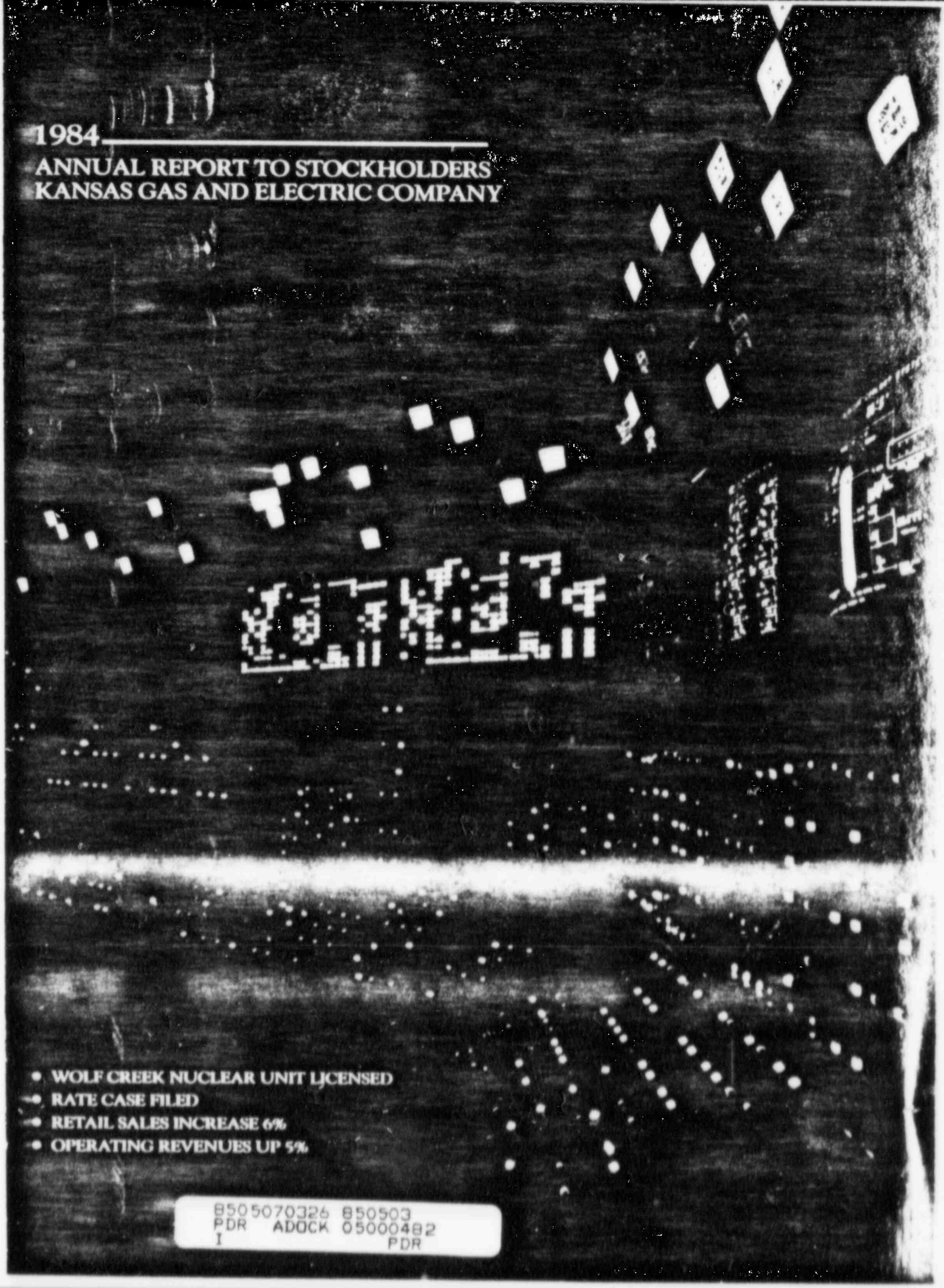
1984

ANNUAL REPORT TO STOCKHOLDERS
KANSAS GAS AND ELECTRIC COMPANY



- WOLF CREEK NUCLEAR UNIT LICENSED
- RATE CASE FILED
- RETAIL SALES INCREASE 6%
- OPERATING REVENUES UP 5%

CONTENTS

75 Years of Service

Electricity — generally taken for granted . . . essential . . . the miracle energy.

For 75 years KG&E has been a vital factor in the development of southcentral and southeastern Kansas. The company was founded December 11, 1909, when three struggling energy companies merged to provide the financial, engineering and management strength to offer adequate and reliable service to the Kansas communities of Wichita, Pittsburg and Frontenac.

Success at KG&E has always rested on a commitment to serving customers through use of new technology and capable people.

Today's problems of the electric utility industry are often highlighted by television, newspapers and magazines. The industry — and KG&E — has changed through the years . . . for the better. Why? The following statement made to KG&E employees in October, 1924, provides important insight:

"The continuous, adequate supply of light and power to its customers is an obligation in the fulfillment of which Kansas Gas and Electric Company must not fail, and for the fulfillment of which it must mass such forces as shall make even the meeting of crises paradoxically commonplace. The service of any electric light and power company is too vitally essential to the normal life of every individual in the communities served to be operated by men other than those whose managing genius and farsighted capacity for anticipating public needs have made that service possible."

On the Cover:

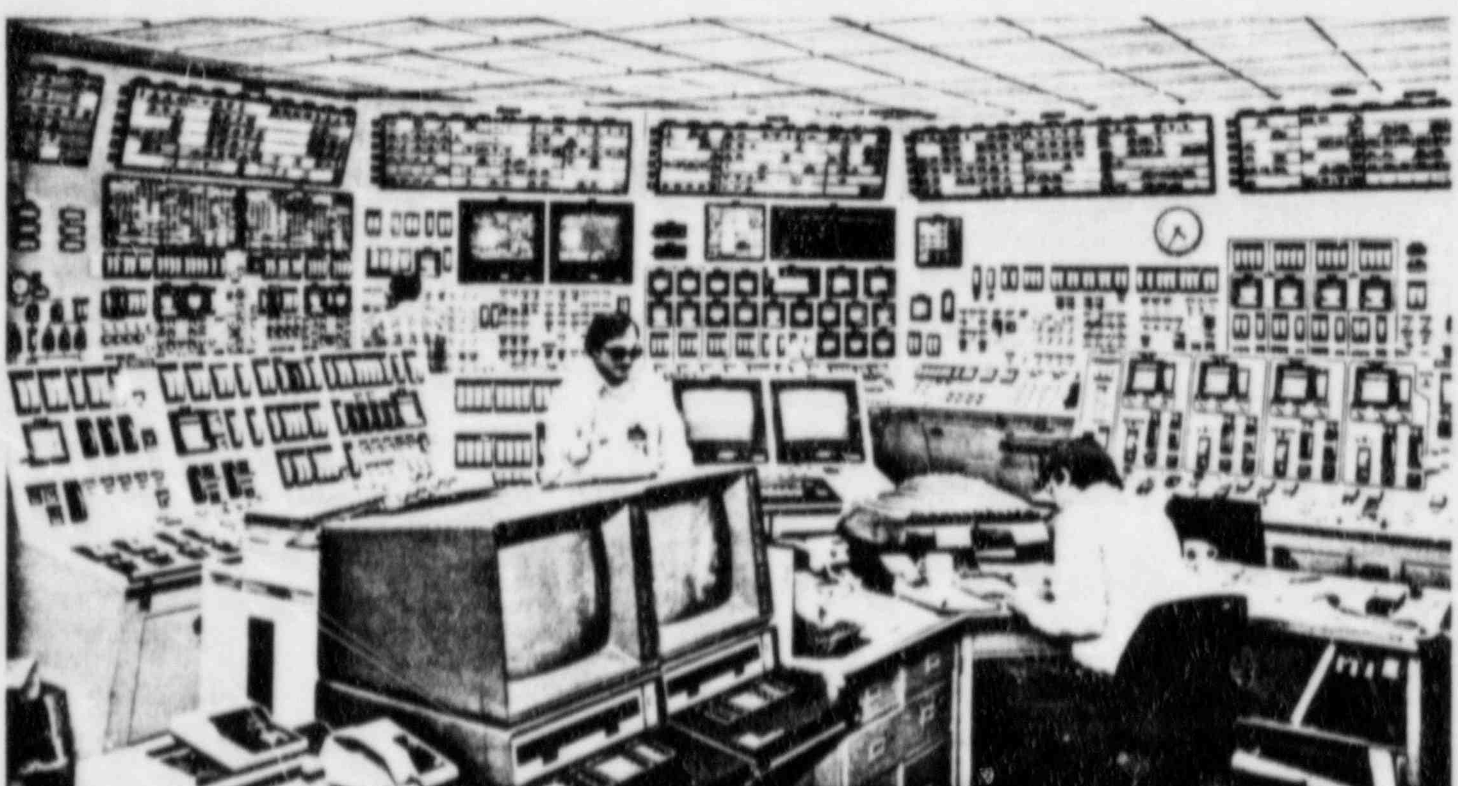
Lights of Wolf Creek Generating Station control panels provide a dazzling display illustrating KG&E's involvement with high technology. Wolf Creek is Kansas' first nuclear generating station. Fuel loading began March 12, 1985.

But there isn't any "dazzle" in actually operating a nuclear power plant. Wolf Creek control room is staffed by highly trained, skilled professionals as shown right.

FINANCIAL HIGHLIGHTS, FIVE-YEAR COMPARISON

(Dollars in thousands except per share data)

	1984	1983	1982	1981	1980
Operating Revenues	$ 410,753	$ 393,053	$ 350,937	$ 313,093	$ 293,808
Net Income	$ 121,858	$ 107,538	$ 84,663	$ 65,975	$ 52,395
Earnings Applicable to Common Stock	$ 106,495	$ 92,027	$ 70,521	$ 53,060	$ 43,208
Average Shares of Common Stock Outstanding	34,698,342	29,912,327	23,503,302	18,631,479	14,562,746
Common Stock Per Share Data					
Earnings	$ 3.07	$ 3.08	$ 3.00	$ 2.85	$ 2.97
Cash Dividends	$ 2.36	$ 2.27	$ 2.15	$ 2.06	$ 1.965
Indicated Year-End Dividend Rate	$ 2.36	$ 2.36	$ 2.24	$ 2.12	$ 2.04
Market Value Year-End	$ 17.25	$ 17.25	$ 18.375	$ 14.875	$ 14.625
Book Value (Moody's Net Tangible Assets) Year-End	$ 20.38	$ 20.31	$ 19.66	$ 20.08	$ 20.22
Available Capacity *(Megawatts)*	2,099	2,160	2,029	2,064	2,065
System Peak Responsibility *(Megawatts)*	1,633	1,700	1,626	1,707	1,758
Reserve Capacity *(Megawatts)*	466	460	403	357	307
Average Use Per Residential Customer *(Kilowatthours)*	9,812	9,901	9,529	9,433	10,708
Average Price Per Residential Kilowatthour	6.98¢	6.77¢	6.05¢	5.04¢	4.57¢
Number of Customers at End of Year	242,666	238,591	234,972	233,421	228,992
Long-Term Debt	$ 991,004	$ 753,242	$ 613,781	$ 607,256	$ 451,608
Redemption Required Preferred Stock	$ 78,000	$ 95,000	$ 95,855	$ 82,000	$ 53,000
Net Plant in Service	$ 716,155	$ 699,529	$ 610,746	$ 608,498	$ 610,846
Construction Work in Progress	1,272,858	957,674	812,297	613,874	453,640
Total Utility Plant (Net)	$ 1,989,013	$ 1,657,203	$ 1,423,043	$ 1,222,372	$ 1,064,486
Total Assets	$ 2,150,558	$ 1,778,232	$ 1,515,517	$ 1,300,495	$ 1,137,883



LETTER TO STOCKHOLDERS

Our 75th anniversary in 1984 gave us a good opportunity to reflect on the past and to further prepare for the future.

In 1984,

- Earnings applicable to common stock reached a new record of $106 million. Earnings per share of $3.07 were comparable to the 1983 record high of $3.08 even with 4.8 million more average shares of stock outstanding.
- Common stock dividends were $2.36 per share compared to $2.27 the year before.
- Retail customers used 6% more electricity than in 1983.
- Financing activity reached a record high of $425 million.
- Employees again demonstrated that they are accomplishment oriented and committed to serving customers.
- Our year-long 75th anniversary observance stressed "75 Years of Service."

Of special importance in 1984 was progress on completion of Wolf Creek Generating Station. On March 11, 1985, the Nuclear Regulatory Commission granted the plant an operating license. The plant is expected to be in commercial operation about six months from that date.

"Licensing of Wolf Creek brings to an end a huge construction program which was started in 1977 . . ."

Licensing of Wolf Creek brings to an end a huge construction program which was started in 1977, demanded record financing and plunged us into a constant maze of changing and sometimes stifling regulatory requirements.

There are, of course, important challenges remaining in regard to Wolf Creek. These include bringing the plant into commercial operation and being allowed a fair return on this investment while minimizing its impact on customers.

Although Wolf Creek was built in less time and at lower unit cost than the average of other similar sized nuclear units at single reactor sites, it still is a huge investment. Our 47% interest is projected to cost $1.33 billion. With that added to our rate base, our revenue needs will increase substantially.

To ease this impact, we've proposed phasing in the increase over five years. For the first year, we have asked for a 33% revenue increase effective when the plant begins commercial service later this year.

The outcome of our rate request is hard to predict. Kansas in 1984 adopted a new law which gives state regulators much broader powers to deal with rate recognition of new generating facilities. Under some circumstances the law authorizes the Kansas Corporation Commission to phase in the revenue impact of new generating facilities and even temporarily or, in some cases permanently, deny rate recognition for such facilities.

Our current residential rates are below both state and national averages. At the end of the five-year phase-in plan, our rates are expected to be slightly higher than the national average. But with a national trend toward higher electric costs, we expect that our charges will return to below the national average by the mid 1990s.

With Wolf Creek in service, we anticipate that 34% of our generation will come from this nuclear-fueled unit during its first full year of operation. Our five coal-fueled units built since 1973 will provide 50%. The balance will come from older gas-fired generators which federal and state actions have encouraged us to phase out.

In 1984, financing activity totalled a record $425 million. With completion of all major construction projects and if requested rate relief is allowed, anticipated need for financing will fall sharply in 1985. We have, and will continue to maintain, flexible financing options.

The number of customers at the end of 1984 reached 242,666. The increase in 1984 was 4,075. The compound annual growth rate during the last five years was 1.7%.

We are currently estimating an annual customer growth rate of slightly less than 2% for the next five years.

Because we are a summer peaking utility, load management is especially important to our future success. And the load factor improved significantly in 1984 to 52.6% from 49.6% in 1983. This is a measure of use of our facilities throughout the year compared to peak demand use.

". . . vitality comes only through anticipation of the future. And this is what we are about at KG&E."

Load factor will generally increase as growth in peak demand is controlled and as more electricity is sold during off-peak time periods.

A combination of efforts and programs can be used to help provide more efficient use of generating units. Controlling peak growth by controlling operating times for air conditioning and increased use of the efficient electric heat pump and add-on heat pump will spread out power demand and help us operate profitably and at lower cost to customers.

Even with much of our management attention directed to completing Wolf Creek, our employees again in 1984 demonstrated their continuing commitment to customers.

Prairie fires threatened our distribution system in early fall. Then central Kansas was hard hit by ice storms. Our personnel worked efficiently both to protect facilities

and to restore customer service on a timely basis.

