WESTERN RESOURCES BOARD OF DIRECTORS
HUMAN RESOURCES COMMITTEE
July 19, 2000

The Western Resources Human Resources Committee of the Board of Directors held a telephonic meeting on July 19, 2000. The following members participated: Frank J. Becker, Chairman, Gene A. Budig and John C. Dicus. Participating from Western Resources was Carl M. Koupal, Jr. Also participating were Brent Longnecker, executive vice president, and Cara King, practice leader, of Resources Connection.

Chairman Frank Becker called the meeting of the Human Resources Committee to order for the purpose of finalizing certain items from the May 17, 2000 Committee meeting. At the May 17 meeting, the Committee recommended for Board approval two specific items: (1) conversion of stock options to restricted stock and, (2) employee plans as presented to the Committee. The Board of Directors approved such items at its May 17, 2000 meeting subject to the Committee's review and approval of the final conversion numbers and ratios on the exchange of options for restricted stock and the financial impact of the employee plans.

Additional information concerning these items was contained in correspondence sent by Carl Koupal to the members of the Committee in a letter dated July 11, 2000 and the information provided with the letter from Resources Connection.

The first item considered by the Committee was the conversion of stock options to restricted shares. Chairman Becker reviewed the materials and, specifically, the letter from Cara King of Resources Connection and the attached spreadsheet which reviewed in detail the proposed formula for conversion. Chairman Becker informed the Committee that he had reviewed the information with David Wittig and Carl Koupal in a meeting on July 10, 2000. The Committee then discussed the costs and benefits of the conversion of the options.

Dr. Budig inquired of Brent Longnecker as to the reasonableness of the approach on conversion of the options. Mr. Longnecker indicated that this approach is a generally accepted way of handling such a conversion and that he felt that this appropriately balanced the interests of the company along with the interests of the employees, especially as a part of the employee retention plan.

The Committee members indicated that they were comfortable that a thorough review of all participants and their conversion benefits had been conducted and that the action was fair to the shareholders and to the employees.

After discussion on this matter, it was moved by Jack Dicus and seconded by Gene Budig that the conversion methodology as outlined in the meeting be approved. The Committee then unanimously approved the conversion.

The second item for discussion by the Committee dealt with the information provided to them dealing with the employee plan, employment agreements and the change in control provisions. Chairman Becker reviewed the information and specifically indicated that in the meeting with David Wittig and Carl Koupal that he had requested two revisions:

1. That the salary component in the officer agreements be the higher of current compensation and "90% of job value" rather than "job value."

2. Incentive compensation being based on the higher of target and actual in the prior "three years" rather than "five years."

Chairman Becker also reviewed the implications of grossing-up of the excise tax for members of the executive council and the implications in the event that certain executives were to be moved to Westar Capital. In addition, the potential cost of all of these programs were summarized by Chairman Becker and reviewed in additional detail by Brent Longnecker.

The Committee then inquired of Mr. Longnecker as to the appropriateness of these overall costs. Mr. Longnecker indicated that Resources Connection believes that the employment agreements and change in control arrangements and plan for Western Resources, as outlined, are both reasonable and competitive.

Mr. Longnecker reviewed three additional issues with the Committee:

1. With regard to non-EC officers, Mr. Longnecker indicated that it was their view that most of the officers would not be subject to an excise tax; but, that after review, it would be their recommendation to cap the non-EC officer payout at a total amount of no more than 2.99 times. He feels that the cap is fair and is recommended rather than including a provision to gross-up for excise taxes for that group of officers.

2. Mr. Longnecker also indicated that in the agreement with members of the executive council, that the components for determining the payments to those officers under the Executive Salary Continuation Plan would be the same components as those previously outlined above.

3. Mr. Longnecker reviewed the impact of a change in control on the split dollar agreements with some senior officers of Western Resources. It was Mr. Longnecker's recommendation that since the benefits under the split dollar agreements are tied to the stock price of Western Resources and contains no provision for a change in control, that the payments under those agreements should vest at a change in control. The cost implications of that were discussed with the Committee. After review it was determined that the split dollar agreements would be paid out pursuant to the terms of the agreement but not less than at the "base amount" as defined in those agreements upon a change in control.

In light of the current direction of the company, the Committee indicated that they felt these changes were fair to the employees and the shareholders.

