

## MINUTES OF THE SENATE UTILITIES COMMITTEE

The meeting was called to order by Chairman Stan Clark at 9:30 a.m. on January 27, 2004 in Room 526-S of the Capitol.

All members were present.

Committee staff present:

Bruce Kinzie, Revisor of Statutes  
Raney Gilliland, Legislative Research  
Emalene Correll, Legislative Research  
Ann McMorris, Secretary

Conferees appearing before the committee:

James Haines, CEO, Westar Energy, Topeka

Others attending:

See Attached List.

Chair Clark opened the meeting and called on Westar Energy CEO Jim Haines.

### Implementation of Sarbanes-Oxley Act at Westar Energy

Jim Haines introduced his associates and indicated he wished to talk very generally about the Sarbanes-Oxley Act and more specifically about what Westar Energy has done in the last year to bring itself into compliance with the Act.

The Sabanes-Oxley Act was passed by Congress in July 2002. Following the passage of this Act, various stock exchanges passed companion rules to the Act which in many way overlap the requirements of the Act and in some areas go beyond the requirements of the Act. The SEC has cumulated many rules in order to give more details as to the provisions of the law. The purpose of the Act and the New York Stock Exchange rules which apply to companies whose stock is traded at that exchange is to accomplish three things: (1) strong ethics; (2) good government and (3) accurate, reliable financial reporting.

The key focus area is with respect to financial reports. The Act addresses financial reports in various ways to improve the reliability and the accuracy of corporate financial reports. One way is that the CEO and the CFO are now required to certify quarterly and annual financial statements. Westar Energy has a code of ethics which has been discussed with the employees. There are increased audit committee responsibilities and qualifications and this includes the supervision of an outside audit firm.

Another requirement of the Sabannes-Oxley Act is that a company have a process where any irregularity may be brought to the attention of the company. Westar has an integrity hotline for this purpose. The Act establishes a PCAOB - Public Company Accounting Oversight Board whose members are appointed by the SEC and its purpose is to oversee the public accounting profession with respect to the audit of public trading companies.

Westar board chairman is non-executive and all directors other than the Westar CEO are independent. Executive sessions of the independent directors are held regularly when Westsar CEO is not present.. There are audit, finance, compensation and nominating committees on which only independent directors serve. The audit committee chairman is a designated financial expert. The internal audit officer reports directly to the audit committee. The audit committee has the responsibility to appoint, compensate, retain and oversee an independent auditor and must give pre-approval of all audit and non-audit services. Additionally they are responsible for whistleblower complaints. We have also made additional training available to our directors as to the best practices for corporate governance.

As to CEO/CFO certifications, there are two respects in which the CEO and the CFO have to serve by the accuracy of statements. We are required to certify the quarterly and annual reports. The goal is that a process has been put into place that will reliably bring to the CEO/CFO the accomplishments. Certification is also required on the internal control of the company. Many complicated procedures have been put into place to comply with the goals of Sarbanes-Oxley Act.

CONTINUATION SHEET

MINUTES OF THE SENATE UTILITIES COMMITTEE at 9:30 a.m. on January 27, 2004 in Room 526-S of the Capitol.

He summarized where Westar Energy is after 12 months of their debt reduction and restructuring program. One of the accomplishments has been to redefine Westar's mission, vision and value statement. He noted their progress on debt reduction and have completely sold all interest in OneOk, Protection One in Europe, and utility assets to Midwest Energy. Westar has now paid down over a billion dollars to their debt in the last 12 months. (Attachment 1)

The next meeting of the Senate Utilities will be on January 28, 2004.

Adjournment.

Respectfully submitted,

Ann McMorris, Secretary

Attachments - 1





Senate Utilities Committee  
January 27, 2004  
Attachment 1-1

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## Sarbanes Oxley- *Company Update*

**Senate Utilities Committee**

**January 27, 2004**

# **Sarbanes-Oxley Act**

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- **Passed by Congress July 2002**
- **Major development in corporate reform**
- **Significant and rapid changes for all participants in the marketplace**
- **Desired outcome: improve financial reporting and restore investor confidence**

# Key Focus Areas

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1-3

- **Corporate responsibility for financial reports**
- **Enhanced financial disclosures & revised reporting requirements**
- **Code of ethics**
- **Increased audit committee responsibilities**
- **Whistleblower**
- **Auditor independence**
- **Public accounting firm oversight and reforms**

# Corporate Governance - Westar

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## 👉 Board of Directors

- Non-executive chairman of the board
- All directors other than CEO are independent
- Executive sessions of independent directors held regularly
- Only independent directors serve on the audit, finance, compensation, and nominating/corporate governance committees
- All committees of the board have current charters
- Website access to corporate governance guidelines, code of ethics, committee charters ([www.wr.com](http://www.wr.com))

# **Corporate Governance - Westar**

## **☞ Audit Committee**

- **Meet independence standards**
- **Designated “financial expert”**
- **Corporate compliance/internal audit officer reports directly to audit committee**
- **Appoint, compensate, retain, and oversee independent auditor**
- **Pre-approval of all audit and non-audit services**
- **Increased oversight of financial reporting process**
- **Responsible for whistleblower complaints**



# **Corporate Governance - Westar**

## **☞ Financial Reporting**

- **Financial reporting & disclosure requirements**
- **Disclosure committee established**
- **Disclosure controls reviewed quarterly**
- **Management's assessment of internal controls in 2004**
- **CEO/CFO certifications**

# Corporate Governance - Westar

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## Company

- Mission, vision, value statement
- Revised code of ethics and training for all employees

# Debt Reduction Progress

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Status	Expected Timing	Debt Reduction Plan Component	Expected Debt Reduction (mm)	Actual Results
<input checked="" type="checkbox"/>	Completed	Sale of ONEOK Stock - Tranche 1	\$244	\$244
<input checked="" type="checkbox"/>	Completed	Obtain relief from legal order to restructure		
<input checked="" type="checkbox"/>	Completed	Obtain relief for Protection One interim support		
<input checked="" type="checkbox"/>	Completed/Ongoing	Common Dividend Reduction	55*	On track
<input checked="" type="checkbox"/>	Completed	Sale of Protection One Europe	50-100	114
<input checked="" type="checkbox"/>	Completed	Obtain KCC approval of Debt Reduction Plan		
<input checked="" type="checkbox"/>	Completed	Sale of ONEOK Stock - Tranche 2	180-290**	244
<input checked="" type="checkbox"/>	Completed	Sale of Utility Assets to Midwest Energy	N/A	24
<input checked="" type="checkbox"/>	Completed	Sale of ONEOK Stock - Final Tranche	230-300	262
<input checked="" type="checkbox"/>	Late '03 - Early '04	Sale of Protection One	500 - 650	
<input type="checkbox"/>	2003-04/Ongoing	Cash Flow From Operations	150 - 200	On track
<input type="checkbox"/>	2004	Possible Equity Issuance	75 - 250	

\* Savings expected through 2004

\*\* Expected debt reduction amounts adjusted from original projection of three equal transactions

Note: All debt reduction figures are net of expected tax expense or benefit