
**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 June 30, 2006

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act). Check one:

Large accelerated filer Accelerated filer Non-accelerated filer

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)

87,230,601 shares
(Outstanding at July 31, 2006)

TABLE OF CONTENTS

	<u>Page</u>
PART I. Financial Information	
Item 1. Condensed Consolidated Financial Statements (Unaudited)	
Consolidated Balance Sheets	5
Consolidated Statements of Income	6-7
Consolidated Statements of Comprehensive Income	8
Consolidated Statements of Cash Flows	9
Notes to Condensed Consolidated Financial Statements	10
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures About Market Risk	30
Item 4. Controls and Procedures	30
PART II. Other Information	
Item 1. Legal Proceedings	30
Item 1A. Risk Factors	31
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3. Defaults Upon Senior Securities	31
Item 4. Submission of Matters to a Vote of Security Holders	31
Item 5. Other Information	31
Item 6. Exhibits	32
Signature	33

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,” “pro forma,” “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:

- capital expenditures,
- earnings,
- 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,
- nuclear operations, and
- the overall economy of our service area.

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

- electric utility deregulation or re-regulation,
- regulated and competitive markets,
- economic and capital market conditions,
- changes in accounting requirements and other accounting matters,
- changing weather,
- the ultimate impact of the rulings by the Kansas Court of Appeals arising from appeals filed by interveners of portions of the Kansas Corporation Commission’s December 28, 2005 rate order,
- the outcome of the Federal Energy Regulatory Commission transmission formula rate application filed on May 2, 2005,
- rates, cost recoveries and other regulatory matters,
- the impact of changes and downturns in the energy industry and the market for trading wholesale electricity,
- the outcome of the notice of violation received on January 22, 2004 from the Environmental Protection Agency and other environmental matters,
- political, legislative, judicial and regulatory developments at the municipal, state and federal level,
- the impact of our potential liability to David C. Wittig and Douglas T. Lake for unpaid compensation and benefits and the impact of claims they have made against us related to the termination of their employment and the publication of the report of the special committee of the board of directors,
- the impact of changes in interest rates,
- changes in, and the discount rate assumptions used for, pension and other post-retirement and post-employment benefit liability calculations, as well as actual and assumed investment returns on pension plan assets,
- the impact of changing interest rates and other assumptions regarding our Wolf Creek Generating Station decommissioning obligation,
- changes in regulation of nuclear generating facilities and nuclear materials and fuel, including possible shutdown of nuclear generating facilities,
- uncertainty regarding the establishment of interim or permanent sites for spent nuclear fuel storage and disposal,
- regulatory requirements for utility service reliability,
- homeland security considerations,
- coal, natural gas, oil and wholesale electricity prices,
- availability and timely provision of our fuel supply, and
- other circumstances affecting anticipated operations, sales and costs.

[Table of Contents](#)

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 Annual Report on Form 10-K for the year ended December 31, 2005. No one section of this report deals with all aspects of the subject matter and additional information on some matters that could impact our operations and financial results may be included in our Annual Report on Form 10-K for the year ended December 31, 2005. Any forward-looking statement speaks only as of the date such statement was made, and we are not obligated to update any forward-looking statement to reflect events or circumstances after the date on which such statement was made except as required by applicable laws or regulations.

PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,005	\$ 38,539
Restricted cash	—	2,430
Accounts receivable, net	203,601	124,711
Inventories and supplies, net	134,674	101,818
Energy marketing contracts	45,431	55,948
Tax receivable	6,767	1,565
Deferred tax assets	19,932	19,211
Prepaid expenses	52,777	30,452
Regulatory assets	34,691	39,300
Other	70,442	61,646
Total Current Assets	<u>578,320</u>	<u>475,620</u>
PROPERTY, PLANT AND EQUIPMENT, NET	<u>3,979,971</u>	<u>3,947,732</u>
OTHER ASSETS:		
Restricted cash	1,492	25,014
Regulatory assets	383,970	398,198
Nuclear decommissioning trust	102,613	100,803
Energy marketing contracts	30,120	75,698
Other	178,022	187,004
Total Other Assets	<u>696,217</u>	<u>786,717</u>
TOTAL ASSETS	<u><u>\$5,254,508</u></u>	<u><u>\$5,210,069</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ —	\$ 100,000
Short-term debt	198,000	—
Accounts payable	119,758	109,807
Accrued taxes	103,344	100,568
Energy marketing contracts	26,329	11,710
Accrued interest	33,618	36,609
Regulatory liabilities	37,142	50,970
Other	138,657	140,403
Total Current Liabilities	<u>656,848</u>	<u>550,067</u>
LONG-TERM LIABILITIES:		
Long-term debt, net	1,563,128	1,562,990
Deferred income taxes	890,819	911,135
Unamortized investment tax credits	62,428	65,558
Deferred gain from sale-leaseback	127,765	130,513
Accrued employee benefits	142,955	158,418
Asset retirement obligations	134,388	129,888
Energy marketing contracts	783	2,007
Regulatory liabilities	67,252	111,523
Other	146,170	150,531
Total Long-Term Liabilities	<u>3,135,688</u>	<u>3,222,563</u>
COMMITMENTS AND CONTINGENCIES (See Notes 7 and 8)		
TEMPORARY EQUITY (See Note 2)	<u>7,835</u>	<u>—</u>
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 87,147,223 and 86,835,371 shares, respectively	435,736	434,177
Paid-in capital	910,427	923,083
Unearned compensation	—	(10,257)
Retained earnings	127,492	109,987
Accumulated other comprehensive loss, net	(40,954)	(40,987)
Total Shareholders' Equity	<u>1,454,137</u>	<u>1,437,439</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$5,254,508</u></u>	<u><u>\$5,210,069</u></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 June 30,	
	2006	2005
SALES	\$ 406,622	\$ 374,802
OPERATING EXPENSES:		
Fuel and purchased power	129,750	119,610
Operating and maintenance	118,568	108,836
Depreciation and amortization	50,216	42,556
Selling, general and administrative	39,078	41,391
Total Operating Expenses	<u>337,612</u>	<u>312,393</u>
INCOME FROM OPERATIONS	69,010	62,409
OTHER INCOME (EXPENSE):		
Investment earnings	2,681	2,296
Other income	2,451	6,407
Other expense	(1,194)	(3,200)
Total Other Income	<u>3,938</u>	<u>5,503</u>
Interest expense	25,048	27,739
INCOME FROM OPERATIONS BEFORE INCOME TAXES	47,900	40,173
Income tax expense	12,535	12,297
NET INCOME	35,365	27,876
Preferred dividends	242	242
EARNINGS AVAILABLE FOR COMMON STOCK	<u>\$ 35,123</u>	<u>\$ 27,634</u>
BASIC AND DILUTED EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING (See Note 2)	<u>\$ 0.40</u>	<u>\$ 0.32</u>
Average equivalent common shares outstanding	87,461,996	86,827,477
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.25	\$ 0.23

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)

	Six Months Ended	
	June 30,	
	2006	2005
SALES	\$ 746,645	\$ 711,305
OPERATING EXPENSES:		
Fuel and purchased power	221,750	211,408
Operating and maintenance	229,071	215,048
Depreciation and amortization	97,788	84,860
Selling, general and administrative	77,343	82,652
Total Operating Expenses	<u>625,952</u>	<u>593,968</u>
INCOME FROM OPERATIONS	<u>120,693</u>	<u>117,337</u>
OTHER INCOME (EXPENSE):		
Investment earnings	4,833	4,520
Other income	12,468	7,083
Other expense	(6,061)	(8,008)
Total Other Income	<u>11,240</u>	<u>3,595</u>
Interest expense	<u>48,446</u>	<u>57,602</u>
INCOME FROM OPERATIONS BEFORE INCOME TAXES	<u>83,487</u>	<u>63,330</u>
Income tax expense	<u>21,284</u>	<u>19,839</u>
NET INCOME	<u>62,203</u>	<u>43,491</u>
Preferred dividends	485	485
EARNINGS AVAILABLE FOR COMMON STOCK	<u>\$ 61,718</u>	<u>\$ 43,006</u>
BASIC AND DILUTED EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING (see Note 2):		
Basic earnings available	<u>\$ 0.71</u>	<u>\$ 0.50</u>
Diluted earnings available	<u>\$ 0.70</u>	<u>\$ 0.49</u>
Average equivalent common shares outstanding	87,371,108	86,699,027
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.50	\$ 0.46

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

WESTAR ENERGY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)
(Unaudited)

	<u>Three Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
NET INCOME	\$ 35,365	\$ 27,876
OTHER COMPREHENSIVE INCOME:		
Unrealized holding gain on marketable securities arising during the period	37	—
Other Comprehensive Income	37	—
COMPREHENSIVE INCOME	<u>\$ 35,402</u>	<u>\$ 27,876</u>

	<u>Six Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
NET INCOME	\$ 62,203	\$ 43,491
OTHER COMPREHENSIVE INCOME:		
Unrealized holding gain on marketable securities arising during the period	33	—
Other Comprehensive Income	33	—
COMPREHENSIVE INCOME	<u>\$ 62,236</u>	<u>\$ 43,491</u>

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)

	<u>Six Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
		Revised (See Note 2)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net income	\$ 62,203	\$ 43,491
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	97,788	84,860
Amortization of nuclear fuel	7,761	5,421
Amortization of deferred gain from sale-leaseback	(2,748)	(5,914)
Amortization of prepaid corporate-owned life insurance	7,842	7,777
Non-cash stock compensation	1,539	1,719
Net changes in energy marketing assets and liabilities	(6,185)	(21,819)
Accrued liability to certain former officers	578	1,579
Net deferred income taxes and credits	(14,261)	46,183
Changes in working capital items, net of acquisitions and dispositions:		
Accounts receivable, net	(78,890)	19,618
Inventories and supplies	(32,856)	6,168
Prepaid expenses and other	(46,316)	(38,093)
Accounts payable	7,695	7,087
Accrued taxes	(2,426)	(23,037)
Stock based compensation excess tax benefits	(525)	—
Other current liabilities	(9,870)	(15,481)
Changes in other, assets	(2,889)	(42,040)
Changes in other, liabilities	(18,980)	12,572
Cash flows (used in) from operating activities	<u>(30,540)</u>	<u>90,091</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(140,530)	(106,299)
Investment in corporate-owned life insurance	(19,127)	(19,346)
Purchase of securities within the nuclear decommissioning trust fund	(182,232)	(182,354)
Sale of securities within the nuclear decommissioning trust fund	179,901	179,989
Proceeds from investment in corporate-owned life insurance	8,774	10,517
Investment in other investments	(3,697)	—
Proceeds from other investments	51,619	3,551
Cash flows used in investing activities	<u>(105,292)</u>	<u>(113,942)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Short-term debt, net	198,000	38,500
Proceeds from long-term debt	99,662	642,807
Retirements of long-term debt	(200,000)	(290,998)
Repayment of capital leases	(2,421)	(2,475)
Borrowings against cash surrender value of corporate-owned life insurance	57,507	55,550
Repayment of borrowings against cash surrender value of corporate-owned life insurance	(9,237)	(11,382)
Stock based compensation excess tax benefits	525	—
Issuance of common stock, net	1,227	4,463
Cash dividends paid	(39,197)	(37,170)
Cash flows from financing activities	<u>106,066</u>	<u>399,295</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES OF DISCONTINUED OPERATIONS	<u>1,232</u>	<u>—</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(28,534)</u>	<u>375,444</u>
CASH AND CASH EQUIVALENTS:		
Beginning of period	38,539	24,611
End of period	<u>\$ 10,005</u>	<u>\$ 400,055</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 667,000 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. KGE owns a 47% interest in the Wolf Creek Generating Station (Wolf Creek), a nuclear power plant located near Burlington, Kansas. Both Westar Energy and KGE conduct business using the name Westar Energy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

We prepare our condensed consolidated financial statements in accordance with generally accepted accounting principles (GAAP) for the United States of America for interim financial information and 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 GAAP have been condensed or omitted. In our opinion, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation of the 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 Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Form 10-K).

Use of Management’s Estimates

When we prepare our 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 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, investments, valuation of our energy marketing portfolio, intangible assets, fuel costs billed under the terms of our retail energy cost adjustment (RECA), income taxes, pension and other post-retirement and post-employment benefits, our asset retirement obligations including decommissioning of Wolf Creek, environmental issues, contingencies and litigation. Actual results may differ from those estimates under different assumptions or conditions. The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year.

Dilutive Shares

Basic earnings per share applicable to equivalent common stock are based on the weighted average number of common shares outstanding and shares issuable in connection with vested restricted share units (RSUs) during the period reported. Diluted earnings per share include the effects of potential issuances of common shares resulting from the assumed vesting of all outstanding RSUs and the exercise of all outstanding stock options issued pursuant to the terms of our stock-based compensation plans. The dilutive effect of shares issuable under our stock-based compensation plans is computed using the treasury stock method.

[Table of Contents](#)

The following table reconciles the weighted average number of equivalent common shares outstanding used to compute basic and diluted earnings per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
DENOMINATOR FOR BASIC AND DILUTED EARNINGS PER SHARE:				
Denominator for basic earnings per share – weighted average equivalent shares	87,461,996	86,827,477	87,371,108	86,699,027
Effect of dilutive securities:				
Employee stock options	909	1,734	897	1,722
Restricted share units	684,173	621,035	662,604	583,717
Denominator for diluted earnings per share – weighted average equivalent shares	88,147,078	87,450,246	88,034,609	87,284,466
Potentially dilutive shares not included in the denominator since they are antidilutive	201,640	215,340	201,640	215,340

Stock Based Compensation

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), “Share-Based Payment,” (SFAS No. 123R) for stock-based compensation plans. Under SFAS No. 123R, all stock-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as an expense in the consolidated statement of income over the requisite service period. On March 29, 2005, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin (SAB) No. 107 on Share-Based Payment to express the views of the staff regarding the interaction between SFAS No. 123R and SEC rules and regulations as well as provide staff’s view on valuation of stock-based compensation arrangements for public companies. The SAB No. 107 guidance was taken into consideration with the implementation of SFAS No. 123R.

We adopted SFAS No. 123R using the modified prospective transition method. Under the modified prospective transition method, we are required to record stock-based compensation expense for all awards granted after the adoption date and for the unvested portion of previously granted awards outstanding as of the adoption date. Compensation cost related to the unvested portion of previously granted awards is based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123. Compensation cost for awards granted after the adoption date are based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. Since 2002, we have used RSUs exclusively for our stock-based compensation awards. RSUs are valued in the same manner under SFAS Nos. 123 and 123R.

Our net income for the three months ended June 30, 2006 included \$0.5 million of compensation expense and \$0.2 million of income tax benefits related to our stock-based compensation arrangements. Our net income for the three months ended June 30, 2005 included \$1.1 million of compensation expense and \$0.4 million of income tax benefits related to our stock-based compensation arrangements. Our net income for the six months ended June 30, 2006 included \$1.5 million of compensation expense and \$0.6 million of income tax benefits related to our stock-based compensation arrangements. Our net income for the six months ended June 30, 2005 included \$2.6 million of compensation expense and \$1.0 million of income tax benefits related to our stock-based compensation arrangements. The incremental amount of stock-based compensation expense that was disclosed and not included in our consolidated statements of income for the three and six months ended June 30, 2005 was not material to our consolidated results of operations and did not change basic or diluted earnings per share.

[Table of Contents](#)

Restricted share unit (RSU) awards are grants that entitle the holder to receive shares of common stock as the awards vest. These RSU awards are defined in SFAS No. 123R as nonvested shares and do not include restrictions once the awards have vested. We measure the fair value of the RSU awards based on the market price of the underlying common stock as of the date of grant and recognize that cost as an expense in the consolidated statement of income over the requisite service period. The requisite service periods range from one to ten years. RSU awards issued after adoption of SFAS No. 123R with only service conditions that have a graded vesting schedule will be recognized as an expense in the consolidated statement of income on a straight-line basis over the requisite service period for the entire award. Awards issued prior to adoption of SFAS No. 123R will continue to be recognized as an expense in the consolidated statement of income on a straight-line basis over the requisite service period for each separately vesting portion of the award.

During the six months ended June 30, 2006, our RSU activity was as shown in the following table.

	<u>Shares</u> <u>(In Thousands)</u>	<u>Weighted</u> <u>Average</u> <u>Grant-Date</u> <u>Fair Value</u>
Restricted Share Units:		
Nonvested balance as of January 1, 2006	1,094.5	\$ 18.54
Granted	77.9	21.38
Vested	(169.4)	14.36
Forfeited	(7.7)	21.57
Nonvested balance as of June 30, 2006	<u>995.3</u>	19.66

Total unrecognized compensation cost related to RSU awards was \$5.3 million as of June 30, 2006. These costs are expected to be recognized over a remaining weighted-average period of 2.2 years. Upon adoption of SFAS No. 123R, we were required to charge \$10.3 million of unearned stock compensation against additional paid-in capital. There were no modifications of awards during the three and six months ended June 30, 2006 or 2005.

SFAS No. 123R requires that forfeitures be estimated over the vesting period, rather than being recognized as a reduction of compensation expense when the forfeiture actually occurs. The cumulative effect of the use of the estimated forfeiture method for prior periods upon adoption of SFAS No. 123R was not material.

