WESTERN RESOURCES BOARD OF DIRECTORS
HUMAN RESOURCES COMMITTEE
December 6, 2000

The Western Resources Human Resources Committee of the Board of Directors met at a regular meeting on December 6, 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. Participating by telephone were Brent Longnecker, executive vice president, Resources Connection and Andy Fawbush, attorney, LeBoeuf, Lamb, Greene & MacRae.

Chairman Becker called the meeting of the Human Resources Committee to order.

The Committee reviewed the presentation by Resources Connection on various issues concerning potential 280G excise taxes. The Committee also received an update from Andy Fawbush on the 280G issue as well as the efforts to seek a private letter ruling from the IRS.

The Committee then considered a resolution dealing with the company Stock for Compensation Program and recommended a resolution to the Board of Directors to authorize the Committee to suspend the deferral aspect of the Stock for Compensation Program and also for the Board to consider the elimination of the mandatory component of the Stock for Compensation Program.

The Committee then reviewed another presentation by Resources Connection concerning the preliminary compensation information for Westar Industries following the proposed split-off of Westar Industries.

Finally, the Committee considered a proposal to change the trustee for the Western Resources Retirement Plan. Commerce Bank in Kansas City has been providing this service. The Committee moved and recommended to the Board the resolution changing the trustee to Bank of New York.

There being no further business, the meeting of the Human Resources Committee adjourned.

Submitted by,

Carl M. Koupal, Jr.

WS029

Western Resources

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

November 28, 2000

To: Mr. Frank J. Becker, Chairman
Dr. Gene A. Budig
Mr. John C. Dicus

Gentlemen:

Please be advised there will be a meeting of the Human Resources Committee of the Board of Directors of Western Resources on December 6 at 8:30 a.m. The meeting will be held in the west conference room of the 11th floor.

We look forward to seeing you.

Sincerely,

CMK/naf
cc: Mr. David C. Wittig
Mr. Richard D. Terrill

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Telephone: (785) 575-6358 / Fax: (785) 575-1563
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## Human Resources Committee

Mr. Chairman, the Human Resources Committee of the Board met this morning to consider various issues.

As a follow-up to our last meeting and the Board meeting, we had an additional presentation on various issues concerning the potential 280(G) excise tax issues. We received an update on potential alternatives to mitigate the 280(G) excise tax and will continue to consider and review various alternatives with regard to mitigating the potential excise tax and will be reporting to you in more detail at the February meeting of the Board.

The Committee would like to recommend to the Board a resolution found in your book behind Exhibit 4 dealing with the company's stock for compensation program. As you know, over two years ago we implemented a program whereby a portion of some of the top employees' base salary would be paid in stock and provided for a mechanism for a deferral of that stock. In light of the proposed transaction with Public Service of New Mexico, and in order to mitigate any potential 280(G) excise tax, we recommend to the Board the resolution which provides to the Committee authorization to suspend the deferrals of the grants. The basic approach as recommended by the Committee here is that the deferral of the stock for comp be suspended which will have the impact of increasing W2 income which will be helpful as we approach any closing of the transaction with Public Service of New Mexico. This does not increase or decrease any payments. It simply suspends the opportunity for deferral of the payout of the stock portion of compensation. Mr. Chairman, I would move the resolution.

Mr. Chairman, in addition, behind Exhibit 4 is a resolution to change the trustee for the Western Resources retirement plan.

Commerce Bank in Kansas City has been providing services as the trustee, but many of these functions have been assigned by them to Bank of New York. Commerce has now informed the company of their desire to terminate their relationship in order to focus on other markets. The company has explored various alternatives and recommends that we change the trustee to Bank of New York. Under this arrangement, trustee fees will remain the same and fees associated with the benefit checks will be reduced for an annual savings of approximately $12,000. Mr. Chairman, I would move this resolution.

Mr. Chairman, that concludes the report of the Human Resources Committee. Thank you very much.

CMK Copy

# Human Resources Committee

December 6, 2000

Western Resources

WS029874

Human Resources Committee
Agenda
December 6, 2000

| | Items | Requires | Tab |
|---|---|---|---|
| I | Presentation Regarding 280(G) Issues | Committee/ Board | A |
| II | Preliminary Report - Westar Industries | | B |
| III | Change in Trustee for Retirement Plan | Committee/ Board | C |
| IV | Other Business | | |
| | Adjourn | | |

Dial-in:
888/453-0624
leader: carl koupal
password: benefits

*Nancy Fienhage*

Stock Performance (total return as of December 4, 2000)

| | |
|---|---|
| WR | +46.51% |
| Peers | +37.20% |

$$\frac{46.51 - [(0.9) \times 37.20]}{0.1 \times 37.20} = 3.503x$$

EPS Performance (as of October 31.2000)

| | |
|---|---|
| $2.29 | Actual |
| $1.95 | Budget (through October, the year-end budget is $1.74) |

$$\frac{\$2.29 - [(0.9) \times 1.95]}{0.1 \times 1.95} = 2.744$$

Payout to Officers (assuming 80% of discretionary is paid out)

(0.40 x 3.503) + (0.40 x 2.744) + (0.20 x 0.80) = 2.659

Wittig = 2.659 x 0.90 = 2.393
Lake, Koupal = 2.659 x 0.80 = 2.127
Terrill, Grennan, Sharpe = 2.659 x 0.70 = 1.861

A

RESOURCES℠
CONNECTION

# Western Resources

## Report to the HR Committee

December 6, 2000

# Overview of CIC Payments Under Section 280G

- Severance payments in excess of certain limits have an additional 20% excise tax, and the company loses its corporate tax deduction.
- Executive employment agreements for Western Resources (WR) executives provide for a tax gross-up payment for any excise tax imposed on severance payments.
- WR requested Resources Connection (RC) to identify methods for reducing the tax gross-up exposure under 280G.

