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

FORM 10-K

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

For the fiscal year ended December 31, 2002

OR

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

For the transition period from ______ to ______

Commission File Number 1-7324

KANSAS GAS AND ELECTRIC COMPANY

(Exact name of registrant as specified in its charter)

Kansas	**48-1093840**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

P.O. BOX 208
Wichita, Kansas 67201
(316) 261-6611

(Address, including zip code and telephone number, including area code, of registrant's principal executive offices)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

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

Common Stock, No par value	**1,000 Shares**
(Class)	**(Outstanding at March 14, 2003)**

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

Documents Incorporated by Reference: None

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FORWARD-LOOKING STATEMENTS

Certain matters discussed in this Annual Report on Form 10-K are “forward-looking statements.” The Private Securities Litigation Reform Act of 1995 has established that these statements qualify for safe harbors from liability. Forward-looking statements may include words like we “believe,” “anticipate,” “target,” “expect,” “pro forma,” “estimate,” “intend” or words of similar meaning. Forward-looking statements describe our future plans, objectives, expectations or goals. Such statements address future events and conditions concerning: capital expenditures; earnings; liquidity and capital resources; litigation; accounting matters; possible corporate restructurings, mergers, acquisitions and dispositions; the sale of assets proposed in Westar Energy, Inc.’s Debt Reduction and Restructuring Plan filed with the Kansas Corporation Commission on February 6, 2003; compliance with debt and other restrictive covenants; interest; the financial condition of other Westar Energy, Inc., subsidiaries and their impact on Westar Energy, Inc.’s results; environmental matters; nuclear operations; and the overall economy of our service area.

What happens in each case could vary materially from what we expect because of such things as: electric utility deregulation or re-regulation; regulated and competitive markets; ongoing municipal, state and federal activities; economic conditions; changes in accounting requirements and other accounting matters; changing weather; rate and other regulatory matters, including the impact of the November 8, 2002 and December 23, 2002 orders issued by the Kansas Corporation Commission requiring debt reduction; amendments or revisions to Westar Energy, Inc.’s Debt Reduction and Restructuring Plan filed with the Kansas Corporation Commission; the impact of changes and downturns in the energy industry and the market for trading wholesale electricity; the sale of Westar Energy, Inc’s interests in ONEOK, Inc., and the potential sale of certain of Westar Energy, Inc.’s subsidiaries; the impact on Westar Energy, Inc. of the federal grand jury subpoena by the United States Attorney’s Office requesting certain information from Westar Energy, Inc.; the impact on Westar Energy, Inc. of the subpoena received from the Federal Energy Regulatory Commission seeking information on power trades with Cleco Corporation and its affiliates and on other power marketing transactions; political, legislative and regulatory developments; regulatory, legislative and judicial actions; the impact of the purported shareholder and employee class action lawsuits filed against Westar Energy, Inc.; the impact of changes in interest rates generally and, specifically, changes in the London Interbank offer rate (LIBOR) on the fair value of our allocated share of Westar Energy, Inc.’s energy swap transactions; changes in the 10-year United States treasury rates and the corresponding impact on the fair value of Westar Energy, Inc.’s call option contract; homeland security considerations; coal, natural gas and oil prices; and other circumstances affecting anticipated operations, sales and costs.

These lists are not all-inclusive because it is not possible to predict all possible factors. This report should be read in its entirety. No one section of the report deals with all aspects of the subject matter. Any forward-looking statement speaks only as of the date such statement was made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement was made except as required by applicable laws or regulations.

PART I

ITEM 1. BUSINESS

GENERAL

Kansas Gas and Electric Company is a rate-regulated electric utility incorporated in 1990 in the State of Kansas. Unless the context otherwise indicates, all references in this Annual Report on Form 10-K to "the company," "KGE," "we," "us," "our" or similar words are to Kansas Gas and Electric Company. We are a wholly owned subsidiary of Westar Energy, Inc. (Westar Energy) and we provide rate-regulated electric service, together with the electric utility operations of Westar Energy, using the name Westar Energy. We are engaged principally in the generation, purchase, transmission, distribution and sale of electricity in southeastern Kansas, including the Wichita metropolitan area. Our corporate headquarters are located in Wichita, Kansas.

We own 47% of Wolf Creek Nuclear Operating Corporation (WCNOC), the operating company for Wolf Creek Generating Station (Wolf Creek), our nuclear powered generating facility. We record our proportionate share of all transactions of WCNOC as we do other jointly owned facilities.

SIGNIFICANT BUSINESS DEVELOPMENTS

Overview

A number of significant developments have impacted us and our business operations since January 2002, either directly or indirectly through Westar Energy.

– Westar Energy hired a new chief executive officer and senior management team.

– Westar Energy filed a new Debt Reduction and Restructuring Plan (the Debt Reduction Plan) with the Kansas Corporation Commission (KCC) that reflects Westar Energy's decision to return to being exclusively a Kansas electric utility, replacing an earlier plan that contemplated the separation of Westar Industries, Inc. (Westar Industries), a wholly owned subsidiary of Westar Energy.

– In May and June 2002, Westar Energy refinanced approximately $1.3 billion of outstanding debt of which $560 million is secured by our first mortgage bonds.

– A Special Committee of Westar Energy's board of directors, the Securities and Exchange Commission (SEC), the Federal Energy Regulatory Commission (FERC) and a federal grand jury initiated investigations into various matters affecting Westar Energy and, to a lesser degree, us.

– Westar Energy reduced the utility work force we both utilize by approximately 400 employees through a voluntary separation program.

– We restored service from a severe ice storm in late January 2002 and incurred $12.7 million for restoration costs, a portion of which was capitalized.

New Chief Executive Officer and Senior Management Team

James S. Haines, Jr., joined Westar Energy in December 2002 as its chief executive officer and president and a member of its board of directors. He replaced David C. Wittig, who resigned on November 22, 2002 from all of his positions with Westar Energy and its affiliates. Mr. Wittig had been on administrative leave without pay since November 7, 2002 as a result of his indictment by a federal grand jury in Topeka, Kansas, for actions arising from his personal dealings.

Mr. Haines added new members to Westar Energy's senior management team, including William B. Moore as executive vice president and chief operating officer, and Mark A. Ruelle as executive vice president and chief financial officer. All of these officers were previously employed with Westar Energy and have a strong background in the electric utility business. Douglas T. Lake, Westar Energy's executive vice president and chief strategic officer,

resigned as a member of its board of directors and was placed on unpaid leave from all of his other positions with Westar Energy and its affiliates on December 6, 2002.

See Note 19 of the Notes to Consolidated Financial Statements, "Potential Liabilities to David C. Wittig and Douglas T. Lake," for information about Westar Energy's potential liabilities to Mr. Wittig and Mr. Lake.

KCC Orders and Westar Energy's Debt Reduction and Restructuring Plan

On February 6, 2003, Westar Energy filed the Debt Reduction Plan with the KCC outlining Westar Energy's plans for paying down debt and restructuring the company. The Debt Reduction Plan calls for the sale of Westar Energy's non-utility assets, including its interests in its monitored services subsidiaries and its equity investment interests. As part of the Debt Reduction Plan, Westar Energy's first quarter 2003 dividend on its common stock was reduced 37% to $0.19 per share. In addition, the Debt Reduction Plan contemplates the potential issuance of additional Westar Energy equity, if needed to further reduce debt following the disposition of all material non-utility assets. On February 10, 2003, the KCC issued an order in which it stated that the Debt Reduction Plan appears to make a good-faith effort to address the concerns expressed in the KCC's prior orders and that the KCC needed additional time to review the Debt Reduction Plan prior to addressing other issues. The KCC also stayed the requirement of a December 23, 2002 order that Westar Energy form a utility-only subsidiary for its former KPL electric utility division (KPL) no later than August 1, 2003.

The Debt Reduction Plan replaced a previous financial plan to which Westar Energy devoted extensive efforts throughout 2002 to obtain KCC approval. This plan contemplated the sale of Westar Industries common stock in a rights offering. We refer you to our Annual Report on Form 10-K for the year ended December 31, 2001 and subsequent Quarterly Reports on Form 10-Q for further information on this financial plan and related KCC orders. The KCC rejected this plan on November 8, 2002 and issued an order that directed Westar Energy to file a new financial plan, to reverse specified intercompany transactions, to reduce debt by $100 million annually in each of the next two years from internally generated cash flow, and to restructure its organizational structure so that KPL would be placed in a separate subsidiary with the amount of debt held by the utility not exceeding $1.47 billion. The order further established standstill protections requiring that Westar Energy and we seek KCC approval before entering into certain transactions with a non-utility affiliate. Following Westar Energy's filing of a motion for reconsideration and clarification of this order, the KCC issued an order on December 23, 2002 directing that no later than August 1, 2003, KPL be held within a separate utility-only subsidiary and that the consolidated debt for all of Westar Energy's utility businesses, i.e., KPL and us, not exceed $1.67 billion.

The KCC staff and other parties to the KCC docket considering the Debt Reduction Plan have filed comments on the Debt Reduction Plan. The KCC has not yet established a procedural schedule for considering the Debt Reduction Plan and the related comments. Westar Energy is unable to predict what action the KCC will take with respect to the Debt Reduction Plan.

The KCC Orders dated November 8, 2002, December 23, 2002, February 10, 2003 and March 11, 2003 and the Debt Reduction Plan are exhibits to this Annual Report on Form 10-K. All of such exhibits are incorporated by reference herein. All of the documents concerning these matters, including the KCC Orders, can also be reviewed at the website of the KCC at www.kcc.state.ks.us (the website information is not incorporated herein or otherwise made a part of this Annual Report on Form 10-K). We refer you to these documents for further information concerning these matters.

Ongoing Investigations

Grand Jury Subpoena

On September 17, 2002, Westar Energy was served with a federal grand jury subpoena by the United States Attorney's Office in Topeka, Kansas, requesting information concerning Westar Energy's use of aircraft and its annual shareholder meetings. Since that date, the United States Attorney's Office has served additional subpoenas on Westar Energy and certain of its employees requesting further information concerning the use of aircraft; executive compensation arrangements with Mr. Wittig, Mr. Lake and other former and present officers; the proposed rights offering of Westar Industries stock; and Westar Energy in general. Westar Energy is providing information in response to these requests and is fully cooperating in the investigation. Westar Energy has not been informed that it

is a target of the investigation. Westar Energy is unable to predict the ultimate outcome of the investigation or its impact on Westar Energy.

Special Committee Investigation

Westar Energy's board of directors appointed a Special Committee of directors to investigate management matters and matters that are the subject of the grand jury investigation and SEC inquiry. The Special Committee retained counsel and other advisors. The Special Committee investigation has been completed and has not resulted in adjustments to Westar Energy's or our consolidated financial statements.

FERC Subpoena

On December 16, 2002, Westar Energy received a subpoena from FERC seeking details on power trades with Cleco Corporation (Cleco) and its affiliates, documents concerning power transactions between Westar Energy's system operations and its marketing operations and information on power trades in which Westar Energy or other trading companies acted as intermediaries.

Among the issues being reviewed by FERC are transactions Westar Energy conducted with third parties to facilitate power transfers between Westar Energy's system operations and its marketing operations. While these energy transactions do not apply to us, the FERC investigation includes all transactions of both Westar Energy and us.

Westar Energy has provided information to FERC in response to the subpoena and believes that its participation in these transactions did not violate FERC rules and regulations. However, Westar Energy is unable to predict the ultimate outcome of the investigation. See Note 14 of the Notes to Consolidated Financial Statements, "Ongoing Investigations — FERC Subpoena," for additional information.

Work Force Reductions

During 2002, Westar Energy reduced the utility work force we both utilize by approximately 400 employees through a voluntary separation program. Westar Energy recorded a net charge of approximately $21.7 million in 2002, a portion of which was allocated to us, related to this program. Westar Energy has replaced and may continue to replace some of these employees.

Ice Storm

In late January 2002, a severe ice storm swept through our service area causing extensive damage and loss of power to numerous customers. Through December 31, 2002, we incurred $12.7 million for restoration costs, a portion of which was capitalized. We have deferred and recorded as a regulatory asset on our December 31, 2002 consolidated balance sheet restoration costs of approximately $9.0 million. We have received an accounting authority order from the KCC that allows us to accumulate and defer for potential future recovery all operating and carrying costs related to storm restoration.

ELECTRIC UTILITY OPERATIONS

General

We supply electric energy at retail to approximately 296,000 customers in Kansas. We classify our customers as residential, commercial and industrial as defined in our tariffs. We also supply electric energy at wholesale to the electric distribution systems of 26 Kansas cities. We have contracts for the sale, purchase or exchange of wholesale electricity with other utilities.

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Our electric sales for the three years ended December 31 were as follows:

	2002	2001	2000
		(In Thousands)	
Residential	$ 223,339	$ 222,427	$ 246,665
Commercial	170,847	175,899	175,686
Industrial	152,915	155,990	161,693
Total	547,101	554,316	584,044
Network Integration (a)	30,066	—	—
Other (b)	23,445	24,970	23,689
Total retail	600,612	579,286	607,733
Wholesale and Interchange	94,912	52,105	77,940
Total	$ 695,524	$ 631,391	$ 685,673

(a) **Network Integration:** Reflects a new network transmission tariff that requires us to pay to the Southwest Power Pool (SPP) all expenses associated with transporting power from our generating stations. The SPP then pays us for transmitting power to the point of delivery into our retail distribution system. These receipts from the SPP are reflected in revenues under the network integration classification. For further information see "—Network Integration Transmission Service" below.

(b) **Other:** Includes public street and highway lighting and miscellaneous electric revenues.

The following tables show changes in electric sales volumes, as measured by thousands of megawatt hours (MWh) of electricity we generate, for the three years ended December 31, 2002. No sales volumes are shown for network integration because this activity is not related to electricity we generate.

	2002	2001	% Change
	(Thousands of MWh)		
Residential	2,889	2,734	5.7
Commercial	2,675	2,632	1.6
Industrial	3,397	3,488	(2.6)
Other	44	44	—
Total retail	9,005	8,898	1.2
Wholesale and Interchange	3,831	2,479	54.5
Total	12,836	11,377	12.8

	2001	2000	% Change
	(Thousands of MWh)		
Residential	2,734	2,950	(7.3)
Commercial	2,632	2,544	3.5
Industrial	3,488	3,561	(2.0)
Other	44	45	(2.2)
Total retail	8,898	9,100	(2.2)
Wholesale and Interchange	2,479	2,407	3.0
Total	11,377	11,507	(1.1)

Generation Capacity

We have 2,613 megawatts (MW) of generating capacity. See “Item 2. Properties” for additional information on our generating units. The capacity by fuel type is summarized below.

Fuel Type	Capacity (MW)	Percent of Total Capacity
Coal	1,123	43.0
Nuclear	548	21.0
Natural gas or oil	939	35.9
Diesel fuel	3	0.1
Total	2,613	100.0

Our aggregate 2002 peak system net load of 2,100 MW occurred on July 26, 2002. Our net generating capacity combined with firm capacity purchases and sales provided a capacity margin of approximately 17% above system peak responsibility at the time of the peak. Our all time peak system net load of 2,111 MW occurred on August 11, 1999. We do not anticipate needing additional generating capacity through 2005.

We have an agreement with Midwest Energy, Inc. to provide it with peaking capacity of 60 MW through May 2008.

Fossil Fuel Generation

Fuel Mix

Based on the quantity of heat produced during the generation of electricity (MMBtu), the 2002 actual fuel mix was 61% coal, 31% nuclear and 8% gas, oil or diesel fuel. We expect a similar fuel mix in 2003. Our fuel mix fluctuates with the operation of the nuclear-powered Wolf Creek as discussed below under “— Nuclear Generation,” fuel costs, plant availability, customer demand and the cost and availability of wholesale market power.

Coal

Jeffrey Energy Center: The three coal-fired units at Jeffrey Energy Center (JEC) have an aggregate capacity of 442 MW (our 20% share). Westar Energy, the operator of JEC, and we have a long-term coal supply contract with Amax Coal West, Inc., a subsidiary of RAG America Coal Company, to supply coal to JEC from mines located in the Powder River Basin in Wyoming. The contract expires December 31, 2020. The contract contains a schedule of minimum annual MMBtu delivery quantities. The contract also contains a mechanism for repricing quantities received above the minimum annual delivery quantity. The price for these additional quantities is recalculated every five years, with 2003 being the first year affected, to provide a fixed price at current market prices. Current market prices are higher than those that have been in effect since inception of the contract, which will increase the cost of coal we receive during 2003 over the cost of coal received in 2002. Based on our 2003 budget of JEC coal we plan to burn during 2003, we anticipate our delivered cost of coal will increase approximately $1.0 million.

The coal supplied during 2002 was surface mined and had an average Btu content of approximately 8,423 Btu per pound and an average sulfur content of 0.46 lbs/MMBtu (see “— Environmental Matters”). The average delivered cost of coal burned at JEC during 2002 was approximately $1.12 per MMBtu, or $18.87 per ton.

Coal is transported from Wyoming under a long-term rail transportation contract with the Burlington Northern Santa Fe (BNSF) and Union Pacific railroads, with a term continuing through December 31, 2013.

LaCygne Generating Station: The two coal-fired units at LaCygne Generating Station (LaCygne) have an aggregate generating capacity of 681 MW (our 50% share). LaCygne 1 uses a blended fuel mix containing approximately 85% Powder River Basin coal and 15% Kansas/Missouri coal. LaCygne 2 uses Powder River Basin coal. The operator of LaCygne, Kansas City Power and Light Company (KCPL), administers the coal and coal transportation contracts. A portion of the LaCygne 1 and LaCygne 2 Powder River Basin coal is supplied through fixed price contracts through 2005 and is transported under KCPL’s Omnibus Rail Transportation Agreement with

the BNSF and Kansas City Southern Railroad through December 31, 2010. During 2003, any coal not supplied under the terms of these contracts will be obtained through spot market purchases. The LaCygne 1 Kansas/Missouri coal is purchased from time to time from local Kansas and Missouri producers.

The Powder River Basin coal supplied during 2002 had an average Btu content of approximately 8,584 Btu per pound and an average sulfur content of 0.78 lbs/MMBtu. During 2002, the average delivered cost of all coal burned at LaCygne 1 was approximately $0.91 per MMBtu, or $16.06 per ton. The average delivered cost of coal burned at LaCygne 2 was approximately $0.77 per MMBtu, or $13.18 per ton.

General: We have entered into all of our coal contracts in the ordinary course of business and do not believe we are substantially dependent upon these contracts. We believe there are other suppliers with plentiful sources of coal available at spot market prices to replace, if necessary, fuel supplied pursuant to these contracts and that we would be able to make transportation arrangements for such coal. In the event that we were required to replace our coal agreements, we would not anticipate a substantial disruption of our business although the cost of purchasing coal could increase. Since the majority of our coal needs are met through long-term contracts as discussed above, we do not anticipate being materially impacted by price changes in the coal spot market.

We have entered into all of our coal transportation contracts in the ordinary course of business. Several rail carriers are capable of serving the coal mines from where our coal originates, but several of our generating stations can be served by only one rail carrier. In the event the rail carrier to one of our generating stations fails to provide reliable service, we could experience a short-term disruption of our business. However, due to the obligation of the rail carriers to provide service under the Interstate Commerce Act, we do not anticipate any substantial long-term disruption of our business, although the cost of transporting coal could increase.

Natural Gas

We use natural gas as a primary fuel in our Gordon Evans, Murray Gill and Neosho Energy Centers. Natural gas for these facilities is purchased in the short-term spot market, which supplies the system with a flexible natural gas supply as necessary to meet operational needs. During 2002, we purchased 5,728,474 MMBtu of natural gas on the spot market for a total cost of $19.7 million. Natural gas accounted for approximately 4% of our total fuel burned during 2002.

During the third quarter of 2001, Westar Energy entered into hedging relationships to manage commodity price risk associated with future natural gas purchases in order to protect us and our customers from adverse price fluctuations in the natural gas market. We are allocated our proportionate share of the benefits and costs of Westar Energy's commodity price risk management program based on fuel forecasts for Westar Energy and us. The hedged period ends in July 2004. Thereafter, if gas prices are higher than the amount we are able to recover through our retail rates, we may be exposed to the increased gas cost and our exposure could be material. We may be able to reduce our exposure due to our ability to use other fuel types. To recover increased gas costs in excess of the cost included in retail rates, we would have to make a rate filing with the KCC or request a recovery mechanism through the KCC, which could be denied in whole or in part. For additional information on our exposure to commodity price risks, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk."

We meet a portion of our natural gas transportation requirements through firm natural gas transportation capacity agreements with Southern Star Central Pipeline. The firm transportation agreement that serves Gordon Evans and Murray Gill extends through April 1, 2010, and the agreement for the Neosho facility extends through June 1, 2016.

Oil

Most of our natural gas generating facilities have the capability to switch to oil once the facilities have been started with gas. We use oil as an alternate fuel when economical or when interruptions to natural gas supply make it necessary. Over the past few years, we have been able to sell more power at wholesale during the winter months when oil is typically more economical than natural gas. Oil accounted for approximately 3% of our total fuel burned during 2002.

Oil is obtained by spot market purchases and year-long contracts. We maintain quantities in inventory to meet fuel switching needs to facilitate economic dispatch of power, for emergency requirements and to protect against reduced availability of natural gas for limited periods or when the primary fuel becomes uneconomical to burn.

Other Fuel Matters

Our contracts to supply fuel for our coal-fired and natural gas-fired generating units, with the exception of JEC, do not provide full fuel requirements at the various stations. Supplemental fuel is procured on the spot market to provide operational flexibility and to take advantage of economic opportunities when the price is favorable. We use financial instruments to hedge a portion of our anticipated fossil fuel needs in an attempt to offset the volatility of the spot market. Due to the volatility of these markets, we are unable to determine what the value of these financial instruments will be when the agreements are actually settled. See “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” for further information.

The table below provides information relating to the weighted average cost of fuel that we have used, which includes the commodity cost, transportation cost to our facilities and any other associated costs.

	2002	2001	2000
Per Million Btu:			
Nuclear	$ 0.40	$ 0.44	$ 0.44
Coal	0.94	0.95	0.91
Gas	3.44	3.75	3.34
Oil	2.52	3.84	3.12
Per MWh Generation	$ 10.23	$ 11.04	$ 11.08

Purchased Power

At times, we purchase power to meet the energy needs of our wholesale customers and to meet the requirements of our retail native load customers (end-use customers within our service territory). Factors that could cause us to purchase power for retail native load customers include generating plant outages, extreme weather conditions, growth, and other factors associated with supplying full requirements electricity. If we were unable to generate an adequate supply of electricity for our native load customers, we would purchase power in the wholesale market to the extent it is available or economically feasible to do so and/or implement curtailment or interruption procedures as allowed for in our tariffs and terms and conditions of service.

Nuclear Generation

Fuel Supply

The owners of Wolf Creek have on hand or under contract 100% of their uranium and uranium conversion needs for 2003 and 76% of the uranium and uranium conversion required for operation of Wolf Creek through March 2008. The balance is expected to be obtained through spot market and contract purchases.

The owners have under contract 100% of Wolf Creek’s uranium enrichment needs for 2003 and 80% of the uranium enrichment required to operate Wolf Creek through March 2008. The balance of Wolf Creek’s enrichment needs is expected to be obtained through spot market and contract purchases.

All uranium, uranium conversion and uranium enrichment arrangements have been entered into in the ordinary course of business, and Wolf Creek is not substantially dependent upon these agreements. Despite contraction and consolidation in the supply sector for these commodities and services, Wolf Creek’s management believes there are other supplies available to replace, if necessary, these contracts. In the event these contracts were required to be replaced, Wolf Creek’s management does not anticipate a substantial disruption of Wolf Creek’s operations.

Nuclear fuel is amortized to cost of sales based on the quantity of heat produced for the generation of electricity.

Radioactive Waste Disposal

Under the Nuclear Waste Policy Act of 1982, the Department of Energy (DOE) is responsible for the permanent disposal of spent nuclear fuel. Wolf Creek pays the DOE a quarterly fee of one-tenth of a cent for each kilowatt-hour of net nuclear generation produced for the future disposal of spent nuclear fuel. These disposal costs are charged to cost of sales.

A permanent disposal site will not be available for the nuclear industry until 2010 or later. Under current DOE policy, once a permanent site is available, the DOE will accept spent nuclear fuel on a priority basis. The owners of the oldest spent fuel will be given the highest priority. As a result, disposal services for Wolf Creek will not be available prior to 2016. Wolf Creek has on-site temporary storage for spent nuclear fuel. In early 2000, Wolf Creek completed replacement of spent fuel storage racks to increase its on-site storage capacity for all spent fuel expected to be generated by Wolf Creek through the end of its licensed life in 2025.

On February 14, 2002, the Secretary of Energy submitted to the President a recommendation for approval of the Yucca Mountain site in Nevada for the development of a nuclear waste repository for the disposal of spent nuclear fuel and high level nuclear waste from the nation's defense activities. In July 2002, the President signed a resolution approving the Yucca Mountain site after receiving the approval of this site from the U.S. Senate and House of Representatives. This action allows the DOE to apply to the Nuclear Regulatory Commission (NRC) to license the project. The DOE expects that this facility will open in 2010. However, the opening of the Yucca Mountain site could be delayed due to litigation and other issues related to the site as a permanent repository for spent nuclear fuel.

The Low-Level Radioactive Waste Policy Amendments Act of 1985 mandated that the various states, individually or through interstate compacts, develop alternative low-level radioactive waste disposal facilities. The states of Kansas, Nebraska, Arkansas, Louisiana and Oklahoma formed the Central Interstate Low-Level Radioactive Waste Compact (Compact) and selected a site in Nebraska to locate a disposal facility. WCNOC and the owners of the other five nuclear units in the Compact have provided most of the preconstruction financing for this project. Our net investment in the Compact is approximately $7.4 million. This amount constitutes about 7.6% of all preconstruction financing provided to the Compact.

On December 18, 1998, the Nebraska agencies responsible for considering the developer's license application denied the application. The license applicant has sought a hearing on the license denial, but a U.S. District Court has indefinitely delayed proceedings related to the hearing. In December 1998, most of the utilities that had provided the project's preconstruction financing (including WCNOC) filed a federal court lawsuit contending Nebraska officials acted in bad faith while handling the license application. Shortly thereafter, the Central Interstate Low-Level Radioactive Waste Commission (Commission), which is responsible for causing a new disposal facility to be developed within the Compact region, and US Ecology, the license applicant, filed similar claims against Nebraska. The U.S. District Court has since dismissed the utilities' and US Ecology's claims against Nebraska and its officials, but on September 30, 2002, the court entered a $151.4 million judgment, about one-third of which constitutes prejudgment interest, in favor of the Commission and against Nebraska, finding that Nebraska had acted in bad faith in handling the license application. In late 2002, Nebraska appealed that decision to the 8th Circuit U.S. Court of Appeals, where the case is pending.

In May 1999, the Nebraska Legislature passed a bill withdrawing Nebraska from the Compact. In August 1999, the Nebraska Governor gave official notice of the withdrawal to the other member states. Withdrawal will not be effective for five years and will not, of itself, nullify the site license proceeding.

Wolf Creek disposes of all classes of its low-level radioactive waste at existing third-party repositories. Should disposal capability become unavailable, Wolf Creek is able to store its low-level radioactive waste in an on-site facility. Wolf Creek believes that a temporary loss of low-level radioactive waste disposal capability will not affect continued operation of the power plant.

Outages

Wolf Creek has an 18-month refueling and maintenance schedule that permits operations during every third calendar year without interruption for a refueling outage. Wolf Creek was shut down for 36 days for its 12th scheduled refueling and maintenance outage, which began on March 23, 2002 and ended on April 27, 2002. During

the outage, electric demand was met primarily by our fossil-fueled generating units and by purchased power. Wolf Creek operated the entire year of 2001 without any refueling outages. Wolf Creek is scheduled to be taken off-line in October 2003 for its 13th refueling and maintenance outage.

An extended shutdown of Wolf Creek could have a substantial adverse effect on our business, financial condition and results of operations because of higher replacement power and other costs. Although not expected, the NRC could impose an unscheduled plant shutdown due to security or other concerns.

Security

We have increased the level of security measures at our generation facility sites and various offices, due in part to nationwide concerns about homeland security. These measures include, but are not limited to, increased security personnel, use of armed guard services, patrolling of company property, restricting access to our properties and implementing emergency training and response procedures.

Wolf Creek's management has increased both voluntary and federally mandated security measures at Wolf Creek. The NRC has required nuclear power plants to be operated at the highest level of security since September 11, 2001. The measures implemented at Wolf Creek include, but are not limited to, increased guard service, no unscheduled public visits and emergency training and response procedures.

The NRC has issued orders to all nuclear plants that make our current voluntary security measures mandatory. The orders also impose new security requirements at U.S. nuclear power plants. Wolf Creek has complied with and intends to continue to comply with these requirements.

Competition and Deregulation

Electric utilities have historically operated in a rate-regulated environment. FERC, the Federal regulatory agency having jurisdiction over our wholesale rates and transmission services, and other utilities have initiated steps that are expected to result in a more competitive environment for utility services in the wholesale market. The Kansas Legislature and the KCC took no action on deregulation in 2002 or 2001 and no action is expected to be taken in the near future.

Increased competition for retail electricity sales may in the future reduce our earnings, which could have a material adverse impact on our operations and our financial condition. Our rates are approximately 19% below the national average for retail customers based on a comparison to a U.S. average obtained from Edison Electric Institute for Winter 2002. Because of these rates, we expect to retain a substantial part of our current volume of sales in a competitive environment. However, a material non-cash charge to earnings may be required should we discontinue accounting under Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." See Note 2 of the Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies," for additional information.

The 1992 Energy Policy Act began deregulating the electricity market for generation. The Energy Policy Act permitted FERC to order electric utilities to allow third parties to use their transmission systems to sell electric power to wholesale customers. In 1992, we agreed to open access of our transmission system for wholesale transactions. FERC also requires us to provide transmission services to others under terms comparable to those we provide ourselves. In December 1999, FERC issued an order (FERC Order No. 2000) encouraging formation of regional transmission organizations (RTOs). RTOs are designed to control the wholesale transmission services of the utilities in their regions, thereby facilitating open and more competitive markets in bulk power.

We and all other electric utilities with intrastate transmission facilities operate under FERC regulated open access tariffs that offer all wholesale buyers and sellers of electricity the same transmission services, at the same rates, that the utilities provide themselves. We are a member of the Southwest Power Pool (SPP), a regional division of the North American Electric Reliability Council. After FERC rejected several attempts by the SPP to gain RTO status, the SPP and the Midwest Independent System Operator (MISO) agreed in October 2001 to consolidate and form an RTO. On May 30, 2002, FERC approved the planned merger. On November 4, 2002, MISO and SPP filed a revised consolidated open-access transmission tariff as required by the merger agreement. On March 19, 2003, the SPP's board of directors voted to terminate the proposed merger with MISO, although both organizations have not

precluded a future consolidation. We anticipate that FERC Order No. 2000 and our continued participation in the SPP will not have a material effect on our operations.

Network Integration Transmission Service

Effective January 1, 2002, we began taking Network Integration Transmission Service under the SPP's Open Access Transmission Tariff. This provides a cost-effective way for us to participate in a broader market of generation resources with the possibility of lower transmission costs. This tariff provides for a zonal rate structure, whereby transmission customers pay a pro rata share, in the form of a reservation charge, for the use of the facilities for each transmission owner that serves them. As a result, the SPP has operational control over our transmission system, although we still own our transmission assets and maintain responsibility for dispatching, maintenance and storm restoration.

Currently, all revenues collected within a zone are allocated back to the transmission owner serving the zone. Since we are a transmission provider for our zone and are currently the only transmission customer taking service from that zone, we are currently being assessed 100% of the zonal costs and receiving all of the costs back as revenue, less servicing fees. In 2002, these network integration transmission costs were approximately $32.9 million, and the associated revenues were approximately $30.1 million, for a net expense of approximately $2.8 million. The revenues received are reflected in electric operating revenues, and the related charges are expensed.

Regulation and Rates

As a Kansas electric utility, we are subject to the jurisdiction of the KCC, which has general regulatory authority over our rates, extensions and abandonments of service and facilities, valuation of property, the classification of accounts, the issuance of some securities and various other matters. We are also subject to the jurisdiction of FERC, which has authority over wholesale sales of electricity, the transmission of electric power and the issuance of some securities. We are subject to the jurisdiction of the NRC for nuclear plant operations and safety.

Fuel and purchased power costs are recovered in retail rates at a fixed level. Therefore, to recover fuel and purchased power costs in excess of the costs included in retail rates, we would have to make a rate filing with the KCC, which could be denied in whole or in part. Any increase in fuel and purchased power costs over the costs recovered through rates would reduce our earnings if not offset by sales or other cost reductions. For additional information regarding commodity price risks, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk."

On November 27, 2000, Westar Energy and we filed applications with the KCC for an increase in retail rates. On July 25, 2001, the KCC ordered an annual reduction in our electric rates of $41.2 million.

On August 9, 2001, Westar Energy and we filed petitions with the KCC requesting reconsideration of the July 25, 2001 order. The petitions specifically asked for reconsideration of changes in depreciation, reductions in rate base related to deferred income taxes associated with the acquisition premium and a deferred gain on the sale and leaseback of LaCygne 2 and several other issues. On September 5, 2001, the KCC issued an order denying our motion for reconsideration, which did not change our rate reduction. On November 9, 2001, we filed an appeal of the KCC decisions to the Kansas Court of Appeals in an action captioned "Western Resources, Inc. and Kansas Gas and Electric Company vs. The State Corporation Commission of the State of Kansas." On March 8, 2002, the Court of Appeals upheld the KCC orders. On April 8, 2002, we filed a petition for review of the decision of the Court of Appeals with the Kansas Supreme Court. Our petition for review was denied on June 12, 2002.

Additional information with respect to rate matters and regulation is set forth in Note 3 of the Notes to Consolidated Financial Statements, "Rate Matters and Regulation."

Environmental Matters

We currently hold all federal and state environmental approvals required for the operation of all of our generating units. We believe we are currently in substantial compliance with all air quality regulations (including those pertaining to particulate matter, sulfur dioxide (SO2) and nitrogen oxide (NOx)) promulgated by the State of Kansas and the Environmental Protection Agency (EPA).

The JEC and LaCygne 2 units have met: (1) the federal SO2 standards through the use of low-sulfur coal; (2) the federal particulate matter standards through the use of electrostatic precipitators; and (3) the federal NOx standards through boiler design and operating procedures. The JEC units are also equipped with flue gas scrubbers providing additional SO2 and particulate matter emission reduction capability when needed to meet permit limits.

The Kansas Department of Health and Environment regulations applicable to our other generating facilities prohibit the emission of more than 3.0 pounds of SO2 per MMBtu of heat input. We meet these standards through the use of low-sulfur coal and by all coal-burning facilities being equipped with flue gas scrubbers and/or electrostatic precipitators.

Because of the strong demand for generation in 2002, we consumed more SO2 allowances than were allocated to us by the EPA. We made up the shortfall by utilizing allowances we had previously procured in the open market. In anticipation of another strong year in generation, we will be actively pursuing the purchase of additional SO2 allowances for 2003, which could approximate $1.0 million in additional costs.

We must comply, and are currently in compliance, with the provisions of The Clean Air Act Amendments of 1990 that require a two-phase reduction in some emissions. We have installed continuous monitoring and reporting equipment to meet the acid rain requirements. We have not had to make any material capital expenditures to meet Phase II SO2 and NOx requirements.

All of our generating facilities are in substantial compliance with the Best Practicable Technology and Best Available Technology regulations issued by the EPA pursuant to the Clean Water Act of 1977.

EPA New Source Review

The EPA is conducting an enforcement initiative at a number of coal-fired power plants in an effort to determine whether modifications at those facilities were subject to New Source Review requirements or New Source Performance Standards under the Clean Air Act. The EPA has requested information from us under Section 114(a) of the Clean Air Act (Section 114). A Section 114 information request requires us to provide responses to specific EPA questions regarding certain projects and maintenance activities that the EPA believes may have violated the New Source Performance Standard and New Source Review requirements of the Clean Air Act. The EPA contends that power plants are required to update emission controls at the time of major maintenance or capital activity. We believe that maintenance and capital activities performed at our power plants are generally routine in nature and are typical for the industry. We are complying with this information request, but cannot predict the outcome of this investigation at this time. Should the EPA determine to take action, the resulting additional costs to comply could be material. We would expect to seek recovery through rates of any settlement amounts.

