Kansas Gas and Electric Company Report to Stockholders 1979

POOR ORIGINAL

CENTENNIAL OF LIGHT

1879 1979

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CENTENNIAL OF LIGHT

1879 1979

About the Cover

Kansas pioneers found a land rough and raw. Yet men such as these pictured made the prairie blossom. The bountiful harvests have come not because they learned to work harder. Rather, they harnessed energy to multiply their capacity to produce. Result: the Kansas farmer of a century ago fed himself and five others. Today one farmer feeds 64 besides himself.

And the search for improvement goes on. Irrigation systems like the one in the photo have helped increase the output of Kansas farms, using large amounts of energy in doing so. These systems and others dependent upon electric power are included in the company's load management studies.

Throughout this report are photographs that capture changes in the quality of life that energy has helped to produce. It was 100 years ago when Thomas A. Edison and a group of associates sat for hours watching the pale glow of the first successful incandescent bulb. That light still ranks as a major accomplishment in the chain of energy achievements that since 1879 have changed the face of the earth and bettered the way we live.

KG&E was organized in 1909 to provide electric power to Kansans and the fruits of this relationship are evident — on farms, in homes, in business and industry and in community institutions and facilities. Like the prairie, Kansas and its people also have blossomed. A look into their past provides us with fresh perspective for today.

Historical photo credits

The Kansas State Historical Society — Cover, pages 2, 4, 6, 10-11 and 12. Pittsburg Public Library — pages 8-9.
William E. Ellington Jr., Wichita city historian — back cover

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Highlights for 1979

	1979	1978	% Increase Over 1978	1969	10 Year Annual Compound Growth Rate
Operating Revenues	**$244,970,260**	$238,459,676	2.7	$ 67,087,496	13.8
Net Income	**$ 29,219,986**	$ 28,964,461	0.9	$ 11,034,578	10.2
Earnings Per Share of Common Stock	**$1.84**	$2.28	(19.3)	$2.17	(1.7)
Annual Common Stock Dividend Rate (Year End)	**$1.94**	$1.90	2.1	$1.40	3.3
Available Capacity (Kilowatts)	**1,968,000**	2,031,000	(3.1)	1,318,000	4.1
System Peak (Kilowatts)	**1,473,400**	1,532,600	(3.9)	998,400	4.0
Average Use Per Residential Customer (Kilowatt-Hours)	**9,496**	10,136	(6.3)	6,545	3.8
Average Price Per Kilowatt-Hour (Residential)	**3.97¢**	3.78¢	5.0	2.04¢	6.9
Number of Customers at End of Year	**223,413**	217,649	2.6	185,818	1.9
Total Utility Plant (Net)	**$913,448,977**	$753,786,668	21.2	$207,767,919	16.0

Management Letter

If it's remembered for nothing else, 1979 may have been the year when the nation finally began to agree it faces an energy problem.

Presidential pleas and new laws resulted in higher summer and lower winter thermostat settings. Regulations holding down the cost of oil and gas were relaxed. Oil exporting countries raised prices again, and again. Iran's oil cutoff focused the country's attention on its vulnerable line of supply to overseas production. The consensus grew: the United States must become energy independent again.

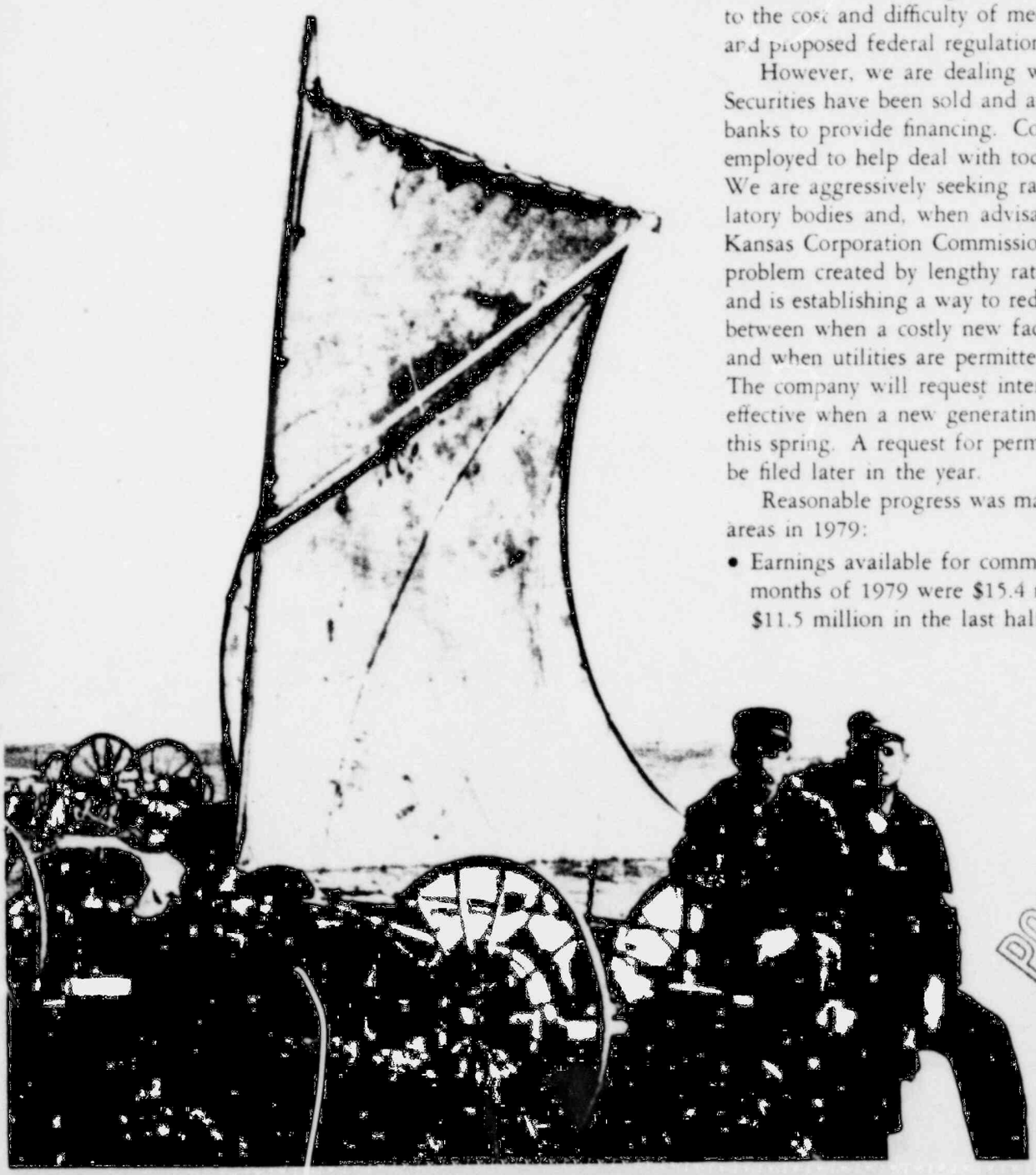
But even with progress in public understanding, utility rate relief generally — and specifically for KG&E — was not timely or adequate. Earnings per share in 1979 were down from 1978 largely because of a 14 month lapse from the time when a new generating unit came on line and when new rates went into effect.

Declining earnings per share compounded the problem of financing new facilities needed to provide customer service. In the face of government mandates to reduce the use of natural gas and oil as power plant fuel, new coal and uranium-fueled plants are being constructed as alternatives. At the same time, rampant inflation and record high interest rates also are adding to the cost and difficulty of meeting existing and proposed federal regulations.

However, we are dealing with these problems. Securities have been sold and arrangements made with banks to provide financing. Consultants have been employed to help deal with today's complex decisions. We are aggressively seeking rate relief before regulatory bodies and, when advisable, the courts. The Kansas Corporation Commission has recognized the problem created by lengthy rate setting procedures and is establishing a way to reduce the amount of time between when a costly new facility goes into service and when utilities are permitted to earn on it. The company will request interim rate relief to be effective when a new generating unit goes into service this spring. A request for permanent rate changes will be filed later in the year.

Reasonable progress was made in several important areas in 1979:

- Earnings available for common stock in the last six months of 1979 were $15.4 million compared with $11.5 million in the last half of 1978.



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With the upward trend in earnings, the board of directors increased the common stock dividend rate for the 24th time in as many years. The increase was effective with the final quarter of the year. The payout for common stock dividends for the last six months of the year was 76%.

- Continuing growth in customer numbers and increased area economic output partially offset the decline in energy sales resulting from 1979 weather being much milder than 1978's.
- Several major challenges we faced at the beginning of the year were resolved in a way favorable to the company. These include questions about the strength of concrete used in a uranium-fueled plant we are building. And, early in January 1980, tentative agreement was reached in a large lawsuit against Westinghouse over uranium supply.

Our ability to deal effectively with current difficult situations results from several basic strengths:

- Our service area has a diverse, vigorous economy. Income in south central and southeast Kansas comes from farming, manufacturing and minerals, particularly oil and gas. The area's vigor is evident in the Wichita Metropolitan Area where our business is centered. There the number of employed persons grew by 12,400 to 220,800 in 1979 and year-end unemployment was 2.5%, less than half of the national average. For the second successive year KG&E added more than 5,000 customers.
- We made an early start in 1967 toward converting our generating system from one fueled with gas and oil to one using coal and uranium. Events of the past year have again proven our early planning was wise. But the construction program resulting from this conversion in generating fuels is the most ambitious we have ever undertaken. We are, however, committed to serving the present and long-term interests of customers, stockholders and employees. And, we will act in the best interests of the country to promote energy conservation and fuel conversion to make our nation less dependent on foreign oil.

Ralph P. Fiebach
Chairman of the Board

Wilson K. Cadman
President

- We have a strong employee and management group. Parts of our service area were struck early in 1979 by one of the worst winter storms in company history. Outdoors in bitter blizzard conditions, employees worked around the clock to restore service and earned the praise of hundreds of customers for their effectiveness. A major change strengthened our management group in 1979. Wilson K. Cadman, 52, was promoted to president and chief operating officer from executive vice president. Ralph P. Fiebach continues to serve as chairman of the board and chief executive officer. In one other change, Ralph Foster, a director and the company's general counsel the past 10 years, was made vice president-general counsel.

With an excellent group of employees and the stronger management structure, we believe we can continue to deal effectively with rapidly changing conditions and meet the challenges of providing service in an era of national uncertainty.

Even nuclear power seems to have emerged from 1979 with its acceptance restored. The March accident at Three Mile Island dealt a blow to public confidence. But the accident caused no deaths or apparent adverse health effects. The industry quickly took strong steps to apply lessons learned to ensure the future safety

(Continued on Page 4)

Inventive Kansans long have sought to harness wind power and this "wind wagon" was one early effort. Today, the search continues as engineers work to improve the wind-driven generators that once were common in rural areas.

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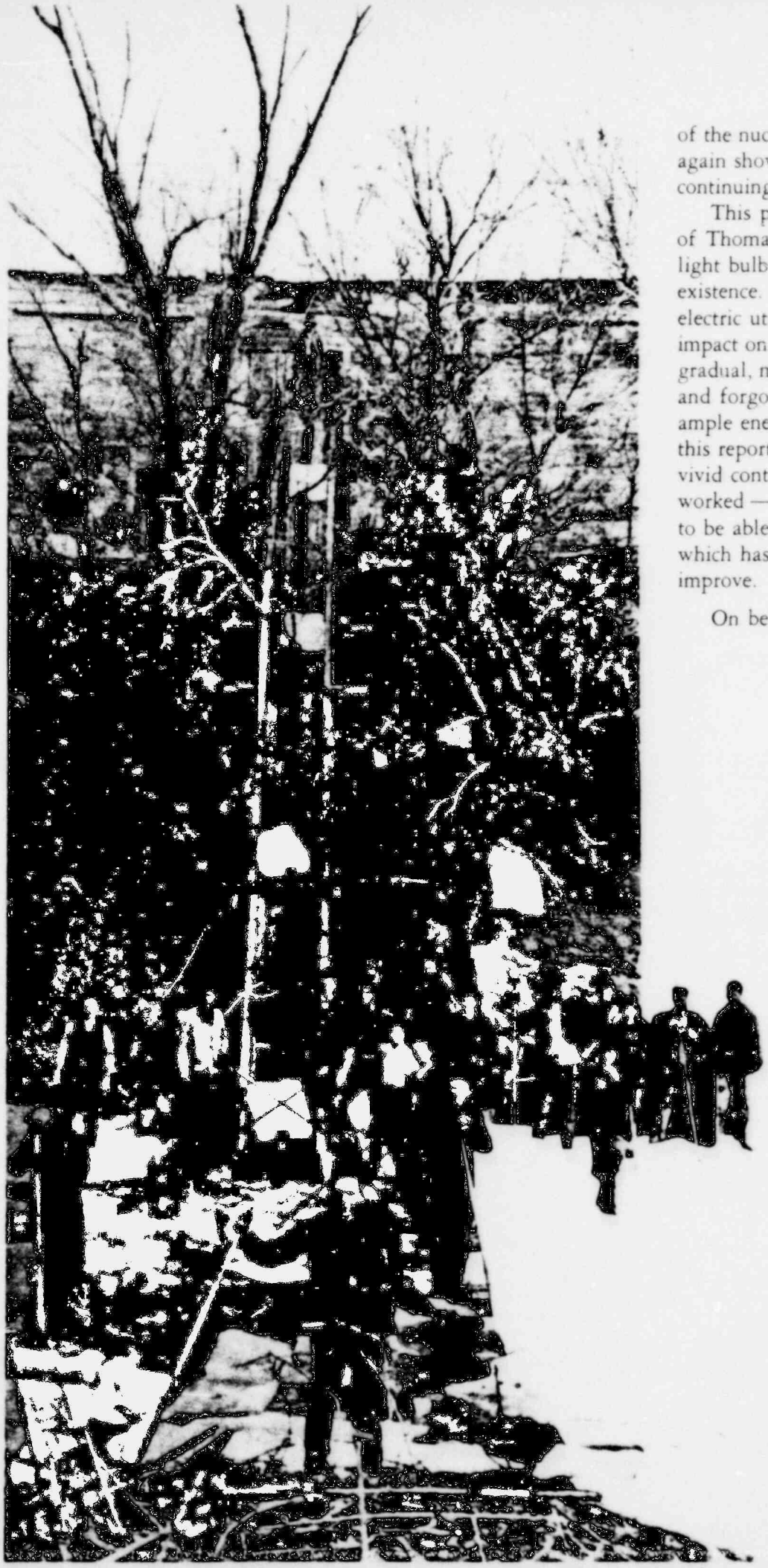

of the nuclear technology and by the end of 1979, poll again showed a majority of Americans recognizing the continuing need for using uranium as an energy source.