# Alternatives for Reducing Excess Severance Payments

- To lower the gross-up exposure, WR can either:
  - Reduce the severance payments (which impacts the numerator in the 280G equation);
  - Increase the "base amount" (the denominator in the 280G equation). "Base amount" is defined as the average of the last five years W-2 compensation prior to the year of the transaction;
  - A combination of items one and two above.
- The potential excise tax imposed upon the executives ranges between \$10.8 million and \$20.8 million; while the cost of the Gross-up ranges between \$33.3 million and \$64.0 million.

# Alternatives for Reducing Excess Severance Payments

- WR intends to seek a letter ruling which, if favorable, would eliminate the tax gross-up. However, the ruling will not be received in time to take proactive action. This is an issue since changes made to compensation or compensation agreements within one year of a CIC would be presumed to be contingent upon the CIC.



WS029881

# Option 1 - Accelerate RSU Vesting

- Whenever long-term incentive awards are immediately vested upon a CIC, the value of the acceleration must be included in the 280G calculations.
- The recommendations under this alternative are two part:
  1) Modify the current vesting schedule on all outstanding Restricted Share Units to fully vest in December, 2001;
  2) Provide a shortened vesting schedule for grants made in 2001 such that they vest 100% in December, 2001.
- These recommendations result in a reduced severance payment of approximately $7.9 million which reduces the tax gross-up by approximately $7.3 million.

# Option 1a - Accelerate RSU Vesting

- WR may also wish to make the expected 2002 grant in 2001. All shares could vest on December, 2001 so that there could effectively be no RSUs accelerating at the closing.
- Since there would be no acceleration of long-term awards upon a CIC if the closing occurs after December, 2001, the severance payment would be reduced by an additional $2.7 million which reduces the tax gross-up by approximately $2.5 million.

# Option 1 and 1a - Accelerate RSU vesting

- In structuring the amended RSU documents, WR should leave in the language that awards vest upon a CIC, yet modify the actual vesting period to December, 2001. This would mitigate the CIC exposure for RSUs if the actual closing occurred prior to the actual vesting period.
- The negative aspect to this recommendation is that the long-term "handcuff"on the executives is decreased.
- At the same time, currently these RSUs vest at the shareholder vote, which will most likely be in the first half of 2001. Therefore, the handcuff would have been eliminated anyway.

# Option 2 - Non-compete agreements

- After analyzing the executive employment agreement, we believe that non-compete agreements could be executed for the top six officers.
- An independent valuation expert should be engaged to determine the actual value of a non-compete for each individual. Factors that contribute to the determination of individual values are the position, individual experience, term of the agreement, performance of WR, etc.
- Non-compete values in the aggregate can normally be expected to be approximately 0.50% to 2% of annual corporate revenues.

# Option 2 - Non-compete agreements

- The employment agreements would be amended to reduce the severance payments by the value of the non-compete.
- The non-compete agreements should indicate that the executive is eligible for payment upon termination which does not accelerate the time or amount of the payment, it merely restructures the compensation for 280G purposes.

# Option 3 - Terminate the Stock for Compensation Deferral Feature

- The deferral feature of the stock for compensation program reduces W-2 compensation which negatively impacts the "base amount."
- WR may wish to terminate this feature to allow the compensation to increase W-2 compensation and the "base amount."
- WR would continue the Stock for Compensation program, but would pay the stock component in actual stock rather than restricted share units. The individual would continue to receive the stock with a 15% discount.
- A disadvantage to this approach for the executive is that she/he has been able to defer their income and, under this option, they would be taxed on income immediately.

# Option 4 - Accelerate Cash Payments

- WR could accelerate obligations which otherwise would have been paid in the future to be paid in 2001. This could increase the base amount and decrease the 280G impact.
- Examples of compensation that could be accelerated include:
  - Funding of the split dollar program to include the payment of the difference between current amount and base amount totaling approximately $6 million;
  - Payment of the "retention bonus" for Doug Lake (due in September, 2002 for $1 million);
  - Payment of Rick Terrill's KGE deferred compensation ($450,000).

# Management Recommendations

- **Option 1** - Amend restricted share units to vest one year after grant, but no earlier than December, 2001.

- **Option 1a** - Make grants for 2001 and 2002 in January of 2001, with the provision that no grants for Westar or Western will be received in 2002. Will true-up in April with new compensation study. The payment of the grants increases the number of shares by PNM by approximately 600,000.

- **Option 2** - Not at this time.

- **Option 3** - Eliminate the tax deferral in stock for compensation.

- **Option 4** - Accelerate cash payments as outlined.

# Potential Tax Savings

| Executive | Total Cash Paid if CIC | # of RSU's That Will Vest on CIC | Benefits and SERP Payments | Excise Tax Payment Applying Options 1 and 4 [1] | Tax Gross-Up Payment Applying Options 1 and 4 [1] |
|---|---|---|---|---|---|
| Wittig, D. | $4,459 | 0 | $10,812 | $2,119 | $6,521 |
| Lake, D. | $2,628 | 0 | $6,553 | $1,423 | $4,377 |
| Koupal, C. | $1,824 | 0 | $3,782 | $532 | $1,638 |
| Grennan, T. | $1,371 | 0 | $2,603 | $666 | $2,050 |
| Terrill, R. | $1,348 | 0 | $2,588 | $606 | $1,863 |
| Sharpe, R. | $1,093 | 0 | $2,739 | $682 | $2,098 |
| **Total** | **$12,723** | **0** | **$29,077** | **$6,028** | **$18,547** |
| **Total Per 11/8** | **$12,723** | **1,247** | **$35,804** | **$10,836** | **$33,340** |

