Exhibit No.:	
Issues:	Merger Savings
Witness:	Thomas J. Flaherty
Sponsoring Party:	Western Resources, Inc. and Kansas City Power & Light Company
Type of Exhibit:	Direct Testimony
Case No.:	

IN THE MATTER OF THE

MERGER APPLICATION OF

WESTERN RESOURCES, INC. AND

KANSAS CITY POWER & LIGHT COMPANY

DIRECT TESTIMONY

OF

THOMAS J. FLAHERTY

WESTERN RESOURCES, INC.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

DIRECT TESTIMONY
OF
THOMAS J. FLAHERTY

DELOITTE & TOUCHE CONSULTING GROUP

CASE NO. ____________

Q. WOULD YOU PLEASE STATE YOUR NAME AND BY WHOM YOU ARE EMPLOYED?

A. My name is Thomas J. Flaherty and I am a National Partner - Utilities Consulting of Deloitte & Touche Consulting Group, a subsidiary of Deloitte & Touche LLC. My business address is 2200 Ross Avenue, Suite 1600, Dallas, Texas 75201.

Q. WOULD YOU BRIEFLY SUMMARIZE YOUR ACADEMIC AND PROFESSIONAL BACKGROUND?

A. I graduated from the University of Oklahoma with a B.B.A. degree in Accounting and immediately joined Touche Ross, a predecessor company to my current employer, Deloitte & Touche Consulting Group, where I have been continuously employed since 1973. Since joining the firm, I have specialized in the public utility industry and have performed a variety of different types of regulatory assignments. I have performed organization, construction, and operations reviews for utilities and regulatory bodies. I also have participated in numerous regulatory consulting engagements for gas, electric, water, and telephone utilities encompassing regulatory policy and ratemaking.

In addition to my involvement in regulatory consulting for Deloitte & Touche Consulting Group, I have assisted the management of a number of electric and/or gas utilities in their identification, evaluation, and integration of acquisitions, development of corporate growth strategies, review of corporate organization, assessment of reengineering opportunities, establishment of competitive strategies, conduct of market research, financial restructuring analysis, and profitability reporting assignments.

I also have conducted or directed similar assignments for a variety of industries, including construction, retailing, publishing, health care, real estate, and manufacturing, in addition to utilities. Schedule TJF-1 to this testimony details my experience with regulated utilities.

Q. DO YOU HOLD ANY PROFESSIONAL CERTIFICATIONS?

A. Yes. I am a Certified Management Consultant and a member of the Institute of Management Consultants.

Q. PLEASE SUMMARIZE YOUR EXPERIENCE IN UTILITY MERGERS AND ACQUISITIONS.

A. I have been involved in more than 80 completed, proposed, or potential transactions involving electric, electric and gas combination, or gas utilities. I have experience working for management of companies which have been involved in acquisitions and divestitures, and I have assisted management with a broad range of issues, including the following:

- Target analysis
- Asset quality analysis
- Customer analysis
- Competitor analysis
- Synergy assessment
- Financial analysis
- Transaction structuring
- Regulatory strategy
- Testimony
- Integration planning

The majority of the transactions in which I have been engaged to assist management either ultimately were not pursued or currently are pending and, as a result, are confidential. The publicly announced transactions in which I have been involved, other than the one that is the subject of this proceeding, are The Kansas Power and Light Company and Kansas Gas and Electric Company, IPALCO Enterprises and PSI Resources, Entergy and Gulf States Utilities, Southern Union and Western Resources (Missouri properties), Washington Water Power and Sierra Pacific Resources, Midwest Resources and Iowa-Illinois Gas & Electric, Northern States Power and Wisconsin Energy, Union Electric and CIPSCO, PECO Energy and PPL Resources, Baltimore Gas & Electric and Potomac Electric Power, Public Service Company of Colorado and Southwestern Public Service, Puget Sound Power and Light and Washington Energy, IES Utilities, Inc., Interstate Power Company and WPL Holdings, Texas Utilities Company and Enserch Corporation, Houston Industries and NORAM Energy, Ohio Edison and Centerior, ENOVA and Pacific Enterprises, Brooklyn Union and Long Island

Lighting, Allegheny Power System and DQE, Inc. and LG&E Energy and KU Energy.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will address the assistance provided to management of Western Resources and Kansas City Power & Light (KCPL) by Deloitte & Touche Consulting Group in the evaluation of the potential for cost savings which are available as a direct result of the proposed combination of Western Resources and KCPL.

Q. WOULD YOU PLEASE DESCRIBE THE SCOPE OF YOUR ASSISTANCE AND INVOLVEMENT WITH RESPECT TO THE PROPOSED MERGER OF WESTERN RESOURCES AND KCPL?

A. In February 1997, I was requested by Western Resources to assist the managements of the two Companies in the refinement and evaluation of previously identified opportunities created by a potential Western Resources/KCPL combination. Schedule TJF-2, the Merger Analysis, reflects the collective evaluation of Western Resources and KCPL management regarding the proposed Western Resources/KCPL merger and the benefits it creates.

The scope of this work consisted of assisting management in reviewing the respective Companies' structure and operations, identifying areas of potential synergy, and assisting with quantification of these synergies.

I also have assisted Western Resources and KCPL in the development of various regulatory filings and the Merger Analysis identified as Schedule TJF-2.

Q. WHAT ROLE DID YOU PERFORM IN THE PREPARATION OF THE MERGER ANALYSIS?

A. I directly participated in the development of the entire Merger Analysis and specifically prepared the introduction and the cost savings section. Management of Western Resources and KCPL contributed to each of the sections, and the Merger Analysis thus reflects the collective evaluation of the Companies.

Q. ARE YOU SPONSORING ANY SPECIFIC SECTION OF THE MERGER ANALYSIS?

A. Yes. I am cosponsoring the Merger Analysis with other witnesses as follows:

•Section I, Description of the Document: Mr. Steven L. Kitchen

•Section II, Merger Summary: Mr. David C. Wittig, Mr. Steven L. Kitchen, and Mr. Frank L. Branca (areas pertaining to KCPL);

•Section III, Description of the Transaction: Mr. David C. Wittig and Mr. Steven L. Kitchen;

•Section IV, Overview of Western Resources and KCPL: Mr. David C. Wittig, Mr. Steven L. Kitchen, and Mr. Frank L. Branca (areas pertaining to KCPL); and

•Section V, Potential Merger Cost Savings: Mr. Steven L. Kitchen and Mr. Leslie D. Morgan.

Q. HOW ARE THE SAVINGS SYNCHRONIZED WITH THE REGULATORY PLAN?

A. The Regulatory Plan encompasses the period 1998 through 2001 and is the primary focus of the Merger Analysis. Over the period 1998-2001, the period consistent with Regulatory Plan, savings are estimated to be approximately $291.6 million before $49.5 million in costs to achieve these savings, thus netting to approximately $242.1 million. The savings synchronized with the Regulatory Plan period (1998-2001) are summarized by area below, and discussed in detail in the Merger Analysis:

REGULATORY PLAN PERIOD (1998-2001) TOTAL COST SAVINGS

($ In Millions)

Areas	**Total**
Corporate and Field Labor	$ 119.6
Facilities	8.2
Corporate Programs	59.9
Purchasing	46.9
Production	57.0
Gross savings	291.6
Costs to achieve	(49.5)
Net savings	$242.1

Q. WHAT ARE THE TOTAL COST SAVINGS OVER THE TEN YEAR ANALYSIS PERIOD?

A.

10 YEAR (1998-2007) TOTAL COST SAVINGS

($ In Millions)

Areas	Total
Corporate and Field Labor	$ 385.2
Facilities	22.6
Corporate Programs	205.8
Purchasing	194.5
Production	170.6
Gross savings	978.7
Costs to achieve	(61.9)
Net savings	$916.8

Each of the cost savings areas is briefly described below:

- **Corporate and Support Labor** - Position reductions related to avoidance of duplication and consolidation of corporate, administrative, field and technical support functions.
- **Facilities consolidation** - Reduction of expenditures due to consolidation of duplicative facilities, reduced need for backup facilities, and a reduction in existing facilities from reduced space requirements.
- **Corporate and Administrative Programs** - Non-labor headquarters expenses in areas such as professional services, shareholder

services, overhead, advertising, etc. can be reduced to avoid duplication. Additionally, economies of scale can be realized in the purchases of insurance, benefits, etc. Finally, certain costs can be avoided in the area of information services where similar, or duplicative systems related expenditures can be eliminated or reduced.

- **Purchasing** - Opportunities exist to realize economies of scale in the purchase of materials and supplies and contractor services. In addition, materials and supplies can be shared thus reducing reorder quantities and the amount of inventory that is carried between the two companies.
- **Electric Production** - Reduction in production costs will be created from the optimization of existing generating facilities through joint dispatch. Additionally, the proposed merger will allow the combined company to reduce fuel expenditures through increased leverage and refining the fuel mix. Also, the merger will allow for the deferral of future capacity by allowing one company with capacity needs to utilize the other company's available capacity.
- **Costs to Achieve** - Some cost savings areas will require expenditures to increase the ability to achieve potential cost savings or to reflect additional requirements imposed by attaining savings in

other areas. These costs to achieve include separation programs, retraining, systems integration, facilities refurbishment, telecommunications, etc.

Q. COULD YOU DESCRIBE HOW THE COST SAVINGS AREAS WERE IDENTIFIED?

A. Yes. The review of the structure and operations of both Western Resources and KCPL determined that the companies' compatible system configuration, proximity and historical interrelationships would create substantial benefits to the combined companies and their stakeholders. Internal information related to Western Resources and KCPL was analyzed to identify how the above elements would translate into operational synergies and cost savings. Financial and/or operational data also were reviewed to identify related cost categories that potentially would be available for reduction from consolidation and to quantify these anticipated synergies. The areas where cost savings were believed to exist were further analyzed to determine the potential value of these savings. The availability and attainability of potential synergies and identified factors related to timing, associated cost and other attendant impacts were identified. The amount of the identified savings was quantified by area, based on the data obtained regarding individual costs, management discussions regarding likely operational modes and synergies, and assumptions about the relationships between costs, organization and operation. These quantified savings then were reviewed further with senior management to assess the reasonableness of attaining such savings through the merger.

Q. ARE THE COST SAVINGS IDENTIFIED TO DATE DIRECTLY ATTRIBUTABLE TO THE MERGER?

A. Yes. Each of the areas identified are attributable directly to the merger rather than to other management action that could be taken independent of the combination of Western Resources and KCPL. There are several different types of savings that can arise from a merger, each of which is identified below:

- **Created savings -** These are savings that are related directly to the completion of a merger and could not be obtained absent the merger. For example, the reduction of total cost through the avoidance of duplication or overlap and the ability to extend resources over a broader base of activity would occur naturally through the consolidation of similar functions. Without the combination, each company would continue to expend amounts on related activities and, as a result, would incur stand-alone cost levels higher than otherwise achievable through consolidation.
- **Enabled savings -** These savings result from the acceleration or unlocking of certain events that could give rise to savings. For example, technology differences that exist between companies may provide an opportunity to share technology and achieve productivity improvements more rapidly and at a lower cost than what would have occurred on a stand-alone basis. For example, one company that uses automatic

dialing equipment for credit and collections follow-up will enjoy a productivity benefit over another that does not. While the company without the technology can obtain such productivity benefit from investment, the merger enables existing technology to be deployed faster and duplicative stand-alone investment to be avoided.

