Exhibit No.:	
Issues:	State Regulatory Plan; Application of MPSC Merger Criteria to the Transaction; Accounting Treatment of Merger Transaction
Witness:	Steven L. Kitchen
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

STEVEN L. KITCHEN

WESTERN RESOURCES, INC.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

DIRECT TESTIMONY
OF
STEVEN L. KITCHEN
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
WESTERN RESOURCES, INC.

CASE NO. ______________

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Steven L. Kitchen. My business address is 818 South Kansas Avenue, Topeka, Kansas 66612.

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

A. I work for Western Resources, Inc. ("Western Resources") as Executive Vice President and Chief Financial Officer.

Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE AND EDUCATIONAL BACKGROUND.

A. I joined The Kansas Power and Light Company ("KPL") in 1964 and have held various accounting and finance positions including: Manager of General Accounting, Controller and Vice President, and Senior Vice President of Finance and Accounting. I advanced to my current position in the spring of 1990.

I hold a Bachelors Degree in Business Administration and have completed the Stone and Webster Utility Management course and the Columbia University Executive Program in Business Administration. I am a member of the finance committees of the American Gas Association and the Edison Electric Institute.

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

A. I will discuss Western Resources' experience with utility mergers. I will sponsor the Western Resources/KCPL merger regulatory plan and describe the regulatory approvals and shareholder approvals needed to close this merger. I will discuss the expected accounting treatment and federal income tax consequences of the merger. I will also discuss from a policy viewpoint how the merger will affect competition for retail customers and how the merger will affect the authority of state regulators. Finally, I will demonstrate that the merger is consistent with the public interest.

Q. ARE YOU SPONSORING ANY OTHER ASPECTS OF THIS MERGER OR PROVIDING OTHER RELATED TESTIMONY?

A. Yes. As discussed in Mr. Thomas J. Flaherty's Direct Testimony, I am a cosponsor of the Merger Analysis, identified as Schedule TJF-2, Section I, Description of the Document. I am also cosponsoring, along with Mr. David C. Wittig and Mr. Frank L. Branca (areas pertaining to KCPL), Section II, Merger Summary, and Section IV, Overview of Western Resources and Kansas City Power And Light. I am cosponsoring Section III, Description of the Transaction, with Mr. David C. Wittig, and Section V, Potential Merger Cost Savings, with Mr. Leslie D. Morgan.

PUBLIC UTILITY MERGER EXPERIENCE

Q. HAVE YOU PARTICIPATED IN PRIOR PUBLIC UTILITY MERGER TRANSACTIONS INVOLVING WESTERN RESOURCES AND/OR KPL?

A. Yes. I was Executive Vice President and Chief Financial Officer for KPL when the merger with KGE was initiated and consummated.

Q. WHAT IS YOUR EVALUATION OF THE RESULTS OF THE KPL/KGE MERGER?

A. The transaction demonstrated the tangible benefits for stakeholders that can be realized from public utility mergers. For example, as a result of the KPL/KGE merger, KPL and KGE retail customers received $32 million in merger rebates and KGE was able to avoid filing a planned $40 million rate case.. More recently, KGE and KPL rates were reduced substantially, and those reductions were made possible, in part, by the successful attainment of merger savings that had been projected to come from the merger. Merger savings from the combination of KPL and KGE have been set at $40 million per year. The merged company has achieved substantial cost savings and remains a financially strong entity. This has been accomplished while also maintaining high satisfaction levels among our retail customers and without implementing merger-related layoffs.

REGULATORY PLAN

Q. WHAT IS THE PURPOSE OF THE PROPOSED REGULATORY PLAN?

A. The intent of the regulatory plan is to provide an immediate and simple way for customers to realize merger-related benefits while avoiding the uncertainty and regulatory inefficiency of quantifying and tracking merger savings.

Q. WHAT IS THE PERIOD OF THE REGULATORY PLAN?

A. The period of the Regulatory Plan begins with the first full calendar year following the close of the merger and runs through 2001.

Q. PLEASE SUMMARIZE THE MAIN FEATURES OF THE MISSOURI REGULATORY PLAN.

A. The primary features of the Missouri regulatory plan are the following:

- The most important component of the Regulatory Plan is an incentive mechanism that provides rate rebates to customers and an incremental return to Western Resources' shareholders should the merged company's regulated return on equity be greater than 12.90 percent. This mechanism would be reviewed by the Commission at the end of 2001 which is the end of the Regulatory Plan period.
- Rate reductions of $20 million which KCPL has already implemented for its Missouri customers.

