



DAVID C. WITTIG  
Chairman of the Board,  
President and Chief Executive Officer

November 7, 2001

Mr. Frank J. Becker  
Mr. Gene A. Budig  
Mr. John C. Dicus,

In anticipation of our November 16 meeting, I wanted to share some thoughts with you regarding compensation (see Exhibit A). In addition, I have attached proposed amendments (Exhibits B-C) to the split dollar plan that I would like for you to consider. You may wish to table a proposal relating to John Hayes until we know more about the Don Barry deferred compensation plan.

Please call me if you have any questions.

Sincerely,

attachments  
cc: Larry Irick

818 South Kansas Avenue / Topeka, Kansas 66612  
Telephone: (785) 575-6401 / Fax: (785) 575-8061  
Internet: david\_wittig@wstnres.com

WS029587

Exhibit A

Compensation plans at Western Resources have consisted of four parts: salary, short-term bonus, long-term plans (RSU's), and pension.

- I. **Salaries:** Salary levels are generally below market for most employees, according to regular surveys the HR department performs for comparable job data. This is consistent with our philosophy of paying below market, with an opportunity to earn above market if performance measures are met. In the last several years, Western has streamlined the paygrade system, cutting the number of pay grades in half and establishing more rigid pay scales within grades. Finally, we have biannual reviews for promotions to new pay grades. This has created a more consistent message for our employees.

**Recommendations:** 3% aggregate increase for non-union employees. Eliminate more pay grades to further streamline the review process.

- II. **Short-Term Incentive:** All pay grades participate in a short-term incentive plan that has been exclusively formula driven. The individual payouts are, to a large extent, formula driven as well, and as a result, it has been more difficult to differentiate performance.

**Recommendation:** Change formula compensation to allow management to pay for performance. The current formulas would simply be a guideline. Senior management and the Board would establish two bonus pools; one for officers and the other for all other employees. Management would have discretion as to how to allocate bonuses and to pay bonuses in stock, cash, or other assets.

- III. **Long-Term Plans:** RSU's are the long-term incentive of choice and are easier to manage and less dilutive than the old option plan. The board adopted certain guidelines for ownership pertaining to the receipt of RSU's. Those guidelines will go into effect in 2002. Employees who wish to receive RSU's must own WR shares that they purchased.

**Recommendation:** Western Resources will pay out \$8.4 million in RSU's (as compared to \$14 million in 2001) and \$5.6 million in Protection One or Guardian Industries. Dividends on WR RSU's should be paid in stock, until the RSU vests. Finally, all RSU's should be expensed in the year they are granted. In addition, a loan program should be established to encourage ownership by officers.

- IV. **Pension:** The pension benefit is important to lower paid employees, but less relevant to higher paid employees, because annual pension benefits are capped at approximately \$100,000. Historically, a SERP plan existed for more highly compensated employees, but that plan was terminated for new participants in early 2001 because of the costs associated with maintaining such a plan.

Currently, only five members of management participate in the plan: Wittig, Lake, Mathis, Hunt, and Wages. The plan is not (and has never been) funded. Recommendation: We continue to fund the liability for the participants and fund the future liability on an annual basis (this has previously been approved by the HR Committee and the board); it is too costly to simply buy our way out of these obligations (with the possible exception of Shane Mathis). Further, RSU grants must take into consideration the fact that certain officers do not have a SERP. If there are two officers in the same pay grade, one with a SERP and the other without, the officer without the SERP should receive more RSU's.

- V. Executive Compensation: In order to offset the utility's share of senior management compensation, Westar will charge a consulting fee to P1 of ½ of 1% of total assets. It is expected that this will result in a payment of \$5 million in 2002 to Westar from P1.

Recommendation: 25% of Wittig's and 65% of Lake's compensation and bonuses will be paid directly by Westar. Bonuses should be paid with the same allocation. This reduces WR's direct compensation by 42%.

- VI. Unfunded Liabilities: Recommendation: WR will fund the remaining split dollar policy and other deferred bonuses at their base amount adjusted for performance on a quarterly basis as it occurs. There are obviously paid insurance policies that cover the costs of these plans, but the dollars have never been segregated. This has no financial impact on the company, as the cost has been expensed in full. The Company will fund its medical and other benefit liabilities per the KCC order.

- VII. Ancillary Benefits: Officers are entitled to and receive (depending on pay grade) car allowances, club memberships, legal and financial expenses. There is a cost to administer these plans.

Recommendation: Replace these payments with a quarterly payment to the employee to be used at their discretion (Exhibit A). This does not result in an increase in cost or benefits <sup>space</sup>

- VIII. Matching Gifts: In 2000, the Company matched approximately \$80,000 in gifts, totaling \$240,000. This represents less than 25% of our corporate contributions (less than 15 individuals participating in the plan.)

Recommendation: No change.