This past year — 1979 — was the centennial year of Thomas Edison's perfection of the incandescent light bulb. It also was the 70th year of KG&E's existence. Over its long years of development, the electric utility industry has had a great and favorable impact on the lives of people. Because the change was gradual, many of us took this improvement for granted and forgot the stark differences between the days of ample energy and those before we had it. Throughout this report is a series of photographs that provide a vivid contrast of how men and women lived and worked — then and today. Our aim for the future is to be able to continue to provide the kind of service which has made it possible for people's lives to improve.

On behalf of the board of directors,

Ralph P. Fieback
Chairman of the Board

Wilson K. Cadman
President

February 13, 1980

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The winter ice harvest was one of several jobs requiring the collective effort of early Kansans. Today's homemaker uses electric energy to safely preserve the food she serves her family.

Current Topics

Rates Increased; Judicial Review Sought

Retail and wholesale rate increases approved in 1979 will amount to about $19 million on an annual basis.

The Kansas Corporation Commission (KCC) authorized a 9% increase effective in September which, based on the test year ending in August, 1978, is expected to provide $17.3 million in new revenues annually. The Federal Energy Regulatory Commission approved an annual increase of $1.9 million starting October 19 for rural electric cooperatives we serve.

The KCC is presently acting to reduce the time between when new facilities go into use and the investment in them is included in our rates, a welcome and needed step. As an example of the problem, a new coal-fueled generating unit at Jeffrey Energy Center was in use 14 months before our $67 million investment in it was allowed in our rate base.

But even with the increase approved in 1979, retail rates remain inadequate and the company has requested a judicial review by the Kansas Court of Appeals of the KCC rate order.

Accounting Treatment Change Follows Rate Order

After the KCC's rate order, the company changed from the normalized to flow through method of accounting for income taxes associated with construction interest. This accounting treatment reduces income tax expenses and therefore related revenue requirements.

Wolf Creek Base Mat Question Resolved

Concrete used in the base mat of Wolf Creek Generating Station, a uranium-fueled plant being built in eastern Kansas with two other utilities, has been approved by the Nuclear Regulatory Commission (NRC).

Questions were raised in 1978 about concrete strength when one test produced lower values than expected. However, several independent retests indicated the concrete strength exceeded specifications. In July, 1979, the NRC after an investigation wrote:

"The Safety Evaluation Report . . . concluded . . . the base mat concrete . . . will withstand the specified design loads and loading combinations without impairment of its structural integrity or safety function."

During retesting, the company suspended safety-related concrete placement. With the NRC ruling, work was resumed and steps taken to regain lost time.

A unique ringer crane which can turn and lift in one operation was used to install the reactor building roof at Wolf Creek Generating Station. By building the dome on the ground and lifting it into place in two 200-ton sections, the builders reduced construction time by three months.

Tentative Uranium Agreement Reached

A memorandum of understanding was signed January 14, 1980, with Westinghouse Electric Corporation to settle its default on delivering 3 million pounds of uranium for the Wolf Creek Station.

Under the tentative agreement, Westinghouse will pay $38 million in cash to KG&E and its partner in the plant shortly after final contracts are executed and the litigation is dismissed about March 1.

Westinghouse also will provide 1.7 million pounds of uranium, equipment, fuel fabrication and engineering and other services at discounts having a present value of $48.6 million. And, the utilities will receive at a present value of up to $7.5 million part of any net proceeds Westinghouse receives in litigation with an alleged uranium cartel.

The agreement is subject to definitive documentation and approval by the boards of the companies.

Kansas Electric Power Cooperative, Inc. has agreed to buy 17% of the Wolf Creek unit. Upon closing the sale, KEPCo will acquire a 17% interest in the Westinghouse settlement.

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Financial Results

Operating revenues increased $6.5 million to $245 million in 1979 even though there was a .3% decrease in kilowatt hours used by general business customers.

Increases in fuel adjustment charges, a general rate increase effective September 29 and a wholesale rate increase in October accounted for the revenue growth.

Net income increased only $255,525, or less than 1% from 1978, totaling $29.2 million for the year.

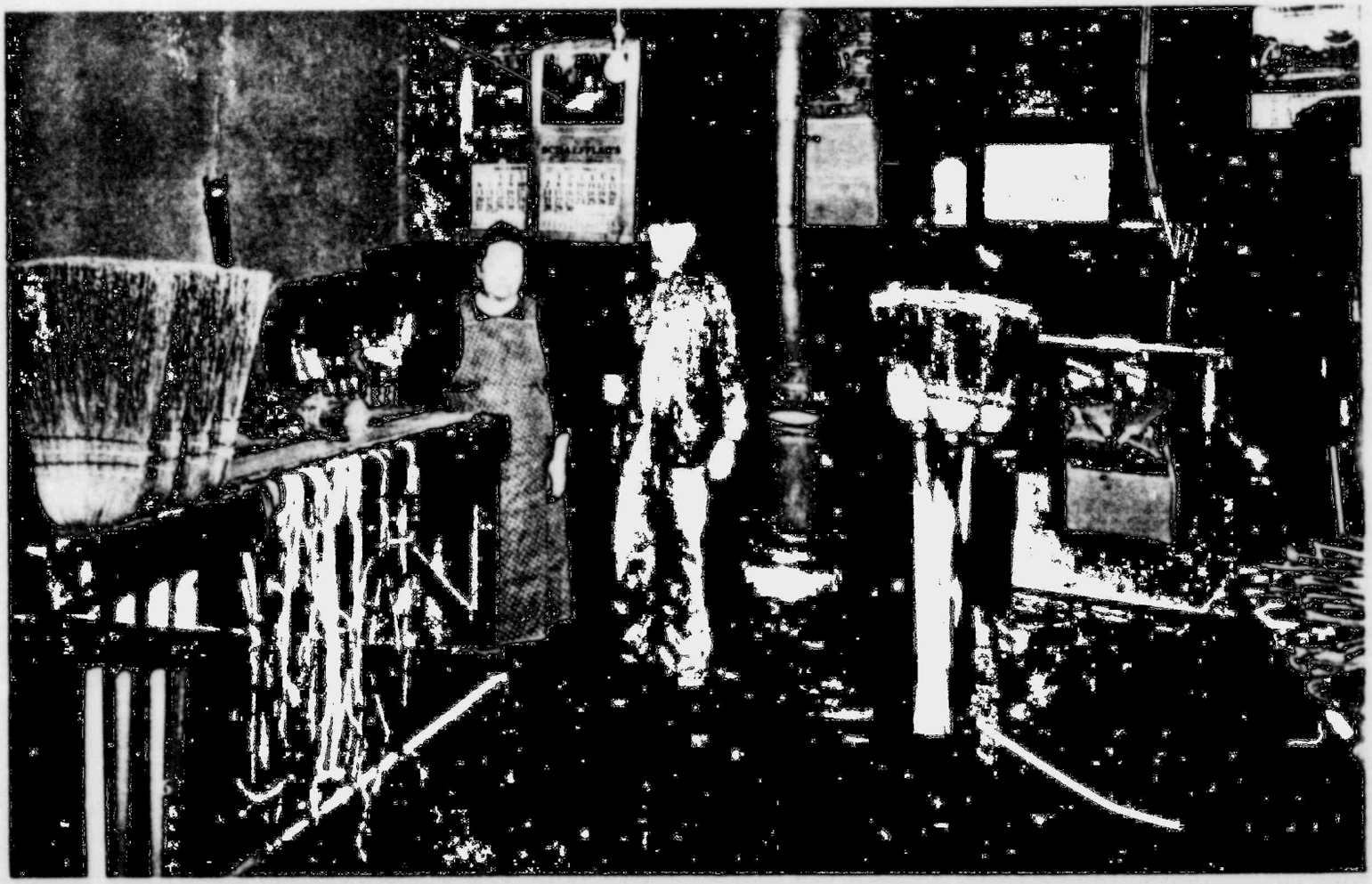
Earnings per average outstanding share of common stock in 1979 declined to $1.84 from $2.28 in 1978. Most of this decrease was caused by lack of timely rate relief to cover the expense of a new plant placed in service in 1978. Mild weather that reduced sales of electricity, abnormal maintenance costs and an increase of 19% in the average number of outstanding common shares also contributed to the decline. The allowance for funds used during construction, a non-cash item, was $2 per share.

For the 24th time in as many years the common stock dividend rate was increased. But 1979 was different from previous years in that the cash dividend of $1.91 was higher than the $1.84 actually earned. In the preceding 10 years, dividend payouts had averaged about 66% of earnings. The board approved the increase based on improved earnings in the last half of 1979 and the expectation of higher earnings in 1980. The year-end quarterly dividend was 48½¢ per share, up 1¢ from the previous year.

Both winter and summer in 1979 were more mild than 1978 with cooling degree days down 18%. Conservation by customers also depressed the use of electricity. As a result, use of electricity by customers was virtually unchanged from 1978.

Customers we serve directly used 7 billion kilowatt hours in 1979, a decrease of .3% from 1978 when an 8% gain over the preceding year had been recorded. Residential use decreased 4%, and com-

Without energy, early Kansas industrial output was limited to the work people themselves could accomplish as in this broom factory. Note the sign on the back wall urging more productivity. "No Loafing!" it says.



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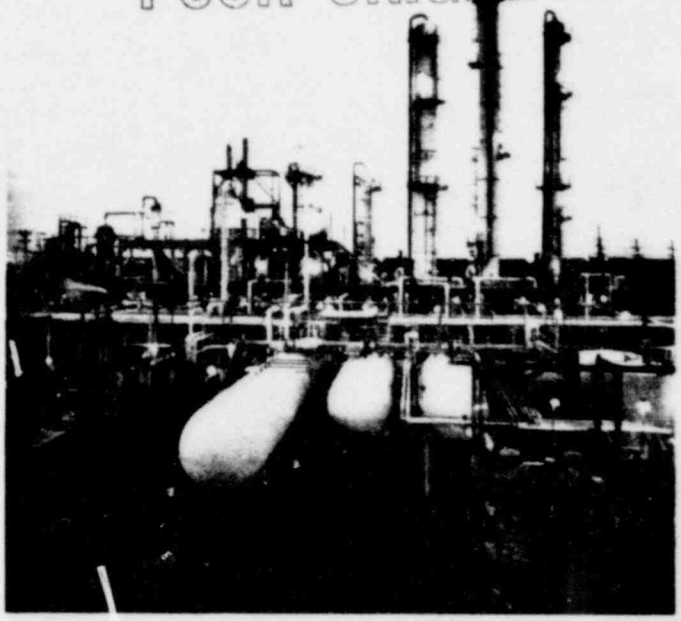

Vulcan Materials Co. Chemical Division in Wichita serves customers worldwide. Its productivity is tied directly to the energy it uses.

mercial use was down 1%. Industrial consumption was up 4%. Total sales of electricity, including that provided other utilities, decreased 5% from 1978.

Revenues from industrial and commercial customers increased 4% and 10% respectively in 1979 over 1978. However, revenues from residential customers increased only 1%. During the year, industrial revenues totaled $80.3 million, commercial $56 million and residential $74.2 million.

Electricity sold to other utilities produced revenues of $10.7 million compared with $15.8 million a year earlier. Revenue from power sold to municipal systems and cooperatives was up 5% in 1979 over 1978 to $20.2 million.

Operating expenses were up 3% to $205 million. Fuel and purchased power expense was a major factor in the increase and accounted for 55% of our total operating expenses. Cost of fuel and purchased power was $111.8 million, up 5% from a year ago. However, total kilowatt hours provided to the system decreased 5% from 1978.

Taxes amounted to $18.5 million, a decrease of $12 million from a year ago, and represent 9% of total expenses.

Maintenance costs in 1979 were $23 million, an increase of 50% over 1978. Extra maintenance at a large coal-fueled generating unit was the primary reason for the increase. Company facilities are well maintained.

Wages and benefits charged to operations increased 8% and amounted to $20.1 million.