After additional discussion, Jack Dicus moved approval of the items as presented on this subject and Gene Budig seconded. The Committee then unanimously approved the agreements and plan as outlined.

Chairman Becker then excused Mr. Longnecker and Ms. King and the Committee held a discussion concerning the termination and retirement of William B. Moore as executive vice president, chief financial officer and treasurer. Carl Koupal outlined the terms and costs of the agreement that has been negotiated with Mr. Moore, including the financial components as well as the non-compete, anti-disparagement and other key provisions of the agreement. The Committee indicated that they were in agreement with the direction and terms of the agreement with Mr. Moore and authorized management to enter into such agreement on behalf of the company.

There being no additional business of the Committee, Chairman Becker adjourned the meeting.

Submitted by,

Carl M. Koupal, Jr.

Western Resources

CARL M. KOUPAL, JR.
Executive Vice President and
Chief Administrative Officer

July 11, 2000

Via Federal Express
Dr. Gene A. Budig
REDACTED

Mr. John C. Dicus

REDACTED

Gentlemen:

At the May 17 meeting of the Human Resources Committee, it was agreed that more detailed information would be provided to the Committee on two subjects: (1) conversion of stock options to restricted share units; and, (2) employee plans.

Specifically, the Committee asked to review the final detailed provisions for the exchange of options to restricted shares. Enclosed is a letter dated June 30, 2000 from Resources Connection to Chairman Frank Becker along with a spreadsheet outlining the recommendations on this proposed conversion.

Secondly, the Committee asked to look at the overall impact of the changes in the change-in-control provisions of the employee plans. Also enclosed is a presentation prepared by Resources Connection reviewing that information.

This information has been reviewed by Chairman Becker and the attached reflects the changes that he has asked that we make to the plans. He suggested that we distribute these presentations for your review.

If you have any questions, please feel free to call Frank, who will be in Colorado from July 12 to July 18 at **REDACTED** or feel free to call me at the office.

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In order to finalize these matters, we would like to schedule a tentative telephone conference call with the Committee next Wednesday, July 19, at 10:00 CDT. To participate, call in as follows: 888/453-0624; call leader: Carl Koupal; password: options.

Sincerely,

CMK/naf
Enclosures
cc: Mr. Frank J. Becker
Mr. David C. Wittig

RESOURCES
CONNECTION

June 30, 2000

Mr. Frank J. Becker

REDACTED

Dear Frank:

As discussed at the May 17th Human Resources Committee Meeting of Western Resources, Inc. ("WR" or "the Company"), Resources Connection has been assisting the Company with the issue of converting current stock options to restricted shares. It is our understanding that a draft of the calculations was provided to you for your review. After further analysis and discussions with the Company's auditor, a new perspective on the costing analysis has been utilized and is represented in the attached spreadsheet. Additionally, WR's assumed stock price was modified slightly to reflect the closing price on the date of the Committee's approval of the conversion concept. The adjusted stock price caused the recommended number of awards to decrease slightly from those indicated in the spreadsheet previously provided.

The following provides an overview of the content of the spreadsheets and also provides an explanation for the modification in the numbers.

- The value of stock options was determined using the Black-Scholes option pricing methodology. Key influences on the model include the option exercise price in relation to today's fair market value of the option and the remaining term of the option. Note that the Black-Scholes value for each option is minimal because of the extent to which the option's exercise price is below today's fair market value of the stock.

- All of the currently outstanding options have an attached dividend equivalent right (DER) under which the optionee accumulates dividends, thus the value of the DER must be taken into account when determining the value of the current awards. In order to determine the value of the DER, the previously accrued DER value and future DER value were calculated based on accrued and projected dividend payments. In order to be consistent throughout the analysis between the treatment of option grants and restricted stock awards, it was assumed that the optionee would accrue an additional four years of dividend payments. The DER's are triggered when the market price of the stock exceeds 120% of

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the option stock price for 30 days. Given the current market price is substantially below the option price it is possible that the DER's may never be triggered.

- Some of the options are priced well above the current stock price, thus even when assuming a 10% appreciation rate and the cash dividend accrual, the exercise of the option would be a cost to the optionee. For these grants, the total calculated DER value was assumed to be $0. Other option grants are priced above the current stock price but the DER accrual would make the option beneficial to the employee. For these grants, the difference between the option strike price and expected stock price was subtracted from the DER accrual to determine the total calculated DER value.

