



DOUGLAS T. LAKE
Executive Vice President
and Chief Strategic Officer

March 11, 2002

Sent via Federal Express

Mr. Brent M. Longnecker
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Spring, TX 77379

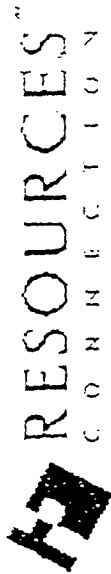
RE: Compensation Report

Dear Brent:

David asked me to forward his markup of your June 2001 report.

Sincerely,

DTL/kb
Enclosure



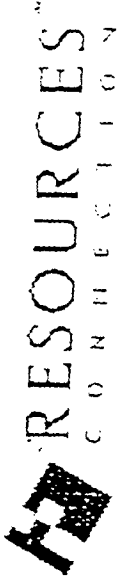
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WESTERN RESOURCES, Inc.

Report on
Executive Compensation

June 5, 2001

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This report was prepared by:

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Note: This report is incomplete as a matter of record without
the accompanying oral comments.

Human Capital Consulting

Table of Contents

WELLS FARGO BANK, N.A.

I. Executive Summary	4
II. Overview	7
III. Compensation Philosophy	9
IV. Data Sources	11
V. Base Salary Analysis	15
VI. Annual Incentive Analysis	19
VII. Long-Term Incentive Analysis	23
VIII. Total Direct Compensation Analysis	34

I. Executive
Summary

Executive Summary

BASE SALARY AND LONG TERM INCENTIVES WILL BE REVIEWED BY 2007

- In summary, the findings and recommendations are as follows:
 - » Base Salary - ~~no~~ ^{slightly} adjustments would be in order, but we anticipate no adjustments will be made in 2002.
 - Adjustments in the aggregate of 2.6% are recommended for Executive Committee members at this time. Aggregate salary adjustments for the Non-Executive Committee members was 3%
 - » Annual Incentives
 - No changes to the structure of the program or the targeted award levels
 - » Long-Term Incentives
 - Management's recommendation to provide an aggregate increase of 25,579 restricted shares to the Executive Committee is within a reasonable range of competitiveness

II. Overview

Overview

- The objectives of this study were to determine market competitive executive compensation levels and make recommendations for the structure of WR's executive compensation package going forward
- Resources was asked to evaluate the competitiveness of WR's executive compensation program in relation to other similarly sized and positioned utility and home security organizations
- Recommendations have been made to ensure the Company maintains its ability to retain and compete for top talent with its counterparts
- The following positions were included in the executive compensation analysis:

Executive Name	Title
David Wittig	COB and CEO
Doug Lake	EVP - Chief Strategic Officer
Carl Koupal	EVP - Chief Administrative Officer
Tom Grennan	EVP - Electric Operations
Rick Terrill	EVP - General Counsel
Rita Sharpe	EVP - Shared Services

Wittig Harrison
 Lake Carpenter
 Koupal Brown
 Grennan Brown
 Terrill Brown
 Sharpe Brown

*III. Compensation
Philosophy*

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 with the 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

*IV. Data
Sources*

Data Sources

AES Corporation
Alliant Energy Corporation
Ameren Corporation
Cinergy
Citizens Utilities
CMS Energy Corporation+
Connectiv+
Constellation Energy Group
Dominion Resources
Energy East Corporation

Nisource Industries
NSTAR
Pittston Company
Potomac Electric Power Company
PPL Corporation
Sempra Energy
Teco Energy, Inc.
Utilicorp
Valero Energy
Wisconsin Energy Corporation

+The company has not yet filed its 2001 proxy statement.

Data Sources

- Published survey data was utilized for Rita Sharpe, EVP of Shared Services -- regression analysis allowed us to report compensation levels specifically for a company similar in size to WR
- Revenue size for utilities has historically had the highest statistically significant correlation to executive compensation levels
- The following published surveys were utilized for the EVP of Shared Services position in this study:
 - » Mercer's 2001 Finance, Accounting, and Legal Compensation Survey
 - » Mercer's 1999 Executive Compensation Survey
 - » Watson Wyatt 2000/2001ECS Top Management Report
- All of the data was updated to May 1, 2001 using average salary increases reported in WorldatWork's Total Salary Increase Budget Survey