RSU awards that can be settled in cash upon a change in control were reclassified from permanent equity to temporary equity upon adoption of SFAS No. 123R. As of June 30, 2006, we had \$7.8 million of temporary equity on our consolidated balance sheet. If we determine it is probable that these awards will be settled in cash, the awards will be reclassified as a liability.

Stock options granted between 1996 and 2001 are completely vested and expire 10 years from the date of grant. All 204,890 outstanding options are exercisable. There were 3,825 options exercised and 10,875 options forfeited during the three and six months ended June 30, 2006. We currently have no plans to issue new stock option awards.

Prior to the adoption of SFAS No. 123R, we reported all tax benefits resulting from the vesting of RSU awards and exercise of stock options as operating cash flows in the consolidated statements of cash flows. SFAS No. 123R requires cash retained as a result of excess tax benefits resulting from the tax deductions in excess of the related compensation cost recognized in the financial statements to be classified as cash flows from financing activities in the consolidated statements of cash flows.

Supplemental Cash Flow Information

	Six Months Ended	
	June 30,	
	2006	2005
	(In Thousands)	
CASH PAID FOR:		
Interest on financing activities, net of amount capitalized	\$45,663	\$48,624
Income taxes	39,447	162
NON-CASH INVESTING TRANSACTIONS:		
Property, plant and equipment additions	11,975	10,551
NON-CASH FINANCING TRANSACTIONS:		
Issuance of common stock for reinvested dividends and RSUs	5,417	8,136
Assets acquired through capital leases	2,744	2,859

New Accounting Pronouncement – Accounting for Uncertainty in Income Taxes

In July 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. (FIN) 48, “Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109.” FIN 48 prescribes a comprehensive model for how companies should recognize, measure and disclose in their financial statements uncertain tax positions taken, or expected to be taken, on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006 with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We anticipate adopting the guidance effective January 1, 2007. We are currently evaluating what impact the adoption of FIN 48 will have on our consolidated financial statements.

Reclassifications and Revisions

We have reclassified and revised certain prior year amounts to conform with classifications used in the current-year presentation as necessary for a fair presentation of the financial statements. We have revised the prior years’ presentation of our consolidated statements of cash flows to reflect investments in and proceeds from purchases and sales of marketable securities in our nuclear decommissioning trust on a gross basis, rather than net.

3. RATE MATTERS AND REGULATION**Potential Changes in Rates**

In accordance with a 2003 Kansas Corporation Commission (KCC) order, on May 2, 2005, we filed applications with the KCC for it to review our retail electric rates. On December 28, 2005, the KCC issued an order (2005 KCC Order) authorizing changes in our rates, which we began billing in the first quarter of 2006, and approving various other changes to our rate structures. The new rates are discussed in greater detail in our 2005 Form 10-K. In April 2006, interveners to the rate review filed appeals with the Kansas Court of Appeals challenging various aspects of the 2005 KCC Order. On July 7, 2006, the Kansas Court of Appeals reversed and remanded for further consideration by the KCC three elements of the 2005 KCC Order. The balance of the 2005 KCC Order was upheld.

The Kansas Court of Appeals held: (1) the KCC’s approval of a transmission delivery charge, in the circumstances of this case, violated the Kansas statutes that authorize a transmission delivery charge, (2) the KCC’s approval of recovery of terminal net salvage, adjusted for inflation, in our depreciation rates was not supported by substantial competent evidence, and (3) the KCC’s reversal of its prior rate treatment of the La Cygne Generating Station (La Cygne) Unit 2 sale/leaseback transaction was not sufficiently justified and was thus unreasonable, arbitrary and capricious.

[Table of Contents](#)

At this time, we are unable to predict the ultimate impact of the decision by the Kansas Court of Appeals or when we will be able to determine such impact. We believe the decision on these three issues was erroneous and we have filed a petition for review with the Kansas Supreme Court setting forth the reasons we believe the decision should be reversed. One other party has also filed a petition for review. The Kansas Supreme Court has discretion to grant or deny the petitions for review and has not yet ruled on the petitions. If the Kansas Supreme Court does not grant the petitions for review, or affirms the decision of the Kansas Court of Appeals, on remand the KCC will consider further the portions of its order that were reversed. We are unable to predict the actions the KCC may take on the relevant issues. On remand, the KCC could require that we refund amounts collected to date to the extent that such amounts exceed the amounts authorized in a new order issued by the KCC. We have not recorded any potential refund obligations related to these issues.

We are currently recovering approximately \$14.0 million annually related to terminal net salvage. Through June 30, 2006, we have recovered \$5.9 million. If we cannot continue recovering terminal net salvage, the impact would be a decrease in cash flow. Amounts we are currently recovering in rates for terminal net salvage are recorded as a regulatory liability. If the rate treatment of the La Cygne Unit 2 sale/leaseback transaction is reversed, the impact would be an annual decrease of approximately \$8.0 million in our income from operations.

FERC Proceeding – Request for Change in Transmission Rates

On May 2, 2005, we filed applications with the Federal Energy Regulatory Commission (FERC) that proposed a formula transmission rate providing for annual adjustments to reflect changes in our transmission costs. This is consistent with our proposals filed with the KCC on May 2, 2005 to charge retail customers separately for transmission service through a transmission delivery charge. These proposed FERC transmission rates became effective, subject to refund, December 1, 2005. We reached a settlement with all parties in the FERC transmission rate proceeding. The parties submitted the settlement to the FERC settlement judge on July 7, 2006. We anticipate a decision from FERC during the fourth quarter of 2006. We can provide no assurance that FERC will ultimately approve the settlement. We have recorded a refund obligation of \$1.3 million, which is consistent with the provisions of the July 7, 2006 settlement agreement.

4. ACCOUNTS RECEIVABLE SALES PROGRAM

We terminated our accounts receivable sales program in March 2006. As of December 31, 2005, \$65.0 million was sold to the bank and commercial paper conduit.

5. DEBT FINANCINGS

On June 1, 2006, we refinanced \$100.0 million of pollution control bonds, which were to mature in 2031. We replaced this issue with two new pollution control bond series of \$50.0 million each. One series carries an interest rate of 4.85% and matures in 2031. The second series carries a variable interest rate and also matures in 2031.

On March 17, 2006, Westar Energy amended and restated its revolving credit facility dated May 6, 2005 to increase the size of the facility, extend its term and reduce borrowing costs. The amended and restated revolving credit facility matures on March 17, 2011. So long as there is no default or event of default under the revolving credit facility, we may elect to extend the term of the credit facility for up to an additional two years, subject to lender participation. The facility allows us to borrow up to an aggregate amount of \$500.0 million, including letters of credit up to a maximum aggregate amount of \$150.0 million. We may elect, subject to FERC approval, to increase the aggregate amount of borrowings under the facility to \$750.0 million by increasing the commitment of one or more lenders who have agreed to such increase, or by adding one or more new lenders with the consent of the Administrative Agent and any letter of credit issuing bank, which will not be unreasonably withheld, so long as there is no default or event of default under the revolving credit facility.

On January 17, 2006, we repaid \$100.0 million aggregate principal amount of 6.2% first mortgage bonds with cash on hand and borrowings under the revolving credit facility.

6. INCOME TAXES AND TAXES OTHER THAN INCOME TAXES

We recorded income tax expense of approximately \$12.5 million for the three months ended June 30, 2006 and \$12.3 million for the same period of 2005; and \$21.3 million for the six months ended June 30, 2006 and \$19.8 million for the same period of 2005.

[Table of Contents](#)

As of June 30, 2006 and December 31, 2005, we had recorded a reserve for uncertain tax positions of \$52.1 million and \$50.8 million, respectively. The tax positions may involve income, deductions or credits reported in prior year income tax returns that we believe were treated properly on such tax returns. The tax returns containing these tax reporting positions are currently under audit or will likely be audited by the Internal Revenue Service or other taxing authorities. The timing of the resolution of these audits is uncertain. If the positions taken on the tax returns are ultimately upheld or not challenged within the time available for such challenges, we will reverse these tax provisions to income. If the positions taken on the tax returns are determined to be inappropriate, we may be required to make cash payments for taxes and interest. The reserves are determined based on our best estimate of probable assessments by the applicable taxing authorities and are adjusted, from time to time, based on changing facts and circumstances.

As of June 30, 2006 and December 31, 2005, we also had a reserve of \$6.5 million and \$6.1 million, respectively, for probable assessments of taxes other than income taxes.

7. COMMITMENTS AND CONTINGENCIES

Environmental Projects

Kansas City Power & Light Company began updating or installing additional equipment related to emissions controls at La Cygne Unit 1 in 2005. We will continue to incur costs through the scheduled completion in 2009. We anticipate that our share of these capital costs will be approximately \$105.0 million. Additionally, we have identified the potential for up to \$515.0 million of capital expenditures at other power plants for environmental projects during approximately the next eight years. This amount could increase depending on the resolution of the Environmental Protection Agency (EPA) New Source Review described below. In addition to the capital investment, were we to install such equipment, we anticipate that we would incur significant annual expense to operate and maintain the equipment and the operation of the equipment would reduce net production from our plants. The environmental cost recovery rider (ECRR) approved in the 2005 KCC Order allows for the timely inclusion in rates of capital expenditures tied directly to environmental improvements required by the Clean Air Act. However, increased operating and maintenance costs, other than expenses related to production-related consumables, such as limestone, can be recovered only through a change in base rates following a rate review.

The degree to which we will need to reduce emissions and the timing of when such emissions controls may be required is uncertain. Both the timing and the nature of required investments depend on specific outcomes that result from interpretation of regulations, new regulations, legislation, and the resolution of the EPA New Source Review described below. In addition, the availability of equipment and contractors can affect the timing and ultimate cost of equipment installation. Whether through base rates or the ECRR, we expect to recover such costs through the rates we charge our customers.

EPA New Source Review

Under Section 114(a) of the Clean Air Act (Section 114), the EPA is conducting investigations nationwide to determine whether modifications at coal-fired power plants are subject to New Source Review requirements or New Source Performance Standards. These investigations focus on whether projects at coal-fired plants were routine maintenance or whether the projects were substantial modifications that could have reasonably been expected to result in a significant net increase in emissions. The Clean Air Act requires companies to obtain permits and, if necessary, install control equipment to remove emissions when making a major modification or a change in operation if either is expected to cause a significant net increase in emissions.

The EPA requested information from us under Section 114 regarding projects and maintenance activities that have been conducted since 1980 at three coal-fired plants we operate. On January 22, 2004, the EPA notified us that certain projects completed at Jeffrey Energy Center violated pre-construction permitting requirements of the Clean Air Act.

We are in discussions with the EPA concerning this matter in an attempt to reach a settlement. We expect that any settlement with the EPA could require us to update or install emissions controls at Jeffrey Energy Center. Additionally, we might be required to update or install emissions controls at our other coal-fired plants, pay fines or penalties, or take other remedial action. Together, these costs could be material. The EPA has informed us that it has referred this matter to the Department of Justice (DOJ) for the DOJ to consider whether to pursue an enforcement action in federal district court. We believe that costs related to updating or installing emissions controls would qualify for recovery through the ECRR. If we were to reach a settlement with the EPA, we may be assessed a penalty. The penalty could be material and may not be recovered in rates.

8. LEGAL PROCEEDINGS

We and certain of our present and former officers and directors were defendants in a consolidated purported class action lawsuit in United States District Court in Topeka, Kansas, "In Re Westar Energy, Inc. Securities Litigation," Master File No. 5:03-CV-4003 and related cases. In early April 2005, we reached an agreement in principle with the plaintiffs to settle this lawsuit for \$30.0 million. The full terms of the proposed settlement are set forth in a Stipulation and Agreement of Compromise, Settlement and Release dated as of May 31, 2005 filed with the court. On September 1, 2005, the court approved the proposed settlement and directed the parties to consummate the settlement in accordance with the stipulation. Pursuant to the stipulation, we paid \$1.25 million and our insurance carriers paid \$28.75 million into a settlement fund that upon effectiveness of the settlement will be disbursed, after payment of \$9.0 million of legal fees for plaintiffs' counsel plus expenses, to shareholders as provided in the stipulation. The amounts paid by our insurance carriers in this settlement include the payments related to the settlement of the shareholder derivative lawsuit described below. This settlement became effective on June 21, 2006.

Certain present and former members of our board of directors and officers were defendants in a shareholder derivative complaint filed April 18, 2003, "Mark Epstein vs David C. Wittig, Douglas T. Lake, Charles Q. Chandler IV, Frank J. Becker, Gene A. Budig, John C. Nettels, Jr., Roy A. Edwards, John C. Dicus, Carl M. Koupal, Jr., Larry D. Irick and Cleco Corporation, defendants, and Westar Energy, Inc., nominal defendant, Case No. 03-4081-JAR." In early April 2005, a special litigation committee of our board of directors approved an agreement in principle to settle this lawsuit for \$12.5 million to be paid to us by our insurance carriers. The full terms of the proposed settlement are set forth in a Stipulation and Agreement of Compromise, Settlement and Release dated May 31, 2005 filed with the court. On September 1, 2005, the court approved the proposed settlement and directed the parties to consummate the settlement in accordance with the stipulation. Pursuant to the stipulation, the recovery from our insurance carriers, less attorney's fees of \$2.5 million, was paid into the settlement fund for the settlement of the securities class action lawsuit as described above. On September 16, 2005, one shareholder filed a motion asking the court to reconsider its order approving the settlement. The court denied this motion on December 2, 2005, and the shareholder then filed a timely appeal with the United States Court of Appeals for the Tenth Circuit. This appeal was dismissed on June 21, 2006 and the settlement is now effective.

We and certain of our present and former officers and employees were defendants in a consolidated purported class action lawsuit filed in United States District Court in Topeka, Kansas, "In Re Westar Energy ERISA Litigation, Master File No. 03-4032-JAR." The lawsuit is brought on behalf of participants in, and beneficiaries of, our Employees' 401(k) Savings Plan between July 1, 1998 and January 1, 2003. On January 31, 2006, we reached an agreement in principle with the plaintiffs to settle this lawsuit for \$9.25 million to be paid by our insurance carrier. The full terms of the proposed settlement are set forth in a Class Action Settlement Agreement dated March 23, 2006 filed with the court. On July 27, 2006, the court issued an order that approved the proposed settlement, approved plaintiffs' attorneys' fees and litigation expenses totaling \$2.9 million to be paid from the settlement fund, and directed the parties to consummate the settlement in accordance with the settlement agreement.

In connection with the settlement of these lawsuits, we recorded \$40.50 million in other current assets related to the payments made or to be made by our insurance carriers to fund the settlement, and an offsetting liability of \$40.50 million related to the amounts to be paid to the plaintiffs when the settlements become final. We previously recorded an expense of \$1.25 million for our contribution to the settlement of the securities class action lawsuit.

[Table of Contents](#)

On June 13, 2003, we filed a demand for arbitration with the American Arbitration Association asserting claims against David C. Wittig, our former president, chief executive officer and chairman, and Douglas T. Lake, our former executive vice president, chief strategic officer and member of the board, arising out of their previous employment with us. Mr. Wittig and Mr. Lake have filed counterclaims against us in the arbitration alleging substantial damages related to the termination of their employment and the publication of the report of the special committee of our board of directors. We intend to vigorously defend against these claims. The arbitration has been stayed pending final resolution of the criminal charges filed by the United States Attorney's Office against Mr. Wittig and Mr. Lake in U.S. District Court in the District of Kansas. On September 12, 2005, the jury convicted Mr. Wittig and Mr. Lake on the charges relevant to each of them. Mr. Wittig and Mr. Lake have appealed these convictions. We are unable to predict the ultimate impact of this matter on our consolidated results of operations.

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 effect on our consolidated results of operations.

See also Notes 3, 7, 9 and 10 for discussion of a decision made by the Kansas Court of Appeals regarding our rates, alleged violations of the Clean Air Act, an investigation by the United States Department of Labor and potential liabilities to Mr. Wittig and Mr. Lake.

9. ONGOING INVESTIGATIONS – Department of Labor Investigation

On February 1, 2005, we received a subpoena from the Department of Labor seeking documents related to our Employees' 401(k) Savings Plan and our defined pension benefit plan. We have provided information to the Department of Labor pursuant to the subpoena and subsequent inquiries. At this time, we do not know the specific purpose of the investigation and we are unable to predict the ultimate outcome of the investigation or its impact on us. See Note 8, "Legal Proceedings," for discussion of a class action lawsuit brought on behalf of participants in our Employees' 401(k) Savings Plan.

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

During the six months ended June 30, 2006, we increased the amount of our accrued liability for potential obligations to Mr. Wittig and Mr. Lake by \$11.7 million to \$71.8 million from \$60.1 million as of December 31, 2005. The increase in the amount of the liability was for changes in potential benefits due under an executive salary continuation plan, changes in split-dollar life insurance benefits, dividends and dividend equivalents related to RSUs and deferred vested stock for compensation, and potential obligations related to the cash received for Guardian International, Inc. (Guardian) preferred stock as discussed in Note 11, "Guardian International Preferred Stock." As discussed above in Note 8, "Legal Proceedings," we have filed a demand for arbitration with the American Arbitration Association seeking to avoid paying compensation and other benefits Mr. Wittig and Mr. Lake claim to be owed to them.

