

Exhibit No.:	
Issues:	Description of the Transaction; Financial Impact; Capital Structure of the Merged Company
Witness:	David C. Wittig
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
DAVID C. WITTIG
WESTERN RESOURCES, INC.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

DIRECT TESTIMONY
OF
DAVID C. WITTIG
PRESIDENT
WESTERN RESOURCES, INC.

CASE NO. _____

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is David C. Wittig. My business address is 818 South Kansas Avenue,
3 Topeka, Kansas 66612.

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

5 A. I am President of Western Resources, Inc. ("Western Resources").

6 Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE AND EDUCATIONAL
7 BACKGROUND.

8 A. I joined Western Resources in May 1995 and served as executive vice president
9 responsible for corporate strategy and development. As of February 29, 1996, I
10 became president and was elected a member of the Board of Directors of Western
11 Resources. I am responsible for corporate strategy and development and also
12 responsible for all unregulated activities of the company. Prior to joining Western
13 Resources, I spent six years at Salomon Brothers, New York, where I was
14 managing director, co-head of mergers and acquisitions. Prior to joining Salomon
15 Brothers, I spent 12 years with Kidder, Peabody & Company, Inc., New York, where
16 my last position was head of mergers and acquisitions and co-head of investment
17 banking.

1 I received a Bachelor of Science degree in Business Administration and
2 Economics from the University of Kansas.

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

4 A. My testimony provides the following information related to the Merger Agreement
5 (the "Agreement") between Western Resources and Kansas City Power & Light
6 Company ("KCPL"): (a) a discussion of certain terms of the Agreement; (b) the
7 financial profile of Western Resources before the Western Resources/KCPL merger
8 (the "merger"); (c) a pro forma financial profile of the post-merger company; (d) the
9 Western Resources' securities issuance contemplated by the Agreement for which
10 Commission approval is requested; and (e) an analysis of the reasonableness of
11 the acquisition price for KCPL shares. Finally, I will sponsor the Agreement and
12 cosponsor Sections II and IV of the Merger Analysis with Mr. Steven L. Kitchen and
13 Mr. Frank L. Branca (areas pertaining to KCPL), and Section III with Mr. Steven L.
14 Kitchen, which has been submitted with the testimony of Mr. Thomas J. Flaherty as
15 Schedule TJF-2.

16 **BACKGROUND INFORMATION LEADING TO AGREEMENT**

17 **Q. WHAT CONSIDERATIONS LED TO THE AGREEMENT WITH KCPL?**

18 A. The Agreement results from formal discussions with KCPL that commenced in
19 November 1996. Western Resources' long-standing interest in achieving a merger
20 between the two companies has been motivated by three fundamental
21 considerations. First, the merger with KCPL will place the merged company in a
22 position to realize significant cost savings for the ultimate benefit of our customers

1 and shareholders. For example, the merged company will realize \$242.1 million
2 cost savings, net of the \$49.5 million in costs to achieve such savings, through
3 2001. A detailed analysis of merger cost savings is contained in Section V of the
4 Merger Analysis cosponsored by Mr. Thomas J. Flaherty, Mr. Steven L. Kitchen,
5 and Mr. Leslie D. Morgan. Second, the financial strength of the merged company
6 will further Western Resources' business objective of being a national and
7 international leader in providing energy and energy-related services to homes and
8 businesses. Third, a merger of Western Resources and KCPL is a natural "fit."
9 The companies have joint interests in generating plants having a total net book
10 value of over \$2.2 billion. Each company has a 50 percent interest in the coal-fired
11 LaCygne Generating Station and a 47 percent interest in the nuclear powered Wolf
12 Creek Generating Station. They also have substantial contiguous service territories
13 in eastern Kansas. The business objectives and corporate cultures of Western
14 Resources and KCPL are complementary.

