SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended June 30, 1994

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

## WESTERN RESOURCES, INC.
(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| KANSAS | 48-0290150 |
| (State or Other Jurisdiction of Incorporation or Organization) | (Employer Identification No.) |

| | |
|---|---|
| 818 KANSAS AVENUE, TOPEKA, KANSAS | 66612 |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant's Telephone Number Including Area Code (913) 575-6300

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 X No

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

| Class | Outstanding at August 11, 1994 |
|---|---|
| Common Stock, $5.00 par value | 61,617,873 |

## WESTERN RESOURCES, INC.
INDEX

WESTERN RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)

| | June 30, 1994 (Unaudited) | December 31, 1993 |
|---|---|---|
| **ASSETS** | | |
| UTILITY PLANT: | | |
| Electric plant in service | $5,171,104 | $5,110,617 |
| Natural gas plant in service | 713,732 | 1,111,866 |
| | 5,884,836 | 6,222,483 |
| Less - Accumulated depreciation | 1,775,159 | 1,821,710 |
| | 4,109,677 | 4,400,773 |
| Construction work in progress | 83,457 | 80,192 |
| Nuclear fuel (net) | 39,173 | 29,271 |
| Net utility plant | 4,232,307 | 4,510,236 |
| OTHER PROPERTY AND INVESTMENTS: | | |
| Net non-utility investments | 64,376 | 61,497 |
| Decommissioning trust | 15,077 | 13,204 |
| Other | 11,663 | 10,658 |
| | 91,116 | 85,359 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 1,689 | 1,217 |
| Accounts receivable and unbilled revenues (net) | 182,918 | 238,137 |
| Fossil fuel, at average cost | 40,225 | 30,934 |
| Gas stored underground, at average cost | 28,966 | 51,788 |
| Materials and supplies, at average cost | 56,007 | 55,156 |
| Prepayments and other current assets | 47,592 | 34,128 |
| | 357,397 | 411,360 |
| DEFERRED CHARGES AND OTHER ASSETS: | | |
| Deferred future income taxes | 138,063 | 135,991 |
| Deferred coal contract settlement costs | 36,926 | 40,522 |
| Phase-in revenues | 70,178 | 78,950 |
| Corporate-owned life insurance (net) | 13,989 | 4,743 |
| Other deferred plant costs | 31,896 | 32,008 |
| Other | 81,152 | 112,879 |
| | 372,204 | 405,093 |
| TOTAL ASSETS | $5,053,024 | $5,412,048 |
| **CAPITALIZATION AND LIABILITIES** | | |
| CAPITALIZATION (see statement) | $2,982,453 | $3,121,021 |
| CURRENT LIABILITIES: | | |
| Short-term debt | 217,800 | 440,895 |
| Long-term debt due within one year | - | 3,204 |
| Accounts payable | 123,389 | 172,338 |
| Accrued taxes | 113,026 | 46,076 |
| Accrued interest and dividends | 60,653 | 65,825 |
| Other | 67,196 | 65,492 |
| | 582,064 | 793,830 |
| DEFERRED CREDITS AND OTHER LIABILITIES: | | |
| Deferred income taxes | 893,642 | 968,637 |
| Deferred investment tax credits | 141,009 | 150,289 |
| Deferred gain from sale-leaseback | 257,161 | 261,981 |
| Other | 196,695 | 116,290 |
| | 1,488,507 | 1,497,197 |
| COMMITMENTS AND CONTINGENCIES (Notes 4, 5 and 6) | | |
| TOTAL CAPITALIZATION AND LIABILITIES | $5,053,024 | $5,412,048 |

The NOTES TO CONSOLIDATED FINANCIAL STATEMENTS are an integral part of these statements.

WESTERN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Thousands of Dollars)
(Unaudited)

| | Three Months Ended June 30, 1994 | Three Months Ended June 30, 1993 |
|---|---|---|
| OPERATING REVENUES: | | |
| Electric | $ 278,505 | $ 266,583 |
| Natural gas | 62,627 | 133,828 |
| Total operating revenues | 341,132 | 400,411 |
| OPERATING EXPENSES: | | |
| Fuel used for generation: | | |
| Fossil fuel | 53,553 | 54,790 |
| Nuclear fuel | 4,232 | 2,142 |
| Power purchased | 4,545 | 3,013 |
| Natural gas purchases | 34,479 | 77,438 |
| Other operations | 76,866 | 84,227 |
| Maintenance | 29,392 | 28,971 |
| Depreciation and amortization | 38,169 | 40,768 |
| Amortization of phase-in revenues | 4,386 | 4,386 |
| Taxes: | | |
| Federal income | 12,645 | 11,144 |
| State income | 3,389 | 2,986 |
| General | 25,577 | 30,264 |
| Total operating expenses | 287,233 | 340,129 |
| OPERATING INCOME | 53,899 | 60,282 |
| OTHER INCOME AND DEDUCTIONS: | | |
| Corporate-owned life insurance (net) | (758) | 1,899 |
| Miscellaneous (net) | 3,188 | 4,508 |
| Income taxes (net) | 1,296 | (592) |
| Total other income and deductions | 3,726 | 5,815 |
| INCOME BEFORE INTEREST CHARGES | 57,625 | 66,097 |
| INTEREST CHARGES: | | |
| Long-term debt | 24,132 | 31,457 |
| Other | 4,155 | 4,621 |
| Allowance for borrowed funds used during construction (credit) | (909) | (704) |
| Total interest charges | 27,378 | 35,374 |
| NET INCOME | 30,247 | 30,723 |
| PREFERRED AND PREFERENCE DIVIDENDS | 3,355 | 3,403 |
| EARNINGS APPLICABLE TO COMMON STOCK | $ 26,892 | $ 27,320 |
| AVERAGE COMMON SHARES OUTSTANDING | 61,617,873 | 58,045,550 |
| EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING | $ .44 | $ .47 |
| DIVIDENDS DECLARED PER COMMON SHARE | $ .495 | $ .485 |

The NOTES TO CONSOLIDATED FINANCIAL STATEMENTS are an integral part of these statements.

WESTERN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Thousands of Dollars)
(Unaudited)

| | Six Months Ended June 30, 1994 | Six Months Ended June 30, 1993 |
|---|---|---|
| OPERATING REVENUES: | | |
| Electric | $ 530,002 | $ 517,854 |
| Natural gas | 349,502 | 462,138 |
| Total operating revenues | 879,504 | 979,992 |
| OPERATING EXPENSES: | | |
| Fuel used for generation: | | |
| Fossil fuel | 106,193 | 113,192 |
| Nuclear fuel | 8,095 | 4,849 |
| Power purchased | 6,896 | 7,611 |
| Natural gas purchases | 233,131 | 287,044 |
| Other operations | 154,429 | 169,622 |
| Maintenance | 55,889 | 55,896 |
| Depreciation and amortization | 77,477 | 81,678 |
| Amortization of phase-in revenues | 8,772 | 8,772 |
| Taxes: | | |
| Federal income | 34,737 | 30,988 |
| State income | 8,611 | 7,436 |
| General | 57,593 | 66,672 |
| Total operating expenses | 751,823 | 833,760 |
| OPERATING INCOME | 127,681 | 146,232 |
| OTHER INCOME AND DEDUCTIONS: | | |
| Corporate-owned life insurance (net) | (1,993) | 3,368 |
| Gain on sale of Missouri Properties (see Note 2) | 30,701 | - |
| Miscellaneous (net) | 5,555 | 10,210 |
| Income taxes (net) | (7,649) | (1,857) |
| Total other income and deductions | 26,614 | 11,721 |
| INCOME BEFORE INTEREST CHARGES | 154,295 | 157,953 |
| INTEREST CHARGES: | | |
| Long-term debt | 50,823 | 64,545 |
| Other | 8,670 | 9,354 |
| Allowance for borrowed funds used during construction (credit) | (1,578) | (1,483) |
| Total interest charges | 57,915 | 72,416 |
| NET INCOME | 96,380 | 85,537 |
| PREFERRED AND PREFERENCE DIVIDENDS | 6,709 | 6,749 |
| EARNINGS APPLICABLE TO COMMON STOCK | $ 89,671 | $ 78,788 |
| AVERAGE COMMON SHARES OUTSTANDING | 61,617,873 | 58,045,550 |
| EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING | $ 1.46 | $ 1.36 |
| DIVIDENDS DECLARED PER COMMON SHARE | $ .99 | $ .97 |

The NOTES TO CONSOLIDATED FINANCIAL STATEMENTS are an integral part of these statements.

WESTERN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Thousands of Dollars)
(Unaudited)

| | Twelve Months Ended June 30, 1994 | Twelve Months Ended June 30, 1993 |
|---|---|---|
| OPERATING REVENUES: | | |
| Electric. . . . . . . . . . . . . . . . . . . . . . . . . | $1,116,685 | $1,058,375 |
| Natural gas . . . . . . . . . . . . . . . . . . . . . . . | 692,186 | 762,530 |
| Total operating revenues. . . . . . . . . . . . . . . . . . | 1,808,871 | 1,820,905 |
| OPERATING EXPENSES: | | |
| Fuel used for generation: | | |
| Fossil fuel . . . . . . . . . . . . . . . . . . . . . . . | 230,054 | 225,375 |
| Nuclear fuel. . . . . . . . . . . . . . . . . . . . . . . | 16,521 | 12,808 |
| Power purchased . . . . . . . . . . . . . . . . . . . . . | 15,681 | 16,756 |
| Natural gas purchases . . . . . . . . . . . . . . . . . . | 446,276 | 461,270 |
| Other operations. . . . . . . . . . . . . . . . . . . . . | 333,967 | 326,175 |
| Maintenance . . . . . . . . . . . . . . . . . . . . . . . | 117,836 | 115,745 |
| Depreciation and amortization . . . . . . . . . . . . . . | 160,163 | 161,872 |
| Amortization of phase-in revenues . . . . . . . . . . . . | 17,545 | 17,544 |
| Taxes: | | |
| Federal income. . . . . . . . . . . . . . . . . . . . . . | 66,169 | 56,197 |
| State income. . . . . . . . . . . . . . . . . . . . . . . | 16,733 | 12,508 |
| General . . . . . . . . . . . . . . . . . . . . . . . . . | 114,414 | 117,768 |
| Total operating expenses. . . . . . . . . . . . . . . . | 1,535,359 | 1,524,018 |
| OPERATING INCOME. . . . . . . . . . . . . . . . . . . . . . | 273,512 | 296,887 |
| OTHER INCOME AND DEDUCTIONS: | | |
| Corporate-owned life insurance (net). . . . . . . . . . . | 2,480 | 7,377 |
| Gain on sale of Missouri Properties (see Note 2). . . . . | 30,701 | - |
| Miscellaneous (net) . . . . . . . . . . . . . . . . . . . | 13,762 | 18,227 |
| Income taxes (net). . . . . . . . . . . . . . . . . . . . | (6,568) | (3,325) |
| Total other income and deductions . . . . . . . . . . | 40,375 | 22,279 |
| INCOME BEFORE INTEREST CHARGES. . . . . . . . . . . . . . . | 313,887 | 319,166 |
| INTEREST CHARGES: | | |
| Long-term debt. . . . . . . . . . . . . . . . . . . . . . | 109,829 | 133,947 |
| Other . . . . . . . . . . . . . . . . . . . . . . . . . . | 18,571 | 20,954 |
| Allowance for borrowed funds used during construction (credit) . . . . . . . . . . . . . . . . . . | (2,726) | (2,737) |
| Total interest charges. . . . . . . . . . . . . . . . . | 125,674 | 152,164 |
| NET INCOME. . . . . . . . . . . . . . . . . . . . . . . . . | 188,213 | 167,002 |
| PREFERRED AND PREFERENCE DIVIDENDS. . . . . . . . . . . . . | 13,466 | 13,667 |
| EARNINGS APPLICABLE TO COMMON STOCK . . . . . . . . . . . . | $ 174,747 | $ 153,335 |
| AVERAGE COMMON SHARES OUTSTANDING . . . . . . . . . . . . . | 61,065,571 | 58,045,550 |
| EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING . . . . . . . | $ 2.86 | $ 2.64 |
| DIVIDENDS DECLARED PER COMMON SHARE . . . . . . . . . . . . | $ 1.96 | $ 1.92 |

The NOTES TO CONSOLIDATED FINANCIAL STATEMENTS are an integral part of these statements.

WESTERN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of Dollars)
(Unaudited)

| | Six Months Ended June 30, 1994 | Six Months Ended June 30, 1993 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 96,380 | $ 85,537 |
| Depreciation and amortization | 77,477 | 81,678 |
| Other amortization (including nuclear fuel) | 5,867 | 3,391 |
| Gain on sale of utility plant (net of tax) | (19,296) | - |
| Deferred taxes and investment tax credits (net) | (56,276) | 16,092 |
| Amortization of phase-in revenues | 8,772 | 8,772 |
| Corporate-owned life insurance | (8,830) | (8,101) |
| Amortization of gain from sale-leaseback | (4,820) | (4,820) |
| Changes in working capital items (net of effects from the sale of the Missouri Properties): | | |
| Accounts receivable and unbilled revenues (net) | (38,787) | 60,739 |
| Fossil fuel | (9,291) | 11,677 |
| Gas stored underground | 10,854 | (19,219) |
| Accounts payable | (48,909) | (76,744) |
| Accrued taxes | 46,816 | 14,757 |
| Other | (8,955) | (11,895) |
| Changes in other assets and liabilities | 102,635 | (27,261) |
| Net cash flows from operating activities | 153,637 | 134,603 |
| CASH FLOWS USED IN INVESTING ACTIVITIES: | | |
| Additions to utility plant | 107,796 | 96,700 |
| Sale of utility plant | (402,076) | - |
| Non-utility investments | 3,162 | 1,254 |
| Corporate-owned life insurance policies | 24,008 | 24,624 |
| Net cash flows (from) used in investing activities | (267,110) | 122,578 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Short-term debt (net) | (223,095) | 145,948 |
| Bank term loan retired | - | (230,000) |
| Bonds issued | 235,923 | 158,500 |
| Bonds retired | (223,906) | (149,000) |
| Revolving credit agreement (net) | (115,000) | 175,000 |
| Other long-term debt (net) | (67,893) | (46,870) |
| Borrowings against life insurance policies (net) | 40,791 | 621 |
| Dividends on preferred, preference and common stock | (67,095) | (62,543) |
| Net cash flows from (used in) financing activities | (420,275) | (8,344) |
| INCREASE IN CASH AND CASH EQUIVALENTS | 472 | 3,681 |
| CASH AND CASH EQUIVALENTS: | | |
| BEGINNING OF THE PERIOD | 1,217 | 875 |
| END OF THE PERIOD | $ 1,689 | $ 4,556 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| CASH PAID FOR: | | |
| Interest on financing activities (net of amount capitalized) | $ 78,906 | $ 85,355 |
| Income taxes | 62,454 | 15,755 |

The NOTES TO CONSOLIDATED FINANCIAL STATEMENTS are an integral part of these statements.

WESTERN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of Dollars)
(Unaudited)

| | Twelve Months Ended June 30, 1994 | 1993 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 188,213 | $ 167,002 |
| Depreciation and amortization | 160,163 | 161,872 |
| Other amortization (including nuclear fuel) | 13,730 | 9,363 |
| Gain on sale of utility plant (net of tax) | (19,296) | - |
| Deferred taxes and investment tax credits (net) | (44,682) | 52,042 |
| Amortization of phase-in revenues | 17,545 | 17,544 |
| Corporate-owned life insurance | (22,379) | (15,972) |
| Amortization of gain from sale-leaseback | (9,640) | (9,640) |
| Changes in working capital items (net of effects from the sale of the Missouri Properties): | | |
| Accounts receivable and unbilled revenues (net) | (115,062) | (40,100) |
| Fossil fuel | (2,895) | 27,976 |
| Gas stored underground | (7,071) | (17,225) |
| Accounts payable | (15,334) | 33,553 |
| Accrued taxes | 39,544 | 11,490 |
| Other | (225) | (2,215) |
| Changes in other assets and liabilities | 111,327 | (88,297) |
| Net cash flows from operating activities | 293,938 | 307,393 |
| CASH FLOWS USED IN INVESTING ACTIVITIES: | | |
| Additions to utility plant | 248,727 | 234,655 |
| Utility investment | 2,500 | - |
| Sale of utility plant | (402,076) | - |
| Non-utility investments | 16,179 | 23,825 |
| Corporate-owned life insurance policies | 26,650 | 20,632 |
| Death proceeds of corporate-owned life insurance policies | (10,158) | (754) |
| Net cash flows (from) used in investing activities | (118,178) | 278,358 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Short-term debt (net) | (150,373) | 168,173 |
| Bank term loan retired | - | (480,000) |
| Bonds issued | 300,923 | 643,500 |
| Bonds retired | (441,372) | (385,466) |
| Revolving credit agreement (net) | (325,000) | 175,000 |
| Other long-term debt (net) | (13,980) | (14,860) |
| Common stock issued (net) | 125,991 | - |
| Preference stock redeemed | (2,734) | (2,600) |
| Borrowings against life insurance policies (net) | 223,430 | (3,959) |
| Dividends on preferred, preference and common stock | (131,868) | (125,113) |
| Net cash flows from (used in) financing activities | (414,983) | (25,325) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (2,867) | 3,710 |
| CASH AND CASH EQUIVALENTS: | | |
| BEGINNING OF THE PERIOD | 4,556 | 846 |
| END OF THE PERIOD | $ 1,689 | $ 4,556 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| CASH PAID FOR: | | |
| Interest on financing activities (net of amount capitalized) | $ 165,285 | $ 155,806 |
| Income taxes | 95,807 | 16,794 |

The NOTES TO CONSOLIDATED FINANCIAL STATEMENTS are an integral part of these statements.

WESTERN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(Thousands of Dollars)

| | June 30, 1994 (Unaudited) | | December 31, 1993 | |
|---|---|---|---|---|
| COMMON STOCK EQUITY (see statement): | | | | |
| Common stock, par value $5 per share, authorized 85,000,000 shares, outstanding 61,617,873 shares. . . . . . . . . . . . . . . . . | $ 308,089 | | $ 308,089 | |
| Paid-in capital. . . . . . . . . . . . . . . . . . . | 667,510 | | 667,738 | |
| Retained earnings. . . . . . . . . . . . . . . . . . | 475,017 | | 446,348 | |
| | 1,450,616 | 49% | 1,422,175 | 45% |
| CUMULATIVE PREFERRED AND PREFERENCE STOCK: | | | | |
| Not subject to mandatory redemption, | | | | |
| Par value $100 per share, authorized 600,000 shares, outstanding - | | | | |
| 4 1/2% Series, 138,576 shares . . . . . . . | 13,858 | | 13,858 | |
| 4 1/4% Series, 60,000 shares. . . . . . . . | 6,000 | | 6,000 | |
| 5% Series, 50,000 shares. . . . . . . . . . | 5,000 | | 5,000 | |
| | 24,858 | | 24,858 | |
| Subject to mandatory redemption, | | | | |
| Without par value, $100 stated value, authorized 4,000,000 shares, outstanding - | | | | |
| 7.58% Series, 500,000 shares. . . . . . . . | 50,000 | | 50,000 | |
| 8.50% Series, 1,000,000 shares. . . . . . . | 100,000 | | 100,000 | |
| | 150,000 | | 150,000 | |
| | 174,858 | 6% | 174,858 | 6% |
| LONG-TERM DEBT: | | | | |
| First mortgage bonds . . . . . . . . . . . . . . . . | 841,000 | | 842,466 | |
| Pollution control bonds. . . . . . . . . . . . . . | 521,922 | | 508,440 | |
| Other pollution control obligations. . . . . . . . | - | | 13,980 | |
| Revolving credit agreement . . . . . . . . . . . . | - | | 115,000 | |
| Other long-term agreement. . . . . . . . . . . . . | - | | 53,913 | |
| Less: | | | | |
| Unamortized premium and discount (net) . . . . . | 5,943 | | 6,607 | |
| Long-term debt due within one year . . . . . . . | - | | 3,204 | |
| | 1,356,979 | 45% | 1,523,988 | 49% |
| TOTAL CAPITALIZATION . . . . . . . . . . . . . . . . | $2,982,453 | 100% | $3,121,021 | 100% |

The NOTES TO CONSOLIDATED FINANCIAL STATEMENTS are an integral part of these statements.