- The total option/DER value was determined for each grant based on the total number of options/DERs granted times the sum of the Black-Scholes value of the option and the calculated DER value. This calculation resulted in the total value of outstanding options, or the value which is targeted to be made up in the form of restricted stock.

- The value of a restricted share is simply the stock price on the date of grant plus the accompanying dividends. Once again, in order to be consistent, it was assumed that the dividends under the RSA would accrue for four years.

- In order to determine the number of replacement RSAs to grant in exchange for an option, the total value of the options was divided by the value of a restricted share plus the accompanying dividends over a four year period.

- The accrued compensation cost represents the expense recognized by the Company historically to account for the DERs (the value has not changed between the two spreadsheets.) This expense would be reversed upon cancellation of the options and would be recognized by the Company as a credit.

- The future cost of the options/DERs accounts assumes dividends for option shares will be triggered and paid for an additional four year period.

- In order to determine the total cost of the existing option/DER program, the expense accrued to date as well as the future expense of the program were summed. This value was utilized as the comparison point between the option/DER grants and the grant of RSAs.

- Restricted stock awards carry a compensation expense based on the value of the award on the date of grant. The value indicated on the initial calculations takes into account the value on the date of grant alone, not any future dividend cost. To provide a "snapshot" picture of the cost of the program, the projected dividends for the next four years was added to the RSA cost. Combined, the value reflects the total future cost of the RSAs.

The estimated cost for dividends under the option plan using the assumptions in this letter, including achieving the dividend trigger, is approximately $1.6 million greater than the estimated cost of the proposed restricted stock award. Arthur Andersen has also calculated this lower estimated cost of the new restricted stock award using the assumptions we have made, which includes achieving the dividend trigger.

We believe this change will help enable the Company to provide appropriate incentives needed to retain company personnel.

* * *

Hopefully this information assists in making the attached calculations more understandable. If you have further questions or issues that you would like to discuss, Carl Koupal and I will be pleased to visit with you.

Sincerely,

Cara King

Cara King, Practice Leader
Human Capital Consulting

cc: Carl Koupal
David Wittig
Brent Longnecker

Western Resources, Inc.
Conversion Calculations - Assumes 4 year Remaining Dividend

Stock Price (5/17/2000)	$	15.6250
RSA Dividend Value	$	4.31

Nov. 1996 Grant			Jan. 1997 Grant			March 1998 Grar
Number of Options Granted		138,620	Number of Options Granted		318,490	Number of Option
Option Strike Price	$	29.25	Option Strike Price	$	30.75	Option Strike Pric
B-S Value of Option	$	0.43	B-S Value of Option	$	0.38	B-S Value of Opti
Calculated DER Value [1]	$	8.60	Calculated DER Value [1]	$	8.10	Calculated DER V
Future DER Value	$	4.31	Future DER Value	$	4.31	Future DER Value
Total Value of Underwater Options	$	1,251,622	Total Value of Underwater Options	$	2,699,974	Total Value of Unc
Recommended # of Replacement RSAs		62,775	Recommended # of Replacement RSAs		135,416	Recommended #
Accrued Cost of Options/DERs	$	936,012	Accrued Cost of Options/DERs	$	2,599,088	Accrued Cost of C
Future Cost of Options/DERs	$	597,916	Future Cost of Options/DERs	$	1,373,758	Future Cost of Opi
Total Cost of Options/DERs	$	1,533,928	Total Cost of Options/DERs	$	3,972,846	Total Cost of Optic
Future Cost of RSAs	$	1,251,622	Future Cost of RSAs	$	2,699,974	Future Cost of RS.
Incremental Cost of RSAs	$	(282,306)	**Incremental Cost of RSAs**	$	(1,272,872)	**Incremental Cost**