In addition, as of June 30, 2006 we had accrued \$7.6 million for legal fees and expenses incurred by Mr. Wittig and Mr. Lake that are recorded in accounts payable on our consolidated balance sheets. These legal fees and expenses were incurred in the defense of the criminal charges filed by the United States Attorney's Office in Topeka, Kansas. On September 12, 2005, the jury convicted Mr. Wittig and Mr. Lake on the charges relevant to each of them. We will likely incur substantial additional expenses for legal fees and expenses incurred by Mr. Wittig and Mr. Lake related to their appeal of these convictions and the arbitration proceeding discussed above. We have filed lawsuits against Mr. Wittig and Mr. Lake claiming that the legal fees and expenses they have incurred, which we have advanced or for which they seek advancement in the defense of the criminal charges, are unreasonable and excessive. We have asked the court to determine the amount of the legal fees and expenses that were reasonably incurred and for which we have an obligation to advance. We are unable to estimate the amount of the legal fees and expenses incurred or that will be incurred by Mr. Wittig and Mr. Lake for which we may be ultimately responsible. We are also currently unable to determine the amount of the fees which may be recovered under any applicable directors and officers liability insurance policies.

[Table of Contents](#)

The jury in the trial of Mr. Wittig and Mr. Lake also determined that Mr. Wittig and Mr. Lake should forfeit to the United States certain property that it determined was derived from their criminal conduct. We subsequently filed petitions asserting a superior interest in certain forfeited property. The court subsequently entered final orders of forfeiture awarding us certain property forfeited by Mr. Wittig and Mr. Lake. The property awarded to us consists substantially of compensation and benefits that we were seeking to avoid paying in the arbitration proceeding referenced above. Mr. Wittig and Mr. Lake have appealed their convictions and the forfeiture orders.

11. GUARDIAN INTERNATIONAL PREFERRED STOCK

On March 6, 2006, Guardian was acquired by Devcon International Corporation in a merger. In connection with this merger, we received approximately \$23.2 million for 15,214 shares of Guardian Series D preferred stock and 8,000 shares of Guardian Series E preferred stock held of record by us. We beneficially owned 354.4 shares of the Guardian Series D preferred stock and 312.9 shares of the Guardian Series E preferred stock. During the six months ended June 30, 2006, we recorded a gain of approximately \$0.3 million as a result of the payment for these shares. Certain current and former officers beneficially owned the remaining shares. Of these shares, 14,094 shares of Guardian Series D preferred stock and 7,276 shares of Guardian Series E preferred stock were beneficially owned by Mr. Wittig and Mr. Lake. The ownership of the shares beneficially owned by Mr. Wittig and Mr. Lake, as well as related dividends, and now the cash received for the shares, is disputed and is the subject of the arbitration proceeding with Mr. Wittig and Mr. Lake discussed in Note 8, "Legal Proceedings." These shares were, and now the cash received for the shares are, also part of the property forfeited by Mr. Wittig and Mr. Lake in the criminal proceeding discussed in Note 10, "Potential Liabilities to David C. Wittig and Douglas T. Lake." As a result of this transaction, we no longer hold any Guardian securities.

12. DISCONTINUED OPERATIONS

During the six months ended June 30, 2006, we received proceeds of \$1.2 million that was released from an escrow account arising from the sale of Protection One Europe, a security business we sold on June 30, 2003. The sale is discussed in greater detail in Note 23, "Discontinued Operations – Sale of Protection One and Protection One Europe," in our 2005 Form 10-K.

13. INTERIM PENSION AND POST-RETIREMENT BENEFIT DISCLOSURE

The following tables summarize the net periodic costs for our pension and post-retirement benefit plans.

<u>Three Months Ended June 30,</u>	<u>Pension Benefits</u>		<u>Post-retirement Benefits</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In Thousands)			
Components of Net Periodic Cost (Benefit):				
Service cost	\$ 2,073	\$ 1,630	\$ 483	\$ 563
Interest cost	7,536	7,174	1,778	1,861
Expected return on plan assets	(8,992)	(9,056)	(749)	(645)
Amortization of Unrealized:				
Transition obligation, net	—	—	983	983
Prior service costs (benefits)	734	691	(67)	(117)
Actuarial loss, net	2,224	1,367	597	530
Net periodic cost	\$ 3,575	\$ 1,806	\$ 3,025	\$ 3,175
<u>Six Months Ended June 30,</u>	<u>Pension Benefits</u>		<u>Post-retirement Benefits</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In Thousands)			
Components of Net Periodic Cost (Benefit):				
Service cost	\$ 4,146	\$ 3,260	\$ 966	\$ 1,126
Interest cost	15,072	14,348	3,558	3,722
Expected return on plan assets	(17,984)	(18,112)	(1,499)	(1,290)
Amortization of Unrealized:				
Transition obligation, net	—	—	1,965	1,966
Prior service costs (benefits)	1,467	1,382	(135)	(234)
Actuarial loss, net	4,449	2,734	1,195	1,060
Net periodic cost	\$ 7,150	\$ 3,612	\$ 6,050	\$ 6,350

14. 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 post-retirement plans. The following tables summarize the net periodic costs for KGE's 47% share of the Wolf Creek pension and post-retirement benefit plans.

<u>Three Months Ended June 30,</u>	<u>Pension Benefits</u>		<u>Post-retirement Benefits</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In Thousands)			
Components of Net Periodic Cost (Benefit):				
Service cost	\$ 812	\$ 703	\$ 62	\$ 60
Interest cost	1,073	931	103	96
Expected return on plan assets	(857)	(777)	—	—
Amortization of Unrealized:				
Transition obligation, net	14	14	15	15
Prior service costs	8	8	—	—
Actuarial loss, net	453	335	49	42
Net periodic cost	\$ 1,503	\$ 1,214	\$ 229	\$ 213
<u>Six Months Ended June 30,</u>	<u>Pension Benefits</u>		<u>Post-retirement Benefits</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In Thousands)			
Components of Net Periodic Cost (Benefit):				
Service cost	\$ 1,617	\$ 1,416	\$ 124	\$ 119
Interest cost	2,139	1,874	206	192
Expected return on plan assets	(1,708)	(1,565)	—	—
Amortization of Unrealized:				
Transition obligation, net	28	28	29	30
Prior service costs	16	16	—	—
Actuarial loss, net	904	674	98	84
Net periodic cost	\$ 2,996	\$ 2,443	\$ 457	\$ 425

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

INTRODUCTION

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

In Management's Discussion and Analysis, we discuss our general financial condition, significant changes that occurred during 2006, and our operating results for the three and six months ended June 30, 2006 and 2005. 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

Potential Changes in Rates

In accordance with a 2003 KCC order, on May 2, 2005, we filed applications with the KCC for it to review our retail electric rates. The 2005 KCC Order authorized changes in our rates, which we began billing in the first quarter of 2006, and approved various other changes to our rate structures. The new rates are discussed in greater detail in our 2005 Form 10-K. In April 2006, interveners to the rate review filed appeals with the Kansas Court of Appeals challenging various aspects of the 2005 KCC Order. On July 7, 2006, the Kansas Court of Appeals reversed and remanded for further consideration by the KCC three elements of the 2005 KCC Order. The balance of the 2005 KCC Order was upheld. We and one other party have filed petitions for review of the decision with the Kansas Supreme Court. For additional information, see Note 3 of the Notes to Condensed Consolidated Financial Statements, "Rate Matters and Regulation."

Forfeiture of Assets by David C. Wittig and Douglas T. Lake

The jury in the trial of Mr. Wittig and Mr. Lake determined that Mr. Wittig and Mr. Lake should forfeit to the United States certain property that it determined was derived from their criminal conduct. We subsequently filed petitions asserting a superior interest in certain forfeited property. The court subsequently entered final orders of forfeiture awarding us certain property forfeited by Mr. Wittig and Mr. Lake. The property awarded to us consists substantially of compensation and benefits that we were seeking to avoid paying in the arbitration proceeding as discussed in Note 8 of the Notes to Condensed Consolidated Financial Statements, "Legal Proceedings." Mr. Wittig and Mr. Lake have appealed their convictions and the forfeiture orders.

Corporate-Owned Life Insurance

Our earnings for the three and six months ended June 30, 2006 reflect income of \$2.0 million and \$11.6 million, respectively, from proceeds of corporate-owned life insurance. This is included in other income in the consolidated statements of income for the three and six months ended June 30, 2006.

Coal Inventory and Delivery

Coal deliveries from the Powder River Basin region of Wyoming to our coal-fired generating stations have improved recently; however, they continue to be slower than historical averages due primarily to issues at the coal mines and with the rail delivery system. During 2005 and the first six months of 2006, we implemented compensating measures based on delivery cycle times, our assumptions about future delivery cycle times, fuel usage and planned inventory levels. We may continue to use those measures as conditions warrant. The compensating measures include, but are not limited to: reducing coal consumption during certain periods, revising normal operational dispatch of our generating units, purchasing power from others, reducing wholesale sales and leasing additional rail cars. The effects of additional purchased power expense and the reduction in sales due to slower coal deliveries have been partially offset by higher market-based wholesale sales prices.

CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in conformity with GAAP. 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 the use of estimates and assumptions by management. The policies highlighted in our 2005 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.

From December 31, 2005 through June 30, 2006, we have not experienced any significant changes in our critical accounting estimates. For additional information, see our 2005 Form 10-K.

OPERATING RESULTS

We evaluate operating results based on basic earnings per share. We have various classifications of sales, defined as follows:

Retail: Sales of energy made to residential, commercial and industrial customers.

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

Tariff-based wholesale: Sales of energy to electric cooperatives, municipalities and other electric utilities, the rates for which are generally based on cost as prescribed by FERC tariffs. This category also includes changes in valuations of contracts that have yet to settle.

Market-based wholesale: Sales of energy to other wholesale customers, the rates for which are generally based on prevailing market prices as allowed by our FERC approved market-based tariff. This category also includes changes in valuations of contracts that have yet to settle.

Energy marketing: Includes: (1) market-based transactions unrelated to our price-regulated electricity sales; (2) financially settled products and physical transactions sourced outside our control area; and (3) changes in valuations for contracts that have yet to settle that may not be recorded in tariff- or market-based wholesale revenues.

Transmission: Reflects transmission revenues, including those based on a tariff with the Southwest Power Pool (SPP).

Other: Miscellaneous electric revenues including ancillary service revenues and rent from electric property leased to others.

Regulated electric utility sales are significantly impacted by such things as rate regulation, customer conservation efforts, wholesale demand, the economy of our service area, the weather and competitive forces. Our wholesale sales are impacted by, among other factors, demand, cost of fuel and purchased power, price volatility, available generation capacity and transmission availability. Changing weather affects the amount of electricity our customers use. Very hot summers and very cold winters prompt more demand, especially among our residential customers. Mild weather reduces demand.

[Table of Contents](#)

Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

Below we discuss our operating results for the three months ended June 30, 2006 compared to the results for the three months ended June 30, 2005. Changes in results of operations are as follows.

	Three Months Ended June 30,			
	2006	2005	Change	% Change
(In Thousands, Except Per Share Amounts)				
SALES:				
Residential	\$ 117,353	\$ 103,205	\$ 14,148	13.7
Commercial	117,557	99,865	17,692	17.7
Industrial	70,188	61,321	8,867	14.5
Other retail	341	222	119	53.6
Total Retail Sales	305,439	264,613	40,826	15.4
Tariff-based wholesale	47,982	45,893	2,089	4.6
Market-based wholesale	15,871	24,369	(8,498)	(34.9)
Energy marketing	9,931	14,870	(4,939)	(33.2)
Transmission (a)	19,447	19,523	(76)	(0.4)
Other	7,952	5,534	2,418	43.7
Total Sales	406,622	374,802	31,820	8.5
OPERATING EXPENSES:				
Fuel and purchased power	129,750	119,610	10,140	8.5
Operating and maintenance	118,568	108,836	9,732	8.9
Depreciation and amortization	50,216	42,556	7,660	18.0
Selling, general and administrative	39,078	41,391	(2,313)	(5.6)
Total Operating Expenses	337,612	312,393	25,219	8.1
INCOME FROM OPERATIONS	69,010	62,409	6,601	10.6
OTHER INCOME (EXPENSE):				
Investment earnings	2,681	2,296	385	16.8
Other income	2,451	6,407	(3,956)	(61.7)
Other expense	(1,194)	(3,200)	2,006	62.7
Total Other Income	3,938	5,503	(1,565)	(28.4)
Interest expense	25,048	27,739	(2,691)	(9.7)
INCOME FROM OPERATIONS BEFORE INCOME TAXES	47,900	40,173	7,727	19.2
Income tax expense	12,535	12,297	238	1.9
NET INCOME	35,365	27,876	7,489	26.9
Preferred dividends	242	242	—	—
EARNINGS AVAILABLE FOR COMMON STOCK	\$ 35,123	\$ 27,634	\$ 7,489	27.1
BASIC EARNINGS PER SHARE	\$ 0.40	\$ 0.32	\$ 0.08	25.0

(a) **Transmission:** Includes the SPP network transmission tariff. For the three months ended June 30, 2006, our SPP network transmission costs were approximately \$18.6 million. This amount, less approximately \$4.3 million that was retained by the SPP as administration cost, was returned to us as revenue. For the three months ended June 30, 2005, our SPP network transmission costs were approximately \$16.6 million with an administration cost of approximately \$1.1 million retained by the SPP.

The following table reflects changes in electric sales volumes, as measured by thousands of megawatt hours (MWh) of electricity. No sales volumes are shown for energy marketing, transmission or other. Energy marketing activities are unrelated to electricity we generate.

	Three Months Ended June 30,			
	2006	2005	Change	% Change
(Thousands of MWh)				
Residential	1,512	1,446	66	4.6
Commercial	1,839	1,796	43	2.4
Industrial	1,465	1,412	53	3.8
Other retail	24	26	(2)	(7.7)
Total Retail	4,840	4,680	160	3.4
Tariff-based wholesale	1,324	1,310	14	1.1
Market-based wholesale	247	604	(357)	(59.1)
Total	6,411	6,594	(183)	(2.8)

The increase in retail sales reflects the change in rates, including the effect of implementing the RECA authorized by the 2005 KCC Order, and warmer weather. When measured by cooling degree days, the weather during the three months ended June 30, 2006 was 9% warmer than the same period last year and approximately 38% warmer than the 20-year average. We measure cooling degree days at weather stations we believe generally to be reflective of conditions in our service territory.

[Table of Contents](#)

Tariff-based wholesale sales increased due primarily to higher average prices. The tariff-based sales we made during the three months ended June 30, 2006 were at an approximate 3% higher average price per MWh than during the same period of 2005. The warmer weather also contributed to the greater tariff-based wholesale sales volumes. A decline in sales to a co-owner of Wolf Creek partially offset the increase in tariff-based wholesale sales. We have an agreement with this co-owner to provide it wholesale power during periods when Wolf Creek is out of service. During the three months ended June 30, 2005, Wolf Creek was out of service for scheduled refueling and maintenance. Accordingly, we sold significantly more tariff-based wholesale power to the co-owner last year than during the same period this year.

Due to the coal delivery problems we have experienced, as discussed above in “– Summary of Significant Items – Coal Inventory and Delivery,” we made fewer market-based wholesale sales in an effort to increase our coal inventory in preparation for anticipated greater retail demand associated with the warmer summer months. The market-based sales we made during the three months ended June 30, 2006 were at an approximate 59% higher average price per MWh than during the same period of 2005.

The decrease in energy marketing reflects generally less favorable contract valuations due primarily to unfavorable changes in market prices since we entered into the contracts.

The change in fuel and purchased power expense is the result of the implementation of the RECA, changing volumes produced and purchased, prevailing market conditions and contract provisions that allow for price changes. We no longer recognize in fuel expense the changes in the market value of certain fuel supply contracts. Due to the implementation of the RECA, we now record changes in the market value of certain fuel supply contracts as either a regulatory asset or a regulatory liability. During the three months ended June 30, 2005, a period in which we had not yet begun using the RECA, we recognized a reduction in fuel expense of \$13.0 million associated with a favorable change in the market value of certain fuel supply contracts. In addition, during the three months ended June 30, 2006, we recorded an additional \$6.0 million in fuel expense to reflect the recovery of previously incurred fuel expense that had been deferred as a regulatory asset in a prior period.

Operating and maintenance expense increased due primarily to an increase in maintenance expenses for outages at the La Cygne Generating Station and Gordon Evans Energy Center, the amortization of \$2.9 million of previously deferred storm expense as authorized by the 2005 KCC Order, a \$2.0 million increase in SPP network transmission costs and a \$1.7 million increase in taxes other than income tax. These higher expenses were partially offset by a reduction in the lease expense related to La Cygne Unit 2.

Depreciation expense increased due primarily to the change in our depreciation rates. Our rates as authorized by the KCC provide for recovery of this increase.

Selling, general and administrative expense decreased due primarily to reduced legal fees associated with matters having to deal with former management. Higher employee benefit expenses, due primarily to increased pension and medical costs, partially offset the decline in selling, general and administrative expense.

Other income decreased due to reduced corporate-owned life insurance proceeds. Income received from corporate-owned life insurance was \$2.0 million during the three months ended June 30, 2006 and \$5.7 million during the same period of 2005. Other expense decreased due primarily to the termination of the accounts receivable sales facility. During the three months ended June 30, 2005, other expense included a \$0.9 million loss on the sale of the accounts receivable sold pursuant to the then existing accounts receivable sales facility.

