 million.

Electricity sold to other utilities produced revenues of \$3 million compared with \$6.1 million in 1980. Revenues from municipal systems and cooperatives were up 17% in 1981 over the previous year to \$29 million.

Kilowatthour sales to residential customers were down 10% from 1980, mostly as a result of the mild summer weather. Commercial sales were essentially unchanged from 1980. Industrial sales increased in 1981 more than 1%.

With inflation continuing at a high rate, operating expenses increased 8% to \$250.6 million.

Over 81% of the increase in operating



expenses — \$15.2 million of the total \$18.7 million — was because of higher cost of fuel and purchased power. Fuel and purchased power continued to be the largest expense item. Fuel and purchased power together accounted for 56% of operating expenses.

The unit price of fuel increased 15% over 1980. This increase resulted in a total fuel cost increase of 11% even though net generation was down almost 6% from the previous year because of the milder weather.

Taxes charged to operations in 1981 amounted to \$21.6 million compared with \$26.1 million in 1980. Use of investment tax credits was primarily responsible for this decrease.

Maintenance costs were up in 1981 almost 11% from a year earlier to \$27.2 million. Wages and employee benefits charged to operations increased 11% from 1980 and amounted to \$24.7 million.

Several innovations in over-all operations were used to increase revenues and decrease operating expenses.

Approximately 60,000 bills were delivered by KG&E employees each month at significant savings over the cost of sending them through the U.S. mail. At today's postage rates, the annual savings amounted to \$36,000.

In addition, advertising is included in a small publication inserted with the monthly bills in the Wichita metropolitan area. These revenues also help offset billing costs.



These techniques are only two illustrations of how the company seeks to hold down expenses at a time when the general cost of doing business is continually rising.

KG&E's Diversified Industrial Revenues

(Thousands of Dollars)

	1981	1980	% Increase over 1980
ENERGY PRODUCTION (31% of total)			
Petroleum Refining	\$ 20,691	\$16,612	24.6
Petroleum and Gas	6,500	5,303	22.6
Pipeline Pumping	4,835	5,051	(4.3)
Coal Mining	892	720	23.9
Subtotal	32,918	27,686	18.9
NATURAL RESOURCE (29% of total)			
Chemical	20,414	17,634	15.8
Sand, Stone, Clay and Cement	8,041	7,469	7.7
Plastics	2,786	2,347	18.7
Subtotal	31,241	27,450	13.8
MANUFACTURING (25% of total)			
Aircraft	13,689	11,472	19.3
Machinery	7,878	6,813	15.6
Metal Fabricating	3,884	3,468	12.0
Other			
Manufacturing	1,760	1,715	2.6
Subtotal	27,211	23,468	15.9
AGRICULTURAL, FOOD AND KINDRED PRODUCTS (10% of total)			
Grain Mill Products	3,669	3,448	6.4
Prepared Foods	2,768	2,679	3.3
Meat Products	3,300	2,986	10.5
Dairy Products	551	486	13.4
Subtotal	10,288	9,599	7.2
SERVICE RELATED INDUSTRIES (5% of total)			
Subtotal	5,536	5,051	9.6
TOTAL (Note)	\$107,194	\$93,254	14.9

Note: 1981 and 1980 exclude \$(1,572,000) and \$245,000 fuel adjustment clause revenues, respectively.

Left: Reliance on farming, industry and minerals has provided strength for the economy of KG&E's service area. Oil drilling in 1981 in Kansas was up more than 30% from 1980, with oil production up more than 6%.

Right: A test program of burning natural gas in company vehicles will determine if this alternative fuel is cheaper.

Recent years have seen a dramatic change in how utilities plan.

Now more than ever an electric utility must be able to match its capacity for producing electricity with customer demands.

For decades, new plants and other facilities needed to increase the power supply also lowered unit costs. Not now. Even though new plants still promise to hold down future cost increases, they cause an immediate need for rate increases and create financial hardship for utilities. Therefore, much effort is aimed at managing growth and reducing the need for new facilities.

Since the late 1960s KG&E's plans for new power plants have been based on using coal and nuclear fuel to reduce dependence on natural gas.

In the late '60s our gas suppliers told us a shortage of gas would develop. Time bore out the accuracy of those forecasts. In some cold months in the early 1970s, natural gas was so restricted it could meet as little as 25% of our needs. This meant we burned large quantities of oil. Before 1973 nearly 100% of our generating capability was gas-fired with oil the back-up fuel. As gas supplies grew scarce, prices started to steadily increase.

By 1978 Congress became so alarmed by the shrinking gas supply it virtually banned using natural gas in most large utility boilers after January 1, 1990.

The jump in oil prices and problems of dependence on foreign sources are well known.

Fortunately, the need for that natural gas ban has eased. This is true in part because higher prices have permitted producers to develop more expensive gas reserves. So, late in 1981 Congress repealed the 1990 deadline for phasing out use of gas in existing plants. With the ban lifted we can continue to use as needed existing gas-fueled equipment beyond the end of this decade.

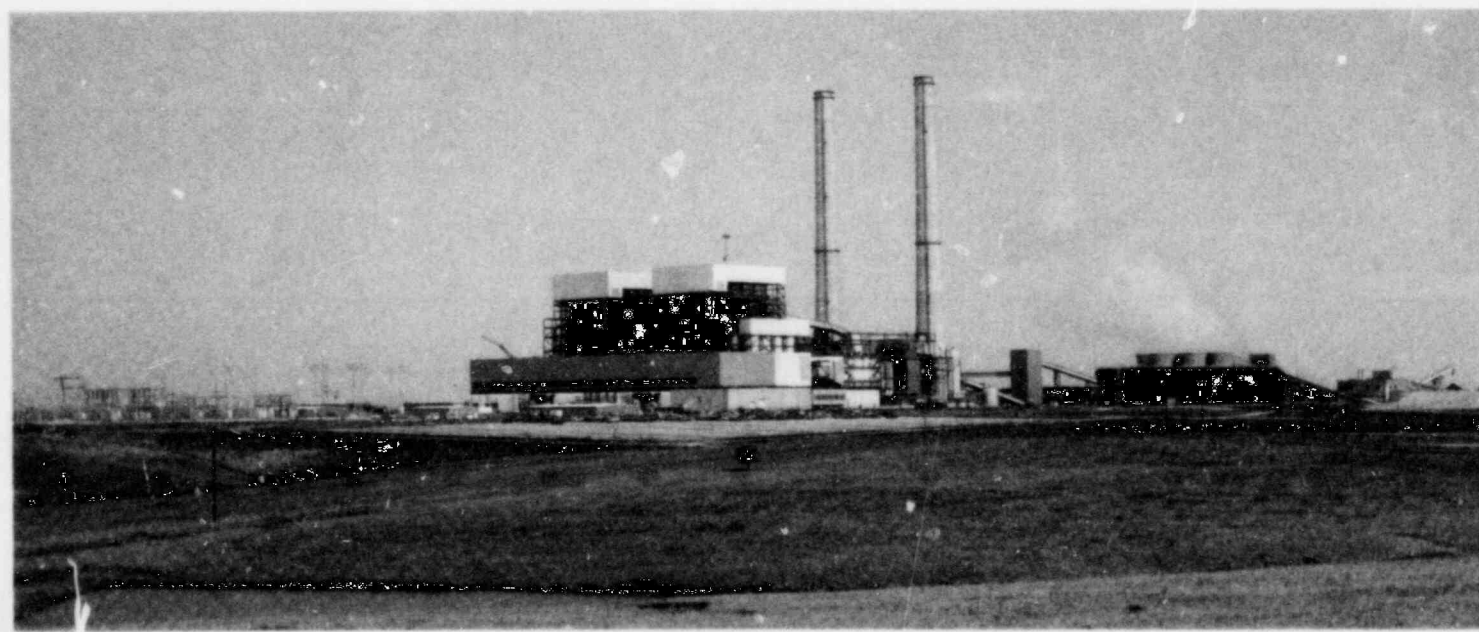
Rising prices are, however, making gas economically unattractive. In 1973 we paid 20¢ per million Btu for natural gas. At the end of 1981, we were paying \$2.37 per million Btu for intrastate gas and \$2.91 for interstate gas.

This 14-fold increase in gas prices in eight years is the single most important reason our customers pay more for electricity. Fuel costs were a small 8% of the retail price of electricity as recently as the early 1970s. In 1981 fuel costs took 41% of every customer dollar.

As a power plant fuel, coal is much cheaper than gas. The average price of coal delivered to La Cygne Station and Jeffrey Energy Center is about \$1 per million Btu, less than half the price of gas. Even with more invested in these coal plants than in our gas-fueled units, coal plants save money for customers because of the lower fuel cost.

Some growth in the peak use of electricity also has continued to contribute to the need for new plants. For the five years 1976 through 1981 our peak load and energy sales both grew at an annual compound rate of about 4% a year.

In 1981, the summer peak of 1,681,100 kilowatts was about 3% less than in 1980. But in



the summer of 1980 the peak had jumped 17% over the previous year.

The primary reason for the up and down condition was the summer weather. In 1980 temperatures soared, making the summer the second hottest of record in our service area. But in 1981 there were 25% fewer cooling degree days than in 1980, more like a normal summer. Cooling degree days measure how much air conditioning — and ultimately electricity — is required to meet customers' needs in hot weather.

In 1982 the summer peak should drop again because of aggressive load management and because of a difference in service to cooperatives and municipal customers. In the past cooperative and municipal customer usage has been part of our peak load responsibility. This is no longer true as these systems now have responsibility for their own power supplies.

New studies show growth in our peak load through the rest of this decade will average under 3% yearly. This low growth will be due in part to increased efforts to manage growth and in part through conservation efforts of our customers. During the past 10 years, the average growth rate has exceeded 5% yearly. The lower growth will reduce construction needs in the remainder of the 1980s.

After the sale of the 20% interest in Jeffrey Energy Center Unit 3 and given the indefinite delay of Jeffrey Unit 4, the only major construction project in progress will be Wolf Creek Generating Station planned for operation in 1984.

Fuel costs at this nuclear-fueled plant are expected to be even lower than fuel costs at coal-fired plants.

Of Wolf Creek's 1,150 megawatts of electrical capacity, KG&E owns 540.5 megawatts or 47%, although it's possible 51.8 megawatts of this may be sold to Kansas Municipal Energy Agency in which event our participation will be 42.5%. Kansas City Power & Light Company also

currently owns 47% of Wolf Creek and Kansas Electric Power Cooperative, Inc. has a 6% interest.

At the end of 1981 Wolf Creek was about three-quarters complete. Application for an operating license was filed with the Nuclear Regulatory Commission in 1980. Proceedings with the various review groups and committees involved in licensing are on schedule.

Cost of Wolf Creek is estimated at \$1.9 billion. The 1980 estimate was \$1.7 billion. The 1976 estimate made just before construction began was \$1 billion.

Several factors have increased the price of the plant. According to a 1980 study by Cresap, McCormick and Paget, Inc., an internationally known consulting firm, much of the increase results from changes in government policies. Inflation, new requirements growing out of the Three Mile Island accident and cancellation of three other standardized units which were at one time sharing engineering costs with Wolf Creek are among other reasons for the increase.

Total funds used for construction in 1981 amounted to \$127 million. Cash construction expenditures in 1982 are budgeted at \$160 million. For 1982 through 1986 cash construction spending is expected to be approximately half a billion dollars. This includes \$356 million as KG&E's share of Wolf Creek. The remainder is for lines, substations and other transmission and distribution facilities.

We expect existing power plants and those under construction to provide much of the electricity used in this area into the next century. And, just as we are continually reviewing forecasts of future power needs, so are we continually searching for improvements in operations. This centers in a broad based research program.

The Electric Power Research Institute is the major research arm for the electric utility industry and for KG&E. The Kansas Corporation Commission allows a small surcharge on customer bills to cover research costs.

EPRI now manages 1,200 projects representing an investment of more than \$1.3 billion over five years. Some key projects of special interest to KG&E include research on generation, including fuel cells, wind and solar systems; fuels research; improving the understanding of environmental and health effects of producing and transmitting electricity; improving transmission and distribution; and energy conservation and management.

Left: Since 1972 KG&E has added four coal-fired generating units including Jeffrey Energy Center Units 1 and 2 shown here. Coal is a much cheaper fuel than natural gas, costing about half as much on a unit basis. Using lower-cost fuel in generating plants helps save money for customers.

Construction spending continued at a brisk pace in 1981. New outside financing amounted to \$229 million.

In 1982, outside financing is expected to produce \$111 million toward the year's \$160 million cash construction budget. The first financing involved the public sale of 3 million shares of common stock in February at \$15.25. Later financing will depend upon cash needs and market conditions.

Financing completed in 1981 included:

- \$20 million through a two-year bankers acceptance facility completed in February to finance our fossil fuel stock.
- \$30 million of \$15.50 serial preferred stock issued publicly in March. The issue carries a sinking fund of \$6 million annually beginning in 1987.
- \$27.4 million raised by selling 2 million shares of common stock publicly at \$14.30 per share in April.
- \$30 million of 14 $\frac{7}{8}$ %, 10-year first mortgage bonds issued in June. Repayment at the rate of \$6 million annually begins in 1987.
- \$28 million through a four year commercial paper revolving credit financing in July which allows us to issue A1-P1 commercial paper.
- A \$10 million 18% 5-year promissory note issued in September and repayable without penalty at any time after June 1982.
- \$25 million of 16%, 15-year first mortgage

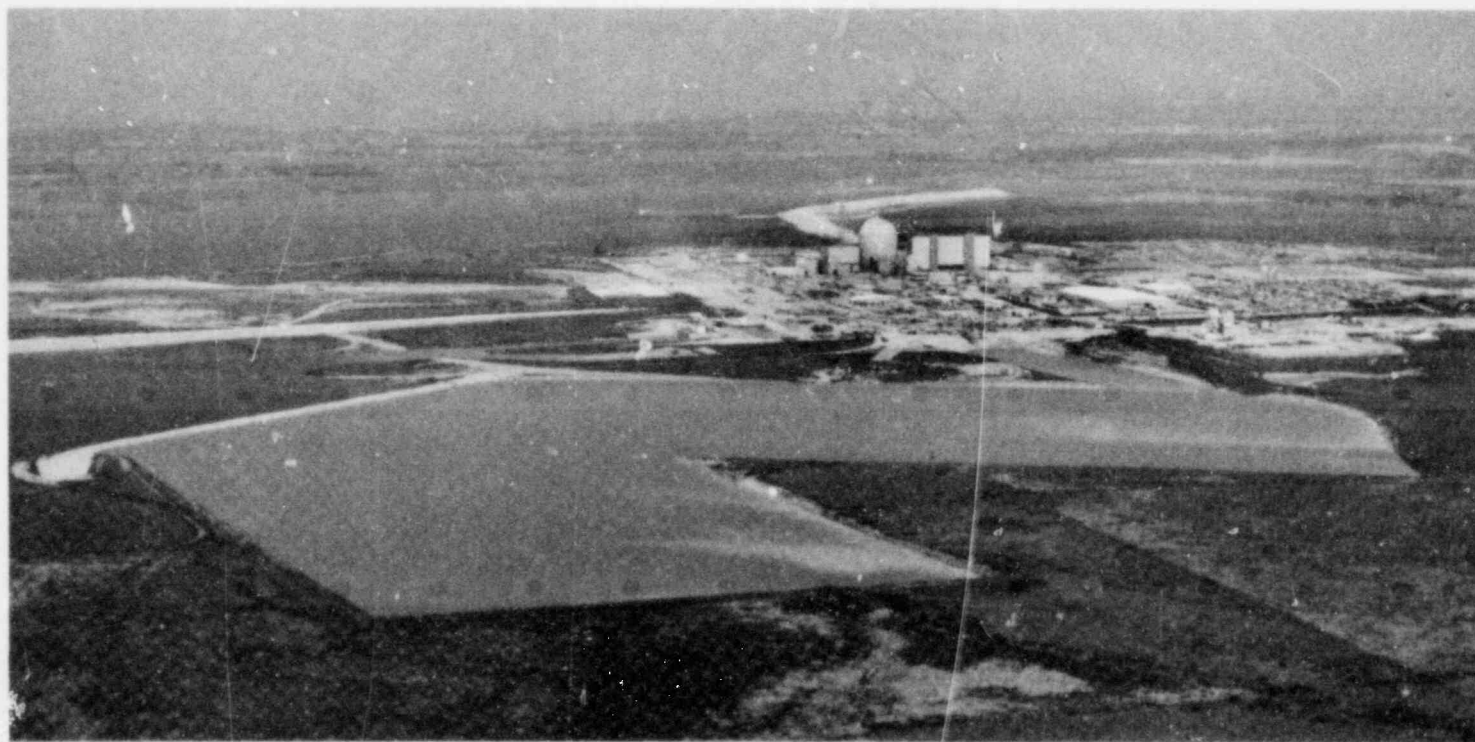
bonds issued privately in December. Repayment at the rate of \$2.3 million annually begins in 1986.

- \$8.6 million received during the year for common stock issued through the company's dividend reinvestment and employee stock plans.
- Draw down in December of the second \$50 million under our \$100 million five year bank loan.

In December, \$56.4 million of the company's \$100 million revolving bank loan was used to repay KEPCo for advances it made toward the cost of Wolf Creek when it planned to purchase a 17% interest in the plant. That loan with nine domestic and seven foreign banks was renewed December 31, 1981, under improved terms. The company can now borrow up to \$100 million on a revolving basis with repayment at any time. But any amount outstanding December 31, 1983, becomes a three-year term loan. Interest costs are based on the lower of prime, certificates of deposit or London interbank offered rates (LIBOR). Repayment can be made at any time during the life of the loan at no penalty.

Two other steps were taken in 1981 to reduce the cost of capital.

In July a letter of credit was arranged with a group of foreign and domestic banks to back the company's commercial paper up to \$30 million. This improved the paper's rating from A3-P3 to



A1-P1, lowering the cost and assuring access to the market.

In November the board of directors approved establishing an off-shore subsidiary. This will permit us to secure Eurodollar loans from foreign sources when economic and expedient to do so.

A 1981 change in federal tax laws makes participation in the company's Dividend Reinvestment Plan even more attractive. Participants can defer on federal income taxes up to \$750 a year — or up to \$1,500 in the case of joint returns — when utility dividends are reinvested automatically in newly issued common stock. The company believes its plan qualifies under the Economic Recovery Tax Act of 1981.

Dividends on stock are reinvested for participants each quarter in newly issued common stock at 95% of market price. Participants also may invest up to \$5,000 more each quarter at 100% of market price. The company pays all costs of these transactions.

Details of the plan can be obtained by writing:

W. B. Walker, Secretary
Kansas Gas and Electric Company
P. O. Box 208
Wichita, KS 67201

Since the reinvestment plan was begun in 1977, more than 1 million shares have been purchased. This has produced \$17 million in new capital. The amount reinvested by plan participants has increased each year.

The number of employees taking part in the Employee Stock Purchase Plan also continues to increase. In 1979 when the plan was started 173 employees were enrolled. There were 355 participating at the end of 1981. Employees can buy newly issued stock at 95% of market price.

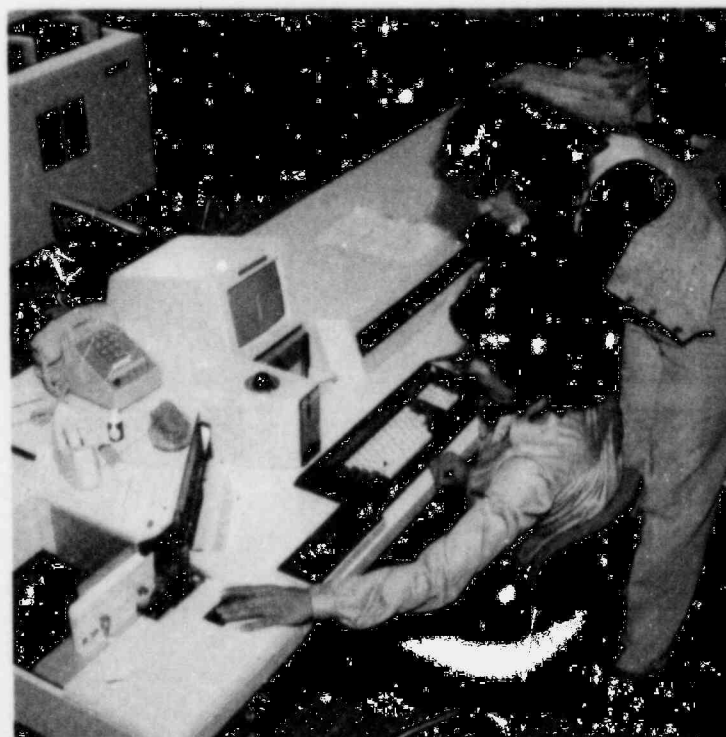
The number of stockholders continues to increase. During 1981 there were 3,242 stockholders added, bringing the total to 51,350. Of these, 5,032 hold preferred stock. Stockholders live in all of the 50 states and in

several foreign countries. No common stockholder owns as much as 1% of the common stock, and the average common holding is 420 shares.

About 61% of the common stock dividend in 1981 represented a return of capital and can be excluded by stockholders from income in determining 1981 income taxes. The cost basis of the stock will have to be reduced by a corresponding amount. The company cannot predict to what extent, if any, dividends paid in the future will receive similar tax treatment.

Left: Wolf Creek Generating Station, 1,150 megawatt nuclear fueled plant, is scheduled for operation in 1984. Water in the 5,000 acre cooling reservoir has reached the level required for plant operations.

Right: Special processing equipment speeds flow of cash received and assures accuracy in recording customer payments.



Within the past decade the economics of the electric utility industry have changed dramatically.

Growth in peak use of electricity now often means higher costs for customers and difficulties for the utility and its owners. Less than 10 years ago an increase in peak demand signalled lower per unit power costs made possible by the efficient new plants built to provide the added power — plants that in the case of KG&E used natural gas, then cheap and plentiful, as fuel.

Even today use of electricity at the right times can make a utility more efficient. This benefits customers by holding rates down and stockholders by providing a better return. To achieve balanced demand calls for aggressive load management and use of marketing tools traditionally helpful to utilities.

In 1981 KG&E took a significant step in the direction of managing load to achieve economic efficiency with a new rate to encourage use of radio controlled switches on central air conditioning units. These controls will help reduce growth in the summer peak and reduce the need for new plants. This same rate encourages use of heat pumps and add-on heat pumps, both of which use electricity in the fall, winter and spring as well as in the peak summer months. This combination of "shaving" summer peak and

increasing winter load will improve our overall efficiency and economics of operation.

Like many other utilities in or near the Sun Belt, KG&E has had a summer peak since air conditioning became popular early in the 1950s. Our customers' peak demand is much greater in the summer than at other times. Much of the costly equipment installed to meet summer peaks is idle during milder months.

Two years of tests by the company show controlling the cycling time of customer air conditioning compressors can reduce peak demand. During hot weather, radio signals sent by the company turn off one-fourth of participating customer units for about eight minutes. Then another signal turns off another group as the first group returns to service.

Ample cooling still is provided but all air conditioners are not on at the same time. About one kilowatt of demand is shaved for each residential unit under utility control. Demand reduction is even greater for commercial and industrial equipment.

The new load management rate lowers participating residential customer winter electric bills by an average of \$50 a year on the basis of a ½ cent per kilowatthour reduction for each kWh in excess of 500 kWh monthly during the nine off-peak months.

Qualifying customers pay the cost of the switch and of installation. Installation cost averages about \$35 and the cost of the switch adds \$1 a month to bills.

The new rate applies to existing residential customers with electric heating or to new customers who have heat pumps.

Commercial and industrial customers also qualify for a discounted rate.

With air conditioning control we plan to reduce peak growth by some 100,000 kilowatts by the 1990s. This would save an estimated investment of \$65 million for additional peaking generating capacity.

Another program should also help reduce future peak growth. Kansas utilities in 1982 will begin an energy efficiency auditing program



Left: KG&E technical services representative field tests a radio controlled switch installed on an air conditioner. Regulating cycling of air conditioning units by these switches is a key element in load management.

Right: Electrical safety is an important part of consumer education programs. This new unit demonstrates dramatically principles of electrical safety. Center is a neon "person" glowing to show that an electrical shock is being received because of a safety rule violation.

known as ACT or Audit for Conservation Today. These home audits will be made by trained utility inspectors at a cost to customers of \$5.

ACT will help customers conserve by showing how insulation, caulking and other measures will save energy as well as money.

KG&E is also helping consumers cope with today's higher living costs in several other ways.

Nearly 21% of residential customers now take part in the average billing plan. This permits customers to pay about the same amount each month whether usage is high or low. When a customer knows just how much to expect as a bill for service each month, money can be budgeted for that expense.

The company also helped establish an area Energy Emergency Task Force to combat problems resulting from extremely hot or cold weather. This group coordinates financial and public education efforts to help people without adequate heating or cooling or are unable to pay the cost of utility service.

Our third-party notification program assists customers who may be elderly, ill, away from home or who have difficulty with the English language. Customers with these special needs designate a third party, often a minister, family member or friend, to receive copies of any important notices we send, including bills. In addition, many company forms now are printed in Vietnamese and Spanish.

Another company program identifies

customers who rely on life support equipment like iron lungs. This plan gives special attention to restoring service if it is interrupted.

Education programs for students as well as adults remain an important part of services for customers. A new electrical safety program has been introduced in elementary schools.

Even though the nation's weak economy in 1981 curtailed home and apartment construction, KG&E added 4,429 customers in 1981, an increase of nearly 2%, bringing the total served to 233,421.