WESTERN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF COMMON STOCK EQUITY
(Thousands of Dollars)
(Unaudited)

| | Common Stock | Paid-in Capital | Retained Earnings |
|---|---|---|---|
| BALANCE DECEMBER 31, 1992, 58,045,550 shares. . . . . | $290,228 | $559,636 | $398,503 |
| Net income. . . . . . . . . . . . . . . . . . . . . . . . | | | 85,537 |
| Cash dividends: | | | |
| Preferred and preference stock. . . . . . . . . . . . | | | (6,749) |
| Common stock, $0.97 per share . . . . . . . . . . . . | | | (56,303) |
| Expenses on preference stock. . . . . . . . . . . . . . | | (556) | |
| BALANCE JUNE 30, 1993, 58,045,550 shares. . . . . . . | 290,228 | 559,080 | 420,988 |
| Net income. . . . . . . . . . . . . . . . . . . . . . . . | | | 91,833 |
| Cash dividends: | | | |
| Preferred and preference stock. . . . . . . . . . . . | | | (6,757) |
| Common stock, $0.97 per share . . . . . . . . . . . . | | | (59,716) |
| Expenses on common stock. . . . . . . . . . . . . . . . | | (2,897) | |
| Issuance of 3,572,323 shares of common stock. . . . . | 17,861 | 111,555 | |
| BALANCE DECEMBER 31, 1993, 61,617,873 shares . . . . | 308,089 | 667,738 | 446,348 |
| Net income. . . . . . . . . . . . . . . . . . . . . . . . | | | 96,380 |
| Cash dividends: | | | |
| Preferred and preference stock. . . . . . . . . . . . | | | (6,709) |
| Common stock, $0.99 per share . . . . . . . . . . . . | | | (61,002) |
| Expenses on common stock. . . . . . . . . . . . . . . . | | (228) | |
| BALANCE JUNE 30, 1994, 61,617,873 shares . . . . . . | $308,089 | $667,510 | $475,017 |

The NOTES TO CONSOLIDATED FINANCIAL STATEMENTS are an integral part of these statements.

WESTERN RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

## 1. ACCOUNTING POLICIES AND OTHER INFORMATION

General. The condensed consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries, Astra Resources, Inc., Kansas Gas and Electric Company (KG&E), and KPL Funding Corporation. KG&E owns 47% of the Wolf Creek Nuclear Operating Corporation (WCNOC), the operating company for the Wolf Creek Generating Station (Wolf Creek). The Company records its proportionate share of all transactions of WCNOC as it does other jointly-owned facilities. All significant intercompany transactions have been eliminated. The Company is doing its utility business as KPL, Gas Service, and through its wholly-owned subsidiary, KG&E.

The financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company, the accompanying condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of June 30, 1994 and December 31, 1993, and the results of its operations for the three, six, and twelve month periods ended June 30, 1994 and 1993. These condensed consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's 1993 Annual Report on Form 10-K and the KG&E Annual Report on Form 10-K incorporated by reference in the Company's 1993 Annual Report on Form 10-K.

The accounting policies of the Company are in accordance with generally accepted accounting principles as applied to regulated public utilities. The accounting and rates of the Company are subject to requirements of the Kansas Corporation Commission (KCC) and the Federal Energy Regulatory Commission (FERC).

Cash Surrender Value of Life Insurance Contracts. The following amounts related to corporate-owned life insurance (COLI) contracts, primarily with one highly rated major insurance company, are recorded on the balance sheets (millions of dollars):

| | June 30, 1994 | December 31, 1993 |
|---|---|---|
| Cash surrender value of contracts | $404.6 | $326.3 |
| Borrowings against contracts | (390.6) | (321.6) |
| COLI (net) | $ 14.0 | $ 4.7 |

Consolidated Statements of Cash Flows. For purposes of the consolidated statements of cash flows, the Company considers highly liquid collateralized debt instruments purchased with a maturity of three months or less to be cash equivalents.

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

## 2. SALE OF MISSOURI NATURAL GAS DISTRIBUTION PROPERTIES

On January 31, 1994, the Company sold substantially all of its Missouri natural gas distribution properties and operations to Southern Union Company (Southern Union). The Company sold the remaining Missouri properties to United Cities Gas Company (United Cities) on February 28, 1994. The properties sold to Southern Union and United Cities are referred to herein as the "Missouri Properties." With the sales, the Company is no longer operating as a utility in the State of Missouri.

The portion of the Missouri Properties purchased by Southern Union was sold for an estimated sale price of $400 million, in cash, based on a calculation as of December 31, 1993. The sale agreement provided for estimated amounts in the sale price calculation to be adjusted to actual as of January 31, 1994, within 120 days of closing. Disputes with respect to proposed adjustments based upon differences between estimates and actuals were to be resolved within 60 days of submission of the disputes (which were submitted within 15 days of the adjustment proposals) or submitted to arbitration by an accounting firm to be agreed to by both parties. Southern Union proposed a number of adjustments to the purchase price which the Company has disputed. A limited number of the adjustments may be subject to the arbitration provisions of the sale agreement. The Company maintains that a substantial number of the proposed adjustments are not permitted under the sale agreement and are not subject to the arbitration provisions.

On June 1, 1994, Southern Union filed a lawsuit against the Company regarding certain gas supply contracts assumed by Southern Union as part of the sale of the Missouri Properties (see Note 5, LEGAL PROCEEDINGS). On August 1, 1994, the Company filed its answer and counterclaim against Southern Union taking exception to certain of Southern Union's proposed adjustments to the purchase price that, in the Company's opinion, are not includable in the arbitration process and not proper adjustments to the purchase price.

In the opinion of the Company's management the resolution of these matters will not have a material impact on the Company's financial position or results of operations.

United Cities purchased the Company's natural gas distribution system in and around the City of Palmyra, Missouri, for $665,000 in cash.

During the first quarter of 1994, the Company recognized a gain of approximately $19.3 million, net of tax, on the sale of the Missouri Properties. Also during the first quarter, the Company ceased recording the results of operations, and removed the assets and liabilities from the consolidated balance sheet related to the Missouri Properties. The gain is reflected in other income and deductions on the six and twelve months ended June 30, 1994 consolidated income statements.

The Company's operating revenues and operating income for the second quarter of 1994 do not include any results related to the Missouri Properties following the sale of those properties in the first quarter of 1994. The consolidated income statements for the six and twelve months ended June 30, 1994, include revenues and operating income (unaudited) related to the Missouri Properties for a portion of these periods compared to a full six and twelve months for June 30, 1993.

The following table reflects the approximate operating revenues (unaudited) and operating income (unaudited) related to the Missouri Properties for the three, six, and twelve months ended June 30, 1994 and 1993, through the sale to Southern Union on January 31, 1994 and United Cities on February 28, 1994 (millions of dollars):

| | Operating Revenues | Percent of Total Company | Operating Income | Percent of Total Company |
|---|---|---|---|---|
| Three months ended June 30, | | | | |
| 1994 | $ 0 | - | $ 0 | - |
| 1993 | $ 58.6 | 23.4% | $ 0.2 | 0.6% |
| Six months ended June 30, | | | | |
| 1994 | $ 77.0 | 8.6% | $ 5.7 | 4.4% |
| 1993 | $200.5 | 29.0% | $ 12.2 | 15.7% |
| Twelve months ended June 30, | | | | |
| 1994 | $226.3 | 12.5% | $ 14.2 | 5.2% |
| 1993 | $328.7 | 26.6% | $ 16.9 | 11.3% |

Net utility plant (unaudited) for the Missouri Properties, at December 31, 1993, approximated $296 million. This represents approximately seven percent of the total Company net utility plant at December 31, 1993.

Separate audited financial information was not kept by the Company for the Missouri Properties. This unaudited financial information is based on assumptions and allocations of expenses of the Company as a whole.

## 3. SHORT-TERM DEBT

The Company's short-term financing requirements are satisfied through the sale of commercial paper, short-term bank loans and borrowings under unsecured lines of credit maintained with banks. At June 30, 1994, the Company had bank credit arrangements available of $145 million.

## 4. COMMITMENTS AND CONTINGENCIES

As a part of its ongoing operations and construction program, the Company had commitments under purchase orders and contracts which had an unexpended balance of approximately $86 million at December 31, 1993. Approximately $36 million was attributable to modifications to upgrade the three turbines at Jeffrey Energy Center to be completed by December 31, 1998.

Spent Nuclear Fuel Disposal. Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy (DOE) is responsible for the ultimate storage and disposal of spent nuclear fuel removed from nuclear reactors. Under a contract with the DOE for disposal of spent nuclear fuel, the Company pays a quarterly fee to DOE of one mill per kilowatthour on net nuclear generation. These fees are included as part of nuclear fuel expense.

The Company along with the other co-owners of Wolf Creek are among 14 companies that filed a lawsuit June 20, 1994, seeking an interpretation of the DOE's obligation to begin accepting spent nuclear fuel for disposal in 1998. The Federal Nuclear Waste Policy Act requires DOE ultimately to accept and dispose of nuclear utilities' spent fuel. The issue to be decided in this case is whether DOE must begin accepting spent fuel in 1998 or at a future date.

Decommissioning. In 1988 the Company estimated that it would expend approximately $725 million for its share of Wolf Creek decommissioning costs primarily during the period from 2025 through 2031. Such costs, estimated to be approximately $97 million in 1988 dollars, are currently authorized in rates. These costs were calculated using an assumed inflation rate of 5.15% over the remaining service life, in 1988, of 37 years.

Decommissioning costs, calculated in the 1988 estimate, are being charged to operating expenses. Amounts so expensed ($3.5 million in 1993 increasing annually to $5.5 million in 2024) and earnings on trust fund assets are deposited in an external trust fund which, when fully funded (assuming a return on trust assets of 7%) will be used solely for the physical decommissioning of Wolf Creek (immediate dismantlement method). Electric rates charged to customers provide for recovery of these decommissioning costs over the life of Wolf Creek.

The Company's investment in the decommissioning fund, including reinvested earnings was $15.1 and $13.2 million at June 30, 1994 and December 31, 1993, respectively. These amounts are reflected in OTHER PROPERTY AND INVESTMENTS, Decommissioning Trust, and the related liability is included in DEFERRED CREDITS AND OTHER LIABILITIES, Other, on the consolidated balance sheets.

On June 9, 1994, the KCC issued an order approving the decommissioning cost of a 1993 Wolf Creek Decommissioning Cost Study which estimates the Company's share of Wolf Creek decommissioning costs to be approximately $595 million during the period 2025 through 2033, or approximately $174 million in 1993 dollars. These costs were calculated using an assumed inflation rate of 3.45% over the remaining service life, in 1993, of 32 years.

The KCC also scheduled a hearing to review the funding level for the decommissioning trust. Management believes the current level of funding will meet the requirements of the 1993 cost study and is requesting no change to the current funding level.

The Company carries $164 million in premature decommissioning insurance. The insurance coverage has several restrictions. One of these is that it can only be used if Wolf Creek incurs an accident exceeding $500 million in expenses to safely stabilize the reactor, to decontaminate the reactor and reactor station site in accordance with a plan approved by the Nuclear Regulatory Commission (NRC), and to pay for on-site property damages. If the amount designated as decommissioning insurance is needed to implement the NRC-approved plan for stabilization and decontamination, it would not be available for decommissioning purposes.

Nuclear Insurance. The Price-Anderson Act limits the combined public liability of the owners of nuclear power plants to $9.2 billion for a single nuclear incident. The Wolf Creek owners (Owners) have purchased the maximum available private insurance of $200 million and the balance is provided by an assessment plan mandated by the NRC. Under this plan, the Owners are jointly and severally subject to a retrospective assessment of up to $79.3 million ($37.3 million, Company's share) in the event there is a nuclear incident involving any of the nation's licensed reactors. This assessment is subject to an inflation adjustment based on the Consumer Price Index. There is a limitation of $10 million ($4.7 million, Company's share) in retrospective assessments per incident per year.

The Owners carry decontamination liability, premature decommissioning liability, and property damage insurance for Wolf Creek totalling approximately $2.8 billion ($1.3 billion, Company's share). This insurance is provided by a combination of "nuclear insurance pools" ($1.3 billion) and Nuclear Electric Insurance Limited (NEIL) ($1.5 billion). In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. The remaining proceeds from the $2.8 billion insurance coverage ($1.3 billion, Company's share), if any, can be used for property damage up to $1.1 billion (Company's share) and premature decommissioning costs up to $117.5 million (Company's share) in excess of funds previously collected for decommissioning (as discussed under "Decommissioning"), with the remaining $47 million (Company's share) available for either property damage or premature decommissioning costs.

The Owners also carry additional insurance with NEIL to cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If losses incurred at any of the nuclear plants insured under the NEIL policies exceed premiums, reserves, and other NEIL resources, the Company may be subject to retrospective assessments of approximately $9 million per year.

There can be no assurance that all potential losses or liabilities will be insurable or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance, to the extent not recoverable through rates, could have a material adverse effect on the Company's financial condition and results of operations.

Clean Air Act. The Clean Air Act Amendments of 1990 (the Act) require a two-phase reduction in sulfur dioxide and oxides of nitrogen (NOx) emissions effective in 1995 and 2000 and a probable reduction in toxic emissions. To meet the monitoring and reporting requirements under the acid rain program, the Company is installing continuous monitoring and reporting equipment at a total cost of approximately $10 million. At December 31, 1993, the Company had completed approximately $4 million of these capital expenditures with the remaining $6 million of capital expenditures to be completed in 1994 and 1995. The Company does not expect additional equipment to reduce sulfur emissions to be necessary under Phase II. The Company currently has no Phase I affected units.

The NOx and toxic limits, which were not set in the law, will be specified in future EPA regulations. The EPA has issued for public comment preliminary NOx regulations for Phase I group 1 units. NOx regulations for Phase II units and Phase I group 2 units are mandated in the Act to be promulgated by January 1, 1997. Although the Company has no Phase I units, the final NOx regulations for Phase I group 1 may allow for early compliance for Phase II group 1 units. Until such time as the Phase I group 1 NOx regulations are final, the Company will be unable to determine its compliance options or related compliance costs.

Fuel Commitments. To supply a portion of the fuel requirements for its generating plants, the Company has entered into various commitments to obtain nuclear fuel, coal, and natural gas. Some of these contracts contain provisions for price escalation and minimum purchase commitments. At December 31, 1993, WCNOC's nuclear fuel commitments (Company's share) were approximately $18.0 million for uranium concentrates expiring at various times through 1997, $123.6 million for enrichment expiring at various times through 2014, and $45.5 million for fabrication through 2012. At December 31, 1993, the Company's coal and natural gas contract commitments in 1993 dollars under the remaining term of the contracts were $2.8 billion and $20.4 million, respectively. The largest coal contract was renegotiated early in 1993 and expires in 2020 with the remaining coal contracts expiring at various times through 2013. The majority of natural gas contracts continue through 1995 with automatic one-year extension provisions. In the normal course of business, additional commitments and spot market purchases will be made to obtain adequate fuel supplies.

Environmental. The Company has been associated with 20 former manufactured gas sites which may contain coal tar and other potentially harmful materials. These sites were operated decades ago by other companies, and were acquired by the Company after they had ceased operation. The Environmental Protection Agency (EPA) has performed preliminary assessments of seven of these sites (EPA sites), four of which are under site investigation. The Company has not received any indication from the EPA that further action will be taken at the EPA sites, nor does the Company have reason to believe there will be any fines or penalties related to these sites. The Company and the Kansas Department of Health and Environment entered into a consent agreement to conduct separate preliminary assessments of these sites. The preliminary assessments of these sites have been completed at a total cost of approximately $500,000. The Company has initiated site investigation and risk assessment of the highest priority site and anticipates a total cost for site investigations of approximately $500,000 to $700,000 in 1994. Until such time that risk assessments are completed at this or the remaining sites, it will be impossible to predict the cost of remediation. However, the Company is aware of other utilities in Region VII of the EPA (Kansas, Missouri, Nebraska, and Iowa) which have incurred remediation costs for such sites ranging between $500,000 and $10 million, depending on the site. The Company is also aware that the KCC has permitted another Kansas utility to recover a portion of the remediation costs through rates. To the extent that such remediation costs are not recovered through rates, the costs could be material to the Company's financial position or results of operations depending on the degree of remediation and number of years over which the remediation must be completed.

The Company has been identified as one of numerous potentially responsible parties in five hazardous waste sites listed by the EPA as Superfund sites. One site is a groundwater contamination site in Wichita, Kansas, and two are oil soil contamination sites in Missouri. The other two sites are solid waste land-fills located in Edwardsville and Hutchinson, Kansas. The Company's obligation at these sites appears to be limited, and it is the opinion of the Company's management that the resolution of these matters will not have a material impact on the financial position of the Company or results of operations.

As part of the sale of the Company's Missouri Properties to Southern Union, Southern Union assumed responsibility under an agreement for any environmental matters pending at the date of the sale or that may arise after closing. For any environmental matters pending or discovered within two years of the date of the agreement, and after pursuing several other potential recovery options, the Company may be liable for up to a maximum of $7.5 million under a sharing arrangement with Southern Union provided for in the agreement.

For more information with respect to Commitments and Contingencies, see Note 4, COMMITMENTS AND CONTINGENCIES of the Company's 1993 Annual Report on Form 10-K.

## 5. LEGAL PROCEEDINGS

On June 1, 1994, Southern Union filed an action against the Company and others in the Federal District Court for the Western District of Missouri (Southern Union Company v. Western Resources, Inc. et al., Case No 94-509-CV-W-8) alleging, among other things, breach of contract relating to certain assumed contracts, and requesting unspecified monetary damages as well as declaratory relief. On August 1, 1994, the Company filed its answer and counterclaim denying Southern Union's claims and requesting declaratory relief with respect to certain adjustments in the purchase price for the Missouri properties proposed by Southern Union and disputed by the Company. See Note 2, SALE OF MISSOURI NATURAL GAS DISTRIBUTION PROPERTIES.

For additional information with respect to Legal Proceedings see Note 15, LEGAL PROCEEDINGS of the Company's 1993 Annual Report on Form 10-K.

## 6. RATE MATTERS AND REGULATION

On June 20, 1994, Williams Natural Gas Company (WNG) filed an application with FERC to direct bill approximately $29.9 million of transition costs to the Company related to natural gas sales service in Kansas, Missouri, and Oklahoma. FERC issued an order authorizing the direct billing, subject to refund, beginning July 20, 1994. The Company believes substantially all of these costs and any future transition costs ultimately will be recovered through charges to its current Kansas and Oklahoma and former Missouri customers, and any unrecovered transition costs will not be material to the Company's financial position or results of operations. For additional information with respect to FERC Order No. 636 see Management's Discussion and Analysis, OTHER INFORMATION of the Company's 1993 Annual Report on Form 10-K.

Gas Transportation Charges. On September 12, 1991, the KCC authorized the Company to begin recovering, through the Purchase Gas Adjustment (PGA), deferred supplier gas transportation costs of $9.9 million incurred through December 31, 1990, based on a three-year amortization schedule. On December 30, 1991, the KCC authorized the Company to recover deferred transportation costs of approximately $2.8 million incurred subsequent to December 31, 1990 through the PGA over a 32-month period. At June 30, 1994, approximately $2.6 million of these deferrals remain in other deferred charges on the consolidated balance sheet.

KCC Rate Proceedings. On January 24, 1992, the KCC issued an order allowing the Company to continue the deferral of service line replacement program costs incurred since January 1, 1992, including depreciation, property taxes, and carrying costs for recovery in the next general rate case. At June 30, 1994, approximately $4.6 million of these deferrals have been included in other deferred charges on the consolidated balance sheet.