Interest expense decreased compared to the three months ended June 30, 2005 due to lower interest rates resulting from the refinancing activities discussed in detail in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources” in our 2005 Form 10-K.

The effective income tax rate was 26% for the three months ended June 30, 2006 and 31% for the same period of 2005. The decrease in the effective tax rate is due primarily to a decrease in the interim period tax adjustment and the utilization of previously unrecognized capital loss carryforwards to offset realized capital gains. This was partially offset by a decrease in the tax benefits from corporate-owned life insurance.

[Table of Contents](#)

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Below we discuss our operating results for the six months ended June 30, 2006 compared to the results for the six months ended June 30, 2005. Changes in results of operations are as follows.

	Six Months Ended June 30,			
	2006	2005	Change	% Change
(In Thousands, Except Per Share Amounts)				
SALES:				
Residential	\$212,295	\$196,887	\$ 15,408	7.8
Commercial	206,036	184,825	21,211	11.5
Industrial	131,142	117,089	14,053	12.0
Other retail	(3,924)	410	(4,334)	(b)
Total Retail Sales	545,549	499,211	46,338	9.3
Tariff-based wholesale	89,349	81,859	7,490	9.1
Market-based wholesale	36,139	66,091	(29,952)	(45.3)
Energy marketing	22,163	14,775	7,388	50.0
Transmission (a)	40,127	39,082	1,045	2.7
Other	13,318	10,287	3,031	29.5
Total Sales	746,645	711,305	35,340	5.0
OPERATING EXPENSES:				
Fuel and purchased power	221,750	211,408	10,342	4.9
Operating and maintenance	229,071	215,048	14,023	6.5
Depreciation and amortization	97,788	84,860	12,928	15.2
Selling, general and administrative	77,343	82,652	(5,309)	(6.4)
Total Operating Expenses	625,952	593,968	31,984	5.4
INCOME FROM OPERATIONS	120,693	117,337	3,356	2.9
OTHER INCOME (EXPENSE):				
Investment earnings	4,833	4,520	313	6.9
Other income	12,468	7,083	5,385	76.0
Other expense	(6,061)	(8,008)	1,947	24.3
Total Other Income	11,240	3,595	7,645	212.7
Interest expense	48,446	57,602	(9,156)	(15.9)
INCOME FROM OPERATIONS BEFORE INCOME TAXES	83,487	63,330	20,157	31.8
Income tax expense	21,284	19,839	1,445	7.3
NET INCOME	62,203	43,491	18,712	43.0
Preferred dividends	485	485	—	—
EARNINGS AVAILABLE FOR COMMON STOCK	\$ 61,718	\$ 43,006	\$ 18,712	43.5
BASIC EARNINGS PER SHARE	\$ 0.71	\$ 0.50	\$ 0.21	42.0

- (a) **Transmission:** Includes the SPP network transmission tariff. For the six months ended June 30, 2006, our SPP network transmission costs were approximately \$37.0 million. This amount, less approximately \$5.7 million that was retained by the SPP as administration cost, was returned to us as revenue. For the six months ended June 30, 2005, our SPP network transmission costs were approximately \$33.2 million with an administration cost of approximately \$2.3 million retained by the SPP.
- (b) Change greater than 1000%.

The following table reflects changes in electric sales volumes, as measured by thousands of MWh of electricity. No sales volumes are shown for energy marketing, transmission or other. Energy marketing activities are unrelated to electricity we generate.

	Six Months Ended June 30,			
	2006	2005	Change	% Change
(Thousands of MWh)				
Residential	2,858	2,803	55	2.0
Commercial	3,371	3,320	51	1.5
Industrial	2,853	2,679	174	6.5
Other retail	48	50	(2)	(4.0)
Total Retail	9,130	8,852	278	3.1
Tariff-based wholesale	2,553	2,563	(10)	(0.4)
Market-based wholesale	587	1,629	(1,042)	(64.0)
Total	12,270	13,044	(774)	(5.9)

[Table of Contents](#)

The increase in retail sales reflects the change in rates, including the effect of implementing the RECA, and warmer weather. When measured by cooling degree days, the weather during the six months ended June 30, 2006 was 9% warmer than the same period last year and approximately 37% warmer than the 20-year average. The increase in industrial sales was due primarily to additional oil refinery load. The change in other retail sales reflects the recognition in the six months ended June 30, 2006 of \$9.7 million revenue subject to refund that is due primarily to the difference between estimated fuel and purchased power costs billed to our customers and actual fuel and purchased power costs incurred for our Westar Energy customers. The revenue subject to refund was partially offset by ceasing in December 2005 to accrue for rebates to customers pursuant to a July 25, 2003 KCC order.

Tariff-based wholesale sales increased due primarily to higher average prices while the associated sales volumes decreased slightly due primarily to the decline in sales to a co-owner of Wolf Creek as discussed above in the operating results for the second quarter. The tariff-based sales we made during the six months ended June 30, 2006 were at an approximate 10% higher average price per MWh than during the same period of 2005. About \$0.7 million, or 10%, of the increase in tariff-based wholesale sales is attributable to the operation of a fuel adjustment provision permitted in our FERC tariffs.

Market-based wholesale sales and sales volumes decreased due primarily to coal conservation efforts. The market-based sales we made during the six months ended June 30, 2006 were at an approximate 52% higher average price per MWh than during the same period of 2005.

The increase in energy marketing reflects generally favorable contract valuations due primarily to favorable changes in market prices since we entered into contracts.

The change in fuel and purchased power expense is the result of the implementation of the RECA, changing volumes produced and purchased, prevailing market conditions and contract provisions that allow for price changes. We no longer recognize in fuel expense the changes in the market value of certain fuel supply contracts. Due to the implementation of the RECA, we now record changes in the market value of certain fuel supply contracts as either a regulatory asset or a regulatory liability. During the six months ended June 30, 2005, a period in which we had not yet begun using the RECA, we recognized a reduction in fuel expense of \$25.3 million associated with a favorable change in the market value of certain fuel supply contracts. In addition, during the six months ended June 30, 2006, we deferred as a regulatory asset the \$1.8 million difference between the estimated fuel and purchased power costs that we billed our customers and our higher actual fuel and purchased power costs that we are allowed to collect under the terms of the RECA for our KGE customers.

Operating and maintenance expense increased due primarily to the amortization of \$4.9 million of previously deferred storm expense as authorized by the 2005 KCC Order, a \$3.8 million increase in SPP network transmission costs, a \$3.7 million increase in taxes other than income tax and an increase in maintenance expenses for outages at the La Cygne Generating Station and Gordon Evans Energy Center. These higher expenses were partially offset by a reduction in the lease expense related to La Cygne Unit 2.

Depreciation expense increased due primarily to the change in our depreciation rates. Our rates as authorized by the KCC provide for recovery of this increase.

Selling, general and administrative expense decreased due primarily to reduced legal fees associated with matters having to deal with former management and a decline in insurance costs. Higher employee benefit expenses, due primarily to increased pension and medical costs, partially offset these declines.

Other income increased due primarily to the receipt of proceeds from corporate-owned life insurance. Income received from corporate-owned life insurance was \$11.6 million during the six months ended June 30, 2006 and \$5.7 million during the same period of 2005. Other expense decreased due primarily to the termination of the accounts receivable sales facility. Other expense included a \$0.8 million loss on the sale of accounts receivable during the six months ended June 30, 2006, compared to a \$1.6 million loss during the same period of 2005.

Interest expense decreased compared to the six months ended June 30, 2005 due to lower debt balances and lower interest rates resulting from the refinancing activities discussed in detail in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" in our 2005 Form 10-K.

[Table of Contents](#)

The effective income tax rate was 26% for the six months ended June 30, 2006 and 31% for the same period of 2005. The decrease in the effective tax rate is due primarily to the utilization of previously unrecognized capital loss carryforwards to offset realized capital gains.

FINANCIAL CONDITION

Below we discuss significant balance sheet changes as of June 30, 2006 compared to December 31, 2005.

Inventories and supplies increased due primarily to increases in our coal and oil inventories.

The fair market value of our net energy marketing contracts decreased \$69.5 million, to \$48.4 million as of June 30, 2006, from \$117.9 million as of December 31, 2005, due primarily to lower market valuations on our coal supply contract for Lawrence and Tecumseh Energy Centers. Due to the KCC having authorized our use of the RECA, we no longer recognize in current period fuel expense the changes in the market value of certain fuel supply contracts. Due to the implementation of the RECA, we now record changes in the market value of certain fuel supply contracts as either a regulatory asset or a regulatory liability.

Prepaid expenses increased due primarily to pre-payment of interest associated with our corporate-owned life insurance policies.

Total restricted cash decreased due to the return of \$26.0 million of collateral we had previously been required to post related to a capacity and transmission agreement. In May 2006, Moody's upgraded its credit ratings for our debt securities, which met conditions in the agreement that allowed the deposited funds to be released.

Other long-term assets decreased due primarily to the payment we received for our shares of Guardian preferred stock as discussed above in Note 11 of the Notes to Condensed Consolidated Financial Statements, "Guardian International Preferred Stock."

As of June 30, 2006, we had no current maturities of long-term debt. Current maturities of long-term debt as of December 31, 2005 consisted of the \$100.0 million outstanding aggregate principal amount of KGE 6.2% first mortgage bonds that we repaid in January 2006.

We increased short-term debt due to increased borrowings under the Westar Energy revolving credit facility. We used a portion of the borrowings to repay the KGE first mortgage bonds that were due in January 2006. In addition, we used borrowings under the revolving credit facility to meet on-going operational needs.

Total regulatory liabilities decreased \$58.1 million due primarily to the change in the market value of certain fuel supply contracts. As of June 30, 2006, we recorded a regulatory liability of \$42.8 million compared with \$117.7 million as of December 31, 2005 to recognize the cumulative mark-to-market adjustments associated with certain outstanding fuel supply contracts. Partially offsetting this decline was approximately \$9.7 million of revenue subject to refund and a \$9.8 million increase in other regulatory liabilities.

Accrued employee benefits decreased due primarily to a \$20.8 million voluntary contribution we made to our pension trust on March 21, 2006.

Changes in temporary equity, paid-in capital and unearned compensation were due primarily to the implementation of SFAS No. 123R as discussed in detail in Note 2 of the Notes to Condensed Consolidated Financial Statements, "Summary of Significant Accounting Policies – Stock Based Compensation."

LIQUIDITY AND CAPITAL RESOURCES

Overview

We believe we will have sufficient cash to fund future operations, debt maturities and the payment of dividends from a combination of cash on hand, cash flows from operations and available borrowing capacity. Our available sources of funds include cash, Westar Energy's revolving credit facility and access to capital markets. Uncertainties affecting our ability to meet these cash requirements include, among others, factors affecting sales described in "– Operating Results" above, economic conditions, regulatory actions, conditions in the capital markets and compliance with environmental regulations.

Capital Resources

As of June 30, 2006, we had \$10.0 million in unrestricted cash and cash equivalents. In addition, Westar Energy had \$254.7 million available under its \$500.0 million revolving credit facility against which \$198.0 million had been borrowed and \$47.3 million of letters of credit had been issued.

Debt Financings

On June 1, 2006, we refinanced \$100.0 million of pollution control bonds, which were to mature in 2031. We replaced this issue with two new pollution control bond series of \$50.0 million each. One series carries an interest rate of 4.85% and matures in 2031. The second series carries a variable interest rate and also matures in 2031.

On March 17, 2006, Westar Energy amended and restated the revolving credit facility dated May 6, 2005 to increase the size of the facility, extend its term and reduce borrowing costs. The amended and restated revolving credit facility matures on March 17, 2011. So long as there is no default or event of default under the revolving credit facility, we may elect to extend the term of the credit facility for up to an additional two years, subject to lender participation. The facility allows us to borrow up to an aggregate amount of \$500.0 million, including letters of credit up to a maximum aggregate amount of \$150.0 million. We may elect, subject to FERC approval, to increase the aggregate amount of borrowings under the facility to \$750.0 million by increasing the commitment of one or more lenders who have agreed to such increase, or by adding one or more new lenders with the consent of the Administrative Agent and any letter of credit issuing bank, which will not be unreasonably withheld, so long as there is no default or event of default under the revolving credit facility.

On January 17, 2006, we repaid \$100.0 million aggregate principal amount of 6.2% first mortgage bonds with cash on hand and borrowings under the revolving credit facility.

Credit Ratings

In May 2006, Moody's Investors Service upgraded its credit ratings for our securities as shown in the table below and changed its outlook for our ratings to stable. In March 2006, Fitch Investors Service upgraded its credit ratings for our securities as shown in the table below and changed its outlook for our ratings to stable. Ratings with these agencies shown in the table below are as of July 14, 2006.

	<u>Westar Energy Mortgage Bond Rating</u>	<u>Westar Energy Unsecured Debt</u>	<u>KGE Mortgage Bond Rating</u>
Standard & Poor's Ratings Group	BBB-	BB-	BBB
Moody's Investors Service	Baa2	Baa3	Baa2
Fitch Investors Service	BBB	BBB-	BBB

[Table of Contents](#)

Cash Flows (used in) from Operating Activities

We used \$30.5 million of cash for operating activities in the six months ended June 30, 2006 compared with cash provided from operating activities of \$90.1 million during the same period of 2005. The decrease in cash flows from operating activities was due to the termination of our accounts receivables sales program, a \$39.4 million payment of income taxes, a \$20.8 million voluntary contribution to our pension trust and a \$14.9 million increase in La Cygne Unit 2 lease payments. During the six months ended June 30, 2005, we used approximately \$31.6 million for system restoration costs related to an ice storm that affected our service territory in January 2005 and approximately \$14.2 million for the Wolf Creek refueling outage. We received \$30.0 million from the sale of accounts receivable during the six months ended June 30, 2005.

Cash Flows used in Investing Activities

The utility business is capital intensive and requires significant investment in plant on an annual basis. We spent \$140.5 million in the six months ended June 30, 2006 and \$106.3 million in the same period of 2005 on net additions to utility property, plant and equipment, which included construction at La Cygne during 2006 and costs associated with the refueling outage at Wolf Creek during 2005. During the six months ended June 30, 2006, we received \$8.8 million from investments in corporate-owned life insurance, \$23.2 million from investments and \$26.0 million from the return of funds previously restricted. During the six months ended June 30, 2005, we received proceeds from our investment in corporate-owned life insurance of \$10.5 million.

Cash Flows from Financing Activities

Financing activities in the six months ended June 30, 2006 provided \$106.1 million of cash compared to \$399.3 million in the same period of 2005. In the six months ended June 30, 2006, short-term debt provided \$198.0 million, proceeds from long-term debt provided \$99.7 million and borrowings from corporate-owned life insurance provided \$57.5 million; we used cash primarily to retire long-term debt, repay corporate-owned life insurance borrowings and pay dividends. In the six months ended June 30, 2005, we received cash primarily from the issuance of long-term debt and from drawing \$38.5 million under Westar Energy's revolving credit facility. We used cash primarily to retire long-term debt and pay dividends.

OFF-BALANCE SHEET ARRANGEMENTS

In March 2006, we terminated our accounts receivable sales program. For additional information, see our 2005 Form 10-K.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

From December 31, 2005 through June 30, 2006, there have been no material changes outside the ordinary course of business in our contractual obligations and commercial commitments. For additional information, see our 2005 Form 10-K.

OTHER INFORMATION

Stock Based Compensation

Effective January 1, 2006, we adopted SFAS No. 123R using the modified prospective transition method. Since 2002, we have used RSUs exclusively for our stock-based compensation awards. Given the characteristics of our stock-based compensation awards, the adoption of SFAS No. 123R did not have a material impact on our consolidated results of operations.

Total unrecognized compensation cost related to RSU awards was \$5.3 million as of June 30, 2006. We expect to recognize these costs over a remaining weighted-average period of 2.2 years. Upon adoption of SFAS No. 123R, we were required to charge \$10.3 million of unearned stock compensation against additional paid-in capital. There were no modifications of awards during the six months ended June 30, 2006 or 2005.

[Table of Contents](#)

Prior to the adoption of SFAS No. 123R, we reported all tax benefits resulting from the vesting of RSU awards and exercise of stock options as operating cash flows in the consolidated statements of cash flows. SFAS No. 123R requires cash retained as a result of excess tax benefits resulting from the tax deductions in excess of the related compensation cost recognized in the financial statements to be classified as cash flows from financing activities in the consolidated statements of cash flows.

Pension Obligation

On March 21, 2006, we made a voluntary contribution to the pension trust of \$20.8 million.

Customer Rebates

During the six months ended June 30, 2006 and 2005, we made rebates to customers of \$10.0 million and \$10.5 million, respectively, in accordance with a July 25, 2003 KCC Order.

Real-Time Energy Imbalance Market

As discussed in our 2005 Form 10-K, the SPP is required by FERC to implement a real-time energy imbalance market. An energy imbalance exists when a transmission user's power inputs to the grid do not match its power outputs from the grid. The intent of a real-time market system is to permit efficient balancing of energy production and consumption by facilitating a real time energy market. At the July 25, 2006 SPP board meeting, the SPP board approved a plan to begin market operations November 1, 2006. At such time energy imbalances will be financially settled. At this time, we are unable to determine what impact this may have on our results of operations.