Average annual use of electricity by residential customers declined. It was 10,708 kilowatthours in abnormally warm 1980, dropping to 9,433 kilowatthours in more-nearly normal 1981.

According to survey information provided by the Kansas Corporation Commission, the cost of electricity used by the company's residential customers last year remained well below the national average, and the lowest in Kansas compared with the other major companies. A year-end rate increase will have little impact on the relative position of our rates compared to other utilities.



The company was granted a \$48.9 million annual retail rate increase December 31. This followed a request for \$77.6 million made eight months earlier. Both figures include a \$13.9 million annual interim increase in effect since June 1980 which was made permanent by the year-end order.

There were several important regulatory milestones in the rate order:

- KG&E became the first Kansas company to receive credit for construction work in progress under terms of a 1978 state law. The law permits the Kansas Corporation Commission to include in the rate base the value of CWIP for projects to be completed within a year of the test year. In this instance, the KCC allowed \$8 million of the \$25 million requested for CWIP.

- Likewise, we were the first company to receive credit for investments in facilities designed to enhance conservation. Another recent state law permits the KCC to increase the rate of return by two percentage points on property used by a utility to conserve energy or make use of renewable energy resources.

- Normalized accounting was restored for the income tax applicable to allowance for funds used during construction.

The new rates allow the company an opportunity to earn a return of 16.15% on common equity and 10.97% on rate base.

The Federal Energy Regulatory Commission granted in 1981 a \$1.3 million a year wholesale rate increase affecting mostly

municipal electric systems. However, this request, based on 1978 expenses, is still not fully resolved by FERC. Also, the FERC has not yet acted on a \$3.6 million increase filed in February 1980.

There is no time limit on cases before federal regulators. The Kansas Corporation Commission is required by state law to resolve cases within eight months of filing.

Another major regulatory entity is the Nuclear Regulatory Commission which now has before it the company's request for an operating license for Wolf Creek Generating Station. Hearing dates have not yet been set. This operating license must be obtained before fuel can be loaded and operations begun. Hearings are expected sometime in 1982. Licensing of Wolf Creek Station is moving ahead, aided in part by some streamlining done by the NRC.

Most basic regulations impacting upon electric utilities seek to represent the best interests of customers. Many regulations are intended to improve our environment or to prevent its deterioration. The impact of these regulations on utilities, their customers and other organizations is often expensive. For example, establishing a new laboratory to monitor discharges and to test for PCBs and other potential pollutants, and construction of water holding basins at four older generating stations cost \$5 million.

KG&E's largest single regulatory cost, apart from the cost of regulation relating to the nuclear-fueled Wolf Creek Generating Station under construction, is associated with a wet scrubber at La Cygne Generating Station. La Cygne is coal fired. The scrubber helps clean plant emissions, especially removing sulfur dioxide resulting from burning high sulfur content coal mined in the immediate vicinity of the plant. The scrubber cost nearly \$55 million to construct and requires more than 50 employees to operate. Annual operating cost of this one environmental protection device is \$25 million.

Any analysis of reasons for increasing electric service prices must take into account the significant influence of growing regulatory costs.



Left: Water holding basins have been constructed at the company's four natural gas generating stations to meet new regulations governing discharges from these units.

Right: KG&E line employees work on energized electric lines protected by insulated gloves and sleeves. Use of this technique is increasing.

In 1981 one of the worst summer storms in history struck part of the company's service area. Through it, KG&E employees again demonstrated their effectiveness, efficiency and skill.

The August storm destroyed more than 150 transmission and distribution structures, downing 12 miles of company lines. Yet, KG&E employees with the aid of other utilities and contractors, rebuilt the damaged lines in only two-thirds the time expected, minimizing the inconvenience of being without service to customers in the area.

Many employee groups made significant contributions to the company's success during the year. The availability and reliability average of company operated generating units continued to exceed the average for the industry. Maintenance employees approved creating an additional shift so the group will be capable of working on larger generating units in the future.

Seventeen employees received cash awards totaling \$3,568 for suggestions submitted under the Employee Cost Reduction Plan.

A number of changes continued to be made in various employee benefit programs. An employee stock ownership plan made possible by federal income tax law was adopted effective January 1, 1980.

In addition, dental insurance was added to the package of employee benefits effective December 1. Employees received a 9.5% general wage increase effective September 27.

Employees at Ripley Generating Station continued one of the nation's longest safety records. There has not been a lost-time accident at that plant since it became operational in 1933. Another employee group, General Meters, observed its 51st successive injury-free year.

A major staffing project in progress for several years has been recruitment of experienced workers for Wolf Creek Generating Station to be completed in 1984. Permanent work force will total about 300. Already more than 200 of the permanent force is on the job, including more than 30 plant operators who must hold special certification from the Nuclear Regulatory Commission.

In December *Forbes* magazine highlighted one of the problems of the nuclear power industry — a shortage of trained operators for the new plants that will come on line in the next few years. Wolf Creek was mentioned as the example of a plant where owners were looking ahead. The article pointed out that KG&E had already recruited for Wolf Creek a highly qualified management and operating staff.

Wolf Creek personnel are being trained through a variety of means, including a program of academic training being provided by Kansas State University and Emporia State University.

Another factor important to the orderly staffing of Wolf Creek has been the availability of qualified personnel for transfer from other KG&E work groups.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Major trends and events affecting the company during 1979-81 are presented here with factors expected to have a major impact on future operations.

Regulatory Developments

In September 1979, the company was granted a \$17.3 million, or 9%, annual rate increase by the Kansas Corporation Commission (KCC). The Order provided for rates of return of 13.93% on common equity and 9.36% on rate base, and for flow-through accounting treatment of the income tax applicable to allowance for funds used during construction (AFC). Effective June 1, 1980, the KCC granted, subject to refund, an interim rate increase of \$13.9 million, or 6%, annually, based upon the same common equity return and principles adopted in the September 1979 Order.

On May 11, 1981, the company requested a permanent retail rate increase of \$77.6 million, including the \$13.9 million interim increase. The request provided for rates of return of 17.25% on common equity and 11.93% on rate base.

Effective January 15, 1982, the KCC authorized the company to increase rates by \$48.9 million, or 19.6%, annually. This included and made permanent the interim increase. The order provided for rates of return of 16.15% on common equity and 10.97% on rate base. It also permitted normalizing for weather and the income tax applicable to AFC. The AFC change, which increases income tax expense, and, therefore, revenue requirements, will improve cash flow. A requested \$17 million attrition allowance was denied. Construction work in progress (CWIP) totaling \$8 million was included in the rate base for construction projects completed after the test year. This is the first time in recent history that the KCC has permitted any CWIP in rate base. Likewise, the company is the first to receive credit for investment in facilities designed to enhance conservation. A new law permits an increase in rate of return by two percentage points on property used for energy conservation. The capital structure at the end of the 1980 test period was adjusted to reflect debt and preferred financings completed in the first quarter of 1981.

Sale of Properties

In October 1980, the KCC authorized Kansas Electric Power Cooperative, Inc. (KEPCo) to purchase 8.5% of Wolf Creek Generating Station from the company, but imposed conditions unacceptable to both parties. A Kansas law was enacted removing certain of the objectionable conditions provided the sale would be completed by the end of 1981.

On December 31, 1981, the company completed the sale of a 3% interest in Wolf Creek to KEPCo for \$37 million. The reduction from 8.5% was primarily due to KEPCo encountering federal budget restraints and losing two of its member cooperatives. Since KEPCo had

made advance payments based upon an 8.5% interest, the sale of a 3% interest required the company to repay \$56.4 million of these advances and related interest. These funds were borrowed under a bank loan agreement.

The company is negotiating the sale of up to 90 MW of capacity, including up to 52 MW, 4.5%, of Wolf Creek and up to 38 MW, about 2%, of the existing La Cygne Station, to Kansas Municipal Energy Agency (KMEA), an organization of municipal utilities. Negotiations are expected to be completed this year.

In May 1981, the Board of Directors authorized negotiations for the sale of the company's 20% interest in Jeffrey Energy Center (JEC) Unit 3, scheduled for operation in 1983. The sale is expected to be completed by mid 1982. This sale was authorized because of revised forecasts which indicate that the growth of electric use will slow and because of the projected increase in the availability of natural gas for existing plants. The planned reduction of construction is desirable because of financial constraints imposed by the company's credit ratings. For similar reasons, JEC Unit 4, which was scheduled for operation in 1986, has been delayed indefinitely by all partners in the project.

Construction

Since 1967, the company has been converting its baseload generation from gas and oil to coal and nuclear. Four coal units with 959 MW of capacity have been added to the system since 1972. During 1979-81 the company spent \$427 million for construction, excluding AFC. Assuming the sale of the 20% interest in JEC Unit 3 and given the indefinite delay of JEC Unit 4, Wolf Creek is the only generating unit included in the 1982-86 construction program. Wolf Creek is a 1,150 MW unit of which 489 MW represents the company's 42.5% anticipated final interest. On this basis, total company investment of \$815 million is expected, or \$1,667 per kilowatt. Through December 1981, based on the company's present 47% interest, \$529 million, exclusive of nuclear fuel cost, had been spent.

Estimated construction and nuclear fuel expenditures for 1982-86 are \$686 million including \$160 million of AFC. Of this, about \$356 million will be invested in Wolf Creek and \$50 million in nuclear fuel. Construction and nuclear fuel expenditures, net of AFC, for the years 1982-86 are expected to be, in millions, \$160, \$135, \$78, \$85, and \$68, respectively.

These amounts assume annual cost escalation rates ranging from 7% to 11%, and an AFC net rate of 9.36%. They also reflect the sale of the company's 20% interest in JEC Unit 3 and the sale of 4.5% of Wolf Creek to KMEA during 1982. Should these sales not be completed, the 1982-86 totals would increase by \$27 million in the case of JEC Unit 3 and \$20 million in the case of Wolf Creek. The company's construction program is under continuous review and is subject to revision, in light of load forecasts, financial and economic conditions and other factors.

Allowance for Funds Used During Construction

The company is not permitted to earn a return on CWIP earlier than one year prior to the date on which it is scheduled to be in service. At the end of 1981, CWIP approximately equalled net plant in service.

AFC represents interest and dividends on debt and equity attributable to the company's investment in CWIP. AFC is included on the statement of income, in part, as other income, and in part, as a deduction from interest expenses. AFC is added to the cost of CWIP on the balance sheet. When the company is permitted to earn on CWIP, its cost, including AFC, is included in the company's depreciable plant in service account. This practice, which increases reported net income and earnings available for common stock during the construction period, does not produce higher revenues or additional cash flow until rates are increased to provide a return on the investment and to compensate for depreciation.

The annual dollar amount of AFC varies with the level of construction and financing costs. Primarily because of Wolf Creek, AFC has increased from \$22.8 million in 1979 to \$38.9 million in 1980, and to \$60.1 million in 1981. As a percent of earnings available for common stock, these amounts approximated 109% in 1979, 90% in 1980 and 113% in 1981. Wolf Creek AFC in 1981 was \$56.7 million and will continue to increase until the unit is placed in the plant in service account.

Financing Requirements, Liquidity and Capital Resources

The company's practice is to initially finance construction with short-term borrowings. Because of the small amount of cash generated internally, virtually all construction requirements have been raised from outside sources. In the three years 1979-81, outside financing totaled \$423 million. In addition, \$19 million was received from a supplier pursuant to the settlement of a fuel supply contract dispute.

The company's goal is to achieve a capital structure comprised of 40% common equity, 12% preferred stock and 48% long-term debt.

In 1982 \$111 million of permanent financing is planned along with a \$27 million increase in short-term borrowings. A similar amount of permanent financing is planned for 1983. On February 18, 1982, the company sold to the public 3 million shares of common stock at \$15.25 per share. Additional financing for 1982 and 1983 is expected to include both debt and equity, but the type, amounts and timing will depend upon cash requirements and market conditions.

The Federal Energy Regulatory Commission has authorized the company to borrow up to \$100 million on a short-term basis. The company has short-term credit arrangements for \$75 million.

The company has a \$100 million bank loan agreement maturing in 1986 of which \$50 million is presently outstanding. The company also has a four-year \$30 million commercial paper revolving credit financing maturing

in 1985 which is backed by a letter of credit from a group of foreign and domestic banks, and a \$25 million two-year bankers' acceptance facility which is secured by coal and fuel oil supplies. During March 1982 the company plans to extend the latter facility for an additional three years through February 1986.

The company's Mortgage and Deed of Trust contains an earnings test which restricts the issuance of additional bonds. Under this test, the company, based upon its net earnings for 1981, would be able to issue \$56 million of bonds at an assumed interest rate of 16%. As of December 31, 1981, the company had \$517 million of unfunded net property additions, which were sufficient to fund the issuance of \$362 million of additional bonds.

The company's Restated Articles of Incorporation contain no financial tests limiting the issuance of additional shares of preferred stock.

Results of Operations

During 1979-81 the following matters significantly impacted the company's operations.

Operating revenues increased 20% over the prior year in 1980 and 7% in 1981. The substantial increase in 1980 resulted from (i) an abnormally hot summer which saw general business kWh sales increase by 7%, including a 16% increase in residential sales, (ii) rate increases of 9% effective October 1979, and 6% effective June 1980, and (iii) an 8% increase in the cost of fuel which was recovered under the company's fuel adjustment clause. The increase in 1981, which resulted from the June 1980 rate increase and a 15% increase in fuel costs, was limited by normal summer weather which resulted in a 3% decline in general business kWh sales, including a 10% decline in residential kWh sales.

Operating income increased by 55% in 1980 due to the hot summer and rate increases; but, with the return of normal summer weather and continually increasing operating expenses, operating income was virtually unchanged in 1981.

Interest charges were up sharply in both 1980 and 1981 as a result of increased interest rates and increased indebtedness incurred to finance construction. Preferred dividends also increased substantially in 1981 due to the sale of a new series of preferred stock in March. These increases in fixed charges were more than offset by increases in AFC of \$16 million in 1980 and \$21 million in 1981.

As a result of the foregoing, earnings applicable to common stock increased by 106% in 1980 from the 1979 level which was depressed due to not obtaining rate relief until late in 1979, and by 23% in 1981. Earnings per share of common stock also reflect an increase in the number of average shares outstanding of 28% in both 1980 and 1981.

The impact of inflation and changing prices on the company's revenues and income is discussed in Note 13 of the Notes to Financial Statements.

Kansas Gas and Electric Company

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Statements of Income

For the Years Ended December 31

	1981	1980	1979
	(Thousands of Dollars)		
Operating Revenues (Note 2)	\$ 313,093	\$ 293,808	\$ 244,970
Operating Expenses:			
Fuel	127,748	115,221	103,274
Purchased power - net	11,860	9,233	8,535
Other operation	35,658	31,383	27,675
Maintenance	27,173	24,583	22,999
Depreciation	26,578	25,368	23,625
Taxes - other than income taxes	12,610	12,019	11,910
Income taxes (Note 9)	8,992	14,098	7,022
Total operating expenses	250,619	231,905	205,040
Operating Income	62,474	61,903	39,930
Other Income and Deductions:			
Allowance for other funds used during construction	28,574	20,353	13,358
Income taxes - net (Note 9)	(785)	(408)	(259)
Miscellaneous - net	1,527	772	479
Total other income and deductions	29,316	20,717	13,578
Income before Interest Charges	91,790	82,620	53,508
Interest Charges:			
Interest on long-term debt	42,942	39,582	31,726
Other interest	13,697	8,749	4,752
Amortization of debt premium, discount and expense - net	703	412	209
Allowance for borrowed funds used during construction (Note 2)	(31,527)	(18,518)	(12,399)
Total interest charges	25,815	30,225	24,288
Net Income	65,975	52,395	29,220
Preferred Stock Dividends	12,915	9,187	8,217
Earnings Applicable to Common Stock	\$ 53,060	\$ 43,208	\$ 21,003
Average Shares of Common Stock Outstanding	18,631,479	14,562,746	11,400,316
Earnings Per Average Share of Common Stock	\$ 2.85	\$ 2.97	\$ 1.84

Statements of Retained Earnings

For the Years Ended December 31

	1981	1980	1979
	(Thousands of Dollars)		
Balance at Beginning of the Year	\$102,864	\$ 89,407	\$ 91,015
Net income	65,975	52,395	29,220
Total	168,839	141,802	120,235
Deduct:			
Cash Dividends:			
Preferred Stock (at prescribed rates of each series - Note 5)	12,915	9,187	8,217
Common Stock - \$2.06 in 1981; \$1.965 in 1980; \$1.91 in 1979	38,595	29,618	22,272
Capital Stock Expense	380	133	339
Total	51,890	38,938	30,828
Balance at End of the Year	\$116,949	\$102,864	\$ 89,407

See notes to financial statements.

Balance Sheets December 31, 1981 and 1980

ASSETS

Electric Plant at Original Cost: (Note 6)

	1981 (Thousands of Dollars)	1980
Plant in service	\$ 830,206	\$ 811,416
Less accumulated provision for depreciation	221,708	200,570
Net plant in service	608,498	610,846
Construction work in progress	601,340	455,114
Nuclear fuel	12,534	(1,474)
Total electric plant - net	1,222,372	1,064,486
Other Property and Investments - at cost	173	173
Current Assets:		
Cash (Note 3)	2,487	2,199
Temporary cash investments	10,000	—
Special deposits	6,488	5,347
Accounts receivable - net	19,781	22,512
Fuel - at average cost	21,996	25,451
Materials and supplies - at average cost	9,188	9,600
Prepayments and other current assets	905	847
Total current assets	70,845	65,956
Deferred Debits:		
Unamortized debt expense	5,216	5,287
Other	1,889	1,981
Total deferred debits	7,105	7,268
Total	\$1,300,495	\$1,137,883

LIABILITIES

Capitalization:

Common stock, without par value, authorized 35,000,000 shares; outstanding 19,507,086 and 16,890,057 shares, respectively (Note 4)	\$ 274,411	\$ 238,403
Retained earnings (Note 6)	116,949	102,864
Common stock equity	391,360	341,267
Preferred stock, including premium - redemption not required (Note 5)	63,993	63,993
Preferred stock - redemption required (Note 5)	82,000	53,000
Long-term debt (Note 6)	607,256	451,608
Total capitalization	1,144,609	909,868

Current Liabilities:

Short-term borrowings (Note 3)	4,775	25,650
Securities due within one year	12,000	—
Accounts payable	26,918	20,008
Customers' deposits	1,798	1,513
Taxes accrued	5,334	9,816
Interest accrued	11,650	10,962
Dividends declared	3,419	2,279
Other current liabilities	198	259
Total current liabilities	66,092	70,487

Deferred Credits:

Accumulated deferred income taxes	61,350	53,650
Accumulated deferred investment tax credit	25,819	28,859
Customers' advances for construction	1,752	1,647
Advance - Kansas Electric Power Cooperative, Inc. (KEPCo) (Note 7)	—	72,712
Other	415	347
Total deferred credits	89,326	157,215
Reserve for Injuries and Damages	458	313

Commitments and Contingent Liabilities (Note 10)

Total	\$1,300,495	\$1,137,883
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See notes to financial statements.

Statements of Source of Funds for Construction

For the Years Ended December 31

Source of Funds	1981	1980	1979
	(Thousands of Dollars)		
From Operations:			
Net income	\$ 65,975	\$ 52,395	\$ 29,220
Non-cash charges (credits) to net income:			
Depreciation	26,578	25,368	23,625
Deferred income tax and investment tax credit	6,053	9,394	9,639
Allowance for funds used during construction (AFC)	(60,101)	(38,871)	(25,757)
AFC credits on KEPCo advance	9,821	6,319	1,893
Other - net	703	412	209
Funds from operations	49,029	55,017	38,829
Dividends	51,510	38,805	30,489
Funds retained (used) in business	(2,481)	16,212	8,340
From Financing:			
Long-term debt proceeds	167,709	90,129	12,464
Securities redemption	(1,046)	(26,024)	(3,000)
Preferred stock	30,000	—	25,000
Common stock	36,008	54,006	33,061
Increase (decrease) in short-term borrowings	(20,875)	(16,150)	41,800
Funds from financing	211,796	101,961	109,325
Securities due within one year	(12,000)	—	(1,000)
Advance - KEPCo (Note 7)	5,000	19,500	45,000
Payments to CFC for KEPCo's credit or credited to sales price:			
Advances	(69,500)	—	—
Accrued interest	(24,028)	—	—
Net	(88,528)	19,500	45,000
(Increase) decrease in working capital (other than short-term borrowings)	11,590	25	(588)
Other - net	6,672	852	14
Total Funds Used for Construction (excludes AFC)	\$127,049	\$138,550	\$161,091

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

System of Accounts — The Company is subject to the jurisdiction of the State Corporation Commission of Kansas (Kansas Commission) and the Federal Energy Regulatory Commission (FERC) and maintains its accounts in accordance with the uniform system of accounts prescribed by these regulatory commissions. As a regulated utility, the accounting principles applied by the Company differ in certain respects from those applied by non-regulated business.

Electric Plant — The Company performs a portion of its construction work and capitalizes general overhead and engineering expenses related to construction projects. Maintenance and repairs of property and replacements and renewals of items determined to be less than units of property are charged to operating expenses. The cost of units of property replaced or renewed, plus removal costs, less salvage, is charged to the accumulated provision for depreciation, and the cost of related replacements and renewals is added to electric plant.

Betterments are charged to electric plant.

Nuclear Fuel — The cost of nuclear fuel in process of refinement, conversion, enrichment, and fabrication is recorded at original cost. The account has been credited for the proceeds received to-date from a settlement agreement with Westinghouse Corporation.

Allowance for Funds Used During Construction — Allowance for funds used during construction (AFC), a non-cash item, is defined in the applicable regulatory system of accounts as the net cost during the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. This allowance has been added to all major construction projects with semi-annual compounding at an annual 12% gross rate for October through December 1981, 11.2% gross rate for January through September 1981, 10.6% gross rate for 1980, 10% gross rate for August through December 1979, and 9.8% (7.6% net of income taxes) for January through July 1979.

Depreciation — For accounting purposes, the Company is depreciating the original cost of property by the straight-line method over its estimated remaining service life, as determined by independent engineers. Depreciation provision stated as a percent of original cost of depreciable property was 3.4% for 1981, 1980 and 1979.

Income Taxes — In the calculation of income taxes, the Company (i) uses liberalized depreciation for additions since 1954, the ADR system for additions for 1973 through 1980 and ACRS beginning in 1981, and (ii) utilizes other tax benefits as permitted by the Internal Revenue Code, consisting principally of differences in straight-line depreciation and the deduction currently for interest and taxes capitalized for book purposes. Deferred taxes are provided for those items included in (i) above as approved by the Kansas Commission. Effective August 1979 in connection with an Order from the Kansas Commission, AFC is recorded in Electric Plant on a gross basis. Under the gross basis the income tax effect on the borrowed funds portion of the AFC is capitalized for financial reporting purposes. For January through July 1979 AFC was recorded in Electric Plant on a net basis. However, an amount equivalent to the income tax effect on the borrowed funds portion of the AFC was charged to deferred taxes under operating expenses and credited to AFC.

The Company defers and amortizes the investment tax credit over the life of the applicable property, in accordance with an order of the Kansas Commission.

Revenues — Operating revenues and accounts receivable include amounts actually billed for services rendered and fuel adjustment clause variances. The Company does not accrue an estimate for unbilled revenue.

Fuel Adjustment Clause Revenue — The Company's rate schedules include a fuel adjustment clause which permits current recoveries of fuel costs on an estimated basis. Effective May 1979, the Company started recording variances resulting from the fuel adjustment clause. These variances are cleared two months after they are recorded as an adjustment through the fuel adjustment clause.

2. Rate Matters:

On December 31, 1981, the Company received an Order from the Kansas Corporation Commission authorizing the Company to increase retail rates by \$48.9 million on an annualized basis. The amount granted represents an increase in annual retail revenues of about 19.61%. The Order makes permanent and includes an interim retail rate increase of \$13.9 million, effective June 1, 1980. The Order authorizes a return of 16.15% on common equity. It also permits the Company, for rate-making purposes, to change from flow-through (Company has recorded allowance for funds used during construction (AFC) since August 1979 on a flow-through method) to normalized accounting treatment for the income tax effect on the borrowed funds

portion of the AFC. This change, which for rate-making purposes increases income tax expense and, therefore, revenue requirements, will enhance cash flow.

3. Short-Term Borrowings:

At December 31, 1981 and 1980, the Company had established lines-of-credit with various banks totaling \$75 million and \$64 million, respectively, for which the banks are compensated with either a fee or compensating balance. Compensating balances are not legally restricted. The Company draws upon the bank lines-of-credit and sells commercial paper to obtain short-term construction funds. Average interest costs are based upon daily average outstanding loan balances. The maximum amount outstanding during 1981 and 1980 was \$54,100,000 on February 26, 1981 and \$46,350,000 on January 18, 1980, respectively. The weighted average interest rate, including fees, was 19.9% for 1981 and 18.1% for 1980.

4. Common Stock:

Changes in Common Stock were as follows:

	Shares		Amount
	Authorized	Outstanding	(Thousands of Dollars)
Balance January 1, 1979	14,000,000	11,054,503	\$151,336
Additional shares sold		2,000,000	29,880
Employee Stock Purchase Plan and Dividend Reinvestment Plan		185,774	3,181
Additional shares authorized	6,000,000		
Balance December 31, 1979	20,000,000	13,240,277	184,397
Additional shares sold		3,250,000	48,232
Employee Stock Purchase Plan and Dividend Reinvestment Plan		399,780	5,774
Balance December 31, 1980	20,000,000	16,890,057	238,403
Additional shares sold		2,000,000	27,440
Employee Stock Purchase Plan, Employee Stock Ownership Plan, and Dividend Reinvestment Plan		617,029	8,568
Additional shares authorized	15,000,000		
Balance December 31, 1981	35,000,000	19,507,086	\$274,411

5. Cumulative Preferred Stock:

Redemption not required except at the Company's option.