[1] Numbers do not reflect the cancellation of the stock for compensation program

# STOCK FOR COMPENSATION

RESOLVED, that the Western Resources, Inc. Executive Stock for Compensation Program ("Program") be amended (i) to authorize the Human Resources Committee of the Board (the "Committee") to suspend from time to time or eliminate the mandatory and/or voluntary deferrals of grants under the Program, (ii) to authorize the Committee to provide for mandatory current payout of a portion of a Participant's compensation in the form of Company Common Stock (such portion, if any, to be determined by the Committee), (iii) to authorize the Committee to allow a Participant to elect to receive a current payout of a portion of his or her compensation in the form of Company Common Stock (with the maximum and minimum amounts and eligible compensation that may be covered by any such election to be determined by the Committee), and (iv) to provide that such payouts in Company Common stock shall be determined by dividing the applicable cash amount by 85% of the closing price of a share of Company Common Stock and rounding down to the nearest whole number; and further

RESOLVED, that the appropriate officers of the Company be, and each of them hereby is, authorized and directed to finalize and execute on behalf of the Company the plan amendment described in the preceding resolution and to take such other and further actions as the officer so acting may deem necessary or desirable to effectuate the purposes of the preceding resolution.

STOCK FOR COMPENSATION
2001 DEFERRAL AND STOCK PAYOUT

RESOLVED, that, effective January 1, 2001, all mandatory and/or voluntary deferrals of compensation and grants under the Western Resources, Inc. Executive Stock for Compensation Program ("Program") be, and hereby are, suspended; and further

RESOLVED, that, effective January 1, 2001, the portion of a Program participant's eligible compensation required to be paid in the form of Company common stock shall be the amount required to be so paid in 2000; and further

RESOLVED, that the effectiveness of the foregoing resolutions is subject to approval by the Board of Directors of the amendments to the Program approved by this Committee on the date hereof; and further

RESOLVED, that the appropriate officers of the Company be, and each of them hereby is, authorized and directed to finalize and execute on behalf of the Company the plan amendment described in the preceding resolution and to take such other and further actions as the officer so acting may deem necessary or desirable to effectuate the purposes of the preceding resolution.

B

RESOURCES CONNECTION

# Westar Industries

## Preliminary Report on Peer Company Compensation

December 6, 2000

# Overview

- Western Resources ("WR") asked Resources Connection ("Resources") to compile a list of peer companies for Westar and analyze the compensation paid to the top five executives.

# Data Sources

- Compensation data was extracted from peer company proxy statements.
- Thirteen companies were identified and included in the peer group.
- The chart on the following page provides a list of the included peer companies and their revenue size.

# Data Sources

| Company Name | Revenue Size |
|---|---|
| Arch Wireless Inc. | $641.8 |
| Atmos Energy Corporation | $690.2 |
| CLECO Corporation | $768.2 |
| Energen Corporation | $497.5 |
| Holly Corporation | $965.9 |
| Intermedia Communications | $906.0 |
| McLeodUSA, Inc. | $908.8 |
| Metrocall, Inc. | $610.2 |
| Piedmont Natural Gas Co. | $686.5 |
| Powertel, Inc. | $283.4 |
| Price Communications Corp | $252.4 |
| Primus Telecommunications | $832.7 |
| Southern Union Company | $831.7 |

| | |
|---|---|
| **Average** | **$682.7** |
| **Median** | **$690.2** |

# Data Sources

- Specifically, Resources analyzed the base salary, bonus, total cash, long-term incentive payments and total direct compensation for the top five ranking executives.
- The following slides highlight our findings by executive rank. Data reflects actual proxy reportings. These numbers have not been updated to a common date.

# Executive--Rank 1

| Company Name | Revenue in Millions | Rank | Fiscal Year | Base Salary | Bonus | Total Cash | LTI Value | Total Direct Comp. |
|---|---|---|---|---|---|---|---|---|
| Arch Communications | $641.8 | 1 | 99 | $434,337 | $185,000 | $619,337 | $1,071,000 | $1,690,337 |
| Atmos Energy Corp | $690.2 | 1 | 99 | $540,192 | $0 | $540,192 | $1,843,500 | $2,383,692 |
| CLECO Corp | $768.2 | 1 | 99 | $348,081 | $216,248 | $564,329 | $293,301 | $857,630 |
| Energen Corp | $497.5 | 1 | 99 | $335,000 | $255,600 | $590,600 | $492,992 | $1,083,592 |
| Holly Corp | $965.9 | 1 | 2000 | $471,668 | $131,000 | $602,668 | $541,000 | $1,143,668 |
| Intermedia Communications, Inc. | $906.0 | 1 | 99 | $487,500 | $0 | $487,500 | $8,364,000 | $8,851,500 |
| McleodUSA, Inc. | $908.8 | 1 | 99 | $250,000 | $142,000 | $392,000 | $0 | $392,000 |
| Metrocall, Inc. | $610.2 | 1 | 99 | $500,000 | $425,000 | $925,000 | $381,000 | $1,306,000 |
| Piedmont Natural Gas Co, Inc. | $686.5 | 1 | 99 | $516,346 | $0 | $516,346 | $1,187,512 | $1,703,858 |
| Powertel, Inc. | $283.4 | 1 | 99 | $266,792 | $550,041 | $816,833 | $738,292 | $1,555,125 |
| Price Communications Corp | $252.4 | 1 | 99 | $586,200 | $500,000 | $1,086,200 | $0 | $1,086,200 |
| Primus Telecommunications Group, Inc. | $832.7 | 1 | 99 | $267,407 | $250,000 | $517,407 | $1,172,000 | $1,689,407 |
| Southern Union, Inc. | $831.7 | 1 | 2000 | $263,772 | $0 | $263,772 | $2,189,229 | $2,453,001 |
| **Average** | **$682.7** | | | **$405,177** | **$204,222** | **$609,399** | **$1,405,679** | **$2,015,078** |
| **Median** | **$690.2** | | | **$434,337** | **$185,000** | **$564,329** | **$738,292** | **$1,555,125** |
| **WR (per 5/17 recommendations)** | | | | **$743,600** | **$669,240** | **$1,412,840** | **$3,346,200** | **$4,759,040** |