15 TERMS OF THE AGREEMENT

16 **Q. PLEASE DESCRIBE THE TERMS OF THE AGREEMENT.**

17 A. Subject to certain conditions, Western Resources will exchange \$32 of Western
18 Resources common stock for each outstanding share of KCPL common stock. The
19 precise exchange amount will depend upon the average price of Western
20 Resources stock prior to closing the transaction. Under the Agreement, each KCPL
21 share will be entitled to receive the number of Western Resources shares equal to

1 a defined exchange ratio. The exchange ratio is simply the quotient of \$32 divided
2 by the average of the daily high and low sales prices of Western Resources
3 common stock for a 20 consecutive trading day period ending the 10th trading day
4 before closing. The Agreement also includes a protective collar whereby the
5 exchange ratio will be between 0.917 and 1.1. This means that KCPL's
6 shareowners will receive from 0.917 shares to 1.1 shares of Western Resources
7 common stock for each share of KCPL common stock. It also means that, if the
8 Western Resources' average price is greater than \$34.90, each KCPL share will be
9 exchanged for more than \$32 of Western Resources common stock. In addition,
10 our merger agreement includes a pricing provision should Western Resources'
11 stock price drop below \$29.09 and other conditions are met. Conversely, if
12 Western Resources' stock price is less than \$29.09, KCPL shares will be
13 exchanged for less than \$32 of Western Resources stock. The table below
14 illustrates the effect of the collar on the calculated stock value to KCPL's
15 shareholders for a range of Western Resources' stock prices. On May 28, 1997,
16 the closing price of Western Resources' common stock on the New York Stock
17 Exchange was \$31.875.

	Western Resources Common Stock Price	Exchange Ratio	Stock Value to KCPL Shareholders
2	\$27.00	1.100	\$29.70
3	27.50	1.100	30.25
4	28.00	1.100	30.80
5	28.50	1.100	31.35
6	29.00	1.100	31.90
7	Collar 29.09	1.100	32.00
8	29.50	1.085	32.00
9	30.00	1.067	32.00
10	30.50	1.049	32.00
11	31.00	1.032	32.00
12	31.50	1.016	32.00
	32.00	1.000	32.00
14	32.50	0.985	32.00
15	33.00	0.970	32.00
16	33.50	0.955	32.00
17	34.00	0.941	32.00
18	34.50	0.928	32.00
19	34.90	0.917	32.00
20	Collar 35.00	0.917	32.10
21	35.50	0.917	32.55
22	36.00	0.917	33.01

1 **Q. WHAT IS THE VALUE OF THE TRANSACTION?**

2 A. Based upon a \$32 per share exchange value and 62 million outstanding KCPL
3 shares of common stock, the value of the transaction is approximately \$2 billion.

4 **Q. WILL KCPL BE MERGED WITH WESTERN RESOURCES?**

5 A. Yes. On the closing date, Western Resources and KCPL will execute and file a
6 merger certificate and articles of merger in Missouri and Kansas, respectively. The
7 merger will become effective upon certification of filing by the Kansas Secretary of
8 State. At that time, KCPL will be merged into Western Resources. Western
9 Resources will be the surviving corporation. KCPL will be operated as a division
10 of Western Resources with headquarters in Kansas City, Missouri. Consummation
11 of the transaction is subject to receipt of necessary governmental and regulatory
12 approvals, including the approval of the Missouri Public Service Commission.

13 **FINANCIAL PROFILE OF WESTERN RESOURCES**
14 **AND MERGED COMPANY**

15 **Q. WHAT ARE THE CURRENT FINANCIAL PROFILES OF WESTERN RESOURCES**
16 **AND KCPL?**

17 A. Schedule DCW-1 displays income statement data and balance sheet data for
18 Western Resources for the year ended December 31, 1996. The same financial
19 information for KCPL is shown on Schedule DCW-2.

20 **Q. HAVE YOU ANALYZED THE FINANCIAL PROFILE OF THE MERGED**
21 **COMPANY?**

1 A. Yes. Schedule DCW-3 displays pro forma financial information combining the
2 consolidated balance sheets and income statements of Western Resources and
3 KCPL as if a merger had occurred for the year ending December 31, 1996. The
4 merged company would have had a pro forma capital structure consisting of 44.9
5 percent common equity, 7 percent preferred equity, and 48.1 percent total debt.
6 This capital structure, coupled with the reduction in business risk resulting from the
7 merged company, would allow the company to maintain its investment grade rating
8 from the rating agencies for senior secured debt of the merged utility.

9 **Q. PLEASE DESCRIBE WESTERN RESOURCES' CURRENT DIVIDEND POLICY.**

10 A. In general, our policy has been to return a substantial portion of earnings to
11 shareowners in the form of quarterly dividends. In recent years Western
12 Resources' dividends have increased at a rate of \$.04 per year. Under the
13 Agreement, we intend to recommend a similar increase in 1998. As a result, the
14 present intention is that Western Resources' indicated annual dividend is projected
15 to be \$2.14 per share in the first quarter of 1998 which is the most probable time
16 the merger can be completed. KCPL's current annual dividend is \$1.62.
17 Depending upon the final exchange ratio of Western Resources shares for KCPL
18 shares, the equivalent dividend for KCPL shareholders is likely to be in the range
19 of \$2.00 - \$2.35 per share of common stock.