The EPA has initiated civil enforcement actions against other unaffiliated utilities as part of its initiative. Settlement agreements entered into in connection with some of these actions have provided for expenditures to be made over extended time periods.

Additional information with respect to Environmental Matters is discussed in Note 12 of the Notes to Consolidated Financial Statements, “Commitments and Contingencies,” and such information is incorporated herein by reference.

EMPLOYEES

Westar Energy provides all employees we utilize. As of February 28, 2003, Westar Energy had approximately 1,900 utility employees. Its current contract with the International Brotherhood of Electrical Workers extends through June 30, 2003. The contract covered approximately 1,100 utility employees as of February 28,

2003. Westar Energy is currently discussing modifications to its existing contract with union representatives and expects these discussions to result in an agreement. Westar Energy anticipates that formal bargaining will begin in April 2003 if these discussions are unsuccessful.

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ITEM 2. PROPERTIES

ELECTRIC UTILITY FACILITIES

Name	Location	Unit No.		Year Installed	Principal Fuel	Unit Capacity (MW)
Gordon Evans Energy Center:	Colwich, Kansas					
Steam Turbines		1		1961	Gas—Oil	151.0
		2		1967	Gas—Oil	383.0
Diesel Generator		1		1969	Diesel	3.0
Jeffrey Energy Center (20%):	St. Marys, Kansas					
Steam Turbines		1	(a)	1978	Coal	147.0
		2	(a)	1980	Coal	146.0
		3	(a)	1983	Coal	149.0
Wind Turbines		1	(a)	1999	—	0.2
		2	(a)	1999	—	0.2
LaCygne Station (50%):	LaCygne, Kansas					
Steam Turbines		1	(a)	1973	Coal	344.0
		2	(b)	1977	Coal	337.0
Murray Gill Energy Center:	Wichita, Kansas					
Steam Turbines		1		1952	Gas—Oil	43.0
		2		1954	Gas—Oil	74.0
		3		1956	Gas—Oil	112.0
		4		1959	Gas—Oil	107.0
Neosho Energy Center:	Parsons, Kansas					
Steam Turbine		3		1954	Gas—Oil	69.0
Wolf Creek Generating Station (47%):	Burlington, Kansas					
Nuclear		1	(a)	1985	Uranium	548.0
Total						2,613.4

(a) We jointly own Jeffrey Energy Center (20%), LaCygne 1 generating unit (50%), and Wolf Creek Generating Station (47%). Westar Energy jointly owns 64% of Jeffrey Energy Center.
(b) In 1987, we entered into a sale-leaseback transaction involving our 50% interest in the LaCygne 2 generating unit.

We own approximately 2,200 miles of transmission lines, approximately 10,000 miles of overhead distribution lines and approximately 1,900 miles of underground distribution lines.

Substantially all of our utility properties are encumbered by a first priority mortgage pursuant to which bonds have been issued and are outstanding.

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ITEM 3. LEGAL PROCEEDINGS

Information on our legal proceedings is set forth in Notes 3, 13, 14 and 19 of the Notes to Consolidated Financial Statements, "Rate Matters and Regulation," "Legal Proceedings," "Ongoing Investigations," and "Potential Liabilities to David C. Wittig and Douglas T. Lake," respectively, which are incorporated herein by reference.

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

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

PART II

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

All of our common stock is owned by Westar Energy and is not traded on an established public trading market.

ITEM 6. SELECTED FINANCIAL DATA

	For the Year Ended December 31,				
	2002	2001	2000	1999	1998
	(In Thousands)				
Income Statement Data:					
Sales	$ 695,524	$ 631,391	$ 685,673	$ 638,340	$ 648,379
Net income before accounting change	59,539	37,301	86,708	84,261	103,765

	As of December 31,				
	2002	2001	2000	1999	1998
	(In Thousands)				
Balance Sheet Data:					
Total assets	$ 3,006,393	$ 2,930,044	$ 2,988,573	$ 2,989,710	$ 3,057,971
Long-term debt, net	549,486	684,360	684,366	684,271	684,167

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

INTRODUCTION

In Management's Discussion and Analysis, we discuss the general financial condition, significant annual changes and our operating results. We explain:

– what factors impact our business,
– what our earnings and costs were in 2002, 2001 and 2000,
– why these earnings and costs differ from year to year,
– how our earnings and costs affect our overall financial condition,
– what our capital expenditures were for 2002,
– what we expect our capital expenditures to be for the years 2003 through 2005,
– how we plan to pay for these future capital expenditures,
– critical accounting policies, and
– any other items that particularly affect our financial condition or earnings.

As you read Management's Discussion and Analysis, please refer to our consolidated financial statements and the accompanying notes, which show our operating results.

SUMMARY OF SIGNIFICANT ITEMS

Overview

A number of significant developments have impacted us and our business operations since January 2002, either directly or indirectly through Westar Energy.

– Westar Energy hired a new chief executive officer and senior management team.

– Westar Energy filed a new Debt Reduction and Restructuring Plan (the Debt Reduction Plan) with the Kansas Corporation Commission (KCC) that reflects Westar Energy's decision to return to being exclusively a Kansas electric utility, replacing an earlier plan that contemplated the separation of Westar Industries, Inc. (Westar Industries), a wholly owned subsidiary of Westar Energy.

– In May and June 2002, Westar Energy refinanced approximately $1.3 billion of outstanding debt of which $560 million is secured by our first mortgage bonds.

– A Special Committee of Westar Energy's board of directors, the Securities and Exchange Commission (SEC), the Federal Energy Regulatory Commission (FERC) and a federal grand jury initiated investigations into various matters affecting Westar Energy and, to a lesser degree, us.

– Westar Energy reduced the utility work force we both utilize by approximately 400 employees through a voluntary separation program.

– We restored service from a severe ice storm in late January 2002 and incurred $12.7 million for restoration costs, a portion of which was capitalized.

New Chief Executive Officer and Senior Management Team

James S. Haines, Jr., joined Westar Energy in December 2002 as its chief executive officer and president and a member of its board of directors. He replaced David C. Wittig, who resigned on November 22, 2002 from all of his positions with Westar Energy and its affiliates. Mr. Wittig had been on administrative leave without pay since November 7, 2002 as a result of his indictment by a federal grand jury in Topeka, Kansas, for actions arising from his personal dealings.

Mr. Haines added new members to Westar Energy's senior management team, including William B. Moore as executive vice president and chief operating officer, and Mark A. Ruelle as executive vice president and chief financial officer. All of these officers were previously employed with us and have a strong background in the electric utility business. Douglas T. Lake, Westar Energy's executive vice president and chief strategic officer, resigned as a member of its board of directors and was placed on unpaid leave from all of his other positions with Westar Energy and its affiliates on December 6, 2002.

See Note 19 of the Notes to Consolidated Financial Statements, "Potential Liabilities to David C. Wittig and Douglas T. Lake," for information about Westar Energy's potential liabilities to Mr. Wittig and Mr. Lake.

KCC Orders and Westar Energy's Debt Reduction and Restructuring Plan

On February 6, 2003, Westar Energy filed the Debt Reduction Plan with the KCC outlining its plans for paying down debt and restructuring the company. The Debt Reduction Plan calls for the sale of Westar Energy's non-utility assets, including its interests in its monitored services subsidiaries and its equity investment interests. As part of the Debt Reduction Plan, Westar Energy's first quarter 2003 dividend on its common stock was reduced 37% to $0.19 per share. In addition, the Debt Reduction Plan contemplates the potential issuance of additional Westar Energy equity, if needed to further reduce debt following the disposition of all material non-utility assets. On February 10, 2003, the KCC issued an order in which it stated that the Debt Reduction Plan appears to make a good-faith effort to address the concerns expressed in the KCC's prior orders and that the KCC needed additional time to review the Debt Reduction Plan prior to addressing other issues. The KCC also stayed the requirement of a December 23, 2002 order that Westar Energy form a utility-only subsidiary for its former KPL electric utility division (KPL) no later than August 1, 2003.

The Debt Reduction Plan replaced a previous financial plan to which Westar Energy devoted extensive efforts throughout 2002 to obtain KCC approval. This plan contemplated the sale of Westar Industries common stock in a rights offering. We refer you to our Annual Report on Form 10-K for the year ended December 31, 2001 and subsequent Quarterly Reports on Form 10-Q for further information on this financial plan and related KCC orders. The KCC rejected this plan on November 8, 2002 and issued an order that directed Westar Energy to file a new financial plan, to reverse specified intercompany transactions, to reduce debt by $100 million annually in each of the next two years from internally generated cash flow, and to restructure its organizational structure so that KPL would be placed in a separate subsidiary with the amount of debt held by the utility not exceeding $1.47 billion. The order further established standstill protections requiring that Westar Energy and we seek KCC approval before entering into certain transactions with a non-utility affiliate. Following Westar Energy's filing of a motion for reconsideration and clarification of this order, the KCC issued an order on December 23, 2002 directing that no later than August 1, 2003, KPL be held within a separate utility-only subsidiary and that the consolidated debt for all of Westar Energy's utility businesses, KPL and us, not exceed $1.67 billion.

The KCC staff and other parties to the KCC docket considering the Debt Reduction Plan have filed comments on the Debt Reduction Plan. The KCC has not yet established a procedural schedule for considering the Debt Reduction Plan and the related comments. Westar Energy is unable to predict what action the KCC will take with respect to the Debt Reduction Plan.

The KCC Orders dated November 8, 2002, December 23, 2002, February 10, 2003 and March 11, 2003 and the Debt Reduction Plan are exhibits to this Annual Report on Form 10-K. All of such exhibits are incorporated by reference herein. All of the documents concerning these matters, including the KCC Orders, can also be reviewed at the website of the KCC at www.kcc.state.ks.us (the website information is not incorporated herein or otherwise made a part of this Annual Report on Form 10-K). We refer you to these documents for further information concerning these matters.

Ongoing Investigations

Grand Jury Subpoena

On September 17, 2002, Westar Energy was served with a federal grand jury subpoena by the United States Attorney's Office in Topeka, Kansas, requesting information concerning Westar Energy's use of aircraft and its annual shareholder meetings. Since that date, the United States Attorney's Office has served additional subpoenas on Westar Energy and certain of its employees requesting further information concerning the use of aircraft; executive

compensation arrangements with Mr. Wittig, Mr. Lake and other former and present officers; the proposed rights offering of Westar Industries stock; and Westar Energy in general. Westar Energy is providing information in response to these requests and is fully cooperating in the investigation. Westar Energy has not been informed that it is a target of the investigation. Westar Energy is unable to predict the ultimate outcome of the investigation or its impact on Westar Energy.

Special Committee Investigation

Westar Energy's board of directors appointed a Special Committee of directors to investigate management matters and matters that are the subject of the grand jury investigation and SEC inquiry. The Special Committee retained counsel and other advisors. The Special Committee investigation has been completed and has not resulted in adjustments to Westar Energy's or our consolidated financial statements.

FERC Subpoena

On December 16, 2002, Westar Energy received a subpoena from FERC seeking details on power trades with Cleco Corporation (Cleco) and its affiliates, documents concerning power transactions between Westar Energy's system operations and its marketing operations and information on power trades in which Westar Energy or other trading companies acted as intermediaries.

Among the issues being reviewed by FERC are transactions Westar Energy conducted with third parties to facilitate power transfers between Westar Energy's system operations and its marketing operations. While these energy transactions do not apply to us, the FERC investigation includes all transactions of both Westar Energy and us.

Westar Energy has provided information to FERC in response to the subpoena and believes that its participation in these transactions did not violate FERC rules and regulations. However, Westar Energy is unable to predict the ultimate outcome of the investigation. See Note 14 of the Notes to Consolidated Financial Statements, "Ongoing Investigations — FERC Subpoena," for additional information.

Work Force Reductions

During 2002, Westar Energy reduced the utility work force we both utilize by approximately 400 employees through a voluntary separation program. Westar Energy recorded a net charge of approximately $21.7 million in 2002, a portion of which was allocated to us, related to this program. Westar Energy has replaced and may continue to replace some of these employees.

Ice Storm

In late January 2002, a severe ice storm swept through our service area causing extensive damage and loss of power to numerous customers. Through December 31, 2002, we incurred $12.7 million for restoration costs, a portion of which was capitalized. We have deferred and recorded as a regulatory asset on our December 31, 2002 consolidated balance sheet restoration costs of approximately $9.0 million. We have received an accounting authority order from the KCC that allows us to accumulate and defer for potential future recovery all operating and carrying costs related to storm restoration.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of results of operations and financial condition are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles (GAAP). The preparation of consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis, including those related to bad debts, inventories, depreciation, sales recognition, goodwill, intangible assets, income taxes, decommissioning of Wolf Creek Generating Station (Wolf Creek), environmental issues, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are

not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Note 2 of the Notes to Consolidated Financial Statements, “Summary of Significant Accounting Policies,” provides a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. The following is a brief description of the more significant accounting policies and methods used by us.

Regulatory Accounting

We currently apply accounting standards for our regulated utility operations that recognize the economic effects of rate regulation in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, “Accounting for the Effects of Certain Types of Regulation,” and, accordingly, have recorded regulatory assets and liabilities when required by a regulatory order or based on regulatory precedent.

Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred in the future. We have recorded these regulatory assets and liabilities in accordance with SFAS No. 71. If we were required to terminate application of SFAS No. 71 for all of our regulated operations, we would have to record the amounts of all regulatory assets and liabilities in our consolidated statements of income at that time. As of December 31, 2002, this would reduce our earnings by approximately $227.1 million, net of applicable income taxes.

SFAS No. 71 applies to our electric operations. We do not anticipate the discontinuation of SFAS No. 71 in the foreseeable future. See “— Other Information — Stranded Costs” for additional discussion of the application of SFAS No. 71.

Depreciation

Utility plant is depreciated on the straight-line method at the lesser of rates set by the KCC or rates based on the estimated remaining useful lives of the assets, which are based on an average annual composite basis using group rates that approximated 2.37% during 2002, 2.80% during 2001 and 2.81% during 2000.

In its rate order of July 25, 2001, the KCC extended the estimated service life for certain of our generating assets, including Wolf Creek and the LaCygne 2 generating station, for regulatory rate making purposes. The estimated retirement date for Wolf Creek was extended from 2025 to 2045, although our operating license for Wolf Creek expires in 2025, and the estimated retirement date for LaCygne 2 was extended to 2032, although the term of our lease for LaCygne 2 expires in 2016. On April 1, 2002, we adopted the new depreciation rates as prescribed in the KCC order. We continue to depreciate Wolf Creek over the term of our operating license, and we continue to depreciate LaCygne 2 over the term of our lease. We have created a regulatory asset for the amount that our depreciation expense exceeds our regulatory depreciation expense.

On an annual basis, our depreciation expense will be reduced by approximately $18.0 million as a result of these extensions. If our generating license for Wolf Creek is not renewed or the term of our lease for LaCygne 2 is not extended, we will need to seek relief from the KCC to recover the remaining cost of these assets.

Sales Recognition

Energy sales are recognized as delivered and include an estimate for energy delivered but unbilled at the end of each year. Energy trading activities are accounted for under the mark-to-market method of accounting. Under this method, changes in the portfolio value are recognized as gains or losses in the period of change. The net mark-to-market change is included in energy sales in our consolidated statements of income. The resulting unrealized gains and losses are recorded as energy trading assets and liabilities on our consolidated balance sheets.

We primarily use quoted market prices to value our energy trading contracts. When market prices are not readily available or determinable, we use alternative approaches, such as model pricing. The market prices used to value these transactions reflect our best estimate of fair values considering various factors, including closing exchange and over-the-counter quotations, time value and volatility factors underlying the commitments. Results

actually achieved from these activities could vary materially from intended results and could unfavorably affect our financial results.

Cumulative Effect of Accounting Change

Accounting for Derivative Instruments and Hedging Activities

Effective January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138 (collectively, SFAS No. 133). Westar Energy uses derivative instruments (primarily swaps, options and futures) to manage the commodity price risk inherent in some of our fossil fuel and electricity purchases and sales. We are allocated our proportionate share of the benefits and costs of Westar Energy's commodity price risk management program based on fuel forecasts for Westar Energy and us. These allocated benefits and costs are recognized in our financial statements. Under SFAS No. 133, all derivative instruments, including our energy trading contracts, are recorded on our consolidated balance sheets as either an asset or liability measured at fair value. Changes in a derivative's fair value must be recognized currently in earnings unless specific hedge accounting criteria are met, in which case changes are reflected in other comprehensive income. Cash flows from derivative instruments are presented in net cash flows from operating activities.

Derivative instruments used to manage commodity price risk inherent in fossil fuel and electricity purchases and sales are classified as energy trading contracts on our consolidated balance sheets. Energy trading contracts representing unrealized gain positions are reported as assets; energy trading contracts representing unrealized loss positions are reported as liabilities.

Prior to January 1, 2001, gains and losses on our derivatives used for managing commodity price risk were deferred until settlement. These derivatives were not designated as hedges under SFAS No. 133. Accordingly, on January 1, 2001, we recognized an unrealized gain of $12.9 million, net of $8.5 million of tax. This gain is presented on our consolidated statement of income for 2001 as a cumulative effect of a change in accounting principle.

After January 1, 2001, changes in fair value of all derivative instruments used for managing commodity price risk that are not designated as hedges are recognized in revenue as discussed above under "— Sales Recognition." Accounting for derivatives under SFAS No. 133 will increase volatility of our future earnings.

Accounting Change

Accounting for Energy Trading Contracts

In October 2002, the Financial Accounting Standards Board (FASB), through the Emerging Issues Task Force (EITF), issued Issue No. 02-03, which rescinded Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." As a result, all new contracts that would otherwise have been accounted for under Issue No. 98-10 and that do not fall within the scope of SFAS No. 133 can no longer be marked-to-market and recorded in earnings as of October 25, 2002. We are not affected by this change in accounting principle and are not required to reclassify any of our contracts. EITF Issue No. 02-03 also requires that energy trading contracts and derivatives, whether settled financially or physically, be reported in the income statement on a net basis effective January 1, 2003. We began to classify our energy trading contracts on a net basis during the third quarter of 2002.

On July 1, 2002, we began reporting mark-to-market gains and losses on energy trading contracts on a net basis, whether realized or unrealized, in our consolidated income statements. Prior to July 1, 2002, we reported gains on these contracts in sales and losses in cost of sales in our consolidated income statements. The changes are reflected in our consolidated financial statements for the year ended December 31, 2002. Prior periods shown in our consolidated financial statements have been reclassified to reflect the effect of this change and to be comparable as required by GAAP. As a result of the net presentation, we expect reductions in our energy revenues and expenses from those reported in prior periods, which will not affect gross profit or net income. A summary of the effects of this change for the years ended December 31, 2002, 2001 and 2000 is as follows:

Changes to Income Statements

	Year Ended December 31,					
	2002		2001		2000	
	Prior to Reclassifications for Net Presentation	After Reclassifications for Net Presentation	Prior to Reclassifications for Net Presentation	After Reclassifications for Net Presentation	Prior to Reclassifications for Net Presentation	After Reclassifications for Net Presentation
	(In Thousands)					
Energy sales	$ 740,028	$ 695,524	$ 630,289	$ 631,391	$ 703,990	$ 685,673
Energy cost of sales	215,075	170,571	164,340	165,442	170,672	152,355
Energy gross profit	$ 524,953	$ 524,953	$ 465,949	$ 465,949	$ 533,318	$ 533,318

OPERATING RESULTS

We supply electric energy at retail to approximately 296,000 customers in Kansas. We classify our customers as residential, commercial and industrial as defined in our tariffs. We also supply electric energy at wholesale to the electric distribution systems of 26 Kansas cities. We have contracts for the sale, purchase or exchange of wholesale electricity with other utilities.

Regulated electric utility sales are significantly impacted by such things as the weather, regulation (including rate regulation), customer conservation efforts, wholesale demand, the overall economy of our service area and competitive forces. Our wholesale sales are impacted by demand outside our service territory, the cost of fuel and purchased power, price volatility and available generation capacity.

Our electric sales for the years ended December 31, 2002, 2001 and 2000 were as follows:

	2002	2001	2000
		(In Thousands)	
Residential	$ 223,339	$ 222,427	$ 246,665
Commercial	170,847	175,899	175,686
Industrial	152,915	155,990	161,693
Total	547,101	554,316	584,044
Network Integration (a)	30,066	—	—
Other (b)	23,445	24,970	23,689
Total retail	600,612	579,286	607,733
Wholesale and Interchange	94,912	52,105	77,940
Total	$ 695,524	$ 631,391	$ 685,673

(a) **Network Integration:** Reflects a new network transmission tariff that requires us to pay to the Southwest Power Pool (SPP) all expenses associated with transporting power from our generating stations. The SPP then pays us for transmitting power to the point of delivery into our retail distribution system. These receipts from the SPP are reflected in revenues under the network integration classification. For further information, see “— Other Information — Electric Utility — Network Integration Transmission Service” below.

(b) **Other:** Includes public street and highway lighting and miscellaneous electric revenues.

The following tables show changes in electric sales volumes, as measured by thousands of megawatt hours (MWh) of electricity we generate, for the three years ended December 31, 2002. No sales volumes are shown for network integration because this activity is not related to electricity we generate.

	2002	2001	% Change
	(Thousands of MWh)		
Residential	2,889	2,734	5.7
Commercial	2,675	2,632	1.6
Industrial	3,397	3,488	(2.6)
Other	44	44	—
Total retail	9,005	8,898	1.2
Wholesale and Interchange	3,831	2,479	54.5
Total	12,836	11,377	12.8

	2001	2000	% Change
	(Thousands of MWh)		
Residential	2,734	2,950	(7.3)
Commercial	2,632	2,544	3.5
Industrial	3,488	3,561	(2.0)
Other	44	45	(2.2)
Total retail	8,898	9,100	(2.2)
Wholesale and Interchange	2,479	2,407	3.0
Total	11,377	11,507	(1.1)

2002 compared to 2001

Sales increased $64.1 million, or 10%, due primarily to the $30.1 million in new network integration tariff revenues and a $42.8 million increase in wholesale and interchange revenues due in large part to increased sales volumes despite lower wholesale prices. Residential revenues increased minimally despite an approximate 6% increase in sales volumes. The sales volumes increased primarily due to favorable weather conditions, but the revenues did not increase at the same rate as a result of the July 2001 rate decrease. These increases were partially offset by declines in commercial electric sales revenues and industrial revenues. The same factors that contributed to the decline in residential revenues also caused the commercial revenues to decline. Lower industrial demand related to weak economic conditions caused the decline in industrial sales.

Cost of sales increased $5.1 million, or 3%. Fuel expense decreased $8.4 million and purchased power costs decreased $7.4 million. Purchased power expense decreased due primarily to the increased availability of our units and lower prices. Partially offsetting these reductions were $20.9 million in higher costs associated with the dispatching of electric power.

Gross profit increased $59.0 million primarily due to the increase in sales being higher than the increase in cost of sales. This increase in gross profit also reflects the impact of the adoption of SFAS No. 133 on January 1, 2001. This new standard required that we report a $21.4 million gain in 2001 on certain derivative contracts (derivatives) as a cumulative effect of a change in accounting principle rather than include the gain in gross profit. All gains and losses after January 1, 2001 on our derivatives that are not designated as hedges are reflected in gross profit. Had we included the $21.4 million gain in revenues in 2001, gross profit would have increased $37.6 million rather than $59.0 million.

Operating expenses increased $18.5 million, or 5%, due primarily to the charges associated with the network integration transmission tariff and increased selling, general and administrative expenses due to allocated compensation charges. These increases were partially offset by a $11.2 million decrease in depreciation expense primarily related to the change in depreciation rates as discussed above in "— Critical Accounting Policies — Depreciation." In addition, our maintenance expense declined $12.9 million, or 20%, due primarily to the lower forced outage rates of our generating units.

Income from operations increased $40.5 million, or 43%, for the reasons discussed above. Other expenses increased $2.1 million due primarily to recording a loss on the disposition of our office building in Wichita, Kansas, during 2002.

We recorded an income tax expense in 2002 of $16.1 million, which reflects an effective income tax rate expense of 21%. In 2001, we recorded an income tax benefit of $1.6 million, which reflects an effective income tax rate benefit of 4%. This change is due primarily to higher earnings before income taxes in 2002. Earnings before

income taxes increased due to the increase in sales being greater than the increases in our expenses as discussed above. Our effective tax rates are also affected by the amortization of prior years' investment tax credits and the tax benefit from corporate-owned life insurance.

Net income increased $9.3 million, or 19% as a result of the items discussed above.

2001 compared to 2000

Retail sales decreased due to a decrease in retail sales volumes primarily caused by weather conditions and lower retail rates due to the rate decrease ordered in July 2001. Wholesale and interchange sales revenues also contributed to the decrease because of lower prices, although the wholesale and interchange sales volumes increased slightly.

Cost of sales increased $13.1 million, or 9%, due primarily to an increase in purchased power costs of $14.2 million associated with the dispatching of electric power. Partially offsetting this increase was a decline in fuel expense of $6.5 million.

Gross profit decreased $67.4 million, or 13%, due to the decline in sales and the increase in cost of sales. This decline in gross profit also reflects the impact of the adoption of SFAS No. 133 on January 1, 2001. This new standard required that we report a $21.4 million gain in 2001 on certain derivatives as a cumulative effect of a change in accounting principle rather than include the gain in gross profit. All gains and losses after January 1, 2001 on our derivatives that are not designated as hedges are reflected in gross profit. Had we been permitted to classify this accounting change as a reduction to cost of sales, gross profit would have declined by $46.0 million rather than $67.4 million.

Operating expenses increased $16.2 million, or 5%, due primarily to increased selling, general and administrative expenses due to a $7.3 million increase in allocated pension and benefit costs and a $3.7 million increase in allocated employee salaries. Operating and maintenance expenses also increased due primarily to an increase in the costs associated with dispatching power and an increase in general plant maintenance expenses. Income from operations decreased $83.6 million, or 47%, for the reasons discussed above.

We recorded an income tax benefit in 2001 of $1.6 million, which reflects an effective income tax rate benefit of 4%. In 2000, we recorded an income tax expense of $34.0 million, which reflects an effective income tax rate expense of 28%. This change is due primarily to lower earnings before income taxes in 2001. Our effective tax rates are also affected by the amortization of prior years' investment tax credits and the tax benefit from corporate-owned life insurance.

For the year ended December 31, 2001, we recorded a cumulative effect of accounting change related to the mark-to-market adjustment on fuel derivatives as prescribed by SFAS No. 133. Net income decreased $36.5 million, or 42% as a result of the items discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Westar Energy believes it will have sufficient cash to fund future operations of its business (including us), debt reductions, including the annual $100 million debt reductions in 2003 and 2004 ordered by the KCC, and the payment of dividends, from a combination of cash on hand, cash flow, proceeds from the sales of its non-utility and non-core assets and available borrowings under its revolving credit facility. Uncertainties affecting its ability to meet these requirements include, among others, the factors affecting sales described above, economic conditions, including the impact of inflation on operating expenses, regulatory actions, including the KCC orders received in the last quarter of 2002 and first quarter of 2003, Westar Energy's ability to implement the Debt Reduction Plan, compliance with future environmental regulations and the impact of its monitored services' operations and financial condition.

Most of our cash requirements consist of capital expenditures and maintenance costs designed to improve and maintain facilities that provide electric service and meet future customer service requirements. Our ability to

provide the cash or debt to fund our capital expenditures depends upon many things, including available resources, our financial condition and current market conditions.

Our internally generated cash is generally sufficient to fund operations and debt service payments. We do not maintain independent short-term credit facilities and rely on Westar Energy for short-term cash needs. If Westar Energy is unable to borrow under its credit facilities, we could have a short-term liquidity issue that could require us to obtain a credit facility for our short-term cash needs and that could result in higher borrowing costs.

At December 31, 2002, current maturities of long-term debt increased $135.0 million from 2001 due primarily to the upcoming maturity of our 7.6% first mortgage bonds that are due December 15, 2003. We have irrevocably deposited with the bond trustee funds sufficient to provide for the future principal and interest payments on these first mortgage bonds.

Capital Resources

Westar Energy's Debt Reduction Plan provides for a systematic disposal of its non-utility and non-core assets and, if necessary, a sale of Westar Energy equity. The proceeds of these transactions will be used to reduce debt. Westar Energy may reduce its and our debt pursuant to terms stated in the debt agreements or through open market purchases or tender offers. Westar Energy may engage a financial advisor to assist in completing debt repurchases in the most cost-effective manner.

We have registered debt securities for sale with the SEC. As of December 31, 2002, these included $50 million of our first mortgage bonds. Any issuance of debt would require that we seek KCC approval.

Our mortgage prohibits additional first mortgage bonds from being issued (except in connection with certain refundings) unless our net earnings before income taxes and before provision for retirement and depreciation of property for a period of 12 consecutive months within 15 months preceding the issuance are not less than either two and one-half times the annual interest charges on, or 10% of the principal amount of, all of our first mortgage bonds outstanding after giving effect to the proposed issuance. The amount of our first mortgage bonds authorized by our mortgage is limited to a maximum of $2 billion. Amounts of additional bonds that may be issued are subject to property, earnings, and certain restrictive provisions of the mortgage. As of December 31, 2002, approximately $302.5 million principal amount of additional first mortgage bonds could be issued under the most restrictive provisions in the mortgage.

Cash Flows from (used in) Operating Activities

Our primary source of operating cash flows is from our electric utility operations. Cash flows from operating activities increased $6.6 million to $152.2 million in 2002, from $145.6 million in 2001. This increase is mostly attributable to changes in our working capital and the increase in utility gross margin for 2002 compared to 2001.

Cash flows from operating activities decreased $59.3 million to $145.6 million in 2001, from $204.9 million in 2000. This decrease is mostly attributable to changes in working capital and the decrease in utility gross margin for 2001 compared to 2000.

Cash Flows from (used in) Investing Activities

In general, cash used for investing purposes relates to the maintenance of our utility operations. Cash flows used in investing activities decreased $24.8 million to $58.0 million in 2002 from $82.8 million in 2001 due primarily to the timing of the refueling and maintenance outages at Wolf Creek.

Cash Flows from (used in) Financing Activities

Net cash used in financing activities totaled $93.6 million for the year ended December 31, 2002 as compared to $64.4 million for the same period in 2001 due primarily to $135.0 million of funds that have been irrevocably deposited with the bond trustee to provide for the repayment of our 7.6% first mortgage bonds that are due December 15, 2003. Partially offsetting this increase was a slight rise in net advances from Westar Energy and the suspension of dividends to Westar Energy.

Future Cash Requirements

We believe that internally generated funds and borrowings from Westar Energy will be sufficient to meet our operating and capital expenditure requirements and debt service payments through at least the year 2005, assuming Westar Energy's Debt Reduction Plan is approved by the KCC.

The November 8, 2002 KCC order requires Westar Energy to reduce its and our debt by $100 million annually in each of the next two years from internally generated cash flow. While Westar Energy believes it can generate this level of internally generated cash flow, if it fails to meet this requirement, the KCC may, among other things, require Westar Energy to reduce or eliminate its dividend or issue equity securities. In the Debt Reduction Plan, Westar Energy anticipates meeting the $100 million debt reduction goal.

Our business requires significant capital investments. Through 2005, we expect we will need cash mostly for ongoing utility construction and maintenance programs designed to maintain and improve facilities providing electric service. We do not anticipate needing additional generating capacity through 2005.

Capital expenditures for 2002 and anticipated capital expenditures for 2003 through 2005 are as follows:

	Total
	(In Thousands)
2002	$ 59,232
2003	81,366
2004	90,265
2005	67,514

These estimates are prepared for planning purposes and will be revised from time to time as discussed in Note 2 of the Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies." Actual expenditures will differ from our estimates.

In 2003, $135 million of our first mortgage bonds will mature. We have irrevocably deposited $135 million with the bond trustee to provide for repayment of this obligation. These funds were provided to us through Westar Energy's June 6, 2002 refinancing (see "— Refinancing," below). Additionally, $65 million of our first mortgage bonds will mature in 2005.

Contractual Cash Obligations

In the course of our business activities, we enter into a variety of contractual obligations. Some of these result in direct obligations that are reflected in our consolidated balance sheets while others are commitments, some firm and some based on uncertainties, that are not reflected in our underlying consolidated financial statements. The obligations listed below do not include amounts for on-going needs for which no contractual obligations existed as of December 31, 2002, and represent only amounts that we were contractually obligated to meet as of December 31, 2002. The following table summarizes the projected future cash payments for our contractual obligations existing at December 31, 2002:

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Contractual Obligations	Total	2003	2004 - 2005	2006 - 2007	Thereafter
			(In Thousands)		
Long-term debt (a)	$ 684,486	$ 135,000	$ 65,000	$ 100,000	$ 384,486
Restricted cash deposited with the trustee for defeasance (b)	(135,000)	(135,000)	—	—	—
Adjusted long-term debt	549,486	—	65,000	100,000	384,486
Operating leases	610,463	43,708	79,725	125,725	361,305
Fossil fuel	536,575	48,175	89,336	64,363	334,701
Nuclear fuel	84,641	18,651	9,746	13,960	42,284
Unconditional purchase obligations	15,955	14,307	1,645	3	—
Total contractual obligations, including adjusted long-term debt	$ 1,797,120	$ 124,841	$ 245,452	$ 304,051	$ 1,122,776

(a) See Note 9 of the Notes to Consolidated Financial Statements, “Long-Term Debt,” for individual long-term debt maturities.
(b) See “— Future Cash Requirements,” above for a description of funds that have been irrevocably deposited with the bond trustee to provide for the repayment of an obligation.

Long-term debt: Our long-term debt existing as of December 31, 2002 is debt that has a final maturity of January 1, 2003 or later (including current maturities of long-term debt). See Note 9 of the Notes to Consolidated Financial Statements, “Long-Term Debt,” for detailed information.

Operating leases: We maintain operating leases in the ordinary course of our business activities. These leases include those for office space, operating facilities, office equipment and operating equipment. These leases have various terms and expiration dates from 1 to 16 years. See Note 15 of the Notes to Consolidated Financial Statements, “Leases,” for additional information.

Fossil fuel: To supply a portion of the fossil fuel requirements for our generating plants, we have entered into various commitments to obtain and deliver coal and for natural gas transportation. Some of these contracts contain provisions for price escalation and minimum purchase commitments. For additional information, see Note 12 of the Notes to Consolidated Financial Statements, “Commitments and Contingencies — Fuel Commitments.”

Nuclear fuel: To supply a portion of the fuel requirements for Wolf Creek generating station, we have entered into various commitments to obtain nuclear fuel consisting of uranium concentrates, conversion and enrichment. See Note 12 of the Notes to Consolidated Financial Statements, “Commitments and Contingencies — Fuel Commitments,” for more details.

Unconditional purchase obligations: We use purchase obligations as part of our ongoing operations and construction program. See Note 12 of the Notes to Consolidated Financial Statements, “Commitments and Contingencies — Purchase Orders and Contracts,” for additional information.

Debt Covenants

Westar Energy’s debt financing agreements require, among other restrictions, that it satisfy certain financial covenants. These debt instruments contain restrictions based on EBITDA. The definition of EBITDA varies among the various indentures. EBITDA is generally derived by adding to income (loss) before income taxes, the sum of interest expense and depreciation and amortization expense. However, under the varying definitions of the indentures, additional adjustments are required. A violation of these restrictions would result in an event of default that would allow the lenders to declare all amounts outstanding immediately due and payable. Westar Energy is in compliance with these covenants. The most restrictive of these covenants in Westar Energy’s debt instruments are as follows:

– Consolidated Leverage Ratio: Consolidated total debt to earnings before interest, taxes, depreciation and amortization (EBITDA) for the most recent four consecutive quarters must be less than 6.00 to 1.00 at December 31, 2002 and 5.75 to 1.00 each quarter thereafter until June 2005. At December 31, 2002, our ratio was 5.13.