KG&E's Diversified Industrial Revenues (Thousands of dollars)	1979	1978	% Increase Over 1978
ENERGY PRODUCTION (30% of total)			
Petroleum Refining	$14,264	$13,257	7.6
Petroleum and Gas	4,288	4,154	3.2
Pipeline Pumping	5,015	4,169	20.3
Coal Mining	698	600	16.3
Subtotal	24,265	22,180	9.4
NATURAL RESOURCE (29% of total)			
Chemical	14,476	13,579	6.6
Sand, Stone, Clay and Cement	6,376	5,901	8.0
Plastics	2,204	2,020	9.1
Subtotal	23,056	21,500	7.2
MANUFACTURING (25% of total)			
Aircraft	9,028	7,529	19.9
Machinery	6,117	5,588	9.5
Metal Fabricating	2,926	2,687	8.9
Other Manufacturing	1,612	1,642	(1.9)
Subtotal	19,683	17,446	12.8
AGRICULTURAL, FOOD AND KINDRED PRODUCTS (11% of total)			
Grain Mill Products	3,366	3,111	8.2
Prepared Foods	2,231	2,035	9.6
Meat Products	2,657	2,552	4.1
Dairy Products	386	377	2.4
Subtotal	8,640	8,075	7.0
SERVICE RELATED INDUSTRIES (5% of total)			
Subtotal	3,999	3,647	9.7
TOTAL (Note)	$79,643	$72,848	9.3

Note: 1979 excludes $685 thousand fuel adjustment clause revenues.

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Financial Management and Planning

With changing times, economic forecasting and financial management become more difficult, but their importance increases.

Both budgeting and forecasting are more complex than in the past. But the company's financial group has been enlarged and longer-range forecasts are routinely prepared. Financial modeling continues to be used more extensively.

In part prompting these changes is the growing need to finance new power production facilities that can use coal and uranium as fuel. In 1979, $72.6 million was received from bonds and stock sales.

- $14.5 million in 6.8% pollution revenue bonds were issued in January by the City of St. Marys.
- $25 million in 8⅛% and 8% preferred stock was sold in March.
- $29.9 million was realized from the sale of 2 million shares of common stock in October at $15.50 per share.
- $3.2 million was raised through sales of 185,77[illegible] shares of common stock through the dividend reinvestment and employees stock purchase plans

Bank loans and commercial paper are used as short-term financing. Outstanding short-term loans at the end of the year totaled $41.8 million.

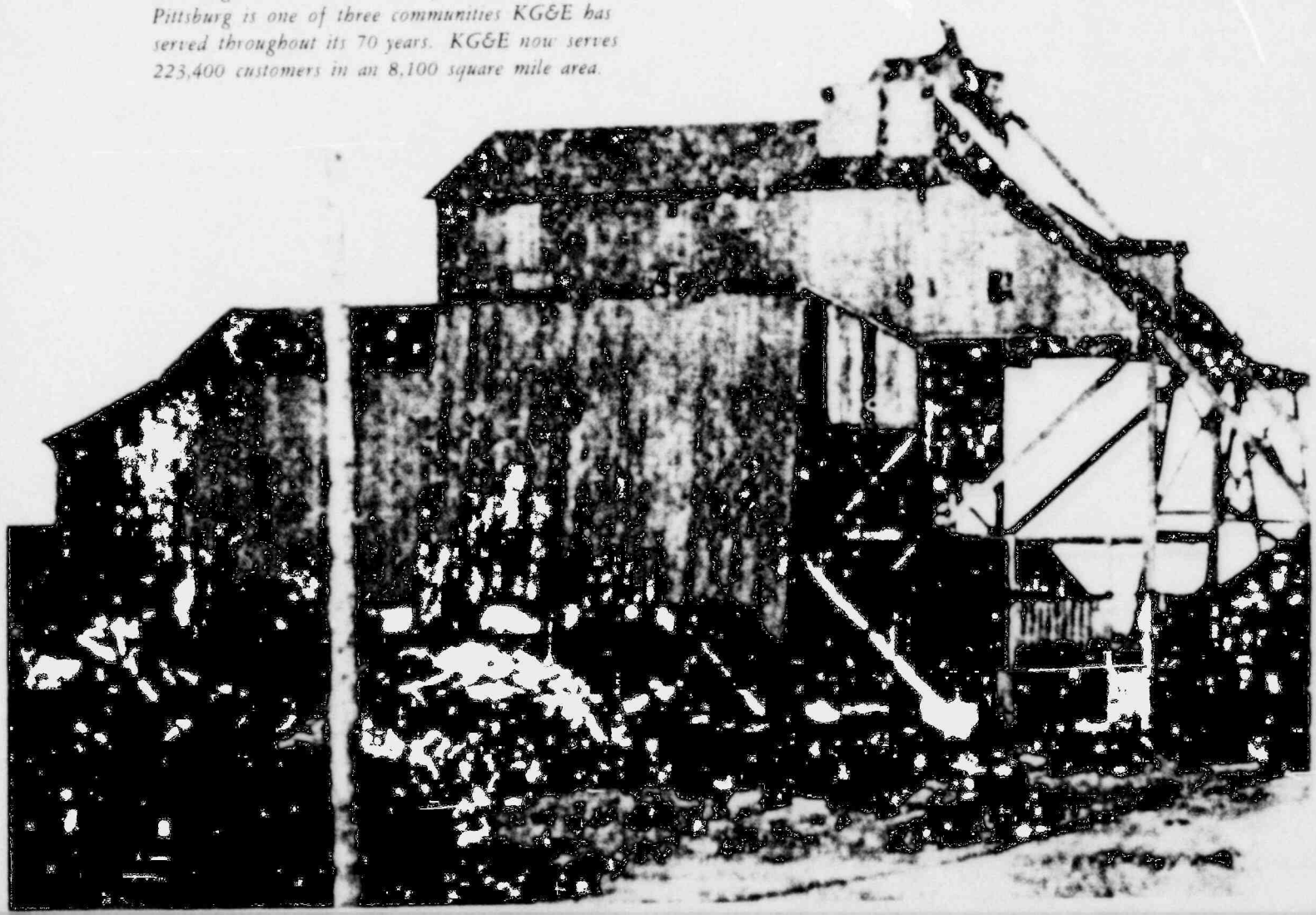
In 1980 permanent financing is expected to raise $140 million. Two bond issues, the first in late March and two common stock sales of 1.5 million shares each are planned. This financing is subject to many variables.

In January 1980 $25 million was raised from a consortium of foreign and domestic banks bringing the total borrowed to $75 million of a $100 million commitment from this group. Interest rates are based on the prime and federal funds rates.

We continued to meet with financial analysts and securities dealers in major cities throughout the country in 1979. And we'll continue to do so in the 1980s.

Financing for 1980 considers two special factors. One was an agreement by Kansas Electric Power Cooperative, Inc. to buy 17% of Wolf Creek.

Coal-fired industrial furnaces poured smoke over Pittsburg, Kansas at the turn of the century. Pittsburg is one of three communities KG&E has served throughout its 70 years. KG&E now serves 223,400 customers in an 8,100 square mile area.



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Although this sale becomes final only with regulatory approval and when KEPCo secures permanent financing, advances totaling $45 million were received from KEPCo in 1979.

Our litigation with Westinghouse will amount to about $15.8 million cash for KG&E according to our tentative agreement in principle reached in January.

One effect of the lack of rate relief and reduced earnings was lowering the rating of company bonds from A to A−, reducing commercial paper ratings from A2 to A3 and changing preferred stock rating from A− to Bbb by one of the major rating agencies.

Participation of stockholders in the Dividend Reinvestment Plan continued to grow in 1979. Dividends on stock owned by participants are automatically reinvested each quarter in newly issued common stock at 95% of market price. Participants may also invest up to an additional $5,000 each quarter at market price, but with no broker's fee.

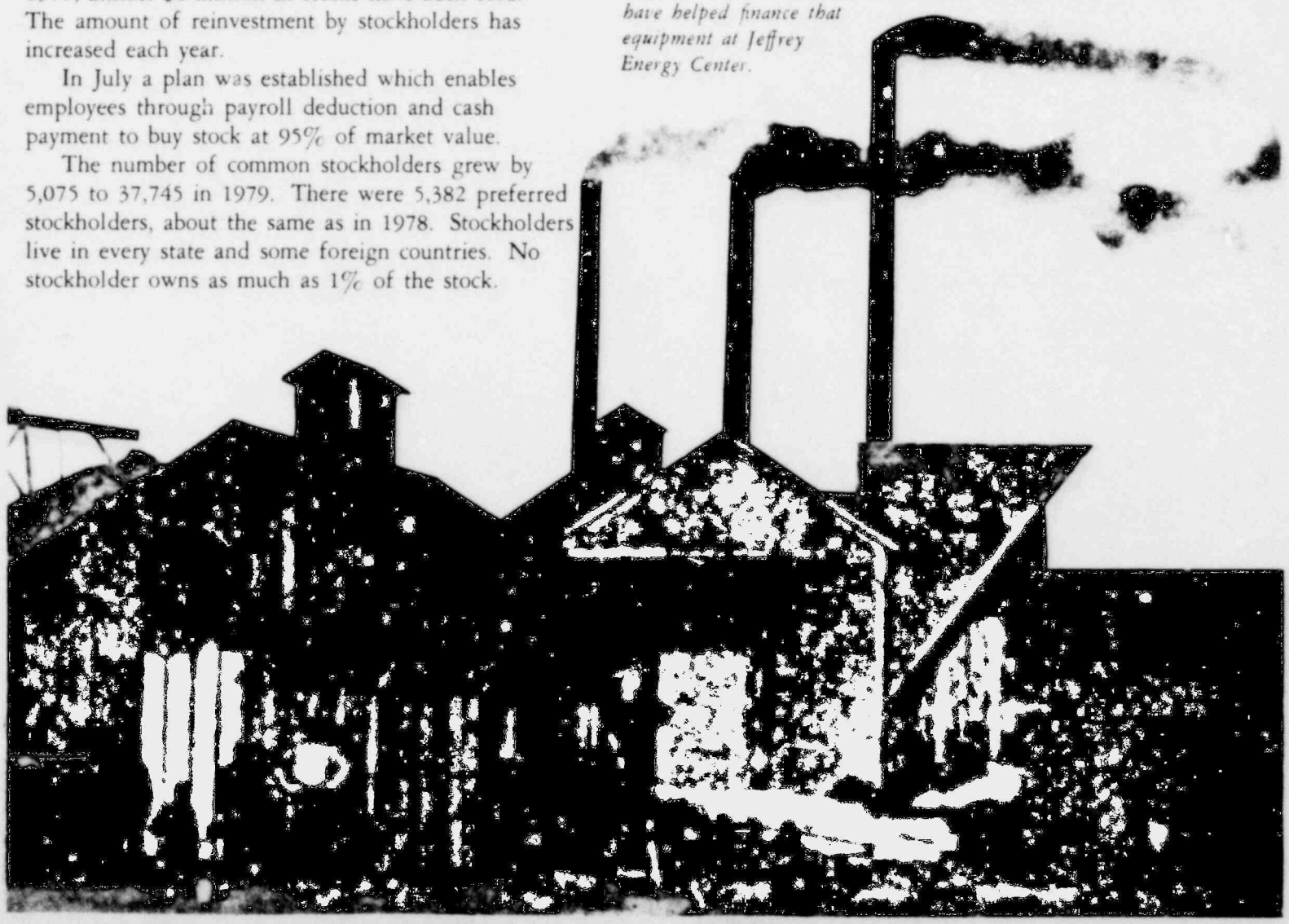
Details of the plan can be obtained by writing: Secretary, KG&E, P. O. Box 208, Wichita, KS 67201.

Since the reinvestment plan was established in 1977, almost $6 million in stocks have been sold. The amount of reinvestment by stockholders has increased each year.

In July a plan was established which enables employees through payroll deduction and cash payment to buy stock at 95% of market value.

The number of common stockholders grew by 5,075 to 37,745 in 1979. There were 5,382 preferred stockholders, about the same as in 1978. Stockholders live in every state and some foreign countries. No stockholder owns as much as 1% of the stock.

Modern coal-fueled power plants use precipitators and scrubbers to remove pollutants from smoke. Revenue bonds issued in 1979 and previous years have helped finance that equipment at Jeffrey Energy Center.



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Customer Services and Load Management

The company continues to provide customers with ample, reliable electricity at reasonable prices. Still, the times pose important questions:

How can customers who are increasingly frustrated by rising energy costs, and often are confused by the claims and counter charges of the energy debate, be aided in securing the greatest benefit and satisfaction for their electrical dollar? How can we keep costs down while preparing to meet future needs of customers?

One answer to some energy problems is, of course, conservation — cutting out wasteful use. Although KG&E, like many utilities, has for years promoted efficient use of electricity, new federal laws enlarge our responsibilities. In 1980 many requirements of the 1978 National Energy Act will become effective. Our company already is preparing for its expanded role and the former Marketing Services Department was reorganized into a Customer Services Department.