INCENTIVE MECHANISM

Q. PLEASE DESCRIBE THE INCENTIVE MECHANISM.

A. Given that substantial rate reductions for KPL, KGE and KCPL customers have already been approved and are being implemented, I believe the incentive mechanism is clearly the most important component of our regulatory plan. The mechanism is based on the combined companies' Missouri retail operations. The incentive mechanism will be established so that all annual regulated earnings greater than 12.90 percent return on equity will be shared between customers and shareholders according to the following table:

Earnings Level (Missouri Retail Electric Operations)	Sharing Level Company	Sharing Level Customer
1. That portion of earnings greater than 12.90% up to and including 14.00% ROE	50%	50%
2. That portion of earnings greater than 14.00 % up to and including 16.00% ROE	25%	75%
3. That portion of earnings greater than 16.00% ROE	10%	90%

The retail customers' share will be provided by an annual credit on their utility bills. Western Resources will annually report to the Commission its calendar-year regulated earnings information beginning after the first full year following closing of the merger. Western Resources will report the amount of credit within the first 90 days of each calendar year. Schedule SLK-1 sets forth the method of calculating the merged company's return on equity. The mechanism will remain in place through the end of the year 2001.

If the return on equity falls below 10.5 percent during the term of the regulatory plan, Western Resources would have discretion to seek rate relief from the Commission. Likewise, Western Resources can file for a rate increase or file to amend the regulatory plan and the incentive mechanism in the event of material changes beyond the control of management. Material changes include, but are not limited to, such events as acts of God, changes in economic conditions, changes in edicts or regulation, state and federal tax changes, prolonged and prudent plant outages and the implementation of retail wheeling. Mr. Benore provides additional detailed testimony regarding the rationale and functioning of the incentive mechanism.

Q. UPON WHAT BASIS WOULD EARNINGS ABOVE A PREDETERMINED RETURN ON EQUITY BE CREDITED TO THE MERGED COMPANY'S CUSTOMERS?

A. There are a number of possibilities including sharing on a per customer or usage basis. We recommend, however, that the Commission defer its decision on this issue until the amount of the first calendar year credit has been determined. At that time, the Commission will know the magnitude of the credit and can utilize this information to make a fair and equitable judgment regarding an appropriate basis for the distribution.

Q. PLEASE EXPLAIN SCHEDULE SLK-1.

A. Schedule SLK-1 shows the determination of the return on equity upon which the incentive mechanism is based. Page 1 shows the actual calculation of the return on equity, which uses average year calendar balances of rate base items. Page 2 shows the calculation of net operating income, which will be adjusted to remove any effect of credits resulting from the sharing mechanism applied during the calculation year.

Q. WHY DID THE COMPANY CHOOSE 12.90 PERCENT AS THE THRESHOLD RETURN ON EQUITY FOR THIS INCENTIVE MECHANISM?

A. The Missouri Public Service Commission (MPSC) approved a similar sharing mechanism with Union Electric in 1995, and again in 1997, in the Union Electric/Central Illinois Public Service Company (CIPSCO) merger case, MPSC Case No. EM-96-149. The combined Union Electric/CIPSCO company is not dramatically different in size, nuclear asset concentration, or location from a combined Western Resources/KCPL company. Union Electric, however, has a stronger credit rating and less risk than a combined Western Resources/KCPL, which makes it appropriate for this Commission to find a higher return on equity reasonable. Mr. Benore also testifies in support of the 12.90 percent return on equity as the appropriate cost of common equity and threshold sharing level for the merged company.

Q. WHAT BENEFITS ARE ASSOCIATED WITH USING THE INCENTIVE MECHANISM?

A. There are several benefits associated with the incentive mechanism, including the following:

1. Savings, which include savings associated with the merger, automatically flow to the customers in the form of annual rebates.

2. The incentive mechanism permits customers to share in non-merger related savings and other utility business activity that enhance earnings.

3. The mechanism creates an incentive for the combined company to operate efficiently to provide benefits to customers and shareholders.

4. The benefits of the merger are shared equitably between customers and shareholders without unnecessary delays or regulatory burdens.

5. The incentive mechanism is easily administered.

6. The incentive mechanism eliminates the need to create a complicated system for tracking the savings associated with the merger.

Q. WHY DO YOU BELIEVE THAT THERE WILL BE AN INCENTIVE UNDER THE MERGED COMPANY'S REGULATORY PLAN TO MAINTAIN OR IMPROVE STANDARDS OF SERVICE TO CUSTOMERS?

