WESTAR ENERGY INC /KS
Form 10-Q
August 08, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from ______ to ______

Commission File Number 1-3523

WESTAR ENERGY, INC.

(Exact name of registrant as specified in its charter)

Kansas	**48-0290150**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

818 South Kansas Avenue, Topeka, Kansas 66612 (785) 575-6300
(Address, including Zip Code and telephone number, including area code, of registrant s principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

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

Common Stock, par value $5.00 per share	**108,153,979 shares**
(Class)	**(Outstanding at July 31, 2008)**

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FORWARD-LOOKING STATEMENTS

Certain matters discussed in this Form 10-Q are forward-looking statements. The Private Securities Litigation Reform Act of 1995 has established that these statements qualify for safe harbors from liability. Forward-looking statements may include words like we believe, anticipate, target, expect, pro forma, estimate, intend and words of similar meaning. Forward-looking statements describe our future plans, objectives, expectations or goals. Such statements address future events and conditions concerning matters such as, but not limited to:

- amount, type and timing of capital expenditures,
- earnings,
- cash flow,
- liquidity and capital resources,
- litigation,
- accounting matters,
- possible corporate restructurings, acquisitions and dispositions,
- compliance with debt and other restrictive covenants,
- interest rates and dividends,
- environmental matters,
- regulatory matters,
- nuclear operations, and
- the overall economy of our service area and economic well-being of our customers.

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

- regulated and competitive markets,

economic and capital market conditions, including the impact of changes in interest rates and the availability of capital,

inflation,

performance of our base load plants,

changes in accounting requirements and other accounting matters,

changing weather,

the outcome of a request for a rate review filed with the KCC,

the impact of regional transmission organizations and independent system operators, including the development of market mechanisms for energy markets in which we participate,

the impact of changes and downturns in the energy industry and the market for trading wholesale energy,

the outcome of the notice of violation received on January 22, 2004, from the Environmental Protection Agency and other environmental matters including possible future legislative or regulatory mandates related to emissions of presently unregulated gases or substances,

political, legislative, judicial and regulatory developments at the municipal, state and federal level that can affect us or our industry, including in particular those relating to environmental laws,

the impact of our potential liability to David C. Wittig and Douglas T. Lake for unpaid compensation and benefits and the impact of claims they have made against us related to the termination of their employment and the publication of the report of the special committee of the board of directors,

the outcome of the Federal Energy Regulatory Commission investigation,

the impact of changes in interest rates on pension and other post-retirement and post-employment benefit liability calculations, as well as actual and assumed investment returns on invested plan assets,

the impact of changes in estimates regarding our Wolf Creek Generating Station decommissioning obligation,

changes in regulation of nuclear generating facilities and nuclear materials and fuel, including possible shutdown or required modification of nuclear generating facilities, uncertainty regarding the establishment of interim or permanent sites for spent nuclear fuel storage and disposal,

homeland security considerations,

coal, natural gas, uranium, oil and wholesale electricity prices,

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- cost, availability and timely provision of equipment, supplies, labor and fuel we need to operate our business, and

- other circumstances affecting anticipated operations, sales and costs.

These lists are not all-inclusive because it is not possible to predict all factors. This report should be read in its entirety and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007. No one section of this report deals with all aspects of the subject matter and additional information on some matters that could impact our operations and financial results may be included in our Annual Report on Form 10-K for the year ended December 31, 2007. Any forward-looking statement speaks only as of the date such statement was made, and we are not obligated to update any forward-looking statement to reflect events or circumstances after the date on which such statement was made except as required by applicable laws or regulations.

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GLOSSARY OF TERMS

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

Abbreviation or Acronym	Definition
2007 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2007
AFUDC	Allowance for Funds Used During Construction
COLI	Corporate-owned life insurance
DOJ	Department of Justice
ECRR	Environmental Cost Recovery Rider
EITF	Emerging Issues Task Force
EPA	Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Investors Service
Forward sale agreement	Forward equity sale agreement
FSP	FASB Staff Position
GAAP	Generally Accepted Accounting Principles
IRS	Internal Revenue Service
KCC	Kansas Corporation Commission
KDHE	Kansas Department of Health and Environment
KGE	Kansas Gas and Electric Company
kV	Kilovolts
Moody s	Moody s Investors Service
MW	Megawatts
MWh	Megawatt hours
NSR Investigation	EPA New Source Review Investigation
ONEOK	ONEOK, Inc.
OTC	Over-the-counter
RECA	Retail energy cost adjustment
ROE	Return on Equity
RSUs	Restricted share units
S&P	Standard & Poor s Ratings Group
Section 114	Section 114(a) of the Clean Air Act
SPP	Southwest Power Pool
SFAS	Statement of Financial Accounting Standards
TDC	Transmission Delivery Charge

Wolf Creek	Wolf Creek Generating Station

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

WESTAR ENERGY, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

(Unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,998	$ 5,753
Accounts receivable, net of allowance for doubtful accounts of $5,113 and $5,721, respectively	247,222	195,785
Inventories and supplies, net	211,607	192,533
Energy marketing contracts	236,528	57,702
Taxes receivable	53,305	71,111
Prepaid expenses	59,571	31,576
Regulatory assets	111,880	98,204
Other	19,680	15,015
Total Current Assets	948,791	667,679
PROPERTY, PLANT AND EQUIPMENT, NET	5,117,602	4,803,672
OTHER ASSETS:		
Regulatory assets	592,005	577,256
Nuclear decommissioning trust	116,345	122,298
Energy marketing contracts	90,049	34,088
Other	199,369	190,437
Total Other Assets	997,768	924,079
TOTAL ASSETS	$ 7,064,161	$ 6,395,430
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 1,260	$ 558
Short-term debt	179,200	180,000
Accounts payable	242,246	278,299
Accrued taxes	47,183	47,370
Energy marketing contracts	219,233	42,641
Accrued interest	39,561	41,416
Deferred tax liabilities	1,017	2,310
Regulatory liabilities	39,154	32,932
Other	141,279	119,237
Total Current Liabilities	910,133	744,763

LONG-TERM LIABILITIES:		
Long-term debt, net	2,040,663	1,889,781
Obligation under capital leases	116,659	123,854
Deferred income taxes	955,300	897,293
Unamortized investment tax credits	58,301	59,619
Deferred gain from sale-leaseback	116,775	119,522
Accrued employee benefits	270,076	283,924
Asset retirement obligations	91,332	88,711
Energy marketing contracts	31,961	7,647
Regulatory liabilities	147,210	108,685
Other	169,173	217,927
Total Long-Term Liabilities	3,997,450	3,796,963
COMMITMENTS AND CONTINGENCIES (see Notes 7, 8 and 9)		
TEMPORARY EQUITY	3,412	5,224
SHAREHOLDERS EQUITY:		
Cumulative preferred stock, par value $100 per share; authorized 600,000 shares; issued and outstanding 214,363 shares	21,436	21,436
Common stock, par value $5 per share; authorized 150,000,000 shares; issued 108,046,595 shares and 95,463,180 shares, respectively	540,233	477,316
Paid-in capital	1,319,946	1,085,099
Retained earnings	271,551	264,477
Accumulated other comprehensive income, net		152
Total Shareholders Equity	2,153,166	1,848,480
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 7,064,161	$ 6,395,430

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

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WESTAR ENERGY, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended June 30, 2008	2007
SALES	$ 451,219	$ 415,178
OPERATING EXPENSES:		
Fuel and purchased power	191,355	131,348
Operating and maintenance	130,966	122,056
Depreciation and amortization	49,605	48,052
Selling, general and administrative	44,254	42,960
Total Operating Expenses	416,180	344,416
INCOME FROM OPERATIONS	35,039	70,762
OTHER INCOME (EXPENSE):		
Investment earnings	1,788	2,534
Other income	4,343	1,820
Other expense	(2,327)	(2,359)
Total Other Income	3,804	1,995
Interest expense	30,311	30,419
INCOME FROM OPERATIONS BEFORE INCOME TAXES	8,532	42,338
Income tax expense	2,687	9,630
NET INCOME	5,845	32,708
Preferred dividends	242	242
EARNINGS AVAILABLE FOR COMMON STOCK	$ 5,603	$ 32,466
BASIC AND DILUTED EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING (See Note 2)	$ 0.06	$ 0.36
Average equivalent common shares outstanding	100,733,815	89,781,652
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.29	$ 0.27

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

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WESTAR ENERGY, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except Per Share Amounts)

(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
SALES	$ 858,046	$ 785,484
OPERATING EXPENSES:		
Fuel and purchased power	337,804	234,757
Operating and maintenance	246,984	229,645
Depreciation and amortization	98,501	93,771
Selling, general and administrative	85,910	86,604
Total Operating Expenses	769,199	644,777
INCOME FROM OPERATIONS	88,847	140,707
OTHER INCOME (EXPENSE):		
Investment earnings	84	3,862
Other income	10,160	2,228
Other expense	(6,661)	(6,407)
Total Other Income (Expense)	3,583	(317)
Interest expense	41,001	55,864
INCOME FROM OPERATIONS BEFORE INCOME TAXES	51,429	84,526
Income tax (benefit) expense	(15,552)	21,643
NET INCOME	66,981	62,883
Preferred dividends	485	485
EARNINGS AVAILABLE FOR COMMON STOCK	$ 66,496	$ 62,398
BASIC AND DILUTED EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING (See Note 2)	$ 0.67	$ 0.70
Average equivalent common shares outstanding	99,074,840	88,869,534
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.58	$ 0.54