	December 31,		Call Price
	1981	1980	
	(Thousands of Dollars)		(At December 31, 1981)
4½%, \$100 par value; authorized and outstanding, 82,011 shares	\$ 8,201	\$ 8,201	\$110.00
Serial, \$100 par value; authorized, 255,000 shares:			
4.28% series, outstanding 45,000 shares	4,500	4,500	101.00
4.32% series, outstanding 60,000 shares	6,000	6,000	101.64
7.44% series, outstanding 150,000 shares	15,000	15,000	106.81
Serial, without par value (see Note):			
\$8.66 series, outstanding 300,000 shares	30,000	30,000	106.50
Premium on Preferred Stock	292	292	
Total	\$63,993	\$63,993	
Serial, without par value (See Note):			
\$2.42 series, outstanding 680,000 and 720,000 shares, respectively	\$17,000	\$18,000	\$ 27.42
\$8.125 series, outstanding 100,000 shares	10,000	10,000	107.50
\$8.00 series, outstanding 150,000 shares	15,000	15,000	none
\$8.25 series, outstanding 100,000 shares	10,000	10,000	106.42
\$15.50 series, outstanding 300,000 shares	30,000	—	115.50
Total	\$82,000	\$53,000	

Note: Serial Preferred Stock without par value, 6,000,000 shares authorized.

The Company issued Serial Preferred Stock, cumulative, without par value, in the amount of 100,000 shares of the \$8.25 series and 150,000 shares of the \$8.00 series

in July 1979 and 300,000 shares of the \$15.50 Series in March 1981.

The following preferred stock may not be redeemed prior to the date shown through the use, directly or indirectly, of the proceeds of indebtedness or of the issuance of stock of equal or prior rank, at an effective cost to the Company of less than the amount shown (except in the case of the \$2.42 and \$8.25 Serial Preferred Stock for mandatory or optional sinking fund purposes):

Series	Date	Effective Cost
\$2.42	March 1, 1985	9.68 %
\$15.50	March 1, 1986	15.50 %
\$8.125	April 1, 1988	8.125 %
\$8.25	July 1, 1989	8.25 %

The mandatory sinking fund obligation for the \$2.42 Series is designed to retire that series by April 1, 1999, and provides for the redemption of a minimum of 40,000 shares per year and a maximum of 80,000 shares per year, commencing April 1, 1980. Stock has been purchased and recorded in the accounts for the 1982 sinking fund requirement.

The mandatory sinking fund obligation for the \$8.125 Series is designed to retire that series by April 1, 2018, and provides for the redemption of a minimum of 3,333 shares per year and a maximum of 6,666 shares per year, commencing April 1, 1989.

The Company is obligated to redeem all 150,000 shares of the \$8.00 Series on March 28, 1985.

The mandatory sinking fund obligation for the \$8.25 Series, is designed to retire that series by July 1, 1989, provides for redemption of 20,000 shares on July 1, 1986, 50,000 shares on July 1, 1987, 15,000 shares on July 1, 1988, and 15,000 shares on July 1, 1989.

The mandatory sinking fund obligation for the \$15.50 Series, is designed to retire that series by April 1, 1991, and provides for redemption of 60,000 shares per year commencing April 1, 1987.

All of these redemptions will be made at stated value plus unpaid accumulated dividends.

6. Long-Term Debt:

	December 31,	
	1981	1980
	(Thousands of Dollars)	
First Mortgage Bonds:		
3¾% series, due 1982	\$ 12,000	\$ 12,000
3¾% series, due 1983	10,000	10,000
6½% series, due 1983	15,000	15,000
7¼% series, due 1983	25,500	25,500
3¾% series, due 1985	10,000	10,000
3¾% series, due 1986	7,000	7,000
16¼% series, due 1987	30,000	30,000
4¾% series, due 1991	7,000	7,000
14¾% series, due 1987-1991	30,000	—

5½% series, due 1996	16,000	16,000
16% series, due 1996	25,000	—
8½% series, due 2000	35,000	35,000
8½% series, due 2001	35,000	35,000
7¾% series, due 2002	25,000	25,000
6.8% series, due 2004	14,500	14,500
9¾% series, due 2005	40,000	40,000
8¾% series, due 2006	25,000	25,000
8½% series, due 2007	25,000	25,000
6% series, due 2007	10,000	10,000
5¾% series, due 2007	21,940	21,940
8¾% series, due 2008	30,000	30,000
Less: certain securities held by Trustee	(3,069)	(7,778)
Total	445,871	386,162

Guarantee of pollution control revenue bonds - 5¾% series, due 2003	15,000	15,000
Term bank loan	100,000	50,000
Credit agreement	28,000	—
Promissory note - 18% due 1986	10,000	—
Bankers acceptance agreements	20,000	—
Other	373	419
Unamortized premium and discount - net	12	27
Subtotal	619,256	451,608
Less: securities due within one year	12,000	—
Total	\$607,256	\$451,608

Required redemptions for 1982 through 1986 amount to \$12,000,000; \$70,500,000; none; \$38,000,000 and \$119,300,000; respectively.

First Mortgage Bonds may be issued in additional amounts, limited only by property, earnings and other provisions of the Company's Mortgage dated as of April 1, 1940, as supplemented (Mortgage). Electric plant is subject to the lien of the Mortgage except for transportation equipment.

The Mortgage contains provisions which, under certain conditions, restrict distributions on or acquisitions of the Company's Common Stock. At December 31, 1981 and 1980, none of the retained earnings were restricted thereby.

The 6½% and 7¼% series due 1983, 6.8% series due 2004, and 5¾% and 6% series due 2007 are pledged as collateral for Pollution Control Revenue Bonds issued by Kansas municipalities. The proceeds of the Bonds, in excess of certified construction costs, are held by the Trustee and invested in interest-bearing securities pending application to the cost of a pollution control project being constructed at Jeffrey Energy Center and Wolf Creek.

The term bank loan for up to \$100 million is comprised of a revolving credit until December 31, 1983 followed by a three-year term loan with right of prepayment at any time without penalty. The weighted average

interest rate, including fees, was 21.2% for 1981 and 15.6% for 1980.

The credit agreement which expires July 8, 1988, enables the Company to sell up to \$30 million in promissory notes supported by a bank letter of credit and obtain certain revolving credit loans. The weight average interest rate, including fees, was 16.8% for 1981.

The bankers acceptance agreement, which expires February 28, 1983, enables the Company to borrow up to \$25 million by collateralizing its coal and fuel oil inventories at rates based upon the bank's discount and acceptance charge. The weighted average interest rate, including fees, was 16.7%.

7. Advance - Kansas Electric Power Cooperative Inc. (KEPCo):

During the period 1981 to 1979 the Company received advances from KEPCo aggregating \$69,500,000 relative to a proposed sale of an interest in the Wolf Creek Generating Station. Such advances were also credited with interest of \$24,028,000.

On December 31, 1981 the Company and Kansas City Power and Light Company each completed the sale of a three percent (3%) interest in their jointly owned Wolf Creek Generating Station to KEPCo reducing the companies' ownership to 47% each. The Company's sales price was \$37,098,000 which was approximately the Company's book cost plus an amount for estimated tax on the difference between book basis and income tax basis. Since KEPCo had advanced payments to the Company based on an earlier proposed 8½% interest, the completion of the sale of a 3% interest required the Company to repay KEPCo \$56,430,000 of these advances and related interest. Funds to repay these advances were borrowed under a term bank loan agreement (see Note 6).

8. Retirement Plan:

The Company has a non-contributory retirement plan for all employees. The total cost for the years 1981 through 1979 was \$2,563,000, \$2,139,000 and \$2,129,000, respectively, which includes amortization of prior service costs over a ten-year period. Of these amounts, \$1,102,000, \$817,000 and \$643,000, respectively, were included in plant construction costs. The Company's policy is to fund pension costs accrued currently. The actuarial present values, using an assumed 6½% rate of return, of accumulated plan benefits for vested employees and nonvested employees at November 30, 1981 and 1980 were \$34,003,000 and \$719,000, and \$32,000,000 and \$500,000, respectively. Market value of net assets available for benefits at November 30, 1981 was \$30,710,000 and \$28,468,000, respectively.

9. Income Taxes:

The effective Federal income tax rates differ from the amounts computed by applying the Federal statutory rates to income before income taxes. The reasons with related percentage effects are:

	1981	1980	1979
Statutory Federal income tax rate	46%	46%	46%
Add (Deduct) income tax effects of timing differences:			
Allowances for funds used during construction	(31)	(23)	(24)
Additional straight line depreciation	2	1	3
Taxes and pensions capitalized	(3)	(3)	(4)
Amortization of investment tax credit	(1)	(2)	(3)
Other items - net (no one item makes up more than 2%)	(2)	—	(1)
Effective Federal income tax rate	11%	19%	17%

Income taxes as recorded in the Statements of Income are:

	1981	1980	1979
	(Thousands of Dollars)		
Operating expenses:			
Currently payable -			
Federal	\$2,639	\$ 3,642	\$(2,296)
State	300	1,062	(321)
Deferred - Federal	6,653	6,313	6,495
- State	1,047	1,019	1,048
Deferred - Tax effect of AFC - borrowed	—	—	2,857
Investment tax credit - net	(1,647)	2,062	(761)
Total	8,992	14,098	7,022
Other income and deductions:			
Currently payable -			
Federal	678	352	224
State	107	56	35
Total	785	408	259
Income tax expense - net	\$9,777	\$14,506	\$ 7,281

At December 31, 1981, the Company has unused investment tax credits of approximately \$60 million available for carryforward to future years. If not utilized, the remaining carryforward credit will expire in the years 1993 through 1996 in the amounts of \$12 million, \$18 million, \$15 million, and \$15 million, respectively.

10. Construction Budget:

The construction budget (exclusive of nuclear fuel) for 1982, as approved by the Board of Directors in November 1981, is \$229,545,000 assuming 47% ownership of the Wolf Creek project. Estimated construction expenditures for 1982 were adjusted in January 1982 to \$212,628,000 which represents changing from gross to net AFC as permitted in the KCC rate order (see Note 2). The company has substantial purchase commitments in connection with its construction program.

11. Quarterly Financial Statistics (Unaudited):

(Thousands except per share)

	1981			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Operating Revenues	\$73,286	\$96,455	\$74,894	\$68,458
Operating Income	14,429	21,505	12,333	14,207
Net Income	17,066	22,316	13,174	13,419
Earnings				
Applicable to Common Stock	13,647	18,891	9,743	10,779
Average Shares Outstanding	19,480	19,256	18,791	16,998
Earnings Per Share	\$ 0.70	\$ 0.98	\$ 0.52	\$ 0.63

	1980			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Operating Revenues	\$66,703	\$100,642	\$61,583	\$64,880
Operating Income	12,262	25,041	12,319	12,281
Net Income	10,317	22,817	9,079	10,182
Earnings				
Applicable to Common Stock	8,039	20,514	6,776	7,879
Average Shares Outstanding	15,716	15,027	14,184	13,324
Earnings Per Share	\$ 0.51	\$ 1.37	\$ 0.48	\$ 0.59

These quarterly amounts are unaudited, but in the opinion of the Company, include all adjustments, consisting only of normal recurring accruals, necessary to a fair presentation thereof.

Market Prices and Dividend Rates of Common Stock:

	High/Low Market Price				Dividends	
Common-NYSE	1981	1980	1981	1980	1981	1980
First Quarter	15 ⁷ / ₈	13 ⁷ / ₈	16 ³ / ₄	13	\$.51	\$.485
Second Quarter	15 ¹ / ₄	14	16 ³ / ₄	13 ⁷ / ₈	.51	.485
Third Quarter	15 ³ / ₄	13 ³ / ₄	16 ³ / ₄	14 ⁷ / ₈	.51	.485
Fourth Quarter	16 ¹ / ₂	13 ³ / ₄	15 ⁵ / ₈	13 ¹ / ₄	.53	.51

The Company had 46,318 common stockholders as of December 10, 1981.

12. Joint Ownership of Utility Plants (Unaudited):

Company's Ownership at December 31, 1981						
	In-Service Dates (a)	Invest- ment in Millions	Costs Through 1981	Accum. Provision for Depr.	(Mw)	Per- cent
La Cygne	June					
#1 (b)	1973	\$108		\$36	370	50
La Cygne	May					
#2(b)	1977	117		21	315	50
Jeffrey	July					
#1(c)	1978	68		8	138	20
Jeffrey	May					
#2(c)	1980	54		3	136	20
Jeffrey						
#3(c)	1983	84(e)	\$ 56		136	20
Wolf Creek						
#1(d)	1984	901(e)	529		541	47

(a) The Company's needs are monitored and its forecasts revised as needed to minimize construction. Completion dates are changed to meet changing needs. Amounts are estimated for in-service dates after 1981.

(b) Jointly owned with Kansas City Power & Light Company.

(c) Jointly owned with The Kansas Power and Light Company, Central Telephone and Utilities Corp. and Missouri Public Service Company.

(d) Jointly owned with Kansas City Power & Light Company and Kansas Electric Power Cooperative, Inc. (see Note 7).

(e) Estimated construction costs.

Amounts and capacity represent the Company's share and are financed by the Company. Operating expenses of plants in service are included in the operating expenses on the Statements of Income.

13. Supplementary Information to Disclose the Effects of Changing Prices - (Unaudited):

The estimates of the effect of inflation on the operation of the Company, as set forth below, were prepared on bases prescribed by the Financial Accounting Standards Board's (FASB) Statement No. 33, "Financial Reporting and Changing Prices." This statement requires adjustments to historical costs to estimate the effects that general inflation (Constant Dollar) and changes in specific prices (Current Cost) have had on the Company's results of operations. This data is not intended to serve as substitute for earnings reported on a historical cost basis. They do offer some perspective of the approximate effects of inflation rather than a precise measurement of these effects.

Estimated property, plant and equipment (plant), primarily consisting of plant in service and construction work in progress, was determined for constant dollars by applying the Consumer Price Index for all Urban Consumers (CPI-U) to the historical cost of plant. The current cost estimates were measured by applying the Handy-Whitman Index of Public Utility Construction Costs to each major class of plant. Current cost is an

estimate of the cost of currently replacing existing plant. The resulting adjusted data for plant under either of the above methods is not indicative of the Company's future capital requirements because the actual replacement of existing plant will take place over many years and is not likely to be a reproduction of presently existing plant.

The difference between current cost and the constant dollar data results from specific prices of plant increasing at a rate different than the rate of general inflation.

The accumulated provision for depreciation for constant dollars and current cost was developed by applying, for each major class of plant, the same percentage relationship that existed between gross plant and accumulated provision for depreciation on a historical basis to the respective adjusted plant data.

Depreciation expense for both methods was determined by applying the Company's depreciation rates to the respective indexed plant amounts.

The regulatory process limits the Company to the recovery of the historical cost of service in its rates. Therefore, any excess of the value of plant under constant dollars or current cost must be reduced to the net recoverable cost, which is historical cost. The amount of this excess that accrued as a result of inflation in the current year must be reduced to net recoverable cost.

The Company, by holding assets such as receivables, prepayments, and inventory, suffers a loss of purchasing power during periods of inflation because the amount of cash received in the future for these items will purchase less. Conversely, by holding monetary liabilities, primarily long-term debt, the Company benefits because the payment in the future will be made with nominal dollars having less purchasing power. The Company has significant amounts of long-term debt outstanding which will be paid back in dollars having less purchasing power and, therefore, for purposes of these calculations, has a net gain from holding monetary liabilities in excess of monetary assets.

As allowed by FASB Statement No. 33, items in the Income Statement, other than depreciation expense, were not adjusted. The cost of fuel used in electric production was not adjusted because the effect on earnings was not material due to the relatively short turnover period between the incurrence of these costs and their recovery through the fuel adjustment clause.

The regulatory process limits the amount of depreciation expense included in the Company's revenue allowance and limits utility plant in rate base to original cost. Such amounts produce cash flows which are inadequate to replace such property in the future or preserve the purchasing power of common equity capital previously invested. While this effect is partially mitigated by the benefit derived from holding long-term debt, the Company has a net purchasing power loss which is experienced by the common shareholder and can only be overcome as a result of adequate rate relief. However, the Company believes that it will be able to establish rates which will cover the increased costs of new plant when such costs are incurred.

SUPPLEMENTAL STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES

For the Year Ended December 31, 1981

	Conventional Historical Cost	Constant Dollar Average 1981 Dollars	Current Cost Average 1981 Dollars
		(Thousands of Dollars)	
Operating revenues	\$313,093	\$313,093	\$313,093
Fuel	127,748	127,748	127,748
Purchased power	11,860	11,860	11,860
Depreciation expense	26,578	55,072	61,135
Other operating and maintenance expense	75,441	75,441	75,441
Income tax expense - net	9,777	9,777	9,777
Interest expense - net	25,815	25,815	25,815
Other income and deductions - net	(30,101)	(30,101)	(30,101)
Subtotal	247,118	275,612	281,675
Income from operations (excluding reduction to net recoverable cost)	\$ 65,975	\$ 37,481	\$ 31,418
Increase in specific prices (current cost of property, plant and equipment held during the year*			\$154,046
Reduction to net recoverable cost		\$(70,969)	(52,494)
Effect of increase in general price level			(166,458)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			(64,906)
Gain from decline in purchasing power of net amounts owed		66,132	66,132
Net		\$ (4,837)	\$ 1,226
Net assets at year-end at net recoverable cost		\$378,709	\$378,709

*At December 31, 1981, current cost of utility plant net of accumulated depreciation was \$2,099,578,000, while historical cost or net cost recoverable through depreciation was \$1,222,372,000.

**FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA
ADJUSTED FOR EFFECTS OF CHANGING PRICES**

For The Years Ended December 31

	1981	1980	1979	1978	1977
	(In Thousands of Average 1981 Dollars)				
Constant dollar information					
Operating revenues	\$ 313,093	\$ 324,284	\$ 306,945	\$332,428	\$294,516
Income from Operations (excluding reduction to net recoverable cost)	\$ 37,481	\$ 33,345	\$ 14,815		
Income per Common Share (after dividend requirements on preferred and preference stock & excluding reduction to net recoverable cost)	\$ 1.32	\$ 1.59	\$.40		
Net Assets at Year-end at Net Recoverable Cost	\$ 378,709	\$ 359,757	\$ 324,420		
Current cost information					
Income from Operations (excluding reduction to net recoverable cost)	\$ 31,418	\$ 26,422	\$ 4,061		
Income per Common Share (after dividend requirements on preferred and preference stock)	\$ 0.99	\$ 1.11	\$ (0.55)		
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	\$ (64,906)	\$ (96,193)	\$ (98,080)		
Net Assets at Year-end at Net Recoverable Cost	\$ 378,709	\$ 359,757	\$ 324,420		
General Information					
Gain from decline in purchasing power of net amounts owed	\$ 66,132	\$ 88,774	\$ 89,401		
Cash dividends declared per common share ...	\$ 2.06	\$ 2.17	\$ 2.39	\$ 2.54	\$ 2.66
Market Price per Common Share at Year-end ..	\$ 14.875	\$ 16.14	\$ 19.11	\$ 25.27	\$ 30.39
Average Consumer Price Index	272.4	246.8	217.4	195.4	181.5

Auditors' Opinion

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

We have examined the balance sheets of Kansas Gas and Electric Company as of December 31, 1981 and 1980 and the related statements of income, retained earnings, and of source of funds for construction for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated January 30, 1981, our opinion was qualified as being subject to the effect on the 1980 financial statements of such adjustments, if any, as might have been required had the final determination by the State Corporation Commission of Kansas (Commission) relative to the collection of certain revenues subject to refund been known. As a result of a subsequent favorable Commission decision which, as discussed in Note 2, approved the collection of these revenues, we no longer qualify our opinion on the 1980 financial statements. Accordingly, our present opinion on the 1980 financial statements, as expressed herein, is different from that expressed in our previous report.

In our opinion, such financial statements present fairly the financial position of the Company at December 31, 1981 and 1980 and the results of its operations and the source of its funds for construction for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Kansas City, Missouri
January 26, 1982

Deloitte Haskins & Sells

Kansas Gas and Electric Company

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Comparative Electric Statements

	1981	1980	1979	Annual Compound Growth Rates	
				5 Year	10 Year
Sales in Kilowatthours (Thousands):					
Residential	1,954,501	2,171,529	1,870,597	3.2%	4.8%
Commercial	1,473,425	1,476,589	1,398,942	3.2	4.5
Industrial	2,858,071	2,815,921	2,777,807	4.0	4.7
Public street and highway lighting	64,656	64,217	63,385	1.3	2.7
Sales for resale - municipals and cooperatives	949,174	1,026,939	927,395	5.5	7.5
General business	7,299,827	7,555,195	7,038,126	3.8	5.0
Sales for resale - other electric utilities	168,532	284,055	534,925	11.5	(13.7)
Total kilowatthours sold	7,468,359	7,839,250	7,573,051	3.9	3.7
Customers at End of Year:					
Residential	209,343	205,265	200,024	2.3	2.3
Commercial	19,244	19,217	19,141	1.1	0.6
Industrial	4,149	3,923	3,696	5.5	6.0
Public street and highway lighting	580	485	450	9.2	13.3
Sales for resale - municipals and cooperatives	94	92	92	1.1	1.9
General business	233,410	228,982	223,403	2.2	2.2
Sales for resale - other electric utilities	11	10	10	1.9	3.2
Total electric customers	233,421	228,992	223,413	2.2	2.2
Residential:					
Average kilowatthour per customer	9,433	10,708	9,496	0.7	2.5
Average revenue per customer	\$475.48	\$489.34	\$376.76	13.2	12.5
Average revenue per kilowatthour	5.04¢	4.57¢	3.97¢	12.3	9.7
Kilowatthours Generated and Purchased (Thousands):					
Generated (net after station use)	7,489,687	7,958,094	7,554,258	5.0	3.2
Purchased	536,735	522,948	475,866	(7.7)	15.7
Total	8,026,422	8,481,042	8,030,124	3.7	3.7
Less: Sales for resale - other electric utilities	168,532	284,055	534,925	11.5	(13.7)
Net	7,857,890	8,196,987	7,495,199	3.6	4.9
Company use, line loss, etc.	558,063	641,792	457,073	1.6	4.0
Energy sold - general business	7,299,827	7,555,195	7,038,126	3.8	5.0
Average BTU per Net Kilowatthour Generated					
.....	11,152	10,912	10,998	0.6	0.6
Average Fuel Cost per Million BTU					
.....	\$1.53	\$1.33	\$1.23	17.9	20.4
Power Resources (Kilowatts)					
Available capacity	2,026,000	2,023,000	1,968,000	3.4	4.4
System peak	1,681,100	1,727,100	1,473,400	3.9	4.5
Reserve	344,900	295,900	494,600	0.8	3.8
Utility Plant at Original Cost (Thousands):					
Beginning of year	\$1,265,056	\$1,091,562	\$ 914,460	17.5	15.2
Capital expenditures	187,150	177,421	183,991	10.2	15.8
Retirements	8,126	3,927	6,889	26.0	14.8
End of year	1,444,080	1,265,056	1,091,562	16.4	15.3
Accumulated provision for depreciation	221,708	200,570	178,113	12.2	11.1
Net utility plant	\$1,222,372	\$1,064,486	\$ 913,449	17.3	16.3
Employees at Year-end	1,721	1,561	1,432	5.5	3.3

Comparative Financial Statistics

(Thousands)

Annual Compound

Growth Rates
5 Year 10 Year

	1981	1980	1979	5 Year	10 Year
Electric Operating Revenues:					
Residential	\$ 98,520	\$ 99,235	\$ 74,215	15.9%	15.1%
Commercial	72,992	66,642	55,990	15.2	14.6
Industrial	105,622	93,498	80,328	18.7	18.9
Public street and highway lighting	2,836	2,501	2,161	15.2	13.1
Sales for resale - municipals and cooperatives	28,994	24,786	20,184	21.6	23.8
General business	308,964	286,662	232,878	17.1	16.7
Sales for resale - other electric utilities ..	3,026	6,104	10,737	11.9	(4.6)
Total sales of electricity	311,990	292,766	243,615	17.1	16.0
Other	1,103	1,042	1,355	4.6	7.2
Total electric operating revenues	313,093	293,808	244,970	17.0	16.0
Operating Expenses:					
Fuel	127,748	115,221	103,274	25.8	24.8
Purchased power	11,860	9,233	8,535	4.6	24.0
Other operation	35,658	31,383	27,675	13.5	12.3
Maintenance	27,173	24,583	22,999	27.1	23.3
Depreciation	26,578	25,368	23,625	14.1	13.3
Taxes other than income taxes	12,610	12,019	11,910	6.7	3.5
Income taxes	8,992	14,098	7,022	(8.2)	1.0
Total operating expenses	250,619	231,905	205,040	17.1	16.5
Operating Income	62,474	61,903	39,930	16.6	14.2
Other Income and Deductions:					
AFC - other	28,574	20,353	13,358	—	—
Income taxes - net	(785)	(408)	(259)	—	—
Miscellaneous - net	1,527	772	479	57.4	43.2
Income Before Interest Charges	91,790	82,620	53,508	16.8	16.2
Interest Charges:					
Interest on long-term debt	42,942	39,582	31,726	20.2	19.0
Other interest	13,697	8,749	4,752	49.1	40.8
Amortization of debt premium, discount and expense - net	703	412	209	54.1	51.6
AFC - borrowed	(31,527)	(18,518)	(12,399)	—	—
Net Income	65,975	52,395	29,220	23.2	18.2
Preferred Stock Dividends	12,915	9,187	8,217	23.3	31.7
Earnings Applicable to Common Stock ..	\$ 53,060	\$ 43,208	\$ 21,003	23.1	16.4
Shares of Common Stock Outstanding (End of Year)	19,507	16,890	13,240	23.8	15.3
Earnings per Average Share of Common Stock	\$2.85	\$2.97	\$1.34	(0.2)	1.5
Cash Dividends Paid per Share on Common Stock	\$2.06	\$1.965	\$1.91	3.9	3.6
Capitalization: (Amount and Percent)					
Long-term debt (less current maturities)	\$ 607,256 53.0	\$451,608 49.6	\$386,519 49.7	18.2	15.8
Preferred stock including premium	145,993 12.8	116,993 12.9	117,993 15.1	11.7	22.6
Common equity:					
Common stock	274,411	238,403	184,397	32.6	24.1
Retained earnings	116,949	102,864	89,407	6.9	6.8
Total common equity	391,360 34.2	341,267 37.5	273,804 35.2	21.1	15.5
Total capitalization	\$1,144,609 100.0	\$909,868 100.0	\$778,316 100.0	18.1	16.4
Short-term Borrowings (End of Year)	\$ 4,775	\$ 25,650	\$ 41,800		
Embedded Interest Cost of Long-Term Debt	10.52%	9.62%	8.54%		

Directors

(and the year they were elected)

28



1.