On December 30, 1991, the KCC approved a permanent natural gas rate increase of $39 million annually and the Company discontinued the deferral of accelerated line survey costs on January 1, 1992. Approximately $5.7 million of deferred costs remain in other deferred charges on the consolidated balance sheet at June, 30, 1994, with the balance being included in rates and amortized to expense during a 43-month period, commencing January 1, 1992.

For additional information with respect to Rate Matters and Regulation see Note 5, RATE MATTERS AND REGULATION of the Company's 1993 Annual Report on Form 10-K.

## 7. INCOME TAXES

Total income tax expense included in the Consolidated Statements of Income reflects the Federal statutory rate of 35% since January 1, 1993 and 34% for all prior periods. The Federal statutory rate produces effective income tax rates of 33.4% and 32.4% for the three month periods, 34.9% and 32.0% for the six month periods, and 32.5% and 30.1% for the twelve month periods ended June 30, 1994 and 1993, respectively. The effective income tax rates vary from the Federal statutory rate due to permanent differences, including the amortization of investment tax credits, and accelerated amortization of certain deferred income taxes.

For additional information with respect to Income Taxes see Note 12, INCOME TAXES of the Notes to Consolidated Financial Statements in the Company's 1993 Annual Report on Form 10-K.

## 8. EMPLOYEE BENEFIT PLANS

The Company adopted Statement of Financial Accounting Standards No. 112 (SFAS 112) in the first quarter of 1994, which established accounting and reporting standards for postemployment benefits. The statement requires the Company to recognize the liability to provide postemployment benefits when the liability has been incurred. To mitigate the impact adopting SFAS 112 will have on rate increases, the Company received an order from the KCC permitting the initial deferral of SFAS 112 transition costs and expenses and its inclusion in the future computation of cost of service net of an income stream generated from corporate-owned life insurance (COLI). At June 30, 1994, the Company's SFAS 112 liability recorded on the consolidated balance sheet was approximately $8.7 million.

At December 31, 1993, the Company's total Statement of Financial Accounting Standards No. 106 (SFAS 106) obligation was approximately $166.5 million and the SFAS 106 expense was approximately $26.5 million for 1993. With the sale of the Missouri Properties, the Company's SFAS 106 obligation at December 31, 1993 would have been lower by approximately $40.1 million and the 1993 expense would have been $5.3 million lower. To mitigate the impact SFAS 106 expense will have on rate increases, the Company will include in the future computation of cost of service the actual SFAS 106 expense and an income stream generated from COLI. The extent SFAS 106 expense exceeds income from the COLI program, this excess is being deferred to be offset by income generated through the deferral period by the COLI program.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with MANAGEMENT'S DISCUSSION AND ANALYSIS of the Company's 1993 Annual Report on Form 10-K.

The following updates the information provided in the 1993 Annual Report on Form 10-K and analyzes the changes in the results of operations between the three, six, and twelve month periods ended June 30, 1994 and comparable periods of 1993.

As a result of the sale of the Missouri Properties, as described in Note 2, SALE OF MISSOURI NATURAL GAS DISTRIBUTION PROPERTIES, of the Notes to Consolidated Financial Statements (Note 2), the Company recognized a gain of approximately $19.3 million, net of tax, and ceased recording the results of operations for the Missouri Properties during the first quarter of 1994. Consequently, the Company's results of operations for the three, six, and twelve months ended June 30, 1994 are not fully comparable to the results of operations for the same periods ending June 30, 1993.

For additional information regarding the sale of the Missouri Properties and the pending litigation see Note 2 and Note 5, LEGAL PROCEEDINGS, of the Notes to Consolidated Financial Statements.

## FINANCIAL CONDITION

General. Net income for the second quarter of 1994 was $30 million, down slightly from net income of $31 million for the same period of 1993. The Company earned $0.44 per share of common stock for the second quarter of 1994, a decrease of $0.03 per share from the second quarter of 1993. There were 61,617,873 and 58,045,550 shares outstanding for the second quarter of 1994 compared to 1993, respectively.

The decrease in earnings is primarily a result of higher income taxes caused by the completion of the KG&E accelerated amortization of certain deferred income tax reserves. As of December 31, 1993, KG&E had fully amortized these deferred income tax reserves related to the allowance for borrowed funds used during construction capitalized for Wolf Creek. The absence of the amortization of these deferred income tax reserves reduces net income by approximately $3 million per quarter or approximately $12 million per year.

Partially offsetting the decrease in net income for the quarter were increased electric sales as a result of increased cooling load caused by warmer weather in the second quarter of 1994 compared to 1993 as well as reduced interest expense.

Operating revenues were $341 million and $400 million for the quarters ended June 30, 1994 and 1993, respectively. The decrease in revenues is primarily a result of the sale of the Missouri Properties (see Note 2).

Net income for the six and twelve months ended June 30, 1994, was $96 million and $188 million, respectively, compared to $86 million and $167 million for the comparable periods of 1993. The increase for both periods is primarily the result of increased electric sales and the gain on the sale of the Missouri Properties. Partially offsetting these increases was the completion of the amortization of certain deferred income tax reserves discussed previously.

Operating revenues were $880 million for the six months ended June 30, 1994 compared to $980 million for the same period of 1993. The decrease in revenues is primarily a result of the sale of the Missouri Properties. For the twelve months ended June 30, 1994, operating revenues of $1.8 billion were down less than one percent from the same period of 1993.

The quarterly dividend rate is $0.495 per share, for an indicated annual rate of $1.98 per share. The book value per share was $23.54 at June 30, 1994, up from $23.08 at December 31, 1993.

Liquidity and Capital Resources. The Company's short-term debt balance at June 30, 1994, decreased approximately $223 million from December 31, 1993, primarily as a result of the receipt of the proceeds from the sale of the Missouri Properties and KG&E's issuance, on January 20, 1994, of $100 million of first mortgage bonds.

On April 28, 1994, two series of Market-Adjusted Tax Exempt Securities (MATES) totalling $75.5 million were sold on behalf of the Company at a rate of 2.95% for the initial auction period. The interest rate is being reset periodically via an auction process. As of June 30, 1994, the rate on these bonds was 2.98% for $45 million and 2.9% for the remaining $30.5 million. The net proceeds from the new issues, together with available cash, were used to refund two series of pollution control bonds totalling $75.5 million bearing interest rates of 5.9% and 6.75%.

On April 28, 1994, three series of MATES totalling $46.4 million were sold on behalf of KG&E at a rate of 2.95% for the initial auction period. The interest rate is being reset periodically via an auction process. As of June 30, 1994, the rate on these bonds was 2.86% for each series. The net proceeds from the new issues, together with available cash, were used to refund three series of pollution control bonds totalling $46.4 million bearing interest rates between 5 7/8% and 6.8%.

In 1986 the KG&E purchased corporate-owned life insurance policies (COLI) on certain of its employees. For the six months ended June 30, 1994, KG&E increased its borrowings against the accumulated cash surrender values of the policies by $39.2 million and received $1.6 million from increased borrowings on Wolf Creek Nuclear Operating Company policies.

## OPERATING RESULTS

Revenues. The Company's revenues vary with levels of usage as a result of changing weather conditions during comparable periods and are sensitive to seasonal fluctuations between consecutive periods. Future electric and natural gas sales will continue to be affected by weather conditions, competing fuel sources, wholesale demand, and the overall economy of the Company's service area.

The following table reflects changes in electric sales for the three, six, and twelve months ended June 30, 1994 from the comparable periods of 1993.

Changes in electric sales volumes:

| | 3 Months ended | 6 Months ended | 12 Months ended |
|---|---|---|---|
| Residential | 15.0% | 3.1% | 6.1% |
| Commercial | 5.1% | 5.9% | 4.3% |
| Industrial | 3.9% | 0.7% | - |
| Total retail sales | 7.5% | 3.1% | 3.3% |
| | | | |
| Wholesale and interchange | 4.4% | 19.5% | 31.3% |
| Total electric sales | 6.9% | 6.3% | 8.8% |

Electric revenues increased four and two percent for the three and six months ended June 30, 1994 compared to the same periods of 1993. These increases are primarily attributable to increased sales for air conditioning load as a result of above normal temperatures in the second quarter of 1994 compared to below normal temperatures in the second quarter of 1993. Interchange and wholesale revenues increased as a result of additional interchange customers. In February 1994, the Company was able to add new interchange customers when it joined the Western Systems Power Pool which opened additional markets for interchange power.

Electric revenues for the twelve months ended June 30, 1994, increased six percent as a result of increased sales for air conditioning load in the third quarter of 1993 and the second quarter of 1994 caused by warmer temperatures in both quarters compared to the prior year.

Also contributing to the increase in revenues for the twelve months ended is an increase in wholesale revenues as a result of other utilities' need for power to meet peak demand periods while those utilities' units were out of service due to the 1993 summer flooding and the addition of the new interchange customers.

The following table reflects changes in natural gas sales for the three, six, and twelve months ended June 30, 1994 from the comparable periods of 1993.

Changes in natural gas sales volumes (decrease):

| | 3 Months ended | 6 Months ended | 12 Months ended |
|---|---|---|---|
| Residential | (56.5)% | (34.2)% | (20.8)% |
| Commercial | (58.1)% | (38.0)% | (23.8)% |
| Industrial | (72.8)% | (65.3)% | (63.0)% |
| Transportation | (31.3)% | (26.9)% | (10.2)% |
| Total deliveries | (47.3)% | (33.3)% | (18.6)% |

Natural gas revenues and sales decreased significantly for the three, six, and twelve months ended June 30, 1994 compared to the same periods of 1993 as a result of the sale of the Missouri Properties in the first quarter of 1994 (see Note 2).

Also contributing to the decreases were lower natural gas sales for space heating as a result of the milder temperatures during the 1994 heating season. Partially offsetting these decreases was a higher unit gas cost being recovered from customers through Purchased Gas Adjustment clauses (PGA).

Operating Expenses. Total operating expenses decreased 16 percent and ten percent for the quarter and six months ended June 30, 1994 compared to the same periods of 1993. This decrease is primarily the result of the sale of the Missouri Properties (see Note 2).

Partially offsetting these decreases were higher nuclear fuel costs, increased income tax expense, and a higher unit cost of gas which is passed on to customers through the PGA. Nuclear fuel costs were higher for the quarter and six months ended June 30, 1994, compared to 1993 as a result of the full availability of Wolf Creek during these periods. Beginning March 5, 1993, Wolf Creek was taken off-line for approximately 73 days for scheduled refueling and maintenance.

As of December 31, 1993, KG&E had fully amortized its deferred income tax reserves related to the allowance for borrowed funds used during construction capitalized for Wolf Creek. The completion of the amortization of these deferred income tax reserves increased income taxes and thereby reduced net income by approximately $3 million and $6 million for the quarter and six months ended June 30, 1994, respectively.

Also offsetting the decrease for the quarter ended June 30, 1994, were increased purchased power expense and maintenance expense. Purchased power expense increased as a result of higher sales and certain generating units being down for maintenance. Maintenance expense was higher due to increased maintenance performed at power plants.

Total operating expenses increased less than one percent for the twelve months ended June 30, 1994. Contributing to this increase were higher fuel costs, increased income tax expense and a higher unit cost of natural gas which is passed on to customers through the PGA.

Fuel costs were higher for the twelve months ended June 30, 1994 compared to 1993 as a result of increased electric generation to meet increased sales and the full availability of Wolf Creek during this period. Income tax expense increased as a result of higher net income and the completion of the accelerated amortization of income tax reserves discussed previously.

Partially offsetting these increases for the twelve months ended were lower natural gas purchases as a result of the sale of the Missouri Properties (see Note 2) and lower natural gas sales for space heating as a result of the milder temperatures during the 1994 heating season.

Other Income and Deductions. Other income and deductions, net of taxes, was significantly lower for the quarter ended June 30, 1994 compared to 1993 as a result of increased interest expense on COLI borrowings.

Other income and deductions, net of taxes, was higher for the six and twelve months ended June 30, 1994 compared to 1993 due to the recognizing of the gain on the sale of the Missouri Properties of approximately $19.3 million, net of tax, (see Note 2). Partially offsetting these increases was increased interest expense on COLI borrowings.

Interest Charges and Preferred and Preference Dividend Requirements. Total interest charges decreased for the three, six, and twelve months ended June 30, 1994 from the comparable periods in 1993, as a result of lower debt balances and the refinancing of higher cost debt, as well as increased COLI borrowings which interest is reflected in Other Income and Deductions on the consolidated income statement.

Item 5. Other Information

On June 28, 1994, the Company announced a preliminary agreement with Enron Gas Services Group (EGS) of Houston, Texas, to form an entity to develop a natural gas market center for the mid-continent region of the U.S. The market center will use the Company's existing intrastate pipeline facilities to move natural gas between interstate pipelines to create a natural gas marketplace with multiple supply sources and market outlets.

It is anticipated that the Company will be responsible for field operations and gas control functions, while EGS will be responsible for commercial operation. The companies also plan to enhance market center service by offering various storage service from the Company's storage facilities. The project will mean the addition of some facilities to the natural gas transmission system. The center will not have separate staffing and each company will perform its responsibilities within its current corporate structure. The project investment will be shared by EGS and the Company with costs being recovered through fees received from users. Retail customers of the Company will not be charged any of these costs.

The Company and EGS are currently negotiating a definitive agreement. The transaction is subject to various regulatory approvals.

For additional information see Item 1. BUSINESS, Natural Gas Operations, included in the Company's 1993 Annual Report on Form 10-K.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

| | |
|---|---|
| Exhibit 3 - | Amendments to the Restated Articles of Incorporation of the Company (filed electronically) |
| Exhibit 10 - | A Rail Transportation Agreement among Burlington Northern Railroad Company, The Union Pacific Railroad Company and the Company (filed electronically) |
| Exhibit 99 - | Kansas Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (filed electronically) |

(b) Reports on Form 8-K:

None

SIGNATURES

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.

Western Resources, Inc.

| | | | |
|---|---|---|---|
| Date | August 11, 1994 | By | S. L. Kitchen<br>S. L. Kitchen, Executive Vice President and Chief Financial Officer |
| Date | August 11, 1994 | By | Jerry D. Courington<br>Jerry D. Courington, Controller |

# CERTIFICATE OF AMENDMENT TO RESTATED ARTICLES OF INCORPORATION, AS AMENDED, OF WESTERN RESOURCES, INC.

We, John E. Hayes, Jr., Chairman of the Board, President, and Chief Executive Officer and Richard D. Terrill, Secretary of the above named corporation, a corporation organized and existing under the laws of the State of Kansas, do hereby certify that at a meeting of the Board of Directors of said corporation, the board adopted resolutions setting forth the following amendments to the Restated Articles of Incorporation and declaring their advisability:

That the Restated Articles of Incorporation of the Company be amended as follows:

(i) Reference to the Company as "Surviving Corporation" or "Company" shall be amended to refer to the "Corporation".

(ii) Reference to "Shareholder" shall be amended to refer to "Stockholder".

(iii) Articles I, IV, XIII, XIV, XV, and XVI relating to the merger of the Kansas Electric Power Company with the Company shall be deleted in their entirety.

(iv) The remaining Articles shall be renumbered to reflect the deletions in (iii) above.

Article V shall be amended in its entirety to read as follows:

The Corporation is organized for profit, and the purpose for which said corporation is formed is to engage in any lawful act or activity for which corporations may be organized under the Kansas General Corporation Code or any other laws of the State of Kansas, including, but not limited to, the business of an electric and gas utility.

Article X shall be amended to read in its entirety as follows:

The Board of Directors may make and from time-to-time may alter, amend, or repeal any By-law, subject to the power of the stockholders to amend, alter, or repeal the same.

Article XI shall be amended by deleting the words "at any annual or special meeting" to read as follows:

(a) The number of directors shall not be less than seven nor more than fifteen and the precise number shall be determined from time-to-time by the Board of Directors within such minimum and maximum number, provided, that unless approved by a majority of the stockholders entitled to vote, the number of directors shall not be reduced to terminate the office of a director during the term for which he was elected.

Article XII shall be amended to read in its entirety as follows:

Meetings of stockholders may be held within or without the State of Kansas. The books of the Corporation may be kept within or (subject to the applicable provisions of the laws of the State of Kansas) outside of the State of Kansas at such place or places as may be from time-to-time designated by the Board.

Subject to the rights of holders of Preferred Stock in accordance with Section A of Article IV, only persons who are nominated in accordance with the procedures set forth in this paragraph shall be eligible to be nominated as directors at any meeting of the stockholders of the Corporation. At any meeting of the stockholders of the Corporation, nominations of persons for election to the Board of Directors may be made (1) by or at the direction of the Board of Directors or (2) by any stockholder of the Corporation who is a holder of record at the time of giving the notice provided for in this paragraph, who shall be entitled to vote at the meeting, and who complies with the notice procedures set forth in this paragraph. For a nomination to be properly brought before a stockholders' meeting by a stockholder, timely written notice shall be made to the Secretary of the Corporation. The stockholder's notice shall be delivered to, or mailed and received at, the principal office of the Corporation no less than 35 days nor more than 50 days prior to the meeting; provided, however, in the event that less than 45 days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be received not later than the close of business on the tenth day following the day on which the notice of the date of the meeting was mailed or the public disclosure was made; provided further however, notice by the stockholder to be timely must be received in any event not later than the close of business on the seventh day preceding the day on which the meeting is to be held. The stockholder's notice shall set forth (1) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required by applicable law (including the person's written consent to being named as a nominee and to serving as a director if elected), and (2) (a) the name and address, as they appear on the Corporation's books, of the stockholder, (b) a representation that the stockholder is a holder of record of the stock entitled to vote at the meeting on the date of the notice and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, and (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder. The stockholder shall also comply with all applicable requirements of the Securities and Exchange Act of 1934, as amended (the "1934 Act") and the rules and regulations thereunder with respect to the matters set forth in this paragraph. If the chairman of the meeting shall determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by this paragraph, the nomination shall not be accepted.

At any meeting of the stockholders of the Corporation, only such business shall be conducted as shall have been brought before the meeting (1) by or at the direction of the Board of Directors or (2) by any stockholder of the Corporation who is a holder of record at the time of giving the notice provided for in this paragraph, who shall be entitled to vote at the meeting, and who complies with the notice procedures set forth in this paragraph. For business to be properly brought before a stockholders' meeting by a stockholder, timely written notice shall be made to the Secretary of the Corporation. The stockholder's notice shall be delivered to, or mailed and received at, the principal office of the Corporation not less than 35 days nor more than 50 days prior to the meeting; provided, however, in the event that less than 45 days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholders to be timely must be received not later than the close of business on the tenth day following the day on which the notice of the date of the meeting was mailed or the public disclosure was made; provided further however, notice by the stockholder to be timely must be received in any event not later than the close of business on the seventh day preceding the day on which the meeting is to be held. The stockholder's notice shall set forth (1) a brief description of the business desired to be brought before the meeting and the reasons for considering the business, and (2) (a) the name and address, as they appear on the Corporation's books, of the stockholder, (b) a representation that the stockholder is a holder of record of the stock entitled to vote at the meeting on the date of the notice and intends to appear in person or by proxy at the meeting to present the business specified in the notice, and (c) any material interest of the stockholder in the proposed business. The stockholder shall also comply with all applicable requirements of the 1934 Act and the rules and regulations thereunder with respect to the matters set forth in this paragraph. If the chairman of the meeting shall determine and declare at the meeting that the proposed business was not brought before the meeting in accordance with the procedures by this paragraph, the business shall not be considered.

The notice procedures set forth in this Article XII do not change or limit any procedures the Corporation may require in accordance with applicable law with respect to the inclusion of matters in the Corporation's proxy statement.

We further certify that thereafter, pursuant to said resolution, and in accordance with the by-laws of the corporation and the laws of the State of Kansas, the Board of Directors held a meeting of shareholders for consideration of the proposed amendments, and thereafter, pursuant to notice and in accordance with the statutes of the State of Kansas, the shareholders convened and considered the proposed amendments.

We further certify that at the meeting a majority of the shares of common stock entitled to vote and a majority of common and preferred shares together entitled to vote, voted in favor of the proposed amendments.