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

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WESTAR ENERGY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)

(Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
NET INCOME	$ 5,845	$ 32,708
OTHER COMPREHENSIVE INCOME:		
Unrealized holding gain on marketable securities arising during the period		20
Other Comprehensive Income		20
COMPREHENSIVE INCOME	$ 5,845	$ 32,728

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
NET INCOME	$ 66,981	$ 62,883
OTHER COMPREHENSIVE INCOME:		
Unrealized holding gain on marketable securities arising during the period		1
Other Comprehensive Income		1
COMPREHENSIVE INCOME	$ 66,981	$ 62,884

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

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WESTAR ENERGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

(Unaudited)

	Six Months Ended June 30, 2008	2007
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net income	$ 66,981	$ 62,883
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	98,501	93,771
Amortization of nuclear fuel	5,498	8,284
Amortization of deferred gain from sale-leaseback	(2,747)	(2,747)
Amortization of prepaid corporate-owned life insurance	7,760	6,303
Non-cash compensation	2,571	3,694
Net changes in energy marketing assets and liabilities	10,363	7,193
Accrued liability to certain former officers	(937)	(254)
Net deferred income taxes and credits	27,942	(28,560)
Stock based compensation excess tax benefits	(378)	(843)
Allowance for equity funds used during construction	(9,199)	(713)
Changes in working capital items, net of acquisitions and dispositions:		
Accounts receivable, net	(51,437)	(40,437)
Inventories and supplies	(19,074)	(24,312)
Prepaid expenses and other	(69,526)	(35,219)
Accounts payable	(16,086)	3,365
Accrued taxes	14,903	653
Other current liabilities	(13,685)	(26,914)
Changes in other assets	(4,983)	17,575
Changes in other liabilities	(48,621)	18,693
Cash flows (used in) from operating activities	(2,154)	62,415
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(429,082)	(308,582)
Allowance for equity funds used during construction	9,199	713
Investment in corporate-owned life insurance	(18,720)	(18,793)
Purchase of securities within the nuclear decommissioning trust fund	(164,634)	(118,918)
Sale of securities within the nuclear decommissioning trust fund	163,639	118,337
Proceeds from investment in corporate-owned life insurance	533	544
Proceeds from other investments	995	581
Cash flows used in investing activities	(438,070)	(326,118)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Short-term debt, net	(800)	10,000
Proceeds from long-term debt	152,023	145,459
Retirements of long-term debt	(608)	(25)
Repayment of capital leases	(9,049)	(2,835)
Borrowings against cash surrender value of corporate-owned life insurance	61,628	58,976
Repayment of borrowings against cash surrender value of corporate-owned life insurance	(1,464)	(2,003)

Stock based compensation excess tax benefits	378	843
Issuance of common stock, net	291,833	84,037
Cash dividends paid	(50,472)	(42,836)
Cash flows from financing activities	443,469	251,616
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,245	(12,087)
CASH AND CASH EQUIVALENTS:		
Beginning of period	5,753	18,196
End of period	$ 8,998	$ 6,109

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

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WESTAR ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. DESCRIPTION OF BUSINESS

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

We provide electric generation, transmission and distribution services to approximately 679,000 customers in Kansas. Westar Energy provides these services in central and northeastern Kansas, including the cities of Topeka, Lawrence, Manhattan, Salina and Hutchinson. Kansas Gas and Electric Company (KGE), Westar Energy s wholly owned subsidiary, provides these services in south-central and southeastern Kansas, including the city of Wichita. KGE owns a 47% interest in the Wolf Creek Generating Station (Wolf Creek), a nuclear power plant located near Burlington, Kansas. Both Westar Energy and KGE conduct business using the name Westar Energy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

We prepare our condensed consolidated financial statements in accordance with generally accepted accounting principles (GAAP) for the United States of America for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements presented in accordance with GAAP have been condensed or omitted. In our opinion, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation of the financial statements, have been included.

The accompanying condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Form 10-K).

Use of Management s Estimates

When we prepare our consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates on an on-going basis, including those related to bad debts, inventories, valuation of commodity contracts, depreciation, unbilled revenue, investments, valuation of our energy marketing portfolio, intangible assets, forecasted fuel costs included in our retail energy cost adjustment (RECA) billed to customers, income taxes, pension and other post-retirement and post-employment benefits, our asset retirement obligations including decommissioning of Wolf Creek, environmental issues, contingencies and litigation. Actual results may differ from those estimates under different assumptions or conditions. The results of operations for the three and six months ended June 30, 2008, are not necessarily indicative of the results to be expected for the full year.

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Allowance for Funds Used During Construction

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In Thousands)			
Borrowed funds	$ 5,142	$ 2,816	$ 10,687	$ 5,488
Equity funds	3,819	713	9,199	713
Total	$ 8,961	$ 3,529	$ 19,886	$ 6,201
Average AFUDC Rates	5.7%	6.4%	6.5%	6.2%

Dilutive Shares

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
DENOMINATOR FOR BASIC AND DILUTED EARNINGS PER SHARE:				
Denominator for basic earnings per share weighted average equivalent shares	100,733,815	89,781,652	99,074,840	88,869,534
Effect of dilutive securities:				
Employee stock options	807	1,034	822	1,030
Restricted share units	440,836	535,383	457,836	489,177
Denominator for diluted earnings per share weighted average equivalent shares	101,175,458	90,318,069	99,533,498	89,359,741
Potentially dilutive shares not included in the denominator since they are antidilutive	21,300	74,890	21,300	74,890

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Supplemental Cash Flow Information

	Six Months Ended June 30, 2008	2007
	(In Thousands)	
CASH PAID FOR:		
Interest on financing activities, net of amount capitalized	$ 50,246	$ 41,647
Income taxes	600	41,020
NON-CASH INVESTING TRANSACTIONS:		
Jeffrey Energy Center 8% leasehold interest		118,538
Other property, plant and equipment additions	84,054	30,281
NON-CASH FINANCING TRANSACTIONS:		
Issuance of common stock	7,460	7,095
Capital lease for Jeffrey Energy Center 8% leasehold interest		118,538
Other assets acquired through capital leases	2,503	1,662

New Accounting Pronouncements

FSP No. EITF 03-6-1 Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities

In June 2008, the Financial Accounting Standards Board (FASB) released Staff Position (FSP) No. Emerging Issues Task Force (EITF) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. FSP No. EITF 03-6-1 provides that all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP No. EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. We are currently evaluating what impact the adoption of FSP No. EITF 03-6-1 will have on our consolidated financial statements.

SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities

In March 2008, FASB released Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133, which requires expanded disclosure intended to help investors better understand how derivative instruments and hedging activities affect an entity s financial position, financial performance and cash flows. SFAS No. 161 amends and expands our disclosure requirements related to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities by requiring qualitative disclosure about objectives and strategies for using derivatives, quantitative disclosure about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008.

SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, FASB released SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment to FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. A business entity must report unrealized gains and losses on items for which fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We adopted the guidance effective January 1, 2008, without any material impact on our consolidated financial statements.

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SFAS No. 157 Fair Value Measurements

In September 2006, FASB released SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. In February 2008, FASB issued FSP 157-2 which delays the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The non-financial items subject to the deferral include assets and liabilities such as non-financial assets and liabilities assumed in a business combination, reporting units measured at fair value in a goodwill impairment test and asset retirement obligations initially measured at fair value. We adopted SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis effective January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on our consolidated financial statements. See Note 3, Fair Value Measurements.

3. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, we adopted SFAS No. 157, which defines fair value and requires enhanced disclosures about assets and liabilities measured at fair value. SFAS No. 157 establishes a hierarchal framework for disclosing the transparency of the inputs utilized in measuring assets and liabilities at fair value. The three levels defined by the SFAS No. 157 hierarchy and examples of each are as follows:

Level 1 Quoted prices are available in active markets for identical assets or liabilities. The types of assets and liabilities included in level 1 are highly liquid and actively traded instruments with quoted prices, such as equities listed on public exchanges.

Level 2 Pricing inputs are not quoted prices in active markets, but are either directly or indirectly observable. The types of assets and liabilities included in level 2 are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities.

Level 3 Significant inputs to pricing have little or no transparency. The types of assets and liabilities included in level 3 are those with inputs requiring significant management judgment or estimation, such as the complex and subjective models and forecasts used to determine the fair value of options.

Energy Marketing Contracts

We recognize changes in the portfolio fair value of energy marketing contracts as gains and losses in the period of change. With the exception of a fuel supply contract and a capacity sale contract, which are recorded as regulatory liabilities, we include the net change in sales on our consolidated statements of income.

Energy marketing contracts can be exchange-traded or over-the-counter (OTC). Exchange-traded contracts typically fall within level 1 of the fair value hierarchy. At June 30, 2008, we did not have any outstanding exchange-traded futures contracts. OTC contracts are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, or alternative pricing sources with reasonable levels of price transparency. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility and correlations of such inputs. Such instruments are typically classified as level 2. Certain OTC contracts trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more subjective. In these situations, management estimations are a significant input requiring a level 3 classification.