- **Developed savings -** Reductions in cost due to management decisions that could have been made on a stand-alone basis are unrelated to the merger. A decision to re-engineer an organization will result in reduced costs, but could be achieved without the merger.

The cost savings identified by Western Resources and KCPL in this merger principally relate to the created category. No developed savings are included, thus the synergies quantified are merger-related and could not be obtained without the merger.

Q. ARE THE COST SAVINGS IDENTIFIED BY WESTERN RESOURCES AND KCPL REASONABLY ATTAINABLE?

A. Western Resources' previous experience with the KGE merger indicates that it has experience in realizing anticipated merger cost savings. Western Resources and KCPL have utilized a process to develop their estimated savings that is consistent with that followed by other utilities in estimating such amounts. In addition, the Companies intend to utilize a rigorous merger integration process to combine operations, similar to that previously utilized by Western Resources and by other companies pursuing merger of their operations. Based on these factors, the identified merger cost savings are reasonably attainable assuming normal pursuit of such savings by management. Depending on how management ultimately operates the combined entity, these cost savings will be permanent and will be realized on an annual basis.

Q. THANK YOU.

SUMMARY OF REGULATORY ENGAGEMENTS

Alaska Public Utilities Commission
- Anchorage Sewer Utility

Arizona Corporation Commission
- U S WEST Communications - Docket No. E-1051-88-146

Beaumont, Texas
- Entex, Inc.
- Gulf States Utilities Company

California Public Utilities Commission
- The Washington Water Power Company and Sierra Pacific Power Company - Application No. 94-08-043

Clark County
- Washington Public Power Supply

Colorado Public Utilities Commission
- Public Service Company of Colorado and Southwestern Public Service Company - Docket No. 95A-513EG

Federal Energy Regulatory Commission
- Baltimore Gas and Electric Company and Potomac Electric Power Company - Docket No. EC96-10-000
- IES Utilities Inc., Interstate Power Company, Wisconsin Power & Light Company, South Beloit Water, Gas & Electric Company, Heartland Energy Services and Industrial Energy Applications, Inc. - Docket No. EC96-13-000
- Trans-Alaska Pipeline System - Docket No. OR78-1
- Middle South Energy, Inc. - Docket No. ER-82-483-000
- Middle South Energy, Inc. - Docket No. ER-82-616-000
- Kansas Power and Light Company and Kansas Gas and Electric Company - Docket No. EC91-2-00
- Southwestern Public Service Company and Public Service Company of Colorado - Docket No. EC96-2-000
- The Washington Water Power Company and Sierra Pacific Power Company - Docket No. EC94-23-000
- Northern States Power Company and Wisconsin Energy Corporation - Docket Nos. EC95-16-000 and ER95-1357-000

Federal Power Commission
- Organization and Operations Review

Garland, Texas
- General Telephone Company of the Southwest
- Lone Star Gas Company

Georgia Public Service Commission
- Georgia Power Company - Docket No. 3673-U

Houston, Texas
- Houston Lighting & Power Company

Idaho Public Utilities Commission
- The Washington Water Power Company and Sierra Pacific Power Company - Case Nos. WWP-E-94-7 and WWP-G-94-4

Illinois Commerce Commission
- Illinois Power - Docket No. 84-0055
- Iowa-Illinois Gas and Electric Company and Mid-American Company Energy - Docket no. 94-0439
- Central Illinois Public Service Company, CIPSCO Incorporated and Union Electric Company - Docket No. 95-0551

Iowa Utilities Board
- Midwest Resources Inc., Midwest Power Systems Inc. and Iowa-Illinois Gas and Electric Company - Docket No. SPU-94-14.

Iowa Electric Light and Power
- Organization and Operations Review

Kansas Corporation Commission
- Southwestern Bell Telephone Company - Docket Nos. 117,220-U and 123,773-U
- Kansas Gas & Electric - Docket No. 120,924-U
- Kansas Power and Light Company and Kansas Gas and Electric Company - Docket No. 174,155-U
- Western Resources - Docket No. 190,362-U

Kentucky Public Service Commission

- Louisville Gas & Electric Company - Case Nos. 5982, 6220, 7799, 8284, 8616 and 8924
- South Central Bell Telephone Company - Case Nos. 6848, 7774 and 8150
- Kentucky-American Water Company - Case No. 8571

Michigan Public Service Commission

- Wisconsin Electric Power Company and Northern States Power Company - Case No. U-10913

Minnesota Public Service Commission

- Continental Telephone Company - Docket No. PR-121-1
- Northern States Power Company - Docket No. E002/GR-89-865
- Northern States Power Company and Wisconsin Energy Corporation - Docket No. E,G002/PA-95-500

Mississippi Public Service Commission

- Mississippi Power & Light Company - Docket No. U-4285

Missouri Public Service Commission

- Union Electric Company - Case Nos. ER-84-168 and EO-85-17
- Union Electric Company and Central Illinois Public Service Company - Case No. EM-96-149
- Kansas City Power & Light Company - Case Nos. ER-85-128 and EO-85-185
- Kansas Power and Light Company and Kansas Gas and Electric Company - Case No. EM-91-213
- Southwestern Bell Telephone - Case No. TC-93-224

Nevada Public Service Commission

- Bell Telephone Company of Nevada - Docket No. 425
- Central Telephone Company - Docket No. 91-7026
- The Washington Water Power Company and Sierra Pacific Power Company - Docket No. 94-8024

New Mexico Public Service Commission

- Public Service Company of New Mexico
- Southwestern Public Service Company and Public Service Company of Colorado - Case No. 2678

New Mexico State Corporation Commission
- Continental Telephone of the West - Docket No. 942
- General Telephone Company of the Southwest - Docket Nos. 937 and 990
- Mountain States Telephone and Telegraph Company - Docket Nos. 943, 1052 and 1142
- U S WEST Communications - Docket No. 92-227-TC

New Orleans, Louisiana
- New Orleans Public Service Company

Ohio Public Utilities Commission
- Ohio Bell Telephone Company - Case No. 79-1184-TP-AIR
- Cleveland Electric Illuminating Company

Oklahoma Corporation Commission
- Organization and Operations Review
- Southwestern Bell Telephone Company - Cause No. 26755
- Public Service Company of Oklahoma - Cause Nos. 27068 and 27639
- Southwestern Bell Telephone Company - Cause No. 000662

Oregon, Public Utility Commission of
- Pacific Power and Light Company - Revenue Requirements Study
- Portland General Electric Company - Revenue Requirements Study
- The Washington Water Power Company and Sierra Pacific Power Company - Docket No. UM-696

Riverside, City of
- San Onofre Nuclear Generating Station

Sherman, Texas
- General Telephone Company of the Southwest

Tennessee Public Service Commission
- United Inter-Mountain Telephone Company - Docket Nos. U-6640, U-6988 and U-7117

Texas Attorney General
- Southwestern Bell Telephone Company

Texas, Public Utility Commission of

- Texas Power and Light Company - Docket Nos. 178 and 3006
- Southwestern Bell Telephone Company - Docket Nos. 2672, 3340, 4545 and 8585
- Houston Lighting & Power Company - Docket Nos. 2448, 5779 and 6668
- Lower Colorado River Authority - Docket No. 2503
- Gulf States Utilities Company - Docket No. 2677
- General Telephone Company of the Southwest - Docket Nos. 3094, 3690 and 5610
- Central Telephone Company - Docket No. 9981
- Southwestern Public Service Company and Public Service Company of Colorado - Docket No. 14980

Utah Public Service Commission

- Utah Power and Light Company - Docket No. 76-035-06

Vermont Public Service Board

- New England Telephone and Telegraph Company - Docket Nos. 3806 and 4546

Waco, Texas

- Texas Power & Light Company

Washington Utilities and Transportation Commission

- The Washington Water Power Company and Sierra Pacific Power Company - Docket No. UE-94-1053 and UE-94-1054

Washington Metropolitan Area Transit Authority

- D.C. Transit

Wisconsin Public Service Commission

- Northern States Power Company and Wisconsin Energy Corporation

Wyoming Public Service Commission

- Cheyenne Light, Fuel and Power Company (Southwestern Public Service Company and Public Service Company of Colorado) - Docket Nos. 20003-EA-95-40 and 30005-GA-95-39
- Mountain States Telephone and Telegraph Company - Docket No. 9343, Subs. 5 and 9
- Organization and Operations Review
- Pacific Power and Light Company - Docket No. 9454, Sub. 11

I. DESCRIPTION OF THE DOCUMENT

This document describes the proposed merger pursuant to the merger agreement dated February 7, 1997 (the Agreement) of Western Resources, Inc. (Western Resources) and Kansas City Power & Light Company (KCPL). The document is intended to provide a comprehensive presentation of the factors underlying Western Resources' Agreement with KCPL, the structure of the proposed merger, the analysis conducted in the evaluation of the proposed merger, and the benefits attainable upon consummation of the merger. This document supplements the joint application of Western Resources and KCPL which provides further explanation of the proposed merger and its implementation.

The document is organized into multiple sections to facilitate the understanding of the proposed transaction. Remaining sections include:

II. Merger Summary

III. Description of the Transaction

IV. Overview of Western Resources and Kansas City Power & Light

V. Potential Merger Cost Savings

The specific sections contained in the remainder of this document are briefly outlined below:

- **Merger Summary -** This section contains a broad description of the proposed merger and is intended as a stand-alone summation of the transaction, its rationale, benefits and results. The section describes the proposed merger, including the structural aspects of the combination, its impact on various constituencies and the manner in which Western Resources and KCPL propose to incorporate other factors, such as rate reductions and regulatory treatment, as part of the total merger package.

- **Description of the Transaction -** This section describes the proposed merger and the transaction structure related to the combination of both companies. It includes a brief explanation of the reasons Western Resources and KCPL are interested in a combination and the manner in which this transaction is proposed to be executed. The details of the Agreement are also discussed.

- **Overview of Western Resources and KCPL** - A brief description of Western Resources and KCPL is presented to illustrate the relevant highlights of operations within each entity. An overview of each company is provided with specific information provided on sales, generating capacity and financial statistics.

- **Potential Merger Cost Savings** - The benefits of the proposed merger to a variety of constituencies are described as is the manner in which such benefits will be attained. This section also details the areas where cost savings have been identified to date. Each area of cost savings is described with an explanation of the basis for cost savings attainment and the method of calculation.

The elements delineated above provide a comprehensive discussion of the transaction.

II. MERGER SUMMARY

This section of the document provides a comprehensive summary of the proposed merger of Western Resources and KCPL. Detailed information regarding the transaction is available within each of the individual sections following this summary.

OVERVIEW OF THE TRANSACTION

In the first quarter of 1996 Western Resources' management met to evaluate the potential benefits of a Western Resources and KCPL combination. Western Resources' management evaluated in detail the potential benefits from a merger with KCPL and the potential structure and execution of such a transaction. This effort extended through the mid-April time period and culminated in an April 14, 1996, offer by Western Resources for the outstanding common stock of KCPL. This decision was made based upon substantial analysis conducted by Western Resources management and its advisers and detailed discussion of such analyses with the Western Resources Board of Directors on several occasions. The decision to pursue a combination with KCPL was unanimously approved by the Board of Directors after careful deliberation.

Throughout 1996, Western Resources actively pursued the demonstration of the benefits of its offer with various shareholders of KCPL. In mid-November Western was asked, and subsequently made, a presentation to the KCPL Board presenting certain financial and other relevant information. Soon after, the companies began exchanging information and negotiating terms of the Agreement. Both companies continued to work on the merger and on February 4th, 1997, the Western Resources Board considered and approved a draft merger agreement. On February 7th, the

KCPL Board unanimously approved the proposed merger agreement and the Merger Agreement was executed by both parties.