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# Executive--Rank 2

| Company Name | Revenue in Millions | Rank | Fiscal Year | Base Salary | Bonus | Total Cash | LTI Value | Total Direct Comp. |
|---|---|---|---|---|---|---|---|---|
| Arch Communications | $641.8 | 2 | 99 | $313,735 | $203,000 | $516,735 | $654,502 | $1,171,237 |
| Atmos Energy Corp | $690.2 | 2 | 99 | $352,477 | $0 | $352,477 | $191,100 | $543,577 |
| CLECO Corp | $768.2 | 2 | 99 | $236,923 | $131,808 | $368,731 | $283,232 | $651,963 |
| Energen Corp | $497.5 | 2 | 99 | $218,500 | $139,500 | $358,000 | $166,961 | $524,961 |
| Holly Corp | $965.9 | 2 | 2000 | $390,000 | $109,000 | $499,000 | $216,400 | $715,400 |
| Intermedia Communications, Inc. | $906.0 | 2 | 99 | $238,362 | $75,000 | $313,362 | $1,841,700 | $2,155,062 |
| McleodUSA, Inc. | $908.8 | 2 | 99 | $250,000 | $142,000 | $392,000 | $14,310,000 | $14,702,000 |
| Metrocall, Inc. | $610.2 | 2 | 99 | $375,000 | $325,000 | $700,000 | $254,000 | $954,000 |
| Piedmont Natural Gas Co, Inc. | $686.5 | 2 | 99 | $278,750 | $0 | $278,750 | $480,002 | $758,752 |
| Powertel, Inc. | $283.4 | 2 | 99 | $192,606 | $339,893 | $532,499 | $351,529 | $884,028 |
| Price Communications Corp | $252.4 | 2 | 99 | $185,000 | $350,000 | $535,000 | $133,873 | $668,873 |
| Primus Telecommunications Group, Inc. | $832.7 | 2 | 99 | $210,087 | $200,000 | $410,087 | $586,000 | $996,087 |
| Southern Union, Inc. | $831.7 | 2 | 2000 | $291,346 | $1,031,618 | $1,322,964 | $667,181 | $1,990,145 |
| | | | | | | | | |
| Average | $682.7 | | | $271,753 | $234,371 | $506,123 | $1,548,960 | $2,055,083 |
| Median | $690.2 | | | $250,000 | $142,000 | $410,087 | $351,529 | $884,028 |
| WR (per 5/17 recommendations) | | | | $427,900 | $342,320 | $770,220 | $1,604,625 | $2,374,845 |



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# Executive--Rank 3

| Company Name | Revenue in Millions | Rank | Fiscal Year | Base Salary | Bonus | Total Cash | LTI Value | Total Direct Comp. |
|---|---|---|---|---|---|---|---|---|
| Arch Communications | $641.8 | 3 | 99 | $228,896 | $140,000 | $368,896 | $475,995 | $844,891 |
| Atmos Energy Corp | $690.2 | 3 | 99 | $214,631 | $0 | $214,631 | $127,400 | $342,031 |
| CLECO Corp | $768.2 | 3 | 99 | $174,007 | $80,459 | $254,466 | $174,766 | $429,232 |
| Energen Corp | $497.5 | 3 | 99 | $212,917 | $136,300 | $349,217 | $164,050 | $513,267 |
| Holly Corp | $965.9 | 3 | 2000 | $203,680 | $70,000 | $273,680 | $135,250 | $408,930 |
| Intermedia Communications, Inc. | $906.0 | 3 | 99 | $312,500 | $0 | $312,500 | $2,833,500 | $3,146,000 |
| McleodUSA, Inc. | $908.8 | 3 | 99 | $180,000 | $126,135 | $306,135 | $2,146,500 | $2,452,635 |
| Metrocall, Inc. | $610.2 | 3 | 99 | $375,000 | $325,000 | $700,000 | $254,000 | $954,000 |
| Piedmont Natural Gas Co, Inc. | $686.5 | 3 | 99 | $223,038 | $0 | $223,038 | $410,015 | $633,053 |
| Powertel, Inc. | $283.4 | 3 | 99 | $178,202 | $322,164 | $500,366 | $119,548 | $619,914 |
| Price Communications Corp | $252.4 | 3 | 99 | $146,500 | $183,500 | $330,000 | $289,593 | $619,593 |
| Primus Telecommunications Group, Inc. | $832.7 | 3 | 99 | $160,404 | $200,000 | $360,404 | $234,400 | $594,804 |
| Southern Union, Inc. | $831.7 | 3 | 2000 | $578,456 | $141,363 | $719,819 | $2,223,900 | $2,943,719 |
| **Average** | **$682.7** | | | **$245,249** | **$132,686** | **$377,935** | **$737,609** | **$1,115,544** |
| **Median** | **$690.2** | | | **$212,917** | **$136,300** | **$330,000** | **$254,000** | **$619,914** |
| **WR (per 5/17 recommendations)** | | | | **$318,240** | **$254,592** | **$572,832** | **$1,113,840** | **$1,686,672** |