Nuclear Decommissioning Trust

We hold investments in debt and equity securities in a trust fund for the purpose of funding the decommissioning of Wolf Creek. We have classified these investments as available-for-sale and record net realized and unrealized gains and losses on these securities as regulatory liabilities on our consolidated balance sheets.

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We measure fair value of the securities using quoted market prices or valuation models utilizing observable market data when available. A portion of the trust assets is comprised of private equity investments or real estate that require significant unobservable market information to measure the fair value of the investments. The private equity investments are initially valued at cost or at the value inferred from subsequent financing with adjustments when actual performance differs significantly from expected performance; when market, economic or company-specific conditions change; or when other news or events have a material impact on the security. The real estate investments are valued using market discount rates, projected cash flows and the estimated value into perpetuity.

Trading Securities

We have debt and equity investments in a trust securing certain executive benefits that are classified as trading securities. We record net realized and unrealized gains and losses on these securities in investment earnings on our consolidated income statement. We measure the fair values of these securities using quoted market prices or valuation models utilizing observable market data.

Recurring Fair Value Measurements

The following table presents, for each hierarchy level, our assets and liabilities that are measured at fair value as of June 30, 2008.

	Level 1	Level 2	Level 3	Total (a)
		(In Thousands)		
Assets:				
Energy Marketing Contracts	$	$ 153,980	$ 172,597	$ 326,577
Nuclear Decommissioning Trust	69,752	35,992	7,606	113,350
Trading Securities	23,254	12,098		35,352
Total	$ 93,006	$ 202,070	$ 180,203	$ 475,279
Liabilities:				
Energy Marketing Contracts	$	$ 156,746	$ 94,448	$ 251,194

(a) The total does not include cash and cash equivalents, which are not subject to the fair value requirements set forth in SFAS No. 157.

We do not offset the fair value of energy marketing contracts executed with the same counterparty. As of June 30, 2008, we have an obligation to return cash collateral to counterparties in the amount of $0.2 million.

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The following tables provide reconciliations of assets and liabilities measured at fair value using significant level 3 inputs for the three and six months ended June 30, 2008.

	Energy Marketing Contracts, net	Nuclear Decommissioning Trust (In Thousands)	Net Balance
Balance at March 31, 2008	$ 60,431	$ 1,566	$ 61,997
Total realized and unrealized gains (losses) included in:			
Earnings (a)	(6,578)		(6,578)
Regulatory liabilities (b)	27,099		27,099
Purchases, issuances and settlements	(2,568)	6,040	3,472
Transfers in/out	(235)		(235)
Balance at June 30, 2008	$ 78,149	$ 7,606	$ 85,755

(a) Unrealized and realized gains and losses included in earnings are reported in sales.
(b) Regulatory liabilities include changes in the fair value of a fuel supply contract and a capacity sale contract.

	Energy Marketing Contracts, net	Nuclear Decommissioning Trust (In Thousands)	Net Balance
Balance at January 1, 2008	$ 41,141	$ 1,251	$ 42,392
Total realized and unrealized gains (losses) included in:			
Earnings (a)	(9,905)		(9,905)
Regulatory liabilities (b)	52,298		52,298
Purchases, issuances and settlements	(5,150)	6,355	1,205
Transfers in/out	(235)		(235)
Balance at June 30, 2008	$ 78,149	$ 7,606	$ 85,755

(a) Unrealized and realized gains and losses included in earnings are reported in sales.
(b) Regulatory liabilities include changes in the fair value of a fuel supply contract and a capacity sale contract.

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A portion of the gains and losses contributing to changes in net assets on the above table is unrealized. The following table summarizes the unrealized gains and losses we recognized during the quarter attributed to level 3 assets and liabilities still held at June 30, 2008.

	Energy Marketing Contracts, net (In Thousands)
Total unrealized gains (losses) included in:	
Earnings	$ (5,031)
Regulatory liabilities (a)	26,056
Total	$ 21,025

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(a) Regulatory liabilities include changes in the fair value of a fuel supply contract and a capacity sale contract.

The following table summarizes the unrealized gains and losses we recognized during the six months ended June 30, 2008, attributed to level 3 assets and liabilities still held at June 30, 2008.

	Energy Marketing Contracts, net (In Thousands)
Total unrealized gains (losses) included in:	
Earnings	$ (6,251)
Regulatory liabilities (a)	50,058
Total	$ 43,807

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(a) Regulatory liabilities include changes in the fair value of a fuel supply contract and a capacity sale contract.

4. RATE MATTERS AND REGULATION

FERC Proceedings

Request for Change in Transmission Rates

On March 24, 2008, the Federal Energy Regulatory Commission (FERC) granted our request to increase the allowed rate of return on equity (ROE) incorporated in our formula transmission rate by 50 basis points to a rate of 11.3% due to our participation in the Southwest Power Pool (SPP). Another change we proposed was to include our anticipated transmission capital expenditures for the current year in our formula transmission rate, subject to a true up the following year. The recovery of our estimated costs is being addressed through a hearing and settlement process that began in May 2008. Both changes went into effect June 1, 2008, with the second item subject to the outcome of the hearing and settlement process.

On March 24, 2008, FERC issued an order that granted our requested incentives of an additional 100 basis points above the base allowed ROE and a 15-year accelerated recovery for an approximately 100 mile, 345 kilovolt (kV) transmission line that will run from near Wichita, Kansas, to near Salina, Kansas. We estimate the line will cost approximately $150.0 million.

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On November 6, 2007, we filed applications with FERC that proposed the use of a consolidated capital structure in our formula transmission rate. On December 19, 2007, FERC issued an order accepting this change. On January 28, 2008, we filed applications with FERC requesting that this change be effective June 1, 2007. On April 3, 2008, FERC granted our request. At June 30, 2008, we had recorded a $5.6 million refund obligation related to this matter, which includes the amount we have collected since June 1, 2007, plus interest on that amount.

KCC Proceedings

Changes in Rates

On June 26, 2008, the Kansas Corporation Commission (KCC) issued an order directing us to file tariffs to implement a transmission delivery charge (TDC). The TDC unbundles our transmission costs from base rates and provides for recovery of these costs from our retail customers through a separate charge. The TDC can be adjusted periodically to reflect changes in transmission costs. On July 1, 2008, the initial TDC was established on a revenue neutral basis reflecting transmission costs ultimately approved in our most recent general rate case. On July 3, 2008, we filed a request with the KCC to adjust the TDC to include transmission costs currently approved by FERC and attributable to the retail portion of our transmission service. We expect the KCC to issue an order on our request by early September 2008.

We filed an application with the KCC on May 28, 2008, to review and increase retail rates by $177.6 million per year. The primary drivers for this rate increase request are our acquisition and investment in natural gas and wind generation facilities, costs attributable to the 2007 ice storm, higher operating costs, and an update of our capital structure and capital costs. We expect the KCC to issue an order on our rate request by January 23, 2009.

5. DEBT FINANCINGS

On May 15, 2008, we issued $150.0 million principal amount of first mortgage bonds in a private placement transaction with $50.0 million of the principal amount bearing interest at 6.15% and maturing on May 15, 2023, and $100.0 million bearing interest at 6.64% and maturing on May 15, 2038. Proceeds of this private placement were used to repay borrowings under Westar Energy s revolving credit facility, with those borrowed amounts principally related to investments in capital equipment, as well as for working capital and general corporate purposes.

On January 11, 2008, we filed a request with FERC for authority to issue short-term securities and to pledge KGE mortgage bonds in order to increase our revolving credit facility to $750.0 million. On February 15, 2008, FERC granted our request and on February 22, 2008, a syndicate of banks participating in Westar Energy s credit facility increased their commitments to $750.0 million in the aggregate. Effective February 22, 2008, $730.0 million of the commitments of the lenders under the revolving credit facility terminate on March 17, 2012. The remaining $20.0 million of the commitments terminate on March 17, 2011. Subject to lender participation we have the right, so long as there is no default or event of default under the revolving credit facility, to annually request one-year extensions of the credit facility. We are limited to five such requests during the term of the facility.

In December 2007, we entered into an equipment financing loan agreement with a term of 36 months to finance the cost of certain computer equipment purchased in 2007. In January 2008, we increased the size of this loan by $2.1 million to $3.9 million for equipment purchases made in 2008.

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6. INCOME TAXES AND TAXES OTHER THAN INCOME TAXES

We recorded income tax expense of $2.7 million with an effective income tax rate of 31% for the three months ended June 30, 2008, and income tax expense of $9.6 million with an effective income tax rate of 23% for the same period of 2007; and an income tax net benefit of $15.6 million with an effective income tax rate of negative 30% for the six months ended June 30, 2008, and income tax expense of $21.6 million with an effective income tax rate of 26% for the same period of 2007. The increase in the effective income tax rate for the three months ended June 30, 2008, is due to a decrease in the utilization of capital loss and net operating loss carryforwards. The decrease in the effective income tax rate for the six months ended June 30, 2008, was due primarily to the recognition of previously unrecognized tax benefits during the first quarter of 2008 as discussed below.