The benefits of a merger of Western Resources and KCPL are so compelling that the public interest is best served through the completion of this proposed transaction. Accordingly, Western Resources is proposing to merge with KCPL through an exchange of common stock. The definitive terms of the Agreement are described in the Prospectus dated March 10, 1997, but include an exchange of $32 of Western Resources common stock for each share of KCPL common stock based on an exchange ratio of between .917 and 1.100.

Furthermore, the Agreement would provide immediate dividend accretion to KCPL shareholders, compared to KCPL's current dividend rate. Based on Western Resources' current annual dividend rate of $2.10 per share and the provisions of the collar mechanism, the indicated annual dividend rate per share would range from a minimum of $1.93 to a maximum of $2.31, or about 19.1% to 42.6% more than KCPL's current annual dividend rate. The transaction is structured as a tax-free exchange and accounted for as a pooling-of-interests.

RATIONALE FOR COMBINATION

A Western Resources/KCPL combination will provide significant benefits for the stakeholders of both companies. The transaction is positive for the customers, employees and shareholders of both companies, as well as to the State of Missouri and State of Kansas as a whole. As a result of the merger, the cost of providing service on a combined basis will be reduced, and customers will benefit upon closure of the transaction from the proposed Regulatory Plan.

Underlying the ability to achieve the benefits that Western Resources and KCPL believe are attainable from the combination is the long-standing relationship that has existed between these two companies. Each company has considerable understanding of the other company which is attributable to the extensive operating relationship that has developed over time. Western Resources and KCPL are members of the MOKAN and Southwest Power Pools and have worked closely in the planning and coordination of regional power needs. Western Resources and KCPL have joint interests in the Wolf Creek Generating Station (Wolf Creek) and LaCygne Station which has provided an even greater opportunity to work together on a frequent basis. The contiguous nature of Western Resources' and KCPL's electric service territories and this joint plant ownership also have resulted in joint transmission arrangements and the interchange of power on a firm and non-firm basis. In addition, Western Resources and KCPL have the unique characteristic of a contiguous boundary. These historical relationships have provided substantial familiarity to both companies of the nature, culture and direction of each other's operations.

Proximity and the historical operating relationships create several areas of benefits for the various stakeholder groups:

- **Strategic opportunities -** The combination of Western Resources and KCPL will create additional benefits to the stakeholders of both companies. Technological and product innovation will be enhanced and provide broader benefits directly to customers of both companies. In addition, the enhanced innovativeness of the combined company will provide for an ability to pursue more, larger and diverse business opportunities including entry into new markets.

The combined company also will have increased opportunity to participate in the rapidly changing energy marketplace and will obtain access and capability to participate in broader market segments and business situations. This enhanced capability, i.e., an ability to pursue more, larger and diverse business opportunities, will increase the revenue stream of the combined company and benefit customers from a broader energy portfolio.

The combination of Western Resources and KCPL will increase the attractiveness of the combined entity to the financial community by providing for a stronger financial entity with seasoned management and an innovative market profile. The combined company will be recognized as both a regional leader and a national participant in the emerging energy marketplace. Integration of the existing technologies of each company and the continued development of new and creative approaches to energy delivery and customer relationship management will position the combined Western Resources and KCPL to be effective competitors.

- **Financial opportunities -** As a combined entity, the size and diversity of operations will provide increased financial strength. Cash flow will increase with the merger, thus reducing the need for short-term borrowings. The total cash flow generated by the combined companies will maximize the funds available for operations and, thus, the flexibility in financial integrity, financing and capitalization.

The combined companies also will realize increased flexibility and access with respect to the capital markets. The increased diversity of the total assets of the combined companies will offer greater financing support, as required. The existence of broader relationships for financing will expand the potential sources for capital attraction.

- **Operational opportunities** - The combination will provide a more diverse mix of generating capacity and load. This diversity and the total complement of available resources also will increase the operational reliability of the system and will enable the combined companies to more economically dispatch generation resources.

  The merger also will improve the ability of both companies to jointly plan for future resource needs. The integration of the resource planning function will increase the direct coordination and cooperation of the previous individual entities and will assure a more comprehensive and effective planning effort. This will assure that the least cost planning effort is an integral component of overall resource planning and provide more flexibility to program design and implementation.

  The merger of Western Resources and KCPL also will combine two of the major contributors to the economic development efforts of the states of Missouri and Kansas.

The combination of Western Resources and KCPL will provide substantial strategic, financial and operational benefits. These benefits from the merger will be available to all stakeholders of both companies and will result in the creation of a stronger single entity for the future. As a result of the merger, the costs to provide service will be reduced and the opportunities to enhance revenue streams will be increased, both of which will inure to the benefit of the customers and shareholders.

COMBINED OPERATIONS

Western Resources and KCPL intend to preserve the identity of KCPL in the future and will operate KCPL as a Western Resources' division and maintain its headquarters location in Kansas City. The Agreement to KCPL also provides for the protection of all KCPL and Western Resources employees from involuntary layoffs.

The contiguous service territories of Western Resources and KCPL will offer opportunities to integrate what are now separate organizations and operations. Western Resources and KCPL will consolidate operations, where feasible and practical, to eliminate duplication of effort and thereby achieve cost savings. Through the integration of operations, the new entity will be able to achieve economies of scale and scope while preserving the quality and responsiveness of customer service.

As detailed later in this document, the contiguous service territories will offer opportunities to create cost savings from consolidation of operations. Similarly, the merger will result in the combination of certain separately performed functions, such as resource planning, and enable the integration of these functions in a single location. Identification of these savings was a result of significant discussions and analysis between both companies. Potential savings were identified based on Western Resources' prior experience from the KGE merger, actual company data, analyses by both management teams and external expertise. While these potential savings have been identified, the manner in which management and operations will be structured to achieve these savings has yet to be fully addressed.

The determination of how best to structure and operate the combined companies is of importance to the successful implementation of the merger. To identify the most effective structure and operation for the new entity, the merged company will, upon conclusion of the current process, analyze the various elements of operations in a detailed and comprehensive manner. The merged company will create transition planning teams that will be responsible for the definition of integration study activities and the analysis of individual operating functions to assess how to maximize effectiveness and efficiency of the combined companies.

POTENTIAL COST SAVINGS

The combination of Western Resources and KCPL will create significant opportunities for reducing the total cost of operations of the combined companies. The merger will directly reduce the total costs of service below that level which would be realized absent the merger.

While the transition planning teams will undertake a comprehensive evaluation of the most efficient basis of organization and operations for the combined companies, preliminary discussion and analysis have identified the following potential areas of savings:

- Integration of corporate and administrative functions
- Reconfiguration of certain field and field support operations

- Concentration of corporate programs and expenditures
- Integration of dispatching and production operations
- Streamlining of inventories and non-fuel purchasing economies
- Avoidance of future operating system expenditures
- Attainment of fuel purchasing and transportation benefits

These areas are expected to produce savings, in the near term, related to cost reduction or cost avoidance that are wholly merger-related and, thus, not directly attainable in the absence of the combination.

Over the four year Regulatory Plan period (1998-2001) the operation of the combined companies are expected to save approximately $291.6 million before recognition of the costs to achieve these savings. These direct costs of merger savings attainment or the reduced value of savings realization due to extended implementation of the integration process are estimated at $49.5 million. Thus, the net savings directly attributable to the merger, excluding transaction costs that have been quantified at this time are approximately $242.1 million between the years 1998 and 2001.

CUSTOMER IMPACT

The merger of Western Resources and KCPL will result in a permanent rate reduction of $8 million from existing rates to KCPL's Kansas retail electric customers (see Regulatory Plan below). This supplements the negotiated regulatory plans already in place for KCPL, KGE and KPL. KCPL's customers in Missouri received a rate reduction of $20 million. In addition, $65 million of rate reductions over four years for KGE customers have been approved and are being implemented and KPL customers have received a $10 million rate reduction. Finally, an additional $10 million in rebates has been approved for KGE and KPL customers. Furthermore, customers have the opportunity to continue to benefit from other elements of the incentive based plan described below.

REGULATORY PLAN

Western Resources has proposed several elements of a regulatory plan as part of the merger with KCPL.

These regulatory program components are linked closely with the manner in which the merger has been structured by Western Resources. Each of the components contributes an individual impact to the structure, implications and rationale for the transaction. Further, each of these items has a direct impact on the financial results of the transaction. The individual components of the total regulatory program include:

- Rate reduction of $8 million from existing rates to KCPL Kansas retail customers, amounting to a cumulative savings of $32 million over the term of the regulatory plan

- An incentive regulatory mechanism for sharing earnings above a predetermined level with shareholders and customers (via an annual credit to utility bills)

The rate reductions over the Regulatory Plan period referred to above, are in addition to the very important components of the negotiated regulatory plans already approved and in place as referred to above under Customer Impact and as described in detail below:

- $20 million rate reduction already effective for KCPL's Missouri customers

- Staggered rate reduction of:
  - $ 8.7 million effective May 23, 1996
  - $36.3 million effective February 3, 1997
  - $10.0 million effective June 1, 1998
  - $10.0 million effective June 1, 1999

  for KGE retail customers totaling $260 million in savings on customer bills over the term of the Regulatory Plan.

- $10 million annual rate reduction for KPL retail customers which became effective February 1, 1997

- $5 million one time rate rebates credited to Kansas retail customers in January 1998 and again in January 1999 in the manner directed by the Kansas Commission

All of these components are integral to the merger proposal. Western Resources and KCPL view the merger as clearly in the public interest and accordingly have included these components in the analysis of the merger and the equitable sharing of benefits among all constituencies. Thus, these regulatory components and the allocation of merger benefits are part of a total package rather than discrete and separable elements.

The table below summarizes the net savings achievable from the merger by category for the period covered under the Regulatory Plan. More detailed information is contained within the **Potential Merger Cost Savings** section of this document.

REGULATORY PLAN PERIOD (1998-2001) TOTAL COST SAVINGS

($ In Millions)

Areas	Total
Corporate and Operations Labor	$ 119.6
Facilities	8.2
Corporate Programs	59.9
Purchasing	46.9
Production	57.0
Gross savings	291.6
Costs to achieve	(49.5)
Net savings	$242.1

III. DESCRIPTION OF THE TRANSACTION

IMPETUS FOR WESTERN RESOURCES' INVOLVEMENT

In mid-November John Hayes met with members of the KCPL Board to discuss Western's business and prospects and Western Resources' proposal to combine with KCPL. On November 25, 1996 a meeting of the full KCPL Board was held with representatives of Western Resources. On December 9 the KCPL Board authorized the KCPL management to begin a due diligence review. Both parties executed a confidentiality agreement on December 20, 1996.

On February 4, 1997 the Western Resources Board met and approved the Agreement in form and authorized the management of Western Resources to execute and deliver the Agreement to KCPL. Also on February 4 the KCPL Board met and reviewed the status of negotiations with Western Resources. On February 7 the KCPL Board unanimously approved the agreement with Western Resources. The Agreement was executed by the parties on February 7, 1997.