We further certify that the amendments were duly adopted in accordance with the provisions of K.S.A. 17-6602, as amended.

We further certify that the capital of said corporation will not be reduced under or by reason of said amendments.

IN WITNESS WHEREOF, we have hereunto set our hands and affixed the seal of said corporation the 26th day of May, 1994.

John E. Hayes, Jr.
Chairman of the Board,
President, and Chief Executive Officer

Richard D. Terrill
Secretary

State of Kansas )
) ss.
County of Shawnee )

Be it remembered that before me, a Notary Public in and for the aforesaid county and state, personally appeared John E. Hayes, Jr., Chairman of the Board, President, and Chief Executive Officer, and Richard D. Terrill, Secretary of the corporation named in this document, who are known to me to be the same persons who executed the foregoing certificate and duly acknowledge that execution of the same this 26th day of May, 1994.

Notary Public

EXHIBIT 10

# A RAIL TRANSPORTATION AGREEMENT

AMONG

BURLINGTON NORTHERN RAILROAD COMPANY,

THE UNION PACIFIC RAILROAD COMPANY

AND

WESTERN RESOURCES, INC.

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# RAIL TRANSPORTATION AGREEMENT
ICC-BN-C-2801

This Agreement, made as of this 27th day of January, 1993, by and among the Union Pacific Railroad Company (UP), a Utah Corporation, Burlington Northern Railroad Company (BN), a Delaware Corporation (hereinafter collectively referred to as Railroads), and Western Resources, Inc. (Shipper), a Kansas Corporation, on behalf of itself and the owners of the Jeffrey Energy Center.

WHEREAS, Shipper has entered into a supply contract for Powder River Basin Coal for its Jeffrey Energy Center (JEC), located near St. Marys, Kansas, and may enter into one or more other such contracts in the future for a supply of coal to JEC, and desires to provide for transportation of such Coal to JEC; and

WHEREAS, Railroads are common carriers subject to the Interstate Commerce Act, 49 U.S.C. Paragraph 10101, et seq., and Railroads and Shipper desire to enter into a contractual arrangement pursuant to 49 U.S.C. Paragraph 10713 whereby Shipper will cause to be loaded and Railroads will transport Coal originating at mines located in the Powder River Basin of Wyoming and destined to JEC; and

WHEREAS, the parties also desire to provide for transportation, equipment, service and volume commitments, rates, adjustments to rates and charges, payment procedures, and other matters hereinafter specified; and

WHEREAS, the parties further desire that the contractual arrangement promote maximum equipment utilization and efficiency;

THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, Railroads and Shipper agree as follows:

Article I. GENERAL DEFINITIONS.

For purposes of this Agreement:

A. AAR Rules shall mean the rules set out in the Field Manual and Office Manual of the Interchange Rules adopted by the Association of American Railroads (AAR), as amended from time to time.

B. Coal shall mean that mineral substance which is classified as subbituminous coal by the American Society for Testing and Materials and whose Standard Transportation Commodity Code (STCC) begins with the three digits 11-2 as set forth in STCC Tariff 6001-V. This substance may be processed or treated but not dried.

C. Destination shall mean JEC near St. Marys, Pottawatamie County, Kansas.

D. ICC shall mean the Interstate Commerce Commission or its successor agency or body having the same or similar jurisdiction over common carriers by rail in interstate commerce.

E. Loading Facility shall mean the equipment and support facilities used to load Trains with Coal at Origin including, but not limited to: rail trackage; raw coal hopper; crusher, processing and/or preparation plants; all coal storage facilities; and conveyor systems from raw coal hopper through all intermediate phases to the railcar loading chutes.

F. Origins shall mean the Eagle Butte and Belle Ayr mines of AMAX Coal West, Inc.; provided, if Shipper's Mine Operator provides Shipper with Coal from some other mine located in Campbell and Converse Counties, Wyoming, then Railroads shall transport said Coal subject to the same rates, charges and other provisions of this Agreement.

G. Shipper's Mine Operator shall mean Amax Coal West, Inc. or its successor as operator of the mines identified in Article I.F. or any other operator of a mine located in Campbell and Converse Counties, Wyoming.

H. Shipper Supplied Railcar shall mean a railcar furnished by Shipper and placed in service under this Agreement.

I. Ton shall mean a ton of 2,000 pounds avoirdupois.

J. Train shall mean not less than 115 railcars, locomotives and a caboose or other end of train device, as described in Article VI.A., and assembled as an operating unit.

K. Unloading Facility shall mean the equipment necessary to remove Coal from railcars and transfer such Coal to stockpiles and/or bunkers at Destination.

Article II.  EFFECTIVE DATE AND TERM OF AGREEMENT.

1. This Agreement shall become effective upon filing of a contract summary with the ICC; provided, until the ICC approves this Agreement performance hereunder shall be subject to the conditions of 49 C.F.R. Paragraph 1313.3(a).  The term shall commence on the Effective Date and shall terminate at 11:59 p.m., Mountain Standard Time, December 31, 2013.  Within five (5) days of receipt by BN of a fully executed copy of this Agreement, BN shall file the requisite contract summary with the ICC pursuant to 49 U.S.C. Paragraph 10713 and regulations promulgated thereunder.

2. The parties hereto acknowledge that the rates, terms, and conditions set forth herein were mutually agreed upon on January 27, 1993.  As part of their agreement, the parties agreed to apply the provisions of this Agreement, under authority of 49 C.F.R. Paragraph 1313.3(c), to all transportation service provided by Railroads on or after such date and prior to this Agreement's approval by the ICC.  It was further agreed that upon approval of this Agreement by the ICC all shipments moving from Origins to Destination shall be treated as having moved pursuant to this Agreement, but only if such shipments complied with the terms and provisions of this Agreement in all respects.

## Article III. TRANSPORTATION PROVIDED UNDER THIS AGREEMENT.

A. Transportation Services.

Railroads shall transport all Coal loaded in railcars and tendered by Shipper at Origins and shall deliver loaded railcars to Destination as set forth in this Agreement.

B. Routing.

Except as otherwise provided in this Agreement, loaded Trains under this Agreement shall be transported via BN-Northport, Nebraska-UP from Origins to Destination and empty railcars will be transported via the reverse route (Planned Route of Movement); provided, Railroads may, at their option, use alternate routes for their operating convenience, subject to the same rates, charges and other provisions of this Agreement. BN's Planned Route of Movement from Origins to Northport, Nebraska, is via Edgemont, South Dakota. If Railroads change the Planned Route of Movement from that designated in this Section, they must first obtain written approval from Shipper, which approval will not be unreasonably withheld. If Shipper's designated railcar repair and/or maintenance facility would be left off the Planned Route of Movement on account of a change in the Planned Route of Movement utilized by Railroads, then Railroads may use such alternate route only if Shipper's Trains are transported to and from such railcar repair and/or maintenance facility at no charge to Shipper.

C. Transportation of Empty Railcars.

As part of the transportation provided under this Agreement, Railroads shall, at no additional charge to Shipper, transport empty railcars to Origins from Destination as described in Section B., above.

Article IV. EQUIPMENT OBLIGATIONS.

A. Railcar Supply.

1. Shipper shall furnish sufficient railcars, including spares, to assemble Trains of 115 railcars for shipments under this Agreement at no charge to Railroads, except as otherwise provided in this Agreement.

2. BN shall store spare Shipper Supplied Railcars at locations that it deems appropriate in order that such railcars will be available for substitution in a Train; provided, BN shall not be obligated to store more than 12 spare Shipper Supplied Railcars for each Train placed in service by Shipper. Shipper shall not be assessed storage charges for such spare railcars.

B. Railcar Specifications.

All railcars used in service under this Agreement shall be open-top rotary coupler equipped railcars and shall have a total allowable maximum gross weight on rail of not less than 263,000 pounds each. Except as may be otherwise mutually agreed upon by the parties, all railcars shall in all respects be suitable and ready for loading when Actual Placement is made at Origins and shall be compatible with the Loading Facility and the Unloading Facility. Such railcars shall also meet or exceed the AAR Rules, as amended from time to time, and shall have been inspected and approved in accordance with Federal Railroad Administration (FRA) regulations or those of a successor agency, as amended from time to time.

C. Railcar Repairs and Maintenance.

1. Except as otherwise provided under this Agreement, Shipper shall be responsible for paying for and/or performing all repairs and maintenance to keep Shipper Supplied Railcars in compliance with AAR Rules and FRA regulations. Railroads may perform enroute repairs to Shipper Supplied Railcars under the AAR Rules and Shipper shall pay the standard charges pursuant to the AAR Rules.

2. Except as otherwise provided under this Agreement, Railroads shall be responsible for performing and paying for all repairs and maintenance (including enroute repairs and maintenance under the AAR Rules) to keep any railcars provided by the Railroads in compliance with AAR Rules and FRA regulations.

D. Shipper Supplied Railcars Damaged or Destroyed.

1. Damage.

If a Shipper Supplied Railcar is damaged under circumstances in which the AAR Rules make Railroads responsible for the damage and Railroads become aware of such damage, Railroads shall:

(a) Provide Shipper prompt written notice of such damage giving railcar initial and number, the current location of the railcar, the date and place the damage occurred, a description of the damage, and the Railroads' current belief concerning the cause of the damage; and

(b) Perform repairs to Shipper Supplied Railcars at a railroad repair facility at no charge to Shipper, exercising due diligence to complete such repairs within 180 days after the date the damage is discovered, and paying for any transportation costs to and from such facility; or

(c) Perform repairs, at no charge to Shipper, at a non railroad repair facility designated by Railroads and acceptable to Shipper, exercising due diligence to complete such repairs within 180 days after the date damage is discovered and paying for any transportation costs to and from such facility.

2. Destruction.

If a Shipper Supplied Railcar is damaged to the extent that the cost of repair would exceed the railcar's AAR settlement value, as determined by Rule 107(B) of the AAR Rules, as amended from time to time (AAR Settlement Value), or is otherwise destroyed under circumstances in which the AAR Rules make Railroads responsible for damage or destruction, Railroads shall pay Shipper the AAR Settlement Value for the railcar so damaged or destroyed.  At Shipper's option, Shipper may repair the railcar without regard to cost, in which event Railroads' liability for such railcar shall not exceed its AAR Settlement Value.

3. Replacement of Damaged or Destroyed Shipper Supplied Railcars by Railroads.

If Railroads damage a Shipper Supplied Railcar under circumstances in which the AAR Rules make Railroads responsible for such damage, Railroads, upon being made aware of such damage, shall provide equivalent or greater substitute railcar capacity in tons at no charge to Shipper until the earlier of (1) 180 days from the date Railroads become aware of such damage or (2) the date that repairs are completed and the Shipper Supplied Railcar is returned to service. If Railroads provide substitute railcars as provided in this Section which are not the same size and capacity as Shipper Supplied Railcars, then Railroads will use their best efforts to assemble Trains in such a manner as to prevent the inter-mingling of substitute railcars with Shipper Supplied Railcars.

In the case of a destroyed Shipper Supplied Railcar for which Railroads are responsible under the AAR Rules, Railroads shall provide equivalent or greater substitute railcar capacity in tons at no charge to Shipper until the earlier of (i) 365 days following the date Railroads become aware of such destruction or (ii) the date Shipper actually replaces such destroyed railcars. Once Railroads pay for destruction of one of Shipper's railcars, Railroads shall have no further obligation to provide an equivalent capacity substitute for that railcar.

If, at the end of ten (10) business days after the date Railroads become aware of the damage or destruction of a Shipper Supplied Railcar, Railroads do not supply equivalent railroad railcar capacity in tons, Railroads shall pay to Shipper, an amount equal to $25.00 per day, commencing with the 11th day after the date Railroads become aware of the damage or destruction, for each damaged or destroyed railcar that a substitute is not supplied, until the railcar is repaired or replaced or Railroads provide a substitute railcar, whichever is sooner.

4. Settlement.

If the damage or destruction of railcars covered by this Agreement occurs in such a manner that both Shipper and Railroads are responsible for such damage or destruction, Shipper and Railroads shall each pay the proportion of the damage or destruction equal to their responsibility for such damage or destruction.

5. Use of Shipper Supplied Railcars.

Upon Shipper's agreement, Railroads may use Shipper Supplied Railcars, if available, instead of providing Railroads' railcars by paying Shipper $25.00 per railcar per day or fraction thereof. For all other purposes of this Agreement said railcars shall remain Shipper Supplied Railcars.

E. Substitute Railcars Damaged Or Destroyed.

1. Damage.

If a substitute railcar provided by Railroads is damaged under circumstances in which the AAR Rules make Shipper responsible for the damage and upon becoming aware of such damage, Shipper shall:

(a) provide Railroads prompt written notice of such damage giving railcar initial and number, the current location of the railcar, the date and the place the damage occurred, a description of the damage and Shipper's current belief as to the cause of the damage, and

(b) perform repairs to such railcars at a non-railroad repair facility at no charge to Railroads or pay Railroads for the cost of repairs performed at a railroad repair facility designated by Railroads, exercising due diligence to complete such repairs within 180 days after the date the damage is discovered, paying for any transportation costs to and from such facility, and providing a substitute Shipper Supplied Railcar at no charge to Railroads until the repairs are completed.

2. Destruction.

If a substitute railcar provided by Railroads is damaged to the extent that the cost of transportation and repair would exceed the railcar's AAR Settlement Value, or is otherwise destroyed under circumstances in which the AAR Rules make Shipper responsible for such damage or destruction:

(a) Shipper shall pay Railroads the AAR Settlement Value for the railcar so damaged or destroyed or, at Railroads' option, Railroads may repair the railcar without regard to cost, in which event Shipper's liability for such railcar shall not exceed its AAR Settlement Value; and

(b) Shipper shall provide a substitute Shipper Railcar at no charge to Railroads for 30 days or until Shipper pays to Railroads the AAR Settlement Value, whichever is sooner.

F. Shipper Supplied Railcars Damaged or Destroyed Due to Mechanical Defect.

Railroads shall have no obligation to repair or replace a Shipper Supplied Railcar where its damage or destruction is due to a defect in the materials, workmanship, or design of the railcar. If a dispute arises concerning the issue of whether any damage or destruction of a railcar was the result of a defect in material, workmanship or design, said dispute shall be resolved in accordance with the applicable law under the procedures prescribed by Article XXX of this Agreement; provided, Railroads will not be obligated to provide substitute or replacement railcars until it is determined that the cause of such damage or destruction was attributable to the Railroads and not due to defects in material, workmanship or design. If it is determined that the damage or destruction was attributable to the Railroads, Railroads shall pay Shipper the rate specified in Article IV, Section D.5. of this Agreement for each day that Shipper was required to provide substitute railcars during the pendency of the dispute. If Railroads have supplied substitute railcars and it is determined that the damage or destruction was attributable to defects in material, workmanship or design of the Shipper Supplied Railcars, then Shipper shall pay Railroads the rate specified in Article IV, Section D.5. of this Agreement for each day that Railroads were required to provide substitute railcars during the pendency of the dispute.

G. Locomotives and Cabooses.

Railroads shall provide any necessary locomotives, cabooses and/or end-of-train devices, related transportation facilities, equipment and personnel needed, in Railroads' sole discretion, for Railroads' provision of transportation under this Agreement. Railroads shall perform all repairs and maintenance on such locomotives, cabooses and/or end-of-train devices, Railroads' related transportation facilities, and equipment at no charge to Shipper. In the event Railroads' locomotive or other equipment is damaged or destroyed while on a mine track at an Origin or Shipper's track at Destination, Shipper or the Mine Operator will give Railroads verbal notification as soon as practicable after the damage or destruction occurs. This notification shall include the initial and number for each damaged or destroyed locomotive power unit, end of train device, or other equipment, and the nature or cause of the damage or destruction.

Shipper shall reimburse Railroads for the cost of reasonable repairs, transportation, and/or replacement of locomotives and/or end-of-train devices to the extent such charges are attributable to the damage or destruction for which Shipper is liable under applicable law.

Article V. SHIPPER'S VOLUME COMMITMENTS.

A. Minimum Annual Volume.

1. During each calendar year of this Agreement, Shipper shall load for transportation and Railroads shall transport, pursuant to this Agreement, the greater of 6,000,000 Tons or 100% of all tons of Coal shipped from Origins for delivery to JEC (Minimum Annual Volume). Tonnage tendered by Shipper between January 1 and January 27, 1993, pursuant to tariff BN 4181-A shall be credited to Shipper's 1993 Minimum Annual Volume.

Shipper agrees to pay Railroads for movement of the Minimum Annual Volume at the Contract Rates set out in Article X unless such payment is excused by an event of Force Majeure or reduced under Paragraph A.3 of this Article.

2. Within 30 days after the end of each calendar year, Shipper shall send a written statement to Railroads certifying for such calendar year the aggregate number of Tons of Coal tendered for transportation under this Agreement for use at JEC, the total number of tons of Coal shipped from Origins for use at JEC and whether Shipper has met the Minimum Annual Volume.

3. In the event Shipper fails to ship the Minimum Annual Volume in any year and such failure is not due to an event of Force Majeure or Railroads' failure to meet their obligations under this Agreement, Shipper shall pay Railroads an amount equal to the difference between the Minimum Annual Volume and the tons actually shipped times 37.5% of the 115 tons per railcar rate in effect on December 31 of the year in which the shortfall occurs. Within 15 days of receipt of an invoice for the same, Shipper shall make payment of such amount to Railroads. Such payment will be considered liquidated damages (not a penalty) and shall satisfy Shipper's Minimum Annual Volume obligation for the year in which the shortfall occurs. This liquidated damages provision is meant to accommodate Shipper in case of genuine difficulty in taking delivery of the Minimum Annual Volume, such as reduced demand for electricity, and is not to be used to allow a route other than the route shown in Article III, Section B.

B. Train Cycle Time and Tonnage.

Not later than each November 1 during the term of this Agreement, Railroads shall provide to Shipper its non-binding projected Train cycle times for the next calendar year, by month, for Trains moved pursuant to this Agreement. Not later than each December 1 during the term of this Agreement, Shipper shall provide to Railroads a non-binding declaration of Tons of Coal anticipated to be shipped under this Agreement in the next calendar year, by month.

Article VI. TRAIN SIZE AND WEIGHT; LOADING AND UNLOADING.

A. Train Size.

If Shipper provides sufficient empty Shipper Supplied Railcars to Railroads, Railroads shall assemble Trains of not less than 115 railcars for movement to, and loading at, Origins. Notwithstanding any other provision of this Agreement to the contrary, the minimum Train size requirement of 115 cars shall be reduced for the following reasons: (1) an event of Force Majeure which affects Train size; (2) railcars bad-ordered by the Railroads enroute, when Shipper has made sufficient spares available to Railroads; (3) the Railroads fail to utilize spare railcars and place them into service; or (4) any other cause attributable to the Railroads.

B. Designation of Origins.

1. For each calendar month in which Shipper intends to tender Coal for transportation pursuant to this Agreement, Shipper shall give a non-binding notice to Railroads by telephone, confirmed in writing, not later than the fifteenth day

of the preceding calendar month, of the Origin(s) from which it intends to load Coal and the number of Trains it intends to have in service.

2. Shipper may change the Origin of a Train, without charge, from that which it specified under paragraph 1 of this Section by giving BN notice by telephone, confirmed by facsimile, of such change prior to the departure of the empty Train from Alliance, Nebraska. If such change is requested by Shipper after the departure of the empty Train from Alliance, Nebraska, a charge of $500.00 per train will apply; provided, if any such route change is made for the Railroads' convenience, then no charge shall be made.

C. Loading and Unloading; Loading and Unloading Facilities.

1. If Railroads provide locomotives which will operate the Trains through the Loading Facility at Origins at a controlled speed so as to permit uniform loading of each railcar, Shipper shall be responsible for the loading of railcars, including, but not limited to, improper loading, underloading, or overloading, and for providing Loading Facilities; provided, Shipper's Mine Operator shall be permitted to underload railcars which contain one or more Tons of snow, ice or other non-Coal items by the amount of such foreign matter; provided further, subject to Article VII, Section C., Shipper's Mine Operator may load railcars up to the lower of 286,000 pounds gross weight on rail or the total allowable capacity of the railcar. Shipper shall also be responsible for the unloading of railcars at Destination,

and for providing an Unloading Facility. Shipper shall also be responsible for ensuring that railcars released after unloading are free of any Coal which, in the opinion of Railroads, makes such railcars unsafe to transport.