The Internal Revenue Service (IRS) has examined our federal income tax returns for the years 1995 through 2002. In December 2007, we tentatively reached a settlement with the IRS Office of Appeals on issues principally involved with the method used to capitalize overheads to electric plant. This settlement, which was approved by the Joint Committee on Taxation and accepted by the IRS in February 2008, resulted in a first quarter 2008 net earnings benefit of approximately $39.4 million, including interest, due to the recognition of previously unrecognized tax benefits.

In April 2008, we received an examination report from the IRS asserting a deficiency of $0.3 million in federal income taxes with respect to its examination of our federal income tax returns for years 2003 and 2004. In its examination report, the IRS did not approve our request to change the original federal income tax characterization of the loss we incurred in 2004 on the sale of Protection One, Inc. from a capital loss to an ordinary loss. The characterization of the loss as capital or ordinary affects our ability to carry back and carry forward the loss to tax years in which the loss can be deducted. We have filed a protest with the IRS Office of Appeals to pursue the re-characterization of the loss; however, we do not expect any such appeal to be completed by the end of 2008. We have extended the statute of limitations for these years until March 31, 2009.

At December 31, 2007, the liability related to unrecognized tax benefits was $70.8 million. During the first quarter, we recognized $28.7 million of unrecognized tax benefits due to the completion of the IRS examination of years 1995 through 2002. At June 30, 2008, the liability related to unrecognized tax benefits was $40.1 million. Included in this unrecognized tax benefits balance were $1.3 million (net of tax) of tax positions, which if recognized, would favorably impact our effective income tax rate.

At June 30, 2008, and December 31, 2007, we had $2.6 million and $13.5 million, respectively, accrued for interest on our liability related to unrecognized tax benefits. The decrease from $13.5 million at December 31, 2007, to $2.6 million at June 30, 2008, was attributable to the reduction in the liability related to unrecognized tax benefits. There were no penalties accrued at June 30, 2008, or December 31, 2007.

As of June 30, 2008, and December 31, 2007, we maintained reserves of $3.3 million and $5.2 million, respectively, for probable assessments of taxes other than income taxes.

7. COMMITMENTS AND CONTINGENCIES

Environmental Projects

We have identified the potential for us to make up to $1.2 billion of capital expenditures at our power plants for environmental air emissions projects during the next eight to ten years. This estimate could materially increase or decrease depending on the timing and the nature of required investments, the specific outcomes resulting from interpretation of existing regulations, new regulations, legislation and the resolution of the Environmental Protection Agency (EPA) New Source Review Investigation (NSR Investigation) described below. In addition to the capital investment, in the event we install new equipment as a result of the NSR Investigation, such equipment may cause us to incur significant increases in annual operating and maintenance expense and may reduce net production from our power plants. The degree to which we will need to reduce emissions and the timing of when such emissions controls may be required is uncertain. In addition, the availability of materials, equipment and contractors may affect the timing and ultimate amount of these capital investments.

The environmental cost recovery rider (ECRR) allows for the timely inclusion in rates of capital expenditures tied directly to environmental improvements, including those required by the Clean Air Act. However, increased operating and maintenance costs, other than expenses related to production-related consumables, can be recovered only through a change in base rates following a rate review.

On February 28, 2008, we reached an agreement with the Kansas Department of Health and Environment (KDHE) to implement a plan to improve efficiency and to install new equipment to reduce regulated emissions from Jeffrey Energy Center. The projects are designed to meet requirements of the Clean Air Visibility Rule and reduce emissions over our entire generating fleet by eliminating more than 70% of SO_2 and reducing nitrous oxides and particulates between 50% and 65%.

On March 15, 2005, the EPA issued the Clean Air Mercury Rule. The rule caps permanently, and seeks to reduce, the amount of mercury that may be emitted from coal-fired power plants. The rule requires implementation of reductions in two phases, the first starting in 2010. We received an allocation of mercury emission allowances pursuant to the rule. Preliminary testing indicates that the expected allocation of allowances will be insufficient to allow us to operate our coal-fired units in compliance with the first phase requirements of the rule. If the allocated allowances are insufficient, we may need to purchase allowances in the market, install additional equipment or take other actions to reduce our mercury emissions to comply with the Clean Air Mercury Rule. However, on February 8, 2008, the U.S. District Court of Appeals for the District of Columbia vacated the Clean Air Mercury Rule. While the ultimate impact of this ruling on our operations is currently unknown, we believe that mercury emissions controls may be required in the future and that the costs to comply with these requirements may be material.

New Source Review Investigation

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

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

We have been in discussions with the EPA and the Department of Justice (DOJ) concerning this matter in an attempt to reach a settlement. We expect that any settlement, if reached, could require us to update or install emissions controls at Jeffrey Energy Center. Additionally, we might be required to update or install emissions controls at our other coal-fired plants, pay fines or penalties or take other remedial action. If settlement discussions fail, DOJ may consider whether to pursue an enforcement action against us in federal district court. Our ultimate costs to resolve the NSR Investigation could be material. We believe that costs related to updating or installing emissions controls would qualify for recovery in the prices we are allowed to charge our customers. If, however, a penalty is assessed against us, the penalty could be material and may not be recovered in rates. We are not able to estimate the possible loss or range of loss at this time.

FERC Investigation

We are responding to a preliminary, non-public investigation by FERC of our use of transmission service within the SPP in 2006 and 2007. While we believe that our use of transmission service was in compliance with FERC orders and SPP tariffs, we are unable to predict the outcome of this investigation or its impact on our consolidated financial statements.

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Manufactured Gas Sites

We have been identified as being responsible for clean-ups of a number of former manufactured gas sites located in Kansas and Missouri. We and the KDHE entered into a consent agreement in 1994 governing all future work at the Kansas sites. Under the terms of the consent agreement, we agreed to investigate and, if necessary, remediate these sites. Pursuant to an environmental indemnity agreement with ONEOK, Inc. (ONEOK), the current owner of some of the sites, ONEOK assumed total liability for remediation of seven sites, and we share liability for remediation with ONEOK for five sites. Our total liability for the five shared sites is capped at $3.8 million. We have sole responsibility for remediation with respect to three sites.

Our liability for the former manufactured gas sites identified in Missouri is limited to $7.5 million by the terms of an environmental indemnity agreement with the purchaser of our former Missouri assets.

8. LEGAL PROCEEDINGS

We and our subsidiaries are involved in various legal, environmental and regulatory proceedings. We believe that adequate provisions have been made and accordingly believe that the ultimate disposition of such matters will not have a material adverse effect on our consolidated financial statements.

See also Notes 7 and 9.

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

David C. Wittig, our former chairman of the board, president and chief executive officer, resigned from all of his positions with us and our affiliates on November 22, 2002. On May 7, 2003, our board of directors determined that the employment of Mr. Wittig was terminated as of November 22, 2002, for cause. Douglas T. Lake, our former executive vice president, chief strategic officer and member of the board, was placed on administrative leave from all of his positions with us and our affiliates on December 6, 2002. On June 12, 2003, our board of directors terminated the employment of Mr. Lake for cause.

On June 13, 2003, we filed a demand for arbitration with the American Arbitration Association asserting claims against Mr. Wittig and Mr. Lake arising out of their previous employment with us. Mr. Wittig and Mr. Lake filed counterclaims against us in the arbitration alleging substantial damages related to the termination of their employment and the publication of the report of a special committee of our board of directors. We intend to vigorously defend against these claims. The arbitration has been stayed pending final resolution of criminal charges filed by the United States Attorney s Office against Mr. Wittig and Mr. Lake in U.S. District Court in the District of Kansas. On September 12, 2005, a jury convicted Mr. Wittig and Mr. Lake on the charges relevant to each of them. On January 5, 2007, these convictions were overturned by the U.S. Tenth Circuit Court of Appeals following appeals by Mr. Wittig and Mr. Lake. On April 30, 2007, the government announced that it had decided to retry certain charges against Mr. Wittig and Mr. Lake and the retrial is currently scheduled to commence on September 9, 2008. We are unable to predict the ultimate impact of this matter on our consolidated financial statements.

As of June 30, 2008, we had accrued liabilities totaling $75.2 million for compensation not yet paid to Mr. Wittig and Mr. Lake under various agreements and plans. The compensation includes RSU awards, deferred vested shares, deferred RSU awards, deferred vested stock for compensation, executive salary continuation plan benefits, potential obligations related to the cash received for Guardian International, Inc. preferred stock, and, in the case of Mr. Wittig, benefits arising from a life insurance agreement. The amount of our obligation to Mr. Wittig related to the life insurance agreement is subject to adjustment at the end of each quarter based on the total return to our shareholders from the date of that agreement. The total return considers the change in our stock price and accumulated dividends. These compensation-related accruals are included in long-term liabilities on the consolidated balance sheets with a portion recorded as a component of paid in capital. The amount accrued will increase annually for future dividends on deferred RSU awards and increases in amounts that may be due under the executive salary continuation plan.