RATIONALE FOR THE OFFER

The transaction is compelling and viable for a variety of reasons. First, the merger of Western Resources and KCPL is a natural fit due to the degree of contiguous service territory and the working relationship that historically has prevailed between the companies. Western Resources and KCPL both have joint interest in the Wolf Creek and LaCygne generating stations and have physical interconnections between the two transmission systems. The joint interest and interconnections have allowed both companies to develop a sound working relationship and significant understanding of each other's business and operations. Furthermore, the substantial contiguous service territory offers advantages to both companies that cannot be achieved by other entities and creates significant value in and of itself. The contiguous service territory will enable the combination to occur in a natural manner and facilitate the integration of the two companies. The working relationship that has existed between Western Resources and KCPL also will support the successful integration of both operations. The familiarity of each company with the nature and method of operations of the other company increases the ability of each entity to rapidly integrate and work with the other.

Western Resources and KCPL recognize that a combination provides the opportunity to create a substantially stronger entity for the future. Western Resources and KCPL are aware of the increasingly competitive nature of the electric utility industry and believe that the combination positions both entities to be favorably postured within the region. The strategic benefits that are derived from this merger, however, do not only accrue to Western Resources and KCPL. Greater resource diversity, broader financial flexibility and an improved cost position all translate into benefits to customers.

The contiguous boundaries of the service territories, interconnections, joint interest of several assets, and the proximity of the two companies all suggest that there are opportunities for substantial cost savings upon conclusion of a Western Resources/KCPL combination. Cost savings are expected by Western Resources' and KCPL's management to occur in a variety of areas including: corporate, field and generation operating functions; capacity deferral; economic dispatch; and purchasing economies, among others. These potential cost savings levels are significant, which naturally would be expected given the large scale of Western Resources and KCPL, the degree of contiguous service territory between Western Resources and KCPL, the joint interests of Western Resources and KCPL and the experience of Western Resources in actually integrating companies and realizing savings from a merger.

These savings will translate directly into benefits to customers through the proposed rate reduction impact produced from a Western Resources/KCPL combination. The benefits of these potential cost savings further provide a compelling case for the level of benefits available to customers from a Western Resources/KCPL combination.

Finally, the combination of these factors persuaded Western Resources and KCPL that a merger would provide the opportunity to create a transaction that contained a favorable outcome and benefit for all parties. Both companies would be better strategically positioned for growth in the future and would combine complementary nonregulated operations with substantial opportunity for expansion. Of primary importance is that customers immediately benefit through lower rates from the cost savings that can be realized and from the strengthening of each entity through the combination. Shareholders also are expected to benefit since the combined companies will have greater growth prospects in the future and will be more attractive to investors. Employees will benefit from the commitment to no involuntary layoffs, the expansion of opportunities within the larger organization, and the potential to expand their skills and experiences.

All of these reasons have driven Western Resources and KCPL to conclude that its combination is in the public interest and will create a favorable outcome for all stakeholders.

VALUE AND STRUCTURE OF THE AGREEMENT

Western Resources is proposing to merge with KCPL through an exchange of common stock. The definitive terms of the Agreement include $32 per share of KCPL common stock based on an exchange ratio of between .917 and 1.100 shares of Western Resources' common stock for each share of KCPL common stock. In addition, the Agreement will provide immediate dividend accretion to KCPL shareholders as compared to KCPL's current dividend rate.

Based on Western Resources' current annual dividend rate of $2.10 per share and the provisions of the collar, the indicated annual dividend rate per share would range from a minimum of $1.93 to a maximum of $2.31, or from about 23% to 46% more than KCPL's current annual dividend rate.

The more detailed chart on the following page sets forth a range of prices of Western Resources' common stock and the corresponding exchange ratio, dollar value of Western Resources' common stock to be received per share, indicated current dividend rate and premiums to KCPL shareholders over the April 12, 1996, share price and the current KCPL annual dividend rate of $1.62 per share.

CALCULATION OF STOCK PRICE AND DIVIDENDS TO KCPL SHAREHOLDERS
CURRENT INDICATED DIVIDEND

Western Resources Common Stock Price	Exchange Ratio	Stock Value to KCPL Shareholders	Premium to KCPL Shareholders (April 12 Closing Price)	Indicated Current Dividend to KCPL Shareholders/1	Increase in KCPL Dividend/2
$27.00	1.100	$29.70	24.4%	$2.31	42.6%
27.50	1.100	20.25	26.7%	2.31	42.6%
28.00	1.100	30.80	29.0%	2.31	42.6%
28.50	1.100	31.35	31.3%	2.31	42.6%
29.00	1.100	31.90	33.6%	2.31	42.6%
29.09	1.100	32.00	34.0%	2.31	42.6%
29.50	1.085	32.00	34.0%	2.28	40.6%
30.00	1.067	32.00	34.0%	2.24	38.3%
30.50	1.049	32.00	34.0%	2.20	36.0%
31.00	1.032	32.00	34.0%	2.17	33.8%
31.50	1.016	32.00	34.0%	2.13	31.7%
32.00	1.000	32.00	34.0%	2.10	29.6%
32.50	0.985	32.00	34.0%	2.07	27.8%
33.00	0.970	32.00	34.0%	2.04	25.7%
33.50	0.955	32.00	34.0%	2.01	23.8%
34.00	0.941	32.00	34.0%	1.98	22.0%
34.50	0.928	32.00	34.0%	1.95	20.2%
34.90	0.917	32.00	34.0%	1.93	18.9%
35.00	0.917	32.10	34.4%	1.93	18.9%
35.50	0.917	32.55	36.3%	1.93	18.9%
36.00	0.917	33.01	38.3%	1.93	18.9%
36.50	0.917	33.47	40.2%	1.93	18.9%
37.00	0.917	33.93	42.1%	1.93	18.9%
37.50	0.917	34.39	44.0%	1.93	18.9%
38.00	0.917	34.85	46.0%	1.93	18.9%

1/KCPL indicated dividend rate is calculated by multiplying Western Resources' current indicated annual dividend rate of $2.10 per share by the applicable exchange ratio.
2/Based on the current KCPL annual dividend rate of $1.62 per share.

The transaction is structured as a tax-free exchange and accounted for as a pooling-of-interests. Western Resources and KCPL believe that the merger transaction can be approved by the relevant regulatory agencies by the end of 1997 or early 1998.

IV. OVERVIEW OF WESTERN RESOURCES AND KANSAS CITY POWER & LIGHT

The following section of this document describes the overall operating and financial characteristics of Western Resources and KCPL. For each company, the following characteristics are described:

- Service territory profile
- Capacity profile
- Customer profile
- Financial profile

WESTERN RESOURCES

Service Territory Profile

Headquartered in Topeka, Kansas, Western Resources is a diversified energy company engaged in the generation, transmission and distribution of electricity in Kansas. Western Resources has established a strategy to transfer its gas assets and operations to ONEOK, while maintaining an investment in gas. It also offers energy management services through its subsidiary, Westar Energy, Inc. The Wing Group, Limited Company develops international power projects. Another subsidiary, Westar Security, Inc., is involved in monitored security business.

Western Resources has 6,300 miles of electric transmission lines, with interconnections to 11 other electric utilities in the central United States. (One of these interconnections is a "contractual" interconnection with Union Electric). Western Resources supplies electric energy at retail to approximately 606,000 customers in 462 communities in Kansas. Western Resources also supplies electric energy at wholesale to the electric distribution systems of 67 communities and 5 rural electric cooperatives. Sales for 1996 totaled 22,567,000 megawatt hours.

Capacity Profile

- **Electric Generation -** The aggregate net generating capacity of Western Resources' system in 1996 is 5,311 megawatts (MW). The system comprises interests in 22 fossil fueled steam generating units, one nuclear generating unit (47% interest), seven combustion peaking turbines and one diesel generator located at eleven generating stations. Two units of the 22 fossil fueled units have been "mothballed" for future use.

  Western Resources' 1996 peak system net load occurred July 19, 1996 and amounted to 3,997 MW. Western Resources' net generating capacity, together with power available from firm interchange and purchase contracts, provided a capacity margin of approximately 18% above system peak responsibility at the time of the peak.

  Western Resources and ten other companies in Kansas and western Missouri have agreed to provide capacity (including margin), emergency, and economy services to each other as the MOKAN Power Pool. The Pool participants also coordinate the planning of electric generating and transmission facilities. Western Resources also is one of over 60 members of the Southwest Power Pool (SPP) and in 1994, Western Resources joined the Western Systems Power Pool (WSPP). Under this arrangement, over 156 electric utilities and marketers throughout the western and central United States have agreed to market energy and to provide transmission services.

- **Generating Capacity** - The following table provides a summary of Western Resources' generating capacity:

GENERATING CAPACITY STATISTICS

FACILITY	UNIT	FUEL	UNIT CAPACITY (MW)
Abilene Energy Center			
Combustion Turbine	1	Gas	66
Gordon Evans Energy Center			
Steam Turbines	1	Gas-Oil	152
	2	Gas-Oil	382
Hutchinson Energy Center			
Steam Turbines	1	Gas-Oil	18
	2	Gas-Oil	17
	3	Gas-Oil	28
	4	Gas-Oil	197
Diesel		Oil	3
COMBUSTION TURBINES	1	Gas-Oil	51
	2	Gas-Oil	49
	3	Gas-Oil	54
	4	Oil	78
Jeffrey Energy Center			
Steam Turbines	1	Coal	616
	2	Coal	617
	3	Coal	591
LaCygne Station	1	Coal	343
	2	Coal	334
Lawrence Energy Center			
Steam Turbines	2	Gas	0(1)
	3	Coal-Gas	58
	4	Coal-Gas	115
	5	Coal-Gas	384
Tecumseh Energy Center			
Steam Turbines	7	Coal	88

FACILITY	UNIT	FUEL	UNIT CAPACITY (MW)

	8	Coal	148
COMBUSTION TURBINES	1	Gas	19
	2	Gas	20
Murray Gil			
Steam Turbines	1	Gas-Oil	46
	2	Gas-Oil	74
	3	Gas-Oil	107
	4	Gas-Oil	106
Neosho Energy Center			
Steam Turbines	3	Gas-Oil	0(1)
Wichita Plant			
Diesel Generator	5	Diesel	3
Wolf Creek Generating Station			
Nuclear	1	Uranium	547
Total			5311

(1) These units have been "mothballed" for future use.

Note: Western Resources jointly owns Jeffrey Energy Center (84%), LaCygne Station (50%), and Wolf Creek Generating Station (47%). Capacities shown above for these plants represent Western Resources' share.

On January 31, 1994, Western Resources sold substantially all of its Missouri gas distribution properties and operations to Southern Union Company. Western Resources then sold the remaining Missouri properties to United Cities Gas Company on February 28, 1994. With these sales, Western Resources is no longer operating as a gas utility in the State of Missouri.

On December 12, 1996, Western Resources agreed to contribute all of its remaining gas distribution properties in Kansas and Oklahoma to New ONEOK Company for a 45% equity interest in the new company. The recorded net property value of the gas properties being contributed as of December 31, 1996 was estimated at $600 million. Additionally, shared service agreements are being developed to allow both companies to utilize in place resources and capture operating efficiencies. Upon completion of the above transaction Western Resources will no longer operate as a gas utility in any of the jurisdictions it serves. This transaction is subject to satisfaction of customary conditions, including approval by ONEOK shareowners and regulatory authorities.

Customer Profile

During 1996, 23% of Western Resources' sales volume from electric service was provided to residential customers. Commercial customers accounted for 25% while industrial and wholesale customers provided 25% and 26% respectively. Operating revenues were divided between residential customers at approximately 34%, commercial customers at 29%, industrial customers at 22% and wholesale customers at 12%.