Fair Value of Energy Marketing Contracts

The tables below show the fair value of energy marketing and fuel contracts that were outstanding as of June 30, 2006, their sources and maturity periods.

	<u>Fair Value of Contracts (In Thousands)</u>
Net fair value of contracts outstanding as of December 31, 2005	\$ 117,929
Contracts outstanding at the beginning of the period that were realized or otherwise settled during the period	(21,826)
Changes in fair value of contracts outstanding at the beginning and end of the period	(50,122)
Fair value of new contracts entered into during the period	2,458
Fair value of contracts outstanding as of June 30, 2006 (a)	<u>\$ 48,439</u>

(a) Approximately \$42.8 million of the fair value is recognized as a regulatory liability.

The sources of the fair values of the financial instruments related to these contracts 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>
		(In Thousands)		
Prices actively quoted (futures)	\$ 1,235	\$ 1,235	\$ —	\$ —
Prices provided by other external sources (swaps and forwards)	25,948	12,402	11,315	2,231
Prices based on option pricing models (options and other) (a)	21,256	5,465	12,706	3,085
Total fair value of contracts outstanding	<u>\$ 48,439</u>	<u>\$ 19,102</u>	<u>\$ 24,021</u>	<u>\$ 5,316</u>

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

New Accounting Pronouncement – Accounting for Uncertainty in Income Taxes

In July 2006, FASB released FIN 48, which prescribes a comprehensive model for how companies should recognize, measure and disclose in their financial statements uncertain tax positions taken, or expected to be taken, on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006 with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We anticipate adopting the guidance effective January 1, 2007. We are currently evaluating what impact the adoption of FIN 48 will have on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2006, exposure to interest rate risk increased as discussed below. No other significant changes have occurred in our exposure to market risk from December 31, 2005 through June 30, 2006. For additional information, see our 2005 Form 10-K, “Item 7A. Quantitative and Qualitative Disclosures About Market Risk.”

Interest Rate Exposure

From December 31, 2005 to June 30, 2006, variable rate debt and current maturities of fixed rate debt increased \$148.0 million. A 100 basis point change in interest rates applicable to each of these instruments would impact net income on an annualized basis by approximately \$4.7 million. This represents an increase in our exposure to interest rate risk on an annualized basis of approximately \$2.4 million, from \$2.3 million as of December 31, 2005.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, including our chief executive officer and our chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934. These controls and procedures are designed to ensure that material information relating to the company and our subsidiaries is communicated to the chief executive officer and the chief financial officer. Based on that evaluation, our chief executive officer and our chief financial officer concluded that, as of June 30, 2006, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us 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 SEC rules and forms.

There were no changes in our internal controls over financial reporting during the three months ended June 30, 2006 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

On September 21, 2004, a grand jury in Travis County, Texas, indicted Westar Energy on charges that a \$25,000 contribution made in May 2002 to a Texas political action committee violated Texas election laws. We believe the indictment is without merit and we intend to vigorously defend against the charges. If convicted, the court could impose a fine of up to \$20,000 or, in certain circumstances, in an amount not to exceed twice the amount caused to be lost by the commission of the felony. As a result of the indictment, the federal government could suspend our status as a government contractor. Upon a conviction, the federal government could bar us from acting as a government contractor. We are taking action to ensure that neither of these events occur, but we do not know whether we will be successful. We are unable to predict the ultimate impact either suspension or loss of our status as a government contractor would have on our consolidated financial position, results of operations and cash flows.

[Table of Contents](#)

Information on other legal proceedings is set forth in Notes 3, 7, 8, 9 and 10 of the Notes to Condensed Consolidated Financial Statements, “Rate Matters and Regulation,” “Commitments and Contingencies – EPA New Source Review,” “Legal Proceedings,” “Ongoing Investigations – Department of Labor Investigation,” and “Potential Liabilities to David C. Wittig and Douglas T. Lake,” respectively, which are incorporated herein by reference.

ITEM 1A. RISK FACTORS

There were no material changes in our risk factors from December 31, 2005 through June 30, 2006. For additional information, see our 2005 Form 10-K.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

We held our annual meeting of shareholders on May 16, 2006. At the meeting, the holders of 76,772,883 shares voted either in person or by proxy to elect three Class I directors. Mr. Charles Q. Chandler IV, Mr. R.A. Edwards and Ms. Sandra A.J. Lawrence were elected Class I directors to serve a term of three years.

	Votes	
	For	Withheld
Charles Q. Chandler IV	73,543,993	3,228,890
R.A. Edwards	75,625,869	1,147,014
Sandra A.J. Lawrence	76,004,502	768,381

The shareholders present or represented at the meeting voted for the ratification and confirmation of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2006. The result of the vote taken was as follows:

	Votes		
	For	Against	Abstain
Deloitte & Touche LLP	76,220,267	285,574	267,042

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

- 4 Forty-Sixth Supplemental Indenture dated June 1, 2006 between Kansas Gas and Electric Company and BNY Midwest Trust Company, as Trustee
- 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 June 30, 2006
- 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 June 30, 2006
- 32 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 certifying the quarterly report provided for the quarter ended June 30, 2006 (furnished and not to be considered filed as part of the Form 10-Q)

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: August 9, 2006

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

KANSAS GAS AND ELECTRIC COMPANY

TO

BNY MIDWEST TRUST COMPANY
(successor to Harris Trust and Savings Bank)

and

JUDITH L. BARTOLINI
(successor to W. A. Spooner, Henry A. Theis, Oliver R. Brooks,
Wesley L. Baker, Edwin F. McMichael and R. Amundsen)

as Trustees under Kansas Gas and Electric Company's
Mortgage and Deed of Trust, Dated as of April 1, 1940

FORTY- SIXTH SUPPLEMENTAL INDENTURE

Providing, among other things, for

First Mortgage Bonds, Burlington Series 2004B-1 Due 2031

First Mortgage Bonds, Burlington Series 2004B-2 Due 2031

Dated as of June 1, 2006

FORTY-SIXTH SUPPLEMENTAL INDENTURE

INDENTURE, dated as of June 1, 2006, between KANSAS GAS AND ELECTRIC COMPANY, a corporation of the State of Kansas (formerly named KCA Corporation and successor by merger to Kansas Gas and Electric Company, a corporation of the State of Kansas, hereinafter sometimes called the "Company-Kansas"), whose post office address is 120 East First Street, Wichita, Kansas 67202 (hereinafter sometimes called the "Company"), and BNY Midwest Trust Company, a corporation of the State of Illinois, whose post office address is 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602 (successor to Harris Trust and Savings Bank (the "Corporate Trustee")), and JUDITH L. BARTOLINI (successor to W.A. Spooner, Henry A. Theis, Oliver R. Brooks, Wesley L. Baker, Edwin F. McMichael and R. Amundsen, and being hereinafter sometimes called the "Individual Trustee"), whose post office address is 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602 (the Corporate Trustee and the Individual Trustee being hereinafter together sometimes called the "Trustees"), as Trustees under the Mortgage and Deed of Trust, dated as of April 1, 1940 (hereinafter called the "Mortgage"), which Mortgage was executed and delivered by Kansas Gas and Electric Company, a corporation of the State of West Virginia to which the Company-Kansas was successor by merger (hereinafter sometimes called the "Company-West Virginia"), to secure the payment of bonds issued or to be issued under and in accordance with the provisions of the Mortgage, reference to which Mortgage is hereby made, this Indenture (hereinafter sometimes called the "Forty-sixth Supplemental Indenture") being supplemental thereto;

WHEREAS, the Company-West Virginia caused the Mortgage to be filed for record as a mortgage of real property and as a chattel mortgage in the offices of the Registers of Deeds in various counties in the State of Kansas, and on April 25, 1940 paid to the Register of Deeds of Sedgwick County, Kansas, that being the County in which the Mortgage was first filed for record, the sum of \$40,000 in payment of the Kansas mortgage registration tax as provided by Section 79-3101 *et seq.*, General Statutes of Kansas 1935; and

WHEREAS, by the Mortgage, the Company-West Virginia covenanted that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectually the purposes of the Mortgage and to make subject to the lien of the Mortgage any property thereafter acquired, intended to be subject to the lien thereof; and

WHEREAS, an instrument, dated May 31, 1949, was executed by the Company-West Virginia appointing Oliver R. Brooks as Individual Trustee in succession to said Henry A. Theis, resigned, under the Mortgage, and by Oliver R. Brooks accepting the appointment as Individual Trustee under the Mortgage in succession to said Henry A. Theis, which instrument was filed for record in the offices of the Registers of Deeds in various counties in the State of Kansas; and

WHEREAS, an instrument, dated March 3, 1958, was executed by the Company-West Virginia appointing Wesley L. Baker as Individual Trustee in succession to said Oliver R. Brooks, resigned, under the Mortgage, and by Wesley L. Baker accepting the appointment as Individual Trustee under the Mortgage in succession to said Oliver R. Brooks, which instrument was filed for record in the offices of the Registers of Deeds in various counties in the State of Kansas; and

WHEREAS, an instrument, dated November 20, 1969, was executed by the Company-West Virginia appointing Edwin F. McMichael as Individual Trustee in succession to said Wesley L. Baker, resigned, under the Mortgage, and by Edwin F. McMichael accepting the appointment as Individual Trustee under the Mortgage in succession to said Wesley L. Baker, which instrument was filed for record in the offices of the Registers of Deeds in various counties in the State of Kansas; and

WHEREAS, by the Twenty-seventh Supplemental Indenture mentioned below, the Company-Kansas, among other things, appointed R. Amundsen as Individual Trustee in succession to said Edwin F. McMichael, resigned, under the Mortgage, and by R. Amundsen accepting the appointment as Individual Trustee under the Mortgage in succession to said Edwin F. McMichael; and

WHEREAS, by the Thirty-second Supplemental Indenture mentioned below, the Company-Kansas, among other things, appointed W. A. Spooner as Individual Trustee in succession to said R. Amundsen, resigned, under the Mortgage, and by W. A. Spooner accepting the appointment as Individual Trustee under the Mortgage in succession to said R. Amundsen; and

WHEREAS, by the Fortieth Supplemental Indenture mentioned below, the Company-Kansas, among other things, appointed Judith L. Bartolini as Individual Trustee in succession to said W.A. Spooner resigned, under the Mortgage, and by Judith L. Bartolini accepting the appointment as Individual Trustee under the Mortgage in succession to said W.A. Spooner; and

WHEREAS, the Company-West Virginia executed and delivered to the Trustees a First Supplemental Indenture, dated as of June 1, 1942 (which supplemental indenture is hereinafter sometimes called the "First Supplemental Indenture"); and

WHEREAS, the Company-West Virginia caused the First Supplemental Indenture to be filed for record as a mortgage of real property and as a chattel mortgage in the offices of the Registers of Deeds in various counties in the State of Kansas, but paid no mortgage registration tax in connection with the recordation of the First Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-West Virginia executed and delivered to the Trustees the following supplemental indentures:

Designation	Dated as of
Second Supplemental Indenture	March 1, 1948
Third Supplemental Indenture	December 1, 1949
Fourth Supplemental Indenture	June 1, 1952
Fifth Supplemental Indenture	October 1, 1953
Sixth Supplemental Indenture	March 1, 1955
Seventh Supplemental Indenture	February 1, 1956
Eighth Supplemental Indenture	January 1, 1961
Ninth Supplemental Indenture	May 1, 1966
Tenth Supplemental Indenture	March 1, 1970
Eleventh Supplemental Indenture	May 1, 1971
Twelfth Supplemental Indenture	March 1, 1972

which supplemental indentures are hereinafter sometimes called the Second through Twelfth Supplemental Indentures, respectively; and

WHEREAS, the Company-West Virginia caused the Second through Eighth Supplemental Indentures to be filed for record as a mortgage of real property and as a chattel mortgage in the offices of the Registers of Deeds in various counties in the State of Kansas, and caused the Ninth through Twelfth Supplemental Indentures to be filed for record as a mortgage of real property in the offices of the Registers of Deeds in various counties in the State of Kansas and as a chattel mortgage in the Office of the Secretary of State of Kansas, and on the following dates paid to the Register of Deeds of Sedgwick County, Kansas, that being the County in which the Second through Twelfth Supplemental Indentures were first filed for record as a mortgage of real property, the following amounts:

<u>Date</u>	<u>Amount</u>
March 30, 1948	\$12,500
December 7, 1949	7,500
June 17, 1952	30,000
October 21, 1953	25,000
March 22, 1955	25,000
March 5, 1956	17,500
January 24, 1961	17,500
May 17, 1966	40,000
March 10, 1970	87,500
May 19, 1971	87,500
March 23, 1972	62,500

such amounts being in payment of the Kansas mortgage registration tax as provided by the then currently applicable sections of the statutes of the State of Kansas in effect on those dates; and

WHEREAS, the Company-West Virginia was merged into the Company-Kansas on May 31, 1973; and

WHEREAS, in order to evidence the succession of the Company-Kansas to the Company-West Virginia and the assumption by the Company-Kansas of the covenants and conditions of the Company-West Virginia in the bonds and in the Mortgage contained, and to enable the Company-Kansas to have and exercise the powers and rights of the Company-West Virginia under the Mortgage in accordance with the terms thereof, the Company-Kansas executed and delivered to the Trustees a Thirteenth Supplemental Indenture, dated as of May 31, 1973 (which supplemental indenture is hereinafter sometimes called the "Thirteenth Supplemental Indenture"); and

WHEREAS, the Company-Kansas caused the Thirteenth Supplemental Indenture to be filed for record as a mortgage of real property in the offices of the Registers of Deeds in various counties in the State of Kansas and as a chattel mortgage in the Office of the Secretary of State of Kansas, but paid no mortgage registration tax in connection with the recordation of the Thirteenth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-Kansas executed and delivered to the Trustees the following supplemental indentures:

Designation	Dated as of
Fourteenth Supplemental Indenture	July 1, 1975
Fifteenth Supplemental Indenture	December 1, 1975
Sixteenth Supplemental Indenture	September 1, 1976
Seventeenth Supplemental Indenture	March 1, 1977
Eighteenth Supplemental Indenture	May 1, 1977
Nineteenth Supplemental Indenture	August 1, 1977
Twentieth Supplemental Indenture	March 15, 1978
Twenty-first Supplemental Indenture	January 1, 1979
Twenty-second Supplemental Indenture	April 1, 1980
Twenty-third Supplemental Indenture	July 1, 1980
Twenty-fourth Supplemental Indenture	August 1, 1980
Twenty-fifth Supplemental Indenture	June 1, 1981
Twenty-sixth Supplemental Indenture	December 1, 1981
Twenty-seventh Supplemental Indenture	May 1, 1982
Twenty-eighth Supplemental Indenture	March 15, 1984
Twenty-ninth Supplemental Indenture	September 1, 1984
Thirtieth Supplemental Indenture	September 1, 1984
Thirty-first Supplemental Indenture	February 1, 1985
Thirty-second Supplemental Indenture	April 15, 1986
Thirty-third Supplemental Indenture	June 1, 1991
Thirty-fourth Supplemental Indenture	March 31, 1992
Thirty-fifth Supplemental Indenture	December 17, 1992
Thirty-sixth Supplemental Indenture	August 12, 1993
Thirty-seventh Supplemental Indenture	January 15, 1994
Thirty-eighth Supplemental Indenture	March 1, 1994
Thirty-ninth Supplemental Indenture	April 15, 1994
Fortieth Supplemental Indenture	June 28, 2000
Forty-first Supplemental Indenture	June 6, 2002
Forty-second Supplemental Indenture	March 12, 2004
Forty-third Supplemental Indenture	June 1, 2004
Forty-fourth Supplemental Indenture	May 6, 2005
Forty-fifth Supplemental Indenture	March 17, 2006

which supplemental indentures are hereinafter sometimes called the Fourteenth through Forty-fifth Supplemental Indentures, respectively; and

WHEREAS, the Company-Kansas caused the Fourteenth Supplemental Indenture to be filed for record as a mortgage of real property in the offices of the Registers of Deeds in various counties in the State of Kansas and as a chattel mortgage in the Office of the Secretary of State of Kansas; and

WHEREAS, the Company-Kansas caused the Fifteenth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on December 10, 1975, Film 169, page 363), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on December 10, 1975 and indexed as No. 325,911); and

WHEREAS, the Company-Kansas caused the Sixteenth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on September 29, 1976, Film 21 1, page 363), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on September 29, 1976 and indexed as No. 363,835); and

WHEREAS, the Company-Kansas caused the Seventeenth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on March 16, 1977, Film 234, page 492), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on March 1, 1977 and indexed as No. 384,759); and

WHEREAS, the Company-Kansas caused the Eighteenth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on May 26, 1977, Film 246, page 655), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on May 26, 1977 and indexed as No. 394,573); and

WHEREAS, the Company-Kansas caused the Nineteenth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on August 31, 1977, Film 263, page 882), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on September 1, 1977 and indexed as No. 406,577); and

WHEREAS, the Company-Kansas caused the Twentieth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on March 29, 1978, Film 297, pages 635-656), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on March 30, 1978 and indexed as No. 434,072); and

WHEREAS, the Company-Kansas caused the Twenty-first Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on January 9, 1979, Film 345, page 648), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on January 10, 1979 and indexed as No. 470,851); and

