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 March 31, 1998

[ ] 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)

Indicated 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 May 15, 1998 |
|---|---|
| Common Stock (No par value) | 1,000 Shares |

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

| | March 31, 1998 | December 31, 1997 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 42 | $ 43 |
| Accounts receivable, (net) | 66,814 | 66,654 |
| Advances to parent company (net) | 41,838 | 72,558 |
| Inventories and supplies, at average cost | 42,000 | 41,019 |
| Prepaid expenses and other | 9,314 | 17,165 |
| Total Current Assets | 160,008 | 197,439 |
| PROPERTY, PLANT AND EQUIPMENT (net) | 2,549,494 | 2,565,175 |
| OTHER ASSETS: | | |
| Regulatory assets | 277,112 | 278,568 |
| Other | 73,135 | 75,926 |
| Total Other Assets | 350,247 | 354,494 |
| TOTAL ASSETS | $3,059,749 | $3,117,108 |
| LIABILITIES AND SHAREOWNERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Short-term debt | $ - | $ 45,000 |
| Accounts payable | 61,051 | 81,986 |
| Accrued liabilities | 45,716 | 32,745 |
| Accrued income taxes | 15,863 | 4,212 |
| Other | 4,117 | 4,032 |
| Total Current Liabilities | 126,747 | 167,975 |
| LONG-TERM LIABILITIES: | | |
| Long-term debt (net) | 684,064 | 684,128 |
| Deferred income taxes and investment tax credits | 815,289 | 820,838 |
| Deferred gain from sale-leaseback | 218,821 | 221,779 |
| Other | 82,934 | 87,909 |
| Total Long-term Liabilities | 1,801,108 | 1,814,654 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREOWNERS' EQUITY (See Statements): | | |
| Common stock, without par value, authorized and issued 1,000 shares | 1,065,634 | 1,065,634 |
| Retained earnings | 66,260 | 68,845 |
| Total Shareowners' Equity | 1,131,894 | 1,134,479 |
| TOTAL LIABILITIES AND SHAREOWNERS' EQUITY | $3,059,749 | $3,117,108 |

The Notes to Financial Statements are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY

STATEMENTS OF INCOME
(Dollars in Thousands)
(Unaudited)

| | Three Months Ended March 31, 1998 | Three Months Ended March 31, 1997 |
|---|---|---|
| SALES . . . . . . . . . . . . . . . . . . . . . . . . . | $ 134,566 | $ 143,791 |
| COST OF SALES . . . . . . . . . . . . . . . . . . . . . | 25,920 | 26,224 |
| GROSS PROFIT. . . . . . . . . . . . . . . . . . . . . . | 108,646 | 117,567 |
| OPERATING EXPENSES: | | |
| Operating and maintenance expense . . . . . . . . . . | 35,544 | 45,178 |
| Depreciation and amortization . . . . . . . . . . . . | 24,433 | 28,923 |
| Selling, general and administrative expense . . . . . | 12,636 | 13,102 |
| Total Operating Expenses. . . . . . . . . . . . . | 72,613 | 87,203 |
| INCOME FROM OPERATIONS. . . . . . . . . . . . . . . . . | 36,033 | 30,364 |
| OTHER INCOME (EXPENSE). . . . . . . . . . . . . . . . . | 4,843 | (1,437) |
| INCOME BEFORE INTEREST AND TAXES. . . . . . . . . . . . | 40,876 | 28,927 |
| INTEREST EXPENSE: | | |
| Interest expense on long-term debt. . . . . . . . . . | 11,489 | 11,482 |
| Interest expense on short-term debt and other . . . . | 870 | 1,557 |
| Total Interest Expense. . . . . . . . . . . . . . | 12,359 | 13,039 |
| INCOME BEFORE INCOME TAXES. . . . . . . . . . . . . . . | 28,517 | 15,888 |
| INCOME TAXES. . . . . . . . . . . . . . . . . . . . . . | 6,102 | 4,716 |
| NET INCOME. . . . . . . . . . . . . . . . . . . . . . . | $ 22,415 | $ 11,172 |

The Notes to Financial Statements are an integral part of these statements.