– Consolidated Interest Coverage Ratio: EBITDA to consolidated interest expense for the most recent four consecutive quarters must be greater than 2.00 to 1.00. At December 31, 2002, the ratio was 2.54.
– Consolidated Debt to Total Capital Ratio: Consolidated total debt to consolidated total capital for the most recent quarter must be less than 0.65 to 1.00. At December 31, 2002, the ratio was 0.618.

The indentures contain other covenants that impose operational restrictions that are not as burdensome as those listed above and none are based on credit ratings. A violation of the indenture covenants would result in an event of default that would allow the lenders to declare all amounts outstanding immediately due and payable.

Sale of Accounts Receivable

On July 28, 2000, Westar Energy and we entered into an agreement under which we transfer an undivided percentage ownership interest in a revolving pool of our accounts receivable arising from the sale of electricity to a multi-seller conduit administered by an independent financial institution through the use of a special purpose entity (SPE). We account for this transfer as a sale in accordance with SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.” The agreement was amended on July 25, 2002 and is annually renewable upon agreement by all parties. The amendment to the agreement extended the term until July 23, 2003 and limited the amount of the accounts receivable Westar Energy and we had a right to sell during certain periods to $125 million.

Under the terms of the agreement, Westar Energy and we may transfer accounts receivable to the bankruptcy-remote SPE, and the conduit must purchase from the SPE an undivided ownership interest of up to $125 million in those receivables. The SPE has been structured to be legally separate from us, but it is wholly owned by Westar Energy and consolidated by us. The percentage ownership interest in receivables purchased by the conduit may increase or decrease over time, depending on the characteristics of the SPE’s receivables, including delinquency rates and debtor concentrations.

Under the terms of the agreement, the conduit pays the SPE the face amount of the undivided interest at the time of purchase. Subsequent to the initial purchase, additional interests are sold and collections applied by the SPE to the conduit, resulting in an adjustment to the outstanding conduit interest.

We record administrative expense on the undivided interest owned by the conduit, which was $1.3 million for the year ended 2002, $2.5 million for the year ended 2001 and $1.6 million for the year ended 2000. These expenses are included in other income (expense) in our consolidated statements of income.

The outstanding balance of SPE receivables was $48.2 million at December 31, 2002 and $43.3 million at December 31, 2001, which is net of an undivided interest of $110.0 million and $100.0 million, respectively, in receivables sold by the SPE to the conduit. Our retained interest in the SPE’s receivables is reported at fair value and is subordinate to, and provides credit enhancement for, the conduit’s ownership interest in the SPE’s receivables. Our retained interest is available to the conduit to pay any fees or expenses due to the conduit and to absorb all credit losses incurred on any of the SPE’s receivables. The retained interest is included in accounts receivable, net, in our consolidated balance sheets.

A termination event will be triggered under the terms of the agreement if Westar Energy’s or our credit rating ceases to be at least BB- by Standard & Poor’s Ratings Group (S&P) or if the issuer credit rating for Westar Energy ceases to be at least Ba3 by Moody’s Investors Service (Moody’s). If a termination event were to occur, the administrative agent would be required to give notice to us at least five business days prior to a termination of the facility. This notice provision allows for the administrative agent to waive the termination event by not giving notice or, in the event notice is given, allows us to repay the facility.

Refinancings

On May 10, 2002, Westar Energy completed offerings for $365 million of its first mortgage bonds and $400 million of its unsecured senior notes, both of which will be due on May 1, 2007. The first mortgage bonds bear interest at an annual rate of $7\,^7/_8$% and the unsecured senior notes bear interest at an annual rate of $9\,^3/_4$%. Interest on the first mortgage bonds and unsecured senior notes is payable semi-annually on May 1 and November 1 of each year. The net proceeds from these offerings were used to repay outstanding indebtedness of $547 million under

Westar Energy's existing secured bank term loan, provide for the repayment of $100 million of Westar Energy's 7.25% first mortgage bonds due August 15, 2002 together with accrued interest, reduce the outstanding balance on Westar Energy's existing secured revolving credit facility and pay fees and expenses of the transactions. In conjunction with the May 10, 2002 financing, Westar Energy amended its secured revolving credit facility to reduce the total commitment under the facility to $400 million from $500 million and to release another $100 million of Westar Energy's first mortgage bonds from collateral.

On June 6, 2002, Westar Energy entered into a secured credit agreement providing for a $585 million term loan and a $150 million revolving credit facility, each maturing on June 6, 2005, provided that if Westar Energy has not refinanced or provided for the payment of its putable/callable notes due August 15, 2003, or its 6.875% senior unsecured notes due August 1, 2004, at least 60 days prior to either of the respective due dates, the maturity date is the date 60 days prior to either of the respective due dates. All loans under the credit agreement are secured by our first mortgage bonds. The proceeds of the term loan were used to retire an existing $400 million revolving credit facility of Westar Energy with an outstanding principal balance of $380 million, to provide for the repayment at maturity of $135 million principal amount of our first mortgage bonds due December 15, 2003 together with accrued interest, to repurchase approximately $45 million of Westar Energy's outstanding unsecured notes and to pay customary fees and expenses of the transactions.

Capital Structure

Our capital structure at December 31, 2002 and 2001 was as follows:

	2002	2001
Shareholder's equity	67%	61%
Long-term debt, net	33	39
Total	100%	100%

Credit Ratings

S&P, Moody's and Fitch Investors Service (Fitch) are independent credit-rating agencies that rate Westar Energy's and our debt securities. These ratings indicate the agencies' assessment of our ability to pay interest and principal on our securities.

On April 29, 2002, Moody's confirmed Westar Energy's ratings with a negative outlook. On January 29, 2003, Fitch revised our and Westar Energy's Rating Watch status from evolving to negative, but on March 11, 2003, Fitch affirmed its ratings for Westar Energy and us and removed the ratings from Rating Watch Negative. Following the filing of Westar Energy's Debt Reduction Plan with the KCC, S&P affirmed its ratings for Westar Energy and us and removed all ratings from CreditWatch Negative changing such designation to CreditWatch Developing on February 6, 2003.

As of March 14, 2003, ratings with these agencies are as follows:

	Westar Energy Mortgage Bond Rating	Westar Energy Unsecured Debt	KGE Mortgage Bond Rating
S&P	BBB-	BB-	BB+
Moody's	Ba1	Ba2	Ba1
Fitch	BB+	BB-	BB+

In general, declines in Westar Energy's and our credit ratings make debt financing more costly and more difficult to obtain on terms that are economically favorable to us. We do not have any credit rating conditions in any of the agreements under which our debt has been issued, except for conditions in the agreements governing the sale of accounts receivable discussed above.

OTHER INFORMATION

City of Wichita Franchise

Our franchise with the City of Wichita to provide retail electric service is effective through December 1, 2003. We are currently negotiating with the City of Wichita for a long-term franchise agreement. There can be no assurance that we can successfully renegotiate the franchise with terms similar, or as favorable, as those in the current franchise. Under Kansas law, we will continue to have the right to serve the customers in Wichita following the expiration of the franchise. Customers within the Wichita metropolitan area account for approximately 46% of our total energy sales volumes.

Network Integration Transmission Service

Effective January 1, 2002, we began taking Network Integration Transmission Service under the SPP’s Open Access Transmission Tariff. This provides a cost-effective way for us to participate in a broader market of generation resources with the possibility of lower transmission costs. This tariff provides for a zonal rate structure, whereby transmission customers pay a pro rata share, in the form of a reservation charge, for the use of the facilities for each transmission owner that serves them. As a result, the SPP has operational control over our transmission system although we still own our transmission assets and maintain responsibility for dispatching, maintenance and storm restoration.

Currently, all revenues collected within a zone are allocated back to the transmission owner serving the zone. Since we are a transmission provider for our zone and are currently the only transmission customer taking service from that zone, we are currently being assessed 100% of the zonal costs and receiving all of the costs back as revenue, less servicing fees. In 2002, these network integration transmission costs were approximately $32.9 million, and the associated revenues were approximately $30.1 million, for a net expense of approximately $2.8 million. The revenues received are reflected in electric operating revenues, and the related charges are expensed.

Stranded Costs

Stranded costs for a utility business are commitments or investments in, and carrying costs on, property, plant and equipment, and other regulatory assets that exceed the amount that can be recovered in a competitive market. We currently apply accounting standards that recognize the economic effects of rate regulation and record regulatory assets and liabilities related to our operations. If we determine that we no longer meet the criteria of SFAS No. 71, we may have a material non-cash charge to earnings. Reasons for discontinuing SFAS No. 71 accounting treatment include increasing competition that restricts our ability to charge prices needed to recover costs already incurred, a significant change by regulators from a cost-based rate regulation to another form of rate regulation. We periodically review SFAS No. 71 criteria and believe our net regulatory assets, including those related to generation, are probable of future recovery. If we discontinue SFAS No. 71 accounting treatment based upon competitive or other events, such as successful municipalization by areas we serve, the value of our net regulatory assets and our utility plant investments, particularly Wolf Creek, may be significantly impacted.

Regulatory changes could adversely impact our ability to recover our investment in these assets. As of December 31, 2002, we have recorded regulatory assets that are currently subject to recovery in future rates of approximately $231.2 million. Of this amount, $153.2 million is a receivable for income tax benefits previously passed on to customers. The remainder of the regulatory assets are items that may give rise to stranded costs, including coal contract settlement costs, deferred plant costs and debt issuance costs.

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

EPA New Source Review

The Environmental Protection Agency (EPA) is conducting an enforcement initiative at a number of coal-fired power plants in an effort to determine whether modifications at those facilities were subject to New Source

Review requirements or New Source Performance Standards under the Clean Air Act. The EPA has requested information from us under Section 114(a) of the Clean Air Act (Section 114). A Section 114 information request requires us to provide responses to specific EPA questions regarding certain projects and maintenance activities that the EPA believes may have violated the New Source Performance Standard and New Source Review requirements of the Clean Air Act. The EPA contends that power plants are required to update emission controls at the time of major maintenance or capital activity. We believe that maintenance and capital activities performed at our power plants are generally routine in nature and are typical for the industry. We are complying with this information request, but cannot predict the outcome of this investigation at this time. Should the EPA determine to take action, the resulting additional costs to comply could be material. We would expect to seek recovery through rates of any settlement amounts.

The EPA has initiated civil enforcement actions against other unaffiliated utilities as part of its initiative. Settlement agreements entered into in connection with some of these actions have provided for expenditures to be made over extended time periods.

Nuclear Decommissioning

Decommissioning is a nuclear industry term for the permanent shutdown of a nuclear power plant and the removal of radioactive components in accordance with Nuclear Regulatory Commission (NRC) requirements. The NRC will terminate a plant’s license and release the property for unrestricted use when a company has reduced the residual radioactivity of a nuclear plant to a level mandated by the NRC. The NRC requires companies with nuclear plants to prepare formal financial plans to fund decommissioning. These plans are designed so that funds required for decommissioning will be accumulated prior to the termination of the license of the related nuclear power plant.

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

The KCC reviews our decommissioning fund financial plans in two phases. Phase one is the approval of the decommissioning study, the current year dollar amount and the future year dollar amount. Phase two is the filing of a “funding schedule” by the owner of the nuclear facility detailing its plans of how to fund the future year dollar amount for the pro rata share of the plant.

On February 25, 2002, we filed an application with the KCC to modify the funding schedule to reflect an assumed life of Wolf Creek through 2045 (see Note 3 of the Notes to Consolidated Financial Statements, “Rate Matters and Regulation”). This modification was granted on March 8, 2002. The filing reflects the current estimate in 1999 dollars of $221 million, but a future estimate in 2045 through 2054 of $1.28 billion. An updated decommissioning and dismantlement cost estimate was filed with the KCC on August 30, 2002. Costs outlined by this study were developed to decommission Wolf Creek following a shutdown. The analyses relied upon the site-specific, technical information developed in 1999, updated to reflect current plant conditions and operating assumptions. Based on this study, our share of Wolf Creek’s decommissioning costs, under the immediate dismantlement method, is estimated to be approximately $220 million in 2002 dollars. These costs include decontamination, dismantling and site restoration and are not inflated, escalated, or discounted over the period of expenditure. We anticipate a KCC order on the August 2002 decommissioning study in the second quarter of 2003. The actual decommissioning costs may vary from the estimates because of changes in technology and changes in costs for labor, materials and equipment.

We will file a funding schedule to reflect the KCC’s order on the August 2002 decommissioning study by the end of the second quarter of 2003 and anticipate a KCC order on the funding schedule in the third quarter of 2003.

Decommissioning costs are currently being charged to operating expense in accordance with the July 25, 2001 KCC rate order as modified by the KCC’s approval of the March 8, 2002 funding schedule. Electric rates charged to customers provide for recovery of these decommissioning costs over the life of Wolf Creek as determined by the KCC through 2045. The NRC requires that funds to meet its decommissioning funding assurance requirement be in our decommissioning fund by the time our license expires in 2025. We believe that the KCC approved funding level will be sufficient to meet the NRC minimum financial assurance requirement. However, our

results of operations would be materially adversely affected if we are not allowed to recover the full amount of the funding requirement.

Amounts expensed approximated $3.85 million in 2002 and will remain unchanged through 2044, subject to the August 2002 decommissioning cost review and revised funding schedule to be filed in the second quarter of 2003. These amounts are deposited in an external trust fund. The average after-tax expected return on trust assets is 5.56%.

Our investment in the decommissioning fund is recorded at fair value, including reinvested earnings. It approximated $63.5 million at December 31, 2002 and $66.6 million at December 31, 2001. The balance in the trust fund decreased from 2001 to 2002 due to the decline in the market value of equity securities held in the trust. Trust fund earnings accumulate in the fund balance and increase the recorded decommissioning liability.

Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 provides accounting requirements for the recognition and measurement of liabilities associated with the retirement of tangible long-lived assets. Under the standard, these liabilities will be recognized at fair value as incurred and capitalized and depreciated over the appropriate period as part of the cost of the related tangible long-lived assets. The adoption of SFAS No. 143 will not impact income. Any income effects are offset by a regulatory asset created pursuant to SFAS No. 71. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes, written or oral contracts, including obligations arising under the doctrine of promissory estoppel.

We adopted SFAS No. 143 on January 1, 2003, which required us to recognize and estimate the liability for our 47% share of the estimated cost to decommission Wolf Creek. SFAS No. 143 requires the recognition of the present value of the asset retirement obligation we incurred at the time Wolf Creek was placed into service in 1985. On January 1, 2003, we recorded an asset retirement obligation of $74.7 million. In addition, we increased our property and equipment balance, net of accumulated depreciation, by $10.7 million. These amounts were estimated based on the calculation guidelines of SFAS No. 143. We also established a regulatory asset for $64.0 million, which represents the accretion of the liability since 1985 and the increased depreciation expense associated with the increase in plant.

Related Party Transactions

Our cash management function, including cash receipts and disbursements, is performed by Westar Energy. An intercompany account is used to record net receipts and disbursements between KGE and Westar Energy and KGE and WR Receivables Corporation. The net amount payable from affiliates approximated $24.1 million at December 31, 2002 and the net amount receivable from affiliates approximated $17.3 million at December 31, 2001 as reflected in our consolidated balance sheets.

Westar Energy provides all employees we utilize. Certain operating expenses have been allocated to us from Westar Energy. These expenses are allocated, depending on the nature of the expense, based on allocation studies, net investment, number of customers, and/or other appropriate factors. We believe such allocation procedures are reasonable.

During the fourth quarter of 2001, we entered into an option agreement to sell an office building located in downtown Wichita, Kansas, to Protection One, a subsidiary of Westar Industries, which is a wholly owned subsidiary of Westar Energy for approximately $0.5 million. The sales price was determined by management based on three independent appraisers' findings. This transaction was completed during June 2002. We recognized a loss of $2.6 million on this transaction, and we expected to realize annual operating cost savings of approximately $0.9 million. The cost savings will be treated as a regulatory liability in accordance with a March 26, 2002, KCC order. For the year ended December 31, 2002, we recorded $0.5 million in cost savings as a regulatory liability.

Termination of Shared Services Agreement

ONEOK, Inc. (ONEOK), an investment in which Westar Energy presently owns an approximate 27.5% interest, gave Westar Energy notice of termination effective December 2003 of a shared services agreement pursuant

to which Westar Energy and ONEOK provide customer service functions to each other, including meter reading, customer billing and call center operations. Following termination, Westar Energy will allocate to us our portion of the expenses for providing these services internally. We expect termination of this agreement will increase our annual costs for these services by approximately $6 million to $7 million.

Hedging Activity

We use derivative financial and physical instruments to hedge a portion of our anticipated fossil fuel needs. At the time we enter into these transactions, we are unable to determine what the value will be when the agreements are actually settled.

In an effort to mitigate fuel commodity price market risk, Westar Energy and we jointly use hedging arrangements to reduce our exposure to increased coal, natural gas and oil prices. Our future exposure to changes in fossil fuel prices will be dependent upon the market prices and the extent and effectiveness of any hedging arrangements into which we enter.

See Note 5 of the Notes to Consolidated Financial Statements, "Financial Instruments, Energy Trading and Risk Management — Derivative Instruments and Hedge Accounting — Trading Activities" for detailed information regarding hedging relationships we entered into during the third quarter of 2001.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Price Risks

Our hedging and trading activities involve risks, including commodity price risk, interest rate risk and credit risk. Commodity price risk is the risk that changes in commodity prices may impact the price at which we are able to buy and sell electricity and purchase fuels for our generating units. These commodities have experienced price volatility in the past and can be expected to do so in the future. This volatility may increase or decrease future earnings. Interest rate risk is the risk of loss associated with movements in market interest rates. Credit risk is the risk of loss resulting from non-performance by a counterparty of its contractual obligations. We have exposure to credit risk and counterparty default through our retail and system trading activities. We maintain credit policies intended to reduce overall credit risk and actively monitor these policies to reflect changes and scope of operations. We employ additional credit risk control mechanisms when appropriate, such as letters of credit, parental guarantees and standardized master netting agreements from counterparties that allow for some of the offsetting of positive and negative exposures. Credit exposure is monitored and, when necessary, the activity with a specific counterparty is limited until credit enhancement is provided. Results actually achieved from hedging and trading activities could vary materially from intended results and could materially affect our financial results depending on the success of our credit risk management efforts.

Commodity Price Exposure

We are exposed to commodity price changes and use derivatives for non-trading purposes and a mix of various fuel types primarily to reduce exposure relative to the volatility of market and commodity prices. The wholesale power market is extremely volatile in price and supply. This volatility impacts our costs of power purchased and our participation in power trades. If we were unable to generate an adequate supply of electricity for our native load customers, we would purchase power in the wholesale market to the extent it is available or economically feasible to do so and/or implement curtailment or interruption procedures as allowed for in our tariffs and terms and conditions of service.

From 2001 to 2002, we experienced a 22% decrease in the average price per MWh of electricity purchased for utility operations. Purchased power market volatility could be greater than the average price decrease indicates. If we were to have a 10% increase in our purchased power price from 2002 to 2003, given the amount of power purchased for utility operations during 2002, we would have exposure of approximately $0.8 million of operating income. Due to the volatility of the power market, past prices cannot be used to predict future prices.

We use a mix of various fossil fuel types, including coal, natural gas and oil, to operate our system, which helps lessen our risk associated with any one fuel type. A significant portion of our coal requirements are under

long-term contract, which removes most of the price risk associated with this commodity type. During 2002, we experienced an approximate 4% decrease in our average cost for natural gas purchased for utility operations, or a decrease of $0.139 per MMBtu. We decreased our gas usage by 2.0 million MMBtu compared to the amount burned in 2001. Due to the volatility of natural gas prices, we have begun to increase our ability to switch to lower cost fuel types as the market allows. We expect that exposure to natural gas price changes will not be material in 2003 due to our natural gas hedge that has fixed the price of our gas through July 2004.

We use uranium to fuel our nuclear generating station and have on hand or under contract 100% of Wolf Creek's uranium, uranium conversion and uranium enrichment needs for 2003. We have on hand or under contract 76% of the uranium and uranium conversion and 80% of the uranium enrichment required for operation of Wolf Creek through March 2008. The balance is expected to be obtained through spot market and contract purchases, which means we will be exposed to the price risk associated with these components.

Additional factors that affect our commodity price exposure are the quantity and availability of fuel used for generation and the quantity of electricity customers will consume. Quantities of fossil fuel used for generation could vary dramatically from year to year based on the individual fuel's availability, price, deliverability, unit outages and nuclear refueling. Our customers' electricity usage could also vary dramatically year to year based on the weather or other factors.

Interest Rate Exposure

We had approximately $181.4 million of variable rate debt and current maturities of fixed rate debt as of December 31, 2002, of which, $135.0 million has been irrevocably deposited with the bond trustee to provide for the repayment of an obligation. A 100 basis point change in the remainder of each debt series' benchmark rate used to set the rate for such series would impact net income on an annualized basis by approximately $0.3 million after tax.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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SCHEDULES OMITTED

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

I, II, III, IV, and V.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Kansas Gas and Electric Company
Topeka, Kansas

We have audited the accompanying consolidated balance sheets of Kansas Gas and Electric Company (the Company), a wholly-owned subsidiary of Westar Energy, Inc., as of December 31, 2002 and 2001, and the related consolidated statements of income and comprehensive income, shareholder's equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Kansas Gas and Electric Company as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, on January 1, 2001 the Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

DELOITTE & TOUCHE LLP

Kansas City, Missouri
April 15, 2003

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

	As of December 31,	
	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,150	$ 5,564
Restricted cash	145,282	—
Accounts receivable, net	50,738	45,209
Receivable from affiliates	—	17,349
Inventories and supplies	65,555	65,531
Energy trading contracts	11,039	4,887
Deferred tax assets	—	1,002
Prepaid expenses and other	24,158	23,313
Total Current Assets	302,922	162,855
PROPERTY, PLANT AND EQUIPMENT, NET	2,375,645	2,426,875
OTHER ASSETS:		
Regulatory assets	231,222	244,108
Energy trading contracts	4,525	—
Other	92,079	96,206
Total Other Assets	327,826	340,314
TOTAL ASSETS	$ 3,006,393	$ 2,930,044
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 135,000	$ —
Accounts payable	31,182	51,384
Payable to affiliates	24,077	—
Accrued liabilities	66,169	66,642
Energy trading contracts	9,480	9,970
Deferred tax liability	13,470	—
Other	6,929	6,361
Total Current Liabilities	286,307	134,357
LONG-TERM LIABILITIES:		
Long-term debt, net	549,486	684,360
Deferred income taxes and investment tax credits	714,256	726,676
Deferred gain from sale-leaseback	162,638	174,466
Energy trading contracts	2,616	6,130
Other	171,709	155,666
Total Long-Term Liabilities	1,600,705	1,747,298
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
SHAREHOLDER'S EQUITY:		
Common stock, without par value; authorized and issued 1,000 shares	1,065,634	1,065,634
Accumulated other comprehensive income (loss), net	430	(11,023)
Retained earnings (accumulated deficit)	53,317	(6,222)
Total Shareholder's Equity	1,119,381	1,048,389
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 3,006,393	$ 2,930,044

The accompanying notes are an integral part of these consolidated financial statements.

KANSAS GAS AND ELECTRIC COMPANY

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (Dollars in Thousands)

	Year Ended December 31,		
	2002	2001	2000
SALES	$695,524	$631,391	$685,673
COST OF SALES	170,571	165,442	152,355
GROSS PROFIT	524,953	465,949	533,318
OPERATING EXPENSES:			
Operating and maintenance	215,957	194,101	189,456
Depreciation and amortization	93,934	105,136	104,294
Selling, general and administrative	81,249	73,441	62,710
Total Operating Expenses	391,140	372,678	356,460
INCOME FROM OPERATIONS	133,813	93,271	176,858
OTHER EXPENSE, NET	11,400	9,326	7,577
INTEREST EXPENSE:			
Interest expense on long-term debt	43,880	44,277	45,234
Interest expense on short-term debt and other	2,915	3,967	3,364
Total Interest Expense	46,795	48,244	48,598
EARNINGS BEFORE INCOME TAXES	75,618	35,701	120,683
Income tax expense (benefit)	16,079	(1,600)	33,975
NET INCOME BEFORE ACCOUNTING CHANGE	59,539	37,301	86,708
Cumulative effect of accounting change, net of tax of $8,520	—	12,898	—
NET INCOME	$ 59,539	$ 50,199	$ 86,708
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized holding gains (losses) on cash flow hedges arising during the period	$ 17,644	$ (20,064)	$ —
Adjustment for losses included in net income	1,374	1,760	—
Income tax (expense) benefit	(7,565)	7,281	—
Total other comprehensive gain (loss), net of tax	11,453	(11,023)	—
COMPREHENSIVE INCOME	$ 70,992	$ 39,176	$ 86,708

The accompanying notes are an integral part of these consolidated financial statements.

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KANSAS GAS AND ELECTRIC COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Year Ended December 31,		
	2002	2001	2000
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:			
Net income	$ 59,539	$ 50,199	$ 86,708
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change	—	(12,898)	—
Depreciation and amortization	93,934	105,136	104,294
Amortization of nuclear fuel	13,142	16,965	14,971
Amortization of deferred gain from sale-leaseback	(11,828)	(11,828)	(11,828)
Net deferred taxes	(5,513)	(12,001)	(38,525)
Net changes in energy trading assets and liabilities	4,338	14,327	—
Loss on sale of property	1,423	—	—
Changes in working capital items:			
Restricted cash	(10,282)	—	—
Accounts receivable, net	(902)	28,543	31,169
Inventories and supplies	(24)	(19,143)	(209)
Prepaid expenses and other	(846)	(3,102)	(2,997)
Accounts payable	(20,201)	1,599	6,003
Accrued and other current liabilities	95	10,585	(2,222)
Changes in other assets and liabilities	29,313	(22,796)	17,555
Cash flows from operating activities	152,188	145,586	204,919
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:			
Additions to property, plant and equipment, net	(59,232)	(82,751)	(81,805)
Proceeds from disposition of property	1,205	—	—
Cash flows used in investing activities	(58,027)	(82,751)	(81,805)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:			
Funds in trust for debt repayment	(135,000)	—	—
Advances from (to) parent company, net	41,425	35,758	(16,020)
Retirements of long-term debt	—	(130)	(30)
Dividends to parent company	—	(100,000)	(100,000)
Cash flows used in financing activities	(93,575)	(64,372)	(116,050)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	586	(1,537)	7,064
CASH AND CASH EQUIVALENTS:			
Beginning of period	5,564	7,101	37
End of period	$ 6,150	$ 5,564	$ 7,101
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
CASH PAID FOR:			
Interest on financing activities, net of amount capitalized	$ 56,887	$ 46,821	$ 46,812
Income taxes	—	—	22,200

The accompanying notes are an integral part of these consolidated financial statements.

KANSAS GAS AND ELECTRIC COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
(Dollars in Thousands)

	Year Ended December 31,		
	2002	**2001**	**2000**
Common Stock	$1,065,634	$1,065,634	$1,065,634
Accumulated other comprehensive income	430	(11,023)	—
Retained Earnings:			
Beginning balance	(6,222)	43,579	56,871
Net income	59,539	50,199	86,708
Dividends to parent company	—	(100,000)	(100,000)
Ending balance	53,317	(6,222)	43,579
Total Shareholder's Equity	$1,119,381	$1,048,389	$1,109,213

The accompanying notes are an integral part of these consolidated financial statements.

KANSAS GAS AND ELECTRIC COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

1. DESCRIPTION OF OUR BUSINESS

Kansas Gas and Electric Company is a rate-regulated electric utility incorporated in 1990 in the State of Kansas. Unless the context otherwise indicates, all references in this Annual Report on Form 10-K to "the company," "KGE," "we," "us," "our" or similar words are to Kansas Gas and Electric Company. We are a wholly owned subsidiary of Westar Energy, Inc. (Westar Energy) and we provide rate-regulated electric service, together with the electric utility operations of Westar Energy, using the name Westar Energy. We are engaged principally in the generation, purchase, transmission, distribution and sale of electricity in southeastern Kansas, including the Wichita metropolitan area. Our corporate headquarters are located in Wichita, Kansas.

We own 47% of Wolf Creek Nuclear Operating Corporation (WCNOC), the operating company for Wolf Creek Generating Station (Wolf Creek), our nuclear powered generating facility. We record our proportionate share of all transactions of WCNOC as we do other jointly owned facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). Undivided interests in jointly-owned generation facilities are consolidated on a pro rata basis. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Management's Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates on an on-going basis, including those related to bad debts, inventories, depreciation, sales recognition, goodwill, intangible assets, income taxes, decommissioning of Wolf Creek, environmental issues, contingencies and litigation. Actual results may differ from those estimates under different assumptions or conditions.

Regulatory Accounting

We currently apply accounting standards for our regulated utility operations that recognize the economic effects of rate regulation in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," and, accordingly, have recorded regulatory assets and liabilities when required by a regulatory order or based on regulatory precedent.

Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred in the future. We have recorded these regulatory assets and liabilities in accordance with SFAS No. 71. If we were required to terminate application of SFAS No. 71 for all of our regulated operations, we would have to record the amounts of all regulatory assets and liabilities in our consolidated statements of income at that time. Our earnings would be reduced by the net amount calculated from the table below, net of applicable income taxes. Regulatory assets and liabilities reflected in our consolidated balance sheets are as follows:

	As of December 31,	
	2002	2001
	(In Thousands)	
Recoverable income taxes	$ 153,242	$ 174,354
Debt issuance costs	28,316	31,271
Deferred plant costs	29,037	29,499
2002 ice storm costs	9,048	—
Other regulatory assets	11,579	8,984
Total regulatory assets	$ 231,222	$ 244,108
Total regulatory liabilities	$ 4,075	$ 4,247

– **Recoverable income taxes:** Recoverable income taxes represent amounts due from customers for accelerated tax benefits which have been previously flowed through to customers and are expected to be recovered in the future as the accelerated tax benefits reverse. This item will be recovered over the life of the utility plant.

– **Debt issuance costs:** Debt reacquisition expenses are amortized over the remaining term of the reacquired debt or, if refinanced, the term of the new debt. Debt issuance costs are amortized and will be recovered over the term of the associated debt.

– **Deferred plant costs:** Deferred plant costs relate to the Wolf Creek nuclear generating facility. For further information, see "—Depreciation," discussed below.

– **2002 ice storm costs:** Restoration costs associated with an ice storm that occurred in January 2002. See Note 17 for additional information regarding the ice storm.

A return is allowed on coal contract settlement costs (included in "Other regulatory assets" in the table above) and on the 2002 ice storm costs.

Cash and Cash Equivalents

We consider highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

Restricted cash consists of cash irrevocably deposited in trust for debt repayments, to collateralize letters of credit and cash held in escrow, primarily related to supporting our system trading transactions.

Inventories and Supplies

Inventories and supplies are stated at average cost.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. For utility plant, cost includes contracted services, direct labor and materials, indirect charges for engineering and supervision, and an allowance for funds used during construction (AFUDC). AFUDC represents the cost of borrowed funds used to finance construction projects. The AFUDC rate was 6.02% in 2002, 8.57% in 2001 and 7.45% in 2000. The cost of additions to utility plant and replacement units of property is capitalized. Interest capitalized into construction in progress was $1.0 million in 2002, $1.4 million in 2001 and $1.0 million in 2000.

Maintenance costs and replacement of minor items of property are charged to expense as incurred. Incremental costs incurred during scheduled Wolf Creek refueling and maintenance outages are deferred and

amortized monthly over the unit's operating cycle, normally about 18 months. When units of depreciable property are retired, the original cost and removal cost, less salvage value, are charged to accumulated depreciation.

In accordance with regulatory decisions made by the Kansas Corporation Commission (KCC), the acquisition premium of approximately $801 million resulting from Westar Energy's acquisition of KGE in 1992 is being amortized over 40 years through August 2035. The Federal Energy Regulatory Commission (FERC) approved a portion of the acquisition premium to be amortized through March 2019. The acquisition premium is classified as electric plant in service. Accumulated amortization totaled $148.4 million as of December 31, 2002 and $128.3 million as of December 31, 2001.

Depreciation

Utility plant is depreciated on the straight-line method at the lesser of rates set by the KCC or rates based on the estimated remaining useful lives of the assets, which are based on an average annual composite basis using group rates that approximated 2.37% during 2002, 2.80% during 2001 and 2.81% during 2000.

In its rate order of July 25, 2001, the KCC extended the estimated service life for certain of our generating assets, including Wolf Creek and the LaCygne 2 generating station, for regulatory rate making purposes. The estimated retirement date for Wolf Creek was extended from 2025 to 2045, although our operating license for Wolf Creek expires in 2025, and the estimated retirement date for LaCygne 2 was extended to 2032, although the term of our lease for LaCygne 2 expires in 2016. On April 1, 2002, we adopted the new depreciation rates as prescribed in the KCC order. We continue to depreciate Wolf Creek over the term of our operating license, and we continue to depreciate LaCygne 2 over the term of our lease. We have created a regulatory asset, included under "Deferred plant costs" in the above table, for the amount that our depreciation expense exceeds our regulatory depreciation expense.

On an annual basis, our depreciation expense will be reduced by approximately $18.0 million as a result of these extensions. If our generating license for Wolf Creek is not renewed or the term of our lease for LaCygne 2 is not extended, we will need to seek relief from the KCC to recover the remaining cost of these assets.

Depreciable lives of property, plant and equipment are as follows:

Fossil fuel generating facilities	6 to 68 years
Nuclear fuel generating facility	42 to 65 years
Transmission facilities	28 to 65 years
Distribution facilities	19 to 57 years
Other	5 to 55 years

Nuclear Fuel

Our share of the cost of nuclear fuel in process of refinement, conversion, enrichment and fabrication is recorded as an asset in property, plant and equipment on our consolidated balance sheets at original cost and is amortized to cost of sales based upon the quantity of heat produced (MMBtu) for the generation of electricity. The accumulated amortization of nuclear fuel in the reactor was $25.2 million at December 31, 2002 and $35.6 million at December 31, 2001. Spent fuel charged to cost of sales was $17.8 million in 2002, $22.1 million in 2001 and $19.6 million in 2000.

Cash Surrender Value of Life Insurance

The following amounts related to corporate-owned life insurance policies (COLI) are recorded in other long-term assets on our consolidated balance sheets at December 31:

	2002	2001
	(In Millions)	
Cash surrender value of policies (a)	$ 708.4	$ 656.3
Borrowings against policies	(696.2)	(643.1)
COLI, net	$ 12.2	$ 13.2

(a) Cash surrender value of policies as presented represents the value of the policies as of the end of the respective policy years and not as of December 31, 2002 and 2001.

Income is recorded for increases in cash surrender value and net death proceeds. Interest incurred on amounts borrowed is offset against policy income. Income recognized from death proceeds is highly variable from period to period. Death benefits recognized as other income approximated $2.1 million in 2002, $0.3 million in 2001 and $0.2 million in 2000.

Sales Recognition

Energy sales are recognized as delivered and include an estimate for energy delivered but unbilled at the end of each year. Energy trading activities are accounted for under the mark-to-market method of accounting. Under this method, changes in the portfolio value are recognized as gains or losses in the period of change. The net mark-to-market change is included in energy sales in our consolidated statements of income. The resulting unrealized gains and losses are recorded as energy trading assets and liabilities on our consolidated balance sheets.

We primarily use quoted market prices to value our energy trading contracts. When market prices are not readily available or determinable, we use alternative approaches, such as model pricing. The market prices used to value these transactions reflect our best estimate of fair values considering various factors, including closing exchange and over-the-counter quotations, time value and volatility factors underlying the commitments. Results actually achieved from these activities could vary materially from intended results and could unfavorably affect our financial results.

Income Taxes

Our consolidated financial statements use the liability method to reflect income taxes. Deferred tax assets and liabilities are recognized for temporary differences in amounts recorded for financial reporting purposes and their respective tax bases. We amortize deferred investment tax credits over the lives of the related properties.