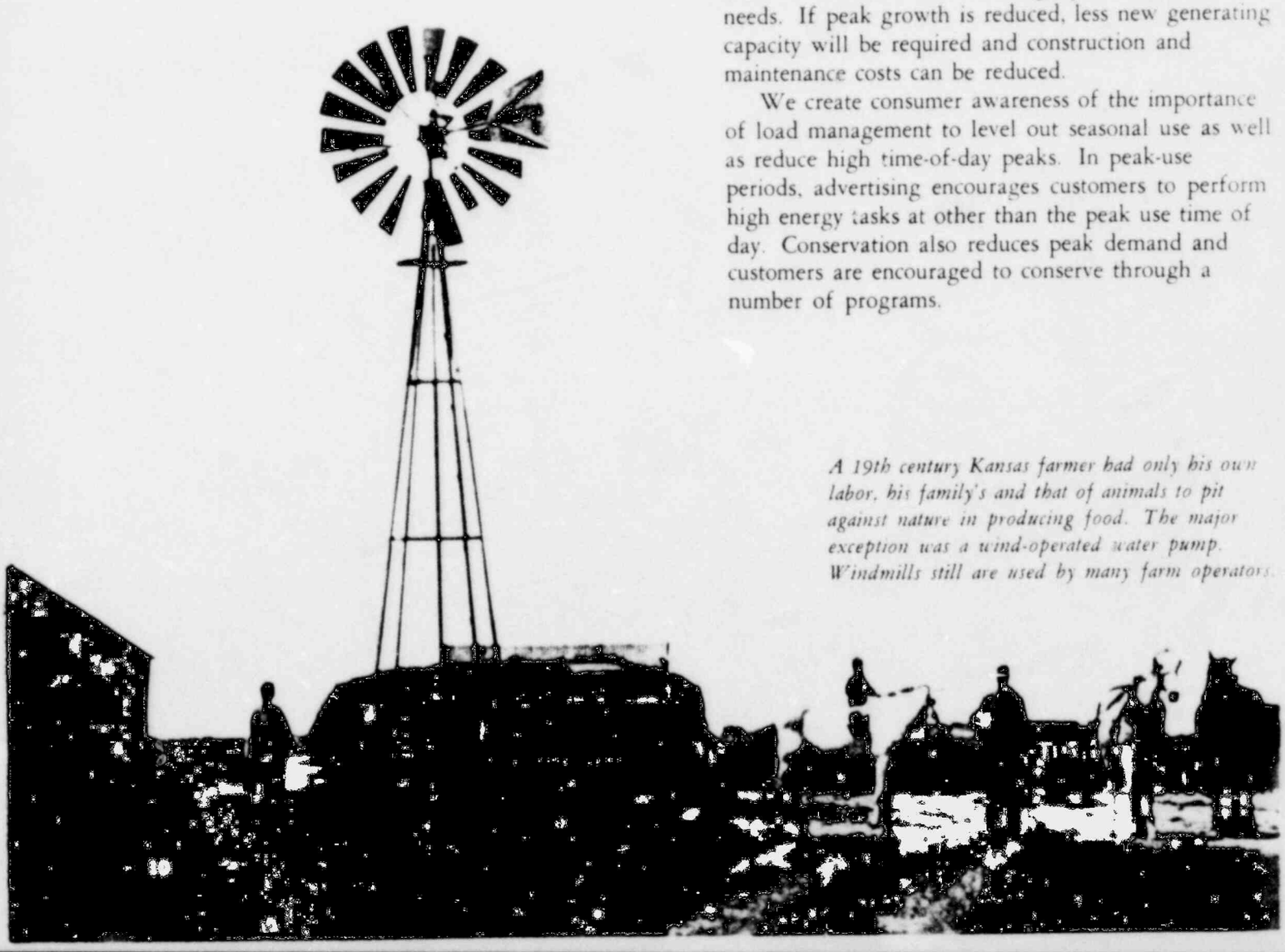
Under the law, states must submit conservation plans to the federal Department of Energy for approval. Until that has been done by the State of Kansas, our exact role, and its cost, will not be known.

Meanwhile, several other steps have been taken which should help strengthen our own "wise use" promotions. In September, when new rates were approved, we increased the long-standing difference in price between electricity used during peak demand seasons and that used at other times. This helps recover the higher costs of peak period service and also is an effective load management tool.

Through load management we seek to level the high and low demand periods, producing efficiency in equipment and manpower use. Load management is needed because demand for electricity changes according to time of year as well as time of day. This uneven demand means equipment needed to serve high-demand periods is not fully used at other times.

Since it is not now practical to store large amounts of electricity, generating plants and other facilities must be constructed to meet high peak electricity needs. If peak growth is reduced, less new generating capacity will be required and construction and maintenance costs can be reduced.

We create consumer awareness of the importance of load management to level out seasonal use as well as reduce high time-of-day peaks. In peak-use periods, advertising encourages customers to perform high energy tasks at other than the peak use time of day. Conservation also reduces peak demand and customers are encouraged to conserve through a number of programs.



A 19th century Kansas farmer had only his own labor, his family's and that of animals to pit against nature in producing food. The major exception was a wind-operated water pump. Windmills still are used by many farm operators.

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To improve future load management techniques, several research studies are being conducted.

A study was made in the summer of 1979 to determine if air conditioners in small commercial buildings could be controlled by radio signal to reduce the high demand peak. Results found that peak demand could be reduced with little sacrifice of comfort. A similar study with comparable results involved more than 100 single family homes in 1978.

Several studies are being conducted to use electric energy more efficiently. Hot refrigerant gases from air conditioning are being used to reduce electricity needed to heat water, and water mist is used to help cool refrigerant gases in an air conditioner, again reducing the electrical demand. Heat pump water heaters are being tested with positive findings.

KG&E is cooperating with other utilities in Kansas and with Wichita State University in a year-long study to determine if reduced voltage results in lower electrical demand. And, we are also sponsoring a solar water heating project.

Through the Electric Power Research Institute we sponsor research on a broad range of energy related problems. All of these efforts reflect KG&E's interest in research in general.

The energy crisis also is placing new importance on another aspect of customer services — that of maintaining customer confidence and creating customer understanding.

KG&E will continue its program of Customer Town Meetings whereby all residential customers are invited to meet with company officers and managers with emphasis on answering customer questions.

A Speakers Bureau enables qualified employees to present energy and conservation programs to clubs and organizations. In 1979 speakers made more than 1,900 presentations involving 46,000 persons.

Consumer consultants and others with special training provide programs at schools and colleges. Tours of company facilities, especially generating stations, are encouraged.

The farmer today uses electricity to extend his production capacity and to improve the quality of life for himself and family.

Our customers have demonstrated a willingness to conserve energy through proven techniques. Their comments also indicate a high interest in research.

In 1979, we added 5,764 customers. We expect the number of customers will continue to grow. This, along with the realization that electricity is continually replacing other energy forms, means the demand we must meet will also grow. We are committed to meet this need with reliable service delivered efficiently.

Power Supply

Because of increased conservation and 1979 weather being much milder than in 1978, our general business customers used .3% fewer kilowatt hours in 1979 than in 1978. And system demand of 1,473,400 kilowatts was 4% less than in 1978 when both demand and electric energy usage increased more than 8% over 1977.

Meeting long-term growth in electric energy needs is one reason for building new generating plants. But there is an even more pressing purpose. Natural gas and oil, which KG&E used extensively for years to fuel its plants, have become expensive and supplies are short. By federal law, we will not be permitted to use natural gas after 1990. There also is proposed federal legislation to reduce the use of oil by 50%. As a result, the company must construct new plants where coal and uranium can be used as fuel.

In 1979, the company invested $177 million in nev construction, mostly for generating stations. The 1980 construction budget amounts to $137 million. Fo the five years 1980-1984, construction spending is expected to total $733 million.

By the end of 1979 the company had 861 megawatts of coal-fueled capacity and 1,022 megawatts of gas-oil capability. An additional unit at Jeffrey Energ Center is to be completed in 1980, adding another 136 megawatts of coal capacity. With the retirement of two old coal-fueled units and because hydropower previously secured from the Southwestern Power Administration was not available, the company's capa city declined 3% to 1,968,000 kilowatts in 1979. Studies continue about the company's generating needs including its participation in other planned units at Jeffrey.

All coal-fueled capability is owned jointly with other utilities. Other owners of Jeffrey are The Kansa Power and Light Company, Western Power Division of Central Telephone and Utilities Corp., and Missouri Public Service Company. Kansas City Powe & Light Company owns 50% of La Cygne Station.

At the end of 1979, work on the uranium-fueled Wolf Creek Station was 50% complete. It is scheduled to be completed in 1983.

In 1979 the company and its partner in the plant, Kansas City Power & Light Company, signed a lette of agreement to sell 17% interest to Kansas Electric Power Cooperative, made up of 26 rural electric cooperatives. This long-planned transaction is

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A young homesteader of a century ago scoured the plains daily, gathering buffalo chips to fuel her family's stove.

expected to be culminated in 1980 with the cooperative assuming ownership after receiving its permanent financing and regulatory approval.

High inflation, design adjustments following the Three Mile Island accident and the KCC method of accounting for construction in progress have all pushed up the cost of construction projects. Late in 1979 the KCC authorized a study of Wolf Creek costs. A proper investigation should show the plant is well planned, is being built well and is resisting the effect of inflation as well as could reasonably be expected.

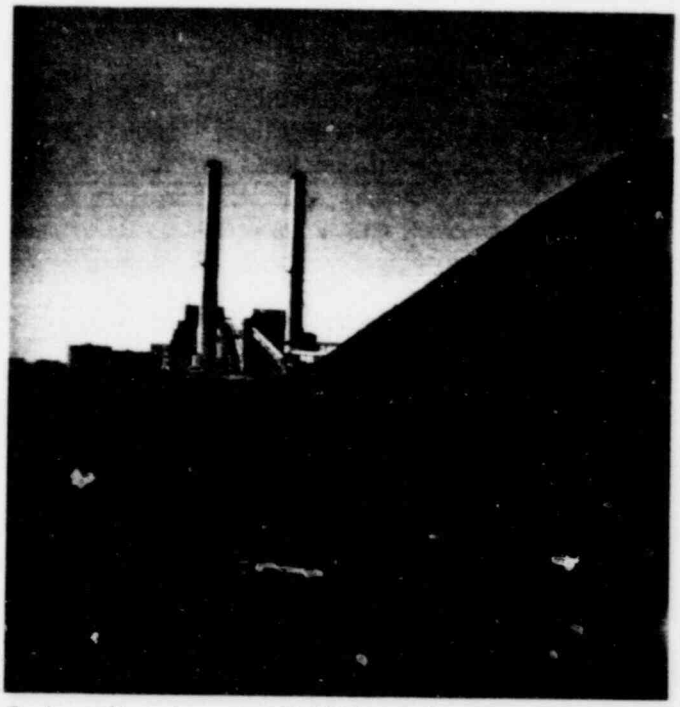
Uranium fuel purchased through a contract with Westinghouse and a subsidiary company formed by KG&E and its Wolf Creek Generating Station partners to secure uranium in New Mexico will be supplemented by other purchases.

Fuel for our coal generating units is available under long-term contracts.

Coal from Wyoming is used in the Jeffrey Energy Center units. Contracts for that coal extend well into the next century. A unit completed at La Cygne Station in 1977 also is fueled with coal from Wyoming under a contract extending until 1996. The first unit at La Cygne was completed in 1973. It uses coal from local mines in eastern Kansas and western Missouri being purchased under a 30-year contract.

Gas, which as recently as 1972 accounted for virtually all the fuel we used, provided 53% of our 1979 fuel requirements. Gas used comes from two sources. Most of it is intrastate gas from Kansas wells dedicated to company use. The rest is available from an interstate pipeline company, but that supply is frequently interrupted, particularly during winter months when there is a heavy demand for gas to be used in heating homes.

Residual oil is used to replace gas during times of curtailment. But oil costs more and requires more plant maintenance, handling and storage facilities. Most oil used by the company was purchased on the spot market at an average price of $12.52 per barrel in 1979. To date we have experienced no difficulty in buying needed oil, but anticipate a price increase of 50% when we replace that currently being used. Storage capacity is approximately 1 million barrels.

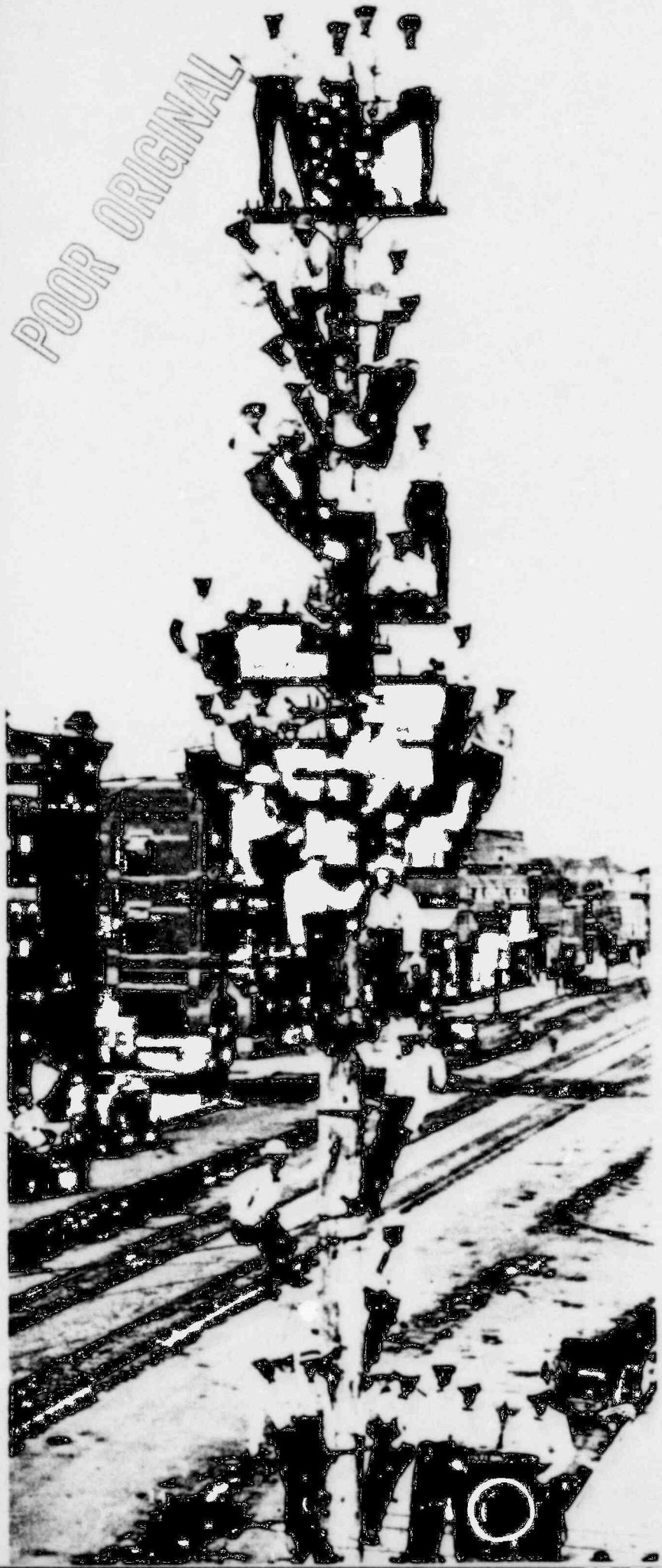


Coal rapidly is becoming KG&E's number one source of energy. As recently as 1972, virtually all electricity produced by KG&E was generated in gas-fueled plants. But because of scarcity, the company has joined other utilities in building new plants to use coal — and, later, uranium — as fuel.