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

| | Twelve Months Ended March 31, 1998 | Twelve Months Ended March 31, 1997 |
|---|---|---|
| SALES . . . . . . . . . . . . . . . . . . . . . . . . . | $ 605,220 | $ 653,327 |
| COST OF SALES . . . . . . . . . . . . . . . . . . . . . | 129,290 | 121,224 |
| GROSS PROFIT. . . . . . . . . . . . . . . . . . . . . . | 475,930 | 532,103 |
| OPERATING EXPENSES: | | |
| Operating and maintenance expense . . . . . . . . . . | 170,519 | 178,649 |
| Depreciation and amortization . . . . . . . . . . . . | 118,933 | 115,022 |
| Selling, general and administrative expense . . . . . | 56,801 | 54,700 |
| Total Operating Expenses. . . . . . . . . . . . . | 346,253 | 348,371 |
| INCOME FROM OPERATIONS. . . . . . . . . . . . . . . . . | 129,677 | 183,732 |
| OTHER INCOME (EXPENSE). . . . . . . . . . . . . . . . . | 2,258 | 2,648 |
| INCOME BEFORE INTEREST AND TAXES. . . . . . . . . . . . | 131,935 | 186,380 |
| INTEREST EXPENSE: | | |
| Interest expense on long-term debt. . . . . . . . . . | 46,069 | 46,070 |
| Interest expense on short-term debt and other . . . . | 3,701 | 11,640 |
| Total Interest Expense. . . . . . . . . . . . . . | 49,770 | 57,710 |
| INCOME BEFORE INCOME TAXES. . . . . . . . . . . . . . . | 82,165 | 128,670 |
| INCOME TAXES. . . . . . . . . . . . . . . . . . . . . . | 18,794 | 36,924 |

| | | |
|---|---|---|
| NET INCOME. . . . . . . . . . . . . . . . . . . . . . . | $ 63,371 | $ 91,746 |

The Notes to Financial Statements are an integral part of these statements.

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

| | Three Months Ended March 31, 1998 | 1997 |
|---|---|---|
| Net income. . . . . . . . . . . . . . . . . . . . . . . . . | $ 22,415 | $ 11,172 |
| Other comprehensive income. . . . . . . . . . . . . . . . . | - | - |
| Comprehensive income. . . . . . . . . . . . . . . . . . . . | $ 22,415 | $ 11,172 |

The Notes to Consolidated Financial Statements are an integral part of these statements.

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

| | Twelve Months Ended March 31, 1998 | 1997 |
|---|---|---|
| Net income. . . . . . . . . . . . . . . . . . . . . . . . . | $ 63,371 | $ 91,746 |
| Other comprehensive income. . . . . . . . . . . . . . . . . | - | - |
| Comprehensive income. . . . . . . . . . . . . . . . . . . . | $ 63,371 | $ 91,746 |

The Notes to Consolidated Financial Statements are an integral part of these statements.

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

| | Three Months Ended March 31, 1998 | 1997 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income. . . . . . . . . . . . . . . . . . . . . . . . | $ 22,415 | $ 11,172 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization . . . . . . . . . . . . . . . | 24,433 | 28,923 |
| Amortization of gain from sale-leaseback. . . . . . . . . . | (2,957) | (2,410) |
| Changes in working capital items: | | |
| Accounts receivable, (net). . . . . . . . . . . . . . . . | (160) | 16,205 |
| Inventories and supplies. . . . . . . . . . . . . . . . . | (981) | 394 |
| Prepaid expenses and other. . . . . . . . . . . . . . . . | 7,851 | 7,101 |
| Accounts payable. . . . . . . . . . . . . . . . . . . . . | (20,935) | (4,687) |
| Accrued liabilities . . . . . . . . . . . . . . . . . . . | 12,971 | 12,848 |
| Accrued income taxes. . . . . . . . . . . . . . . . . . . | 11,651 | 4,406 |
| Other . . . . . . . . . . . . . . . . . . . . . . . . . . | 85 | 289 |
| Changes in other assets and liabilities . . . . . . . . . . | (908) | (3,974) |
| Net cash flows from operating activities. . . . . . . . | 53,465 | 70,267 |
| CASH FLOWS USED IN INVESTING ACTIVITIES: | | |
| Additions to utility plant. . . . . . . . . . . . . . . . . | (14,091) | (16,318) |