Cumulative Effect of Accounting Change

Accounting for Derivative Instruments and Hedging Activities

Effective January 1, 2001, we adopted SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS Nos. 137 and 138 (collectively, SFAS No. 133). Westar Energy uses derivative instruments (primarily swaps, options and futures) to manage the commodity price risk inherent in some of our fossil fuel and electricity purchases and sales. We are allocated our proportionate share of the benefits and costs of Westar Energy’s commodity price risk management program based on fuel forecasts for Westar Energy and us. These allocated benefits and costs are recognized in our financial statements. Under SFAS No. 133, all derivative instruments, including our energy trading contracts, are recorded on our consolidated balance sheets as either an asset or liability measured at fair value. Changes in a derivative’s fair value must be recognized currently in earnings unless specific hedge accounting criteria are met, in which case changes are reflected in other comprehensive income. Cash flows from derivative instruments are presented in net cash flows from operating activities.

Derivative instruments used to manage commodity price risk inherent in certain of our fossil fuel and electricity purchases and sales are classified as energy trading contracts on our consolidated balance sheets. Energy trading contracts representing unrealized gain positions are reported as assets; energy trading contracts representing unrealized loss positions are reported as liabilities.

Prior to January 1, 2001, gains and losses on derivatives used for managing commodity price risk were deferred until settlement. These derivatives were not designated as hedges under SFAS No. 133. Accordingly, on

January 1, 2001, we recognized an unrealized gain of $12.9 million, net of $8.5 million of tax. This gain is presented on our consolidated statement of income for 2001 as a cumulative effect of a change in accounting principle.

After January 1, 2001, changes in fair value of all derivative instruments used for managing commodity price risk that are not designated as hedges are recognized in sales as discussed above under "— Sales Recognition." Accounting for derivatives under SFAS No. 133 will increase volatility of our future earnings.

Accounting Changes

Accounting for Energy Trading Contracts

In October 2002, the Financial Accounting Standards Board (FASB), through the Emerging Issues Task Force (EITF), issued Issue No. 02-03, which rescinded Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." As a result, all new contracts that would otherwise have been accounted for under Issue No. 98-10 and that do not fall within the scope of SFAS No. 133 can no longer be marked-to-market and recorded in earnings as of October 25, 2002. We are not affected by this change in accounting principle and are not required to reclassify any of our contracts. EITF Issue No. 02-03 also requires that energy trading contracts and derivatives, whether settled financially or physically, be reported in the income statement on a net basis effective January 1, 2003. We began to classify our energy trading contracts on a net basis during the third quarter of 2002.

On July 1, 2002, we began reporting mark-to-market gains and losses on energy trading contracts on a net basis, whether realized or unrealized, in our consolidated income statements. Prior to July 1, 2002, we reported gains on these contracts in sales and losses in cost of sales in our consolidated income statements. See Note 5 for additional information on the effects of the accounting change.

Consolidation of Variable Interest Entities

In January 2003, the FASB issued Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51." This interpretation provides guidance related to identifying variable interest entities (previously known generally as special purpose entities or SPEs) and determining whether such entities should be consolidated. Certain disclosures are required when FIN No. 46 becomes effective if it is reasonably possible that a company will consolidate or disclose information about a variable interest entity when it initially applies FIN No. 46. This interpretation must be applied immediately to variable interest entities created or obtained after January 31, 2003. For those variable interest entities created or obtained on or before January 31, 2003, we must apply the provisions of FIN No. 46 in the third quarter of 2003. We are currently evaluating the effect of FIN No. 46.

Reclassifications

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

3. RATE MATTERS AND REGULATION

KCC Rate Proceedings

On November 27, 2000, Westar Energy and we filed applications with the KCC for an increase in retail rates. On July 25, 2001, the KCC ordered an annual reduction in our electric rates of $41.2 million.

On August 9, 2001, Westar Energy and we filed petitions with the KCC requesting reconsideration of the July 25, 2001 order. The petitions specifically asked for reconsideration of changes in depreciation, reductions in rate base related to deferred income taxes associated with the acquisition premium and a deferred gain on the sale and leaseback of LaCygne 2 and several other issues. On September 5, 2001, the KCC issued an order denying our motion for reconsideration, which did not change our rate reduction. On November 9, 2001, we filed an appeal of the KCC decisions with the Kansas Court of Appeals in an action captioned "Western Resources, Inc. and Kansas

Gas and Electric Company vs. The State Corporation Commission of the State of Kansas." On March 8, 2002, the Court of Appeals upheld the KCC orders. On April 8, 2002, we filed a petition for review of the decision of the Court of Appeals with the Kansas Supreme Court. Our petition for review was denied on June 12, 2002.

KCC Orders and Debt Reduction and Restructuring Plan

November 8, 2002 KCC Order

On November 8, 2002, the KCC issued an order to Westar Energy addressing its proposed financial plan presented to the KCC on November 6, 2001 and subsequently amended on January 29, 2002. The order contained the following findings and directions:

– The order directed Westar Energy to reverse certain transactions, including reversing certain intercompany accounting entries so certain capital contributions by Westar Energy to Westar Industries are reflected as an intercompany payable owed by Westar Industries to Westar Energy, and reversing all transactions in 2002 recorded as equity investments by Westar Energy in Westar Industries so such transactions are reflected as intercompany payables owed by Westar Industries to Westar Energy.

– The order directed Westar Energy to submit a plan within 90 days for restructuring Westar Energy's organizational structure so that its KPL electric utility business operating as a division of Westar Energy (KPL) is placed in a separate subsidiary. The plan required Westar Energy to include the process for restructuring, an analysis of whether the restructuring is consistent with our present debt indentures and loan agreements, and if not, the necessary amendments to proceed with the restructuring. The restructuring plan was required to be accompanied by an updated cost allocation manual to track costs and investments attributable to Westar Energy's regulated electric utility and non-regulated activities. Following approval of the restructuring plan and the updated cost allocation manual, Westar Energy will be required to provide the KCC with separate quarterly financial statements for us and Westar Energy's other electric utility operations. Westar Energy filed a plan with the KCC on February 6, 2003 as discussed below in "— February 6, 2003 Debt Reduction and Restructuring Plan."

– The order directed Westar Energy to provide a written explanation if the amount of debt secured by utility assets that Westar Energy transfers to the new utility subsidiary exceeds $1.5 billion.

– The order directed Westar Energy to reduce its consolidated debt, to consider certain actions for reducing its consolidated debt, and to provide expert testimony supporting any decision to reject a suggested action. For the two years beginning on the date Westar Energy submits its restructuring plan, it is required to reduce its and our utility debt by at least $100 million annually. The suggested actions include payments of $100 million each year from internally generated cash flow, the issuance of common stock, the sale of ONEOK, Inc. stock, a reduction in, or elimination of, Westar Energy's dividend, and the sale of Protection One.

– The order initiated an investigation into the appropriate type, quantity, structure and regulation of the non-utility businesses with which Westar Energy's utility businesses may be affiliated.

– The order established standstill protections requiring that Westar Energy seek KCC approval before Westar Energy takes certain actions, including making any loan to, investment in or transfer of cash in excess of $100,000 to a non-utility affiliate, entering into any agreement with a non-utility affiliate where the value of goods or services exchanged exceeds $100,000, investing, by Westar Energy or an affiliate, of more than $100,000 in an existing or new non-utility business, transferring any non-cash assets or intellectual property to any non-utility affiliate, issuing any debt, or selling any ONEOK, Inc. stock without complying with the requirements of a July 9, 2002 KCC order. In addition, Westar Energy must charge interest to non-utility affiliates at the incremental cost of their debt on outstanding balances of any existing or future inter-affiliate loans, receivables or other cash advances due Westar Energy. These restrictions apply both to Westar Energy and us.

On November 25, 2002, Westar Energy filed a motion for reconsideration and clarification of some provisions of the order. In response, the KCC issued an order on December 23, 2002 as discussed below.

December 23, 2002 KCC Order

On December 23, 2002, the KCC issued an order modifying the requirements of the November 8, 2002, order concerning creation of a utility-only subsidiary and filing of a financial plan. The order directed that no later than August 1, 2003, KPL be held within a utility-only subsidiary. The consolidated debt for all of Westar Energy's utility businesses, KPL and us, shall not exceed $1.67 billion.

February 6, 2003 Debt Reduction and Restructuring Plan

On February 6, 2003, Westar Energy filed a Debt Reduction and Restructuring Plan (the Debt Reduction Plan) with the KCC outlining Westar Energy's plans for paying down debt and restructuring the company. The Debt Reduction Plan detailed items that have already been accomplished, including, among other things, that:

– Consistent with the KCC's prior orders, Westar Energy has terminated certain agreements and reversed certain intercompany transactions that might have prevented or impeded returning to being a stand-alone electric utility.

– Westar Energy has sold a portion of its ONEOK stock and raised $300 million, the net proceeds of which Westar Energy anticipates using to repurchase or provide for the repayment of all of its 6.25% senior unsecured notes that have a final maturity of August 15, 2018 and are putable and callable on August 15, 2003 (the putable/callable notes) and a portion of its 6.875% senior unsecured notes.

– Westar Energy's board of directors has established a dividend policy that reduced Westar Energy's quarterly common dividend by 37% to a dividend rate of $0.19 per share for the first quarter of 2003.

In addition, the Debt Reduction Plan calls for:

– The sale of Protection One Europe, a wholly owned subsidiary of Westar Industries.

– The sale of Westar Industries' interest in Protection One.

– The sale of all of Westar Industries' remaining shares of ONEOK preferred and common stock. Westar Energy anticipates that all remaining ONEOK securities will be liquidated by year-end 2004.

– The sale of Westar Energy's other non-core and non-utility assets. Westar Energy intends to dispose of these assets in an orderly fashion. While not expected to be significant in the Debt Reduction Plan, Westar Energy expects net proceeds from these dispositions will also be used for Westar Energy debt reduction.

– The potential issuance of Westar Energy equity securities in the second half of 2004, if needed to further reduce debt, following the disposition of all material non-utility and non-core assets.

February 10, 2003 KCC Order

On February 10, 2003, the KCC issued an order granting limited reconsideration of its December 23, 2002 order. The KCC stayed the requirement of the December 23, 2002 order that Westar Energy form a utility-only subsidiary. The KCC also stated that the Debt Reduction Plan appears to make a good-faith effort to address the concerns expressed in the KCC's prior orders and that the KCC needed additional time to review the Debt Reduction Plan prior to addressing other issues raised in Westar Energy's petition for reconsideration of the December 23, 2002 order.

The KCC staff and other parties to the KCC docket considering the Debt Reduction Plan have filed comments on the Debt Reduction Plan. The KCC has not yet established a procedural schedule for considering the Debt Reduction Plan and the related comments. Westar Energy is unable to predict what action the KCC will take with respect to the Debt Reduction Plan.

4. ACCOUNTS RECEIVABLE

Our accounts receivable on our consolidated balance sheets are comprised as follows:

	As of December 31,	
	2002	2001
	(In Thousands)	
Gross accounts receivable	$ 137,751	$ 122,400
Unbilled energy receivables	22,987	22,809
Accounts receivable sale program	(110,000)	(100,000)
Accounts receivable, net	$ 50,738	$ 45,209

On July 28, 2000, Westar Energy and we entered into an agreement under which we transfer an undivided percentage ownership interest in a revolving pool of our accounts receivable arising from the sale of electricity to a multi-seller conduit administered by an independent financial institution through the use of a special purpose entity (SPE). We account for this transfer as a sale in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." The agreement was amended on July 25, 2002, and is annually renewable upon agreement by all parties. The amendment to the agreement extended the term until July 23, 2003 and limited the amount of the accounts receivable Westar Energy and we had a right to sell during certain periods to $125 million.

Under the terms of the agreement, Westar Energy and we may transfer accounts receivable to the bankruptcy-remote SPE, and the conduit must purchase from the SPE an undivided ownership interest of up to $125 million in those receivables. The SPE has been structured to be legally separate from us, but it is wholly owned by Westar Energy and consolidated by us. The percentage ownership interest in receivables purchased by the conduit may increase or decrease over time, depending on the characteristics of the SPE's receivables, including delinquency rates and debtor concentrations.

Under the terms of the agreement, the conduit pays the SPE the face amount of the undivided interest at the time of purchase. Subsequent to the initial purchase, additional interests are sold and collections applied by the SPE to the conduit, resulting in an adjustment to the outstanding conduit interest.

We record administrative expense on the undivided interest owned by the conduit, which was $1.3 million for the year ended 2002, $2.5 million for the year ended 2001, and $1.6 million for the year ended 2000. These expenses are included in other income (expense) in our consolidated statements of income.

The outstanding balance of SPE receivables was $48.2 million at December 31, 2002 and $43.3 million at December 31, 2001, which is net of an undivided interest of $110.0 million and $100.0 million, respectively, in receivables sold by the SPE to the conduit. Our retained interest in the SPE's receivables is reported at fair value and is subordinate to, and provides credit enhancement for, the conduit's ownership interest in the SPE's receivables. Our retained interest is available to the conduit to pay any fees or expenses due to the conduit, and to absorb all credit losses incurred on any of the SPE's receivables. The retained interest is included in accounts receivable, net, in our consolidated balance sheets.

A termination event will be triggered under the terms of the agreement if Westar Energy's or our credit rating ceases to be at least BB- by Standard & Poor's Ratings Group or if the issuer credit rating for Westar Energy ceases to be at least Ba3 by Moody's Investors Service. If a termination event were to occur, the administrative agent would be required to give notice to us at least five business days prior to a termination of the facility. This notice provision allows for the administrative agent to waive the termination event by not giving notice or, in the event notice is given, allows us to repay the facility.

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5. FINANCIAL INSTRUMENTS, ENERGY TRADING AND RISK MANAGEMENT

Values of Financial Instruments

The carrying values and estimated fair values of our financial instruments are as follows:

	Carrying Value		Fair Value	
	As of December 31,			
	2002	2001	2002	2001
	(In Thousands)			
Fixed-rate debt (a)	$ 505,993	$ 640,993	$ 510,389	$ 639,148

(a) Fair value is estimated based on quoted market prices for the same or similar issues or on the current rates offered for instruments of the same remaining maturities and redemption provisions.

The recorded amounts of accounts receivable and other current financial instruments approximate fair value. Cash and cash equivalents, short-term borrowings and variable-rate debt are carried at cost, which approximates fair value and are not included in the table above.

The fair value estimates presented herein are based on information available at December 31, 2002 and 2001. These fair value estimates have not been comprehensively revalued for the purpose of these consolidated financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

Derivative Instruments and Hedge Accounting

Our operations are exposed to market risks from changes in commodity prices and interest rates that could affect our results of operations and financial condition. We manage our exposure to these market risks through our regular operating and financing activities and, when deemed appropriate, hedge a portion of these risks through the use of derivative financial instruments. We use the term hedge to mean a strategy designed to manage risks of volatility in prices or rate movements on some assets, liabilities or anticipated transactions by creating a relationship in which gains or losses on derivative instruments are expected to counterbalance the losses or gains on the assets, liabilities or anticipated transactions exposed to such market risks. We use derivative instruments as risk management tools consistent with our business plans and prudent business practices and for energy trading purposes.

Westar Energy and we jointly use derivative financial and physical instruments primarily to manage risk as it relates to changes in the prices of commodities including natural gas, oil, coal and electricity. Certain derivative instruments are used for trading purposes in order to take advantage of favorable price movements and market timing activities in the wholesale power and fossil fuel markets. Derivative instruments used to manage commodity price risk inherent in fossil fuel and electricity purchases and sales are classified as energy trading contracts on our consolidated balance sheets. Energy trading contracts representing unrealized gain positions are reported as assets; energy trading contracts representing unrealized loss positions are reported as liabilities.

Energy Trading Activities

We engage in both financial and physical trading to manage our commodity price risk. We trade electricity, coal, natural gas and oil. We use a variety of financial instruments, including forward contracts, options and swaps and trade energy commodity contracts daily. We also use hedging techniques to manage overall fuel expenditures. We procure physical product under fixed price agreements and spot market transactions.

Within the trading portfolio, we take certain positions to hedge a portion of physical sale or purchase contracts and we take certain positions to take advantage of market trends and conditions. Changes in value are reflected in our consolidated statements of income. We believe financial instruments help us manage our contractual commitments, reduce our exposure to changes in cash market prices and take advantage of selected market opportunities. We refer to these transactions as energy trading activities.

We are involved in trading activities primarily to reduce risk from market fluctuations, capitalize on our market knowledge and enhance system reliability. Net open positions exist, or are established, due to the origination of new transactions and our assessment of, and response to, changing market conditions. To the extent we have open positions, we are exposed to the risk that changing market prices could have a material, adverse impact on our financial position or results of operations.

We have considered a number of risks and costs associated with the future contractual commitments included in our energy portfolio. These risks include credit risks associated with the financial condition of counterparties, product location (basis) differentials and other risks. Declines in the creditworthiness of our counterparties could have a material adverse impact on our overall exposure to credit risk. We maintain credit policies with regard to our counterparties that, in management's view, reduce overall credit risk.

We are also exposed to commodity price changes outside of trading activities. We use derivatives for non-trading purposes and a mix of various fuel types primarily to reduce exposure relative to the volatility of market and commodity prices. The wholesale power market is extremely volatile in price and supply. This volatility impacts our costs of power purchased and our participation in power trades. If we were unable to generate an adequate supply of electricity for our native load customers, we would purchase power in the wholesale market to the extent it is available or economically feasible to do so and/or implement curtailment or interruption procedures as allowed for in our tariffs and terms and conditions of service. Due to the volatility of power market and gas prices, past prices cannot be used to predict future prices.

We use a mix of various fossil fuel types, including coal, natural gas and oil, to operate our system, which helps lessen our risk associated with any one fuel type. A significant portion of our coal requirements are under long-term contract, which removes most of the price risk associated with this commodity type. Due to the volatility of natural gas prices, we have begun to increasingly utilize our ability to switch to lower cost fuel types as the market allows.

Additional factors that affect our commodity price exposure are the quantity and availability of fuel used for generation and the quantity of electricity customers will consume. Quantities of fossil fuel used for generation could vary dramatically year to year based on the particular fuel's availability, price, deliverability, unit outages and nuclear refueling. Our customers' electricity usage could also vary dramatically year to year based on weather or other factors.

Although we generally attempt to balance our physical and financial contracts in terms of quantities and contract performance, net open positions typically exist. We will at times create a net open position or allow a net open position to continue when we believe that future price movements will increase the portfolio's value. To the extent we have an open position, we are exposed to changing market prices that could have a material adverse impact on our financial position or results of operations.

The prices we use to value price risk management activities reflect our estimate of fair values considering various factors, including closing exchange and over-the-counter quotations, time value of money and price volatility factors underlying the commitments. We adjust prices to reflect the potential impact of liquidating our position in an orderly manner over a reasonable period of time under present market conditions. We consider a number of risks and costs associated with the future contractual commitments included in our energy portfolio, including credit risks associated with the financial condition of counterparties and the time value of money. We continuously monitor the portfolio and value it daily based on present market conditions.

Future changes in our creditworthiness and the creditworthiness of our counterparties may change the value of our portfolio. We adjust the value of contracts and set dollar limits with counterparties based on our assessment of their credit quality.

Westar Energy and we jointly use derivative financial instruments to reduce our exposure to certain fluctuations in some commodity prices, interest rates, and other market risks. When we enter into a financial instrument, we formally designate and document the instrument as a hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transaction. Because of the high degree of correlation between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the value or cash flows of the underlying exposures being hedged.

We record derivatives used for hedging commodity price risk in our consolidated balance sheets at fair value as energy trading contracts. The effective portion of the gain or loss on a derivative instrument designated as a cash flow hedge is reported as a component of accumulated other comprehensive income (loss). This amount is reclassified into earnings in the period during which the hedged transaction affects earnings. Effectiveness is the degree to which gains and losses on the hedging instruments offset the gains and losses on the hedged item. The ineffective portion of the hedging relationship is recognized currently in earnings.

The fair values of derivatives used to hedge or modify our risks fluctuate over time. These fair value amounts should not be viewed in isolation, but rather in relation to the fair values or cash flows of the underlying hedged transactions and the overall reduction in our risk relating to adverse fluctuations in interest rates, commodity prices and other market factors. In addition, the net income effect resulting from our derivative instruments is recorded in the same line item within our consolidated statements of income as the underlying exposure being hedged. We also formally assess, both at the inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposures. Any ineffective portion of a financial instrument’s change in fair value is immediately recognized in net income.

Hedging Activities

During the third quarter of 2001, Westar Energy entered into hedging relationships to manage commodity price risk associated with future natural gas purchases in order to protect us and our customers from adverse price fluctuations in the natural gas market. Initially, Westar Energy entered into futures and swap contracts with terms extending through July 2004 to hedge price risk for a portion of anticipated natural gas fuel requirements for generation facilities. Westar Energy has designated these hedging relationships as cash flow hedges in accordance with SFAS No. 133.

In 2002, due to the increased availability of coal units and because we began burning more oil as use of oil became more economically favorable than gas, we did not burn our forecasted amount of natural gas. In September 2002, we determined that we had over-hedged approximately 8,280,000 MMBtu for the remaining period of the hedge. As a result of the discontinuance of this portion of the cash flow hedge, we recognized a gain in earnings of $2.8 million. We are currently forecasting that we need a notional volume of 4,830,000 MMBtu for the remainder of the hedged period through July 2004.

The following table summarizes the effects our natural gas hedges had on our financial position and results of operations for the year ended December 31, 2002:

	Natural gas Hedges (a)
	(Dollars in Thousands)
Fair value of derivative instruments:	
Current	$ 2,467
Long-term	1,018
Total	$ 3,485
Change in amounts in accumulated other comprehensive income	$ 17,644
Adjustment for losses included in net income	1,374
Change in estimated income tax expense (benefit)	(7,565)
Net Comprehensive (Gain) Loss	$ 11,453
Anticipated reclassifications to earnings in the next 12 months (b)	$ 2,467
Duration of hedge designation as of December 31, 2002	19 months

(a) Natural gas hedge assets and liabilities are classified in the balance sheet as energy trading contracts. Due to the volatility of gas commodity prices, it is probable that gas prices will increase and decrease over the remaining 19 months that these relationships are in place.

(b) The actual amounts that will be reclassified to earnings could vary materially from this estimated amount due to changes in market conditions.

Fair Value of Energy Trading Contracts

The tables below show fair value of energy trading contracts outstanding for the year ended December 31, 2002, their sources and maturity periods:

	Fair Value of Contracts
	(In Thousands)
Net fair value of contracts outstanding at the beginning of the period	$ (11,213)
Less contracts realized or otherwise settled during the period	46
Plus fair value of new contracts entered into during the period	14,727
Fair value of contracts outstanding at the end of the period	$ 3,468

These contracts were valued through market exchanges and, where necessary, broker quotes and industry publications. The sources of the fair values of the financial instruments related to these contracts are summarized in the following table:

	Fair Value of Contracts at End of Period				
Sources of Fair Value	Total Fair Value	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years
			(In Thousands)		
Prices actively quoted (futures)	$ 3,289	$ (298)	$ 3,587	$ —	$ —
Prices provided by other external sources (swaps and forwards)	2,406	3,397	(991)	—	—
Prices based on the Black Option Pricing model (options and other) (a)	(2,227)	(1,540)	(687)	—	—
Total fair value of contracts outstanding	$ 3,468	$ 1,559	$ 1,909	$ —	$ —

(a) The Black Option Pricing model is a variant of the Black-Scholes Option Pricing model.

Effects of Accounting Changes — Accounting for Energy Trading Contracts

In October 2002, the FASB, through the EITF, issued Issue No. 02-03, which rescinded Issue No. 98-10, “Accounting for Contracts Involved in Energy Trading and Risk Management Activities.” As a result, all new contracts that would otherwise have been accounted for under Issue No. 98-10 and that do not fall within the scope

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of SFAS No. 133 can no longer be marked-to-market and recorded in earnings as of October 25, 2002. We are not affected by this change in accounting principle and are not required to reclassify any of our contracts. EITF Issue No. 02-03 also requires that energy trading contracts and derivatives, whether settled financially or physically, be reported in the income statement on a net basis effective January 1, 2003. We began to classify our energy trading contracts on a net basis during the third quarter of 2002.

On July 1, 2002, we began reporting mark-to-market gains and losses on energy trading contracts on a net basis, whether realized or unrealized, in our consolidated income statements. Prior to July 1, 2002, we reported gains on these contracts in sales and losses in cost of sales in our consolidated income statements. The changes are reflected in our consolidated financial statements for the year ended December 31, 2002. Prior periods shown in our consolidated financial statements have been reclassified to reflect the effect of this change and to be comparable as required by GAAP. As a result of the net presentation, we expect reductions in our energy revenues and expenses from those reported in prior periods, which will not affect gross profit or net income. A summary of the effects of this change for the years ended December 31, 2002, 2001 and 2000 is as follows:

Changes to Income Statements

	Year Ended December 31,					
	2002		2001		2000	
	Prior to Reclassifications for Net Presentation	After Reclassifications for Net Presentation	Prior to Reclassifications for Net Presentation	After Reclassifications for Net Presentation	Prior to Reclassifications for Net Presentation	After Reclassifications for Net Presentation
	(In Thousands)					
Energy sales	$ 740,028	$ 695,524	$ 630,289	$ 631,391	$ 703,990	$ 685,673
Energy cost of sales	215,075	170,571	164,340	165,442	170,672	152,355
Energy gross profit	$ 524,953	$ 524,953	$ 465,949	$ 465,949	$ 533,318	$ 533,318

6. PROPERTY, PLANT AND EQUIPMENT

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

	2002	2001
	(In Thousands)	
Electric plant in service	$ 3,771,694	$ 3,738,912
Less — Accumulated depreciation	1,435,863	1,373,161
	2,335,831	2,365,751
Construction work in progress	18,050	27,171
Nuclear fuel, net	21,694	33,883
Net utility plant	2,375,575	2,426,805
Non-utility plant in service, net	70	70
Net property, plant and equipment	$ 2,375,645	$ 2,426,875

Depreciation expense on property, plant and equipment was $73.8 million in 2002, $85.0 million in 2001 and $84.2 million in 2000.

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7. JOINT OWNERSHIP OF UTILITY PLANTS

		Our Ownership at December 31, 2002					
		In-Service Dates		Investment	Accumulated Depreciation	Net MW	Ownership Percent
				(Dollars in Thousands)			
LaCygne 1	(a)	June	1973	$ 191,709	$116,658	344.0	50
Jeffrey 1	(b)	July	1978	73,373	36,251	147.0	20
Jeffrey 2	(b)	May	1980	72,913	32,757	146.0	20
Jeffrey 3	(b)	May	1983	102,067	48,431	149.0	20
Jeffrey wind 1	(b)	May	1999	208	32	0.2	20
Jeffrey wind 2	(b)	May	1999	207	31	0.2	20
Wolf Creek	(c)	Sept.	1985	1,387,071	545,828	548.0	47

(a) Jointly owned with Kansas City Power and Light Company (KCPL)
(b) Jointly owned with Aquila, Inc. and Westar Energy
(c) Jointly owned with KCPL and Kansas Electric Power Cooperative, Inc.

Amounts and capacity presented above represent our share. Our share of operating expenses of the plants in service above, as well as such expenses for a 50% undivided interest in LaCygne 2 (representing 337 megawatt (MW) capacity) sold and leased back to us in 1987, are included in operating expenses on our consolidated statements of income. Our share of other transactions associated with the plants is included in the appropriate classification in our consolidated financial statements.

8. SHORT-TERM BORROWINGS

We had no short-term borrowings outstanding at December 31, 2002 and 2001.

Our short-term liquidity needs are met from cash advances by Westar Energy. Westar Energy obtains funds from borrowings under its credit facilities.

Westar Energy has an arrangement with certain banks to provide a revolving credit facility on a committed basis totaling $150 million. The facility is secured by our first mortgage bonds and matures on June 6, 2005, provided that if Westar Energy has not refinanced or provided for the payment of its putable/callable notes due August 15, 2003, or its 6.875% senior unsecured notes due August 1, 2004, at least 60 days prior to either of the respective due dates, the maturity date is 60 days prior to either of the respective due dates. As of December 31, 2002, borrowings on the revolving credit facility were $1.0 million, leaving $149 million remaining capacity under this facility. See Note 9 for a discussion of covenants applicable to Westar Energy's credit facilities.

Westar Energy also had arrangements with certain banks to provide unsecured short-term lines of credit on a committed basis totaling approximately $7.0 million through December 31, 2002. These lines of credit were canceled on December 31, 2002.

Our interest expense on short-term debt was $2.9 million in 2002, $4.0 million in 2001 and $3.4 million in 2000.

9. LONG-TERM DEBT

The amount of our first mortgage bonds authorized by our Mortgage and Deed of Trust (Mortgage) dated April 1, 1940, as supplemented, is limited to a maximum of $2 billion. Amounts of additional bonds that may be issued are subject to property, earnings, and certain restrictive provisions of the Mortgage. Electric plant is subject to the lien of the Mortgage except for transportation equipment. As of December 31, 2002, approximately $302.5 million principal amount of additional first mortgage bonds could be issued under the most restrictive provisions in the mortgage.

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Long-term debt outstanding is as follows:

	December 31, 2002	December 31, 2001
	(In Thousands)	
KGE		
First mortgage bond series:		
7.60% due 2003 (a)	$135,000	$135,000
6 1/2% due 2005	65,000	65,000
6.20% due 2006	100,000	100,000
	300,000	300,000
Pollution control bond series:		
5.10% due 2023	13,493	13,493
Variable due 2027, 1.31% at December 31, 2002	21,940	21,940
7.0% due 2031	327,500	327,500
Variable due 2032, 1.199% at December 31, 2002	14,500	14,500
Variable due 2032, 1.3% at December 31, 2002	10,000	10,000
	387,433	387,433
Less:		
Unamortized debt discount (b)	2,947	3,073
Long-term debt due within one year (a)	135,000	—
Long-term debt, net	$549,486	$684,360

(a) Includes $135 million in debt for which funds have been irrevocably deposited with the bond trustee to provide for repayment of this obligation.

(b) Debt discount is being amortized over the remaining lives of each respective issue.

Debt Covenants

Westar Energy’s debt financing agreements require, among other restrictions, that it satisfy certain financial covenants. These debt instruments contain restrictions based on EBITDA. The definition of EBITDA varies among the various indentures. EBITDA is generally derived by adding to income (loss) before income taxes, the sum of interest expense and depreciation and amortization expense. A violation of these restrictions would result in an event of default that would allow the lenders to declare all amounts outstanding immediately due and payable. Westar Energy is in compliance with these covenants. The most restrictive of these covenants in Westar Energy’s debt instruments are as follows:

– Consolidated Leverage Ratio: Consolidated total debt to earnings before interest, taxes, depreciation and amortization (EBITDA) for the most recent four consecutive quarters must be less than 6.00 to 1.00 at December 31, 2002 and 5.75 to 1.00 each quarter thereafter until June 2005. At December 31, 2002, the ratio was 5.13.

– Consolidated Interest Coverage Ratio: EBITDA to consolidated interest expense for the most recent four consecutive quarters must be greater than 2.00 to 1.00. At December 31, 2002, the ratio was 2.54.

– Consolidated Debt to Total Capital Ratio: Consolidated total debt to consolidated total capital for the most recent quarter must be less than 0.65 to 1.00. At December 31, 2002, the ratio was 0.618.

Maturities

Maturities of long-term debt as of December 31, 2002 are as follows:

As of December 31,	Principal Amount (In Thousands)
2003 (a)	$ 135,000
2004	—
2005	65,000
2006	100,000
2007	—
Thereafter	384,486
	$ 684,486

(a) Includes $135 million in debt for which funds have been irrevocably deposited with the bond trustee to provide for repayment of an obligation.

In addition, Westar Energy is required by a KCC order to reduce its and our utility debt by at least $100 million annually in each of the next two years.

Our interest expense on long-term debt was $43.9 million in 2002, $44.3 million in 2001 and $45.2 million in 2000.

10. DEBT FINANCINGS

On May 10, 2002, Westar Energy completed offerings for $365 million of its first mortgage bonds and $400 million of its unsecured senior notes, both of which will be due on May 1, 2007. The first mortgage bonds bear interest at an annual rate of 7 7/8% and the unsecured senior notes bear interest at an annual rate of 9 3/4%. Interest on the first mortgage bonds and unsecured senior notes is payable semi-annually on May 1 and November 1 of each year. The net proceeds from these offerings were used to repay outstanding indebtedness of $547 million under Westar Energy’s existing secured bank term loan, provide for the repayment of $100 million of Westar Energy’s 7.25% first mortgage bonds due August 15, 2002 together with accrued interest, reduce the outstanding balance on Westar Energy’s existing secured revolving credit facility and pay fees and expenses of the transactions. In conjunction with the May 10, 2002 financing, Westar Energy amended its secured revolving credit facility to reduce the total commitment under the facility to $400 million from $500 million and to release another $100 million of Westar Energy’s first mortgage bonds from collateral.

On June 6, 2002, Westar Energy entered into a secured credit agreement providing for a $585 million term loan and a $150 million revolving credit facility, each maturing on June 6, 2005, provided that if Westar Energy has not refinanced or provided for the payment of its putable/callable notes due August 15, 2003, or its 6.875% senior unsecured notes due August 1, 2004, at least 60 days prior to either of the respective due dates, the maturity date is the date 60 days prior to either of the respective due dates. All loans under the credit agreement are secured by our first mortgage bonds. The proceeds of the term loan were used to retire an existing $400 million revolving credit facility of Westar Energy with an outstanding principal balance of $380 million, to provide for the repayment at maturity of $135 million principal amount of our first mortgage bonds due December 15, 2003 together with accrued interest, to repurchase approximately $45 million of Westar Energy’s outstanding unsecured notes and to pay customary fees and expenses of the transactions.

We will continue to report as outstanding debt on our consolidated balance sheet the $135 million principal amount of our first mortgage bonds due December 15, 2003, until the funds that have been irrevocably deposited with the trustee are used to retire such bonds at maturity. The cash deposited with the trustee is included in our consolidated balance sheet as part of restricted cash and can only be used for the purpose of repaying this indebtedness and related interest.

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11. INCOME TAXES

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

	2002	2001	2000
		(In Thousands)	
Current income taxes:			
Federal	$ (1,994)	$ 26,373	$38,754
State	(404)	6,098	9,683
Deferred income taxes:			
Federal	16,439	(20,376)	(9,837)
State	4,170	(2,323)	(1,388)
Investment tax credit amortization	(2,132)	(2,852)	(3,237)
Total	16,079	6,920	33,975
Less taxes classified in:			
Cumulative effect of accounting change	—	8,520	—
Total income tax expense (benefit)	$16,079	$ (1,600)	$33,975

Temporary differences related to deferred tax assets and deferred tax liabilities are summarized in the following table.

	December 31,	
	2002	2001
	(In Thousands)	
Deferred tax assets:		
Deferred gain on sale-leaseback	$ 71,609	$ 76,806
Disallowed plant costs	15,587	16,650
General business credit carryforward	7,779	7,741
Accrued liabilities	4,469	6,606
Other	26,443	25,914
Total deferred tax assets	$125,887	$133,717
Deferred tax liabilities:		
Accelerated depreciation	$384,355	$361,945
Acquisition premium	258,582	266,580
Deferred future income taxes	153,242	174,354
Investment tax credits	51,252	53,908
Other	6,182	2,604
Total deferred tax liabilities	$853,613	$859,391

Deferred tax assets and liabilities are reflected on our consolidated balance sheets as follows:

	December 31,	
	2002	2001
	(In Thousands)	
Current deferred tax assets, net	$ —	$ 1,002
Current deferred tax liabilities, net	13,470	—
Non-current deferred tax liabilities, net	714,256	726,676
Net deferred tax liabilities	$727,726	$725,674

In accordance with various rate orders, we have not yet collected through rates certain accelerated tax deductions, which have been passed on to customers. We believe it is probable that the net future increases in income taxes payable will be recovered from customers. We have recorded a regulatory asset for these amounts. These assets are also a temporary difference for which deferred income tax liabilities have been provided. This liability is classified above as deferred future income taxes.