Historic electric sales volumes for Western Resources, including their respective percentages, are shown in the following table:

ELECTRIC SALES PROFILE

Sales (GWH)	1996	%	1995	%	1994	%	1993	%
Residential	5,265	23	5,088	25	5,003	25	4,960	25
Commercial	5,667	25	5,453	27	5,368	27	5,100	26
Industrial	5,622	25	5,619	28	5,410	27	5,301	27
Wholesale & Interchange	5,908	26	4,012	20	3,899	20	4,525	23
Other	105	1	108	1	106		103	1
Total*	**22,567**	**100**	**20,280**	**100**	**19,786**	**100**	**19,989**	**100**

* Rounded

Financial Profile

The following table provides a summary financial profile of Western Resources.

WESTERN RESOURCES SUMMARIZED INCOME STATEMENT

	1996	1995	1994	1993	1992
Operating Revenues	$2,046,819	$1,743,300	$1,764,769	$1,909,359	$1,556,248
Operating Income	$303,993	$278,709	$275,050	$292,063	$239,169
Net Income	$168,950	$122,095	$118,917	$177,370	$127,884
Earnings/Common Share	$2.41	$2.71	$2.82	$2.76	$2.20
Dividends/Share	$2.06	$2.02	$1.98	$1.94	$1.90

SELECTED FINANCIAL RATIOS

	1996	1995	1994
Return on Average Common Equity	9.7%	11.2%	12.0%
Ratio of Earnings to Fixed Charges	2.16x	2.41x	2.66x
Equity Ratio	45.1%	48.2%	49.0%
Dividend Payout Ratio	85.5%	74.5%	70.2%

KANSAS CITY POWER & LIGHT

Service Territory Profile

Headquartered in Kansas City, Missouri, KCPL is a medium-sized public utility engaged in the generation, transmission, distribution, and sale of electricity to over 435,000 customers in a 4,700 square mile area located in all or portions of 23 counties in western Missouri and eastern Kansas. About two-thirds of the total retail kilowatt hour sales and revenue are from Missouri customers, with the remainder from Kansas customers. Customers include approximately 381,000 residences, 51,000 commercial firms, and 3,000 industrials, municipalities, and other electric utilities.

KCPL owns approximately 1,700 miles of transmission lines, approximately 9,000 miles of overhead distribution lines, and approximately 3,100 miles of underground distribution lines.

Capacity Profile

KCPL's maximum system net hourly peak load of 2,987 MW occurred on July 19, 1996. The accredited generating capacity of KCPL's electric facilities in the summer of 1996 under MOKAN Power Pool standards is 3,135 MW.

KCPL owns the Hawthorne Station, Montrose Station, Northeast Station, and two Grand Avenue Station turbine generators. KCPL also owns 50% of LaCygne Units 1 and 2; 70% of Iatan Station in Platte County, Missouri; and 47% of the Wolf Creek Unit in Coffey County, Kansas.

KCPL has entered into an operating lease with First Security Bank of Utah, N.A. for a V-84-3A combustion turbine generator, to be in service by the year 1997, with an anticipated accredited capacity of approximately 142 MW. KCPL and ten other companies in Kansas and western Missouri have agreed to share reserves and provide emergency, and economy services to each other as the MOKAN Power Pool. The pool participants also coordinate the planning of electric generating and transmission facilities.

A profile of KCPL's generating capacity is provided below:

GENERATING CAPACITY PROFILE

Facility	Unit	Fuel	Unit Capacity MW
Wolf Creek	1	Nuclear	547
Iatan	1	Coal	469
LaCygne	2	Coal	334
LaCygne	1	Coal	343
Hawthorne	6	Gas/Oil	142
Hawthorne	5	Coal/Gas	479
Montrose	3	Coal	161
Montrose	2	Coal	153
Montrose	1	Coal	155
Northeast	13 and 14	Oil	110
Northeast	17 and 18	Oil	116
Northeast	15 and 16	Oil	111
Northeast	11 and 12	Oil	105
Grand Avenue	1 and 2	Gas	73
Total			3298

Customer Profile

During 1996, residential customers accounted for 24% of KCPL's sales volume from electric service. Commercial customers accounted for 34%, while industrial and bulk power customers provided 16% and 25% respectively. Operating revenues were divided between residential customers at approximately 34%, commercial customers at 42%, industrial customers at 16% and bulk power customers at 8%.

Historic electric sales volumes for KCPL, including their respective percentages, are shown in the table on the following page:

ELECTRIC SALES PROFILE

Sales (GWH)	1996	%	1995	%	1994	%	1993	%
Residential	3,906	24	3,880	24	3,645	22	3,583	24
Commercial	5,659	34	5,422	34	5,284	32	5,141	34
Industrial	2,737	16	2,574	16	2,562	16	2,507	16
Other	63	0	66	0	70	0	73	0
Bulk Power	4,071	25	4,045	25	4,734	29	3,725	25
Other Sales for Resale	101	1	78	1	87	1	109	1
Total*	**16,538**	**100**	**16,065**	**100**	**16,381**	**100**	**15,138**	**100**

* Rounded

Financial Profile

The following section provides the financial profile of KCPL over the last five years. The first portion of this section describes a summarized income statement for KCPL, while the second portion provides the results of several key financial indicators.

KCPL SUMMARIZED INCOME STATEMENT

	1996	1995	1994	1993	1992
Operating Revenues	$903,919	$885,955	$868,272	$857,450	$802,668
Operating Income	$177,813	$167,048	$149,691	$156,302	$140,574
Net Income	$108,171	$122,586	$104,775	$105,772	$86,334
Earnings/Common Share	$1.69	$1.92	$1.64	$1.66	$1.35
Dividends/Share	$1.59	$1.54	$1.50	$1.46	$1.43

SELECTED FINANCIAL RATIOS

	1996	1995	1994
Return on Average Common Equity	11.50%	13.37%	11.64%
Ratio of Earnings to Fixed Charges	3.06x	3.94x	4.07x
Equity Ratio	46.8%	49.2%	49.60%
Dividend Payout Ratio	94.3%	80.2%	91.5%

V. POTENTIAL MERGER COST SAVINGS

This section describes the benefits that Western Resources' and KCPL's management believe are attainable under the proposed merger of Western Resources/KCPL. These benefits are identified by the nature and area of occurrence and are described with respect to the method of calculation.

NATURE OF MERGER BENEFITS

The combination of Western Resources and KCPL will provide an opportunity to realize substantial benefits in the form of economies of scope and scale, efficiencies, and operating effectiveness. These synergies relate to a variety of operational functions and potentially will create significant benefits that will accrue to customers. These potential savings areas are attributable directly to the merger and are viewed by Western Resources and KCPL management as not attainable in the absence of the merger.

In identifying potential cost savings, Western Resources and KCPL focused on those opportunities that are related to the merger. The distinction between merger and non-merger related savings is highlighted below:

- **Created savings -** These are savings that are related directly to the completion of a merger and could not be obtained absent the merger. For example, the reduction of total costs through the avoidance of duplication or overlap and the ability to extend resources over a broader base of activity would occur naturally through the consolidation of similar functions.

- **Enabled savings -** These savings result from the acceleration or "unlocking" of certain events that could give rise to savings. For example, technology differences that exist between companies may provide an opportunity to share technology and achieve productivity improvements more rapidly and at a lower cost than what would occur on a stand-alone basis. For example, one company that uses automatic dialing equipment for credit and collections follow-up will enjoy a productivity benefit over another that does not. While the company without the technology can obtain such productivity benefit from investment, the merger enables existing technology to be deployed faster, and duplicative stand-alone investment to be avoided.

- **Developed savings -** Reductions in cost due to management decisions that could have been made on a stand-alone basis are unrelated to the merger. A decision to reengineer an organization will result in reduced costs, but likely would have been achieved without the merger.

Potential areas of benefit, and, subsequently, the resulting cost savings, are determined to be merger-related if they are not attainable by any action that management of either company could practically initiate on an independent basis. For example, management of either company could reduce labor costs by eliminating positions as part of a resource and function analysis. These reductions, however, would relate to that entity's independent perspective on the best manner of operation of its business as currently configured. A merger-related saving would result from an action taken by management that is created by the combination of Western Resources and KCPL. Due to the contiguous nature of the Companies' service territories similar facilities are maintained in the same cities and towns and provide an opportunity to consolidate some of these facilities. This integration of similar functions and activities would not be possible without the merger of Western Resources and KCPL. Thus, the benefit of this proposed merger is reflected in cost savings which Western Resources and KCPL management believes to be directly attributable to the merger.

Additional benefits potentially will result from the merger which also are unattainable by either company on an independent basis. For example, the merger will enable more coordinated resource planning to occur as both companies presently address this function on a separate rather than joint basis. Since Western Resources and KCPL are part of the MOKAN Power Pool and already coordinate certain planning activities, it could be argued that the combination would not substantially increase the degree or value of coordination between the two companies. However, it should be recognized that the resource planning coordination that currently exists is mostly notification of future individual plans and general exchange of information on future plans. Under integrated resource planning, Western Resources and KCPL will jointly plan for future resource needs, including detailed analysis of both demand and supply side options, resource type, sizing, timing, cost, fuel mix and other pertinent factors as they would affect the combined system.

This degree of coordinated planning is substantially greater than what presently exists independently and is attainable only under a merger scenario. Without the merger, the direction and emphasis of each company would be different and the motivation to coordinate resource planning activities thoroughly would be limited since neither company would be able to capitalize fully on or influence each entity's unique resources on a continuous basis. As a combined entity, the interests of both entities will be aligned and the motivation clearly will be present to perform thorough and comprehensive resource planning for the collective benefit of the combined companies. This example of coordinated resource planning illustrates again how benefits are determined to be attributable directly to the merger and not attainable otherwise.

The above discussion is significant due to the diverse nature of the benefits that are believed to accrue from the proposed merger. These benefits essentially relate to the following areas:

- **Operational coordination -** The geographic locations of the respective service territories of Western Resources and KCPL, which both operate in eastern Kansas and whose headquarters are within 70 miles of one another, provide an opportunity to integrate efficiently all aspects of their utility operations. Western Resources' operating entities already have numerous substantial electrical interconnections with KCPL. The combined system is expected to benefit because the combined system will be operated as part of a single, larger cohesive system, with virtually no modification needed with respect to existing generating and transmission facilities. At present, Western Resources and KCPL maintain joint interests in approximately 2,440 MW of generation capacity that is operated by either Wolf Creek Nuclear Operating Company or KCPL and which accounts for more than $2 billion in assets.

- **Complementary businesses -** The nonregulated businesses of Western Resources and KCPL, such as independent power development, complement each other well, and the combined customer bases of Western Resources and KCPL will provide more opportunities for earnings growth from other customer service-oriented businesses.

- **A strong company and a more diverse service territory -** The larger size of a Western Resources/KCPL combination and the financial strength of both companies will enhance the combined company's flexibility to deal with continuing industry evolution. In addition, the combined company's service territory will be more diverse than the service territory of either Western Resources or KCPL as independent entities. Such size and diversity will improve the mix of commercial, industrial, agricultural and residential customers and can reduce the exposure to changes in economic or climatic conditions in any given segment of the combined service territory.

- **Integrated product and service portfolio** - The integration of business segments will enable the combined company to enhance the portfolio of products and services available to customers. This integration of products and services will strategically position Western Resources and KCPL as providers of comprehensive energy solutions.

- **Economic development opportunities** - The combined company will be able to concentrate its economic development programs and activities rather than pursue parallel paths with respect to potential customers or industry groups.