| | | |
|---|---|---|
| Net cash flows (used in) investing activities | (14,091) | (16,318) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Short-term debt (net) | (45,000) | (212,300) |
| Advances to parent company (net) | 30,720 | 183,413 |
| Retirements of long-term debt | (95) | (65) |
| Dividends to parent company | (25,000) | (25,000) |
| Net cash flows (used in) financing activities | (39,375) | (53,952) |
| NET (DECREASE) IN CASH AND CASH EQUIVALENT | (1) | (3) |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 43 | 44 |
| End of period | $ 42 | $ 41 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| CASH PAID FOR: | | |
| Interest on financing activities (net of amount capitalized) | $ 6,618 | $ 8,414 |
| Income taxes | - | 7,000 |

The Notes to Financial Statements are an integral part of these statements.

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

| | Twelve Months Ended March 31, 1998 | 1997 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 63,371 | $ 91,746 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 118,933 | 115,022 |
| Amortization of gain from sale-leaseback | (11,828) | (9,640) |
| Changes in working capital items: | | |
| Accounts receivable, (net) | (7,348) | 8,749 |
| Inventories and supplies | 1,252 | 2,442 |
| Prepaid expenses and other | 576 | (293) |
| Accounts payable | 16,919 | (7,640) |
| Accrued liabilities | (3,587) | (2,110) |
| Accrued income taxes | 229 | 22,450 |
| Other | (18) | 484 |
| Changes in other assets and liabilities | (7,947) | 15,422 |
| Net cash flows from operating activities | 170,552 | 236,632 |
| CASH FLOWS USED IN INVESTING ACTIVITIES: | | |
| Additions to utility plant | (85,938) | (68,256) |
| Net cash flows (used in) investing activities | (85,938) | (68,256) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Short-term debt (net) | (10,000) | (102,000) |
| Advances to parent company (net) | 25,482 | 49,670 |
| Retirements of long-term debt | (95) | (16,065) |
| Dividends to parent company | (100,000) | (100,000) |
| Net cash flows (used in) financing activities | (84,613) | (168,395) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1 | (19) |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 41 | 60 |
| End of period | $ 42 | $ 41 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| CASH PAID FOR: | | |
| Interest on financing activities (net of amount capitalized) | $ 72,622 | $ 80,805 |
| Income taxes | 45,100 | 32,800 |

The Notes to Financial Statements are an integral part of these statements.

KANSAS GAS AND ELECTRIC COMPANY
STATEMENTS OF COMMON SHAREOWNERS' EQUITY
(Dollars in Thousands)
(Unaudited)

| | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (net) |
|---|---|---|---|
| BALANCE DECEMBER 31, 1995, 1,000 shares. . . . . . | $1,065,634 | $ 120,443 | $ - |
| Net income . . . . . . . . . . . . . . . . . . . . . . | | 96,274 | |
| Dividend to parent company . . . . . . . . . . . . | | (100,000) | |
| BALANCE DECEMBER 31, 1996, 1,000 shares. . . . . . | 1,065,634 | 116,717 | - |
| Net Income . . . . . . . . . . . . . . . . . . . . . . | | 52,128 | |
| Dividend to parent company . . . . . . . . . . . . | | (100,000) | |
| BALANCE DECEMBER 31, 1997, 1,000 shares. . . . . . | 1,065,634 | 68,845 | - |
| Net Income . . . . . . . . . . . . . . . . . . . . . . | | 22,415 | |
| Dividend to parent company . . . . . . . . . . . . | | (25,000) | |
| BALANCE MARCH 31, 1998, 1,000 shares . . . . . . . | $1,065,634 | $ 66,260 | $ - |

The Notes to Financial Statements are an integral part of these statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business: Kansas Gas and Electric Company (the company, KGE) is a rate-regulated electric utility and wholly-owned subsidiary of Western Resources, Inc. (Western Resources). The company is engaged principally in the production, purchase, transmission, distribution, and sale of electricity. The company serves approximately 280,000 electric customers in southeastern Kansas. At December 31, 1997, the company had no employees. All employees are provided by the company's parent, Western Resources which allocates costs related to the employees of the company.

