

WESTERN RESOURCES, INC.  
BOARD OF DIRECTORS  
SEPTEMBER 17, 1998  
10:30 A.M.

A Special Meeting of the Board of Directors of Western Resources, Inc. (the "Company") was held at the General Offices of the Company, Topeka, Kansas on September 17, 1998 at 10:30 a.m.

All members of the Board of Directors were present, with the exception of Mr. John C. Dicus. Chairman John E. Hayes, Jr., presided over the meeting. Secretary, Richard D. Terrill acted as secretary of the meeting.

The Chairman called on Mr. David C. Wittig, President and Chief Executive Officer of the Company, who reviewed proposed unbudgeted capital expenditures. Mr. Wittig called on Mr. Thomas L. Grennan, Senior Vice President, Electric Operations, who reviewed the proposed expenditures for spare step-up transformers, combustion turbines and repair to the Lawrence Energy Center.

Whereupon, upon motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED, that unbudgeted expenditures in the amount of approximately \$7 million relating to the acquisition of spare step-up transformers, be, and hereby are approved; and further

RESOLVED, that unbudgeted expenditures in the amount of approximately \$125 million relating to the acquisition of peaking capacity combustion turbines to be utilized in 2000 and 2001, be, and hereby are approved; and further

RESOLVED, that unbudgeted expenditures in the amount of approximately \$1.5 million relating to repairs at Lawrence Energy Center, be, and hereby are approved; and further

RESOLVED, that, without limiting any of the foregoing, each of the officers of the Company be, and each of them hereby is, authorized, directed and empowered to take any and all other actions and to execute, deliver, perform or file all such agreements, instruments and documents as he or she may deem necessary, convenient, advisable or appropriate in order to give effect to the intent of these resolutions and that the execution by any such officers of any such agreement, instrument or document or the doing by any of them of any act in connection with the

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foregoing matters shall establish conclusively their authority therefor from the Company and the approval and ratification by the Company of such agreement, instrument or document and the actions so taken; and that any and all actions heretofore taken, and any and all things heretofore done by any officer or director of the Company in furtherance of and consistent with the matters authorized by the foregoing resolutions be, and hereby are, ratified, approved and confirmed as authorized and valid acts taken on behalf of the Company.

There being no further business to come before the meeting, it was duly adjourned.

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Richard D. Terrill  
Secretary

## ELECTRIC OPERATIONS

### FACILITIES MANAGEMENT

#### 800 Kansas Avenue Remodeling Project

The remodeling of the 800 Kansas Avenue facility began in May 1997. This project consisted of rehabbing the parking structure and converting the old Dillard's department store into a first class office building for company use. We are currently on schedule to open the parking structure by November 1, 1998. The build-out of the interior space is currently underway. We anticipate the completion of the lower level by December 1, 1998, to accommodate our employees from the Santa Fe building. The remaining space will be completed by April 1, 1999, and will accommodate the Western Resources executive offices, a wellness center, and other company operations.

### GENERATION SERVICES

#### Coal-Fired Plants

##### Lawrence Energy Center

Rewind of the Lawrence Unit 5 generator is underway. Fifteen of the 60 coils have been installed. All materials are on site. The project will be complete October 16, 1998. Total cost of the rewind is \$4.0 million. Western's responsibility (insurance deductible plus betterment's) is \$1.4 million.

##### Jeffrey Energy Center

Jeffrey Energy Center performed very well this summer, fully utilizing the equipment upgrades and continued plant investments. During June, July, and August, the plant generated over 3,658,000 MWh (76% capacity factor) and burned 2,319,000 tons of coal.

#### Gas-Fired Plants

##### Neosho Energy Center - (67 MW)

Work on the restart of Neosho Unit 3 has begun. The limited on-site staff is in the process of removal of the mothballing systems and prove-out of the plant systems. We plan to return the unit to operation no later than June 1, 1999.

#### Power Plant Construction and Maintenance

##### Integrated Work Management System (Synergen)

Implementation of the Synergen work management system at the energy centers is proceeding. The conversion to an integrated work management system is expected to provide a five percent improvement in productivity of the maintenance crews. In addition, the benefits of true activity based costing and immediate feedback of costs incurred are expected to improve the ability of the plants to operate in a competitive environment.