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11.



12.



13.



14.



15.

1. Frank J. Becker (1981)

El Dorado, Chairman of the Board, Becker Corporation;
President, First National Bank & Trust Co.

2. Robert A. Brown (1953)

Arkansas City, Chairman of the Board,
The Home National Bank of Arkansas City

3. A. Dwight Button (1976)

Wichita, Chairman of the Board,
The Fourth National Bank and Trust Company, Wichita

4. Wilson K. Cadman (1978)

Wichita, President of the Company

5. C. T. Carter (1968)

Independence, Retired Vice President,
Pipeline Transportation, Atlantic Richfield Company

6. C. Q. Chandler (1974)

Wichita, Chairman of the Board and President,
First National Bank in Wichita

7. Robert T. Crain (1981)

Ft. Scott, Partner in Crain Realty Company

8. Ralph P. Fiebach (1967)

Wichita, Chairman of the Board of the Company

9. Ralph Foster (1970)

Wichita, Vice President - General Counsel of the
Company

10. Donald A. Johnston (1980)

Pittsburg, Executive Vice President, Vinylplex, Inc.

11. Terence J. Scanlon (1980)

Wichita, Investor and Developer

12. Marjorie I. Setter (1980)

Wichita, President, Setter and Associates, Inc.,
Advertising and Public Relations

13. Dwane L. Wallace (1953)

Wichita, Senior Consultant, Cessna Aircraft Company

14. Robert L. Williams (1968)

Wichita, Owner of Imperial Oil Company

15. Lyle E. Yost (1969)

Hesston, Chairman of the Board, Hesston Corporation

Advisory Director

G. W. Evans (1947)

Wichita, Consultant and Retired Chairman of the Board of the
Company

Officers

(including their ages and titles)

Ralph P. Fiebach, 64

Chairman of the Board

Wilson K. Cadman, 54

President

Dennis L. Evans, 47

Vice President - Customer and Community Services

Ralph Foster, 53

Vice President - General Counsel

Howard J. Hansen, 60

Vice President - Finance

Glenn L. Koester, 56

Vice President - Nuclear

Glen L. Montague, 62

Vice President - Administrative Services

Robert L. Rives, 48

Vice President - System Services

Bernard Ruddick, 58

Vice President - Engineering

W. B. Walker, 61

Vice President - Accounting and Secretary

R. E. Tate, 65

Treasurer

E. D. Prothro, 49

Controller and Assistant Secretary

Jack Skelton, 51

Assistant Secretary

J. F. Klassen, 52

Assistant Treasurer

William B. Moore, 29

Assistant Treasurer

Verna L. Ridgeway, 54

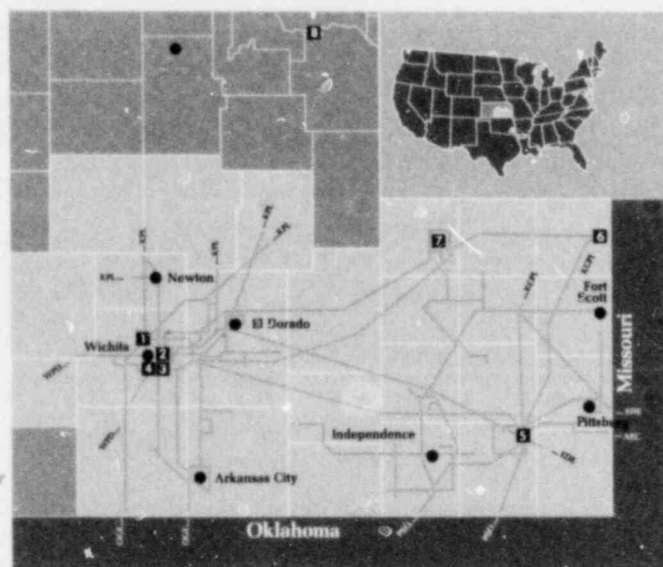
Assistant Vice President

Service Area

KG&E provides electric service to approximately 233,400 retail customers in southeast and south central Kansas including the Wichita metropolitan area.

Wholesale service is provided to 31 communities and to 8 rural electric cooperatives. The company owns no gas properties and has no gas operations.

The company has all appropriate franchises and certificates which are needed to permit it to provide service throughout the area.



Map Legend

- Division Headquarters Cities •
- Transmission Lines ———
- Transmission Lines — - - -
- Authorized

Interconnected Utilities

- Associated Electric Cooperative, Inc. — AEC
- The Empire District Electric Company — EDE
- Kansas City Power & Light Company — KCPL
- The Kansas Power and Light Company — KPL
- Oklahoma Gas and Electric Company — OGE
- Public Service Company of Oklahoma — PSO
- Western Power Division of Central Telephone & Utilities Corporation — WPD

Generating Stations and Capability

- 1 Gordon Evans Steam Electric Station, 506.6 MW
 - 2 Ripley Steam Electric Station, 88.3 MW
 - 3 Wichita Steam Electric Station, 22.8 MW
 - 4 Murray Gill Steam Electric Station, 330.6 MW
 - 5 Neosho Steam Electric Station, 68.2 MW
 - 6 La Cygne Steam Electric Station,* 685 MW
 - 7 Wolf Creek Generating Station,* 477 MW (under construction)
 - 8 Jeffrey Energy Center,* 274 MW
- *Jointly owned with other utilities
Capability stated is KG&E allocation.

Annual Meeting

The annual stockholders' meeting will be held at the General Office of the Company, Wichita, Kansas, May 26, 1982. Proxies for this meeting will be solicited by the management. A proxy statement will be mailed to stockholders about May 1, 1982.

This report is prepared primarily for the information of stockholders of the company and is not transmitted in connection with the sale of any securities or offer to buy any securities.

Fiscal Agents

Preferred Stock: Transfer Agent, First National Bank in Wichita; Registrar, The Fourth National Bank and Trust Company, Wichita.

Common Stock: Transfer Agents, First National Bank in Wichita and First National Bank of Chicago; Registrars, The Fourth National Bank and Trust Company, Wichita, and First National Bank of Chicago. Listed N.Y.S.E., ticker symbol, KGE.

Bonds: Trustee, Registrar and Paying Agent, Morgan Guaranty Trust Company of New York.

Form 10-K

The Company's Form 10-K is filed with the Securities and Exchange Commission and is available from that agency or from the Secretary of the Company, Box 208, Wichita, Kansas 67201.

Kansas Gas and Electric Company
P.O. Box 208
Wichita, Kansas 67201

*Address Correction Requested
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Wichita, KS

Wichitans welcome spring each year with The River Festival. A variety of activities appealing to all ages and varied interests are held. The kite flying contest on the river bank near city and county offices reflects the creativity displayed at this spring rite.



Kansas City Power & Light Company
1981 Annual Report



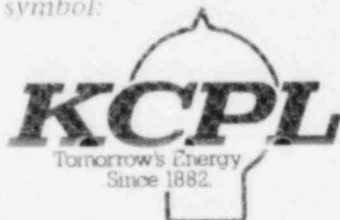


Corporate Offices:
1330 Baltimore Avenue
Kansas City, Missouri 64141
(816) 556-2200

On the Cover:

1982 marks the Centennial anniversary of central station electric service to the public in Kansas City. The cover painting depicts memorabilia from the early days... a dynamo, original ledgers, a worn photo of some of the first employees, and the corporate charter of Kawsmouth Electric Light Company, our ancestor which began serving customers on May 13, 1882. The incandescent lamp was available locally by 1886. An early ledger provided the information for the first full month's bill for service rendered to the Ford & Arnold drugstore, one of the original 13 customers.

"Tomorrow's Energy... Since 1882", is the theme selected in recognition of our 100th year of service and it has been incorporated in the Company's Centennial symbol:



1982 Annual Meeting of Shareholders

The 1982 Annual Meeting is scheduled for Tuesday, April 27, 1982, at 10:00 a.m., 4th floor of the Company's offices at 1330 Baltimore Avenue, Kansas City, Missouri. A notice of the meeting, proxy statement and form of proxy will be mailed to all shareholders of record as of the close of business on March 8, 1982, who will be the shareholders eligible to vote at the meeting.

Dividend Reinvestment and Stock Purchase Plan

The Company's Dividend Reinvestment and Stock Purchase Plan is available to all KCPL shareholders. Participants in the plan may reinvest dividends in new common shares discounted five percent from market price and/or invest up to \$1,000 quarterly in new common shares at market prices. Stock purchases under the plan are free of brokerage fees and commissions.

A provision of the Economic Recovery Tax Act of 1981 permits shareholders of a qualified electric utility to defer taxes on dividends of up to \$750 annually (\$1,500 for joint returns) which are reinvested in common stock. The Company believes that its Plan qualifies for tax deferred status and, under the Act, has designated the availability of its Plan for that purpose.

A prospectus, updated to include the effects of the new tax law, is available by writing to the Secretary of the Company.

Kansas City Power & Light Company 1981 Annual Report

1981 Highlights

- KCPLAN charts new direction through 2000
- Kilowatt-hour sales off 3.2%; record levels of revenue and earnings
- MPSC approves \$17.2 million increase; KCC finalizes interim rates in Kansas
- Kansas Electric Power Cooperative, Inc., purchases 6% of Wolf Creek; negotiations underway with Kansas Municipal Energy Agency
- Wolf Creek cost estimate escalates to \$1.9 billion
- Five-year construction projected at \$526.1 million

Operating Highlights

	1981	1980	Percent Increase (Decrease)
Electric Utility Data (000s)			
Electric Revenues	\$ 465,825	\$ 440,182	5.8%
Gross Additions to Plant	\$ 173,028	\$ 156,604	10.5%
Total Plant	\$ 1,302,999	\$ 1,287,913	1.2%
Construction Work in Progress	\$ 535,960	\$ 419,171	27.9%
Total Company Data			
Earnings for Common Stock (000s)	\$ 65,397	\$ 56,283	16.2%
Average Shares Outstanding	13,535,149	12,915,770	4.8%
Earnings Per Share	\$ 4.83	\$ 4.36	10.8%
Dividends Per Share	\$ 2.825	\$ 2.69	5.0%
Book Value Per Share (year end)	\$ 33.37	\$ 31.68	5.3%
Return on Year End Common Equity	14.2%	13.2%	7.6%

Selected Statistics

Kilowatt Hour Sales (000s)	8,318,509	8,593,595	(3.2%)
Peak Load (Kw)			
Summer	2,123,000	2,198,000	(3.4%)
Winter	1,304,000	1,299,000	0.4%
Fuel Mix (%)			
Coal	96.1%	93.5%	2.8%
Oil	.5%	.9%	(44.4%)
Natural Gas	3.4%	5.6%	(39.3%)
Average Coal Cost (per million Btu)	116.7¢	100.1¢	16.6%

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To the Shareholders:

On May 13, 1982, Kansas City Power & Light Company will complete its 100th year of electric service. A century ago our first corporate ancestor, organized by 18 shareholders, served 48 customers and accumulated assets of just under \$40,000 by the end of its first year. Today, KCPL is owned by 47,000 shareholders, serves 349,000 customers and has assets in excess of \$1.6 billion.

Our centennial theme:

"Tomorrow's Energy ... Since 1882" would have been prophetically true at any time throughout that century—first as electric service was extended to all—then as the public's appetite for electric energy nearly doubled every decade.

To some extent, it was a self-fulfilling prophesy. With ever-increasing customer demands and the construction of ever-larger generating units to take advantage of the economies of scale, our residential electric rates slid from 20 cents per kilowatt-hour in the early days to 7 cents by 1920 and 2.6 cents by 1970, before the downward trend reversed. Lower and lower electric rates whetted the public's appetite for electric energy, and it grew larger and larger. By 1970, 22 percent of our nation's primary fuel use was required to meet the growing need for electric energy.

Even though electric rates increased steadily during the next dozen years, there has been practically no increase in the *real* price of our residential electric service because inflation since 1969, as measured from the Consumer Price Index, has about matched our residential rate increases. Today, meeting our nation's electric energy needs requires 34 percent of our primary fuels.

Throughout the century, electric energy has been "tomorrow's energy," and that promise has been met by our Company and readily accepted by the public we serve. What about the tomorrows of the future? Some predict that by the year 2000, nearly 50 percent of our primary energy use will be required to meet the electric energy needs of our nation.

Looking ahead from today's vantage point, our Company is particularly well positioned to supply electric service for tomorrow's energy needs in the Kansas City area. Why? Because of these past events and changing conditions:

In the early 1950s, efficient electric air conditioning became available for home, office and factory use. With Kansas City's mid-country location, air cooling became a popular reprieve from summer heat and a matter of survival for some during the more severe heat storms. For KCPL, electric energy demands for air cooling pushed our summer peak to the point where it now exceeds the winter peak by two-thirds, or nearly 900 megawatts. To meet increasing customer demands and to replace derated capacity in maturing units, the Company has constructed and put in service nearly

1,200 megawatts of new base load generating capacity since 1970. With the completion of our Wolf Creek nuclear unit now scheduled for 1984, we will finish our only remaining major construction project, adding about 500 megawatts to our system's base load capacity. Our system will be well positioned with ample base load generating capacity to provide tomorrow's energy in our Kansas City area, particularly during the non-summer peak load season.

In our Kansas City area, low cost natural gas was available at an early date and now supplies almost all space heating requirements. Unlike many other parts of the nation, our electric system today serves very little of the space heating requirements in this area. But natural gas is no longer cheap. Since 1970 residential natural gas rates have increased some 338 percent in Kansas City. In 1981, the electric heat pump, which converts solar energy into space heating in real time, became competitive with natural gas for space heating applications in our service area. Locally, we expect natural gas rates to double by 1986 and triple by 1990. For the long term, the space heating market—both new and replacement—is a natural for electric service to meet tomorrow's energy needs in Kansas City.

With our customers' present high summer and low winter electric demands, annual average hourly use of electric energy is now less than 50 percent of summer peak-hour use. This ratio is called the annual system load factor. Electric service for winter space heating will not require the addition of generating capacity, but will increase customers' use of our installed capacity during non-summer periods. As this off-peak space heating load grows, our annual fixed costs of installed generating and distribution facilities will be spread over a greater number of kilowatt-hours of annual use, minimizing our electric service rates.

We estimate that based on present rate designs, each one percent increase in the Company's system load factor will equate to a one percent reduction in our electric rates. As this competitive electric space heating advantage increases over the coming years, we are forecasting a significant gain in load factor.

Since 1882, electricity has been the energy of the future in our Kansas City area. As we look forward down the decades, it will continue to be "tomorrow's energy."

KCPL adopted in 1981 a Long-Range System Plan called the KCPLAN. It is designed as the Preferred Strategy for meeting our customers' electric requirements through the year 2000 in a reliable manner and on a least-cost basis. The KCPLAN has two objectives:

1. to delay as long as possible the construction of additional generating plants; and
2. to promote the more efficient customer use of our installed capacity, including off-peak use.

The KCPLAN was developed by the Company with the cooperation and assistance of a 17-member Citizens Advisory Planning Group representing a cross-section of our constituencies. This citizens group endorsed the KCPLAN in its critique and final report. Under the KCPLAN, the Company's next generating capacity addition will be a 325-megawatt share of a larger new coal-fired unit with completion deferred until 1994, through:

- load management, limiting our customers' annual peak load growth to an average of 2.2 percent by
 - remote control cycling of customer air cooling compressor units;
 - rate design techniques to give customers appropriate pricing signals; and
 - promotion of the use of high efficiency customer appliances and solar devices; and
- adoption of alternatives to new capacity additions including
 - diversity interchange arrangements with winter peaking electric systems; and
 - refurbishment of existing older units to recapture derated capacity.

These action programs, together with the promotion of electric energy for off-peak use, are the basic elements of KCPLAN's Preferred Strategy.

When fully implemented by the year 2000, it will:

- eliminate the need for some 1,400 megawatts of new generating capacity additions, probably at a construction cost savings of nearly \$2 billion;
- restrain customer annual peak load growth to 2.2 percent from the earlier projected 3.6 percent;
- improve KCPL's annual system load factor from the current 48 percent to an equivalent 63 percent, which is now about the national average;
- stabilize the Company's key financial indicators; and
- hold electric service rate increases to about the level of inflation, a pattern maintained by KCPL over the last dozen years.

The attractiveness of the Preferred Strategy is its flexibility, as compared to 28 other options examined in the development of the KCPLAN. It can readily accommodate mid-course changes to meet the unexpected. The KCPLAN will be reviewed, reevaluated and, perhaps, refined each two years.

We look forward to providing "tomorrow's energy" as we have done since 1882.

For the year 1981, rate increases offset by lower kilowatt-hour sales due to milder weather produced total revenues of \$472 million, up 5.8 percent from \$446 million in 1980. Expenses of \$377 million were held to an increase of 5 percent by improved generating unit availability, which enabled the Company to obtain a substantial gain as a net seller of interchange power.

Net interchange sales in 1981 totalled \$48.2 million, an increase of \$26.7 million over 1980.

A record high of \$4.83 was achieved in 1981 per share earnings, based on 600,000 additional average common shares outstanding, as compared to \$4.36 per share in 1980. Allowances for funds used during construction contributed 64 percent of earnings in 1981 and 57 percent of earnings in 1980.

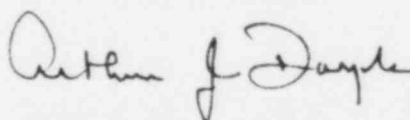
Based on current Nuclear Regulatory Commission requirements, our Wolf Creek Unit is now about 75 percent complete and is targeted for commercial operation in May 1984. NRC required design changes, cost increases and construction delays have pushed the unit's total cost estimate to \$1.9 billion for an installed cost per kilowatt of approximately \$1,600.

Improved cash flow enabled the Company to finance from internal funds 41 percent of its \$134 million cash construction expenditures in 1981. Under our five-year total construction budget of \$526 million, expenditures are projected to decline from \$166 million in 1982 to about \$53 million by 1986, and continue at a low level thereafter until substantial work begins on the new coal-fired generating unit now included in the KCPLAN for completion in 1994.

On November 3, 1981, the Board of Directors increased the quarterly common stock dividend from 69.5 cents per share to 74 cents per share, or \$2.96 on an annual basis. It was the 22nd increase in 24 years.

March 1, 1982

For the Board of Directors



Chairman of the Board
and President



Our First Hundred Years

The Early Days

Kansas City was ready for growth in the 1880s. No longer a boisterous river town, the population had already reached 55,000. It still had plank sidewalks and few streets were paved. But, the Hannibal Bridge across the Missouri River brought a needed link and the railroads had come. It was also ready for electricity.

On May 13, 1882, one hundred years ago, a modern electric arc lighting system began operating from a central station in Kansas City and provided illumination to 13 downtown customers. That Saturday night was a humble effort compared to Thomas Edison's Pearl Street Station, which began operating an incandescent system in New York City some four months later on September 4. The significance of the Kansas City system was that it was the first anywhere to use dynamos with automatic regulators.



Electric illumination became a featured attraction in the advertising of early merchants as indicated by these June, 1882, newspaper clippings.

Kansas Citians had seen arc light demonstrations in traveling circuses. The first local installation of arc lighting by the G. Y. Smith Dry Goods Company on March 24, 1881, captured the imagination of people and the press. "Old Sol himself never did get up a better illumination over the same space of territory. Such gas lights, as were to be seen, looked yellow, ghastly, and ashamed of themselves," observed *The Kansas City Evening Star*.

On that same March date, a group of local investors incorporated the Kawsmouth Electric Light Company under the laws of Kansas. The firm had a capitalization of \$100,000. Late in 1881, an exclusive license believed to be the first of its kind, was obtained for \$4,000 to use Thomson-Houston equipment to sell electric light and power in the counties of Jackson, Missouri, and Wyandotte, Kansas. Professor Elihu Thomson had developed an electromagnetic regulator which automatically balanced the dynamo output with its electric load, making commercial service for multiple customers possible from a single plant. Other arc light systems were not regulated until after 1884.

Three Key Men

Work began in February 1882 on building a powerhouse and installing a 60 horsepower steam engine and six dynamos near 8th and Santa Fe Streets in Kansas City's West Bottoms. Two 40-lamp circuits, totalling nearly four miles, served the original downtown business district on Main Street.

Three men played key roles in bringing this new electric system to Kansas City: Judge William Holmes, the Company's first president; Joseph S. Chick, a banker who

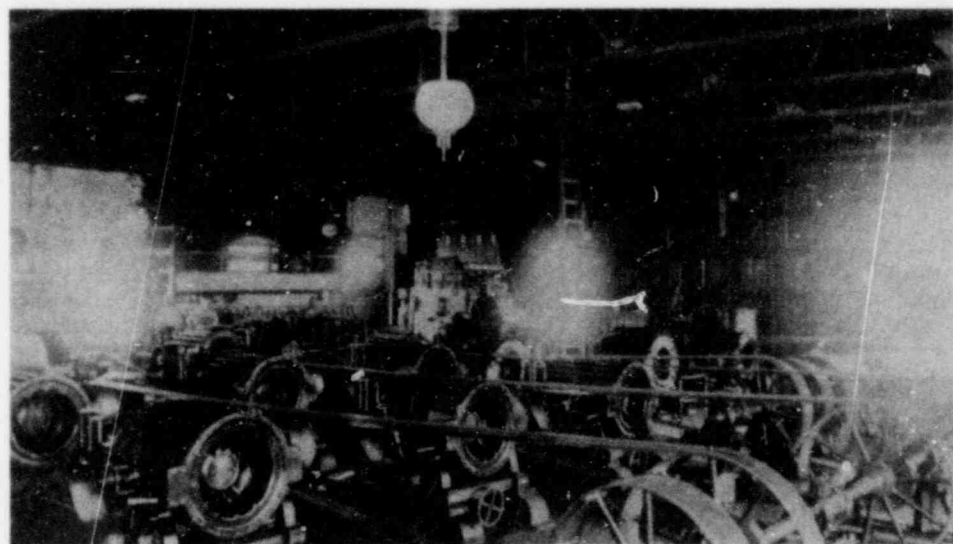
was the largest investor and treasurer, and the youthful Edwin Ruthven Weeks, who served as the first superintendent and later as managing director and vice-president.

Legend gives Weeks credit for establishing the company. At 21, Weeks had observed the demonstration of a French Gramme arc light at the Philadelphia Centennial Exposition in 1876. He imagined the possibilities for this new light source, and began trying to interest local investors.

The First Electric Rates

The Kawsmouth firm built its first power plant in a remarkably short three and one-half months, and on May 13, eleven merchants, the Ford & Arnold druggist, and a saloon received—as some advertised—"Grand Electric Illumination." By the end of 1882, 48 customers were connected to the system, including the Woolf Brothers Clothing Company and *The Kansas City Times* newspaper company, today's only survivors among the original customers.

No way had been developed yet to measure electric usage and payment was negotiated on the basis of what the merchants paid for gas lamps. By 1884, four separate circuits with accompanying rates had



Dynamos first installed in the original Kawsmouth powerhouse featured automatic regulation. This permitted individual arc lamps, like the lamp in the foreground, to be wired in parallel and customers could turn off the lamps individually. This made central station arc lighting service commercially feasible, and marked a significant improvement over other, unregulated arc-light systems then available.

been established. The monthly rate for each lamp was \$15 for dusk to 9 p.m., \$18 to 10 p.m., \$22 to midnight, and \$30 for all night service. In late December 1884, the Company was reincorporated in Missouri as Kansas City Electric Light Company, a name it would keep for 32 years.

Ironically, its competitor's misfortune provided the electric company with its biggest advantage and set the stage for its most severe test. On December 19, 1885, an explosion destroyed the Kansas City Gas Works, which manufactured synthetic gas from coal. Much of the city's lighting, including street lighting, had been supplied by the coal gas system. The darkened city clamored for electric lights, creating an immediate demand for 700 lamps—far more than could be supplied. "Merchants want electricity now," *The Kansas City Star* exclaimed. A 25-lamp circuit was built for the city's first electric street lights, which by contract would not be lit when the moon was full. Thomson-Houston incandescent lamps were added to the system and within two years the plant's full capacity was reached—800 arc and 3,000 incandescent lamps.

