

WESTERN RESOURCES BOARD OF DIRECTORS
HUMAN RESOURCES COMMITTEE
November 8, 2000

The Western Resources Human Resources Committee of the Board of Directors met by telephone conference on November 8, 2000. The following members participated: Frank J. Becker, chairman, Gene A. Budig and John C. Dicus. Participating from Western Resources were David C. Wittig and Carl M. Koupal, Jr. Also participating were Andrew Fawbush, partner, LeBoeuf, Lamb, Greene and MacRae, and Brent Longnecker, executive vice president, Resources Connection.


Chairman Becker called the meeting of the Human Resources Committee to order. The Committee reviewed and approved the minutes of the October 3, 2000 meeting.

The Committee then proceeded to a review of a presentation by Resources Connection concerning an overview of the potential change in control impacts of a possible transaction with Public Service Company of New Mexico.

After discussion, it was determined that the Committee would present the information and material to the Board of Directors.

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

Submitted by,



Carl M. Koupal, Jr.

Human Resources Committee
Agenda
November 8, 2000

	<u>Items</u>	<u>Requires</u>	<u>Tab</u>
I	Review and Approval of Minutes of October 3, 2000 Meeting	Committee	A
II	Proposed Amendments -Executive Salary Continuation Plan -Long-term Incentive and Share Award Plan -Special Employee Policy -Outside Directors' Deferred Compensation Plan -Employee Stock Purchase Plan -Employment Agreements and Change in Control Agreements	Committee/ Board	B
III	Change in Control Revisions	Committee/ Board	C
IV	Other Business		
	Adjourn		

WESTERN RESOURCES BOARD OF DIRECTORS
HUMAN RESOURCES COMMITTEE
October 3, 2000

The Western Resources Human Resources Committee of the Board of Directors met by telephone conference on October 3, 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.

Chairman Becker called the meeting of the Human Resources Committee to order. The Committee reviewed and approved the minutes of the August 2, 2000 meeting.

The Committee then reviewed the proposed amendments to the Executive Salary Continuation Plan and the Long-Term Incentive and Share Award Plan. These amendments conform the definition of "change in control" in those plans to be the same as the definition of change in control in the agreements which the Committee and the Board approved earlier this year.

The Committee reviewed these items and it was moved, seconded and approved by the Committee to recommend this resolution to the full Board.

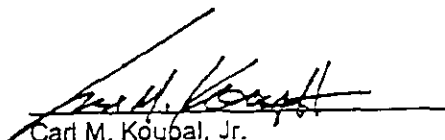
The Committee also reviewed a resolution dealing with the establishment of a rabbi trust to hold the assets of various benefit programs that the Committee and the Board has authorized. It was moved, seconded, approved and recommended to the Board the resolution allowing the establishment of the rabbit trust.

The Committee then considered a revision to directors' compensation. The Committee reviewed a letter from Brent Longnecker of Resources Connection with an analysis of the peer group of companies and the recommendation by Resources Connection on cash and stock compensation levels.

The Committee then discussed this issue in detail, reviewed the recent history of directors' compensation and recommended for approval by the full Board the directors' fees recommendations as outlined in Mr. Longnecker's letter.

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

Submitted by,


Carl M. Koupal, Jr.

RESOLVED, that the Employment Agreements with Mr./Ms. Wittig, Grennan, Koupal, Lake, Sharpe and Terrill be replaced by Employment Agreements in substantially the form presented to this meeting; and further

RESOLVED, that the Change in Control Agreements, with Mr./Ms. Akin, Bregman, Dixon, Geist, Henry, Hunt, Irick, Kitchen, Loyd, Martin, Mathis, Morgan, Ricketts, Wages and Williams be replaced by Change in Control Agreements in substantially the form presented to this meeting; and further

RESOLVED, that the First Amendment to the Western Resources, Inc. Special Employee Policy, in substantially the form presented to this meeting, be, and it hereby is, approved and adopted; and further

RESOLVED, that the Second Amendment to the Western Resources, Inc. Executive Salary Continuation Plan, in substantially the form presented to this meeting, be, and it hereby is, approved and adopted; and further

RESOLVED, that the Second Amendment to the Western Resources, Inc. 1996 Long Term Incentive and Share Award Plan, in substantially the form presented to this meeting, be, and it hereby is, approved and adopted; and further

RESOLVED, that the First Amendment to the Western Resources, Inc. Employee Stock Purchase Plan, in substantially the form presented to this meeting, be, and it hereby is, approved and adopted; and further

RESOLVED, that the Second Amendment to the Western Resources, Inc. Outside Directors' Deferred Compensation Plan, in substantially the form presented to this meeting, be, and it hereby is, approved and adopted; and further

RESOLVED, that the Trust Under Western Resources, Inc. Executive Salary Continuation Plan, in substantially the form presented to this meeting, be, and it hereby is, approved and adopted; and further

RESOLVED, that the appropriate officers of the Company be, and each of them hereby is, authorized and directed (i) to finalize and execute on behalf of the Company the documents described in the preceding resolutions, (ii) to remove, if they deem appropriate, Mercantile Bank of Topeka as Trustee of the Trust Under Western Resources, Inc. Executive Salary Continuation Plan and to appoint a successor trustee, and (iii) to take such other and further actions as the officer so acting may deem necessary or desirable to effectuate the purposes of the foregoing resolutions.

