Exhibit No.:	
Issues:	Merger Benefits and Western Resources Business Plan
Witness:	John E. Hayes, Jr.
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

JOHN E. HAYES, JR.

WESTERN RESOURCES, INC.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

DIRECT TESTIMONY
OF
JOHN E. HAYES, JR.
CHAIRMAN OF THE BOARD
AND
CHIEF EXECUTIVE OFFICER
WESTERN RESOURCES, INC.

CASE NO. __________

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John E. Hayes, Jr. My business address is 818 South Kansas Avenue, Topeka, Kansas 66612.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am Chairman of the Board and Chief Executive Officer of Western Resources, Inc. ("Western Resources"). I have been with Western Resources since 1989.

Q. WHAT PREVIOUS EXPERIENCE HAVE YOU HAD IN CORPORATE MANAGEMENT?

A. Just prior to joining Western Resources (formerly The Kansas Power and Light Company, "KPL"), I was Chairman of the Board of Triad Capital Partners in St. Louis, a venture capital company. Before that, I held a number of management positions at Southwestern Bell Telephone Company, culminating in the position of Chairman, President and Chief Executive Officer.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony discusses the regulatory objectives that will be accomplished by the merger of Western Resources and KCPL. I describe generally the terms of the merger agreement and the process by which it was achieved. I explain how the merger and our regulatory plan to implement it will benefit all stakeholders — our customers, our shareowners, our employees and the communities we serve. Finally, I discuss how the merger is consistent with Western Resources' business objectives.

Q. WHAT REGULATORY OBJECTIVES WILL BE ADVANCED BY COMMISSION APPROVAL OF THE MERGER?

A. The retail electric utility industry is on the verge of dramatic change. Customer demand for choice and control, coupled with changing technology and economics, are driving the industry from its traditional monopoly structure to an environment characterized by competition. I believe this shift to a competitive retail marketplace is likely to occur relatively soon. It is not, however, with us today. Western Resources and KCPL now provide retail electric service under the traditional regulatory model. In Missouri and Kansas, we are certificated as the exclusive retail electric supplier in designated service territories. With this certification come certain obligations — the foremost being to provide efficient and reliable electric service to our customers. Consequently, in this proceeding, I believe the Commission's first and primary inquiry must be how the merger will affect our ability to carry out our existing utility obligations.

By this measure, there can be no dispute that the merger is in the public interest. Our testimony identifies many efficiencies and substantial cost savings that will be immediately achieved by the merger. For example, through 2001, net merger savings are expected to total $242.1 million. So that customers may benefit from these and other cost savings, we are proposing an incentive mechanism, running through 2001, that will permit our customers and shareowners to share in Company earnings to the extent our return on equity exceeds a predetermined level. This sharing mechanism supplements other large rate reductions by Western Resources and KCPL in Kansas and Missouri.

In addition to the positive impact on customers — which I believe to be a fundamental Commission concern — our testimony addresses how the merger will enhance the public interest in Missouri. We discuss, for example, how the merger will increase the economic efficiency of the companies; how it will benefit the communities we serve; and how it will impact our shareowners. Finally, based upon our performance in the KGE and Gas Service mergers, I believe the Commission can properly consider our proven record of managing utility mergers for the benefit of all stakeholders.

Q. YOU HAVE DISCUSSED HOW THE MERGER WILL MEET CURRENT REGULATORY OBJECTIVES. HOW WILL IT IMPACT THE LONG-TERM DEVELOPMENT OF A COMPETITIVE RETAIL MARKETPLACE?

A. At this point, we do not know precisely how retail competition will be implemented. We can anticipate, however, that the Missouri General Assembly and the Commission will exercise significant authority to ensure that competition develops fairly. Approval of the merger and our regulatory plan does not inhibit this evolution. To the contrary, as we all confront the uncertainties of the competitive marketplace, the presence of an efficient, flexible and financially strong electricity provider should be viewed as a positive underpinning for the introduction of retail competition in Missouri and Kansas. This is particularly true in an environment where new entrants will strive to avoid customers who cannot always pay their bills, those with inefficient load profiles or those who require service in rural areas.

I believe that industry restructuring issues are fundamentally the subject of future legislative decisions and future Commission proceedings. In this case, however, the Commission should guard against the imposition of conditions that will prematurely and unnecessarily restrict its restructuring options at such time as competition is permitted in the Missouri retail electric market. The Commission should be similarly concerned that the conditions of merger do not damage the Company's ability to be an effective participant in that market — to the ultimate detriment of our customers and shareowners.