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

	For the Year Ended December 31,		
	2002	2001	2000
Effective income tax rate	21%	(4)%	28%
Effect of:			
State income taxes	(3)	(4)	(4)
Amortization of investment tax credits	3	8	3
Corporate-owned life insurance policies	16	35	9
Accelerated depreciation flow through and amortization	(2)	(10)	(4)
Other	—	10	3
Statutory federal income tax rate	35%	35%	35%

12. COMMITMENTS AND CONTINGENCIES

City of Wichita Franchise

Our franchise with the City of Wichita to provide retail electric service is effective through December 1, 2003. We are currently negotiating with the City of Wichita for a long-term franchise agreement. There can be no assurance that we can successfully renegotiate the franchise with terms similar, or as favorable, as those in the current franchise. Under Kansas law, we will continue to have the right to serve the customers in Wichita following the expiration of the franchise. Customers within the Wichita metropolitan area account for approximately 46% of our total energy sales volumes.

Purchase Orders and Contracts

As part of our ongoing operations and construction program, we have purchase orders and contracts, excluding fuel (which is discussed below under "— Fuel Commitments,") that have an unexpended balance of approximately $16.0 million at December 31, 2002, all of which has been committed. These commitments relate to purchase obligations issued and outstanding at year-end.

The aggregate amount of required payments at December 31, 2002 is as follows:

	Committed Amount
	(In Thousands)
2003	$ 14,307
2004	1,374
2005	271
2006	3
Total	$ 15,955

Clean Air Act

We must comply with the provisions of The Clean Air Act Amendments of 1990 that require a two-phase reduction in certain emissions. We have installed continuous monitoring and reporting equipment to meet the acid rain requirements. Material capital expenditures have not been required to meet Phase II sulfur dioxide and nitrogen oxide requirements. We may purchase SO2 allowances as necessary to meet these requirements.

Manufactured Gas Sites

We have been associated with three former manufactured gas sites located in Kansas that may contain coal tar and other potentially harmful materials. We and the Kansas Department of Health and Environment (KDHE) entered into a consent agreement governing all future work at these sites. The terms of the consent agreement will allow us to investigate these sites and set remediation priorities based on the results of the investigations and risk analysis. At December 31, 2002, the costs incurred for preliminary site investigation and risk assessment have been minimal.

EPA New Source Review

The Environmental Protection Agency (EPA) is conducting an enforcement initiative at a number of coal-fired power plants in an effort to determine whether modifications at those facilities were subject to New Source Review requirements or New Source Performance Standards under the Clean Air Act. The EPA has requested information from us under Section 114(a) of the Clean Air Act (Section 114). A Section 114 information request requires us to provide responses to specific EPA questions regarding certain projects and maintenance activities that the EPA believes may have violated the New Source Performance Standard and New Source Review requirements of the Clean Air Act. The EPA contends that power plants are required to update emission controls at the time of major maintenance or capital activity. We believe that maintenance and capital activities performed at our power plants are generally routine in nature and are typical for the industry. We are complying with this information request, but cannot predict the outcome of this investigation at this time. Should the EPA determine to take action, the resulting additional costs to comply could be material. We would expect to seek recovery through rates of any settlement amounts.

The EPA has initiated civil enforcement actions against other unaffiliated utilities as part of its initiative. Settlement agreements entered into in connection with some of these actions have provided for expenditures to be made over extended time periods.

Nuclear Decommissioning

Decommissioning is a nuclear industry term for the permanent shutdown of a nuclear power plant and the removal of radioactive components in accordance with Nuclear Regulatory Commission (NRC) requirements. The NRC will terminate a plant’s license and release the property for unrestricted use when a company has reduced the residual radioactivity of a nuclear plant to a level mandated by the NRC. The NRC requires companies with nuclear plants to prepare formal financial plans to fund decommissioning. These plans are designed so that funds required for decommissioning will be accumulated prior to the termination of the license of the related nuclear power plant.

We accrue decommissioning costs over the expected life of the Wolf Creek generating facility. The accrual is based on estimated unrecovered decommissioning costs, which consider inflation over the remaining estimated life

of the generating facility and are net of expected earnings on amounts recovered from customers and deposited in an external trust fund.

The KCC reviews our decommissioning fund financial plans in two phases. Phase one is the approval of the decommissioning study, the current year dollar amount and the future year dollar amount. Phase two is the filing of a "funding schedule" by the owner of the nuclear facility detailing its plans of how to fund the future year dollar amount for the pro rata share of the plant.

On February 25, 2002, we filed an application with the KCC to modify the funding schedule to reflect an assumed life of Wolf Creek through 2045 (see Note 3). This modification was granted on March 8, 2002. The filing reflects the current estimate in 1999 dollars of $221 million, but a future estimate in 2045 through 2054 of $1.28 billion. An updated decommissioning and dismantlement cost estimate was filed with the KCC on August 30, 2002. Costs outlined by this study were developed to decommission Wolf Creek following a shutdown. The analyses relied upon the site-specific, technical information developed in 1999, updated to reflect current plant conditions and operating assumptions. Based on this study, our share of Wolf Creek's decommissioning costs, under the immediate dismantlement method, is estimated to be approximately $220 million in 2002 dollars. These costs include decontamination, dismantling and site restoration and are not inflated, escalated, or discounted over the period of expenditure. We anticipate a KCC order on the August 2002 decommissioning study in the second quarter of 2003. The actual decommissioning costs may vary from the estimates because of changes in technology and changes in costs for labor, materials and equipment.

We will file a funding schedule to reflect the KCC's order on the August 2002 decommissioning study by the end of the second quarter of 2003 and anticipate a KCC order on the funding schedule in the third quarter of 2003.

Decommissioning costs are currently being charged to operating expense in accordance with the July 25, 2001 KCC rate order as modified by the KCC's approval of the March 8, 2002 funding schedule. Electric rates charged to customers provide for recovery of these decommissioning costs over the life of Wolf Creek as determined by the KCC through 2045. The NRC requires that funds to meet its decommissioning funding assurance requirement be in our decommissioning fund by the time our license expires in 2025. We believe that the KCC approved funding level will be sufficient to meet the NRC minimum financial assurance requirement.

Amounts expensed approximated $3.85 million in 2002 and will remain unchanged through 2044, subject to the August 2002 decommissioning cost review and revised funding schedule to be filed in second quarter of 2003. These amounts are deposited in an external trust fund. The average after-tax expected return on trust assets is 5.56%.

Our investment in the decommissioning fund is recorded at fair value, including reinvested earnings. It approximated $63.5 million at December 31, 2002 and $66.6 million at December 31, 2001. The balance in the trust fund decreased from 2001 to 2002 due to the decline in the market value of equity securities held in the trust. Trust fund earnings accumulate in the fund balance and increase the recorded decommissioning liability.

Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 provides accounting requirements for the recognition and measurement of liabilities associated with the retirement of tangible long-lived assets. Under the standard, these liabilities will be recognized at fair value as incurred and capitalized and depreciated over the appropriate period as part of the cost of the related tangible long-lived assets. The adoption of SFAS No. 143 will not impact income. Any income effects are offset by a regulatory asset created pursuant to SFAS No. 71. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes, written or oral contracts, including obligations arising under the doctrine of promissory estoppel.

We adopted SFAS No. 143 on January 1, 2003, which required us to recognize and estimate the liability for our 47% share of the estimated cost to decommission Wolf Creek. SFAS No. 143 requires the recognition of the present value of the asset retirement obligation we incurred at the time Wolf Creek was placed into service in 1985. On January 1, 2003, we recorded an asset retirement obligation of $74.7 million. In addition, we increased our property and equipment balance, net of accumulated depreciation, by $10.7 million. These amounts were estimated

based on the calculation guidelines of SFAS No. 143. We also established a regulatory asset for $64.0 million, which represents the accretion of the liability since 1985 and the increased depreciation expense associated with the increase in plant.

Storage of Spent Nuclear Fuel

Under the Nuclear Waste Policy Act of 1982, the Department of Energy (DOE) is responsible for the permanent disposal of spent nuclear fuel. Wolf Creek pays the DOE a quarterly fee of one-tenth of a cent for each kilowatt-hour of net nuclear generation produced for the future disposal of spent nuclear fuel. These disposal costs are charged to cost of sales.

A permanent disposal site will not be available for the nuclear industry until 2010 or later. Under current DOE policy, once a permanent site is available, the DOE will accept spent nuclear fuel on a priority basis. The owners of the oldest spent fuel will be given the highest priority. As a result, disposal services for Wolf Creek will not be available prior to 2016. Wolf Creek has on-site temporary storage for spent nuclear fuel. In early 2000, Wolf Creek completed replacement of spent fuel storage racks to increase its on-site storage capacity for all spent fuel expected to be generated by Wolf Creek through the end of its licensed life in 2025.

On February 14, 2002, the Secretary of Energy submitted to the President a recommendation for approval of the Yucca Mountain site in Nevada for the development of a nuclear waste repository for the disposal of spent nuclear fuel and high level nuclear waste from the nation's defense activities. In July 2002, the President signed a resolution approving the Yucca Mountain site after receiving the approval of this site from the U.S. Senate and House of Representatives. This action allows the DOE to apply to the NRC to license the project. The DOE expects that this facility will open in 2010. However, the opening of the Yucca Mountain site could be delayed due to litigation and other issues related to the site as a permanent repository for spent nuclear fuel.

Nuclear Insurance

We maintain nuclear insurance for Wolf Creek in four areas: liability, worker radiation, property and accidental outage. These policies contain certain industry standard exclusions, including, but not limited to, ordinary wear and tear, and war. Terrorist acts are not excluded from the property and accidental outage policies, but are covered as a common occurrence under the Non-Terrorism Risk Insurance Act. The term common occurrence means that if terrorist acts occur against one or more commercial nuclear power plants insured by our insurance company within a 12-month period, all of these terrorist acts will be treated as one event and the owners of the plants will share one full limit of each type of policy, which is currently $3.24 billion plus any reinsurance recoverable by Nuclear Electric Insurance Limited (NEIL), our insurance provider. Currently there is $1 billion of reinsurance purchased by NEIL. Claims that arise from terrorist acts are also covered by our nuclear liability and worker radiation policies. These policies are subject to one industry aggregate limit for such acts, currently $300 million for the risk of terrorism. Unlike the property and accidental outage policies, an industry-wide retrospective assessment program (discussed below) applies once the nuclear liability and worker radiation policies have been exhausted.

Nuclear Liability Insurance

Pursuant to the Price-Anderson Act, we are required to insure against public liability claims resulting from nuclear incidents to the full limit of public liability, which is currently approximately $9.5 billion. This limit of liability consists of the maximum available commercial insurance of $300 million, and the remaining $9.2 billion is provided through mandatory participation in an industry-wide retrospective assessment program. Under this retrospective assessment program, we can be assessed up to $88.1 million per incident at any commercial reactor in the country, payable at no more than $10 million per incident per year. This assessment is subject to an inflation adjustment based on the Consumer Price Index and applicable premium taxes. This assessment also applies in excess of our worker radiation claims insurance. In addition, the U.S. Congress could impose additional revenue-raising measures to pay claims. If the $9.5 billion liability limitation is insufficient, the U.S. Congress will consider taking whatever action is necessary to compensate the public for valid claims.

The Price-Anderson Act expired in August 2002. In late 2002, a renewal act was approved by Congress to be part of an energy bill to extend the Act for 15 years from August 1, 2002. The renewal act would have increased the annual retrospective premium limit from $10 million to $15 million per reactor per incident and increased the maximum potential assessment from $88.1 million to $98.7 million per reactor per incident. Although the renewal

act was approved by Congress, the energy bill was never signed by the President. However, in February 2003, the Act was extended to December 31, 2003 with no changes except for its expiration date. We expect that the Act will be renewed, but we are unable to predict whether the Act will be modified as proposed in 2002.

Nuclear Property Insurance

The owners carry decontamination liability, premature decommissioning liability and property damage insurance for Wolf Creek totaling approximately $2.75 billion ($1.3 billion our share). This insurance is provided by NEIL. In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination in accordance with a plan mandated by the NRC. Our share of any remaining proceeds can be used to pay for property damage or decontamination expenses or, if certain requirements are met including decommissioning the plant, toward a shortfall in the decommissioning trust fund.

Accidental Nuclear Outage Insurance

The owners also carry additional insurance with NEIL to cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If significant losses were incurred at any of the nuclear plants insured under the NEIL policies, we may be subject to retrospective assessments under the current policies of approximately $24.5 million ($11.5 million our share).

Although we maintain various insurance policies to provide coverage for potential losses and liabilities resulting from an accident or an extended outage, our insurance coverage may not be adequate to cover the costs that could result from a catastrophic accident or extended outage at Wolf Creek. Any substantial losses not covered by insurance, to the extent not recoverable through rates, would have a material adverse effect on our financial condition and results of operations.

Fuel Commitments

To supply a portion of the fuel requirements for our generating plants, we have entered into various commitments to obtain nuclear fuel and coal. Some of these contracts contain provisions for price escalation and minimum purchase commitments. At December 31, 2002, our share of WCNOC’s nuclear fuel commitments were approximately $5.0 million for uranium concentrates expiring in 2003, $0.6 million for conversion expiring in 2003, $21.5 million for enrichment expiring at various times through 2006 and $57.5 million for fabrication through 2025.

At December 31, 2002, our coal and coal transportation contract commitments in 2002 dollars under the remaining terms of the contracts were approximately $535.3 million. The largest contract expires in 2020, with the remaining contracts expiring at various times through 2013.

At December 31, 2002, our natural gas transportation commitments in 2002 dollars under the remaining terms of the contracts were approximately $1.3 million. The natural gas transportation contracts provide firm service to several of our gas burning facilities and expire at various times through 2010, except for one contract that expires in 2016.

Energy Act

As part of the 1992 Energy Policy Act, a special assessment is being collected from utilities for a uranium enrichment decontamination and decommissioning fund. Our portion of the assessment for Wolf Creek is approximately $8.1 million. To date, we have paid approximately $6.8 million, with the remainder payable over the next four years. Such costs are recovered through the ratemaking process.

13. LEGAL PROCEEDINGS

We are involved in various legal, environmental and regulatory proceedings. We believe adequate provisions have been made and accordingly believe that the ultimate disposition of such matters will not have a material adverse effect upon our overall financial position or results of operations. See also Note 3 for discussion of KCC regulatory proceedings, Note 14 for discussion of ongoing investigations and Note 19 for discussion of potential liabilities to David C. Wittig and Douglas T. Lake.

14. ONGOING INVESTIGATIONS

Grand Jury Subpoena

On September 17, 2002, Westar Energy was served with a federal grand jury subpoena by the United States Attorney's Office in Topeka, Kansas, requesting information concerning the use of aircraft and its annual shareholder meetings. Since that date, the United States Attorney's Office has served additional subpoenas on Westar Energy and certain of its employees requesting further information concerning the use of aircraft; executive compensation arrangements with David C. Wittig, Douglas T. Lake and other former and present officers; the proposed rights offering of Westar Industries stock; and Westar Energy in general. Westar Energy is providing information in response to these requests and is fully cooperating in the investigation. Westar Energy has not been informed that it is a target of the investigation. Westar Energy is unable to predict the ultimate outcome of the investigation or its impact on Westar Energy.

Special Committee Investigation

Westar Energy's board of directors appointed a Special Committee of directors to investigate management matters and matters that are the subject of the grand jury investigation and the Securities and Exchange Commission inquiry. The Special Committee retained counsel and other advisors. The Special Committee investigation has been completed and has not resulted in adjustments to Westar Energy's or our consolidated financial statements.

FERC Subpoena

On December 16, 2002, Westar Energy received a subpoena from FERC seeking details on power trades with Cleco Corporation (Cleco) and its affiliates, documents concerning power transactions between Westar Energy's system operations and its marketing operations and information on power trades in which Westar Energy or other trading companies acted as intermediaries.

Cleco publicly disclosed in November 2002 that Cleco and its affiliates had engaged in certain trades that may have violated FERC affiliate transaction rules applicable to Cleco. The affiliate transactions involved power sales from one Cleco affiliate to Westar Energy and then back to another or the same Cleco affiliate. The transactions totaled approximately $3.8 million in 2002, $12.6 million in 2001 and $3.4 million in 2000. The total amount of these transactions represented less than 1% of Westar Energy's total revenues in 2002, 2001 and 2000.

Among the issues being reviewed by FERC are transactions Westar Energy conducted with third parties to facilitate power transfers between Westar Energy's system operations and its marketing operations. While these energy transactions do not apply to us, the FERC investigation includes all transactions of both Westar Energy and us. These transactions and other power marketing and trading activities were recently reviewed in a KCC ordered audit of Westar Energy's power marketing operations. This review was conducted by an independent third party with industry experience who was approved by the KCC. The review found no irregularities in the structure or pricing of the transactions.

Westar Energy has provided information to FERC in response to the subpoena and believes that its participation in these transactions did not violate FERC rules and regulations. However, Westar Energy is unable to predict the ultimate outcome of the investigation.

15. LEASES

Operating Leases

The company leases office buildings, computer equipment, vehicles, railcars and other property and equipment with various terms and expiration dates from 1 to 16 years. Rental payments for operating leases and estimated rental commitments are as follows:

Year Ended December 31,	LaCygne 2 Lease (a)	Total Leases
	(In Thousands)	
Rental payments:		
2000	$ 34,598	$ 42,559
2001	34,598	44,007
2002	34,598	40,104
Future commitments:		
2003	$ 39,420	$ 43,708
2004	34,598	38,172
2005	38,013	41,553
2006	42,287	45,741
2007	78,268	79,984
Thereafter	344,049	361,305
Total future commitments	$ 576,635	$ 610,463

(a) LaCygne 2 lease amounts are included in total operating leases.

In 1987, KGE sold and leased back its 50% undivided interest in the LaCygne 2 generating unit. The LaCygne 2 lease has an initial term of 29 years, with various options to renew the lease or repurchase the 50% undivided interest. KGE remains responsible for its share of operation and maintenance costs and other related operating costs of LaCygne 2. The lease is an operating lease for financial reporting purposes. We recognized a gain on the sale, which was deferred and is being amortized over the lease term.

16. RELATED PARTY TRANSACTIONS

Our cash management function, including cash receipts and disbursements, is performed by Westar Energy. An intercompany account is used to record net receipts and disbursements between KGE and Westar Energy and KGE and WR Receivables Corporation. The net amount payable from affiliates approximated $24.1 million at December 31, 2002 and the net amount receivable from affiliates approximated $17.3 million at December 31, 2001 as reflected in our consolidated balance sheets.

Westar Energy provides all employees we utilize. Certain operating expenses have been allocated to us from Westar Energy. These expenses are allocated, depending on the nature of the expense, based on allocation studies, net investment, number of customers, and/or other appropriate factors. We believe such allocation procedures are reasonable.

During the fourth quarter of 2001, we entered into an option agreement to sell an office building located in downtown Wichita, Kansas, to Protection One, a subsidiary of Westar Industries, which is a wholly-owned subsidiary of Westar Energy for approximately $0.5 million. The sales price was determined by management based on three independent appraisers' findings. This transaction was completed during June 2002. We recognized a loss of $2.6 million on this transaction, and we expected to realize annual operating cost savings of approximately $0.9 million. The cost savings will be treated as a regulatory liability in accordance with a March 26, 2002, KCC order. For the year ended December 31, 2002, we recorded $0.5 million in cost savings as a regulatory liability.

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17. ICE STORM

In late January 2002, a severe ice storm swept through our service area causing extensive damage and loss of power to numerous customers. Through December 31, 2002, we incurred $12.7 million for restoration costs, a portion of which was capitalized. We have deferred and recorded as a regulatory asset on our December 31, 2002 consolidated balance sheet restoration costs of approximately $9.0 million. We have received an accounting authority order from the KCC that allows us to accumulate and defer for potential future recovery all operating and carrying costs related to storm restoration.

18. QUARTERLY RESULTS (UNAUDITED)

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

	First	Second	Third	Fourth
	(In Thousands)			
2002				
Sales	$ 148,683	$ 161,873	$ 217,607	$ 167,361
Gross profit	109,814	115,032	170,516	129,591
Net income before accounting change	(1,361)	7,622	37,730	15,548
Net income	(1,361)	7,622	37,730	15,548
2001				
Sales	$ 155,991	$ 142,341	$ 200,672	$ 132,387
Gross profit	112,000	106,006	147,968	99,975
Net income before accounting change	5,097	2,928	31,845	(2,569)
Net income	17,995	2,928	31,845	(2,569)

19. POTENTIAL LIABILITIES TO DAVID C. WITTIG AND DOUGLAS T. LAKE

David C. Wittig, Westar Energy's former chairman of the board, president and chief executive officer, resigned from all of his positions with Westar Energy and its affiliates on November 22, 2002. Douglas T. Lake, Westar Energy's executive vice president and chief strategic officer, was placed on administrative leave from all of his positions with Westar Energy and its affiliates on December 6, 2002. In connection with these actions, Westar Energy reserved all rights and claims it may have against Mr. Wittig and Mr. Lake arising under their employment agreements, any other agreements with Westar Energy, or any plan, program or policy in which they participated. In their respective resignation and leave letters, Mr. Wittig and Mr. Lake stated that they reserved all rights and claims they may have against Westar Energy.

During their active employment with Westar Energy, Westar Energy accrued liabilities totaling approximately $27.4 million for compensation not yet paid to Mr. Wittig and Mr. Lake under various plans. The compensation includes restricted share unit awards, deferred vested shares, deferred restricted share unit awards, deferred vested stock for compensation, executive salary continuation plan benefits and, in the case of Mr. Wittig, benefits arising from a split dollar life insurance agreement.

Additionally, as required by GAAP, Westar Energy has made provisions in its financial statements for an additional amount of approximately $22.9 million should it later be determined that Westar Energy is obligated to pay Mr. Wittig and Mr. Lake any amounts under their employment agreements. Westar Energy does not concede, however, that any amounts are owed to Mr. Wittig or Mr. Lake, and it believes that it may have potential claims and defenses against Mr. Wittig and Mr. Lake. The compensation could include a pro rata portion of their unpaid bonuses for the year in which termination occurred, unused vacation, accumulated sick leave, severance, restricted share unit awards and related dividend equivalents, and increased executive salary continuation plan benefits. Westar Energy believes the amount reserved adequately provides for potential obligations to Mr. Wittig and Mr. Lake.

In addition to these amounts, Westar Energy could also be obligated to record additional expense each year in which payments are made to Mr. Wittig and Mr. Lake pursuant to the executive salary continuation plan. Assuming an expected payout period of 35 years, the aggregate nominal amount of these expenses would be approximately $17.9 million for Mr. Wittig and $9.0 million for Mr. Lake. Also, if stock performance requirements for some restricted share unit awards were to be satisfied, Westar Energy would be required to record additional compensation expense of approximately $4.4 million to Mr. Wittig and Mr. Lake.

As of March 31, 2003, neither Mr. Wittig nor Mr. Lake has asserted any rights or claims against Westar Energy for any of the amounts described above. Westar Energy is unable to predict whether they will assert any rights or claims in the future. If they did so, Westar Energy will vigorously defend against such claims and potentially assert counterclaims; however, the ultimate resolution of these matters is outside Westar Energy's control.

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

Effective May 30, 2002, the Audit and Finance Committee of Westar Energy's board of directors decided not to engage Arthur Andersen LLP (Andersen) as our public accountants and engaged Deloitte & Touche LLP (Deloitte & Touche) to serve as our principal accountants for fiscal year 2002.

Andersen's reports on our consolidated financial statements for the two years ended December 31, 2001, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the two fiscal years ended December 31, 2001, and the subsequent interim period through March 31, 2002, there were no disagreements between us and Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Andersen's satisfaction, would have caused it to make reference to the subject matter of the disagreement in connection with its reports; and there were no reportable events as described in Item 304(a)(1)(v) of Regulation S-K.

We provided Andersen with a copy of the foregoing disclosures. We have not been able to obtain, after reasonable efforts, a response from Arthur Andersen commenting on such disclosure and have been advised by personnel from such firm that it no longer responds to such requests. We have therefore, in reliance on Rule 12b-21 promulgated under the Securities Exchange Act of 1934, as amended, dispensed with the requirement to file a letter from Arthur Andersen as Exhibit 16 to this report. We note that our parent, Westar Energy, Inc., provided Arthur Andersen with a copy of similar disclosure in May 30, 2002 and filed a copy of Arthur Andersen's letter stating its agreement therewith as of such date as Exhibit 16 to a Report on Form 8-K of Westar Energy, Inc. filed on May 30, 2002.

During our two fiscal years ended December 31, 2001 and the subsequent interim period through March 31, 2002, we did not consult Deloitte & Touche with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

ITEM 14. CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing date of this report, an evaluation was carried out, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective, in all material respects, with respect to the recording, processing, summarizing and reporting, within the time periods specified in the SEC’s rules and forms, of information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation described above.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following financial statements are included herein.

FINANCIAL STATEMENTS

Report of Independent Public Accountants
Consolidated Balance Sheets, December 31, 2002 and 2001
Consolidated Statements of Income and Comprehensive Income, for the years ended December 31, 2002, 2001 and 2000
Consolidated Statements of Cash Flows, for the years ended December 31, 2002, 2001 and 2000
Consolidated Statements of Shareholder’s Equity, for the years ended December 31, 2002, 2001 and 2000
Notes to Consolidated Financial Statements

REPORTS ON FORM 8-K FILED DURING THE QUARTER ENDED DECEMBER 31, 2002:

None.

EXHIBIT INDEX

All exhibits marked "I" are incorporated herein by reference. All exhibits marked by an asterisk are management contracts or compensatory plans or arrangements required to be identified by Item 14(a)(3) of Form 10-K.

		Description	
3(a)	–	Articles of Incorporation (Filed as Exhibit 3(a) to Form 10-K for the year ended December 31, 1992, File No. 1-7324)	I
3(b)	–	Certificate of Merger of Kansas Gas and Electric Company into KCA Corporation (Filed as Exhibit 3(b) to Form 10-K for the year ended December 31, 1992, File No. 1-7324)	I
3(c)	–	By-laws as amended (Filed as Exhibit 3(c) to Form 10-K for the year ended December 31, 1992, File No. 1-7324)	I
4(c)	–	Mortgage and Deed of Trust, dated as of April 1, 1940 to Guaranty Trust Company of New York (now Morgan Guaranty Trust Company of New York) and Henry A. Theis (to whom W. A. Spooner is successor), Trustees, as supplemented by forty Supplemental Indentures, dated as of June 1, 1942, March 1, 1948, December 1, 1949, June 1, 1952, October 1, 1953, March 1, 1955, February 1, 1956, January 1, 1961, May 1, 1966, March 1, 1970, May 1, 1971, March 1, 1972, May 31, 1973, July 1, 1975, December 1, 1975, September 1, 1976, March 1, 1977, May 1, 1977, August 1, 1977, March 15, 1978, January 1, 1979, April 1, 1980, July 1, 1980, August 1, 1980, June 1, 1981, December 1, 1981, May 1, 1982, March 15, 1984, September 1, 1984 (Twenty-ninth and Thirtieth), February 1, 1985, April 15, 1986, June 1, 1991, March 31, 1992, December 17, 1992, August 24, 1993, January 15, 1994, March 1, 1994, April 15, 1994 and June 28, 2000, (Filed, respectively, as Exhibit A-1 to Form U-1, File No. 70-23; Exhibits 7(b) and 7(c), File No. 2-7405; Exhibit 7(d), File No. 2-8242; Exhibit 4(c), File No. 2-9626; Exhibit 4(c), File No. 2-10465; Exhibit 4(c), File No. 2-12228; Exhibit 4(c), File No. 2-15851; Exhibit 2(b)-1, File No. 2-24680; Exhibit 2(c), File No. 2-36170; Exhibits 2(c) and 2(d), File No. 2-39975; Exhibit 2(d), File No. 2-43053; Exhibit 4(c)2 to Form 10-K, for December 31, 1989, File No. 1-7324; Exhibit 2(c), File No. 2-53765; Exhibit 2(e), File No. 2-55488; Exhibit 2(c), File No. 2-57013; Exhibit 2(c), File No. 2-58180; Exhibit 4(c)3 to Form 10-K for December 31, 1989, File No. 1-7324; Exhibit 2(e), File No. 2-60089; Exhibit 2(c), File No. 2-60777; Exhibit 2(g), File No. 2-64521; Exhibit 2(h), File No. 2-66758; Exhibits 2(d) and 2(e), File No. 2-69620; Exhibits 4(d) and 4(e), File No. 2-75634; Exhibit 4(d), File No. 2-78944; Exhibit 4(d), File No. 2-87532; Exhibits 4(c)4, 4(c)5 and 4(c)6 to Form 10-K for December 31, 1989, File No. 1-7324; Exhibits 4(c)2 and 4(c)3 to Form 10-K for December 31, 1992, File No. 1-7324; Exhibit 4(b) to Form S-3, File No. 33-50075; Exhibits 4(c)2 and 4(c)3 to Form 10-K for December 31, 1993, File No. 1-7324; Exhibit 4(c)2 to Form 10-K for December 31, 1994, File No. 1-7324); Forty-First Supplemental Indenture dated June 6, 2002 between Kansas Gas and Electric Company and BNY Midwest Trust Company, as Trustee (Filed as Exhibit 4.1 to Form 10-Q for the quarter ended June 30, 2002 Form 10-Q)	I
		Instruments defining the rights of holders of other long-term debt not required to be filed as exhibits will be furnished to the Commission upon request.	
10(a)	–	LaCygne 2 Lease (Filed as Exhibit 10(a) to Form 10-K for the year ended December 31, 1988, File No. 1-7324)	I
10(a)	–	Amendment No. 3 to LaCygne 2 Lease Agreement dated as of September 29, 1992 (Filed as Exhibit 10(b)1 to Form 10-K for the year ended December 31, 1992, File No. 1-7324)	I
10(b)	–	Outside Directors' Deferred Compensation Plan (Filed as Exhibit 10(c) to the Form 10-K for the year ended December 31, 1993, File No. 1-7324)*	I
12	–	Computations of Ratio of Consolidated Earnings to Fixed Charges	
23	–	Consent of Independent Public Accountants, Deloitte & Touche LLP	
99(a)	–	Order on Rate Applications from The Corporation Commission of the State of Kansas in the Matter of the Application of Kansas Gas and Electric Company for the Approval to Make Certain Changes in its Charges for Electric Service (Filed as Exhibit 99.1 to Form 10-Q for the quarter ended June 30, 2001)	I

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99(b)	–	Press release issued August 13, 2001 by PNM announcing that talks to modify Western Resources' transaction with PNM have been discontinued (Filed as Exhibit 99.2 to Form 10-Q for the quarter ended June 30, 2001)	I
99(c)	–	Press release issued August 13, 2001 by Western Resources responding to PNM's announcement of discontinued talks (Filed as Exhibit 99.3 to Form 10-Q for the quarter ended June 30, 2001)	I
99(d)	–	Letter to the SEC of assurances given by Arthur Andersen LLP regarding their audit of December 31, 2001 financial statements to the Company	I
99(e)	–	Kansas Corporation Commission Order dated November 8, 2002 (Filed as Exhibit 99.2 to Form 10-Q for the quarter ended June 30, 2002)	I
99(f)	–	Kansas Corporation Commission Order dated December 23, 2002	
99(g)	–	Debt Reduction and Restructuring Plan filed with the Kansas Corporation Commission on February 6, 2003	
99(h)	–	Kansas Corporation Commission Order dated February 10, 2003	
99(i)	–	Kansas Corporation Commission Order dated March 11, 2003	
99(j)	–	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 certifying the annual report provided for the year ended December 31, 2002 (furnished and not to be considered filed as part of the Form 10-K)	

SIGNATURE

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

KANSAS GAS AND ELECTRIC COMPANY

Date: April 15, 2003

By: /s/ Mark A. Ruelle
Mark A. Ruelle
Vice President and Treasurer

SIGNATURES

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

Signature	Title	Date
/s/ William B. Moore (William B. Moore)	Chairman of the Board and President (Principal Executive Officer)	April 15, 2003
/s/ Mark A. Ruelle (Mark A. Ruelle)	Vice President and Treasurer (Principal Financial and Accounting Officer)	April 15, 2003
/s/ Douglas R. Sterbenz (Douglas R. Sterbenz)	Director	April 15, 2003
/s/ Caroline A. Williams (Caroline A. Williams)	Director	April 15, 2003

CERTIFICATION PURSUANT TO
RULE 13a-14 UNDER THE
SECURITIES EXCHANGE ACT OF 1934

I, William B. Moore, certify that:

1. I have reviewed this annual report for the period ended December 31, 2002 on Form 10-K of Kansas Gas and Electric Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
    b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
    c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies in the design or operation of internal controls that could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date:	April 15, 2003	By:	/s/ William B. Moore
			Chairman of the Board and President (Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULE 13a-14 UNDER THE
SECURITIES EXCHANGE ACT OF 1934**

I, Mark A. Ruelle, certify that:

1. I have reviewed this annual report for the period ended December 31, 2002 on Form 10-K of Kansas Gas and Electric Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
    b. evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and
    c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies in the design or operation of internal controls that could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and
6. The registrant’s other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date:	April 15, 2003	By:	/s/ Mark A. Ruelle
			Vice President and Treasurer (Principal Financial and Accounting Officer)

Exhibit 12

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

	Year Ended December 31,				
	2002	2001	2000	1999	1998
Earnings from continuing operations	$ 75,618	$ 35,701	$ 120,683	$ 119,248	$ 148,736
Fixed Charges:					
Interest expense	47,844	49,610	49,605	49,518	49,358
Interest on Corporate-owned Life Insurance Borrowings	46,853	44,062	39,444	31,450	32,368
Interest Applicable to Rentals	20,134	21,189	22,574	24,626	25,106
Total Fixed Charges	114,831	114,861	111,623	105,594	106,832
Earnings (a)	$ 190,449	$ 150,562	$ 232,306	$ 224,842	$ 255,568
Ratio of Earnings to Fixed Charges	1.66	1.31	2.08	2.13	2.39

(a) Earnings are deemed to consist of earnings from continuing operations and fixed charges. Fixed charges consist of all interest on indebtedness, amortization of debt discount and expense, and the portion of rental expense which represents an interest factor.

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-50075 of Kansas Gas and Electric Company on Form S-3 of our report dated April 15, 2003, which report expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, in 2001, appearing in this annual report on Form 10-K of Kansas Gas and Electric Company.

DELOITTE & TOUCHE, LLP

Kansas City, Missouri
April 15, 2003

2002.12.23 16:09:30
Kansas Corporation Commission
/S/ Jeffery S. Wagaman

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: John Wine, Chair
Cynthia L. Claus
Brian J. Moline

In the Matter of the Investigation of Actions	)	
of Western Resources, Inc. to Separate its	)	Docket No. 01-WSRE-949-GIE
Jurisdictional Electric Public Utility Business	)	
from its Unregulated Businesses.	)	

No. 55
ORDER ON PETITIONS FOR RECONSIDERATION
AND CLARIFICATION

The above matter comes before the State Corporation Commission of the State of Kansas (Commission) upon petitions for reconsideration and clarification of the November 8, 2002 Order issued in this matter (Order 51). After having reviewed the petitions and responses filed herein, and otherwise being duly advised in the premises, the Commission issues the following Order on Petitions for Reconsideration and Clarification:

1. This investigation has worked towards meeting the specific objectives outlined in the July 20, 2001 Order to assure that Westar Energy, Inc. (Westar Energy or Company)[1] takes appropriate and prompt steps to correct its financial problems and restore financial stability. In addition, this investigation sought to establish appropriate standards and guidelines for interaffiliate relations and transactions within the Westar Energy corporate family. Accordingly, the November 8, 2002 Order required financial and corporate restructuring of Westar Energy necessary to: (1) achieve a balanced capital structure within the public utility business controlled by or affiliated with

[1]When this proceeding began, the name of the top-level holding company, was Western Resources, Inc. (WRI). WRI operated the KPL utility business within the WRI corporation, and operated the KG&E utility business as a wholly-owned subsidiary of WRI. WRI also held 100 percent of the stock of Westar Industries, a corporation which in turn held the stock of nonutility businesses, such as Protection One, Inc. and ONEOK, Inc. The full corporate structure is described in Order 51. WRI has since changed its name to Westar Energy. In this order, the Commission uses the new name when appropriate, but in some contexts, such as when quoting Order 51, uses the term “WRI.”