Jan. 1999 Grant			May 1999 Grant			Jan. 2000 Grant
Number of Options Granted		557,100	Number of Options Granted		243,895	Number of Options
Option Strike Price	$	32.13	Option Strike Price	$	27.82	Option Strike Price
B-S Value of Option	$	0.43	B-S Value of Option	$	0.62	B-S Value of Optio
Calculated DER Value [1]	$	7.03	Calculated DER Value [1]	$	6.75	Calculated DER Va
Future DER Value	$	4.31	Future DER Value	$	4.31	Future DER Value
Total Value of Underwater Options	$	4,154,564	Total Value of Underwater Options	$	1,798,323	Total Value of Und
Recommended # of Replacement RSAs		208,371	Recommended # of Replacement RSAs		90,194	Recommended # o
Accrued Cost of Options/DERs	$	1,174,681	Accrued Cost of Options/DERs	$	386,932	Accrued Cost of Op
Future Cost of Options/DERs	$	2,402,966	Future Cost of Options/DERs	$	1,052,004	Future Cost of Optic
Total Cost of Options/DERs	$	3,577,647	Total Cost of Options/DERs	$	1,438,936	Total Cost of Optior
Future Cost of RSAs	$	4,154,564	Future Cost of RSAs	$	1,798,323	Future Cost of RSA
Incremental Cost of RSAs	$	576,917	**Incremental Cost of RSAs**	$	359,387	**Incremental Cost c**

Total Options Granted		2,640,660
Total Recom. RSAs		721,187
Total Incremental Cost	$	(1,599,841)

[1] Represents the value of the accrued dividend plus the future dividend value adjusted to take into account the strike price of the option. If the option is un to account for the loss of option value created by motivation to exercise the option to receive dividend payments.

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Overview of Change-in-Control Calculations

Presentation to the HR Committee

June 29, 2000

Background

- As presented at the May 17th HR Committee meeting, Resources Connection recommended that Western Resources, Inc. ("WR" or "the Company") reassess its change-in-control arrangements in light of the period of vulnerability in which the Company is entering
- Recommendations were presented to the Committee for consideration to which the Committee requested additional data surrounding the potential cost of the recommended arrangements
- The following provides an overview of the results of the costing calculations and Resources assessment of the competitiveness of the plan

Employment Agreement Provisions

- The following indicates the current and recommended payout provisions for each of the various employee groupings:
  - » Executive Committee

Current	Recommended
• 2.99 times current base salary plus the average bonus paid in prior three years • Immediate vesting of all long-term incentive awards • Three years of health and welfare benefit coverage • Three years of benefits including car allowance and payout of pension benefits	• 2.99 times the greater of *(i) current base salary or (ii) 90% of job value* plus the greater of *(i) the highest bonus paid in prior three years or (ii) targeted annual incentive award level* • Immediate vesting of all long-term incentive awards • Three years of health and welfare benefit coverage • Three years of benefits including car allowance, pension benefits, *outplacement services, financial counseling and relocation assistance* • *Excise tax gross up*

CIC Payout Provisions

» Other Officers

Current	Recommended
• 2.0 times current base salary plus the average bonus paid in prior three years • Immediate vesting of all long-term incentive awards • Two years of health and welfare benefit coverage • Two years of benefits including car allowance and payout of pension benefits (two add'l years of services credit)	• 2.0 times the greater of *(i) current base salary or (ii) 90% of job value* plus the greater of *(i) the highest bonus paid in prior three years or (ii) targeted annual incentive award level* • Immediate vesting of all long-term incentive awards • Two years of health and welfare benefit coverage • Two years of benefits including car allowance, pension benefits, and *outplacement services*

CIC Payout Provisions

» All Other Employees

Current	Recommended

• No cash payouts
• Immediate vesting of all long-term incentive awards
	• Cash Payout
	  • Grades A – C - Three weeks pay for each year of service plus one times the highest bonus paid in prior 3 years with a minimum of 8 weeks and maximum of 52 weeks
	  • Grades D and below – Two weeks pay for each year of service with a minimum of 4 weeks and maximum of 52 weeks
	• Immediate vesting of all long-term incentive awards
	• Continuation of health and welfare benefits over the period covered by the employee's severance pay
	• Payment of outplacement services for employees in Grades C and above

**The recommended plan is similar to the plan utilized in the Oneok transaction.

Incremental Cost of Recommendations

- Utilizing the current enterprise value of the Company, the cost of modifying the existing CIC arrangements was calculated
- The initial calculations were based on the assumption that all employees are terminated following the CIC
  - » at the executive level, this assumption is aggressive but not unrealistic in that oftentimes an acquiring company's management team will assume the responsibilities of those at the acquired company
  - » for all other employees, this assumption is very aggressive; however, the worst case scenario is illustrated for the Committee's consideration

