

Exhibit No.:
Issues: Kansas City Power & Light
Company Business Strategy
Witness: A. Drue Jennings
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
A. DRUE JENNINGS
WESTERN RESOURCES, INC.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

DIRECT TESTIMONY
OF
A. DRUE JENNINGS
CHAIRMAN OF THE BOARD
PRESIDENT AND CHIEF EXECUTIVE OFFICER
KANSAS CITY POWER & LIGHT COMPANY

CASE NO. _____

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is A. Drue Jennings, and my business address is 1201 Walnut Street,
3 Kansas City, Missouri 64106.

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

5 A. I am employed by Kansas City Power & Light Company ("KCPL") as Chairman of
6 the Board, President and Chief Executive Officer.

7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

8 A. I am testifying on behalf of the Joint Applicants in this proceeding, Western
9 Resources, Inc. ("Western Resources") and KCPL.

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

11 A. I earned a BS degree in Education (History Concentration) from the University of
12 Kansas in 1968. I taught American Government at Wyandotte High School (Kansas
13 City, Kansas) for one year before returning to law school at the University of
14 Kansas, where I received a Juris Doctor degree in 1972. From 1972 to 1974, I
15 practiced law with a firm in Johnson County, Kansas, and I joined KCPL's law
16 department in March 1974. My legal work at KCPL was varied, consisting of civil

1 litigation, appellate practice, administrative law and general corporate matters, but
2 focused on regulatory law. From 1977 to 1986, I represented KCPL in most of its
3 major retail rate proceedings in Missouri and Kansas. I was promoted to General
4 Counsel in 1979, and Vice President - General Counsel in 1983. I was named
5 Senior Vice President-Marketing and Public and Employee Relations in May 1986.
6 I became President and a Director of KCPL in May 1987 and Chief Executive
7 Officer in May 1988.

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

9 A. The purpose of my testimony is to describe the strategic rationale for the proposed
10 merger from the perspective of KCPL. I also will outline the strategy for the electric
11 utility business of the combined company. The details of the transaction and its
12 financial impacts will be addressed by other witnesses.

13 **Q. PLEASE PROVIDE AN OVERVIEW OF THE BUSINESS OF KCPL.**

14 A. KCPL is an electric utility that generates and distributes power to approximately
15 440,000 customers in a 4,700 square mile service territory that encompasses
16 metropolitan Kansas City and 23 counties in western Missouri and eastern Kansas.
17 KCPL's customer base includes residential, commercial and industrial customers,
18 and several municipalities and other electric utilities. KCPL is one of the lowest
19 cost providers of electricity in the midwestern United States. In addition to its
20 regulated utility business, KCPL's wholly owned subsidiary, KLT Inc. ("KLT"),
21 engages in independent power marketing and development, provides energy
22 management services, and participates in affordable housing and venture capital

1 opportunities. KLT, in turn, has created several wholly owned non-regulated
2 subsidiaries that carry out its various functions, including KLT Power Inc. (non-
3 regulated power production), KLT Energy Services Inc. (energy services including
4 energy audits and efficiency equipment), KLT Gas Inc. (oil and gas reserves), KLT
5 Telecom Inc. (niche opportunities in telecommunications and expansion of the
6 CellNet technology), and KLT Investments Inc. (passive investment opportunities,
7 including affordable housing limited partnerships).

8 **Q. WHY HAS KCPL SHOWN INTEREST IN MERGING WITH OTHER COMPANIES?**

9 A. KCPL long has recognized that to thrive in an increasingly competitive environment,
10 we needed to have significantly enhanced resources. We also needed to have
11 access to a larger group of potential customers to which we could offer expanded
12 energy-related products and services. For these reasons, KCPL's Board of
13 Directors determined to pursue a strategic merger that would catapult us into the
14 future as an energy company of the future. That has been our goal and remains
15 our goal.

16 From the onset, we thought that the ideal merger partner would have
17 strengths complementary to ours in addition to a distinct set of capabilities that
18 would add to and enhance those of KCPL. We wanted to expand our resources,
19 products and services, and geographic reach. We wanted not only to grow but to
20 merge with a company with a clear vision of how to compete in the traditional and
21 non-traditional utility businesses. We needed to make sure our shareholders'
22 investment in KCPL was positioned to grow as the industry evolved.

1 Q. KCPL'S BOARD OF DIRECTORS RESISTED WESTERN RESOURCES'
2 MERGER OVERTURES IN THE PAST. WHY IS KCPL'S BOARD NOW
3 SUPPORTING A MERGER AGREEMENT WITH WESTERN RESOURCES?

4 A. Frankly, when we began our merger discussions with UtiliCorp, Western Resources
5 appeared to us to be a traditional utility company which was not the sort of partner
6 we were seeking. When our shareholders rejected our proposed UtiliCorp merger,
7 we continued to explore other options available to enhance shareholders' interest.
8 Western Resources' bold actions during the past few months have transformed that
9 company and demonstrated that a merger of our two companies can fulfill KCPL's
10 vision. For example, Western Resources has developed an innovative strategy to
11 transfer its retail gas assets and operations to ONEOK, while maintaining an
12 investment in gas. As a result, Western Resources has positioned itself for access
13 to a significantly larger group of potential customers at a time our industry is on the
14 verge of becoming extremely competitive at the retail level. In addition, Western
15 Resources also has grown to be the third-largest monitored home security company
16 in the United States, with several major strategic acquisitions and has made
17 significant inroads in the international energy market. Even so, we wanted to make
18 sure we were representing our shareholders in the best way possible. We thought
19 Western Resources' offer could be improved for shareholders. After discussions,
20 Western Resources agreed to increase the offer to \$32 a share.