Westar Energy; (2) reduce the excessive debt accumulated due to investment in nonutility business ventures; (3) prevent interaffiliate accounting practices and relations that are harmful to Westar Energy's public utility business; and (4) protect ratepayers from the risks of Westar Energy's nonutility business ventures in the corporate family controlled by Westar Energy.

2. By that Order, the Commission (1) rejected the financial plan proposed by Westar Energy; (2) directed Westar Energy to reverse certain accounting transactions; (3) directed WRI to transfer its KPL utility division to a utility-only subsidiary of Westar Energy, after Commission review and approval of a plan to be submitted by Westar Energy within 90 days after the date Order 51 was issued, which plan should reflect a proper allocation of debt between the utility and nonutility businesses within the corporate family; (4) directed Westar Energy to reduce its utility business debt by $100 million annually for the next two years; (5) instituted interim standstill protections to prevent harm to WRI's utility businesses as a result of their affiliation with Westar Energy's nonutility businesses pending adoption of final requirements relating to such affiliation; and (6) initiated an investigation into the appropriate type, quantity, structure and regulation of the nonutility businesses with which Westar Energy's utility businesses may be affiliated.

Summary of Parties' Positions

3. On November 25, 2002, Westar Energy filed a Petition for Specific Reconsideration. Westar Energy states it accepts the rejection of its financial plan and will not contest the Commission's requirement for Westar Energy to file a corporate restructuring plan at this time. Westar Energy also states it does not contest the Commission's decision to reverse certain accounting transactions and that it will file a report showing compliance with the Commission's direction. That report was filed with the Commission on December 8, 2002. In addition, Westar Energy states it is concerned about its ability to reduce debt $100 million annually and to refinance

existing debt obligations. Finally, Westar Energy also complains about certain interim standstill restrictions relating to its nonutility businesses and investments. These specific concerns are also addressed below.

4. On November 26, 2002, MBIA Insurance Corporation (MBIA) filed a Petition for Clarification and Specific Reconsideration. Among other things, MBIA suggests additional legal arguments and cases that the Commission should cite as support for Order 51. MBIA's cases provided helpful background on how other states have addressed interaffiliate relations. Due to the possibility of differences in fact and statutory language between those cases and the instant matter, the Commission chose not to cite them as additional support. Those cases discuss, and often uphold, the propriety of regulatory measures taken in response to specific facts in the context of their enabling laws. MBIA also suggests that the Commission must make specific findings regarding the testimony of MBIA's witnesses. Order 51 cited the facts necessary to show the reasonableness of and legal support for the Commission's decision. The law in Kansas does not require the Commission to comment on all evidence presented before it. *Western Resources, Inc. v. KCC*, ______ Kan. ______, 43 P.3d 162 (2002). Finally, MBIA raises specific concerns about the debt reduction plan and interim restrictions. Those two specific issues are addressed below.

5. On November 22, 2002, the Kansas Industrial Consumers (KIC) filed a Petition for Reconsideration and Petition for Clarification. The Citizens' Utility Ratepayer Board (CURB) joins KIC in its request for reconsideration. KIC requests the Commission to immediately initiate a management investigation of Westar Energy. Order 51 did not institute such a management investigation, choosing rather to proceed with WRI's corporate and financial restructuring. KIC also requests the Commission to initiate a rate investigation immediately. However, KIC subsequently withdrew this request, stating that because Westar Energy's announcement on

November 23, 2002, that senior executives had been replaced, Westar Energy's new management team should be allowed an opportunity to fully consider and deal with the serious issues facing WRI without the need to focus upon a retail rate case. KIC Letter dated November 27, 2002. Although the replacement of senior management does not, by itself, affect the revenues, costs or rates of a public utility, and although a management study would not prevent management from doing its job (indeed, the purpose of a management study would be to help management do its job), the Commission will not institute a management investigation at this time. The Commission expects that changes instituted by new senior management will emphasize excellence in public service that should permeate all levels of the company. The Commission has the discretion to implement a management study at any time, and will revisit the issue should it observe deviation from the principle set forth in the immediately preceding sentence. KIC also requests that the Commission prohibit Westar Energy from recovering any payments that may be made by Westar Energy pursuant to "change of control" provisions of Employment Agreements with Westar Energy's executives. No such costs are included in Westar Energy's current rates. This issue is not ripe for determination in this docket. The issue should be fully investigated and argued in the context of WRI's next rate case, if such costs are contained in the test year cost of service. KIC raises two further issues. First, KIC requests the Commission to clarify whether the Commission required Westar Industries, Inc. (Westar Industries) to transfer back to Westar Energy, at no cost or consideration from Westar Energy, all of the stock of Westar Energy that is now held by Westar Industries. Second, KIC requests the Commission to require Westar Industries to sell its entire interest in Protection One, Inc. (Protection One). These two specific issues concerning Westar Energy's corporate restructuring are addressed later in this Order.

6. U.S.D. 259 also seeks reconsideration of Order 51 because it declines to order a management investigation at this time. The City of Wichita joins U.S.D. 259 and KIC in their request for a management audit. U.S.D. 259 contends that a management investigation is appropriate in light of subsequent events. U.S.D. 259 notes that Protection One has recently increased its borrowings from Westar Industries and that Westar Energy's top executives are subject to a federal grand jury criminal investigation and that the Securities and Exchange Commission is investigating Westar Energy's accounting practices. The Commission's discussion of the management study in the immediately preceding paragraph applies here as well.

Overview of this Order

7. Addressing Westar Energy's excess debt, and the misallocation of debt between the Company's utility and nonutility businesses, Order 51 established a number of important structural requirements. The Order required Westar Energy to, among other things: (a) transfer the KPL utility business to a new utility-only subsidiary, labeled "KPLCo"; (b) reduce the debt of the utility subsidiary by at least $100 million annually for two years; and (c) file within 90 days a plan to include:

i.) the description of the process or procedure for the corporate restructuring, including the basis and results of the allocations of WRI's assets and liabilities to the electric utility subsidiary or subsidiaries and description of the accounting entries necessary to implement the process or procedure;

ii.) a statement, with documented and analytical support, as to whether the restructuring described here is consistent with WRI's present indenture agreements, and, where not consistent, what actions WRI would have to take to obtain necessary amendments to the debt indenture agreements to proceed with the restructuring; and

iii.) a statement explaining how the corporate restructuring plan is consistent with the principles outlined in this Order and in the July 20, 2001 Order.

Order 51 at ¶ 95.

8. The premise of Order 51 was that upon transfer of the KPL division to a new utility subsidiary, Westar Energy's debt secured by KPL assets would need to be assigned to the new utility subsidiary to avoid a default, but the unsecured debt could remain in Westar Energy, the holding company. The restructuring thus would aid in the separation of utility assets from nonutility debt.

9. Order 51 was based upon the further assumption that if only the debt secured by KPL assets was assigned to the new utility subsidiary, (a) the amount of debt held by the new KPL utility subsidiary would exceed $1.47 billion, the level found by Order 51 to be appropriate, but (b) this excess would not be so large as to prevent the Company from paying it off in a few years with the annual payments of $100 million, as required by Order 51.

10. Westar Energy now has filed an Indenture Report which describes a situation that is inconsistent with Order 51's underlying premises concerning the separation of secured and unsecured debt.[2] Westar Energy states that all its debt, not just the secured debt, must accompany the KPL assets to the new utility subsidiary.[3] Under these circumstances, the Commission finds that it must make several significant changes to facilitate the implementation of the financial and corporate restructuring requirements of Order 51. These changes are set forth in summary form in Part I of this Order, and described in more detail in subsequent parts.

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[2] Report of Westar Energy, Inc. Concerning Debt Indentures (filed Dec. 13, 2003) (hereinafter cited as Indenture Report). The Indenture Report is discussed more detail in Part IV below.

[3] The Indenture Report speaks broadly about several categories of Westar Energy debt, claiming that in each of these categories, the indentures require all the debt to follow the utility assets. The Report does not actually state that every dollar of Westar Energy debt falls into these categories, but it does not identify any debt that falls outside these categories. Westar Energy should inform the Commission, by December 27, 2002, if there is any debt that does not fall into the categories described in its Indenture Report.

I. Deadline For Creating The Utility-Only Subsidiary; Permissible Debt Level For That Subsidiary

11. Order 51 required Westar Energy to transfer its KPL utility business to a new, utility-only subsidiary. Order 51 at ¶ 77. The Order also noted that the new utility subsidiary might have more debt than is appropriate, given existing indentures. *Id.* at ¶¶ 85-86. The Commission also required the company to file a plan describing the actions it would take to form the new corporation and allocate debt thereto. *Id.* at ¶ 77. For the reasons explained below, the Commission hereby modifies Order 51's requirements concerning creation of a utility-only subsidiary and filing of a plan as follows:

> **No later than August 1, 2003, the KPL utility division must be held within a separate utility-only subsidiary. The consolidated debt for all Westar Energy's utility businesses, i.e., the KPL utility division and KG&E, shall not exceed $1.67 billion. Westar Energy may achieve this result by (a) renegotiating its indentures; (b) reducing its debt through selling nonutility businesses or issuing new stock and applying the proceeds to debt reduction, and/or using cash flow; (c) a combination of these measures; or (d) some other means consistent with the principles announced in the Commission's prior orders.**

12. Order 51 required a plan through which the Company would demonstrate how it would allocate assets and debt between the holding company and the new subsidiary, what subsidiary structure it would choose, and how it would obtain the funds necessary to pay down debt (e.g., what mix of asset sales, stock issuance, dividend cut). *See* Order 51 at ¶ 77. Two problems have become apparent from the petitions. First, Order 51 did not establish a deadline by which the unacceptable excessive debt and cross-subsidization issues must be resolved. Second, the Company needs certainty and deadlines for implementation of the principles announced in Order 51. *See* Westar Energy Petition at ¶ 8. The present order solves both problems by establishing the August 1, 2003 deadline for corporate restructuring.

13. The Commission's corporate restructuring goal is clear: a utility-only subsidiary or subsidiaries with debt (when combined with KG&E's debt) not exceeding $1.67 billion, and an annual pay down of $100 million of the utility subsidiary's or subsidiaries' debt in order to bring the $1.67 billion figure down to a level that was found appropriate by the Commission and that is typical for an electric utility. *See* Dittmer Direct at 10 (the average common equity ratio for electric public utilities located in the Midwest is approximately 44.5 percent). Westar Energy should inform its staff, advisors and its lenders that the new corporate restructuring plan is the highest priority.

14. The $1.67 billion figure reflects the $1.47 billion debt level, derived by Staff witness James Proctor from cash flow analyses (*see* Order 51 at ¶ 31), plus $200 million. The $1.47 billion figure produces a debt-equity ratio of approximately 55 percent-45 percent, which is within the range of many utilities' capital structures. The $200 million figure represents the two years of debt reductions (at $100 million per year) which the Commission required, and which the Commission found would be feasible based on Mr. Proctor's cash flow analysis. Order 51 at ¶ 86. For the reasons discussed in Order 51 (and in the order of July 20, 2001), the Commission finds that a capital structure with excess debt is not consistent with the public interest, and that this era of unacceptable excessive debt should not endure longer than two more years. That is why the Commission is limiting the debt level, as of August 1, 2003, to $1.67 billion. The Commission reiterates that these debt figures relate to the combined utility businesses of KG&E and the new KPL subsidiary.

15. The foregoing requirement does not mean that the new utility subsidiary or KG&E may not increase the combined debt level for the new utility subsidiary and KG&E above the $1.67 billion base level established for August 1, 2003 (less the annual $100 million reductions). If the

utility business has capital needs requiring additional debt financing, it may seek approval under the standstill provisions and procedures set forth in Order 51 relating to issuance of debt.

16. Westar Energy, in its petition at ¶ 8, seeks an extended implementation schedule notwithstanding this docket has been open over 18 months for the purpose of finding solutions to the excessive debt problems harming the public utility created by Westar Energy's nonutility investments and businesses. The Company's approach lacks the rigor necessitated by the Company's circumstances, circumstances which, as Order 51 explained, arose from the Company's decisions. Rigor aside, framing this schedule change as a statement of intent rather than as a request for modification of Order 51 does not increase its persuasiveness. As U.S.D. 259 points out in its Response filed December 5, 2002, at ¶ 2, many of the options, which Order 51 requires the Company to consider have been proposed by the parties (and presumably considered by Westar Energy and its affiliates) in the past. The Company is not starting its analysis from scratch. Accordingly, the Commission requires Westar Energy to explain, by February 6, 2003, how it intends to accomplish the corporate and financial restructuring required by the Commission by the August 1, 2003 deadline. After Westar Energy's submission on February 6, 2003, the Commission will accept written comments from the parties. Because of the new August 1, 2003 requirement, Westar Energy's new cost allocation manual will now be due on August 1, 2003.

17. In addition, the Commission will require monthly reports on debt reduction in lieu of the quarterly reports required in Order 51 at ¶ 86, 101. The monthly reports shall be in a format established by Staff. Upon review of those monthly reports, the Commission may hold hearings to examine the Company's progress. Accordingly, Westar Energy must file a monthly report beginning on the tenth day of each month beginning on January 10, 2003. The report must describe the

progress Westar Energy has taken toward debt reduction during the prior month, and shall include, the Company's debt reduction strategy:

i.) a description of the progress made during the prior 30 days to (a) negotiate appropriate waivers and exemptions with its debt holders, as necessary to separate the utility business from the nonutility businesses and the utility business from nonutility debt, and/or (b) sell interests in the nonutility businesses;

ii.) specify the debts it has selected to pay down, and the schedule for paying them down and the rationale for selections, and

iii.) provide forecasts of cash flow for Westar Energy and its electric business, separately, and explain all assumptions underlying the forecasts.

18. Inasmuch as almost two months will have passed since Order 51 was issued, the Commission expects that the report due January 10, 2003 will be extensive in its description of progress made. If Westar Energy needs assistance in debt restructuring or refinancing, the Commission will make available its Staff to explain the requirements of Order 51 and the instant Order to any of Westar Energy's lenders.

19. The Commission recognizes that the Company may prefer not to have a deadline for effectuating the corporate restructuring and for achieving a limit on the utility company debt. The Company, however, by its own actions, entered into debt indentures that involved the utility business financing nonutility investments, including, during the June 2002 hearings, negotiating for a special provision to its credit agreement with JPMorgan Chase Bank which would facilitate a "rights offering," that the Commission has rejected twice. *See* Credit Agreement between Western Resources and JPMorgan Chase Bank, dated June 6, 2002 at Section 6.4(e)(i). More importantly, the Company has failed to reduce debt since this docket was opened more than 18 months ago on May 8, 2001, by using reasonable, feasible steps discussed in the Commission's prior orders.

20. If the Commission did not set a deadline, it would leave the Company to balance the public and private interest by selecting the timing for debt reduction. The statutes do not allow the Commission to delegate its authority in that manner. The Commission's statutory obligation is clear: The public utility must not be allowed to carry an excessive debt load if that debt load threatens the safe, sufficient, efficient electricity at just and reasonable rates. This principle warrants extra emphasis when the excessive debt load, which burdens the public utility, was incurred to finance nonutility businesses.

21. Having clarified the Company obligation concerning corporate structure and debt reduction, the Commission now turns to the four main areas in which parties have requested reconsideration or clarification. Part II addresses the $100 million debt reduction requirement. Part III addresses Westar Energy's proposed corporate structure. Part IV address Westar Energy's indentures. Part V addresses Westar Industries ownership of Westar Energy stock. Part VI addresses the transfer of ONEOK stock. Part VII addresses the interim standstill protections of Order 51.

II. The $100 Million Debt Reduction Requirement

22. Order 51 stated at ¶ 86:

> [F]or the two years beginning on the date WRI submits the plans required by this Order, WRI shall reduce secured utility debt by at least $100 million per year from cash flow. At or prior to the expiration of this two-year period, the Commission will review the need for, and the measure of, continuing cash flow commitments in light of the evidence of WRI's financial condition available at that time. WRI or the electric utilities shall file quarterly reports on its progress on retiring debt secured with utility assets, beginning with the quarter ending December 31, 2002.

23. In the prior section of this order, the Commission mandated that as of August 1, 2003, the combined debt level for KG&E and the new KPL utility subsidiary must be no more than

$1.67 billion, $200 million more than an appropriate debt level of $1.47 billion. The Commission also noted that the $100 million annual debt reduction requirement would remain in place.

24. The $100 million annual debt reduction requirement prompted several requests for reconsideration or clarification. The Commission's responses are set forth below.

A. In general

25. Westar Energy asks the Commission to eliminate the $100 million requirement. Westar Energy Petition at ¶ 14. Westar Energy argues that "since the Company does not control the amount of free cash flow it generates, the Commission should not order the Company to generate a specific level of free cash flow to reduce secured debt." Westar Energy also challenges the Commission's authority to prescribe a specific amount of cash flow to be used for debt reduction. *Id*. at n.5.

26. The Commission reaffirms the $100 million requirement. Westar Energy in its Petition at ¶ 14 cites a list of factors that, it believes, place cash flow levels beyond its control: "the cost of refinancing of maturing debt, prices in wholesale electric markets, weather, the level of rates set by the Commission and a host of other factors." Westar Energy's argument, that it cannot affect its fate, is not credible. There are many factors that are within the Company's control or influence. For example:

Cost of debt: The Company mentions the "cost of refinancing maturing debt" as being beyond its control. Refinancing costs are affected significantly by the company's below-investment grade status. That status is, in turn, a direct result of the company's decisions to invest in unsuccessful nonutility businesses. The company may not be able to control the financial market's reaction to the company's profile, but the company certainly can control its own profile.

Wholesale prices: The Company mentions "prices in the wholesale market." It is true that, assuming Westar Energy has no market power, it cannot influence prices in the wholesale market. But the Company certainly can influence its exposure to the wholesale market, by choosing the mix of generation ownership and purchased power, and by choosing the characteristics of its purchase power contracts. Some utilities, for example, encourage the construction of new generation in their territories through their purchase practices and interconnection policies, and through that encouragement have available a mix of long and short term contracts, allowing them to hedge the risks of spot market volatility. Westar Energy offers no information about how it has managed its exposure to wholesale markets; therefore, the Commission cannot accept at face value that the costs that Westar Energy incurs in wholesale markets are beyond its control or influence.

Rates: The Company mentions rates. It is true that the Commission, not Westar Energy, controls rates. But the Company can determine its costs. It is the company that makes decisions about staffing levels, headquarters costs, executive compensation and severance pay.

Dividends: The Company makes decisions about dividends, a particularly large Company-controlled factor. According to the Company's official response dated November 15, 2002, to Federal Energy Regulatory Commission (FERC) staff Data Requests in FERC Docket No. ES02-51-000,[4] the Company's anticipated cash dividend payments are $65-70 million annually, which could account for a large portion of the $100 million in required debt reduction.

27. In addition to the above four factors, Westar Energy's disclaiming of responsibility for its own cash flow situation itself provides support for the Commission's decision. The Commission cannot grant the Company's request for unilateral discretion over the pace of debt

[4] The Commission hereby takes administrative notice of Westar Energy's Response to FERC Discovery Question No. 12, filed at FERC on November 15, 2002. A copy of the response shall be made a part of the Commission's official record.

reduction, on the grounds that all the relevant factors are beyond the Company's control, where the Company still fails to take responsibility for those factors that are within its control. The Company's record on borrowing and on nonutility investment shows that when it has acted without regulatory parameters, it acts irresponsibly. Order 51 prevents this irresponsibility by establishing parameters.

28. There is another reason why the Commission will not leave to the Company the determination of the amount of cash flow to be used for debt reduction. In Westar Energy, as in many utilities, the shareholder and management interests are not necessarily aligned with the public interest. The Company has many constituencies with varying and conflicting interests. Its executives may want large pay increases. Departing officials may want substantial severance pay. Shareholders may want higher dividends. Many of these demands may be legitimate from the perspective of those making the demands. But many are not components of the Company's statutory obligation: to assure efficient and sufficient service at just and reasonable rates. It is that obligation which the Commission must enforce. The Commission cannot enforce that obligation by leaving it to the Company to resolve conflicts between its internal interests and the public interest. The Commission here must declare that there is at least one goal, which is above conflict: that is the goal of reducing debt expeditiously, by at least $100 million annually.

29. Westar Energy argues that the $100 million cash flow it projected was cash flow produced by the consolidated entity, not by the utility business alone. Westar Energy Petition at ¶ 14. However, Order 51 based the $100 million debt reduction requirement not on the Company's projections but on Staff witness James Proctor's. Order 51 at ¶ 86. Mr. Proctor based his projections on "electric utility operations" alone. Proctor Direct at Exhibit JMP-17.

30. Finally, Westar Energy in its Petition at ¶ 14 states that its cash flow projections for consolidated operations will be only $77 million for 2003, and that there is no projection yet for

2004. Westar Energy's $77 million figure has two infirmities. First, it has no record support; it is only a statement of counsel. Second, in Westar Energy's Response to FERC Discovery Question No. 12 submitted in FERC Docket No. ES02-51, the Company calculated cash flow after payment of dividends and before payment of severance pay costs. Therefore, the Commission can only surmise that counsel's revised estimate of cash flow for 2003 of $77 million is also determined after payment of dividends, thus creating an apples-to-oranges comparison with Mr. Proctor's estimate, which is a pre-dividends figure. *See* Proctor Direct at Exhibit JMP-17.

B. Relationship between the debt reduction obligation and available cash flow

31. Staff expressed concern that the Company may prefer to pay dividends rather than comply with the $100 million debt reduction obligation. Specifically, Staff argues that the Company might define "cash flow" to mean "cash flow after dividends," and then pay down debt only to the extent of such dividend-reduced cash flow. Staff Response to Petitions for Reconsideration, filed December 5, 2002, at ¶ 13.

32. Order 51 requires that the annual reduction be at least $100 million, regardless of whether the Company pays dividends. The Commission did not say "reduce debt by $100 million, to the extent that $100 million is available from cash flow remaining after dividends are paid." The Commission said, and reiterates now: reduce debt by $100 million each year by whatever means. If anticipated dividend payments would disable the Company from satisfying the $100 million debt reduction obligation, the Company best not pay the dividends. At this point, the decision whether to pay dividends lies with the Company; but the Company must satisfy the $100 million debt reduction obligation.

33. If the Company intends to resist its $100 million debt reduction obligation based on its desire to pay dividends, the Commission will institute a proceeding under K.S.A. 66-1214 to

determine whether a Commission-prescribed dividend limit will be necessary.[5] Furthermore, the Commission wishes not to find out, after the fact, that the Company has paid dividends and, consequently, needs a waiver of its $100 million obligation. To avoid that result, the Commission hereby directs Westar Energy to file a letter with the Commission by no later than January 10, 2003, indicating (a) whether it intends to comply with the $100 million debt reduction requirement; (b) if not, why not; and (c) whether it intends to pay cash dividends in 2003 and how much in cash dividends it intends to pay. Based on the Company's filed letter, the Commission will determine whether to initiate a proceeding under K.S.A. 66-1214.

C. Type of debt targeted for reduction

34. Westar Energy argues "it should have the flexibility to retire debt in the most cost-effective manner and to consider liquidity issues when determining which utility debt to retire regardless of whether the utility debt is a secured or unsecured obligation." Westar Energy Petition at ¶ 17.

35. The Commission hereby grants that flexibility, subject to the understanding that the annual $100 million debt reduction requirement applies to the debt held by the new utility subsidiary and the KG&E subsidiary. Specifically: In Order 51 at ¶ 86, the Commission stated "WRI shall reduce secured utility debt by at least $100 million per year from cash flow" (emphasis added). The Commission hereby modifies that sentence as follows: Westar Energy shall assure that debt held by

[5] K.S.A. 66-1214 provides:

Payment of dividends prohibited, when; hearing. The state corporation commission, if it shall determine on complaint or upon its own initiative, and after hearing on due notice in accordance with the provisions of the Kansas administrative procedure act, that the payment of any dividend by a public utility company subject to the jurisdiction of the commission will impair the financial condition of such company so that such company cannot maintain its property in reasonably efficient operating condition and render adequate service to its patrons at reasonable rates, shall enter an order prohibiting the payment of such dividends until such time as such company has shown to the commission that the conditions upon which such order was based have ceased to exist.

the new utility subsidiary, by KG&E, or both, is reduced by at least $100 million per year from cash flow." This modification allows the Company to select between secured and unsecured debt in whatever manner necessary to minimize costs to the utility, provided that there is reduction of at least $100 million per year of debt which is held by or assigned to the new utility subsidiary or subsidiaries.[6]

36. The Commission emphasizes that with respect to debt reduction, the cost minimization goal refers to the costs of the utility business, not the costs of the consolidated company. Westar Energy says "it should have the flexibility to retire debt in the most cost-effective manner." Westar Energy Petition at ¶ 17. By not specifying whether it means cost-effective from the standpoint of the utility business or of the consolidated corporation, the Company repeats the error this Commission has been seeking, for over two years now, to correct: that the Company's first priority must be the utility business.

D. Stock issuance as a method for debt reduction

37. MBIA in its Petition at 16 asks the Commission to remove stock issuance as a possible debt reduction method which the Company must consider. The Commission will not remove this option because it wishes Westar Energy to consider all options. Westar Energy shall, in evaluating this option, take into account the evidence on stock issuance presented by the MBIA witnesses. MBIA may present evidence in response to the Company's proposed debt reduction plan; and may renew its objection to this option in that context.

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[6] The Commission's intent was set forth more clearly in ¶ 102 of Order 51: "…Proctor demonstrated that debt can be reduced by $100 million per year from cash flow. Staff Exhibit No. JMP-17. The Commission therefore requires this debt reduction method to be employed. Specifically, Westar Energy shall first reduce the debt assigned to the newly created electric subsidiary or subsidiaries."

E. Sale of nonutility investments as a method of reducing debt

38. KIC in its Petition at ¶ 20 asks the Commission to require Westar Energy to sell its nonutility investments. In particular, KIC urges the Commission to require Westar Energy to immediately sell its investment in Protection One because, according to KIC, Protection One continues to have a negative effect on Westar Energy's financial condition, noting that "since 1998, the first full year of operation of Protection One under the majority ownership of WRI [Westar Energy], the dividend payout of WRI has not been earned in any calendar year." KIC Petition at ¶ 21, citing KIC Exhibit 1. KIC also states that "WRI's ownership in Protection One and other unregulated business interests is the primary reason that WRI's formerly investment grade quality debt has been demoted to 'junk' status." KIC Petition at ¶ 21. MBIA also points out in its Petition at 6 that Westar Energy's management has not acted in the best interest of the utility. MBIA asserts that the purchase and sale of Protection One Europe dramatically illustrates this point. That is, Westar Energy paid approximately $172 million for Protection One Europe assets, which ultimately held a value of less than $45 million. MBIA asserts that not only do these facts provide further support for the Commission taking action in this proceeding; they also suggest that Westar Energy should sell all of its nonutility investments. As explained in Part I above, the Commission has established a deadline of August 1, 2003, for the movement of the KPL utility business to a utility-only subsidiary with the combined capital structure of the utility businesses not to exceed $1.67 billion in debt. The Commission has made clear that the Company must achieve this result somehow, by selling assets, renegotiating indentures or by some combination of these and other options. The Commission expects the Company to consider all its options, including the obvious option of selling Protection One, a company which is not essential to Westar Energy's utility business. Protection One's past affiliation with Westar Energy has brought no benefits to the utility

business, and its continued affiliation threatens further harm to the utility business. The Company must place elimination of that harm well ahead of whatever goals it might have for Protection One. Otherwise, Westar Energy's strategy will not be consistent with the Commission's requirement to separate the regulated utility operations from the nonutility operations, utility-related debt from nonutility-related debt, and utility-related risk from nonutility-related risk.

F. Conclusion on debt reduction

39. Westar Energy has asked the Commission to eliminate the $100 million requirement, and leave the Company free to determine the amount and schedule of debt reduction. The $100 million requirement will remain in place. It is supported by evidence contained in the record. The different numbers presented in Westar Energy's Petition for Reconsideration are not evidence; they are statements of counsel only; moreover, the Company's apparent intent to reduce debt only after paying dividends or severance pay underscores the need for Commission intervention.

40. While the $100 million debt reduction requirement is based on record facts, facts can change. If and when Westar Energy anticipates such change, it may ask the Commission to modify the $100 million obligation. The Commission will not, however, consider an open-ended request to eliminate any debt reduction requirement. Any request to modify the $100 million annual debt reduction requirement must:

i.) be submitted at least 60 days before the date on which the Company proposes to implement it;

ii.) demonstrate how and when the Company will restore the pace of its debt reduction schedule so as to achieve the $100 million debt reduction goal expeditiously; and

iii.) explain whether the reason for the inability to reach $100 million relates to the payment of dividends or the needs of affiliated nonutility businesses.

III. Westar Energy’s Proposed Corporate Structure

41. Westar Energy suggests that it might achieve the same corporate separation ordered by the Commission by creating a holding company above Westar Energy, and transferring the stock in the nonutility companies to a new sister company that would be a subsidiary of the new holding company. Westar Energy Petition at ¶ 8. This suggested restructuring would leave the KPL utility business within the corporation presently known as Westar Energy.

42. Although Westar Energy’s proposed approach would produce a corporate structure that, on the surface, partially resembles the one required by Order 51, Westar Energy forgets that the goal is not merely to separate the utility business from the nonutility business, but also to separate the utility business from the nonutility debt. Staff points out that Westar Energy’s proposed corporate structure could make more difficult the proper allocation of assets and debt between the utility and nonutility businesses. Staff argues that “under Westar’s plan, the KPL utility assets would remain in Westar Energy, which is the issuer of the unsecured debt that should be attributed to the non-utility assets.” Response of Staff to petitions for reconsideration filed December 5, 2002, at ¶ 3. The Commission’s priorities are to reduce the debt held by the utility to an amount of debt consistent with the financing needs of the utility business, and to reduce the debt held by the corporate family as a whole. A corporate structure that either impairs the Company’s achievement of these goals, or the Commission’s ability to mandate and monitor that achievement, is inconsistent with Order 51. The Commission therefore rejects the Company’s proposed approach. The corporate restructuring described in Order 51, and set forth again in Part I, ¶ 10 of this order, remains.

43. The Commission does not prohibit the Company (or other parties) from proposing an alternative corporate structure, in addition to (not in substitution of) the required corporate structure.

However, submission by Westar Energy of an alternative restructuring proposal will not suspend or delay the requirement to restructure by August 1, 2003 as stated above, and the Commission cautions Westar Energy not to make proposals that create the possibility of delay. Subject to these conditions, any alternative proposal must demonstrate: (a) how the debt and assets will be allocated among the resulting corporate entities and how that allocation is consistent with the requirements of Order 51 and Part I of the instant order; and (b) how the level of debt will be reduced. The Commission will reject any proposed corporate structure whose purpose and effect deviates from the Commission's requirement that total debt be reduced, and that no debt incurred for the benefit of the nonutility businesses be assigned to the utility business.

44. MBIA asks the Commission to require Westar Energy to transfer its KPL assets to KG&E. MBIA Petition at 13. Order 51 identified this transfer as an option, but not the only one. To mandate a mixing of KPL and KG&E businesses could inject into an already complicated situation the controversies over KPL-KG&E rate differentials, an issue which is not the focus of the present investigation.

IV. Westar Energy's Debt Indentures

45. In Order 51, the Commission required Westar Energy to move its KPL utility division to a new utility subsidiary. Order 51 at ¶ 77. The Commission further stated that the appropriate amount of debt for Westar Energy's electric utility business should not exceed $1.47 billion, Order 51 at ¶ 31, and that approximately $1.63 billion of Westar Energy's total debt was attributable to investments in nonutility businesses. *Id.* ¶¶ 31, 84. In that context, the Commission stated that it

> recognizes that utility assets may have been used to secure debt in excess of that debt attributable to utility operations—i.e., that utility assets secure debt incurred to finance nonutility activities. It is not the Commission's intent that its directive to move the KPL utility operations into a subsidiary of WRI be in conflict with such security commitments.

Id. at ¶ 85.

46. In response to Order 51's discussion of Westar Energy's security commitments, Westar Energy, in its Petition at ¶¶ 10 and 11, respectively, stated:

> While some of the company's debt is not technically classified as 'secured,' separation of such debt from the utility assets would be a default which would give rise to the right of the lenders to demand immediate repayment of all outstanding Westar Energy debt.
>
> …[T]he Commission should be advised that the limitations imposed by Westar Energy's financing documents are not limited to instruments which are technically 'secured' by utility property.

47. On December 4, 2002, the Commission issued its Order Requiring Report and Additional Information (Order 52) requesting, among other things, "financing documents" and explanations thereof relating to the two statements made in Westar Energy's Petition for Specific Reconsideration and quoted above.

48. In response to Order 52, Westar Energy on December 13, 2002, filed with the Commission its Indenture Report. The document summarizes Westar Energy's view that if it transfers KPL's utility assets to a new utility subsidiary, Westar Energy may be obligated by its indentures to transfer much if not all of its debt along with them to avoid a default. A default, according to Westar Energy, would empower the creditors to demand immediate payment of Westar Energy's debt. Transferring all of Westar Energy's debt to a new utility subsidiary would mean that the electric businesses (the new utility subsidiary or subsidiaries, if the KPL division and KG&E are in separate subsidiaries) will have up to $3 billion of debt when total debt properly allocable to the utility businesses is only $1.47 billion.

49. While the Commission has not yet determined its own interpretation of the indentures, it is the interpretation of the lenders and the courts, not of the Commission, that controls

this situation. If the lenders interpret the indentures in the way Westar Energy has described, Westar Energy faces a problem it now must work quickly to resolve. Westar Energy's present problem can be summarized in two main points:

i.) Order 51 requires that the utility business not bear debt associated with the nonutility business.

ii.) Westar Energy reveals that it has signed indenture agreements that may require that the utility business continue to bear debt associated with the nonutility business.

50. In short, Westar Energy is acknowledging that it has taken actions which might make it difficult now to comply with the Commission's orders. On the one hand, the Commission has ordered the utility to shed itself of debt incurred to finance the nonutility businesses. On the other hand, Westar Energy has incurred debt to finance the nonutility businesses and thereby, according to Westar Energy, it may now be prohibited contractually from separating the utility assets from the nonutility debt.

51. Westar Energy thus has placed itself in a difficult position, because the Commission will not revise its requirement that the utility business not be burdened with the debt of the nonutility businesses. Under these circumstances, Westar Energy has two choices clearly available:

i.) Pay down a sufficient amount of Westar Energy's debt so that the amount of debt that follows the KPL utility business to a new subsidiary, when added to KG&E's debt, is equal to or less than the amount of debt found by the Commission to be appropriate for the utility business, plus $200 million, *i.e.*, $1.67 billion. *See* Order 51 at ¶ 31. This choice would require Westar Energy to sell most if not all of its interests in nonutility businesses and take other actions such as issuance of new stock.

ii.) Renegotiate the indentures so that Westar Energy can take the actions required by the Commission without causing a default. *See, e.g.*, MBIA Reply to Indenture Report filed December 18, 2002.

52. These are the two choices which the Commission has identified as consistent with Order 51. They are the two choices reflected in the Commission directive, set forth in Part I of this Order at ¶ 10, that "the KPL utility division must be held within a separate utility-only subsidiary and the consolidated debt for all of Westar Energy's utility businesses, the KPL utility division and KG&E, shall not exceed $1.67 billion,"(with that amount then to be paid down by $100 million each year for two years), and that "Westar Energy may achieve this result by (a) renegotiating its indentures; or (b) reducing its debt through selling nonutility businesses or issuing new stock and applying the proceeds to debt reduction, or by using cash flow, or by a combination of these measures, or by some other means consistent with the principles announced in the Commission's prior orders." While there may be other means of achieving the proper debt level for the utility business, the three options discussed in the next three paragraphs are not available.