Service Suffers from Competition

Unsatisfied demands spawned competition. Between 1886 and 1890, 11 franchises were granted to seven companies in Kansas City, Missouri and at least five franchises were granted in Kansas. One Missouri firm, Edison Electric Light and Power Company, was established in the summer of 1887 to utilize the Edison incandescent light system. This firm was closely tied by interlocking financial and management agreements to Kansas City Electric Light Company. A new plant was built downtown at 6th and Wall Streets for the Edison equipment. Weeks directed the operations of both firms.

Duplication of distribution lines by competing franchisees was costly, and a series of rate wars ensued. Arc light rates plummeted

to \$1 a month, and wires and poles were vandalized. Lengthy service disruptions were frequent. These uneasy times prompted consumer unrest, and *The Kansas City Star* reported on May 7, 1886, that a citizens' protest group had been formed. Several of the new ventures faltered, and Kansas City Electric Light Company began purchasing the remnants.

The five-year depression after the financial panic of 1893, and the failure of the bank in which the Company's funds were deposited, created a precarious financial situation. Shortly before 1900, Joseph Chick decided to liquidate his substantial holdings, for personal reasons. Weeks advised the directors that they had two options: secure the necessary funds to consolidate the remaining electric properties and build a truly efficient power plant—or sell out. The directors told Weeks to find a purchaser.

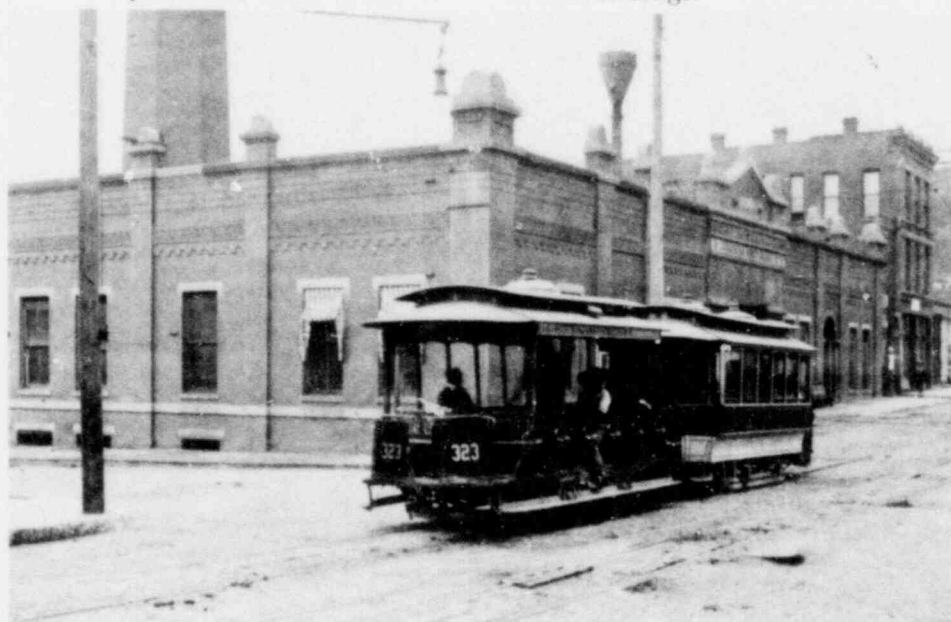
Electric, Street Railway Interests Combined

J. Ogden Armour, principal owner of the Metropolitan Street Railway Company of Kansas City, and associates purchased Kansas City Electric Light Company on January 9, 1900, for an undisclosed amount. The total plant investment was

then about \$1 million. Weeks remained during the transition period to establish his program for future operations.

Representatives of the Armour interests moved quickly to fulfill Weeks' plan. Control by street railway interests placed the electric company in a position similar to many other companies serving large cities, which used the same plants to power streetcars during the day and provide lighting at night. In 1901, the remaining electric companies were acquired, and work began on a new power plant near the Kaw River on Central Avenue. Four days after its completion on May 29, 1903, a devastating flood covered the engine and boiler rooms with 20 feet of mud and water. It took three months to get the station back in operation.

A larger power plant of the Metropolitan Street Railway Company at 2nd and Grand Avenue began operating the following year. Purchased by the electric company in 1927, extensively rebuilt, and now known as Grand Avenue Station, it is the only early-day plant still in use. Today, one of the plant's assignments is to supply steam heat to more than 200 downtown buildings.



Electric and street railway operations were placed under common ownership in 1900, and as in many other cities, shared generating facilities. Behind this vintage streetcar is the headquarters of Metropolitan Street Railway Company.

The Receivership

Kansas City Railway and Light Company had been organized as a holding company in 1903 for both the railway and light operations. Because of mounting opposition across the country against street railway franchise extensions, the faith of investors evaporated and financial disaster followed. In 1911, receivers were appointed for the Metropolitan Street Railway Company, and the electric company was made a party to the proceedings in 1914.



Kansas City Electric Truck Company, a subsidiary for manufacture and sale of electric vehicles, operated from 1911 until dissolved in 1928.

A new corporation, Kansas City Light & Power Company, was organized, and in 1916, the United States District Court confirmed a plan of reorganization which divorced the railway and electric companies. As principal stockholder, Armour still retained about 25 percent ownership, and he began the search for a new president. He found Joseph F. Porter, who already had had two successful careers in the utility field. But, the years of receivership had taken their toll.

The Porter Years

When Porter arrived on September 1, 1917, he found "a run-down system with inadequate and inefficient power resources." His top priority was to firm up the power supply. Within six weeks, work was begun on the Northeast Power Station, located on the Missouri River east of the downtown area. When the first three generating units were completed in 1921, the station had a capacity of 60 megawatts and was one of the most modern and efficient plants of its time. The \$13

million initial cost also almost doubled the firm's assets.

With the economies from the new plant, net income jumped from \$8,558 in 1919 to \$562,000 the following year and reached \$2.6 million in 1925. The economies also would bring important customer benefits. The average cost of a residential kilowatt-hour in 1920 of 7.14 cents, began a 50-year downward trend to 2.62 cents in 1969. During the same period, average annual residential usage increased 1,600 percent.

Refinancing made it necessary to reincorporate and in June 1919 Kansas City Power and Light Company was formed. The final reorganization took place three years later with the consolidation of Carroll County Electric Company. At that time an ampersand was substituted for "and," and the final name change was made to Kansas City Power & Light Company.

With Armour's vital guarantees, Porter delicately handled the Company's financial requirements on a short-term basis. Later, in 1922, the



Operators of the Central Avenue Lighting plant in 1903.



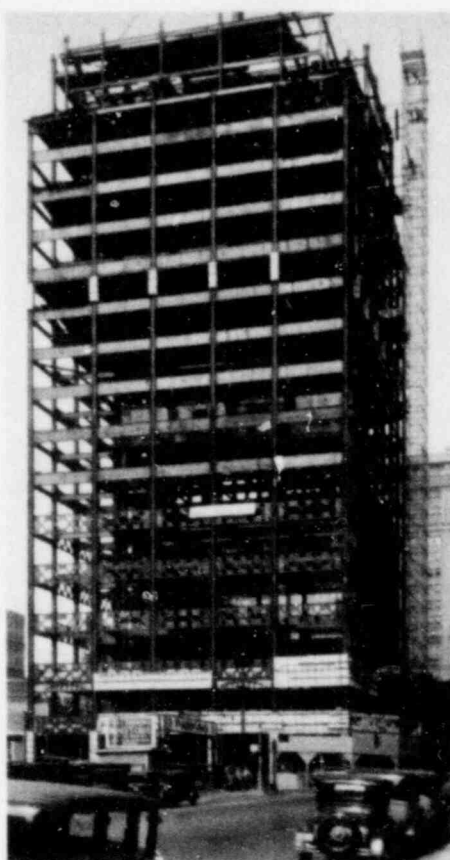
Mule and horse-drawn wagons played a key role in the 1902 site excavation for Missouri River Powerhouse (now Grand Avenue Station).

Company was able to sell \$21 million of 30-year bonds at the attractive interest rate of 5 percent. For the first time in its 40-year history, the Company was accepted by the financial community on its own merit.

Enter the Holding Company

Armour's interest in the Company was sold in 1923 to the McKinley-Studebaker syndicate, an action which prompted a number of take-over efforts. In January 1924, the controlling interest was purchased by a group of Cleveland investors headed by industrialist Cyrus S. Eaton, representing Continental Gas & Electric Corporation. This corporation later became part of the United Light and Power holding company system, which controlled 55 utility properties in the Midwest. It would control Kansas City Power & Light Company for the next 26 years.

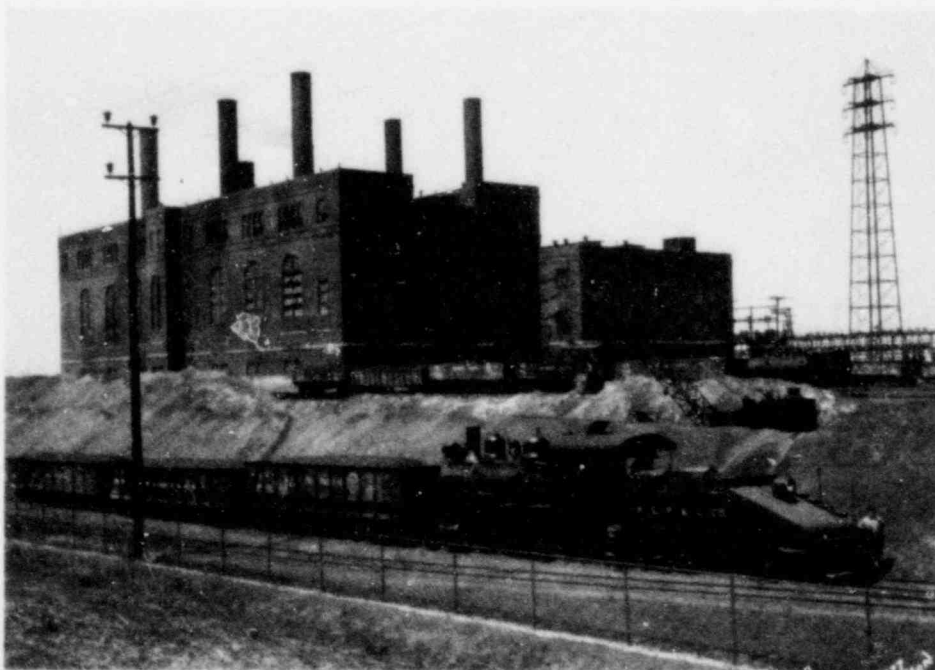
In 1938, at the age of 75, Porter resigned as president and served as Chairman of the Board until his death in 1942. His 21 years at the helm, longest in the Company's history, were marked by several milestones: capitalization increased from \$7 million to \$82.5 million;



The 32-story Power & Light building became the tallest building west of the Mississippi in 1931, the year it was completed and occupied.

generating capacity was expanded from 60 to 260 megawatts; the 32-story Power & Light building, completed and occupied in 1931, had become the prominent downtown skyline feature, and the service area had been greatly enlarged. Perhaps his philosophy is best summed up in this statement, which he wrote in 1934: "We were a struggling utility, held in low esteem by the community . . . but we became a corporation recognized by all alike as a fair-dealing organization which had adequately, effectively served and developed the territory."

World War II virtually stopped system expansion. The Company served 129 defense industries during the war, including the Sunflower Ordnance Works, Remington Arms and the Pratt & Whitney Aircraft Company. To assure reliability of service to the defense industries, the first interconnections were built by Missouri and Kansas utilities. Some 157 employees served in the Armed Forces, including five who were killed in action.



The Company's modern era began when the first three 20-megawatt units of Northeast Station were completed in 1921. The station, originally coal-fired, today burns oil and natural gas.



Montrose Station in Henry County, Missouri, 60 miles southeast of Kansas City, was the Company's first mine-mouth plant. These three units were completed between 1958 and 1964. The 1,500-acre cooling lake is operated by the State of Missouri and was opened to the public for recreation and fishing in 1958.

The Post-War Boom

Slowed by the depression and the war, electricity usage was forecast to increase substantially in the postwar period. The Company was financially sound, but rapid expansion would be necessary.

Construction began in 1947 on the first high-voltage (161-kv) interties enabling interconnected utilities in Missouri, Kansas and Iowa to share reserve generating capacity. In 1949, construction was started on Hawthorn Station in Kansas City. Between 1951 and 1955, its first four generating units, totaling 344 megawatts, were completed. This more than doubled the Company's generating capacity. These units were designed to burn both coal and natural gas, separately or in combination. In 1954, construction work began on Montrose Station near Clinton, Missouri, to take advantage of low-cost coal from nearby surface mines. Three 175-megawatt units were completed between 1958 and 1964. The station was tied to the system by high voltage transmission lines, utilizing the concept that transmitting kilowatts is more economical than shipping coal.

As an eventual consequence of the Holding Company Act of 1935, the United Light holding company was dissolved in 1950. For the first time since the turn of the century, Kansas City Power & Light Company became completely independent with its securities widely held by investors.

The 1954 Decision

Prior to 1953, like most utilities in the central climate area, KCPL usually experienced balanced summer and winter peak loads, providing the most efficient usage of the electric system. However, postwar development of electric appliances had been phenomenal. One of these appliances would change the course of utility history: the electric air conditioner.

In 1951, the Company began experiencing rapid growth in summer demand as window air conditioners became available. In adding

a window unit, the average customer could more than double his demand on the system, causing a serious overloading of power circuits. The crossover to summer peaking began during the heat storm of 1953. It was clear that the Company's distribution system was no longer adequate and new, bolder plans were needed.

After an 18-month study to develop a master plan to meet future distribution requirements, the Company adopted in 1954 a new concept of load center system design. Since that time, 30 large-capacity distribution substations have been built in the Metropolitan Area. They each serve up to 15 square miles and have improved the Company's capability to accommodate large new electric loads while reducing the number of lower-voltage substations. Thereafter, many other utilities adopted similar distribution plans.

Economies of Scale

The technology of the industry in the 1960s had advanced to the point where much larger generating units were available providing greater economies of scale in serving customer loads, which continued to almost double every decade. Utiliz-

ing this technology would require more substantial interconnections among electric systems. In 1962, a 33-year pooling agreement was made among five neighboring utilities in western Missouri and Kansas. Called the Mokane Pool and later expanded to 10 utilities, the group agreed to expand interties, share reserve capacity and coordinate planning of additional generating units. Since then, KCPL has built 252 miles of extra-high-voltage (345-kv) lines that permit direct interchange transactions with numerous other utilities in Missouri, Kansas, Nebraska, Iowa and Minnesota, and through them with all other power suppliers east of the Rocky Mountains. This has enhanced the Company's position as a major power center.

The Company's first large-scale generating unit, a 500-megawatt Hawthorn Station addition, was completed in 1969, at an installed cost of \$111 a kilowatt, the lowest in corporate history. Over the years, as customer usage increased, the average cost of a kilowatt-hour delivered to residential customers declined almost every year from 20 cents in 1900 until reaching the record low of 2.62 cents in 1969.



Historically, a major strength of the Company has been its coal-fired base load generating system, with contractual arrangements for long-term coal supply. This mountain of coal serves the five units of Hawthorn Station, each of which can burn either coal or natural gas.

The Turbulent 1970s

Rapid inflation beginning in the late 1960s in the costs of construction, materials, fuels, supplies, labor and money eventually would reach double-digit levels. National concerns for the environment would culminate in expensive requirements, especially in the design and construction of base load power plants.

In the midst of these increasingly more turbulent times, the Company embarked on the largest construction program in its history. By 1980, the Company had added nearly 1,200 megawatts in three base-load, coal-fired generating units. Plant additions during this period totaled more than \$1.2 billion—about triple the Company's total assets in 1969—and included more than \$160 million for air, water, waste and noise control systems. Economies of scale were limited as generating units reached their optimum, maximum size, but savings were still available for utilities which pooled their capacity needs. Of these three units, KCPL operates and owns 50 percent of the two-unit, 1,370-megawatt La Cygne Station, completed in 1973 and 1977, and 70 percent of the 670-megawatt Iatan Station, completed in 1980. So dramatic was the impact of inflation and environmental requirements, that the installed costs of these units more than doubled, tri-

pled and quadrupled the comparable cost of the Hawthorn unit built in 1969. Still under construction is the 1,150-megawatt Wolf Creek nuclear generating unit now targeted for commercial operation in 1984, in which KCPL owns 47 percent.

As a result of rising costs due to inflation and increased government regulation, the Company applied for a rate increase in 1969. It was the first rate request since the mid-1950s and began a pattern of rate increases every 12 to 18 months since that time.

Conservation of energy as a national call became more intensified after the Arab Oil Embargo in 1973. Customers' reaction to higher rates and conservation initiatives, coupled with economic recessions, caused the growth in demand to drop below the historic level of nearly 7 percent, and currently is less than 3 percent.

As a result of rate increases in both Missouri and Kansas, by 1981 the average cost of a residential kilowatt-hour increased to 6.6 cents, up about 143 percent from 1967, the base year of the Kansas City Consumer Price Index, which jumped 168 percent during the same period. Despite the rate hikes, the *real price* of residential electricity actually had declined over the 14 years.

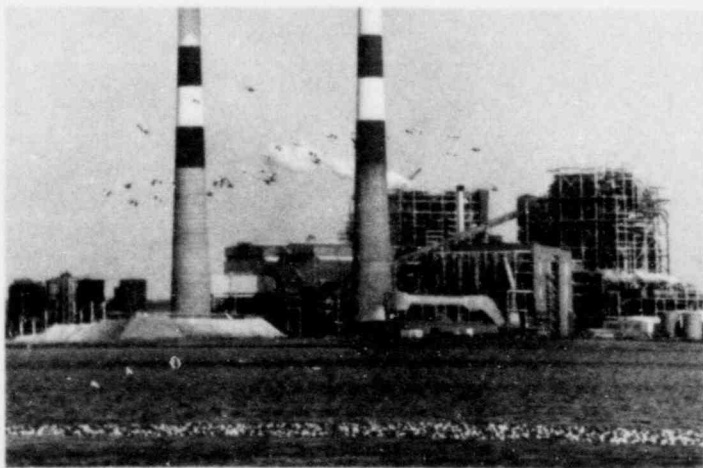
Adapting to Change

The Company's success throughout the years, has been directly

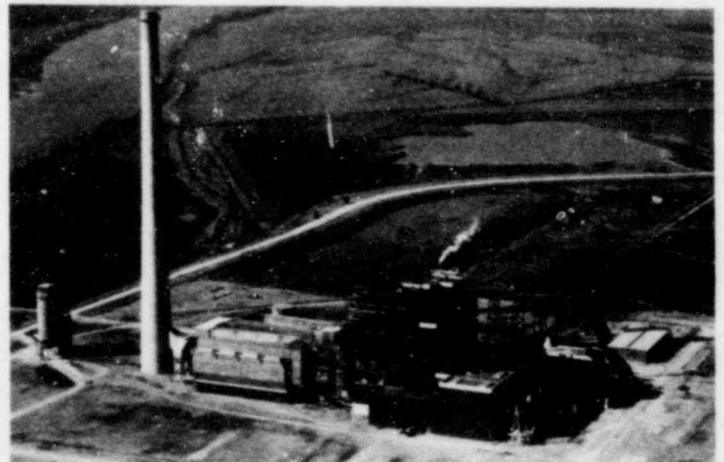
related to its ability to adapt to change. The emerging challenges of the 1970s required new ways of managing the enterprise, increasing competence of valued employees and developing more advanced methods.

By 1980, the Company completed the final phase of a two-year corporate reorganization melding nine functions into the streamlined Finance, Operating and Administrative groups; the Human Resources Division was formed to give substantial emphasis to management training and development; computer capacity was quintupled to give the Company "state of the art" capability in the development of management information systems, and innovative financing techniques had been adopted to reduce capital costs, including entering the Eurodollar market and pioneering a warehousing technique to finance fuel inventories.

The Company also launched a formal comprehensive strategic planning program to help officers and executives focus more sharply on goals and develop coordinated strategies. Out of this effort in the twilight of its first 100 years of service came the action plan, including the KCPLAN, which will help chart KCPL's future course. This effort perpetuates the Company's obvious, yet unwritten theme from its beginning . . . "Tomorrow's Energy . . . Since 1882."



La Cygne 1 (right), completed in 1973, burns high-sulfur local coal and pioneered wet scrubber technology to control emissions. Unit 2, completed in 1977, burns low-sulfur coal and uses an electrostatic precipitator for emission control.



The 670-megawatt Iatan Unit, fueled by coal from Wyoming mines, went on line in May, 1980. Less than one month later, in the midst of the worst heat storm in history, the plant's availability helped avert electric power shortages.

Beginning Our Second Century

In preparation for entering its second century, the Company has formulated a new, least-cost strategy to meet the future energy needs of its customers in a reliable manner through the year 2000. This strategy, called the KCPLAN, was developed with the assistance of a 17-member Citizens Advisory Planning Group. Its adoption wrapped up more than a year of study including some six months of weekly meetings and independent study by the citizens group.

The KCPLAN

The KCPLAN represents a departure from the traditional planning process for two reasons: KCPL will employ alternatives, other than adding new generating plants, to meet the electricity needs of customers; and citizens representing a broad cross section of community interests and concerns were involved directly in the planning activity—an unprecedented occurrence for KCPL and for investor-owned utilities generally.

The five-point Preferred Strategy of the KCPLAN eliminates nearly \$2 billion in power plant construction over the next 20 years, as compared to a consultant's study completed in January 1981. For the Company, the savings in electric generating capacity amount to the equivalent of two plants the size of KCPL's most recent 670-megawatt unit completed in 1980. For its customers, avoiding this construction will hold KCPL's electric rate increases, hopefully, to about the rate of inflation through the turn of the century. The KCPLAN envisions reducing KCPL's annual peak demand growth from the previously projected 3.6 percent to 2.4 percent during the 1980s and 2.0 percent during the 1990s, and the stabilizing of the Company's key financial indicators.

Five-Point Preferred Strategy

The five elements of KCPL's new direction are aimed at two important targets:

- deferral of a new generating capacity addition until 1994 and;
- greater off-peak utilization of existing electric generating facilities.

Postponement of capacity additions will help moderate rate increases because inflation-driven construction costs trigger higher rates for electric service. Greater utilization of KCPL's existing capacity year-round to meet customers' needs will reduce the average cost of producing each kilowatt-hour of electricity.

Obtaining the maximum savings advantage of these goals requires

In more than six months of weekly meetings and intensive independent study, the Citizens Advisory Planning Group participated directly with KCPL planners in the development of the Company's long-range system plan. The 17-member group represents a cross section of community interests—government, business and industry, labor, minorities, the academic community, consumer groups and rural interests.



implementation of the five points in the KCPLAN's Preferred Strategy:

Air Cooling Control

The plan calls for cycling of residential and commercial central air cooling compressor units by remote control during peak demand periods. Savings of 186 megawatts of capacity are projected from this element by 2000. A test conducted during the summer heat storm of 1980 showed brief interruption of power-thirsty compressor units to be an effective method of reducing electricity demand at peak times while maintaining acceptable comfort levels of participants.

Load Management Techniques

New load management techniques and electric rate designs implemented gradually between now and 2000 will reduce expensive peak load demand and increase off-peak usage. The plan projects savings of 311 megawatts of future capacity requirements from this element. Time-of-use pricing, use of demand rates for all customers, including residential; equipment efficiency improvements by customers; improved building codes, and use of passive solar applications in residential construction are some of the programs to achieve this.

Diversity Interchange

The plan involves successful conclusion of agreements by the mid-1980s in which KCPL would exchange 201 megawatts with other utilities which, unlike KCPL, experience their highest demand in wintertime. The utilities would send power to KCPL during the summer peak air cooling season in exchange for coal-generated energy from KCPL in the winter months.

This graph shows how the five elements of the KCPLAN will blend with existing system capacity to meet projected peak demands through the year 2000. The steady decline in "Capacity of Existing Generating Units" reflects the anticipated loss of generating capacity as existing units are derated or retired because of age.

Unit Rehabilitation

A key part of the plan involves rehabilitation of existing generating units which otherwise might be retired or reduced in capability over the next 20 years. This critical element, which has recently become economically feasible, would eliminate the need to construct 686 megawatts of new generating capacity. Further detailed studies by a consultant are ongoing to evaluate engineering feasibility and comparative economic savings. Actual rehabilitation work would not begin until the late 1980s.

New Construction

Under the plan, two 325-megawatt shares of larger coal-fueled generating units jointly-owned with other utilities will be completed in 1994 and 1998.