Expansion of the distribution system is necessary to serve new customers and assure reliability of service for old ones.

POOR ORIGINAL

POOR ORIGINAL



Employee Participation

Employees — highly skilled and dedicated — continue to play an essential role in the success of the company.

Capital required in equipment and tools for each job averages $700,000. This investment contributes to greater productivity so the number of customers per employee has continued to improve over 10 years ago. Most of the recently added employees have been at the new Wolf Creek Station.

More than two-thirds of our people have more than five years experience with the company. More than 300 have served for 25 years or longer. KG&E continues to enjoy a low turnover-rate in a job market where year-end unemployment was only 2.5%, well below the national average.

Continued training and education are designed to aid employees in self improvement and better job performance. A tuition reimbursement plan encourages employees to take advantage of formal educational opportunities while they work on the job. Success of this program is seen in that 1 of every 5 employees was promoted during the year.

The safety record of KG&E employees, another measure of professionalism, remained good in 1979. At our Ripley Generating Station there has not been a lost-time accident since the plant became operational in 1938. During the past 10 years, KG&E people consistently have been among the safest work groups among utilities of our size.

Recognizing that employees also are affected by the economic, social and political challenges facing the electric utility industry, steps were taken during the year to maintain communications with employees in all areas.

An "Annual Report to Employees," a monthly employee magazine and a weekly newsletter are provided all employees. Bulletin boards are used for faster-breaking news. It's also possible to reach virtually all employees at one time with a system-wide telephone network.

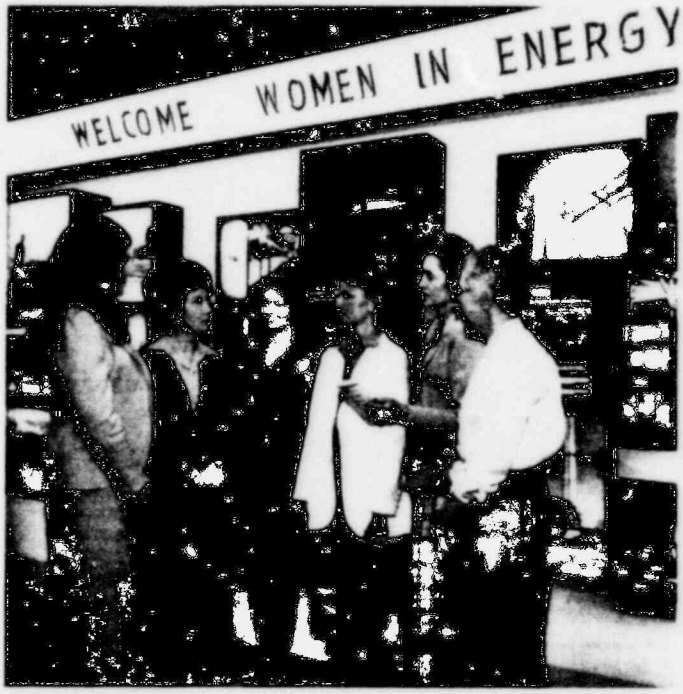
In addition to meeting with supervisors, company officers in 1979 met with employees in a series of work-location meetings. Emphasis was on listening to employee comments and answering questions.

In 1900 linemen attending the International Brotherhood of Electrical Workers convention in Wichita posed for this unique photo.

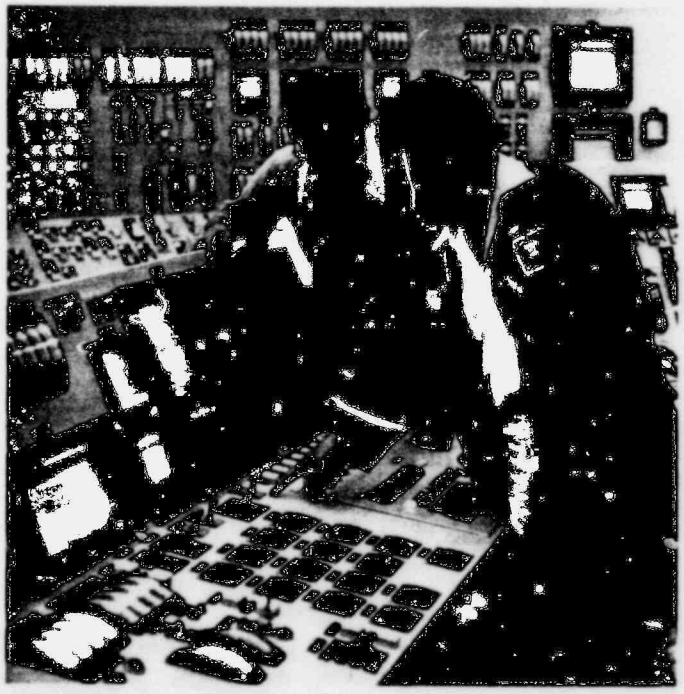
At the end of the year an agreement on wages had not been reached with a local union of the International Brotherhood of Electrical Workers which represents KG&E operating employees. The question was submitted for binding arbitration in January.

Employees play a unique role in the success of an electric utility. Employees must provide the initiative and know-how for efficient management and operation. And, employees represent the company to customers and the wider community. KG&E employees throughout 1979 demonstrated their creativity and commitment in both of these areas.

With thousands of dollars invested in equipment and tools for each job, KG&E gives special attention to training employees such as these apprentice linemen.



Utilities must answer the questions being asked in the energy debate. Support of programs such as Women in Energy is one way KG&E does this.



KG&Eers who will operate Wolf Creek Generating Station when it is completed in 1983 are already gaining experience at the Westinghouse training center at Zion, Ill., on a control board identical to that being installed at Wolf Creek.

POOR ORIGINAL

Management's Discussion and Analysis of the Income Statement

During the three years ended December 31, 1979, the following changes in operating revenues had a significant effect upon the Company's results of operations:

Revenue Increase (Decrease) Over Corresponding Prior Period	Millions of Dollars 1977	1978	1979
Increase in General Business	$ 6	$10	$(1)
Fuel Recovery	25	13	9
Rate Increases	13	5	4
Sales to Other Utilities	9	14	(5)
Total	$53	$42	$ 7

Growth in kilowatt-hour sales during the period has been affected by energy conservation by customers and weather. Growth in kilowatt-hour sales, particularly to residential and commercial customers, was enhanced in 1978 by a cold winter and a hot summer and was diminished in 1979 by a warm winter and a cool summer.

Operating expenses, other than fuel expense, for 1978 and 1979 increased primarily because of commercial operation of La Cygne Unit No. 2 in May 1977 and Jeffrey Energy Center Unit No. 1 in July 1978.

Maintenance expenses, as well as purchased power, increased due to extensive repairs made on major units.

The Company has a fuel adjustment rider applicable to all of its rate schedules. Fuel costs per million Btu were 67.2¢ in 1976, 99.3¢ in 1977, 109.3¢ in 1978 and 122.7¢ in 1979. Effective in August 1978, in accordance with an order of the State Corporation Commission of Kansas, the Company eliminated deferred fuel accounting and commenced billing fuel costs on an estimated basis currently. Effective in May 1979 the Company started recording variances resulting from the fuel adjustment clause. These variances are cleared two months after they are recorded as an adjustment through the fuel adjustment clause.

Depreciation has increased due to increases in electric plant in service creating increases of approximately $3 million and $2.3 million annual depreciation as a result of placing in service La Cygne Unit No. 2 and Jeffrey Energy Center Unit No. 1, respectively.

Allowance for funds used during construction has varied significantly because of fluctuation in the amount of construction work in progress and changes in the rates utilized. AFC rates were 7.2% for 1977, 7.3% for 1978 and 7.6% for the first seven months of 1979, all net of income taxes. Effective August 1, 1979 the Company adopted a gross AFC rate of 10.0%. Under the gross basis the income tax effect on the borrowed funds portion of the AFC is capitalized for financial reporting purposes.

Interest charges and preferred dividends increased substantially during the period because securities were issued to finance the record construction program and because of the increase in interest and preferred dividend rates.

See Page 24 for a summary of operations in 1969-79.

Auditors' Opinion

To the Stockholders and the
Board of Directors of
Kansas Gas and Electric Company:

We have examined the balance sheets of Kansas Gas and Electric Company as of December 31, 1979 and 1978 and the related statements of income, retained earnings, and of source of funds for construction for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated January 25, 1979, our opinion on the 1978 financial statements was qualified as being subject to the effect on the 1978 financial statements of such adjustments, if any, as might have been required had the outcome of litigation on certain revenues collected subject to refund been known. As a result of favorable court rulings described in Note 2, we no longer qualify our opinion on the 1978 financial statements. Accordingly, our present opinion on the 1978 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, such financial statements present fairly the financial position of the Company at December 31, 1979 and 1978 and the results of its operations and the source of its funds for construction for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

January 25, 1980
Wichita, Kansas

Statements of Income
For the Years Ended December 31

	1979	1978
	(Thousands of dollars)	
Operating Revenues (Note 2)	$244,970	$238,460
Operating Expenses:		
Fuel	101,927	96,017
Deferred fuel	1,347	6,127
Purchased power	8,535	4,162
Other operation	27,675	25,062
Maintenance	22,999	15,292
Depreciation	23,625	21,924
Taxes — other than income taxes	11,910	12,207
Income taxes (Note 7)	7,022	18,697
Total operating expenses	205,040	199,488
Operating Income	39,930	38,972
Other Income and Deductions:		
Allowance for funds used during construction — other	13,358	8,716
Income taxes — net (Note 7)	(259)	(38)
Miscellaneous — net	479	73
Total other income and deductions	13,578	8,751
Income Before Interest Charges	53,508	47,723
Interest Charges:		
Interest on long-term debt	31,726	23,746
Other interest	4,752	1,815
Amortization of debt premium, discount and expense — net	209	197
Allowance for funds used during construction — borrowed (Note 2)	(12,399)	(6,999)
Total interest charges	24,288	18,759
Net Income	29,220	28,964
Preferred Stock Dividends	8,217	7,084
Earnings Applicable to Common Stock	$ 21,003	$ 21,880
Average Shares of Common Stock Outstanding	11,400,916	9,615,051
Earnings Per Average Share of Common Stock	$1.84	$2.28

Statements of Retained Earnings
For the Years Ended December 31

	1979	1978
	(Thousands of dollars)	
Balance at Beginning of the Year	$ 91,015	$ 87,224
Net Income	29,220	28,964
Total	120,235	116,188
Deduct:		
Cash Dividends:		
Preferred stock	8,217	7,084
Common stock — $1.91 in 1979; $1.825 in 1978	22,272	17,944
Capital Stock Expense	339	145
Total	30,828	25,173
Balance at End of the Year	$ 89,407	$ 91,015

See notes to financial statements.

Balance Sheets December 31, 1979 and 1978

Assets	1979	1978
	(Thousands of dollars)	
Electric Plant at Original Cost:		
Plant in service	$735,201	$719,458
Less accumulated provision for depreciation	178,113	160,673
Net plant in service	557,088	558,785
Construction work in progress	343,016	188,869
Nuclear fuel	13,345	6,133
Total electric plant — net	913,449	753,787
Other Property and Investments — at cost	180	180
Current Assets:		
Cash (Note 4)	2,342	2,303
Special deposits	5,152	3,910
Temporary cash investments	—	7,200
Accounts receivable — net	16,530	16,745
Fuel — at average cost	28,681	20,650
Materials and supplies — at average cost	9,563	9,046
Prepayments and other current assets	708	422
Total current assets	62,976	60,276
Deferred Debits:		
Unamortized debt expense	4,208	4,152
Deferred fuel	—	1,347
Other	2,824	2,635
Total deferred debits	7,032	8,134
Total	$983,637	$822,377

See notes to financial statements.