2. Overloaded Railcars discovered at Origin shall be reduced and the remaining coal reasonably distributed throughout the railcar by Shipper or Shipper's Mine Operator before the release of the Train to Railroads, and Origin Detention Charges shall be assessed against Shipper when reducing the overload causes Loading Time to exceed Free Loading Time. If Railroads discover substantially overloaded Railcars after a loaded Train is enroute to Destination, Railroads may notify Shipper pursuant to Section K of this Article by telephone and request that Shipper correct the overload at its expense. If Shipper does not agree to such a request, Railroads may correct the overload, with any cost reasonably incurred by them in doing so to be reimbursed by Shipper.

3. Railroads may remove a substantially overloaded railcar or railcars from the Train. Railroads will notify Shipper by telephone of such removal, and Shipper shall remove the excess Coal at its own expense. Upon notification by Shipper that the excess Coal has been removed, Railroads will return the removed railcar or railcars to service. For each such substantially overloaded railcar removed from and returned to service, Shipper shall pay Railroads a charge of $225 per hour (including any fraction of an hour) for the time spent in switching a

substantially overloaded railcar out of and back into the Train.

D. Advance Notice.

Railroads shall provide to Shipper or Shipper's Mine Operator at Origin and Shipper at Destination, as the case may be, not less than four hours advance notice by radio or telephone of the arrival of empty Trains at a Loading Facility and of loaded Trains at the Unloading Facility. If Railroads fail to provide at least four hours advance notice to Shipper or Shipper's Mine Operator, as the case may be, then a Train's Unloading or Loading Free Time shall not commence until four hours after such notice is given or the actual time when loading or unloading commences, whichever is earlier.

E. Transportation of Trains Through Loading and Unloading Facilities.

At Origins, Railroads shall provide locomotives compatible with loading equipment at Origin and Train crews to transport Trains through the Loading Facility in a manner which will facilitate the full and uniform loading of each railcar. At Destination, Railroads shall provide locomotives compatible with unloading equipment at Destination and Train crews to position each Train at the Unloading Facility in order that the Shipper can engage the Unloading Facility railcar indexer to facilitate the full unloading of each railcar within the Unloading Free Time.

F. Loading Time.

1. A Train's loading time shall commence when the first locomotive of the Train has arrived at the point designated in BN's timetable as the point at which the Train crew must stop the

Train prior to entering the Shipper's Mine Operator's track ("Designated Point") and the Train crew has requested loading instructions from Shipper's Mine Operator or when the Train is constructively placed, as defined in Section H of this Article, and shall end when Shipper or Shipper's Mine Operator has released the Train to BN (Loading Time).

2. Shipper shall pay no additional charge if Shipper or Shipper's Mine Operator releases the Train within the first four hours of Loading Time (Loading Free Time). For each hour (including any fraction thereof) that a Train's Loading Time exceeds its Loading Free Time, Shipper shall pay BN an Origin Detention Charge of $225.00. When a Loading Disability under Section I of this Article or delay caused by Railroads occurs during a Train's Loading Free Time, Shipper's Loading Free Time shall be extended for a period of time equal to the duration of said Loading Disability.

3. If a Train arrives at an Origin before another Train has been released, the second and subsequent Train(s) shall not be considered Constructively Placed, and Loading Time for such Train shall not commence, until it reaches the Designated Point.

G. Unloading Time.

1. A Train's unloading time shall commence with the actual placement in position to unload at Destination, or when the Train is Constructively Placed, as defined in Section H of this Article, and shall end when Shipper has released the unloaded Train to UP (Unloading Time).

2. Shipper shall pay no additional charge if Shipper releases the unloaded Train within the first six hours of Unloading Time (Unloading Free Time). For each hour or fraction thereof that a Train's Unloading Time exceeds its Unloading Free Time, Shipper shall pay UP a Destination Detention Charge of $225.00; provided, when an Unloading Disability under Section J of this Article occurs during a Train's Unloading Free Time, Shipper's Unloading Free Time shall be extended for the duration of Unloading Disability Time as defined in Section J of this Article.

3. If Coal is frozen in railcars upon arrival at Destination, to the extent thawing or loosening is required to permit unloading, the Unloading Free Time shall be extended up to twelve (12) hours for the unloading of such Train.

4. If a Train arrives at Destination before another Train has been released, the second and subsequent Train(s) shall not be considered Constructively Placed, and Unloading Time for such Train shall not commence, until the earlier of the expiration of the Unloading Free Time of the prior Train or upon the release of the prior Train.

H. Placement.

1. Actual Placement occurs when the first locomotive of the Train has arrived at the Designated Point on the Shipper's Mine Operator's or Shipper's track and the train crew requests loading or unloading instructions from the Shipper's Mine Operator or Shipper.

2. A Train shall be considered Constructively Placed for purposes of Sections F and G of this Article when Railroads receive notice from Shipper or Shipper's Mine Operator that

(a) the Train cannot be positioned on Shipper's Mine Operator's track at an Origin due to any cause attributable to Shipper or Shipper's Mine Operator, or

(b) the first railcar of a Train cannot be positioned to unload at Destination due to any cause attributable to Shipper.

3. A Constructively Placed Train shall be held at the nearest available hold point as determined by Railroads. Immediately upon arrival of the Train at the hold point the Railroads shall notify Shipper or Shipper's Mine Operator by electronic transmission, such notice to be confirmed in writing, of the date and time that hold time begins. Immediately upon departure of the Train from the hold point, Railroads shall notify Shipper or Shipper's Mine Operator by electronic transmission, such notice to be confirmed in writing, of the date and time that hold time ends.

4. For purposes of computing the Loading Time of a Constructively Placed Train under Section F of this Article:

(a) The time elapsed while transporting a Constructively Placed Train from the hold point to a Loading Facility shall be excluded from Loading Time; and

(b) If the Train must reverse direction to reach an available hold point, the time elapsed from the Railroads' receipt of the hold notice to the return of the Train to the point of reverse direction shall be included in Loading Time.

5. For purposes of computing the Unloading Time of a Constructively Placed Train under Section G of this Article:

(a) The time elapsed while transporting a Constructively Placed Train from the hold point to the Unloading Facility shall be excluded from Unloading Time; and

(b) If the Train must reverse direction to reach an available hold point, the time elapsed from the Railroads' receipt of the hold notice to the return of the Train to the point of reverse direction shall be included in Unloading Time.

I. Loading Disability.

"Loading Disability" means any of the following events which results in the inability to load Coal into a Train at an Origin: (i) an Act of God; (ii) a strike or other labor disturbance; (iii) a riot or other civil disturbance; (iv) snow and/or ice accumulation sufficient to immobilize Train operations and/or prevent loading of such Train; (v) governmental acts or regulations; (vi) Railroads' failure to provide Train crews; or (vii) mechanical or electrical breakdown, explosion, fire or other damages to equipment in a Loading Facility or the Train then being utilized by Shipper. Shipper is currently using its Mine Operator's "Batch Loading System" at both Eagle Butte and Belle Ayr mines. If these systems fail and Shipper's Mine Operator must resort to flood loading railcars, Shipper may not declare a Loading Disability; provided, Shipper shall be given an additional two free hours to load each Train that must be loaded using the flood method. "Loading Disability Time" means the period of time for which Shipper or Shipper's Mine Operator is prevented from loading a Train at an Origin due to a Loading Disability. Shipper or Shipper's Mine Operator shall notify BN immediately by telephone (a) as to the nature and time of commencement of the Loading Disability and (b) as to the time of termination of the Loading Disability. Shipper or Shipper's Mine Operator shall confirm such telephone notification in writing to Railroads within ten days after Loading Disability Time is terminated.

J. Unloading Disability.

"Unloading Disability" means any of the following events which directly results in the inability to unload Coal from a Train at Destination: (i) an Act of God, (ii) a strike or other labor disturbance, (iii) a riot or other civil disturbance, (iv) snow and/or ice accumulation sufficient to immobilize Train operations and/or prevent unloading of such Train, (v) governmental acts or regulations, (vi) Railroads' failure to provide Train crews or (vii) mechanical or electrical breakdown, explosion, fire or other damage to equipment in Shipper's Unloading Facility including shutdown for emergency maintenance or for the purpose of investigating or preventing such occurrence. "Unloading Disability Time" means the period of time for which Shipper is prevented from unloading a Train at Destination due to an Unloading Disability. Shipper shall notify UP immediately by telephone (a) as to the nature and time of commencement of the Unloading Disability and (b) as to the time of termination of the Unloading Disability. Shipper shall confirm such telephone notification in writing to Railroads within ten days after Unloading Disability Time is terminated.

K. Notices for Train Movement.

All notices required to be given verbally or electronically under this Article shall be given and, except for the advance notice required in Section D of this Article, confirmed in writing, as follows:

To Shipper: Operations Supervisor/Fuel Coordinator
Western Resources, Inc.
St. Marys, KS 66536
Phone: (913) 456-2035
FAX: (913) 456-8498

With a
Copy To: Manager-Coal
Western Resources, Inc.
818 Kansas Ave., P.O. Box 889
Topeka, KS 66601
FAX: (913) 575-1797

To BN: General Superintendent - Unit Coal Trains
Burlington Northern Railroad Company
777 Main Street, Suite 3700
Fort Worth, Texas 76102
Phone: (817) 878-1441
FAX: (817) 878-1595

To UP: Director Unit Train Operations (HDC)
Union Pacific Railroad Company
1416 Dodge Street
Omaha, Nebraska 68179
Phone: (800) 443-4319
FAX: (402) 636-7415

Any party may change its designation for receipt of notice in accordance with Article XXI. Failure to provide notice to a party designated to receive a copy shall not invalidate the giving of notice.

Article VII. WEIGHING AND DETERMINATION OF WEIGHTS.

A. Shipper or Shipper's Mine Operator shall weigh loaded railcars at Origins(s) at no charge to Railroads. Batch weighing system, coupled in motion scales or scales used for weighing shall be subject to certification and verification by BN or its agent.

B. If any Train or portion thereof cannot be weighed due to a breakdown of scales, the lading weight per railcar of such Train or portion thereof shall be determined by averaging the lading weight per railcar of the last ten Trains of like equipment moving under this Agreement weighed at that Origin prior to such breakdown. If less than ten Trains of like equipment under this Agreement were weighed at that Origin prior to the breakdown, the weight per railcar shall be determined by averaging the weight per railcar of the Train(s) of like equipment moving under this Agreement weighed at that Origin prior to the breakdown as well as the lading weight per railcar of Train(s) of like equipment under this Agreement first weighed at that Origin after the scales are repaired, so as to comprise a ten weighed Train average; provided, the lading weight of any Train used to determine the average lading weight per railcar under this Section shall meet the minimum Train size and weight requirement under Article X., Section B.

C. All weights specified in this Agreement are subject to variance for scale tolerances. If any actual weight required by this Agreement is within + 0.5% of the weight specified in this Agreement, then it shall be deemed to comply with the weight specification. This Section shall not apply to the Shipper's Minimum Annual Volume requirement of Article V., Section A.

Article VIII. HOLDING OR RELEASING OF TRAIN CREWS AND/OR LOCOMOTIVES.

A. Hold Charge.

If Railroads must hold, in a manner, time or place inconsistent with existing Railroads' operating procedures for the purpose of this Agreement, locomotives and/or a Train crew that has been called for or that is on duty due to (1) any cause attributable to Shipper or Shipper's Mine Operator including Shipper's request; (2) Shipper Force Majeure under Article XIII; or (3) a Loading or Unloading Disability with respect to another Train of Shipper, Shipper shall pay to Railroads a Hold Charge of $100.00 for each hour (including any fraction of an hour) that each Train is held or the applicable charge for detention, which ever is greater. Such Hold Charge shall not apply to a Train whose Train crew and/or locomotives are being held during Shipper's Loading or Unloading Time, whether during Loading or Unloading Free Time, or time for which an Origin or Destination Detention Charge is applicable. A Hold Charge shall cease if and when a Train crew and/or locomotives are released in accordance with Section B of this Article and Shipper agrees to pay a Release Charge. Railroads shall notify Shipper immediately by telephone, confirmed in writing, that a Train is being held under this Section and of the hold location.

B. Release Charge.

1. If, in lieu of paying or continuing to pay a Hold Charge, Origin Detention Charge or Destination Detention Charge, Shipper notifies Railroads by telephone, confirmed in writing, that it elects to release locomotives and/or a Train crew that has been called for or that is on duty, Railroads shall release such Train crew and/or locomotives and Shipper shall cease to incur a Hold Charge, Origin Detention Charge or Destination Detention Charge from the time of such release, and Shipper shall pay to Railroads a Release Charge of $1,500.00 per occurrence per Train.

2. In addition to the circumstance described in Paragraph 1 of this Section B, if Railroads must release, in a manner, time or place inconsistent with existing Railroad operating procedures, a Train crew that has been called for or that is on duty and/or locomotives due to: (1) any cause attributable to Shipper or Shipper's Mine Operator; (2) Shipper Force Majeure; or (3) a Loading or Unloading Disability with respect to another Train of Shipper, Shipper shall pay to Railroads a Release Charge of $1,500.00 per occurrence per train.

3. If there is a release under Paragraph 1 or Paragraph 2 of this Section, Railroads shall not call another Train crew and/or locomotives back to the Train until notified to do so by telephone, later confirmed in writing by Shipper, unless the Train is stored on available Railroad trackage and storage thereon is or becomes impracticable in which case Railroads may call another Train crew and/or locomotives at their option and expense.  If, after the Train crew and/or locomotives have been

released, the Train is stored on Railroads' trackage, at Shipper's direction, Shipper shall pay a Railcar Storage Charge in accordance with Article IX(C). Railroads shall use their best efforts to restore a Train crew and/or locomotives to a Train upon telephonic notice from Shipper to do so; provided, in no event shall restoration of a train crew and/or locomotives exceed 96 hours. In the event that restoration of a Train crew and/or locomotives does not occur within 96 hours of notice from Shipper, the Railroad holding the Train shall pay Shipper a fee of $1,500 per occurrence.

Article IX. MISCELLANEOUS HANDLING OF RAILCARS.

A. Removal, Rotation And/Or Addition of Railcars.

Railroads shall, at Shipper's verbal request, confirmed in writing, remove, rotate and/or add Shipper Supplied Railcars. The charge for such service shall be $225.00 per hour (including any fraction of an hour) per occurrence. For purposes of assessing a removal, rotation and/or addition charge, time shall be computed from the time the Train stops for removal, rotation and/or addition of railcar(s) and end when the Train has been reassembled and is ready for movement; provided, time during which the crew is assigned to unrelated tasks shall not be included. Railroads shall not be obligated to remove, rotate or add railcars unless sufficient trackage is available at such intermediate point to accommodate the Train and for Railroads to perform the required removal, rotation and/or addition of railcars. Railcars which have been bad ordered by Railroads and their replacements from Shipper's pool of spare railcars shall be switched in and out of service by Railroads at no charge to the Shipper.

B. Out-of-Route Movement.

An "Out-of-Route Movement" shall be any Shipper-requested movement of an empty Train, or any part thereof, that differs from the routing specified in Article III(B). If, at Shipper's verbal request, confirmed in writing, Railroads provide an Out-of-Route Movement to a repair and/or maintenance facility on trackage located at a point which is not directly intermediate between an Origin and Destination on the route of movement but is served by the Railroads, Shipper shall pay Railroads any applicable reciprocal switch charge plus the following Out-of-Route Charges:

| Out-of-Route Charge in Cents Per Railcar Per Mile Out-of-Route | Number of Railcars Per Movement |
|---|---|
| 105 Cents | 25 railcars or less |
| 95 Cents | 26 to 75 railcars |
| 85 Cents | 76 railcars or more |

The Out-of-Route Charge shall be calculated based upon the greater of actual miles or a distance of at least 75 miles for each empty movement. Notwithstanding any other provision of this Section to the contrary, at Shipper's request, confirmed in writing, Railroads will provide an Out-of-Route Movement, at no charge, to a repair and/or maintenance facility on trackage served by Railroads that is located at a point between Northport, Nebraska and Origins via Guernsey, Wyoming; provided, a request for such an Out-of-Route Movement shall be made to Railroads prior to the empty Train leaving Destination; provided further, such Out-of-Route Movements will be provided at no additional charge no more than 12 times during any one calendar year.

C. Railcar Storage Charge.

1. If, at Shipper's verbal request, confirmed in writing, Railroads store an empty Shipper Supplied Railcar used in service under this Agreement on available Railroad trackage, Shipper shall pay to Railroads a Shipper Supplied Railcar Storage Charge of $1.00 per 24 hour period (including any fraction of a 24-hour period) of storage time for each stored railcar. Railcars stored pursuant to Article IV(A) hereof shall be stored without charge to Shipper.

2. For purposes of assessing the Railcar Storage Charge, storage time shall commence when the railcar is placed for storage and end when Railroads receive Shipper's verbal request, to be subsequently confirmed in writing, that the railcar be released from storage.

3. No charge will be assessed for storing Shipper Supplied Railcars that require enroute repairs.

D. Switching Charge.

If, at Shipper's verbal request, confirmed in writing, Railroads provide an Out-of-Route movement to a repair and/or maintenance facility or to trackage not served by Railroads, thus necessitating a switch movement or other service by a connecting railroad, Shipper shall be responsible for any switching and other charges that are otherwise applicable under tariff or separate agreement in addition to the charges payable by Shipper to Railroads under this Agreement. In the event Railroads receive such a bill from another railroad they shall provide copies of the same to Shipper.

E. Service Maintenance.

1. Upon reasonable request from the Shipper, BN will stop a Train on the return empty movement at Shipper's railcar repair and/or maintenance facility at a point directly intermediate on BN trackage between Origin and Northport, Nebraska, where trackage is available to accommodate such Train. For removal and replacement of railcars in said Train, Shipper shall pay BN a charge of $225.00 per hour (including any fraction of an hour) for such services. The time will be computed from the time the Train stops for removal and/or replacement of railcars until such time as the last railcar is removed from the Train or until the last railcar is placed into the Train; provided, any time the crew is prohibited from working for reasons attributable to Railroads shall be deducted from the time calculation.

2. If BN is instructed to leave an entire Train of empty railcars at the railcar maintenance facility located in Alliance, Nebraska and remove the locomotives and caboose or end of train device, a switching charge as provided in Article IX, Section A shall be paid by Shipper. If BN is instructed to leave an entire Train of empty railcars at a railcar maintenance facility located elsewhere and remove the locomotives and caboose or end of train device, a charge of $1,500.00 will be paid by Shipper.

Article X. CONTRACT RATES.

A. Base Rates.

The Base Rates for transportation of Coal from an Origin to Destination under this Agreement shall be:

| | |
|---|---|
| Trains loaded at a minimum average weight of 115 tons per railcar except as provided in Article IV.D.3 | $ 9.90 per Ton |
| Trains loaded at a minimum average weight of 103 tons per railcar except as provided in Article IV.D.3 | $10.17 per Ton |
| Trains loaded at a minimum average weight of 98 tons per railcar except as provided in Article IV.D.3 | $10.43 per Ton |

The Base Rates as adjusted in accordance with Article XI shall be the Contract Rates; provided, in no case shall the rates and charges assessed pursuant to this Agreement be lower than the rates shown above and the charges set forth in this Agreement.

B. Application of Base Rates.

Transportation charges for a Train transported pursuant to this Agreement shall be calculated by multiplying the greater of: (1) actual lading weight of the Train, (determined pursuant to Article VII in the event of a scale breakdown), or (2) minimum average lading weight per railcar applicable under this Article, times the greater of either (i) 115 railcars or (ii) the actual number of railcars in the Train; provided, if one of the conditions identified in Article VI., Section A. exists, then the actual number of railcars shall be used. In the event Railroads supply substitute railcars to Shipper pursuant to Article IV. D. 3, the Contract Rate applicable to the Train shall be determined based upon the per railcar average lading weight of the Shipper

Supplied Railcars contained in the Train and thence applied to the Railroad supplied substitute railcars in the Train without regard to the Railroads' railcars actual capacity.