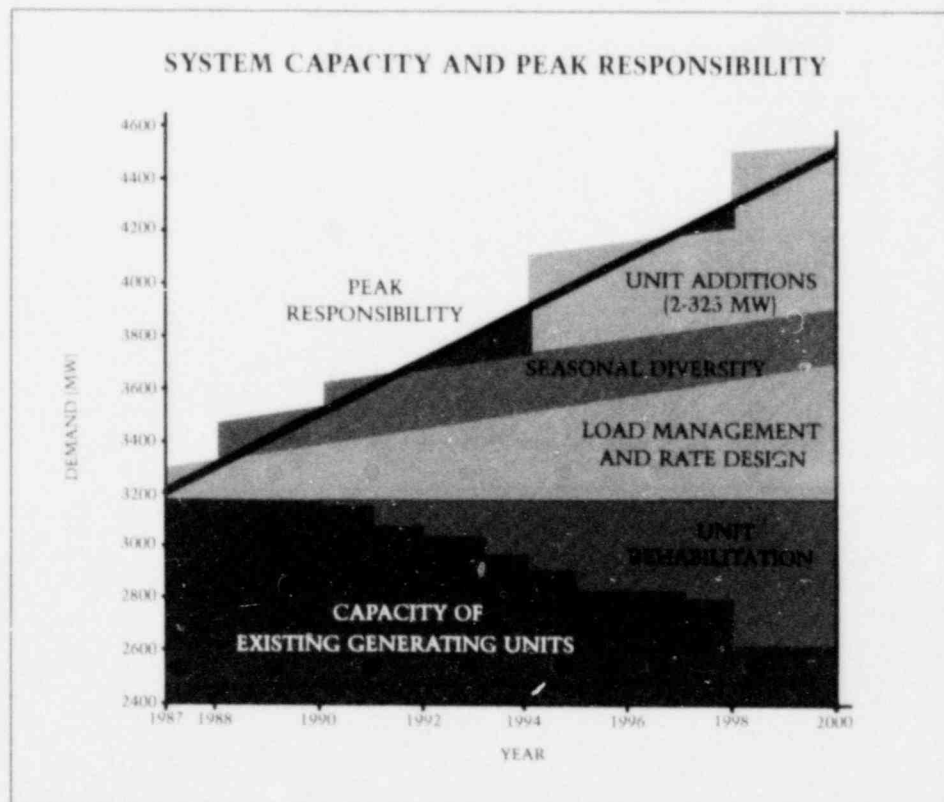
Strategy Is Flexible

In the study, evaluation and planning process, Company planners and the citizens group considered 29 optional strategies and explored some 25 different methods of producing power, including emerging technologies and supplemental energy sources.

The Preferred Strategy was selected because it represents the best approach to meet the goals of KCPL through the year 2000 with minimum risk and because it provides the greatest flexibility. The strategy contains six contingency scenarios which provide a measure of planning for uncertainty.

Cooperation Is Essential

The KCPLAN was announced publicly on December 1. At a news conference for that purpose, Chairman of the Board and President Arthur J. Doyle said: "This comprehensive program is a beginning. We will be updating and refining the planning process biannually to adjust for changed conditions and take advantage of new opportunities as they arise. The implementation of the KCPLAN, which will require the cooperation and understanding of all parties involved—the public, the regulatory commissions and our employees, will enable us to meet the future needs of our customers in a reliable manner and on a least-cost basis."



The Year in Review

Milder Weather Lowers KWH Sales

Milder weather as compared to the record heat storm summer of 1980, resulted in a decline in kilowatt-hour sales in 1981 of 3.2 percent. Reduced cooling requirements dropped residential sales 12.8 percent and decreased average annual residential usage from the all-time high of 8,923 kwh in 1980, to 7,700 kwh in 1981. Sales to commercial customers were down 2.6 percent, while an upturn in steel production activity increased sales to industrial customers 8.6 percent.

Operating Revenues Advance 5.8 Percent; Expenses Increase 5 Percent

The impact of rate increases effective in 1980 and 1981 in both Kansas and Missouri offset the lower energy sales and increased operating revenues by 5.8 percent to a record \$471.7 million.

Operating expenses during 1981 rose 5 percent to \$377.2 million. The most significant expense increase was for fuel, up 25.1 percent to \$156.8 million, due to higher unit fuel costs and increased generation requirements for interchange sales.

Net interchange sales of \$48.2 million surpassed 1980 by \$26.7 million. Some \$23.9 million of interchange sales were a result of a 300-megawatt capacity sale to Associated Electric Cooperative, which sale is scheduled to terminate at the end of May 1982.

Expenses incurred for maintenance increased only 3.1 percent and totaled \$54.3 million for the year because of improved availability of generating units.

Depreciation expense for 1981 was \$45 million, or 7.7 percent more than in 1980, reflecting the first full year of depreciation recorded for our new Iatan Unit.

Taxes charged to operating expense amounted to \$97.5 million, or about 8.3 percent above taxes in 1980. Income taxes increased to \$45.6 million from \$42.1 million because of higher taxable income. General taxes were \$51.9 million in 1981, as compared to \$48 million in 1980, due to additional gross receipts taxes paid on higher revenue and property tax expense on the Iatan Unit.

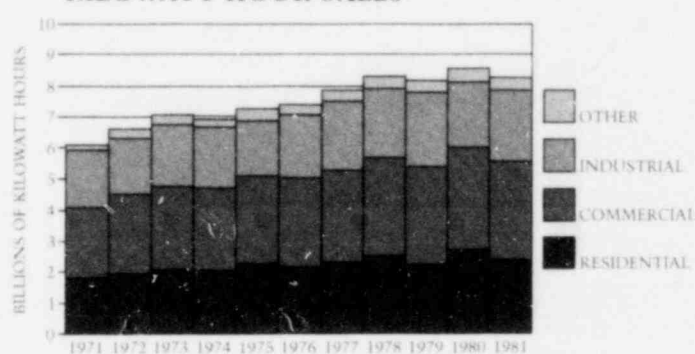
Interest charges continued to rise in 1981, primarily because of new debt issued and higher interest rates. Interest on long-term debt increased 13 percent to \$55.2 million while interest on short-term borrowings declined from \$4.8 million in 1980 to \$3.9 million for 1981.

Net Income, Earnings Include Increased AFDC

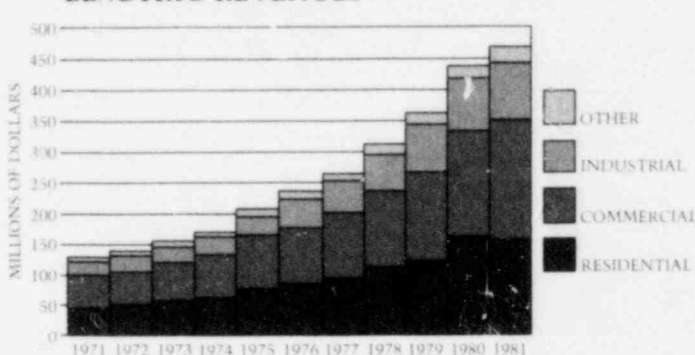
Net income for 1981 amounted to \$79.1 million, up 15.2 percent from 1980, mainly because of larger contributions from the allowance for funds used during construction (AFDC).

The issuance of preference stock in June 1980 increased preferred and preference stock dividend requirements 10.7 percent to \$13.7 million for 1981.

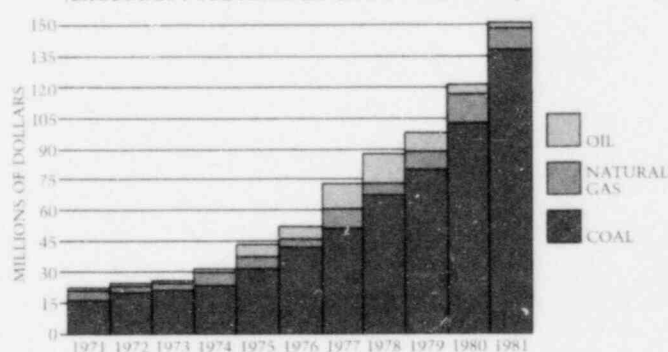
KILOWATT HOUR SALES



ELECTRIC REVENUES



TOTAL COST OF FUEL BURNED (EXCLUDES FUEL HANDLING AND ADDITIVES)



EARNINGS AND DIVIDENDS PER SHARE



Earnings per common share were \$4.83 in 1981 based on an average of 13.5 million shares outstanding as compared to \$4.36 per share in 1980 on an average of 12.9 million shares. The increase in shares resulted from issuance of new common stock under the dividend reinvestment plan and stock issued for TRASOP AFDC, net of associated deferred income taxes, contributed \$3.10 of earnings per share in 1981 and \$2.47 in 1980.

Construction Expenditures and Financing

Construction expenditures for 1981 totaled \$134 million (excluding AFDC). Funds from operations provided \$55.3 million and the remainder was financed by other sources.

In December, \$50 million of First Mortgage Bonds, 16½% Series due 2011, was issued to retire \$25 million of maturing first mortgage bonds and short-term debt incurred to finance construction. Approximately \$7.2 million was provided by new common stock issued through the dividend reinvestment plan.

At the end of 1981, \$92 million in loans was outstanding under our Eurodollar and bankers' acceptance agreements. Short-term borrowings totaled \$89.1 million at year end, most of which was incurred in the year-end closing of the sale of a reduced ownership share in Wolf Creek Station to Kansas Electric Power Cooperative, Inc. (KEPCo) and our repayment, with interest, of a portion of prior advances received.

MPSC Grants \$17.2 Million Increase

Effective July 3, 1981, the Missouri Public Service Commission (MPSC) approved new rates designed to increase Missouri revenues annually by \$17.2 million or 5.8 percent. The order authorized an overall return of 10.67 percent and a return on equity of 14.4 percent. The Company had sought an annual increase of \$45.4 million.

New steam rates designed to recover \$794,000 in additional annual revenue went into effect on March 20, 1981.

Because the July electric increase was inadequate, and because of continued cost increases due to inflation, the Company filed new proposed rate schedules with the MPSC on August 26, 1981, equivalent to a 19.9 percent increase in Missouri electric revenues. If authorized in full, these new rates would produce an additional \$62.3 million annually. A rate order is expected in July 1982.

The Company also filed new proposed rate schedules on September 2, 1981, with the MPSC to increase revenues \$936,000 annually, or 19.3 percent, for steam service to the Company's 204 downtown Kansas City steam customers.

KCC Makes Interim Increase Permanent

On April 6, 1981, the Company filed an application with the Kansas Corporation Commission (KCC) to make permanent an interim increase of \$24.5 million effective since June 1980, and to further increase Kansas revenues by \$24.9 million annually. The total

request of \$49.4 million was based on 1980 revenue and expense levels.

On December 1, 1981, the KCC issued an order authorizing a total permanent annual increase of \$24.6 million, including the interim rates. Thus, the rates made permanent were essentially those already in effect for Kansas customers. The order authorized an overall rate of return of 10.52 percent and a return on equity of 16.49 percent.

KEPCo Purchases Six Percent of Wolf Creek

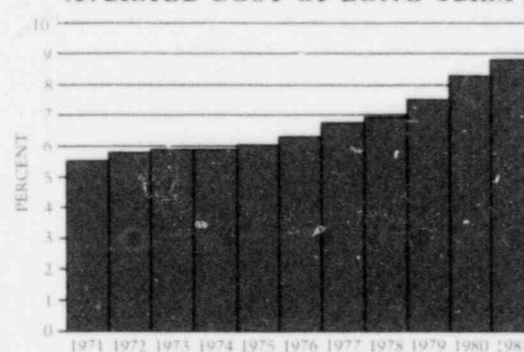
In a 1981 year-end closing, KEPCo became owner of a six percent share in Wolf Creek Station. The sale reduced the ownership shares of the Company and Kansas Gas and Electric Company to 47 percent each.

In mid-1981, two major distribution cooperative members of KEPCo withdrew from participation, contributing to a reduced commitment by the Rural Electrification Administration, which provided financing to KEPCo for only a six percent ownership interest in Wolf Creek Station, rather than the previously agreed 17 percent. At the closing, the Company returned \$70.7 million in advance payments made by KEPCo, including interest.

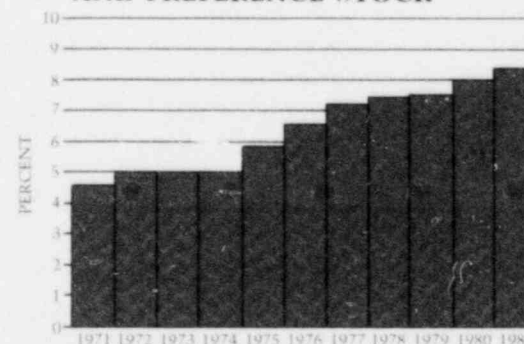
KMEA Negotiations

The Company and KG&E are now negotiating for each to sell up to a 4.5 percent interest in Wolf Creek and up to a 2 percent interest in the La Cygne units to Kansas Municipal Energy Agency. KMEA is a group of municipal utilities serving portions of Kansas. If concluded, the sale could further reduce our share in Wolf Creek Station to 42.5 percent.

AVERAGE COST OF LONG-TERM DEBT



AVERAGE COST OF PREFERRED AND PREFERENCE STOCK

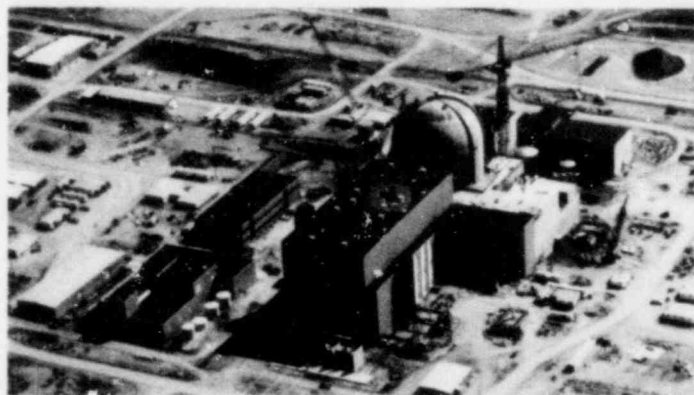


Wolf Creek Estimate Increases to \$1.9 Billion

Design changes required by the Nuclear Regulatory Commission (NRC), cost increases and construction delays have pushed the total cost estimate for Wolf Creek from \$1.7 billion to \$1.9 billion, including AFDC and capitalized property taxes, of which the Company's share would be \$857 million for its current 47 percent interest or \$775 million for a 42.5 percent interest. The new projection, which assumes a December 1983 fuel load date and a May 1984 commercial operation date, excludes the cost of nuclear fuel, related transmission and a training center.

Construction began on the 1,150-megawatt unit in 1977 and, based on current NRC requirements, is now about 75 percent complete. The plant is located on a 10,500-acre site, including a 5,000-acre cooling lake, near Burlington, Kansas.

The Company, as a partner in the Standardized Nuclear Power Plant System, is one of five U.S. electric utilities which have agreed to exchange information with the United Kingdom on nuclear power plants.



Wolf Creek Station, a nuclear generating unit targeted for operation in 1984, will supplement KCPL's basic coal-fired system. The 1,150-megawatt, jointly owned unit, is located near Burlington, Kansas, some 90 miles southwest of Kansas City.

Generating System Based on Coal

The Company's generating system includes 13 coal-fired units, seven of which can also be fired on natural gas. Peaking capacity is available to the Company from its eight oil-fired combustion turbines. The gas/oil-fired Northeast Station units, on inactive status in 1980, were available for peaking service in 1981.

During 1981, the Company's coal consumption for its own account increased 14 percent to 6.1 million tons because of increased generation and greater availability of coal-fired units. Coal fueled 96.1 percent of generation output as compared to 93.5 percent in 1980. The average cost of coal per million Btu increased to 116.7 cents in 1981 from 100.1 cents in 1980, or about 16.6 percent.

Just over three percent of generation was fueled by natural gas, which increased about 20.6 percent from \$2.23 per million Btu in 1980 to \$2.69 in 1981.

The quantity of oil burned dropped to 101,349 barrels from 164,516 in 1980, accounting for less than a half of one percent of generation output. Oil prices were up some 40.1 percent, increasing to \$5.35 per million Btu from \$3.82 in 1980.

Level Payment Plan Offered on Trial Basis

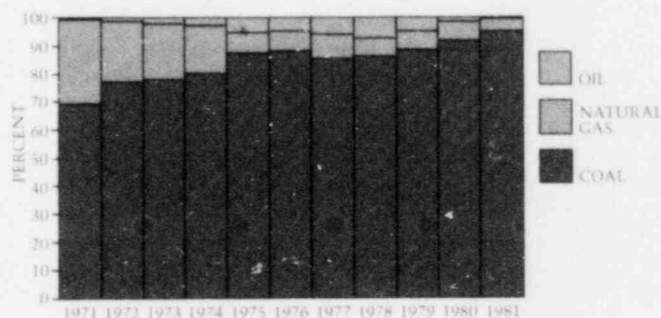
A level payment plan for residential customers was implemented by the Company in November on a one-year trial basis. This plan gives eligible customers an opportunity to make 11 equal monthly payments for electric bills with the 12th payment or credit to reconcile the account. The leveled payment amount is based on 12 months usage by the customer, adjusted for current rates and charges.

The plan was offered to residential customers with an acceptable payment history who have resided at the same address at least 18 months. Level payment plans help minimize the financial impact to customers whose bills reflect seasonal temperature extremes, such as air cooling customers in the summer and electric heating customers in winter.

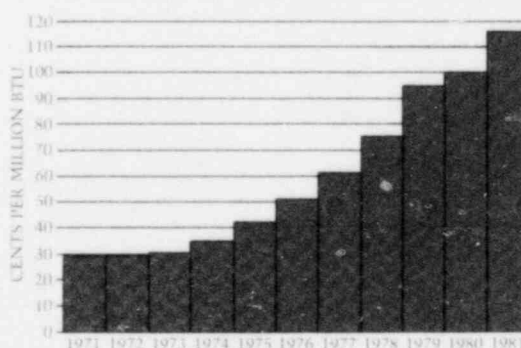
Research Benefits Multiplied Through EPRI

The impact of the Company's research expenditures is amplified through participation in the Electric Power Research Institute (EPRI). Our present base load units are coal fired and we derive direct benefits from three EPRI divisions—Coal Combustion Systems, Electrical Systems and Energy Analysis and Environment. EPRI's Nuclear Power Division addresses problems and needs of immediate interest because of our ownership in Wolf Creek. EPRI has allocated over \$1.1 billion in research

SOURCE OF FUEL BURNED



AVERAGE COAL COST



expenditures for these divisions for 1982-1985, multiplying over a hundredfold the benefits from KCPL's estimated \$8.2 million, five-year EPRI assessment.

Twenty percent of our EPRI contribution is retained for local applied research projects. These funds support:

- the Company's load management research program, a cold storage/air conditioning assessment study, our Quail Valley passive solar project, and our Paseo energy weatherization project;
- a solar technology program, including wind power, in association with four other utilities under the auspices of the University of Kansas; and
- a joint research program begun in 1981 with five other Kansas electric utilities which will focus on local applied research projects for the benefit of their ratepayers.



This demonstration showing the principle behind photo-voltaic street lights, was recently added to the "Electricity, Safety & You" classroom presentations. Conducted by KCPL linemen-splicers, this program teaches electric safety concepts to elementary school children.

Commercial, Industrial Expansions

Despite economic sluggishness in 1981, metropolitan Kansas City continued to experience growth in service industries and construction of office space. Office building development produced an additional 1.8 million square feet of space in 1981 and another 1.6 million square feet is either under construction or planned for 1982 construction.

Additional load during 1981 resulted from completion of new manufacturing facilities by Reynolds Metals, King Radio Corporation and General Motors Assembly Division. Wilcox Electric Company is planning to open a new 300,000 square-foot plant in 1982.

The United Telecommunications headquarters expansion was completed during the year in Westwood, Kansas. Its subsidiary, North Supply, is constructing a 400,000 square-foot building at the Johnson County Industrial Airport, which will be the largest office building in Kansas when completed in 1982.

Several new buildings, offices, banks and restaurants opened in Johnson County's Executive Hills development, followed by the 350-room Double Tree Inn luxury hotel which opened in early 1982 in the nearby Corporate Woods Development.

Warehouse and distribution facilities targeted for completion in 1982 include the one million square foot W. W. Grainger Distribution Center and the Winchester Underground Business Center.

The Company is one of more than 50 local entities which have agreed to help finance the proposed 22-story Vista International Hotel, a project considered essential to the revitalization of Downtown Kansas City. On February 2, 1982, the Board of Directors approved a \$1 million participation by the Company of stockholder funds in a first mortgage loan on the luxury hotel, which will utilize both electric and steam service.

Management Changes

Effective October 9, 1981, J. Robert Miller, vice president of administration, was named vice president of transmission and distribution systems operations. Mr. Miller replaced Stanley G. Jameson, who is retiring after 34 years of loyal service to the Company.

Contemporaneously, William H. Miller, vice president of human resources since 1980, was named vice president of administration. His responsibilities now include both the administration and human resources functions.

Annual Meeting

The Company's annual meeting of shareholders was held Tuesday, April 28, 1981, and approximately 83 percent of all shares eligible to vote were represented. During the meeting shareholders approved an increase in the authorized number of common shares from 16 million to 30 million and ratified the appointment of Arthur Andersen & Co. as independent public accountants for 1981. Shareholders also elected nine directors including eight incumbents and one new nominee, Louis C. Rasmussen, the Company's chief financial officer and vice president of corporate planning and finance. Mr. Rasmussen succeeded Robert A. Olson, who retired as a regular director after 34 years of service to the Company.

The 1982 annual meeting is scheduled for Tuesday, April 27, 1982, at 10:00 a.m. A notice of meeting and proxy statement will be mailed to all shareholders in mid-March.

Statements of Income

		Year Ended December 31		
		1981	1980 (thousands)	1979
Operating Revenues	Electric	\$ 465,825	\$ 440,182	\$ 365,084
	Steam heat	5,886	5,783	5,791
	Total	471,711	445,965	370,875
Operating Expenses	Operation			
	Fuel	156,761	125,297	102,709
	Interchange power (net)	(48,179)	(21,528)	27,232
	Other	71,892	70,892	56,193
	Maintenance	54,305	52,680	54,315
	Depreciation	44,962	41,733	34,868
	Taxes (See statements)			
	Income	45,577	42,088	9,569
	General	51,908	47,956	41,914
	Total	377,226	359,118	326,800
Operating Income		94,485	86,847	44,075
Other Income and Deductions	Allowance for equity funds used during construction	29,073	19,775	19,467
	Miscellaneous—net of income taxes	327	(122)	304
	Total	29,400	19,653	19,771
Income Before Interest Charges and Other Items		123,885	106,500	63,846
Interest Charges	Long-term debt	55,232	48,864	40,612
	Short-term notes	3,896	4,781	3,408
	Allowance for borrowed funds used during construction—credit	(24,878)	(22,997)	(19,211)
	Miscellaneous	10,489	7,151	2,486
	Total	44,739	37,799	27,295
Yearly Results	Income before cumulative effect	79,146	68,701	36,551
	Cumulative effect to January 1, 1979, of change in revenue recognition (Note 1)	—	—	7,202
	Net income	79,146	68,701	43,753
	Preferred and preference stock dividend requirements	13,749	12,418	10,573
	Earnings available for common stock	\$ 65,397	\$ 56,283	\$ 33,180
	Average number of common shares outstanding	13,535,149	12,915,770	11,009,407
	Earnings per common share before cumulative effect	\$ 4.83	\$ 4.36	\$ 2.36
	Cumulative effect to January 1, 1979, of change in revenue recognition	—	—	.65
	Earnings per common share	\$ 4.83	\$ 4.36	\$ 3.01
	Cash dividends per common share	\$ 2.825	\$ 2.69	\$ 2.635

The accompanying Notes to Financial Statements are an integral part of these statements.

Balance Sheets

December 31

1981 1980

(thousands)

Assets			
Utility Plant,	Electric	\$1,302,999	\$1,287,913
at original cost	Steam heat	5,203	4,999
(Notes 5, 7 and 8)	Total	1,308,202	1,292,912
	Less-Reserves for depreciation	392,060	352,023
	Net utility plant in service	916,142	940,889
	Construction work in progress	536,608	419,639
	Total	1,452,750	1,360,528
Investments and Nonutility Property		14,796	12,144
Current Assets	Cash (Note 2)	7,181	8,277
	Special deposits	182	845
	Receivables		
	Customer accounts receivable, less reserves of \$927,000 and \$1,241,000	31,848	31,963
	Accrued unbilled revenues	16,396	14,179
	Other receivables	11,704	12,469
	Fuel inventories, at average cost	48,748	66,878
	Materials and supplies, at average cost	22,769	20,507
	Prepayments	1,244	2,058
	Total	140,072	157,176
Deferred Charges		10,163	9,130
Total		\$1,617,781	\$1,538,978
Liabilities			
Capitalization	Common stock—authorized 30,000,000 shares without par value—13,763,217 and 13,409,663 shares outstanding—stated value	\$ 262,359	\$ 255,128
(See statements)	Retained earnings (Note 6)	193,956	166,776
	Capital surplus	2,998	2,948
	Total	459,313	424,852
	Cumulative preferred stock	112,000	112,000
	Cumulative preferred stock (redeemable)	3,676	3,836
	Cumulative preference stock (redeemable)	50,000	50,000
	Long-term debt	662,050	587,477
	Total	1,287,039	1,178,165
Current Liabilities	Notes payable to banks (Note 2)	70,600	31,500
	Commercial paper (Note 2)	18,500	6,500
	Current maturities of long-term debt	—	25,000
	Accounts payable	25,232	32,834
	Dividends declared	3,437	3,439
	Accrued taxes	6,875	9,024
	Accrued deferred income taxes	8,008	6,975
	Accrued interest	7,860	7,917
	Accrued payroll and vacations	7,823	7,436
	Accrued fuel costs	7,255	9,689
	Other	5,056	3,733
	Total	160,646	144,047
Deferred Credits	Deferred income taxes	104,837	93,052
	Deferred investment tax credits	63,054	49,509
	Advance payment on sale of property (Note 7)	—	72,495
	Other	2,205	1,710
	Total	170,096	216,766
Commitments and Contingencies (Note 7)			
Total		\$1,617,781	\$ 1,538,978

Statements of Taxes

Year Ended December 31

1981

1980

1979

(thousands)

Total income tax expense was less than the amount computed by applying the statutory federal income tax rate of 46% to income before income taxes. The reasons for these differences are as follows:

Taxes computed at statutory rate on income before income taxes	\$ 57,335	\$ 50,826	\$ 27,724
Increase (decrease) in taxes resulting from:			
Allowance for equity funds used during construction	(13,374)	(9,097)	(8,955)
Differences between book and tax depreciation not normalized	235	472	(592)
Amortization of investment tax credit	(1,754)	(1,544)	(1,463)
Taxes and pension costs capitalized	(520)	(553)	(890)
State income taxes	2,773	1,969	729
Other	801	(283)	(36)
Total income tax expense	\$ 45,496	\$ 41,790	\$ 16,517

Components of Income Tax Expense

Currently Payable	Federal	\$ 4,704	\$ 3,154	\$ —
	State	2,634	872	—
	Total	7,338	4,026	—
Deferred	Federal (net)	22,198	28,281	16,630
	State (net)	2,500	2,773	1,350
	Total	24,698	31,054	17,980
Investment Tax Credit	Provision	15,214	8,254	—
	Amortization	(1,754)	(1,544)	(1,463)
	Total	13,460	6,710	(1,463)
	Total income tax expense	45,496	41,790	16,517
Less:	Deferred income tax on cumulative effect of change in revenue recognition	—	—	6,691
	Income taxes applicable to other income	(81)	(298)	257
	Income tax expense applicable to operating income	\$ 45,577	\$ 42,088	\$ 9,569

Deferred Income Tax Expense

Depreciation differences	\$ 11,409	\$ 12,687	\$ 6,610
Debt component of AFDC	12,039	10,921	9,178
Repair allowance	(549)	659	735
Unbilled revenues	1,093	898	5,927
Tax loss carryforward	—	5,751	(5,751)
Other	706	138	1,281
Total	\$ 24,698	\$ 31,054	\$ 17,980

General Tax Expense

Property and real estate	\$ 22,526	\$ 20,089	\$ 18,571
Gross receipts	25,243	24,233	20,135
Other	4,139	3,634	3,208
Total	\$ 51,908	\$ 47,956	\$ 41,914

The accompanying Notes to Financial Statements are an integral part of these statements.