Liabilities	1979	1978
	(Thousands of dollars)	
Capitalization:		
Common stock, without par value, authorized 20,000,000 and 14,000,000 shares respectively; outstanding, 13,240,277 shares and 11,054,503 shares, respectively (Note 5)	$184,397	$151,336
Retained earnings	89,407	91,015
Common stock equity	273,804	242,351
Preferred stock, including premium — non-redeemable (Note 5)	63,993	63,993
Preferred stock — redeemable (Note 5)	54,000	30,000
Long-term debt (Note 6)	386,519	374,071
Total capitalization	778,316	710,415
Current Liabilities:		
Short-term borrowings (Note 4)	41,800	—
Securities due within one year	1,000	3,000
Accounts payable	24,220	20,061
Customer deposits	1,384	1,200
Taxes accrued	4,009	9,684
Interest accrued	8,754	7,862
Dividends declared	2,327	1,821
Other current liabilities	138	92
Total current liabilities	83,632	43,720
Deferred Credits:		
Accumulated deferred income taxes (Note 1)	46,318	38,775
Accumulated deferred investment tax credit	26,797	27,558
Customer advances for construction	1,252	1,026
Advance — Kansas Electric Power Cooperatives, Inc. (Note 8)	46,893	—
Other	171	619
Total deferred credits	121,431	67,978
Reserve for Injuries and Damages	258	264
Total	$983,637	$822,377

Statements of Source of Funds for Construction

For the Years Ended December 31

	1979	1978
	(Thousands of dollars)	
Source of Funds		
From Operations:		
Net income	$ 29,220	$ 28,964
Non-cash charges (credits) to net income:		
Depreciation	23,625	21,924
Deferred income tax and investment tax credit	9,639	18,711
Allowance for funds used during construction (AFC)	(25,757)	(15,715)
Funds from operations	36,727	53,884
Dividends	30,489	25,028
Funds retained in business	6,238	28,856
From Financing:		
Long-term debt proceeds	12,391	81,458
Long-term debt redemption	(3,000)	(5,000)
Preferred stock	25,000	10,000
Common stock	33,061	29,680
Increase (decrease) in short-term borrowings	41,800	(21,700)
Funds from financing	109,252	94,438
Advance — Kansas Electric Power Cooperatives, Inc.	45,000	—
(Increase) decrease in working capital (other than short-term borrowings)	(2,588)	(5,730)
Other — net	3,189	7,470
Total Funds Used for Construction (excludes AFC)	$161,091	$125,034

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

System of Accounts — The Company is subject to the jurisdiction of the State Corporation Commission of Kansas (Kansas Commission) and the Federal Energy Regulatory Commission (FERC) and maintains its accounts in accordance with the uniform system of accounts prescribed by these regulatory commissions. As a regulated utility, the accounting principles applied by the Company differ in certain respects from those applied by non-regulated business.

Electric Plant — The Company performs a portion of its construction work and capitalizes general overhead and engineering expenses related to construction projects. Maintenance and repairs of property and replacements and renewals of items determined to be less than units of property are charged to operating expenses. The cost of units of property replaced or renewed, plus removal costs, less salvage, is charged to the accumulated provision for depreciation, and the cost of related replacements and renewals is added to electric plant. Betterments are charged to electric plant.

Allowance for Funds Used During Construction — Allowance for funds used during construction (AFC), a non-cash item, is defined in the applicable regulatory system of accounts as the net cost during the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used.

This allowance has been added to all major Construction projects at an annual compound rate of 9.8% (7.6% net of income taxes) for January through July 1979 and at a gross rate of 10% since August 1, 1979. In 1978, an annual compound rate of 9.5% (7.3% net of income taxes) was used.

Depreciation — For accounting purposes, the Company is depreciating the original cost of property by the straight-line method over its estimated remaining service life, as determined by independent engineers. Depreciation provision stated as a percent of original cost of depreciable property was 3.4% for 1979 and 1978.

Income Taxes — In the calculation of income taxes, the Company (i) uses liberalized depreciation for additions since 1954 and the ADR system for additions since 1972, and (ii) utilizes other tax benefits as permitted by the Internal Revenue Code, consisting principally of differences in straight-line depreciation and the deduction currently for interest and taxes capitalized for book purposes. Deferred taxes are provided for those items included in (i) above as approved by the Kansas Commission, and for the amortization of expenses in connection with bond issue refundings. For 1978 and January through July 1979 AFC is recorded in Electric Plant on a net basis. However, an amount equivalent to the income tax effect on the borrowed funds portion of the AFC was charged to deferred taxes under operating expenses and credited to

AFC. Effective August 1979 in connection with an Order from the Kansas Commission, AFC is recorded in Electric Plant on a gross basis. Under the gross basis the income tax effect on the borrowed funds portion of the AFC is capitalized for financial reporting purposes.

The Company defers and amortizes the investment tax credit over the life of the applicable property, in accordance with an order of the Kansas Commission.

Revenues — Operating revenues and accounts receivable include amounts actually billed for services rendered. The Company does not accrue an estimate for unbilled revenue.

Fuel Adjustment Clause Revenue — The Company's rate schedules include a fuel adjustment clause which permits recoveries of fuel costs on an estimated basis currently. Effective May 1979 the Company started recording variances resulting from the fuel adjustment clause. These variances are cleared two months after they are recorded as an adjustment through the fuel adjustment clause.

2. Rate Matters — In July 1977, the Kansas Commission issued an order granting the Company an interim annual rate increase of $14.1 million which was collected by the addition of a uniform percentage surcharge to each customer's bill. The Company's application for permanent rate relief was filed in September 1977. In June 1978, the Kansas Commission issued an order permitting the Company to increase its permanent rates an additional $2.2 million representing a total increase of $16.3 million. An industrial customer appealed the interim rate case order from the District Court, where the Company prevailed, to the Kansas Court of Appeals, which upheld the District Court ruling. Petition for review by the Kansas Supreme Court was denied on December 6, 1979, effectively disposing of any question of the Company having to refund said revenues.

In September 1979, the Kansas Commission issued an order granting the Company an annual rate increase of $17.3 million. In this order the Commission set rates on the basis of flow-through accounting treatment for the income tax effect on the borrowed funds portion of the AFC. This accounting treatment reduces income tax expense and therefore related revenue requirements. The income tax effect on the borrowed funds is being capitalized and is expected to be recovered in future periods under the regulatory practices of the Kansas Commission.

3. Retirement Plan — The Company has a non-contributory retirement plan for all employees. The total cost for 1979 and 1978 was $2,129,438 and $1,958,928, respectively, which includes amortization of prior service costs over a ten-year period. Of these amounts, $642,516 and $470,998 were included in plant construction costs. The Company's policy is to fund pension costs accrued currently. Unfunded past service cost at December 31, 1979 was approximately $3,750,000. The actuarially computed value of vested benefits at November 30, 1979 exceeded the market value of the plan assets on that date by approximately $2,000,000.

4. Short-Term Borrowings — At December 31, 1979, the Company had established lines-of-credit with various banks totaling $64 million for which the banks are compensated with either a fee or compensating balance. Compensating balances are not legally restricted.

The Company draws upon the bank lines-of-credit and sells commercial paper to obtain short-term construction funds. At December 31, 1979 the short-term borrowings outstanding amounted to $41,800,000. The maximum amount outstanding during the year was $50,200,000 on June 29, 1979. The weighted average interest rate, including fee, for the year was approximately 13.5% based on a daily average outstanding loan balance of $21,135,000.

5. Capital Stock — Changes in Common Stock during 1979 and 1978 follows:

	Shares Outstanding	Amount (Thousands of dollars)
Balance January 1, 1978	9,357,310	$121,656
Additional shares sold	1,600,000	27,824
Dividend Reinvestment Plan	97,193	1,856
Balance December 31, 1978	11,054,503	151,336
Additional shares sold	2,000,000	29,880
Employee Stock Purchase Plan and Dividend Reinvestment Plan	185,774	3,181
Balance December 31, 1979	13,240,277	$184,397

Cumulative Preferred Stock — non-redeemable except at the company's option at December 31, 1979 and 1978 consisted of the following:

	1979	1978
	(Thousands of dollars)	
4½%, $100 par value; authorized and outstanding, 82,011 shares	$ 8,201	$ 8,201
Serial, $100 par value; authorized, 255,000 shares:		
4.28% series, outstanding 45,000 shares	4,500	4,500
4.32% series, outstanding 60,000 shares	6,000	6,000
7.44% series, outstanding 150,000 shares	15,000	15,000
Serial, without par value (see Note):		
$8.66 series, outstanding 300,000 shares	30,000	30,000
Premium on Preferred Stock	292	292
Total	$ 63,993	$ 63,993

Cumulative Preferred Stock — redeemable at December 31, 1979 and 1978 consisted of the following:

	1979	1978
	(Thousands of dollars)	
Serial, without par value (see Note):		
$2.42 series, outstanding 800,000 shares	$ 20,000	$ 20,000
$8.125 series, outstanding 100,000 shares	10,000	10,000
$8.00 series, outstanding 150,000 shares	15,000	—
$8.25 series, outstanding 100,000 shares	10,000	—
Subtotal	55,000	30,000
Less: sinking fund requirements	1,000	—
Total	$ 54,000	$ 30,000

Note: Serial Preferred Stock without par value, 6,000,000 shares authorized.

(Continued on Page 22)

The mandatory sinking fund obligation for the $2.42 Series is designed to retire that series by April 1, 1999, and provides for the redemption of a minimum of 40,000 shares per year and a maximum of 80,000 shares per year, commencing April 1, 1980.

The mandatory sinking fund obligation for the $8.125 Series is designed to retire that series by April 1, 2018, and provides for the redemption of a minimum of 3,333 shares per year and a maximum of 6,666 shares per year, commencing April 1, 1989.

The Company is obligated to redeem all 150,000 shares of the $8.00 Series on March 28, 1985.

The mandatory sinking fund obligation for the $8.25 Series is designed to retire that series by July 1, 1989, and provides for redemption of 20,000 shares on July 1, 1986, 50,000 shares on July 1, 1987, 15,000 shares on July 1, 1988, and 15,000 shares on July 1, 1989.

6. Long-Term Debt — Long-term debt at December 31, 1979 and December 31, 1978 consisted of the following:

	1979	1978
	(Thousands of dollars)	
First Mortgage Bonds:		
2¾% series, due 1979	—	$ 3,000
3⅜% series, due 1982	$ 12,000	12,000
3⅝% series, due 1983	10,000	10,000
3⅜% series, due 1985	10,000	10,000
3⅜% series, due 1986	7,000	7,000
4⅝% series, due 1991	7,000	7,000
5⅝% series, due 1996	16,000	16,000
8½% series, due 2000	35,000	35,000
8⅛% series, due 2001	35,000	35,000
7⅜% series, due 2002	25,000	25,000
6.8% series, due 2004	14,500	—
9⅝% series, due 2005	40,000	40,000
8⅜% series, due 2006	25,000	25,000
8½% series, due 2007	25,000	25,000
6% series, due 2007	10,000	10,000
5⅞% series, due 2007	21,940	21,940
8⅞% series, due 2008	30,000	30,000
Less: certain securities held by Trustee	(1,964)	—
Total	321,476	311,940
Guarantee of pollution control revenue bonds — 5¾% series, due 2003	15,000	15,000
Term bank loan	50,000	50,000
Unamortized premium and discount — net	43	131
Total	386,519	377,071
Less: current maturities of long-term debt	—	3,000
Total	$386,519	$374,071

The 6% Series and the 5⅞% Series, due 2007 and 6.8% Series due 2004, are pledged as collateral for Pollution Control Revenue Bonds issued by Kansas Municipalities.

Proceeds, in excess of certified construction costs, are held by the Trustee and invested in interest-bearing securities pending application to the cost of a pollution control project being constructed at the Jeffrey Energy Center.

The term bank loan is provided through an agreement with fourteen domestic and foreign financial institutions providing for up to $100 million. The loan agreement is comprised of a two-year revolving credit and a three-year term loan with right of prepayment at any time without penalty. The effective interest rate on this borrowing was 13.2% for 1979 and 12.5% for 1978.

7. Income Taxes — The effective Federal income tax rates differ from the amounts computed by applying the Federal statutory rates to income before income taxes. The reasons with the related percentage effects are:

	1979	1978
Statutory Federal income tax rate	46%	48%
Add (Deduct) income tax effects of timing differences:		
Allowances for construction	(26)	(9)
Taxes and pensions capitalized	(4)	(3)
Other items — net (non one item makes up more than 3%)	1	—
Effective Federal income tax rate	17%	36%

Income taxes as recorded in the Statements of Income are:

	1979	1978
	(Thousands of dollars)	
Operating expenses:		
Currently payable — Federal	$(2,296)	$(1,085)
— State	(321)	1,071
Deferred — Federal	6,495	6,772
— State	1,048	1,022
Deferred — tax effect of AFC — borrowed	2,857	3,605
Investment tax credit — net	(761)	7,312
Total	7,022	18,697
Other income and deductions:		
Currently payable — Federal	224	33
— State	35	5
Total	259	38
Income tax expense — net	$ 7,281	$18,735

At December 31, 1979, the Company has unused investment tax credits of approximately $30 million available for carryforward to future years.

8. Advance – Kansas Electric Power Cooperatives, Inc. (KEPCo) — The Company and Kansas City Power & Light Company each presently own 50% of Wolf Creek Generating Station. However, they have agreed to sell to KEPCo a 17% interest in the unit. During 1979, KEPCo advanced $45 million to the Company to be applied along with credits for interest to the purchase price on consummation of the sale. The sale, which is subject to regulatory approval and KEPCo permanent financing, is expected to take place in 1980.

9. Construction Budget — The construction budget for 1980, as approved by the Board of Directors, is $136,940,847. The Company has substantial purchase commitments in connection with its construction program.