These benefits are directly attributable to the merger and create the opportunity, in many cases, for cost savings to be realized that would not otherwise be available.

MERGER BENEFITS TO KEY STAKEHOLDERS

As previously described, the combination of Western Resources and KCPL potentially creates substantial opportunities for all of the various stakeholders or constituencies to benefit directly from the merger. These benefits are viewed as significant in value and are a natural by-product of the merger. These benefits also are believed to be recurring in nature.

The key benefits of operational cooperation, complementary businesses, a stronger company and a more diverse service territory, integrated product and service portfolio, and economic development opportunities accrue to the general value of all of the stakeholder groups, but directly impact each group to different degrees as discussed below:

- **Customers -** The customers of both Western Resources and KCPL will be the most direct beneficiaries of the merger as they will realize the benefits of cost savings from operational synergies in the form of lower rates. This group also will benefit from the enhanced coordination of key planning processes and the increased focus this will bring to these processes. Customers as a group also will benefit through the increased financial strength and flexibility of the combined companies which will assure that a high quality of service can be maintained.

- **Employees -** The combination of Western Resources and KCPL will provide career opportunities to the employee group, as a whole, from both the expansion of job responsibility and an increase in general opportunities. As the two companies combine, they will have a need to broaden the skills and experience of existing employees to complement the position requirements of the combined companies as attrition and/or possible early retirement and voluntary severance programs affect the distribution of manpower. The merger also will result in the creation of new positions and will increase the number of opportunities available for career development to employees through job opportunities in both the regulated and nonregulated business units. Importantly, Western Resources has committed that no employees will lose their jobs through any involuntary layoff. This provides greater security to the employee group.

Western Resources also has indicated that, upon completion of the proposed merger, the same headquarters locations that currently exist will be maintained, thus avoiding any significant job displacement.

- **Shareholders -** The increased financial strength that will potentially prevail from the combination of Western Resources and KCPL may provide future growth opportunities for both the Western Resources and KCPL existing shareholders. The presence of a larger and more diverse asset base and the increased cash flow that will be generated from operations can enhance the opportunity for increased price appreciation and total return in the future. Further, the shareholders can be benefited from the improved strategic position of the combined companies which can provide for additional growth opportunities and increased market recognition of the significance of the combined companies. As previously discussed, the merger will provide immediate accretion to KCPL shareholders.

- **Regional utilities -** The combined companies will operate substantial generating units that can provide capacity to meet the growing power needs of other utilities within the region and support a vibrant wholesale market. These entities, and more importantly their customers, thus can also benefit directly from the merger. These regional utilities will be afforded an opportunity to purchase capacity or firm power from a diverse, low cost energy provider in a manner fully consistent with the requirements of FERC Order No. 888.

These stakeholder groups represent the majority of the constituencies that will experience direct benefit from the merger. The benefits inuring to these groups fully support the public interest of the merger and are consistent with the standards previously established by the MPSC and KCC.

DEVELOPMENT OF MERGER SAVINGS

Those areas where Western Resources and KCPL management believe that merger savings could potentially result directly from the merger were identified at the outset of the effort. This effort generally was conducted based on internal information from Western Resources and KCPL. The areas where merger-related impacts were expected to occur were evaluated, and potential savings were quantified, where possible.

Western Resources and KCPL management expect to implement a formal transition planning process to facilitate the combination of operations in the near term. This transition planning process will result in individual study teams, by function or process, that are charged with defining the needs, scope and structure of these functions. At that time, more detailed and specific attention will be directed to the areas where cost savings preliminarily have been identified and to those other areas where such savings were not as readily identifiable. Thus, this transition planning effort will result in more detailed knowledge of how the combined companies will be integrated and the nature and scope of achievable cost savings as a result of the merger. As a result, the cost savings identified in this document should be considered preliminary and subject to continued refinement as a more detailed understanding of operations and business needs become apparent. Western Resources and KCPL have estimated cost savings conservatively in instances where multiple likely scenarios were available.

The savings as developed by Western Resources and KCPL management reflect those areas where the total level of costs can be affected by actions of management that are the direct result of the combination of Western Resources and KCPL. These savings areas are derived from the operational synergies that will be created upon integration of two independent operations. These savings areas would typically incorporate the following impacts to operational costs:

- **Cost reduction** - The total cost of service can be reduced as a result of the merger by avoiding duplication in similar areas. For example, duplicate functions performing similar activities, such as financial planning, for both Western Resources and KCPL, now will be integrated and will require less input to achieve results on a combined basis.

- **Cost avoidance** - The total cost of service can be reduced as a result of the merger from the ability to forego certain types of expenditures due to a reduced need for parallel capabilities. For example, certain operating systems, such as customer information systems, may be adopted from one of the combined companies, thus avoiding the expenditure of developmental dollars on separate systems which would duplicate what already exists.

- **Revenue enhancement** - The total cost of service also can be reduced as a result of the merger through the creation of additional revenue streams from existing assets to supplement existing revenue sources. These revenue streams will be related directly to the ability to combine and package available resources in a more attractive manner and operate a joint system more reliably than could be achieved independently.

As a result of the proposed merger of Western Resources and KCPL, both cost reduction and cost avoidance opportunities have been preliminarily identified and quantified by Western Resources and KCPL based on the information obtainable. Revenue enhancement opportunities related to bulk power sales also may be available from the optimization of all generating resources and the presence of a vibrant wholesale market, but have not been quantified. As the integration process transpires, additional cost reduction, cost avoidance, and revenue enhancement opportunities likely will be identified.

DISCUSSION OF COST SAVINGS

Each of the areas of cost savings that have been preliminarily identified and quantified by Western Resources and KCPL are discussed below to provide the following general information, where applicable:

- Description of savings area
- Rationale for savings
- Method of calculation

This discussion is subject to refinement through the transition planning process. The combination of Western Resources and KCPL will create a number of opportunities to realize cost savings. From the review completed to date, the breadth of potential cost savings opportunities include the administrative, distribution, and production operations areas. These areas are summarized by natural category below:

- Corporate and Operations Labor
- Facilities
- Corporate Programs
- Purchasing
- Production

Each of these areas is described further below. In some cases, multiple components exist for each major category and are discussed individually. The discussion will focus primarily on the period from 1998-2001, the period consistent with the Regulatory Plan and which acknowledges the changing regulatory environment. Consistent with previous transactions, the ten year savings figures are provided and can be found in a summary table at the end of this chapter.

Corporate and Operations Labor

The quantification of costs that could be reduced due to combination and integration was initiated with the identification of the specific functions which exist at Western Resources' and KCPL's corporate offices or other locations in support of field operations, e.g., information services. These functions or departments were reviewed to determine the scope of their responsibilities. The staffing levels that existed in each of these functions, as of year-end 1996, were identified for Western Resources and KCPL. Similar information for the field operations functions of both companies was also obtained, and then the two companies' corporate and administrative functions (excluding contractors) as well as field operations functions were aligned.

Merger-related reductions total 221, or 20% of combined corporate and administrative positions, and 281, or 6% of field operations positions. These reductions are believed by Western Resources and KCPL to be attainable from the integration of similar functions and the avoidance of duplication in areas such as resource planning or human resources, where the activity will be centralized and performed only once.

Potential position reductions by corporate and administrative function were based on the following rationales:

- **Executive Management -** Savings (10 positions) can occur as a result of the reduction of positions managing overlapping or common responsibility areas.

- **Legal -** Savings (5 positions) can result from the elimination of duplicative SEC, general corporate, and regulatory legal work.

- **External Relations -** Savings (7 positions) can occur as a result of the reduction of positions in duplicative operations (e.g., public relations, communications) to be consolidated upon combination.

- **Finance, Accounting and Planning -** Savings (46 positions) can occur as a result of overlapping work activities in those subfunctions which are not volume-driven (e.g., budgeting, investor relations) and with respect to total required staffing and supervision levels.

- **Human Resources -** Savings (22 positions) can occur as a result of overlapping work in many subfunctions, including compensation, benefits, training, labor relations, etc., that can be avoided from consolidation of duplicative staff functions.

- **Information Services -** Savings (59 positions) can occur as a result of the avoidance of duplicative information systems development and centralization of operations positions such as systems analysts, technicians, programmers, etc. Positions supporting data center operations also are assumed to be reduced upon centralization of these facilities.

- **Retail Marketing and Sales -** Savings (12 positions) can occur as a result of the avoidance of duplicative activities in areas such as load forecasting, market planning, etc. Savings can also result from the consolidation of sales territories, reallocation of managed accounts, etc.

- **Administrative and Support Services -** Savings (24 positions) can occur as a result of reductions in duplicative operations in the following areas: transportation, real estate, facilities maintenance, and records management, among others, where the proximity of Western Resources and KCPL enable these support functions to be centralized and thus avoid parallel functions in different locations.

- **Purchasing and Materials Management -** Savings (36 positions) can occur as a result of reductions in duplicative operations, consolidations, and where the proximity of Western Resources and KCPL enable these support functions to be centralized and thus avoid parallel functions in different locations.

Quantification of the dollar value of positions eliminated was accomplished using actual salaries by function for Western Resources and for KCPL. The capitilization rate used for corporate labor is 6.9%. Additionally, the benefits loading rate used for all labor positions was a combined 29.4% for the combined entity. Over the Regulatory Plan period, corporate labor savings are estimated to total $56.2 million.

Based upon Western Resources' experience from its previous merger with KGE, in which total payroll costs were significantly reduced without layoffs, Western Resources and KCPL believe that the position reductions identified above can be similarly achieved without layoffs by employing a combination of attrition, controlled hiring, retraining, placements in growing unregulated subsidiaries, early retirements, voluntary separation and better management programs (such as activity standardization and technology substitution).

The Field Operations area of cost savings is created by the nature and geographic location of the various field functions. Both Western Resources and KCPL maintain division or district offices throughout their respective service territories to support customer interface functions and to meet the service quality needs of customers. The specific functions performed in these field locations generally relate to the areas of meter reading, customer service and service operations, but include a variety of service related activities.

The combined company will have the ability to consolidate certain customer business offices and service centers in the eastern Kansas area where Western Resources and KCPL have contiguous service territories. The close proximity of these operations also will enable customer service functions, such as service initiation, service scheduling, and trouble calls, to be combined. The ability to consolidate these offices will be attributable to the merger, since, absent the combination, no opportunity to combine these operations would exist.

Western Resources and KCPL believe that merger-related reductions will total 281, or 6% of combined field operations positions. This estimate was developed through the use of internal Western Resources and KCPL information.

- **Customer Service -** Savings (53 positions) can occur as a result of smoothing of call center staffing during peak calling periods, elimination of redundant positions in credit and collections and revenue accounting, and greater utilization of KCPL's metering technology.

- **Electric Transmission and Distribution -** Savings (128 positions) can occur in subfunctions, such as major facilities construction and engineering and support, as a result of reconfigured geographic coverage area responsibility, potential utilization of mobile construction and other specialized crews, and reduced need for supervisory positions among the service centers in eastern Kansas.

- **Coal Power Supply -** Savings (68 positions) can occur as a result of reduction of duplicative positions in support functions, primarily engineering support, as well as through the use of specialized or roving maintenance crews, and the reduced need for supervisory positions among the plants.

- **Nuclear Power -** Savings (25 positions) can occur from the consolidation of plant ownership and combination of non-safety related positions, beyond those presently anticipated from potential internal initiatives that can be combined with headquarters functions to avoid duplication.