53. First, moving the KPL division to a subsidiary along with the excess debt associated with nonutility businesses. This choice is not available because Order 51 forbids it. Westar Energy must move its KPL division to a new subsidiary, but the amount of debt accompanying the KPL assets must not exceed an appropriate amount that has been allowed by the Commission.

54. Second, moving the KPL division to a subsidiary without the excess debt, if such move triggers a default. Westar Energy has stated that it cannot move the utility business to a new subsidiary without moving all the nonutility debt with it. That is a result the Commission will not accept. When Order 51 required Westar Energy to move its KPL division to a new subsidiary, the underlying premise was that the Commission would be able to limit the debt which moved to the KPL division to a reasonable and proper amount. The Commission will not allow a transfer of the KPL utility division to a new utility subsidiary that results in an electric business, when combined with KG&E, having up to $3 billion of debt while the nonutility businesses remain owned by a

holding company free of that debt. In that situation, the Commission would want to order the holding company to sell the nonutility businesses and use the proceeds to pay down the new utility subsidiary's excess debt. However, it is likely that the holding company then would argue that the Commission lacked authority to issue orders to a holding company which itself is not a utility company. Kansas would be left with what prior Westar Energy management originally intended: use of the utility business to create value in nonutility businesses, and then keeping that value for the shareholders while causing the debt to stay with the utility. The Commission has rejected that concept twice, and will not permit it now.

55. Third, the Company's proposal, of leaving the utility business (and all the debt) in Westar Energy, but creating a holding company above Westar Energy. That approach, described by Westar Energy in its Petition at ¶ 8, is rejected here because it also leaves the utility with excess debt. The Company states that its proposal "would accomplish one important goal of separating non-regulated assets from utility assets while avoiding actions which could give rise to claims that the Company has violated its financing covenants." Indentures Report at 14. This statement suggests to the Commission that the Company still remains uninformed about, or uncommitted to, the Commission's goal, and about the Company's obligation to achieve that goal. The Commission intends to separate the utility business from the nonutility business, and the utility debt from the nonutility debt; and, as a result, the utility business from the nonutility debt. The Company's two prior proposals, and its current one, separate the utility business from the nonutility business, but they do not separate the utility business from the nonutility debt; they separate the nonutility business from nonutility debt. The Company's proposal is, in fact, a close cousin of the "rights offering" concept that the Commission has rejected twice.

V. Westar Industries' Ownership of Westar Energy Stock

56. KIC requests the Commission to "clarify that Westar Industries, Inc. must transfer back to Westar Energy, at no cost or consideration from Westar Energy, Inc., all of the stock of Westar Energy, Inc. that is purportedly owned by Westar Industries, Inc." The Commission agrees with KIC that the stock issuance should be reversed and hereby orders this action. Given the financial troubles which Westar Energy has endured as a result of its affiliates' investment in nonutility businesses, and the means by which the corporate family has financed these businesses, all as discussed in Order 51, it is not in the public interest for Westar Energy stock to be owned by a subsidiary whose purpose is to invest in nonutility businesses.

57. Westar Energy states in its Petition that on December 11, 2002, the Westar Energy Board of Directors will vote to "take all necessary steps to implement the return of such stock from Westar Industries to Westar Energy and to cancel such stock." Westar Energy Petition at ¶ 17. On December 9, 2002, Westar Energy submitted the affidavit of its Chief Financial Officer, Paul Geist, stating that "the Manual Journal Entries reflect that Westar Energy is voluntarily returning the Westar Energy Stock held by Westar Industries back to Westar Energy." On December 11, 2002, Westar Energy filed certified copies of the resolutions reversing the stock issuances discussed above and authorizing the accounting entries set forth in the Report filed by the Chief Financial Officer. Those accounting entries reflect that the reversal of the stock issuance included an adjustment to the intercom any receivable account of Westar Energy. Commission Staff is directed to submit a written report by January 10, 2003, on the propriety of the accounting entries generally and the consideration transferred to Westar Industries from Westar Energy pursuant to those accounting entries.

VI. Transfer of ONEOK Stock

58. MBIA asks the Commission to (a) prohibit Westar Industries from transferring the ONEOK stock to Protection One and (b) require reversal of the sale of ONEOK stock from Westar Energy to Westar Industries. MBIA Petition at 10, 12. These actions are unnecessary, due to the combination of the standstill protections of Order 51 and the requirements of Order 45.

59. The standstill provision relating to ONEOK, immediately preceding ¶ 114 of Order 51, states, "If Westar Industries sells any portion of its investment in ONEOK, the requirements of Order 45, issued in this docket on July 9, 2002, shall apply." Order 45 at ¶ 12, in turn, requires that "any sale of ONEOK stock by Westar Industries and WRI, by reason of its ownership interest in Westar Industries, be made for fair market value in cash and that the proceeds from such sale be used to retire debt consistent with this order." The Commission notes that this Order 45 obligation is a permanent one and does not expire with the expiration of the June 6, 2002 Credit Agreement.

60. Because any sale of ONEOK must be for cash, at fair market value, with the proceeds used to defray debt, there is no reason to exclude Protection One from the universe of possible purchasers of ONEOK. To assure that the sale price reflects fair market value, however, the Commission will require Westar Energy to (a) request the Commission for advance approval of any ONEOK sale, and (b) as part of such request, demonstrate that the sale price does reflect fair market value and that the seller has taken all feasible actions to maximize the sale price. A sale of ONEOK stock to a Westar Energy affiliate will trigger heightened scrutiny by the Commission.

61. The Commission's decision not to adopt MBIA's second suggestion, reversal of the sale of ONEOK stock from Westar Energy to Westar Industries, is conditioned on Westar Energy's compliance with the August 1, 2003 obligation set forth in Part I of the instant order. Absent such

compliance the Commission will revisit MBIA's suggestion (and any other suggestion that parties have for the sufficient and expeditious reduction of Westar Energy's debt).

VII. Interim Standstill Protections

62. Order 51 prescribed several "Interim Standstill Protections" aimed at preventing further abuses during the period in which (a) Westar Energy returns to financial health and (b) the Commission establishes permanent requirements. Parties raised questions concerning these standstill protections in three main areas: debt issuances, interaffiliate transactions and new investments in nonutility businesses.

A. Debt issuances

63. The standstill protections of Order 51 require WRI and KG&E to "obtain Commission approval before the issuance of any debt." Westar Energy argues in its Petition at ¶ 26 that the Commission lacked authority under K.S.A. 66-125 to require advance review and approval of issuances of debt. The Commission was relying not on K.S.A. 66-125 but on its general authority under K.S.A. 66-101, *et seq.* K.S.A. 66-101(d) authorizes the Commission, after finding that "any… practice… is unjust, unreasonable, unreasonably inefficient or insufficient… to substitute therefore such other… practices … as are just and reasonable." K.S.A. 66-125 contains no limitation on K.S.A. 66-101 *et seq.* Westar Energy reads K.S.A. 66-125 to diminish the Commission's ability to identify "unreasonable practices," and to "substitute reasonable practices," whenever the unreasonable practices involved debt issuances. There is no textual or case law basis for this view.

64. On this question of debt issuances, the Company commits to allow Staff "input." Westar Energy Petition at ¶ 26. Until the standstill provisions are no longer necessary, it is the Commission that will determine the nature and timing of debt issuances, and it is the Company (and other parties) that will have "input."

65. Westar Energy asks the Commission to clarify the relationship between (a) the Commission's statement, made in its Notice of Intervention in FERC Docket No. ES02-51-000, of conditional nonopposition to the financing proposed by Westar Energy in that docket; and (b) the Commission's specification, in Order 51, of a standstill requirement on debt issuances. *Id.* at ¶ 27. Westar Energy specifically asks the Commission to rule that the standstill requirements established in Order 51 do not apply to the financing pending at FERC.

66. There is no reason to exempt the debt issuances pending at FERC from Order 51. If there is a timing problem, Westar Energy should submit to the Commission an explanation and request for approval without delay.

67. Contrary to Westar Energy's suggestion, there is no inconsistency between the Commission's statement of nonopposition at FERC and its requirement that the Company obtain Commission approval now. The Commission's statement of nonopposition under federal law did not include any finding under state law. In any event, significant events have occurred since the Commission filed its Notice of Intervention at FERC. Most significantly, the Commission issued Order 51, finding that Westar Energy's difficulties required specific reviews, limits and requirements, including the requirement that the Company reduce its electric business debt by $100 million annually for two years. The Commission also now has information, as described by Staff in its December 5, 2002 Response to Petitions for Reconsideration at ¶ 13, indicating that the Company may intend to pay dividends before it reduces its debt. These factors support including the debt issuance pending at FERC within the standstill requirement of Order 51.

68. Westar Energy asks whether this advance approval requirement applies to funds borrowed under existing lines of credit or commercial paper. Westar Energy Petition at ¶ 28. The

answer is yes. That the Company has a pre-existing contractual right to borrow, in the form of an existing line of credit, in no way diminishes the necessity of Commission review before the Company increases its indebtedness.

69. Finally, the Company asks whether the advance approval requirement applies to routine short-term borrowings (which were exempted from review by paragraph E of the Commission's Order of July 20, 2001 Order). Westar Energy Petition at ¶ 29.[7] The Commission will exempt these borrowings from the advance review requirement; however, the Company shall make a weekly report of its short-term borrowings as previously required in Ordering Paragraph E of the July 20, 2001 Order.

B. Interaffiliate transactions

70. In Order 51, the standstill provision relating to interaffiliate transactions requires WRI and KG&E "to seek Commission approval before either WRI or KG&E enter[s] into any interaffiliate agreement with any WRI nonutility affiliate, where the value of goods or services exchanged exceeds $100,000." Westar Energy Petition at ¶ 22 asks the Commission to "clarify" that where Westar Energy makes "payments…for value received," such payments would not constitute a "cash transfer" for purpose of this requirement. Westar Energy gives as examples the Outsourcing Agreement and the Tax Sharing Agreement.

71. The Commission rejects Westar Energy's suggested clarification. Order 51 applies by its terms to all interaffiliate agreements where there is a transfer valued at $100,000 or above. This requirement applies not only to the Outsourcing Agreement and the Tax Sharing Agreement but to

[7] Ordering paragraph (E) of the July 20, 2001 Order provided:

(E) Nothing in the above requirements shall limit WRI's ability to make routine short-term borrowings in the ordinary course of business to fund WRI's on-going electric utility operations and meet cash flow needs and working capital needs of WRI's electric utility operations. WRI shall make a weekly report to Staff of the net changes in its short-term borrowings.

all interaffiliate agreements. To exempt any agreement in which Westar Energy received, in its view, “value,” would be to defeat the purpose of the rule. That purpose is to place responsibility with the Commission, not with Westar Energy, for determining the appropriateness of interaffiliate transactions.

72. Moreover, that an agreement has, in Westar Energy’s words, “been provided to the Commission previously” or is “currently in effect,” does not diminish the need for Commission review and it does not affect the applicability of Order 51. All cash transfers in excess of $100,000 from Westar Energy or KG&E to an affiliate, including transfers “for value,” must be approved by the Commission before going into effect.

73. Cash transfers from Westar Energy to the nonutility businesses under the Tax Sharing Agreement would be particularly inappropriate until the misallocation of debt within Westar Energy’s corporate family is resolved. Under the Company’s approach, the utility business would bear the burden of the nonutility business’s debt but not receive the benefit of the nonutility business’s tax loss. This mismatch of burden and benefit is strong support for the Commission’s advance review of interaffiliate cash transfers. Westar Energy therefore should revise the Tax Sharing Agreement to reflect its obligation to retain for the utility business the benefits of tax losses attributable to the nonutility businesses until the Commission finds that the utility company no longer bears debt associated with the nonutility businesses.

74. The Commission does not intend this requirement to apply to interaffiliate transactions that are in the ordinary course of the utility’s business. A possible example could be sales of the utility’s receivables to a financing affiliate where the terms reflect an arm’s-length relationship. The Company may request an exemption on this basis. The request should identify the

type of transaction, the parties to the transaction, the underlying contract, the likely number of transactions annually and the probable total value of such transactions annually.

75. Finally, the standstill provisions were effective on November 8, 2002, the date Order 51 was issued and served upon Westar Energy. If Westar Energy has engaged in any interaffiliate transactions since that date for which Westar Energy has not sought Commission approval, it must report them to the Commission by December 27, 2002.

76. At ¶ 23 of its Petition, Westar Energy argues that K.S.A. 66-1402 does not provide authority for the limits on interaffiliate transactions. As explained in the context of debt issuance, the Commission is relying not on K.S.A. 66-1402 but on its general authority under K.S.A. 66-101 *et seq.*

77. MBIA expresses concern that Westar Energy might evade Order 51's $100,000 limit by engaging in numerous small transactions. MBIA Petition at 10. The Commission will not amend the requirement that Westar Energy obtain authorization in advance for transfers equal to or exceeding $100,000. But the Commission will require Westar Energy to report all transactions of any size, within 48 hours of their occurring, by describing the size, date and purpose. The Commission reserves authority to modify Order 51 to cover transactions of less than $100,000 in value, should the Commission find a pattern of avoiding the limit by breaking large transactions into smaller ones.

C. New investments in nonutility businesses

78. The standstill provision in Order 51 entitled "New investment in nonutility businesses" states: "WRI and KG&E shall seek Commission approval before WRI or any affiliate thereof invests more than $100,000 in an existing or new nonutility business." Westar Energy in its Petition at ¶ 24 states that this provision "could be read to prohibit unregulated, non-utility

businesses in which Westar Energy has an investment through Westar Industries from investing any money—even money generated internally from their own operations—in their operations without Commission approval."

79. Order 51 prohibits Westar Energy's electric utility business from subsidizing new or existing nonutility business or investment. Also, Order 51 and the instant order require Westar Energy to take steps to correct the misallocation of debt within the corporate family. In addition, Order 51 requires Westar Energy to reverse certain accounting transactions and to properly recognize the funding of Westar Industries by Westar Energy as a debt obligation of Westar Industries to Westar Energy, in which Westar Industries must pay interest to Westar Energy at Westar Industries' incremental cost of debt. The Commission reiterates that Order 51 requires Westar Industries to make monthly interest payments to Westar Energy in cash, beginning with the month ending December 31, 2002. The interest expense payment must be paid by the 10th business day of each month. Order 51 also requires that Westar Energy pay down debt by at least $100 million per year for the next two years. The Commission intends these requirements to protect the public from further abuses and will revisit their sufficiency should further abuses occur.

80. In light of these requirements, the Commission modifies that the standstill provision set forth in ¶ 113 of Order 51 pertaining to "New investment in nonutility businesses" to read as follows:

> WRI and KG&E shall seek Commission approval before WRI or KGE invests an amount equal to or more than $100,000 in an existing or new nonutility business. After the transfer of KPL utility business from WRI to KPLCo, this requirement shall apply to WRI, KG&E and KPLCo.

However, the Commission reminds Westar Energy and its affiliates that the existing investments in nonutility businesses are precisely the actions which have caused the present problems, and that the

Commission has the full authority to require Westar Energy to disaffiliate itself from nonutility businesses on a finding that the existing affiliation is not consistent with its public service obligations. The Commission therefore will require notice by Westar Energy to the Commission thirty (30) days before any investment of $100,000 or more in nonutility businesses by Westar Energy or any affiliate. Furthermore, should Westar Energy fail to achieve the required $100 million debt reduction, or should any affiliate engage in further investments which are not consistent with Westar Energy's public service obligations, the Commission will revisit the question whether increases in investment in nonutility businesses by any affiliate should be permitted.

IT IS, THEREFORE, BY THE COMMISSION CONSIDERED AND ORDERED THAT:

A. The petitions for reconsideration and clarification are ruled upon as stated above. Any issue raised by Westar Energy or the other parties seeking reconsideration but not specifically discussed above is denied for the reasons sufficiently discussed in Order 51.

B. The short-term borrowing requirements as set forth in Ordering Paragraph E of the July 20, 2001 Order shall remain in effect until further order of the Commission.

C. This order has changed certain filing and reporting requirements and modified certain interim standstill protections. Accordingly, any party may file a petition for reconsideration of those decisions made in this Order within fifteen days of the date this order is served. If this Order is served by mail, service is complete upon mailing, and three days may be added to the above time frame.

D. The deadlines for the major filing and reporting requirements discussed in Orders 51 and 55 are set forth in attached Appendix A.

E. The Commission retains jurisdiction over the subject matter of this investigation and the parties for the purpose of entering such further order or orders as it may deem necessary and proper.

BY THE COMMISSION IT IS SO ORDERED.

Wine, Chr.; Claus, Comm.; Moline, Comm.
Dated: DEC 23 2002

ORDER MAILED
DEC 23 2002

/s/ Jeffrey S. Wagaman

Executive Director

Jeffrey S. Wagaman
Executive Director

APPENDIX A

Reversal of Accounting Transactions Compliance Report of Chief Financial Officer	Order 51 at ¶ 72(d)	December 9, 2002
Proposals for Additional Affiliate Standards and Guidelines for Westar Energy, Inc.	Order 51 at ¶ 109	December 9, 2002
Weekly Reports of Westar Energy, Inc. on Short Term Borrowings	Order 55 at ¶ 69	First business day of the following week
Report of Debt (debt falling outside of categories described in Westar Energy's Indenture Report)	Order 55 at f.n. 3	December 27, 2002
Report of Interaffiliate Transactions since November 8, 2002	Order 55 at ¶ 75	December 27, 2002
Report of Interaffiliate Transfers in an amount equal to or exceeding $100,000	Order 55 at ¶ 77	Within 48 hours of transfer
Notice of Nonutility Investments exceeding $100,000	Order 55 at ¶ 80	30 days before investment
Letter stating whether Westar Energy will comply with $100 million debt reduction requirement	Order 55 at ¶ 33	January 10, 2003
Progress Report on Debt Reduction	Order 51 at ¶¶ 86, 101 Order 55 at ¶ 17	January 10, 2003 (10th day of every month)
Staff Report on Propriety of Accounting Entries	Order 55 at ¶ 57	January 10, 2003
Quarterly Financial Reporting Requirements (income statements, statements of financial position and statements of cash flows)	Order 51 at ¶ 82	February 3, 2003 (first business day of the second month following the end of a quarter)
Corporate Restructuring and Debt Reduction Planning Report	Order 55 at ¶ 16	February 6, 2003
Completion of Corporate and Financial Restructuring and Cost Allocation Manual	Order 55 at ¶ 11	August 1, 2003

Exhibit 99(g)

WESTAR ENERGY DEBT REDUCTION AND RESTRUCTURING PLAN

EXECUTIVE SUMMARY

Westar Energy, Inc. (“Westar Energy” or “the Company”) intends to restructure by returning to its roots as a pure Kansas electric public utility. Westar Energy’s debt reduction and restructuring plan (the “Plan”) will allow an orderly, efficient and effective reduction in the Company’s debt. Upon completing the Plan, the Company will enjoy a level of debt, consistent with the Commission’s mandate, targeting investment grade debt ratings by year-end 2004. This is accomplished through a reduction in the Company’s common stock dividend, a systematic disposition of all non-utility and non-core assets, and, if still necessary, the sale of new Westar Energy equity. For purposes of the Plan, the Company has adopted the specific debt level target of $1.47 billion established by the Commission.

Westar Energy’s consolidated debt, including debt issued directly by Protection One, Inc., is approximately $3.431 billion.[1] Under the Plan, Westar Energy anticipates reducing its debt through the measures outlined in the following schedule:

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[1] Excludes $135 million of KGE First Mortgage Bonds due December 2003 for which funds have been irrevocably placed on deposit with the trustee to satisfy all related obligations.

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Beginning Debt Balance	**$3.431 billion**
Actions and Projected Dates	**Projected Gross Proceeds**[2]
ONEOK Investment (February 5, 2003 — 18.1 million Shares)	$244–300 million[3]
Cash flow from operations (2003-2004)	$100–200 million [4]
Westar Energy Dividend Reduction (April 2003-October 2004)	$55 million[5]
Protection One Europe (mid 2003)	$50–100 million[6]
ONEOK Investment (2nd half 2003)	$125–200 million
Protection One, Inc. (late 2003 or early 2004)	$500–1000 million[7]
ONEOK Investment (1st half 2004)	$125–200 million
ONEOK Investment (2nd half 2004)	$125–200 million
Other Miscellaneous Non-utility assets	$0–20 million[8]
Westar Energy Equity Issuance	$0–350 million[9]
Ending Debt Balance	**$1.470 billion**

I. INTRODUCTION

In developing its Debt Reduction and Restructuring Plan (the "Plan"), Westar Energy sought to address three central requirements. First, the Plan must assure the ability of Westar Energy to provide safe, adequate and reliable service and insulate utility customers from the risks associated with Westar

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[2] Gross proceeds are before transaction costs. Taxes ultimately paid related to these transactions are projected to be zero over time. However, some cash taxes may be paid during interim transactions. No taxes are expected to be due on any transaction after the sale of Protection One due to the ability to use the tax losses on Protection One to offset tax gains on later sales. All numbers are estimated and pro forma.

[3] The low end of the range reflects the impact of income taxes on the gain from this sale. The high end of the range assumes no taxes are paid as a result of offsetting losses in other transactions. The low end reflects the impact of income taxes on the gain from this sale. The tax effect reflected in the low-end number is reversed in the discussion below in connection with later transactions that generate tax losses.

[4] Total available from cash flow in 2003 and 2004, not including effect of dividend reduction.

[5] Dividend established at quarterly rate of $0.19 per share.

[6] Calculation assumes that approximately $45 million of Protection One Europe debt would be assumed by the purchaser and would no longer be consolidated on Westar Energy's financial statements and reflects the recapture of capital gains tax on the first ONEOK sale due to capital loss recognition in this transaction.

[7] Calculation reflects repayment of Protection One credit facility provided by Westar Industries and assumes that approximately $300 million of Protection One debt would be assumed by the purchaser and no longer be consolidated on Westar Energy's financial statements.

[8] Projected gross proceeds are from projected cash flows from international power through 2004 only with disposition assumed thereafter.

[9] The Westar Energy equity issuance is anticipated to be sized to produce sufficient cash to reach the appropriate debt target following all divestitures.

Energy's non-utility businesses. Second, the Plan must return Westar Energy's capital structure to an appropriate balance and bring its capitalization into line with Westar Energy's utility investment as quickly as is practicable, consistent with the goal of capturing reasonable value for its non-utility assets. Third, the Plan must preserve a fair opportunity for Westar Energy to earn a reasonable return while considering business and financial risks of the Company.

The Company agrees that the mix of debt and equity should be consistent with the capital structure of utilities with similar risks and that a substantial amount of its current debt was incurred in connection with investments in non-utility businesses. Westar Energy has already taken actions to reduce the amount of its outstanding debt in order to move toward a more balanced capital structure.

Westar Energy agrees with and is committed to implementing Commission directives to protect customers from the risks of Westar Energy's non-utility businesses. One of Westar Energy's important goals is to completely dispose of its non-utility interests. Westar Energy proposes to achieve this goal by peeling away and dissolving every affiliate in its current structure not necessary for Westar Energy's Kansas electric utility operations. This return to being a pure utility, coupled with an appropriate capital structure and credit quality consistent with its utility business characteristics, provides the ultimate protection against the risks of non-utility businesses potentially harming utility customers.

While Westar Energy is committed to complying with the spirit and intent of the Commission's orders, the timetable set by the Commission in Order No. 55

for corporate restructuring and debt reduction would force the Company into a series of fire sales of non-utility assets at greatly reduced prices to the detriment of all of Westar Energy's stakeholders.[10] A more flexible approach toward a common objective will allow Westar Energy to maximize the proceeds from asset dispositions. Such flexibility will reduce the risk and increase the efficacy of the Commission's debt reduction mandates. In its Plan, Westar Energy has set forth a tentative schedule, complete with mile markers, that will allow the Commission to monitor the Company's progress as it implements the Plan.

II. STEPS TAKEN TO DATE

Westar Energy has already taken important steps to implement this Plan. Since December 9, 2002, Westar Energy has identified 12 entities within the current corporate structure as being unnecessary to current operations. As a result, Westar Energy has taken the initial steps to dissolve those entities. This is the first step in the process of simplifying Westar Energy's organizational structure consistent with its renewed mission as a Kansas electric public utility. Westar Energy has begun or completed the process of dissolving the following entities:

- Astra Resources, Inc.
- Rangeline Corporation
- Westar Services, Inc.
- Westar Energy Investments, Inc.
- Westar Financial Services, Inc.

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[10] *See* Response of MBIA to Westar Energy Petition for Reconsideration, at 2-3 (January 21, 2003).

- Westar Generating II, Inc.
- Westar Leasing, Inc.
- Westar Limited Partners II, Inc.
- Western Resources II (Cayman Islands) Ltd.
- Wing Colombia, LLC
- Wing Group International, Inc.
- WR Services, Inc.

Exhibits JSH-2, JSH-3 and JSH-4, respectively, attached to the testimony of James Haines, show the corporate structure as of December 9, 2002, the structure reflecting actions taken or initiated as of this date (February 6, 2003), and the anticipated future structure at the completion of the Plan.

In addition, and consistent with the Commission's prior orders, we have terminated certain agreements and reversed certain transactions. We have:

- Terminated the Information Technology Outsourcing Agreement with Protection One Data Services, Inc. (PODS).
- Returned PODS employees to Westar Energy's information technology department.
- Reversed accounting transactions identified in Exhibit JMP-4.
- Reversed ownership of Westar Energy stock by Westar Industries.
- Eliminated Westar Industries' option to purchase all of the shares of the capital stock of Westar Generating, Inc.

This combination of compliance with prior Commission orders and actions taken voluntarily by Westar Energy to reverse prior actions which have no

relevance to the Company's future operations as a stand-alone electric utility is but a portion of Westar Energy's actions taken to date.

In addition, we have already undertaken unprecedented steps that will have the immediate effect of reducing outstanding debt levels, now and into the future. We recently reached agreement with ONEOK, Inc. to modify agreements related to ONEOK stock owned by Westar Industries to facilitate the sale of the ONEOK stock. This resulted in an immediate receipt of $300 million (subject to timing of tax payments) for debt reduction. Furthermore, our agreements have enhanced the Company's ability to liquidate its remaining ONEOK investments in an orderly fashion, in a way to maximize further debt reductions. The Commission should note that the gross proceeds from this first transaction exceeded the expectations of the parties when the Commission recently approved this transaction on January 17, 2002.

Another important step already taken is a re-evaluation of the Company's dividend policy by the Board of Directors. On February 5, 2003, the Board declared a quarterly common dividend 37% lower than the previous common dividend. Over the seven quarter period covered in the Plan, such an indicated dividend rate will allow incremental debt reduction of about $55 million through enhanced free cash flows. Just these two steps, already executed, comprise almost one-fifth of the debt reduction goal.

Though not yet completed, the Company has launched two other key elements of the Plan to reduce debt.

- We have begun the process of selling Protection One Europe and are currently in negotiations for its disposition.
- We have announced that we are exploring our strategic alternatives for divesting our investment in Protection One, and have engaged advisors to assist in that process.

The remaining sales of non-core assets, potentially followed by the issuance of new equity in an amount sufficient to finish the job, are anticipated to facilitate the Company's return to investment grade status, consistent with the Commission's order, as quickly as is practicable.

III. Confidentiality

Understanding the importance of public disclosure regarding Westar's Plan to reduce its debt and to return to being a stand-alone Kansas public utility, we have endeavored to provide publicly as much information as is prudent through our testimony and this Plan. Included in the public disclosure are details of transactions no longer commercially sensitive, anticipated ranges for proceeds from transactions and the overall expected impact of each step of the Plan on key measures of creditworthiness and financial soundness.

However, because it would be counter-productive to the Commission's order and the efficacy of the Plan to disclose our negotiating position to potential buyers, the specific details concerning expected pricing and strategy have been filed with the Commission under the Protective Order.[11] Moreover, even this

[11] The only confidential portions of the filing are Exhibits GAG-3 (cash flow projections for 2003, 2004 and 2005), GAG-4 (Plan assumptions, including projected dates and prices of projected transactions), and GAG-5 (projected pro forma financials for 2003, 2004 and 2005).

confidential information is available to parties to this case under appropriately executed confidentiality agreements.

IV. Detailed Action Plans

A. Action plan and anticipated results

1. Initial ONEOK Stock Sale

The sale of $250 million of ONEOK stock approved by the Commission on January 17, 2003, closed on February 5, 2003. At the same time, Westar Energy was able to effect the sale of an additional $50 million of ONEOK shares to ONEOK at the same price established in the related ONEOK public offering. As a result of these transactions, on February 5, 2003, approximately $244 million (net of expected tax effects) was deposited with JPMorgan Chase Bank pursuant to the Company’s June 2002 Bank Credit Agreement. These funds will be used directly to reduce outstanding public debt, or in the alternative, held to reduce bank debt of a like amount. If the sale of Protection One Europe proceeds as anticipated with respect to timing and tax attributes, the tax loss from the sale of Protection One Europe will offset the gain from the initial ONEOK sale and no taxes will need to be paid as a result of this transaction. In that case, the entire $300 million of gross ONEOK proceeds will be available for debt reduction.

The anticipated pro forma impact of this transaction on Westar Energy’s debt level is:

Beginning debt level:	$3,431 million
Less Transaction Impact:	$244–300 million
Net remaining debt level:	$3,187– 3,131 million

The anticipated pro forma impact on the Company's capital structure from this transaction is as follows, with the post-transaction estimates reflecting the mid-point of the estimated sale proceeds:[12]

	Beginning	Post-transaction
Common Equity	23%	25%
Preferred Securities	5%	6%
Total Debt	72%	69%
Total Capital	100%	100%

2. Cash Flow from Operations

Without any reduction in the Company's dividend, cash flow from operations available for debt reduction is expected to be $100 – $200 million over the two-year period ended December 31, 2004. These results will depend on many factors including, but not limited to, weather, wholesale power markets, generation performance and short-term interest rates.

The anticipated pro forma impact of available cash flow on Westar Energy's debt level is:

Beginning debt level:	$3,187–3,131 million
Less Transaction Impact:	$100–200 million
Net remaining debt level:	$3,087– 2,931 billion

No capital ratio table related to cash flow effects is provided since such effects are incorporated into the modeling and reflected in tables related to specific steps in the Plan.

[12] Midpoint numbers are used solely for purposes of this filing. It should not be assumed that the use of midpoints in calculating such ranges reflects the Company's target or expectation with respect to such transactions. The ranges of transaction proceeds provided reflect broad indications of value and the Company does not expect all transactions to reflect either upper or lower extremes.

3. Dividend Reduction

On February 5, 2003, Westar Energy's Board of Directors approved a new common stock dividend policy for the Company. Under this policy, the Board expects to declare a quarterly dividend of 19 cents per share, 37% lower than the previous dividend. The new dividend policy, at an indicated annual dividend rate of 76 cents per share, is anticipated to reduce Westar Energy's cash outlay for dividend payments by approximately $55 million over the seven quarters covered in the Plan. This dividend action frees up an equal amount of additional cash flows for debt reduction.

The anticipated pro forma impact of the proposed change in dividend policy on Westar Energy's debt level is:

Debt level prior to action:	$3,087– 2,931 million
Less pro forma impact of the dividend policy:	$55 million
Net remaining debt level:	$3,032– 2,876 million

The anticipated pro forma impact on the Company's capital structure from the proposed change in dividend policy is as follows:

	Beginning	Post-transaction
Common Equity	25%	26%
Preferred Securities	6%	6%
Total Debt	69%	68%
Total Capital	100%	100%

4. Sale of Protection One Europe.

This asset includes monitored security operations in France, Germany, and Belgium. It is owned 100% by Westar Industries. We have engaged the services of UBS Warburg (UBS) to act as our investment banker and transaction advisor. In the course of two rounds of soliciting indications of interest, UBS

contacted numerous potential buyers. After a series of first-round negotiations, we have narrowed the list of potential buyers and are currently negotiating a potential sale. We are well along in the process of negotiating a sale and hope to close the transaction by the second or third quarter of 2003.

We expect this sale will generate capital losses that will be used to offset our gain on the first ONEOK sale; thus maximizing its value for the debt reduction effort. It would also allow us to remove third-party debt owed by Protection One Europe, but currently part of Westar Energy's consolidated debt levels.

The anticipated pro forma impact of this transaction on Westar Energy's debt level is:

Beginning debt level:	$3,032– 2,876 million
Less Transaction Impact:	$50–100 million
Net remaining debt level	$2,982– 2,776 million

The anticipated pro forma impact on the Company's capital structure from this transaction is as follows, with the post-transaction estimates reflecting the mid-point of the estimated sale proceeds:

	Beginning	Post-transaction
Common Equity	26%	27%
Preferred Securities	6%	6%
Total Debt	68%	67%
Total Capital	100%	100%

5. Second sale of ONEOK Stock

We plan to sell all of our remaining shares of ONEOK preferred (21.8 million shares) and common (4.7 million shares) stock. To execute an orderly and effective liquidation of these assets, the Plan contemplates doing this over time. While for purposes of the Plan we have modeled the subsequent

dispositions of ONEOK securities as three separate transactions over a 15-month period, the actual plan of disposition may be more quickly executed, depending on market conditions. In each planned subsequent disposition, we modeled the sale of the ONEOK stock as transactions of approximately equal size and value. As modeled, the first such subsequent transaction would occur in the 2nd half of 2003. Under our amended agreements with ONEOK, which the Commission approved on January 17, 2003, after the "lock-up" period ends in August 2003, we will be able to sell ONEOK stock as and when the market permits. We plan to retain investment bankers to help us assess the right time and method for such dispositions to maximize proceeds for debt reduction. Under our agreement with ONEOK, we must notify ONEOK of our intent.

ONEOK can, under limited circumstances, affect the timing of such a sale. After we give notice of our intent to sell, ONEOK has the right to give a preemptive notice and sell securities itself and in that event our sale of securities could be delayed by up to approximately 140 days. ONEOK also has a right to delay our sale by up to 90 days even if it does not intend to sell shares itself if our proposed sale would unreasonably interfere with other pending or contemplated financing transactions, security offerings or certain other transactions by ONEOK. ONEOK cannot exercise its right to preempt our sale more than once in any twelve-month period or its right to delay our sale more than twice in any twelve-month period.

Assuming ONEOK does not modify the proposed timing of our sale, we would expect to close a sale within two weeks of its announcement. This

transaction would likely not give rise to a payment of income taxes since it would be sheltered by the losses on other asset dispositions.

The anticipated pro forma impact of this transaction on Westar Energy's debt level is:

Beginning debt level:	$2,982– 2,776 million
Less Transaction Impact:	$125–200 million
Net remaining debt level:	$2,857– 2,576 million

The anticipated pro forma impact on the Company's capital structure from this transaction is as follows, with the post-transaction estimates reflecting the mid-point of the estimated sale proceeds:

	Beginning	Post-transaction
Common Equity	27%	29%
Preferred Securities	6%	6%
Total Debt	67%	65%
Total Capital	100%	100%

6. Sale of interest in Protection One, Inc.

We have already begun the process of marketing the Company's interest in Protection One, Inc. by engaging Lehman Brothers Inc. to act in the role of our investment banking advisor. This is a larger and potentially more complex transaction than the Protection One Europe sale and we expect it may take longer to complete. Our target is to close such a transaction by late in 2003 or early 2004.

This transaction should enable debt reduction through the following effects: receipt of proceeds from our equity interest; receipt of cash to repay the

Senior Credit Facility between Westar Industries and Protection One,[13] elimination of Protection One's public debt from the Company's consolidated balance sheet; and use of tax effects from the sale to shield gains from additional sales of ONEOK securities.

The anticipated pro forma impact of this transaction on Westar Energy's debt level is:

Beginning debt level:	$2,857–2,576 million
Less Transaction Impact:	$500–1,000 million
Net remaining debt level:	$2,357–1,576 million

The anticipated pro forma impact on the Company's capital structure from this transaction is as follows, with the post-transaction estimates reflecting the mid-point of the estimated sale proceeds:

	Beginning	Post-transaction
Common Equity	29%	34%
Preferred Securities	6%	7%
Total Debt	65%	59%
Total Capital	100%	100%

7. Third sale of ONEOK stock.

The Plan contemplates a third sale of ONEOK stock in the first half of 2004, under similar methods to the planned sale in late 2003. We expect a gain on this sale would generate tax consequences but for the application of tax losses from other asset dispositions. Again, ranges for potential proceeds from such transaction are reflected below.