In addition, through June 30, 2008, we have accrued $7.3 million for legal fees and expenses incurred by Mr. Wittig and Mr. Lake that are recorded in accounts payable on our consolidated balance sheets. These legal fees and expenses were incurred by Mr. Wittig and Mr. Lake in the defense of the criminal charges filed by the United States Attorney s Office and the subsequent appeal of convictions on these charges. We have filed lawsuits against Mr. Wittig and Mr. Lake claiming that the legal fees and expenses they have incurred are unreasonable and excessive and we have asked the courts to determine the amount of the legal fees and expenses that were reasonably incurred and which we have an obligation to pay, as well as the amount of the legal fees and expenses that we have an obligation to advance in the future. The U.S. District Court in the lawsuit against Mr. Lake ordered us to pay approximately $3.2 million of the past unpaid fees and expenses and directed us to advance future fees and expenses related to the retrial on a current basis at counsel s customary hourly rates. We appealed this order to the U.S. Tenth Circuit Court of Appeals and asked for a stay of the portion of the order related to the payment of past unpaid fees and expenses. On October 18, 2007, the U.S. Tenth Circuit Court of Appeals denied our request for a stay of the portion of the order related to the payment of past unpaid fees and expenses. Pursuant to the District Court s order, we have paid approximately $3.2 million of Mr. Lake s past unpaid fees and expenses. The issues on appeal other than our request for a stay remain pending before the U.S. Tenth Circuit Court of Appeals where oral arguments have been scheduled for September 24, 2008. The lawsuit against Mr. Wittig is pending in Shawnee County, Kansas District Court. A special master appointed by the District Court submitted a report in November 2007 finding that $2.5 million of the legal fees and expenses previously incurred by Mr. Wittig for which he was seeking advancement were reasonable and should be paid by us. On July 15, 2008, the District Court held that only $1.7 million of the legal fees and expenses previously incurred by Mr. Wittig for which he was seeking advancement were reasonable and directed us to pay these amounts without undue delay. The District Court has not yet ruled on a breach of contract claim in which we assert that we have already advanced an amount on behalf of Mr. Wittig that exceeds an amount which is reasonable under Kansas law. We expect to incur substantial additional expenses for legal fees and expenses that will be incurred by Mr. Wittig and Mr. Lake, but are unable to estimate the amount for which we may ultimately be responsible.

10. INTERIM PENSION AND POST-RETIREMENT BENEFIT DISCLOSURE

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

	Pension Benefits		Post-retirement Benefits	
Three Months Ended June 30,	**2008**	**2007**	**2008**	**2007**
		(In Thousands)		
Components of Net Periodic Cost (Benefit):				
Service cost	$ 2,570	$ 2,395	$ 375	$ 396
Interest cost	8,977	8,082	2,004	1,825
Expected return on plan assets	(10,063)	(9,642)	(1,063)	(857)
Amortization of unrecognized:				
Transition obligation, net			983	983
Prior service costs/(benefits)	636	633	353	(104)
Actuarial loss, net	2,085	1,907	351	457
Net periodic cost	$ 4,205	$ 3,375	$ 3,003	$ 2,700

	Pension Benefits		Post-retirement Benefits	
Six Months Ended June 30,	**2008**	**2007**	**2008**	**2007**
		(In Thousands)		
Components of Net Periodic Cost (Benefit):				
Service cost	$ 5,140	$ 4,790	$ 750	$ 792
Interest cost	17,954	16,163	4,008	3,649
Expected return on plan assets	(20,125)	(19,283)	(2,126)	(1,714)
Amortization of unrecognized:				
Transition obligation, net			1,966	1,966
Prior service costs/(benefits)	1,272	1,267	706	(208)
Actuarial loss, net	4,170	3,813	702	915
Net periodic cost	$ 8,411	$ 6,750	$ 6,006	$ 5,400

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

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

Three Months Ended June 30,	Pension Benefits 2008	Pension Benefits 2007	Post-retirement Benefits 2008	Post-retirement Benefits 2007
	(In Thousands)			
Components of Net Periodic Cost:				
Service cost	$ 866	$ 882	$ 44	$ 58
Interest cost	1,423	1,203	130	110
Expected return on plan assets	(1,177)	(1,051)		
Amortization of unrecognized:				
Transition obligation, net	14	14	14	13
Prior service costs	14	14		
Actuarial loss, net	438	472	61	49
Net periodic cost	$ 1,578	$ 1,534	$ 249	$ 230

Six Months Ended June 30,	Pension Benefits 2008	Pension Benefits 2007	Post-retirement Benefits 2008	Post-retirement Benefits 2007
	(In Thousands)			
Components of Net Periodic Cost:				
Service cost	$ 1,710	$ 1,719	$ 101	$ 117
Interest cost	2,840	2,348	259	218
Expected return on plan assets	(2,353)	(2,050)		
Amortization of unrecognized:				
Transition obligation, net	28	28	28	28
Prior service costs	28	29		
Actuarial loss, net	848	925	116	96
Curtailments, settlements and special term benefits		1,486		259
Net periodic cost	$ 3,101	$ 4,485	$ 504	$ 718

In January 2007, Wolf Creek Nuclear Operating Corporation offered a selective retirement incentive to certain employees. The incentive increased the pension benefit for eligible employees who elected retirement. This resulted in $1.5 million in additional pension benefits and $0.3 million in additional post-retirement benefits for the six months ended June 30, 2007.

12. COMMON STOCK ISSUANCE

On June 30, 2008, we completed our forward equity sale agreement by delivering 3.0 million shares of our common stock and receiving proceeds of $73.0 million. Previously, on February 7, 2008, we delivered 2.1 million shares and received proceeds of $50.0 million as partial settlement of the forward sale agreement. We used the proceeds to repay borrowings under Westar Energy s revolving credit facility, with those borrowed amounts principally related to our investments in capital equipment, as well as for working capital and general corporate purposes.

On May 29, 2008, we entered into an underwriting agreement with Citigroup Global Markets, Inc., Banc of America Securities LLC and UBS Securities relating to the offer and sale of 6.0 million shares of the company s common stock. On June 4, 2008, we issued all 6.0 million shares and received $140.6 million in total proceeds, net of underwriting discounts and fees related to the offering. We used the proceeds to repay borrowings under Westar Energy s revolving credit facility, with those borrowed amounts principally related to our investments in capital equipment, as well as for working capital and general corporate purposes.

In the period January 1, 2008, through June 30, 2008, we also sold 1.1 million shares for $26.7 million, net of commission, under an agreement with a sales agent. We used the proceeds to repay borrowings under Westar Energy s revolving credit facility, with those borrowed amounts principally related to our investments in capital equipment, as well as for working capital and general corporate purposes.

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

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

In Management s Discussion and Analysis, we discuss our general financial condition, significant changes that occurred during 2008 and our operating results for the three and six months ended June 30, 2008 and 2007. As you read Management s Discussion and Analysis, please refer to our condensed consolidated financial statements and the accompanying notes, which contain our operating results.

SUMMARY OF SIGNIFICANT ITEMS

Recognition of Previously Unrecognized Tax Benefits

In December 2007, we reached a tentative settlement with the IRS Office of Appeals on issues principally involved with the method used to capitalize overheads to electric plant for years 1995 through 2002. This settlement, which was approved by the Joint Committee on Taxation and accepted by the IRS in February 2008, resulted in a first quarter 2008 net earnings benefit of approximately $39.4 million, including interest, due to the recognition of previously unrecognized tax benefits. The recognition of these previously unrecognized tax benefits resulted in earnings of $0.40 per share for the six months ended June 30, 2008.

Decrease in Income from Operations

Income from operations decreased $35.7 million or 51% during the three months ended June 30, 2008, compared to the same period last year. Income from operations decreased $51.9 million or 37% during the six months ended June 30, 2008, compared to the same period last year. In both periods, there were decreases in energy marketing and additional planned maintenance outages at our base load plants that were extended compared to the same periods last year. The additional planned maintenance outages required us to use more expensive fuel and to incur additional purchased power expense. In addition, this resulted in less power being available for sale in the wholesale markets and reduced margins on power sold, notwithstanding higher prevailing market prices. Margins on market-based wholesale sales decreased $12.0 million or 66% during the three months ended June 30, 2008, compared to the same period last year, and decreased $22.2 million or 49% during the six months ended June 30, 2008, compared to the same period last year. While increases in the cost of fuel and purchased power generally are fully recoverable in the RECA applicable to our retail sales, we provide power to a few large industrial customers under contracts to which the RECA does not apply. Margins on sales to customers under these contracts were approximately $6.4 million lower for the three months ended June 30, 2008, than for the same period last year, and approximately $8.1 million lower for the six months ended June 30, 2008, than for the same period last year. Effective July 1, 2008, one of the larger industrial customers, which accounted for approximately 65% of sales under these contracts, is now under a new contract that incorporates the RECA mechanism. The remainder of these contracts will expire by the end of 2009.

CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with GAAP. Note 2 of the Notes to Condensed Consolidated Financial Statements, Summary of Significant Accounting Policies, contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions by management. The policies highlighted in our 2007 Form 10-K have an impact on our reported results that may be material due to the levels of judgment and subjectivity necessary to account for uncertain matters or their susceptibility to change.

From December 31, 2007 through June 30, 2008, we have not experienced any significant changes in our critical accounting estimates. For additional information, see our 2007 Form 10-K.

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OPERATING RESULTS

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

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

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

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

Market-based wholesale: Includes: (i) sales of energy to wholesale customers, the rates for which are generally based on prevailing market prices as allowed by FERC approved market-based tariffs, or where not permitted, rates are based on incremental cost plus a permitted margin and (ii) changes in valuations for contracts that have yet to settle, the sales of which will be recorded as market-based wholesale.