10. Financial Statistics (Unaudited)
(Thousands except per share)

	1979			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Operating Revenues	$60,982	$67,351	$51,685	$64,952
Operating Income	11,570	13,942	5,351	9,067
Net Income	8,447	11,502	2,636	6,635
Earnings Applicable to Common	6,120	9,254	814	4,815
Average Shares Outstanding	12,236	11,162	11,122	11,084
Earnings Per Share	$0.50	$0.83	$0.07	$0.43

	1978			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Operating Revenues	$53,609	$70,235	$52,150	$62,466
Operating Income	7,412	13,652	7,578	10,330
Net Income	4,374	10,808	5,747	8,035
Earnings Applicable to Common	2,554	8,987	3,926	6,413
Average Shares Outstanding	10,255	9,427	9,402	9,377
Earnings Per Share	$0.25	$0.95	$0.42	$0.68

11. Replacement Cost (Unaudited) — The impact of the rate of inflation experienced in recent years has resulted in replacement costs of productive capacity that are significantly greater than the historical costs of such assets reported in the Company's financial statements. In compliance with reporting requirements, estimated replacement cost information will be disclosed in the Company's annual report to the Securities and Exchange Commission on Form 10-K.

12. Supplementary Information to Disclose the Effects of Changing Prices (Unaudited) — The following supplementary information is supplied in accordance with the requirements of Financial Accounting Standards Board Statement No. 33, Financial Reporting and Changing Prices, for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers.

Fuel inventories and the cost of fuel used in generation have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets.

As prescribed in Statement 33, income taxes were not adjusted.

Under the rate making prescribed by the regulatory commissions to which the Company is subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars over the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. While the rate-making process gives no recognition to the current cost of replacing property, plant, and equipment, based on past practices, the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Supplemental Statement of Income, the reduction of net property, plant, and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. Preferred Stock and Deferred Investment Tax Credits are classified as monetary items. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant, and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

SUPPLEMENTAL STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES FOR THE YEAR ENDED DECEMBER 31, 1979

	Conventional Historical Cost	Constant Dollar Average 1979 Dollars
	(Thousands of dollars)	
Operating revenues	$244,970	$244,970
Fuel used in generation expense	103,274	103,274
Purchased power	8,535	8,535
Depreciation expense	23,625	40,179
Other operating and maintenance expense	62,584	62,584
Income tax expense — net	7,281	7,281
Interest expense — net	24,288	24,288
Other income and deductions — net	(13,837)	(13,837)
Subtotal	215,750	232,304
Income from continuing operations (excluding reduction to net recoverable cost)	$ 29,220	$ 12,666
Reduction to net recoverable cost		$(77,866)
Gain from decline in purchasing power of net amounts owed		64,995
Net		$(12,871)

Five year supplemental selected finance data is enclosed in the Company's annual report to the Securities and Exchange Commission on Form 10-K.

KANSAS GAS AND ELECTRIC COMPANY
Comparative Financial Statistics (Thousands)

	1979		1978		1977		1976	
Electric Operating Revenues:								
Residential	$ 74,215		$ 73,683		$ 60,849		$ 47,120	
Commercial	55,990		53,588		45,890		35,930	
Industrial	80,328		72,848		59,978		44,828	
Public street and highway lighting	2,161		2,034		1,688		1,399	
Sales for resale — municipals and cooperatives	20,184		19,177		16,197		10,889	
General business	232,878		221,330		184,602		140,166	
Sales for resale — other electric utilities	10,737		13,794		10,580		1,728	
Total sales of electricity	243,615		237,124		195,182		141,894	
Other	1,355		1,336		1,054		879	
Total electric operating revenues	244,970		238,460		196,236		142,773	
Operating Expenses:								
Fuel	101,927		96,017		73,826		42,658	
Deferred fuel	1,347		6,127		(2,461)		(2,182)	
Purchased power	8,535		4,162		14,523		9,459	
Other operation	27,675		25,062		22,267		18,954	
Maintenance	22,999		15,292		11,041		8,208	
Depreciation	23,625		21,924		17,729		13,765	
Taxes other than income taxes	11,910		12,207		11,036		9,134	
Income taxes	7,022		18,697		15,473		13,783	
Total operating expenses	205,040		199,488		163,434		113,779	
Operating Income	39,930		38,972		32,802		28,994	
Other Income and Deductions:								
AFUDC — other (a)	13,358		8,716		7,644		—	
AFUDC (7½% in 1976-1970, 6½% in 1969, 6% in 1969)	—		—		—		9,992	
Income taxes — net	(259)		(38)		(47)		3,171	
Miscellaneous — net	479		73		91		158	
Income Before Interest Charges	53,508		47,723		40,490		42,315	
Interest Charges:								
Interest on bonds	31,726		23,746		20,660		17,102	
Other interest	4,752		1,815		961		1,859	
Amortization of debt premium, discount and expense — net	209		197		126		81	
AFUDC — borrowed (a)	(12,399)		(6,999)		(5,907)		—	
Net Income	29,220		28,964		24,650		23,273	
Preferred Stock Dividends	8,217		7,084		6,471		4,537	
Earnings Applicable to Common Stock	$ 21,003		$ 21,880		$ 18,179		$ 18,736	
Shares of Common Stock Outstanding (End of Year)	13,240		11,055		9,357		6,717	
Earnings per Average Share of Common Stock	$1.84		$2.28		$2.28		$2.88	
Cash Dividends Paid per Share On Common Stock (b)	$1.91		$1.825		$1.77		$1.70	
Capitalization: (Amount and Percent)								
Long-term debt (less current maturities)	$386,519	49.7	$374,071	52.7	$295,392	50.2	$262,854	52
Preferred stock including premium	117,993	15.1	93,993	13.2	83,993	14.3	83,993	16
Common equity:								
Common stock	184,397		151,336		121,656		66,906	
Retained earnings	89,407		91,015		87,224		83,642	
Total common equity	273,804	35.2	242,351	34.1	208,880	35.5	150,548	30
Total capitalization	$778,316	100.0	$710,415	100.0	$588,265	100.0	$497,395	100
Short-term Borrowings (End of Year)	$ 41,800		$ —		$ 21,700		$ 29,250	
Embedded Interest Cost of Long-Term Debt	7.39%		7.36%		7.12%		7.13%	

(a) See Note 1 to Notes to Financial Statements.

(b) 1979 year-end annual rate $1.94 per share.

1975		1974		1973		1972		1971		1970		1969	
$ 42,333		$ 31,603		$ 27,675		$ 25,615		$ 24,208		$ 24,156		$ 21,902	
32,135		24,294		21,403		19,949		18,644		17,934		16,552	
38,000		27,740		21,612		19,574		18,660		18,266		18,003	
1,301		1,123		978		905		829		768		714	
8,362		5,502		4,368		3,742		3,417		3,272		2,841	
122,131		90,262		76,036		69,785		65,758		64,393		60,015	
3,149		5,314		3,008		3,589		4,843		5,210		6,568	
125,280		95,576		79,044		73,374		70,601		69,603		66,581	
886		778		660		581		549		554		506	
126,166		96,354		79,704		73,955		71,150		70,157		67,087	
39,273		22,331		16,624		14,198		13,952		13,383		13,024	
(2,427)		(404)		—		—		—		—		—	
2,824		2,426		2,138		2,718		1,378		1,886		2,014	
16,505		14,862		12,879		11,687		11,194		10,494		9,762	
7,345		6,289		5,064		3,723		3,349		3,586		2,747	
13,092		11,525		9,925		7,962		7,599		7,153		6,750	
8,911		8,411		6,812		8,338		8,935		8,328		7,906	
13,031		7,284		7,061		7,920		8,174		9,394		10,360	
98,554		72,724		60,503		56,546		54,581		54,206		52,563	
27,612		23,630		19,201		17,409		16,569		15,951		14,524	
—		—		—		—		—		—		—	
5,090		1,362		2,830		5,199		2,951		1,365		406	
1,899		374		889		1,573		854		459		191	
(76)		21		(32)		80		42		(112)		(179)	
34,525		25,387		22,888		24,261		20,416		17,663		14,942	
13,324		11,329		11,118		10,046		7,532		5,343		3,344	
2,716		2,564		263		228		448		505		592	
39		28		27		19		11		1		(28)	
—		—		—		—		—		—		—	
18,446		11,466		11,480		13,968		12,425		11,814		11,024	
3,572		1,937		1,937		1,686		821		821		821	
$ 14,874		$ 9,529		$ 9,543		$ 12,282		$ 11,604		$ 10,993		$ 10,213	
5,517		4,717		4,717		4,717		4,717		4,717		4,717	
$2.91		$2.02		$2.02		$2.60		$2.46		$2.33		$2.17	
$1.61		$1.56		$1.53		$1.49		$1.44		$1.41		$1.37	
$230,052	56.6	$179,868	56.9	$179,877	57.3	$165,053	55.6	$140,188	55.7	$105,133	49.7	$ 70,427	40.8
53,993	13.3	33,993	10.8	33,993	10.8	33,993	11.5	18,966	7.5	18,966	8.9	18,966	11.0
45,738		31,770		31,770		31,770		31,770		31,770		31,770	
76,352		70,388		68,217		65,891		60,680		55,868		51,526	
122,090	30.1	102,158	32.3	99,987	31.9	97,661	32.9	92,450	36.8	87,638	41.4	83,296	48.2
$406,135	100.0	$316,019	100.0	$313,857	100.0	$296,707	100.0	$251,604	100.0	$211,737	100.0	$172,689	100.0
$ 26,525		$ 42,021		$ 12,279		$ 4,300		$ 7,850		$ 15,255		$ 13,660	
6.98%		6.33%		6.33%		6.37%		6.17%		5.52%		3.83%	

POOR ORIGINAL

KANSAS GAS AND ELECTRIC COMPANY
Comparative Electric Statements

	1979	1978	1977	1976
Sales in Kilowatt-Hours (Thousands):				
Residential	**1,870,597**	1,947,538	1,771,645	1,671,47
Commercial	**1,398,942**	1,402,986	1,330,807	1,257,61
Industrial	**2,777,807**	2,679,630	2,465,928	2,351,63
Public street and highway lighting	**63,385**	62,808	62,085	60,74
Sales for resale — municipals and cooperatives	**927,395**	965,187	883,553	726,54
General business	**7,038,126**	7,058,149	6,519,018	6,068,00
Sales for resale — other electric utilities	**534,925**	921,338	695,285	97,95
Total kilowatt-hours sold	**7,573,051**	7,979,487	7,214,303	6,165,95
Customers at End of Year:				
Residential	**200,024**	194,773	190,174	187,01
Commercial	**19,141**	18,970	18,510	18,24
Industrial	**3,696**	3,392	3,311	3,18
Public street and highway lighting	**450**	413	396	37
Sales for resale — municipals and cooperatives	**92**	91	90	8
General business	**223,403**	217,639	212,481	208,90
Sales for resale — other electric utilities	**10**	10	10	1
Total electric customers	**223,413**	217,649	212,491	208,91
Residential:				
Average kwh per customer	**9,496**	10,136	9,413	9,09
Average revenue per customer	**$376.76**	$383.49	$323.29	$256.2
Average revenue per kwh (cents)	**2.97**	3.78	3.43	2.8
Kilowatt-Hours Generated and Purchased (Thousands):				
Generated (net after station use)	**7,554,258**	8,130,424	6,732,339	5,878,67
Purchased	**475,866**	334,683	947,973	802,41
Total	**8,030,124**	8,465,107	7,680,312	6,681,08
Less: Sales for resale — other electric utilities	**534,925**	921,338	695,285	97,95
Net	**7,495,199**	7,543,769	6,985,027	6,583,13
Company use, line loss, etc.	**457,073**	485,620	466,009	515,13
Energy sold — general business	**7,038,126**	7,058,149	6,519,018	6,068,00
Average BTU per Net Kilowatt-Hour Generated	**10,998**	10,802	11,048	10,80
Average Fuel Cost per Million BTU (cents)	**122.684**	109.324	99.256	67.15
Available Capacity (Kilowatts)	**1,968,000**	2,031,000	2,026,000	1,718,00
Maximum Demand (Kilowatts) (Exclusive of sale to other utilities)	**1,473,400**	1,532,600	1,423,400	1,387,00
Utility Plant at Original Cost (Thousands):				
Beginning of year	**$ 914,460**	$780,181	$676,554	$563,98
Capital expenditures	**183,991**	137,144	106,565	115,12
Retirements	**6,889**	2,865	2,938	2,55
End of year	**1,091,562**	914,460	780,181	676,55
Accumulated provision for depreciation	**178,113**	160,673	140,775	124,96
Net utility plant	**$ 913,449**	$753,787	$639,406	$551,59
Employees at Year-End	**1,432**	1,385	1,340	1,31