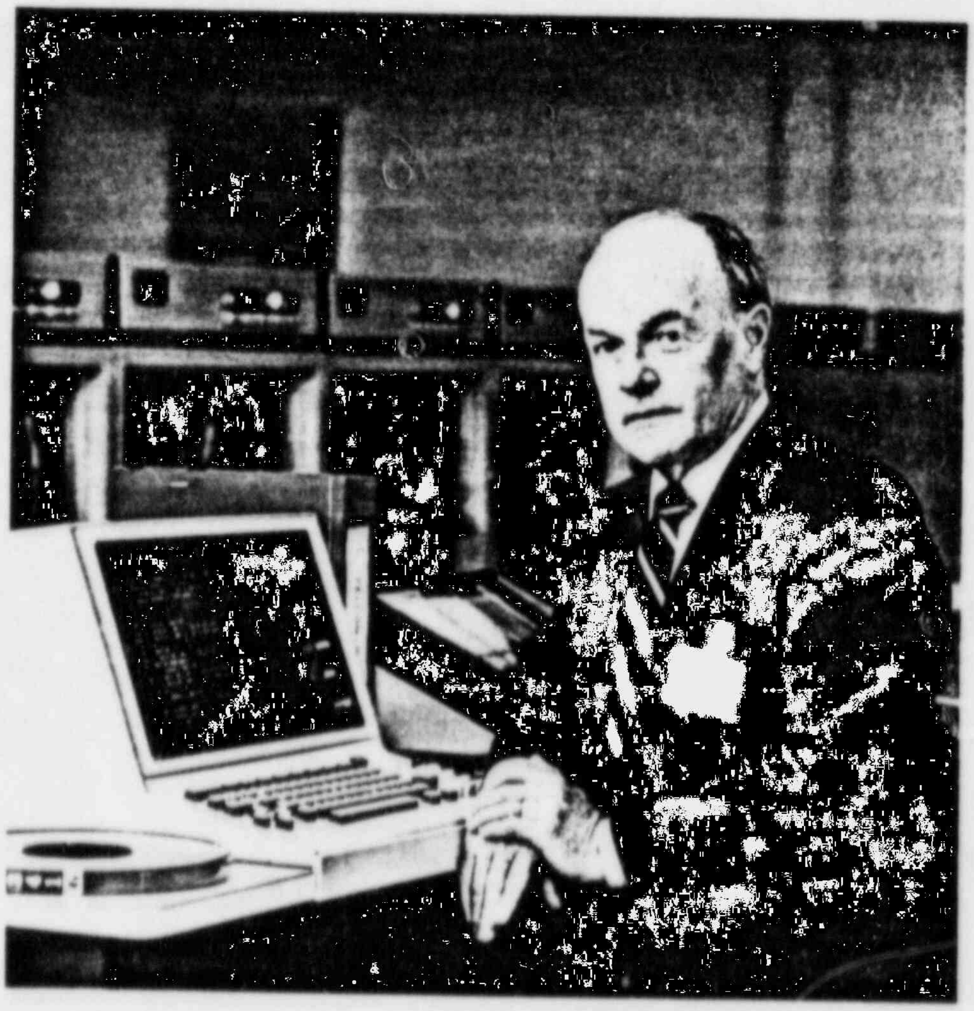
More quietly, employees have taken part in productivity improvement and cost containment programs. Their support is evident in productivity task force assignments and their participation in reaching company goals and objectives. Our concern is to have everyone busy on the right things.

I am pleased to report the following changes in our management organization. Richard M. Haden, an 18-year employee with KG&E, has been promoted to group vice president - administration, replacing Glen L. Montague who retired in August with 43 years of valuable service. We regret that Mr. Montague, who served as an officer as well as a director, died in November of cancer.

James Haines has been named vice president - regulatory affairs in recognition of the importance of gaining regulatory approval of fair rates and the more than eight years experience Mr. Haines has in this area.

If history teaches us anything, it's that vitality comes only through anticipation of the future. And this is what we are about at KG&E. We are presently engaged in a comprehensive review of our strategic planning processes. This is especially important as our long-term construction program winds down. We will continue to prosper because we will continue to be forward looking.

Please let me know if you have questions or comments.



Wilson K. Cadman
Chairman of the Board and President

March 12, 1985

FINANCIAL REVIEW

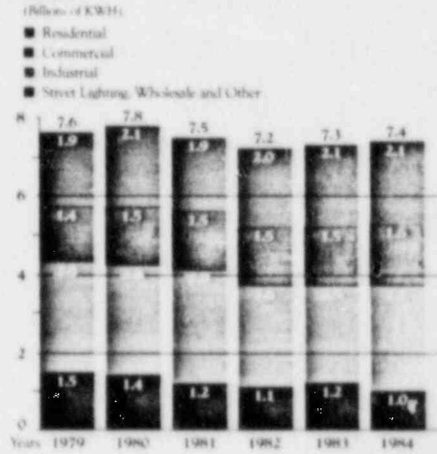
Financing Activity Summarized

Long-term financing activity in 1984 totalled $425 million. The proceeds were used primarily for financing construction including the repayment of short-term borrowings for that purpose. Also, $1.6 million was applied to the preferred stock sinking fund and $18 million was applied to tax exempt bond accounts.

Financing activity included:

- $32.3 million raised in March through the sale of 2 million shares of common stock at $16.152 per share.
- $100 million raised in March through the sale of 13½% Series First Mortgage Bonds due 1989.
- $50 million raised in September from the sale of first mortgage bonds due 1991: $20 million at 14⅛% and $30 million at 14.05%.
- $17 million raised in October through the sale of 1 million shares of common stock at $16.951 per share.
- $98 million of pollution control revenue bonds relating to Wolf Creek issued in November by the City of Burlington, Kansas. Of this, $7.2 million is held by the trustee in interest accounts pledged for debt service and $10.7 million was deposited with the trustee in a construction fund pending additional pollution control expenditures.
- $100 million made available in December by formation of a revolving underwriting facility with a group of international banks. This facility was not used in 1984.
- $27.4 million was raised during the year through the sale of 1,852,468 shares of common stock under the dividend reinvestment and employee stock plans.

Sales



Stocks, Bonds Shelf Registered

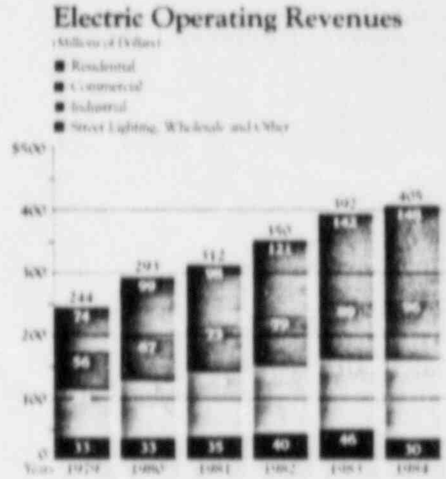
In January 1985, 2.5 million shares of common stock for the Company's Automatic Dividend Reinvestment and Stock Purchase Plan were registered with the Securities and Exchange Commission.

KG&E's Diversified Industrial Revenues
(Thousands of Dollars)

	1984	1983	Percent Increase Over 1983
Energy Production *(29% of total)*			
Petroleum Refining	$ 23,652	$ 23,438	0.9%
Petroleum & Gas Prod.	8,679	8,008	8.4
Pipeline Pumping	5,839	5,298	10.2
Coal Mining	899	677	32.8
Subtotal	39,069	37,421	4.4
Manufacturing *(28% of total)*			
Aircraft	19,418	16,639	16.7
Machinery	9,968	8,532	16.8
Metal Fab.	4,951	4,447	11.3
Other Mfg. Prod.	2,372	1,953	21.5
Subtotal	36,709	31,571	16.3
Natural Resources *(26% of total)*			
Chemical	19,982	12,950	54.3
Sand, Stone, Clay & Cement Prod.	10,096	8,903	13.4
Plastics	4,418	3,501	26.2
Subtotal	34,496	25,354	36.1
Agricultural, Food & Kindred Products *(10% of total)*			
Grain Mill Products	4,870	4,752	2.5
Prepared Foods	3,598	3,315	8.5
Meat Products	4,078	3,563	14.4
Dairy Products	666	624	6.7
Subtotal	13,212	12,254	7.8
Service Related *(7% of total)*	9,454	7,243	30.5
Total Industrial	$132,940	$113,843	16.8

Note: 1984 and 1983 exclude $(1,860,000) and $1,570,000 fuel adjustment clause revenues, respectively.

Electric Operating Revenues



Shelf registered securities include $20 million of first mortgage bonds, $50 million of preferred stock and 3 million shares of common stock which could be sold publicly.

KG&E common stock was listed on the Pacific Stock Exchange September 5, 1984.

Part of the 1984 common stock dividend represented a return of capital and can be excluded by stockholders from income in determining 1984 income taxes.

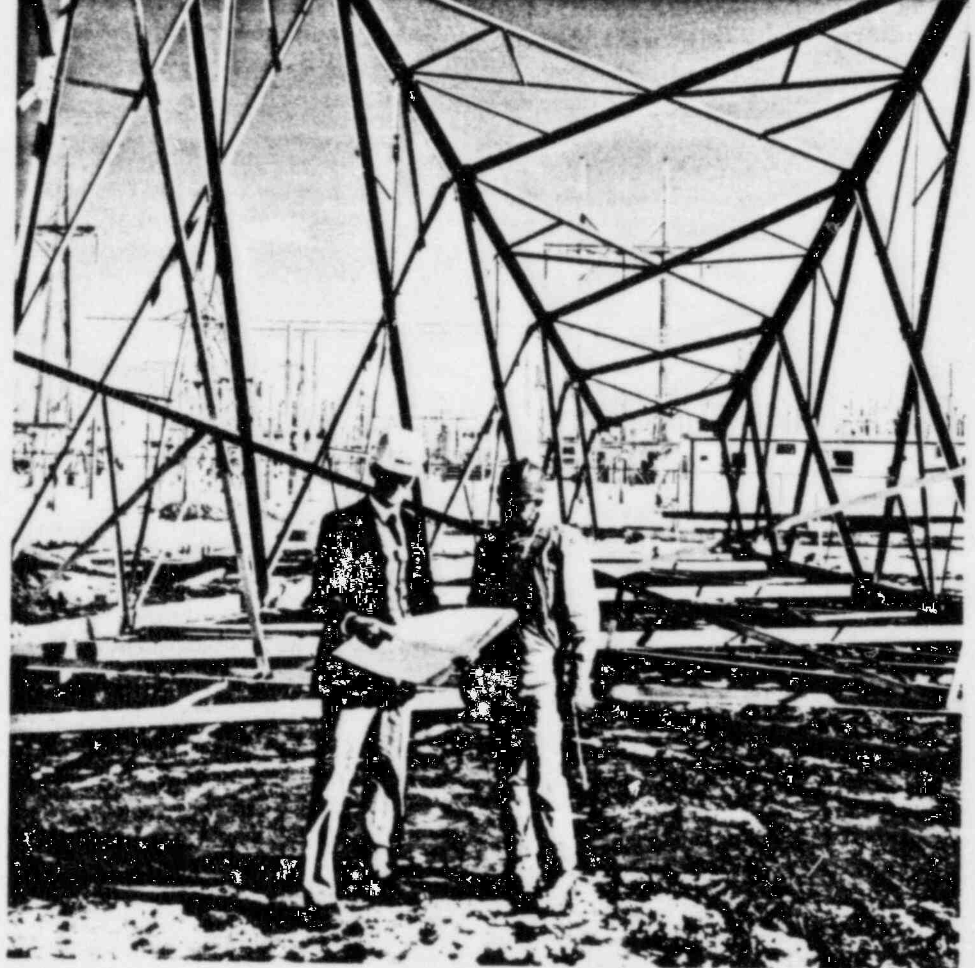
The return of capital was [illegible]% of first quarter dividends and 83% of dividends the last three quarters. Stockholders will have to reduce the cost basis of the stock by a corresponding amount.

Estimates are that between 20% and 40% of common stock dividends in 1985 will represent a return of capital. This has been revised from the 50% to 80% estimate included in the Company's fourth quarter 1984 report. The revision reflects changes in scheduling of Wolf Creek commercial operation and related rate relief.

Dividend Reinvestment Offered

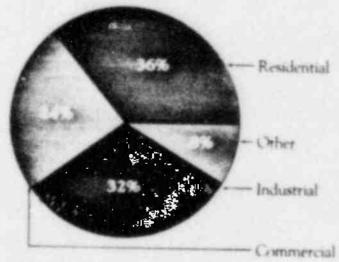
The Automatic Dividend Reinvestment and Stock Purchase Plan permits preferred and common stockholders to automatically reinvest their dividends, invest optional cash payments monthly of up to $5,000 per quarter, or both, in newly issued shares of common stock. The purchase price of the shares is 95% in the case of reinvested dividends, and 100% in the case of optional cash payments, of the average of the high and low sales prices on the investment date.

See Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information concerning financial management.

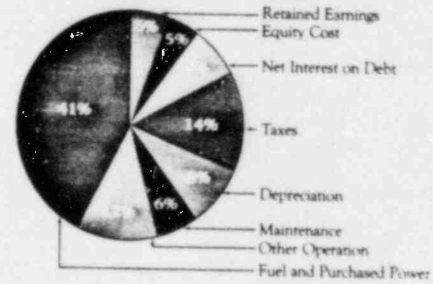


People are the key — planning, designing and building a system to reliably meet customer needs.

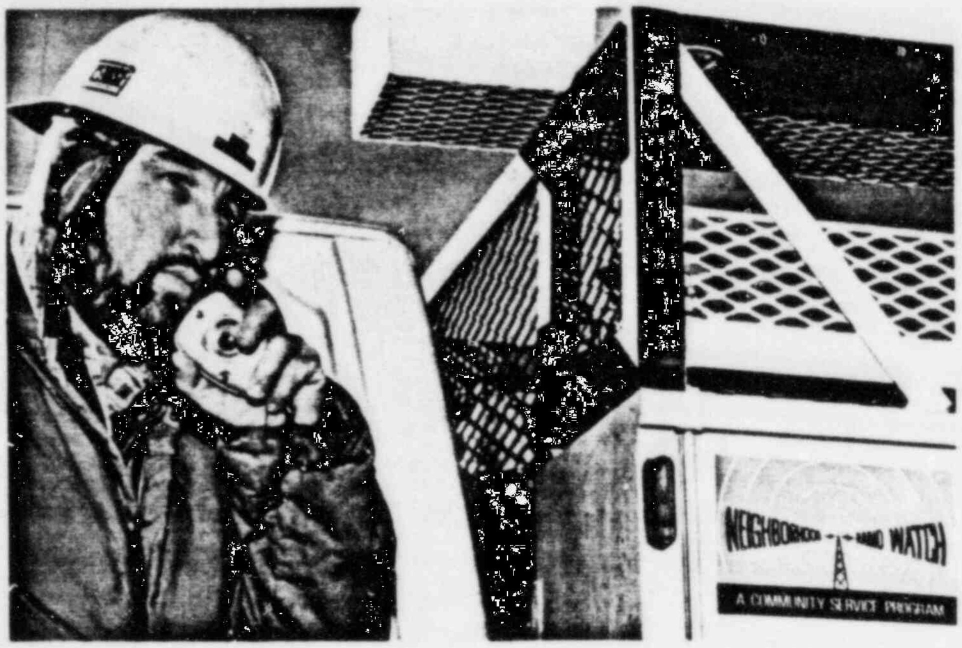
1984 Sources of Revenue



1984 Uses of Revenue



EMPLOYEES, CUSTOMER SERVICES AND MARKETING



Through Neighborhood Radio Watch KG&Eers now report emergency or suspicious activities to public safety officers.

Safety Record Set

Overall safety record for the company was the best in 34 years. For the first time since 1967, employees worked more than 2 million hours without a lost-time accident.

Jim Schuessler, purchasing department, was recognized at the 1984 stockholders meeting for saving the life of a co-worker by applying the Heimlich Maneuver when the colleague was choking.

And employees continued to demonstrate their interest in the communities they serve by wholeheartedly cooperating in a new "Neighborhood Radio Watch" program — initiated at the end of the year as a 75th anniversary activity.

Under the plan, line personnel and meter readers received special training so they can effectively report unusual or suspicious conditions or emergency events they observe to appropriate public safety officers.

The Productivity Task Force organized in 1983 within the operating department was continued in 1984. More than 150 employees have participated in a systematic review of practices and procedures with the objective being to cut costs. The plan supplemented the Employee Cost Reduction Suggestion Program that attracted a record number of 59 cost reduction ideas.

High Tech Speeds Work

High technology is being used throughout the Company.

A major re-building of Gordon Evans Station Unit 1 was completed ahead of schedule with credit due in part to a comprehensive computerized program now being used to support all major maintenance and construction projects.

Because of the high level of success in using computers to process outage data during storm emergencies, additional programming is being developed linking specific customers to specific equipment. This should shorten times customers are without service and save money through improving the system of locating possible problems.

Customers Are Special

Service to customers continues to be the primary focus of the company. And ways for customers to effectively use electrical energy were continually stressed in 1984.

One unusual program was a series of make-your-own storm window workshops. Through a minimum investment only for materials, participants made more than 2,000 storm windows. Nine workshops were sponsored cooperatively with local schools and businesses, and staffed by employee volunteers.

A two-year residential energy audit program was completed. More than 3,500 customers have now benefited from these professionally-conducted inspections of their homes.