C. Rates for Shipments in Early 1993.

Railroads shall assess Shipper $12.86 per net Ton for transportation provided under the terms of this Agreement for all Tons shipped from January 1, 1993 through February 28, 1993. Commencing with March 1, 1993, Railroads shall begin assessing the applicable rate(s) specified in Section A of this Article, less the per Ton difference between the $12.86 assessed in January and February 1993 and that which would have otherwise applied under the terms of this Agreement until such time as the equivalent number of Tons have been shipped subsequent to February 28, 1993 as those which had been (1) shipped from January 1, 1993 through February 28, 1993 and (2) assessed a rate of $12.86 per net Ton.

Article XI. ADJUSTMENTS TO RATES AND CHARGES.

A. Beginning July 1, 1993, adjustments to the rates and charges in this Agreement shall be made using the methodology described in this Article. The parties recognize that the ICC publishes a Rail Cost Adjustment Factor (RCAF) in proceedings currently denominated Ex Parte 290 (Sub-No. 2), Rail Cost Recovery Procedures, and Ex Parte 290 (Sub-No. 5) Quarterly Rail Cost Adjustment Factor. The ICC publishes an RCAF figure unadjusted and adjusted for productivity in Ex Parte 290 (Sub-No.

5), which productivity adjustment is calculated according to procedures established in a proceeding denominated Ex Parte 290 (Sub-No. 4), Railroad Cost Recovery Procedures - Productivity Adjustment.

B. Beginning on July 1, 1993, and on October 1, January 1, April 1, and July 1 during each calendar year thereafter for the term of this Agreement, the Contract Rates and all other Charges set forth in this Agreement shall be increased or decreased as determined by application of the Adjustment Factor. The Adjustment Factor shall be one (1) plus the result of Eighty Percent (80%) multiplied by the percentage change in the RCAF, unadjusted for productivity, (RCAF-U) as published by the ICC in Ex Parte 290 (Sub-No. 5), Quarterly Rail Cost Adjustment Factor (or successor proceeding) for the current calendar quarter over the preceding calendar quarter; provided, the Contract Rates and all other Charges shall not fall below the base levels stated in this Agreement. Adjusted rates and charges shall become effective on the first day of each calendar quarter, applied retroactively if the RCAF-U is not published by that date. Attached hereto and incorporated herein by this reference is Exhibit A, which is intended by the parties to demonstrate the methodology used to adjust the rates and charges as described in this Article.

C. In computing the rates and all other charges specified in this Agreement, the percent change in the RCAF-U shall be rounded to a thousandth of a percent; the percent change resulting from the multiplication of the percentage change in the RCAF-U by 80% shall be rounded to a one hundredth of a percent; the Adjustment Factor shall be stated to a ten thousandth; and all rates and charges shall be rounded to a whole cent. The rounding rule will be that any fraction less than one-half shall be dropped, while any fraction equal to or greater than one-half shall be increased to the next higher value.

D. It is the intent of the parties that the adjustment methodology reflect changes in railroad input expenses as measured by the RCAF-U. In the event that a party is of the opinion that one or more changes to the RCAF-U adopted after the Effective Date of this Agreement cause the RCAF-U to depart materially from that intent, that party may invoke the provisions of this Section to require the other parties to review the index and seek mutual agreement as to whether the RCAF-U as changed departs from that intent.

E. If the ICC ceases to publish the RCAF-U the parties shall adopt an index that would replicate, as closely as possible, changes in railroad input expenses as measured by the RCAF-U, to be used for adjustments for the remainder of the contract Term. The parties agree that the RCAF Adjusted for Productivity is not an appropriate substitute index. If the parties cannot informally agree to a substitute index then either party may commence formal negotiations by giving the other party notice in writing. If the parties do not agree upon a substitute index within 90 days after the commencement of such formal negotiations, then the matter shall be submitted to binding arbitration in accordance with the rules of the Center of Public Resources (CPR), except as specifically provided herein or otherwise agreed to by the parties. Arbitration shall be initiated by notice from one party to the other. For purposes of this Section, Railroads shall be considered one party. Within thirty (30) days after receipt of such notice, each party shall designate a competent and disinterested person to act as its arbitrator. Within twenty (20) days after their designation, the two persons so designated shall select a competent and disinterested third party to act as the neutral arbitrator. In the event the first two arbitrators are unable to agree as to the third, then the arbitrators shall apply to the CPR to designate and appoint the third arbitrator. The arbitrators shall be requested to select an index replicating, as closely as possible, changes in Railroad input expenses as measured by the RCAF-U to be used as a substitute index for the remainder of the contract Term. The cost of the neutral arbitrator shall be borne 50 percent by the Railroads and 50 percent by the Shipper. During the pendency of the arbitration, the Rates and Charges as last adjusted by the RCAF-U shall be paid; provided, the substitute index selected by the arbitrators shall be made effective from the date of discontinuance of the RCAF-U.

F. If any party should suffer a gross inequity due to the operation of this Agreement as a result of unusual economic conditions, such inequities will be resolved by mutual agreement between BN, UP and the Shipper. Either the Shipper or the

Railroads (BN and UP collectively) may invoke the provisions of this Section any time subsequent to January 1, 2000; provided, that once a party has invoked its initial gross inequity claim, that party may not invoke the provisions of this Section again prior to the latter of either (i) the fifth anniversary of the date that the first claim was invoked or (ii) the third anniversary date of the date the first claim was resolved. In no case shall either party to this Agreement have the ability to invoke the provisions of this Section more than twice during the Term of this Agreement. A party seeking relief under this Section shall submit with its claim the basis for and evidence supporting its claim, as well as a statement of the relief sought. Unless otherwise agreed by the parties, relief under this Section shall be effective as the parties may agree or as the final tribunal, if any, deciding the issue shall direct.

Article XII. PAYMENT PROCEDURES.

A. For all sums payable under this Agreement, Railroads and Shipper shall invoice by means of mail or electronic transfer of documentation. Railroads and Shipper shall pay the amount invoiced by electronic transfer of funds within fifteen (15) calendar days after receipt of the invoice.

B. If there is a dispute regarding applicable charges, the party disputing the charges shall pay the undisputed amount. If the ultimate resolution of the dispute is not in favor of the disputing party, the disputing party shall pay the other party the disputed amount plus simple interest at the prime rate in effect at the Chase Manhattan Bank in New York City, New York on the date of payment plus one percent or the maximum rate permitted by Kansas law if less than the described rate.

C. Notwithstanding any provision of Section B to the contrary, Shipper may not withhold any payment based upon a dispute which is based upon the provisions of Article X., Section A. or Article XI. If a dispute arises under those provisions and the ultimate resolution of the dispute results in the payment of an amount from one party to another, then such amount shall include simple interest as calculated in Section B.

Article XIII. FORCE MAJEURE.

A. The term "Force Majeure" used herein shall mean any cause beyond the control of the party affected which cannot be overcome and which delays or prevents the party from the performance of its obligations under this Agreement, in whole or in part, including, but not limited to, an Act of God; accumulation of snow and/or ice sufficient to immobilize or halt the movement of loaded or empty Trains; war; insurrection; riot or other civil disturbance; governmental acts; explosion; fire; derailment; destruction of or damage to right of way, including bridges; strike, lockout or other labor disturbance; or mechanical or electrical breakdown (including shutdown for emergency maintenance or the like which may be necessary to mitigate or eliminate the imminent threat of explosion, fire, or mechanical or electrical breakdown) in an Origin mine, in a

Loading Facility, in any of the facilities used by Railroads for the transportation of Coal for Shipper, in a power generating facility, or in the Unloading Facility to the extent that Shipper cannot unload Coal. It shall not, however, include any change in demand or projected demand for electrical power or generating facilities, whether foreseeable or not. The affected party's obligations and those of such other parties affected thereby shall be suspended for the duration of such Force Majeure; provided, the parties shall make all reasonable efforts to continue to meet their obligations for the duration of the Force Majeure.

B. If an event of Force Majeure occurs, the party affected by a Force Majeure shall promptly notify all other parties, by telephone or electronic transmission, as to the nature of the Force Majeure, when it began, the expected effect on the party's performance and its projected duration. Such party also shall notify promptly by telephone or electronic transmission all other parties upon the cessation of the Force Majeure. All notices shall promptly be confirmed in writing.

C. The parties shall make all reasonable efforts to eliminate or abate such Force Majeure and resume their obligations expeditiously upon its cessation, except that no party hereto will be required to acquiesce to an unfavorable settlement of any labor dispute.

D. The suspension of any obligations owing to a Force Majeure shall neither cause the Term of this Agreement to be extended nor affect any rights accrued under this Agreement prior to the Force Majeure.

E. Shipper shall be excused from its obligation under this Agreement to ship the Minimum Annual Volume of Coal to the extent of 16,450 tons for each continuous 24-hour period in excess of the first 72 hours for each event of Force Majeure.

F. In the event of a Force Majeure affecting an Origin mine or Loading Facility at an Origin then being utilized by Shipper and if Shipper elects to purchase replacement Coal from a Wyoming Powder River Basin Mine, such replacement Coal shall move under this Agreement.

Article XIV. LIABILITY FOR COAL LOSS OR DAMAGE.

Railroads shall be liable for any Coal loss or damage (including contamination or degradation) caused by their negligence. Railroads shall not be liable for (1) Coal loss attributable to the negligence of Shipper or Shipper's Mine Operator; (2) Coal loss attributable solely to scale variances; (3) wind loss or moisture loss; (4) Coal loss or damage caused by defects in the design or manufacture of Shipper Supplied Railcars; or (5) Coal loss or damage caused by improper loading. Railroads' liability for lost or damaged Coal shall be limited to the price paid for the Coal at its Origin plus transportation charges paid therefor. In the event of alleged Coal loss or damage, Shipper shall promptly notify Railroads by telephone, later confirmed in writing, to allow Railroads, at its option, to inspect and verify the loss or damage.

Article XV. CLAIMS PROCEDURES.

A. Overcharges.

Shipper shall submit claims for overcharges to Railroads within two years following the date of delivery of the shipment. Shipper may not offset any other payments due Railroads under this Agreement by the amount of any claim for overcharge.

B. Undercharges.

Railroads shall submit claims for undercharges to Shipper within two years following the date of delivery of the shipment. Railroads may not offset any other payments due Shipper under this Agreement by the amount of any claim for undercharge.

C. Damage to Equipment.

Any party shall submit claims for damage to equipment within 60 calendar days after the occurrence of such damage. The occurrence of such damage shall not suspend any party's obligation to pay all charges applicable or related to the Train in which such damage occurred, and such charges may not be offset by the amount of any claim for damage.

D. Coal Loss or Damage.

Shipper shall submit claims for loss of or damage to Coal to Railroads within 30 calendar days after the occurrence of such loss or damage. The occurrence of loss of or damage to Coal shall not suspend Shipper's obligation to pay Railroads all charges applicable or related to the Train in which such loss of or damage to Coal occurred, and Shipper may not offset such charges by the amount of any claim for loss or damage to Coal.

E. Amount Due Under Claims.

The amount due for claims under this Article shall bear simple interest at the prime rate in effect at the Chase Manhattan Bank in New York City, New York on the date on which a claim is submitted plus one percent or the maximum rate permitted by Kansas law, if lower. Such simple interest shall accrue beginning 60 days from the date on which the claim is made and end on the date payment is made.

Article XVI. CHOICE OF LAW.

This Agreement shall be deemed a contract made in the State of Kansas for all purposes and shall be governed by and construed according to the law of that State.

Article XVII. SEVERABILITY AND CANCELLATION IN THE EVENT OF CHANGE IN LAW OR REGULATIONS.

If any provision of this Agreement is held to be unlawful or unenforceable by a decision of any court or administrative agency having jurisdiction over this Agreement or the parties hereto, such provision shall be considered as having been severed from this Agreement, and the remaining provisions of this Agreement shall continue in full force and effect. If, however, the absence of such unlawful provision or any part thereof would cause the maintenance of this Agreement to result in a material adverse departure from the obligations or benefits that would otherwise have been realized from this Agreement by any party, this Agreement may be terminated at the option of such party upon 90 days written notice by Certified Mail, Return Receipt Requested, to all other parties, but only after a good faith attempt to remedy such absence.

Article XVIII. TERMINATION.

Termination of this Agreement by expiration of the Term of this Agreement, shall not release any party from any obligation that may have accrued prior to such termination, nor shall it preclude any party from exercising any remedies it may have in law or equity to enforce such obligations.

Article XIX. BINDING EFFECT.

This Agreement shall be binding upon and inure to the benefit of Railroads and Shipper, their successors and assigns.

Article XX. NONDISCLOSURE; CONFIDENTIALITY.

Except as otherwise provided in this Article, no party hereto shall disclose any information regarding any part of this Agreement not otherwise included in the nonconfidential contract summary filed with the ICC except upon the written consent of all parties to this Agreement, or without written consent if counsel advises that disclosure is required by law, required for regulatory purposes or required for evidentiary purposes in any legal or arbitration proceeding or if disclosure is to the external auditors, consultants, or counsel of a party. Prior to disclosure to the external auditors, consultants or counsel of any party such auditors, consultants or counsel shall first sign an agreement in the form attached as Exhibit B. The parties hereto will make every effort to protect the confidentiality of the rates and charges under this Agreement. Where disclosure is required, notice shall be given to all other parties, in advance of disclosure.

Article XXI. NOTICES.

Except as otherwise provided herein, and particularly in Article VI, all notices required under this Agreement shall be in writing and shall be deemed properly given when delivered in person to the authorized representative of a party designated below or when sent by mail, telegram, telecopy, or telex, or by any electronic transmission of printed material and addressed as follows:

Shipper's address is:

Vice President-Electric Production
Western Resources, Inc.
818 Kansas Ave., P.O. Box 889
Topeka, KS 66601

Copy to:

Manager-Coal
Western Resources, Inc.
818 Kansas Ave., P.O. Box 889
Topeka, KS 66601

BN's address is:

Vice President Coal Marketing
Burlington Northern Railroad Company
3700 Continental Plaza
777 Main Street
Fort Worth, TX 76102

UP's address is:

AVP Energy
Union Pacific Railroad Company
1416 Dodge Street
Omaha, NE 68179

Any party may change its address for purposes of this Agreement by giving written notice in accordance with the provisions of this Article. Failure to provide notice to a party designated to receive a copy shall not invalidate the giving of notice.

Article XXII. ENTIRETY AND AMENDMENTS.

This Agreement comprises the entire agreement, merging and superseding all prior understandings and representations between Shipper and Railroads regarding the subject matter of this Agreement. No subsequent agreement amending, supplementing, modifying, or terminating this Agreement shall be binding on Railroads or Shipper unless it is in writing and executed by their respective authorized representatives, and, to the extent required by applicable regulations, filed with and approved by the ICC in accordance with 49 U.S.C. Paragraph 10713, as amended from time to time.

Article XXIII. NONWAIVER OF RIGHTS AND OBLIGATIONS.

The failure of any party to this Agreement in any one or more than one instance, to insist upon the performance of any of the terms or conditions of this Agreement, or to exercise any rights or privileges under this Agreement, or the waiver by any party to this Agreement of any breach of the terms or conditions of this Agreement, shall not be construed thereafter as waiving any such terms, covenants, rights, privileges or obligations, but the same shall continue and remain in full force and effect as if no such forbearance or waiver had occurred.

Article XXIV. RECORDS.

The parties agree that for the purpose of verifying bills, tendered and shipped tonnage and records and for the purpose of making adjustments thereto, the necessary records of the parties, insofar as they pertain to the terms of this Agreement, shall be made available, upon reasonable notice, at each party's respective place of business for inspection and examination by any authorized employee, consultant or agent (including a certified public accountant) of the other parties during regular business hours. Nothing in this Article is intended to require any party to this Agreement to divulge to any other party any information pertaining to its costs of providing transportation under this Agreement.

Article XXV. INDEMNITIES.

A. Railroads shall defend, protect, indemnify, and save harmless Shipper, its affiliated companies and its officers, directors, stockholders, employees, agents and servants from and against all liabilities, losses, claims, damages, penalties, causes of action, suits (including suits for personal injuries or death and including reasonable attorneys' fees and expenses) caused by the negligence or willful and wanton acts of Railroads arising out of or in connection with their obligations under this Agreement, and shall pay any judgments of any nature rendered against such person for such injuries or damage due to or arising out of or in connection with such negligence or willful and wanton acts of Railroads.

B. Shipper shall defend, protect, indemnify, and save harmless Railroads, their affiliated companies and officers, directors, stockholders, employees, agents, and servants from and against all liabilities, losses, claims, damages, penalties, causes of action, suits (including suits for personal injuries or death and including reasonable attorneys' fees and expenses) caused by the negligence or willful and wanton acts of Shipper arising out of or in connection with its obligations under this Agreement, and shall pay any judgments of any nature rendered against such person for such injuries or damage due to or arising out of or in connection with such negligence or willful and wanton acts of Shipper.

C. If any liability, loss, claim, damage, penalty, cause of action or suit arises from the joint negligence or willful and wanton acts of Railroads, or either one of them, and Shipper, each party shall be responsible for only that portion of the liability, loss, claim, damage, penalty, cause of action or suit caused by its negligence or willful and wanton acts.

Article XXVI. CONSTRUCTION OF TERMS.

The terms of this Agreement have been arrived at after mutual negotiation and, therefore, it is the intention of the parties that its terms not be construed against any of the parties by reason of the fact that it was prepared by one of the parties.

Article XXVII. CAPTIONS.

The captions and headings of this Agreement are for the convenience of reference only and shall neither define nor limit any of the terms or provisions in this Agreement.

Article XXVIII. EFFECT OF PRIOR AGREEMENTS.

Upon approval of this Agreement as provided in Article II, the terms of the document dated November 30, 1972 (1972 Document), between the Kansas Power and Light Company (KPL), the Burlington Northern Railroad Company, and the Union Pacific Railroad Company, and tariff ICC BN 4181-A are completely superseded and are of no further force and effect except as to shipments moving prior to the approval date. If the ICC fails to approve this Agreement, it shall be null and void and the 1972

Document and related tariff shall remain in full force and effect.

Article XXIX. REPRESENTATIONS AND WARRANTIES.

Each party represents and warrants to the others that (1) it is duly organized and validly exists in good standing under the laws of the state of its incorporation and has all requisite power and authority to enter into this Agreement and to carry out the terms and provisions thereof; (2) the person executing this Agreement on its behalf is duly authorized and empowered to bind it to this Agreement; (3) there is no action, proceeding, or investigation, current or pending, and no term or provision of any charter, by-law, certificate, license, mortgage, indenture, contract, judgment, decree, order, statute, rule or regulation to which such party is subject, which in any way prevents, hinders or otherwise adversely affects, or would be violated by, its entering into and performing this Agreement; and (4) no approval or authority of any governmental body except the ICC is required on the part of such party prior to entering into and carrying out the terms and provisions of this Agreement.

ARTICLE XXX. DISPUTE RESOLUTION.

A. General.

No party to this agreement shall be entitled to take legal action with respect to any dispute arising from or relating to this Agreement until it has complied, in good faith, with the procedures set forth in Section B and C, below.

B. Negotiation.

1. The parties shall attempt promptly and in good faith to resolve any dispute arising out of or relating to this Contract, through negotiations between representatives who have authority to settle the controversy. All negotiations pursuant to this clause shall be confidential and shall be treated as compromise and settlement negotiations for purpose of the Federal and State Rules of Evidence.

2. Any party may give the other party(ies) written notice of any dispute not resolved in the normal course of business. As soon as mutually agreeable after delivery of the notice, representatives of the involved parties shall meet at a mutually acceptable time and place (or by telephone), and thereafter as often as they reasonably may deem necessary to attempt to resolve the dispute. Unless the parties to the dispute agree that the dispute cannot be resolved through unassisted negotiation, negotiations shall not be deemed at an impasse until sixty days after the first settlement conference.