A. Good management recognizes that a more competitive electric power industry will require high levels of service quality, additional services based on customer demands, and motivated employees.

Q. COULD FINANCIAL INCENTIVES SO MOTIVATE MANAGERS TO INCREASE EFFICIENCY THAT SERVICE QUALITY AND SAFETY COULD BE COMPROMISED?

A. They should not, but yes, it is possible. Good management recognizes a more competitive electric power industry will require high levels of service quality, additional services desired by customers, and motivated employees. However, the Commission may not want to take the risk that the merged company might reduce service quality and safety below levels desired by the Commission. In that event, customer service standards and safety responsibilities could be developed in a subsequent proceeding to be effective with the implementation of the incentive mechanism.

ACCOUNTING AND TAX TREATMENT

Q. PLEASE DISCUSS THE ACCOUNTING METHOD REQUIRED FOR THE MERGER.

A. Western Resources believes the merger will qualify as a "pooling of interests" for accounting and financial reporting purposes under Accounting Principles Board ("APB") Opinion No. 16, Business Combinations. APB Opinion No. 16 describes the pooling of interests method as uniting the ownership interests of two or more companies by exchange of equity securities. No acquisition premium is recognized because the combination is accomplished without disbursing resources of the constituents. The recorded assets and liabilities of the constituents are carried forward to the combined corporation at their recorded amounts. In accordance with this accounting method, Western Resources will restate its consolidated financial statements to include the assets, liabilities, shareholders' equity and results of operations of KCPL. Upon consummation of the merger, we expect that the fiscal year of the merged company will be the calendar year.

Q. WILL THE $32 EXCHANGE PRICE FOR KCPL SHARES RESULT IN CREATION OF AN ACQUISITION PREMIUM TO BE AMORTIZED AND RECOVERED THROUGH COST OF SERVICE TREATMENT OR INCLUDED IN THE MERGED COMPANY'S RATE BASE?

A. No, it will not. The merger will be accomplished through the exchange of Western Resources common stock for shares of KCPL common stock. As related above, the pooling of interests method does not result in creation of an acquisition premium.

Q. WHAT ARE THE FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER?

A. With certain limited exceptions, it is Western Resources' opinion that the exchanges of KCPL shares for Western Resources shares will qualify for federal income tax purposes as exchanges pursuant to a plan of reorganization under the Internal Revenue Code. Consequently, no gain or loss will be recognized by Western Resources or KCPL as a result of the transaction and, generally, no gain or loss will be recognized by KCPL shareholders upon the exchange of shares of the merger.

EFFECT ON COMPETITION

Q. HOW WILL THE PROPOSED MERGER AFFECT COMPETITION FOR RETAIL CUSTOMERS?

A. In Missouri, retail competition has not been authorized by statute or regulatory order to date. Although it is not possible to know how or Missouri will introduce retail wheeling or retail competition, we do not anticipate any negative effects caused by the merger on the competitive environment which would result from commission and legislative initiatives in the retail competition area. Dr. Robert M. Spann will address in greater detail how the merger will not have any harmful effect on competition.

EFFECT ON REGULATORY AUTHORITY

Q. WILL THE PROPOSED MERGER DIMINISH THE ABILITY OF THE COMMISSION TO REGULATE THE COMBINED COMPANY?

A. No. Utilities with service areas in multiple states are fairly common, and the Commission has had experience in regulating such utilities. Because Western Resources has owned gas properties in Missouri and in Oklahoma, it is accustomed to multi-state regulation. Likewise, KCPL has long had electric operations in both Missouri and Kansas. The Commission will be able to find comparable utilities across the nation by which to make "yardstick comparisons." Nothing in the proposed merger diminishes the Commission's authority to regulate the combined company.

DEMONSTRATION OF THE PUBLIC INTEREST

Q. WHAT CRITERIA WILL THE COMMISSION REVIEW IN MAKING A PUBLIC INTEREST FINDING?

A. In its Report and Order approving the UE/CIPSCO merger in Case No. EM-96-149, the Commission applied a standard approving the merger based on a finding that the merger was not detrimental to the public interest.

Q. IS THE PROPOSED MERGER IN THE PUBLIC INTEREST AND DOES IT MEET THE TEST APPLIED BY THE COMMISSION TO MERGERS IN MISSOURI?

A. Yes. The merger of Western Resources and KCPL satisfies the test applied by the Commission and, the merger is in the public interest. The proposed combination of Western Resources and KCPL provides clearly defined and substantial benefits to customers, shareholders, employees, communities and the respective states and would not be detrimental to the public interest. This is confirmed by the following consequences of the merger in Missouri.