Amendment to Executive Salary Continuation Plan

- New "Change in Control" definition with triggering event being consummation of merger rather than approval by shareholders and retain original 75% ownership level to avoid triggering.
- Funding of Rabbi Trust to occur upon consummation of merger rather than approval by shareholders; provision for funding adds requirement for pre-funding of expenses, including cost of benefit consultant (in addition to cost of annuities).
- Cap bonus component to 3x adjusted base for executive council and 1x target for all others.

Amendment to Long-Term Incentive and Share Award Plan

- Addition of provision specifically recognizing that deferral elections remain in place despite Change in Control, and prohibiting elimination of right to re-defer prior to second anniversary of Change of Control.
- New "Change in Control" definition with triggering event being consummation of merger rather than approval by shareholders — but change only effective for grants on or after October 4, 2000; retain original 75% ownership level to avoid triggering.

Amendment to Special Employee Policy

- "Change in Control" definition changed to increase from 60% to 75% the percentage ownership that WR's shareholders must exceed following a merger so as not to constitute a "Change in Control."

Amendment to Outside Directors' Deferred Compensation Plan

- Permits substitution of phantom stock units based on new company's securities for Directors who elected deferral into phantom stock units and equitable adjustment of shares in connection with a merger or reorganization.

Amendment to Employee Stock Purchase Plan

- Authorizes Committee to terminate offering period early (resulting in earlier option exercise).

Amendments to Employment Agreements and Change in Control Agreements

- Cap bonus component for SERP budget at 3x adjusted base for executive council and 1x target for others
- 75% shareholder threshold to award change in control.
- Eliminate rabbi trust for relocation expenses.

Overview of Change in Control Calculations

Presentation to the HR Committee

November 8, 2000

Background

- As presented at the May 17, 2000 and July 19, 2000 HR Committee meetings for Western Resources (“WR” or “the Company”), Resources Connection (“Resources”) made recommendations with regard to changes in the Company’s CIC agreements and programs
- The purpose of this report is to provide an updated report on the CIC costs as currently contemplated with Lobos
- The following provides an overview of the results of the costing calculations related to the transaction with Lobos

Proposed Revisions to Agreements and Plans

- In order to limit the Company's exposure, since there are currently no limits on the SERP formula, it is proposed that the employment agreements, CIC agreements and the SERP be amended to limit the bonus component under the SERP to:

3x adjusted base for EC

Targeted bonus for non-EC

- These assumptions were utilized as the upper tier estimate for the calculations outlined herein
- The salary component is not restricted since it is within the control of the board

Calculating the Cost of the CIC

- Utilizing the expected enterprise value of the utility business which is estimated at \$4.45 Billion, the total cost of the CIC arrangements was calculated
- The initial calculations were based on the assumption that all Executive Council and other Officers are terminated following the CIC for a worst case assumption
- The CIC costs are presented as a percent of the total enterprise value for both the Executive Council and Other Officers and the costs are broken out into total dollars for the Executive Council and for the non- EC SERP costs

Key Assumptions

- For the EC group, an “upper tier” assumption of 3x adjusted base salary was used for bonus calculations. This assumption significantly impacts the cash payment, the SERP values, and the potential excise tax. In addition, the numbers were also developed to reflect “target bonus” levels. This was done to establish a range of possible payouts.
- For the non-EC group, a bonus of 1x base salary was assumed for the cash payment and “target” bonus was assumed for the SERP calculation
- The value of the CIC SERP is calculated using a 7% discount rate to estimate the cost of an annuity to fund the SERP at the time of the CIC. An increase in this rate, by even 0.5%, can significantly lower the costs involved
- Split dollar is assumed to be the difference between the base amount and the amount the individual could receive today

Cash Payments

- The CIC agreements provide, for EC members, a cash payout of 2.99x the greater of the higher of the annual rate of base salary during the 12-month period and adjusted base salary, plus 2.99x the bonus amount.
- Under the assumptions used in the calculation, the following are the “target” bonus levels and the 3x bonus levels of payouts:

<i>Assumes Target Bonus Level Payout</i>	Cash Payments (000's)
Wittig, D.	\$ 4,459
Lake, D.	\$ 2,628
Koupal, C.	\$ 1,824
Grennan, T.	\$ 1,371
Terrill, R.	\$ 1,348
Sharpe, R.	\$ 1,093
Gross Cost	\$ 12,723

<i>Assumes 3x Bonus Level Payout</i>	Cash Payments (000's)
Wittig, D.	\$ 9,242
Lake, D.	\$ 5,563
Koupal, C.	\$ 4,035
Grennan, T.	\$ 3,155
Terrill, R.	\$ 3,055
Sharpe, R.	\$ 2,468
Gross Cost	\$ 27,518

Long-Term Incentives

- Under the long-term incentive plan all restricted stock awards (RSA's) will fully vest under a CIC

Executive	# of RSA's That Will Vest on CIC
Wittig, D.	492,243
Lake, D.	257,638
Koupal, C.	190,936
Grennan, T.	106,537
Terrill, R.	137,898
Sharpe, R.	61,771

- For purposes of calculating a possible 280G excise tax on the restricted shares, the impact of the accelerated vesting is approximately \$11 million

Benefits

- Under the agreements, for the EC group and eight other officers, the benefits of the SERP plan vest upon a change in control
- Using the assumptions, the amount of the Net Present Value (NPV) SERP payments and other benefits total:

Assumes Target Bonus Level Payout	Benefits Payments (000's)
Wittig, D.	\$ 15,484
Lake, D.	\$ 6,553
Koupal, C.	\$ 5,302
Grennan, T.	\$ 2,603
Terrill, R.	\$ 3,123
Sharpe, R.	\$ 2,739
Gross Cost	\$ 35,804

Assumes 3x Bonus Level Payout	Benefits Payments (000's)
Wittig, D.	\$ 27,781
Lake, D.	\$ 13,988
Koupal, C.	\$ 10,606
Grennan, T.	\$ 6,559
Terrill, R.	\$ 7,078
Sharpe, R.	\$ 6,148
Gross Cost	\$ 72,160

- For the non-EC SERP the cost to fund the acceleration would be approximately \$8.4 million

Excise Tax

- If CIC payments made to an employee who is a “disqualified individual” exceeds three times the executive’s average W2 compensation over the prior 5 years (base amount), then the amount of the payment that exceeds the base amount is subject to a 20% excise tax -- in addition, the Company loses its ability to take a tax deduction for that amount
- A tax gross-up provision will reduce the tax impact on an executive’s payout while increasing the costs for the Company; however, the cost can be minimized by the Company through the consideration of alternative compensation arrangements such as:
 - consulting agreements
 - noncompetes
- The six members of the Executive Council are eligible for a tax gross-up
- 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

Excise Tax

- The potential excise tax imposed upon the executives ranges between \$10.8 million and \$20.8 million; while the cost to the Company of the gross-up ranges between \$33.3 million and \$64.0 million

Assumes Target Bonus Level Payout	Excise Tax (000's)	Gross-Up Payments (000's)
Wittig, D.	\$ 4,393	\$ 13,516
Lake, D.	\$ 2,159	\$ 6,643
Koupal, C.	\$ 1,390	\$ 4,276
Grennan, T.	\$ 935	\$ 2,877
Terrill, R.	\$ 1,108	\$ 3,409
Sharpe, R.	\$ 851	\$ 2,619
Gross Cost	\$ 10,836	\$ 33,340

Assumes 3x Bonus Level Payout	Excise Tax (000's)	Gross-Up Payments (000's)
Wittig, D.	\$ 7,808	\$ 24,026
Lake, D.	\$ 4,233	\$ 13,024
Koupal, C.	\$ 2,623	\$ 8,071
Grennan, T.	\$ 2,083	\$ 6,409
Terrill, R.	\$ 2,240	\$ 6,893
Sharpe, R.	\$ 1,808	\$ 5,563
Gross Cost	\$ 20,795	\$ 63,986

- The tax gross-up is a circular function imposing taxes upon taxes, compounding the cost
- The triggering of 280G has been reviewed by Western's outside legal counsel and Arthur Andersen. It is believed that for 280G purposes, a technical CIC (from an IRS perspective) may not actually occur thereby rendering any gross-up payment moot

Modifications to Lower Excise Tax

- A reduction in the potential bonus multiple will significantly impact the cash payout and the SERP calculation, significantly reducing the excise tax
- Provide noncompete agreements for the Executive Council group
- An increase in the discount rate of even 0.5% over our assumed interest rate of 7% will impact the SERP calculation, again reducing the excise tax

Total Payments

- With the components of the agreements -- cash payments, restricted shares, benefits payments and the possible 280G excise tax gross-up payments, the total range of impact for the EC group would be:

Assumes Target Bonus Level Payout	Total Payments w/o Excise	Total Payments with Excise
Wittig, D.	\$ 23,849	\$ 37,364
Lake, D.	\$ 11,503	\$ 18,146
Koupal, C.	\$ 8,777	\$ 13,053
Grennan, T.	\$ 4,876	\$ 7,753
Terrill, R.	\$ 5,773	\$ 9,182
Sharpe, R.	\$ 4,401	\$ 7,021
Gross Cost	\$ 59,179	\$ 92,519

Assumes 3x Bonus Level Payout	Total Payments w/o Excise	Total Payments with Excise
Wittig, D.	\$ 40,929	\$ 64,955
Lake, D.	\$ 21,872	\$ 34,896
Koupal, C.	\$ 16,293	\$ 24,364
Grennan, T.	\$ 10,616	\$ 17,024
Terrill, R.	\$ 11,435	\$ 18,328
Sharpe, R.	\$ 9,185	\$ 14,749
Gross Cost	\$ 110,330	\$ 174,316

- All numbers are presented in thousands

Cost Differentials Between Projected Costs/Estimated Costs

- Overall, the total difference in the May 17th projected payments and the current estimated payments using the assumptions previously described is approximately an additional 2.66% of the enterprise value. However, it is important to assess the following key drivers of this cost:

The increased excise tax gross-up makes up approximately 54.4% of the increased total cost or in total dollars ranges from \$33.3 million to \$64.0 million

- excise taxes can be eliminated or minimized through the consideration of alternative compensation arrangements such as consulting agreements and noncompetes
- 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

- The triggering of 280G has been reviewed by Western's outside legal counsel and Arthur Andersen. It is believed that for 280G purposes, a technical CIC (from an IRS perspective) may not actually occur thereby rendering any gross-up payment moot
- Considering requesting letter ruling from IRS.

Reasonableness of Total CIC Costs

- Resources experience with other organizations in transactional situations indicates that employee compensation payments for executives typically range between 4-5% of the enterprise value of the deal; however, situations have occurred whereby the payments equal nearly 10% of a transaction -- depending on each companies specific facts and circumstances
- Based on competitive data, Resources believes that the CIC arrangements for WR for the senior executives are both reasonable and competitive in that if all Executive Council and Other Officers were to be terminated (a highly unlikely scenario), the total severance cost as a percentage of the enterprise value would range between 2.45% and 4.31%. This scenario indicates the Company would be positioned directly in line with the competitive market when assessing the payment as a percentage of the transaction

Key Terms of the Merger Agreement

- Westar to indemnify Western Resources for specified CIC payments and related excise tax payments (if applicable) in amounts in excess of:
 - \$55 million (\$92 million pre-tax) if no excise tax is payable
 - \$80 million, after tax, if any excise tax is payable

AGGREGATE LIMITATION

RESOLVED, that such amendments shall not result in aggregate payments for the Executive Council members resulting from a change in control of the Company, including any excise tax, in excess of \$100 million, with such further changes as the Human Resources Committee of the Board of Directors may approve in order to mitigate any excise taxes on any such payments.

Amendment to Executive Salary Continuation Plan

- New "Change in Control" definition with triggering event being consummation of merger rather than approval by shareholders and retain original 75% ownership level to avoid triggering.
- Funding of Rabbi Trust to occur upon consummation of merger rather than approval by shareholders; provision for funding adds requirement for pre-funding of expenses, including cost of benefit consultant (in addition to cost of annuities).
- Cap bonus component to 3x adjusted base for executive council and 1x target for all others.

Amendment to Long-Term Incentive and Share Award Plan

- Addition of provision specifically recognizing that deferral elections remain in place despite Change in Control, and prohibiting elimination of right to re-defer prior to second anniversary of Change of Control.
- New "Change in Control" definition with triggering event being consummation of merger rather than approval by shareholders — but change only effective for grants on or after October 4, 2000; retain original 75% ownership level to avoid triggering.

Amendment to Special Employee Policy

- "Change in Control" definition changed to increase from 60% to 75% the percentage ownership that WR's shareholders must exceed following a merger so as not to constitute a "Change in Control."

Amendment to Outside Directors' Deferred Compensation Plan

- Permits substitution of phantom stock units based on new company's securities for Directors who elected deferral into phantom stock units and equitable adjustment of shares in connection with a merger or reorganization.

Amendment to Employee Stock Purchase Plan

- Authorizes Committee to terminate offering period early (resulting in earlier option exercise).

Amendments to Employment Agreements and Change in Control Agreements

- Cap bonus component for SERP budget at 3x adjusted base for executive council and 1x target for others
- 75% shareholder threshold to award change in control.
- Eliminate rabbi trust for relocation expenses.