3. If a negotiator intends to be accompanied at a meeting by an attorney, the other negotiator(s) shall be given at least three working days' notice of such intention and may also be accompanied by an attorney.

C. Alternative Dispute Resolution Procedure.

1. If a dispute has reached impasse, any party may suggest use of Alternative Dispute Resolution (ADR) procedures. Once that party has notified the other(s) of a desire to initiate ADR, the parties may select the ADR method they wish to use by mutual agreement. That ADR method may include arbitration, mediation, mini-trial, or any other method which best suits the circumstances of the dispute. The parties shall agree in writing to an ADR method selected and to the procedural rules to be followed as promptly as possible. To the extent the parties are unable to agree on procedural rules in whole or in part, the current Center for Public Resources (CPR) Model Procedures for Mediation of Business Disputes, CPR Model Mini-trial Procedure, or CPR Commercial Arbitration Rules -- whichever applies to the chosen ADR method -- shall control, to the extent such rules are consistent with the provisions of this Section.

2. If the parties are unable to agree on an ADR method or unwilling to use ADR to resolve the dispute, any party shall be free to resort to litigation.

3. If the parties agree on an ADR method other than arbitration, the decision rendered in that proceeding shall not be binding on any party except by agreement of all the parties, and any party may seek resolution of the dispute through litigation. If the parties agree on arbitration as an ADR method, the decision of the arbitrator(s) shall be binding on all parties, subject only to confirmation or review pursuant to the United States Arbitration Act, 9 U.S.A. Paragraph 1 et seq. The arbitrator(s) shall not award punitive or exemplary damages against any party.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement ICC-BN-C-2801 to be executed as of the day and year first herein written.

| | |
|---|---|
| WITNESS: | WESTERN RESOURCES, INC. |
| ______________________________ | By:____________________________<br>Title:_________________________ |
| WITNESS: | UNION PACIFIC RAILROAD COMPANY |
| ______________________________ | By: ___________________________<br>Title:_________________________ |
| WITNESS: | BURLINGTON NORTHERN RAILROAD COMPANY |
| ______________________________ | By: ____________________________<br>Title:__________________________ |

Exhibit 99

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1994

OR

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

For the transition period from ________ to ________

Commission File Number 1-7324

KANSAS GAS AND ELECTRIC COMPANY
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| KANSAS | 48-1093840 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer identification No.) |

P.O. Box 208
Wichita, Kansas 67201
(Address of principal executive offices)

(316) 261-6611
(Registrant's telephone number, including area code)

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 X NO

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

| Class | Outstanding at August 11, 1994 |
|---|---|
| Common Stock (No par value) | 1,000 |

Registrant meets the conditions of General Instruction H(1)(a) and (b) to Form 10-Q and is therefore filing this form with a reduced disclosure format.

KANSAS GAS AND ELECTRIC COMPANY
INDEX

KANSAS GAS AND ELECTRIC COMPANY
BALANCE SHEETS
(Thousands of Dollars)

| | June 30, 1994 (Unaudited) | December 31, 1993 |
|---|---|---|
| ASSETS | | |
| UTILITY PLANT: | | |
| Electric plant in service . . . . . . . . . . . . . . . . . | $3,362,910 | $3,339,832 |
| Less - Accumulated depreciation . . . . . . . . . . . . . . | 829,511 | 790,843 |
| | 2,533,399 | 2,548,989 |
| Construction work in progress . . . . . . . . . . . . . . . | 34,597 | 28,436 |
| Nuclear fuel (net) . . . . . . . . . . . . . . . . . . . . | 39,173 | 29,271 |
| Net utility plant . . . . . . . . . . . . . . . . . . . . | 2,607,169 | 2,606,696 |
| OTHER PROPERTY AND INVESTMENTS: | | |
| Decommissioning trust . . . . . . . . . . . . . . . . . . . | 15,077 | 13,204 |
| Other . . . . . . . . . . . . . . . . . . . . . . . . . . | 11,957 | 10,941 |
| | 27,034 | 24,145 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents . . . . . . . . . . . . . . . . . | 77 | 63 |
| Accounts receivable and unbilled revenues (net) (Note 8). | 57,323 | 11,112 |
| Advances to parent company. . . . . . . . . . . . . . . . . | 115,578 | 192,792 |
| Fossil fuel, at average cost, . . . . . . . . . . . . . . . | 13,073 | 7,594 |
| Materials and supplies, at average cost . . . . . . . . . . | 31,379 | 29,933 |
| Prepayments and other current assets. . . . . . . . . . . . | 25,963 | 14,995 |
| | 243,393 | 256,489 |
| DEFERRED CHARGES AND OTHER ASSETS: | | |
| Deferred future income taxes. . . . . . . . . . . . . . . . | 115,280 | 113,479 |
| Deferred coal contract settlement costs . . . . . . . . . . | 19,599 | 21,247 |
| Phase-in revenues . . . . . . . . . . . . . . . . . . . . . | 70,178 | 78,950 |
| Other deferred plant costs. . . . . . . . . . . . . . . . . | 31,896 | 32,008 |
| Corporate-owned life insurance (net) . . . . . . . . . . . | 8,352 | 45 |
| Other . . . . . . . . . . . . . . . . . . . . . . . . . . | 45,495 | 54,420 |
| | 290,800 | 300,149 |
| TOTAL ASSETS . . . . . . . . . . . . . . . . . . . . . . | $3,168,396 | $3,187,479 |
| CAPITALIZATION AND LIABILITIES | | |
| CAPITALIZATION (see statement). . . . . . . . . . . . . . . | $1,982,446 | $1,899,221 |
| CURRENT LIABILITIES: | | |
| Short-term debt . . . . . . . . . . . . . . . . . . . . . . | 25,200 | 155,800 |
| Long-term debt due within one year. . . . . . . . . . . . . | - | 238 |
| Accounts payable. . . . . . . . . . . . . . . . . . . . . . | 60,103 | 51,095 |
| Accrued taxes . . . . . . . . . . . . . . . . . . . . . . . | 24,933 | 12,185 |
| Accrued interest. . . . . . . . . . . . . . . . . . . . . . | 8,303 | 7,381 |
| Other . . . . . . . . . . . . . . . . . . . . . . . . . . | 9,721 | 9,427 |
| | 128,260 | 236,126 |
| DEFERRED CREDITS AND OTHER LIABILITIES: | | |
| Deferred income taxes . . . . . . . . . . . . . . . . . . . | 638,072 | 646,159 |
| Deferred investment tax credits . . . . . . . . . . . . . . | 76,444 | 78,048 |
| Deferred gain from sale-leaseback . . . . . . . . . . . . . | 257,161 | 261,981 |
| Other . . . . . . . . . . . . . . . . . . . . . . . . . . | 86,013 | 65,944 |
| | 1,057,690 | 1,052,132 |
| COMMITMENTS AND CONTINGENCIES (Notes 3 and 4) | | |
| TOTAL CAPITALIZATION AND LIABILITIES . . . . . . . . . | $3,168,396 | $3,187,479 |

The NOTES TO CONSOLIDATED FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF INCOME
(Thousands of Dollars)
(Unaudited)

| | Three Months Ended June 30, 1994 | Three Months Ended June 30, 1993 |
|---|---|---|
| OPERATING REVENUES. . . . . . . . . . . . . . . . . . . . . . | $ 154,987 | $ 150,478 |
| OPERATING EXPENSES: | | |
| Fuel used for generation: | | |
| Fossil fuel . . . . . . . . . . . . . . . . . . . . . . | 23,096 | 20,788 |
| Nuclear fuel. . . . . . . . . . . . . . . . . . . . . . | 4,232 | 2,142 |
| Power purchased . . . . . . . . . . . . . . . . . . . . . | 2,241 | 1,362 |
| Other operations. . . . . . . . . . . . . . . . . . . . . | 27,954 | 35,171 |
| Maintenance . . . . . . . . . . . . . . . . . . . . . . . | 13,890 | 11,101 |
| Depreciation and amortization . . . . . . . . . . . . . . | 19,142 | 18,837 |
| Amortization of phase-in revenues . . . . . . . . . . . . | 4,386 | 4,386 |
| Taxes: | | |
| Federal income. . . . . . . . . . . . . . . . . . . . . | 11,604 | 8,035 |
| State income. . . . . . . . . . . . . . . . . . . . . . | 2,875 | 1,798 |
| General . . . . . . . . . . . . . . . . . . . . . . . . | 12,019 | 11,313 |
| Total operating expenses. . . . . . . . . . . . . . . | 121,439 | 114,933 |
| OPERATING INCOME. . . . . . . . . . . . . . . . . . . . . . | 33,548 | 35,545 |
| OTHER INCOME AND DEDUCTIONS: | | |
| Corporate-owned life insurance (net). . . . . . . . . . . | (758) | 1,899 |
| Miscellaneous (net) . . . . . . . . . . . . . . . . . . . | 1,950 | 1,242 |
| Income taxes (net). . . . . . . . . . . . . . . . . . . . | 1,451 | 511 |
| Total other income and deductions . . . . . . . . . . | 2,643 | 3,652 |
| INCOME BEFORE INTEREST CHARGES. . . . . . . . . . . . . . . | 36,191 | 39,197 |
| INTEREST CHARGES: | | |
| Long-term debt. . . . . . . . . . . . . . . . . . . . . . | 12,005 | 13,897 |
| Other . . . . . . . . . . . . . . . . . . . . . . . . . . | 1,119 | 1,407 |
| Allowance for borrowed funds used during construction (credit) . . . . . . . . . . . . . . . . . | (556) | (381) |
| Total interest charges. . . . . . . . . . . . . . . . | 12,568 | 14,923 |
| NET INCOME. . . . . . . . . . . . . . . . . . . . . . . . . | $ 23,623 | $ 24,274 |

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF INCOME
(Thousands of Dollars)
(Unaudited)

| | Six Months Ended June 30, 1994 | Six Months Ended June 30, 1993 |
|---|---|---|
| OPERATING REVENUES | $ 291,591 | $ 288,959 |
| OPERATING EXPENSES: | | |
| Fuel used for generation: | | |
| Fossil fuel | 43,935 | 42,017 |
| Nuclear fuel | 8,095 | 4,849 |
| Power purchased | 3,493 | 3,369 |
| Other operations | 58,585 | 62,709 |
| Maintenance | 25,230 | 21,966 |
| Depreciation and amortization | 38,261 | 37,675 |
| Amortization of phase-in revenues | 8,772 | 8,772 |
| Taxes: | | |
| Federal income | 18,073 | 13,252 |
| State income | 4,585 | 3,215 |
| General | 24,136 | 22,816 |
| Total operating expenses | 233,165 | 220,640 |
| OPERATING INCOME | 58,426 | 68,319 |
| OTHER INCOME AND DEDUCTIONS: | | |
| Corporate-owned life insurance (net) | (1,993) | 3,368 |
| Miscellaneous (net) | 2,808 | 7,518 |
| Income taxes (net) | 3,238 | (1,043) |
| Total other income and deductions | 4,053 | 9,843 |
| INCOME BEFORE INTEREST CHARGES | 62,479 | 78,162 |
| INTEREST CHARGES: | | |
| Long-term debt | 24,098 | 28,001 |
| Other | 2,472 | 2,964 |
| Allowance for borrowed funds used during construction (credit) | (924) | (808) |
| Total interest charges | 25,646 | 30,157 |
| NET INCOME | $ 36,833 | $ 48,005 |

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF INCOME
(Thousands of Dollars)
(Unaudited)

| | Twelve Months Ended June 30, 1994 | Twelve Months Ended June 30, 1993 |
|---|---|---|
| OPERATING REVENUES | $ 619,629 | $ 583,842 |
| OPERATING EXPENSES: | | |
| Fuel used for generation: | | |
| Fossil fuel | 95,306 | 78,707 |
| Nuclear fuel | 16,521 | 12,808 |
| Power purchased | 9,988 | 5,975 |
| Other operations | 114,824 | 122,008 |
| Maintenance | 50,004 | 46,673 |
| Depreciation and amortization | 76,116 | 74,431 |
| Amortization of phase-in revenues | 17,545 | 17,544 |
| Taxes: | | |
| Federal income | 44,374 | 28,203 |
| State income | 10,940 | 7,704 |
| General | 46,523 | 42,647 |
| Total operating expenses | 482,141 | 436,700 |
| OPERATING INCOME | 137,488 | 147,142 |
| OTHER INCOME AND DEDUCTIONS: | | |
| Corporate-owned life insurance (net) | 2,480 | 7,377 |
| Miscellaneous (net) | 4,561 | 13,033 |
| Income taxes (net) | 6,508 | (2,192) |
| Total other income and deductions | 13,549 | 18,218 |
| INCOME BEFORE INTEREST CHARGES | 151,037 | 165,360 |
| INTEREST CHARGES: | | |
| Long-term debt | 50,005 | 56,411 |
| Other | 5,583 | 10,949 |
| Allowance for borrowed funds used during construction (credit) | (1,482) | (1,520) |
| Total interest charges | 54,106 | 65,840 |
| NET INCOME | $ 96,931 | $ 99,520 |

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(Thousands of Dollars)
(Unaudited)

| | Six Months Ended June 30, 1994 | Six Months Ended June 30, 1993 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 36,833 | $ 48,005 |
| Depreciation and amortization | 38,261 | 37,675 |
| Other amortization (including nuclear fuel) | 5,867 | 3,391 |
| Deferred income taxes and investment tax credits (net) | 4,319 | 5,495 |
| Amortization of phase-in revenues | 8,772 | 8,772 |
| Corporate-owned life insurance | (8,830) | (8,101) |
| Amortization of gain from sale-leaseback | (4,820) | (4,820) |
| Changes in working capital items: | | |
| Accounts receivable and unbilled revenues (net) (Note 8) | (46,211) | (12,142) |
| Fossil fuel | (5,479) | 4,055 |
| Accounts payable | 9,008 | (4,067) |
| Interest and taxes accrued | 13,670 | 4,323 |
| Other | (12,120) | (257) |
| Changes in other assets and liabilities | (1,436) | (21,326) |
| Net cash flows from operating activities | 37,834 | 61,003 |
| CASH FLOWS USED IN INVESTING ACTIVITIES: | | |
| Additions to utility plant | 47,306 | 22,513 |
| Corporate-owned life insurance policies | 24,008 | 24,624 |
| Net cash flows used in investing activities | 71,314 | 47,137 |
| CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES: | | |
| Short-term debt (net) | (130,600) | (7,300) |
| Advances to parent company (net) | 77,214 | 40,791 |
| Bonds issued | 160,422 | - |
| Bonds retired | (46,440) | - |
| Other long-term debt (net) | (67,893) | (46,870) |
| Borrowings against life insurance policies (net) | 40,791 | 621 |
| Net cash flows from (used in) financing activities | 33,494 | (12,758) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 14 | 1,108 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 63 | 892 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 77 | $ 2,000 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| CASH PAID FOR: | | |
| Interest on financing activities (net of amount capitalized) | $ 43,809 | $ 38,921 |
| Income taxes | 18,400 | 7,500 |

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(Thousands of Dollars)
(Unaudited)

| | Twelve Months Ended June 30, 1994 | Twelve Months Ended June 30, 1993 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 96,931 | $ 99,520 |
| Depreciation and amortization | 76,116 | 74,431 |
| Other amortization (including nuclear fuel) | 13,730 | 9,363 |
| Deferred income taxes and investment tax credits (net) | 21,396 | 10,046 |
| Amortization of phase-in revenues | 17,545 | 17,544 |
| Corporate-owned life insurance | (22,379) | (15,972) |
| Amortization of gain from sale-leaseback | (9,640) | (9,640) |
| Changes in working capital items: | | |
| Accounts receivable and unbilled revenues (net) (Note 8) | (34,638) | (10,635) |
| Fossil fuel | (1,027) | 7,760 |
| Accounts payable | 3,262 | 1,168 |
| Interest and taxes accrued | 294 | 2,477 |
| Other | (14,054) | (5,393) |
| Changes in other assets and liabilities | 3,360 | (61,142) |
| Net cash flows from operating activities | 150,896 | 119,527 |
| CASH FLOWS USED IN INVESTING ACTIVITIES: | | |
| Additions to utility plant | 91,679 | 63,713 |
| Corporate-owned life insurance policies | 26,650 | 20,632 |
| Death proceeds of corporate-owned life insurance policies | (10,158) | (754) |
| Net cash flows used in investing activities | 108,171 | 83,591 |
| CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES: | | |
| Short-term debt (net) | (61,000) | (3,800) |
| Advances to parent company (net) | (82,080) | (28,025) |
| Bonds issued | 225,422 | 135,000 |
| Bonds retired | (186,440) | (125,000) |
| Other long-term debt (net) | (13,980) | (14,860) |
| Revolving credit agreement (net) | (150,000) | - |
| Borrowings against life insurance policies (net) | 223,430 | (3,959) |
| Net cash flows from (used in) financing activities | (44,648) | (40,644) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,923) | (4,708) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 2,000 | 6,708 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 77 | $ 2,000 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| CASH PAID FOR: | | |
| Interest on financing activities (net of amount capitalized) | $ 82,541 | $ 76,659 |
| Income taxes | 40,254 | 21,725 |

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF CAPITALIZATION
(Thousands of Dollars)

| | | | | June 30, 1994 (Unaudited) | | December 31, 1993 | |
|---|---|---|---|---|---|---|---|
| COMMON STOCK EQUITY: | | | | | | | |
| (See Statements of Common Stock Equity) | | | | | | | |
| Common stock, without par value, authorized and issued 1,000 shares | | | | $1,065,634 | | $1,065,634 | |
| Retained earnings | | | | 216,877 | | 180,044 | |
| Total common stock equity | | | | 1,282,511 | 65% | 1,245,678 | 66% |
| LONG-TERM DEBT: | | | | | | | |
| First Mortgage Bonds: | | | | | | | |
| Series | Due | 1994 | 1993 | | | | |
| 5-5/8% | 1996 | $ 16,000 | $ 16,000 | | | | |
| 7.6% | 2003 | 135,000 | 135,000 | | | | |
| 6-1/2% | 2005 | 65,000 | 65,000 | | | | |
| 6.20% | 2006 | 100,000 | - | | | | |
| | | | | 316,000 | | 216,000 | |
| Pollution Control Bonds: | | | | | | | |
| 6.80% | 2004 | - | 14,500 | | | | |
| 5-7/8% | 2007 | - | 21,940 | | | | |
| 6% | 2007 | - | 10,000 | | | | |
| 5.10% | 2023 | 13,982 | - | | | | |
| Variable (a) | 2027 | 21,940 | - | | | | |
| 7% | 2031 | 327,500 | 327,500 | | | | |
| Variable (a) | 2032 | 14,500 | - | | | | |
| Variable (a) | 2032 | 10,000 | - | | | | |
| | | | | 387,922 | | 373,940 | |
| Total bonds | | | | 703,922 | | 589,940 | |
| Other Long-Term Debt: | | | | | | | |
| Pollution control obligations: | | | | | | | |
| 5-3/4% series | 2003 | - | 13,980 | | | | |
| Other long-term agreement | 1995 | - | 53,913 | | | | |
| Total other long-term debt | | | | - | | 67,893 | |
| Less: | | | | | | | |
| Unamortized premium and discount (net) | | | | 3,987 | | 4,052 | |
| Long-term debt due within one year | | | | - | | 238 | |
| Total long-term debt | | | | 699,935 | 35% | 653,543 | 34% |
| TOTAL CAPITALIZATION | | | | $1,982,446 | 100% | $1,899,221 | 100% |

(a) Market-Adjusted Tax Exempt Securities (MATES). The interest rate is being reset periodically via an auction process. As of June 30, 1994, the rate was 2.86% for these bonds.