Statements of Sources of Funds for Gross Property Additions

Year Ended December 31
1981 1980 1979
(thousands)

Funds Provided From Operations	Income before cumulative effect	\$ 79,146	\$ 68,701	\$ 36,551
	Less dividends declared	51,966	47,625	40,122
	Total	27,180	21,076	(3,571)
	Items not requiring current use of funds			
	Depreciation	44,962	41,733	34,868
	Deferred income taxes (net)—non current portion	23,665	30,426	11,632
	Investment tax credit (net)	13,460	6,710	(1,463)
	Allowance for funds used during construction	(53,951)	(42,772)	(38,678)
	Total	55,316	57,173	2,788
	Cumulative effect of change in revenue recognition	—	—	7,202
	Total	55,316	57,173	9,990
Funds Provided From Outside Sources	Issuance of long-term debt	75,000	35,500	86,000
	Issuance of cumulative preference stock	—	25,000	—
	Issuance of common stock (353,554, 1,727,314 and 1,720,555 shares, respectively)	7,231	30,686	42,395
	Net payment received on sale of property to KEPCo including accrued interest (Note 7)	(39,128)	25,656	46,839
	Retirement of long-term debt	(25,000)	(11,972)	—
	Increase (decrease) in short-term borrowings	51,100	(1,300)	29,300
	Total	69,203	103,570	204,534
Decrease (Increase) In Working Capital	(Exclusive of short-term borrowings and current maturities)	7,603	(35,960)	(8,833)
Other		1,858	233	(373)
Total Funds Used For Gross Property Additions		133,980	125,016	205,318
	Allowance for funds used during construction (included in utility plant)	51,477	42,772	38,678
	Deduction of deferred income taxes related to interest component of AFDC	(12,039)	(10,921)	(9,178)
Gross Property Additions		\$ 173,418	\$ 56,867	\$ 234,818
Decrease (Increase) In Working Capital	Cash	\$ 1,096	\$ 921	\$ 319
	Special deposits	663	734	9,749
	Receivables	(1,337)	(12,782)	(11,869)
	Fuel inventories	18,130	(20,070)	(19,020)
	Materials and supplies	(2,262)	(3,485)	(2,276)
	Accounts payable	(7,602)	(5,096)	5,471
	Accrued and current deferred income taxes	(1,116)	5,624	3,817
	Accrued interest	(57)	(42)	476
	Accrued fuel costs	(2,434)	(2,293)	5,513
	Other	2,522	529	(1,013)
	Total	\$ 7,603	\$ (35,960)	\$ (8,833)

Statements of Cumulative Preferred and Preference Stock and Long-Term Debt

		December 31	
		1981	1980
		(thousands)	
Cumulative Preferred Stock (Note 3)			
\$100 Par Value —Authorized 520,000	3.80%—100,000 shares	\$ 10,000	\$ 10,000
shares—outstanding:	4.50%—100,000 shares	10,000	10,000
	4.20%—70,000 shares	7,000	7,000
	4.35%—120,000 shares	12,000	12,000
	7.72%—130,000 shares	13,000	13,000
No Par —Authorized 4,000,000	\$10.70—200,000 shares	20,000	20,000
shares—outstanding:	\$ 2.33—800,000 shares	20,000	20,000
	\$ 2.20—800,000 shares	20,000	20,000
	Total	\$ 112,000	\$ 112,000
Cumulative Preferred Stock (Redeemable) (Note 4)			
\$100 Par Value —Authorized 36,757			
and 38,357 shares—outstanding:	4%—36,757 and 38,357 shares	\$ 3,676	\$ 3,836
Cumulative Preference Stock (Redeemable) (Note 4)			
No Par —Authorized 4,000,000	\$ 8.00—250,000 shares	\$ 25,000	\$ 25,000
shares—outstanding:	\$12.75—250,000 shares	25,000	25,000
	Total	\$ 50,000	\$ 50,000
Long-Term Debt (Note 5)			
First Mortgage Bonds	Regular issues		
	8 ⁷ / ₈ % series due 1981	\$ —	\$ 25,000
	3 ¹ / ₄ % series due 1983	9,506	9,506
	3 ¹ / ₄ % series due 1985	16,000	16,000
	5% series due 1990	20,000	20,000
	4 ³ / ₄ % series due 1995	15,000	15,000
	5 ³ / ₄ % series due 1997	30,000	30,000
	6 ³ / ₄ % series due 1998	25,000	25,000
	7 ¹ / ₈ % series due 1999	26,000	26,000
	9 ¹ / ₈ % series due 2000	35,000	35,000
	7 ³ / ₄ % series due 2001	27,000	27,000
	7 ⁵ / ₈ % series due 2002	30,000	30,000
	8 ⁷ / ₈ % series due 2006	40,000	40,000
	8 ¹ / ₈ % series due 2006	30,000	30,000
	8 ¹ / ₂ % series due 2007	30,000	30,000
	9 ¹ / ₄ % series due 2008	25,000	25,000
	12% series due 2009	50,000	50,000
	16 ¹ / ₂ % series due 2011	50,000	—
	Pledged in support of pollution control bonds		
	8.20% series due 1983	25,500	25,500
	5 ⁷ / ₈ % series due 2007	21,940	21,940
	5 ⁷ / ₈ % series due 2007	20,000	20,000
	6 ⁷ / ₈ % series "A" due 2008	9,200	9,200
	6 ⁷ / ₈ % series "B" due 2008	21,800	21,800
Guaranty of Pollution Control Bonds	5 ³ / ₄ % series due 2003	15,000	15,000
Loan Agreements		92,000	67,000
Unamortized Premium and Discount (net)		(1,896)	(1,469)
	Total	662,050	612,477
Less Current Maturities of Long-Term Debt		—	25,000
	Total	\$ 662,050	\$ 587,477

The accompanying Notes to Financial Statements are an integral part of these statements.

Statements of Retained Earnings

		Year Ended December 31		
		1981	1980 (thousands)	1979
Beginning Balance		\$ 166,776	\$ 145,700	\$ 142,069
Net Income		79,146	68,701	43,753
		<u>245,922</u>	<u>214,401</u>	<u>185,822</u>
Dividends Declared	Preferred and preference stock (at required annual rates)	13,748	12,949	10,573
	Common stock—			
	\$2.635 per share			29,549
	\$2.69 per share		34,676	
	\$2.825 per share	38,218		
		<u>51,966</u>	<u>47,625</u>	<u>40,122</u>
Ending Balance (Note 6)		<u>\$ 193,956</u>	<u>\$ 166,776</u>	<u>\$ 145,700</u>

Notes to Financial Statements

1. Summary of Significant Accounting Policies

System of Accounts: The accounting records of the Company are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and generally accepted accounting principles.

Utility Plant: Utility plant is stated at historical costs of construction. These costs include taxes, payroll related costs including pensions and other fringe benefits, and an allowance for funds used during construction.

Allowance For Funds Used During Construction (AFDC): AFDC includes the net cost of borrowed funds used for construction purposes and a reasonable rate upon other (equity) funds. The allowance for borrowed funds represents an allocation of interest costs to construction, while the allowance for equity funds is a non-cash item of income. AFDC is charged to construction work in progress during the period of construction. When a construction project is placed in service, the related AFDC becomes a part of the original cost of the completed plant which is used to establish rates for utility charges under established regulatory rate practices. The rates used to compute AFDC, before associated deferred income taxes, compounded semi-annually, averaged 11.0% for 1981, 10.4% for 1980 and 9.7% for 1979.

Depreciation and Maintenance: Provisions for depreciation are computed on a straight-line basis pursuant to rates ordered by the Missouri Public Service Commission (MPSC). Approximate annual composite rates were 3.63% in 1981, 3.66% in 1980 and 3.62% in 1979.

The Company charges to maintenance expense the repairs of property and replacement and renewals of items determined to be less than units of property, except for such costs which are charged to clearing accounts and redistributed to various operating, construction and other accounts. The costs of renewals and betterments of units of property are charged to the utility plant accounts. Property units retired or otherwise disposed of in the normal course of business are charged to the reserves for depreciation, along with removal costs, net of salvage.

The amounts of maintenance and depreciation expense other than those set forth in the Statements of Income are not significant. Rents and lease payments for railroad cars, computer equipment, buildings and similar items are also not significant.

Retirement Plans: The Company has group annuity plans for all its regular employees, including officers, providing for benefits upon retirement, normally at age 65. Under the requirements of the Employee Retirement Income Security Act of 1974 (ERISA), the Company is obligated to fund the benefits of the plans. The Company's policy is to fund

pension costs accrued. Liability for past service costs is not significant. The annual costs of the plans were \$8.1 million in 1981, \$7.3 million in 1980 and \$6.5 million in 1979.

At the annual valuation date of October 1, the actuarial present value of accumulated plan benefits and net assets were approximately \$116 million for 1981 and \$105 million for 1980. The accumulated plan benefits include \$3 million of non-vested benefits. A 6% rate of return was assumed in determining the benefits.

Revenue Recognition: The Company utilizes cycle billing and accrues the amount of revenue for sales unbilled at the end of each reporting period. The Company changed to this method of accounting effective January 1, 1979.

Income Taxes: The Company generally normalizes the effects of the use of accelerated tax depreciation methods. Deferred income taxes have been provided for the differences between book and tax depreciation except for the effect of accelerated depreciation on Missouri property acquired prior to 1972. Accelerated depreciation methods include the use of the Asset Depreciation Range System and Accelerated Cost Recovery System which permit shorter lives. Taxes deferred on property additions for certain prior years are now being restored to income as the timing differences reverse.

In accordance with rate orders issued by the MPSC and Kansas Corporation Commission (KCC), the tax effect of the interest component of AFDC is being normalized and the related accumulated deferred income taxes are credited to construction work in progress rather than deferred income taxes on the balance sheet.

The Company normalizes for all jurisdictional purposes, including Kansas after December 1, 1981, the tax effects of pension costs, payroll taxes and property taxes which are capitalized on the books but deducted currently for income tax purposes. The effects of the current deduction of removal costs are flowed through.

At December 31, 1979, the Company had a net tax operating loss carry-forward of approximately \$11.7 million with an estimated tax benefit of \$5.8 million which was used to reduce the 1979 provision for deferred income taxes. All of such amount of deferred income taxes was restored during 1980 as the net tax operating loss was utilized and eliminated.

Investment tax credits have been deferred when utilized and are being amortized to income over the service lives of the related properties. At December 31, 1981, the Company had unused and unrecorded investment tax credits of approximately \$28 million, which will be available to reduce Federal income taxes payable through 1996.

Subsidiary: The Company has a wholly-owned subsidiary, WYMO Fuels Inc., organized for the acquisition and development of coal properties. The Company has accounted for its investment in WYMO Fuels Inc., under the equity method and has not prepared consolidated financial statements because the effect of consolidation upon the accompanying financial statements would not be significant.

2. Short-Term Borrowings

The Company borrows short-term funds from banks and through the sale of commercial paper as needed between financings. An average of approximately \$6.9 million is on deposit as bank compensating balances which support \$57 million bank lines-of-credit, back-up for commercial paper and certain services rendered by the banks for the Company. There are no legal restrictions on the withdrawal of these funds.

The Company also has a \$413 million bank line-of-credit through April 30, 1982, and expects to have a one-year, \$25 million line-of-credit thereafter, both under a minimal fee arrangement. Funds borrowed will be repayable within one year of the date of the loan.

3. Preferred Stock

The outstanding preferred stock of \$112 million may be redeemed at the option of the Company at prices which in the aggregate total \$122 million except that the \$2.20 series and \$10.70 series may not be redeemed at the current redemption prices of \$29.70 and \$110.70 prior to August 1, 1982, and June 1, 1985, through a refunding, directly or indirectly, by or in anticipation of the incurring of any debt or the issuance of preferred stock which has interest or dividend costs to the Company lower than 8.26% and 10.84%.

**4. Redeemable
Preferred and
Preference Stock**

The Company is obligated under the terms of the Purchase Fund Agreement to provide funds sufficient to purchase 1,600 shares of the 4% Cumulative Preferred Stock annually. The redemption price of this preferred stock at December 31, 1981, was \$102.25.

The \$8.00 Cumulative Preference Stock (issued in 1978), with stated value of \$100 per share is redeemable in whole, or in part ratably from each of the holders of the outstanding shares, at \$104 per share through December 1, 1982, and at \$100 per share thereafter. Annual sinking fund purchases of 41,667 shares on December 1 in the years 1983 through 1988 are mandatory.

The \$12.75 Cumulative Preference Stock (issued in 1980), with stated value of \$100 per share, is non-redeemable through May 31, 1983, but may be redeemed thereafter in whole, or in part ratably from each of the holders of the outstanding shares, at times and prices specified in the purchase agreement. Annual sinking fund purchases of 41,667 shares on June 1 in the years 1985 through 1990 are mandatory.

Scheduled redemption and sinking fund requirements for outstanding redeemable preferred and preference stock for the next five years are as follows: 1982, \$160,000; 1983 and 1984, \$4,327,000 each; and for 1985 and 1986, \$8,493,000, each.

If any dividends on its preferred or preference stock are not declared and paid when scheduled, the Company could not declare or pay dividends on its common stock or acquire any shares thereof for consideration. If the amount of any such unpaid dividends equals four or more full quarterly dividends, the holders of preferred or preference stock, as the case may be, voting by the classes prescribed for this purpose, could elect representatives on the Company's Board of Directors.

In February 1982 the Company issued at \$110 per share, 228,000 shares of \$17.05, Cumulative Preferred Stock (Redeemable), with a stated value of \$100 per share.

5. Long-Term Debt

First Mortgage Bonds: The amount of First Mortgage Bonds authorized by the indenture of Mortgage and Deed of Trust dated as of December 1, 1946, as supplemented, is unlimited. The amount of additional bonds which may be issued is subject to certain restrictive provisions of the Indenture. Substantially all of the Company's utility plant is pledged under the terms of the Indenture. The 3¼% series due 1985 has an annual sinking fund requirement of \$160,000 which will be met by pledging property additions taken at 60% of cost or fair value to the Company, whichever is less.

Loan Agreements: The Company has a \$50 million line-of-credit, expiring June 30, 1983, with a group of international banks which provides for the use of unsecured funds at interest rates adjusted quarterly based on the three-month London Inter-Bank Offered Rate. At December 31, 1981, \$50 million at 14.5625% was outstanding.

The Company has a financing arrangement with a bank, expiring January 16, 1984, which enables the Company to borrow up to \$50 million by collateralizing its coal and fuel oil inventories at rates based upon the current bankers' acceptance discount rate plus an acceptance charge. At December 31, 1981, \$42 million at 12.5% was outstanding.

Scheduled Maturities: The aggregate amounts of maturities during the next five years of long-term debt outstanding at December 31, 1981, (exclusive of the loan agreements, which the Company expects will be extended) are \$35 million in 1983 and \$16 million in 1985.

**6. Dividend
Restrictions**

Retained earnings at December 31, 1981, included \$11.3 million which was not available for cash dividends under the provisions of the Indenture of Mortgage.

7. Wolf Creek Unit

The Wolf Creek Unit, rated at 1,150 megawatts, under construction in Coffey County, Kansas, is owned 47% by the Company, 47% by Kansas Gas and Electric Company, and 6% by Kansas Electric Power Cooperative, Inc. (KEPCo). While KEPCo initially agreed to purchase a 17% interest in the unit, its lender approved a loan sufficient to purchase only the 6% interest. KEPCo had been making advance payments toward the 17% sale during the past three years. As a result of the sale on a reduced basis at year-end 1981, the Company repaid, through issuance of short-term debt, \$70.7 million of advances and accrued interest including additional interest of \$8 million not previously accrued. The additional interest was capitalized. The sale price to KEPCo was based on the Company's book cost of \$33.4 million plus \$3.4 million to cover the Company's income tax liability incurred as a result of the sale. The \$3.4 million was recorded in the accrued tax accounts.

Included in construction work in progress at December 31, 1981, is approximately \$522.1 million for the Wolf Creek Unit. At December 31, 1981, the Company's shares of Wolf Creek's total construction and nuclear fuel commitments were approximately \$53 million and \$167 million, respectively. Nuclear fuel commitments include approximately \$63 million for uranium concentrates, enrichment and conversion through 1989 and \$104 million for fabrication through 2010.

An application is pending before the Nuclear Regulatory Commission for an operating license for the Wolf Creek Unit. Without such a license, the Company assumes a risk of loss in proceeding with the construction of the Wolf Creek Unit.

8. Jointly-Owned Electric Utility Plants

In addition to the Wolf Creek Unit, the Company has, under joint ownership agreements with other utilities, undivided interests at December 31, 1981, in three electric generating units as follows:

	La Cygne Units	Iatan Unit
	(thousands)	
Utility plant in service	\$226,389	\$234,373
Accumulated depreciation (Production plant only)	\$ 58,024	\$ 14,289
Total accredited capacity—MW	1,370	670
Company's share	50.0%	70.0%

Each participant must provide its own financing. The Company's share of direct expenses is included in the corresponding operating expenses on the Statements of Income.

Auditors' Report

To the Stockholders and the Board of Directors of
Kansas City Power & Light Company

We have examined the balance sheets and statements of cumulative preferred and preference stock and long-term debt of Kansas City Power & Light Company (a Missouri corporation) as of December 31, 1981 and 1980, and the related statements of income, taxes, retained earnings and sources of funds for gross property additions for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Kansas City Power & Light Company as of December 31, 1981 and 1980, and the results of its operations and the sources of its funds for gross property additions for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis subsequent to the change (with which we concur) made as of January 1, 1979, in the method of revenue recognition to accrue revenues for sales unbilled at the end of each reporting period as described in Note 1 to the financial statements.

Kansas City, Missouri,
January 29, 1982.

ARTHUR ANDERSEN & CO.

Management's Discussion and Analysis of Financial Condition and Results of Operations

KWH Sales and Operating Revenues

Total Kwh sales increased by 4.6% in 1980 compared with 1979 and decreased by 3.2% in 1981 compared with 1980. The 1980 sales increase reflected increased demand for electricity during the record-breaking 1980 summer heat compared to the milder summers of 1981 and 1979. Sales during those three years have been adversely affected by energy conservation and reduced economic activity.

Sales data for the years:

	Increase (Decrease) Over Prior Year	
	1981	1980
Kwh sales		
Residential	(12.8)%	19.3 %
Commercial	(2.6)	4.9
Industrial	8.6	(10.1)
Other	(6.9)	6.9
Total sales	(3.2)	4.6

The components of change in operating revenues for the years:

	Increase (Decrease) Over Prior Year	
	1981	1980
	(Millions)	
Kwh sales	\$(13)	\$ 18
Increases in base rates	35	61
Fuel cost recovery through fuel adjustment clauses	4	(4)
Totals	<u>\$ 26</u>	<u>\$ 75</u>

Fuel Costs

Average fuel costs per million Btu increased from \$1.073 in 1979 to \$1.094 in 1980 (2% increase), and to \$1.239 in 1981 (13% increase). The modest 1980 increase reflected the coal-fired Iatan Unit being placed in service which resulted in reduced oil and gas usage. The 1981 increase in average fuel cost is primarily due to higher coal prices. Approximately 30% of the increases have been recovered through the operation of fuel adjustment clauses in the Company's tariffs in Kansas and for its wholesale sales. The July 1981 Missouri rate increase included \$4.1 million to cover anticipated price increases in coal expected to be used during the succeeding twelve months.

The components of change in fuel costs for the years:

	Increase Over Prior Year	
	1981	1980
	(Millions)	
Generation for customers and interchange sales	\$16	\$19
Average fuel cost	15	4
Totals	<u>\$31</u>	<u>\$23</u>

Interchange Power (net)

In 1979 when the Company purchased replacement energy to serve its customers while certain of its major units were out of service for maintenance, the cost of net interchange purchases was \$27.2 million. Operation of the Iatan Unit since May 1980 allowed the Company to attain a net interchange sales position of \$21.5 million in 1980 and \$48.2 million in 1981. An agreement with another utility which commenced June 1, 1980, and is scheduled to expire May 31, 1982, resulted in capacity sales of \$7 million in 1980 and \$23.9 million in 1981, and is expected to amount to about \$10 million in 1982. The level of interchange sales in the future will depend upon the Company's system requirements and other factors such as fuel costs, maintenance requirements and the availability of generating units to the Company and potential purchasing utilities.

Maintenance and Depreciation Expense

Maintenance expenses for 1980 and 1981 have not changed significantly from the \$54.3 million level in 1979, reflecting improved availability of the Company's generating units. The commercial operation of the Iatan Unit since May 1980 is the major reason depreciation expense increased in 1980 and 1981.

Interest Expense

Interest expense continues to increase because of increased amounts of outstanding debt and higher interest rates.

Net AFDC

Allowance for Funds Used During Construction net of associated deferred income taxes (net AFDC) was \$29.5 million (\$2.68 per share) in 1979, \$31.9 million (\$2.47 per share) in 1980, and \$41.9 million (\$3.10 per share) in 1981. The continuing increases in the amount of construction work in progress at Wolf Creek and higher AFDC rates caused net AFDC to increase 31% in 1981 and 8% in 1980. The lower increase in 1980 was due to the Iatan Unit being placed into commercial operation in May of that year.

Earnings Per Share

Earnings available for common stock (including net AFDC) increased from \$3.01 per share in 1979 (including \$0.65 from a change in accounting method) to \$4.36 in 1980 and to \$4.83 in 1981 because of increased revenues in 1980 and 1981, and, in 1981, increased net AFDC.

Construction Expenditures in 1980 and 1981

The Company's construction expenditures, which include nuclear fuel but exclude net AFDC, totaled \$125 million in 1980 and \$134 million in 1981. Funds from operations provided 45.7% and 41.3% of the 1980 and 1981 construction expenditures, respectively. The balance of funds for construction expenditures came from outside sources. In 1981 the need for financing was reduced by a decrease in working capital requirement because of planned reductions in coal and oil inventories.

Projected Construction Expenditures

Construction expenditures are projected as:

	Construction Expenditures					
	1982	1983	1984	1985	1986	Total
	(Millions)					
Generating facilities	\$129.5	\$ 88.4	\$30.4	\$ 6.7	\$ 3.4	\$258.4
Nuclear fuel	4.8	5.6	8.6	21.8	9.9	50.7
Transmission facilities	4.9	18.6	9.7	5.1	1.1	39.4
Distribution and general facilities	26.9	33.4	40.4	38.0	38.9	177.6
Totals	\$166.1	\$146.0	\$89.1	\$71.6	\$53.3	\$526.1

Of the five-year total, \$255.1 million is budgeted for the Wolf Creek Unit including about \$50.7 million for nuclear fuel. After completion of the Wolf Creek Unit, which is scheduled for commercial operation in 1984, construction expenditures are expected to be at relatively low levels until significant construction of a contemplated 1994 generating unit begins in the late 1980s. The Company is negotiating a proposed sale in 1982 of up to a 4.5% interest in the Wolf Creek Unit and up to a 2% interest in the La Cygne units to Kansas Municipal Energy Agency (KMEA). If the proposed sale is not consummated, the projected 1982 through 1986 construction expenditures would increase by up to \$15 million.

The timing of construction and estimates of costs are subject to continuing review and adjustments, and actual construction expenditures may be made at different times and may vary from such estimates.

Financing Requirements

Besides financing construction expenditures, the Company will have additional cash requirements during the next five years to retire \$51 million of maturing long-term debt and to redeem \$25.8 million of preferred and preference stock pursuant to sinking fund obligations. Short-term debt at December 31, 1981, was \$89.1 million and represented the highest level ever outstanding for the Company, most of which was incurred to repay KEPCo for certain advance payments made in connection with the year-end closing of the sale to KEPCo of a part of the Wolf Creek Unit on a reduced basis. (See Note 7 of Notes to Financial Statements).