[13] All of the cash paid to Westar Industries to repay the credit facility will be transferred to Westar Energy for the reduction of Westar Energy's debt without consideration being paid by Westar Energy to Westar Industries.

The anticipated pro forma impact of this transaction on Westar Energy's debt level is:

Beginning debt level:	$2,357– 1,576 million
Less Transaction Impact:	$125–200 million
Net remaining debt level:	$2,232– 1,376 million

The anticipated pro forma impact on the Company's capital structure from this transaction is as follows, with the post-transaction estimates reflecting the mid-point of the estimated sale proceeds:

	Beginning	Post-transaction
Common Equity	34%	36%
Preferred Securities	7%	8%
Total Debt	59%	56%
Total Capital	100%	100%

8. Final disposition of ONEOK stock.

The Plan contemplates that all remaining securities of ONEOK would be liquidated by year-end 2004; again under similar methods to previous ONEOK sales. Here too we would expect proceeds from any gain to be maximized through the application of tax losses from the disposition of Protection One.

The anticipated pro forma impact of this transaction on Westar Energy's debt level is:

Beginning debt level:	$2,232– 1,376 million
Less Transaction Impact:	$125–200 million
Net remaining debt level:	$2,107– 1,176 million

The anticipated pro forma impact on the Company's capital structure from this transaction is as follows, with the post-transaction estimates reflecting the mid-point of the estimated sale proceeds:

	Beginning	Post-transaction
Common Equity	36%	39%
Preferred Securities	8%	8%
Total Debt	56%	53%
Total Capital	100%	100%

9. Other Non-core assets

The Company has other non-core assets, of much less value, that it also intends to dispose of in an orderly fashion. While not expected to be significant in the Plan, proceeds from these dispositions will also be used for debt reduction. These assets include minority interests in power generation facilities in the Republic of Turkey and the People's Republic of China, and securities held in Guardian International and Onsite Energy. Given the uncertainty of value and timing for such transactions, the Company offers only a broad estimate of net proceeds. While these dispositions are important in clarifying our renewed mission, the Company does not expect the sale of these assets to be significant in accomplishing its debt reduction efforts.

The anticipated pro forma impact of this transaction on Westar Energy's debt level is:

Beginning debt level:	$2,107– 1,176 million
Less Transaction Impact:	$0–20 million
Net remaining debt level:	$2,107– 1,156 million

The anticipated pro forma impact on the Company's capital structure from this transaction is as follows, with the post-transaction estimates reflecting the mid-point of the estimated sale proceeds:

	Beginning	Post-transaction
Common Equity	39%	39%
Preferred Stock	8%	8%
Total Debt	53%	53%
Total Capital	100%	100%

10. Potential issuance of Westar Energy Equity

The last step in the Plan would be to issue additional shares of Westar Energy equity. This we contemplate in the second half of 2004 following the disposition of all material non-core assets. The timing, manner and sequence of such an equity issuance in this Plan is critical to its effectiveness, as explained by witness Dr. William Avera. Because equity is the most expensive form of capital the Company employs, getting the amount right is important. It would not be in anyone's interest were the Company to raise more than required, nor would it be helpful to raise less than needed, leaving the market wondering whether a subsequent issuance might be pending; and thus overhanging the market to the detriment of the Plan. By sequencing equity behind the other debt reduction efforts delineated in the Plan, the amount of expensive equity can be sized to meet more precisely any remaining debt reductions required to meet the Commission's objectives.

The anticipated pro forma impact of this transaction on Westar Energy's debt level is:

Beginning debt level:	$2,107– 1,156 million
Less Transaction Impact:	$350– 0 million
Net remaining debt level:	$1,757 –1,156 million

The anticipated pro forma impact on the Company's capital structure from this transaction is as follows, with the post-transaction estimates reflecting the amount of equity required to meet the Commission's targeted level of debt.

	Beginning	Post-transaction
Common Equity	39%	49%
Preferred Securities	8%	4%
Total Debt	53%	47%
Total Capital	100%	100%

V. Recap of results of transactions

The table below recaps the modeled capital structure both before execution of the Plan and upon its completion.

	December 31, 2002	December 31, 2004
Common Equity	23%	49%
Preferred Securities	5%	4%
Total Debt	72%	47%
Total Capital	100%	100%

VI. Interim protections

The goals of this Plan will not be accomplished overnight. However, each of the Commission's stated objectives can be accomplished in an orderly fashion and within a reasonable timeframe. The Plan submitted above provides a clear road map, complete with interim guideposts, which will allow the Commission to monitor Westar Energy's progress in implementation.

A. Financial reporting

Westar Energy will be submitting Quarterly Financial Reports consisting of a pro forma utility-only balance sheet, income statement and statement of cash flows. Westar Energy is preparing an unconsolidated balance sheet for the existing corporate entity Westar Energy, Inc. The total Westar Energy amount will then be adjusted to reflect the elimination of Westar Energy's investment in

non-utility assets and some consolidating entries will also be made to present the utility-only information on a consolidated basis as nearly as possible. We will provide a description for each adjustment made to the balance sheet. In regards to the amount of debt, the Company will initially include $1.67 billion of debt in the financial reports. The amount of debt attributed to the utility for reporting purposes will be reduced by $100 million per year until the debt is reduced to $1.47 billion.

On the income statement, we will remove equity earnings in non-utility assets, a prorata amount of debt expense and a calculated income tax amount based on the statutory tax rate. Certain consolidating entries may also have to be made for clarity. Again, we will provide a description for each adjustment made to the income statement.

A cash flow statement will be created from the adjusted balance sheet and income statement presented. Finally, the statements will be on a year-to-date basis.

The resulting submissions will be the utility-only financial statements provided that it is understood that only certain eliminating entries will be made. This approach was chosen so that the detail component parts (legal entities in our accounting system) can be displayed individually and that the number of adjusting entries will be only those items necessary to reflect as best as possible the utility business given these assumptions.

Certain disclosures will have to be made on the statements. For example, the legal entities columns will contain audited data, but the adjustments and

adjusted total column will be unaudited. Moreover, since not all consolidating entries will be made, the statements will not be considered to be in accordance with Generally Accepted Accounting Principles (GAAP). However, GAAP will be used as the basis for preparation of the statements.

B. Affiliate transactions

In Order No. 51, at paragraph 111 through 113, the Commission discussed several "standstill protections." These standstill protections are as follows:

1. A prohibition on interaffiliate loans, investments and other cash transfers to a non-utility affiliate in excess of $100,000;
2. A requirement for Westar Energy to seek KCC approval for interaffiliate agreements in excess of $100,000;
3. A requirement for Westar Energy to seek KCC approval for new investments in non-utility business in excess of $100,000;
4. A requirement that interaffiliate loans (receivable or other cash advances) accrue interest payable to Westar Energy;
5. A requirement that Westar Energy seek KCC approval for any asset transfers to a non-utility affiliate;
6. A requirement that Westar Energy seek Commission approval before the issuance of any debt, and;
7. A requirement to seek KCC approval to sell any portion of its investment in ONEOK.

In Order No. 55 at paragraph 70 through 80 the Commission discussed interaffiliate transactions. The Commission's discussion clarified and amended

the above list of standstill protections. The Commission clarified that Westar Energy could request an exemption to reporting transactions in excess of $100,000 that are in the ordinary course of the utility's business.

The Company in its January 10, 2003 Petition for Reconsideration requested that it be exempted from the $100,000 cash transfer requirement for six different types of transactions. The transactions are all with entities that Westar Energy has an existing contractual relationship that are on file with the KCC. The Company also requested that the 48-hour reporting requirement for any affiliate transaction be modified to monthly reporting of interaffiliate transactions. This data is voluminous, non-summarized and would not be helpful to Staff.

Representatives from Westar Energy's accounting and regulatory areas met with the Staff and discussed a method to provide Staff and the Commission with information on interaffiliate transactions and not overwhelm them with a mountain of paper and numerous filings for items that are in the ordinary course of business and subject to contractual agreements. As stated in the Company's Petition for Reconsideration, Staff indicated that Westar Energy's proposed alternative was acceptable.

The Company will provide Staff monthly billings between affiliates or other documentation (if not in the form of billings, for example, journal entries or a summary report will be provided) that summarize the interaffiliate transactions. In addition, the Company will provide a report to Staff on transactions in excess of $100,000.

C. Debt reduction reporting

The Commission in Order No. 51 at paragraph 86 required Westar Energy to submit quarterly reports on its progress on retiring debt. In Order No. 55 at paragraph 17 the Commission changed this quarterly reporting requirement to monthly reporting. The reports were to be in a format established by Staff.

The Company discussed the format of the report with Staff. On January 10, 2003, Westar Energy filed its first monthly report. The reporting format was acceptable to Staff. The Company will continue to file these reports as it implements its Plan.

D. Conclusion concerning interim protections.

These reports will show the Commission Westar Energy's progress in debt reduction and in improving its financial indicators. Allowing the Company a reasonable time to complete its planned transactions will not expose the Company's electric utility customers to the risks of Westar Energy's non-utility businesses. In fact, the Company believes the risk to utility customers is minimized with its Plan, if an alternative plan would require hasty and haphazard dispositions or a complex legal restructuring.

This conclusion is further supported by current operating conditions. First, Westar Energy's non-utility businesses are currently operating on a positive cash flow basis and Westar Energy commits that, without Commission approval, it will not invest additional amounts into its non-utility businesses. Second, because the Commission will be able to closely monitor the Company's progress, there is no need to set hard deadlines for implementing the Plan. At any time the

Commission finds that Westar Energy is not making appropriate progress, the Commission can revisit the issue of deadlines.

VII. Risks

As with all complex business transactions, each component of the Plan contains certain risks. These risks relate to both internal factors, such as results from operations, as well as external factors, such as general market influences. The risks can affect timing, amount and even the ability to close the listed transactions. Moreover, the near-term and longer-term risks may differ. Fortunately, steps have already been taken to minimize risks and our Plan contemplates flexibility to address risks that presently are unknown. However, should an inferior sequencing of the proposed steps be mandated, or the steps accelerated beyond reasonable measures, the execution risks increase.

VIII. Liability Management

All steps of the Plan require attention to the method and timing of calling outstanding debt. We will be balancing competing interests of debt covenants, economic results, timing and effectiveness of the Plan. Certain debt obligations are callable (either at par or with premia). Other debt is non-callable. We may reduce debt pursuant to its stated terms or through open market purchases or tender offers. Westar Energy intends to engage a financial advisor to assist in completing debt repurchases in the most cost-effective manner.

IX. Summary and Conclusions

Included in the Plan are all reasonable tools of sound financial management — simplification of organizational structure, dividend policy, non-utility asset sales, non-core asset sales (ONEOK securities) and the issuance of

new equity — and an established procedure for monitoring and reporting. Just as important as the components are the timing and manner of execution. Each of these steps includes certain levels of execution risk; with such risk interrelated to the success of other executed and contemplated components of the Plan. Therefore, thoughtful planning and execution, including timing and sequence, is equally important to the efficacy of the Plan. Flexibility too will be of great value in the success of the Plan.

Exhibit 99(h)

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

Before Commissioners:	John Wine, Chair Cynthia L. Claus Brian J. Moline

In the Matter of the Investigation of Actions of Western Resources, Inc. to Separate its Jurisdictional Electric Public Utilities Business from its Unregulated Businesses.	))))	Docket No. 01-WSRE-949-GIE

No. 60

ORDER GRANTING LIMITED RECONSIDERATION

For the reasons discussed below, the Commission grants the Petitions of Westar Energy, Inc. (Westar Energy or Company) and its affiliate Protection One, Inc. (Protection One) for reconsideration of Order 55. The purpose of the reconsideration is to allow the Commission more time to fully consider the Debt Reduction and Restructuring Plan filed by Westar Energy on February 6, 2003, and to seek and review written comments from the Commission Staff (Staff) and intervening parties responding to Westar Energy's filing.

1. Prior to 1996, Westar Energy was almost exclusively an electric natural gas public utility. As of December 31, 1995, Westar Energy employed approximately $3.4 billion in total capital. Westar Energy's capitalization at that time consisted of long-term debt in the amount of $1.4 billion, short-term debt in the amount of $0.2 billion and $0.1 billion in quarterly income preferred securities (QUIPs). Furthermore, at that time, WRI had common equity of $1.7 billion, which represented approximately 50 percent of its total capital structure. Proctor Direct at 7, 12-13, 20 and Staff Exhibit No. JMP-5.

2. Since 1996, Westar Energy has employed incremental capital to invest in nonutility businesses. As of December 31, 2001, after taking into consideration and adjusting for an impairment charge of $0.65 billion during the first quarter of 2002 for two of its nonutility subsidiaries, Protection One, Inc. (Protection One) and Protection One, Europe, Westar Energy's consolidated debt and common equity were $3.6 billion and $1.2 billion, respectively, for a total of $4.8 billion in capital. Without the impairment charge, Westar Energy's total capital would have been $5.4 billion, including $1.8 billion of equity. Consequently, the common equity component of WRI, on a consolidated basis, fell to approximately 25 percent of total capital. Proctor Direct at 7, 12-13, 20 and Staff Exhibit No. JMP-6.

3. The excessive level of debt and the pattern of abusive affiliate transactions with the existing Westar Energy corporate structure threatened the financial integrity of the public utility and compromised Westar Energy's ability and obligation to provide efficient and sufficient utility service at just and reasonable rates. The Commission initiated this investigation on May 8, 2001, to protect the public interest and assure that Westar Energy takes appropriate and prompt steps to correct these problems and restore financial stability. The Commission has outlined specific objectives in the July 20, 2001 Order and has continued to work thereafter towards meeting those specific objectives and correct the problems discussed and found in the Commission's prior orders. In addition, this investigation sought to establish appropriate standards and guidelines to govern interaffiliate relations and transactions within the Westar Energy corporate family to facilitate the correction of the misallocation of debt and assets within the Westar Energy corporate family. Without the Commission's investigation, the actions taken by Westar Energy, including Westar Energy's corporate structure proposal contained in its November 25, 2002 Petition for Reconsideration, would have resulted in an electric utility with more debt than assets. Westar Energy, through the creation of Westar Industries, Inc. (Westar Industries), has attributed only $0.5 billion of debt to unregulated businesses, leaving the electric utility business with the remaining $3.1 billion of debt and a negative $0.45 billion in common equity. Proctor Direct at 14 and Staff Exhibit No. JMP-2. This allocation would have resulted in Westar Energy paying $124.8 million per year in interest for $1.63 billion of debt incurred for nonutility investments and businesses. Proctor Direct at 18.

4. The Commission, after having conducted extensive hearings to find reasonable solutions to Westar Energy's financial problems, entered Order 51 on November 8, 2002. Despite objections from several parties, the Commission gave Westar Energy the flexibility to choose its own path. In that Order, the Commission mandated financial and corporate restructuring of Westar Energy necessary to: (i) achieve a balanced capital structure within the public utility business controlled by or affiliated with Westar Energy; (ii) reduce the excessive debt accumulated due to investment in nonutility business ventures; (iii) prevent interaffiliate accounting practices and relations that are harmful to Westar Energy's public utility business; and (iv) protect ratepayers from the risks of Westar Energy's nonutility business ventures in the corporate family controlled by Westar Energy.

5. In Order 51, the Commission also (i) rejected the financial plan proposed by Westar Energy that would have allocated nonutility debt to public utility business and its ratepayers; (ii) directed Westar Energy to reverse certain abusive accounting transactions; (iii) directed Westar Energy to transfer its KPL utility division to a

utility-only subsidiary of Westar Energy, creating a capital structure to reflect the correct allocation of debt between the utility and nonutility businesses within the corporate family; (iv) directed Westar Energy to reduce its utility business debt by $100 million annually for the next two years; (v) instituted interim standstill protections to prevent harm to Westar Energy's utility businesses as a result of their affiliation with Westar Energy's nonutility businesses pending adoption of final requirements relating to such affiliation; and (vi) initiated an investigation into the appropriate type, quantity, structure and regulation of the nonutility businesses with which Westar Energy's utility businesses may be affiliated.

6. The Commission, on December 23, 2002, entered Order 55. Order 55 made modifications to Order 51 made necessary by certain statements by Westar Energy in its petition for reconsideration of Order 51. Most significantly, Order 51 did not establish a target date by which the unacceptable excessive debt level and the cross-subsidization issues must be resolved and the Company's petition made it clear to the Commission that some deadline would be necessary to assure the public interest prevailed over Westar Energy's private interest. While allowing Westar Energy the discretion, subject to the public interest guidelines, to select the optimal-combination of debt reduction/corporate restructuring measures to accomplish the stated goals, the Commission:

i.) established a target date of August 1, 2003, by which Westar Energy's utility businesses must be operated in a separate utility subsidiary or subsidiaries, resolving the unacceptable excessive debt level and cross-subsidization issues;

ii.) clarified the financial and corporate restructuring requirements of Order 51, in light of new information regarding Westar Energy's indentures and the feasibility of separating Westar Energy's secured and unsecured debt (The Commission rejected, Westar Energy's corporate structuring proposal that would have resulted in the permanent misallocation of debt and assets within the Westar Energy corporate family, as the Commission has done with two other similar proposals.);

iii.) clarified Order 51's accounting and reporting requirements concerning new investments in nonutility businesses and interaffiliate relations and transactions, including the implementation of accounting practices to resolve subsidization issues;

iv.) affirmed the Commission's authority to require approval before the issuance of any additional debt and rejected Westar Energy's request to exempt from this requirement issuances pending before this Commission;

v.) affirmed the factual finding that the appropriate level of debt for Westar Energy's electric utility business after corporate restructuring is $1.47 billion, even though Westar Energy's indentures may require the utility business to initially bear additional debt attributable to nonutility investments; and,

vi.) rejected Westar Energy's request to remove the requirement that after the new utility subsidiary is formed, Westar Energy reduce utility debt by $100 million per year from cash flow until the appropriate level of utility debt ($1.47 billion) is reached, and clarified that the requirement applies regardless of the company's payment of dividends.

7. Since entering Orders 51 and 55, significant developments affecting this investigation have occurred. For example, Westar Energy entered into an agreement with ONEOK, Inc. (ONEOK) for Westar Energy to see and for ONEOK to purchase ONEOK stock held by Westar subject to the terms and conditions of the Partial Stipulation and Agreement and the Commission's Orders. In addition, Westar Energy announced on January 10, 2003, that it would comply with the Commission's $100 million annual debt reduction requirement. Westar Energy also filed a Form 8-K Report to the United States Securities and Exchange Commission (SEC) on January 13, 2003, publicly announcing its intention to sell its interest in Protection One. Finally, on February 6, 2003, Westar Energy filed a Debt Reduction and Restructuring Plan pursuant to Order 51.

8. Westar Energy's planning report proposes a series of steps by which Westar Energy expects, over a two-year period, to reduce its total debt to $1.47 billion and eliminate all nonutility businesses and investments, including its interest in Protection One. The targeted debt level is the amount of debt found and determined by the Commission to be the correct level of debt attributable to utility operations. Westar Energy asserts it has selected a combination of actions and appropriate sequence for their execution. These actions include sales of all nonutilty businesses, equity issuances, application of cash flow and dividend reductions. Westar Energy's planning report also proposes elimination of all affiliates which are not essential for the efficient and economic provision of utility service, including the eventual elimination of Westar Industries, Inc. (Westar Industries). Westar Energy proposes in its planning report to insulate ratepayers from the risks of nonutility investments, as required by the Commission, by eliminating all holdings in nonutility investments. This divestiture brings into question whether it is necessary to specify a particular corporate structure.

9. Overall, the February 6, 2003 planning report appears to make a good faith effort to address the concerns expressed in the Commission's prior orders. However, the Commission needs additional time to fully review the filing to determine whether Westar Energy's planning report should be considered in addressing the petitions for reconsideration pending in this matter. The Commission seeks the written responses from Staff and the other intervening parties commenting on Westar Energy's planning report.

IT IS, THERFORE, BY THE COMMISSION, ORDERED THAT:

A. The petitions of Westar Energy and Protection One for reconsideration of Order 55 are granted for the purposes of considering the developments, identified above, that have occurred in the interim since the issuance of Order 55 in relation to the restructuring requirements of Orders 51 and 55 and the pending requests for reconsideration. The requirement to form a utility-only subsidiary for Westar Energy's KPL division by August 1, 2003 is stayed pending reconsideration of Order 55.

B. Written comments to Westar Energy's Debt Reduction and Restructuring Plan may be filed with the Commission on or before February 27, 2003. Limited discovery on Westar Energy's planning report is allowed during this period of time. The parties should endeavor to issue data requests that refer to specific portions of the plan or materials filed in support of it and to make this limited discovery period as efficient as possible.

C. The Commission retains jurisdiction over the subject matter of this investigation and the parties for the purpose of entering such further order or orders as it may deem necessary and proper.

BY THE COMMISSION IT IS SO ORDERED.

Wine, Chr.; Claus, Comm.; Moline, Comm.

Dated: Feb 10 2003

ORDER MAILED

FEB 10 2003

/s/ SUSAN K. DUFFY
Susan K. Duffy
Executive Director

Exhibit 99(i)

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners:	John Wine, Chair Cynthia L. Claus Brian J. Moline

In the Matter of the Investigation of Actions of Western Resources, Inc. to Separate its Jurisdictional Electric Public Utility Business from its Unregulated Businesses.	}	Docket No. 01-WSRE-949-GIE

No. 65
ORDER CONDITIONALLY APPROVING
PARTIAL STIPULATION

For the reasons discussed below, the Commission finds that it has jurisdiction over the Partial Stipulation and Agreement (Partial Stipulation) filed February 25, 2003, and that conditional approval of the Partial Stipulation, as provided below, is reasonable and in the public interest.

Overview

1. On February 25, 2003, Commission Staff (Staff), Westar Energy and its affiliates Protection One, Inc. (Protection One) and Westar Industries, Inc. (Westar Industries), and MBIA Insurance Corporation (MBIA) (collectively referred to as the Movants) filed a Joint Motion for Expedited Approval of Partial Stipulation. The Movants seek permission to make or engage in certain cash payments, transactions, and agreements that would otherwise conflict with the terms and conditions of the Interim Standstill Protections ordered in Orders 51 and 55. By Order 64 dated March 5, 2003, the Commission set the Partial Stipulation for hearing on the date requested by the Parties in order to take evidence on whether waiver of the Interim Standstill Protections with respect to the proposed cash transfers is reasonable and in the public interest.

2. On March 6, 2003, an evidentiary hearing on the Partial Stipulation submitted by Movants was held. The following appearances were entered: Ms. Susan B. Cunningham, General Counsel, on behalf of Staff and the public generally; Messrs. Martin J. Bregman, Executive Director,

Law, and Larry M. Cowger, Director, Law, on behalf of Westar Energy; Ms. Teresa James, Messrs. Eric Griffin and Mitchell Hertz on behalf of Protection One, Inc.; Mr. David Springe, Consumer Counsel, on behalf of Citizens' Utility Ratepayer Board (CURB); Mr. James P. Zakoura on behalf of Kansas Industrial Consumers (KIC); Ms. Sarah Loquist on behalf of Unified School District No. 259; and Ms. Glenda Cafer on behalf of MBIA.

3. According to the Partial Stipulation, Westar Energy desires to make cash payments to Protection One as follows:

a.) Cash payment of approximately $20 million, representing the allocation of income tax savings under the Tax Sharing Agreement attributable to Protection One's deferred income tax assets and current taxable losses;

b.) Cash payment of approximately $1.0 million, representing the reimbursement due Protection One for information technology services provided by Protection One Data Services, Inc. (PODS), pursuant to a management contract terminated as a result of a Commission investigation into whether the contract met the public interest standard required under Kansas law; and

c.) Cash payment of approximately $3.4 million from Westar Energy to Protection One, representing the reimbursement due Protection One for aviation services charged to Westar Energy and the cost to repurchase AV One, Inc., formerly known as Westar Aviation, Inc., from Protection One.

4. In addition, Westar Energy desires to make additional working capital available to Protection One through the Senior Credit Facility between Westar Industries and Protection One that, under its present terms, expires on January 5, 2004. Westar Energy and Protection One agree to revise the Senior Credit Facility to reduce the maximum borrowing authority from $280 million to $228.4 million while extending the maturity of the Credit Facility from January 5, 2004, to January 5, 2005. Westar Energy seeks permission to refund Protection One an amount to reflect the pro rata fees paid to Westar Industries by Protection One for increase in maximum borrowing authority under the Credit Facility, offset by the normal fees charged for extending the maturity date of a credit facility.

Discussion

5. Westar Energy, and its wholly-owned subsidiary, Kansas Gas and Electric Company (KG&E), doing business as Westar Energy, are certificated electric public utilities that provide retail electric service in the state of Kansas. As public utilities, the Commission has comprehensive regulatory authority to establish rules governing affiliate relations and accounting practices between and among a public utility and its nonutility businesses. K.S.A. 66-101 *et seq*. The Commission finds that these statutory provisions empower the Commission to inquire into the terms, conditions, and operation of the Partial Stipulation in order to determine whether approval is in the public interest and to attach conditions necessary to ensure that the public interest is protected from the harmful affiliate relations and the accounting practices, previously discussed and found in the Commission's prior orders.

6. Having discussed and found in Orders 51 and 55, that Westar Energy's customers, who had no stake in the profits of Westar Energy's nonutility businesses, should not bear the losses or risk of losses from, or debt associated with, those nonutility businesses, the Commission imposed Interim Standstill Protections. These orders and protections are necessary to protect the public from the past conduct of Westar Energy and its corporate predecessors. The Interim Standstill Protections prohibit the unjust enrichment of Westar Energy's unregulated businesses at the expense of Westar Energy's utility operations and ratepayers and the inappropriate shifting of risks and losses associated with the unregulated businesses to the utility operations and ratepayers. The Interim Standstill Protections prevent affiliate accounting practices and relations that are harmful to Westar Energy's public utility operations, as Westar Energy executes the Commission's order to reduce its excessive level of debt for the utility operations.

7. According to Staff's analysis of the Partial Stipulation, the cash transfers through the Tax Sharing Agreement and Senior Credit Facility will maintain the market value of Protection One, and a sale of Protection One stock, under such circumstances, will increase the potential proceeds that can be used to reduce Westar Energy debt. Furthermore, according to Staff's analysis, the incremental increase in sale proceeds is likely to be greater than the incremental cost to Westar Energy of the cash transfers proposed under the Partial Stipulation. In addition, Staff's analysis shows that the Partial Stipulation unwinds, in part, the harmful affiliate relations with Protection One that have transferred value from Westar Energy to that affiliate.

8. Under these specific circumstances, the Commission finds that the requested waiver, as conditioned below, meets the standard for granting such waivers or exemptions. The conditions imposed by this order are necessary to minimize the risk associated with Westar Energy's decision to assist its nonutility businesses in the manner described in the Partial Stipulation and to assure to the extent feasible that such risk falls not on the utility customer but on the owners, since the owners approved the investments in the nonutility businesses, and/or hired the management and elected the Board who approved the investments. The risk here is that the proposed cash transfers from Westar Energy to Protection One will fail to achieve the stated goal of making Protection One more attractive to purchasers. In that instance, Westar Energy would have reduced the cash it had available for debt reduction, but would not have achieved an increase in Protection One's market value. The Commission's approval herein assumes that Westar Energy's ability to carry out its debt-reduction obligation under Orders 51 and 55 will not be diminished by the proposed cash transfers. If the cash transfers are not successful in their goal of facilitating the sale of Protection One, the Commission will have to consider other measures, including dividend reduction, to assure that the necessary debt reduction takes place.

9. Accordingly, the Commission hereby approves the Partial Stipulation, subject to the following conditions:

A. Senior Credit Facility and Tax Sharing Agreement

10. With respect to paragraph 16 of the Partial Stipulation, Westar Energy shall not, nor shall Westar Energy cause or permit any affiliate to, exceed the maximum borrowing authority under the Credit Facility of $228.4 million. Westar Energy shall not, nor shall Westar Energy cause or permit any affiliate to, extend or provide capital through the Credit Facility after Protection One is sold. Any provision of capital above the $228.4 million cap provided in the revised Senior Credit Facility will violate this order and be subject to sanction and enforcement by the Commission.

11. With respect to paragraph 17 of the Partial Stipulation, the Credit Facility between Westar Industries and Protection One must be paid off upon the sale of all or a majority of Protection One common stock held by Westar Energy and Westar Industries. Westar Energy must be repaid in full for the capital provided Protection One through the Senior Credit Facility with Westar Industries. Thus, Westar Energy must commit that in any sale of Protection One, a condition of the sale will be the purchaser's full discharge of Protection One's obligations under the Senior Credit Facility. Further, Westar Energy must commit that it will direct Westar Industries to transfer to Westar Energy all funds received from Protection One as a result of the repayment of the Senior Credit Facility. Westar Energy shall make these commitments in paragraphs 10 and 11 above in a letter to be filed with the Commission within 10 days of this order.

12. With respect to paragraph 18 of the Partial Stipulation, any cash transfers from Westar Energy to Westar Industries shall be recorded as a loan payable to Westar Energy. As

explained in Order 55 at paragraph 79, Westar Energy must implement an accounting practice in which Westar Industries makes monthly interest payments to Westar Energy in cash. The Commission directed these requirements to correct the misallocation of debt and assets within the Westar Energy corporate family and protect the public from further accounting abuses previously discussed and found in the Commission's prior orders.

13. With respect to paragraph 14 of the Partial Stipulation, at the March 6, 2003 hearing, Westar Energy's witness Michael Stadler testified that if the alternative minimum tax applied to Westar Energy, the amount due from Westar Energy to Protection One under the Tax Sharing Agreement would be approximately $20 million; and that if the alternative minimum tax did not apply, the amount due would be approximately $35 million. With the instant order, the Commission authorizes Westar Energy to make the lower payment. Should the higher payment be possible due to the inapplicability of the alternative minimum tax, Westar Energy shall notify the Commission before making such payment.

B. Protection One Data Services, Inc. and AV One, Inc.

14. With respect to paragraph 19 of the Partial Stipulation, Protection One must release any and all claims under the PODS management agreement with Westar Energy related to information technology services. Further, Protection One must state in a letter to Westar Energy, which Westar Energy shall file with the Commission within 10 days of this order, that the reimbursement specified in the Partial Stipulation shall extinguish and satisfy all current balances outstanding regarding this management agreement. Notice and explanation of the payments related to Protection One Data Services, Inc., must be filed with the Commission and served on all parties of record.

15. With respect to paragraph 20 of the Partial Stipulation, Protection One must release any and all claims under its aviation services agreement with Westar Energy. Further, Protection One must state in a letter to Westar Energy, which Westar Energy shall file with the Commission within 10 days of this order, that the payment specified in the Partial Stipulation extinguishes and satisfies all current balances outstanding regarding aviation services charged to Westar Energy. Notice and explanation of the payments regarding AV One, Inc., must be filed with the Commission and served on all parties of record.

16. With respect to paragraph 21 of the Partial Stipulation, Protection One must release in a letter to Westar Energy, which Westar Energy shall file with the Commission within 10 days of this order, any and all claims under the Management Services Agreement with Westar Energy.

C. Sale of Protection One Stock or Assets

17. Westar Energy and Protection One must seek approval before any asset sale having a value of $100,000 or more is consummated. Further, the provisions provided in paragraphs 25 through 27 of the Partial Stipulation that are applicable to the sale of Protection One stock shall be equally applicable if Protection One sells assets. Moreover, with respect specifically to paragraph 25, the “format” shall be the format required by the Commission after receiving comments from the company, Staff and the intervening parties, not the format “to be agreed upon with the Commission Staff,…” Once the format is approved, these status reports shall be filed with the Commission and served on the parties of record.

18. Westar Energy and Westar Industries shall provide the Commission with monthly reports on the efforts made to sell Protection One and will seek Commission approval before selling Protection One. All reports must be served upon the parties of record.

D. Conditions Relating to Rate Treatment

19. The Westar Energy-PODS transaction, referenced in paragraphs 3 and 14 above, was originally advocated to the Commission on the grounds that it would reduce costs for Westar Energy. Consequently, in the August 16, 2002 Order, entered in Docket No. 03-KG&E-103-ACT, the Commission required Westar Energy to accrue savings for evaluation in a future rate case. Concern about the potential harm from affiliate transactions has been at the heart of this long proceeding. The Commission therefore conditions its approval of the Partial Stipulation on a commitment by Westar Energy not to request retail rate recovery of any payment it has made to its affiliate PODS except to the extent such payment is offset by the demonstrated incremental cost reductions or savings due exclusively because of its relationship with PODS.

20. For similar reasons, the Commission conditions its approval here on Westar Energy's commitment not to request retail rate recovery of any costs associated with the proposed cash transfer to Protection One for the acquisition of AV One, Inc. and for related aviation charges except to the extent such payments is offset by demonstrated incremental cost reductions or savings due exclusively because of its relationship with AV One, Inc.

21. The authorization of any payment or transfer pursuant to the Partial Stipulation and this Order shall not be construed as a determination regarding the reasonableness or prudency of any such payment or transfer, including the reasonableness or prudency of any service underlying such payment or transfer.

E. Deadlines

22. The Commission rejects paragraph 29 of the Partial Stipulation seeking to eliminate the deadline for the sale of Protection One. In Order 60, the Commission stayed its August 1, 2003 deadline; however, that deadline was applicable to Westar Energy's corporate restructuring, not, in

particular, for the sale of Protection One. The Commission will be reviewing Westar Energy's financial planning report submitted on February 6, 2003, and alternatives thereto as well as any proposed deadlines. That review process will culminate in new orders relating to deadlines. The Commission will not address deadlines piecemeal.

23. The issue is not Westar Energy's "good faith," as suggested by the Partial Stipulation; the issue is having assurance that the utility will give priority to its public service obligations over its desire to maximize the value of nonutility businesses for the benefit of its shareholders. These interests overlap, but they are not necessarily consistent. As the Commission has explained before in Order 55 at paragraphs 11-20, deadlines are necessary to assure that the public interest has priority.

IT IS, THEREFORE, BY THE COMMISSION CONSIDERED AND ORDERED THAT:

A. Westar Energy is authorized to make, or cause to be made, the cash payments and cash transfers as provided in the Partial Stipulation and as conditionally approved herein.

B. Westar Energy, Westar Industries and Protection One shall file a letter no later than 10 days following this order, indicating acceptance of these conditions. Upon the filing of that letter, Protection One's request for reconsideration will be deemed withdrawn.

C. This Order is effective upon service by facsimile transmission.

D. Any party may file a petition for reconsideration of this Order within fifteen days of the date this order is served. If this Order is served by mail, service is complete upon mailing, and three days may be added to the above time frame.

E. The Commission retains jurisdiction over the subject matter of this investigation and the parties for the purpose of entering such further order or orders as it may deem necessary and proper.

BY THE COMMISSION IT IS SO ORDERED.

Wine, Chr.; Claus, Comm.; Moline, Comm.

Dated: MAR 11 2003

/s/ Susan K. Duffy

Susan K. Duffy
Executive Director

Exhibit 99(j)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Westar Energy, Inc. (the Company) on Form 10-K for the year ended December 31, 2002 (the Report), which this certification accompanies, William B. Moore, in my capacity as Chairman of the Board and President (Principal Executive Officer) of the Company, and Mark A. Ruelle, in my capacity as Vice President and Treasurer (Principal Financial and Accounting Officer) of the Company, certify that the Report fully complies with the requirements of section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (*15 U.S.C. 78m* or *78o(d)*) and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 15, 2003 By: /s/ William B. Moore

William B. Moore
Chairman of the Board and President
(Principal Executive Officer)

Date: April 15, 2003 By: /s/ Mark A. Ruelle

Mark A. Ruelle,
Vice President and Treasurer
(Principal Financial and Accounting Officer)

The forgoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company as part of the Report or as a separate disclosure document for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended.