

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2011

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 1-3523

WESTAR ENERGY, INC.

(Exact name of registrant as specified in its charter)

Kansas

(State or other jurisdiction of
incorporation or organization)

48-0290150

(I.R.S. Employer
Identification Number)

818 South Kansas Avenue, Topeka, Kansas 66612 (785) 575-6300

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

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Act). Check one:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (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, par value \$5.00 per share

(Class)

113,690,101 shares

(Outstanding at April 27, 2011)

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GLOSSARY OF TERMS

The following is a glossary of frequently used abbreviations or acronyms that are found throughout this report.

<u>Abbreviation or Acronym</u>	<u>Definition</u>
2010 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2010
AFUDC	Allowance for Funds Used During Construction
BACT	Best available control technology
ECRR	Environmental Cost Recovery Rider
EPA	Environmental Protection Agency
EPS	Earnings per share
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Investors Service
GAAP	Generally Accepted Accounting Principles
GHG	Greenhouse gas
JEC	Jeffrey Energy Center
KCC	Kansas Corporation Commission
KDHE	Kansas Department of Health and Environment
KGE	Kansas Gas and Electric Company
La Cygne	La Cygne Generating Station
MMBtu	Millions of British Thermal Units
Moody's	Moody's Investors Service
MWh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NDT	Nuclear Decommissioning Trust
NOx	Nitrogen Oxide
NRC	Nuclear Regulatory Commission
ONEOK	ONEOK, Inc.
OTC	Over-the-counter
PSD	Prevention of Significant Deterioration program
RSUs	Restricted share units
S&P	Standard & Poor's Ratings Group
SCR	Selective catalytic reduction
SO₂	Sulfur dioxide
SPP	Southwest Power Pool
VIE	Variable interest entity
Wolf Creek	Wolf Creek Generating Station

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this Form 10-Q 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,” “estimate,” “intend” and words of similar meaning. Forward-looking statements describe our future plans, objectives, expectations or goals. Such statements address future events and conditions concerning matters such as, but not limited to:

- amount, type and timing of capital expenditures,
- earnings,
- cash flow,
- liquidity and capital resources,
- litigation,
- accounting matters,
- possible corporate restructurings, acquisitions and dispositions,
- compliance with debt and other restrictive covenants,
- interest rates and dividends,
- environmental matters,
- regulatory matters,
- nuclear operations, and
- the overall economy of our service area and its impact on our customers’ demand for electricity and their ability to pay for service.

What happens in each case could vary materially from what we expect because of such things as:

- the risk of operating in a heavily regulated industry subject to frequent and uncertain political, legislative, judicial and regulatory developments at any level of government that can affect our revenues and costs,
- weather conditions and their effect on sales of electricity as well as on prices of energy commodities,
- equipment damage from storms and extreme weather,
- economic and capital market conditions, including the impact of inflation or deflation, changes in interest rates, the cost and availability of capital and the market for trading wholesale energy,
- the impact of changes in market conditions on employee benefit liability calculations, as well as actual and assumed investment returns on invested plan assets,
- the impact of changes in estimates regarding our Wolf Creek Generating Station (Wolf Creek) decommissioning obligation,
- the ability of our counterparties to make payments as and when due and to perform as required,
- the existence of or introduction of competition into markets in which we operate,
- the impact of frequently changing laws and regulations relating to air emissions, water emissions, waste management and other environmental matters,
- risks associated with execution of our planned capital expenditure program, including timing and receipt of regulatory approvals necessary for planned construction and expansion projects as well as the ability to complete planned construction projects within the terms and time frames anticipated,
- cost, availability and timely provision of equipment, supplies, labor and fuel we need to operate our business,
- availability of generating capacity and the performance of our generating plants,
- changes in regulation of nuclear generating facilities and nuclear materials and fuel, including possible shutdown or required modification of nuclear generating facilities,
- additional regulation due to Nuclear Regulatory Commission (NRC) oversight to ensure the safe operation of Wolf Creek, either related to Wolf Creek’s performance, or potentially relating to events or performance at a nuclear plant anywhere in the world,
- uncertainty regarding the establishment of interim or permanent sites for spent nuclear fuel storage and disposal,
- homeland and information security considerations,
- wholesale electricity prices,
- changes in accounting requirements and other accounting matters,

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- changes in the energy markets in which we participate resulting from the development and implementation of real time and next day trading markets, and the effect of the retroactive repricing of transactions in such markets following execution because of changes or adjustments in market pricing mechanisms by regional transmission organizations and independent system operators,
- reduced demand for coal-based energy because of potential climate impacts and development of alternate energy sources,
- current and future litigation, regulatory investigations, proceedings or inquiries,
- other circumstances affecting anticipated operations, electricity sales and costs, and
- other factors discussed elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K), including in “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in other reports we file from time to time with the Securities and Exchange Commission.

These lists are not all-inclusive because it is not possible to predict all factors. This report should be read in its entirety and in conjunction with our 2010 Form 10-K. No one section of this report deals with all aspects of the subject matter and additional information on some matters that could impact our consolidated financial results may be included in our 2010 Form 10-K. The reader should not place undue reliance on any forward-looking statement, as forward-looking statements speak only as of the date such statements were made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement was made.

[Table of Contents](#)**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

WESTAR ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Par Values)
(Unaudited)

	March 31, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,343	\$ 928
Accounts receivable, net of allowance for doubtful accounts of \$7,260 and \$5,729, respectively	204,434	227,700
Inventories and supplies, net	220,642	206,867
Energy marketing contracts	5,996	13,005
Taxes receivable	22,459	16,679
Deferred tax assets	20,135	30,248
Prepaid expenses	16,068	12,413
Regulatory assets	67,379	73,480
Other	15,442	20,289
Total Current Assets	<u>575,898</u>	<u>601,609</u>
PROPERTY, PLANT AND EQUIPMENT, NET	<u>6,038,935</u>	<u>5,964,439</u>
PROPERTY, PLANT AND EQUIPMENT OF VARIABLE INTEREST ENTITIES, NET	<u>342,157</u>	<u>345,037</u>
OTHER ASSETS:		
Regulatory assets	800,514	787,585
Nuclear decommissioning trust	133,102	126,990
Energy marketing contracts	9,064	9,472
Other	263,086	244,506
Total Other Assets	<u>1,205,766</u>	<u>1,168,553</u>
TOTAL ASSETS	<u>\$8,162,756</u>	<u>\$8,079,638</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ —	\$ 61
Current maturities of long-term debt of variable interest entities	26,858	30,155
Short-term debt	305,340	226,700
Accounts payable	178,870	187,954
Accrued taxes	68,261	45,534
Energy marketing contracts	2,845	9,670
Accrued interest	95,050	77,771
Regulatory liabilities	29,539	28,284
Other	157,297	176,717
Total Current Liabilities	<u>864,060</u>	<u>782,846</u>
LONG-TERM LIABILITIES:		
Long-term debt, net	2,490,878	2,490,871
Long-term debt of variable interest entities, net	272,866	278,162
Deferred income taxes	1,114,611	1,102,625
Unamortized investment tax credits	100,670	101,345
Regulatory liabilities	142,899	135,754
Deferred regulatory gain from sale-leaseback	96,167	97,541
Accrued employee benefits	454,885	483,769
Asset retirement obligations	127,777	125,999
Energy marketing contracts	—	10
Other	61,933	66,878
Total Long-Term Liabilities	<u>4,862,686</u>	<u>4,882,954</u>
COMMITMENTS AND CONTINGENCIES (See Notes 8 and 9)		
TEMPORARY EQUITY	<u>—</u>	<u>3,465</u>
EQUITY:		
Westar Energy Shareholders' Equity:		
Cumulative preferred stock, par value \$100 per share; authorized 600,000 shares; issued and outstanding 214,363 shares	21,436	21,436
Common stock, par value \$5 per share; authorized 150,000,000 shares; issued and outstanding 113,587,852 shares and 112,128,068 shares, respectively	567,939	560,640
Paid-in capital	1,422,842	1,398,580
Retained earnings	418,230	423,647
Total Westar Energy Shareholders' Equity	<u>2,430,447</u>	<u>2,404,303</u>
Noncontrolling Interests	5,563	6,070
Total Equity	<u>2,436,010</u>	<u>2,410,373</u>
TOTAL LIABILITIES AND EQUITY	<u>\$8,162,756</u>	<u>\$8,079,638</u>

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

WESTAR ENERGY, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
REVENUES	\$ 481,720	\$ 459,830
OPERATING EXPENSES:		
Fuel and purchased power	134,184	133,800
Operating and maintenance	137,351	121,172
Depreciation and amortization	70,259	66,930
Selling, general and administrative	48,767	45,927
Total Operating Expenses	<u>390,561</u>	<u>367,829</u>
INCOME FROM OPERATIONS	91,159	92,001
OTHER INCOME (EXPENSE):		
Investment earnings	1,968	1,757
Other income	2,249	854
Other expense	(5,368)	(4,494)
Total Other Expense	<u>(1,151)</u>	<u>(1,883)</u>
Interest expense	43,538	44,616
INCOME BEFORE INCOME TAXES	46,470	45,502
Income tax expense	13,513	13,820
NET INCOME	32,957	31,682
Less: Net income attributable to noncontrolling interests	1,373	1,002
NET INCOME ATTRIBUTABLE TO WESTAR ENERGY	31,584	30,680
Preferred dividends	242	242
NET INCOME ATTRIBUTABLE TO COMMON STOCK	<u>\$ 31,342</u>	<u>\$ 30,438</u>
BASIC AND DILUTED EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING ATTRIBUTABLE TO WESTAR ENERGY (See Note 2)	\$ 0.27	\$ 0.27
Average equivalent common shares outstanding	113,875,389	110,925,146
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.32	\$ 0.31

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

WESTAR ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net income	\$ 32,957	\$ 31,682
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	70,259	66,930
Amortization of nuclear fuel	5,787	6,084
Amortization of deferred regulatory gain from sale-leaseback	(1,374)	(1,374)
Amortization of corporate-owned life insurance	6,308	5,840
Non-cash compensation	2,201	2,130
Net changes in energy marketing assets and liabilities	455	(181)
Accrued liability to certain former officers	647	504
Net deferred income taxes and credits	16,286	20,518
Stock-based compensation excess tax benefits	(629)	(277)
Allowance for equity funds used during construction	(1,752)	(455)
Changes in working capital items:		
Accounts receivable	20,344	21,068
Inventories and supplies	(13,584)	(1,673)
Prepaid expenses and other	5,640	(3,260)
Accounts payable	(2,164)	10,001
Accrued taxes	17,123	11,382
Other current liabilities	(19,493)	(15,267)
Changes in other assets	(20,327)	7,758
Changes in other liabilities	(23,308)	(9,442)
Cash Flows from Operating Activities	<u>95,376</u>	<u>151,968</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(155,945)	(103,272)
Purchase of securities within trust funds	(28,152)	(8,319)
Sale of securities within trust funds	27,582	7,628
Proceeds from investment in corporate-owned life insurance	512	448
Proceeds from federal grant	2,113	—
Investment in affiliated company	(381)	5
Other investing activities	2,198	690
Cash Flows used in Investing Activities	<u>(152,073)</u>	<u>(102,820)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Short-term debt, net	78,640	(33,600)
Retirements of long-term debt	(191)	(646)
Retirements of long-term debt of variable interest entities	(8,386)	(7,954)
Repayment of capital leases	(444)	(610)
Borrowings against cash surrender value of corporate-owned life insurance	1,062	965
Repayment of borrowings against cash surrender value of corporate-owned life insurance	(2,897)	(1,981)
Stock-based compensation excess tax benefits	629	277
Issuance of common stock, net	25,787	25,904
Distributions to shareholders of noncontrolling interests	(1,880)	(1,466)
Cash dividends paid	(33,208)	(31,054)
Cash Flows from (used in) Financing Activities	<u>59,112</u>	<u>(50,165)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,415	(1,017)
CASH AND CASH EQUIVALENTS:		
Beginning of period	928	3,860
End of period	<u>\$ 3,343</u>	<u>\$ 2,843</u>

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

WESTAR ENERGY, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Dollars in Thousands)
(Unaudited)

	Westar Energy Shareholders				Noncontrolling interests	Total equity
	Cumulative preferred stock	Common stock	Paid-in capital	Retained earnings		
Balance at December 31, 2009	\$ 21,436	\$545,360	\$1,339,790	\$360,199	\$ —	\$2,266,785
Net income	—	—	—	30,680	1,002	31,682
Issuance of common stock, net	—	6,976	22,760	—	—	29,736
Preferred dividends	—	—	—	(242)	—	(242)
Dividends on common stock	—	—	—	(34,728)	—	(34,728)
Transfer to temporary equity	—	—	(6)	—	—	(6)
Amortization of restricted stock	—	—	1,653	—	—	1,653
Stock compensation and tax benefit	—	—	(1,667)	—	—	(1,667)
Consolidation of noncontrolling interests	—	—	—	—	3,435	3,435
Distributions to shareholders of noncontrolling interests	—	—	—	—	(1,466)	(1,466)
Balance at March 31, 2010	<u>\$ 21,436</u>	<u>\$552,336</u>	<u>\$1,362,530</u>	<u>\$355,909</u>	<u>\$ 2,971</u>	<u>\$2,295,182</u>
Balance at December 31, 2010	<u>\$ 21,436</u>	<u>\$560,640</u>	<u>\$1,398,580</u>	<u>\$423,647</u>	<u>\$ 6,070</u>	<u>\$2,410,373</u>
Net income	—	—	—	31,584	1,373	32,957
Issuance of common stock, net	—	7,299	26,056	—	—	33,355
Preferred dividends	—	—	—	(242)	—	(242)
Dividends on common stock	—	—	—	(36,759)	—	(36,759)
Transfer from temporary equity	—	—	3,465	—	—	3,465
Amortization of restricted stock	—	—	1,653	—	—	1,653
Stock compensation and tax benefit	—	—	(6,912)	—	—	(6,912)
Distributions to shareholders of noncontrolling interests	—	—	—	—	(1,880)	(1,880)
Balance at March 31, 2011	<u>\$ 21,436</u>	<u>\$567,939</u>	<u>\$1,422,842</u>	<u>\$418,230</u>	<u>\$ 5,563</u>	<u>\$2,436,010</u>

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

WESTAR ENERGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. DESCRIPTION OF BUSINESS

We are the largest electric utility in Kansas. Unless the context otherwise indicates, all references in this Quarterly Report on Form 10-Q to “the company,” “we,” “us,” “our” and similar words are to Westar Energy, Inc. and its consolidated subsidiaries. The term “Westar Energy” refers to Westar Energy, Inc., a Kansas corporation incorporated in 1924, alone and not together with its consolidated subsidiaries.

We provide electric generation, transmission and distribution services to approximately 687,000 customers in Kansas. Westar Energy provides these services in central and northeastern Kansas, including the cities of Topeka, Lawrence, Manhattan, Salina and Hutchinson. Kansas Gas and Electric Company (KGE), Westar Energy’s wholly owned subsidiary, provides these services in south-central and southeastern Kansas, including the city of Wichita. Both Westar Energy and KGE conduct business using the name Westar Energy. Our corporate headquarters is located at 818 South Kansas Avenue, Topeka, Kansas 66612.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

We prepare our unaudited condensed consolidated financial statements in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements presented in accordance with generally accepted accounting principles (GAAP) have been condensed or omitted. Our condensed consolidated financial statements include all operating divisions, majority owned subsidiaries and variable interest entities (VIEs) of which we maintain a controlling interest or are the primary beneficiary reported as a single operating segment. Intercompany accounts and transactions have been eliminated in consolidation. In our opinion, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation of the consolidated financial statements, have been included.

The accompanying condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in our 2010 Form 10-K.

Use of Management’s Estimates

When we prepare our condensed consolidated financial statements, we are required 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 condensed 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, valuation of commodity contracts, depreciation, unbilled revenue, valuation of investments, valuation of our energy marketing portfolio, forecasted fuel costs included in our retail energy cost adjustment billed to customers, income taxes, pension and other post-retirement benefits, our asset retirement obligations including the decommissioning of Wolf Creek, environmental issues, VIEs, contingencies and litigation. Actual results may differ from those estimates under different assumptions or conditions. The results of operations for the three months ended March 31, 2011, are not necessarily indicative of the results to be expected for the full year.

[Table of Contents](#)**Allowance for Funds Used During Construction**

Allowance for funds used during construction (AFUDC) represents the allowed cost of capital used to finance utility construction activity. We compute AFUDC by applying a composite rate to qualified construction work in progress. We credit other income (for equity funds) and interest expense (for borrowed funds) for the amount of AFUDC capitalized as construction cost on the accompanying consolidated statements of income as follows:

	Three Months Ended	
	March 31,	
	2011	2010
	(Dollars in Thousands)	
Borrowed funds	\$ 1,500	\$ 744
Equity funds	1,752	455
Total	<u>\$ 3,252</u>	<u>\$ 1,199</u>
Average AFUDC Rates	4.6%	2.3%

Earnings Per Share

We have participating securities related to unvested restricted share units (RSUs) with nonforfeitable rights to dividend equivalents that receive dividends as declared on an equal basis with common shares. Therefore, we apply the two-class method of computing basic and diluted earnings per share (EPS).

Under the two-class method, we reduce net income attributable to common stock by the amount of dividends declared in the current period. We allocate the remaining earnings to common stock and RSUs to the extent that each security may share in earnings as if all of the earnings for the period had been distributed. We determine the total earnings allocated to each security by adding together the amount allocated for dividends and the amount allocated for a participation feature. To compute basic EPS, we divide the earnings allocated to common stock by the weighted average equivalent common shares outstanding. Diluted EPS includes the effect of potential issuances of common shares resulting from our forward sale agreements, RSUs that do not have nonforfeitable rights to dividend equivalents and stock options. We compute the dilutive effect of potential issuances of common shares using the treasury stock method.

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The following table reconciles our basic and diluted EPS from net income.

	Three Months Ended March 31,	
	2011	2010
(Dollars In Thousands, Except Per Share Amounts)		
Net income	\$ 32,957	\$ 31,682
Less: Net income attributable to noncontrolling interests	1,373	1,002
Net income attributable to Westar Energy	31,584	30,680
Less: Preferred dividends	242	242
Net income allocated to RSUs	147	126
Net income allocated to common stock	<u>\$ 31,195</u>	<u>\$ 30,312</u>
Weighted average equivalent common shares outstanding – basic	113,875,389	110,925,146
Effect of dilutive securities:		
Restricted share units	186,312	27,427
Forward sale agreements	1,688,752	—
Employee stock options	—	207
Weighted average equivalent common shares outstanding – diluted (a)	<u>115,750,453</u>	<u>110,952,780</u>
Earnings per common share, basic and diluted	<u>\$ 0.27</u>	<u>\$ 0.27</u>

(a) We did not have any antidilutive shares for the three months ended March 31, 2011 and 2010.

Supplemental Cash Flow Information

	Three Months Ended March 31,	
	2011	2010
(In Thousands)		
CASH PAID FOR (RECEIVED FROM):		
Interest on financing activities, net of amount capitalized	\$28,413	\$ 29,065
Interest on financing activities of VIEs	9,024	9,891
Income taxes, net of refunds	753	2,013
NON-CASH INVESTING TRANSACTIONS:		
Property, plant and equipment additions	55,448	23,332
Property, plant and equipment additions of VIEs	—	356,964
Jeffrey Energy Center (JEC) 8% leasehold interest	—	(108,706)
NON-CASH FINANCING TRANSACTIONS:		
Issuance of common stock for reinvested dividends and compensation plans	5,146	3,536
Debt of VIEs	—	337,951
Capital lease for JEC 8% leasehold interest	—	(106,423)
Assets acquired through capital leases	208	—

3. FINANCIAL AND DERIVATIVE INSTRUMENTS, TRADING SECURITIES, ENERGY MARKETING AND RISK MANAGEMENT

Values of Financial and Derivative Instruments

GAAP establishes a hierarchal framework for disclosing the transparency of the inputs utilized in measuring assets and liabilities at fair value. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of fair value assets and liabilities within the fair value hierarchy levels. The three levels of the hierarchy and examples are as follows:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities. The types of assets and liabilities included in level 1 are highly liquid and actively traded instruments with quoted prices, such as equities listed on public exchanges and exchange-traded futures contracts.
- Level 2 – Pricing inputs are not quoted prices in active markets, but are either directly or indirectly observable. The types of assets and liabilities included in level 2 are typically measured at net asset value, comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities.
- Level 3 – Significant inputs to pricing have little or no transparency. The types of assets and liabilities included in level 3 are those with inputs requiring significant management judgment or estimation, such as the complex and subjective models and forecasts used to determine the fair value of options, real estate investments and long-term electricity supply contracts.

We record cash and cash equivalents, short-term borrowings and variable-rate debt on our consolidated balance sheets at cost, which approximates fair value. We measure the fair value of fixed-rate debt based on quoted market prices for the same or similar issues or on the current rates offered for instruments of the same remaining maturities and redemption provisions. The recorded amount of accounts receivable and other current financial instruments approximates fair value.

All of our level 2 investments, whether in the nuclear decommissioning trust (NDT) or our trading securities portfolio, are held in investment funds that are measured using daily net asset values as reported by the fund managers. In addition, we maintain certain level 3 investments in private equity and real estate securities that require significant unobservable market information to measure the fair value of the investments. The fair value of private equity investments is measured by utilizing both market- and income-based models, public company comparables, at cost or at the value derived from subsequent financings. Adjustments are made when actual performance differs from expected performance; when market, economic or company-specific conditions change; and when other news or events have a material impact on the security. To measure the fair value of real estate securities we use a combination of market- and income-based models utilizing market discount rates, projected cash flows and the estimated value into perpetuity.

Energy marketing contracts can be exchange-traded or traded over-the-counter (OTC). Fair value measurements of exchange-traded contracts typically utilize quoted prices in active markets. OTC contracts are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions or alternative pricing sources with reasonable levels of price transparency. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, nonperformance risk, measures of volatility and correlations of such inputs. Certain OTC contracts trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more subjective. In these situations, estimates by management are a significant input. See “—Recurring Fair Value Measurements” and “—Derivative Instruments” below for additional information.

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We measure fair value based on information available as of the measurement date. The following table provides the carrying values and measured fair values of our financial instruments as of March 31, 2011, and December 31, 2010.

	As of March 31, 2011		As of December 31, 2010	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
				(In Thousands)
Fixed-rate debt	\$ 2,373,243	\$2,552,207	\$ 2,373,373	\$2,570,648
Fixed-rate debt of VIEs	297,511	308,501	308,317	341,328

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Recurring Fair Value Measurements

The following table provides the amounts and their corresponding level of hierarchy for our assets and liabilities that are measured at fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(In Thousands)			
<u>As of March 31, 2011</u>				
Assets:				
Energy Marketing Contracts	\$ —	\$ 1,849	\$13,211	\$ 15,060
Nuclear Decommissioning Trust:				
Domestic equity	—	54,063	3,058	57,121
International equity	—	27,355	—	27,355
Core bonds	—	22,240	—	22,240
High-yield bonds	—	9,573	—	9,573
Emerging market bonds	—	5,755	—	5,755
Combination debt/equity fund	—	7,952	—	7,952
Real estate securities	—	—	3,049	3,049
Cash equivalents	57	—	—	57
Total Nuclear Decommissioning Trust	<u>57</u>	<u>126,938</u>	<u>6,107</u>	<u>133,102</u>
Trading Securities:				
Domestic equity	—	21,808	—	21,808
International equity	—	5,284	—	5,284
Core bonds	—	14,266	—	14,266
Total Trading Securities	<u>—</u>	<u>41,358</u>	<u>—</u>	<u>41,358</u>
Treasury Yield Hedges	<u>—</u>	<u>10,334</u>	<u>—</u>	<u>10,334</u>
Total Assets Measured at Fair Value	<u>\$ 57</u>	<u>\$180,479</u>	<u>\$19,318</u>	<u>\$199,854</u>
Liabilities:				
Energy Marketing Contracts	\$ —	\$ 1,640	\$ 1,205	\$ 2,845
<u>As of December 31, 2010</u>				
Assets:				
Energy Marketing Contracts	\$2,432	\$ 6,258	\$13,787	\$ 22,477
Nuclear Decommissioning Trust:				
Domestic equity	—	60,586	2,867	63,453
International equity	—	18,966	—	18,966
Core bonds	—	31,906	—	31,906
High-yield bonds	—	9,267	305	9,572
Real estate securities	—	—	3,049	3,049
Cash equivalents	44	—	—	44
Total Nuclear Decommissioning Trust	<u>44</u>	<u>120,725</u>	<u>6,221</u>	<u>126,990</u>
Trading Securities:				
Domestic equity	—	21,207	—	21,207
International equity	—	5,128	—	5,128
Core bonds	—	13,077	—	13,077
Total Trading Securities	<u>—</u>	<u>39,412</u>	<u>—</u>	<u>39,412</u>
Treasury Yield Hedges	<u>—</u>	<u>7,711</u>	<u>—</u>	<u>7,711</u>
Total Assets Measured at Fair Value	<u>\$2,476</u>	<u>\$174,106</u>	<u>\$20,008</u>	<u>\$196,590</u>
Liabilities:				
Energy Marketing Contracts	\$1,888	\$ 5,820	\$ 1,972	\$ 9,680

We do not offset the fair value of energy marketing contracts executed with the same counterparty. As of March 31, 2011, we had no right to reclaim cash collateral and had recorded \$1.4 million for our obligation to return cash collateral. As of December 31, 2010, we had no right to reclaim cash collateral and had recorded \$0.7 million for our obligation to return cash collateral.

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The following table provides reconciliations of assets and liabilities measured at fair value using significant level 3 inputs for the three months ended March 31, 2011 and 2010.

	Energy Marketing Contracts, net	Nuclear Decommissioning Trust			Net Balance
		Domestic Equity	High- yield Bonds	Real Estate Securities	
		(In Thousands)			
Balance as of December 31, 2010	\$ 11,815	\$ 2,867	\$ 305	\$ 3,049	\$18,036
Total realized and unrealized gains (losses) included in:					
Earnings (a)	(197)	—	—	—	(197)
Regulatory assets	(18)(b)	—	—	—	(18)
Regulatory liabilities	599 (b)	31	—	—	630
Purchases	(742)	173	—	—	(569)
Sales	894	(13)	(305)	—	576
Settlements	(345)	—	—	—	(345)
Balance as of March 31, 2011	\$ 12,006	\$ 3,058	\$ —	\$ 3,049	\$18,113
Balance as of December 31, 2009	\$ 4,310	\$ 2,262	\$ 5,741	\$ 3,635	\$15,948
Total realized and unrealized gains (losses) included in:					
Earnings (a)	4	—	—	—	4
Regulatory assets	4,468(b)	—	—	—	4,468
Regulatory liabilities	3,286(b)	82	238	(856)	2,750
Purchases, issuances and settlements	2,384	40	—	—	2,424
Balance as of March 31, 2010	\$ 14,452	\$ 2,384	\$ 5,979	\$ 2,779	\$25,594

(a) Unrealized and realized gains and losses included in earnings resulting from energy marketing activities are reported in revenues.

(b) Includes changes in the fair value of certain fuel supply and electricity contracts.

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A portion of the gains and losses contributing to changes in net assets in the above table is unrealized. The following table summarizes the unrealized gains and losses we recorded on our consolidated financial statements during the three months ended March 31, 2011 and 2010, attributed to level 3 assets and liabilities.

	Three Months Ended March 31, 2011				
	Energy Marketing Contracts, net	Nuclear Decommissioning Trust			Net Balance
		Domestic Equity	High-yield Bonds	Real Estate Securities	
(In Thousands)					
Total unrealized gains (losses) included in:					
Earnings (a)	\$ (273)	\$ —	\$ —	\$ —	\$ (273)
Regulatory assets	(10)(b)	—	—	—	(10)
Regulatory liabilities	601 (b)	19	—	—	620
Total	\$ 318	\$ 19	\$ —	\$ —	\$ 337
Three Months Ended March 31, 2010					
Total unrealized gains (losses) included in:					
Earnings (a)	\$ (197)	\$ —	\$ —	\$ —	\$ (197)
Regulatory assets	4,540(b)	—	—	—	4,540
Regulatory liabilities	3,251(b)	82	238	(856)	2,715
Total	\$ 7,594	\$ 82	\$ 238	\$ (856)	\$ 7,058

(a) Unrealized gains and losses included in earnings resulting from energy marketing activities are reported in revenues.

(b) Includes changes in the fair value of certain fuel supply and electricity contracts.

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Some of our investments in the NDT and all of our trading securities do not have readily determinable fair values and are either with investment companies or companies that follow accounting guidance consistent with investment companies. In certain situations these investments may have redemption restrictions. The following table provides further information on these investments.

	As of March 31, 2011		As of December 31, 2010		As of March 31, 2011	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments	Redemption Frequency	Length of Settlement
(In thousands)						
Nuclear Decommissioning Trust:						
Domestic equity	\$ 3,058	\$ 2,350	\$ 2,867	\$ 2,523	(a)	(a)
High-yield bonds	—	—	305	—	(b)	(b)
Real estate securities	3,049	—	3,049	—	(c)	(c)
Total Nuclear Decommissioning Trust	\$ 6,107	\$ 2,350	\$ 6,221	\$ 2,523		
Trading Securities:						
Domestic equity	\$21,808	\$ —	\$21,207	\$ —	Upon Notice	1 day
International equity	5,284	—	5,128	—	Upon Notice	1 day
Core bonds	14,266	—	13,077	—	Upon Notice	1 day
Total Trading Securities	41,358	—	39,412	—		
Total	\$47,465	\$ 2,350	\$45,633	\$ 2,523		

- (a) This investment is in long-term private equity funds that do not permit early withdrawal. Our investments in these funds cannot be distributed until the underlying investments have been liquidated which may take years from the date of initial liquidation. One fund has begun to make distributions and we expect the other to begin in 2013.
- (b) We completely settled this fund in the first quarter of 2011.
- (c) The nature of this investment requires relatively long holding periods which do not necessarily accommodate ready liquidity. In addition, adverse financial conditions affecting residential and commercial real estate markets have further limited liquidity associated with this investment.

Derivative Instruments

Cash Flow Hedges

In 2010, we entered into treasury yield hedge transactions for a total notional amount of \$100.0 million in order to manage our interest rate risk associated with a future anticipated issuance of fixed-rate debt, which is probable to occur within 18 months of the initial treasury yield hedge transaction date. Such transactions are designated and qualify as cash flow hedges and are measured at fair value by estimating the net present value of a series of payments using market-based models with observable inputs, such as the spread between the 30-year U.S. Treasury bill yield and the contracted, fixed yield. As a result of regulatory accounting treatment, we report the effective portion of the gain or loss on these derivative instruments as a regulatory liability or regulatory asset and will amortize such amounts to interest expense over the life of the related debt. We record hedge ineffectiveness gains in other income and hedge ineffectiveness losses in other expense on our consolidated statements of income. As of March 31, 2011, and December 31, 2010, the fair value of the treasury yield hedge transactions was \$10.3 million and \$7.7 million, respectively, which we recorded in other assets on our consolidated balance sheets. We also recorded these same amounts in long-term regulatory liabilities on our consolidated balance sheets to reflect the effective portion of the gains on these transactions as of March 31, 2011, and December 31, 2010.

Commodity Contracts

We engage in both financial and physical trading with the goal of managing our commodity price risk, enhancing system reliability and increasing profits. We trade electricity and other energy-related products using a variety of financial instruments, including futures contracts, options, swaps and physical commodity contracts.

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We classify these commodity derivative instruments as energy marketing contracts on our consolidated balance sheets. We report energy marketing contracts representing unrealized gain positions as assets; energy marketing contracts representing unrealized loss positions are reported as liabilities. With the exception of certain fuel supply and electricity contracts, which we record as regulatory assets or regulatory liabilities, we include the change in the fair value of energy marketing contracts in revenues on our consolidated statements of income.

The following table presents the fair value of commodity derivative instruments reflected on our consolidated balance sheets.

Commodity Derivatives Not Designated as Hedging Instruments as of March 31, 2011

Asset Derivatives		Liability Derivatives	
<u>Balance Sheet Location</u>	<u>Fair Value</u> (In thousands)	<u>Balance Sheet Location</u>	<u>Fair Value</u> (In thousands)
Current assets:		Current liabilities:	
Energy marketing contracts	\$ 5,996	Energy marketing contracts	\$ 2,845
Other assets:			
Energy marketing contracts	9,064		
Total	\$ 15,060		

Commodity Derivatives Not Designated as Hedging Instruments as of December 31, 2010

Asset Derivatives		Liability Derivatives	
<u>Balance Sheet Location</u>	<u>Fair Value</u> (In thousands)	<u>Balance Sheet Location</u>	<u>Fair Value</u> (In thousands)
Current assets:		Current liabilities:	
Energy marketing contracts	\$ 13,005	Energy marketing contracts	\$ 9,670
Other assets:		Long-term liabilities:	
Energy marketing contracts	9,472	Energy marketing contracts	10
Total	\$ 22,477	Total	\$ 9,680

The following table presents how changes in the fair value of commodity derivative instruments affected our consolidated financial statements for the three months ended March 31, 2011 and 2010.

<u>Location</u>	<u>Three Months Ended</u> <u>March 31, 2011</u>	<u>Three Months Ended</u> <u>March 31, 2010</u>	
	<u>Net Loss</u> <u>Recognized</u>	<u>Net Gain</u> <u>Recognized</u>	<u>Net Loss</u> <u>Recognized</u>
		(In thousands)	
Revenues decrease	\$ (1,555)	\$ —	\$ (565)
Regulatory assets decrease	—	(7,193)	—
Regulatory liabilities (decrease) increase	(213)	3,380	—

As of March 31, 2011, and December 31, 2010, we had under contract the following energy-related products.

	<u>Unit of</u> <u>Measure</u>	<u>Net Quantity as of</u>	
		<u>March 31, 2011</u>	<u>December 31, 2010</u>
Electricity	MWh	2,913,347	2,791,966
Natural Gas	MMBtu	1,515,000	1,150,000

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 net open positions, we are exposed to the risk that changing market prices could have a material adverse impact on our consolidated financial results.

Energy Marketing Activities

Within our energy trading portfolio, we may establish certain positions intended to economically hedge a portion of physical sale or purchase contracts and we may enter into certain positions attempting to take advantage of market trends and conditions. We use the term economic hedge to mean a strategy intended to manage risks of volatility in prices or rate movements on selected assets, liabilities or anticipated transactions by creating a relationship in which gains or losses on derivative instruments are expected to offset the losses or gains on the assets, liabilities or anticipated transactions exposed to such market risks.

Price Risk

We use various types of fuel, including coal, natural gas, uranium, diesel and oil, to operate our plants and purchase power to meet customer demand. Our prices, consolidated financial results and cash flows are exposed to market risks from commodity price changes for electricity and other energy-related products and interest rates. Volatility in these markets impacts our costs of purchased power, costs of fuel for our generating plants and our participation in energy markets. We strive to manage our customers' and our exposure to these market risks through regulatory, operating and financing activities and, when we deem appropriate, we economically hedge a portion of these risks through the use of derivative financial instruments for non-trading purposes.

Interest Rate Risk

We have entered into fixed and variable rate debt obligations. We manage our interest rate risk related to these debt obligations by limiting our exposure to variable interest rate debt, diversifying maturity dates and entering into treasury yield hedge transactions. We may also use other financial derivative instruments such as interest rate swaps.

Credit Risk

In addition to commodity price risk, we are exposed to credit risks associated with the financial condition of counterparties, product location (basis) pricing differentials, physical liquidity constraint 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 intended to reduce our overall credit risk exposure to a level we deem acceptable and include the right to offset derivative assets and liabilities by counterparty.

We have derivative instruments with commodity exchanges and other counterparties that do not contain objective credit-risk-related contingent features. However, certain of our derivative instruments contain collateral provisions subject to credit agency ratings of our senior unsecured debt. If our senior unsecured debt ratings were to decrease or fall below investment grade, the counterparties to the derivative instruments, pursuant to the provisions, could require collateralization on derivative instruments. The aggregate fair value of all derivative instruments with objective credit-risk-related contingent features that were in a liability position as of March 31, 2011, and December 31, 2010, was \$0.8 million and \$1.6 million, respectively, for which we had posted \$0.5 million of collateral, including independent amounts, as of March 31, 2011, and no collateral as of December 31, 2010. If all credit-risk-related contingent features underlying these agreements had been triggered as of March 31, 2011, and December 31, 2010, we would have been required to provide to our counterparties \$0.7 million and \$1.6 million, respectively, of additional collateral after taking into consideration the offsetting impact of derivative assets and net accounts receivable.

4. FINANCIAL INVESTMENTS

We report some of our investments in debt and equity securities at fair value. We classify these investments as either trading securities or available-for-sale securities as described below.

Trading Securities

We have equity and debt investments in a trust used to fund retirement benefits that we classify as trading securities. We include any unrealized gains or losses on these securities in investment earnings on our consolidated statements of income. We recorded unrealized gains of \$1.5 million and \$1.6 million, respectively, during the three months ended March 31, 2011 and 2010.

Available-for-Sale Securities

We hold investments in equity, debt and real estate securities in a trust fund for the purpose of funding the decommissioning of Wolf Creek. We have classified these investments as available-for-sale and have recorded all such investments at their fair market value as of March 31, 2011, and December 31, 2010. At March 31, 2011, investments in the NDT fund were allocated 43% to domestic equity, 21% to international equity, 17% to core bonds, 7% to high-yield bonds, 4% to emerging market bonds, 6% to combined debt/equity funds, 2% to real estate securities and less than 1% to cash and cash equivalents. The core bond fund is limited to ensure that at least 80% of funds are invested in investment grade U.S. corporate and government fixed income securities, including mortgage-backed securities. As of March 31, 2011, the fair value of the debt securities in the NDT fund was \$37.6 million, held entirely in bond funds.

Using the specific identification method to determine cost, we realized gains on our available-for-sale securities of \$0.9 million during the three months ended March 31, 2011 and 2010. We record net realized and unrealized gains and losses in regulatory liabilities on our consolidated balance sheets. This reporting is consistent with the method we use to account for the decommissioning costs we recover in our prices. Gains or losses on assets in the trust fund are recorded as increases or decreases to regulatory liabilities and could result in lower or higher funding requirements for decommissioning costs, which we believe would be reflected in the prices paid by our customers.

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The following table presents the costs and fair values of investments in the NDT fund as of March 31, 2011, and December 31, 2010.

<u>Security Type</u>	<u>Cost</u>	<u>Gross Unrealized</u>		<u>Fair Value</u>
		<u>Gain</u>	<u>Loss</u>	
<u>(In Thousands)</u>				
As of March 31, 2011:				
Domestic equity	\$ 50,213	\$ 7,000	\$ (92)	\$ 57,121
International equity	24,774	2,581	—	27,355
Core bonds	22,235	5	—	22,240
High-yield bonds	9,170	403	—	9,573
Emerging market bonds	5,501	254	—	5,755
Combination debt/equity fund	7,737	215	—	7,952
Real estate securities	6,207	—	(3,158)	3,049
Cash equivalents	57	—	—	57
Total	<u>\$125,894</u>	<u>\$10,458</u>	<u>\$(3,250)</u>	<u>\$133,102</u>
As of December 31, 2010:				
Domestic equity	\$ 58,592	\$ 4,972	\$ (111)	\$ 63,453
International equity	17,249	1,717	—	18,966
Core bonds	32,054	—	(148)	31,906
High-yield bonds	9,086	486	—	9,572
Real estate securities	6,207	—	(3,158)	3,049
Cash equivalents	44	—	—	44
Total	<u>\$123,232</u>	<u>\$ 7,175</u>	<u>\$(3,417)</u>	<u>\$126,990</u>

The following table presents the fair value and gross unrealized losses of the available-for-sale securities held in the NDT fund aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2011, and December 31, 2010.

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
<u>(In Thousands)</u>						
As of March 31, 2011:						
Domestic equity	\$ 3,058	\$ (92)	\$ —	\$ —	\$ 3,058	\$ (92)
Real estate securities	—	—	3,049	(3,158)	3,049	(3,158)
Total	<u>\$ 3,058</u>	<u>\$ (92)</u>	<u>\$3,049</u>	<u>\$ (3,158)</u>	<u>\$ 6,107</u>	<u>\$ (3,250)</u>
As of December 31, 2010:						
Domestic equity	\$ 2,867	\$ (111)	\$ —	\$ —	\$ 2,867	\$ (111)
Core bonds	31,906	(148)	—	—	31,906	(148)
Real estate securities	—	—	3,049	(3,158)	3,049	(3,158)
Total	<u>\$34,773</u>	<u>\$ (259)</u>	<u>\$3,049</u>	<u>\$ (3,158)</u>	<u>\$37,822</u>	<u>\$ (3,417)</u>

5. RATE MATTERS AND REGULATION

FERC Proceedings

Our transmission formula rate that includes projected 2011 transmission capital expenditures and operating costs became effective January 1, 2011, and is expected to increase our annual transmission revenues by \$15.9 million. This updated rate provides the basis for our request with the Kansas Corporation Commission (KCC) to adjust our retail prices to include updated transmission costs.

6. SHORT-TERM DEBT

Westar Energy has a \$730.0 million revolving credit facility with a syndicate of banks that terminates on March 17, 2012. As of March 31, 2011, \$305.3 million had been borrowed and an additional \$21.5 million of letters of credit had been issued under this revolving credit facility. As of December 31, 2010, \$226.7 million had been borrowed and an additional \$21.5 million of letters of credit had been issued under this revolving credit facility.

In February 2011, Westar Energy entered into a new revolving credit facility with a similar syndicate of banks for an additional \$270.0 million. The commitments under this facility terminate in February 2015. As of March 31, 2011, Westar Energy had neither borrowed monies nor issued letters of credit under this revolving credit facility.

7. TAXES

We recorded income tax expense of \$13.5 million with an effective income tax rate of 29% for the three months ended March 31, 2011. We recorded income tax expense of \$13.8 million with an effective income tax rate of 30% for the same period of 2010. The decrease in the effective income tax rate for the three months ended March 31, 2011, was due primarily to increases in the tax benefits from AFUDC equity and increases in production tax credits.

At March 31, 2011, and December 31, 2010, our liability for unrecognized income tax benefits was \$3.8 million and \$1.9 million, respectively. The net increase in the liability for unrecognized income tax benefits was largely attributable to tax positions taken with respect to the capitalization of plant related expenditures. We do not expect any significant changes in this liability in the next 12 months.

As of March 31, 2011, and December 31, 2010, we had \$0.4 million accrued for interest on our liability related to unrecognized income tax benefits. We accrued no penalties at either March 31, 2011, or December 31, 2010.

As of March 31, 2011, and December 31, 2010, we had recorded \$3.6 million for probable assessments of taxes other than income taxes.

8. COMMITMENTS AND CONTINGENCIES

Federal Clean Air Act

We must comply with the Federal Clean Air Act, state laws and implementing regulations that impose, among other things, limitations on pollutants generated during our operations, including sulfur dioxide (SO₂), particulate matter, nitrogen oxides (NO_x) and mercury. In addition, we must comply with the provisions of the Federal Clean Air Act Amendments of 1990 that require reductions in SO₂ and NO_x.

Emissions from our generating facilities, including particulate matter, SO₂ and NO_x, have been determined by regulation to reduce visibility by causing or contributing to regional haze. Under federal laws, such as the Clean Air Visibility Rule, and pursuant to an agreement with the Kansas Department of Health and Environment (KDHE), we are required to install and maintain controls to reduce emissions found to cause or contribute to regional haze.

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Under the Federal Clean Air Act, the Environmental Protection Agency (EPA) sets National Ambient Air Quality Standards (NAAQS) for six criteria pollutants considered harmful to public health and the environment, including particulate matter, NO_x, ozone and SO₂, which result from coal combustion. Areas meeting the NAAQS are designated attainment areas while those that do not meet the NAAQS are considered nonattainment areas. In 2009, KDHE proposed to designate portions of the Kansas City area nonattainment for the 8-hour ozone standard, which has the potential to impact our operations. Each state must develop a plan to bring nonattainment areas into compliance with the NAAQS. NAAQS must be reviewed by the EPA at five-year intervals.

In 2010, the EPA strengthened the NAAQS for both NO_x and SO₂. We are currently evaluating what impact this could have on our operations. If we are required to install additional equipment to control emissions at our facilities, the revised NAAQS could have a material impact on our operations and consolidated financial results.

Environmental Projects

We will continue to make significant capital expenditures at our power plants to reduce regulated emissions. The amount of these expenditures could change materially depending on the timing and nature of required investments, the specific outcomes resulting from interpretation of existing regulations, new regulations, legislation and the manner in which we operate the plants. In addition to the capital investment, in the event we install new equipment, such equipment may cause us to incur significant increases in annual operating and maintenance expense and may reduce the net production, reliability and availability of the plants. The degree to which we will need to reduce emissions and the timing of when such emissions controls may be required is uncertain. Additionally, our ability to access capital markets and the availability of materials, equipment and contractors may affect the timing and ultimate amount of such capital investments.

The environmental cost recovery rider (ECRR) allows for the more timely inclusion in retail prices of the costs of capital expenditures associated with environmental improvements, including those required by the Federal Clean Air Act. In order to change our prices to recognize increased operating and maintenance costs, however, we must file a general rate case with the KCC. The KCC has indicated that it believes environmental costs at La Cygne Generating Station (La Cygne) may be more appropriate to recover through the filing of a general rate case as opposed to the ECRR. This could increase the time between making these investments and having them reflected in the prices we charge our customers, as well as the amount we charge our customers, and could affect our capital expenditure plans. This matter has not yet been resolved.

Greenhouse Gases

Under EPA regulations finalized in May 2010, known as the tailoring rule, the EPA began regulating greenhouse gas (GHG) emissions from certain stationary sources in January 2011. The regulations are being implemented pursuant to two Federal Clean Air Act programs: the Title V Operating Permit program and the program requiring a permit if undergoing construction or major modifications, which is referred to as the Prevention of Significant Deterioration program (PSD). Obligations relating to Title V permits will include recordkeeping and monitoring requirements. With respect to PSD permits, projects that cause a significant increase in GHG emissions (currently defined to be more than 75,000 tons or more per year or 100,000 tons or more per year, depending on various factors), will be required to implement best available control technology (BACT). The EPA has issued guidance on what BACT entails for the control of GHGs and individual states are now required to determine what controls are required for facilities within their jurisdiction on a case-by-case basis. We cannot at this time determine the impact of these new regulations on our operations and consolidated financial results, but we believe the cost of compliance with new regulations could be material.

Renewable Energy Standard

In May 2009, Kansas enacted legislation that mandates, among other requirements, that more energy be derived from renewable sources. In years 2011 through 2015 net renewable generation capacity must be 10% of the average peak demand for the three prior years, subject to limited exceptions. This requirement increases to 15% for years 2016 through 2019 and 20% for 2020 and thereafter. We have worked with third parties to develop approximately 300 MW of qualifying wind generation facilities, which together with the use of renewable energy credits, we expect to meet the 2011 requirement. On December 14, 2010, we announced that we reached two separate agreements with third parties, subject to regulatory approval, to purchase under 20-year supply contracts the renewable energy produced from approximately 370 MW of wind generation beginning in late 2012. We expect these agreements, along with our prior development of wind generation facilities, will satisfy our net renewable generation requirement through 2015 and contribute toward meeting the increased requirement beginning in 2016.

Manufactured Gas Sites

We have been identified as being partially responsible for remediating a number of former manufactured gas sites located in Kansas. We and KDHE entered into a consent agreement governing all future work at these sites. Under terms of the consent agreement, we agreed to investigate and, if necessary, remediate these sites. Pursuant to an environmental indemnity agreement with ONEOK Inc. (ONEOK), ONEOK assumed total liability for remediation of seven sites and we share liability for remediation with ONEOK for five sites. Our total liability for the five shared sites is capped at \$3.8 million.

EPA Lawsuit

In March 2010, the U.S. District Court in the District of Kansas approved a settlement agreement that we entered into with the parties of a lawsuit filed by the Department of Justice on behalf of the EPA. The lawsuit asserted that certain projects completed at JEC violated certain requirements of the EPA's New Source Review program, which requires companies to obtain permits and, if necessary, install control equipment to address emissions when making a major modification or a change in operation if either is expected to cause a significant net increase in emissions. As part of the settlement agreement, in 2009 we recorded \$1.0 million for environmental mitigation projects that will be owned by a qualifying third party and a \$3.0 million civil penalty. We will also invest \$5.0 million over six years in environmental mitigation projects that we will own. In addition, we will install a selective catalytic reduction (SCR) on one of the three JEC coal units by the end of 2014. We estimate the cost of this to be approximately \$240.0 million. This amount could change materially depending on final engineering and design. Depending on the NOx emission reductions attained by the single SCR and attainable through the installation of other controls on the other two JEC coal units, we may have to install an SCR on another JEC unit by the end of 2016, if needed to meet NOx reduction targets. Recovery of costs to install these systems is subject to the approval of our regulators. We believe these costs are appropriate for inclusion in the prices we are allowed to charge customers.

FERC Investigation

A non-public investigation by the Federal Energy Regulatory Commission (FERC) of our use of transmission service between July 2006 and February 2008 remains pending. In May 2009, FERC staff advised us that it had preliminarily concluded that we improperly used secondary network transmission service to facilitate off-system wholesale power sales in violation of applicable FERC orders and Southwest Power Pool (SPP) tariffs. FERC staff alleged we received \$14.3 million of unjust profits through such activities. We sent a response to FERC staff disputing both the legal basis for its allegations and their factual underpinnings. Based on our response, FERC staff substantially revised downward its preliminary conclusions to allege that we received \$3.0 million of unjust profits and failed to pay \$3.2 million to the SPP for transmission service. In March 2010, we sent a response to FERC staff disputing its revised conclusions. We continue to believe that our use of transmission service was in compliance with FERC orders and SPP tariffs. We are unable to predict the outcome of this investigation or its impact on our consolidated financial results, but an adverse outcome could result in refunds and fines, the amounts of which could be material, and could potentially alter the manner in which we are permitted to buy and sell energy and use transmission service.

9. LEGAL PROCEEDINGS

In late 2002, one of our former executive officers resigned from his position and another executive officer was placed on administrative leave from his position. Following the completion of an investigation and the publication of a report prepared by a special committee of our board of directors, our board of directors determined that their employment was terminated for cause. In June 2003, we filed a demand for arbitration with the American Arbitration Association asserting claims against them arising out of their previous employment and seeking to avoid payment of compensation not yet paid to them under various plans and agreements. They filed counterclaims against us alleging substantial damages related to the termination of their employment and the publication of the report of the special committee. As of March 31, 2011, we had accrued liabilities of \$81.4 million for compensation not yet paid to them and \$8.3 million for legal fees and expenses they had incurred. As of December 31, 2010, we had accrued liabilities of \$80.6 million for compensation not yet paid to them and \$8.3 million for legal fees and expenses they had incurred. The arbitration was stayed in August 2004 pending final resolution of criminal charges filed by the United States Attorney's Office against them in U.S. District Court in the District of Kansas. In August 2010, these criminal charges were dismissed and subsequently the stay of the arbitration was lifted. We expect arbitration proceedings to conclude in 2011. While we intend to vigorously defend against the counterclaims they filed in the arbitration, we are exploring alternatives to settle all claims related to these executives. We are unable to predict the ultimate amount of the compensation, legal fees or related amounts we may be required to pay them, or the ultimate impact of these matters on our consolidated financial results.

We and our subsidiaries are involved in various other legal, environmental and regulatory proceedings. We believe that adequate provisions have been made and accordingly believe that the ultimate disposition of such matters will not have a material adverse affect on our consolidated financial results. See Note 5, "Rate Matters and Regulation," and Note 8, "Commitments and Contingencies," for additional information.

10. INTERIM PENSION AND POST-RETIREMENT BENEFIT DISCLOSURE

The following table summarizes the net periodic costs for our pension and post-retirement benefit plans prior to the effects of capitalization.

<u>Three Months Ended March 31,</u>	<u>Pension Benefits</u>		<u>Post-retirement Benefits</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(In Thousands)			
Components of Net Periodic Cost:				
Service cost	\$ 4,017	\$ 3,518	\$ 452	\$ 433
Interest cost	9,955	9,842	1,692	1,788
Expected return on plan assets	(7,772)	(9,597)	(1,200)	(1,360)
Amortization of unrecognized:				
Transition obligation, net	—	—	978	978
Prior service costs	303	667	539	544
Actuarial loss, net	5,915	4,245	254	101
Net periodic cost before regulatory adjustment	12,418	8,675	2,715	2,484
Regulatory adjustment	(5,625)	(3,121)	297	430
Net periodic cost	<u>\$ 6,793</u>	<u>\$ 5,554</u>	<u>\$ 3,012</u>	<u>\$ 2,914</u>

During the three months ended March 31, 2011 and 2010, we contributed \$29.0 million and \$8.4 million, respectively, to the Westar Energy pension trust.

11. WOLF CREEK INTERIM PENSION AND POST-RETIREMENT BENEFIT DISCLOSURE

As a co-owner of Wolf Creek, KGE is indirectly responsible for 47% of the liabilities and expenses associated with the Wolf Creek pension and other post-retirement benefit plans. The following table summarizes the net periodic costs for KGE's 47% share of the Wolf Creek pension and other post-retirement benefit plans prior to the effects of capitalization.

Three Months Ended March 31,	Pension Benefits		Post-retirement Benefits	
	2011	2010	2011	2010
	(In Thousands)			
Components of Net Periodic Cost:				
Service cost	\$ 1,260	\$ 1,024	\$ 54	\$ 54
Interest cost	1,864	1,724	126	130
Expected return on plan assets	(1,525)	(1,380)	—	—
Amortization of unrecognized:				
Transition obligation, net	13	14	14	14
Prior service costs	4	7	8	—
Actuarial loss, net	995	606	76	69
Net periodic cost before regulatory adjustment	2,611	1,995	278	267
Regulatory adjustment	(657)	(322)	—	—
Net periodic cost	<u>\$ 1,954</u>	<u>\$ 1,673</u>	<u>\$ 278</u>	<u>\$ 267</u>

During the three months ended March 31, 2011 and 2010, we funded \$5.7 million and \$0.9 million, respectively, of Wolf Creek's pension plan contribution.

12. COMMON STOCK ISSUANCE

On February 15, 2011, Westar Energy delivered approximately 1.1 million shares of common stock and received proceeds of \$25.8 million as partial settlement of the forward sale agreement entered into with a bank in April 2010. Assuming physical share settlement of the approximately 3.1 million remaining shares of common stock under this agreement at March 31, 2011, Westar Energy would have received aggregate proceeds of approximately \$68.5 million, net of commission, based on an average forward price of \$21.86 per share.

During the three months ended March 31, 2011, Westar Energy did not deliver any shares of common stock under the forward sale agreement entered into with a bank in November 2010. Assuming physical share settlement of the approximately 8.5 million shares of common stock under this agreement at March 31, 2011, Westar Energy would have received aggregate proceeds of approximately \$203.4 million, net of commission, based on an average forward price of \$23.98 per share.

13. VARIABLE INTEREST ENTITIES

In determining the primary beneficiary of a VIE, we assess the entity's purpose and design, including the nature of the entity's activities and the risks that the entity was designed to create and pass through to its variable interest holders. A reporting enterprise is deemed to be the primary beneficiary of a VIE if it has (a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. The trusts holding our 8% interest in JEC, our 50% interest in La Cygne unit 2 and railcars we use to transport coal to some of our plants are VIEs of which we are the primary beneficiary.

We assess all entities with which we become involved to determine whether such entities are VIEs and, if so, whether or not we are the primary beneficiary of such entities. We also continuously assess whether we are the primary beneficiary of the VIEs with which we are involved. Prospective changes in facts and circumstances may cause us to reconsider our determination as it relates to the identification of the primary beneficiary.

8% Interest in Jeffrey Energy Center

Under an agreement that expires in January 2019, we lease an 8% interest in JEC from a trust. The trust was financed with an equity contribution from an owner participant and debt issued by the trust. The trust was created specifically to purchase the 8% interest in JEC and lease it to a third party, and does not hold any other assets. We meet the requirements to be considered the primary beneficiary of the trust. In determining the primary beneficiary of the trust, we concluded that the activities of the trust that most significantly impact its economic performance and that we have the power to direct include (1) the operation and maintenance of the 8% interest in JEC, (2) our ability to exercise a purchase option at the end of the agreement at the lesser of fair value or a fixed amount and (3) our option to require refinancing of the trust's debt. We have the potential to receive benefits from the trust that could potentially be significant if the fair value of the 8% interest in JEC at the end of the agreement is greater than the fixed amount. The possibility of lower interest rates upon refinancing the debt also creates the potential for us to receive significant benefits.

50% Interest in La Cygne Unit 2

Under an agreement that expires in September 2029, KGE entered into a sale-leaseback transaction with a trust under which the trust purchased KGE's 50% interest in La Cygne unit 2 and subsequently leased it back to KGE. The trust was financed with an equity contribution from an owner participant and debt issued by the trust. The trust was created specifically to purchase the 50% interest in La Cygne unit 2 and lease it back to KGE, and does not hold any other assets. We meet the requirements to be considered the primary beneficiary of the trust. In determining the primary beneficiary of the trust, we concluded that the activities of the trust that most significantly impact its economic performance and that we have the power to direct include (1) the operation and maintenance of the 50% interest in La Cygne unit 2, (2) our ability to exercise a purchase option at the end of the agreement at the lesser of fair value or a fixed amount and (3) our option to require refinancing of the trust's debt. We have the potential to receive benefits from the trust that could potentially be significant if the fair value of the 50% interest in La Cygne unit 2 at the end of the agreement is greater than the fixed amount. The possibility of lower interest rates upon refinancing the debt also creates the potential for us to receive significant benefits.

Railcars

Under two separate agreements that expire in May 2013 and November 2014, we lease railcars from trusts to transport coal to some of our power plants. The trusts were financed with equity contributions from owner participants and debt issued by the trusts. The trusts were created specifically to purchase the railcars and lease them to us, and do not hold any other assets. We meet the requirements to be considered the primary beneficiary of the trusts. In determining the primary beneficiary of the trusts, we concluded that the activities of the trusts that most significantly impact their economic performance and that we have the power to direct include the operation, maintenance and repair of the railcars and our ability to exercise a purchase option at the end of the agreements at the lesser of fair value or a fixed amount. We have the potential to receive benefits from the trusts that could potentially be significant if the fair value of the railcars at the end of the agreements is greater than the fixed amounts. Our agreements with these trusts also include renewal options during which time we would pay a fixed amount of rent. We have the potential to receive benefits from the trusts during the renewal periods if the fixed amount of rent is less than the amount we would be required to pay under a new agreement.

Financial Statement Impact

We have recorded the following assets and liabilities on our consolidated balance sheets as a result of consolidating the VIEs described above.

	<u>As of</u> <u>March 31, 2011</u>	<u>As of</u> <u>December 31, 2010</u>
	(In Thousands)	
Assets:		
Property, plant and equipment of variable interest entities, net	\$ 342,157	\$ 345,037
Regulatory asset (a)	4,278	3,963
Liabilities:		
Current maturities of long-term debt of variable interest entities	\$ 26,858	\$ 30,155
Accrued interest (b)	573	5,064
Long-term debt of variable interest entities, net	272,866	278,162

(a) Included in other regulatory assets on our consolidated balance sheets.

(b) Included in accrued interest on our consolidated balance sheets.

All of the liabilities noted in the table above relate to the VIEs' ownership of the reported property, plant and equipment. The assets of the VIEs can be used only to settle obligations of the VIEs and the VIEs' debt holders have no recourse to our general credit. We have not provided financial or other support to the VIEs and are not required to provide such support. We did not record any gain or loss upon initial consolidation of the VIEs.

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

Certain matters discussed in Management's Discussion and Analysis 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" and words of similar meaning. Forward-looking statements describe our future plans, objectives, expectations or goals.

INTRODUCTION

We are the largest electric utility in Kansas. We produce, transmit and sell electricity at retail in Kansas and at wholesale in a multi-state region in the central United States under the regulation of the KCC and FERC.

In Management's Discussion and Analysis, we discuss our general financial condition, significant changes that occurred during 2011 and our operating results for the three months ended March 31, 2011 and 2010. As you read Management's Discussion and Analysis, please refer to our condensed consolidated financial statements and the accompanying notes, which contain our operating results.

SUMMARY OF SIGNIFICANT ITEMS**Earnings Per Share**

Following is a summary of our net income and EPS.

	Three Months Ended March 31,		
	2011	2010	Change
	(Thousands of Dollars, Except per Share Amounts)		
Net income attributable to common stock	\$ 31,342	\$ 30,438	\$ 904
Earnings per common share, basic	0.27	0.27	—

Current Trends

From time to time we update current trends discussed in our 2010 Form 10-K. The following is to be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2010 Form 10-K.

Regulation of Nuclear Generating Station

Additional regulation of Wolf Creek resulting from NRC oversight of the plant's performance or from changing regulations generally, including those that could potentially result from events surrounding the Fukushima Daiichi nuclear power plant in Japan, or any event that might occur at any nuclear plant anywhere in the world, may result in increased operating and capital expenditures. We cannot estimate the cost associated with such increases, but they could be material to our operations and consolidated financial results.

In March 2011, the NRC established a task force to conduct a review of U.S. nuclear power plant safety in the aftermath of a March 11, 2011, earthquake and tsunami that eventually resulted in station blackout and a level 7 event on the International Nuclear and Radiological Event Scale (the highest level event on the scale) at Japan's Fukushima Daiichi nuclear power plant. The task force expects to develop recommendations for the NRC on whether it should require immediate enhancements at U.S. reactors and any changes to NRC regulations, inspection procedures, and licensing processes. The timing and effects of any NRC action cannot be determined at this time.

CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Note 2 of the Notes to Condensed Consolidated Financial Statements, "Summary of Significant Accounting Policies," contains a summary of our significant accounting policies, many of which require estimates and assumptions by management. The policies highlighted in our 2010 Form 10-K have an impact on our reported results that may be material due to the levels of judgment and subjectivity necessary to account for uncertain matters or their susceptibility to change.

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From December 31, 2010, through March 31, 2011, we have not experienced any significant changes in our critical accounting estimates. For additional information, see our 2010 Form 10-K.

OPERATING RESULTS

We evaluate operating results based on EPS. We have various classifications of revenues, defined as follows:

Retail: Sales of electricity to residential, commercial and industrial customers. Classification of customers as residential, commercial or industrial requires judgment and our classifications may be different from other companies. Assignment of tariffs is not dependent on classification.

Other retail: Sales of electricity for lighting public streets and highways, net of revenue subject to refund.

Wholesale: Sales of electricity to electric cooperatives, municipalities and other electric utilities, the prices for which are either based on cost or prevailing market prices as prescribed by FERC authority. This category also includes changes in valuations of contracts for the sale of such electricity that have yet to settle. Margins realized from sales based on prevailing market prices generally serve to offset our retail prices and the cost-based prices charged to certain wholesale customers.

Transmission: Reflects transmission revenues, including those based on tariffs with the SPP.

Other: Miscellaneous electric revenues including ancillary service revenues and rent from electric property leased to others. This category also includes energy marketing transactions unrelated to the production of our generating assets, changes in valuations of related contracts and fees we earn for marketing services that we provide for third parties.

Electric utility revenues are impacted by things such as rate regulation, fuel costs, customer conservation efforts, the economy and competitive forces. Changing weather also affects the amount of electricity our customers use as electricity sales are seasonal. As a summer peaking utility, the third quarter typically accounts for our greatest electricity sales. Hot summer temperatures and cold winter temperatures prompt more demand, especially among residential customers. Mild weather reduces customer demand. Our wholesale revenues are impacted by, among other factors, demand, cost and availability of fuel and purchased power, price volatility, available generation capacity, transmission availability and weather.

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Three Months Ended March 31, 2011, Compared to Three Months Ended March 31, 2010

Below we discuss our operating results for the three months ended March 31, 2011, compared to the results for the three months ended March 31, 2010. Significant changes in results of operations shown in the table immediately below are further explained in the descriptions that follow.

	Three Months Ended March 31,			
	2011	2010	Change	% Change
(In Thousands, Except Per Share Amounts)				
REVENUES:				
Residential	\$ 152,908	\$ 144,742	\$ 8,166	5.6
Commercial	128,827	117,470	11,357	9.7
Industrial	79,196	69,040	10,156	14.7
Other retail	(3,014)	1,993	(5,007)	(251.2)
Total Retail Revenues	357,917	333,245	24,672	7.4
Wholesale	78,594	82,748	(4,154)	(5.0)
Transmission (a)	37,176	36,629	547	1.5
Other	8,033	7,208	825	11.4
Total Revenues	481,720	459,830	21,890	4.8
OPERATING EXPENSES:				
Fuel and purchased power	134,184	133,800	384	0.3
Operating and maintenance	137,351	121,172	16,179	13.4
Depreciation and amortization	70,259	66,930	3,329	5.0
Selling, general and administrative	48,767	45,927	2,840	6.2
Total Operating Expenses	390,561	367,829	22,732	6.2
INCOME FROM OPERATIONS	91,159	92,001	(842)	(0.9)
OTHER INCOME (EXPENSE):				
Investment earnings	1,968	1,757	211	12.0
Other income	2,249	854	1,395	163.3
Other expense	(5,368)	(4,494)	(874)	(19.4)
Total Other Expense	(1,151)	(1,883)	732	38.9
Interest expense	43,538	44,616	(1,078)	(2.4)
INCOME BEFORE INCOME TAXES	46,470	45,502	968	2.1
Income tax expense	13,513	13,820	(307)	(2.2)
NET INCOME	32,957	31,682	1,275	4.0
Less: Net income attributable to noncontrolling interests	1,373	1,002	371	37.0
NET INCOME ATTRIBUTABLE TO WESTAR ENERGY	31,584	30,680	904	2.9
Preferred dividends	242	242	—	—
NET INCOME ATTRIBUTABLE TO COMMON STOCK	\$ 31,342	\$ 30,438	\$ 904	3.0
BASIC EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING ATTRIBUTABLE TO WESTAR ENERGY				
	\$ 0.27	\$ 0.27	\$ —	—

(a) **Transmission:** Reflects revenue derived from an SPP network transmission tariff. For the three months ended March 31, 2011, our SPP network transmission costs were \$32.1 million. This amount, less \$4.2 million retained by the SPP as administration cost, was returned to us as revenue. For the three months ended March 31, 2010, our SPP network transmission costs were \$27.2 million. This amount, less an administration cost of \$3.1 million retained by the SPP, was returned to us as revenue.

Gross Margin

Fuel and purchased power costs fluctuate with electricity sales and unit costs. As permitted by regulators, we adjust our retail prices to reflect changes in the costs of fuel and purchased power. Fuel and purchased power costs for wholesale customers are recovered at prevailing market prices or based on a predetermined formula with a price adjustment approved by FERC. As a result, changes in fuel and purchased power costs are offset in revenues with minimal impact on net income. For this reason, we believe gross margin is useful for understanding and analyzing changes in our operating performance from one period to the next. We calculate gross margin as total revenues less the sum of fuel and purchased power costs and SPP network transmission costs. Transmission costs reflect the costs of providing network transmission service. Accordingly, in calculating gross margin, we recognize the net value of this transmission activity as shown in the table immediately following. However, we record transmission costs as operating and maintenance expense on our consolidated statements of income. The following table summarizes our gross margin for the three months ended March 31, 2011 and 2010.

	Three Months Ended March 31,			
	2011	2010	Change	% Change
(Dollars In Thousands)				
REVENUES:				
Residential	\$ 152,908	\$ 144,742	\$ 8,166	5.6
Commercial	128,827	117,470	11,357	9.7
Industrial	79,196	69,040	10,156	14.7
Other retail	(3,014)	1,993	(5,007)	(251.2)
Total Retail Revenues	357,917	333,245	24,672	7.4
Wholesale	78,594	82,748	(4,154)	(5.0)
Transmission	37,176	36,629	547	1.5
Other	8,033	7,208	825	11.4
Total Revenues	481,720	459,830	21,890	4.8
Less: Fuel and purchased power expense	134,184	133,800	384	0.3
SPP network transmission costs	32,051	27,154	4,897	18.0
Gross Margin	<u>\$315,485</u>	<u>\$298,876</u>	<u>\$16,609</u>	5.6

The following table reflects changes in electricity sales for the three months ended March 31, 2011 and 2010. No electricity sales are shown for transmission or other as they are not directly related to the amount of electricity we sell.

	Three Months Ended March 31,			
	2011	2010	Change	% Change
(Thousands of MWh)				
ELECTRICITY SALES:				
Residential	1,658	1,682	(24)	(1.4)
Commercial	1,704	1,666	38	2.3
Industrial	1,337	1,277	60	4.7
Other retail	22	22	—	—
Total Retail	4,721	4,647	74	1.6
Wholesale	1,910	2,298	(388)	(16.9)
Total	<u>6,631</u>	<u>6,945</u>	<u>(314)</u>	(4.5)

Gross margin increased due primarily to higher total retail revenues. Of the \$24.7 million increase in total retail revenues, 78% was attributable to higher prices and 22% was due to higher electricity sales. Higher retail electricity sales were the result of increased industrial and commercial electricity sales. Although economic conditions have not recovered to levels experienced prior to the economic downturn, we believe improving economic conditions are why some of our industrial and commercial customers experienced increased production, which resulted in more electricity sales to them.

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Income from operations is the most directly comparable measure to gross margin that is calculated and presented in accordance with GAAP in our consolidated statements of income. Our presentation of gross margin should not be considered in isolation or as a substitute for income from operations. Additionally, our presentation of gross margin may not be comparable to similarly titled measures reported by other companies. The following table reconciles income from operations with gross margin for the three months ended March 31, 2011 and 2010.

	Three Months Ended March 31,			
	2011	2010	Change	% Change
	(Dollars in Thousands)			
Gross margin	\$315,485	\$298,876	\$16,609	5.6
Add: SPP network transmission costs	32,051	27,154	4,897	18.0
Less: Operating and maintenance expense	137,351	121,172	16,179	13.4
Depreciation and amortization expense	70,259	66,930	3,329	5.0
Selling, general and administrative expense	48,767	45,927	2,840	6.2
Income from operations	<u>\$ 91,159</u>	<u>\$ 92,001</u>	<u>\$ (842)</u>	(0.9)

Operating Expenses

	Three Months Ended March 31,			
	2011	2010	Change	% Change
	(Dollars in Thousands)			
Operating and maintenance expense	\$137,351	\$121,172	\$16,179	13.4

Operating and maintenance expense increased due primarily to higher SPP network transmission costs of \$4.9 million, which were offset by higher SPP network transmission revenues of \$3.8 million, higher power plant maintenance costs of \$4.2 million and higher maintenance costs of \$1.6 million for our electrical distribution system. Also contributing to the increase was a \$1.4 million increase in operating costs at Wolf Creek related primarily to higher regulatory compliance costs and a \$0.8 million increase in property taxes, which is offset in retail revenues. The increase in power plant maintenance costs was due primarily to planned maintenance outages at two of our power plants during the three months ended March 31, 2011, as well as higher maintenance costs at Wolf Creek. Additional tree trimming and other line clearance activities during the three months ended March 31, 2011, were the primary contributors to the higher maintenance costs for our electrical distribution system.

	Three Months Ended March 31,			
	2011	2010	Change	% Change
	(Dollars in Thousands)			
Depreciation and amortization expense	\$70,259	\$66,930	\$3,329	5.0

Depreciation and amortization expense increased due primarily to the addition of transmission facilities and additions to our power plants.

	Three Months Ended March 31,			
	2011	2010	Change	% Change
	(Dollars in Thousands)			
Selling, general and administrative expense	\$48,767	\$45,927	\$2,840	6.2

Selling, general and administrative expense increased due principally to higher legal fees of \$1.7 million related primarily to the arbitration proceedings discussed in Note 9 of the Notes to Condensed Consolidated Financial Statements, "Legal Proceedings," and the amortization of \$0.9 million of previously deferred amounts associated with various energy efficiency programs.

FINANCIAL CONDITION

Below we discuss significant balance sheet changes as of March 31, 2011, compared to December 31, 2010.

Inventory and supplies increased \$13.8 million due primarily to a 12% increase in the volume of coal resulting from outages at our power plants and a 10% increase in the delivered cost of coal.

Current deferred tax assets decreased \$10.1 million and other current liabilities decreased \$19.4 million due primarily to the payment of non-union, non-executive, at-risk employee compensation related to 2010 compensation metrics. This compensation is payable only in the event we meet pre-established operating and financial objectives.

Short-term debt increased \$78.6 million due principally to increased borrowings under Westar Energy's revolving credit facility. We used borrowings under the revolving credit facility to fund our capital and on-going operating needs.

Non-current deferred income taxes increased \$12.0 million due primarily to plant-related deferred taxes.

Accrued employee benefits decreased \$28.9 million due principally to our having made a \$29.0 million payment to our pension trust.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Available sources of funds to operate our business include internally generated cash, Westar Energy's revolving credit facilities and access to capital markets. We expect to meet our day-to-day cash requirements including, among other items, fuel and purchased power, dividends, interest payments, income taxes and pension contributions, using primarily internally generated cash and borrowings under the revolving credit facilities. To meet the cash requirements for our capital investments, we expect to use internally generated cash, borrowings under the revolving credit facilities and the issuance of debt and equity securities in the capital markets. We also use proceeds from the issuance of securities to repay borrowings under the revolving credit facilities, with such borrowed amounts principally related to investments in capital equipment, and for working capital and general corporate purposes. The aforementioned sources and uses of cash are similar to our historical activities. Uncertainties affecting our ability to meet cash requirements include, among others, factors affecting revenues described in "— Operating Results" above, economic conditions, regulatory actions, compliance with environmental regulations and conditions in the capital markets.

Capital Resources

Westar Energy has two revolving credit facilities in the amounts of \$730.0 million and \$270.0 million, respectively. As of April 27, 2011, \$346.0 million had been borrowed and an additional \$23.1 million of letters of credit had been issued under the \$730.0 million facility. No amounts were borrowed and no letters of credit were issued under the \$270.0 million facility as of the same date. We anticipate refinancing the \$730.0 million revolving credit facility later this year.