WS029901

# Executive--Rank 4

| Company Name | Revenue in Millions | Rank | Fiscal Year | Base Salary | Bonus | Total Cash | LTI Value | Total Direct Comp. |
|---|---|---|---|---|---|---|---|---|
| Arch Communications | $641.8 | 4 | 99 | $190,163 | $64,480 | $254,643 | $297,495 | $552,138 |
| Atmos Energy Corp | $690.2 | 4 | 99 | $207,746 | $0 | $207,746 | $0 | $207,746 |
| CLECO Corp | $768.2 | 4 | 99 | $154,081 | $65,616 | $219,697 | $146,884 | $366,581 |
| Energen Corp | $497.5 | 4 | 99 | $207,500 | $133,100 | $340,600 | $160,230 | $500,830 |
| Holly Corp | $965.9 | 4 | 2000 | $171,918 | $36,500 | $208,418 | $54,100 | $262,518 |
| Intermedia Communications, Inc. | $906.0 | 4 | 99 | $213,230 | $40,000 | $253,230 | $3,606,750 | $3,859,980 |
| McleodUSA, Inc. | $908.8 | 4 | 99 | $175,000 | $102,680 | $277,680 | $1,717,200 | $1,994,880 |
| Piedmont Natural Gas Co, Inc. | $686.5 | 4 | 99 | $220,577 | $0 | $220,577 | $410,015 | $630,592 |
| Powertel, Inc. | $283.4 | 4 | 99 | $147,168 | $136,837 | $284,005 | $107,913 | $391,918 |
| Price Communications Corp | $252.4 | 4 | 99 | $135,000 | $183,500 | $318,500 | $234,048 | $552,548 |
| Primus Telecommunications Group, Inc. | $832.7 | 4 | 99 | $179,375 | $160,000 | $339,375 | $293,000 | $632,375 |
| Southern Union, Inc. | $831.7 | 4 | 2000 | $344,610 | $93,750 | $438,360 | $889,560 | $1,327,920 |
| **Average** | **$688.8** | | | **$195,531** | **$84,705** | **$280,236** | **$659,766** | **$940,002** |
| **Median** | **$729.2** | | | **$184,769** | **$79,683** | **$266,162** | **$263,524** | **$552,343** |
| **WR (per 5/17 recommendations)** | | | | **$241,500** | **$169,050** | **$410,550** | **$724,500** | **$1,135,050** |



WS029902

# Executive--Rank 5

| Company Name | Revenue in Millions | Rank | Fiscal Year | Base Salary | Bonus | Total Cash | LTI Value | Total Direct Comp. |
|---|---|---|---|---|---|---|---|---|
| Arch Communications | $641.8 | 5 | 99 | $161,667 | $44,092 | $205,759 | $142,800 | $348,559 |
| Atmos Energy Corp | $690.2 | 5 | 99 | $134,762 | $0 | $134,762 | $76,440 | $211,202 |
| CLECO Corp | $768.2 | 5 | 99 | $134,231 | $66,074 | $200,305 | $129,234 | $329,539 |
| Energen Corp | $497.5 | 5 | 99 | $170,755 | $109,000 | $279,755 | $112,960 | $392,715 |
| Holly Corp | $965.9 | 5 | 2000 | $161,370 | $38,000 | $199,370 | $108,200 | $307,570 |
| Intermedia Communications, Inc. | $906.0 | 5 | 99 | $240,000 | $0 | $240,000 | $1,612,400 | $1,852,400 |
| McleodUSA, Inc. | $908.8 | 5 | 99 | $149,231 | $115,640 | $264,871 | $2,146,500 | $2,411,371 |
| Piedmont Natural Gas Co, Inc. | $686.5 | 5 | 99 | $215,577 | $0 | $215,577 | $393,996 | $609,573 |
| Powertel, Inc. | $283.4 | 5 | 99 | $148,805 | $138,052 | $286,857 | $95,245 | $382,102 |
| Primus Telecommunications Group, Inc. | $832.7 | 5 | 99 | $151,744 | $40,000 | $191,744 | $293,000 | $484,744 |
| Southern Union, Inc. | $831.7 | 5 | 2000 | $218,325 | $85,775 | $304,100 | $467,019 | $771,119 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Average | $728.4 | | | $171,497 | $57,876 | $229,373 | $507,072 | $736,445 |
| Median | $768.2 | | | $161,370 | $44,092 | $215,577 | $142,800 | $392,715 |
| WR (per 5/17 recommendations) | | | | $230,400 | $161,280 | $391,680 | $806,400 | $1,198,080 |



WS029903

C

Western Resources, Inc. Retirement Plan
Change in Trustee from Commerce Bank
To BNY* Midwest Trust Company
*(Bank of New York)

- BNY has been a sub-agent for Commerce since the beginning of the relationship in early 1998.
- BNY holds the plan assets and provides reporting information to WRI.
- Commerce's main role has been to process monthly benefit payments to retirees.
- Commerce has outsourced benefit payment services to ASI.
- Commerce informed WRI of their desire to terminate the relationship in order to focus on other markets.
- BNY will assume trustee and paying agent role effective January 1, 2001.
- BNY will serve as own paying agent, processing benefit payments internally.
- January 1, 2001 benefit payments will be made by BNY.
- Trustee fees will remain the same, and fees associated with benefit checks will be reduced from $2.00 to $1.25 per month per check. This will result in annual savings of approximately $12,000.
- The change in paying agent will be communicated to retirees in mid-December.
- The change will be transparent to investment managers and other third parties (ie, consultants, auditors, etc.)
- BNY also offers additional trust services not previously provided by Commerce, including securities lending and commission recapture programs.