- **Electric System Technical Support -** Savings (7 positions) result from the consolidation of dispatch centers, environmental, research and development, engineering support, and SCADA operations.

The capitilization rate used for Operations labor is 20.7%. Again, the benefits loading rate used for all labor positions was a combined 29.4% for the combined entity over the Regulatory Plan period, savings in field operations are estimated to total $63.4 million. Based upon Western Resources' experience from its previous merger with KGE, in which total payroll costs were significantly reduced without layoffs, Western Resources and KCPL believe that the position reductions identified above can be similarly achieved without layoffs by employing a combination of attrition, controlled hiring, retraining, placements in growing unregulated subsidiaries, early retirements, voluntary separation and better management programs (such as activity standardization and technology substitution).

Facilities

Due to positions reductions from the combination of Western Resources and KCPL, less office space will be required by the new company. Reconfiguration will allow subleasing of available excess space to third-party tenants or discontinuation of leases at termination. Market rents for corporate office space were estimated at $8 to $18 per square foot per year in 1996 based on current Western Resources and KCPL leases and information on market conditions obtained from area brokers. Savings per affected employee were based upon square footage per employee. Affected employees include 221 corporate positions as well as 100 electrical system technical support and production positions, 53 customer service positions, and 128 electric transmission and distribution positions. Additionally, Western Resources' Olathe Service Center was assumed to be leased or sold in its entirety and related personnel configured in, and scheduled out of, KCPL's proximate facility. Over the 1998-2001 period, facilities savings are estimated at $8.2 million.

Corporate Programs

Both Western Resources and KCPL incur many costs for items which relate to the operation of each company, but which are not directly attributable to customers. Such costs include items such as professional services, insurance, information systems, and shareholder services. These costs are of a corporate nature and are incurred to support the corporate infrastructure, obtain needed services, or protect its investments. Thirteen such areas have been identified and evaluated by Western Resources' and KCPL's management to determine the quantifiable cost savings anticipated.

- Administrative and General Overhead
- Benefits Administration
- Insurance
- Information Systems
- Professional Services
- Shareholder Services
- Advertising/Public Relations
- Association Dues
- Credit Facilities
- Director's Fees
- Regulatory Expense
- Research and Development
- Vehicles

Each of these savings areas is outlined below.

- **Administrative and general overhead -** Many costs associated with corporate administrative and general positions are captured as overhead costs in FERC Account No. 921. These costs include employee business expenses, office supplies, facilities costs, telecommunications expenses, transportation expenses, and miscellaneous other expenses. While many of these costs are fixed, a large portion (57%) of these costs vary with employee levels and would be subject to reduction as a result of the elimination of duplicate positions. Examples of variable administrative and general overhead costs include office supplies, telephone expenses, and employee business expenses, which vary with the number of employees.

  Based on review of company data, the weighted average variable administrative and general overhead cost per corporate and administrative employee for the combined company is approximately $6,700. This amount was applied to the number of corporate and administrative positions reductions to estimate savings. Over the 1998-2001 period (Regulatory Plan Period), administrative and general overhead savings are estimated to total $8.3 million.

- **Benefits administration -** Potential cost savings are expected to occur due to the increased purchasing power in negotiating the administrative fees associated with the procurement of similar employee benefits for the combined company and from eliminating duplicate fees. Areas where savings will occur include pension trust fees, actuarial fees, recordkeeping fees, thrift trustee fees, and group plan administration fees. Combined benefits costs (after adjustment for the estimated duplicative position reduction), can be reduced due to greater economies of scale and increased purchasing power. Reductions will occur from the elimination of redundent administrative fees and through increased purchasing leverage after combination of the respective benefits plan into a single, comprehensive plan. This reduction does not reflect any potential savings resulting from changes in plan design. Based on internal Western Resources and KCPL information, 14.8% of benefits savings were capitalized. Over the 1998-2001 period, benefits administration cost savings are estimated to total $9.4 million.

- **Insurance -** This area relates to procurement of insurance coverage to provide protection for each company's assets in the event of a major loss. In general, each company currently carries basic coverage for loss to real and personal property, losses caused by or affecting boilers or machinery, liability insurance for the officers and directors, liability coverage for automobiles, additional general liability coverage in excess of amounts in the other policies, and a comprehensive policy covering loss resulting from crimes. In addition, each company also maintains various other smaller policies designed to cover other types of losses.

  As a combined entity, the combined companies should be able to secure the same coverage as each currently maintains, but at a lower cost than what each company would be able to secure independently. These economies of scale exist primarily because the relationship between coverage obtained and annual premiums paid is not linear, the premium rate per dollar of covered property declines as the level of property covered increases, and to reflect a different loss rating across the total property of both companies. Savings have been quantified for three specific types of insurance coverage.

The first type of coverage for which savings were separately quantified is property insurance. Western Resources' non-nuclear property insurance costs were $2.7 million in 1995. KCPL's 1996 property insurance costs were $1.6 million. Based on previous Western Resources communications with brokers and recent experience in the KPL-KGE merger, property insurance savings were estimated at 11% of combined non-nuclear property insurance costs.

Potential cost savings also were separately quantified for the excess general liability coverage of each company. Western Resources' excess liability insurance costs are $0.9 million in 1996. KCPL's excess liability costs were $0.6 million in 1996. Based on previous Western Resources communications with brokers and recent experience in the KPL-KGE merger, excess liability insurance savings were estimated at 8% of combined excess liability insurance costs. These savings would be obtained in excess liability coverage due to increased size and purchasing power.

The final area of insurance coverage for which potential cost savings were calculated separately relates to directors' and officers' liability insurance. Western Resources' 1996 directors' and officers' liability costs are $0.5 million in 1996. KCPL's directors' and officers' liability costs were $0.4 million in 1996. Based on Western Resources' experience in the KPL-KGE merger, directors' and officers' liability insurance savings were estimated to be reduced by $82 thousand in 1998 from revised coverage and renegotiation of required premiums.

Over the 1998-2001 period, insurance savings are expected to total $3.4 million.

- **Information systems -** The effective management of operations requires the design, development, and installation of support systems to provide information or processing capability to support the service delivery function and supplement management's actions. Both Western Resources and KCPL maintain information systems (IS) departments to facilitate the systems development effort and support the information processing needs of each company. The need for systems development is ongoing with these departments continuously involved in such efforts. Both companies have independent plans to develop systems in a variety of areas over the next several years, including parallel systems development efforts or projects where one company has recently implemented a new system.

  The merger will enable Western Resources and KCPL to avoid spending on separate systems that would otherwise duplicate one another. When the merger is consummated, the combined company will combine the respective IS departments, thus obviating the need for parallel, independent systems development efforts. The merger thus can create savings in avoided costs that could not be achieved without the combination. The merger will enable the combined IS department to utilize systems already in place and avoid redundant new systems development in the same area.

  Parallel effort for specific planned systems, e.g., KCPL's work management system, Western Resources' real-time pricing and special contracts system, Western Resources' human resources information system, and Western Resources' geographic information system can be avoided. Projected capital expenditures associated with the development of duplicative systems and future application development have been converted to revenue requirements assuming a 5-year depreciable life converting to a 25% annual fixed charge rate. Western Resources' and KCPL's future expenditures beyond 2000 were estimated with Western Resources' stand-alone expenditures being eliminated as a proxy for the combined company. These reductions reflect the recognition that systems development efforts for future operating systems to meet competitive market needs are parallel and avoidable.

Operating cost savings also may be realized from the avoidance of the leasing of personal computers due to the reduced number of professional and technical positions. Savings also can occur due to the elimination of software leases and maintenance fees required to provide software support on personal computers. The IS savings estimate also includes savings from the consolidation of two independent data centers into a single center, consolidation of information systems and elimination of redundant facilities. Over the 1998-2001 period, IS savings are estimated to total $23.7 million.

- **Professional services -** Potential merger cost savings have been identified in expenses associated with professional services, e.g., consulting, legal, financial, accounting, etc. Each of the companies utilize a variety of consultants and professional advisers for assignments where either specialized skill or knowledge is required or external requirements exist which require the retention of professional services. With a broader resource and capabilities mix available to the combined company, less reliance will be necessary on external advisers. Further, as a single entity, certain requirements will be reduced.

For example, each company is currently required to have an annual independent audit done by a public accounting firm, but only one audit will be required for the combined companies. Economies of scale in the audit process will result in lower fees for the annual audit for the combined companies than for the two companies acting independently. Similar reductions of the required professional services beyond financial auditing, such as legal, general consulting and financial consultation, also will be possible. Based on experience from the KPL-KGE merger, and using Western Resources' and KCPL's level and composition of professional services as a proxy for the combined entity, 1998-2001 professional services savings are anticipated to total $6.8 million.

- **Shareholder services -** Both Western Resources and KCPL currently maintain separate shareholder service functions that coordinate proxy mailings, dividend payments, shareholder inquiries, and other services for shareholders. This coordination occurs with outside transfer agents and trustees that physically perform certain of these functions. With a combined company, separate shareholder service functions will be unnecessary, as only a single set of shareholders will result from the combination.

With the combination of Western Resources and KCPL, a new and larger shareholder base will be created, yet a single shareholder services organization can administer the required functions. Review of the cost information and relative costs of performance indicates that the non-labor cost per shareholder for the combined company should be no greater than that of Western Resources, which is the larger (in shareholders) of the two companies. The larger the entity, the lower the non-labor cost per shareholder, as a result of economies of scale. Accordingly, using the cost per shareholder of Western Resources for the cost of the combined company is conservative since all costs are not linear and, as the number of shareholders increases, the costs per shareholder to perform shareholder services should decrease. Specifically, cost savings can result through the elimination of duplicative shareholder-related activities, such as conducting the annual shareholder meeting, proxy solicitation, and payment of stock exchange fees. Over the 1998-2001 period, shareholder services savings are expected to total $1.3 million.

- **Advertising/Public Relations -** Combined operations will allow for optimization of media coverage, including the combination of advertising initiatives in overlapping media and locations. Duplicative advertisement design and production requirements will also be eliminated. Cost savings were quantified based on company data, on which Western Resources spent $1.6 million on average per year from 1994 - 1996 and KCPL reported spending $3.1 million per year during the same period. Much of KCPL's annual expenditures can be avoided through the combination, for total advertising savings over the 1998-2001 period of $1.6 million.

- **Association dues -** Cost savings in this area can result from reduced incremental costs of association dues based on prescribed formulas used to determine applicable dues. Cost savings were estimated by applying the declining block formula to the statistics of the combined company versus the sum of the stand-alone fees. No reductions were estimated for association dues for which dues formulas were not available, which constitutes the majority of association dues costs for both companies. Over the 1998-2001 period, association dues savings are estimated at $0.5 million.

- **Credit Facilities** - Cost savings in this area can result from the consolidation of stand alone credit facilities. This is accomplished through optimized cash management and a reduction in short term borrowings. Cost savings were calculated by eliminating KCPL's credit facilities as Western Resources' credit facilities are sufficient for the combined entity. Total Credit Facilities savings over the 1998-2001 period total $1.3 million.

- **Director's Fees** - Cost savings in this area can result from reducing the number of directors, and the related expenses, in the combined company. KCPL and Western Resources have a total of 19 outside directors. The merged company will have only 16 outside directors thus reducing the overall level of directors fees paid by both companies. Total Director's Fees savings over the 1998-2001 period total approximately $1.0 million.