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF COMMON STOCK EQUITY
(Thousands of Dollars, Except Shares)
(Unaudited)

| | Common Stock | | Other | Retained | Treasury Stock | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Paid-in Capital | Earnings | Shares | Amount | Total |
| BALANCE DECEMBER 31, 1991. . (Predecessor) | 40,997,745 | 637,003 | 284 | 170,598 | (9,996,426) | (199,255) | 608,630 |
| Net income | | | | 6,040 | | | 6,040 |
| Cash dividends: | | | | | | | |
| Common stock-$0.43 per share. . . . . . . . . | | | | (13,330) | | | (13,330) |
| Preferred stock. . . . . | | | | (205) | | | (205) |
| Employee stock plans . . . | | (12) | | | (966) | | (12) |
| Merger of KG&E with KCA. . | (40,997,745) | (636,991) | (284) | (163,103) | 9,997,392 | 199,255 | (601,123) |
| MARCH 31, 1992 Subtotal-KG&E (Predecessor). | -0- | -0- | -0- | -0- | -0- | -0- | -0- |
| KCA common stock issued. . | 1,000 | $1,065,634 | - | - | - | - | $1,065,634 |
| Net income . . . . . . . . | | | | $ 71,941 | | | 71,941 |
| BALANCE DECEMBER 31, 1992. . (Successor) | 1,000 | 1,065,634 | - | 71,941 | - | - | 1,137,575 |
| Net Income . . . . . . . . | | | | 108,103 | | | 108,103 |
| BALANCE DECEMBER 31, 1993. . (Successor) | 1,000 | $1,065,634 | $ - | $ 180,044 | - | $ - | $1,245,678 |
| Net Income . . . . . . . . | | | | 36,833 | | | 36,833 |
| BALANCE JUNE 30, 1994. . . . (Successor) | 1,000 | $1,065,634 | $ - | $ 216,877 | - | $ - | $1,282,511 |

The NOTES TO FINANCIAL STATEMENTS are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

## 1. ACCOUNTING POLICIES AND OTHER INFORMATION

General. On March 31, 1992, Western Resources, Inc., formerly The Kansas Power and Light Company, (Western Resources, Parent Company) through its wholly-owned subsidiary KCA Corporation (KCA), acquired all of the outstanding common and preferred stock of Kansas Gas and Electric Company (KG&E) for $454 million in cash and 23,479,380 shares of Western Resources common stock (the Merger).

The Company owns 47% of the Wolf Creek Nuclear Operating Corporation (WCNOC), the operating company for the Wolf Creek Generating Station (Wolf Creek). The Company records its proportionate share of all transactions of WCNOC as it does other jointly-owned facilities.

The financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company, the accompanying condensed financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of June 30, 1994, and December 31, 1993, and the results of its operations for the three, six and twelve month periods ended June 30, 1994 and 1993. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's 1993 Annual Report on Form 10-K.

The accounting policies of the Company are in accordance with generally accepted accounting principles as applied to regulated public utilities. The accounting and rates of the Company are subject to requirements of the Kansas Corporation Commission (KCC) and the Federal Energy Regulatory Commission.

Cash Surrender Value of Life Insurance Contracts. The following amounts related to corporate-owned life insurance (COLI) contracts, primarily with one highly rated major insurance company, are recorded on the balance sheets (millions of dollars):

| | June 30, 1994 | December 31, 1993 |
|---|---|---|
| Cash surrender value of contracts | $318.2 | $269.0 |
| Borrowings against contracts | (309.8) | (269.0) |
| COLI (net) | $ 8.4 | $ 0.0 |

Statements of Cash Flows. For purposes of the statements of cash flows, the Company considers highly liquid collateralized debt instruments purchased with a maturity of three months or less to be cash equivalents.

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

2. SHORT-TERM DEBT

The Company's short-term financing requirements are satisfied through short-term bank loans and borrowings under unsecured lines of credit maintained with banks. At June 30, 1994, the Company had bank credit arrangements available of $35 million.

3. COMMITMENTS AND CONTINGENCIES

Environmental. The Company and the Kansas Department of Health and Environment entered into a consent agreement to perform preliminary assessments of six former manufactured gas sites. The preliminary assessments of these sites have been completed at minimal cost. Until such time that risk assessments are completed at these sites, it will be impossible to predict the cost of remediation. However, the Company is aware of other utilities in Region VII of the EPA (Kansas, Missouri, Nebraska, and Iowa) which have incurred remediation costs for such sites ranging between $500,000 and $10 million, depending on the site. The Company is also aware that the KCC has permitted another Kansas utility to recover a portion of the remediation costs through rates. To the extent that such remediation costs are not recovered through rates, the costs could be material to the Company's financial position or results of operations depending on the degree of remediation and number of years over which the remediation must be completed.

Spent Nuclear Fuel Disposal. Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy (DOE) is responsible for the ultimate storage and disposal of spent nuclear fuel removed from nuclear reactors. Under a contract with the DOE for disposal of spent nuclear fuel, the Company pays a quarterly fee to DOE of one mill per kilowatthour on net nuclear generation. These fees are included as part of nuclear fuel expense.

The Company along with the other co-owners of Wolf Creek are among 14 companies that filed a lawsuit June 20, 1994, seeking an interpretation of the DOE's obligation to begin accepting spent nuclear fuel for disposal in 1998. The Federal Nuclear Waste Policy Act requires DOE ultimately to accept and dispose of nuclear utilities' spent fuel. The issue to be decided in this case is whether DOE must begin accepting spent fuel in 1998 or at a future date.

Decommissioning. In 1988 the Company estimated that it would expend approximately $725 million for its share of Wolf Creek decommissioning costs primarily during the period from 2025 through 2031. Such costs, estimated to be approximately $97 million in 1988 dollars, are currently authorized in rates. These costs were calculated using an assumed inflation rate of 5.15% over the remaining service life, in 1988, of 37 years.

Decommissioning costs, calculated in the 1988 estimate, are being charged to operating expenses. Amounts so expensed ($3.5 million in 1993 increasing annually to $5.5 million is 2024) and earnings on trust fund assets are deposited in an external trust fund which, when fully funded (assuming a return on trust assets of 7%) will be used solely for the physical decommissioning of Wolf Creek (immediate dismantlement method). Electric rates charged to customers provide for recovery of these decommissioning costs over the life of Wolf Creek.

The Company's investment in the decommissioning fund, including reinvested earnings was $15.1 and $13.2 million at June 30, 1994, and December 31, 1993, respectively. These amounts are reflected in OTHER PROPERTY AND INVESTMENTS, Decommissioning Trust, and the related liability is included in DEFERRED CREDITS AND OTHER LIABILITIES, Other, on the balance sheets.

On June 9, 1994, the KCC issued an order approving the decommissioning cost of a 1993 Wolf Creek Decommissioning Cost Study which estimates the Company's share of Wolf Creek decommissioning costs to be approximately $595 million during the period 2025 through 2033 or approximately $174 million in 1993 dollars. These costs were calculated using an assumed inflation rate of 3.45% over the remaining service life, in 1993, of 32 years.

The KCC also scheduled a hearing to review the funding level for the decommissioning trust. Management believes the current level of funding will meet the requirements of the 1993 cost study and is requesting no change to the current funding level.

The Company carries $164 million in premature decommissioning insurance. The insurance coverage has several restrictions. One of these is that it can only be used if Wolf Creek incurs an accident exceeding $500 million in expenses to safely stabilize the reactor, to decontaminate the reactor and reactor station site in accordance with a plan approved by the Nuclear Regulatory Commission (NRC), and to pay for on-site property damages. If the amount designated as decommissioning insurance is needed to implement the NRC-approved plan for stabilization and decontamination, it would not be available for decommissioning purposes.

Nuclear Insurance. The Price-Anderson Act limits the combined public liability of the owners of nuclear power plants to $9.2 billion for a single nuclear incident. The Wolf Creek owners (Owners) have purchased the maximum available private insurance of $200 million and the balance is provided by an assessment plan mandated by the NRC. Under this plan, the Owners are jointly and severally subject to a retrospective assessment of up to $79.3 million ($37.3 million, Company's share) in the event there is a nuclear incident involving any of the nation's licensed reactors. This assessment is subject to an inflation adjustment based on the Consumer Price Index. There is a limitation of $10 million ($4.7 million, Company's share) in retrospective assessments per incident per year.

The Owners carry decontamination liability, premature decommissioning liability and property damage insurance for Wolf Creek totalling approximately $2.8 billion ($1.3 billion, Company's share). This insurance is provided by a combination of "nuclear insurance pools" ($1.3 billion) and Nuclear Electric Insurance Limited (NEIL) ($1.5 billion). In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. The remaining proceeds from the $2.8 billion insurance coverage ($1.3 billion, Company's share), if any, can be used for property damage up to $1.1 billion (Company's share) and premature decommissioning costs up to $117.5 million (Company's share) in excess of funds previously collected for decommissioning (as discussed under "Decommissioning"), with the remaining $47 million (Company's share) available for either property damage or premature decommissioning costs.

The Owners also carry additional insurance with NEIL to cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If losses incurred at any of the nuclear plants insured under the NEIL policies exceed premiums, reserves, and other NEIL resources, the Company may be subject to retrospective assessments of approximately $9 million per year.

There can be no assurance that all potential losses or liabilities will be insured or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance, to the extent not recoverable through rates, could have a material adverse effect on the Company's financial position and results of operations.

Clean Air Act. The Clean Air Act Amendments of 1990 (the Act) require a two-phase reduction in sulfur dioxide and oxides of nitrogen (NOx) emissions effective in 1995 and 2000 and a probable reduction in toxic emissions. To meet the monitoring and reporting requirements under the acid rain program, the Company is installing continuous emission monitoring and reporting equipment at a total cost of approximately $2.3 million. At December 31, 1993, the Company had completed approximately $850 thousand of these capital expenditures with the remaining $1.4 million of capital expenditures to be completed in 1994 and 1995. The Company does not expect additional equipment to reduce sulfur emissions to be necessary under Phase II. The Company currently has no Phase I affected units.

The NOx and toxic limits, which were not set in the law, will be specified in future EPA regulations. The EPA has issued for public comment preliminary NOx regulations for Phase I group 1 units. NOx regulations for Phase II units and Phase I group 2 units are mandated in the Act to be promulgated by January 1, 1997. Although the Company has no Phase I units, the final regulations for Phase I group 1 may allow for early compliance for Phase II group 1 units. Until such time as the Phase I group 1 NOx regulations are final, the Company will be unable to determine its compliance options or related compliance costs.

Fuel Commitments. To supply a portion of the fuel requirements for its generating plants, the Company has entered into various commitments to obtain nuclear fuel, coal and natural gas. Some of these contracts contain provisions for price escalation and minimum purchase commitments. At December 31, 1993, WCNOC's nuclear fuel commitments (Company's share) were approximately $18.0 million for uranium concentrates expiring at various times through 1997, $123.6 million for enrichment expiring at various times through 2014 and $45.5 million for fabrication through 2012. At December 31, 1993, the Company's coal and natural gas contract commitments in 1993 dollars under the remaining term of the contracts were $666 million and $20.4 million, respectively. The largest coal contract was renegotiated early in 1993 and expires in 2020 with the remaining coal contracts expiring at various times through 2013. The majority of natural gas contracts expire in 1995 with automatic one-year extension provisions. In the normal course of business, additional commitments and spot market purchase will be made to obtain adequate fuel supplies.

For additional information with respect to Commitments and Contingencies see Note 3, COMMITMENTS AND CONTINGENCIES of the Notes to Financial Statements in the Company's 1993 Annual Report on Form 10-K.

4. LEGAL PROCEEDINGS

For information with respect to Legal Proceedings see Note 10, LEGAL PROCEEDINGS of the Notes to Financial Statements in the Company's 1993 Annual Report on Form 10-K.

5. RATE MATTERS AND REGULATION

For information with respect to Rate Matters and Regulation see Note 4 RATE MATTERS AND REGULATION of the Notes to Financial Statements in the Company's 1993 Annual Report on Form 10-K.

6. INCOME TAXES

Total income tax expense included in the Statements of Income reflects the Federal statutory rate of 35% since January 1, 1993 and 34% for all prior periods. The Federal statutory rate produces effective income tax rates of 35.5% and 27.7% for the three month periods, and 34.5% and 26.7% for the six month periods and 33.5% and 27.7% for the twelve month periods ended June 30, 1994 and 1993, respectively. The effective income tax rates vary from the Federal statutory rate due to the permanent differences, including the amortization of investment tax credits.

For additional information with respect to Income Taxes see Note 9, INCOME TAXES of the Notes to Financial Statements in the Company's 1993 Annual Report on Form 10-K.

7. EMPLOYEE BENEFIT PLANS

Postemployment. The Company adopted the provisions of Statement of Financial Accounting Standards No. 112 (SFAS 112), in the first quarter of 1994. This statement requires the Company to recognize the liability to provide postemployment benefits when the liability has been incurred. To mitigate the impact adopting SFAS 112 will have on rate increases, the Company received an order from the KCC permitting the initial deferral of SFAS 112 transition costs and expenses and its inclusion in the future computation of cost of service net of and income stream generated from corporate-owned life insurance. At June 30, 1994, the Company's SFAS 112 liability recorded on the balance sheet was approximately $585,000.

8. LONG-TERM DEBT

The Company has a long-term debt agreement, expiring in 1995, which contains provisions for the sale of accounts receivable and unbilled revenues (receivables) and phase-in revenues up to a total of $180 million. Amounts related to receivables are accounted for as sales while those related to phase-in revenues are accounted for as collateralized borrowings. Additional receivables are continually sold to replace those collected. At June 30, 1994 and December 31, 1993, outstanding receivables amounting to $20.1 million and $56.8 million, respectively, were considered sold under the agreement.

For additional information with respect to Long-Term Debt see Note 6, LONG-TERM DEBT of the Notes to Financial Statements in the Company's 1993 Annual Report on Form 10-K.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Item 7 of the Company's Annual Report on Form 10-K for 1993.

The following updates the information provided in the 1993 Form 10-K, and analyzes the changes in the results of operations between the three, six and twelve month periods ended June 30, 1994 and comparable periods of 1993.

### FINANCIAL CONDITION

General. The Company had net income for the second quarter of 1994 of $23.6 million compared to $24.3 million for the same period of 1993. The decrease in income can be attributed to an increase in maintenance expense due to the major boiler overhaul of the Company's coal fired La Cygne 1 and higher income taxes as a result of the completion of the accelerated amortization of certain deferred income tax reserves.

As of December 31, 1993, the Company had fully amortized these deferred income tax reserves related to the allowance for borrowed funds used during construction capitalized for Wolf Creek. The absence of the amortization of these deferred income tax reserves reduces net income by approximately $3 million per quarter or approximately $12 million per year.

Net income for the six and twelve months ending June 30, 1994, of $36.8 million and $96.9 million, decreased from net income of $48.0 and $99.5 million for the comparable periods of 1993, respectively. The decrease in net income is primarily due to increases in income taxes as a result of the absence of the amortization of the above mentioned deferred income tax reserves and higher maintenance expense as a result of the major boiler overhaul of the Company's coal fired La Cygne 1.

Partially offsetting the increased expenses for the three, six and twelve months ended June 30, 1994, was lower interest expense.

Liquidity and Capital Resources. The KG&E common and preferred stock was redeemed in connection with the Merger, leaving 1,000 shares of common stock held by Western Resources. The debt structure of the Company and available sources of funds were not affected by the Merger.

On April 28, 1994, three series of Market-Adjusted Tax Exempt Securities totalling $46.4 million were sold on behalf of the Company at a rate of 2.95% for the initial auction period. The interest rate is being reset periodically via an auction process. As of June 30, 1994, the rate on these bonds was 2.86% for each series. The net proceeds from the new issues, together with available cash, were used to refund three series of Pollution Control Bonds totalling $46.4 million bearing interest rates between 5 7/8% and 6.8%.

In 1986 the Company purchased corporate-owned life insurance policies (COLI) on certain of its employees. For the six months ended June 30, 1994, the Company increased its borrowings against the accumulated cash surrender values of the policies by $39.2 million and received $1.6 million from increased borrowings on Wolf Creek Nuclear Operating Company policies.

OPERATING RESULTS

The following discussion explains variances for the three, six and twelve months ended June 30, 1994 to the comparable periods of 1993.

Revenues. The Company's revenues vary with levels of usage as a result of changing weather conditions during comparable periods and are sensitive to seasonal fluctuations between consecutive periods.

Changes in electric sales volumes:

| | 3 Months Ended | 6 Months Ended | 12 Months Ended |
|---|---|---|---|
| Residential | 15.6% | 2.6% | 4.9% |
| Commercial | 0.0% | 1.2% | (0.5)% |
| Industrial | 3.5% | (1.1)% | (1.1)% |
| Total Retail | 5.8% | 0.6% | 0.8% |
| Wholesale & interchange | (3.7)% | 57.7% | 66.4% |
| Total electric sales | 4.4% | 8.6% | 11.0% |

Revenues for the second quarter of 1994, of $155.0 million, increased three percent from the 1993 second quarter revenues of $150.5 million, due to the warmer temperatures experienced in the Company's service territory, primarily in the month of June, which resulted in a greater customer demand for air conditioning load compared to last year.

Revenues for the six months ended June 30, 1994, of $291.6 million, increased slightly from revenues of $289.0 million for the comparable period of 1993. The increase in revenues is primarily a result of increased residential sales due to the higher air conditioning load during 1994 as compared to 1993 and higher wholesale and interchange sales due to increased interchange demand.

Revenues for the twelve months ended June 30, 1994, of $619.6 million, increased approximately six percent from revenues of $583.8 million for the comparable period of 1993. The increase can be attributed primarily to a $22.6 million increase in wholesale and interchange revenues as a result of additional interchange customers and other utilities' need for power to meet peak demand periods while those utilities' units were down due to the 1993 summer flooding. Residential customers also experienced an increase in sales volume as summer temperatures returned to near normal levels during the third quarter of 1993.

Operating Expenses. Total operating expenses increased approximately six percent for the three and the six months ended June 30, 1994 compared the same periods of 1993. The increases can be attributed to increases during the second quarter of $2.8 million in maintenance expense primarily due to the major boiler overhaul of the Company's coal fired La Cygne 1, a $4.6 million increase in federal and state income taxes, and a $4.4 million increase in fuel expense as a result of increased electric generation to meet customer demand.

The increase in federal income taxes for the three and six months ended June 30, 1994 was due to the completion at December 31, 1993, of the accelerated amortization of deferred income tax reserves relating to the allowance for borrowed funds used during construction capitalized for Wolf Creek. The completion of the amortization of these deferred income tax reserves increased income taxes and thereby reduced net income by approximately $3 million and $6 million for the quarter and six months ended June 30, 1994, respectively.

Total operating expenses increased approximately 10 percent for the twelve months ended June 30, 1994 compared to the same period of 1993. The increase is primarily the result of a $24.3 million increase in fuel expense and purchased power due to increased electric generation caused by the increase in customer demand, a $19.4 million increase in federal and state income taxes, and higher general taxes of $3.9 million. The increase in income taxes is a result of the completion of the amortization of certain deferred income taxes discussed previously. Higher property taxes due to increases in plant and higher mill levies contributed to increased general taxes.

Other Income and Deductions. Other income and deductions, net of taxes, decreased significantly for the three, six and twelve months ended June 30, 1994, compared to the same period in 1993 primarily as a result of increased interest expense on higher COLI borrowings.

Interest Expense. Interest expense decreased $2.4 million, $4.5 million and $11.7 million for the three, six and twelve months ended June 30, 1994 compared to the same periods of 1993, respectively. The decreases resulted primarily from lower interest rates on variable-rate debt and the refinancing of higher cost fixed-rate debt. Also accounting for the decrease in interest expense was the impact of increased COLI borrowings which reduce the need for other long-term debt and thereby reduced interest expense. COLI interest is reflected in Other Income and Deductions on the income statement.

KANSAS GAS AND ELECTRIC COMPANY
Part II Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

None

(b) Reports on Form 8-K:

None

## SIGNATURES

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.

Kansas Gas and Electric Company

Date August 10, 1994 By Richard D. Terrill

Richard D. Terrill,
Secretary, Treasurer and
General Counsel