Energy marketing: Includes: (i) transactions based on market prices generally unrelated to the production of our generating assets; (ii) financially settled products and physical transactions sourced outside our control area; (iii) fees we earn for marketing services that we provide for third parties; and (iv) changes in valuations for contracts that have yet to settle that are not recorded in tariff- or market-based wholesale revenues.

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

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

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

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Three Months Ended June 30, 2008, Compared to Three Months Ended June 30, 2007

Below we discuss our operating results for the three months ended June 30, 2008, compared to the results for the three months ended June 30, 2007. Changes in results of operations are as follows.

	Three Months Ended June 30,			
	2008	2007	Change	% Change
	(In Thousands, Except Per Share Amounts)			
SALES:				
Residential	$ 123,350	$ 111,897	$ 11,453	10.2
Commercial	129,836	118,046	11,790	10.0
Industrial	76,303	70,224	6,079	8.7
Other retail	1,579	(14,197)	15,776	111.1
Total Retail Sales	331,068	285,970	45,098	15.8
Tariff-based wholesale	62,243	52,544	9,699	18.5
Market-based wholesale	25,503	38,084	(12,581)	(33.0)
Energy marketing	738	9,167	(8,429)	(91.9)
Transmission (a)	25,554	23,266	2,288	9.8
Other	6,113	6,147	(34)	(0.6)
Total Sales	451,219	415,178	36,041	8.7
OPERATING EXPENSES:				
Fuel and purchased power	191,355	131,348	60,007	45.7
Operating and maintenance	130,966	122,056	8,910	7.3
Depreciation and amortization	49,605	48,052	1,553	3.2
Selling, general and administrative	44,254	42,960	1,294	3.0
Total Operating Expenses	416,180	344,416	71,764	20.8
INCOME FROM OPERATIONS	35,039	70,762	(35,723)	(50.5)
OTHER INCOME (EXPENSE):				
Investment earnings	1,788	2,534	(746)	(29.4)
Other income	4,343	1,820	2,523	138.6
Other expense	(2,327)	(2,359)	32	1.4
Total Other Income	3,804	1,995	1,809	90.7
Interest expense	30,311	30,419	(108)	(0.4)
INCOME FROM OPERATIONS BEFORE INCOME TAXES	8,532	42,338	(33,806)	(79.8)
Income tax expense	2,687	9,630	(6,943)	(72.1)
NET INCOME	5,845	32,708	(26,863)	(82.1)
Preferred dividends	242	242		
EARNINGS AVAILABLE FOR COMMON STOCK	$ 5,603	$ 32,466	$ (26,863)	(82.7)
BASIC EARNINGS PER SHARE	$ 0.06	$ 0.36	$ (0.30)	(83.3)

(a) **Transmission:** Includes an SPP network transmission tariff. For the three months ended June 30, 2008, our SPP network transmission costs were $21.5 million. This amount, less $2.7 million that was retained by the SPP as administration cost, was returned to us as revenue. For the three months ended June 30, 2007, our SPP network transmission costs were $20.2 million with an administration cost of $2.9 million retained by the SPP.

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

	Three Months Ended June 30,			
	2008	**2007**	**Change**	**% Change**
	(Thousands of MWh)			
Residential	1,456	1,411	45	3.2
Commercial	1,888	1,878	10	0.5
Industrial	1,457	1,458	(1)	(0.1)
Other retail	22	22		0.0
Total Retail	4,823	4,769	54	1.1
Tariff-based wholesale	1,454	1,550	(96)	(6.2)
Market-based wholesale	450	800	(350)	(43.8)
Total	6,727	7,119	(392)	(5.5)

Retail sales were $45.1 million higher for the three months ended June 30, 2008. Residential, commercial and industrial sales increased a combined $29.3 million primarily because higher fuel costs were billed through the RECA. A portion of the increase was due to slightly increased customer demand and the effect of warmer weather. When measured by cooling degree days, the weather during 2008 was 5% warmer than during 2007. The $15.8 million change in other retail sales is due primarily to decreases in refund obligations compared to the same period last year.

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Tariff-based wholesale sales were $9.7 million higher than last year attributable principally to a 26% higher average price per MWh for these sales compared to the same period last year. The higher average price per MWh is the result of our having recovered higher fuel costs through our tariffs. Partially offsetting this increase was a 6% decrease in sales volumes due primarily to wholesale municipality contracts that expired.

Market-based wholesale sales decreased $12.6 million compared to last year due principally to a 44% decrease in sales volumes. Reduced sales volumes were principally due to extended maintenance outages at some of our lower cost base load plants. Our remaining available higher cost plants were less competitive in the wholesale markets. Partially offsetting this decrease were 44% higher average market prices for these sales compared to the same period last year.

Energy marketing decreased $8.4 million compared to the previous year due primarily to the need to focus resources toward serving our retail customers during our extended spring outages. Energy marketing was also adversely impacted by changes in the relationships of prices among energy products historically traded, the continuing maturation of the energy markets in which we participate and the recognition of a $3.2 million customer refund obligation. Based on year-to-date results and existing trends, we anticipate that energy marketing sales for the year ended December 31, 2008, may be significantly lower compared to the year ended December 31, 2007.

Fuel and purchased power expense increased $60.0 million during the three months ended June 30, 2008, when compared to the same period last year. The change in fuel and purchased power expense is attributable to the volumes of power we produced and purchased, prevailing market prices and contract provisions that allow for price changes. Fuel expense increased $24.1 million due primarily to a 39% increase in the cost of fuel offset by a 13% decrease in the volume of fuel used. Some of our plants that use the least expensive fuels (i.e. uranium and coal) were not producing at times due to maintenance outages. As a result, we had the choice of either producing the needed volumes at plants that are more expensive to operate or acquiring those volumes from others. Generally, purchasing power from others was the more economical alternative, and as a result, our purchased power expense increased $35.9 million, reflecting a 112% increase in such volumes.

Operating and maintenance expense increased $8.9 million compared to last year. This was due primarily to higher power plant maintenance costs of $6.3 million and a $1.4 million increase in SPP network transmission costs, which are in large part offset by higher transmission revenues.

Other income increased $2.5 million compared to last year due primarily to recording $3.8 million of equity AFUDC for the three months ended June 30, 2008. We recorded $0.7 million of equity AFUDC for the same period last year.

Income tax expense decreased $6.9 million compared to last year due primarily to decreased income from operations before income taxes.

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Six Months Ended June 30, 2008, Compared to Six Months Ended June 30, 2007

Below we discuss our operating results for the six months ended June 30, 2008, compared to the results for the six months ended June 30, 2007. Changes in results of operations are as follows.

	Six Months Ended June 30,			
	2008	2007	Change	% Change
	(In Thousands, Except Per Share Amounts)			
SALES:				
Residential	$ 231,575	$ 215,176	$ 16,399	7.6
Commercial	225,745	209,149	16,596	7.9
Industrial	140,382	129,593	10,789	8.3
Other retail	1,462	(15,084)	16,546	109.7
Total Retail Sales	599,164	538,834	60,330	11.2
Tariff-based wholesale	118,266	93,731	24,535	26.2
Market-based wholesale	72,659	81,652	(8,993)	(11.0)
Energy marketing	3,693	14,430	(10,737)	(74.4)
Transmission (a)	51,764	44,766	6,998	15.6
Other	12,500	12,071	429	3.6
Total Sales	858,046	785,484	72,562	9.2
OPERATING EXPENSES:				
Fuel and purchased power	337,804	234,757	103,047	43.9
Operating and maintenance	246,984	229,645	17,339	7.6
Depreciation and amortization	98,501	93,771	4,730	5.0
Selling, general and administrative	85,910	86,604	(694)	(0.8)
Total Operating Expenses	769,199	644,777	124,422	19.3
INCOME FROM OPERATIONS	88,847	140,707	(51,860)	(36.9)
OTHER INCOME (EXPENSE):				
Investment earnings	84	3,862	(3,778)	(97.8)
Other income	10,160	2,228	7,932	356.0
Other expense	(6,661)	(6,407)	(254)	(4.0)
Total Other Income (Expense)	3,583	(317)	3,900	(b)
Interest expense	41,001	55,864	(14,863)	(26.6)
INCOME FROM OPERATIONS BEFORE INCOME TAXES	51,429	84,526	(33,097)	(39.2)
Income tax (benefit) expense	(15,552)	21,643	(37,195)	(171.9)
NET INCOME	66,981	62,883	4,098	6.5
Preferred dividends	485	485		
EARNINGS AVAILABLE FOR COMMON STOCK	$ 66,496	$ 62,398	$ 4,098	6.6
BASIC EARNINGS PER SHARE	$ 0.67	$ 0.70	$ (0.03)	(4.3)

(a) **Transmission:** Includes an SPP network transmission tariff. For the six months ended June 30, 2008, our SPP network transmission costs were $44.0 million. This amount, less $5.8 million that was retained by the SPP as administration cost, was returned to us as revenue. For the six months ended June 30, 2007, our SPP network transmission costs were $39.0 million with an administration cost of $5.7 million retained by the SPP.