WHEREAS, the Company-Kansas caused the Twenty-second Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on April 2, 1980, Film 413, page 1,468), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on April 3, 1980 and indexed as No. 533,415); and

WHEREAS, the Company-Kansas caused the Twenty-third Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on July 1, 1980, Film 425, page 1,003), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on July 2, 1980 and indexed as No. 546,185); and

WHEREAS, the Company-Kansas caused the Twenty-fourth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on August 28, 1980, Film 435, page 266), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on August 29, 1980 and indexed as No. 554,543); and

WHEREAS, the Company-Kansas caused the Twenty-fifth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on June 30, 1981, Film 483, page 1,512), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on June 30, 1981 and indexed as No. 601,270); and

WHEREAS, the Company-Kansas caused the Twenty-sixth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on December 30, 1981, Film 510, page 300), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on December 31, 1981 and indexed as No. 628,293); and

WHEREAS, the Company-Kansas caused the Twenty-seventh Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on May 6, 1982, Film 526, page 1,141), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on May 7, 1982 and indexed as No. 650,115); and

WHEREAS, the Company-Kansas caused the Twenty-eighth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on March 22, 1984, Film 645, page 1,524), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on March 23, 1984 and indexed as No. 796,449); and

WHEREAS, the Company-Kansas caused the Twenty-ninth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on September 5, 1984, Film 681, page 763), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on September 6, 1984 and indexed as No. 852,425); and

WHEREAS, the Company-Kansas caused the Thirtieth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on September 12, 1984, Film 682, page 1,087), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on September 13, 1984 and indexed as No. 854,284); and

WHEREAS, the Company-Kansas caused the Thirty-third Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on June 18, 1991, Film 1 177, page 0876), and as a security agreement in the Office of Secretary of State of Kansas (filed on June 18, 1991 and indexed as No. 1,693,446); and

WHEREAS, the Company-Kansas caused the Fortieth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on June 28, 2000, Film 2062, page 0053), and as a security agreement in the Office of Secretary of State of Kansas (filed on June 28, 2000, and indexed as No. 3756913); and

WHEREAS, the Company on the following dates paid to the Register of Deeds of Sedgwick County, Kansas, that being the County in which the Fourteenth through Thirtieth Supplemental Indentures, the Thirty-third Supplemental Indenture and the Fortieth Supplemental Indenture were first filed for record as a mortgage of real property, the following amounts:

<u>Date</u>	<u>Amount</u>
July 2, 1975	\$ 100,000
December 10, 1975	48,750
September 29, 1976	62,500
March 16, 1977	62,500
May 26, 1977	25,000
August 31, 1977	6,100
March 29, 1978	62,500
January 9, 1979	36,250
April 2, 1980	67,500
July 1, 1980	37,500
August 28, 1980	63,750
June 30, 1981	75,000
December 30, 1981	62,500
May 6, 1982	100,000
March 22, 1984	93,750
September 5, 1984	75,000
September 12, 1984	50,000
June 18, 1991	334,100
June 28, 2000	1,780,538.50

such amounts being in payment of the Kansas mortgage registration tax as provided by the then currently applicable sections of the statutes of the State of Kansas in effect on those dates; and

WHEREAS, the Company-Kansas caused the Thirty-first Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on February 1, 1985, Film 707, page 378), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on February 4, 1985 and indexed as No. 895,468), but paid no mortgage registration tax in connection with the recordation of the Thirty-first Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-Kansas caused the Thirty-second Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on April 16, 1986, Film 791, page 1,336), and as a chattel mortgage in the Office of the Secretary of State of Kansas (filed on April 17, 1986 and indexed as No. 1,048,212), but paid no mortgage registration tax in connection with the recordation of the Thirty-second Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, in order to evidence the succession of the Company to the Company-Kansas and the assumption by the Company of the covenants and conditions of the Company-Kansas in the bonds and in the Mortgage contained, and to enable the Company to have and exercise the powers and rights of the Company-Kansas under the Mortgage in accordance with the terms thereof, the Company executed and delivered to the Trustees a Thirty-fourth Supplemental Indenture, dated as of March 31, 1992 (which supplemental indenture is hereinafter sometimes called the "Thirty-fourth Supplemental Indenture"); and

WHEREAS, the Company-Kansas caused the Thirty-fourth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on March 31, 1992, Film 1236, page 987), and as a security agreement in the Office of Secretary of State of Kansas (filed on March 31, 1992 and indexed as No. 1,780,893), but paid no mortgage registration tax in connection with the recordation of the Thirty-fourth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company caused the Thirty-fifth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on December 16, 1992, Film 301, page 0104), and as a security agreement in the Office of Secretary of State of Kansas (filed on December 16, 1992 and indexed as No. 1,861,886), but paid no mortgage registration tax in connection with the recordation of the Thirty-fifth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-Kansas caused the Thirty-sixth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on August 10, 1993, Film 1364, page 0515), and as a security agreement in the Office of Secretary of State of Kansas (filed on August 11, 1993 and indexed as No. 1,936,501), but paid no mortgage registration tax in connection with the recordation of the Thirty-sixth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-Kansas caused the Thirty-seventh Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on January 18, 1994, Film 1411, page 0710), and as a security agreement in the Office of Secretary of State of Kansas (filed on January 18, 1994 and indexed as No. 1,985,104), but paid no mortgage registration tax in connection with the recordation of the Thirty-seventh Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-Kansas caused the Thirty-eighth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick

County, Kansas (filed on February 28, 1994, Film 1422, page 1046), and as a security agreement in the Office of Secretary of State of Kansas (filed on February 28, 1994 and indexed as No. 1,997,743), but paid no mortgage registration tax in connection with the recordation of the Thirty-eighth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-Kansas caused the Thirty-ninth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on April 27, 1994, Film 1440, page 855), and as a security agreement in the Office of Secretary of State of Kansas (filed on April 27, 1994 and indexed as No. 1,377,915), but paid no mortgage registration tax in connection with the recordation of the Thirty-ninth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-Kansas caused the Forty-first Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on June 6, 2002, Film 2460, page 1), and as a security agreement in the office of Secretary of State of Kansas (filed on June 6, 2002, and indexed as No. 5264221), but paid no mortgage registration tax in connection with the recordation of the Forty-first Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-Kansas caused the Forty-second Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on March 12, 2004, Film 2854, page 8731), and as a security agreement in the office of Secretary of State of Kansas (filed on March 12, 2004, and indexed as No. 5760673), but paid no mortgage registration tax in connection with the recordation of the Forty-second Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-Kansas caused the Forty-third Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on June 10, 2004, Film and Page 28578510), and as a security agreement in the office of Secretary of State of Kansas (filed on June 10, 2004, and indexed as No. 5820311), but paid no mortgage registration tax in connection with the recordation of the Forty-third Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-Kansas caused the Forty-fourth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on May 6, 2005, Film and Page 28671438), and as a security agreement in the office of Secretary of State of Kansas (filed on May 6, 2005, and indexed as No. 5981824), but paid no mortgage registration tax in connection with the recordation of the Forty-fourth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-Kansas caused the Forty-fifth Supplemental Indenture to be filed for record as a mortgage of real property in the office of the Register of Deeds of Sedgwick County, Kansas (filed on March 17, 2006, Film and Page 28764552), and as a security agreement in the office of Secretary of State of Kansas (filed on March 17, 2006, and indexed as No. 6122576), but paid no mortgage registration tax in connection with the recordation of the Forty-fifth Supplemental Indenture, no such tax having been payable in connection with such recordation; and

WHEREAS, the Company-West Virginia, the Company-Kansas or the Company has from time to time caused to be filed in the respective offices of the above-mentioned Registers of Deeds and Secretary of State affidavits executed by the Trustees under the Mortgage, preserving and continuing the lien thereof either as a chattel mortgage in accordance with the provisions of K.S.A. 58-303 (Section 58-303 of the General Statutes of Kansas 1935) or as a security agreement under the provisions of K.S.A. 84-9-401 *et seq.*; and

WHEREAS, in addition to the aforesaid filings for record in the respective offices of the above-mentioned Registers of Deeds, the Company-West Virginia, the Company-Kansas or the Company has filed copies of the Mortgage and the First through Forty-fifth Supplemental Indentures, certified as true by it, with the Secretary of State of Kansas; and

WHEREAS, the Company-West Virginia, the Company-Kansas or the Company has heretofore issued, in accordance with the provisions of the Mortgage, as heretofore supplemented, the following series of First Mortgage Bonds:

<u>Series</u>	<u>Principal Amount Issued</u>	<u>Principal Amount Outstanding</u>
3 ³ / ₈ % Series due 1970	\$16,000,000	None
3 ¹ / ₈ % Series due 1978	5,000,000	None
2 ³ / ₄ % Series due 1979	3,000,000	None
3 ³ / ₈ % Series due 1982	12,000,000	None
3 ⁵ / ₈ % Series due 1983	10,000,000	None
3 ³ / ₈ % Series due 1985	10,000,000	None
3 ³ / ₈ % Series due 1986	7,000,000	None
4 ⁵ / ₈ % Series due 1991	7,000,000	None
5 ⁵ / ₈ % Series due 1996	16,000,000	None
8 ¹ / ₂ % Series due 2000	35,000,000	None
8 ¹ / ₈ % Series due 2001	35,000,000	None
7 ³ / ₈ % Series due 2002	25,000,000	None
9 ⁵ / ₈ % Series due 2005	40,000,000	None
6% Series due 1985	7,000,000	None
7 ³ / ₄ % Series due 2005	12,500,000	None
8 ³ / ₈ % Series due 2006	25,000,000	None
8 ¹ / ₂ % Series due 2007	25,000,000	None
6% Series due 2007	10,000,000	None
5 ⁷ / ₈ % Series due 2007	21,940,000	None
8 ⁷ / ₈ % Series due 2008	30,000,000	None
6.80% Series due 2004	14,500,000	None
16 ¹ / ₄ % Series due 1987	30,000,000	None

<u>Series</u>	<u>Principal Amount Issued</u>	<u>Principal Amount Outstanding</u>
6 ¹ / ₂ % Series due 1983	15,000,000	None
7 ¹ / ₄ % Series due 1983	25,500,000	None
14 ⁷ / ₈ % Series due 1987-1991	30,000,000	None
16% Series due 1996	25,000,000	None
15 ³ / ₄ % Series due 1989	40,000,000	None
13 ¹ / ₂ % Series due 1989	100,000,000	None
14.05% Series due 1991	30,000,000	None
14 ¹ / ₈ % Series due 1991	20,000,000	None
10 ⁷ / ₈ % Series due 1987	30,000,000	None
9 ³ / ₄ % Series due 2016	50,000,000	None
7.00% Series A due 2031	18,900,000	None
7.00% Series B due 2031	308,600,000	None
7.60% Series due 2003	135,000,000	None
6 ¹ / ₂ % Series due 2005	65,000,000	None
6.20% Series due 2006	100,000,000	None
5.10% Series due 2023	13,982,500	13,487,500
7 ¹ / ₂ % Series A due 2032	14,500,000	14,500,000
7 ¹ / ₂ % Series B due 2027	21,940,000	21,940,000
7 ¹ / ₂ % Series C due 2032	10,000,000	10,000,000
9 ¹ / ₂ % Series due 2003	702,200,000	None
8% Series due 2005	735,000,000	None
3 ¹ / ₂ % Series due in 2007	300,000,000	None
5.30% Series due 2031	18,900,000	18,900,000
5.30% Series A due 2031	108,600,000	108,600,000
2.65% Series B due 2031	100,000,000	100,000,000*
Variable Rate Series C due 2031	100,000,000	100,000,000
4.60% Series due 2010	350,000,000	None
5.57% Series due 2011	500,000,000	500,000,000

* Upon issuance of the bonds of the Fifty-first and Fifty-second Series pursuant to this Supplemental Indenture, the 2.65% Series B First Mortgage Bonds Series due 2031 will be retired and will no longer be outstanding under the Indenture.

hereinafter sometimes called Bonds of the First through Fiftieth Series; and

WHEREAS, Section 8 of the Mortgage provides that the form of each series of bonds (other than the First Series) issued thereunder and of the coupons to be attached to the coupon bonds of such series shall be established by Resolution of the Board of Directors of the Company and that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms thereof, and may also contain such provisions not inconsistent with the provisions of the Mortgage as the Board of Directors may, in its discretion, cause to be inserted therein expressing or referring to the terms and conditions upon which such bonds are to be issued and/or secured under the Mortgage; and

WHEREAS, Section 120 of the Mortgage provides, among other things, that any power, privilege or right expressly or impliedly reserved to or in any way conferred upon the Company by any provision of the Mortgage whether such power, privilege or right is in any way restricted or is unrestricted, may be in whole or in part waived or surrendered or subjected to any restriction if at the time unrestricted or to additional restriction if already restricted, and the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more series of bonds issued thereunder, or the Company may cure any ambiguity contained therein or in any supplemental indenture, or may establish the terms and provisions of any series of bonds other than said First Series, by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

WHEREAS, the Company now desires to create two new series of bonds; and

WHEREAS, the execution and delivery by the Company of this Forty-sixth Supplemental Indenture, and the terms of the Bonds of the Fifty-first Series and Fifty-second Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate Resolutions of said Board of Directors;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That Kansas Gas and Electric Company, in consideration of the premises and of One Dollar (\$1) to it duly paid by the Trustees at or before the enrolling and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustees and in order further to secure the payment both of the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, according to their tenor and effect and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances as defined in Section 6 of the Mortgage) unto BNY Midwest Trust Company and to Judith L. Bartolini, as Trustees under the Mortgage, and to their successor or successors in said trust, and to said Trustees and their successors and assigns forever, all property, real, personal and mixed, acquired by the Company after the date of the execution and delivery of the Mortgage, in addition to property covered by the First through the Forty-fifth Supplemental Indentures (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), now owned or, subject to the provisions of Section 87 of the Mortgage, hereafter acquired by the Company and wheresoever situated, including (without in anywise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Forty-sixth Supplemental Indenture) all lands, flowage rights, water rights, flumes, raceways, dams, rights of way and roads; all steam and power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water works, steam heat and hot water plants, lines, service

and supply systems, bridges, culverts, tracks, rolling stock, ice or refrigeration plants and equipment, street and interurban railway systems, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, electric and gas machines, regulators, meters, transformers, generators, motors, electrical, gas and mechanical appliances, conduits, cables, water, steam heat, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture, chattels and choses in action; all municipal and other franchises; all lines for the transmission and distribution of electric current, gas, steam heat or water for any purpose, including poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted), all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

IT IS HEREBY AGREED by the Company that, subject to the provisions of Section 87 of the Mortgage, all the property, rights and franchises acquired by the Company after the date hereof (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), shall be as fully embraced within the lien hereof and the lien of the Mortgage, as if such property, rights and franchises were now owned by the Company and were specifically described herein and conveyed hereby.

PROVIDED that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of this Forty-sixth Supplemental Indenture and from the lien and operation of the Mortgage, viz.: (1) cash, shares of stock and obligations (including bonds, notes and other securities) not hereafter specifically pledged, paid, deposited or delivered under the Mortgage or covenanted so to be; (2) merchandise, equipment, materials or supplies held for the purpose of sale in the usual course of business and fuel, oil and similar materials and supplies consumable in the operation of any properties of the Company; vehicles and automobiles; (3) bills, notes and accounts receivable, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; and (4) electric energy, and other materials or products generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; provided, however, that the property and rights expressly excepted from the lien and operation of the Mortgage and this Forty-sixth Supplemental Indenture in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event that either or both of the Trustees or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XII of the Mortgage by reason of the occurrence of a Default as defined in said Article XII.

THERE is expressly excepted from the lien of the Mortgage and from the lien hereof all property of the Company located in the State of Missouri now owned or hereafter acquired unless such property in the State of Missouri shall be subjected to the lien of the Mortgage by an indenture or indentures supplemental thereto, pursuant to authorization by the Board of Directors of the Company.

TO HAVE AND TO HOLD all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto the Trustees, their successors and assigns forever.

IN TRUST NEVERTHELESS, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as supplemented, this Forty-sixth Supplemental Indenture being supplemental thereto.

AND IT IS HEREBY COVENANTED by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as supplemented, shall affect and apply to the property hereinbefore described and conveyed and to the estate, rights, obligations and duties of the Company and Trustees and the beneficiaries of the trust with respect to said property, and to the Trustees and their successors as Trustees of said property in the same manner and with the same effect as if the said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to the Trustees by the Mortgage as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustees and their successors in said trust under the Mortgage, as follows:

ARTICLE I
FIFTY-FIRST SERIES OF BONDS

SECTION 1. (I) There shall be a series of bonds designated "Burlington Series 2004B-1 due 2031" (herein sometimes referred to as the "Fifty-first Series"), each of which shall also bear the descriptive title, First Mortgage Bond, and the form thereof, which is established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Article I specified. Bonds of the Fifty-first Series shall be limited to \$50,000,000 in aggregate principal amount, except as provided in Section 16 of the Mortgage, shall mature on June 1, 2031, and shall be issued as fully registered bonds in denominations of Five Thousand Dollars and in any multiple or multiples of Five Thousand Dollars. Bonds of the Fifty-first Series shall bear interest from time to time at a rate equal to the interest rate then borne by the City of Burlington, Kansas, Pollution Control Refunding Revenue Bonds (Kansas Gas and Electric Company Project), Series 2004B-1 (hereinafter referred to as the "Burlington Bonds Series 2004B-1"), issued

under the Indenture of Trust, dated as of June 1, 2004 (hereinafter referred to as the "Burlington Indenture"), of the City of Burlington, Kansas, which rate shall be 4.85% per annum, payable at the same times as interest is payable on the Burlington Bonds Series 2004B-1, the first payment to be made on December 1, 2006 for the period from June 1, 2006 to, but not including, December 1, 2006. The principal of and interest on bonds of the Fifty-first Series shall be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts. Bonds of the Fifty-first Series shall be dated as in Section 10 of the Mortgage provided.