Western Resources, Inc. Retirement Plan

RESOLVED, that the officers of the Company be, and hereby are, authorized to remove Commerce Bank as Trustee under the Western Resources, Inc. Retirement Plan effective on a date to be specified in a notice to Commerce Bank to be issued by the Chairman of the Board and President, or any Vice-President of this Company, such date to be a date selected in the discretion of the officer issuing the same; and further

RESOLVED, that BNY Midwest Trust Company, having its principal place of business at Chicago, Illinois be, and hereby is, designated as successor Trustee under the Western Resources, Inc. Retirement Plan, effective as of the effective time of removal of Commerce Bank as such Trustee; and further

RESOLVED, that the Chairman of the Board and President, or any Vice-President of this Company, be and each of them hereby is authorized and empowered to execute and deliver on behalf of this Company a Trust Agreement with said successor Trustee under the Western Resources, Inc. Retirement Plan with such terms and conditions as the officer executing the same on behalf of the Company may approve, such approval to be conclusively evidenced by the execution thereof; and further

RESOLVED, that the officers of the Company be, and each of them hereby is, authorized to execute and deliver any and all instruments and documents and ~~to~~ do any and all acts or things, including the payment of fees and expenses, in the name and on behalf of the Company by them deemed necessary or advisable to comply with any legal requirements relating to the Western Resources, Inc. Retirement Plan or the Trust Agreement, or otherwise appropriate to carry out the intent and purpose of the foregoing resolutions.

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# Compensation/Benefits History

December 6, 2000

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# Compensation Philosophy

The company's compensation philosophy continues to emphasize shareholder value creation through a pay-for-performance compensation program. More specifically, the company's philosophy is to:

- Align base salaries at 90-100% of market and provide total compensation potential above the market average;
- Emphasize long-term incentives and equity programs for senior management;
- Encourage employee stock ownership;
- Provide incentives linked to performance throughout the organization.

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# Summary of Officer Benefits

| Benefits | Description |
|---|---|
| Short-Term Incentive Plan | The Western Resources Short-Term Incentive Plan motivates key executives and select employees (grades C and above--approximately 10% of exempt work force) to achieve the highest level of performance to further the achievement of Western Resources' goals, objectives, and strategies. |
| Long-Term Incentive Plan | The Western Resources Long-Term Incentive and Share Award Plan provides employees of the company with restricted stock or restricted share units as a means to attract and retain and motivate employees. |
| Executive Salary Continuation Plan | The Western Resources Executive Salary Continuation Plan provides specified benefits to a select group of officers who contribute materially to the continued growth, development and future business success of Western Resources and its subsidiaries. Full vesting with 15 years service or age 65. Provides 61.7% of final 3 years' pay at age 65. Lesser benefit payable below age 65. Earliest commencement is age 50, actuarially reduced for age below 60 and service less than 15 years. Benefit reduced by Qualified Retirement Plan benefit. |



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# Summary of Officer Benefits

| Benefits | Description |
|---|---|
| Deferred Compensation Plan | The Western Resources Deferred Compensation Plan allows deferral of income for a specified period and provides funds for retirement or death for certain executive and management employees (and their beneficiaries). Maximum deferral 100% of base salary and short-term incentive compensation. |
| Change in Control Agreement | The Western Resources Change in Control Agreement provides specified benefits to a select group of management and executive employees of the company in order that they may advise the Board whether a proposed change in control would be in the best interests of the company and its shareholders without being influenced by the uncertainties of their own situation. Members of the EC are provided Employment Agreements. |
| Car Allowance | Monthly car allowance of $633.83, grossed-up for anticipated taxes. |
| Country Club Membership | The company provides to members of the Executive Council a membership in a country club which includes the payment of the initiation fee and the monthly dues. Business expenses are reimbursed. |
| Financial/Legal Services | Executive Council members are reimbursed up to $10,000 annually for their financial planning expenses, including associated preparation expenses and $10,000 for legal expenses. For other officers, the annual amount is $5,000 for financial planning expenses and $5,000 for legal expenses. |
| Vacation | Officers are provided with a minimum of 4-weeks of vacation annually. |

## Other Basic Benefits

| | |
|---|---|
| Medical/Dental<br>Life Insurance/AD&D<br>Pension<br>401(k) Savings Plan | Sick Leave<br>Short-Term Disability<br>Long-Term Disability |



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## History of Executive Salary Continuation Plan

In 1981, the company instituted a nonqualified Salary Continuation Plan for certain executives. The Plan provided three benefits:

- Pre-retirement survivor benefit equal to 50% of base salary payable for 180 months, offset by pension benefits;
- Supplemental executive retirement program (SERP) paying 50% of final 3-years average salary at age 62 to 56% of final 3-years average salary at age 65, payable for life with 15 years certain, also offset by pension benefits; and
- A disability income benefit equal to the benefit which would have been paid at 65, offset by pension benefits.

Nine officers were originally selected to participate. Expanded to 13 in 1985.



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# History of Executive Salary Continuation Plan

- In 1991 the Plan was amended to include all officers of the company with the same benefit structure, except for John Hayes' benefit being 60% at age 61. Life insurance policies were taken out for all participants as well as for several former officers who had employment/separation agreements for certain benefits.
- The program was revised in March, 1995 following an executive compensation study. The revised plan included the following features:
  - Total cash compensation instead of base salary;
  - Retirement benefits from 50% at or below age 50 to 61.7% at age 65;
  - Graded vesting starting with 10% after 6-years to 100% after 15-years service;
  - Early retirement reductions for commencement prior to age 60;
  - Establishment of a rabbi trust to pay benefits using single premium annuity contracts funded at retirement or change in control.