KG&E customers provided more than $1.6 million for research. This includes work of the Electric Power Research Institute supported nationally by the electric utility industry and the Electric Utility Research Program established through the Kansas Corporation Commission in cooperation with Kansas Board of Regents colleges and universities.

In three years, Project DESERVE, established by KG&E with the American Red Cross, has provided more than $500,000 to the elderly and handicapped to pay for emergency energy expenses.

KG&E offices started a program in 1984 of loaning fans to families with special needs during hot summer months.

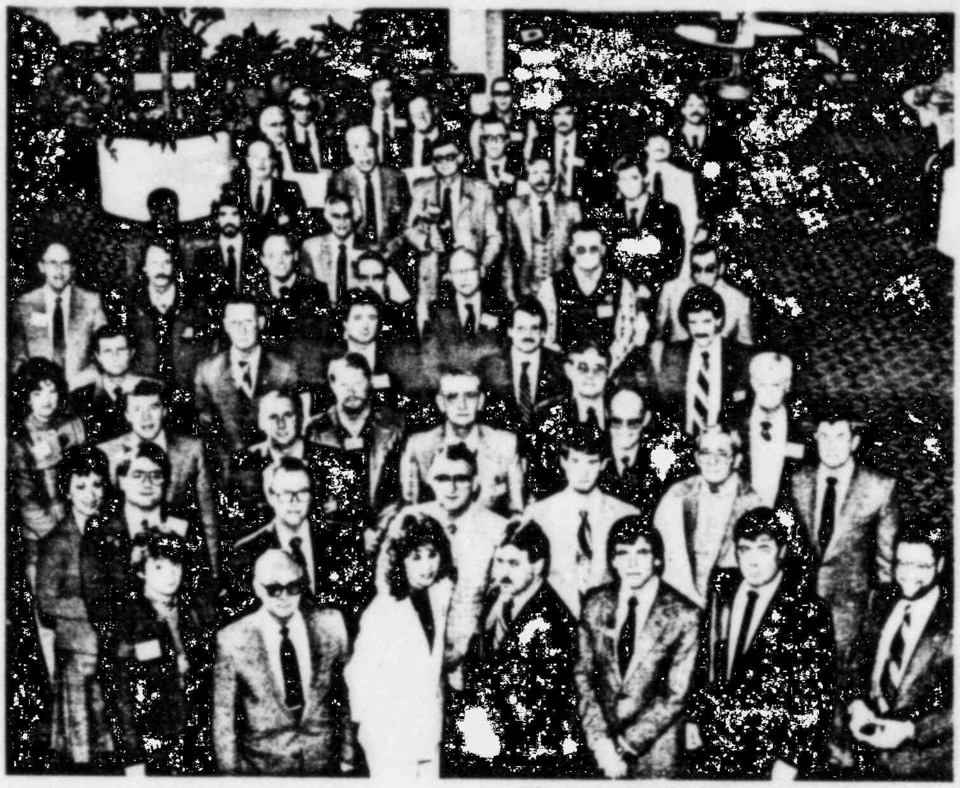
Marketing Supports Efficiency

Marketing programs continue to be developed to support efforts for efficient use of generating stations and other facilities. Approximately 14% of residential customers now use electricity as primary home heating.

Key advantage of the electric heat pump is that it provides winter heating as well as summer cooling. These efficient units support efforts to improve the load factor by leveling off demand throughout the year. Demand for electricity for heating in the winter helps offset demand for power in the summer for air conditioning.

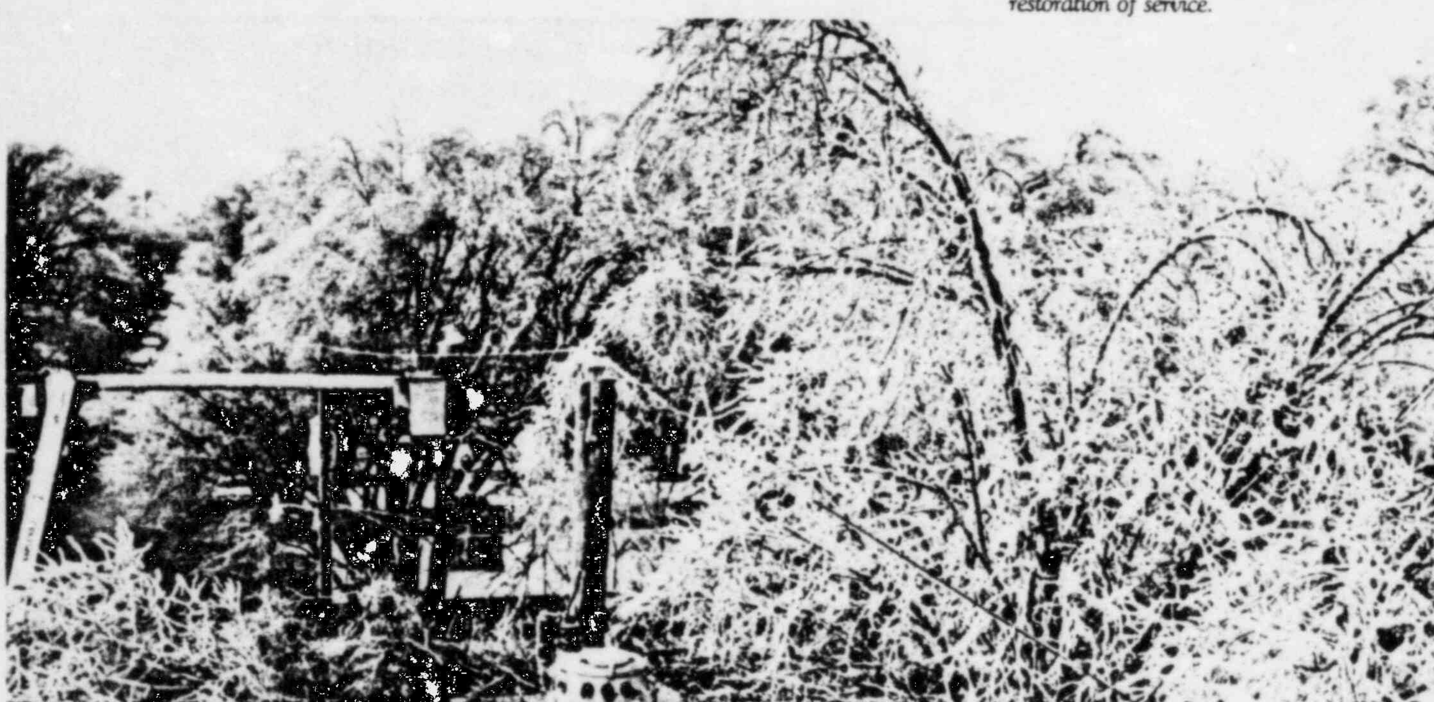
Economic development has also become an important part of the total marketing effort. Concern is to build demand to support efficient operation of the total system with existing as well as new industries. Any increase in energy use that does not create growth in peak demand improves the load factor and system efficiency and offers economic advantages for all customers.

In 1984, 15 companies indicated plans to establish new facilities in our service area creating 645 new jobs.



These are the KG&E customer service representatives who met 1984 marketing and other goals.

When storms disrupt service, high technology helps locate the problem, speeding up restoration of service.



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

Construction Expenditures

The Company has been involved in a major construction program for more than a decade. Net construction expenditures have been more than $100 million each year since 1977 and have averaged approximately $200 million annually during the past three years. Since 1973, KG&E has completed five jointly-owned coal-fired generating units with its share of the capability being 1062 MW. The last of these, Jeffrey Energy Center Unit 3, began operation in May 1983.

During the three years ended December 31, 1984, $473 million of the $600 million net construction expenditures were related to the nuclear-fueled Wolf Creek. JEC Unit 3, transmission, distribution and general plant facilities accounted for the balance.

Wolf Creek is the sole generating facility under construction. The Company serves as project director and will operate the unit which has a nominal rating of 1150 MW. KG&E owns 47%, Kansas City Power & Light Company owns 47% and Kansas Electric Power Cooperative, Inc. owns 6%.

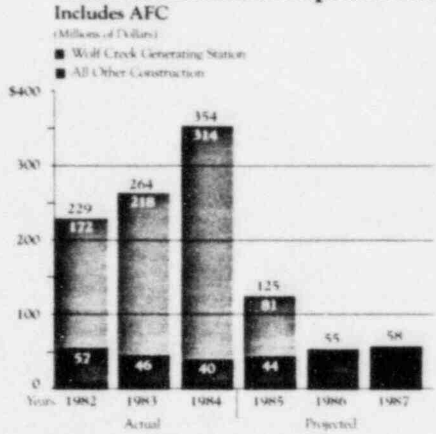
The Company was granted a low-power operating license for Wolf Creek by the NRC on March 11, 1985. The Company anticipates a period of approximately six months between fuel loading and full-power operation.

However, there is no assurance that delays may not be experienced due to further licensing proceedings, other NRC actions, litigation or other events.

The July, 1984 total project cost estimate for Wolf Creek, based on spring 1985 commercial operation, is $2.9 billion, including $912 million of AFC, the capitalized cost of financing the unit since 1973. Since commercial operation will be about six months after fuel loading, Wolf Creek's cost will be in excess of this estimate, but the final cost is not known at this time. As of December 31, 1984, $2.63 billion, including AFC, had been spent on the unit, of which KG&E's share was $1.24 billion.

Table 1 and the related graph depict actual expenditures and AFC for Wolf Creek and other construction in 1982-1984 and estimates, based on a spring 1985 commercial operation of Wolf Creek, for 1985-1987.

Total Construction Expenditures
Includes AFC



"The Company was granted a low-power operating license for Wolf Creek . . ."

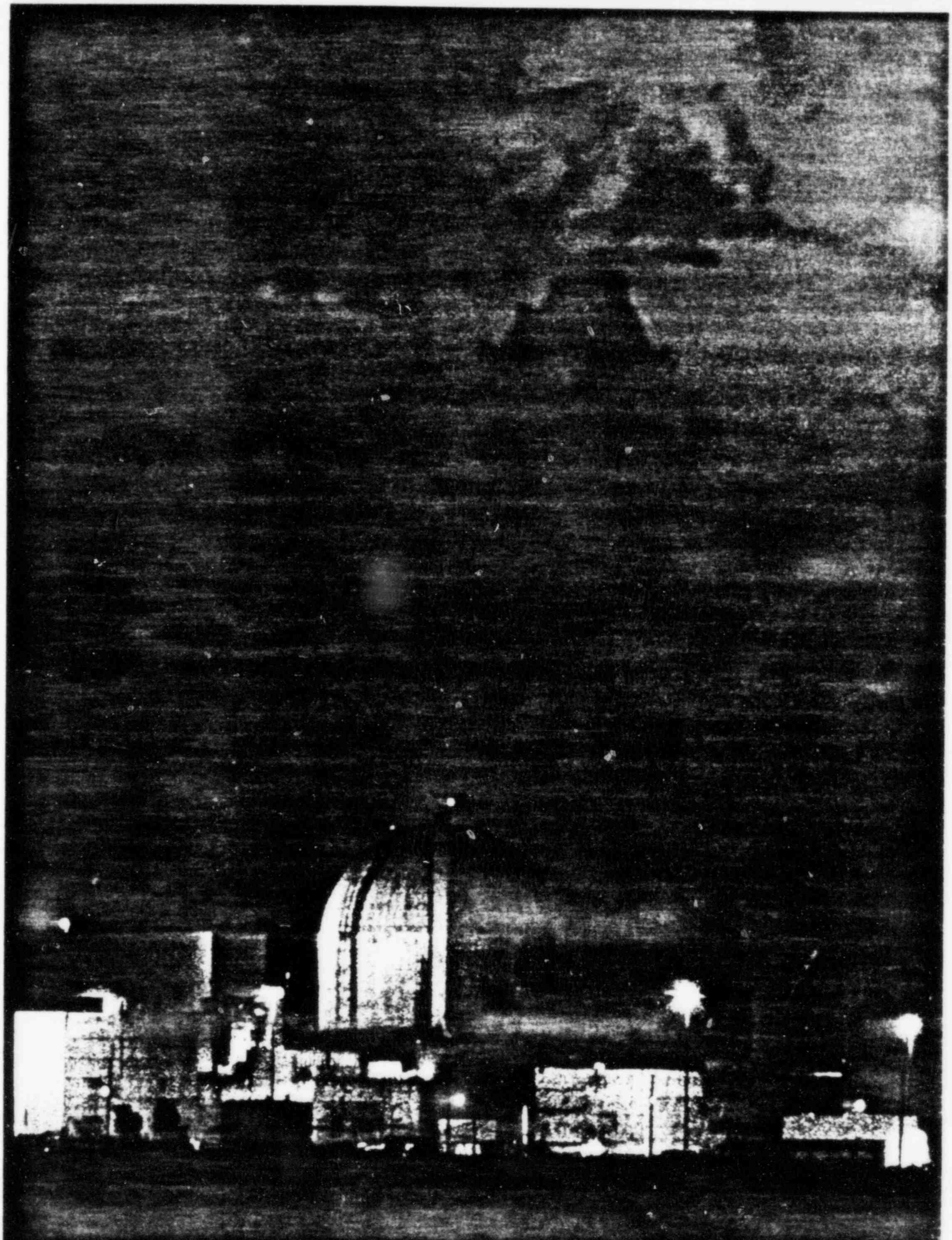
The Company's net construction expenditures are expected to total $216 million for the years 1985 through 1987. These projections reflect a significant decline in construction following the completion of Wolf Creek.

Table 1

1982-1987 Construction Expenditures

	Actual			Estimated		
		(Thousands)			(Thousands)	
	1982	1983	1984	1985	1986	1987
Wolf Creek Generation	$171,412	$217,692	$313,591	$ 81,258	$ —	$ —
All Other Construction	57,126	46,210	40,492	44,082	54,564	57,683
Total Construction	228,538	263,902	354,083	125,340	54,564	57,683
Nuclear Fuel	(227)	(1,382)	10,740	3,759	8,314	9,562
Total	228,311	262,520	364,823	129,099	62,878	67,245
Less: AFC	66,117	83,143	106,464	41,876	650	1,154
Net Construction Expenditures	$162,194	$179,377	$258,359	$ 87,223	$ 62,228	$ 66,091

At dusk, the lights of Wolf Creek Generating Station highlight the plant against the Kansas prairie.



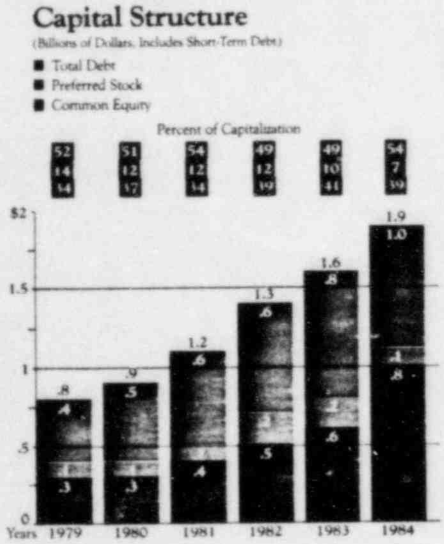
Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

Internal cash generation of at least 50% of capital requirements, a common stock market value at least equal to book value and a common equity ratio of about 45% are the Company's long-term financial goals. Achieving these goals should result in an improvement in the first mortgage bond ratings from their present levels of 9, Baa 3 and BB+ by Duff and Phelps, Moody's and Standard & Poor's, respectively. The Company's common stock market value at December 31, 1984 was 85% of the year-end book value and the common equity ratio was 39%. All of the Company's capital requirements were generated externally in 1984. The "Capital Structure" graph covers the 1979-1984 period.

Capital Structure

(Billions of Dollars, Includes Short-Term Debt)



Since 1978, Kansas law has virtually prohibited the inclusion of CWIP in the rate base upon which customer rates are set. Because Wolf Creek represents a major investment, CWIP has become increasingly large, representing 175% of net electric plant in service as of December 31, 1984. Cash is not generated from this investment. The construction program, debt maturities and cash sinking fund requirements have required cash expenditures far in excess of internally generated funds, as shown in Table 2.

"The Company is of the opinion that it has adequate financial resources to meet its anticipated 1985 capital requirements."

At year-end 1984 KG&E's sinking fund and debt maturities on outstanding long-term debt and preferred stock were $25 million, $84.3 million and $50.3 million in 1985-1987, respectively.