20 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE NET EFFECT**
21 **OF THE MERGER ON THE ABILITY OF THE MERGED COMPANY TO**
22 **ATTRACT EQUITY CAPITAL AT REASONABLE RATES.**

1 A. The merger should enhance the ability of the merged company to attract equity
2 capital at reasonable costs. The ability of the combined company to generate cash
3 flow should be enhanced and the underlying risk reduced from what would
4 otherwise exist without the proposed merger. From an equity investor's
5 perspective, this suggests a greater ability to add shareholder value through
6 increases in stock prices and/or payment of dividends in the future. These factors
7 make the merged company's stock a relatively more attractive investment than
8 either Western Resources or KCPL on a stand-alone basis.

9 **Q. HOW WILL THE OVERALL CREDIT-WORTHINESS OF WESTERN RESOURCES**
10 **AND KCPL BE AFFECTED BY THIS MERGER?**

11 A. KCPL's senior debt is currently rated A1 by Moody's Investors Service (Moody's)
12 and A by Standard & Poor's Corporation (S&P). Western Resources' senior
13 unsecured debt is rated as A- by Fitch, A3 by Moody's and BBB+ by S&P. Credit
14 rating agencies assign a credit rating based on a quantitative and qualitative risk
15 assessment of each company with an emphasis on financial risk. Financial risk
16 relates to the use of debt as a component of capitalization. Business risk, on the
17 other hand, reflects the uncertainty in cash flows from a company's operations
18 without regard to how it is financed. The significant reduction in business risk
19 achievable through the merger together with enhanced growth prospects should
20 benefit the credit quality of the merged company. As expected, after the merger
21 announcement, Moody's and S&P placed KCPL on review for possible downgrade
22 in credit rating because of Western Resources' lower credit rating. However, in the

1 long run, as the opportunities unfold to take advantage of cost efficiencies and to
2 address the changing utility market with new approaches, the merged company will
3 be viewed as financially stronger than either of the two stand alone companies. I
4 expect the rating agencies' assessment of the credit quality of the merged company
5 will improve as more information is made available regarding the benefits of the
6 merger. Consequently, I believe the combined company will maintain its investment
7 grade rating upon closing the transaction, with the potential for improvement as
8 described by Mr. Charles Benore.

9 **AUTHORIZATION FOR SECURITIES ISSUANCE**

10 **Q. WHAT FINANCING APPROVALS ARE CONTEMPLATED BY THE OFFER AND**
11 **MERGER?**

12 A. To effectuate the exchange of Western Resources common stock for KCPL
13 common stock, Western Resources is requesting, to the extent required, approval
14 of the issuance of sufficient shares of additional Western Resources common stock
15 to complete the transaction.

16 17 **REASONABLENESS OF THE ACQUISITION PRICE**

18
19 **Q. DO YOU HAVE AN OPINION AS TO THE REASONABLENESS OF THE \$32**
20 **EXCHANGE PRICE?**

21 A. Yes. Outside financial advisors conducted a detailed review of the transaction and
22 deemed it reasonable, fair and consistent with other transactions in the industry,

1 especially on the basis of a comparison of offer to market price. Given the
2 substantial benefits that can be realized from the merger, I believe the \$32 price is
3 reasonable. This view is confirmed by the reaction of the financial markets to the
4 Agreement. Western Resources' stock currently is selling at a price that does not
5 differ materially from its price before announcement of the Agreement. Equally
6 significant, with the exception of the initial year of combined operations, forecasted
7 financial data prepared to reflect the pro forma results of the merged company's
8 operations in the post-merger period indicate continued earnings growth.

9 **Q. DO YOU HAVE ANY CONCLUDING COMMENTS?**

10 A. Yes. Western Resources' implementation and management of the KPL/KGE
11 merger demonstrated the Company's ability to achieve and to exceed projected
12 merger-related savings. Such savings have benefitted our customers, our
13 employees and our shareholders. We believe the Western Resources/KCPL
14 merger will be similarly beneficial to all stakeholders and the communities in which
15 we serve.