The Company owns 47% of Wolf Creek Nuclear Operating Corporation (WCNOC), the operating company for 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 company's unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements presented in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements and notes should be read in conjunction with the financial statements and the notes included in the company's 1997 Annual Report on Form 10-K. The accounting and rates of the company are subject to requirements of the Kansas Corporation Commission (KCC) and the Federal Energy Regulatory Commission (FERC).

New Pronouncements: Effective January 1, 1998, the company adopted the provisions of Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). This statement establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements.

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

2. WESTERN RESOURCES AND KANSAS CITY POWER & LIGHT COMPANY MERGER AGREEMENT

On February 7, 1997, Kansas City Power & Light Company (KCPL) and Western Resources entered into an agreement whereby KCPL would be combined with Western Resources. In December 1997, representatives of Western Resources' financial advisor indicated that they believed it was unlikely that they would be in a position to issue a fairness opinion required for the merger on the basis of the previously announced terms.

On March 18, 1998, Western Resources and KCPL announced a restructuring of their February 7, 1997, merger agreement which will result in the formation of Westar Energy, a new regulated electric utility company. Under the terms of the merger agreement, the electric utility operations of Western Resources

will be transferred to the company, and KCPL and the company will be merged into NKC, Inc., a subsidiary of Western Resources. NKC, Inc. will be renamed Westar Energy. In addition, under the merger agreement, KCPL shareowners will receive $23.50 of Western Resources common stock per KCPL share, subject to a collar mechanism, and one share of Westar Energy common stock per KCPL share. Upon consummation of the combination, Western Resources will own approximately 80.1% of the outstanding equity of Westar Energy and KCPL shareowners will own approximately 19.9%. As part of the combination Westar Energy will assume all of the electric utility related assets and liabilities of Western Resources, KCPL, and the company.

Westar Energy will assume $2.7 billion in debt, consisting of $1.9 billion of indebtedness for borrowed money of Western Resources and the company, and $800 million of debt of KCPL. Long-term debt of Western Resources and the company was $2.1 billion at March 31, 1998. Under the terms of the merger agreement, it is intended that Western Resources will be released from its obligations with respect to the company's debt to be assumed by Westar Energy.

Consummation of the merger is subject to customary conditions including obtaining the approval of Western Resources' and KCPL's shareowners and various regulatory agencies. Western Resources estimates the transaction to close by mid-1999, subject to receipt of all necessary approvals.

KCPL is a public utility company engaged in the generation, transmission, distribution, and sale of electricity to customers in western Missouri and eastern Kansas. The company, KCPL and Western Resources have joint interests in certain electric generating assets, including Wolf Creek.

On March 23, 1998, Western Resources and KCPL filed a letter informing the FERC that they had signed a revised merger agreement, dated March 18, 1998. Western Resources sent similar letters on March 24, 1998 to the KCC and the Missouri Public Service Commission (MPSC). Western Resources and KCPL will submit appropriate modifications to the merger filings at FERC, the KCC and the MPSC as soon as practicable.

At March 31, 1998, Western Resources had deferred approximately $6 million related to the KCPL transaction. These costs will be included in the determination of total consideration upon consummation of the transaction.

3. COMMITMENTS AND CONTINGENCIES

Manufactured Gas Sites: The company is associated with three former manufactured gas sites which may contain coal tar and other potentially harmful materials. The company and the Kansas Department of Health and Environment (KDHE) entered into a consent agreement governing all future work at the three sites. The terms of the consent agreement will allow the company to investigate these sites and set remediation priorities based upon the results of the investigations and risk analyses. At March 31, 1998, the costs incurred from preliminary site investigation and risk assessment have been minimal.

For additional information on Commitments and Contingencies, see Note 2 of the company's 1997 Annual Report on Form 10-K.

4. INCOME TAXES

Total income tax expense included in the Statements of Income reflects the Federal statutory rate of 35%. The Federal statutory rate produces effective income tax rates of 21.4% and 29.7% for the three month periods and 22.9% and 28.7% for the twelve month periods ended March 31, 1998 and 1997, respectively. The effective income tax rates vary from the Federal statutory rate due to the permanent differences, including the amortization of investment tax credits, and accelerated amortization of certain deferred income taxes.