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## *History of Executive Salary Continuation Plan*

- The Plan has been amended twice since 1995. In 1996, a change in control provision was added to provide benefits in the event of a change in control as if the participant were 65 years of age for purposes of determining the retirement benefit and vesting.
- The latest amendment revised the definition of compensation to include stock compensation (RSUs) under the Executive Stock for Compensation program in addition to cash compensation, effective April 1, 1999.
- Today, there are 14 officers of the company covered by the provisions of the Plan.



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## Change in Control/Employment Agreements History

- Change in Control agreements were approved by the Board in 1994. These agreements were provided to all officers.
- Benefits were paid upon a "double trigger"
  - Change in control of the ownership of the company;
  - Following a change in control, if there was an adverse change in officer's status or position; reduction in compensation; change in benefits or other adverse change.
- Benefits Payable
  - 2.99x final 3-years base salary and average bonus for EC;
  - 2x final 3-years base and average bonus for other officers and a select group of employees.



Western Resources

## Change in Control/Employment Agreements History

- Revisions to Change in Control Agreements in 2000
  - For members of the Executive Council (EC)
    - Employment Agreements containing change in control provisions;
    - For EC, the agreements are single-trigger requiring only a change in control.
  - Benefits for EC
    - 2.99x the base amount and bonus amount;
    - Continuation of health and welfare benefits, and financial and legal counseling services for 3-years;
    - Payment for outplacement services;
    - Relocation assistance;
    - Gross-up for excise tax.
  - Employment Agreements similar to this utilized by more than 65% of peer group



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# Change in Control/Employment Agreements History

- For other 12 officers
  - Double trigger change in control agreements requiring a change in control plus a change in circumstances.
    - -Reduction in salary by more than 10%;
    - -Change in benefits;
    - -Relocation of more than 75 miles.
- Benefits
  - 2x base amount and bonus amount;
  - Continuation of health and welfare benefits, and financial and legal counseling services for 2-years;
  - Payment for outplacement services.



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# Long-Term Incentive Program

- In January, 1991, a performance share long-term incentive plan was implemented for the CEO and direct reports. Each January, performance shares equivalent to 10% of each executive's base salary were established in an account. These shares were distributed after three years based on a proportion determined by the measures shown below. The maximum payout was equal to 110% of the original number of shares. Distribution was in the form of cash based on a "phantom stock" plan. Participants were eligible for cash dividend equivalents on all performance shares.

| Measure | Weight |
|---|---|
| Actual EPS Compared to Budgeted EPS | 35% |
| Stock Price Appreciation Compared to S&P Electric Index | 35% |
| Average of Individual Performance Ratings Over Three Years | 30% |

Western Resources®

# Long-Term Incentive Program

- Long-Term Incentive and Share Award Plan
  - In January, 1996, the company implemented a Long-Term Incentive and Share Award Plan. This plan reserves a number of shares for issuance in connection with awards for stock options, restricted shares and restricted share units, and specifies general terms under which these awards are granted
- Stock Options
  - July, 1996 - Stock options were first granted effective July, 1996, to employees in Grade C (middle management) and above, including officers (approximately 100 officers and employees). Options vested when the stock price had appreciated at least 20% for 30 consecutive trading days (but no sooner than the third anniversary) or on the ninth anniversary of the grant. The grant expired on the tenth anniversary. A dividend equivalent was granted for each option granted to an employee.
  - Options were granted in 1996 through 2000.



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# Long-Term Incentive Program

- Stock Options, cont'd.
  - May, 1998 - The stock option plan as described above was extended to all non-bargaining unit employees.
  - May, 2000 - All active Western Resources employees were given the opportunity to convert previously granted stock options to Restricted Share Units of comparable value. These converted RSUs would vest one-third in May, 2001, May, 2002, and May, 2003. Accumulated DERs were included in the determination of stock option value and thus were converted to RSUs. Future DERs stemming from the RSUs would be paid in cash, or deferred in the form of RSUs if so elected by the employees (Grade C and above only). This resulted in a one-time savings of $4.9 million and an ongoing savings of $500,000 in 2001 increasing each year.



Western Resources

# Long-Term Incentive Program

- Restricted Shares
  - May, 1998 - Restricted Shares were granted to members of the Executive Council. These shares vested when two hurdles were met: 1) the participant completed at least four years of continuous employment after the grant (excepting terminations due to death, disability, or retirement) and, 2) the stock price appreciated at least 20% above the grant price for 30 consecutive trading days. The restricted shares were forfeited if either of these hurdles had not been met by the expiration date.
  - Participants were allowed to take the dividends in cash, or to reinvest in shares at the same discounted rate available through the Direct Stock Purchase Plan for shareholders.



Western Resources

# Long-Term Incentive Program

- Restricted Shares, cont'd.
  - June, 1999 - Restricted Share Units were granted to members of the EC that required employees to continue employment through the first four years after the grant (except in the event of death, disability or retirement). At that point the RSUs are vested and would be distributed on the earliest of the ninth anniversary or the date the stock price appreciated above the grant price for at least 30 consecutive trading days.
  - Participants were given the opportunity to replace previous restricted share grants with restricted share unit grants under these terms.
  - In 2000, restricted share units were granted to all non-union employees. These RSUs vest at the end of four years. Additionally, for employees in Grade C and above, the share price must appreciate 20% for 30 consecutive trading days for vesting to occur. In no event would the RSUs be distributed later than the ninth anniversary.