Incremental Cost of Recommendations

- The following table illustrates the increase in cost as a result of the recommended modifications in both dollars and as a percentage of the total enterprise value

	Cash Payments	LTI Payments	Benefits Payments	Gross-Up Payments	Total Increase in Payments
Executive Committee					
Incremental $ Increase	$ 1,998,899	$ -	$ 140,000	$ 9,787,628	$ 11,926,527
Incremental Increase as % of Deal	0.05%	0.00%	0.00%	0.23%	0.28%
Other Officers					
Incremental $ Increase	$ 1,061,546	$ -	$ 120,000	$ -	$ 1,181,546
Incremental Increase as % of Deal	0.03%	0.00%	0.00%	0.00%	0.03%
All Employees					
Incremental $ Increase	$ 38,758,395	$ -	$ 3,229,777	$ -	$ 41,988,172
Incremental Increase as % of Deal	0.92%	0.00%	0.08%	0.00%	1.00%
Total					
Incremental $ Increase	$ 41,818,840	$ -	$ 3,489,777	$ 9,787,628	$ 55,096,244
Incremental Increase as % of Deal	1.00%	0.00%	0.08%	0.23%	1.31%

Incremental Cost of Recommendations

- Overall, the total increase in payments is approximately 1.31% of the enterprise value; however, it is important to assess the key drivers of this cost
  - » the excise tax gross-up makes up approximately 20% of the increased cost
    - – excise taxes can be eliminated or minimized through the consideration of alternative compensation arrangements such as consulting agreements and noncompetes
    - – the payment of the excise tax is assumed by the acquiring company
    - – as presented in the January 2000 presentation to the HR Committee, tax gross-up provisions are competitive with over 60% of WR's peers utilizing the provision for top executives
  - » an additional 75% of the increased cost is attributed to employees below the executive level
    - – the acquirer may only experience a small portion of this cost dependent upon the intentions for maintaining WR's existing workforce for continuing operations

Reasonableness of Total CIC Costs

- Typically, the reasonableness of CIC costs are viewed as a percentage of the value of the transaction
- Resources calculated the individual components of cash, benefits, and long-term incentives for each employee group utilizing the recommended CIC provisions as a percentage of the enterprise value
- The results of this analysis are presented on the following page

Reasonableness of Total CIC Costs

Scenario: $25.00 per share sell price
Enterprise Value $ 4,200,000,000
Assumes All Employees Terminated

	Cash Payments	LTI Payments	Benefits Payments	Gross-Up Payments	Total Payments
Executive Committee	0.35%	0.35%	0.35%	0.23%	1.28%
Other Officers	0.14%	0.05%	0.16%	0.00%	0.34%
All Employees	0.92%	0.04%	0.08%	0.00%	1.04%
Gross Cost	1.42%	0.43%	0.58%	0.23%	2.66%

.16% to Sept. 11.

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Reasonableness of Total CIC Costs

- Resources experience with other organizations in transactional situations indicates that employee compensation payments typically range between 4-5% of the value of the deal; however, situations have occurred whereby the payments equal nearly 10% of the transaction
- Based on competitive data, Resources believes that the proposed CIC arrangements for WR are both reasonable and competitive in that if <u>all</u> employees were to be terminated (a highly unlikely scenario), the total severance cost as a percentage of the enterprise would equate to 2.66%
- This scenario indicates the Company would be positioned directly in line slightly below the competitive market when assessing the payment as a percentage of the deal

Reasonableness of Total CIC Costs

- Per the Committee's request, Resources has quantified the CIC cost associated with likely transaction scenarios
- The following two scenarios have been calculated:
  - » A financial or foreign buyer with minimal existing infrastructure
    - – Assumes 35% of the Company's executives are terminated
    - – Assumes 10% of the Company's general employee population are terminated
  - » A utility buyer which has an existing infrastructure
    - – Assumes 50% of the Company's executives are terminated
    - – Assumes 20% of the Company's general employee population are terminated
- The table on the following page estimates the actual cost and the cost as a percentage of enterprise value in both scenarios