(II) Upon the redemption, in whole or in part, of the Burlington Bonds Series 2004B-1, bonds of the Fifty-first Series shall be redeemed in whole or in like part. To effect the redemption of bonds of the Fifty-first Series, the trustee under the Burlington Indenture (hereinafter referred to as the "Burlington Trustee") shall deliver to the Corporate Trustee (and mail a copy thereof to the Company) a written demand (hereinafter referred to as a "Burlington Redemption Demand") for the redemption of bonds of the Fifty-first Series equal in principal amount to the principal amount of the Burlington Bonds Series 2004B-1 to be redeemed. The Burlington Redemption Demand shall be signed by the President, a Vice President, an Assistant Vice President or a Trust Officer of the Burlington Trustee and shall state: (1) the aggregate principal amount of the Burlington Bonds Series 2004B-1 then outstanding under the Burlington Indenture; (2) the principal amount of the Burlington Bonds Series 2004B-1 to be redeemed; (3) the interest thereon and premium, if any, to be payable on the redemption date; (4) the redemption date and that notice thereof has been given as required in the Burlington Indenture; (5) that the Corporate Trustee is thereby instructed to call for redemption bonds of the Fifty-first Series equal in principal amount to the principal amount of the Burlington Bonds Series 2004B-1 specified in (2) above and on the same date and at the same price as the Burlington Bonds Series 2004B-1. The Burlington Redemption Demand shall also contain a waiver of notice of such redemption by the Burlington Trustee, as holder of all bonds of the Fifty-first Series then outstanding. The Corporate Trustee may conclusively presume the statements contained in the Burlington Redemption Demand to be correct. Redemption of the bonds of the Fifty-first Series shall be at the principal amount of the bonds to be redeemed, together with premium, if any, and the accrued interest to the redemption date, and such amount shall become and be due and payable on the redemption date.

If the Burlington Trustee has declared the principal of and accrued interest on the Burlington Bonds Series 2004B-1 to be immediately due and payable pursuant to Section 7.2 of the Burlington Indenture as a result of an Event of Default under Section 7.1 of the Burlington Indenture (except 7.1(f) thereof), and if the Burlington Trustee shall deliver to the Corporate Trustee (and mail a copy thereof to the Company) a written demand (hereinafter referred to as a "Burlington Bonds Acceleration Notice") for the immediate redemption of bonds of the Fifty-first Series in whole, the bonds of the Fifty-first Series shall be immediately redeemed at the principal amount thereof and accrued interest thereon. The Burlington Bonds Acceleration Notice shall be signed by the President, a Vice President, an Assistant Vice President or a Trust Officer of the Burlington Trustee and shall state: (1) the aggregate principal amount of the Burlington Bonds Series 2004B-1 then outstanding under the Burlington Indenture; (2) that the entire principal amount of the Burlington Bonds Series 2004B-1 has been declared by the Burlington Trustee to be immediately due and payable pursuant to Section 7.2 of the Burlington Indenture; (3) that the Corporate Trustee is thereby instructed to call for immediate redemption bonds of the Fifty-first Series in whole; and (4) that the Burlington Trustee, as holder of all bonds of the Fifty-first Series, waives notice of such redemption.

The Company hereby covenants that if a Burlington Redemption Demand or a Burlington Bonds Acceleration Notice shall be delivered to the Corporate Trustee, the Company subject to subdivision (III) of this Article I, will deposit, on or before the redemption date, with the Corporate Trustee, in accordance with Article X of the Mortgage, an amount in cash sufficient to redeem the bonds of the Fifty-first Series so called for redemption.

The bonds of the Fifty-first Series shall not be subject to redemption prior to maturity except as provided in this Section (I) II.

(III) All bonds of the Fifty-first Series shall be issued and pledged by the Company with the Burlington Trustee to secure the payment of the principal of, interest on the Burlington Bonds Series 2004B-1. The obligation of the Company to make payments with respect to the principal of and interest on bonds of the Fifty-first Series shall be fully or partially, as the case may be, satisfied and discharged to the extent that, at the time that any such payment shall be due, the then due principal of and interest on the Burlington Bonds Series 2004B-1 shall have been fully or partially paid, or there shall be in the Bond Fund established pursuant to the Burlington Indenture sufficient available funds to fully or partially pay the then due principal of and interest on the Burlington Bonds Series 2004B-1. The Corporate Trustee may conclusively presume that the obligation of the Company to make payments with respect to the principal of and interest on bonds of the Fifty-first Series shall have been fully satisfied and discharged unless and until the Corporate Trustee shall have received a written notice from the Burlington Trustee, signed by its President, a Vice President, or a Trust Officer, stating (i) that timely payment of the principal of or interest on the Burlington Bonds Series 2004B-1 required to be made by the Company has not been made, (ii) that there are not sufficient available funds held in the Bond Fund to make such payment and (iii) the amount of funds, in addition to available funds held in the Bond Fund, required to make such payment.

(IV) At the option of the registered owner, any bonds of the Fifty-first Series, upon surrender thereof, for cancellation, at the office or agency of the Company in the Borough of Manhattan, The City of New York, shall be exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations. The bonds of the Fifty-first Series may bear such legends as may be necessary to comply with any law or with any rules or regulations made pursuant thereto or with the rules or regulations of any stock exchange or to conform to usage with respect thereto.

(V) Bonds of the Fifty-first Series shall be transferable upon the surrender thereof, for cancellation, together with a written instrument of transfer in form approved by the registrar duly executed by the registered owner or by his duly authorized attorney, at the office or agency of the Company in the Borough of Manhattan, The City of New York.

(VI) The Company may deliver to the Burlington Trustee in substitution for any bonds of the Fifty-first Series, mortgage bonds or other similar instruments of the Company or any successor entity, whether by merger, combination or acquisition of all or substantially all of the assets of the

Company, or otherwise, issued under the Mortgage in the event of a reallocation of the Burlington Bonds Series 2004B-1 in connection with a change in Mode as provided in Section 2.1 of the Burlington Indenture or under a mortgage and deed of trust or similar instrument of the Company or any successor entity, in each case, in like principal amount of like term and bearing the same rate of interest as the bonds of the Fifty-first Series (such substituted bonds hereinafter being referred to as the "Substituted Mortgage Bonds"). The Substituted Mortgage Bonds may only be delivered to the Burlington Trustee upon receipt by the Burlington Trustee of (i) if not delivered under the Mortgage, a letter from Moody's (as hereinafter defined), dated within ten days prior to the date of delivery of the Substituted Mortgage Bonds, stating that its rating of the Substituted Mortgage Bonds is at least equal to its then current rating on the bonds of the Fifty-first Series, (ii) if not delivered under the Mortgage, a letter from S&P (as hereinafter defined), dated within ten days prior to the date of delivery of the Substituted Mortgage Bonds, stating that its rating of the Substituted Mortgage Bonds is at least equal to its then current rating on the bonds of the Fifty-first Series, (iii) an opinion of counsel which may be in-house counsel or counsel to the Company or any successor entity, to the effect that the Substituted Mortgage Bonds shall have been duly and validly authorized, executed, authenticated, and delivered and shall constitute the valid, legally binding and enforceable obligations of the Company or any successor entity enforceable in accordance with their terms, except as limited by bankruptcy, insolvency or other laws affecting the enforcement of mortgagees' and other creditors' rights and shall be entitled to the benefit of the Mortgage or the mortgage and deed of trust or similar instrument pursuant to which they shall have been issued, (iv) an opinion of Bond Counsel, as defined in the Burlington Indenture, to the effect that the substitution of the Substituted Mortgage Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Burlington Bonds Series 2004B-1 and (v) such other certificates and documents with respect to the issuance and delivery of the Substituted Mortgage Bonds as may be required by law or as the Burlington Trustee may reasonably request.

"Moody's" means Moody's Investor Services, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Company.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc., duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such rating agency shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Company.

ARTICLE II
FIFTY-SECOND SERIES OF BONDS

SECTION 1. (I) There shall be a series of bonds designated “Burlington Series 2004B-2 due 2031” (herein sometimes referred to as the “Fifty-second Series”), each of which shall also bear the descriptive title, First Mortgage Bond, and the form thereof, which is established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Article II specified. Bonds of the Fifty-second Series shall be limited to \$50,000,000 in aggregate principal amount, except as provided in Section 16 of the Mortgage, shall mature on June 1, 2031, and shall be issued as fully registered bonds in denominations of Five Thousand Dollars and in any multiple or multiples of Five Thousand Dollars. Bonds of the Fifty-second Series shall bear interest from time to time at a rate equal to the interest rate then borne by the City of Burlington, Kansas, Pollution Control Refunding Revenue Bonds (Kansas Gas and Electric Company Project) Series 2004B-2, (hereinafter referred to as the “Burlington Bonds Series 2004B-2”), issued under the Burlington Indenture, payable at the same times as interest is payable on the Burlington Bonds Series 2004B-2. The principal of and interest on bonds of the Fifty-second Series shall be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts. Bonds of the Fifty-second Series shall be dated as in Section 10 of the Mortgage provided.

(II) Upon the redemption, in whole or in part, of the Burlington Bonds Series 2004B-2, bonds of the Fifty-second Series shall be redeemed in whole or in like part. To effect the redemption of bonds of the Fifty-second Series, the Burlington Trustee shall deliver to the Corporate Trustee (and mail a copy thereof to the Company) a written demand (hereinafter referred to as a “Burlington Redemption Demand”) for the redemption of bonds of the Fifty-second Series equal in principal amount to the principal amount of the Burlington Bonds Series 2004B-2 to be redeemed. The Burlington Redemption Demand shall be signed by the President, a Vice President, an Assistant Vice President or a Trust Officer of the Burlington Trustee and shall state: (1) the aggregate principal amount of the Burlington Bonds Series 2004B-2 then outstanding under the Burlington Indenture; (2) the principal amount of the Burlington Bonds Series 2004B-2 to be redeemed; (3) the interest thereon and premium, if any, to be payable on the redemption date; (4) the redemption date and that notice thereof has been given as required in the Burlington Indenture; and (5) that the Corporate Trustee is thereby instructed to call for redemption bonds of the Fifty-second Series equal in principal amount to the principal amount of the Burlington Bonds Series 2004B-2 specified in (2) above and on the same date and at the same price as the Burlington Bonds Series 2004B-2. The Burlington Redemption Demand

shall also contain a waiver of notice of such redemption by the Burlington Trustee, as holder of all bonds of the Fifty-second Series then outstanding. The Corporate Trustee may conclusively presume the statements contained in the Burlington Redemption Demand to be correct. Redemption of the bonds of the Fifty-second Series shall be at the principal amount of the bonds to be redeemed, together with premium, if any, and the accrued interest to the redemption date, and such amount shall become and be due and payable on the redemption date.

If the Burlington Trustee has declared the principal of and accrued interest on the Burlington Bonds Series 2004B-2 to be immediately due and payable pursuant to Section 7.2 of the Burlington Indenture as a result of an Event of Default under Section 7.1 of the Burlington Indenture (except 7.1(f) thereof), and if the Burlington Trustee shall deliver to the Corporate Trustee (and mail a copy thereof to the Company) a written demand (hereinafter referred to as a "Burlington Bonds Acceleration Notice") for the immediate redemption of bonds of the Fifty-second Series in whole, the bonds of the Fifty-second Series shall be immediately redeemed at the principal amount thereof and accrued interest thereon. The Burlington Bonds Acceleration Notice shall be signed by the President, a Vice President, an Assistant Vice President or a Trust Officer of Burlington Trustee and shall state: (1) the aggregate principal amount of the Burlington Bonds Series 2004B-2 then outstanding under the Burlington Indenture; (2) that the entire principal amount of the Burlington Bonds Series 2004B-2 has been declared by the Burlington Trustee to be immediately due and payable pursuant to Section 7.2 of the Burlington Indenture; (3) that the Corporate Trustee is thereby instructed to call for immediate redemption bonds of the Fifty-second Series in whole; and (4) that the Burlington Trustee, as holder of all bonds of the Fifty-second Series, waives notice of such redemption.

The Company hereby covenants that if a Burlington Redemption Demand or a Burlington Bonds Acceleration Notice shall be delivered to the Corporate Trustee, the Company, subject to subdivision (III) of this Article II, will deposit, on or before the redemption date, with the Corporate Trustee, in accordance with Article X of the Mortgage, an amount in cash sufficient to redeem the bonds of the Fifty-second Series so called for redemption.

The bonds of the Fifty-second Series shall not be subject to redemption prior to maturity except as provided in this Section I (II).

(III) All bonds of the Fifty-second Series shall be issued and pledged by the Company with the Burlington Trustee to secure the payment of the principal of, and interest on, the Burlington Bonds Series 2004B-2. The obligation of the Company to make payments with respect to the principal of and the interest on bonds of the Fifty-second Series shall be fully or partially, as the case may be, satisfied and discharged to the extent that, at the time that any such payment shall be due, the then due principal of and interest on the Burlington Bonds Series 2004B-2 shall have been fully or partially paid, or there shall be in the Bond Fund established pursuant to the Burlington Indenture sufficient available funds to fully or partially pay the then due principal of and interest on the Burlington Bonds Series 2004B-2. The Corporate Trustee may conclusively presume that the obligation of the Company to make payments with respect to the principal of and interest on bonds of the Fifty-second Series shall have been fully satisfied and discharged unless and until the Corporate Trustee shall have received a written notice from the Burlington Trustee, signed by its President, a Vice President, or a Trust Officer, stating (i) that timely payment of the principal of or interest on the Burlington Bonds

Series 2004B-2 required to be made by the Company has not been made, (ii) that there are not sufficient available funds held in the Bond Fund to make such payment, and (iii) the amount of funds, in addition to available funds held in the Bond Fund, required to make such payment.

(IV) At the option of the registered owner, any bonds of Fifty-second Series, upon surrender thereof, for cancellation, at the office or agency of the Company in the Borough of Manhattan, The City of New York, shall be exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations. The bonds of the Fifty-second Series may bear such legends as may be necessary to comply with any law or with any rules or regulations made pursuant thereto or with the rules or regulations of any stock exchange or to conform to usage with respect thereto.

(V) Bonds of the Fifty-second Series shall be transferable upon the surrender thereof, for cancellation, together with a written instrument of transfer in form approved by the registrar duly executed by the registered owner or by his duly authorized attorney, at the office or agency of the Company in the Borough of Manhattan, The City of New York.

(VI) The Company may deliver to the Burlington Trustee in substitution for any bonds of the Fifty-second Series, mortgage bonds or other similar instruments of the Company or any successor entity, whether by merger, combination or acquisition of all or substantially all of the assets of the Company, or otherwise, issued under the Mortgage in the event of a reallocation of the Burlington Bonds Series 2004B-2 in connection with a change in Mode as provided in Section 2.1 of the Burlington Indenture or under a mortgage and deed of trust or similar instrument of the Company or any successor entity, in each case, in like principal amount of like term and bearing the same rate of interest as the bonds of the Fifty-second Series (such substituted bonds hereinafter being referred to as the "Substituted Mortgage Bonds"). The Substituted Mortgage Bonds may only be delivered to the Burlington Trustee upon receipt by the Burlington Trustee of (i) if not delivered under the Mortgage, a letter from Moody's (as hereinafter defined), dated within ten days prior to the date of delivery of the Substituted Mortgage Bonds, stating that its rating of the Substituted Mortgage Bonds is at least equal to its then current rating on the bonds of the Fifty-second Series, (ii) if not delivered under the Mortgage, a letter from S&P (as hereinafter defined), dated within ten days prior to the date of delivery of the Substituted Mortgage Bonds, stating that its rating of the Substituted Mortgage Bonds is at least equal to its then current rating on the bonds of the Fifty-second Series, (iii) an opinion of counsel which may be in-house counsel or counsel to the Company or any successor entity, to the effect that the Substituted Mortgage Bonds shall have been duly and validly authorized, executed, authenticated, and delivered and shall constitute the valid, legally binding and enforceable obligations of the Company or any successor entity enforceable in accordance with their terms, except as limited by bankruptcy, insolvency or other laws affecting the enforcement of mortgagees' and other creditors' rights and shall be entitled to the benefit of the Mortgage or the mortgage and deed of trust or other similar instrument pursuant to which they shall have been issued, (iv) an opinion of Bond Counsel, as defined in the Burlington Indenture, to the effect that the substitution of the Substituted Mortgage Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Burlington Bonds Series 2004B-2 and (v) such other certificates and documents with respect to the issuance and delivery of the Substituted Mortgage Bonds as may be required by law or as the Burlington Trustee may reasonably request.

“Moody’s” means Moody’s Investor Services, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Company.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc., duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such rating agency shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Company.