(b) Change greater than 1000%

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

	Six Months Ended June 30,			
	2008	**2007**	**Change**	**% Change**
		(Thousands of MWh)		
Residential	3,046	2,948	98	3.3
Commercial	3,553	3,520	33	0.9
Industrial	2,851	2,822	29	1.0
Other retail	45	46	(1)	(2.2)
Total Retail	9,495	9,336	159	1.7
Tariff-based wholesale	3,118	2,885	233	8.1
Market-based wholesale	1,358	1,847	(489)	(26.5)
Total	13,971	14,068	(97)	(0.7)

Retail sales were $60.3 million higher for the six months ended June 30, 2008. Residential, commercial and industrial sales increased a combined $43.8 million primarily because higher fuel costs were billed through the RECA. A portion of the increase was due to slightly increased customer demand and favorable weather. The $16.5 million change in other retail sales is due primarily to decreases in refund obligations.

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Tariff-based wholesale sales were $24.5 million higher than last year attributable principally to a 17% higher average price per MWh for these sales compared to the same period last year. The higher average price per MWh is the result of our having recovered higher fuel costs through our tariffs. Also contributing to the increase was an 8% increase in sales volumes principally due to a long-term sale agreement we entered into on April 1, 2007, with another utility.

Market-based wholesale sales decreased $9.0 million compared to last year due principally to a 27% decrease in sales volumes. Reduced sales volumes were due principally to extended maintenance outages at some of our lower cost base load plants. Our remaining available higher cost plants were less competitive in the wholesale markets. Partially offsetting this decrease were 25% higher average market prices for these sales compared to the same period last year.

Energy marketing decreased $10.7 million compared to the previous year due primarily to the need to focus resources toward serving our retail customers during our extended spring outages. Energy marketing was also adversely impacted by changes in the relationships of prices among energy products historically traded, the continuing maturation of the energy markets in which we participate and the recognition of a $3.2 million customer refund obligation. Based on year-to-date results and existing trends, we anticipate that energy marketing sales for the year ended December 31, 2008, may be significantly lower compared to the year ended December 31, 2007.

Fuel and purchased power expense increased $103.0 million during the six months ended June 30, 2008, when compared to the same period last year. The change in fuel and purchased power expense is attributable to the volumes of power we produced and purchased, prevailing market prices and contract provisions that allow for price changes. Fuel expense increased $48.7 million due primarily to a 32% increase in the cost of fuel. Some of our plants that use the least expensive fuels (i.e. uranium and coal) were not producing at times due to maintenance outages. As a result, we had the choice of either producing the needed volumes at plants that are more expensive to operate or acquiring those volumes from others. Generally, purchasing power from others was the more economical alternative, and as a result, our purchased power expense increased $54.4 million, reflecting a 117% increase in such volumes.

Operating and maintenance expense increased $17.3 million compared to last year. This was due primarily to higher power plant maintenance costs of $9.0 million and a $5.0 million increase in SPP network transmission costs, which are in large part recovered through higher transmission revenues.

Depreciation and amortization expense increased $4.7 million compared to last year. This was due principally to depreciation expense associated with a higher plant balance including the capital lease resulting from the purchase of an 8% leasehold interest in Jeffrey Energy Center on April 1, 2007.

Investment earnings decreased $3.8 million compared to last year due primarily to our having a $0.1 million gain on investments held in a trust used to fund executive retirement benefits for the six months ended June 30, 2008. We recorded a $3.3 million gain on these investments for the same period of the prior year.

Other income increased $7.9 million compared to last year due primarily to recording $9.2 million of equity AFUDC for the six months ended June 30, 2008. We recorded $0.7 million of equity AFUDC for the same period last year.

Interest expense decreased $14.9 million compared to last year due primarily to the reversal of $17.8 million of accrued interest associated with uncertain tax liabilities. This decrease was partially offset by the interest on additional debt issued to fund capital equipment.

Income tax expense decreased $37.2 million compared to last year due primarily to the recognition of $28.7 million of previously unrecognized tax benefits during the first quarter of 2008.

FINANCIAL CONDITION

Below we discuss significant balance sheet changes as of June 30, 2008, compared to December 31, 2007.

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Inventory and supplies increased $19.1 million due primarily to a $15.5 million increase in coal inventory that resulted principally from our having continued to receive scheduled deliveries during the maintenance outages at our base load coal plants.

The fair market value of net energy marketing contracts increased $33.9 million to $75.4 million at June 30, 2008. This was due primarily to favorable changes in the market value of a fuel supply contract that was outstanding the entire period.

Prepaid expenses increased $28.0 million due primarily to a $25.8 million increase in the pre-payment of interest associated with corporate-owned life insurance (COLI) policies.

Regulatory assets, net of regulatory liabilities, decreased $16.3 million to $517.5 million at June 30, 2008, from $533.8 million at December 31, 2007. Total regulatory assets increased $28.4 million due primarily to a $23.5 million increase in net deferred future income taxes, a $13.3 million increase in fuel costs not yet recovered through the RECA, and an $11.2 million increase in amounts deferred for the Wolf Creek outage. Increases were partially offset by a $10.3 million decrease for deferred employee benefits. Total regulatory liabilities increased $44.7 million due predominately to a $44.2 million mark-to-market gain on our fuel supply contracts for Lawrence and Tecumseh Energy centers.

Long-term debt, net of current maturities, increased $150.9 million due to the issuance of $150.0 million of first mortgage bonds as discussed in detail in Note 5 of the Notes to Consolidated Financial Statements, Debt Financings.

Other long-term liabilities decreased $48.8 million due primarily to a $39.6 million decrease in uncertain tax liabilities and related accrued interest. See Note 6 of the Notes to Condensed Consolidated Financial Statements, Income Taxes and Taxes Other than Income Taxes, for additional detail on our uncertain income taxes positions.

Common stock and paid-in capital increased $297.8 million due principally to the issuance of common stock as discussed in detail in Note 12 of the Notes to Condensed Consolidated Financial Statements, Common Stock Issuance.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

Capital Resources

As of June 30, 2008, Westar Energy had a $750.0 million revolving credit facility against which $179.2 million had been borrowed and an additional $61.0 million of letters of credit had been issued.

Common Stock Offering

On June 30, 2008, we completed our forward equity sale agreement by delivering 3.0 million shares of our common stock and receiving proceeds of $73.0 million. Previously, on February 7, 2008, we delivered 2.1 million shares and received proceeds of $50.0 million as partial settlement of the forward sale agreement. We used the proceeds to repay borrowings under Westar Energy s revolving credit facility, with those borrowed amounts principally related to our investments in capital equipment, as well as for working capital and general corporate purposes.

On May 29, 2008, we entered into an underwriting agreement with Citigroup Global Markets, Inc., Banc of America Securities LLC and UBS Securities relating to the offer and sale of 6.0 million shares of the company s common stock. On June 4, 2008, we issued all 6.0 million shares and received $140.6 million in total proceeds, net of underwriting discounts and fees related to the offering. We used the proceeds to repay borrowings under Westar Energy s revolving credit facility, with those borrowed amounts principally related to our investments in capital equipment, as well as for working capital and general corporate purposes.

In the period January 1, 2008, through June 30, 2008, we also sold 1.1 million shares for $26.7 million, net of commission, under an agreement with a sales agent. We used the proceeds to repay borrowings under Westar Energy s revolving credit facility, with those borrowed amounts principally related to our investments in capital equipment, as well as for working capital and general corporate purposes.

Debt Financings

As of June 30, 2008, we had $271.9 million of variable rate bonds insured by bond insurers. Interest rates payable under these bonds are set at periodic auctions. On July 31, 2008, the KCC approved our request to remarket or refund all or part of these bonds, at our discretion. We continue to monitor the credit markets and formulate our plans with respect to these bonds.

On May 15, 2008, we issued $150.0 million principal amount of first mortgage bonds in a private placement transaction with $50.0 million of the principal amount bearing interest at 6.15% and maturing on May 15, 2023, and $100.0 million bearing interest at 6.64% and maturing on May 15, 2038. Proceeds of this private placement were used to repay borrowings under Westar Energy s revolving credit facility, with those borrowed amounts principally related to investments in capital equipment, as well as for working capital and general corporate purposes.

On January 11, 2008, we filed a request with FERC for authority to issue short-term securities and to pledge KGE mortgage bonds in order to increase our revolving credit facility to $750.0 million. On February 15, 2008, FERC granted our request and on February 22, 2008, a syndicate of banks participating in Westar Energy s credit facility increased their commitments to $750.0 million in the aggregate. Effective February 22, 2008, $730.0 million of the commitments of the lenders under the revolving credit facility terminate on March 17, 2012. The remaining $20.0 million of the commitments terminate on March 17, 2011. Subject to lender participation we have the right, so long as there is no default or event of default under the revolving credit facility, to annually request one-year extensions of the credit facility. We are limited to five such requests during the term of the facility.

In December 2007, we entered into an equipment financing loan agreement with a term of 36 months to finance the cost of certain computer equipment purchased in 2007. In January 2008, we increased the size of this loan by $2.1 million to $3.9 million for equipment purchases made in 2008.