A. Effect of the Transaction on Consumers

Customers will benefit from the proposed transaction. The financial condition of the combined company is expected to be maintained at a level to support an investment grade bond rating which will likely improve given the available synergies and the stronger balance sheet and cash flows that will result from the merger. The potential savings are expected to total about $242.1 million through 2001, net of the approximate $49.5 million in costs to achieve these savings. When considered in conjunction with the proposed regulatory plan, the substantial savings resulting from the merger, which are considered reasonably attainable by the management of Western Resources and KCPL, provide definite benefits to customers and shareholders and demonstrate that the offer of $32.00 is reasonable.

As the late-filed testimony of Dr. Spann will demonstrate, the proposed merger will have no adverse impact on competition. Dr. Spann's analysis of the proposed merger's impact on wholesale competition follows the guidelines announced in the Merger Policy Statement by the Federal Energy Regulatory Commission. His analysis will show that the proposed merger raises no competitive concerns and will have no adverse impact on wholesale competition. Dr. Spann will also explain why the proposed merger will have no adverse impact on retail competition. While there are no immediate plans for introducing retail competition in Missouri or Kansas, the proposed merger will not adversely effect the ability of these jurisdictions to address retail competition if it is eventually allowed. Dr. Spann will also explain that the proposed merger will have no adverse impact on fringe competition for prospective retail load.

B. Effect of the Transaction on the Environment

The combination will not have any impact on the approaches of Western Resources and KCPL to support, preserve and protect the environment. Both Western Resources and KCPL have been committed to being leaders in this effort, and the merger will not impair the ability of the combined company to continue to meet the standards of excellence each company has achieved in this area.

In recent years both Western Resources and KCPL have been recognized for excellence in environmental protection. Western Resources received special recognition from the Kansas Audubon Council for the accomplishments of its environmental task force, the National Conservation Achievement Award from the National Wildlife Federation and a Pollution Prevention Award of Excellence from the Kansas Department of Health and Environment. KCPL has received the Edison Electric Institute National Land Management Award, an award from the U.S. Environmental Protection Agency for its achievement under the Green Lights Program, and local awards for wetland projects.

C. Benefits to Communities

Western Resources and KCPL have traditionally been strong supporters and valuable corporate citizens of the communities they serve. Both companies are active participants in chambers of commerce and are generous contributors to non-profit organizations, higher education, and other charitable causes. The combined company will continue to remain active and visible in the communities it serves. KCPL will continue to maintain its headquarters and operations in Kansas City, Missouri.

Western Resources will pursue consolidation where duplicate offices or facilities are maintained, but has committed that no layoffs will occur as a result of the merger. Western Resources' experience from the KPL/KGE merger that shows this commitment can and will be met.

D. Preservation of MPSC Jurisdiction

No adverse impact on regulation will occur from the proposed combination. The current operations of KPL, KGE and KCPL will be separately identifiable and subject to the same degree of regulation that existed prior to the merger. In addition, KCPL will be operated as a division of Western Resources to provide for continued identity in the marketplace.

E. Effect on Shareholders

Because the financial condition of Western Resources will continue to strengthen over time, shareholders will own stock in a growing, financially stronger enterprise which is strategically positioned to compete in the rapidly changing marketplace.

Shareholders, like customers, will share in savings through the incentive mechanism discussed above. The distribution of merger benefits is generally consistent with the distribution approved by the Commission in the KPL/KGE merger. Shareholders will own stock in a financially more diverse company. Mr. Wittig addresses in detail in his testimony the effect of the merger on Western Resources and KCPL shareowners.

F. Reduction of Economic Waste

The Western Resources/KCPL merger will increase the economic efficiency of both companies. The strategic, operational and financial synergies described in this case will enhance the ability of the combined company to optimize the use of economic assets and to deliver high quality and reliable energy service more efficiently and effectively.

G. Impact on Public Safety

No adverse impact on public safety will occur from the Western Resources/KCPL merger. Western Resources will continue its emphasis on maintaining both a safe workplace, as well as a safe local environment for citizens in the communities it serves. Western Resources will maintain all necessary maintenance practices to assure its commitment to reliable operations is continued.