1975	1974	1973	1972	1971	1970	1969
1,635,381	1,455,571	1,420,678	1,306,894	1,218,515	1,210,616	1,074,492
1,204,998	1,086,213	1,088,392	1,027,931	950,848	911,967	821,203
2,268,200	2,233,936	2,045,851	1,887,252	1,797,720	1,782,629	1,779,093
58,602	57,123	55,472	52,442	49,657	47,049	44,943
687,541	636,368	547,324	503,616	461,229	468,477	391,893
5,854,722	5,469,211	5,157,717	4,778,136	4,477,969	4,420,738	4,111,624
247,717	380,239	347,549	505,515	737,016	1,109,211	1,423,658
6,102,439	5,849,450	5,505,266	5,283,651	5,214,985	5,529,949	5,535,282
180,772	177,162	172,896	169,761	166,697	165,668	165,424
18,913	18,698	18,573	18,411	18,048	17,923	17,849
2,546	2,462	2,381	2,345	2,327	2,302	2,303
320	248	181	177	167	165	160
87	84	82	81	78	77	74
202,638	198,654	194,113	190,775	187,317	186,135	185,810
10	10	8	8	8	8	8
202,648	198,664	194,121	190,783	187,325	186,143	185,818
9,150	8,338	8,317	7,792	7,343	7,325	6,545
$236.86	$181.02	$162.02	$152.73	$145.88	$146.15	$133.40
2.59	2.17	1.95	1.96	1.99	2.00	2.04
6,194,369	5,945,844	5,544,119	5,428,111	5,469,259	5,785,520	5,692,076
372,332	354,699	386,562	359,501	124,350	155,299	189,245
6,566,701	6,300,543	5,930,681	5,787,612	5,593,609	5,940,819	5,881,321
247,717	380,239	347,549	505,515	737,016	1,109,211	1,423,658
6,318,984	5,920,304	5,583,132	5,282,097	4,856,593	4,831,608	4,457,663
464,262	451,093	425,415	503,961	378,624	410,870	346,039
5,854,722	5,469,211	5,157,717	4,778,136	4,477,969	4,420,738	4,111,624
10,843	11,284	11,058	10,710	10,480	10,374	10,345
58.473	33.284	27.116	24.423	24.341	22.303	22.118
1,718,000	1,728,000	1,728,000	1,318,000	1,318,000	1,318,000	1,318,000
1,337,400	1,324,600	1,201,900	1,137,300	1,079,400	1,076,600	998,400
$478,011	$432,059	$397,790	$347,961	$306,801	$273,137	$255,068
88,287	48,094	36,506	51,799	43,196	35,662	20,578
2,310	2,142	2,237	1,970	2,036	1,998	2,509
563,988	478,011	432,059	397,790	347,961	306,801	273,137
113,130	101,817	91,839	83,644	77,317	71,226	65,369
$450,858	$376,194	$340,220	$314,146	$270,644	$235,575	$207,768
1,289	1,290	1,269	1,238	1,240	1,263	1,237

Directors

(and the year they were elected)

Robert A. Brown (1953)
Arkansas City, Chairman of the Board, The Home National Bank of Arkansas City

A. Dwight Button (1976)
Wichita, Chairman of the Board, The Fourth National Bank and Trust Company, Wichita

Wilson K. Cadman (1978)
Wichita, President of the Company

C. T. Carter (1968)
Independence, Retired Vice President, Pipeline Transportation, Atlantic Richfield Company

C. Q. Chandler (1974)
Wichita, Chairman of the Board and President, First National Bank in Wichita

Martin K. Eby (1957)
Wichita, Retired Chairman of the Board, Martin K. Eby Construction Co., Inc.

G. W. Evans (1947)
Wichita, Consultant and Retired Chairman of the Board of the Company

Ralph P. Fiebach (1967)
Wichita, Chairman of the Board of the Company

Ralph Foster (1970)
Wichita, Vice President - General Counsel of the Company

George K. Mackie, Jr. (1965)
Pittsburg, Chairman of the Board, The Clemens Coal Company

Glen L. Montague (1974)
Wichita, Vice President - Administrative Services of the Company

Clifton C. Otto (1953)
Fort Scott, Retired Chairman of the Board, The Western Insurance Companies

Dwane L. Wallace (1953)
Wichita, Senior Consultant, Cessna Aircraft Company

Robert L. Williams (1968)
Wichita, Owner of Imperial Oil Company

Lyle E. Yost (1969)
Hesston, Chairman of the Board, Hesston Corporation

Officers

(including their ages and titles)

Ralph P. Fiebach, 62
Chairman of the Board

Wilson K. Cadman, 52
President

Dennis L. Evans, 45
Vice President - Customer and Community Services

Ralph Foster, 51
Vice President - General Counsel

Howard J. Hansen, 58
Vice President - Finance

Glenn L. Koester, 54
Vice President - Operations

Glen L. Montague, 60
Vice President - Administrative Services

Robert L. Rives, 46
Vice President - System Services

Bernard Ruddick, 56
Vice President - Engineering

W. B. Walker, 59
Vice President - Accounting and Secretary

R. E. Tate, 63
Treasurer

E. D. Prothro, 47
Controller, Assistant Secretary and Assistant Treasurer

Jack Skelton, 49
Assistant Secretary

J. F. Klassen, 50
Assistant Treasurer

Verna L. Ridgeway, 52
Assistant Vice President

Stockholder Information

Market Prices and Dividend Rates of Stocks

Common – NYSE	High/Low Market Price		Dividends	
	1979	1978	1979	1978
First Quarter	19¾/18½	21 /19¾	$ .475	$ .45
Second Quarter	19 /17¼	20⅛/18½	.475	.45
Third Quarter	18⅞/16½	21 /18¾	.475	.45
Fourth Quarter	17⅝/15	19¼/17¾	.485	.475

4½% Preferred – ASE

	High/Low Market Price		Dividends	
	1979	1978	1979	1978
First Quarter	47½/42½	50¾/50	$1.125	$1.125
Second Quarter	45½/41	51¾/46	1.125	1.125
Third Quarter	44¾/40¼	51½/46	1.125	1.125
Fourth Quarter	40½/36¼	48 /44	1.125	1.125

Annual Meeting

The annual stockholders' meeting will be held at the General Office of the Company, Wichita, Kansas, May 21, 1980. Proxies for this meeting will be solicited by the management. A proxy statement will be mailed to stockholders about April 25, 1980.

This report is prepared primarily for the information of stockholders of the company and is not transmitted in connection with the sale of any securities or offer to buy any securities.

Fiscal Agents

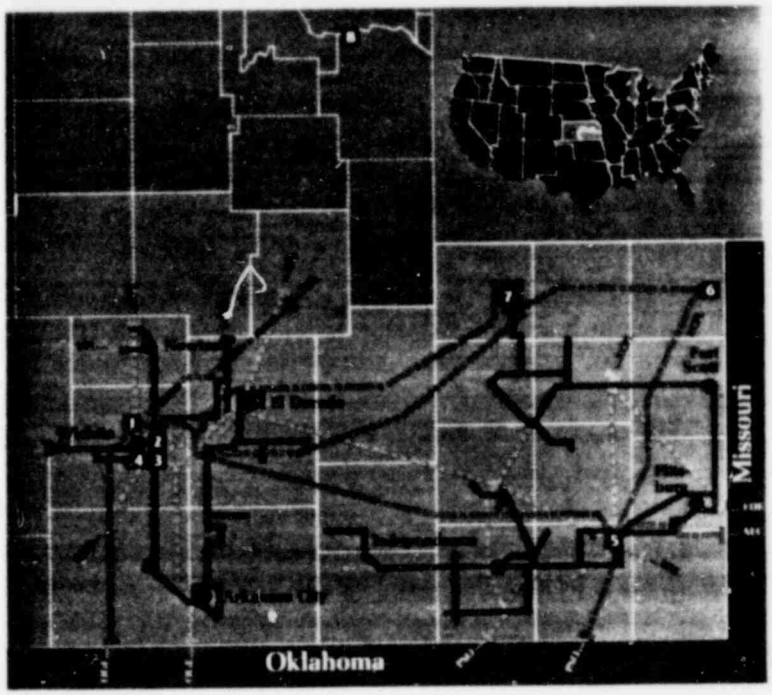
Preferred Stock: Transfer Agent, First National Bank in Wichita; Registrar, The Fourth National Bank and Trust Company, Wichita.

Common Stock: Transfer Agents, First National Bank in Wichita and Irving Trust Company, New York; Registrars, The Fourth National Bank and Trust Company, Wichita, and Registrar and Transfer Company, New York. Listed N.Y.S.E., ticker symbol, KGE.

Bonds: Trustee, Registrar and Paying Agent, Morgan Guaranty Trust Company of New York.

Form 10-K

The Company's Form 10-K is filed with the Securities and Exchange Commission and is available from that agency or from the Secretary of the Company, Box 208, Wichita, Kansas 67201.



Map Legend

Division Headquarters Cities
Electric Lines, 345 kv
Electric Lines, 138 and 161 kv
Electric Lines, 69 kv
Electric Lines Authorized
Electric Interconnections

Generating Stations and Capability

1. Gordon Evans Steam Electric Station, 507.8 mw
2. Ripley Steam Electric Station, 88.3 mw
3. Wichita Steam Electric Station, 22.8 mw
4. Murray Gill Steam Electric Station, 334.3 mw
5. Neosho Steam Electric Station, 68.7 mw
6. La Cygne Steam Electric Station,* 725 mw
7. Wolf Creek Generating Station,* 477 mw (under construction)
8. Jeffrey Energy Center,* 136 mw

*Jointly owned with other utilities. Capability stated is KG&E allocation.

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Interconnected Utilities

- Associated Electric Cooperative, Inc. — AEC
- The Empire District Electric Company — EDE
- Kansas City Power & Light Company KCPL
- The Kansas Power and Light Company — KPL
- Oklahoma Gas and Electric Company — OGE
- Public Service Company of Oklahoma — PSO
- Western Power Division of Central Telephone & Utilities Corporation — WPD

Service Area

KG&E provides electric service to approximately 223,400 retail customers in southeastern Kansas including the Wichita Metropolitan Area.

Wholesale service is provided to 31 communities and to 8 rural electric cooperatives. The company owns no gas properties and has no gas operations.

The company has all appropriate franchises and certificates which are needed to permit it to provide service throughout the area.

Kansas Gas and Electric Company
P. O. Box 208
Wichita, Kansas 67201

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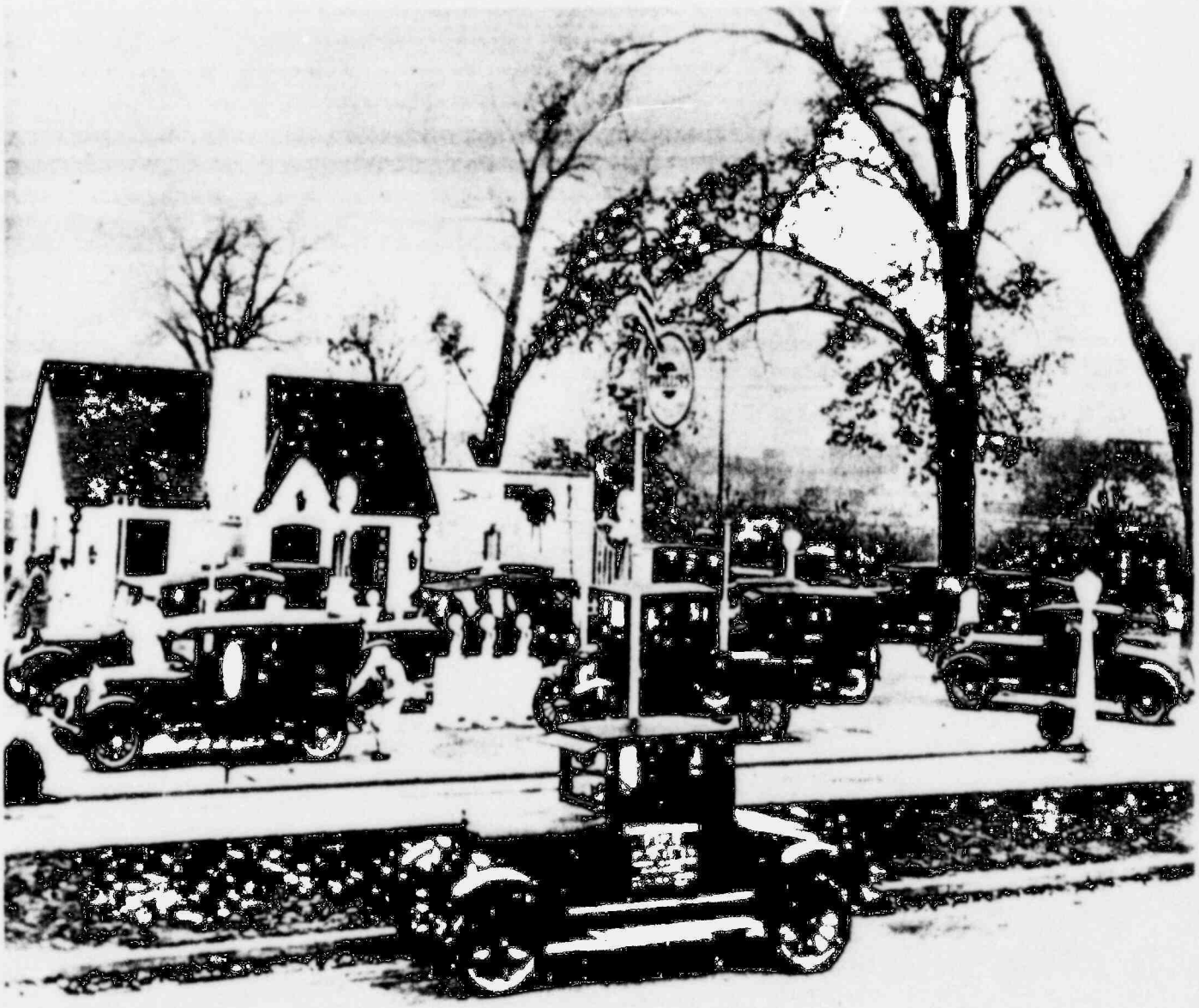
Wichita, Ks.

POOR ORIGINAL



Gasoline lines aren't new. When Phillips 66 opened its first gas station anywhere in Wichita in 1927 customers lined up for service. Energy was important then as now. KG&E has for 70 years met the growing needs of increasing numbers of customers. Although all energy must be used efficiently, we have taken steps to assure a continued adequate supply of power to satisfy new uses as well as new customers. In the future as in the past, electricity can be a reliable and economical energy source expanding the potential of men and women to work as well as to enjoy life.