- **Regulatory Expense** - Cost savings in this area will be realized due to the consolidation of lobbying efforts. Both companies retain a lobbyist in Washington, D.C. and have lobbyists in the state of Kansas. The combination will allow the elimination of one federal lobbyist and at least one Kansas lobbyist. Total Regulatory Expense savings over the 1998-2001 period total $1.4 million.

- **Research and Development -** Cost savings in this area can result from the merged company's avoidance of duplicative research and development activities of the stand-alone companies. Total Research and Development savings over the 1998-2001 period total $0.7 million.

- **Vehicles -** The combined company will reduce the total number of corporate positions. Due to this reduction, the new company will require fewer fleet vehicles as well as individually assigned vehicles. Savings will be realized through reduced total operating costs for passenger cars. Total Corporate Vehicles savings over the 1998-2001 period total $0.4 million.

Total Corporate and Administrative Programs savings over the term of the Regulatory Plan (1998-2001) period total $59.9 million.

Purchasing

Currently, Western Resources and KCPL independently maintain separate purchasing departments responsible for maintaining materials and supplies used by employees at various storeroom locations. In addition, both companies procure contract services independently. As a direct result of the combination, savings can be realized in the procurement of both materials and services, as well as in costs associated with the maintenance of inventory levels.

In the area of material procurement, potential savings were quantified based on combined company 1996 non-nuclear, non-fuel purchases. Western Resources purchased approximately $61.3 million of non-nuclear non-fuel materials and supplies in 1996. KCPL's annual non-nuclear non-fuel purchases were approximately $60.5 million in 1996.

An average savings of 7% beginning in 1999, escalating to 10% after a year and a half, across combined procurement volumes was estimated based on increased standardization, higher order volumes and vender consolidation. This average savings was not applied to engineered generating equipment where an average 5% discount was utilized for all years beginning in 1999. The 5%-10% discount factors are not intended to apply to each item represented as part of materials and supplies purchases, but is an average expectation across all areas. Actual discounts could range from 0% to 25%, depending on the item, number of vendors, currently purchased quantities, degree of standardization, and a number of other factors. Significant discounts on high-volume purchases will offset the effect of lower discounts on small volume, nonstandard or engineered items. Savings in this area ultimately will be determined through negotiation with vendors regarding quantities and commitments. For purposes of calculation, 62% of procurement savings were capitalized to reflect their use in construction activities. Over the 1998-2001 period, procurement savings are estimated to total $17.5 million.

As a direct result of the combination, Western Resources and KCPL also should be able to reduce contract services costs. Contract services include plant maintenance and construction, tree trimming, trenching, paving, and engineering activities, among others. Consolidating contractor requirements and renegotiating contract terms can enable the combined company to realize lower per unit contractor costs and achieve economies of scale. Consolidation of vendors can also result in lower unit costs based on larger umbrella contracts with relevant contractors.

Potential savings were quantified based on 1996 budgeted contract services of approximately $36.4 million for Western Resources and $53.0 million of contract services for KCPL. An average savings of 10% of the combined company's contract services was utilized to reflect the expected combined purchasing power of Western Resources and KCPL. As with material and supplies procurement, the 10% discount factor is not intended to apply to each service procured, but is an average expectation across all areas, as actual discounts by type of work could range above or below this level. Based on Western Resources' and KCPL's 1996 budget information, approximately 39% of contract services were capitalized. Over the 1998-2001 period, contract services savings were estimated at $23.6 million.

In addition, as a direct result of the combination, Western Resources and KCPL may also be able to better utilize the existing materials and supplies inventories of both companies. The ability to draw materials from several locations minimizes the number of items needed, thereby avoiding an initial reorder cycle and reducing the level of inventory needed on hand to levels below those needed absent a merger.

Potential inventory savings were quantified based on Western Resources' year-end 1996 non-fuel, non-nuclear electric-related inventory of approximately $31.2 million and KCPL's year-end 1996 non-fuel, non-nuclear inventory of approximately $38.1 million. Based on Western Resources' experience in the KPL-KGE merger, materials and supplies inventories were reduced by 10%. Reduced carryings costs on these eliminated items, covering such items as financing, taxes, etc., were calculated using a 14.1% carrying charge. Over the 1998-2001 period, inventory savings total $5.8 million. Total expected purchasing economies, including procurement of materials and supplies, contract services, and inventory savings amounted to $46.8 million over the 1998-2001 period.

Production

Production cost savings consist of two separate components: integration of dispatching and production operations, and avoidence or deferral of future capital expenditures.

- **Integration of dispatching and production operations** - Western Resources and KCPL individually maintain dispatching centers to control the use of their generating facilities. These dispatch centers schedule the various generation facilities that are available for power production to achieve the lowest combined costs of fuel and operations consistent with reliable operations. Unit scheduling and commitment is based on the costs of the fuel used by particular plants, the cost to start-up and operation of these plants, the capabilities of the plants, and the required timing and frequency of maintenance necessary to keep these plants and equipment operable.

  The merger will enable Western Resources and KCPL to combine the generation dispatch functions that currently are operated individually by the companies. The total generating facilities of the combined companies will be analyzed collectively, scheduled, and dispatched. This joint dispatch of total generating resources will provide for the most economic scheduling of generating resources, resulting in the lowest combined fuel and operating cost on a systemwide basis. These savings are attainable only if the Western Resources and KCPL generating resources are combined since joint dispatch is not accomplishable without total coordination of resource utilization.

The estimates of the expected joint dispatch savings were based on a simulation model that compared the combined system to stand alone cases. Expected fuel costs for the Tecumseh and Lawrence stations of Western Resources were reduced 3% upon expiration of current contracts and revision of purchasing strategy across the Western Resources and KCPL systems capitalizing on higher coal purchase volumes. Over the 1998-2001 period savings from coal purchasing and joint dispatch are estimated to be $53.5 million.

- **Avoidance or deferral of future capital expenditures** - As mentioned earlier in this section, the combined company will have the opportunity to reduce future expenditures for generating capacity by coordinating and optimizing planning for future resources. The combination of the two companies also reflects system diversity due to differences in the timing of peak demands between the systems. This system makes available amounts of generating capacity which can result in the delay or elimination of additional capacity now planned by the two stand-alone companies. The delay or elimination of these additional facilities will reduce the fuel and operation and maintenance expenses associated with the total combined generation capacity.

Specifically, load diversity from different load and peaking profiles between the Western Resources and KCPL systems will provide an estimated .3% reduction (approximately 24 MW) in combined versus stand-alone peaks that can allow planned capacity additions to be avoided or deferred from interchange of existing capacity and/or energy. This amount is based on maintaining the MOKAN Pool requirement for reserve margins. Savings, which are limited by KCPL's commitment to a new combustion turbine in 1997, are based on the deferral of 26 MW of planned combustion turbine capacity in 2003, with a capacity cost of $354/kw in 1999 dollars. The available benefits from additional capacity sales are estimated at $3.5 million over the 1998-2001 period.

Costs to Achieve

Several of the potential cost savings that have been identified can be achieved without the expenditure of direct costs. These identified savings relate both to cost avoidance, e.g., future capital deferrals, and to cost reduction, e.g., dispatch savings in fuel, that will not require significant expenditures to support their attainment. Other areas, however, will require expenditures to increase the ability to achieve potential cost savings at a later date or to reflect additional requirements imposed by attaining savings in other areas.

The position eliminations that have been identified, however, potentially will require out-of-pocket expenditure to support their realization. To the extent that attrition, controlled hiring, retraining, placements in growing unregulated subsidiaries and better management programs do not fully achieve the position elimination that is anticipated, early retirement and/or voluntary severance packages may be made available to employees. For quantification purposes, it is estimated that non-executive employees will receive an average two weeks pay for each year of service along with one year of medical benefits. Executives will receive an estimated three years salary along with one year of benefits. Estimated attrition of 2.5% annually will reduce somewhat the number of voluntary severance packages required. In addition, costs will be incurred to relocate some employees and to retrain others who will assume new positions at the combined company.

Certain other areas, such as information systems integration and dispatch center communication, will require expenditures to achieve the savings due to costs of integration implementation. Expenditures will be required for areas such as conversion of hardware and software, establishment of communication links, facilities integration, communication of information to customers and employees regarding the combination, transition costs for external assistance to facilitate integration of the two companies, and directors' and officers' liability insurance. Total potential out-of-pocket expenditures have been estimated at $61.9 million which will be amortized over five years following the combination. This estimate does not include transaction costs.

Most of these costs are expected to be incurred in the first year of the merger (or before) with the exception of information systems, which will be incurred over two years. A breakdown of the potential costs to achieve merger savings includes: voluntary severance and/or early out costs of $21.4 million in 1998-1999, relocation costs of $1.0 million in 1998, retraining costs of $1.0 million in 1998, information systems integration costs of $30.0 million in 1998-1999, telecommunications costs of $2.0 million in 1998, facilities integration costs of $2.0 million in 1998, communications costs of $1.0 million in 1998, transition costs of $2.0 million in 1998, and directors' and officers' tail coverage liability costs of $1.5 million in 1998.

Summary of Merger Savings

The areas discussed above, including the costs to achieve, are estimated to result in approximately $242.1 million (nominal data) of savings from the merger in the four years following the merger closing (Regulatory Plan period). The table below provides a brief summary of the anticipated merger-related cost savings, by principal category with additional detail presented in Schedule V-1.

REGULATORY PLAN PERIOD (1998-2001) TOTAL COST SAVINGS
($ in Millions)

Savings Area	1998	1999	2000	2001	Total*
Labor	$24.9	$26.8	$32.8	$35.1	$119.6
Facilities	2.0	2.0	2.1	2.1	8.2
Corporate & Admin	10.3	13.5	17.2	18.9	59.9
Purchasing (Non-fuel)	4.6	11.6	14.0	16.7	46.9
Capacity	0.9	0.8	0.7	1.1	3.5
Fuel Savings	9.5	13.1	14.6	16.3	53.5
Savings Subtotal*	52.2	67.8	81.4	90.2	291.6
Costs to Achieve	12.4	12.4	12.3	12.4	49.5
Net Savings*	39.8	55.4	69.1	77.8	242.1

*Rounded

The following table highlights the merger savings over the ten year period.

10 YEAR (1998-2007) TOTAL COST SAVINGS
($ in Millions)

Savings Area	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Labor	$24.9	$26.8	$32.8	$35.1	$37.5	$40.0	$42.7	$45.5	$48.4	$51.5	$385.2
Facilities	2.0	2.0	2.1	2.1	2.2	2.3	2.4	2.4	2.5	2.5	22.6
Corporate & Admin	10.3	13.5	17.2	18.9	20.8	22.4	23.1	23.8	28.1	27.7	205.8
Purchasing (non-fuel)	4.6	11.6	14.0	16.7	18.8	21.0	23.2	25.7	28.2	30.7	194.5
Capacity	0.9	0.8	0.7	1.1	0.3	0.4	0.2	1.5	4.7	-0.6	10.0
Fuel Savings	9.5	13.1	14.6	16.3	16.8	17.6	18.4	19.6	18.4	16.3	160.6
Savings Subtotal*	52.2	67.8	81.4	90.2	96.4	103.7	110.0	118.5	130.3	128.2	978.7
Costs to Achieve	(12.4)	(12.4)	(12.3)	(12.4)	(12.4)	0.0	0.0	0.0	0.0	0.0	(61.9)
Net Savings*	**39.8**	**55.4**	**69.1**	**77.8**	**84.0**	**103.7**	**110.0**	**118.5**	**130.3**	**128.2**	**916.8**

* Rounded