Q. PLEASE DESCRIBE WESTERN RESOURCES' MERGER PROPOSAL.

A. We are proposing to merge with KCPL through an exchange of common stock. Specifically, we have offered to exchange $32 of Western Resources common stock for each share of KCPL common stock. The $32 exchange price, however, is subject to a collar. Mr. Wittig's testimony demonstrates the relationship between Western Resources' stock price, the exchange ratio collar and the exchange value to KCPL shareowners. The offer also includes the projection of the 1998 expected Western Resources' dividend at $2.14 per share. This results in an expected dividend to KCPL shareowners of between $2.00 and $2.35 per share depending upon Western Resources' stock price and the exchange ratio at the close of the transaction.

Q. ARE THE TERMS OF THE MERGER TRANSACTION REASONABLE?

A. Yes. Independent financial advisors conducted a thorough review of the terms of the merger and advised Western Resources' Board that it was fair to both Western Resources' and KCPL's shareowners. Comparing offer price to market price, our offer for KCPL is very consistent with other acquisitions in the industry.

Q. PLEASE DESCRIBE THE PROCESS BY WHICH WESTERN RESOURCES AND KCPL ENTERED INTO A MERGER AGREEMENT.

A. Much has been said, and made, of the process that led to this merger agreement. Both Drue Jennings and I want to address this issue head on and to set the record straight. The battle is over. We are both firmly and whole-heartedly committed to this merger that we are proposing to this Commission and believe it is in the public interest.

In November 1996, KCPL contacted us to initiate merger negotiations. The merger negotiations that ensued between the personnel and advisors of each company can be characterized as vigorous and arms-length. Each party strived to create a merger agreement that adequately protects the interests of its customers, shareowners, employees and communities.

Q. AFTER THE MERGER, HOW WILL KCPL BE INTEGRATED INTO WESTERN RESOURCES?

A. Our merger plan contemplates Western Resources' acquisition of common stock of KCPL and its merger with Western Resources. The surviving corporate entity will be Western Resources. KCPL will continue to exist as an operating division of Western Resources, with its headquarters in Kansas City, serving electric customers in the metropolitan area of Kansas City, much as KGE does in Wichita and in other areas of southern Kansas. In addition, six members of KCPL's Board of Directors will join the existing thirteen-member Board of Directors of Western Resources. Drue Jennings will serve as Vice Chairman of the Board of Directors of Western Resources and will be responsible for electric utility operations of the new combined company.

Q. IS THE CLOSING OF THE MERGER CONDITIONED IN ANY WAY?

A. The consummation of the merger is, of course, dependent upon approval of KCPL's and Western Resources' shareowners, on all necessary regulatory approvals being obtained on satisfactory terms, and on the transaction being treated as a tax-free exchange.

Q. ARE THERE LIMITS TO WESTERN RESOURCES' AND KCPL'S INTEREST IN MERGING?

A. Yes, to be successful, any commercial transaction must benefit all parties. There must be benefits to customers, to the owners of the business, and to the employees. The merger's benefits to our customers are clear. The combination provides an opportunity to share in savings. It permits rate stability for KCPL, KGE, and KPL customers. Finally, it allows us to continue to improve the quality of service to our customers and to assure that we operate efficiently and responsibly. Such important benefits can only be achieved if the merger produces sound financial results. We must be able to maintain our financial integrity. To be consummated, the merger must receive regulatory approval on terms that are beneficial to our shareowners as well as to our customers and employees and be accomplished in a timely manner.

Q. WHAT BENEFITS WILL RE REALIZED BY CUSTOMERS FROM A MERGER OF WESTERN RESOURCES AND KCPL?

A. Western Resources is proposing an incentive regulatory mechanism for sharing earnings above a predetermined level with shareowners and customers through an annual credit to utility bills. Any earnings shared with customers under this mechanism are in addition to the rate reductions I have already described. Moreover, the incentive mechanism will permit customers to share in earnings above the established level, no matter what the source of such earnings, *i.e.*, whether driven by merger savings, increased revenues, or other cost savings or efficiencies.

KCPL has implemented $20 million in rate reductions for its Missouri customers. In total, through 2001, Western Resources and KCPL customers will save $475 million through lower rates and rebates. These savings do not include those which will flow to customers under the incentive regulatory mechanism.

A merger of Western Resources and KCPL will allow us to sustain competitive rates, while enhancing the already high level of service quality customers of both companies have come to expect.

Q. WHAT BENEFITS WILL BE REALIZED BY WESTERN RESOURCES' SHAREOWNERS FROM A WESTERN RESOURCES/KCPL MERGER?

A. For our current shareowners, the merger will provide benefits in the form of cost savings retained by the Company. It will also produce a stronger company. Western Resources' electric businesses, KPL, KGE, and KCPL will have more than a million customers, annual revenues of $3 billion and more than 8,000 MW of electric generating capacity. Our financial condition will be stronger and, as a result, shareowners will own stock in a growing, financially strong, and strategically well positioned enterprise. The strategic and financial benefits of the merger have been recognized by the financial community where the response has been overwhelmingly favorable.