16 **Q. THANK YOU.**

Western Resources, Inc.
Balance Sheet (\$000's)
At December 31, 1996

ASSETS

Utility plant:

Electric plant in service

Natural gas plant in service

Less - Accumulated depreciation

Construction work in progress

Nuclear fuel (net)

Net utility Plant

Investments and other property:

Net non-utility investments

Decommissioning trust

Other

Current assets:

Cash and cash equivalents

Accounts receivable and unbilled revenues (net)

Fossil fuel, at average cost

Gas stored underground, at average cost

Materials and supplies, at average cost

Prepayments and other current assets

Deferred charges and other assets:

Deferred future income taxes

Corporate-owned life insurance (net)

Regulatory assets

Other

Total assets

CAPITALIZATION AND LIABILITIES

Capitalization:

Common stock equity

Cumulative preferred and preference stock

Company-obligated mandatorily redeemable preferred securities

Long-term debt (net)

Current liabilities:

Short-term debt

Long-term debt due within one year

Accounts payable

Accrued taxes

Accrued interest and dividends

Other

Deferred credits and other liabilities:

Deferred income taxes

Deferred investment tax credits

Deferred gain from sale-leaseback

Other

TOTAL CAPITALIZATION AND LIABILITIES

Western
Resources, Inc.

\$5,536,256

834,330

6,370,586

2,146,363

4,224,223

93,834

38,461

4,356,518

1,174,749

33,041

0

1,207,790

3,724

318,966

39,061

30,027

66,167

36,503

494,448

217,257

86,179

241,039

44,550

589,025

\$6,647,781

\$1,624,680

74,858

220,000

1,681,583

3,601,121

980,740

0

180,540

83,813

70,193

36,806

1,352,092

1,110,372

125,528

233,060

225,608

1,694,568

\$6,647,781

Western Resources, Inc.
Income Statement (\$000's)
12 Months Ending December 31, 1996

	Western Resources, Inc.
Operating revenues	
Electric	\$1,197,433
Natural gas	849,386
Total operating revenues	<u>2,046,819</u>
Operating expenses	
Fuel used for generation	265,952
Power purchased	27,592
Natural gas purchases	354,755
Other operations	607,995
Maintenance	99,122
Depreciation and amortization	183,722
Amortization of phase-in revenues	17,544
Taxes	
Federal and state income	89,092
General	97,052
Total operating expenses	<u>1,742,826</u>
Operating income	<u>303,993</u>
Other income and deductions (net of taxes)	
Total other income and deductions	<u>14,283</u>
Income before interest charges	<u>318,276</u>
Interest charges	
Long-term debt	105,741
Other	46,810
Allowance for borrowed funds used during construction (credit)	<u>(3,225)</u>
Total interest charges	<u>149,326</u>
Net income	<u>168,950</u>
Preferred and preference dividends	14,839
Earnings applicable to common stock	<u>\$154,111</u>

Kansas City Power & Light Company
Consolidated Balance Sheet (\$000's)
At December 31, 1996

Kansas City
Power & Light Company

Assets

Utility plant:

Electric plant in service	\$3,472,607
Natural gas plant in service	0

3,472,607

Less - Accumulated depreciation

1,238,187

2,234,420

Construction work in progress

69,577

Nuclear fuel (net)

39,497

Net utility Plant

2,343,494

Investments and other property:

Net non-utility investments

Decommissioning trust

Other

231,874

231,874

Current assets:

Cash and cash equivalents

23,571

Accounts receivable and unbilled revenues (net)

63,206

Fossil fuel, at average cost

19,077

Gas stored underground, at average cost

0

Materials and supplies, at average cost

47,334

Prepayments and other current assets

7,792

160,980

Deferred charges and other assets:

Deferred future income taxes

126,000

Corporate-owned life insurance (net)

37,747

Regulatory assets

14,417

Other

178,164

Total assets

\$2,914,512

Capitalization and liabilities

Capitalization:

Common stock equity

910,449

Cumulative preferred and preference stock

89,062

Company-obligated mandatorily redeemable preferred securities

944,136

Long-term debt (net)

1,943,647

Current liabilities:

Short-term debt

0

Long-term debt due within one year

26,591

Accounts payable

55,618

Accrued taxes

18,443

Accrued interest and dividends

21,054

Other

44,719

166,425

Deferred credits and other liabilities:

Deferred income taxes

643,189

Deferred investment tax credits

67,107

Deferred gain from sale-leaseback

94,144

Other

804,440

TOTAL CAPITALIZATION AND LIABILITIES

\$2,914,512

Kansas City Power & Light Company
Income Statement (\$000's)
12 Months Ending December 31, 1996

	Kansas City Power & Light Company
Operating revenues	
Electric	\$903,919
Natural gas	0
Total operating revenues	<u>903,919</u>
Operating expenses	
Fuel used for generation	140,505
Power purchased	52,455
Natural gas purchases	0
Other operations	180,719
Maintenance	71,495
Depreciation and amortization	103,912
Amortization of phase-in revenues	11,617
Taxes	
Federal and state income	68,155
General	97,248
Total operating expenses	<u>726,106</u>
Operating income	<u>177,813</u>
Other income and deductions (net of taxes)	
Total other income and deductions	<u>(11,559)</u>
Income before interest charges	<u>166,254</u>
Interest charges	
Long-term debt	53,939
Other	6,091
Allowance for borrowed funds used during construction (credit)	<u>(1,947)</u>
Total interest charges	<u>58,083</u>
Net income	<u>108,171</u>
Preferred and preference dividends	3,790
Earnings applicable to common stock	<u>\$104,381</u>

Western Resources, Inc. and
Kansas City Power & Light Company
Unaudited Pro Forma Combined Consolidated Balance Sheet (\$000's)
At December 31, 1996

	Pro Forma Combined
Assets	
Utility plant:	
Electric plant in service	\$9,008,863
Natural gas plant in service	834,330
	9,843,193
Less - Accumulated depreciation	3,384,550
	6,458,643
Construction work in progress	163,411
Nuclear fuel (net)	77,958
Net utility Plant	6,700,012
Investments and other property:	
Net non-utility investments	1,174,749
Decommissioning trust	33,041
Other	231,874
	1,439,664
Current assets:	
Cash and cash equivalents	27,295
Accounts receivable and unbilled revenues (net)	382,172
Fossil fuel, at average cost	58,138
Gas stored underground, at average cost	30,027
Materials and supplies, at average cost	113,501
Prepayments and other current assets	44,295
	655,428
Deferred charges and other assets:	
Deferred future income taxes	343,257
Corporate-owned life insurance (net)	86,179
Regulatory assets	278,786
Other	28,967
	737,189
Total assets	\$9,532,293
Capitalization and liabilities	
Capitalization:	
Common stock equity	\$2,475,129
Cumulative preferred and preference stock	163,920
Company-obligated mandatorily redeemable preferred securities	220,000
Long-term debt (net)	2,625,719
	5,484,768
Current liabilities:	
Short-term debt	980,740
Long-term debt due within one year	26,591
Accounts payable	236,158
Accrued taxes	102,256
Accrued interest and dividends	91,247
Other	111,525
	1,548,517
Deferred credits and other liabilities:	
Deferred income taxes	1,753,561
Deferred investment tax credits	192,635
Deferred gain from sale-leaseback	327,204
Other	225,608
	2,499,008
TOTAL CAPITALIZATION AND LIABILITIES	\$9,532,293

Western Resources, Inc. and
Kansas City Power & Light Company
Unaudited Pro Forma Combined Consolidated Income Statement (\$000's)
12 Months Ending 12/31/1996

	Pro Forma Combined
Operating revenues	
Electric	\$2,101,352
Natural gas	849,386
Total operating revenues	<u>2,950,738</u>
Operating expenses	
Fuel used for generation	406,457
Power purchased	80,047
Natural gas purchases	354,755
Other operations	788,714
Maintenance	170,617
Depreciation and amortization	287,634
Amortization of phase-in revenues	29,161
Taxes	0
Federal and state income	157,247
General	194,300
Total operating expenses	<u>2,468,932</u>
Operating income	<u>481,806</u>
Other income and deductions (net of taxes)	0
Total other income and deductions	<u>2,724</u>
Income before interest charges	<u>484,530</u>
Interest charges	
Long-term debt	159,680
Other	52,901
Allowance for borrowed funds used during construction (credit)	<u>(5,172)</u>
Total interest charges	<u>207,409</u>
Net income	<u>277,121</u>
Preferred and preference dividends	<u>18,629</u>
Earnings applicable to common stock	<u>\$258,492</u>