Western Resources

# Short-Term Incentive Program

- January, 1990 - A short-term incentive plan was first implemented with participation restricted to the CEO and officers reporting directly to the CEO. Each participant had an incentive target of 20% and an incentive maximum of 24%, which could be achieved when financial measures exceeded budgeted performance by at least 10%.
  - The plan used three measures:
    - Financial (50%)
    - Individual (30%)
    - Discretionary (20%)



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# Short-Term Incentive Program

- January, 1991 - The plan was extended to other officers and to non-officer employees in Grades C and above. The incentive targets were raised or established as shown in the table below. The weights associated with each of the three measures varied based on organizational level.

Weights

| Org. Level | Incentive Target | Financial | Individual | Discretionary |
|---|---|---|---|---|
| CEO | 35% | 50% | 30% | 20% |
| Direct Reports | 30% | 50% | 30% | 20% |
| EVP | 20% | 50% | 30% | 20% |
| Other Officers | 10% | 40% | 40% | 20% |
| C & above | 5% | 30% | 50% | 20% |



Western Resources

# Short-Term Incentive Program

- January, 1996 - The weight associated with the financial measure was equally split into two separate measures: 1) EPS relative to budget and, 2) Stock Price Appreciation relative to a peer group. The peer group was defined as the Standard and Poor's Electric Utility Index. This second measure provided for no payout where WR price appreciation was less than or equal to the index growth with the maximum payout achieved where WR appreciation was at least 10% above the index growth.
- Incentive targets were adjusted as follows based on market study:

| Grade | Incentive Target | Incentive Maximum |
|---|---|---|
| 1 | 43% | 51% |
| 2-7 | 35% | 46% |
| 8 | 25% | 32% |
| 9-11 | 15% | 21% |
| 30 & above | 8% | 11% |



Western Resources

# Short-Term Incentive Program

- January, 1997 - The payout curve was modified for each of the two financial measures. They were designed with a threshold of 90% of budgeted performance and a straight-line payout curve that earned the targeted incentive for each 10% (of budgeted performance) achieved above the threshold. Target incentives were also increased, based on a market analysis, as shown below based on a review of the market:

| Grade | Incentive Target |
|---|---|
| 1-2 | 60% |
| 3-7 | 55% |
| 8 | 40% |
| 9-11 | 30% |
| 30 & above | 15% |



Western Resources

## Short-Term Incentive Program

- The peer group was also changed at this time to reflect a specific set of companies considered to be more representative of Western Resources than a general index.
- January, 1998 - The plan was modified to create a better alignment between participants in the Generation, Distribution, Customer Service, and Shared Services business units. Where applicable, new measures were created to address customer service and safety issues, and the stock appreciation measure was replaced with a measure based on business unit SVA (actual versus budget). Incentive targets for officers were increased to better reflect labor market averages. The following tables show the targets and the applicable weights associated with each measure.



Western Resources

# Short-Term Incentive Program

## Western Resources (Corporate)

Component Measure Weights

| Unit/ Grades | Incentive Target % of Base | WR EPS | Stock Appr. | BU SVA | Safety | Cust. Service | Individual |
|---|---|---|---|---|---|---|---|
| 1-2 | 80% | 40% | 40% | | | | 20% |
| 3-7 | 60% | 40% | 40% | | | | 20% |
| 8 | 45% | 35% | 35% | | | | 30% |
| 9-11 | 30% | 30% | 30% | | | | 40% |
| A-C | 15% | 25% | 25% | | | | 50% |

## Generation

Component Measure Weights

| Unit/ Grades | Incentive Target % of Base | WR EPS | Stock Appr. | BU SVA | Safety | Cust. Service | Individual |
|---|---|---|---|---|---|---|---|
| 8 | 45% | 10% | | 30% | 10% | | 50% |
| 9-11 | 30% | 10% | | 30% | 10% | | 50% |
| A-C | 15% | 7% | | 20% | 7% | | 66% |



Western Resources

# Short-Term Incentive Program

## Distribution/Customer Service

Component Measure Weights

| Unit/ Grades | Incentive Target % of Base | WR EPS | Stock Appr. | BU SVA | Safety | Cust. Service | Individual |
|---|---|---|---|---|---|---|---|
| 8 | 45% | 10% | | 20% | 10% | 10% | 50% |
| 9-11 | 30% | 10% | | 20% | 10% | 10% | 50% |
| A-C | 15% | 7% | | 13% | 7% | 7% | 66% |

## Shared Services

Component Measure Weights

| Unit/ Grades | Incentive Target % of Base | WR EPS | Stock Appr. | BU SVA | Safety | Cust. Service | Individual |
|---|---|---|---|---|---|---|---|
| 8 | 45% | 10% | | 30% | | 10% | 50% |
| 9-11 | 30% | 10% | | 30% | | 10% | 50% |
| A-C | 15% | 7% | | 20% | | 7% | 66% |



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# Short-Term Incentive Program

- January, 1999 - Incentive targets for officers were increased to better reflect labor market rates. Measures were left unchanged. The new incentive targets are shown below:

| Grade | Incentive Target |
|---|---|
| 1 | 90% |
| 4-5 | 80% |
| 6-7 | 70% |
| 8 | 50% |
| 9-11 | 35% |
| C & above | 15% |



Western Resources

# Annual Review Process

- Each year, the Human Resources Committee receives a report from an outside human resources consulting firm -- Resources Connection of Houston, Texas.
- The report provides detailed market analysis of base salary, short-term incentive targets and long-term incentives compared to other companies.
- The Human Resources Committee will be reviewing recommendations for 2001 in May.



Western Resources