- IX. Board Compensation: Recommendation: Board compensation will remain unchanged. Human Resource and Audit Committee members should receive additional compensation as previously recommended. Stock compensation should be allocated between Western Resources and Protection One or Guardian.

Exhibit A

Currently, officers receive reimbursement for legal and financial services (\$10,000-\$30,000, although generally grades 9-10 use less than \$5,000 of the allotment), car allowances (\$13,000-\$16,000) and country club memberships (\$80-\$4,200). In addition, costs are associated with administering this plan. Instead, we propose to terminate the reimbursement of these expenses and officers will receive an annual reimbursement account (paid quarterly).

<u>Pay Grade</u>	<u>Amount</u>
Grade 1-3	\$50,000
Grade 4-5	36,000
Grade 6-8	24,000
Grade 9-10	16,000

Exhibit B

AMENDMENT TO  
SPLIT DOLLAR INSURANCE AGREEMENT

THIS AGREEMENT is made and entered into as of this 26th day of October, 2001, by and between **WESTERN RESOURCES, INC.**, a Kansas corporation (hereinafter referred to as the "Corporation"), and **CARL M. KOUPAL, JR.** (hereinafter referred to as the "Executive").

WHEREAS, the Corporation and the Executive entered into a Split Dollar Insurance Agreement as of June 3, 1998 (the "Insurance Agreement"); and

WHEREAS, the Corporation and the Executive wish to amend the Insurance Agreement to modify the terms of the Executive's right to sell his policy interest to the Corporation thereunder;

NOW, THEREFORE, the Executive and the Corporation do hereby agree to amend the Insurance Agreement as follows:

1. Section 8 of the Insurance Agreement is amended by adding the following sentences between the fourth and fifth sentences of said Section 8:

"If the Executive has made a prior sale of all or a portion of his interest in the death benefits, on or after January 2, 2002, pursuant to this Section 8 in which the purchase price paid by the Corporation was below the base amount, Executive shall have a one time right to elect, at some future date, to be paid the additional amount outlined in Section 8 up to the amount of One Dollar (\$1.00) for each One Dollar (\$1.00) of the original Executive net death benefit in accordance with adjustment based on change in total shareowner return as if the Executive had not sold the death benefits. The price paid by the Corporation shall be determined by (i) calculating the amount that would have been payable by the Corporation if the prior sale had not occurred and then (ii)

reducing the amount calculated in (i) by the amount previously paid to the Executive and further reduced by interest calculated at an annual rate of 7.38 percent for the amount previously paid."

2. Except as modified by this Amendment, the Insurance Agreement shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, in duplicate, as of the day and year first above written.

WESTERN RESOURCES, INC.

\_\_\_\_\_  
Witness

By: \_\_\_\_\_  
David C. Wittig  
Chairman, President and  
Chief Executive Officer

\_\_\_\_\_  
Witness

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Carl M. Koupal, Jr.

Exhibit C

AMENDMENT TO  
SPLIT DOLLAR INSURANCE AGREEMENT

THIS AGREEMENT is made and entered into as of this 26th day of October, 2001, by and between **WESTERN RESOURCES, INC.**, a Kansas corporation (hereinafter referred to as the "Corporation"), and **DAVID C. WITTIG** (hereinafter referred to as the "Executive").

WHEREAS, the Corporation and the Executive entered into a Split Dollar Insurance Agreement as of June 3, 1998 (the "Insurance Agreement"); and

WHEREAS, the Corporation and the Executive wish to amend the Insurance Agreement to modify the terms of the Executive's right to sell his policy interest to the Corporation thereunder;

NOW, THEREFORE, the Executive and the Corporation do hereby agree to amend the Insurance Agreement as follows:

1. Section 8 of the Insurance Agreement is amended by adding the following sentences between the fourth and fifth sentences of said Section 8:

"If the Executive has made a prior sale of less than 10% interest in the death benefits in each calendar year beginning in 2001, pursuant to this Section 8 in which the purchase price paid by the Corporation was below the base amount, Executive shall have a one time right to elect, at some future date, to be paid the additional amount outlined in Section 8 up to the amount of One Dollar (\$1.00) for each One Dollar (\$1.00) of the original Executive net death benefit in accordance with adjustment based on change in total shareowner return as if the Executive had not sold the death benefits. The price paid by the Corporation shall be determined by (i) calculating the amount that would have been payable by the Corporation if the prior sale had not

occurred and then (ii) reducing the amount calculated in (i) by the amount previously paid to the Executive and further reduced by interest calculated at an annual rate of 7.38 percent for the amount previously paid."

2. Except as modified by this Agreement, the Insurance Agreement shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, in duplicate, as of the day and year first above written.

WESTERN RESOURCES, INC.

\_\_\_\_\_  
Witness

By: \_\_\_\_\_

Paul R. Geist  
Senior Vice President and  
Chief Financial Officer

\_\_\_\_\_  
Witness

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David C. Wittig