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### **Training and Risk Management**

#### **OSHA Abatement Issues-Lawrence 5 November 24, 1997, Accident**

Abatement items as agreed to with OSHA in the June 11, 1998, "Informal Settlement Agreement" are progressing either on or ahead of schedule. Items include: a site specific job hazard analysis on medium voltage switchgear, training on personal protection equipment, minimum approach distances for energized equipment, and pre-job briefings.

### **Fuels**

#### **Railroad Service Status**

Western railroad service problems have shown considerable improvement. WR coal inventories were maintained at around 40 days of inventory during the summer high usage periods. Continued improvement by the railroads will allow inventories to be returned to normal this fall in time for outage and winter demand increases. Inventories for Lawrence and Tecumseh have been impacted by the Lawrence Unit 5 generator outage, whereas burns at Tecumseh have been concentrated at reducing coal in inventory.

### **Production Support**

#### **Wind Turbines**

The selected site location for the wind turbine demonstration units is the northeast corner of the Jeffrey Energy Center plant property. A Request For Proposal for the wind turbines is anticipated to be completed this September. The demonstration site will contain two wind turbine units, for a total capacity of approximately 1.5 MW.

#### **Combustion Turbines**

A letter of intent to purchase the first of two 80 MW combustion turbine units has been executed. The units will be located at the Gordon Evans Energy Center northwest of Wichita. Commercial operation is scheduled to commence by June 1, 2000. An additional commitment to 160 MW in year 2001 is expected to be completed yet this month.

#### **Climate challenger Program**

As a participant in the Climate Challenger program with the U.S. Department of Energy, WR has agreed to annually report greenhouse gas emissions and corresponding greenhouse gas emission reductions. In July, WR reported carbon dioxide emission reduction, or sequestration activities, which reduced the emission of greenhouse gases by more than 1 million metric tons in 1997.

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ADMINISTRATION  
September 30, 1998

I. GOVERNMENT AFFAIRS

KANSAS

Legislative Announcements

Senator Keith Schraad of Overland Park, Kansas, has announced he will resign his position as senator to pursue business opportunities in Atlanta, Georgia. He will wait until mid-October before officially resigning to allow for committee personnel to appoint a successor.

Two long-standing House members, Rep. Herman Dillon of Kansas City, Kansas, and Gene Shore of Johnson, Kansas, were upset in their August primary races. Dillon's replacement will be Rick Rehorn, a lawyer and son of a former state senator. Bill Light of Rolla, Kansas, defeated Shore and has a general election opponent; however, he is expected to prevail.

This is not an election year for the Kansas Senate. However, there are two republican senators who are filling unexpired terms that are now up for election (Senator Les Donovan of Wichita and Senator Ed Pugh of Wamego). Both are expecting tough campaigns from two qualified democrats.

Retail Wheeling

The Joint Interim Assessment and Taxation Committee has held two meetings receiving testimony on retail wheeling tax issues from the Department of Revenue, Western Resources, the League of Municipalities, and a representative from NCSL. Western Resources provided information on franchise fees, explained how taxes and fees paid by Western Resources exceed our electric operating income, how taxes account for about 20% of customer bills, and how incumbent utilities require fundamental tax policy changes to compete in a retail wheeling environment. Several more meetings are scheduled through the fall.

MISSOURI

The joint interim committee of legislators studying retail wheeling met on August 25 and 26, 1998, to review the final report of the Task Force on Retail Wheeling Competition as established by the Missouri Public Service Commission.

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The task force committee reviewed their findings in detail as published for the following areas:

- Market structure and market power
- Stranded Cost
- Reliability
- Public interest
- Legal
- Taxation

The overall sentiment of the interim committee seems to be that it is still too early to attempt to pass legislation in Missouri although some legislation may be introduced in the 1999 session for education purposes.

## CONGRESS AND THE ADMINISTRATION

### Retail Wheeling/Electric Restructuring

A host of bills on electric restructuring has been introduced in the House and Senate during the 105th Congress. The most recent, S. 2187, was introduced by Senator Don Nickles (R-OK) to prevent states from enforcing an exclusive franchise for any utility to sell electricity in that state. S. 2287, the Administration's legislative proposal, was introduced by request, and H.R. 4432 was introduced in the House by Tom Delay (R-TX) and Ed Markey (D-MA) to address reliability issues and require ISOs and mandatory divestiture. Although each bill deals with stranded costs, state control, and date of enactment differently, none of these bills are expected to pass Congress this year. In addition, not a single member of the Kansas or Missouri delegation has co-sponsored any of the above-mentioned bills.