V. Base Salary
Analysis

Base Salary Analysis

Salary Ranges

- Using generally accepted compensation planning principles, we determined a 70% salary range around the market midpoint
- The established ranges define a reasonable range of compensation

Ratio to Market

- The ratio of current to market compares an individual's current rate of pay to the market midpoint
 - » a ratio greater than 1.00 indicates an above market rate
 - » a ratio less than 1.00 indicates a below market rate

Base Salary Analysis

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- The following table illustrates the current base salary and the recommended base salary levels in comparison to the market:

Executive Name	Title	Current Base Salary	Recom. Base Salary	2001 Market			Ratio of Current to Market	Ratio of Recom. to Market
				Minimum	Midpoint	Maximum		
David Wittig	COB and CEO	\$743,600	\$743,600	\$565,073	\$762,848	\$960,623	0.97	0.97
Doug Lake	EVP - Chief Strategic Officer	\$427,900	\$459,200	\$305,804	\$412,835	\$519,866	1.04	1.11
Carl Koupal	EVP - Chief Administrative Officer	\$318,240	\$321,300	\$290,137	\$391,685	\$493,233	0.81	0.82
Tom Grennan	EVP - Electric Operations	\$241,500	\$244,800	\$227,518	\$307,149	\$386,780	0.79	0.80
Rick Terrill	EVP - General Counsel	\$230,400	\$239,040	\$213,201	\$287,822	\$362,443	0.80	0.83
Rita Sharpe	EVP - Shared Services	\$182,330	\$191,730	\$165,761	\$223,777	\$281,793	0.81	0.86
Average				0.90	0.92			

Base Salary Analysis

- Overall, WR is compensating its executive team slightly below the market midpoint; however, all of the executives are being compensated within the range of reasonableness
- Resources recommends implementing the recommended salary increases for the executives to align base salaries with the external market as detailed in the Company's compensation philosophy

*VI. Annual Incentive
Analysis*

Annual Incentive Analysis

- Utilizing data collected from peer company proxy statements combined with published survey data, Resources determined market competitive targeted annual incentive award levels
- Targeted award levels will only be obtained if targeted performance levels are met

Annual Incentive Analysis

- Targeted annual incentive award opportunities have been assessed and no recommendations are made for increases
- Overall total cash levels remain slightly below market due to already slightly below market base salaries. However, total cash levels are still within a reasonable range of competitiveness
- The following table details this year's market total cash levels (base salary plus targeted annual incentive award) and a ratio of the recommended current total cash to the market

Executive Name	Title	Recom.		Recom.		Recom.		2001 Market Midpoint	Market Targeted		2001 Market Total Cash	Ratio of Current to Market
		Base Salary	AI Award	Total Cash	AI Award	Total Cash	(%)		(\$'s)			
David Wittig	COB and CEO	\$743,600	90%	\$1,412,840	90%	\$686,563	\$1,449,411	\$762,848	90%	\$686,563	\$1,449,411	0.97
Doug Lake	EVP - Chief Strategic Officer	\$459,200	80%	\$826,560	80%	\$350,910	\$763,745	\$412,835	85%	\$350,910	\$763,745	1.08
Carl Koupal	EVP - Chief Administrative Officer	\$321,300	80%	\$578,340	80%	\$313,348	\$705,033	\$391,685	80%	\$313,348	\$705,033	0.82
Tom Grennan	EVP - Electric Operations	\$244,800	70%	\$416,160	70%	\$215,001	\$522,151	\$307,149	70%	\$215,001	\$522,151	0.80
Rick Terrill	EVP - General Counsel	\$239,040	70%	\$406,368	70%	\$187,081	\$474,906	\$287,822	65%	\$187,081	\$474,906	0.86
Rita Sharpe	EVP - Shared Services	\$191,700	70%	\$325,941	70%	\$134,266	\$158,043	\$223,777	60%	\$134,266	\$158,043	0.91

Average Targeted award level

90%

*VII. Long-Term Incentive
Analysis*

Long-Term Incentive Analysis

- Long-term incentives are designed to motivate and reward employees for the achievement of long-term corporate goals and to balance annual goals with strategic planning
- Long-term incentive plans offer capital accumulation potential for employees, align employee interests with those of shareholders, and reward long-term performance improvements
- The award opportunity should reflect the effort that will be required of employees to achieve the strategic goals of the organization and maintain competitiveness within the industry
- Equity based incentives are integral components of long-term executive compensation programs and have steadily grown in popularity over the last two decades
- This is primarily due to their ability to reward employees for their contributions toward increasing shareholder value