Common Stock Issuance

On February 15, 2011, Westar Energy delivered approximately 1.1 million shares of common stock and received proceeds of \$25.8 million as partial settlement of the forward sale agreement entered into with a bank in April 2010. Assuming physical share settlement of the approximately 3.1 million remaining shares of common stock under this agreement at March 31, 2011, Westar Energy would have received aggregate proceeds of approximately \$68.5 million, net of commission, based on an average forward price of \$21.86 per share.

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During the three months ended March 31, 2011, Westar Energy did not deliver any shares of common stock under the forward sale agreement entered into with a bank in November 2010. Assuming physical share settlement of the approximately 8.5 million shares of common stock under this agreement at March 31, 2011, Westar Energy would have received aggregate proceeds of approximately \$203.4 million, net of commission, based on an average forward price of \$23.98 per share.

Cash Flows from Operating Activities

Operating activities provided \$95.4 million of cash in the three months ended March 31, 2011, compared to cash provided of \$152.0 million during the same period of 2010. Principal contributors to the decrease include our having contributed \$24.8 million more to the Westar Energy pension trust, Westar Energy post-retirement benefit plan and Wolf Creek pension trust, and our having paid \$40.4 million more for fuel and purchased power, which was the result of our having purchased significantly more power during the three months ended March 31, 2011, due primarily to planned maintenance outages at some of our power plants.

Cash Flows used in Investing Activities

Investing activities used \$152.1 million of cash in the three months ended March 31, 2011, compared to \$102.8 million during the same period of 2010. We spent \$155.9 million in the three months ended March 31, 2011, and \$103.3 million in the same period of 2010 on additions to property, plant and equipment.

Cash Flows from (used in) Financing Activities

Financing activities provided \$59.1 million of cash in the three months ended March 31, 2011, compared to \$50.2 million of cash used in financing activities in the same period of 2010. The increase in cash provided from financing activities was due primarily to our having borrowed \$78.6 million under Westar Energy's revolving credit facility during the three months ended March 31, 2011, compared to our having repaid \$33.6 million of borrowings under the credit facility during the same period last year. We used borrowings under the revolving credit facility to fund our capital and on-going operating needs.

Debt Covenants

We remain in compliance with the debt covenants described in our 2010 Form 10-K.

Credit Ratings

Moody's Investors Service (Moody's), Standard & Poor's Ratings Group (S&P) and Fitch Investors Service (Fitch) are independent credit-rating agencies that rate our debt securities. These ratings indicate each agency's assessment of our ability to pay interest and principal when due on our securities.

In general, less favorable credit ratings make borrowing more difficult and costly. Under Westar Energy's revolving credit facilities our cost of borrowing is determined in part by credit ratings. However, Westar Energy's ability to borrow under the revolving credit facilities is not conditioned on maintaining a particular credit rating. We may enter into new credit agreements that contain credit rating conditions, which could affect our liquidity and/or our borrowing costs.

Factors that impact our credit ratings include a combination of objective and subjective criteria. Objective criteria include typical financial ratios, such as total debt to total capitalization and funds from operations to total debt, among others, future capital expenditures and our access to liquidity including committed lines of credit. Subjective criteria include such items as the quality and credibility of management, the political and regulatory environment we operate in and an assessment of our governance and risk management practices.

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As of April 27, 2011, our ratings with the agencies are as shown in the table below.

	Westar Energy First Mortgage Bond Rating	KGE First Mortgage Bond Rating	Westar Energy Unsecured Debt	Rating Outlook
Moody's	Baa1	Baa1	Baa3	Positive
S&P	BBB+	BBB+	BBB	Stable
Fitch	BBB+	BBB+	BBB	Positive

Certain of our derivative instruments contain collateral provisions subject to credit agency ratings of our senior unsecured debt. If our senior unsecured debt ratings were to decrease or fall below investment grade, the counterparties to the derivative instruments, pursuant to the provisions, could require collateralization on derivative instruments. The aggregate fair value of all derivative instruments with objective credit-risk-related contingent features that were in a liability position as of March 31, 2011, and December 31, 2010, was \$0.8 million and \$1.6 million, respectively, for which we had posted \$0.5 million of collateral, including independent amounts, as of March 31, 2011, and no collateral as of December 31, 2010. If all credit-risk-related contingent features underlying these agreements had been triggered as of March 31, 2011, and December 31, 2010, we would have been required to provide to our counterparties \$0.7 million and \$1.6 million, respectively, of additional collateral after taking into consideration the offsetting impact of derivative assets and net accounts receivable.

Pension Contribution

During the three months ended March 31, 2011, we contributed \$29.0 million to the Westar Energy pension trust and funded \$5.7 million of Wolf Creek's pension plan contribution.

OFF-BALANCE SHEET ARRANGEMENTS

From December 31, 2010, through March 31, 2011, our off-balance sheet arrangements did not change materially. For additional information, see our 2010 Form 10-K.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

From December 31, 2010, through March 31, 2011, our contractual obligations and commercial commitments did not change materially outside the ordinary course of business. For additional information, see our 2010 Form 10-K.

OTHER INFORMATION**Proposed Environmental Regulations**

In March 2011, the EPA proposed air toxic standards, including mercury standards, under the Clean Air Act for coal and oil-fired electric generating units. The EPA is required to issue a final rule by November 2011 and the proposal provides up to four years for facilities to meet the standards. We are currently evaluating the proposal. Until the final rule is issued, we cannot determine its impact on our operations or consolidated financial results, but it could be material.

Changes in Prices**KCC Proceedings**

On April 11, 2011, the KCC issued an order allowing us to adjust our prices, subject to final KCC review, to include updated transmission costs as reflected in our transmission formula rate discussed below. The new prices were effective April 14, 2011, and are expected to increase our annual retail revenues by \$17.4 million. We expect the KCC to issue a final order on our request in the second quarter of 2011.

On March 29, 2011, we filed an application with the KCC to adjust our prices to include costs associated with environmental investments made in 2010. We expect the KCC to issue an order on our request in May 2011 and estimate that this will increase our annual retail revenues by approximately \$11.0 million.

FERC Proceedings

Our transmission formula rate that includes projected 2011 transmission capital expenditures and operating costs became effective January 1, 2011, and is expected to increase our annual transmission revenues by \$15.9 million. This updated rate provided the basis for our request with the KCC to adjust our retail prices to include updated transmission costs as noted above.

Fair Value of Energy Marketing Contracts

The following table shows the fair value of energy marketing contracts outstanding as of March 31, 2011.

	<u>Fair Value of Contracts</u> <u>(In Thousands)</u>
Net fair value of contracts outstanding as of December 31, 2010 (a)	\$ 12,797
Contracts outstanding at the beginning of the period that were realized or otherwise settled during the period	(614)
Changes in fair value of contracts outstanding at the beginning and end of the period	(329)
Fair value of new contracts entered into during the period	361
Fair value of contracts outstanding as of March 31, 2011 (b)	<u>\$ 12,215</u>

(a) Approximately \$7.8 million of the fair value of energy marketing contracts was recognized as a regulatory liability.

(b) Approximately \$7.6 million of the fair value of energy marketing contracts were recognized as a regulatory liability.

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The sources of the fair values of the financial instruments related to these contracts and the maturity periods of the contracts as of March 31, 2011, are summarized in the following table.

<u>Sources of Fair Value</u>	<u>Fair Value of Contracts at End of Period</u>				
	<u>Total Fair Value</u>	<u>Maturity Less Than 1 Year</u>	<u>Maturity 1-3 Years</u>	<u>Maturity 4-5 Years</u>	<u>Maturity Over 5 Years</u>
Prices provided by other external sources (swaps and forwards)	\$ 12,494	\$ 3,133	\$ 7,663	\$ 1,698	\$ —
Prices based on option pricing models (options and other) (a)	(279)	18	(211)	(86)	—
Total fair value of contracts outstanding	\$ 12,215	\$ 3,151	\$ 7,452	\$ 1,612	\$ —

(a) Options are priced using a series of techniques, such as the Black option pricing model.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including changes in commodity prices, counterparty credit, interest rates, and debt and equity instrument values. From December 31, 2010, to March 31, 2011, no significant changes occurred in our market risk exposure. See “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our 2010 Form 10-K for additional information.

ITEM 4. CONTROLS AND PROCEDURES

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. In addition, the disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports under the Act is accumulated and communicated to management, including the chief executive officer and the chief financial officer, allowing timely decisions regarding required disclosure. As of the end of the period covered by this report, based on an evaluation carried out under the supervision and with the participation of management, including the chief executive officer and the chief financial officer, of the effectiveness of our disclosure controls and procedures, the chief executive officer and the chief financial officer have concluded that our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the three months ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information on other legal proceedings is set forth in Notes 5, 8 and 9 of the Notes to Condensed Consolidated Financial Statements, “Rate Matters and Regulation,” “Commitments and Contingencies” and “Legal Proceedings,” respectively, which are incorporated herein by reference.

ITEM 1A. RISK FACTORS

Our risk factors did not change materially from December 31, 2010, through March 31, 2011. For additional information, see our 2010 Form 10-K.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

- 4(a) Fifty-Sixth Supplemental Indenture, dated as of February 18, 2011, by and among Kansas Gas and Electric Company, The Bank of New York Mellon Trust Company, N.A. and Richard Tarnas (filed as Exhibit 4.1 to the Form 8-K filed on February 22, 2011)
- 10(a) Credit Agreement dated as of February 18, 2011, among Westar Energy, Inc., and several banks and other financial institutions or entities from time to time parties to the Agreement (filed as Exhibit 10.1 to the Form 8-K filed on February 22, 2011)
- 31(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 certifying the quarterly report provided for the period ended March 31, 2011
- 31(b) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 certifying the quarterly report provided for the period ended March 31, 2011
- 32 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 certifying the quarterly report provided for the quarter ended March 31, 2011 (furnished and not to be considered filed as part of the Form 10-Q)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WESTAR ENERGY, INC.

Date: _____ May 5, 2011 _____

By: _____ /s/ Mark A. Ruelle
Mark A. Ruelle,
Executive Vice President and
Chief Financial Officer

WESTAR ENERGY, INC.
CHIEF EXECUTIVE OFFICER
CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William B. Moore, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2011, of Westar Energy, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2011

By: /s/ William B. Moore
 William B. Moore
 Director, President and Chief Executive Officer
 Westar Energy, Inc.
 (Principal Executive Officer)

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 Quarterly Report of Westar Energy, Inc. (the Company) on Form 10-Q for the quarter ended March 31, 2011 (the Report), which this certification accompanies, William B. Moore, in my capacity as Director, President and Chief Executive Officer of the Company, and Mark A. Ruelle, in my capacity as Executive Vice President and Chief Financial 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 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: _____ May 5, 2011 _____

By: _____ /s/ William B. Moore _____
William B. Moore
Director, President and Chief Executive Officer

Date: _____ May 5, 2011 _____

By: _____ /s/ Mark A. Ruelle _____
Mark A. Ruelle,
Executive Vice President and
Chief Financial Officer