Capital requirements are typically financed initially with short-term borrowings and are then refinanced by sales of long-term debt, preferred stock or common stock. During the 1982-1984 period, the Company sold $469 million of long-term debt, $15 million of preferred stock and $287 million of common stock, an aggregate of $771 million.

So far in 1985, the Company has sold $30 million of 10⅞% two year first mortgage bonds, the proceeds of which will be used to redeem on April 1, 1985, the first call date, an outstanding 16¼% bond issue of like amount due in 1987. Subsequent permanent financing will depend on the outcome of the Wolf Creek rate case with respect to the amount of increase authorized and the date granted. The Company is of the opinion that it has adequate financial resources to meet its anticipated 1985 capital requirements. These resources are as follows:

(a) The Company's first mortgage bond indenture contains provisions which restrict the issuance of additional bonds. Based on 1984 earnings and allowing for the refunding of the 16¼% series first mortgage bonds to take place on April 1, 1985, the Company could issue up to $49 million of bonds.
The Company's Restated Articles of Incorporation contain no financial tests limiting the issuance of additional shares of preferred stock.

(b) The Company has short-term lines of credit totaling $91 million, of which $13 million was outstanding at December 31, 1984.

(c) The Company has two long-term revolving credit loan facilities. The first for $100 million expires August 31, 1986, and the second for $200 million expires May 31, 1987, at which times the amounts then outstanding under these facilities may be converted to four-year term loans. As of December 31, 1984, $50 million was outstanding under each of these agreements, leaving $200 million still available.

(d) In December 1984, the Company entered into a 3½ year $100 million revolving underwriting

Table 2 — **1982-1984 Capital Requirements**

(Thousands)

	1982	1983	1984
Net Construction Expenditures	$162,194	$179,377	$258,359
Add: Sinking Fund and Debt Maturities	23,202	51,343	1,614
Total Capital Requirements	$185,396	$230,720	$259,973
Sources of these capital requirements have been as follows:			
External	93.4%	100.0%	100.0%
Internal	6.6	0.0	0.0
Total Sources	100.0%	100.0%	100.0%

facility with a group of international banks. This agreement enables the Company to sell promissory notes in foreign markets or to borrow from international banks in an amount of up to $100 million. The Company did not borrow under this agreement in 1984.

Wolf Creek Rate Increases

The Company applied in November 1984 to the Kansas Corporation Commission for a retail rate increase to become effective at the time Wolf Creek begins commercial operation. The request is based on a return on equity of 15.50% and an overall cost of capital of 11.98%. Instead of requesting immediate rate relief for all of the $373 million 1985 test year revenue deficiency, KG&E proposed a phase-in of revenue requirements over five years. The phase-in has been designed to lessen the sudden and heavy burden that would be imposed on customers by the immediate recognition of this revenue deficiency.

With the phase-in of rates, a full cash return on the Company's investment in Wolf Creek would be delayed until that total revenue requirement is recognized in 1989. That portion of revenue requirements which is not recovered during the phase-in period will be capitalized net of taxes and ultimately recovered over the depreciable life of the unit. Under the Company's plan, rate levels at the end of the phase-in period will be at a level which ensures recovery of the deferred revenue and an appropriate return.

During the phase-in, the Company's reported earnings will include cash and non-cash deferred revenues. Thus, the cash component of earnings will improve as rate increases are granted by the KCC; correspondingly, the non-cash component of earnings will decline.

Wolf Creek accounts for approximately 93% of the revenue deficiency. The balance includes costs associated with JEC Unit 3 which were not included in the interim rate increase granted in May 1983 and cost increases since the last permanent rate increase in April 1983.

The Company estimates that, under the phase-in plan, rate requests will be as follows:

	Kansas Jurisdictional Rate Requests	
Year	**Amount** *(Millions)*	**Percent Increase**
1985	$144.9	39.4%
1986	61.1	11.5
1987	65.9	10.8
1988	59.8	8.2
1989	39.2	4.6

Displacing fossil fuel with nuclear generation could result in approximately $25 million in fuel savings during the first full year of operation of Wolf Creek. These fuel savings would reduce the impact of the first year rate increase to $120 million or a 33% increase. Subsequent to 1985, rate increases under the phase-in plan will be requested annually to reflect operating results at the time. The Company anticipates that the 1985 rate case will be acted upon by the KCC coincident with commercial operation of Wolf Creek.

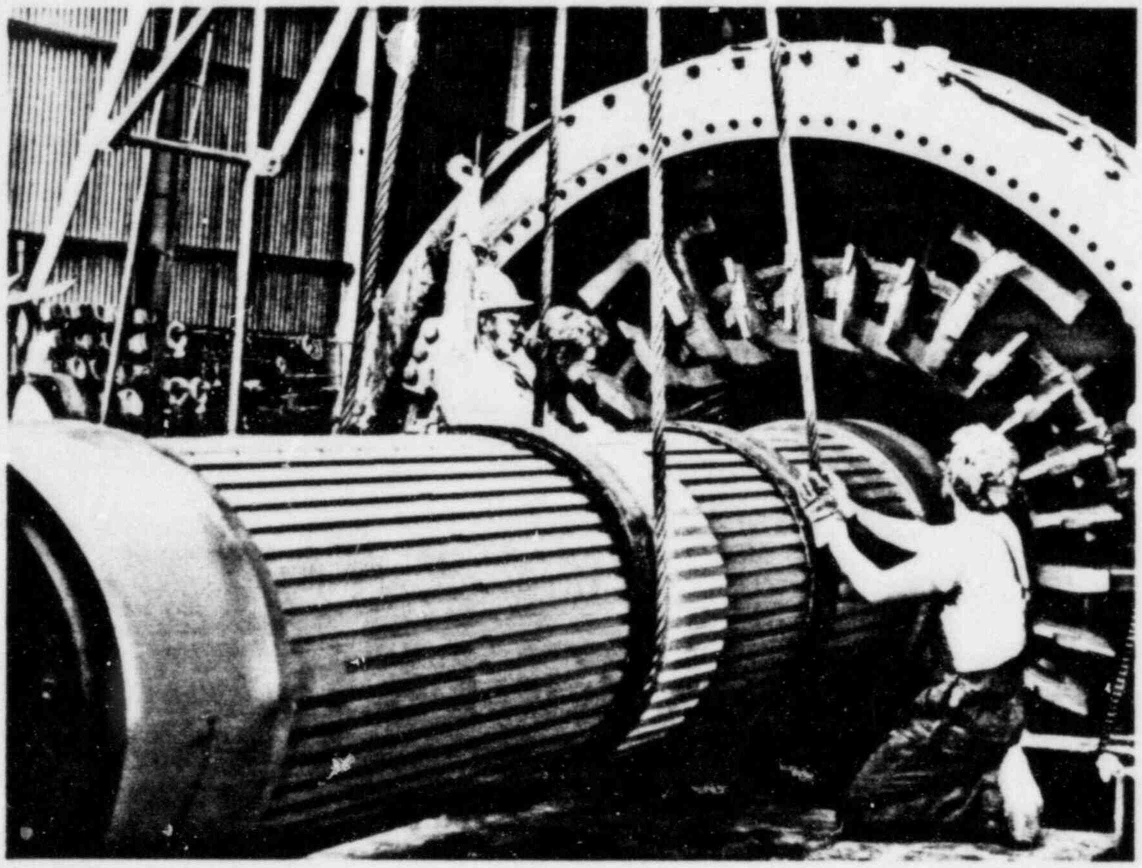
In April 1984, a Kansas law became effective which broadened the authority of the KCC in utility rate cases. Under this law, the KCC can exclude from rate base that portion of costs which the KCC considers to have resulted from management imprudency and the cost of facilities constituting excess capacity. The KCC also can deny the recovery of carrying or financing charges on the value of excess capacity while deferred or excluded from rate base. The Company anticipates having reserve capacity of up to 944 MW or 57% at the time of commercial operation of Wolf Creek. This includes 503MW of gas/oil fired capacity which is over 25 years old. Of the 503 MW, 297 MW are more than 30 years old.

The Company also intends to make application to the FERC for rate increases applicable to Wolf Creek with respect to the Company's wholesale revenues, which presently account for about 7% of annual operating revenues.

As with any rate request, the Company has no assurance as to the amount or timing of rate relief which may be granted by the KCC or by the FERC with respect to Wolf Creek. Failure to receive adequate and timely rate relief with respect to Wolf Creek could have a substantial adverse effect upon KG&E's financial condition, including dividend paying capacity.

For further information with respect to rates, see Note 2 of the Notes to Financial Statements.

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



Production Department personnel install the rotor of Gordon Evans Unit 1 during an overhaul to help ensure the efficient and dependable operation of the generator.

Results of Operations

Details of sales and customer changes are presented in Table 3.

A 6% increase in retail sales in 1984 over 1983 reflects growth in the Company's service area. Sales in all major retail sales categories increased. A 12% increase in industrial sales was a major factor in the growth of retail sales. Improvement in the national economy was a primary reason for industrial expansion. Although industrial sales growth was distributed throughout various industrial customers, 53% resulted from increased sales to KG&E's largest customer. Commercial sales in 1984 were also up, posting nearly a 4% increase. Sales to residential customers increased less than 1%.

Wholesale sales accounted for 12% and 15% of the total electric sales in 1984 and 1983, respectively. Because of a change in power

Table 3

Sales and Customer Statistics

	Increase or (Decrease) from Prior Year			
	1984		1983	
Electric Sales (M kWh)	**Electric Sales**	**Percent Change**	**Electric Sales**	**Percent Change**
Residential	15,909	0.8%	99,880	5.0%
Commercial	59,248	3.9	26,874	1.8
Industrial	295,640	12.0	(141,165)	(5.4)
Public Street & Highway Lighting	(2,049)	(3.1)	(134)	(0.2)
Retail Rates	368,748	6.0	(14,545)	(0.2)
Wholesale Rates	(188,708)	(16.9)	36,979	3.4
Total Sold	180,040	2.5%	22,434	0.3%
Customers (End of Year)	**Customers**	**Percent Change**	**Customers**	**Percent Change**
Residential	3,691	1.7%	3,121	1.5%
Commercial	299	1.5	403	2.1
Industrial	51	1.1	54	1.2
Public Street & Highway Lighting	35	5.3	43	7.0
Retail Customers	4,076	1.7	3,621	1.5
Wholesale Customers	(1)	(2.5)	(2)	(4.8)
Total Customers	4,075	1.7%	3,619	1.5%

requirements by wholesale customers, wholesale sales are not expected to return to former levels.

The decrease in wholesale sales in 1984 limited the gain in total electric sales to 2% over 1983.

In 1983 sales were unchanged from the prior year in both the retail and total sales categories. Above average summer temperatures in 1983 prompted greater air conditioning usage by residential and commercial customers. Electricity usage increased 5% and 2% respectively. Lowered requirements from KG&E's largest customer, which began cogenerating power in late 1982, and the generally depressed economy caused a 5% drop in 1983 industrial sales.

Details of changes in revenues, fuel costs, rates and energy supply are shown in Tables 4 and 5 and the accompanying graphs.

Table 4 **Operating Revenues**

	Revenue Increase or (Decrease) (Dollars in Thousands) 1984 over 1983	1983 over 1982
Retail:		
Electric Sales	$15,939	$ 2,156
Fuel	(193)	12,570
Rate Increases	12,991	22,362
Other	150	26
Total Retail	28,887	37,114
Wholesale	(11,187)	5,002
Total Revenue	$17,700	$42,116

"A 6% increase in retail sales in 1984 over 1983 reflects growth in the Company's service area."

Total 1984 operating revenues were up 5%. Greater sales to retail customers and two spring 1983 retail rate increases contributed to an 8% increase in 1984 retail revenues over 1983. Wholesale revenues in 1984 declined 27% because of a drop in sales to municipalities.

Because of the two spring 1983 retail rate increases and the recovery of an 11% increase in the combined cost of fuel and purchased power, 1983 revenues increased by 12% over 1982. Electric sales were unchanged from the previous year.

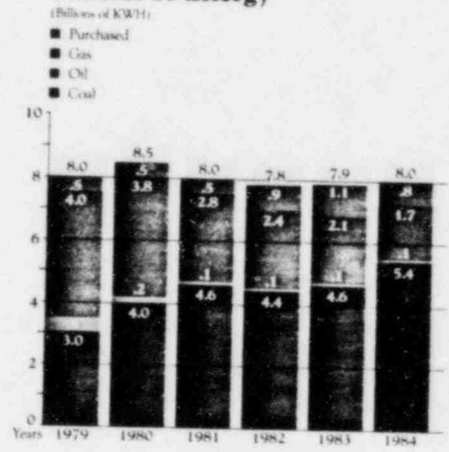
Operating Expenses

Fuel and Purchased Power

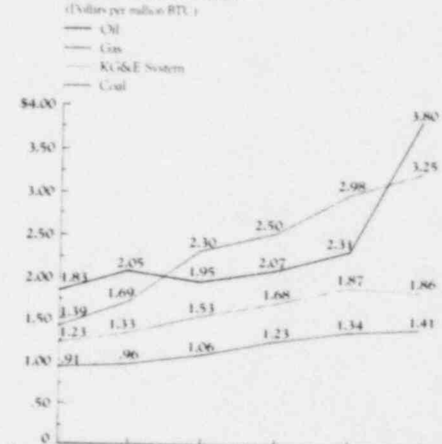
With fuel and purchased power costs making up 69% of total operation and maintenance expenses, the Company continually works to minimize these costs by using the least expensive generation available. This is reflected in the increased usage of coal-fired generation, representing 64% of fuel usage on a Btu basis in 1982, 67% in 1983 and 75% in 1984. This increase in coal usage has resulted in a decline in use of natural gas. The average cost per million Btu of coal burned was $1.41 in 1984 compared to $3.25 for natural gas.

Average fuel cost per million Btu was $1.86 in 1984, $1.87 in 1983 and $1.68 in 1982. The Company's coal costs have continued to increase

Sources of Energy



Fuel Cost Data



because of the deregulation of rail transportation. The cost of transporting coal from Wyoming now represents about 67% of the total cost per ton as compared with 58% in 1982. Coal cost per million Btu increased by 5% in 1984 and 9% in 1983. Natural gas cost per million Btu increased by 9% in 1984 and 19% in 1983 over prior years. However, by year-end 1984, gas costs were at 1983 levels.

The Company regularly purchases electricity from other utilities when the price is lower than its incremental cost of generation. In addition, the purchased power markets are important when KG&E generating

Table 5 **Retail Rate Increases Received, 1982-1984**

Date	Amount Granted (Millions)	Percent of Amount Requested	Percent Increase in Revenues	Allowed Return on Rate Base	Allowed Return on Common Equity
4/83	$15.2	32%	4.4%	11.52%	15.50%
5/83	18.9*	93	5.5	11.37	15.50

**Subject to refund*

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

units cannot meet demand because of weather conditions, maintenance or other factors.

The Company purchased 27% less electricity in 1984 than in 1983, resulting in a 26% decrease in purchased power expense. The decline in 1984 purchases resulted primarily from the full-year availability of coal-fired JEC Unit 3 which began operation in mid-1983 and greater utilization of La Cygne Unit 1.

In 1983 the Company purchased 23% more electricity than in the previous year, resulting in a 25% increase in purchased power expense. The primary factor leading to the increase was unseasonably cold weather in December 1983 that froze coal piles, impairing the operation of certain units.

Other Operation Expenses

Other operation expenses were up 13% in 1984, primarily because of inflation, an increase in uncollectible customer accounts and increased administrative and general expenses relating to JEC and La Cygne plants. Other operation expenses increased just under 10% in 1983 for similar reasons.

Income Taxes

Income taxes charged to operations amounted to $41 million in 1984, a 3% increase over 1983. Income taxes in 1983 were up 40% from 1982 principally because of higher income generated by the spring 1983 rate increases. The Company's effective federal income tax rate and changes in income taxes for the last three years are detailed in Note 9 of the Notes to Financial Statements.

Other Statement of Income Items

AFC comprised all of the Company's earnings applicable to common stock in 1984, up from 90% in 1983 and 94% in 1982. The large amount of AFC for each year primarily reflects KG&E's investment in Wolf Creek. The KCC generally does not permit utilities to earn a cash return on investments in assets until the assets begin providing service to customers. Instead, the Company records the cost of money associated with the investment as current earnings. This is done with the understanding that these non-cash amounts will be subsequently recovered through higher rates when the assets represented by the investment begin service to customers.

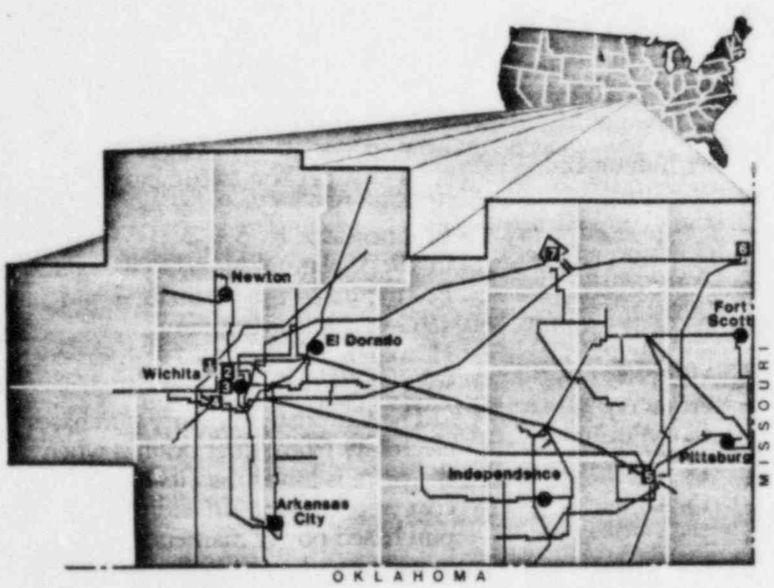
AFC will substantially decline upon commercial operation of Wolf Creek. (See "Construction Expenditures, Table 1"). Under the proposed rate increases for Wolf Creek, AFC would be replaced by cash earnings from higher rates and non-cash deferred revenues to be collected during the depreciable life of the plant. (See "Wolf Creek Rate Increases.")

Interest on long-term debt increased 33% in 1984 and 7% in 1983, primarily due to increased debt incurred to finance construction. The 1984 increase reflects a full year's interest on $157 million tax exempt pollution control revenue bonds sold in 1983. The 1983 increase was moderated by generally lower interest rates during the year.

Earnings and Dividends

Earnings per average share of common stock and common dividends paid are detailed for the

Service Area Map



Map Legend

Division Headquarter Cities ●

Transmission Lines ——

Interconnections and Power Pool Memberships

Direct interconnections are maintained with 10 other utilities and the Company is a member of the Southwest Power Pool and the Mokan Pool. Power is regularly transmitted to and from other utilities to ensure reliability and economy.

Generating Station, Capability and Fuel

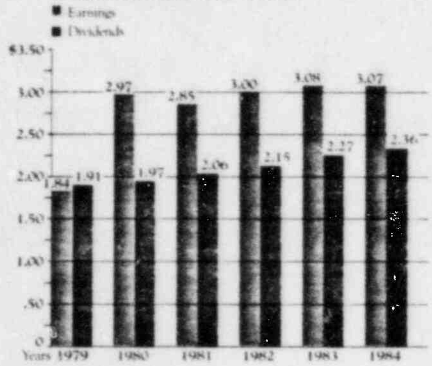
1 Gordon Evans Steam Electric Station, 516 MW, Natural Gas
2 Ripley Steam Electric Station, 92 MW, Natural Gas
3 Wichita Steam Electric Station, 23 MW, Natural Gas
4 Murray Gill Steam Electric Station, 324 MW, Natural Gas
5 Neosho Steam Electric Station, 67 MW, Natural Gas
6 La Cygne Steam Electric Station, 658 MW*, Coal
7 Wolf Creek Generating Station, 541 MW*, Nuclear
8 Jeffrey Energy Center,+ 404 MW*, Coal

* *Jointly owned with other utilities. Capacity stated is KG&E allocation.*

\+ *Located 170 miles northeast of Wichita. Not shown on map.*

1979-1984 period in the accompanying graph.

Annual Common Stock Earnings per Share and Cash Dividends Paid



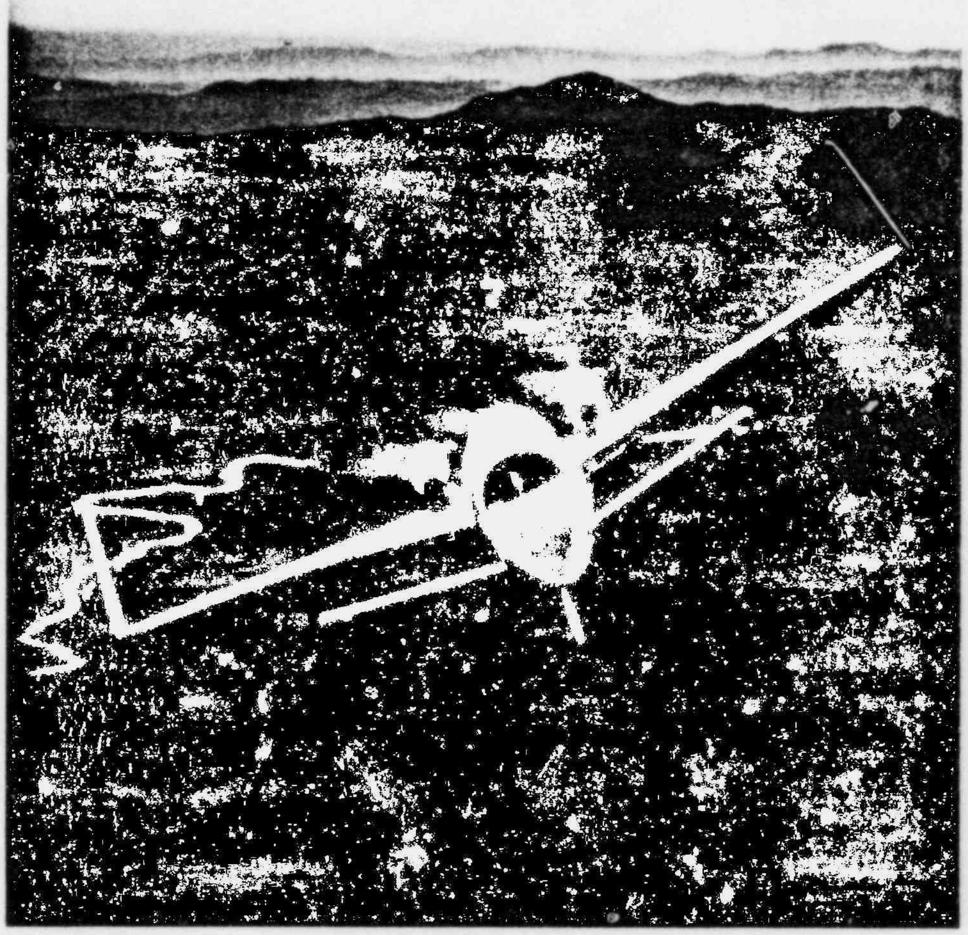
"Earnings applicable to common stock in 1984 were $106.5 million, a $14.5 million or 16% increase over 1983."

Earnings applicable to common stock in 1984 were $106.5 million, a $14.5 million or 16% increase over 1983. Earnings of $92.0 million in 1983 were $21.5 million or 30% higher than 1982 earnings of $70.5 million. Earned return on average common equity was 15.4% in 1984, 15.8% in 1983 and 15.5% in 1982.

Dividends paid on common stock in 1984 were $2.36 per share. Future cash dividends will be affected by the Company's future earnings, financial requirements and other factors. (See "Wolf Creek Rate Increases.")

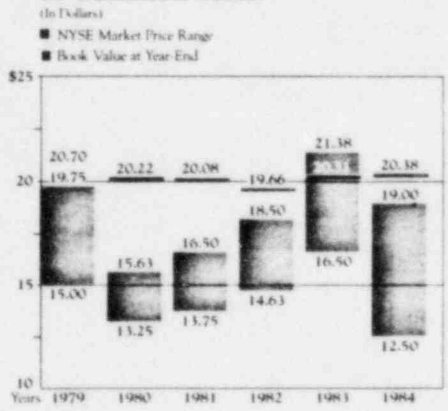
Impact of Inflation and Changing Prices

Inflation has had a continuing impact on the Company's operations. A discussion of its effects is included in Note 14 of the Notes to Financial Statements.



Beechcraft Starship 1 being developed by Beech Aircraft Corporation with tandem wings, tip sails, pusher jetfan engines and graphite/epoxy materials demonstrates the dynamic quality of Wichita industry.

Market Price and Book Value of Common Stock



STATEMENTS OF INCOME

For the Years Ended December 31

	1984	1983	1982
		(Thousands of Dollars)	
Operating Revenues (Note 2)	$ 410,753	$ 393,053	$ 350,937
Operating Expenses:			
Fuel	148,959	139,339	128,043
Purchased power — net	18,221	24,541	19,587
Other operation	48,573	43,050	39,179
Maintenance	26,108	27,871	29,064
Depreciation	32,433	29,919	27,288
Taxes other than incomes taxes	16,063	15,078	13,419
Income taxes (Note 9)	41,024	39,903	28,447
Total operating expenses	331,381	319,701	285,027
Operating Income	79,372	73,352	65,910
Other Income and Deductions:			
Allowance for other funds used during construction	78,345	63,068	46,948
Equity in earnings of subsidiary companies (Note 7)	1,603	1,400	1,327
Miscellaneous — net	2,299	659	377
Income taxes — net (Note 9)	(1,993)	(1,061)	(893
Total other income and deductions	80,254	64,066	47,759
Income before Interest Charges	159,626	137,418	113,669
Interest Charges:			
Interest on long-term debt	87,508	65,948	61,650
Other interest	5,372	3,031	4,508
Amortization of debt premium, discount and expense — net	729	768	916
Allowance for borrowed funds used during construction	(55,841)	(39,867)	(38,068
Total interest charges — net	37,768	29,880	29,006
Net Income	121,858	107,538	84,663
Preferred Stock Dividends	15,363	15,511	14,142
Earnings Applicable to Common Stock	$ 106,495	$ 92,027	$ 70,521
Average Shares of Common Stock Outstanding	34,698,342	29,912,327	23,503,302
Earnings Per Share of Common Stock	$ 3.07	$ 3.08	$ 3.00

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31

	1984	1983	1982
		(Thousands of Dollars)	
Balance at Beginning of the Year	$ 157,810	$ 134,544	$ 116,949
Net Income	121,858	107,538	84,663
Total	279,668	242,082	201,612
Deduct:			
Cash Dividends:			
Preferred Stock (at prescribed rates of each series — Note 5)	15,363	15,511	14,142
Common Stock — $2.36 in 1984; $2.27 in 1983; $2.15 in 1982	82,723	68,572	52,253
Capital Stock Expense	130	189	673
Total	98,216	84,272	67,068
Balance at End of the Year	$ 181,452	$ 157,810	$ 134,544

See notes to financial statements.

BALANCE SHEETS DECEMBER 31, 1984 and 1983

	1984		1983	
	(Thousands of Dollars)			
ASSETS				
Electric Plant - at original cost (Note 6):				
Plant in service	$1,009,838		$ 965,268	
Less accumulated provision for depreciation	293,683		265,739	
Net plant in service	716,155		699,529	
Construction work in progress	1,251,193		946,749	
Nuclear fuel	21,665		10,925	
Total electric plant — net	1,989,013		1,657,203	
Other Property and Investments:				
Investment in subsidiary companies (Note 7)	13,589		13,684	
Special interest accounts — adjustable rate series (Note 6)	22,356		14,789	
Other	191		191	
Total other property and investments	36,136		28,664	
Current Assets:				
Cash	1,355		1,917	
Temporary cash investments	39,000		—	
Accounts receivable — net	32,022		42,474	
Fuel — at average cost (Note 6)	26,822		27,801	
Materials and supplies — at average cost	9,340		8,329	
Prepayments and other current assets	769		1,192	
Total current assets	109,308		81,713	
Deferred Debits:				
Unamortized debt expense	8,662		6,690	
Other	7,439		3,962	
Total deferred debits	16,101		10,652	
Total	$2,150,558		$1,778,232	
CAPITALIZATION AND LIABILITIES				
Capitalization:				
Common stock, without par value, authorized 50,000,000 shares; outstanding 36,524,434 and 31,671,966 shares, respectively (Note 4)	$ 561,106	29.9%	$ 484,405	31.2%
Retained earnings (Note 6)	181,452	9.7	157,810	10.1
Other paid-in capital (Note 4)	1,661	0.1	959	0.1
Common stock equity	744,219	39.7	643,174	41.4
Preferred stock — redemption not required (Note 5)	63,701	3.4	63,701	4.1
Preferred stock — redemption required (Note 5)	78,000	4.1	95,000	6.1
Long-term debt (Note 6)	991,004	52.8	753,242	48.4
Total capitalization	1,876,924	100.0%	1,555,117	100.0%
Current Liabilities:				
Short-term borrowings (Note 3)	13,000		9,000	
Securities due within one year (Notes 5 and 6)	25,000		73	
Accounts payable	65,189		69,030	
Customers' deposits	2,471		2,176	
Taxes accrued	11,117		9,489	
Interest accrued	22,998		15,957	
Other current liabilities	124		133	
Total current liabilities	139,899		105,858	
Deferred Credits:				
Accumulated deferred income taxes (Note 9)	96,669		82,970	
Accumulated deferred investment tax credit	32,724		30,642	
Customers' advances for construction	2,540		2,285	
Other	1,802		1,360	
Total deferred credits	133,735		117,257	
Commitments and Contingent Liabilities (Notes 2 and 10)				
Total	$2,150,558		$1,778,232	

See notes to financial statements.

STATEMENTS OF SOURCES OF FUNDS FOR CONSTRUCTION

For the Years Ended December 31

	1984	1983	1982
		(Thousands of Dollars)	
Sources of Funds			
From Operations:			
Net income	$ 121,858	$ 107,538	$ 84,663
Non-cash charges (credits) to income:			
Depreciation	32,433	29,919	27,288
Deferred income tax	40,435	32,741	26,512
Deferred investment tax credit	2,082	4,252	571
Allowance for funds used during construction (AFC)	(134,186)	(102,935)	(85,016)
Other — net	729	768	916
Funds from operations	63,351	72,283	54,934
Dividends	98,086	84,083	66,395
Funds retained (used) in business	(34,735)	(11,800)	(11,461)
From Financing:			
First Mortgage Bonds	150,000	—	—
Other long-term debt	98,000	157,000	64,400
Trustee investment fund — net	(1,058)	(17,213)	2,695
Securities redemptions (including other long-term debt)	(1,614)	(51,343)	(23,202)
Preferred stock	—	—	15,000
Common stock	76,701	100,624	109,370
Investment in subsidiary companies	—	—	(13,500)
Investment in special interest accounts	(7,200)	(15,045)	—
Increase (decrease) in short-term borrowings	4,000	9,000	(4,775)
Funds from financing	318,829	183,023	149,988
(Increase) decrease in working capital (other than short-term borrowings and securities due within one year)			
Cash	562	5,507	1,551
Temporary cash investments	(39,000)	4,700	5,300
Accounts receivable	10,452	(18,439)	(4,254)
Other current assets	391	(2,554)	(2,679)
Accounts payable	(3,841)	24,014	18,098
Accrued liabilities	8,669	2,324	6,138
Other current liabilities	286	(3,776)	670
Subtotal	(22,481)	11,776	24,824
Other — net	(3,254)	(3,622)	(1,157)
Total Funds Used for Construction (excludes AFC)	$ 258,359	$ 179,377	$ 162,194

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 the State of Kansas (KCC) 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, including nuclear fuel, and a reasonable rate on other funds when so used. This allowance has been added to all major construction projects with semi-annual compounding. Effective May 1, 1982, upon receiving approval from the FERC, the Company adopted a policy of updating its AFC rate monthly. The annual average net AFC rate (net of income taxes) for 1984, 1983 and 1982 was 9.72%, 9.81% and 9.72%, respectively.

Depreciation — For financial reporting 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 1984 and 3.3% for 1983 and 1982.

Income Taxes — In the calculation of income taxes, the Company (i) uses liberalized depreciation 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 such items as approved by the appropriate regulatory commission and as required by the Internal Revenue Code. In connection with an order from the KCC, AFC is recorded in Electric Plant on a net basis with an amount equivalent to the income tax effect on the borrowed funds portion of the AFC 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 KCC.

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. The variances between actual and estimate are adjusted through the fuel adjustment clause two months after they are recorded.

Accounts Payable — Accounts payable includes checks written in amounts exceeding the balance of funds held in certain bank accounts pursuant to an agreement between the Company and the bank.