Q. WILL EMPLOYEES OF WESTERN RESOURCES AND KCPL BENEFIT FROM THE MERGER?

A. Yes, without a doubt. Our first commitment to employees of the merged company is that there will be no merger-related layoffs. That was a commitment we made and fulfilled in the KPL/KGE merger, and we fulfilled that commitment while exceeding our savings projections. Once again, we will keep our no-layoff commitment to employees of the merged company. Beyond the no-layoff commitment, I expect our employees to benefit from the increased opportunities offered by a larger, more diversified organization. Certainly, the merger will provide the potential for employees to expand their skills and experiences in ways that might not otherwise be available.

Q. HOW WILL THE MERGER AFFECT COMMUNITIES NOW SERVED BY WESTERN RESOURCES AND KCPL?

A. I believe the impact will be strongly positive, and, as a result, our communities will also be winners from a Western Resources/KCPL merger. Both companies have good reputations as corporate citizens with major corporate presences in Topeka, Wichita, and Kansas City. Western Resources has been a leader in economic development in the large and many small Kansas communities we serve. KCPL also has a history of playing a strong civic and corporate role in the greater Kansas City metropolitan area, on both sides of the state line. Our commitment to retain major corporate presence in the major communities of Kansas and in Kansas City, Missouri strengthens our ability to assist economic development in two states and expands our resources to improve the civic culture and vitality of all the communities we serve. The financially stronger company resulting from the merger will help ensure greater job security and opportunities in the communities where our employees work. Their continued presence will provide greater stability to local economies. The combination of sustainable, lower rates, coupled with the availability of dependable electric supply, will enhance economic development opportunities in the communities we serve.

Western Resources and KCPL have been generous corporate contributors to charitable causes. We have also successfully encouraged our employees to donate time and resources to charities and community improvement. In Kansas City, Topeka and Wichita, our executive management has frequently sponsored and led drives for charitable organizations. In other communities we serve, Western Resources and KCPL employees have often taken key roles in community improvement projects and in charitable fund-raising drives. We have pledged that the level of charitable giving in the Greater Kansas City area from the merged company will be no less than the present combined giving by Western Resources and KCPL until at least the end of 2001.

Q. YOU HAVE TESTIFIED THAT THE MERGER ADVANCES THE REGULATORY OBJECTIVES OF THE COMMISSION AND WESTERN RESOURCES. IS THE MERGER ALSO CONSISTENT WITH WESTERN RESOURCES' STRATEGIC BUSINESS PLAN?

A. Yes. Western Resources' merger with KCPL is consistent with our business plan but our business plan does not depend upon it. We are focusing on three areas of activity for both our short- and long-term success.

First, we must have a strong utility business. The merger with KCPL will strengthen that business. We are more than neighbors with important interconnections. For many years, we have joint interest in over $2 billion worth of coal fired and nuclear generating assets. Our traditional service territories are similar in most ways and we operate our companies in a similar fashion.

Specifically, we are organized similarly, know each other's organizations well, have state-of-the-art command and control systems, and are members of the same power pools. Both companies have earned solid reputations for providing high quality and efficient services to customers.

Second, we are building a branded national presence. With thousands of providers of electric energy and related services, the industry is fragmented today in a national market which, in total, does not experience much growth year after year. No one company or cooperative or municipal is dominant in this annual $225 billion market. A merger of Western Resources and KCPL creates a company with the size, financial strength and stability needed to compete successfully in this new competitive national marketplace. It is also consistent with our effort to expand in the monitored security business.

Third, it is important for companies like ours to seek above average returns on energy-related investments. The merger of Western Resources and KCPL will enhance the diversity of these kinds of investments and provide the resources to expand them. The rate of growth in developing countries exceeds by far the modest growth domestically. Developing economies will provide a greater growth rate in electric revenues than we could obtain by doing business exclusively in the U.S. We have chosen to participate in energy in the developing economies of the world where potential for growth is highest. Our international projects include building the infrastructure necessary for the provision of energy where it does not now exist-principally construction of power generating facilities. The merger of

Western Resources and KCPL extends our international reach. KCPL has overseas power projects in countries where Western Resources has not yet entered.

Q. DO YOU HAVE ANY CONCLUDING COMMENTS?

A. Yes. Western Resources' and KCPL's core business values are complementary, our corporate cultures compatible, and we are ready to move forward together. The merger will be a win for the customers of the two companies; a win for our employees and communities; and a win for shareowners of each company. Western Resources is committed to positioning itself strategically to capture the benefits and opportunities of the emerging competitive environment. The application for approval to merge with KCPL, which we have filed in this docket, is in the public interest. The merger advances Commission's regulatory objectives and is also consistent with our business strategy. It should be approved.

Q. THANK YOU.