Rep. Tom Bliley (R-VA), Chairman of the House Commerce Committee, who was trying to push a bill through this year, has now conceded that this is impossible and has announced his intention to "hit the ground running" on restructuring next year in the 106th Congress. It seems very unlikely that a bill will make it all the way to the President's desk for signature this year.

### Nuclear Waste Plan

Efforts to pass nuclear waste legislation ground to a halt just before the August congressional recess. Neither the House nor the Senate plan any further action on the issue this year. Efforts will likely begin again next congress to pass some sort of legislative solution to the DOE's delay in accepting nuclear waste.

## Environment

Several industry-friendly provisions on issues such as regional haze, ozone, and mercury were included in the House VA/HUD appropriations bill which funds EPA. This legislation has passed both houses of congress and will be in conference this month.

Senate Majority Leader Trent Lott has announced that, given the tight schedule for the rest of the congress, no further action will take place on a RCRA remediation reform bill. Work will resume on this issue next year.

A hearing is scheduled on mercury in the Subcommittee on Clean Air, Wetlands, Private Property, and Nuclear Safety of the Senate Environment Committee. This hearing was promised to Senator Leahy in exchange for his agreement not to offer his mercury amendment to the VA/HUD appropriations bill.

## II. REGULATORY AFFAIRS

### Merger Proceedings

We filed our amended merger applications at the KCC and the MPSC June 17, 1998, based on the restructured merger agreement. The major revisions dealt with describing the revised merger agreement and our proposed state regulatory plans. The KCC has approved a procedural schedule with hearings being held in February of 1999. The MPSC procedural schedule, depending on the timing of staff's review of KCPL's earnings, would have merger hearings in either May or June of 1999.

Data requests from the KCC and MPSC staffs and from intervenors in the state merger proceedings have increased. As of September 15, the KCC has issued 165 data requests, the MPSC 83, and intervenors 170.

We filed our amended merger application at FERC August 7. FERC staff sent us a letter August 24 asking us to update our wholesale market power analysis in light of several events which have occurred since our original filing. These events include the implementation of several power pools, system-wide transmission tariffs, the announcement of other mergers, recent price spikes in the Midwest for wholesale power, and reduction in membership in the Southwest Power Pool. The information and analysis staff has requested is extensive and time consuming, and we are in the process of completing the additional work.

### Electric Case Remand

The KCC issued an order July 24 approving without exception the rate design we proposed for our electric rate reductions case. Rate design involves how rate reductions are divided among various classes of customers, not the overall amount of

rate reductions. Farmland Industries and counsel representing several of our industrial customers appealed to the KCC for reconsideration of its order. The KCC subsequently upheld its original ruling and Farmland's next step may be an appeal at the Court of Appeals.

#### Midwest Price Spike

We attended an informal FERC hearing near Chicago August 14 to take testimony on circumstances surrounding the wholesale electricity market during the week of June 22. Many thousands of megawatts of generation capacity were out of service in the Midwest and there was an extended period of hot, humid weather driving demand to high levels. Market participants were forced to purchase power to meet demand in an extremely volatile market and at unprecedented prices. FERC staff also sent out a data request to many Midwest utilities, including Western Resources, to provide wholesale purchasing and selling information during the period of price spikes. We have provided the information. FERC staff is expected to issue an opinion concerning the price volatility in late September.

#### Farmland Complaint

Farmland Industries, one of our industrial customers taking service from KGE under a special interruptible contract, filed a complaint July 21 after we had interrupted service several times this summer during peak load conditions. In our August 10 response to the KCC, we explained that Farmland's service was interrupted in compliance with its special contract. To date we have responded to all of the KCC staff's data requests regarding this complaint and have asked the KCC to establish a procedural schedule to dispose of the complaint.