2. Rate Matters:

State:

In April 1984, Kansas legislation became effective which, among other things, granted the KCC the authority, under certain circumstances, to deny or defer rate recognition of property values from rate base and revenue requirements of a public utility. The KCC may deny or defer rate recognition on all or a portion of the acquisition, construction or operating costs of such property which are determined by the KCC to have resulted in whole or in part from a lack of efficiency or prudence or the acquisition or construction of excess capacity. The KCC may also deny the recovery of carrying or financing charges on the value of any excess capacity while deferred or excluded from rate base and must deny such recovery if it finds that the excess capacity resulted from a lack of efficiency or prudence in facility planning. Upon commercial operation of Wolf Creek Generating Station, Unit No. 1 (Wolf Creek), the Company anticipates having reserve capacity above its peak responsibility of up to 60%. See Note 12 for Wolf Creek estimates.

The legislation may adversely affect the amount of rate relief which the KCC may grant the Company with respect to its investment in Wolf Creek. Failure to receive adequate and timely rate relief with respect to Wolf Creek could have a substantial adverse effect upon the Company's financial condition, including its dividend paying capacity.

However, management believes the outcome of present and subsequent rate determinations, as applicable under the legislation referred to above, will permit the Company to ultimately recover its recorded value of Wolf Creek assets along with associated operating and carrying costs.

The KCC has under most circumstances 240 days in which to render a decision on a rate case application. In November 1984, the Company filed a retail rate increase based on a revenue deficiency in the amount of $373.4 million to become effective concurrent with the then anticipated spring 1985 commercial operation of Wolf Creek. To reflect the presently anticipated mid-year commercial operation of Wolf Creek, the Company amended this application on January 31, 1985 for the purpose of changing to that date the commencement of the 240 day period.

Wolf Creek is estimated to account for 93% of the rate deficiency. The balance includes costs associated with Jeffrey Energy Center Unit 3 (JEC-3) which were not included in the interim increase issued in May 1983 and cost increases since the Company's last permanent rate increase in April 1983. The request is based on a return on equity of 15.5% and an overall cost of capital of 11.98%.

The Company has proposed that the revenue deficiency referred to above be phased in over a five year period. The requested increase for the first year of commercial operation of Wolf Creek under the Company's five year phase-in plan is

$144.9 million, representing a 39.4% increase in retail revenues. As a result of the anticipated fuel savings, the net increase in retail revenues is estimated to be $120 million or a 33% increase. Subsequent increases under this phase-in plan will be requested annually to reflect operating results and trends.

On March 15, 1983, the Company filed for an interim retail rate increase with the KCC in the amount of $28.0 million annually or approximately 8.6%. The interim rate increase request was subsequently amended downward to $20.3 million annually, or approximately 6%. The request included the estimated investment for JEC-3, which commenced commercial operation on May 27, 1983. The KCC granted an $18.9 million interim rate increase, subject to refund, effective May 28, 1983, based on a return on common equity of 15.5% and a return on rate base of 11.37%.

For the years ended December 31, 1984 and 1983, approximately $19.7 and $11.3 million of revenues, respectively, were collected subject to refund under the interim rate filing above. Management of the Company does not believe any significant amount of such revenues will be refunded.

On August 13, 1982, the Company filed with the KCC for a retail rate increase in the amount of $48.0 million annually, or approximately 14%. The filing provided for rates of return of 18.5% on common equity and 13.07% on rate base. An order was issued on April 8, 1983 granting the Company $15.2 million, with rates of return of 15.5% on common equity and 11.52% on rate base. The increase became effective April 25, 1983.

Federal:

During the last quarter of 1984, the Company refunded $6.8 million in revenues collected from customers under the jurisdiction of FERC. Refunded amounts included in revenues for the years 1983 and 1982 were $2.5 and $2.1 million, respectively.

3. Short-Term Borrowings:

At December 31, 1984 and 1983, the Company had bank credit arrangements in the amounts of $91 and $100 million, respectively. The Company draws upon these sources to meet short-term cash requirements. Interest costs are based upon daily average outstanding loan balances. The maximum amount outstanding during 1984 and 1983 was $66,500,000 on March 2, 1984 and $59,000,000 on December 20, 1983. The weighted average interest rate, including fees, was 12.0% for 1984 and 11.3% for 1983.

4. Common Stock and Other Paid-in Capital:

Changes in Common Stock were as follows:

	Shares		Amount
	Authorized	Outstanding	(Thousands of Dollars)
Balance January 1, 1982	35,000,000	19,507,086	$274,411
Additional shares sold		6,000,000	95,335
Employee Stock Purchase Plan and Dividend Reinvestment Plan		905,503	14,035
Balance December 31, 1982	35,000,000	26,412,589	$383,781
Additional shares sold		4,000,000	76,828
Employee Stock Purchase Plan, Employee Stock Ownership Plan and Dividend Reinvestment Plan		1,259,377	23,796
Additional shares authorized	15,000,000		
Balance December 31, 1983	50,000,000	31,671,966	484,405
Additional shares sold		3,000,000	49,255
Employee Stock Purchase Plan, Employee Stock Ownership Plan and Dividend Reinvestment Plan		1,852,468	27,446
Balance December 31, 1984	50,000,000	36,524,434	$561,106

The Other Paid-in Capital represents the cumulative gain on the reacquired preferred stock and premium on initial sale of preferred stock.

Common Stock issues in 1984 were:

Date of Sale	Number of Shares	Issue Price Per Share
March 1984	2,000,000	$16.152
October 1984	1,000,000	$16.951

	Book Value Per Share		
Date of Sale	Actual Before Issuance	Pro Forma After Issuance	Percent Dilutive Effect
March 1984	$20.14	$19.90	1.2%
October 1984	$20.52	$20.42	0.5%

Common stock issues under the Dividend Reinvestment Program, Employee Stock Purchase Plan and Employee Stock Ownership Plan on a monthly basis do not materially affect book value per share.

The construction program is financed through a combination of debt, preferred stock, and common stock issuances. The amount and timing of capital needs are assessed on a continuing basis and the capitalization structure components are analyzed as they relate to total capitalization and to budgeted financings. Efforts are made to issue securities when market conditions are most favorable, after giving consideration to cash requirements

5. Cumulative Preferred Stock:

	December 31, 1984	December 31, 1983	Call Price
	(Thousands of Dollars)		(At December 31, 1984)
Redemption not required — except at the Company's option:			
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	104.95
Serial, without par value (Note):			
$8.66 series, outstanding 300,000 shares ...	**30,000**	30,000	106.50
Total	**$63,701**	$63,701	
Redemption required:			
Serial, without par value (Note):			
$2.42 series, outstanding 520,000 and 602,914 shares, respectively	**$13,000**	$15,073	$ 27.42
$8.125 series, outstanding 100,000 shares ...	**10,000**	10,000	106.88
$8.00 series, outstanding 150,000 shares ...	**15,000**	15,000	none
$8.25 series, outstanding 100,000 shares ...	**10,000**	10,000	103.66
$15.50 series, outstanding 300,000 shares ...	**30,000**	30,000	109.69
$13.25 series, outstanding 150,000 shares ...	**15,000**	15,000	none
Subtotal	**93,000**	95,073	
Less: Securities due within one year	**15,000**	73	
Total	**$78,000**	$95,000	

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

The $13.25 Series Serial Preferred Stock may be redeemed on and after October 1, 1987 at $100 plus unpaid accumulated dividends, if any. The dividend rate on the $13.25 Series will be $13.25 through September 30, 1987. From October 1, 1987 through September 30, 1992, the rate will be determined by a formula which is based on an average prime interest rate in the year ended September 30, 1987.

The following preferred stock may not be redeemed prior to the date shown below 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 Series for 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 or redemption obligations for the various Series are:

Series	Period Commencing	Period Completion	Annual Number of Shares
$2.42	April 1, 1980	April 1, 1999	40,000
$8.125	April 1, 1989	April 1, 2018	3,333
$8.00	March 28, 1985	—	150,000
$8.25	July 1, 1986	—	20,000
	July 1, 1987	—	50,000
	July 1, 1988	—	15,000
	July 1, 1989	—	15,000
$15.50	April 1, 1987	April 1, 1991	60,000
$13.25	October 1, 1988	October 1, 1992	30,000

Amounts related to shares to be redeemed within the next year have been shown as a current liability. Purchases of the $2.42 and $8.125 Series in excess of the minimum can be used to satisfy future minimum requirements.

All sinking fund redemptions will be made at $100 per share (except for the $2.42 Series at $25 per share) plus unpaid accumulated dividends.

The embedded cost of preferred stock was 9.86% for 1984, 1983 and 1982.

6. Long-Term Debt:

	December 31, 1984	December 31, 1983
	(Thousands of Dollars)	
First Mortgage Bonds:		
3⅜% series, due 1985	$ 10,000	$ 10,000
3⅜% series, due 1986	7,000	7,000
16¼% series, due 1987	30,000	30,000
14⅞% series, due 1987-1991	30,000	30,000
13½% series, due 1989	100,000	—
4⅝% series, due 1991	7,000	7,000
14.05% series, due 1991	30,000	—
14⅛% series, due 1991	20,000	—
5⅝% series due 1996	16,000	16,000
16% series, due 1996	25,000	25,000
8½% series, due 2000	35,000	35,000
8⅛% series, due 2001	35,000	35,000
7⅜% series, due 2002	25,000	25,000
6.8% series, due 2004	14,500	14,500
9⅜% series, due 2005	40,000	40,000
8⅜% series, due 2006	25,000	25,000
5⅞% series, due 2007	21,940	21,940
6% series, due 2007	10,000	10,000
8½% series, due 2007	25,000	25,000
8⅞% series, due 2008	30,000	30,000
Total First Mortgage Bonds	536,440	386,440
Other Long-Term Debt:		
Pollution control revenue bonds:		
5¾% series, due 2003	15,000	15,000
Adjustable rate series, due 2013	70,000	70,000
Adjustable rate series, due 2013	87,000	87,000
Adjustable rate series, due 2014	98,000	—
Securities held by Trustee-adjustable rate series	(18,533)	(17,842)
16¾% promissory note, due 1989	39,400	39,400
Credit agreement, due 1986	50,000	50,000
Revolving bank loan, due 1990	50,000	100,000
Revolving bank loan, due 1991	50,000	—
Bankers acceptance agreement, due 1986	23,000	23,000
Other long-term agreements	714	255
Unamortized premium and discount — net	(17)	(11)
Total Other Long-Term Debt	464,564	366,802
Subtotal	1,001,004	753,242
Less: Securities due within one year	10,000	—
Total	$ 991,004	$753,242

Required redemptions for 1985 through 1989 amount to $10,000,000, $82,300,000, $38,300,000, $20,800,000 and $160,200,000, respectively. The redemption requirements for 1988 and 1989 would be increased to include both adjustable rate series, due 2013, and the adjustable rate series, due 2014, respectively, in the event that the irrevocable letter of credit agreements are not extended or other arrangements for collateral are not made.

First Mortgage Bonds may be issued in additional amounts, limited 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, 1984 and 1983, none of the retained earnings were restricted thereby.

The 6.8% series due 2004, and the 5⅞% and 6% series due 2007 are pledged as collateral for Pollution Control Revenue Bonds issued by Kansas municipalities.

Proceeds of the three adjustable rate series were used to refund certain First Mortgage Bonds initially pledged as collateral for Pollution Control Revenue Bonds issued by Kansas municipalities, pay costs incurred on existing pollution control facilities, and establish special interest accounts with the trustee which are pledged for debt service. The balances were deposited with the trustee and invested pending construction of additional pollution control facilities. The letter of credit agreements with respect to such series permit extensions on an annual basis upon mutual agreement of the banks and the Company. The variable interest rate is determined on the basis of prevailing market rates for debt instruments of like tenor and quality. The following information is applicable to these issues:

Description	Letter of Credit Initial Expiration Date		Weighted Average Net Interest Rate 1984	1983
Series due 2013 $70 million	June 1, 1988	a)	6.3%	5.5%
Series due 2013 $87 million	December 1, 1988	b)	6.0%	5.8%
Series due 2014 $98 million	November 30, 1989	c)	6.5%	—

a) The interest rate currently varies weekly.
b) The interest rate for a portion of this series was fixed through July 31, 1984 and the interest rate for the entire series currently varies weekly.
c) The interest rate is fixed through April 30, 1985; thereafter the interest rate will vary.

The long-term debt on financial statements has been reduced by funds (plus accrued earnings) held by trustees for future construction expenditures. The construction fund investment will be withdrawn upon incurrence of qualified expenditures.

The special interest accounts are invested and used for interest payments and subsequently replenished up to the original account balances of $22.245 million.

The 16¾% promissory note due May 1, 1989, was issued to a wholly-owned offshore financial subsidiary, Kansas Gas and Electric International Finance N.V. The Company's First Mortgage Bonds 15¾% series due May 1, 1989, in the amount of $40

million, are pledged as collateral for guaranteed notes issued by the subsidiary (see Note 7).

The credit agreement, which expires on July 8, 1986, enables the Company to sell up to $50 million in commercial paper supported by a bank letter of credit or obtain certain revolving credit loans. The weighted average interest rate, including fees, was 11.2% for 1984 and 10.0% for 1983.

The Company has two revolving bank loans. One loan, due 1990, for up to $100 million is comprised of a revolving credit loan until September 1, 1986, followed by a four-year term loan. A second loan, due 1991, enables the Company to borrow up to $200 million on a revolving credit basis until May 31, 1987, followed by a four-year term loan. Both loans may be repaid at any time without penalty. The weighted average interest rate, including fees, was 12.4% for 1984 and 10.1% for 1983.

The bankers acceptance agreement, which expires on February 28, 1986, enables the Company to borrow up to $25 million by collateralizing its coal and fuel oil inventories at rates based upon the banks' discount and acceptance charge. The weighted average interest rate, including fees, was 11.4% for 1984 and 10.0% for 1983.

A revolving underwriting facility agreement was entered into on December 19, 1984 and expires July 1, 1988. This agreement enables the Company to sell promissory notes or borrow from international banks in an aggregate amount of up to $100 million. The Company did not utilize this agreement in 1984.

The embedded cost of long-term debt for 1984, 1983 and 1982 was 9.80%, 9.45%, and 9.66%, respectively.

7. Finance Subsidiary:

The Company uses the equity method to account for the investment in its wholly-owned offshore finance subsidiary, Kansas Gas and Electric International Finance N.V. The original capital investment in this subsidiary was $13,500,000. This subsidiary was formed to permit the Company to secure Eurodollar funds (See Note 6).

8. Retirement Plan:

The Company has a non-contributory retirement plan for all employees. The total cost for the years 1984, 1983 and 1982 was $3,143,000, $2,204,000 and $2,399,000, respectively. Of these amounts, $2,171,000, $1,271,000 and $1,178,000, respectively, were included in plant construction costs. The Company's policy is to fund pension costs accrued currently.

Actuarial Present Value of Benefits at a 7.5% Assumed Rate of Return	November 30, 1983
Vested participants	$36.9 million
Non-vested participants	3.4 million
Total	$40.3 million
Market value of net assets available for benefits	$50.7 million

The above data is as of the latest actuarial evaluation.

In December 1983, the Company adopted plan amendments to change the benefit formula and improve benefits under the plan. The assumed earnings rate on invested funds was increased from 6½% to 7½% and the actuarial valuation for November 30, 1983, in the table above has been restated using 7½%. The actuarial cost method and assumptions were changed including a change from 10 to 30 year amortization of unfunded past service cost and a change in the actuarial method of asset recognition. The cost of the 1983 amendment and actuarial cost method change will be partially offset by the changes in assumed earnings rate and amortization period.

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:

	1984	1983	1982
Statutory Federal income tax rate	**46%**	46%	46%
Add (Deduct) income tax effects of:			
Allowances for other funds used during construction	**(23)**	(20)	(20)
Depreciation timing differences	**1**	1	1
Taxes and pensions capitalized	**—**	(1)	(2)
Amortization of investment tax credit	**(1)**	(1)	(1)
Other items — net (no one item makes up more than 2%)	**—**	—	(1)
Effective Federal income tax rate	**23%**	25%	23%

Income taxes as recorded in the Statements of Income are:

	1984	1983	1982
	(Thousands of Dollars)		
Operating expenses:			
Currently payable —			
Federal	**$(1,749)**	$ 1,796	$ 948
State	**256**	1,114	416
Deferred — Federal	**10,984**	11,191	6,578
— State	**1,729**	1,758	1,035
Deferred — tax effect of AFC — borrowed	**27,722**	19,792	18,899
Investment tax credit — net	**2,082**	4,252	571
Total	**41,024**	39,903	28,447
Other income and deductions:			
Currently payable —			
Federal	**1,722**	917	772
State	**271**	144	121
Total	**1,993**	1,061	893
Income tax expense — net	**$43,017**	$40,964	$29,340

At December 31, 1984, the Company has unused investment tax credits including those related to the Employee Stock Ownership Plan of approximately $104 million available for carryforward to future years. If not utilized, the remaining carryforward credits will expire in the year 1993 through 1999 in the amounts of $3, $20, $16, $13, $17, $15, and $20 million, respectively.