Long-Term Incentive Analysis

- Both restricted stock awards (RSAs) and stock options with dividend equivalent rights (DERs) have comprised the Company's long-term incentive awards in years 1998 and 1999
- In 2000, the Company elected to exchange all stock options in favor of RSAs because:
 - » The Company's recent stock price volatility has left the Company at risk from an attraction and retention standpoint
 - » RSAs (with stock price performance hurdles) ensured a strong link between employees and shareholders
 - » RSAs provided the Company with a significant advantage in attracting, motivating and retaining employees

Long-Term Incentive Analysis

- Because it is unknown when the performance objectives of the award will be met, the NPV was calculated over the 10-year life of the restricted stock
- In addition, because restricted stock is a full value award the current stock price of \$20.40 was utilized. The current stock price would also have been utilized had the stock appreciated over the \$24.20 stock price on the date of grant.

Long-Term Incentive Analysis

■ The following chart details the current market long-term incentive opportunity

Executive Name	Title	2001 LTI Value ¹	Market Midpoint	Market Targeted LTI Opportunity		Ratio of Current to Market
				(%)	(\$'s)	
David Witting	COO and CEO	\$2,815,148	\$762,848	42.5%	\$1,242,104	0.87
Doug Lake	EVP - Chief Strategic Officer	\$1,496,867	\$412,835	300%	\$1,238,505	1.21
Carl Koupal	EVP - Chief Administrative Officer	\$1,076,548	\$191,685	27.5%	\$1,077,134	1.00
Tom Greiman	EVP - Electric Operations	\$588,108	\$307,149	22.5%	\$691,085	0.85
Rick Terrill	EVP - General Counsel	\$818,216	\$287,822	22.5%	\$647,600	1.26
Rita Sharpe	EVP - Shared Services	\$456,867	\$221,777	200%	\$647,554	1.02

Average 0.99
¹ NPV calculated assuming WR's average 10 year appreciation of 4%, over the 116 month life of the restricted stock, in addition the NPV of the average dividend, resulting in a RSA value of \$18.59 and a dividend value of \$7.19

Long-Term Incentive Analysis

- Overall, WR's equity compensation component is at market; however, Doug Lake and Rick Terrill are slightly above market
- If current performance hurdles are met this year (15% appreciation in the stock price) the restrictions on the executive's restricted stock would lapse and the executives would realize an above market long-term incentive opportunity

Long-Term Incentive Analysis

- The chart on the following page details the current value of WR's 2001 awards compared to Resources' recommended long-term incentive gain objective
- In addition, we have calculated the number of restricted stock required to reach the recommended targeted long-term incentive gain objective less the value of the February 2001 grant (based on the current stock price of \$20.40 and the present value of dividends paid over a 4 year vesting period)

Long-Term Incentive Analysis

Assumptions:
 Current Stock Price \$20.40
 Annual Dividend \$1.20
 RSA Dividend Value \$1.42

Executive Name	Title	Recom. Base Salary	Gain Obj. Less Feb. Awards ¹	Value of Feb. 2001 Awards ¹	Shares Granted 02/08/2001	Market Number of RSAs	Recom. # of Shares Granted 2001	Management's Recom. Number of RSAs
David Wittig	COB and CEO	\$743,600	\$745,152	\$2,815,148	109,225	13,900	123,125	109,225
Doug Lake	EVP - Chief Strategic Officer	\$459,200	\$110,333	\$1,496,867	58,077	4,400	62,477	64,600
Carl Koupal	EVP - Chief Administrative Officer	\$321,300	-\$32,323	\$1,076,548	41,769	-1,300	40,469	41,769
Tom Gennan	EVP - Electric Operations	\$244,800	\$85,092	\$588,108	22,818	3,400	26,218	29,400
Rick Terrill	EVP - General Counsel	\$239,040	-\$41,336	\$818,216	31,746	-1,700	30,046	31,746
Rita Sharpe	EVP - Shared Services	\$191,730	-\$25,475	\$156,867	17,726	-1,000	16,726	22,600
Jim Martin	SVP - Finance and Treasurer							REDACTED
Total					281,361	17,700	299,061	316,540