KANSAS GAS AND ELECTRIC COMPANY

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

INTRODUCTION

In Management's Discussion and Analysis we explain the general financial condition and the operating results for the company. We explain:

- What factors affect our business
- What our earnings and costs were for the three and twelve month periods ended March 31, 1998 and 1997
- Why these earnings and costs differed from period to period
- How our earnings and costs affect our overall financial condition
- Any other items that particularly affect our financial condition or earnings

The following Management's Discussion and Analysis of Financial Condition and Results of Operations updates the information provided in the 1997 Annual Report on Form 10-K and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in the company's 1997 Annual Report on Form 10-K.

Forward-Looking Statements: Certain matters discussed here and elsewhere in this Form 10-Q are "forward-looking statements." The Private Securities Litigation Reform Act of 1995 has established that these statements qualify for safe harbors from liability. Forward-looking statements may include words like we "believe," "anticipate," "expect" or words of similar meaning. Forward-looking statements describe our future plans, objectives, expectations or goals. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rate and other regulatory matters, possible corporate restructurings, mergers, acquisitions, dispositions, liquidity and capital resources, interest and dividend rates, environmental matters, changing weather, nuclear operations and accounting matters. What happens in each case could vary materially from what we expect because of such things as electric utility deregulation, including ongoing state and federal activities; future economic conditions; legislative developments; our regulatory and competitive markets; and other circumstances affecting anticipated operations, sales and costs.

FINANCIAL CONDITION

General: Net income of $22.4 million for the three months ended March 31, 1998 increased substantially from $11.2 million for the same period in 1997. The increase in net income was primarily due to increased other income and the completion of the amortization of phase-in revenues in December 1997.

Net income for the twelve months ended March 31, 1998, of $63.4 million, decreased from net income of $91.7 million for the comparable period of 1997. The decrease was primarily attributable to a $36.3 million rate reduction on February 1, 1997, and an $8.7 million interim rate reduction which became permanent on February 1, 1997.

OPERATING RESULTS

The following discussion explains significant changes in results of sales, cost of sales, operating expenses, other income (expense), interest expense and income taxes between the three and twelve month periods ended March 31, 1998 and comparable periods of 1997.

Sales: Sales are based on sales volumes and rates authorized by the Kansas Corporation Commission (KCC) and the Federal Energy Regulatory Commission (FERC). Rates charged for the sale and delivery of electricity are designed to recover the cost of service and allow investors a fair rate of return. Our sales vary with levels of energy deliveries. Changing weather affects the amount of energy our customers use. Very hot summers and very cold winters prompt more demand, especially among our residential customers. Mild weather reduces demand.

Many things will affect our future sales. They include:

- The weather
- Our electric rates

- Competitive forces
- Customer conservation efforts
- Wholesale demand
- The overall economy of our service area

The following table reflects changes in retail electric energy deliveries for the three and twelve months ended March 31, 1998 from the comparable periods of 1997.

| | 3 Months Ended | 12 Months Ended |
|---|---|---|
| Residential | 2.6% | 0.4% |
| Commercial | 3.8% | 1.6% |
| Industrial | 4.2% | 2.7% |
| Total Retail | 3.6% | 1.7% |

Sales decreased 6.4% for the three months and 7.4 % for the twelve months ended March 31, 1998, primarily due to the electric rate decreases we implemented on February 1, 1997. Although energy deliveries increased in both periods, it was not enough to compensate for our lower electric rates. Reduced electric rates lowered first quarter 1998 sales by an estimated $4.0 million. Also contributing to the decrease in sales was the decrease in wholesale and interchange sales.

Cost of Sales: Items included in energy cost of sales are fuel expense and purchased power expense (electricity we purchase from others for resale).

Electric fuel costs are included in base rates. Therefore, if we wished to recover an increase in fuel costs, we would have to file a request for recovery in a rate filing with the KCC which could be denied in whole or in part. Any increase in fuel costs from the projected average which the company did not recover through rates would reduce our earnings. The degree of any such impact would be affected by a variety of factors, however, and thus cannot be predicted.

Actual cost of fuel to generate electricity (coal, nuclear fuel, natural gas or oil) and the amount of power purchased from other utilities decreased slightly for the first quarter of 1998. Cost of sales were $8.1 million

higher for the twelve months ended March 31, 1998. Our Wolf Creek nuclear generating station was off-line in the fourth quarter of 1997 for scheduled maintenance and our La Cygne coal generation station was off-line during 1997 for an extended maintenance outage. As a result, we purchased more power from other utilities and burned more natural gas to generate electricity at our facilities. Natural gas is more costly to burn than coal and nuclear fuel for generating electricity.