The Company has not been allowed to record deferred income taxes on certain items, primarily payroll and property taxes, pensions, and removal costs, prior to May 1983. The cumulative net amount of such timing differences for which deferred income taxes have not been provided is approximately $14 million as of December 31, 1984.

10. Commitments and Contingent Liabilities:

The construction budget (exclusive of nuclear fuel) for 1985 is approximately $125 million which includes the estimated $81 million to complete the Wolf Creek nuclear project. The Company has substantial commitments in connection with its construction program.

On January 27, 1983, three Kansas municipalities filed a suit in the Federal District Court for the District of Kansas seeking $21 million in damages for alleged violations by the Company of Federal and Kansas antitrust laws. The complaint alleges that the Company unlawfully has refused to wheel wholesale power for these municipalities. On May 27, 1983, the Court entered an order enjoining the Company from refusing to wheel power for the municipalities, pending final determination of the suit on the merits. The Company has appealed this order. In the opinion of management, damages, if any, which might arise from this matter would not have a material effect on the financial position of the Company.

See Note 2 — rate matters.

11. Financing:

The Company entered into a financial agreement on January 22, 1985 for the sale of $30 million First Mortgage Bonds, 10⅞% Series due 1987. The proceeds are to be payable February 1, 1985.

12. Joint Ownership of Utility Plants:

	Company's Ownership at December 31, 1984				
	In-Service Dates	Investment In Millions	Accum. Provision for Depr.	(MW)	Percent
La Cygne #1(a)	June 1973	$ 108	$45	343	50
La Cygne #2(a)	May 1977	117	34	315	50
Jeffrey #1(b)	July 1978	68	13	132	20
Jeffrey #2(b)	May 1980	54	9	136	20
Jeffrey #3(b)	May 1983	80	5	136	20
Wolf Creek #1(c)	1985(d)	1,237(d)	—	541(e)	47

(a) Jointly owned with Kansas City Power & Light Company.
(b) Jointly owned with The Kansas Power and Light Company, Central Telephone and Utilities Corp. and Missouri Public Service Company.
(c) Jointly owned with Kansas City Power & Light Company and Kansas Electric Power Cooperative, Inc.
(d) Estimated in-service date; Total construction costs are estimated to be $1,332 million. (Unaudited)
(e) Based on a nominal rating of 1,150 MW for the total unit.

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

13. Quarterly Financial Statistics (Unaudited):

(Thousands except per share)

	1984			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Operating Revenues	$84,734	$131,588	$95,599	$98,832
Operating Income	14,409	30,207	16,955	17,801
Net Income	25,162	41,391	27,365	27,940
Earnings Applicable to Common Stock	21,344	37,576	23,500	24,075
Average Shares Outstanding	36,509	35,056	34,499	32,729
Earnings Per Share	$ 0.58	$ 1.07	$ 0.68	$ 0.74

	1983			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Operating Revenues	$97,588	$134,172	$80,064	$81,229
Operating Income	16,283	30,488	13,418	13,163
Net Income	25,826	38,610	21,154	21,948
Earnings Applicable to Common Stock	21,958	34,735	17,272	18,062
Average Shares Outstanding	31,647	31,328	29,001	27,675
Earnings Per Share	$ 0.69	$ 1.11	$ 0.60	$ 0.65

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	1984		1983		1984	1983
First Quarter	19	15⅜	20⅞	18¼	$.59	$.56
Second Quarter	16	12½	21¼	19⅜	.59	.56
Third Quarter	17⅛	12⅞	20⅝	18⅝	.59	.56
Fourth Quarter	18⅜	16	21⅜	16½	.59	.59

The Company had 59,850 common stockholders as of December 31, 1984.

14. 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" (as amended). This statement requires adjustments to historical costs to estimate the effects that specific prices (Current Cost) have had on the Company's results of operations. This data is not intended to serve as a substitute for earnings reported on a historical cost basis. It does offer some perspective of the approximate effects of inflation rather than a precise measurement of these effects.

SUPPLEMENTAL STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES

For the Year Ended December 31, 1984

	Conventional Historical Cost	Current Cost Average 1984 Dollars
	(Thousands of Dollars)	
Operating revenues	$ 410,753	$ 410,753
Fuel	148,959	148,959
Purchased power	18,221	18,221
Depreciation expense	32,433	73,753
Other operating and maintenance expense	90,744	90,744
Income tax expense — net	43,017	43,017
Interest expense — net	37,768	37,768
Other income and deductions — net	(82,247)	(82,247)
Subtotal	288,895	330,215
Income from operations (excluding reduction to net recoverable cost)	$ 121,858	$ 80,538
Increase in specific prices (current cost) of property, plant and equipment held during the year*		$ 94,103
Reduction to net recoverable cost		(14,628)
Effect of increase in general price level		(109,054)
Excess of increase in general price level over increases in specific prices after reduction to net recoverable cost		(29,579)
Gain from decline in purchasing power of net amounts owed		43,453
Net		$ 13,874
Net assets at year-end at net recoverable cost		$ 733,840

*At December 31, 1984, current cost of utility plant net of accumulated depreciation was $3,019,204,000, while historical cost or net cost recoverable through depreciation was $1,989,013,000.

Estimated property, plant and equipment (plant), primarily consisting of plant in service and construction work in progress, was determined for current cost 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 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 accumulated provision for depreciation for 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 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 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 amounts 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.

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

For the Years Ended December 31

	1984	1983	1982	1981	1980
		(In Thousands of Average 1984 Dollars)			
Current cost information:					
Income from operations (excluding reduction to net recoverable cost)	$ 80,538	$ 73,416	$ 50,889	$ 35,882	$ 30,176
Income per common share (after dividend requirements on preferred and preference stock)	$ 1.88	$ 1.92	$ 1.52	$ 1.13	$ 1.27
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	$(29,579)	$(22,317)	$(13,841)	$(74,127)	$(109,859)
Net assets at year-end at net recoverable cost	$733,840	$659,280	$552,386	$432,834	$ 411,219
General information:					
Gain from decline in purchasing power of net amounts owed	$ 43,453	$ 37,400	$ 35,127	$ 75,527	$101,386
Cash dividends declared per common share	$ 2.36	$ 2.37	$ 2.31	$ 2.35	$ 2.48
Market price per common share at year-end	$ 17.25	$ 17.98	$ 19.77	$ 16.99	$ 18.44
Average consumer price index	311.1	298.4	289.1	272.4	246.8

Management Statement of Responsibility for Financial Statements

The management of Kansas Gas and Electric Company is responsible for the financial statements, notes thereto, and other information in this report. The accompanying financial statements have been prepared by management in accordance with generally accepted accounting principles consistently applied. The accounting system is in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission and the State Corporation Commission of the State of Kansas.

The integrity of accounting records is upheld by a comprehensive system of internal accounting controls, monitored on a regular basis by the internal audit staff of the Company. The system of internal control is complemented by a set of accounting policies and procedures which provide the necessary guidance needed to institute effective internal control.

The Board of Directors maintains its oversight responsibility through an Audit Committee, consisting of three outside directors. The Committee meets with Management, the Internal Auditors, and the Independent Auditors in connection with its review of matters relating to the Company's financial reporting; the Company's Internal Audit Program; the Company's system of internal accounting controls; and services of the Independent Auditors. The Committee meets with the auditors without management present in order to assure independent treatment of matters brought to its attention. The Committee also recommends to the Directors the selection of Independent Auditors.

Wichita, Kansas
January 31, 1985

Howard J. Hansen
Group Vice President - Finance

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, 1984 and 1983 and the related statements of income, retained earnings, and of sources of funds for construction for each of the three years in the period ended December 31, 1984. 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, such financial statements present fairly the financial position of the Company at December 31, 1984 and 1983 and the results of its operations and the sources of its funds for construction for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Kansas City, Missouri
January 31, 1985

Deloitte Haskins & Sells

COMPARATIVE ELECTRIC STATEMENTS

	1984	1983	1982	Annual Compound Growth Rate 5 Year	10 Year
Electric Operating Revenues *(Thousands)*:					
Residential	$ 147,547	$ 142,029	$ 120,980	14.7	16.7
Commercial	96,304	88,976	79,282	11.5	14.8
Industrial	131,080	115,413	109,628	10.3	16.8
Public street and highway lighting	4,305	4,080	3,523	14.8	14.4
Retail rates	379,236	350,498	313,413	12.3	16.2
Wholesale rates	25,294	41,390	36,388	(3.9)	8.9
Total sales of electricity	404,530	391,888	349,801	10.7	15.5
Other	6,223	1,165	1,136	35.6	23.1
Total electric operating revenues	$ 410,753	$ 393,053	$ 350,937	10.9	15.6
Sales in Kilowatthours *(Thousands)*:					
Residential	2,114,880	2,098,971	1,999,091	2.5	3.8
Commercial	1,586,723	1,527,475	1,500,601	2.6	3.9
Industrial	2,750,126	2,454,486	2,595,651	(.2)	2.1
Public street and highway lighting	63,243	65,292	65,426	—	1.0
Retail rates	6,514,972	6,146,224	6,160,769	1.3	3.0
Wholesale rates	925,966	1,114,674	1,077,695	(8.7)	(.9)
Total kilowatthours sold	7,440,938	7,260,898	7,238,464	(.4)	2.4
Customers at End of Year:					
Residential	217,510	213,819	210,698	1.7	2.1
Commercial	19,853	19,554	19,151	.7	.6
Industrial	4,574	4,523	4,469	4.4	6.4
Public street and highway lighting	690	655	612	8.9	10.8
Retail rates	242,627	238,551	234,930	1.7	2.0
Wholesale rates	39	40	42	(17.5)	(8.4)
Total electric customers	242,666	238,591	234,972	1.7	2.0
Residential:					
Average kilowatthours per customer	9,812	9,901	9,529	.7	1.6
Average revenue per customer	$684.54	$669.96	$576.70	12.7	14.2
Average revenue per kilowatthour	6.98¢	6.77¢	6.05¢	11.9	12.4
Kilowatthours Generated & Purchased *(Thousands)*:					
Generated *(net after station use)*	7,194,861	6,806,286	6,894,437	(1.0)	1.9
Purchased	822,000	1,128,312	919,055	11.6	8.8
Total available	8,016,861	7,934,598	7,813,492	—	2.4
Company use, line loss, etc.	575,923	673,700	575,028	4.7	2.5
Total kilowatthours sold	7,440,938	7,260,898	7,238,464	(.4)	2.4
Average BTU per Net Kilowatthour Generated	11,161	10,979	11,063	.3	(.1)
Average Fuel Cost per Million BTU	$1.86	$1.87	$1.68	8.6	18.9
Power Resources *(Megawatts)*					
Available capacity	2,099	2,160	2,029	1.3	2.0
System peak responsibility	1,633	1,700	1,626	2.1	2.1
Reserve capacity	466	460	403	(1.2)	1.5
Utility Plant at Original Cost *(Thousands)*:					
Beginning of year	$ 1,922,942	$ 1,668,929	$ 1,444,080	16.0	16.1
Capital expenditures	364,823	262,520	228,311	14.7	22.5
Retirements	5,069	8,507	3,462	(6.0)	9.0
End of year	2,282,696	1,922,942	1,668,929	15.9	16.9
Accumulated provision for depreciation	293,683	265,739	245,886	10.5	11.2
Net utility plant	$ 1,989,013	$ 1,657,203	$ 1,423,043	16.8	18.1
Employees at Year-end	2,277	2,016	1,856	9.7	5.8

DIRECTORS*

Frank J. Becker (1981)
(1,4) Chairman and Chief Executive Officer, Becker Corporation & First National Bank & Trust Co., El Dorado

Robert A. Brown (1953)
(3) Chairman of the Board, The Home National Bank of Arkansas City (Retired)+

A. Dwight Button (1976)
(1,2,4) Retired Chairman of the Board, Fourth Financial Corp., Wichita

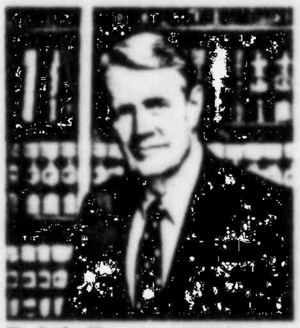
Wilson K. Cadman (1978)
(1) Wichita, Chairman of the Board and President of the Company

C.T. Carter (1968)
(1,3) Independence, Retired Vice President, Pipeline Transportation, Atlantic Richfield Company

C.Q. Chandler (1974)
(1,4,5) Chairman of the Board, First National Bank in Wichita

Robert T. Crain (1981)
(5) Fort Scott, Crain Realty Company

Ralph P. Fiebach (1967)
Wichita, Retired Chairman of the Board of the Company



Ralph Foster (1970)
(4) Wichita, Vice President - General Counsel of the Company

Donald A. Johnston (1980)
(2,5) Lawrence, President, University State Bank

Russell W. Meyer, Jr. (1982)
(5) Wichita, Chairman and Chief Executive Officer, Cessna Aircraft Company

Terence J. Scanlon (1980)
(2,3,4) Wichita, Investor and Developer

Marjorie I. Setter (1980)
(4) Wichita, President, Setter and Associates, Inc., Advertising and Public Relations

Donald C. Slawson (1983)
Wichita, Chairman of the Board and President, Slawson Oil Companies

Lyle E. Yost (1969)
Hesston, Chairman of the Board, Hesston Corporation (Retired)+

***Year elected and committee assignments.**

Committees: *(1) Executive; (2) Compensation; (3) Audit; (4) Shareholders Relations; (5) Nominating Committee*

+Howard Brenneman, president and chief executive, Hesston Corporation, Hesston, and Dr. Newton Smith, physician, Arkansas City, were elected February 21, 1985.

OFFICERS

Wilson K. Cadman, 57*
Chairman of the Board and President

Kent R. Brown, 40*
Group Vice President - Technical Services

Richard M. Haden, 45*
Group Vice President - Administration

Howard J. Hansen, 63*
Group Vice President - Finance

Robert L. Rives, 51*
Group Vice President - Corporate Relations

Ralph Foster, 56*
Vice President - General Counsel

James S. Haines, Jr., 38
Vice President - Regulatory Affairs

Glenn L. Koester, 59*
Vice President - Nuclear

Bernard Ruddick, 61
Vice President - Engineering

W.R. Whitmer, 51
Treasurer

E.D. Prothro, 52
Controller and Assistant Secretary

Richard D. Terrill, 30
Secretary

Michael A. Gayoso, 36
Assistant Controller

Jack Skelton, 54
Assistant Controller

Joe R. Gibbens, 39
Assistant Secretary

J.F. Klassen, 55
Assistant Treasurer

William B. Moore, 32
Manager of Finance and Assistant Treasurer

Verna L. Ridgeway, 57
Assistant Vice President - Consumer Affairs

*Policy Group member.

STOCKHOLDER INFORMATION

Annual Meeting

The annual stockholders' meeting will be held May 22, 1985, at the Alexander Auditorium, Fine Arts Center, Friends University in Wichita. Proxies for this meeting will be solicited by the management. A proxy statement will be mailed to stockholders about April 19, 1985.

This report is prepared primarily for the information of company stockholders 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. and P.S.E.; ticker symbol — KGE.

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

Stockholder Records and Dividend Reinvestment

KG&E Stockholder
Records Department
P.O. Box 208
Wichita, KS 67201
Phone: (316) 261-6640

Additional Information

The company's Form 10-K is filed with the Securities and Exchange Commission and is available from that agency or from the Company.

For a copy of KG&E's "Financial and Statistical Report 1974-1984" or other information, contact:

Gary A. Farha
Investor Relations Department
Kansas Gas and
Electric Company
P.O. Box 208
Wichita, KS 67201
Phone: (316) 261-6380

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

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Audited Financial Statements

Kansas Electric Power Cooperative, Inc.