ARTICLE III

AMENDMENTS TO THE MORTGAGE AND RESERVATION OF RIGHTS

SECTION 1. The Company reserves the right, subject to appropriate corporate action, but without any consent or other action by holders of Bonds of the Fifty-first Series and Fifty-second Series, or of any subsequent series of bonds, to make such amendments to the Mortgage, as supplemented, as shall be necessary in order to (A) permit the issuance of additional Prior Lien Bonds other than to the Corporate Trustee (i) in a principal amount not to exceed the principal amount of Bonds which could then be issued on the basis of Property Additions under the Mortgage or (ii) upon the redemption or retirement of Prior Lien Bonds secured by such Prior Lien, (B) to remove the requirement that Prior Lien Bonds be issued to the Corporate Trustee, (C) remove the provisions of Article V which eliminate from the calculation of unfunded net Property Additions available for issuance of Bonds the amount of any Property Additions subject to a Prior Lien if the aggregate amount of Outstanding Prior Lien Bonds is 15% or more of the sum of the Outstanding Bonds and Prior Lien Bonds, and (D) make such other amendments to the Mortgage as may be necessary or desirable in the opinion of the Company to effect the foregoing.

SECTION 2. The Company reserves the right, subject to appropriate action, but without any consent or other action by holders of Bonds of the Fifty-first Series and Fifty-second Series, or of any subsequent series of bonds, to clarify the ability of the Company to issue variable rate bonds under the Mortgage, notwithstanding any provision of the Mortgage to the contrary. The Company may make such other amendments to the Mortgage as may be necessary or desirable in the opinion of the Company to effect the foregoing.

SECTION 3. The Company reserves the right, subject to appropriate action, but without any consent or other action by holders of Bonds of the Fifty-first Series and Fifty-second Series, or of any subsequent series of bonds, to amend the Mortgage to eliminate the requirements for the provision by the Company of a Net Earning Certificate by deleting Section 27, Section 28(6) and Section 30(3) and deleting the following language from the end of Section 26: “and, in case the bonds are to be authenticated and delivered under the provisions of the next preceding paragraph of this Section by reason of an increase in the aggregate principal amount of bonds authenticated and delivered under this Indenture

having increased the aggregate principal amount of bonds which may be authenticated and delivered within the limitations prescribed by this Section, a Net Earning Certificate showing the Net Earnings of the Company to be as required by Section 27 hereof.” The Company may make such other amendments to the Mortgage as may be necessary or desirable in the opinion of the Company to effect the foregoing.

SECTION 4. The Company reserves the right, subject to appropriate action, but without any consent or other action by holders of Bonds of the Fifty-first Series and Fifty-second Series, or of any subsequent series of bonds, to amend the Mortgage as may be necessary in order to permit the Company to deliver to the Trustee in substitution for any bonds issued under the Mortgage, mortgage bonds or other similar instruments of the Company or any successor entity, whether by merger, combination or acquisition of all or substantially all of the assets of the Company, or otherwise, issued under a mortgage and deed of trust or similar instrument of the Company or any successor entity in like principal amount of like term and bearing the same rate of interest as the original bonds (such substituted bonds hereinafter being referred to as the “Substituted Mortgage Bonds”). The Substituted Mortgage Bonds may only be delivered to the Trustee upon receipt by the Trustee of (i) if the original bonds were rated by Moody’s, a letter from Moody’s (as hereinafter defined), dated within ten days prior to the date of delivery of the Substituted Mortgage Bonds, stating that its rating of the Substituted Mortgage Bonds is at least equal to its then current rating on the original bonds, (ii) if the original bonds were rated by S&P, a letter from S&P (as hereinafter defined), dated within ten days prior to the date of delivery of the Substituted Mortgage Bonds, stating that its rating of the Substituted Mortgage Bonds is at least equal to its then current rating on the original bonds, (iii) an opinion of counsel which may be counsel to the Company or any successor entity, to the effect that the Substituted Mortgage Bonds shall have been duly and validly authorized, executed, authenticated, and delivered and shall constitute the valid, legally binding and enforceable obligations of the Company or any other successor entity enforceable in accordance with their terms, except as limited by bankruptcy, insolvency or other laws affecting the enforcement of mortgagees’ and other creditors’ right and shall be entitled to the benefit of the mortgage and deed of trust or other similar instrument pursuant to which they shall have been issued and (iv) such other certificates and documents with respect to the issuance and delivery of the Substituted Mortgage Bonds as may be required by law or as the Trustee may reasonably request. The Company may make such other amendments to the Mortgage as may be necessary or desirable in the opinion of the Company to effect the foregoing.

“Moody’s” means Moody’s Investor Services, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Company.

“S&P” means Standard & Poor’s Rating Services, a division of The McGraw Hill Companies, Inc., duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such rating agency shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Company.

SECTION 5. The Company reserves the right, subject to appropriate action, but without any consent or other action by holders of Bonds of the Fifty-first Series and Fifty-second Series, or of any subsequent series of bonds, to amend the Mortgage to add the following new section:

“This Indenture shall be deemed to be a contract made under the laws of the State of Kansas and for all purposes shall be construed in accordance with the laws of the State of Kansas, without regard to conflicts of laws principles thereof.”

SECTION 6. The Company reserves the right, subject to appropriate action, but without any consent or other action by holders of Bonds of the Fifty-first Series and Fifty-second Series, or of any subsequent series of bonds, to amend the Mortgage to:

(I) Eliminate maintenance and improvement fund requirements;

(II) Simplify the provisions for release of obsolete property, de minimis property releases and substitution of property and unfunded property;

(III) Permit additional terms of bonds or forms of bond in supplemental indentures, including terms for uncertificated and global securities and medium-term notes;

(IV) Make any changes necessary to conform the Mortgage with the requirements of the Trust Indenture Act;

(V) Add defeasance provisions providing for covenant and legal defeasance options;

(VI) Permitting the Company to remove the trustee in certain circumstances;

(VII) Providing for direction to the trustee under the Mortgage to vote pledged prior lien bonds for specified amendments to the prior lien mortgage;

(VIII) Providing broader investment directions to the trustee or permitting the Company to direct investment of money held by the trustee, so long as there is no event of default under the Mortgage;

(IX) Amending the definition of “Excepted Property” to exclude property which generally cannot be mortgaged without undue administrative burden (i.e., automobiles), but allowing the Company to subject Excepted Property to the Mortgage;

(X) Amending the definition of “Bondable Property” to allow all mortgaged property to be bondable;

(XI) Updating the definition of “Permitted Liens”; and

(XII) Eliminate the requirement to have an individual trustee under the Mortgage.

ARTICLE IV
MISCELLANEOUS PROVISIONS

SECTION 1. All Bonds of the Fifty-first Series and Fifty-second Series acquired by the Company shall forthwith be delivered to the Corporate Trustee for cancellation.

SECTION 2. Subject to the amendments provided for in this Forty-sixth Supplemental Indenture, the terms defined in the Mortgage, as heretofore supplemented, shall, for all purposes of this Forty-sixth Supplemental Indenture, have the meanings specified in the Mortgage, as heretofore supplemented.

SECTION 3. The Trustees hereby accept the trusts herein declared, provided, created or supplemented and agree to perform the same upon the terms and conditions set forth herein and in the Mortgage, as heretofore amended and supplemented, and upon the following terms and conditions:

The Trustees shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Forty-sixth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVI of the Mortgage, as heretofore amended and supplemented, shall apply to and form part of this Forty-sixth Supplemental Indenture with the same force and effect as if the same were herein set forth in full with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Forty-sixth Supplemental Indenture.

SECTION 4. Subject to the provisions of Article XV and Article XVI of the Mortgage, as heretofore amended and supplemented, whenever in this Forty-sixth Supplemental Indenture any of the parties hereto is named or referred to, this shall be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Forty-sixth Supplemental Indenture contained by or on behalf of the Company or by or on behalf of the Trustees shall bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not.

SECTION 5. Nothing in this Forty-sixth Supplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds and coupons Outstanding under the Mortgage, any right, remedy or claim under or by reason of this Forty-sixth Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Forty-sixth Supplemental Indenture contained by or on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and of the coupons Outstanding under the Mortgage.

SECTION 6. This Forty-sixth Supplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, KANSAS GAS AND ELECTRIC COMPANY has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by Mark A. Ruelle, Vice President and Treasurer, and its corporate seal to be attested by Larry D. Irick, its Secretary for and on its behalf, BNY MIDWEST TRUST COMPANY has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by one of its duly authorized officers and its corporate seal to be attested by one of its Assistant Secretaries for and on its behalf, and Judith L. Bartolini has hereunto set her hand and all as of the day and year first above written.

KANSAS GAS AND ELECTRIC COMPANY

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

Attest:

/s/ Larry D. Irick
Larry D. Irick
Secretary

(corporate seal)
[KANSAS GAS AND ELECTRIC COMPANY]
[INCORPORATED 1990 KANSAS]

Executed, sealed and delivered by
KANSAS GAS AND ELECTRIC COMPANY,
in the presence of:

/s/ Jean Macfee
Jean Macfee

/s/ Patti Beasley
Patti Beasley

(corporate seal)
[BNY MIDWEST TRUST COMPANY]
[CORPORATE SEAL 1991 ILLINOIS]
Attest:

By: /s/ D.G. Donovan
D.G. Donovan
Vice President

/s/ L. Garcia
L. Garcia
Assistant Vice President

/s/ Judith L. Bartolini
(Judith L. Bartolini)

Executed, sealed and delivered by
BNY MIDWEST TRUST COMPANY
and JUDITH L. BARTOLINI, in the
presence of:

/s/ Roxane Ellwanger Roxane Ellwanger

/s/ Lena D. Mopsik Lena D. Mopsik

STATE OF KANSAS)
 : ss.:
COUNTY OF SEDGWICK)

BE IT REMEMBERED, that on this 30th day of May, A.D. 2006, before me, the undersigned, a Notary Public within and for the County and State aforesaid, came Mark A. Ruelle, the Vice President and Treasurer of KANSAS GAS AND ELECTRIC COMPANY, a corporation duly organized, incorporated and existing under the laws of the State of Kansas, who is personally known to me to be such officer, and who is personally known to me to be the same person who executed, as such officer, the within instrument of writing, and such person duly acknowledged the execution of the same to be the act and deed of said corporation and that said instrument of writing was so executed by order of the Board of Directors of said corporation.

On this 30th day of May, 2006, before me appeared Larry D. Irick, to me personally known, who being by me duly sworn did say that he is the Secretary of KANSAS GAS AND ELECTRIC COMPANY, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said Larry D. Irick acknowledged said instrument to be the free act and deed of said corporation.

On the 30th day of May in the year 2006, before me personally appeared Mark A. Ruelle to me known, who, being by me duly sworn, did depose and say that he is the Vice President and Treasurer of KANSAS GAS AND ELECTRIC COMPANY; that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said Mark A. Ruelle acknowledged said instrument to be the free act and of said corporation.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed my official seal on the day and year above written.

/s/ Merilee K. Martin

(notary seal)
[Merilee K. Martin]
[NOTARY PUBLIC - STATE OF KANSAS]
[MY APPT EXP: 7-8-2007]

NOTARY PUBLIC - STATE OF KANSAS
MY APPOINTMENT EXPIRES 7-8-2007

STATE OF ILLINOIS)
 : ss.:
COUNTY OF COOK)

BE IT REMEMBERED, that on this 25th day of May, A.D. 2006, before me, the undersigned, a Notary Public within and for the County and State aforesaid, came D.G. Donovan, a Vice President of BNY Midwest Trust Company as trustee, a corporation, duly organized, incorporated and existing under the laws of the State of Illinois, who is personally known to me to be such officer, and who is personally known to me to be the same person who executed, as such officer, the within instrument of writing, and such person duly acknowledged the execution of the same to be the act and deed of said corporation and that said instrument of writing was so executed by authority of the Board of Directors of said corporation.

On this 25th day of May, 2006, before me appeared L. Garcia, to me personally known, who being by me duly sworn did say that she is an Assistant Vice President of BNY MIDWEST TRUST COMPANY, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said L. Garcia acknowledged said instrument to be the free act and deed of said corporation.

On the 25th day of May in the year 2006, before me personally came D.G. Donovan, to me known, who, being by me duly sworn, did depose and say that he resides at Arlington Heights, Illinois, that he is a Vice President of BNY MIDWEST TRUST COMPANY, one of the corporations described in and which executed the above instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed my official seal on the day and year above written.

/s/ T. Mosterd

NOTARY PUBLIC, STATE OF ILLINOIS

COMMISSION EXPIRES 1/22/09

(notary seal)
[OFFICIAL SEAL]
[T. MOSTERD]
[NOTARY PUBLIC - STATE OF ILLINOIS]
[MY COMMISSION EXPIRES JANUARY 22, 2009]

STATE OF ILLINOIS)
 : ss.:
COUNTY OF COOK)

On this 25th day of May in the year 2006, before me, the undersigned, a Notary Public in and for the State of Illinois, in the County of Cook, personally appeared and came Judith L. Bartolini, to me known and known to me to be the person described in and who executed the within and foregoing instrument and whose name is subscribed thereto and acknowledged to me that he executed the same.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed my official seal the day and year in this certificate first above written.

/s/ A. Hernandez

NOTARY PUBLIC, STATE OF ILLINOIS

COMMISSION EXPIRES 7/8/06

(notary seal)
[“OFFICIAL SEAL”]
[A. Hernandez]
[Notary Public, State of Illinois]
[My Commission Expires 7/8/06]

AFFIDAVIT

STATE OF KANSAS)
) SS:
COUNTY OF SEDGWICK)

I, Larry D. Irick, being first duly sworn on oath, depose and say:

1. I am the Secretary of Kansas Gas and Electric Company, a corporation duly organized and existing under the laws of the State of Kansas (the "Company"). I am duly authorized to make this affidavit on behalf of the Company.

2. The Company has heretofore executed and delivered to BNY Midwest Trust Company (as successor to Harris Trust and Savings Bank) (the "Corporate Trustee") and Judith L. Bartolini (the "Individual Trustee", together with the Corporate Trustee, the "Trustees"), a Mortgage and Deed of Trust, dated as of April 1, 1940, (hereinafter called the "Indenture"), to secure the Company's First Mortgage Bonds.

3. The Company has heretofore executed and delivered to the Trustees supplemental indentures numbered "First" through "Forty-fifth," inclusive, (hereinafter called the "Supplemental Indentures"), creating other series of the Company's First Mortgage Bonds.

4. The Indenture and all Supplemental Indentures confirmed unto the Trustees the real property situated in the State of Kansas which is subject to the lien of the Indenture.

5. The Indenture and all Supplemental Indentures were duly received and filed for record in accordance with the laws of the State of Kansas, and the mortgage registration fee thereon provided for was, and has been, paid in full by the Company.

6. Under the Fortieth Supplemental Indenture, the Company duly paid the mortgage registration fee in the amount of \$1,780,538.50, based upon \$684,822,500 of the Company's indebtedness. The Fortieth Supplemental Indenture is found in the Sedgwick County Register of Deeds office at film 2062, page 53.

7. The Company has executed and delivered to the Trustees a Fifty-first Series and Fifty-second Series of bonds to be issued under and secured by the Indenture, the Supplemental Indentures and a new Supplemental Indenture dated as of June 1, 2006, (hereinafter called the "Forty-sixth Supplemental Indenture").

8. The purpose of the Forty-sixth Supplemental Indenture is to reflect the issuance and pledge of \$100,000,000 principal amount of First Mortgage Bonds.

9. \$100,000,000 of the principal amount of the First Mortgage Bonds issued pursuant to the Forty-sixth Supplemental Indenture tendered for filing constitutes the same principal indebtedness covered or included in the Fortieth Supplemental Indenture with BNY Midwest Trust Company and Judith L. Bartolini, Trustees, the same lender.

10. Under the Forty-sixth Supplemental Indenture the registration fee with respect to all of the indebtedness of \$1000,000,000 has been previously paid by the Company in connection with the Fortieth Supplemental Indenture and by virtue thereof is considered by the Company to be the same indebtedness, and thus exempt from the payment of further registration fees pursuant to the provisions of K.S.A. 79-3102(d)(3).

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

FURTHER AFFIANT SAITH NAUGHT.

/s/ Larry D. Irick

Larry D. Irick, Secretary
Kansas Gas and Electric Company

Subscribed and sworn to before me this 30th day of May, 2006.

/s/ Merilee K. Martin

Notary Public

(notary seal)
[Merilee K. Martin]
[NOTARY PUBLIC - STATE OF KANSAS]
[MY APPT EXP: 7-8-2007]

My Commission Expire 7-8-2007

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

I, James S. Haines, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2006 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 company as of, and for, the periods presented in this report;
4. The company'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 company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the company'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 company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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: August 9, 2006

By: _____ /s/ James S. Haines, Jr.

James S. Haines, Jr.,
Director and Chief Executive Officer
Westar Energy, Inc.
(Principal Executive Officer)

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

I, Mark A. Ruelle, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2006 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 company as of, and for, the periods presented in this report;
4. The company'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 company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the company'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 company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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: August 9, 2006

By: _____ /s/ Mark A. Ruelle
 Mark A. Ruelle,
 Executive Vice President and Chief Financial Officer
 Westar Energy, Inc.
 (Principal Accounting Officer)