OPERATING EXPENSES

Operating and Maintenance Expense: Total operating and maintenance expense decreased over 21% for the three months ended March 31, 1998. This decrease in attributable to a decrease in KGE's portion of costs shared with Western Resources which are associated with the dispatching of electric power.

Total operating and maintenance expense decreased $8.1 million or over 4% for the twelve months ended March 31, 1998. This decrease is primarily due to a decrease in our property taxes of $6.8 million and reduced costs associated with the dispatching of electric power as mentioned above.

Depreciation and Amortization Expense: Depreciation and amortization expense decreased $4.5 million for the first quarter in 1998 from 1997 due to the completion of the amortization of phase-in revenues in December 1997. During the first quarter of 1997, we recorded $4.4 million of amortization for phase-in revenues. Depreciation and amortization expense increased $3.9 million for the twelve months ended March 31, 1998 from 1997 due to the additional amortization of $8.8 million relating to phase-in revenues recorded during 1997.

Other Income and Deductions: Other income (expense) includes miscellaneous income and expenses not directly related to our operations. Other income and (expense) for the first quarter increased $6.3 million.

Interest Expense: Interest expense includes the interest we paid on outstanding debt. We realized a decrease in interest expense of $0.7 million for the first quarter and $7.9 million for the twelve months ended March 31, 1998. Our average outstanding short-term debt balances were lower during both periods which attributed to the decreases in interest expense. The interest we paid on long-term debt remained virtually unchanged for both periods.

LIQUIDITY AND CAPITAL RESOURCES:

The company's liquidity is a function of its ongoing construction and maintenance program designed to improve facilities which provide electric service and meet future customer service requirements. Our ability to provide the cash or debt to fund our capital expenditures depends upon many things, including available resources, our financial condition and current market conditions.

Other than operations, our primary source of short-term cash is from short-term bank loans and unsecured lines of credit. At March 31, 1998, there were no short-term borrowings compared to $45.0 million at December 31, 1997. Proceeds from the repayment of advances to the company's parent company have been used to repay all current outstanding short-term debt. The proceeds received are reflected in the decrease in current assets, advances to parent company (net) on the Balance Sheets.

MERGERS AND ACQUISITIONS

Western Resources and Kansas City Power & Light Company Merger Agreement: On February 7, 1997, KCPL and Western Resources entered into an agreement whereby KCPL would be combined with Western Resources. In December 1997, representatives of Western Resources' financial advisor indicated that they believed it was unlikely that they would be in a position to issue a fairness opinion required for the merger on the basis of the previously announced terms.

On March 18, 1998, Western Resources and KCPL announced a restructuring of their February 7, 1997, merger agreement which will result in the formation of Westar Energy, a new regulated electric utility company. Under the terms of the merger agreement, the electric utility operations of Western Resources will be transferred to the company, and KCPL and the company will be merged into NKC, Inc., a subsidiary of Western Resources. NKC, Inc. will be renamed Westar Energy. In addition, under the merger agreement, KCPL shareowners will receive $23.50 of Western Resources common stock per KCPL share, subject to a collar mechanism, and one share of Westar Energy common stock per KCPL share. Upon consummation of the combination, Western Resources will own approximately 80.1% of the outstanding equity of Westar Energy and KCPL shareowners will own approximately 19.9%. As part of the combination Westar Energy will assume all of the electric utility related assets and liabilities of Western Resources, KCPL, and the company.

Westar Energy will assume $2.7 billion in debt, consisting of $1.9 billion of indebtedness for borrowed money of Western Resources and the company, and $800 million of debt of KCPL. Long-term debt of Western Resources and the company was $2.1 billion at March 31, 1998. Under the terms of the merger agreement, it is intended that Western Resources will be released from its obligations with respect to the company's debt to be assumed by Westar Energy.

Consummation of the merger is subject to customary conditions including obtaining the approval of Western Resources' and KCPL's shareowners and various regulatory agencies. Western Resources estimates the transaction to close by mid-1999, subject to receipt of all necessary approvals.