December 31, 1984

Ernst & Whinney

Audited Financial Statements

KANSAS ELECTRIC POWER COOPERATIVE, INC.

December 31, 1984

Ernst & Whinney

2000 City Center Square
1100 Main Street
Kansas City, Missouri 64105

816/474-8050

Board of Trustees
Kansas Electric Power Cooperative, Inc.
Topeka, Kansas

We have examined the balance sheets of Kansas Electric Power Cooperative, Inc. as of December 31, 1984 and 1983 and the related statements of patronage capital (deficit) and other equities, operations, and changes in financial position for the years then ended. 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 Electric Power Cooperative, Inc. at December 31, 1984 and 1983 and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Kansas City, Missouri
February 12, 1985

BALANCE SHEETS

KANSAS ELECTRIC POWER COOPERATIVE, INC.

	December 31 1984	1983
ASSETS		
UTILITY PLANT		
Electric plant in service	$ 272,036	$ 110,648
Construction work in progress--Note B	194,119,910	145,659,623
	194,391,946	145,770,271
Less allowances for depreciation	71,242	50,579
	194,320,704	145,719,692
INVESTMENTS IN ASSOCIATED ORGANIZATIONS	6,249,108	5,956,424
CURRENT ASSETS		
Cash and short-term investments (including amounts restricted for construction of $490,187 and $927,544 at 1984 and 1983, respectively)	1,601,921	1,753,044
Accounts receivable from members--Note D	5,757,442	6,249,522
Receivable from power supplier	3,385,412	---
Other	12,679	6,461
	10,757,454	8,009,027
DEFERRED DEBITS	27,119	160,214
	$211,354,385	$159,845,357

LIABILITIES AND PATRONAGE CAPITAL	December 31 1984	December 31 1983
PATRONAGE CAPITAL (DEFICIT)		
AND OTHER EQUITIES		
Memberships	$ 2,800	$ 2,800
Patronage capital (deficit)	(2,008,329)	(930,212)
Other equities	157,938	62,991
	(1,847,591)	(864,421)
LONG TERM DEBT--Note C	201,370,290	148,067,281
CURRENT LIABILITIES		
Accounts payable	6,898,406	6,988,010
Accounts payable to members--Note H	3,986,263	600,851
Payroll and payroll related liabilities	18,164	22,372
Accrued property taxes	337,261	284,243
Accrued interest payable	13,665	4,747,021
Current portion of long-term debt--Note C	577,927	---
	11,831,686	12,642,497
COMMITMENTS AND LITIGATION--Notes B, C, E and H		
	$211,354,385	$159,845,357

See notes to financial statements

STATEMENTS OF PATRONAGE CAPITAL (DEFICIT) AND OTHER EQUITIES

KANSAS ELECTRIC POWER COOPERATIVE, INC.

	Memberships	Patronage Capital (Deficit) Unallocated	Other Equities	Total
Balance at January 1, 1983	$2,800	$ (948,266)	$ 30,433	$ (915,033)
1983 Net Margin	---	18,054	32,558	50,612
Balance at December 31, 1983	2,800	(930,212)	62,991	(864,421)
1984 Net Margin (loss)	---	(1,078,117)	94,947	(983,170)
Balance at December 31, 1984	$2,800	$(2,008,329)	$157,938	$(1,847,591)

See notes to financial statements

STATEMENTS OF OPERATIONS

KANSAS ELECTRIC POWER COOPERATIVE, INC.

	Year Ended December 31 1984	1983
Operating revenue from member cooperatives	$64,980,587	$46,420,699
Operating expenses:		
Power purchased	63,888,314	45,565,999
Administrative and general	1,745,480	1,458,559
Depreciation and amortization	30,799	13,449
Interest	394,111	309,124
	66,058,704	47,347,131
LOSS FROM OPERATIONS	(1,078,117)	(926,432)
Other income (expense):		
Interest income	94,947	62,991
Refunds from power suppliers	7,843,213	917,783
Refunds to member cooperatives	(7,843,213)	(917,783)
	94,947	62,991
LOSS BEFORE ASSESSMENT	(983,170)	(863,441)
Assessment to members--Note D	---	914,053
MARGIN (LOSS) BEFORE TAXES	(983,170)	50,612
Income taxes	---	8,434
MARGIN (LOSS) BEFORE EXTRAORDINARY ITEM	(983,170)	42,178
Extraordinary item:		
Reduction of income taxes arising from carryforward of net operating loss	---	8,434
NET MARGIN (LOSS)	$ (983,170)	$ 50,612

See notes to financial statements

STATEMENTS OF CHANGES IN FINANCIAL POSITION

KANSAS ELECTRIC POWER COOPERATIVE, INC.

	Year Ended December 31 1984	1983
SOURCES OF WORKING CAPITAL		
Net margin (loss)	$ (983,170)	$ 50,612
Charges to income not affecting working capital:		
Depreciation and amortization	30,799	13,449
Amortization of deferred debits	---	51,381
TOTAL FROM OPERATIONS	(952,371)	115,442
Proceeds from long-term debt	53,891,412	33,199,000
Decrease in deferred debits	133,095	42,481
Net carrying amount of disposed equipment	1,050	20,568
Other	---	1,834
	53,073,186	33,379,325
APPLICATION OF WORKING CAPITAL		
Increase in investments in associated organizations	292,684	112,244
Additions to utility plant	48,632,861	34,881,937
Reduction of long-term debt	588,403	---
	49,513,948	34,994,181
INCREASE (DECREASE) IN WORKING CAPITAL	$ 3,559,238	$(1,614,856)
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash and short-term investments	$ (151,123)	$ 679,780
Accounts receivable from members	(492,080)	4,187,652
Receivable from power supplier	3,385,412	---
Other	6,218	378
	2,748,427	4,867,810
Increase (decrease) in current liabilities:		
Note payable	---	(2,670,000)
Accounts payable	(89,604)	4,859,559
Accounts payable to members	3,385,412	(481,727)
Payroll and payroll related liabilities	(4,208)	468
Accrued property taxes	53,018	43,023
Accrued interest payable	(4,733,356)	4,745,302
Current portion of long-term debt	577,927	---
Other	---	(13,959)
	(810,811)	6,482,666
INCREASE (DECREASE) IN WORKING CAPITAL	$ 3,559,238	$(1,614,856)

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

KANSAS ELECTRIC POWER COOPERATIVE, INC.

December 31, 1984

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kansas Electric Power Cooperative, Inc. (KEPCo) maintains its accounting records in accordance with the Federal Energy Regulatory Commission's (FERC) chart of accounts as adopted by the Rural Electrification Administration (REA). The more significant accounting policies are described below.

Property, Plant and Equipment: Property, plant and equipment is stated at cost.

Provision for depreciation is computed on the straight-line method on the basis of the following estimated useful lives:

Transportation Equipment	3-4 years
Office Furniture and Fixtures	10 years
Leasehold Improvements	3 years

Depreciation for 1984 and 1983 amounted to $14,885 and $15,283, of which $14,885 and $13,449, respectively, was charged to depreciation expense with the remaining amount being charged to various deferred debits, member clearing accounts and construction in progress.

Leases which meet the criteria of the Financial Accounting Standards Board (FASB) Statement No. 13 are accounted for as capital leases. Amortization of equipment under capital leases is computed on the straight-line method over the lease period and is included with depreciation expense. Amortization expense amounted to $15,914 for 1984. Rentals paid under operating leases are charged to operations as incurred.

Investments in Associated Organizations: Investments in associated organizations consist principally of patronage capital certificates of the National Rural Utilities Cooperative Finance Corporation.

Short-Term Investments: Short-term investments are stated at cost which is approximately equal to market.

Receivable From Power Supplier: Receivable from power supplier consists of refunds from Kansas Gas and Electric Company (KGE) for retroactive rate and fuel adjustments. A corresponding payable to member cooperatives is included in accounts payable to members.

Refunds From Power Suppliers/Refunds to Member Cooperatives: Refunds from power suppliers for retroactive rate and fuel adjustments are received by KEPCo and are remitted to member cooperatives in accordance with Kansas Corporation Commission (KCC) guidelines.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONT'D

Reclassifications: Certain amounts in the 1983 financial statements have been reclassified to conform with the 1984 presentation.

NOTE B--WOLF CREEK NUCLEAR PLANT

KEPCo owns six percent of the Wolf Creek Nuclear Plant (Wolf Creek), being constructed near Burlington, Kansas. The remainder is owned by the Kansas City Power and Light Company (KCPL) and KGE. Wolf Creek is expected to commence commercial operation in September 1985 in which case, KEPCo's management estimates KEPCo's total investment will be approximately $225,000,000 including interest and administrative costs during construction, and first project developmental costs incurred prior to January 1, 1982. At December 31, 1984, KEPCo has an approved Federal Financing Bank (FFB) loan guaranteed by REA in the amount of $200,000,000. REA has also guaranteed an additional loan of $30,000,000. KEPCo's investment in Wolf Creek at December 31, 1984, was $194,119,910, including approximately $1,589,100 that management invoiced to KCPL and KGE for reimbursable construction costs. Amounts reimbursed will be credited to construction in progress when received.

NOTE C--LONG TERM DEBT

Long term debts consists of:

	December 31	
	1984	1983
Mortgage notes payable to FFB at rates varying from 9.658% to 14.724% payable in quarterly installments (interest only through 1988) through 2018. Substantially all of KEPCo's assets are pledged as collateral.	$200,000,000	$147,510,000
Mortgage notes payable to FFB at 11.495% payable in quarterly installments (interest only through 1985) through 2015. Substantially all of KEPCo's assets are pledged as collateral.	1,265,000	---

NOTE C--LONG TERM DEBT--CONT'D

	December 31 1984	December 31 1983
Advances from member and non-member cooperatives	557,281	557,281
Capital lease obligation	125,936	---
	201,948,217	148,067,281
Less current maturities	577,927	---
	$201,370,290	$148,067,281

Aggregate maturities of mortgage notes payable to the FFB as of December 31, 1984 are as follows:

Year	Amount
1985	$ ---
1986	5,021
1987	5,598
1988	6,242
1989	698,376
Thereafter	200,549,763
	$201,265,000

Leased computer equipment with a cost of $136,412 and accumulated amortization of $15,914 at December 31, 1984, has been capitalized in accordance with FASB Statement No. 13 and is included in electric plant in service. Future minimum payments, by year and in the aggregate, under the capital lease obligation are as follows:

Year Ending December 31	
1985	$ 41,255
1986	41,255
1987	41,255
1988	41,255
1989	17,190
Total minimum lease payments	182,210
Amount representing interest	56,274
Present value of net minimum lease payments	125,936
Less current portion	20,646
	$105,290

NOTE C--LONG TERM DEBT--CONT'D

KEPCo has the option on the initial $200,000,000 in FFB mortgage notes to elect short-term maturity dates of not less than two years nor more than seven years after the date of the initial advance or may elect a long-term maturity date of 34 years after the end of the calendar year in which the initial advance was made. On the maturity of a short-term advance, KEPCo may refinance the advance with another short- term advance with a maturity date of not greater than seven years from the date of the original advance or may elect to refinance with a long-term maturity date of 34 years after the end of the calendar year in which the initial advance was made. At December 31, 1984, KEPCo had $25,116,500 of advances with short-term maturity dates between January 1, 1985 and December 31, 1985. KEPCo intends to refinance these advances as described above or under other terms and conditions approved by REA. Accordingly these advances have been classified as long-term debt for financial statement purposes.

KEPCo has the option on the remaining $30,000,000 in FFB mortgage notes to elect short-term maturity dates of two years or a long-term maturity date of December 31, 2015. On the maturity of a short-term advance, KEPCo may refinance the advance with another short-term advance with a maturity date of two years or may elect the long-term maturity date of December 31, 2015. At December 31, 1984, no advances had maturity dates between January 1, 1985 and December 31, 1985.

Advances of funds from member and non-member cooperatives resulted from the transfer of assets and liabilities from the Kansas Electric Cooperative Inc. to KEPCo during 1977. These funds were used to finance economic, engineering, legal and administrative investigations of projects that were being contemplated. The agreements with the cooperatives state that should an investigation result in the construction of a project or projects, amounts of investigation and development costs transfered to project utility plant accounts are to be reimbursable to the systems participating in the agreements on a pro rata basis.

During 1984 and 1983, interest incurred totaled approximately $20,930,000 and $17,600,000, of which $394,111 and $309,124, respectively, was charged to interest expense and the remaining amount was capitalized as part of the cost of capital assets under construction.

NOTE D--SPECIAL ASSESSMENT

Pursuant to a KCC order dated October 31, 1983, KEPCo was ordered to assess its members $934,757 (1982 net loss of $914,053 and $20,704 in 1981 lobbying expenses initially charged to construction work in progress) together with interest on the uncollected balance during the collection period. The KCC ordered that KEPCo collect the assessment over a twelve month period. Collection of the assessment began in November 1983 and was completed in 1984.

NOTE E--OPERATING LEASE

The Company leases office space under a non-cancellable operating lease. The lease expires in 1988 and may be renewed for five years. In addition, the lease includes options to lease additional office space at identical terms. The related rental expense for 1984 and 1983 was $44,625 and $36,575, respectively. Future minimum lease payments for space currently leased at December 31, 1984 are as follows:

Year	Amount
1985	$44,625
1986	44,625
1987	44,625
1988	44,625

The minimum lease payments can be increased to the extent that taxes and insurance paid by the lessor exceed 1984 levels.

NOTE F--PENSION PLAN

KEPCo participates in the National Rural Electric Cooperative Association (NRECA) retirement and security program for its employees. KEPCo makes annual contributions to the plan equal to the amounts accrued for pension costs. Prior to January 1, 1984, KEPCo employees were required to contribute a percentage of their salary to the plan, but, effective January 1, 1984, are no longer required to do so. In the master multiple-employee plan, which is available to all members of NRECA, the accumulated benefits and plan assets are not determined or allocated by individual employees. KEPCo's pension cost for the plan for the years ended December 31, 1984 and 1983 was $35,707 and $40,605, respectively.

NOTE G--INCOME TAXES

At December 31, 1984, KEPCo had net operating loss carryforwards totalling approximately $59,190,000 available to reduce future taxable income and investment tax credit carryforwards of $3,240 as follows:

Net operating loss carryforward	Investment tax credit carryforward	Available Through
$ 8,199,000	$ ---	1996
12,410,000	---	1997
17,124,000	1,378	1998
21,457,000	1,862	1999
$59,190,000	$3,240	

The difference between the net operating loss shown in the accompanying financial statements and the net operating loss for tax purposes is due primarily to interest costs related to construction which is capitalized as part of construction work in progress for financial statement purposes and expensed for tax purposes.

NOTE H--CONTINGENCIES

During 1982, KEPCo became a defendant in certain litigation concerning disputed power billings from KGE of approximately $746,000. The dispute was over the effective date of a rate increase and the allowability of a capacity credit related to 30 MW of KEPCo's hydro power that was used in KGE's control area in May, 1982. In 1983, the litigation relating to the effective date was dismissed without prejudice and in 1984 final resolution of the rate increase issue was settled but the capacity credit issue was not resolved. Consequently, KEPCo member funds in the amount of approximately $596,000 have been retained, with the approval of the KCC, for use as needed upon final resolution of this issue. The $596,000 is included in accounts payable to members at December 31, 1984 and 1983.

In connection with the purchase of KEPCo's six percent interest in Wolf Creek, KGE and KCPL have made a claims against KEPCo for approximately $3,700,000 of KEPCo's capital credits from CFC. KEPCo's management believes there is no basis to the claims, however, should KGE and KCPL prevail, any amounts paid will be added to KEPCo's investment in Wolf Creek. In addition, the purchase agreement provided that KGE and KCPL

NOTE H--CONTINGENCIES--CONT'D

would be indemmified for the tax consequences of the sale of Wolf Creek to KEPCo. KCPL and KGE have received unfavorable Internal Revenue Service rulings which assessed KCPL and KGE approximately $3,000,000 and $250,000 respectively in additional taxes resulting from the sale. If KCPL and KGE are unsuccessful in appealing these rulings, they have indicated they will make claims against KEPCo for the amount of additional taxes paid. Any amounts paid by KEPCo as a result of these claims will be added to KEPCo's investment in Wolf Creek.

KEPCo is a defendant in various lawsuits which are in various stages of investigation and litigation. In the opinion of management and KEPCo's legal counsel, these lawsuits are of doubtful merit and will be settled in KEPCo's favor.