It is expected that financing requirements will be met through sales of debt and equity securities and various other financing arrangements. The amounts, timing, and methods of financing will be dependent upon market conditions prevailing at the time the financings are required. Short-term borrowings will be utilized between financings. It is anticipated that funds for the remaining capital needs will be provided from operations.

Uncertainties which affect the degree to which financing requirements will be met by funds provided from operations include the impact of inflation on operating expenses, the level of kilowatt-hour sales, the level of operating efficiencies, availability of generating units, the demand from other utilities for interchange power and the Company's ability to receive adequate rate increases.

See Supplementary Financial Information for Financial Data Adjusted for Changing Prices.

Supplementary Financial Information

Quarterly Operating Results

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1981	1980	1981	1980	1981	1980	1981	1980
	(thousands)							
Operating revenues	\$106,106	\$87,805	\$113,252	\$99,032	\$139,265	\$153,627	\$113,088	\$105,501
Operating income	22,065	12,794	20,278	16,480	29,750	37,648	22,392	19,925
Net income	16,080	10,775	14,570	11,458	28,090	32,408	20,406	14,060
Earnings per common share	\$.94	\$.69	\$.83	\$.65	\$ 1.82	\$ 2.18	\$ 1.24	\$.80

The business of the Company is subject to seasonal fluctuations with peak periods occurring during summer months.

Financial Data Adjusted For Changing Prices

(Thousands)

	Year Ended December 31, 1981	
	Constant Dollar Average 1981 Dollars	Current Cost Average 1981 Dollars
Net income before book depreciation of \$44,962	\$ 124,108	\$ 124,108
Adjusted depreciation	98,876	109,109
Income*	<u>\$ 25,232 (a)</u>	<u>\$ 14,999</u>
Increase in specific prices (current cost) of property, plant and equipment held during the year		\$ 234,999
Reduction to net recoverable cost	\$ (69,477)	(50,027)
Effect of increase in general price level		<u>(244,216)</u>
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost		(59,244)(b)
Gain from decline in purchasing power of net amounts owed	80,756	80,756
Net	<u>\$ 11,279</u>	<u>\$ 21,512</u>

(a) Including the reduction to net recoverable cost, the [loss] on a constant dollar basis would have been \$(44,245) for 1981.

(b) At December 31, 1981, current cost of utility plant net of accumulated depreciation was \$2,930,000 while historical cost or net cost recoverable through depreciation was \$1,455,000.

Certain Financial Data Adjusted For Effects of Changing Prices

(In Thousands of Average 1981 Dollars)

	Year Ended December 31,				
	1981	1980	1979	1978	1977
Average consumer price index (national)	272.4	246.8	217.4	195.4	181.5
General information					
Operating revenues	\$ 471,711	\$ 492,224	\$ 464,703	\$444,236	\$406,217
Gain from decline in purchasing power of net amounts owed	\$ 80,756	\$ 112,800	\$ 125,023	—	—
Cash dividends declared per common share	\$ 2.825	\$ 2.97	\$ 3.30	\$ 3.57	\$ 3.69
Market price per common share at year-end	\$ 21.25	\$ 21.35	\$ 26.22	\$ 32.39	\$ 42.27
Historical cost information adjusted for—					
General inflation					
Income*	\$ 25,232	\$ 25,917	\$ 4,162	—	—
Income (loss)* per common share	\$ 0.85	\$ 0.95	\$ (0.83)	—	—
Net assets at year-end at net recoverable cost	\$ 443,677	\$ 447,871	\$ 439,947	—	—
Current cost information					
Income*	\$ 14,999	\$ 13,518	\$ (11,579)	—	—
Income (loss)* per common share	\$ 0.09	\$ (0.01)	\$ (2.26)	—	—
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	\$ (59,244)	\$ (106,840)	\$ (131,394)	—	—
Net assets at year-end at net recoverable cost	\$ 443,677	\$ 447,871	\$ 439,947	—	—

*Excluding reduction to net recoverable cost. The year 1979 is before cumulative effect of change in revenue recognition.

Notes to the Financial Data Adjusted for Changing Prices

The information presented above is supplied in accordance with the requirements of FASB Statement No. 33, "Financial Reporting and Changing Prices," for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers (CPI-U). Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general. The current cost of plant was determined by indexing the surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. Since utility plant is not expected to be replaced precisely in kind, current cost does not necessarily represent the replacement cost of the Company's productive capacity. The current year's provision for depreciation on the constant dollar and current cost amounts of depreciable plant was determined by applying the Company's composite depreciation rate to the average, depreciable plant amount calculated on a constant dollar and current cost basis.

Since regulation limits a recovery of fuel costs in base rate schedules to actual costs, fuel inventories are effectively monetary assets and have, therefore, not been restated from their historical cost in nominal dollars. Also, preferred stock has been treated as a monetary item.

Since only historical costs are deductible for income tax purposes, income tax expense has not been adjusted.

Under the ratemaking prescribed by the regulatory commissions to which the Company is subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current costs that exceed the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. To properly reflect the economics of rate regulation in the determination of income, the reduction of net plant to net recoverable cost has been offset by the gain from the decline in purchasing power of net amounts owed.

Dividends and Stock Prices

Common Stock Price Range

Quarter	1980		1981	
	High	Low	High	Low
First	\$23½	\$18½	\$22¾	\$19½
Second	23¼	18¾	22	19¾
Third	23⅛	20	22⅞	19¾
Fourth	21⅞	18½	24¾	19¾

Common stock is listed on the New York Stock Exchange and the Midwest Stock Exchange.

Common Stock Dividends

Quarterly dividends on common stock were declared as follows:

Quarter	1980	1981	1982
First	\$0.665	\$0.695	\$0.74
Second	0.665	0.695	
Third	0.665	0.695	
Fourth	0.695	0.74	

Company common dividends paid in 1981 are fully taxable to shareholders as dividend income.

Preferred and Preference Stock Dividends

Quarterly dividends on the Preferred Stock were declared in each quarter of 1980 and 1981 as follows: 3.80% series—\$0.95 per share; 4% series—\$1.00 per share; 4.50% series—\$1.125 per share; 4.20% series—\$1.05 per share; 4.35% series—\$1.0875 per share; and 7.72% series—\$1.93 per share. Dividends on Cumulative No Par Preferred Stock were declared each quarter of 1980 and 1981 as follows: \$10.70 series—\$2.675; \$2.33 series—\$0.5825 per share; and \$2.20 series—\$0.55 per share.

Dividends on the \$8.00 Cumulative Preference Stock were declared at \$2.00 per share in each quarter of 1980 and 1981.

Dividends on the \$12.75 Cumulative Preference Stock were declared at \$3.152 per share for the initial dividend in the second quarter of 1980 and at \$3.1875 per share in the third and fourth quarters of 1980 and in each quarter of 1981.

Transfer Agents and Registrars

Common Stock

Manufacturers Hanover Trust Company
New York, New York 10015
Harris Trust and Savings Bank
Chicago, Illinois 60690
United Missouri Bank of Kansas City, N.A.
Kansas City, Missouri 64141

Preferred Stock

Manufacturers Hanover Trust Company
New York, New York 10015
United Missouri Bank of Kansas City, N.A.
Kansas City, Missouri 64141

Preference Stock

Kansas City Power & Light Company
Kansas City, Missouri 64141

Annual Report on Form 10-K

Copies of the Company's annual report to the Securities and Exchange Commission on Form 10-K will be provided without charge to any shareholder or beneficial owner of shares of the Company's stock upon written request to Samuel P. Cowley, Secretary, P.O. Box 679, Kansas City, Missouri 64141.

This report, including the financial statements contained herein, has been prepared for the general information of shareholders of Kansas City Power & Light Company, and is not intended to induce, or for use in connection with, any sale, offer for sale, or solicitation of an offer to buy, any securities of the Company.

Eleven-Year Summaries and Selected Financial Data

Summary of Earnings	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Operating Revenues (000's)											
Electric	\$ 465,825	\$ 440,182	\$ 365,084	\$ 313,787	\$ 286,053	\$ 234,297	\$ 207,813	\$ 170,249	\$ 155,403	\$ 137,781	\$ 128,774
Steam-heat	5,886	5,783	5,791	4,876	4,609	2,867	2,505	1,799	1,736	1,829	1,700
Total	471,711	445,965	370,875	318,663	270,662	237,164	210,318	172,048	157,139	139,610	130,474
Operating Expenses (000's)											
Operation	180,474	174,661	186,134	135,450	110,510	92,945	83,355	58,837	55,950	50,538	43,622
Maintenance	54,305	52,680	54,313	30,359	29,496	22,275	19,194	14,550	13,890	10,659	11,451
Depreciation	44,962	41,733	34,868	33,174	30,356	24,629	21,867	20,648	18,560	14,301	13,489
Taxes											
Income	45,577	42,088	9,569	26,137	18,455	19,841	16,495	15,204	10,633	9,349	9,952
General	51,908	47,956	41,914	38,511	35,519	31,822	28,537	25,207	22,959	21,375	20,605
Total	377,226	359,118	326,800	263,631	224,336	191,512	169,648	134,446	121,992	106,222	99,119
Operating Income (000's)	94,485	86,847	44,075	55,032	46,326	45,652	40,670	37,602	35,147	33,388	31,355
Other Income and Deductions (000's)											
Allowance for equity funds used during construction	29,073	19,775	19,467	12,543	7,582	3,983	2,119	511	1,006	1,893	1,029
Miscellaneous (net)	327	(122)	304	(874)	(39)	185	1,715	642	214	498	503
Total	29,400	19,653	19,771	11,669	7,543	4,168	3,834	1,153	1,220	2,391	1,532
Income before Interest Charges (000's)	123,885	106,500	63,846	66,701	53,879	49,820	44,504	38,755	36,367	35,779	32,887
Interest Charges (000's)											
Interest on long-term debt	55,232	48,864	40,612	32,217	26,856	23,553	19,968	17,884	17,473	15,978	13,638
Interest on short-term notes	3,896	4,781	3,408	1,969	1,066	412	1,087	1,592	343	650	672
Allowance for borrowed funds used during construction—credit	(24,878)	(22,997)	(19,211)	(10,750)	(5,904)	(4,022)	(3,356)	(1,062)	(1,554)	(3,102)	(1,686)
Miscellaneous	10,489	7,151	2,486	341	268	255	203	128	147	87	82
Total	44,739	37,799	27,295	23,777	22,286	20,198	17,900	18,542	16,409	13,613	12,706
Income before Cumulative Effect (000's)	79,146	68,701	36,551	42,924	31,593	29,622	26,604	20,213	19,958	22,166	20,181
Cumulative Effect of Change in Revenue Recognition (000's)	—	—	7,202	—	—	—	—	—	—	—	—
Net Income (000's)	79,146	68,701	43,753	42,924	31,593	29,622	26,604	20,213	19,958	22,166	20,181
Preferred and Preference Stock Dividend Requirements (000's)	13,749	12,418	10,573	8,719	7,545	5,124	4,019	2,842	2,848	2,554	2,401
Applicable to Common Stock (000's)	\$ 65,397	\$ 56,283	\$ 33,180	\$ 34,205	\$ 24,048	\$ 24,498	\$ 22,585	\$ 17,371	\$ 17,110	\$ 19,312	\$ 17,780
Earnings Per Common Share											
Before change in revenue recognition	\$ 4.83	\$ 4.36	\$ 2.36	\$ 3.55	\$ 2.93	\$ 3.40	\$ 3.62	\$ 2.92	\$ 2.88	\$ 3.37	\$ 3.26
Earnings per share	\$ 4.83	\$ 4.36	\$ 3.01	\$ 3.55	\$ 2.93	\$ 3.40	\$ 3.62	\$ 2.92	\$ 2.88	\$ 3.37	\$ 3.26
Ratio of Earnings to Fixed Charges	2.75	2.80	1.99	3.01	2.78	3.04	3.09	2.82	2.68	2.88	3.07
Capitalization Data											
Common Stock Equity (000's)	\$ 459,313	\$ 424,852	\$ 373,224	\$ 327,260	\$ 282,106	\$ 244,938	\$ 215,512	\$ 188,336	\$ 183,934	\$ 179,802	\$ 157,709
Average shares outstanding	13,535,149	12,915,770	11,009,407	9,644,321	8,216,133	7,211,536	6,247,092	5,947,092	5,947,092	5,738,759	5,447,092
Cash dividends per share	\$ 2.825	\$ 2.69	\$ 2.635	\$ 2.56	\$ 2.46	\$ 2.34	\$ 2.26	\$ 2.20	\$ 2.20	\$ 2.12	\$ 2.08
Preferred Stock (000's)	\$ 112,000	\$ 112,000	\$ 112,000	\$ 112,000	\$ 112,000	\$ 92,000	\$ 72,000	\$ 52,000	\$ 52,000	\$ 52,000	\$ 52,000
Dividend requirements (000's)	\$ 8,414	\$ 8,414	\$ 8,414	\$ 8,414	\$ 7,372	\$ 4,945	\$ 3,834	\$ 2,650	\$ 2,650	\$ 2,650	\$ 2,190
Average dividend rate	7.5%	7.5%	7.5%	7.5%	7.4%	6.7%	6.0%	5.1%	5.1%	5.1%	4.7%
Preferred Stock (Redeemable) (000's)	\$ 3,676	\$ 3,836	\$ 3,996	\$ 4,156	\$ 4,316	\$ 4,476	\$ 4,636	\$ 4,796	\$ 4,956	\$ 5,116	\$ 5,276
Dividend requirements (000's)	\$ 148	\$ 153	\$ 159	\$ 166	\$ 173	\$ 179	\$ 185	\$ 192	\$ 198	\$ 204	\$ 211
Average dividend rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Preference Stock (Redeemable) (000's)	\$ 50,000	\$ 50,000	\$ 25,000	\$ 25,000	—	—	—	—	—	—	—
Dividend requirements (000's)	\$ 5,187	\$ 3,851	\$ 2,000	\$ 139	—	—	—	—	—	—	—
Average dividend rate	10.38%	9.73%	8.00%	8.00%	—	—	—	—	—	—	—
Long-Term Debt (including current maturities) (000's)	\$ 662,050	\$ 612,477	\$ 588,876	\$ 503,044	\$ 436,372	\$ 384,118	\$ 343,738	\$ 324,541	\$ 299,797	\$ 285,673	\$ 256,520
Interest on debt (000's)	\$ 55,232	\$ 48,864	\$ 40,612	\$ 32,217	\$ 26,856	\$ 23,553	\$ 19,968	\$ 17,884	\$ 17,473	\$ 15,978	\$ 13,638
Average interest rate	8.88%	8.27%	7.58%	6.98%	6.78%	6.35%	6.12%	5.88%	5.86%	5.78%	5.54%
Other Data											
Utility Plant—Gross additions (000's)	\$ 173,418	\$ 156,867	\$ 234,818	\$ 188,721	\$ 168,285	\$ 126,014	\$ 89,818	\$ 63,179	\$ 38,355	\$ 70,170	\$ 56,213
Total Assets (000's)	1,617,781	1,538,978	1,391,038	1,166,760	1,008,814	841,502	736,530	662,592	604,930	575,305	521,812

Electric Sales Statistics

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Revenues (000's)											
Residential	\$ 154,916	\$ 161,973	\$ 121,170	\$ 111,972	\$ 93,343	\$ 84,202	\$ 79,507	\$ 62,314	\$ 58,280	\$ 51,533	\$ 48,912
Commercial	192,526	176,505	148,120	124,083	107,738	94,306	83,416	68,273	62,043	54,830	51,112
Industrial	94,168	80,821	76,956	61,489	50,914	43,105	34,478	30,927	27,570	24,530	22,487
Public street and highway lighting	9,332	8,325	7,043	6,221	6,398	5,888	5,205	4,506	3,949	3,683	3,424
Public authorities—power and lighting	82	75	69	74	65	60	56	55	49	45	44
Other electric utilities	12,648	10,638	9,994	8,369	6,186	5,315	3,765	2,968	2,355	2,123	1,868
Total	463,672	438,337	363,352	312,208	264,644	232,876	206,427	169,043	154,246	136,744	127,847
Other electric revenues	2,153	1,845	1,732	1,579	1,409	1,421	1,386	1,206	1,157	1,057	927
Total	\$ 465,825	\$ 440,182	\$ 365,084	\$ 313,787	\$ 266,053	\$ 234,297	\$ 207,813	\$ 170,249	\$ 155,403	\$ 137,801	\$ 128,774
Sales in Kilowatt Hours (000's)											
Residential	2,345,646	2,689,467	2,254,962	2,465,782	2,284,029	2,193,859	2,300,432	2,070,855	2,113,326	1,956,111	1,840,228
Commercial	3,251,235	3,334,185	3,183,710	3,182,675	3,080,589	2,889,888	2,846,031	2,651,817	2,677,697	2,493,428	2,312,259
Industrial	2,326,664	2,141,924	2,383,204	2,302,619	2,147,363	1,980,230	1,768,308	1,952,711	1,985,799	1,681,876	1,752,072
Public street and highway lighting	66,308	67,172	66,561	68,248	68,286	66,814	65,260	65,276	64,158	62,331	59,249
Public authorities—power and lighting	1,634	1,693	1,876	2,710	2,702	2,657	2,914	3,513	3,599	3,596	3,665
Other electric utilities	327,022	355,154	328,072	336,916	317,516	302,842	264,497	235,488	236,309	216,280	195,769
Total	8,318,509	8,593,595	8,218,385	8,358,950	7,900,485	7,436,290	7,247,442	6,979,660	7,080,888	6,613,622	6,163,242
Average Number of Customers											
Residential	304,613	301,417	298,413	293,402	288,376	284,296	281,708	278,973	273,532	267,320	261,865
Commercial	39,758	38,984	38,372	38,713	38,343	38,024	37,709	37,575	37,401	36,670	35,897
Industrial	2,359	2,215	2,142	2,121	2,084	2,065	2,049	2,063	2,112	2,133	1,843
Public street and highway lighting	122	123	123	123	122	125	126	128	128	129	131
Public authorities—power and lighting	11	11	11	12	11	11	11	12	12	12	12
Other electric utilities	13	14	14	16	16	15	13	13	13	12	12
Total	346,876	342,764	339,075	334,387	328,952	324,536	321,616	318,764	313,198	306,276	299,760
Residential Sales											
Average kwh per customer	7,700	8,923	7,556	8,404	7,920	7,717	8,166	7,423	7,726	7,317	7,027
Average revenue per kwh—cents	6.604	6.023	5.373	4.541	4.087	3.838	3.456	3.009	2.758	2.634	2.658
Load Statistics											
Generated (net)—kwh (000's)	10,762,030	10,095,801	7,535,591	8,581,224	8,446,189	7,667,221	7,203,748	7,225,880	7,212,592	7,225,430	7,078,663
Purchased—kwh (000's)	11,051	11,761	79,993	211,991	188,082	194,250	190,198	161,600	141,759	185,822	156,347
Interchanged (net)—kwh (000's)	(1,908,379)	(902,501)	1,196,104	218,421	(182,695)	164,936	463,542	169,272	243,921	(237,235)	(593,700)
Total—kwh (000's)	8,864,702	9,205,061	8,811,688	9,011,636	8,451,576	8,026,407	7,857,488	7,556,452	7,598,272	7,174,017	6,641,310
Maximum net hourly demand in kilowatts (winter)	1,304,000	1,299,000	1,317,000	1,286,000	1,255,000	1,165,000	1,161,000	1,106,300	1,090,900	1,116,800	1,016,700
Maximum net hourly demand in kilowatts (summer)	2,123,000	2,198,000	1,964,000	2,097,000	1,980,000	1,920,000	1,902,700	1,907,200	1,757,300	1,675,700	1,573,800
Net generating capability in kilowatts (summer)	2,884,000	2,838,000	2,560,000	2,560,000	2,641,000	2,361,000	2,334,000	2,218,000	2,224,000	1,813,000	1,684,000
Net capacity in kilowatts (sold; purchased (summer)	(200,000)	(150,000)	—	95,000	(101,000)	118,000	100,000	148,000	(25,000)	163,000	172,000
Btu per net kwh generated	11,119	11,158	11,633	11,266	11,518	11,331	11,585	11,364	11,521	11,001	11,037
Employee Data											
Salaries and wages (000's)	\$ 80,239	\$ 73,602	\$ 68,465	\$ 54,693	\$ 56,380	\$ 49,644	\$ 45,305	\$ 38,614	\$ 40,068	\$ 33,867	\$ 31,665
Pensions and benefits (000's)	12,759	11,670	9,947	6,861	7,878	7,132	6,487	5,358	5,870	4,285	3,430
	\$ 92,998	\$ 85,272	\$ 78,412	\$ 61,554	\$ 64,258	\$ 56,776	\$ 51,792	\$ 43,972	\$ 45,938	\$ 38,152	\$ 35,095
Number of employees, December 31	2,928	2,856	2,868	2,726	2,572	2,522	2,484	2,477	2,556	2,473	2,444
Employee Data—Adjusted*											
Salaries and wages (000's)	\$ 72,627	\$ 66,469	\$ 62,569	\$ 49,755	\$ 51,716	\$ 46,491	\$ 42,748	\$ 36,272	\$ 39,130	\$ 33,264	\$ 31,665
Pensions and benefits (000's)	11,610	10,751	9,282	6,287	7,359	6,754	6,174	5,087	5,729	4,209	3,430
	\$ 84,237	\$ 77,220	\$ 71,851	\$ 56,042	\$ 59,075	\$ 53,245	\$ 48,922	\$ 41,359	\$ 44,859	\$ 37,473	\$ 35,095
Number of employees, December 31	2,694	2,628	2,659	2,577	2,414	2,382	2,379	2,375	2,473	2,429	2,444

*Excludes data related to employees allocated to other participants in jointly-owned units operated by KCPL

Officers

Arthur J. Doyle, 58
Chairman of the Board,
President and Chief
Executive Officer, 1973

Samuel P. Cowley, 47
Vice President-Corporate
Affairs, Secretary and
Chief Legal Officer, 1979

Donald M. Landes, 50
Vice President-
Communications, 1975

John A. Mayberry, 54
Vice President-
Commercial Operations, 1971

Donald T. McPhee, 62
Vice President-System
Power Operations, 1969

J. Robert Miller, 57
Vice President-Transmis-
sion and Distribution
Systems Operations, 1971

William H. Miller, 47
Vice President-
Administration, 1980

Louis C. Rasmussen, 53
Vice President-Corporate
Planning and Finance, and
Chief Financial Officer, 1974

A. Drue Jennings, 35
General Counsel, 1980

Lee F. Miller, 60
Treasurer, 1975

Neil A. Roadman, 36
Controller, 1980

Board of Directors

Arthur J. Doyle*
Chairman of the Board,
President and Chief
Executive Officer

Cyrus S. Eaton, Jr.
Chairman of the Board
Tower International
Cleveland, Ohio
—mining, investments
and international
trade

William D. Grant*
Chairman of the Board and
Chief Executive Officer
Business Men's Assur-
ance Company of
America
—insurance

George E. Ne'tels, Jr.
President and Chief
Executive Officer
McNally Pittsburg Man-
ufacturing Corporation
President
Midwest Minerals, Inc.
Pittsburg, Kansas
—engineering, manufac-
turing, construction
mineral processing,
and quarry operations

Louis C. Rasmussen
Vice President-Corporate
Planning and Finance and
Chief Financial Officer

Eugene M. Strauss
Chief Executive
The Strauss Companies
—insurance and data
processing systems
marketing

Willis C. Theis*
Chairman of the Board
Simonds-Shields-Theis
Grain Company
—grain merchants and
warehousemen

Robert H. West*
President and Chief
Operating Officer
Butler Manufacturing
Company
—manufacturer and
marketer of pre-engi-
neered buildings sys-
tems, agricultural
equipment and energy
management systems

Robert K. Zimmerman*
Retired Chairman of the
Board

* Member Executive
Committee

Advisory Director
Robert A. Olson
Retired Chairman
of the Board

The Company

Kansas City Power & Light Company is a medium-sized electric utility headquartered in Kansas City, Missouri. The utility serves a 4,700-square mile area located in all or portions of 23 counties in western Missouri and eastern Kansas with a total population of about one million. Retail sales to some 349,000 customers in 94 incorporated communities represent about 96 percent of electric sales. The remaining four percent are at wholesale to seven communities, two electric cooperatives and two other utility systems. About 74 percent of sales are in Missouri, and the remainder are in Kansas.

The Company serves the major portion of the Kansas City metropolitan area, from which over 93 percent of revenues is derived. The Company also provides steam service to 204 customers in downtown Kansas City, Missouri.

Electricity is generated from six power stations, which include the Company's 1981 total accredited capacity of 2,884 megawatts. The Company participates in the MOKAN Power Pool, a regional organization designed to enhance reliability and economy in the operations of its electric utility members.

Company securities at December 31, 1981, were held by 41,115 common, 5,482 preferred and 17 preference shareholders. The Company employs about 783 management and 2,145 bargaining unit personnel.

Kansas City is considered to be the world's agribusiness capital, centered around the Kansas City Board of Trade and the stockyards. Kansas City leads the nation in farm equipment distribution, hard winter wheat marketing, underground storage space and Foreign Trade Zone space. The City also ranks first in greeting card and envelope production.

The area is second nationally in automobile assembly, freight car handling, grain storage and wheat flour production.

The City is a major center for rail and truck transportation, storage and distribution and for regional wholesale and service companies. Kansas City's location midway between the geographic and population centers of the country will continue to play an important role in the area's economic growth.

Kansas City is also a rapidly growing convention and entertainment center.



KANSAS CITY POWER & LIGHT COMPANY
1330 Baltimore Avenue
Kansas City, Missouri 64141