KCPL is a public utility company engaged in the generation, transmission, distribution, and sale of electricity to customers in western Missouri and eastern Kansas. The company, KCPL and Western Resources have joint interests in certain electric generating assets, including Wolf Creek. Following the closing of the combination, Westar Energy is expected to have approximately one million electric utility customers in Kansas and Missouri, approximately $8.2 billion in assets and the ability to generate more than 8,000 megawatts of electricity.

On March 23, 1998, Western Resources and KCPL filed a letter informing the FERC that they had signed a revised merger agreement, dated March 18, 1998. Western Resources sent similar letters on March 24, 1998 to the KCC and the Missouri Public Service Commission (MPSC). Western Resources and KCPL will submit appropriate modifications to the merger filings at FERC, the KCC and the MPSC as soon as practicable.

At March 31, 1998, Western Resources had deferred approximately $6 million related to the KCPL transaction. These costs will be included in the determination of total consideration upon consummation of the transaction.

KANSAS GAS AND ELECTRIC COMPANY
Part II Other Information

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

Information required by Item 4 is omitted pursuant to General Instruction H(2)(b) to Form 10-Q.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 12 - Computation of Ratio of Earnings to Fixed Charges for 12 Months Ended March 31, 1998 (filed electronically)

Exhibit 27 - Financial Data Schedule (filed electronically)

(b) Reports on Form 8-K:

None

SIGNATURE

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

KANSAS GAS AND ELECTRIC COMPANY

Date May 15, 1998 By /s/ Richard D. Terrill
Richard D. Terrill
Secretary, Treasurer and
General Counsel

Exhibit 12

KANSAS GAS AND ELECTRIC COMPANY
Computations of Ratio of Earnings to Fixed Charges and
Computation of Ratio of Earnings to Combined Fixed Charges
and Preferred and Preference Dividend Requirements
(Dollars in Thousands)

| | Unaudited Twelve Months Ended March 31, | Year Ended December 31, | | | | |
|---|---|---|---|---|---|---|
| | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 |
| Net Income. . . . . . . . . . . . . | $ 63,371 | $ 52,128 | $ 96,274 | $110,873 | $104,526 | $108,103 |
| Taxes on Income . . . . . . . . . . | 18,794 | 17,408 | 36,258 | 51,787 | 55,349 | 46,896 |
| Net Income Plus Taxes. . . . . | 82,165 | 69,536 | 132,532 | 162,660 | 159,875 | 154,999 |
| Fixed Charges: | | | | | | |
| Interest on Long-Term Debt. . . . | 46,069 | 46,062 | 46,304 | 47,073 | 47,827 | 53,908 |
| Interest on Other Indebtedness. . | 3,701 | 4,388 | 11,758 | 5,190 | 5,183 | 6,075 |
| Interest on Corporate-owned Life Insurance Borrowings . . . | 32,987 | 31,253 | 27,636 | 25,357 | 20,990 | 11,865 |
| Interest Applicable to Rentals. . | 25,024 | 25,143 | 25,539 | 25,375 | 25,096 | 24,967 |
| Total Fixed Charges . . . . . | 107,781 | 106,846 | 111,237 | 102,995 | 99,096 | 96,815 |
| Earnings (1). . . . . . . . . . . . | $189,946 | $176,382 | $243,769 | $265,655 | $258,971 | $251,814 |
| Ratio of Earnings to Fixed Charges. | 1.76 | 1.65 | 2.19 | 2.58 | 2.61 | 2.60 |

(1) Earnings are deemed to consist of net income to which has been added income taxes (including net deferred investment tax credit) and fixed charges. Fixed charges consist of all interest on indebtedness, amortization of debt discount and expense, and the portion of rental expense which represents an interest factor.

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This schedule contains summary financial information extracted from the Balance Sheet at March 31, 1998 and the Statement of Income for the three months ended March 31, 1998 and is qualified in its entirety by reference to such financial statements.

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3-MOS
DEC-31-1998
MAR-31-1998
42
0
68,826
2,012
42,000
160,008
3,624,730
1,075,236
3,059,749
126,747
684,064
0
0
1,065,634
66,260
3,059,749
134,566
134,566
25,920
98,533
0
0
12,359
28,517
6,102
22,415
0
0
0
22,415
0
0