#### Notice of Probable Noncompliance - Line Clearance

On June 8, following an incident near Leavenworth involving a grain bin coming into contact with an electric line, the KCC issued a notice of probable noncompliance with the Commission's Wire-Stringing Rules. The notice alleges that the clearance of a distribution line did not meet minimum clearance. The line in question was damaged by the contact May 16. Our position is that due to line and pole damage it is not possible to know with certainty the line clearance prior to the time of the contact. KCC's staff has requested additional information as a follow-up to the company's formal response of July 8.



RICHARD D. TERRILL  
Vice President, Law  
and Corporate Secretary

September 25, 1998

To: Frank J. Becker  
C. Q. Chandler  
Thomas R. Clevenger  
John C. Dicus  
David H. Hughes  
Russell W. Meyer, Jr.  
Louis W. Smith

Re: Board of Directors Meeting  
September 30, 1998, 10:00 A.M.

Members of the Board:

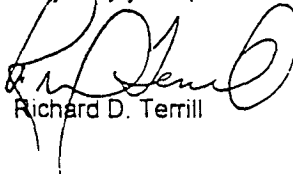
Enclosed is a tentative agenda for the September 30, 1998, Board meeting and draft minutes of the July 15, August 27, and September 17, 1998, Board meetings.

Also enclosed are Board materials that will be discussed at the upcoming meeting.

It is my understanding that travel arrangements have been made for those requiring them.

If you have questions or comments, please call me at your convenience.

Very truly yours,



Richard D. Terrill

RDT/rp  
Enclosure

cc: John Hayes, Jr.  
David C. Wittig

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WESTERN RESOURCES, INC.  
BOARD OF DIRECTORS

SEPTEMBER 30, 1998 - 10:00 A.M.

AGENDA

1. Approval of minutes for July 15, 1998, August 27, 1998  
and September 17, 1998 Board of Directors Meetings. Motion/Exhibit
2. Business unit presentations.
  - a) Functional Reorganization - David C. Wittig
  - b) Electric Business Unit Performance
    1. Operations - Thomas L. Grennan
    2. Regulatory - Wayne A. Kitchen
    3. Public Relations - Carl M. Koupal, Jr.
  - c) Wolf Creek Operations - Otto L. Maynard
  - d) Security Business Performance - James M. Mackenzie, Jr.
  - e) Consolidated Corporate Performance - William B. Moore
  - f) Litigation Report - Richard D. Terrill
  - g) Administration - Carl M. Koupal, Jr.
  - h) Business Opportunities - Douglas T. Lake
3. Report of Audit & Finance Committee.
4. Appointment of Officers. Motion/Exhibit
5. Consideration of testimonial resolution. Motion/Exhibit
6. Chief Executive Officer's Comments.
7. Adjournment, next regular Board Meeting on November 18, 1998.

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### III. CORPORATE COMMUNICATIONS

#### KGE Petition Drive - Background

In late July, Mayor Bob Knight, Wichita, announced the launch of a petition drive for KGE customers to protest KGE's electric rates.

Mayor Knight said he wanted to put pressure on utility company executives and state officials who regulate utilities to overhaul the rate structures so that KGE customers pay no more than KPL customers. He has indicated his intent to deliver these petitions to the legislature and/or the KCC and intervene in the KCPL merger docket.

In a recent *Manhattan Mercury* story, Knight said, "it's time Western Resources reflects on the fact that it's one company, not two, and certainly not three."

#### Facts

Rates for KGE and KPL customers are based on the cost of providing service, including the construction and operating expenses of power plants. The rate difference exists principally because of KGE's 47 percent share of the construction of Wolf Creek Generating Station, which was built as a base load plant for KGE customers. KPL customers do not use Wolf Creek power and pay approximately 28 percent less than KGE customers.

In addition, in the 1992 merger agreement between KPL and KGE, both companies were to be held as "separate and distinct bodies" for rate purposes.

#### Strategy

Since the July announcement, there have been numerous media reports containing erroneous and misleading information. Our challenges are to respond proactively without being defensive and to educate employees, media, and opinion leaders regarding the facts.

We have been meeting with community and legislative leaders, our employees, and speaking to community organizations as requested. Our strategy is to remind these groups that KGE has initiated reductions to rates exceeding \$88 million since 1992; KGE rates today are below the national average; and explain the method of rates being based on the cost of service.