Q. WHAT ARE THE REGULATORY APPROVALS REQUIRED AND WHAT CONDITIONS MUST BE MET TO CLOSE THE MERGER?

A. In addition to the approval of the Commission, the Western Resources/KCPL merger will be subject to the fulfillment or waiver of certain conditions, including, among others: (i) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; (ii) the receipt of approvals or waivers from the Kansas Corporation Commission, the Oklahoma Corporation Commission, the Federal Energy Regulatory Commission, and the Nuclear Regulatory Commission; (iii) filing with the Security and Exchange

Commission (SEC) a registration statement/prospectus with respect to the transaction and if necessary, seeking appropriate action from the SEC staff or Commission under the Holding Company Act: (iv) the approval of the shareholders of KCPL and Western Resources; and (v) the receipt of all such approvals on terms which would not have a material adverse effect on the business assets, financial conditions or results of operations of the companies. Copies of applications with the Federal Energy Regulatory Commission and the Kansas Corporation Commission will be provided to the Commission when filed.

Q. THANK YOU.

Western Resources, Inc. and
Kansas City Power & Light Company

Return On Equity Calculation
12 Months Ended December 31, XXXX

Line			Total Company	Retail Jurisdictional
	January 1, XXXX			
1	Plant In Service			
2	Less:	Accum. Provision For Depreciation		
3		Net Plant In Service		
4	Add:	Working Capital		
5		Deferred Debits		
6	Less:	Accumulated Deferred Taxes		
7		Customer Deposits		
8		Customer Advances		
9	Rate Base At January 1, XXXX			
	December 31, XXXX			
10	Plant In Service			
11	Less:	Accum. Provision For Depreciation		
12		Net Plant In Service		
13	Add:	Working Capital		
14		Deferred Debits		
15	Less:	Accumulated Deferred Taxes		
16		Customer Deposits		
17		Customer Advances		
18	Rate Base At December 31, XXXX			
19	Average Rate Base ((Line 9 + Line 18)/2)			
20	Net Operating Income (Schedule SLK-1, Page 2 of 3)			
21	Return On Rate Base (Line 20/Line19)			
22	Average Return Attributable To Debt And Preferred Stock (Schedule SLK-1, Page 3 of 3)			
23	Return Attributable To Common Equity (Line 21 -Line 22)			
24	Average Equity Percentage Of Capital Structure (Schedule SLK-1, Page 3 of 3)			
25	Return On Equity (Line 23/Line 24)			

Western Resources, Inc. and
Kansas City Power & Light Company

Net Operating Income Calculation
12 Months Ended December 31, XXXX

		Total Company	Retail Jurisdictional
1	Operating Revenues:		
2	Electric		
3	Natural Gas		
4	Total Operating Revenues		
5	Operation and Maintenance Expenses:		
6	Operation Expenses		
7	Fuel Used For Generation		
8	Purchased Power		
9	Natural Gas Purchases		
10	Other Operations		
11	Total Operation Expenses		
12	Maintenance Expenses		
13	Total Operation & Maintenance Exp.		
14	Depreciation and Amortization		
15	Amortization of Phase-In Revenue		
16	Taxes Other Than Income Taxes		
17	Income Taxes		
18	Total Operating Expenses		
19	Unadjusted Net Operating Income		
20	Add Incentive Mechanism Sharing Credits		
21	Less Taxes Associated With Sharing Credits		
22	Less Interest On Customer Deposits		
23	Less WR/KCPL Transaction Cost and Cost To Achieve Amortizations (grossed-up for taxes, where applicable)		
24	Adjusted Net Operating Income		

Western Resources, Inc. and
Kansas City Power & Light Company

Calculation Of Return Attributable
To Debt and Preferred Stock

12 Months Ended December 31, XXXX

January 1, XXXX

		(A) Capital Structure $	(B) Capital Structure %	(C) Embedded Cost	(D) Weighted Cost
1	Long Term Debt				
2	Short Term Debt	(if applicable)			
3	Preferred Stock				
4	Common Stock			N/A	N/A
5	Total Capitalization	$	100.00%		
6	Return Attributable To Debt And Preferred				(sum of col. D, Lines 1 - 3)

December 31, XXXX

		Capital Structure $	Capital Structure %	Embedded Cost	Weighted Cost
7	Long Term Debt				
8	Short Term Debt	(if applicable)			
9	Preferred Stock				
10	Common Stock			N/A	N/A
11	Total Capitalization	$	100.00%		
12	Return Attributable To Debt And Preferred				(sum of col. D, Lines 7 - 9)
13	Average Return Attributable To Debt And Preferred				(Line 6 + Line 12)/2
14	Average Equity Percentage Of Capital Structure				(Line 4, col. B + Line 10, col. B)/2