21 In summary, Western Resources has become the kind of company that
22 KCPL wants as a merger partner. In addition, the fact is that our shareholders

1 rejected the UtiliCorp transaction while expressing interest in Western Resources.
2 In light of the Merger Agreement that has been negotiated, we are convinced that
3 Western Resources is the best partner for us.

4 **Q. WHAT WAS YOUR ROLE IN THE MERGER PROCESS?**

5 A. I was directly involved in the negotiations between the two companies throughout
6 the entire process.

7 **Q. PLEASE BRIEFLY DESCRIBE THE NEGOTIATIONS.**

8 A. The negotiations can be characterized as vigorous and arms-length negotiations
9 between key personnel and advisors of each company. Both sides strived to create
10 a merger agreement that would protect the interests of its shareholders, employees,
11 customers and communities and that would allow the creation of a healthier, more
12 competitive merged company.

13 **Q. WAS WESTERN RESOURCES' OUTSTANDING TENDER OFFER FOR KCPL**
14 **STOCK A FACTOR IN THE NEGOTIATIONS?**

15 A. We did recognize that a prolonged contest with Western Resources would,
16 regardless of the outcome, further delay our efforts to position for the future. No
17 one in the energy business has the luxury of wasting any time in that effort. Our
18 industry is changing faster than many of us ever imagined. Both companies need
19 to be ready to respond to those changes. I want to stress, however, that the
20 decision of KCPL's Board to enter into the Merger Agreement was a voluntary
21 decision and was made after reviewing the opportunities that will be presented by
22 a consolidation of the two companies.

1 **Q. IS \$32 A SHARE A REASONABLE PRICE FOR KCPL'S STOCK?**

2 A. Yes, it is. Independent financial advisers conducted a thorough and detailed review
3 of the value of KCPL. Their opinion, which they presented to KCPL's Board, was
4 that the offer was fair to KCPL shareholders from a financial point of view. Other
5 witnesses will address in detail the financial aspects of the merger.

6 **Q. WHAT WILL BE YOUR ROLE IN THE COMBINED COMPANY?**

7 A. I will be Vice Chairman of Western Resources' Board of Directors. I will be
8 responsible for electric utility operations of the combined company.

9 **Q. WILL YOUR ABILITY TO FULFILL YOUR NEW RESPONSIBILITIES BE
10 DAMAGED GIVEN THE ACRIMONY THAT SURROUNDED WESTERN'S
11 TENDER OFFER?**

12 A. No. There were some harsh words exchanged between our companies during the
13 proxy contest. That is not unusual during the "heat of battle." That is all behind us
14 now. John Hayes and I have known each other for years. We have worked
15 together on numerous industry and business initiatives. We have worked together
16 successfully and productively on Wolf Creek and other facilities. We are looking
17 forward to working together to manage the exciting company which the merger will
18 create. John and I are excited about bringing the exceptional talents and skills of
19 all our companies' employees together. Those skills are vital as we continue to
20 position the new company to benefit customers, shareholders, and our
21 communities.

1 **Q. PLEASE DESCRIBE THE MARKET IN WHICH THE COMBINED COMPANY WILL**
2 **OPERATE.**

3 A. Traditionally, electric utilities have been allowed an opportunity to recover their
4 expenses and to earn a rate of return on their investment in exchange for providing
5 reliable energy at reasonable prices. That is still the model for retail service in
6 Missouri and Kansas, but the world is changing for energy companies. The security
7 and stability of a fixed franchise service territory is disappearing. In the future,
8 performance in the emerging marketplace will determine, in large measure, the
9 success or failure of an electric company, just as in virtually all other businesses.
10 In my view, the merger of KCPL and Western Resources will enhance the ability of
11 the combined company to meet its obligations under the current regulatory
12 structure, while preparing it to compete effectively in the new energy marketplace.

13 **Q. WHERE WILL GROWTH OCCUR IN THIS NEW ENVIRONMENT?**

14 A. New energy products and markets are emerging more rapidly than ever before.
15 The winners in this new competitive industry will be those companies that can
16 provide customers with valuable service and product choices.

17 **Q. PLEASE OUTLINE THE STRATEGY FOR THE ELECTRIC UTILITY BUSINESS**
18 **OF THE COMBINED COMPANY.**

19 A. In addition to the factors I have already discussed, the critical aspect for our future
20 success is customer service. A commitment to customer satisfaction must be an
21 everyday standard of service among our employees. As customer satisfaction
22 rises, so does the perceived value of our service to customers. Value is the key

1 concept. We have to focus on the value of energy -- what it can do for each
2 customer. As the energy marketplace becomes more competitive, we will need to
3 differentiate ourselves from other electric service providers. The delivery of
4 superior service and innovative products will be the key to success. Customers
5 eventually will be able to choose among energy products and energy suppliers,
6 and we want customers to choose us and our products.

7 To summarize, the opportunities in the future will come to the company that can
8 do it first and do it best. While the mechanics of regulatory restructuring are being
9 debated in Jefferson City, Topeka and Washington, our energy company has to
10 continue to provide excellent electric service to our traditional utility customers. At
11 the same time, we must have a team of employees who can provide energy
12 solutions and build close relationships with customers. I believe this merger will
13 create a new energy company that will have the ability and the resolve to meet
14 these challenges.

Q. THANK YOU.