¹ NPV calculated assuming WIR's average 10-year appreciation of 4% over the 116-month life of the restricted stock, in addition the NPV of the average dividend, resulting in a RSA value of \$18.59 and a dividend value of \$7.19

Long-Term Incentive Analysis

- Resources recommends that an aggregate 299,061 restricted shares be granted to the members of the Executive Committee. To date 281,361 restricted shares have been granted. The remaining pool of 17,700 restricted shares required to meet the aggregate gain objective for the executives should be divided amongst the executives as performance, motivation and retention issues warrant.
- It is not uncommon under generally accepted compensation philosophy for the Chief Executive Officer or Chairman of the Board of Directors to allocate respective compensation components based upon an individual's contribution to the Company

Long-Term Incentive Analysis

PARSONS BRINCKERHOFF COMPANY

- The recommended percentages and shares indicated in the table are intended to provide fully qualified and tenured executives a targeted total direct compensation level that is within a reasonable range of competitiveness

*VIII. Total Direct
Compensation Analysis*

Total Direct Compensation Analysis

■ The following chart details this year's market total direct compensation (base salary plus annual incentive plus long-term incentive)

Executive Name	Title	Current Total Direct Compensation	2001 Market			Ratio of Current to Market
			Base Salary	Annual Incentive	Long-Term Incentive	
David Wittig	COB and CEO	\$4,208,082	\$762,848	\$686,563	\$3,242,104	0.90
Doug Lake	EVP - Chief Strategic Officer	\$2,256,503	\$412,835	\$350,910	\$1,238,505	1.13
Carl Koupal	EVP - Chief Administrative Officer	\$1,641,768	\$391,685	\$313,348	\$1,077,134	0.92
Tom Grennan	EVP - Electric Operations	\$994,499	\$307,149	\$215,004	\$691,085	0.82
Rick Terill	EVP - General Counsel	\$1,204,111	\$287,822	\$187,084	\$647,600	1.07
Rita Shampe	EVP - Shared Services	\$763,598	\$223,777	\$134,266	\$447,554	0.95
Average						0.95

0.95

Total Direct Compensation Analysis

- Overall, current total direct compensation levels are slightly below market levels; however, Doug Lake and Rick Terrill are being compensated slightly above market levels, but they are still within a range of competitiveness / reasonableness
- It is important to note that the achievement of these compensation levels is highly dependent upon Company performance and the performance of the Company's stock

Total Direct Compensation Analysis

- The following chart illustrates the recommended total direct compensation levels for WR's executive officers as compared to the market

Executive Name	Title	Market Total Direct Compensation ¹	2001 Recommended				Ratio of Market to Rec.com.
			Base Salary	Annual Incentive	Long-Term Incentive	Total Direct Compensation	
David Wittig	COB and CEO	\$4,691,515	\$743,600	\$669,240	\$3,160,300	\$4,571,140	1.03
Doug Lake	EVP - Chief Strategic Officer	\$2,002,250	\$459,200	\$367,360	\$1,607,200	\$2,433,760	0.82
Carl Koupal	EVP - Chief Administrative Officer	\$1,782,167	\$321,300	\$257,040	\$1,044,225	\$1,622,565	1.10
Tom Gennan	EVP - Electric Operations	\$1,213,239	\$244,800	\$171,360	\$673,200	\$1,089,360	1.11
Rick Terrill	EVP - General Counsel	\$1,122,506	\$239,040	\$167,328	\$776,880	\$1,183,248	0.95
Rita Sharpe	EVP - Shared Services	\$805,597	\$191,730	\$134,211	\$431,393	\$757,334	1.06

Average

1.00

¹ This is the 2001 market value

Total Direct Compensation Analysis

- The ratio of market to recommended compares an individual's market total direct compensation opportunity to Resources recommended total direct compensation opportunity. Because the recommended values are being compared to the market:
 - » a ratio greater than 1.00 indicates a below market rate
 - » a ratio less than 1.00 indicates an above market rate
- Our recommendations include the following:
 - » Base salary – increase to recommended levels
 - » Annual Incentives – maintain current targeted award levels
 - » Long-term Incentives – implement the recommended targeted gain opportunities which are within a range of competitiveness and provide the remaining aggregate RSAs to be allocated by the Chief Executive Officer / Chairman of the Board