Cash Flows from Operating Activities

Operating activities used $2.2 million of cash in the six months ended June 30, 2008, compared with cash provided from operating activity of $62.4 million during the same period of 2007. Principal contributors to the change were: our having incurred $53.2 million of expense related to the restoration of our electrical system, which was severely damaged by an ice storm in December 2007; additional power plant maintenance outages occurring this year at our base load plants; our having paid more for fuel and purchased power this year compared to last year; and during 2008, we paid $16.4 million more for our share of Wolf Creek s refueling outage. Offsetting these increases were additional collections from customers during 2008 due in large part to our having recovered higher fuel costs from customers through the RECA and lower income tax payments this year compared to last year.

Cash Flows used in Investing Activities

Investing activities used $438.1 million of cash in the six months ended June 30, 2008, compared with $326.1 million during the same period of 2007. Our business is capital intensive and requires significant ongoing investment in plant. We spent $429.1 million in the six months ended June 30, 2008, and $308.6 million in the same period of 2007 on additions to utility property, plant and equipment. The increase in 2008 is due primarily to environmental projects, wind generation projects and the construction of Emporia Energy Center.

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Cash Flows from Financing Activities

Financing activities in the six months ended June 30, 2008, provided $443.5 million of cash compared with $251.6 million in the same period of 2007. In the six months ended June 30, 2008, proceeds from long-term debt provided $152.0 million, proceeds from the issuance of common stock provided $291.8 million and borrowings from COLI provided $61.6 million. We used cash to pay $50.5 million in dividends. In the six months ended June 30, 2007, long-term debt provided $145.5 million, borrowings from COLI provided $59.0 million and we used cash to pay $42.8 million in dividends.

Credit Ratings

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

In 2008 there have been no changes to these ratings, which as of July 31, 2008, are as shown in the table below.

	Westar Energy First Mortgage Bond Rating	KGE First Mortgage Bond Rating	Westar Energy Unsecured Debt
Moody s	Baa2	Baa2	Baa3
S&P	BBB	BBB	BB+
Fitch	BBB	BBB	BBB-

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

OFF-BALANCE SHEET ARRANGEMENTS

From December 31, 2007, through June 30, 2008, there have been no material changes in our off-balance sheet arrangements. For additional information, see our 2007 Form 10-K.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

From December 31, 2007, through June 30, 2008, there have been no material changes outside the ordinary course of business in our contractual obligations and commercial commitments. For additional information, see our 2007 Form 10-K.

OTHER INFORMATION

Pension Obligation

On April 1, 2008, we made a voluntary contribution to the Westar Energy pension trust of $15.0 million.

Employees

Our current contract with Local 304 and Local 1523 of the International Brotherhood of Electrical Workers extends through June 30, 2009. The contract covered 1,327 employees as of July 31, 2008.

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Fair Value of Energy Marketing and Fuel Contracts

The tables below show the fair value of energy marketing and fuel contracts outstanding as of June 30, 2008, their sources and maturity periods.

	Fair Value of Contracts (In Thousands)
Net fair value of contracts outstanding as of December 31, 2007	$ 41,502
Contracts outstanding at the beginning of the period that were realized or otherwise settled during the period	(8,371)
Changes in fair value of contracts outstanding at the beginning and end of the period	49,391
Fair value of new contracts entered into during the period	(7,139)
Fair value of contracts outstanding as of June 30, 2008 (a)	$ 75,383

(a) Approximately $78.3 million of the fair value of energy marketing contracts, which is comprised of a fuel supply contract and a capacity sale contract, is recognized as a regulatory liability.

The sources of the fair values of the financial instruments related to these contracts as of June 30, 2008, are summarized in the following table.

	Fair Value of Contracts at End of Period				
Sources of Fair Value	Total Fair Value	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity Over 5 Years
			(In Thousands)		
Prices actively quoted (futures)	$	$	$	$	$
Prices provided by other external sources (swaps and forwards)	52,889	4,318	41,571	4,129	2,871
Prices based on option pricing models (options and other) (a)	22,494	12,977	10,806	(962)	(327)
Total fair value of contracts outstanding	$ 75,383	$ 17,295	$ 52,377	$ 3,167	$ 2,544

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

New Accounting Pronouncements

FSP EITF 03-6-1 Determining Whether Instruments Granted in Share-Based Payment Transaction Are Participating Securities

In June 2008, FASB released FSP No. EITF, 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. FSP No. EITF 03-6-1 provides that all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP No. EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. We are currently evaluating what impact the adoption of FSP No. EITF 03-6-1 will have on our consolidated financial statements.

SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities

In March 2008, FASB released SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133 , which requires expanded disclosure intended to help investors better understand how derivative instruments and hedging activities affect an entity s financial position, financial performance and cash flows. SFAS No. 161 amends and expands our disclosure requirements related to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities by requiring qualitative disclosure about objectives and strategies for using derivatives, quantitative disclosure about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008.

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SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, FASB released SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment to FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. A business entity must report unrealized gains and losses on items for which fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We adopted the guidance effective January 1, 2008. The adoption of SFAS No. 159 did not have a material impact on our consolidated financial statements.

SFAS No. 157 Fair Value Measurements

In September 2006, FASB released SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. In February 2008, FASB issued FSP 157-2 which delays the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The non-financial items subject to the deferral include assets and liabilities such as non-financial assets and liabilities assumed in a business combination, reporting units measured at fair value in a goodwill impairment test and asset retirement obligations initially measured at fair value. We adopted SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis effective January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on our consolidated financial statements. See Note 3, Fair Value Measurements.

First Phase of Electric Generation Facility Completed

We are constructing Emporia Energy Center, a new natural gas-fired power plant consisting of seven combustion turbines. The first five units comprising 310 megawatts (MW) of capacity began producing power and were declared commercially operational in the second quarter. The second phase, consisting of two generating units that should add an additional 300 MW of generating capacity, is expected to be completed next spring.

Prairie Wind Transmission, LLC

In May 2008, we and Electric Transmission America formed Prairie Wind Transmission, LLC, a joint venture company of which we own 50%. Prairie Wind Transmission is proposing to construct approximately 230 miles of 765 kV transmission facilities extending from the Wichita area west to the Dodge City area and then south-southwest to the Kansas border from Medicine Lodge. Following the receipt of necessary regulatory approvals, we plan for these facilities to be in service by the end of 2013, contingent on a number of factors, not all of which are under our control.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including changes in commodity prices, equity instrument investment prices and interest rates. From December 31, 2007, to June 30, 2008, no significant changes occurred in our exposure to market risk. For additional information, see our 2007 Form 10-K, Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934. These controls and procedures are designed to ensure that material information relating to the company and its subsidiaries is communicated to the chief executive officer and the chief financial officer. Based on that evaluation, our chief executive officer and our chief financial officer concluded that, as of June 30, 2008, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to the chief executive officer and the chief financial officer, and recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the three months ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information on other legal proceedings is set forth in Notes 7, 8 and 9 of the Notes to Condensed Consolidated Financial Statements, Commitments and Contingencies New Source Review Investigation FERC Investigation, Legal Proceedings and Potential Liabilities to David C. Wittig and Douglas T. Lake, respectively, which are incorporated herein by reference.

ITEM 1A. RISK FACTORS

There were no material changes in our risk factors from December 31, 2007, through June 30, 2008. For additional information, see our 2007 Form 10-K.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

We held our annual meeting of shareholders on May 15, 2008. At the meeting, the holders of 86,569,279 shares voted either in person or by proxy to elect four Class III directors. Ms. Mollie H. Carter, Mr. Jerry B. Farley, Mr. Arthur B. Krause and Mr. William B. Moore were elected Class III directors to serve a term of three years.

	Votes	
	For	**Withheld**
Mollie H. Carter	85,563,010	1,006,269
Jerry B. Farley	85,566,898	1,002,381
Arthur B. Krause	85,530,871	1,038,408
William B. Moore	85,565,028	1,004,251

The shareholders present or represented at the meeting voted for the ratification and confirmation of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2008. The result of the vote taken was as follows:

	Votes		
	For	**Against**	**Abstain**
Deloitte & Touche LLP	86,002,291	316,041	250,947

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

1(a)	Underwriting Agreement between Westar Energy, Inc. and Citigroup Global Markets Inc., Banc of America Securities LLC and UBS Securities LLC, as representatives of the underwriters named therein, dated May 29, 2008 (filed as Exhibit 1.1 to the Form 8-K filed on May 30, 2008).
4(a)	Bond Purchase Agreement between Kansas Gas and Electric Company and the Purchasers named therein, dated as of May 15, 2008 (filed as Exhibit 4.1 to the Form 8-K filed on May 16, 2008).
4(b)	Fifty-First Supplemental Indenture dated as of May 15, 2008, by and among Kansas Gas and Electric Company, The Bank of New York Trust Company, N.A. and Judith L. Bartolini (filed as Exhibit 4.2 to the Form 8-K filed on May 16, 2008).
31(a)	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 certifying the quarterly report provided for the period ended June 30, 2008.
31(b)	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 certifying the quarterly report provided for the period ended June 30, 2008.
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 certifying the quarterly report provided for the quarter ended June 30, 2008 (furnished and not to be considered filed as part of the Form 10-Q).
99(a)	Summary of Rate Application dated May 28, 2008 (filed as Exhibit 99.2 to the Form 8-K filed on May 28, 2008).

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SIGNATURE

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

		WESTAR ENERGY, INC.	
Date:	August 8, 2008	By:	/s/ Mark A. Ruelle Mark A. Ruelle, Executive Vice President and Chief Financial Officer